

MONTHLY BUSINESS REVIEW

of the FEDERAL RESERVE BANK of Dallas

Volume 35

Dallas, Texas, November 1, 1950

Number 11

THE BUILDING MATERIALS SITUATION IN RELATION TO THE SOUTHWEST

KEITH W. JOHNSON, *Industrial Economist*
Federal Reserve Bank of Dallas

The Korean crisis, which brought about the immediate formulation of plans for an expanded defense program, created new problems for the building materials industries. Throughout the first half of 1950 the rising tide of construction activity had placed added burdens upon many such plants which were already operating at or near capacity. In fact, a growing tightness in the supply situation had been taking place for several months; and in the case of a few items, critical shortages were in prospect as a result of transportation difficulties, demand in excess of capacity production, and other factors.

The impact upon the building materials industries of the outbreak of hostilities in late June was immediate and extensive. The initial development was an intensive wave of speculative buying by contractors and distributors who were endeavoring to cover near-term requirements for projects under way and to accumulate a backlog of supplies as a protection against sharp price advances and future shortages or priorities. Manufacturers immediately stepped up their operations and, at the same time, bought heavily of raw materials. This unusually heavy demand, imposed upon an already tight supply situation, induced sharp price increases, especially on some items. Wholesale prices of building materials increased about 11 percent from late June to early October, and much sharper advances occurred on such items as lumber.

The above-mentioned conditions were aggravated by widespread efforts of owners and contractors to rush completion of present projects and to get new projects under contract as rapidly as possible. Prospective homeowners closed contracts for home purchases in anticipation of higher prices and restrictions on mortgage credit. Many industrial concerns which had been considering plant expansion entered into definite contracts when it became evident that prospective demand would justify immediate action. The result of these developments has been record volumes of both residential and total construction.

It is inevitable that the stepped-up defense program will have repercussions upon the building materials industries, as certain basic materials are diverted from civilian construction to military construction or to the production of war materiel. Estimates indicate that construction this year had been using substantially all the cement produced, 70 percent of the lumber, a third of the lead, 14 percent of the steel, 10 percent of the aluminum, and 5 percent of the copper, all of which have important military uses.

Types of building requiring especially large amounts of defense materials are likely to be most seriously affected by cutbacks. Large industrial and commercial building projects, unless needed directly or indirectly in connection with the defense program, could be particularly handicapped by tightness of steel. Steel and other metals are used in some of the key components of many types

of buildings, e.g., in structural steel; nails; plumbing, heating, and electrical equipment; and builders' hardware. Scarcity of one or several of these items can seriously retard or discourage construction projects almost as fast as shortages of the bulkier structural materials—lumber, brick, and cement. Shortages of lumber, while affecting most types of construction, will particularly handicap residential building, which, alone, has been using a third of the Nation's lumber output and accounting for nearly half of the use of lumber in construction.

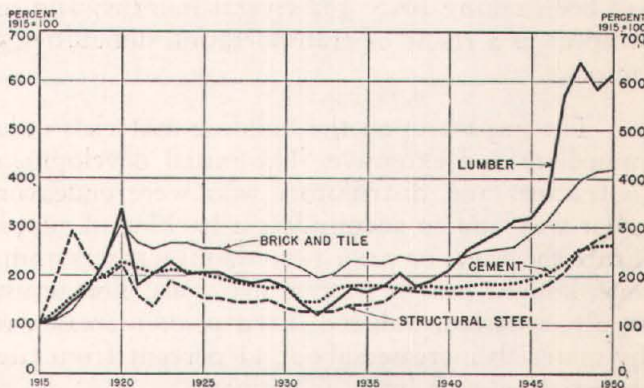
On the other hand, except for some local military construction, many important construction materials are of small military significance, e.g., sand and gravel, stone, slate, brick and other clay products, gypsum, and asphalt. These materials, together with lumber, cement, and steel, account for the bulk of the basic materials used in construction. It may be noted, also, that many of the military requirements are for materials of relatively little direct significance to the construction industry—modern warfare requires immense quantities of petroleum, textiles, food, paper, and numerous other nonconstruction materials.

Moreover, the defense program at its present and prospective levels will not require the immense quantities of construction materials used during World War II. With most of the war plants built during that war still available on either a stand-by or a conversion basis, far less war plant construction will be required. The industrial plants built during the postwar period also, in many cases, will make less necessary the building of additional war facilities. The airfields, military bases, and other military and naval construction of the last war will lessen the need for such work during the present emergency. The use of raw materials in the production of war materiel also will be less than during World War II—at least so long as the defense program does not become an all-out war effort.

The impact of military requirements upon building materials should be gradual, since defense expenditures, which averaged about \$1,300,000,000 per month before the Korean crisis, are not expected to rise to a rate of \$3,000,000,000 per month until about mid-1951 and may not reach \$5,000,000,000 monthly until about mid-1952. However, it is anticipated that only about two-thirds of the increase in expenditures will be for hard goods. Furthermore, many such defense goods are highly processed, so the cost of the basic materials will be but a fraction of the total cost of the finished products. Nevertheless, it seems certain that sizable quantities of materials will be required each year for defense purposes and that some of these requirements will be at the expense of the construction industry. In the case of certain materials, it is probable that defense requirements can be met largely by bringing into use presently idle plant or mine capacity, particularly marginal capacity, and through operation of existing plants for longer hours. Moreover, expansion of gross productive capacity at even 2.5 percent per year, a rate often accepted as the typical peacetime rate of growth, could provide a sizable percentage of the increase in defense production, particularly if the expansion should occur largely in industries producing for defense purposes. In line with the latter assumption is the announcement that steel production capacity is to be increased by over 9 percent during the next 2 years. This increase of steel capacity by 9,400,000 tons per year would equal over 80 percent of the steel requirements of the construction industry in 1950.

Hence, considering the expansion of productive capacity and its most effective utilization, the gradualness of the unfolding of defense expenditures, the fact that many building materials are of small military use, and the fact that much of the military requirements are for nonconstruction materials, it seems likely that the contraction in construction will result chiefly from relatively moderate military inroads on certain material supplies, particularly steel and other metals, and the diversion of construction labor to other fields of activity. Only full-scale war would be likely to lead to a duplication of the 1943-45 period of wartime restrictions on construction.

WHOLESALE PRICES OF BUILDING MATERIALS
IN THE UNITED STATES



SOURCE: U. S. BUREAU OF LABOR STATISTICS
1950 FIGURES ESTIMATED

As to how much of each type of building will be possible during the next 2 years, a few observations may be made. It is generally agreed that residential building will be cut back substantially, reflecting the high costs and shortages of building materials and the regulation of real estate mortgage credit on new construction.* The all-time peak this year of about 1,300,000 housing starts is expected to be reduced to some 800,000 to 850,000 dwelling-unit starts annually during the next year or so. However, even 800,000 units a year would exceed the number of starts in any but peak or near-peak boom years prior to 1949.

Nonresidential construction is likely to show divergent trends, comprising as it does a wide variety of types of construction of differing significance to the defense program and requiring varying amounts of defense materials. Those types of nonresidential construction of value to the defense effort are likely to be encouraged. Military structures and a few defense plants are obvious examples, but justification on the basis of contribution to defense industries can be made for many kinds of construction, including much road and street work, sewer and water works, and utility and other construction improving the efficiency of community life and economic activity. Numerous cities over the country are in urgent need of additional hotel facilities. In many areas more office space will be required for essential governmental activities. Contract awards for various other kinds of commercial, as well as industrial, building have been increasing for some months. Such building appears economically justified even at high costs for construction, since the very high level of general business activity, especially in the larger cities, will continue to generate both business confidence and a strong demand for larger floor space on which to conduct the tremendous and expanding volume of American business and production. Modernization of many plants will also be pushed.

In the oil and gas and related industries, numerous construction projects, including refineries, petro-chemical plants, and pipe lines, were planned prior to the Korean crisis and are likely to be pushed to completion, if sufficient materials are available. A high proportion of these projects, of course, are in the Southwest.

On the other hand, several types of nonresidential construction projects, the need for which is not urgent, may be deferred indefinitely either because of the high cost factor or because of the shortages of labor or basic defense materials such as steel, copper, and aluminum. The amount of such construction to be deferred is likely to increase and to extend to a wider variety of projects as defense production is accelerated. On the whole, however, it appears that total nonresidential construction may be better sustained than residential building, partly because the urgency of some types of construction will counterbalance the effect of restrictions on other types and partly because nonresidential construction prior to the Korean crisis did not reach, relatively, the high level attained by residential building.

In view of the fact that the construction materials supply situation may have an important bearing upon the future volume of total construction, as well as its distribution among the various types of construction, a review of the economic importance of the industry, its growth during the past decade, and some of the more important technological developments in recent years should be beneficial in appraising the outlook for building materials supplies and for the various types of construction.

*On July 19 the initial controls over housing credit went into effect, providing an additional 5 percentage points on down payment requirements for all FHA loans, FHA appraisals on the basis of July 1 costs, reduction of the maximum mortgage limit on single-family dwellings from \$16,000 to \$14,000, and down payments of at least 5 percent on GI loans. The availability of Federal Home Loan Bank credit to member institutions was cut, public housing starts during the last half of the year were restricted to 30,000 dwelling units, and effective August 1 a down payment requirement—10 percent—was set for FHA-insured loans for the modernization and repair of houses.

Effective October 12, Regulation X covering conventional loans and companion regulations covering FHA and VA loans brought under still stricter control all privately financed 1- and 2-family houses started after noon of August 3 and on which commitments were not made prior to the effective date of the regulations. These regulations cover loans for more than \$2,500 with more than 18-month maturity on major improvements and additions, as well as new construction. The down payment requirements range from 10 percent for houses selling for \$5,000 and under to 50 percent on houses costing \$24,250 and up. The down payments must be cash and cannot be borrowed, except against equities in life insurance policies. The maximum maturity is 20 years, except for mortgages on houses priced at \$7,000 or less, on which properly amortized loans may run as long as 25 years. Compliance is required of all lenders who, during the past year, made three or more real estate loans aggregating more than \$25,000.

The production of building materials has followed, to a considerable extent, the fluctuations of construction but has been influenced by the level of general business activity, since many building materials are widely used outside of construction. The index of construction materials production of the United States Department of Commerce, after rising during the war construction boom of 1941-42 and falling thereafter until 1945, rose to a peak in 1948. After a decline in 1949, the index recovered and this year may rise even higher, to about 50 percent above the 1939 level. However, the industrial production index of the Board of Governors of the Federal Reserve System rose appreciably more, 75 to 80 percent, during the same 1939-50 period. The somewhat smaller rise of the construction materials index reflects, in part, the relatively high level of this type of production in the base year, 1939. Another factor is that during the war period building materials were, for the most part, less required than some other manufactured products. After the war the production of building materials was hindered somewhat, in that such production had to expand in an economy already running near full capacity. Important, also, have been the technological advances in construction, resulting in a gradual decrease in the amount of materials required to build houses and many other types of construction. If the construction materials index should include such products as glass, building blocks, synthetic products of various types, asphalt tile, air-conditioning equipment, and certain other materials—the production and use of which expanded rapidly in the postwar period—a gain somewhat larger than 50 percent might have been registered for the 1939-50 period.

Though building materials as a group did not rise as much as total industrial production during the 1939-50 period, some individual building materials made spectacular gains. The increasing acceptance of gypsum lath and board in place of wooden lath is reflected in a 600-percent rise in the production of gypsum board and a 124-percent rise in the case of gypsum lath. The residential building boom has absorbed very large amounts of these two products. Similarly, the output of softwood plywood, use of which was stimulated by wartime experience, rose 150 percent. Warm-air furnace production rose 90 percent, a gain resulting from the housing boom, as well as from the switch from heating systems requiring cast-iron radiators. The production of the latter by 1950 was down 45 percent from the 1939 level. The switch from coal furnaces to oil and gas heat in residences is reflected in the drop of mechanical stoker output by 1950 to about 80 percent below 1939. Other materials which have shown large production gains include fabricated structural steel, cement, and asphalt-prepared roofing.

An appreciable part of these production gains has been made in the Southwest, notably in such industries as gypsum products and cement. An indication of the magnitude of building materials production is value added by manufacture. In the five southwestern states wholly or partly in the Eleventh Federal Reserve District—Arizona, Louisiana, New Mexico, Oklahoma, and Texas—value added by manufacture of building materials in 1947 approximated \$400,000,000, or 13 percent of the total for all manufacturing in this area. In the Nation, only 8 percent of the total value added by manufacture was accounted for by building materials production, although such production involved value added of over \$6,000,000,000 in 1947.

Employment in building materials manufacturing in the five southwestern states, which has averaged recently about 100,000 persons, represents 2 percent of total employment in the area, or about the same percentage as in the Nation. An even larger contribution to employment results when the building materials are utilized by the construction industry, which employs about 300,000 men in the five southwestern states and about 2,500,000 in the Nation.

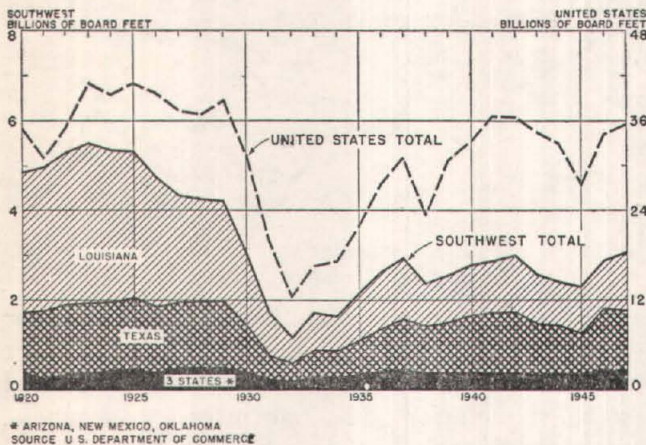
The building materials industries are particularly large users of certain natural resources. Construction, which is the end-use of a high proportion of the total output of numerous basic materials, absorbs about 85 percent of the gypsum, 80 percent of the sand and gravel, 75 percent of the clay, 75 percent of the stone, about 70 percent of the lumber, and over a third of the lead, as well as most of the slate, asbestos, and asphalt. Many of these resources are widely available and of too low a value per pound to be shipped great distances. Such resources gain their value chiefly because they are put to use by the building materials producers and the builders of the region. In this respect, the resources utilized in building materials tend to be of more immediate advantage to the Southwest than some other resources of potential future value.

Important factors in the tendency toward localized utilization of building materials resources are the wide dispersion of construction activity, which takes place in every community; the rather low value per pound of many of these materials; and the wide availability of many of the basic construction materials. Such materials as sand and gravel are nearly always obtained within a comparatively short distance of the building site, while cement, brick, and tile are also preferably produced near the point of use. As a result of these tendencies, both construction and the building materials industry tend to stimulate local and regional business activity.

The strength of this stimulus to business activity is an important factor in sustaining income and employment, as is indicated by the fact that in 1949 construction accounted for about 17 percent of all production in the Southwest and about 12 percent in the Nation. This construction activity, in turn, is necessary for the normal functioning of all other industries. In the Southwest it is particularly important, since a continued flow of construction materials is necessary for the erection of the plants and equipment, houses and stores, and other buildings and structures required for the dynamic economic growth of the area.

Another way in which the building materials industry contributes to the economic development of the Southwest is through its very large requirements for, and hence stimulation to, transportation. Even though long hauls of many of these materials are avoided when possible, building materials account for a considerable proportion of the pay load of the railroads, trucks, ships, and barges of the Nation. The total weight of the 1947 output of building materials in this country exceeded 550,000,000 tons, an amount greater than that of all the agricultural production in the Nation. It is probable that building materials account for about one-fourth of the tonnage of commodities hauled in this country. Such materials represent about one-sixth of all rail shipments and keep approximately a million trucks busy.

LUMBER PRODUCTION IN THE SOUTHWEST
AND THE NATION



trend of lumber output over the last half-century, during which the all-time peak in lumber production in the United States was achieved in 1906 and 1907, when annual production totaled 46,000,000,000 board feet. This record was not equaled during the building boom of the 1920's, and it is unlikely to be equaled during the present boom. The relative lag in lumber output as compared with other building materials reflects widespread shifts to other types of materials, induced, in part, by the higher cost of lumber, resulting from decreased supplies from eastern forests and the heavier reliance upon western forests more distant from the major consuming centers.

In addition to lumber itself, the planing mills and related plants and shops in the Southwest provide a large, diversified, and widely distributed output of doors, window sash, moldings, screens, Venetian blinds, and cabinet work. Much of this processing of lumber, as well as related materials, could be classed as off-site construction. This is even more true of prefabrication of houses and other buildings in a number of cities of the area. Also important in the Southwest is the production of railroad cross ties, piles, poles, plywood, veneer, and wooden awnings in large volume for local consumption, as well as for sale in other areas.

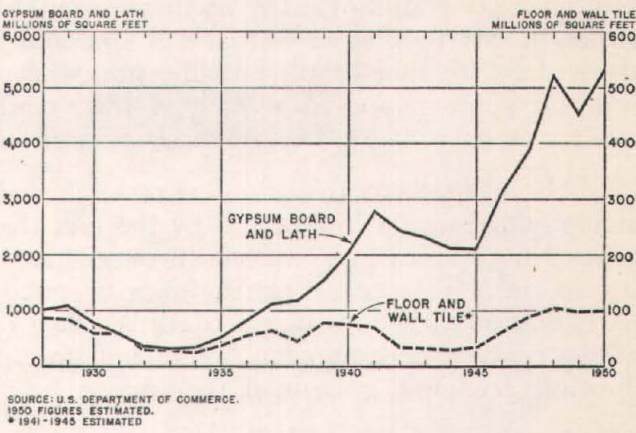
Nearly every type of building material of any economic importance is produced in the Southwest. Both in this area and in the Nation the most important single material is lumber. Its output in the five southwestern states has averaged about 9 percent of the national total in recent years, with Texas accounting for about 4 percent and Louisiana, almost as much. Lumber production in the Nation in 1950 is expected to exceed the 1948 postwar peak of 36,000,000,000 board feet. Production this year is up about 18 percent from 1939 in the Southwest and 23 percent in the Nation. The larger rate of gain for the Nation reflects the increased tapping of the rich timber resources of the West Coast. These gains are appreciably less than those made in the production of most other building materials. This fact is in keeping with the

A factor in the loss of relative standing of lumber among the building materials, particularly in the Southwest, has been the rise in the utilization of gypsum board and lath. The 1950 production of these gypsum products in the Nation is expected to reach about 5 times the 1929 output and 3.4 times that of 1939—gains made largely at the expense of wooden lath. Despite these gains and a 10-percent increase in output capacity within the current year, shortages have been widely reported throughout the country. Factors inducing the switch to gypsum board and lath include the more rapid rise of lumber prices than of gypsum product prices; the rise in wages of lathers; the saving in labor time, as well as wages, to be made by the change; the greater standardization of construction in multiple-unit projects; the saving of construction time when early completions are desired; and liberalization of building codes to permit the use of gypsum board and lath. Gypsum board is in especial demand on jobs where quick, inexpensive, dry-wall construction is desired. Gypsum products, including plaster as well as board and lath, are produced in five Texas cities and in Arizona and Oklahoma. With recent increases in capacity, Texas probably ranks first among the states producing gypsum products.

Another southwestern product replacing, to some extent, a timber product is asphalt roofing. Prepared asphalt roofing, as well as asphalt shingles and roll roofing, has been used increasingly to provide water-tight, fire-resistant construction. Other forms of asphalt, as well as road oil, are used in street and highway construction. The southwestern petroleum refineries produce about one-fourth of the national output of asphalt.

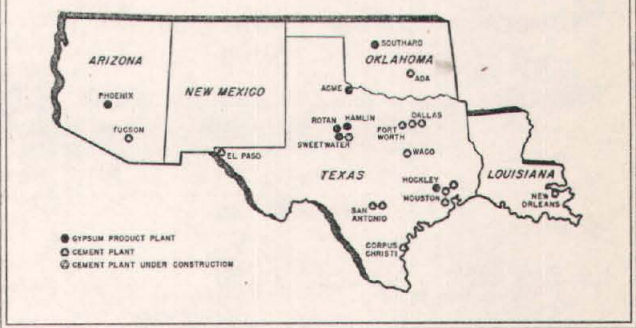
In cement production, the Southwest has been gradually improving its position relative to that of the Nation. Cement production has set new records each year since 1947, and this year should approximate 17,000,000 barrels in Texas and 210,000,000 barrels in the Nation, with Texas accounting for about 8 percent of the national total. Texas production in 1950 will exceed that of last year by about 13 percent, while the increase since 1939 will approximate 133 percent. These gains considerably exceed

GYPSUM BOARD AND LATH, AND FLOOR AND WALL TILE, PRODUCTION IN THE UNITED STATES

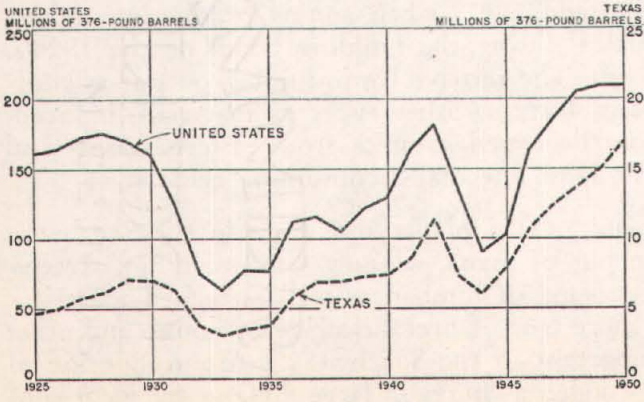


SOURCE: U.S. DEPARTMENT OF COMMERCE. 1950 FIGURES ESTIMATED. * 1941-1949 ESTIMATED.

CEMENT AND GYPSUM PRODUCT PLANTS IN THE SOUTHWEST



PORTLAND CEMENT PRODUCTION IN THE UNITED STATES AND TEXAS



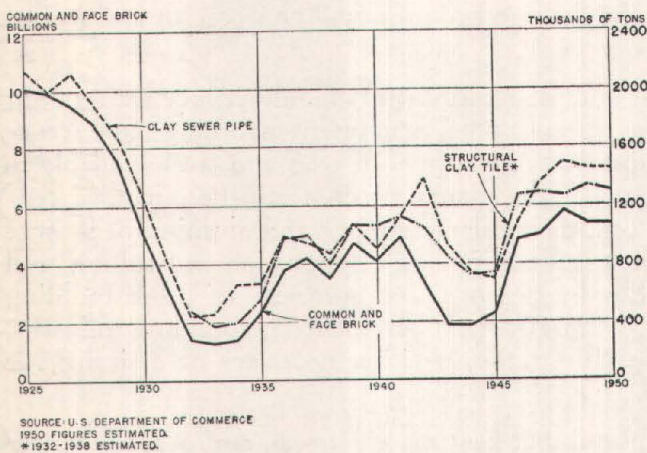
SOURCE: U.S. BUREAU OF MINES. 1950 FIGURES ESTIMATED.

those of the Nation. The Southwest, as a whole, tends toward approximate self-sufficiency in cement production, with Texas producing somewhat more than it uses and, hence, supplying part of the requirements of adjoining states. However, occasional shortages may lead to movements of cement from distant centers of production. Cement plants are located in seven cities in Texas, as well as in the states of Oklahoma, Louisiana, and Arizona. Plants for the production of such cement products as concrete block, pipe, and post are found in numerous cities in the Eleventh District.

The long-term trend in brick consumption has been downward during the past 40 years, as other materials have been gradually displacing brick, especially in such uses as paving, sidewalks, large

commercial buildings, and certain other types of buildings. Cement and steel, in particular, have gained at the expense of brick. On the other hand, brick as a fire-resistant material has made some inroads on lumber consumption, particularly in larger cities. During the postwar construction boom, brick production has increased somewhat. In 1950 about 5,400,000,000 bricks should be produced in the United States, representing little change from last year and a gain of only 14 percent from 1939. The 1950 output will equal little more than one-half the 1925 production and about a fourth of the 1910 peak output. Reflecting the long-term decline of the industry is the obsolescence of many brick plants, particularly in the less rapidly growing parts of the country. In the five southwestern states, brick production has amounted to about 8 percent of the national total in recent years. Since brick and structural clay tile are made from a rather widely available raw material, these products are produced in the vicinity of most of the larger cities of the Southwest. However, lack of suitable clay has prevented production in some regions of the area, as in parts of West Texas. Drain tile is also widely produced in the Southwest, while tile for walls, floors, roofing, and chimneys is made in or near many of the larger cities. The decentralized character of the brick industry has resulted in wide geographical variations in production trends, with declines in some areas during recent years but increases in the Southwest, where some spot shortages have been reported.

BRICK, TILE, AND CLAY SEWER PIPE PRODUCTION
IN THE UNITED STATES



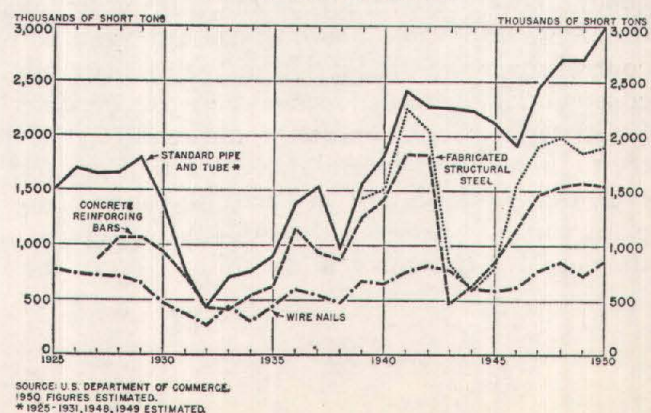
The structural steel used in the erection of large and medium-sized buildings, as well as in bridges and some other types of construction, is largely fabricated from basic steel shapes produced in steel mills. While the basic steel production is concentrated chiefly in the older industrial areas of the North, the fabrication of basic shapes into finished structural steel is somewhat more widely distributed geographically, with considerable fabrication of this type taking place in the larger cities of the Southwest. The commencement of steel production within the Southwest is favorable to the further expansion of structural steel output in the area, where even in 1947 there was produced nearly 7 percent of the total national output. The recently announced program for the expansion of steel capacity in the Nation by nearly 10 percent by the end of 1952 improves the longer range outlook for steel product supplies.

At a number of industrial centers in the Southwest, steel pipe, concrete reinforcing bars, metal lath, nuts and bolts, screws, and wire nails are produced; while ornamental iron and such sheet metal products as ducts, gutters, downspouts, flashing, and vents are made in dozens of cities in the area. Other southwestern steel products include sinks, smokestacks, metal roofing, window frames, screens, Venetian blinds, and metal awnings. Aluminum is also used in making the latter five products, as well as in shutters and interior trim.

Paint and related materials for prolonging the life and improving the appearance of buildings and structures are produced in the larger cities of the Southwest. Output in the Nation in 1950 is expected to be up about 5 percent from 1949 and about 60 percent above 1939.

Among the more highly fabricated building materials and components produced in the Southwest, fans, ventilators, and air-conditioning and purifying equipment are especially important and are made in numerous cities of the area. The warm summers, together with rising incomes, have been

STEEL CONSTRUCTION MATERIALS PRODUCTION
IN THE UNITED STATES



important in the encouragement of this type of

production in the Southwest. In this field the growth in recent years has been as large as or larger than in any other section of the country. Furnaces, space heaters, and hot-water heaters are also made in a number of cities in the area.

Allied in purpose to both the heating and the air-conditioning equipment are the insulation materials used to conserve heat in winter and to keep out heat in summer, as well as to increase fire resistance. Among the insulating materials produced in large volume in the Southwest are rock wool, sawdust, cottonseed hulls, fire-proofed cotton, vermiculite, and perlite. Vermiculite is a type of mica, while perlite is a volcanic glass; both expand when heated, becoming lightweight aggregate with excellent thermal and acoustical insulation properties.

The foregoing review of developments in the construction and building materials industries highlights the facts that over-all construction, as well as most of its important components, is running at or near the all-time peak, that comparatively rapid strides have been made during recent years in the production of many building materials, and that in the case of most of these products, output capacity has kept pace with demand. It has been emphasized that most of the materials used in construction are widely distributed throughout the country and are available in ample quantities to meet prospective demands. The major deterrents to the maintenance of construction at current levels, under existing and prospective conditions, are likely to be the uncertain or decreased availability of construction labor and of supplies of certain products which are essential to most types of construction. In the case of both labor and specific materials, it seems likely that the defense program will compete to an increasing extent.

Steel could prove to be an important bottleneck if defense requirements should reduce the amount available for the production of such key building items as nails, pipe, concrete reinforcing bars, structural steel, and plumbing, heating, and electrical equipment. As supplies of iron and steel available to the building materials industry are reduced, the output of the plants affected will be curtailed correspondingly. Similarly, the nonferrous metals, including particularly copper and aluminum, deserve watching, since they are vital to the production of electrical equipment, copper pipe and tubing, and some types of roofing, wall panels, window frames, blinds, awnings, and a variety of other building products. A shortage of electrical equipment would prove particularly serious to the building industry, while many of the other products requiring copper or aluminum are either necessary or desirable for the maintenance of quality standards in construction.

The fabricating facilities for the production of plumbing, heating, electrical, and other metal or partially metal products might prove insufficient for the construction industry if an appreciable proportion of such facilities were diverted to the production of defense products. This could retard construction just as effectively as an insufficiency of the metals used in making these products. Similarly, with both the Armed Forces and defense production absorbing increasing numbers of workers, a labor shortage might develop in the building materials field, particularly in the lumber, brick, and other industries where wage rates tend to be lower than in defense plants. Loss of output of building materials from this source, likewise, would reduce construction activity.

Transportation could also prove to be a bottleneck, with distant supplies of lumber, plumbing goods, and other building products being less available to the construction industry of the Southwest if defense shipments should utilize a substantial proportion of the transportation system. Government controls over the production or use of materials could further affect the availability of materials for construction, while additional controls over certain types of construction could affect the demand for materials. Such controls would tend to allocate the resources and productive capacity of the country to those industries and uses deemed of greatest importance to defense. It should be recognized, however, that to the extent that natural forces bring about a desirable distribution of labor, materials, and plant capacity between the building materials and construction industries and defense requirements, the need for controls will diminish.

Review of Business, Industrial, Agricultural, and Financial Conditions

DISTRICT SUMMARY

Department store sales in the Eleventh Federal Reserve District in September, although showing a less-than-seasonal increase from the high August level, registered a 15-percent increase over sales of September last year. Heavy buying of consumer durable goods in the week immediately preceding the reimposition of consumer instalment credit controls contributed significantly to the large September sales volume. During the first 2 weeks of October, sales returned to more normal seasonal levels, with the year-to-year gain amounting to only 5 percent. Department store stocks at the end of September, reflecting heavy inventory buying in the weeks immediately following the outbreak of Korean hostilities, rose to a record high. Furniture store sales in September showed a slight decline for the second consecutive month but were almost one-third higher than in the same month last year.

Nonfarm employment in Texas reached its fourth successive new peak in October at a level about 4 percent higher than a year earlier. The value of construction contract awards in the District in September, although 21 percent below the August record, was 71 percent higher than a year earlier and 9 percent higher than the average for the first 9 months of this year. Both residential and nonresidential awards declined as compared with those in August. Crude oil production in the District reached a new peak in September of 2,929,000 barrels daily but declined moderately in October as a result of lower Texas allowables.

Benefiting from open weather, farmers in the District have made good progress in recent weeks in harvesting mature crops and seeding small grains and winter legumes. The outlook for total crop production in the District has changed only slightly during the past 2 months, as crop losses in some areas generally have been offset by improved prospects in other sections. Livestock are in good condition throughout most of the District, being favored by a plentiful supply of range and pasture grass. The general level of farm prices in Texas, after rising for nine consecutive months, was halted in October when prices of most major commodities held steady or declined.

Loans of the weekly reporting member banks in the District increased \$63,334,000 between September 13 and October 18, to reach a record total of \$1,386,743,000. Commercial, industrial, and agricultural loans accounted for approximately 67 percent of the gain. Total investments declined \$45,679,000, as holdings of Governmentals dropped rather sharply. Total deposits increased \$33,624,000, despite the decrease of \$25,094,000 over the first 4 weeks of the period.

BUSINESS

On October 13 the Board of Governors of the Federal Reserve System announced that Amendment No. 1 to Regulation W, tightening instalment credit controls, would become effective on October 16. This amendment reduces the maximum maturities on instalment credits from 21 to 15 months for automobiles and from 18 to 15 months for appliances and furniture. The minimum down payment on automobiles remains at one-third; the down payments on appliances are increased from 15 percent to 25 percent and on furniture from 10 percent to 15 percent. The maximum maturity on home improvement credits remains at 30 months and the minimum down payment at 10 percent. Down payments are now required on all articles costing \$50 or more.

Department store sales in the Eleventh Federal Reserve District in recent weeks returned to more normal seasonal levels, as consumer hard goods sales declined noticeably following the reimposition and subsequent tightening of consumer instalment credit controls. Total sales at reporting department stores in the first half of October were 5 percent above a year earlier, or a little lower than the year-to-year increases prevailing in the months immediately prior to the initiation of hostilities in Korea.

September sales at district department stores showed a less-than-seasonal rise over the inflated volumes of July and August, when scare buying was rife. Nevertheless, sales were the highest for any September on record, rising 9 percent above the August volume, 15 percent above September a year ago, and 2 percent above September 1948. Heavy anticipatory buying of television sets and other consumer durable goods in the week immediately preceding the reimposition of Regulation W on September 18 was an important factor boosting September sales.

The year-to-year increase in district sales in September was noticeably larger than that shown in department stores throughout the Nation, but district stores experienced a smaller increase in sales from August to September than the national average. For the first 9 months of this year, sales at district department stores have averaged 13 percent higher than in the corresponding period of 1949, as compared with a 5-percent increase for the Nation's department stores.

Sales of consumer durable goods, with the exception of television sets, declined noticeably in September from the extremely high levels of July and August but equaled or exceeded the high volumes of the pre-Korean months, May and June. Major household appliance sales, for instance, although down 2 percent from August, were slightly higher than in June and were 34 percent larger than in September a year ago. Sales of furniture and bedding were 4 percent lower than in August and 9 percent lower than in July but were higher than in any other month on record, exceeding year-earlier levels by 25 percent. Domestic floor covering sales showed a similar picture. On the other hand, sales in the television, radio, and phonograph department were 55 percent greater than in August and 261 percent higher than in September 1949, when television sales were still in relatively modest volume.

Soft goods departments generally had satisfactory sales records in September but continued to lag behind the durable goods departments. Sales of women's and misses' apparel and accessories showed year-to-year increases for the fifth consecutive month. Women's and misses' dress sales were 12 percent above a year ago, following a 21-percent year-to-year increase in the previous month, while women's and misses' coat sales were 2 percent higher than a year earlier as compared with a 7-percent gain in August. Moreover, women's and misses' accessory sales were up 5 percent over a year ago, after having shown a 17-percent year-to-year increase in the preceding month. Men's clothing sales continued their favorable showing, with a year-to-year gain of 11 percent, and silverware and jewelry sales showed a large increase over year-earlier levels for the fourth consecutive month with a 39-percent rise.

Although instalment sales were noticeably lower in the last half of September after Regulation W was imposed, total instalment sales for the month showed a 4-percent gain over the high August volume and were 40 percent above Septem-

ber of last year. It should be noted, however, that this year-to-year increase is the smallest for any month this year. Charge account and cash sales continued for the fifth consecutive month to show gains over year-earlier levels, with increases of 10 and 4 percent, respectively. The September ratio of collections to instalment receivables outstanding remained unchanged at 12 percent for the fourth successive month. Instalment receivables, nevertheless, rose 6 percent during the month and at the end of September were almost double the amount outstanding on the same date of 1949. Charge account receivables, also, showed a marked increase and at the month's end were 16 percent higher than a year earlier.

WHOLESALE TRADE STATISTICS

Lines of trade:*	Percentage change in—					
	Net sales			Stocks†		
	Sept. 1949	Sept. 1950 from Aug. 1950	9 mo. 1950 comp. with 9 mo. 1949	Sept. 1949	Sept. 1950 from Aug. 1950	
Automotive supplies.....	-21	-29	..	-14	1	
Drugs and sundries.....	16	5	..	27	4	
Dry goods.....	#	-22	8	96	14	
Grocery (voluntary-group and full-line wholesalers not sponsoring groups).....	2	-5	..	9	4	
Hardware.....	15	-13	18	2	1	
Industrial supplies.....	34	7	..	-5	-6	
Tobacco products.....	10	-3	4	3	-4	
Wines and liquors.....	-8	-48	..	35	16	

* 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			Stocks*		
	Sept. 1949	Sept. 1950 from Aug. 1950	9 mo. 1950 comp. with 9 mo. 1949	Sept. 1949	Sept. 1950 from Aug. 1950	
Department stores:						
Total Eleventh District.....	15	9	13	24	8	
Corpus Christi.....	5	-12	12	14	12	
Dallas.....	14	13	13	25	9	
Port Worth.....	15	4	13	13	1	
Houston.....	17	10	9	26	15	
San Antonio.....	22	4	17	32	5	
Shreveport, La.....	7	13	9	..	..
Other cities.....	13	9	15	23	9	
Furniture stores:						
Total Eleventh District.....	32	-1	..	26	7	
Dallas.....	32	20	..	25	10	
Houston.....	30	-11	..	..	..
Port Arthur.....	14	-13	..	26	14	
San Antonio.....	19	-7	..	..	..
Shreveport, La.....	66	6	..	31	10	
Wichita Falls.....	18	-2	..	11	5	
Household appliance stores:						
Total Eleventh District.....	108	8	..	..	..
Dallas.....	120	31	..	..	..

* Stocks at end of month.

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

Daily average sales—(1935-39=100)

	Unadjusted*				Adjusted			
	Sept. 1950	Aug. 1950	July 1950	Sept. 1949	Sept. 1950	Aug. 1950	July 1950	Sept. 1949
Eleventh District.....	454	399	429	405r	420	449	537	375r
Dallas.....	438	376	367	385	395	443	510	347
Houston.....	472	405	503	450r	441	460	621	420r

Stocks—(1935-39=100)

	Unadjusted*				Adjusted			
	Sept. 1950	Aug. 1950	July 1950	Sept. 1949	Sept. 1950	Aug. 1950	July 1950	Sept. 1949
Eleventh District.....	439p	402	351	367	426p	406	374	356r

r Revised.

p Preliminary.

* Unadjusted for seasonal variation.

The heavy inventory buying on the part of merchants in the weeks immediately following the outbreak in Korea is now being reflected in a substantial increase in stocks. Stocks at district department stores on September 30 reached the highest level on record, showing a greater-than-seasonal (8 percent) rise from a month previous and a 24-percent increase over

the corresponding date of last year. Part of this increase in stocks is undoubtedly due to the higher prices on stock replacements, but the physical volume of stocks is now probably at an all-time high. Orders outstanding declined moderately, in accordance with the normal seasonal pattern, but at the end of September were 35 percent higher than a year earlier and 15 percent higher than on September 30, 1948.

Furniture store sales in this District in September showed a small decline for the second consecutive month but were almost one-third higher than a year earlier and were slightly above the former record September volume of 2 years ago. Credit sales, in contrast with total sales, actually rose slightly, despite consumer instalment credit controls which became effective in the latter part of the month, and were 33 percent larger than in September 1949. On the other hand, cash sales were down 11 percent from August, although showing a substantial increase (18 percent) over year-earlier levels for the third successive month. Collections were little changed, and accounts receivable outstanding, although up 3 percent from the previous month, continued to show about the same 25-percent gain over year-earlier levels as in July and August. Furniture store stocks in September rose 7 percent, following a 3-percent increase in August and a 2-percent increase in July, and at the end of the month were 26 percent higher than a year earlier.

Wholesale prices in the aggregate have tended to level out during the past several weeks, following a marked rise in July, August, and the first half of September. The sensitive Daily Spot Index of 28 Basic Commodities of the Bureau of Labor Statistics on October 20 was about 1 percent below the post-Korean high on September 15, although 25 percent above the level immediately preceding the opening of Korean hostilities. Moreover, the BLS All Commodity Wholesale Price Index, after reaching a high point in the week ended September 19, declined for three consecutive weeks and then rose slightly in the week ended October 17 to 168.7 percent of the 1926 average. At this level, the index was 0.6 percent lower than 4 weeks earlier but 7.2 percent higher than in the immediately pre-Korean week. Prices of farm products and foods have shown a small decline since the middle of September, while prices of other commodities have continued to show a rising tendency.

AGRICULTURE

District farmers, taking advantage of open weather during recent weeks, have made rapid progress in harvesting mature crops, in preparing land, and in seeding small grains and winter legumes. Seeding of winter wheat in the northwestern section is virtually completed, despite the interruption caused by earlier rains. Grain seeded during August in the northern High Plains is making rapid growth and is in need of grazing. Early October rains in the Lower Valley improved commercial vegetables and the prospects for citrus fruit production, but more moisture is needed in the coastal areas and in scattered parts of the range country.

Cotton harvest has made excellent progress in the southern Low Rolling Plains and is active over the southern High Plains. Picking is virtually complete in the upper coastal and south-central counties of Texas, but harvest has continued in north-central and northeastern counties where opening of bolls has been retarded by excessive rains during September and by heavy foliage. The generally favorable outlook for cotton in west Texas appears to have compensated for losses sustained by farmers in the northcentral and northeastern counties, as the Department of Agriculture has made no change in its

estimate of 2,775,000 bales for the State. The estimate of the United States crop was lowered only 13,000 bales, or to 9,869,000 bales on October 1.

Cotton ginnings in Texas through September 30 totaled slightly more than 1,000,000 bales, or 36 percent of the estimated crop, compared with 35 percent to the same date last year. Cotton ginned in the State through this date averaged higher in grade and longer in staple length than that ginned during the corresponding period last season.

TEXAS COTTON PRODUCTION BY CROP REPORTING DISTRICTS

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

Crop reporting district	1948	1949	1950 indicated October 1	1950 as percent of 1949
1-N.....	115	259	90	35
1-S.....	558	1,571	775	49
2.....	496	1,119	465	42
3.....	22	61	14	23
4.....	773	1,069	450	42
5.....	226	350	110	31
6.....	140	190	145	76
7.....	20	88	40	45
8.....	278	505	210	42
9.....	170	212	118	56
10.....	355	626	358	57
State.....	3,153	6,040	2,775	46

SOURCE: United States Department of Agriculture.

The movement of cottonseed to crushing mills increased seasonally in Texas and Oklahoma during October. The quality of seed marketed was very good on the whole, although seed in some localities contained an excessive amount of moisture; also, occasional lots of seed contained unduly large amounts of free fatty acid. Wagon lot prices for cottonseed at Texas gin points at mid-October ranged from \$75.00 to \$100.00 per ton, with an average price of \$90.30 per ton, which compares with \$37.80 per ton about the same time a year ago. Crude cottonseed oil sold at terminal points in Texas on October 27 at 18.25 cents per pound, f.o.b. tank cars, which compares with 15.75 cents a month earlier and the season's high of 19 cents on September 1.

The cotton market has been in a very unsettled condition during the past several weeks. On October 10 the Department of Agriculture announced interim export allocations for United States cotton for most importing countries other than Canada. This action, which provides for export of 2,000,000

bales of cotton from this country in the period from August 1, 1950, through March 31, 1951, establishes country-by-country allocations to insure equitable distribution among importing countries and to assure an adequate domestic supply. The effect of this announcement on the cotton market was immediate and sharp; cotton fell \$20.00 per bale within a week. Subsequent reports that the export allocations would be reviewed gave new strength to the market; prices then rose, regaining much of their previous losses. The Secretary of Agriculture announced on October 23 that the export allocations would be increased to 2,146,000 bales for the period ending next March. The controls continue, however, to have a deflationary effect on the domestic cotton market, although prices on foreign markets have skyrocketed since American cotton exports were placed under control.

Combining of grain sorghums on the High Plains continued in October, but there is some danger of losses of late planted acreage if frosts occur early. Harvest is complete in other areas. The estimate of production of sorghum grain in Texas, placed at 121,000,000 bushels, is a record high for the State and compares with about 93,000,000 bushels harvested in 1949. The large crop this year is attributable to a large increase in acreage, as yields, averaging 22.5 bushels per acre, are down 1.5 bushels from a year ago. The market for grain sorghums weakened during the past 2 months under the pressure of record production. Prices on the Fort Worth market in late October were about 15 cents per cwt. below the July peak.

CROP PRODUCTION

(In thousands of units)

	Unit	Texas			States in Eleventh District*		
		Estimated Oct. 1, 1950	1949	Average 1939-48	Estimated Oct. 1, 1950	1949	Average 1939-48
Corn.....	bu.	65,730	58,208	64,272	120,410	108,626	114,406
Oats.....	bu.	31,000	34,020	31,195	50,535	55,682	61,458
Barley.....	bu.	1,750	2,774	4,069	10,160	10,550	12,822
Cotton.....	bale	2,775	6,040	2,729	4,282	8,119	4,088
Hay.....	ton	1,338	1,368	1,426	5,022	4,827	4,519
Irish potatoes.....	bu.	2,720	3,686	4,560	6,780	7,253	10,011
Sweet potatoes.....	bu.	5,800	5,775	5,119	16,375	14,555	14,326
Rice.....	cwt.	10,879	10,178	7,873	21,323	21,229	17,755
Sorghum grain.....	bu.	121,005	92,676	62,964	142,083	114,426	76,018
Peanuts.....	lb.	283,200	333,450	283,952	398,975	456,130	384,143
Broomcorn†.....	ton	4,300†	9,300†	4,710†	18,800†	29,200†	23,010†

*Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

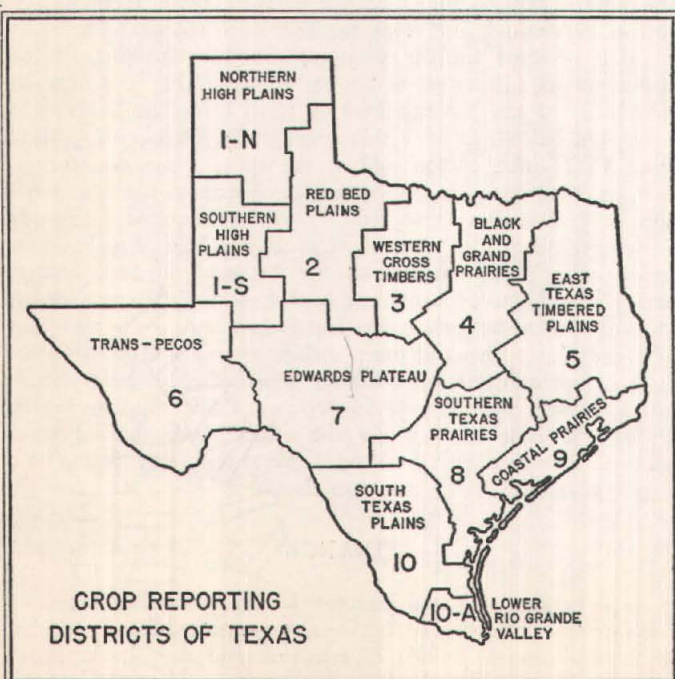
†Broomcorn data are in terms of tons rather than thousands of tons.

SOURCE: United States Department of Agriculture.

Excessive rainfall in northcentral and northeast areas of Texas during September caused some loss to the State's corn crop. Production was estimated on October 1 at 65,730,000 bushels—down about 1,600,000 bushels from the September 1 estimate. The current estimated yield per acre at 21 bushels compares with 22.5 bushels last year. Corn price support rates for the 1950 crop will average \$1.47 per bushel on a national basis, compared with \$1.40 for the 1949 crop.

Prospects for rice production in Texas improved during recent weeks as harvest has made good progress without interference from storms or excessive rains. Production in the State is estimated at 10,879,000 100-lb. bags, or 700,000 bags over last year. Yield per acre, at 2,300 pounds, is a near-record. The rice market in Texas and Louisiana held steady during the past month; demand was principally from domestic trade, as export demand was limited. Zenith and Blue Bonnet varieties sold during most of October at \$8.40 and \$11.30 per cwt., milled basis, respectively, at Texas and Louisiana common points. These prices, however, are about \$1.00 to \$1.50 below prices prevailing when harvest of the new crop began.

Production data relative to other important field crops in Texas and in the five states of the Eleventh District are shown in an accompanying table. It will be noted that, as compared with last year, smaller crops of oats, barley, Irish



potatoes, peanuts, and broomcorn have been or will be harvested. In most instances, the smaller production of these crops is due to reduced acreage, although in some instances smaller yields have been a factor. In contrast to these declines, the five states probably will harvest larger crops of hay and sweet potatoes this year.

Production of citrus fruits in Texas during the 1950-51 season will about double that of last season, which was the first full growing season since the January 1949 freeze disaster. The grapefruit crop is estimated at 12,000,000 boxes, while production of oranges is estimated at 3,500,000 boxes. The development of this year's citrus crops was mostly under favorable conditions. Trees, for the most part, had made a surprising recovery from the severe freeze damage and were in good condition for the 1950 bloom. In contrast to the increase in citrus fruit production, smaller crops of peaches and pears were harvested in the State, as shown in the accompanying table.

The Lower Rio Grande Valley vegetable area received good rains during October, which were beneficial to growing crops and stimulated growers' interest in planting hearty vegetables for winter harvest. Much of the Coastal Belt is still very dry. Tender-type vegetables in the Laredo, Winter Garden, and Eagle Pass sections continue to make good progress. Early planted winter vegetables in these areas show more advanced growth than those in the Lower Valley. Reflecting the effects of the droughty conditions in south Texas during the early fall, production of late fall snap beans is estimated at 125,000 bushels—40,000 bushels below last season. The estimate of the fall eggplant crop is placed at 94,000 bushels—down 6,000 bushels. The 592,000-bushel fall pepper crop is off 54,000 bushels. The acreage of late fall tomatoes is estimated at 13,300 acres, compared with 15,200 last year.

PRODUCTION OF FRUITS AND NUTS

(In thousands of units)

	Unit	Texas			States in Eleventh District*		
		Estimated	1949	Average	Estimated	1949	Average
		Oct. 1, 1950			Oct. 1, 1950		
Peaches.....	bu.	783	2,400	1,743	1,389	3,516	2,670
Pears.....	bu.	270	484	374	628	911	740
Grapefruit.....	boxes	12,000	6,400	18,187	15,000	9,800	21,431
Oranges.....	boxes	3,500	1,760	3,676	4,840	3,105	4,837
Pecans.....	lb.	31,500	29,000	29,615	50,590	70,000	60,471

*Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

SOURCE: United States Department of Agriculture.

Range and pasture conditions are good throughout the District, except in southern, Coastal Bend, and upper coastal counties of Texas and in scattered sections of New Mexico and Arizona. Ranges generally are in better condition than in September and are better than usual for this season of the year. All classes of livestock are doing well on the plentiful range and pasture grass, except in the dry coastal areas where some cattle have been fed cottonseed cake to hold shrinkage to a minimum. Cattle have been turned on wheat in the northern High Plains, and throughout the wheat belt there was heavy contracting of stockers for November 1 delivery to run on wheat pastures. Livestock continue to move to market at rates slightly below those of comparable weeks of last year, since farmers and ranchers are still holding back breeding stock for further expansion of herds.

Developments in the cattle feeding situation point to a continued high volume of cattle feeding this season. The movement of feeder cattle into the Corn Belt since July 1 is higher than in the comparable period of most recent years, although substantially below the record receipts last year when a greatly accelerated early movement from the Northern Plains states resulted from dry weather and shortages of feed. The price

of feeder cattle, at record levels, is causing a cautious attitude on the part of both cattle feeders and financing groups. Feeder and stocker steers sold on the Fort Worth market at the end of October for a top price of \$30.00 per cwt., compared with \$22.50 a year earlier.

TOP LIVESTOCK PRICES

(Dollars per hundredweight)

	Fort Worth market		
	September 1950	September 1949	August 1950
Slaughter steers.....	\$30.00	\$24.50	\$30.00
Stocker steers.....	30.00	21.50	30.00
Slaughter cows.....	23.50	18.00	22.50
Slaughter heifers and yearlings.....	30.25	26.00	30.00
Slaughter calves.....	30.00	24.50	30.00
Stocker calves.....	35.00	24.50	30.00
Slaughter lambs.....	29.00	23.00	30.00
Hogs.....	23.75	22.50	24.75

LIVESTOCK RECEIPTS

(Number)

	Fort Worth market			San Antonio market		
	Sept. 1950	Sept. 1949	Aug. 1950	Sept. 1950	Sept. 1949	Aug. 1950
Cattle.....	49,614	52,846	55,732	24,139	25,329	31,285
Calves.....	40,909	27,002	31,440	23,707	13,934	24,565
Hogs.....	46,656	33,881	40,290	7,268	6,900	8,262
Sheep.....	36,391	58,343	59,847	22,347*	51,507*	29,355*

*Includes goats.

The number of sheep and lambs to be fed for the winter and spring market is expected to be smaller than the number fed last year. The small supply of lambs and a broadening demand for breeding stock are the principal reasons for the reduction in lamb feeding. The wheat pasture areas of Kansas, Oklahoma, and Texas have made very good progress, but the supply of lambs will not fulfill the demand for feeders, prices of which have been at record levels. The top price for feeder lambs on the Fort Worth market in late October was \$26.00 per cwt. for common and medium classes.

Farm prices in Texas continue to average near the record high level attained in September. The Agriculture Department's mid-September index of prices received by Texas farmers for all agricultural commodities, the most recent index figure available, was 344 percent of the 1910-14 base, after having increased for the ninth consecutive month. Contributing most to the advance were the sharp increases recorded for cotton, cottonseed, and wool, together with moderate increases in prices of meat animals, poultry, and dairy products. Price developments since mid-September indicate that the upward movement of the general level of farm prices in Texas may have been halted, at least temporarily. On October 23, Mid-ling 15/16-inch cotton sold in the 10 spot markets for an average of 39.48 cents per pound, compared with the season's high of 41.20 cents on September 23. As compared with mid-September quotations, wheat prices on the Fort Worth Grain and Cotton Exchange on October 23 were off fractionally, barley was down 14 cents per bushel, white corn was down 58 cents per bushel, while oats and yellow corn made net gains of 1 cent per bushel and grain sorghums rose 4 cents per cwt. Most classes of cattle on the Fort Worth market held steady, but hogs were lower by \$1.50 per cwt. Poultry prices on the Dallas wholesale market, on the other hand, showed some seasonal increase, with hens up 2 to 3 cents per pound and eggs higher by 5 to 10 cents per dozen.

FINANCE

Reports from selected member banks in leading cities of the District indicate that between September 13 and October 11 loans increased, while investments and deposits declined.

Changes in other major accounts include an increase in reserve balances with the Federal Reserve Bank and a decrease in balances with domestic banks. Total resources declined \$21,327,000 and amounted to \$3,814,569,000 at the end of the period.

Loans of these banks increased \$45,590,000 between September 13 and October 11, as all major categories of loans showed growth. Commercial, industrial, and agricultural loans rose by \$29,578,000, while the category "all other," including a substantial amount of consumer loans, increased by \$8,328,000. Loans reached a record total of \$1,368,999,000 on October 11, reflecting a gain of \$288,852,000 over those of a year earlier.

The growth in loans during the 4 weeks ended October 11 represented a continuation of the uninterrupted week-to-week increases in total loan volume which began July 12. During this 13-week period, loans expanded by \$152,361,000, or at an average weekly rate of almost \$12,000,000. Approximately 72 percent of the growth occurred in loans for commercial, industrial, and agricultural purposes, but real estate and "all other" loans also showed rather sharp gains. The growth from July 12 to October 11 resulted in the establishment of new record highs in successive weeks after July 19. The underlying strength of the increased loan demand during both the 4-week and the 13-week periods ended October 11 was based, in large measure, on the special circumstances created by the outbreak of hostilities in Korea and on the emergence of seasonal factors in the business situation. These two additional factors gave an especially buoyant tone to the total demand of businesses and others for bank credit, as they were superimposed upon existing high levels of economic activity.

Total investments declined by \$39,533,000 between September 13 and October 11, as holdings of United States Government securities showed a decrease of \$42,994,000. The liquidation of investments affected all types of Government securities with the exception of Treasury bills, which showed an increase of \$14,614,000, and was distributed approximately evenly among certificates, notes, and bonds. Treasury refunding operations on September 15 and October 1 affected both the composition and the level of holdings of Government securities—contributing directly to the decline in certificates and bonds and indirectly to the increase in bills. Although total proceeds from sales and cash redemptions of the maturing issues were not reinvested in Government securities, a portion of the funds was devoted to increasing holdings of Treasury bills. In contrast with the decrease in holdings of Governments, investments in other securities increased \$3,461,000, continuing the trend which has prevailed during the greater part of the year.

The liquidation of holdings of Government securities provided funds to finance the greater part of the loan expansion which occurred at the selected member banks in leading cities of the District. Additional funds to meet the increased demand for loans and to increase by \$23,650,000 the reserve balances with the Federal Reserve Bank were obtained through withdrawals of \$20,899,000 from balances with correspondents and a reduction of \$29,831,000 in cash items in the process of collection.

Despite the fact that deposit growth created by loan expansion exceeded deposit liquidation due to the decrease in investments, total deposits of the weekly reporting member banks declined \$25,094,000 during the 4-week period. All categories of demand accounts—with the exception of interbank deposits, which increased \$35,677,000—declined during the period, with the total shrinkage more than accounted for

by the decrease in demand deposits of individuals, partnerships, and corporations. Quarterly income tax payments constituted a factor in the downward trend of demand deposits of individuals and businesses, but these effects were largely offset in the last week of the period, as this category of deposits increased \$69,503,000. On October 11 total deposits were \$3,559,536,000, as compared with the year-earlier total of \$3,269,995,000.

Reports for the week ended October 18, the most recent period for which data are available, indicate an extension of the trends in loans and investments which prevailed during the preceding 4 weeks; but the decrease in deposits in the earlier period was more than offset by a sharp rise in demand deposits during the following week. Demand deposits rose by \$59,997,000, as increases of \$30,313,000 in domestic interbank deposits and \$27,299,000 in demand accounts of individuals and businesses were reported. Funds which were otherwise available during the week were augmented by the \$6,146,000 decline in investments. The total supply of funds was utilized, in part, to meet the increase in loans, amounting to \$17,744,000, and to add \$18,248,000 to balances with correspondents. Also, reserves with the Federal Reserve Bank rose \$7,533,000 to a total of \$494,787,000 on October 18, a record high for any weekly reporting date this year.

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

(In thousands of dollars)

Item	October 11, 1950	October 12, 1949	Sept. 13, 1950
Total loans (gross) and investments.....	\$2,647,759	\$2,434,535	\$2,641,702
Total loans—net.....	1,355,501	1,070,215	1,309,882
Total loans—gross.....	1,368,999	1,080,147	1,323,409
Commercial, industrial, and agricultural loans....	931,554	731,144	901,976
Loans to brokers and dealers in securities.....	6,223	6,962	6,278
Other loans for purchasing or carrying securities..	60,576	50,546	56,401
Real-estate loans.....	112,685	89,001	109,421
Loans to banks.....	500	409	200
All other loans.....	257,461	202,085	249,133
Total investments.....	1,278,760	1,354,388	1,318,293
U. S. Treasury bills.....	114,504	116,009	99,890
U. S. Treasury certificates of indebtedness.....	57,218	339,043	75,703
U. S. Treasury notes.....	319,739	44,101	337,439
U. S. Government bonds (inc. gtd. obligations)...	633,207	729,742	654,630
Other securities.....	154,092	125,493	150,631
Reserves with Federal Reserve Bank.....	487,254	460,377	463,604
Balances with domestic banks.....	333,255	298,607	354,154
Demand deposits—adjusted*.....	2,115,713	1,942,356	2,136,833
Time deposits except Government.....	439,019	440,795	436,376
United States Government deposits.....	57,145	51,026	69,608
Interbank demand deposits.....	689,555	614,257	653,378
Borrowings from Federal Reserve Bank.....	0	0	300

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

† After deductions for reserves and unallocated charge-offs.

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

(Averages of daily figures. In thousands of dollars)

Date	Combined total		Reserve city banks		Country banks	
	Gross demand	Time	Gross demand	Time	Gross demand	Time
September 1948.....	\$5,203,768	\$589,519	\$2,508,252	\$378,943	\$2,695,516	\$210,576
September 1949.....	5,146,942	648,045	2,503,549	421,452	2,643,393	226,593
May 1950.....	5,481,505	670,514	2,627,316	423,428	2,854,189	247,086
June 1950.....	5,550,468	689,715	2,684,393	424,252	2,866,075	245,463
July 1950.....	5,640,371	660,748	2,757,150	416,733	2,883,221	243,995
August 1950.....	5,685,570	655,792	2,779,305	409,987	2,906,265	245,805
September 1950....	5,726,635	659,286	2,806,806	410,905	2,919,829	248,381

Gross demand deposits of all member banks in the District averaged \$41,065,000 higher in September than in August, with Reserve city banks accounting for approximately 67 percent of the gain. Time accounts also averaged higher in September than in August, with the increase at all member banks amounting to \$3,494,000 and with country banks accounting for approximately 74 percent of the increase. Gross demand deposits of all member banks in the District averaged \$5,726,635,000 during September, while time deposits averaged \$659,286,000.

Debits to deposit accounts reported by banks in 24 cities of the District were 2 percent higher in September than in August but 27 percent higher than in the comparable month of last year. The strength of economic activity which has prevailed in the Southwest throughout the greater part of the

changes for the new 13-month 1¼-percent note which was offered to holders of the certificate amounted to \$5,253,589,000, leaving approximately 16 percent, which was retired in cash by the Treasury.

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

(Amounts in thousands of dollars)

City	Debits*			Deposits*		
	September 1950	Sept. 1949	Aug. 1950	September 30, 1950	Sept. 1950	Sept. 1949
Arizona: Tucson.....	\$ 64,880	28	8	\$ 81,497	9.5	7.8
Louisiana:						
Monroe.....	42,641	9	—5	43,543	11.8	10.9
Shreveport.....	160,187	17	8	181,597	10.4	10.0
New Mexico:						
Roswell.....	19,107	28	—2	22,118	10.2	10.1
Texas:						
Abilene.....	51,708	65	5	47,860	13.0	10.2
Amarillo.....	107,743	19	—2	92,672	13.8	12.5
Austin.....	153,699	8	24	109,673	16.8	16.2
Beaumont.....	114,806	26	5	88,657	15.2	12.1
Corpus Christi.....	111,728	32	—8	91,139	14.5	12.8
Dallas.....	14,314	—3	16	20,304	8.5	9.0
Dallas.....	1,328,295	26	#	877,224	18.4	16.3
El Paso.....	141,368	23	—2	127,166	13.3	11.9
Fort Worth.....	409,289	32	2	324,853	15.0	12.4
Galveston.....	77,778	16	8	85,962	9.6	8.5
Houston.....	1,314,351	28	1	1,029,936	15.4	13.4
Laredo.....	17,521	16	—7	21,632	9.6	8.6
Lubbock.....	82,535	51	#	80,498	12.2	10.6
Port Arthur.....	35,349	5	4	37,971	11.2	10.6
San Angelo.....	43,662	46	9	48,035	10.9	9.4
San Antonio.....	334,212	35	#	353,673	11.3	9.5
Texasarkana.....	19,387	36	16	22,634	10.3	7.7
Tyler.....	48,488	13	4	50,800	11.5	9.8
Waco.....	75,715	33	11	78,502	11.6	10.1
Wichita Falls.....	69,869	26	2	91,368	8.6	7.8
Total—24 cities.....	\$4,836,465	27	2	\$4,024,514	14.4	12.6

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.

† This figure includes only one bank in Texarkana, Texas. Total debits for all banks in Texarkana, Texas-Arkansas, including two banks located in the Eighth District, amounted to \$31,177,000 for the month of September 1950.

year continues to be reflected in the excess of month-to-month debit figures over year-earlier totals. The turnover of deposits, representing the average annual rate of use of deposit accounts, was 14.4 in September as compared with 14.2 in August and 12.6 in September 1949.

Total earning assets of the Federal Reserve Bank of Dallas increased \$28,190,000 between September 15 and October 15, with the growth more than accounted for by the increase in holdings of United States Government securities. Other principal changes in the statement of condition include an increase of \$49,456,000 in total gold certificate reserves, a decrease of \$3,850,000 in discounts for member banks, and a decrease of \$3,365,000 in member bank reserve deposits. Notes of this Bank in actual circulation on September 15 amounted to \$620,540,000, an increase of \$7,224,000 over the month-earlier total but a decrease of \$2,855,000 from October 15, 1949.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	October 15, 1950	October 15, 1949	Sept. 15, 1950
Total gold certificate reserves.....	\$666,398	\$674,629	\$616,942
Discounts for member banks.....	265	327	4,115
Foreign loans on gold.....	0	3,220	0
U. S. Government securities.....	886,671	767,306	854,631
Total earning assets.....	886,936	770,853	858,746
Member bank reserve deposits.....	824,425	767,985	827,790
Federal Reserve notes in actual circulation.....	620,540	623,395	613,316

On September 29 the Secretary of the Treasury announced the completion of refunding operations for the 1½-percent certificate of indebtedness which matured October 1 and which was outstanding in the amount of \$6,247,587,000. Total ex-

SAVINGS DEPOSITS

City	Number of reporting banks	September 30, 1950		Percentage change in savings deposits from	
		Number of savings depositors	Amount of savings deposits	Sept. 30, 1949	August 31, 1950
Louisiana:					
Shreveport.....	3	43,535	\$ 24,036,404	— 4.7	0.1
Texas:					
Beaumont.....	3	12,141	5,547,024	— 9.4	—1.5
Dallas.....	8	144,754	75,805,439	— 2.4	—0.7
El Paso.....	2	32,924	21,841,700	— 1.6	—0.8
Fort Worth.....	4	44,217	34,619,322	— 2.6	—0.7
Galveston.....	4	22,176	20,874,515	— 1.9	0.2
Houston.....	8	94,344	73,963,838	— 0.2	—0.5
Lubbock.....	2	2,108	3,827,877	19.0	—3.3
Port Arthur.....	2	6,003	4,075,052	—10.6	—1.4
San Antonio.....	5	41,647	42,354,724	— 3.3	—0.3
Waco.....	3	10,492	10,411,443	2.8	—0.5
Wichita Falls.....	3	8,289	4,631,535	0.8	—0.03
All other.....	55	67,408	56,121,602	2.6	—0.3
Total.....	102	530,038	\$378,110,475	— 1.3	—0.5

INDUSTRY

Industrial activity in the Eleventh Federal Reserve District continued at a very high level in September and October. The Texas Employment Commission estimates that nonfarm employment in Texas rose to about 2,430,000 persons at mid-October, a level approximately 4 percent higher than a year earlier. This marks the fourth consecutive record in such employment, with prospects that employment in November and December will establish successively higher records. The employment gains during September and October reflect major increases in the aircraft, automobile assembly, and shipbuilding industries, as well as some rise of employment in the apparel, chemical, and fabricated metals industries. Outside of manufacturing, employment increased in retail and wholesale trade, schools, and service establishments. A moderate seasonal downturn occurred in construction employment.

VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

	September 1950p	September 1949	August 1950p	January 1 to September 30	
				1950p	1949
Eleventh District—total....	\$ 106,376	\$ 62,058	\$133,889	\$ 876,676	\$ 555,567
Residential.....	44,493	35,298	62,916	407,346	204,504
All other.....	61,883	26,760	70,973	469,330	351,063
United States—total.....	1,268,541	1,071,674	1,548,876	11,109,746	7,393,908
Residential.....	549,585	503,522	754,106	5,235,896	2,867,598
All other.....	736,956	568,152	794,770	5,873,850	4,526,310

p—Preliminary.

† 37 states east of the Rocky Mountains.

SOURCE: F. W. Dodge Corporation.

The value of construction contracts awarded in the District during September totaled \$106,000,000, or 21 percent less than the all-time peak of the previous month but 71 percent above the level of a year ago. Despite the sharp drop from August, the September figure is 9 percent above the 1950 monthly average. During the first 9 months of 1950, awards totaled \$877,000,000, or 58 percent more than during the same period last year, exceeding all previous 12-month totals except that for 1942.

Residential construction contract awards for September, which amounted to \$44,000,000, were 29 percent less than in August, though 26 percent more than in September of last year. The September 1950 level of residential awards is only 2 percent below the very high monthly average for the year to date. Prior to this year, the September figure was exceeded

only by that for May 1946. During the first 9 months of 1950, residential awards totaled \$407,000,000, or nearly twice the year-earlier figure.

BUILDING PERMITS

City	September 1950		Percentage change Jan. 1 to Sept. 30, 1950		Percentage change valuation from 1949	
	Number	Valuation	Sept. 1949	Aug. 1950	Number	Valuation
Louisiana:						
Shreveport....	479	\$ 4,157,468	149	49	3,724	\$ 25,818,798
Texas:						
Abilene.....	210	1,513,480	293	-20	1,591	11,308,200
Amarillo.....	277	1,913,475	11	-10	2,934	16,821,306
Austin.....	242	3,161,708	33	27	3,401	31,437,557
Beaumont....	316	542,899	12	-62	3,151	8,484,366
Corpus Christi	410	1,572,302	55	-41	4,096	20,624,603
Dallas.....	2,131	14,338,251	138	8	18,651	97,138,566
El Paso.....	315	1,794,939	3	-40	3,583	19,866,666
Fort Worth....	809	3,700,140	11	-37	8,066	37,568,437
Galveston....	194	246,540	18	-87	1,585	5,851,046
Houston.....	854	12,008,900	97	-50	11,071	131,425,583
Lubbock.....	286	1,563,771	60	-40	2,963	19,209,863
Port Arthur...	200	383,218	16	79	1,899	4,785,454
San Antonio...	1,517	4,936,947	52	-19	15,303	41,914,369
Waco.....	195	789,431	35	-74	2,364	15,627,319
Wichita Falls..	55	281,860	70	-46	1,100	4,109,684
Total.....	8,490	\$52,905,329	62	-28	85,482	\$491,989,817

Nonresidential construction contract awards in this District, which amounted to \$62,000,000 during September, were 13 percent below the high August figure but 131 percent more than the year-earlier figure and 19 percent above the monthly average for 1950 to date. During the first 9 months of 1950, nonresidential awards totaled about \$470,000,000, or a third more than during the corresponding period of last year. Commercial, utility, and educational construction account for over half of the increase.

With the October 10 announcement of Regulation X by the Board of Governors of the Federal Reserve System, credit controls became effective on all privately financed 1- and 2-family houses started after noon of August 3 and on which commitments had not been made prior to October 12. Regulation X applies to conventional loans, as distinguished from loans made, insured, or guaranteed by federal agencies. A companion announcement by the Housing and Home Finance Agency placed FHA loans under restrictions corresponding to those of Regulation X; at the same time, the Veterans Administration announced new requirements whereby veterans have an advantage over nonveterans of from 5 to 10 percentage points on maximum loan limits. These regulations have for their aims the cutting back of the rate of home building by about one-third of 1950 volume, the easing of the inflationary demand for building materials, and increased availability of materials for defense. Regulation X covers loans for more than \$2,500 with more than 18-month maturity on 1- and 2-family unit housing, and its terms apply to major improvements and additions, as well as to new construction. The new down payment requirements provided by this regulation range from 10 percent for houses selling for \$5,000 and under to 50 percent on houses costing \$24,250 and up. Down payments must be cash and must not be borrowed, except against equities in life insurance policies. All mortgages subject to the new regulation will carry a maximum maturity of 20 years, except mortgages on houses priced at \$7,000 or less, on which properly amortized loans may run as long as 25 years. The regulation contains a hardship provision permitting any person or builder who made substantial commitments before August 3 with a view to building new housing to apply for relief to his regional Federal Reserve Bank. Compliance with the regulation is required of all lenders, a "lender" being one who, during the past year, made three or more real estate loans aggregating more than \$25,000.

Under Regulation X the basic minimum down payments are derived from the maximum loan values computed on the following basis:

If the transaction price is	The maximum loan value is
More than \$2,500 but not more than \$5,000	90 percent of the value
More than \$5,000 but not more than \$9,000	\$4,500 plus 65 percent of excess of value over \$5,000
More than \$9,000 but not more than \$15,000	\$7,100 plus 60 percent of excess of value over \$9,000
More than \$15,000 but not more than \$20,000	\$10,700 plus 20 percent of excess of value over \$15,000
Over \$20,000	\$11,700 plus 10 percent of excess of value over \$20,000 but not less than 50 percent of value

For FHA loans, the maximum loan value may be less than indicated above when the appraised value is less than the transaction price.

The minimum down payments for GI loans are computed on the following basis, assuming a transaction price not exceeding reasonable value:

If the transaction price is	The minimum down payment is
\$5,000 or less	5 percent of value
More than \$5,000 but not more than \$6,000	\$250
More than \$6,000 but not more than \$9,000	\$250 plus 25 percent of excess of value over \$6,000
More than \$9,000 but not more than \$12,000	\$1,000 plus 30 percent of excess of value over \$9,000
More than \$12,000 but not more than \$15,000	\$1,900 plus 55 percent of excess of value over \$12,000
More than \$15,000 but not more than \$20,000	\$3,550 plus 75 percent of excess of value over \$15,000
More than \$20,000 but not more than \$24,250	\$7,300 plus 85 percent of excess of value over \$20,000
Over \$24,250	45 percent of value

Some easing of building materials shortages has been reported recently. The prices of a few lumber items have declined moderately but are still above July 1 levels. Better transportation has been a factor in this improvement, together with lessened demand for inventory accumulation. Cement and gypsum board continue in tight supply, and various other materials are still subject to spot shortages.

Crude oil production during September reached new all-time peaks of 2,929,000 barrels per day in the Eleventh District and 5,901,000 barrels per day in the Nation. In the District, production averaged 166,000 barrels daily more than the previous month and 718,000 barrels daily more than a year earlier. In the Nation, production was up 205,000 bar-

rels daily from August and 1,047,000 barrels daily from September last year. The production rates in early October in both the District and the Nation were moderately lower than in September, due to reduction of production allowables in Texas by 63,000 barrels daily as compared with those in effect on September 1. A further reduction of Texas allowables amounting to 38,000 barrels per day was announced for November.

CRUDE OIL PRODUCTION

(Barrels)

Area	September 1950		Increase or decrease in daily average production from	
	Total production	Daily avg. production	Sept. 1949	Aug. 1950
Texas				
District				
1 South Central.....	923,500	30,783	3,668	1,260
2 Middle Gulf.....	4,588,550	152,952	30,782	9,641
3 Upper Gulf.....	14,175,850	472,529	101,299	21,826
4 Lower Gulf.....	7,129,300	237,643	48,878	11,856
5 East Central.....	1,324,700	44,157	9,777	2,980
6 Northeast.....	12,340,400	411,346	84,891	33,640
East Texas.....	9,118,300	303,943	60,588	27,700
Other fields.....	3,222,100	107,403	24,303	5,940
7b North Central.....	2,252,100	75,070	13,895	2,507
7c West Central.....	2,173,150	72,438	22,553	4,146
8 West.....	27,728,050	924,269	363,231	76,530
9 North.....	4,694,400	156,480	16,385	2,307
10 Panhandle.....	2,742,900	91,430	-1,155	-570
Total Texas.....	80,072,900	2,669,097	694,204	166,123
New Mexico.....	4,042,500	134,750	12,330	1,097
North Louisiana.....	3,760,900	125,363	11,411	-1,229
Total Eleventh District.....	87,876,300	2,929,210	717,945	165,991
Outside Eleventh District.....	89,155,580	2,971,853	328,850	39,183
United States.....	177,031,880	5,901,063	1,046,795	205,174

SOURCE: Estimated from American Petroleum Institute weekly reports.

During September, refinery activity as indicated by crude oil runs to refinery stills rose to 1,741,000 barrels daily in this District, or 53,000 barrels per day more than in August, as well as 136,000 barrels per day more than in September of last year. Refinery runs in the Nation averaged 6,004,000 barrels per day, representing an 81,000-barrel daily decrease from the record level of the previous month but amounting to 665,000 barrels daily more than in September 1949. During early October, refinery runs in the Nation slightly exceeded the August record on a daily average basis.

Despite these high levels of refinery activity, stocks of crude oil in the Nation increased by 3,525,000 barrels during September, due to the record rate of crude production, but were still 16,669,000 barrels less than a year earlier. Following a 420,000-barrel decline during the first week of October, crude oil stocks were more than 10,000,000 barrels lower than at the first of the year but were 4,773,000 barrels above the year's low point reached 4 weeks earlier on September 9.

Somewhat similarly, stocks of the four major refined products—gasoline, kerosene, gas and distillate fuel oil, and residual fuel oil—increased during September by 9,447,000 barrels but were still 31,245,000 barrels under the year-ago level. Stock accumulation has been retarded by the heavy demand, with the takings of these products by distributors and consumers during September apparently running about 11 percent above a year ago. A gain of 893,000 barrels in stocks of residual fuel oil did little to overcome the lag in building up inventories of this product, which remain 25,625,000 barrels under the level of a year earlier. There has been relatively little change in residual stocks during the past 6 months, and in this

case demand, being only about 6 percent higher than a year ago, does not account entirely for the lag in stock accumulation. Refinery yields of residual fuel oil have not been increased in accordance with the need to accumulate stocks but have remained at about the levels of the past 6 months, which approximate those of a year ago.

The stock position of gas and distillate fuel oil is appreciably better than that of residual oil and showed further improvement with a gain of 7,555,000 barrels during September, with the result that such stocks were only 6,761,000 barrels below year-earlier levels. Kerosene stocks also rose during September, reaching a level above that of a year ago. These gains in stocks of gas and distillate fuel oil and of kerosene were achieved, in part, by increasing refinery yields and were achieved despite increases in apparent demand over a year ago of about 27 percent and 20 percent, respectively. Accounting for a part of this increase in apparent demand has been the quite appreciable building up of inventories in the tanks of consumers and distributors, in contrast to the more hesitant accumulation of such inventories a year ago. Gasoline stocks declined seasonally by 1,480,000 barrels during September but were moderately above the year-earlier level. The apparent demand for gasoline has been declining seasonally but in September was about 8 percent higher than a year earlier. Refinery yields of gasoline have been reduced in line with the seasonal contraction of demand. The over-all stock position, considering crude oil and the four major refined products, showed a gain of nearly 13,000,000 barrels during September but remained 48,000,000 barrels lower than a year ago.

The price positions of crude oil and of refined petroleum products continue very firm. Drilling activity as indicated by well completions appears to be continuing at close to a record rate. If steel items continue sufficiently available, new records for well completions seem likely for 1950 in both the District and the Nation.

DOMESTIC CONSUMPTION AND STOCKS OF COTTON

(Bales)

	September 1950*	September 1949	August 1950†
Total consumption:			
Texas mills.....	n.a.	12,898	12,533
United States mills.....	968,494	708,623r	807,840
Daily average consumption:			
Texas mills.....	n.a.	n.a.	627
United States mills.....	39,530	32,959	40,392
United States stocks—end of month:			
Consuming establishments.....	1,237,815	745,482r	1,144,250
Public storage and compresses.....	4,890,637	6,134,000r	4,568,889

* Five weeks ended September 30.

† Four weeks ended August 28.

n.a.—Not available.

r—Revised.

SOURCE: United States Bureau of the Census.

The consumption of cotton in United States mills during September declined to 39,530 bales per day, or 2 percent less than the high August rate but 20 percent above the year-ago rate. The August-September total for cotton consumption was 30 percent more than during the corresponding initial 2-month period of the previous season. The high level of cotton consumption during August and September reflects the recent sharp rise in consumer demand for textiles, as well as present and prospective military requirements. This rise in demand has been reflected also in efforts to build up textile inventories.