BUSINESS REVIEW

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THE IMPORTANCE OF RECENT INVENTORY CHANGES

Business inventory problems are often analogous to the housewife's problem of maintaining, enlarging, or reducing the family larder. A prime factor for both is the rate of consumption. The housewife who overstocks on perishables does so at the risk of stale commodities, rapid deterioration, or even loss. Storage capacity and the quantity of money tied up in food stocks are other relevant forces influencing the "little lady's" purchases; certainly, no prudent housewife will buy beyond her available storage facilities or commit more than a reasonable share of the monthly income to advance purchases. However, both businesses and homemakers are on the lookout for bargains, either in terms of current prices or with regard to expected future prices. Similarly, both will buy if a shortage of a particular commodity threatens.

There is even a similarity in the factor of obsolescence, as the family can quickly tire of one food and a business can easily overstock a commodity which becomes obsolete in relation to the public demand for specific goods. Finally, the housewife and the business manager must take cognizance of the need for a smooth flow of goods over the table or through the production process. Each knows the minimum requirement for an efficient operation and recognizes the difficulties created by a shortage of even the smallest necessary item.

While the inventory policy of an individual housewife or businessman can seldom have a significant impact upon a city's sales or the Nation's economy, there can be a marked effect upon the city, regional, or national economy if a large number of home-

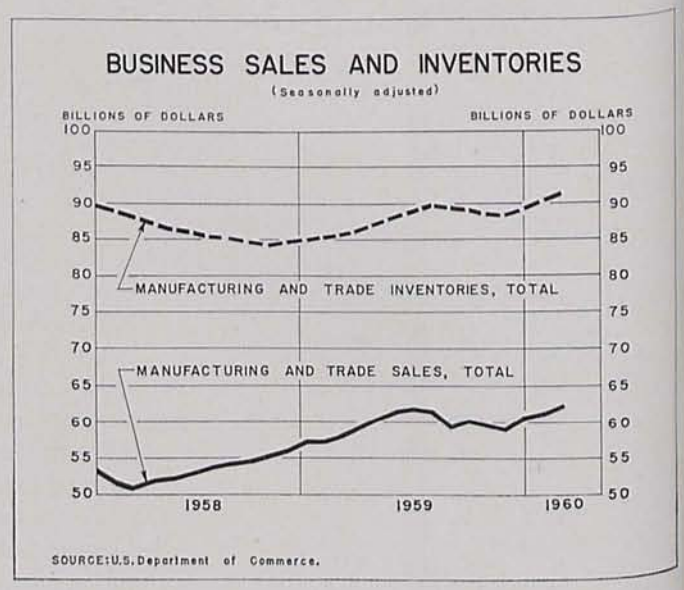
FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS

makers or businessmen simultaneously direct inventory policies in the same way. Thus, the changing pattern of business inventories, partly a residual of other economic developments and partly a deliberate policy, has a strong influence on many other segments of business life. The levels of production, employment, payrolls, and corporate financing are directly affected by the inventory policy of business, and the aggregate movement of these forces affects the economic status of the country. In fact, inventory changes have been large and volatile and have been a major contributing factor to both recession and prosperity phases of the business cycle in the postwar period. Inventory accumulation or liquidation usually occurs in waves as businessmen react to the changing economic environment.

The measurement of inventories in relation to the health of a business or an economy has two principal facets: (1) the level of stocks and their relationship to sales and (2) the rate of change. A rising sales volume requires a higher level of inventories, but prudent policy dictates some degree of forecasting as a given level of stocks can become burdensome if sales should suddenly decline; in contrast, sales can be hampered if inventories are not large enough to accommodate a rising volume of demand. The rate of change in inventory accumulation or liquidation is highly important because of its influence in stimulating or retarding manufacturing activity and, through that effect, changes in employment, income, and sales levels in many parts of the economy.

One might ask why inventories are not held at a constant level or in a fixed relationship to sales. Part of the answer lies in the problem of forecasting sales, and another part in the difficulty of predicting availability for a particular item. Indeed, a constant relationship between stocks and sales might be very unwise, since this would allow no margin of flexibility to meet foreseeable shifts in demand or changes in availability time on supplies. A number of significant forces breed inventory changes. Fears of shortages or price increases could stimulate a sharp shift toward inventory accumulation, while the expectation of price declines, ready availability from suppliers, and a relatively high cost of credit can encourage a restrictive inventory policy.

Inventories may be accumulated in many forms, reflecting both the stage of production at the individual company and the interaction of changing demand at the retail level. Ideally, there should be a smooth flow of goods from the producer through distribution channels to the user, with output at each level adjusted to current and prospective requirements. Only when special conditions interfere or an unanticipated change in demand occurs is there likely to be a substantial build-up of stocks at any level in the total process. Some integrated companies with a choice prefer to hold raw materials, while others would rather complete the manufacturing process and hold inventories of finished products. Tax considerations may play an important role in determining a company's inventory policy as to the preferred stage of fabrication. Depending upon which type of inventory accumulation predominates, there is a significantly different impact upon the economy and its level of operation.



The type of product and volatility of demand are other factors influencing inventory policies. Historically, durable goods industries have experienced the largest changes in inventories in response to rather violent changes in demand. Consumers have continually varied their purchases of durable goods according to their available discretionary income and to their own inventory position. A new consumer durable good, such as television or high-fidelity sets, can create a wave of purchasing until the primary market is satisfied. Moreover, consumer durables are usually expensive items requiring a substantial outlay of cash or a heavy consumer credit commitment. The number of such purchases which an individual family can make in a short period of time is self-limiting. Business equipment demand has also fluctuated sharply. Among the durable goods producers, the raw materials, machinery, fabricated metals, and transportation equipment firms

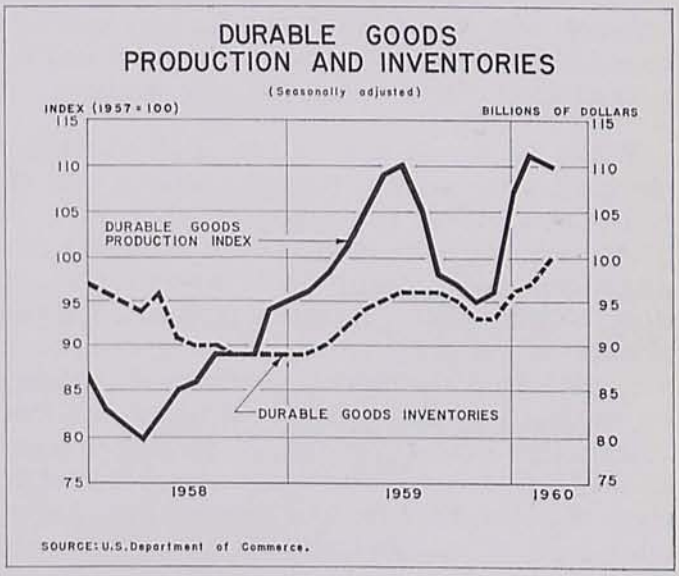
appear to be the principal industries reflecting the greatest variations in inventory levels.

The emphasis of this discussion will be placed upon the changes in inventories of durable goods manufacturers since changes in stocks of nondurable goods producers and wholesale and retail trade concerns have shown a substantially smaller degree of fluctuation. Although it is recognized that some shifting of inventory burdens from manufacturer to retailer can and does occur, there is also increased reluctance on the part of retailers to finance and store inventories when sales are slow or credit is expensive. To a considerable degree, the retailer can still determine his own level of stocks, and only in rare instances have manufacturers attempted to pressure retailers into an overinventoried position without assuming some of the cost of the increased stocks.

Business inventory changes over the past year have demonstrated the results of most of the major influences mentioned above. In early 1959, business inventories were sharply expanded under the impetus of a threatened steel strike and expectations of price increases based upon the wage settlement. From January through July, total inventories advanced $4.3 billion, with durable goods manufacturers accounting for $2.2 billion. Transportation equipment firms (mainly automobile producers), machinery concerns, and fabricated metals manufacturers were responsible for virtually all of the accumulation in durable goods. As the impact of the steel strike increased from July to November, business inventories were reduced from $89.9 billion to $88.4 billion; the bulk of the change again occurred in stocks of durable goods manufacturers. Inventories of fabricated metals producers and transportation equipment companies reflected the largest cutbacks.

When the steel strike was halted by injunction and subsequently settled by negotiation, another wave of inventory accumulation developed. This move toward greater inventories was brought on by the below-normal level of stocks of certain commodities, by extremely optimistic business expectations, and by fears of shortages in the immediate poststrike period. Total business inventories rose $3 billion from November 1959 to February 1960, with durable goods manufacturers accounting for two-thirds of the gain. While most observers had expected some inventory advance, this rate of gain was not anticipated so soon after steel production was resumed. Conditions in the economy in late 1959 were apparently misjudged, as steel stocks were not as low as had been estimated. Moreover, automobile sales failed to reach expectations in January and February; consequently, dealers' inventories rose to over 1 million units by March 10. Weather conditions may have had a significant influence upon automobile sales, but, whatever the cause, such inventories reached a new record.

The impact of these violent swings in inventories is reflected in the changes in industrial production. With sharp inventory gains and a rising level of economic activity in early 1959, industrial production rose to a new record in June. By August, with steel output reduced to 13 percent of capacity and inventory liquidation under way, industrial production declined and in November was about 7 percent below the June record.



The second reversal in the direction of industrial output took place in November, and production spurted to a new record in January 1960. By February, however, the rate of inventory accumulation appeared excessive; and, with new orders failing to keep pace with production, output was curtailed to slow the advance. This adjustment continued into March and April, especially at steel and automobile plants, where production rates were reduced sharply. Steel operations fell from a rate of 95 percent of capacity in January to about 80 percent in April, and the weekly rate of new car production declined from 172,000 to 142,000. Worker layoffs and subsequent declines in wages and salaries followed these cutbacks.

Measured by broad sales-stock ratios, total business inventories are not excessive. However, inventories may be above the desired level in particular lines of activity if other developments are considered, such as product and raw material availability; the desire of companies to hold down stocks to reduce carrying costs; more efficient means of transportation, permitting new stocks to be shipped quickly; and new production and retailing procedures, which allow firms to operate effectively on a lower level of stocks.

At the end of February 1960, total business inventories were $5.4 billion above a year earlier, while total business sales had increased more than $3 billion. Manufacturers' inventories totaled $4 billion higher than in February 1959, and sales advanced more than $3.1 billion, with durable goods manufacturers accounting for about 60 percent of the increases. In contrast, wholesale and retail trade inventories were each less than $1 billion above the year-earlier level, and the sales advances more than matched these increases.

Within the manufacturers' group, some pronounced changes have occurred in inventory holdings over the past year, the most outstanding of which were the $1,200 million rise in inventories of machinery producers and the more than $800 million increase in stocks of transportation equipment producers. The gain in stocks of machinery manufacturers appeared to be weighted toward nonelectrical machinery since electrical machinery inventories advanced slightly less than $500 million over a year ago. In the transportation equipment field, motor vehicle producers accounted for about three-fourths of the total inventory rise. Among other types of manufacturers, chemicals, fabricated metals, and textiles concerns showed the largest inventory gains. The stone, clay, and glass, lumber and furniture, rubber, and food producers increased their stocks by more than $100 million over the year-earlier levels.

In appraising these manufacturers' inventory changes, the test of relationships to sales is perhaps the most valid, although prospective sales and other special factors (including relative year-earlier positions) may also have a significant bearing upon the year-to-year comparisons. From an inspection of such sales-stock relationships, the most prominent problem seems to be in the machinery manufacturing industry, where the sales advance from February 1959 was approximately $710 million while inventories increased more than $1,200 million. Even though special stocking may have occurred to meet the expected rise in business plant and equipment spending, the relative rates of growth appear to be out of balance. Transportation equipment firms showed a somewhat smaller but still significant imbalance, particularly automobile companies, stocks of which rose $600 million while sales advanced only one-half as much. Among other manufacturers, the lumber and furniture manufacturers were notable for a sales decline and an inventory advance.

The outlook for inventory changes is closely tied to the level of final demand. If, as many expect, retail sales expand in the spring and early summer, inventory accumulation may be slowed by final takings, and production will again need to advance. Until this sequence is effected, however, a further downward adjustment in production rates is likely in those lines where the imbalance exists, and output may be slowed sufficiently to allow for some liquidation of inventories of certain products.

If the inventory accumulation had developed, as expected, in combination with a sharply rising level of consumer buying and a marked expansion of plant and equipment expenditures, there would have been increased pressures in the money markets, and inflationary prospects would likely have been intensified. Thus, inventory build-ups might have been prolonged to a point where a severe cutback would have been necessary. In contrast, with the inventory accumulation substantially completed in the first quarter of this year and rather moderate adjustments in production well under way, there can be a more orderly, sustainable growth without undue pressures in the capital markets and without fostering expectations of price advances.

EMERGENCY PLANNING AT THE FEDERAL RESERVE BANK OF DALLAS

From May 3 through May 5, 1960, the Federal Government and its departments and agencies, in conjunction with state and local governmental units, conducted the seventh in a series of annual test alerts to measure the effectiveness of its emergency planning capability. For more than 10 years, various plans have been developed throughout all levels of government to attempt to protect against a surprise enemy attack upon the United States. These plans are designed to insure the continuance of governmental activities throughout a postattack period in order to provide the continuity necessary for economic and financial rehabilitation.

All agencies and departments of the Federal Government have participated in this planning, and each has been assigned particular responsibilities for the postattack period. Survival has been a major point of emphasis in all Government planning, and each agency and department has been charged with protecting its own personnel or providing sufficient alternate relocation sites to insure against the loss of leadership in the establishment.

In addition, a special agency, the Office of Civil and Defense Mobilization (OCDM), has been created to guide defense planning in nonmilitary fields. To provide over-all direction of civil defense, OCDM has prepared a master plan entitled "The National Plan for Civil Defense and Defense Mobilization," which furnishes a basic listing of assignments to all Federal agencies and departments, as well as to state and local governments and the general public.

The Federal Reserve System, including the Board of Governors and the 12 regional Reserve banks, began preparations for emergency planning in the early 1950's. Preliminary discussions led to policy decisions concerning operational matters and, eventually, to specific steps in the direction of preparedness. While its plans are not complete, the System has moved a long way, within the limits of prudent expenditures of time and money, toward some basic plans to implement its responsibilities in the postattack period. These responsibilities, according to the basic plan of the OCDM, include direct formulation of plans with other agencies for the continuation of the Nation's monetary and credit system, the development and formulation of emergency monetary and credit policies, encouragement of defense preparedness planning on the part of the commercial banking system, and assistance to other agencies in the development of economic stabilization plans.

The Federal Reserve Bank of Dallas has participated in all of these plans and has developed emergency preparedness measures designed to implement its responsibilities as a part of the Federal Reserve System. The plans of this Bank include preparedness measures to meet the broad responsibilities assigned to the System, as well as certain specific responsibilities which might be assigned to the Federal Reserve Bank of Dallas if the Board of Governors or the Federal Reserve Bank of New York were inoperable in a postattack period.

Lines of Succession and Protection of Personnel

In conjunction with the other Reserve banks in the Nation, the Federal Reserve Bank of Dallas has established separate lines of succession for its Board of Directors, chief executive officer, and Assistant Federal Reserve Agents. In each case, the succession list provides for the automatic assumption of authority by individuals on the list whenever those previously named are unavailable. Because of the nature of the Eleventh Federal Reserve District, with its three branches in El Paso, Houston, and San Antonio providing geographical dispersion, it is thought that an adequate official staff of those named on the succession lists would be available to carry out the principal functions of the Bank, although such persons might be under considerable pressure.

The preparedness measures undertaken at the Federal Reserve Bank of Dallas have included the training of key personnel in damage assessment and radiological monitoring and training for some of the special assignments which might be given to the Federal Reserve Bank of Dallas. Included in this latter group is the training to enable additional officers to handle monetary and credit policy decisions and broaden the group of officers informed as to procedures of administering the foreign and international responsibilities of the Federal Reserve System in an emergency.

Throughout the past 6 years, the Federal Reserve Bank of Dallas has participated with the other Reserve banks in test alerts and has designated certain staff personnel to work with the regional Office of Civil and Defense Mobilization. The Bank has designated one representative and three alternates to the Regional Civil

Defense Mobilization Board, and these individuals have participated in preparedness planning of a broad policy nature with representatives of other agencies and departments of the Federal Government.

Administration and Physical Security

One of the primary jobs of the Federal Reserve Bank of Dallas and the other Reserve banks has been to provide an alternate site from which the Bank could be operated if the Head Office were destroyed or rendered inoperable. For the Dallas District, a primary relocation site was established at one of its branches, and a secondary relocation site was created in another Texas city. The primary site is, of course, manned by a full staff and is in readiness at all times. The secondary site, which is actually a records storage center, is maintained on a stand-by basis.

One of the primary continuing functions of the relocation site and records storage center is to receive and store records of the Federal Reserve Bank of Dallas and its three branches. Daily records of the principal balance sheet items, with sufficient detail to allow reconstruction, are sent to each of the relocation sites, and special emergency preparedness materials are kept up to date at each of these offices. A detailed security files procedure, whereby sensitive records are maintained under close supervision and locked in vaults at the end of each business day, is another part of the current preparedness measures of the Federal Reserve Bank of Dallas. The general emergency preparedness manual now being written for the entire Bank will give close guidance to the chief executive officer and the heads of each department on all postattack problems which can be foreseen from the present preattack viewpoint.

Operational Preparedness

In order to meet the System's responsibility to maintain the monetary and credit system during a postattack period, the Federal Reserve Bank of Dallas, as well as other Reserve banks, has been developing a system of agents to be responsible for carrying out some of the current operational functions of the Bank. One phase of this program at the Dallas Bank has been the completion of a system of 17 check agent banks scattered throughout the District with specific territorial assignments.

The agency agreements which have been signed with specific banks, clearinghouse associations, or special emergency associations in each of the cities provide that, in an emergency and upon notification by a responsible official of the Dallas Bank, the agents will process checks for the Federal Reserve. In order to acquaint all member banks in the District with such arrangements, special emergency bulletins have been sent to the commercial banks in the District, notifying them of the procedures by which check collections would be made if the Federal Reserve Bank and its branches were destroyed.

A similar arrangement of agent bank agreements is under consideration to handle the cash function of this Bank, but these procedures have not been completed.

Policy Formulation and Summary

Officers of the Federal Reserve Bank of Dallas have participated with others in the System in the development of a general approach to monetary and credit policies in the postattack period. Certain regulations have already been promulgated by the Treasury Department and the Board of Governors and, unless revised, would be the basic authority for Federal Reserve Bank action in an emergency. Other emergency economic stabilization policies are still under consideration, though substantial progress has been made in the past year.

The Federal Reserve Bank of Dallas, in keeping with other Reserve banks, has thus taken some major steps toward preparing itself for a continuation of the monetary and credit system of this country in the event of an enemy attack. While the Bank and the Federal Reserve System as a whole have made real progress since the initial discussions, there are still a number of areas in which the Bank undoubtedly needs some additional planning. These include the cash agent program and the development of more detailed planning for personnel protection, wider dissemination of information about the emergency program among its own personnel and the commercial banks of its District, and continued efforts to encourage emergency preparedness in commercial banks.

Consistent with time and cost relationships, the preparedness program will continue to be strengthened wherever possible. Certainly, everyone hopes that it will never be necessary to test these plans in a real emergency; but, should such an emergency occur, the plans which have been developed and those which are presently contemplated may form the basis upon which the country can look toward the continued operation of its monetary and credit system and the further implementation of its central banking system in a postattack period.

BUSINESS REVIEW

BUSINESS, AGRICULTURAL, AND FINANCIAL CONDITIONS

Eleventh District department store sales rose more than seasonally in March as an extra trading day partially offset the effects of the late Easter date. Inventories at the department stores showed less than the usual seasonal rise during March but at the end of the month were higher than at the same time last year. March new car registrations in the four most populous areas in the District also were above both a month earlier and a year earlier.

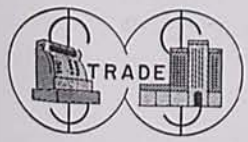
Loans and investments at the District's weekly reporting banks expanded between mid-March and mid-April, despite a substantial decline in deposits. The banks reduced cash assets and increased borrowings. Net reserve positions of reserve city banks eased during March, while those of country banks tightened.

Rapid progress has been made in planting and cultivating much-delayed crops. Although subsoil moisture remains adequate, dry topsoils are becoming critical in some areas. Winter wheat production in the District is indicated at 12 percent more than last year. Ranges and pastures are improving seasonally, but rain is needed for their continued development.

Construction contracts awarded in the District states during February showed a sizable increase over January but remained somewhat below a year earlier. Residential awards accounted for the major part of the month-to-month improvement.

Industrial production declined slightly in Texas during March, led by a reduction in mining activity. The production index was at 172, which is 1 point above a year ago. Manufacturing showed considerable strength. Nonagricultural employment in the District states rose slightly during March.

District crude oil production declined more than seasonally in April and is scheduled for another reduction in May. Crude runs to District refinery stills increased in early April but remained lower than a year ago. Demand for most major refined products was very strong in March, resulting in rapid reductions in heating oil inventories, but stocks of gasoline rose. District drilling activity continues well below the year-earlier rate.



Department store sales in the Eleventh District during March rose more than seasonally from February but were 2 percent lower than in March 1959. A year-to-year decline of about 5 percent would be normal because of the influence of the changing date of Easter on department store sales, but an additional trading day this year partially offset such a movement. The seasonally adjusted index, after allowance for the shift in the Easter date, was 166 percent of the 1947-49 average, compared with 167 a year earlier and 157 in February. Sales in the first quarter of 1960 were 1 percent less than in the same period last year.

Sales in the individual District metropolitan areas during March were generally below a year ago except in Houston, where sales were up 5 percent. In the Dallas area, sales were only 1 percent lower than in March 1959. For the year to date, only the Dallas and Houston metropolitan areas have recorded increases over 1959 sales, but new department stores have opened in both of

DEPARTMENT STORE SALES

(Percentage change in retail value)

Area	March 1960 from February 1960	March 1960 from March 1959	3 months, 1960 from 1959
Total Eleventh District	26	—2	—1
Corpus Christi	29	—5	—6
Dallas	22	—1	2
El Paso	31	—6	—11
Fort Worth	24	—10	—7
Houston	24	5	6
San Antonio	32	—7	—6
Shreveport, La.	25	—8	—6
Waco	31	—6	—6
Other cities	30	1	0

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

Eleventh Federal Reserve District

(1947-49 = 100)

Date	SALES (Daily average)		STOCKS (End of month)	
	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted
1959: March	152r	167r	177r	169
1960: January	135	171	163r	186r
February	122	157	175r	180r
March	143	166	184p	176p

r — Revised.
p — Preliminary.

WINTER WHEAT PRODUCTION

(In thousands of bushels)

Area	1960, indicated April 1	1959	Average 1949–58
Arizona	1,360	3,672	1,229
Louisiana	990	1,200	1772
New Mexico	4,200	3,791	1,678
Oklahoma	90,612	89,174	66,759
Texas	78,714	59,850	36,751
Total	175,876	157,687	107,189

[1] Short-time average.
SOURCE: United States Department of Agriculture.

these areas during the past year. Sales during March in the other metropolitan areas appearing in the accompanying table were 5 to 10 percent below a year ago.

Department store inventories rose less than seasonally in the District during March and were 4 percent higher than the year-earlier level. The seasonally adjusted stock index was 176 percent of the 1947-49 average — down from 180 in February but above the 169 registered in March last year. New orders placed during the month dropped 6 percent below March 1959; as a result, orders outstanding at the end of the month just equaled a year ago.

New car registrations in the District's four most populous areas during March rose 5 percent over both a month earlier and a year earlier. The Dallas area recorded the largest gains over the preceding month and March 1959. Cumulative registrations for the first quarter of 1960 were 3 percent higher than in the same period last year.

Farm work in the District was maintained at seasonally high levels throughout most of April. During the latter part of the month, farmers in a few areas delayed planting cotton and sorghums as a result of dry surface soils. General rains are needed in most sections of the District except parts of the High Plains, Lower Valley, and coastal areas of Texas. Subsoil moisture supplies generally remain adequate.

Approximately one-third of the District's grain sorghum acreage has been seeded, although many farmers are waiting for precipitation in parts of the Low Rolling Plains of Texas. In south-central and coastal areas of Texas, chinch bugs have damaged some grain sorghum stands. Corn planting is virtually complete, and most of the crop is developing satisfactorily. Planting of cotton is making slow progress in central and northern areas of Texas as farmers wait for soil temperatures to rise and for improved surface moisture conditions. Seeding of cotton has passed the halfway mark in the upper coastal counties of the State and is over three-fourths complete in south Texas. In the Trans-Pecos area of Texas and in southern Arizona and New Mexico, some seedings are germinating.

Small grains made rank growth during the past month, but moisture is needed in many sections to maintain favorable development. Early wheat in the High Plains is in the boot stage, and the crop is beginning to head in the Low Rolling Plains and Cross Timbers; in these two areas, rain is needed to insure optimum yields. Winter wheat production in the District states is indicated, as of April 1, at almost 176 million bushels, or 12 percent more than output in 1959. Almost all of the year-to-year gain in the District is accounted for by increased output in Texas, which is placed at 78.8 million bushels, or 32 percent above the 1959 outturn.

Field work is active in commercial vegetable areas. Harvesting of onions is in progress in the Lower Valley and Laredo areas and is getting under way in the Coastal Bend. In north Texas, the crop has made fairly good progress, but rain is needed. Spring-crop vegetables in south Texas are making good growth. In other sections of the District, planting of potatoes, onions, watermelons, and sweet potatoes is active.

Commercial vegetable acreage for spring harvest for fresh market in Texas is placed at 64,500 acres as of April 1, or about 18 percent below the 1959 acreage and one-third less than average. The smaller acreage is largely due to reduced plantings of tomatoes and onions. As of April 1, the condition of the Texas peach crop was improved from a year ago, but prospects in Louisiana are somewhat less favorable.

Range and pasture conditions continue to improve seasonally. Cool-season grasses and weeds are providing good grazing in the northern sections of the District, although moisture is needed to promote continued de-

velopment of forage. Oat grazing is rapidly being curtailed in many sections for lack of moisture. In south Texas, ranges remain dry, and ranchers continue supplemental feeding and the burning of prickly pears. In parts of the Trans-Pecos area and in New Mexico, high winds have reduced grazing prospects. Forage conditions in Arizona, New Mexico, and Texas as of April 1 were improved compared with a year ago; but in Oklahoma, conditions were less favorable.

The irrigation water supply outlook for Arizona for 1960 is very good as compared with recent years, and that for New Mexico is much improved from 1959. The irrigation water supply outlook for Texas along the Pecos and Rio Grande Rivers is fair. The above-normal winter precipitation in the watershed around Altus, Oklahoma, should insure this area a good irrigation water supply during the summer.

Deposits at weekly reporting banks in the District declined $100.6 million between mid-March and mid-April and on April 20 were 4.2 percent below the year-earlier level. The contraction occurred in demand balances, as a large decrease in interbank accounts was only partially offset by increases in the deposits of individuals, businesses, and the United States Government. In the comparable 1959 period, demand deposits expanded $35.5 million. Time deposits at the reporting banks rose $10.6 million in the 5-week period, with most of the gain in state and local government accounts. Time deposits advanced $20.2 million in the corresponding period a year ago.

Despite the loss in deposits, loans and investments of the weekly reporting banks expanded in the 5 weeks ended April 20, but a substantial reduction in cash accounts accompanied the rise in earning assets. Gross loans (excluding interbank loans) increased $27.9 million in the 5 weeks, compared with $17.7 million a year earlier. Consumer-type loans registered the largest gain, but business loans and real-estate loans also advanced appreciably. On the other hand, loans to nonbank financial institutions contracted, as a large decrease in the borrowings of sales finance companies was only partially offset by an increase in loans to other nonbank financial institutions. Loans for purchasing or carrying securities also declined.

Investment portfolios advanced $24.4 million from March 16 to April 20. Reflecting the recent Treasury cash financing, the banks increased their holdings of Government securities with maturities of 1 to 5 years. With the exception of a nominal rise in Treasury certificate holdings, there were declines in all other categories of Government securities. Non-Government investments were moderately reduced.

CONDITION STATISTICS OF WEEKLY REPORTING MEMBER BANKS IN LEADING CITIES

Eleventh Federal Reserve District

(In thousands of dollars)

Item	Apr. 20, 1960	Mar. 16, 1960	Apr. 22, 1959
ASSETS			
Commercial and industrial loans	1,474,297	1,456,064r	—
Agricultural loans	32,051	31,129	35,120
Loans to brokers and dealers for purchasing or carrying:			
U. S. Government securities	291	291	21,298
Other securities	25,350	21,035	
Other loans for purchasing or carrying:			
U. S. Government securities	6,113	7,330	186,477
Other securities	181,232	194,332	
Loans to nonbank financial institutions:			
Sales finance, personal finance, etc.	111,897	125,742r	—
Savings banks, mtge. cos., ins. cos., etc.	120,271	116,016r	—
Loans to foreign banks	730	754	6,694
Loans to domestic commercial banks	15,215	53,275	
Real-estate loans	215,211	206,694	221,820
All other loans	761,859	742,073r	—
Gross loans	2,944,517	2,954,735	2,837,881
Less reserves and unallocated charge-offs	54,265	54,190	48,952
Net loans	2,890,252	2,900,545	2,788,929
Treasury bills	38,085	44,224	50,867
Treasury certificates of indebtedness	18,604	18,525	94,825
Treasury notes and U. S. Government bonds, including guaranteed obligations, maturing:			
Within 1 year	73,499	75,246	1,216,552
After 1 but within 5 years	809,108	769,285	
After 5 years	315,641	320,950	
Other securities	368,737	371,030	346,539
Total investments	1,623,674	1,599,260	1,708,783
Cash items in process of collection	488,141	551,027	599,454
Balances with banks in the United States	464,268	523,996	497,946
Balances with banks in foreign countries	1,827	2,341	1,726
Currency and coin	50,544	47,027	50,639
Reserves with Federal Reserve Bank	555,469	485,596	610,253
Other assets	194,862	206,753	168,720
TOTAL ASSETS	6,269,037	6,316,545	6,426,450
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits			
Individuals, partnerships, and corporations	2,913,943	2,891,151	3,046,946
United States Government	118,466	96,093	104,297
States and political subdivisions	231,768	234,655	264,106
Banks in the United States	848,503	990,753	916,022
Banks in foreign countries	16,954	16,100	15,107
Certified and officers' checks, etc.	43,998	56,100	64,801
Total demand deposits	4,173,632	4,284,852	4,411,279
Time deposits			
Individuals, partnerships, and corporations	1,032,945	1,034,327	1,092,593
United States Government	12,255	11,255	7,130
Postal savings	394	394	421
States and political subdivisions	247,236	236,076	194,205
Banks in the U. S. and foreign countries	3,397	3,548	1,619
Total time deposits	1,296,227	1,285,600	1,295,968
Total deposits	5,469,859	5,570,452	5,707,247
Bills payable, rediscounts, etc.	128,731	74,265	124,500
All other liabilities	122,233	127,180	68,221
Capital accounts	548,214	544,648	526,482
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	6,269,037	6,316,545	6,426,450

r — Revised.

NOTE.—Effective July 1, 1959, this series was revised. The revised form includes several new items, the most important of which is loans to financial institutions, previously reported against other loan categories. Comparable year-earlier figures for the new items will be shown when they become available.

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In thousands of dollars)

Item	5 weeks ended April 6, 1960	4 weeks ended March 2, 1960	Month of March 1959
RESERVE CITY BANKS			
Total reserves held	520,202	522,846	554,321
With Federal Reserve Bank	518,272	520,853	—
Cash allowed as reserves	1,930	1,993	—
Required reserves	514,769	520,515	548,479
Excess reserves	5,433	2,331	5,842
Borrowings	37,183	63,745	17,165
Free reserves	—31,750	—61,414	—11,323
COUNTRY BANKS			
Total reserves held	453,451	463,380	455,987
With Federal Reserve Bank	447,394	456,910	—
Cash allowed as reserves	6,057	6,470	—
Required reserves	423,135	415,371	409,540
Excess reserves	30,316	48,009	46,447
Borrowings	7,797	16,819	3,812
Free reserves	22,519	31,190	42,635
ALL MEMBER BANKS			
Total reserves held	973,653	986,226	1,010,308
With Federal Reserve Bank	965,666	977,763	—
Cash allowed as reserves	7,987	8,463	—
Required reserves	937,904	935,886	958,019
Excess reserves	35,749	50,340	52,289
Borrowings	44,980	80,564	20,977
Free reserves	—9,231	—30,224	31,312

NOTE. — Regulations permitting member banks to count part of their vault cash in meeting reserve requirements became effective in December 1959, and on January 1, 1960, the reserve computation period for country member banks was changed to a biweekly basis. Therefore, monthly data comparable to year-earlier material are not available.

District member banks substantially decreased their borrowings from the Federal Reserve Bank in March; notwithstanding a reduction in excess reserves, net reserve positions were easier. Average reserve balances declined $12.6 million, but average borrowings from the Reserve Bank were reduced $35.6 million. The improvement occurred at reserve city banks, however, where a reduction in required reserves more than offset a moderate decline in total reserves. Country banks, on the other hand, had to meet higher reserve requirements with fewer total reserves.

Earning assets of the Federal Reserve Bank of Dallas declined $4 million during the 5 weeks ended April 20, as a decrease in discounts for member banks was only partially offset by an increase in Government security holdings. Total gold certificate reserves rose $98.3 million. The Bank's Federal Reserve notes in circulation decreased $3.5 million in the 5-week period but were 8 percent higher than a year earlier.

Early in April, the Treasury carried out a $2.7 billion cash financing by the sale of $2.2 billion of 4-percent, 25-month notes maturing May 15, 1962, and $470 million (including $100 million allotted to Government investment accounts) of 25-year bonds due May 15, 1985, but callable on or after May 15, 1975. The Treasury had offered up to $1.5 billion of the bonds, but market demand at the 4¼-percent rate ceiling was insufficient to absorb them. On April 12, the

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(In thousands of dollars)

Item	April 20, 1960	March 16, 1960	April 22, 1959
Total gold certificate reserves	718,126	619,777	755,400
Discounts for member banks	8,860	24,355	60,103
Other discounts and advances	0	0	915
U. S. Government securities	1,023,738	1,012,238	1,020,336
Total earning assets	1,032,598	1,036,593	1,081,354
Member bank reserve deposits	949,299	888,944	1,008,474
Federal Reserve notes in actual circulation	781,030	784,543	764,248

Treasury auctioned $2 billion of 1-year bills at an average interest cost of 4.608 percent. The bills were marketed to replace a like amount of 1-year securities which were due on April 15.

District crude oil production declined 4 percent during the first half of April, or slightly more than seasonally, following a reduction of 419,500 barrels daily in Texas allowables. Early-April production in the District averaged 2,943,000 barrels daily, which is more than 8 percent below a year ago, while national crude oil output was only 3 percent under the year-earlier rate.

Imports of both crude oil and refined products declined seasonally in March and early April but averaged moderately higher than a year ago. Stocks of crude oil, decreasing slightly less than 1 percent in the first half of April, were in excess of industry requirements. Crude oil reportedly was readily available in spot markets, and scattered reductions in oil field price postings indicated a more than adequate supply at prevailing prices.

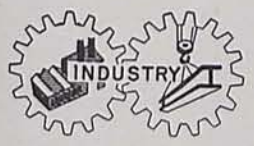
Crude runs to District refinery stills averaged 2,281,000 barrels daily during the first half of April, or 1 percent more than a month earlier. The increase was contraseasonal, but output remained slightly lower than a year ago. Nationally, crude runs advanced nearly 2 percent during the same period and were 1 percent greater than a year earlier.

In the 5 weeks ended April 15, demand for the major refined products, which was very strong during most of March, averaged about 9 percent greater than in the comparable period in 1959. Demand for distillate, residual, and kerosene oils achieved year-to-year increases ranging from 16 percent to 59 percent, but gasoline demand was noticeably weak.

Stocks of refined products clearly reflected the improved sales rates during the past few weeks. Kerosene and distillate fuel oil inventories at mid-April were 5

percent to 6 percent below the year-earlier levels, and residual fuel oil stocks were 31 percent lower. In contrast, gasoline stocks declined less than seasonally and were 6 percent greater than a year ago. Retail gasoline price wars are reportedly widespread, and wholesale markets have been unsteady. On April 15, stocks of the four major refined products totaled 359,119,000 barrels, or 3 percent less than at the same time last year.

Continued weakness in crude oil markets and surplus gasoline stocks are believed responsible for the announcement of widespread reductions in scheduled crude oil production in May. Texas output will be limited to 8 days, the lowest number since June 1958, and production is expected to decline about 8 percent. In Louisiana, Oklahoma, and New Mexico, declines in output are also scheduled for May.



The total value of construction contracts awarded in the five southwestern states during February increased almost 6 percent over the preceding month but was 10 percent lower than a year ago. Although 13 percent above the January level, residential awards were 16 percent below a year earlier. "All other" contract awards leveled off but were more than 5 percent under the February 1959 figure. The cumulative value of construction contracts awarded in January and February this year was 12 percent less than in the same period in 1959; most of the decline was accounted for by residential awards, which were down 23 percent.

Business and government spending seems to be providing new strength to both construction and general business in the District. Among major business expansions recently announced for the region were the building by a major electric public utility of a $25 million natural gas pipeline from the vicinity of Angleton, Texas, to Fort Worth, Texas, and the construction of a 1 million-square foot office building in Houston at approximately $20 million, a $2 million annex to a major building in Houston, and a $2 million office building in San Antonio. Contracts have been let for a $2.5 million chemical plant at Brownsville and a $1 million bulk handling plant at Houston.

The seasonally adjusted index of Texas industrial production in March decreased 1 point from the February figure of 173 to a level of 172, compared with 171 for the same month in 1959. Reduced mining activity was the major factor accounting for the decline. Both durables and nondurables manufacturing continued to show strength.

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1947-49 = 100)

Area and type of index	March 1960p	February 1960	January 1960	March 1959
TEXAS				
Total industrial production....	172	173	173r	171
Total manufactures.....	215	210	213	207
Durable manufactures.....	250	246	249	242
Nondurable manufactures....	199	194	197r	188
Mining.....	132	137	133	136
UNITED STATES				
Total industrial production....	165	166	168	157r
Total manufactures.....	165	166	168	156r
Durable manufactures.....	176	178	181	165r
Nondurable manufactures....	157	157	159	151r
Mining.....	123	125	128	126r
Utilities.....	284	281	280	261

p — Preliminary.
r — Revised.
NOTE.—The Board of Governors' industrial production index has been revised substantially to include output of utilities and to take into account certain other developments of the past few years.
SOURCES: Board of Governors of the Federal Reserve System.
Federal Reserve Bank of Dallas.

NONAGRICULTURAL EMPLOYMENT

Five Southwestern States [1]

Type of employment	Number of persons			Percent change Mar. 1960 from	
	March 1960e	February 1960	March 1959r	Feb. 1960	Mar. 1959
Total nonagricultural wage and salary workers..	4,361,700	4,358,400	4,296,000	0.1	1.5
Manufacturing.....	780,200	779,400	771,700	.1	1.1
Nonmanufacturing.....	3,581,500	3,579,000	3,524,300	.1	1.6
Mining.....	248,900	250,500	254,600	—.6	—2.2
Construction.....	289,700	291,900	313,800	—.8	—7.7
Transportation and public utilities.....	406,200	406,100	399,500	.0	1.7
Trade.....	1,074,300	1,070,500	1,041,900	.4	3.1
Finance.....	195,900	195,200	189,200	.4	3.5
Service.....	531,800	531,100	514,700	.1	3.3
Government.....	834,700	833,700	810,600	.1	3.0

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
e — Estimated.
r — Revised.
SOURCES: State employment agencies.
Federal Reserve Bank of Dallas.

Total nonfarm employment in the five District states continued to increase contraseasonally during March to reach 4,361,700, which is 3,300 above the February level and 65,700 (or about 2 percent) above a year ago. Trade and finance accounted for the largest month-to-month gains in March. Employment in mining and construction was considerably below the year-earlier levels, but the latter is expected to improve with the open spring weather and the ease developing in the mortgage credit market.

Unemployment in Texas decreased less than seasonally during March to about 5.2 percent of the labor force. The number of initial and continuing claims for unemployment insurance benefits in the State declined slightly from mid-February to mid-March.

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

(Dollar amounts in thousands)

Area	Debits to demand deposit accounts[1]			Demand deposits[1]			
		Percent change from			Annual rate of turnover		
	March 1960	Feb. 1960	Mar. 1959	Mar. 31, 1960	Mar. 1960	Feb. 1960	Mar. 1959
ARIZONA							
Tucson	$ 248,174	6	7	$ 133,719	21.5	19.2	22.6
LOUISIANA							
Monroe	88,932	13	16	52,737	20.0	17.5	18.4
Shreveport	342,349	8	9	192,507	21.1	19.4	19.9
NEW MEXICO							
Roswell	41,019	11	15	30,365	15.8	14.0	13.8
TEXAS							
Abilene	98,794	6	1	60,033	19.3	17.6	18.5
Amarillo	226,385	6	2	112,967	24.0	22.2	23.2
Austin	212,482	—1	3	141,502	17.9	18.2	16.2
Beaumont	164,835	2	5	96,607	20.3	19.3	17.8
Corpus Christi	186,756	4	—1	107,385	20.6	19.4	19.9
Corsicana	15,235	—4	—7	19,684	9.4	9.7	9.4
Dallas	3,017,239	14	21	1,099,700	32.4	28.1	26.2
El Paso	378,132	12	0	163,213	26.6	23.3	26.9
Fort Worth	816,008	11	4	362,216	27.0	24.4	24.7
Galveston	91,237	0	5	64,098	16.9	16.7	16.6
Houston	2,705,280	7	19	1,218,282	26.0	23.8	21.5
Laredo	29,643	9	15	22,271	15.6	14.3	14.2
Lubbock	212,642	—1	17	116,669	21.5	20.5	17.5
Port Arthur	65,161	10	13	41,631	18.4	16.1	15.6
San Angelo	52,146	3	—5	44,617	13.8	13.1	14.2
San Antonio	612,018	6	4	362,008	20.2	19.0	18.1
Texarkana[2]	21,130	3	—2	16,549	15.5	15.0	15.1
Tyler	86,100	5	—2	58,654	17.5	16.4	17.0
Waco	116,022	15	10	66,585	20.8	17.9	18.0
Wichita Falls	120,681	8	4	98,971	14.5	13.0	13.2
Total—24 cities	$9,948,400	9	13	$4,682,970	25.1	22.7	21.6

[1] Deposits of individuals, partnerships, and corporations and of states and political subdivisions.
[2] These figures include only two banks in Texarkana, Texas. Total debits for all banks in Texarkana, Texas-Arkansas, including one bank located in the Eighth District, amounted to $46,190,000 for the month of March 1960.

VALUE OF CONSTRUCTION CONTRACTS AWARDED

(In thousands of dollars)

Area and type	February 1960	January 1960	February 1959	January—February 1960	January—February 1959
FIVE SOUTHWESTERN STATES[1]	273,543	259,112	305,717	532,655	604,994
Residential	126,316	111,779	149,723	238,095	309,684
All other	147,227	147,333	155,994	294,560	295,310
UNITED STATES	2,239,534	2,189,715	2,307,037	4,429,249	4,621,389
Residential	987,577	925,853	1,073,077	1,913,430	2,091,220
All other	1,251,957	1,263,862	1,233,960	2,515,819	2,530,169

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas.
SOURCE: F. W. Dodge Corporation.

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(In thousands of barrels)

Area	March 1960[1]	February 1960[1]	March 1959[2]	Change from February 1960	Change from March 1959
ELEVENTH DISTRICT	3,064.0	3,161.4	3,261.3	—3.1	—6.1
Texas	2,680.6	2,783.3	2,885.3	—3.7	—7.1
Gulf Coast	488.1	519.6	545.0	—6.1	—10.5
West Texas	1,207.6	1,272.9	1,298.7	—5.1	—7.0
East Texas (proper)	139.4	146.7	161.6	—5.0	—13.7
Panhandle	109.3	109.4	101.4	—.1	7.8
Rest of State	736.2	734.7	778.6	.2	—5.5
Southeastern New Mexico	268.7	263.4	253.5	2.0	6.0
Northern Louisiana	114.6	114.7	122.5	—.1	—6.5
OUTSIDE ELEVENTH DISTRICT	4,039.7	4,133.3	3,927.1	—2.3	2.8
UNITED STATES	7,103.7	7,294.7	7,188.4	—2.6	—1.2

SOURCES: [1] Estimated from American Petroleum Institute weekly reports.
[2] United States Bureau of Mines.

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(In millions of dollars)

Item	Mar. 30, 1960	Feb. 24, 1960	Mar. 25, 1959
ASSETS			
Loans and discounts	4,718	4,758	4,553
United States Government obligations	2,457	2,502	2,603
Other securities	856	862	831
Reserves with Federal Reserve Bank	933	842	955
Cash in vault[e]	143	144	140
Balances with banks in the United States	945	935	999
Balances with banks in foreign countries[e]	2	2	3
Cash items in process of collection	475	527	506
Other assets[e]	281	322	256
TOTAL ASSETS[e]	10,810	10,894	10,846
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,014	998	1,067
Other demand deposits	6,385	6,569	6,640
Time deposits	2,186	2,139	2,123
Total deposits	9,585	9,706	9,830
Borrowings[e]	138	99	33
Other liabilities[e]	165	170	93
Total capital accounts[e]	922	919	890
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	10,810	10,894	10,846

e — Estimated.

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. In millions of dollars)

Date	GROSS DEMAND DEPOSITS Total	Reserve city banks	Country banks	TIME DEPOSITS Total	Reserve city banks	Country banks
1958: March	7,378	3,589	3,789	1,810	959	851
1959: March	7,794	3,827	3,967	2,129	1,119	1,010
November	7,919	3,823	4,096	2,100	1,077	1,023
December	8,052	3,904	4,148	2,099	1,077	1,022
1960: January	8,084	3,912	4,172	2,111	1,081	1,030
February	7,620	3,640	3,980	2,145	1,089	1,056
March	7,539	3,661	3,878	2,171	1,097	1,074

BUILDING PERMITS

Area	NUMBER Mar. 1960	NUMBER 3 mos. 1960	VALUATION (Dollar amounts in thousands) Mar. 1960	VALUATION 3 mos. 1960	Percent change Mar. 1960 from Feb. 1960	Percent change Mar. 1960 from Mar. 1959	Percent change 3 months, 1960 from 1959
ARIZONA							
Tucson	1,118	2,442	$ 2,841	$ 10,233	—32	106	169
LOUISIANA							
Shreveport	480	1,447	2,621	6,413	59	30	—11
TEXAS							
Abilene	171	490	1,529	4,640	—20	—40	—38
Amarillo	468	891	4,350	9,942	58	108	1
Austin	312	782	4,620	10,617	43	—4	—25
Beaumont	273	683	1,686	3,014	122	35	—23
Corpus Christi	73	195	1,372	3,290	59	—9	—33
Dallas	2,321	5,227	11,642	34,757	3	—45	—27
El Paso	762	1,666	5,599	11,215	62	—11	—28
Fort Worth	606	1,757	5,127	11,875	48	28	4
Galveston	124	273	244	523	30	—9	—30
Houston	1,439	3,444	23,451	56,911	43	20	7
Lubbock	286	774	4,589	11,991	37	25	—13
Port Arthur	190	436	726	3,580	—59	1	91
San Antonio	1,160	3,165	5,539	13,768	7	—3	—9
Waco	265	696	3,742	6,405	370	257	79
Wichita Falls	232	626	2,139	4,695	142	11	17
Total—17 cities	10,280	24,994	$81,817	$203,869	32	2	—7