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On November 2, 1949, Allan Sproul, President of the Federal Reserve Bank of New York, addressed the Seventy-Fifth Annual Convention of the American Bankers Association, discussing the controversial and very important question of monetary gold, Federal Reserve System relationship with bankers, and the place of the System in our economy. Mr. Sproul, widely recognized by financial and monetary authorities in this country and abroad for his outstanding qualities of central banking leadership, presented such a clear and forthright analysis of these problems that his address is reprinted in full in the following pages of the Monthly Business Review. Leaders in banking, business, and other fields of economic activity in the Southwest will find Mr. Sproul's remarks not only highly interesting but also very thought-provoking.

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As a native Californian—and a native San Franciscan—I have tried to think of something I might discuss which would be of special interest to our generous hosts at this convention. The fact that this is 1949, and that the whole State of California has been engaged in a two-year round of celebrations of the 100th anniversary of the discovery of gold in California, and of its immediate consequences, gave me an obvious lead. Gold is something in which we are all interested. Nor is this an untimely topic on other grounds. The recent wave of currency devaluations which swept around the world, following upon the devaluation of the British pound sterling six weeks ago, has fanned into modest flame the always smouldering fires of the gold controversy. In addition, I was eager to review the gold question because it is a good starting point for an understanding of the place of the Federal Reserve System in the monetary and economic life of the country. When I finish with gold, I shall want to say something more specific about the System, and about your relations with it.

As central bankers, of course, charged with responsibility for our monetary and credit policies, we have the question of gold under more or less constant surveillance. Most of the time, in recent years, we have been under attack from two sides because of our attitude toward gold. Those interested primarily or initially in the price of gold, and in what they call a free gold market, have fired from one side. Those interested primarily and eternally in gold coin convertibility—in a full and automatic gold standard domestically and internationally—have fired from the other. More recently, we have had a brief respite from attack while these two groups fired at each other, each group arrogating to itself responsibility for the only true gospel according to St. Midas. What I have to say will probably bring that brief respite to an end. The fire will again be concentrated on the monetary authorities, for whom I cannot presume to speak except as one individual engaged in the practice of central banking, but who will, no doubt, be blamed for my views.

Let me take account of each of these two groups separately; those who concentrate, at least initially, on a free gold market, and those who will have none of this heresy, but who want a fixed and immutable gold price and convertibility of currency—and therefore of bank deposits—into gold coin.

The first group, which includes the gold miners, makes its argument on several grounds, trying to combine economics and psychology with self-interest. Let me paraphrase their principal arguments as presented at hearings on bills to permit free trading in gold in the United States and its territories. In this way I may avoid the fact as well as the appearance of building straw opponents. The arguments most frequently presented in favor of these bills were:

1. In the face of rising production costs and fixed selling prices, the gold mining industry has been forced to curtail its operations, and to the extent that it has operated, its profits have been reduced. The higher gold prices which would presumably prevail in a free market would correct this situation. This is the "do something for the gold miners" argument at its baldest.

When this argument is embroidered a little, it is claimed that since the prices of all goods and services have increased so substantially during the past ten or fifteen years, it is necessary to open the way for an increase in the price of gold so as to be sure there will be enough gold to carry on the country's business; to bring the price of gold into adjustment with the prices of everything else.

2. A second group of arguments expresses concern over the unsettling effects of the "premium" prices which are paid for gold abroad, and claims that a free gold market in the United States, with no gold export restrictions, would cause these premium markets abroad to disappear, with beneficial effects upon world trade and international relations.

3. Third, there is an argument in equity—that gold miners should be allowed to sell their product at the best price they can obtain, as do producers of other products; and that American citizens, like the citizens of most other countries, should be free to hold or to buy and sell gold.

4. Finally, there were those who viewed and favored a free gold market as a first step in the direction of a full gold coin standard, and who held that even a free market would act as a "fever chart" of the economy and lead to reform of extravagant Government fiscal policies, remove inflationary tendencies fostered by a managed currency, and lead to sounder conditions, generally.

To take these arguments up in order, it should be pointed out right away that it is quite possible that a free market for gold in the United States would not result in a rise in the price of gold, if for no other reason than that the Secretary of the Treasury is required, by law, to maintain all forms of United States money at parity with the gold dollar which contains 1/35th of an ounce of fine gold. This means that the Treasury should maintain the price of gold at $35 a fine ounce in legal gold markets in the United States. To do this, if there were a legal free market for fine gold, the Treasury should sell gold to the extent necessary to maintain the market price at $35 a fine ounce. We might, therefore, get what would be in effect gold convertibility by way of a free market, but not a rise in the price of gold. Aside from this possible outcome of the establishment of a free market for gold, what is it we are being asked to do? In effect we are being asked to do something to benefit the gold mining industry, to encourage a shift of productive resources, in this and other countries, into gold production, in order to provide gold for hoarding. This, I submit, would be a witless proceeding, in terms of the welfare of the whole economy, matched only by our bonanza provisions for the special benefit of the miners of silver.

As for the economic embroidery of this request for aid to the gold mining industry, there is no lack of monetary means of carrying on the business of the country, nor is there likely to be. It is the economics of perpetual inflation to argue that a rise in the commodity price level should be followed by an arbitrary increase in the price of gold and hence in the reserve base, thus permitting and perhaps, promoting additional deposit expansion and a further upward movement of prices. Even on the basis of statistics, which are not always reliable or comparable, it is interesting to note that the increase in the price of gold in the United States, in 1934, raised the price of gold by 69 per cent, whereas wholesale prices in the United States are now only 60 per cent above the 1927-29 level. We have been plagued, if anything, with an over-supply of money in recent years, and the United States gold stock, at the present price, is large enough to support whatever further growth in the money supply may be needed for years ahead.

The second group of arguments has to do with the desirability of knocking out of business the premium markets in gold which have existed and still exist in various foreign countries. I share the general dislike of these markets because they are parasites on the world's monetary system and help to siphon into gold hoards the resources of people who need food and clothing and equipment

—and who wouldn't need so much help from us if they didn't use scarce foreign exchange to buy gold for private hoards. But I don't think the soundness nor the stability of the United States dollar is actually brought into question by these premium markets. At our official purchase price for gold—$35 a fine ounce—the United States has been offered and has acquired more gold than the total world production (excepting the U.S.S.R. for which reliable data on gold production, as on everything else, are not available), since 1934, the year of our devaluation. During those years—1934 to 1948 inclusive—estimated world gold production, valued at United States prices, was about $13.5 billion and United States gold stocks increased $16 billion. Most of the producers and holders of gold have been quite willing to sell us gold for $35 a fine ounce despite the quotations of $45 and $55 and so on up in the premium markets. The fact is that these premium markets represent insignificant speculative adventures around the fringe of the world supply and demand for gold. They reflect mainly the urgent and often illegal demands of a small group of hoarders, together with some private demand for gold to be used in relatively backward areas, or areas where the forms of civilized government have broken down, and where the metal serves the needs of exchange—or hoarding—better than a paper note. I do not think there would be any appreciable stimulus to United States gold production, if we opened the doors of this largely clandestine trade to our domestic gold miners. But, by legalizing it, we might well create what we are trying to destroy—uncertainty about the stability of the dollar and our own intentions with respect to its gold content.

The third argument—that the miners of gold should be free to sell their product at the best price they can get—is probably the give away. It is the argument that gold should be treated as a commodity when you think you can get a higher price for it, and as a monetary metal and an international medium of exchange when you want a floor placed under its price. I would say that you can't have it both ways. If you want the protection of an assured market at a fixed price, because gold is the monetary metal of the country, you should not ask permission to endanger the stability of the monetary standard by selling gold at fluctuating prices (the gold producers hope higher prices) in a fringe free market. Under present conditions, the only real price for gold is the price the United States Treasury is prepared to pay for it. So long as that is the case, there is no sense in a "make believe" free gold market, in which possible temporary or short run deviations from the fixed price of the Treasury might have disturbing consequences.

Nor is the argument that citizens of the United States should have the same privileges as the citizens of other countries, when it comes to holding or trading in gold, at all convincing to me. It is true that in a number of foreign countries the holding of gold by private citizens is legal, and in some foreign countries strictly internal free trading in gold is permitted. In many cases, however, this merely represents the shifting around of a certain amount of gold which is already being hoarded in the country, since in practically all of these countries the export and import of gold on private account is either prohibited or subject to license. And, in many countries where gold is produced, some percentage, if not all, of the newly mined gold must be sold to the monetary authorities, a requirement which further limits the amounts available for trading and hoarding. These restricted and circumscribed privileges in other countries are no reflection of a loss of inalienable rights by our people. They are attempts by these foreign countries to adjust their rules with respect to gold to their own self-interest and, so far as possible, to the habits of their people, all under the sheltering umbrella of a world gold market and a world gold price maintained by the Treasury of the United States. We have deemed it wise to maintain such a fixed point of reference, in a disordered world. We have decided by democratic processes and by Congressional action, that this policy requires, among other things, that gold should not be available for private use in this country, other than for legitimate industrial, professional, or artistic purposes. We have decided that the place for gold is in the monetary reserves of the country, as a backing for our money supply (currency and demand deposits of banks), and as a means of adjusting international balances, not in the pockets or the hoards of the people. If we want to reverse that decision, the means of reversal are at hand, but it should be a clear cut and a clean cut reversal, restoring convertibility. Providing a dependent free gold market, in which gold miners and a little group of speculative traders or frightened gold hoarders (such as those who now take advantage of a provision in the regulations to buy and sell "gold in the natural state") could carry on their business is not the way to meet the problem.

I do not propose to get in the cross fire of those who claim that a free gold market would be a step toward convertibility, and those who claim that a free gold market, without free coinage at a fixed price, would cause us to lose whatever modicum of a gold standard we now have and lead to monetary chaos. That is one of those doctrinal arguments in which the subject abounds. I will merely say here that I think authorization of a free gold market in this country, with no change in the present responsibility of the Secretary of the Treasury to maintain all forms of money coined or issued by the United States at parity with the "gold dollar," would probably lead indirectly to convertibility. The desirability of doing this is another matter, which I shall now try to discuss briefly and dispassionately. This is a hazardous attempt because there is no subject in the field of money and banking which so arouses the passions, and which so readily defies brief analysis.

Two groups of arguments for the reestablishment of a gold coin standard may, perhaps, be distinguished in the writings and speeches of those who propose it, one group relating primarily to the domestic economy and one to the probable effects on international trade and finance. In the first group the arguments run about as follows:

1. Replacement of our "dishonest," inconvertible currency with an "honest" money having intrinsic value would promote confidence in the currency, and encourage savings, investment, long-time commitments and production.
2. Irredeemable paper money leads to inflation, whereas the upper limits imposed upon currency and credit expansion by a thoroughgoing gold standard serve as a restraining influence on irresponsible politicians and over-optimistic businessmen.
3. Present Governmental taxing and spending policies are wrong, and dangerous. The gold standard would put a brake on public spending.
4. As a corollary of the preceding argument, since the gold standard would hinder further extension of Government control and planning, it is a necessary implement of human liberty.

The second group of arguments, relating to the international advantages of a gold coin standard, generally make no distinction between the effects of a unilateral adoption of such a standard by the United States, and the multilateral establishment of an unrestricted gold standard by many countries, and of exchange rates fixed by such a standard. The arguments run somewhat as follows:

1. The existence of premium markets in gold abroad and the lack of gold convertibility at home creates—and is representative of—lack of confidence in the gold value of the dollar. In the absence of a thoroughgoing gold coin standard we cannot convince anyone that we may not devalue the dollar.
2. Restoration of "normal" patterns of international trade is being retarded by the inconvertibility of currencies in terms of gold and, therefore, one with another. This inconvertibility has led to tariffs, quotas, exchange controls, and to general bilateralism.
3. Under a managed paper currency system there is always the temptation to solve national problems by devices which lead to international disequilibrium. This, in turn, has led to domestic devices restrictive of foreign trade. The international gold standard, by eliminating the need for restrictive commercial policy, would increase the physical volume of international trade, resulting in an improved division of labor and higher standards of living for everyone.

First, let me say that I perceive no moral problem involved in this question of gold convertibility. Money is a convenience devised by man to facilitate his economic life. It is a standard of value and a medium of exchange. Almost anything will serve as money so long as it is generally acceptable. Many things have served as money over the centuries, gold perhaps longest of all because of its relative scarcity and its intrinsic beauty. In this country we still retain some attachment to gold domestically, and more internationally, but to carry on our internal business we use a paper money (and bank deposit accounts) which has the supreme attribute of general acceptability. There is no widespread fear of the soundness of the dollar in this country, no widespread flight from money into things. The constant cry of wolf by a few has aroused no great public response. Savings, investment, long-term commitments, and the production and exchange of goods have gone forward at record levels.

Much of the nostalgia for gold convertibility is based, I believe, on fragrant memories of a state of affairs which was a special historical case; a state of affairs which no longer exists. The great period of gold convertibility in the world was from 1819 to 1914. It drew its support from the position which Great Britain occupied, during most of the 19th century and the early part of the 20th century, in the field of international production, trade, and finance. The gold coin standard flourished because the organization of world trade under British leadership provided the conditions in which it could, with a few notable aberrations, work reasonably well.

The ability of the British to sustain, to provide a focal point for this system has been declining for many years, however, and the decline was hastened by two world wars which sapped the resources of the British people. The heir apparent of Great Britain, of course, was the United States, but up to now we have not been able to assume the throne and play the role. And until some way has been found to eliminate the lack of balance between our economy and that of the rest of the world, other than by gifts and grants in aid, we won't be able to do so. This is a problem of unravelling and correcting the influences, in international trade and finance, which have compelled worldwide suspension of gold convertibility, not vice versa. The job before us now is to attack the problems of trade and finance directly. We should not deceive ourselves by thinking that gold convertibility, in some indefinable but inexorable way, could solve these underlying problems for us.

Nor is it true, of course, that gold convertibility prevented wide swings in the purchasing power of the dollar, even when we had convertibility. Within my own experience and yours, while we still had a gold coin standard, we had tremendous movements in commodity prices, up and down, which were the other side of changes in the purchasing power of the dollar. What happened to us in 1920-21 and 1931-33 under a gold coin standard should prevent a too easy acceptance of that standard as the answer to the problem of a money with stable purchasing power.

When you boil it all down, however, and try to eliminate mythology from the discussion, the principal argument for restoring the circulation of gold coin in this country seems to be distrust of the money managers and of the fiscal policies of Government. The impelling desire is for something automatic and impersonal which will curb Government spending and throw the money managers out of the temple, as were the money changers before them. To overcome the inherent weakness of human beings confronted with the necessity of making hard decisions, the gold coin standard is offered as an impersonal and automatic solution. Through this mechanism the public is to regain control over Government spending and bank credit expansion. It is claimed that whenever the public sensed dangerous developments, the reaction of many individuals would be to demand gold in exchange for their currency or their bank deposits. With the monetary reserve being depleted in this way, the Government would be restrained from deficit financing through drawing upon new bank credit; banks would become reluctant to expand credit to their customers because of the drain on their reserves; and the Federal Reserve System would be given a signal to exert a restraining influence upon the money supply. In this way, Congress, the Treasury, and the Federal Reserve System would be forced by indirection to accept policies which they would not otherwise adopt.

In effect, under a gold coin standard, therefore, the initiative for overall monetary control would, through the device of free public withdrawal of gold from the monetary reserve, be lodged in the instinctive or speculative reactions of the people. No doubt some people would take advantage of their ability to get gold. There would be many reasons for their doing so. Conscientious resistance to large Government spending, or fear of inflation, might well be among these reasons. But speculative motives, a desire for hoards (however motivated), and such panic reactions as are generated by unsettled international conditions or temporary fright concerning the business outlook or one's individual security—all of these, and more—would be among the reasons for gold withdrawals. The gold coin mechanism does not distinguish among motives. Whenever, for any reason, there was a demand for gold, the reserve base of the monetary system would be reduced. Moreover, if only the United States dollar were convertible into gold while practically all other currencies were not, hoarding demands from all over the world would tend to converge upon this country's monetary reserves. Circumvention of the exchange controls of other countries would be stimulated, and dollar supplies which those countries badly need for essential supplies or for development purposes would be diverted to the selfish interests of hoarders.

Even if a particular reduction in the reserve base did occur for useful "disciplinary" reasons, the impact of such gold withdrawals upon the credit mechanism is likely to be crude and harsh. Since the present ratio between gold reserves and the money supply is about one-to-five, and since some such ratio will be in effect so long as this country retains a fractional reserve banking system, a withdrawal of gold coins (once any free gold is exhausted) will tend to be multiplied many times in its contractive effect on bank credit and the money supply. In a business recession, the Reserve System might undertake to offset this effect as it does now in the case of gold exports but, if the gold withdrawals attained sufficient volume, the shrinking reserve position of the Federal Reserve Banks would eventually prevent them from coming to the rescue.

It was, in part, to offset such arbitrary and extreme influences upon the volume of credit, and to make up for the inflexibility of a money supply based on gold coins (in responding to the fluctuating seasonal, regional, and growth requirements of the economy), that the Federal Reserve System was initially established. During the first two decades of its existence, the System devoted much of its attention to offsetting the capricious or exaggerated effects of the gold movements associated with continuance of a gold coin standard. We had an embarrassing practical experience with gold coin convertibility as recently as 1933, when lines of people finally stormed the Federal Reserve Banks seeking gold, and our whole banking mechanism came to a dead stop. The gold coin standard was abandoned, an international gold bullion standard adopted, because repeated experience had shown that internal convertibility of the currency, at best, was no longer exerting a stabilizing influence on the economy and, at worst, was perverse in its effects. Discipline is necessary in these matters but it should be the discipline of competent and responsible men; not the automatic discipline of a harsh and perverse mechanism. If you are not willing to trust men with the management of money, history has proved that you will not get protection from a mechanical control. Ignorant, weak or irresponsible men will pervert that which is already perverse.

Here, I would emphasize my view that the integrity of our money does not depend on domestic gold convertibility. It depends upon the great productive power of the American economy and the competence with which we manage our fiscal and monetary affairs. I suggest that anyone who is worried about the dollar concentrate on the correction of those tendencies in our economic and political life which have brought us a deficit of several billion dollars in our Federal budget, at a time when taxes are high and production, employment, and income are near record levels. I suggest, that going beyond the immediate situation, they address themselves to the difficult problem of the size of the budget, whether in deficit or surplus or balance. At some point the mere size of the budget, in relation to national product, can destroy incentives throughout the whole community, a dilemma which is even now forcing curtailment of Government expenditures by the Labor government in Great Britain. These are problems gold coin convertibility cannot solve under present economic and social conditions. Gold has a useful purpose to serve, chiefly as a medium for balancing international accounts among nations and as a guide to necessary disciplines in international trade and finance. It has no useful purpose to serve in the pockets or hoards of the people. To expose our gold reserves to the drains of speculative and hoarding demands at home and abroad strikes me as both unwise and improvident.

Perhaps before I let go of this subject, which has held me and you overlong, I should say a word about merely raising the price of gold, without doing anything about a free gold market or gold coin convertibility of the currency. This is something which has intrigued Europeans and others who are "short of dollars," has interested some of our own people, and has become a South African war cry. An increase in the price the United States pays for gold would have two major results. It would provide the gold producing countries (and domestic producers), and the countries which have sizable gold reserves or private hoards, with additional windfall dollars with which to purchase American goods. And it would provide the basis for a manifold expansion of credit in this country which might be highly inflationary.

We have been engaged in an unprecedented program of foreign aid for the past four years. The Congress has authorized this aid at such times and in such amounts as were deemed to be in the interest of the United States. This is much to be preferred, I suggest, to the haphazard aid which would be granted by an increase in the price of gold, which must be on the basis of a more or less accidental distribution of existing gold stocks and gold producing capacity. If we raised the price of gold, every country which holds gold would automatically receive an increase in the number of dollars available to it. The largest increases would go to the largest holders which are the Soviet Union, Switzerland and the United Kingdom. Every country which produces gold would automatically receive an annual increase in its dollar supply, and its gold mining industry would be stimulated to greater productive effort. The largest increases would go to the largest producers which are South Africa, Canada, and probably the Soviet Union. That would be an indiscriminate way to extend our aid to foreign countries, both as to direction and as to timing.

The domestic results of an increase in the price of gold would be no less haphazard. This country, as I have said, is not now suffering from a shortage of money and it has large gold reserves, which could form the basis of an additional money supply if we needed it. An increase in the dollar price of gold would increase the dollar value of our existing gold reserves in direct proportion to the change in price. There would be an immediate "profit" to the Treasury. The "profit" could be spent by Congressional direction or Treasury discretion. This would provide the basis for a multiple expansion of bank credit which, unless offset by appropriate Federal Reserve action, would expose our economy to the threat of an excessive expansion of the domestic money supply. The arbitrary creation of more dollars in this way would certainly be inappropriate under inflationary conditions, and would be an ineffective method of combatting a deflationary situation.

At the moment, also, we should have in mind that there has just been an almost worldwide devaluation of currencies. Using the fixed dollar as a fulcrum, individual foreign countries have taken action designed to improve their competitive position vis-a-vis the United States, and to maintain their competitive position vis-a-vis one another. An increase in the dollar price of gold, which is devaluation of the dollar by another name, would undo the possible benefits of a venture in improved currency relationships which already has its doubtful aspects.

For all of these reasons it is encouraging to know that the Secretary of the Treasury has recently reiterated that the gold policy of the United States is directed primarily toward maintaining a stable relationship between gold and the dollar, and that for all practical purposes only the Congress can change that relationship. We have maintained an international gold bullion standard by buying and selling gold freely at a fixed price of $35 a fine ounce in transactions with foreign governments and central banks for all legitimate monetary purposes. This has been one fixed point in a world of shifting gold and currency relationships. We should keep it that way as another contribution to international recovery and domestic stability.

This whole discussion of gold has been a long wind-up for what may now seem to you like a small pitch. I want to end my remarks with a few words about the Federal Reserve System and the relations of your organization and you, as bankers and citizens, with that System.

In my gold discussion I tried to emphasize what seems to me to be a fundamental proposition in the case of a country with the domestic and international strength of the United States. We can't have, or we don't want, both an automatic gold coin standard and discretionary control of the reserve base by a monetary authority. The existence of two independent and frequently incompatible types of control over the reserves of our banking system is undesirable. In the light of that finding we abandoned the gold coin standard as a control over the domestic money supply, and placed our reliance in monetary management by the Federal Reserve System. I think it has become established American policy that a principal means of Government intervention in the economic processes of the country is the administration of broad credit powers by the System. In this way a pervasive influence may be brought to bear on our economy, without intrusion upon specific transactions between individuals, which is likely to be the consequence of more detailed physical controls, and which would spell the end of democratic capitalism as we have known it.

I have thought it reasonable to assume that the public in general, and bankers in particular, clearly recognized the special place of the System in our economy. The fact that the development of a national monetary and credit policy is the responsibility of the Federal Reserve System should fix its place beyond question. This is not a function which can be split up and passed around. Many of the activities of other Government agencies engaged in making or guaranteeing loans, or conducting bank examinations, or insuring bank deposits, have a bearing on the way monetary policy works, but monetary policy, as such, is one and indivisible. It is only the supervisory and service functions performed by the Federal Reserve System which are comparable to the operations of these other Government agencies. The distribution of these incidental duties among such agencies can be largely determined by administrative convenience, historical precedent, and economy of operation, so long as there are arrangements for consultation to avoid unnecessary differences in policy and practice. But overall responsibility for holding the reserves of the banking system, and influencing the creation of credit by varying the cost and availability of those reserves, can only reside in the one agency designated by Congress as the national monetary authority. The Federal Reserve System is not just one of a number of Federal agencies having to do with banking. Its duties and responsibilities are unique; they range over the whole of our economy and touch the lives of all our people.

I was somewhat dismayed, therefore, by recent reports that the American Bankers Association seemed to hold a different or opposite view. It is reported to have recommended to the Congress the maintenance of parity of compensation of the three Federal bank supervisory agencies (Board of Governors of the Federal Reserve System, Board of Directors of the Federal Deposit Insurance Corporation, and the Comptroller of the Currency), on the theory of equal pay for equal work; equal pay for sharing equally heavy responsibilities. I mean no disrespect of the Office of the Comptroller of the Currency, nor of the Federal Deposit Insurance Corporation, when I say there is and can be no such equality of responsibility. The bank supervisory duties of the Federal Reserve System are a distinctly minor part of its work. There is no desire to increase or add to those duties against the wishes of the banks or the best interests of the public. To represent the Federal Reserve System as just another bank supervisory agency, in the name of maintaining proper checks and balances in Federal bank supervision, seems to me to miss, and to misrepresent, the main reason for our being.

I mention this small but significant item first, because it cuts across the whole concept of the Federal Reserve System and, therefore, cuts across the whole range of our relationships with you. There are other points of apparent difference where we seem to be at odds, or not pulling together effectively, because of mistrust, or lack of proper consultation, or inadequate study of the broad aspects of the questions with which we are mutually concerned. I shall touch on a few of them.

Concentration of Power—The picture of a Federal Reserve System trying to arrogate power to itself, which at times you have painted, obscures the real picture. The real picture would show a Federal Reserve System trying hard to keep its powers in working order so that it can discharge its responsibilities as a monetary authority, with a measure of independence from the pressures of partisan political aims and the exigencies of managing a Federal debt which totals about $255 billion and, unfortunately, is growing. To lump the Federal Reserve System with the other bank supervisory agencies at Washington, and to play one against the other, is not an attack on the real concentration of power; it is giving aid and comfort to those who would seize upon the failure of monetary and credit controls as a pretext for fastening more direct controls upon our economy.

Organization of the Federal Reserve System—I have been at one with many of you in my opposition to undue centralization of control of the Federal Reserve System by the Board of Governors at Washington. In testimony before Congressional committees and in public statements, I have affirmed my belief that we can have in the Federal Reserve System a wise blend of national authority and regional responsibility, of Government control and private participation. I think we shall do well to retain and to improve the regional characteristics of the System, both in matters of decentralized operation and, more important, in matters of national credit policy. I should like to see the bankers of the country, and this organization of bankers, give some more thought to this problem, and I should like them to offer some constructive suggestions concerning it. The climate may be right for its calm consideration.

Reserve Requirements—The Federal Reserve System is charged with the responsibility of formulating and administering national credit policy. It does this chiefly through its influence upon the cost and availability of bank reserves. This is a proper exercise of Federal power, and its point of incidence is upon the commercial banks of the country because only they, among all of our financial institutions, have the ability to add to or subtract from the money supply of the nation. I question whether there is good and sufficient reason for exempting any commercial banks from a minimum participation in this national undertaking. It only requires a moderately sharp pencil and a grammar school knowledge of arithmetic to figure out how you can save money by not being a member of the Federal Reserve System, as things now stand. But I don't think this country really likes "free riders," and nonmember banks, in that sense, are "free riders." I know the objections to compulsory membership in the Federal Reserve System, I recognize some of its dangers, and I think it is probably politically impossible. But it should not be beyond our ingenuity to devise appropriate powers of fixing reserve requirements, to be exercised within statutory limits by an appropriate body within the Federal Reserve System; reserve requirements which would be adequate for our national purpose, and which would apply to member and nonmember banks alike.

Here is another instance, I believe, where your theory of checks and balances, runs the danger of being all check and no balance. And let it be clear that this is no attack on the dual banking system. State member banks have lived within the Federal Reserve System for years, and submitted to its reserve requirements, without loss of identity. We welcome this continued relationship. Nor am I frightened by the existence of a fringe of nonmembers, and the ability of state banks to move from one group to the other. A mass exodus of state member banks from the Federal Reserve System seems to me to be so unlikely as to be outside the range of practical consideration. But I do think that all commercial banks have a common obligation and a common responsibility in this matter of reserve requirements, and that they should assume the obligation and share the responsibility.

Correspondent Bank Relationships—Somehow there has grown up a feeling in some places that we in the Federal Reserve System are out to undermine the network of correspondent bank relationships which you have built up over the years. Every time we suggest some change in the method of assessing reserve requirements, or make some minor improvement in our check collection system, or in our methods of providing coin and currency, or in some other detail of our operations, the question seems to be raised. I can assure you that these things are suggested or done in an effort to improve the efficiency and economy of our operations in terms of the whole banking system, the business community, and the general public. There is no hidden purpose. We recognize that there are some things which correspondent banks can do better than we can, and we are glad to have them perform these services. At the same time we would caution them against competition in providing services which really do not pay their way, and remind them that there are some things which, perhaps, the Federal Reserve System can do better than they. Surely here is an area, if our motives be reasonably pure on both sides, where there is no need for friction between us.

Selective Credit Controls—We have differed on the matter of selective credit controls or, more specifically, on the matter of control of consumer installment credit. I have advocated the continuance of the control which the Federal Reserve System exercised, briefly, over consumer installment credit. I would be concerned over the dangers of any further significant extension of selective controls, whether over the credit used in commodity markets, in real estate transactions, in inventory financing, or in other forms of business lending. Requests for further powers should meet two tests—is the power really needed and will its use still leave an effectively functioning private economy? I have argued and still believe that control of consumer installment credit meets these tests. Your official position has been opposed to this view. I would ask you, however, whether you are happy about the way things are now going in this field of finance. I am not. I suggest that we might sit down together and re-examine the problem to our mutual advantage and to the advantage of the public which we both serve.

These are some of the matters which I think deserve your constructive attention. A negative approach has been and will continue to be effective in stopping the passage of individual pieces of legislation, which you happen to dislike, but it won't check the progress of the idea of Government controls and intervention, if you have little constructive to offer in the face of difficult economic problems. Over the years you will win a lot of battles but you will lose the war.

I recognize and share your dislike for Government controls and your distrust of too much centralized power. But I recognize, as I think you must, that a certain amount of Government intervention is necessary to the preservation of our political and economic system. The central problem in our country, and in all countries but Russia and its satellites, is how far such Government guidance and control can go without destroying the effective functioning of a private economy. In this country, with our traditions of individual enterprise, we have preferred to keep such guidance to a practicable minimum, and to have it exercised largely through broad and impersonal controls—controls which affect the general environment. One cornerstone of such a philosophy is a competent and adequately powered monetary authority which can administer an effective monetary policy. In making monetary policy work to the limit of its capacity, we have one of the best defenses against control by Government intrusion in our personal and private affairs.

That is why I should like to see the American Bankers Association adopt an affirmative, constructive attitude toward the Federal Reserve System. If you don't like it, as it stands, put some real time and effort into the study of ways to improve it—its personnel, its powers, its organization, its functioning. In such an undertaking you will have the cooperation of all of us who are devoting our lives and our energies to what we believe to be a worthwhile public service. In the struggle of ideas and ideals which now divides the world this is a minor front. But it is a fighting front. It is no place for a neutral.

Review of Business, Industrial, Agricultural and Financial Conditions

DISTRICT SUMMARY

Sales at department stores in the Eleventh District increased by more than the usual seasonal amount from September to October. The decrease in sales from those in the corresponding month of 1948 was narrowed to 3 percent, as compared with a year-to-year decrease of 6 percent for the first 10 months of 1949. Contributing to the better year-ago comparison during October was the continued strong demand for major household appliances and other durable goods, a development which contrasts with the decreased demand that occurred in October 1948. Furniture store sales also increased from September to October and were 16 percent larger than the relatively low level of sales in October last year. In recent months credit sales have increased more than total sales, and the volume of receivables outstanding has risen considerably. At the same time, there has been some slowing down in the rate of collections.

The daily average production of crude petroleum increased further during October and November and at mid-November was 400,000 barrels above the year's low level reached in July. Reflecting the smaller than anticipated demand for refined products, particularly fuel oils, and some increase in crude oil imports, production allowables in Texas for December have been cut back by 218,000 barrels daily, or by more than half of the rise from August to November. The value of construction contracts awarded during October was moderately larger than in either September this year or October last year. Of major importance were the continued large awards for residential construction, which in October were more than double the total for the corresponding month last year.

The open weather prevailing during most of November enabled farmers to make rapid progress with the harvesting of crops and with other farm operations. Estimated production of most major crops as of November 1 was either above or remained unchanged at the October 1 level. Per acre yields of most crops are sharply higher than either those for 1948 or the 10-year average. There is an abundance of range and pasture feeds in virtually all sections of the District. Livestock are going into the winter in good to excellent condition and, in view of the large feed supplies, should winter better than usual.

Reflecting the effects of seasonal factors, the deposits, loans, and investments of weekly reporting member banks in leading cities of the District increased substantially between October 12 and November 9 and on the latter date were sharply higher than a year earlier.

BUSINESS

Spurred by aggressive merchandising, consumer buying at department stores of the Eleventh Federal Reserve District in October came closer to equaling the heavy volume of the same month in 1948 than in any previous month this year. Contributing to this narrowing gap was a moderate decline in October sales last year. Dollar sales of reporting department stores were up 2 percent from September to October and were only 3 percent less than in October 1948, as compared with a year-to-year decline of 9 percent in September and an average decline of 6 percent for the first 10 months of this year. The adjusted sales index, which makes allowances for normal seasonal influences as well as for variations in the number of trading days, rose from 378 in September to 398 in October to reach the highest level in 12 months. The District sales picture was considerably more favorable than that for the Nation, which was more severely influenced by the steel and coal strikes. Houston was the only city in this District to be affected noticeably by the strikes, but the visible effect on trade in that city was relatively small.

The improvement in October sales was due largely to the strong showing made by consumer durable goods. Major appliance sales showed a substantial increase over year-earlier levels for the fourth successive month, with October sales 49 percent higher than in the same month a year ago. Sales of major appliances in October last year, it will be recalled, slumped markedly following the large volume in the previous August and September prior to the reimposition of Regulation W, and this development foreshadowed the general weakening in department store sales which was to develop in the ensuing months. Sales of silverware and jewelry, which have been generally good this year, were up 14 percent in October as compared with a year ago; while sales of radios and phonographs, which have been running consistently below last year's levels, were more than one-third greater than in the corresponding month of 1948. Men's clothing sales also showed a noticeable gain. On the other hand, sales of women's and misses' coats, suits, dresses, and ready-to-wear accessories continued to be disappointing.

The rising trend in the proportion of credit-to-total sales of department stores which has been evident in the past 4 years has given no indication of slackening in recent months, despite the fact that the proportion of credit sales appears to be approaching prewar levels. In October, credit sales constituted 69 percent of total sales. Although this proportion is 2 points lower than in September, a decline at this time of year is typical and, compared to the same month in previous years, the credit-to-total sales ratio is the highest for any October since collection of the data began in 1941. This increase has been reflected in the rise in instalment accounts outstanding and a slowing in collections on these accounts. The instalment accounts outstanding at the end of October were the highest on record—7 percent higher than on the same date of the previous year. Meanwhile, the ratio of collections to instalment accounts outstanding was only 16 percent, the same as the postwar low reached in September.

Department store stocks showed an increase in October for the third successive month. A rise in stocks in preparation for Christmas sales is a normal development at this season. It should be noted, however, that the increases of 8 percent in October and of 5 percent in September were greater than seasonal. Moreover, stocks in relation to year-earlier levels showed only a 7-percent decline in October, the lowest year-to-year decline since last April. The 15-percent decline in orders outstanding as compared with year-earlier levels was 3 percentage points higher than in September but was substantially lower than in any other of the past 13 months. It would appear that although merchants are still following a conservative inventory policy, they are somewhat more optimistic regarding future sales. In this connection, it is worth noting that business inventories on a national basis showed an increase in September, after having declined steadily for 10 consecutive months. This increase was concentrated in retail and wholesale trade, since manufacturers' inventories continued to decline.

Furniture store sales rose moderately in October, after having failed in the previous 2 months to show the upturn which usually begins in late summer. Sales were 11 percent higher than in September and 16 percent higher than the depressed October 1948 level which followed heavy sales in August and September of that year. While the fall upturn was late in coming, furniture stores sales, after a winter and early spring slump, have been running at high levels in this District. The boom in residential construction, the veterans' insurance refund, and the sustained high level of consumer incomes may be expected to lend support to the furniture market during the coming months. Although merchants are continuing to follow a cautious inventory policy, furniture stocks rose moderately in October for the second successive month, after an almost uninterrupted decline since the end of last year.

WHOLESALE AND RETAIL TRADE STATISTICS

	Number of reporting firms	Percentage change in — Net sales — Oct. 1949 from Oct. 1948	Net sales — Oct. 1949 from Sept. 1949	Net sales — 10 mo. 1949 comp. with 10 mo. 1948	Stocks‡ — Oct. 1949 from Oct. 1948	Stocks‡ — Oct. 1949 from Sept. 1949
Retail trade:						
Department stores:						
Total Eleventh District..	48	—3	2	—6	—7	8
Corpus Christi....... ..	4	24	30	2	10	7
Dallas................	7	—6	—3	—7	—5	8
Fort Worth............	4	—5	3	—4	—4	11
Houston...............	7	—12	—7	—8	—12	12
San Antonio...........	5	11	13	—5	—12	7
Shreveport, La.........	3	—1	7	—1	....	....
Other cities...........	18	#	12	—5	—7	5
Furniture stores:						
Total Eleventh District..	48	16	11	....	—11	8
Dallas................	3	116	9	....	—23	5
Houston...............	5	9	—1	....	....	....
Port Arthur...........	4	—7	#	....	—28	19
San Antonio...........	3	7	11	....	....	....
Shreveport, La.........	3	7	34	....	7	13
Wichita Falls..........	6	12	17	....	—2	2
Wholesale trade:*						
Automotive supplies....	7	—31	—36	....	—27	4
Drugs and sundries.....	6	6	—8	5	7	2
Dry goods.............	6	—11	—4	—22	—31	4
Grocery (full-line wholesalers not sponsoring groups)...............	35	—14	—5	—7	—#	9
Hardware..............	8	—9	—3	—15	—5	—1
Industrial supplies......	3	—15	—6	....	—5	—7
Machinery, equip't and supplies except electrical	3	—12	—8	....	....	....
Tobacco products.......	11	—#	1	3	9	9
Wines and liquors.	5	—50	#	....	27	32
Wiring supplies, constr. materials distributors...	4	6	29	....	—22	—5

*Preliminary data. Compiled by United States Bureau of Census.
#Indicates change of less than one-half of 1 percent.
‡Stocks at end of month.

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

Daily average sales—(1935–39=100)

	Unadjusted* October 1949	Unadjusted* Sept. 1949	Unadjusted* August 1949	Unadjusted* October 1948	Adjusted October 1949	Adjusted Sept. 1949	Adjusted August 1949	Adjusted October 1948
Eleventh District.	414	404	333	426r	398	378	366	410r
Dallas...........	372	385	299	397	338	347	352	361
Houston.........	417	451	371	476r	379	421	422	433r

Stocks—(1935–39=100)

	Unadjusted* October 1949	Unadjusted* Sept. 1949	Unadjusted* August 1949	Unadjusted* October 1948	Adjusted October 1949	Adjusted Sept. 1949	Adjusted August 1949	Adjusted October 1948
Eleventh District.	384	367	346	415r	370	359	342	399r

*Unadjusted for seasonal variation. r—Revised.

Accounts receivable of furniture stores in the District showed an increase for the seventh successive month in October and were 18 percent higher than a year ago. Collections were up 6 percent in October but were 2 percent less than in October of last year despite the large increase in accounts receivable.

AGRICULTURE

The generally open weather prevailing during November permitted farmers to make good progress with the harvesting of summer crops and with fall plowing, as well as with the drilling of small grains and winter cover crops. Moisture conditions are adequate over the entire District except in some counties of northwest Texas, where high, dry winds have depleted surface moisture, and open weather is needed in order to harvest the large crops of cotton, rice, grain sorghums, peanuts, sweet potatoes, and vegetables. Larger total crops of corn, cotton, peanuts, and grapefruit than were indicated earlier are shown for the five states of the Eleventh District in the November 1 crop report, but these increases are partly offset by reduced prospects for rice, Irish potatoes, sweet potatoes, and pecans. Per acre yields of most field crops except rice are much higher than last year and at near-record or above-average levels.

The United States cotton crop is estimated at 15,524,000 bales, according to November 1 conditions, an increase of 78,000 bales over the October 1 forecast. This is the largest crop in 12 years and the seventh largest of record. The estimated yield of lint per acre at 287.6 pounds is exceeded only by the high yields of 1944 and 1948. Marked variations, however, are indicated by states. In most states west of the Mississippi River the yields are above average except in Arkansas, Missouri, and New Mexico, while yields east of the River, where weevil damage has been heavy, are generally below average. The United States cotton crop for the current season probably will average lower in grade than for any other crop since 1945, but the average staple will be one of the longest of record. The lower grade this year is attributed to the unusually wet weather which has prevailed over much of the belt during the harvesting season.

TEXAS COTTON PRODUCTION BY CROP REPORTING DISTRICTS

(In thousands of bales—500 lb. gross wt.)

Crop reporting district	1946	1947	1948	Indicated 1949 Oct. 1	Indicated 1949 Nov. 1	1949 as percent of 1948
1-N....................	35	105	115	190	180	157
1-S....................	198	946	558	1,500	1,500	269
2......................	270	494	495	900	955	193
3......................	14	15	22	50	45	205
4......................	482	810	773	1,025	1,050	136
5......................	96	185	226	310	330	146
6......................	99	113	140	190	190	136
7......................	15	32	20	55	65	325
8......................	185	316	280	480	480	171
9......................	46	129	170	190	190	112
10.....................	229	292	351	610	615	175
State..................	1,669	3,437	3,150	5,500	5,600	178

SOURCE: United States Department of Agriculture.

The Texas cotton crop is estimated at 5,600,000 bales, which, if realized, will almost equal the all-time record of 5,628,000 bales ginned in 1926 when harvested acreage was 72 percent above the present level. The lint yield of 261 pounds per harvested acre is the highest since 1894 and compares with 176 pounds last year. Frequent showers over the State during the past 2 months interfered with harvesting operations to a considerable extent and caused damage to quality of open cotton. Some quantity losses resulted from the tropical storm and continued heavy rains in the Upper Coastal counties, but these losses were not significant for the State as a whole. Texas cotton, like that for the Nation, is running lower in grade but longer in staple length than last year. Total ginnings for the season prior to November 1 were reported to be 3,204,000 bales, compared with 2,383,000 bales to the same date last year. Cotton production in other states of the Eleventh District in 1949 is expected to be substantially larger than in 1948 except in Louisiana, where the crop is about 17 percent below last year's harvest because of damage caused by excessive rains and insects.

November 1 estimates of sorghum grain, hay, and potato production in Texas, details of which are given in the table on crop production, are unchanged from the October 1 report. The harvest of late grain sorghums was progressing rapidly in northwest Texas at mid-November, as dry weather lowered the moisture content of grain, and was virtually completed in other areas. Rice production, estimated at 21,714,000 bushels, is down more than 2,000,000 bushels from the October 1 estimate as a result of damage from the tropical storm and subsequent heavy rains during October. The estimated yield of 42 bushels per acre is down 3 bushels from last year and 5 bushels below average. Corn production is turning out better than had been expected, with the result that the 54,824,000 bushel estimate reflects an increase of about 1,500,000 bushels over the October 1 forecast. This places the yield per acre at 22 bushels—about 6 bushels above the 1948 and 10-year average yields. The yield of peanuts, as indicated on November 1, is well above that of a month earlier despite losses in some areas caused by heavy rains. Production is placed at 326,040,000 pounds, which is 25,000,000 pounds above last year's crop. The yield per acre is 570 pounds, or 116 pounds above average. The Texas pecan crop is estimated at 31,500,000 pounds, down 12 percent from the October 1 estimate. The crop this year is only 55 percent of last year's record production, as a result of damage from insects, last winter's freeze, drought, squirrels, and crows, but is above average. Production is very short in southcentral and southeastern areas.

CROP PRODUCTION

(In thousands of bushels)

	Texas			States in Eleventh District*		
	Estimated November 1, 1949	1948	Average 1938–47	Estimated November 1, 1949	1948	Average 1938–47
Winter wheat	105,096	56,290	53,944	200,358‡	159,127‡	125,580‡
Corn	54,824	44,698	67,694	103,655	96,178	119,200
Oats	31,800	14,240	33,977	52,539	35,560	65,418
Barley	2,489	1,891	4,125	10,134‡	10,563‡	12,546‡
Cotton†	5,600	3,150	2,722	7,501	4,844	4,064
All hay⊕	1,467	1,311	1,423	4,857	4,726	4,421
Potatoes, Irish	3,686	4,356	4,419	7,370	8,813	9,978
Potatoes, sweet	5,500	3,250	5,229	13,128#	10,973#	14,484#
Rice	21,714	23,040	16,416	45,714+	46,562+	37,958+

*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.
†In thousands of bales.
‡Arizona, New Mexico, Oklahoma, and Texas.
#Louisiana, Oklahoma, and Texas.
+Louisiana and Texas.
⊕In thousands of tons.
SOURCE: United States Department of Agriculture

The Texas grapefruit crop, estimated at 5,400,000 boxes, showed an improvement during October but is still less than one-fourth of the record crop of 1945-46 because of the damage to citrus groves caused by the freezing weather last winter. The quality of the relatively small crop is reported to be exceptionally good, however. The prospective orange crop is estimated at 1,400,000 boxes, compared with 3,400,000 boxes harvested last year and a record of 5,200,000 boxes in 1947-48. Citrus has been moving from all Lower Valley sections under very favorable harvesting conditions, although the volume of shipments this season is relatively small because of the short crop.

CASH RECEIPTS FROM FARM MARKETINGS

(In thousands of dollars)

	August 1949			August 1948	Cumulative receipts Jan. 1 to Aug. 31	
State	Crops	Livestock	Total	Total	1949	1948
Arizona	$ 3,536	$ 2,370	$ 5,906	$ 6,671	$ 130,338	$ 143,345
Louisiana	8,766	9,743	18,509	34,630	161,283	139,555
New Mexico	4,208	3,324	7,532	5,476	83,600	71,730
Oklahoma	35,360	33,996	69,356	53,385	386,093	385,655
Texas	134,637	65,797	200,434	192,715	1,053,323	1,079,961
Total	$186,507	$115,230	$301,737	$292,877	$1,814,637	$1,820,246

SOURCE: United States Department of Agriculture.

CASH RECEIPTS FROM FARM MARKETINGS

(In thousands of dollars)

	September 1949			September 1948	Cumulative receipts Jan. 1 to Sept. 30	
State	Crops	Livestock	Total	Total	1949	1948
Arizona	$ 7,381	$ 2,288	$ 9,669	$ 8,419	$ 140,007	$ 151,764
Louisiana	32,108	9,138	41,246	55,438	202,529	194,993
New Mexico	5,371	4,706	10,077	10,943	93,677	82,673
Oklahoma	21,173	30,396	51,569	52,862	437,662	438,517
Texas	162,410	62,030	224,440	218,406	1,277,763	1,298,367
Total	$228,443	$108,558	$337,001	$346,068	$2,151,638	$2,166,314

SOURCE: United States Department of Agriculture.

Conditions in the commercial vegetable areas of the District were favorable at mid-November, with harvest of tender vegetables active in all areas. Early planted, hardy vegetables have made good growth. Conditions have been favorable for further active planting of vegetables in all sections, and progress in the nonirrigated Coastal Bend area is more advanced than usual for this period. Production of fall-crop green peppers is estimated at 595,000 bushels—37 percent over last year. The late fall tomato crop in the State is estimated at 1,032,000 bushels, compared with an average-size crop of 700,000 bushels in 1948. Estimates of production of winter beets in Texas indicate a crop of 1,125,000 bushels—nearly one-half larger than last year's crop. The winter spinach crop is forecast at 4,940,000 bushels, or 50 percent more than last season.

Winter range and pasture feed supplies over the District are unusually abundant for this season of the year. Rains over wide areas during October added further to soil moisture reserves. Cured and curing native grass is generally plentiful, and the good moisture supplies along with warm weather are expected to bring winter weeds, rescue grass, and clovers along rapidly. Small grain pasture prospects are excellent except in the western Panhandle counties of Texas. Large hay, grain, and roughage supplies are available, and a bumper grain sorghum crop in the Plains counties was combined or cut for bundle feed. The condition of all range feed in Texas on November 1 was about 10 percent above average for this season of the year.

Cattle and calves are going into the winter in unusually good condition. Because of the abundant feed supplies on the ranges and pastures, most ranchmen and farmers are holding back top heifers for restocking. However, many stocker cattle are being moved into the High Plains counties for wheat grazing. Feeder calves are going to Corn Belt feed lots at above-usual weights. The condition of cattle and calves in Texas on November 1 was 14 percent above a year earlier and 5 percent above average for this time of the year.

Sheep are going into the winter in good flesh. With an abundant supply of cured and curing range feed over the main sheep country, most ranchmen expect to carry stock through the winter with very little supplemental feeding. Demand for ewe lambs, yearlings, and solid mouth ewes continued very strong over the sheep country through October, although lambs have been moving in volume to wheat pastures. Fall lambing started in some Plateau counties of Texas in early November. On November 1 the condition of sheep and lambs in Texas was about 15 percent above a year earlier and 6 percent above average for this date.

LIVESTOCK RECEIPTS

(Number)

	Fort Worth market			San Antonio market		
Class	October 1949	October 1948	September 1949	October 1949	October 1948	September 1949
Cattle	65,417	79,302	52,846	33,281	33,907	25,329
Calves	34,831	40,545	27,002	22,178	31,689	13,934
Hogs	45,008	40,049	33,881	6,577	7,078	6,900
Sheep	43,069	137,004	58,343	33,474	80,956	51,507

TOP LIVESTOCK PRICES

(Dollars per hundredweight)

	Fort Worth market			San Antonio market		
Class	October 1949	October 1948	September 1949	October 1949	October 1948	September 1949
Slaughter steers	$27.00	$31.00	$24.50	$21.50	$26.00	$22.00
Stocker steers	22.25	25.50	21.50	......	......	......
Slaughter cows	17.00	20.00	18.00	17.00	20.50	17.00
Slaughter heifers and yearlings	27.00	31.00	26.00	20.50	26.00	......
Slaughter claves	25.00	26.00	24.50	22.50	26.25	24.00
Stocker calves	24.50	26.50	24.50	23.00	26.00	23.50
Slaughter lambs	23.50	25.00	23.00	22.00	22.50	22.00
Hogs	20.25	27.00	22.50	20.25	26.50	21.50

As a result of seasonal increases in the marketing of cattle and hogs, the combined receipts of livestock at Fort Worth and San Antonio markets during October were 5 percent above those of September, although 37 percent below those of October 1948. In comparison with the previous month, October receipts of cattle and hogs were up 26 percent each and calf receipts were larger by 39 percent. Marketings of sheep and lambs, declining more than seasonally, were down 30 percent. Hog receipts in October were 9 percent above those of the same month last year, but this increase was more than offset by substantially smaller receipts of cattle, calves, and sheep.

The downward trend in the general level of prices received by farmers in Texas continued during the month ended October 15, falling 2 percent below the level of mid-September and 14 percent below the level of October 15, 1948. The 4-point drop in the price index to 258 was the result of sharply lower prices for hogs, sweet potatoes, truck crops, cotton, and cottonseed, which more than offset increases in dairy and poultry products, sheep, lambs, feed grains, and hay. Of the 29 commodities for which prices are currently published, only sheep, wool, eggs, and milk cows averaged higher in price than in October 1948. Reports from central spot commodity markets indicate that from October 15 to mid-November prices of cotton, corn, and oats made some advances, while grain sorghum prices declined sharply and prices of other grains made little change. Hog prices continued to decline seasonally, and prices of cattle and lambs fluctuated within narrow limits.

The Cattle and Lamb Feeding Situation

The cattle feeding situation in the United States at the beginning of November continued to indicate a volume this season as large or larger than last year, according to the Bureau of Agricultural Economics. The heavy movement of feeder cattle into the Corn Belt, where feed supplies are abundant, continued through October, and shipments during the period July-October were 48 percent larger than last year and the highest since records were started in 1940. Cattle feeding in Texas is on a higher level than last year due to the greatly improved feed situation. In the Plains states wheat pastures are supplying abundant grazing, and a strong demand exists for cattle to utilize these pastures. Cattle feeding activity in nearly all of the Western States, however, is expected to be lower than last year.

There are a number of uncertain factors, according to the Bureau of Agricultural Economics, that will have variable effects on the volume of cattle fed and the feeding practices in much of the Corn Belt this season. On the first of November a large number of cattle were "gleaning" corn fields, but subsequent prices for cattle are expected to have considerable influence upon whether the cattle will go directly into feed lots from corn fields or will be carried through the winter to be grain-fed later. The increased proportions of lightweight feeders and calves would indicate some tendency toward long-term feeding. There is also a possibility that some of the cattle will be marketed directly off the corn fields. A larger proportion of the cattle to be fed in the Corn Belt this season are feeder cattle shipped in from the northern plains and northwest states. The feeder movement from the Southwest is expected to be smaller this season than last because the much improved supply of feed from ranges and winter grain pastures is creating a strong local demand for cattle for grazing.

Developments during October continued to point to a smaller number of sheep and lambs to be fed for the coming winter and spring markets. Reduced numbers of available feeder lambs, a result of the smaller lamb crop this year, continued to be the principal reason for reduced lamb feeding. Feed supplies are abundant, and the demand for feeder lambs continues exceptionally strong. A few of the Corn Belt states may feed more lambs than last year, due to a heavy early movement of lambs from the northwest and northern plains states. The demand for feeder lambs for the excellent wheat pastures of Kansas, Oklahoma, and Texas cannot be fulfilled from the range states. The available lambs in Texas are being held to utilize local feed supplies, and the movement from this State to other feeding areas will be smaller than usual. With few exceptions, marked reductions in lamb feeding operations are evident throughout the West. On November 1 a slight increase in lamb feeding in New Mexico appeared likely, although this State has been feeding on a much reduced level since 1944.

Supplies of grain and hay are ample for all lamb feeding except in a few local areas. Lambs are reported coming out of the range states at heavier weights than usual. This fact likely will cause some change in feeding practices this season. If weather conditions continue favorable, a relatively high proportion of the wheat pasture lambs probably will be marketed for slaughter directly from the pastures, rather than being placed in feed lots for further finishing. Considering the heavier weights, the feeding period may be shorter and the movement into slaughter channels earlier than usual.

FINANCE

Reflecting a further increase in loans for commercial, industrial, and agricultural purposes, total loans at selected member banks in leading cities in the District increased from \$1,080,000,000 on October 12 to \$1,121,000,000 on November 9. "All other" loans, a category which includes a substantial amount of loans to consumers, showed a moderate increase of about \$4,700,000, while other types of loans showed modest offsetting decreases.

Commercial, industrial, and agricultural loans at these selected member banks in the District have risen steadily since mid-August and on November 9 amounted to more than \$771,000,000. This increase, spanning a period of about 3 months, reflects a tendency on the part of businesses to increase their purchases to bring inventories up to a level more consistent with the volume of consumer demand and the increase in more or less normal seasonal requirements for credit experienced by business, industry, and agriculture in the District. It will be recalled that during the fourth quarter of last year somewhat more restrictive policies were followed by these banks with regard to credit extensions, and then during the first 7 months of 1949 a declining loan demand resulted in a substantial contraction in the outstanding volume. Consequently, despite the recent 3-month increase in commercial, industrial, and agricultural loans, the volume outstanding on November 9 was approximately \$5,000,000 less than the amount outstanding on the comparable date last year. During the remaining weeks of the current year it is probable that a further increase in this class of loans will occur, reflecting the favorable level of business and consumer demand that is anticipated for the remainder of the quarter.

Total deposits of selected larger banks in leading cities in the District increased by more than \$73,000,000 during the 4-week period ended November 9. Interbank demand deposits increased by more than \$51,000,000 during this period, and demand deposits adjusted rose by \$41,000,000. The shrinkage in time deposits and in United States Government deposits offset about \$19,000,000 of the increase reported in other categories. A further breakdown of figures shows that during the 4-week period demand deposits of individuals, partnerships, and corporations, although following an irregular weekly pattern, rose by about \$9,600,000.

The trend of deposits of all member banks in the District was similar to that reported by the selected larger member banks in leading cities, although this was not true with respect to developments affecting time deposits. Gross demand deposits at the District's member banks averaged daily about $5,279,000,000 during October, as compared with a daily average of about $5,147,000,000 during September. This increase of $132,000,000 was distributed almost equally between the District's Reserve city banks and its country banks. Total time deposits of the District's member banks showed an increase of approximately $4,000,000, with virtually all of the increase being reported by the country banks. It is noteworthy that despite the several months of economic readjustment which have occurred during the past year, gross demand deposits of the District's member banks were about $31,000,000 larger during October of this year, while total time deposits amounted to about $60,000,000 more than the figure reported a year earlier. In other words, the increase in deposits which has occurred during the past 3 months has been more than enough to compensate for the shrinkage during the preceding months of more noticeable readjustment.

Although member banks in leading cities in the District were able to increase their volume of loans by about $40,000,000 during the 4 weeks ended November 9, they were also able to add slightly to their investment portfolios as total investments rose by more than $4,000,000. Contrasting developments, however, appeared within the investment portfolios as holdings of Treasury bills and United States Government bonds declined by approximately $5,000,000 and $5,600,000, respectively, while holdings of Treasury certificates of indebtedness rose by $9,700,000, and investment in all other stocks, bonds, and securities showed an increase of almost $4,900,000.

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

(In thousands of dollars)

Item	Nov. 9; 1949	Nov. 10, 1948	October 12, 1949
Total loans and investments	$2,479,392	$2,309,285	$2,434,535
Total loans—Net‡	1,111,155	1,097,610	1,070,215
Total loans—Gross	1,120,960	1,104,004	1,080,147
Commercial, industrial, and agricultural loans	771,347	776,241r	731,144
Loans to brokers and dealers in securities	5,999	6,299	6,962
Other loans for purchasing or carrying securities	48,503	57,219	50,546
Real-estate loans	88,277	87,348	89,001
Loans to banks	69	346	409
All other loans	206,765	176,551r	202,085
Total investments	1,358,432	1,205,281	1,354,388
U. S. Treasury bills	111,088	45,108	116,009
U. S. Treasury certificates of indebtedness	348,774	232,379	339,043
U. S. Treasury notes	44,001	68,910	44,101
U. S. Government bonds (inc. gtd. obligations)	724,180	738,088	729,742
Other securities	130,389	120,796	125,493
Reserves with Federal Reserve Bank	446,764	273,515	469,377
Balances with domestic banks	311,024	281,427	298,607
Demand deposits—adjusted*	1,946,248	1,934,520	1,942,356
Time deposits except Government	432,331	410,644r	449,795
United States Government deposits	49,263	39,038r	51,026
Interbank demand deposits	665,534	644.447	614,257
Borrowings from Federal Reserve Bank	0	2,000	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.
r—Revised.

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
October 1947	$5,100,591	$541,504	$2,437,292	$337,197	$2,663,299	$204,307
October 1948	5,247,519	592,462	2,506,619	379,873	2,740,900	212,589
June 1949	4,948,074	635,740	2,379,108	413,072	2,568,966	222,668
July 1949	4,977,743	629,655	2,417,780	402,930	2,559,963	226,725
August 1949	5,020,379	635,371	2,443,350	410 782	2 577,029	224,589
September 1949	5,146,942	648,045	2,503.549	421,452	2,643,393	226,593
October 1949	5,278,671	652,043	2,573,396	421,811	2,705,275	230,232

During October bank debits at reporting banks in 24 cities and the annual rate of turnover of deposits showed declines from figures of the comparable month last year but slight increases over the preceding month this year. Bank debits during October were 2 percent above the total reported for September, while the turnover of deposits was at an annual rate of 12.7, as contrasted with 12.6. Cities reporting the largest percentage increases in bank debits during October include Lubbock, El Paso, and Abilene, while the largest cities in the District, Dallas and Houston, reported changes of less than 1 percent and San Antonio and Fort Worth, increases of 4 percent and 7 percent, respectively.

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

(Amounts in thousands of dollars)

City	Debits+ October 1949	Percentage change over Oct. 1948	Percentage change over Sept. 1949	End-of-month deposits* Oct. 31, 1949	Annual rate of turnover Oct. 1949	Oct. 1948	Sept. 1949
Arizona: Tucson	$ 50,834	—16	— #	$ 75,457	8.0	8.6	7.8
Louisiana:							
Monroe	41,896	5	7	43,343	11.6	11.4	10.9
Shreveport	131,192	—21	— 4	164,801	9.5	12.0	10.0
New Mexic .: Roswell	14,735	—12	— 1	18,947	9.7	10.9	10.1
Texas:							
Abilene	38,295	5	22	37,681	12.2	10.3	10.2
Amarillo	99,193	3	9	90,583	13.4	13.8	12.5
Austin	112,395	8	—21	113,921	12.4	12.1	16.2
Beaumont	92,043	—11	1	91,065	12.2	12.6	12.1
Corpus Christi	79,791	6	— 6	78,564	12.1	11.3	12.8
Corsicana	13,028	— 1	—12	20,294	7.8	7.8	9.0
Dallas	1,059,657	— #	#	791,635	16.2	17.5	16.3
El Paso	142,515	6	24	118,707	14.5	14.4	11.9
Fort Worth	331,546	1	7	306,136	13.1	13.8	12.4
Galveston	76,020	11	13	95,266	9.6	8.5	8.5
Houston	1,026,979	—10	— #	930,307	13.3	15.1	13.4
Laredo	14,795	— 7	— 2	20,966	8.5	8.6	8.6
Lubbock	69,919	— 6	27	65,280	13.2	13.7	10.6
Port Arthur	34,367	— 2	1	38,492	10.8	11.0	10.6
San Angelo	33,329	7	11	39,950	10.2	9.6	9.4
San Antonio	257,576	7	4	316,350	9.8	9.1	9.5
Texarkana**	16,165	— 2	13	22,678	8.6	8.6	7.7
Tyler	41,494	1	1	49,956	10.0	9.1	9.8
Waco	51,768	— 8	— 9	70,260	8.9	10.3	10.1
Wichita Falls	55,494	— 7	5	83,379	8.0	8.8	7.8
Total—24 cities	$3,885,026	— 3	2	$3,684,018	12.7	13.4	12.6

#Indicates change of less than one-half of 1 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 $27,508.

SAVINGS DEPOSITS

City	Number of reporting banks	October 31, 1949 Number of savings depositors	October 31, 1949 Amount of savings deposits	Percentage change in savings deposits from October 30, 1948	Sept. 30, 1949
Louisiana:					
Shreveport	3	42,727	$ 25,089,984	0.5	—0.5
Texas:					
Beaumont	3	12,058	6,106,529	— 0.9	—0.3
Dallas.	8	142,438	77,771,072	— 0.1	0.2
El Paso	2	31,722	22,284,651	— 0.3	0.4
Fort Worth	4	43,982	35,484,564	2.8	—0.1
Galveston	4	22,312	21,105,022	— 2.9	—0.8
Houston	8	97,127	74,422,896	2.1	0.5
Lubbock	2	1,828	3,261,454	15.0	1.4
Port Arthur	2	5,872	4,514,476	— 6.3	—0.9
San Antonio	5	40,476	43,621,222	— 3.6	—0.4
Waco	3	9,812	10,085,806	1.9	0.4
Wichita Falls	3	7,623	4,619,582	0.7	0.6
All other	55	64,963	54,766,634	1.6	0.2
Total	102	522,940	$383,133,892	0.4	0.02

Principal changes in the condition of the Federal Reserve Bank of Dallas during the month ended November 15 include an increase of about $27,280,000 in holdings of gold certificates, a slight increase of less than $2,000,000 in total earning assets, but a substantial increase of more than $14,000,000 in Federal Reserve notes in actual circulation. The increase in note circulation is normal for this time of year, although the amount of increase has been somewhat larger than might have been expected. The heavy demand for currency in connection with the harvesting of the District's large agricultural production has been an important factor in recent week in increasing the outstanding amount of notes.

Sales and redemptions of savings bonds in the District during October were $1,230,000 and $1,620,000 less, respectively, than during October of last year, with the result that redemptions were about 127 percent of sales, as compared with 128 percent in October 1948. Sales of savings bonds in the Nation during October also ran somewhat under redemptions, partly due to the increase in the amount of maturing bonds. This question of the maturity of outstanding savings bonds, particularly the Series E issue, in the months and years ahead raises a problem which has been receiving thoughtful consideration by the Treasury. For instance, on September 30, 1949, the amount of Series E bonds outstanding and maturing during the years 1951 through 1954 amounted to approximately $17,100,000,000. The peak of annual maturities of outstanding bonds will be reached in 1954 when some $6,400,000,000 of Series E bonds will mature. The release of these funds at maturity will provide either an increased demand for investment outlets or an increased demand for goods and services, and the Treasury is considering possible means by which reinvestment of these funds by holders of maturing Series E bonds can be made not only attractive but simple and virtually automatic. It is believed that no decisions have been reached regarding this problem as yet, but undoubtedly a program will be developed prior to the time when these securities mature in very large quantities.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	Nov. 15, 1949	Nov. 15, 1948	October 15, 1949
Total gold certificate reserves	$701,908	$ 641,528	$674,629
Discounts for member banks	20	2,280	327
Foreign loans on gold	2,926	7,857	3,220
U. S. Government securities	769,666	1,046,051	767,306
Total earning assets	772,612	1,056,188	770,853
Member bank reserve deposits	793,084	978,391	757,985
Federal Reserve notes in actual circulation	637,414	630,294	623,395

On November 14 the Secretary of the Treasury issued a notice calling the 2 percent Treasury bonds of 1950-52 dated October 19, 1942, for redemption on March 15, 1950. Holders of these bonds may have the privilege of exchanging their holdings in all or in part for other interest-bearing obligations of the United States. Any exchange privilege will be announced in advance of the redemption date.

NEW PAR BANK

The Citizens State Bank, Sweeny, Texas, a newly organized, nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the par list on its opening date, November 22, 1949. This bank, a member of the Federal Deposit Insurance Corporation, has capital of $50,000, surplus of $15,000, and undivided profits of $10,000. Mr. M. M. Galloway is President, and Mr. Cecil Bird is Vice President and Cashier.

The Bureau of the Budget on November 1 released revised estimates covering the budget for the fiscal year 1950. In January of this year, when the original budget estimates were released, it was expected that a budgetary deficit of about $900,000,000 would prevail. Now, however, according to the latest figures of the Bureau of the Budget, it appears that the net budgetary deficit for the fiscal year 1950 will amount to about $5,500,000,000. An increase in expenditures and a downward revision in receipts account for the changed estimate. Among the major items for which expenditures are proving larger than was anticipated are R.F.C. mortgage purchases, revised upward by $1,100,000,000; Commodity Credit Corporation operations, increased by $800,000,000; and expenditures for veterans, revised upward by $1,300,000,000. On the receipt side of the picture, the decline in prices, money incomes, and corporation profits since the end of last year has resulted in lower tax receipts and has led to a forecast of a decline of $3,000,000,000 in total receipts. Despite the substantial budgetary deficit facing the Treasury, however, it is unlikely that the Government will need to undertake deficit financing to meet its expenditures until the second quarter of 1950. The present Treasury balance in the general fund, together with anticipated receipts from taxes and net sales of Treasury tax notes and United States savings bonds, should provide the Treasury with adequate funds to carry it through the first quarter of 1950. After that time, it probably will be necessary for the Treasury to enter the market for new money.

INDUSTRY

The improvement in business conditions which commenced last summer has continued to be reflected in the Eleventh District in the construction, cement, lumber, cotton textile, and cottonseed products industries. While the increase in petroleum production continued through November, a prospective reduction in December, largely due to less-than-expected demand for fuel oil, will erase about half of the gain made since last July.

Crude petroleum production in the Eleventh District increased by 100,000 barrels daily or 5 percent in October and at mid-November amounted to 2,452,000 barrels daily, which was 140,000 barrels daily higher than in October and 400,000 barrels daily above the low point of the year reached in July. The increase in this District has accounted for most of the increase for the country as a whole. In recent weeks the increase in the demand for refined products has not kept pace with the rise in crude oil production, largely because of unseasonable temperatures. The weather in the oil burning areas of the country has been even warmer than last year and, marketwise, the industry is in a less favorable position than it was a year ago. During the first 2½ months of the heating season, beginning with the first of September, the weather in 18 important cities averaged nearly 15 percent warmer in terms of degree-days than in the corresponding period last year. The weather turned colder during the first half of November but not sufficiently to change significantly—as yet—the heating oil requirements picture. As a result of the changed demand situation, Texas allowable production for December was reduced 218,357 barrels per day as compared to the November rate, or more than half the net gain during the 4 months of August to November. The increase of crude oil imports this fall and winter appears to be following the same general seasonal pattern as last year, as additional supplies are being brought in to meet an estimated seasonal rise in domestic requirements. Since imports cannot be changed quickly, most of the adjustment of supply to demand has taken place in the form of changes in domestic production. These latter changes largely center in Texas output, since few other states control enough production to be able to affect the national total appreciably.

As a result of the current weak position of the fuel oil market, price weaknesses have developed on both the East and Gulf Coasts. The recent slowing of distillate oil sales has had a greater effect on the market at this time than it would have had at most any other season of the year. Since primary storage has been filled, in large part, in anticipation of normal heavy winter demand, suppliers may be caught without space for in-transit cargoes. A survey by the Department of Commerce in early October indicates that tanks of consumers, as well as of jobbers, were relatively near full.

The total stocks of crude oil and its four main products—gasoline, kerosene, gas and distillate fuel oil, and residual fuel oil—declined in the District by 3,000,000 barrels or 2 percent during October but increased fractionally in the Nation. Such stocks were 1 percent higher than a year earlier in the District and 10 percent higher in the Nation. Fuel oil stocks increased seasonally during October, while gasoline stocks reached their approximate seasonal low for the year.

CRUDE OIL PRODUCTION
(Barrels)

Area	October 1949		Increase or decrease in daily average production from	
	Total production	Daily average production	October 1948	Sept. 1949
Texas:				
District 1	850,850	27,447	— 1,032	332
2	3,968,650	128,021	— 51,634	5,851
3	12,431,450	401,015	—103,066	29,785
4	6,122,600	197,503	— 56,640	8,738
5	1,104,650	35,634	— 15,537	1,254
6	7,827,350	252,495	— 49,399	9,140
Other 6	2,815,650	90,827	— 30,979	7,727
7b	1,954,650	63,053	5,551	1,878
7c	1,605,650	51,795	4,030	1,910
8	18,111,150	584,231	—144,372	23,193
9	4,324,450	139,498	— 2,847	— 597
10	2,855,750	92,121	3,682	— 464
Total Texas	63,972,850	2,063,640	—442,243	88,747
New Mexico	3,881,250	125,202	— 7,854	2,782
North Louisiana	3,802,450	122,660	9,423	8,708
Total Eleventh District	71,656,550	2,311,502	—440,674	100,237
Outside Eleventh District	84,534,100	2,726,906	— 94,486	83,903
United States	156,190,650	5,038,408	—535,160	184,140

SOURCE: Estimated from American Petroleum Institute weekly reports.

Drilling activity as measured by well completions was at a high level during the July-September quarter. In the Eleventh District 4,035 wells were completed, as compared to 3,626 during the same quarter of last year. The 9-month total of 11,390 wells completed in the District exceeds by 14 percent the figure of 10,021 for the corresponding period of 1948. Thus, the 1949 total is likely to exceed the 14,036 of last year, although the 1937 record of 15,620 may not be equaled. In the Nation, 9,679 wells were completed during the third quarter of 1949, or somewhat less than the 9,711 completed during the same quarter of 1948. However, the total for the first 9 months of 1949 amounted to 27,233, or 3 percent more than the 26,396 for the same period in 1948.

BUILDING PERMITS

City	October 1949		Percentage change — valuation from —		Jan. 1 to Oct. 31, 1949		Percentage change valuation from 1948
	Number	Valuation	October 1948	Sept. 1949	Number	Valuation	
Louisiana:							
Shreveport	277	$ 1,598,749	125	— 4	3,477	$ 19,673,822	— 23
Texas:							
Abilene	111	522,744	6	36	1;103	5,491,790	21
Amarillo	254	1,399,906	52	— 35	2,721	14,255,614	50
Austin	233	2,300,321	75	— 3	2,426	19,012,238	— 5
Beaumont	391	1,134,669	78	84	3,565	8,390,974	3
Corpus Christi	237	692,008	— 34	— 32	2,844	12,670,243	— 10
Dallas	1,469	4,953,248	— 3	— 18	14,367	61,926,521	— 19
El Paso	343	2,650,230	12	43	2,861	11,262,439	9
Fort Worth	705	1,929,186	— 14	— 42	6,595	23,405,525	— 3
Galveston	160	302,761	58	44	1,601	8,072,114	141
Houston	512	10,867,234	48	178	6,111	73,150,659	— 14
Lubbock	241	1,245,183	159	28	2,065	9,622,237	— 20
Port Arthur	204	230,736	10	— 49	1,741	3,490,404	27
San Antonio	1,508	3,739,634	61	15	12,176	28,798,233	— 4
Waco	222	1,086,839	52	— 10	1,730	9,305,702	— 10
Wichita Falls	129	310,231	69	— 67	948	4,573,291	35
Total	6,996	$34,963,679	33	7	66,331	$313,101,806	— 8

The most significant development in the construction situation in the Eleventh District during October was the continuance of a large volume of construction contract awards for residential building at a time when seasonal contraction ordinarily occurs. The volume of residential awards amounted to about $36,000,000, or more than double those of October 1948 and 2 percent more than the high volume of such awards during September of this year. Residential awards accounted for 53 percent of the total awards for October, with large apartment houses and low-cost housing projects in the major cities of the District continuing to account for a large part of such awards. During the 5 months, June through October, residential awards totaled 63 percent more than during the corresponding period of 1948. Since 1949 had lagged considerably behind 1948 during the first 5 months of the year, the total for the first 10 months of 1949 is only 13 percent more than that for the same period of 1948.

Nonresidential awards during October were 25 percent lower than in October 1948, although 17 percent higher than in September of this year. However, the rise of residential awards lifted total awards to 14 percent above the year-earlier level. Total awards for the first 10 months of this year were 3 percent less than during the same period last year.

VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

	October 1949	October 1948	September 1949	January 1 to October 31 1949	January 1 to October 31 1948
Eleventh District—total	$ 67,422	$ 59,123	$ 62,088	$ 622,989	$ 645,464
Residential	36,010	17,148	35,298	240,514	212,663
All other	31,412	41,975	26,790	382,475	432,801
United States*—total	1,061,751	778,606	1,071,674	8,455,659	8,124,379
Residential	500,702	296,760	503,522	3,368,300	3,087,236
All other	561,049	481,846	568,152	5,087,359	5,037,143

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

The upsurge of residential building in the District which commenced in June has been merely a part of a development occurring rather generally throughout the country. The relatively liberal terms of FHA and GI loans, particularly on low-cost housing, and the increasing practice of selling houses on small or deferred down payments, have proved quite stimulating. In part in response to increased availability of mortgage money for insured risks, the volume of FHA insured loans has increased since last spring and seems likely to exceed the 1948 all-time high. Loans guaranteed by the Veterans Administration have also increased since last spring. The emphasis on low-cost housing and on purchase terms within the means of middle- and low-income groups has partially opened up a segment of the housing market potentially several times as large as the market for higher priced homes.

The resurgence of the construction boom has been felt in the construction materials industries. Lumber inventories have been drawn down and lumber prices strengthened. More the result of the steel strike but reflecting also the high level of construction activity is some scarcity of such materials as structural steel, sheet metal, and nails. The ending of the steel strike did not result in any immediate easing of the supply situation for these items, since both fabrication and shipment must take place before such materials reach the construction industry.

The cement industry has been stimulated, particularly by the increase of highway and other public construction. Texas cement plants have shown greater increases in production and shipments in recent months than have the plants of the Nation.

DOMESTIC CONSUMPTION AND STOCKS OF COTTON

(Bales)

	October 1949	October 1948	September 1949	August 1 to October 31 This season	August 1 to October 31 Last season
Consumption at:					
Texas mills	13,574	12,007	12,898	38,709	39,406
United States mills	725,602	696,505	709,958	2,099,693	2,164,162
U. S. Stocks—end of month:					
In consuming establishments	1,130,457	1,468,218	744,602	....	....
Public storage and compresses	8,365,778	7,331,803	6,136,997	....	....

The cotton textile industry in both Texas and the Nation continued during October the rise in activity which commenced in August. Since many mills are booked well into 1950, further gradual improvement is likely. During the first 3 months of the 1949-50 season, cotton consumption in both Texas and the Nation was slightly less than during the corresponding period of the 1948-49 season.