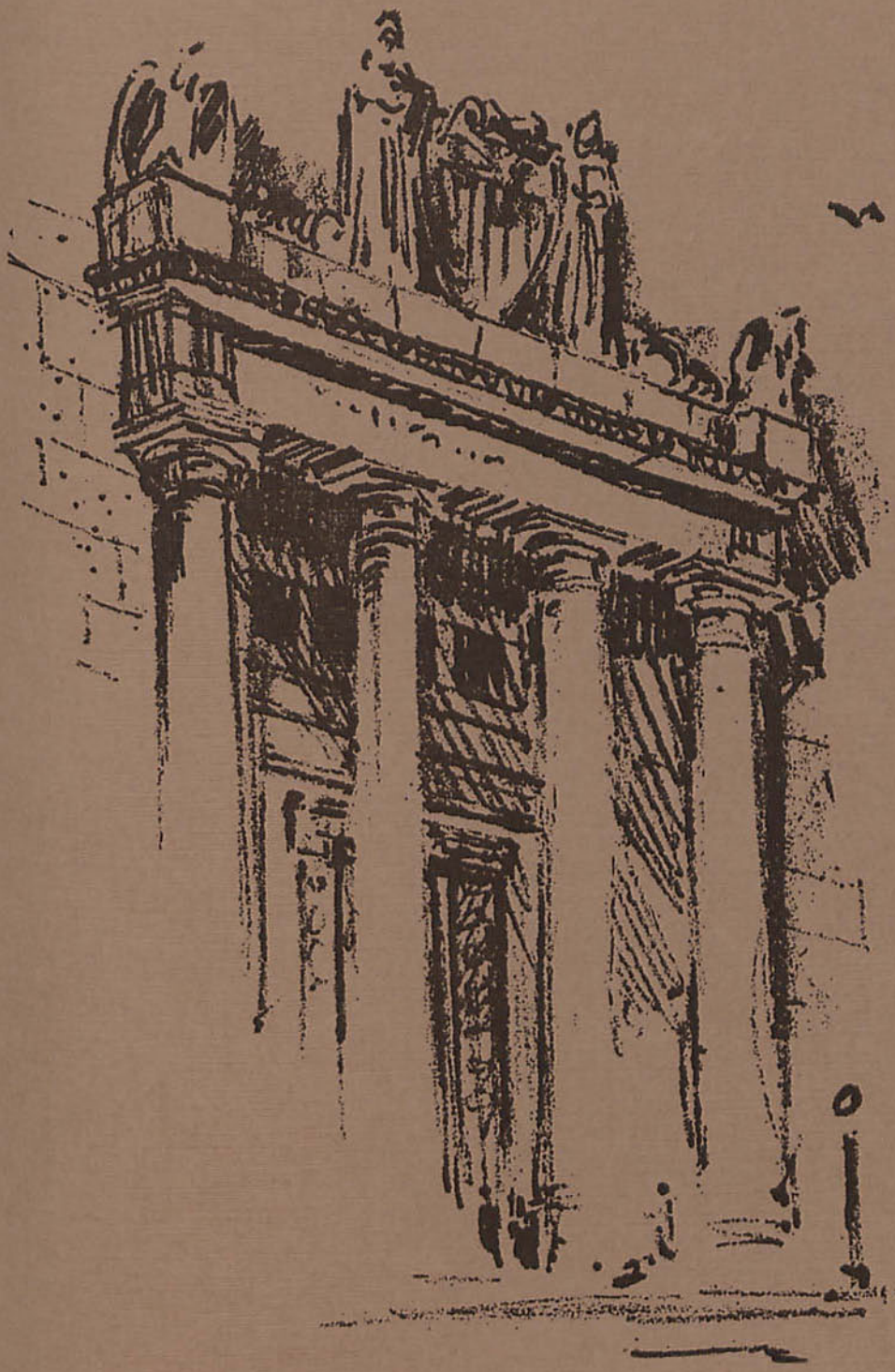
Federal Reserve Bank of Dallas

# Business Review



## International Finance–
## Recurrent Crises Plague World Monetary System
Part II

**September 1971**

# Recurrent Crises Plague World Monetary System

## PART II: PROPOSALS FOR REFORM

The international monetary system has undergone a number of major currency crises over the past decade–crises that have come with increasing frequency and intensity. The most recent–a speculative attack on the U.S. dollar carried out through conversions into German, French, Dutch, Austrian, and Swiss currencies–culminated in the President's announcement on August 15 that the United States had suspended convertibility between the dollar and the price of monetary gold at $35 an ounce. This action, setting the dollar afloat in international exchange markets, intensifies the search for a new, and hopefully more viable, international monetary system.

The first part of this two-part series (in the August issue) described the international monetary system that emerged after the Bretton Woods Conference in 1944 and the problems of international liquidity, payments adjustment, and confidence that have plagued monetary authorities under that system. This second part describes the advantages and disadvantages of the Bretton Woods system and appraises major proposals for improving the international adjustment mechanism.

### The Bretton Woods system . . .

The agreement reached at Bretton Woods calls for member nations of the International Monetary Fund to seek adjustment of their balance-of-payments positions through infrequent changes in otherwise rigid exchange rates. This system of fixed exchange rates generally referred to as a system of adjustable pegs is supported by three main arguments. One is that by providing a dependable basis for international transactions, fixed rates facilitate profit-maximizing computations of banks and businesses engaged in international trade and finance. With an established scale of measurement that can be easily translated from one currency to another, international competition is promoted and world markets are better integrated. Increased competition and greater integration of economic systems, in turn, help stimulate economic growth and lead to more efficient use of both capital and labor.

Another is that by allowing traders in forward markets to work against known parities, fixed rates reduce the cost of forward exchange and increase world trade. Traders in futures often operate within spread ranges protected by the intervention of central banks. But when the parity is believed to be firm, the very limits set by margins for spot-rate fluctuations tend to limit the range of forward movements in rates, even without direct central bank intervention in the forward market itself. Thus, by eliminating the cost of protection against the possibility of adverse movements in exchange rates, the fixed exchange system reduces the cost of future transactions.

The other argument–based on what some believe to have been the major accomplishment under the system founded at Bretton Woods–is that stable exchange rates help maintain orderly growth in international trade by eliminating competition in the depreciation of currencies. In the 1930's, many countries faced with high unemployment devalued their currencies in an effort to achieve surpluses in their balances of payments by stimulating exports. But as a result of competitive cuts in currency values, conditions in exchange markets became chaotic, actually hindering recovery in international trade.

Elimination of such conditions–not only competition in currency devaluations but also a general lack of dependability in international transactions, especially in the forward markets–was indeed a major accomplishment. Some observers contend, however, that recognition of these accomplishments does not mean such undesirable conditions could not have been removed under an international monetary system with more flexibility in exchange rates. There are, in fact, several important arguments against the Bretton Woods system.

### . . . and one argument against it . . .

One of the most important arguments against rigid exchange rates –as administered–is that they accentuate a conflict between the domestic and international goals of stabilization authorities. In the long run, for a country to maintain the value of its currency at an established exchange rate, it must maintain equilibrium in its balance of payments. But the monetary and fiscal policies needed to restore equilibrium can conflict with the continuing domestic objectives of full employment, relative price stability, and economic growth.

It can be hard for a country with, for example, high unemployment and a payments deficit, or inflation and a surplus, to achieve

**Speculative flows contribute to rise in value of German mark**


SOURCE: Board of Governors, Federal Reserve System

both domestic and foreign goals. Policies to eliminate a balance-of-payments deficit by reducing spending tend to increase unemployment. Similarly, policies to eliminate a payments surplus by stimulating spending tend to increase inflation.

With exchange rates fixed, a country pursuing aggregative domestic policies must depend on special controls for international goals. The result is a conflict between three goals, all of which are considered desirable by advocates of the Bretton Woods system–

- Freedom for each country to pursue monetary and fiscal policy for the achievement of high employment and stable prices
- Freedom of international trade from special controls adopted to achieve equilibrium in the balance of payments
- Fixed exchange rates

While it is fairly easy to achieve any two of these goals, it is extremely difficult to achieve all three at the same time. With controls ruled out, a country can maintain a rigid exchange rate only by allowing its monetary and fiscal independence–and, hence, its domestic economic conditions–to be influenced to a great extent by foreign developments.

The conflict between these goals has been illustrated in the case of the United States. Unwilling to direct monetary and fiscal policy primarily in terms of international goals, the U.S. Government has adopted several special controls, all of which impact on economic efficiency because they interfere with the free flow of trade and capital. These include controls on direct and portfolio investment abroad, the interest equalization tax, preferential Government procurement (especially for the military), and foreign aid tied to domestic sources of procurement.

**. . . and another . . .**

Another argument against the Bretton Woods system is that the adjustable peg system can lead to large-scale, destabilizing flows of speculative capital. When a currency comes under severe and continuing exchange pressure, dealers in foreign exchange are well aware of the type adjustment likely to be made. While there may be some doubt about whether the government will adjust the rate and to what extent, there is little doubt about the direction of any possible change. And as a result, speculators seem to have an almost sure thing–a one-way option. For an overvalued currency, the possibilities are simply devaluation or no change. Devaluation gives a speculator an easy profit. Since speculative funds are usually held in short-term liquid assets, no change lets a speculator break even, except possibly for the commission costs of the transaction and any interest income he may have lost because short-term interest rates were lower in the country where he transferred his funds.

Critics have also pointed out another source of encouragement to speculation under the Bretton Woods system. Speculators operating under this system do not bid the rate up against themselves when they buy a currency. Nor do they bid the rate down against themselves when they sell. Under a system of pegged rates, authorities, in effect, subsidize speculation by holding the rate steady except at the very moment of adjustment.

Not only are the cost and risk of speculation on adjustment in official rates small, but the profits can be large. Exchange rates of the currencies of large industrial countries are adjusted very infrequently, and, for that reason, the adjustments are highly publicized. Partly because of the publicity, devaluations tend to be substantial. And being substantial, they usually impact badly on national prestige. As though to convince the public that the change was necessary but also to leave a margin of safety, devaluing governments are apt to make large changes in par values.

Critics of the Bretton Woods system contend that bear speculation against a weak currency can actually force devaluation. The bears win if they can exhaust the official reserves or the willingness of authorities to use reserves in continued pegging. The lower reserves fall, the more imminent the possibility of a collapse of the pegged rate–and the stronger the motives for continued bear spec-

ulation. Even if the rumors were not true, the resulting speculation could cause devaluation.

Speculators are rewarded at the expense of taxpayers. In defending an overvalued currency, authorities sell foreign exchange to speculators cheap, only to buy it back at a higher price after the defense collapses. The loss is even greater if some of the foreign exchange sold in the futile pegging of home currency was borrowed abroad and must, therefore, be bought later at the higher home-currency price to repay foreign lenders.

**. . . and still another**

Another argument is that fixed exchange rates allow fluctuations in the business cycle to be transmitted from one country to another, contributing to the transfer of inflation or recession between countries.

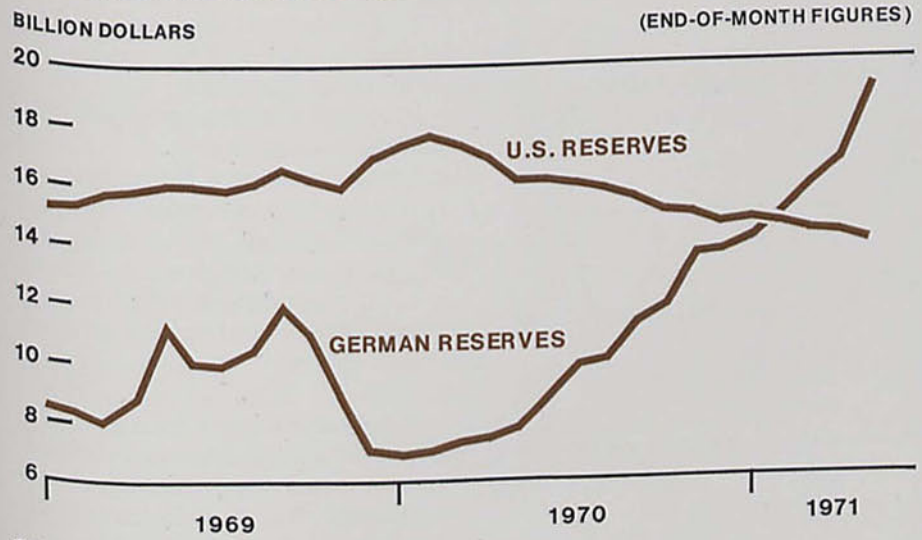
A fairly high rate of inflation in one country stimulates demand for goods and services from other countries and–assuming no other component change in the importing country's balance of payments –tends to increase the country's deficit. Conversely, countries with an export boom find their international reserves rising with the increase in their foreign shipments, and the result is an increase in their money supply. A country's monetary authority can offset the expansionary tendencies transmitted through international trade, but most actions the authorities are likely to take could perpetuate the disequilibrium in trade.

Under a fixed rate system, it is argued, the transfer of influences of differences in business cycles can accentuate policy conflicts between countries. One country, for example, may pursue domestic policies designed to stimulate demand and relieve unemployment while another, faced with problems of inflation and excess demand, pursues policies designed to hold back growth in spending.

A fixed rate system can also transmit financial problems between countries, as has been seen in flows of Eurodollars. A country with rapid inflation faces rising interest rates resulting from investors demanding higher premiums for the expected loss in the purchasing power of their money. A relative rise in interest rates tends to attract interest-sensitive capital from other countries. And without offsetting action by stabilization authorities, the more inflationary country has an increase in its money supply while the less inflationary country has a decrease in its money supply. The rise in the money stock in the more inflationary country contributes to increased spending and an intensification of inflationary pressures conducive to even higher levels of imports.

In defense of the Bretton Woods system, it must be pointed out that in the many payments crises during the period of rapidly expanding trade since 1945, authorities have been able to handle most adjustments under this system. Defenders of the system, while admitting its imperfections, insist that alternative systems–particularly those offering more flexibility–have even more defects. These defenders believe adjustment processes can be best served by reestablishing most of the essential elements of the fixed exchange system as it emerged after the Bretton Woods Conference.

**Germany gains international reserves as U.S. reserves trend downward**




SOURCE: International Monetary Fund

**The free-floating system . . .**

A completely flexible system would be one under which exchange rates were determined entirely in the open market, without intervention by official institutions. Ideally, an exchange rate would relate directly to the supply of a currency in the market and the demand for it. And changes in the exchange rate would tend to restore balance to a country's payments accounts by inducing shifts in its imports and exports.

Any tendency toward a surplus or deficit in the country's balance of payments would appear first as changes in the exchange rate. A developing surplus (resulting in

excess demand for the currency) would cause the exchange rate to rise, while a developing deficit (resulting in an oversupply of the currency) would cause the exchange rate to fall. These changes in the supply and demand for a particular currency would, in turn, change the international movement of goods and services and the flow of capital.

Proponents of free-floating rates describe both universal and qualified systems. Under a *universal system*, all countries would allow the exchange rates of their currencies to be determined entirely by the forces of demand and supply in the foreign exchange markets. Under a *qualified system*, most countries would peg their currencies to the dollar or some other major currency. Much international trade and finance, therefore, would still be conducted under conditions of fixed rates.

Proponents of free rates say that countries with heavy commitments in foreign trade and close economic ties to the United States would link their currencies to the dollar. Some important trading countries, they say–such as Britain, France, Germany, and Japan–might allow their currencies to float free of the dollar. One result could be the establishment of at least two main currency blocs–a dollar bloc and a European bloc made up mostly of Common Market countries but possibly including the United Kingdom.

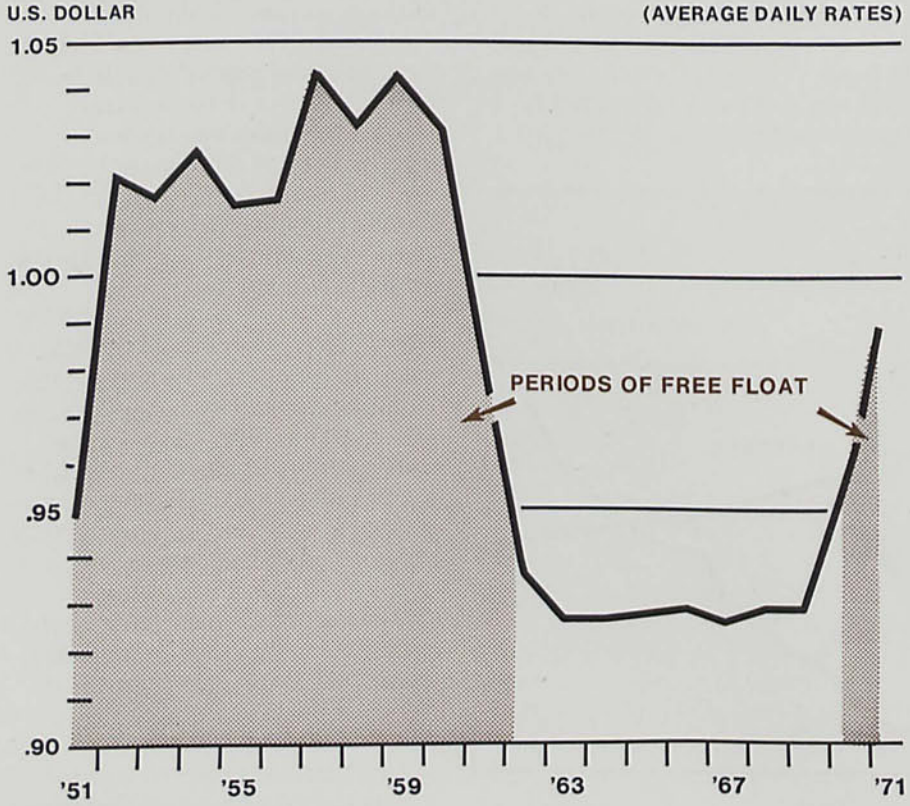
Proponents also argue that free rates could offer the world economy several important advantages. One is that each government would be free to pursue domestic policies without pressures to restrict international trade and payments for balance-of-payments reasons. Since the currencies of countries with price stability tend to appreciate relative to those of countries with inflationary tendencies, free rates would allow each country to pursue the combination of employment and price-trend objectives it preferred.

Another advantage cited by its proponents is that a system of free rates reinforces the effectiveness of monetary policy. For example, interest rates normally rise in a country fighting inflation with a restrictive monetary policy, and spending tends to be reduced. But short-term capital flows into the country, seeking the high interest rates, and depresses the spot rate for the currency–a movement that can, in turn, cause a rise in imports and a fall in exports. The increase in imports tends to push domestic prices down or to depress incomes, or both. The change in the trade balance, therefore, reinforces the purely domestic effects of higher interest rates and helps moderate inflationary pressures.

Proponents of free rates say that with pegged spot rates, the increase in domestic interest rates will not directly induce an import surplus and the tendency to reduce domestic prices and incomes. Restrictive monetary conditions affect the trade balance only insofar as they reduce domestic prices or incomes, or both.

If only a few blocs emerge under the free-floating system–as in the qualified system–the economic domains will be large and diversified. As a result, changes in exchange rates between flexible currencies are apt to be slow, steady move-

**Freed from fixed exchange rate, value of Canadian dollar floats upward**




1971 figure for January-June only
SOURCE: Board of Governors, Federal Reserve System

ments. This means, the argument goes, that traders and investors would ordinarily be able to predict the domestic value of their foreign-currency proceeds without much difficulty.

While a fluctuating system carries with it an exchange risk, this risk is also present under the Bretton Woods system. Furthermore, opportunities for shedding risk are probably less costly under the free-floating system.

The cost to a trader is the difference between the spot (current) rate of exchange and the forward (future) rate. A forward premium represents the cost of protection to importers. To exporters due to receive subsequent payments in foreign currencies, such a premium is nevertheless an advantage. This is because exporters realize more home currency by selling exchange forward than by selling it spot.

For this reason–and also because there may be a discount or premium–the cost to traders of using forward exchange facilities could just as well be negative as positive. (There is, of course, no presumption that profit or loss will fall entirely on only one party to an international transaction. A gain or loss could be split between the two parties through its effect on the pricing of the goods traded.)

It is argued, however, that the costs of avoiding risk in floating exchange markets are not usually large, negatively or positively, because forward and spot rates are closely related. Both are free market rates, and commercial demands and supplies of forward exchange partly match each other.

Still another advantage of floating exchange rates is that they greatly reduce the need for official foreign exchange reserves. Under a fixed exchange system, official foreign exchange reserves are held largely to prevent fluctuations beyond the narrow limits of the par value of a currency. If the rate is not pegged, much of these official foreign exchange reserves can be used for domestic investment purposes.

**. . . and arguments against it . . .**

One of the major arguments against floating exchange rates is based on the fear that resistance to inflation might be weakened under such a system. Opponents of free rates argue that the fight against inflation is typically unpopular and that governments tend to put off the fight as long as possible. Fixed exchange rates tend to prevent procrastination and overindulgence in easy-money policies that could lead to a balance-of-payments deficit, a subsequent loss of reserves, and, if continued, eventual devaluation. With the threat of devaluation removed under a system of floating rates, governments might pursue inflationary policies more freely.

A second objection is that by increasing uncertainty, a system of floating rates could reduce the volume of international trade and capital flow. The first aspect of this argument is that floating exchange rates could create additional risks, tending to discourage international trade. There is an established scale of measurement under a fixed rate system that free rates cannot offer. Under free rates, no trader can know enough about all the possible developments that could affect the rate of exchange between his country and his customer's country. As a result, he will make contracts that include a substantial allowance for the risk that the exchange rate between the two currencies might change before the transaction is completed. Prices in international trade and costs of doing international business could become higher under free rates, and the additional costs could reduce trade flows.

Critics argue further that a free-floating system curtails long-term foreign investment by increasing risks. Either borrowers or lenders would refuse to negotiate long-term contracts if there were no favored markets for them. A lender can protect himself by insisting on repayment and servicing in his own currency, but this merely shifts to the borrower the risk of unexpected gains or losses.

Another argument against free rates is that speculation contributes to rate fluctuations. Speculators, interpreting a rise in the exchange rate (depreciation of a currency) as a sign that the rate will rise even more in the future, sell the depreciating currency, causing even greater depreciation. Such selling depresses the price of the currency more than underlying economic conditions may justify. Some speculators, on the other hand, realizing a currency is excessively depreciated, begin buying it, causing its price to rise. This is the signal for other speculators to buy, and the price of the currency soon rises above its level of long-run equilibrium.

There has been some experience with free-floating rates. Canada, for example, allowed its dollar to float in the open market from 1950 to 1962. The Canadian dollar has been floating again since May 1970, when the Canadian government announced that it would no longer intervene in the market to keep the country's exchange rate within 1 percent of the then-existing par value of 92.5 U.S. cents. The Canadian experience, however, as well as the experiences of other countries that have allowed their currencies to float, provides no conclusive indication of whether floating rates can be successfully implemented. These experiences have involved only the rates of one currency or a few at the most–not those of all the major currencies simultaneously.

**Wider bands**

The wider band proposal would retain exchange rates with a pegged par value, but the fluctuations allowed around pegs would be

increased. Under this plan, the margins of permissible variations in exchange rates would be increased from the 1 percent on either side of parity allowed under the Bretton Woods system to, say, 3 to 5 percent. This is similar to the method used under the old gold standard.

If a proposal were adopted requiring countries to maintain the par value of their currencies within, say, 5 percent, the most extreme swing in the exchange rate allowed between two currencies would be 20 percent. At one extreme, the currency of one country could be as much as 5 percent above par while the currency of the other was 5 percent below par. At the other extreme, currency of the first country could be 5 percent below par while the currency of the other was 5 percent above.

The proposal offers two advantages. First, instead of an imbalance in the international accounts going uncorrected for years–as it has sometimes under the Bretton Woods system–adjustment in the accounts would be started automatically by rate movements within the band affecting prices of exports and imports.

Second, use of the wider band approach would help moderate destabilizing flows of speculative capital. The possibility of a wider swing in exchange rates would put pressure on speculators to help authorities support a troubled currency. When the value of a currency reached its lower support point, there would be less possibility of a further fall in its par value if the lower limit appeared secure. But there would be a greater possibility of a rise that could be up to 10 percent, instead of the 2 percent allowed under the *Articles of Agreement* of the International Monetary Fund. If a currency continued to appear unsupportable after a fall to the lower support level, a speculative attack could be expected.

A wider band arrangement would offer a solution to a balance-of-payments problem, however, only if exchange rates could vary enough to adjust differences in currencies created by diverging national policies. Proponents of the wider band recognize this as a serious limitation of their proposal.

If the band is not wide enough to accommodate the swing and the adjustment effects are too weak–or if national policies continue to diverge–exchange rates will stick at their support points. Such a development would indicate that the wider band did not offer enough flexibility and that par values would have to change. And in that case, the system would be exposed to all the weaknesses of a system of fixed rates.

To cope with this possibility, proposals have been made for small but frequent changes in parity to be substituted for the practice of making large, discrete adjustments of the peg. The system identified with this proposal is called the *crawling peg.*

### Crawling pegs

Discretionary and nondiscretionary versions of the crawling peg plan have been proposed. One of the widely discussed discretionary plans would allow authorities to adjust their parities as much as 1/26 of a percent a week–or as much as 2 percent over a year, if all the adjustments were in one direction.

A similar proposal, called the *sliding parity*, would allow authorities to depreciate their currencies as much as one-sixth of a percent in any one month, provided they were faced with a continuing deficit in their balances of payments. Conversely, authorities faced with a continuing surplus would appreciate their currency as much as one-sixth of a percent a month. If an authority changed the par value of its currency every month, the exchange value of the currency would be changed continually at 2 percent a year–again, provided all the changes were in one direction.

One of the nondiscretionary proposals suggests that parities might be changed daily. Under this proposal, parity would be calculated as the moving average of the closing market value on 307 previous business days.

Two main advantages are claimed for crawling or sliding parities. First, because adjustments in exchange rates would probably be very small, disequilibrating movements of capital would be reduced to manageable proportions. Second, because small but frequent adjustments under express conditions of disequilibrium would be allowed to continue beyond any predetermined limit, balance-of-payments problems would eventually be corrected.

But there are also several arguments against the proposal for a crawling peg. First, discretionary proposals imply an assumption that a developing disequilibrium is visible to monetary authorities (which may not be the case) and can be worked off in small instalments. Second, use of discretionary plans would leave little doubt about future changes in parities. Regarding nondiscretionary plans, there is the possibility that developments in parities would be obvious to everyone. Also, because the formula for change would be obtained from averages of previous conditions, there is the possibility that rates might be wrong for current conditions. Third, both discretionary and nondiscretionary plans fail to take into account changes in the equilibrium of exchange rates that come faster than the maximum adjustment allowed.

Fourth–and probably most important–such a system could limit the ability of authorities to use monetary policy for domestic

purposes. If it became apparent that a currency was going to be depreciated, the only way for the monetary authority to prevent a sizable outflow of capital would be to raise interest rates enough to overcome prospects for currency appreciation abroad. And if the authority's interest rate policy were determined by balance-of-payments considerations, policy changes would probably not coincide exactly with those recommended by domestic considerations alone.

There are important counterarguments to these objections, however. One is that use of interest rates to control capital flows might constrain domestic monetary policy no more under the crawling peg system than under the Bretton Woods system. In fact, proponents of the crawling peg believe that such constraints would be even less than under the Bretton Woods system. It should be easier, they say, to adjust domestic interest rates to counteract fairly slow capital outflows resulting from a slow downward crawl than to use them to counteract sudden sharp outflows precipitated under a system of adjustable pegs.

Another counterargument is that any monetary interdependence between countries created by a crawling peg could be reduced by some combination of the following–

- Widening the band of fluctuation allowed in exchange rates
- Officially financing private capital flows
- Using selective measures to reduce private capital flows

All these measures are compatible with the crawling peg. And while proponents of that system concede that selective measures distort the free flow of capital, they point out that many such measures have been used under the Bretton Woods system.

A system of crawling pegs would probably constrain domestic monetary policy in situations where a country's currency was considered undervalued and the exchange rate was expected to continue bumping along the lower support limit for some time. A crawling peg system would probably be more effective in keeping substantial disequilibrium from building up than it would be in reducing disequilibrium that already exists.

### More frequent adjustments

The suggestion that parities be adjusted more often is related to the discretionary plans for a crawling peg–but with some important differences. The object of more frequent adjustments would be to eliminate unnecessary delays in changing par values by encouraging smaller but more frequent changes. This proposal is based on the belief that smaller adjustments would be more acceptable to individual governments and would cause less shock to international financial markets than the large changes made under the Bretton Woods system. Some adjustments in par values have amounted to 10 percent or more.

A recent report by the International Monetary Fund discussed a system that is typical of plans based on small but frequent adjustments in par values. In line with a long-standing practice, executive directors of the IMF have recommended prompt adjustments of parities in cases where a country has a fundamental disequilibrium in its international payments accounts. In the recent report, the directors considered an amendment to the *Articles of Agreement* that would allow member countries to make changes in their parities without the fund's concurrence, provided the change did not exceed some set amount–for example, 3 percent in any 12-month period or a cumulative 10 percent in a five-year period.

A similar proposal from outside the IMF would enlarge the fund's consulting function and increase its power to suggest changes in the par values of currencies. Under this proposal, the IMF would routinely review the balance-of-payments position of each member country every two months, not only recommending changes but–after suitable intervals–publishing its recommendations.

One objection to the plan in the IMF report is that circumstances for "appropriate" adjustments are too confining. Opponents of the plan believe that the concept of "fundamental disequilibrium" excludes many small imbalances that could be dealt with through adjustments in exchange rates. It is more efficient, they say, to correct payments imbalances by exchange rate adjustments than through the imposition of direct controls–whether the imbalance is presumed to be temporary or fundamental.

Another objection, perhaps the most serious, is that this proposal does not solve the problem of the proper determination of the size and direction of frequent but relatively small adjustments. When authorities adjust the par values of their currencies, there is no guarantee that the new values will be consistent with market equilibrium. Market balance does not depend on the discretion of authorities but on supply and demand.

### Temporary floating rates

It has been proposed that a country or small group of countries might allow exchange rates to float free in the market for a while. Although such a system would require revision of the *Articles of Agreement*–which are designed to preserve established rates–there are signs of its developing outside formal agreements. Germany resorted to a temporary float in 1969, and both Germany and the Netherlands began using such an arrangement in May 1971. There

is widespread discussion about whether or not the floating of the U.S. dollar is temporary. Proposals concerning temporary floating exchange rates, therefore, are merely to formalize institutional arrangements already existing and to extend these options to more than just a few countries.

There is one important objection to this plan, however–that temporary floating rates increase the sense of financial uncertainty in the countries involved and reduce the flows of trade and capital. There are reports, for example, that with no established scale of measurement during the current float of the mark, German businessmen cannot be sure of their costs and earnings in international trade since they are having trouble concluding forward contracts. If so, they could be inclined to delay transactions as long as their domestic currency floats. There is also a subsidiary argument that by increasing the risks of international trade, temporary floats raise costs and reduce economic welfare.

One advantage of a temporary float is that it allows a country to use the floating rate when it sees that a change is needed but is not clear on the best size of change. The market, then, can be used to test the strength of pressures on the currency and, in turn, indicate the appropriate new par value.

Another advantage is that if the exchange rate floats gradually to a new level, speculators are denied a quick profit. Market pressures help determine the proper par value, helping avoid the likelihood of another crisis in the near future.

Still another advantage is that by allowing the exchange rate to float for a while, monetary authorities can help avoid the buildup of a crisis atmosphere. Prospect of a major change in par value usually creates a sense of crisis.

### A final observation

In the past five years, Britain and France have devalued their currencies. Switzerland, Austria, and Germany have revalued their currencies upward. And German, Dutch, and Canadian currencies have floated. Even more significant, however, is the suspension of convertibility between gold and the U.S. dollar that set the dollar and still more currencies afloat in the international exchange market. Conditions preceding all these adjustments were chaotic, and massive speculative flows were major factors leading to each adjustment.

Despite efforts to improve the operation of the international monetary system, the related problems of adjustment, confidence, and liquidity remain. And while it is still not clear what reforms will be undertaken to deal with these problems, the floating of the U.S. dollar provides an opportunity for full consideration of the major alternatives to the Bretton Woods system.

–Lacy H. Hunt, II

### New par bank

The Huntwick Bank, Houston, Texas, an insured nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, August 18, 1971. The officers are: Charles M. Friday, President; Laura Doerrie, Vice President; and Joan Oster, Cashier.


Research Department
Federal Reserve Bank of Dallas
Station K, Dallas, Texas 75222

Federal Reserve Bank of Dallas
September 1971

# Statistical Supplement to the Business Review

Credit at weekly reporting banks in the Eleventh District declined less than usual in the five weeks ended August 25, as a substantial increase in loans was more than offset by a reduction in investments. Credit declined in spite of a slight rise in deposits. Banks used much of the deposit inflow to sell Federal funds.

Almost three-fourths of the contraseasonal increase in loans went to businesses, perhaps signaling some improvement in general economic activity. Real estate loans rose more than usual, reflecting continued strength in construction activity. Consumer loans increased about in line with the gains of comparable periods in other recent years.

The reduction in bank investment portfolios was substantial. Holdings of U.S. Government issues declined considerably more than usual, probably as banks marketed securities acquired in recent Treasury financings. The decline in holdings of other securities was contraseasonal.

Deposits rose less than usual, due mainly to a slowing in the rise in time and savings deposits. A decline in demand deposits was smaller than normal for this time of year. Large CD's outstanding increased less than usual, and other time and savings deposits declined contraseasonally. On balance, reporting banks slightly reduced their borrowings from nondeposit sources.

Texas replaced Iowa on July 1 as the nation's number one cattle feeding state. With 1.7 million head on feed, Texas recorded a 26-percent growth over a year before. Arizona and Oklahoma showed year-to-year gains of 14 percent and 17 percent, respectively. Inventories of cattle on feed in Arizona and Texas declined, however, between July 1 and August 1. The drop was due to heavy marketings and slower placements, as drouth conditions moderated and more heifers were held for breeding.

Prices for most crops and cattle continue strong. Although seasonal factors tended to depress some prices (and record production was projected for many crops), most prices on July 15 averaged higher than a year earlier. Following a low in the fourth quarter of 1970, gross agricultural income improved throughout the first half of this year. Net income remained lower than a year before, however, as production costs advanced faster than the prices farmers received.

Total nonagricultural wage and salary employment in the five southwestern states fell slightly in July, interrupting a fairly slow but continuous rise since January. The movement is parallel to last year's trend, although at a slightly higher level. Employment in July was 0.5 percent lower than in June but 0.2 percent higher than in July 1970.

Manufacturing and nonmanufacturing employment shared about equally in the decline, falling 0.6 percent and 0.5 percent, respectively. Manufacturing employment–which had been dropping fairly steadily since mid-1969–leveled off in the first half of this year but still showed no real signs of improvement.

The slow rise in nonmanufacturing employment has kept total nonfarm employment from falling below levels of the last two years. However, the July declines in mining, construction, and government employment caused the first monthly decrease in nonmanufacturing employment this year. Two of these categories also showed significant year-to-year declines: mining fell 6.2 percent, and construction 3.2 percent. Government employment was off 1.2 percent from June, continuing its seasonal drop, which is expected to bottom out after school begins. Finance and service employment showed both month-to-month and year-to-year gains. Employment in trade and in transportation and public utilities was unchanged from June.

Registrations of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio were 12 percent lower in July than in June. Despite this decline, registrations were 2 percent higher than in July 1970 and cumulative registrations for the first seven months of 1971 were 10 percent greater than for the same period a year earlier.

Department store sales in the Eleventh District were 4 percent higher in the four weeks ended August 28 than in the corresponding period a year before. Cumulative sales through that date were 7 percent higher than a year before.

Preliminary estimates indicate that the seasonally adjusted Texas industrial production index fell slightly in July from its record level in June. At 179.3 percent of its 1957-59 base, the index was off 1.3 percent from the revised level for June but was still 4.0 percent

*(Continued on back page)*

## CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

| ASSETS | Aug. 25, 1971 | July 21, 1971 | Aug. 26, 1970 |
|---|---|---|---|
| Federal funds sold and securities purchased under agreements to resell | 904,189 | 556,426 | 559,988 |
| Other loans and discounts, gross | 6,881,874 | 6,863,616 | 6,084,654 |
| Commercial and industrial loans | 3,164,288 | 3,127,936 | 2,948,483 |
| Agricultural loans, excluding CCC certificates of interest | 122,227 | 123,915 | 98,004 |
| Loans to brokers and dealers for purchasing or carrying: | | | |
| U.S. Government securities | 519 | 556 | 500 |
| Other securities | 47,891 | 55,482 | 36,101 |
| Other loans for purchasing or carrying: | | | |
| U.S. Government securities | 5,306 | 4,838 | 2,306 |
| Other securities | 434,259 | 428,984 | 408,593 |
| Loans to nonbank financial institutions: | | | |
| Sales finance, personal finance, factors, and other business credit companies | 149,626 | 195,164 | 192,223 |
| Other | 485,089 | 490,565 | 367,462 |
| Real estate loans | 828,412 | 816,842 | 608,393 |
| Loans to domestic commercial banks | 13,559 | 13,137 | 5,004 |
| Loans to foreign banks | 29,321 | 22,022 | 8,269 |
| Consumer instalment loans | 783,749 | 771,892 | 730,957 |
| Loans to foreign governments, official institutions, central banks, and international institutions | 0 | 0 | 0 |
| Other loans | 817,628 | 812,283 | 678,359 |
| Total investments | 3,103,815 | 3,187,288 | 2,658,942 |
| Total U.S. Government securities | 1,003,884 | 1,051,110 | 901,258 |
| Treasury bills | 128,298 | 132,960 | 73,224 |
| Treasury certificates of indebtedness | 0 | 0 | 0 |
| Treasury notes and U.S. Government bonds maturing: | | | |
| Within 1 year | 135,982 | 194,807 | 185,977 |
| 1 year to 5 years | 602,817 | 577,905 | 547,700 |
| After 5 years | 136,787 | 145,438 | 94,357 |
| Obligations of states and political subdivisions: | | | |
| Tax warrants and short-term notes and bills | 49,768 | 63,663 | 35,884 |
| All other | 1,895,453 | 1,845,143 | 1,538,692 |
| Other bonds, corporate stocks, and securities: | | | |
| Certificates representing participations in Federal agency loans | 15,810 | 80,653r | 110,152 |
| All other (including corporate stocks) | 138,900 | 146,719r | 72,956 |
| Cash items in process of collection | 1,170,977 | 1,256,149 | 1,061,005 |
| Reserves with Federal Reserve Bank | 981,346 | 975,402 | 919,234 |
| Currency and coin | 96,403 | 93,394 | 96,277 |
| Balances with banks in the United States | 408,938 | 483,967 | 491,418 |
| Balances with banks in foreign countries | 8,328 | 8,955 | 8,540 |
| Other assets (including investments in subsidiaries not consolidated) | 470,912 | 471,401 | 471,053 |
| TOTAL ASSETS | 14,026,782 | 13,896,598 | 12,351,111 |

| LIABILITIES | Aug. 25, 1971 | July 21, 1971 | Aug. 26, 1970 |
|---|---|---|---|
| Total deposits | 10,929,399 | 10,914,638 | 9,610,169 |
| Total demand deposits | 6,266,575 | 6,270,594 | 5,814,531 |
| Individuals, partnerships, and corporations | 4,269,215 | 4,370,363r | 3,956,351 |
| States and political subdivisions | 321,685 | 295,204r | 318,777 |
| U.S. Government | 186,393 | 195,678 | 194,471 |
| Banks in the United States | 1,359,886 | 1,288,135 | 1,223,280 |
| Foreign: | | | |
| Governments, official institutions, central banks, and international institutions | 6,293 | 3,405 | 2,984 |
| Commercial banks | 31,897 | 32,020 | 19,982 |
| Certified and officers' checks, etc. | 91,206 | 85,789 | 98,686 |
| Total time and savings deposits | 4,662,824 | 4,644,044 | 3,795,638 |
| Individuals, partnerships, and corporations: | | | |
| Savings deposits | 1,060,334 | 1,060,371 | 920,400 |
| Other time deposits | 2,510,922 | 2,444,995 | 2,027,305 |
| States and political subdivisions | 987,836 | 1,034,785 | 757,899 |
| U.S. Government (including postal savings) | 29,786 | 24,296 | 43,633 |
| Banks in the United States | 56,546 | 59,697 | 28,916 |
| Foreign: | | | |
| Governments, official institutions, central banks, and international institutions | 16,300 | 18,800 | 16,385 |
| Commercial banks | 1,100 | 1,100 | 1,100 |
| Federal funds purchased and securities sold under agreements to repurchase | 1,482,104 | 1,386,283 | 1,009,003 |
| Other liabilities for borrowed money | 41,656 | 64,591 | 155,095 |
| Other liabilities | 354,183 | 320,805 | 419,718 |
| Reserves on loans | 132,556 | 131,554 | 130,105 |
| Reserves on securities | 21,589 | 21,342 | 14,863 |
| Total capital accounts | 1,065,295 | 1,057,385 | 1,012,158 |
| TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS | 14,026,782 | 13,896,598 | 12,351,111 |

r — Revised

## RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

| Item | 4 weeks ended Aug. 4,1971 | 5 weeks ended July 7, 1971 | 5 weeks ended Aug. 5, 1970 |
|---|---|---|---|
| RESERVE CITY BANKS | | | |
| Total reserves held | 829,401 | 826,530 | 754,910 |
| With Federal Reserve Bank | 772,374 | 772,530 | 701,396 |
| Currency and coin | 57,027 | 54,000 | 53,514 |
| Required reserves | 829,497 | 831,257 | 758,488 |
| Excess reserves | —96 | —4,727 | —3,578 |
| Borrowings | 29,411 | 8,908 | 88,192 |
| Free reserves | —29,507 | —13,635 | —91,770 |
| COUNTRY BANKS | | | |
| Total reserves held | 876,924 | 866,588 | 774,984 |
| With Federal Reserve Bank | 675,974 | 674,020 | 591,290 |
| Currency and coin | 200,950 | 192,568 | 183,694 |
| Required reserves | 852,623 | 846,858 | 757,488 |
| Excess reserves | 24,301 | 19,730 | 17,496 |
| Borrowings | 7,974 | 3,954 | 10,307 |
| Free reserves | 16,327 | 15,776 | 7,189 |
| ALL MEMBER BANKS | | | |
| Total reserves held | 1,706,325 | 1,693,118 | 1,529,894 |
| With Federal Reserve Bank | 1,448,348 | 1,446,550 | 1,292,686 |
| Currency and coin | 257,977 | 246,568 | 237,208 |
| Required reserves | 1,682,120 | 1,678,115 | 1,515,976 |
| Excess reserves | 24,205 | 15,003 | 13,918 |
| Borrowings | 37,385 | 12,862 | 98,499 |
| Free reserves | —13,180 | 2,141 | —84,581 |

## CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

| Item | July 28, 1971 | June 30, 1971 | July 29, 1970 |
|---|---|---|---|
| ASSETS | | | |
| Loans and discounts, gross | 13,482 | 13,612 | 11,903 |
| U.S. Government obligations | 2,370 | 2,401 | 2,017 |
| Other securities | 4,356 | 4,255 | 3,356 |
| Reserves with Federal Reserve Bank | 1,375 | 1,334 | 1,220 |
| Cash in vault | 285 | 271 | 270 |
| Balances with banks in the United States | 1,262 | 1,438 | 1,183 |
| Balances with banks in foreign countries[e] | 12 | 11 | 11 |
| Cash items in process of collection | 1,444 | 1,570 | 1,215 |
| Other assets[e] | 929 | 995 | 621 |
| TOTAL ASSETS[e] | 25,515 | 25,887 | 21,796 |
| LIABILITIES AND CAPITAL ACCOUNTS | | | |
| Demand deposits of banks | 1,715 | 1,907 | 1,612 |
| Other demand deposits | 9,669 | 9,889 | 8,703 |
| Time deposits | 9,609 | 10,123 | 7,610 |
| Total deposits | 20,993 | 21,919 | 17,925 |
| Borrowings | 1,544 | 1,536 | 1,218 |
| Other liabilities[e] | 1,098 | 563 | 860 |
| Total capital accounts[e] | 1,880 | 1,869 | 1,793 |
| TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e] | 25,515 | 25,887 | 21,796 |

e — Estimated

## CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

| Item | Aug. 25, 1971 | July 21, 1971 | Aug. 26, 1970 |
|---|---|---|---|
| Total gold certificate reserves | 550,807 | 379,718 | 711,470 |
| Discounts for member banks | 4,000 | 80,598 | 14,520 |
| Other discounts and advances | 0 | 0 | 0 |
| U.S. Government securities | 2,959,804 | 3,056,498 | 2,468,007 |
| Total earning assets | 2,963,804 | 3,137,096 | 2,482,527 |
| Member bank reserve deposits | 1,561,886 | 1,584,807 | 1,447,684 |
| Federal Reserve notes in actual circulation | 2,076,952 | 2,076,682 | 1,831,252 |

## BANK DEBITS, END-OF-MONTH DEPOSITS, AND DEPOSIT TURNOVER

SMSA's in Eleventh Federal Reserve District

(Dollar amounts in thousands, seasonally adjusted)

| Standard metropolitan statistical area | DEBITS TO DEMAND DEPOSIT ACCOUNTS[1] | | | | DEMAND DEPOSITS[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | | Percent change | | | | Annual rate of turnover | | |
| | July 1971 (Annual-rate basis) | July 1971 from June 1971 | July 1971 from July 1970 | 7 months, 1971 from 1970 | July 31, 1971 | July 1971 | June 1971 | July 1970 |
| ARIZONA: Tucson | $ 7,727,724 | 5% | 13% | 21% | $269,677 | 28.0 | 27.0 | 29.0 |
| LOUISIANA: Monroe | 3,374,376 | 4 | 17 | 19 | 101,506 | 34.6 | 35.0 | 33.0 |
| Shreveport | 11,013,948 | —7 | 22 | 17 | 268,650 | 40.6 | 43.6 | 36.9 |
| NEW MEXICO: Roswell[2] | 1,018,560 | 5 | 15 | 5 | 43,482 | 24.2 | 24.5 | 23.5 |
| TEXAS: Abilene | 2,233,692 | —1 | 4 | 8 | 108,839 | 20.9 | 21.3 | 21.1 |
| Amarillo | 6,233,592 | 4 | 6 | 7 | 170,456 | 37.1 | 36.2 | 36.4 |
| Austin | 10,393,836 | —15 | 23 | 19 | 382,774 | 28.7 | 32.5 | 26.5 |
| Beaumont-Port Arthur-Orange | 6,832,560 | 1 | 10 | 8 | 261,917 | 26.7 | 26.8 | 25.9 |
| Brownsville-Harlingen-San Benito | 2,070,516 | —5 | 3 | 14 | 83,311 | 24.4 | 25.2 | 27.8 |
| Corpus Christi | 6,183,180 | —1 | 27 | 27 | 280,025 | 22.2 | 22.4 | 23.5 |
| Corsicana[2] | 481,164 | —11 | 3 | 13 | 33,599 | 14.4 | 16.2 | 15.0 |
| Dallas | 134,868,216 | —2 | 3 | 10 | 2,323,090 | 57.2 | 57.9 | 63.4 |
| El Paso | 7,976,472 | —12 | 8 | 15 | 260,339 | 31.3 | 36.3 | 31.9 |
| Fort Worth | 26,986,068 | —6 | 24 | 21 | 699,497 | 38.4 | 40.9 | 33.8 |
| Galveston-Texas City | 2,976,936 | 3 | 8 | 5 | 114,254 | 25.9 | 25.9 | 24.1 |
| Houston | 116,594,004 | 4 | 9 | 11 | 2,756,081 | 41.9 | 40.3 | 42.8 |
| Laredo | 1,019,184 | —8 | 5 | 13 | 45,063 | 22.6 | 25.1 | 24.3 |
| Lubbock | 5,206,764 | —7 | 1 | 13 | 173,149 | 29.7 | 32.0 | 30.1 |
| McAllen-Pharr-Edinburg | 1,799,784 | —5 | 4 | 13 | 110,987 | 16.4 | 17.4 | 17.4 |
| Midland | 2,144,460 | 6 | 5 | 5 | 139,007 | 15.4 | 14.6 | 15.6 |
| Odessa | 1,711,596 | —3 | 13 | 3 | 100,287 | 17.1 | 17.9 | 16.4 |
| San Angelo | 1,389,348 | —4 | 16 | 19 | 74,962 | 18.4 | 19.1 | 17.3 |
| San Antonio | 20,857,728 | 0 | 9 | 17 | 730,649 | 28.6 | 29.1 | 29.5 |
| Sherman-Denison | 1,110,708 | —12 | —4 | 6 | 69,516 | 16.0 | 18.3 | 18.1 |
| Texarkana (Texas-Arkansas) | 1,485,192 | —10 | 4 | 7 | 76,562 | 19.7 | 21.7 | 20.2 |
| Tyler | 2,340,228 | —2 | 5 | 6 | 104,056 | 22.1 | 22.1 | 24.0 |
| Waco | 3,353,832 | —7 | 6 | 7 | 132,353 | 25.1 | 27.0 | 26.4 |
| Wichita Falls | 2,610,420 | 12 | 10 | 13 | 124,377 | 21.4 | 18.9 | 21.0 |
| Total—28 centers | $391,994,088 | —1% | 9% | 12% | $10,038,465 | 38.9 | 39.3 | 40.1 |

[1] Deposits of individuals, partnerships, and corporations and of states and political subdivisions
[2] County basis

## BUILDING PERMITS

| Area | NUMBER | | VALUATION (Dollar amounts in thousands) | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Percent change | | |
| | July 1971 | 7 mos. 1971 | July 1971 | 7 mos. 1971 | July 1971 from June 1971 | July 1971 from July 1970 | 7 months, 1971 from 1970 |
| ARIZONA | | | | | | | |
| Tucson | 440 | 4,764 | $ 5,168 | $ 58,117 | —53% | 43% | 98% |
| LOUISIANA | | | | | | | |
| Monroe-West Monroe | 70 | 717 | 697 | 12,234 | —73 | —72 | 23 |
| Shreveport | 515 | 3,744 | 6,483 | 35,335 | 16 | 87 | 77 |
| TEXAS | | | | | | | |
| Abilene | 58 | 369 | 729 | 7,525 | —74 | —73 | 16 |
| Amarillo | 157 | 986 | 2,861 | 17,157 | 96 | 224 | —25 |
| Austin | 504 | 3,660 | 14,117 | 91,535 | —7 | —15 | 26 |
| Beaumont | 163 | 1,121 | 4,561 | 10,813 | 188 | 613 | 68 |
| Brownsville | 128 | 722 | 1,286 | 4,496 | 242 | 179 | 48 |
| Corpus Christi | 755 | 5,952 | 4,081 | 37,989 | —21 | 79 | 120 |
| Dallas | 1,855 | 13,267 | 20,524 | 163,507 | —8 | —34 | —25 |
| Denison | 42 | 247 | 307 | 2,096 | 241 | 3 | —24 |
| El Paso | 514 | 3,473 | 7,219 | 67,884 | —33 | 11 | 27 |
| Fort Worth | 427 | 2,975 | 8,199 | 74,111 | —49 | 83 | 43 |
| Galveston | 55 | 493 | 666 | 8,232 | 35 | 39 | 113 |
| Houston | 3,805 | 26,822 | 47,966 | 393,643 | —42 | 45 | 51 |
| Laredo | 54 | 358 | 731 | 5,437 | 5 | 269 | 24 |
| Lubbock | 168 | 1,476 | 3,749 | 48,974 | —71 | —46 | 47 |
| Midland | 64 | 490 | 500 | 7,460 | —30 | —4 | 157 |
| Odessa | 65 | 607 | 563 | 4,794 | —9 | —4 | —23 |
| Port Arthur | 56 | 500 | 439 | 3,658 | 40 | 121 | —44 |
| San Angelo | 73 | 475 | 2,351 | 7,999 | 105 | —2 | —3 |
| San Antonio | 2,034 | 11,358 | 10,876 | 72,280 | —23 | 35 | 23 |
| Sherman | 36 | 422 | 261 | 3,961 | 29 | —91 | —61 |
| Texarkana | 25 | 284 | 439 | 6,081 | —26 | 254 | 15 |
| Waco | 333 | 2,069 | 1,560 | 16,242 | —46 | —19 | —36 |
| Wichita Falls | 79 | 565 | 1,513 | 12,704 | 86 | —29 | 56 |
| Total—26 cities | 12,475 | 87,916 | $147,846 | $1,174,264 | —30% | 9% | 24% |

## INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes)

| Area and type of index | July 1971p | June 1971 | May 1971 | July 1970 |
|---|---|---|---|---|
| TEXAS (1957–59=100) | | | | |
| Total industrial production | 179.3 | 181.7 | 180.8r | 172.5r |
| Manufacturing | 196.9 | 199.6 | 196.7r | 193.8 |
| *Durable* | 194.7 | 197.2 | 197.4 | 204.1r |
| *Nondurable* | 198.3 | 201.2 | 196.3r | 186.9r |
| Mining | 134.5 | 136.6 | 138.6r | 125.8r |
| Utilities | 289.9 | 289.9 | 289.9r | 260.7 |
| UNITED STATES (1967=100) | | | | |
| Total industrial production | 106.0 | 106.9 | 107.0 | 107.5 |
| Manufacturing | 104.6 | 105.2 | 105.5 | 106.9 |
| *Durable* | 99.8 | 99.8 | 100.4 | 103.7 |
| *Nondurable* | 113.0 | 113.3 | 112.9 | 111.6 |
| Mining | 105.1 | 108.6 | 108.6 | 106.5 |
| Utilities | 134.0 | 133.2 | 132.1 | 130.2 |

p — Preliminary
r — Revised
SOURCES: Board of Governors of the Federal Reserve System
Federal Reserve Bank of Dallas

## GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

| Date | GROSS DEMAND DEPOSITS | | | TIME DEPOSITS | | |
|---|---|---|---|---|---|---|
| | Total | Reserve city banks | Country banks | Total | Reserve city banks | Country banks |
| 1969: July | 10,316 | 4,783 | 5,533 | 7,474 | 2,806 | 4,668 |
| 1970: July | 10,412 | 4,782 | 5,630 | 7,511 | 2,722 | 4,789 |
| 1971: February | 11,272 | 5,118 | 6,154 | 9,299 | 3,689 | 5,610 |
| March | 11,219 | 5,117 | 6,102 | 9,548 | 3,788 | 5,760 |
| April | 11,555 | 5,274 | 6,281 | 9,575 | 3,736 | 5,839 |
| May | 11,348 | 5,216 | 6,132 | 9,516 | 3,688 | 5,828 |
| June | 11,354 | 5,224 | 6,130 | 9,573 | 3,691 | 5,882 |
| July | 11,507 | 5,314 | 6,193 | 9,588 | 3,696 | 5,892 |

## VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

| Area and type | July 1971 | June 1971 | May 1971 | January—July 1971 | January—July 1970 |
|---|---|---|---|---|---|
| FIVE SOUTHWESTERN STATES[1] | 932 | 922 | 713 | 5,283 | 4,725r |
| Residential building | 445 | 464 | 387 | 2,603 | 1,710r |
| Nonresidential building | 236 | 276 | 193 | 1,658 | 1,508 |
| Nonbuilding construction | 250 | 182 | 134 | 1,022 | 1,507 |
| UNITED STATES | 7,670 | 8,077 | 7,555 | 46,601 | 40,790r |
| Residential building | 3,357 | 3,485 | 3,310 | 19,491 | 14,011r |
| Nonresidential building | 2,621 | 2,800 | 2,264 | 15,248 | 14,932r |
| Nonbuilding construction | 1,691 | 1,792 | 1,981 | 11,863 | 11,847r |

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas
r — Revised
NOTE. — Details may not add to totals because of rounding.
SOURCE: F. W. Dodge, McGraw-Hill, Inc.

## NONAGRICULTURAL EMPLOYMENT

Five Southwestern States[1]

| Type of employment | Number of persons: July 1971p | June 1971 | July 1970r | Percent change July 1971 from: June 1971 | July 1970 |
|---|---|---|---|---|---|
| Total nonagricultural wage and salary workers | 6,315,100 | 6,346,000 | 6,300,400 | —0.5% | 0.2% |
| Manufacturing | 1,119,700 | 1,125,900 | 1,169,700 | —.6 | —4.3 |
| Nonmanufacturing | 5,195,400 | 5,220,100 | 5,130,700 | —.5 | 1.3 |
| Mining | 221,500 | 232,900 | 236,200 | —4.9 | —6.2 |
| Construction | 388,300 | 391,100 | 401,000 | —.7 | —3.2 |
| Transportation and public utilities | 452,700 | 452,700 | 457,300 | .0 | —1.0 |
| Trade | 1,490,100 | 1,490,100 | 1,461,100 | .0 | 2.0 |
| Finance | 334,800 | 332,900 | 324,800 | .6 | 3.1 |
| Service | 1,035,500 | 1,033,000 | 1,016,900 | .2 | 1.8 |
| Government | 1,272,500 | 1,287,400 | 1,233,400 | —1.2% | 3.2% |

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas
p — Preliminary
r — Revised
SOURCE: State employment agencies

## CROP PRODUCTION

(Thousand bushels)

| Crop | TEXAS: 1971, estimated Aug. 1 | 1970 | 1969 | FIVE SOUTHWESTERN STATES[1]: 1971, estimated Aug. 1 | 1970 | 1969 |
|---|---|---|---|---|---|---|
| Cotton[2] | 3,306 | 3,217 | 2,862 | 4,881 | 4,561 | 4,409 |
| Corn | 33,120 | 32,391 | 25,124 | 44,316 | 43,554 | 34,266 |
| Winter wheat | 31,416 | 54,408 | 68,856 | 115,014 | 169,437 | 196,824 |
| Oats | 5,994 | 29,032 | 25,460 | 11,466 | 38,304 | 33,058 |
| Barley | 1,320 | 4,224 | 3,290 | 22,784 | 33,954 | 29,096 |
| Rye | 378 | 566 | 684 | 1,158 | 1,502 | 1,664 |
| Rice[3] | 22,416 | 20,782 | 21,646 | 42,813 | 41,179 | 42,115 |
| Sorghum grain | 306,050 | 329,616 | 309,800 | 368,468 | 386,051 | 368,740 |
| Flaxseed | 70 | 1,125 | 1,300 | 70 | 1,125 | 1,300 |
| Hay[4] | 3,080 | 4,037 | 3,451 | 8,897 | 9,811 | 9,119 |
| Peanuts[5] | 417,150 | 429,930 | 389,070 | 638,300 | 640,196 | 610,549 |
| Irish potatoes[6] | 3,939 | 4,593 | 4,437 | 7,301 | 8,075 | 8,084 |
| Sweet potatoes[6] | 630 | 1,040 | 780 | 4,030 | 5,205 | 5,200 |

[1] Arizona, Louisiana, New Mexico, Oklahoma, and Texas
[2] Thousand bales
[3] Thousand bags containing 100 pounds each
[4] Thousand tons
[5] Thousand pounds
[6] Thousand hundredweight
SOURCE: U.S. Department of Agriculture

## DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

| Area | July 1971 | June 1971 | July 1970 | Percent change from: June 1971 | July 1970 |
|---|---|---|---|---|---|
| FOUR SOUTHWESTERN STATES | 6,888.8 | 6,989.9 | 6,435.3r | —1.5% | 7.0% |
| Louisiana | 2,557.0 | 2,592.6 | 2,336.2r | —1.4 | 9.5 |
| New Mexico | 336.2 | 339.0 | 345.8r | —.8 | —2.8 |
| Oklahoma | 601.6 | 606.0 | 620.5r | —.7 | —3.1 |
| Texas | 3,394.0 | 3,452.3 | 3,132.8r | —1.7 | 8.3 |
| Gulf Coast | 696.0 | 704.3 | 614.2r | —1.2 | 13.3 |
| West Texas | 1,609.0 | 1,641.5 | 1,530.7 | —2.0 | 5.1 |
| East Texas (proper) | 226.0 | 226.8 | 159.7r | —.4 | 41.5 |
| Panhandle | 72.0 | 67.8 | 76.6r | 6.2 | —6.0 |
| Rest of state | 791.0 | 811.9 | 751.6r | —2.6 | 5.2 |
| UNITED STATES | 9,628.3 | 9,731.6 | 9,191.9 | —1.1% | 4.7% |

r — Revised
SOURCES: American Petroleum Institute
U.S. Bureau of Mines
Federal Reserve Bank of Dallas

higher than in July 1970. All sectors shared in the drop except utilities, which remained unchanged.

Durable goods manufacturing was off 1.2 percent from a month before and 4.6 percent from a year before. The only industry group in durable goods showing a significant increase over the previous month was that producing lumber and wood products. Output of that group rose 1.3 percent. Production of transportation equipment was essentially unchanged. Output of all other durables declined slightly.

In nondurable manufacturing, textile mills showed the only significant gain, an advance of 2.4 percent over the June level. The only other changes in nondurable production were declines. The largest was in food products, which fell 4.4 percent.

Compared with a year earlier, textiles, paper, and leather products were the weakest nondurable industry groups, posting declines of 10.7 percent, 5.8 percent, and 14.2 percent, respectively. Petroleum refining was the strongest industry, showing a 21.8-percent increase over a year before.

Because of the continued decline in production of crude petroleum, mining fell 1.5 percent in July but still showed a gain of 7.0 percent over the July 1970 level.

Oil allowables for both Texas and Louisiana have been cut for September. This was the fifth consecutive monthly drop for Texas. The fall from 66.2 percent of maximum efficient production for August to 65.1 percent for September was due to excessive stocks and slow crude sales. Louisiana's cut, from 75 percent allowed since November to 73 percent, was due to reduced demand.

New Mexico will continue its rate at a daily average of 70 barrels per well for its southeastern fields and 100 barrels per well for its northwestern fields. These rates will hold through October. The flow rate in southeastern fields had been set at 80 barrels a day in May and June but was cut back to prevent waste of gas produced along with the oil–a problem that remains a factor in keeping production at the 70-barrel figure.