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## THE BUSINESS CONSEQUENCES OF A KOREAN CEASE-FIRE

A little more than a year ago the outbreak of fighting in Korea proved to be the spark setting off a sequence of events that changed the economic picture suddenly from one of readjustment and moderate recession to "superboom" and substantial inflation. Although business—generally speaking—was operating at favorable levels prior to the Korean war, most of 1949 and early 1950 had been a period of readjustment from the boom and inflation that had reached a peak in mid-1948. An overinventoried situation had become apparent early in 1949 and orders to manufacturers were reduced as businesses tended to "live off of inventories," production declined, and unemployment rose. Shortages seemed to be "a thing of the past"; in their place, potential surpluses loomed as the threatening problem. The question at that time in the minds of most businessmen was, "How far would the deflationary readjustment extend and how long would it continue?"

The threat of World War III and the determination to rebuild the Nation's military and defense establishments greatly stimulated business and economic activity and brought on a sudden resurgence of inflation. The public, fearing war- and defense-created shortages and restrictions, engaged in a frenzied buying spree; businesses, likewise anticipating shortages, made every effort to increase their inventories virtually to a maximum; capital expansion programs of business and industry were readjusted sharply upward; the construction boom was given a strong "shot in the arm" as builders and contractors attempted to get new construction under way before shortages and government restrictions could take effect; inflationary forces were greatly strengthened as private credit expansion occurred on a large scale, substantial amounts of liquid assets were converted into cash, and the turnover of bank deposits increased; and shortages of many materials and many types of goods were anticipated. These developments led most businessmen and analysts to the conclusion that—at least for the duration of the war and the

defense program—full production, full employment, high and rising incomes, and persistent inflationary pressures were virtual certainties.

During the first quarter of 1951, however, signs of a tapering off in the upward climb of business and financial indexes became apparent. Consumers appeared to lose much of their fear of shortages and became more reluctant purchasers. Inventories began to accumulate on dealers' shelves, and an overinventoried situation developed in many lines—particularly the durable goods. Prices in the primary markets and at wholesale declined, while the upward trend of consumer prices leveled off. Restrictive credit policies brought about a tighter condition in the money market and the upward surge of private credit was slowed. At the same time, however, a slowly expanding volume of defense orders was sufficient to maintain the level of industrial production and full employment, while rising wage rates contributed substantially to a larger personal income.

Inasmuch as economic developments of the past year have been so closely associated with and influenced by war and defense, it is not surprising that the possibility of a cease-fire agreement in Korea is causing so much current discussion and uncertainty regarding the business consequences of peace in that part of the Far East. Moreover, as is usually the case under situations characterized by conflicting or counteracting economic forces, opinions differ rather widely on the outlook. At the one extreme there are those who seem to be of the opinion that a readjustment or recession comparable to that of 1949 is probable, while at the other extreme there is the position of the Administration that inflationary forces will continue virtually unabated during the next year or more, despite a Korean cease-fire, and that a stronger Defense Production Act is necessary. Perhaps an intermediate position will prove to be more realistic, as both deflationary and inflationary forces tend to work out their effects on business activity.



Attempts to forecast the trend of business always are hazardous and are subject to much uncertainty and considerable error. This is not so much because of a lack of economic data as it is the result of the unpredictability of forces that are basically noneconomic in nature but which tend to have most direct economic effects in their application. For example, the trend of international, political, and military events and the degree of international tension will, in large measure, influence the trend of domestic business activity. Moreover, consumer and business attitudes—the psychology of the public mind—will be very important in shaping business trends. Factors such as these are not subject to current measurement nor are they subject to objective forecast. Consequently, any glimpse into the future of business activity must be tempered with reservations. Nevertheless, it is desirable to attempt to appraise the trend of major business forces, assuming, perhaps, the most probable international situation—i.e., that international tensions will continue at about the present degree of seriousness.

### Consumer Attitudes

How will the public react to a cease-fire in Korea? What might be the psychological effects of such a development? Will the public assume that the Russian menace has been eliminated and the threat of general war has passed? Will people feel that the need for government controls and other restrictive measures is greatly lessened? Will the public lose interest in the defense program—its urgency and primary importance? These and similar questions, difficult though they may be to answer with a feeling of confidence, must be considered by businessmen and analysts, for the importance of the public state of mind and attitude can never be minimized in appraising the business outlook.

In retrospect, it is clear that the public state of mind has changed significantly during the past 12 months. A year ago a very strong war-mindedness and inflation-consciousness prevailed among the American people. Between June and October 1950 and again during December and into January 1951, there were signs of a flight from the dollar into goods, equities, and real property in anticipation of rising prices, shortages of goods, and fear of general war. Early in 1951, however, as shortages failed to develop, as prices tended to level off, and as the military situation became somewhat more favorable, the public seemed to become much more "level headed" in its outlook and appeared to regain a better sense of balance with regard both to economic and to military developments.

If the Korean negotiations were taking place under the influence of a strong public war-psychology, or if it were generally believed by the American people that a peaceful settlement of the Korean war would mean the end of the

Russian menace, or if the public were engaged in a flight from the dollar into goods, a favorable outcome of such negotiations might have marked psychological effects. At the moment, however, none of these conditions prevail. The war-mindedness of the public has moderated notably during the past 6 months; distrust of Russian and Chinese Communist motives is very strong, and there are very few who believe that peace in Korea means the assurance of lasting world peace; consumers no longer are buying to hoard goods or in anticipation of shortages—instead, they are buying cautiously and prudently on a current need and replacement basis. In so far as such factors as these tend to influence psychological reactions, it would seem, therefore, that the psychological effect upon the public would be comparatively slight.

Peace in Korea might have a notable effect, however, upon the public's attitude toward government controls over the economy. Government control of private economic activity is, on the whole, generally distasteful to a large part of the American public. Only during periods of substantial inflation or the very obvious imminence of inflation has the public been willing to accept restrictive government control. Developments following the end of World War II clearly illustrate the difficulty of continuing direct restrictive controls except under conditions of unquestioned emergency. Furthermore, the American people—both as producers and consumers—seem to be inherently more fearful of the consequences of recession and deflationary adjustments than of inflation; this characteristic becomes quite noticeable whenever inflationary pressures seem to subside for the moment or when restrictive measures and controls begin to take effect. Consequently, it is quite possible that the end of the war in Korea might lead to a stronger public resistance or, at least, a greater public apathy to the continuing need for anti-inflationary controls.

In answer to our several questions, therefore, it is probable that the public reaction to a cease-fire in Korea will be comparatively mild, and the psychological effects will be slight; the communist menace will be fully recognized as a continuing one; the public will not tend to underrate the fundamental importance of the defense program, although some of the urgency that has been associated with the program may be tempered somewhat; and public resistance or apathy toward government controls and anti-inflationary measures probably will tend to increase.

### Consumer Spending

Expenditures of consumers during the past year have fluctuated more nearly in line with the attitude of the public toward the possibility of war, inflation, and shortages than in relation to disposable personal income. For instance, during the third quarter of 1950, consumer expenditures



increased substantially more than the rate of increase in disposable incomes, and as a consequence, consumers drew upon their savings and liquid assets and increased their indebtedness; again in the first quarter of 1951 expenditures outpaced the increase in income. During the past 5 months, expenditures of consumers have shown a gradual decline, despite the fact that personal income has increased steadily. Prior accumulations of goods, knowledge that shortages have not developed, less fear of inflationary price increases, and the necessity of liquidating credit obligations of the earlier heavy buying periods have been factors contributing to buying restraint.

Though it is probable that a seasonal increase in consumer expenditures will occur during the last quarter of the year and retail trade will end the year at a high, very favorable level, it is not likely that a substantial stimulus will be added to business activity from this source. In fact, a cease-fire agreement in Korea probably will dispel for the time being any consumer fears of shortages; in addition, the current size of inventories, together with more restrained consumer buying practices and a degree of restrictiveness growing out of anti-inflationary measures, should tend to limit price increases or perhaps lead to moderate price reductions during the next 3 or 4 months. These developments should tend to prevent the reappearance of an abnormal consumer demand for goods and should cause consumers to make expenditure decisions on a basis of reasonable requirements under conditions of a high level of personal income.

Even assuming a continuance of the "prudent man" attitude among consumers, one might reasonably anticipate that consumer expenditures during the fourth quarter of the year will range in the neighborhood of \$203 - \$205,000,000,000 on an annual rate basis—a level comparable with that of early 1951. Since all signs point toward a rising total of personal income during the remaining months of the year, such a level of expenditures will represent a somewhat smaller proportion of the personal income total than has been the case at times during the past 12 months when consumer buying was heaviest. Consequently, a larger ratio of personal savings to personal income should be characteristic of the closing months of the year.

### Business Spending

Expenditures of business for inventories, plant expansion, and equipment have been a very strong net stimulative factor during the past 12 months. Total business inventories increased from about \$54,240,000,000 in June 1950 to more than \$69,900,000,000 in May 1951. During the early months of the Korean war, inventories showed no increase as the extremely strong consumer demand moved goods out of deal-

ers' stocks as fast as they could be obtained. Between June and August 1950, however, new orders to manufacturers rose by almost \$7,000,000,000, and by September the Nation's tremendous productive power was being reflected in rising inventories at all levels of distribution. Of course, a substantial part of the increase in inventories represents the price inflation that has occurred since the outbreak of war, but even after allowance is made for that factor, stocks of goods are at an all-time high level.

The condition of inventories was not considered a problem until early in 1951 when consumer demand began to lose some of its strength and urgency. Then, as the months passed and inventories continued to accumulate, orders to manufacturers were cut back, more aggressive sales practices were initiated, and spasmodic evidences of price cutting and clearances began to appear more frequently.

If it is a valid conclusion that a strong resurgence of consumer spending is not probable during the coming months, sellers will continue to be faced with the problem of reducing inventories, and a net stimulative effect upon business from this form of expenditure will be lacking. In fact, some net liquidation of inventories during the last half of the year is more to be expected than a net expansion. This development would appear to be probable even if the war in Korea were to continue on its recent more or less stabilized basis; the accomplishment of a cease-fire agreement with the Communists would seem to assure more certainly the same conclusion—it might mean that the period of net liquidation would be a little longer, especially if peace in Korea should tend to exercise a further moderating effect on consumer demand.

The outlook with regard to business expenditures for plant and equipment, however, is quite different. This form of business expenditure, which has been a most important factor supporting the rising level of business activity during the past year, will continue to be strongly stimulative during the coming months. Estimates indicate that this class of expenditure was running at an annual rate of more than \$25,000,000,000 during the second quarter of the year, and business plans call for a comparable rate during the current quarter.

The effect of a cease-fire agreement in Korea probably will be negligible on the capital expansion plans and expenditures of business in 1951; consequently, an annual total of perhaps \$25,000,000,000 is to be expected. Such a total would represent an increase of more than \$7,000,000,000 above the 1950 volume and would be a very strong stimulus to high-level business activity. It is probably not exaggerating the importance of business capital expenditures to place them second only to defense expenditures in their supporting effect upon business activity.



### The Defense Program

The defense program is now running at an annual rate of about \$35,000,000,000, which means that about 11 percent of the Nation's total output of goods and services is being devoted to defense purposes. In his midyear message to the Congress, the President estimated that defense expenditures would increase to an annual rate of about \$50,000,000,000 by the end of 1951 and would reach a peak in mid-1952 at about \$65,000,000,000. In terms of a claim upon the Nation's goods and services, the end of 1951 should see about 15 percent being absorbed by defense, and by mid-1952 the amount should increase to about 20 percent. Most of the estimated increase in expenditures from the current level will be for instruments of war—aircraft, weapons, tanks, and other such military items.

While it is only natural to expect that a cease-fire agreement may tend to dampen somewhat the public attitude with regard to the immediate urgency of defense and may tend to induce Congress to view defense appropriation requests more critically, both as to amount and timing, any net reduction in the size of the program or any probable lengthening in the program's schedule undoubtedly will be rather limited. It seems inconceivable that after the events of the past year or more and their cost in lives and money, that the American people will conclude that settlement of the Korean war means settlement of the major differences that exist between the nations of the free world and the Communist world. Russia and its Communist satellites will be recognized as a continuing menace, and the necessity for wholly adequate defense preparation to maintain this Nation's security will be acknowledged. A Korean cease-fire might lead to some modification in the defense program—perhaps with expenditures declining moderately below the Administration goals and the peak effort being reached slightly later than mid-1952—but it surely will not lead to a "scuttling" of the program. In other words, preparation for defense will continue to be of overriding importance, and the program will have a very strong net stimulative effect on business and economic activity during the next year or more.

On July 1, the Director of Defense Mobilization reported that the Nation's productive plant was working on defense orders aggregating more than \$32,000,000,000 and that new orders were increasing monthly. The Korean negotiations will not affect that situation. Moreover, a large part of defense expenditures to date has been for the purpose of "tooling up" our productive machinery to produce the end products needed for defense. These products, being in the nature of hard goods, will draw heavily upon numerous basic raw materials and thus lead to a tighter supply situation with respect to those civilian goods which compete for the same raw materials.

To a considerable extent, it is the certainty of large defense expenditures over the next 12 to 18 months that distinguishes the current economic situation from a "normal business cycle" situation. Normally, one might expect that excessive inventories might initiate a movement that would lead to declining orders, lower production, smaller employment, pressure on wage rates and prices, and declining incomes. In the present instance, however—which is not a normal business cycle situation—the large defense expenditures will provide a powerful offset that will contribute significantly toward the maintenance of full production, full employment, rising incomes, and the persistence of inflationary pressures.

### Production and Employment

If the foregoing conclusions regarding consumer spending, business expenditures, and the defense program are valid, the total volume of production should rise above the June level of 223 percent of pre-World War II by the latter part of this year. Even though there may be a slight decline in civilian production, as businesses continue the process of adjusting their inventories and as the defense program forces cutbacks in the production of some civilian durable goods as a result of material shortages, the rising flow of defense orders should prove a net stimulus to total output.

It is significant, perhaps, that although consumer expenditures have declined steadily since February, the level of industrial production has remained constant since March. The manufacture of durable goods has shown virtually no change during the past 4 months, production of nondurables has declined only about 1 percent, while mineral production has risen over 6 percent. It is true that manufacturers' production of some civilian goods has been outrunning distributors' sales, but it is also a fact that defense orders which were placed in amounts in excess of \$3,000,000,000 a month during the second quarter of the year have had a strong supporting effect. As defense orders rise and reach perhaps a rate of \$4,000,000,000 monthly during the last quarter of the year and as the seasonal demand for civilian goods increases, it seems evident that full production at a level somewhat higher than at present is assured.

Full production will mean a continuation of the condition of full employment that now prevails. Up to the present, the partial conversion of production facilities to defense purposes has been accomplished with virtually no strains and only a few reported instances of layoffs and localized unemployment. The total number unemployed declined from about 3,400,000 in June 1950 to less than 2,000,000 in June 1951. Further conversion to defense during the next 6 months may result in temporary layoffs in those industries—e.g., the automobile—in which civilian production will be contracted in



preparation for larger defense output. Layoffs of this type, however, will be of minor importance in the total employment picture and also will be of very short duration. In fact, instead of facing a problem of unemployment during the months ahead, our problem will be one of labor shortages and a very tight labor market situation. An increase in the civilian labor force of between 1,500,000 and 2,000,000 workers does not appear to be an unreasonable expectation for the next 12 months.

### Income and the Money Supply

Full and rising production and employment in an inflationary atmosphere should lead to higher personal income and an increase in disposable income, despite the higher tax rates that are probable. Wage stabilization is not likely to be the equivalent of "wage freezing," for the strong demand for workers in a tight labor market may result in additional wage rate increases during the months ahead. Furthermore, if the upward trend of prices should be resumed—as seems probable during the latter months of this year—the many wage contracts involving cost-of-living increases will add to the upward wage pressures. Unusually large agricultural production at prices which will average considerably above those for last year's crop will increase farmers' income, despite the fact that the current crop is a high-cost one. Business income, likewise, should be somewhat higher, reflecting the defense-supported rising level of business activity that may be anticipated. The only offsetting factor in the income picture may be somewhat lower dividend payments as the higher corporate taxes become effective and the need for working capital becomes more urgent. On balance, therefore, an increase in personal income payments above the recent \$249,000,000,000 annual rate may be expected.

Factors affecting the money supply seem certain to be expansive during the remainder of the year. The first year of the Korean war was financed by the Government on a pay-as-you-go basis; in fact, the Treasury was able to report a surplus of almost \$3,500,000,000. Despite views as to the desirability of maintaining the defense program on a pay-as-you-go basis, it is generally conceded that the Treasury will face a deficit during the current fiscal year and will need to obtain new money in the market. Recently, Treasury bill offerings of \$1,200,000,000 weekly have exceeded maturities; if weekly offerings of this amount are carried through the 13-week cycle of maturities the Treasury would obtain \$2,000,000,000 in new money. Even though the Treasury's deficit may prove to be smaller under conditions of peace in Korea, it will tend to add to the money supply and inflationary pressures as the months pass.

The principal increase in the money supply since the outbreak of the Korean war has come from an expansion of private credit. During the last half of 1950, bank loans increased by about \$7,500,000,000; moreover, during the first 5 months of the current year, a further increase of about \$2,300,000,000 was reported. Since the last 4 months of the year are normally months of loan expansion, it may be assumed that loans will continue to rise partly to meet normal seasonal needs and partly because of the quickening pace of the defense program and the additional requirements that may be expected for defense financing. Restrictive credit policies, including continued emphasis on the voluntary credit restraint program, will be in order to help hold underlying inflationary forces in check.

In essence, no restrictive or depressive effects upon business activity can be anticipated in so far as incomes and the money supply are concerned during the remainder of the year. On the contrary, the outlook seems to be one of expansion, with consumers and businesses either possessing or having access to a large and growing volume of purchasing power. An end to the war in Korea, however, might have a sufficiently moderating effect upon consumer and business attitudes to prevent a recurrence of unrestrained scare buying, highly speculative ventures, or similar practices.

### Conclusion

In summary, the effects of a Korean cease-fire agreement on business and economic activity should be short-lived, moderate, and should not change significantly the underlying forces that still indicate a continuance of full production, full employment, and high-level income. The major forces supporting domestic economic activity—namely, the defense program, business capital expansion stimulated by the defense program, and an inflationary atmosphere—are too strong to be diverted or canceled out. Even in the very short run, the psychological and real economic effects of peace in Korea are likely to be only very moderate.

The current and foreseeable high level of economic activity, however, should be recognized as a situation resulting largely as a consequence of government spending undertaken to give military security to the Nation. It is a boom underwritten and supported by very large-scale government spending and has inherent within it the seeds of danger and maladjustment that always accompany such a development. Without any trace of criticism directed to any quarter, but only with a view toward the more distant future, one might well afford to ponder the question: "After the defense program—then what?"



## REVIEW OF BUSINESS, INDUSTRIAL, AGRICULTURAL, AND FINANCIAL CONDITIONS



Department store sales in the Eleventh Federal Reserve District during June and early July declined less than usual for this time of year. Nevertheless, June sales were only 2 percent higher than a year ago, and during the first half of July, sales dropped 13 percent below the exceptionally large volume in the same period of last year, when war-scared buying was pronounced. Stocks at department stores showed a greater-than-seasonal decline as merchants continued their efforts to reduce heavy inventories but at the end of June were still 27 percent higher than a year earlier. Furniture store sales were down noticeably in June.

Crude oil production and refining activity in June reached a new peak, both in the District and in the Nation. Although crude oil production is likely to show further small increases in July and August, the outlook for the oil industry is uncertain in view of the possibility of increased foreign demand for diminishing imports growing out of the Iranian situation and the possibility of decreased military requirements if there should be a cessation of hostilities in Korea. The total value of construction contract awards in the District in June was down substantially from the record May level but remained appreciably higher than a year ago. The June decline extended to both residential and nonresidential building.

A total 1951 crop production in the District much larger than that of last year, but probably not as large as in 1949, is indicated by current crop prospects. The condition of the cotton crop is good in most areas and, due in part to the very large acreage, a record or near-record harvest is expected. In most areas of the District other row crops are making good progress. Although range and pasture feed is scarce in some dry areas, livestock generally are in good condition, and meat production in Texas is running near last year's level, despite a reduction in the numbers of livestock marketed. Farm prices continued to make downward adjustments during July, with cotton experiencing the sharpest decline.

Loans of weekly reporting member banks in this District declined \$13,223,000 during the period between June 13 and July 11, the second successive period in which a noticeable decline occurred. Investments were increased by \$23,087,000 in the same period. Deposits showed a decrease of almost \$55,000,000, due in part to a drawing down of demand deposits of individuals, partnerships, and corporations for the payment of income taxes and for loan liquidation.



Although the mild upturn in consumer buying in the District evident in May continued in June and early July, buoyed by earlier-than-usual summer clearance

sales and by special promotions, the total volume of buying remained disappointing. June sales at district department stores were down 13 percent from May, a decline slightly smaller than usual for this time of year. As compared with June of last year, the dollar volume of sales was up 2 percent,

but if allowance is made for the marked increase in prices during the past 12 months, the physical volume of merchandise sold continued noticeably below year-earlier levels for the third consecutive month. Sales during the first 2 weeks of July were 13 percent below the same period of last year, when war-scared buying greatly inflated sales.

## WHOLESALE TRADE STATISTICS

## Eleventh Federal Reserve District

(Percentage change)

Line of trade	NET SALES <sup>p</sup>			STOCKS <sup>1</sup> <sup>p</sup>	
	June 1951 from		6 mo. 1951 comp. with 6 mo. 1950	June 1951 from	
	June 1950	May 1951		June 1950	May 1951
Automotive supplies.....	-15	12	—	-27	11
Drugs and sundries.....	7	-4	14	21	—
Dry goods.....	-6	-14	12	20	-3
Grocery (full-line wholesalers not sponsoring groups).....	9	2	14	17	-5
Hardware.....	-2	1	19	32	1
Industrial supplies.....	30	-7	48	31	-6
Metals.....	7	-23	—	32	3
Tobacco products.....	-4	#	2	15	10
Wines and liquors.....	3	1	2	—	—
Wiring supplies, construction materials distributors.....	85	9	—	146	-4

<sup>1</sup> Stocks at end of month.<sup>p</sup> 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 <sup>1</sup>	
	June 1951 from		6 mo. 1951 comp. with 6 mo. 1950	June 1951 from	
	June 1950	May 1951		June 1950	May 1951
DEPARTMENT STORES					
Total Eleventh District.....	2	—13	9	27	— 8
Corpus Christi.....	7	— 5	5	17	— 9
Dallas.....	— 3	—19	7	27	—10
El Paso.....	6	— 5	7	—	—
Fort Worth.....	3	—12	7	17	— 8
Houston.....	11	—11	20	44	— 8
San Antonio.....	— 2	—12	4	29	— 8
Shreveport, La.....	8	—10	7	—	—
Other cities.....	— 1	— 8	3	5	— 8
FURNITURE STORES					
Total Eleventh District.....	—11	—11	—	44	— 6
Austin.....	—26	—20	—	26	— 9
Dallas.....	—23	6	—	74	— 6
Houston.....	— 2	7	—	—	—
Port Arthur.....	2	—33	—	—	—
San Antonio.....	— 1	— 7	—	—	—
Shreveport, La.....	— #	—25	—	34	— 4
Wichita Falls.....	9	—14	—	37	1
HOUSEHOLD APPLIANCE STORES					
Total Eleventh District.....	—61	5	—	—	—
Dallas.....	—71	—19	—	—	—

<sup>1</sup> 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 <sup>1</sup>			
	June 1951	May 1951	Apr. 1951	June 1950	June 1951	May 1951	Apr. 1951	June 1950
<b>SALES—Daily average</b>								
Eleventh District.....	352	393	382	353	409	405	402	410
Dallas.....	291	351	333	302	354	374	375	369
Houston.....	409	441	423	400	470	459	475	460
<b>STOCKS—End of month</b>								
Eleventh District.....	445	486	510	353	473	486	486	375

<sup>1</sup> Adjusted for seasonal variation.



Merchants appear to be making some progress in reducing their heavy inventories. Department store stocks were down more than seasonally in June, dropping 8 percent, and at the end of the month showed a 27-percent gain over a year earlier, as compared with a 29-percent gain at the end of the preceding month and a peak year-to-year gain of 31 percent on April 30. While the placement of orders for fall merchandise sharply increased orders outstanding during June, end-of-month orders outstanding were 13 percent less than on June 30, 1950.

Soft goods departments continued to make a better showing than the hard goods departments. June sales of women's and misses' coats and suits were 10 percent higher than a year earlier. The women's and misses' dresses department had a 7-percent increase, and the women's accessories department, a 5-percent increase over June a year ago. Men's clothing sales were up 6 percent over a year earlier, following year-to-year decreases of 4 and 5 percent, respectively, in the two preceding months. Basement store sales, which are made up largely of soft goods, showed a noticeable increase over last year.

Most of the important homefurnishings items experienced noticeable sales declines from a year earlier. Sales of major household appliances continued at the lowest level since 1946, with the June volume down 54 percent from the same month last year. Television and radio sales were 20 percent below a year ago, and furniture and bedding sales were 9 percent lower. Even sales of domestic floor coverings, which had been showing large year-to-year gains during the past 12 months, were 1 percent below the June 1950 level.

Several factors account for the relatively unfavorable sales picture for consumer durable goods. The heavy advance buying of last summer and the early part of this year was concentrated largely in durable goods items. This buying undoubtedly borrowed sales from current months. Moreover, the imposition of consumer credit controls affects almost exclusively durable goods items. Even if these two factors were eliminated, however, it appears likely that durable goods sales would be noticeably smaller than in recent years. While the market for consumer durable goods may not have been saturated by the very heavy production of the past 5 years, the bulk of the consumers probably have satisfied their urgent needs, and the present market is tending to be limited largely to replacement demand and demand rising from the establishment of new households. The backlog of demand has been eliminated. Moreover, if the volume of residential construction declines as anticipated, it may have a depressing effect on consumer durable goods sales in future months.

The seasonal decline in department store sales from May to June was distributed among all types of sales—cash, charge account, and instalment sales. Cash and charge account sales, however, continued to show moderate increases over a year earlier, and instalment sales remained sharply below year-ago levels. Accordingly, the distribution of sales showed a markedly different pattern from June last year. June instalment sales comprised only 7 percent of total sales as compared with 13 percent a year earlier, while charge

account sales constituted 59 percent versus 56 percent, and cash sales, 33 percent versus 31 percent.

The charge account collection ratio declined from 50 percent in May to 47 percent in June, while the instalment account collection ratio was down one percentage point from May, to 15 percent. Charge account receivables outstanding on June 30 were 17 percent higher than on the same date last year, but instalment receivables outstanding at the end of June, continuing the declining trend evident since the reimposition of Regulation W, were down 8 percent from a year earlier, the first year-to-year decline since February 1945. The rate of decline in department store instalment receivables in this District has been somewhat faster than for the Nation as a whole.

Sales at district furniture stores in June, showing a greater decline than usually occurs at this time of year, dropped 11 percent below the year-earlier level. While furniture stores have been experiencing year-to-year sales declines in almost every month since consumer instalment credit controls were imposed, the decline in June was the largest in the past 8 months. Both cash and credit sales were off noticeably. Accounts receivable outstanding registered a small decline for the sixth consecutive month and on June 30 were 5 percent lower than on the same date last year. Furniture store stocks were down 6 percent in June, the second successive monthly decline, but end-of-month stocks were still 44 percent higher than a year ago.



The acreages of crops for harvest in the District this year, together with the condition of growing crops in late July, indicate that total crop production will be larger than in 1950, although probably not as large as in 1949. The combined acreage of principal crops for harvest in the 5-state area is 5 percent above the relatively small acreage harvested last year but 7 percent below the 10-year (1940-49) average. District states, as a group, have for harvest more acres of cotton, rice, and hay but fewer acres of wheat, corn, oats, barley, sorghums, peanuts, flaxseed, cowpeas, and potatoes than in 1950. Lower yields are reported for several crops including winter grains, flaxseed, potatoes, rice, and hay.

#### PLANTED COTTON ACREAGE, JULY 1

##### Texas Crop Reporting Districts

(In thousands of acres)

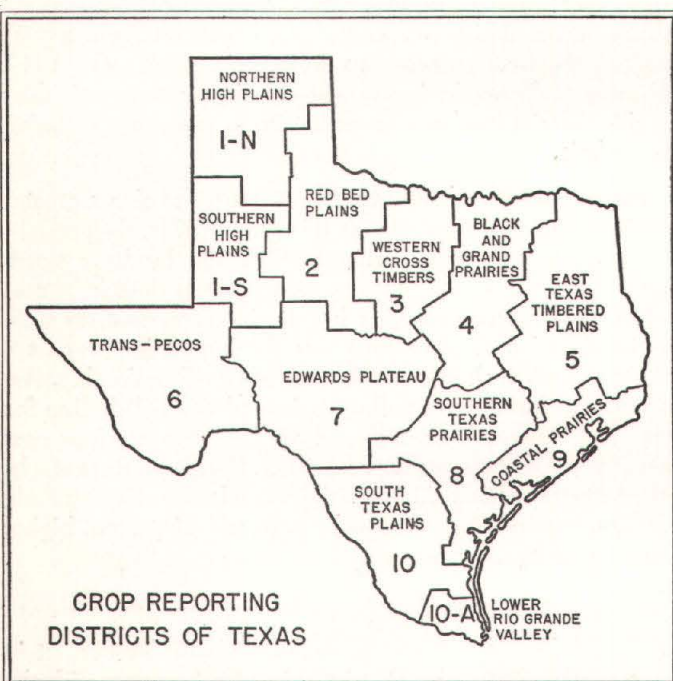
Crop reporting district	1949	1950	1951	1951 as percent of 1950
1-N Northern High Plains.....	364	174	550	316
1-S Southern High Plains.....	2,650	1,603	3,200	200
2 Red Bed Plains.....	2,064	1,343	2,575	192
3 Western Cross Timbers....	143	78	230	295
4 Black and Grand Prairies...	2,588	1,789	2,825	158
5 East Texas Timbered Plains	854	508	705	139
6 Trans-Pecos.....	179	152	250	164
7 Edwards Plateau.....	188	120	300	250
8 Southern Texas Prairies...	824	571	1,110	194
9 Coastal Prairies.....	317	224	390	174
10 South Texas Plains.....	817	486	990	204
State.....	10,988	7,048	13,125	186

SOURCE: United States Department of Agriculture.

United States farmers have in cultivation an estimated 29,510,000 acres of cotton, or 58 percent more than a year



ago, according to the Department of Agriculture. With the exception of 1936 and 1937, the 1951 acreage is the largest since 1933. Record acreages are reported for California, New Mexico, and Arizona, where considerable cotton is being grown on land formerly used for other purposes and on new land which has been brought under cultivation. The 59,800 acres of American-Egyptian cotton in cultivation is 43 percent below last year's acreage but slightly above average.



Texas farmers have 13,125,000 acres of cotton in cultivation, which is 86 percent above a year ago and 62 percent above average. This year's acreage is the largest since 1933 but is still well below the record high of 18,443,000 acres planted in 1925. Record acreages were seeded in the High Plains, in the Lower Valley, and in the Trans-Pecos areas—all relatively high-yielding areas. Farmers in the five states of the District have in cultivation about 16,700,000 acres, which is 7,500,000 or 81 percent more than a year ago. The District cotton crop is making good growth in many areas, although dry, hot weather has retarded plant growth and caused excessive shedding of young bolls in south central and southern areas and in some counties of the High Plains. Harvest is under way in the Lower Valley and is beginning

**CROP PRODUCTION**  
Texas and Five Southwestern States  
(In thousands of bushels)

Crop	Texas			Five southwestern states <sup>1</sup>		
	Average 1940-49	1950	Estimated July 1, 1951	Average 1940-49	1950	Estimated July 1, 1951
Winter wheat...	63,486	22,712	16,362	141,926	67,643	58,125
Corn...	62,517	65,730	50,482	112,462	119,183	101,843
Oats...	30,912	27,027	7,756	60,642	44,703	20,687
Barley...	4,010	1,729	636	12,553	10,327	6,036
Rice...	8,264	11,544	11,319	18,264	22,035	22,099
Hay <sup>2</sup> ...	1,437	1,281	1,206	4,624	4,770	3,954
Flaxseed...	625	1,266	64	1,256	1,540	186
Irish potatoes...	4,648	2,752	2,280	9,996	6,952	5,644
Sweet potatoes...	5,378	5,130	2,565	14,730	15,870	8,555

<sup>1</sup> Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

<sup>2</sup> In thousands of bags containing 100 pounds each.

<sup>3</sup> In thousands of tons.

SOURCE: United States Department of Agriculture.

in other southern counties. Insects are active in many areas but generally are being kept in check by frequent application of poisons.

Wheat production in Texas is estimated at 16,262,000 bushels—the smallest crop harvested since 1935. Severe drought, freezes, and insect infestations caused 70 percent of the acreage seeded last fall to be abandoned. Farmers in the five states of the District produced some 58,000,000 bushels; this is 10,000,000 bushels less than last year and 60 percent below average.

**CROP ACREAGE**  
Texas and Five Southwestern States

(In thousands of acres)

Crop	Texas			Five southwestern states <sup>1</sup>		
	Harvested		For Harvest 1951	Harvested		For Harvest 1951
	Average 1940-49	1950		Average 1940-49	1950	
Cotton...	8,098	7,048	13,125	10,896	9,223	16,698
Winter wheat...	4,873	2,839	1,925	10,567	7,842	6,343
Corn...	3,775	3,130	2,348	6,666	5,402	4,462
Oats...	1,367	1,386	554	2,788	2,338	1,224
Barley...	229	133	53	641	426	245
Rye...	23	28	21	106	77	72
Rice...	410	481	539	991	1,026	1,155
Sorghums...	6,846	8,244	6,776	9,204	10,786	9,329
Hay...	1,492	1,149	1,149	3,654	3,282	3,329
Cowpeas...	338	207	155	513	364	304
Peanuts (alone)...	750	522	496	1,016	761	745
Flaxseed...	93	211	16	133	227	22
Irish potatoes...	50	32	24	121	71	59
Sweet potatoes...	60	54	27	167	158	91

<sup>1</sup> Arizona, Louisiana, New Mexico, Oklahoma, and Texas.

SOURCE: United States Department of Agriculture.

The 2,348,000 acres of corn for harvest in Texas is 25 percent below last year's acreage and the smallest in the State since 1877. Production is estimated at about 50,000,000 bushels, or 15,000,000 bushels less than in 1950. Acreage planted to corn in Texas has been declining for several years, due to the increase in farm mechanization which reduces the need for corn for feeding farm work animals, but there has been some increase in corn yields resulting from greater use

**CASH RECEIPTS FROM FARM MARKETINGS**

(In thousands of dollars)

State	April		Cumulative receipts January — April	
	1950	1951	1950	1951
Arizona...	\$ 15,456	\$ 24,689	\$ 71,859	\$ 95,623
Louisiana...	15,648	16,684	66,552	78,212
New Mexico...	10,198	14,042	38,693	46,133
Oklahoma...	26,980	34,241	148,408	136,452
Texas...	117,773	139,429	504,176	467,812
Total...	\$186,055	\$229,085	\$829,688	\$824,232

SOURCE: United States Department of Agriculture.

of hybrid varieties and the adoption of better farming practices. About 65 percent of the corn acreage in the State this year is seeded to hybrids, compared with 51 percent in 1949. The wider use of hybrids, together with favorable weather and increased use of fertilizers, has contributed to good yields, which average 21.5 bushels per acre, compared with a 1940-49 average yield of 16.8 bushels per acre. The corn production estimate for the five states is about 102,000,000 bushels, or 15 percent less than in 1950.

All sorghum acreage for harvest in Texas totals about 6,800,000 acres—18 percent below last year. An even sharper reduction in sorghum acreage was expected as a result of



a shift to more cotton; however, heavy abandonment of winter grains permitted farmers to plant sorghums beyond earlier expectations. Prospects for production are mostly favorable in the north High Plains and Low Rolling Plains counties, but the crop needs moisture in south Plains areas. In the commercial area in the Coastal Bend the crop has suffered damage caused by severe drought. Farmers of the five states of the District have 9,654,000 acres in sorghums, or 13 percent less than in 1950.

Texas farmers have 539,000 acres seeded to rice this year, or 12 percent more acres than were harvested in 1950. However, because yields are below last year's record, current production, estimated at 11,300,000 bags (100 pounds), is 200,000 bags below the record 1950 harvest.

Estimates of this year's acreage and production of other important crops, such as peanuts, oats, barley, hay, Irish potatoes, and sweet potatoes, are shown in accompanying tables. Oat production in the 5-state area is down 54 percent from last year; the Texas crop is off 77 percent. Production of flaxseed in Texas, estimated at 64,000 bushels, is only 5 percent as large as last year's harvest and is the smallest crop produced in the State since the first production estimates were published for this crop in 1939. The acreage of hay in the State is unchanged from last year; production is down slightly. Hay production in the five states is off 17 percent. Acreages of Irish and sweet potatoes in the district states were curtailed sharply this year; only half a normal crop of sweet potatoes is in prospect, while production of Irish potatoes is about one-fifth below last year.

Conditions in the commercial vegetable areas in Texas in July were favorable for active harvest of remaining vegetables and for preparation of seed beds for fall-crop acreages in southern counties. Supplies of vegetables became limited to production from the midseason and late areas. Cantaloupes, watermelons, onions, and potatoes moved to market in volume from several producing sections. Tomatoes were plentiful in northeast Texas in July, but market demand was very poor.

## LIVESTOCK RECEIPTS

(Number)

Class	FORT WORTH MARKET			SAN ANTONIO MARKET		
	June 1951	June 1950	May 1951	June 1951	June 1950	May 1951
Cattle.....	32,230	57,926	34,350	12,594	26,791	18,754
Calves.....	16,040	19,786	10,732	12,193	12,084	14,019
Hogs.....	44,633	44,060	68,972	4,997	4,920	6,350
Sheep.....	128,059	174,429	130,752	120,140	128,992	115,921

<sup>1</sup> Includes goats.

Range and pasture feed generally is adequate for current needs over at least two-thirds of the District. However, it has been curing fast over the southern part of Texas as hot, dry weather continued in that area. Sudan is supplying summer pasture on many farms where native grass is dry. Livestock have shown little loss in weight, but if rains do not fall soon, supplemental feeding will be needed in many sections to prevent shrinkage.

Total marketings of livestock at Fort Worth and San Antonio markets in recent months have been running substan-

tially below a year ago. Market receipts of cattle in the first 6 months of 1950 were 20 percent below those of the comparable period last year; sheep and lamb marketings were down 48 percent. On the other hand, hog marketings showed an increase of 16 percent, while receipts of calves were up 17 percent. There was some increase in livestock marketings around mid-July, however, due to shortages of ample grazing. While total marketings of livestock have been lower this year, animals have been marketed at heavier weights than a year ago. Consequently, commercial meat production in Texas during the first 5 months totaled 306,000,000 pounds, or only slightly below the quantity produced in the corresponding period a year ago.

## FARM COMMODITY PRICES

Top Prices Paid in Local Southwest Markets

Commodity and market	Unit	Week ended July 24, 1951	Comparable week last month	Comparable week last year
COTTON, Middling 15/16-inch, Dallas..	lb.	\$ .3876	\$ .4525	\$ .3811
WHEAT, No. 1 hard, Fort Worth.....	bu.	2.55¾	2.60½	2.54¼
OATS, No. 2 white, Fort Worth.....	bu.	1.06½	1.04½	.93
CORN, No. 2 yellow, Fort Worth.....	bu.	2.03	1.98¾	1.82
SORGHUMS, No. 2 yellow milo, Ft. Worth	cwt.	2.50	2.60	2.35
HOGS, Good & Choice, Fort Worth....	cwt.	23.00	22.75	24.00
SLAUGHTER STEERS, Choice, Fort Worth	cwt.	36.00	36.00	31.00
SLAUGHTER CALVES, Choice, Fort Worth	cwt.	35.00	36.50	30.50
STOCKER STEERS, Choice, Fort Worth...	cwt.	35.00	37.00	30.00
SLAUGHTER LAMBS, Good & Choice, Fort Worth.....	cwt.	31.50	33.00	29.00
HENS, 3-4 pounds, Dallas.....	lb.	.22	.25	.20
FRYERS, local, Dallas.....	lb.	.27	.27	.30
TURKEYS, No. 1 hens, Dallas.....	lb.	.35	.35	.25
EGGS, No. 1 infertile, Dallas.....	lb.	.45	.41	.36½/13

The general level of farm prices in Texas and other states of the District continues to drift downward. The most noticeable decline in farm commodity prices during the past month occurred in the price of cotton. Middling 15/16-inch cotton averaged 37.77 cents per pound in the 10 designated spot markets on July 24, compared with 45.25 cents a month earlier. Lower prices are reported also for barley, sorghum grain, and some classes of livestock in southwest markets. On the other hand, there have been some local advances in the prices of eggs and corn.



Between June 13 and July 11 loans of the weekly reporting member banks in the Eleventh District declined \$13,223,000, continuing the mild downward trend that began at the end of January. Although most loan categories showed decreases, loans for commercial, industrial, and agricultural purposes more than accounted for the overall change. As in most other recent weeks, cotton dealers liquidated a rather large amount of outstanding bank indebtedness. Liquidation was heaviest, however, among the category of borrowers classified as "all other," with this group accounting for 46 percent of the net decrease in commercial and industrial loans. Retail and wholesale trade establishments, manufacturers of petroleum, coal, chemical, and rubber products, and sales finance companies reduced the amount of their outstanding bank borrowing, while construction firms, public utility companies, and metal and metal products concerns increased their indebtedness to banks. Both new loans and repayments during the 4 weeks reflect principally changes in business inventory and other working capital requirements. Loans to finance work on defense con-



tracts constituted slightly more than 6 percent of new loans for commercial and industrial purposes. Real estate loans declined \$2,720,000 during the 4 weeks, but the category including consumer-type loans showed an increase of \$6,363,000. On July 11 loans of the weekly reporting member banks in the District totaled \$1,449,105,000, reflecting an increase of \$232,467,000 over the year-earlier amount.

Deposits declined \$54,988,000, the largest decrease in any 4- or 5-week reporting period this year. Deposit losses were heavily concentrated in demand accounts of individuals, partnerships, and corporations, where a decrease of \$88,342,000 occurred. The shrinkage in personal and business deposits reflects, in part, rather heavy Treasury income tax collections and, to a smaller extent, the decrease in loans. Increases in United States Government deposits and interbank deposits offset somewhat more than one-third of the loss in personal and business demand accounts. Time deposits showed only a fractional decrease. In order to meet the heavy deposit withdrawals and to provide funds for other purposes, the weekly reporting member banks drew down balances with other banks in the amount of \$51,169,000. On July 11 deposits of the weekly reporting member banks amounted to \$3,548,731,000, or \$70,646,000 more than the comparable total for last year.

#### CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

##### Eleventh Federal Reserve District

(In thousands of dollars)

Item	July 11, 1951	July 12, 1950	June 13, 1951
Total loans (gross) and investments.....	\$2,634,526	\$2,553,453	\$2,624,662
Total loans—Net <sup>1</sup> .....	1,432,226	1,203,275	1,445,493
Total loans—Gross.....	1,449,105	1,216,638	1,462,328
Commercial, industrial, and agricultural loans.....	983,425	822,027	1,000,089
Loans to brokers and dealers in securities..	8,447	6,254	8,687
Other loans for purchasing or carrying securities.....	57,592	54,221	57,604
Real estate loans.....	121,509	102,033	124,229
Loans to banks.....	1,215	200	1,165
All other loans.....	276,917	231,903	270,554
Total investments.....	1,185,421	1,336,815	1,162,334
U. S. Treasury bills.....	113,538	120,536	83,910
U. S. Treasury certificates of indebtedness..	84,575	114,591	0
U. S. Treasury notes.....	251,546	287,500	333,151
U. S. Government bonds (inc. gtd. obligations).....	569,848	673,878	580,649
Other securities.....	165,914	140,310	164,624
Reserves with Federal Reserve Bank.....	537,178	478,938	521,639
Balances with domestic banks.....	340,160	370,227	391,329
Demand deposits—adjusted <sup>2</sup> .....	2,145,128	2,067,659	2,204,409
Time deposits except Government.....	440,820	450,847	441,805
United States Government deposits.....	98,656	73,719	77,845
Interbank demand deposits.....	640,114	649,302	625,429
Borrowings from Federal Reserve Bank.....	0	0	0

<sup>1</sup> After deductions for reserves and unallocated charge-offs.

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

Investments in United States Government securities rose \$21,797,000, principally as a result of the increase in holdings of Treasury bills. Holdings of Treasury bonds decreased \$10,801,000, while investments in Treasury notes showed a decrease of \$81,605,000. Reductions in note and bond holdings were largely offset, however, by the increase in certificates of indebtedness and reflect the refunding operations of the Treasury on June 15 and July 1. Investments in municipal and other non-Government securities showed an increase of \$1,290,000 during the 4 weeks.

Gross demand deposits of all member banks in the District averaged \$18,894,000 higher in June than in May, reversing the month-to-month decreases that prevailed during the first

5 months of the year. Reserve city banks more than accounted for the change, since country member banks reported a fractional decrease. Despite the contraction in demand deposits from January to May, the volume of deposits at both Reserve city and country banks remained substantially above year-earlier totals. Time deposits were \$10,818,000 higher in June than in May, and as in the case of demand deposits, Reserve city banks more than accounted for 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
June 1949.....	\$4,948,074	\$635,740	\$2,379,108	\$413,072	\$2,568,966	\$222,668
June 1950.....	5,550,468	669,715	2,684,393	424,252	2,866,075	245,463
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
May 1951.....	5,801,415	658,973	2,697,033	362,380	3,104,382	296,593
June 1951.....	5,820,309	669,791	2,720,158	374,734	3,100,151	295,057

Reflecting the mild leveling off in business activity during recent weeks, debits to deposit accounts reported by banks in 24 cities of the District showed almost no change in June from the month-earlier total. Changes in individual cities were confined to rather narrow limits, with Galveston and Laredo, Texas, showing the larger decreases and Corsicana and Port Arthur, Texas, showing the larger increases. Debits in June were 10 percent higher than in June 1950. The annual rate of turnover of deposits, or the annual rate of use of deposit accounts, was 14.5 in June, as compared with 14.6 in May and 14.0 in June 1950.

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

(Amounts in thousands of dollars)

City	DEBITS <sup>1</sup>			DEPOSITS <sup>2</sup>				
	June 1951	Percentage change from		June 30, 1951	Annual rate of turnover			
		June 1950	May 1951		June 1951	June 1950	May 1951	
ARIZONA								
Tucson.....	\$ 82,103	36	1	\$ 92,536	10.4	8.4	10.2	
LOUISIANA								
Monroe.....	43,380	19	7	45,699	11.5	10.0	10.8	
Shreveport.....	172,866	19	4	184,400	11.2	9.7	10.8	
NEW MEXICO								
Roswell.....	21,467	9	3	23,802	10.8	10.3	10.3	
TEXAS								
Abilene.....	48,394	— 6	2	50,065	11.5	13.3	11.5	
Amarillo.....	120,070	8	2	97,075	14.8	14.2	14.5	
Austin.....	133,989	— 7	2	109,838	14.6	15.1	14.2	
Beaumont.....	117,617	15	3	88,538	16.0	13.7	15.6	
Corpus Christi.....	117,750	17	2	91,379	15.2	13.3	14.8	
Corsicana.....	12,158	14	8	20,473	7.0	6.2	6.5	
Dallas.....	1,307,274	— 4	— 4	927,773	17.2	19.2	18.1	
El Paso.....	165,230	15	#	130,891	15.1	13.4	15.1	
Fort Worth.....	463,998	11	1	350,545	15.7	15.6	15.6	
Galveston.....	76,869	9	— 9	99,276	9.2	8.9	10.1	
Houston.....	1,432,339	20	1	1,072,078	16.0	14.4	15.8	
Laredo.....	20,212	17	— 9	19,936	11.8	9.0	12.6	
Lubbock.....	81,579	3	— 6	91,039	10.8	11.3	11.3	
Port Arthur.....	43,511	45	8	38,743	13.1	9.0	11.8	
San Angelo.....	46,009	18	6	50,557	10.7	9.8	10.3	
San Antonio.....	382,333	18	5	364,376	12.5	11.0	11.9	
Texarkana <sup>3</sup> .....	17,715	12	1	23,971	8.9	8.3	8.8	
Tyler.....	50,009	11	5	51,572	11.6	10.4	11.3	
Waco.....	66,905	8	— 3	79,769	10.2	10.6	10.6	
Wichita Falls.....	78,127	17	5	100,842	9.6	8.6	9.5	
Total—24 cities.....	\$5,101,904	10	— #	\$4,205,173	14.5	14.0	14.6	

<sup>1</sup> Debits to deposit accounts except interbank accounts.

<sup>2</sup> Demand and time deposits, including certified and officers' checks outstanding but excluding deposits to the credit of banks.

<sup>3</sup> 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 \$30,526,000 for the month of June 1951.

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



Most major assets and liabilities of the Federal Reserve Bank of Dallas increased between June 15 and July 15. The principal changes included increases of \$40,616,000 in gold certificate reserves and \$26,405,000 in member bank reserve deposits. Total earning assets rose \$2,782,000, reflecting principally the increase in holdings of Government securities. Notes of this bank in actual circulation on July 15 amounted to \$635,433,000, an increase of \$7,221,000 from June 15 and \$26,475,000 from July 15, 1950.

#### CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	July 15, 1951	July 15, 1950	June 15, 1951
Total gold certificate reserves.....	\$ 532,760	\$694,509	\$ 492,144
Discounts for member banks.....	2,276	200	2,461
Industrial advances.....	50	0	40
Foreign loans on gold.....	0	595	0
U. S. Government securities.....	1,101,535	813,469	1,098,578
Total earning assets.....	1,103,861	814,264	1,101,079
Member bank reserve deposits.....	954,427	814,664	928,022
Federal Reserve notes in actual circulation..	635,433	608,958	628,212

Budget results for the fiscal year 1951 show that Treasury receipts exceeded expenditures by \$3,510,000,000. Receipts amounted to \$48,143,000,000, or \$11,098,000,000 more than in fiscal 1950. Expenditures rose \$4,466,000,000 to a total of \$44,633,000,000. The budget surplus in fiscal 1951 compares with a deficit of \$3,122,000,000 in fiscal 1950. The increase in budget receipts is accounted for almost entirely by the increase in income and social security taxes, with the collections from these sources comprising 77 percent of total budget receipts in 1951. The increase in expenditures by the Defense Department more than accounted for the over-all increase in total budget expenditures.

The Secretary of the Treasury announced on July 12 that holders of the 1 $\frac{1}{4}$ -percent Treasury notes maturing August 1 would be offered an exchange issue of 11-month 1 $\frac{7}{8}$ -percent certificates of indebtedness. The maturing notes are outstanding in the amount of \$5,351,142,000. Subscription books for the new issue were opened July 16.

On June 27 the Secretary of the Treasury asked for bids on \$1,200,000,000 of 91-day Treasury bills which were offered for cash and in exchange for about \$1,000,000,000 of the maturing bills of July 5. Similar offerings were made in connection with the bill maturities of the succeeding 3 weeks. The issue of Treasury bills dated July 19 was sold at an average discount of 1.562 percent, as compared with 1.604 percent for the issue dated July 5.

#### NEW MEMBER BANK

*The Sunray State Bank, Sunray, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business July 2, 1951, as a member of the Federal Reserve System. The new bank has capital of \$75,000, surplus of \$25,000, and undivided profits of \$12,500. The officers are: C. E. Bedwell, President; Marshall Cator, Vice President; and Floy Honeycutt, Assistant Cashier.*

#### SAVINGS DEPOSITS

City	Number of reporting banks	June 30, 1951		Percentage change in savings deposits from	
		Number of savings depositors	Amount of savings deposits	June 30, 1950	May 31, 1951
LOUISIANA					
Shreveport.....	3	44,734	\$ 22,948,906	— 7.1	—1.7
TEXAS					
Beaumont.....	3	12,094	5,125,795	—12.4	—0.9
Dallas.....	8	145,034	76,276,755	— 3.0	1.8
El Paso.....	2	33,294	22,036,000	— 4.4	1.1
Fort Worth.....	4	42,932	34,253,871	— 4.7	0.9
Galveston.....	4	22,408	20,073,149	— 5.9	—0.1
Houston.....	8	92,513	73,758,323	— 2.7	0.6
Lubbock.....	2	2,375	4,699,731	14.8	3.6
Port Arthur.....	2	5,932	3,757,403	—11.9	—0.03
San Antonio.....	5	42,573	43,368,559	— 1.6	1.8
Waco.....	3	10,838	10,633,201	— 1.0	0.7
Wichita Falls.....	3	8,046	4,505,283	— 3.9	0.5
ALL OTHER.....	55	69,770	56,478,889	— 0.7	1.0
Total.....	102	532,543	\$377,915,865	— 3.1	0.9



The oil picture, both in the District and in the Nation, is clouded by uncertainties arising from the unsettled Iranian problem, the possibility of a cease-fire order in Korea, and difficulties in obtaining adequate supplies of steel. Crude oil production in the District and in the Nation continues to set new records in meeting the high level of demand, while stocks remain moderate in relation to existing rates of use.

The daily average crude oil production in the District showed a small increase from May to June, to mark the sixth consecutive monthly gain. At 3,064,000 barrels per day, production averaged 517,000 barrels, or 20 percent, higher than in June last year. Although production was off slightly during the early part of July, it is anticipated that the total for the month equaled or exceeded the June level; a further small increase is likely in August, based on announced Texas allowables.

#### CRUDE OIL PRODUCTION

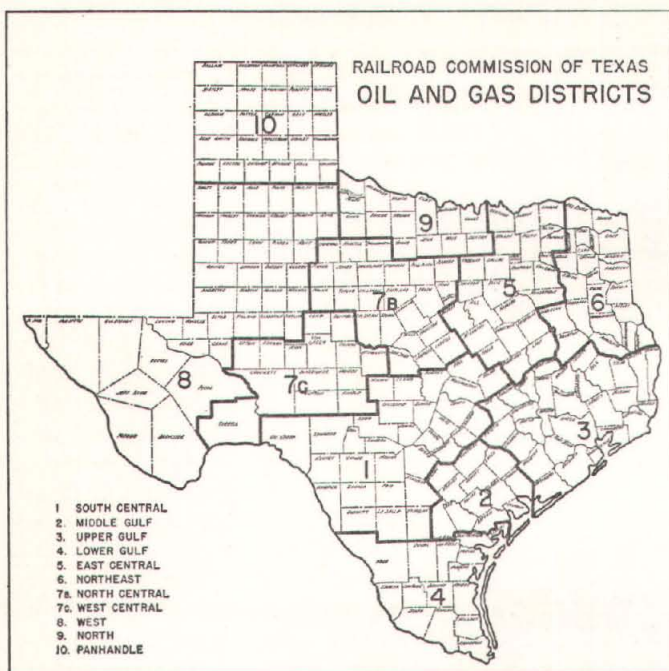
(Barrels)

Area	June 1951		Increase or decrease in daily average production from	
	Total production	Daily avg. production	June 1950	May 1951
<b>ELEVENTH DISTRICT</b>				
Texas R. R. Com. Districts				
1 South Central.....	991,400	33,047	4,552	—805
2 Middle Gulf.....	4,899,200	163,307	27,817	—4,822
3 Upper Gulf.....	15,036,900	501,230	80,965	—2,952
4 Lower Gulf.....	7,842,800	261,426	48,018	613
5 East Central.....	1,606,700	53,557	19,142	823
6 Northeast.....	11,960,050	398,668	25,151	7,882
East Texas.....	8,432,400	281,080	1,375	7,686
Other fields.....	3,527,650	117,588	23,776	196
7b North Central.....	2,614,300	87,143	17,398	1,191
7c West Central.....	3,158,150	105,272	42,717	1,927
8 West.....	28,258,300	941,943	225,798	—5,937
9 North.....	4,749,000	158,300	14,590	4,826
10 Panhandle.....	2,658,000	88,600	—3,640	—48
Total Texas.....	83,774,800	2,792,493	502,508	2,698
New Mexico.....	4,255,700	141,857	16,927	768
North Louisiana.....	3,889,650	129,655	—2,103	—864
Total Eleventh District...	91,920,150	3,064,005	517,332	2,602
OUTSIDE ELEVENTH DISTRICT...	93,531,150	3,117,705	321,752	10,257
UNITED STATES.....	185,451,300	6,181,710	839,084	12,859

SOURCE: Estimated from American Petroleum Institute weekly reports.

Refinery activity in the District also was at a record rate in June, following a small increase over May; and daily average runs to refinery stills, which totaled 1,912,000 barrels, were 30 percent higher than a year earlier. This year-to-year increase is substantially more than the 17-percent increase shown in refinery activity in the Nation as a whole.





Total stocks of crude oil and the four major refined products showed a further moderate increase in June, both in the District and in the Nation, and at the end of the month were 5 and 7 percent, respectively, higher than on the same date last year. Stock trends of the individual items, however, were mixed. Crude oil stocks in the District rose to 126,549,000 barrels, an increase of about 700,000 barrels during the month, but the decline of about 900,000 barrels in the Nation reduced aggregate stocks to 247,299,000 barrels. The decline in gasoline stocks, both in the District and in the Nation, was less than usual for this time of year, but kerosene and gas and distillate fuel oil stocks showed substantial seasonal increases. Residual fuel oil stocks were down a little in the District but, in contrast, rose moderately in the Nation.

The impact of the Iranian oil situation already is being felt by the oil industry in this country. British companies are reported to have begun buying cargoes of products of all types on the United States market. American companies have been authorized by the Department of Justice to plan joint action for meeting adjustments in international petroleum trade which may be needed if shipments of Iranian oil to Britain, South Africa, India, and other countries of the Eastern Hemisphere are reduced or cut off.

The principal difficulty that would be created by the unavailability of Iranian oil would be a loss of the tremendous refinery production centered largely at Abadan. It is believed that crude oil production can be stepped up rapidly in Kuwait and Saudi Arabia to make up much of the deficit in crude oil. The replacement of the 500,000-barrel refinery capacity of Iran would be much more difficult. The immediate impact of the loss of Iranian oil would be a spurt in refinery construction, chiefly in Europe and middle-eastern countries; the curtailment of imports to this country, particularly of fuel oil; and a marked increase in the export of refined products from this country. British industry leaders are reported to believe that an amount approximately equal to half the quantity Iran normally supplies can be obtained through emergency

measures within the Eastern Hemisphere. The additional quantity needed of approximately 300,000 barrels daily would have to be met by exports from the United States, the Caribbean area, and other parts of the Western Hemisphere. The Southwest naturally would be the principal supplier of any increase in United States exports.

The largest part of the Abadan refinery's production is fuel oil, the product which is imported in the greatest volume by this country. The United States obtains most of its fuel oil imports from Caribbean refineries, which at present have little unused refining capacity. Diversion of Caribbean fuel oil to the Eastern Hemisphere undoubtedly would tighten the American market. In early July, United States imports of residual fuel oil were down markedly, probably an indirect result of the curtailment in refining activities of Iran.

At the same time the Iranian situation is presenting the possibility of a marked increase in the demand for United States oil, the possibility of a cease-fire in Korea may have the effect of tempering the military demand for domestic production. It will be noted, however, that most of the increase in demand during the past year has come from civilian sources, with the military demand estimated to be running at only about 5 percent of domestic production. Consequently, even if the military demand should be cut back sharply, with no offsetting increases from other sources, demand would still be higher than at any time prior to 1951.

The tight steel situation is continuing to present serious problems to the oil and gas industry. The principal bottleneck is a shortage of large-diameter steel pipe. A tentative order banning the acceptance of new customers by natural gas companies has been prepared by the Petroleum Administration for Defense. The Defense Department considers it essential that no further expansion of the natural gas market be permitted in areas east of the Mississippi River because of shortages of line pipe. In addition, the Secretary of the Interior has disclosed that the fourth-quarter allotment of steel for the oil and gas industry is likely to be cut noticeably below that requested by the Petroleum Administration for Defense and that failure to get more steel may create a very tight oil supply situation in the next 8 to 10 months.

#### VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

Area and type	June 1951 <sup>p</sup>	June 1950	May 1951	January — June	
				1951 <sup>p</sup>	1950
ELEVENTH DISTRICT \$	108,851	\$ 93,417	\$ 161,338	\$ 811,825	\$ 530,951
Residential . . . . .	51,229	41,772	59,456	356,828	251,315
All other . . . . .	57,622	51,645	101,882	454,997	279,636
UNITED STATES <sup>1</sup> . . . . .	1,408,932	1,345,463	2,572,961	8,808,109	6,854,148
Residential . . . . .	545,152	628,051	661,094	3,323,727	3,257,125
All other . . . . .	863,780	717,412	1,911,867	5,484,382	3,597,023

<sup>1</sup> 37 states east of the Rocky Mountains.

<sup>p</sup> Preliminary.

SOURCE: F. W. Dodge Corporation.

The total value of construction contract awards in the District was down 33 percent in June from the record May level but continued to run substantially higher than a year ago. Residential awards, at \$51,000,000, were the lowest for any month this year, dropping 14 percent from May, but were still 23 percent higher than a year earlier. Public construc-



tion and military housing projects continued to buoy residential awards; private residential construction has tended to ease in recent months. In this connection, prices of building materials declined during the past 3 months, with the Bureau of Labor Statistics' index of building materials prices on July 10 down about 1.2 percent.

## BUILDING PERMITS

City	June 1951		Percentage change in valuation from		6 months 1951		Percentage change in valuation from 6 months 1950	
	Number	Valuation	June 1950	May 1951	Number	Valuation		
LOUISIANA								
Shreveport....	307	\$ 1,274,859	-22	— #	1,981	\$ 9,060,907	-28	
TEXAS								
Abilene.....	81	272,248	-72	3	629	3,882,627	-44	
Amarillo.....	211	1,361,510	-20	18	1,938	11,485,846	12	
Austin.....	173	1,172,856	-65	-26	1,483	13,050,479	-37	
Beaumont.....	237	431,690	-20	2	1,500	3,402,025	-40	
Corpus Christi..	277	704,600	-72	-29	1,965	12,009,131	-14	
Dallas.....	1,540	6,067,619	-49	-3	10,176	54,647,192	2	
El Paso.....	220	1,308,699	-65	34	1,599	8,894,558	-32	
Fort Worth.....	675	3,112,615	-27	-20	4,292	29,523,122	-23	
Galveston.....	137	5,048,054	881	†	682	6,626,944	97	
Houston.....	734	7,738,675	-50	-21	5,260	77,057,914	2	
Lubbock.....	242	1,067,448	-43	-20	1,937	9,269,926	-23	
Port Arthur.....	150	960,704	-39	73	969	2,829,419	-27	
San Antonio....	1,111	2,318,456	-59	-18	7,322	23,243,408	-11	
Waco.....	172	622,400	-61	-59	1,296	7,762,603	-28	
Wichita Falls..	132	1,574,600	170	351	672	3,350,173	27	
Total.....	6,399	\$35,037,033	-39	5	43,701	\$276,096,274	-7	

# Indicates change of less than one-half of 1 percent.  
† Over 1,000 percent.

Nonresidential awards in June were down sharply from the near-record May level, although exceeding by 12 percent the June 1950 level. The \$58,000,000 awards were the lowest for any month since January and were noticeably below the monthly average of the past 12 months.

Activity in the cotton textile industry in Texas declined moderately in June, with the daily average consumption of cotton down 4 percent from May and at the lowest level since January. The June daily average consumption of 722 bales, however, was still 22 percent higher than a year earlier. The decline in cotton textile activity in Texas followed the pattern that prevailed throughout the Nation. A further decline appears to have occurred during July. Since the outbreak of hostilities in Korea, the cotton mills in Texas have been operating at the highest level in 4 years, and in the Nation, at the highest level since the early years of World War II. In recent months, however, the markets have become sluggish, with demand shrinking in the face of heavy inventories in trade channels. Wholesale prices have eased and prospects of a very large cotton crop have further unsettled the price picture. Print cloth prices near the middle of July were down more than 4 cents a yard, or about 20 percent from the level prevailing at mid-April, most of this decline having occurred during the past month.

## DOMESTIC CONSUMPTION AND STOCKS OF COTTON

(Bales)					
Area	June 1951 <sup>1</sup>	June 1950	May 1951 <sup>2</sup>	August—June	
				This season	Last season
CONSUMPTION					
Total					
Texas mills.....	14,446	14,528	14,730	161,895	142,217
U. S. mills.....	818,714	841,868	832,612	9,883,787	8,244,010
Daily average					
Texas mills.....	722	593	755	686	603
U. S. mills.....	40,936	34,362	42,698	41,880	34,932
STOCKS, U. S.—End of period					
Consuming establishments...	1,754,227	1,426,624	2,077,760	—	—
Public storage and compresses.....	1,082,818	5,444,700	1,647,935	—	—

<sup>1</sup> Four weeks ended June 30.

<sup>2</sup> Four weeks ended June 2.

SOURCE: United States Bureau of the Census.



