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## THE SHEEP INDUSTRY IN THE UNITED STATES: SITUATION, CHARACTERISTICS, AND PROBLEMS

### General View of the Current Situation

In the early part of the recent war period sheep numbers and wool production in the United States rose to new peaks. Since 1942, however, the trend has been in the opposite direction, with both sheep numbers and wool production now standing at the lowest points in more than twenty years. In the face of greatly expanded consumption of wool by American mills since 1940—approximately doubling the prewar average annual rate of consumption—wool stocks in the United States and in the world are at abnormally high levels. In the United States, from April 1943 to April 1947, domestic wool prices were supported through purchases by the Commodity Credit Corporation at levels generally above the world level. The result was that imports of wool continued, as in 1941 and 1942, to exceed domestic production, and consumption of foreign wools increased, while large amounts of domestic wool went into storage rather than into consumption.

Recently foreign consumption of wool has been increasing somewhat with the revival and rehabilitation of the textile industry in some of the war-ravaged industrial nations. In the United States, however, the peak of mill consumption apparently has passed, leaving American mills and dealers with wool supplies considerably in excess of prewar averages and predominantly of foreign origin, while Government (CCC) stocks of domestic wool alone are near the average annual mill consumption of the 1930's. Although world carry-over stocks of apparel wool, standing at approximately three times the prewar average, declined slightly from 1945 to 1946, total stocks held in the United States by dealers, mills, and the Commodity Credit Corporation showed a significant increase. Total production of wool during 1946 in the five Southern Hemisphere countries<sup>1</sup> from which comes most of the wool imported into the United States was considerably above the prewar average, insuring a highly competitive market from which American mills may purchase needed replenishments of their stocks.

Under these conditions of carry-over, production, and supply, the sheep industry in the United States is faced with difficult problems: How can prices of domestic wool be raised or production costs lowered to the point where sheep raising will yield a profit sufficient to check or reverse the reduction of flocks which has been in progress since 1942? What price-support measure can be devised to take the place of the CCC wool purchase program which was terminated on April 15 of this year? How can the Government dispose of the accumulated CCC stocks without undermining the domestic wool price structure? Of even more importance in the long run, what improvements can the sheep industry make in methods of producing and preparing wool for the domestic market that will enable its product to be sold to domestic mills in competition with foreign wools?

<sup>1</sup>Australia, New Zealand, Union of South Africa, Argentina, and Uruguay.

Before possible solutions for these problems can be examined and appraised intelligently, certain facts concerning the nature of the sheep industry in the United States and its position in the nation's economy and something of the historical background of the present situation must be understood.

### Sectional Distribution of Sheep Raising

In many sections of the United States sheep raising holds a position of considerable, though varying, importance among the productive occupations of the people. When found in the states of the East and of the Mississippi Valley, this industry is now usually a supplement of more or less consequence to other farm enterprises. Seldom is it, as in earlier times, the sole or major enterprise of the farmer in such important agricultural states as New York, Pennsylvania, Virginia, Ohio, Indiana, Illinois, Missouri, and Iowa. In many sections of these and other so-called "native sheep states," sheep raising remains an important feature of a diversified farm program and makes a sizable addition to cash farm income; but the sheep and wool growing industry as a major enterprise has shifted its centers of concentration to the semi-arid plateau and mountain sections of the "western sheep states"<sup>2</sup> and of Texas.

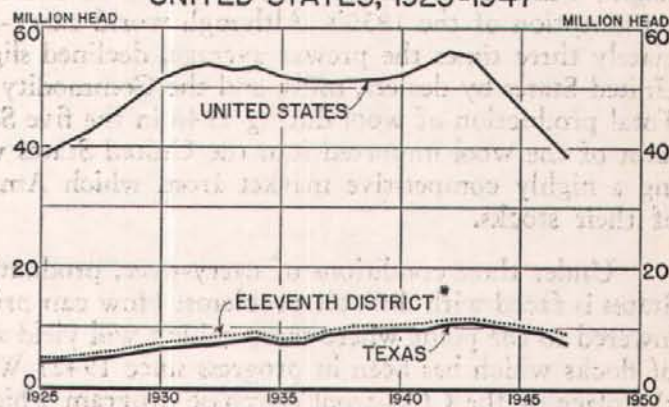
Following the Civil War, there was a sharp downward trend in the numbers and in the percentages of stock sheep on farms in the native sheep states, largely offset by an almost equally sharp increase in numbers in the West. The extensive ranges of the West invited expansion of sheep herds, whereas rising values of the less ample agricultural lands of the East encouraged the more intensive use of farms for the production of cultivated crops. By 1886 half the stock sheep in the United States were in Texas and the western states and territories, and from that time to the present, even though totals in both areas have fluctuated in cyclical fashion, the preponderance of numbers on western pastures and ranges has increased. At the peak of the current cycle in 1942, there were approximately 35 million stock sheep and lambs in the 12 western states and Texas to about 15 million in the native sheep states. These latter states usually have more sheep and lambs on feed than the western states have, but the proportion of such animals in the entire country, though showing a tendency to increase in recent years, has usually ranged since the turn of the century between one-fifteenth and one-seventh of the whole number of sheep and lambs.

In the western sheep states and Texas, as a group, sheep, lambs, and wool account for about one-eighth of the cash income derived from important farm, livestock, and mineral products of the area, although in five of the individual states this industry in the year 1944 ranked third as a source of income.

From 1920 to 1946 the number of stock sheep and lambs on farms in Texas in relation to the number in the United States as a whole and in other important sheep-raising states increased very rapidly. In the earlier year nine per cent of all stock sheep and lambs in the United States were in Texas; in the later year, 26 per cent. Since 1920 Texas has led all other states in sheep numbers and in the amount of wool produced each year. Consequently, whatever affects the profitableness of the sheep and wool industry sectionally or nationally is of particular interest to the sheepmen of this State.

The sheep and wool growing industry of the Eleventh Federal Reserve District is located mainly in the westcentral and southwestern sections of Texas and in a few counties in the southeastern part of New Mexico. Most of the major sheep-raising counties of New Mexico and Arizona are in the northern portions of those states and

SHEEP NUMBERS IN TEXAS, THE ELEVENTH FEDERAL RESERVE DISTRICT, AND THE UNITED STATES, 1925-1947



\* INCLUDES ONE-THIRD OF THE SHEEP IN NEW MEXICO, ONE-TENTH OF THOSE IN ARIZONA, AND ALL THOSE IN TEXAS.  
SOURCE: U.S. DEPT. OF AGRICULTURE, B. A. E.

<sup>2</sup>The "western sheep states" are: Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, South Dakota, Utah, Washington, and Wyoming.

lie outside this district. In northern Louisiana and southeastern Oklahoma, the growing of sheep and wool is of very minor importance. If one-third of the stock and feeder sheep and lambs on farms in New Mexico on January 1, 1947, and one-tenth of those in Arizona are added to the 8,523,000 head in Texas, the approximate sheep and lamb population of the Eleventh District on that date was 9,063,000, or a little less than one-fourth of the sheep and lambs in the entire United States.

Considerable numbers of sheep are grown, mostly as a subsidiary enterprise, on the grain and grass pastures of the Coastal Bend, north-central, and Rolling Plains sections of Texas. It is on the Edwards Plateau and in the eastern Trans-Pecos region, however, that sheep raising in Texas assumes the position of a major enterprise and becomes the sole or principal source of cash income for owners or operators of the ranches. The major sheep-growing and wool-producing counties of the State are, with few exceptions, located in those two areas.

#### Interrelationships with the National Economy

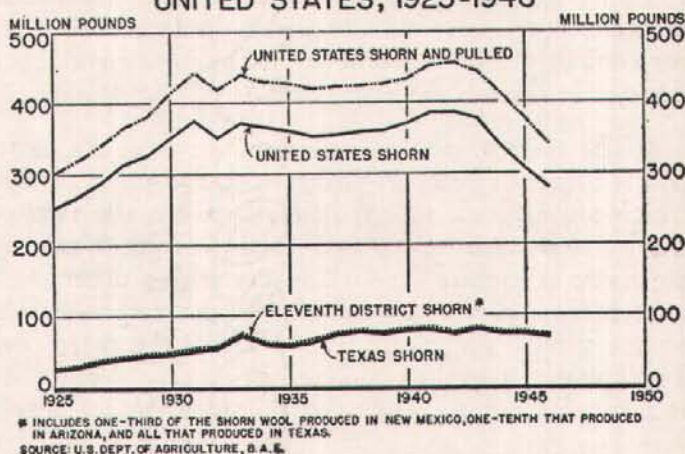
Sheep raising in the United States supplies on the average some four or five per cent of the meat consumed in the nation and about the same percentage of all fibers used in recent years in domestic manufacture of textiles. Annual wool production usually falls short of the consumption requirements of domestic woolen mills. Half a million appears to be a generous estimate of the number of persons who find full-time employment in the raising of sheep. Cash receipts from marketings of sheep, lambs, and wool for the ten-year period 1933-1942 constituted a little more than three per cent of the total income received by American farmers from the sale of farm products. In 1945 they accounted for about \$450 million out of a total cash farm income of approximately \$21 billion.

The economic importance of sheep raising to the nation as a whole or to the areas where it is concentrated cannot be judged adequately, however, in terms of the income received by the growers of the sheep or on the basis of the number of persons employed in the enterprise. Its interrelationships with the larger livestock and livestock products industry and, more importantly, with the textile and apparel industries, greatly increase its significance in the national economy. For example, in 1935, when domestic growers supplied 95 per cent of all apparel wool consumed by American mills, wages paid to workers employed in the woolen and worsted section of the United States textile industry exceeded by 40 per cent the 10-year (1934-1943) average cash income received by wool growers from the sale of the wool crop; and the value of the 1935 output of woollens and worsteds was more than six times the 10-year average value of the wool clip of the nation. It is true that domestic wool does not regularly furnish so large a percentage of total mill consumption as in 1935 and that United States mills are not dependent upon home-grown wool in the sense that they have no alternative source of supply. Nevertheless the interrelationship of sheep raising and the textile industry in the United States has been and remains important to the economy of the nation. Account should be taken also of the activities of commission merchants and wool processors, of the investments and earnings of the manufacturers of woollens and worsteds, and of employment, wages, value of product, investments, and earnings in the other segments of the textile industry in which wool is used in combination with cotton, rayon, or other fibers. When these and other integral and associated branches of the sheep and wool industry are viewed in relation to the entire national economy, it is apparent that an examination of the current situation and problems of the growers of sheep and wool should be of interest to a much larger group than the growers themselves.

#### Sheep Raising a Joint-Product and Joint-Cost Enterprise

In examining the situation of the sheep industry of the United States in any given period or area, it is well to recognize the fact that sheep raising is a joint-product and joint-cost enterprise, in which wool and meat are products of comparable importance. Although in some areas or under some condi-

WOOL PRODUCTION IN TEXAS, THE ELEVENTH FEDERAL RESERVE DISTRICT, AND THE UNITED STATES, 1925-1946



tions, the one or the other may be of relatively more importance or in greater demand, neither is ever *the* product and the other a byproduct of sheep raising. In Texas, where income from wool supplies the stronger incentive to sheep raising, sales of lambs and sheep generally yield one-half to two-thirds as much income as wool does to the rancher. In other states, both in the East and in the West, lambs and sheep normally make the larger contribution to the grower's income, but wool usually accounts for from 30 to 45 per cent of the cash return of the joint product. For the United States as a whole, from 1916 to 1942, it is estimated that receipts from the sale of wool accounted for 40.9 per cent of the net income from the joint products of the sheep-raising industry, the percentages for three-year periods ranging from a high of 45.5 to a low of 37.0 per cent.

The costs of producing sheep and wool are mostly the same. Interest on owner's investment, outlays for lease of pastures and ranges, for sheep folds, and for herding and veterinary care involve costs which are difficult to apportion between the two products. Moreover, on the ranches of Texas and the western states, sheep and wool growing often supplements cattle and goat raising, thereby utilizing more efficiently land resources which otherwise would be only partially productive and making even more complicated the allocation of costs between the industries and between the two products of the sheep-raising enterprise. There are many individual farms in the native sheep states and in Texas where a similar cost-accounting problem arises from the fact that sheep raising is engaged in as a supplement to other and more important enterprises.

There are some costs, however, which can be charged entirely to wool production or to the production of sheep and lambs for meat. For example, costs of shearing, bagging, transporting to market, and selling wool are chargeable entirely to wool production. On the other hand, if the farmer, encouraged by a favorable current price for mutton, chooses to fatten some of his shorn sheep before selling them, the costs of feeding and marketing the sheep are no part of the costs of producing the shorn wool. As a result of the fusion of some of the costs and the separateness of others, it is difficult, or sometimes impossible, for the sheep raiser, as well as for the analyst of his situation, to determine accurately the share of the profit or loss of his enterprise as a whole to attribute to each part of the joint product.

Generally speaking, the profitableness of the sheep industry depends on both the price of lamb and mutton and the price of wool. The prices of the two products tend to move upward or downward more or less together, but for periods of two or three years they may move in opposite directions, or in the same direction but at different rates of change. Therefore, at one time the decision of growers to increase or decrease their sheep numbers may be influenced chiefly by the prices of wool, and at another time, mainly by the prices of lamb and mutton. For example, during the post-World War I depression of 1920-21 the prices of both sheep and wool declined so sharply that sheepmen began liquidating or reducing their flocks; but after reinstatement of the wool tariff in 1921 and 1922, average prices received for wool by farmers in the United States began a rapid rise which reached its crest early in 1925, while the prices of lambs and sheep rose less sharply. Thus, between 1923 and 1925, it appears to have been the more rapidly rising prices and purchasing power of wool which stimulated an upturn in sheep numbers and wool production. Thereafter, while prices of both products moved to lower levels, with wool showing the greater decline, the relatively higher prices and purchasing power of lambs, fluctuating less than the prices of wool, seem to have supplied the stimulus needed to continue the increase in sheep numbers through 1931.

The two products of this joint-cost and joint-income enterprise have differed in the influence which foreign sheep raising has exerted upon them. Domestic lamb and mutton, serving mainly to give variety to a meat diet consisting for the most part of beef and pork,<sup>3</sup> have not experienced the competition in the home market from foreign producers which domestic wool has encountered from foreign wool. Consequently, lamb and mutton have always been on the duty-free list of imports, whereas since 1816, with the exception of two interludes, 1894-1897 and 1913-1921, all the finer grades of domestic wool have been sheltered from foreign competition by a protective tariff of varying rates.<sup>4</sup> The effect has been to keep the level of prices of American wool above the world level

<sup>3</sup>Since 1900 lamb and mutton have usually supplied from five to seven pounds of the annual per capita consumption of meat in the United States, or from less than four to less than six per cent of all meat consumed in the nation.

<sup>4</sup>There was one other period, from 1854 to 1861, during which the application of the tariff was sharply restricted. Under the reciprocity treaty of 1854 wool from Canada was admitted free; and from 1857 to 1861 wool from any foreign source was put practically on the free list through a provision that all wool costing less than 20 cents a pound at the place of export should be admitted without duty.

and to enable many uneconomic producers of wool in the United States to continue in an enterprise from which free trade in a world market would have long since excluded them. The one important instance of government support of sheep and lamb prices was the recent wartime subsidy paid during price control to processors of lamb and mutton.<sup>5</sup>

### Cyclical Behavior of Sheep and Wool Production

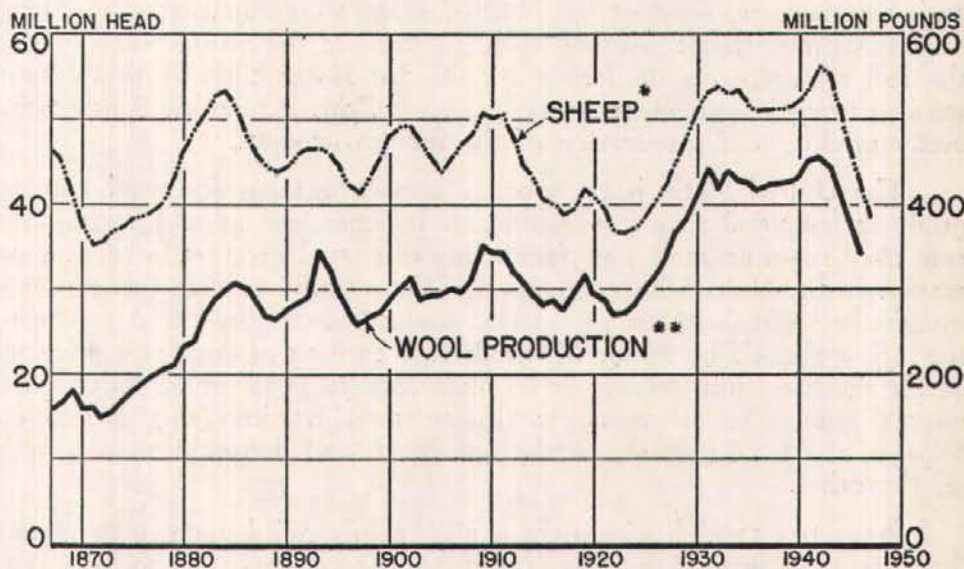
An interesting characteristic of the sheep industry in the United States as far back as the 1870's has been the recurring periods, or cycles, of expansion and contraction in sheep numbers and wool production. The sharp downward trend, previously mentioned, in sheep and wool production which has been in progress in varying degree in all sheep-growing areas of the nation since 1942 has been the most drastic to date in the nation's history, but it has not been a new experience. In fact, between 1873 and 1937 there had been seven fairly well defined cycles of rising and falling production of sheep and wool in the United States. The full term of these cycles, measured from the date when production began to rise in one period to the corresponding date in the next period, varied from four years to 17 years but averaged about 10 years. The upward movement which began in 1937 reached its peak for the United States as a whole in 1942 and for Texas in 1943, and the downswing which began thereafter appears to be still in progress.

This cyclical movement did not characterize the sheep-raising industry of Texas until the 1930's. Prior to that, sheep numbers and wool production in this State followed a general upward trend,

with minor fluctuations, until 1920. At that time a very rapid rate of increase set in, which more than doubled sheep numbers and wool production during the ensuing decade. The closer correspondence of the movement in Texas with that in the United States since 1937 seems to indicate that sheep raising in Texas has come of age and is integrated with the development of the industry in the nation as a whole.

Available figures as to production of wool outside the United States indicate that a similar cyclical behavior has characterized the broad movements of world production, although the start of a new cycle in American production has often lacked a year or two of synchronizing with the beginning of a new world cycle. In the current period, world production increased from 1935 to 1941. Then a decline set in, and by 1946 world production had fallen to about the 1936 level, or about 12.5 per cent below the record 1941 output. The decline from 1944 to 1946 was intensified by severe drought conditions in Australia in 1944-45.

## SHEEP NUMBERS AND WOOL PRODUCTION IN THE UNITED STATES, 1867-1946



\* TOTAL STOCK AND FEEDER SHEEP.  
 \*\* TOTAL SHORN AND PULLED WOOL.  
 SOURCE: U. S. DEPT. OF AGRICULTURE, B. A. E.

<sup>5</sup>The emergency sheep-buying program (September 1934-February 1935) of the Agricultural Adjustment Administration was designed primarily to alleviate losses to sheep growers in drought-stricken states who were under necessity of reducing their flocks on account of the lack of range feeds. The program had, however, an indirect price-support effect through reduction of the size of lamb crops for several years following, inasmuch as the animals bought, mostly for slaughter, were ewes one-year old and over. In Texas more than one million ewes were bought by the AAA, of which 76 per cent were slaughtered.

More important than the fact that sheep numbers and wool production in the United States move in fairly definite but somewhat irregular cycles, is the question as to the causes of such a pattern of movement. The immediate, specific causes of the different upturns or downswings that have occurred in the past have varied, but the basic causes have been constant: Production has started downward under the impact of falling prices resulting from slackened demand for wool or lambs and mutton, or both, or from excessive accumulation of stocks, or from extreme and protracted drought in major sheep-growing areas. During such periods farmers and stockmen have reduced their sheep numbers and, when possible, increased their output of more profitable alternative farm products. The upward climb in sheep and wool production has begun about a year after diminished supply has induced a competitive demand strong enough to raise prices of wool or of lambs and mutton or of both to profitable levels. The interval of a year or so between revival of demand and increase in production is consumed in the necessary process of rebuilding and expanding the herds of stock sheep and lambs which the sheep growers culled and reduced during the downward phase of the cycle.

### Competitive Factors Affecting Wool

The competition encountered by United States wool has been from two sources: foreign wool and alternative textile fibers. The ability of foreign wool to compete in the United States market with the domestic product has resulted from a combination of factors, varying from time to time in relative importance. Among these factors are the insufficiency of domestic production to supply the full requirements of domestic mills, the lower costs of production in such important surplus wool-growing countries as Australia, New Zealand, British South Africa, and Argentina, and the better grading and preparation of the foreign product.

The United States is the world's greatest market for wool and woolen products, but since it produces less wool than it consumes, it is dependent upon foreign supply for at least a part of its raw wool requirements. This fact stimulates wool growers in surplus producing countries to seek a market in the United States. As soon as the supply available for import into this country exceeds the margin between domestic production and consumption, the domestic producer must either restrict the inflow himself by selling his product, regardless of cost, at a price which will win the preference of the domestic mill owner, or he must look to government to check the inflow by tariff barriers, import quotas, or other such artificial restraints, involving serious conflict of economic interest between the wool grower, on the one hand, and domestic woolen mills and consumers of textiles, on the other.

Protective tariff has been the device mainly relied upon in the past to maintain prices of United States wool at profitable levels for domestic producers; and so long as the import duty has equalled or exceeded the margin between the world price for wool and a profitable price for the domestic product, the device has been effective in preserving enough of the home market for domestic producers to enable them to dispose of all or most of their product at a profit. But when the tariff barrier is reduced or removed, or when, as in recent years, the import duty is less than the margin between the world price and a generally profitable domestic price, wool growers in the United States either sell on a narrow profit or at a loss, liquidate their flocks, or seek some form of government aid.

Reliance upon tariffs or other government supports to keep the prices of home-grown apparel wool above the levels at which adequate imports of raw wool are available has been attacked as economically unsound, as subsidizing domestic wool growers at the expense of American woolen mills and American consumers, and as a discrimination against surplus wool-growing countries which keeps them from becoming good customers for the industrial products of the United States. It has been defended as necessary to maintain diversity in agricultural production and to insure a domestic source of raw wool for military and civilian uses in time of war. It has been defended also as consistent with the policy which the Government has followed in protecting the home market for other agricultural and industrial producers and in supporting the prices of their products.

Differences in wool production costs, however, generally favoring the foreign producer, have not been the only competitive factor with which wool growers in the United States have had to deal. The better grading and preparation of some foreign wools, especially Australian, before they are marketed means less shrinkage after purchase and less delay in utilization. Consequently, American mills in many instances have willingly paid a premium price for foreign wools, thus partly nullifying the

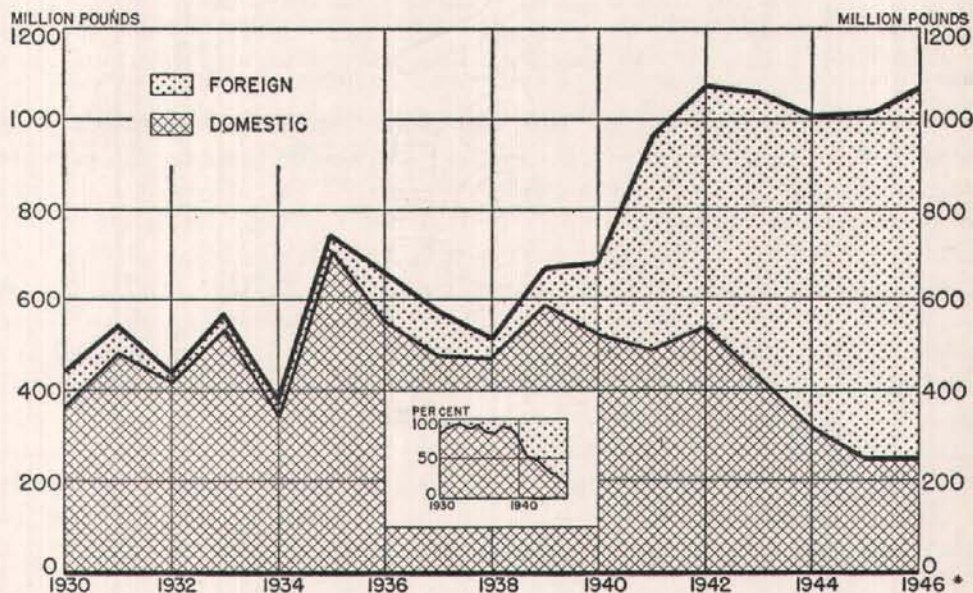
protective effect of the tariff. A further, indirect competitive loss for the domestic wool producer lies in the fact that many clothing manufacturers in the United States prefer English to American worsteds in the making of fine apparel. This has the effect of restricting to some extent the consumption of wool by American textile mills.

The challenge of alternative fibers to wool as an important textile element affects the position of the wool grower in the United States as well as in the world at large. It is true that United States per capita mill consumption of apparel wool, foreign and domestic, for civilian and military uses increased from 3.6 pounds (clean basis) in 1918 to 4.4 pounds in 1943, though the figure showed a general decline during the peacetime interval between those dates; but during the same period per capita mill consumption of cotton rose from 26.6 to 38.5 pounds, and that of rayon from six-hundredths of a pound to 4.8 pounds, thereby significantly topping the consumption of wool. Currently, the use of rayon continues to rise, and its price, by comparison with that of apparel wool, is highly competitive. A newer synthetic fiber, nylon, is also challenging the position of wool, and a former competitor, silk, is returning after its wartime disappearance to contest the field. Woolen mills, therefore, are under pressure to reduce the price of their product in order to compete with the producers of other textiles. They must buy wool where they can get the best quality at the lowest price. If that happens to be in the world market (and for some years it has been), domestic wool growers are caught in a squeeze: Lowering the tariff which supports a high price for their product worsens their competitive position with reference to foreign wools, but raising it still higher to protect the high price of domestic wool and increase the cost of the foreign product to the mills places wool in an even more precarious long-run position in competing with other textile fibers.

#### Factors in the Current Situation

The current situation and problems of the sheep industry are the result of the general competitive factors just described and of some particular movements and trends in the production, consumption, and prices of wool since 1937, when the most recent upswing in sheep numbers and wool production began. The business recession of 1938 adversely affected the prices of both wool and lambs, but the production of both rose moderately during that year and the next. Then the outbreak of war in Europe in 1939 and the initiation of an intensive national defense program in the United States in 1940, followed by our entry into the war at the end of 1941, emphasized the importance of domestic wool as a strategic war material and as a source of textiles and apparel for civilian use in case the foreign supply should be curtailed or rendered inaccessible by the war. Under these circumstances and partly as a result of the application of the "Buy American" Act of 1933 in the purchase of wool textiles for the armed forces, domestic wool prices rose sharply between 1939 and 1942, and the production of sheep and wool increased steadily, but not spectacularly. By 1942, the number of sheep and lambs on farms in the United States had risen to an all-time high of more than 56 million, per capita consumption of lamb and mutton in that year reached

#### UNITED STATES MILL CONSUMPTION APPAREL WOOL - GREASE BASIS



\* ANNUAL RATE BASED ON WEEKLY AVERAGE, JANUARY TO SEPTEMBER.  
SOURCE: U.S. DEPT. OF AGRICULTURE.

the highest point since 1914, and domestic wool production approximated 455 million pounds, establishing a new record. Meanwhile reported United States mill consumption of apparel wool, domestic and foreign, increasing much more rapidly than domestic production, rose from 674 million pounds (grease basis) in 1939 to the record figure of 1 billion 77 million pounds in 1942. In consequence, domestic wool, which had constituted from 81 to 95 per cent of the annual mill consumption of apparel wool from 1930 through 1939, supplied only 76 per cent in 1940, 51 per cent in 1941, and 50 per cent in 1942, even when sizable withdrawals from mill and dealer stocks were added to current production. To supplement domestic stocks and production, imports of foreign apparel wool were increased from 98 million pounds in 1939 to 783 million pounds in 1942, more than 300 million pounds of this latter amount going into the stock piles of strategic war materials which were being gathered by the Defense Supplies Corporation.

From the standpoint of demand only, in 1942, there was, therefore, reason to expect a continuation and acceleration of the rise in sheep numbers and wool production. The movement, however, was in exactly the opposite direction. Sheep numbers declined from 56.2 million on January 1, 1942, to 42.4 million by the end of 1945, and to a 22-year low of 38.6 million by January 1, 1947. Domestic wool production followed a similar downward course, falling from the record figure of 455 million pounds in 1942 to 378 million pounds during the last year of the war and to an estimated 341 million pounds in 1946—the smallest production since 1926.<sup>6</sup>

APPAREL WOOL IN THE UNITED STATES: PRODUCTION, NET IMPORTS, STOCKS, TOTAL SUPPLY, MILL CONSUMPTION, AND SELLING PRICES OF DOMESTIC AND FOREIGN WOOLS AT BOSTON

Average 1935-39, Annual 1940-46

	Supply			Mill consumption			Selling price			
	Production <sup>1</sup>	Net imports <sup>2</sup> (Millions pounds grease basis)	Stocks on January 1 <sup>3</sup> (grease basis)	Total annual supply <sup>4</sup>	Total (million lbs.)	Per cent domestic	Per cent foreign	Domestic <sup>5</sup>	Foreign <sup>6</sup> Excluding duty Duty paid	
Average 1935-39 . . . .	424	90	256	770	592 <sup>8</sup>	86	14	84	59	93
1940 . . . . .	434	223	177	834	641	76	24	92	68	102
1941 . . . . .	453	614	194	1,261	977	51	49	109	73	107
1942 . . . . .	455	783 <sup>7</sup>	447	1,685	1,077 <sup>9</sup>	50	50	119	79	113
1943 . . . . .	444	615 <sup>7</sup>	702	1,761	1,061 <sup>9</sup>	41	59	120	80	114
1944 . . . . .	412	575 <sup>7</sup>	816	1,803	1,009 <sup>9</sup>	32	68	121	77	111
1945 . . . . .	378	652 <sup>7</sup>	749	1,779	1,013 <sup>9</sup>	25	75	120	77	111
1946 . . . . .	341	807	798	1,946	1,070	22	78	103	79	113

<sup>1</sup>Greasy weight of wool as shorn and pulled from domestic fleeces in the United States.

<sup>2</sup>Net imports are imports for consumption minus domestic exports and re-exports.

<sup>3</sup>Stocks include foreign wools in bonded warehouses which have not yet been reported in imports for consumption.

<sup>4</sup>Sum of production, net imports, and stocks on January 1.

<sup>5</sup>Territory, staple, fine, and fine medium.

<sup>6</sup>Australian 64s, 70s, good topmaking.

<sup>7</sup>Excludes wool entered as an act of international courtesy for storage and re-export for the British Government.

<sup>8</sup>Original data for 1935-39 were increased on the basis of revised scoured basis, and reported by the Bureau of Census.

<sup>9</sup>Beginning in 1942, all duty-paid foreign wools, whether apparel or carpet class, are classified as apparel wool and all duty-free foreign wools are classified as carpet wools in Bureau of the Census mill consumption reports.

SOURCES: Supply and mill consumption data from the United States Department of Agriculture, Bureau of Agricultural Economics; price data from Hyson, Charles D.; "Maladjustments in the Wool Industry and Need for New Policy," *Journal of Farm Economics*, Volume XXIX, Number 2, May 1947, p. 428.

What had happened? By 1943 the United States Government's program of stock-piling foreign wool for emergency use was progressing so rapidly without the expected Japanese interruption of communications with Australia and New Zealand that need for added incentives to produce domestic wool to win the war was reduced. At the same time the cutting off of Axis and Axis-controlled countries from the main sources of wool supply and the operation of Great Britain's contract to purchase the exportable wool surpluses of Australia, New Zealand, and South Africa, much of which was stored for security in the United States, caused world stocks and carry-over of wool to rise to unprecedented levels, presaging intensified competition with American wool as soon as the war should end. In 1942 the United States Government froze the prices of domestic wool as part of the price-control program; and although the ceiling prices were higher than "free" prices had been at any time since early in 1925, wartime increases in costs of wool production made alternative farm enterprises more remunerative than sheep raising except in areas which were unsuited to other productive uses. Controlled prices of lamb and mutton also had a retarding effect on the replenishment of flocks after they had been reduced by the sale of sheep at subsidized prices.

Moreover, from 1942 through 1945 the prices fixed for domestic wool were so much higher than the prices of dutiable foreign wools delivered in Boston that domestic mills generally bought the foreign product except in filling government contracts for supplying the armed forces. The result

<sup>6</sup>In Texas the decline in sheep numbers and in wool production was somewhat less sharp than in the United States as a whole or in the "native sheep states," but the downward trend in this State was reflected in a drop in numbers from approximately 10.5 million in 1942 to about 8.5 million on January 1, 1947, and in a decline in wool production from 80.7 million pounds in 1943 to 70.7 million pounds in 1946.



was that, beginning in April 1943, the Commodity Credit Corporation was directed to support the price of domestic wool by purchasing surpluses at ceiling, subject to the restriction that it should not dispose of any of its purchases at less than "parity" prices. Under this program, which was continued until April 15 of this year, the CCC bought more than a billion and a quarter pounds of domestic wool, and, being unable to dispose of its purchases except when American parity prices were below the prices of imported dutiable wools, it found itself at the end of 1946 with an accumulation of 480 million pounds of American-grown apparel wool. This was double the amount of domestic wool actually consumed by United States mills in 1946, when foreign wools supplied 78 per cent of the mills' requirements.

When the stocks of wool (mostly foreign) held in the United States by mills and dealers at the end of 1946 were added to the CCC holdings, the nation had a carry-over of approximately 900 million pounds of apparel wool.<sup>7</sup> This was only 10 per cent less than the unprecedentedly high average annual mill consumption during 1941-1946 and more than 50 per cent greater than the prewar average annual consumption. The world carry-over (including stocks in the United States) at the same date was just under five billion pounds, or more than three times as large as average annual world stocks in the period 1934-1938.

A year earlier the governments of the United Kingdom and of the Dominions of Australia, New Zealand, and South Africa had formulated a policy and implemented a program for gradual disposal of the huge stocks of wool which had been accumulated, mostly from the Dominions, as the result of the British government's war-time purchase plan. This policy and program are aimed at increasing world consumption of wool and at the same time giving the encouragement of flexible support prices to British and Dominion wool growers to keep up production during the period of ten or more years which officials estimate will be required to liquidate accumulated stocks without disrupting the market for new wool. Under these circumstances, what will be the policy and program of the United States Government with reference to its wool growers during the postwar period of reconversion and stabilization in agriculture and industry?

### The Search for a Postwar Wool Policy

In November 1945, at the start of an examination of the events out of which these developments in the domestic and world wool situation arose, the Chairman of the Special Committee of the United States Senate to Investigate Production, Transportation, and Marketing of Wool, declared:

The United States is without a wool policy. . . . Its domestic producers of wool are unable to enter the market with the slightest confidence because exporting countries which consume far less than they produce pursue a very positive policy intended to capture the American market. . . . Unless a positive program is developed to stimulate the utilization of wool, the prospects for consuming this tremendous (end-of-the-war) surplus are not bright, with consequent disadvantageous effects on domestic producers.

A few months later the President transmitted to the above-mentioned Committee a proposed wool program prepared by the interested administrative agencies of the Government, in which it was stated:

The United States Government must develop and carry out a wool program that will adequately safeguard the interests of growers, merchants, and consumers. Such a program must also be consistent with our general foreign economic policy.

For more than two years now the search for the "positive program" adequate to safeguard "the interests of growers, merchants, and consumers" and at the same time "consistent with our general foreign economic policy" has occupied the thoughts of many representatives and spokesmen, official or otherwise, of American sheep and wool growers and the hearings, debates, and recommendations of Congressional committees and administrative officials. To date the search has not resulted in the enactment of a policy and the implementing of either a long-range or a short-range program. So in pursuing this study of the situation and problems of the sheep industry, it seems appropriate to summarize and comment upon the chief proposals which have been advanced in the course of the search for a policy and a program.

<sup>7</sup>The stock pile of foreign wool accumulated by the Defense Supplies Corporation during the first years of the war had been disposed of before the end of 1945.

The simplest proposal is upward revision of tariff rates to a point that will give domestic wool a price advantage over the imported product. This action, however, in addition to being opposed on the ground of conflict with the Government's over-all policy of reducing trade barriers, might result in such an increase in the price of wool to the manufacturer and of woollen clothing to the consumer that wool consumption would decline still farther in a losing battle with cheaper alternative natural and synthetic fibers. For this reason it has not received much support as a solution of the wool growers' problems.

Another proposal is for the payment of subsidies to domestic producers to offset higher production costs when not covered by competitive prices for the domestic product. This suggestion would avoid imposing any new barrier to international trade, but it is objected to on the ground that it is the current policy of the national administration to abandon all subsidy programs. It is also opposed pretty generally by the sheep and wool growers themselves.

Import quotas have also been proposed, restricting the quantities of wool admitted from foreign sources to a total amount not greatly in excess of the difference between domestic production and the consumption requirements of United States mills. This would give the home product a virtually non-competitive market so far as other wools are concerned, but by restricting the manufacturer's opportunity to buy lower priced wool it might accelerate the shift of consumption to alternative fibers. In addition, the proposal is generally regarded as contrary to basic policy and difficult of administration.

Another suggestion would have the Government take over all privately owned wool in the United States and become the sole buyer and seller of all wool, both domestic and foreign, to be used in the nation, selling the foreign product on a parity with the price at which it sells domestic wool and gradually adjusting the domestic product downward in price to a parity with duty-paid foreign wool. It is argued that this suggestion would protect the Government against losses such as the CCC has sustained in the buying, selling, and revaluation of domestic wool. It would also abolish the two-price system under which domestic mills have made their purchases of wool, though, for a time perhaps, all their purchases would be at prices above the current level of duty-paid foreign wools. The plan is criticized on the ground that it would institute a form of state-managed economy, but in reply, advocates of the plan, with the Inter-Governmental Joint Wool Organization of the United Kingdom and the British Dominions in mind, allege that domestic wool can be marketed only in competition with foreign wools supported by a state-managed economy.

The proposal for remedying the situation of American sheep and wool growers which has received the most attention from Congress was prepared at the President's direction by administration advisers and submitted by the President to the Special Committee of the Senate to Investigate the Production, Transportation, and Marketing of Wool. The chief items in this proposal are:

1. Establishment of a revised, or "comparable," parity price for wool at such a level that the parity price of that commodity will be comparable to parity prices for other farm products;<sup>8</sup>
2. Provision for the Commodity Credit Corporation to support the prices of domestic wool through purchases, loans, or subsidy payments at the same minimum percentage of the revised wool parity price as the Corporation is required to support prices of other basic agricultural commodities in terms of their parity values, and for the same period of time; provided that no reduction shall be made, except specific reductions to correct inequities, from the general level of prices (about 42 cents a pound) at which the Commodity Credit Corporation purchased the 1946 wool crop until the year in which the number of stock sheep kept on farms reverses the decline which has been going on since 1942;
3. Authorization for the CCC to sell wool at prices competitive with imported foreign wool, irrespective of provisions of existing law prohibiting any sales at prices below parity;
4. Allocation of funds to the CCC from import duties in sufficient amounts to cover the losses incurred by the Corporation under its wool purchase or loan operations and the payments made to wool producers in lieu of purchases or loans;

<sup>8</sup>Wool growers assert that wool prices were at a low level in comparison with prices of other important farm products during the years 1909 to 1914, which have been used as the base period for computing parity prices under various price-support programs of recent years. Accordingly, they urge the establishment of a "comparable" price for wool, computed with the use of a base period, for example, 1936-1939, when prices for wool were higher in relation to prices of other farm products than in 1909 to 1914.

5. Application of the marketing agreement and order programs of the amended Marketing Agreement Act of 1937 to wool on the basis of the revised parity price, to permit wool growers and handlers to set up agreements and orders providing for volume, grade, or size regulation, prohibiting unfair trade practices, and establishing a surplus pool for wool;

6. Provision of a research and developmental program "for the purpose of improving the quality of domestic wool and wool-marketing practices and the processing and utilization of wool."

Bills for the aid of the wool industry, some of them consistent with the essential features of the above proposal, have been considered in Congress during the second session of the 79th Congress and the first session of the 80th. The bill which has now cleared the last procedural hurdles before going to the President's desk provides for CCC price support through December 31, 1948, and incorporates a highly controversial amendment, widely criticized as incompatible with the Government's general foreign economic policy of rehabilitating international trade through reciprocal trade agreements and reduction of tariff barriers. This amendment would permit the President to increase the barriers to admission of foreign wool by imposition of import fees ranging up to as much as 50 per cent of the value of the imported wool, in addition to existing tariff rates, or by establishment of import quotas cutting normal wool imports back as much as 50 per cent, whenever necessary to protect the domestic wool price-support provisions of the bill. Much has been said as to the hurtful effects of this provision on the work of the International Trade Conference of sixteen nations, including the United States, now meeting in Geneva to negotiate reciprocal trade pacts and to frame a charter for the International Trade Organization. It has been defended, however, as essential to give the domestic wool growing industry protection against the dumping of surplus world stocks of wool on the American market while the industry is stabilizing itself following its wartime decline. The provision calling for support of the price of the 1947 and 1948 wool clips at approximately 42 cents a pound, or about 100 per cent of the current parity price, has been strongly opposed by New England wool merchants, and has been criticized by the producers of other farm crops whose prices are supported generally at 90 per cent of parity. If the bill is vetoed by the President and the veto sustained, the wool tariff will be, as it now is, the only support domestic wool prices will enjoy unless a bill is passed for price support without tariff-raising and quota-fixing provisions.

The foregoing review of legislative, or political, proposals for remedying the ills of the wool growers of the United States reveals the difficulty of reaching agreement on an economically sound and consistent government program for fostering domestic production of a commodity of which adequate imports are available at substantially lower costs. While the political formula for short-term relief is being evolved, there is time to consider from a strictly economic standpoint some of the things in a long-term program which progressive wool growers are doing or may do to insure a profit for themselves through lowering the costs or improving the marketability of their product and through enlarging the demand for it.

#### **Self-Help for the Wool-Growing Industry**

One possible method of reducing costs and insuring profits in wool production is to produce more or better wool per sheep. Much has been accomplished through improving the breed of sheep or developing strains best suited to different climates and range conditions. Average weights per fleece in 1946 of 10.0 pounds in Wyoming, 9.6 pounds in Montana, and 9.5 pounds in Idaho, compared with 7.2 pounds in Arizona and 7.7 pounds in Texas, suggest the possibilities of increasing production without an increase in sheep numbers. In the matter of improving the quality of wool through selective breeding, a five-year experiment recently completed with a Rambouillet pure-bred herd at the Agricultural Experiment Station of the New Mexico A. & M. College resulted in increasing the number of ewes in the longer wool groups and in developing one female bearing wool of the extreme length of four inches. These results suggest the possibilities of raising herd averages of wool lengths.

Another possibility of lowering production costs, particularly in the western states and Texas, lies in better care and use of grazing and water facilities. When sheep and wool were selling at prices that stimulated large production, there was a general practice of overstocking grazing lands in order to raise as many sheep as possible and get the advantage of high prices. Some grazing lands have been affected so adversely by overgrazing that producers are finding that they can carry fewer and fewer animals on a given acreage of grazing land. Such poor management in the use of sheep lands has the

long-term effect of raising costs of production, since it takes more land to raise a given number of sheep or fewer sheep are raised on a given area. That there is a difference in total domestic and foreign production costs is obvious, but how much of this difference is due to divergencies in price levels at home and abroad and how much to the degree of skill shown in management of sheep-raising enterprises is a pertinent question. In any case, it is generally agreed that many, perhaps most, domestic sheep raisers can lower their costs of operation by better land utilization practices and better farm and range management.

The opportunity to improve the grading and preparation of their wool for market affords American wool growers one of their best chances to win the preference of domestic mills for their product over the offerings of foreign producers. Foreign wools have often found a ready market in the United States, not necessarily because of lower prices, but because of the better preparation of the wool before sale. This fact has induced some producers to work to improve the quality of domestic wools, and some plants have been established in sheep-growing areas to wash new wool for the producer and prepare it for market. A wool preparation project carried on by the Production and Marketing Administration in cooperation with the Texas A. & M. College and the Texas Wool and Mohair Marketing Association is reported to be meeting with marked success. Most of the wool prepared in this project has been sold to mills that had been buying foreign wools. This procedure appears to offer an opportunity to all domestic producers to improve their position in competition with foreign growers.

Experimentation and research are involved in some of the suggestions already made for reducing costs, raising quality, and improving preparation of domestic wool. In the opinion of many who have studied the situation carefully, the market demand for wool could be broadened considerably through research to discover new uses for it and methods or processes for making it mothproof, shrinkproof, and waterproof. Much work to these ends was done during the recent war by the Army, which is continuing some of its efforts to improve the uses of wool, especially for military purposes. Out of this work may come developments for use in civilian life also, such as the process developed during the war for making woolen garments shrink-resistant. Some wool growers associations, agricultural experiment stations, and other institutions also are carrying on different types of research having to do with extending or improving the uses of wool, and the United States Department of Agriculture has been authorized, as soon as funds are provided, to undertake a broad program of agricultural marketing research which will likely include the marketing problems of wool. It appears, however, that much remains to be done to bring wool research up to the quantity and quality of the work being carried on in the interest of other textiles, and wool growers as well as wool merchants and woolen manufacturers can help themselves by fostering research and making use of its discoveries.

Sheep raising in the United States has been described recently as a sick industry. It was similarly described soon after the close of World War I, especially during 1921, when prices of lambs dropped more than half and the prices of wool fell more than two-thirds from their wartime peaks, and sheep numbers began a two-year decline. The persistence and expansion of the industry between world wars, however, and the periods of moderate prosperity through which it passed before and after the great depression of the 1930's indicate that the ailing industry was not "sick unto death." There are reasons to believe that it will survive its present illness even though its cure may bring some alterations in its way of life and will almost certainly result in the elimination or transformation of many of its uneconomic members. Flocks will need to be smaller on many western ranges while grasses and soil fertility which have been depleted by overgrazing and neglect are being restored. Production costs will have to be lowered through improved ranch and farm management, better care of ewes and lambs, and experimentation to find the breed best suited to profitable production in a given area and on a farm or ranch of given size. Whatever may be the Government's policy as to price-support and tariffs, improved grading and preparation of fleeces for market will be required to enable the American wool grower to sell his product more readily to domestic mills in competition with foreign offerings. On farms, of a probably increasing number, where sheep raising will be engaged in to utilize otherwise unproductive tracts of land or to give diversity and balance to the farm program, attention will need to be given to the improvement of stock and the economies of management and marketing which agricultural research and demonstration are making available. As a supplement and giver of variety to the meat diet of the nation, the sheep industry's alternative product, lamb and mutton, appears unlikely to suffer from foreign competition.

# Review of Business, Industrial, Agricultural, and Financial Conditions

## DISTRICT SUMMARY

Oil wells in the Eleventh Federal Reserve District yielded almost one-half of all crude oil produced in the United States during May, as compared with a ratio of about two-fifths of the total production in 1940. The value of construction contracts awarded in the district showed a small gain over that of the preceding month. Awards for residential construction, however, were less than for any previous month this year, and nonresidential building awards, though more than in April, were at a lower rate than during the first quarter of the year.

Dollar sales of Eleventh District department stores during May registered a moderate gain over those of the same month a year ago. In view of sharp price increases which have occurred within the year, however, the margin of gain in dollar volume seemed insufficient to indicate any rise in unit sales or volume of goods purchased by customers. At the same time, the value of department store inventories has increased to a degree which cannot be attributed wholly to rising prices. Marked reductions in orders outstanding during the year, coupled with a slight increase in such orders from April to May, suggest that retailers are probably seeking to balance rather than to build up their stocks.

The condition of farm crops and livestock in the Eleventh District generally at mid-June was unusually good, although some row crops were late due to unfavorable weather earlier in the year, and some western areas were experiencing drought. Harvesting of grain crops, which began in central and northern Texas toward the end of May, was near completion in those areas by the middle of June and was moving westward and northwestward into the High Plains section. There the largest wheat crop in the history of the State was reaching maturity.

## BUSINESS

Total sales of department stores in this district during May exceeded those of the same month a year ago by nine per cent and those of April this year by seven per cent. Preliminary reports of weekly sales during the first half of June indicate a further narrowing of the margin of gain in current sales volume over that of the same time last year. Cumulated sales for the first five months of this year were eight per cent greater than those of the same period in 1946, as compared with an increase of 28 per cent in the January-May period of 1946 over the corresponding months in 1945. For the first two months this year the gain in cumulated sales over the corresponding period last year was 11 per cent; for the first three months, 10 per cent; and for the first four months, eight per cent. The gain of eight per cent for the first five months of the year seems, therefore, to have halted but not reversed the downward trend in the rate of gain in sales. In view of sharp increases in the prices of most goods within the past year, a considerably greater gain in sales volume than has actually occurred would be necessary to indicate that the volume of goods passing through retail channels to consumers is as large as at this time last year.

Reported sales of retail furniture stores in the district during May exceeded those of the corresponding month last year by 13 per cent and those of April this year by nine per cent. All the gain over May 1946 was in credit sales, the volume of cash showing a decline of 19 per cent. Instalment sales accounted for 83 per cent of total sales, just as in the preceding month, compared with 77 per cent a year ago. Accounts receivable showed an increase of 39 per cent over those of May 1946, while collections increased only eight per cent. The use of instalment credit in the purchasing of furniture appears to be regaining its prewar importance.

Sales of reporting jewelry stores in the district have declined each month through May this year as compared with corresponding months last year. Household appliance dealers, as would be expected in view of the improved supply situation and of the continuing strong demand for major items of their merchandise, have reported heavy percentage increases in sales each month this year over corresponding months in 1946, although the degree of increase declined in April and total sales during that month were slightly below those of March in dollar volume.

## WHOLESALE AND RETAIL TRADE STATISTICS

	Number of reporting firms	Percentage change in			Stocks †	
		Net sales	Jan. 1 to May 31, 1947 from 1946	May 1947 from April 1947	May 1947 from April 1947	April 1947
<b>Retail trade:</b>						
<b>Department stores:</b>						
Total 11th Dist. ....	48	+ 9	+ 7	+ 8	+ 32	- 2
Corpus Christi. ....	4	+10	+ 3	+12	+ 66	- 3
Dallas. ....	7	+ 3	+ 9	+ 3	+ 24	- 1
Fort Worth. ....	4	+13	+ 8	+ 8	+ 54	- 3
Houston. ....	7	+12	+11	+15	+ 45	- 8
San Antonio. ....	5	+15	- 1	+10	+ 4	+ 7
Shreveport, La. ....	3	+16	+10	+ 6	....	....
Other cities. ....	18	+ 8	+ 4	+ 6	+ 46	- 6
<b>Retail furniture:</b>						
Total 11th Dist. ....	50	+13	+ 9	....	+ 86	+ 1
Dallas. ....	3	+ 7	+24	....	+ 76	- 5
El Paso. ....	3	+ 9	- 1	....	+ 45	- 1
Houston. ....	6	+ 5	+24	....	....	....
Port Arthur. ....	3	+13	+21	....	....	....
San Antonio. ....	4	+ 1	- 9	....	....	....
Shreveport, La. ....	3	+23	-24	....	+135	....
<b>Wholesale trade:*</b>						
Automotive supplies	4	-16	- 5	- 6	....	....
Drugs. ....	5	-21	-23	+ 1	+ 16	- 3
Groceries. ....	27	+ 6	- 3	+15	+ 37	- 8
Hardware. ....	9	+18	+ 7	+27	+ 72	+ 2

\*Compiled by United States Bureau of Census. Wholesale trade figures preliminary.

†Stocks at end of month; †Change less than one-half of one per cent.

## INDEXES OF DEPARTMENT STORE SALES AND STOCKS

	Daily average sales—(1935-1939=100)						May 1946
	Unadjusted*			Adjusted			
	May 1947	April 1947	March 1947	May 1946	April 1947	March 1947	May 1946
District. ....	355	347	337	327r	379	377	348r
Dallas. ....	343	326	330	334r	365	354	350r
Houston. ....	370	346	351	330r	386	360	343r
	Stocks—(1923-1925=100)						May 1946
	Unadjusted*			Adjusted			
	May 1947	April 1947	March 1947	May 1946	April 1947	March 1947	May 1946
District. ....	318	317	326	247r	335	326	260r

\*Unadjusted for seasonal variation.

r-Revised.

On balance, it appears that consumers are spending more dollars than at this time last year, are shifting emphasis in buying to durable goods, and are making greater use of credit, but that the total volume of their spending is definitely leveling off. The narrowing margin of increase in dollar sales suggests that the total volume of goods being bought at current high prices from swollen supply lines probably is not as great as that which was passing through scantily supplied retail channels a year ago, when the consumers' price index was more than 20 points below its present level.

That stockroom shelves generally are filling up is indicated by an increase of 32 per cent in inventories and a decline of 59 per cent in orders outstanding of district department stores during the past year. The very moderate rise of four per cent in outstanding orders during May as compared with the preceding month may be accounted for by dealers' efforts to balance inventories, not to build them. The entire decline in manufacturers' shipments during March and April, as reported by the Department of Commerce, was in nondurables. Shipments of durables have been increasing but have not quite offset the drop in soft goods.

## AGRICULTURE

Growing crops and ranges made good to excellent progress throughout most of the district in the latter part of May and the first half of June. Some far western areas continued dry, and some west southcentral counties in Texas were in need of additional moisture at midmonth. Rains, however, provided adequate moisture during May in all other areas. Favorable weather starting in late May aided growing crops and permitted the resumption of field work. Corn, late cotton, other row crops, and vegetable gardens in many parts of the district which were suffering from drought at mid-June were greatly benefited by rains during the latter part of the month. Livestock showed good gains in all areas except in dry sections of the west. Cattle moved to market in unusually large volume, but marketing of sheep and lambs was below normal, reflecting the decline in sheep numbers.

Further improvement in wheat crop prospects during May caused the United States Department of Agriculture to revise its forecast of the Texas crop upward to 142,405,000 bushels on June 1—30,000,000 bushels above the forecast of a month earlier and about 60,000,000 bushels above the previous record crop for the State harvested in 1944. Rainfall during the first part of May was more than adequate to sustain the rank growth of wheat in the High Plains and checked deterioration of the crop in the southern portion of the Low Rolling Plains, where drought conditions had been developing at the beginning of the month. Losses from excessive rainfall and hail storms have been slight throughout the area. Generally warm, open weather during the latter part of May and early June aided maturity of wheat and reduced the danger of losses from leaf rust. A yield of 19 bushels per acre was forecast for the State, slightly above the previous record in 1944 and far above the yield last year and the 10-year (1936-45) average. Harvesting in northern and northcentral counties of the State was started early in June and was more than half completed by midmonth. The High Plains crop was maturing rapidly at that time, and harvesting had begun in southern counties of the area. The number of laborers and combines was reported to be adequate in the northern and northcentral sections of the State, but it was expected that shortages might develop in the High Plains as the season progressed. Transportation of the unprecedentedly large crop to terminal markets will likely present difficulty. A large number of freight cars has been accumulated in the Wheat Belt, but the supply may be inadequate to move the crop to market as it is harvested. It seems certain that large quantities of the wheat when harvested will have to be stored temporarily on the ground in the fields. Storage facilities at country elevators and terminals will be overtaxed.

Some improvement in oat crop prospects occurred during May, when rains relieved drought conditions in western areas and favored spring-planted oats generally. A production of 30,710,000 bushels was forecast for the State on May 1, compared with the 1946 production of 36,366,000 bushels and the 10-year average of 33,236,000. Oat harvest in central and westcentral areas was nearing completion by mid-June. Barley production for the State was estimated at 2,415,000 bushels, approximately seven per cent less than the crop harvested last year and about 38 per cent below average. Flax harvest was about finished by mid-June in southern Texas counties.

Corn, in good condition on June 1, progressed satisfactorily during the first half of the month in all areas except a few westcentral counties of Texas where rain was needed. Open weather during the latter part of May and early June permitted the resumption of cultivation, and most fields were clean at midmonth. Corn was nearing maturity in southern counties, but was late in most other areas, and therefore more subject

than usual to midsummer drought. Grain sorghums developed fairly well in all areas during May and early June. The crop was approaching maturity in the Coastal Bend and making rapid progress in the Low Rolling Plains. Planting and replanting were about complete in the High Plains.

Cotton made good progress in most areas in response to favorable growing conditions in early June. Planting, which was interrupted in some areas by rains in May, was near completion by mid-June. Blooming and fruiting were general in southern and Coastal Bend counties of Texas by that date, and the formation of squares was reported in Central Texas. Growth was rapid in northeastern and northcentral counties, where open weather permitted replanting and chopping and cultivation of early cotton. Winds and heavy rain in the High Plains during the second week of the month caused some damage to stands. Boll weevil infestations continued light in all areas during the first half of June, but the weevils were reported to be causing damage in some upper coastal and scattered East Texas counties. Flea hoppers, though causing little damage as yet, were increasing in numbers, and further increases were expected. No leaf worms were reported prior to June 10, but grasshoppers were abundant in central Texas and in the South Plains areas.

## CASH FARM INCOME

(Thousands of dollars)

	March 1947 <sup>Ⓐ</sup>		March 1947 <sup>†</sup>	Total receipts		
	Crops	Livestock*		March 1946 <sup>†</sup>	Jan. 1 to March 31 1947 <sup>Ⓐ</sup>	1946 <sup>†</sup>
Arizona.....	8,295	5,179	13,474	14,899	35,625	34,270
Louisiana.....	2,962	8,770	11,732	11,088	39,531	37,497
New Mexico.....	956	5,965	6,921	5,221	17,968	13,859
Oklahoma.....	11,194	28,785	39,979	25,230	111,931	77,350
Texas.....	24,025	58,918	82,943	78,244	237,118	213,854
Total.....	47,432	107,617	155,049	134,880	441,871	376,830

<sup>Ⓐ</sup>Preliminary.

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

†Currently undergoing revision by the Bureau of Agricultural Economics.

SOURCE: United States Department of Agriculture.

Commercial vegetables also made satisfactory progress in all areas during the latter part of May and early June except in some sections of the Lower Valley, where heavy rains retarded harvest of the tomato crop and caused some damage. Moisture supplies were abundant in most areas, and temperatures were favorable for all crops to make good growth. A good tomato crop was in prospect in all sections, with the harvest of the late spring crop in East Texas getting well under way during the first part of June and the crop in northeastern counties showing further improvement. Harvest of onions in North Texas continued under favorable conditions. Potato harvest was under way from central to northeastern Texas, and the Panhandle summer crop made exceptionally good growth. Cantaloupes and watermelons moved in large volume from South Texas and made good progress in all areas.

A peach crop of 1,920,000 bushels was forecast for Texas on June 1, about 300,000 bushels above the 10-year average and some 65,000 bushels more than the 1946 crop. A better than average pear crop of 429,000 bushels for the State is in prospect. The Texas citrus crop was reported in favorable condition on June 1, despite a lack of moisture early in the season which delayed the bloom and reduced the size of fruit to below normal. Although heavy rains and wind during the latter part of May caused considerable dropping of fruit, it is expected that the loss will be more than offset by the benefits derived from improved moisture supply.

Ranges and pastures improved sharply in May and early June in nearly all parts of the district, and summer range feed prospects were excellent in most areas. Rainfall in the Plains and Trans-Pecos region of Texas was far above normal in

May, and ranges were unusually good in those areas. Excessive moisture in some southeastern and upper coastal counties of the State caused a lush, but sappy, growth of grass. Ranges in southern Arizona and central and southwestern New Mexico, however, continued dry, and grass was beginning to cure in some counties in the eastern and northern Edwards Plateau regions where the moisture supply was depleted by high temperatures and winds during the first part of June.

Cattle gained flesh rapidly during the past month in all except very dry areas and were in above average condition in all parts of the district except southern Arizona. Calves made very good early growth, with only light losses reported. Cattle and calves were marketed in record volume for this season of the year, and the movement to Kansas and Oklahoma pastures was about normal, but substantially below the record movement in 1946. Sheep showed marked improvement in May and early June as the result of the new green feed in most parts of the Edwards Plateau and Trans-Pecos area. Ewes were in generally strong condition on June 1, and lambs were reported to be recovering from the early spring setback and nearing market weights. The spring movement of yearling wethers to market was substantially below that of the last three seasons. Contracting of spring lambs for future delivery was active in May, and the volume moving to market increased rapidly during the first part of June.

LIVESTOCK RECEIPTS—(Number)

	Fort Worth			San Antonio		
	May 1947	May 1946	April 1947	May 1947	May 1946	April 1947
Cattle.....	90,899	60,328	78,544	33,661	19,722	37,194
Calves.....	27,143	18,174	15,010	16,804	12,256	14,630
Hogs.....	51,708	37,586	61,702	6,067	7,496	6,344
Sheep.....	356,764	433,027	105,746	56,784	76,591	29,323

COMPARATIVE TOP LIVESTOCK PRICES  
(Dollars per hundred weight)

	Fort Worth			San Antonio		
	May 1947	May 1946	April 1947	May 1947	May 1946	April 1947
Beef steers.....	\$26.00	\$17.35	\$25.00	\$22.25	\$15.25	\$23.00
Stocker steers.....	21.00	16.00	20.75	.....	.....	.....
Heifers and yearlings.....	26.00	17.35	24.50	21.50	16.90	23.00
Butcher cows.....	18.25	14.25	17.50	17.50	14.00	17.25
Calves.....	24.00	16.50	23.00	23.00	16.00	23.00
Hogs.....	25.00	14.65	23.75	24.00	14.65	26.50
Lambs.....	24.00	15.50	23.75	22.00	13.75	22.00

Receipts of cattle and calves at Fort Worth and San Antonio markets in May totaled approximately 19 per cent more than in the preceding month and about 57 per cent more than in May 1946. Shipments of sheep and lambs to market were substantially larger than in April, due to the seasonal movement, but fell 19 per cent below those of May last year. The marketing of hogs was substantially less in May than during the preceding month, but considerably more than in the same month last year.

Prices received by Texas farmers averaged slightly lower on May 15 than a month earlier, according to the United States Department of Agriculture. Many of the declines were seasonal, however, and prices of most items were substantially above those of a year ago. Moderate declines in prices received for livestock products, hogs, corn, oats, barley, hay, and grapefruit were only partially offset by slight increases received for cotton, some livestock, oranges, and potatoes. The prices of corn, grain sorghums, rice, and sheep were unchanged from a month earlier. Although the index prices paid by farmers throughout the United States declined during the month ending May 15 for the first time in eight months, the index of prices received declined more sharply, so that the parity relation, or the ratio of prices received to prices paid, fell slightly.

FINANCE

The daily average of gross demand deposits of member banks in the district continued to decline during May, but at a slower rate than in other recent months except March. The slower rate of decline may indicate that the seasonal decrease has about run its course. On the other hand, time deposits have continued to expand at a substantial rate.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS  
(Thousands of dollars)

	June 15, 1947	June 15, 1946	May 15, 1947
Total gold certificate reserve.....	\$484,062	\$503,325	\$475,931
Discounts for member banks.....	100	144	200
Foreign loans on gold.....	809	3,840	719
U. S. Government securities.....	891,730	896,879	890,535
Total earning assets.....	862,639	900,863	891,754
Member banks reserve deposits.....	756,978	762,792	749,787
Federal Reserve Notes in actual circulation.....	576,615	593,713	570,481

The reserve balances of member banks in the district, which averaged about \$748,000,000 during May, were maintained close to the level of other recent months. The required reserves of member banks, however, increased moderately, with the result that average excess reserves declined about \$6,000,000 to a level of \$89,000,000.

MEMBER BANK RESERVES AND RELATED FACTORS

Eleventh Federal Reserve District

	Changes in weeks ended				Cumulative changes	
	June 11, 1947	June 4, 1947	May 28, 1947	May 21, 1947	4 weeks ended June 11, 1947	Jan. 1 to June 11, 1947
Federal Reserve Credit—local.....	+ 3.8	+ 6.5	-12.0	+ 2.3	+ 0.6	- 1.9
Interdistrict commercial & financial transactions.....	-26.0	+ 4.8	-18.6	-19.4	-59.2	-364.4
Treasury operations.....	+29.7	+17.3	+ 4.5	+18.3	+69.8	+298.2
Currency transactions.....	+ 0.2	- 7.9	- 1.5	+ 2.2	- 7.0	+ 39.7
Other deposits at the Federal Reserve Bank.....	+ 1.2	- 1.3	.....	+ 0.2	+ 0.1	+ 0.1
Other Federal Reserve Accounts.....	.....	- 0.1	.....	.....	- 0.1	+ 0.4
Member Bank reserve balances.....	+ 8.9	+19.3	-27.6	+ 3.6	+ 4.2	- 27.2

Note: Amounts preceded by a minus sign reduce reserves; those with a plus sign preceding add to reserves.

Federal Reserve notes of this bank in actual circulation, which had registered a seasonal decline of \$40,000,000 between December 24, 1946, and May 15 this year, showed a net expansion of \$6,200,000 during the month ended June 15. The total circulation on the latter date, amounting to \$576,600,000, was about \$17,000,000 lower than on the corresponding date in 1946.

CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS  
IN LEADING CITIES—Eleventh Federal Reserve District  
(Thousands of dollars)

	June 11, 1947	June 12, 1946	May 14, 1947
Total loans and investments.....	\$1,845,998	\$2,069,427	\$1,837,548
Total loans.....	740,076	680,394	737,346
Commercial, industrial, and agricultural loans.....	494,400	401,261	495,971
Loans to brokers and dealers in securities.....	5,947	7,567	6,408
Other loans for purchasing or carrying securities.....	68,861	141,874	69,587
Real estate loans.....	61,476	41,859	61,782
Loans to banks.....	994	288	1,752
All other loans.....	108,398	87,545	101,846
Total investments.....	1,105,622	1,389,033	1,100,202
U. S. Treasury bills.....	39,106	43,530	40,115
U. S. Treasury certificates of indebtedness.....	211,564	414,928	217,116
U. S. Treasury notes.....	108,278	215,808	110,572
U. S. Government bonds (incl. gtd. obl.).....	659,187	647,430	645,565
Other securities.....	87,487	67,337	86,534
Reserves with Federal Reserve Bank.....	400,389	400,931	398,241
Balances with domestic banks.....	243,892	235,546	250,639
Demand deposits—adjusted*.....	1,642,552	1,457,893	1,520,016
Time deposits.....	333,725	308,752	334,256
United States Government deposits.....	15,886	288,525	34,278
Interbank deposits.....	488,881	556,836	492,092
Borrowings from Federal Reserve Bank.....	None	None	None

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

The total deposits of weekly reporting member banks in the district showed little net change between May 14 and June

11, since the expansion of \$22,500,000 in adjusted demand deposits was about offset by declines in other classes of deposits. Total loans of these banks reflected a net expansion of \$2,700,000 during the four weeks, the increase resulting from

#### 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
May 1945.....	\$4,092,587	\$393,000	\$2,044,624	\$249,140	\$2,048,063	\$143,950
May 1946.....	4,966,772	480,926	2,480,288	305,520	2,486,484	175,406
January 1947.....	4,786,948	510,956	2,293,445	325,735	2,493,503	185,221
February 1947.....	4,669,875	514,396	2,218,668	327,017	2,451,007	187,379
March 1947.....	4,654,452	517,295	2,225,418	326,693	2,429,034	190,602
April 1947.....	4,617,549	524,355	2,208,483	330,604	2,409,086	193,751
May 1947.....	4,600,179	533,254	2,207,446	335,549	2,392,733	197,705

#### New Member Banks

The First National Bank in Grand Prairie, Texas, a newly organized institution, opened for business on May 29, 1947, as a member of the Federal Reserve System. This bank has paid-in capital funds of \$200,000, including capital of \$100,000, surplus of \$50,000, and undivided profits of \$50,000. Its officers are: B. A. Stufflebeme, President; A. M. Beeman, Active Vice President; S. A. McIlhenny, Vice President; and W. D. Jasper, Cashier.

The First State Bank, Premont, Texas, was admitted to membership in the Federal Reserve System on June 5, 1947. This bank, which opened for business as a primary organization on May 15, 1947, has total capital funds of \$52,500, including capital of \$35,000, surplus of \$10,000, and undivided profits of \$7,500. Its officers are: C. W. Laughlin, President; Frank B. Lloyd, Vice President; H. J. Mosser, Vice President; and Earl C. Gilmore, Vice President and Cashier.

The Hereford State Bank, Hereford, Texas, a newly organized institution, opened for business as a member of the Federal Reserve System on June 16, 1947. This bank has total capital funds of \$110,000, including capital of \$50,000, surplus of \$40,000, and undivided profits of \$20,000. Its officers are: A. V. Hendrick, President; Dudley Green, Vice President (Inactive); and Wm. R. Phillips, Cashier.

#### New Par Bank

On June 7, 1947, the Citizens State Bank, Anton, Texas, a newly organized nonmember bank, located in the Eleventh Federal Reserve District, opened for business, and gave notice that remittance would be made at par for checks drawn on it when received from the Federal Reserve Bank. This bank has capital funds of \$49,000, consisting of \$35,000 capital, \$10,000 surplus, and \$4,000 unassigned. Its officers are: J. H. Howard, President, and Hobert Lewis, Vice President and Cashier.

a rise of \$6,600,000 in "all other" loans which more than counterbalanced a moderate decline in each of the other loan classifications. Although the total investments of these banks increased \$5,400,000 during the four weeks, there was a considerable shift among the types of investment. Holdings of Treasury bonds increased \$13,600,000, but holdings of Treasury bills and notes and certificates of indebtedness declined somewhat.

#### DEBITS TO INDIVIDUAL ACCOUNTS

(Thousands of dollars)

	May 1947	May 1946	Pctg. change over year	April 1947	Pctg. change over month
Abilene.....	\$ 26,519	\$ 23,171	+14	\$ 27,158	- 2
Amarillo.....	69,432	55,207	+26	71,953	- 4
Austin.....	89,362	82,249	+ 9	95,572	- 6
Beaumont.....	70,746	57,324	+23	72,345	- 2
Corpus Christi.....	66,938	63,909	+ 5	65,772	+ 2
Corsicana.....	8,186	7,958	+ 3	8,245	- 1
Dallas.....	820,408	683,332	+20	786,088	+ 4
El Paso.....	97,440	87,690	+11	96,430	+ 1
Fort Worth.....	278,422	223,428	+25	278,844	- 1
Galveston.....	60,595	53,235	+14	57,697	+ 5
Houston.....	787,727	656,098	+20	752,618	+ 5
Laredo.....	16,678	16,379	+ 2	16,807	- 1
Lubbock.....	48,587	36,856	+32	46,905	+ 4
Monroe, La.....	26,789	24,560	+ 9	25,310	+ 6
Port Arthur.....	31,996	24,671	+30	28,963	+10
Roswell, N. M.....	12,040	11,353	+ 6	11,986	+ 1
San Angelo.....	23,413	22,812	+ 3	22,928	+ 2
San Antonio.....	233,002	205,475	+13	227,911	+ 2
Shreveport, La.....	107,749	93,707	+15	104,774	+ 3
Texarkana.....	21,743	19,891	+ 9	23,280	- 7
Tucson, Ariz.....	53,054	49,333	+ 8	52,047	+ 2
Tyler.....	35,515	30,279	+17	31,784	+12
Waco.....	41,423	37,837	+ 9	45,075	- 8
Wichita Falls.....	44,122	39,043	+13	42,633	+ 3
Total—24 cities.....	\$3,071,891	\$2,605,697	+18	\$2,993,155	+ 3

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

†Change less than one-half of one per cent.

#### SAVINGS DEPOSITS

Reporting Banks—Eleventh Federal Reserve Bank

	Number reporting banks	May 31, 1947		Percentage change in savings deposits from	
		Number of savings depositors	Amount of savings deposits	May 31, 1946	April 30, 1947
Beaumont.....	3	12,301	\$ 7,063,457	- 9.9	- 1.2
Dallas.....	8	133,194	78,061,787	+ 9.3	+ 0.6
El Paso.....	2	33,676	23,945,888	+ 5.7	+ 0.5
Fort Worth.....	3	42,364	34,608,658	+ 7.8	+ 0.3
Galveston.....	4	26,591	21,256,716	+ 5.6	+ 1.2
Houston.....	8	105,929	70,804,987	+ 2	+ 0.01
Lubbock.....	2	1,095	1,829,392	-27.4	+12.4
Port Arthur.....	2	6,104	5,361,009	- 2.9	+ 0.8
San Antonio.....	5	35,871	46,617,999	+ 8.7	+ 0.5
Shreveport, La.....	3	32,737	26,322,460	+ 2.0	- 0.0
Waco.....	3	10,117	9,624,000	+ 8.5	- 0.5
Wichita Falls.....	3	7,025	4,596,811	- 3.0	- 0.5
All other.....	56	63,297	54,207,969	+ 7.1	+ 0.3
Total.....	102	613,001	\$384,301,133	+ 5.1	+ 0.3

#### Earnings and Expenses of Member Banks, 1945 and 1946

The financial statements accompanying this analysis present comparative data for the years 1945 and 1946 on earnings and expenses of member banks in the United States and in the Eleventh Federal Reserve District, subdivided according to "reserve city" member banks and "country" member banks. These statements reveal that, in some items, the changes from 1945 to 1946 for member banks in the Eleventh Federal Reserve District closely approximated those for all member banks in the United States. In other items, however, there were wide variations in the changes experienced during the two years by the banks of the district and those of the nation.

The expenses of member banks in 1946 were about one-sixth higher than those in 1945. The increase was remarkably consistent as between member banks in this district and in the United States, and as between classes of banks both in this district and in the United States. In the case of each group of banks, all categories of expenses increased from 1945 to 1946, but the largest increase, amounting to 21 per cent for all member banks combined in the nation and in the district, occurred in salaries and wages.

Total earnings from current operations also increased substantially in 1946 as compared with 1945. The rise of 26 per cent at member banks in this district was nearly double the 14 per cent gain registered at all the member banks in the United States. The greatest gains, both in amount and in percentage, occurred in earnings on loans. These earnings of member banks in the Eleventh District were 48 per cent higher in



1946 than in 1945, whereas the increase was only 31 per cent for member banks in the United States. Earnings of member banks derived from securities increased 14 per cent in this district and only six per cent in the United States. The increase in miscellaneous earnings, however, was slightly lower in this district than for the country as a whole. The net current earnings of member banks in this district during 1946 were 42 per cent larger than those in 1945, whereas the gain for all member banks in the United States was only 12 per cent.

EARNINGS AND EXPENSES OF MEMBER BANKS, 1945 AND 1946

	All member banks		Eleventh District (\$ thousands)		Pctg. change 1945-1946	
	United States (\$ millions)	1945-1946	1945	1946		
Current operating earnings.	2,102	2,403	14	84,876	106,865	26
On U. S. Securities.....	997	1,054	6	32,121	36,901	15
On other securities.....	139	148	6	4,192	4,651	11
On loans.....	888	772	31	32,050	47,500	48
All other.....	378	429	13	16,213	17,813	10
Current operating expenses.	1,268	1,469	16	53,860	63,157	17
Salaries and wages.....	580	699	21	25,597	30,988	21
Interest on deposits.....	183	212	16	3,034	3,588	18
All other.....	505	558	10	25,229	28,585	13
Net current earnings.....	835	934	12	30,716	43,708	42
Recoveries and profits.....	454	356	-22	11,299	10,255	-9
Recoveries on securities.....	113	54	-52	713	1,193	67
Profits on securities.....	239	183	-23	6,047	4,719	-22
Recoveries on loans.....	56	64	14	2,200	2,555	16
All other.....	46	55	20	2,339	1,788	-24
Losses and charge-offs.....	230	247	7	8,515	8,710	2
On securities.....	118	115	-3	4,159	4,007	-4
On loans.....	47	62	32	1,818	2,474	36
All other.....	65	70	8	2,538	2,229	-12
Profits before income taxes.	1,058	1,043	-1	33,500	45,253	35
Taxes on net income.....	270	285	6	9,422	12,414	32
Net profits.....	788	758	-4	24,078	32,839	36
Cash dividends.....	246	267	9	9,715	9,548	-2
Ratios to total capital accounts:						
Net current earnings.....	11.5	11.9		12.1	15.0	
Net profits.....	10.9	9.6		9.5	11.2	
Number of banks.....	6,884	6,900		585	595	

Total recoveries, including profits on securities sold, showed a decline of only nine per cent for member banks in the Eleventh District as compared with a decrease of 22 per cent for all member banks in the United States. The principal factor accounting for this variation was in the amount of recoveries on securities. In this district, these recoveries increased 67 per cent in 1946 as compared with 1945, whereas in the United States there was a decrease of 52 per cent. On the other hand, miscellaneous recoveries increased 20 per cent in the United States, but decreased 24 per cent in this district.

Total losses and charge-offs showed a moderate increase in 1946 as compared with 1945, both in this district and in the United States. It is significant that the excess of recoveries and profits on securities over losses and charge-offs was reduced substantially, both in this district and in the United States.

Net profits after income taxes of member banks in the Eleventh District were 36 per cent higher in 1946 than in 1945, whereas they were four per cent lower for all member banks in the United States. In consequence, net profits after taxes declined from 10.9 per cent of total capital accounts at all member banks in the United States in 1945 to 9.6 per cent in 1946; in this district, however, there was an increase from 9.5 per cent in 1945 to 11.2 per cent in 1946. The relatively less favorable showing made during 1946 by member banks in the United States as a whole resulted in large part from the experience of central reserve city banks at New York and Chicago. These banks had only a small increase in total earnings from current operations while their expenses showed an increase comparable with that for other classes of banks. The result was that their net earnings from current operations were four per cent smaller in 1946 than in 1945. Furthermore, a 39 per cent decline in recoveries and profits of these banks, combined with

an increase of eight per cent in losses and charge-offs, reduced to a narrow margin the excess of their recoveries and profits over losses and charge-offs; whereas in 1945, the excess accounted for 31 per cent of total net profits before income taxes. In consequence, the net profits after taxes of central reserve city member banks were 23 per cent lower in 1946 than in 1945.

EARNINGS AND EXPENSES OF MEMBER BANKS, 1945 AND 1946

	United States (\$ millions)		Reserve city banks		Eleventh District (\$ thousands)	
	1945	1946	Pctg. change 1945-1946	1945	1946	Pctg. change 1945-1946
Current operating earnings.	783	895	14	40,949	51,789	26
On U. S. Securities.....	307	381	4	17,782	19,510	10
On other securities.....	47	52	11	1,330	1,496	12
On loans.....	228	304	33	14,416	22,356	55
All other.....	141	158	12	7,421	8,407	13
Current operating expenses.	479	558	16	25,738	30,163	17
Salaries and wages.....	217	266	23	11,057	13,667	24
Interest on deposits.....	72	82	14	1,940	2,325	20
All other.....	190	210	11	12,741	14,171	11
Net current earnings.....	304	337	11	15,211	21,606	42
Recoveries and profits.....	150	127	-15	6,589	6,447	-2
Recoveries on securities.....	37	20	-46	392	781	99
Profits on securities.....	75	61	-19	4,081	3,555	-13
Recoveries on loans.....	20	24	20	744	1,053	42
All other.....	17	29	29	1,352	1,058	-22
Losses and charge-offs.....	95	101	6	4,352	3,439	-21
On securities.....	48	45	-6	2,324	1,855	-29
On loans.....	23	29	26	524	693	32
All other.....	23	27	17	1,504	1,091	-27
Profits before income taxes.	359	363	1	17,428	24,614	41
Taxes on net income.....	90	99	10	5,774	7,592	31
Net profits.....	268	264	-1	11,654	17,022	46
Cash dividends.....	88	99	13	5,228	4,335	-17
Ratios to total capital accounts:						
Net current earnings.....	12.5	12.7		11.2	13.5	
Net profits.....	11.0	9.9		8.6	10.6	
Number of banks.....	305	355		36	35	

A comparison of the operating results of reserve city member banks and of country member banks in this district with those of the respective groups of member banks in the United States indicates that the experience of member banks of both classifications in the district was much more favorable. The increase in total earnings from current operations was substantially larger, while the rise in total expenses was about the same. This resulted in a much larger increase in net current earnings for each group of member banks in the district than for the respective group in the United States. The most significant differences occurred in recoveries and profits and in losses and charge-offs. In this district the recoveries and profits of reserve city member banks during 1946 were only two per cent lower than in 1945, while losses and charge-offs decreased 21 per cent. As a result, additions to net current earnings in 1946 were substantially larger than in 1945. On the other hand, in the United States recoveries and profits of reserve city banks declined 15 per cent, while losses and charge-offs increased six per cent, reducing the additions to net current earnings to about one-half the total in 1945. Net profits after taxes of reserve city banks in this district were 46 per cent higher in 1946 than in 1945, which contrasts with a net decline of one per cent for reserve city member banks in the United States.

The experience of country banks in this district with respect to recoveries and losses was much more unfavorable than that of reserve city banks in the district or that of country banks in the United States. Recoveries and profits decreased 19 per cent for country member banks in the district as compared with only nine per cent for country banks in the United States, while losses increased 27 per cent in the district as compared with only nine per cent in the United States. Thus, the country member banks in this district had substantial net losses and charge-offs during 1946 as compared with moderate net recoveries in 1945. In consequence, net profits after taxes of country banks in this district were only 27 per cent higher in 1946 than in 1945, a much smaller percentage gain than was ex-

## EARNINGS AND EXPENSES OF MEMBER BANKS, 1945 AND 1946

	Country banks					
	United States (\$ millions)			Eleventh District (\$ thousands)		
	1945	1946	Pctg. change 1945-1946	1945	1946	Pctg. change 1945-1946
Current operating earnings.....	782	940	20	43,627	55,006	26
On U. S. Securities.....	355	411	16	14,339	17,391	21
On other securities.....	58	63	9	2,862	3,155	10
On loans.....	229	313	37	17,634	25,144	43
All other.....	140	153	9	8,792	9,406	7
Current operating expenses.....	517	595	15	28,122	32,994	17
Salaries and wages.....	221	262	19	14,540	17,319	19
Interest on deposits.....	98	114	16	1,094	1,261	15
All other.....	198	220	11	12,488	14,414	15
Net current earnings.....	265	344	30	15,505	22,102	43
Recoveries and profits.....	149	135	-9	4,730	3,808	-19
Recoveries on securities.....	23	17	-26	321	412	28
Profits on securities.....	86	75	-13	1,966	1,164	-41
Recoveries on loans.....	23	25	9	1,456	1,502	3
All other.....	17	17	..	987	730	-26
Losses and charge-offs.....	75	82	9	4,163	5,271	27
On securities.....	37	47	27	1,835	2,352	28
On loans.....	15	17	13	1,294	1,781	38
All other.....	23	19	-17	1,034	1,138	10
Profits before income taxes.....	340	397	17	16,072	20,639	28
Taxes on net income.....	73	98	34	3,648	4,822	32
Net profits.....	267	298	12	12,424	15,817	27
Cash dividends.....	71	79	11	4,487	5,213	16
Ratio to total capital accounts:						
Net current earnings.....	11.0	13.0		13.2	16.8	
Net profits.....	11.0	11.2		10.5	12.0	
Number of banks.....	6,476	6,494		549	560	

perenced by the district's reserve city banks. Nevertheless, this increase was still substantially higher than the 12 per cent gain of country banks in the United States as a whole.

## INDUSTRY

Production of crude oil in the Eleventh District reached a new all-time peak of 2,426,000 barrels daily in May and is estimated to have risen to about 2,485,000 barrels daily in June. Daily average production in the district is currently being maintained about 67,000 barrels above the former peak rate attained in June 1946, and nearly 1,000,000 barrels above the normal rate of production prior to the war. Production outside the district also reached a new peak of 2,583,000 barrels daily in May, and has since increased.

## CRUDE OIL PRODUCTION—(Barrels)

	May 1947		Increase or decrease in daily average production from	
	Total production	Daily avg. production	April 1947	May 1946
	District 1.....	653,350	21,076	+ 329
2.....	4,931,250	159,073	+ 1,035	N.A.
3.....	15,029,900	484,835	+ 3,587	N.A.
4.....	7,542,250	243,298	+ 1,286	N.A.
5.....	1,188,250	38,331	+ 251	N.A.
6.....	10,471,550	337,792	+ 4,254	N.A.
Other 6.....	3,485,250	112,427	+ 927	N.A.
7b.....	1,181,650	38,118	+ 1,113	N.A.
7c.....	1,139,750	36,706	+ 546	N.A.
8.....	16,340,000	527,097	+40,335	N.A.
9.....	4,268,550	137,689	+ 1,871	N.A.
10.....	2,670,750	86,153	+ 1,258	N.A.
Total Texas.....	68,902,300	2,222,655	+56,792	+107,855
New Mexico.....	3,274,600	105,632	+ 2,352	+ 9,899
North Louisiana.....	3,028,800	97,703	+ 1,585	+ 17,690
Total District.....	75,205,700	2,425,990	+60,729	+136,414
Outside District.....	80,079,350	2,583,205	+30,258	+127,529
United States.....	155,285,050	5,009,195	+90,987	+262,943

SOURCE: Estimated from American Petroleum Institute weekly reports.

As the accompanying table indicates, the Eleventh District is accounting for a considerably larger portion of United States production than before the war. In May 1947, more than 48 per cent of total United States production was derived from fields in this district, whereas in 1940, a typical prewar year, the district accounted for 41 per cent of the total. Moreover, the relative importance of the Southwest seems destined to increase if demand for crude oil increases further, since only the Southwest can expand production significantly without reducing ultimate recovery from the natural reservoirs.

Although all oil-producing sections of the district have contributed to the pronounced increase in production of crude oil

which has occurred during the past four or five years, the greatest contributions have been made by fields in Southwest, Coastal, and West Texas,<sup>1</sup> which together produced about 900,000 barrels more daily in May 1947 than on the average during periods

## DAILY AVERAGE CRUDE OIL PRODUCTION, SELECTED PERIODS

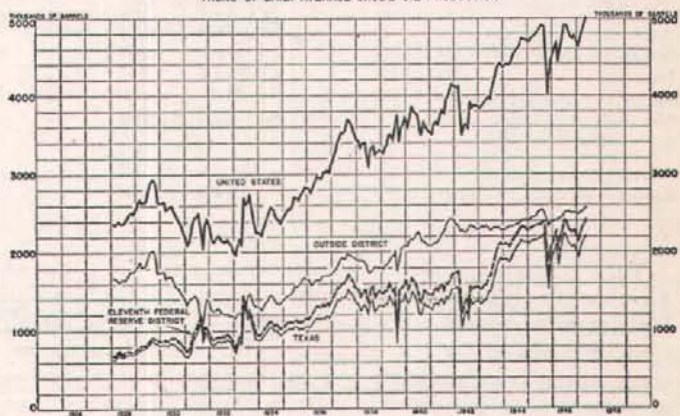
Period	(Thousands of barrels)					
	United States		Eleventh District		Outside District	
	Production	Per cent of U. S.	Production	Per cent of U. S.	Production	Per cent of U. S.
1940.....	3,697.3	1,510.9	40.9	2,186.4	59.1	
1941.....	3,841.7	1,578.8	41.1	2,262.9	58.9	
1942.....	3,799.0	1,497.9	39.4	2,301.1	60.6	
1943.....	4,125.0	1,799.5	43.6	2,325.5	56.4	
1944.....	4,584.4	2,210.5	48.2	2,373.9	51.8	
1945.....	4,688.0	2,222.0	47.4	2,466.0	52.6	
1946.....	4,744.3	2,259.1	47.6	2,485.2	52.4	
January 1947.....	4,622.0	2,134.4	46.2	2,487.6	53.8	
February 1947.....	4,764.5	2,250.3	47.2	2,514.2	52.8	
March 1947.....	4,848.9	2,326.0	48.0	2,520.9	52.0	
April 1947.....	4,918.2	2,356.3	48.1	2,552.9	51.9	
May 1947.....	5,009.2	2,426.0	48.4	2,583.2	51.6	
June 1947*.....	5,100.0	2,492.0	48.9	2,608.0	51.1	

\*Estimate based on first two weeks of June.

SOURCE: American Petroleum Institute and U. S. Bureau of Mines.

immediately before the war. These areas accounted for 200,000 barrels of the 290,000 barrel increase in daily average production which occurred in the district between January and May of this year.

## TREND OF DAILY AVERAGE CRUDE OIL PRODUCTION



The substantial increase in crude oil production which has occurred in recent months has little more than offset increases in consumption. Stocks of crude oil rose very little during May, and, although somewhat greater at the end of the month than a year earlier, they were not excessive in view of the current large demand for petroleum products and anticipated increases in consumption of gasoline and fuel oils.

## STOCKS OF CRUDE OIL AND PETROLEUM PRODUCTS

Period	(Thousands of barrels)					
	Crude oil		Gasoline		Gas-oil distillate and fuel oil	
	Eleventh District	United States	Eleventh District*	United States		
May 24, 1947.....	127,900	237,702	20,489	97,827	12,400	79,711
April 26, 1947.....	126,219	235,383	20,350	103,860	11,959	74,964
January 4, 1947.....	112,326	228,291	20,414	94,882	19,134	111,319
May 25, 1946.....	111,435	222,214	N.A.	95,789	N.A.	76,341
April 27, 1946.....	111,691	224,443	N.A.	99,631	N.A.	69,870
January 5, 1946.....	111,409	218,193	N.A.	88,494	N.A.	77,570
May 25, 1940.....	94,110	259,330	17,045	101,557	11,501	130,345
April 27, 1940.....	91,295	256,670	17,428	103,587	9,667	127,271
January 6, 1940.....	80,653	238,581	13,982	83,911	12,186	138,021

\*1940—Texas only.

N.A.—Not available.

SOURCE: U. S. Bureau of Mines.

The pronounced decline in the total value of awards in the Eleventh District from approximately \$70,000,000 in January

<sup>1</sup>See the *Monthly Business Review*, March 1, 1947, Vol. 32, No. 3, p. 46, for a description and map of the oil regions of the Eleventh Federal Reserve District.

to \$44,000,000 in April, which generally has been thought to reflect curtailment of commercial and residential building plans because of the high cost of construction, was halted in May by a moderate rise in the value of awards to \$52,000,000. The increase in awards is attributable entirely to heavier commitments

is generally expected that at best not many more than 700,000 permanent units will be started. Even should this optimistic anticipation be realized, only about 1,400,000 permanent units will have been begun in 1946-1947, and about 1,200,000 completed, in contrast with the Veterans' Emergency Housing Program's original goals of 2,450,000 starts during this period.

DOMESTIC CONSUMPTION AND STOCKS OF COTTON (Bales)

Consumption at:	May 1947	May 1946	April 1947	—Aug. 1 to May 31—	
	This season	Last season	This season	Last season	
Texas mills	12,437	18,783	16,263	176,449	166,079
United States mills	827,234	871,470	882,880	8,629,564	7,641,287
U. S. stocks—end of month:					
In consuming establm'ts.	1,928,815	2,331,747			
Public stg. & compresses	1,835,991	6,405,726			

for nonresidential building than in April. Awards for nonresidential building in May were smaller, however, than during the first three months of the year, and those for residential construction were somewhat smaller than in any preceding month of 1947. Nevertheless, construction activity is being expanded

VALUE OF CONSTRUCTION CONTRACTS AWARDED (Thousands of dollars)

	May 1947	May 1946	April 1947	January 1 to May 31 1947	
	This season	Last season	This season	Last season	
Eleventh District—total	\$ 51,968	\$ 84,061	\$ 44,037	\$ 283,387	\$ 288,338
Residential	17,721	50,974	18,088	107,016	134,263
All other	34,247	33,087	25,949	176,371	154,075
United States*—total	674,657	952,418	602,338	2,956,755	3,129,822
Residential	254,085	463,000	256,068	1,259,444	1,301,225
All other	420,572	488,818	346,270	1,628,131	1,828,597

\*Preliminary.  
\*37 states east of the Rocky Mountains.  
SOURCE: F. W. Dodge Corporation.

COTTONSEED AND COTTONSEED PRODUCTS

	Texas		United States	
	August 1 to May 31 This season	Last season	August 1 to May 31 This season	Last season
Cottonseed received at mills (tons)	565,817	618,981	2,991,857	3,092,674
Cottonseed crushed (tons)	602,536	689,506	2,945,837	3,168,450
Cottonseed on hand May 31 (tons)	20,535	13,674	163,726	142,572
Production of products:				
Crude oil (thousand lbs.)	182,377	208,017	925,296	988,016
Cake and meal (tons)	283,034	319,120	1,297,571	1,393,708
Hulls (tons)	134,044	160,631	692,166	761,260
Linters (running bales)	205,666	217,932	945,325	950,491
Stocks on hand May 31:				
Crude oil (thousand lbs.)	704	702	10,419	11,445
Cake and meal (tons)	22,008	10,107	116,987	46,782
Hulls (tons)	9,550	4,471	44,718	39,879
Linters (running bales)	15,083	7,909	99,861	51,926

SOURCE: United States Bureau of Census.

slightly. Employment on construction projects in Texas is estimated to have increased from 91,000 in April to nearly 95,000 in May, the increase occurring largely in heavy construction.

In the Southwest, a better record than the national one in residential construction thus far has been established, although the housing shortage has been eased very little. The national goal set by the Veterans' Emergency Housing Program was not formally apportioned among the States, but it was estimated that Texas' share of the two-year goal was to initiate construction of 118,000 to 120,000 non-farm units by the end of 1947, an average rate of 60,000 new starts per year. A fair allocation to the Eleventh District for the two-year period was perhaps 135,000 such units.

NEW DWELLING UNITS PROVIDED, TEXAS AND SOUTHWEST

Period	Number of non-farm units*	
	Texas	Southwest†
1940	35,100	N.A.
1941	39,500	63,800
1942	26,900	42,300
1943	29,900	46,600
1944	17,900	28,300
1945	26,500	37,300
1946	74,600	103,900

N.A.—Not available.  
\*Bureau of Labor Statistics data—estimates of new residential construction in all non-farm areas based on permits issued.  
†Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

BUILDING PERMITS

	—May 1947—		Percentage change valuation from		Jan. 1 to May 31, 1947		Percentage change valuation from 1946	
	No.	Valuation	May 1946	Apr. 1947	No.	Valuation	from 1946	from 1946
Abilene	72	\$ 249,335	+ 15	-80	492	\$ 2,128,173	- 15	
Amarillo	173	646,055	- 6	-16	799	2,797,788	- 30	
Austin	1,578	1,679,175	+ 11	-26	2,838	7,735,960	- 4	
Beaumont	385	447,706	+110	+21	1,525	1,848,293	+ 24	
Corpus Christi	333	751,842	+ 38	-30	1,831	5,951,997	+ 43	
Dallas	1,370	3,759,091	+ 47	-27	6,540	19,944,140	- 17	
El Paso	125	635,595	- 30	+52	616	2,986,460	+ 34	
Fort Worth	630	2,270,088	- 18	+29	2,957	9,597,013	- 28	
Galveston	117	229,515	+167	+77	800	983,057	+ 3	
Houston	694	5,249,821	+ 49	+18	3,225	24,070,499	- 34	
Lubbock	209	1,154,487	+386	+98	941	4,852,730	+113	
Port Arthur	189	161,390	+ 45	-16	714	929,139	- 11	
San Antonio	1,349	2,737,486	+ 80	+69	5,843	9,832,387	- 22	
Shreveport, La.	387	903,902	+ 13	+26	1,809	4,482,396	- 8	
Waco	130	563,325	+ 23	+21	645	2,781,094	+ 53	
Wichita Falls	76	114,655	+ 19	-1	322	708,645	- 29	
Total	7,817	\$21,553,568	+ 33	+ 1	31,498	\$101,626,761	- 16	

Trend of Residential Construction

The national deficiency in urban housing which has caused discomfort and distress among returned veterans and others, interfered with redistribution of the labor force, and intensified inflationary pressures upon the prices of new and existing dwellings, has been only slightly reduced during the two years since hostilities in the Pacific were terminated. The goals set by the Office of the Housing Expediter, when it began its attack upon the housing shortage early last year, called for starting 950,000 permanent dwelling units in 1946 and 1,500,000 in 1947. Residential construction is falling far short of these objectives. Approximately 671,000 permanent units actually were started in 1946, and 438,000 completed. Although at the beginning of 1947 it was forecast that perhaps 1,000,000 new units would be started during the year, the outlook has been revised in the light of declining residential awards, and now it

Construction of residences at the rate of 60,000 units annually was a high goal to set for Texas. At the peak of residential building in 1941, only 39,500 new non-farm units were provided in the State, and in most prior years fewer than 35,000 new units had been built. The goal of 60,000 units was exceeded last year. The Bureau of Labor Statistics estimates on the basis of permit awards that an all-time record was set by construction of 74,600 non-farm units in the State, of which approximately 68,000 were privately financed and permanent dwellings, a noteworthy achievement in view of the numerous shortages of building materials and skilled craftsmen which were encountered. The number of units completed may have been somewhat smaller, for a few units were abandoned after construction was begun, and many others had not been finished by the end of the year. Nevertheless, it is obvious that a larger number of dwellings were provided in Texas and the Southwest during 1946 than in any prior year.

The number of new dwelling units started in Texas and the Southwest in 1946 may not be equalled this year. As the accompanying table indicates, starts in metropolitan areas and in representative smaller cities in Texas and the Southwest were maintained at high levels during the first three quarters of 1946, but declined substantially during the last quarter of the year. The decline in part was in response to seasonal influences, but it also reflected increasing uncertainty of speculative builders and potential owners concerning the probable trends of building costs and prices of residences. These uncertainties were not dis-

pelled, with the result that, despite substantial improvement in the flow of building materials early this year and liberalization

ESTIMATED NUMBER OF NEW DWELLING UNITS SCHEDULED TO BE STARTED IN URBAN AREAS\*

	1946				1947
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter
Amarillo.....	295	424	258	216	226
Austin.....	722	612	1,286	369	520
Beaumont.....	115	111	174	159	168
Corpus Christi.....	264	224	335	241	467
Dallas†.....	2,216	1,257	1,751	638	1,639
El Paso.....	96	111	78	108	80
Fort Worth.....	1,382	1,129	981	702	843
Galveston.....	35	93	167	24	61
Houston†.....	1,224	1,561	1,940	979	1,265
San Antonio†.....	945	963	1,122	973	906
Waco.....	206	238	232	167	164
Total Texas metropolitan.....	7,500	6,723	8,324	4,576	6,339
Shreveport, Louisiana.....	226	288	308	254	301
Tucson, Arizona.....	292	45	226	91	88
15 representative Southwestern cities of 10,000 to 50,000†.....	1,543	1,416	1,395	977	1,147

\*Bureau of Labor Statistics estimates based on building permits.

†Includes adjacent townships in the metropolitan area.

†Brownsville, Bryan, Denton, Laredo, Lubbock, Marshall, Port Arthur, San Angelo, Sweetwater, Tyler, Wichita Falls, Texas; Mansfield and Monroe, Louisiana; Roswell and Carlsbad, New Mexico.

of government controls over residential construction late in 1946, the number of new residences started during the first quarter of 1947 was considerably smaller than for any of the first three quarters of last year. Residential construction activity, however, as distinguished from new starts, apparently has been advanced to new high levels during the first half of this year by completion of dwellings begun last year and by speeding up construction on units started more recently.

VALUE OF RESIDENTIAL CONTRACTS AWARDED  
(Thousands of dollars)

	Texas	Eleventh District
1946—First quarter.....	47,166	48,343
Second quarter.....	105,157	105,973
Third quarter.....	37,439	39,732
Fourth quarter.....	32,744	35,798
1947—First quarter.....	66,575	71,207
April.....	17,243	18,088
May.....	15,962	17,721-p

p—Preliminary.

SOURCE: F. W. Dodge Corporation.

Residential construction activity may be sustained at a high level in the Southwest at least for several months. The value of awards for residential building in the Eleventh District reached the unusually high total of \$71,200,000 in the first quarter of this year, and, although it has since declined, remains somewhat above the average rate of 1946, when an all-time high in the value of awards for residential construction in the district was reached. Moreover, improved flow and broader selection of building materials, and recent modifications of government restrictions on residential building which will permit construc-

tion of more spacious and better appointed dwellings may induce some increase in building. The high cost of construction, reported to be 85 per cent to 120 per cent above prewar levels, continues to be the principal factor deterring initiation of residential building on a large scale. Builders report some tendency for costs to stabilize recently, reflecting a leveling off of material prices, reduction of contractors' margins, and improved productivity of labor, arising partly from better flow of materials.

Minor, but noteworthy, changes in the character of residential construction appear to have occurred in Texas during recent months. During the first four months of this year, awards were placed for construction of about the same number of apartment and other multiple-family units as during the entire year 1946. This development accompanied a general increase in the relative importance of construction of units for rent. Dwellings for

NUMBER AND TYPES OF NEW DWELLING UNITS PROVIDED, TEXAS\*

	Jan.-Apr. 1947	1946	1940
Total.....	11,409	30,267	18,404
In apartment buildings.....	1,172	1,450	1,195
1-family—owner occupied.....	1,034	5,022	6,155
1-family—sale or rent.....	8,221	23,051	9,827
2-family dwellings.....	982	714	1,247

\*Includes urban dwellings only.

SOURCE: F. W. Dodge Corporation.

owners' occupancy became a considerably less important component of total residential construction than in 1946 or in typical periods before the war. The average size of dwelling units for which contracts were placed during the first quarter of this year was slightly smaller than that of the last quarter in 1946, perhaps reflecting the increased emphasis upon apartment and other multi-family units. Builders report that the quality and variety of materials being used in residential construction are superior to those of last fall or of a year ago, and that, on the whole, houses now being constructed are receiving the benefit of higher quality workmanship and improved designing.

CHARACTERISTICS OF SCHEDULED NEW RESIDENTIAL CONSTRUCTION, TEXAS

Period	Average valuation of dwelling units constructed	Square footage per unit	Cost per square foot
1940.....	\$3,864	1,270	\$3.04
1941.....	3,777	1,133	3.33
1942.....	2,793	813	3.44
1943.....	2,051	587	3.50
1944.....	2,926	876	3.34
1945.....	5,319	1,282	4.15
First quarter 1946.....	6,684	1,349	4.96
Second quarter 1946.....	6,580	1,149	5.73
Third quarter 1946.....	5,896	1,068	5.52
Fourth quarter 1946.....	7,215	1,141	6.32
First quarter 1947.....	7,168	1,093	6.56

SOURCE: Computed from F. W. Dodge Corporation data.