ANNUAL REPORT . . . 1957

FEDERAL RESERVE BANK OF DALLAS

ECONOMIC REVIEW

Economic conditions in the Southwest during 1957 reflected the varied performances of the major industries of the area, as well as the shifting economic environment in the Nation. There were marked contrasts in output among industries and, also, substantial shifts within individual industries, particularly between the first and second halves of the year. In general, economic developments in the Eleventh Federal Reserve District reversed the pattern established in 1956; strength was shown primarily in the first half of 1957, with adjustments and moderate weaknesses developing in the second half.

The greatest strength in the southwestern economy during 1957 was evident in employment, personal income, and consumer spending. Showing less strength but still providing substantial support were construction, government activities, and various manufacturing industries. For the year as a whole, the most notable weaknesses occurred in petroleum and associated industries, industrial construction, and capital investment.

In most of 1957, nonagricultural employment provided a major stimulative force in the Southwest, reaching a record 4,375,900 in December. However, the year-to-year margin of gain narrowed from 4 percent in January to 1 percent in December, as employment in mining and a number of manufacturing industries turned downward. Within the aggregate of nonagricultural employment, strength was especially noticeable in government, service, finance, and construction employment.

With full employment continuing for three quarters of the year and wage rates advancing, personal income rose to a level estimated at 6 percent above 1956. Wages and salaries were the prime mover in this advance. Another reason for the gain in personal income was the rise in transfer payments, as an earlier change in the law brought farmers and others under Social Security coverage.

As personal incomes climbed upward, consumer purchases also moved ahead. However, this latter increase was relatively small, averaging less than 4 percent at retail stores, and could be accounted for primarily by the rising prices of consumer goods. Most of the strength in consumer purchasing came in the nondurables and services sectors. There was weakness in sales of consumer durable goods, particularly major household items, although automobile sales were stronger in the Southwest than in the Nation.

Another major element of economic strength in the region was construction activities. Total construction was nearly 9 percent above 1956, as measured by the value of construction contracts awarded, but a large part of the advance stemmed from rising costs of labor and materials. Industrial construction, though starting the year at a fairly high level, was reduced sharply by midyear and continued downward for the remainder of 1957. On the other hand, residential construction moved upward from early spring and ended the year on a stronger tone, with awards 12 percent above the previous year. The main strength in construction awards occurred in public works, school, and highway construction.

Agriculture showed evidences of considerable strength during the first 10 months of 1957; however, when crops were harvested, total production was moderately below a year earlier, and cash farm income fell short of the total in 1956, despite higher Government payments. High yields, reduced acreage, and greatly improved moisture conditions were the most important influences upon agricultural production in 1957. Heavy spring rains, coupled with more intensive production on fewer acres, increased yields per acre to near-record highs. Participation in the Soil Bank programs — especially by cotton, wheat, and rice growers — lowered planted acreage but substantially increased Government payments to southwestern farmers. Total performance of crops did not fulfill earlier expectations, as excessive fall rains and an early freeze severely reduced cotton output and quality and damaged grain sorghums.

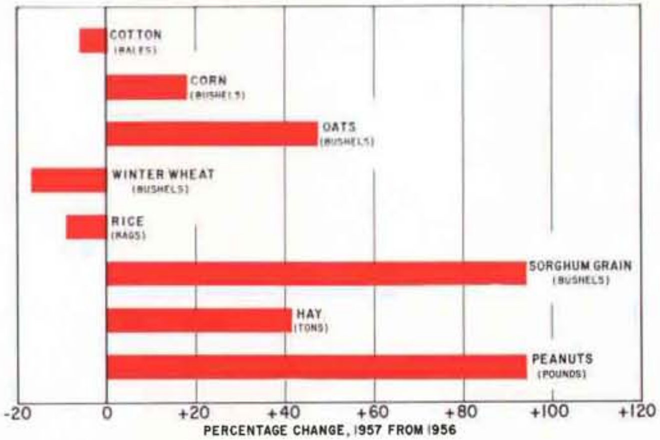
Livestock activities were bolstered during the year by the abundance of forage and grains. In some sections of the District, supplemental feeding was discontinued for the first time in almost 7 years. With the larger supplies of forage, cattle marketings were curtailed markedly in 1957, and some restocking occurred. At the close of the year, range and pasture conditions were the best in many years, encouraging winter feeding and further restocking.

There were a number of disappointing developments in the Southwest during 1957, some cumulating into actual declines which became more important as the year progressed. Industrial activity showed minor improvement through the third quarter, with gains in machinery, primary metals, chemicals, and fabricated metals being only partially offset by declines in transportation equipment, mining, and petroleum. Manufacturing employment reached a record 786,000 in August, but the year-to-year gain was reduced steadily and disappeared by the end of the year. There was some loss of output because of strikes, but the major declines in the Southwest were those associated with either the petroleum industry or the results of stretch-outs in defense expenditures, mainly in the aircraft industry. In 1957, few very strong gains occurred in any industry, the growth rate slowed, and new facilities were not added at the rate established in previous years. Consequently, there were fewer offsets to the widening declines of the final 4 months of the year, and total industrial production edged downward.

A significant area of decline was mining output. Substantial cutbacks in copper, lead, zinc, and crude oil production were countered to only a small extent by increased production of natural gas and potash. District crude oil production reached a

CROP PRODUCTION

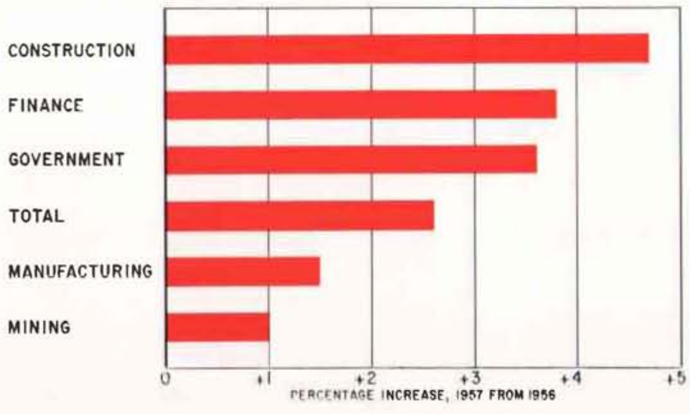
FIVE SOUTHWESTERN STATES



SOURCE: U.S. Department of Agriculture

NONAGRICULTURAL EMPLOYMENT

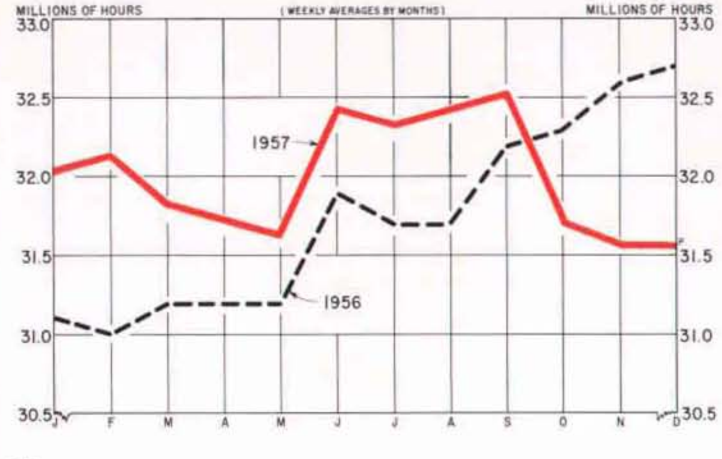
FIVE SOUTHWESTERN STATES



SOURCE: State employment agencies

MAN-HOURS IN MANUFACTURING

FIVE SOUTHWESTERN STATES



Preliminary
SOURCE: State employment agencies.

As in other years, the course and pattern of economic developments in the Southwest were directly influenced by changes taking place in the national economy. Economic conditions for the country as a whole were marked by high-level stability in the first 8 months, followed by a decline. The gross national product for the entire year rose about 5 percent, although at least 3 percent of the increase stemmed from the higher price level. Main features of the national economy during the first 8 months of 1957 were stable physical output, increased construction and plant investment, rising prices, and gains in employment, income, and consumer spending. In the closing 4 months of the year, nearly all major economic measurements reflected some weakening, led by declines in industrial production. The major exception was the mild upturn in residential building.

The broad forces shaping these changes in economic environment included inventory adjustments; a steady decline in new orders, production, and sales of durable goods; continued moderation of inflationary pressures; and rather substantial fluctua-

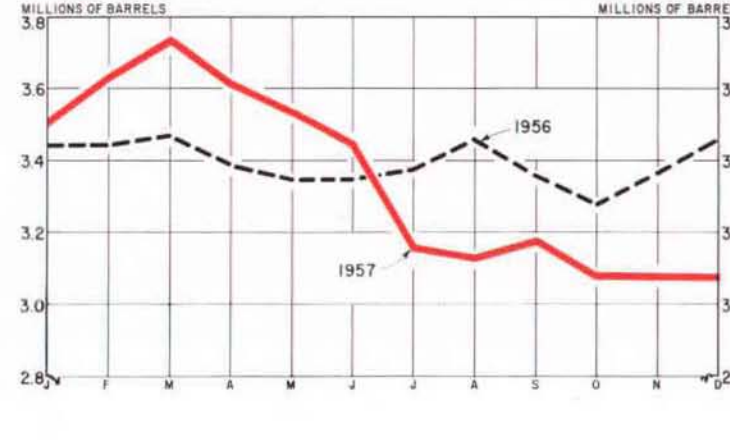
record high in March 1957 in response to the foreign demand for crude oil; but production remained at an advanced level far into the spring, and stocks accumulated when both foreign and domestic demand declined. District production in the final quarter of 1957 fell 9 percent below the level of a year earlier, with nearly all the decline occurring in Texas.

One of the major results of the cutback in District crude oil production was a decrease in drilling. Although the Southwest reduced drilling only 5 percent, or somewhat less than the national decline of 7 percent, there was a sharp effect upon suppliers of drilling equipment and upon independent producers of crude oil.

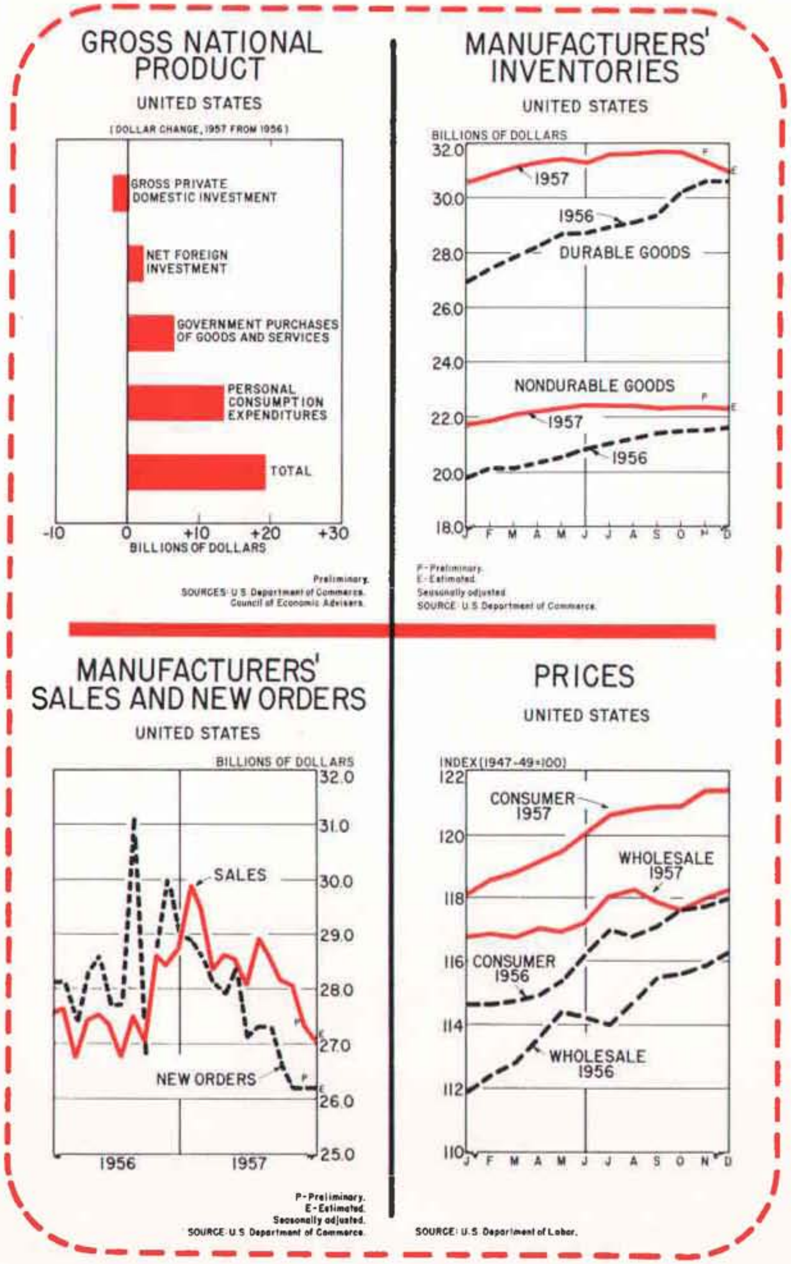
Capital investment in the District slowed considerably as drilling decreased and as unused capacity also became evident in other industries. The chemical industry continued to expand its facilities, but transportation equipment, fabricated metals, and machinery industries reduced capital outlays.

DAILY AVERAGE CRUDE OIL PRODUCTION

ELEVENTH FEDERAL RESERVE DISTRICT



SOURCES: U.S. Bureau of Mines
American Petroleum Institute.



tions in business and consumer confidence. Total business inventories rose steadily through September, but most of the increase came from revisions in the value of inventories already in place. For the year as a whole, inventories showed some decline in physical volume, especially in the final quarter.

Inventory changes during 1957 reflected the interaction of a number of factors. With sharp gains in productive capacity in many industries and a slackening in the rate of new orders, most industrial raw materials — particularly steel, copper, lead, and zinc — became available on short notice. This availability, together with the rise in the cost of credit, encouraged producers to cut back their inventories and thus save carrying charges. A second major influence on inventory changes was the fluctuations in consumer purchases. During most of the year, durable goods sales were relatively weak, occasioning involuntary stock accumulations in some sectors. Special situations in the petroleum and automobile industries were responsible for many of the largest fluctuations in inventories. Some pressure toward inventory accumulation stemmed from attempts to buy before scheduled price increases, but price declines in certain materials militated against building larger stocks. Balancing all these forces, most businessmen adopted a policy of tight inventory control.

A second major factor which markedly influenced the general trend of the economy was the changes in the durable goods industries. In keeping with the slackening rate of growth of the general economy and the slower growth in plant and equipment expenditures, new orders to durable goods manufacturers declined steadily. With sales of both consumers' and producers' durables declining, production was curtailed, especially in the primary metals and machinery industries. By the end of the third quarter, the weight of the declines caused a downward movement in total industrial production.

Lower sales, improved productivity, and the desire to reduce costs led to a steady attrition in manufacturing employment throughout the year. While many of these workers were absorbed by other industries in the first 8 months, the general adjustment in the economy in the September-December period brought a more than seasonal rise in unemployment and reduced total employment below year-earlier levels.

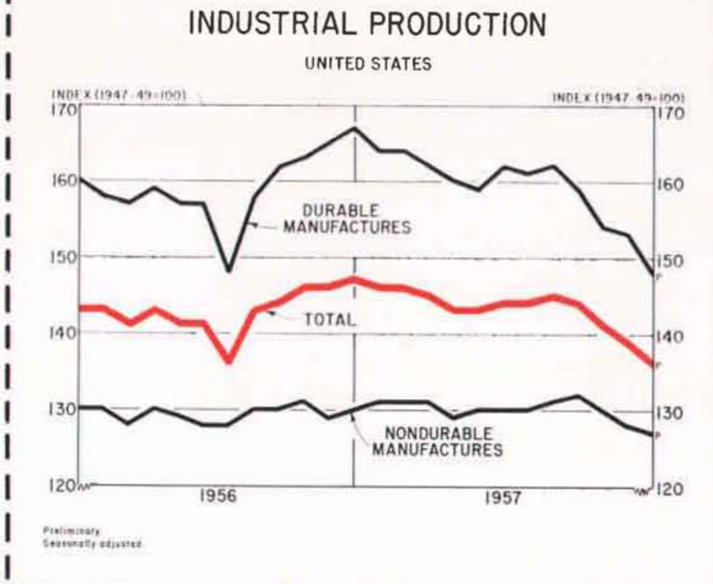
Inflationary pressures, after continuing strong in the first 9 months, subsided in the fourth quarter. From December 1956 to December 1957, wholesale prices increased nearly 2 percent and consumer prices rose 3 percent, with prices of farm products being responsible for a significant part of the increases.

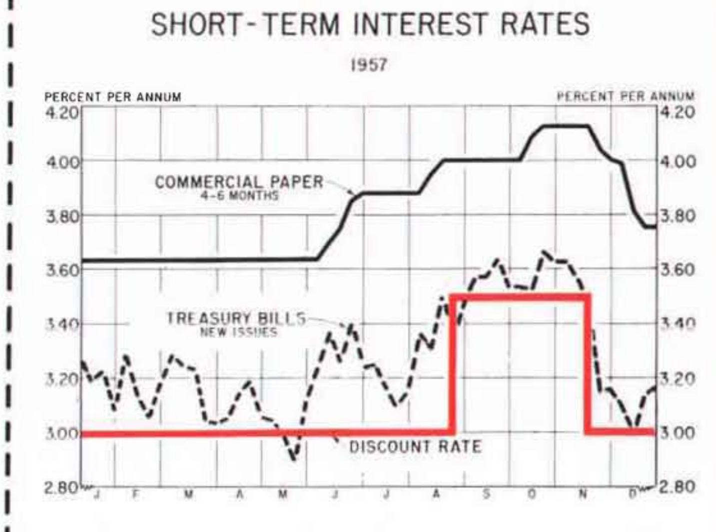
Another factor in the changing economic picture was the sharp swings in business and consumer sentiment. From a period of pessimism at the beginning of the year, businessmen took on a brighter outlook in the late spring and summer, only to switch back to pessimism in the fall. While these shifts could scarcely be justified on the basis of the change in general economic conditions, they probably exerted some influence on plant operations, inventory policies, and plans for capital expenditures.

Financial developments in 1957 were consistent with the adjustments in business activity during the year. During the first three quarters of 1957, a strong demand for funds and a restrictive credit policy contributed to increases in yields on United States Government securities and advances in other interest rates. These rate increases were capped by a rise in the commercial bank prime lending rate in August and, shortly thereafter, a ½-point increase in discount rates of the Federal Reserve banks to a uniform level of 3½ percent.

In October and November, evidence of a general downtrend in business activity began to mount, and on November 15, four Reserve banks reduced their discount rates to 3 percent, followed by similar reductions at the remaining eight banks within a few weeks. The reductions in mid-November were followed by a sharp rally in the bond market and easier monetary conditions in general. By the year end, yields on longer-term Governments were 40 to 75 basis points below the peak levels of mid-October, and rates on new issues of Treasury bills had declined to 3.17 percent from the 3.66-percent high reached in October.

While total credit demands in 1957 were less than in 1956 and 1955, pressures in credit markets were perhaps greater.





Commercial bank loans rose only $3.6 billion, compared with increases of $7.6 billion in 1956 and $11.6 billion in 1955, as banks exercised selectivity in lending operations in view of their reduced liquidity position and the limited availability of reserves. The diminished growth in total loans resulted primarily from the moderate rate of increase of business inventories in the first three quarters and the sharp reduction in the fourth quarter and from a slackening in corporate demands for funds as businesses used part of the proceeds of long-term borrowing to reduce bank debt.

Business corporations, confronted with increased needs for funds to finance record new plant and equipment expenditures, borrowed heavily in the long-term capital markets throughout the year. The record volume of new corporate security issues, coupled with near-record borrowing on the part of state and local governments, provided an undertone of strong demand in capital markets that precluded, until late in the year, anything but temporary advances in bond prices. An additional factor contributing to pressures in credit markets was the necessity for the Treasury to borrow heavily to meet cash drains. These drains were substantial as a result of large net redemptions of savings bonds and an unexpectedly high rate of Federal expenditures.

Federal Reserve credit policies throughout most of 1957 were directed toward restraining inflationary credit expansion. A number of developments justified the continuation of restraint until late in the year, when it became clear that inflationary pressures were subsiding. First, the record level of long-term borrowing indicated a continuing strong demand for funds. Business corporations probably would have turned to commercial banks for temporary accommodation in order to await lower interest rates and less restrictive borrowing terms, had the banks possessed sufficient funds to accommodate them. Thus, the persistent pressure on bank reserve positions tended to limit the use of bank credit in capital expansion.

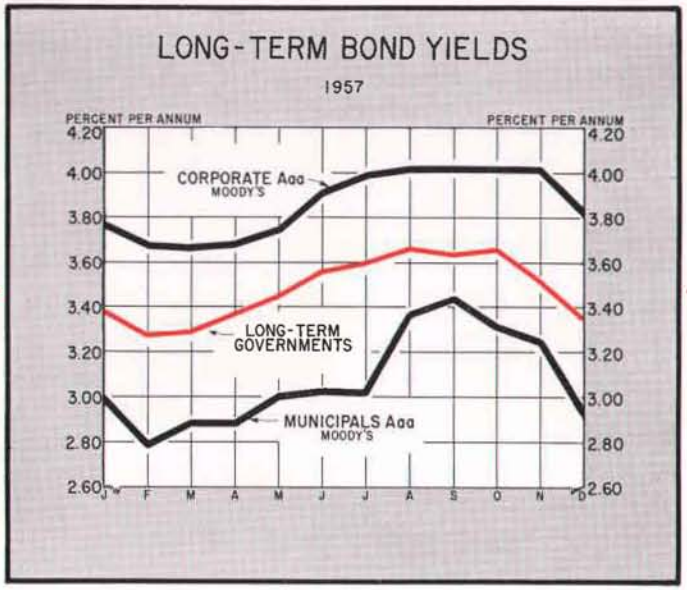
Secondly, economic resources in general continued to be utilized intensively during the first three quarters of 1957. For example, steel output averaged more than 90 percent of capacity during the first 6 months of the year and, except for July, did not drop below 80 percent until November. Between January and September, seasonally adjusted unemployment fluctuated close to 4 percent of the civilian labor force, rising above 4.5 percent only in the final quarter. These figures indicate a full and satisfactory utilization of economic resources during the first 9 months of 1957.

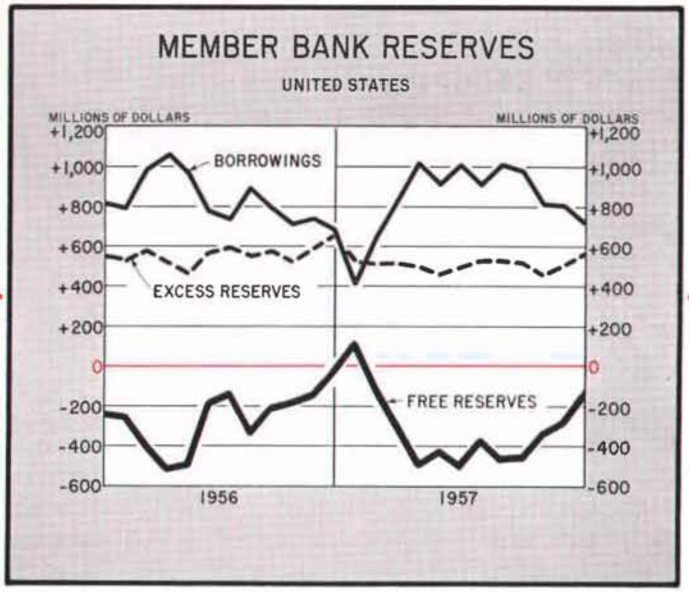
Finally, the sustained increase in consumer prices from early 1956 contributed to inflationary psychology on the part of businessmen and consumers. The expectation that inflation was inevitable threatened to undermine savings habits and to encourage spending as a hedge against future price increases. The determination of Federal Reserve authorities to adjust credit policies to the requirements of sustainable growth probably helped to dispel this inflationary point of view.

During the first 2 months of 1957, strong easing tendencies dominated the money and capital markets, despite efforts of System authorities to maintain a fairly taut rein on bank reserves. The net borrowed reserve position of member banks that had prevailed throughout almost all of 1956 was replaced by net free reserves in January. Yields on Treasury bills and longer-term Governments and on corporate and municipal issues declined somewhat.

The easing tendencies resulted from several factors: (1) System net sales or redemptions of $2 billion of Governments in the 2-month period were largely offset by the net change in other reserve factors, including currency in circulation, gold stock, required reserves, float, and Treasury deposits at the Reserve banks; (2) funds obtained from net redemptions of savings bonds found their way into the markets for corporate and municipal issues and, to a lesser extent, for marketable Federal securities; and (3) a deterioration of business confidence, together with the unintentional easing of bank reserve positions, caused some market participants to conclude that credit policies were being shifted toward ease.

Both the easing tendencies in credit markets and the increased caution in assessing the business outlook were short-lived. Steps taken by the System to recapture earlier degrees of restraint





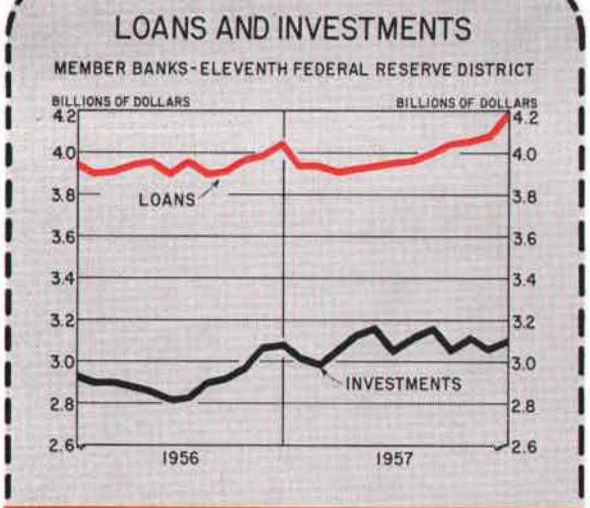
contributed to increases in net borrowed reserves in March and April to levels approaching those that had prevailed a year earlier. Frequent Treasury financing operations also added to market pressures.

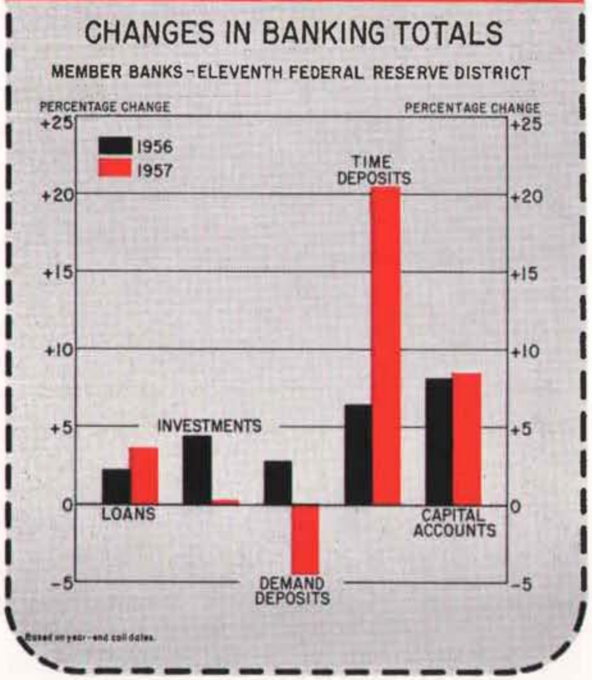
Business confidence appeared to strengthen steadily and persistently in the second quarter as capital spending and borrowing continued at record levels, stock market prices advanced to new 1957 highs, and consumer prices continued to rise. The upsurge in confidence perhaps reached its peak in midsummer. Rates in money and capital markets firmed, with long-term rates rising sharply in June. Under these conditions — and especially in view of the fact that the Treasury bill rate, except for 2 weeks of brief decline in May, had ruled steadily above the discount rate throughout the year — rumors as to an imminent increase in discount rates spread through the market in the late spring and early summer.

In August, commercial banks in the money centers increased their prime lending rate from 4 percent to 4½ percent. Shortly thereafter, Federal Reserve authorities confirmed this rate increase, as well as the general rate structure that had emerged in the preceding months, by raising discount rates ½ point to a uniform level of 3½ percent at the 12 Reserve banks.

The first convincing sign that inflationary pressures were diminishing significantly was the failure of loans at the Nation's weekly reporting member banks to register their usual autumn gain. During September-October, loans of these banks declined \$321 million, contrasted with increases of \$872 million and \$1,375 million in the comparable weeks of 1956 and 1955, respectively. Moreover, appraisal of business prospects again turned toward caution. The market began to generate a moderate amount of ease, partly because of the reduced pressure on banks for loan funds and partly because market opinion shifted toward the view that interest rates had reached their peaks.

In the light of these and other developments pointing to a slackening in economic activity, Federal Reserve authorities permitted the easing generated by the market to be reflected in somewhat less restrictive bank reserve positions. This easing,





although slight, contributed to a decline in Treasury bill rates and moderate decreases in yields on longer-term Government securities. Then, as additional economic and financial data confirmed the judgment that inflationary pressures were diminishing, four Reserve banks reduced their discount rates by ½ point, to 3 percent, effective November 15, followed by similar reductions at the remaining banks within a few weeks.

Market reaction to this straightforward signal that monetary policy was being adjusted to the changing business situation was dramatic. The bond market rallied sharply; Treasury bill rates declined to levels close to the new discount rate; and a Treasury financing operation, which included a 17-year bond, was heavily oversubscribed. Throughout the remainder of the year, markets for Government securities and other debt instruments were strong in tone, with sustained upward price movements interrupted only temporarily.

System purchases of Governments following the discount rate reductions increased the availability of reserves and thereby added an important tangible force to the easing pressures. During the last 5 weeks of 1957, System holdings of Government securities rose $662 million. In response to these purchases, net borrowed reserves declined during December and, by the end of the year, were replaced by a small volume of net free reserves. Furthermore, banks used part of the reserve funds injected by the System to add substantially to their holdings of Government securities.

By the year end, it was clear that open market and discount policies had been adjusted to the change in the business situation. This shift, coupled with the determination of System authorities to combat inflationary pressures earlier in the year, emphasized the fact that monetary policy would continue to be adjusted flexibly to economic trends.

Banking developments in the Eleventh Federal Reserve District in 1957 reflected the moderate over-all growth of the region and the divergent trends in individual industries. The increase in total loans of $152.1 million, or 3.7 percent, was almost twice the gain in 1956. Contrasted with the Nation, loan demands in the Eleventh District showed considerable strength in the latter half of the year, especially in the commercial and industrial category. Of particular note were the June-November gains at city banks, in contrast to the national picture, where commercial and industrial loans declined contraseasonally.

Changes within the loan category, as evidenced by figures applicable to the District's weekly reporting member banks, reflected important shifts in loan demand in 1957 as compared with 1956. Three types of borrowers — sales finance companies, construction firms, and manufacturers of petroleum and related products — accounted for most of the strength in District loan demand during the year, while most other categories borrowed less than in 1956. The active demand on the part of petroleum concerns in the latter part of the year may have resulted from a need for funds to carry excessive inventories. The strength in construction demand paralleled the 9-percent gain in contract awards in the District states. Consumer loans rose substantially, if somewhat less than in the preceding year.

Investments of District member banks increased $27.5 million, or less than 1 percent, and capital accounts expanded $62.6 million, or 8.5 percent. The decline in total deposits resulted from partially offsetting changes in the demand and time categories. Demand deposits decreased $385.9 million, or 4.6 percent, but time deposits rose $284.8 million, or 20.5 percent. The increase in time deposits, which was approximately four times the growth in 1956, reflected primarily the general increase in rates on savings deposits effected by member banks during the year. Moreover, it is probable that a substantial portion of the decline in demand accounts represented shifts to savings accounts in order to obtain an interest payment.

Treasury debt operations in 1957 added to market pressures, even though a modest budget surplus permitted a reduction of $1.7 billion in the gross direct debt. As noted earlier, substantial net redemptions of savings bonds, together with a faster than expected rate of expenditure during the first three quarters of the year, contributed to steady and persistent pressure on the Treasury's cash position. Thus, total cash borrowing in 1957 was $20.0 billion, compared with only $7.6 billion in 1956.

Although the necessary cash was raised in a variety of ways, only $4.6 billion was borrowed through securities maturing in more than 1 year. Shortly after the reduction in Federal Reserve discount rates, however, the Treasury successfully raised $1.8 billion by issuing a 5-year note and a 17-year bond. Toward the end of the year, as the total debt increased, the $275 billion statutory debt limit forced the Treasury to resort to cash borrowing through certain Government agencies and affected the timing and amount of other cash borrowing.

Refunding operations to replace the $48.8 billion of maturing Treasury issues (other than bills) in 1957 were also confined largely to issues of short maturity. Attrition during refundings, which amounted to $3.2 billion, was an additional factor pressing on the Treasury's cash position. As a result of the issuance of large amounts of short-term securities, the average maturity of the total debt was shortened further in 1957.

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STATEMENT OF CONDITION

	Dec. 31, 1957	Dec. 31, 1956
ASSETS		
Gold certificates	$ 808,001,430.00	$ 727,344,125.56
Redemption fund for Federal Reserve notes	28,495,116.17	26,197,381.17
Total gold certificate reserves	836,496,546.17	753,541,506.73
Federal Reserve notes of other Banks	21,148,300.00	28,288,000.00
Other cash	12,828,212.31	14,955,680.81
Discounts and advances	14,825,000.00	1,275,000.00
Industrial loans	0	0
U. S. Government securities		
Bills	38,545,000.00	68,410,000.00
Certificates	781,178,000.00	434,509,000.00
Notes	0	363,813,000.00
Bonds	109,798,000.00	111,353,000.00
Total U. S. Government securities	929,521,000.00	978,085,000.00
Total loans and securities	944,346,000.00	979,360,000.00
Due from foreign banks	754.79	1,135.39
Uncollected cash items	223,368,027.92	250,706,071.20
Bank premises	6,259,703.45	3,969,819.92
Other assets	9,345,624.37	10,583,715.49
TOTAL ASSETS	2,053,793,169.01	2,041,405,929.54
LIABILITIES		
Federal Reserve notes in actual circulation	748,183,830.00	726,040,795.00
Deposits		
Member bank — reserve accounts	996,223,087.35	1,013,276,638.07
U. S. Treasurer — general account	30,868,026.31	39,653,806.81
Foreign	17,732,000.00	15,096,000.00
Other	2,166,430.60	6,884,013.80
Total deposits	1,046,989,544.26	1,074,910,458.68
Deferred availability cash items	190,958,083.14	177,689,415.33
Other liabilities	572,153.36	440,894.31
TOTAL LIABILITIES	1,986,703,610.76	1,979,081,563.32
CAPITAL ACCOUNTS		
Capital paid in	19,405,250.00	18,019,200.00
Surplus (Section 7)	40,871,083.29	37,507,648.63
Surplus (Section 13b)	1,307,124.72	1,307,124.72
Other capital accounts	5,506,100.24	5,490,392.87
TOTAL CAPITAL ACCOUNTS	67,089,558.25	62,324,366.22
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$ 2,053,793,169.01	$ 2,041,405,929.54

EAR

NINGS AND EXPENSES

	1957	1956
CURRENT EARNINGS		
Discounts and advances	$ 791,239.03	$ 830,142.10
Industrial loans	0	0
U. S. Government securities	28,792,666.83	22,699,658.36
All other	13,842.04	13,264.22
TOTAL CURRENT EARNINGS	29,597,747.90	23,543,064.68
CURRENT EXPENSES		
Current operating expenses	6,844,766.62	6,297,728.69
Assessment for expenses of Board of Governors	388,700.00	269,900.00
Federal Reserve currency		
Original cost, including shipping charges	144,221.00	97,148.00
Cost of redemption, including shipping charges	22,143.00	21,252.00
Total	7,399,830.62	6,686,028.69
Less reimbursement for certain fiscal agency and other expenses	1,107,327.00	1,073,098.54
NET EXPENSES	6,292,503.62	5,612,930.15
PROFIT AND LOSS		
Current net earnings	23,305,244.28	17,930,134.53
Additions to current net earnings		
Profit on sales of U. S. Government securities (net)	6,940.95	11,536.95
All other	135,349.16	37.33
Total additions	142,290.11	11,574.28
Deductions from current net earnings		
Reserves for contingencies	15,707.37	17,891.63
All other	403,386.00	641.26
Total deductions	419,093.37	18,532.89
Net deductions	276,803.26	6,958.61
Net earnings before payments to U. S. Treasury	23,028,441.02	17,923,175.92
Paid U. S. Treasury (interest on F. R. notes)	18,545,291.76	13,223,260.27
Dividends paid	1,119,714.60	1,039,339.09
Transferred to surplus (Section 7)	3,363,434.66	3,660,576.56

OPERATIONS

	Number of Pieces		Dollar Amount	
	1957	1956	1957	1956
Discounts for member banks Secured by U. S. Government obligations	789	695	$ 2,649,555,000	$ 3,812,277,000
Other	56	67	32,417,000	60,946,000
Currency received and counted	155,499,000	147,601,000	894,499,000	867,579,000
Coin received and counted	247,973,000	220,979,000	23,690,000	20,977,000
Currency paid out	—	—	835,704,000	835,941,000
Coin paid out	—	—	29,661,000	29,856,000
Checks handled	162,969,000	153,086,000	64,628,235,000	60,185,287,000
Checks returned unpaid	3,342,000	2,950,000	275,307,000	250,462,000
Collections handled	862,000	853,000	449,263,000	504,702,000
U. S. Government interest coupons paid	300,000	271,000	64,413,000	55,624,000
Coupons of governmental agencies paid	7,000	6,000	943,000	897,000
Postal money orders	17,954,000	18,459,000	334,287,000	330,975,000
U. S. Government checks and warrants paid	24,895,000	24,120,000	5,230,563,000	4,541,853,000
Transfers of funds for member banks	151,000	137,000	70,716,211,000	64,845,789,000
U. S. Government securities issued, exchanged, and redeemed	7,294,000	6,668,000	9,379,185,000	6,777,469,000
Securities of governmental agencies issued, exchanged, and redeemed	2,000	1,000	74,720,000	17,696,000
Purchases and sales of securities for investors	8,000	7,000	3,071,040,000	2,159,957,000
Postmasters' deposits	333,000	358,000	523,807,000	505,554,000

REVIEW OF OPERATIONS

Since the District's economy experienced moderate growth in 1957 and showed relatively small net changes for the year, it is not surprising that the Bank's statement of condition reflected only modest changes. On December 31, 1957, total resources of the Bank amounted to $2,053,793,000, representing an increase of only $12,387,000 over a year earlier. Total gold certificate reserves of the Bank rose $82,955,000, indicating a net inflow of funds into the District. A major change on the downside was the net reduction of $35,014,000 in total loans and securities. This decrease was due primarily to smaller holdings of Government securities in the System Open Market Account, resulting from the restrictive credit policy followed during most of the year, and this Bank's lower percentage participation in that Account.

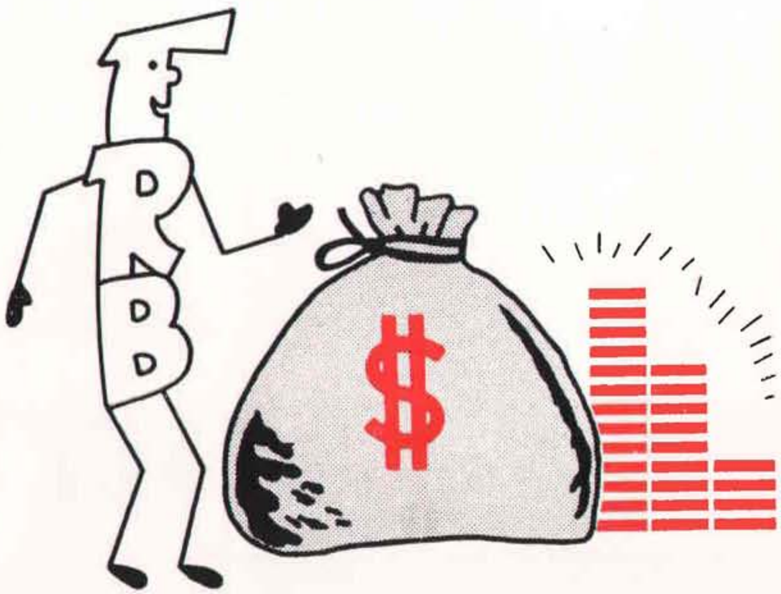
On the liabilities side of the statement, the significant changes were an increase of $22,143,000 in Federal Reserve notes in circulation, a decrease of $27,921,000 in total deposits, and a rise of $4,765,000 in total capital accounts. The paid-in capital stock of the Bank at the end of the year totaled $19,405,250, representing a net gain of $1,386,050 during 1957. This gain is a direct outgrowth of the increase in the capital and surplus of District member banks, which rose at least $46.2 million during the year. Most of the remaining increase in capital accounts resulted from the transfer of a portion of net earnings to the surplus account.

Current earnings of the Bank rose to an all-time peak of $29,598,000 in 1957; while expenses increased somewhat, net earnings were $23,028,000, or $5,105,000 more than in 1956. Since average borrowings of member banks and average holdings of Government securities — the principal sources of earnings — were smaller than in 1956, the sharp increase in earnings resulted from the higher average interest rates prevailing during the year. The Bank's net earnings were distributed as follows: paid to the United States Treasury, $18,545,292; dividends paid to member banks, $1,119,715; and transferred to surplus, $3,363,435.

DEPARTMENTAL ACTIVITIES

The CASH DEPARTMENT is the medium through which currency and coin are made available to commercial banks, which, in turn, supply the needs of the general public. Likewise, when the public has more currency and coin than needed to transact day-to-day business, the surplus is deposited in commercial banks, which then ship their surplus to the Federal Reserve Bank for credit to their reserve accounts. Thus, there is a constant flow of currency to and from the Federal Reserve Bank.

During 1957, this Bank made 74,960 shipments of currency and coin to commercial banks and received from them 31,054 shipments. The outgoing shipments amounted to \$863,812,658, while the incoming shipments totaled \$895,875,140. Both the number and the dollar amount of shipments were slightly smaller in 1957 than in 1956. Much of the currency returned to the Federal Reserve Bank is either mutilated or badly worn and, therefore, unfit for further circulation. Unfit Federal Reserve notes are shipped to the United States Treasury for destruction, while unfit Treasury currency is destroyed locally by the Reserve bank. In 1957 the volume of unfit currency received by this Bank amounted to \$327,313,500, or about 16 percent more than in the previous year. This amount included \$185,694,450 of unfit notes of other Federal Reserve banks, constituting about 57 percent of the total of unfit currency received.

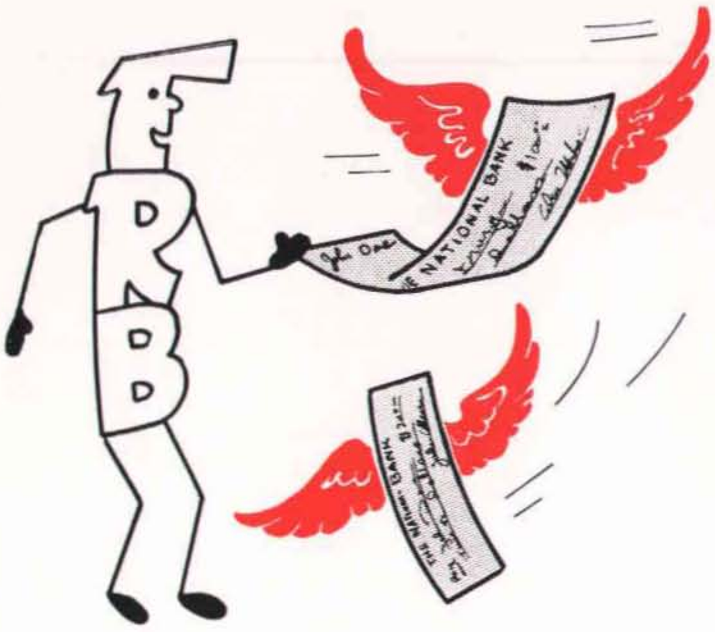


The Cash Department also paid 306,455 coupons of the United States Government and its agencies and handled 8,343 transactions for member and nonmember banks involving the purchase and sale of United States Government securities. The volume of these operations was 10 percent and 25 percent, respectively, greater than in 1956.

The handling of discounts for and advances to member banks is the principal function of the LOAN AND SECURITIES DEPARTMENT. During 1957 the Bank accepted 845 notes from 52 banks which involved discounts and advances of \$2,682 million. Although the number of notes was up nearly 11 percent, the amount of credit extended was down about 31 percent.

The principal duties of the TRANSIT DEPARTMENT are the proving in of cash letters and the sorting, endorsing, listing, and forwarding for payment of checks drawn on banks and the Government. These checks — received from and sent to banks throughout the District and the United States — are collected in the shortest possible time. In 1957, this high-speed operation required handling an average of approximately 682,000 cash and noncash collection items per day which had a value of \$230.3 million, representing increases over 1956 of 5.3 percent in number and 7.8 percent in amount.

The 162,969,000 city and country checks handled during 1957 exceeded the 1956 volume by 6.5 percent, while Government checks processed — totaling 24,895,000 — were up only 3.2 percent. Postal money orders handled, which had shown little change in 1956, dropped to 17,954,000 in 1957, reflecting a decrease of 2.7 percent. Although return items involved only 3,342,000 checks, the 13.3-percent increase over 1956 was the



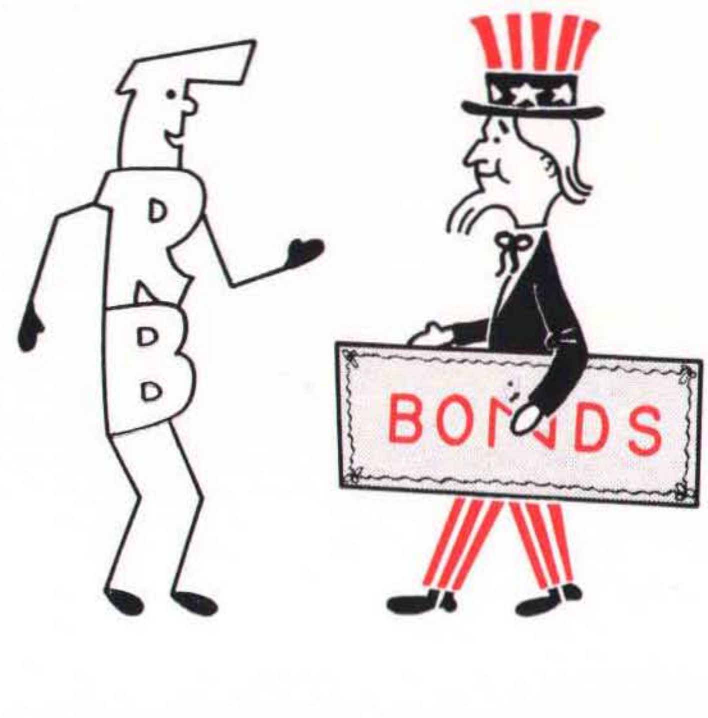
largest among the several operations. For the year, a total of 210,-356,000 items was processed, involving more than $71 billion.

Operations of the COMMODITY CREDIT DEPARTMENT declined sharply from 1956 as a result of a further reduction in cotton production, delayed harvesting of the 1957 crop, and the fact that a large share of the 1955 and 1956 cotton crops placed in the Government loan was processed in 1956. During 1957, notes secured by 792,723 bales of cotton with a loan value of $116,794,000 were received and processed, representing less than one-third the volume handled in 1956. Cotton released through repayment of producers' notes totaled 284,918 bales, while an additional 2,551,847 bales of cotton held under the 1955 and 1956 loan programs were placed under the pooling arrangement. The department also processed the records covering 623,792 bales that were reconcentrated in warehouses.

The FISCAL AGENCY DEPARTMENT performs many services for the United States Government, including the issuance, exchange, and redemption of securities. The volume of activity in securities reflects the sale and redemption of United States savings bonds and the issuance and redemption of certificates of indebtedness and Treasury bills, notes, and bonds. Related activities cover the receipt of withheld taxes, the servicing of Treasury Tax and Loan Accounts with commercial banks, wire transfers of securities, and the destruction of unfit Treasury currency. The department also performs occasional operations for governmental agencies.

During 1957 the Fiscal Agency Department handled 7,296,642 pieces of securities with a value of $9,453,905,000, representing gains of 9.4 percent and 39.1 percent, respectively, over 1956. Savings bond operations, which cover most of the pieces of securities handled, increased 6.3 percent in the number sold and rose 14.4 percent in the number redeemed.

Wire transfers of marketable securities continued to increase in 1957 with 46,880 pieces of securities involved, exceeding the previous year's volume by 10.1 percent. Likewise, the number



of withheld tax receipts validated rose to 453,582, or 5.2 percent more than in 1956. Unfit Treasury currency destroyed totaled 59,606,100 pieces, or 15.1 percent above the preceding year. There were further increases during the year in the number of issuing and paying agents for savings bonds, of Treasury Tax and Loan Accounts, and of Federal tax depositories.

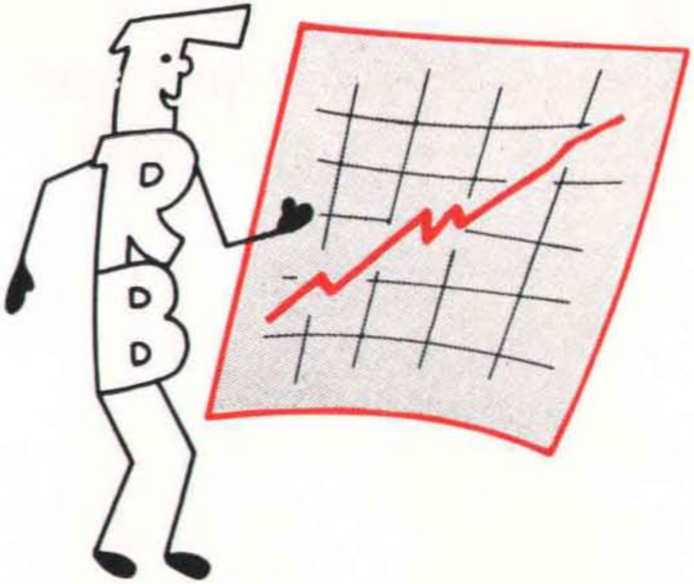
It is the established policy of the Bank to examine all state member banks, including trust departments of those exercising fiduciary powers, at least once each year. The EXAMINATION DEPARTMENT also makes investigations in connection with applications for Federal Reserve membership, for permission to exercise trust powers, and for national bank charters. During 1957 the department conducted 175 examinations and investigations.

Membership in the Federal Reserve System at the end of 1957 included 634 banks in the District, comprising 499 national banks and 135 state member banks. The net increase of one in membership during the year was the result of the opening of six newly organized or converted national banks, the withdrawal of four state banks from membership, and the insolvency of one state member bank.

At the end of 1957, 1,000 banks in the District were remitting to this Bank at par for checks drawn on them, representing a year-to-year increase of 15 banks. The number of nonpar banks declined to 84 at the year end from 89 a year earlier.

The primary functions of the RESEARCH DEPARTMENT are the collection, analysis, and interpretation of statistical information and the continuous appraisal of economic and banking developments to service the needs of the officers and directors of the Bank, the Board of Governors, member banks, business and industrial concerns, and the general public.

During 1957, these activities were intensified, and certain shifts in emphasis were made in the light of trends in economic conditions, the problems of central bank policy, and the needs for specialized information. The department also increased the number and scope of special surveys, expanded its work on special studies, and broadened the coverage of statistical data and other



information in an effort to improve the quality and scope of its analyses, interpretations, and appraisals of economic trends.

The demand for the department's press releases and publications — including the *Business Review*, *Agricultural News of the Week*, and *Farm and Ranch Bulletin* — continued to expand. Moreover, requests received for statistical data, economic studies, and other special information were larger in number and broader in coverage than in previous years.

The PERSONNEL DEPARTMENT performs two major types of services. One includes the handling of new employments, maintenance of personnel records, issuance of payroll checks, provision for medical and cuisine services, and employee counseling; the other involves close observation of labor, employment, and personnel developments as a means of keeping the Bank's practices comparable with those of other quality employers. Although the personnel of the Bank and its branches, which numbered 1,020 on December 31, 1957, was 14 fewer than a year earlier, the average for the year was up 20 as the decline at the Head Office was more than offset by increases at the Houston and San Antonio

Branches. At the year end, 236 officers and employees had service records exceeding 15 years, of which 108 had more than 25 years of service.

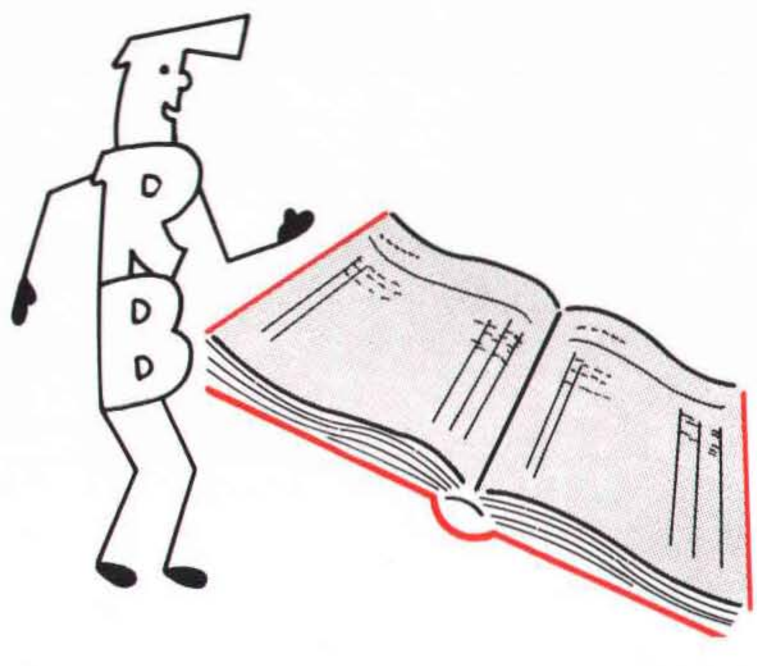
The Bank carried out an extensive BANK AND PUBLIC RELATIONS program during 1957 to achieve the following specific objectives: broadening and improving public understanding of the Bank's policies; building closer relationships with member banks; stimulating objective discussions of economic and financial problems through publications, personal contacts, and meetings; and informing the District's business, agricultural, and banking leadership of the Bank's services.

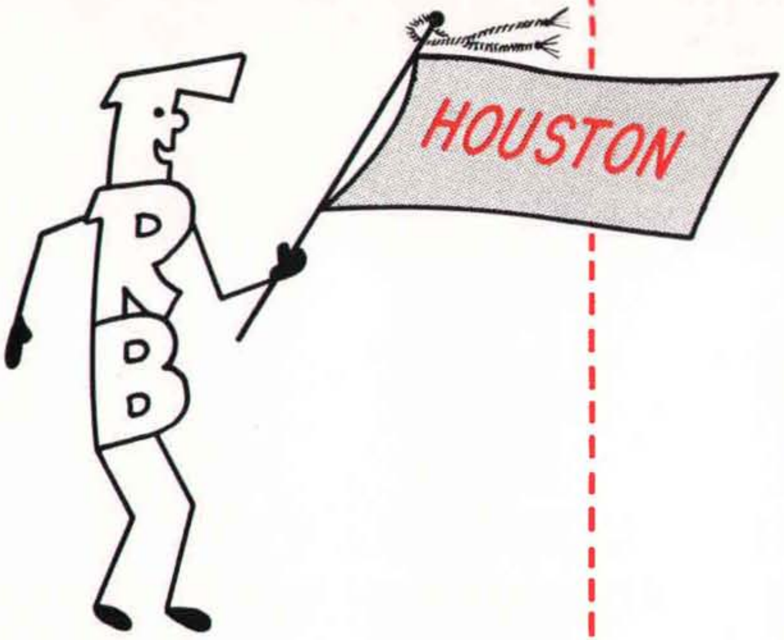
Although various media are utilized to make the program effective, an important approach is the official visits to all member and nonmember banks each year to discuss economic and banking conditions, to explain services of the Bank and how to utilize them more profitably, and to provide information on specific operating problems. During the year, virtually all banks were visited; in addition, many casual and special-purpose contacts with banks served to strengthen relationships.

In 1957 the Bank, in cooperation with the Louisiana Bankers Association and Louisiana State University, sponsored the ninth series of farm clinics in Louisiana for the benefit of bankers, agricultural leaders, and 4-H Club and FFA boys. Several luncheons and dinner meetings provided opportunities for System representatives to broaden contacts with business, industrial, and educational leaders. The officers and senior staff members also attended 355 banking, business, industrial, agricultural, and educational conferences. Through sponsored tours of the buildings at the Head Office and branches, 640 businessmen, bankers, educators, and others observed the Bank's operations and obtained specific information about the Bank and its functions. The Bank's five educational films were shown to 124 audiences, and its currency exhibit was displayed on 21 occasions.

The Bank's officers and senior staff members filled 135 speaking engagements, with audiences estimated at 15,000 persons. Close contact was maintained throughout the year with the teaching staffs of colleges and universities in the District, particularly with teachers of economics and money and banking. In 1957 the Bank held its third Central Banking Seminar, attended by 26 instructors of economics and money and banking from 24 colleges and universities. The outstanding speakers drawn from the Federal Reserve System and the Treasury Department provided the conferees with practical discussions of operations and central bank and fiscal policies.

The AUDITING DEPARTMENT, under the general supervision of the Audit Review Committee of the Board of Directors, maintained the audit frequency schedule for the Head Office and branches as recommended by the Conference of General Auditors of the Federal Reserve System and approved by the Audit Review Committee of the Bank. In carrying out its supervisory responsibilities, the Audit Review Committee held eight meetings during 1957 to review audits and to discuss procedures and other pertinent matters with the General Auditor. In compliance with the legal requirements, the field examining staff of the Board of Governors made an examination of the Bank and its branches as of November 25, 1957.



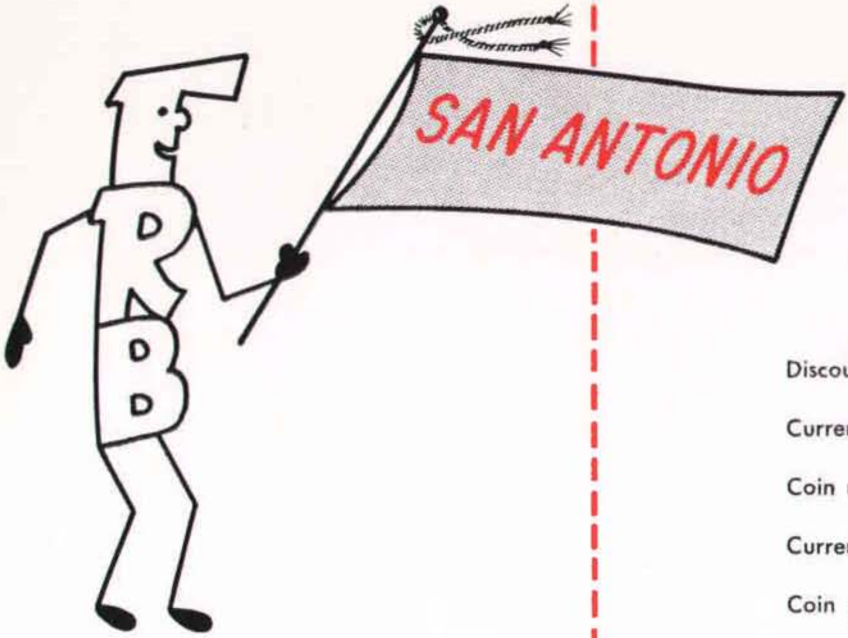


MEMBER BANKS — 1957

- ---NUMBER OF BANKS---
  116
- ---TOTAL ASSETS---
  $2,978,469,000
- ---TOTAL DEPOSITS---
  $2,721,229,000
- ---TOTAL LOANS---
  $1,085,437,000
- ---TOTAL INVESTMENTS---
  $916,261,000
- ---TOTAL CAPITAL ACCOUNTS---
  $214,507,000

VOLUME OF TRANSACTIONS
HOUSTON BRANCH

	1957	Percent change 1957 from 1956
Discounts for member banks	$ 1,043,400,000	−31
Currency received and counted	154,932,850	+3
Coin received and counted	5,007,373	+5
Currency paid out	203,085,548	+3
Coin paid out	6,879,505	−11
Checks handled	20,061,899,319	+2
Checks returned unpaid	101,780,494	+15
Collections handled	147,868,466	−29
U. S. Government interest coupons paid	16,480,725	+8
Coupons of governmental agencies paid	181,455	−18
Postal money orders	63,281,590	+1
U. S. Government checks and warrants paid	321,681,785	+59
Transfers of funds for member banks	23,095,616,646	+10
U. S. Government securities issued, exchanged, and redeemed	2,215,254,572	+40
Securities of governmental agencies issued, exchanged, and redeemed	8,509,350	+15
Purchases and sales of securities for investors	595,155,500	+26



MEMBER BANKS — 1957

▼---NUMBER OF BANKS---
94

▼---TOTAL ASSETS---
$1,330,261,000

▼---TOTAL DEPOSITS---
$1,233,823,000

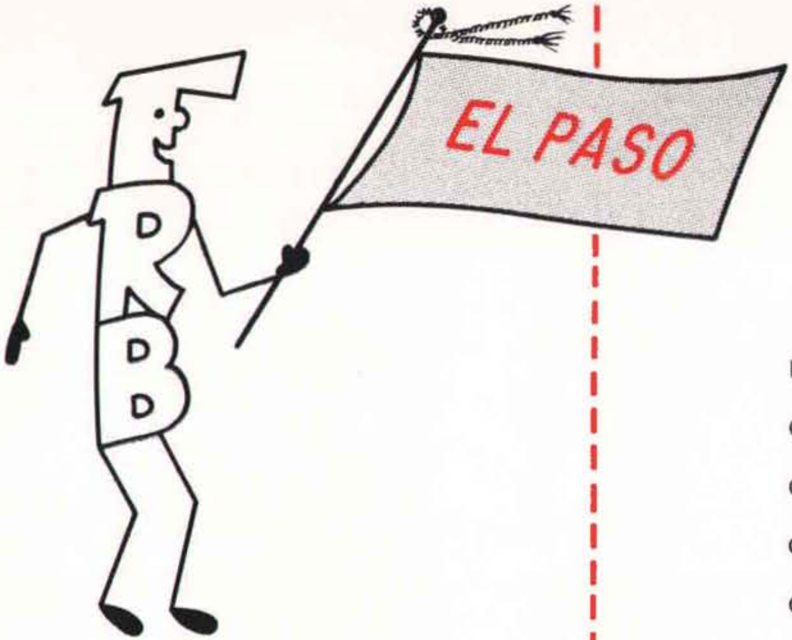
▼---TOTAL LOANS---
$425,683,000

▼---TOTAL INVESTMENTS---
$540,283,000

▼---TOTAL CAPITAL ACCOUNTS---
$89,625,000

VOLUME OF TRANSACTIONS
SAN ANTONIO BRANCH

	1957	Percent change 1957 from 1956
Discounts for member banks	$ 426,981,500	+12
Currency received and counted	181,766,977	+6
Coin received and counted	6,125,321	+2
Currency paid out	152,671,100	+6
Coin paid out	5,191,820	+4
Checks handled	8,872,706,559	+4
Checks returned unpaid	44,435,267	+16
Collections handled	78,412,924	+5
U. S. Government interest coupons paid	14,554,825	+14
Coupons of governmental agencies paid	133,732	+27
Postal money orders	54,689,113	−2
U. S. Government checks and warrants paid	787,492,989	+18
Transfers of funds for member banks	4,826,011,069	+19
U. S. Government securities issued, exchanged, and redeemed	1,314,827,882	+25
Securities of governmental agencies issued, exchanged, and redeemed	2,627,000	+1,005
Purchases and sales of securities for investors	419,042,800	+17



MEMBER BANKS — 1957

▼ --- NUMBER OF BANKS ---
44

▼ --- TOTAL ASSETS ---
$743,263,000

▼ --- TOTAL DEPOSITS ---
$685,938,000

▼ --- TOTAL LOANS ---
$263,107,000

▼ --- TOTAL INVESTMENTS ---
$257,700,000

▼ --- TOTAL CAPITAL ACCOUNTS ---
$51,740,000

VOLUME OF TRANSACTIONS
EL PASO BRANCH

	1957	Percent change 1957 from 1956
Discounts for member banks	$ 4,510,000	−37
Currency received and counted	141,435,900	+10
Coin received and counted	1,042,751	−2
Currency paid out	99,007,918	+16
Coin paid out	2,982,050	−11
Checks handled	4,100,501,882	+25
Checks returned unpaid	18,498,269	+2
Collections handled	26,265,755	−9
U. S. Government interest coupons paid	2,675,970	+7
Coupons of governmental agencies paid	43,555	+7
Postal money orders	34,161,509	+41
U. S. Government checks and warrants paid	479,309,683	+30
Transfers of funds for member banks	2,675,082,295	+33
U. S. Government securities issued, exchanged, and redeemed	375,646,008	+64
Securities of governmental agencies issued, exchanged, and redeemed	0	—
Purchases and sales of securities for investors	71,236,200	+26