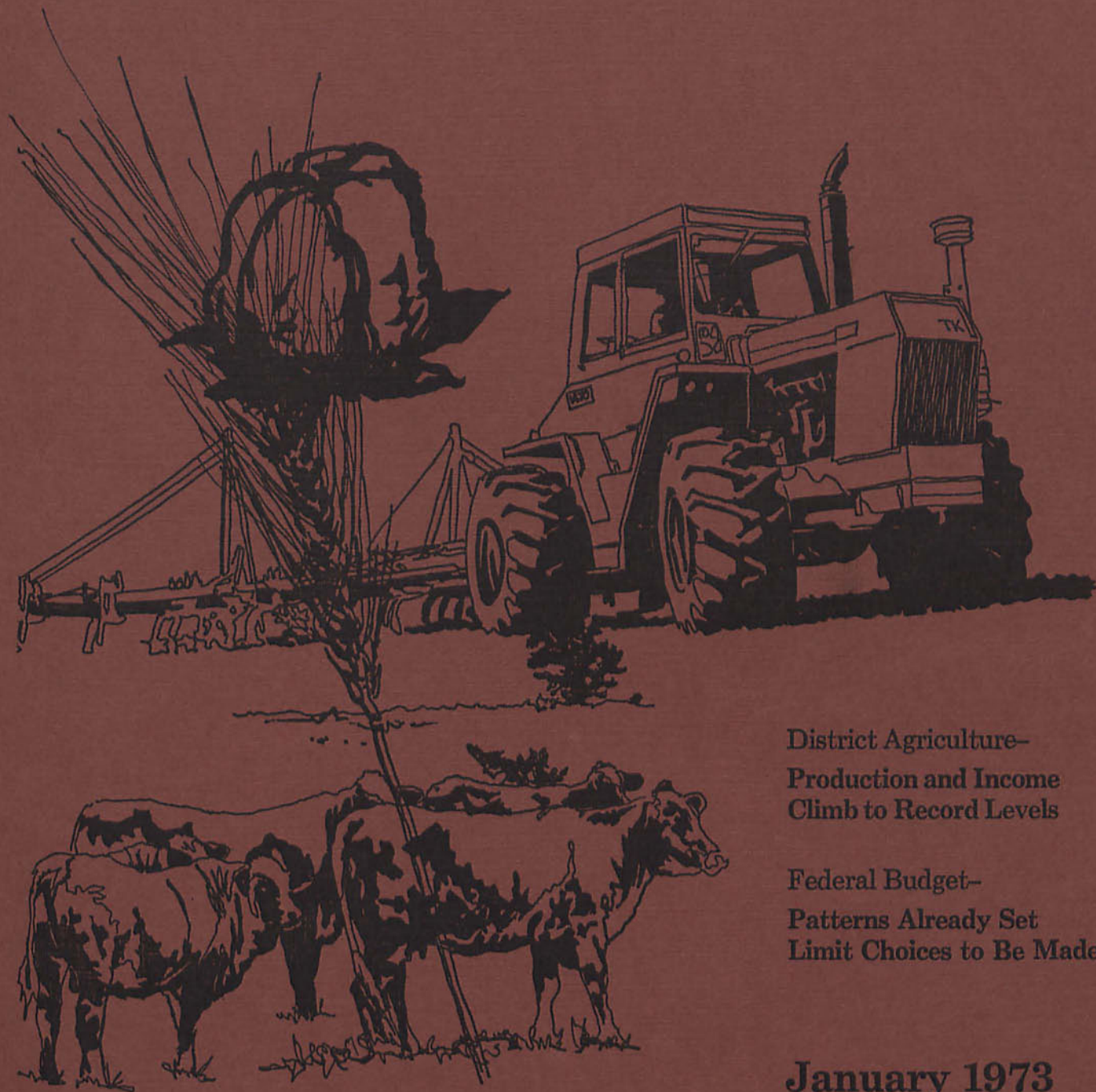


Federal Reserve Bank of Dallas

Business Review



District Agriculture—
Production and Income
Climb to Record Levels

Federal Budget—
Patterns Already Set
Limit Choices to Be Made

January 1973

Production and Income Climb to Record Levels

Agricultural production in states of the Eleventh District rebounded sharply last year from the setback of the drouth in 1971, soaring to a record level. The increase in total output combined with higher average prices to drive gross farm income to an estimated new high of more than \$8 billion.

Larger wheat and grain sorghum crops added to the increase in production, as did gains in most minor crops. But the biggest boost came from cotton. Spurred by higher prices at planting time and favored with a good growing season, cotton growers in these states increased their output about 40 percent—the largest crop since 1965.

Livestock production, on the other hand, showed little growth as poor range conditions in 1971 and the resulting reduction in cow herds dampened cattle production in 1972. But with demand for fed beef growing rapidly, rising cattle prices contributed greatly to gross farm income.

Crop production

The comeback in cotton was due only partly to better growing conditions. Also important to the turnaround was a change in market conditions built up over the previous season. Growers ended their 1971 season with the smallest carryover in 20 years. And with consumers showing renewed interest in cotton goods, 1972 began with cotton prices averaging 40 percent higher than a year before.

To meet the demand, farmers harvested more cotton acreage. Of District states, only New Mexico harvested less acreage than in 1971. All four of the other states harvested more. Louisiana harvested nearly a third more.

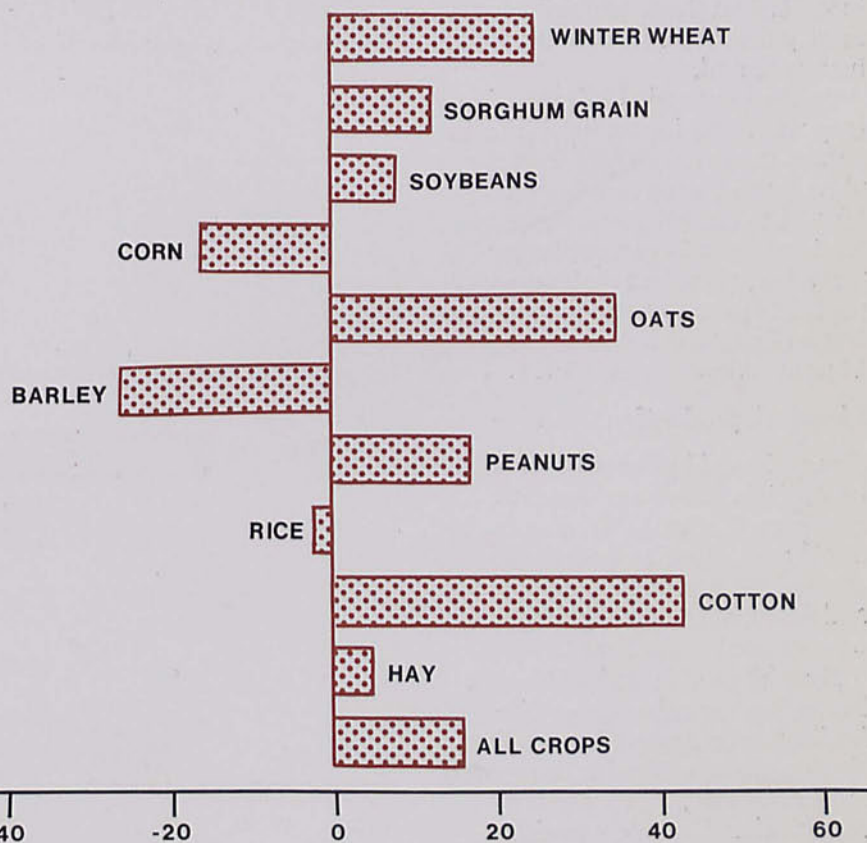
And to take full advantage of higher prices, growers worked their cotton more intensively. Closer cultivation and improvements in the weather contributed to greater yields. In Texas, for example, improved yields accounted for fully two-thirds of the increase in cotton production. Lint yields in Texas are estimated at 359 pounds per acre, compared with 263 pounds in

1971. With the increase in acreage, improved yields left Texas growers providing some 30 percent of the nation's cotton crop. All told, District states produced about 43 percent of the national total.

Of other major crops in the District, only rice was off—and that was very little. Production of winter wheat was up a fourth from the drouth-stricken crop of 1971. And

Cotton leads crop gains in Southwest

PERCENT CHANGE, 1972 FROM 1971



1972 indicated December 1

SOURCE: U.S. Department of Agriculture

production of grain sorghum rose sharply as bumper crops more than offset the slight cutback in acreage. In Texas, the grain sorghum crop was expected to about equal the previous high of 343 million bushels reached in 1967.

Unlike the large sorghum grain crop that was due entirely to greater yields, the large wheat crop was the result of increases in both acreage and yields. The smaller rice crop was due mainly to smaller yields in Texas. Rice acreage in Texas and Louisiana was about the same as a year before.

Larger crops of oats, flaxseeds, peanuts, potatoes, pecans, and soybeans added further to the gains in crop production. Among minor crops—which, together, make up about a fifth of the crop production in these states—only the corn and barley harvests were smaller than in 1971. And these declines were merely the result of fewer acres being planted.

As the year ended, a larger citrus crop was being harvested. Gains in Arizona were only slight. But the Texas orange crop was 17 percent larger than in 1971, and the grapefruit crop was 13 percent larger. Together, these two states were expected to produce nearly 25 million boxes of grapefruit and oranges—11 percent more than in 1971.

Livestock production

Strengthened by demand for fed beef, cattle prices continued to spur growth of cattle feeding in the Southwest. Feeding activity increased in Oklahoma, New Mexico, and Arizona. But by far the greatest increase was in Texas.

By midyear, Texas had become the nation's number-one cattle feeding state. And with more than 2 million head on feed in the second half of the year, Texas was far enough ahead to hold a position other states were not apt to overtake anytime soon.

The expansion in cattle feeding continued all year, raising the pro-

portion of the nation's beef fed in Texas, Oklahoma, New Mexico, and Arizona from around 20 percent early in the year to over 25 percent at the end of October. In Texas and Arizona, the increase in the number of head on feed averaged 20 percent a month. But with more lightweight cattle being placed in feedlots and, therefore, taking longer to feed out, marketings out of feedlots were considerably less.

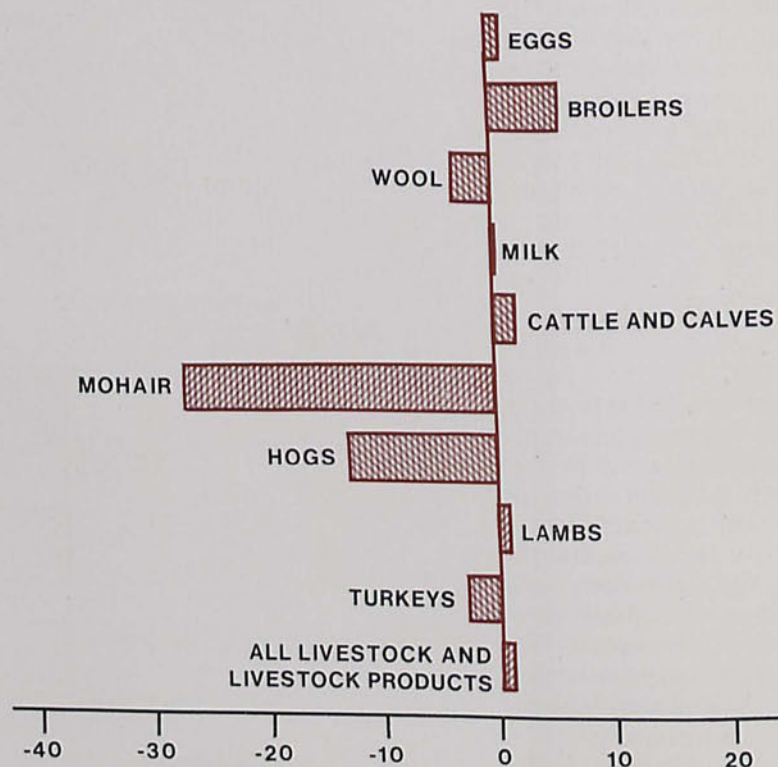
Poor range conditions in 1971 led to a reduction in cow herds, especially in Texas and New Mexico. From 9.9 million head in early 1971, the beef cow herd for the District states fell to 9.6 million

head in early 1972. By midyear, however, the cow herd had grown to an estimated 10 million head. And by year-end, estimates of the calf crop showed a slight gain over 1971.

Beef slaughter, high while herds were being thinned in 1971, slowed in the early part of 1972. Part of the slowdown was due to a decline in slaughter of calves, and part was due to cattlemen holding back heifers to rebuild and expand cow herds. The slaughter had clearly picked up by midyear, however, and, with more animals beginning to come out of feedlots, had reached a level by the end of the third quarter about equal to a year

Livestock production in region last year slowed by low prices and drought in 1971

PERCENT CHANGE, 1972 FROM 1971



1972 partly estimated

SOURCES: U.S. Department of Agriculture
Federal Reserve Bank of Dallas

before. By then, the momentum of the upturn was enough to carry the total for the year slightly above that for 1971.

Other areas of livestock production also showed effects of conditions in 1971. Pork production fell sharply after the low prices prevailing during 1971 and did not recover until the latter part of 1972—although by then, the upturn was strong enough to give indications of continued expansion well into 1973.

Production of sheep and goats had been trending downward for some years. But prices of lamb and mutton, wool, and mohair were low enough in 1971 to cause still further contraction. As a result, last year began with sheep flocks in the Southwest 6 percent smaller than at the start of 1971 and goat herds 27 percent smaller. The reduced flocks and herds caused further drops in the production of wool and mohair, but prices improved. Production of lamb and mutton also slowed, ending the year near the total for 1971.

Broiler and egg production picked up in 1972, but turkey production fell slightly. There was also a reduction in dairy herds. This cutback, however, was about in line with the increase in productivity and left milk production about the same as in 1971.

Income and prices

The record rise in gross farm income in the Southwest drove net income sharply upward—probably to a new high well above the \$2.2 billion of 1971. Several factors contributed to the advance. Increases in crop production were important. But higher prices (almost across the board), an increase in Government payments, and a slower increase in production costs also contributed significantly.

The general strength of farm income is borne out by cash receipts from marketings. Receipts through October totaled \$5.7 billion—15 percent more than in the first ten

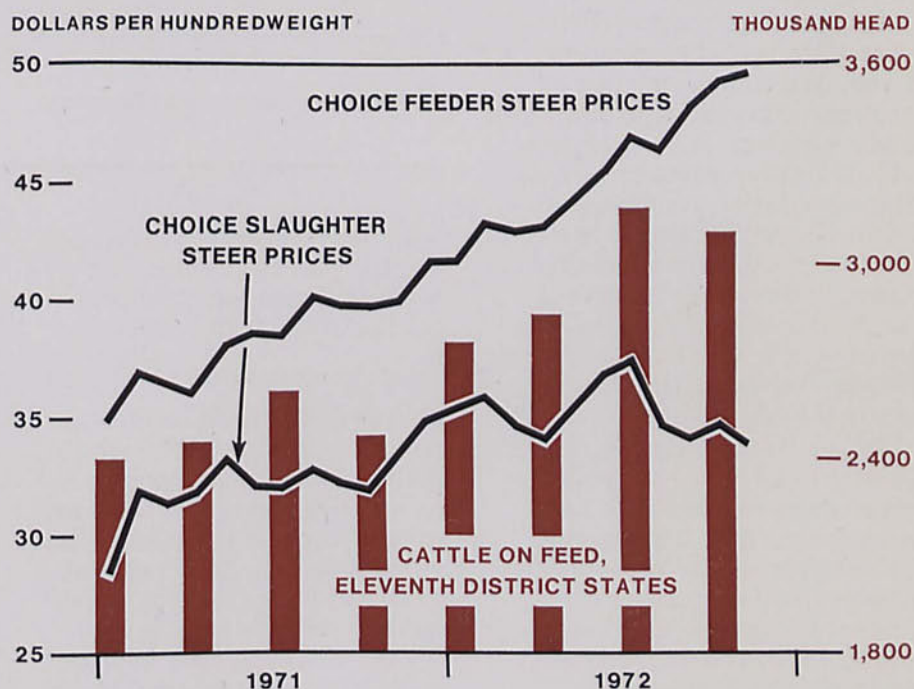
months of 1971. Both livestock and crop receipts contributed to this growth. Livestock receipts for the first ten months of the year were over \$3.8 billion—15 percent more than for the same period a year before. Crop receipts amounted to nearly \$1.9 billion—16 percent more than in 1971.

Although most prices improved last year, an abnormal dip occurred on a broad front early in the year. Prices of major livestock commodities and upland cotton turned downward in February, in contrast to their usual seasonal increases. These declines were followed by drops in prices of several other crops, causing a downturn in aver-

age prices lasting into April. Toward the end of that month, however, prices of most commodities began trending upward. And by November, average prices received by farmers and ranchers in Texas had rallied to a level 14 percent above a year before.

Several commodities experienced unusual price movements in 1972. Grain prices were sluggish in the first half of the year, following the record crop in 1971. But with the unexpected surge in demand brought on by the Soviet purchase announcements in July, prices advanced rapidly. The unseasonable price rise and expanded production boosted grain crop receipts sub-

Demand for feeder cattle widens feeder-slaughter price gap



SOURCE: U.S. Department of Agriculture

stantially in the second half of the year.

Prices of rice followed a similar pattern. Until August, they were relatively stable. But with export demand rising in the fall and world and domestic supplies tightening, prices rose rapidly in the last five months of the year.

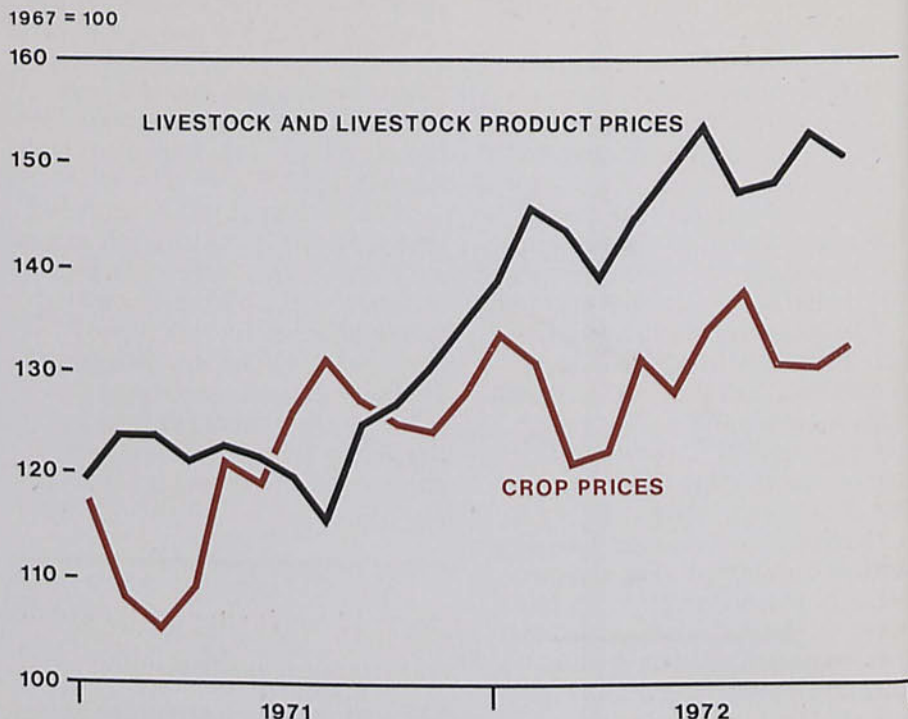
Cotton, unlike grain and rice, started the year with prices well ahead of year-earlier levels. But as harvest got underway in August—amid initial reports of a larger than expected crop—prices plunged, especially for the lower grades. Later in the season, inclement weather plagued harvests and reduced prospective production. This uncertainty, together with the depressed prices and the very real possibility of a smaller crop in 1973, led to renewed buying activity and a stronger cotton market.

Beef cattle prices started the year well ahead of year-earlier levels. And with demand for fed beef increasing throughout the year and supply remaining tight, prices of both feeder and fed cattle continued to rise with few interruptions. The record upsurge in feeder cattle prices was also attributed to the development and growth of large feedlots, excellent feedlot returns early in the year, and a favorable ratio of fed cattle prices to prices of feed.

Prices of other livestock also rose substantially during the year. Hog prices averaged more than half again higher than their monthly levels a year before. And monthly prices of wool and mohair rebounded from their 1971 lows, with wool prices increasing threefold and mohair prices fivefold.

With prices of most crops and livestock trending upward, prices received by farmers and ranchers advanced much faster relative to prices paid than had been the case in other recent years. In Texas, for example, prices received by farmers and ranchers increased about twice as fast as prices paid. This substan-

Livestock prices received by Texas producers lead price advance . . .



SOURCE: U.S. Department of Agriculture

tially eased the cost-price squeeze that had plagued farmers and ranchers throughout 1970 and most of 1971.

Other developments

With their financial positions improving significantly through 1972, District farmers and ranchers increased their borrowing to record levels. The cost-price squeeze, together with tight financial conditions, had slowed many types of agricultural borrowing in 1970. While credit conditions improved in 1971, borrowing was held back by the drouth and low income. As a result, capitalization and expansion plans were postponed, creating a backlog of demand.

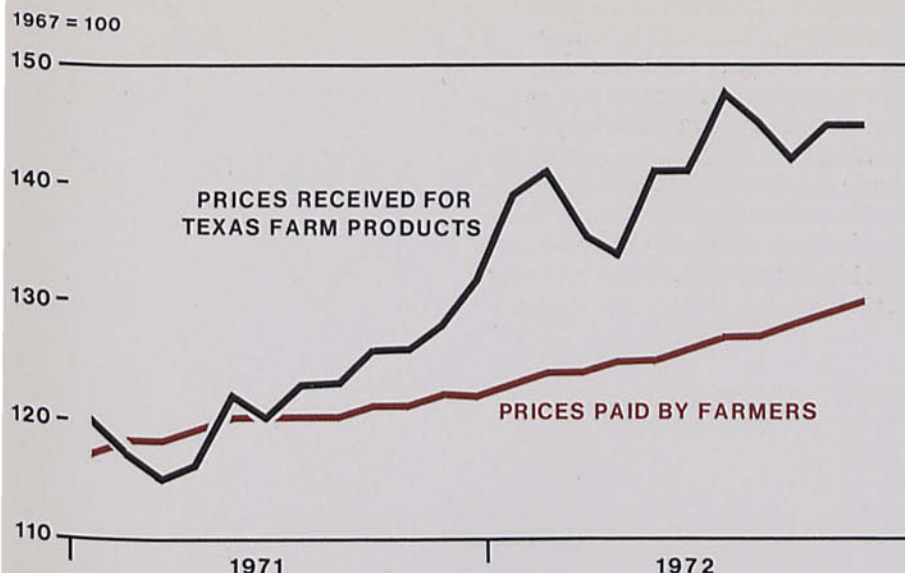
Reflecting the increased borrowing in 1972, agricultural credit outstanding at commercial banks in the District advanced more than 22 percent in the year ended June

30, with growth evenly distributed between real estate and non-real-estate loans.

Other major credit institutions provided further evidence of the increase in agricultural lending. In Texas, for example, loans outstanding at both production credit associations and the Federal Land Bank of Houston rose 14 percent in the year ended last September. The Farmers Home Administration also recorded significant increases in loans, especially for rural housing.

A significant portion of the funds obtained by borrowing was used for purchases of new equipment as farmers replaced older, less efficient machinery. For example, over 50 percent more tractors were sold (on a unit basis) in the District states in the first eight months of 1972 than in the same period a year before. Sales of other farm equipment also posted gains.

... as prices received surge ahead of prices paid



SOURCE: U.S. Department of Agriculture

As more funds became available, the demand for farmland also increased significantly. In the year ended last March, prices of farmland in the District states increased an average of nearly 9 percent, compared with 8 percent for the nation. Louisiana and Texas, with average price gains of 12 percent and 10 percent, respectively, led the District states.

Another significant development in 1972 was the record level of agricultural exports. Farmers in the District were unable to fully participate in the early expansion due to the 1971 drought and resulting short crops. Where the nation recorded a 4-percent increase in exports in the fiscal year ended June 30, exports from the District states declined 13 percent. In the second half of 1972, District exports—especially of rice, wheat, and feed grains—expanded in line with increased

production. However, shipments of cotton, traditionally the District's largest export crop, lagged because of slower demand.

A look ahead

Prospects for 1973 seem very favorable for both crop and livestock producers in the District. Strong demand for farm products is expected to continue, bolstered by expanding personal income, a growing domestic population, and strengthening foreign demand. Farm income, therefore, is apt to remain near the record level of 1972.

Both farm population and the number of commercial farms will likely continue to decline as off-farm employment alternatives remain good and the consolidation of farm units continues. And these developments should mean a rising average income per farm. Although a decline is expected in farm popu-

lation, the number of rural residents will likely increase as modern highway systems and spreading metropolitan centers offer more families the opportunity for urban employment with rural residence.

Improved international relations should continue to strengthen agricultural exports. The problem of surplus commodities that plagued U.S. agriculture in the 1960's has been virtually eliminated. Any increased demand, therefore, will be reflected in stronger average farm prices and subsequent production increases. But to prevent producers from overreacting to extreme price fluctuations, Government programs will probably seek to strike a balance between supply and demand.

The outlook for major District crops appears good. Although 1972 feed grain production declined only slightly from the record 1971 crop and wheat stocks were quite large early last year, record exports brought about important shifts in the situation by year-end. Provided exports maintain their 1972 levels and domestic consumption continues to expand, average grain prices should increase this year.

Cotton production in 1972 surged an estimated 2 million bales over disappearance, raising carry-over to about 5 million bales. To head off increased stocks and depressed prices, growers are expected to cut production this year to just under 12 million bales, a level that should just about equal estimated disappearance.

Demand for soybeans continues to expand more rapidly than production, keeping supplies tight and prices strong. Prices for rice are also expected to hold strong as world demand continues to expand.

Livestock producers can expect to receive significant support from increased consumer demand. Rising personal income levels, together with strong consumer preference for beef, will probably absorb the projected increase in beef production and sustain the favorable price

levels reached in 1972. A turnaround in pork production is expected early this year, although no major price decline is anticipated. The poultry situation should improve. Prices of broilers and turkeys may remain above the low levels last year in spite of an expected increase in production. A decline in numbers of layers is expected to decrease egg production and strengthen prices.

Although farm incomes and prices have improved, farmers and ranchers must be very cautious of excessive production that would

reverse the picture for prices and incomes. Even in 1972, the total new supply of agricultural commodities outpaced demand despite an unexpectedly sharp rise in export demand. If agricultural production is to expand at a rate faster than domestic population growth, trade must expand. But this trade is subject to sudden shifts, and care must be exercised to avoid misinterpretation of short-run situations.

-Carl G. Anderson, Jr.
Dale L. Stansbury

Patterns Already Set Limit Choices to Be Made

The President submits his FY '74 budget to Congress this month. Work on the budget, which becomes effective July 1, began a year ago—18 months before the start of FY '74.

It will provide a fairly clear statement of how the Administration thinks the nation's resources might best be allocated. Its size and the President's plan for financing it will affect production, employment, and the rate of rise in prices. And the choice of taxes he proposes will determine how various groups are to help shoulder the burden of paying for Government services.

And yet, much of the budget will reflect established trends to which the Administration (and the nation) can only adapt.

Larger budgets . . .

The budget has grown rapidly over the past ten years. Total outlays rose from \$111.3 billion in FY '63 to \$231.6 billion in FY '72—or at an annual rate of 8.5 percent. Much of this was due to inflation. Measured in terms of the purchasing power of the 1972 consumer dollar, although not necessarily that of Government-spent dollars, the increase was from \$153.9 billion in FY '63—an average annual increase of 4.6 percent. During that time, constant-dollar GNP grew an average of only 3.4 percent a year. As a percentage of GNP, Government spending was clearly inching ahead, rising from 19.4 percent in FY '63 to 21.1 percent in FY '72.

The fastest rise was in expenditures on human resources. Spending on health care in FY '72, for example, was more than 12 times greater than in 1963. Most of the increase has come since enactment of the Medicare program in 1967.

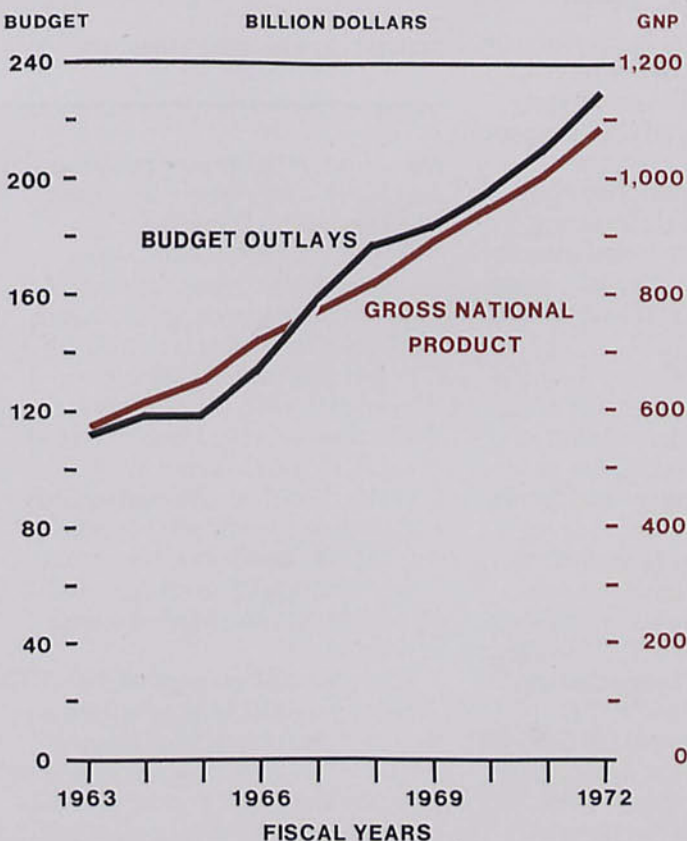
The program now covers 95 percent of the people over age 65. In addition, spending on education and manpower training programs has increased more than six times since 1963. And payments for income security (mainly Social Security) have increased almost three times.

With these increases in outlays have come marked shifts in the composition of Government expenditures—in the allocation of resources. Although Defense spend-

ing, for example, has increased almost \$26 billion, it now accounts for only a third of the Government's total spending, compared with almost half in FY '63. Meanwhile, outlays for health care have increased from little more than 1 percent of the budget to over 7 percent. And spending for income security has increased from 22 percent to 28 percent.

Although federal spending has risen sharply over the past ten

Growth in budget outlays outpaces GNP



SOURCE: The Budget of the United States Government, 1973

years, receipts, too, have almost doubled. This increase in revenues has been due both to an increased revenue yield from existing taxes as the economy expanded and to changes made in the tax laws to help finance new social programs.

But there has also been a clear shift in the types of taxes the Government emphasizes. Payroll taxes have been the fastest rising of all taxes, replacing corporation income taxes as the second largest source of revenue.

Individual income taxes still account for about 45 percent of Government receipts. But where Social Security taxes, mainly on wages and salaries, accounted (along with employers' contributions) for 19 percent of budget receipts in FY '63, they accounted for over 27 percent in FY '72. And where corporation income taxes accounted for 20 percent in FY '63, they accounted for only 15 percent in FY '72.

As a percentage of family income, payroll taxes are now the largest taxes paid by families earning up to \$10,000 a year—and that is about half the families.

And this shift in emphasis continues. In line with the growing outlays for health care and income maintenance, Social Security taxes were increased again this month.

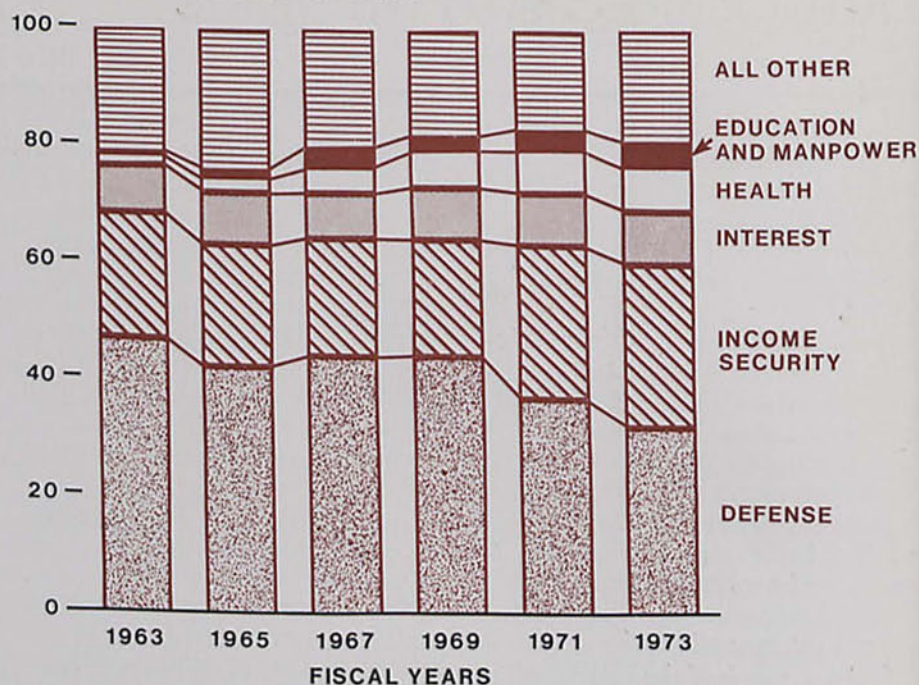
... harder to control

As the Government has grown bigger, so has the problem of controlling the budget. Essentially uncontrollable items—mainly trust funds, such as Social Security, and permanent or indefinite appropriations, such as veterans' benefits—made up 71 percent of the budget authority requested in the FY '73 budget. And these items are expected to exceed 75 percent by FY '77.

Ultimately, of course, all Government programs are controllable. Trust funds, for example, were created by legislative action and can be altered or eliminated in the same way. Barring such congressional action, however, funds for

Defense spending declines relative to other budget outlays

PERCENT OF TOTAL BUDGET OUTLAYS



1973 estimated

SOURCE: The Budget of the United States Government, 1973

the uncontrollable programs are not subject to a yearly appropriations review by Congress.

The importance of these programs outside the appropriations procedures has been pointed up in the President's efforts to hold FY '73 spending under \$250 billion. The agency with the largest budget authority is the Department of Health, Education, and Welfare. But the President can control only a little over a tenth of its expenditures, the rest being from trust funds for Social Security, disability insurance, and Medicare and Medicaid.

More than 80 percent of the Treasury's \$27.7 billion budget authority is for payment of interest on the national debt—another major item the President cannot control.

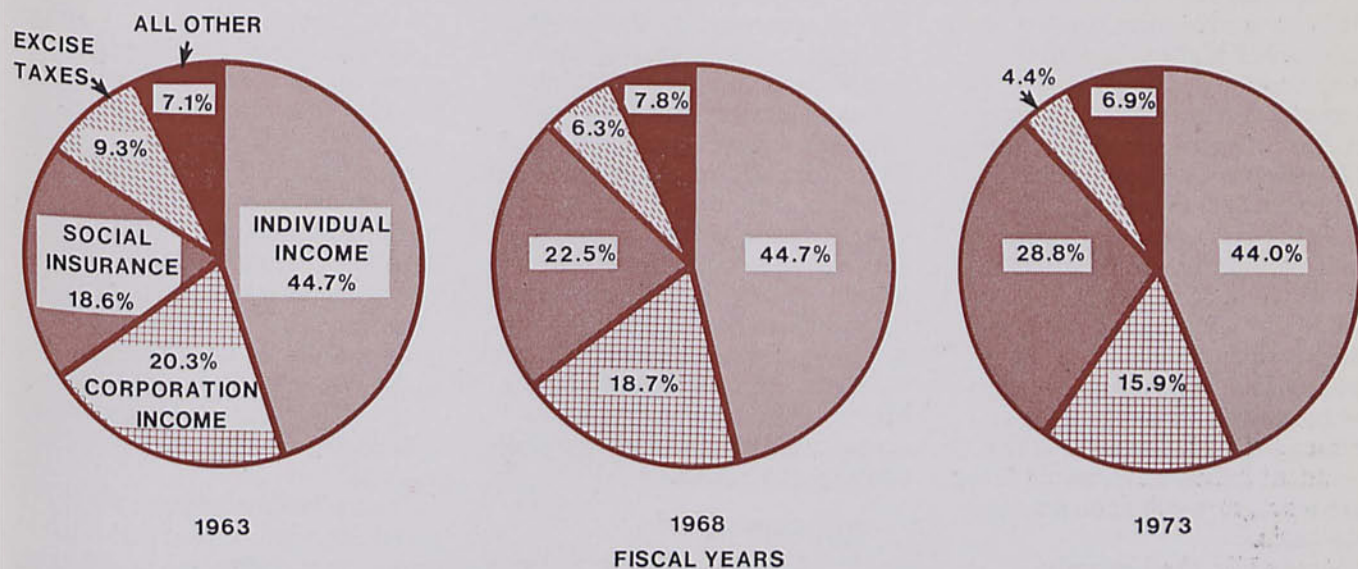
The uncontrollable portions of the budgets of these two agencies alone account for more than \$100 billion in the FY '73 budget.

One place where sizable amounts could be cut in FY '73 is in the Defense budget, which contains almost two-thirds of the controllable items. Over half the Defense budget, however, goes for military and civilian pay. And with personnel levels already close to the lowest in years, any further cuts in personnel would be hard to make.

The number of active-duty personnel, for example, is down 1.2 million from peak Vietnam levels to a point lower than when the buildup began in 1964. Any sizable cut in Defense spending, therefore, would have to come out of military investment—procurement, research and development, and military construction. And these are items that have already been pared by Congress and the Administration.

Spending could also be reduced in some other relatively controllable areas, such as federal grants-in-aid, and payments under some

Social insurance replaces corporation income as second largest source of federal tax revenue



programs could be postponed. To help reduce the budget deficit still further, additional revenue could be raised by the Government through the sale of assets, such as oil leases and mineral and timber rights.

So in FY '74 ...

Even if the President can hold expenditures to \$250 billion in FY '73, the large deficits of recent years might easily continue. Without any major new programs, projections by both the Brookings Institution and the American Enterprise Institute show expenditures growing by about \$50 billion over the next two years, reaching \$300 billion in FY '75. During that time, with no tax increases, receipts will probably grow about \$60 billion, reaching \$283 billion. That—assuming full employment—will still leave a deficit of \$17 billion.

Most of the projected increase in Government spending comes

from programs already established. Defense spending, for example, is apt to rise at least \$10 billion—primarily reflecting both projected price increases and greater reliance on strategic forces. The biggest item in this category will probably be development of a new sea-based missile system.

But movement to an all-volunteer Armed Forces will also push up costs. Military pay has been trending upward for many years. Typically, an Army recruit received \$288 a month last year, compared with \$78 ten years before. A colonel received \$1,933, compared with \$985 a decade before. Additional increases became effective January 1, and still more may be needed to attract volunteers. Incentive bonuses tied to an escalator plan are already scheduled for FY '74.

Actual Defense expenditures could, in fact, exceed the \$10 billion expected rise. The budget

makes no allowance for possible cost overruns on defense contracts. But a survey conducted by the General Accounting Office two years ago showed that 52 major weapon-system contracts were overrun an average of 30 percent.

But as in other recent years, the biggest increases are apt to be in areas other than defense. For all his efforts to cut Government spending, the President has not been able to reduce the costs of established social programs—or even prevent their rise.

Under the President's own plan to increase Social Security payments, for example, the cost would have risen almost \$7 billion in FY '73. And Congress increased payments enough to raise the bill another \$2 billion.

The uptrend in this type spending shows no sign of abating. With a growing number of beneficiaries becoming eligible for Social Se-

curity payments, the cost of the program will be some \$8 billion higher in FY '75—without any further increases in benefits. And Medicare and Medicaid will push the cost still higher. As with the basic Social Security program, the increases will be due to the combination of an increased number of beneficiaries and substantially higher benefits already enacted.

Without any new programs, health-related spending will rise an estimated \$5 billion by FY '75. And by then, there could be substantial support for some kind of national health insurance. A presidential commission recently recommended such a move, and the President indicated he would favor such a program—albeit on a voluntary basis.

Meanwhile, the Kennedy-Griffiths bill for a Health Security Act is pending in Congress. Passage of this or some other national health plan would add significantly

to Government spending. According to the Department of Health, Education, and Welfare, the Kennedy-Griffiths program would cost \$90 billion a year. By eliminating the need for Medicare and Medicaid, it would cost a net \$60 billion.

Revenue sharing will also increase the budget—probably about \$8.3 billion this fiscal year. Enacted last year, this program to share federal revenue with state and local governments comes, paradoxically, when state and local government expenditures are beginning to run surpluses. During the current fiscal year, state and local governments are expected to collect revenues exceeding their aggregate expenditures by \$15 billion.

... and years beyond

As the Administration begins work on the budget for still another fiscal year, many of the conditions that limited its choices in preparation of the FY '74 budget clearly con-

tinue. But while the Government seems likely to run deficits in its spending through FY '75, the outlook is for these deficits to begin decreasing somewhat.

With continued improvements in employment, revenues should begin catching up with spending on current programs sometime after FY '75, creating the possibility of a turnaround by FY '77—provided no substantive changes are made in existing programs and no new programs are initiated. Then, the U.S. Government, like state and local governments, could begin running small surpluses. Before that, however, other factors will have started influencing the Administration's options.

Even allowing for the unlikely possibility that further major increases in spending can be avoided, taxes may have to be raised to reduce the inflationary consequences of deficit spending in an economy nearing full employment.

Decisions to be made over the next two or three years, then, might include the need for higher taxes. Taxes can be increased essentially three ways—

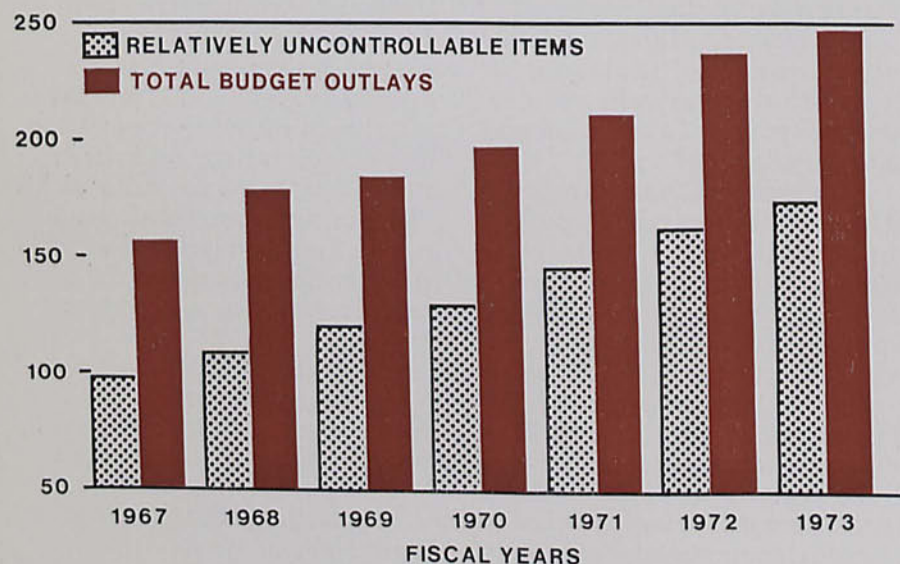
- By raising rates on the current tax base
- By changing the tax base
- By imposing a new tax

Raising rates on a given tax base is a fairly straightforward way of increasing revenue. The Government could balance its budget as early as FY '75 merely by imposing a 10-percent surtax on individual and corporation income taxes. The effect of such a change would, of course, be a 10-percent increase in the tax itself.

Changing the tax base is not so simple. Often falling within the realm of reform, the matter of redefinition of the base is usually devoted to what many consider the closing of loopholes. A staff report for the Joint Economic Committee shows that major federal tax subsidies cost the Government almost \$36 billion in FY '71. If this esti-

Uncontrollable items increase in relative importance

BILLION DOLLARS



1972 and 1973 estimated

SOURCE: U.S. Office of Management and Budget

mate is anywhere close—and even if the costs of these tax subsidies did not increase between FY '71 and FY '75—the budget could be balanced by eliminating only half the special provisions used to reduce tax liabilities.

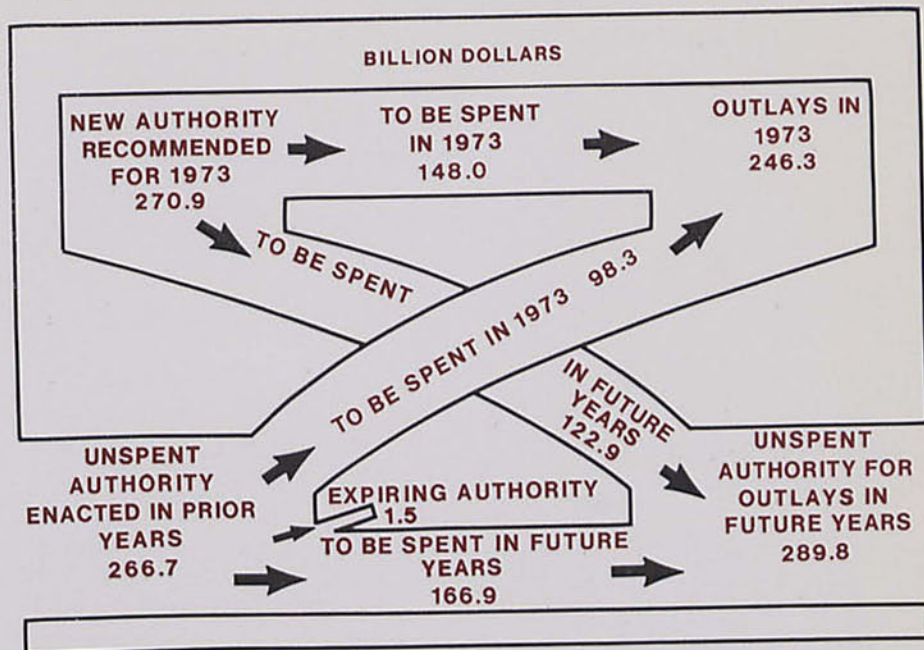
But which half? All these provisions benefit groups that want to keep them. And as Chairman Wilbur Mills of the House Ways and Means Committee has said, they were written into law by presumably rational men for presumably rational reasons.

Probably the only realistic possibility for a new tax would be on consumption—such as a sales tax or the often-mentioned value-added tax. A tax on consumption, however, tends to be regressive. Taking a declining portion of income as income rises, it falls heaviest on lower income groups. Historically, taxes of this kind have been opposed in this country.

The most likely expectation is that rates will be raised and some tax provisions changed to redefine the tax base.

Some such tax revisions may be needed. For the budget to be balanced under the current tax structure by FY '77, there can be no major changes in federal programs—and not only do the provisions of existing programs tend to change but demands for additional programs develop constantly. The Government can exercise discretion in meeting the demands on it only if revenue is available or general economic conditions will allow

Budget authority in one year affects outlays in future years



SOURCE: The Budget of the United States Government, 1973

deficits. And the need for a more balanced budget could become serious long before FY '77.

With the economy coming closer to full employment, a decision about Government revenues will have to be made. And like all decisions regarding the budget, the action taken (or not taken) will require that the public pay—either directly through higher taxes or indirectly through inflation.

—George E. Garrison



Federal Reserve Bank of Dallas

January 1973

Statistical Supplement to the Business Review

Total credit at weekly reporting banks in the Eleventh District rose sharply in the four weeks ended December 20, largely reflecting heavy borrowing by businesses. The increase in bank credit was accommodated through sizable inflows of deposits.

Total loans, adjusted for a small decline in loans sold outright to bank affiliates, advanced substantially. While business loans accounted for most of the increase, real estate and consumer installment loans also showed strength.

With the increase in loan demand, banks added only moderately to their holdings of securities. Acquisitions of municipal issues accounted for most of the expansion, but banks also increased their holdings of short-term Government securities. Holdings of longer-term Government issues were reduced somewhat.

Total deposits expanded markedly during this period, principally reflecting the sizable inflow of demand deposits. There was a moderate increase in time and savings deposits, although, as is typical at that time of year, large CD's declined somewhat. Despite the large deposit inflows, banks increased slightly their reliance on nondeposit sources of funds to further accommodate credit demands.

Seasonally adjusted total employment in the five southwestern states was up again in November, breaking October's record high and posting its fifth consecutive month-to-month rise. The new level was 3.3 percent above a year earlier. The unemployment rate for November fell to 4.0 percent from 4.4 percent in October. The rate in November 1971 was 4.7 percent.

All categories of nonfarm employment showed gains over a year before. The strongest advances were in construction (7.7 percent), finance (5.4 percent), and durable manufacturing (5.0 percent). The only category reporting a month-to-month decline in employment was the service industries—down 0.1 percent. Durable goods manufacturing showed the largest increase over October, a gain of 0.8 percent. Employment in construction and nondurable manufacturing also posted strong gains.

Registrations of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio rose 1 percent in November, reaching a level 13 percent above a year earlier. Cumulative registrations for the first 11 months of 1972 were 12 percent higher than for the same period in 1971.

Department store sales in the Eleventh District were 14 percent greater in the four weeks ended December 23 than in the corresponding period in 1971. Cumulative sales through that date were 11 percent higher than in the comparable period a year before.

The seasonally adjusted Texas industrial production index rose 1.2 percent in November to 134.5 percent of its 1967 base. Gains were reported in all three major sectors of the index—manufacturing, mining, and utilities. Nationwide production also showed advances in all sectors. Since the start of 1972, the Texas index has risen nearly 10 percent.

In manufacturing, durable goods production continued to provide the primary impetus, rising 2.7 per-

cent over October. All durable goods industries showed both month-to-month and year-to-year increases. The largest gains over October were in the output of fabricated metals, primary metals, and electrical machinery. Nondurable manufacturing rose slightly in November, despite decreases in textile mill products, chemical and allied products, and petroleum refining.

Mining also advanced slightly, with increases in the output of crude oil and natural gas liquids more than offsetting declines in the production of natural gas and metal, stone, and earth minerals. Output of utilities showed a sharp rise of 4.2 percent, as the distribution of electricity rebounded from its sizable drop a month before.

Prices received by Texas farmers and ranchers advanced slightly in the month ended November 15, reaching a level 14 percent above a year before. Unlike price increases in other recent months, the November rise was centered in crops, as livestock prices declined somewhat. Grain sorghum, rice, barley, and hay posted increases that more than offset declines in prices of beef cattle, calves, and poultry. However, the livestock price index remained 16 percent higher than a year earlier, while crop prices were only 6 percent higher.

Higher prices, together with an increase in total production, boosted receipts from farm marketings in the Eleventh District states to \$5.7 billion through the first ten months of 1972—15 percent more than for the same period of 1971. The rate of increase in receipts in the District states has been moderately better than in the nation as a whole.

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

	Dec. 20, 1972	Nov. 22, 1972	Dec. 22, 1971
ASSETS			
Federal funds sold and securities purchased under agreements to resell.....	1,426,193	1,155,718	1,057,662
Other loans and discounts, gross.....	8,769,102	8,591,470	7,351,540
Commercial and industrial loans.....	3,844,157	3,745,310	3,352,197
Agricultural loans, excluding CCC certificates of interest.....	228,941	227,801	158,300
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities.....	1,340	1,308	1,111
Other securities.....	85,438	92,924	50,565
Other loans for purchasing or carrying:			
U.S. Government securities.....	6,773	7,173	5,594
Other securities.....	471,444	468,999	441,323
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies.....	169,601	153,431	158,127
Other.....	790,237	761,632	521,543
Real estate loans.....	1,181,469	1,158,942	912,761
Loans to domestic commercial banks.....	24,486	21,067	23,099
Loans to foreign banks.....	15,750	16,676	32,572
Consumer installment loans.....	957,837	941,926	821,816
Loans to foreign governments, official institutions, central banks, and international institutions.....	0	0	0
Other loans.....	991,629	994,281	872,532
Total investments.....	3,803,437	3,713,575	3,306,206
Total U.S. Government securities.....	985,988	984,323	1,045,700
Treasury bills.....	192,957	177,797	102,801
Treasury certificates of indebtedness.....	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year.....	160,790	140,954	154,929
1 year to 5 years.....	440,645	470,547	601,470
After 5 years.....	191,596	195,025	186,500
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills.....	242,089	210,995	80,135
All other.....	2,326,306	2,279,211	1,983,238
Other bonds, corporate stocks, and securities:			
Certificates representing participations in federal agency loans.....	14,138	14,832	21,213
All other (including corporate stocks).....	234,916	224,214	175,920
Cash items in process of collection.....	1,441,486	1,395,610	1,457,254
Reserves with Federal Reserve Bank.....	843,013	821,915	1,189,135
Currency and coin.....	118,406	99,929	99,114
Balances with banks in the United States.....	394,297	435,216	444,095
Balances with banks in foreign countries.....	12,368	11,777	16,312
Other assets (including investments in subsidiaries not consolidated).....	672,129	636,362	495,869
TOTAL ASSETS.....	17,480,431	16,861,572	15,417,187

	Dec. 20, 1972	Nov. 22, 1972	Dec. 22, 1971
LIABILITIES			
Total deposits.....	13,501,860	13,102,401	11,835,858
Total demand deposits.....	7,360,838	6,984,161	6,729,369
Individuals, partnerships, and corporations.....	5,099,208	4,930,000	4,686,248
States and political subdivisions.....	527,334	533,035	295,267
U.S. Government.....	246,094	147,995	246,836
Banks in the United States.....	1,289,113	1,230,063	1,370,758
Foreign:			
Governments, official institutions, central banks, and international institutions.....	2,891	3,753	2,380
Commercial banks.....	40,551	45,501	36,014
Certified and officers' checks, etc.....	155,647	93,814	91,866
Total time and savings deposits.....	6,141,022	6,118,240	5,106,489
Individuals, partnerships, and corporations:			
Savings deposits.....	1,210,157	1,201,429	1,084,034
Other time deposits.....	3,249,738	3,304,316	2,731,466
States and political subdivisions.....	1,536,025	1,461,580	1,169,278
U.S. Government (including postal savings).....	25,253	29,726	11,768
Banks in the United States.....	107,634	107,089	89,043
Foreign:			
Governments, official institutions, central banks, and international institutions.....	11,095	13,000	19,800
Commercial banks.....	1,120	1,100	1,100
Federal funds purchased and securities sold under agreements to repurchase.....	1,943,667	1,920,670	1,888,624
Other liabilities for borrowed money.....	244,609	85,731	44,271
Other liabilities.....	472,214	432,799	425,053
Reserves on loans.....	142,045	141,057	135,510
Reserves on securities.....	17,413	17,829	22,164
Total capital accounts.....	1,158,623	1,161,085	1,065,707
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS.....	17,480,431	16,861,572	15,417,187

DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

Date	DEMAND DEPOSITS			TIME DEPOSITS	
	Total	Adjusted ¹	U.S. Government	Total	Savings ¹
1970: November..	10,843	7,570	206	8,622	2,167
1971: November..	11,641	8,231	166	10,025	2,491
December..	11,981	8,388	266	10,273	2,509
1972: January....	12,313	8,510	300	10,607	2,528
February....	11,983	8,382	281	10,864	2,552
March.....	12,118	8,515	300	10,978	2,430
April.....	12,470	8,696	314	10,938	2,640
May.....	12,268	8,530	384	11,075	2,660
June.....	12,320	8,553	280	11,233	2,688
July.....	12,529	8,694	289	11,304	2,714
August.....	12,420	8,824	226	11,441	2,717
September..	12,619	8,933	254	11,492	2,744
October....	12,866	9,034	264	11,618	2,770
November..	12,844	9,321	222	12,009	2,786

1. Other than those of U.S. Government and domestic commercial banks, less cash items in process of collection
r-Revised

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	Nov. 29, 1972	Oct. 25, 1972	Nov. 24, 1971
ASSETS			
Loans and discounts, gross.....	17,021	16,154	14,028
U.S. Government obligations.....	2,338	2,328	2,352
Other securities.....	5,340	5,363	4,415
Reserves with Federal Reserve Bank.....	1,350	1,723	1,726
Cash in vault.....	318	326	271
Balances with banks in the United States.....	1,241	1,334	1,183
Balances with banks in foreign countries.....	12	15	12
Cash items in process of collection.....	1,548	1,888	1,508
Other assets.....	1,300	1,233	1,004
TOTAL ASSETS.....	30,468	30,364	26,499
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks.....	1,594	1,788	1,666
Other demand deposits.....	11,100	11,107	9,797
Time deposits.....	12,159	11,710	10,076
Total deposits.....	24,853	24,605	21,539
Borrowings.....	2,224	2,409	1,809
Other liabilities.....	1,225	1,191	1,243
Total capital accounts.....	2,166	2,159	1,908
TOTAL LIABILITIES AND CAPITAL ACCOUNTS.....	30,468	30,364	26,499

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	5 weeks ended Dec. 6 1972	4 weeks ended Nov. 1, 1972	4 weeks ended Dec. 1, 1971
Total reserves held.....	1,734,604	1,951,896	1,733,502
With Federal Reserve Bank.....	1,454,854	1,668,597	1,473,813
Currency and coin.....	279,750	283,299	259,689
Required reserves.....	1,668,625	1,929,517	1,723,119
Excess reserves.....	65,979	22,379	10,383
Borrowings.....	48,802	21,444	4,438
Free reserves.....	17,177	935	5,945

e—Estimated

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			
	November 1972 (Annual-rate basis)	Percent change			November 30, 1972	Annual rate of turnover		
		November 1972	November 1971	11 months, 1972 from 1971		November 1972	October 1972	November 1971
ARIZONA: Tucson.....	\$11,443,020	19%	24%	26%	\$271,827	38.6	30.9	32.6
LOUISIANA: Monroe.....	4,345,308	2	24	21	111,238	37.6	35.9	35.2
Shreveport.....	15,089,124	4	19	17	295,484	48.9	46.6	46.4
NEW MEXICO: Roswell ²	990,348	0	-6	0	44,959	22.3	22.8	23.9
TEXAS: Abilene.....	2,694,408	-2	9	13	124,398	22.1	22.8	23.2
Amarillo.....	8,740,380	-6	21	20	193,109	43.9	45.9	42.8
Austin.....	13,863,420	6	8	16	422,269	32.6	30.8	34.6
Beaumont-Port Arthur-Orange.....	7,415,976	2	8	5	266,279	26.9	26.1	26.9
Brownsville-Harlingen-San Benito.....	2,654,736	6	-5	18	104,408	25.7	24.5	31.0
Bryan-College Station.....	1,406,466	-8	13	23	51,806	26.6	29.1	26.6
Corpus Christi.....	8,140,236	3	5	14	288,876	29.7	30.2	29.3
Corsicana ²	564,240	6	9	5	35,843	15.6	14.7	16.0
Dallas.....	170,820,744	12	19	12	2,749,718	60.2	54.4	59.1
El Paso.....	11,011,500	11	43	18	296,735	35.4	31.4	27.4
Fort Worth.....	29,876,772	1	20	9	821,578	36.7	37.2	35.2
Galveston-Texas City.....	3,590,652	-5	21	5	124,314	28.4	28.8	27.0
Houston.....	154,698,528	7	19	21	3,217,342	48.0	45.3	45.8
Laredo.....	1,306,632	6	14	13	50,963	25.2	23.7	26.5
Lubbock.....	5,383,920	-9	15	10	191,313	28.3	31.9	26.4
McAllen-Pharr-Edinburg.....	2,780,784	0	36	35	142,677	19.1	19.8	17.7
Midland.....	2,414,880	-2	8	7	147,516	16.2	16.1	15.7
Odessa.....	1,880,220	0	1	9	109,281	17.0	17.4	19.7
San Angelo.....	1,795,248	-2	13	15	77,948	22.8	23.2	22.7
San Antonio.....	24,087,624	6	7	8	864,698	27.6	26.6	31.0
Sherman-Denison.....	1,298,208	-1	3	10	75,206	16.8	17.0	17.9
Texarkana (Texas-Arkansas).....	1,819,512	6	8	14	84,581	21.3	20.2	20.9
Tyler.....	3,629,592	9	41	20	115,252	30.6	28.0	24.7
Waco.....	4,068,756	3	6	15	149,750	27.1	27.2	28.7
Wichita Falls.....	3,146,400	2	11	13	131,210	23.7	23.0	22.5
Total—29 centers.....	\$500,957,634	7%	18%	15%	\$11,560,578	42.7	40.1	41.4

1. Deposits of individuals, partnerships, and corporations and of states and political subdivisions

2. County basis

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

Item	Dec. 20, 1972	Nov. 22, 1972	Dec. 22, 1971
Total gold certificate reserves.....	211,268	302,317	496,061
Discounts for member banks.....	191,155	13,075	975
Other discounts and advances.....	0	0	0
U.S. Government securities.....	3,103,764	3,169,044	3,275,522
Total earning assets.....	3,294,919	3,182,119	3,276,497
Member bank reserve deposits.....	1,392,108	1,384,976	1,696,569
Federal Reserve notes in actual circulation.....	2,280,725	2,221,198	2,132,291

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	November 1972	October 1972	September 1972	January—November 1972	1971r
FIVE SOUTHWESTERN STATES ¹	775	864	960	10,497	8,432
Residential building.....	445	478	526	5,398	4,157
Nonresidential building.....	183	242	266	2,776	2,524
Nonbuilding construction.....	147	145	169	2,323	1,751
UNITED STATES.....	7,248	8,225	8,197	85,029	73,948
Residential building.....	3,663	4,298	4,135	42,296	31,735
Nonresidential building.....	2,184	2,384	2,378	24,935	23,657
Nonbuilding construction.....	1,402	1,544	1,684	17,798	18,557

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

NOTE: Details may not add to totals because of rounding.

SOURCE: F. W. Dodge Division, McGraw-Hill Information Systems Company

BUILDING PERMITS

VALUATION (Dollar amounts in thousands)

Area	NUMBER				Percent change		
	Nov. 1972	11 mos. 1972	November 1972	11 mos. 1972	Nov. 1972 from		
					Oct. 1972	Nov. 1971	11 months, 1972 from 1971
ARIZONA							
Tucson.....	438	7,640	\$11,008	\$160,563	32%	178%	98%
LOUISIANA							
Monroe-West	50	998	705	22,921	-11	-2	38
Shreveport.....	446	5,136	8,649	59,005	107	152	-28
TEXAS							
Abilene.....	56	760	1,593	16,381	79	120	43
Amarillo.....	105	1,797	1,507	30,546	-71	-16	-2
Austin.....	449	6,003	10,860	218,931	-27	-48	24
Beaumont.....	208	2,325	1,076	25,358	-14	-20	40
Brownsville.....	91	1,154	1,109	13,221	-87	119	41
Corpus Christi.....	287	4,257	3,893	57,528	-5	-27	-5
Dallas.....	1,174	17,950	32,841	360,612	92	61	30
Denison.....	22	354	1,252	3,868	628	636	40
El Paso.....	666	6,487	10,410	161,364	-33	26	50
Fort Worth.....	320	4,548	5,900	84,485	-46	-24	-24
Galveston.....	71	822	748	12,439	-56	-45	6
Houston.....	3,022	38,965	52,296	585,717	3	47	3
Laredo.....	43	567	299	12,544	274	-57	67
Lubbock.....	195	2,116	7,173	58,597	55	57	10
Midland.....	76	1,014	633	17,137	29	55	34
Odessa.....	73	968	1,030	22,817	398	-78	89
Port Arthur.....	61	971	142	4,950	-27	-35	-14
San Angelo.....	80	780	722	8,036	18	145	-18
San Antonio.....	1,172	16,211	13,148	208,973	-30	17	81
Sherman.....	38	487	851	7,315	195	61	38
Texarkana.....	62	641	512	6,733	88	-86	-36
Waco.....	175	2,337	3,669	36,238	1	16	48
Wichita Falls.....	74	880	827	14,090	-37	-82	-37
Total—26 cities.....	9,454	126,168	\$172,853	\$2,210,369	3%	18%	20%

CITRUS FRUIT PRODUCTION

(Thousand boxes)

State and crop	Indicated 1972	1971	1970
ARIZONA			
Oranges.....	5,100	4,900	3,560
Grapefruit.....	2,600	2,540	2,520
TEXAS			
Oranges.....	6,800	5,800	6,200
Grapefruit.....	10,400	9,200	10,100

SOURCE: U.S. Department of Agriculture

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Five Southwestern States¹

(Seasonally adjusted)

Item	Thousands of persons			Percent change Nov. 1972 from	
	November 1972p	October 1972	November 1971r	Oct. 1972	Nov. 1971
Civilian labor force.....	8,553.5	8,582.6	8,348.5	-0.3%	2.5%
Total employment.....	8,215.1	8,208.2	7,953.1	.1	3.3
Total unemployment.....	338.5	374.4	395.4	-9.6	-14.4
Unemployment rate.....	4.0%	4.4%	4.7%	-2.4	-2.7
Total nonagricultural wage and salary employment....	6,721.7	6,704.2	6,464.5	.3	4.0
Manufacturing.....	1,177.0	1,169.6	1,132.2	.6	4.0
Durable.....	644.6	639.8	613.7	.8	5.0
Nondurable.....	532.4	529.8	518.5	.5	2.7
Nonmanufacturing.....	5,544.7	5,534.6	5,332.2	.2	4.0
Mining.....	227.6	227.6	227.0	.0	.3
Construction.....	454.1	451.0	421.5	.7	7.7
Transportation and public utilities.....	458.4	458.3	449.2	.0	2.0
Trade.....	1,595.3	1,592.2	1,525.0	.2	4.6
Finance.....	360.7	360.0	342.3	.2	5.4
Service.....	1,085.6	1,086.5	1,042.3	-.1	4.2
Government.....	1,362.9	1,359.1	1,325.0	.3	2.9

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

2. Actual change

p—Preliminary

r—Revised

NOTE: Details may not add to totals because of rounding.

SOURCES: State employment agencies

Federal Reserve Bank of Dallas (seasonal adjustment)

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1967 = 100)

Area and type of index	November 1972p	October 1972	September 1972	November 1971
TEXAS				
Total industrial production.....	134.5	132.9	131.6r	124.6
Manufacturing.....	138.3	136.6	133.4r	127.4
Durable.....	150.3	146.3	143.9	137.6
Nondurable.....	129.7	129.6	125.9r	120.0
Mining.....	122.1	121.9	122.1r	112.4
Utilities.....	146.3	140.4	150.4r	145.4
UNITED STATES				
Total industrial production.....	118.5	117.2	116.1r	107.4
Manufacturing.....	117.8	116.4	115.3r	106.0
Durable.....	112.5	111.3	109.9r	99.1
Nondurable.....	125.2	123.8	123.4r	115.9
Mining.....	110.4	109.6	110.2r	102.5
Utilities.....	147.4	146.8	145.6r	136.0

p—Preliminary

r—Revised

SOURCES: Board of Governors of the Federal Reserve System
Federal Reserve Bank of Dallas

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	Percent change from				
	November 1972	October 1972	November 1971r	October 1972	November 1971
FOUR SOUTHWESTERN					
STATES.....	6,941.1	7,020.0	6,563.7	-1.1%	5.7%
Louisiana.....	2,556.2	2,609.3	2,495.0	-2.0	2.5
New Mexico.....	296.0	296.0	314.8	-0.0	-6.0
Oklahoma.....	537.6	557.3	585.2	-3.5	-8.1
Texas.....	3,551.3	3,557.4	3,168.7	-.2	12.1
Gulf Coast.....	733.4	731.6	593.2	.2	23.6
West Texas.....	1,748.9	1,738.5	1,602.9	.6	9.1
East Texas (proper).....	242.6	246.5	168.9	-1.6	43.6
Panhandle.....	66.5	66.6	70.0	-.2	-5.0
Rest of state.....	759.9	774.2	733.7	-1.8	3.6
UNITED STATES.....	9,540.6	9,603.5	9,201.2	-.7%	3.7%

r—Revised

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