Federal Reserve Bank of Dallas

Annual Report to the Board of Directors

Submitted by
R. R. GILBERT, President

February 16, 1950

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REVIEW OF DEVELOPMENTS IN 1949

Business and industrial developments in the United States and the Eleventh Federal Reserve District followed a generally similar pattern during 1949 as the first sustained postwar period of economic readjustment extended from January into August and then was succeeded by 4 months of recovery, with most major indexes ending the year at very favorable levels. The readjustment of 1949 did not appear suddenly, for it was foreshadowed by events of the last quarter of 1948. Viewing developments retrospectively, it appears that major factors underlying the readjustment included the "catching up" of production with demand for virtually all types of goods, the attempt on the part of businessmen to prevent—and in many cases to correct—the development of unbalanced and excessive inventories, the return of more intensive competition in the sale of goods, and the unfavorable effect upon the purchasing power of the general public resulting from the substantial price increases of the preceding year.

In general, certain facts stand out significantly in connection with the events of 1949. The readjustment was gradual and on the whole very moderate, although at times sharp declines occurred, particularly in industrial production and in employment in localized areas outside of this District. Businessmen and manufacturers observed more restrictive policies than consumers, a condition which was reflected in much sharper declines in industrial production and business inventories and purchases than in consumer expenditures. Businessmen and industrialists, while observing cautiously prudent policies, also exhibited a notable degree of economic understanding as efforts were made successfully to avoid large cutbacks in production, substantial wage reductions, and major layoffs of employees. Finally, the entire economy showed notable underlying strength as declines in activity were resisted strongly and, during the last quarter of the year, were reversed. Whether this first postwar readjustment has been completed is an unanswered question, but it is a fact that its impact during 1949 was weathered with remarkable success and a minimum of unfavorable results.

Total production of the Nation's industrial system declined steadily and sharply during the first 7 months of the year, the decline extending from 191 percent of the 1935-39 average in January to 161 percent in July. The reduction in production was most evident in the case of durable goods, as virtually all types of these products were produced in declining volume with the exception of automobiles. However, during the last 5 months of the year, as business purchasers returned to the market in increasing numbers to replenish stocks of goods which had been contracted too sharply, production rose, the recovery being interrupted only during October when major labor difficulties in the steel and coal industries occurred. By the end of the year the index of industrial production had reached 178 per cent of the prewar base, while the monthly average during the year was 175 percent as contrasted with 192 percent during 1948.

A natural accompaniment to the decline which occurred in industrial production was an increase in unemployment and a lower level of employment during most of the months of 1949 than prevailed during the corresponding months of the preceding year. Although unemployment increased and the normal annual increment to the labor force was not fully absorbed, at no time during the year did unemployment become a national problem. Maximum unemployment for the year — approximately 4,100,000 — was reached in July, partly due to widespread vacations in industry; during the last 5 months of the year, however, a gradual decline in unemployment occurred as business and industrial activity showed revival. In December, unemployment was approximately 3,500,000, as compared with somewhat less than 2,000,000 in the same month of 1948.

Wholesale prices and the cost of living continued to move downward moderately during the year in response to the much more competitive business situation and the adequate supply of virtually all types of goods. The decline in wholesale prices during 1949 amounted to about 5.7 percent but was approximately 11 percent from the postwar peak reached in August 1948. The decline in the cost of living was somewhat more moderate, amounting to approximately 2 percent during 1949 and about 4 percent from the postwar peak also reached in mid-August of the preceding year. In general, largest declines were reported for farm products sold at wholesale and for apparel and housefurnishings sold at the retail level. The decline in food prices at retail was very moderate.

Likewise indicating the moderateness of the decline in economic activity which occurred during the year, personal income payments to individuals moved downward only about 2.8 percent, as income payments at the end of the year on an annual basis were running at about $210,000,000,000 in contrast with approximately $216,000,000,000 in January 1949. Consumers maintained their expenditures at a more or less constant level during 1949, the amount being estimated on an annual basis at about $178,000,000,000. That sum is less than a half billion dollars under the amount reported for the preceding year. In addition to the strength supplied to the economy by the strong, more or less constant level of consumer expenditures, a high level of expenditures for new plant and equipment estimated in 1949 at almost $18,000,000,000 and new construction of about $1,600,000,000 monthly average during the year were strong supporting factors.

In the Eleventh District perhaps the most important developments in economic activity occurred in connection with petroleum and agriculture. Other developments of interest included a high level of construction activity, a new record in nonagricultural employment, and generally favorable conditions in retail trade, accompanied by an improvement in the inventory situation and by a growth in the use of consumer credit. These various sources of income to the people of the Southwest combined to produce total income payments to individuals in the five states in this District of perhaps $15,300,000,000, approximately the amount reported for 1948.

During 1949 adjustment of the production of crude petroleum to consumer demand was met largely by reducing allowable production, particularly in Texas. Consequently, stocks of crude oil and major petroleum products fluctuated within a very narrow range, in contrast with developments during the preceding year when inventory accumulation had occurred. Moreover, the price of crude oil in the District remained stable during the year, largely due to the adjustment of production to market requirements.

Petroleum production in this District during 1949 totaled approximately 831,000,000 barrels, or about 150,000,000 barrels less than the amount produced during 1948. Since the total production for the United States declined from approximately 2,000,000,000 barrels during 1948 to 1,825,000,000 barrels in 1949, it is evident that the brunt of the cutback in production was borne by producers in the Eleventh District. Crude oil runs to stills in the District also declined during 1949, amounting to about 583,000,000 barrels as compared with 632,000,000 barrels in the preceding year. Again, as was the case with regard to production, virtually the entire decline in petroleum refining occurred in this District.

As a result of unusually favorable weather conditions, large acreages, and improvements in cultural practices, agriculture in the District produced a record volume of crops. Production of cotton—the most valuable crop produced in the District—amounted to 7,925,000 bales, or more than 3,000,000 bales in excess of production in the preceding year. Other crops produced in larger volume than in 1948 included corn, wheat, oats, and sorghum grains. On the other hand, rice, peanuts, citrus fruits, and pecans were among the important crops showing lower production.

Reflecting the unusually favorable volume of production, most of which moved to markets or into government loans at favorable prices, cash receipts from farm marketings in the states in the Eleventh District equaled or possibly even exceeded slightly the $3,400,000,000 reported in 1948. On the whole, however, it is reported that the 1949 agricultural production was relatively expensive, due to high farm wages and other costs. Consequently, although figures are not avaliable, the net income to the farmers of the area probably was not as favorable as might be indicated by gross receipts.

Livestock producers of the area also experienced a very good year in 1949. Favorable range and pasture conditions, good quality of stock, adequate feed supplies at somewhat lower prices, and relatively favorable livestock prices throughout the year contributed to the profitable developments. The volume of livestock marketed in the area in 1949 was considerably less than during the preceding year. For instance, combined receipts of cattle and hogs at the Fort Worth and San Antonio markets were down 21 percent each, while calf receipts were off 31 percent and 42 percent fewer sheep and lambs reached these markets. It is estimated that the value of livestock production in the five states in the District during 1949 may have approximated $1,600,000,000.

During the first half of 1949 construction activity declined rather sharply, in conformance with the general decline in business activity that accompanied the economic readjustments of that period. Subsequently, however, construction activity recovered to a very high level, with the consequence that for the year as a whole the value of construction contracts awarded in the District amounted to about $757,000,000, or only about $25,000,000 less than the amount reported in the preceding year. Residential construction awards during 1949 approximated $300,000,000 in the District and exceeded the amount of the previous year, while all other types of construction ran under the 1948 total. During the last half of the year the high level of construction was largely the result of strong activity in the residential field financed by adequate supplies of mortgage money under F. H. A. and veteran loans. Year-end strength of construction activity appears likely to provide strong momentum for the industry well into 1950.

Nonagricultural employment in the District reached a new peak in December 1949 at a level about 2 percent higher than the comparable month in 1948. Following a substantial decline in nonagricultural employment in January and February of 1949—largely seasonal in character—employment moved upward during most of the remaining months. Manufacturing employment ended 1949 fractionally higher than a year earlier, while gains were reported also in government, trade, and other business enterprises. Only construction employment was off from the level of the preceding year.

Department store sales in the District declined moderately in 1949 for the first time in 16 years. The dollar volume of sales at department stores in the District was about 5 percent less than in the peak year of 1948 but, nevertheless, exceeded by about 3 percent the volume of sales reported in 1947. The decline in department store sales in the District was approximately the same as reflected in national figures. The trend of sales at department stores followed rather closely the trend of general business activity and was marked by a gradual, moderate decline during the first 7 months of the year, followed by a rather sharp recovery during the last quarter. Sales for the year culminated in a record dollar volume in December, a development that is quite impressive when it is considered that prices had undergone some decline.

An outstanding development in department store trade during 1949 was the substantial expansion in instalment sales, particularly during the last half of the year following the expiration of Regulation W. Most terms of credit were notably diluted as lower down-payment requirements were established and longer pay-out periods were permitted. During the year a slowing down in collections developed, although it did not reach serious proportions; at the same time, an increase in outstanding instalment accounts occurred, largely reflecting the slower collections and the easier credit terms being offered. At the end of the year instalment accounts outstanding at stores in this District were 24 percent higher than a year earlier, a larger increase than the 19 percent rise in instalment accounts outstanding in department stores of the Nation.

WEEKLY REPORTING MEMBER BANKS ELEVENTH FEDERAL RESERVE DISTRICT

During 1949 principal asset and liability accounts of the weekly reporting member banks in this District and also in the United States showed a close responsiveness to changes in business trends and central banking policies. Until midsummer, total loans, as well as commercial, industrial, and agricultural loans, declined steadily and somewhat more than probably can be ascribed entirely to seasonal forces. During roughly the same period a similar although somewhat more moderate decline occurred in total deposits, adjusted demand deposits, and interbank deposits. These contractive trends, however, were reversed with the improvement in economic activity, and a steady increase during the last several months of the year raised the totals of these major banking items above levels which were reported at the end of the preceding year. Most significant changes in holdings of United States Government securities coincided closely with reductions in reserve requirements, as banks promptly invested a substantial part of the released funds in short-term Government securities.

Total loans of these selected banks in larger cities of the District increased about \$51,000,000 during the year, a substantially smaller increase than the \$114,000,000 expansion that occurred during 1948 but, nevertheless, significant in view of the contrasting economic conditions and anticipations which prevailed during the two periods. It will be recalled that during most of 1948 the problem was generally considered to be one of restraining strong inflationary pressures, while during most of the months of 1949 the problem was to prevent an unwarranted, severe deflationary movement. Between January 1, and August 17, 1949, total loans declined by \$129,000,000; during the remainder of the year, however, successive weekly increases added about \$180,000,000 of loans, thus offsetting the previous 7½ months' decline and raising the total volume outstanding to \$1,190,000,000 on December 28, 1949. Commercial, industrial, and agricultural loans accounted for most of the change in total loans, declining during the first 7 months of the year by \$130,000,000 and then rising during the remaining months by \$169,000,000 to reach a total of \$838,453,000 at the end of the year, an increase of about \$39,000,000 during the 12-month period. More or less minor increases in "all other" loans, real estate loans, and loans to banks, partially offset by a decrease in loans to brokers, accounted for the remainder of the increase in total loans.

Aggregate deposits of the weekly reporting member banks rose by \$150,000,000 during 1949. Although this increase is substantially larger than the increase of \$95,000,000 which was experienced during 1948, it loses some of its significance since approximately \$85,000,000 of the increase in 1949 was due to an expansion of interbank deposits. Adjusted demand deposits, comprising principally deposits of individuals, partnerships, and corporations, increased only $21,000,000 during 1949, as contrasted with an increase of $146,000,000 in the preceding year. Increases of $30,000,000 and $14,000,000 in time deposits and United States Government deposits, respectively, were approximately equal to increases of the preceding year.

As previously noted, the trend of adjusted demand deposits during 1949 was similar to the trend of loans, with the first 6 month of the year showing a decline, followed by a steady substantial increase during the late summer and fourth quarter of the year. On December 28, 1949, adjusted demand deposits of the weekly reporting banks amounted to $2,019,000,000.

Holdings of Government securities in the portfolios of these member banks increased by $141,000,000 during 1949. Banks sold short-term Governments in substantial amounts during the first 3 months of the year to relieve temporary pressure on reserves resulting from a sharp seasonal decline in deposits primarily associated with tax payments. However, reductions in reserve requirements beginning in May and recurring at intervals into September tended to place the banks in a very liquid position and were followed promptly by increases in holdings of Governments, especially short-term issues.

During the year the reporting banks in the District reduced their holdings of Government bonds by about $48,000,000, while adding to their portfolios $80,000,000 of Treasury bills, $100,000,000 of certificates of indebtedness, and $9,000,000 of Treasury notes. Holdings of Government bonds increased steadily from early in the year to mid-September, the increase amounting to approximately $42,000,000; subsequent decreases during the last quarter of the year were accounted for largely by the refunding operations of September 15 and December 15. Changes in investment in Treasury notes by the weekly reporting member banks also reflected the refunding operations in these issues which occurred on January 1 and December 15. The increase in holdings of bills and certificates shows the attempt of the banks to maintain a fully invested position during a period characterized by economic uncertainty, slack loan demand, and easy money market conditions fostered by central banking policy.

The amounts of principal assets and liabilities of the weekly reporting member banks in the District and the percentage change during 1949 in each item for the District and the United States are shown in tabular form below:

	Eleventh Federal Reserve District			*Percentage change*	
(Amounts in millions of dollars)	*Dec. 28, 1949*	*Dec. 29, 1948*	*Net Change*	*Eleventh District*	*United States*
Deposits—total (*)	$3,213	$3,063	$+150	+ 4.9	+ 2.0
Demand deposits—adjusted	2,019	1,998	+ 21	+ 1.1	+ 1.0
Time deposits	447	417	+ 30	+ 7.2	+ 2.1
United States Government deposits	50	36	+ 14	+38.9	+53.5
Interbank deposits	697	612	+ 85	+13.9	+ 0.2
Loans	1,190	1,139	+ 51	+ 4.5	— 2.3
Investments	1,353	1,203	+150	+12.5	+14.4
United States Government securities	1,223	1,082	+141	+13.0	+13.6
Other securities	130	121	+ 9	+ 7.4	+20.3
Balances with correspondents	345	300	+ 45	+15.0	+ 1.8

(*) Excluding cash items in process of collection.

WEEKLY REPORTING MEMBER BANKS UNITED STATES

Major classes of deposits and investments in Government securities and other securities of the weekly reporting member banks in leading cities in the United States increased in amount between December 29, 1948, and December 28, 1949. On the other hand, total loans of these banks declined during the period, the contraction being accounted for principally by a shrinkage of more than 10 percent in loans for commercial, industrial, and agricultural purposes.

During the first quarter of the year total deposits of the weekly reporting banks declined by about $3,180,000,000, reflecting declines of $2,885,000,000 in adjusted demand deposits and $1,246,000,000 in interbank deposits, offset in part by an increase of more than $800,000,000 in Government deposits and a minor increase in time deposits. The decline in total deposits and the pressure upon reserves during this period in 1949, however, were considerably less than occurred during the comparable period in 1948 when total deposits contracted by $4,570,000,000. In both periods Treasury receipts substantially exceeded expenditures, but during the first 3 months of 1949 Treasury retirement of securities held by the Federal Reserve banks was negligible as compared with relatively large-scale operations of this type during the same quarter in the preceding year. Member banks met the loss of deposits through March 30, 1949, by reducing their cash and balances with other banks and their investments in short-term Government securities.

Beginning in mid-April and continuing throughout the remainder of the year the major categories of deposits rose gradually and on December 28, 1949, were slightly higher than on the comparable date in 1948. Total deposits increased during the 12-month period by $1,531,000,000 or 2 percent; adjusted demand deposits rose by $465,000,000—approximately 1 percent; time deposits increased $316,000,000 or about 2.1 per cent; and interbank deposits showed an advance of less than 1 percent. While time deposits showed a steady increase throughout the year and United States Government deposits fluctuated rather sharply, adjusted demand deposits and interbank deposits—after declining substantially between January 1 and March 30 — remained comparatively stable until the last 3 months of the year when a strong seasonal advance occurred.

The trend of total loans of the reporting member banks in the Nation conformed rather closely to the trend of business activity, showing an almost unbroken decline until mid-July. As business conditions improved during the latter part of the year, the demand for bank credit—especially for commercial, industrial, and agricultural purposes—strengthened considerably, with the consequence that most of the shrinkage which occurred earlier in the year was offset in the later months. On December 28, total loans of these banks amounted to $25,217,000,000 as compared with $25,812,000,000 on the comparable date in 1948, or a decline of about 2.3 percent. Commercial, industrial, and agricultural loans at the end of 1949 amounted to $13,904,000,000, or approximately $1,657,000,000 less than the amount reported a year earlier. The substantial decline in commercial, industrial, and agricultural loans, was offset to some extent by moderate increases in real estate loans, "all other" loans, loans to banks, and loans to brokers and dealers in securities. The decline in loans during 1949 was not due to unusually restrictive measures on the part of commercial banks or to a lack of loanable funds but merely reflected the reduced demand for credit resulting from the more restrictive and cautious business practices which were observed during 1949.

After the first quarter of the year, when reporting member banks reduced their holdings of United States Government securities to meet the moderate pressure upon reserves that prevailed during February and March, investments in Governments by these banks showed a steady increase. Although the increase in Government bonds reported by these banks for the 12-month period was comparatively insignificant, banks did increase their investments in these long-term issues steadily until mid-December. At that time the refunding operations reduced holdings of Government bonds but caused an approximately corresponding increase in holdings of Treasury notes. Holdings of Treasury bills, while fluctuating from time to time as a result of factors influencing reserves, increased by more than $740,000,000 during the year, while investments in certificates of indebtedness showed an advance of about $2,114,000,000. On December 28, 1949, total United States Government securities held by the reporting member banks was $37,473,000,000, or $4,486,000,000 more than the amount reported a year earlier. This substantial increase in Government securities testifies strongly to the comparatively easy money market conditions and the high degree of bank liquidity that were characteristic of most of 1949.

TREASURY FINANCING

The total interest-bearing debt of the Government increased during 1949 by $4,440,000,000 as the growth of nonmarketable public issues and special issues more than offset a reduction in the marketable debt. On December 31, 1949, marketable public issues of Government securities amounted to $155,123,000,000, as compared with a total of $157,482,000,000 reported a year earlier. This reduction of $2,359,000,000 in marketable public debt resulted from the retirement of $6,682,000,000 of Treasury bonds callable during the year and a partially offsetting increase of $4,323,000,000 in outstanding bills, certificates, and notes. Nonmarketable public issues increased by $4,617,000,000 as the outstanding amount of United States savings bonds increased $1,656,000,000 and the amount of Treasury tax and savings notes increased $3,038,000,000, with minor decreases reported for other nonmarketable issues; in addition, special issues rose by $2,182,000,000. As a result of these changes, the total interest-bearing debt outstanding on December 31, 1949, was $255,019,000,000, as compared with $250,579,000,000 on December 31, 1948.

Certificates of indebtedness, Treasury notes, and Treasury bonds maturing or callable during 1949 amounted to $36,746,000,000, of which $34,309,000,000 was refunded and $2,437,000,000 was retired by cash. All securities, other than Treasury bills, maturing or callable through August were refunded into 1¼-percent 12-month certificates of indebtedness; a 2-percent bond issue callable in September and a 1¼-percent certificate issue maturing in October were refunded into 1⅛-percent 12-month certificates; while certificates and bonds maturing or called for redemption in mid-December were refunded into an issue of 1⅜-percent 4¼-year notes.

Cash retirement of maturing certificates during the year represented largely transactions arising from the decisions of investors who preferred to withhold their funds from the market or to place them in other types of investments. This situation contrasted with that which prevailed during 1948 when the amount of cash retirement of Government securities was largely governed by decisions of the monetary and credit authorities.

During 1949 so-called voluntary cash retirement by the Treasury of securities held by the Federal Reserve banks amounted only to $488,000,000, as compared with $2,580,000,000 during 1948. This change in policy with respect to cash retirement of the public debt was brought about primarily by the Treasury's transition to a deficit budgetary position;

however, the change in economic conditions during 1949 from inflationary pressures to problems of readjustment also probably would have limited substantial retirement of securities owned by the central banking system, even if the funds had been available to the Treasury.

Weekly offerings of Treasury bills about equaled maturities during the year. During the first 5 months a reduction in five weekly offerings resulted in the retirement of almost $700,000,000 of bills, and in August and the first half of September offerings exceeded maturities by almost $800,000,-000. The reduction in offerings in the early months of the year came when the Treasury's cash balance, relatively speaking, was still large and before the deflationary tendencies of economic readjustment had become very marked. Later in midsummer, however, the Treasury faced a need for additional funds and resorted to the bill market to meet that need. As a consequence of these developments, the amount of Treasury bills outstanding increased from $12,224,000,000 on December 31, 1948, to $12,319,000,000 at the end of December 1949, an increase of $95,000,000 as compared with a decrease during 1948 of about $2,913,000,000.

Rate policy of the Treasury with respect to short-term issues involved only two changes of significance during the year. Refunding issues of certificates of indebtedness were offered on a 12-month 1¼-percent basis until September 15 and October 1, when 1⅛-percent issues were offered. Later in the year, when business conditions reflected substantial strength and recovery from the midsummer lows of business activity had proceeded to a considerable extent, short term rates firmed slightly as a 1⅜-percent 4¼-year note was offered refunding investors.

The computed annual interest rate on the total marketable public debt showed very little change during the year, rising from 1.979 percent on December 31, 1948, to 1.984 percent late in 1949.

Sales of savings bonds in the United States amounted to $5,833,000,000 during the year, while redemptions totaled $5,101,000,000. Thus, net sales in 1949 were only $732,-000,000 as compared with $2,151,000,000 in the preceding year. The lower volume of net sales was due largely to a substantial decline in sales of Series F and Series G bonds, resulting from the decision of the Treasury not to make these issues available for purchase by institutional investors during the Opportunity Drive in 1949, as contrasted with the policy followed during the comparable drive in 1948; sales of Series E bonds during the year declined by $16,000,000, while redemptions of the Series A-E issues declined by $18,000,000. In this District, sales of savings bonds rose fractionally during the year and totaled $206,611,000, while redemptions declined by approximately $20,000,000 to $215,078,000. In the District, sales of Series E bonds during 1949 exceeded redemptions of that particular series by about $1,000,000, a very favorable record when all circumstances are considered.

On December 30, 1949, the Treasury's cash balance in its General Fund was $4,679,000,000, as compared with a balance of $4,208,000,000 on the corresponding day in 1948.

GOVERNMENT SECURITIES MARKET

Among the factors which influenced developments in the Government securities market during 1949 were changes in central banking policies such as those relating to member bank reserve requirements and to operations in the Government securities market by the Federal Open Market Committee, Treasury financing and fiscal policies, and the relative strength of demand by different classes of investors. It will be recalled that during 1948 the supply of securities was large relative to market demand, and the Open Market Committee made substantial purchases. In 1949 such downward pressure upon the market was generally absent; instead, the demand for Government securities of all classes was relatively strong and prices rose—at times sharply.

The most significant and far-reaching development of the year was the policy statement released on June 28 by the Federal Open Market Committee, after consultation with the Treasury. The statement announced that, with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture, it would be the policy of the Committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve banks with primary regard to the general business and credit situation. The statement added, however, that the policy of maintaining orderly conditions in the Government securities market and the confidence of investors in Government bonds would be continued.

Immediately following this statement, the System withdrew from active participation in the market and, as natural forces were permitted to dominate the market, prices of Government securities rose sharply. Later, toward the end of July the System re-entered the short-term market in a stabilizing operation, as an increasingly strong market demand for bills threatened the development of disorderly conditions. During the remainder of the year System operations in the market influenced the trend and range of yields of bills and certificates. System intervention in the Government bond market, however, was very infrequent during the last 6 months of 1949, involving only a few sales in very minor amounts during the fourth quarter of the year.

The average discount rate on weekly offerings of Treasury bills fluctuated within a narrow range—1.147 percent and 1.163 percent—during the first 6 months of the year. In fact, only during April, when money market conditions were very easy as a result of substantial net Treasury expenditures, did yields move sharply. During that month, when banks were large purchasers of bills, yields moved downward from approximately the upper to the lower limit of the range noted above. During the other 5 months of the period yields were very steady, as evidenced by monthly averages deviating only 0.007 percent at the extreme.

Following the policy announcement of the Federal Open Market Committee on June 28, however, the average discount rate on bills declined sharply, moving downward from 1.158 percent for the offering of June 30 to 0.923 percent on July 14. At that time, as the downward pressure on yields appeared to be gaining strength, the System intervened in the market and the trend of yields pointed gradually upward through mid-December. During the last 2 weeks of the year yields on Treasury bills declined to 1.087 percent, a rate more appropriate in relation to the $1\frac{1}{8}$-percent certificate rate which the Treasury announced in connection with the January 1, 1950, refunding.

Average yields on 9-12-month certificates of indebtedness, while conforming closely to the rates established on new offerings of certificates, fluctuated in line with bill rates during most of the year. In the first 6 months average yields moved moderately downward from a monthly average of 1.22 percent in January to 1.20 percent in June. Following a sharp decline in July which reduced the average yield for that month to 1.04 percent, the trend turned upward and advanced steadily to reach an average in December of 1.10 percent.

Long-term Government bonds were in strong demand throughout the year, although between January 1 and June 30 prices rose only slightly. During this period price advances were held in check by sales from the System account, the Government bond holdings of the System showing a decline from December 29, 1948, to June 29, 1949, of approximately $3,221,000,000 as the System sold securities in support of the "price pegging" policy then in effect. During the last half of the year, however, when the sale of bonds from the System account was held to a minimum in accordance with the revised policy of the Open Market Committee, prices of long-term Government issues advanced sharply, rising from an average of 101.72 in June to 104.36 in December. In terms of yields, the decline during the year extended from 2.43 percent on January 3 to 2.18 percent on December 30. With the exception of the sharp increase that occurred during July immediately following the System's policy announcement, the advance in the price of bonds during the year was gradual, although persistent.

Closely reflecting the influence of prices and yields of longer-term Government bonds, the prices of high-grade corporate issues followed a very similar trend, as yields declined from 2.76 percent on January 3 to 2.54 percent on December 30. The similarity of trend is evidenced by the fact that yields of the longer-term Governments declined by

25 basis points during the year, while yields of high-grade corporates eased downward by 22 basis points.

Changes between December 29, 1948, and December 30, 1949, in prices of specific Government securities included the following. The longest-term restricted 2½-percent bonds of December 67-72 were quoted on December 29, 1948, at a bid price of 100 17/32 and on December 30, 1949, at 103 27/32. The bank-eligible 2½s of September 67-72 showed a price increase during the period from 101 29/32 to 105 31/32, while the 2s of December 52-54 advanced from 101 11/32 to 102 3/32. On December 29, 1948, the longest Treasury bill maturity was quoted on a 1.17 discount basis, but by the end of 1949 the quotation had declined to a 1.09 basis. The most distant certificate was quoted at the beginning of the period at 1.24 percent and at the end of 1949 at 1.12 percent.

During the past year the continuing problem confronting the System with regard to operations and influence in the Government securities market was quite different than that which was characteristic of 1948. During 1948 the support program of the System was tested as large amounts of Government bonds were offered in the market, partly by insurance companies and other nonbanking investors who were attempting to shift their investments into non-government issues and partly by banks which sold Government securities in substantial amounts to meet the increases in reserve requirements which were effected during that year. In 1949, however, the problem became one not of supporting prices but of restraining prices, as banks and nonbanking investors exerted a strong demand for virtually all types of Government issues. The change in business conditions, accompanied by a decline in business capital expenditures and in bank loans, together with the successive reductions in reserve requirements, placed investors in funds which they in turn placed in the Government securities market, resulting in more or less steady upward pressure on prices.

MEMBER BANK RESERVES AND RELATED FACTORS

The net effect of changes in factors which influenced member bank reserves during 1949 was a reduction in member bank reserve balances amounting to $3,939,000,000. Reserve requirements of member banks were reduced on several occasions during the year and, consequently, estimated required reserves declined by $3,749,000,000. Since banks tended to maintain a rather fully invested position, estimated excess reserves showed a decline of about $190,000,000 during the year.

Principal factors which tended to increase member bank reserve balances were additions to the monetary gold stock, a decline in money in circulation, and a decline in Treasury deposits with Reserve banks. The Nation's gold stock increased during the year by $191,000,000, a small increase, however, when compared with the $1,482,000,000 increase of the preceding year. The return flow of currency from circulation which developed during 1948 continued through 1949, with the result that the amount outstanding at the end of the year showed a decrease of $560,000,000. Reflecting the increase in Treasury expenditures over receipts that characterized 1949, Treasury deposits with the Reserve banks declined by about $296,000,000.

The most important factor influencing member bank reserves, however, was the substantial decrease of $4,734,000,000 in the volume of Reserve bank credit, accounted for almost entirely by a reduction in Reserve banks' holdings of United States Government securities.

The amount of Reserve bank credit outstanding during the year was influenced primarily by the change in central banking policy that was initiated during the first and second quarters of the year to conform to conditions arising out of the economic readjustment that gained moderate headway as the year progressed. Several reductions in reserve requirements between May and September reduced required reserves substantially and released reserve funds for other use by member banks. Since the effective demand for loans during the period of readjustment was not strong, comparatively speaking, banks invested the funds released by the reduction in reserve requirements in Government securities, a fact that is reflected by the increase in holdings of Government securities of all member banks amounting to $4,818,000,000.

Except for occasional short periods of some reserve pressure, member bank reserve positions were comparatively easy, with excess reserves fluctuating generally between $800,000,000 and $1,000,000,000. Moreover, the ease that prevailed in the banking system actually was somewhat greater than is reflected by excess reserves because banks had, in a sense, improved their liquidity by investing funds released from required reserves in Government securities which could be converted into loanable funds promptly as demand might develop.

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

	December 28, 1949	*December 29, 1948*	*Changes that added to reserves*	*Changes that reduced reserves*
Reserve bank credit	$19,379	$24,113		$—4,734
Monetary gold stock	24,427	24,236	$+191	
Treasury and national bank currency	4,598	4,585	+ 13	
Money in circulation	27,765	28,325	—560	
Treasury cash	1,314	1,329	— 15	
Treasury deposits with Reserve banks	987	1,283	—296	
Nonmember deposits	1,280	1,106		+ 174
Other Federal Reserve accounts	759	653		+ 106
Total			$ 1,075	$ 5,014
Member bank reserve balances held	$16,299	$20,238	$—3,939	
Estimated required reserves	15,439	19,188	—3,749	
Estimated excess reserves	860	1,050	— 190	

As the Federal Reserve System supplied Government securities to the market to meet the demand of investors, its holdings were reduced from $23,333,000,000 at the end of 1948 to $18,884,000,000 at the end of 1949, a reduction of $4,449,000,000. Approximately 85 percent of the System's decline in holdings of Government securities resulted from a reduction in investment in Treasury bonds from $10,977,-000,000 to $7,218,000,000. Moderate reductions occurred with respect to holdings of Treasury bills and Treasury notes, while a slight increase was reported in the System's holdings of certificates of indebtedness. As a result, the composition of the System's Government securities portfolio changed somewhat, with short-term issues comprising a larger proportion of the total than had been the case a year earlier. The System's holdings of bills, certificates, and notes comprised almost 62 percent of its portfolio at the end of 1949, as contrasted with about 53 percent at the end of 1948. Furthermore, holdings of bank-eligible bonds declined from slightly more than 17 percent to approximately 12½ percent of the Government securities portfolio during the period, with only a very small amount of the bank-eligible securities being of comparatively long maturities.

HOLDINGS OF GOVERNMENT SECURITIES BY THE FEDERAL RESERVE SYSTEM

(Amounts in millions of dollars)

Type of security	*Dec. 31, 1949*	*Percent of total*	*Dec. 31, 1948*	*Percent of total*	*Net change*
Treasury bills	$ 4,829	25.6	$ 5,487	23.5	$— 658
Certificates of indebtedness	6,275	33.2	6,078	26.0	+ 197
Treasury notes	562	3.0	791	3.4	— 229
Treasury bonds	(7,218)	(38.2)	(10,977)	(47.1)	(—3,759)
Bank-eligible	2,349	12.4	3,986	17.2	—1,637
Restricted	4,869	25.8	6,991	29.9	—2,122
Total	$18,884	100.0	$23,333	100.0	$—4,449

Early in the year, especially during February and March, Treasury transactions tended to place some pressure upon bank reserves as receipts exceeded expenditures. Moreover, during the first week in January and from mid-March to mid-April, the Treasury reduced weekly offerings of Treasury bills by a total of $700,000,000. During the last three quarters of the year however, an excess of expenditures over receipts added to member bank reserves and contributed to the comparatively easy reserve positions which prevailed during most of the period. In addition, in August and September the Treasury increased its weekly offerings of bills by $800,000,000 during a 6-week period.

INTERNAL OPERATIONS

RESEARCH ACTIVITIES

Activities of the Research Department continued to revolve around four major fields: economic analysis, collection and appraisal of statistical data, bank and public relations, and publication and dissemination of assembled data and research studies. Although there were no basic changes in the research program during the year, a few new projects were undertaken which tended to broaden somewhat the existing program. In addition, the demands upon the Department by the research staff of the Board of Governors, by banks of the District, and by businessmen and the public increased noticeably. Staff vacancies in the Department were filled satisfactorily, and efforts to improve the efficiency and independence of thought and action of staff members were stressed. At the end of the year the Department was fully staffed in terms of the present and foreseeable program, with the exception of a few nonprofessional positions.

Typical of the economic analyses released through the Department's publications were studies of the natural gas industry, dairying, retail credit, the business aspects of farming, the foreign trade of Texas, banking under conditions of economic readjustment, and the impact of acreage restrictions upon Texas agriculture. In addition, three rather extensive regional economic analyses covering 41 Texas counties were published during the year.

An innovation introduced on an experimental basis was the preparation, jointly with specialists of Texas A. & M. College, of pertinent agricultural material relating to the production of such agricultural commodities as cotton, poultry, dairying, and eggs. Over 28,000 of these single-page "suggestion sheets" were distributed upon request to 34 banks in a 16-county area, for distribution to the farm customers of those banks.

Statistical work of the Department included maintaining the basic, continuing series relating to department store stocks, sales, and inventories; collections; bank debits; weekly and monthly banking data; and numerous other important economic indicators. In addition, recurring studies such as those relating to member bank operating ratios, ownership of demand deposits, and call report data were made. As a result of internal organizational changes and certain reassignments of duties and responsibilities, the efficiency of the Statistical Section of the Department was raised considerably.

The first revision since 1940 of the mailing list for the *Monthly Business Review* was made in February and inactive names were deleted. As a result, the circulation of the publication declined from 3,423 in December 1948 to 3,057 in

December 1949. The special articles which are featured in each issue of the *Review* continued to be very favorably received. Reprints of several articles were necessary to meet specific requests of banks and businesses desiring to make a secondary distribution, while certain articles were republished in full in such national and regional publications as the *Commercial and Financial Chronicle, Burroughs Clearing House,* and *The Cattleman.*

During the year the circulation of the *Agricultural News Letter* increased from 2,475 to 2,721. Several banks requested numerous additional copies of this publication for distribution to their farmer customers, while requests for copies for use in G. I. vocational agricultural classes are common.

A new publication, *Economic Bulletin,* was initiated during the year, and two issues were released to a restricted, semi-confidential mailing list. The *Bulletins* issued during 1949 presented a study of international petroleum movements and the domestic petroleum market and an analysis of the Brannan Farm Program. Other studies will be released through this publication from time to time.

Several hundred copies of regional economic studies of the Brenham-Gonzales, Wichita Falls, and Childress areas of Texas were distributed on a selective basis to banking and business leaders. These booklets also supplied the basic economic material for the bankers' forums held during the year by the bank.

Bank and public relations activities of the Department included the preparation and presentation of the bank's weekly radio broadcast, "Your Southwest Business Review," approximately 37 speaking engagements to banking, business, and professional groups, supplying specific information in response to a very large number of requests from bankers, businessmen, students, and the general public, attending bank and other professional group meetings, and, in general, attempting to work in close cooperation with those having responsibility for the bank and public relations function.

BANK AND PUBLIC RELATIONS ACTIVITIES

The major objectives of the regular bank and public relations program were largely achieved during the year. All of the principal activities initiated during recent years were continued and broadened, with some new activities being instituted. The following summary outlines briefly the principal activities during 1949:

Bank officers and representatives made 848 visits to member banks and 161 visits to nonmember banks. This achievement compares with 682 visits to member banks and 181 visits to nonmember banks during the year 1948. About 99 percent of the member banks in the District were visited as compared with only 90 per cent in the preceding year.

Officers and senior staff members of the bank addressed 52 meetings of banking, civic, trade, agricultural, and educational organizations, at which attendance approximated 5,515. The bank was also represented at 150 meetings sponsored by similar organizations at which attendance approximated 50,085.

A total of 1,306 individuals, consisting of 368 students, 556 bankers, 382 businessmen and others, visited this bank and its branches.

The bank sponsored four Bankers' Forums which were held in Brenham, Gonzales, Wichita Falls, and Childress, Texas. The area covered by these forums, comprising 41 counties, included 84 member banks and 55 nonmember banks. The favorable comments and responsive participation by bankers are indicative of the value and effectiveness of these forum meetings.

This bank, in cooperation with the Louisiana Bankers Association and the Louisiana State University, sponsored Farm Clinics at Winnsboro, and Arcadia, Louisiana, with about 100 persons in attendance at each clinic. The response was so favorable that the bank is planning to cooperate with the two Louisiana organizations in sponsoring at least two such clinics during 1950.

In June 1949 the bank made available to member banks of the District for display purposes two sets of an exhibit of paper currency of the United States from Colonial days to the present time. Preference in the use of the exhibit is given to those banks which display it on occasions such as bank anniversary celebrations and the openings of new or remodeled banking quarters. During the year, 74 requests for the exhibit were received, 37 of which were filled. One set of the exhibit was displayed in the Hall of State in Dallas during the 1949 State Fair of Texas, where it was viewed by some 200,000 persons. The comments received from member banks which have displayed the exhibit have been most gratifying.

The presentation of the bank's weekly radio program, "Your Southwest Business Review," over Station WFAA-820 was continued throughout 1949. The program was placed on a stronger station and was given a more favorable broadcasting hour. The program is gaining steadily in popularity and frequent favorable comments about it are received.

On May 27, 1949, the bank sponsored its fourth annual forum for bank supervisory authorities in the Eleventh Federal Reserve District, including about 90 members of their staffs. A dinner was given in the evening, attended by the special guests and officers and certain staff members of the bank.

On February 10 the bank sponsored a dinner meeting in Dallas honoring Chairman Thomas B. McCabe of the Board of Governors, attended by directors of the bank and its branches and a group of prominent bankers and businessmen of Dallas. On March 31, 1949, the bank sponsored a dinner meeting honoring Governor M. S. Szymczak of the Board of Governors, attended by directors of the bank and leading bankers in Dallas and Fort Worth. On April 14, 1949, the bank was host at a dinner meeting in El Paso on the occasion of the joint meeting of the boards of directors of the bank and of the El Paso Branch, the attendance including a representative group of senior bankers and leading businessmen of El Paso. On October 17, 1949, a dinner was given by the bank honoring Governor Lawrence Clayton of the Board of Governors which was attended by the bank's directors and leading Dallas bankers. On October 18, 1949, the bank sponsored a dinner meeting on the occasion of a meeting of the

System Committee on Current Business Developments which was attended by a small group of Dallas businessmen and bankers who cooperate regularly with this bank in reporting business and banking statistics. The bank also held a dinner on December 8, 1949, on the occasion of the annual joint meeting of the boards of directors of the bank and its three branches. This dinner was attended by approximately 115 guests, comprised of a representative group of leading businessmen and senior bankers in Dallas and the directors of this bank and its branches. Mr. Norris E. Dodd, Director-General of the Food and Agriculture Organization of the United Nations was the principal speaker.

During the year the bank made a wide distribution of its regular and special publications to colleges and universities and to businessmen and bankers. Of special interest and importance was the distribution of this bank's reply to the questionnaire addressed to the Presidents of Federal Reserve banks by the Subcommittee on Monetary, Credit, and Fiscal Policies of the Congressional Joint Committee on the Economic Report.

The bank received extensive favorable publicity during the year covering various activities. Newspaper publicity included coverage of speeches made by officers and senior staff members of the bank; a number of articles by officers and staff members appeared in various financial periodicals. News items also appeared covering the admission of new member banks, additions of nonmember banks to the par list, bank conferences participated in by this bank, visits of System officials, appointments or election of members of the boards of directors of the bank and branches, and changes in official staff. In addition, a special series of five articles relating to the currency and coin operations of this bank, prepared by the Business News Editor of the newspaper after consultation with members of this bank's staff, appeared in the Dallas Morning News during October 1949. Through the courtesy of the News, mats covering this series of special articles were made available through this bank to commercial banks or newspapers desiring to reproduce them.

LEGAL ACTIVITIES

The bank was served with process in two cases during 1949. The bank has no real interest in the litigation since the suits were for the purpose of clearing titles to real estate. The bank had previously held foreclosed mortgages and had sold the properties applying the proceeds on personal judgments rendered in the foreclosure proceedings. The deficiency judgments which remained outstanding were never renewed and both are barred by limitations. In view of these facts, and since the only service upon the bank was by mail and publication, it was deemed advisable in each case not to subject the bank to the jurisdiction of the court by filing an answer.

In June 1949, the Valley State Bank, San Juan, Texas, a noninsured bank, closed its doors, and was taken over by the Banking Commissioner of Texas. At that time, this bank held three drafts of the closed bank which had been issued by it in payment of two cash letters and one noncash collection letter. These drafts were dishonored by the drawee bank, the reason given for nonpayment being that the Valley State Bank was closed. In accordance with the usual procedure, and under authority furnished by some of the endorsers, Counsel prepared claims on behalf of such endorsers and submitted them to the Banking Commissioner of Texas. At the close of 1949, the Banking Commissioner had not taken action.

In addition to these activities, Counsel's office furnished general service such as rendering written and oral opinions, preparing summaries and analyses with reference to proposed and new legislation, and analyzing, preparing, and approving contracts, leases, and insurance policies. Applications for membership in the Federal Reserve System and related matters such as amendments to charters of member banks have come to the attention of Counsel and opinions have been rendered in connection with the legal aspects.

AUDITING ACTIVITIES

The Auditing Department maintained throughout the year the audit frequency schedule as adopted by the Conference of Auditors of the 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 three meetings for the purpose of reviewing audit reports and discussing audit procedures with the General Auditor. Throughout the year, the General Auditor consulted frequently with the officers of the bank regarding changes in accounting procedures and new accounting methods. The examining staff of the Board of Governors made a regular examination of this bank and its branches during the month of November 1949.

PERSONNEL ACTIVITIES

During 1949 close attention was given to the maintenance of the bank's Job Classification and Salary Administration Plan. In carrying out that responsibility, special efforts were made to keep job descriptions, specifications, evaluation, and grading on a current basis. During the year, reviews of previous analyses were begun and for that purpose current descriptions of duties performed were obtained from employees and department managers. The special committee of officers and employees charged with the responsibility of evaluating jobs held fifteen meetings during the year and reviewed 197 jobs.

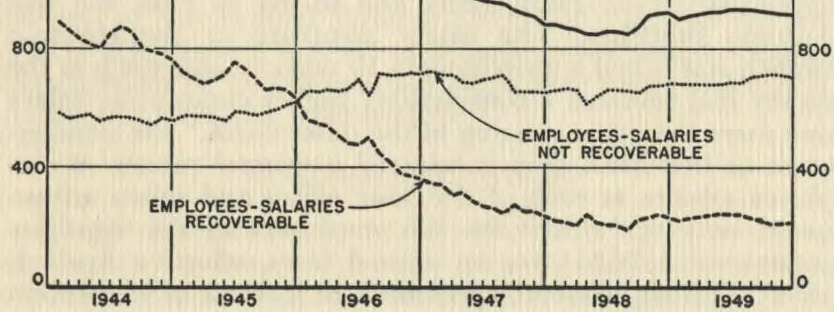
In the fall of 1948, the Personnel Department conducted a comprehensive survey of community salary rates in cities in which the bank's offices are located. After a thorough study of the results of that survey, the Board of Directors, with the approval of the Board of Governors of the Federal Reserve System, established during January 1949 two new scales of minimum and maximum salaries. One scale provided for an increase of approximately 5 percent in the salary structure, applicable to the Head Office and to the El Paso and San Antonio Branches. The salary structure at the Houston Branch was raised approximately 10 percent, inasmuch as the survey had revealed a considerably higher community salary rate there than that existing in the other cities. The management of this bank then conducted a general review of employee salaries at each of the four offices and salary adjustments were authorized for 806 employees in the aggregate amount of $122,516 on an annual basis, effective April 1, 1949. This adjustment represented an increase of 5.7 percent in the total employee pay roll. In addition to this general increase, merit salary adjustments were made during the year for 103 employees in the aggregate amount of $13,644, and salary increases in connection with promotions were given to 187 employees in the aggregate amount of $26,825 on an annual basis.

Largely as a result of the change in salary structure, which raised maximum, as well as minimum salaries, and of promotions to jobs of a higher grade, the number of employees on December 31, 1949, with salaries in excess of their respective grade maximum had been reduced to 15 from 49 at the end of 1948. The rate at which officers and employees at all offices were being compensated on an annual basis amounted to $2,532,000 on December 31, 1949, or approximately $130,000 higher than a year earlier. This represented an average annual salary rate of $2,501 at the end of 1949 as compared with $2,340 at the close of 1948.

The personnel of the bank showed greater stability in 1949 than in any year since the beginning of the war. From the accompanying chart, it will be noted that while employment averaged slightly higher in 1949 than in 1948, the month-

NUMBER OF EMPLOYEES, BY MONTH, 1944 - 1949

FEDERAL RESERVE BANK OF DALLAS



to-month fluctuations were relatively small. At the end of 1949, the personnel of the bank and its branches, including officers and temporary employees, totaled 951 as compared with 954 at the end of December 1948. This stability in the number of employees and the better employment conditions in the area have made possible the adoption of higher standards in the selection of new employees and have resulted in greater efficiency and more productivity by the bank's staff. The improved operating efficiency is indicated by the fact that virtually all departments of the bank handled an increasing volume of work during the year without any over-all increase in the number of employees and with a sharp reduction in overtime payments. These factors, together with the higher salary structure, contributed toward the sharp reduction in employee turnover during the year, the combined rate of turnover having been reduced to 25 percent from 38 percent in 1948. While each office showed a very substantial decline in the rate of turnover, the largest decrease occurred at the Houston Branch, although its rate of 33 percent was still the highest for any of the four offices.

On December 31, 1949, approximately 90 percent of the bank's personnel was enrolled under the Blue Cross Insurance Plan for hospitalization and medical and surgical services, under which the bank pays two-thirds of the cost of the coverage. During the year, premiums paid by the bank and by the officers and employees totaled $33,097, while the Blue Cross organization paid $16,100 for hospital, medical and surgical services rendered to officers, employees, and certain of their dependents.

For several years, the bank has limited its annual medical examinations of officers and employees to those 40 years of age or over. During 1949, this service was expanded to provide for an examination of officers and employees under 40 years of age at least every three years.

For the third consecutive year, the bank held on November 16—the anniversary date of its establishment—annual dinner meetings in the Head Office and branch cities at which service emblems were presented to eight members of the staff who had completed 25 years of continuous service since the annual dinners in 1948. These additions brought to 108 the number of active officers and employees who had completed 25 years or more of continuous service.

Employees continued during 1949 to avail themselves of the counseling service at the Head Office which affords them an opportunity to discuss their personal problems privately and confidentially with designated counselors on the staff of the Personnel Department.

Effective September 12, 1949, the four offices of the bank began to operate on a 40-hour, five-day work week basis. Under that program, some departments are closed on Saturday, some operate on Saturday with a skeleton force, while others maintain full operations with employees in those departments being given a day off on a rotating basis. Under the plan, service to member banks and to the general public is not curtailed.

During 1949, the bank continued its executive training program. Four officers and senior staff members attended the A.B.A. Graduate School of Banking at Rutgers University, three entered the Central States School of Banking at the University of Wisconsin, and seven attended the Annual Bankers Conference sponsored jointly by the Texas Bankers Association and the University of Texas. During the summer, the bank again employed several young college students who expect to make a career of banking after graduation. Six recent college graduates were employed under a long-range training program, whereby each is to receive training and experience in various departments on a rotating basis. The officers continued the program of holding monthly dinner meetings at which an officer presents a paper on an economic subject of current interest or relating to Federal Reserve System practices and policies, which is followed by a round-table discussion participated in by all officers.

The following changes in the bank's official staff occurred during 1949: Mr. R. O. Webb, Assistant Cashier, passed away in June, and the vacancy thus created was filled by the election of Mr. T. W. Plant as an Assistant Cashier. Mr. Plant was serving as Manager of the Fiscal Agency Department at the time of his election. Mr. A. C. Michaelis, an Assistant Cashier, resigned in September.

RETIREMENT SYSTEM

The rules and regulations of the Retirement System were amended effective May 6, 1949, to provide increased benefits as outlined below:

The final average salary used as a basis for calculating normal pension benefits was changed to the best consecutive five-year average from the best consecutive ten-year average.

The basis for calculating service pension benefits payable for each of the last 20 years of service was changed to one percent of final average salary on a straight life basis from three-quarters percent on a cash refund basis.

The minimum normal service pension benefit was increased to $32 per annum on a straight life basis from $24 per annum on a cash refund basis.

The limitation of $6,000 on the maximum normal pension was removed and the regular retirement allowance was limited to a maximum of 75 percent of final average salary.

The maximum lump-sum death benefit (exclusive of the member's own accumulated contributions) payable on death in active service was increased to $25,000 from $15,000. (The death benefit is an amount equivalent to the salary paid to the deceased during the preceding twelve months.)

This bank paid to the Retirement System $73,224 to cover the accrued liability by reason of the increased benefits and its current rate of contribution was increased to 10.52 percent from 10.08 percent of annual salary to cover the future cost of the increased benefits.

This bank also paid to the Retirement System the sum of $41,205 to provide 35 previously retired members the same retirement allowance that they would have received if they had retired under the rules as amended.

During the calendar year 1949, two retirements were effected and one death claim was paid, bringing the total number of retirements and of death claims paid to 70 and 32 respectively since March 1, 1934, when the Retirement System was established. At the end of 1949, 39 former officers and employees were receiving retirement allowances and 6 had arranged for payments covering their retirement allowances to commence at later dates.

BANK EXAMINATIONS

The expanded program of analysis and review of examination reports, which was inaugurated during 1948, has proved very beneficial in the administration of the examination function. The information developed has given a better insight into the operating policies of member banks, revealed the strength and weaknesses of individual institutions, and in many instances has made possible the detection and correction of unfavorable trends before serious problems developed. Likewise, the analyses have brought to light trends toward an over-loaned condition before the information became available in published reports. In consequence, the examiners have been better prepared to review intelligently the conditions obtaining at individual banks and have been able to pass on to the management helpful suggestions for dealing with specific problems which may be new to a particular bank but common to many other institutions.

During 1949, the demand for consumer loans, real estate loans secured by residential properties, and agricultural loans was very heavy. Loans to farmers incident to the growing and harvesting of crops were especially heavy, and due to the large production which was sold at satisfactory prices, seasonal liquidation was very favorable except in isolated areas where yields were poor. In view of the effect that acreage restrictions and marketing quotas may have upon farm income, particularly if prices should decline further, bankers generally have indicated that credit policies with respect to crop and livestock loans will be more conservative and selective in 1950 than in 1949. In line with this situation, this bank has held informal discussions with a few banks, which became over-extended in 1949, with a view to suggesting a realignment of loan and credit policies in the light of existing and prospective conditions in the areas which they serve.

The readjustment in business during 1949, even though it was mild, resulted in some deterioration in the quality of bank loans. The number of banks showing assets criticized adversely increased during the year, and the amount of assets of substandard quality expanded moderately both in dollar amount and as a percentage of total loans.

This bank's examiners, during 1949, continued to stress the need for adequate credit files, appropriate loan diversification, selectivity of credit extensions, and effective collection policies. In addition, they gave close attention to loan administration and servicing, since deterioration in the quality of loans during a period of business readjustment often occurs where such loans are improperly supervised and serviced. Experience has shown that close contacts with borrowers' affairs, including interim operating and balance sheet statements, where necessary, materially aid in detecting possible adverse changes in paying ability.

During the year, the examining staff participated in 166 examinations, or 3 fewer than in 1948. The following table summarizes the operations of the department during the two years:

	Independent examinations		*Joint examinations with state or other federal agencies*	
	1949	*1948*	*1949*	*1948*
State member banks	5	4	140	140
State bank applications for membership	1	3	2	8
Separate trust departments	0	1	12	10
Applications to organize national banks	0	0	4	3
Applications of national banks for trust powers	2	0	0	0
Total	8	8	158	161

The rapid accumulation of wealth in the District during recent years, the increase in the number of large individual estates, and the high rates of estate and inheritance taxes have been the principal factors prompting several commercial banks, some of which are located in smaller towns, to give consideration to the opening of trust departments. During the year, some of these banks have discussed with the officers of this bank the matter of filing applications for permission to engage in fiduciary activities. During the year, three banks were granted trust powers, but other institutions have either deferred making application or have requested that the applications be held in abeyance pending further developments, such as recruiting or training personnel suitable to handle the responsibilities in this highly complex and specialized field. In processing applications for consideration by the Board of Governors, this bank takes into consideration such factors as the applicant's history and management, its capital structure, its earnings record, the background and training of its proposed trust officer, trust investment committee and legal counsel, and the applicant's potential volume of business in the trust field.

The bank's officers and staff continued to maintain, during 1949, close and highly satisfactory relations with federal and state supervisory authorities in this District.

REGULATION OF CONSUMER INSTALMENT CREDIT

The Congressional authority under which the Board of Governors reissued, on September 20, 1948, Regulation W covering the control of consumer instalment credit, expired on June 30, 1949. Accordingly, the regulation was terminated automatically on that date. During the effective period of the regulation this bank, through the use of field investigators and various media of publicity, pursued an enforcement program which was designed to disseminate information about the regulation and to detect cases of willful violation. On the whole, this bank received excellent cooperation from registrants and its investigations revealed a high level of compliance with the provisions of the regulation. It is felt that the educational approach which the bank pursued in its enforcement program contributed in a considerable measure to its general effectiveness.

BANK FAILURES

After seven consecutive years in which there were no bank failures in this District, two suspensions occurred in 1949. Both institutions were noninsured, nonmember institutions and one of them was an unincorporated bank. In the United States, the suspension of four noninsured, nonmember banks occurred, including the two in this District.

MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

In this District the following state and national banks, four of which were newly organized institutions, were admitted to membership in the Federal Reserve System during 1949:

Name of bank	*Location*	*Deposits December 31, 1949*
First National Bank of Hobbs	Hobbs, New Mexico	$ 1,371,000
First National Bank of Edna	Edna, Texas	1,120,000
The First State Bank	Hawkins, Texas	840,000
Citizens State Bank & Trust Company	Kilgore, Texas	2,078,000
First National Bank of McAllen	McAllen, Texas	10,766,000
First National Bank of Monahans	Monahans, Texas	1,534,000

Since one of the national banks listed above was a conversion from a state bank member and since two banks which entered voluntary liquidation in 1948 surrendered their stock in 1949, the number of member banks in this District showed a net increase of only three as compared with a net gain of six in 1948. On December 31, 1949, membership in the District totaled 623 banks, consisting of 477 national banks and 146 state banks.

In this District only two state banks were admitted to membership in 1949 and one of them was a newly organized institution. There were 23 state banks admitted to membership throughout the country, with the Atlanta and San Francisco Districts accounting for 10 admissions or 43 percent of the total. There were three districts in which no state banks were admitted to membership.

The number of applications received from state banks for membership in the Federal Reserve System declined noticeably in 1949 from that in other recent years. In some cases the diminishing interest in membership apparently stemmed from legislative proposals for changes in legal reserve requirements of member banks, since several nonmember state banks have expressed an intention of deferring consideration of membership until some decision has been made with respect to member bank reserve requirements. There are other state banks, however, which apparently recognize the direct benefits of membership, and are giving the matter active consideration. Because of this situation, it seems probable that additions to state bank membership in this District during 1950 will be more numerous than in 1949.

During 1949 the status of the 381 nonmember commercial banks in the District was reviewed to determine their eligibility for membership in the Federal Reserve System. Only 88 of them are ineligible for membership because of insufficient capital, although 77 banks which do not now remit at par for checks drawn on themselves would be required to do so if they should be admitted to membership.

CHANGES IN CAPITAL STOCK

The paid-in capital stock of this bank reached an all-time peak of $8,455,300 on December 31, 1949, the increase during the year of $602,950 exceeding that in 1948 by $54,350. Most of the increase—$579,550—resulted from an increase in the capital and surplus accounts of 335 member banks. Five banks in the District, which were admitted to membership during 1949, also purchased capital stock of this bank in the amount of $26,700. Cancellations of capital stock of this bank during the year resulted from the voluntary liquidation of two former member banks which held 66 shares valued at $3,300.

NONMEMBER BANKS

The following six nonmember state banks representing five primary organizations and one conversion from an industrial bank began operation in the District during 1949:

Name of Bank	*Location*
Sterlington Bank	Sterlington, Louisiana
Citizens State Bank	Corpus Christi, Texas
West Side State Bank	San Antonio, Texas
San Juan State Bank	San Juan, Texas
Citizens State Bank	Sweeny, Texas
First State Bank	Van, Texas

These additions were partially offset by the suspension of two banks and the admission of one nonmember state bank to membership in the Federal Reserve System. Therefore, on December 31, 1949, the number of nonmember banks in the District totaled 399, or only three more than at the end of 1948.

PAR BANKS

On December 31, 1949, there were 913 active commercial banks in the District remitting at par for checks drawn on themselves, representing an increase of 8 banks during the year. While one former par bank failed during the year, all except one of the newly organized banks agreed to remit at par. Consequently, at the end of the year the number of nonpar banks remained at 109, comprising 57 banks in Texas, 50 banks in Louisiana, and 2 banks in Oklahoma.

NEW BANK ORGANIZATIONS

The number of newly organized banks in the District continued to decline in 1949 from the high point of 32 reached in 1947. This downward trend, which was also apparent throughout the country, is attributed to the influence of two factors—the lessening need for new banking facilities, and the higher standards fixed by supervisory authorities for the chartering of new institutions. Of the 9 banks organized in the District during 1949, only 1 was located in a community where banking facilities did not exist. This contrasts with the situation in 1947 when about 50 percent of the new banks were organized to provide facilities for communities without a banking institution. The organization of 27 new banks in outlying sections of Reserve cities since 1940, slowed considerably, with only one such new bank being organized in 1949. The remaining 7 banks organized in 1949 were for the purpose of providing additional facilities for communities already having at least one bank. Since the need for additional banking facilities is often difficult to establish, supervisory authorities are exercising greater caution in granting charters for new institutions in those localities.

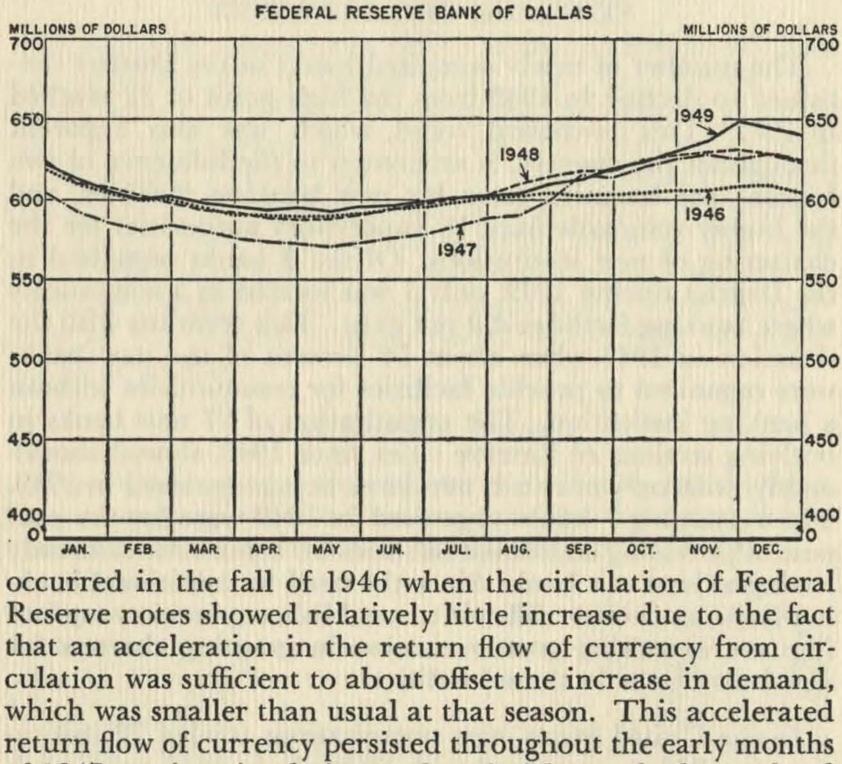
In the United States, new organizations totaled 72 institutions in 1949, as compared with 80 banks in 1948 and a peak for recent years of 144 in 1946. The Atlanta, San Francisco, and Chicago Federal Reserve Districts were the leaders in new organizations with 15, 12, and 11 banks, respectively, and accounted for 55 percent of the total organizations in the country during 1949. This District, which ranked second in 1948, dropped to fourth place in 1949.

FEDERAL RESERVE NOTE CIRCULATION

The circulation of this bank's Federal Reserve notes, which had shown an almost uninterrupted rise during the war period, reverted to the prewar seasonal pattern shortly after the close of the war. Throughout the postwar period, the relatively stable level of circulation and the definite seasonal pattern have been in evidence. These movements, as well as the significant deviations from the seasonal pattern, are revealed in the accompanying chart. The first major deviation

FEDERAL RESERVE NOTE CIRCULATION

FEDERAL RESERVE BANK OF DALLAS



occurred in the fall of 1946 when the circulation of Federal Reserve notes showed relatively little increase due to the fact that an acceleration in the return flow of currency from circulation was sufficient to about offset the increase in demand, which was smaller than usual at that season. This accelerated return flow of currency persisted throughout the early months of 1947 causing circulation to drop in May to the lowest level in the postwar period. The sharp upward movement of currency in circulation in August and September of that year reflected the heavy demand for currency in connection with the redemption of the Armed Forces Leave Bonds. In 1949 circulation followed the usual seasonal pattern during most of the year. The decline of $34,900,000 during the first five months of the year carried the total to the year's low point of $589,000,000, or only $2,000,000 above the low point during the preceding year. From the end of May through October, the fluctuation in circulation followed closely that in 1948, but in November there was a sharp rise with the total reaching a new all-time peak at $650,600,000 early in December. This sharp rise was occasioned by the heavy demand for currency in connection with the harvesting of the record cotton crop, particularly in west and northwest Texas. The return flow of currency from circulation during December was about the same as is usual in that month, but it occurred throughout the month rather than being concentrated during the last week of the month.

The net increase of $16,600,000 in currency in circulation during the year occurred chiefly in bills of the $5, $10, and $20 denominations, with about half of the total being in the $20 denomination. These are the denominations which are used most frequently in trade transactions and in making pay roll settlements. In denominations of $50 and above, which are associated with large commercial transactions and currency hoarding, moderate decreases occurred in the circulation of most denominations.

DEPOSITS OF MEMBER BANKS

The aggregate deposits of member banks in this District increased for the third successive year, reaching an all-time peak during December. In that month, the average of deposits amounted to $6,260,000,000, or $238,000,000 higher than in December 1948. The increase apparently occurred in all sections of the District and was distributed among banks in all deposit size groups. During the year some growth took place in interbank deposits, as well as in deposits of individuals, partnerships, and corporations. The increase of $53,000,000 in time deposits, constituting about one-fifth of the year's gain in total deposits, was at approximately the same rate as in other recent years.

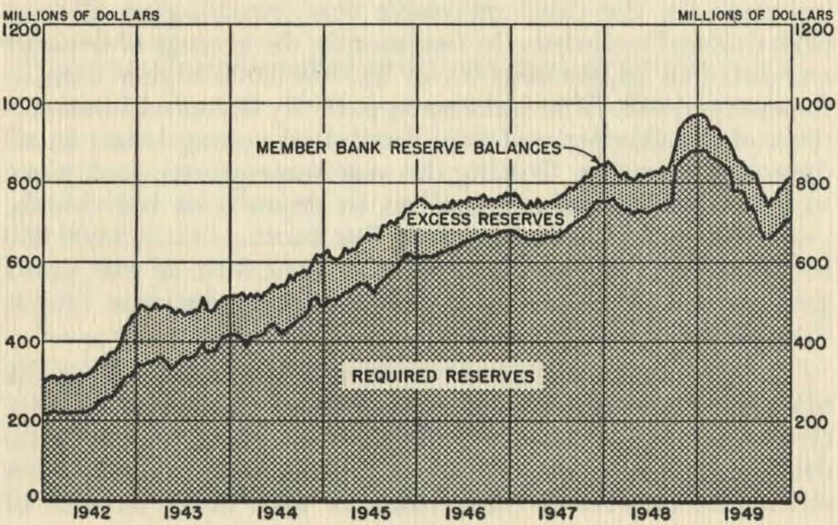
The decline in deposits, which usually occurs during the first part of the year, was more pronounced than usual in 1949. Ordinarily, the seasonal decline results chiefly from withdrawals of funds for the payment of income taxes and for settlement of adverse trade balances with other sections of the country. In 1949 the greater-than-usual seasonal decline in deposits occurred partly because of the substantial decline in loans and investments, and partly because country banks drew heavily upon their balances with correspondents to restore their reserve balances with the Federal Reserve bank, which had been reduced in meeting customer withdrawals for the above noted purposes. On the other hand, the net expansion in deposits during the latter half of the year was the largest for any similar postwar period. This rapid recovery of deposits is attributable to the unusually sharp advance in member bank loans and investments, the unusually large receipts from the record volume of agricultural production, and a substantial increase in interbank balances. Moreover, activity in some industries, especially the petroleum and lumber industries, which had experienced substantial contraction in the first half of the year, rose substantially during the latter half of 1949.

MEMBER BANK RESERVE BALANCES

The outstanding feature of the movement in the reserve balances of member banks in the District during 1949, as revealed in the accompanying chart, was the sharp and per-

MEMBER BANK RESERVE BALANCES, REQUIRED RESERVES AND EXCESS RESERVES

ELEVENTH FEDERAL RESERVE DISTRICT



sistent downward trend from the peak level reached in the closing month of 1948. The low point of the year was reached in September when the average of such balances amounted to only \$753,000,000 a decrease of \$217,000,000 from the average in the preceding December. While there was a marked rise in reserve balances during the fourth quarter, the average for December 1949, amounting to \$811,000,000, was \$160,000,000 smaller than in December 1948. The decline in reserve balances during the earlier months of the year was occasioned by the decrease in required reserves resulting chiefly from the net decrease in customer deposits at member banks. The decrease in reserve balances between April and September was made possible in large part by three successive reductions in reserve requirements which became effective early in May, at the end of June, and in August. In the aggregate, these reductions in reserve requirements amounted to 4 percentage points on demand deposits of member banks and 2½ percentage points on time deposits of member banks. In the fourth quarter banks tended to utilize idle funds to build up their balances with correspondents. Because of the growth in such balances, as well as in cash items in process of collection, the net demand deposits of member banks on which required reserves are computed, rose at a slower rate than gross deposits. During 1949 excess reserves of member banks with the Federal Reserve Bank fluctuated widely but the average for the year as a whole was only moderately higher than in 1948. In December excess reserves averaged about \$104,000,000, which was not only the highest for any month since mid-1946 but also \$16,000,000 higher than in the closing month of 1948.

FEDERAL RESERVE CREDIT

The moderate readjustment in business and industry, the decline in loans of member banks during the early part of the year, and Federal Reserve policy, which was directed toward easier money and credit conditions during much of 1949, had a significant effect upon the credit operations of this bank. Because of the generally easier reserve positions of member banks, only 16 of these banks borrowed from this bank during 1949 as compared with 28 in 1948. While borrowings by member banks, which totaled \$154,054,000 in 1949, were only moderately below the total of $180,376,000 for the preceding year, the average time that the loans were outstanding was shorter. This is indicated by the fact that total borrowings declined only 14 percent, while the amount of interest earned on loans declined 26 percent. Nearly all of the borrowings in 1949, as in 1948, represented advances to member banks on their own notes secured by United States Government obligations. The borrowings of 5 country member banks were for the purpose of meeting the seasonal demand for credit in their respective communities, and in the case of 3 of them, represented the rediscount of customers' notes in the amount of $216,000. The other 11 banks borrowed for short periods for the purpose of adjusting their reserve positions.

In the operation of the Federal Reserve check clearing and collection system, a Federal Reserve bank usually extends without interest a certain amount of unsecured, involuntary credit (known as "float") to member banks. The credit, or "float," arises out of the fact that the Federal Reserve bank gives the depositing bank credit for checks in the process of collection, a specified number of days after the checks are received at the Federal Reserve bank, even though some of the checks may not have been actually collected. The size of the "float" is determined largely by the extent to which the average deferred availability schedule is shorter than the average collection period, as well as by irregular mail and express service. During 1949, the daily average "float" of this bank amounted to $9,754,000 as compared with $12,095,000 in 1948, although the peak for a particular day amounted to $49,424,000 in 1949 as against $22,514,000 in 1948. The reduction in daily average "float" during 1949 was due partly to the smaller dollar volume of items handled, but the more important factor was the constant study by this bank of mail and express schedules and the systematic reduction of average collection time through increased use of air mail and air express.

Reflecting the strong demand from both bank and nonbank investors for United States Government securities, the holding of such securities in the Federal Open Market Account averaged 9 percent lower in 1949 than in 1948, but this bank's average participation in the Account, which amounted to

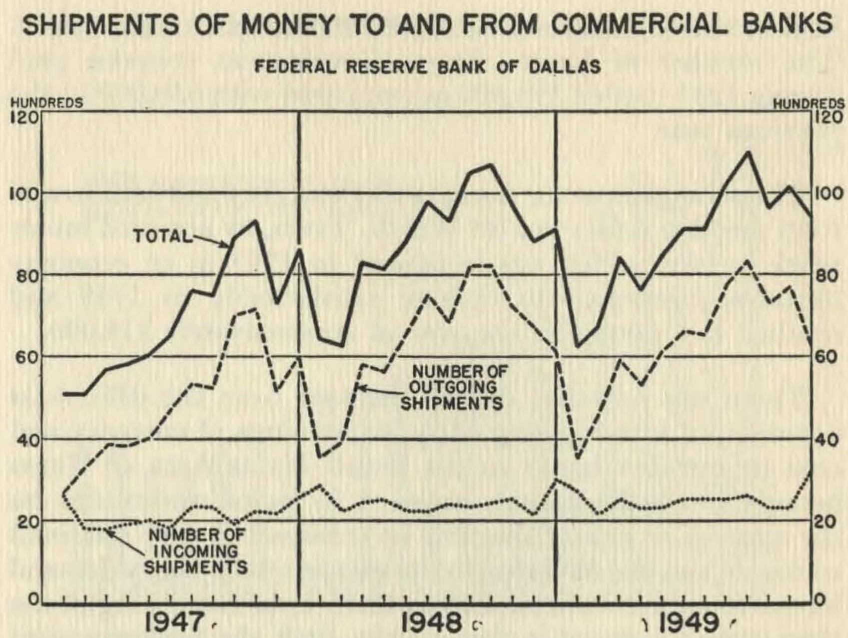
$846,000,000, declined 13 percent. The bank's smaller participation relative to other Federal Reserve banks was due to the fact that this bank was allotted a smaller percentage participation during 1949 than in 1948. The percentage of total System holdings allotted to each Federal Reserve bank is based upon its estimated requirements for expenses and dividends in relation to the System total.

The funds derived by member banks from the net increase in customer deposits, as well as those which became available to the banks through successive reductions in member bank reserve requirements, were invested to a considerable extent in Government securities. Moreover, the change in relative yields on various types of Government securities induced substantial portfolio readjustments at member banks. As a consequence of these factors this bank handled, during 1949, a total of 3,518 transactions involving the purchase or sale of Government securities for 323 member banks in the amount of $1,059,000,000. This sum represented an increase of $429,000,000, or about 70 percent, over the amount handled in 1948.

CASH DEPARTMENT OPERATIONS

The volume of operations in each function performed in the Cash Department increased during 1949. One of the most essential operations is that of supplying currency and coin to the commercial banks, which in turn, pay the money to and receive it from the public in accordance with the demand. In consequence, the requirements of the public determine indirectly the flow of currency out of and into this bank. The commercial banks order money from this bank from time to time to meet the estimated public demands, and when the volume of money received from the public exceeds the demand, the accumulated supply is shipped to this bank. The flow of money has two important characteristics. One is that the bulk of money shipments is likely to be made in relatively small amounts to, and paid into circulation by, the commercial banks in towns outside the principal centers. Then a large proportion of the money paid out in the rural areas flows to the trade centers where it accumulates at member banks which ship it in relatively large amounts to this bank. This accounts for the fact that the number of out-going shipments is usually two or three times the number of incoming shipments, even though the amount returned to this bank may be approximately the same as that paid out. The other characteristic is the seasonal factor in the flow of money. During the early months of the year, when agricultural activity is at a low ebb and there is a tendency for business and industrial operations to slow down, large amounts of money are deposited in member banks, which return it to this bank for retirement. As a result, the amount of incoming shipments during that period exceeds outgoing shipments by a substantial amount. From May to November, the amount of money which this bank ships to commercial banks exceeds substantially the amount it receives from them. In December, the heavy demand for money usually continues until the Christmas holiday, but the return flow from circulation in the final week of the month is so large that the amount of incoming shipments for the entire month usually exceeds substantially the amount of outgoing shipments. Despite these marked seasonal trends in the demand for money, there is a constant and substantial flow out of and into this bank throughout the year. The aggregate number of shipments is likely to reach a low point in January or February and a peak in September or October. The low point in the amount of money handled by this bank is also reached in January or February, but reaches its peak in December. The accompanying chart reveals the relatively small number of incoming shipments as compared with the number of outgoing shipments, as well as the marked seasonal variation in the two types of shipments.

During 1949, there were 106,077 incoming and outgoing shipments of currency and coin in the amount of $1,372,-000,000, representing increases over 1948 of 405 in the number of shipments and of $86,000,000 in amount. The number of pieces of currency received and counted totaled 128,880,-000, valued at $691,000,000 representing increases over 1948 of 9,520,000 in number and $16,181,000 in amount. The number of coins received and counted totaled 214,292,000 with a value of $16,652,000. These figures indicate increases



over 1948 of 19,668,000 in number and of $1,550,000 in amount. These data indicate an increased demand for coin of the larger denominations and for currency of the smaller denominations. A significant development during the year was a noticeable increase in the number of counterfeit bills in circulation, principally in the $5, $10, and $20 denominations. The currency sorters of this bank were successful in detecting a large number of them when they were received at the bank.

The number of telegraphic transfers of funds made at the request of, or received for the account of, member banks totaled 80,337 in the aggregate amount of $20,167,000,000, representing increases over 1948 of 879 in number and $2,165,000,000 in amount.

On December 31, 1949, this bank was holding for member banks and others, securities amounting to $945,000,000, an increase of $111,000,000 over the amount held a year earlier. This increase resulted chiefly from the heavy purchases of Government securities by member banks as reserve requirements were reduced. Reflecting the increase in custody activities, this bank clipped 130,900 interest coupons from securities held in custody, an increase of 18,200 over the total in 1948. The number of United States Government coupons paid during 1949 totaled 375,800 as compared with 350,000 in the previous year.

The arrangement for transporting currency and coin to and from member banks in Fort Worth, Texas, by armored motor truck service, which was instituted in 1948 as an economy measure, continued to operate satisfactorily in 1949 and resulted in a saving for the year of approximately $13,000.

There was no relief during the year from the difficulties experienced in furnishing adequate amounts of currency and coin to member banks in the South Plains Area of Texas because of the limitations imposed by postal authorities on the amount of money that can be transported over star mail routes on any one day. Due to the exceptionally heavy demand for currency and coin needed to finance the harvesting of the large crops produced in that area in 1949, the bank arranged for convoy service in shipping money to certain member banks during the fourth quarter of 1949 at a cost of $1,112.

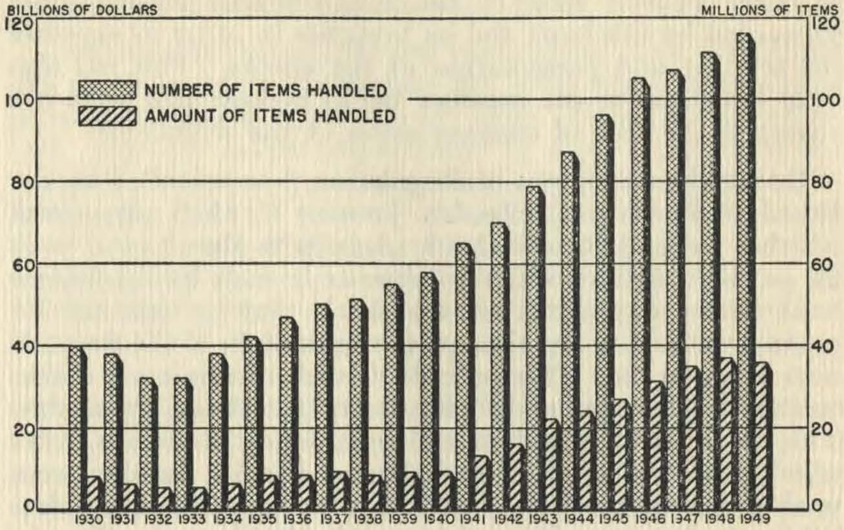
The increase in interstate express rates, which became effective September 9, 1949, increased substantially the cost of transporting currency and coin to this bank from member banks in Arizona, New Mexico, Louisiana, and Oklahoma.

CHECK COLLECTIONS

For the seventeenth consecutive year, the number of checks and drafts received by this bank for collection increased further during 1949, when 115,800,000 items were handled. This number represented an increase of 4 percent over the number handled in the preceding year. The value of checks and drafts handled during 1949, which aggregated $36,524,-000,000, decreased by 3 percent from that in 1948, after having increased steadily for the ten preceding years. The record day in 1949 occurred on November 12, when 618,000 items were handled, but this number was 114,000 less than the all-time record established on November 8, 1946. The

CHECKS AND COLLECTION DRAFTS HANDLED, 1930-1949

FEDERAL RESERVE BANK OF DALLAS



19,394,000 United States Treasury checks handled by this bank during 1949 represented an increase of 10 percent over the total in 1948. One factor in the increase was the substantial increase in the personnel at various military establishments in the Nation, and another, probably the more important, was the exceptionally large number of income tax refund checks issued in 1949 as a result of the reduction in income tax rates which became effective in 1948.

The number of dishonored checks returned by drawee banks to this bank in 1949 showed an increase of 12 percent over the total in 1948, but the amount involved decreased by 7 percent. The substantial increase in the number of unpaid items reflects a trend throughout the country.

Further progress was made during 1949 in the use of air mail and air express to expedite the collection of checks and drafts. This bank is now using air transportation to forward cash letters to 52 banks in the Head Office territory and to all other Federal Reserve banks and branches where studies have revealed that the use of air transportation will permit the collection of checks one or two days earlier than if forwarded by rail. During 1949, the practice was adopted whereby the member banks located in the Federal Reserve bank or branch cities would consolidate shipments of checks to other Federal Reserve banks and branches with those forwarded by this bank and its branches in order to expedite the sending and presentation of the checks. This has also been beneficial to the member banks because this bank has absorbed the cost of transportation of the shipments.

Under the provisions of Regulation J as amended by the Board of Governors, effective January 1, 1949, any check which a Federal Reserve bank presents to the drawee bank for payment and for which remittance is made by the drawee bank on the day it receives the check, may be returned for credit or refund at any time prior to midnight of the drawee's next business day. This permits a bank to remit for checks on the day of receipt and then to post them the following day. This has tended to speed up settlement for cash letters as banks which formerly received cash letters late in the day were unable to post the items and remit for them the same day. While the law permitting this practice has been in effect in Texas since 1943, the revision of Regulation J extends the privilege to banks in all other states included in the District.

Under an agreement with the Federal Reserve Bank of Atlanta, this bank revised its bulletin on the collection of cash items so as to permit deferred credit of not more than two business days for items drawn on all points in Louisiana when they are deposited with the Head Office of the Federal Reserve Bank of Dallas or are forwarded direct to the New Orleans Branch of the Federal Reserve Bank of Atlanta.

CHECK ROUTING SYMBOL PROGRAM

The program, instituted in 1945, of having a routing symbol placed on the checks of all par remitting banks made slower progress during 1949 than in any of the preceding three years. The 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 routing symbol becomes general, the sorting and routing of checks by both commercial banks and Federal Reserve banks will be simplified greatly, thereby increasing the efficiency and speed of collecting out-of-town checks. Virtually all of the par remitting banks in this District now have many checks in circulation bearing the routing symbol in the approved location.

The progress during 1949 was relatively slow, partly because the program has now reached the stage where appreciable gains percentagewise in relatively short periods are very difficult. Another major impediment to rapid progress is the action of business concerns, unfamiliar with the program, in having their checks printed without the symbols. A survey as of December 1, 1949 showed that 71 percent of the checks in circulation drawn on par banks in this District carried the routing symbol of the drawee bank in the approved location. This represents an increase of only 2 percentage points during the year which compares with a gain of 13 percentage points in 1948. Despite the small gain in 1949 this District ranks fourth among Federal Reserve districts and is 4 percentage points above the national average. The percentage for the country as of December 1, 1949 was 67 percent as compared with 58 percent on December 1, 1948.

Throughout the past year the program was encouraged through correspondence and personal contacts with banks, printers, and others concerned. The banks and printers generally have shown a fine spirit of cooperation and are rendering valuable assistance in promoting the program.

FISCAL AGENCY OPERATIONS

The volume of public debt and withheld tax transactions continued during 1949 at approximately the same level as in 1948. A further improvement in procedure, and thus in operating results, made possible a reduction of 15 percent in the working force handling fiscal agency activities at the Head Office and branches. Except for the weekly offerings of Treasury bills, there were no issues of marketable Government securities offered for cash during the year. Reflecting the higher average yields on Treasury bills and the easier reserve positions of member banks, allotments of Treasury bills in this District amounted to $690,000,000, as compared with $437,000,000 during 1948. An average of 74 tenders were received weekly during 1949, as compared with 68 tenders weekly during 1948.

Sales of Treasury tax and savings notes, amounting to $36,206,000 during 1949, were $10,000,000 lower than in 1948. Redemptions were also down about the same amount and aggregated $54,618,000.

Sales of savings bonds in the District during the year totaled $202,000,000, or 7 percent less than in 1948, but redemptions of $215,000,000 were down 10 percent. The agents qualified to issue Series E Savings Bonds, numbering 1,222 on December 31, 1949, accounted for 97 percent of such bonds processed through this bank. The agents qualified to redeem savings bonds of Series A to E, which numbered 1,012 on December 31, accounted for 95 percent of this year's redemptions of such bonds. During the year, there were increases of 8 in the number of issuing agents and of 11 in the number of paying agents.

At the end of the year, 710 banks were qualified as war loan depositaries, and 598 as withheld tax depositaries, reflecting a slight increase over the year in each type of depositary.

During 1949, 22,320 Armed Forces Leave Bonds were redeemed in the aggregate amount of $5,566,000. These redemptions were only one-third of those during the previous year with respect to both the number of bonds and the redemption value.

Other principal activities pertaining to Government securities during 1949 included:

Allotting $676,000,000 certificates of indebtedness and $77,000,000 Treasury notes on exchange subscriptions. These operations compare with $608,000,000 certificates of indebtedness and $85,000,000 Treasury notes allotted on exchange subscriptions during 1948.

Redeeming marketable Government securities in the amount of $1,351,000,000, an increase of $137,000,000 over the total in the preceding year.

On December 31, 1949, this bank held 121,071 savings bonds for individuals with a maturity value of $13,284,000, representing decreases from December 31, 1948 of 11,000 in the number of bonds and of $500,000 in maturity value.

An important development during the year was the issuance of Treasury Department regulations, effective November 14, 1949, permitting the use of restrictive endorsements on called or maturing United States Government securities to render them non-negotiable before shipment to the Federal Reserve banks. This procedure, which was developed after careful study by the President's Conference Committee on Fiscal Agency Operations, and considerable negotiation with the Treasury Department, should be quite advantageous to banks and to their customers using it, because of the distinct savings that can be effected in transportation and insurance charges on shipments of securities. Moreover, in the event of loss, theft, or destruction of restrictively endorsed securities, relief may be obtained as in the case of registered securities. While the volume of securities handled under this procedure to date has been nominal, the amount will undoubtedly increase as banks become more familiar with it.

As a measure of economy and coordination of work, the RFC-CCC Department on July 15, 1949, was merged with and became a part of the Fiscal Agency Department of the Head Office.

CUSTODIAN ACTIVITIES

The principal transactions handled for the Reconstruction Finance Corporation consisted of servicing bonds, debentures, and preferred stocks owned by the Corporation, making disbursements of and collecting funds for the account of its loan agencies, and holding in safekeeping all primary and collateral documents on loans serviced by such agencies. During 1949, this bank collected approximately $53,000,000 and disbursed $139,000,000 for the Corporation. At the end of the year, the value of primary and collateral documents held in safekeeping for the account of R.F.C. loan agencies totaled $412,000,000. The safekeeping program was quite active during the year since the Corporation purchased a large number of housing loans on which the documents were forwarded to this bank as custodian, and later large numbers of releases were made to the Corporation because of sales to various insurance companies.

The activities for the Commodity Credit Corporation, which increased sharply during 1949, included the processing of 460,000 producers' notes in the amount of $124,000,000, covering 861,000 bales of cotton placed in the 1948 and 1949 Government loan programs. In addition, warehouse receipts covering 113,000 bales of cotton securing notes in the amount of $16,000,000 were received from one of the Cotton Cooperative Marketing Associations. During the year, 230,000 notes secured by 439,000 bales of cotton were released to producers or equity purchasers, who paid notes in the amount of $66,000,000, and 214,000 bales of cotton were moved from one warehouse to another. Also, 93,000 notes amounting to $35,000,000, secured by 220,000 bales of cotton, were released to the Commodity Credit Corporation for pooling. This bank disbursed to lending agencies and cooperative marketing associations, in connection with the cotton loan programs, approximately $95,000,000 in cash and $107,000,000 in certificates of interest. It also disbursed $191,000,000 to lending agents in connection with Government loan programs involving other agricultural commodities, chiefly wool, wheat, peanuts, and potatoes.

CUISINE SERVICE

The bank's dining room and snack bar continued to operate efficiently and to provide satisfactory service during 1949, and as a result, a further reduction in the net cost of operation was effected. During 1949, total operating expenses of the dining room and the snack bar amounted to $93,962 and total receipts amounted to $65,060. These figures represented increases over the respective totals for 1948 of $6,028 in expenses and $10,012 in total receipts. Consequently, the bank absorbed only $28,902, or 31 percent, of the total cost of operation during 1949, as compared with $32,886, or 37 percent, during 1948. The number of sales transactions in 1949 showed an increase of 19 percent over that for 1948.

FEDERAL RESERVE BANK BUDGET

This bank submitted to the Board of Governors separate budgets for the Head Office and its branches at El Paso, Houston, and San Antonio for the calendar year 1949, after approval of the Board of Directors. In line with the established budgetary procedure, the officers responsible for supervision of the several functions have kept in close touch with the actual cost of the various operations in relation to the budget estimates. After making allowance for factors which could not be anticipated at the time the budgets were being prepared in the late summer of 1948, especially the increased salary cost which resulted largely from the change in the salary structure which became effective April 1, 1949, the actual expenses incurred at the several offices were reasonably well in line with the budget estimates. A special report concerning expenses in 1949 in comparison with the budget estimates for that year will be furnished the directors at an early date.