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FARM LEASES—AN IMPORTANT FACTOR IN EXPANDING LIVESTOCK PRODUCTION

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The terms of most farm leases encourage misuse of the land and are not conducive to the building of a satisfactory livestock program. Such deterrents to agricultural progress always are undesirable but now take on added significance in view of the present international situation, which intensifies the need for a balanced crop program and a larger output of livestock products.

Events in Korea and the decision of this country to step up its defense and preparedness program have given rise to a new set of conditions within which the outlook for agriculture, as well as other parts of the economy, must be considered. Whereas only a few months ago our economy appeared to be threatened with surpluses and probable price declines of moderate proportions, now we find the threat of surpluses has given way to the possibility of shortages of some types of goods, while most economic indicators point toward a general upward price trend. In agriculture, instead of restricted acreages and perhaps lower support prices, higher production goals and price ceilings are a possibility. The extent or magnitude of these recent changes and their ultimate effect on agriculture cannot now be determined or even forecast accurately. It is clear, however, that the national defense budget and total budget expenditures will be higher in the next few years than in recent years, that inflationary rather than deflationary pressures are likely to prevail, and that a relatively high demand for food and fiber will continue.

Within this framework of changed economic conditions and outlook, agriculture must make its contribution to the national defense effort by providing the needed supplies of food and fiber. Farmers of the Nation have proved their ability to produce enormous quantities of food, having increased output about 40 percent during World War II and having met the high domestic and export demand for nearly all farm products in recent years. This record was accomplished, however, with the aid of nearly 10 years of extremely favorable weather; in addition, considerable cropland, idle at the beginning of the period, was put under cultivation. Moreover, the higher production was obtained at a sacrifice of soil fertility as maximum acreage was seeded to soil-depleting crops, such as wheat, oilseeds, corn, and other feed crops.

It is essential, especially in view of existing conditions and outlook, that agriculture place itself in a position to produce at levels needed to meet a high civilian and increased military demand for food and fibers. This may involve shifting land and other resources from the production of commodities temporarily in excess supply to those in short supply or, if necessary, an increase in output to meet the needs of an all-out war effort. Either task requires the development of a long-range program—for agriculture as a whole and for individual farms—designed, first, to provide that balance between soil fertility "deposits" and "withdrawals" which will maintain or increase per acre crop yields and, second, to produce the maximum output of meat, milk, and other livestock products so essential in maintaining the stamina and morale of fighting forces and the health of the Nation.

These objectives require that individual farm operations be planned for more than 1 year. Crop rotations and the use of legumes and grasses, so necessary in a well-balanced cropping program to maintain soil fertility, require time and careful planning. Increased livestock production requires several years to build breeding herds and achieve maximum production.

The importance of livestock production and the need for its expansion to meet the requirements of the next decade—especially if total mobilization should become necessary—are illustrated by the magnitude of military procurements of food during World War II. Annual military purchases during the war years averaged 4,000,000,000 pounds of meat, 14,123,000,000 pounds of milk and milk products, and nearly 600,000,000 dozen eggs—17 percent, 12 percent, and 13 percent, respectively, of total production. The problem of ways and means of increasing livestock production on a more efficient basis is especially significant to the Southwest—a major livestock producing area.

Livestock Production and Farm Leases

Most farm leases in use on the 40 percent of farms in the Southwest operated by tenants do not encourage the building of a livestock program. A recent study by the United States Department of Agriculture shows, for instance, that of the farms studied in the Blackland Prairie Area of Texas all farm owners kept some livestock—most of them a substantial number—whereas, more than one-half of the tenant farmers had no livestock except perhaps one or two milk cows which produced milk and cream for the farm family.

Most farm leases, generally based on custom, provide that the landlord shall pay one-fourth of the cost of fertilizer, insecticides, and ginning and shall receive one-fourth of the cotton crop and that the tenant shall furnish all other operating expenses, including labor and machinery, and receive three-fourths of the lint and seed. In the case of other crops, the division is usually on a basis of one-third to the landlord and two-thirds to the tenant. Most leases are verbal and frequently no mention is made of livestock.

From the standpoint of developing a livestock program, there are three major weaknesses in the most common types of leases used in the Southwest. First, no provision is made for sharing the investment, expense, and income involved in livestock production. It is customary for the tenant to own any livestock kept on the farm and for the landlord to give the tenant use of permanent pasture and sufficient feed from the corn or sorghum crop to raise a few chickens and fatten two or three hogs. Such arrangements may be satisfactory if major emphasis is placed on the production of cash crops; but if increased livestock production is anticipated or essential, the landlord and tenant should share in the livestock program.

Second, farm leases are usually on an annual basis and tenants frequently move to a different farm almost every year. Even those who remain on the same farm for several years usually plan their farming operations on a year-to-year basis, since they have no assurance that their lease will be renewed. Under such conditions, the tenant finds it advantageous to obtain the highest possible income from the farm each year, with little or no regard to improving the long-run earning capacity. He has no incentive for making plans a year or more in advance, because he has no assurance of sharing in the benefits of such planning. Consequently, he is encouraged to plant the maximum acreage of annual cash crops which can be sown, harvested, and marketed within one season; very rarely will he develop a 3- or 5-year program, so essential to profitable livestock production.

Third, arrangements are not made to compensate the tenant for contributions to the future income of the farm in the event the lease is terminated before such income is realized. Thus, a tenant who plants a cover crop in the fall receives no benefit from his efforts if his lease is terminated the following spring.

Under such lease arrangements it is virtually impossible to build a satisfactory livestock program. Building a livestock program is a long-run task. The cropping system of the farm must be arranged to include the growing of the most productive hay and pasture crops, such as legumes and grasses—a change that requires more than one season. Furthermore, although the entire beef or dairy herd could be purchased the first year, thereby making possible a full program the first season, in view of the high cost of such animals it is more desirable to buy only the foundation stock and, through the use of high-quality sires, raise replacements and additions until the herd has been built to the desired size. Such a plan not only reduces the financial risk but, equally important, makes it possible for the operator to become intimately familiar with the problems of livestock production before assuming the responsibility of managing a large herd.

Two other factors also make it highly desirable to build a livestock program on a long-term plan. First, maximum returns from the program are not obtained until it has been in operation from 3 to 5 years. During the first 2 or 3 years the increase in stock, that normally would be sold annually, must be retained to build the herd. Moreover, the skills of management and feeding and the quality of the animals usually increase as the operator gains in experience and knowledge. Thus, production per animal usually is greater after the program has been in operation a few years.

Second, livestock production requires a sizable investment in fences, buildings, and equipment, and to charge the cost of this investment to 1, 2, 3, or even 5 years places an undue financial burden upon the operation of the farm. For example, the construction of a Grade A dairy barn which is expected to be useful for perhaps as long as 20 years may cost from $2,000 to $4,000. If the dairy herd is charged with the cost of this barn during the first 5 years of its use, the annual cost would be much higher than if spread over the life of the building. Under very favorable price relationships, returns from the dairy herd might pay the higher annual cost, cover all other expenses, and yield a profit; in other years, however, the price of dairy products might not be high enough to yield a profit under such high costs.

In the case of swine, poultry, and lamb and cattle feeding operations, the length of the period required for the building of a satisfactory program is somewhat shorter. Obviously, the size of cattle feeding operations can fluctuate from year to year. Likewise, a swine program can be expanded and contracted within 18 months to 2 years. Nevertheless, the experience of farmers and ranchers throughout the Nation clearly indicates that benefits from livestock production are greatest for those who enter the business with a long-range plan of operation.

The development of such a program involves the investment of additional capital. The amount depends upon the type of livestock and the size of the operation. In the case of beef cattle, probably no additional buildings will be needed. However, adequate fencing and crossfencing, as well as provisions for a water supply, are essential. Dairy cattle are likely to require some additional buildings or remodeling of present buildings, especially if it is anticipated that the farm will sell Grade A milk. Furthermore, a longer period is required for a turnover of the investment than is the case in cash-crop farming. For example, the investment in a beef or dairy herd may require from 3 to 7 years for turnover, whereas investment for crop production usually is turned over annually.

New management problems—the most important of which is the adjustment of the labor load —are involved in building a livestock program. Livestock require more regular year-round labor, with fewer peak seasons, than crop enterprises. Thus, it is necessary to plan the operation of the farm so that the harvesting of crops and other field work can be accomplished without disrupting care of the livestock. This problem is particularly important in the case of a dairy herd, where labor requirements are very regular and inflexible. The herd must be cared for daily throughout the year, and while the amount of labor required any one day may be relatively light, it must be available every day throughout the year.

Solution of these problems of finance and management requires more careful attention when two parties, such as landlord and tenant, share in the planning and operation of the farm. It becomes necessary to decide how much additional capital the landlord will contribute, which items he should own, and which items should be owned by the tenant. Because of the large capital requirements of farming today, it may be desirable for the landlord to provide most of the capital investment at the beginning of the lease period, with the provision that the tenant will increase his investment as earnings of the farm permit him to accumulate capital. This may be the only way many young men can enter the farming business today.

Farm expenses must be defined. What is an operating expense? What is a capital investment? And what share of each shall the landlord and tenant contribute? The problem of division of income must be settled to the mutual satisfaction of both parties. How will the increase in breeding stock be divided? How will the products be divided? When should settlement be made to the landlord? These are other questions that must be answered.

Basic Considerations in Drawing Up a Farm Lease

In working out the lease arrangements, it is desirable to keep in mind certain fundamental principles. First, both landlord and tenant should share in the investment, risk, and income pertaining to the operation of the farm. If there is a reasonable division of these items, each party will have an incentive to promote and execute the best possible program of operation. As indicated earlier, there may be conditions under which the landlord may furnish most or all of the investment. But in such cases it is desirable for the tenant to assume some of the risk of that investment by giving the landlord a note for a share in the livestock or machinery.

Second, the landlord must be reasonably assured that his investment in land, improvements, and other facilities will be protected against unnecessary loss or damage. Unless such a provision is made, he will be justly reluctant to carry out the necessary improvements and capital investments that may be needed for the most profitable operation of the farm.

Third, the tenant must be given assurance that he will have a fair opportunity to exercise his managerial ability and to use his labor and other investments, such as livestock and machinery, in a profitable manner. Unless he is given this assurance, the tenant is not likely to be interested in developing a long-range program. With this assurance, he will be encouraged to carry out the farm plan to the best of his ability and to participate actively in the planning and building of a more progressive and more profitable operation.

Fourth, any lease should provide for the recovery of contributions made by either party to the future income of the farm in the event the lease is terminated. Thus, the tenant who contributes labor in the planting of a legume crop, spreading of fertilizer, or plowing of fields should be given adequate compensation if the lease is terminated before the benefits of this labor are evident in income to the farm.

Contents of the Lease

A farm lease should be in writing and copies provided for the landlord and tenant. It is also desirable that a copy be filed with a third person or at the courthouse. Such a procedure will help to eliminate misunderstandings as to the terms of the agreement and, also, can serve as a reference for both landlord and tenant regarding the responsibilities and duties pertaining to the farm operations.

In addition to the legal phrases and terminology necessary to make the lease legally binding, there are certain general provisions that should be included in every lease.

Term of Lease

This section should state clearly the period of time to be covered by the lease. It may be so worded that it continues in effect from year to year, unless written notice of termination is given by either party a stated period of time prior to the expiration of the current year. This provision is desirable so that both parties will have an opportunity to make plans well in advance of the next season. Six or more months' notice is necessary to provide adequate time for adjustments and plans for the next year.

Rental Rates and Arrangements

Crops—The general crop rotation to be used should be specified in this part of the lease. It should contain a list of the crops to be grown, the approximate acreage, and the kind and amount of rent to be paid by the tenant—cash rent per acre or a given amount or a share of the crop. If the crop is to be fed to livestock, this condition should also be noted.

Livestock—The general livestock program to be followed (beef cattle, dairy, dairy and poultry, or other) should be indicated. The number of each kind of livestock to be kept, the share to be furnished by each party, and the division to be made of the increase in the herd and of the income from the sale of livestock and livestock products should be stated clearly.

Payment of Rent—This section of the lease should indicate the time, place, and method of paying the rent—whether it is cash or a share of livestock or livestock products. Such a provision may merely indicate that the tenant is to deposit the landlord's share of the receipts from the sale of livestock in a specified bank or that he is to send a check directly to the landlord. This may seem relatively unimportant, but unless the conditions of settlement are clearly understood, misunderstandings are likely.

Operating Expenses

The items that are to be included as operating expenses should be listed and the share to be paid by landlord and tenant indicated clearly. Items usually included in this section are: purchased feed, veterinary fees, supplies, fuel and oil for the tractor, seed, fertilizer, lime, insecticides, and other current operating expenses.

Soil Conservation and Capital Improvements

This section of the lease is particularly important when an extensive soil conservation and improvement program is to be carried out on the farm. It is advisable to set forth the conservation practice, measure, or improvement to be made; the date it should be completed; and the amount of materials, labor, and other expenses to be furnished by the landlord and by the tenant. In addition, it is highly desirable to indicate the money value of the tenant's contribution to each of these practices or improvements, together with the rate of annual depreciation of such contribution. To illustrate, the tenant's contribution to the building of a sodded waterway may be estimated at $100 and the rate of annual depreciation at 10 percent. If these facts are stated in the lease, they provide a basis for compensating the tenant when, and if, the lease is terminated. Thus, if the tenant moves 5 years after the installation of the sodded waterway, the landlord would pay him one-half of the value of his contribution ($50).

This section of the lease should be drawn up annually as a supplement, so that the program may be adjusted each year to fit the needs of the farm and the resources of the tenant and landlord.

Payment for Preparing and Seeding Land

Disagreements will tend to be minimized by stating clearly in this section the payment that will be made to the tenant for preparation or seeding of land. The usual custom is to list the acreage of cropland that has already been plowed or seeded when the tenant moves on the farm. This acreage then can be compared with that at the time the lease is terminated and compensation made for any difference.

Additional Agreements

Certain general provisions pertaining to the duties of the landlord and of the tenant also should be included in the lease. While the items contained in each lease may vary, depending upon the wishes of the tenant and landlord, the following are usually included, either for legal reasons or to prevent misunderstandings:

(1) The terms of the lease can be changed from year to year by mutual agreement.

(2) The lease shall not be deemed to give rise to a partnership relation.

(3) Any differences between the parties under the lease that cannot be settled by thorough discussion shall be submitted for arbitration.

(4) The degree to which the farm will be operated in compliance with government programs.

(5) Method of selling jointly owned livestock.

(6) Method of dividing jointly owned livestock at termination of the lease.

(7) Agreement by the tenant that he will operate the farm in an efficient manner. Furthermore, that he will take reasonable care of the landlord's property and use due care to prevent damage or waste in the operation of the farm.

(8) Agreement by the tenant that he will not lease or sublet any part of the farm or rent additional land without written consent of the landlord and that he will permit the landlord or his agent to enter the farm at any reasonable time for repairs, improvements, and inspection.

(9) Agreement by the landlord that he will keep the dwelling, barns, and other improvements in a good state of repair and that if he sells or otherwise transfers the farm, he will do so subject to the provisions of the lease.

(10) A list of items, such as space for a family garden, feed for a small laying flock, and a certain quantity of milk and other livestock products for the tenant's use, which shall be free of rent.

(11) A provision stating that the terms of the lease shall apply to the heirs, executors, administrators, successors, and other assigns of both landlord and tenant.

Types of Livestock-share Leases

The terms governing the investment in livestock, the costs of operating the business, and the division of income can be arranged in any manner that is agreeable to both landlord and tenant. However, experience has shown that unless such division is on a fair and equitable basis that gives each a return in proportion to his contribution to the farming operation, dissatisfaction is likely to occur, resulting in termination of the lease. It is imperative, then, that the division of income be in proportion to the money, labor, and land contributed. In an attempt to provide assistance in arriving at this fair and equitable arrangement, the United States Department of Agriculture and various state colleges have prepared lease forms containing various types of livestock-share leases. Copies of these forms can be obtained by writing directly to the United States Department of Agriculture, Washington 25, D. C., or to the state agricultural colleges.

There are two general forms of these livestock-share leases. One can be described as the "fifty-fifty livestock-share lease" and the other as the "landlord's half-and-three-fifths livestock-rental agreement."

Fifty-fifty Livestock-share Lease

Under the fifty-fifty livestock-share lease the landlord furnishes the land and buildings, including fences; provides one-half the investment in livestock; and pays one-half of all operating expenses pertaining to the production of crops and livestock. In return for this he receives one-half of the income from the sale of livestock and livestock products, one-half of the increase in breeding stock, and one-half of all crops sold as cash crops.

The tenant furnishes all labor (including hired labor), machinery, power, and equipment necessary to operate the farm properly; provides one-half of the investment in livestock; pays one-half of all operating expenses; and hauls all materials for repairs and improvements to buildings and fences. In return for this contribution, the tenant receives one-half the income from the sale of all livestock, livestock products, and crops, as well as one-half of the increase in breeding stock.

Expenses for such items as lime and fertilizer, which may benefit crop production more than 1 year, should be divided 50-50—the same as current operating expenses—with a provision compensating the tenant if the lease is terminated before the value of these items has been realized. While it is impossible to determine accurately the period of time fertilizer, lime, and other soil-improving materials will influence crop production, 5 years for lime and 3 years for fertilizer (except nitrogen, which generally is used entirely by the first crop) can be used as guides.

When dairy production is a major enterprise on the farm, receipts from the sale of dairy products may be divided 40 percent to the landlord and 60 percent to the tenant. Such a division is sometimes thought to be more equitable than 50-50, since labor, which is furnished by the tenant, represents a higher proportion of total cost in the dairy enterprise than in other livestock production.

Landlord's Half-and-three-fifths Livestock-rental Agreement

This arrangement is designed for use when the landlord furnishes the equipment and livestock, as well as land and improvements. In addition, the landlord pays three-fifths of all operating expenses. In return for this contribution, he receives three-fifths of the income from the sale of livestock and livestock products and from all crops except cotton, of which he receives one-half. The landlord also receives three-fifths of the increase from all livestock.

The tenant furnishes all labor, including hired labor, to operate the farm and pays two-fifths of all operating expenses. In return for this contribution, he receives two-fifths of the income from the sale of livestock and livestock products and of all crops except cotton, of which he receives one-half, and two-fifths of the increase from all livestock.

These two lease arrangements probably represent the most common arrangements when livestock is a major part of the farm program, although variations of these somewhat basic plans should be used if necessary to provide an equitable and fair distribution of income from the farm.

In drawing up the lease, it is desirable to have the assistance of a third party, such as the county agricultural agent or banker, who can give guidance in the arrangement of details. If the parties to the farm operation will sit down together, discuss every phase of the farm operation, and put into writing such agreements as have been discussed above, a major step will have been taken toward making possible the building of a profitable livestock program. Before either landlord or tenant has committed himself to the program, differences of opinion regarding the operation of the farm can be discussed and settled in a friendly atmosphere. Even minor disagreements, if permitted to accumulate or remain unsettled, can lead to deeper misunderstandings, and it may become virtually impossible to settle differences without termination of the lease. Once an unfriendly atmosphere has been created, all points become difficult to settle to the satisfaction of either party. Proper preparation of the lease can prevent many such situations.

Review of Business, Industrial, Agricultural, and Financial Conditions

DISTRICT SUMMARY

During July and into August, business and industrial activity in the Eleventh Federal Reserve District were maintained at very high levels. The total volume of agricultural production promises to be lower this year than in 1949 but, nevertheless, will approximate the average of the past few years. Principal asset and liability accounts of the District's member banks showed substantial increases during the latest full month for which figures are available.

Retail trade as reflected by figures of reporting department stores was much more active throughout July than a year earlier, and although there was a notable decline in the buying splurge during August, weekly sales ran above the comparable weeks of 1949. Heavy buying of durable goods was reflected in a very sharp increase in instalment sales. Collections of receivables outstanding continued to be somewhat less favorable than a year earlier.

Industrial activity in the District was supported by a continuation of the construction boom, more favorable developments in the petroleum industry, and a rise in nonfarm employment in August, possibly to a record level. Residential construction during July was second only to the May 1950 record, while in the Nation July was the best homebuilding month in history. All indications point to further growth in petroleum production during September, as demand continues strong in view of international and domestic requirements. The price situation in the petroleum industry continued strong, while drilling activity was maintained at a high rate. Nonfarm employment should continue to rise throughout the remainder of the year.

Crop production conditions during August were generally favorable, particularly for such commodities as cotton, grain sorghums, peanuts, corn, and rice. As a result of generally available range and pasture feed, livestock are said to be in good condition throughout most of the District.

The demand for bank credit during the 5 weeks ended August 16 was strong at the weekly reporting member banks, with the consequence that loans moved upward sharply. In response to the high level of business activity and the strength of loan demand, deposits of the weekly reporting member banks showed a substantial increase, with demand deposits of individuals and businesses being the principal factor in the advance.

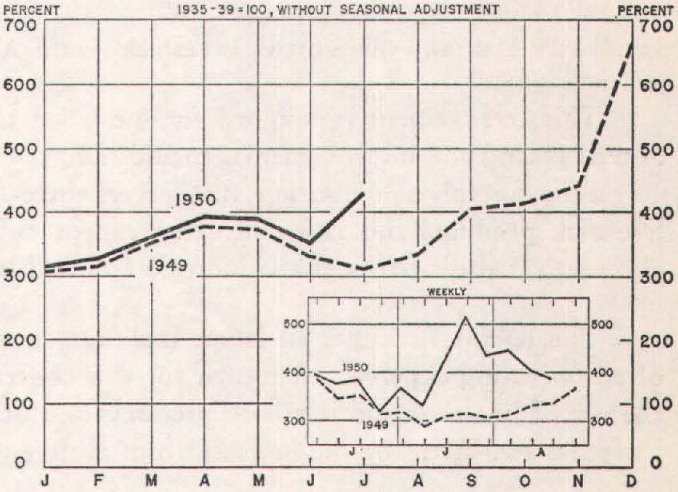
BUSINESS

With war-scare buying declining sharply during August, department store sales in the Eleventh Federal Reserve District have returned more closely to the pattern which prevailed prior to the outbreak of hostilities in Korea. Department store sales in the week ended August 19 were 21 percent above year-earlier levels, as compared with an increase of 24 percent in the preceding week and a 71-percent increase in the week ended July 22, when war-scare buying was at its peak. The latest reported increase over comparable figures of last year compares with year-to-year increases during June ranging from 3 percent to 12 percent.

The drop in war-scare buying undoubtedly reflects a growing confidence of the consumer in the continued availability of supplies. Then too, some consumers with hoarding tendencies have undoubtedly satisfied their desires, while others are unable to continue heavy buying due to a lack of available funds. Moreover, the wearing off of the immediate shock of the Korean war, together with the campaigns of government officials, the press, merchants, and others against hoarding and the threat of legislation penalizing such action, have tended to deter scare buying. Although some buying in advance of actual need may continue, a recurrence of the July hysterical buying splurge is not anticipated.

DEPARTMENT STORE SALES

ELEVENTH FEDERAL RESERVE DISTRICT



District department store sales for July, which is normally one of the poorer selling months, were the highest for any July on record and were higher than in any month since last December, exceeding even the heavy pre-Easter buying. The dollar volume of sales was up 18 percent from June and was 43 percent higher than July a year ago. Department stores in the Nation as a whole showed a July increase of 29 percent over the year-earlier level. Although the larger increase in the District may reflect heavier scare buying, the District has led the Nation in sales during most of the current year.

Some impression of the amount and character of the war-scare buying in July can be obtained from the sales data on individual departments. Sales of major household appliances and of furniture far exceeded previous records, showing gains of 132 percent and 53 percent, respectively, over the high volumes of July a year ago. Moreover, sales of the radio-television department registered a year-to-year increase of 166 percent and the domestic floor-covering department, 65 percent. While the consumer durable goods received the brunt of the scare buying, soft goods items such as hosiery, linens, and sheetings showed sensational increases, with sales of hosiery and linens more than double and sheeting sales more than four times as large as in July of last year.

The heavy buying of durable and specific soft goods, however, did not detract from sales of other department store merchandise; July sales of all major departments were higher than a year ago. Men's clothing sales, which made a favorable showing during the entire first half of the year, increased 12 percent. Moreover, sales of women's and misses' apparel and dresses, which experienced noticeable weakness during the early months of the year, continued the improvement of recent months, rising 8 and 1 percent, respectively, over year-earlier levels. Basement store sales registered an 8-percent gain in July, after having shown year-to-year decreases in each of the first 6 months of this year. Silverware and jewelry sales were up 12 percent over July a year ago.

WHOLESALE TRADE STATISTICS

Eleventh Federal Reserve District

	Percentage change in — Net sales — July 1950 from July 1949	June 1950	7 mo. 1950 comp. with 7 mo. 1949	Stocks‡ — July 1950 from July 1949	June 1950
Lines of Trade:*					
Automotive supplies	105	51	....	—7	—9
Drugs and sundries	12	5	....	1	2
Dry goods	76	87	6	22	3
Grocery (full-line wholesalers not sponsoring groups)	16	15	#	—3	—2
Hardware	52	27	13	1	—7
Industrial supplies	19	12	....	—1	—#
Machinery equipment and supplies except electrical	32	13	....	8	—17
Tobacco products	—1	3	3	13	—8
Wines and liquors	22	17	....	—25	—20
Wiring supplies, construction materials distributors	3	33	—1	14	26

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

RETAIL TRADE STATISTICS

	Percentage change in — Net sales — July 1950 from July 1949	June 1950	7 mo. 1950 comp. with 7 mo. 1949	Stocks** — July 1950 from July 1949	June 1950
Department stores:					
Total Eleventh District	43	18	11	8	—3
Corpus Christi	33	16	11	4	—2
Dallas	42	18	11	2	—2
Fort Worth	42	24	11	13	—6
Houston	43	23	5	8	—4
San Antonio	48	13	16	18	—1
Shreveport, La.	41	16	8	....	....
Other cities	45	16	14	7	—1
Furniture stores:					
Total Eleventh District	29	23	..	18	2
Dallas	14	34	..	—10	—#
Houston	63	43	..	....	....
Port Arthur	16	43	..	3	—2
San Antonio	14	23	..	....	....
Shreveport, La.	42	10	..	45	10
Wichita Falls	42	22	..	—2	—4
Household appliances stores:					
Total Eleventh District	78	—14	..	....	....
Dallas	41	—38	..	....	....

**Stocks at end of month.
#Indicates change of less than one-half of 1 percent.

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

Daily average sales—(1935-39=100)

	Unadjusted* July 1950	June 1950	May 1950	July 1949	Adjusted July 1950	June 1950	May 1950	July 1949
Eleventh District	429	353	391	308r	537	410	403	384r
Dallas	367	302	352	263	510	369	375	365
Houston	503	400	424	364	621	460	442	449r

Stocks—(1935-39=100)

	Unadjusted* July 1950	June 1950	May 1950	July 1949	Adjusted July 1950	June 1950	May 1950	July 1949
Eleventh District	350p	353	380	333r	373p	375	380	354r

* Unadjusted for seasonal variation.
r—Revised.
p—Preliminary.

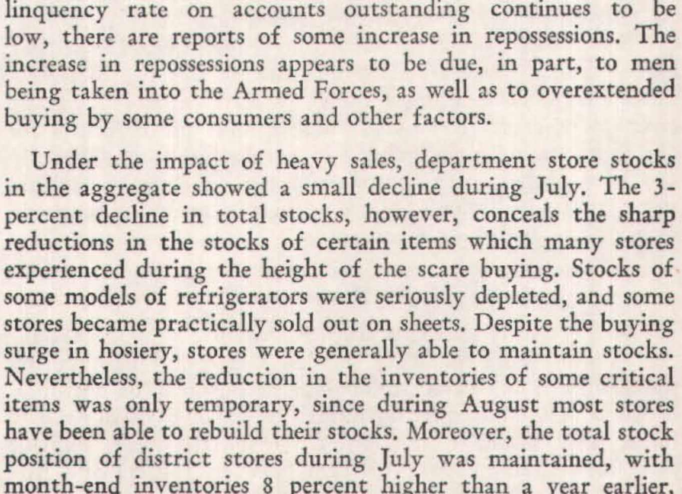
The principal impact of the heavy consumer demand during July and early August was felt in instalment selling, although cash sales also increased. Instalment sales rose to a record level 65 percent above June and 95 percent above July of last year. Charge account sales were up noticeably from June and were 36 percent higher than a year earlier; while cash sales, although only slightly higher than in the previous month, showed a year-to-year increase of 14 percent. Because of the relatively larger increase in instalment sales, the proportion of instalment-to-total sales at reporting department stores rose from 12 percent in June to 18 percent in July, to establish a new record high.

Collections of receivables outstanding continued the slowing tendency evident in recent months. The ratio of collections to instalment accounts outstanding, at 12 percent, was unchanged from June but was substantially below the ratio of 18 percent prevailing in July last year. The charge account collection ratio declined slightly, from 50 percent in June to 49 percent in July. Meanwhile, instalment receivables outstanding shot up to a new high and at the end of July were 12 percent higher than a month earlier and 100 percent higher than on the corresponding date of last year. Charge account receivables showed only moderate increases. Although the delinquency rate on accounts outstanding continues to be low, there are reports of some increase in repossessions. The increase in repossessions appears to be due, in part, to men being taken into the Armed Forces, as well as to overextended buying by some consumers and other factors.

Under the impact of heavy sales, department store stocks in the aggregate showed a small decline during July. The 3-percent decline in total stocks, however, conceals the sharp reductions in the stocks of certain items which many stores experienced during the height of the scare buying. Stocks of some models of refrigerators were seriously depleted, and some stores became practically sold out on sheets. Despite the buying surge in hosiery, stores were generally able to maintain stocks. Nevertheless, the reduction in the inventories of some critical items was only temporary, since during August most stores have been able to rebuild their stocks. Moreover, the total stock position of district stores during July was maintained, with month-end inventories 8 percent higher than a year earlier, or the same year-to-year change prevailing at the end of June.

DEPARTMENT STORE ORDERS OUTSTANDING

ELEVENTH FEDERAL RESERVE DISTRICT



The buying policy of department stores, also, reflected the effect of heavy consumer buying and anticipations regarding future demand, availability, and prices of goods in view of the changed outlook affecting the domestic economy. Stores ordered heavily to replace stocks disappearing under the rush of consumer buying and, also, to prepare for the possibility of later reductions in the supplies of some civilian goods, higher prices, and a higher level of sales resulting from increased incomes during the stepped-up defense program. Orders outstanding at the end of July were at the highest level in more than 2½ years, increasing 60 percent from a month earlier and 68 percent from the corresponding date of last year. The effects of this heavy ordering will undoubtedly begin to be reflected in the August 31 inventories.

The buying hysteria which boosted department store sales was also evident in sales at district furniture stores. July sales at furniture stores showed a large contraseasonal increase, being up 23 percent from June and 29 percent from July a year ago. Both cash and instalment sales rose sharply from June to July and exceeded year-earlier levels by 21 and 22 percent, respectively. While collections increased markedly, the rise was insufficient to offset the increases in credit buying, and accounts receivable outstanding showed an increase for the fourth successive month. Receivables outstanding at the end of July were 3 percent higher than at the end of the previous month and were 24 percent above the level of the same date last year. Despite the heavy sales during the month, inventories showed a small increase in contrast with the decreasing trend usually occurring at this time of year. Month-end inventories, up 2 percent from June, were 18 percent higher than a year earlier. While part of this rise in inventories may reflect recent buying by merchants, induced by their unexpectedly large sales volume, most of the orders for stocks appearing in the July 31 inventory figures undoubtedly had been placed before hostilities began in Korea. Furniture store stocks had shown increases over year-earlier levels in each of the preceding 3 months.

Price Movements

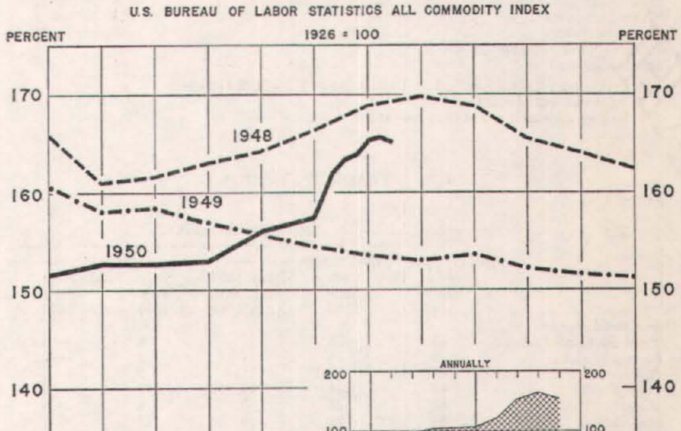
Prices generally moved upward in August, although the increases were more moderate and less widespread than during the 5 weeks immediately following the outbreak of hostilities in Korea. The United States Bureau of Labor Statistics' Daily Index of 28 Basic Commodities, one of the most sensitive price indices, rose about 4 percent between July 31 and August 24, as compared with an increase of 15 percent from June 23 to July 31. This index, at 316.1 percent of the August 1939 average, has risen 20 percent since the outbreak in Korea and is now 39 percent higher than the postwar low of June 1949. It is still, however, substantially lower than the postwar peak of 359.1 percent reached on November 28, 1947.

Basic commodities which have shown the largest price increases are imported commodities, particularly those whose sources of supply in the Far East would be jeopardized in case of the development of a major war. Rubber prices more than doubled during the 6 weeks immediately following the Korean outbreak but have subsequently fluctuated widely at somewhat lower levels. Tin prices jumped up more than 40 percent, to approach the all-time high of 1918. Other imported commodities showing large increases are wool tops, cocoa, burlap, silk, and shellac.

Among the domestic agricultural commodities, hogs and cotton have shown the largest increases, rising 24 and 13 percent, respectively, since June 23. Reflecting the rise in cotton prices, print cloth prices have risen substantially. Prices of fats and oil, including cottonseed oil, lard, and tallow, have shown sharp increases, with tallow prices up 63 percent from the pre-Korean level. Moreover, hide prices have risen 16 percent. On the other hand, prices of grains, of which large surpluses are held in storage, have shown only small increases, and steer prices are up only slightly. In the metals group, copper and zinc prices have shown little change, while recent price increases for lead have been announced. The steel scrap market, after remaining stable during July, turned very strong during the first 3 weeks of August.

Wholesale prices in the aggregate, as reflected by the Bureau of Labor Statistics' All Commodity Wholesale Price Index, have shown a more moderate increase since the opening of Korean hostilities than basic commodity prices. The Wholesale Price Index, which had shown noticeable increases during April, May, and June, rose 5.1 percent during July but in the first 2 weeks of August moved irregularly, with a small gain one week being offset by a corresponding decline in the succeeding week. Following the post-Korean rise, the index on August 15 was 9.1 percent higher than its postwar low of December 1949, although about 3 percent below the postwar peak of August 1948. The largest increase in wholesale prices since the beginning of hostilities in Korea occurred in textiles, with an increase of 9 percent, but gains of 7 percent were registered by foods, chemicals and allied products (including fats and oils), and building materials. Building material prices, which had been rising steadily in the 10 months prior to Korea, are now at a postwar peak, about 14 percent above a year ago.

WHOLESALE PRICES



Retail prices, as reported by the Bureau of Labor Statistics' Consumers' Price Index, have typically lagged behind the rise in wholesale prices. Nevertheless, between June 15 and July 15 the index showed an increase of 1.4 percent and, at 172.5 percent of the 1935-39 average, was 3.6 percent higher than the postwar low of February of this year. Higher food prices, particularly for meats, have accounted for much of the increase in the Consumers' Price Index. Nevertheless, prices of most groups, including housefurnishings, rent, fuel, and miscellaneous items such as the cost of services, edged higher. Data showing developments through August 15, are not yet available, but preliminary estimates seem to indicate the possibility of a slight decline in food prices which may check, at least temporarily, the upward course of the index.

AGRICULTURE

Crop production prospects in the Eleventh District as of the end of August indicate that the total volume of commodities harvested or to be harvested this year will fall far below that of 1949 but will be near the average of the past few years. Moderate to sharp declines in production of winter wheat, oats, barley, cotton, Irish potatoes, and rice will be partially offset by increases in production of corn, grain sorghums, sweet potatoes, and hay. Production prospects as of August 1 moved nearer realization during the month as the hot and generally open weather was favorable for field work and for application of measures to control boll weevils, bollworms, and other insects. In central and southern parts of the District the weather was near ideal for harvest of cotton, grain sorghums, peanuts, corn, and rice, although showers were needed in some areas to check deterioration of pastures and late maturing crops.

CROP PRODUCTION

(In thousands of bushels)

	Texas			States in Eleventh District*		
	Estimated August 1, 1950	1949	Average 1939-48	Estimated August 1, 1950	1949	Average 1939-48
Winter wheat	21,560	102,848	56,350	63,851	196,845	131,754
Corn	65,730	58,208	64,272	118,607	108,626	114,406
Oats	31,000	34,020	31,195	50,535	55,682	61,458
Barley	1,750	2,774	4,069	10,103	10,550	12,822
Cotton[1]	3,000	6,040	2,729	4,282	8,119	4,088
All hay[2]	1,429	1,366	1,426	4,891	4,827	4,519
Irish potatoes	2,720	3,686	4,560	6,712	7,253	10,011
Sweet potatoes	5,500	5,775	5,119	15,575	14,555	14,326
Rice[3]	10,170	10,178	7,873	21,032	21,229	17,755
Sorguhms for grain	118,316	92,676	62,954	137,632	114,426	76,018
Peanuts[4]	259,600	333,450	283,952	379,000	456,130	384,143
Flaxseed	1,404	1,974	448	1,639	2,930	998

* Figures are combined totals for the five states lying wholly or partly within the Eleventh Federal Reserve District: Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
[1]—In thousands of bales.
[2]—In thousands of tons.
[3]—In thousands of bags (100 lb.).
[4]—In thousands of pounds.
Source: United States Department of Agriculture.

Spraying and dusting of cotton for control of insects produced fairly satisfactory results in most areas during August, with the exception of some eastern and northcentral counties of Texas. Harvest is virtually complete in the Coastal Bend and extreme south Texas counties and had been extended as far north as the Red River prior to September 1. Late August prospects for cotton production gave rise to hope that harvest may exceed the Government's August 1 estimate of a Texas crop of 3,000,000 bales, which was considerably below private estimates at that time. The sharp decline from the 6,040,000 bales produced last year is due to both reduced acreages and lower yields. The indicated yield of 205 pounds of lint per acre is 61 pounds below the yield harvested last year but still greater than in any other year since 1912.

TEXAS COTTON PRODUCTION BY CROP REPORTING DISTRICTS

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

Crop reporting district	1948	1949	1950 indicated August 1	1950 as percent of 1949
1-N	115	259	90	35
1-S	558	1,571	810	52
2	496	1,119	535	48
3	22	61	25	41
4	773	1,059	530	50
5	226	350	150	43
6	140	190	150	79
7	20	88	40	45
8	278	505	210	42
9	170	212	100	47
10	355	626	360	58
State	3,153	6,040	3,000	50

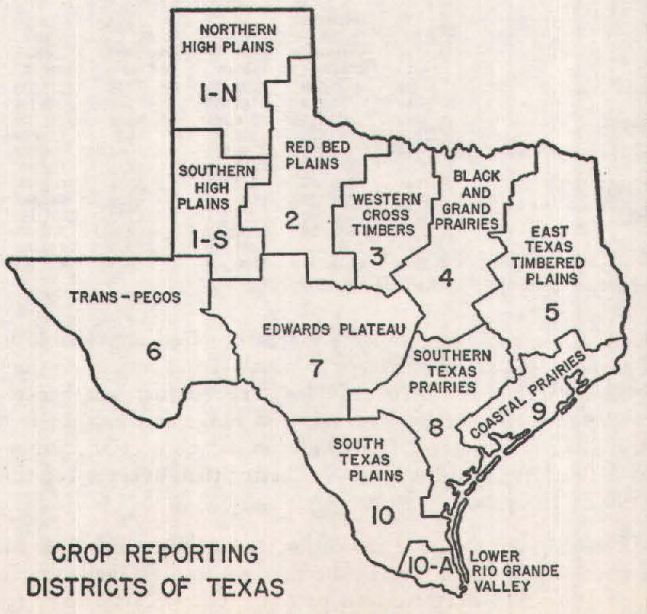
Source: United States Department of Agriculture.

Cotton production in each crop reporting district of Texas is expected to be substantially below last year. Total harvest will be average or better, however, in the western half of the State, while central Texas probably will produce a near-average crop. In the northern Blacklands and in east Texas, where infestation of insects has been most severe, and in the Coastal Bend, where yields were reduced by drought, production likely will be below average. Sharp declines from 1949 production are reported also for Louisiana, Oklahoma, New Mexico, and Arizona. The United States crop estimate is placed at 10,308,000 bales, compared with 16,128,000 bales harvested last year.

A program to support prices of the 1950 cotton crop at a national average of 29.45 cents per pound, or almost the same as for the 1949 crop, was announced recently by the United States Department of Agriculture. Support prices for the various grades differ greatly from last year, however, reflecting changes that have developed in market premiums and discounts during the past season. A sharp reduction in the support price for Strict Low Middling from 27.78 to 26.95 cents per pound virtually offset increases in support levels for most other grades.

Harvest of the District's corn crop made good progress during August and was practically complete in southern sections. The generally favorable conditions for corn production in the District since early June are reflected in the latest official production estimates. Production in Texas is estimated at 65,730,000 bushels, which is more than 7,000,000 bushels above the 1949 crop and substantially above average. A yield of 21.0 bushels per acre is well above average and the second highest since 1926, exceeded in this period only by the 22.5 bushels per acre harvested in 1949. Production in the five states of the Eleventh District is estimated at 118,607,000 bushels—10,000,000 bushels above last year.

A record crop of sorghum grain is in prospect for Texas and the Eleventh District, greatly exceeding production in any other year. The curtailed acreages of wheat and cotton this year, due to acreage control programs and abandonment of wheat acreage due to drought, permitted large expansion in acreage of grain sorghums. The crop has received generally favorable weather throughout the planting and growing season. Combining of early sorghums is about complete in southern and central areas and well advanced in northern counties. The crop has made excellent progress in the northwest and High Plains areas of Texas; plant lice and corn ear worms caused some damage to the crop in those areas, although it does not appear that the infestations have been serious. Present estimates indicate that production in Texas may exceed 118,000,000 bushels, or 26,000,000 bushels above last year's crop. Yields in the State may average 22.0 bushels per acre—5 bushels above average, although 2 bushels below the record yield of 1949. The value of the 1950 crop may also set a new record, despite the fact that support prices, at a national average of $1.87 per cwt., will be 22 cents lower than last year.



CROP REPORTING DISTRICTS OF TEXAS

The Texas peanut crop has been favored by good growing weather most of the season. Harvest was active in southern counties during August, and the crop in most late sections is in good condition, although scattered areas need rain. The acreage for harvest this year is substantially below that of last year due to the acreage control program. The yield per acre is estimated at 550 pounds—100 pounds above the 10-year average but 100 pounds below the record of last year. With a reduced acreage and lower yield, a much smaller production is in prospect for the State this year—259,600,000 pounds, compared with 333,450,000 pounds in 1949. It was announced on August 8 that farm prices of 1950-crop Spanish and Valencias west of the Mississippi River will be supported at an average of 10.45 cents per pound, or $209 per ton, which compares with $204 per ton for the 1949 crop. The curtailment in acreage and the high costs of production will far more than offset any contribution the higher support price may make to income from peanut farming this year.

Growing conditions favored the Texas rice crop during July and August, and irrigation water has been ample. The estimate of 473,000 acres for harvest in the State this year, which is only 10 percent below that harvested last year, indicates that many farmers did not comply with the acreage control program. Furthermore, the increased yield per acre is expected to offset the decline in acreage, with the result that the crop estimate of 10,170,000 bags (100 pounds) about equals last year's harvest and is 29 percent above average.

CASH RECEIPTS FROM FARM MARKETINGS

(In thousands of dollars)

State	May 1950 Crops	May 1950 Livestock	May 1950 Total	May 1949 Total	Cumulative receipts January 1 to May 31, 1950	Cumulative receipts January 1 to May 31, 1949
Arizona	$ 7,181	$10,236	$17,417	$18,798	$89,741	$95,142
Louisiana	5,202	7,661	12,863	14,398	75,891	88,234
New Mexico	830	7,416	8,246	10,732	43,962	48,515
Oklahoma	9,069	21,228	30,297	31,623	165,561	157,394
Texas	28,742	85,855	114,597	118,765	606,861	510,136
Total	$51,024	$132,396	$183,420	$194,316	$982,016	$899,421

Source: United States Department of Agriculture.

CASH RECEIPTS FROM FARM MARKETINGS BY MAJOR INCOME GROUPS FOR THE STATES OF THE ELEVENTH FEDERAL RESERVE DISTRICT, 1949 COMPARED WITH 1948

(In thousands of dollars)

	Year	Livestock and livestock products	Crops	Government payments	Total farm income
Arizona	1949	$ 69,029	$177,276	$ 745	$247,050
	1948	81,229	143,065	1,792	226,086
Louisiana	1949	98,045	238,941	9,093	346,079
	1948	107,675	246,827	8,558	363,060
New Mexico	1949	111,651	81,957	1,064	194,672
	1948	119,269	71,378	2,552	193,199
Oklahoma	1949	290,034	313,202	6,654	609,890
	1948	345,259	337,749	5,676	688,684
Texas	1949	786,799	1,270,284	14,739	2,071,822
	1948	861,825	1,101,187	16,438	1,979,450
Five states	1949	1,355,558	2,081,660	32,295	3,469,513
	1948	1,515,257	1,900,206	35,016	3,450,479

Source: United States Department of Agriculture.

An ample supply of range and pasture feed is available in all parts of the District except in south Texas and in sections of New Mexico and Arizona. Hot, dry August weather reduced moisture reserves, however, and range and pasture feed is cured in many areas. The condition of pastures and ranges in the District in late August was better than average for this season of the year.

Livestock are in good condition throughout most of the District, especially in areas where green feed is available. In the western and northwestern parts of Texas, cattle have responded to the improved green feed supply this summer; calves in these sections are expected to be materially heavier than usual this fall. Ranchers are holding most top heifers for replacements. Ewes and ewe lambs on the Edwards Plateau and in the Trans-Pecos area generally are in good condition. The Texas 1950 lamb crop is estimated at 3,416,000 head, or 7 percent above last year's crop. Smaller lamb crops are reported for other states of the District and for the United States as a whole.

LIVESTOCK RECEIPTS

(Number)

Class	Fort Worth market July 1950	Fort Worth market July 1949	Fort Worth market June 1950	San Antonio market July 1950	San Antonio market July 1949	San Antonio market June 1950
Cattle	52,971	54,104	57,926	28,212	23,730	26,791
Calves	18,309	18,071	19,786	14,835	10,505	12,084
Hogs	35,495	32,234	44,060	5,096	5,163	4,920
Sheep	82,029	85,582	174,429	18,327*	42,705*	28,992*

* Includes goats.

The Texas wool clip for 1950 is estimated at 52,132,000 pounds, or about 1 percent below last year's clip and nearly 30 percent below average. The 6,760,000 head of sheep shorn and to be shorn is 3 percent above last year. Lighter fleece weights are expected to more than offset the increase in number of sheep shorn. The United States 1950 wool clip, estimated at 218,239,000 pounds, is about 1,300,000 pounds above last year and represents the first increase in wool production since 1942.

TOP LIVESTOCK PRICES

(Dollars per hundredweight)

	Fort Worth market July 1950	Fort Worth market July 1949	Fort Worth market June 1950
Slaughter steers	$31.00	$26.25	$32.00
Stocker steers	30.00	22.00	29.00
Slaughter cows	24.00	18.00	22.50
Slaughter heifers and yearlings	31.00	26.75	32.00
Slaughter calves	30.50	26.00	31.00
Stocker calves	33.50	25.00	31.00
Slaughter lambs	29.00	25.00	28.50
Hogs	24.25	22.50	20.85

Although the general level of prices received by farmers in Texas has risen sharply since the first of the year, the advance has been due almost entirely to price increases for cotton and cottonseed and for corn, livestock, poultry, eggs, and wool, including mohair. Prices of dairy products, potatoes, turkeys, wheat, and grain sorghums have made little net change or have declined. Most commodities registering price advances reached the highest levels of the year during June or July. Cotton prices rose irregularly from last October to July 28, when Middling 15/16-inch staple brought 39.05 cents per pound, 10-market average basis, compared with 29.45 cents per pound on October 5, 1949. Top prices paid for hogs on the Fort Worth market rose from $16.00 per cwt. in early January to a peak of $24.25 on July 11. Slaughter steers at a top price of $31.00 per cwt. in June and July were $3.00 above the January level. Cows at $24.00 per cwt. were up $7.00. Advances were registered also by heifers, calves, and feeder and stocker steers. No. 2 white corn brought $2.75 per bushel on the Fort Worth Grain and Cotton Exchange in late July, compared with $1.64 on January 3. Fryers in the Dallas wholesale market brought 33 cents per pound in late March and 30 cents in July, compared with 21 cents in late January. Egg prices held about steady from January through May but advanced as much as 8 cents per dozen during June and July. Wool prices have been advancing since last fall.

The movement of the general level of farm commodity prices in Texas, which had been sharply upward, leveled out or declined slightly during August. As compared with the year's highest levels in June or July, cotton prices on August 24 were off about 1 cent per pound; most classes of cattle on the Fort Worth market were lower by $2.00 to $3.00 per cwt. Corn prices on the Fort Worth market had fallen as much as 70 cents per bushel from the July peak. On the other hand, prices of hogs—after declining irregularly—rose to the year's high of $24.75 on August 24, prices of fryers and eggs in the Dallas wholesale market held steady, while certificated spot wool in the New York market continued to advance, reaching $2.05 per pound, clean basis, compared with $1.51 to $1.53 during mid-June.

The rise in farm commodity prices since late 1949 and early 1950 has had a stimulating effect upon the farm real-estate market, according to a report released by the Bureau of Agricultural Economics on August 14. Gains of from 1 to 3 percent in 34 states during the 4-month period ended July 1 raised the United States index 2 percent above the March level. Farm real-estate values in Texas and Oklahoma rose 2 percent and 3 percent, respectively, during this period. Land values in New Mexico and Arizona declined during the year ended July 1, while values in Texas, Oklahoma, and Louisiana increased from 1 to 4 percent.

FINANCE

The Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Home Loan Bank Board, and the National Association of Supervisors of State Banks, recognizing clearly the inflationary potentialities which threaten the domestic economy as an outgrowth of the Korean conflict, issued a statement on August 7 to banks and all other institutions engaged in extending credit urging that special care be exercised in lending and investment activities. Inasmuch as a continuation of the rapid growth of credit from consumer demand for houses and other goods and speculative accumulation of inventories by business would add to inflationary pressures and seriously handicap expansion of military production, banks and other financial institutions were urged to decline to make loans to business or consumers which might be used for speculative purposes or otherwise interfere with defense requirements.

On August 18 the Board of Governors of the Federal Reserve System approved, effective August 21, an increase in the discount rate of the Federal Reserve Bank of New York from 1½ percent to 1¾ percent. In a statement accompanying the announcement, the Board of Governors called attention to the very substantial increases in loans and holdings of corporate and municipal securities during "the past six weeks" and pointed out that such "expansion under present conditions is clearly excessive." In view of this development and in support of the Government's decision to rely in major degree for the immediate future upon fiscal and credit measures to curb inflation, the Board stated that the Federal Reserve System is prepared to use all means at its command to restrain further expansion of bank credit, consistent with the policy of maintaining orderly conditions in the Government securities market. Between August 18, when the discount rate of the Federal Reserve Bank of New York was announced, and August 24, similar increases were announced for the other Reserve Banks. The 1¾-percent discount rate of the Federal Reserve Bank of Dallas became effective as of August 25.

Also on August 18, the Secretary of the Treasury announced two offerings of 13-month 1¼-percent Treasury notes in exchange for the 1⅛-percent certificates of indebtedness and 2 percent and 2½-percent issues of Treasury bonds maturing or called on September 15 and the 1⅛-percent issue of certificates of indebtedness maturing on October 1. The amount involved in this total refinancing operation is about $13,570,000,000. The rate of interest on the latest exchange offerings reflects no increase in the rate which the Treasury offered on similar issues used in connection with previous refinancing requirements this year.

Reports of condition of all member banks in the District as of June 30, 1950, show that the principal asset and liability accounts increased from the levels prevailing on June 30, 1949. Increases in total loans, investments, and deposits during the 12-month period were especially notable.

Strength in the over-all business situation during the year ended June 30, 1950, created a continuing demand for bank credit from the agricultural, consumer, and business sectors of the economy, resulting in a growth of $323,869,000 in total loans—an increase of 19 percent. Loan volume outstanding on June 30, 1950, was $2,061,897,000. Holdings of United States Government securities of the District's member banks increased $206,535,000, or approximately 10 percent, during the 12 months ended June 30, 1950, and on that date amounted to $2,274,845,000.

The greatest change in member bank accounts between June 30, 1949, and June 30, 1950, was an increase of $753,-445,000 in total deposits, with about 57 percent of the growth occurring in demand accounts of individuals, partnerships, and corporations. Increases were reported in all categories of deposits, with the result that total deposits amounted to $6,393,363,000 on June 30.

An increase of 11.3 percent in total capital accounts—capital stock, surplus, undivided profits, and reserves—during the latest 12-month reporting period maintained the upward trend which has been evident for many years and brought the total of these accounts to $403,392,000 on June 30.

Earnings and dividends reports for the first 6 months of 1950 show that the trend of profits of the member banks in the District was very favorable, as compared both with the first half of last year and with the preliminary figures reported by all member banks in the Nation for the most recent 6-month period. Increased earnings from loans accounted for approximately 82.3 percent of the increase in total current operating earnings, as the increase in earnings from interest on Government securities was relatively small. Although total current expenses increased by approximately 9.4 percent, an increase in recoveries and a decrease in losses offset 41 percent of the dollar increase in expenses so that profits before income taxes for the first 6 months of the year amounted to $31,989,000, as compared with $26,849,000 during the comparable months of last year. Net profits after taxes of the 626 member banks in the District amounted to $22,750,000 during the January to June period, representing an increase of 19.2 percent over the comparable 6 months of 1949. All member banks in the Nation showed a comparable increase of 10.3 percent.

Between July 12 and August 16, weekly reporting member banks in selected cities of the District reported further growth in loans, investments, and deposits but showed decreases in balances with banks and reserves with the Federal Reserve Bank. As a result of these movements, total resources increased by approximately $53,795,000.

Although all categories of loans showed increases during the latest 5-week reporting period—with the exception of loans to banks, which remained unchanged—growth in loans for commercial, industrial, and agricultural purposes accounted for more than 65 percent of the total increase of $59,651,000. Further increases also were reported in loans to finance security transactions, real-estate activity, and consumer purchasing. Successive weekly increases in total lending activity carried the loan volume of these banks to a level of $1,276,289,000 on August 16.

Figures reflecting the strength of loan demand in this District become even more significant when it is recalled that on July 31 the Commodity Credit Corporation disbursed approximately $53,495,000 on account of principal and accrued interest to member banks to retire certificates of interest which were held against pooled stocks of cotton. Since these certificates of interest were carried as loans, their retirement resulted in an equivalent amount of loan liquidation.

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

(In thousands of dollars)

	August 16 1950	August 17, 1949	July 12, 1950
Total loans (gross) and investments	$2,615,704	$2,335,404	$2,553,453
Total loans—net‡	1,262,328	1,000,364	1,203,275
Total loans—Gross	1,276,289	1,010,445	1,216,638
Commercial, industrial, and agricultural loans	861,037	671,484	822,027
Loans to brokers and dealers in securities	6,498	6,206	6,254
Other loans for purchasing or carrying securities	56,957	50,225	54,221
Real-estate loans	107,128	88,780	102,033
Loans to banks	200	380	200
All other loans	244,469	193,370	231,903
Total investments	1,339,415	1,324,959	1,336,815
U. S. Treasury bills	93,918	108,040	120,536
U. S. Treasury certificates of indebtedness	121,788	305,942	114,591
U. S. Treasury notes	295,423	44,271	287,500
U. S. Government bonds (inc. gtd. obligations)	684,781	743,473	673,878
Other securities	143,505	123,233	140,310
Reserves with Federal Reserve Bank	467,592	468,210	478,938
Balances with domestic banks	340,277	306,289	370,227
Demand deposits—adjusted*	2,095,209	1,940,743	2,067,659
Time deposits except Government	442,978	448,992	450,847
United States Government deposits	68,475	35,204	73,719
Interbank demand deposits	651,233	541,698	649,302
Borrowings from Federal Reserve Bank	200	0	0

‡ After deductions for reserves and unallocated charge-offs.
* Includes all demand deposits other than interbank and United States Government, less cash items reported as on hand or in process of collection.

From July 12 to August 16, weekly reporting member banks in the District decreased their holdings of United States Government securities by $595,000. A shift in the composition of portfolios occurred, however, indicating a lengthening of maturities. Holdings of Treasury bills declined by $26,618,000, while investments in certificates, notes, and bonds rose by slightly less than this amount. Investments in securities other than United States Government obligations increased by $3,195,000.

Favorable levels of business activity in the District and growth in loans during the 5-week period were the principal factors underlying an increase of $49,964,000 in total deposits at the weekly reporting banks, with demand accounts of individuals and businesses more than accounting for the increase. Total deposits at these banks on August 16 were $365,613,000 in excess of the figure reported on the comparable date last year.

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

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

	Combined total		Reserve city banks		Country banks	
Date	Gross demand	Time	Gross demand	Time	Gross demand	Time
July 1948	$5,096,434	$587,716	$2,456,933	$375,215	$2,639,501	$212,501
July 1949	4,977,743	629,655	2,417,780	402,930	2,559,963	226,725
March 1950	5,566,562	646,645	2,643,667	405,065	2,922,895	241,580
April 1950	5,521,595	656,387	2,634,090	410,645	2,887,505	245,742
May 1950	5,481,505	670,514	2,627,316	423,428	2,854,189	247,086
June 1950	5,550,468	669,715	2,684,393	424,252	2,866,075	245,463
July 1950	5,640,371	660,748	2,757,150	416,753	2,883,221	243,995

During the week ended August 23, the latest week for which figures are available, loans of the weekly reporting member banks showed a further increase amounting to more than $4,400,000. On the other hand, during this latest reporting period, investments of these selected member banks declined by more than $3,400,000, as a result of sales of Treasury certificates of indebtedness in excess of purchases of Treasury notes and Government bonds. Demand deposit of these banks also showed a decline during the week ended August 23, the amount of the decline—$47,600,000—approximately offsetting the increase of the preceding 5 weeks.

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

(Amounts in thousands of dollars)

	Debits+	Pctg. change from		Deposits*	Annual rate of turnover		
City	July 1950	July 1949	June 1950	July 31, 1950	July 1950	July 1949	June 1950
Arizona:							
Tuscon	$ 59,880	22	— 1	$ 83,730	8.5	7.2	8.4
Louisiana:							
Monroe	40,241	17	11	47,845	10.6	9.8	10.0
Shreveport	146,482	19	1	178,356	9.8	9.1	9.7
New Mexico:							
Roswell	17,756	13	— 7	22,376	9.4	10.7	10.3
Texas:							
Abilene	47,561	61	— 8	48,193	11.9	9.5	13.3
Amarillo	105,465	11	— 5	97,004	13.3	13.3	14.2
Austin	116,777	11	—19	113,836	12.4	12.2	15.1
Beaumont	101,053	9	— 1	91,913	13.4	11.9	13.7
Corpus Christi	108,798	49	8	91,267	14.4	11.4	13.3
Corsicana	11,286	37	6	20,241	6.7	5.2	6.2
Dallas	1,337,683	40	— 2	853,016	18.5	15.1	19.2
El Paso	146,830	34	2	129,244	13.6	11.5	13.4
Fort Worth	385,814	23	— 8	323,149	14.3	12.8	15.6
Galveston	70,805	— 1	#	96,019	8.9	9.0	8.9
Houston	1,214,317	21	2	1,011,944	14.5	13.4	14.4
Laredo	17,049	24	— 1	22,930	9.0	7.9	9.0
Lubbock	79,796	56	1	84,650	11.5	10.0	11.3
Port Arthur	31,729	— 7	5	38,687	9.7	10.4	9.0
San Angelo	38,682	54	— #	48,320	9.6	8.0	9.8
San Antonio	323,433	41	— #	354,472	10.9	8.9	11.0
Texarkana**	17,677	31	12	22,492	9.4	7.3	8.3
Tyler	48,082	22	6	51,214	11.0	9.2	10.4
Waco	59,789	32	— 4	78,080	9.4	8.4	10.6
Wichita Falls	66,112	18	— 1	92,807	8.5	8.4	8.6
Total—24 cities	$4,593,097	28	— 1	$4,001,785	13.8	12.1	14.0

\+ Debits to deposit accounts except interbank accounts.
* Demand and time deposits, including certified and officers' checks outstanding but excluding deposits to the credit of banks.
**These figures include 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 $28,894,000 for the month of July 1950.
\# Indicates change of less than one-half of 1 percent.

SAVINGS DEPOSITS

		July 31, 1950		Percentage change in savings deposits from	
City	Number of reporting banks	Number of savings depositors	Amount of savings deposits	July 30, 1949	June 30, 1950
Louisiana:					
Shreveport	3	43,894	$ 24,409,990	—5.0	—1.2
Texas:					
Beaumont	3	12,178	5,756,855	—7.0	—1.6
Dallas	8	145,025	76,917,699	—1.7	—2.1
El Paso	2	32,656	22,348,100	0.9	—3.0
Fort Worth	4	44,367	35,209,113	—0.4	—2.1
Galveston	4	22,237	20,956,933	—1.7	—1.7
Houston	8	95,252	74,943,572	0.6	—1.1
Lubbock	2	2,177	4,035,310	34.1	—1.5
Port Arthur	2	5,946	4,199,030	—8.1	—1.6
San Antonio	5	41,764	43,009,001	—3.4	—2.4
Waco	3	10,512	10,545,684	4.0	—1.9
Wichita Falls	3	8,260	4,649,440	2.9	—0.8
All other	55	67,243	56,472,750	3.3	—0.7
Total	102	531,511	$383,453,477	—0.4	—1.7

Between July 15 and August 15, the principal changes in the condition statement of the Federal Reserve Bank of Dallas included a decrease of $21,651,000 in gold certificate reserves and increases of $1,983,000 in Federal Reserve notes in actual circulation and $1,171,000 in member bank reserve deposits. Total earning assets increased by $17,275,000, which was more than accounted for by an increase of $17,483,000 in holdings of United States Government securities. The notes of this bank in actual circulation on August 15 amounted to $610,941,000, as compared with $603,134,000 on the comparable date last year.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	August 15, 1950	August 15, 1949	July 15, 1950
Tota lgold certificate reserves	$672,858	$668,139	$694,509
Discounts for member banks	517	408	200
Foreign loans on gold	70	3,580	595
U. S. Government securities	830,952	786,445	813,469
Total earning assets	831,539	790,433	814,264
Member bank reserve deposits	815,835	797,871	814,664
Federal Reserve notes in actual circulation	610,941	603,134	608,958

NEW MEMBER BANKS

The Texas State Bank, Austin, Texas, located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, became a member of the Federal Reserve System on August 11, 1950. The bank has capital of $200,000, surplus of $101,000, undivided profits of $11,000, and total resources exceeding $2,900,000. The officers are: Dr. J. V. Siegmund, President; W. G. Pope, Executive Vice President; Mrs. Margaret Clark, Vice President; and E. O. Henkel, Cashier.

The Victoria Bank and Trust Company, Victoria, Texas, located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, became a member of the Federal Reserve System August 9, 1950. The bank has capital of $1,000,000, surplus of $1,500,000, undivided profits of $390,000, and total resources exceeding $28,000,000. The officers are: J. V. Vandenberge, Chairman of the Board; D. E. Blackburn, President; Wm. J. O'Connor, Vice President; Dennis O'Connor, Vice President; H. A. Jamison, Executive Vice President; Earl W. Fischer, Vice President and Trust Officer; D. R. Blackburn, Vice President and Cashier; Arvle Elliott, Vice President; W. A. Huebner, Assistant Cashier; Perry Wendtland, Assistant Cashier; F. C. Urban, Jr., Assistant Cashier; and G. C. Pittman, Assistant Cashier.

INDUSTRY

Construction activity has been maintained at or near record levels in both the Nation and the District. The value of construction contract awards in the Eleventh District in July increased 13 percent from the high June total, reaching the fourth highest level on record. The July awards, which amounted to over $105,500,000, were 10 percent more than in July a year ago. During the first 7 months of 1950, awards totaled $637,000,000 in the District, or 50 percent above the level of the corresponding period of last year.

VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

	July 1950p	July 1949	June 1950	January 1 to July 31 1950p	January 1 to July 31 1949
Eleventh District—total	$105,585	$ 95,780	$ 93,417	$636,536	$425,602
Residential	51,446	30,198	41,772	302,761	143,710
All other	54,139	65,582	51,645	333,775	281,892
United States*—total	1,420,181	943,560	1,345,463	8,274,329	5,411,236
Residential	675,080	340,593	628,051	3,932,205	1,965,392
All other	745,101	602,967	717,412	4,342,124	3,445,844

p—Preliminary.
*37 states east of the Rocky Mountains.
Source: F. W. Dodge Corporation.

Residential awards in the District exceeded $51,400,000 in July, representing increases of 23 percent from the previous month and 70 percent from a year earlier. The July figure is second only to the May 1950 record. During the first 7 months of 1950, residential awards totaled $303,000,000, over 111 percent more than during the same period in 1949. Nonresidential awards totaled $54,100,000 in July, or 5 percent more than in June but 17 percent less than in July of last year. Total nonresidential awards during the first 7 months of 1950 amounted to $334,000,000, or 18 percent more than during the corresponding period of last year.

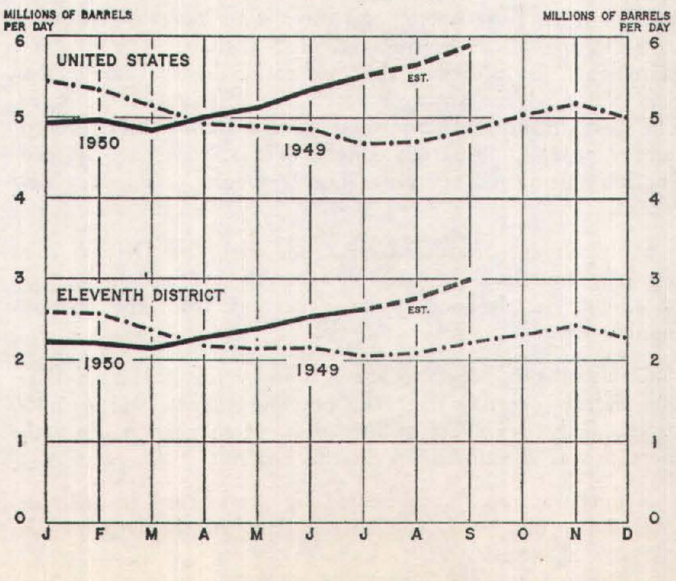
In the Nation, new construction activity in July reached a record total of $2,653,000,000, with residential construction rising to $1,140,000,000. The total for the first 7 months of 1950 is $14,442,000,000, or 19 percent above the same period of last year. July was the best homebuilding month in the Nation's history, with 144,000 new nonfarm dwelling units being started, bringing the total for the first 7 months of this year to a record 893,000 dwelling units, a figure exceeded during a full year only three times in the history of the industry.

BUILDING PERMITS

City	July 1950 Number	July 1950 Valuation	Percentage change valuation from July 1949	Percentage change valuation from June 1950	Jan. 1 to July 31, 1950 Number	Jan. 1 to July 31, 1950 Valuation	Percentage change valuation from 1949
Louisiana:							
Shreveport	443	$ 6,345,695	— 13	286	2,822	$ 18,872,605	31
Texas:							
Abilene	166	941,828	115	— 2	1,193	7,890,243	93
Amarillo	350	2,508,756	63	47	2,313	12,772,997	36
Austin	510	5,079,077	302	52	2,791	25,785,561	112
Beaumont	375	859,392	54	60	2,464	6,520,448	19
Corpus Christi	575	2,361,392	102	— 7	3,211	16,399,831	124
Dallas	2,095	13,749,212	72	14	14,192	69,519,018	56
El Paso	382	1,967,935	52	— 48	2,763	15,104,849	165
Fort Worth	847	3,928,892	35	— 7	6,202	27,974,466	91
Galveston	219	318,937	74	— 38	1,094	3,684,012	— 49
Houston	1,465	20,095,504	275	31	8,419	95,410,557	104
Lubbock	318	2,950,410	310	58	2,236	15,047,429	139
Port Arthur	215	336,060	71	— 79	1,532	4,188,236	84
San Antonio	1,707	4,701,938	88	— 16	12,120	30,891,102	65
Waco	209	1,087,090	120	— 31	1,869	11,799,688	148
Wichita Falls	165	662,982	35	14	908	3,304,305	11
Total	10,041	$67,895,100	98	17	66,129	$365,165,347	76

Among the various types of residential construction, one-family dwellings built for sale continue to account for the majority of awards. In Texas, during the first half of 1950, awards for this type of dwelling were 111 percent higher than during the same period in 1949. One-family dwellings built for owner occupancy were up 86 percent, while apartment buildings were up 243 percent and duplexes, up 269 percent. Commercial building continued strong, with awards during the first half of the year being 87 percent higher than

CRUDE OIL PRODUCTION



during the corresponding period of last year. Awards for educational buildings were up 102 percent, while hospital, institutional, social, and recreational buildings also showed gains. Awards for manufacturing buildings showed only a 1-percent increase.

The high volume of contract awards during July reflects, in part, a spurt in the letting of contracts during the second half of the month. Many builders and purchasers hesitated to go ahead in view of current uncertainties in the international situation, possible credit restrictions, and potential controls over materials; however, other contractors and buyers attempted to get construction under way before restrictions and shortages become more serious. Temporarily, at least, the latter group appears to have exerted the greater influence upon the level of construction activity.

The possibility of further restrictions on private building was suggested recently by the United States Department of Commerce. Since building materials producers are operating at near capacity to meet the record demand for residential, commercial, and other types of construction, any increase in military requirements for construction materials will be largely at the expense of civilian users. Neither increases in capacity nor larger imports can be relied upon to alleviate appreciably this potentially tight situation.

CRUDE OIL PRODUCTION

(Barrels)

Area	July 1950		Increase or decrease in daily average production from	
	Total production	Daily avg. production	July 1949	June 1950
Texas:				
District				
1 South Central	914,350	29,495	3,913	100
2 Middle Gulf	4,385,100	141,455	32,039	5,960
3 Upper Gulf	12,787,850	412,511	76,535	— 7,754
4 Lower Gulf	6,853,500	221,081	45,778	7,673
5 East Central	1,136,550	36,663	4,411	2,248
6 Northeast	11,575,750	373,411	72,450	— 106
East Texas	8,537,550	275,405	53,363	— 4,300
Other fields	3,038,200	98,006	19,087	4,194
7b North Central	2,238,100	72,197	14,674	2,452
7c West Central	2,038,700	65,764	24,299	3,209
8 West	24,060,150	776,134	274,773	59,989
9 North	4,748,900	153,190	15,984	9,480
10 Panhandle	2,866,750	92,476	— 1,298	236
Total Texas	73,605,700	2,374,377	563,558	84,628
New Mexico	4,050,950	130,675	— 3,438	5,745
North Louisiana	3,986,950	128,611	22,796	— 3,147
Total Eleventh District	81,643,600	2,633,664	582,917	86,991
Outside Eleventh District	89,282,450	2,880,079	246,510	4,126
United States	170,926,050	5,513,743	829,427	171,117

Source: Estimated from American Petroleum Institute weekly reports.

In the petroleum industry indications are that operations during September will continue the expansive trend that has been in evidence during the past 5 months. The demand for petroleum has been strong, and there is an increasing urgency to build up stocks of fuel oils for anticipated winter requirements. In addition, the international situation emphasizes the need for stronger stock and production positions. The Texas Railroad Commission increased allowables for September by 244,000 barrels daily in Texas; consequently, production during the current month should establish a new record.

Daily average production of crude oil in the District during July amounted to 2,634,000 barrels, representing a gain of 87,000 barrels per day, or 3 percent from the previous month.

Crude oil production in the Nation in July increased 171,000 barrels per day over the previous month and 830,000 barrels daily over year-earlier levels. More than half of the increase was accounted for by this District.

Refinery activity as indicated by crude runs to stills increased in July by 93,000 barrels daily in the District and 202,000 barrels daily in the Nation. A new record of 5,844,000 barrels per day was established in the Nation during July; but this, in turn, was exceeded during early August, with a new weekly record of 6,044,000 barrels daily being attained during the week ended August 12.

Stocks of crude oil in the Nation showed little change during July, declining by 707,000 barrels to a level nearly 32,000,000 barrels below that of a year ago. Stocks of the four major petroleum products increased by 7,000,000 barrels but were 36,000,000 barrels lower than a year earlier. Reflecting the strong seasonal demand, stocks of gasoline decreased nearly 5,000,000 barrels during July. Stocks of burning oils showed moderate increases but continued well below year-earlier levels, with residual fuel oil stocks being 37 percent below those of a year ago. The over-all stock position as indicated by stocks of crude oil and its four major products is 68,000,000 barrels, or 13 percent lower than a year ago, although a 6,000,000-barrel gain was made during July.

The prices of petroleum products continued strong in practically all markets, with additional price increases being announced by various companies.

Drilling activity has continued at a very high level, with well completions during the first half of 1950 totaling 19,457 in the Nation and 8,839 in this District, representing increases from the corresponding period of last year of 1,903 wells in the Nation and 1,484 wells in the District. Reports for July and early August indicate continuation of very high levels of drilling activity in the Nation and particularly in this District. In view of the growing demand for petroleum products, it would seem that materials uncertainties are about the only obstacle to the attainment in 1950 of new annual records for well completions in both the Nation and the District.

DOMESTIC CONSUMPTION AND STOCKS OF COTTON

(Bales)

	July 1950*	July 1949	June 1950‡	August 1 to July 31	
				This season#	Last season
Total consumption:					
Texas mills	10,488	10,434	14,528	152,743	144,203
United States mills	610,555	454,426	841,227	8,869,511	7,795,404
Daily average consumption:					
Texas mills	552	522	593	599	559
United States mills	32,134	22,721	34,336	34,771	30,382
U. S. Stocks—end-of-month:					
Consuming establishments	1,307,560	884,730	1,429,178	....	....
Public storage and compresses	4,847,009	4,146,398	5,268,258	....	....

* Four weeks ended July 29.
‡ Five weeks ended July 1.
# Through July 29.
Source: United States Bureau of the Census.

Preliminary estimates of nonfarm employment in Texas indicate another new record in August at around 2,400,000 persons employed, exceeding the year-earlier level by about 4 percent and the previous peak of December 1949 by about 1 percent. Contributing to this rise have been the contraseasonal strength in trade activity, the continuing construction boom, the expansion of personnel at military establishments, the sharp increase in aircraft production, and gains in other types of manufacturing associated with national defense.

During the fall, a further seasonal expansion of employment until Christmas is probable. Trade activity normally rises during this period, while the food, apparel, and aircraft and other defense industries this year are likely to employ additional workers. Materials shortages may plague some industries, particularly certain metal work plants and could cause construction employment to decline more than seasonally.