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International Trade and Finance—
Economic Consequences
Of the OPEC Cartel

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Economic Consequences Of the OPEC Cartel

The Organization of Petroleum Exporting Countries may be the most successful international cartel in history. Supplying more than 85 percent of the oil traded in world markets, it faces little immediate competition from other sources of crude oil.

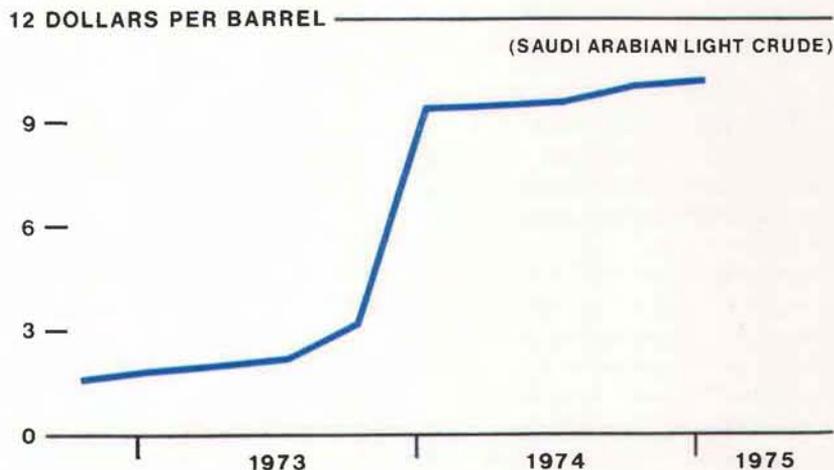
When the 12 OPEC members cut production last year—reducing their output 21 percent from 1973 levels against a world demand that was rising more than 8 percent a year—prices skyrocketed. The posted price of Saudi Arabian light crude oil, for example, rose from \$2.59 a barrel in early 1973 to \$11.25 at the beginning of 1975.

Members of the cartel appropriated the lion's share of the increased revenue in the form of royalties, taxes, and participating crude and by the acquisition of more producing properties. The result was an increase in total export earnings of OPEC members of \$75 billion—from about \$30 billion in 1973 to about \$105 billion in 1974.

The relative price of oil is, nevertheless, very apt to come down. While price hikes have been extremely profitable for OPEC, the quantity of oil demanded could fall over the next five to ten years by about the same proportion as the increase in price, leaving total revenue to producers largely unaffected over the long haul. Meanwhile, higher oil prices are stimulating the search for more oil from outside the cartel.

The cartel may well decide on a strategy of gradually lowering prices as other fuels and other sources of oil are developed. This

OPEC Government Revenues



SOURCE: New York Times

would help reconcile the interests of two groups within OPEC.

Countries with large populations and ambitious plans for development—such as Iran, Venezuela, Iraq, and Algeria—would apparently like to make as much as they can now. They are less concerned about long-run erosion of the market by high prices than countries like Saudi Arabia, Kuwait, and the Persian Gulf sheikdoms, which have more money coming in than they can currently use. If oil prices were allowed to fall slowly, current revenues could still be enhanced without sacrificing as much future income.

The world price of oil could also turn down for an entirely different reason. As efforts to maintain current prices call for more and more cutbacks in production, individual members of the cartel could try to

hold on to their markets by making concessions in the sale of some oil.

There is considerable incentive for such a move. For most of the OPEC countries, the incremental cost of producing an extra barrel of oil is extremely low. It is only about 20 cents in the Persian Gulf—and that includes a reasonable return on investment.

Overall consequences . . .

Even if relative oil prices fall from current levels, importing countries will have to make continuing economic and financial adjustments to high oil prices for some time to come.

Although OPEC receives payment for its oil in U.S. dollars, and to some extent in the British pound sterling, the particular currency used as a means of payment

does not change the adjustments oil-importing countries have to make. Nor does it materially affect the economic position of the United States.

Take, for example, a situation where an Italian company buys OPEC oil with dollars that OPEC then invests in the German capital market. In world currency markets, the Italian purchase of dollars is offset by the OPEC sale, so there is no tendency for the average value of the dollar to change. But these transactions put downward pressure on the lira relative to the mark.

Alternatively, if central banks do not allow the mark-lira exchange rate to vary, the German Federal Bank would gain reserves at the expense of the Bank of Italy. But neither the value of the dollar nor the U.S. balance of payments would be affected.

The impact of higher oil prices on the importing countries depends greatly on what the recipients of dollars or pounds in the OPEC countries decide to do with them. If the recipients are mostly corporations and individuals, much of the money might be exchanged for local currencies and used to buy domestic goods and services or investments.

In this case, if OPEC countries continued to peg the value of their currencies to those of the oil importers, their central banks would have to furnish the local currencies, causing their money supplies to expand and eventually creating inflationary pressures. But as the central banks would normally invest their new reserves in earning assets abroad, the dollars or pounds would be kept in circula-

tion there even when the recipients in OPEC countries decide to spend their new revenues at home.

Practically all the oil payments, in fact, are going to OPEC governments. And as they recognize the inflationary implications of such large amounts of money being spent in their own economies, it is probably safe to assume that most petromoney will not be exchanged for local currencies but, instead, will be used by OPEC governments to buy goods and services or make investments abroad.

... of OPEC imports ...

Since the \$75 billion in extra payments for foreign oil in 1974 would otherwise have been used to buy goods and services in oil-importing countries, the higher oil prices tended to create shortfalls in aggregate demand in their economies, in addition to the deficits in their trade balances. But if OPEC had used all the \$75 billion to buy exports from the importing countries, there would have been no net deficiency of demand or balance-of-payments deficit for these countries, at least as a group.

Because the goods demanded by oil-exporting countries would not necessarily have been those in immediate excess supply in oil-importing countries, a major reallocation of resources would have been needed. But once these adjustments were made, the importing countries would pay the higher price for oil on a current basis by devoting less of their production to their own use and more to exports.

The reduction in the standard of living of oil-importing countries would be less under this adjust-

ment than might be thought—at least for industrial countries. An increase of \$75 billion a year nearly doubles the income of the OPEC group. The loss in economic welfare from cutting back on the absorption of domestic goods and services by this amount comes out to about 2 percent of the national income of industrial countries.¹ And it comes to about 3 percent of the income of less developed countries.

As 2 percent of national income is no more than the normal annual increase in labor productivity in industrial countries, the cost to them amounts to no more than a year's growth in per capita income. However, not only is the increase in the cost of oil greater relative to the national incomes of underdeveloped countries, but their normal rate of growth in per capita income is less than in industrial countries—close to zero in some cases. So, the overall impact of higher oil prices on their standard of living is generally more severe.

... and OPEC investments

If, on the other hand, OPEC used all the \$75 billion of new petromoney for investments in oil-consuming countries while waiting to spend the money on future imports, the effect on the standard of living of the importing countries would depend on the national economic policies of their governments. If petromoney were allowed to flow back into capital investment projects in these countries, the impact on their standard of living would be about the same as if the money were spent on their exports.

To facilitate the complete absorption of petromoney, central

1. As the price of domestic oil rises to meet that of international oil, significant transfers of income take place between producers and consumers within oil-importing countries. But the transfers net to zero as far as the overall standard of living of these countries is concerned.

In the United States, this redistribution has been blunted by a two-price system for petroleum. Imported oil, oil from new wells, and oil from wells producing less than 10 barrels a day sell at the world price. But the price of other domestically produced petroleum is controlled at \$5.25 a barrel. However its effects on the distribution of income are regarded, this system has the disadvantage of tending to suppress the domestic supply compared with what it would be under a single price. This is true because the system encourages investment in new wells even when an equal amount of investment in old wells would be more productive.

banks in oil-importing countries might have to let interest rates fall. But the increased demand for capital needed to expand domestic energy supplies might be enough to offset this normal tendency.

In any case, the increase in expenditures on capital goods would tend to offset the deficiency in aggregate demand created by the higher cost of foreign oil. Once again, a significant reallocation of resources from their present uses would be required. But the extra saving would increase the capital stock of oil-importing countries enough to produce exports in the future that would pay the interest and principal on petromoney debt.

However, the extra \$75 billion in saving from petromoney investments would not be enough to generate a significant increase in the future standard of living of the importing countries. The greater output in the future would be absorbed almost entirely by demands of the OPEC countries when they spend the interest and principal of petromoney debt on imports.²

And their current standard of living would suffer because \$75 billion of current output would no longer be available for either current consumption or capital accumulation to produce goods and services for their own use in the future. Consequently, the effect on both the present and future standard of living of oil-importing countries would be about the same in this case as when OPEC countries use the petromoney to buy imports.

The immediate effect on the standard of living would be lifted if governments of oil-importing

countries cut taxes and increased expenditures enough to increase current consumption by \$75 billion. Either way—whether by cutting taxes or by increasing government spending—the governments could finance their budget deficits by borrowing petromoney from OPEC.

The disadvantage of such a policy is that OPEC would accumulate claims against the future output of oil-importing countries—with interest—without any addition being made to the productive capacities of these countries. Instead of suffering a decline of \$75 billion in their standard of living initially, the countries would incur a loss of \$75 billion plus accumulated interest on petromoney debts in the future.

The difference between the two policies amounts to a difference in the time path of the amount of economic goods available to oil-importing countries. When petromoney is borrowed and used for productive investment, there is a once-and-for-all decline in the standard of living equal to the added cost of oil imports. Advances in the standard of living, however, can resume at the same rate as before. But if the petromoney is borrowed by governments simply to prevent a decline in the current standard of living, its growth rate will be slower.

Which policy is better depends on how much a country values current consumption over future consumption. Oil-importing countries that are satisfied with their current rates of economic growth would do well not to reduce their growth by borrowing petrodollars to support current consumption at the expense of investment. Instead

of cutting taxes or increasing government services to offset the deflationary effects of oil payments, they would do better to allow the return flow of petromoney to be channeled into capital projects.

Actually, OPEC countries were able to increase their imports of goods and services by only about \$20 billion in 1974. That left roughly \$55 billion of the return flow of petromoney to be invested in financial assets and the real assets of oil-importing countries.

How long such huge trade surpluses and accompanying capital flows will last depends on such things as the future price of oil, which of the OPEC countries absorb any production cutbacks, and the speed with which their development programs get started. A return to a near-zero trade balance for OPEC could come, however, as soon as 1980.

Whatever the exact path of OPEC's trade balance, the surplus will probably decline relatively slowly at first. As a result, world financial markets will still have to cope with large petromoney investments for at least several years more.

Importer adjustments . . .

Since petromoney paid to OPEC returns to the oil-importing countries as a demand for goods, services, or financial assets, there can be no balance-of-payments problem from petromoney flows for these countries as a group. It would be purely coincidental, however, if OPEC purchases of economic goods and financial assets exactly matched the increased oil payments of each country. Further adjustments, therefore, will prob-

2. If OPEC capital is paid a return equal to its marginal product and the inflows from OPEC are large relative to the capital stock of the importing countries, the increase in the productive capacity of the oil importers could substantially exceed the amount needed to service the petrodollars. And the standard of living of the countries could be significantly enhanced as long as the petromoney remains invested in them. Actually, however, OPEC is expected to own no more than 2 to 4 percent of the world's capital stock by 1980, at which point its export surplus and petromoney investments are expected to diminish greatly, if not disappear. Consequently, substantial enhancement of the standard of living of the oil-importing countries from the use of OPEC capital does not appear to be very likely.

ably be needed for individual countries.

Individual adjustments cannot eliminate the overall trade deficit with OPEC countries. That can come only when the OPEC countries increase their import demands. But individual importing countries will have to adjust to the net impact of the higher cost of oil and reflows of petromoney on their balances of payments. In these adjustments, some countries are apt to benefit at the expense of others.

... to export demands ...

If individual oil-importing countries increase sales to OPEC countries less rapidly than they increase their imports from OPEC—without the difference being made up by investments—their balances of payments will deteriorate. In running payments deficits, these countries will see their foreign exchange reserves run down—something that cannot go on forever.

Various kinds of adjustments are possible. Policies reducing demand would help these countries cut back their imports, but at the cost of unemployment and unused capacity. And tariffs on imports could be used to help eliminate their deficits, but at the expense of reduced benefits from international specialization.

A better form of adjustment would be for such countries to allow their currencies to depreciate in foreign exchange markets. With a depreciated currency, they could export to other oil-importing countries goods they were unable to sell to OPEC. Similarly, countries that increase exports to OPEC more rapidly than they increase imports would let their currencies appreciate.

Expenditure choices of OPEC, then, determine both the total trade deficit of oil-importing countries with OPEC and the distribution of that deficit among importing countries. But adjustments in

exchange rates can induce deficits and surpluses between importing countries that tend to offset those with OPEC, leaving each importing country to achieve an overall balance in its own international payments.

Still, some oil-importing countries will benefit at the expense of others. Countries not favored by OPEC demand for their goods will find the prices of their exports falling relative to the prices of their imports. And the depreciation of their currencies required for balancing their payments will usually reduce the relative prices of their exports even more.

A currency devaluation reduces prices of exports in terms of foreign exchange, allowing more goods to be sold abroad. It also lowers demands for imports, reducing their prices in terms of foreign currencies. But since most countries are more dominant in the world supply of goods they export than in the world demand for goods they

Use of OPEC Revenues in 1974



SOURCE: Morgan Guaranty Trust Company

import, export prices usually fall more.³

A decline in the relative price of exports increases the amount of exports a country must produce to consume any particular quantity of imports. Such a deterioration in its terms of trade reduces the benefits that can be derived from international trade.

So, in addition to the burden of high oil costs, importing countries that do not share equally in sales to OPEC must also carry the burden of worsening terms of trade. Countries favored by sales to OPEC, on the other hand, will have gained in the adjustment process, seeing improvements in their terms of trade.

... and capital inflows

Investments of petromoney could also benefit some countries at the expense of others. Oil-importing countries that receive more petromoney through investments than their initial trade deficits with OPEC countries will develop balance-of-payments surpluses. Currencies of countries in this position will tend to appreciate, the effect usually being an improvement in their terms of trade.

Such improvements, however, will be at the expense of countries not favored by petromoney investments. Thus, uneven flows of petromoney investments could be an additional cause of income redistributions among oil-importing countries.

An important difference, however, exists between initial payments imbalances created by OPEC investments and those due to OPEC demands for goods.

When petromoney flows into a country's money or capital markets, interest rates in that country tend to fall, causing investors to withdraw their money for investment in countries where rates are higher. If that happens, the effect of the inflow of petromoney on the payments balance is offset, to some extent, by a compensating outflow of funds. And there is less need for any further adjustment—including changes in the terms of trade—to restore a balance in international payments.

The extent to which capital moves internationally in response to differences in interest rates was lessened, however, by the abandonment in 1973 of fixed exchange rates among the major currencies. Under that system, there was less risk that the profit to be made from differences in interest rates would be wiped out by changes in exchange rates. The result was a stronger tendency for capital to flow between countries until interest rates were nearly equalized.

Under the current system of managed floating of exchange rates, there are no official parities that monetary authorities must defend. Investors that want to profit from differences in interest rates are more likely to hedge against exchange risk by covering their transactions in the forward market.

For example, if interest rates are higher abroad, investors sell foreign exchange for future delivery—the amount being equal to the principal and expected interest on the investment—at the same time as they buy foreign exchange in the spot market. This pushes the price

of foreign exchange in the forward market to a discount. Capital then tends to flow out of the country until the discount on the forward exchange rate equals the difference in interest rates. But the movement of the discount on forward foreign exchange limits the amount of capital that will move in response to the initial difference in interest rates.

Under floating exchange rates, if an inflow of petromoney depresses interest rates, there is still likely to be some incentive for opposite outflows of capital. But the incentive will be blunted by the movement of forward rates. So, an inflow of petromoney is more likely now to result in a net inflow of capital, an appreciation of the currency, and an improvement in the country's terms of trade than under the older system of fixed exchange rates.

U.S. payments in 1974

The main effects of the increased cost of oil on international payments began to be felt in early 1974. A reasonably good picture of the impact of petromoney flows on various countries may be obtained, therefore, by comparing their balances of payments in 1973 and 1974.

The official reserve transactions balance is a widely used measure of the international payments position of the United States and takes into account the role of the United States as a reserve currency country. This balance treats changes in liabilities to foreign official agencies—as well as changes in U.S. official reserve assets—as settlement items, which go below the line. All

3. A country that plays a major role in the world supply of goods it exports will face an export demand that is relatively inelastic with respect to price. When its costs of production in terms of foreign currency are reduced by the depreciation, the country will experience a relatively large decline in export prices in terms of foreign currencies. If the country is less dominant in the world market for the goods it imports, the decline in import demand produced by the currency depreciation will gain little for the country in the way of reductions in foreign prices. As a result, its ratio of export prices to import prices—or terms of trade—will worsen.

The terms of trade may be measured in either the foreign currency or the home currency, the result being identical at any exchange rate. The important thing is that the same currency be used for both exports and imports. It is incorrect to argue that just because a depreciation increases import prices in the home currency and reduces export prices in the foreign currency, it necessarily worsens the terms of trade.

U.S. OFFICIAL SETTLEMENTS BALANCE

(Billion dollars)

Credits (+), debits (-)	1973	1974
Merchandise trade balance	\$0.5	-\$5.9
Balance on services	3.9	9.1
Balance on transfer payments	-3.9	-7.2
Balance on long-term capital	-1.5	-6.6
Balance on short-term capital	-2.0	-2.7
Errors and omissions	-2.3	5.2
Official reserve transactions balance ...	-\$5.3	-\$8.1
Liabilities to foreign official agencies		
OPEC countries	\$0.7	\$10.2
Other countries	4.4	-7
U.S. official reserve assets2	-1.4
Settlement items	\$5.3	\$8.1

SOURCE: U.S. Department of Commerce

other transactions go above the line, their net total equaling the deficit or surplus on the official transactions balance.

Under fixed exchange rates—and before the increase in the cost of imported oil—the official reserve transactions balance was a useful measure of the country's payments position. If international payments exceeded receipts, foreign central banks usually bought the excess to keep the value of the dollar from falling below parity. These dollars were then either exchanged for gold or Special Drawing Rights or used to buy securities in the United States. The excess of payments over receipts showed up as a deficit in the official transactions balance and as an opposite movement in settlement items, below the line.

Two problems with the use of the official reserve transactions balance have developed in recent years, however. One came with the shift to a system of floating exchange rates among major currencies. The other came with the way investments of OPEC governments are treated.

As central banks are no longer obligated to defend the parity value of the dollar against other major currencies, an excess of pay-

ments over receipts tends to cause a decline in the value of the dollar, which induces offsetting changes in items above the line. But since central banks still intervene to maintain orderly markets and smooth out changes in exchange rates, an excess of payments over receipts is, usually, also accompanied by some official purchases of dollars. Therefore, as indications of a country's payments position under the current system of managed floating, both the exchange rate and the official reserve transactions balance have to be used.

Liquid and readily marketable investments of OPEC governments are treated the same as other liabilities to foreign official agencies—even though these funds have generally been placed in the United States not to support exchange rates but simply as a consequence of investment decisions. As a result of the way these investments are handled in the balance-of-payments presentation—and so far, most of OPEC's investments have been either liquid or readily marketable—when the United States pays for imported oil and OPEC governments invest the funds in the United States, the official reserve transactions balance shows a deficit. This is true even though

the return flow of petromoney is more like an ordinary capital inflow than an increase in the monetary reserves of foreign central banks.

The Government is reviewing the balance-of-payments presentation to deal with this deficiency, as well as other problems. But until the presentation is changed, the official reserve transactions balance should be interpreted with caution.

In 1973, the official reserve transactions balance of the United States registered a deficit of \$5.3 billion. This deficit was due largely to a speculative outflow of funds in the first quarter, as roughly \$7.4 billion left the country in anticipation of the February devaluation of the dollar. Had it not been for this outflow, the balance of payments for 1973 would have been in surplus by \$2.1 billion. Sales of goods and services that year were more than enough to cover normal transfer payments and capital outflows.

In 1974, the official reserve transactions balance registered a deficit of \$8.1 billion. However, the inflow of petromoney investments contributed heavily to this deficit. According to Commerce Department estimates, OPEC countries invested \$10.2 billion in liquid and readily marketable form in the United States last year, compared with only \$0.7 billion the year before. Had this inflow been handled above the line as an ordinary capital item instead of below the line as a settlement item, the official reserve transactions balance would have shown a surplus of \$2.2 billion in 1974.

When OPEC investments are treated as ordinary movements of capital, then, the overall U.S. balance of payments was roughly the same in 1974 as in 1973, except for the speculative flows in 1973. Nor was there much change in the trade-weighted value of the dollar, which declined only 1.4 percent

relative to the currencies of other major industrial countries between 1973 and 1974. Nevertheless, petromoney flows did not balance themselves out but, instead, were offset by changes in other items.

Contrary to some expectations, the \$10.2 billion direct reflow of petromoney investments into the United States in 1974 fell considerably short of the \$17.6 billion addition to the cost of imported oil. But because of lagged effects of the dollar devaluation and a weakening in the U.S. economy, the nonoil trade balance simultaneously increased \$11.4 billion. Thus, if OPEC investments are treated as a normal capital flow, the total change in the trade balance combined with the direct reflow of petromoney was enough to improve the balance of payments by \$4 billion in 1974.

This gain was almost entirely offset, however, by an increased net capital outflow from banks, which was associated mainly with the removal of controls over U.S. lending abroad. Foreign commercial banks expanded their lending in the United States by \$9 billion in 1974. But U.S. banks simultaneously expanded their lending to foreigners by \$12 billion, resulting in an increased net outflow of \$3 billion.

Payments of other countries

One reason for the improvement in the nonoil current account balance of the United States in 1974 was the slow growth of domestic demand. A relationship between changes in the growth of domestic demand and changes in the balance on the current account was apparent for other countries as well. Relative demand growth, in fact, was nearly as important as the rise in oil prices for the current account balances of most industrial countries in 1974.

Of the major industrial countries, only the United States, Germany, and Japan showed an improvement in their nonoil current account balances. And all three countries had significant declines in real domestic demand. In contrast, the nonoil current account balances of the United Kingdom, France, Italy, and Canada deteriorated and their real domestic demand either increased or only decreased slightly.

The United Kingdom paid \$5.3 billion more for imported oil than in 1973 and received \$6 billion of new petromoney in the form of sterling bank deposits and purchases of government securities. The value of the pound held steady throughout the year, though at a lower level than the average for 1973.

Japan is highly dependent on imported oil, and the cost of its oil imports rose nearly as much as for the United States. But because of its restrictive demand policies, that country's current account worsened much less than the added cost of oil, and it was improving rapidly toward the end of 1974. The reflow of petromoney to Japan was, nevertheless, not enough to keep the trade-weighted value of the yen from declining 8 percent.

On the other hand, Germany's current account improved much more than was needed to offset its higher oil bill, despite a continued appreciation of the mark. Slow growth in domestic demand, a relatively low rate of inflation, and strength in world demand for its products all helped to produce this result.

In France and Italy, deficits on the current account increased more than did the cost of imported oil. And the trade-weighted values of the franc and lira fell nearly 4 percent and 9 percent, respectively, as reflows of petromoney were

apparently not large enough to offset increased payments for imports.

Information on the impact of petromoney flows on developing countries is less adequate. What is available, however, suggests that, for the group as a whole, reflows in 1974 were close to the increase in their oil bill.

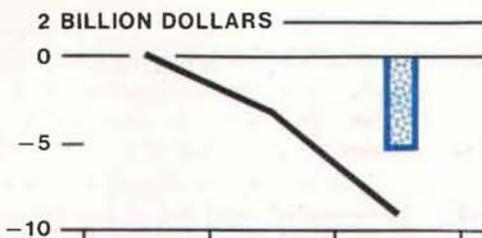
Altogether, developing countries are believed to have paid out about \$10 billion to OPEC in higher oil prices. At the same time, they received about \$2.5 billion in new loans through the Eurocurrency market, most of which was probably recycled petromoney. In addition, OPEC countries made direct grants and loans to developing countries totaling perhaps \$4 billion. And they placed \$2 billion of petromoney in the IMF oil facility and \$2.2 billion in the World Bank and other international institutions, the largest part of which was also loaned to developing countries.

Examination of the payments balances of seven developing countries shows movements of reserve assets no larger in 1974 than in previous years. Of these, Korea and Pakistan showed small deficits. India, the Republic of China, Argentina, and Thailand showed surpluses. Brazil, on the other hand, the largest oil importer in this group, had a fairly large payments deficit, after even larger payments surpluses in the two years before.

Except for Brazil, these countries peg the value of their currencies to the U.S. dollar or other major currencies. Because of that, any imbalances in their payments resulting from petromoney flows—unless the imbalances were eliminated by direct control—would have shown up in movements of reserves.

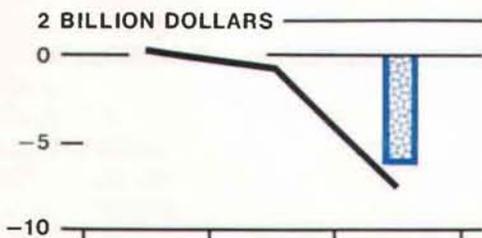
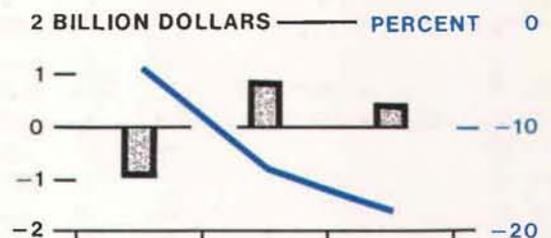
Brazil has adjusted the value of its currency frequently. That cur-

CURRENT ACCOUNT BALANCE
AND
INCREASE (-) IN NET OIL IMPORTS (1974)

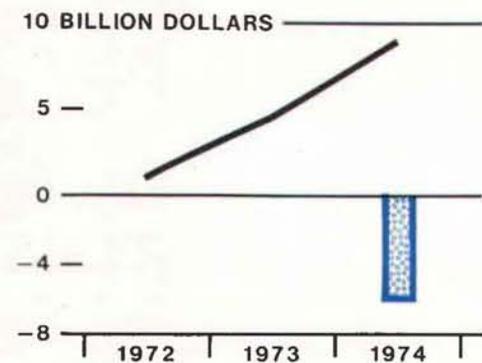
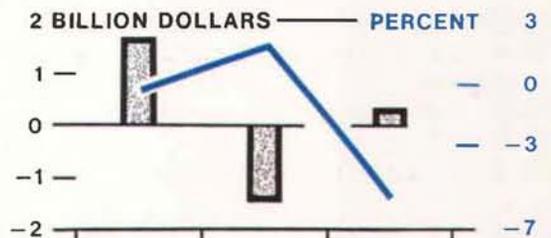


UNITED
KINGDOM

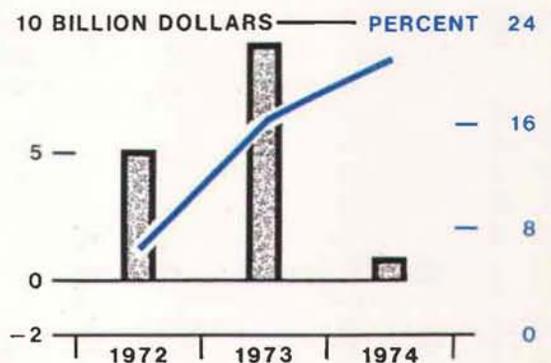
CHANGE IN INTERNATIONAL RESERVES
AND
TRADE-WEIGHTED VALUE OF CURRENCY



FRANCE



GERMANY



SOURCES: International Monetary Fund
Organization for Economic Cooperation and Development

rency depreciated faster in 1974 than it had in earlier years because of the country's large payments deficit.

Varieties of financing

Although the cost of imported oil increased fourfold in the past two years, serious payments imbalances have been largely avoided. And yet, as financial markets in many importing countries are not highly developed and as the uncer-

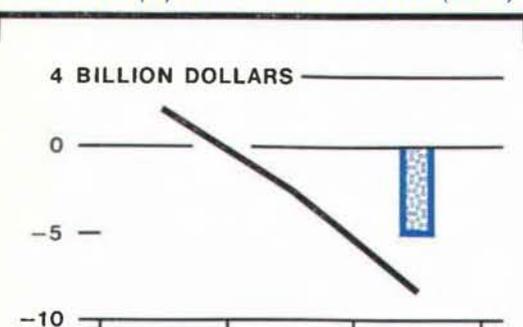
tainties of floating exchange rates have made capital flows between developed markets less responsive to international differences in interest rates, this avoidance has not been automatic.

Flexibility of exchange rates has facilitated the balancing of payments in some cases. But petromoney investments were generally matched with oil deficits, largely because many governments deliberately borrowed enough in

the Eurocurrency market, from international organizations, and directly from OPEC governments to cover their oil deficits.

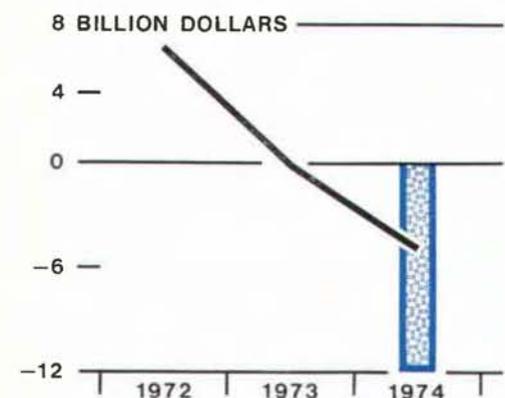
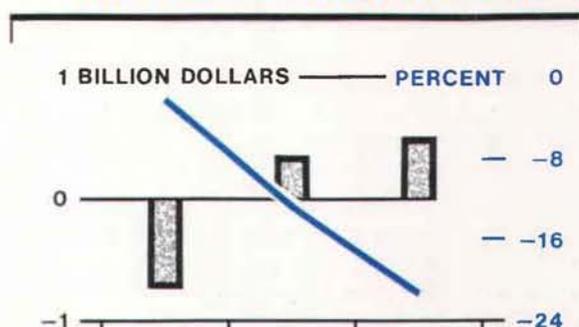
Of the \$55 billion invested by OPEC countries last year, only a little more than half was placed directly in the money and capital markets of oil-importing countries. Most of this was in the United States and United Kingdom, but some of it was placed in Japan, Canada, and Europe. The remain-

CURRENT ACCOUNT BALANCE
AND
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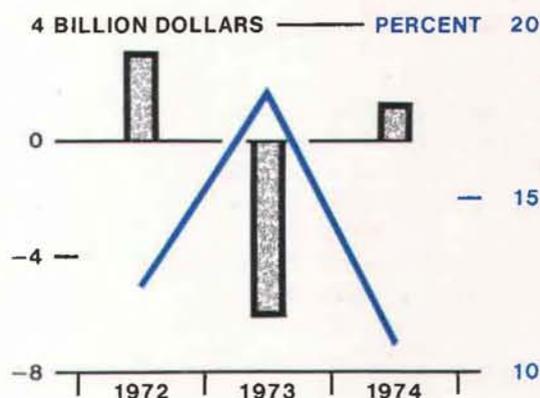


ITALY

CHANGE IN INTERNATIONAL RESERVES
AND
TRADE-WEIGHTED VALUE OF CURRENCY



JAPAN



SOURCES: International Monetary Fund
Organization for Economic Cooperation and Development

der was channeled into the Eurocurrency market and, to a much lesser extent, such international organizations as the IMF and World Bank. These institutions made the money available to public and private borrowers in the oil-importing countries.

There has been some question about the feasibility of continuing to finance oil deficits through the Eurocurrency market—particularly the use of government borrowing to cover the cost of current oil consumption. As long as borrower countries can absorb the capital, however, growth in their productive capacities should allow the increase in government debt to foreigners to be serviced through

greater exports. It is not necessary for governments to undertake the real investment themselves. The petromoney they borrow can be used to retire government debt or be deposited in local financial institutions. Either way, an increased supply of loanable funds is made available for private capital formation.

Of course, the end result would be the same if private borrowers obtained petromoney directly from Eurocurrency banks. But imperfections in the market may limit that. Only if the return on capital at home is not enough to cover the interest cost of borrowing abroad could it be better for governments of countries with payments deficits

due to petromoney flows to eschew borrowing and, instead, allow their currencies to depreciate.

A related question has been in regard to the ability of Eurocurrency banks to continue handling large inflows of petromoney. Most petromoney flows into the Eurocurrency market last year were deposited at only the largest banks. And as the deposits were very short term, unsustainable trends soon developed in the balance sheets of these banks.

The new deposits were far more liquid than new assets. The proportion of assets invested in particular countries grew beyond what was customary, with a consequent increase in default risk. And

deposits expanded faster than bank capital, further increasing risk to depositors. Such trends could not have continued long without threatening a collapse of Eurocurrency banks. But both the banks and OPEC investors began making adjustments.

The banks moved to discourage excessive short-term deposits by reducing interest rates on them and, in some cases, even refusing such deposits. They have also shortened the maturities of loans and watched exposure to foreign risk more closely. And as deposits grew relative to bank capital, the ratio of bank profits to equity increased. This improvement in the relative attractiveness of bank stocks, combined with recovery in stock markets, should help Eurocurrency banks to build more adequate capital relative to their deposits and risk assets.

As the year progressed, OPEC investors shifted more of their bank deposits into longer maturities, moved deposits into a larger number of banks, and invested in new kinds of short-term instruments. One important new kind of short-term investment has been direct loans to corporations, with banks acting only as brokers to bring the borrower and lender together. And as OPEC investors also began formulating longer-term investment policies and developing the administrative apparatus for implementing them, more petromoney began to flow into bonds, equities, and real estate, with less going into short-term securities and bank deposits.

Private financial markets have adjusted to petromoney flows remarkably well so far. Adjustments in patterns of resource use and trade, however, have only just begun to be made by oil-importing countries. Production and trade in these countries will have to be

adjusted to the future pattern of petromoney investments and, eventually and more permanently, to increased OPEC demands for goods and services.

The longer-run adjustment mechanism will, in the main, be changes in exchange rates. But a full response of trade balances to exchange rate changes can take as much as two years. So, the change in the value of a currency needed to achieve payments balance in the short run may be considerably more than is necessary in the long run. Temporary official financing can be used to keep rates from changing more than is needed for the long run, helping to promote smoother shifts of resources to their new uses. Various new official financing arrangements are in use or have been agreed to in principle.

The International Monetary Fund has established a special oil facility that received about \$3 billion in deposits from OPEC countries last year for loans to oil-importing countries that might otherwise have trouble obtaining reflows of petromoney. The facility was expanded to \$6.2 billion this year. In addition, agreement has been reached to increase the regular IMF quotas by 32.5 percent next year. This increase in the pool of currencies paid into IMF will make still more money available to member countries with temporary payments problems.

New official financing from sources other than the IMF will also be available. Tentative agreement has been reached for the 24 countries belonging to the Organization for Economic Cooperation and Development to establish a \$25 billion mutual insurance fund for the protection of members that have exhausted other avenues to financing. And the European Economic Community has agreed to

back a \$3 billion bond issue subscribed to by OPEC countries, the proceeds of which are to go to member countries with the greatest needs.

—Adrian W. Throop

New member bank

United National Bank, Dallas, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business April 7, 1975, as a member of the Federal Reserve System. The new member bank opened with capital of \$2,000,000, surplus of \$2,000,000, and undivided profits of \$1,000,000. The officers are: Theodore H. Strauss, Chairman of the Board; J. W. Smith, President; M. Lamar Ealy, Executive Vice President; Bob J. Combs, Senior Vice President and Cashier; Charles S. Teeple, IV, Senior Vice President; Wayland Reeves, Vice President; and Felton L. Allen, Assistant Cashier.

New par banks

Bank of the West, Galveston, Texas, a newly organized insured nonmember bank located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business March 27, 1975, remitting at par. The officers are: Charles T. Doyle, President, and J. Ed C. Sanderson, Vice President and Cashier.

First Presidio Bank, Presidio, Texas, a newly organized insured nonmember bank located in the territory served by the El Paso Branch of the Federal Reserve Bank of Dallas, opened for business April 2, 1975, remitting at par. The officers are: Jim Ed Miller, President; A. B. Foster, Jr., Vice President; and Narciso C. Sanchez, Cashier.



Federal Reserve Bank of Dallas

May 1975

Statistical Supplement to the Business Review

A substantial increase in holdings of Government securities and sharp expansion in demand deposits highlighted developments at weekly reporting banks in the Eleventh District in the four weeks ended April 16.

Sluggish loan demand, somewhat weaker than in comparable periods of the past five years, combined with large deposit inflows to enable the banks to make sizable net additions of Government securities. Holdings of Treasury bills and intermediate-term notes and bonds rose sharply, as area banks acquired a substantial volume of securities from large Treasury financings.

Individuals and businesses added substantially to their checking accounts, leading to the sharp increase in total demand deposits. With improved liquidity levels and sluggish demand for loans, bankers did not bid aggressively for large CD's. As a result, large CD's outstanding fell sharply for the third consecutive month, producing a considerable decline in total time and savings deposits.

Although total loans rose slightly less than in comparable periods of the past five years, the gain was more than twice as large as any increase in the past eight months. After showing weakness for four consecutive months, demand for business loans advanced sharply. Demand for other major types of loans, however, was weaker than in corresponding periods of recent years.

Employment statistics in the five southwestern states were little changed in March. Seasonally adjusted total employment edged upward, while the civilian labor force contracted slightly. The

unemployment rate eased down from 6.8 percent in February to 6.7 percent.

Seasonally adjusted retail sales in the Eleventh District have fallen back to the sluggish pace of late 1974. Department store sales have been flat since mid-February, when Christmas clearance sales ended. And new car sales fell sharply with termination of the cash rebate program at the end of February. New car registrations in the four largest metropolitan counties of Texas in March were down a fifth from a month before.

After declining for three months, industrial output in Texas leveled off in March. Manufacturing continued to fall, but nonmanufacturing output was up slightly.

The decline in manufacturing stemmed from lower output of nondurable goods. Chemical production fell for the fifth consecutive month, as users continued to trim inventories. And output of textiles was off again, continuing a downward trend that began last summer.

Apparel manufacturing, by contrast, was up moderately for the first time since late 1974. Fresh bookings for men's sportswear, especially the new casual suit lines, accounted for much of the strength. Petroleum refining was also up, as several months of reduced operations had brought inventories of finished products down to acceptable levels.

Durable goods production was up—the first month-to-month gain since November. Output of fabricated metal products and non-electrical machinery remained strong, reflecting peak output of oil field equipment. And transpor-

tation equipment increased substantially, reflecting the settlement of a work stoppage that had idled shipbuilders.

Production of primary metals, however, was down nearly a tenth. The manufacture of goods used in residential and commercial building—especially reinforcing steel bars—was sharply curtailed. Output of utilities and mining was modestly higher than a month before.

Soil moisture was adequate in states of the Eleventh District in early spring, providing generally favorable conditions for the 1975 season. Wheat and oat crops were progressing well, and prospects for a favorable grain harvest remained above normal.

Based on April 1 conditions, wheat production in Texas was forecast at a record 140 million bushels—nearly triple the below-average production of 53 million in 1974. Though the peach crop was damaged by freeze in northern areas of the District, it was in good condition in southern areas. Citrus trees have set an excellent crop for the next season.

Cattle feeding remained at low levels. Cattle on feed in Texas on April 1 numbered slightly over 1.1 million head—49 percent fewer than a year before. And the 329,000 head on feed in Arizona were 41 percent below the year-earlier total. Drylot sheep feeders in Texas have also cut the number of sheep and lambs on feed by more than half since last year.

The index of prices received by farmers and ranchers in Texas in the month ended March 15 declined for the fifth consecutive month. *(Continued on back page)*

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	Apr. 16, 1975	Mar. 19, 1975	Apr. 17, 1974	LIABILITIES	Apr. 16, 1975	Mar. 19, 1975	Apr. 17, 1974
Federal funds sold and securities purchased under agreements to resell	1,889,475	2,002,272	1,831,055	Total deposits	16,162,442	15,904,458	14,811,049
Other loans and discounts, gross	10,466,314	10,316,946	10,106,811	Total demand deposits	7,672,636	7,251,846	7,448,813
Commercial and industrial loans	5,081,684	4,942,072	4,439,868	Individuals, partnerships, and corporations	5,604,107	5,221,944	5,370,228
Agricultural loans, excluding CCC certificates of interest	195,086	200,839	283,047	States and political subdivisions	404,441	414,349	429,641
Loans to brokers and dealers for purchasing or carrying:				U.S. Government	140,509	162,914	192,143
U.S. Government securities	200	15	1,400	Banks in the United States	1,309,721	1,280,374	1,271,325
Other securities	26,835	27,863	57,785	Foreign:			
Other loans for purchasing or carrying:				Governments, official institutions, central banks, and international institutions	2,622	3,385	2,364
U.S. Government securities	2,334	2,330	3,976	Commercial banks	69,435	70,289	51,571
Other securities	394,543	396,520	451,517	Certified and officers' checks, etc.	141,801	98,591	131,541
Loans to nonbank financial institutions:				Total time and savings deposits	8,489,806	8,652,612	7,362,236
Sales finance, personal finance, factors, and other business credit companies	139,618	141,071	145,517	Individuals, partnerships, and corporations:			
Other	569,145	564,316	802,305	Savings deposits	1,273,222	1,244,721	1,161,240
Real estate loans	1,495,489	1,492,484	1,478,644	Other time deposits	4,452,336	4,600,995	4,058,769
Loans to domestic commercial banks	44,889	67,339	45,214	States and political subdivisions	2,401,581	2,494,872	2,039,249
Loans to foreign banks	88,548	78,332	65,488	U.S. Government (including postal savings)	9,857	11,729	6,800
Consumer installment loans	1,109,270	1,106,768	1,048,388	Banks in the United States	325,277	272,458	82,686
Loans to foreign governments, official institutions, central banks, and international institutions	5	5	17	Foreign:			
Other loans	1,318,668	1,296,992	1,283,645	Governments, official institutions, central banks, and international institutions	22,133	22,237	13,192
Total investments	4,796,629	4,682,276	4,195,086	Commercial banks	5,400	5,600	300
Total U.S. Government securities	1,249,044	1,121,114	1,031,502	Federal funds purchased and securities sold under agreements to repurchase	3,020,047	2,808,437	3,135,017
Treasury bills	198,083	146,352	161,506	Other liabilities for borrowed money	80,917	82,763	178,259
Treasury certificates of indebtedness	0	0	0	Other liabilities	578,629	657,913	435,541
Treasury notes and U.S. Government bonds maturing:				Reserves on loans	204,526	204,469	179,123
Within 1 year	220,847	209,582	147,745	Reserves on securities	22,183	21,279	24,259
1 year to 5 years	692,987	613,218	532,108	Total capital accounts	1,457,979	1,448,161	1,301,052
After 5 years	137,127	151,962	190,143				
Obligations of states and political subdivisions:				TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	21,526,723	21,127,480	20,064,300
Tax warrants and short-term notes and bills	105,121	104,894	151,494				
All other	3,140,909	3,077,041	2,735,782				
Other bonds, corporate stocks, and securities:							
Certificates representing participations in federal agency loans	5,404	8,425	13,099				
All other (including corporate stocks)	296,151	370,802	263,209				
Cash items in process of collection	1,547,846	1,367,039	1,582,579				
Reserves with Federal Reserve Bank	1,203,379	1,119,420	852,506				
Currency and coin	130,306	130,442	129,959				
Balances with banks in the United States	462,694	469,653	556,372				
Balances with banks in foreign countries	27,396	30,354	15,822				
Other assets (including investments in subsidiaries not consolidated)	1,002,684	1,009,078	794,110				
TOTAL ASSETS	21,526,723	21,127,480	20,064,300				

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
1973: March	13,203	9,454	395	13,038	2,848
1974: March	13,933	10,150	260	15,126	2,958
April	13,984	10,289	236	15,143	2,975
May	13,553	9,880	278	15,148	2,962
June	13,742	10,030	240	15,333	2,979
July	13,809	10,056	212	15,442	2,983
August	13,634	9,988	175	15,509	2,956
September	13,740	9,973	222	15,586	2,952
October	13,687	9,976	149	15,714	2,977
November	13,843	10,148	138	16,016	3,009
December	14,351	10,355	208	16,177	3,049
1975: January	14,180	10,353	166	16,842	3,079
February	13,956	10,245	150	17,052	3,124
March	14,114	10,349	165	17,177	3,226

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

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	Mar. 26, 1975	Feb. 26, 1975	Mar. 27, 1974
ASSETS			
Loans and discounts, gross	22,115	21,932	20,985
U.S. Government obligations	2,296	2,246	2,320
Other securities	7,319	7,123	6,531
Reserves with Federal Reserve Bank	1,762	1,888	1,727
Cash in vault	374	376	361
Balances with banks in the United States	1,406	1,373	1,395
Balances with banks in foreign countries ^e	36	43	20
Cash items in process of collection	1,704	1,758	1,732
Other assets ^e	1,837	1,706	1,587
TOTAL ASSETS^e	38,849	38,445	36,658
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,721	1,701	1,672
Other demand deposits	12,181	12,134	12,109
Time deposits	17,315	17,059	15,168
Total deposits	31,217	30,894	28,949
Borrowings	3,265	3,258	3,826
Other liabilities ^e	1,682	1,612	1,377
Total capital accounts ^e	2,685	2,681	2,506
TOTAL LIABILITIES AND CAPITAL ACCOUNTS^e	38,849	38,445	36,658

^e—Estimated

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	4 weeks ended Apr. 2, 1975	4 weeks ended Mar. 5, 1975	4 weeks ended Apr. 3, 1974
Total reserves held	1,995,532	1,998,763	2,001,302
With Federal Reserve Bank	1,660,621	1,665,927	1,684,164
Currency and coin	334,911	332,836	317,138
Required reserves	1,985,320	1,992,523	1,998,421
Excess reserves	10,212	6,240	2,881
Borrowings	9,915	11,889	76,858
Free reserves	297	-5,649	-73,977

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			
	Mar. 1975 (Annual-rate basis)	Percent change			Mar. 31, 1975	Annual rate of turnover		
		Mar. 1975 from	Mar. 1974	3 months, 1975 from 1974		Mar. 1975	Feb. 1975	Mar. 1974
ARIZONA: Tucson	\$16,557,799	-2%	5%	7%	\$381,402	44.2	46.6	42.7
LOUISIANA: Monroe	6,006,127	7	12	9	129,930	47.1	45.0	43.3
Shreveport	22,438,926	6	16	19	359,775	64.7	62.5	56.6
NEW MEXICO: Roswell ²	1,481,227	13	3	-1	54,978	27.6	25.6	25.7
TEXAS: Abilene	4,206,900	1	10	4	150,721	28.0	28.9	24.7
Amarillo	10,458,251	4	-14	-6	259,399	41.6	42.5	49.3
Austin	19,384,348	-4	14	10	422,555	43.1	46.1	37.1
Beaumont-Port Arthur-Orange	10,422,893	-3	5	6	348,646	30.8	33.1	31.6
Brownsville-Harlingen-San Benito	3,974,058	-1	6	11	128,733	31.1	32.3	30.4
Bryan-College Station	1,768,091	4	5	9	62,601	28.8	28.5	27.2
Corpus Christi	12,420,732	0	2	3	312,353	40.3	41.0	41.2
Corsicana ²	853,597	13	23	10	44,189	19.9	18.2	16.6
Dallas	255,533,246	-2	-1	6	3,245,013	79.7	84.2	83.7
El Paso	13,658,520	0	-3	-4	336,719	39.8	41.5	44.1
Fort Worth	41,401,153	1	-1	3	948,413	43.8	44.0	47.4
Galveston-Texas City	5,003,492	7	26	27	155,077	33.7	32.7	29.1
Houston	269,237,087	3	27	27	4,062,036	66.8	66.0	58.6
Killeen-Temple	2,617,309	-10	9	7	118,665	21.9	24.3	20.5
Laredo	1,998,137	5	15	10	70,373	28.7	28.2	27.2
Lubbock	10,448,141	9	-22	-21	249,063	43.3	41.5	53.0
McAllen-Pharr-Edinburg	4,543,003	5	17	21	168,203	27.2	26.3	24.7
Midland	4,231,540	2	26	27	223,892	19.1	19.3	17.2
Odessa	3,654,664	9	32	31	142,224	26.0	25.0	24.9
San Angelo	2,909,250	1	11	12	103,306	29.1	30.1	28.0
San Antonio	33,052,512	3	13	10	917,283	36.0	35.4	32.6
Sherman-Denison	1,509,568	-2	-3	0	87,161	17.3	17.7	18.4
Texarkana (Texas-Arkansas)	2,441,075	5	14	10	95,067	26.1	25.2	22.7
Tyler	3,942,817	2	16	20	152,826	27.3	27.6	24.8
Waco	6,288,094	-2	19	22	165,502	37.6	39.1	33.5
Wichita Falls	5,582,051	13	10	14	182,862	30.5	27.5	31.0
Total—30 centers	\$778,024,608	1%	10%	13%	\$14,078,967	55.7	56.6	54.0

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	Apr. 23, 1975	Apr. 24, 1974	Mar. 26, 1975
Total gold certificate reserves	1,010,255	669,447	609,918
Loans to member banks	29,100	97,710	9,166
Other loans	0	0	0
Federal agency obligations	235,748	94,738	220,710
U.S. Government securities	3,716,045	3,324,814	3,589,895
Total earning assets	3,980,893	3,517,262	3,819,771
Member bank reserve deposits	1,829,059	1,742,457	1,762,463
Federal reserve notes in actual circulation	2,674,191	2,444,646	2,648,081

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	Mar. 1975	Feb. 1975	Jan. 1975	January—March	
				1975	1974r
FIVE SOUTHWESTERN STATES¹	1,167	693	770	2,617	2,600
Residential building	325	231	267	820	1,058
Nonresidential building	619	335	337	1,281	1,011
Nonbuilding construction	223	128	166	516	530
UNITED STATES	6,574	4,955	5,100	16,554	19,942
Residential building	2,316	1,583	1,562	5,448	8,020
Nonresidential building	2,402	2,199	2,233	6,787	7,188
Nonbuilding construction	1,856	1,172	1,305	4,319	4,734

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

BUILDING PERMITS

Area	VALUATION (Dollar amounts in thousands)							
	NUMBER			Percent change				
	Mar. 1975	3 mos. 1975	Mar. 1975	3 mos. 1975	Mar. 1975 from	Feb. 1975	Mar. 1974	3 months, 1975 from 1974
ARIZONA								
Tucson	494	1,341	\$5,772	\$16,179	37%	-39%	-35%	
LOUISIANA								
Monroe	74	185	860	3,764	-34	-71	-30	
Shreveport	468	1,396	3,745	10,543	-3	-62	-53	
TEXAS								
Abilene	99	260	2,014	5,072	5	40	59	
Amarillo	300	658	4,300	10,533	31	-46	-35	
Austin	435	1,132	6,985	28,447	-58	-77	-55	
Beaumont	154	593	4,265	8,170	101	51	4	
Brownsville	143	339	767	2,079	38	-76	-80	
Corpus Christi	264	693	1,618	8,900	-34	-37	-18	
Dallas	1,513	4,279	23,000	72,487	100	-32	-5	
Denison	24	60	192	621	83	75	7	
El Paso	395	1,078	5,746	31,802	19	-84	-43	
Fort Worth	362	982	14,627	23,015	210	-53	-50	
Galveston	41	127	186	1,617	44	-89	-64	
Houston	2,076	5,592	44,294	137,907	13	-7	-19	
Laredo	107	182	1,975	2,791	2,224	211	248	
Lubbock	134	364	39,736	47,295	1,149	271	2	
Midland	124	318	2,219	5,682	25	59	-60	
Odessa	130	300	2,387	6,040	-13	63	-18	
Port Arthur	104	196	325	848	33	33	21	
San Angelo	78	185	1,346	3,056	11	196	6	
San Antonio	1,621	3,926	11,720	24,958	101	-37	-60	
Sherman	34	76	563	1,517	452	7	38	
Texarkana	61	164	365	1,238	64	-59	-20	
Waco	234	550	638	3,527	-19	-92	-70	
Wichita Falls	98	228	3,247	5,094	131	167	107	
Total—26 cities	9,567	25,204	\$182,892	\$463,182	60%	-31%	-31%	

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	Mar. 1975	Feb. 1975	Percent change from		
			Mar. 1974r	Feb. 1975	Mar. 1974
FOUR SOUTHWESTERN STATES	5,882.3	5,973.0	6,412.5	-1.5%	-8.3%
Louisiana	1,801.1	1,904.5	2,124.1	-5.4	-15.2
New Mexico	261.6	267.0	275.0	-2.0	-4.9
Oklahoma	450.4	453.5	498.5	-7	-9.7
Texas	3,369.2	3,348.0	3,514.9	-6	-4.2
Gulf Coast	652.0	655.0	680.4	-5	-4.2
West Texas	1,806.7	1,786.5	1,853.2	1.1	-2.5
East Texas (proper)	215.6	214.5	201.4	.5	7.1
Panhandle	58.0	53.5	59.4	8.4	-2.4
Rest of state	636.9	638.5	720.5	-3	-11.6
UNITED STATES	8,394.5	8,495.0	8,950.0	-1.2%	-6.2%

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

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1967 = 100)

Area and type of index	Mar. 1975p	Feb. 1975	Jan. 1975	Mar. 1974
TEXAS				
Total industrial production	132.9	132.8	136.9r	138.1
Manufacturing	138.4	138.7	143.1	143.3
Durable	157.9	157.6	161.1	159.0
Nondurable	124.3	125.1	130.2	132.0
Mining	110.4	110.1	113.7r	117.7
Utilities	167.7	165.3	168.1r	166.8
UNITED STATES				
Total industrial production	109.6	110.7	113.7	124.7r
Manufacturing	107.8	109.0	112.3r	124.6r
Durable	102.9	103.9	107.9r	120.4r
Nondurable	115.0	116.3	118.7r	131.0r
Mining	107.0	106.8	107.6r	112.2r
Utilities	146.2	146.6	148.0r	146.5r

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

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Five Southwestern States¹

(Seasonally adjusted)

Item	Thousands of persons			Percent change Mar. 1975 from	
	Mar. 1975p	Feb. 1975	Mar. 1974r	Feb. 1975	Mar. 1974
Civilian labor force	9,239.0	9,243.5	8,885.5	0%	4.0%
Total employment	8,620.0	8,616.8	8,480.5	0	1.6
Total unemployment	619.1	626.6	405.0	-1.2	52.9
Unemployment rate	6.7%	6.8%	4.6%	-1	2.1
Total nonagricultural wage and salary employment	7,578.9	7,598.8	7,498.6	-3	1.1
Manufacturing	1,253.1	1,257.3	1,320.7	-3	-5.1
Durable	705.8	707.2	742.8	-2	-5.0
Nondurable	547.3	550.2	577.9	-5	-5.3
Nonmanufacturing	6,325.8	6,341.5	6,177.9	-2	2.4
Mining	267.0	267.5	252.9	-2	5.6
Construction	500.0	519.4	522.5	-3.7	-4.3
Transportation and public utilities	505.9	505.1	512.7	2	-1.3
Trade	1,812.6	1,812.0	1,764.3	0	2.7
Finance	420.0	420.8	408.1	-2	2.9
Service	1,300.5	1,298.5	1,253.9	2	3.7
Government	1,519.9	1,518.3	1,463.4	1%	3.9%

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)

TOTAL OIL WELLS DRILLED

Area	Fourth quarter 1974	Third quarter 1974	Percent change	1974 cumulative	Percent change from 1973 cumulative
FOUR SOUTHWESTERN STATES	1,827	1,710	6.8%	6,722	17.6%
Louisiana	224	208	7.7	823	-3.7
Offshore	37	47	-21.3	216	-24.7
Onshore	187	161	16.1	607	6.9
New Mexico	101	86	17.4	349	24.6
Oklahoma	370	252	46.8	1,148	28.0
Texas	1,132	1,164	-2.7	4,402	19.5
Offshore	0	0	-	1	-83.3
Onshore	1,132	1,164	-2.7	4,401	19.7
UNITED STATES	3,626	3,417	6.1%	12,785	29.3%

SOURCE: American Petroleum Institute

The decline was slight, however, as higher average prices for livestock and livestock products partially offset a 3-percent drop in crop prices.

Compared with a year earlier, average prices received by farmers were down 25 percent, with both crop and livestock prices substantially lower. Meanwhile, the index of prices farmers paid declined slightly but was 10 percent higher than a year before.

Cash receipts from farm and ranch marketings in states of the

District the first two months of this year totaled \$1.5 billion—a dramatic 31-percent drop from the same period last year. Crop receipts had plummeted 34 percent, while livestock sales had dropped 28 percent.

The drop in receipts and resulting decline in farm income slowed capital outlays. For example, unit retail sales of tractors in the five states in January and February were down a fifth from a year earlier.