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PROBLEMS OF POSTWAR AGRICULTURAL READJUSTMENT

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The Wartime Record

Under the pressure of wartime conditions, agricultural production underwent a tremendous expansion, due chiefly to the increased demand for foods and feeds; the normal pattern of production changed substantially to fit the shifting pattern of demand; and prices of agricultural commodities rose sharply, in relation both to the level prevailing prior to the outbreak of war in Europe and to prices of most nonagricultural commodities. The principal factors contributing to the increased demand were: The marked expansion in employment and pay rolls; the high per capita consumption of the large military forces; and the needs of the allied and liberated countries, satisfied chiefly through lend-lease and UNRRA.

The production of agricultural commodities began to expand soon after the outbreak of the European war and in the past four years has averaged nearly 25 per cent above the 1939 volume. Despite this unusually large volume of production, output was inadequate to meet the demand, leading first to the consumption of the large surpluses of many commodities existing during the early war years and later to the rationing of supplies of many commodities to assure their equitable distribution among consumers. Even 18 months after the termination of the war there are very few commodities in which surpluses exist, and there still persist shortages of some commodities.

The large increase in volume of production was accomplished in the face of a significant decline in farm labor, difficulties in maintaining existing machinery in an adequate state of repair, and limited quantities of new machinery. Contributing to success in expanding production were many factors, chief among which were: Willingness of farmers to work long hours under adverse circumstances, generally favorable weather conditions, increased mechanization of farm operation, more extensive application of fertilizers, development and use of improved varieties of seed, drawing upon soil fertility built up in the 1930's, and application of knowledge gained during recent years in maintaining fertility.

In the months immediately preceding the outbreak of war in September 1939, prices of virtually all agricultural products, not only in terms of dollars but also in relation to prices of non-agricultural products, were at low levels, due to the depressing influence of large surpluses of many farm commodities. During the following two years the rise in prices was moderate and spotty. After 1941, however, growing scarcities and greatly expanded demand brought about sharp and sustained

price advances for agricultural commodities. The extent of the price increase is indicated by an advance in the combined index of prices received by farmers for all crops and livestock from about 95 per cent of the 1910-1914 average in 1939 to a peak of 273 per cent in October 1946. Prices of some commodities or groups of commodities have risen much more than others, reflecting unbalanced relationships between supply and demand and other factors. On the other hand, the index of prices paid by farmers rose by a much smaller amount, since most nonagricultural products were subject to effective controls.

The large volume of agricultural production marketed at high prices has raised farm income to an exceptionally high level. Despite the sharp increase in production expenses, the net income of farmers rose from about \$4.5 billion in 1939 to approximately \$14.7 billion in 1946. The resulting improvement in the financial position of farmers is indicated by a reduction of some two billion dollars in their indebtedness and a net increase of about \$15 billion in financial assets, comprising mostly United States savings bonds, bank deposits, and currency.

From the foregoing facts, it is apparent that the agricultural industry since 1941 has experienced a very high level of production and that operations generally have been unusually profitable. It is recognized, however, that the heavy demand for farm products existing in recent years will be difficult to sustain indefinitely under normal peacetime conditions. Moreover, some downward adjustment in agricultural prices seems inevitable, not only because of the exceptionally high price level now prevailing but also as a means of maintaining demand.

Production Goals for 1947

From the standpoint of production, it is likely that 1947 will be another year of very large output. After sizing up the prospective demand for agricultural products, the Department of Agriculture has set very high goals for the year. Over-all goals call for the utilization of some 357 million acres in 1947, or nearly nine million acres more than were used in 1946, when output was in near record volume. The reasons underlying these goals are the expectation of continuing strong domestic demand, the probable foreign demand for food and other farm products, the need to build up reserve supplies of many commodities depleted during the recent emergency, and allowance for the possibility of less favorable growing weather and lower yields than have prevailed in recent years. Some of the crops for which increased or continued high production are requested include cotton, wheat, rice, sugar crops, flaxseed, dry beans, soybeans, barley, and grain sorghums.

The Secretary of Agriculture stressed the fact that an unlimited demand does not exist for all farm commodities, and several production adjustments among commodities have been suggested. The goals recognize that some commodities have been produced in larger quantities than are needed and that surpluses are beginning to appear in some categories of products. In setting goals, cognizance was taken also of the unbalanced supply situation and of the inclination of people to return to a more nearly normal pattern of consumption. One example is that of meats, which were difficult to obtain in desired quantities and quality during much of 1946. The 1947 meat program, proposing a per capita supply of about 157 pounds as compared with an estimated 146 pounds in 1946 and an average of 126 pounds for the period 1935-1939, involves several adjustments in livestock production. It sets the goal for pig production at 90 million head, or about nine million head more than in 1946 and substantially greater than in prewar years but approximately 32 million head below the 1943 peak. This course would not only increase the meat supply but also would assist in overcoming the deficit in fats. More beef is needed also, but it is recommended that the supply be augmented through larger marketings rather than by production of more animals. This would assist in bringing about a desirable downward readjustment in cattle numbers. Such a course seems especially desirable, because only a slight decline in numbers has occurred since the peak of the cattle cycle was reached three years ago. A sharp downward readjustment at this time would provide more beef and might soften the decline in cattle prices during the years ahead when the present lush demand for red meat has been satisfied. Reductions are recommended in the production of chickens and eggs, the demand for which has fallen faster than production due to decline in military and foreign buying and to the preference of the civilian population for other types of meat.

Factors Influencing the Future

In considering future prospects for agriculture, it is necessary to take cognizance of numerous factors. Since recent high levels of agricultural production have been induced by abnormal forces that are unlikely to persist for any considerable length of time, downward readjustments appear inevitable, with the most drastic declines likely to occur in some of those commodities that experienced the greatest expansion during the war period. One important factor to be recognized is that heavy foreign demand will diminish as war-torn countries rehabilitate their agricultural industries and expand production. In some countries, rapid strides already are being made, and ultimately some of their products will regain competitive influence in world commerce. With respect to domestic demand, consideration should be given to the volume of products that may be consumed at various price and income levels and to the extent to which consumption will tend to shift back to the pre-war pattern. It should be borne in mind that during the war period new techniques of production were developed, mechanization was expanded, great strides were made in developing new varieties of seed, and new knowledge and experience were gained in the application of fertilizers. All these improvements in farm methods will tend to sustain production at a high level in the postwar period. Moreover, it is characteristic of agriculture that adjustments take place slowly and that in the long run it is much easier to expand than to contract production. Once acreage has been placed in cultivation, it tends to remain a part of the cultivated farm area for a long time. In consequence, production may be sustained at a relatively high level in the face of contracting demand and declining prices.

Price-Support Program: Operation and Effects

Early in the war period, when efforts were being made to expand agricultural production, it was recognized that agriculture probably would face difficult readjustments after the war. To provide means for dealing with that contingency, the Congress enacted legislation assuring price support at not less than 90 per cent of parity¹ for numerous agricultural commodities for a two-year period beginning on January 1 following the date on which hostilities should be declared at an end by the President or the Congress. Since the President declared the cessation of hostilities effective as of December 31, 1946, the price support legislation will remain in force during the years 1947 and 1948. The provisions of that legislation apply specifically to the "basic"² commodities and to the so-called "Steagall"³ commodities, which together comprise about two-thirds of the major farm products.

The operation of the price support program undoubtedly will serve to cushion the decline in prices of agricultural products and will afford farmers an opportunity to take advantage of the period of "grace" to make necessary and desirable adjustments in their production plans. The program, however, is not a "cure-all" for the farmers' ills; it has certain fundamental weaknesses which will require genuine understanding and concerted action on the part of the farmers, if beneficial results are to be assured; and in the long run, it might work to the detriment of farmers generally unless the plan for operation of price-support mechanisms is soundly conceived and effectively carried out with the full support and cooperation of producers.

Certain facts about the operation and effects of price support should be understood clearly and should be taken into consideration by farmers, individually and generally, in planning their production program during the years immediately ahead. First, a substantial readjustment in current prices of most agricultural products could take place before price support would become effective. Thus

¹The term "parity," as applied to the price of an agricultural commodity, is that price which will give to the commodity a purchasing power equivalent to the available purchasing power of the commodity in the base period 1910-1914.

²The "basic" commodities comprise corn, wheat, cotton, peanuts for nuts, rice, and tobacco.

³The "Steagall" commodities include hogs, milk and butter fat, eggs, chickens, (excluding chickens weighing 3½ pounds or less and all broilers), turkeys, specified varieties of dry edible peas and beans, soybeans for oil, peanuts for oil, flaxseed for oil, potatoes, cured sweet potatoes, and American-Egyptian cotton. The "Steagall" commodities refer to those on which the United States Secretary of Agriculture or War Food Administrator has requested an expansion of production for war purposes and has made public announcement to that effect under the provisions of the Steagall Amendment to the act of July 1, 1941, extending the existence of the Commodity Credit Corporation. Among the some 140 other agricultural commodities for which price support has been announced are wool, naval stores, American hemp, sugar beets, sugar cane, black-eyed peas, beans, certain fruits for processing, certain vegetables for processing, barley, grain sorghums, rye, Sea Island cotton, certain vegetable seeds, winter cover crop seeds, and hay and pasture seeds.

far during the postwar period, prices of "basic" and "Steagall" commodities, with few exceptions, have held well above the support level, and the Department of Agriculture believes that in 1947 prices of farm products in general will be maintained above that level by normal supply and demand factors. At their peaks, prices of some commodities exceeded parity by 75 per cent or more, and such products would have to undergo drastic declines in price before support levels are reached. Taken as a whole, it is probable that current agricultural prices can decline by about 30 per cent before reaching mandatory support levels.

Second, under the present condition of expanded productive capacity, there is a possibility that exceptionally favorable weather conditions during a growing and harvesting season would result in production greatly in excess of requirements for specific commodities or for crops generally and in the recurrence of burdensome surpluses. If prices should be maintained at support levels under a condition of unrestricted production and regardless of the effects of high prices upon consumption, the surpluses of some commodities might become so large during the next two years as to create a critical situation for producers when price support is withdrawn.

Third, unless a balanced relationship is restored and maintained among prices of various products and between supply and demand for them, there will be an incentive for farmers to produce those commodities the prices of which are kept at artificially high levels irrespective of what the market outlet for them might be. That course would tend to perpetuate the distorted pattern of production developed during the war period, likewise leading to overproduction and the accumulation of surpluses of commodities whose prices are kept too high in relation to prices of other farm products. The Colmer Committee of the House of Representatives in a recent report stated:

It is obvious from experience that the difference between surplus and scarcity, even of staples, is an extremely small difference, easily dissipated by the establishment of inappropriate price relationships. Administered prices, at least under the techniques now known, are not sufficiently flexible to accomplish an orderly flow of goods and services through the economy into their most economic use; waste and disorder resulting therefrom assume major proportions.

Fourth, at least two general plans have been suggested as a means of carrying out price-support commitments. One would involve the use of Commodity Credit Corporation loans and Government purchase programs to maintain prices at support levels. The other would permit prices to seek their natural level in the market based on supply and demand factors, with the producer being paid the difference between the price received in the market and 90 per cent of parity. The former, while maintaining prices at the required level, might, at that price, stimulate production and restrict consumption. The latter would have the advantage of price flexibility and would tend to restrict production and stimulate consumption, though it might become very expensive to maintain.

Fifth, the Department of Agriculture has recognized that with price support overproduction and surpluses might develop with respect to specific crops or perhaps generally within a reasonably short period unless some form of production control is instituted. In fact, the experience with the overproduction of potatoes in 1946 led the Department of Agriculture to announce its intention of setting quotas on the 1947 crop and of restricting benefits of the price support program to those who stay within the quotas, unless halted by congressional action. The Secretary of Agriculture has presented the matter to the appropriate congressional committees for study. If Congress should permit acreage control to become a factor in price support, it would be reasonable to assume that the methods of control would likely follow the same pattern as the old AAA program. It might be effective in preventing the accumulation of burdensome surpluses, but that type of program has elements of inflexibility, since it would tend to freeze production to the farms now producing specific crops.

A sober analysis of the agricultural situation seems to indicate that the prices of and the demand for agricultural products probably have reached a peak and that some downward readjustments are in prospect. Although agricultural prices generally are expected to remain at relatively high levels during 1947, active price supports already have become operative with respect to some products

and are likely to be extended to others during the current year. It seems essential, therefore, that over-all plans for the operation of price support and production adjustment should be formulated as early as feasible and placed on as flexible a basis as possible; moreover individual farmers should develop sound production programs for their own farms within the framework of such plans, so that the adjustments may be made as smoothly as possible.

Closely allied with the problems arising out of the movement of agricultural prices is the probable trend of prices paid by farmers. On the whole, prices of the things farmers buy have shown a very moderate advance in comparison with the increase in agricultural prices. In fact, the index of prices paid by farmers during the war period rose only 40 per cent, although by the end of 1946 the rise had been extended to 72 per cent. This relatively moderate rise has been due primarily to the fact that rather rigid controls were instituted on prices of most manufactured goods early in the war period. In the meantime, wages and other costs of industrial production have risen more substantially than prices of industrial commodities were permitted to increase, thereby tending to cut down the profit margin on each unit of production. With the abolition of controls, prices of these goods are being increased to bring about a more normal relationship between cost and selling price. In view of the prevailing labor situation and of the tremendous backlog of demand, particularly for consumer durables and heavy industrial and farm machinery, it seems likely that some further upward price adjustments may occur, especially on some of the durable goods which farmers need and would like to buy. Consequently, farmers may be confronted with a two-way squeeze of lower prices for the products they sell and higher average prices for the goods they buy. If such should prove to be the case, net farm income is likely to turn downward because of lower gross income and rising costs of operation. That condition will be intensified whenever over-all production is curtailed by declining demand, adverse weather conditions, or both.

Problems of Labor Supply and Mechanization

Another problem with which farmers must deal during the readjustment period is that of labor supply. During the war period, farmers were hard-pressed to obtain sufficient labor to carry on their operations because of the large number of farm workers drawn into the armed forces and into the industrial labor force. The problem created by a decline of 20 per cent in hired workers was met in part by increased use of farm machinery, by longer hours, and by utilization of the services of family members less accustomed to farm labor. The acute shortage of hired labor forced up wage rates to a level three times that prevailing in 1939, and at the same time the productivity of labor declined. Thus far, there has been little, if any, improvement with respect to either labor supply or wage costs. Consequently, the farsighted farmer should seek an answer to certain important questions: To what extent is the wartime shrinkage in labor supply likely to become permanent? Are farm wage rates likely to become more rigid and remain indefinitely at a much higher level than in the prewar period? To what extent will skilled labor be needed on farms? How can a farmer meet the labor supply problem? These questions are likely to be resolved out of the combined actions of millions of individual farmers and farm laborers along three general lines. First, there probably will be some further increase in the farm labor supply, but the size of the increase is likely to depend upon the amount of unemployment among nonagricultural groups and the extent to which the Government will undertake to provide relief, and it is doubtful whether the supply will become sufficient to assure the farmer flexibility in wage rates comparable to prewar conditions. Second, many individual farmers may adjust their operations to a smaller scale, or within the limits dictated by the labor supply available to them. To the extent that this occurs, it may be a factor in bringing down total agricultural production to the level of ultimate peacetime demand and may assist in softening the effects of some of the problems already discussed. The third and most likely line of action may be an extension of mechanization which will provide the means of increasing man-hour output. As mechanization is extended, however, changes will occur in the character of labor needed on farms. The demand for common labor will decline, while greater numbers of high-wage workers with mechanical skills will be needed to operate the machines efficiently and to keep the equipment repaired.

The extension of farm mechanization offers farmers the opportunity of bettering their position but it also involves many problems, especially under present conditions. During the war period, important strides were made in mechanizing farm operations, despite the general shortages of farm machinery; in fact, farmers probably made more progress in that period than in the previous decade. As an example, the number of tractors in use increased, according to the Bureau of Census, by more than 850,000 units, or approximately 55 per cent, between 1940 and 1945. An analysis of available data indicates that nearly every type of tractor-drawn implement and power machine increased in number, while other types declined—in some instances rather substantially. This occurred even though farmers were confronted with the necessity of retaining in use all machinery that could be kept fit for service. The explanation of the advance in mechanization is probably the intense demand for power machinery as a means of cutting down man-hours. Manufacturers, alert to the problem, used available productive capacity largely in turning out power machinery. Moreover, with rising net incomes and the need for conserving feeds, farmers had the means and the incentive to acquire, so far as possible, needed mechanical equipment. It seems probable that progress toward mechanization will continue at a rapid pace. It has been with difficulty that farmers generally have maintained old machinery in an adequate state of repair to serve until new machinery becomes available. The replacement backlog, therefore, is tremendous, and it is a reasonable assumption that wherever circumstances will permit, replacements will be made with power machinery.

At the very time that farmers could make the greatest progress in mechanization, however, certain temporary obstacles come to the forefront. Some of these are: (1) an inadequate supply of implements available for purchase; (2) high and rising prices of those implements; (3) prospects for a decline in net farm income, which may be most pronounced at the time that implements become available in quantity; (4) relatively small number of farm units of the size suitable for complete mechanization; and (5) lack of machines of the design necessary to do specific types of work.

In this connection, three long-run problems involved in large-scale farm mechanization might be mentioned. The first is the necessity for the heavy capitalization of farm units. As the size of the farm unit expands, the investment in land will increase appreciably. Likewise, complete mechanization of farming will require large investments in the latest and most efficient types of machinery and equipment to enable the farmer to increase labor productivity and to reduce the unit cost of production. It will also require modern structures for housing costly machines. The operation of a farm unit of that type will inevitably involve the use of large amounts of working capital.

Second, the establishment and successful operation of large farm units will require the application of business methods similar to those used by large industrial organizations. The management must have the know-how of business operation and a knowledge of scientific farming. Cost accounting will be needed to measure operating efficiency and the profitableness of various crops. Advantage must be taken of scientific improvements in seed varieties, use of insecticides, fertilizers, and other farming aids. Marketing procedures and practices will need to be revamped to bring them in line with the new type of farm operation.

Third, the trend toward large-scale mechanized farming will involve a shift in the character of the farm population. The more progressive farmers, through the use of more machines and the application of business methods, will be able to operate larger acreages at less cost and thus improve their financial position. As the movement progresses, however, fewer and fewer farmers of the present average type will be able to continue the operation of farm units. Hence, there may be a gradual disappearance of the family-unit type of farming that has been regarded as a bulwark of strength and solidarity in the rural economy of the past.

Need for Improving Soil Fertility and Land Use

A problem of more immediate concern is that of improving soil fertility and utilization of the land. During the past ten years, widespread interest has been created in soil conservation, and great strides have been made in developing and carrying out practices for increasing soil fertility and for

better land use. During the war years, intensive efforts were made with considerable success to extend conservation practices. Yet, it must be recognized that the heavy production of certain crops to meet war and postwar requirements for agricultural products resulted in a severe drain on soil resources, and there is need for restoring as soon as possible better balance between soil-depleting and soil-conserving crops.

This recognition, however, is only one step in a broad program that should be formulated and carried out to check the staggering losses of soil resources throughout the nation and to restore the productivity of our farms. Rapid progress has been made in organizing local soil-conservation districts through which suitable conservation plans may be formulated and effectively applied. With the easing of the man-power, equipment, and material shortages, it should be possible to intensify and expand conservation work, and concerted efforts on the part of interested groups should be directed toward that end. Its importance is emphasized currently by the need for reducing costs of production through increased yields.

The Problem of Rising Land Values

Finally, reference should be made to the problem relating to the movement of land values. As has been the case during previous wars, farm land values have risen sharply in recent years. For the United States, the index of values in November 1946 was 81 per cent higher than in 1939 and only 11 per cent below the all-time peak reached in 1920. In the Southwest, the movement in farm land values has followed the national pattern, although the increase appears to have been somewhat less pronounced. The upward movement has accelerated during each succeeding year and has been a consequence of the tremendous increase in net incomes of farmers. The increase in farm land values has been accompanied until recently by a net decline in the mortgage indebtedness of farms, and approximately half of the land transfers have represented cash transactions. These trends are in contrast with the rapid increase in mortgage indebtedness during and after World War I and constitute an element of strength in the present land situation. Yet, the amount of new farm mortgages being created is quite substantial, many farms are carrying a mortgage debt substantially above the prewar sale price, and frequently the mortgage notes run for relatively short periods. These developments constitute elements of weakness.

How Should Readjustments Be Made?

It is generally recognized that agriculture is one of the most vulnerable segments of our economy and that far-reaching readjustments are likely to occur during future years. There is also general unanimity of opinion that changes should not be permitted to go too far and that whatever readjustments are made should be aimed at maintaining agriculture on a profitable basis. There are wide differences of opinion, however, as to what methods should be used to meet the problems of readjustment and to accomplish the long-run objectives of maintaining a relatively prosperous agricultural industry.

One extreme view is that the best interests of farmers will be served by removal of all government controls, abolition of price supports and subsidies, and discontinuance of all forms of government paternalism, so as to give the farmer complete freedom of action in formulating and carrying out production, conservation, and marketing programs. According to its advocates, this course would enable the farmer to make more quickly the necessary adjustment through the operation of natural economic laws of supply and demand, stimulate more profitable use of land, and accelerate the trend toward mechanization and the use of the most productive acres, whereby costs of production can be reduced to a minimum. While it is recognized that through this process the effects of the readjustment may be severe and may result in the weeding out of marginal producers, it is contended that, once the readjustment is completed, efficient and businesslike farmers would be on a sounder footing and in a position to maintain their operations on a profitable basis.

At the other extreme is the view that the best interests of agriculture, not only during the readjustment period but in the long run, depend primarily upon rather tight government controls over farmers' operations, crop production, price movements, and the distribution of farm products. This viewpoint emphasizes that the millions of farmers operating independently to produce a great array of commodities are incapable of judging demand, of producing in proper quantities, and of marketing their products effectively. Under such conditions, the supply of individual farm crops and products gets out of balance with demand, resulting in market gluts and acute scarcities; and farmers are subjected to wide fluctuations in market prices, with the attendant periods of relative prosperity and poverty, and to losses through inefficiency in marketing. The general assumption of those who hold this view seems to be that, with adequate government control and planning, it would be possible to smooth out the ups and downs of farm production and income, assuring profitable operations on a comparatively stable level of production. It is assumed, also, that during the readjustment period immediately ahead rigid controls with compensating payments are essential to bring about a balance between agriculture and other segments of the economy without impoverishing the farm group.

The more logical approach in dealing with farmers' problems during the readjustment period, as well as over the longer term, seems to lie somewhere between the two extremes. The responsibility for solving these problems must be shared by both the Government and individual farmers. The immediate responsibility of the Government is to carry out its commitment to farmers to support prices of farm products during the next two years. To implement that program, it is incumbent upon those responsible for the carrying out of the commitment to formulate comprehensive plans as quickly as possible so that individual farmers can arrange their programs within the framework of the general plan. Whatever over-all plan is devised should contain sufficient flexibility to assure that commodities supported will move into consumption in their most economic use, that support prices will not become an inducement for farmers to produce in excess of market requirements, and that farmers will be encouraged to take all available steps consistent with good land use to lower the cost of production. So far as possible, the plan should make provision to maintain flexibility between the prices of various agricultural products, so that these prices will reflect changes in cost and demand and assure production readjustments more nearly in line with probable peacetime demands.

Beyond this immediate responsibility, it is not clear how much it may be desirable for the Government to participate in the activities of individual farmers. General theories seem to suggest as little interference as possible. At the same time, experience has indicated that much good might result from the continuation and expansion of certain activities in which the Government is already engaged. These include: Promotion and conduct of scientific research in agriculture and the dissemination of the results of such work through actual demonstrations within the reach of the individual farmer; assistance in the development of improved seed varieties which will enable the farmer to produce crops specifically required for various end uses and, at the same time, attain higher production yields from those crops; assistance in the development and adoption of modern techniques of farming; promotion and assistance in developing and applying soil-conservation methods and practices, expanding domestic and foreign markets, and discovering new uses for farm products. These activities on the part of the Government will not, in themselves, solve the problems of agricultural readjustment nor relieve farmers of their share of the responsibility for solving them. Farmers can do their part by making use of the information and other aids offered by the Government in improving their operating methods and in taking advantage of technological developments. To this end, it is essential that they lay out definite plans for the operation of their individual farms on a basis that will allow for necessary and desirable diversification of production, assure proper land use and soil conservation, permit a judicious use of credit resources, and provide for greater production efficiency. In the long run, the well-being of the individual farmer, like that of any businessman, is going to depend upon the extent to which he keeps abreast of developments in his field, applies sound business methods in his operations, and utilizes available knowledge and resources to produce quality products at the lowest possible cost and in balanced relationship to domestic and foreign demands.

Review of Business, Industrial, Agricultural, and Financial Conditions

DISTRICT SUMMARY

Major developments of the year 1946 in the business, agriculture, finance, and industry of the Eleventh Federal Reserve District are summarized in the following sections. During the final month of the year, the dollar volume of sales in department stores of the district reached an all-time high, exceeding the sales for the same month of 1945 by 21 per cent and those for the previous month by 30 per cent. Adjusted for seasonal variation, the monthly index of sales stood at 348, as compared with 286 a year earlier and a peak of 381 in August 1946. Sales of retail furniture stores also set a new volume record, registering significant percentage gains over comparable earlier periods. Construction contract awards estimated at \$43 million in December, though far below the May peak of \$85 million, represented a gain of 40 per cent over the year's low mark which had been reached in November. Daily average production of crude oil in the district during December continued the moderate decline which had been in progress since July. Even so, the daily rate was 46 per cent greater than the average for 1939-1940. The seasonal decline in farm activity was accentuated at the end of December by the chilling effects of sub-zero weather over much of the western half of the district, and below freezing temperatures elsewhere, which inflicted some damage upon oats and commercial vegetable crops. Despite the cold, the condition of range cattle and sheep was better than a year ago, and feed supplies were generally adequate. The record acreage of winter wheat seeded in Texas was not seriously damaged by the cold, and on the basis of its condition early in December a 1947 harvest rivaling the record crop of 1944 was forecast.

BUSINESS

Measured in terms of dollar value of goods distributed, business in 1946, both wholesale and retail, achieved the highest levels in the nation's history. At least five factors contributed to this result: A strong accumulated demand at the start of the year for consumer goods of almost every type; income payments and disposable income of individuals rising to the highest annual rate yet known; an expanding volume of production of many consumer goods which had been in short supply; rising price levels, especially after the midsummer suspension and late autumn removal of price controls; and a notable expansion in the use of consumer credit.

The start-stop-and-start-again course of productive industry resulted in unbalanced, though generally rising, business inventories throughout 1946. Maladjusted wage-cost and price relationships during most of the year retarded distribution of some categories of merchandise which were being produced in considerable volume. Nevertheless, at the year's end, replenishment of consumers' stocks of many soft goods and luxury articles was reflected in a declining rate of spending for those items and a rising volume of expenditure for durable goods, as the output of automobiles, refrigerators, and other durables increased. Manufacturers' and distributors' stocks also were largely restored, except for certain major durable items, as the over-all value of their inventories rose during the latter half of the year to record totals. Seasonally adjusted monthly indexes of merchandise stocks in department stores of this district showed a practically uninterrupted rise throughout the year from 179 in January to 303 in November (based on 1935-1939 as 100). The concern felt by retailers in the latter part of the year regarding the rapid increase in inventories found expression in a

declining volume of orders outstanding and in numerous stocks reducing sales of soft and semi-durable goods, somewhat reminiscent of prewar days.

WHOLESALE AND RETAIL TRADE STATISTICS

	Number of reporting firms	Percentage change in				
		Net sales		Stocks †		
		Dec. 1946 from Dec. 1945	Nov. 1946 from Dec. 1945	Jan. 1 to Dec. 31, 1946 from 1945	Dec. 1946 from Dec. 1945	Nov. 1946 from Dec. 1945
Retail trade:						
Department stores:						
Total 11th Dist.	48	+ 21	+30	+28	+ 73	- 9
Corpus Christi	4	+ 38	+30	+31	+119	- 6
Dallas	7	+ 22	+28	+31	+ 84	-11
Fort Worth	4	+ 21	+36	+24	+ 84	- 9
Houston	7	+ 25	+29	+34	+162	-13
San Antonio	5	+ 19	+28	+27	+ 74	+ 8
Shreveport, La.	3	+ 24	+47	+26	.....	.....
Other cities	18	+ 16	+28	+21	+ 8	-15
Retail furniture:						
Total 11th Dist.	45	+ 30	+15	.....	+114	- 1
Dallas	3	+ 23	+ 1	.....	.....	.....
Houston	4	+ 30	+23	.....	.....	.....
Port Arthur	3	+ 7	+ 3	.....	.....	.....
San Antonio	4	+ 38	+22	.....	.....	.....
Wholesale trade:*						
Machinery eqp't & supplies						
Groceries	21	+ 19	- 9	+23	+ 37	+ 1
Hardware	7	+ 62	-13	+44	+ 53	+10
Tobacco & products. 3		+127	-14	.....	.....	.....

*Compiled by United States Bureau of Census. (Wholesale trade figures preliminary.)
†Stocks at end of month. ‡Indicates change less than one-half of one per cent.

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

	Daily average sales—(1935-1939=100)							
	Unadjusted*			Adjusted				
	Dec. 1946	Nov. 1946	October 1946	Dec. 1945	Dec. 1946	Nov. 1946	October 1946	Dec. 1945
District	567	434	384	466r	348	356	349	286r
Dallas	549	429	384	451r	347	354	349	285r
Houston	582	435	377	461	366	360	343	290

	Stocks—(1935-1939=100)							
	Unadjusted*			Adjusted				
	Dec. 1946	Nov. 1946	October 1946	Dec. 1945	Dec. 1946	Nov. 1946	October 1946	Dec. 1945
District	306	324	309	166	354	303	274	198

*Unadjusted for seasonal variation. r-Revised. N.A.—Not available.

An indication of rapid return of consumer durable goods to retailers' stocks is found in the fact that home furnishings, including major household appliances, accounted for more than 10 per cent of all sales at district department stores in 1946, as compared with 6.0 per cent in 1944 and 6.4 per cent in 1945. In 1941 they had accounted for 12.5 per cent of total sales. Sales of major appliances alone rose from two-tenths of one per cent of total sales in 1945 to 1.6 per cent in 1946.

Cumulative total sales of monthly reporting department stores in the district for the year exceeded those for 1945 by approximately 28 per cent. Other facts regarding sales trends of these stores during the year are reflected in the accompanying table. Sales in retail furniture stores of the district followed a similar course, showing the sharpest increase over 1945 during the middle of the year and slowing down somewhat in the last quarter.

Eleventh District Department Store Sales, 1946

	Per cent change from same period in 1945	Adjusted index, final month of period	
		In 1946	In 1945
January-March	+18	316	268
January-June	+28	368	268
January-August	+30	381	273
January-September	+31	378	276
January-December (estimated)	+28	348	288

Judged by seasonally adjusted monthly indexes of department store sales, the peak rate of consumer spending was reached for the nation as a whole in August, when the index (based on 1935-1939 as 100) rose to 290. For the Eleventh Federal Reserve District, the peak came in July, with an index of 38

but held at the same figure throughout August. Thereafter the trend of the index, both in the nation and in the district, was slightly downward, indicating a slowing down in the rate of spending on a seasonally adjusted basis, even though total sales, by dollar volume, continued to rise, reaching an all-time record in December.

Whether the high rate of consumer spending observed in the summer of 1946 is to be repeated in 1947 depends upon a number of factors, chief among which appear to be: Maintaining current high levels of employment and income; avoidance of work stoppages in the basic coal, steel, automotive, electrical, and construction industries; increasing output of automobiles, building materials, major household appliances, and other currently scarce durable goods; and developing a retail price structure which will be regarded by consumers as reasonable. Freely admitting the growth of consumer resistance both to spiraling prices and to shoddy goods, most business men seem to realize that achievement of high sales volume in 1947 involves prompt adjustment to the demands and conditions of a buyers' market.

The nation-wide rapid expansion in the total of consumer credit, in evidence since soon after V-J Day, found reflection in this district during 1946 in a sharp increase in the volume and ratio of the charge-account sales of reporting department stores. Having run at approximately 43 per cent of total sales of these stores in 1944 and 1945 and constituting 45 per cent of such sales in January 1946, charge-accounts rose sharply through most of the year and reached 54 per cent of total sales in November. This represented an increase during the year of one-fifth, or 20 per cent, in the relative importance of this type of consumer credit. Instalment credit, always of minor importance in department store transactions, maintained an almost constant ratio of three per cent to total sales throughout the year. This was about the same ratio as in the war years, but, applied to a larger volume of sales, it resulted in a slight increase in the total of such credit outstanding. In retail furniture stores of the district, the volume of credit sales, mostly in the form of instalment contracts, increased each month during 1946 over the same month of 1945, though at a less rapid rate than total sales and cash sales, until August. Thereafter the trend was reversed, and though the rate of increase in all types of sales transactions over corresponding months of the previous year declined somewhat, credit transactions increased more rapidly than total sales. Monthly collections on both types of credit sales at district department stores were maintained at highly satisfactory rates throughout the year. There was a slight, but possibly significant, increase in the average collection period of charge accounts during the latter part of the year, coinciding with a considerable expansion in the volume and proportion of charge-account sales. The average collection period of three months or less on furniture store receivables, most of which represent instalment sales, was somewhat shorter than the average period for collection of department store instalment accounts.

Further expansion of the use of consumer credit, if it occurs, will help to insure a high volume of retail sales during 1947. Conducive to a mild expansion of such credit are the revisions of Regulation W which became effective on December 1, freeing all charge accounts from wartime restrictions and leaving under control only instalment purchases, and loans for purchases, of automobiles, furniture, soft floor coverings, and specified major appliances where the price ranges between \$50 and \$2,000. More influential, however, in determining the course of credit buying will be the trends in employment, wages, farm income, and industrial activity. If these continue at high levels, consumers' confidence in the future may be expected to encourage them to make an increasing use of credit in obtaining desired goods, especially major durables.

Below freezing temperatures during the latter part of December and early January, which reached as far south as the Lower Rio Grande Valley, interrupted field operations throughout the district and resulted in considerable damage to oats and commercial truck crops. The condition of cattle is reported to have deteriorated rapidly during this period, due to the prolonged cold and to heavy blankets of snow which covered ranges, particularly in the western part of the district. Reports from scattered areas indicate that some improvement has occurred since that time. The 7,382,000 acres of winter wheat seeded in Texas for the 1947 crop establishes a new record acreage, eight per cent above that seeded for the 1946 crop and 67 per cent above the 10-year (1935-1944) average. Seeding was done under favorable conditions, and the crop made good progress prior to the coming of extremely cold weather to retard its growth. A total production of 81,202,000 bushels is forecast on the basis of the condition of the crop early in December. This indicated production is 29 per cent above the large crop of last year and more than double the 10-year average. Shipments of citrus fruits and vegetables have continued to lag far behind those of a year ago. Shipments of cattle and calves into the Fort Worth and San Antonio markets in December were considerably below those for the previous month but far above shipments for the same period in 1945. A substantial decline was registered in the movement of sheep and hogs, compared with both the previous month and with the corresponding month a year ago. Mid-December prices received by Texas farmers averaged slightly higher than those for the previous month. Increased prices received for cotton, cottonseed, beef cattle, poultry, and poultry products offset declines in prices received for food and feed grains, cowpeas, peanuts, hogs, and sheep.

AVERAGE OF PRINCIPAL CROPS PLANTED AND HARVESTED IN 1946 AND GOALS FOR 1947—TEXAS—(Thousands of acres)

	Individual planted acreage 1946	Acreage harvested 1946	Acreage goals 1947
Cotton.....	6,348	6,100	8,460
Corn.....	4,049	3,236	4,200
Wheat.....	5,994	5,992	6,000
Oats.....	1,849	1,653	1,875
Barley.....	280	174	312
Sorghums (except for syrups).....	7,775	7,093	7,430
Sorghum for grain.....	3,962	4,613	4,450
Tame hay.....	1,385	1,307	1,500
Peanuts for nuts.....	784	767	666
Flax seed.....	84	76	120
All Irish potatoes.....	77	53	58
Commercial Irish potatoes.....	46	32	24
Sweet potatoes.....	65	73	65
Legume and grass seed (alfalfa and sudan).....	2	28	92
Rye.....	18	8	20

SOURCE: United States Department of Agriculture.

CROP PRODUCTION—(Thousands of units)

Unit	Texas			Five States ¹	
	1945	1946	1935-1944 average	1945	1935-1944 average
Cotton..... Bales	1,650	1,794	3,137	2,448	2,689
Corn..... Bushels	55,012	54,496	80,209	98,502	109,554
Winter wheat..... Bushels	62,916	48,189	34,863	154,393 ²	125,013 ²
Oats..... Bushels	36,366	41,332	33,557	65,022	67,294
Barley..... Bushels	2,610	3,596	4,166	8,005 ²	9,820 ²
Rice..... Bushels	17,716	15,000	13,926	40,392 ²	41,028 ²
Broom corn..... Tons	6	6	5	25 ⁴	20 ⁴
Grain sorghums..... Bushels	78,742	60,921	47,179	84,072	70,655
Sorghum for forage..... Tons	2,920	3,364	4,120	4,536	4,933
Tame hay..... Tons	1,263	1,176	1,187	4,011	4,014
Wild hay..... Tons	191	187	222	638 ²	746 ²
Peanuts for nuts..... Pounds	383,500	322,500	192,838	510,610 ⁶	420,700 ⁶
Irish potatoes..... Bushels	5,883	4,214	4,036	11,839	9,634
Sweet potatoes..... Bushels	6,570	5,700	4,502	17,800 ⁷	18,465 ⁷
Pesches..... Bushels	2,262	2,774	1,805	3,598	4,087
Oranges..... Boxes	5,500	4,800	2,539	7,130 ⁷	6,340 ⁷
Grapefruit..... Boxes	25,500	24,000	13,909	29,800 ⁷	28,100 ⁷
Pecans..... Pounds	22,500	32,250	27,380	40,500 ⁸	67,450 ⁸

¹Arizona, Louisiana, New Mexico, Oklahoma, Texas. ²Arizona, New Mexico, Oklahoma, Texas. ³Louisiana and Texas. ⁴New Mexico, Oklahoma, Texas. ⁵Louisiana, New Mexico, Oklahoma, Texas. ⁶Louisiana, Oklahoma, Texas. ⁷Arizona, Louisiana, Texas, December 1, estimate. ⁸Arizona, Louisiana, Texas. ⁹Arizona, Texas, December 1, estimate. ¹⁰Arizona, Texas.

SOURCE: United States Department of Agriculture.

Total agricultural production in the Eleventh Federal Reserve District during 1946 was at a very high level despite a rather unfavorable growing season in some parts of the district. The production of wheat, grain sorghums, peanuts, Irish and sweet potatoes was particularly large compared with 1945 and was considerably above average. Other crops which exceeded the previous year's totals and the 10-year average are: hay, broomcorn, citrus fruits, pears, grapes, and commercial truck crops. A slight increase over 1945 was registered in the production of corn in all states except Louisiana. The greatest decline occurred in the production of cotton, but small decreases were reported in the production of oats, barley, rice, sorghums for forage, and pecans.

The acreage of crops harvested in Texas in 1946 has been estimated at 27,712,000 acres by the United States Department of Agriculture, compared with 27,306,000 acres harvested in 1945. Substantial increases in the acreage of wheat, grain sorghums, and cotton more than offset declines in corn, oats, and barley. The total acreage harvested increased also in Oklahoma and Arizona, but slight declines occurred in New Mexico and Louisiana.

The Texas cotton crop in 1946 was the smallest since 1889, production totaling only 1,650,000 bales, compared with 1,794,000 bales in 1945 and a 10-year (1935-1944) average production of 3,137,000 bales. Weather conditions in 1946 were unfavorable for cotton production in most areas of the State. Spring rains reduced the intended acreage, summer drought retarded crop growth in some areas, and heavy fall rains reduced both the quality and quantity of the fiber. Total acres harvested are estimated at 6,100,000, compared with 5,800,000 last year and an average of 9,106,000. The yield per acre fell to the lowest level since 1936, averaging only 130 pounds, compared with 149 pounds in 1945 and a 10-year average of 167 pounds.

The intended corn acreage in Texas was also reduced, due to heavy spring rains in the principal corn-producing areas. The 3,236,000 acres harvested in the State yielded an average of 17 bushels per acre, compared with a total acreage of 3,406,000 and a 16-bushel yield in 1945. Total production for 1946 is estimated at 55,012,000 bushels, compared with 54,496,000 bushels in 1945 and an average of 80,209,000.

Dry weather resulted in diverting to late grain sorghums a part of the intended cotton acreage in the Southern High Plains, but prevented the planting of some of the acreage intended for sorghums in the Northern High Plains. However, the southern commercial grain sorghum area had an excellent season, with expanded acreage and good yields. Favorable fall growing conditions and later than usual frosts permitted grain to mature on much of the late-planted acreage on the High Plains which otherwise would have produced only forage. The 4,613,000 acres harvested for grain in 1946 represented an increase of 13 per cent over the previous year, though falling about 10 per cent below the record acreage in 1944. The yield of 16 bushels per acre was slightly greater than in 1945, while the total production of 73,742,000 bushels reflected a 21 per cent increase. The 1946 wheat crop was estimated at 62,916,000 bushels, 31 per cent above that of the preceding year, and 87 per cent above the average. Unfavorable weather conditions, particularly in many droughty areas of the West, resulted in slightly below average yields of oats and an estimated crop of 36,366,000 bushels, or 12 per cent below that of 1945 and eight per cent above average. The smallest barley crop in Texas in eight years was produced in 1946, production totaling only 2,610,000 bushels in comparison with 3,596,000 bushels produced in 1945 and an average of 4,166,000 bushels. The 412,000 acres of rice harvested in Texas in 1946 is the largest

acreage ever reported in the State and exceeds the previous record of 1945 by about three per cent. Excessive spring and fall rains resulted, however, in below average yields of 43 bushels per acre and total production of 17,716,000 bushels, compared with a per acre yield of 45 bushels and production of 18,000,000 bushels in 1945. An estimated 383,500,000 pounds of peanuts were harvested from 767,000 acres in 1946. Both acreage and yields were slightly larger than in 1945. Heavy rains during the harvesting season caused some losses, but, on the whole, weather conditions during the year were favorable. A slight decline was reported in yields of flaxseed, which averaged 7.3 bushels per acre in 1946, but the total production of 555,000 bushels was about 10 per cent above the 1945 crop. Production of sweet and Irish potatoes was estimated at about 15 per cent and 40 per cent, respectively, above that of the preceding season. The production of hay and roughage combined, estimated at 4,799,000 tons, was about seven per cent less than in 1945.

In Texas the value of farm crops in 1946 was estimated by the United States Department of Agriculture at \$946,000,000, or about 27 per cent above the value of the 1945 crop. Preliminary reports from other sources indicate that the value of animals and animal products produced in the State in 1946 totaled about \$200,000,000, thus bringing the estimated total gross value of farm products to \$1,150,000,000. Cotton and cottonseed produced in Texas, estimated by the Department of Agriculture at \$327,000,000 in 1946, constituted the top ranking crop and accounted for more than one-third of the total value of all crops. Sorghums for grain and forage followed in second place, with a total value of \$158,000,000, wheat was third with \$115,000,000, corn fourth with \$84,000,000, and commercial truck crops fifth with \$51,000,000.

CASH FARM INCOME

(Thousands of dollars)

	October 1946		Total receipts			
	Receipts from Crops	Receipts from Livestock*	October 1945	October 1945	Jan. 1 to Oct. 1945	Oct. 1945
Arizona.....	6,181	4,582	10,783	7,227	117,141	102,751
Louisiana.....	31,499	9,598	41,097	28,929	104,183	154,226
New Mexico.....	11,559	21,708	33,397	24,519	88,484	83,187
Oklahoma.....	33,245	31,610	64,855	44,231	398,918	350,713
Texas.....	126,208	73,692	199,900	130,221	1,070,943	920,285
Total.....	208,792	141,190	349,982	235,127	1,889,699	1,611,162

*Includes receipts from the sale of livestock and livestock products.

SOURCE: United States Department of Agriculture.

VALUE OF TEXAS CROPS

Crop	Value of production (thousands of dollars)		Per cent of total	
	1946*	1945	1946*	1945
Corn.....	\$ 83,618	\$ 66,485	8.8	8.9
Wheat.....	115,136	69,818	12.2	9.4
Rice.....	38,798	34,380	4.1	4.6
Sorghums for grain.....	109,976	71,887	11.0	9.7
Other grains.....	38,929	33,104	4.1	4.4
Peanuts for nuts.....	32,981	24,832	3.5	3.3
Cotton lint.....	278,025	192,736	29.4	25.9
Cottonseed.....	49,032	39,847	5.2	5.3
Vegetables and fruits.....	118,404	126,831	12.5	10.9
Other crops.....	87,123	86,370	9.2	11.6
Total value of field crops, fruits, nuts, and truck crops.....	946,022	746,200	100.0	100.0

*Preliminary.

SOURCE: United States Department of Agriculture.

Prices received by farmers during 1946 generally averaged well above those received in 1945. The upward trend in prices of most farm commodities increased sharply after the mid-summer suspension and later removal of price ceilings, with many classes of livestock reaching record levels. Other notable price movements during the year included the sharp drop in November in cotton prices from their post-1920 peak and the fall in citrus fruit prices during the latter part of December.

Range conditions throughout most of the district at the beginning of 1946 were unfavorable, due principally to dry weather that had prevailed during the closing months of 1945.

Besides the shortage of grazing, there was also a shortage of grain sorghums and cottonseed, and considerable difficulty was being experienced by ranchmen in obtaining substitute concentrates. Because of these shortages of range grasses and other feeds, cattle and sheep throughout the district had undergone considerable shrinkage, and they started 1946 in below average condition. The extended drought was broken in many areas during the last of January, and the better grazing conditions which resulted brought about some general improvement in the condition of livestock, except in areas where rains and accompanying cold weather proved injurious. During February ranges deteriorated in southern Arizona and parts of Texas, but showed improvement in eastern and central Texas, Oklahoma, and New Mexico. Grain pastures, too, were improving and providing some grazing.

LIVESTOCK RECEIPTS—(Number)

	Fort Worth			San Antonio		
	December	December	November	December	December	November
	1946	1945	1946	1946	1945	1946
Cattle.....	75,816	64,472	85,691	41,048	27,361	44,865
Calves.....	49,954	41,776	78,064	24,650	19,540	34,913
Hogs.....	71,457	96,489	85,862	6,793	19,950	7,397
Sheep.....	66,373	86,448	78,172	25,508	22,448	36,852

COMPARATIVE TOP LIVESTOCK PRICES
(Dollars per hundred weight)

	Fort Worth			San Antonio		
	December	December	November	December	December	November
	1946	1945	1946	1946	1945	1946
Beef steers.....	\$25.00	\$16.50	\$25.00	\$21.00	\$15.75	\$20.00
Stocker steers.....	18.00	14.25	17.00			
Heifers and yearlings.....	27.00	18.25	25.50	17.00	15.50	18.00
Butcher cows.....	18.00	13.25	16.00	14.50	12.50	15.00
Calves.....	20.00	14.25	17.00	21.00	14.75	16.00
Hogs.....	25.00	14.65	26.00	25.00	14.65	25.00
Lambs.....	22.00	14.00	22.00	19.50	13.00	19.50

NUMBER OF LIVESTOCK AND PRODUCTION OF LIVESTOCK PRODUCTS
FOR 1946 AND GOALS FOR 1947—TEXAS—(In thousands)

	Indicated 1946 production or number		1947 goals
	1946	1946	
Beef cattle.....	2,877	2,700	
Sheep and lambs.....	9,575	9,575	
Milk cows.....	1,334	1,320	
Spring pig farrowing.....	174	198	
Turkeys.....	4,466	4,700	
Milk (pounds).....	4,135,000	4,225,000	
Chickens raised on farms.....	35,286	35,260	

SOURCE: United States Department of Agriculture, Production and Marketing Administration.

In March and April drought conditions returned to most of the range country, and added severity to a situation which was already difficult by reason of shortages of hay and other feed-stuffs. Scattered May showers brought some relief in New Mexico, but in the district as a whole the condition of ranges and livestock remained below average. Under pressure of feed shortages, ranchmen marketed large numbers of cattle, sheep, and lambs during April and May.

The drought continued over most of the district during June, July, and the greater part of August, resulting in further deterioration of ranges and causing critical shortages of feed in many western areas. At length, in late August and early September, rain covered all the district except scattered areas in western Texas and in New Mexico and Arizona. Ranges revived and stock water supplies were replenished. By mid-October most of the effects of drought had disappeared, and livestock generally were in good condition.

During the remainder of 1946 improved ranges and grain pastures helped to offset shortages of certain dry feeds. The small production of cottonseed, oats, barley, and grain sorghums in the Southwest constituted a feeding problem for farmers and ranchmen in the district. At the end of the year, ranges and pastures were in better than average condition. Supplies of hay and other roughage were larger than had been expected, and livestock were doing well.

The movement of cattle, calves, and sheep into the principal livestock markets of the district, though fluctuating frequently with changes in prices and price controls, was at a very high level during 1946, but considerably below the large volume which moved into these markets in 1945. The receipts of hogs in 1946 were well above those of the preceding year, but equal to only about one-half of the wartime record number received in 1944.

FINANCE

During most of 1946 changes in the principal asset and liability items of banking institutions in the United States and in this district were influenced largely by the fiscal operations of the United States Treasury, including the debt retirement program discussed elsewhere in this issue of the *Review*. Nevertheless, the impact of these factors varied considerably among individual banks or groups of banks and in geographical areas.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

	(Thousands of dollars)		
	Jan. 15, 1947	Jan. 15, 1946	Dec. 15, 1946
Total gold certificate reserves.....	\$494,595	\$530,244	\$508,668
Discounts for member banks.....	1,750	None	3,100
Foreign loans on gold.....	4,538	1,410	4,650
U. S. Government securities.....	904,115	893,791	923,847
Total earning assets.....	910,870	895,201	936,697
Member bank reserve deposits.....	777,750	791,348	787,699
Federal Reserve Notes in actual circulation.....	593,956	610,670	609,117

CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS
IN LEADING CITIES—Eleventh Federal Reserve District

	(Thousands of dollars)		
	January 8, 1947	January 9, 1946	Dec. 11, 1946
Total loans and investments.....	\$1,877,330	\$2,173,302	\$1,944,478
Total loans.....	765,713	667,250	764,581
Commercial, industrial, and agricultural loans.....	499,691	382,587	499,854
Loans to brokers and dealers in securities.....	10,059	6,422	8,442
Other loans for purchasing or carrying securities.....	81,020	173,541	93,066
Real estate loans.....	50,646	29,395	48,482
Loans to banks.....	368	1,447	1,117
All other loans.....	123,929	73,808	113,620
Total investments.....	1,111,617	1,506,052	1,179,897
U. S. Treasury bills.....	41,115	90,956	48,036
U. S. Treasury certificates of indebtedness.....	240,848	491,432	257,695
U. S. Treasury notes.....	119,089	216,931	160,674
U. S. Government bonds.....	632,117	841,928	642,287
Obligations guaranteed by United States Gov't.....	145	253	145
Other securities.....	78,303	61,557	71,090
Reserves with Federal Reserve Bank.....	399,571	396,664	402,087
Balances with domestic banks.....	230,629	312,315	223,135
Demand deposits—adjusted*.....	1,499,676	1,356,514	1,499,760
Time deposits.....	324,670	287,700	320,841
United States Government deposits.....	39,289	483,766	92,569
Interbank deposits.....	540,597	673,549	560,942
Borrowings from Federal Reserve Bank.....	1,500	None	1,500

*Includes all demand deposits other than interbank and United States Government, less cash items reported as on hand or in process of collection.

DEBITS TO INDIVIDUAL ACCOUNTS

	(Thousands of dollars)					
	—Pctg. change from—			Total year		Percentage change from 1945
	December 1946	December 1945	November 1946	1946	1945	
Abilene.....	\$ 29,735	+24	+7	\$ 295,486	\$ 224,684	+32
Amarillo.....	69,814	+38	+5	725,424	579,233	+26
Austin.....	100,288	+34	+27	1,097,328	852,507	+23
Beaumont.....	76,011	+26	+14	749,648	701,886	+7
Corpus Christi.....	70,824	+2	+18	776,257	707,630	+10
Corsicana.....	11,345	+27	+17	109,849	84,160	+20
Dallas.....	923,337	+19	+20	8,625,615	7,057,650	+22
El Paso.....	117,847	+31	+13	1,081,920	898,870	+24
Fort Worth.....	314,402	+28	+18	2,965,554	2,624,195	+13
Galveston.....	90,188	+12	+10	641,410	648,165	+17
Houston.....	816,625	+17	+11	8,183,040	7,065,345	+16
Laredo.....	17,094	+33	+15	181,435	147,830	+23
Lubbock.....	58,008	+58	+16	503,394	382,836	+31
Monroe, La.....	30,883	+29	+7	308,193	231,651	+33
Port Arthur.....	28,880	+17	+4	317,359	270,123	+17
Roswell, N. M.....	14,029	+19	+4	144,999	113,041	+28
San Angelo.....	25,728	+28	+15	286,692	216,682	+32
San Antonio.....	259,784	+19	+12	2,485,139	2,002,266	+24
Shreveport, La.....	121,029	+27	+17	1,172,586	1,004,139	+17
Texarkana.....	26,004	+26	+10	256,705	241,509	+6
Tucson, Ariz.....	51,785	+31	+7	553,300	411,699	+35
Tyler.....	34,969	+9	+8	371,241	309,393	+20
Waco.....	60,558	+27	+10	508,705	365,245	+39
Wichita Falls.....	46,696	+14	+7	479,237	395,175	+21

*Includes the figures of two banks in Texarkana, Arkansas, located in the Eighth District.

r-Revised.

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Average of daily figures in thousands of dollars)

	Combined total		Reserve city banks		Country banks	
	Gross demand	Time	Gross demand	Time	Gross demand	Time
December 1944.....	\$4,024,828	\$338,689	\$2,066,946	\$213,069	\$1,957,882	\$125,620
December 1945.....	5,109,360	451,887	2,634,030	285,371	2,474,730	166,516
August 1946.....	4,914,883	496,842	2,402,647	316,175	2,512,236	180,667
September 1946.....	4,890,403	498,697	2,360,709	316,209	2,469,594	182,488
October 1946.....	4,845,188	500,813	2,342,242	317,424	2,502,946	183,389
November 1946.....	4,884,407	503,710	2,341,164	319,618	2,523,243	184,092
December 1946.....	4,887,618	506,672	2,323,619	321,379	2,513,999	185,293

SAVINGS DEPOSITS

Reporting Banks—Eleventh Federal Reserve District

	Number reporting banks	December 31, 1946		Percentage change in savings deposits from	
		Number of savings depositors	Amount of savings deposits	Dec. 31, 1945	Nov. 30, 1946
Beaumont.....	3	12,398	\$ 7,610,500	+ .3	+ .5
Dallas.....	8	131,497	76,105,142	+ 13.7	+ .8
El Paso.....	2	31,909	23,834,575	+ 14.1	+ 1.5
Fort Worth.....	3	41,612	34,198,468	+ 11.4	+ 1.5
Galveston.....	4	24,755	20,519,382	+ 8.7	- .4
Houston.....	8	104,568	71,071,981	+ 5.7	+ .7
Lubbock.....	2	1,027	2,188,740	+ 11.4	+ .7
Port Arthur.....	2	6,134	5,253,338	- .2	- 1.1
San Antonio.....	5	39,449	46,115,274	+ 13.6	+ 2.0
Shreveport, La.....	3	32,235	26,395,218	+ 7.2	- .6
Waco.....	3	9,677	9,433,566	+ 11.1	+ 3.0
Wichita Falls.....	3	7,242	4,645,457	- 2.8	- .8
All other.....	56	62,424	53,281,632	+ 12.6	+ 1.6
Total.....	102	504,927	\$380,653,273	+ 10.5	+ 1.0

In this district, the daily average of gross deposits of member banks, after reaching an all-time peak in January 1946, showed an irregular decline during the remainder of the year. During December 1946, gross deposits averaged \$5,344,000, or \$217,000,000 lower than the average for December 1945. The decline resulted from the withdrawals of Treasury war loan deposits and interbank deposits, which were only partially offset by the growth in other deposits. Total war loan and interbank deposits during December 1946 averaged \$713,000,000 lower than in the corresponding month of 1945. The net decline in gross deposits during the year was more than accounted for by the decreases at reserve city banks, where the impact of the Treasury's debt retirement program was most pronounced. Despite the decline in interbank and war loan deposits at country banks, gross deposits at those banks during December 1946 averaged about \$60,000,000 higher than a year earlier. Time deposits at both classes of banks continued to expand during 1946, though at a slower rate than during the preceding year.

Reserve balances of member banks in this district fluctuated within comparatively narrow limits during 1946. In fact, the average of such balances in these banks amounted to \$772,000,000 during December, or only \$23,000,000 higher than in the corresponding month of 1945. This increase was the smallest shown during any year since 1940. Factors limiting the rise in reserve balances were a general contraction in money supply, the drawing down of interbank balances, and the trend among banks toward fuller employment of available funds. The reduction in reserve-exempt war loan deposits and a substantial increase in private deposits which require reserves brought about a gradual, though significant, increase in the required reserves of member banks. These reserves averaged \$680,000,000 in December 1946, or \$70,000,000 greater than a year earlier. In consequence, the excess reserves of member banks averaged only \$91,000,000 in December 1946, as compared with \$138,000,000 in December 1945. Nevertheless, excess reserves of member banks in this district continue relatively high in comparison with those of banks in some other sections of the country.

The circulation of Federal Reserve notes of this bank, which had expanded sharply during the war period and had reached an all-time peak of \$627,000,000 in mid-December 1945, returned to a more normal pattern of seasonal fluctuation during 1946. The return flow of currency from circulation during

the early months of 1946 reduced the total to approximately \$587,000,000, or about \$40,000,000 under the all-time peak. In subsequent months, the usual seasonal expansion in circulation occurred, reaching a peak for the year at \$613,000,000 early in November, but by the end of the year the total had again declined to \$604,000,000. A further decline of approximately \$14,000,000 occurred during the first three weeks of 1947.

There were marked changes in the asset and liability items of weekly reporting member banks in this district during 1946, growing out of the Treasury debt retirement program, the strong demand for bank credit, and the banks' investment policies. The heavy decline of \$577,000,000 in Government and interbank deposits was only partially offset by an increase of \$180,000,000 in adjusted demand and time deposits, with the result that the net decline in gross deposits during the year ended January 8, 1947, totaled \$397,000,000. To meet the deposit decline and the increase in loans, these banks withdrew \$82,000,000 from their balances with correspondents and reduced their investments by \$394,000,000.

Total loans of these banks on January 8, 1947, amounted to \$766,000,000, or \$98,000,000 greater than a year earlier. The major changes in loan portfolios included an expansion of \$117,000,000 in commercial, industrial, and agricultural loans, and increases of \$21,000,000 in real estate loans and of \$50,000,000 in "all other" loans, which include consumer installment loans. This loan expansion reflected an increased volume of production and distribution of merchandise, an increase in inventories, a rise in prices and other factors requiring larger working capital, an increase in accounts receivable, and an expansion in building activity. As an offset to this expansion, loans to others than brokers and dealers for security trading declined \$92,000,000 from the very high level which had been reached a year earlier because of the large amount of bank credit utilized to purchase Government securities during the Victory Loan Drive late in 1945. On January 8, 1947, the loans of these banks constituted 41 per cent of total earning assets as compared with 31 per cent a year earlier.

The net decline of \$394,000,000 in total investments of these banks during the year occurred entirely in holdings of Government securities. The major portion of the decline occurred in holdings of certificates of indebtedness and Treasury notes which were affected by the debt retirement program, but holdings of Treasury bills were reduced \$50,000,000. Holdings of Treasury bonds decreased only \$10,000,000. The maintenance of bond holdings at a level near the previous high reflected the efforts of banking institutions to maintain or increase the average maturity of their security portfolios. On January 8, 1947, holdings of Treasury bonds constituted 61 per cent of total Government security holdings, as compared with 44 per cent a year earlier.

INDUSTRY

Industry in the Eleventh District during 1946 participated in the troubled prosperity which attended the transition of the economy of the nation from a war footing to a peacetime

COTTONSEED AND COTTONSEED PRODUCTS

	Texas		United States	
	August 1 to December 31 This season	Last season	August 1 to December 31 This season	Last season
Cottonseed received at mills (tons).....	518,797	576,094	2,667,662	2,645,334
Cottonseed crushed (tons).....	400,218	447,592	1,753,467	1,922,507
Cottonseed on hand Dec. 31 (tons).....	175,833	212,701	1,032,001	941,175
Production of products:				
Crude oil (thousand lbs.).....	118,714	135,206	545,586	597,972
Cake and meal (tons).....	187,917	207,266	774,494	848,897
Hulls (tons).....	88,224	103,425	403,419	456,793
Linters (running bales).....	136,429	141,541	559,624	579,623
Stocks on hand Dec. 31:				
Crude oil (thousand lbs.).....	8,409	12,522	37,302	44,870
Cake and meal (tons).....	39,324	13,944	119,628	53,883
Hulls (tons).....	35,499	23,153	95,212	58,948
Linters (running bales).....	18,172	21,669	101,970	103,178

SOURCE: United States Bureau of Census.

DOMESTIC CONSUMPTION AND STOCKS OF COTTON—(Bales)

	December 1946	December 1945	November 1946	Aug. 1 to Dec. 31 This season	Dec. 31 Last season
Consumption at:					
Texas mills.....	16,345	13,852	18,715	94,285	77,163
United States mills.....	774,177	851,931	877,461	4,256,827	3,593,812
U. S. stocks—end of month:					
In consuming establs. ts.	2,226,832	2,378,863	2,105,694		
Public stg. & compresses.	5,985,925	10,518,749	6,212,340		

CRUDE OIL PRODUCTION—(Barrels)

	December 1946		Increase or decrease in daily average production from	
	Total production	Daily avg. production	Nov. 1946	Dec. 1945
Total North Texas.....	7,245,300	233,719	+ 4,257	N.A.
Panhandle.....	2,513,900	81,094	- 749	N.A.
North Texas.....	4,731,400	152,625	+ 4,508	N.A.
West Texas.....	16,312,650	526,214	-10,176	N.A.
Total East Texas.....	13,945,900	449,839	-15,553	N.A.
East Central Texas.....	4,159,950	134,192	- 7,733	N.A.
East Texas.....	9,785,950	315,647	- 7,820	N.A.
Southwest Texas.....	11,261,050	393,289	-28,328	N.A.
Coastal Texas.....	13,130,650	423,569	-39,731	N.A.
Total Texas.....	61,895,550	1,998,630	-98,045	+ 71,759
New Mexico.....	3,190,500	102,919	+ 1,962	+ 5,124
North Louisiana.....	2,900,130	93,553	+ 1,551	+ 17,114
Total District.....	67,986,180	2,193,102	-94,532	+ 93,997
Outside District.....	78,594,120	2,535,304	+31,369	+147,170
United States.....	146,580,300	4,728,406	-63,223	+241,167

SOURCE: Estimated from American Petroleum Institute weekly reports.

N.A.—Not available.

BUILDING PERMITS

	December 1946		Percentage change valuation from		Jan. 1 to Dec. 31, 1946		Percentage change valuation from 1945	
	No.	Valuation	Dec. 1945	Nov. 1946	No.	Valuation	from 1945	from 1945
Abilene.....	47	\$ 137,840	- 17	-11	977	\$ 3,967,456	+318	
Amarillo.....	116	305,860	- 59	-23	2,275	7,266,516	+ 91	
Austin.....	222	855,960	- 17	-13	4,083	17,792,607	+251	
Baumont.....	219	360,643	+129	+42	3,096	3,882,766	+112	
Corpus Christi.....	251	663,180	+ 68	+49	3,283	10,131,679	+133	
Dallas.....	711	1,861,744	- 68	-25	13,991	46,299,818	+142	
El Paso.....	81	214,725	- 63	-39	1,326	4,489,280	+114	
Fort Worth.....	303	1,078,744	- 7	+ 1	6,524	22,960,003	+172	
Galveston.....	72	64,510	- 37	-33	1,366	2,495,954	+ 73	
Houston.....	353	1,086,952	- 94	-14	7,325	50,638,600	+ 23	
Lubbock.....	119	336,159	- 70	-32	2,198	8,946,192	+136	
Port Arthur.....	79	50,516	- 76	-44	1,954	2,032,688	+107	
San Antonio.....	839	1,289,104	- 31	-24	13,369	23,434,686	+ 61	
Shreveport, La.....	195	424,793	+138	- 8	3,616	8,879,903	+233	
Waco.....	74	830,787	+491	+94	1,571	5,763,889	+223	
Wichita Falls.....	38	127,895	- 10	-12	837	1,983,097	+149	
Total.....	3,719	\$9,690,412	- 73	-10	67,791	\$220,880,934	+ 96	

VALUE OF CONSTRUCTION CONTRACTS AWARDED

	December 1946		December 1945		November 1946		Jan. 1 to Dec. 31 1946	
	1946	1945	1946	1945	1946	1946	1945	
Eleventh District—total..	\$ 44,282	\$ 22,848	\$ 29,747	\$ 568,145	\$ 278,944			
Residential.....	15,901	6,422	10,759	233,203	42,512			
All other.....	28,381	16,426	18,988	334,942	236,432			
United States*—total.....	457,278	330,685	503,745	7,489,722	3,299,303			
Residential.....	193,365	86,134	221,113	3,142,102	563,467			
All other.....	263,913	244,551	282,632	4,347,620	2,735,836			

*37 states east of the Rocky Mountains.

SOURCE: F. W. Dodge Corporation.

basis. Throughout the year the production and distribution processes were periodically disrupted by strikes, by shortages and maldistribution of essential materials, and by unbalance within the price system. Nevertheless, industrial production in the nation reached the highest level ever attained in a year of peace, and at the end of the year most manufactured goods, including durables, were being produced and shipped at annual rates exceeding those of prewar years. In this district, most manufacturing plants maintained activity substantially above prewar levels, although many plants, particularly those utilizing metals and metal products, were unable to operate at capacity because of inability to obtain materials in sufficient quantities. Petroleum production in the district rose to a new all-time high during 1946, and construction activity, although limited by building-material and labor shortages, attained a higher level than in any year before the war except 1941.

An outstanding accomplishment in 1946 was the return of veterans to productive civilian employment without creating a large volume of transitional unemployment. In the Eleventh District, manufacturing employment declined very rapidly following the end of the war in Europe as the working forces in shipyards, ordnance plants, and aircraft factories were reduced, and by February 1946 was at the lowest level since July

1942 and approximately 33 per cent below the all-time peak reached in November 1943. After February 1946, however, manufacturing employment in the district expanded steadily as materials became available in greater quantities and a nearly insatiable demand for virtually all consumer goods stimulated industrial activity. Nevertheless, by the end of the year, despite an estimated rise of 8 per cent from the postwar low and of 60 per cent over the 1939-1940 average, manufacturing employment remained nearly 30 per cent below the war peak. The lower level of employment in manufacturing as compared with the war period was largely counteracted, however, by withdrawal of women from the labor force and by a marked increase in employment in retail, wholesale, and service establishments, so that unemployment did not become excessive at any time during the period of transition. Total nonagricultural employment in the district at the end of 1946 is estimated to have been only about 5 per cent below the peak attained in 1943, and 25 per cent greater than in December 1940.

Manufacturing and Total Nonagricultural Employment

	Texas		5 States in Eleventh District†	
	Manufacturing employment	Nonagricultural employment	Manufacturing employment*	Nonagricultural employment
October 1946.....	316	1,381	519	2,371
October 1945.....	312	1,302	530	2,268
October 1943.....	442	1,455	672	2,548
October 1941.....	333	1,219	420	2,192
October 1939.....	182	1,032	353	1,913
1939-1940 average.....	185	1,027	340	1,890
War peak.....	443†	1,470‡	764‡	2,592‡
Postwar low.....	294§	1,296‡	497§	2,250‡

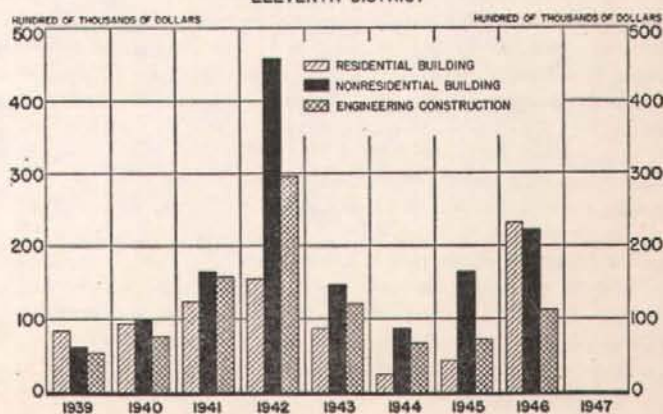
*Series unrevised for months prior to 1943. †Arizona, Louisiana, New Mexico, Oklahoma, Texas. ‡November 1943. §February 1946. ¶December 1943. **January 1945. ***July 1943.

SOURCE: U. S. Department of Labor.

The total value of construction contracts awarded in the Eleventh District was greater in 1946 than in any prior year excepting 1942, when awards for construction of war industrial and military facilities reached their peaks. Relaxation of government controls over construction late in 1945 was followed by a rapid increase in awards for all types of construction in the district. Residential construction expanded rapidly, awards reaching an all-time peak of \$51,000,000 in May 1946, while awards for nonresidential building were maintained during the first six months of the year at an annual rate substantially above that of any prior year except 1942. Rapid acceleration of construction activity in the district and elsewhere seriously depleted accumulated stocks of most building materials and created temporary requirements for materials in excess of current production or, in some cases, of existing capacity to produce. Consequently, acute shortages of essential builders' supplies developed which necessitated lengthy delays in completing projects, contributed to inefficient use of construction labor, and accelerated the rise in construction costs.

VALUATION OF CONSTRUCTION CONTRACT AWARDS

ELEVENTH DISTRICT



SOURCE: F. W. DODGE CORPORATION

In the spring of 1946, in an attempt to divert scarce materials to residential projects, the government imposed rigid limitations upon the use of building materials for nonresidential construction and restricted the volume of nonresidential building. These controls, as well as difficulties in obtaining desired materials and the probability that construction projects could not be completed on schedule, deterred further expansion of awards for nonresidential construction. Moreover, rapid increases in construction costs and uncertainty concerning the future trend of such costs apparently discouraged many commercial and industrial organizations and public and private institutions from initiating construction programs. A marked decline in the value of awards for residential construction likewise occurred after the all-time peak was reached in May, despite attempts of the government to stimulate construction of dwellings for veterans. As the accompanying table indicates, the total value of awards in the district during the last half of 1946 was approximately 35 per cent smaller than during the first six months of the year. Nevertheless, the \$568,000,000 in contracts awarded in the district during the whole of 1946 established a new record high for a peacetime year. Even when the rise in building costs is taken into consideration, it appears that the physical volume of nonresidential construction during the year was substantially greater than in any prewar year except 1941, and the number of dwelling units started in the district in 1946 was larger than in any prior year.

Valuation of Construction Contract Awards Eleventh Federal Reserve District

(In thousands of dollars)

	Total construction	Residential building	Nonresidential building	Engineering construction
1946*	\$568,145	\$233,203	\$222,784	\$112,158
July-December 1946*	224,430	78,082	93,972	52,386
January-June 1946	343,715	155,111	128,812	59,792
1945	278,944	42,512	163,775	72,657
1944	178,224	23,970	87,910	66,344
1943	356,925	88,721	147,522	120,682
1942	914,205	156,826	459,670	297,709
1941	446,943	123,682	164,187	159,074
1940	273,692	95,953	99,375	78,364
1939	199,109	83,434	61,401	54,274

*Preliminary.

SOURCE: F. W. Dodge Corporation.

Acute shortages of essential building supplies, which retarded construction projects and were the principal limitation upon the volume of construction activity during most of 1946, were alleviated to some extent during the last six months of the year. Lumber production in the nation rose from a postwar low of 1,500,000,000 board feet in December 1945 to 3,450,000,000 board feet in August 1946 and apparently continued near that high level during the remainder of the year. Striking increases in production of builders' hardware, plumbing equipment, roofing, flooring, and other essential building components also were achieved in 1946. In Texas and the Southwest, lumber production increased rapidly and by July 1946 was at the highest annual rate since the 1920's. Although lumber output in the area apparently declined slightly during the last five months of the year, it remained at a very high level as compared with prior years, and the lumber shortage became less acute. Production of Portland cement in Texas, although main-

Lumber Production (In millions of board feet)

	United States	Southwest*	Texas
1946 (January-October)	28,850	3,422	968
1945	27,356	3,023	809
1941-1945 average	32,894	3,942	1,138
1939-1940 average	26,955	3,885	1,204

*Arkansas, Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

SOURCE: U. S. Department of Agriculture.

tained above the levels of any prior year except 1942, was exceeded by shipments, and stocks were all but depleted. Moreover, a strike in several Texas cement plants in October and November limited production, and at the end of November

mill stocks in the State amounted to only 280,000 barrels, the lowest since August 1942, and somewhat less than a ten-day supply at the 1946 rate of shipment. The return of workers to the struck plants apparently permitted resumption in December of near peak operations in anticipation of heavy demands in 1947.

Production, Shipments, and Year-End Stocks of Portland Cement—Texas Mills

(Thousands of barrels)

	Production	Shipments	Stocks, Dec. 31
1946 (January-November)	9,731	10,109	279*
1945	8,042	8,397	656
1944	6,136	6,282	1,010
1943	6,580	9,177	1,135
1942	12,133	12,140	732
1941	9,680	9,842	739
1940	7,875	7,384	903
1939	7,338	7,207	911

*November 30, 1946.

SOURCE: Bureau of Mines.

Demand for petroleum products during 1946 was much greater than had been expected. At the beginning of the year, it was not anticipated by representatives of the petroleum industry that reduction in military consumption of petroleum products would be offset by increases in civilian consumption. Contrary to expectations, however, demand for petroleum products was very great, and it became necessary to increase production of crude oil appreciably in order to avoid serious depletion of stocks. Production in the Eleventh District was increased rapidly during the first six months of 1946 and attained an all-time peak of 2,425,000 barrels daily in June. Thereafter, it declined slowly, but in December 1946, when production averaged 2,193,000 barrels daily in the district, it was still 46 per cent greater than the 1939-1940 average.

Production of Crude Petroleum

(In thousands of barrels)

	United States		Eleventh District	
	Total	Daily average	Total	Daily average
1946*	1,731,979	4,744.3	824,577	2,259.1
1945	1,711,103	4,688.0	810,726	2,222.0
1944	1,677,904	4,584.4	809,056	2,210.5
1943	1,505,613	4,125.0	666,808	1,799.5
1942	1,386,945	3,799.0	546,730	1,497.9
1941	1,402,228	3,841.7	576,253	1,578.8
1940	1,353,214	3,697.3	552,983	1,510.9
1939	1,264,962	3,405.7	544,725	1,493.0

*Estimated.

SOURCE: American Petroleum Institute.

Although oil field development and exploratory drilling were retarded during 1946 by shortages of pipe, drilling equipment, and drilling muds, a greater number of wells was completed in the Eleventh District during the year than in any other year since 1941. Exploratory drilling in the district is reported to have established an all-time record in 1946, and discoveries are said to have been quite satisfactory, with additions to proven reserves perhaps more than offsetting the record production during the year.

Well Completions Eleventh Federal Reserve District

	Total wells	Oil wells*	Gas wells	Dry wells
1946†	9,012	5,510	586	2,916
1945	8,123	4,621	794	2,718
1944	6,767	4,016	319	2,432
1943	4,756	2,635	173	1,948
1942	5,831	3,741	208	1,882
1941	11,384	8,301	368	2,715
1940	11,055	8,046	391	2,618
1939	10,439	7,444	330	2,665

*Includes distillate wells.

†Preliminary

SOURCE: The Oil Weekly.

PRICE TRENDS IN 1946

Price movements affected business, agriculture, and industry to as great an extent during 1946, perhaps, as at any time in the nation's history. As restraints upon consumption were removed, demand for goods of all types, stimulated by five

years of unsatisfied wants, amplified by the postwar movement of population and the return of veterans, and backed by the largest accumulation of liquid assets and the highest aggregate income ever in the hands of consumers in the United States, exerted pressure upon prices which could not long be restrained effectively by administrative controls. Price and wage controls gradually lost their efficacy and were finally abandoned. Throughout much of the year, the prices of many goods fluctuated erratically, further distorting relations within the price structure. The strong latent inflationary forces generated during the war exerted gradually increasing pressure as 1946 progressed, and virtually all prices moved upward quickly, contributing to a rapid increase in dollar volume of retail sales, a substantial rise of the dollar value of inventories of manufacturers, wholesalers, and retailers, and a marked increase in agricultural cash income.

Indexes available for measuring price changes during 1946 must be regarded only as gauges of general movement. Since they are weighted averages of price quotations on various goods in numerous markets, they do not indicate the increase which has occurred in any specific commodity or group of commodities in a particular market. In addition, during much of the year the price quotations used in computing the indexes were quotations from markets which adhered to price control regulations, whereas an indeterminate but perhaps sizable portion of commodity transfers took place at black-market prices. Consequently, comparison of the indexes for a post-control period with those for a period prior to the relaxation or removal of controls may over-emphasize the increases which occurred in the actual level of prices of many goods. Moreover, the indexes cannot reflect accurately such factors as changes in quality of merchandise or changes in seller-customer relations, and there are indications that during 1946 quality improved and more services were rendered customers. Nevertheless, even when these qualifications are taken into consideration, it is apparent that the price level moved upward with surprising rapidity, particularly during the last months of the year.

As the accompanying table indicates, the rise in prices of all commodities at wholesale was very rapid, and increases in prices of farm products and foods were spectacular. Prices of semi-manufactured articles and manufactured products increased less, but registered substantial gains during the year, particularly after June. The cost of living as computed by the

Bureau of Labor Statistics, which had been remarkably stable during the war and rose only 2.6 per cent between January and June 1946, increased 15 per cent from June to the end of the year. Such sudden, substantial increases in the prices of basic raw materials and finished products and in the cost of living raised the question whether a further upward spiral of prices was in prospect as the effects of higher costs were transferred through the productive and distributive processes to the consumer. The price trends of 1946 also suggested the possibility that, despite the large money income of individuals and the heavy backlog of unsatisfied wants, industry and business might price themselves out of the mass market by raising prices more rapidly than disposable income and consumer willingness to spend expanded.

When 1946 ended, strong inflationary pressure still existed. An impressive backlog of potential demand remained unsatisfied, purchasing power in the form of liquid assets and current disposable income was at the highest level in the history of the country, and though there were ample supplies of many goods, mostly in the soft and semi-durable categories, effective demand far exceeded current production of most of the major consumer durables and of building materials and producer goods. Moreover, a round of wage increases was in prospect, an increase in freight rates, effective January 1, 1947, was still to be reflected in costs, and the full impact of the rise in raw-material and labor costs experienced during 1946 had probably not been felt in the retail prices of many durable goods. Nevertheless, there were indications that the upward surge of prices might be nearing its end. As early as the autumn of 1946, stock market prices and cotton prices had tumbled, and by the end of the year they had not regained a significant portion of their losses. As the year ended, there was general agreement that most agricultural prices faced at least a moderate decline during 1947. Strong consumer resistance to price increases was apparently developing. The housing market had felt the effects of buyer inability or resistance as early as May and June 1946, and the rapid increase in building costs had undoubtedly curtailed the market for new dwellings and commercial, industrial, and institutional buildings. Sales volume during the Christmas season fell somewhat short of the most optimistic expectations, although dollar sales were at an all-time high; and unusual pre-Christmas markdowns, particularly in the prices of luxury products, suggested that prices at retail might not be held long at their high level.

SELECTED INDEXES OF PRICES, UNITED STATES

	Dec. 1946†	Sept. 1946	June 1946	Jan. 1946	Aug. 1945	Dec. 1941	Sept. 1939
Wholesale commodity prices (Bureau of Labor Statistics, 1926=100)							
All commodities.....	139.6	124.0	112.9	107.1	105.7	93.6	79.1
Farm products.....	167.7	154.3	140.1	129.9	128.9	94.7	68.7
Foods.....	159.1	131.9	112.9	107.3	106.4	90.5	75.1
Other commodities.....	—	112.2	105.6	100.8	99.9	93.7	82.1
Nonagricultural commodities.....	133.5	117.2	106.7	101.9	100.9	93.3	81.3
Raw materials.....	154.2	141.4	126.3	118.3	116.3	92.3	72.6
Semi-manufactured articles.....	135.0	115.0	105.7	97.6	95.5	90.1	81.8
Manufactured products.....	134.5	117.2	107.3	102.9	101.8	94.6	81.9
Textile products.....	133.3	125.7	109.2	101.6	99.6	91.8	71.7
Metals and metal products.....	133.9	114.2	112.2	105.7	104.7	103.3	94.8
Building materials.....	154.6	133.8	129.9	120.0	117.8	107.8	90.9
Chemicals and allied products.....	126.1	98.4	96.4	96.0	95.3	91.3	76.6
Prices received by farmers (U. S. Dept. of Agriculture, 1910-1914=100).....	264.	243.	218.	206.	204.	143.	98.
Retail prices, all commodities (U. S. Dept. of Commerce, 1935-1939=100).....	170.9	164.3	147.7	143.1	142.2	116.6	100.3
Consumers' price index* (Bureau of Labor Statistics, 1935-1939=100)							
All items.....	153.3	145.9	133.3	129.9	129.3	110.5	82.7
Food.....	185.9	174.1	145.6	141.0	140.9	113.1	79.1
Clothing.....	176.5	165.9	157.2	149.5	146.4	114.8	81.0
Rent.....	N.A.	108.8	108.5	N.A.	N.A.	108.2	69.5
Fuel, electricity, and ice.....	115.5	114.4	110.5	110.8	111.4	104.1	86.1
Housefurnishings.....	177.1	165.6	158.1	148.5	146.0	116.8	83.5
Miscellaneous.....	136.1	129.9	127.9	125.2	124.5	107.7	93.7

*"Cost of Living."

N.A.—Not available.

†Wholesale commodity price index is for week ended December 28, 1946, and is not strictly comparable with monthly data for prior months.

THE TREASURY'S DEBT RETIREMENT PROGRAM MARCH 1, 1946-DECEMBER 15, 1946

From March 1 through December 15, 1946, Treasury cash balances were used to retire \$23,240,000,000 of matured and called United States Government securities. Although the Treasury did not make a comprehensive policy statement regarding the extent or the purpose underlying its debt retirement program, certain policies became apparent as developments evolved.

Largely as a result of the very large Victory Loan sales during November and December 1945, Treasury cash balances totaled \$25,855,000,000 at the end of February 1946. It became evident early in 1946 that cash receipts of the Treasury probably would run somewhat larger than had been anticipated; moreover, cash expenditures were reduced somewhat more sharply than earlier budget estimates indicated. Therefore, it was obvious that the Treasury would not need to enter the market to borrow additional funds but, on the contrary, would be in a position to use a very substantial part of its cash balances for debt retirement purposes.

During the war, monetization of the public debt had increased to great lengths. Following V-J Day, it was recognized that a process of demonetization of that debt should be undertaken as soon as possible. Moreover, since the national debt had reached a peak of \$279,200,000,000 at the end of February 1946, it was obviously desirable to retire as much of the debt as proved practicable, to reduce both the total volume outstanding and the debt's annual interest cost.

Consequently, although the Treasury's debt retirement program was a flexible one in the sense that decisions were made more or less currently as the program progressed, it is probably reasonable to conclude that Treasury considerations involved the use of as much as possible of the Treasury's cash balances for the retirement of maturing and callable United States Government securities, with special emphasis upon:

- (a) The retirement for cash of as large a percentage as practicable of maturing and callable issues of Government securities held in large volume by commercial banks and the Federal Reserve banks, thus reducing the total amount of bank-held debt and reversing to some extent the debt monetization process.
- (b) The retirement by cash, if possible, of the total amount of all maturing or callable bond issues and notes, thus reducing the interest cost burden, inasmuch as those issues carried an interest charge of one per cent or higher.

Consistent with such general policy considerations, 100 per cent of maturing and callable bond issues was retired by cash; 68.4 per cent of maturing notes was redeemed in cash, with the remaining 31.6 per cent exchanged for the lower interest-bearing certificates of indebtedness; 43½ per cent of maturing certificates of indebtedness was redeemed in cash, while the remaining 56½ per cent of maturing certificates was refunded by new certificate issues. During the period March 1

through December 15, 1946, matured and called Government securities totaled \$44,900,000,000, of which 51.7 per cent was retired for cash, while the remainder was exchanged for new issues of certificates. Data showing the total amount of securities, by type of issue, matured and called during the period, together with the amount of cash redemptions and new issue refundings, are shown below in Table 1:

TABLE 1
Redemption and Refunding of Marketable Public Debt
Matured or Called March 1-December 15, 1946, Inclusive

Type of Security	(Amounts in billions of dollars)			
	Total Matured and Called	Redeemed for Cash	Refunded by New Issues of Certificates	Per Cent of Total Redeemed for Cash
Certificates of indebtedness	\$ 33.1	\$ 14.4	\$ 18.7	43.5
Treasury notes	9.5	6.5	3.0	68.4
Treasury bonds	2.3	2.3	—	100.0
Total	\$ 44.9	\$ 23.2	\$ 21.7	51.7

Source: Treasury Bulletin

Daily Statements of United States Treasury
Treasury announcements

Changes in the composition of the marketable public debt from February 28, 1946, through December 15 of that year reflected principally a decline in the outstanding amount of certificates of indebtedness from \$41,400,000,000 to \$30,000,000,000; a decline in the outstanding amount of marketable Treasury notes from \$19,600,000,000 to \$10,100,000,000; and a decline in the outstanding marketable Treasury bonds from \$121,600,000,000 to \$119,300,000,000. The decrease in outstanding marketable obligations, plus a net decrease of \$700,000,000 in total nonmarketable public issues, was offset slightly by an increase of \$3,400,000,000 in special issues, with the result that the total public debt declined from \$279,200,000,000 to \$258,700,000,000, a decrease of \$20,500,000,000, despite the fact that the cash retirement of marketable debt amounted to \$23,200,000,000.

As a further consequence of the cash retirement of maturing and callable Government securities, the maturity distribution of the marketable public debt changed somewhat between February 28, 1946, and December 15 of that year. Issues due or callable within one year were reduced from \$70,200,000,000 at the end of February 1946 to \$54,900,000,000 as of December 15, 1946. Outstanding issues due or callable within from one to five years increased during the period from \$35,400,000,000 to \$39,500,000,000; issues due or callable within five to ten years declined from \$30,400,000,000 to \$27,300,000,000; issues due or callable in from 10 to 20 years declined from \$32,500,000,000 to \$32,300,000,000; while issues maturing or callable in over 20 years declined from \$31,000,000,000 to \$22,400,000,000. The net effect of these changes was that the debt due or callable within one year constituted a smaller proportion of the marketable public debt on December 15 than on February 28, decreasing from 35.2 per cent to 31.1 per cent. Of course, the mere passage of time, resulting in shifts

between classes of maturities, was a contributing factor, along with the debt retirement program, to the change which occurred in the maturity distribution of the marketable debt.

The holders of Government securities redeemed for cash between March 1 and December 15, 1946, inclusive, are presented below in Table 2. It will be noted that commercial banks held slightly more than half, or 51.7 per cent, of the marketable Government securities redeemed, while the Federal Reserve banks held approximately 20.4 per cent of such securities. These figures, reflecting the extent to which the Treasury concentrated its cash redemptions on bank-held issues, are of interest, inasmuch as one of the purposes underlying the retirement program was to demonetize the public debt as much as practicable.

TABLE 2

**Holders of Marketable Public Debt Redeemed
March 1-December 15, 1946, Inclusive**

(Amounts in millions of dollars)

Holder	Amount Redeemed for Cash	Per Cent of Total
Federal Reserve banks	\$ 4,750 ^a	20.4
Commercial banks	12,014*	51.7
Total for banking system	16,764	72.1
Other holders	6,476*	27.9
Total	\$23,240	100.0

*Estimated on basis of per cent of issue redeemed for cash and holdings shown by "Treasury Survey of Ownership of Securities." This survey covers commercial banks, including trust companies, which hold approximately 95 per cent of United States Government securities held by all commercial banks in the United States. "Other holders" include savings banks, insurance companies, mutual savings banks, and other investors. "Amount Redeemed for Cash" is based on holdings for day previous to redemption date unless noted otherwise. No adjustment is made for any shift in holdings occurring between date of survey and maturity date of securities.

In the process of retiring for cash \$23,200,000,000 of matured and called Government securities and effecting an over-all reduction in the total public debt by \$20,500,000,000, the Treasury's cash balances, including war loan deposits with commercial banks, deposits with Federal Reserve banks, and other deposits, were reduced from a total of \$25,855,000,000 at the end of February 1946 to \$3,626,000,000 as of December 17, 1946. The difference between the over-all reduction of \$20,500,000,000 in the total public debt during the period and the reduction of \$22,229,000,000 in Treasury cash balances was used to meet a deficit resulting from an excess of current expenditures over current receipts during the period.

TABLE 3

**Change in Treasury Cash Balances
February 28-December 17, 1946**

(Amounts in millions of dollars)

	Balances		Change
	February 28, 1946	December 17, 1946	
War loan deposits with banks	\$24,447	\$2,207	\$22,240 (—)
Deposits with Federal Reserve banks	1,209	1,200	9 (—)
Other bank deposits	199	219	20 (+)
Total cash balances	\$25,855	\$3,626	\$22,229 (—)

Source: Daily Statements of United States Treasury

A very large part of the cash balances used to retire securities during the debt retirement program was obtained through the sale of over \$15,000,000,000 of long-term bonds during

the Victory Loan Drive in the latter part of 1945. Consequently, to a considerable extent, the debt retirement program represented, in a sense, a refunding operation in which principally short-term debt, i.e., certificates of indebtedness and notes, was refunded into long-term bonds.

The computed annual interest charge on the interest-bearing debt of \$277,900,000,000¹ on February 28, 1946, was \$5,479,000,000, representing a computed annual interest rate of 1.972 per cent. By the end of September, that rate had increased to 2.026 per cent, as a result of the retirement principally of short-term low interest-bearing securities. On the basis of the increase in the computed annual interest rate on the interest-bearing public debt from February 28 to September 30, the latest date for which figures are available, it may be estimated that the computed annual interest rate as of December 15 was perhaps 2.050, giving consideration to the debt retirement which occurred subsequent to September 30. If that rate is applied to the \$257,400,000,000 of interest-bearing debt which was outstanding on December 15, the annual interest charge will be found to be approximately \$5,276,000,000. In effect, therefore, the reduction of \$20,500,000,000 in interest-bearing debt may have resulted in a saving of approximately \$200,000,000 in interest cost to the Treasury.

The approximate effect of the debt retirement program on excess reserves of the banking system is summarized, without consideration for offsetting factors, in Table 4:

TABLE 4

**Effect on Excess Reserves of the Cash Retirement
of Marketable Public Securities Between
February 28-December 16, 1946**

(Amounts in millions of dollars)

Holder	Amount Redeemed for Cash ^a	Approximate Decline in Excess Reserves
Federal Reserve banks	\$ 4,750	\$4,750
Commercial banks	12,014 ^a	—
Other holders	6,476 ^a	971 ^b
Total	\$23,240	\$5,721

^aSee note at bottom of Table 2.^bFifteen per cent of amount redeemed for cash (see text for explanation).

¹The difference between the total public debt of \$279,200,000,000 on February 28, 1946 and the interest-bearing debt of \$277,900,000,000 on the same date represented matured obligations on which interest had ceased and other non-interest-bearing obligations.

The cash redemption of Government securities held by the Federal Reserve banks resulted in a decrease of excess reserves by an amount equivalent to the full amount of such redemptions. Assuming that Treasury deposits with the Federal Reserve banks remained constant, redemptions of securities held by the Reserve banks decreased both the war loan accounts and the reserve balances of commercial banks by an amount equaling the redemptions. The approximate decline in excess reserves resulting from the redemption of Government securities held by the Reserve banks, therefore, amounted to \$4,750,000,000.

The redemption for cash of matured and called Government securities held by commercial banks resulted in no effect upon bank reserves, inasmuch as those transactions involved a decrease in the war loan accounts of the commercial banks which was offset by an increase in funds equivalent to the bank holdings of Government securities redeemed for cash.

Cash redemption of securities held by nonbank investors resulted in a shift of deposits from the reserve-exempt war loan accounts held by commercial banks to deposit accounts of nonbank investors subject to legal reserve requirements. If it may be assumed that the average required reserve against these nonbank investor deposits approximated 15 per cent, then the excess reserves of banks would tend to be decreased by approximately that amount.

As was stated above, Table 4, showing the approximate effect of the debt retirement program on excess reserves of the banking system, presents data without consideration to offsetting factors. Actually, the effect of the debt retirement program on the excess reserves of the banking system has been offset largely by sales of securities to the Federal Reserve banks. In Table 4 it was indicated that the initial effect of the debt retirement program was to bring about an over-all decline in excess reserves during the period of \$5,721,000,000. Data presented in Table 5 show that purchases of Government securities by the Federal Reserve banks during the period, including replacement of securities redeemed for cash during the debt retirement, offset \$4,989,000,000 of the decline in excess reserves shown in Table 4. Other factors which affected member bank reserves offset approximately \$432,000,000 of the decrease. Consequently, the net effect upon excess reserves as a result of the debt retirement program and other factors was a decrease of approximately \$300,000,000, or a reduction in excess reserves from \$1,050,000,000 on February 28 to \$750,000,000 on December 18, 1946.

TABLE 5

Purchases of Government Securities by the Federal Reserve Banks February 27-December 18, 1946

(Amounts in millions of dollars)

Holdings, December 18, 1946	\$23,211
Holdings, February 27, 1946.....	22,972
Increase in holdings	239
Holdings redeemed for cash.....	4,750
Net purchases for period.....	\$ 4,989

Source: Weekly Condition Reports of the Federal Reserve banks.

Further effects of the debt retirement program upon commercial banks were a reduction in their holdings of Government securities, caused by the retirement for cash of matured and called securities, and the necessity which confronted commercial banks to sell securities, especially short-term issues, to the Federal Reserve banks in order to maintain reserve positions. Moreover, total deposits of the commercial banks also decreased as the Treasury drew down its very large war loan balances. That decrease, however, was offset to some extent by a shift of part of the war loan balances to deposits in private accounts and by an expansion of loans which occurred during the period of the debt retirement program.

Table 6 presents statistics showing the Treasury cash redemption of marketable public debt between March 1 and December 15, 1946, inclusive, by types of issue, amounts redeemed for cash, and amount of redeemed securities held by Federal Reserve banks, commercial banks, and other holders.

TABLE 6

Treasury Cash Redemption of Marketable Public Debt
March 1-December 15, 1946

(Amounts in millions of dollars)

Type of Issue	Date Due or Called	Amount Outstanding	Amount Redeemed for Cash	Per Cent of Issue	Cash Redemption by Holder		
					Federal Reserve Banks	Commercial Banks ^a	Other Holders ^b
7/8 Certificates	March 1	\$ 4,147	\$ 1,014	24.5	\$ 233	\$ 623	\$ 158
1.0 Notes	March 15	1,291	1,291	100.0	76	1,007 ^c	208 ^c
3% Bonds							
1956-46	March 15	489	489	100.0	77	213 ^c	199 ^c
7/8 Certificates	April 1	4,811	1,991	41.4	547	1,018	426
7/8 Certificates	May 1	1,579	1,579	100.0	362	964	253
7/8 Certificates	June 1	4,799	2,025	42.2	247	603	1,175
3 Bonds							
1948-46	June 15	1,036	1,036	100.0	205	530 ^d	301 ^d
3 1/8 Bonds							
1949-46	June 15	819	819	100.0	87	425 ^d	307 ^d
0.90 Notes	July 1	4,910	1,994	40.6	434	1,000	560
7/8 Certificates	August 1	2,470	1,246	50.6	363	594	289
7/8 Certificates	September 1	4,336	1,995	46.0	740	732	523
7/8 Certificates	October 1	3,440	2,000 ^e	58.1	482	1,055 ^e	463 ^e
7/8 Certificates	November 1	3,778	2,000 ^e	52.9	357	1,028 ^e	615 ^e
7/8 Certificates	December 1	3,768	500 ^e	13.3	0	0	500 ^e
1 1/2 Notes	December 15	3,261	3,261 ^e	100.0	540 ^b	2,222 ^e	499 ^e
Total.....		\$44,934	\$23,240	51.7	\$4,750	\$12,014	\$6,476

Source: Treasury Bulletins
Daily Statements of United States Treasury
Treasury announcements

^fPreliminary.

^gEstimated.

^aSee note at bottom of Table 2.

^bBased on holdings as of December 4, 1946.

^cBased on holdings as of February 28, 1946.

^dBased on holdings as of May 31, 1946.

^eBased on holdings as of August 31, 1946.

FEBRUARY 1, 1947

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Compiled by the Board of Governors of the Federal Reserve System)

INDUSTRIAL PRODUCTION



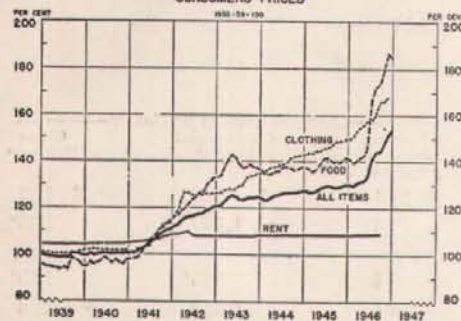
Federal Reserve index. Monthly figures, latest shown is for December.

DEPARTMENT STORE SALES AND STOCKS



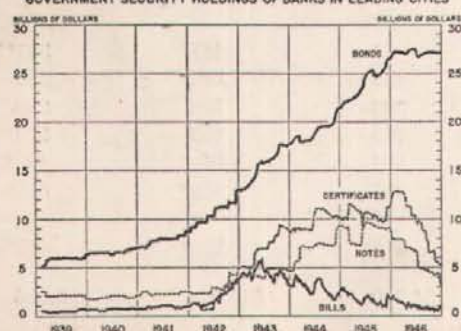
Federal Reserve indexes. Monthly figures, latest shown are for December.

CONSUMERS' PRICES



Bureau of Labor Statistics' indexes. Midmonth figures, latest shown are for December.

GOVERNMENT SECURITY HOLDINGS OF BANKS IN LEADING CITIES



Excludes guaranteed securities. Data not available prior to February 8, 1939; certificates first reported on April 15, 1942. Wednesday figures, latest shown are for December 31.

Industrial output declined slightly in December owing mainly to a temporary reduction in coal supplies and to holiday influences. Value of retail trade was maintained close to record levels. Wholesale prices of industrial products have advanced somewhat further in recent weeks; prices of some basic commodities, however, like butter, hides, and silver, have shown further marked declines.

INDUSTRIAL PRODUCTION

The Board's seasonally adjusted index of industrial production was 179 per cent of the 1935-39 average in December as compared with 182 in November.

Output of durable goods decreased somewhat, reflecting chiefly a decline in production of iron and steel owing to the bituminous coal work stoppage. In the early part of January steel operations were raised to the peak rates prevailing in the middle of November. Activity in machinery and transportation equipment industries showed little change in December. Production of nonferrous metal products increased somewhat further. Activity in the furniture industry reached a new record level for the postwar period.

Output in industries manufacturing nondurable goods declined to 168 per cent of the 1935-39 level, from 172 in November, owing in part to curtailed operations during the Christmas week. Production of textile products decreased about 7 per cent. Meat packing activity declined from the sharply advanced level reached in November, while output of most other manufactured foods showed a small increase. Newsprint consumption increased, and production of most chemical and rubber products remained at advanced levels.

Output of minerals in December was at the November rate. Owing to the termination of the two-and-a-half week work stoppage in the bituminous coal industry on December 9 and the high rate of output in subsequent weeks, coal production was 9 per cent larger in December than in November. Production of crude petroleum decreased slightly.

EMPLOYMENT

Nonagricultural employment in December remained at the November level, after allowances for seasonal increases in trade and Government postoffices and the usual decline in construction employment. Unemployment increased by about 200,000 persons.

CONSTRUCTION

Value of most types of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in December, reflecting mainly seasonal influences. Residential awards and awards for public works and utilities, however, were more than double the amounts in December 1945. Value of other contracts was substantially smaller than in December 1945, but for the year 1946 exceeded all previous years except 1942.

DISTRIBUTION

Department store sales in December showed the usual sharp increase and the Board's adjusted index was 272 per cent of the 1935-39 average. Total sales in the fourth-quarter holiday shopping season were 23 per cent larger than in the same period in 1945 and for the year 1946 sales were 27 per cent greater than in 1945. Sales in the first three weeks of January showed about the usual seasonal decline. Department store stocks showed a much smaller decline than usual in December and, according to preliminary figures, were 70 per cent larger than at the end of 1945. Outstanding orders for merchandise continued to decline and were about 30 per cent smaller than on December 31, 1945.

Loadings of railroad revenue freight in December and the first three weeks of January exceeded the volume shipped during the corresponding period in 1945-46 by about 10 per cent. Loadings of grain products were the greatest on record for the month of December owing to large shipments for export.

COMMODITY PRICES

The general level of wholesale commodity prices advanced slightly further from the middle of December to the latter part of January reflecting increases in prices of industrial products, offset in part by decreases in prices of most livestock and poultry products, grains, cotton, and canned fruits and vegetables.

Among industrial products, prices of building materials and metal products generally showed the largest increases in the early part of January. Silver prices, however, declined considerably and a leading manufacturer of lower-priced automobiles reduced prices slightly.

Retail food prices declined somewhat further from earlier peak levels and clearance sales before and after the Christmas holiday resulted in substantial price reductions for various types of merchandise. Retail prices of most standard types of goods, however, were maintained or increased further in this period.

BANK CREDIT

Real estate and consumer loans at banks in leading cities continued to increase during December and the first half of January. Commercial and industrial loans, following the rapid expansion of the summer and fall months, increased only slightly further. Substantial reductions in holdings of Government securities reflected largely the 3.5 billion dollar Treasury note retirement of mid-December.

Deposits at member banks increased in the early part of December but declined in the latter half of the month as a result of income tax and other payments. Member bank reserve balances showed similar fluctuation with little net change for the period as a whole. Reserve funds which became available to banks through a post-holiday decline in currency in circulation and through increases in monetary gold stock were about offset by reductions in Government security holdings and an increase in Treasury deposits at the Reserve Banks.