

*Annual
Statement* | *for
1964*

FEDERAL RESERVE BANK OF DALLAS

**FEDERAL RESERVE BANK
OF DALLAS**

To the Member Banks in the
Eleventh Federal Reserve District:

The Statement of Condition and the earnings and expenses of the Federal Reserve Bank of Dallas for the year 1964, with comparative figures for 1963, are shown herein. Lists of the directors and officers of the Bank and its branches as of January 1, 1965, are also included.

A review of economic and financial developments in the Nation and the District during 1964 is being presented in the January 1965 Annual Report Issue of the *Business Review* of this Bank.

Additional copies of these publications may be obtained upon request to the Research Department, Federal Reserve Bank of Dallas, 400 South Akard Street (mailing address: Station K, Dallas, Texas 75222).

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Watrous H. Irons".

WATROUS H. IRONS
President

Statement of Condition

	Dec. 31, 1964	Dec. 31, 1963
ASSETS		
Gold certificate account	\$ 647,555,676	\$ 515,499,705
Redemption fund for Federal Reserve notes	51,174,531	44,628,041
Total gold certificate reserves	698,730,207	560,127,746
Federal Reserve notes of other Banks	31,003,050	22,625,000
Other cash	4,203,532	8,253,420
Discounts and advances	21,810,000	1,824,000
U. S. Government securities:		
Bills	225,598,000	158,567,000
Certificates	—	270,566,000
Notes	940,099,000	678,845,000
Bonds	196,865,000	177,873,000
Total U. S. Government securities	1,362,562,000	1,285,851,000
Total loans and securities	1,384,372,000	1,287,675,000
Cash items in process of collection	489,178,791	307,096,327
Bank premises	11,202,982	11,895,354
Other assets	26,403,980	18,104,531
TOTAL ASSETS	<u>2,645,094,542</u>	<u>2,215,777,378</u>
LIABILITIES		
Federal Reserve notes in actual circulation	1,088,625,921	978,952,290
Deposits:		
Member bank — reserve accounts	1,050,702,507	844,299,422
U. S. Treasurer — general account	47,510,309	50,523,088
Foreign	12,540,000	9,120,000
Other	4,922,766	4,255,040
Total deposits	1,115,675,582	908,197,550
Deferred availability cash items	345,011,129	240,310,825
Other liabilities	34,610,610	3,162,013
TOTAL LIABILITIES	<u>2,583,923,242</u>	<u>2,130,622,678</u>
CAPITAL ACCOUNTS		
Capital paid in	30,585,650	28,384,900
Surplus	30,585,650	56,769,800
TOTAL CAPITAL ACCOUNTS	<u>61,171,300</u>	<u>85,154,700</u>
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	<u>\$2,645,094,542</u>	<u>\$2,215,777,378</u>

Earnings and Expenses

	1964	1963
CURRENT EARNINGS		
Discounts and advances	\$ 965,397	\$ 585,957
U. S. Government securities	51,185,796	45,650,694
Foreign currencies	363,107	116,460
All other	24,917	22,852
TOTAL CURRENT EARNINGS	52,539,217	46,375,963
CURRENT EXPENSES		
Current operating expenses	9,569,964	9,373,164
Assessment for expenses of Board of Governors	498,300	434,400
Federal Reserve currency:		
Original cost, including shipping charges	758,624	205,736
Cost of redemption, including shipping charges	43,806	36,805
Total	10,870,694	10,050,105
Less reimbursement for certain fiscal agency and other expenses	828,499	841,654
NET EXPENSES	10,042,195	9,208,451
PROFIT AND LOSS		
Current net earnings	42,497,022	37,167,513
Additions to current net earnings:		
Profit on sales of U. S. Government securities (net)	24,030	11,845
All other	16,458	24,089
Total additions	40,488	35,934
Deductions from current net earnings	10,588	24,808
Net additions	29,900	11,126
Net earnings before payments to U. S. Treasury	42,526,922	37,178,639
Dividends paid	1,797,729	1,668,435
Payments to U. S. Treasury (interest on F. R. notes)	66,913,343	32,204,404
Transferred to surplus	-26,184,150	3,305,800
Surplus, January 1	56,769,800	53,464,000
Surplus, December 31	30,585,650	56,769,800

Directors

FEDERAL RESERVE BANK OF DALLAS

ROBERT O. ANDERSON

CARL J. THOMSEN

D. A. HULCY

MURRAY KYGER

MAX LEVINE

J. EDD McLAUGHLIN

J. B. PERRY, JR.

RALPH A. PORTER

H. B. ZACHRY

(*Chairman and Federal Reserve Agent*), Owner, Lincoln County Livestock Company, Roswell, New Mexico

(*Deputy Chairman*), Senior Vice President, Texas Instruments Incorporated, Dallas, Texas

Chairman of the Board, Lone Star Gas Company, Dallas, Texas

Chairman of the Board, The First National Bank of Fort Worth, Fort Worth, Texas

Chairman of the Board, Foley's, Houston, Texas

President, Security State Bank & Trust Company, Ralls, Texas

President and General Manager, Perry Brothers, Inc., Lufkin, Texas

President, The State National Bank of Denison, Denison, Texas

President, H. B. Zachry Company, San Antonio, Texas

EL PASO BRANCH

ROGER B. CORBETT

GORDON W. FOSTER

ROBERT W. HEYER

ROBERT F. LOCKHART

C. ROBERT McNALLY, JR.

CHARLES B. PERRY

DICK ROGERS

President, New Mexico State University, University Park, New Mexico

President, Food Mart, Inc., El Paso, Texas

Senior Vice Chairman and President, Southern Arizona Bank & Trust Company, Tucson, Arizona

Vice President, The State National Bank of El Paso, El Paso, Texas

Rancher, Roswell, New Mexico

Chairman of the Board, First State Bank, Odessa, Texas

President, First National Bank in Alpine, Alpine, Texas

HOUSTON BRANCH

DONALD B. CAMPBELL

J. A. ELKINS, JR.

M. M. GALLOWAY

JOHN E. GRAY

EDGAR H. HUDGINS

LOVETT C. PETERS

(VACANCY)

Works Manager, Sabine River Works, E. I. du Pont de Nemours & Company, Orange, Texas

Chairman of the Board, First City National Bank of Houston, Houston, Texas

President, First Capitol Bank, West Columbia, Texas

President, First Security National Bank of Beaumont, Beaumont, Texas

Ranching — Partner in Hudgins Division of J. D. Hudgins, Hungerford, Texas

Vice President — Transportation and Supplies, Continental Oil Company, Houston, Texas

SAN ANTONIO BRANCH

G. C. HAGELSTEIN

HAROLD D. HERNDON

MAX A. MANDEL

FORREST M. SMITH

JOHN R. STOCKTON

DWIGHT D. TAYLOR

J. R. THORNTON

President and General Manager, Union Stock Yards San Antonio, San Antonio, Texas

Independent Oil Operator, San Antonio, Texas

President, The Laredo National Bank, Laredo, Texas

President, National Bank of Commerce of San Antonio, San Antonio, Texas

Professor of Business Statistics and Director of Bureau of Business Research, The University of Texas, Austin, Texas

President, Pan American State Bank, Brownsville, Texas

Chairman of the Board and President, State Bank and Trust Company, San Marcos, Texas

FEDERAL ADVISORY COUNCIL MEMBER

JAMES W. ASTON

President, Republic National Bank of Dallas, Dallas, Texas

Officers

FEDERAL RESERVE BANK OF DALLAS

WATROUS H. IRONS, *President*

P. E. COLDWELL, *First Vice President*

ROY E. BOHNE, *Vice President*

JAMES L. CAUTHEN, *Vice President*

J. L. COOK, *Vice President*

RALPH T. GREEN, *Vice President*

CARL H. MOORE, *Vice President*

G. R. MURFF, *Vice President and
Secretary of the Board*

JAMES A. PARKER, *Vice President*

T. W. PLANT, *Vice President and Cashier*

W. M. PRITCHETT, *Vice President*

FREDRIC W. REED, *Vice President*

THOMAS R. SULLIVAN, *Vice President*

ARTHUR H. LANG, *General Auditor*

GEORGE F. RUDY, *General Counsel*

ROBERT H. BOYKIN, *Assistant Vice President
and Assistant Secretary of the Board*

J. Z. ROWE, *Director of Research*

JAMES O. RUSSELL, *Chief Examiner*

LEON W. COWAN, *Assistant Vice President*

E. H. BERG, *Assistant Cashier*

TONY J. SALVAGGIO, *Assistant Cashier*

E. A. THAXTON, JR., *Assistant Cashier*

E. W. VORLOP, JR., *Assistant Cashier*

EL PASO BRANCH

FREDRIC W. REED, *Vice President in Charge*

T. C. ARNOLD, *Cashier*

FORREST E. COLEMAN, *Assistant Cashier*

HOUSTON BRANCH

J. L. COOK, *Vice President in Charge*

B. J. TROY, *Cashier*

W. C. HARTUNG, *Assistant Cashier*

RASCO R. STORY, *Assistant Cashier*

SAN ANTONIO BRANCH

CARL H. MOORE, *Vice President in Charge*

A. E. MUNDT, *Cashier*

ALVIN E. RUSSELL, *Assistant Cashier*

FREDERICK J. SCHMID, *Assistant Cashier*



business review



january 1965

FEDERAL RESERVE
BANK OF DALLAS

Annual Report Issue

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further economic growth in 1964

The Nation's economy continued to expand throughout 1964, thus sustaining one of the longest business advances of record — whether in peace or war time. Probably the highlight of the year was the early passage of the largest tax cut in U. S. history, a fiscal innovation designed to accelerate the pace of economic growth by unleashing the private economy from war-induced levels of Federal taxation. Both in anticipation of and in response to the passage of the Revenue Act of 1964, businesses and consumers pushed spending to new highs. The private economy was joined in its upward climb by state and local governments, which continued to expand outlays during the year at a strong rate. This underlying economic strength was reflected in the financial area, as bank loans, the money supply, and demands in capital markets expanded strongly.

Through the first three quarters of 1964, the economic advance was evenly paced and well balanced, apparently free of the excesses and distortions which have historically characterized sustained upswings in business activity. Plant capacity was generally adequate to meet the rising calls for final products. Overall, wholesale prices were comparatively stable, with increased costs for some commodities being about offset by lower prices for others. The combination of relatively short and certain delivery schedules and stable prices encouraged businesses to apply their improved knowledge of inventory control to keeping stock accumulations within quite modest bounds. Markets for most consumption and investment goods remained highly competitive, although some crude materials, especially the nonferrous metals, were in short supply by early summer.

Beginning late in the third quarter and continuing through the remainder of 1964, the economic expansion acquired a somewhat different coloration, largely because of labor unrest. A number of important economic activities were significantly affected by strikes and strike threats, the consequences of which partly masked the underlying strength of demands. The vigorous demand for steel in the October-December period was heightened by early attempts at strike-hedge stockpiling of the metal, which imparted an impetus to the growth of manufacturers' inventories. The work stoppage on October 1 at East and Gulf Coast ports led to an inflated pace of merchandise trade with foreigners during the period of the 80-day Taft-Hartley injunction. Especially important, also, were the strikes in the automotive industry during October and November, the impact of which slowed, temporarily, the rate of growth of economic activity in the Nation.

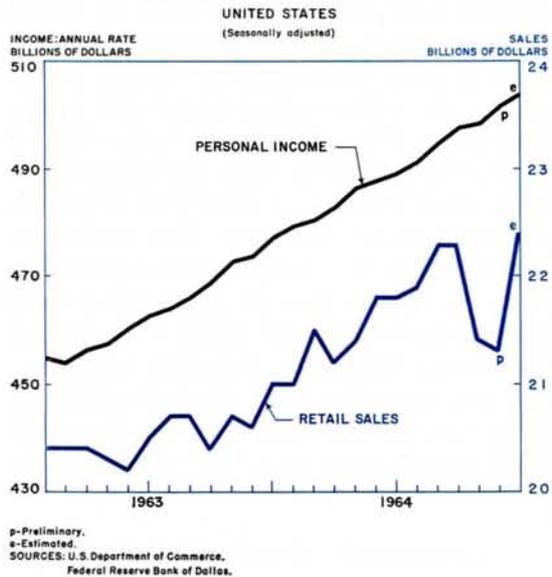
economic developments

Although the rate of economic advance was reduced considerably in the fourth quarter, the value of goods and services produced and consumed (that is, gross national product) during 1964 was impressive, totaling approximately \$623 billion for the year, or 6.7 percent over 1963. Personal consumption outlays rose in about the same proportion as GNP, while state and local government spending climbed somewhat faster. Business fixed investment increased 14 percent.

Business confidence and consumer optimism were at a high level in early 1964, reflecting the favorable economic developments of the prior year and the expectation of reduced cor-

porate and personal income tax rates in the new year. Business profits had set a record in 1963, as had corporate cash flow (retained earnings plus depreciation allowances); and businessmen anticipated further gains in the months ahead in both sales and profits. Since personal income had posted a long series of successive new highs, consumers anticipated more of the same.

Consumer income and spending each rose to a new high in 1964 . . .



The tax reduction bill was passed in late February and went into effect on March 5. Consumers did not wait, however, to step up their rate of spending. Relying partly upon borrowed funds — consumer credit spurred an adjusted \$725 million in February alone — consumers pushed their spending for a broad range of goods and services \$8.7 billion above the seasonally adjusted annual rate for the last 3 months of 1963. This January-March spurt was the largest quarterly increase in consumer outlays since the scare buying period during the early months of the Korean War. Increases in consumer spending continued above the \$6 billion level in the two subsequent quarters but

declined rather sharply in the final period, as the shortage of cars in dealer showrooms during October and November significantly reduced the sales pace of durable goods.

Despite some slackening in durable goods sales during the fourth quarter, consumer outlays for hard goods during all of 1964 still played a pacesetter role in the year-to-year climb in personal consumption spending. Outlays for services and nondurable goods each posted a gain over 1963 slightly in excess of 6 percent, while durable goods volume advanced somewhat faster, reflecting record spending for automobiles and household appliances.

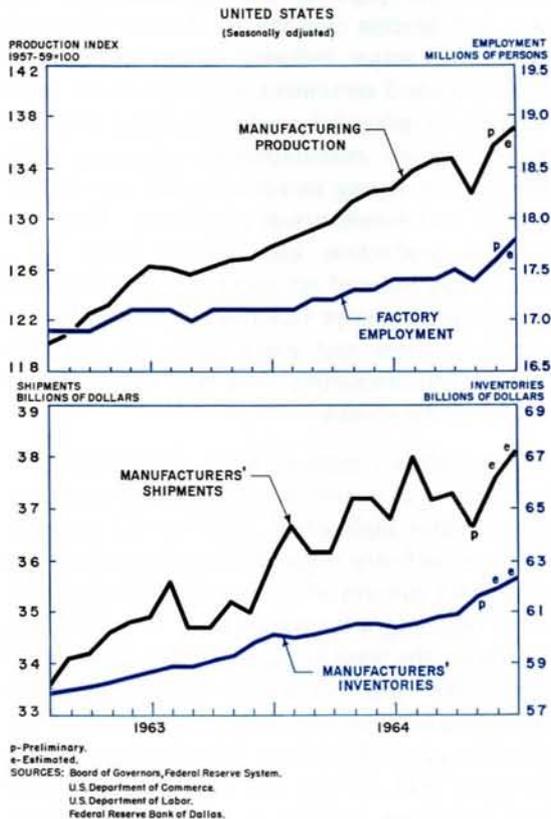
The sharp rise during 1964 in business spending for new plants and equipment was widely shared by most industry groups and reflected a number of favorable influences, not the least of which was the reduced corporate tax rate. But also contributing were a sizable backlog of funds derived from retained earnings and depreciation allowances, high and rising utilization rates, a competitive spur toward cost reduction, and the anticipation of further sales gains.

The largest relative increase in capital spending by any major industry was posted by the railroads, which boosted outlays about 33 percent over 1963. This significant gain mirrored the determination of the industry to compete more effectively with other modes of transportation by offering faster service at lower cost. Railroad investment last year was heavily concentrated in rolling stock. Fixed investment by all other transportation industries combined moved up 20 percent, with much of the advance accounted for by the Nation's airlines.

The 18-percent climb in manufacturing outlays for new plants and equipment last year was about evenly divided between durable and nondurable goods producers. Almost two-thirds of the increase in spending by the manufactur-

ers of durables came from the steel and automotive industries, while about the same proportion of the investment gains in nondurables was directed to chemical and petroleum production facilities.

MANUFACTURING ACTIVITY



The steel industry emphasized modernization in its expansion program during 1964 in an effort to reduce costs and improve the quality and variety of products still further. The need for increased capacity and more flexible production equipment set off the wave of capital spending by the producers of motor vehicles and parts. The manufacturers of chemicals expanded plants and equipment to meet the sharply increased demands for basic industrial chemicals and plastics. In the case of the petroleum industry, the Nation's refiners invested in order

to increase both the volume of output and the yield of the lighter hydrocarbons, particularly gasoline, per barrel of crude oil.

The marked rise in state and local government outlays last year reflected both the continuing struggle to meet the burgeoning demands of an urban society and the impact of the Public Works Acceleration Act passed by the U. S. Congress in 1962. State and local government spending advanced across a broad spectrum of goods and services, but particularly strong increases were noted for streets and highways, public buildings, and utilities — all of which added strength to construction activity over the year.

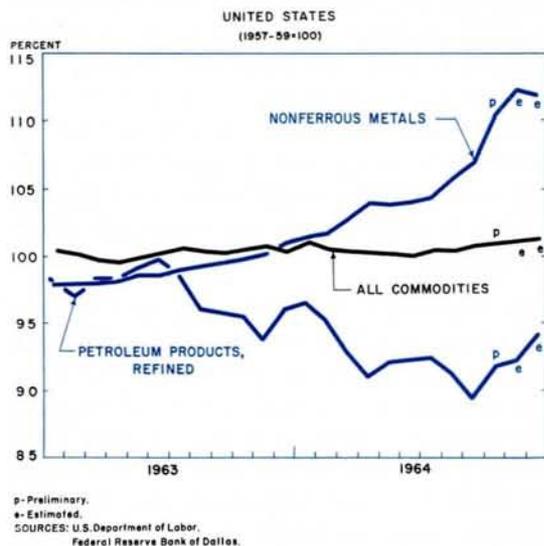
Construction activity fluctuated within a comparatively narrow range around the \$66 billion level, on a seasonally adjusted annual-rate basis, and totaled about 6 percent higher than in 1963. A downtrend in spending for private nonfarm housing developed after March. This downswing in residential construction was offset, however, by increasing expenditures for industrial buildings and hospitals in the private sector and by larger public spending for schools, hospitals, roads, and water and sewerage systems.

In response to the stepped-up pace of consumption and investment in the Nation's economy, the combined sales of the three echelons of business — manufacturers, wholesalers, and retailers — climbed to new monthly highs during 1964, with the total for the year showing about the same relative increase as GNP. Business sales evidenced a general uptrend through the first 7 months and then fluctuated within a fairly narrow range until October, when a shortage of 1965-model cars in dealers' hands lowered retail volume rather sharply. Needless to say, the value of shipments by manufacturers during the month was reduced, also, by the work stoppage in the automobile industry. Subsequently, however, a record Christmas season at the retail level and a new

monthly high in automobile output helped to push business sales at the end of the year toward a new peak.

Business inventories advanced less rapidly than sales during the first 9 months of last year, with the result that the inventory-sales ratio in September was a quite modest 1.47. This comparatively low ratio mirrors not only the continued cost consciousness of businessmen but also managerial innovations in stock control centered around the use of electronic computers. In addition, improved communication and transportation systems in the United States have lessened the chances of temporary, localized shortages of materials, parts, or products.

Commodity prices, on balance, edged upward in the latter months of 1964 . . .



In the fourth quarter, durable goods producers began the strike-hedge stockpiling of steel in anticipation of a work stoppage in the steel industry on May 1 of this year, when the present labor contract expires. Thus, manufacturers' inventories began to climb upward at a relatively brisk pace in October. Increased holdings of the metal at service centers also im-

parted an upward bias to the movement of wholesale stocks. However, retailers generally maintained a conservative inventory policy.

To provide the primary energy, materials, and products needed for the economic expansion, the Nation's factories, mines, and utilities boosted the physical volume of output last year to 6 percent over the 1963 level. Although all of the major industry groups contributed to this upward movement, over half of the 1964 advance in industrial production came from the durable goods manufacturing industries, with particularly strong increases noted for ferrous metals and nonelectrical machinery. Total industrial production had entered 1964 on a strong uptrend and set successive new highs in every month except October, when the flow of motor vehicles and parts from the Nation's largest manufacturing firm was halted for 3 weeks of the month.

The Nation's mills poured a record 127 million tons of raw steel last year, which surpasses the previous high set in 1955 by 8.5 percent. The steel industry began 1964 with an operating rate of 64 percent of estimated ingot capacity. After reaching a spring peak of 79 percent in late May, the weekly pace of ingot production dipped less than seasonally during the early summer and then climbed until a level of 83 percent was achieved at mid-October, where the pace held for the rest of the year. Apart from inventory building in the fourth quarter, the strong demand for steel came from a broad range of durable goods industries, including those producing automobiles, structurals, appliances, farm machinery, construction equipment, freight cars, and machine tools.

The significant expansion of the American economy last year raised civilian employment by July to a record 72.4 million persons, which reflects a year-to-year advance of 1.6 million persons. The seasonally adjusted rate of unemployment drifted downward intermittently during the first half of the year, declining from

5.6 percent of the labor force in January to 4.9 percent in July. During the remainder of 1964, however, the size of the labor force and the level of employment generally moved in the same direction and shifted in about the same proportion. In consequence, the rate of joblessness, on balance, showed no further improvement, although the rate of unemployment for married men edged downward to 2.5 percent in November. This is the lowest monthly rate for the family breadwinners since March 1957.

Larger employment and higher wages combined to push personal income to new highs in every month of 1964, with the average for the year being almost 6 percent higher than in 1963. Even in October, when wage payments in the automobile industry decreased sharply, personal income edged upward \$700 million, on a seasonally adjusted annual-rate basis. During the month, wage losses in the transportation equipment sector were more than offset by payroll gains in state and local government and the trade and service industries.

More important from the standpoint of spending than the uptrend in personal income over the year was the sharp rise in take-home pay, which spurted \$8.3 billion in the first quarter and \$10.7 billion in the second. Since the immediate impact of the reduced payroll withholding rate was felt in March and April, disposable personal income posted somewhat more modest advances in the third and fourth quarters. Nevertheless, after-tax personal income for all of last year moved above the 1963 total by approximately 7 percent.

Consumer prices inched upward last year at essentially the same rate and for about the same reasons as in the previous 2 years. Much of the upward drift in living costs was derived from higher prices paid for services, especially medical care and public transportation, although food costs increased modestly. Prices of commodities other than food were little changed from 1963 levels.

During the first 9 months of 1964, wholesale prices exhibited a pattern of stability that has more or less typified primary market prices in the current cyclical upturn, with much of the variation in overall prices accounted for by swings in the cost of farm products and processed foods. In the fourth quarter, however, industrial commodity prices strengthened noticeably to a level that averaged about one-half of 1 percent above that prevailing in the January-September period. Moreover, this average for industrial commodity prices was the highest since the early months of 1960, when the previous business advance was approaching a peak. A relatively tight supply situation in primary markets for most nonferrous metals, particularly copper and zinc, and price rises for refined petroleum products, especially the heating oils, provided most of the upward push to overall industrial commodity prices.

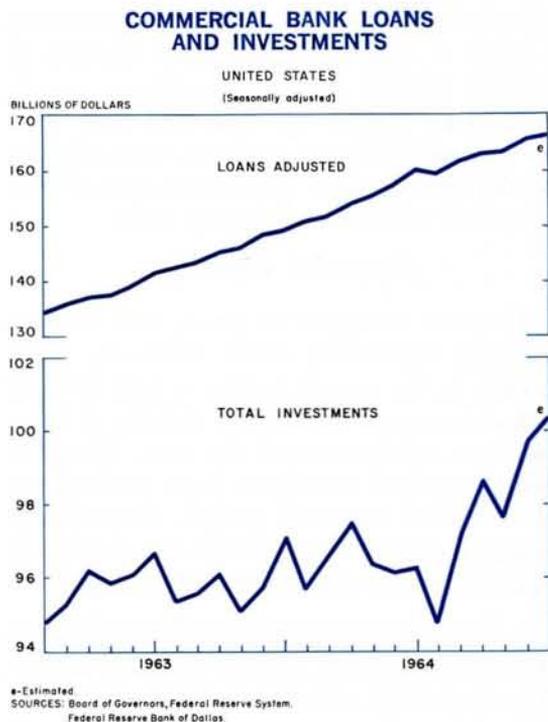
financial highlights

Financial developments during 1964 featured strongly expanding credit demands, rapid growth in the money supply, a high level of financial savings, and relative stability of interest rates during most of the year. Monetary policy remained stimulative in an environment of continued economic growth. International financial considerations continued to have a significant impact on domestic financial markets.

Loans at all commercial banks in the United States approached a level of \$166.0 billion at the end of 1964, reflecting an increase of \$16.4 billion — or 11 percent — over the 1963 level. Real estate and business borrowing accounted for about 60 percent of the total dollar advance in loans. Partially in response to a high level of construction activity, real estate loans advanced approximately \$4.5 billion; this gain, however, was about \$400 million less than in the previous year. The advance in business loans approximated 10 percent during the year, or slightly greater than the 1963 advance. As in past years, a large volume of internally gen-

erated funds tended to reduce corporate reliance on bank credit.

Consumers expanded their bank indebtedness sharply during the year to finance purchases of automobiles, appliances, and various other commodities and to meet outlays for home improvements. The high level of economic activity and the increased income made available by the tax cut undoubtedly contributed to the willingness of the consumer to incur debt during 1964.



As banks extended credit to meet loan demand in 1964, their liquidity positions receded, as measured by the loan-deposit ratio. This ratio rose about 3 percentage points from January to December, reaching 63.0 percent at the end of the year.

In 1964, as in other recent years, commercial banks reduced their holdings of U. S. Government investments and added to their portfolios

of higher-earning non-Government securities. The decline in holdings of Government securities was significantly less than in 1963, however, and tax-exempt obligations were acquired much less vigorously. The average maturity of commercial bank holdings of Government investments was shortened slightly in 1964. There were modest increases in portfolios of Government obligations maturing within 1 year, but holdings of issues maturing in 1 year or longer were reduced.

Despite a substantial expansion in bank credit, free reserves of member banks averaged about \$120 million during the first 7 months in 1964, little changed from the last half of 1963. During the last 5 months of 1964, however, free reserves receded to an average which was about half of that shown earlier in the year, as member bank borrowing rose to the highest levels since mid-1960. Borrowing from Federal Reserve banks in the August-December period averaged about \$100 million more than in the prior 7 months.

Individuals added substantially to their holdings of financial assets during 1964, but such acquisitions were made at a somewhat slower pace than in 1963. The net inflow of funds into savings and loan associations during the first three quarters of the year totaled \$7.1 billion, or about 5 percent less than in the comparable 1963 period. Much of this slowdown occurred early in 1964, when net receipts of savings ran as much as 23 percent below the like 1963 interval. As the year progressed, however, the savings inflow accelerated; and in the third quarter, the volume of new savings substantially exceeded that shown for the like period in the previous year. Mutual savings banks, which sought funds aggressively during the past year, recorded an inflow of savings about 2 percentage points greater than in 1963. Time deposits at commercial banks rose about \$14.0 billion during 1964 to a level approximately 12 percent greater than in the prior

year; this rate of gain represented a moderate slackening from the 1963 pace.

The Nation's money supply expanded sharply during 1964 to approximately \$160 billion, a level about 4.2 percent greater than a year earlier. This advance exceeded the pace recorded for any other year since 1951. From May through December, the rate of monetary expansion accelerated to 5.7 percent, compared with a rate of 2.0 percent earlier in the year. The monetary expansion during the year was accompanied by a further rise in the rate of use of money, as measured by the turnover of demand deposits at commercial banks.

The volume of mortgage financing continued relatively large during the year, but it is likely that the aggregate increase in loans fell slightly below the \$29.3 billion gain in 1963. This development was associated with a slackening in the construction of nonfarm residential housing. Faced with the need to employ a growing vol-

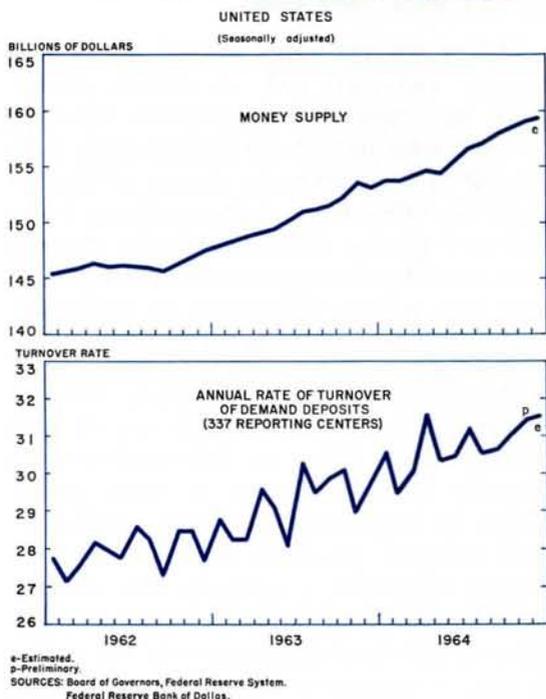
ume of savings funds profitably, lending institutions eagerly sought mortgage loans; as a result, lending terms eased during the year. Although strengthening slightly in January 1964, interest rates and fees on conventional mortgages during the first 9 months of the year averaged below the comparable 1963 figures, while the maturity of mortgages and loan-price ratios rose. Foreclosures increased during the year but remained a relatively small percentage of total mortgage debt outstanding.

Total borrowing by state and local governments in the capital markets during 1964 was maintained near the \$10.0 billion level registered in the preceding year. The need to finance outlays for education, utilities, and housing — coupled with less than adequate tax receipts — was principally responsible for the high level of debt financing. As in past years, commercial banks were heavy purchasers of municipal obligations; but their appetites for these securities were dulled by the need to channel an increasing proportion of loanable funds into customer loans.

New corporate security issues reaching the market totaled about \$12.0 billion during 1964, up moderately from the 1963 level. Although private placements of debt offerings remained near the record 1963 amount, the total amount of corporate debt financing receded as the volume of issues offered publicly declined moderately. Stock issues reaching the market, however, swelled to more than double the level of 1963 offerings, largely as a result of the sale in the spring of shares in communication utilities. A relatively small amount — less than 5 percent — of the funds raised through new security offerings was used to retire existing obligations.

Treasury demands in the money and capital markets during 1964 were considerably lighter than anticipated. Despite a large tax reduction, the Federal Government ran a cash surplus of \$5.0 billion in the first half of the year, little

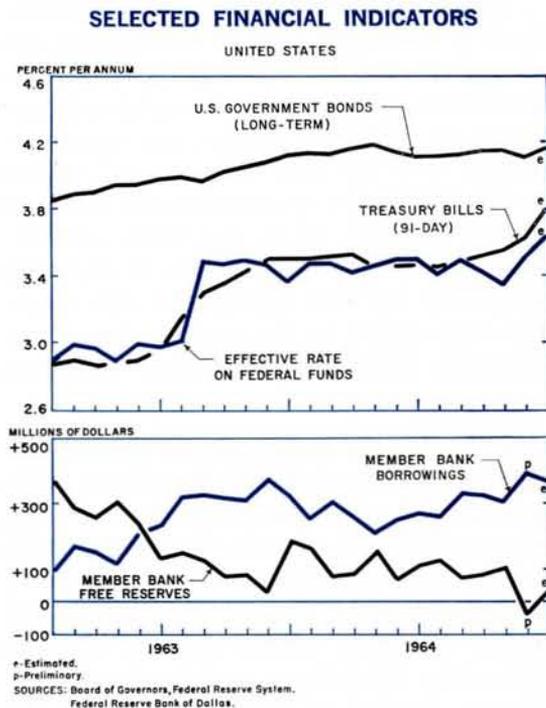
MONEY SUPPLY AND DEPOSIT TURNOVER



changed from the like 1963 period. As a result of this favorable development, net debt repayments approximated \$900 million in the first half of the year; and the Treasury's cash balance rose to slightly over \$10.0 billion. This comfortable cash position was interpreted by the market as an indication that the Treasury would not be a heavy borrower in the last half of the year and, thus, was a factor in the easing of interest rates during the summer months.

to prevent the average maturity of the debt from shortening. At the end of October, the average maturity of the marketable debt was 5 years 2 months, or unchanged from a year earlier.

Interest rates in most sectors of the money and capital markets rose slightly in the first quarter of 1964, largely in response to investor and dealer expectations of a surge in credit demands to finance a growing economy stimulated by the Revenue Act of 1964. Expectations of higher rates were reinforced when the discount rate of the Bank of England was increased from 4 percent to 5 percent in February. It was widely anticipated that a firmer domestic monetary policy would be required to moderate a surge in credit demands and to combat potential outflows of funds internationally. Rates eased in the second and third quarters of the year, however, as the supply of loanable funds proved fully adequate to meet the Nation's credit demands. In September, money and capital market rates were little changed from the December 1963 levels.



The Treasury actively employed the advance refunding technique (first used in June 1960) to achieve a more even distribution of the Federal debt and to lengthen its average maturity. In July the Treasury, in the largest advance refunding operation ever conducted, offered holders of almost \$42.0 billion in securities the right to exchange them for three long-term issues. The lengthening of the maturity of the public debt achieved through the advance refunding technique was only sufficient, however,

Money market rates moved up in late summer and early fall, as market participants were generally apprehensive regarding the short-term outlook for interest rates. Near the end of November, the change of the discount rate of the Bank of England from 5 percent to 7 percent and a hike in the discount rates of the Federal Reserve banks to 4 percent from 3½ percent contributed to further increases in rates, notably in the short-term area.

During the month of November, rates on 91-day and 1-year Treasury bills rose 29 basis points, while rates on intermediate-term Treasury issues advanced 11 basis points. Yields on long-term Government bonds were little changed. Prices of corporate securities trended downward in sympathy with developments in the Government bond markets, while prices of municipal obligations rose. The decline in rates on tax-exempt obligations reflected an

ticipations of increased bank purchases of these obligations to employ an inflow of time and savings deposits stemming from higher interest rates permissible under regulation Q.

When it announced the discount rate changes of the Reserve banks, the Board of Governors also announced the amendment of regulation Q, effective November 24, to allow member banks to pay maximum rates of 4 percent on savings deposits, regardless of the time they are held, and 4½ percent on time deposits with a maturity of 90 days or longer. Responding to this permissible change in the regulation, a number of banks raised to 4 percent the rate paid on all savings deposits. Although some banks have made upward adjustments in their rates on time deposits, there has been a definite reluctance to increase rates to the new maximum level.

Federal Reserve operations during 1964 were conducted with a view to encouraging further economic expansion and, at the same time, to maintaining conditions in the money and capital markets which would tend to discourage the outflow of funds internationally. Bank reserves were supplied during each quarter of the year to support the expansion in bank credit and money. This stimulative monetary policy, together with a high rate of savings, was also a factor in maintaining interest rates at levels compatible with emerging economic developments.

Action by the Reserve banks and the Board of Governors in late November to increase the discount rate from 3½ percent to 4 percent reflected the concern of the monetary authorities that the recently established 7-percent discount rate of the Bank of England and the resulting 3½-percentage-point spread between the discount rates of the United Kingdom and the United States would attract funds abroad in substantial volume, thereby contributing to a worsening of the Nation's balance-of-payments problem. This action reaffirmed the Nation's

determination to protect the status of the dollar internationally. Thus, the increase in the discount rate was prompted by international considerations and did not reflect a desire of the Federal Reserve System to restrain domestic credit expansion.

The deficit in the Nation's international accounts continued to be a major consideration in the formulation of monetary policy in 1964. Largely reflecting a substantial improvement in the first half of the year, the balance-of-payments deficit for 1964 likely will decline from the \$3.3 billion level recorded for 1963. On a seasonally adjusted annual-rate basis, a deficit of \$1.8 billion was shown in the January-June period.

The U. S. balance-of-payments position during the first half of 1964 benefited from several factors which must be regarded as temporary in nature. Among these, exports of agricultural commodities to the Soviet Union in the January-March period and unusually large income receipts from direct investments abroad were perhaps the most notable. The deterioration in the balance of payments in the final half of the year largely reflected an expansion in imports, associated with the continued growth of domestic economic output.

In August 1964, the interest equalization tax was enacted by Congress to impose a tax on foreign securities sold to U. S. residents. The legislation also provides for the extension of the tax to long-term bank loans to foreigners if the President finds that such loans are being used to circumvent the purpose of the legislation.

In financing its balance-of-payments deficit, the United States sold gold to foreigners and increased its liquid liabilities to foreign monetary authorities and official institutions. The monetary gold stock, however, showed a decline of only \$127 million during the year, compared with a \$465 million reduction in

1963. Sales to foreign official institutions of non-marketable U. S. Treasury securities denominated both in dollars and in foreign currencies were a major factor in moderating the gold outflow.

Also, for the first time since the establishment of the International Monetary Fund, the United States in February exercised its drawing rights under the terms of the Fund's charter. The proceeds of these drawings were mainly used in aiding Western European countries in repaying the IMF. A total of five drawings, aggregating the equivalent of \$525 million in various foreign currencies, was concluded during 1964. These drawings, however, were partially offset by the dollar drawings of other countries; as a result, the net reduction in U. S. drawing rights was only \$265 million.

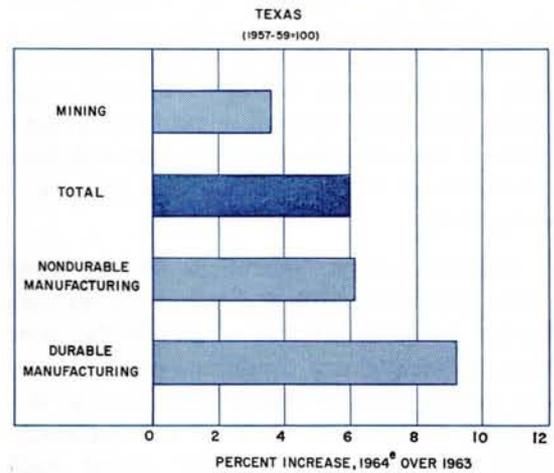
Continued cooperation among the central banks of major industrial countries in matters of mutual concern was a central feature of international financial developments during the year. Currency swap agreements between the Federal Reserve System and foreign central banks, which have made a significant contribution in past years to international financial stability, were developed further in 1964. At the time of the speculative attack on sterling in late November, these swap facilities, plus resources available through the IMF, were of incalculable value in easing the pressure on sterling. In addition to a \$1.0 billion drawing from the Fund by the United Kingdom, 11 countries and the Bank for International Settlements agreed to provide \$3.0 billion to defend the pound sterling.

district developments

The Southwest shared in the broadly based national economic expansion during 1964. Significant advances from 1963 levels were registered in manufacturing, mining, agricultural production, construction activity, employment, personal income, and retail trade.

Industrial production in the Southwest, as indicated by Texas data, moved upward last year to a level that was about 6 percent above output in 1963, or the same as in the Nation. The year-to-year gain in the region matched that registered for 1963. Industrial production in the Southwest showed an orderly advance during 1964 as opposed to 1963, when most of the expansion in industrial output occurred during the first part of the year.

INDUSTRIAL PRODUCTION INDEX



Although mining and the manufacturing of both nondurable and durable goods all posted output gains last year, the production of durable goods registered the largest relative advance — about 9 percent — over 1963. Among the durable goods showing high rates of growth were primary and fabricated metals, machinery, and transportation equipment. These categories were also among those in which output expanded rapidly at the national level.

Nondurable goods production rose almost 6 percent in 1964, and mining output advanced about 3 percent. Such nondurable manufactures as apparel, chemicals, and rubber and plastics showed especially high rates of increase. The strong advance in the output of chemicals and apparel extended a trend that has been under

way in the Southwest for several years. The modest, but important, rise in mining production reflects a continuation of the expansion evident in the output of petroleum products since the early part of 1962, particularly in the last three quarters of both 1963 and 1964.

Industrial production in the Eleventh District has shown marked growth during the current business expansion, which began in 1961. Nevertheless, output has lagged behind the rate of industrial expansion in the Nation during this period. This lag in industrial production is primarily the result of the relatively slow rate of growth in mining activity in the District as compared with manufacturing output.

Crude oil production in the District advanced 2.7 percent last year. This was a significantly larger gain than was recorded for the Nation as a whole and reflected the fact that much of the increase in national crude oil output was provided by District wells. Texas boosted crude oil production 2.3 percent, while southeastern New Mexico and northern Louisiana each posted a still higher gain. The pace of crude runs to District refinery stills rose 2.5 percent last year. A new monthly record for refinery operations was established in July, surpassing the previous high set in February 1963 by 1.9 percent. Overall, drilling activity in 1964 showed little improvement in the District, although wildcatting picked up in northern Louisiana and the number of field wells drilled in southeastern New Mexico increased somewhat.

The cumulative value of construction contracts in the southwestern states of Arizona, Louisiana, New Mexico, Oklahoma, and Texas in 1964 exceeded the very high 1963 level of \$4.9 billion by about 2 percent. Aggregate construction activity remained well above the comparable 1963 levels until the second half of 1964, when residential construction activity began to weaken in each of the southwestern states except Louisiana. However, nonresidential building and nonbuilding construction (en-

gineering and public works) continued to be sources of strength in the southwestern construction picture throughout 1964. The advances in these sectors reflected the expansion of investments in manufacturing plants and commercial facilities and further increases in spending for public works and utilities.

Weaknesses in the residential sector resulted from reduced construction of multiple-family dwellings, particularly apartment buildings. Some evidence of overbuilding and increases in vacancy rates began to emerge during 1964 in the larger metropolitan areas.

While metropolitan areas had about six times the volume of construction activity of non-metropolitan areas (cities of 50,000 population or less), the smaller urban areas enjoyed a building boom in 1964 when compared with the larger ones. The source of this expansion was new residential construction — the weakest sector in the metropolitan areas. This boom in residential activity reflected a growing demand for apartment units in smaller cities.

The value of nonbuilding contracts was slightly below that for nonresidential construction. However, nonbuilding construction was the most rapidly growing segment of the construction industry in 1964. The primary source of strength in the nonbuilding sector was in waterworks, sewerage, and irrigation-drainage projects. Much of this activity reflected expanded programs of Federal spending for flood control and dams under the Public Works Appropriations Act of 1964. The level of highway construction in 1964 also advanced from the very high 1963 level and, hence, was a primary factor in the strong nonbuilding construction picture.

The rising levels of economic activity in the District states of Arizona, Louisiana, New Mexico, Oklahoma, and Texas for 1964 resulted in expanded wage and salary employment. The average number of nonagricultural

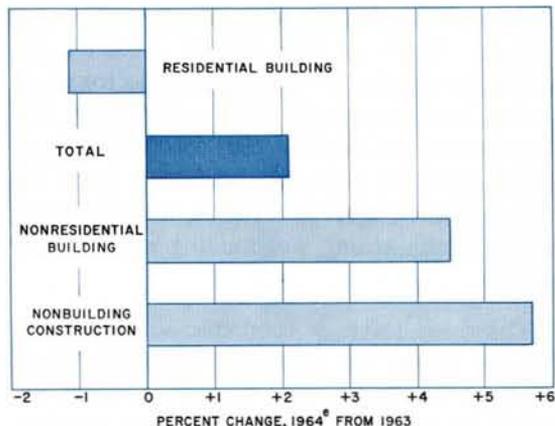
wage earners last year was nearly 4.8 million, or about 2 percent above 1963.

The total civilian labor force, as measured by the number of persons in the 18-64 age bracket, increased by about 40,000 persons; but employment rose by a greater amount—more than 111,000 workers—during 1964. The unemployment rate in the Southwest reflected this expansion in employment and eased to 4.4 percent of the civilian labor force, or fractionally below 1963. This downturn in the unemployment rate reflected a 34,000 reduction between 1963 and 1964 in the average number of unemployed workers.

Manufacturing employment last year advanced 3 percent over 1963 in the District states, and the number of nonmanufacturing wage earners rose a little over 2 percent. In the nonmanufacturing sector, which accounted for almost 83 percent of total nonagricultural wage and salary employment in the Southwest, the only employment category showing a decline from 1963 was transportation and public utilities. Federal, state, and local governments

Expansion in nonbuilding and nonresidential construction offset weakness in residential building in 1964 . . .

FIVE SOUTHWESTERN STATES



^a—Partly estimated.
 SOURCES: F. W. Dodge Corporation.
 Federal Reserve Bank of Dallas.

recorded the greatest increase (24,000) in the number of workers employed, and trade posted the second largest employment advance (22,000).

Consumers in the District responded to the higher levels of employment and disposable income during 1964 by increasing their personal consumption expenditures further. Percentagewise, the step-up in consumer buying for durable goods was greater than the gain in purchases of nondurables.

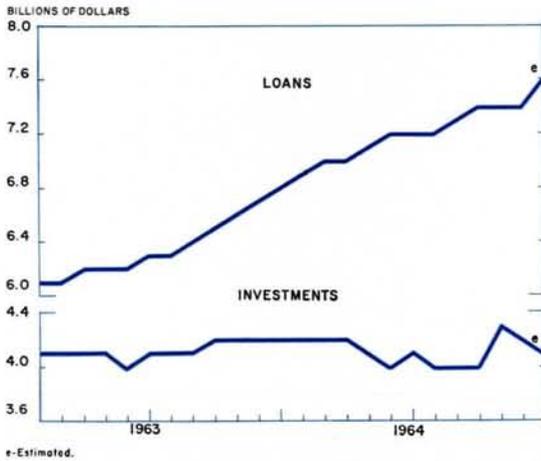
Automotive sales in major Texas markets showed healthy gains over 1963 during the first three quarters of 1964. However, the curtailed passenger car production resulting from the October-November automotive labor troubles sharply reduced sales during these months. Nevertheless, total new car registrations in Dallas, Fort Worth, Houston, and San Antonio rose 8 percent above the high level recorded for 1963. District department store sales advanced almost 11 percent above their 1963 level.

Although growing conditions were not particularly favorable in some sections, total agricultural output in the Southwest last year was slightly above the high 1963 level. Higher yields per acre offset reductions in harvested acreage, and total crop production increased modestly. In addition, output of livestock and livestock products was substantially larger, principally because of increased cattle and calf production; production of mohair and poultry and dairy products also rose, however.

Prices received by southwestern farmers and ranchers for all farm products in 1964 averaged moderately below those of 1963. Prices for crops were slightly weaker, and those for livestock and livestock products, particularly cattle, were substantially lower. As a result, total gross income of southwestern farmers and ranchers was a little smaller than in 1963. Since production expenses were higher last year, net

MEMBER BANK LOANS AND INVESTMENTS

ELEVENTH FEDERAL RESERVE DISTRICT



farm income was moderately lower than the \$1.6 billion received in 1963.

The continued economic growth of the Southwest during 1964 was reflected in District banking developments. In order to satisfy a growing loan demand, member banks reduced their total investments; borrowed through the Federal funds market and at the Federal Reserve bank; and competed aggressively for time and savings deposits. The net result of these developments was a decline in District bank liquidity to a level significantly below those recorded for other recent years.

At the end of the year, loans at all member banks in the District reached a total of \$7.8 billion, or 13.2 percent above a year earlier. The demand for consumer-type loans was especially vigorous; as a result, this category of borrowing increased at a faster rate in 1964 than in 1963. While the expansion in real estate loans was substantial in 1964, it was less than the sharp advance that occurred in the

preceding year. Commercial and industrial loans and loans to nonbank financial institutions were relatively weak during the year. Among commercial and industrial loan categories, however, loans to construction firms rose sharply.

A continued inflow of time and savings deposits augmented the supply of loanable funds. Time and savings deposits, however, increased at a somewhat slower rate in 1964 than in 1963. The loan-deposit ratio of all District member banks rose from 52.4 percent at the end of 1963 to an estimated 56.0 percent at the end of the past year. Country member banks experienced a sharper increase in their loan-deposit ratio than did reserve city banks.

Member banks reduced their holdings of Government obligations by about 10 percent in order to meet loan demand. Reserve city banks decreased their holdings of Governments and increased their portfolios of non-Government securities at a faster rate than did country member banks. The average maturity of investment portfolios was lengthened, as Treasury bills and certificates of indebtedness were sold or redeemed while U. S. bonds maturing after 5 years were acquired. A moderate amount of notes and bonds maturing within 1 year was purchased.

District member banks continued to be active participants in the Federal funds market and, on balance, were net purchasers of funds. In fact, while District banks enlarged their purchases of Federal funds in 1964, they actually reduced their total sales of Federal funds below the 1963 level. During the year, member banks also increased their borrowings from the Federal Reserve Bank of Dallas by a substantial margin.

***new
member
bank***

The Uvalde National Bank, Uvalde, Texas, a newly organized institution located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, opened for business December 14, 1964, as a member of the Federal Reserve System. The new member bank has capital of \$200,000, surplus of \$150,000, and undivided profits of \$60,000. The officers are: James L. Cowan, Chairman of the Board and President, and William D. Tabor, Vice President and Cashier.

***new
par
bank***

The Peoples State Bank, Marshall, Texas, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, January 2, 1965. The officers are: W. L. Rudd, Jr., President; Barton S. Hill, Executive Vice President; Dr. H. D. Bruce, Vice President (Inactive); and Joe H. Sharp, Jr., Cashier and Vice President.