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SPECIAL PROBLEMS OF SMALL BUSINESS

FOREWORD: *The Committee for Economic Development recently published a statement of its Research Committee entitled "Meeting the Special Problems of Small Business." In our opinion, that statement of the Research Committee is of such significance and value to those who are interested in the future of the small business organization as a vital element in the country's economic system as to warrant wide distribution. Consequently, we have taken the opportunity to summarize some of the more significant features of the statement in this issue of our Monthly Business Review. Copies of the complete statement may be obtained by writing to Mr. Henry R. Johnston, Executive Director, Committee for Economic Development, 285 Madison Avenue, New York 17, New York. Additional copies of this summarization may be obtained by writing the Research Department, Federal Reserve Bank of Dallas.*

The Place of Small Business in Our Economy

Although the Committee accepts the fact that small business is more virile and more durable than might be deduced from the hue and cry heard for many years as to the disadvantages under which that type of business organization labors, it recognizes, nevertheless, that small businesses are confronted with special problems and difficulties that are very real. Moreover, it considers it to be of vital importance to all business, large and small, and to all citizens that conditions unfavorable to small business be remedied wherever possible. With that objective, the Committee in its report considers briefly the fundamental place of small business in our economy and then treats in some detail the special problems which confront in varying degrees the many small businessmen of the nation.

Recognizing the necessity of determining for the purposes of its report what properly constitutes a small business, the Committee states that usually a small business will show two or more of the following characteristics:

- (1) Management is independent. Usually the managers are also the owners.
- (2) Capital is supplied and ownership held by an individual or small group.
- (3) Area of operations is mainly local. Workers and owners are in one home community. Markets need not be local.
- (4) Relative size within the industry—the business is small when compared to the biggest units in its field. The size of the top bracket varies greatly, so that what might seem large in one field would be definitely small in another.

Obviously, there are a number of different standards of measurement as to what constitutes a small business, including such measures as sales volume, total resources, and number of employees, but on any basis it is clear that only a small fraction of the businesses of this country properly can be considered "big"; therefore, the vast majority of the nation's business units come within the scope of the Committee's report. In fact, official figures show that 98 per cent of the business units in America

have fewer than 50 employees and would be classed by anyone as small business. Included among these business units are the retail store; the small shop, mill, or factory; the myriad sales and service establishments of every kind. Also, small business includes the self-employed: the piano tuner, the man who runs the radio repair service, the one-woman beauty shop, as well as the corner drug store, the grocery, the trucking line, and the barber shop.

Although the Committee's study and discussion relate only to nonfarm small business concerns, the modern farm exhibits many of the characteristics of a business operation and plays a similar role to industrial, commercial, and service establishments in the national economy. Most farms, too, fall in the category of small businesses, based on freedom of individual enterprise, and many farmers in the conduct of their business encounter managerial and financial problems closely comparable to those of the small manufacturer, merchant, or service operator.

The Committee emphasizes the fact that healthy small business is vitally important to the fabric of American life and that small business is a manifestation of one of the basic freedoms of American life, i.e., the freedom to enter or leave business at will, to start small and grow big, to expand, contract—or even to fail; that this freedom to be enterprising is an aspect of our economic democracy without which our political democracy cannot exist. The American small business system means that there are about 3,500,000 centers of initiative where experiments may be authorized and where innovations may be started. As the Committee points out, it is difficult to imagine how a regimented economy with relatively few centers of initiative can compete in dynamic drive and in technological progress with an economy that has several million such vital driving centers.

Among the values of small business, the Committee enumerates such recognized advantages as the fact that small firms help to keep big firms alert and active; that the little fellows frequently force competition in price, design, and efficiency; that they help to check the development of monopoly; that the small businessman has an intimate knowledge and a personal stake in the home community; and that the ingenious small enterpriser often is a source of new materials, new processes, new services that older and better established firms sometimes are reluctant to offer. Perhaps the greatest value of small business, however, both to society and to business enterprise, grows out of the often unappreciated fact that business produces men as well as goods. It is the small business enterprise particularly which gives a man a chance to develop a well-rounded business experience and trains him in business action, leadership, and independence of decision. From the ranks of men thus trained, big business often draws its most successful executives.

Another value of small business in the total national effort of production and distribution is its greater degree of flexibility, as compared with big business. As the Committee points out, small business may be "small" in size yet great in achievement. This was dramatically demonstrated during the war. Small business could often get into action faster and operate more flexibly than big business.

Turning to the special problems of small business, the Committee's report considers that they fall into three major categories: management, financing and taxation, and competitive opportunity. In each of those broad areas it is recognized that the businessman can do much on his own initiative and in cooperation with his fellow enterprisers, but there are limits to the experience and information of a single enterpriser, and there are some conditions unfavorable to small business which are beyond the control of any individual businessman.

Management Problems

It is recognized generally and is accepted by the Committee that the number-one problem of small business lies in the field of management, for more failures are due to lack of skill in running a business than to any other single cause. Too frequently businessmen begin their ventures because they have an interest or a skill in one major phase and overlook the fact that building a successful business is a complicated process. It is not enough for the small businessman just to know how to sell or to produce. On the contrary, to be successful in his business venture he must know something of buying, display, bookkeeping, cost accounting, advertising, and many other things, as well as selling and production. But, how can a man broaden his knowledge of these various business operations to such an extent as to give him reasonable assurance of success? As a first step toward this end, the Committee's report urges that methods must be found by which businessmen can draw upon the experience of others. More specifically, in the Committee's opinion, one such method stems from the natural concern of manufacturers and other suppliers for the success of their small business customers.

It is simply good common sense for these suppliers wherever possible to make available to such customers, in ways and language understandable to the layman, services and suggestions relating to credit policies, accounting, merchandising, technical knowledge, research findings, and other similar requirements for good management. Moreover, trade associations might well afford to devote a larger portion of their efforts to problems of management, training, and guidance, with particular reference to the problems of the small business enterprise. These are not untried suggestions; their value has been established by experience.

Moving beyond the small businessman's suppliers and trade associations, the Committee's report places proper emphasis upon the real value which might be obtained from a local community program under which organized effort is directed consciously to mobilize the business, educational, and professional resources of the community in such a way as to improve the general levels of business efficiency and promote high employment. If, however, a community program is to be a vital thing in the development of business efficiency, not only must many organizations in the community participate, but some one organization must take the lead in initiating the program. Virtually every community has such an organization in its chamber of commerce, junior chamber of commerce, its service clubs, veterans' organizations, or some other community group which could assume the responsibility of bringing together the businessmen of the locality in clinics, discussion forums, industrial councils or committees for the purpose of giving direct help to businessmen in the improvement of their management methods. Most importantly, particular attention should be given to those business enterprisers who are just starting their ventures, for some friendly suggestions or hints from fellow businessmen in the same community might save costly mistakes.

Educational institutions and research agencies also might profitably give increased attention in their programs to training for careers in small business. The Committee states that the best asset that can be provided the potential small businessman is the resourcefulness acquired through a good general education—learning how to think and how to find information. Our schools and colleges can do much in addition to that which they are doing toward equipping young men to go into business. They can provide instruction in specific skills and can assist in developing new horizons for small business through research and study projects. The programs of our educational institutions, however, as the Committee states, should guard against the tendency which is perhaps now too evident of over-emphasizing the specialized type of training which leads to a job in a big business. There are challenging opportunities of ownership or management for resourceful young people in small and medium-size firms, and training to meet the requirements of those types of business should not be neglected by our educational institutions. Extension services, short, intensive courses of the type which were proved so useful during the war, and the preparation and publication of training and operating manuals offer means by which these educational institutions may reach more deeply down into the mass of potential small businessmen and further their training in the problems with which they will be confronted in their daily business operations. Such an extension of our present business education program, however, must be founded on sound research which establishes the requirements for training for small business. To improve the quality of business courses in the schools, as well as to make possible a more effective attack on small business problems, basic research is needed to develop the factors which influence the decisions of individuals to go into business, to analyze the specific problems they face, and to find what determines their success or failure.

In discussing the relations of businessmen with government, the Committee's report states that the businessman would be helped greatly in his dealings with governmental agencies of all kinds if there were a central information agency to which he could go to find out what reports and other forms are required of him and what government regulations apply to him. Furthermore, through such a central information agency, the businessman could learn what government services are available to him. In this connection, it is emphasized that through its strategically located field offices the Department of Commerce might act as a feeder to research bureaus and local civic organizations or counseling agencies that can serve small business firms in their localities. By expanding and improving its function as a clearinghouse to serve the needs of small business and to disseminate information collected by all federal agencies, the Department of Commerce could increase greatly its usefulness to the smaller firms.

To be more specific than the Committee could be on this point, the Department of Commerce might intensify its efforts to bring to the attention and service of small businessmen in every com-

munity the numerous studies which it has published in recent years relating to the establishment and operation of specific types of small businesses. The businesses discussed in publications currently available include, by way of example: apparel stores, automobile repair shops, bakeries, restaurants, laundries, dry cleaning establishments, electrical appliance and radio shops, variety and general merchandise stores, small print shops, brick and tile manufacturing plants, grocery stores—wholesale and retail—, real estate and insurance brokerage, motor courts, and small sawmills. Examples of available publications of general interest to small businessmen in many lines include: "Credit Sources for Small Business," "Store Arrangement and Display," "Selecting a Store Location," "A Merchandising Policy for Manufacturers," "Small Business and Government Regulation," "Packaging for Consumer Appeal," "The Advertising Appropriation for a Retail Store," "Basic Tax Information for Small Business Enterprises," "Veterans and Small Business," "Working Capital," and "Boosting Worker Productivity." The Department welcomes the cooperation of trade associations, chambers of commerce, banks, and other groups or firms in letting businessmen know about the business information which the Department has to offer.

Problems of Financing and Taxation

In presenting its specific recommendations for improvement in financing of small business, the Committee's report states that there is a tendency to forget or ignore during periods of prosperity the fundamental difficulties of small business financing. The last few exceptional years have been prosperous ones for small business, and financing has not been the problem it is in ordinary years. From a long-run standpoint, however, the financing of small and medium-size business appears to have become progressively more difficult, thus leading the Committee to emphasize in its report that one of the fundamental needs of small and medium-size business is more adequate financing, more long-term credit relative to short-term, more dependable access to credit in times of depression, and more ownership funds relative to borrowed funds.

In spite of the excellent educational program which the American Bankers Association is carrying on and the outstanding work that is being done by some individual banks, the Committee is, nevertheless, of the opinion that banks often fail to realize the full possibilities for wider service in the field of credit for small business. Obviously, banks and small businesses depend upon each other heavily, since the overwhelming majority of bank loans go to small enterprises; yet, in existing banking operations, both banks and businessmen too frequently show the need for better education in getting together. Often the enterpriser is reluctant to approach a bank, or when he does so, his presentation may be inadequate. He may not provide the banker with all the needed facts, or he may fail to organize the information supplied in such a way as to enable the banker to make an intelligent judgment on his application.

To be prepared to act intelligently under such conditions, the banker who is alert to his institution's opportunity and responsibility in serving the credit needs of small business in his community devotes some of his time to acquiring knowledge of the problems of business management and operation, general and local, and to developing specific information concerning the economic assets and business risks of the community. He also maintains accurate credit files of up-to-date information regarding the financial position of each local businessman among his bank's clients. With the fund of knowledge derived from these procedures, he is in position to judge and to advise as to the soundness of a new business enterprise for which bank credit is sought. He can also give his clients the benefit of frequent analysis of developments affecting the businesses in which they and the bank have a mutual financial interest. He thus becomes a trusted financial counselor to the small business executives of his community, each of whom from time to time encounters a credit problem of peculiar urgency to himself, for the solution of which he needs the benefit of the experience the banker has gained in dealing with the similar problems of other local businessmen. Bankers in every community may well exert themselves to achieve such a position of usefulness as that in the maintenance and development of community enterprises, by acquiring and applying intimate knowledge and understanding of the economic problems, needs, and resources of their locality and of their small business clients.

Of course, one of the most serious financial problems to confront small and medium-size businesses is the danger that the credit that has been extended to them will be withdrawn in case of recession or depression. Obviously, this danger should be minimized by making credits available to small businesses on a longer term basis and by establishing conditions which will help avoid such contraction of bank reserves as would cause the banks to withdraw credit which they have granted

to business. The Committee believes that banks should reduce to a minimum the calling of their loans to business in periods of recession, and that they can do this if they themselves keep liquid. Thus the Committee states, it is of the utmost importance for the financing of business that banks be able to borrow freely from the Federal Reserve System in times of stringency.

Believing that there are opportunities for banks to expand their services to their smaller business clients, the Committee suggests that many large banks might expand and improve their small business departments by providing adequate counseling facilities along with the credits which are granted to their clients. Toward the end of encouraging a proper expansion in the use of term credit and of guidance services for small borrowers, the Committee suggests that bank examiners and supervisory authorities might give constructive encouragement in their relations and contacts with bankers. Speaking further of means of improving the relations of the businessman with his bank, the Committee recommends that the banking fraternity should prepare an authoritative manual setting forth the principles and standards which help to determine the eligibility of business for specific types of loans. Such a manual should be of great help both to the banker and to the businessman in bringing them together on a more solid common ground, for it should indicate to the bank's customers the accounting methods and other tests by which they may judge the type and amount of financing they require and the tests which ordinarily are used to evaluate the risk element involved in the loans for which they apply. Carrying further its views as to means of developing a more desirable banker-businessman relation, the Committee suggests that bankers' associations or individual banks should give consideration to annual clinics where basic problems of business finance might be considered. According to the Committee, large city banks with established correspondent relations are in an especially strategic position to assume leadership in an educational program of this type.

Assuming, however, that small businesses are given better and more stable access to short-term banking funds, the Committee recognizes that the serious financial problem of obtaining adequate equity funds for new enterprises and small established businesses will remain. It is accepted generally that for a number of reasons private investors are not so ready and willing to provide capital for new businesses and for expanding small businesses as they have been in times past. Present banking facilities should be supplemented, according to the Committee, to open up for the small enterprise new channels for capital loans and equity capital. Toward this end, the Committee suggests the formation of new capital banks as an extension of the present commercial banking system. Such capital banks, under the Committee's plan, would be chartered under the Federal Reserve System and would operate under banking rules adapted to their special purposes of supplying small business firms with long-term and equity capital. The Committee is also of the opinion that, in so far as the support of business credit by an instrument of the Federal Government becomes necessary or desirable, the Federal Reserve Banks are in a logical position to serve. To quote from the report, the Committee would favor granting powers to the Federal Reserve to guarantee, up to a stipulated percentage, term and capital loans made by any commercial bank, and repealing present powers to make direct loans. Guarantee by the Federal Reserve Banks would keep such financing within the business structure, under auspices closely geared to changing business requirements, and in line with central banking policy. Loans to new as well as established businesses should be eligible for guarantee and should be for such time periods as best meet the needs of business. With such authority, the Committee is of the opinion that the Federal Reserve System could serve as an agency of stimulation and education in normal times and in periods of emergency be in position to bring its extended credit powers into full use.

In discussing the desirability of government aid to business, the Committee states its opinion that the Federal Government should avoid subsidies, direct loans, or unrestricted guarantees on commercial loans to business except in periods of grave emergency. The Committee sees very serious dangers to independent competitive enterprise in an approach involving direct governmental loans or governmental guarantees of private loans. Outright government guarantees of business loans, in the words of the Committee, tend to undermine the business structure in at least two respects: (1) by relieving the original lender of most of the risk, they tend to encourage the granting of loans on factors other than the competence of the management and other prerequisites for the success of the business; (2) they create the danger that during bad times the Federal Government would have either to take over numerous small businesses or to continue to advance funds to unsuccessful enterprises.

The Committee emphasizes that in carrying out any plans to improve the financing of American business, an accurate foundation of fact is essential. To that end, it recommends that the bankers' associations, in cooperation with the Department of Commerce and the Federal Reserve System, should sponsor systematic and continuing studies of the experience with small and medium-size business financing through various stages of the business cycle. These studies would be designed to determine more definitely the character of the risks involved and the adequacy of the banking services afforded to small business under varying conditions. They would help banks and other lenders in adapting credit arrangements to the special character of small businesses and in supplying a more satisfactory loan service to business borrowers.

Although the Committee does not advocate creating tax privileges in favor of small business as a special class, it is of the opinion that many of the provisions of our tax laws bear with special severity upon smaller business, and therefore tax reform is favored. Reaffirming the position taken in its policy statement on taxation in 1944, the Committee states its opposition to the theory of so-called incentive taxation, which attempts to stimulate enterprise by means of special tax differentials for different types of income. Such differentials raise a host of administrative problems and are likely to result in a vicious cycle of special subsidies which can be paid for only by added tax burdens on other types of income. Instead, the Committee states its belief that moderate and equitable tax treatment for all groups in the economy will be more conducive to an expansion of production and employment. Although the Committee's tax proposals are presented in no sense as a full tax program, they are presented as long-run suggestions of especial importance to small business. These tax suggestions include the following:

As rapidly as is consistent with the maintenance of high employment and production without further inflation, there should be a general reduction of both business taxes and personal income taxes. This is a prime necessity in order to free money for risk capital and to encourage investment in an extension of business enterprise.

Both corporate and noncorporate businesses should have the right to carry forward losses from business operations to apply against subsequent earnings for a period of six years.

The tax burden should be equalized by permitting tax payers to average their income tax over a period of years (say five) to reduce present discrimination against those with irregular incomes.

Greater latitude should be given both corporate and noncorporate business in making annual allowances for depreciation.

Double taxation of corporate income should be eliminated, not only as a matter of fairness but also to stimulate the flow of funds into equity investment. The present discrimination against corporate profits is a serious deterrent to precisely the kind of financing that is most needed by small business—equity financing from internal or external sources.

Problems of Competitive Opportunity

Concluding its report with a discussion of competitive opportunity as it relates to small business, the Committee states that it is to the long-run interest of business, both large and small, to govern their actions so as to preserve a maximum of competitive opportunity. In the words of the Committee, some laws and regulations obviously are needed to prevent abuses, but every proposed law should be examined for its long-term implications lest the enterprise system be strangled in a net of legislation passed ostensibly to preserve it. Our problem is not so much to seek new laws as to clarify those we have and see that they are enforced.

The Committee strongly emphasizes, however, its view that American business has a primary obligation to undertake effective self-policing. Several steps are suggested which should be taken voluntarily by business firms to promote equality of opportunity for all business and to strengthen free and fair competition. Businessmen are advised that they will find it to their interest to recognize the need for removing as far as possible barriers to interstate trade. Also, the Committee urges that business firms not permit themselves to become parties to collusive arrangements with other firms or with labor unions to limit competition or shut out new products. Price concessions and allowances to large buyers, in the opinion of the Committee, should be exposed to the test of whether they are employed to freeze out small buyers. On this point, although the Committee believes that self-regulation would be ideal, it is convinced from the record that such legislation as the Robinson-Patman Law,

forbidding larger concessions than are justified by actual savings in filling large orders, is a needed bulwark for small business and should be enforced. Again, big business is urged to avoid exclusive franchises, tie-in sales, and other monopolistic practices which, in many cases, clearly are unfair to small business. Finally, the Committee believes that trade associations can help small business by placing emphasis on positive measures to better the position of the small businessman, such as grouping of resources for more effective merchandising, buying, advertising, branding, and joint improvements in technology, rather than by lobbying for punitive or restrictive legislation that narrows the area of competition. Many of the more enlightened trade associations are doing excellent work along the lines suggested by the Committee, and their efforts should be encouraged.

Instead of new laws of business competition, the Committee strongly recommends that existing legislation—Federal, State, and local—be re-examined and recast into a consistent body of law that clarifies objectives and represents the application of reasonable principles and methods to further these objectives. This recommendation stems from the Committee's conviction that laws and regulations covering competition are complex and confused, sometimes inconsistent, and even contradictory; that the small businessman at times finds it practically impossible to obtain a clear understanding of what he or his competitor may or may not legally do; and that frequently he can find out what is legal only by the expensive and time consuming process of trial and error.

Labor-management relations as affecting the competitive opportunity of small business are the final problem considered by the Committee. It is pointed out that in this field small business has some great advantages and a number of special problems. Among the advantages recognized by the Committee is the fact that the proprietor of a small business, because of the close personal contact he has with his employees, can develop effective teamwork and high morale by taking a personal interest in the welfare of his employees and by using good "horse sense" in handling human relations. Thus, the proprietor of a small business, once he understands the factors involved, can achieve good employee relations more quickly and easily than the manager of a large concern.

Although small businesses for the most part are not unionized, the Committee notes that in some cases such enterprises, when unionized, are at a disadvantage, particularly in dealing with large and powerful unions, inasmuch as union rules and policies are customarily developed in negotiations with big business and the inclination of labor leaders is to apply to the small business the pattern developed in such negotiations. Moreover, if workers are hired through unions, business agents may favor larger companies and refer low-quality workers to the small enterprise. Where union organization is on a craft basis, the Committee finds an additional problem for the small businessman in the fact that union rules may restrict workers to a single trade when the nature of operations and the small number of employees make it imperative that they work in more than one craft to insure the most productive use of their time.

Another serious problem, according to the Committee, which the small businessman encounters is that of attracting and holding good personnel in the face of his inability to offer the security and stability of employment believed to be characteristic of big business. Large enterprises, furthermore, are in better position than small businesses to offer employees low-cost life and accident insurance, pensions, and other benefits which provide a measure of economic security.

As aids in dealing with the problems of the small businessman in the field of labor relations, the Committee offers some constructive recommendations. It suggests that appropriate government agencies, or universities, or both, make case studies of industrial relations in small business enterprises and that these studies, or "working models of industrial relations in small enterprise," be widely distributed to employers and unions. It also recommends that the special problems of small business operating under union contract be brought to the attention of the top leaders of the labor organization involved, with a view to their working out jointly with employers procedures to minimize the disadvantages of small employers relative to larger enterprises in unionized industries and to formulating a positive program to achieve flexible and cooperative relations between unions and small firms. A final suggestion is that the proprietors of small business, through their trade organizations or other appropriate channels, examine the possibilities of arranging employee security programs for groups of businesses, in which the costs and benefits of such programs may be made comparable to those achieved by larger enterprises. The successful establishment and operation of such programs would do much to preserve competitive opportunity for the small businessman in attracting and holding good personnel.

Review of Business, Industrial, Agricultural, and Financial Conditions

DISTRICT SUMMARY

Drought and extreme temperatures in northern and western parts of the Eleventh District during most of August sharply depleted moisture supplies, retarded the development of late-planted crops in those areas, and caused deterioration in the condition of ranges and some shrinkage in cattle and sheep. Rains at various times during August and September in many sections helped, however, to maintain agriculture and livestock conditions generally in the district at or near average levels. Harvesting of cotton, rice, and other maturing crops made good progress, though interrupted at times by rain, with yields of the important crops equalling or exceeding 10-year averages as well as the yields of last year.

Strong demands for petroleum products indicate that district production of crude oil will continue for the remainder of the year at or near the peak reached in August of two and one-half million barrels per day. Construction activity in the district during August and September apparently maintained the pace set in late spring and early summer.

Reflecting a shift in volume of consumer spending to food and to automobiles and other major durable goods, sales of department stores in the district during August and early September continued the moderate decline noticeable since May from corresponding months of last year. At retail furniture stores, however, total sales in August were somewhat ahead of the same month in 1946, despite a substantial decline in the volume of cash sales.

BUSINESS

A gradual levelling down in both rate and volume of consumer spending in department stores of this district is clearly revealed by the trend of sales in these stores since May. Each month since then their total sales have dropped slightly to moderately below the total for the corresponding month of the preceding year, reversing a succession of year-to-year increases in monthly sales which reached back to September 1942. With total retail sales of all goods and services continuing at record levels, this downward trend of spending in department stores apparently reflects both a considerable shift in consumer buying from soft goods to major durables and a growing lack of balance between prices in different segments of the economy and between cost-of-living prices generally and consumers' incomes.

During August, the dollar volume of sales of reporting department stores in the district fell six percent below the high level of the same month in 1946, when the adjusted monthly sales index of these stores stood at an all-time high. In view of the general upward movement of commodity prices for the past year, the unit volume of sales probably underwent a more significant decline during August than the dollar volume. The increase in cumulated sales from the first of the year over those of the same eight months a year ago dropped to three percent, continuing the downward trend which has been in progress since February. Compared with July of this year, however, dollar sales in August registered a seasonal gain of 14 percent, which closely approximates the average July-to-August percentage increase of the prewar decade and of the period 1941-1946. Cash sales constituted 39 percent of total sales, as compared with 45 percent in August of last year. The average collection period on charge accounts was 58 days, in comparison with 49 days at the same time a year ago.

Dollar sales of weekly reporting department stores for the first two weeks in September were five percent less than for the

same period last year, indicating that sales for the month may continue the recent trend and fall below those of September 1946. Comparative weekly indexes suggest, however, that sales for the month will exhibit a normal seasonal gain over those of August.

At retail furniture stores of the district, total sales in August showed a nominal gain of one percent over August of last year. The entire gain was due to an increase in credit sales, as cash sales, continuing the trend observable since the first of the year, fell 25 percent below those of August 1946 and constituted 17 percent of the total sales. End-of-month receivables showed a rise of 35 percent over the same month a year ago, as compared with a gain of six percent in collections.

Department store stocks at the end of August were only slightly greater than at the same time last year and showed a very moderate rise of six percent from the previous month. Inventories at furniture stores exhibited a somewhat different trend, having risen 30 percent within the year and declined nominally from the previous month.

WHOLESALE AND RETAIL TRADE STATISTICS

Retail trade:	Number of reporting firms	percentage change in			Stocks †	
		Net sales			August 1947 from	
		August 1946	July 1947	Jan. 1 to Aug. 31, 1947 from 1946	August 1946	July 1947
Department stores:						
Total 11th Dist.....	48	— 6	14	3	3	6
Dallas.....	7	— 9	15	— †	— 8	7
Corpus Christi.....	4	—10	9	5	20	1
Fort Worth.....	4	— 4	14	6	21	— †
Houston.....	7	— 6	9	6	3	9
San Antonio.....	5	— 4	22	5	2	10
Shreveport, La.....	3	5	10	7	.....	.....
Other cities.....	18	— 4	11	4	1 1/2	.....
Retail furniture:						
Total 11th Dist.....	46	1	— 1	.....	30	— 3
Dallas.....	4	— †	†	.....	14	—14
Houston.....	5	— 6	— 7	.....	.....	.....
Port Arthur.....	3	10	—10	.....	.....	.....
San Antonio.....	3	—10	—12	.....	.....	.....
Wholesale trade:*						
Electrical supplies..	3	14	—20	.....	.....	.....
Groceries.....	20	14	2	16	49	5
Hardware.....	10	7	8	21	64	— 1
Tobacco & products.	12	9	—20	.....	44	1

*Compiled by United States Bureau of Census (wholesale trade figures preliminary.)

†Stocks at end of month.

†Indicates change of less than one-half of one per cent.

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

Daily average sales—(1935-1939=100)

	Unadjusted*			Adjusted		
	August 1947	July 1947	June 1947	August 1947	July 1947	June 1947
District	327	288	307r	334r	376	378
Dallas	308	267	289	325r	362	371
Houston	331	305	329r	338r	376	377

Stocks—(1935-1939=100)

	Unadjusted*			Adjusted		
	August 1947	July 1947	June 1947	August 1947	July 1947	June 1947
District	318	299	298	296	282	277r

*Unadjusted for seasonal variation.

r—Revised.

AGRICULTURE

Growing crops and ranges deteriorated rapidly during August and the first half of September over most of the northwestern and some western parts of the district, due to continued high temperatures and acute shortages of moisture. In other areas, however, rains falling during the latter part of August and the first half of September relieved droughty conditions and generally improved crop and range prospects. A small reduction in Texas cotton crop prospects, compared with a month earlier, and a significant increase in the prospective production of rice were indicated in the September 1 crop report of the

United States Department of Agriculture. The indicated production of other major crops remained unchanged from earlier estimates. Cattle made good gains in those parts of the district where ranges were improved but showed considerable shrinkage in other areas in spite of supplemental feeding.

CROP PRODUCTION—(Thousands of bushels)

	Texas			States in Eleventh District*		
	Average 1936-45	1946	Estimated Sept. 1, 1947	Average 1936-45	1946	Estimated Sept. 1, 1947
Winter wheat.....	41,287	62,916	129,420	102,467 ²	154,393 ³	244,492 ³
Corn.....	71,963	55,012	50,193	124,624	98,502	87,595
Oats.....	33,236	36,366	31,248	63,484	65,022	65,422
Barley.....	3,913	2,610	2,572	11,617 ²	8,005 ²	9,058 ²
Cotton ¹	3,021	1,669	3,150	4,529	2,478	4,330
Tame hay ²	1,149	1,263	1,137	3,467	4,011	3,981
Potatoes, Irish.....	4,009	5,883	4,488	9,576	11,839	9,360
Potatoes, sweet.....	4,828	6,570	5,270	13,753 ⁴	17,890 ⁴	12,480 ⁴
Rice.....	14,877	17,716	21,168	36,120 ⁵	40,392 ⁵	43,104 ⁵

*Figures are combined totals for five states lying wholly or partly in the Eleventh Federal Reserve District: Texas, Arizona, Louisiana, New Mexico, and Oklahoma. ¹In thousands of bales. ²In thousands of tons. ³Arizona, New Mexico, Oklahoma, and Texas. ⁴Louisiana, Oklahoma, and Texas. ⁵Louisiana and Texas.

SOURCE: United States Department of Agriculture.

A United States cotton crop of 11,849,000 bales was forecast on September 1 by the Crop Reporting Board of the United States Department of Agriculture. This estimate, approximately the same as that of August 1, is 37 percent above the 1946 crop but falls about four percent below the 10-year (1936-45 average). The Texas crop, estimated at 3,150,000 bales, is 50,000 bales below the forecast of a month earlier, but 89 percent above the small 1946 crop and slightly larger than average. The estimated 8,273,000 acres for harvest in the State this year is 32 percent above the acreage harvested last year but seven percent below

higher in grade and shorter in staple than ginnings during the corresponding period last year.

Corn production in Texas of 50,193,000 bushels was forecast on September 1, unchanged from the preceding month but nearly 30 percent below the 10-year average. The acreage for harvest was estimated at 3,042,000 acres, compared with an average of 4,538,000 acres. The forecast yield of 16.5 bushels per acre is slightly above average. Late-planted corn was damaged by dry weather in August, but better than expected yields were obtained from the early crop. Production of sorghum grains in the State was forecast at 61,355,000 bushels, compared with the large 1946 crop of 73,742,000 bushels and an average production of 50,164,000 bushels. The estimated yield of 17.5 bushels is substantially above both the average yield and that of last year. Prospects for early-planted sorghum were good at the middle of September, and the late-planted crop, though still badly in need of rain, was improved in some sections by scattered showers. Sorghum harvesting operations were well under way in the southern Plains counties and had been started in the north. The estimated hay production of Texas was unchanged from the August 1 forecast of 1,310,000 tons.

The rice crop was damaged by a tropical storm in August which covered part of the belt, but improvement in conditions in the rice area as a whole more than offset the losses, so that the estimated production was raised to 21,168,000 bushels, nine percent above the August 1 forecast, 19 percent above the production in 1946, and 42 percent above the 10-year average. Harvesting operations were well under way throughout the Rice Belt by mid-September, and rapid progress was being made under ideal weather conditions.

TEXAS—COTTON PRODUCTION BY CROP REPORTING DISTRICTS

(Thousands of 500-pound gross weight bales)

	Sept. 1, 1947 forecast	1946	10-year average 1936-45
1-N. North High Plains.....	55	35	55
1-S. South High Plains.....	785	198	462
2. Permian Plains.....	520	270	539
3. North Central.....	20	14	51
4. Northern Texas Prairies.....	750	482	816
5. East Texas.....	155	96	383
6. Trans-Pecos.....	110	99	74
7. Edwards Plateau.....	25	15	52
8. Southern Texas Prairies.....	330	185	327
9. Coastal Prairies.....	125	46	133
10. South Texas.....	275	229	129
State total.....	3,150	1,669	3,021

SOURCE: United States Department of Agriculture, Bureau of Agricultural Economics.

average. The estimated yield for the State of 183 pounds per acre compares with a forecast yield of 269 pounds for the Nation and with a 10-year average yield for the State of 168 pounds. In Louisiana, a crop of 525,000 bales was forecast on September 1, unchanged from a month earlier and more than double the very small crop harvested in 1946. A crop of 300,000 bales was forecast for Oklahoma, compared with a production of 262,000 bales in 1946.

Dry and unseasonably hot weather in August over most of the district except southern Texas reduced cotton boll sizes and caused excessive shedding and premature opening of bolls. Growth of non-irrigated cotton in the Plains areas of Texas was stunted and fruiting checked, with consequent reduction in prospective yields in those areas. The effect of this reduction on the total Texas production of cotton was partially offset, however, by improved crop prospects in the southern part of the State and by improvement in late plantings in other areas which benefited by more moderate temperature and improved moisture supplies. Cotton harvest was nearly completed in the extreme southern part of Texas by mid-September, but was delayed by midmonth rains in some eastern and Blackland counties. Cotton ginned in Texas prior to September 1 averaged slightly

CASH FARM INCOME

(Thousands of dollars)

	May 1947		Total receipts	
	Receipts from Crops	Receipts from Livestock*	May 1947	Jan. 1 to May 31 1947 1946
Arizona.....	\$ 5,015	\$ 8,480	\$ 13,495	\$ 11,811 \$ 62,869 \$ 64,248
Louisiana.....	14,634	7,192	21,826	10,004 75,303 66,010
New Mexico.....	1,119	8,913	10,032	6,594 39,201 33,063
Oklahoma.....	13,635	24,632	38,267	19,934 185,963 104,312
Texas.....	41,618	96,464	138,082	91,976 516,900 393,764
Total.....	\$ 76,021	\$ 145,681	\$ 221,702	\$ 140,319 \$ 880,236 \$ 661,397

	June 1947		Total receipts	
	Receipts from Crops	Receipts from Livestock*	June 1947	Jan. 1 to June 30 1947 1946
Arizona.....	\$ 8,216	\$ 5,962	\$ 14,208	\$ 13,897 \$ 77,077 \$ 78,145
Louisiana.....	2,397	8,480	10,877	8,080 86,180 74,090
New Mexico.....	3,214	8,610	11,824	7,179 51,025 40,242
Oklahoma.....	51,545	34,144	85,689	56,995 271,552 161,307
Texas.....	68,517	89,380	157,897	108,431 674,797 502,195
Total.....	\$ 133,889	\$ 146,606	\$ 280,495	\$ 194,582 \$ 1,160,731 \$ 855,979

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

SOURCE: United States Department of Agriculture.

The indicated Texas production of sweet potatoes, peanuts, and pecans was unchanged on September 1 from a month earlier. Estimated production of broomcorn was placed at 5,600 tons, to be harvested from an estimated 30,000 acres.

Good rains in the Lower Rio Grande Valley in August stimulated the growth of citrus fruit and aided in overcoming some of the delay in the development of the crop caused by the late bloom and unfavorable growing weather earlier in the season. Growing vegetable crops, though retarded by hot weather, were reported to be generally in good condition at the middle of September and making satisfactory progress. Harvest of the Panhandle potato crop was completed in the early part of September, with good yields reported. Harvest of green blackeyed peas continued during the first part of September in the Southern High Plains, and picking of dried peas in east Texas was well under way.

Continuation of drought conditions in most of the western areas of the district during August and the first part of September resulted in further deterioration of ranges and caused shortages of feed. However, scattered rains in southern and southwestern counties of Texas during early August and in the eastern part of the district during the latter part of August and early September brought considerable improvement in range conditions in those areas and assured a supply of fall range feed. Dry grass was short and fall range feed prospects were fair to poor over most of the northern Edwards Plateau and Trans-Pecos areas of Texas and in southern New Mexico and Arizona. In northwest Texas, where summer rainfall was substantially below normal, feed was dry and becoming critically short on most ranges by mid-September.

Cattle and calves gained rapidly in southern counties of Texas during August and early September but were showing some shrinkage as a result of the short dry grass and very high temperatures in western parts of the district, even though supplemental feeding was increased. However, the short supply of range feed does not appear to have stimulated the marketing of cattle, for, as the accompanying table indicates, receipts at the major Texas markets in August fell about 25 percent below

LIVESTOCK RECEIPTS—(Number)

	Fort Worth			San Antonio		
	August 1947	August 1946	July 1947	August 1947	August 1946	July 1947
Cattle.....	70,561	101,211	111,675	29,620	41,813	47,664
Calves.....	45,276	55,339	35,228	20,026	25,099	26,961
Hogs.....	30,300	33,370	34,306	5,204	7,010	6,222
Sheep.....	102,291	168,483	198,532	50,014	55,397	52,706

those of the preceding month and of August last year. The average condition of cattle and calves in Texas on September 1 was only slightly below that of a month earlier and was about normal for the season of the year. Sheep and lambs generally were carrying good flesh in southwestern counties, where August rains improved ranges, but were in only fair flesh in most other areas. On the whole, however, the reported condition of sheep and lambs in Texas on September 1 was slightly above that of a month earlier and above average for the season of the year. The movement of sheep in August was about 39 percent below the movement in July and 32 percent below that of the same month last year.

COMPARATIVE TOP LIVESTOCK PRICES
(Dollars per hundred weight)

	Fort Worth			San Antonio		
	August 1947	August 1946	July 1947	August 1947	August 1946	July 1947
Beef steers.....	\$25.00	\$19.00	\$25.50	\$24.00	\$19.50	\$24.50
Stocker steers.....	22.00	15.75	22.50	.....	.....	.....
Heifers and yearlings.....	25.00	19.00	25.50	24.50	.....	20.40
Butcher cows.....	18.00	14.00	19.00	17.50	14.00	18.00
Calves.....	24.00	17.00	24.50	24.00	17.00	23.00
Hogs.....	28.10	25.00	27.75	27.50	22.75	27.00
Lambs.....	24.00	22.00	24.00	21.75	15.75	21.75

The midmonth price report of the United States Department of Agriculture indicated that prices received by farmers for many farm products, especially grains, continued to advance during the month ended August 15. Prices of cotton, cottonseed, and Irish potatoes, however, dropped substantially, and the prices of beef cattle declined moderately from the record level of the preceding month. Prices of other classes of livestock remained relatively stable or increased slightly.

Spot commodity quotations reveal that prices of grains and most classes of livestock increased from August 15 to mid-September, but that a substantial decline occurred in the price of cotton.

FINANCE

During the month ended September 10, principal changes in the condition of weekly reporting member banks in the district included an increase in total deposits amounting to approxi-

mately \$11,000,000, an increase in total loans of about \$16,700,000, and a decline in total investments of \$14,700,000.

All categories of loans reported by the weekly reporting member banks in the district showed increases during the month, with almost \$12,000,000 of the total increase being caused by an expansion of commercial, industrial, and agricultural loans. The increase in this principal type of loans may be accounted for to a considerable extent by the continuing high level of prices and business activity and by seasonal factors involved in the inventory increases which are normal at this time of year.

The weekly reporting member banks continued to reduce their holdings of short-term Government securities and to increase their holdings of Government bonds. This trend, which has been in effect for some time, may reflect an attempt on the part of member banks to maintain earnings in the face of rising costs by maintaining or extending somewhat the maturity average of their Government security holdings to gain advantage of the higher yields on the long-term issues.

Principal increases in deposits occurred in demand deposits adjusted and United States Government deposits, which increased approximately \$9,200,000 and \$5,300,000, respectively. Although time deposits of the weekly reporting member banks reflected an insignificant increase during the four-week period ended September 10, total time deposits of all member banks in the district declined by almost \$2,000,000. That decrease, which was shared by both reserve city and country banks, represented the first shrinkage in time deposits of the district since October 1945. A change in trend reflected by data for only one month may be of no significance. However, it is general knowledge, supported by surveys of the Board of Governors of the Federal Reserve System, that the inflated price structure and the high cost of living are bearing with increasing severity upon large groups of the population. It may be that in order to meet necessary expenditures further inroads upon savings will be inevitable. Therefore, the change in trend of this item deserves some consideration, and its course should be observed closely in the months ahead.

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

	Sept. 10, 1947	Sept. 11, 1946	August 13, 1947
Total loans and investments.....	\$2,144,206	\$2,243,817	\$2,142,228
Total loans.....	854,142	767,845	837,430
Commercial, industrial, and agricultural loans.....	599,136	470,051	557,226
Loans to brokers and dealers in securities.....	7,285	11,321	6,805
Other loans for purchasing or carrying securities.....	70,420	119,890	69,153
Real estate loans.....	75,709	54,093	75,645
Loans to banks.....	273	371	148
All other loans.....	131,319	112,179	128,448
Total investments.....	1,290,064	1,475,972	1,304,798
U. S. Treasury bills.....	17,311	49,355	25,984
U. S. Treasury certificates of indebtedness.....	218,837	371,912	229,083
U. S. Treasury notes.....	123,933	204,036	127,391
U. S. Government bonds (incl. gtd. obl.).....	825,771	767,562	820,602
Other securities.....	104,212	83,117	101,738
Reserves with Federal Reserve Bank.....	479,469	467,109	479,250
Balances with domestic banks.....	300,979	243,096	304,546
Demand deposits—adjusted*.....	1,806,420	1,719,912	1,797,207
Time deposits.....	378,046	355,053	378,559
United States Government deposits.....	26,327	170,975	21,011
Interbank deposits.....	598,150	593,729	601,808
Borrowings from Federal Reserve Bank.....	None	500	7,000

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

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS
Eleventh Federal Reserve District

	Combined total		Reserve city banks		Country banks	
	Gross demand	Time	Gross demand	Time	Gross demand	Time
August 1945.....	\$4,504,204	\$417,936	\$2,293,633	\$265,659	\$2,210,571	\$152,277
August 1946.....	4,914,883	496,842	2,402,647	316,175	2,512,236	180,667
April 1947.....	4,617,549	524,355	2,208,463	330,604	2,409,086	193,751
May 1947.....	4,600,179	533,254	2,207,446	335,549	2,392,733	197,705
June 1947.....	4,649,262	540,000	2,234,357	338,684	2,414,405	201,316
July 1947.....	4,758,677	542,083	2,288,215	339,590	2,470,462	202,493
August 1947.....	4,845,031	540,172	2,324,633	338,401	2,520,398	201,771

Federal Reserve notes in circulation, which constitute the most important form of currency outstanding, increased substantially during the month ended September 15, largely as a result of the combination of Labor Day holiday requirements and the redemption in cash of the Armed Forces Leave Bonds which was begun on September 2. Between the 26th of August and the 8th of September, Federal Reserve notes of this bank in actual circulation increased from approximately \$591,800,000 to almost \$621,200,000. The increase during that period of less than two weeks was the sharpest increase which had occurred in years and brought the total notes outstanding to a level only about \$6,000,000 under the all-time peak which had been reached in mid-December 1945. Between September 8 and the middle of the month, there was a return flow of notes amounting to almost \$5,000,000.

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

	Sept. 15, 1947	Sept. 15, 1946	August 15, 1947
Total gold certificate reserve.....	\$487,866	\$500,697	\$481,491
Discounts for member banks.....	300	1,700	2,200
Foreign loans on gold.....	974	4,160	974
U. S. Government securities.....	950,148	895,925	953,480
Total earning assets.....	951,422	901,785	956,654
Member banks reserve deposits.....	811,651	763,820	801,152
Federal Reserve Notes in actual circulation.....	616,437	602,306	588,949

Bank debits, though generally holding well above the 1946 level, declined in 15 of the 24 reporting cities during the month of August. The average annual rate of deposit turnover as reported by banks in these 24 cities fell slightly from the rate of

BANK DEBITS, END-OF-MONTH DEPOSITS, AND ANNUAL RATE OF TURNOVER OF DEPOSITS

City	Debits			End-of-month		Annual rate of turnover		
	Petg. change from			deposits				
	August 1947	August 1946	July 1947	August 1947	August 1946	August 1947	August 1946	July 1947
Tucson, Ariz.....	\$ 47,238	7	— 2	\$ 78,921	7.2	7.2	7.4	7.4
Roswell, N. M.....	10,830	— †	—14	17,391	7.4	7.1	8.9	8.9
Mouroe, La.....	25,922	— 3	— 5	38,132	8.2	8.3	8.5	8.5
Shreveport, La.....	108,008	9	4	145,641	9.0	8.0	8.8	8.8
Amarillo.....	27,237	14	— 1	37,667	8.5	7.1	8.5	8.5
Austin.....	82,160	30	—15	78,891	12.5	10.4	14.9	14.9
Beaumont.....	89,907	6	6	97,043	11.2	10.3	10.6	10.6
Corpus Christi.....	70,532	16	1	86,875	10.1	9.2	10.3	10.3
Corsicana.....	82,045	19	15	70,031	14.3	11.8	13.1	13.1
Dallas.....	8,225	14	— 3	18,751	5.3	4.7	5.4	5.4
El Paso.....	811,486	12	— 5	659,991	14.6	12.8	15.4	15.4
Fort Worth.....	88,668	8	— 1	104,360	10.2	9.1	10.3	10.3
Galveston.....	202,697	13	—14	271,911	13.0	11.0	15.0	15.0
Houston.....	58,047	5	— 2	89,239	7.8	7.8	8.0	8.0
Laredo.....	819,364	18	— 2	774,960	12.7	10.9	13.1	13.1
Lubbock.....	14,421	— 5	— 6	20,463	8.4	8.5	9.0	9.0
Port Arthur.....	49,729	30	— 5	54,781	10.9	8.4	11.4	11.4
San Angelo.....	31,063	6	4	38,494	9.6	8.5	9.2	9.2
San Antonio.....	25,738	5	1	36,566	8.4	7.4	8.4	8.4
Texasarkana.....	207,861	†	— 6	314,091	7.9	7.6	8.4	8.4
Tyler.....	13,149	3	4	21,918	7.2	6.4	7.0	7.0
Waco.....	33,765	6	†	48,116	8.4	8.3	8.5	8.5
Wichita Falls.....	44,848	9	1	61,922	8.8	7.2	8.8	8.8
Total—24 cities.....	\$3,085,380	12	— 4	\$3,238,935	11.4	10.1	12.0	12.0

*End-of-month deposits, demand and time, exclude deposits to the credit of banks.

†Indicates only one bank in Texas, Kansas, Texas. Total debits for all banks in Texas, Kansas, Texas-Arkansas, including two banks located in the Eighth District, amounted to \$21,556.

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

MEMBER BANK RESERVES AND RELATED FACTORS

	Eleventh Federal Reserve District (Millions of dollars)				Cumulative changes	
	Changes in weeks ended					
	Sept. 10, 1947	Sept. 3, 1947	Aug. 27, 1947	Aug. 20, 1947	4 weeks ended Sept. 10, 1947	Jan. 1 to Sept. 10, 1947
Federal Reserve Credit—						
local.....	— 5.0	— 3.5	— 4.8	4.7	— 8.6	— 14.2
Interdistrict commercial & financial transactions.....	—23.1	1.8	0.1	—12.7	—33.9	—409.0
Treasury operations.....	52.4	23.3	12.9	— 2.8	85.8	449.0
Currency transactions.....	— 3.0	—27.5	— 2.6	— 1.6	—34.7	— 5.2
Other deposits at the						
Federal Reserve Bank.....	0.2	0.2	— 0.8	.....	— 0.4	0.1
Other Federal Reserve						
Accounts.....	— 0.1	— 0.1	.....	.....	— 0.2	1.4
Member Bank reserve balances.....	21.4	— 5.8	4.8	—12.4	8.0	22.1

Note: Amounts preceded by a minus sign reduce reserves; others increase reserves.

the preceding month but remained about 10 percent higher than the year-ago figure. Largest decreases in bank debits during August occurred in Roswell, New Mexico, Amarillo, Fort Worth, and Wichita Falls and ranged from 11 percent to 15 percent. Corpus Christi banks reported an increase of 15 percent, with several other cities reporting increases ranging from four percent to six percent.

SAVINGS DEPOSITS

Reporting Banks—Eleventh Federal Reserve District
August 30, 1947

	Number reporting banks	Number of savings depositors	Amount of savings deposits	Percentage change in savings deposits from	
				August 31, 1946	July 31, 1947
Beaumont.....	3	12,208	\$ 6,885,380	—13	— 1
Dallas.....	8	133,846	78,044,291	6	— †
El Paso.....	2	33,765	23,631,068	3	— 1
Fort Worth.....	3	42,308	34,560,021	4	— †
Galveston.....	4	22,822	21,887,491	6	— †
Houston.....	8	106,027	70,167,488	— 1	— †
Lubbock.....	2	1,113	1,805,350	—26	5
Port Arthur.....	2	6,548	5,187,235	— 5	— 1
San Antonio.....	5	38,972	46,907,919	6	— †
Shreveport, La.....	3	32,767	26,270,316	†	— †
Waco.....	3	9,757	9,541,831	4	— 1
Wichita Falls.....	3	6,954	4,669,946	— 2	— †
All other.....	56	63,369	53,809,955	5	— 1
Total.....	102	510,456	\$383,408,291	3	— †

†Indicates change less than one-half of one per cent.

New Member Banks

The Citizens State Bank, Anton, Texas, was admitted to membership in the Federal Reserve System on September 9, 1947. This bank, which opened for business as a primary organization on June 7, 1947, has total capital funds of \$49,000, including capital of \$35,000, surplus of \$10,000, and undivided profits of \$4,000. Its officers are: S. N. Twilley, Chairman; J. H. Howard, President; Hobert Lewis, Vice President and Cashier; and E. R. Williams, Assistant Cashier.

On September 24, 1947, the First State Bank, LaMarque, Texas, located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was admitted to membership in the Federal Reserve System. This bank, which opened for business as a primary organization on August 16, 1947, has a capital fund of \$70,000, comprising capital of \$50,000, surplus of \$15,000 and undivided profits of \$5,000. Its officers include W. F. Remschel, Jr., President, and Walter A. Burns, Assistant Cashier.

New Par Banks

The Commercial State Bank, Houston, Texas, a newly organized non-member bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the Federal Reserve Par List on opening date, September 12, 1947. This bank has capital of \$100,000, surplus of \$20,000 and unallocated funds of \$5,000. R. M. McKee is President; L. E. Chapman, Vice President; and W. Griffith, Cashier.

The Highland Park State Bank, San Antonio, Texas, a newly organized nonmember bank located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, was added to the Federal Reserve Par List on opening date, September 18, 1947. This bank has capital of \$100,000, surplus of \$30,000, and unallocated funds of \$20,000. C. A. Slimp is President, and A. R. Reeves is Executive Vice President.

On September 29, the Treasury opened the books on a new 18-year, non-marketable, 2½ percent Treasury bond to institutional investors and to commercial and industrial banks holding savings deposits or issuing time certificates of deposits. Subscriptions to the issue are limited according to a formula. Purchases

by institutional investors are restricted to an amount not in excess of 25 percent of the increase in the amount of net assets between December 31, 1946, and June 30, 1947, as shown by the financial statements of the subscribers, or \$250,000, whichever is greater, while purchases by eligible commercial and industrial bank subscribers are limited to an amount not in excess of 25 percent of the increase in the combined amount of time certificates of deposit issued in the names of individuals and of corporations, associations, and other organizations not operated for profit and of savings deposits, between December 31, 1946, and June 30, 1947, as certified by an officer of the subscribing bank, or \$25,000, whichever is greater.

INDUSTRY

During August, average daily rates of production of crude oil, increasing slightly from the previous month, attained new peaks of 2,507,000 barrels in this district and of 2,663,000 barrels in the rest of the United States. Production in the United States as a whole, which currently is about nine percent above the 1946 average and 48 percent above the level of 1939, may be increased further during coming months, since stocks of crude oil and refined products, although at about the same levels as a year ago, are considered somewhat small relative to present and anticipated demands for petroleum products.

CRUDE OIL PRODUCTION—(Barrels)				
		Increase or decrease in daily average production from		
		August 1947		
		Total production	Daily avg. production	
				August 1946 July 1947
District 1.....	728,700	23,506	4,001	1,253
2.....	4,939,350	159,334	4,036	4,299
3.....	15,099,550	487,083	—	1,165 3,619
4.....	7,481,750	241,348	16,842	10,487
5.....	1,225,150	39,521	3,602	298
6.....	10,030,300	323,558	6,693	— 1,136
Other 6.....	3,594,050	115,956	10,206	2,593
7b.....	1,216,450	39,240	6,638	1,890
7c.....	1,225,500	39,532	11,613	530
8.....	19,200,450	619,369	123,340	32,934
9.....	3,635,050	126,937	5,511	832
10.....	2,590,000	83,568	1,256	— 613
Total Texas.....	71,267,500	2,298,952	171,835	56,986
New Mexico.....	3,365,300	108,654	8,604	215
North Louisiana.....	3,088,050	99,634	15,328	2,552
Total District.....	77,724,450	2,507,240	195,767	59,753
Outside District.....	81,636,900	2,633,449	106,832	15,906
United States.....	159,361,350	5,140,689	302,599	75,659

SOURCE: Estimated from American Petroleum Institute weekly reports.

Recent estimates of the Bureau of Mines and of the Economics Advisory Committee of the Interstate Oil Compact Commission forecast moderate increases in petroleum consumption during the next six months. The Bureau of Mines estimates that during the first quarter of 1948 demand will exceed present requirements by perhaps five percent. The Economics Advisory Committee places daily average demand for petroleum products at 6,165,000 barrels during the first quarter of 1948, as compared with 5,917,000 barrels during the first quarter of this year. Most of the anticipated increase in consumption during the next six months is expected to be met by small net imports, by some increases in natural gasoline production, and by seasonal withdrawals from stocks of crude oil and petroleum products rather than by any large increase in crude oil production.

Should present consumption trends continue beyond the first quarter of next year and larger production of crude oil be required, it might be necessary to exceed maximum efficiency rates of production in some fields and to expand refining ca-

capacity. However, current production rates and refining capacities appear generally adequate to meet requirements of the next few months. The chief difficulties being encountered at present are in transporting crude oil and refined products to the areas of heavy consumption. The Economics Advisory Committee reports that although pipe lines are being operated at capacity and substantial movements by tank cars already are being made, the present rate of deliveries into the Midwest does not appear adequate, and extraordinary efforts to increase movements to that area will be required to meet demands fully during the coming winter. Heavier barge and rail movement of crude oil and its products from this district to the Midwest and heavier tanker movement to the east coast will be necessary until pipe lines now under construction or projected have been completed.

PETROLEUM DEMAND AND SUPPLY FORECASTS—UNITED STATES
(Thousands of barrels daily)

	Actual	Estimate	Actual		Estimates	
			1st Quarter	4th Quarter	1st Quarter	4th Quarter
Gasoline.....	1946	1947	1947	1947	1948	1948
2,138	2,274	2,005	2,265	2,080	2,080	2,080
Kerosene.....	268	303	303	360	410	410
Distillate fuel oil.....	746	870	1,130	1,015	1,250	1,250
Residual fuel oil.....	1,333	1,425	1,557	1,480	1,550	1,550
Other.....	836	933	832	920	875	875
Total demand.....	5,321	5,805	5,917	6,040	6,165	6,165
Crude production.....	4,749	5,042	4,796	5,160	5,160	5,160
Natural gasoline.....	321	356	352	365	370	370
Imports.....	370	437	482	410	440	440
Total supply.....	5,440	5,835	5,630	5,935	5,970	5,970
Stock change.....	119	30	—287	—105	—195	—195

SOURCE: Economics Advisory Committee, Interstate Oil Compact Commission.

During August and September, construction activity in this district apparently continued on the high plateau attained late in the spring. Although the value of construction contracts awarded thus far in 1947 is only slightly larger than during the

VALUE OF CONSTRUCTION CONTRACTS AWARDED
(Thousands of dollars)

	August		August		July		Jan. 1 to August 31	
	1947p	1946	1947	1946	1947	1946	1947p	1946
Eleventh District—total.....	\$ 68,045	\$ 32,513	\$ 55,444	\$ 45,234	\$ 409,301	\$ 409,301		
Residential.....	20,197	14,404	18,877	16,709	180,536	180,536		
All other.....	47,848	18,109	36,567	28,525	228,765	228,765		
United States*total.....	823,216	679,909	660,254	4,976,115	5,335,636	5,335,636		
Residential.....	308,937	284,025	240,885	2,018,724	2,198,725	2,198,725		
All other.....	514,279	395,884	419,369	2,957,391	3,136,911	3,136,911		

*37 states east of the Rocky Mountains.

p—Preliminary.

SOURCE: F. W. Dodge Corporation.

comparable period last year, improved flow of materials and a more ample supply of construction labor have permitted initiation of projects more promptly than during 1946, and the volume of construction actually begun probably is substantially greater.

VALUE OF CONSTRUCTION CONTRACTS AWARDED—TEXAS
(Thousands of dollars)

Type of construction	First 6 months		Last 6 months		First 6 months	
	1947	1946	1946	1946	1946	1946
Commercial building.....	\$ 18,080	\$ 21,480	\$ 47,131	\$ 47,131		
Industrial manufacturing building.....	68,373	40,345	49,231	49,231		
Public and institutional.....	33,139	18,205	22,875	22,875		
Miscellaneous nonresidential building.....	1,767	5,344	1,916	1,916		
Total residential building.....	118,933	70,183	152,323	152,323		
Public works.....	50,951	43,503	43,896	43,896		
Utilities.....	16,049	6,704	10,373	10,373		
Total construction.....	307,292	205,764	327,745	327,745		

SOURCE: F. W. Dodge Corporation.

As the accompanying table indicates, the value of awards for industrial construction, public works, and utilities was greater in Texas during the first six months of this year than during either the first or the last six months of 1946, whereas awards for commercial building were markedly smaller and awards for

residential building during the first half of this year were a relatively less important constituent of total awards than during the same period last year. Nevertheless, the estimated volume of residential construction actually in process in this district reached new all-time peak rates above those attained in 1946. During the first six months of 1947, a considerably larger number of dwelling units was started in metropolitan areas of Texas and of the district than during comparable periods in 1946, although the number of units started in representative smaller cities was somewhat less. Moreover, since dwellings have been completed more rapidly than last year, many more units probably have been made available for occupancy.

ESTIMATED NUMBER OF NEW DWELLING UNITS STARTED IN URBAN AREAS*

	First 6 months 1947	Last 6 months 1946	First 6 months 1946
Amarillo.....	523	474	719
Austin.....	1,170	1,555	1,334
Beaumont.....	352	333	226
Corpus Christi.....	908	576	488
Dallas.....	4,774	2,389	3,473
El Paso.....	203	186	207
Fort Worth.....	1,966	1,683	2,511
Galveston.....	114	191	128
Houston.....	3,226	2,919	2,785
San Antonio.....	2,749	2,095	1,908
Waco.....	378	399	444
Total Texas Metropolitan.....	16,363	12,900	14,223
Shreveport, La.....	580	562	514
Tucson, Ariz.....	224	317	337
15 representative Southwestern cities of 10,000 to 50,000.....	2,284	2,372	2,959

*Bureau of Labor Statistics estimates based on building permits.

†Includes adjacent municipalities in metropolitan areas.

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

BUILDING PERMITS

	August 1947		Percentage change		Jan. 1 to Aug. 31, 1947		Percentage change	
	No.	Valuation	Aug. 1946	July 1947	No.	Valuation	Aug. 1946	July 1947
Abilene.....	84	\$ 261,704	40	-10	732	\$ 2,909,947	-	8
Amarillo.....	213	869,930	85	28	1,414	5,299,946	-	5
Austin.....	339	1,857,659	43	-29	3,835	13,398,793	7	
Beaumont.....	395	491,726	22	-67	2,742	4,364,229	80	
Corpus Christi.....	359	1,474,644	15	6	2,916	10,150,250	38	
Dallas.....	1,603	5,086,499	-	18	11,047	34,542,077	-	3
El Paso.....	135	755,507	125	89	1,022	4,468,577	49	
Fort Worth.....	704	2,568,704	63	45	4,895	15,882,850	-12	
Galveston.....	162	212,708	28	16	1,163	1,587,847	-	2
Houston.....	781	5,636,552	244	-	5,500	44,715,506	7	
Lubbock.....	257	758,562	74	-35	1,603	7,833,663	8	
Port Arthur.....	212	176,492	-	10	1,306	1,540,746	-	7
San Antonio.....	1,354	2,411,054	52	-	9,498	17,046,634	-	1
Shreveport, La.....	354	714,516	4	-	2,789	6,899,081	-	1
Waco.....	154	921,974	165	-13	1,126	5,837,193	67	
Wichita Falls.....	102	370,233	127	34	573	1,790,278	19	
Total.....	7,218	\$24,568,464	45	-6	52,161	\$178,267,617	5	

A sharp increase in cotton consumption by domestic mills and large exports combined during the 1946-1947 season to reduce the United States carry-over of cotton on August 1 to approximately 2,750,000 bales, the lowest level since 1930. Domestic mill consumption during the season, totaling 10,035,000 bales, although 10 percent below the all-time peak rate of the 1941-1943 period, was approximately one-third above the prewar average for the 1936-1940 seasons. Exports of United States cotton, totaling 3,500,000 bales during the 1946-1947 season, were somewhat smaller than before the war but considerably larger than during the war years.

World consumption of cotton also rose sharply last season to an estimated 27,500,000 bales, or approximately 95 percent of the prewar annual average, whereas the world crop was only a little more than 20,000,000 bales, as compared with average annual production of about 30,000,000 bales during the 1936-1940 period. It is estimated that the world carry-over from the

1946-1947 season is about 16,000,000 bales, which is somewhat below the prewar average and 10,500,000 bales smaller than the carry-over on August 1, 1945.

DOMESTIC CONSUMPTION AND STOCKS OF COTTON—(Bales)

	August 1947p	August 1946	July 1947
Consumption at:			
Texas mills.....	11,887	18,899	12,085
United States mills.....	710,601	855,511	677,489
U. S. stocks—end of month:			
In consuming establishments.....	1,154,267	2,082,696	1,400,077
Public storage and compresses.....	833,113	3,834,342	900,510

p—Preliminary.

Domestic mill consumption declined substantially during the last three months of the 1946-1947 season, and although it generally is expected to rise somewhat during the current season from the levels of recent months, the near-record consumption of last season may not be repeated in 1947-1948. The cotton crop now being harvested in the United States, estimated at 11,-850,000 bales, is about 3,200,000 bales larger than the crop of last season. It appears likely, therefore, that supplies of cotton will be adequate to fulfill domestic mill demands unless exports are unusually large, although supplies of the higher grades and of the longer fibers may be tight.

COTTONSEED AND COTTONSEED PRODUCTS

	Texas		United States	
	August 1 to August 31 This season	Last season	August 1 to August 31 This season	Last season
Cottonseed received at mills (tons).....	121,868	74,003	167,130	107,733
Cottonseed crushed (tons).....	61,311	30,242	102,148	88,033
Cottonseed on hand (tons).....	113,790	101,015	163,321	137,506
Production of products:				
Crude oil (thousand lbs.)....	18,248	8,702	31,109	25,902
Cake and meal (tons).....	29,662	14,551	47,068	37,831
Hulls (tons).....	13,046	6,395	23,210	19,885
Linters (running bales).....	19,226	9,274	31,807	26,073
Stocks on hand August 31:				
Crude oil (thousand lbs.)....	4,606	3,272	8,472	12,345
Cake and meal (tons).....	6,362	5,263	26,416	25,625
Hulls (tons).....	12,190	6,936	34,580	25,830
Linters (running bales).....	20,836	13,590	72,396	46,364

SOURCE: United States Bureau of Census.

Mill consumption of cotton in Texas increased very little last season over the previous year, remaining 23 percent below the very high rates attained during the 1941-1943 period, when coarse fabrics were required in large quantities by the military services. Consumption during the season, nevertheless, exceeded prewar rates by approximately one-third. The decline in rate of consumption during the last months of the season was quite severe, reflecting the drop in demand for many coarser weaves which represent a significant portion of Texas mill output and suggesting that consumption may not be restored to the levels of 1946-1947 during the current season, since many Texas mills are not equipped to produce the fabric grades which seem likely to be in greatest demand.

Population Shifts and the Labor Force

During the past seven years, population movements of unusual magnitude in the United States have affected significantly the regional distribution of the labor force and the relative significance of market areas. The general direction of these movements has been from rural to metropolitan areas, and from the great interior plains and some of the southern states to the Great Lakes, North Atlantic, Gulf Coast, and Pacific coastal regions.

Population estimates recently released by the Bureau of the Census indicate the effect of these movements and of natural growth upon the populations of the southwestern states. As Table I indicates, the changes in the five southwestern states of the Eleventh District from 1940 to mid-1946 were strikingly dissimilar. Arizona and Texas experienced increases of 24.7 percent and 8.5 percent, respectively, as compared with the national increase of 6.2 percent; whereas the populations of New Mexico and Oklahoma declined. The percentage increase in Louisiana slightly exceeded that in the nation. The population of the five states as a whole increased by approximately 710,000, primarily reflecting an increase of 545,000 in Texas.

TABLE I
POPULATION OF UNITED STATES AND SELECTED STATES

	Total population excluding armed forces overseas				Civilian population	
	July 1, 1946	Apr. 1, 1940	Number	Per cent	July 1, 1946	Apr. 1, 1940
United States..	139,893,406	131,669,275	8,224,131	6.2	138,394,474	131,401,985
Arizona.....	622,804	499,261	123,543	24.7	617,196	497,864
Louisiana....	2,519,520	2,363,880	155,640	6.6	2,468,596	2,539,349
New Mexico...	528,997	531,818	2,821	-0.5	518,934	531,785
Oklahoma....	2,224,939	2,336,434	-111,495	-4.8	2,211,417	2,332,800
Texas.....	6,959,481	6,414,824	544,657	8.5	6,808,813	6,389,349
Total five states	12,855,741	12,146,217	709,524	5.8	12,624,956	12,291,147

SOURCE: U. S. Department of Commerce, Bureau of Census.

From such current estimates of city and county population as are available, it appears that shifts of considerable magnitude have occurred also within each of these southwestern states.¹ The war amplified trends which had characterized the preceding two decades. Movement of population to the north coastal and south coastal areas of Texas was accelerated in response to the rising labor demands of heavy industries and construction operations in those sections; metropolitan populations throughout the Southwest increased substantially; towns of moderate size generally gained in population; and large-scale migration took place from rural areas and from many small towns.

Since the end of the war the growth of most towns of 15,000 to 50,000 has continued, and the increase in population of many of the larger cities of the region, which are experiencing substantial postwar commercial and industrial growth, has been considerable despite the hampering effect of acute scarcity of housing. The return of veterans and war workers to rural areas and agricultural employment, which was expected to be an important postwar development, apparently has not assumed large proportions in the Southwest. Estimates based on data of the United States Department of Agriculture indicate that a net increase of 346,000 in farm population occurred between January 1945 and January 1947. However, this increase offset only about one-third of the decline that took place from 1940 to 1945, and the farm population of the area is still about 16 percent below the 1940 level.

The decade following the war is very likely to be characterized by continued population movements of considerable magnitude in the Southwest. Should mechanization of farms proceed rap-

idly, the present shortage of farm labor would be relieved, and some further migration from rural areas might occur; growth of heavy industry along the Texas coast will attract persons to that region; and further industrial, service, and commercial development may give impetus to additional growth of metropolitan areas. On the other hand, if economic activity should decline significantly from present high levels, retarding the industrial and commercial expansion of coastal Texas and the metropolitan areas of the Southwest, movement of population to those areas would be slowed, and some migration from them to rural areas and smaller towns would be possible.

Increases in total population and shifts of population to urban areas already have expanded the labor force available for non-agricultural activities in the Southwest, and may continue to do so. The magnitude of the growth of the labor force during the war is indicated by Table II. The number of persons working or seeking work in the five southwestern states, including those in the armed forces, rose from 4,671,000 in 1940 to 5,722,000 in 1945, an increase of 22 percent. Since the end of the war, the total labor force of the region probably has been reduced by return of women to their homes, by return of younger persons to school, and by voluntary retirement of older workers who deferred retirement during the war. However, the return of men from military service has augmented the civilian labor force in urban areas, and the number of persons available for employment in commercial and industrial activities probably is greater than during the war.

TABLE II
PROJECTED GROWTH OF LABOR FORCE, 1940 TO 1950

(Number of persons in thousands)							
	Estimated labor force		"Natural" labor force		"Normal" labor force		
	1945		1950†		1950‡		
	Labor force		Percentage	Percentage		Percentage	
	1940*	Number	change	change	Number	change	Number
			from 1940	from 1940		from 1940	from 1940
United States..	54,778	65,986	20.5	60,830	11.0	60,830	11.0
Arizona.....	187	259	38.5	222	18.7	255	36.4
Louisiana....	919	1,054	14.7	1,082	17.7	1,088	18.4
New Mexico...	184	202	9.8	229	24.5	243	32.1
Oklahoma....	834	944	13.2	983	17.9	820	— 1.7
Texas.....	2,547	3,263	28.1	2,964	16.4	2,943	15.5
Total five states	4,671	5,722	22.5	5,480	17.3	5,349	14.5

*Revised Bureau of Census data.

†Assumes continuation of prewar trends in the percentage of the population that works or seeks work; economic conditions in 1950 similar to those of 1940; and no interstate migration between 1940 and 1950.

‡Assumptions as above, footnote (†), except that interstate migration between 1940 and 1950 is assumed to be twice the 1935-1940 volume.

SOURCE: U. S. Department of Labor.

Projections prepared by the United States Department of Labor indicate that if prewar trends of natural population growth and interstate migration prevail, the labor force of the five southwestern states may be approximately 15 percent larger in 1950 than in 1940, as compared with an increase of 11 percent in the United States as a whole. These projections, which indicate some decline in the labor force of the Southwest from the present level, may prove too low, if industrial and commercial activity in the region continues to expand and provide attractive employment opportunities for the natural increase in the labor force of the Southwest and for migrants from other regions.

¹For a discussion and map of population shifts in the Eleventh Federal Reserve District, 1940 to 1943, refer to the *Monthly Business Review* of the Federal Reserve Bank of Dallas, Vol. 28, No. 10, December 1, 1943, pp. 6 and 7.