Federal Reserve Bank of Dallas

Annual Report to the Board of Directors

Submitted by

R. R. Gilbert, President

January 31, 1949

CONFIDENTIAL

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BUSINESS ACTIVITY IN 1947 IN THE ELEVENTH FEDERAL RESERVE DISTRICT

Business activity in this district during 1947 can be best understood against the background of major developments affecting the national economy. These developments include: resumption of the upward trend of all important business indexes about midyear, following a period of leveling off in expectation of a recession; relative tranquility in labor relations; industrial production at the highest monthly levels since VJ-Day; civilian employment setting new records, and wage increases affecting most of the workers of the Nation; initiation of the largest volume of residential construction since 1926 and the greatest amount of industrial construction since the midwar peak; gross national production in excess of $230 billion; personal income of approximately $195 billion, with more than $160 billion going into personal consumption expenditures; a sharp gain in output and sales of durable goods and in capital goods formation; net exports rising to a new peacetime peak and draining off more than 5 percent of the national product; a rise of 15 percent in the index of wholesale prices, of 7 percent in retail prices, and of 8 percent in the consumers' price index; and a continuing notable expansion in the use of consumer credit. These developments were for the most part distinctly inflationary in their effects on the national economy, increasing its vulnerability to shocks which might arise from prolonged industrial work stoppages, decline in construction activity, a bad crop year, sharp curtailment in foreign trade, or collapse of the economic structure of western Europe.

Business in this district was likewise more brisk and confident during the second half of 1947 than in the first half. At the beginning of the year growing consumer resistance to rising prices—manifested chiefly in greater selectivity in buying and more concern about the quality of merchandise—and widely publicized forecasts that the postwar boom in business was heading for a recession during the second or third quarter of the year inspired caution among retailers of soft goods and of off-brand durables, leading to curtailment in orders and advance commitments and to special efforts to reduce inventories. During this time adjusted indexes of sales at district department stores showed a tendency to level off or drop slightly from the high levels of the previous year. A significant change occurred, however, as the year progressed, and both consumers and businessmen noted the continuation of inflationary forces and the failure of prices to come down. Consumer buying increased, and businessmen began replenishing inventories more actively. Concurrently, rising trends began in other fields of activity, and export trade, after declining moderately from the peak reached in May, made partial recovery during the second half of the year, adding support to both the price structure and the national income.

Total sales of reporting department stores in this district for the year exceeded those of 1946 by 7 percent. In retail furniture stores the gain in total sales was somewhat greater, amounting to 11 percent. Gains in sales in both groups of stores were especially rapid during the fourth quarter of the year, and the termination on November 1 of the restrictions of Regulation W on the terms of instalment credit caused a significant increase in credit sales of furniture stores.

Indicative of cautious inventory policies among department stores of the district, orders outstanding month by month until December were down from the totals for corresponding months in 1946, the margin of difference running to more than 50 percent in the period from March through June, but diminishing thereafter as store executives developed more confidence during the third and fourth quarters. The value of merchandise on hand at the beginning of the year was high by comparison with the situation a year earlier, but as a result of energetic efforts to reduce excessive inventories of soft goods, coupled with sharp cut-backs in orders, the margin of year-to-year increase in value of stocks dropped to 8 percent by midyear—less than offsetting the effect of rising prices—and remained at or near that figure for the rest of the year. The upturn in sales during the second half of the year, of course, also contributed to holding stocks down to conservative levels.

Increased use of credit was an important factor in the gains made in wholesale and retail trade during the year. Rapid expansion of commercial loans at banks reflected the increase in use of credit by wholesalers and retailers for carrying inventories. Consumer credit of all types showed significant gains. Nationally, charge accounts increased nearly 20 percent from January to the end of November, and total instalment sale credit registered a gain of more than 60 percent during the same period, although still falling considerably short of the record total of such credit outstanding at the end of 1941. At department stores and furniture stores in this district the ratio of credit sales to total sales increased during the year, constituting 61 percent of department store sales and 83 percent of furniture store sales during December, as compared with 56 percent and 78 percent, respectively, in December 1946. Collection rates on both charge accounts and instalment contracts, though generally lower than in 1946, were regarded by most retailers as satisfactory, and many stores made aggressive bids for new credit accounts.

Industrial operations in this district rose to record levels for a peacetime year during 1947 although continuing shortages of iron and steel limited expansion of output of many durable goods plants, and uncertainties early in the year concerning the market outlook for soft goods deterred expansion by many producers of apparel, textiles, and wood products. Employment in manufacturing establishments in Texas increased steadily during the last half of the year and in December was at a peacetime high of about 348,000, as compared with 330,000 a year earlier and a prewar average of about 185,000. Improved efficiency of labor in many plants and a labor force generally more stable than in 1946 resulted in a more orderly delivery of many materials, improved scheduling of work, and consequent better utilization of workers.

Production of crude oil in the district increased steadily during the first 10 months of 1947 to an all-time peak of 2,593,000 barrels daily in October, when most fields produced at maximum efficiency rates of recovery, and declined only slightly in the subsequent two months. Daily average production for the year was 8 percent greater than in 1946 and 82 percent above the prewar (1935-39) average. Refineries on the Texas coast advanced production above rated capacity in order to meet essential requirements, and, despite shortages of pipe and other materials, the total footage drilled and the number of exploratory wells completed exceeded prior records in the district. Preliminary estimates indicate also that additions to proved reserves of petroleum more than offset the very large amount of crude oil produced.

The value of awards for construction declined abruptly early in 1947, but renewed optimism concerning the outlook for business and support of residential construction by Government-guaranteed loans bolstered awards after midyear. Total construction contract awards during 1947 amounted to $684,000,000, or about $120,000,000 above 1946 and more than three times the prewar average. Many projects started in 1946 and delayed by shortages of labor and materials were completed during 1947, and a very large amount of new construction was initiated. Total construction put in place in the district far exceeded that in any prior peacetime year.

Industrial capacity was enlarged significantly during the year by extensive facility expansions in every important industry in the district. Fourteen large chemical projects calling for total expenditures of at least $200,000,000 were announced or initiated, all except one being for the Texas coastal area. Completion of these and smaller projects also initiated during 1947 will make the Gulf Coastal Area the largest and most important chemical center in the world. The petroleum and natural gas industries likewise undertook sizable expansion programs, adding to capacity with new natural-gasoline, recycling, and carbon-black plants, catalytic refineries, and record-breaking pipe-line construction. Several large facilities and numerous smaller installations were provided in the building-materials, food-processing, paper and paper-products, sulphur, potash, smelting, apparel, rubber, and wood-products industries. These facility expansions were accompanied by power, water, rail, and port expansion programs which will enlarge significantly the industrial growth potential of this district.

The acreage of crops harvested in Texas during the year, estimated at 28,696,000 acres compared with 26,937,000 acres harvested in 1946, was the largest acreage since 1937. Major acreage increases were in cotton, which increased 2,300,000 acres above the acreage of 1946, and wheat, which increased about 1,300,000 acres. The acreages of rye, flaxseed, rice, hay, cowpeas, and peanuts were also larger, but reductions occurred in the case of corn, oats, barley, grain sorghums, and potatoes. The total acreage of crops harvested in Arizona, Louisiana, New Mexico, and Oklahoma also increased.

Due to increased total acreage and generally higher yields, agricultural production in the district was maintained at a very high level during 1947, and the production of several farm commodities set new records. The wheat crop harvested in Texas was about double the crop of 1946 and three times the 10-year (1936-45) average. The Texas cotton crop was the largest since 1937, and the production of peanuts has been exceeded in only two previous years. Rice production in 1947 also reached a new high, and a near-record citrus crop was harvested. There was a reduction, however, from the previous year in the production of corn, grain soghums, all potatoes, and peaches.

As a result of the increased volume of production and generally higher prices, principally cotton and cottonseed, wheat, and rice, the total value of all crops produced in Texas during 1947 reached an all-time high of $1,446,219,000. This total is 55 percent above that of 1946 and about double the value of crops produced in 1945. A substantial reduction, however, was registered in the total value of citrus and commercial truck crops harvested in the State during the year.

Prolonged drought during the summer and fall in the western part of the district sharply reduced the supply of range feeds and delayed the planting and development of winter grains. Supplemental feeding was extensive, however, and livestock were in fair to good condition as the year ended. Reflecting the tight feed situation and continued high prices, the number of cattle received at the Fort Worth and San Antonio markets in 1947 was about 13 percent greater than the volume received during the preceding year. Receipts of hogs also were considerably higher. Receipts of calves, however, were fractionally lower, while sheep receipts fell 24 percent below the heavy marketings of 1946.

Prices received by Texas farmers during 1947 averaged well above those of 1946. The most noteworthy increases occurred in the prices of grains, meat animals, milk cows, and eggs, while moderate increases were noted for cotton, cottonseed, and dairy products. Prices received for sweet potatoes and hay averaged about the same as in the previous year, but those received for chickens, citrus fruits, and wool were generally lower.

TREASURY FINANCING

Among the outstanding developments in Treasury fiscal operations during 1947 were a continuation of the policy of retirement of Government securities by cash as the budgetary surplus and Treasury balances permitted, the offering on October 1 of a new issue of $2\frac{1}{2}$ percent nonmarketable Treasury bonds due October 1, 1965, and a continuation of the successful policy of encouraging the public to continue to hold and purchase United States savings bonds.

Marketable issues of Government securities redeemed by cash during 1947 amounted to \$10,854,000,000, including \$1,897,000,000 of Treasury bills, \$5,863,000,000 of certificates of indebtedness, \$2,251,000,000 of Treasury notes, and \$843,000,000 of Treasury bonds. On the other hand, during the year savings bonds and other nonmarketable obligations and special issues increased \$7,410,000,000, resulting in a net reduction in the interest-bearing debt of \$3,444,000,000. As a result of an increase of \$1,188,330,000 during the year in the non-interest-bearing debt and an increase of \$6,691,000 in the amount of matured debt on which interest had ceased, the net reduction in the total public debt during 1947 amounted to \$2,249,000,000, a decline from \$259,149,000,000 to \$256,890,000,000.

On December 31, 1946, Treasury bills outstanding totaled \$17,033,000,000. Beginning in mid-April 1947, a series of four weekly reductions of \$200,000,000 each in offerings of Treasury bills, followed immediately by two further weekly reductions of \$100,000,000 each, combined to reduce the amount of Treasury bills outstanding on May 22 to approximately \$16,000,000,000. Thereafter, except for a \$200,000,000 reduction on June 26, weekly offerings of Treasury bills approximated maturities until the first week in November, when reductions of \$100,000,000 a week were made for a period of six weeks. During the last half of December, weekly bill offerings equaled maturities, and at the end of 1947 outstanding Treasury bills totaled \$15,136,000,000.

With the announcement of an eleven-month certificate of indebtedness dated August 1, 1947, the Treasury initiated the policy of concentrating maturities of certificates of indebtedness on a quarterly basis. During the remainder of the year this policy was observed, with certificates being offered to mature on July 1 and

October 1, 1948, and January 1, 1949. In addition, two issues of Treasury notes offered during the year were dated to mature on October 1, 1948, and January 1, 1949. On December 31, 1947, certificates outstanding amounted to $21,219,710,000, as compared with $29,987,149,000 outstanding on the same date a year earlier, or a decline during the period of $8,767,439,000. The reduction in the amount of certificates outstanding was accounted for by the cash redemptions summarized above and the exchange of slightly more than $2,900,000,000 of certificates due December 1, 1947, for 1⅛ percent Treasury notes due January 1, 1949.

During 1947, the Treasury continued the policy of emphasizing the retirement by cash of maturing and callable securities held by the Federal Reserve banks and the commercial banks, as 56½ percent of the securities retired by cash were so held. This percentage contrasted with approximately 72 percent in 1946. The percentage of maturing and callable Government securities redeemed by cash in 1947 also was substantially less than during 1946—about 23.5 percent as compared with 51.7 percent in 1946. It should be remembered, however, that the very large amount of securities retired by cash in 1946 absorbed a substantial proportion of the excessively large Treasury balances accumulated largely from the Victory Loan, and, consequently, the volume of cash redemptions during 1947 was governed more significantly by the amount of funds available from the budgetary surplus. In addition, as previously indicated, during 1947 approximately $1,897,000,000 of Treasury bills were retired by cash, in contrast with the policy in 1946, when weekly maturities of Treasury bills were refunded in full.

On September 29, 1947, the Treasury offered a new 18-year nonmarketable 2½ percent Treasury bond to institutional investors and to commercial and industrial banks holding savings deposits or issuing time certificates of deposits. Subscriptions to the issue, which was offered at least in part to provide an investment medium for accumulated bona fide investment funds, were limited according to a formula. Total sales of this issue were reported at $970,220,000, of which $257,210,000 were taken by banks.

The Treasury continued to emphasize, through the constant efforts of its Savings Bond Division and a special promotional campaign during June and July, the importance to individuals of continuing to hold and to buy United States savings bonds. Especial emphasis was placed upon the Bond-A-Month Plan, which offers to individuals not employed on a fixed wage or salary basis the same automatic bond-buying privileges that the pay roll deduction plan affords to millions of wage and salary earners. During 1947, sales of savings bonds in the United States totaled $6,694,158,000, while total redemptions amounted to $5,109,-517,000. In this district, however, redemptions exceeded sales by $19,193,000, the total redemptions amounting to $246,194,000 as compared with sales of $227,001,000.

The Treasury ended the year 1947 with a balance in its General Fund of $3,097,000,000, as compared with a balance of $3,502,000,000 a year earlier.

GOVERNMENT SECURITIES MARKET

Developments in the Government securities market during 1947 were influenced strongly by Federal Reserve System policy affecting the pattern of interest rates, the impact of Treasury fiscal operations on bank reserves, and the strengthening demand of private borrowers for financing through the capital markets.

Average yields on long-term taxable Government securities followed a comparatively level trend during the first five months of the year, varying between 2.21 percent and 2.19 percent. Following an increase in average yields during June and July of about .03 percent, the yield curve again leveled out until early October, when a declining price trend turned the yield curve upward during the remainder of the year.

After a period of strength during the first two months of the year, prices on high-grade corporate bonds remained relatively steady until early September, when weakening prices resulted in an increase in average yields on those issues from 2.52 percent on September 1 to 2.91 percent on December 31. As a consequence of these price movements of Government securities and high-grade corporates, the spread between the yields of these issues widened from approximately .27 percent during the early months of the year to about .47 percent during December.

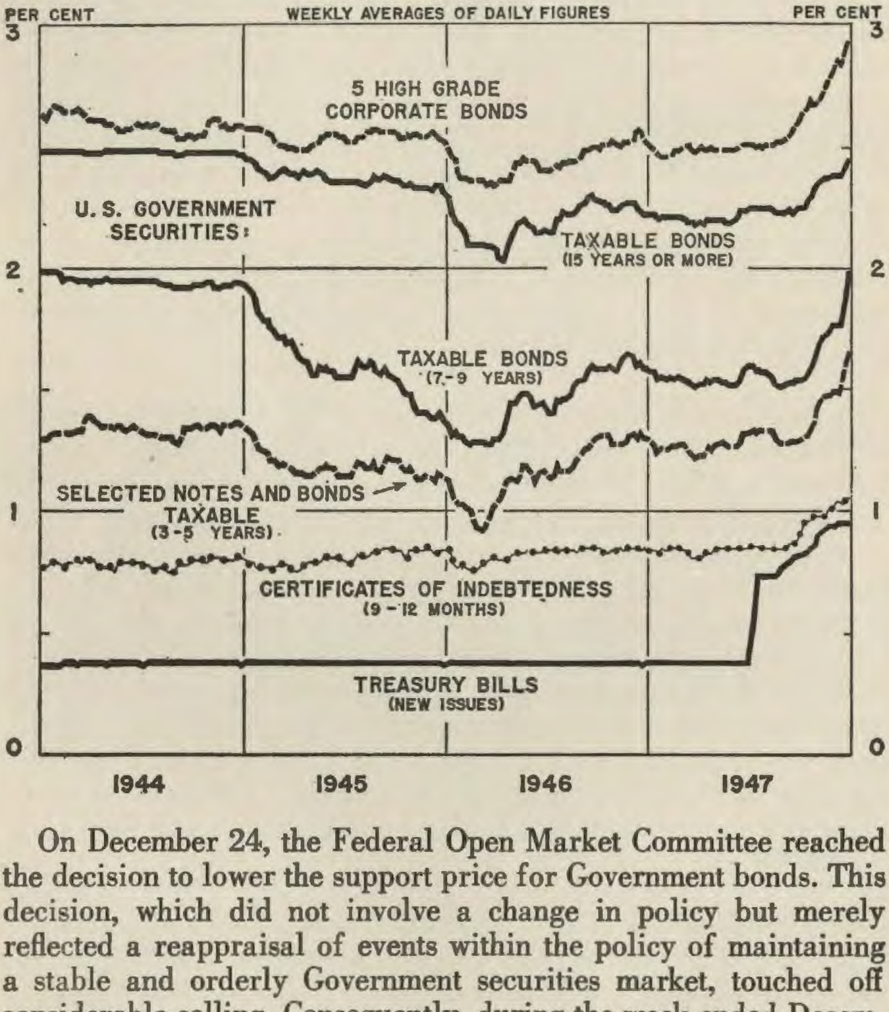
Probably the outstanding event of the year in terms of its influence upon the course of the Government securities market was the decision of the Federal Open Market Committee to eliminate the posted buying rate and the repurchase option on Treasury bills. This action, which was taken on July 10, 1947, signaled a change in policy regarding the pattern of rates and was promptly followed by a steady increase in the average discount rate on new offerings of Treasury bills, with the consequence that the rate advanced from the $3/8$ percent level which had been in effect prior to July 10 to an average rate of .951 percent on the last issue offered in December. In the meantime, the rates on new issues of Treasury certificates of indebtedness rose from the $7/8$ percent rate on 12-month certificates in effect in July to $1\frac{1}{8}$ percent on the 13-month note issue of December 1. In addition, during December the Treasury announced a 12-month $1\frac{1}{8}$ percent certificate offering to be dated January 1, 1948. This firming of short-term rates on Government securities exerted some influence on private short-term interest rates, introduced an element of uncertainty in the financial markets, and was a contributing factor in the trend of the market price of Government bonds.

In its efforts to maintain a stable and orderly Government securities market, the Federal Open Market Committee was at different times a seller and buyer of Government securities for System and Treasury accounts. During July, August, and September, when a strong demand for intermediate and longer term Government securities prevailed, the Committee made substantial sales of Treasury bonds for Government investment accounts, the total in July amounting to $609,000,000 and in August to $300,000,000. Sales for Government accounts continued during September, but in smaller volume. During the same months, transactions for the System account also were effected, with the consequence that the net sales of Treasury bonds for System and Treasury accounts amounted to $1,042,000,000 from July 1 through the first week in October.

Beginning in October, an unusually large volume of corporate borrowing at attractive rates, absorption of almost a billion dollars of investment funds by the sale of nonmarketable $2\frac{1}{2}$ percent Series A 1965 Treasury bonds of the G type, and increasing evidence that the monetary and credit authorities intended to use their powers more vigorously to curb the mounting inflation produced a sharp decline in Government bond prices and, also, in the prices of corporates and municipals. Between the week ended

November 12 and the week ended December 24, purchases of Government bonds for the System account amounted to approximately $1,000,000,000. Such vigorous support, which extended virtually to the entire list of bonds, checked the decline in prices, although downward price pressures persisted.

YIELDS ON TREASURY AND CORPORATE SECURITIES



On December 24, the Federal Open Market Committee reached the decision to lower the support price for Government bonds. This decision, which did not involve a change in policy but merely reflected a reappraisal of events within the policy of maintaining a stable and orderly Government securities market, touched off considerable selling. Consequently, during the week ended December 31, the System purchased approximately $1,143,000,000 of Government bonds in supporting action to maintain an orderly market and to protect the $2\frac{1}{2}$ percent rate on the longest term marketable Government bonds.

The decline in the prices of Government securities during the interval between January 1 and December 31, 1947 is indicated by the price changes of certain key issues. The longest term Government bonds, the restricted $2\frac{1}{2}$s of 67/72, were quoted on January 2 at a bid price of 102-28/32 and ended the year on December 31 at a price of 100-8/32. During the same period the unrestricted or bank-eligible $2\frac{1}{2}$s of 67/72 declined from 106-8/32 to 101, while the 2s of 52/54 moved downward from 102-29/32 to 101-4/32. On December 31, the most distant dated maturity of Treasury bills was quoted at a bid price of .96 percent discount, in contrast with the .375 percent discount for the comparable maturity on January 2, 1947; and the most distant dated certificates were quoted at .86 percent discount on January 2, as compared with 1.10 percent for the comparable maturity on December 31.

MEMBER BANK RESERVES AND RELATED FACTORS

The net increase during 1947 of $1,760,000,000 in the reserve balances of member banks in the United States resulted chiefly from an increase in the monetary gold stock and a decrease in Treasury cash, the effect of which was only partially offset by a decrease in Federal Reserve credit and an increase in Treasury and nonmember deposits at Federal Reserve banks. Although required reserves of member banks increased substantially during the year, because of the growth in customer deposits at those banks, the increase was at a slower rate than in reserve balances, with the result that excess reserves at the year-end totaled $1,499,-000,000, the highest level in nearly two years. The changes in factors affecting reserve balances are presented in the following table:

SUPPLY AND USE OF MEMBER BANK RESERVE FUNDS
(Amounts in millions of dollars)

	December 31, 1947	*December 31, 1946*	*Changes that Added to Reserves*	*Changes that Reduced Reserves*
Reserve bank credit	$23,180	$24,093		$—913
Monetary gold stock	22,754	20,529	$+2,225	
Treasury and national bank currency	4,558	4,562		— 4
Money in circulation	28,863	28,951	— 88	
Treasury cash	1,336	2,272	— 936	
Treasury deposits with Reserve banks	870	393		+477
Nonmember deposits	960	822		+138
Other Federal Reserve accounts	564	607	— 43	
Total			$ 3,292	$1,532
Member bank reserve balances held	17,899	16,139	$+1,760	
Estimated required reserves	16,400	15,579	+ 821	
Estimated excess reserves	1,499	560	+ 939	

Throughout 1947, there were alternate periods of ease and tightness in the reserve positions of member banks occasioned by such factors as Treasury transactions, financial transactions with foreign countries, effects of Treasury and Federal Reserve policy actions, and the interplay of numerous other factors upon bank reserves. The pressure upon reserves was strongest and most persistent in the first half of the year when the Treasury retired in part maturing issues of marketable Government securities, the effects of which more than counterbalanced the increases in reserves resulting from the inflow of gold and the return flow of currency from circulation. In that period, required reserves showed an irregular downward trend and reserve balances reflected a corresponding decrease. In the last half of the year, when there was a relatively small amount of debt retirement, reserve positions were somewhat easier, since there was an accelerated inflow of gold and a substantial increase of Federal Reserve credit in use. While required reserves rose steadily during that period, because of the growth in customer deposits at member banks, reserve balances increased even more rapidly and at the year-end were at peak levels.

The Federal Reserve System's holdings of Government securities were maintained near peak levels during the first two months of the year and then declined sharply during the subsequent four months. After midyear, however, there was a gradual but irregular upward movement. On December 31, 1947, total holdings aggregated $22,559,000,000, or $791,000,000 lower than at the end of 1946. Moreover, there were some marked shifts in the composition of the Government security porfolio of the System. Treasury bills, which represented 63.1 percent of Government securities held by the System at the end of 1946, declined to 50.7 percent of the total on December 31, 1947, and during the year, holdings of certificates of indebtedness declined from 32.1 percent to 30.1 percent. On the other hand, holdings of Treasury bonds, which constituted only 3.3 percent of the System's total portfolio at the end of 1946, rose to 12.7 percent at the end of 1947. Treasury notes also assumed greater importance in the System's portfolio of Government securities, rising from 1.5 percent of the total to 6.5 percent. The accompanying table sets forth the changes in total holdings and in the composition of the System's portfolio:

HOLDINGS OF GOVERNMENT SECURITIES BY THE FEDERAL RESERVE SYSTEM

(Amounts in millions of dollars)

Type of Security	*Dec. 31, 1947*	*Per Cent of Total*	*Dec. 31, 1946*	*Per Cent of Total*	*Net Change*
Treasury bills—total	$11,433	50.7	$14,745	63.1	$—3,312
Under repurchase option	——	——	4,906	21.0	—4,906
Other	11,433	50.7	9,839	42.1	+1,594
Certificates of indebtedness	6,796	30.1	7,496	32.1	— 700
Treasury notes	1,477	6.5	355	1.5	+1,122
Treasury bonds	2,853	12.7	754	3.3	+2,099
Total	$22,559	100.0	$23,350	100.0	$— 791

During the first half of 1947, the decrease in total holdings and the change in the composition of holdings were occasioned largely by the cash redemption of short-term Government securities. In the subsequent six months, however, the changes reflected adjustments in investment policies of member banks and in Treasury and Federal Reserve policies. Following the elimination of the posted rate and repurchase option on Treasury bills at midyear, and the subsequent rise in interest rates on Treasury bills and certificates of indebtedness, many commercial banks began to increase their holdings of these securities. In the final quarter, when prices of Treasury bonds reacted sharply, commercial banks generally lightened their investments in Treasury bonds and added substantially to holdings of short-term securities. In that period, the Federal Open Market Committee made large purchases of Treasury bonds to maintain an orderly Government securities market.

WEEKLY REPORTING MEMBER BANKS—UNITED STATES

During 1947, changes in the principal asset and liability items of weekly reporting member banks in the United States were influenced chiefly by the fiscal operations of the Treasury, the heavy demands from business and industry for bank credit, and the large net imports of gold. In the first six months, the dominating influence was the Treasury retirement of bank-held Government securities which resulted in sharp declines in deposits and in holdings of Government securities. After midyear, the accelerated increases in bank loans to customers and in gold imports brought about a substantial growth in deposits, but the increase in required reserves necessitated some further liquidation of Government securities. For the year, total deposits showed a net increase of

$1,899,000,000, and these funds were used chiefly to increase aggregate loans and investments by $362,000,000 and reserves with Federal Reserve banks by $1,505,000,000.

The loans of reporting banks reflected a moderate counter-to-seasonal expansion during the first half of 1947, and then rose sharply during the remaining six months, with the net increase for the year amounting to $3,912,000,000 or 20.1 percent. Most of this gain occurred in commercial, industrial, and agricultural loans which rose $3,312,000,000, although there were increases of $970,000,000 in real estate loans and of $649,000,000 in "all other" loans which include instalment loans to consumers. The increases in these types of loans were partially offset by a decrease of $1,053,000,000 in the several types of security loans. In contrast with the increase in loans, the investments of reporting banks declined by $3,550,000,000 during 1947. The largest change was the $2,961,000,000 reduction in certificates of indebtedness occasioned by the partial retirement of certain maturing issues and sales in the open market by some banks to obtain funds to adjust reserve positions. There were also reductions of $564,-000,000 in Treasury notes and of $869,000,000 in Treasury bonds. On the other hand reporting banks added to their investment portfolios $568,000,000 of Treasury bills and $276,000,000 of other securities.

WEEKLY REPORTING MEMBER BANKS—ELEVENTH FEDERAL RESERVE DISTRICT

In this district, the changes in the principal asset and liability items followed the same general pattern as those at reporting banks in the United States, and are attributable to the same major influences. The increase of $217,000,000 in total deposits of reporting banks in the district reflected gains of $160,000,000 in adjusted demand deposits, of $64,000,000 in interbank deposits, and of $22,000,000 in time deposits, which were offset in part by a decrease of $29,000,000 in Government deposits.

The total loans of these banks declined seasonally during the first half of the year but increased rapidly thereafter. On December 31, 1947, total loans of $1,025,000,000 were $160,000,000 higher than a year earlier and constituted 46 percent of total loans and investments as compared with 41 percent at the end of 1946. The increase of $151,000,000 in commercial, industrial, and agricultural loans accounted for most of the expansion in total loans, the increases in real estate loans, and in "all other" loans being largely offset by declines in security loans.

The investments of reporting banks in the district, although $16,000,000 smaller on December 31, 1947 than a year earlier, showed a much smaller percentage decline than those at all reporting banks in the United States. Although there were sharp reductions during the year in holdings of Treasury bills, certificates of indebtedness, and Treasury notes, holdings of Treasury bonds increased $98,000,000, or 13.2 percent, as against a decline of 2.9 percent for reporting banks in the United States. Investments in other securities increased $20,000,000, or 22.6 percent, as compared with a gain of 6.9 percent for reporting banks in the United States.

There are presented below in tabular form principal asset and liability items of the weekly reporting member banks in this district as of December 31, 1946 and 1947, showing in addition, the amount of change during the year and the percentage change in each item for the weekly reporting member banks in the district and in the United States:

	Eleventh Federal Reserve District			*Percentage Change*	
(Amounts in Millions of Dollars)	*Dec. 31 1947*	*Dec. 31, 1946*	*Net Change*	*Eleventh District*	*United States*
Deposits—total	$2,968	$2,751	$+217	+ 7.8	+ 2.6
Demand deposits—adjusted	1,852	1,692	+160	+ 9.5	+ 4.5
Time deposits	385	363	+ 22	+ 6.1	+ 3.8
United States Government deposits	24	53	— 29	—54.7	—56.4
Interbank deposits	707	643	+ 64	+ 9.9	+ 3.5
Loans	1,025	865	+160	+18.5	+20.1
Investments	1,227	1,243	— 16	— 1.3	— 7.9
United States Government securities	1,118	1,154	— 36	— 3.1	— 9.3
Other securities	109	89	+ 20	+22.5	+ 6.9
Balances with correspondents	323	290	+ 33	+11.4	+ 9.7

INTERNAL OPERATIONS

RESEARCH ACTIVITIES

The activities of the Research Department during 1947 were directed in large part toward improving and establishing on a firm basis a number of services which had been introduced during the preceding year, training and developing staff members of the department to a point of greater efficiency, and carrying on the basic statistical and reporting functions required of the department. Satisfactory progress was made in these respects, although the problem of obtaining and retaining junior staff members has proved difficult and, in fact, has not been solved.

The basic statistical and reporting services of the department, including the collection of data for numerous statistical series widely used by banks and business firms in this district and the preparation of such continuing studies as the annual retail credit survey, the annual and midyear studies of member bank operating ratios, the annual survey of ownership of demand deposits, and other statistical presentations, required a substantial part of the department's operating time throughout the year. In addition, new projects, including a survey of business loans of commercial banks and a survey of agricultural loans of commercial banks, together with an increasing number of requests for a miscellany of statistical and economic information, were handled satisfactorily.

The staff of the Research Department cooperated fully in the development of the expanded bank and public relations function of the bank. Economic data were prepared and booklets published to supply the background information for eight Bankers' Forums, which were held as part of this bank's bank and public relations program. The bank's radio program, "Your Southwest Business Review," presented each Saturday evening over Station WFAA-570, Dallas, has continued to be prepared and presented by the Research Department. Officers of the department and senior staff members also participated in our bank and public relations program by addressing numerous groups and by maintaining rather wide contacts with business and banking leaders in the district.

Publications of the department, and especially the feature articles which have appeared regularly in the *Monthly Business Review* and the *Agricultural News Letter*, have created wide interest among business, agricultural, and banking groups in the district. A large number of requests for additional copies of such publications from sources both within and outside of the district indicate their favorable reception. At the close of 1947, the *Monthly Business Review* had a regular circulation of 2,946, with 593 names having been added to the mailing list during the year. The *Agricultural News Letter* had a regular circulation of 2,126 at the close of 1947, as 372 names, including 103 County Agricultural Agents and Assistant County Agricultural Agents of Texas and 92 Veterans Administration Training Officers in Texas, Louisiana, and Mississippi, were added to the mailing list during the year.

Early in 1947, the Board of Directors formally approved a broad and comprehensive bank and public relations program for the bank, the major objectives of which were achieved during the year. The following summary outlines briefly the principal activities:

Bank officers and representatives made 139 visits to nonmember banks and 675 visits to member banks which included 96 per cent of all member banks in the district.

Representatives of the bank made 25 addresses to meetings of bank, civic, and trade organizations at which the attendance approximated 1,700 persons. Bank representatives attended 120 other meetings of various types sponsored by bank, civic, and educational organizations at which the attendance aggregated 31,000 persons. A total of 1,218 individuals, consisting of 442 students, 500 bankers, and 276 businessmen and others, visited the bank and its branches.

The bank sponsored eight Bankers' Forums which were held at Shreveport and Monroe, Louisiana; Weslaco, Sherman, Greenville, and Amarillo, Texas; Durant, Oklahoma; and Roswell, New Mexico. The area covered by these forums, consisting of 77 counties and parishes, included 125 member banks and 100 nonmember banks. Booklets were prepared for each area, as a basis for forum discussions, and a wide demand for them developed after each meeting. In all instances, the forums were well received by bankers in attendance.

The bank sponsored its third annual forum for bank supervisory authorities and their staffs in the Eleventh Federal Reserve District, at which subjects of broad general interest to bank supervisors and examiners were presented by recognized authorities in the fields of law, banking, and economics.

The bank's weekly radio program, "Your Southwest Business Review," over Station WFAA-570, Dallas, Texas, was continued throughout 1947.

On April 23, 1947, the bank sponsored a joint meeting of deans of colleges of business and directors of bureaus of business research of the state universities of the Southwest with representatives of the Federal Reserve Banks of Dallas and Kansas City, at which mutual problems of regional research were discussed.

The bank sponsored a dinner meeting attended by a representative group of leading businessmen and senior bankers in Dallas and by the Board of Directors of the bank and its branches honoring The Chairman of the Board of Governors of the Federal Reserve System, who made the principal address of the meeting.

LEGAL ACTIVITIES

The Bank was not involved in any civil suits during 1947, but it was named defendant in an unfair labor practice charge filed with the National Labor Relations Board by the Office Employees International Union, AFL, on behalf of certain former employees whose services were terminated in February. The Regional Office of the National Labor Relations Board conducted an informal investigation, but after the enactment of the National Labor-Management Relations Act in August, which specifically exempted Federal Reserve banks, that Board decided not to assume jurisdiction. In view of the particular interest of this bank and of the general public in this labor legislation, Counsel prepared and presented to the directors and officers a summary of the various provisions embodied in the legislation as enacted.

Counsel assisted the Examination Department in processing an application of a national bank for the power to qualify and serve as executor of an estate, and in processing applications for membership by state banks, and for the benefit of the department, prepared a comprehensive memorandum concerning the factors required by law to be considered in passing upon membership applications. An analysis was made of the liability insurance and workmen's compensation insurance policies carried by the bank, and a summary was prepared of the principal features of these insurance policies, incorporating suggestions for procedure to be followed upon the occurrence of accidents and injuries apparently covered by such policies. For the guidance of the Transit Department, an intensive analysis was made of the statutes of New Mexico, Oklahoma, and Texas relating to the conditional or delayed payment of checks presented to banks in those states for payment, and in the light of this analysis this bank's practices in dealing with New Mexico and Oklahoma banks were changed to conform more nearly to the applicable state laws. In addition to these specific activities, Counsel advised the officers through written and oral opinions on various other legal problems that arose during the year and assisted in preparing answers to inquiries from member banks and others interested in federal laws and regulations administered by the Board of Governors of the Federal Reserve System.

AUDITING ACTIVITIES

The examining staff of the Board of Governors made a regular examination of this bank and its branches during January and February 1947. In addition, the Auditing Department maintained throughout the year the audit frequency schedule as adopted by the Conference of Auditors of Federal Reserve banks and approved by the Audit Review Committee of the Board of Directors of this bank. During the year the Audit Review Committee held quarterly meetings for the purpose of reviewing audit reports and discussing audit procedures with the General Auditor. The General Auditor consulted frequently with the officers of the bank regarding new accounting methods and changes in accounting procedures.

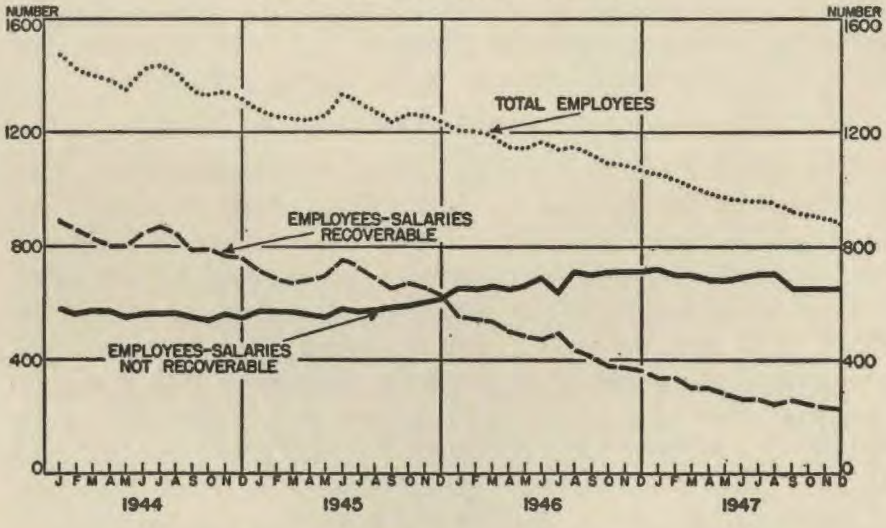
PERSONNEL ACTIVITIES

The plan for job classification and salary administration which had been in the process of development since mid-1946 was approved by the Board of Directors of this bank and by the Board of Governors of the Federal Reserve System, and became effective on October 1, 1947. In developing the plan, all jobs at the Head Office and branches below the officer level were analyzed and evaluated, 16 salary grades were established with minimum and maximum salaries for each grade, and intermediate rates between the minimum and maximum for each grade were adopted to serve as a basis for a consistent policy of merit increases. A manual of procedure for the administration and maintenance of the plan was prepared for the use of the supervisory staff. When the plan became effective, salary adjustments totaling $23,629 were granted to 115 employees receiving compensation below the minimum of their respective job grades to bring them within the appropriate salary range.

On December 31, 1947, the personnel of the bank and its branches, including officers and employees, totaled 920 persons as compared with 1,108 on December 31, 1946. The net reduction of 188 employees during the year reflected a continuation of the downward trend in effect since August 1943, when the number of officers and employees was at an all-time peak of 1,582. The decrease in personnel during 1947 reflected chiefly a further marked decline in the work of the Fiscal Agency and RFC-CCC Departments where salaries are recoverable from Governmental agencies, but some reduction in personnel was effected in certain other departments where increased efficiency permitted the handling of a larger volume of work with fewer employees. Although it was necessary to terminate the services of a considerable number of surplus employees during the year, it was possible, through a system of departmental transfers, to retain the services of the most efficient employees and to release those employees whose work was least efficient.

TOTAL NUMBER OF EMPLOYEES, BY MONTH, 1944-1947

FEDERAL RESERVE BANK OF DALLAS



The bank's basic salary rates were raised substantially during 1947 through a 10 percent general increase on January 1, merit increases granted to numerous employees during the year, and special adjustments when the plan for job classification and salary administration was instituted. In consequence, the average annual salary of employees on December 31, 1947, amounted to $2,371 as compared with $2,107 on December 31, 1946, a net increase of $264, or 12 percent, during the year. On the other hand, through a reduction in personnel, the annual salary rate of officers and employees at the Head Office and branches was reduced by $141,900 during the year and on December 31, 1947, amounted to $2,335,600.

The combined rate of personnel turnover at the Head Office and branches declined to 38 percent in 1947 from 47 percent in 1946. While there were increases in the rates of turnover at the El Paso and Houston Branches, they were more than offset by sharp declines at the Head Office and San Antonio Branch.

Since the Selective Service Act became effective in 1940, 285 employees have served in the military forces. Prior to December 31, 1947, a total of 157 veterans had been reemployed, but 49 of them subsequently resigned to accept other employment or to return to college. Pursuant to an understanding reached between the Board of Governors and the Presidents of Federal Reserve banks, the special benefits accorded to employees entering military service under a plan adopted in 1940 have been terminated with respect to employees entering military service after January 1, 1948.

On December 31, 1947, approximately 89 percent of the bank's personnel was enrolled under the Blue Cross insurance plan for hospitalization, medical, and surgical services, under which the bank pays two-thirds of the cost of coverage. During the year, that organization paid approximately $17,000 for hospital, medical, and surgical services rendered to 246 officers and employees of this bank, or their dependents. Total premiums paid during the year by the bank and its personnel amounted to about $30,800.

On March 1, 1947, a suggestion system was inaugurated whereby cash prizes are awarded to employees who make worthwhile suggestions designed to increase operating efficiency. During the year 337 suggestions were submitted, of which 36 were accepted and for which cash awards of $440 were made.

In February 1947, a counseling service was instituted at the Head Office whereby employees may discuss in private their personal problems with designated counselors on the staff of the Personnel Department. Numerous employees have availed themselves of this service.

During the year, the bank adopted the policy of recognizing all officers and employees who have had 25 or more years of continuous service. During the year, dinner meetings honoring the 94 officers and employees having 25 or more years of continuous service were held in the cities in which the four offices are located, at which occasions service emblems were presented to the honorees. It is contemplated that similar dinners will be held each year hereafter for such employees, and that the honor guests on those occasions will be the officers and employees who attain 25 years of continuous service during the preceding year.

RETIREMENT SYSTEM

During the past year there were no material changes in the rules and regulations of the Retirement System of the Federal Reserve banks. This bank's rate of current contribution was maintained at 10.1 percent of total pay roll throughout the year. During 1947, fourteen retirements were effected, and one death claim was paid, bringing the number of retirements and of death claims paid to 64 and 28, respectively, since March 1, 1934, when the Retirement System was inaugurated.

PAY ROLL DEDUCTIONS FOR BOND PURCHASES

During 1947, the officers and employees of the bank purchased Government securities in the amount of $140,000 through the pay roll deduction plan, or $39,000 less than in 1946. At the end of the year, approximately 45 percent of officers and employees were still enrolled in the plan and authorized deductions were at a rate of 5 percent of the total pay roll of the bank. It is significant, however, that the deductions for those still enrolled in the plan average above 10 percent of their respective salaries. Since the pay roll deduction plan was inaugurated in April 1941, purchases of savings bonds by officers and employees of the bank have aggregated $1,353,000.

BANK EXAMINATIONS

The activity of the Examination Department increased substantially during 1947 as a result of the expansion in state bank membership and in the examination of applicants for membership and of applicants to organize national banks. During the year the staff participated in 173 examinations as compared with 145 in 1946. The following table summarizes the operations of the department for 1947 compared with 1946:

	Independent Examinations 1946	Independent Examinations 1947	Joint Examinations with State or other Federal Agencies 1946	Joint Examinations with State or other Federal Agencies 1947
State Member Banks	2	4	118	130
State Bank Applicants for Membership	7	12	2	6
Separate Trust Departments	1	1	10	11
Holding Company Affiliates	0	0	0	2
Applications to organize National Banks	0	0	5	7
TOTALS	10	17	135	156

During 1947 one national bank in the district was granted authority to exercise trust powers in connection with a specific estate. At the end of the year 86 national banks and 14 state member banks held general authority to engage in trust undertakings.

General voting permits were issued to two holding company affiliates to vote the owned or controlled stock of affiliated member banks, bringing to three the number of such permits outstanding at the end of the year.

REGULATION OF CONSUMER CREDIT

Regulation W, as revised effective December 1, 1946, remained in force through November 1, 1947. Early in June the President of the United States announced that in concurrence with the recommendation of the Board of Governors he intended to vacate the executive order upon which Regulation W was based because he did not believe that such order and regulation, predicated on emergency or war powers, should continue indefinitely in peacetime after Congress had had opportunity to consider the matter of passing enabling legislation. During July 1947, the Congress enacted legislation authorizing the continuance of consumer credit regulation until November 1, 1947. During the months preceding the termination of the regulation, considerable confusion developed among many registrants regarding the status of the regulation, and certain registrants showed a disposition to disregard its provisions. This bank endeavored to deal with such cases effectively, yet with reasonableness and understanding.

In carrying out administrative responsibilities during the first 10 months of 1947, this bank, through its field investigators, visited 1,103 business enterprises to ascertain whether they were complying with the provisions of the regulation.

This bank issued exemptions from the provisions of the regulation covering credits to finance the repair or replacement of property damaged in connection with two disasters which investigation developed were of such a nature as to affect a substantial number of people in the stricken areas.

On October 27, 1947, or immediately prior to the termination of the regulation, this bank forwarded to all registrants a copy of the statement of the Board of Governors which called attention to the dangers inherent in undue relaxation of terms on instalment credit and urged the maintenance of sound credit conditions in the interest of economic stability.

During the session of Congress which convened November 15, 1947, the Senate passed a joint resolution which would have authorized the regulation of consumer instalment credit through March 15, 1949, but no action on the bill was taken by the House of Representatives prior to the adjournment of the Congress.

MEMBERSHIP IN THE SYSTEM

In the Eleventh Federal Reserve District the following 14 state banks and 6 national banks, of which 15 were newly organized institutions, were admitted to membership in the Federal Reserve System during 1947.

Name of Bank	*Location*	*Deposits December 31, 1947*
Hampton Oaks State Bank	Houston, Texas	$ 2,528,000
Bastrop Bank and Trust Co.	Bastrop, Louisiana	6,629,000
Lovington National Bank	Lovington, N. M.[1]	1,484,000
Security First National Bank of Hugo	Hugo, Oklahoma[2]	2,846,000
Waxahachie Bank and Trust Company	Waxahachie, Texas	4,278,000
Boswell State Bank	Boswell, Oklahoma[1]	370,000
Citizens State Bank	Ysleta, Texas[1]	683,000
First National Bank in Grand Prairie	Grand Prairie, Texas[1]	1,265,000
First State Bank	Premont, Texas[1]	723,000
Hereford State Bank	Hereford, Texas[1]	1,573,000
Southwest National Bank of El Paso	El Paso, Texas[1]	4,784,000
Citizens State Bank	Anton, Texas[1]	1,082,000
First State Bank	LaMarque, Texas[1]	789,000
Security State Bank	Littlefield, Texas[1]	1,027,000
West Carroll National Bank of Oak Grove	Oak Grove, La.[1]	856,000
First State Bank of Green's Bayou	Houston, Texas[1]	478,000
First State Bank	Junction, Texas[1]	401,000
Texas Bank and Trust Company of Dallas	Dallas, Texas	22,862,000
First State Bank of Greggton	Greggton, Texas[1]	427,000
National Bank of Sweetwater	Sweetwater, Texas[1]	1,021,000[3]

[1]Primary organizations.
[2]Conversion of state nonmember bank.
[3]As of January 3, 1948—date of opening for business.

Due to the withdrawal of one state bank from membership and the voluntary liquidation of another, membership in the Federal Reserve System in this district during the year showed a net increase of only 18 banks, and, on December 31, 1947, totaled 614 banks, consisting of 474 national banks and 140 state banks.

The state bank membership in the district is now at the highest level since 1924 and ranks fifth among Federal Reserve districts. The net increase of 12 in state bank membership during 1947 was the largest for any Federal Reserve district and constituted 48 percent of the net increase for the System; moreover, inquiries from eligible state banks indicate that a further sizable increase may occur during 1948.

CHANGES IN CAPITAL STOCK

The paid-in capital stock of the Federal Reserve Bank of Dallas rose to a new all-time peak of $7,303,750 on December 31, 1947, but the net increase of $438,400 during the year was only about one-half that during 1946. The new member banks admitted to the System purchased capital stock of this bank totaling $98,600; 304 other member banks increased their holdings of capital stock of this bank by $347,500 as a consequence of increases in their capital and surplus accounts. The cancellation of capital stock of this bank in the amount of $7,700 was occasioned by the voluntary liquidation of one former member bank and the voluntary withdrawal from membership of another bank.

The number of existing member banks which increased their own capital and surplus was larger in 1947 than in 1946, but the amount of the increase was much smaller, indicating that the upward adjustment occurred chiefly at the smaller and medium sized banks. Banks generally recognize the need for strengthening their capital structures to bring about a better relationship with risk assets and deposits; in consequence most banks have continued to follow conservative dividend policies and some banks have sold additional stock to the public.

NONMEMBER BANKS

The following 15 nonmember state banks in the district, including one succession, began operation during 1947:

Bank	Location
First State Bank	Big Sandy, Texas
Union State Bank	Carrizo Springs, Texas
South Fort Worth State Bank	Fort Worth, Texas
West Side State Bank	Fort Worth, Texas
First State Bank	Frisco, Texas
Garland State Bank	Garland, Texas
The First State Bank	Hawkins, Texas
Commercial State Bank	Houston, Texas
Lake Jackson State Bank	Lake Jackson, Texas
Mansfield Bank and Trust Company	Mansfield, Louisiana
Mansfield State Bank	Mansfield, Texas
The Security State Bank	Mabank, Texas
Highland Park State Bank	San Antonio, Texas
First State Bank	Socorro, New Mexico
Winkler County State Bank	Wink, Texas

The effect of these additions upon the total number of nonmember banks was offset in part by consolidations, liquidations, and admissions to membership in the Federal Reserve System. On December 31, 1947, there were 392 nonmember banks in the district, or seven more than at the end of 1946.

PAR BANKS

On December 31, 1947, 896 active commercial banks in the district, or 29 more than a year earlier, were remitting at par for checks drawn on themselves. It is significant that during 1947 all newly organized institutions and four former nonpar banks agreed to remit at par and no par bank withdrew from the par list. At the end of 1947 the number of nonpar banks in the district had been reduced to 109, comprising 59 banks in Texas, 48 banks in Louisiana, and 2 banks in Oklahoma.

NEW BANK ORGANIZATIONS

A total of 113 newly organized banks throughout the United States, excluding successions and conversions, opened for business during 1947, representing a decline of 31 from the number opened in 1946. The new organizations were again concentrated in the Atlanta, Chicago, and Dallas Federal Reserve Districts, where about 60 percent of all new organizations occurred in 1947 as compared with 52 percent in 1946. This district, which had 30 new organizations in 1947 as compared with 16 in 1946, led all other districts, while the Atlanta and Chicago Federal Reserve

Districts ranked second and third, with 19 and 18 new organizations, respectively, in 1947 as compared with 29 and 30, respectively, in 1946.

BANK FAILURES

The year 1947 was noteworthy for the continued absence of bank failures, representing the sixth consecutive year in which there were no bank failures in this district and the third consecutive year in which none was reported in the United States. The continued high level of business and industrial activity, with the consequent increase in the demand for bank credit and the unusually high level of farm income, contributed to the growth in bank deposits and the favorable earnings records of commercial banks generally throughout the country. Moreover, generally favorable economic conditions have enabled banks to hold their losses to a minimum and to make substantial recoveries on assets previously charged off. It should be pointed out, however, that the marked increase in bank loans during the past year and the return of greater flexibility in prices of Treasury and other bonds have increased significantly the risk element inherent in the loan and investment portfolios of commercial banks. These circumstances, combined with the strengthening of competition among business enterprises as the supply of goods becomes more plentiful, render more difficult the problems of maintaining sound credit and banking conditions and of preventing the development of troublesome situations.

FEDERAL RESERVE CREDIT

Changes in the general credit situation and adjustments in Federal Reserve policy to cope more effectively with developments were reflected in the volume and character of Federal Reserve credit in use in the district during 1947. Among the significant developments were the sharp increase in deposits at member banks, the rapid growth in member bank loans to customers, the periodic withdrawal of war loan deposits, the continuance of the Treasury program of retiring bank-held Government obligations, the elimination of the posted rate and repurchase option on Treasury bills, the rise in short-term interest rates, and the decline in prices of Treasury bonds. The impact of these factors had the effect, at certain periods, of tightening the reserve positions of many member banks. To meet temporary deficiencies in required reserves, 15 member banks borrowed intermittently from this bank an aggregate of $152,000,000, or $71,000,000 more than in 1946. Borrowing was most pronounced in the latter months of the year when the combined effect of several factors had the greatest impact upon bank reserves. On December 12, this bank's outstanding loans to member banks reached the year's peak at $16,500,000. During the first nine months of the year, when the posted rate and repurchase option on Treasury bills were in effect, 26 banks exercised the privilege of selling to this bank Treasury bills amounting to $389,145,000 at a rate of 3/8 per cent discount per annum. Of the $405,745,000 of Treasury bills held at the end of 1946 and purchased during 1947, a total of $330,590,000 was repurchased by five member banks and $75,155,000 was either redeemed at maturity or exchanged for new issues.

During 1947, this bank's participation in Government securities in the System Open Market Account averaged $913,000,000 as compared with $877,000,000 in 1946. It is the practice of the Federal Open Market Committee to carry interest-bearing securities on its books at face value. When such securities are purchased in the open market at premium prices, the premiums are set up in a separate asset account and amortized over the life of the securities. The amounts of the outstanding premium balance in the System Open Market Account and in this bank's participation in it are shown below:

Date	*Premium Balance in System Open Market Account*	*This Bank's Participation in Premium Balance*
December 31, 1946	$ 9,920,569.54	$ 496,097.93
December 31, 1947	52,436,500.25	2,803,622.36

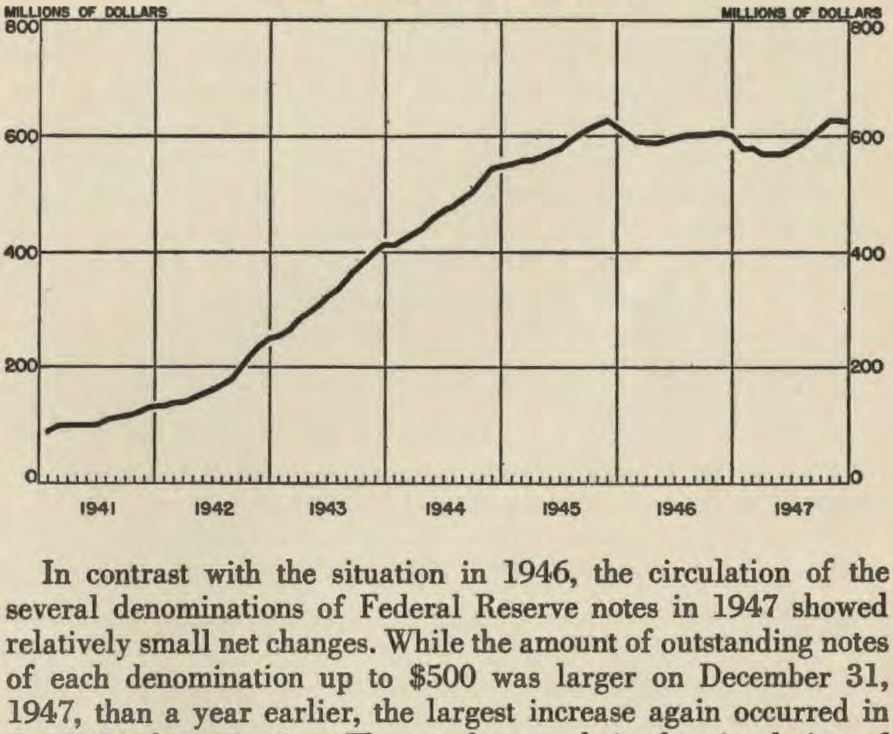
The marked increase in the premium balance during 1947 reflects the effects of the Federal Open Market Committee's heavy purchases in the open market at premium prices of Treasury bonds to carry out the policy of maintaining an orderly Government securities market.

FEDERAL RESERVE NOTE CIRCULATION

Federal Reserve notes of this bank in circulation declined sharply during the first five months of 1947, reflecting a seasonal return flow of currency from circulation, and reached the year's low point at $569,600,000 toward the end of May. In the remaining months of the year, circulation increased very rapidly because the usual seasonal demands for currency were accentuated by the marketing of large crops at high prices, the cash redemption of Armed Forces Leave Bonds, the increased activity in trade and industry, and the high level of consumer incomes. Just prior to the Christmas holiday this bank's note circulation reached a new all-time peak of $632,500,000, or $63,000,000 above the year's low point and $5,500,000 above the previous peak reached in December 1945. While there was a sharp decline in the final week of the year, total circulation on December 31, 1947, amounted to $624,700,000, about $20,000,000 higher than at the end of 1946.

FEDERAL RESERVE NOTE CIRCULATION

FEDERAL RESERVE BANK OF DALLAS



In contrast with the situation in 1946, the circulation of the several denominations of Federal Reserve notes in 1947 showed relatively small net changes. While the amount of outstanding notes of each denomination up to $500 was larger on December 31, 1947, than a year earlier, the largest increase again occurred in the $100 denomination. The steady growth in the circulation of that denomination, as well as the large amount outstanding, seems to indicate that it is being used to an increasing extent by persons desiring to hold large amounts of currency either for convenience, hoarding purposes, or for large cash transactions. This may be due to the fact that notes of this denomination are of a convenient size for handling and attract less attention than notes of the larger denominations. It will be observed from the accompanying table that the circulation of notes in denominations of $1,000 and above declined during 1947:

FEDERAL RESERVE NOTES IN CIRCULATION BY DENOMINATIONS

(In thousands of dollars)

Denomination	*December 31, 1947*	*December 31, 1946*	*Net Change*
$ 5	$ 18,323	$ 15,739	$+ 2,584
10	140,375	137,882	+ 2,493
20	232,782	230,734	+ 2,048
50	47,028	45,329	+ 1,699
100	149,649	138,180	+ 11,469
500	15,302	15,114	+ 188
1,000	20,845	20,905	— 60
5,000	110	140	— 30
10,000	210	290	— 80

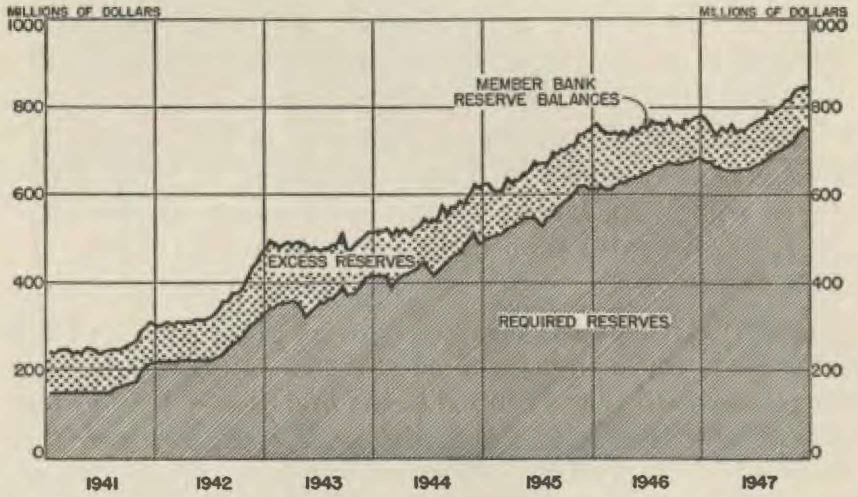
DEPOSITS OF MEMBER BANKS

The total deposits of member banks in this district, after having declined substantially during 1946, increased sharply to a new all-time peak in 1947. The increase, which occurred at banks in all size groups and in all sections of the district, resulted primarily from the large gains in loans and investments of banks, the record income derived from heavy marketings of livestock and agricultural products at high prices, the record level of business and industrial activity, and the substantial net disbursements of government funds in this area. Total deposits of all member banks in the district during December 1947 averaged $5,834,000,000, or a net increase of $489,000,000 over the average for December 1946. The increase occurred chiefly in the demand deposits of individuals, partnerships, and corporations, although there were moderate increases in interbank deposits and in time deposits.

MEMBER BANK RESERVE BALANCES

The reserve balances of member banks in the district fluctuated within narrow limits during the first five months of 1947, and then rose rapidly during the remaining months of the year. The average of such balances in December amounted to $847,000,000, or about $73,000,000 higher than the average in December 1946. From the accompanying chart it will be observed that the moderate downward readjustment in required reserves during the early months of the year was followed by a sharp increase in subsequent months and that the trend throughout the year closely paralleled the changes in reserve balances. The excess reserves of member banks in the district, which had declined substantially during 1946, were maintained at a fairly steady level throughout 1947, and were higher relative to required reserves than those in any other Federal Reserve district.

MEMBER BANK RESERVE BALANCES, REQUIRED RESERVES AND EXCESS RESERVES
ELEVENTH FEDERAL RESERVE DISTRICT



CASH DEPARTMENT OPERATIONS

The volume of operations of the Cash Department increased substantially during 1947. The principal changes in the operations during 1947 as compared with 1946 are set forth below:

Incoming and outgoing shipments of currency and coin numbered 84,299 in the aggregate amount of $1,197,000,000, representing increases over 1946 of 10,970 in the number of shipments and of $63,000,000 in amount.

The number of pieces of currency received and counted during 1947 rose to 109,331,000 with a value of $607,000,000. While there was an increase over 1946 of 2,993,000 in number, the value decreased $11,700,000, indicating that fewer bills of the larger denominations were received.

The number of coins received and counted totaled 184,721,000, with a value of $13,708,000, representing increases over 1946 of 35,400,000 in number and of $2,431,000 in amount.

The number of wire transfers of funds handled for member banks amounted to 72,000 involving $13,860,000,000. These figures represent increases of 4 percent and 14 percent, respectively, over those during 1946.

Securities held in custody for member banks and others amounted to $871,000,000 on December 31, 1947, or a net decrease of $74,000,000 during the year. The decrease reflected the further withdrawal by banks of collateral pledged to secure war loan deposits and the redemption of securities previously held in safekeeping.

The number of interest coupons clipped from securities held in custody totaled 125,000, a decrease of 32,000 as compared with 1946, largely because the Treasury Department in 1946 eliminated coupons on new issues of certificates of indebtedness.

During 1947, the bank obtained delivery of 13 currency counting machines which were installed at the Head Office, and operations will be further mechanized at the branches as soon as other machines now on order are delivered. Experience with these machines indicates that the mechanized operations enable currency counters and sorters to increase substantially their daily production and, at the same time, to reduce the number of miscounts. Data maintained on production indicate that the average number of notes counted and sorted per employee per day increased by about 3,500, or 30 percent, during 1947, reflecting the results of mechanization and the general increase in the efficiency of employees.

CHECK COLLECTION

During each of the past 15 years the volume of cash and noncash collection items handled by the bank reached a new peak. In 1947, the Transit Departments of the Head Office and branches handled 107,000,000 checks aggregating $35,644,000,000. These totals represent increases over those in 1946 of 2 percent in the number of items handled and of 14 percent in the amount involved. The peak day in 1947 occurred on March 4 when 542,000 items were handled, but this number was well below the all-time record of 733,000 items handled on November 8, 1946. The over-all expansion in the departments' activities are not fully reflected in these figures since the most pronounced increases occurred in those classes of items which require multiple handling while decreases occurred in certain classes of items requiring a single handling.

To expedite the collection of cash items, the bank instituted the practice of forwarding them by air mail or air express where that service would reduce the collection time or facilitate handling by the receiving bank. Effective August 1, 1947, Federal Reserve banks adopted a uniform policy of reimbursing member banks for postage or other transportation costs on cash items sent direct to other Federal Reserve banks and branches in order to encourage direct routing and thus speed up the presentation and collection of checks. While 211 member banks in this district have been granted the direct sending privilege, only 46 of them make use of it regularly.

In 1947, this bank was able to obtain and began the extensive use of IBM Proof Machines in handling country checks. The use of this equipment has increased operating efficiency and made possible the handling of a greater volume of work with fewer employees. Additional equipment now on order should be available about the middle of 1948, permitting the extension of mechanization to both the primary and secondary processing of country checks.

CHECK ROUTING SYMBOL PROGRAM

The program instituted in 1945 for the purpose of having a routing symbol placed on the checks of all par-remitting banks continued to make satisfactory progress during 1947. The routing symbol, constituting a series of numbers, readily identifies the Federal Reserve bank or branch at which checks of a given bank are receivable for collection. When the use of the symbol becomes general, the sorting and routing of checks will be greatly simplified, thereby increasing the efficiency and speed of collecting out-of-town checks. In a recent survey, it was found that all but nine of the par-remitting banks in this district have some checks in circulation bearing the routing symbol in the approved location. It is anticipated that the remaining banks will imprint the symbol on their checks when new supplies are ordered.

The checks reviewed during a recent survey by this bank show that 56 percent of them have the routing symbol in the approved location as compared with 32 percent a year earlier. The percentage in this district, while slightly less than that for the New York

Federal Reserve District, was well above the 46 percent average for the country. To expedite the successful completion of the program, continuous efforts are being made to obtain the cooperation of banks and printers in having the routing symbol printed in proper form on all new checks and drafts ordered by par-remitting banks.

It is significant that many banks have found that checks bearing the routing symbol are now circulating in sufficient volume to warrant the use of the simplified method in sorting checks. It is anticipated that this practice will spread rapidly as the program progresses and as banks generally recognize the benefits to be gained from shifting to this method.

FISCAL AGENCY OPERATIONS

The volume of fiscal agency operations declined only moderately in 1947 in contrast with a sharp decrease in 1946 when the major readjustments from war to peacetime demands occurred. During 1947, substantial progress was made in achieving greater efficiency and economy of operation through a reorganization of work, a consolidation of some functions, and the transfer from the branch offices to the Head Office of certain activities relating to the sale and redemption of saving bonds.

This bank participated in the promotional campaign during June and July to stimulate interest in the savings bond program of the Treasury Department. While all phases of the program were included in the promotion, special emphasis was placed upon the pay roll deduction and the Bond-A-Month purchase plans. The Bond-A-Month Plan, whereby commercial banks will buy automatically for customers each month bonds of designated denominations, was inaugurated during the promotion with satisfactory results, especially at the larger city banks. Largely as a result of the promotion, 23 Texas concerns which had discontinued the pay roll deduction plan when the war ended reinstated it during the year.

The number of banks qualified to issue Series E savings bonds increased during 1947, but this gain was more than counterbalanced by the decrease in the number of other institutions so qualified. On December 31, 1947, there were 1,217 qualified issuing agents, a net decrease of 44 during the year. The number of qualified paying agents on December 31, 1947, totaled 990, an increase of 46 during the year. At the end of the year, there were 688 banks qualified as war-loan depositaries and 571 banks qualified as withheld-tax depositaries.

The principal activities relating to Government securities performed during 1947 included:

Handling weekly offerings of Treasury bills to refund maturing issues, with decreases from 1946 of 12 percent in the number of tenders and 23 percent in the amount of allotments.

Allotting $482,000,000 of certificates of indebtedness and $204,000,000 of Treasury notes on exchange subscriptions.

Redeeming marketable Government securities aggregating $1,174,000,000, a decline of 20 percent from the preceding year.

Selling a new issue of 2½ percent Treasury bonds, investment Series A-1965, on a limited subscription basis in the aggregate amount of $15,435,000.

Selling savings bonds aggregating $209,000,000 and Treasury savings notes amounting to $40,000,000, reflecting decreases of 7 percent and 10 percent, respectively, from the volume in 1946.

Redeeming savings bonds totaling $246,000,000 and Treasury savings notes amounting to $82,000,000, with decreases of 24 percent and of 50 percent, respectively, from the previous year.

Holding for safekeeping the savings bonds of individual owners. On December 31, 1947, such holdings totaled 152,000 savings bonds with a maturity value of $14,549,000 as compared with holdings of 176,500 savings bonds having a maturity value of $15,764,000 at the close of 1946. The net reduction was occasioned by the withdrawal of 47,000 bonds and the deposit of 23,300 bonds.

Verifying 434,000 registration stubs covering the issuance of Armed Forces Leave Bonds by Army finance officers in this district and the redemption of 409,000 of such bonds in the aggregate amount of $87,513,000, with the major part of the redemption activity concentrated in the month of September.

The termination of certain programs and the marked decline in the scope of other programs operated by the Reconstruction Finance Corporation and the Commodity Credit Corporation greatly reduced the operations of the RFC-CCC Department of the bank during 1947. Moreover, the Reconstruction Finance Corporation embarked upon a decentralization program involving the transfer to its local loan agencies of certain accounting and loan-servicing functions heretofore performed by Federal Reserve banks as Custodians. Four of these functions were transferred during the last half of the year, and six other functions are scheduled to be transferred early in 1948. This bank, as custodian for the Corporation, will continue to make disbursements for local loan agencies, to hold valuable papers and securities in safekeeping, to service preferred stocks, debentures, and loans purchased, and to handle transactions related to mining loans, defense supplies, and rubber reserve and metal reserve programs.

On January 22, 1947, the Corporation terminated its blanket participation agreement with commercial banks on loans made to business enterprises and immediately inaugurated a small loan participation plan under which the RFC would participate to a maximum of 75 percent with commercial banks on business loans not in excess of $100,000. Prior to the termination of the blanket participation agreement, commercial banks in this district had made 504 loans to business enterprises approximating $11,135,000. Prior to December 31, 1947, such commercial banks had made 280 loans totaling $10,386,000 under the small loan participation plan. The RFC-CCC Department continued to service the loans under these programs during 1947. It also handled the purchase and servicing of 3,161 mortgage loans approximating $18,270,000 under the "G.I." Housing Program prior to October 1, when servicing duties were transferred to local loan agencies.

The work of the Commodity Credit Division of the department was greatly reduced during 1947 and involved largely the receipt and servicing of cotton producers' notes aggregating $4,423,000 secured by 31,000 bales of cotton, and the release to producers of such notes having a face value of $3,355,000 secured by 28,000 bales of cotton. It disbursed approximately $124,000,000 in connection with programs involving the purchase of wool, peanuts, and other commodities.

CUISINE SERVICE

During 1947 the expense of operating the bank's dining room service amounted to $92,556 as compared with $86,448 in 1946, although 17,300 fewer meals were served, and resulted in an increase in the average cost per meal to 58 cents in 1947 from 49 cents in 1946. The increase in salaries paid to dining room employees and in food prices was responsible for the higher operating cost. Since total receipts for meals served amounted to only $44,-445 during 1947, this bank absorbed $48,111, or 52 percent of the total expense as compared with 44 percent in 1946.

Preparations have been made to convert the dining room service to a full cafeteria basis as soon as the necessary equipment is delivered, and a new plan of pricing each food item separately will be inaugurated.

FEDERAL RESERVE BANK BUDGET

During 1947, the Board of Governors requested the Federal Reserve banks to reinstate the practice of preparing annual budget estimates of expenditures which was discontinued in 1942 when the banks experienced difficulties in estimating, with reasonable accuracy, the probable costs of performing the various functions under wartime conditions. This action was taken to assure the most effective supervision of expenditures since responsibility for the supervision and control of the operating costs of Federal Reserve banks, including expenses incurred by them as fiscal agents of the United States, is shared by the Board of Directors and officers of the respective banks and the Board of Governors of the Federal Reserve System.

In May 1947, this bank submitted to the Board of Governors a budget broken down by each of its four offices for the last six months of 1947, and in October, submitted a similar budget for the year 1948. These budget estimates were approved by the Board of Directors of the bank and subsequently by the Board of Governors. Through monthly reviews of expenditures in relation to budget estimates, the officers responsible for the supervision of the several functions are able to keep in close touch with the cost of various operations in relation to the volume of work handled and to increase the general efficiency of the organization. During the six months ended December 31, 1947, total expenses of each of the four offices of the bank were held within the respective budget estimates for the period, although the expenditures for certain functions exceeded budget estimates.

INTEREST CHARGE ON OUTSTANDING FEDERAL RESERVE NOTES

During 1947, the Board of Governors invoked the authority granted under the provisions of the Federal Reserve Act to levy an interest charge on outstanding Federal Reserve notes not collateraled by gold certificates. This action was taken to permit the System to pay into the Treasury approximately 90 percent of the net earnings of Federal Reserve banks, thereby accomplishing the same results as the former franchise tax provisions of the Federal Reserve Act in effect prior to 1933. This course was deemed desirable in view of the large profits of Federal Reserve banks, which have resulted from the essential operations of the System. During the year total payments to the Treasury approximated $75,000,000, of which $3,000,000 represented payments by this bank.

RETIREMENT OF FDIC CAPITAL STOCK

Pursuant to the provisions of an act approved August 5, 1947, the Federal Deposit Insurance Corporation paid to the United States Treasury the sum of $139,300,000 to retire its stock which Federal Reserve banks were required to purchase when the Corporation was established in 1933. The FDIC stock held by this bank, aggregating about $4,360,000, was surrendered on September 17, 1947, to the Treasury for delivery to the Corporation for cancellation.