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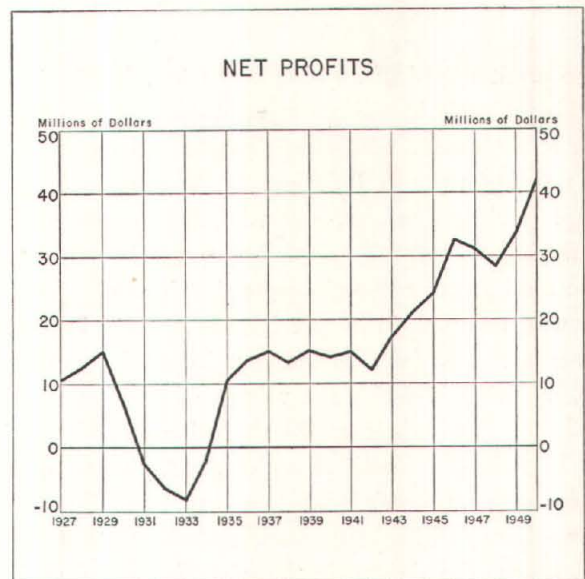
EARNINGS AND PROFITS OF MEMBER BANKS—1942-50 ELEVENTH FEDERAL RESERVE DISTRICT

Net profits of member banks in the Eleventh Federal Reserve District rose to an all-time peak of \$41,923,000 during 1950, reflecting an increase of 24.5 percent over 1949 and a net return of 10 percent on total capital accounts as of December 31, 1950. The increase in profits of member banks during the year was substantial, reflecting the marked changes that took place in the banking system. Total earning assets of member banks rose 9.8 percent during the year, with virtually all the increase occurring in the higher yielding assets represented by loans and discounts and in holding of municipal and other non-Government securities.

Increases in total earnings from current operations and in total recoveries and profits, combined with smaller losses and charge-offs, were the principal factors contributing to the growth of net profits at member banks in the Eleventh Federal Reserve District in 1950. All of the major sources of income contributed to the 13.6-percent gain in earnings from current operations, but about three-fourths of the increase occurred in interest and discount on loans, due primarily to the expansion in loans. The increase occurred chiefly during the last half of the year and reflected the intense demand for credit to finance the unusually heavy buying of raw materials and finished goods at all levels of production and distribution, the boom in construction activity and in home purchases, the marked acceleration of industrial production, and the pronounced increase in consumer buying. The sharp increase in earnings from loans suggests that a substantial part of the loan expansion may have taken place in those types of loans which bear the higher rates of interest.

Current expenses also increased in 1950, with the total being 11.2 percent higher than in 1949. The fairly uniform increases among the several categories of expenses indicate that the over-all increase probably reflected the larger volume of business, combined with the general upward trend in wage rates and in prices of materials and services used by banks.

Since the increase in current expenses did not keep pace with the rise in current earnings, net earnings from current operations increased 17.2 percent. Moreover, net losses and charge-offs were 27.3 percent below those in 1949. On the other hand, taxes on net income rose 39.6 percent, reflecting not only the larger total income but also the increased proportion derived from taxable sources and the upward revision in tax rates.



The sharp increase in member bank profits during 1950 represents an extension of the rising trend that prevailed in most years after 1941. The upward movement in this 9-year period was interrupted only by the relatively small decreases in 1947 and 1948, and these resulted from increases in the accounting category "net losses and charge-offs," the reason for which will be considered later. For the entire period between 1942 and 1950, profits rose by 248 percent, with approximately three-fifths of the over-all growth occurring after 1945.

EARNINGS AND EXPENSES OF MEMBER BANKS

Eleventh Federal Reserve District

(In thousands of dollars)

Item	1942	1943	1944	1945	1946	1947	1948	1949	1950
Interest and dividends on U. S. Government obligations.....	13,171	21,808	29,516	32,121	36,575	32,903	32,979	33,919	35,291
Interest and dividends on other securities.....	.....	.....	.....	4,192	4,636	5,584	6,517	7,245	7,658
Interest and discount on loans.....	29,922	26,004	28,017	32,050	46,992	61,164	77,437	87,267	103,354
Service charges and other fees on bank loans.....	141	166	197	262	283	362	472	598	1,186
Service charges on deposit accounts.....	3,287	4,003	4,827	4,949	5,407	6,248	7,008	7,537	8,168
Other service charges, commissions, fees.....	1,829	2,427	2,868	3,410	3,778	4,003	4,061	3,978	4,452
Trust department.....	889	1,003	1,050	1,237	1,423	1,895	1,999	2,234	2,738
Other current earnings.....	4,734	5,418	5,868	6,355	6,853	7,770	9,078	9,783	10,412
TOTAL EARNINGS FROM CURRENT OPERATIONS.....	53,973	60,829	72,343	84,576	105,947	119,929	139,551	152,560	173,257
Salaries of officers.....	8,913	9,263	10,120	11,582	13,693	15,992	18,239	20,468	22,940
Salaries and wages—employees.....	9,227	10,778	12,349	14,015	16,967	20,053	23,002	25,598	28,451
Fees paid to directors, etc.....	364	365	429	521	612	725	811	900	1,025
Interest on time deposits.....	2,340	2,006	2,305	3,034	3,532	4,033	4,716	5,276	5,528
Interest and discount on borrowed money.....	5	3	14	8	17	28	31	38	99
Taxes other than net income.....	4,726	4,335	4,964	5,350	5,349	7,419	7,726	8,796	9,681
Recurring depreciation on bank.....	1,620	1,475	1,697	1,718	1,839	1,822	2,385	2,608	3,147
Other current operating expenses.....	11,403	12,614	14,122	17,632	20,565	22,943	26,502	28,219	31,310
TOTAL CURRENT OPERATING EXPENSES.....	38,598	40,839	46,000	53,860	62,574	73,015	83,412	91,903	102,181
NET EARNINGS FROM CURRENT OPERATIONS.....	15,375	19,990	26,343	30,716	43,373	46,914	56,139	60,657	71,076
Recoveries on securities.....	741	1,120	836	713	1,199	771	1,173	450	1,533
Profits on securities sold or redeemed.....	1,000	1,420	2,227	6,047	4,733	1,976	1,226	1,665	917
Recoveries on loans.....	2,832	3,253	2,573	2,200	2,531	2,526	2,001	2,352	2,352
All other recoveries and profits.....	960	1,935	2,098	2,339	1,798	1,733	2,112	1,716	2,549
TOTAL RECOVERIES AND PROFITS.....	5,533	7,728	7,734	11,299	10,261	7,006	6,781	5,832	7,351
Losses and charge-offs on securities.....	1,731	2,403	2,521	4,159	4,026	3,288	3,725	2,812	2,671
Losses and charge-offs on loans.....	2,326	1,711	2,015	1,818	2,516	4,869	15,788	13,214	10,867
Losses and charge-offs—all other.....	1,616	1,826	2,004	2,538	2,166	1,843	2,421	2,516	3,049
TOTAL LOSSES AND CHARGE-OFFS.....	5,673	5,940	6,540	8,515	8,708	10,000	21,934	18,542	16,587
PROFITS BEFORE INCOME TAXES.....	15,235	21,788	27,537	33,500	44,926	43,920	40,986	47,947	61,840
Taxes on net income—Federal.....	.....	.....	6,188	9,401	12,267	12,890	12,402	14,235	19,889
Taxes on net income—State.....	.....	.....	15	21	24	35	28	31	28
TAXES ON NET INCOME—TOTAL.....	3,187	4,171	6,203	9,422	12,291	12,925	12,430	14,266	19,917
NET PROFITS.....	12,048	17,607	21,334	24,078	32,635	30,995	28,556	33,681	41,923
Dividends on preferred stock.....	236	206	188	98	73	52	44	30	14
Dividends on common stock.....	6,960	7,429	8,110	9,617	11,005	11,887	13,007	13,694	14,999
TOTAL DIVIDENDS IN CURRENT YEAR.....	7,196	7,635	8,298	9,715	11,078	11,939	13,051	13,725	15,012

The profit record of member banks in this District during this period is in marked contrast with the trend during much of the decade of the thirties. Member bank earnings rose rather sharply in 1928 and 1929, climaxing a period of rapidly rising business, industrial, and speculative activity. During the next 5 years, however, the heavy impact of the most severe economic depression in the Nation's history was reflected in a precipitous decline in member bank earnings. In fact, deficits were incurred from 1931 to 1934, a period in which the volume of earning assets declined sharply and their quality showed a marked deterioration. Deposits also declined rapidly, reflecting to some extent deposit withdrawals by customers who lacked confidence in the solvency of banks generally and sought to avoid personal losses. The decline in deposits often resulted in the forced liquidation of loans, which in turn contributed to losses that might not have been sustained under less pressing circumstances. Since a very large percentage of banks was affected adversely by these developments, deficits were general throughout this period. Moreover, there were extensive reorganizations of banking institutions, involving "write-downs" or "write-offs" in the value of earning assets and a strengthening of capital structures with government and private funds. In 1933 and 1934 some \$24,000,000 of preferred stock, including capital notes and capital debentures, was sold by member banks, mostly to the Reconstruction Finance

Corporation. This compared with about \$70,000,000 of common stock outstanding at the end of the period. As the banking system was rehabilitated, member bank earnings showed considerable improvement. During the years from 1935 to 1942, when economic recovery was in progress, member bank earnings evidenced an upward trend, but at the end of the period net profits were still lower than in 1929.

The wide variations in district member bank profits during the more than two decades since 1927 reflect underlying economic developments including, first, the contractive effects of the deep depression of the early thirties and, second, the expansive effects of the war and postwar periods in the 1940's. In the latter period the changes affecting bank operations were especially significant because they developed on a keynote of general expansion. In the Eleventh District the rates of expansion in total assets, loans, investments, deposits, and earnings of member banks exceeded those for the country as a whole, both in the war and postwar periods. In view of the extent and the rapidity of the increases in major assets and liabilities and in profits of district member banks from 1942 to 1950, the purpose of this article is to examine the changes that occurred and to analyze some of the factors underlying the growth of profits.

Total earnings from current operations followed a consistently upward trend between 1942 and 1950, with the net

increase for the period being about 221 percent. A very large share of the increase in total earnings occurred in income derived from loans and investments. The increase in this category amounted to 240 percent, as compared with an increase of only 148 percent in earnings from all other sources. Income derived from loans and investments, which constituted 79.8 percent of total earnings from current operations in 1942, had risen to 84.4 percent in 1950. Conversely the proportion of total earnings from current operations derived from other sources declined to 15.6 percent in 1950 from 20.2 percent in 1942.

PRINCIPAL ASSETS AND LIABILITIES OF MEMBER BANKS

(Dollar amounts in millions)

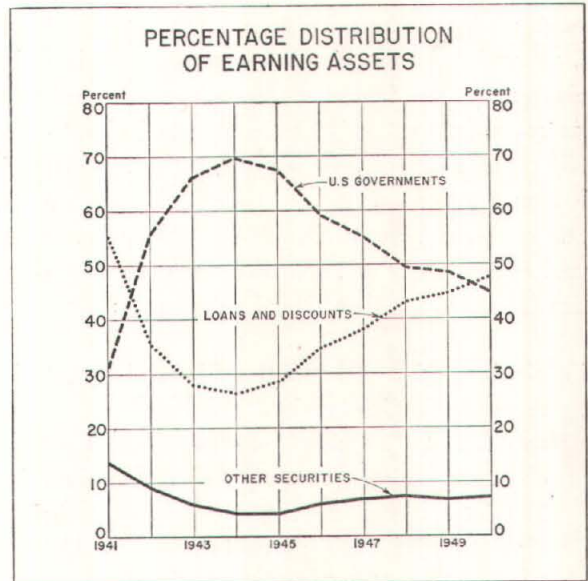
Item	ELEVENTH DISTRICT			UNITED STATES		
	Dec. 30, 1950	Dec. 31, 1941	Percentage Increase	Dec. 30, 1950	Dec. 31, 1941	Percentage Increase
Reserves, cash, and bank balances.....	2,507	997	151	35,524	23,123	54
U. S. Government obligations.....	2,275	370	515	52,365	19,539	168
Other securities.....	368	163	126	10,355	5,961	74
Loans and discounts.....	2,430	663	267	45,300	18,021	151
Total assets.....	7,657	2,244	241	144,660	68,121	112
Total deposits.....	7,198	2,052	251	133,089	61,717	116
Demand.....	6,545	1,817	260	103,412	49,231	110
Time.....	653	235	178	29,677	12,487	138
Capital accounts.....	418	184	127	9,695	5,886	65

While aggregate earnings from loans and investments increased substantially from year to year, the composition of earnings from these sources varied widely, reflecting not only the year-to-year changes in holdings of each type of earning asset but also the average rate of interest derived from each category.

The major increase in earnings from investments—176 percent—occurred during the war period, or from 1942 to 1945, due almost entirely to the rapid expansion in holdings of Government securities. Two developments should be kept in mind as an explanation of the expansion in bank holdings of Government securities during the war period. First, the Treasury deficit was so large that the new securities could not be absorbed by nonbank investors. In consequence, the banking system absorbed a very large percentage of the net increase each year in interest-bearing debt outstanding. In the fiscal year ended June 30, 1942, the amount absorbed was only about 32 percent, but it rose to 49 percent in 1943 and amounted to 39 percent and 41 percent, respectively, in 1944 and 1945. Second, in the early part of the war period the banks were very cautious with respect to the types of securities purchased, with a large share of net additions to their security portfolios being Treasury bills. This caution grew out of the fact that the banks were uncertain about the effects on Government securities of the pattern of rates which the Federal Reserve System, in April 1942, had agreed to maintain. As the effects of the pattern of rates became more apparent, however, there was a marked shift, first, to certificates of indebtedness, then to Treasury notes, and later to

Treasury bonds. In consequence, there was a tendency for the average maturity of commercial bank holdings of Government securities to lengthen. At the same time, the average interest rate tended to increase.

In this District, member bank purchases of Government securities became significant during the last half of 1942, and year-end holdings were more than double those a year earlier. Earnings from that source in 1942, however, were only about one-third higher than in the preceding year, since acquisitions were predominantly the short-term low rate issues and a large percentage of the securities was held for a relatively short period during the year. The major share of the increase in earnings from investments occurred in 1943 and 1944, when the banks were making heavy additions to their holdings of Government securities and were lengthening the average maturity of their security portfolios in order to increase the average rate of interest. While the net increase in holdings during 1945 was nearly as large as in each of the two preceding years, most of the acquisitions occurred in connection with the Victory Loan Drive late in the year and, hence, did not contribute greatly to the year's earnings.



Earnings from Government securities reached an all-time peak in 1946. In that year the Treasury used its large cash balances acquired during the Victory Loan Drive to retire outstanding issues of securities, chiefly those held by the banking system, but the retirements occurred periodically during the year. While a substantial net reduction in bank holdings of Governments occurred, average holdings were substantially higher than in any other year. Moreover, most of the retirements occurred in the short-term low rate securities, so that the average rate on security holdings was probably higher than that in the preceding year. In 1947, when

average holdings of Government securities declined rather sharply, income from that source dropped approximately to the 1945 level, but in subsequent years it showed a gradual recovery so that in 1950 the total was only moderately under the 1946 peak. This recovery was made possible chiefly by the rise in short-term interest rates, as holdings of Government securities fluctuated within a comparatively narrow range.

Income from other securities increased about 83 percent between 1945 and 1950, but this increase was smaller than the expansion in holdings, indicating that the average rate of interest on such securities declined during the period. The increase in holdings was related to the expanding supply of such securities resulting from the resumption, on a large scale, of new financing by municipalities and other political subdivisions issuing tax-exempt securities and by private corporations. This was in marked contrast with conditions during the war period, when the virtual cessation of such financing had created a relative scarcity in the market supply of high-grade tax-exempt bonds and of high-grade corporate bonds and had resulted in high premiums on such securities.

In the first two war years—1942 and 1943—interest and discounts on loans dropped about 21 percent from the 1941 level, although the volume of loans outstanding showed little net change. By 1945 interest on loans had recovered most of the decrease, but in that year the average volume of loans was 53 percent higher than 4 years earlier. The relatively small loan demand and the decrease in the average rate of interest on loans were attributable to the character of the demand for bank credit. The shifts among the several types of loans reflected the following developments:

- (1) The institution of Regulation W covering control over consumer credit, combined with the virtual disappearance from the market of consumer durable goods, held down the volume of such loans outstanding at banks. The interest rate on these loans was probably the highest in the banks' portfolios.
- (2) Wartime developments reduced the need for borrowing by businesses and individuals. These developments included the increased proportion of business handled on a cash basis because of the expanded individual income and liquid asset holdings, the large-scale government financing of plant facilities and of war production, the tendency of corporations to use funds accumulated to meet deferred tax liabilities to finance temporary needs, and the increased liquidity of business and industry generally. The competition among banks for such loans as were available tended to lower the rate of interest.

- (3) Banks increased their participation in guaranteed commodity credit loans to farmers on farm products, on which the interest rate was low.
- (4) There was relatively small demand for loans secured by real estate, largely because of restrictions upon civilian construction during the war period.
- (5) Individuals increased their demand for loans secured by Government securities, and these loans were usually made at low rates of interest. A large share of these loans was made during the war loan drive, to purchase and carry Government securities.

It was not until 1945, particularly after the termination of hostilities, that normal demands for bank credit began to reassert themselves.

After 1945 the volume of bank loans outstanding and the earnings from them expanded very rapidly. Moreover, the most pronounced growth occurred in those types of loans bearing the higher rates of interest. Indicative of this shift was the increase of 223 percent in earnings derived from interest and discount on loans between 1945 and 1950, as compared with an increase of only 113 percent in the volume of outstanding loans. In this period, the increases in outstanding consumer loans and loans secured by real estate—554 percent and 256 percent, respectively—were particularly significant, since these types of loans carry the higher interest rates. The phenomenal increase in consumer loans reflected three significant developments: (a) the exceptionally heavy buying of consumer durable goods in the postwar period to satisfy current and deferred demands for such goods, (b) the heavy volume of home repairs undertaken when materials and man power became available after the war, and (c) the intensive and widespread effort on the part of the banks to expand this type of loan. Many banks which in the prewar period had handled little or no business of this type entered the field aggressively in the postwar period, while banks which had experience with these loans were highly successful in extending the scope and volume of their operations.

The marked increase in loans secured by real estate is associated with the building boom—particularly in the residential field—that has been in progress throughout the postwar period. The importance of consumer loans and loans secured by real estate in the increase in bank earnings is indicated by the fact that these loans constituted 31 percent of total loans at the end of 1950 as against only 12.9 percent at the end of 1945. A smaller, yet significant, increase—117 percent—also occurred in nonguaranteed agricultural loans, which usually bear a higher-than-average rate of interest. This increase reflected an expansion in farm production, increased mechanization, and larger-scale operations of individual farmers, as well as rising costs of operation.

PERCENTAGE DISTRIBUTION OF EARNINGS AND EXPENSES

Member Banks, Eleventh Federal Reserve District

Item	Ratio to total earnings from current operations									
	1942	1943	1944	1945	1946	1947	1948	1949	1950	
EARNINGS										
Interest and dividends on U. S. Government obligations	24.4	35.9	40.8	38.0	34.5	27.4	23.7	22.2	20.4	
Interest and dividends on other securities	#	#	#	5.0	4.4	4.7	4.7	4.7	4.4	
Interest and discount on loans	55.4	42.7	38.7	37.9	44.3	51.0	55.5	57.2	59.6	
Service charges and other fees on bank loans	.3	.3	.3	.3	.3	.3	.3	.4	.7	
Service charges on deposit accounts	6.1	6.6	6.7	5.8	5.1	5.2	5.0	5.0	4.7	
Other service charges, commissions, fees	3.4	4.0	4.0	4.0	3.6	3.3	2.9	2.6	2.6	
Trust department	1.6	1.6	1.4	1.5	1.3	1.6	1.4	1.5	1.6	
Other current earnings	8.8	8.9	8.1	7.5	6.5	6.5	6.5	6.4	6.0	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
EXPENSES										
Salaries of officers	16.5	15.2	14.0	13.7	12.9	13.3	13.1	13.4	13.2	
Salaries and wages—employees	17.1	17.7	17.1	16.6	16.0	16.7	16.5	16.8	16.4	
Fees paid to directors, etc.	.7	.6	.6	.6	.6	.6	.6	.6	.6	
Interest on time deposits	4.3	3.3	3.2	3.6	3.4	3.4	3.4	3.4	3.2	
Interest and discount on borrowed money	.0	.0	.0	.0	.0	.0	.0	.0	.1	
Taxes other than net income	8.8	7.1	6.9	6.3	5.1	6.2	5.5	5.8	5.6	
Recurring depreciation on bank	3.0	2.4	2.3	2.0	1.7	1.5	1.7	1.7	1.8	
Other current operating expenses	21.1	20.8	19.5	20.9	19.4	19.2	19.0	18.5	18.1	
Total	71.5	67.1	63.6	63.7	59.1	60.9	59.8	60.2	59.0	

Interest and dividends on securities not segregated.

Commercial and industrial loans, which throughout most of the period constituted about one-half of the total loan portfolio, increased 161 percent between 1945 and 1950. In contrast with the steady expansion in the type of loans mentioned above, commercial and industrial loans had their principal growth in two periods—in 1946-47 and in 1950. In the earlier period, the chief factors underlying the loan demand were the expense incurred by industrial concerns in converting from war to civilian production, the rebuilding of inventories at all levels of production and distribution, the rapid increase in the number of business establishments, an increase in the volume of credit transactions and the rise in business receivables, rising prices, and the increased cost of doing business. The relatively small increase in commercial and industrial loans in 1948 and 1949 may be associated with the readjustment that took place in business and industry and the actions taken by the monetary authorities, as well as the voluntary actions of the banking system to restrict the expansion of credit. The slowing down in industrial production, the reduction in inventories, and the decline in prices were important factors tending to hold down the demand for credit.

The exceptionally large increase in commercial and industrial loans in 1950 is attributable to a combination of factors. The recovery in business and industry which had set in during the last half of 1949 had increased the need for funds incident to expanding operations, improving plant facilities, and increasing inventories. As a consequence, there was a strong demand for bank credit throughout the first half of 1950. The wave of speculative operations, financed in considerable part by bank credit, was set off by the Korean crisis and imposed new and large demands upon the already strong existing demands for bank credit. As a consequence of this feverish activity involving production, speculative accumulation of inventories as a protection against the rapidly

rising prices and increasing volume of business, and expanding receivables, outstanding commercial and industrial loans showed a rapid and uninterrupted increase throughout the remainder of the year.

There were two developments in the postwar period which probably had the effect of increasing the average interest rate on commercial and industrial loans. First, a sizable share of the increase in loans represented borrowings by new concerns and by businesses which were undergoing moderate to rapid expansion. As a general rule, credit to such concerns involves more than the ordinary risks and, for that reason, bears a higher rate of interest. Moreover, in a period of expanding business, there is a tendency to increase the volume of loans to marginal borrowers, who are also charged the higher interest rate. The second development has been a trend toward higher interest rates generally as the credit situation became tighter and as more and more banks approached a "loaned-up" position.

In contrast with the foregoing developments in loan demand and in earnings derived from loans, three types of loans which were significant during the war period became relatively unimportant after 1945. The volume of Commodity Credit Corporation guaranteed loans and loans on securities, which ordinarily bear a low rate of interest, constituted 29 percent of total loans at the end of 1945 but represented only 5 percent of the total at the end of 1950. In most postwar years the demand for farm products was strong enough to absorb production at satisfactory prices, so that there was relatively little demand for government-guaranteed loans for price support purposes. With respect to security loans outstanding at the end of 1945, most borrowers either sold their holdings of Government securities or liquidated their loans with funds obtained from other sources; hence, the volume

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PERCENTAGE DISTRIBUTION OF EXPENSES

Member Banks, Eleventh Federal Reserve District

Item	Ratio to total current operating expenses									
	1942	1943	1944	1945	1946	1947	1948	1949	1950	
EXPENSES										
Salaries of officers.....	23.1	22.7	22.0	21.5	21.9	21.9	21.9	22.3	22.5	
Salaries and wages—employees.....	23.9	26.4	26.9	26.0	27.1	27.5	27.6	27.9	27.8	
Fees paid to directors, etc.....	.9	.9	.9	1.0	1.0	1.0	1.0	1.0	1.0	
Interest on time deposits.....	6.1	4.9	5.0	5.6	5.6	5.5	5.6	5.7	5.4	
Interest and discount on borrowed money.....	.0	.0	.0	.0	.0	.0	.0	.0	.1	
Taxes other than net income.....	12.2	10.6	10.8	9.9	8.6	10.2	9.3	9.6	9.5	
Recurring depreciation on bank.....	4.2	3.6	3.7	3.2	2.9	2.5	2.8	2.8	3.1	
Other current operating expenses.....	29.6	30.9	30.7	32.8	32.9	31.4	31.8	30.7	30.6	
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

of outstanding loans declined rather sharply after the Victory Loan Drive. In subsequent years the demand for this type of loan was relatively small.

Coincident with the marked expansion in earnings, current operating expenses also increased sharply, but at a slower rate. Over the entire period—1942 to 1950—current operating expenses increased by 165 percent, with most of the rise occurring after 1945. During the war period the increases occurred chiefly in salaries of officers and employees and in miscellaneous expenses. While some of the increase reflected rising prices and wage rates, it appears that much of the increase might have resulted from the substantial growth in the volume of activity. After 1945 when the increases were persistent and pronounced, the wage and price factors probably were important contributors to the increase. The only major items which showed a greater percentage increase than total expenses were salaries of employees and miscellaneous expenses. In 1950 salaries of employees constituted 27.8 percent of total expenses, or 3.9 percentage points higher than in 1942. Miscellaneous expenses represented 30.6 percent of total expenses in 1950, a gain of only 1 percentage point over that in 1942. In relation to earnings from current operations, total current operating expenses absorbed only 59 percent of the total in 1950, as compared with 71.5 percent in 1942.

In view of the slower rate of increase in expenses, the rise in net earnings from current operations was very pronounced—362 percent. While there was a consistent increase from year to year, the large percentage gains occurred in 1943, 1944, and 1946, the years during which the gains in total earnings were very large.

The additions to and deductions from current earnings varied widely from year to year. Total recoveries and profits increased sharply during the war period, and in 1945 and 1946, were about double those in 1942. The decline in the subsequent 3 years lowered the total to approximately the 1942 level, from which there was some recovery in 1950. The increase in the earlier period resulted almost entirely from profits on securities sold. These profits were made possible

largely by the fact that the maintenance of the fixed pattern of rates assured an advance in Government bond prices during the years immediately after their issuance. Since the banks had increased greatly their Government bond holdings, the substantial portfolio readjustments from time to time resulted in rather large profits. After Government bond prices generally reached their peak in the spring of 1946, the opportunity for realizing profits from security sales was greatly diminished. Consequently, the decline in profits was so marked that the total in 1950 was smaller than in 1942.

The recoveries on loans and miscellaneous recoveries were fairly substantial throughout the period. This was due primarily to the continued high level of economic activity and to the fact that business and industrial operations generally were profitable. This situation made it possible to obtain payments on a large share of loans which were temporarily uncollectable and, consequently, had been charged off. Moreover, this situation permitted recovery on many loans that had been charged off during the decade of the thirties. The rise in the value of real and personal property made possible recoveries on some assets which had been partially or wholly charged off.

During the war period the same factors that operated to increase recoveries also had the effect of holding down the volume of charge-offs. In the postwar period, however, with the marked expansion in loans and with larger risks involved, it was expected that charge-offs on loans would increase. In addition, a new factor became operative in 1948 which had the effect of increasing greatly the volume of charge-offs on loans. Late in 1947 the Bureau of Internal Revenue issued a ruling which permitted banks to set up, within prescribed limits, tax-free reserves for losses on loans. As a consequence, several banks in 1948, particularly some of the larger institutions, adopted the reserve method of accounting for loan losses and, hence, were permitted to make rather large initial transfers to reserve accounts. While credits to the valuation reserve accounts declined in 1949 and 1950, the total continued much higher than average charge-offs in most years during the decade of the 1940's.

Miscellaneous losses and charge-offs were also in substantial volume during the postwar years, reflecting the rise in the volume of defalcations and worthless checks handled, as well as the increase in the amount of extraordinary and recurring "write-downs" on banking houses, furniture, and fixtures because of the extensive modernization and new construction undertaken during the postwar period. Many banks followed the policy of charging off in a lump sum the premium paid on securities purchased. Consequently, during the war period when banks were expanding greatly their holdings of Government securities, the volume of charge-offs on securities increased substantially, reaching a peak in 1945 and holding close to that level in 1946. The decline in subsequent years reflected largely the decrease in trading activity. In balancing recoveries and profits against losses and charge-offs, it will be noted that there were sizable net recoveries from 1943 to 1946, inclusive, but large net losses and charge-offs (including transfers to reserves) thereafter, and these were particularly heavy in 1948 and 1949.

Taxes on net income increased by 524 percent between 1942 and 1950 and in the latter year absorbed nearly one-third of profits before income taxes, as compared with only 21 percent in 1942. During the war period the rate of increase in taxes on net income was much larger than that in profits before income taxes, because of the declining importance of income from tax-exempt securities and the sharp increase in income tax rates. Between 1946 and 1949, inclusive, taxes on net income represented an almost constant percentage of profits before income taxes, reflecting the stability in tax rates. The sharp increase in 1950 was explained earlier in this article.

Net profits, which reflect the net result of the items discussed above, rose rather sharply from 1942 to 1946, and after temporary declines in 1947 and 1948, reached new peaks in 1949 and 1950. Net profits increased by 248 percent during the 9-year period, but it should be pointed out that the total in 1942 was the lowest since 1935. In relation to total capital accounts, the increase has been very moderate. The rate of net profits on total capital accounts reached a peak at 11.2 percent in 1946 and amounted to 10 percent in 1950 but was below those figures in other years. In fact, the average rate in the period 1942-50 was 9.3 percent, as compared with 8.6 percent in the period 1935-41. If the prewar relationship between total capital accounts and total assets had been maintained between 1942 and 1950, the rate of net profits on total capital accounts would have been substantially below the prewar rate. Moreover, the banks have been very conservative in the use of net profits for dividend purposes, since a large share of net profits has been added each year to capital accounts. In 1950, dividend payments to stockholders comprised only about 36 percent of the total, as compared with about 60 percent in 1942. Through the addition of a large share of net profits to capital accounts and

the sale of new stock to the public, district member banks increased their total capital accounts by 127 percent.

In conclusion, it is appropriate to appraise certain factors that may be the chief ones determining the trend of net profits during the years immediately ahead. Since about 60 percent of total earnings from current operations is currently being derived from interest and discount on loans, this category is likely to dominate the trend in total earnings. The loan demand from virtually every segment of the district economy continues very heavy, and the banking system is confronted with the problem of screening loan applications very carefully as a means of satisfying legitimate credit demands without expanding the volume of loans outstanding. Currently, efforts are being made to curtail the volume of loans as a means of counteracting the strong inflationary pressures. Policy actions by the monetary authorities and the Voluntary Credit Restraint Program being directed by the banking system are providing vigorous resistance to further loan expansion. Moreover, credit restrictions, combined with other controls, may bring about some decline in real estate loans and in loans to consumers. Loans for defense or defense supporting purposes are likely to expand as the production of war materials is accelerated. In view of the fact that total loans thus far this year have been sharply higher than a year ago and some higher than in the fourth quarter of 1950, and that the seasonal demand for credit in the District normally increased in the last half of the year, it seems probable that the average volume of loans may be substantially higher than in 1950. Since last summer there has been a general increase in the interest rates charged by banks on loans. Holdings of securities have declined thus far this year, but some increase may occur later in the year, particularly if the Treasury deficit should reach sizable proportions. Rising yields on securities will tend to augment earnings. Earnings from most other sources may continue upward at about the same rate as in other recent years.

An appraisal of the economic factors indicates that the upward trend in expenses is likely to continue unabated. The strong upward pressures on salaries and wages are already apparent, and the growing shortages of labor will continue to increase costs through labor inefficiency. Miscellaneous expenses are likely to feel the effects of higher costs because of the rising prices of services and supplies. With respect to the interest on time deposits and on borrowed money, the increase in expenses is likely to reflect both higher interest rates and increased volume. While an estimate of net losses and charge-offs would be unreliable, the decline in security prices, the pressure for loan liquidation, and the overextended condition of many business establishments suggest that the total may be as large as, if not larger than, in 1950. In view of the tax legislation on net income, taxes are likely to be more burdensome than in other recent years. Consequently, it would appear that member banks are entering a period when the rate of increase in net profits will be smaller, with the possibility that declines may occur in some years.

REVIEW OF BUSINESS, INDUSTRIAL, AGRICULTURAL, AND FINANCIAL CONDITIONS

DISTRICT
SUMMARY

The lull in consumer buying which became apparent in the Eleventh Federal Reserve District during March continued in April and into May. Sales at department stores in the first half of May were about 3 percent higher than a year ago and in April were just about the same as in April 1950. Although department store stocks continued to rise during April, merchants took steps to reduce their heavy inventories, with orders outstanding decreasing sharply and markdowns, clearance sales, and special purchase promotions widespread.

Nonfarm employment in Texas, bolstered by the rising trend of manufacturing employment in defense industries, reached a new peak in April of more than 2,500,000, or about 5,000 greater than the previous December high and about 150,000 above a year ago. Crude oil production in the District showed a further increase in May for the fifth consecutive month to reach a new record high of 675,000 barrels daily greater than a year earlier; and June production, based on Texas allowables, is expected to hold around the May level. The maintenance of a continued high rate of crude oil production in the face of a seasonal decline in the demand for refined products permitted stocks to be built up noticeably from the relatively low levels prevailing at the end of March.

The value of construction contract awards in the District remained at a high rate during April, only 7 percent below the February peak. Large military and public housing projects pushed residential awards to a new high 20 percent above that of any previous month on record, while nonresidential awards were 40 percent higher than a year ago, although down noticeably from the unusually high February level.

Agricultural prospects for the District brightened during the past month as a result of generous rains over a major part of the area. While the rains were too late to benefit greatly the winter grain crops, they will assure a large acreage of cotton and have benefited ranges and pastures. Farm commodity prices in the District have virtually leveled off, after rising almost steadily for more than a year.

Commercial, industrial, and agricultural loans declined \$16,472,000 during the 5 weeks ended May 16, but this decrease was partly offset by increases in other types of loans. Investments of reporting member banks in United States Government securities rose \$3,492,000, reversing a downward trend that had prevailed in the previous 9 months. Total deposits rose \$19,311,000, with marked increases in the demand and time deposits of individuals, partnerships, and corporations partially counterbalanced by decreases in most other deposit accounts.

BUSINESS

The slower pace of consumer buying in the Eleventh Federal Reserve District which became apparent in March and April continued into May. Sales at district department stores during the first 3 weeks of May were

only about 3 percent higher than the year earlier. In view of the substantial increase in prices during the past year, the physical volume of merchandise sold actually was less than a year earlier. It will be noted, however, that sales in May a year ago were at high levels. Moreover, although the small year-to-year gain was substantially less than the large increases posted during the early part of this year, sales currently are quite high as compared with most historical standards.

WHOLESALE TRADE STATISTICS
Eleventh Federal Reserve District

(Percentage change)

Line of trade	NET SALES ^p			STOCKS ¹	
	April 1951 from		4 mo. 1951 comp. with 4 mo. 1950	April 1951 from	
	April 1950	March 1951		April 1950	March 1951
Automotive supplies.....	23	-12	—	-31	-4
Drugs and sundries.....	15	-9	16	32	-4
Dry goods.....	5	-31	18	43	7
Grocery (full-line wholesalers not sponsoring groups).....	9	-7	16	17	-4
Hardware.....	12	-13	29	44	6
Industrial supplies.....	56	-2	60	52	-4
Metals.....	9	44	—	31	7
Tobacco products.....	-3	-7	4	5	-9
Wines and liquors.....	-4	-2	#	10	-17
Wiring supplies, construction materials distributors.....	161	6	—	87	11

¹ Stocks at end of month.^p—Preliminary.

Indicates change of less than one-half of 1 percent.

SOURCE: United States Bureau of Census.

RETAIL TRADE STATISTICS

(Percentage change)

Line of trade by area	NET SALES			STOCKS ¹	
	April 1951 from		4 mo. 1951 comp. with 4 mo. 1950	April 1951 from	
	April 1950	March 1951		April 1950	March 1951
DEPARTMENT STORES					
Total Eleventh District.....	#	-9	12	31	4
Corpus Christi.....	-4	-13	6	20	13
Dallas.....	-1	-17	12	28	6
El Paso.....	-3	4	7	—	—
Fort Worth.....	-4	-6	8	30	3
Houston.....	13	-8	24	41	2
San Antonio.....	#	-5	7	30	1
Shreveport, La.....	#	-6	6	—	—
Other cities.....	-10	-9	6	18	2
FURNITURE STORES					
Total Eleventh District.....	-3	-4	—	50	2
Austin.....	-24	-16	—	57	3
Dallas.....	-31	-5	—	66	1
Houston.....	-21	1	—	—	—
Port Arthur.....	35	33	—	43	#
San Antonio.....	-4	-2	—	—	—
Shreveport, La.....	43	1	—	41	2
Wichita Falls.....	-11	-23	—	43	4
HOUSEHOLD APPLIANCE STORES					
Total Eleventh District.....	-41	-17	—	—	—
Dallas.....	-37	-31	—	—	—

¹ Stocks at end of month.

Indicates change of less than one-half of 1 percent.

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

(1935-39=100)

Area	UNADJUSTED				ADJUSTED ¹			
	Apr. 1951	Mar. 1951	Feb. 1951	Apr. 1950	Apr. 1951	Mar. 1951	Feb. 1951	Apr. 1950
SALES—Daily average								
Eleventh District.....	382	397	351	393	402	414	439	401
Dallas.....	333	375	342	339	375	375	357	356
Houston.....	423	441	395	428	475	460	449	432
STOCKS—End of month								
Eleventh District.....	510	493	439	393	486	465	447	375

¹ Adjusted for seasonal variation.

April sales at department stores were down about 9 percent from the March volume, which was augmented by Easter buying, and showed only a very slight increase over a year earlier. The year-to-year comparison, however, is affected by the later date of Easter last year. Nevertheless, an important factor in the mere fractional gain over a year earlier is the lull in consumer buying. Aggressive promotional efforts were widespread during April, with mark-downs, inventory clearance sales, and special purchase merchandise used to stimulate buying. The national sales picture is about the same as in this District.

Department store stocks continued to climb during April for the fourth consecutive month, with a 4-percent gain. This increase reflects the heavy inventory buying of the early months of the year, quicker deliveries, and a smaller-than-anticipated sales volume. The policy of inventory accumulation, which prevailed prior to the outbreak of Korean hostilities, has changed to that of inventory reduction. Merchants generally are attempting to work down stocks which are heavy in relation to their current sales volume. Promotional efforts have increased, and orders have been reduced. Orders outstanding dropped sharply in the month ended April 30 and on that date were 18 percent higher than a year earlier, the smallest year-to-year increase in 13 months.

Sales of the various department store items during April were spotty and reflected the influence of the special merchandising promotions. In the homefurnishings lines, sales of the television and radio department jumped about 27 percent from March to April, although falling behind year-earlier levels for the second successive month. Sales of the furniture and bedding and the domestic floor coverings departments were 29 and 16 percent, respectively, higher than April 1950. On the other hand, sales of major household appliances continued to lag, with the smallest volume for any April in the past 4 years and a decrease of 59 percent from the April 1950 volume.

Sales of women's and misses' coats, suits, and dresses showed small gains over a year earlier, although they were down noticeably from March. Women's accessories sales, however, dropped 7 percent below a year ago. Moreover, sales of men's clothing dipped below year-earlier levels for the first time in 6 months. Basement store sales more than held their own, showing a small increase from a year ago.

Instalment sales in April were markedly below a year ago, continuing the pattern which has prevailed since the reimposition of Regulation W, while cash sales fell below year-earlier levels for the first time this year. Only charge sales showed a year-to-year gain, running 5 percent higher than in April last year. Collections in relation to charge account receivables were down seasonally, and the instalment account collection ratio remained unchanged at 15 percent.

District furniture stores continued to show small declines in sales from year-earlier levels, with April down about 3 percent. This decrease occurred entirely in credit sales, since cash sales were noticeably higher than last year. Accounts receivable, which have shown a declining trend for

the past 7 months, on April 30 dropped below year-earlier levels for the first time since November 1944. Furniture store stocks, which have followed a rising trend for more than a year, were up 2 percent in April and at the end of the month were 50 percent higher than on the corresponding date last year.



Generous rains over the eastern two-thirds of the District during May brightened considerably the outlook for crop production in 1951. Only the Trans-Pecos area of Texas and parts of New Mexico and Arizona remain in serious need of moisture. Drought-breaking rains in the High Plains and Low Rolling Plains sections, which fell at mid-May, were too late to benefit greatly the winter grain crops but will permit farmers to complete soil preparation and to plant intended acreages of cotton and grain sorghums. Planting of row crops has been active in other major crop-producing sections of the District, and growing crops are making good progress under favorable moisture conditions.

The Texas winter wheat crop, now estimated at 14,438,000 bushels, is the smallest since the drought of 1935. Some 75 percent of the acreage seeded last fall has been abandoned, leaving less than 2,000,000 acres for harvest. The yield on remaining acreage is forecast at 7.5 bushels per acre, compared with a 10-year (1940-49) average of 12.8 bushels. Oklahoma expects to harvest 43,000,000 bushels, which is sharply below average and slightly under last year's short crop. The New Mexico crop of 1,260,000 bushels is about one-third of average, while in Arizona the expected harvest of about 600,000 bushels is slightly above average.

Cotton planting has nearly been completed in the eastern half of the District and has proceeded rapidly on the High and Low Rolling Plains since the rains of mid-May. Some early-planted cotton in the Rio Grande Valley reached the square stage in the first 2 weeks of the month; meanwhile, chopping of later plantings continued and poisoning to combat insects was started. The improved moisture supply over the cotton-growing sections of the District assures a large acreage this year; private forecasts of the Texas cotton plantings range as high as 13,000,000 acres, compared with 7,048,000 acres planted in 1950 and 10,988,000 acres in 1949. If favorable weather conditions should prevail for the remainder of the season, the District may produce a record cotton crop this year.

Corn is making good growth aided by warm weather and generally adequate moisture. Acreage in the District is expected to be considerably under that of last year, due principally to expansion in cotton acreage. The sorghum crop of south Texas has greatly benefited from recent rains, and a good crop is expected in that area. Planting of sorghums on the High Plains and in the Low Rolling Plains, which was retarded by drought prior to mid-May, is now under way on a large scale. The sorghum acreage in west Texas this year is expected to exceed earlier forecasts, as farmers are putting much of their abandoned wheat land in sorghums. Another factor encouraging farmers to plant a large acreage

is the increased support price for sorghum grain; the national average support price will be \$2.17 per hundred-weight, compared with \$1.87 last year.

Planting of rice in Texas and Louisiana has virtually been completed. Reports indicate a record acreage this year, as the high prices of rice and elimination of acreage controls have induced considerable expansion in production. While definite information as to the division of plantings between varieties is not available, all indications point to a heavy planting of long-grain rice this year.

The first forecast of the season placed the Texas peach crop at 1,450,000 bushels, which is 300,000 bushels below average, although double last year's small crop. The outlook for production is favorable in most noncommercial counties, but a further decline in prospects for the Edwards Plateau commercial area is the result of the frost damage in April. Blooming of pecan trees in Texas and Oklahoma was a little later than usual this year, but a fair crop is expected.

SPRING VEGETABLE PRODUCTION

Vegetable	10-year Average 1940-49	1950	Indicated 1951
(1,000 bushels)			
SNAPBEANS, Texas ¹	316	270	195
CARROTS, Arizona ²	1,317	1,665	1,485
GREENPEAS, New Mexico ³	14	23	12
IRISH POTATOES, Texas, Lower Valley ¹	944	385	130
Texas, other ³	545	502	350
Oklahoma ³	262	264	166
TOMATOES, Texas, Lower Valley ¹	2,618	2,450	1,540
Texas, other ³	2,283	1,643	2,310
Louisiana ³	170	98	72
CUCUMBERS, Texas ¹	213	112	88
(1,000 crates)			
CANTALOUPE, Arizona ²	1,173	1,596	1,750
LETTUCE, Arizona ¹	3,357	3,847	3,910
STRAWBERRIES, Louisiana ¹	931	682	720
Texas ¹	56	42	36
Oklahoma ⁴	72	207	243
(1,000 sacks)			
GARLIC, Texas ³	9	8	7
ONIONS, Arizona ³	284	660	720
Louisiana ³	161	114	81
Texas ³	1,076	507	1,280

¹ Early Spring

² Spring

³ Late Spring

⁴ Midspring

SOURCE: United States Department of Agriculture.

Commercial vegetable prospects in the District are brighter than a month ago, due principally to the improved moisture situation. Harvest of sweet corn and early spring tomatoes is under way in the Lower Rio Grande Valley. Later plantings of these crops in this area, as well as late spring tomatoes in central and eastern counties, were greatly benefited by recent rains. Cantaloupes and watermelons generally are in good condition, although late. North Texas onions are making good progress under favorable growing conditions, and a large acreage is reported. Progress of both the late spring and summer crops of Irish potatoes is satisfactory. Production of many spring vegetables in the District will be sharply below the harvests of 1950, as shown in an accompanying table.

Ranges and pastures in central and eastern parts of the District have benefited greatly from rains of recent weeks, with grasses making rapid growth. Supplemental feeding continues, however, in the drier sections in the western part

of the District, where efforts are being made to maintain livestock until grass is available. Prospects for hay production, which a month ago were very unfavorable, improved greatly during May.

LIVESTOCK RECEIPTS

(Number)

Class	FORT WORTH MARKET			SAN ANTONIO MARKET		
	April 1951	April 1950	March 1951	April 1951	April 1950	March 1951
Cattle.....	36,152	34,623	26,432	20,955	27,587	14,907
Calves.....	9,499	9,766	6,881	15,232	12,802	18,179
Hogs.....	71,029	58,556	75,617	7,203	5,493	8,592
Sheep.....	58,988	128,884	37,719	116,814	124,098	110,092

¹ Includes goats.

Livestock in the eastern half of the District generally are in good condition. Rapid improvement is expected in the Plains counties of Texas, where the drought was broken in May. Marketings of cattle and hogs on the Fort Worth market in April were above the same month last year, while receipts of sheep were down more than 50 percent. There was some reduction in marketings in May as farmers awaited the effects of price ceilings on beef cattle and as the improved moisture supply encouraged restocking of ranges in some sections. Commercial meat production in Texas during the first quarter of 1951 totaled 191,000,000 pounds, or 3 percent more than in the same period last year.

Weekly reports of broiler placements on Texas farms indicate that broiler production in the State this year will far exceed the record production in 1950. On the other hand, egg production is running significantly below last year's level. Production in the first 4 months of 1951 was 6 percent less than in the same period last year.

FARM COMMODITY PRICES

Top Prices Paid in Local Southwest Markets

Commodity and market	Unit	Week ended	Comparable	Comparable
		May 23, 1951	week last month	week last year
COTTON, Middling 15/16-inch, Dallas.....	lb.	\$.4477	\$.4477	\$.3295
WHEAT, No. 1 hard, Fort Worth.....	bu.	2.60½	2.69½	2.48
OATS, No. 2 white, Fort Worth.....	bu.	1.15½	1.16¼	1.09¼
CORN, No. 2 yellow, Fort Worth.....	bu.	1.98¾	1.99¾	1.75¼
SORGHUMS, No. 2 yellow milo, Fort Worth.....	cwt.	2.63	2.65	2.33
RICE, No. 1 Patna, milled, Houston.....	cwt.	11.75	12.00	10.75
HOGS, Good & Choice, Fort Worth.....	cwt.	21.50	21.75	20.00
SLAUGHTER STEERS, Choice, Fort Worth.....	cwt.	37.00	37.00	30.00
SLAUGHTER CALVES, Choice, Fort Worth.....	cwt.	29.00	29.00	30.00
STOCKER STEERS, Choice, Fort Worth.....	cwt.	38.00	41.00	29.00
SLAUGHTER LAMBS, Good & Choice, Fort Worth.....	cwt.	34.00	36.00	29.50
FEEDER LAMBS, Fort Worth.....	cwt.	28.00	31.00	25.50
HENS, 3-4 pounds, Dallas.....	lb.	.26	.28	.15
FRYERS, local, Dallas.....	lb.	.25	.27	.28
TURKEYS, No. 1 hens, Dallas.....	lb.	.35	.35	.25
EGGS, No. 1 infertile, Dallas.....	lb.	.42	.42	n.a.

¹ Week ended May 14.

² Shorn.

n.a.—Not available.

The upward movement of farm prices in the Southwest appears to have been halted, at least temporarily. Reports from spot commodity markets in late May show prices of most commodities near or below a month earlier. Prices of cotton, rice, oats, sorghum grain, eggs, and hogs have remained virtually unchanged, while prices of wool, mohair, wheat, corn, poultry, cattle and lambs were lower.



Between April 11 and May 16 commercial, industrial, and agricultural loans of the weekly reporting member banks in the Eleventh District declined

\$16,472,000, the most notable decrease in any 4- or 5-week reporting period this year. Reduction of outstanding bank indebtedness by commodity dealers was the major factor contributing to the decrease. Seasonal liquidation of inventory loans by cotton dealers and by grain and milling concerns was particularly noticeable. There was not a clear indication, however, of a general decrease in loans to other business and industrial firms. Wholesale and retail trade establishments repaid substantial amounts of outstanding loans, but repayments were overshadowed in most weeks by new loans for inventory and other working capital purposes. Sales finance companies, construction firms, and manufacturers of petroleum, coal, chemical, and rubber products borrowed on balance to provide working capital for other than inventory purposes. On May 16 commercial, industrial, and agricultural loans amounted \$1,013,397,000, reflecting a decrease of 3.7 percent from the all-time record total of January 31 and an increase of 24.7 percent over the year-earlier figure.

Somewhat more than three-fourths of the decrease in commercial, industrial, and agricultural loans was offset by increases in other categories, with the result that total loans showed only a fractional decline. Reflecting in part the continuing demand for loans to finance consumer purchases, the item "all other" loans rose \$7,531,000 to a point near the all-time record. Loans to banks rose \$4,959,000, while both real estate loans and loans for financing security transactions showed little net change.

CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

Eleventh Federal Reserve District

(In thousands of dollars)

Item	May 16, 1951	May 17, 1950	April 11, 1951
Total loans (gross) and investments.....	\$2,633,168	\$2,534,382	\$2,636,050
Total loans—Net ¹	1,464,017	1,172,026	1,468,938
Total loans—Gross.....	1,480,212	1,185,455	1,485,200
Commercial, industrial, and agricultural loans.....	1,013,397	812,874	1,029,869
Loans to brokers and dealers in securities.....	12,058	6,962	10,835
Other loans for purchasing or carrying securities.....	54,397	49,409	56,282
Real estate loans.....	121,525	98,925	121,869
Loans to banks.....	5,917	629	958
All other loans.....	272,918	216,656	265,387
Total investments.....	1,152,956	1,348,927	1,150,850
U. S. Treasury bills.....	62,594	106,772	57,628
U. S. Treasury certificates of indebtedness.....	0	257,908	0
U. S. Treasury notes.....	343,538	199,096	337,056
U. S. Government bonds (inc. gtd. obligations).....	581,188	650,468	589,144
Other securities.....	165,636	134,683	167,022
Reserves with Federal Reserve Bank.....	530,875	440,642	515,808
Balances with domestic banks.....	355,029	346,929	374,622
Demand deposits—adjusted ²	2,173,768	2,014,152	2,162,217
Time deposits except Government.....	428,928	452,769	415,926
United States Government deposits.....	105,164	64,114	129,915
Interbank demand deposits.....	620,928	636,120	639,065
Borrowings from Federal Reserve Bank.....	0	0	0

¹ After deductions for reserves and unallocated charge-offs.

² Includes all demand deposits other than interbank and United States Government, less cash items reported as on hand or in process of collection.

Deposits rose \$19,311,000 between April 11 and May 16, principally as a result of the increase in time deposits of individuals and businesses and states and their political subdivisions. Although demand deposits of individuals, partnerships, and corporations rose \$65,647,000, approximately

offsetting decreases were reported in other categories of demand deposit accounts. For example, interbank demand deposits, demand deposits of states and political subdivisions, and demand deposits of the United States Government showed a combined decrease amounting to \$64,298,000. The over-all upward trend of deposits reflects, in part, a gain of funds from net Treasury expenditures in the District and from commercial and financial transactions with the rest of the country.

In contrast with the trend that prevailed in most weeks during the last half of 1950 and the first 3 months of this year, the weekly reporting member banks increased investments in United States Government securities by \$3,492,000. This reflected a liquidation of Treasury bonds but purchases of notes and bills in a greater amount. Investments in municipal and other non-Government securities showed a fractional decline. Total investments of these banks amounted to \$1,152,956,000 on May 16, a net decrease of \$195,971,000 from the year-earlier total.

Changes in reserves, cash, and bank balances included an increase of \$15,067,000 in reserves with the Federal Reserve Bank and a somewhat greater-than-compensating decrease in balances with other banks. Cash assets of the weekly reporting member banks amounted to \$1,201,545,000 on May 16, or 31 percent of total resources.

Gross demand deposits of all member banks in the District averaged \$82,754,000 lower in April than in March, with country banks accounting for slightly more than two-thirds of the decrease. The rather large Treasury income tax collections and the later transfer of funds held in Treasury Tax and Loan accounts to the Federal Reserve Bank were major factors accounting for the lower level of deposits in April. In contrast with the trend of demand deposits, time deposits rose \$3,524,000 in April to a total of \$647,902,000, with country banks accounting for almost 80 percent of the increase.

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
April 1949.....	\$5,000,682	\$621,486	\$2,388,424	\$400,555	\$2,612,258	\$220,931
April 1950.....	5,521,595	656,387	2,634,090	410,645	2,887,505	245,742
December 1950....	6,256,210	646,999	3,044,765	397,983	3,211,445	249,016
January 1951....	6,349,754	657,601	3,098,119	400,388	3,251,635	257,213
February 1951....	6,108,995	648,772	2,951,883	395,551	3,157,112	253,221
March 1951.....	5,991,439	644,378	2,777,533	353,077	3,213,906	291,301
April 1951.....	5,908,685	647,902	2,751,029	353,798	3,157,656	294,104

Debits to deposit accounts reported by banks in 24 cities of the District declined 8 percent in April from the March total, reflecting in part a mild tapering off from the unusually high level of business activity that prevailed in the first quarter of the year. The decrease was general over the District, as Galveston, Texas, and Roswell, New Mexico, were the only reporting cities showing increases. The annual rate of turnover of deposits, reflecting the annual rate of use of deposit accounts, was 14.6 in April, as compared with 15.8 in March and 12.5 in April of last year.

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

(Amounts in thousands of dollars)

City	DEBITS ¹			DEPOSITS ²			
	April 1951	Percentage change from		April 30, 1951	Annual rate of turnover		
		April 1950	Mar. 1951		April 1951	April 1950	Mar. 1951
ARIZONA							
Tucson.....	\$ 84,453	48	- 5	\$ 94,866	10.7	7.9	11.3
LOUISIANA							
Monroe.....	43,744	26	- 8	44,727	11.5	9.4	12.0
Shreveport.....	160,398	18	- 9	182,701	10.4	9.2	11.5
NEW MEXICO							
Roswell.....	22,814	42	1	24,632	11.2	8.6	10.9
TEXAS							
Abilene.....	50,896	25	-10	48,493	12.5	11.4	13.4
Amarillo.....	125,238	28	- 9	96,890	15.5	12.7	16.7
Austin.....	145,455	19	-13	111,108	15.4	12.8	17.4
Beaumont.....	112,717	19	- 7	88,611	15.1	12.6	15.8
Corpus Christi.....	112,940	28	-12	92,780	14.6	12.0	16.4
Corsicana.....	11,713	23	- 5	21,122	6.6	5.4	6.8
Dallas.....	1,480,348	36	- 2	899,777	19.7	16.6	19.8
El Paso.....	172,991	29	-11	130,438	15.8	12.5	17.4
Fort Worth.....	438,038	31	- 9	349,727	15.1	13.1	17.0
Galveston.....	87,229	32	4	101,896	10.3	8.4	10.1
Houston.....	1,327,985	25	-12	1,076,397	14.9	13.2	16.7
Laredo.....	20,671	30	- 7	20,858	11.9	8.2	12.4
Lubbock.....	88,719	25	-12	93,040	11.2	10.2	12.4
Port Arthur.....	38,522	30	-11	40,537	11.5	9.0	12.8
San Angelo.....	39,928	30	-10	48,074	9.8	8.4	10.8
San Antonio.....	349,081	20	-11	362,648	11.5	10.1	13.0
Texarkana ³	17,044	11	-13	24,190	8.4	7.8	9.5
Tyler.....	47,707	10	- 8	50,606	11.3	10.1	12.2
Waco.....	69,245	1	-10	78,947	10.6	11.4	11.5
Wichita Falls.....	71,324	16	-11	94,723	9.1	8.2	10.2
Total—24 cities.....	\$5,119,200	28	- 8	\$4,177,788	14.6	12.5	15.8

¹ Debits to deposit accounts except interbank accounts.² Demand and time deposits, including certified and officers' checks outstanding but excluding deposits to the credit of banks.³ 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 \$30,255,000 for the month of April 1951.

Between April 15 and May 15 total earning assets of the Federal Reserve Bank of Dallas declined \$34,826,000, principally as a result of the decrease in holdings of United States Government securities. Other changes included a decrease of \$21,954,000 in member bank reserve deposits and an increase of \$19,045,000 in gold certificate reserves. On May 15 notes of this Bank in actual circulation amounted to \$620,834,000, reflecting increases of \$7,590,000 from April 15 and \$12,297,000 from May 15, 1950.

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	May 15, 1951	May 15, 1950	April 15, 1951
Total gold certificate reserves.....	\$537,630	\$688,398	\$518,585
Discounts for member banks.....	1,911	0	760
Industrial advances.....	30	0	18
Foreign loans on gold.....	0	1,393	0
U. S. Government securities.....	1,068,769	796,420	1,104,758
Total earning assets.....	1,070,710	797,813	1,105,536
Member bank reserve deposits.....	928,713	796,687	950,667
Federal Reserve notes in actual circulation.....	620,834	608,537	613,244

On May 14 the Secretary of the Treasury called the 3-percent Treasury bonds of 1951-55 for redemption on September 15, 1951. These bonds are outstanding in the amount of \$755,000,000. The Secretary also announced that holders of these bonds may, in advance of the redemption date, be offered other interest-bearing obligations of the United States, in which event public notice and the terms of the exchange offering will be given. On May 8 the Secretary announced that the 2-percent bonds of 1951-53, outstanding in the amount of \$7,986,000,000 and first callable on September 15, 1951, will not be called for redemption on that date.

Beginning May 15, the Treasury offered for continuous subscription a new series of Treasury savings notes, designated Series A, and discontinued sales of Series D savings notes. The new notes, bearing interest at rates ranging from 1.44 percent if held for 6 months or less to 1.88 percent if held to maturity, will be dated the fifteenth of each calendar month and will mature in 3 years. Savings notes may be used in payment of Federal income, estate, and gift taxes at par and accrued interest at any time after 2 months from the issue date. Also, the new series of notes will be redeemable for cash at par plus accrued interest at any time after 4 months from the issue date, except that no interest will be paid on notes inscribed in the name of commercial banks if redeemed for cash.

SAVINGS DEPOSITS

City	Number of reporting banks	April 30, 1951		Percentage change in savings deposits from	
		Number of savings depositors	Amount of savings deposits	April 29, 1950	March 31, 1951
LOUISIANA					
Shreveport.....	3	45,363	\$ 23,524,062	- 6.6	- 0.8
TEXAS					
Beaumont.....	3	12,017	5,230,208	-12.9	- 1.3
Dallas.....	8	141,969	74,833,544	- 4.4	0.3
El Paso.....	2	32,874	21,683,908	- 5.8	0.4
Fort Worth.....	4	43,246	33,835,697	- 5.2	0.9
Galveston.....	4	22,494	20,040,745	- 5.1	- 0.4
Houston.....	8	92,293	72,905,376	- 3.6	0.6
Lubbock.....	2	2,288	4,482,240	13.1	3.3
Port Arthur.....	2	5,656	3,758,797	-14.3	0.9
San Antonio.....	5	62,122	42,502,656	- 3.3	0.5
Waco.....	3	9,173	10,567,194	1.6	0.0
Wichita Falls.....	3	7,886	4,485,911	- 1.8	1.1
ALL OTHER.....	55	68,955	55,639,498	- 1.4	- 0.3
Total.....	102	546,336	\$373,489,836	- 3.9	0.3



Crude petroleum production in the Eleventh District during May was slightly above the April record as the result of the fifth consecutive increase in Texas allowables. Such allowables have been increased an additional 3,000 barrels daily for June. The April production rate of 3,039,000 barrels per day is 117,000 barrels daily more than in March and 771,000 barrels daily above April of last year. The increases in this District raised national production to a new peak of 6,139,000 barrels per day in April and still higher in May. Refinery activity as indicated by crude oil runs to stills increased substantially in the Nation during May, after declining in April. April runs to stills exceeded year-earlier levels by 956,000 barrels daily in the Nation and by 452,000 barrels daily in this District.

The continued high level of crude oil production, coincident with the steady seasonal decline in demand since January, permitted the addition of 10,000,000 barrels to crude oil stocks during the 7-week period ended May 12. Some further addition to crude stocks is anticipated during May and June. Stocks of kerosene and light fuel oil turned upward during March and should continue to rise through most of the rest of the year—until cold weather brings a sharp increase in demand. Residual fuel oil stocks were relatively stable during April, whereas a year ago such stocks were still undergoing seasonal decline.

CRUDE OIL PRODUCTION

(Barrels)

Area	April 1951		Increase or decrease in daily average production from	
	Total production	Daily avg. production	April 1950	Mar. 1951
ELEVENTH DISTRICT				
Texas R. R. Com. Districts				
1 South Central.....	1,009,800	33,660	7,103	628
2 Middle Gulf.....	4,975,900	165,863	44,972	5,765
3 Upper Gulf.....	15,107,150	503,571	136,976	18,652
4 Lower Gulf.....	7,741,100	258,037	67,739	10,745
5 East Central.....	1,554,250	51,808	21,188	2,969
6 Northeast.....	11,835,600	394,520	51,448	13,568
East Texas.....	8,361,000	278,700	20,838	7,642
Other fields.....	3,474,600	115,820	30,610	5,926
7b North Central.....	2,510,100	83,670	20,395	4,422
7c West Central.....	2,982,450	99,415	46,363	7,538
8 West.....	28,109,150	936,972	335,839	45,412
9 North.....	4,518,500	150,617	19,790	3,136
10 Panhandle.....	2,689,400	89,647	287	594
Total Texas.....	83,033,400	2,767,780	752,100	113,429
New Mexico.....	4,258,600	141,953	17,842	3,059
North Louisiana.....	3,876,750	129,225	1,123	41
Total Eleventh District.....	91,168,750	3,038,958	771,065	116,529
OUTSIDE ELEVENTH DISTRICT...	92,992,900	3,099,763	361,438	-17,506
UNITED STATES.....	184,161,650	6,138,721	1,132,503	99,023

SOURCE: Estimated from American Petroleum Institute weekly reports.

A 5,000,000-barrel decrease in gasoline stocks during April initiated a seasonal decline from the end-of-March peak. To meet the predicted record level of gasoline requirements this summer, refinery yields of this product have been gradually increased from a low of 40 percent in early March to 42 percent in late April, with a further increase to 44 or 45 percent anticipated by summer. In addition, gasoline production may be increased further through the holding of refinery runs above the level of the current consumption of refined products, which is seasonally low during the spring months.

ume of its petroleum requirements from Iran, any prolonged disruption of deliveries from Iran would be likely to create a heavy demand for petroleum products from the United States or Western Hemisphere sources normally supplying this country.

Construction activity in the Eleventh District continues at a very high rate, with the value of contract awards during April totaling \$150,000,000. This amount is only 7 percent below the February record and represents an increase of 16 percent from March and 51 percent from a year ago. Residential awards at \$73,000,000 were 20 percent higher than any previous month of record. These awards, which include about \$25,000,000 in large military and public housing projects, were up 29 percent from March and 65 percent from a year ago. Even eliminating these large public projects, which comprise over one-third of the total, residential awards were about 10 percent higher than a year ago, in contrast with a decline of 12 percent in the Nation. The continuance of the high level of residential awards in the Eleventh District is significant in the light of the general expectation that an appreciable decline would occur by midyear as the result of materials shortages, credit controls, the disappearance of the backlog of preregulation loan commitments, and less scare buying of homes. It is also significant in the light of the decline in housing starts in the Nation as a whole.

VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

Area and type	April 1951p	April 1950	March 1951p	January — April	
				1951p	1950
ELEVENTH DISTRICT....	\$ 149,991	\$ 99,191	\$ 128,798	\$ 542,894	\$ 337,730
Residential.....	72,827	44,229	56,532	247,573	155,331
All other.....	77,164	54,962	72,266	295,321	182,399
UNITED STATES ¹	1,374,991	1,350,496	1,267,450	4,826,216	4,161,082
Residential.....	590,848	674,836	574,569	2,117,481	1,954,470
All other.....	784,143	675,660	692,881	2,708,735	2,206,612

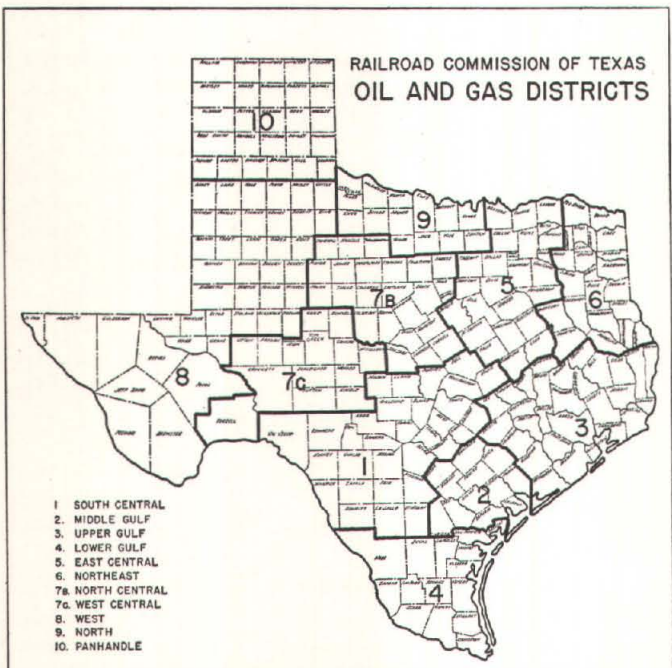
¹ 37 states east of the Rocky Mountains.

p—Preliminary.

SOURCE: F. W. Dodge Corporation.

Nonresidential contract awards totaled \$77,000,000 in April, or 7 percent more than in March and 40 percent more than a year ago. The April total is the second highest this year, being 23 percent less than the February peak. During the first 4 months of 1951, contract awards in this District totaled \$543,000,000, or 61 percent more than during the corresponding period of 1950. Residential awards were 59 percent and nonresidential awards, 62 percent ahead of the year-earlier period. In the Nation, awards during the January-April period were only 16 percent more than during the like months of last year.

A very high level of manufacturing plant construction is assured in the Southwest during 1951. During the period October 30, 1950, to May 10, 1951, Certificates of Necessity, permitting rapid depreciation for tax purposes, were granted for plants to be constructed in Texas costing about \$650,000,000. This amount includes petroleum refineries, petrochemical plants, steel mills, aluminum plants, and other types of manufacturing installations and represents a total second only to that covering plant construction in Pennsylvania. The Southwest appears to be entering another period of rapid



Adequate stocks of both crude oil and refined products are highly desirable in view of the uncertain situation in the Middle East caused by the recent seizure by the Iranian Government of the British-controlled Anglo-Iranian Oil Company. Since Western Europe is obtaining a substantial vol-

industrial growth comparable with that of 1941-42 and exceeding that of 1946-48.

Activity is increasing at many of the military installations within the area, and \$250,000,000 in specific military construction projects in the Southwest has been authorized and planned during the fiscal year ending June 30, 1951. This is about six times the pre-Korean rate of authorizations. Military construction placed under contract was at a rate of about \$1,000,000 per day during April, with a rate of \$1,500,000 per day in prospect during May and June. Rehabilitation and expansion of numerous and varied facilities, as well as new installations, are involved. A total of about \$500,000,000 worth of military construction work is expected to be authorized for the Southwest in the near future, with the bulk to be completed by the end of 1951.

BUILDING PERMITS

City	April 1951		Percentage change in valuation from		4 months 1951		Percentage change in valuation from 4 months 1950
	Number	Valuation	April 1950	March 1951	Number	Valuation ¹	
LOUISIANA							
Shreveport....	338	\$ 1,706,762	13	76	1,322	\$ 6,507,111	-21
TEXAS							
Abilene.....	90	445,708	-61	-59	478	3,344,892	-33
Amarillo.....	400	2,630,270	-3	58	1,454	8,974,167	28
Austin.....	243	1,749,766	-30	-25	1,087	10,286,108	-9
Beaumont.....	261	438,395	-71	-18	1,006	2,530,349	-43
Corpus Christi..	298	1,147,494	-47	-10	1,390	10,306,242	33
Dallas.....	1,779	10,706,094	42	25	6,773	42,337,442	25
El Paso.....	292	1,225,347	33	-25	1,169	6,609,942	-8
Fort Worth.....	774	3,669,853	39	-34	2,739	22,521,255	70
Galveston.....	159	167,550	-76	-81	436	1,436,278	-20
Houston.....	975	9,854,845	-10	-42	3,535	59,484,623	30
Lubbock.....	281	986,694	-72	-61	1,378	6,864,455	-19
Port Arthur.....	199	334,069	-16	20	622	1,314,048	-30
San Antonio....	1,237	4,433,343	23	-12	4,978	18,113,402	9
Waco.....	174	1,115,405	-1	-21	898	5,626,278	-30
Wichita Falls...	161	274,958	-70	-24	448	1,426,273	-17
Total.....	7,661	\$40,886,553	-7	-20	29,713	\$207,682,865	14

¹ In this table for the month of March 1951, valuation figures for the first 3 months were in error. The cumulative valuation figures for the first 3 months of 1951 may be obtained by subtracting April valuations from the 4-month cumulative totals.

Despite the high level of construction activity, supplies of lumber are relatively plentiful, and production—both on the West Coast and in the Southern Pine Region—recently has been exceeding new orders. The cement situation is somewhat tighter again in some areas, as requirements for military and defense construction have increased, and it is becoming more difficult to supplement the production of this District through in-shippments from other areas. Stocks of cement at the end of March were 12 percent higher in Texas than at the same time last year, although the Nation's stocks were fractionally lower. Cement production during the first quarter of 1951 was higher than a year earlier by 8 percent in Texas and 20 percent in the Nation, with Texas production in March setting a new record at 1,527,000 barrels.

Government controls over construction were extended further on May 4, with National Production Authority approval now being required for the starting of residences costing over \$35,000, apartment buildings in excess of three stories and basement, larger factories, schools, hospitals, bridges, water and sewer systems, pipe lines, public utility and railroad construction, public buildings, and virtually every other type of construction likely to use appreciable amounts of steel.

The sulphur situation continues critical, despite a first-quarter national production—all in Texas and Louisiana—of 1,315,000 tons, or 1 percent more than during the previous quarter and 10 percent more than a year earlier. As a result of restrictions on the use of sulphur, as well as cuts in shipments, the production of this basic industrial raw material exceeded shipments during the first quarter by 18 percent, permitting stocks to recover partially from the drain of the previous year. However, stocks at the end of March were still 16 percent less than a year earlier.

Some evidence of the gradually increasing importance of defense production in the Southwest is found in the military prime contracts awarded to Texas companies during the first 8 months of the defense program. During this period, July 1950-February 1951, such awards to Texas companies totaled \$214,000,000, excluding Army and Navy contracts under \$5,000, Air Force contracts under \$10,000, subcontracts, and contracts for petroleum products. The rapid rate of increase of such contract awards is indicated by the high figure of \$73,000,000 for February, the last month of the 8-month period. These totals would be augmented considerably if small contracts, subcontracts, and contracts for petroleum products were included. Moreover, the awarding of military contracts accelerated during the 3 months subsequent to the period for which figures are available. Manufacturers located in at least 20 Texas cities, and probably many more, have received such contracts, which provide for the production of aircraft parts, barges and boats, trailers, tractors, clothing, bedding, safety belts, sugar and rice and other food products, aviation gasoline, fuel oil and other petroleum products, and numerous other products. Some plants have comparatively few contracts, while others are devoting their entire capacity to filling defense procurement contracts.

Reflecting this expansion in economic activity, nonfarm employment in Texas in April rose to over 2,500,000 persons, or 6 percent more than a year ago. Manufacturing employment at about 440,000 persons was up 15 percent, with a gain of over 60 percent in aircraft and other transportation equipment manufacturing, gains of about 20 percent in the primary metals, machinery, and fabricated metals products industries, and a gain of 13 percent in the chemical industry.