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THE DEFENSE PROGRAM . . . A STIMULUS TO EXPANSION IN THE SOUTHWEST

The outbreak of hostilities in Korea uncovered weaknesses in our defense, awakened the Nation to the urgency of strengthening our Armed Forces, and virtually assured increased military and defense expenditures, at least for the next few years. The Administration has requested approximately $12,000,000,000 additional funds for the Armed Forces in the fiscal year 1951 and an additional $2,000,000,000 to strengthen the military forces of friendly nations. These additions to the regular budget, which was submitted well prior to Korea, raise the total budget for defense purposes to about $30,000,000,000 for the current fiscal year. Since it takes time to spend money, it is probable that actual expenditures will not reach the $30,000,000,000 by June 30, 1951, but the rate of spending will accelerate as the months pass and may be running on an annual rate basis of perhaps $25,000,000,000, to $30,000,000,000 by the second quarter of 1951. Thus, after only 5 years of troubled peace, we are again compelled by the realities of international political and economic forces to divert an important part of our production of goods and services from civilian to military utilization.

If the $30,000,000,000 of defense spending is related to the total production of goods and services of the country, which during the second quarter of this year was running at approximately $270,000,000,000 on an annual rate basis, it represents in the neighborhood of about 11 percent of our national product, a proportion substantially larger than the diversion of production in the fiscal years which immediately preceded our entrance into World War II but substantially less than the proportion devoted to military purposes during the actual war years. Despite relative and absolute magnitudes, however, the current defense program finds its setting in an economy already operating at boom levels of activity. Consequently, its impact may be more significant and may raise more difficult problems, especially with respect to the control and prevention of inflationary pressures, than might be expected on the basis of mere magnitude of expenditures.

In broad outline, the defense program should contribute to a gradual increase in total production, a substantial increase in different types of armament production with a moderate decrease in the production of some important civilian goods, an increase in consumers' income, and the development and persistence of strong inflationary pressures. Although there may be from time to time minor readjustments or downturns in different areas of business, these are not likely to be sustained or far-reaching; general business activity should achieve an even more rapid pace than that of recent months. Moreover, the possibility of a downward readjustment in economic activity or an economic recession arising from a saturation in the demand for such basic production as automobiles and houses probably has been dispelled. Even though production of these major goods is reduced, as may be expected, the declines probably will be more than offset by increases in other types of heavy industrial production. In other words, in a future that is so strongly buttressed by large expenditures for defense, the outlook seems, in general, to be only one of high, sustained business activity.

The full implications of the defense program will, of course, be determined largely by the ultimate size of expenditures, a factor which at this time is obviously unknown. Its implications can be appraised, however, in a general way in terms of available facts and information as they relate to the known magnitude of the program at this time. The effect upon the Southwest of the enlarged defense expenditures undoubtedly will reflect the same general trends and involve many of the same problems which will be characteristic for the Nation as a whole, although the rate of stimulation to the economy of the Southwest may be greater than is shown by national averages. World War II gave a tremendous boost to the developing southwest economy. During the postwar years economic growth in this part of the country as measured by most major indexes outpaced that of the Nation; now the defense program, reacting upon a strong, vigorous, and growing economy, should stimulate additional expansion. The same factors, in general, which stimulated a faster rate of growth in the Southwest than in the Nation during the 40's are likely to promote more rapid growth in this area under the defense program. An expanding market, raw material resources, an intelligent and reasonably adequate labor supply, cheap power, locational advantages for national defense industries, and aggressive managerial abilities—these will continue to be the principal factors sparking the industrial and business growth of this section of the country.

The large-scale war plant construction of World War II, which gave such a major lift to the industrialization of the Southwest, should not again be necessary; there are a large number of war plants in existence on a stand-by basis and other plants that can be utilized or easily converted to defense production. Nevertheless, the accent will be on production to meet expanding civilian and military demands, and the favorable economic and geographic position of the Southwest, together with the trend toward decentralization and other factors important in plant location, should enable this area to secure more than a fair share of such new plant construction. Furthermore, under the somewhat less intense competitive conditions which may prevail in an expanding economy, local manufacturers may experience a more favorable opportunity to become successfully established, although difficulties of smaller manufacturers in securing materials and labor may tend to hinder this development to some extent.

The relatively large supply of unskilled labor in the rural areas available for industrial expansion has been reduced considerably during the past 10 years. Preliminary census data reveal a large shift in population from the rural counties to the larger cities of the Southwest. Rural areas undoubtedly will furnish some labor for new plants which may be established, but the securing of additional labor for expanded production will be more difficult than it was at the time of the development of the defense program preceding and early in World War II. On the other hand, offsetting in part this smaller reserve of unskilled labor, a substantial body of skilled labor has been built up during the past decade as new industries imported technicians and trained local labor.

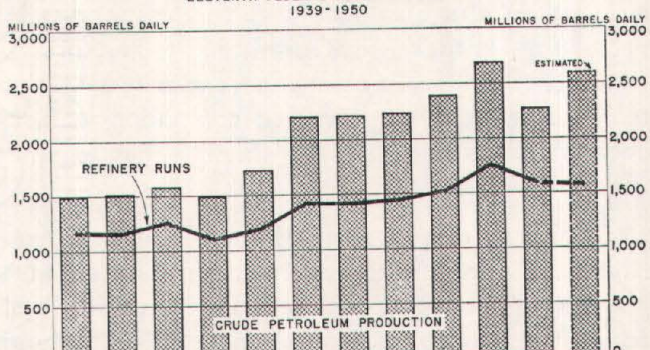
The bulk of expansion that may occur in the Southwest's economy under the impetus of the defense program seems likely to be in industries which have experienced substantial growth in recent years—the oil, chemical, aircraft, and allied groups. It is in these industries that the competitive advantages of the area are most favorable. Nevertheless, recent trends toward diversification of industry in the Southwest should be maintained and may be speeded up as the expanding southwestern market continues to attract plants and branches of large corporations which are following decentralization policies; in addition, tendencies to encourage the establishment of local manufacturers will prevail.

The oil industry of the Southwest is certain to play a vital role in the defense program and in the expanding economy which is foreshadowed. In view of the uncertainty of foreign sources of supply, the development of domestic supplies of oil is of great importance. The southwestern states of Louisiana, New Mexico, Oklahoma, and Texas on January 1, 1950, had approximately 70 percent of the total proved oil reserves of the Nation. Furthermore, in terms of the Nation's capacity to increase oil production without endangering or reducing ultimate recovery, all but 60,000 of the 1,130,000-barrel daily average potential of the Nation as of July 1950 was located in four southwestern states.

This shut-in capacity is about the same as that which existed at the beginning of World War II, although it now amounts only to about 15 percent of present demands, as compared with 25 percent of the lower demand existing in 1941.

In 1949 decreased refinery demands for domestic crude oil, stemming from the mild business readjustment, excess inventories, and heavy imports, placed crude oil prices in a vulnerable position and necessitated sharp cutbacks in production. In contrast, inventories now are at relatively low levels, and the nonmilitary demand, stimulated by high levels of business activity and rising consumer incomes, is at a record high. Military demands have increased since the outbreak of war in Korea but are still small when considered in terms of World War II demands. The rapid pace of business activity that may be expected as a consequence of the defense program, together with a probable increase in military demands, should insure domestic production at least as high as or higher than the present record level. Allowables in the southwestern states were increased steadily from April through September 1950, and production in the latter month was 36 percent higher than a year ago and 8 percent higher than the previous peak reached in November 1948.

CRUDE PETROLEUM PRODUCTION AND REFINERY RUNS
ELEVENTH FEDERAL RESERVE DISTRICT
1939-1950

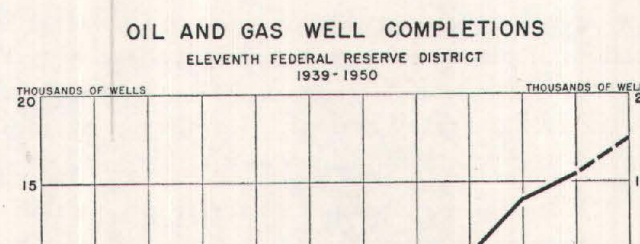


SOURCES: U.S. BUREAU OF MINES. AMERICAN PETROLEUM INSTITUTE.

Drilling activity is very closely related to the price of crude oil and to supply and demand relationships of the oil industry. In view of the current and probable strength of the crude oil price structure and the outlook for a continuation of strong demand, drilling activity may be expected to be maintained at the record levels of this year or possibly even higher. It is true that many types of drilling supplies are in tight position, but in view of the importance of crude oil to the Nation's defense, it is probable that sufficient supplies will be allocated to the oil industry to maintain a rate of drilling activity that is compatible with the requirements of our defense program and essential civilian needs.

In recent months refinery production has risen to a record level and probably will be maintained or even increased in succeeding months. Larger requirements for aviation gasoline, kerosene for jet planes, and Diesel oil for railroads may necessitate altering refinery ratios. One major oil company has announced recently the building of a new catalytic cracking refinery at Port Arthur which will produce high octane fuels, while additional refinery construction is reported to be under way at a number of other sites in the Southwest.

OIL AND GAS WELL COMPLETIONS
ELEVENTH FEDERAL RESERVE DISTRICT
1939-1950



SOURCES: U.S. BUREAU OF MINES, OIL AND GAS JOURNAL, AMERICAN PETROLEUM INSTITUTE, WORLD OIL.

The continued high level of drilling activity and the maintenance or further expansion of oil production obviously will benefit the oil well supply industry and will encourage further pipe-line construction. These subsidiary oil industries also will be confronted by difficulties in obtaining such essential materials as steel pipe and other supplies, but it is unlikely that these difficulties will prove to be crippling to the industries' expansion.

The natural gas industry of the Southwest has experienced a phenomenal growth during the past few years. While it may be expected to continue its expansionary tendencies, the trend may be at a somewhat more moderate rate. Demand from both industrial and residential consumers will be strong, and adequate reserves will be available; moreover, utilization of some pipe lines may be stepped up.

A tightness in steel supplies needed for pipe-line construction, however, may tend to check the rise in natural gas consumption.

One of the most spectacular developments of the past decade in connection with the industrialization of the Southwest has been the rapid growth of the chemical industry—an industry in this area that received its major stimulus from the last war. The basis for this growth of the chemical industry in this area has been the availability of an abundant supply of essential raw materials—petroleum, natural gas, sulphur, salt, and others—together with favorable location with respect to water transportation to the large markets of the country. As the industry developed and expanded, technical men were attracted and labor was trained. Unlike many other war-born industries, the chemical industry of the Southwest has expanded more rapidly in the postwar years than during the war years.

Plans to reopen most of the synthetic rubber plants maintained in the area on a stand-by basis have been announced. Increased production of styrene, a vital component of synthetic rubber and plastics, apparently is needed. Demands for carbon black may be stepped up in conjunction with an increased output of synthetic rubber, although it is unlikely that there will be large-scale construction of carbon black plants such as occurred during the last war. The manufacture of chemicals for synthetic fiber production, such as nylon salt and intermediates, acetic anhydride, and vinylchloride, may receive an impetus from a rising civilian demand and the high price of wool and cotton, resulting from the tight supply situation with respect to these basic fibers. Moreover, a sustained high demand for agricultural products probably will boost demand for fertilizers and insecticides, with a consequent stimulus to the production of those chemicals basic to such products. The production of toluene, a vital component of many explosives, would seem likely to increase. These are only a few of the products which the Southwest's chemical industry may be called upon to supply in larger quantities to meet the requirements of an expanding market arising from increased armament manufacture and large civilian demands.

Aircraft represent the largest single item of defense expenditure contemplated in the $12,000,000,000 additional funds requested for the current fiscal year. In fact, aircraft expenditures will account for almost one-third of that total. Consequently, the Southwest's aircraft industry will benefit in a very direct way from this part of the defense program, because a substantial amount of spending for new equipment will be directed to aircraft plants in this part of the country. In fact, it is reported that such plants in this area already have been requested to speed up delivery of planes previously contracted. The higher tempo of activity—present and anticipated—of the aircraft manufacturers in the Dallas-Fort Worth area is reflected by additions to employment, which have been rather sharp during the past 3 months.

Although expansion in aircraft production in this area probably will not necessitate the construction of substantial new facilities, it undoubtedly will promote the growth of and stimulate activity in firms that are associated with the aircraft industry on a subcontracting basis. Incidentally, the growth of subcontracting business will not be confined to the aircraft industry but will permeate defense industrial activity in the area. It will be recalled that during World War II a great many small plants were established to manufacture parts, not only for the major aircraft producers but for many other producers of defense and military objects. With the present magnitude of the defense program limited to a $30,000,000,000 annual basis, subcontracting cannot be expected to reach the scale that was involved in the last war, but it will be important enough to provide an opportunity for development and expansion for many small manufacturing plants.

During the past several months, mining industries in the Southwest, such as copper, lead, and zinc, have been pulling out of a slump which developed last year as an accompaniment to the nationwide business readjustment. Prices of these nonferrous metals now have recovered most of the loss suffered during the readjustment of 1949, and the mining of some of the lower grade deposits again is becoming profitable. Employment in these industries has increased substantially in recent months. Such metals hold a place of high importance in connection with armament production, and, consequently, their production prospects appear to be favorable.

Other metals industries which are present in the Southwest, even though on a relatively small scale, may find the demand for their products increased and their outlook for larger production more favorable in the months ahead. These industries include iron and steel, aluminum production, manganese, and tin. With regard to the last-mentioned industry, the uncertainty that may surround the availability of tin supplies from the Far East in the present international situation imparts much greater importance to the Nation's lone tin smelter at Texas City, which utilizes Bolivian ore.

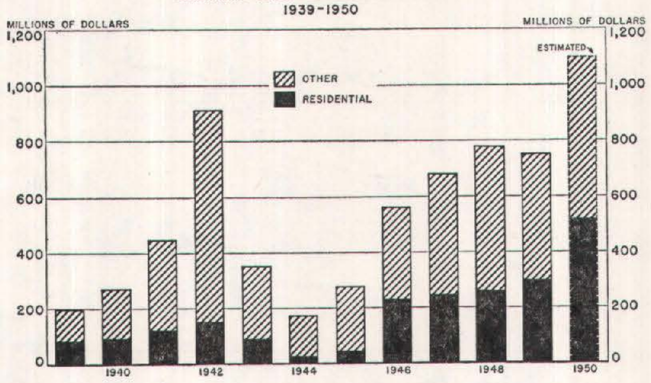
The tremendous postwar construction boom in the Southwest, as well as throughout the Nation, probably cannot continue at its present record level, despite the possibility of rising consumer incomes and sustained high business activity which may be an outgrowth of the defense program. The diversion of important building materials, such as copper and steel, to armament production and lumber, cement, and other materials to defense uses, together with a tightening labor supply, is likely to force a contraction in building. Moreover, less liberal down payment requirements for new home purchases, both with respect to transactions in the government guaranteed market and in the conventional mortgage lending market, also should tend to reduce residential construction. In accordance with a recent presidential directive, the Veterans Administration now requires a 5-percent down payment on GI housing, while the Federal Housing Administration has reduced by five percentage points its maximum loan guarantees and has set a ceiling on residential building costs for loan guarantee purposes based on July 1, 1950, prices. In addition, provisions of the Defense Production Act of 1950 permit the President to tighten mortgage terms of GI and FHA housing further, as well as to regulate conventional mortgage lending on new construction. The outlook for residential building probably reflects a substantial reduction from this year's boom level; however, even assuming that such a reduction may occur and may be in the neighborhood of 300,000 units, the number of houses completed in the foreseeable future probably will compare favorably with years of more normal construction activity.

The outlook for nonresidential construction appears to be much more uncertain of prediction at this time than is the case with residential construction. Whether nonresidential construction continues near the high levels of this year will be determined probably by such factors as the requirements of armament production and the availability of such basic construction materials as steel, copper, and cement. There may be some expansion in industrial building for defense purposes, and undoubtedly there will be an expansion in specialized types of military building. Whether the material demands for these types of construction will force some contraction in other less essential types cannot be judged at this time. On the whole, however, it is probable that the total of nonresidential construction will be maintained at a level which would be considered high under most circumstances.

VALUE OF CONSTRUCTION CONTRACTS AWARDED

ELEVENTH FEDERAL RESERVE DISTRICT

1939-1950



SOURCE: F. W. DODGE CORPORATION.

Building materials have been in tight supply for several months, as a result of the remarkable construction boom that has persisted for so long. A seasonal decline, which might be expected in construction activity during the winter months, may permit suppliers to build up their stocks, thus easing the situation somewhat temporarily. Looking beyond the near-term seasonal situation, however, the outlook for most building materials seems to point toward a continued strong demand; reductions that may result from a decline in residential construction are likely to be offset largely by increased requirements for military and associated or other purposes. Lumber and cement production probably will be maintained near the current year's high levels; gypsum production, more generally associated with residential construction, may decline moderately; while the demand for brick, which tends to be rather localized, probably will show a varied pattern, depending upon the rate of construction activity in the particular locality.

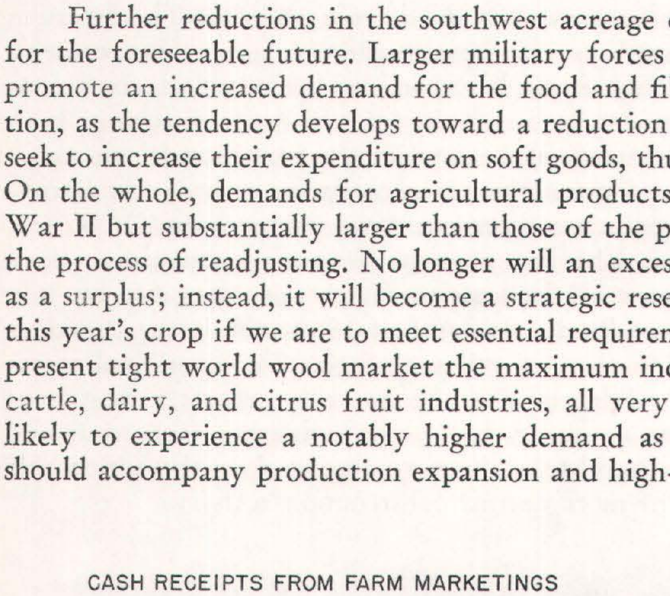
The outlook for agriculture has been notably changed by the hostilities in Korea and the initiation of the defense program. Prior to these developments, agriculture over the Nation and in the Southwest had been in the process of readjusting from the very large demands placed upon it during the war and the early years of the European Recovery Program to the lower demands that seemed to be more consistent with the requirements of a peacetime economy. Prices of agricultural products, on the whole, had declined substantially from their 1948 peak levels. Acreage allotments had been instituted to reduce sharply the production of several crops of major importance to the Southwest, such as cotton and wheat, and surpluses again had begun to threaten.

Further reductions in the southwest acreage of cotton and wheat now are probably postponed for the foreseeable future. Larger military forces and the higher consumer incomes should tend to promote an increased demand for the food and fiber products of southwestern agriculture. In addition, as the tendency develops toward a reduction in civilian supplies of hard goods, consumers may seek to increase their expenditure on soft goods, thus increasing the demand for agricultural products. On the whole, demands for agricultural products probably will be less intense than during World War II but substantially larger than those of the peacetime economy to which our agriculture was in the process of readjusting. No longer will an excess of wheat production, for instance, be considered as a surplus; instead, it will become a strategic reserve. Cotton production will need be increased over this year's crop if we are to meet essential requirements and provide a reasonably safe reserve. In the present tight world wool market the maximum increase in southwestern production is desirable. Beef cattle, dairy, and citrus fruit industries, all very important parts of southwestern agriculture, are likely to experience a notably higher demand as a result of the increased consumer incomes that should accompany production expansion and high-level business activity.

CASH RECEIPTS FROM FARM MARKETINGS

FIVE SOUTHWESTERN STATES

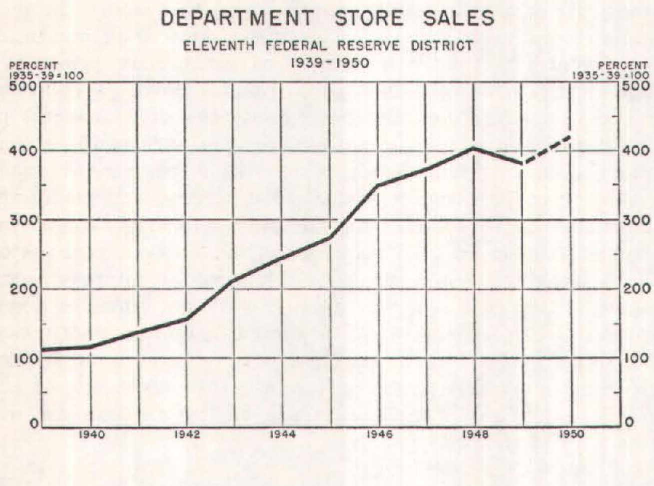
1939–1950



OKLAHOMA, LOUISIANA, TEXAS, NEW MEXICO, AND ARIZONA
SOURCE: U.S. DEPARTMENT OF AGRICULTURE

Prices of agricultural products have shown larger increases since the Korean outbreak than most other types of commodities and now are more than 9 percent higher than a year ago, according to the United States Department of Agriculture's index of prices received by farmers. A reduced volume of production, especially in the case of cotton, this year will cause farm income in the Southwest to be appreciably lower in 1950 than in the preceding year. However, the outlook for increased agricultural production and higher prices during the next crop year will tend to increase substantially the agricultural income of the Southwest.

In a setting of full employment, high wage rates, and sustained business activity, the volume of retail trade should continue very favorable, although there may be changes within the retail trade structure which will be partly counteracting. For instance, as the demands of armament production require an increasing proportion of our output of such basic materials as steel and other metals, cutbacks in production of major durable goods will obviously have an effect upon the total volume of sales of these goods at the retail level. Of course, such cutbacks as may occur will be from the abnormally high levels of production of recent months—levels which many believe are not sustainable in any event. On the other hand, there are no indications at this time that there will be any general cutbacks in the production of nondurable or so-called soft goods. Consequently, consumers may be inclined to direct a larger part of their rising income to the purchase of soft goods as the availability of hard goods tightens somewhat; such diversion will tend to have a sustaining effect upon the total volume of retail trade. Other factors, such as the possibility of the imposition of rationing at some time in the period ahead, also would have a marked effect upon retail sales volume. Nevertheless, the general trend of dollar volume of retail sales in the Southwest should continue strong and upward under the stimulus of the various income-creating forces that will be an accompaniment of a defense program placed on an economy operating at boom levels.



An appraisal of the effects of the defense program upon the economy of the Southwest undoubtedly leads to the conclusion that it will be stimulative and will encourage further growth and development in the Southwest's major industries. The program of rearmament and strengthening of our defenses will assure to this part of the country a very high level of business activity, full employment and negligible unemployment, rising incomes, and the various other developments that are characteristic of so-called boom economic activity. In one respect, conditions such as these will be viewed as "favorable." There is some significance in placing the quotation marks around that word, for many problems will arise during the months ahead that will require for their solution the complete cooperation and best judgment of the informed leadership of the Southwest and of the Nation as a whole, for this part of the country cannot escape the consequences of national decisions.

The most serious danger, and the problem that requires the most immediate consideration and full effort of businessmen, representatives of Government, labor, and others, is inflation. The ways and means must be decided upon to control, to the greatest extent possible, the strong inflationary pressures that not only exist in the economy at the present time but will continually threaten to grow and break through their bounds. It should be apparent to all that the basis for inflation is inherent in a situation which imposes a defense program involving substantial government expenditures upon an economy that is already operating at or near full capacity. Unless we are able to prevent the inflationary potentialities in the current situation from becoming realities, most of the so-called "favorable" developments that appear in the outlook for the Southwest could ultimately turn out to be dangerous consequences. Fundamentally, we must increase on a sound, steady basis our production of goods and services and, at the same time, prevent any excessive increase in the money supply of the country.

Measures which should be used to prevent inflation in the current situation are generally well known, but in view of their importance, perhaps they bear repeating. To the greatest extent possible, our national defense program should be carried out on a pay-as-you-go basis, with taxation providing the Government with the funds needed. This would tend to absorb surplus money and prevent an unwarranted increase in the money supply. The full extent to which our defense program can be met through taxation will depend upon the ultimate size of that program. If it should prove that additional money is required in excess of taxation, such funds should be obtained by the Government through the sale of, preferably, nonmarketable securities to nonbanking sources, such as individuals, insurance companies, corporations, and other similar institutional investors. Bank credit expansion, which, of course, adds to the money supply, should be firmly restricted. In this respect, reliance should be placed as much as possible upon the general, indirect means of credit control, although with respect to some types of credit, such as consumer credit, real-estate credit, and security trading, selective credit controls are an essential requirement.

Businessmen and labor, also, can reduce inflationary pressures by minimizing price and wage increases and, in general, controlling costs and profits rigidly. It may be that as events develop, direct anti-inflationary controls over prices, profits, and wages will become necessary to supplement and re-enforce the more general types of controls referred to in the preceding paragraphs. Such direct controls, however, unless accompanied by sound monetary, credit, and fiscal policies, tend only to forestall or hold in check temporarily inflationary pressures. Alone, they are not a guarantee against the possibility of ultimate inflation.

Review of Business, Industrial, Agricultural, and Financial Conditions

DISTRICT SUMMARY

With the tapering off in war-scare buying, department store sales in the Eleventh Federal Reserve District in August were maintained at the unusually high level of July. Sales were 24 percent higher than a year earlier as compared with the year-to-year increase of 43 percent of the previous month. Sales during the first half of September were 16 percent above those in the same period last year. Durable goods sales during August, although declining substantially from the July peak, continued in heavy volume, while soft goods sales showed marked improvement. Instalment receivables rose to a record high in August 98 percent above the year-earlier level, but the imposition of instalment credit controls is likely to reduce instalment receivables in the coming months. District furniture stores reported a slight decline in sales from July to August, but sales were 25 percent higher than in the same month last year and were the highest for any August on record.

The impact of rising business activity has been strongly felt by nearly all the important industries of this District. Nonfarm employment in Texas currently is at an all-time peak and nearly 3 percent above the year-earlier level. During August the value of residential construction contract awards rose to an all-time peak, while total awards crowded the October 1942 record. Petroleum production increased further in September, surpassing by a substantial amount the former peak reached in November 1948. The Texas Railroad Commission reduced production allowables effective October 1 approximately 63,000 barrels per day below those on September 1, and, in consequence, the District's October production will fall slightly below that for September. With a firm price structure and record demand for petroleum products, drilling activity has continued at a high rate.

Heavy rainfall in many parts of the District during August and September was favorable for ranges and pastures and for maturity of major feed crops but caused considerable deterioration in the cotton crop. Production of most major field crops—wheat, oats, barley, cotton, Irish potatoes, rice, peanuts, flaxseed, and broomcorn—in the District this year will be below harvests of 1949. Increases are reported for hay, sweet potatoes, corn, and sorghum grain. The total volume of crops produced in the area will be the lowest in at least a decade and probably the lowest since the drought years of 1934-35. While the recent sharp advances in prices of a number of important farm commodities will contribute significantly to support of the income of the District this year, the effect of the higher prices will not be sufficient to offset losses resulting from the reduced production of commodities. In consequence, cash receipts from farm marketings in this District during 1950 are expected to fall below the record total in 1949.

Between August 16 and September 20, selected member banks in the larger cities of the District reported an increase in loans amounting to $56,878,000, with loans for commercial, industrial, and agricultural purposes accounting for approximately 85 percent of the growth. Total deposits rose by $16,102,000, but investments declined by $48,318,000.

BUSINESS

Under the authority of the Defense Production Act of 1950, the Board of Governors of the Federal Reserve System announced on September 9 the reinstitution of the regulation of consumer instalment credit through Regulation W, effective September 18. In making this announcement, the Board noted that "consumer credit has undergone an unprecedented expansion, particularly in recent months" and that under the prevailing conditions "continued excessive growth of consumer instalment credit adds materially to inflationary pressures." The limitations initially established call for down payments of at least one-third and maximum maturities of 21 months in the case of automobiles, down payments of at least 15 percent and maximum maturities of 18 months in the case of appliances, down payments of at least 10 percent and maximum maturities of 18 months for furniture and rugs, and down payments of at least 10 percent and maximum maturities of 30 months for home repairs, alterations, or improvements. Listed articles costing less than $100, while not requiring down payments, are subject to the applicable maximum maturities. Instalment loans for the purchase of any listed article carry the same limitations that apply to the instalment sale of the article; other instalment loans are limited to a maximum maturity of 18 months.

Consumer buying in the Eleventh Federal Reserve District continued strong during the first half of September, although the unrestrained war-scare buying of July and the first part of August had largely disappeared. Department store sales, buoyed by back-to-school buying, showed a marked seasonal rise, with gains of around 16 percent over the first 2 weeks of September a year ago.

Although the year-to-year percentage changes in district department store sales at the end of August had almost returned to levels prevailing prior to the outbreak in Korea, the heavy buying during the first half of that month pushed the total monthly volume 24 percent higher than in the same month of 1949. This year-to-year increase was noticeably smaller than the 43-percent gain in July but was over three times as large as the year-to-year increases in the immediately pre-Korean months. Cumulative sales for the first 8 months of this year averaged 13 percent higher than during the corresponding period of last year.

Consumer durable goods sales were maintained in good volume during the last 2 weeks of August and the first 2 weeks of September, although they were substantially lower than in the previous 4-week period of war-scare buying. Advance buying immediately prior to the imposition of instalment credit controls appears to have given a marked lift to sales, while in the first week after the controls were imposed, sales were off noticeably, according to late reports. For the month of August as a whole, the radio-television sales made the most outstanding showing of any of the durable goods items, with an increase of 268 percent over the year-earlier level. Moreover, domestic floor covering sales, showing a year-to-year increase of 75 percent, rose to the highest level on record, while furniture sales were moderately below the record July volume and were 42 percent higher than in August 1949. Although major appliance sales for the month as a whole showed a 35-percent gain over the year-earlier level, in the last 2 weeks of August they dropped noticeably below the high level of the same period last year.

The heavy consumer buying in August was not confined to the hard goods items, but soft goods sales also showed substantial increases. Sales of sheetings, linens, and hosiery were markedly higher than a year earlier, although down sharply from the peak July level. Moreover, sales of women's and misses' coats, suits, and dresses showed a greater-than-seasonal increase, with coat and suit sales 7 percent higher than in August a year ago and dress sales 21 percent higher. Men's clothing sales registered the largest year-to-year increase for any month of this year, 15 percent. Notable gains over year-earlier levels also were evident in silverware and jewelry, 29 percent, and in the basement store sales, 10 percent.

WHOLESALE TRADE STATISTICS

Eleventh Federal Reserve District

	Percentage change in				
	Net sales			Stocks‡	
	Aug. 1950 from Aug. 1949	Aug. 1950 from July 1950	8 mo. 1950 comp. with 8 mo. 1949	Aug. 1950 from Aug. 1949	Aug. 1950 from July 1950
Lines of trade:*					
Automotive supplies	68	—22	..	—13	6
Drugs and sundries	22	18	..	26	13
Dry goods	35	26	9	74	24
Grocery (full-line wholesalers not sponsoring groups)	5	— 5	1	4	10
Hardware	51	7	18	— 3	— 5
Industrial supplies	51	18	..	— 2	— 1
Machinery equipment and supplies except electrical	53	23	..	..	..
Tobacco products	9	6	3	..	..
Wines and liquors	67	9	..	6	57

* Preliminary data. Compiled by United States Bureau of Census.
‡ Stocks at end of month.

RETAIL TRADE STATISTICS

	Percentage change in				
	Net sales			Stocks‡	
	Aug. 1950 from Aug. 1949	Aug. 1950 from July 1950	8 mo. 1950 comp. with 8 mo. 1949	Aug. 1950 from Aug. 1949	Aug. 1950 from July 1950
Department stores:					
Total Eleventh District	24	— #	13	20	19
Corpus Christi	32	7	13	16	16
Dallas	26	6	13	17	21
Fort Worth	24	— 4	13	21	11
Houston	26	— 5	8	13	17
San Antonio	24	6	16	33	22
Shreveport, La.	18	— 5	9	..	..
Other cities	20	— 4	15	22	20
Furniture stores:					
Total Eleventh District	25	— 3	..	24	3
Dallas	— 2	—20	..	16	19
Houston	28	—14	..	..	..
Port Arthur	12	5	..	15	7
San Antonio	33	4	..	..	..
Shreveport, La.	59	— 2	..	31	— 7
Wichita Falls	29	4	..	7	5
Household appliance stores:					
Total Eleventh District	90	1	..	..	..
Dallas	71	1	..	..	..

\# 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*				Adjusted			
	Aug. 1950	July 1950	June 1950	Aug. 1949	Aug. 1950	July 1950	June 1950	Aug. 1949
Eleventh District	399	429	353	333	449	537	410	374r
Dallas	376	367	302	299	443	510	369	352
Houston	405	503	400	370r	460	621	460	421r

Stocks—(1935–39=100)

	Unadjusted*				Adjusted			
	Aug. 1950	July 1950	June 1950	Aug. 1949	Aug. 1950	July 1950	June 1950	Aug. 1949
Eleventh District	402	351	353	346	406	374	375	349r

* Unadjusted for seasonal variation.
r—Revised.

The increased strength in soft goods sales and the decline in consumer durable goods sales as war-scare buying tapered off were reflected in marked gains in cash and charge account sales in August and a noticeable decline in instalment sales. Despite a 15-percent drop from July to August, instalment sales were still 44 percent higher than a year ago, while charge account and cash sales showed year-to-year increases of 24 and 11 percent, respectively. Collections of both charge account and instalment receivables were up moderately in August. The charge account collection ratio rose from 49 percent in July to 51 percent in August, the same as a year earlier, but the instalment collection ratio remained unchanged at 12 percent for the third successive month and was substantially lower than the 18 percent for August last year. Instalment receivables of district department stores on September 1 reached a new high 98 percent above the same date of 1949. In view of the moderate increase in down payment requirements and the shortening of the payout period following the imposition of instalment credit controls on September 18, instalment receivables are likely to show a declining trend in the coming months.

Department store stocks rose substantially in August, partly in reflection of the heavy July ordering by merchants which accompanied the splurge in consumer buying. Stocks at the end of August were 19 percent higher than a month earlier and were 20 percent higher than a year ago. In May, June, and July, stocks ranged between 8 and 9 percent higher than in the same months of 1949. Orders outstanding at the end of August were down 11 percent from the month previous and were 65 percent higher than on the same date of last year, as compared with a year-to-year increase of 68 percent at the end of July.

Sales at reporting furniture stores in this District were down slightly from July to August but were the highest for any August on record, exceeding the year-earlier level by 25 percent. Cash sales showed particular strength, with a slight increase over the high volume of July and a 28-percent increase over August a year ago. Meanwhile, credit sales declined slightly but were 23 percent higher than a year earlier. The small increases in accounts receivable outstanding during the past several months have been about in line with the increases in the same period last year, with the result that the year-to-year gain in receivables has been maintained around 21 to 24 percent; August showed a 23-percent increase. Collections were up 7 percent over the previous month and were 22 percent higher than a year earlier. Furniture store inventories showed a 3-percent increase, following a 2-percent rise in the previous month, and at the end of August were 24 percent greater than on the same date of 1949.

Income Payments

Income payments to individuals in states of the Eleventh Federal Reserve District, which is comprised of Texas and parts of Arizona, Louisiana, New Mexico, and Oklahoma, rose to a new high in 1949 despite the mild business readjustment which caused a slight-to-moderate reduction in income payments in all other sections of the country. New Mexico led the Nation with an 8-percent increase in income payments during 1949, while Texas and Louisiana showed noticeable increases of 6 and 5 percent, respectively. In Arizona and Oklahoma, income payments were practically unchanged. These developments in income payments in states in this District compare with a 2-percent decline for the Nation as a whole.

Per capita income (total income payments divided by population) also reached new highs in most district states. Texas not only showed the largest increase, 6 percent, but also had the highest per capita income, $1,205. At this level, however, the Texas per capita income was still markedly below the national average of $1,330. Meanwhile, Louisiana, with the lowest per capita income for the district states, $1,002, and New Mexico, each showed increases of 4 percent. The only state in the District to show a decrease was Arizona, with a 1-percent decline; but this decrease, it will be noted, was smaller than the national average decline of 4 percent.

The most important factor in the rise of income payments in the District was the sharp increase in agricultural income in Texas, stemming from the record crop production. Texas experienced a 28-percent increase in agricultural income; New Mexico, a 12-percent increase; and Arizona, an 8-percent increase. On the other hand, Louisiana and Oklahoma had declines of 16 percent and 12 percent, respectively, which, nevertheless, were smaller than the 22-percent decline of agricultural income in the Nation.

TOTAL INCOME PAYMENTS AND PERCENT CHANGES

1939, 1948, AND 1949

	Total income payments (In millions of dollars)			Percent change	
	1939	1948	1949	1939 to 1949	1948 to 1949
United States	$70,601	$202,385	$197,531	180	—2
Arizona	227	835	839	270	*
Louisiana	828	2,522	2,647	220	5
New Mexico	179	614	665	272	8
Oklahoma	796	2,299	2,297	189	*
Texas	2,554	8,716	9,265	263	6

* Less than one-half of 1 percent.
SOURCE: United States Department of Commerce.

PER CAPITA INCOME PAYMENTS AND PERCENT CHANGES

1939, 1948, AND 1949

	Per capita income payments			Percent change	
	1939	1948	1949	1939 to 1949	1948 to 1949
United States	$539	$1,387	$1,330	147	—4
Arizona	461	1,179	1,165	153	—1
Louisiana	354	961	1,002	183	4
New Mexico	341	995	1,033	203	4
Oklahoma	340	1,035	1,068	214	3
Texas	401	1,137	1,205	200	6

SOURCE: United States Department of Commerce.

PERCENT CHANGES IN TOTAL INCOME PAYMENTS AND SELECTED COMPONENTS, 1948 to 1949

	Total income payments	Agri-cultural income	Nonagri-cultural income	Gov't income payments	Trade and service income	Manu-facturing pay rolls
United States	—2	—22	0	10	—1	—6
Arizona	0	8	—1	10	—4	—4
Louisiana	5	—16	8	35	2	—7
New Mexico	8	12	8	14	0	9
Oklahoma	0	—12	3	10	—2	—2
Texas	6	28	2	13	1	2

SOURCE: United States Department of Commerce.

Also of major importance in the rise in income payments in district states was an increase in government income payments, particularly in Louisiana, which had a 35-percent increase in income in this category. Only two states out of the five in the District showed increases in income from manufacturing pay rolls, New Mexico and Texas, with increases of 9 and 2 percent, respectively. Likewise, income from trade and service industries was up slightly in only two states, Louisiana and Texas.

AGRICULTURE

As the current crop season passes into its final weeks, it is apparent that the total volume of 1950 crops harvested in the Southwest will fall sharply below expectations during the early summer months. Heavy rains in many important farming sections at critical stages of crop development and harvest and extensive insect infestations causing damage to wheat, cotton, and other crops have taken a heavy toll of this year's production. These factors, together with the curtailment in this year's acreage of several important crops, have reduced total crop production in the Southwest to the lowest level in at least a decade. Rains during September further delayed land preparation and seeding of the 1951 winter wheat crop in parts of the important High Plains area, although considerable acreage has been seeded and many fields are up to a good stand.

Harvest of the comparatively small cotton crop in the Southwest during September was interrupted by excessive rains, particularly in the northcentral counties of Texas. Cotton ginnings thus far this season are far below those for the comparable period of last year, although ginnings to date represent a larger percentage of the crop than was true a year ago. Ginnings in Texas through August 31 total 615,000 bales, compared with 974,000 bales to the same date last season. However, the cotton ginned thus far averaged higher in grade and considerably longer in staple length than that ginned to this date a year ago.

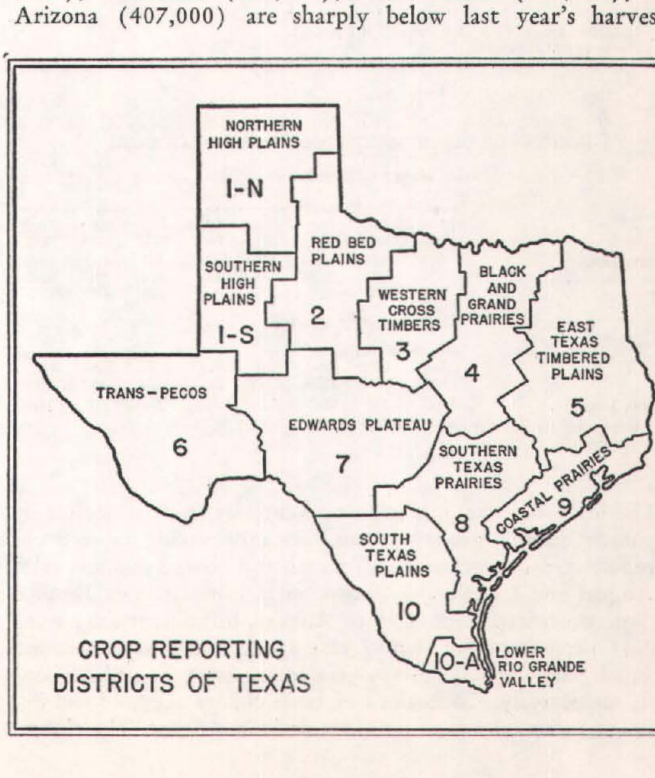
TEXAS COTTON PRODUCTION BY CROP REPORTING DISTRICTS

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

Crop reporting district	1948	1949	1950 indicated Sept. 1	1950 as percent of 1949
1-N	115	259	85	33
1-S	558	1,571	775	49
2	496	1,119	460	41
3	22	61	18	30
4	773	1,059	440	42
5	226	350	105	30
6	140	190	155	82
7	20	88	30	34
8	278	505	230	46
9	170	212	110	52
10	355	626	367	59
State	3,153	6,040	2,775	46

SOURCE: United States Department of Agriculture.

More than the usual amount of interest centers around the ultimate outcome of the cotton crop, partly because the production this year is much less than was anticipated when acreage controls were ordered and partly because there has been marked deterioration of the crop in some areas since the Department of Agriculture released its September 1 estimate of 9,882,000 bales. Favorable growing conditions on the High Plains and the outlook for a good crop in that section caused some speculation that the harvest in Texas might exceed the Agriculture Department's September 1 estimate of 2,775,000 bales, which is 225,000 bales below the initial estimate on August 1. However, the improved situation in the High Plains appears to have been counteracted by the heavy rains in central Texas during September, which caused further damage to the crops in that section. The cotton crops in Louisiana (350,000 bales), Oklahoma (200,000), New Mexico (185,000), and Arizona (407,000) are sharply below last year's harvests.



The cotton market has reacted strongly to the reports of a short crop and to indications of high level consumption and exports during the next year. Cotton prices have risen to the highest level in almost 30 years. While the Department of Commerce has invoked license controls for cotton exports, domestic consumption is running at an annual rate in excess of 10,000,000 bales, and the defense program now getting under way will accentuate the drain on the limited cotton supplies.

CROP PRODUCTION
(In thousands of units)

		Texas			States in Eleventh District*		
	Unit	Estimated Sept. 1, 1950	1949	Average 1939-48	Estimated Sept. 1, 1950	1949	Average 1939-48
Winter wheat	bu.	21,560	102,848	56,350	63,851	196,845	131,754
Corn	bu.	67,295	58,208	64,272	121,492	108,626	114,406
Oats	bu.	31,000	34,020	31,195	50,494	55,682	61,458
Barley	bu.	1,750	2,774	4,069	10,103	10,550	12,822
Cotton	bale	2,775	6,040	2,729	3,917	8,119	4,088
Hay	ton	1,429	1,366	1,426	5,005	4,827	4,519
Irish potatoes	bu.	2,720	3,686	4,560	6,721	7,253	10,011
Sweet potatoes	bu.	5,335	5,775	5,119	15,710	14,555	14,326
Rice	cwt.	10,170	10,178	7,873	21,032	21,229	17,755
Sorghums for grain	bu.	121,005	92,676	62,954	142,772	114,426	76,018
Peanuts	lb.	283,200	333,450	283,952	402,675	456,130	384,143
Flaxseed	bu.	1,404	1,974	448	1,639	2,930	998
Broomcorn†	ton	5,600†	12,100†	6,250†	18,800†	29,200†	23,010†

* Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
† Broomcorn data are in terms of tons rather than thousands of tons.
SOURCE: United States Department of Agriculture.

Because of the critically short cotton supply situation expected during the forthcoming months, there is a strong probability that there will be no controls on cotton acreage in 1951. The cotton trade apparently expects a large cotton crop next year, which, in turn, would be expected to have a depressing effect on the cotton market. Prices of October and December 1951 futures are 5 to 6 cents per pound under current spot market prices.

Harvest of corn made rapid progress in all areas of the District during September except for occasional interruptions by rain. The crop in Texas, estimated on September 1 at 67,295,000 bushels, or 1,500,000 bushels more than a month earlier, is sharply above last year's crop and is the largest since 1944. The 5-state area probably will harvest approximately 121,000,000 bushels, or 13,000,000 bushels more than in 1949.

Sorghums developed favorably over most of the High Plains area during September. Harvest of early sorghums was delayed by rains during the month, but prospects for late crops were further improved by the additional moisture. Combining of sorghums is nearing completion in northcentral and Low Rolling Plains counties in Texas. Good yields are reported from all areas and production is expected to set new records. The Texas crop is estimated at 121,000,000 bushels, while the 5-state area will harvest about 143,000,000 bushels.

CASH RECEIPTS FROM FARM MARKETINGS
(In thousands of dollars)

	June 1950			June 1949	Cumulative receipts January 1 to June 30	
State	Crops	Livestock	Total	Total	1950	1949
Arizona	$11,887	$ 6,378	$18,265	$20,492	$108,006	$115,634
Louisiana	4,566	7,838	12,404	13,244	88,295	101,478
New Mexico	1,572	5,989	7,561	8,077	51,523	56,592
Oklahoma	15,825	25,091	40,916	64,470	206,477	221,864
Texas	31,175	69,209	100,384	129,809	707,245	639,945
Total	$65,025	$114,505	$179,530	$236,092	$1,161,546	$1,135,513

SOURCE: United States Department of Agriculture.

Production of other important crops in Texas and in the five states of the Eleventh District is shown in an accompanying table. It may be noted that, as compared with last year, smaller crops of oats, barley, Irish potatoes, rice, peanuts, flaxseed, and broomcorn have been or will be harvested. In most instances, the smaller production is due to reduced acreage, although in some instances smaller yields have been a factor. In contrast to these declines in production, the five states probably will harvest slightly larger crops of hay and sweet potatoes this year.

Green range and pasture grazing is abundant in the eastern half and the northwestern part of the District, but ranges are becoming dry in southern and western sections, particularly south Texas and Trans Pecos areas. Livestock are making good gains in areas of sufficient grazing but are barely holding their own in the drier regions. A strong tendency to hold breeding stock still exists throughout most of the District, although high prices are influencing ranchers to cull closely. Practically all breeding ewes and ewe lambs are being held. Marketings of cattle and calves at Fort Worth and San Antonio for the first 8 months of this year slightly exceeded those for the same period in 1949. Receipts of hogs showed a 10-percent increase, while marketings of sheep and lambs were 8-percent above the comparable period last year. Commercial meat production in Texas during the first 7 months of 1950 was 5 percent more than in the same period a year ago.

LIVESTOCK RECEIPTS
(Number)

	Fort Worth market			San Antonio market		
Class	August 1950	August 1949	July 1950	August 1950	August 1949	July 1950
Cattle	55,732	61,912	52,971	31,285	29,388	28,212
Calves	31,440	20,164	18,309	24,565	13,339	14,835
Hogs	40,290	37,781	35,495	8,262	8,147	5,096
Sheep	59,857	66,421	82,029	29,355*	56,557*	18,327*

* Includes goats.

TOP LIVESTOCK PRICES
(Dollars per hundredweight)

	Fort Worth market		
	August 1950	August 1949	July 1950
Slaughter steers	$30.00	$24.50	$31.00
Stocker steers	30.00	22.25	30.00
Slaughter cows	22.50	17.25	24.00
Slaughter heifers and yearlings	30.00	25.00	31.00
Slaughter calves	30.00	25.00	30.50
Stocker calves	30.00	25.00	33.50
Slaughter lambs	30.00	23.50	29.00
Hogs	24.75	22.25	24.25

Farm prices in Texas at the end of September probably averaged higher than at any previous time on record. The index of prices of farm commodities in the State reached 326 (1910-14 = 100) on August 15, which is only three index points below the record high of June and July 1948. The sharp advance to this high level was due almost entirely to price increases for cotton and cottonseed, poultry products, and meat animals. Through late August and September market prices of these commodities continued to advance or held steady. On September 23 Middling 15/16-inch cotton averaged 41.20 cents per pound in the 10 designated markets, compared with 37.05 cents on August 15. The price of cottonseed in local markets made comparable advances. Poultry and egg prices in the Dallas wholesale market at the end of September indicated that the high levels attained during July and August had been maintained. Meanwhile, reports from the Fort Worth livestock market show that prices of cattle and lambs on September 23 were from $1.00 to $1.50 per hundredweight above mid-August levels, although hog prices, declining seasonally, were off $2.00 per hundredweight. Prices for wool and mohair sold under contract during August and September were at record or near-record levels; spot wool on the New York market on September 23 sold for $2.23 per clean pound, compared with $1.87 at mid-August and $1.62 on July 15. Grain price changes on the Fort Worth Grain and Cotton Exchange during the past month have been minor, with the principal exception of barley and white corn, which have experienced considerable price advance.

FINANCE

Between August 16 and September 13, selected member banks in the larger cities of the District reported increases in loans, balances with banks, and deposits but showed a decrease in total investments. Resources of these banks increased $60,-011,000 to a total of $3,835,896,000 on September 13.

The growth in loans during the 4-week reporting period ended September 13 represents an accentuation of trends in evidence during most of the current year and reflects the stimulus of seasonal factors and the effect of Korean hostilities upon an already strong business situation. During the first half of the year loan demand remained strong despite some seasonal contraction in the volume of commercial, industrial, and agricultural credits. High levels of activity in construction, the security market, and consumer purchasing maintained total bank loans during the first 6 months of 1950 near or above the level prevailing on December 31. Beginning with the 4-week period ended July 12, loans for commercial, industrial, and agricultural purposes reversed their moderate downward trend and moved upward rather sharply in the succeeding 5 weeks, while other major classes of loans continued their upward movement. With the accelerated volume of consumer purchasing immediately following the outbreak of hostilities in Korea, an added stimulus was given to the total demand for credit. As a result of the increased rate of consumer purchases—which was made possible to a significant degree by the use of instalment and other credit—and the fear of tight supply conditions, an increase in the demand for business loans to re-establish and improve inventory positions was set in motion.

Under the influence of these factors in the business situation, total loans at the weekly reporting member banks increased by $47,120,000 during the 4 weeks ended September 13. Approximately 87 percent of the growth was due to expansion in loans for commercial, industrial, and agricultural purposes, as this category of loans showed a growth of $40,939,000. Real-estate loans increased by $2,293,000, while "all other" loans, including a large amount of consumer loans, increased by $4,-664,000. On September 13, total loans amounted to $1,323,-409,000, as compared with $1,034,689,000 on the comparable day last year.

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

(In thousands of dollars)

Item	Sept. 13, 1950	Sept. 14, 1949	August 16, 1950
Total loans (gross) and investments	$2,641,702	$2,410,532	$2,615,704
Total loans—net‡	1,309,862	1,024,791	1,262,328
Total loans—gross	1,323,409	1,034,689	1,276,289
Commercial, industrial, and agricultural loans	901,976	693,465	861,037
Loans to brokers and dealers in securities	6,278	6,879	6,498
Other loans for purchasing or carrying securities	56,401	48,941	56,957
Real-estate loans	109,421	88,597	107,128
Loans to banks	200	409	200
All other loans	249,133	196,398	244,469
Total investments	1,318,293	1,375,843	1,339,415
U. S. Treasury bills	99,890	125,728	93,918
U. S. Treasury certificates of indebtedness	75,703	330,091	121,788
U. S. Treasury notes	337,439	45,788	295,423
U. S. Government bonds (inc. gtd. obligations)	654,630	750,740	684,781
Other securities	150,631	123,496	143,505
Reserves with Federal Reserve Bank	463,604	451,203	467,592
Balances with domestic banks	354,154	336,507	340,277
Demand deposits—adjusted*	2,136,833	1,963,893	2,095,209
Time deposits except Govt.	436,376	452,479	442,978
United States Government deposits	69,608	43,202	68,475
Interbank demand deposits	653,878	599,426	651,233
Borrowings from Federal Reserve Bank	300	0	200

‡ 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.

Total investments declined by $21,122,000 between August 16 and September 13, as holdings of United States Government securities showed a decrease of $28,248,000. In contrast to the downward trend in holdings of Governments, investments in other securities increased $7,126,000. In addition to net sales of Government obligations during the period, the weekly reporting member banks also made changes in the composition of portfolios. Following the announcement of the Secretary of the Treasury regarding the offering of a 13-month $1\frac{1}{4}$-percent note in exchange for the bonds called on September 15 and the certificates maturing on September 15 and October 1, there was a marked movement out of the issues called or maturing into other outstanding issues. As a result, the decrease in holdings of certificates of indebtedness, amounting to $46,-085,000, was offset in large measure by the increase of $42,-016,000 in Treasury notes, while net sales of bonds, amounting to $30,151,000, were offset to a much smaller degree by the net growth of $5,972,000 in Treasury bill portfolios.

Despite the increase in loans and the relatively small decline of $3,988,000 in reserves with the Federal Reserve Bank, balances with domestic banks increased $13,877,000 during the 4-week period, with a growth of $53,160,000 reported in the final week. This growth was associated, in part, with the decrease in Government securities, as banks converted part of the proceeds from the sale of Governments into balances with other banks pending reinvestment or other uses.

With the increase in lending operations, selected member banks in the larger cities of the District reported growth in total deposits amounting to $56,581,000. Demand deposits of individuals, partnerships, and corporations accounted for $24,-243,000 of the increase, while demand deposits of states and their political subdivisions increased by approximately the same amount. Total deposits of the weekly reporting member banks rose to a record high of $3,584,630,000 on September 13.

Data for the week ended September 20, the most recent period for which figures are available, indicate a continuation of the trends in loans and investments which prevailed during the preceding 4 weeks; but deposits and balances with banks, which had previously risen, showed a sharp downward movement. Demand deposits decreased by $42,902,000, with withdrawals by individuals and businesses and by states and their political subdivisions largely accounting for total deposit shrinkage. The weekly reporting member banks met this loss of funds by drawing down balances with other banks in the amount of $34,061,000 and by a run-off in their holdings of Governments of $25,068,000. Funds were also available to increase reserves with the Federal Reserve Bank by $18,587,000 and to expand loans by $9,758,000, which represents approximately the same rate of loan growth reported in the preceding 4 weeks.

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
August 1948	$5,112,411	$591,551	$2,449,802	$379,803	$2,662,609	$211,748
August 1949	5,020,379	635,371	2,443,350	410,782	2,577,029	224,589
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
August 1950	5,685,570	655,792	2,779,305	409,987	2,906,265	245,805

Gross demand deposits of all member banks in the District averaged $5,685,570,000 in August, as compared with $5,640,-371,000 in July and $5,020,379,000 in August 1949. The growth was approximately evenly divided between Reserve city and country banks. Time deposits, however, declined by $4,956,000 during August, with Reserve city banks more than accounting for the decrease. Despite this most recent decline, total time deposits averaged $655,792,000 in August, as compared with $635,371,000 in the comparable month of last year.

Debits to deposit accounts reported by banks in 24 cities of the District continued to rise, reflecting the strength of economic activity in the Southwest. For example, from April to July, month-to-month debit figures exceeded year-earlier totals by 7 percent, 19 percent, 25 percent, and 28 percent, respectively. During August, the latest month for which data are available, debits were 4 percent above July but 30 percent above August 1949. The turnover of deposits, representing the average annual rate of use of deposit accounts, also showed an upward trend in these months, rising from 12.5 in April to 14.2 in August.

Between August 15 and September 15, total earning assets of the Federal Reserve Bank of Dallas increased $27,207,000, with holdings of United States Government securities largely accounting for the growth. Other changes in the condition statement include a decrease of $55,916,000 in gold certificate reserves and increases of $11,955,000 in member bank reserve deposits and $3,598,000 in discounts for member banks. Notes of this Bank in actual circulation on September 15 amounted to $613,316,000, as compared with $610,941,000 on August 15 and $612,943,000 on September 15, 1949.

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

(Amounts in thousands of dollars)

	Debits+			Deposits*			
		Percentage change from			Annual rate of turnover		
City	August 1950	Aug. 1949	July 1950	August 31, 1950	Aug. 1950	Aug. 1949	July 1950
Arizona:							
Tucson	$ 59,839	31	— #	$ 83,697	8.5	6.8	8.5
Louisiana:							
Monroe	44,880	35	12	43,587	11.8	9.5	10.6
Shreveport	148,978	25	2	185,690	9.8	8.8	9.8
New Mexico:							
Roswell	19,503	66	10	22,637	10.4	7.9	9.4
Texas:							
Abilene	49,121	64	3	47,946	12.2	9.7	11.9
Amarillo	109,740	21	4	94,116	13.8	12.5	13.3
Austin	124,009	10	6	109,810	13.3	13.1	12.4
Beaumont	109,244	22	8	91,779	14.3	11.9	13.4
Corpus Christi	121,747	37	12	94,083	15.7	13.6	14.4
Corsicana	12,311	22	9	20,000	7.3	6.4	6.7
Dallas	1,322,804	28	— 1	858,457	18.6	16.3	18.5
El Paso	144,810	31	— 1	128,267	13.4	11.5	13.6
Fort Worth	403,105	29	4	327,564	14.9	12.7	14.3
Galveston	71,975	10	2	98,667	8.9	8.3	8.9
Houston	1,307,660	32	8	1,030,878	15.4	13.1	14.5
Laredo	18,862	27	11	22,131	10.1	8.4	9.0
Lubbock	82,457	59	3	81,217	11.9	10.0	11.5
Port Arthur	34,633	5	9	38,828	10.7	10.1	9.7
San Angelo	40,239	48	4	47,874	10.1	8.6	9.6
San Antonio	332,918	37	3	356,071	11.3	9.4	10.9
Texarkana‡	16,683	34	— 6	22,519	8.9	6.7	9.4
Tyler	46,782	21	— 3	50,833	11.0	9.2	11.0
Waco	68,329	43	14	77,371	10.6	8.8	9.4
Wichita Falls	65,548	28	— 1	93,060	8.5	7.7	8.5
Total — 24 cities	$4,756,177	30	4	$4,027,082	14.2	12.2	13.8

# Indicates change of less than one-half of 1 percent.
+ 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 $27,479,000 for the month of August 1950.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	Sept. 15, 1950	Sept. 15, 1949	August 15, 1950
Total gold certificate reserves	$616,942	$644,691	$672,858
Discounts for member banks	4,115	645	517
Foreign loans on gold	0	3,056	70
U. S. Government securities	854,631	742,934	830,952
Total earning assets	858,746	746,635	831,539
Member bank reserve deposits	827,790	766,222	815,835
Federal Reserve notes in actual circulation	613,316	612,943	610,941

On September 14 the Secretary of the Treasury announced the completion of refunding operations for the 2-percent and 2½-percent Treasury bonds called for redemption on September 15 and the 1⅛-percent certificate of indebtedness which matured September 15. These issues were outstanding in the amount of $7,322,000,000. Total exchanges for the new note amounted to approximately $5,940,000,000, while cash retirement by the Treasury amounted to $1,382,000,000, or approximately 19 percent.

SAVINGS DEPOSITS

		August 31, 1950		Percentage change in savings deposits from	
City	Number of reporting banks	Number of savings depositors	Amount of savings deposits	August 31, 1949	July 31, 1950
Louisiana:					
Shreveport	3	43,710	$ 24,023,949	—4.9	—1.6
Texas:					
Beaumont	3	12,148	5,629,842	—9.2	—2.2
Dallas	8	145,028	76,331,472	—2.1	—0.8
El Paso	2	32,672	22,020,689	—0.7	—1.5
Fort Worth	4	44,259	34,870,507	—2.0	—1.0
Galveston	4	22,244	20,838,125	—2.3	—0.6
Houston	8	94,617	74,304,325	—0.03	—0.9
Lubbock	2	2,175	3,957,338	24.2	—1.9
Port Arthur	2	5,928	4,131,732	—8.6	—1.6
San Antonio	5	41,663	42,491,704	—3.7	—1.2
Waco	3	10,514	10,485,024	3.8	—0.8
Wichita Falls	3	8,318	4,633,067	1.2	—0.4
All other	55	67,433	56,301,498	2.9	—0.3
Total	102	530,709	$380,019,272	—1.0	—0.9

NEW PAR BANK

The Bank of Morehouse, Bastrop, Louisiana, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the par list on its opening date, August 21, 1950. The new bank has capital of $150,000, surplus of $50,000, and undivided profits of $25,000. The officers are: A. E. Stephenson, President; George Alfred Corry, Jr., Executive Vice President; W. H. Todd, Jr., Vice President; and Victor O. Cain, Cashier.

INDUSTRY

During the third quarter of this year, the impact of the accelerated business activity in the Nation generated by the Korean crisis was strongly felt in nearly all the important industries in the Eleventh District. Many industrial raw materials have been reported in tighter supply but, as yet, without preventing expansion of industrial production. Effective September 18, the National Production Authority placed inventory control regulations on 32 raw materials essential to defense, in order to prevent over-buying and hoarding. No consumer goods are covered, and lumber products and certain other building materials are the only ones commonly handled by retailers. The materials covered by this order are the following:

Building materials: Cement, gypsum board, sheathing, and lath.

Forest products: Softwood and hardwood (except hardwood flooring and railroad and mine ties), softwood plywood, and wood pulp.

Chemicals: Industrial alcohol, benzene, caustic soda, chlorine, glycerine, and soda ash.

Iron and steel: Pig iron, gray iron castings, carbon and alloy steel, rough forgings, iron and steel scrap.

Other metals and minerals: Aluminum; columbium; cobalt; copper; and scrap containing copper, magnesium, manganese, nickel, tin, tungsten, zinc, and other nonferrous scrap.

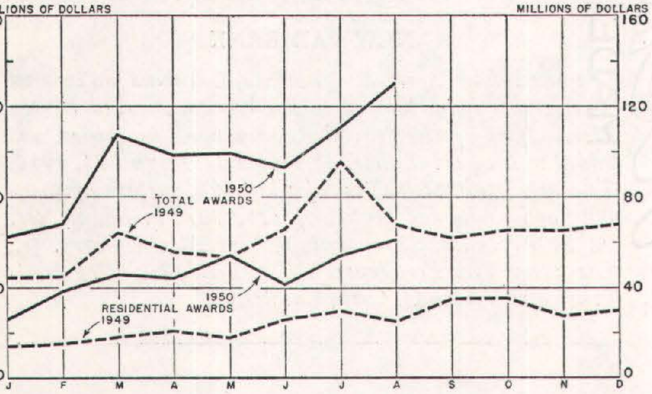
Rubber: Natural rubber and latex and all synthetic rubbers.

Textiles: Burlap, cotton pulp, high-tenacity rayon yarn, nylon staple, and nylon filament yarn.

Nonfarm employment in Texas, which reached a new peak in July, continued to increase and by September approximated 2,400,000. Of this employment, manufacturing accounted for about 400,000, the highest number since November 1948. Added workers in the durable goods industries have been largely responsible for this increase, with particularly large gains occurring in airacraft, automobile assembly, and metal products plants and in the lumber and wood products industries. Employment in chemical production and petroleum refining also increased. Nonmanufacturing employment now totals about 2,000,000, with important additions to working forces being made in construction and oil and gas production. By mid-July new nonfarm employment records had been established in Abilene, Austin, Dallas, El Paso, Fort Worth, Houston, Lubbock, San Angelo, and Wichita Falls. Subsequently, new records were established in a number of additional cities.

VALUE OF CONSTRUCTION CONTRACTS AWARDED

ELEVENTH FEDERAL RESERVE DISTRICT



SOURCE F W DODGE CORPORATION

During August the value of construction contracts awarded in the Eleventh District crowded the October 1942 record, rising to $130,000,000, or 17 percent more than the high July total and 92 percent greater than in August 1949. Residential awards set a new record, amounting to $61,000,000, or 13 percent more than in July and 139 percent above the year-earlier total. During the first 8 months of 1950, total awards amounted to $772,000,000, or 56 percent more than during the same period of last year, while residential awards of $366,000,000 were more than twice the corresponding figure for 1949. Nonresidential awards of $406,000,000 for 8 months were up only 25 percent. The sharp increase in contract awards reflects, in considerable part, the fear of future shortages and higher prices of building materials and the desire to get projects under way before more severe mortgage credit restrictions are imposed.

The acceleration in construction has put some strain upon producers and suppliers of building materials, with shortages being reported in lumber, interior gypsum wallboard, cement, nails, plumbing equipment, and some other materials. Numerous increases in prices have occurred, with some materials apparently being sold through "gray-market" channels. A factor in the scarcity of lumber, as well as some other materials, is the increased burden placed upon the Nation's transportation system. The freight-car shortage in some of the lumber-producing areas of the West Coast delayed lumber shipments and increased the upward pressure on lumber prices. Building materials prices in the Nation rose about 4.5 percent in July and a similar amount during August and early September, reaching by September 12 a level 15 percent higher than at the first of the year and 16 percent above a year ago.

VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

	August 1950p	August 1949	July 1950p	January 1 to August 31 1950p	January 1 to August 31 1949
Eleventh District—total...	$ 130,205	$ 67,877	$ 110,993	$ 772,149	$ 493,479
Residential..............	61,028	25,496	54,155	366,498	169,206
All other...............	69,177	42,381	56,838	405,651	324,273
United States*—total.....	1,653,000	905,748	1,420,181	9,927,329	6,322,234
Residential..............	798,000	393,434	675,080	4,730,205	2,364,076
All other...............	855,000	512,314	745,101	5,197,124	3,958,158

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

BUILDING PERMITS

City	August 1950 Number	August 1950 Valuation	Percentage change valuation from Aug. 1949	Percentage change valuation from July 1950	Jan. 1 to Aug. 31, 1950 Number	Jan. 1 to Aug. 31, 1950 Valuation	Percentage change valuation from 1949
Louisiana:							
Shreveport......	423	$ 2,788,725	40	— 56	3,245	$ 21,661,330	32
Texas:							
Abilene.........	188	1,902,477	285	102	1,381	9,792,720	114
Amarillo........	344	2,134,834	66	— 15	2,657	14,907,831	39
Austin..........	368	2,490,288	15	— 51	3,159	28,275,849	97
Beaumont.......	371	1,421,019	24	65	2,835	7,941,467	20
Corpus Christi...	475	2,652,470	— 27	12	3,686	19,052,301	74
Dallas..........	2,328	13,281,297	113	— 3	16,520	82,800,315	63
El Paso.........	505	2,966,878	180	51	3,268	18,071,727	167
Fort Worth.....	1,055	5,893,831	70	50	7,257	33,868,297	87
Galveston.......	297	1,920,494	597	502	1,391	5,604,506	— 26
Houston........	1,798	24,006,126	154	19	10,217	119,416,683	113
Lubbock........	441	2,598,663	134	— 12	2,677	17,646,092	138
Port Arthur.....	167	214,000	— 59	— 36	1,699	4,402,236	57
San Antonio....	1,666	6,086,320	96	29	13,786	36,977,422	70
Waco..........	300	3,038,200	35	179	2,169	14,837,888	112
Wichita Falls....	137	523,519	57	— 21	1,045	3,827,824	16
Total............	10,863	$73,919,141	92	9	76,992	$439,084,488	79

Crude oil production in the Eleventh District in August averaged 2,763,000 barrels per day, or 129,000 barrels daily more than in July and 682,000 barrels daily more than in August 1949. In the Nation, crude oil production rose to 5,696,000 barrels per day in August, showing a gain of 182,000 barrels daily from the previous month and 980,000 barrels daily from a year earlier. September production should average about 3,000,000 barrels daily in this District and 5,900,000 barrels daily in the Nation. Both of these amounts will represent new all-time peaks and will substantially exceed the levels of November 1948. About four-fifths of the national gains of the past 6 months has been accounted for by increases in this District.

CRUDE OIL PRODUCTION

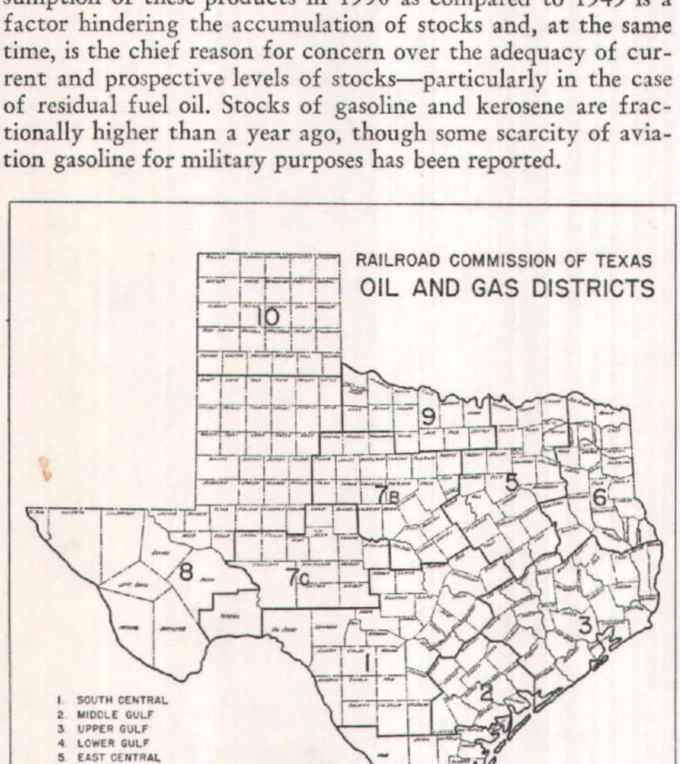
(Barrels)

Area	August 1950 Total production	August 1950 Daily avg. production	Increase or decrease in daily average production from August 1949	Increase or decrease in daily average production from July 1950
Texas:				
District				
1 South Central........	915,200	29,523	3,696	28
2 Middle Gulf..........	4,442,650	143,311	30,717	1,856
3 Upper Gulf..........	13,971,800	450,703	109,963	38,192
4 Lower Gulf..........	6,999,400	225,787	47,535	4,706
5 East Central.........	1,276,500	41,177	8,948	4,514
6 Northeast............	11,708,900	377,706	74,848	4,295
East Texas.........	8,563,550	276,243	52,624	838
Other fields........	3,145,350	101,463	22,224	3,457
7b North Central........	2,249,450	72,563	14,756	366
7c West Central.........	2,117,050	68,292	25,547	2,528
8 West................	26,279,900	847,739	326,361	71,605
9 North...............	4,779,350	154,173	16,712	983
10 Panhandle...........	2,852,000	92,000	—2,103	—476
Total Texas...............	77,592,200	2,502,974	656,980	128,597
New Mexico................	4,143,250	133,653	10,505	2,978
North Louisiana............	3,924,350	126,592	14,645	—2,019
Total Eleventh District......	85,659,800	2,763,219	682,130	129,555
Outside Eleventh District......	90,912,770	2,932,670	297,428	52,591
United States...............	176,572,570	5,695,889	979,558	182,146

SOURCE: Estimated from American Petroleum Institute weekly reports.

During August, refinery activity as indicated by crude oil runs to refinery stills rose to about 1,688,000 barrels per day in this District, or about 125,000 barrels daily more than in July of this year or August of last year. Refinery runs in the Nation reached a record 6,085,000 barrels per day, or 241,000 barrels daily more than in July and 864,000 barrels daily more than in August 1949. During early September, refinery runs did not vary significantly from the August averages.

Stocks of gasoline in the Nation declined seasonally by 2,-825,000 barrels during August and early September, while kerosene stocks rose seasonally by 3,288,000 barrels; gas oil and distillate fuel oil stocks also rose seasonally, by 10,160,000 barrels. The relatively small increase of residual fuel oil stocks of 474,000 barrels during this period represents less than the usual seasonal accumulation and raises doubt as to the adequacy of inventories of this product for the coming winter season, particularly since these stocks are down 26,434,000 barrels, or 38 percent, from a year earlier. Stocks of gas oil and distillate are also below a year earlier—by 6,634,000 barrels, or 8 percent. In part, the lower stock positions of these two products may be accounted for by larger and earlier takings on the part of consumers and distributors in anticipation of possible future shortages and price increases. However, the higher level of consumption of these products in 1950 as compared to 1949 is a factor hindering the accumulation of stocks and, at the same time, is the chief reason for concern over the adequacy of current and prospective levels of stocks—particularly in the case of residual fuel oil. Stocks of gasoline and kerosene are fractionally higher than a year ago, though some scarcity of aviation gasoline for military purposes has been reported.



Stocks of crude oil declined during August and early September by 3,798,000 barrels in the Nation and by 558,000 barrels in this District. The relatively small decline in the District is due to the rise of stocks in west Texas by 1,483,000 barrels, chiefly as the result of insufficient pipe-line capacity to carry that area's rising output. In reflection of this condition and the decline in reservoir pressures, the Texas Railroad Commission applied approximately one-half of the net reduction of 63,000 barrels per day in allowables for October to the six fields in the west Texas reef area. Stocks of crude oil in the Nation on September 9 were the lowest in recent years and were down 24,-698,000 barrels, or 5 percent, from a year earlier. Stocks of crude oil and the four major refined products rose by 7,299,000 barrels during August and early September but on September 9 were 55,728,000 barrels less than a year ago.

Prices of the major petroleum products continued strong, with increases since the end of July in the Texas Gulf Coast prices of kerosene, No. 2 straw fuel oil, residual oil, and lubricating oils and with increases also reported in the State for natural gasoline. Gasoline prices were relatively steady, despite the waning of the season of peak consumption. The strength of product prices has permitted continuance of the gradual widening of the gross profit margins of refiners and has stimulated the maintenance of near-record levels of drilling activity.

UNITED STATES SUPPLY AND DEMAND FOR ALL OILS

(Amounts in thousands of barrels daily)

	Actual		Estimated		
	1948	1949	1950	Fourth quarter 1950	Percent increase 1949 to 1950
Production, crude and other oils	5,922	5,470	5,811	6,076	6.2
Imports	514	642	838	870	30.5
Crude	353	425	493	522	16.0
Refined	161	217	345	348	59.0
Total new supply	6,436	6,112	6,649	6,946	8.8
Stock change	293	—7	—14	—21	....
Crude	71	—9	3	55	....
Other oils	222	2	—17	—76	....
Total demand	6,143	6,119	6,663	6,967	8.9
Motor fuel	2,482	2,609	2,784	2,783	6.7
Kerosene	316	288	318	408	10.4
Distillate	989	932	1,090	1,293	17.0
Residual	1,403	1,392	1,520	1,554	9.2
Other	953	898	951	929	5.9
Domestic demand	5,775	5,792	6,384	6,724	10.2
Exports	368	327	279	243	—14.7
Runs to stills	5,597	5,330	5,669	5,902	6.4
Demand for domestic crude	5,460	5,048	5,320	5,500	5.4

SOURCE: United States Bureau of Mines.

The United States Bureau of Mines has revised upward its estimates of supply and demand for all oils for 1950. Although the estimates appear conservative, substantial increases over 1949 are indicated for domestic production, imports, and domestic demand. The large demand forecast for the fourth quarter of the year suggests that crude oil production may be maintained at close to or above the current record level.

DOMESTIC CONSUMPTION AND STOCKS OF COTTON

(Bales)

	August 1950*	August 1949	July 1950**
Total consumption:			
Texas mills	12,533	12,237	10,488
United States mills	807,840	663,008	610,555
Daily average consumption:			
Texas mills	627	532	552
United States mills	40,392	28,826	32,134
United States stocks—end of month:			
Consuming establishments	1,144,250	676,397	1,307,560
Public storage and compresses	4,568,889	3,946,463	4,847,009

* Four weeks ended August 26.
** Four weeks ended July 29.
SOURCE: United States Bureau of the Census.

The accelerated civilian demand for cotton goods and the placing of substantial orders for military requirements accounted for a 26-percent increase in the daily average consumption of cotton in the Nation in August. The August rate of consumption was 40 percent higher than a year earlier, as well as 16 percent above the average rate for the August 1949-July 1950 season. Total domestic consumption in the Nation during that season amounted to 8,869,511 bales, or 14 percent more than in the 1948-49 season, but was below any other season of the 1940-50 decade. Stocks of cotton at consuming establishments and in public storage and compresses at the end of August 1950 totaled 5,713,139 bales, representing an increase of 1,090,279 bales, or 24 percent, from a year earlier.