

# MONTHLY BUSINESS REVIEW



of the FEDERAL RESERVE BANK of Dallas

Volume 34

Dallas, Texas, August 1, 1949

Number 8

## A MIDYEAR REVIEW OF ECONOMIC ACTIVITY

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The trend of economic adjustment from the peaks of postwar inflation continued steadily downward during the first six months of the year, although at different rates of decline in different major economic areas. In some cases declines were somewhat steeper than perhaps was generally anticipated six months ago, while in other cases declines were very moderate. In general, declines were most marked in such areas as industrial production, manufacturing employment, hours worked in manufacturing, and unemployment, which increased; resistance to the trend was most apparent in retail trade and consumer expenditures, construction, agricultural production, and plant and equipment expenditures. It certainly would be shortsighted and foolhardy to become smug and self-complacent regarding the economic situation as long as the trend is downward and there are as many elements of uncertainty in the picture as there are today. On the other hand, nothing is to be gained from an attitude of pessimism and foreboding that is unrealistic in terms of the economic facts. There are elements of both strength and weakness in the economy, and the relative importance of these counteracting forces should be appraised carefully.

The adjustment from postwar peaks has been a staggered one in the sense that it has occurred first in one industry and then in another; as yet it has not shown serious cumulative characteristics. During 1947 and early 1948 various nondurable goods lines reached their postwar highs and then entered into a period of adjustment and decline, but other industries continued to provide offsetting expansion. Agricultural prices topped their postwar boom in late January of 1948 and then experienced a sharp sinking spell which was thought by many to mark the turning point from inflation to deflation in the economy as a whole. The weakness at that time in the agricultural area, however, failed to spread to other areas. Activity in different fields of construction showed signs of softening at times during the period, but in each instance new strength restored vitality to the industry. In fact, it was not until the fourth quarter of 1948 that it became evident that the weaknesses and the maladjustments in the economic system had become strong enough and numerous enough to overbalance the remaining inflationary forces and turn the general trend of economic activity downward. Even now, however, after several months of downward adjustment, the situation does not reflect a general deep-seated weakness throughout the economy; instead, as stated in the preceding paragraph, there are areas of weakness, but there are also areas of resistance or supporting strength.

Under such circumstances of a mixture of economic forces of varying strength—or weakness—it is possible that one's appraisal of the situation and his view of the future may be colored somewhat by the pessimism or optimism engendered by the particular index or set of indexes that may be most impressive at the moment. For instance, one who tends to shape his thinking and economic appraisal



around the framework of industrial production, manufacturing employment, or total unemployment possibly will face the future more pessimistically than the person who formulates his economic ideas around the performance of indexes which reflect the volume of retail trade, consumer purchasing power, the volume of liquid savings and private indebtedness, or the level of construction activity. Perhaps either set of conclusions might be in error, however, due to failure to reach a balanced judgment based on consideration of the trends of all of the major economic factors.

Economic or business activity is not a result or a composite only of industrial production and developments in related fields; neither is it only a composite of occurrences in the field of retail trade or of consumer expenditures. Instead, the concept of economic activity—or as it is more commonly called, business activity—is the sum total of developments in trade and commerce, industry, construction, agriculture, and finance. Therefore, it may be appropriate, after several months of business adjustment, to review briefly developments in the major areas of the economic system. Perhaps such a review will provide information that will help to answer such questions as, "How much recession have we had?" or "How good—or bad—is business?" and it may be of some aid in enabling each of us, at least tentatively, to reach conclusions as to what the future months may promise.

One of the developments which has been watched closely and with much interest by businessmen and others attempting to appraise the trend of business has been the decline in industrial production. The total production of the Nation's factories and mineral producers moved upward to reach 195 percent of the 1935-39 level of production during October and November of last year, according to the Federal Reserve Board index. In December, however, due to a reduction in the production of nondurable goods and minerals, the index declined slightly. As the current year opened, the softening tendency which had become apparent first in nondurable lines, as supply caught up with and in numerous cases exceeded demand, extended to the manufacturers of durable goods. Moreover, as the months passed the decline accelerated in the durable goods area—during the first three months of the year the index of production of durable goods declined only from 227 percent to 223 percent of the 1935-39 average, but during the second quarter, fell to an estimated 194 percent of the base period average. In the meantime the manufacture of nondurable goods continued to be contracted, while production of minerals, especially petroleum, also moved downward. During the first half of the year cutbacks in production spread to a steadily increasing number of industries, but most significant reductions occurred in steel, machinery, some of the metals, textiles and textile products, and crude petroleum. On the other hand, the production of automobiles rose substantially during the period to reach a postwar high during June, while production of almost all classes of manufactured food products rose significantly.

Of course, a declining trend over a period of several months in a major business index which directly influences employment and the incomes of wage earners obviously is undesirable, except perhaps to the extent that it represents an adjustment from an untenable or economically unsound position. During 1948, as the production of goods was maintained in many lines at virtual capacity levels, it was not uncommon to find that businessmen and others looked upon the situation as an abnormal one. They recognized that it was brought about by a combination of such forces as the large backlogs of consumer and business demands, a substantial inflation of the monetary stream during the war and postwar years, and the expansive atmosphere of a period of inflation that induces businessmen to increase their stocks of goods and materials and expand their operations. In other words, most businessmen realized that sooner or later a change from conditions of inflation to deflation would occur and that when the turn came there would be an adjustment of values and production to levels more nearly approximating those that they conceived as "normal." The decline that has taken place in manufacturing and mining activity represents, at least in part, the type of adjustment that businessmen anticipated.

Although it is possible that the adjustment may have proceeded farther in some lines during the past six or eight months than was either desirable or necessary, it is unlikely even at this time that the process has been completed. For example, the automobile industry has avoided a postwar adjustment to date, but it is improbable that it can be avoided indefinitely; there are indications that the steel industry, manufacturers of machinery and major durable goods, and numerous other industries still may be vulnerable to further adjustment. At the same time, however, there are industries, such as



crude oil production, certain types of cotton and wool fabrication, and some of the minor durables, which show signs of attaining a somewhat better degree of balance and stability. Moreover, elements of support may develop from the operation of natural economic forces and may become factors in shaping the over-all situation.

In appraising the trend of production it is important that consideration be given to developments affecting inventories, because inventory policies and the level and condition of stocks of goods have a direct and determining influence on manufacturing output. Since the first of the year the volume of consumer expenditures and the physical volume of goods moving through retail trade channels have compared rather favorably with figures of the comparable period of 1948, although the physical volume of goods manufactured has declined sharply. Obviously, the goods which have been passing on to consumers have been drawn to an increasing extent from the stocks of manufacturers, wholesalers, and retailers rather than from new production, as sellers have followed the practice of "living off their inventories." Inventory figures reveal the fact that factory output has not entirely replaced or offset inventory consumption, for the book value of manufacturers' inventories declined during the first five months of the year by \$1,239,000,000; wholesalers' inventories, \$643,000,000; and retailers' inventories, by \$357,000,000. During the same period, sales of manufacturers and wholesalers showed declines of only 3 percent and 1 percent, respectively, while sales of retailers increased by about \$90,000,000.

As soon as it became apparent that the general economic trend was pointed in a deflationary direction, businessmen at all levels of distribution began to take positive measures to reduce stocks, not only to bring inventories in better relationship to an anticipated lower sales volume but also to minimize inventory depreciation resulting from declining prices. Consequently, buying policies changed promptly from comparatively long forward commitments to hand-to-mouth buying on a carefully selective basis, while orders placed for advanced shipment were cancelled in substantial amounts. This development of caution in business buying was reflected in a shrinkage of demand for new production and, consequently, exerted a direct impact on manufacturing activity. On the other hand, consumer demand, which continued comparatively strong but very selective, was met by retailers who drew on their inventories. Moreover, increasingly aggressive merchandising policies, especially at the retail level, tended to stimulate consumer expenditures. Store-wide clearance sales, special promotions, and featured markdown offerings have been received very favorably by consumers, who have exhibited an effective demand for goods but who have become extremely value-conscious.

It is not probable that businessmen have completed their inventory adjustments and have brought their stocks of goods down to the desired levels. On the contrary, reports seem to indicate a further inventory liquidation for the next few months, despite the progress made in improving the situation during the second quarter of the year. It is significant, however, that production has been falling below consumption—this is attested by declining inventories at the different levels of distribution. This condition of new factory output running at a level lower than is warranted by current sales to consumers will continue only until businessmen believe they have reached a point of balance in their inventories, both from the standpoint of quantity and quality. At that time, replacement buying in amounts in line with the then existing sales volume will reappear and check or possibly reverse the declining production trend. How long this process of adjustment of inventories will require will depend in large degree on the success of businessmen in maintaining sales. If consumer expenditures can be maintained at approximately the level of the second quarter of this year, and if recent success in reducing stocks can be continued, much of the inventory adjustment may be completed comparatively soon.

The importance of vigorous efforts by businessmen to maintain the flow of goods and volume of consumer expenditures in the neighborhood of levels reported during the first two quarters of this year is very great as a factor in determining the orderliness of the progress of adjustment. Personal consumption expenditures were at an annual rate of \$176,600,000,000 during the first quarter of 1949 and \$175,000,000,000 during the second quarter, as compared with \$172,500,000,000 and \$177,300,000,000 during the same periods of 1948. Although the trends during the two periods are in opposite directions, the comparison nevertheless is very favorable and reflects both a continuing demand for goods and services and a substantial availability of purchasing power in the economy.



It has been stated that consumers have become increasingly value conscious and critically selective in their purchases of merchandise and services. This attitude developed gradually as capacity production increased supplies to the point that backlogs of pressing demand were eliminated and urgent buying no longer was necessary and as unbalanced price increases priced an increasing number of consumers out of the market for goods and services, at least temporarily. Just as it is a difficult, time-consuming, and sometimes painful process to reduce excessive inventories, so is it a painful and slow task to restore a sound state of balance to the price structure. To a considerable degree the adjustment through which the Nation is passing is a price adjustment, and consequently the problem of how to meet the price situation is proving to be one of the most vexing problems confronting businessmen.

Although there have been exceptions with respect to a number of individual materials and products, the decline in prices from the peak levels reached in 1948 has been surprisingly orderly. Even the sharp declines in the prices of agricultural products late in January 1948 and again in January 1949 and the more recent break in the prices of certain nonferrous metals did not spread in full degree to other areas to set off a typical postinflation price crash. On the basis of general indexes, the decline in prices has been most marked in the 28 basic commodities, which declined by the end of June 1949 to 231.9 percent of the 1939 average from 329.7 percent in June 1948, the level to which the index had recovered following the break in prices that occurred during the preceding January. Wholesale prices reached a peak in August 1948 at 169.8 percent of the 1926 average, and then moved downward steadily and in June of this year were 154.0 percent of the base year average. The cost of living as measured by the B.L.S. index also reached its high in August 1948 at 174.5 percent of the 1935-39 average and since that date has moved downward very gradually to 169.8 percent in June. In brief, during these roughly approximate periods, average prices of basic raw materials declined 29.6 percent; wholesale prices showed a decline of 9.3 percent; and the cost of living, 2.7 percent.

These figures indicate that the usual lag in price movements from one level of production and distribution to another has characterized price trends during the past 12 months. Of course, it is not to be expected that wholesale prices would necessarily show the same proportionate decline as prices of raw materials or that the decline in retail prices should of necessity keep pace with the movement of wholesale prices. The marked differences in rates of decline, however, seem to forecast a further adjustment at the wholesale and retail levels; in fact, some further decline in raw material prices is also a possibility. The question is hardly whether the downward price trend will continue into the next few months but whether such a decline will continue to be gradual and orderly.

Businessmen may feel that, confronted as they are with a high wage structure and declining demand at current prices, their pricing problem is well-nigh insoluble. However, it should be recognized that the pricing adjustment will be made one way or another—either by voluntary, farsighted pricing actions by retailers, wholesalers, and manufacturers, or through the pressure of natural economic forces resulting from declining sales and reflected in more intensive competition and finally price-cutting, regardless of the consequences. During recent months there have been several developments which seem to indicate that voluntary corrective pricing actions may prevail and that the economy may be spared the strains of the more drastic course, although this is by no means a certainty.

Favorable factors which may induce voluntary price adjustments are an outgrowth of a number of developments pointing toward lower production costs per unit of output. First, raw material prices have experienced sharp reductions and, as high-priced inventories are worked off and replaced with lower priced stocks, material costs will shrink. Second, as a result of production cutbacks, expensive overtime wage rates are being eliminated rapidly. Third, the cost-saving benefits of new equipment installed during the postwar period are beginning to be reflected in an improved efficiency of production. Fourth, businessmen confronted by this cost-price adjustment problem are actively seeking ways to improve the efficiency of their operations by eliminating wastes which no longer can be tolerated. Fifth, the more intense competition in virtually all lines of business is forcing the adoption of better sales and production methods. Sixth, as the labor market has tended to weaken somewhat—for instance, in manufacturing industries and in construction—workers have become more concerned as to their job security and, hence, have improved their work attitudes and their labor efficiency.



Unfavorable possibilities in the cost-price situation, on the other hand, include the fact that some businessmen are reluctant, even under circumstances such as prevail, to undertake to move merchandise at prices involving a smaller than normal mark-up or possibly some loss until forced to do so by the pressure of economic circumstances. Then too, consumers and business purchasers, realizing that the price trend is downward, may reduce or defer their purchases as they wait to buy at the very bottom of the price movement. There is certain to be a cautiousness in purchasing under prevailing conditions, but sales developments of recent months seem to support the view that realistic price reductions may help to support sales volume by uncovering new layers of demand but that trifling and obviously insignificant price reductions fail to attract buyers. In fact, they may have the effect of discouraging purchases, as buyers decide to wait for the real price reduction which they feel is sure to follow eventually. Finally, there is the ever-present danger of wage rate increases which might have the effect of increasing production costs and thus tend to prevent price reductions which might otherwise be made. The gains obtained from improvements in productivity should be reflected in wage rates of the wage earner and in lower prices for the consumer; however, unless wage rate increases can be absorbed by greater productivity, they tend to add to production costs. Under existing circumstances neither management nor labor should increase production costs. On the contrary, they should bend their efforts toward the objective of achieving lower costs through more productive management and labor.

In the important area of agricultural production, estimates at midyear indicate that the volume of crops and livestock that will be produced during 1949 will approximate the unusually large production of the preceding year. Large planted acreages—slightly larger than those of 1948—together with generally favorable weather conditions over most of the country, seem to assure a very large volume of production. To some extent the large acreages planted in 1949 are the result of a generally favorable price outlook for agricultural products and attempts on the part of farmers to establish favorable bases for acreage allotments, if such should be established in connection with production control programs for the year ahead. The Nation's problem in connection with agricultural production certainly is not one of shortages in any of the major crops or in livestock products but, on the contrary, is one of over-supply and surplus production. This fact, of course, tends to magnify the importance of a sound solution to the agricultural price problem.

Although weather conditions, insect damage, and other unpredictable developments may influence the production of major crops during the growing season, rough estimates point toward a cotton crop of some 15,000,000 to 16,000,000 bales—possibly even larger—in 1949, as compared with a crop of about 14,800,000 bales in 1948; a corn crop of more than 3,500,000,000 bushels, or only slightly less than the record-breaking crop of last year; a very large wheat crop estimated in the neighborhood of 1,200,000,000 bushels, as contrasted with a wheat crop in 1948 of approximately 1,300,000,000 bushels; oat production estimated to be about 100,000,000 bushels less than the 1,500,000,000-bushel crop of last year; and a rice crop of about 86,000,000 bushels, about 5,000,000 bushels in excess of last year's crop. It is expected that during the remaining months of this year cattle and hog marketings will be very large, but despite this probability the livestock population at the end of this year should compare favorably with the number of livestock on farms and ranches at the beginning of the year.

From the short-run point of view, the agricultural price situation does not appear to be seriously threatening. Prices of virtually all of the major agricultural crops are now so near to the support levels that, assuming a continuance of effective support during the months ahead, there is little probability for a further substantial decline. This does not mean, of course, that agricultural prices would not decline to lower levels if it were not for the support program, but there is nothing in the picture at present that indicates a policy on the part of the Government of permitting substantially lower support prices during the remainder of this year. Livestock prices, which rose during the spring months, are expected to show declining tendencies during the last half of the year as increased marketings exert their effect on the price structure.

Since agricultural production probably will compare favorably with the production obtained in 1948, the trend of farm income will be influenced primarily by the extent to which agricultural prices decline during the remaining months of the year. Cash receipts from farm marketings for



the country as a whole during the first six months of 1949 were about 6 percent below the same period in 1948. At the same time, however, farmers' production expenses showed a slightly smaller decline, with the consequence that farmers' net income for the first half of the year perhaps was in the neighborhood of 10 percent below that received a year ago. Viewing the year as a whole, it is believed that farm net income will be somewhere in the range of from 7 to 10 per cent lower than the very high level of income received in 1948.

Developments during the first six months of this year in the construction industry resulted in a somewhat larger volume of construction than had been anticipated. It is true that private construction declined from levels of a year ago, but this decline was offset by increases in public construction by federal, state, and other governmental agencies. Total private construction in June is estimated at approximately \$1,240,000,000 as compared with \$1,348,000,000 in June a year ago, but figures for public construction during the two comparable months rose from \$406,000,000 to \$518,000,000. As a result of these developments, total new construction in June of this year was fractionally above the volume reported during the comparable month in 1948.

A comparison of new construction expenditures during the first six months of 1948 and the first six months of 1949 shows a total of \$8,453,000,000 during the latest period as compared with \$7,720,000,000 during the earlier period. A steady, strong demand for various types of construction, together with somewhat lower construction costs, much better availability of materials, and a more adequate and somewhat more efficient labor supply, all have combined to bring about this unexpectedly favorable development in the construction area.

During the remaining months of this year, estimates seem to indicate that private construction will continue to run at a somewhat lower level than last year but that this decline will be offset by further increases in public construction; consequently, the total volume of construction in 1949 should approximate and possibly may exceed slightly the total reported for the preceding year. Therefore, as a source of income and as a factor in the demand for labor, it is possible that activity in the construction area of the economy may continue to give needed support at a time when trends in other areas of the economy are shifting downward.

One of the features of this period of economic adjustment is that it was not preceded by a period of credit excesses, either in the banking field or in the security markets. Consequently, it has not been necessary to face extreme or severe liquidation of past credits. Since the first of the year there has been a steady decline in total loans of the weekly reporting member banks in leading cities of the country, largely as a result of a steady shrinkage in the volume of commercial, industrial, and agricultural loans. The decline that has occurred, however, has been orderly and has not been caused by credit stringency at the banks of the Nation but, instead, has been the result of a declining demand for loans by businessmen who have found their need for bank credit less strong than it was during the inflationary period.

The fact that an overextension of credit was avoided during the upward phase of the business cycle has contributed a considerable element of strength to the economy during this period of economic adjustment because it has not been necessary to subject businesses to forced credit liquidation. The banks of the country are in an exceptionally strong and liquid condition and are able to meet any reasonable financial requirements that might arise in the business, industrial, or agricultural sectors of the economy during the months ahead. Moreover, money rates continue at comparatively low levels, and recent announcements of the monetary and credit authorities show that credit policy during this period will be directed toward the end of making available an adequate supply of bank credit to prevent that factor from being restrictive in any sense.

While developments during the first six months of this year in the Eleventh Federal Reserve District followed the same general pattern as reflected by over-all developments in the United States,



there were some differences in the trend of economic activity—either in direction or degree—in this District as compared with the country as a whole. Statistics bearing on industrial production are not available on a regional basis in a form comparable with those used in measuring the trend of industrial production in the Nation. From certain indicators of manufacturing activity, however, it is possible to obtain an impression of the trend of manufacturing and industrial output in this area during recent months.

Nonfarm employment has been running slightly higher than a year earlier—for instance, in Texas the level was about 2 percent above that of June a year ago as manufacturing employment rose 1 percent and other nonfarm employment increased 3 percent. Petroleum refining and chemical plant employment has shown a 2-percent increase as compared with a year ago, while most trade, service, governmental, and other types of nonmanufacturing employment showed gains from a year earlier. On the other hand, employment in construction and in lumber and wood products manufacturing was about 10 percent lower than during the same month of last year, while slight declines were shown in other types of factory employment. The most marked increase in employment during the first half of this year occurred in aircraft factories and other transportation equipment factories, which reflected a rise of 34 percent. Although a few scattered areas in the District appear to be confronted with an unemployment problem, for the District as a whole this is not the case. Estimates indicate that in June of this year the unemployed in Texas, for instance, represented only 3 percent of the labor force.

Other indicators of business trends are mixed. During the past two months electric power consumption in Texas has been running about 2 percent above the same period of last year. Factory pay rolls are up 5 percent, and dairy product production is up 12 percent. On the other hand, miscellaneous freight car loadings for the southwest district during May were down 13 percent, man-hours worked in manufacturing were down 10 percent, and cotton consumption at mills in Texas was down 25 percent. During June the declining trend in crude petroleum production was checked at a level about 20 percent below that of a year earlier. The demand for gasoline exceeds production, but the demand for fuel oils is seasonally low. The extent to which relief will be obtained from the overstocking of fuel oil in refiners' tanks will depend on consumer buying of the fuel in anticipation of requirements during the approaching fall and winter seasons. Unless there should be another very mild winter, it is believed that consumption of fuel oil during the coming season may be in large volume.

Construction contract awards in the area during June increased substantially, with low-cost housing and apartment projects contributing importantly to the rise. As a result of the smaller volume of awards reported earlier in the year, however, total awards during the first half of 1949 were 17 percent smaller than during the corresponding period of 1948. For the current year, estimates point toward a volume of construction contract awards some 10 to 15 percent lower than the record volume of last year.

Measured in terms of sales at reporting department stores, consumer buying in the Eleventh District was 6 percent lower during the first six months of 1949 than for the same period in 1948. This result compares with a decline in the neighborhood of 5 percent in the national average figure. Since the first of the year retailers in the District have been much more aggressive in their adoption of stronger merchandising policies, and clearance and promotional sales have been frequent and widespread over the area. In view of the decline in prices that has occurred during the past several months, it is probable that the physical volume of goods moving in retail channels in this District during the first half of this year compares favorably with the volume during the same period in 1948.

The trend of inventories in this District has not been unlike that for the Nation. For example, inventories of department stores at the end of January 1949 were about the same in dollar value as a year earlier, but by the end of June progressive monthly reductions had reduced inventories to about 11 percent under the figure reported in June 1948. Very substantial reductions occurred during the



first half of this year in orders outstanding, and on the basis of scattered reports the net receipt of merchandise during the first half of 1949 probably was about 10 percent below that of the comparable period in 1948. It is estimated that in this District, as in the Nation, sales at the retail level have been running in excess of new production added to stocks, and as a consequence, the general inventory situation is considerably more favorable than it was several months ago.

The outlook for agricultural production in Texas and the Eleventh District during the current year is very favorable. Planted acreage is slightly larger than acreage planted in 1948, and favorable weather conditions generally throughout the District promise a yield of very large crops. In Texas the wheat crop this year is about 94 percent greater than that of a year ago, production of oats is up about 127 percent, and prospects are for an increase of about 17 percent both in corn and cotton. In the states lying within this District the wheat crop is reported about 28 percent above last year, oat production up about 48 percent, while the prospects for corn and cotton are estimated at about 5 percent and 20 percent, respectively, above 1948. Livestock producers are increasing their breeding herds, and although marketings of livestock during the first six months of this year were substantially lower than those of a year ago as ranchers took advantage of favorable grazing conditions, it is believed that in the remaining months of this year the movement of livestock to market will be in very large volume.

The trend of bank loans in the District as reflected by weekly reporting member banks is closely similar to that for the country as a whole. There have been no evidences of credit abuses or credit stringency, and consequently there is little reason to fear pressure either from credit liquidation or from the lack of availability of funds for reasonable business requirements.

In summing up the significance of developments during the past six to nine months, it seems that considerable progress has been made toward correcting some of the imbalances that had developed in the economy as a result of the war and postwar inflation. Moreover, the adjustments which have been effected to date have been accomplished without serious cumulative effects. On the whole, the trend of production and the developments in the labor market do not deserve to be considered with great alarm, for there are no important signs as yet that these trends threaten to become disorderly or panicky. At the same time, some of the necessary and inevitable adjustments have at least been partially accomplished. Progress with regard to the reduction of inventories, the maintenance of trade and consumer expenditures at comparatively high levels, and the volume of construction activity also has been encouraging. The banking situation unquestionably is sound and is such as to permit banks to avoid the necessity of taking restrictive action when the time comes for an expansive policy.

There is little support for the view that the adjustment that is taking place is completed or possibly even very near to completion. Furthermore, it would be a mistake to attempt to shore-up the unbalanced economic structure by various more or less artificial stimulants. In the long run, such a course would be more costly than permitting the necessary economic adjustments to be made, for it would be equivalent to re-inflating a weakened, unbalanced structure. During the past several months we have been able to make a partial, gradual descent from the inflated peaks; our objective should be to follow policies that will make a continuance of that gradual progress possible. The situation is not without its hazards, for any deflationary economic adjustment is fraught with danger, but neither is it such as to make a precipitous decline inevitable.

If the various groups in the economic system take a selfish, self-seeking, shortsighted view of their responsibilities in this situation and consider that other groups bear the full responsibility for the course of events, the results could be extremely serious and damaging. On the other hand, if business management, labor, consumers, and Government recognize their full share in the problems at hand and carry out their responsibilities in the interest of the economy as a whole—which will also be in their own interest—it should be possible to work our way out of the current unbalanced situation with reasonably satisfactory success.



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

## DISTRICT SUMMARY

Agricultural conditions in the District during June and early July generally were favorable for rapid development of field crops and improvement in ranges and pastures. Livestock are in good condition, with marketing running considerably below last year. The total acreage of all crops for harvest in Texas in 1949 is estimated at 7 percent above 1948, with major increases occurring in acreages of cotton, wheat, oats, flaxseed, and rice. Some of this increase is offset by reductions in acreages of corn, grain sorghums, and peanuts. Despite a reduction in the estimate of Texas wheat production, the forecast for the 1949 crop indicates the second largest of record. Harvesting of commercial vegetables has proceeded rapidly, while field work preparatory to the fall crop is progressing satisfactorily. A very short citrus crop is in prospect for next season.

The downward trend in crude petroleum production in the District was arrested during June at a level 20 percent below that of a year ago. Due to the further reduction of production allowances in July and the seasonal summer peak in gasoline consumption, the over-all demand for petroleum should be in approximate balance with supply. However, the seasonally low level of demand for fuel oils has intensified the problem of achieving a balance among the various types of petroleum products. Refinery yields of fuel oils have been reduced and yields of gasoline increased, but further relief depends chiefly upon a pickup in consumer buying of fuel oils for the coming heating season.

The value of construction contract awards in the District increased during June in all major types of construction, with low-cost housing and apartment projects particularly contributing to the rise. Due to the smaller volume of awards earlier in the year, however, the total value of awards during the first half of 1949 is 17 percent smaller than in the corresponding period of 1948.

Department store sales in this District during June showed the usual seasonal decline from May and were 4 percent smaller than in June last year. Inventories were reduced further; and outstanding orders, although substantially above the extremely low volume outstanding at the end of May, were 41 percent less than at the end of June 1948. Furniture store sales increased 1 percent from May and were 5 percent above June last year.

The downward trend in loans of weekly reporting member banks in the District continued between June 15 and July 13. On the latter date total loans were \$18,500,000 lower than four weeks earlier, bringing the net decline since the first of the year to \$127,200,000. Most of this decline occurred in commercial, industrial, and agricultural loans. In contrast with the decrease in loans, total investments increased \$32,400,000 during the four weeks and \$42,000,000 this year through July 13. Deposits showed little net change during the four weeks but on July 13 were \$138,700,000 lower than at the beginning of this year.

## BUSINESS

The dollar volume of sales reported by department stores in the Eleventh Federal Reserve District for June was 4 percent below that of June 1948. Compared with the previous month, June sales were down 11 percent, reflecting the usual decline in consumer buying at this season of the year. The moderate decline in sales from a year ago reflects the continued high level of

actual and potential consumer demand and the aggressive merchandising policies which merchants generally are employing to translate that demand into actual sales. The adjusted index of department store sales, which amounted to 385 percent of the 1935-39 average during June, was virtually unchanged from that in May and compares with 401 percent in June 1948.

## WHOLESALE AND RETAIL TRADE STATISTICS

	Number of reporting firms	Percentage change in				
		Net sales			Stocks†	
		June 1949 from June 1948	May 1949	6 mo. 1949 comp. with 6 mo. 1948	June 1949 from June 1948	from May 1949
<b>Retail trade:</b>						
Department stores:						
Total Eleventh District..	48	-4	-11	-6	-11	-7
Corpus Christi.....	4	1	-11	#	1	-4
Dallas.....	7	-9	-20	-7	-6	-9
Fort Worth.....	4	-9	-8	3	-7	-4
Houston.....	7	-6	-11	-5	-20	-9
San Antonio.....	5	-1	-9	-8	-17	-8
Shreveport, La.....	3	-7	-8	1	....	....
Other cities.....	18	-5	-13	-4	-11	-3
Furniture stores:						
Total Eleventh District..	42	5	1	....	-9	-3
Dallas.....	3	17	2	....	-19	2
Houston.....	4	-3	-4	....	....	....
Port Arthur.....	4	2	-32	....	-28	2
San Antonio.....	3	-2	-4	....	....	....
<b>Wholesale trade*:</b>						
Drugs and sundries....	6	7	-4	5	4	4
Dry goods.....	8	-23	3	-18	-42	-8
Grocery (full-line wholesalers not sponsoring groups).....	31	-4	4	-5	-2	-4
Hardware.....	5	-13	9	-17	-17	-8
Industrial supplies.....	3	-27	-10	....	8	-2
Machinery eqpt. & supplies except electrical..	3	-26	-11	....	....	....
Tobacco products.....	10	8	4	6	2	3
Wiring supplies, construction materials distributors.....	3	-22	17	....	9	-30

\*Preliminary data. Compiled by United States Bureau of Census.

#Indicates change of less than one-half of one percent.

†Stocks at end of month.

## INDEXES OF DEPARTMENT STORE SALES AND STOCKS

	Daily average sales—(1935-39=100)							
	Unadjusted*				Adjusted			
	June 1949	May 1949	April 1949	June 1948	June 1949	May 1949	April 1949	June 1948
Eleventh District.....	331	373	377	345 <sup>Δ</sup>	385	384	374	401 <sup>Δ</sup>
Dallas.....	266	333	335	293	324	354	353	358
Houston.....	391	438	423	418 <sup>Δ</sup>	450	456	427	481 <sup>Δ</sup>

  

	Stocks—(1935-39=100)							
	Unadjusted*				Adjusted			
	June 1949	May 1949	April 1949	June 1948	June 1949	May 1949	April 1949	June 1948
Eleventh District.....	338	365	388	376 <sup>Δ</sup>	352	358	373	392 <sup>Δ</sup>

<sup>Δ</sup>Revised.

\*Unadjusted for seasonal variation.

At the beginning of this year there was a general feeling in the trade that, dollarwise, sales during 1949 would average around 10 percent less than the high level of 1948. At the end of the first six months the cumulative decline was only 6 percent. The dollar volume comparison with 1948 is particularly notable because of lower prices, and especially so in view of the many sharp price reductions passed on to the consumer in clearance and promotional sales. From available information it appears that the physical volume of sales was at least equal to the record amount sold during the first half of 1948. Further comparisons reveal that month-by-month sales in 1949 exceeded those in 1947 and at the end of the first six months showed as much gain over that year—6 percent—as they showed loss when compared with 1948.

Cash sales during June represented 35 percent of total sales. That figure compares with 34 percent for May and 36 percent for June of last year. The relation of cash sales to total sales during the first six months of this year has been consistently one



to two percentage points lower than in 1948. That relation, although one to two percentage points higher than in the year 1941, was considerably under that in 1944 and 1945, the two years in which the relation remained between 50 and 59 percent.

Collections on instalment accounts showed a slight improvement during the first half of 1949 compared with the same period in 1948. On the other hand, charge account customers showed a tendency to take a slightly longer period of time for settlement of their regular accounts, despite the aggressive collection efforts of the stores generally. These trends may reflect the increasing tendency of consumers to buy soft goods on an instalment basis with relatively short pay-out periods and the shifting of some slow regular accounts to an instalment basis.

Inventories of reporting department stores at the end of June were 7 percent lower than a month earlier and 11 percent lower than a year ago. The decline from May was less than seasonal and, as a result, the seasonally adjusted index for June was 352 percent of the 1935-39 average compared with 358 in May, but was sharply below the 392 percent for June 1948.

Orders outstanding at the end of June were 87 percent above the extremely low volume at the end of May but were 41 percent less than at the end of June last year. The increase during June reflected the buying of fall merchandise, which had been in small volume during the preceding two months.

Furniture store sales during June, as reflected by reporting stores in this District, were 1 percent above those of the previous month and 5 percent larger than those in June of last year. Inventories, however, declined 3 percent from May and 9 percent from a year ago. This is the second consecutive month to show an increase over year-ago sales and reverses a trend of substantial decreases which, beginning with October 1948, continued through April of this year. As a consequence of the continued attitude of caution on the part of stores in buying replacement stocks, it is reported that furniture manufacturing activity has been curtailed greatly and that manufacturers' inventories are at the lowest point since the end of the war. It is stated by the trade that the public is becoming more quality conscious and that cost of merchandise is secondary to real value as a factor in determining selection. According to trade sources, prices of furniture have declined from 10 to 20 percent since January, with drastic reductions having been made on slow-moving merchandise.

Accounts receivable increased 6 percent during June and at the end of the month were 18 percent larger than on the same date last year. Collections during June were down 3 percent from those in the previous month and were 9 percent lower than during June of 1948.

## AGRICULTURE

Weather conditions throughout the District during June and early July were favorable to the growth of field crops and the development of pastures and ranges. Moisture supplies generally are adequate, except in some south Texas counties where additional rains are needed to mature fully the cotton crop and in scattered localities in the range areas. Range feeds generally are adequate to abundant, and livestock are in good condition.

The total acreage of all crops for harvest in Texas during 1949 is estimated by the United States Department of Agriculture to be about 7 percent above that harvested last year. Major increases of about 1,600,000 acres are estimated for both wheat and cotton, while acreages of oats, barley, rye, rice, flaxseed,

and sweet potatoes for harvest also will be above last year's totals. Partially offsetting these increases are substantially smaller acreages for sorghums, corn, peanuts, and hay crops.

The United States Department of Agriculture estimates the cotton acreage in cultivation in the Nation on July 1 this year at 26,380,000 acres, which is the largest acreage since 1937 and exceeds the 1948 acreage by 14 percent. While every cotton state reported an increase, about two-thirds of the total increase occurred in the five states of the Eleventh District. The estimate of 10,400,000 acres in Texas, which is 18 percent higher than last year and 31 percent above the 10-year (1938-47) average, represents the fourth consecutive year of increase since the low level reached in 1945. Plantings in all major cotton-growing areas of the State have been expanded, with about 80 percent of the increase concentrated in three areas: the High Plains, the Low Rolling Plains, and the Lower Rio Grande Valley. Soil moisture at planting time was good, and while continued rains necessitated some replanting, cotton made a good start and generally is in satisfactory condition, although droughty conditions in the Lower Valley and Coastal Bend areas have caused some deterioration of the crop. At mid-July, harvest was well under way in the Lower Valley and picking was started in the Coastal Bend section. Cotton was fruiting heavily in the northern, central, and eastern counties of Texas, while early planted fields were blooming and late-planted cotton was making good growth in the Low Rolling Plains and the Southern High Plains.

### TEXAS PLANTED COTTON ACREAGE BY CROP REPORTING DISTRICTS

(In thousands)

Crop reporting districts	1946	1947	1948	1949 indicated July 1	1949 as percent of 1948
1-N.....	79	179	205	265	129
1-S.....	690	2,046	2,012	2,600	129
2.....	1,331	1,615	1,630	2,100	129
3.....	73	63	88	170	193
4.....	2,243	2,332	2,335	2,400	102
5.....	502	551	673	720	107
6.....	79	91	170	175	103
7.....	78	114	113	130	115
8.....	625	684	669	755	113
9.....	264	284	289	310	107
10.....	310	467	609	775	127
State.....	6,283	8,426	8,793	10,400	118

The estimated 2,492,000 acres of corn for harvest in Texas is 8 percent below last year and the smallest corn acreage in the State in 70 years of record. Favorable climatic conditions, combined with increased use of hybrid seed, however, have resulted in unusually good yield prospects. The indicated yield of 21 bushels per acre is the highest in recent years and is 5 bushels above average. Total production is estimated at 52,332,000 bushels—12 percent above last year but 23 percent below average.

### CROP PRODUCTION

(In thousands of bushels)

	Texas		States in Eleventh District*		
	Average 1938-47	1948	Estimated July 1, 1949	Average 1938-47	Estimated July 1, 1949
Winter wheat.....	53,944	56,290	108,720	125,580 <sup>2</sup>	159,127 <sup>3</sup>
Corn.....	67,694	44,698	52,332	119,200	96,178
Oats.....	33,977	14,240	31,800	65,418	35,560
Barley.....	4,125	1,891	2,489	12,546 <sup>2</sup>	10,563 <sup>2</sup>
Tame hay <sup>1</sup> .....	1,233	1,460	1,632	3,751	5,891
Potatoes, Irish.....	4,419	4,356	3,724	9,978	8,813
Potatoes, sweet.....	5,229	3,250	4,950	14,484 <sup>2</sup>	10,973 <sup>2</sup>
Rice.....	16,416	23,040	24,299	37,958 <sup>2</sup>	46,562 <sup>2</sup>

\*Figures are combined totals for the five States lying wholly or partly in the Eleventh Federal Reserve District: Texas, Arizona, Louisiana, New Mexico, and Oklahoma.

<sup>1</sup>In thousands of tons.

<sup>2</sup>Arizona, New Mexico, Oklahoma, and Texas.

<sup>3</sup>Louisiana, Oklahoma, and Texas.

<sup>4</sup>Louisiana and Texas.

SOURCE: United States Department of Agriculture.



Harvesting of wheat in Texas is virtually completed. Production fell short of earlier expectations because of damage from hail, heavy rains, and rust and because of delays in harvesting resulting from wet fields and shortages of equipment. The July 1 estimate of production, which indicates the second largest crop on record, was placed at 108,720,000 bushels, or about double the crop last year and the 10-year average. The estimated yield of 15 bushels per acre on the 7,248,000 acres for harvest is 13 percent above average.

Grain sorghums for harvest in Texas are estimated at 5,588,000 acres, which is 20 percent below the acreage harvested last year and is the smallest acreage since 1937. This smaller acreage is largely the result of increases in acreages planted to wheat and cotton. Combining of sorghum grain has been active in the Coastal Bend and extreme southern counties, where dry weather has reduced some yields below earlier expectations. At mid-July, grain sorghum prospects remained very favorable in central and northern counties, as early plantings neared maturity. The crop was making good growth in the High Plains and Low Rolling Plains except in limited areas where rain was needed.

the east Texas tomatoes that remained for harvest were going either to local markets as ripe tomatoes or to canners. Harvest of the Panhandle potato crop was active at midmonth, and onions in that area were maturing rapidly. Supplies of watermelons and cantaloupes were still abundant over a wide area of Texas.

Developments in the Texas citrus area continue to indicate a very short crop for the 1949-50 season. Because of the light March bloom and set resulting from the severe freeze damage last winter, some growers had hopes of a June bloom, but it failed to materialize. The set that held from the March bloom has made rapid growth. Lemon trees were killed or damaged so severely that Texas will be out of commercial production indefinitely.

Range feed generally was adequate over the District at mid-July, although in some areas there was need for additional moisture. In the High Plains a heavy growth of grass was curing rapidly. Native grasses have produced an unusually heavy seed crop. The range feed supply in New Mexico on July 1 was better than it has been at that date in six years, although there were dry areas in southeastern and southwestern parts of the State. At the same time, range feed conditions were good to excellent in Arizona. Livestock generally have made rapid gains and are in good condition, except that grass in some areas is too coarse for sheep and lambs and there has been some injury to lambs by needle and three-awn grass.

The combined receipts of livestock at the Fort Worth and San Antonio markets during June were 22 percent below those of May and 39 percent below those of June 1948. Receipts of cattle and calves, which were one-third below those of the corresponding month last year, made a small seasonal increase over May. Hog and sheep marketings, likewise affected by seasonal trends, declined substantially from the previous month and were 30 percent and 43 percent, respectively, below the same month last year. Combined receipts for the first six months of 1949 fell 30 percent below those of the first half of 1948. Receipts of cattle and calves were down 25 percent, while marketings of hogs and sheep were lower by 28 percent and 33 percent, respectively.

CROP ACREAGE

(In thousands)

	Texas		States in Eleventh District*			
	Average 1938-47	1948	For harvest 1949	Average 1938-47	1948	For harvest 1949
Cotton <sup>1</sup> .....	7,923	8,793	10,400	10,797	11,316	13,370
Corn.....	4,212	2,709	2,492	7,367	5,085	4,745
Wheat, winter.....	4,289	5,629	7,248	9,582 <sup>2</sup>	12,841 <sup>3</sup>	14,550 <sup>2</sup>
Oats.....	1,464	863	1,200	2,972	1,973	2,154
Barley.....	240	122	131	678 <sup>2</sup>	419 <sup>2</sup>	387 <sup>2</sup>
Rye.....	19	30	35	113 <sup>3</sup>	71 <sup>3</sup>	75 <sup>3</sup>
Rice.....	357	512	517	913 <sup>4</sup>	1,131 <sup>4</sup>	1,117 <sup>4</sup>
Flax.....	42	220	273	77 <sup>5</sup>	261 <sup>5</sup>	313 <sup>5</sup>
Tame hay.....	1,299	1,330	1,196	2,946	3,113	2,821
Wild hay.....	182	175	175	624 <sup>2</sup>	604 <sup>2</sup>	634 <sup>2</sup>
Potatoes, Irish.....	52	44	38	130	90	81
Potatoes, sweet.....	61	50	55	173 <sup>6</sup>	133 <sup>6</sup>	135 <sup>6</sup>
All sorghum.....	7,184	7,324	5,741	9,704	9,477	7,730
Peanuts (alone).....	691	807	638	924 <sup>7</sup>	1,138 <sup>7</sup>	856 <sup>7</sup>
Cowpeas (alone).....	432	186	177	640 <sup>6</sup>	303 <sup>6</sup>	302 <sup>6</sup>

\*Figures are combined totals for the five States lying wholly or partly in the Eleventh Federal Reserve District: Texas, Arizona, Louisiana, New Mexico, and Oklahoma.

<sup>1</sup>Acreage in cultivation July 1.

<sup>2</sup>Arizona, New Mexico, Oklahoma, and Texas.

<sup>3</sup>New Mexico, Oklahoma, and Texas.

<sup>4</sup>Louisiana and Texas.

<sup>5</sup>Arizona, Oklahoma, and Texas.

<sup>6</sup>Louisiana, Oklahoma, and Texas.

<sup>7</sup>Louisiana, Oklahoma, Texas, and New Mexico.

SOURCE: United States Department of Agriculture.

Estimates of this year's acreage and production of other important crops, such as peanuts, oats, barley, rice, hay, and Irish and sweet potatoes, are shown in the accompanying tables. The peanut acreage in Texas is about 20 percent smaller this year, primarily because of the acreage control program. The oat crop is more than double last year's harvest, due to larger acreage and higher yields, but is still about 6 percent below average. The Texas rice crop, estimated at 24,299,000 bushels on July 1, is the largest on record and more than 1,000,000 bushels above the 1948 harvest. A record crop of 1,774,000 bushels of flaxseed was harvested this year. The 9-percent reduction in acreage of hay is due principally to the smaller acreage planted to peanuts. The Irish potato acreage, estimated at 38,000 acres, reached the lowest level in many years, due to a sharp reduction in plantings of commercial potatoes. The sweet potato acreage is up 10 percent, with above-average yields of 90 bushels per acre expected.

Conditions in the commercial vegetable areas during late June and early July generally were favorable for active harvest of the remaining commercial vegetables and for planting of seedbeds and transplanting of fall crops. Harvest of the north Texas onion crop was completed during early July, and most of

LIVESTOCK RECEIPTS

(Number)

Class	Fort Worth market			San Antonio market		
	June 1949	June 1948	May 1949	June 1949	June 1948	May 1949
Cattle.....	59,562	89,602	47,087	32,282	38,179	37,697
Calves.....	13,784	28,797	13,539	11,699	27,488	12,677
Hogs.....	40,672	57,766	45,759	4,368	6,365	6,350
Sheep.....	179,308	321,576	283,946	51,168	79,294	54,911

TOP LIVESTOCK PRICES

(Dollars per hundredweight)

Class	Fort Worth market			San Antonio market		
	June 1949	June 1948	May 1949	June 1949	June 1948	May 1949
Slaughter steers.....	\$27.00	\$33.00	\$26.00	\$24.00	\$31.75	\$25.50
Stocker steers.....	25.25	28.50	26.00	.....	.....	.....
Slaughter cows.....	19.50	24.50	20.00	19.25	25.00	20.00
Slaughter heifers and yearlings.....	27.50	35.00	27.00	25.00	30.00	25.50
Slaughter calves.....	28.00	31.50	28.00	27.40	30.00	27.50
Stocker calves.....	27.00	30.00	26.50	26.00	28.50	28.00
Slaughter lambs.....	30.00	30.00	30.00	29.00	26.50	28.00
Hogs.....	21.75	28.00	21.00	21.50	27.50	21.00

The average of prices received by Texas farmers for all agricultural products at mid-June was the lowest in over two years, declining more than 2 percent from the previous month, with lower prices for practically all farm commodities contributing to this decline. Price drops of 10 percent or more were registered for most grains and hay, truck crops, sweet potatoes, cotton-



seed, beef cattle, and turkeys. Exceptions to the downward trend were noted in prices for hogs, which were up about 11 percent, and for Irish potatoes and cowpeas, which rose slightly. Reports from spot commodity markets indicate that from June 15 to mid-July, prices received by Texas farmers for cotton, slaughter cattle, lambs, and grain sorghums declined further. Oat prices made little change, but prices received for other grains increased from the low levels of the previous month; hogs also made a slight advance.

## FINANCE

Among the principal changes in the condition of selected member banks in leading cities in the Eleventh District during the 4-week period June 15 to July 13 were a further decline in total loans and commercial, industrial, and agricultural loans; an increase in total investments; and a slight decline in total deposits and in deposits of individuals, partnerships, and corporations.

One of the principal factors influencing the condition of member banks during the period was a reduction in reserve requirements at Reserve city and country banks, resulting from the expiration of the supplementary reserve authority which had been given to the Board of Governors by the Congress in August 1948. A factor influencing member bank deposits during the 4-week period was the substantial payment of income taxes by individuals and corporations, while the continuing readjustment of business activity was reflected in its effects upon member bank loan portfolios.

Commercial, industrial, and agricultural loans, representing the largest category of member bank loans, declined to \$676,416,000 on July 13. This total represented a decline of \$19,690,000 from the amount outstanding on June 15, 1949, and a decline of \$25,596,000 from the amount reported on July 14 of last year. This type of loan declined in amount each week during the period and, in fact, with the exception of slight increases reported during four scattered weeks, has declined steadily since the first of the year.

As pointed out in previous issues of this *Review*, a part of the decline in commercial, industrial, and agricultural loans at the selected member banks in leading cities is due to seasonal developments, but a substantial part also has been due to the decline in the demand for working capital that is a natural accompaniment of declining business activity. Figures of inventories, although involving considerable lag, show that businessmen at all levels of distribution are making serious efforts to reduce their stocks of goods. Moreover, they have shifted in their buying practices more and more to a policy of hand-to-mouth purchasing. Businessmen realize that goods are available in adequate supply and can be obtained on short notice; consequently, it is not necessary for them to enter large orders with their suppliers. Furthermore, uncertainty with regard to the business outlook naturally tends to cause merchants to attempt to bring their stocks down in line with a possible lower sales volume.

A substantially stronger effective loan demand is unlikely to materialize until signs begin to be clearly evident that the downward readjustment in business activity is approaching its end. The facts on balance at this time do not point to that conclusion.

The combination of a declining loan demand and the release of reserve funds as a result of the reduction of reserve requirements following the expiration of the supplementary reserve authority has tended to cause banks to increase their investment portfolios. During the past several weeks, and especially since the end of June, the demand for Government securities by

selected member banks in leading cities in this District and over the Nation has been very strong. Between June 15 and July 13 selected member banks in this District increased their holdings of United States Government securities by \$29,176,000, as a result of net purchases of \$15,332,000 of Treasury bills and net purchases of certificates, notes, and bonds aggregating almost \$14,000,000. These selected member banks also increased their balances on deposit with domestic banks by more than \$39,000,000. Member bank reserves released in this District by the expiration of the supplementary reserve authority were in the neighborhood of about \$48,000,000, while for the country as a whole the release of member bank reserves amounted to about \$800,000,000.

Despite an increase in demand deposits of individuals, partnerships, and corporations during the week ended July 13 amounting to \$62,152,000 and an increase of slightly more than \$5,000,000 during the preceding week, this principal class of deposits on July 13 totaled about \$11,500,000 less than the amount reported on June 15. The loss of deposits of over \$44,000,000 during the week ended June 22 and more than \$35,000,000 during the following week, reflecting in large part the withdrawal of deposits for the payment of income taxes, was larger than the increases of the last two weeks of the period.

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

(In thousands of dollars)

Item	July 13, 1949	July 14, 1948	June 15, 1949
Total loans and investments	\$2,280,130	\$2,249,773	\$2,246,069
Total loans—Net†	1,005,855	1,016,919	1,024,359
Total loans—Gross	1,015,902	1,023,196	1,034,253
Commercial, industrial, and agricultural loans	676,416	702,012	696,106
Loans to brokers and dealers in securities	6,034	6,506	6,391
Other loans for purchasing or carrying securities	52,132	60,439	51,408
Real-estate loans	87,927	84,146	87,102
Loans to banks	135	494	481
All other loans	193,258	169,599	192,765
Total investments	1,244,228	1,226,577	1,211,816
U. S. Treasury bills	63,550	56,251	48,218
U. S. Treasury certificates of indebtedness	288,181	191,676	282,782
U. S. Treasury notes	42,770	95,766	39,478
U. S. Government bonds (inc. gtd. obligations)	725,107	766,948	719,954
Other securities	124,620	115,936	121,384
Reserves with Federal Reserve Bank	477,716	487,298	512,711
Balances with domestic banks	337,392	343,187	298,906
Demand deposits—adjusted*	1,943,299	1,934,961	1,929,710
Time deposits except Government	434,056	404,933	441,332
United States Government deposits	26,510	41,563	29,761
Interbank demand deposits	532,010	569,316	513,694
Borrowings from Federal Reserve Bank	0	0	0

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

†After deductions for reserves and unallocated charge-offs.

Average gross demand deposits of all member banks in the Eleventh District during June were \$4,948,000,000, or slightly more than the amount reported for the preceding month. This increase in average gross demand deposits during June was the first increase reported during the year. The trend of gross demand deposits followed a different course at Reserve city banks

### GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District  
(Averages of daily figures. In thousands of dollars)

Date	Combined total		Reserve city banks		Country banks	
	Gross demand	Time	Gross demand	Time	Gross demand	Time
June 1947	\$4,649,262	\$540,000	\$2,234,857	\$338,684	\$2,414,405	\$201,316
June 1948	5,044,942	576,282	2,415,559	364,548	2,629,383	211,734
February 1949	5,193,824	607,063	2,474,757	390,045	2,718,867	217,018
March 1949	5,139,728	607,104	2,450,349	388,288	2,689,379	218,806
April 1949	5,000,832	621,436	2,368,424	400,555	2,612,258	220,931
May 1949	4,942,647	631,531	2,365,533	411,889	2,577,014	219,642
June 1949	4,948,074	635,740	2,379,108	413,072	2,568,966	222,668

as compared with country banks. At the former group of banks gross demand deposits showed an increase of \$13,500,000, partly offset by a decrease at country banks amounting to slightly



more than \$8,000,000. Time deposits of these two groups of banks showed moderate increases during June amounting to slightly more than \$1,000,000 at Reserve city banks and approximately \$3,000,000 at country banks.

SAVINGS DEPOSITS

City	Number of reporting banks	June 30, 1949		Percentage change in savings deposits from	
		Number of savings depositors	Amount of savings deposits	June 30, 1948	May 31, 1949
Louisiana:					
Shreveport.....	3	41,172	\$ 25,715,937	0.7	-0.3
Texas:					
Beaumont.....	3	12,127	6,231,121	-0.7	-0.6
Dallas.....	8	142,254	79,685,337	0.7	1.0
El Paso.....	2	31,916	22,856,117	0.1	0.0
Fort Worth.....	4	43,857	35,699,282	2.7	0.5
Galveston.....	4	23,349	21,329,975	-2.7	0.2
Houston.....	8	98,444	74,777,306	2.5	0.4
Lubbock.....	2	1,760	2,889,134	58.4	-9.5
Port Arthur.....	2	5,741	4,579,754	-5.5	-1.1
San Antonio.....	5	40,238	45,307,898	-3.5	0.6
Waco.....	3	9,659	10,156,569	4.7	0.03
Wichita Falls.....	3	7,567	4,536,525	0.4	0.6
All other.....	55	64,069	54,890,767	1.3	0.4
Total.....	102	522,153	\$388,655,722	0.8	0.3

Debits to deposit accounts except interbank accounts at banks in 24 reporting cities in the District increased 4 percent during June but were approximately 4 percent less than during the same month last year. Increases in bank debits during June were reported from all but 5 of the 24 cities, with the increases ranging from as much as 33 percent in Austin to 1 percent in Texarkana. The annual rate of turnover of deposits rose during June to 12.4 times, as compared with a turnover of 11.9 times during May. The use of deposits in these 24 reporting cities, however, was slightly lower during June of this year than during the comparable month of last year, when a turnover of 13.4 was reported.

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

City	(Amounts in thousands of dollars)				Annual rate of turnover		
	Debits*		End-of-month deposits* June 30, 1949	June 1949	June 1948	May 1949	
	June 1949	Percentage change over June 1948					
Arizona: Tucson.....	\$ 56,555	-11	\$ 82,958	8.2	9.1	8.2	
Louisiana:							
Monroe.....	35,382	16	42,221	10.3	9.2	9.8	
Shreveport.....	130,846	#	161,296	9.7	10.0	9.2	
New Mexico: Roswell.....	13,421	-10	17,887	9.0	10.3	8.8	
Texas:							
Abilene.....	29,983	-10	37,493	9.5	9.6	8.9	
Amarillo.....	85,566	3	84,212	12.7	12.4	11.9	
Austin.....	139,004	21	104,934	15.8	13.2	12.0	
Beaumont.....	92,914	-2	95,294	11.5	12.2	10.9	
Corpus Christi.....	73,464	-5	76,942	11.4	12.7	10.8	
Coriscana.....	10,195	1	19,232	6.2	6.4	5.3	
Dallas.....	969,858	-3	764,810	14.9	16.8	15.1	
El Paso.....	107,876	-10	114,964	11.0	12.2	12.5	
Fort Worth.....	326,894	-12	294,181	13.3	16.2	12.0	
Galveston.....	69,694	-7	95,803	8.6	9.7	8.2	
Houston.....	1,021,585	-6	900,660	13.6	15.1	13.1	
Laredo.....	15,642	-19	20,826	8.8	10.0	9.0	
Lubbock.....	51,413	-12	61,346	10.1	10.3	10.7	
Port Arthur.....	34,680	-3	39,436	10.4	10.9	10.0	
San Angelo.....	30,252	-13	37,406	9.6	10.7	8.3	
San Antonio.....	262,814	1	309,150	10.1	9.8	9.6	
Texarkana†.....	13,079	-12	22,715	7.0	8.0	7.0	
Tyler.....	38,620	-4	51,514	9.1	9.1	8.6	
Waco.....	48,591	-4	65,489	8.9	9.7	8.3	
Wichita Falls.....	57,230	-5	79,767	8.6	9.2	8.0	
Total—24 cities.....	\$3,718,558	-4	\$3,581,536	12.4	13.4	11.9	

#Indicates change of less than one-half of one percent.  
 \*Debits to deposit accounts except interbank accounts.  
 †Demand and time deposits at the end of the month include certified and officers' checks outstanding but exclude deposits to the credit of banks.  
 ‡This figure includes only one bank in Texarkana, Texas. Total debits for all banks in Texarkana, Texas-Arkansas, including two banks located in the Eighth District, amounted to \$23,378.

Figures reflecting the condition of the Federal Reserve Bank of Dallas show an increase of almost \$50,000,000 in total gold certificate reserves during the month ended July 15 but declines of almost \$38,000,000 in total earning assets and in United States Government securities and a decline of slightly more than \$22,000,000 in member bank reserve deposits. Federal Reserve notes of this bank in actual circulation rose from \$596,123,000

on June 15 to \$599,863,000 on July 15. During the last few days in June and the first week in July note circulation of this bank rose in response to holiday demands for currency, reaching a total of \$604,588,000 on July 6. After that date, however, a gradual decline in the volume of notes of this bank in actual circulation occurred as the holiday demand for currency passed and notes were returned to this bank. In general, the currency demand in this District has followed a normal seasonal pattern, reflecting requirements associated with crop movements, vacation spending, and other similar factors.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	July 15, 1949	July 15, 1948	June 15, 1949
Total gold certificate reserves.....	\$678,291	\$539,548	\$628,426
Discounts for member banks.....	608	400	258
Foreign loans on gold.....	3,266	7,854	3,171
U. S. Government securities.....	803,418	966,570	841,770
Total earning assets.....	807,291	974,824	845,199
Member bank reserve deposits.....	833,189	823,332	860,566
Federal Reserve notes in actual circulation.....	599,863	599,792	596,123

On June 28 the Federal Open Market Committee released a statement with respect to future open market policy. The Committee announced that, with a view to increasing the supply of funds available to the market to meet the needs of commerce, business, and agriculture, it will be the Committee's policy to direct purchases, sales, and exchanges of Government securities by the Federal Reserve banks, with primary regard to the general business and credit situation. The Committee added that the policy of maintaining orderly conditions in the Government securities market and the confidence of investors in Government bonds will be continued. The statement concluded that under present conditions maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing funds from the market when the availability of credit should be increased.

NEW MEMBER BANKS

*The First National Bank of Hobbs, Hobbs, New Mexico, a newly organized institution located in the territory served by the El Paso Branch of the Federal Reserve Bank of Dallas, opened for business on June 25, 1949, as a member of the Federal Reserve System. This bank has paid-in capital funds of \$250,000, including capital stock of \$150,000, surplus of \$50,000, and undivided profits of \$50,000. The officers are: Carl R. Landrum, President; A. C. Kimbrough, Chairman of the Board; Dr. C. S. Stone, Inactive Vice President; W. H. Bailey, Vice President; and B. L. Mitchell, Cashier.*

*The Citizens State Bank and Trust Company, Kilgore, Texas, a newly organized bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was admitted to membership July 25, 1949. This bank has paid-in capital funds of \$300,000, comprised of capital of \$150,000, surplus of \$100,000, and undivided profits of \$50,000. The officers are: J. J. Jenkins, Chairman of the Board; F. L. Sartain, President; Alvin Wylie, Vice President and Cashier; and J. H. Steele, Assistant Cashier.*

Following this policy announcement and the reduction of reserve requirements of member banks, there was a substantial increase in the prices of all classes of Government securities. The average rate of discount on Treasury bills declined from 1.158 percent for the issue dated June 30 to



1.052 percent for the issue dated July 7. The yield on the longest term issue of certificates dated July 1, 1950, declined from 1.22 percent to 1.03 percent between June 28 and July 8, while the longest term bank-eligible bonds rose 1-9/32 and the longest term restricted issues advanced 1-24/32 during the same period. Since July 8 further price rises have reduced yields on the longest term bills and certificates to the neighborhood of 0.90 percent and 1.00 percent, respectively, while prices of bonds have continued very firm.

According to reports received from the Texas Savings Bond Division of the United States Treasury, sales of E bonds in Texas during the Opportunity Drive, which ended July 18, amounted to \$46,835,896 as compared with the Drive quota of \$36,950,000. This total, which reflects a very successful sales campaign, is in large measure due to the unstinted cooperation and support of the Drive received by the Savings Bond Division of the Treasury from banks, businesses, industries, and other groups.

### INDUSTRY

The downward trend in the daily average production of crude petroleum in the Eleventh Federal Reserve District was arrested during June, when the production rate was 2,149,000 barrels per day. This was 18,000 barrels per day more than during the previous month, although 547,000 barrels daily less than in June 1948. The small increase in production in the District from May to June was more than offset by declines elsewhere in the United States, so that production in the Nation averaged 4,870,000 barrels per day, or 28,000 barrels daily less than in May and 616,000 barrels per day less than a year earlier. However, during June the apparent national demand for domestic crude amounted to 4,899,000 barrels daily, which was 29,000 barrels per day or 0.6 percent more than domestic production. With the further curtailment of allowable production in Texas and Louisiana by 160,000 barrels per day during July, there is little reason to expect any appreciable increase in crude oil stocks in the near future. Such stocks decreased by 877,000 barrels in the Nation during June and by 250,000 barrels in the District.

Refinery operations as measured by crude oil runs to refinery stills increased in the District by 2 percent from May to June but were 12 percent smaller than in June 1948. In the Nation, refinery runs in June 1949 were fractionally less than during the previous month and were 7 percent less than a year ago.

#### CRUDE OIL PRODUCTION

Area	June 1949		Increase or decrease in daily average production from	
	Total production	Daily average production	June 1948	May 1949
	(Barrels)			
Texas:				
District 1.....	781,450	26,048	-2,590	328
2.....	3,552,350	118,412	-55,241	-298
3.....	10,637,250	354,575	-142,988	-2,528
4.....	5,554,350	185,145	-71,272	718
5.....	1,027,700	34,257	-12,713	-233
6.....	7,255,450	241,848	-69,214	-5,286
Other 6.....	2,491,600	83,053	-39,828	-437
7b.....	1,789,350	59,645	11,337	2,761
7c.....	1,263,700	42,123	-3,904	-122
8.....	15,817,650	527,255	-170,370	6,606
9.....	4,098,350	136,612	-3,270	10,554
10.....	2,783,800	92,793	6,521	3,806
Total Texas.....	57,053,000	1,901,766	-553,502	15,899
New Mexico.....	4,064,150	135,472	7,709	7,027
North Louisiana.....	3,342,850	111,428	-1,449	-5,661
Total Eleventh District.....	64,460,000	2,148,666	-547,242	17,235
Outside Eleventh District.....	81,625,250	2,720,842	-69,076	-46,000
United States.....	146,085,250	4,869,508	-616,318	-28,765

SOURCE: Estimated from American Petroleum Institute weekly reports.

The apparent demand for gasoline in the Nation continues strong and amounted to 2,813,000 barrels per day during June,

or 222,000 barrels more than production during the same period. As a result, gasoline stocks decreased by 6 percent during June, although such stocks were 9 percent higher than a year ago. In the case of distillate and residual fuel oils and kerosene, production has been exceeding consumption, and stocks increased during June by from 4 percent to 15 percent, reaching levels from 8 percent to 36 percent above a year earlier. The apparent demand for the four major petroleum products combined amounted to 4,499,000 barrels per day during June, or 239,000 barrels less than the total daily average production of these products. During the first half of 1949 the apparent demand for these four products averaged 4,927,000 barrels daily, down 21,000 barrels per day or 0.4 percent from the level of the corresponding period in 1948.

These trends and developments indicate that there are two major problems of imbalance between supply and demand in the petroleum industry. First, there is the problem of reducing the slight imbalance between total production and total consumption, a problem which is being solved largely through the adjustment of production allowables and to some extent through the more careful scheduling of imports. Second, there is the problem of adjusting refinery yields of the various petroleum products so that their supplies would be in approximate balance with requirements. The latter problem is complicated by the considerable seasonal fluctuations in the consumption of the various products, with gasoline requirements currently being high and fuel oil needs quite low. The problem has been solved only partially, despite the fact that refinery yields have been adjusted to reduce the outputs of fuel oils and kerosene and to increase gasoline yields to an average of 46 percent. Additional price cuts for low-gravity (fuel oil type) crudes reflect the current excess of supply as compared with demand for fuel oils.

Despite the excessive stocks of fuel oil now in the tanks of suppliers, it is expected that demand during the 1949-50 heating season may exceed all previous records. On the East Coast, consumption of 20 percent more fuel oil than during last season has been predicted. As a result, the industry is making strenuous efforts to induce distributors and consumers to fill their tanks before the heating season begins in order that undue strain upon production and distribution facilities may be avoided during the fall and winter months. Special summer price discounts are being offered by some companies as a means of inducing early movement of furnace oil to consumer storage. A number of additional companies have announced that summertime purchasers of fuel oil will receive the benefit of any subsequent price reductions. The results of these efforts have not yet shown up appreciably in the statistics on fuel oil stocks.

#### VALUE OF CONSTRUCTION CONTRACTS AWARDED

	(In thousands of dollars)				
	June 1949	June 1948	May 1949	January 1 to June 30 1949	1948
Eleventh District—total...	\$ 67,293	\$ 60,588	\$ 53,776	\$ 330,938	\$ 399,075
Residential.....	27,269	18,301	17,960	114,531	138,142
All other.....	40,024	42,287	35,816	216,407	260,933
United States—total.....	945,675	935,198	880,344	4,467,676	4,766,805
Residential.....	370,752	355,296	346,251	1,624,799	1,823,599
All other.....	574,924	579,902	534,093	2,842,877	2,943,236

\*37 states east of the Rocky Mountains.

SOURCE: F. W. Dodge Corporation.

The value of construction contracts awarded in the Eleventh District during June amounted to \$67,000,000 and was 25 percent higher than in May and 11 percent more than in June of last year. This increase was not confined to any one major type of construction but was manifested in residential building, public works, and utility construction. Nonresidential building also increased from the previous month, although not from



year-ago levels. The increase in residential awards from May to June amounted to 52 percent and in all other awards amounted to 12 percent. It is noteworthy that both the valuation and the floor area covered by building awards increased. Large apartment developments and some low-cost housing projects accounted for much of the increase in residential awards. Despite the increase in June, the total value of awards for the first half of 1949 was 17 percent smaller than in the corresponding period of 1948. This compares with a decrease for the first half of the year of only 6 percent in the Nation.

BUILDING PERMITS

City	June 1949		Percentage change valuation from		Jan. 1 to June 30, 1949		Percentage change valuation from 1948
	Number	Valuation	June 1948	May 1949	Number	Valuation	
Louisiana:							
Shreveport...	364	\$ 1,163,549	-42	-33	1,899	\$ 7,143,643	-67
Texas:							
Abilene.....	160	878,930	49	- #	635	3,651,097	20
Amarillo.....	363	2,392,785	203	114	1,485	7,880,650	45
Austin.....	218	1,450,563	-29	- 8	1,451	10,920,429	-17
Beaumont...	406	969,947	- 7	50	2,058	4,934,872	3
CorpusChristi	337	1,013,503	-22	-17	1,549	6,155,102	-38
Dallas.....	1,452	9,718,460	32	126	7,470	36,717,249	-31
El Paso.....	229	449,786	-57	-49	1,340	4,407,073	-24
Fort Worth..	710	2,115,293	-41	9	3,530	11,763,078	-21
Galveston...	196	4,778,444	*	*	967	7,101,123	311
Houston.....	736	10,062,335	95	22	3,723	41,398,677	-21
Lubbock.....	220	1,834,158	36	114	1,030	5,570,368	-15
Port Arthur..	215	582,215	158	58	1,001	2,082,096	81
San Antonio..	1,076	3,183,827	45	- 9	6,551	16,196,436	-12
Waco.....	192	891,929	-36	36	921	4,267,880	-41
Wichita Falls	174	1,109,315	170	271	555	2,488,340	5
Total.....	7,048	\$42,595,039	38	50	36,165	\$172,678,113	-22

\*Over 1,000 percent.  
#Indicates change of less than one-half of one percent.

DOMESTIC CONSUMPTION AND STOCKS OF COTTON  
(Bales)

	June 1949	June 1948	May 1949	August 1 to June 30	
				This season	Last season
Consumption at:					
Texas mills.....	11,345	13,509	9,463	133,158	143,311
United States mills.....	600,495	800,347	580,078	7,342,735	8,726,930
U. S. stocks—end of month:					
In consuming establishments..	1,058,697	1,734,787	1,277,423	.....	.....
Public storage and compresses	4,406,538	1,676,082	5,079,999	.....	.....