FEDERAL RESERVE BANK OF DALLAS

ANNUAL REPORT '58

The Southwest's economy followed a pattern of recession and recovery during 1958, closing the year on an upward trend. Economic conditions in this area reflected a mixture of record performances in some segments, countered by rather severe curtailments in others. The downward influences in 1958 were strong enough to cause a small decline in total economic activity during the first half of the year, but a broadly based recovery movement dominated the last 6 months.

Perhaps the outstanding feature of the recession was the selective nature of its impact. In general, mineral producers and durable goods manufacturers received the greatest setbacks, while nondurable goods manufacturers, ranchers and farmers, and service, finance, construction, and real-estate concerns sustained or increased their operations. Only a small degree of cumulation was evident in the recessionary forces — largely through the effects upon the oil industry, its suppliers and service firms, and oil field equipment producers. Moreover, there were some secondary effects of the declines in the transportation equipment industries, particularly upon subcontractors. The recession was short, and the problems inherent in a long period of rising unemployment and reduced incomes were not significant to the southwestern economy as a whole.

Throughout 1958, a few segments of the southwestern economy showed real strength. The most important of these were the agricultural and construction industries. The agricultural gains in 1958 were a continuation of the upward trend that commenced in early 1957 after long years of drought. The principal factor in the gains was the steady and widespread improvement in moisture conditions, which resulted in better range conditions, adequate forage, and abundant crops.

Despite acreage withdrawals by placement in the Acreage and Conservation Reserves of the Soil Bank and further limitations by acreage allotments and quotas, crop production in the Southwest reached new records in both value and volume. Record yields brought cotton production to 6,035,000 bales, or 15 percent above a year earlier. Rice, corn, wheat, grain sorghums, and hay also showed higher production levels. As a result, cash receipts from crops rose about 39 percent over the 1957 total, even though prices for crops averaged 6 percent less than a year ago.

Livestock operations on farms and ranches centered upon the restocking of herds, which had been cut back sharply during the drought years. Encouraged by the favorable moisture situation, rapidly improving range conditions, and large feed supplies, ranchers began rebuilding herds, thus restricting the supply of salable cattle. Consequently, cattle prices rose sharply, averaging 39 percent above those in the preceding year, and cash receipts from livestock operations increased nearly 16 percent from 1957. By the end of 1958, restocking was well under way, and marketings began to rise seasonally. Over-all farm and ranch operations in 1958 brought cash receipts to nearly 28 percent above the 1957 level. However, with continued increases in costs of operation, net farm income showed a gain of about 25 percent during the year.

Construction experienced an upward surge in the Southwest in 1958. Residential construction started rather slowly but gathered speed quickly as new Government legislation and an easier money market provided an abundant supply of mortgage money, terms of FHA and VA loans were liberalized, and the VA program was extended. Residential contract awards rose 29 percent over 1957, with home building con-

REVIEW AND OUTLOOK

centrated upon the $10,000-$13,500 price class, principally because of the favored terms for the sale of such mortgages to the FNMA. Nonresidential awards also showed renewed strength to reach a level of 10 percent over the previous year, as local governments pushed forward in the construction of new schools and other institutional buildings. Moreover, industrial construction contract awards were higher than in 1957, contrary to the national picture.

Further strength came from the public works sector of construction, although the 3-percent increase over a year ago was less noticeable than the gain in either residential or nonresidential building. Construction of new highways, one of the major types of public works, moved rapidly ahead with special Federal Government assistance. In addition, bonds were approved in 1957 and early 1958 for sewer, street, and other service improvements constructed in 1958. Large bond approvals in November indicate a heavy schedule of such construction in 1959.

Judging from employment developments in the construction industry, the large volume of work was handled in an efficient manner. Construction employment averaged 1 percent less than in 1957, while the total volume of work increased 15 percent. Perhaps the major reasons for the improved productivity were the availability of unused capacity in industry and increased mechanization.

Generally supporting the southwestern economy during 1958 were the activities of finance and service concerns and government, employment gains for which ranged from 2 to 3 percent over 1957. Despite sharp employment declines in mining, manufacturing, and transportation and public utilities, total nonagricultural employment averaged 4,277,000 workers and was only 1 percent below 1957. The expansion in Government operations stemmed partly from renewed activity at defense plants and partly from the increasing number and size of educational institutions.

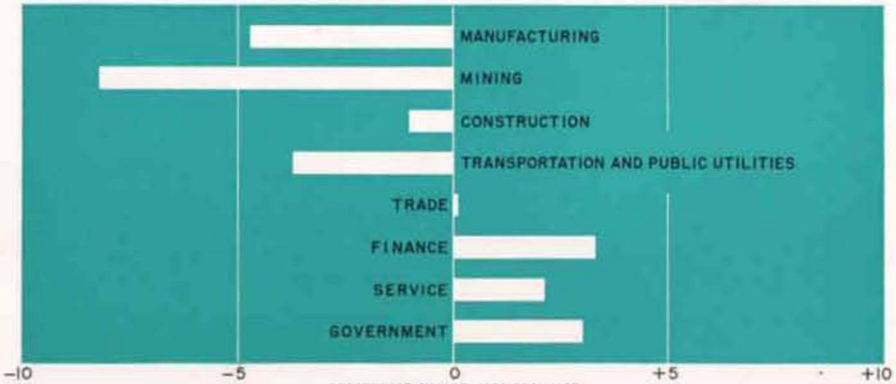
The growth of service concerns resulted from the generally high level of consumer purchasing. Even retail trade, though sharply lower in the early months of the year, totaled about the same as in 1957. Reduced sales at most major durable goods outlets were effectively countered by higher sales at nondurable goods stores and service establishments. The most significant decline in the Eleventh District, as in the Nation, was in the sale of new automobiles.

The sustaining influence of consumer buying was made possible by the continued high level of personal incomes. Although wage and salary payments declined with the rise in unemployment and the reduced workweek for most factory workers during the first half of 1958, there were some significant offsets. A marked gain in farm income, rising unemployment compensation payments, and further increases in wage rates of many employees offset the declines, and total personal income rose slightly from the year-earlier level.

While the above-mentioned areas of strength and support in the southwestern economy were evident to most observers, weaknesses in a few sectors commanded much more attention.

MAJOR TYPES OF NONAGRICULTURAL EMPLOYMENT

FIVE SOUTHWESTERN STATES



SOURCE: State employment agencies.

CASH RECEIPTS FROM FARM MARKETINGS

Five Southwestern States

1958 (est.)	$3.9 billion
1957	$3.1 billion

CONSTRUCTION CONTRACT AWARDS

Five Southwestern States

1958	$3.9 billion
1957	$3.4 billion

DEPARTMENT STORE SALES INDEX

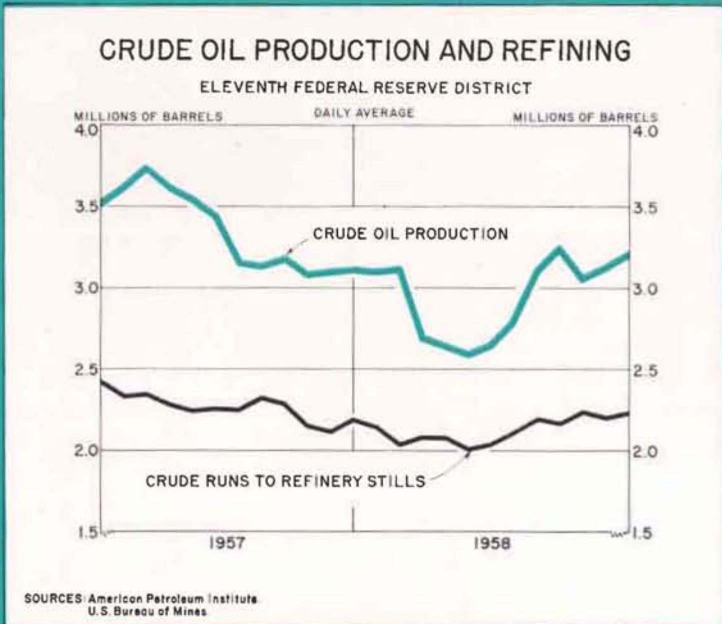
Eleventh Federal Reserve District

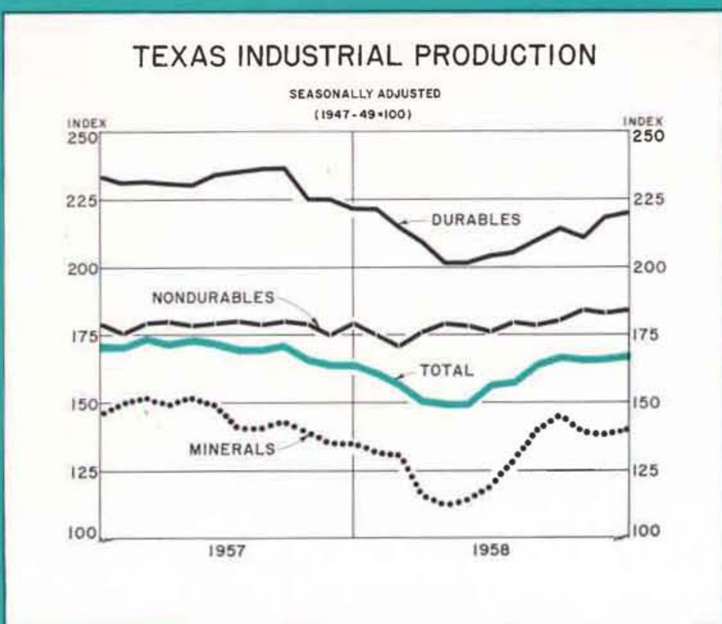
1958	159
1957	159

WELL COMPLETIONS

Eleventh Federal Reserve District

1958	21,359
1957	24,928





Foremost among these were the mining industries, particularly petroleum. International problems were an important factor in the 12-percent decline in District crude oil production from 1957 to 1958. The problems began with the sudden termination of the Suez crisis, which greatly reduced exports of crude oil. Since domestic production adjusted slowly to the lower demand, a sharp build-up of inventories occurred in the second quarter of 1957. Simultaneously, crude oil imports rose sharply, thus complicating the oversupply situation further.

With demands leveling because of the recession, the petroleum industry was forced to decrease production drastically for nearly a year to liquidate the excessive inventories. Total imports were curtailed from the early 1958 peak but still averaged 9 percent above 1957, principally as a result of the 32-percent increase in refined products imports. A general overcapacity situation developed at all levels in the petroleum industry during early 1958 and, even with the recovery movement, was still evident at the end of the year. District drilling activity fell about 14 percent, but refinery runs averaged only 6 percent below 1957.

Other types of mining generally followed the national patterns for their respective products. Copper, lead, and zinc mining was stopped almost entirely in early 1958; however, measurable recovery was apparent by late summer, and full operations developed at some mines in the fall. Potash mining in New Mexico was cut back in the summer.

Reflecting the declines noted above, industrial output was reduced quickly, with the adjustments commencing in the late spring of 1957 and extending for approximately 1 year. As measured by the Texas index, industrial production decreased 14 percent from a peak of 173 in March and May 1957 to a trough of 149 in April and May 1958. However, the recovery in the last 8 months of 1958 returned the index to a level of less than 3.5 percent below its prerecession peak. Among the major industrial segments, the minerals index declined 26 percent during the recession, the index of durable manufactures fell 15 percent, and the nondurable manufactures index was reduced only 5 percent. The cutbacks at durable goods manufacturers stemmed largely from the petroleum industry adjustment and from declines in transportation equipment industries.

As crude oil output decreased, drilling was curtailed and the demand for steel pipe, drilling rigs, drilling muds, cement, and many other items fell sharply. At about the same time, in mid-1957, the Government lowered the rate of defense spending and stretched out some major aircraft contracts.

Among the nondurable goods manufacturers, the most noticeable recession decline was in petroleum refining, although certain segments of the chemical industry also cut back sharply. On the other hand, steady or increased output was evident during the recession period in the apparel, textile, food, and printing and publishing industries.

In the Nation's industrial plants, the impact of reduced defense spending and slower sales of automobiles was felt severely. In fact, since durable goods producers have a greater share of industrial capacity in the Nation than in the Southwest, declines at durables plants were more important in influencing national economic activity.

Among the most influential factors in the Nation's recession were the sharp curtailment of plant and equipment spending and the extensive inventory liquidation. Plant and equipment expenditures declined $2.5 billion between the first and fourth quarters of 1958, while inventory liquidation reached an annual rate of $9.5 billion in the first quarter of the year. These two trends accounted for a large part of the declines in new orders to manufacturers and industrial production. The cutbacks in industrial production led to employee layoffs and rising unemployment. However, personal incomes—augmented by higher levels of unemployment compensation payments, wage rates, and farm income — declined only slightly in the early part of 1958 and recovered quickly to reach a new record in November. Both new capital spending and inventory liquidation moderated about midyear and showed definite signs of improvement by the fourth quarter.

As in the Southwest, agriculture and construction activity in the Nation exhibited real strength. Farm income improved markedly, and new construction was at record levels by early fall. Home building and highway construction were the strongest sectors, with publicly financed construction supplying most of the year-to-year gains.

Price movements were a significant feature of the Nation's economy during 1958; the December 1958 levels of wholesale and consumer prices were 0.6 percent and 2 percent, respectively, above a year earlier. Important fluctuations in farm and processed-food prices were mainly responsible for increases in wholesale prices early in 1958 and for the apparent stability in the closing 6 months. The pattern of industrial commodity prices was the reverse of farm price movements, showing a steadily upward trend during the last half of the year. Consumer prices rose in early 1958 under the stimulus of previous cost increases, but with the decline in food prices in the second half of 1958, the total index held fairly steady.

MANUFACTURERS' INVENTORIES, NEW ORDERS, AND SALES

UNITED STATES

SEASONALLY ADJUSTED

SOURCE: U.S. Department of Commerce.

INDUSTRIAL PRODUCTION INDEX
United States

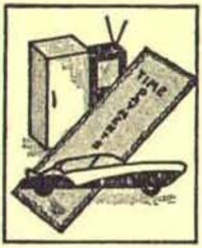
1958	134
1957	143

HOUSING STARTS
United States

1958	1,130,600
1957	992,800

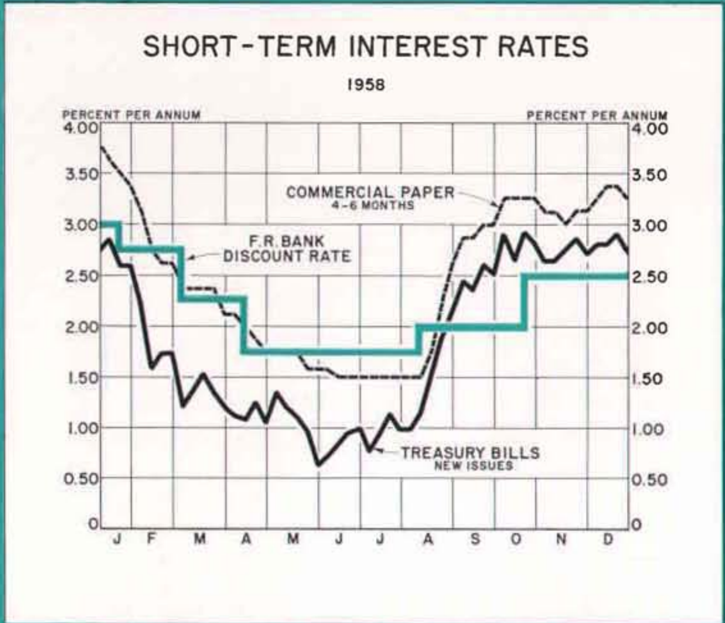
STATE AND MUNICIPAL SECURITY ISSUES

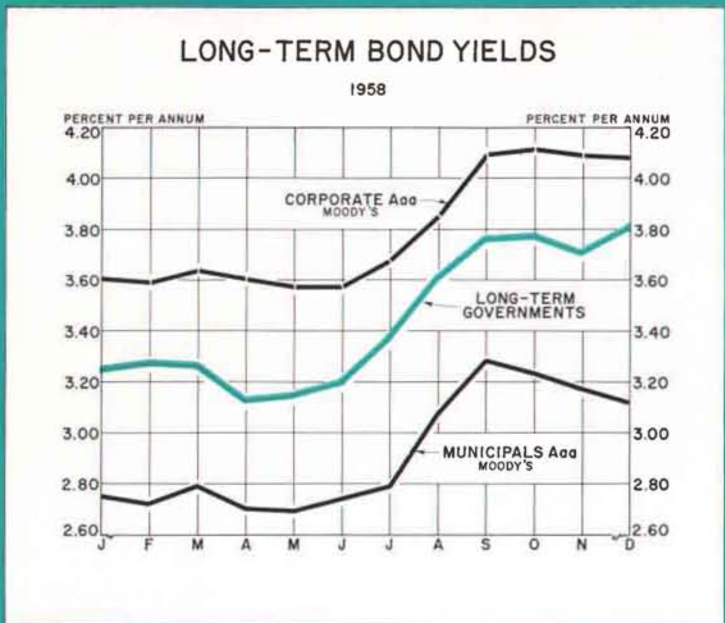
1958	$7.4 billion
1957	$6.8 billion



CONSUMER CREDIT

1958	+ $ 291 million
1957	+ $2,677 million





Financial developments in 1958 reflected the pattern of business recession and recovery. During the first 6 months, credit ease resulting from a slackening demand for funds was intensified by a strongly expansive monetary policy. Federal Reserve actions to ease credit included three reductions in discount rates, three reductions in member bank reserve requirements, and open market operations that promoted a high level of free reserves in the banking system. Yields on Government and other securities, continuing the decline which began in late 1957, fell to the lowest levels in several years.

Following the end of the recession and the onset of recovery, yields on Government and other securities reversed their trend, rising sharply in the summer. In keeping with the change in business conditions, System credit policies moved slightly away from the aggressively easy policy of preceding months. In August, several Reserve banks raised discount rates to 2 percent. As recovery continued, credit markets tended to firm moderately, and in October and November, discount rates were raised again, to 2½ percent. At the year end, yields on long-term Governments were approximately three-fourths of 1 percentage point above their April lows, and rates on 3-month Treasury bills had risen to 2.74 percent from the low of 0.64 percent in May.

Despite the relatively sharp increase in interest rates during the latter half of the year, pressures in credit markets for the year as a whole were considerably less than in 1956 or 1957. Divergent movements occurred with respect to particular types of credit. Financing by state and local governments, responding briskly to the easier credit conditions, advanced to a record total of $7.4 billion. Corporate bond issues, while less than in 1957, were sustained at a high level; public utilities were especially active borrowers of long-term funds. With spending for automobiles and other durables at reduced levels, consumer credit rose only $291 million — the smallest annual increase in the postwar period. Mortgage debt expanded sharply, consistent with the upsurge in residential construction that began in the spring. Treasury cash financing of $16.3 billion added to market pressures, especially in the second half of 1958, when new money borrowed by the Treasury totaled \$9.5 billion.

Although commercial bank loans increased \$4.0 billion, most of the increase occurred at banks outside of the Nation's financial centers. The recession was not as severe in the less-industrialized areas of the country; in addition, agricultural loans rose markedly, reflecting a gain in certificates of interest issued by the Commodity Credit Corporation, as well as the general improvement in agricultural conditions. At city banks, a sharp contraction in commercial and industrial credits largely offset expansion in other types of loans. The reduction in business loans was associated mainly with the high rate of inventory liquidation during the first three quarters of the year. Moreover, many business corporations used funds obtained through bond and stock flotations to reduce bank indebtedness.

The flexibility of Federal Reserve credit policies was again demonstrated in 1958. In late 1957, System policy had been shifted from restraint toward ease as business activity declined. The System vigorously promoted monetary expansion during the first half of 1958. The reductions in discount rates lowered the cost of borrowing to member banks, exerted some influence on the interest rate structure, and indicated clearly that credit policy would be used actively to combat recession. The reductions in reserve requirements provided a powerful force promoting bank credit expansion. The \$1.5 billion of reserves released by the reductions, along with net purchases of Government securities totaling \$1.2 billion during the 6-month period, more than offset the restrictive impact of a \$1.4 billion gold outflow. Net free reserves of member banks rose from negative levels in late 1957 to a monthly average of almost \$500 million in March, remaining close to that level through July.

The rapid increase in availability of bank reserves tended to cushion recession and foster recovery in several ways. In the first place, ready availability of bank credit helped to promote orderly adjustment of inventories. A shortage of credit might have reinforced recessionary pressures by hampering orderly inventory liquidation, which took place at a record rate during the first 3 months of the year. Secondly, the expansive policy assured that banks had sufficient funds to meet all reasonable demands for credit. The business loan decline during the recession reflected a genuine decrease in demand, rather than a shortage of funds for lending.

Finally, the ease in credit conditions promoted rapid growth in bank credit. By the end of January, commercial banks had reduced their borrowings from Reserve banks to a relatively low level. Thereafter, confronted with weak loan demand and growing availability of reserves, banks aggressively sought Government and other securities. Moreover, the volume of securities attractive to banks expanded as the Treasury sold new issues of intermediate maturities and state and local governments increased their offerings. By acquiring these securities, banks obtained highly marketable assets and, at the same time, bolstered earnings. Reflecting primarily the growth in holdings of securities, bank loans and investments expanded \$9.9 billion between the end of January and the end of July. Total bank deposits rose by about the same amount; the money supply increased at an 8-percent annual rate. The rapid growth in the money supply, which is in sharp contrast to developments in pre-World War II recessions, was a strong financial force tending to cushion recession and promote recovery.

The rise in bond yields that began about midyear was even sharper than the decline in late 1957 and early 1958. The turnaround in interest rates resulted mainly from a revision of views concerning the business situation. Many holders of Government and other debt securities reasoned that if recovery continued, and especially if it were characterized by inflationary developments, credit demands would increase, monetary policy would be shifted toward restraint, and interest rates would rise. This reasoning led to anticipatory actions in the market which tended to force bond prices down and interest rates up. Monetary policy did not change significantly until

BANK LOANS

1958	+ $4.0 billion
1957	+ $3.6 billion

BANK INVESTMENTS

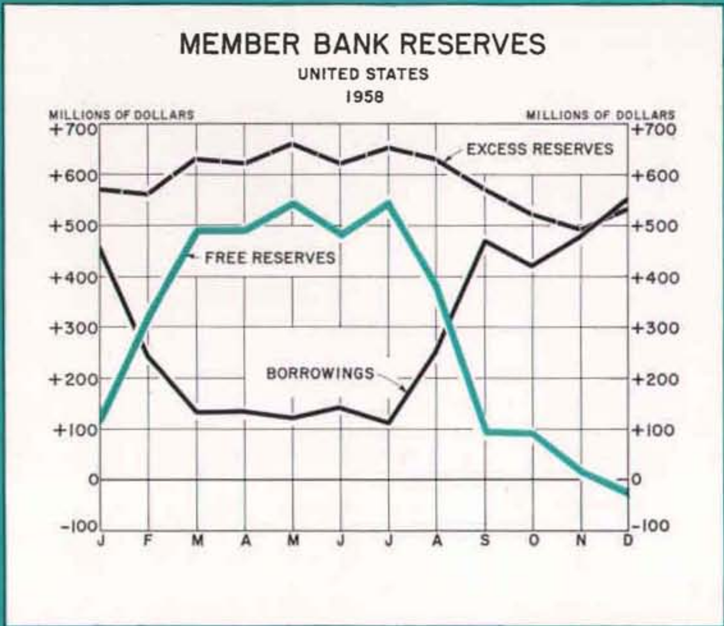
1958	+ $10.4 billion
1957	+ $ 1.3 billion

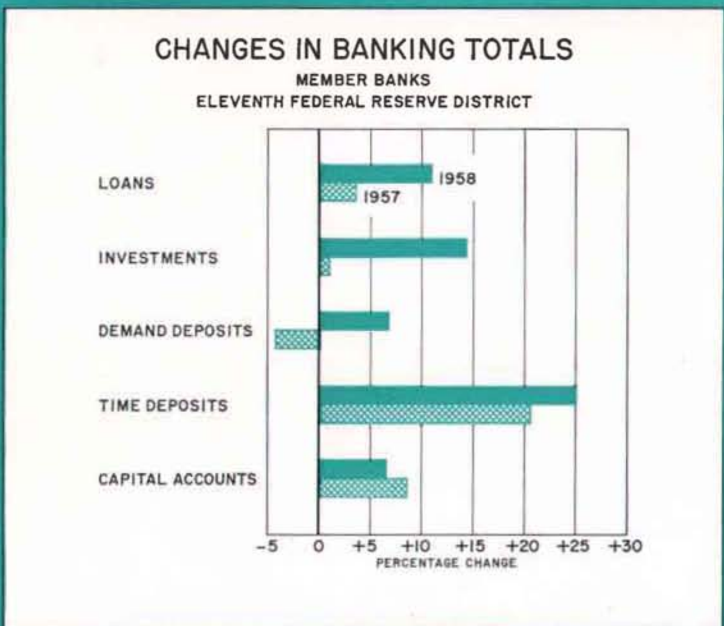
BANK DEPOSITS

1958	+ $12.8 billion
1957	+ $ 3.8 billion

FEDERAL DEBT

1958	+ $8.0 billion
1957	– $1.7 billion





August; by that time, yields on long-term Governments had already risen by about one-half of 1 percentage point, and bill rates had increased from less than 1 percent to close to 2 percent.

Other important factors promoting the upward trend in interest rates included: (1) a growing realization that the Treasury would have to finance a record peacetime deficit in fiscal year 1959; (2) large-scale liquidation of speculative holdings of bonds that were built up in late 1957, in early 1958, and particularly in connection with the Treasury's June financing operation; and (3) a tendency on the part of many observers to accept the inevitability of inflation.

In mid-July, at the time of the Middle East crisis, pressures on the Government securities market became severe. In order to correct a disorderly market situation and to assist an especially difficult Treasury refunding, the System purchased \$1.3 billion of Governments other than bills, including a modest amount of long-term bonds. In view of the developing business situation, coupled with the fact that bank reserve positions were already quite easy, the funds injected through the support purchases were quickly absorbed. Availability of reserves was curtailed further in succeeding weeks; free reserves declined from an average of \$546 million in July to \$383 million in August. Increases in discount rates to 2 percent at four Reserve banks in the latter part of August confirmed that monetary policy was shifting away from aggressive ease.

By September, free reserves had declined to about \$100 million and remained close to that level until mid-November. Economic recovery broadened and continued at a satisfactory pace, and in October and November, the Reserve banks increased discount rates to 2½ percent. In December, money market pressures firmed slightly, partly as a result of seasonal forces and partly as a result of reduced availability of reserves — as reflected in a return to net borrowed reserves at member banks. However, monetary pressures in December were by no means severe as compared with earlier periods of seasonal stress; money market rates were still below the peak levels that prevailed in the latter part of 1957. Thus, by the end of 1958, the credit ease of the first half of the year had been replaced by a modest degree of monetary restraint.

Treasury debt operations in the first half of 1958 reinforced the expansive monetary policy. With reserves readily available and loan demand declining, banks were eager to acquire Government securities of intermediate maturity, which normally carry a higher interest return than securities of short maturity. Excluding bills, new issues of Treasury securities during the first 6 months totaled $31.7 billion, including $17.2 billion of 4- to 9-year maturities. Banks obtained about 60 percent of the initial distribution of these issues; growth in bank credit and the money supply during the recession was stimulated.

The Treasury also made significant progress during the first 6 months in lengthening the maturity of the Federal debt. In addition to the intermediate-term securities mentioned above, the Treasury issued $2.9 billion of long-term bonds. Consequently, the average maturity of the debt increased from 55 months at the end of 1957 to 63 months in mid-1958. However, market pressures induced the Treasury to rely primarily upon securities of short maturity during the latter half of the year, with the result that the average maturity at the end of 1958 was only 2 months longer than a year earlier. During the last 6 months, new issues of Treasury securities (including increases in the weekly Treasury bill tender amounting to $1.6 billion) totaled $34.7 billion, of which $30.6 billion consisted of issues maturing in 13 months or less. While a large portion of the new issues was acquired by nonbank investors, the heavy reliance on short-term financing inevitably resulted in considerable expansion in commercial bank holdings of Governments.

New techniques in Treasury debt management in 1958 included "premium pricing" of a new issue in June, "discount pricing" of two issues in December, and introduction of a 6-month Treasury bill in December. The ability to offer securities at other than par prices affords greater flexibility and finer pricing in debt operations. The new 6-month bills — which are issued weekly on an auction basis, along with the traditional 3-month bills — were well received by the market. It is hoped that the Treasury, by shifting some of its 1-year debt into the new bills, will be able to reduce the size of its frequent certificate maturities.

The most significant development in Eleventh District banking in 1958 was the sharp increase in major balance sheet items. Total resources advanced $999 million, or about 9 percent, to a record high of $11,633 million, reflecting an 11-percent gain in loans and a 14-percent increase in investments. The expansion in assets was paralleled by a $959 million rise in deposits to a record volume of $10,660 million. Demand accounts advanced 7 percent, and time deposits rose 25 percent. Member banks added $51 million, or 6 percent, to their capital accounts.

The large growth in loans, as contrasted with a gain of less than 5 percent in the Nation, was indicative of the relatively small impact of the recession in the Southwest. Loans of member banks in the District advanced persistently throughout the year, but almost two-thirds of the total gain occurred in the fourth quarter. The nature of the loan expansion is brought out by examination of loan trends at weekly reporting member banks, which accounted for the major portion of the increase. The expansion was concentrated in business loans, particularly in the petroleum and construction categories. The rising level of construction activity in the District contributed to a sharp increase in construction loans and real-estate loans. Agricultural loans of District member banks rose substantially, reflecting primarily an expansion in certificates of interest issued by the Commodity Credit Corporation. Bank loans to finance the purchasing and carrying of securities also advanced. The only loan category which showed a slackening from the 1957 growth rate was consumer loans, which were influenced by the reduction in consumer spending for automobiles and other durable goods.

FEDERAL RESERVE BANK OF DALLAS

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FEDERAL ADVISORY COUNCIL MEMBER

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DIRECTORS

STATEMENT OF CONDITION

	Dec. 31, 1958	Dec. 31, 1957
ASSETS		
Gold certificate account	$ 721,519,040.41	$ 808,001,430.00
Redemption fund for Federal Reserve notes	29,844,811.17	28,495,116.17
Total gold certificate reserves	751,363,851.58	836,496,546.17
Federal Reserve notes of other Banks	28,332,800.00	21,148,300.00
Other cash	14,687,218.53	12,828,212.31
Discounts and advances	1,680,800.00	14,825,000.00
Industrial loans	0	0
U. S. Government securities		
Bills	88,152,000.00	38,545,000.00
Certificates	730,529,000.00	781,178,000.00
Notes	112,325,000.00	0
Bonds	97,292,000.00	109,798,000.00
Total U. S. Government securities	1,028,298,000.00	929,521,000.00
Total loans and securities	1,029,978,800.00	944,346,000.00
Due from foreign banks	754.79	754.79
Uncollected cash items	242,746,905.33	223,368,027.92
Bank premises	7,786,446.96	6,259,703.45
Other assets	5,917,036.29	9,345,624.37
TOTAL ASSETS	2,080,813,813.48	2,053,793,169.01
LIABILITIES		
Federal Reserve notes in actual circulation	798,612,775.00	748,183,830.00
Deposits		
Member bank — reserve accounts	969,769,135.15	996,223,087.35
U. S. Treasurer — general account	30,629,942.35	30,868,026.31
Foreign	12,220,000.00	17,732,000.00
Other	2,778,528.67	2,166,430.60
Total deposits	1,015,397,606.17	1,046,989,544.26
Deferred availability cash items	196,450,758.56	190,958,083.14
Other liabilities	709,588.74	572,153.36
TOTAL LIABILITIES	2,011,170,728.47	1,986,703,610.76
CAPITAL ACCOUNTS		
Capital paid in	20,683,700.00	19,405,250.00
Surplus	43,436,299.36	*42,178,208.01
Other capital accounts	5,523,085.65	5,506,100.24
TOTAL CAPITAL ACCOUNTS	69,643,085.01	67,089,558.25
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$2,080,813,813.48	$2,053,793,169.01

*Includes, prior to September 2, 1958, Section 13b surplus of $1,307,124.72.

REVIEW OF (

Total resources of the Bank on December 31, 1958, which amounted to $2,080,814,000, were $27,021,000 higher than a year earlier. This relatively small increase concealed several substantial and largely counterbalancing changes among individual items, some of which resulted directly from the effects of Federal Reserve policy. Gold certificate reserves declined $85,133,000, reflecting the outflow of funds from the Eleventh District in payment for this Bank's increased participation in the System's holdings of Government securities. The net increase of $98,777,000 in the participation stemmed from net purchases by the System Open Market Account to supply reserves to member banks. Loans and advances by the Bank to its member banks averaged substantially lower than in 1957.

This Bank's Federal Reserve note circulation rose to a new peak during the year and on December 31 totaled $798,613,000, representing a net gain of $50,429,000 over December 31, 1957. Year-end reserve balances of member banks declined $26,454,000 from a year ago, despite the substantial increase in deposits at member banks. This decline is attributable to reductions during February, March, and April in the percentage of reserves that member banks are required to maintain at the Federal Reserve Bank against their net demand depos-

OPERATIONS

its. Deposits of the United States Treasury remained virtually unchanged from a year earlier, but foreign deposits decreased $5,512,000, which reflects this Bank's pro rata share of foreign deposits withdrawn from the Federal Reserve Bank of New York by central banks of other countries. The Bank's paid-in capital rose $1,278,450 during 1958, and the increase was a direct outgrowth of additions of about $42.6 million to the capital and surplus accounts of member banks in the District.

Current earnings of the Bank during 1958 amounted to $28,903,000, representing a decrease of $695,000 from 1957, while net expenses of $6,628,000 were up $335,000. The reduced earnings were due to the decline in the amount of discounts and advances and the lower level of interest rates. After giving effect to net additions to current earnings, net earnings during the year totaled $22,327,000, or $701,000 less than in 1957. Of total net earnings, $18,620,000 was paid to the United States Treasury as interest on Federal Reserve notes, $1,197,000 was paid in dividends to member banks, and $2,510,000 was transferred to surplus. On December 31, 1958, the paid-in capital of the Bank totaled $20,684,000, while the surplus account amounted to $43,436,000.

EARNINGS AND EXPENSES

	1958	1957
CURRENT EARNINGS		
Discounts and advances	$ 168,848.30	$ 791,239.03
Industrial loans	0	0
U. S. Government securities	28,717,892.12	28,792,666.83
All other	15,805.73	13,842.04
TOTAL CURRENT EARNINGS	28,902,546.15	29,597,747.90
CURRENT EXPENSES		
Current operating expenses	7,249,300.70	6,844,766.62
Assessment for expenses of Board of Governors	308,700.00	388,700.00
Federal Reserve currency		
Original cost, including shipping charges	181,027.00	144,221.00
Cost of redemption, including shipping charges	26,161.00	22,143.00
Total	7,765,188.70	7,399,830.62
Less reimbursement for certain fiscal agency and other expenses	1,137,382.38	1,107,327.00
NET EXPENSES	6,627,806.32	6,292,503.62
PROFIT AND LOSS		
Current net earnings	22,274,739.83	23,305,244.28
Additions to current net earnings		
Profit on sales of U. S. Government securities (net)	6,490.32	6,940.95
All other	63,295.09	135,349.16
Total additions	69,785.41	142,290.11
Deductions from current net earnings		
Reserves for contingencies	16,869.99	15,707.37
All other	855.33	403,386.00
Total deductions	17,725.32	419,093.37
Net additions or net deductions (–)	52,060.09	–276,803.26
Net earnings before payments to U. S. Treasury	22,326,799.92	23,028,441.02
Paid U. S. Treasury (interest on F. R. notes)	18,620,110.49	18,545,291.76
Dividends paid	1,196,810.00	1,119,714.60
Transferred to surplus	2,509,879.43	3,363,434.66

FEDERAL RESERVE BANK OF DALLAS

WATROUS H. IRONS, *President*

W. D. GENTRY, *First Vice President*

HOWARD CARRITHERS, *Vice President*

J. L. COOK, *Vice President*

W. E. EAGLE, *Vice President*

T. A. HARDIN, *Vice President*

G. R. MURFF, *Vice President*

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

L. G. PONDROM, *Vice President*

MORGAN H. RICE, *Vice President and Secretary of the Board*

HARRY A. SHUFORD, *Vice President and General Counsel*

CHARLS E. WALKER, *Vice President and Economic Adviser*

ARTHUR H. LANG, *General Auditor*

CARL H. MOORE, *Assistant Vice President*

E. H. BERG, *Assistant Cashier*

JAMES L. CAUTHEN, *Assistant Cashier*

HERMAN W. KILMAN, *Assistant Cashier*

W. M. PRITCHETT, *Assistant Cashier*

PHILIP E. COLDWELL, *Director of Research*

MOSS E. HULSEY, JR., *Chief Examiner*

JAMES A. PARKER, *Director of Personnel*

GEORGE F. RUDY, *Assistant Counsel and Assistant Secretary of the Board*

EL PASO BRANCH

HOWARD CARRITHERS, *Vice President in Charge*

FREDRIC W. REED, *Cashier*

T. C. ARNOLD, *Assistant Cashier*

HOUSTON BRANCH

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

B. J. TROY, *Cashier*

W. C. HARTUNG, *Assistant Cashier*

THOMAS R. SULLIVAN, *Assistant Cashier*

SAN ANTONIO BRANCH

W. E. EAGLE, *Vice President in Charge*

A. E. MUNDT, *Cashier*

ALVIN E. RUSSELL, *Assistant Cashier*

FREDERICK J. SCHMID, *Assistant Cashier*

OFFICERS

OFFICERS OF FEDERAL RESERVE BANK OF DALLAS AND ITS BRANCHES

March 1, 1959

WATROUS H. IRONS, *President*

HARRY A. SHUFORD, *First Vice President*

HOWARD CARRITHERS, *Vice President*

JAMES L. CAUTHEN, *Vice President*

J. L. COOK, *Vice President*

W. E. EAGLE, *Vice President*

T. A. HARDIN, *Vice President*

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GEORGE F. RUDY, *General Counsel and Assistant Secretary of the Board*

ROBERT H. BOYKIN, *Assistant Counsel*

CARL H. MOORE, *Assistant Vice President*

E. H. BERG, *Assistant Cashier*

ROY E. BOHNE, *Assistant Cashier*

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FREDERICK J. SCHMID, *Assistant Cashier*

	Number of Pieces 1958	1957	Dollar Amount 1958	1957
Discounts for member banks				
Secured by U. S. Government obligations	314	789	$ 1,012,181,000	$ 2,649,555,000
Other	1	56	3,475,000	32,417,000
Currency received and counted	152,170,000	155,499,000	887,580,000	894,499,000
Coin received and counted	257,313,000	247,973,000	25,230,000	23,690,000
Currency paid out	—	—	855,237,000	835,704,000
Coin paid out	—	—	30,934,000	29,661,000
Checks handled	169,065,000	162,969,000	64,585,667,000	64,628,235,000
Checks returned unpaid	3,617,000	3,342,000	288,007,000	275,307,000
Collections handled	856,000	862,000	476,155,000	449,263,000
U. S. Government interest coupons paid	306,000	300,000	73,906,000	64,413,000
Coupons of governmental agencies paid	6,000	7,000	1,370,000	943,000
Postal money orders	17,151,000	17,954,000	310,210,000	334,287,000
U. S. Government checks	22,476,000	24,895,000	5,961,439,000	5,230,563,000
Transfers of funds for member banks	158,000	151,000	81,423,295,000	70,716,211,000
U. S. Government securities issued, exchanged, and redeemed	7,029,000	7,294,000	9,270,755,000	9,379,185,000
Securities of governmental agencies issued, exchanged, and redeemed	3,000	2,000	39,688,000	74,720,000
Purchases and sales of securities for investors	9,000	8,000	3,666,896,000	3,071,040,000
Postmasters' deposits	270,000	333,000	516,670,000	523,807,000

OPERATIONS

DEPARTMENTAL ACTIVITIES

In conjunction with the other Reserve banks, the Board of Governors, and the agencies and departments of the Federal Government, this Bank has increased its participation in EMERGENCY PREPAREDNESS PROGRAMS. The purpose of these programs is to obtain a measure of capability for survival and reconstruction in the event of a nuclear attack upon the United States. While preattack planning and preparations may provide a means of reducing the impact upon the banking system, there are clearly limits to such programs in both costs and returns.

This Bank has established primary and secondary relocation sites, to which daily records of the Bank's balance sheet and of transactions with member banks are sent. If one or all of the permanent offices of this Bank were destroyed, administrative control could be resumed at the secondary relocation site, which is now manned by a skeleton staff.

To effect check processing in case of an attack, the Bank has subdivided the District into 17 areas and is presently making arrangements with a bank or group of banks in each area to act as our agent in the collection of checks in the event of such an emergency. It is contemplated that cash agents will be established in a similar manner at a later date.

In addition to these specific operational programs, the personnel of the Bank have participated in nationwide alerts testing the efficiency of preparedness measures. Training courses have been attended by certain key personnel to obtain a better knowledge of techniques for damage assessment and other local attack problems and as a part of the plan to train people in handling System operations on a nationwide basis. A representative of the Bank also attends meetings of the Regional Board of the Office of Civil and Defense Mobilization and maintains contact with other personnel in the System who have similar responsibilities.

From the initial plans in 1950, the Federal Reserve System has made substantial progress in emergency preparedness and planning. Yet, further programs and tests need to be developed to enable it to discharge the responsibility for the maintenance of an effective monetary system in the event of an attack. Moreover, much remains to be done in the area of commercial bank planning to meet, at least partially, the problems which might be expected to result from a nuclear attack.

The Bank is engaged in a BUILDING EXPANSION AND REMODELING PROGRAM which will involve an expenditure of about $7.5 million. The new construction will add more than 200,000 gross square feet to the 150,000 contained in the present building. The addition will consist of three floors underground and five floors aboveground, with a foundation to support additional floors as demanded by the Bank's future requirements.

The addition will be fully integrated with the present building to achieve maximum unity at all floors and in the operation of all facilities. Most of the electrical, plumbing, heating, and air-conditioning facilities in the existing building are to be replaced with new systems to serve the enlarged building.

The new building will provide for the handling of cash and securities transactions within well-protected areas below ground level, while all loading and unloading of valuables will take place within an enclosed and strongly guarded security court. Security measures will include closed-circuit television, by which all major activities involving money and securities will be under continuous surveillance. Two large new vaults will be available for the storage of money and securities.

Excavation for the floors underground has been completed, and pouring of concrete footings, walls, and floors is progressing. The entire project is scheduled so that the addition and remodeling will be accomplished in stages, with occupancy of the three basements and first floor of the addition expected by the end of 1959. Completion of the whole program is scheduled for August 1960.

CURRENCY PAID OUT

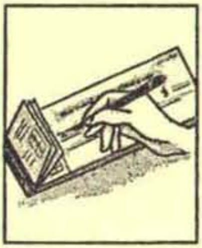
1958	$855.2 million
1957	$835.7 million

COIN PAID OUT

1958	$30.9 million
1957	$29.7 million

U. S. GOVERNMENT COUPONS PAID

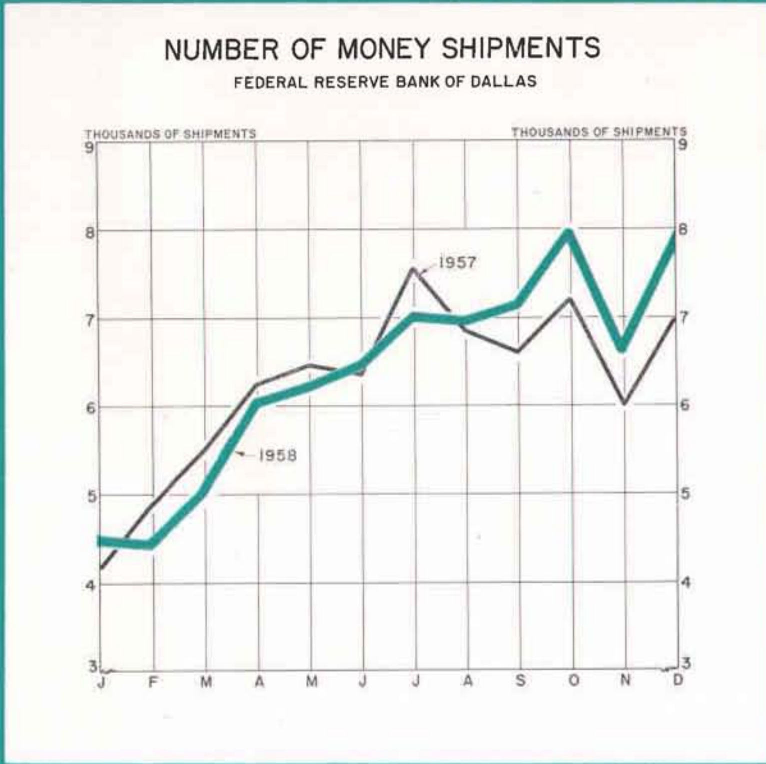
1958	$73.9 million
1957	$64.4 million



CHECKS HANDLED

(Number)

1958	169.1 million
1957	163.0 million



The CASH DEPARTMENT had a general increase in its operations during 1958. Shipments of currency and coin to member banks numbered 76,359, and shipments received totaled 31,355 — each reflecting a small year-to-year increase. During 1958, this Bank shipped $340,936,000 of unfit currency, or 4.2 percent more than in 1957, to the Treasury Department or turned it over to the Bank's verification unit for destruction locally. The Cash Department paid 312,804 United States Government and agency coupons, which is 2.1 percent above 1957. While fewer commercial banks used this Bank's facilities for the purchase and sale of Government securities in 1958, the total of 8,927 transactions was up 7 percent.

The TRANSIT DEPARTMENT handled an average of 694,000 cash and noncash collection items per day in 1958, representing a small increase over 1957. The number of city and country checks handled totaled 169,065,000, exceeding the 1957 figure by 3.7 percent, while the number of Government checks handled declined 9.7 percent. Postal money orders processed in 1958 decreased 4.5 percent, and postal deposits were down 19 percent. For the year, the 213,434,000 items processed by this Bank, involving more than $72 billion, were slightly larger than in 1957.

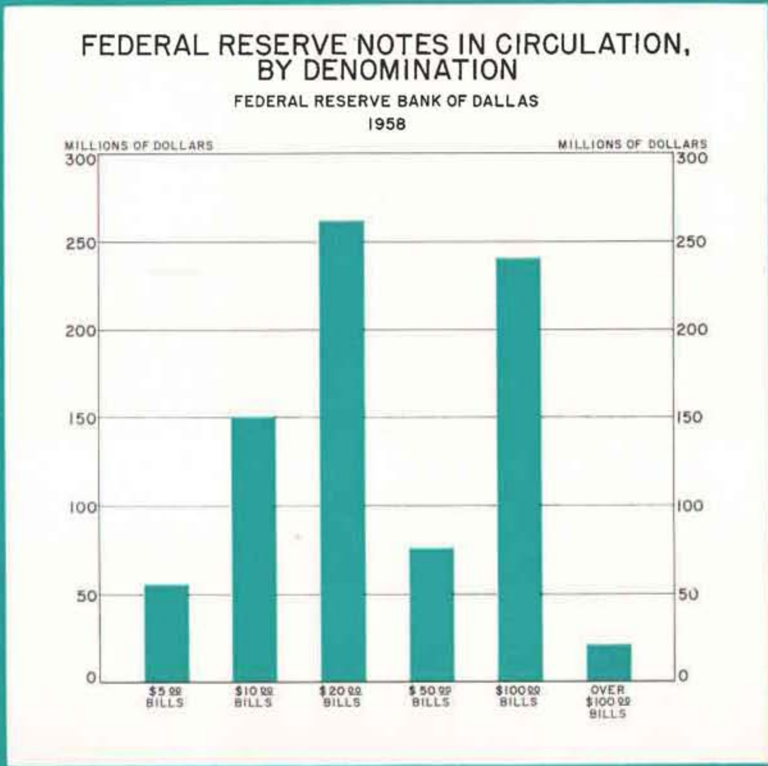
During 1958, the FISCAL AGENCY DEPARTMENT handled 7,031,228 pieces in the process of issuing, exchanging, and redeeming securities with an aggregate value of $9,310 million. The amount of savings bonds sold rose slightly, while the amount of redemptions declined 23.9 percent — bringing about an improvement in the relationship between sales and redemptions. Reflecting the increased market activity, 51,806 pieces of Government securities were transferred by wire, or 10.5 percent more than in 1957. The number of depositary receipts validated, totaling 480,852, advanced 6 percent. Unfit Treasury currency destroyed totaled 58,466,300 pieces, or 1.5 percent lower than in 1957. The number of issuing agents for savings bonds decreased slightly, but the number of paying agents rose further during the year. Gains were also recorded in the number of Treasury Tax and Loan Accounts and Federal tax depositaries.

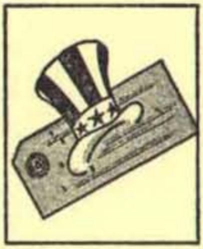
The LOAN AND SECURITIES DEPARTMENT was much less active in 1958 than in 1957. During the year, this Bank accepted only 315 notes from 52 member banks, involving advances of $1,016 million, whereas in 1957 the Bank accepted 845 notes aggregating $2,682 million.

The operations of the COMMODITY CREDIT DEPARTMENT, which had declined in 1957 on account of the delayed harvesting of that year's cotton crop, expanded sharply in 1958. During the year, notes secured by 2,304,150 bales of cotton were received and processed, or nearly three times the volume in 1957. Cotton released through the repayment of producers' notes totaled only 158,106 bales, although an additional 1,217,853 bales were placed under the pooling arrangement. The volume of these transactions was less than one-half of that handled in 1957.

In performing its supervisory functions, the EXAMINATION DEPARTMENT conducted 172 examinations and investigations. On December 31, 1958, the District had 631 member banks, consisting of 500 national banks and 131 state member banks and representing a net decline of four banks during the year. There were 1,014 banks in the District remitting to this Bank at par for checks drawn upon themselves, reflecting a net gain of 14 banks — compared with 15 in 1957. The number of nonpar banks at the end of 1958 was 83, or one less than a year earlier.

An extensive BANK AND PUBLIC RELATIONS program was carried on in 1958 to improve public understanding of the Bank's policies, maintain a close and understanding working relationship between the Bank and commercial banks, stimulate discussion of economic and financial problems, and furnish economic and financial information. Principal activities in this field included regularly scheduled visits with Eleventh District bankers; meetings at the Head Office and branches with business, industrial, educational, and banking leaders; attendance at many banking, educational, and other conferences; tours of the Head Office and branches by businessmen, educators, students, and others to observe the Bank's opera-





U. S. GOVERNMENT CHECKS
(Number)

1958	22.5 million
1957	24.9 million

WIRE TRANSFERS OF SECURITIES

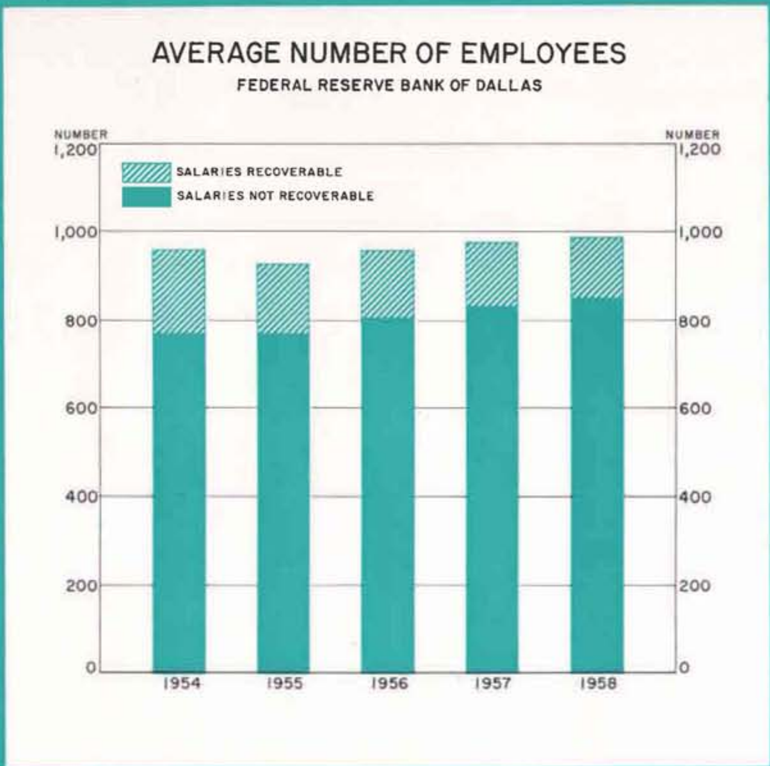
1958	$3.1 billion
1957	$2.5 billion

SALES OF SAVINGS BONDS

1958	$179.8 million
1957	$178.9 million

DISCOUNTS FOR MEMBER BANKS

1958	$1.0 billion
1957	$2.7 billion



tions; numerous speaking engagements by the Bank's officers and senior staff members; close contact with the teaching staffs of colleges and universities in the District; and the loan of the Bank's educational films and currency exhibit to member banks on various occasions.

During 1958, the RESEARCH DEPARTMENT broadened its distribution of economic information and increased its efforts to provide up-to-date economic analyses, especially on the trend of the recession and recovery. Continuing studies on the impact of changing monetary policies were maintained throughout the year, and special studies on the financing of small business were conducted. In December, publication of the Texas industrial production index was accomplished. The publications of the Bank were in steadily increasing demand during 1958. The *Business Review, Farm and Ranch Bulletin,* and *Agricultural News of the Week* were supplemented by the publication of *An Economic Fact Book*. Special requests for statistical and economic studies were in larger volume than in other years.

The PERSONNEL DEPARTMENT services the personnel of the Bank and branches, which averaged 1,027 officers and employees in 1958, compared with 1,014 in 1957. The increase of 13 resulted from the fact that additions at the El Paso and Houston Branches more than offset the declines at the Head Office and San Antonio Branch. During 1958, there were 18 retirements of officers and employees and five deaths in active service. At the year end, 255 officers and employees had service records exceeding 15 years, of which 108 had more than 25 years of service.

The AUDITING DEPARTMENT, under the general supervision of the Audit Review Committee of the Board of Directors, fully maintained the audit frequency schedule for the Head Office and branches as approved by the Audit Review Committee of this Bank. In compliance with the legal requirements, the field examining staff of the Board of Governors conducted an examination of the Bank and branches as of August 22, 1958.

VOLUME OF TRANSACTIONS EL PASO BRANCH

	1958	1958 from 1957
Discounts for member banks	$ 1,200,000	−73%
Currency received and counted	$ 150,190,800	+6%
Coin received and counted	$ 1,235,811	+19%
Currency paid out	$ 113,038,900	+14%
Coin paid out	$ 3,277,805	+10%
Checks handled	$4,409,757,001	+8%
Checks returned unpaid	$ 21,127,512	+14%
Collections handled	$ 29,305,196	+12%
U. S. Government interest coupons paid	$ 3,156,208	+18%
Coupons of governmental agencies paid	$ 72,269	+66%
Postal money orders	$ 24,881,618	−27%
U. S. Government checks	$ 489,888,032	+2%
Transfers of funds for member banks	$3,273,432,300	+22%
U. S. Government securities issued, exchanged, and redeemed	$ 342,001,298	−9%
Securities of governmental agencies issued, exchanged, and redeemed	$ 3,050,700	—
Purchases and sales of securities for investors	$ 84,959,200	+19%

FEDERAL RESERVE BANK OF DALLAS

11-K

DALLAS, TEXAS

VOLUME OF TRANSACTIONS HOUSTON BRANCH

	1958	1958 from 1957
Discounts for member banks	$ 633,050,000	−39%
Currency received and counted	$ 156,983,350	+1%
Coin received and counted	$ 4,647,002	−7%
Currency paid out	$ 198,036,436	−2%
Coin paid out	$ 6,182,370	−10%
Checks handled	$18,867,137,785	−6%
Checks returned unpaid	$ 101,548,995	0
Collections handled	$ 132,469,749	−10%
U. S. Government interest coupons paid	$ 20,046,473	+22%
Coupons of governmental agencies paid	$ 291,349	+61%
Postal money orders	$ 60,392,816	−5%
U. S. Government checks	$ 599,157,684	+86%
Transfers of funds for member banks	$28,881,901,444	+25%
U. S. Government securities issued, exchanged, and redeemed	$ 2,427,502,000	+10%
Securities of governmental agencies issued, exchanged, and redeemed	$ 16,150,700	+90%
Purchases and sales of securities for investors	$ 861,415,950	+45%

VOLUME OF TRANSACTIONS SAN ANTONIO BRANCH

	1958	1958 from 1957
Discounts for member banks	$ 188,356,000	–56%
Currency received and counted	$ 175,618,700	–3%
Coin received and counted	$ 6,694,851	+9%
Currency paid out	$ 153,440,600	+1%
Coin paid out	$ 5,981,470	+15%
Checks handled	$9,367,950,535	+6%
Checks returned unpaid	$ 45,018,070	+1%
Collections handled	$ 84,921,134	+8%
U. S. Government interest coupons paid	$ 16,162,473	+11%
Coupons of governmental agencies paid	$ 260,767	+95%
Postal money orders	$ 53,779,198	–2%
U. S. Government checks	$1,047,854,158	+33%
Transfers of funds for member banks	$6,169,888,691	+28%
U. S. Government securities issued, exchanged, and redeemed	$1,294,253,150	–2%
Securities of governmental agencies issued, exchanged, and redeemed	$ 4,817,000	+83%
Purchases and sales of securities for investors	$ 477,495,600	+14%

HEAD OFFICE
400 South Akard Street
Dallas, Texas

EL PASO BRANCH
301 East Main Street
El Paso, Texas

HOUSTON BRANCH
1701 San Jacinto Street
Houston, Texas

FEDERAL RESERVE BANK OF DALLAS

SAN ANTONIO BRANCH
210 West Nueva Street
San Antonio, Texas