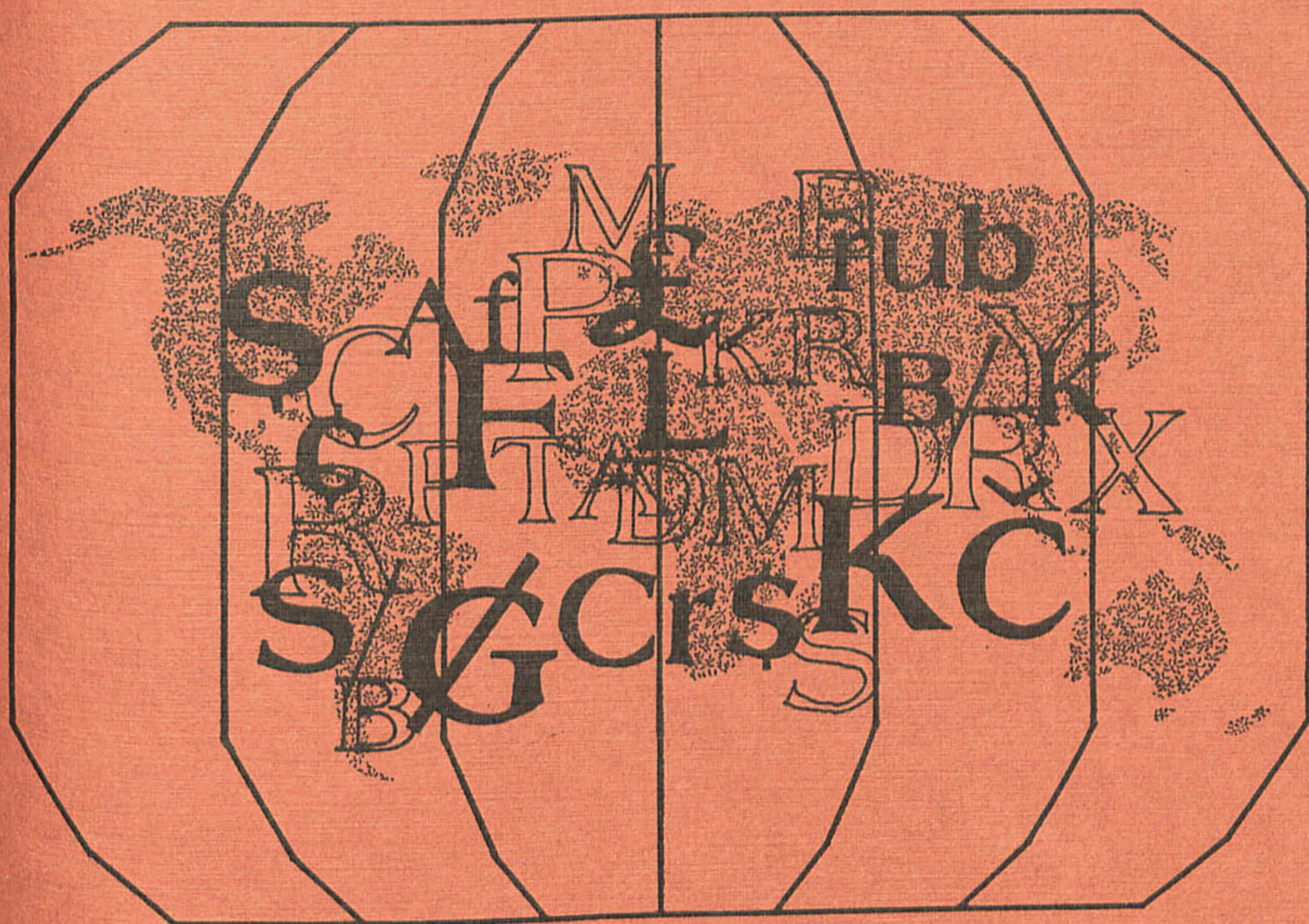
Federal Reserve Bank of Dallas

Business Review



The International Sources of Domestic Inflation
-An Address by Philip E. Coldwell

August 1973

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The International Sources Of Domestic Inflation

An Address by

Philip E. Coldwell
President
Federal Reserve Bank of Dallas

at the

Southwestern Graduate School of Banking
Southern Methodist University
Dallas, Texas

August 1, 1973

It is no news to you or any other group of sophisticated bankers that the United States dollar has been severely buffeted in international exchange markets over the past few years and, especially, in 1973. Neither do we need to spend time on the long history of events and policies which brought the dollar to this depreciated condition. Excessive foreign aid, military endeavors, and capital outflows–coupled with domestic deficits–have brought a surplus of dollars where a shortage existed only 25 years ago. Instead of tracing this chain of events, I intend to spend the evening showing why our current inflationary problem is accentuated by our international problems and then suggesting some measures to alleviate the situation. Of course, I speak only for myself and not for the Federal Reserve System or my colleagues.

Starting from a broad viewpoint, it seems obvious that inflation is presently a worldwide problem. To some extent, our difficulties are the same as those of nations abroad because most countries suffer from large wage-cost increases, shortages of primary raw material resources, and excessive credit supplies. The underlying causes appear to include decades of overreliance upon government, excessive promises of guaranteed employment and income to all citizens, and a resultant weakening in the self-reliant fabric of the work force. Perhaps we should not be too surprised by this sequence, but other factors are also important. With the growth of international competition for food and energy and the lack of proportionate supply increases, the pressures on prices have risen materially. At the same time, new concerns for environmental protection have reduced the efficiency of energy use and interfered with the growth of new sources of supply.

To a considerable extent, the past decade has also reflected a marked shift in trading patterns and the emergence of a number of new and efficient competitors. The countries losing in this competitive race found their adjustments in labor and resources especially painful. On the other hand, the new industrial nations found markets encouraging rapid expansion of capacity and large balance-of-payments surpluses inflating their money supplies. Concomitantly, the large multinational firms aided and abetted these shifts of production and resources and were, in themselves, significant sources of capital and credit movements.

In this environment of turmoil, there developed a new complication–the devaluation of the world's primary currency and the rapid revaluations of other currencies. The new parities of December 1971 were expected to lead to an improved trade position for the United States. The 1973 devaluation was designed to complete the adjustment and help stabilize rate movements. However, there have developed increased destabilizing changes in exchange rate relationships, bringing even greater inflationary pressures. Thus, the entire world is now facing a problem of inflation, with some countries being particularly hard hit and least able to protect themselves. Beyond doubt, the United States position is among the most difficult, as the nation is seeing the depreciation of its currency, the breakup of the dollar-gold exchange standard, and the rising need for imports of basic materials and energy. Let us focus now upon the international prob-

lems which appear to be among the aggravating causes of inflation in the United States.

Of prime importance have been the two devaluations and the subsequent depreciation of the dollar. Under current floating arrangements, the dollar has steadily fallen in terms of other leading currencies; and with each decline, the costs of American imports increase. In terms of past relationships and practices, the new floating position is distinctly unfavorable to the United States. Under the old fixed-rate system and even through the malaise of late 1971 and 1972, other nations were obliged to support the dollar by purchases to maintain the rate relationships within the band of intervention. While (as we will note later on) the old system placed many dollars in the hands of central banks abroad and some of these came back in the form of U.S. security purchases, the new system is geared primarily to a changing rate relationship without dollar accumulation. The impact of the continuously depreciating exchange rate for dollars has meant both a steady increase in costs of tourism and other expenditures abroad and a rising effective cost of imports into the United States.

Perhaps equally important has been the deterioration of confidence in the dollar because of our huge balance-of-payments deficits of the past few years, our trade deficits since 1970, and rapid inflation at home. These have engendered a loss of confidence, of material proportions, apparently influencing many financial transactions and political relationships involving the economic and financial position of this nation. It seems safe to assume that this confidence problem has been of some significance in our inability to reach a solution to the problem of a new international monetary mechanism. Similarly, all trading and dollar exchange must be affected as both governments and private corporations seek to protect against losses from further devaluations or depreciation in exchange rates.

The devaluations of 1971 and 1973 were both partly responsible for rising prices in the United States. As companies sought to improve their profit margins after sizable profit declines in 1970 and early 1971, the prices of American products were raised, often by the amount of the devaluation. Simultaneously, the hoped-for effects of devaluation were partially offset by the very large domestic budget deficits and the ample availability of credit supplies in the United States. These internal developments reduced and deferred the favorable effects expected from the 1971 devaluation and reinforced expectations of a further devaluation. Such expectations were manifest in corporate policies of protection in the form of both early price increases and credit and payment actions which exerted further pressure on dollar exchange rates.

Moreover, with foreign purchases of United States securities in effect financing a steadily larger share of the domestic deficits, the U.S. Treasury could avoid drawing upon domestic financing sources, thus leaving additional purchasing power in the hands of American banks and consumers and forgoing the fiscal policy restraints such sales at home would have created. In fiscal 1971-73, foreign purchases of U.S. Government securities totaled $48 billion and financed over 70 percent of the total deficits and 80 percent of the increase in United States marketable debt in the three fiscal years. In these three years, foreign purchases of special nonmarketable debt reached $23.1 billion, or only slightly below the $24.7 billion of marketable securities purchased.

It is clear that had such massive amounts been raised domestically, there would have been sizably higher interest rates and, perhaps, also greater monetization of the debt by reserve creation. The foreign purchases even allowed liquidation of private holdings of about $13 billion in the three-year period, thereby affording greater spending power to United States citizens and corporations. Foreign purchases were almost three times Federal Reserve purchases in this period. The chain of events–with U.S. domestic deficits financing both foreign and domestic expenditures but, in turn, being financed largely by foreign purchases of American securities–has permitted greater expansion of credit and consumer payments and has supported price increases at home and abroad.

The impact of the devaluations and subsequent depreciation of the dollar is also measured in the costs of imports. Part of this impact stems from the increasing reliance upon imports for both consumer and business purchases. Over the past decade particularly, the movement of certain consumer goods production from the United States to solely foreign factories has placed the American consumer in the position of virtually total reliance upon foreign production. Examples of this are evident in watch, radio, and television assembly. In addition, U.S. consumer purchases of foreign automobiles

now represent nearly 20 percent of the domestic market. Similarly, U.S. purchases of apparel, shoes, and cotton and wool fabrics have accelerated to very large proportions of the total domestic market.

In the case of business raw materials, two sectors are especially noticeable. U.S. imports of steel, magnesium, nickel, copper, and similar raw metals have, in some cases, reached dominant levels. Second, the developing shortage of energy has boosted the value of American imports of oil by nearly 50 percent in the past year and promises to double such imports in coming years.

With this background of growing reliance upon foreign raw materials and manufactured goods, the devaluations were particularly important. Price increases for foreign products often fell short of the total devaluation but, in some cases, may have exceeded it by a considerable margin. Without alternative domestic suppliers, U.S. citizens were forced to pay the higher prices and inflationary pressures were accentuated. Concomitantly, where American firms were in competition, the new price advances by foreign competitors gave domestic producers leeway to raise their profit margins by nearly matching the price increases. Where the commodity purchased was used as a raw input to the final product, there were obviously price pressures to meet these higher costs.

A special impact of the international economic and financial upsets is evident in the agricultural price arena. With dollar devaluation encouraging the purchase of American agricultural products and with the poor crops abroad in 1972 generating a strong demand, significant exports of grains increased sharply, especially through the large sale to Russia. This competitive demand for grains with no domestic price limits caused excessively rapid price increases, which–as costs to the cattle and other food industries–were the compelling reasons for price advances in these industries also.

While one cannot attribute all of the domestic food price increases to the devaluations or subsequent depreciations, they were certainly important factors. The confluence of the cattle and hog cycles and the competitive pressures exerted by speculative bidding for the low level of grain carryovers were accentuated by foreign sales of grain in the summer of 1972. Since that time, prices for grains have skyrocketed as even further erosion of dollar exchange rates attracted more foreign purchases. Moreover, price speculation in commodities seems to accelerate with each further dollar rate decline. In effect, the dollar depreciation is placing American goods, especially agricultural products, at bargain prices for foreigners and encouraging them to bid at dollar prices, which competitively stimulate even higher domestic prices.

Still another area of price increase from devaluation and further depreciation of the dollar has been in the service sector. In tourism, there has been an obvious and continuing increase in costs to American travelers. Less apparent have been the rising costs of transportation of goods and products and the sharp advance in credit costs.

With both the United States and other industrial nations suffering inflationary pressures, the usual tools of credit restraint have caused rapid increases in interest rates. Since the general rate structure in Europe and the United Kingdom has traditionally been higher than in the United States and because European rates moved upward at a more rapid pace in late 1972 than did rates in the United States, there was an attraction of interest-sensitive money to foreign investments which further aggravated the money supply advances in those countries. This same outflow continued to permit United States deficits without concomitant credit increases but, obviously, increased our balance-of-payments deficits. However, when foreign central banks returned the dollars by way of investments in U.S. Government securities, the domestic deficit was financed and the buildup of Treasury balances eventually flowed back to banks and the public, causing an increase in available funds.

Since February, with the second devaluation of the dollar, and early March, when exchange markets closed, the international financial system has been operating on a modified floating base, with increasingly severe exchange controls in other nations but little change in United States controls. As U.S. inflation accelerated and confidence weakened, the dollar since mid-May has almost steadily declined in value against some of the other major currencies. For example, with the recent 5.5-percent revaluation of the German mark, the dollar is now one-quarter below its February relation to the mark. Obviously, the costs of German goods and services are now sharply higher in relative terms than those of the United States; and while this has materially improved American producers' com-

petitive positions, it has also raised the costs of all German imports into the United States.

There are many reasons for this continued depreciation of the dollar, and among them is the position of the United States relative to other major industrial nations with regard to exchange controls and limits on currency movements. In many of the EEC countries, there are separate rules for commercial and financial exchanges, severe reserve requirements, or negative interest returns on incoming dollars. A few central banks abroad have, in effect, sterilized net inflows of dollars by 100-percent reserve requirements, and some have refused to permit interest to be paid on such dollar inflows. In the meantime, the United States has taken virtually no action on exchange controls and, indeed, has promised to remove existing ones, such as those under the IET, VFCR, and OFDI programs.

The instabilities of the current exchange rates have caused massive covering efforts to protect importers and exporters from the vicissitudes of changing rates. This forward cover also has raised the costs of doing business since rates for forward contracts in marks or Swiss francs range from 3 to 6 percent just for 30-day coverage. It is obvious that most exporters attempt to sell their products at a profit and can ill afford an adverse exchange rate movement which significantly reduces their profit on each sale. One must be sympathetic with the exporters of products which take four to six months' lead time to deliver because those firms must either accept a sizable rate risk or pay for forward cover.

The crux of the problem is our lack of progress toward a new international exchange mechanism. One major roadblock to settlement on a new international monetary exchange mechanism is the very large overhang of United States dollars in nonresident hands. Foreign central banks and ministries and international organizations hold more than $70 billion in their official reserves, but about three-fourths of this total is concentrated in the hands of five countries. At the same time, there are additional billions in Eurodollars in nonofficial hands, and these wash back and forth in destabilizing movements. Speculators and large corporate holders move such funds in ways largely counter to the long-run stability of the monetary system. It seems rather clear to me that the overhang of dollars must be neutralized and contained before any new monetary system can be developed and sustained. Multinational consultations have been under way for some time to consider proposals for limiting the flows of Eurocurrencies, but no conclusions have been reached as yet.

In the meantime, the aura of instability reinforced by a second U.S. dollar devaluation and further German mark revaluations has caused significant shifts in corporate policies to protect against an erosion of the value of dollar balances. The use of Eurocurrencies has facilitated this corporate protection effort, as has the traditional, but now accentuated, use of leads and lags in payments.

In the absence of progress toward a new mechanism, there has developed a *de facto* mechanism of controlled floats buttressed by exchange controls. In my view, this latter system is an especially difficult and troublesome one for the United States. With few controls from the American side and with a joint float plus controls in some of the EEC countries, the dollar has been kicked from pillar to post. While admitting all of the confidence problems stemming from Watergate, a rising inflation psychology, and a growing doubt of our resolve to cure our problems, I am unwilling to believe that the dollar is truly valued at current exchange rates. Nevertheless, for our purposes, we must accept the market judgment, and this has been reflected in a steady depreciation of the dollar.

While it may be too early to condemn completely the present system of floating rates with exchange controls, I think the system has already shown many of the instabilities which most central bankers feared. I doubt that a system of freely floating rates would be acceptable to most nations, for it requires too great a degree of sacrifice of sovereignty over local currencies and domestic monetary and fiscal policies. Moreover, such a system provides little guidance to the exporter as to the exchange rate under which he would be paid for future deliveries. Finally, it does not appear to provide the degree of stability needed for other market processes or intergovernmental payments.

Many of the foregoing disadvantages of freely floating rates are evident in the present system, as well as a few more because of the uncertainties of central bank intervention, the joint floats of some EEC countries, and the lack of a unifying currency of intervention and transactions. Indeed, as I view it, the present system is the least desirable of the currently discussed alternatives. In effect, it creates a

bloc arrangement with exchange barriers, instability, and a wide range of uncertainties.

In a short address of this nature, it is impossible to detail all of the ramifications of the declining dollar, but certainly there must be effects far beyond just the sheer rate changes. If nothing else, it is symptomatic that even the United Nations is considering changing its accounts away from denomination in United States dollars. More importantly, this reflects an attitude of concern, a loss of confidence, and an expectation of further deterioration. Such attitudes must be prevalent in many quarters throughout the world and must reflect in business and investor decisions regarding dollar-denominated assets.

Another effect from this steady depreciation is the continued shift in ownership of Eurodollars and the speculative positions developing against the dollar. As dollars are sold in these runs, the new holders must decide whether to hold, invest, or sell their new dollars. As exchange rates move down, more and more of the new owners appear to be deciding in favor of prompt sales of their new dollar holdings, which places further downward pressure on rates. In other words, with the declining confidence, the spiral of downward rate adjustments accelerates, and with each move the dollar becomes cheaper in relation to the other major currencies in Europe. Such depreciation is promptly reflected in increases in dollar prices of goods and services in Europe and in similar increases in prices of goods exported to dollar-bloc countries.

Each round of dollar depreciation takes its toll of the dominant use of the dollar since World War II, both as a reserve asset and as a transactions currency between foreign nations. Even in the South American countries, which have generally moved their currencies parallel with the dollar in devaluations, there is a move toward asset diversification into other currencies to protect against the loss of value in their official reserves.

We and other nations must also be concerned with the sharp advances in gold prices. While the March 1968 agreement to create a two-tier gold price is still in effect, the speculation in gold has forced prices on the free market above $125 per ounce, or nearly three times the current monetary price. Obviously, many people in the Free World are becoming distrustful and skeptical of the values of major currencies and are moving into gold as a safe haven. Prices of gold stocks, coin, and even bullion are moving up rapidly; and with each advance, new purchases from the United States must meet the higher level with more dollars.

In summary, then, the United States inflation is being aggravated by current international financial problems and relationships. It would be an overstatement to say that all inflationary pressures originate in these international problems, but it would be an equal misstatement to say that our inflation is entirely domestic in nature. We should recognize the inflationary impact of our domestic budget deficits, the large reserve creation, and the hesitancy in imposing interest rate and reserve restraints; but compounding and even accelerating the inflationary impact are the international problems sketched previously.

What can be done about these problems? In my opinion, it is critical that the United States take prompt action to reestablish confidence in the dollar, minimize the effects of the present floating rate-exchange control system, sterilize the large dollar overhang, and force an early resolution of the trade and monetary mechanism problems. To these ends, I recommend the following five-point program.

1. Propose an immediate monetary conference with the objectives of (a) agreeing upon a new international monetary mechanism, (b) reducing the barriers to trade, (c) neutralizing promptly the large overhang of dollars abroad, and (d) obtaining prompt multilateral sanctions to limit transactions of speculators and control Eurocurrency movements.
2. Until the results of such a conference are available, return promptly to semifixed parities, with a reasonably wide band of permissible fluctuation and a wholehearted dedication of central bank assets for intervention to hold such rates.
3. If either of the above is rejected, then impose selective tariff surcharges designed to offset the net barriers to United States products presently existing in other countries. Such surcharges should recognize the net deficit or surplus position of the United States in relation to each country and should be created to limit imports to levels which would redevelop equilibrium between the United States and other principal industrial nations. Due regard to special situations and countries supplying products not available elsewhere would be given in designing these selective surcharges.

4. Issue a special U.S. Government security of ten-year maturity with an attractive coupon rate of, say, 10 percent, open for purchase only by nonresident holders of dollars. A similar issue of foreign currency-denominated bonds could be used as a supplement. The dollar-denominated issue would include an exchange rate guarantee against further dollar depreciation.
5. Reinforce rather than eliminate present exchange controls of the United States. Impose a sizable tax on tourist travel by taxation of airline tickets to non-U.S. points except those in underdeveloped nations. Elimination of the allowance of $100 of duty-free foreign purchases could also be a part of this legislation.

Admittedly, the steps outlined here would be drastic measures, but, in my opinion, the continuance of present policies and procedures will jeopardize the whole trade structure and lead to isolationism and contraction. The United States can ill afford any policies which perpetuate the deterioration of its currency, whether such policies are domestic or international. Some observers may consider these suggestions too severe, but the problem is sufficiently important and timely to warrant aggressive steps to reduce the uncertainties of the present situation and minimize the inflationary impact by stabilizing exchange rates.

In the final analysis, the United States must dedicate itself to noninflationary growth, adopting policies which provide for fiscal restraint and monetary balance. If these are not adopted, then correction of our international problems will provide only transitory relief because they will recur.

The views expressed are those of the author and do not necessarily reflect the position of the Federal Reserve System or the opinions of any of his associates.

New member bank

The Rockwall Bank, National Association, Rockwall, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business July 13, 1973, as a member of the Federal Reserve System. The new member bank has capital of $200,000, surplus of $200,000, and undivided profits of $100,000. The officers are: Don Monroe, President, and Alfred Webb, Vice President and Cashier.

New par banks

The Guaranty Bond State Bank, Waller, 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 July 3, 1973. The officers are: J. C. Umland, President; Roy H. Cook, Vice President; and Miss Georgia Stephan, Cashier.

The Texas Independence Bank, Pasadena, 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, July 5, 1973. The officers are: J. Doug Toole, Chairman of the Board; R. F. Knepley, President; and John D. Lazrine, Vice President and Cashier.

The Bank of Frio Canyon, Leakey, Texas, an insured nonmember bank located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, July 16, 1973. The officers are: Jack W. Buchanan, President, and Murray L. Decker, Cashier.

The Lakeside Commerce 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, July 19, 1973. The officers are: W. S. Pebworth, Jr., Chairman of the Board; David D. Wilson, President; Robert J. Walz, Vice President; and Andy Jackson, Cashier.

Federal Reserve Bank of Dallas
August 1973

Statistical Supplement to the Business Review

Total credit at weekly reporting banks in the Eleventh District decreased in the five weeks ended July 25, primarily reflecting a decline in bank holdings of municipal securities. Total loans increased significantly.

On balance, total loan demand was stronger than in comparable periods of recent years. Although business loans accounted for most of the strength, the increase in real estate loans was also substantial.

Total investments declined sharply as banks obtained loanable funds mainly through the sale of municipal securities. Bank holdings of U.S. Government securities increased slightly, although there was some selling of Treasury bills and one to five-year Treasury notes and Government bonds.

Total deposits fell, with a sharp decline in demand deposits more than offsetting a moderate rise in time and savings deposits. The gain in time and savings deposits was due to an increase in large negotiable CD's outstanding. Bank use of nondeposit sources other than Federal funds increased somewhat, mainly through a substantial rise in Eurodollar borrowings.

The seasonally adjusted Texas industrial production index advanced 1.4 percent in June to a level 6.3 percent above a year before. All the monthly increase resulted from gains in manufacturing and mining, as utilities output was unchanged.

In manufacturing, nondurable goods production rose 1.9 percent during the month. Chemicals and allied products, petroleum refining, and textiles had the biggest increases. Food processing and printing and publishing reported declines.

Durable goods manufacturing rose 0.6 percent, boosted largely by expanded production of furniture and fixtures, electrical machinery, and lumber and wood products. Stone, clay, and glass products and fabricated metal products were the only durable goods showing month-to-month decreases in output.

Mining activity rose 2.0 percent in June on the strength of a 2.9-percent increase in the production of crude petroleum. Natural gas production rose slightly, but output of natural gas liquids and metal, stone, and earth minerals declined. There was no noticeable change in utilities output, as a slight increase in the distribution of gas was offset by a slight decrease in the distribution of electricity.

The proposed Phase IV rollback in crude prices has caused concern among Eleventh District oil producers with stripper wells–wells producing up to only ten barrels a day. Producers fear that the cutback will dampen efforts to rework wells to increase or extend their productivity. Once such wells are abandoned, there is little likelihood that they will be returned to production or that secondary recovery operations will be undertaken.

Although production from individual strippers is small, as a category they account for 10 percent of Texas production. Nationwide, they account for 13 percent.

The Texas Railroad Commission continues to set production allowables in the state at maximum levels. The commission has warned, however, that rapid rates of production are drawing down reserves. New discoveries amount to only about a tenth of the state's oil and gas production. At commission hearings, requests for Texas oil have become smaller, due to the widespread knowledge that in spite of demand, adequate production is simply not available.

Registrations of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio declined 8 percent in June but were still 4 percent higher than in June 1972. Cumulative registrations for the first half of 1973 were 18 percent greater than for the same period in 1972. Dallas had a year-to-year gain of 22 percent for the six months, Houston had 18 percent, Fort Worth had 17 percent, and San Antonio had 11 percent.

Department store sales in the Eleventh District were 16 percent higher in the four weeks ended July 28 than in the comparable period last year. Cumulative sales through that date were 13 percent greater than in the corresponding period in 1972.

Seasonally adjusted total employment in the five southwestern states slipped somewhat in June, after rebounding in May. In spite of the decline, however, the new level was still 3.2 percent above a year earlier. With almost no change in the labor force, the unemployment rate edged upward again–its fourth consecutive monthly rise.

Nonagricultural employment fell 0.2 percent. Employment in manufacturing increased, as both durable and nondurable goods industries recorded 0.1-percent gains. Nonmanufacturing employment slipped 0.3 percent, with declines in all categories except finance and

(Continued on back page)

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	July 25, 1973	June 20, 1973	July 26, 1972
Federal funds sold and securities purchased under agreements to resell	824,792	898,020	930,762
Other loans and discounts, gross	9,719,604	9,676,602	8,032,420
Commercial and industrial loans	4,422,717	4,385,995	3,606,025
Agricultural loans, excluding CCC certificates of interest	265,105	272,463	190,757
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	822	400r	1,157
Other securities	43,322	57,641r	79,337
Other loans for purchasing or carrying:			
U.S. Government securities	7,805	4,968	3,904
Other securities	491,611	491,647	405,784
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	171,374	194,301	141,599
Other	613,621	657,586	633,692
Real estate loans	1,358,093	1,337,205	1,052,565
Loans to domestic commercial banks	30,053	37,044	15,343
Loans to foreign banks	60,768	60,432	30,549
Consumer instalment loans	1,038,005	1,032,215	896,265
Loans to foreign governments, official institutions, central banks, and international institutions	552	500	0
Other loans	1,215,756	1,144,205	975,443
Total investments	3,860,880	3,900,189	3,611,296
Total U.S. Government securities	919,985	918,216	969,712
Treasury bills	133,954	140,162	140,494
Treasury certificates of indebtedness	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	153,920	147,499	139,025
1 year to 5 years	467,258	470,949	519,031
After 5 years	164,853	159,606	171,162
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	105,766	160,338	112,014
All other	2,565,626	2,573,989	2,290,758
Other bonds, corporate stocks, and securities:			
Certificates representing participations in federal agency loans	8,406	8,564	14,833
All other (including corporate stocks)	261,097	239,082	223,979
Cash items in process of collection	1,302,072	1,413,184	1,419,258
Reserves with Federal Reserve Bank	691,517	1,061,942	840,014
Currency and coin	120,368	114,593	106,676
Balances with banks in the United States	386,474	362,777	422,781
Balances with banks in foreign countries	13,088	14,621	10,769
Other assets (including investments in subsidiaries not consolidated)	801,272	797,020	589,676
TOTAL ASSETS	17,720,067	18,238,948	15,963,652

r—Revised

LIABILITIES	July 25, 1973	June 20, 1973	July 26, 1972
Total deposits	13,189,212	13,489,523	12,366,254
Total demand deposits	6,581,554	6,933,226	6,801,081
Individuals, partnerships, and corporations	4,675,285	4,838,097	4,745,803
States and political subdivisions	445,402	512,987	382,146
U.S. Government	146,629	242,658	209,100
Banks in the United States	1,118,563	1,195,297	1,325,987
Foreign:			
Governments, official institutions, central banks, and international institutions	3,673	2,779	3,085
Commercial banks	90,852	48,870	37,681
Certified and officers' checks, etc.	101,150	92,538	97,279
Total time and savings deposits	6,607,658	6,556,297	5,565,173
Individuals, partnerships, and corporations:			
Savings deposits	1,159,957	1,185,236	1,182,641
Other time deposits	3,579,515	3,512,876	2,817,833
States and political subdivisions	1,743,657	1,730,795	1,433,507
U.S. Government (including postal savings)	31,304	30,026	24,484
Banks in the United States	80,505	84,844	89,808
Foreign:			
Governments, official institutions, central banks, and international institutions	12,600	12,400	15,800
Commercial banks	120	120	1,100
Federal funds purchased and securities sold under agreements to repurchase	2,380,640	2,599,961	1,798,496
Other liabilities for borrowed money	228,794	228,703	70,660
Other liabilities	527,217	544,556	441,924
Reserves on loans	163,919	162,237	141,252
Reserves on securities	13,819	13,966	18,397
Total capital accounts	1,216,466	1,200,002	1,126,669
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	17,720,067	18,238,948	15,963,652

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	June 27, 1973	May 30, 1973	June 28, 1972
ASSETS			
Loans and discounts, gross	18,976	18,404	15,548
U.S. Government obligations	2,283	2,317	2,325
Other securities	5,932	6,042	5,172
Reserves with Federal Reserve Bank	1,239	1,438	1,441
Cash in vault	345	335	305
Balances with banks in the United States	1,289	1,377	1,168
Balances with banks in foreign countries[e]	18	18	20
Cash items in process of collection	1,605	1,952	1,701
Other assets[e]	1,519	1,478	1,106
TOTAL ASSETS[e]	33,206	33,361	28,786
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,613	1,730	1,658
Other demand deposits	11,519	11,737	10,549
Time deposits	13,394	13,326	11,265
Total deposits	26,526	26,793	23,472
Borrowings	3,126	3,018	1,851
Other liabilities[e]	1,258	1,266	1,512
Total capital accounts[e]	2,296	2,284	1,951
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	33,206	33,361	28,786

e—Estimated

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
1971: June	11,354	7,960	230	9,573	2,423
1972: 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
December	13,439	9,688	289	12,261	2,812
1973: January	13,636	9,802	317	12,501	2,815
February	13,270	9,516	379	12,811	2,817
March	13,203	9,454	395	13,038	2,848
April	13,237	9,550	331	13,249	2,855
May	13,136	9,502	341	13,336	2,859
June	13,218	9,551	279	13,374	2,884

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

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	4 weeks ended July 4, 1973	5 weeks ended June 6, 1973	4 weeks ended July 5, 1972
Total reserves held	1,758,533	1,747,854	1,864,412
With Federal Reserve Bank	1,461,612	1,459,210	1,599,904
Currency and coin	296,921	288,644	264,508
Required reserves	1,770,282	1,751,036	1,861,509
Excess reserves	—11,749	—3,182	2,903
Borrowings	93,590	96,911	430
Free reserves	—105,339	—100,093	2,473

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]			
	June 1973 (Annual-rate basis)	Percent change: June 1973 from May 1973	Percent change: June 1973 from June 1972	Percent change: 6 months, 1973 from 1972	June 30, 1973	Annual rate of turnover: June 1973	Annual rate of turnover: May 1973	Annual rate of turnover: June 1972
ARIZONA: Tucson	$12,592,687	−8%	30%	32%	$351,955	36.8	40.6	32.0
LOUISIANA: Monroe	4,739,388	4	11	22	117,014	40.0	38.1	39.3
Shreveport	16,785,110	4	21	17	314,707	52.9	49.5	46.6
NEW MEXICO: Roswell[2]	1,279,658	7	30	13	50,770	25.8	25.0	23.4
TEXAS: Abilene	3,214,708	3	22	19	142,000	22.6	22.7	21.8
Amarillo	11,053,490	17	32	27	226,029	48.1	41.9	43.0
Austin	14,182,903	8	16	11	522,240	27.7	28.0	26.9
Beaumont-Port Arthur-Orange	8,082,127	5	14	14	281,130	28.3	26.8	25.9
Brownsville-Harlingen-San Benito	3,416,195	9	37	22	121,010	27.6	25.3	24.8
Bryan-College Station	1,506,863	−10	15	15	58,181	25.9	28.6	24.7
Corpus Christi	8,342,141	1	14	13	285,918	29.0	29.2	27.0
Corsicana[2]	668,786	6	10	26	41,307	16.0	15.3	17.7
Dallas	207,582,883	8	35	21	2,975,516	68.2	63.0	55.5
El Paso	11,751,244	11	24	18	317,978	36.5	33.6	30.7
Fort Worth	32,385,019	4	−1	11	841,372	37.9	35.6	41.9
Galveston-Texas City	3,387,584	4	9	16	126,635	26.0	24.7	25.5
Houston	162,844,224	−2	14	19	3,330,401	48.0	48.7	45.7
Killeen-Temple	2,542,842	5	30	26	122,449	20.9	20.4	18.7
Laredo	1,497,937	9	31	23	58,391	24.6	22.2	22.6
Lubbock	8,082,163	5	49	34	222,413	36.0	34.7	28.7
McAllen-Pharr-Edinburg	3,423,784	1	43	30	172,193	19.4	19.4	17.0
Midland	2,695,982	7	6	13	158,646	16.7	15.4	17.0
Odessa	2,560,668	4	33	19	101,208	25.4	24.9	17.9
San Angelo	2,435,362	19	40	23	91,738	26.5	22.2	21.9
San Antonio	27,558,166	2	26	18	897,875	30.3	29.3	26.5
Sherman-Denison	1,485,394	4	15	12	87,292	16.9	16.8	17.2
Texarkana (Texas-Arkansas)	2,094,046	8	7	12	90,366	23.3	21.4	23.1
Tyler	3,034,079	3	10	17	133,553	23.5	23.2	23.8
Waco	4,445,540	−1	6	17	154,586	28.1	28.2	29.3
Wichita Falls	3,585,396	8	20	14	152,019	23.7	22.4	22.2
Total—30 centers	$569,256,369	4%	22%	19%	$12,546,892	44.8	43.2	40.2

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	July 25, 1973	June 20, 1973	July 26, 1972
Total gold certificate reserves	256,671	632,969	230,381
Loans to member banks	112,240	56,275	34,000
Other loans	0	0	0
Federal agency obligations	71,114	52,952	50,300
U.S. Government securities	3,297,589	3,213,532	3,302,951
Total earning assets	3,480,943	3,322,759	3,387,251
Member bank reserve deposits	1,369,458	1,719,105	1,506,566
Federal Reserve notes in actual circulation	2,346,443	2,332,995	2,159,054

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	June 1973	May 1973	April 1973	January—June 1973	January—June 1972r
FIVE SOUTHWESTERN STATES[1]	1,018	1,107	954	5,962	5,955
Residential building	446	578	477	2,967	2,861
Nonresidential building	353	363	282	2,051	1,618
Nonbuilding construction	219	166	195	945	1,476
UNITED STATES	9,910	9,428	8,814	50,433	44,406
Residential building	4,612	4,754	4,512	25,077	21,614
Nonresidential building	2,976	2,629	2,634	15,552	13,147
Nonbuilding construction	2,323	2,045	1,668	9,805	9,646

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

BUILDING PERMITS

Area	NUMBER: June 1973	NUMBER: 6 mos. 1973	VALUATION (Dollar amounts in thousands): June 1973	VALUATION: 6 mos. 1973	Percent change: June 1973 from May 1973	Percent change: June 1973 from June 1972	Percent change: 6 months, 1973 from 1972
ARIZONA							
Tucson	537	3,301	$17,048	$100,325	17%	−7%	−6%
LOUISIANA							
Monroe-West Monroe	108	512	2,156	15,283	−57	109	−7
Shreveport	449	2,673	2,771	45,627	−45	−50	43
TEXAS							
Abilene	90	468	2,466	17,159	−34	165	92
Amarillo	180	981	8,923	31,798	115	298	137
Austin	507	3,048	15,515	124,535	−14	−51	−5
Beaumont	183	1,161	4,890	17,776	59	47	14
Brownsville	79	590	1,049	15,252	−65	−17	119
Corpus Christi	265	1,891	2,196	30,613	−58	−35	−11
Dallas	1,159	8,418	26,095	170,886	−21	−59	−31
Denison	51	177	274	1,723	−3	−23	−5
El Paso	570	3,265	18,050	92,194	−8	9	−7
Fort Worth	423	2,321	8,229	64,993	0	14	68
Galveston	54	333	340	6,065	−75	−28	−18
Houston	2,914	16,382	58,688	391,022	−1	−3	20
Laredo	29	288	700	12,008	−70	−83	28
Lubbock	134	1,029	4,853	44,026	−26	−30	50
Midland	71	523	1,678	9,198	−3	138	−16
Odessa	109	656	2,643	9,181	112	289	−46
Port Arthur	115	674	240	3,987	−87	−35	26
San Angelo	71	483	542	5,338	−46	−15	−37
San Antonio	1,854	10,887	20,045	121,756	5	−7	3
Sherman	47	234	251	3,386	−65	−19	−21
Texarkana	48	314	449	2,372	43	−5	−49
Waco	202	1,224	2,690	20,265	121	−39	13
Wichita Falls	60	445	855	11,325	−77	−46	49
Total—26 cities	10,309	62,278	$203,636	$1,368,093	−9%	−21%	4%

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	June 1973	May 1973	June 1972r	Percent change from May 1973	Percent change from June 1972
FOUR SOUTHWESTERN STATES	6,781.6	6,784.2	7,003.5	0.0	−3.2%
Louisiana	2,319.9	2,329.6	2,516.6	−.4	−7.8
New Mexico	273.8	274.4	297.9	−.2	−8.1
Oklahoma	523.1	546.0	567.6	−4.2	−7.8
Texas	3,664.8	3,634.2	3,621.4	.8	1.2
Gulf Coast	729.9	724.4	743.0	.8	−1.8
West Texas	1,856.9	1,837.2	1,765.2	1.1	5.2
East Texas (proper)	252.1	252.4	216.9	−.1	16.2
Panhandle	66.3	63.6	68.0	4.2	−2.5
Rest of state	759.6	756.6	828.3	.4	−8.3
UNITED STATES	9,366.6	9,363.3	9,586.6	.0	−2.3%

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

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Five Southwestern States[1]

(Seasonally adjusted)

Item	Thousands of persons			Percent change June 1973 from	
	June 1973p	May 1973	June 1972r	May 1973	June 1972
Civilian labor force	8,874.5	8,872.4	8,621.1	0.0	2.9%
Total employment	8,519.4	8,524.7	8,255.4	−.1	3.2
Total unemployment	355.0	347.7	365.7	2.1	−2.9
Unemployment rate	4.0%	3.9%	4.2%	[2].1	[2]−.2
Total nonagricultural wage and salary employment	7,028.4	7,044.9	6,759.8	−.2	4.0
Manufacturing	1,227.6	1,226.1	1,178.8	.1	4.1
Durable	684.3	683.3	644.7	.1	6.1
Nondurable	543.2	542.8	534.1	.1	1.7
Nonmanufacturing	5,800.8	5,818.8	5,581.0	−.3	3.9
Mining	232.3	233.2	230.6	−.4	.7
Construction	479.0	489.2	451.2	−2.1	6.2
Transportation and public utilities	475.0	478.2	462.4	−.7	2.7
Trade	1,685.8	1,691.3	1,615.4	−.3	4.4
Finance	382.9	381.9	359.6	.3	6.5
Service	1,152.2	1,151.2	1,107.7	.1	4.0
Government	1,393.5	1,393.7	1,354.0	.0	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	June 1973p	May 1973	April 1973	June 1972
TEXAS				
Total industrial production	140.0	138.0	136.0r	131.6
Manufacturing	144.2	142.3	140.6r	133.1
Durable	157.1	156.1	156.8	144.7
Nondurable	134.9	132.4	128.9r	124.7
Mining	123.5	121.1	118.1r	121.7
Utilities	162.1	162.2	161.9r	156.4
UNITED STATES				
Total industrial production	123.9	123.5	122.7r	113.4
Manufacturing	123.3	123.1	122.1r	112.5
Durable	119.7	119.1	118.3r	106.8
Nondurable	128.4	128.8	127.7r	121.3
Mining	108.4	108.4	107.9r	108.2
Utilities	150.0	150.6	148.5r	141.0

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

WINTER WHEAT

Area	ACREAGE (Thousand acres)			PRODUCTION (Thousand bushels)		
	For harvest	Harvested				
	Crop of 1973	Crop of 1972	Crop of 1971	Crop of 1973[1]	Crop of 1972	Crop of 1971
Arizona	214	170	173	14,552	11,390	11,764
Louisiana	25	30r	35r	550	690r	805r
New Mexico	332	170r	160	9,296	4,335r	3,840r
Oklahoma	5,070	3,900r	3,600r	157,170	89,700r	72,000r
Texas	3,400	2,000	1,496	95,200	44,000	31,416
Total	9,041	6,270r	5,464r	276,768	150,115r	119,825r

r—revised
1. Indicated July 1
SOURCE: U.S. Department of Agriculture

services. Construction had the biggest loss in employment–2.1 percent. Transportation and public utilities lost 0.7 percent. Nevertheless, employment in all industries in both manufacturing and nonmanufacturing is holding above year-earlier levels, with finance setting the pace.

Crop activities in the Eleventh District states were running a week to two weeks behind schedule through July. Nevertheless, the outlook for all crops remains good, as weather conditions have been generally favorable. Wheat and oat harvests in Texas and Oklahoma were completed with excellent yields.

Soybean plantings in District states are up sharply from last year. Louisiana acreage is 1.75 million, 5 percent more than last year. Texas plantings, at 450,000 acres, are twice last year's level. Oklahoma has a 19-percent gain with 203,000 acres.

Hog and pig numbers in Texas on June 1 were 19 percent lower than a year before. Cattle on feed in the District's four western states numbered 3.4 million on July 1–27 percent of all cattle on feed in the nation's 23 major feeding states. The number represented a gain of 8 percent over a year earlier. In Texas, placements lagged for the third consecutive month, bringing the state's second-quarter placements to only 1.2 million head, 11 percent fewer than for the same period last year. Egg sets and broiler chick placements in Texas from mid-June through mid-July remained well below their corresponding 1972 levels. Louisiana sets and placements held generally steady, however, with increases reported in some areas.

The index of prices received by Texas farmers and ranchers rose 3 percent in the month ended June 15 and was 34 percent above a year earlier. Cash receipts from farm marketings in the District states approached $3.3 billion through the first five months of 1973–23 percent above the same period last year. Crop receipts advanced 37 percent to over $900 million, and livestock receipts rose to almost $2.4 billion, 18 percent higher than a year before.