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Capital Investment–

New Benefit Plan Proposed As Solution to Nation's Needs

District Petroleum–

Enhanced Recovery May Slow Declines in Production

Capital Investment–

New Benefit Plan Proposed As Solution to Nation's Needs

A new type of benefit plan, the employee stock ownership trust, is gaining widespread attention. Proponents view the plan not only as an innovative method of corporate financing but also as a vehicle for increasing capital formation in the United States.

In essence, an employee stock ownership trust allows the employees of a corporation to acquire whole or partial ownership of that firm. At the same time, the corporation obtains equity funds by which plant and equipment investment may be increased.

New capital investment is essential for maintaining–or increasing–living standards. With its growing economy, the United States has rapidly expanding capital needs. A study earlier this year concluded that to satisfy goals affecting the quality of living, the United States will have to undertake capital investment projects totaling over $2 trillion by 1980.[1]

Employee stock ownership trusts are being hailed as a means to help meet these capital needs. By offering generous tax savings for corporations, ESOT's can substantially reduce capital costs, increasing the ability of private business to invest. Also, since the employees obtain ownership in the business, it is believed their productivity could rise–as owners, the employees would share in the corporation's goals.

Widespread use of ESOT's would, however, reduce corporation income tax payments to the federal government. Consequently, unless personal income taxes are increased or Government expenditures decreased, the budget deficit would rise. And an appreciable rise in the budget deficit would reduce the flow of loanable funds to ESOT's.

Need for investment

Large amounts of capital investment over the next several years will be needed to meet national goals regarding employment, housing, environmental quality, and energy independence. For example, business must expand its capacity to fully employ some 8 million new workers expected to join the labor force by 1980.

Legislation in recent years has provided that some capital investment projects be undertaken jointly by business and Government. The Housing and Urban Development Act of 1968 calls for the net addition of 26 million units of housing during the 1970's, including 4 million mobile homes. Other legislation calls on the federal government to provide funds to develop mass-transit systems and on business to make capital investments aimed at reducing pollution.

Energy independence is another near-term target. Because of the instability of foreign energy supplies, domestic producers must engage in sizable expansion of facilities to ensure adequate domestic production.

Lack of sufficient capital investment to meet these goals would have serious implications. Continued reliance on foreign energy supplies could result in economic disruptions similar to those produced by the oil embargo of 1973-74. And failure to meet mass-transit goals would not only overtax present transportation systems but also hamper energy conservation goals. But probably the most severe effect of insufficient capital investment would be widespread unemployment or underemployment.

Manufacturing industries have about $30,000 of plant and equipment for each worker, and other sectors of the economy also have substantial amounts. Because this average figure includes capital purchased years ago, the current cost of replacement could probably result in a much higher figure on account of inflation.

If the rate of capital formation slows–that is, the amount of capital for each worker falls–unemployment may result in the short run. Over a longer period, with less capital equipment, workers would be less productive, resulting in a cut in living standards.

ESOT borrowing . . .

In essence, employee stock ownership trusts are deferred-compensation plans, as are pension funds and profit-sharing plans. Employees accrue shares of stock over time, which are paid off at retirement or separation under the provisions of a vesting schedule.

ESOT's differ from most pension plans in that they are the only employee benefit plans that can be used for corporate borrow-

1. Barry Bosworth, James S. Duesenberry, and Andrew S. Carron, *Capital Needs in the Seventies,* Washington, D.C., Brookings Institution, 1975

ing. This important legislative distinction–established in the Pension Reform Act of 1974–has significantly increased the appeal of the trusts.

ESOT's are separate legal entities established by corporations. One function of an ESOT is to buy and hold stock in the corporation for its employees. But the corporations benefit as well, since these trusts facilitate capital investment with reduced tax liability.

Suppose, for example, that a corporation needs $1 million to expand its plant capacity. Its ESOT can borrow that amount from a commercial bank, pledging $1 million in the corporation's stock as collateral. In addition, the corporation may guarantee the loan, but it is under no requirement to do so.

With the borrowed funds, the ESOT purchases $1 million in newly issued or treasury stock from the corporation. The net result of this transaction is that the trust holds stock as an asset and a bank loan as a liability while the corporation has $1 million in cash.

Funds for repayment of the principal and interest on the loan come from the corporation's contributions to its ESOT–up to 15 percent of its eligible payroll each year, according to the Internal Revenue Service. After repayment of the loan, the shares of stock remain assets of the trust.

Meanwhile, the corporation uses the $1 million loan to expand its productive capacity. The new capacity, in turn, helps generate additional profits that could be used to repay the loan.

The financing of investment projects through ESOT's is done primarily through bank loans. Proponents of the trusts suggest that corporations financing expansion through ESOT's will be more creditworthy. Banks could justifiably increase lending to these firms since, with tax savings and increased cash flow, the corporations could accommodate more rapid repayment schedules.

. . . as a large tax break

Perhaps the chief advantage a corporation gains from establishing an ESOT is that both principal and interest on loans borrowed through the plan are repaid in pretax revenues.

If a corporation borrows funds without using an ESOT, it can receive a tax deduction on interest payments, but not on the principal. If a corporation is in the 50-percent tax bracket, this means it must earn $2 million in pretax revenues to repay the principal on a $1 million loan.

Borrowing funds through an ESOT is less expensive. A corporation's contributions to its ESOT, which are used to repay principal and interest, are tax-deductible (up to 15 percent of eligible payroll). Repaying a $1 million principal, therefore, requires only $1 million in revenues. By being able to deduct the repaid principal, the corporation borrowing through its ESOT pays $500,000 less in corporation income taxes.

Clearly, ESOT's provide corporations with considerable tax advantages. This feature alone has led many people to endorse them. Yet, these trusts benefit corporations in still other ways.

Using ESOT's to finance plant expansion increases cash flow and net worth. The debt associated with plant expansion is posted as a liability on the books of the ESOT, not the corporation. Therefore, the corporation has a higher net worth and carries a lower debt-equity ratio.

Moreover, acquisition and divestiture of divisions of corporations are accommodated. For example, an ESOT can negotiate a bank loan to buy the assets of a company, pledging stock of the company as collateral. In completing the transaction, the ESOT delivers the assets of the acquired firm to the parent corporation in exchange for stock of that corporation. Again, the loan is repaid by the corporation's contributions to the trust.

Employees' perspective

Proponents of ESOT's contend that the trusts offer substantial benefits to employees as well. If the corporation is a profitable, well-managed entity, employees acquire valuable shares of stock. Also, they can receive dividends on their stock according to the number of fully vested shares. Through an ESOT, therefore, the firm's profits provide a second income to the worker.

However, problems with managing an ESOT can have repercussions on employees. Since ESOT's are used to facilitate capital investment of a given dollar amount, the number of shares of stock in an ESOT depends on the price of a share. The higher these prices are, the smaller the number of shares.

Determining the price of the stock may be a problem when the stock is either closely held or thinly traded. In the absence of competitive market prices, a fair price is difficult to determine. Under current federal law, however, the Internal Revenue Service can set a fair price for the stock.

If shares are thinly traded, an employee leaving the firm may have difficulty selling his stock without depressing the market price. Proponents of ESOT's believe, however, that this problem can be alleviated if the trust buys back the employee's shares at an agreed-on price.

Stock dilution can be another problem. When new shares are issued, existing shareholders–fear-

ful of holding diluted stock and losing control of the corporation–could require the corporation to issue nonvoting stock to the ESOT. In that case, the ESOT would have no voice in corporate affairs, regardless of how much equity it held.

Corporations can, of course, offer their employees a combination of ESOT's and other deferred-compensation plans. However, tax-deductible contributions to the combination of plans cannot exceed 15 percent of the eligible payroll. This consideration, along with the fact that ESOT's alone can be used for corporate borrowing, creates a bias against using other plans. Moreover, since ESOT's do not need to be diversified, as do other pension and profit-sharing plans, they would be a more risky investment.

Whatever the problems and uncertainties of ESOT's, a fundamental question is whether employees should be risk takers. If the corporation is poorly managed or if demand for its output falls, its stock can become worthless, leaving the employees without anticipated benefits.

Capital investment . . .

Many people touting ESOT's as a boon to corporate borrowing also believe the plan will trigger an increase in overall capital investment in the United States. They believe this increase in capital investment will, in turn, lead to more rapid economic growth.

Their reasoning is simple. Since the effective cost of capital investment will be cut substantially, corporations will begin more rapid expansion of capacity.

But the effect on growth can easily be overstated. Many corporations might use ESOT's to acquire existing firms, expanding through acquisition rather than new capital investment. In addition, some advantages of long-term financing could be lost. ESOT's rely on bank credit for their funds, but banks might be unwilling to provide the long-term financing standard in corporate bond financing.

Moreover, many industries that need large amounts of new capital are already capital-intensive. Because the amount of contributions to the plan qualifying as tax deductions is limited by law to 15 percent of eligible payroll, ESOT's work best in labor-intensive industries. In capital-intensive industries, where wages are a relatively small expense, ESOT's could fund but a fraction of total capital needs.

Also, a corporation must show a profit in order to realize the tax savings. Firms with little or no profit have little to gain. Thus, the cost of capital will not be lower for them.

. . . but at a cost

The main reason ESOT's will not necessarily sustain increased capital investment is their widespread adoption would reduce corporation income tax payments, which amounted to $41 billion in fiscal 1975. The resulting federal budget deficit could adversely affect ESOT's because their value as a financial mechanism depends on the availability of bank credit. The increase in the Government's demand for credit would tend to reduce the supply of bank loans available to ESOT's.

Alternatively, the Government could replace these lost revenues, either by raising taxes or by lowering services. Using personal income taxes to recoup lost corporation income taxes would lead to a decline in consumption and allow a shift of resources into production of capital goods.

Consumer purchasing power could be maintained if corporations were to reduce prices. They might reduce prices because corporations may tend to strive for a certain level of after-tax profits. However, as output prices fell, corporate cash flow–the sum of after-tax profits and depreciation–would remain unchanged. Without an increase in cash flow, increased investment would be difficult and consumption would be unaffected.

Another way to recoup lost corporation income taxes would be to decrease Government services. But in this case, total spending on business products would not change, as increased corporate spending would be offset by the decreased Government spending. Aggregate demand would not grow–rather, its composition would shift from Government spending to business spending. Moreover, increased business spending at the expense of reduced Government spending on such capital projects as subsidized housing or mass transit would be of dubious value since investment goals in these areas could suffer. Nevertheless, widespread adoption of ESOT's could facilitate higher investment if personal taxes rise or Government spending is curtailed.

On balance, ESOT's can be a means by which corporations can expand capacity. But ESOT's cannot generate increased capital expansion without cost. In order for them to have the effect of increasing investment, total saving in the economy must be raised through higher personal taxes or fewer Government services.

–Brian P. Sullivan

Enhanced Recovery May Slow Declines in Production

States of the Eleventh District have long been the nation's main source of oil. Texas and Louisiana alone produce close to two-thirds of the domestic crude.

Although the outlook is for production in the District states to taper off as some of the most prolific fields are drawn down, recent increases in crude prices have pushed exploration to the highest levels in years. But no new giant fields, similar to those that propelled the region into the nation's leading supplier, have been found.

More important over the long haul, however, may be the effect of higher prices on efforts to recover additional oil from existing fields. As more attention in the Southwest is focused on techniques of enhanced recovery, the belief is buttressed that this oil-rich region may still make significant contributions to American efforts in promoting self-sufficiency in energy.

Big producers

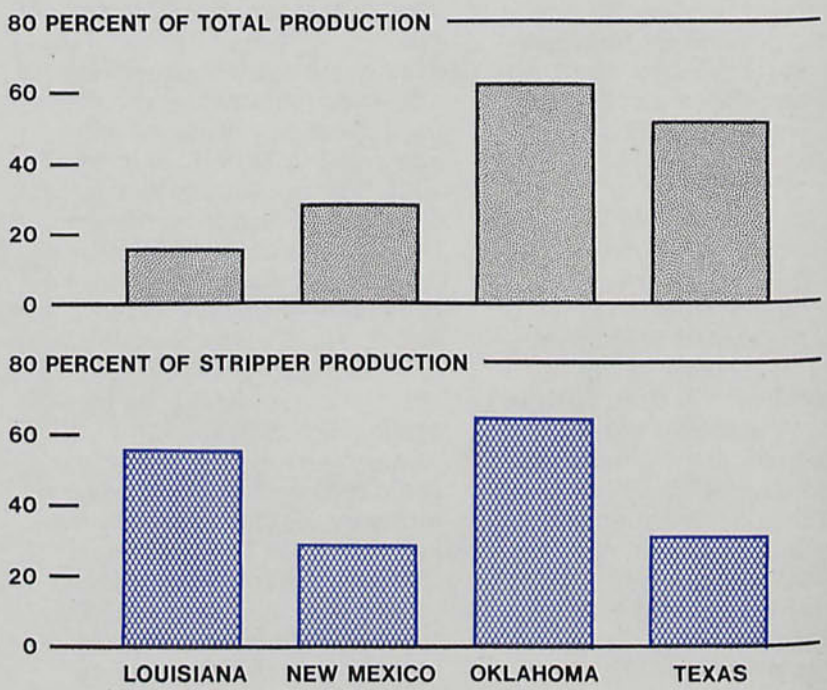
Of the states of the Eleventh District, only Arizona is not a major oil producer. New Mexico, the smallest producer of the other four states, has an output averaging some 256,000 barrels a day. That is enough to give New Mexico a ranking as the nation's sixth largest producer state. Oklahoma ranks fourth. But Texas and Louisiana rank first and second.

As a source of crude, Oklahoma–the oldest of the major oil states–is not nearly as important as it once was. Where it produced close to 30 percent of the nation's crude in the last year of World War I and about 12 percent in the last year before World War II, Oklahoma now accounts for only about 6 percent of domestic supply. But that is still significant output. Last year, Oklahoma produced 166 million barrels.

Part of the decline in Oklahoma has been absolute–a drop from its peak of 278 million barrels in 1927–but part has also been relative to gains in production in other states. Texas, for example, which produced about 20 percent of the nation's crude at the end of World War I, was producing close to 45 percent in the early years after World War II. When production in Texas peaked in 1972, it was averaging 3.57 million barrels a day. And that was under a prorationing plan that limited the flow of production. Today, with production at the maximum efficient rate, Texas has an output of about 3.36 million barrels a day.

Louisiana also has gained prominence. That state, which produced less than 5 percent of the nation's crude in 1918, accounted for only 10 percent in the early 1950's. But

Enhanced recovery accounts for large proportion of daily average oil production and stripper well production



SOURCE: Interstate Oil Compact Commission

even with gains in other states, such as Montana, it now accounts for about 25 percent–with a daily output of 1.75 million barrels.

To conserve resources, all four states have prorationed production, forestalling the rapid depletion of reserves that could come with ruinous competition to supply fairly limited markets. Together with secondary recovery operations, conservation has held up production all these years.

The result was surplus capacity, which helped hold off any real foreign effort to cartelize oil for 30 years. When shipments from the Middle East were disrupted during the Suez crisis in 1956, in fact, there was sufficient capacity in the Southwest to help relieve shortages in Europe.

But between the growth in world demand for oil and the slow decline in American reserve capacity, production in the United States fast became inadequate for such a response again. This was clear long before the Arab boycott.

Although most allowables were pushed to maximum efficient production–and beyond in some fields–producers in the Southwest could not come close to closing the gap when the boycott was imposed in 1973. Cartelization by the major exporting countries became effective.

Now, with crude prices up sharply and the nation trying to become self-sufficient in energy again, exploration in the United States has boomed. And as states of the Eleventh District have delivered so much oil–probably 66 billion barrels altogether–they are attracting much of the search.

Nearly two-thirds of the rotary rigs in operation last year were drilling in District states. Texas alone had more than a third of the nation's active rotary rigs.

But even though the District states will likely be the scene of continued exploration for some time, discovery of very large fields will be needed to reverse the decline in production in the Southwest. In Texas, for example, only a few fields–probably no more than 95 out of a total of some 8,000–account for over 69 percent of the state's crude production. And a decade has passed since the discovery of the last 100-million-barrel field, the Fairway field in Anderson and Henderson counties. Therefore, the best answer for southwestern states–and one of the best hopes for the nation–is further development of existing reserves.

Potential for recovery

The higher prices now paid for oil have added significantly to the value of reserves. But simply because the Southwest has long had so many important producing areas, the change in prices has also added significantly to the reserves themselves.

With their oil worth more, stripper wells–wells with production averaging 10 barrels or less a day–can be kept in production longer. And more can be spent to prolong the flow from productive fields by finding ways to tap oil that cannot be recovered with conventional methods.

Together, the four producing states in the Southwest have half the nation's stripper reserves. At the beginning of the year, Texas alone had more than a third of the nation's stripper production. And before the year is out, its 82,302 stripper wells will have provided nearly 9 percent of the state's production. Oklahoma has 57,000 such wells. And New Mexico has more than 9,000.

Stripper wells are quite sensitive to price levels. Abandonment becomes necessary when direct production costs exceed revenues, largely determined by oil prices. As the price of oil rose from about $3.40 a barrel in 1973 to over $10 in 1975 (stripper well production was exempt from price controls), the life of many stripper wells was extended–probably adding 218 million barrels to the nation's recoverable reserves. Unfortunately, it may be too costly to reopen many abandoned wells even if oil prices rise substantially.

The significance of encouraging enhanced recovery goes far beyond improving the performance of stripper wells. By getting more oil from fields, enhanced recovery could help slow, perhaps even stop, the long production slide in the District states.

Production in Texas, for example, peaked at 3.57 million barrels a day in 1972. At the rate of decline since, it could fall to some 2 million barrels a day over the next 15 years.

With the secondary or other enhanced recovery projects in operation at the first of this year, some 11.1 billion barrels of crude could be recovered in the District states. Nearly 7.5 billion barrels of these reserves are in Texas, some 2.2 billion in Oklahoma, and around 1 billion in Louisiana. New Mexico has only about 500 million barrels of such reserves.

These enhanced recovery projects were started under the current two-tier price control system. Removal of controls could stimulate new enhanced recovery projects that would bring an estimated 4.8 billion barrels into the category of recoverable reserves over the next five years. Over half this would be in Texas. The next closest beneficiary is Louisiana, which would see somewhat more than a fourth of the increase.

New recovery methods

The first large discoveries in the Southwest were often exhausted quickly, as many individual pro-

ducers competed against each other to withdraw oil from a field. The rush to exhaust fields was inefficient, however, because, once the nature of the drive mechanism was understood, it was apparent that too much oil was being left behind.

State regulation of production rates and producer care in maintaining reservoir pressure stopped this waste. Oil was no longer withdrawn so quickly that water in formations encroached on oil zones, cutting off large pockets of oil. And gas found in fields was no longer withdrawn so prematurely that reservoir pressure dissipated.

By making the best use of natural forces in a field, producers maximize primary production. Even then, field pressure–which forces oil out of porous sand and rock into producing wells–drops as oil is withdrawn.

But District producers learned that by artificially maintaining pressures, they could recover more oil from a field. They used secondary recovery operations involving injections of gas or water to maintain field pressures. As a result, many fields discovered nearly half a century ago are still producing and, when they are finally abandoned, much less oil will be left behind.

Further efforts to wring more oil out of known fields call for use of a variety of new techniques. These sophisticated tertiary recovery methods involve treating reservoirs with chemicals or heat to loosen oil and help push it to producing wells. In most cases, producers apply tertiary methods to reservoirs that have already produced through natural drive forces and secondary recovery operations.

But in some cases–and perhaps increasingly as these techniques are further perfected–tertiary methods may replace secondary recovery, thereby reducing costs and speeding production. Moreover, tertiary methods may be applied to known fields that cannot be produced through more conventional operations because of a lack of natural drive forces, the porosity of reservoir rocks, or the viscosity of the crude they contain.

In their simplest form, tertiary operations involve modifications of water or gas injection techniques used in secondary recovery. Output gains using these techniques are expected to be modest.

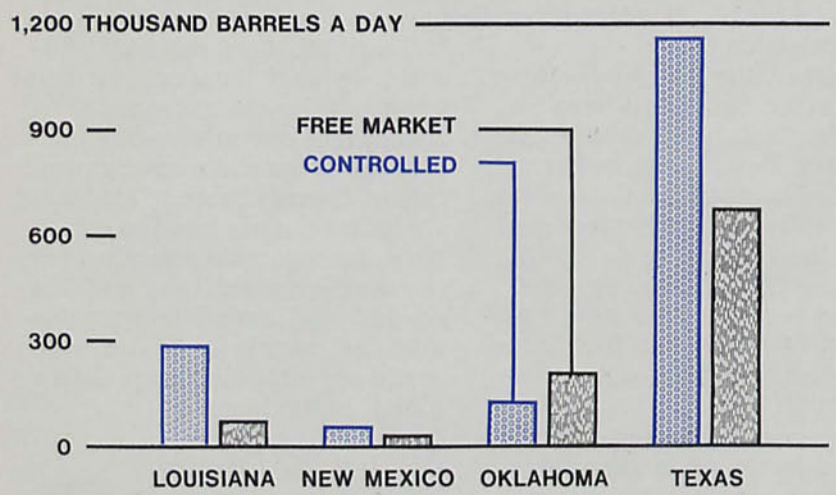
More complicated forms of tertiary recovery offer potential of more substantial gains. In some cases, solvents can be injected ahead of either gas or water drives, dislodging the oil so that water or gas pressure will force it into producing wells. And in other cases, injections of carbon dioxide and methane gas can spur recovery, both by providing drive pressure and by mixing with the crude oil in place, thinning it.

Thermal methods heat oil, thinning it and partly vaporizing it. A fire set in the geologic formation supplies the heat. Water may be injected with the air to form steam, which helps transfer heat from the combustion zone to producing areas. This provides the further drive needed to move the thinned oil.

Or steam may be injected through a well into the formation to heat oil that can be recovered from other wells. A "huff and puff" method that alternates injecting steam and then withdrawing oil from the same well has been used commercially in California for some time. This method is used for heavy oil not suited to more conventional recovery methods.

Not every field will benefit from tertiary recovery. Much depends on the physical characteristics of reservoirs. Some reservoirs along the Texas Gulf Coast have natural water drives that make possible recovery of 80 percent of the oil in place and, therefore, are poor targets for recovery operations. By contrast, some fields in West Texas containing a heavy viscous

Under two-tier price structure, most enhanced production sells at a controlled price



SOURCE: Interstate Oil Compact Commission

crude may yield only 25 percent with conventional methods–well below the national average for all wells of about 35 percent.

Chemical injections seem to offer the most promise. Industry experts believe that some 50 to 60 percent of tertiary oil will be recovered by chemical injections, 15 to 25 percent by thermal operations, and the rest by carbon dioxide and hydrocarbon projects.

Problems of recovery

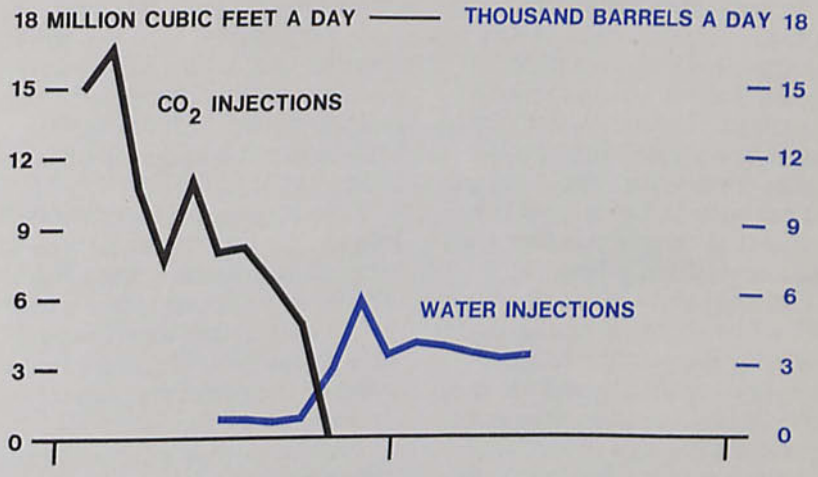
Although tertiary methods greatly expand the potential of recovery from fields, efforts to implement them have proved more difficult, and hence more costly, than District producers expected at first.

Many companies had hoped to capitalize immediately on significantly higher oil prices last year by making full-scale application of tertiary methods. But most ran into complications in the field with techniques that worked well in the laboratory.

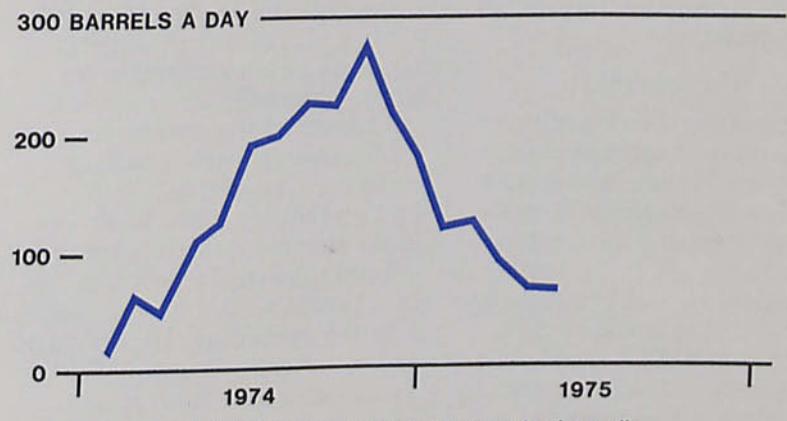
Efforts to treat some reservoirs with chemicals were stymied by such technical problems as formation rock absorbing more chemicals than expected and heat and salinity in the geologic formation breaking chemicals down. Moreover, cracks and irregularities in reservoir rock and sand at times created flow paths that channeled chemicals and gases to production wells without flushing out much oil. And for reasons not clearly understood, production often slowed appreciably after initial injections of chemicals and gases.

Economic problems have also developed. Higher oil prices have significantly raised the cost of some chemicals. And supplies of others are limited. Some experts, in fact, believe the capacity to produce these chemicals would be insufficient to meet the needs of widespread applications of tertiary methods.

In tertiary experiment in Sacroc area of Texas, after gas injections were completed . . .



. . . oil production suffered disappointing decline



NOTE: Project included six injection wells and two production wells on an 80-acre tract.
SOURCE: Sun Oil Company

Supplies of carbon dioxide gas are also tight. About 35 percent of the domestic production of 1.7 million tons is already used to spur recovery–mostly in Texas. With supplies limited, companies will have trouble finding enough gas to expand operations. Most carbon dioxide gas is withdrawn from natural gas wells in Texas, and transporting it to remote recovery sites is not economically feasible.

Thermal recovery has also been affected by technical and economic problems. Responding to differences in rock density and fissures, underground burning zones may unexpectedly surge toward wells and damage them. Furthermore, with the rising cost of natural gas used to pump air into formations, the cost of thermal operations has risen appreciably.

Exploration in Southwest

Hope of tapping the vast reserves in the Southwest remains high. Industry spokesmen believe that with favorable economic incentives, problems of applying tertiary methods will be overcome. They believe that oil produced by advanced methods will have to sell for $11 to $12 a barrel before most operations become commercial. Under the two-tier price system, much of this oil has to sell at the economically unattractive price of $5.25 for "old" oil.

All major oil companies and many smaller ones have been pushing tertiary projects this year, but these projects will take two to four years for evaluation. With many economic and technical problems still unresolved, tertiary operations may not become significant before 1985.

Nevertheless, efforts continue to aim at adopting these methods to conditions in southwestern fields. Texas, in particular, offers a prime target for tertiary recovery projects. Large West Texas fields have some of the country's biggest residual oil pools.

Carbon dioxide injections are being tried as a supplement to secondary recovery operations. The Sacroc area in Scurry County, Texas, for example, has attracted tertiary efforts. Sacroc projects appear to be the bellwether for tertiary recovery: success there will trigger efforts elsewhere.

Shortages of carbon dioxide could hurt recovery in the Wasson field and other remote West Texas areas. Companies are exploring for natural gas deposits rich with carbon dioxide needed for enhanced recovery operations. Higher chemical costs have prompted West Texas producers to forgo some solvent displacement prospects.

East Texas fields, with higher recovery efficiencies from conventional recovery operations, do not offer as good a target for tertiary operations. However, the Fairway field has benefited from a chemical injection project that was begun in the midsixties.

A few steam and thermal projects are under study in the Southwest. However, the outlook is not very bright for widespread application of such methods because of the physical characteristics of southwestern fields.

The Government is encouraging development of new techniques by helping finance some tertiary recovery demonstration projects. The Energy Research and Development Administration has announced it will underwrite nearly $1 million of a $3 million thermal project for the Little Tom field in Zavala County, Texas. The ERDA hopes that by 1982, new recovery methods will have added 4 billion barrels to reserves and will have increased production 1 million barrels a day.

Role of unitization

Passage of unitization laws in Texas may also be needed to make enhanced recovery profitable. To be effective, secondary and tertiary recovery projects have to be designed for a whole field. For example, a computer model can be developed for a whole field, and, on the basis of that model, oil can be withdrawn from different wells

at varying rates–increasing total recovery.

Texas is one of the few states that do not have unitization laws. Nevertheless, most of the large fields with substantial stakes in enhanced recovery have been unitized. Of the some 8,000 fields in Texas, about 1,000 have been unitized.

If a field is operating as a unit, the Texas Railroad Commission, which is responsible for Texas oil conservation, will allow its production to increase. For example, the commission will allow production in the Yates field–the largest field in the 48 contiguous states and a field that is being unitized–to increase from 50,000 barrels a day to 100,000. And pressure maintenance will add 200 million barrels to the field's total output.

The Texas Railroad Commission will put a field under a single operator if at least 85 percent of the working interest (individuals or companies putting up capital for drilling and production) and 65 percent of the royalty owners agree. But since unitization in Texas is voluntary, the Railroad Commission sets separate production allowables for nonsigners, protecting their interests.

Even so, company spokesmen favoring mandatory unitization complain they cannot use the best methods to operate a field because voluntary unitization forces them to design unit operations around such holdout properties.

Oklahoma requires approval by at least 63 percent of the owners and operators in a field before the field can be unitized. And its law requires dissenting owners and operators to enter into unit operations on the same terms as the majority.

Opposition to a mandatory unitization law in Texas–mainly from independent operators that fear losing some rights in the field–lessens some every year. Passage of such a law would undoubtedly act as a further incentive for enhanced recovery. And mandatory unitization could even be a necessity in widespread use of tertiary recovery in Texas–particularly in applying new methods to smaller fields.

–Stephen L. Gardner

New member banks

First International Bank in El Paso, El Paso, Texas, a newly organized institution located in the territory served by the El Paso Branch of the Federal Reserve Bank of Dallas, opened for business October 1, 1975, as a member of the Federal Reserve System. The new member bank opened with capital of $400,000, surplus of $400,000, and undivided profits of $200,000. The officers are: A. C. Donell, Chairman of the Board; G. L. Conner, President; Gerald L. Rust, Cashier; and John H. Glover, Assistant Cashier.

Gulf Southern National Bank, Houston, Texas, a newly organized institution located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business October 1, 1975, as a member of the Federal Reserve System. The new member bank opened with capital of $400,000, surplus of $400,000, and undivided profits of $200,000. The officers are: Carl A. Detering, Chairman of the Board; Roger B. Dickey, President; and Gerry L. Jalufka, Cashier.

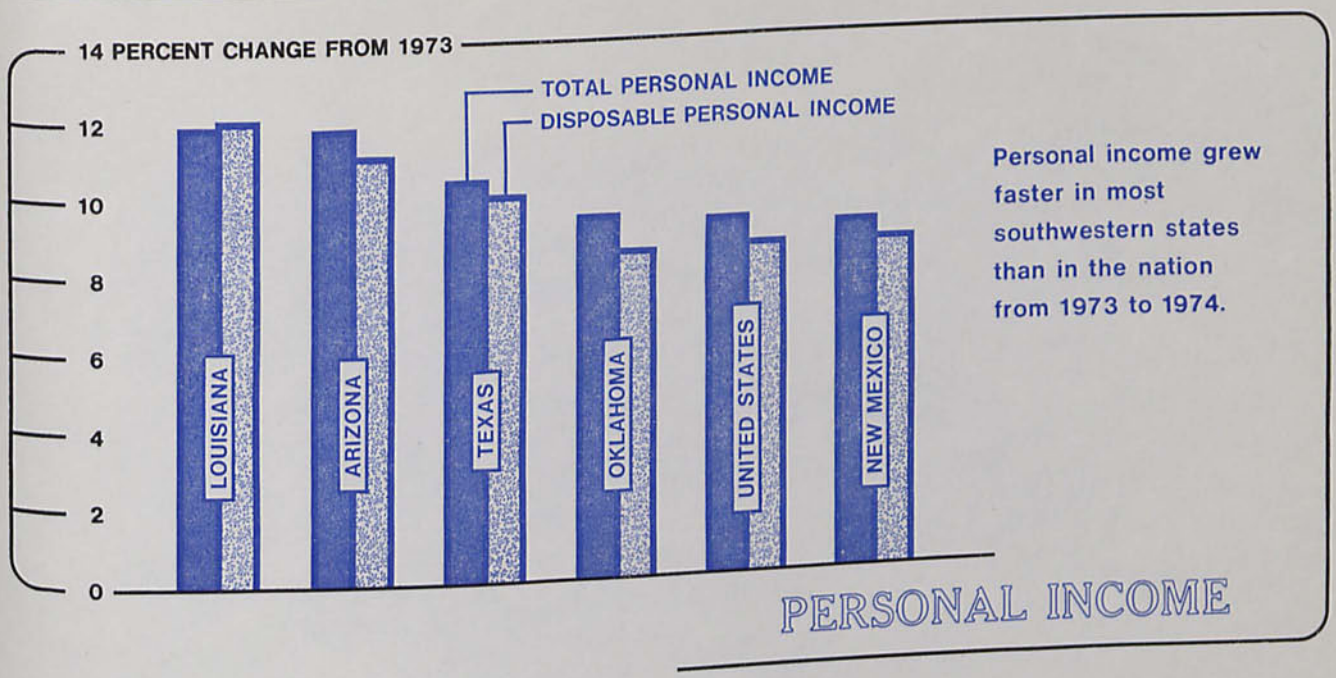
National Standard Bank, Houston, Texas, a newly organized institution located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business October 1, 1975, as a member of the Federal Reserve System. The new member bank opened with capital of $1,000,000, surplus of $1,000,000, and undivided profits of $500,000. The officers are: R. W. Wortham, III, Chairman of the Board; E. A. Stumpf, III, Vice Chairman of the Board; H. F. (Hal) Means, Jr., President; Lonnie L. Blanchard, Vice President and Cashier; and Gregory L. Jones, Vice President and Loan Officer.

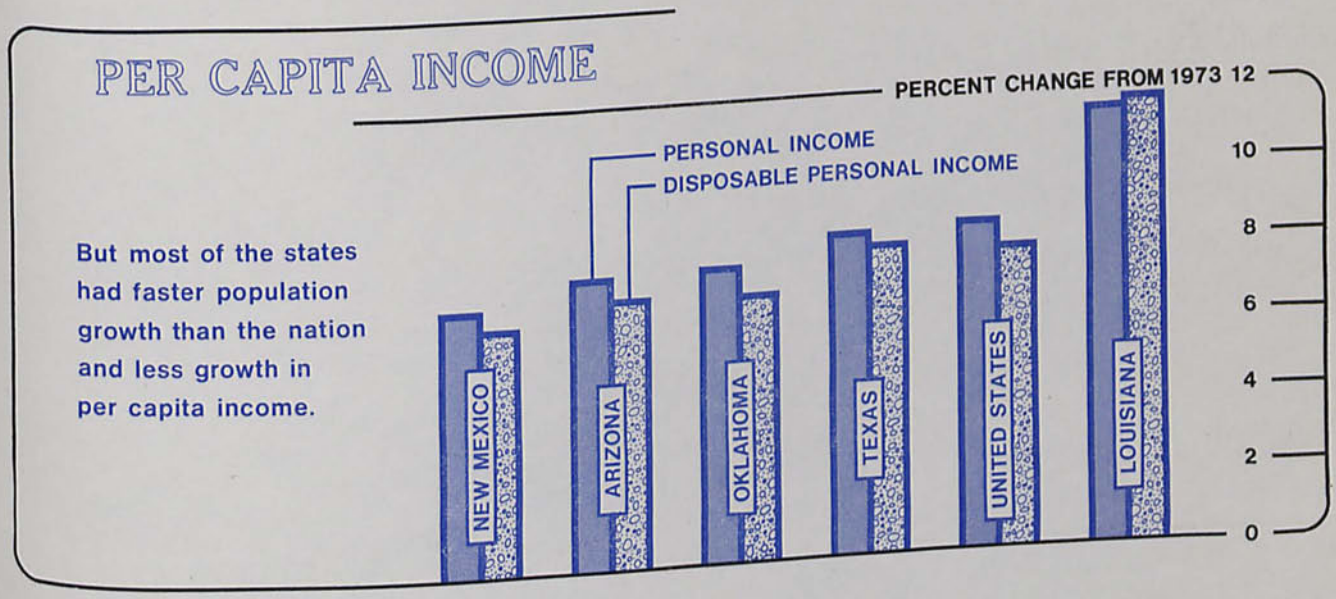
New par banks

Farmers & Merchants Bank, Priddy, Texas, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, began remitting at par October 7, 1975. The officers are: Arthur E. Gromatzky, Vice President; Eleanor Gromatzky, Cashier; and Arnold C. Jeske, Assistant Cashier.

Progressive State Bank and Trust Company, Winnsboro, Louisiana, a newly organized insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business October 10, 1975, remitting at par. The officers are: George W. Cummings, Jr., President; Gary M. Willis, Vice President and Cashier; and Jean M. Fletcher, Assistant Vice President.

First State Bank of Crandall, Crandall, Texas, a newly organized insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business October 20, 1975, remitting at par. The officers are: Bill D. Dempsey, President; Wayland Clearman, Vice President (Inactive); and Alan McCuistion, Cashier.





SOURCE: U.S. Department of Commerce

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

Federal Reserve Bank of Dallas
November 1975

Statistical Supplement to the Business Review

Below-average temperatures, higher utility rates, and the general slowdown in economic activity combined to reduce the annual peak load in electric power production in Texas this summer. When the load peaked in July, it was 1.7 percent lower than the 1974 peak, also in July.

Air conditioning accounts for the timing of the annual peak load, which occurs in either July or August. This year, summer was not as hot as usual over much of the state—particularly the more populated areas—easing the need for air conditioning. Mean daily temperatures in Dallas-Fort Worth in July, for example, were about two degrees cooler than a year earlier.

Higher rates for electricity also prompted residential customers to cut back air conditioning. Through August, the consumer price index for electricity had increased 21.2 percent for Houston and 30.1 percent for Dallas over the same time two years earlier. Both increases compared favorably, however, with a 35.4-percent rise for the nation as a whole.

Demand by industrial users in Texas has been curtailed not only by higher costs of electricity but also by the recession. Manufacturing output, which bottomed out in April, had recovered only modestly by July. For users heavily dependent on electricity—such as the aluminum industry—consumption has been off sharply.

Although reduced electric power use this summer does not signal a decline over the longer run, some of the state's largest electric utilities believe long-term growth in demand has been nearly halved. Consumers at all levels appear to be making significant adjustments in their use of electricity in response to higher rates.

The outlook for supplies of gas in Texas has improved, suggesting that a recurrence of curtailments in Texas cities and industries—2.3 percent of all connections were cut off last winter—is unlikely. Several producers, in fact, report there are surpluses of gas in the state in spot markets.

Large discoveries near Laredo have been drilled in with good production. In addition, supplies available to other users have been bolstered by lower demand for petrochemicals during the recession and conservation by industry.

In contrast to the improved outlook for Texas availability, curtailments in interstate markets this winter are expected to be higher than last year—with a shortfall of perhaps 15 percent. Even though both Congress and the Federal Power Commission are trying to facilitate intrastate sales of gas to the hard-pressed interstate markets, their efforts may not provide much relief.

Passage of federal legislation in time for purchases to be made is unlikely. And court rulings have blocked Federal Power Commission efforts to bring relief to industry.

Intrastate suppliers are, moreover, reluctant to make even temporary commitments to interstate lines. Many suppliers believe interstate sales would result in lost tax advantages and could commit them to supplying that market in the future. Too, their surpluses could be exhausted if demand for petrochemicals continues to strengthen and if the Texas winter were to be cold. Then too, some producers have clauses in their sales contracts that prohibit sale of their gas to interstate lines.

Other highlights:

- Eleventh District banking in the four weeks ended October 15 was highlighted by a significant increase in total loans and a sharp expansion in total deposits. Strength in loan demand centered in business loans, particularly for mining operations. Investments were reduced. The gain in deposits resulted from a sharp rise in cash items in the process of collection.
- Cattle on feed in Arizona, New Mexico, Oklahoma, and Texas on October 1 totaled 2.25 million head, 15 percent more than on July 1. Despite the recent advance, the number of cattle on feed was slightly below a year earlier and down a third from October 1973. Placements in the third quarter were up 9 percent over the second quarter and 28 percent over the same period in 1974. Marketings of grain-fed cattle, although slightly higher than in the second quarter, were down over a fifth from the third quarter of 1974. Offsetting this slowdown, however, has been a sharp increase in marketings of grass-fed cattle.

  Cattle on feed in the 23 major cattle feeding states on October 1 totaled 9.3 million head, 9 percent more than at midyear and 2 percent more than a year earlier. Placements increased a fifth in the third quarter over a year earlier, but marketings decreased 9 percent.
- Cash receipts from farm and ranch marketings in states of the Eleventh District improved in August. But sales through August were still 2 percent lower than a year earlier, after being 5 percent

(Continued on back page)

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	Oct. 15, 1975	Sept. 17, 1975	Oct. 16, 1974
Federal funds sold and securities purchased under agreements to resell	1,600,663	1,554,664	1,073,481
Other loans and discounts, gross	10,603,502	10,543,252	10,502,771
Commercial and industrial loans	5,122,340	5,082,498	4,725,929
Agricultural loans, excluding CCC certificates of interest	207,079	203,286	243,247
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	200	200	1,232
Other securities	66,222	59,096	33,014
Other loans for purchasing or carrying:			
U.S. Government securities	869	768	5,409
Other securities	370,889	371,037	428,010
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	201,652	174,901	154,455
Other	595,344	595,932	740,559
Real estate loans	1,494,279	1,510,658	r1,558,894
Loans to domestic commercial banks	53,595	64,004	53,160
Loans to foreign banks	87,883	88,329	73,194
Consumer instalment loans	1,122,261	1,125,610	1,119,427
Loans to foreign governments, official institutions, central banks, and international institutions	2,053	2,234	17
Other loans	1,278,836	1,264,699	1,366,224
Total investments	5,115,462	5,139,374	4,253,610
Total U.S. Government securities	1,545,788	1,568,990	904,277
Treasury bills	273,779	264,664	93,692
Treasury certificates of indebtedness	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	267,288	292,778	154,465
1 year to 5 years	836,094	840,898	483,482
After 5 years	168,627	170,650	172,638
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	298,365	296,130	158,982
All other	2,964,604	2,971,865	2,871,526
Other bonds, corporate stocks, and securities:			
Certificates representing participations in federal agency loans	9,745	10,282	20,358
All other (including corporate stocks)	296,960	292,107	298,467
Cash items in process of collection	2,191,031	1,566,519	2,235,520
Reserves with Federal Reserve Bank	920,207	1,187,633	1,121,518
Currency and coin	130,787	133,329	133,047
Balances with banks in the United States	584,958	549,543	502,860
Balances with banks in foreign countries	106,564	43,188	27,356
Other assets (including investments in subsidiaries not consolidated)	1,223,453	1,141,402	921,944
TOTAL ASSETS	22,476,627	21,858,904	20,772,107

LIABILITIES	Oct. 15, 1975	Sept. 17, 1975	Oct. 16, 1974
Total deposits	16,941,598	16,560,682	15,659,393
Total demand deposits	8,188,941	7,792,819	7,826,228
Individuals, partnerships, and corporations	6,029,635	5,604,394	5,632,867
States and political subdivisions	389,485	564,098	479,946
U.S. Government	97,877	115,229	92,891
Banks in the United States	1,237,096	1,346,088	1,383,605
Foreign:			
Governments, official institutions, central banks, and international institutions	5,854	2,173	3,142
Commercial banks	324,203	60,966	77,997
Certified and officers' checks, etc.	104,791	99,871	155,780
Total time and savings deposits	8,752,657	8,767,863	7,883,165
Individuals, partnerships, and corporations:			
Savings deposits	1,362,045	1,353,935	1,138,131
Other time deposits	4,898,946	4,811,474	4,536,409
States and political subdivisions	2,094,893	2,222,024	2,004,399
U.S. Government (including postal savings)	28,047	34,785	10,289
Banks in the United States	347,842	325,657	120,174
Foreign:			
Governments, official institutions, central banks, and international institutions	18,260	17,264	12,676
Commercial banks	2,624	2,724	11,087
Federal funds purchased and securities sold under agreements to repurchase	3,055,406	2,842,030	2,785,877
Other liabilities for borrowed money	19,641	44,470	160,563
Other liabilities	704,336	672,737	582,577
Reserves on loans	202,890	202,000	187,564
Reserves on securities	27,651	23,207	21,441
Total capital accounts	1,525,105	1,513,778	1,374,692
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	22,476,627	21,858,904	20,772,107

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	Sept. 24, 1975	Aug. 27, 1975	Sept. 25, 1974
ASSETS			
Loans and discounts, gross	21,775	21,792	20,920
U.S. Government obligations	3,054	3,071	2,064
Other securities	7,439	7,314	6,803
Reserves with Federal Reserve Bank	1,762	1,620	1,683
Cash in vault	400	406	381
Balances with banks in the United States	1,351	1,512	1,227
Balances with banks in foreign countries[e]	123	48	35
Cash items in process of collection	1,711	1,757	1,872
Other assets[e]	2,055	2,037	1,662
TOTAL ASSETS[e]	39,670	39,557	36,647
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,702	1,767	1,597
Other demand deposits	12,569	12,694	11,826
Time deposits	17,671	17,485	15,678
Total deposits	31,942	31,946	29,101
Borrowings	3,194	3,139	3,363
Other liabilities[e]	1,783	1,724	1,590
Total capital accounts[e]	2,751	2,748	2,593
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	39,670	39,557	36,647

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
1973: September	13,039	9,442	208	13,618	2,854
1974: 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
April	14,247	10,572	213	17,196	3,325
May	14,106	10,374	195	17,303	3,348
June	14,333	10,529	199	17,273	3,409
July	14,501	10,698	164	17,315	3,480
August	14,514	10,745	129	17,452	3,493
September	14,748	10,608	196	17,563	3,513

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

r—Revised

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	4 weeks ended Oct. 1, 1975	5 weeks ended Sept. 3, 1975	4 weeks ended Oct. 2, 1974
Total reserves held	2,044,653	2,012,846	2,001,941
With Federal Reserve Bank	1,683,597	1,659,870	1,659,000
Currency and coin	361,056	352,976	342,941
Required reserves	2,025,253	2,007,122	1,975,887
Excess reserves	19,400	5,724	26,054
Borrowings	11,302	12,362	164,702
Free reserves	8,098	– 6,638	– 138,648

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

SMSA's in Eleventh Federal Reserve District

(Dollar amounts in thousands, seasonally adjusted)

Standard metropolitan statistical area	DEBITS TO DEMAND DEPOSIT ACCOUNTS[1]				DEMAND DEPOSITS[1]			
		Percent change				Annual rate of turnover		
	Sept. 1975 (Annual-rate basis)	Sept. 1975 from Aug. 1975	Sept. 1975 from Sept. 1974	9 months, 1975 from 1974	Sept. 30, 1975	Sept. 1975	Aug. 1975	Sept. 1974
ARIZONA: Tucson	$27,088,282	0%	62%	28%	$389,779	68.3	66.9	45.1
LOUISIANA: Monroe	6,141,246	0	8	8	131,070	46.4	47.5	45.2
Shreveport	24,055,355	−8	19	19	377,340	64.3	68.9	55.3
NEW MEXICO: Roswell[2]	1,543,234	−3	14	8	60,342	26.1	27.4	25.9
TEXAS: Abilene	4,863,778	−5	23	11	160,646	30.2	31.3	26.9
Amarillo	11,532,787	−8	14	2	270,290	43.0	46.9	43.1
Austin	25,697,730	17	15	11	583,439	47.6	44.2	49.0
Beaumont-Port Arthur-Orange	11,832,170	8	4	4	378,233	32.2	30.8	36.0
Brownsville-Harlingen-San Benito	3,796,926	7	9	4	130,762	29.8	27.4	28.5
Bryan-College Station	2,018,908	7	13	11	68,790	29.8	29.5	30.0
Corpus Christi	12,746,141	1	13	6	336,738	38.0	37.6	38.1
Corsicana[2]	802,900	−3	10	7	44,876	18.0	18.4	18.9
Dallas	262,291,568	5	1	−1	3,229,358	80.3	76.2	83.0
El Paso	16,742,021	−2	18	10	361,097	47.0	48.0	44.8
Fort Worth	42,194,598	2	18	6	1,021,031	41.7	41.9	39.6
Galveston-Texas City	5,049,532	5	6	17	159,537	31.6	31.1	33.2
Houston	286,810,583	2	15	20	4,237,172	68.8	67.9	65.9
Killeen-Temple	3,267,913	12	25	11	139,112	23.8	22.1	21.5
Laredo	2,210,623	1	11	12	80,825	28.2	29.4	29.5
Lubbock	10,190,548	0	12	−3	247,180	40.5	40.6	38.9
McAllen-Pharr-Edinburg	4,683,157	−3	22	25	175,221	26.9	27.2	24.2
Midland	6,036,773	15	55	30	240,055	26.3	24.1	18.9
Odessa	5,612,257	39	89	41	142,307	38.8	28.1	24.8
San Angelo	3,481,846	12	29	14	104,028	33.4	29.8	29.2
San Antonio	38,935,930	6	18	13	1,000,277	39.2	36.9	36.7
Sherman-Denison	1,901,432	9	11	5	93,910	20.6	19.5	19.9
Texarkana (Texas-Arkansas)	2,594,801	6	21	14	103,530	25.6	24.7	22.6
Tyler	4,381,518	9	20	12	168,196	27.4	26.3	25.7
Waco	6,741,941	4	12	19	182,186	38.1	37.7	38.1
Wichita Falls	5,479,579	5	−8	7	188,216	29.3	27.9	35.2
Total—30 centers	$840,726,077	3%	12%	10%	$14,805,543	57.3	56.0	56.1

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	Oct. 22, 1975	Sept. 24, 1975	Oct. 23, 1974
Total gold certificate reserves	422,062	422,062	335,763
Loans to member banks	17,596	21,340	139,961
Other loans	0	0	0
Federal agency obligations	295,934	275,799	180,667
U.S. Government securities	4,259,980	4,256,383	3,589,503
Total earning assets	4,573,510	4,553,522	3,910,131
Member bank reserve deposits	1,667,068	1,761,553	1,712,333
Federal reserve notes in actual circulation	2,863,435	2,834,872	2,594,840

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	Sept. 1975	Aug. 1975	July 1975	January—September 1975	January—September 1974
FIVE SOUTHWESTERN STATES[1]					
Residential building	841	992	1,035	9,632	9,485r
Nonresidential building	369	373	376	3,050	3,444r
Nonbuilding construction	267	386	369	3,718	3,745r
UNITED STATES	205	233	290	2,863	2,296
Residential building	7,692	10,037	9,044	71,640	71,896r
Nonresidential building	2,966	2,784	3,093	23,452	27,696r
Nonbuilding construction	2,526	2,666	3,165	24,317	25,788r
	2,200	4,587	2,786	23,872	18,413r

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	NUMBER		VALUATION (Dollar amounts in thousands)				
					Percent change		
					Sept. 1975 from		
	Sept. 1975	9 mos. 1975	Sept. 1975	9 mos. 1975	Aug. 1975	Sept. 1974	9 months, 1975 from 1974
ARIZONA							
Tucson	317	4,419	$4,667	$69,503	−14%	4%	5%
LOUISIANA							
Monroe-West Monroe	78	650	1,818	11,544	44	123	−27
Shreveport	632	6,651	3,883	52,881	65	−28	−34
TEXAS							
Abilene	127	993	3,973	22,627	132	301	81
Amarillo	293	2,488	4,650	60,846	2	−17	23
Austin	463	4,089	8,979	121,852	−66	−77	−41
Beaumont	210	1,931	1,753	32,408	−24	73	−6
Brownsville	103	1,063	591	14,135	−47	−81	−40
Corpus Christi	256	2,157	4,594	44,049	48	−20	−11
Dallas	924	14,291	19,176	199,440	11	49	−21
Denison	32	350	421	2,414	13	146	68
El Paso	433	4,296	6,738	87,905	5	−43	−36
Fort Worth	382	3,307	4,360	146,486	−93	−19	31
Galveston	64	478	423	6,706	−17	−49	−78
Houston	1,540	16,809	52,418	431,893	0	86	−13
Laredo	92	588	1,750	11,462	12	1,477	44
Lubbock	180	1,651	5,238	90,102	−22	15	−17
Midland	119	1,035	4,185	20,920	101	270	−20
Odessa	96	1,052	8,673	23,979	610	2,316	60
Port Arthur	69	865	412	3,578	−17	32	82
San Angelo	81	640	3,210	16,797	79	346	52
San Antonio	1,483	13,120	19,646	116,235	55	234	−21
Sherman	27	296	251	3,678	−22	−24	−14
Texarkana	70	596	943	4,737	129	94	−28
Waco	253	1,931	2,020	15,802	−40	170	−50
Wichita Falls	132	885	1,964	12,276	91	106	10
Total—26 cities	8,456	86,631	$166,736	$1,624,255	−28%	19%	−16%

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	Sept. 1975	Aug. 1975	Sept. 1974r	Percent change from Aug. 1975	Percent change from Sept. 1974
FOUR SOUTHWESTERN STATES	5,763.0	5,818.3	6,093.9	−1.0%	−5.4%
Louisiana	1,735.7	1,790.3	1,927.6	−3.0	−10.0
New Mexico	255.0	256.2	272.2	−.5	−6.3
Oklahoma	447.7	452.7	477.6	−1.1	−6.3
Texas	3,324.6	3,319.1	3,416.5	.2	−2.7
Gulf Coast	641.8	641.0	671.6	.1	−4.4
West Texas	1,786.8	1,787.7	1,813.1	.0	−1.5
East Texas (proper)	215.6	212.7	230.5	1.4	−6.5
Panhandle	58.0	57.8	57.3	.3	1.2
Rest of state	622.4	619.9	644.0	.4	−3.4
UNITED STATES	8,284.2	8,351.2	8,621.2	−.8%	−3.9%

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: Sept. 1975p	Aug. 1975	Sept. 1974r	Percent change Sept. 1975 from: Aug. 1975	Sept. 1974
Civilian labor force	9,276.1	9,225.0	8,973.6	0.6%	3.4%
Total employment	8,610.7	8,561.7	8,513.9	.6	1.1
Total unemployment	665.4	663.3	459.6	.3	44.8
Unemployment rate	7.2%	7.2%	5.1%	[2].0	[2]2.1
Total nonagricultural wage and salary employment	7,602.5	7,581.2	7,553.8	.3	.6
Manufacturing	1,262.6	1,254.0	1,308.5	.7	−3.5
Durable	703.8	700.4	743.1	.5	−5.3
Nondurable	558.8	553.6	565.4	.9	−1.2
Nonmanufacturing	6,340.0	6,327.2	6,245.3	.2	1.5
Mining	270.7	269.2	263.5	.6	2.7
Construction	480.2	467.4	499.2	2.7	−3.8
Transportation and public utilities	498.7	496.6	511.3	.4	−2.5
Trade	1,827.9	1,822.2	1,788.3	.3	2.2
Finance	422.1	420.0	411.4	.5	2.6
Service	1,301.7	1,299.2	1,278.8	.2	1.8
Government	1,538.7	1,552.7	1,492.8	−.9%	3.1%

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)

CROP PRODUCTION

(Thousand bushels)

Crop	TEXAS: 1975, estimated Oct. 1	1974	1973	FIVE SOUTHWESTERN STATES[1]: 1975, estimated Oct. 1	1974	1973
Cotton[2]	2,879	2,487	4,699	4,125	4,565	6,446
Corn	115,500	73,600	60,800	131,046	88,315	73,398
Winter wheat	131,100	52,800	98,600	326,484	206,145	280,442
Oats	19,500	8,100	26,650	24,394	12,449	34,948
Barley	2,380	1,350	3,510	15,825	12,750	21,825
Rye	760	200	648	1,408	965	1,981
Rice[3]	24,332	25,258	20,530	47,570	49,978	41,924
Sorghum grain	387,600	312,000	417,000	439,033	356,707	478,164
Flaxseed	480	374	80	480	374	80
Hay[4]	4,860	5,106	5,808	11,453	11,371	12,964
Peanuts[5]	474,300	413,280	471,225	747,335	644,054	743,867
Irish potatoes[3]	1,785	2,244	2,940	2,865	3,084	3,772
Sweet potatoes[3]	950	850	855	3,585	4,525	3,825
Pecans[5]	55,000	38,000	20,000	122,000	56,700	96,500
Soybeans	9,100	7,830	8,500	56,490	57,747	47,860

1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas
2. Thousand bales
3. Thousand hundredweight
4. Thousand tons
5. Thousand pounds
SOURCE: U.S. Department of Agriculture

INDUSTRIAL PRODUCTION AND TEXAS MANUFACTURING CAPACITY UTILIZATION

(Seasonally adjusted indexes, 1967 = 100 for production)

Area and type of index	Sept. 1975p	Aug. 1975	July 1975r	Sept. 1974r
TEXAS				
Total industrial production	125.5	124.6	121.9	126.3
Manufacturing	130.9	129.7	125.7	131.0
Durable	130.7	131.7	127.9	133.7
Nondurable	131.0	128.2	124.0	129.0
Mining	108.1	107.7	107.6	111.8
Utilities	161.7	161.7	161.7	152.9
Capacity utilization in manufacturing (1972 = 100)	96.1	95.6	93.0	100.4
UNITED STATES				
Total industrial production	116.2	114.0	112.2	125.6
Manufacturing	114.7	112.7	110.5	125.5
Durable	108.0	105.4	103.5	122.1
Nondurable	124.6	123.1	120.8	130.5
Mining	106.7	105.3	106.5	109.2
Utilities	154.4	154.1	153.6	153.1

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

lower through July. Cash receipts for the nation as a whole in the first eight months of 1975 were 4 percent below a year before, after being 5 percent lower through July. Favorable market prices, good crop yields, and continued high rates of grass-fed cattle slaughter should push total sales in states of the District in 1975 significantly above 1974.

• Prospects for the cotton crop in the Eleventh District are mixed, as unfavorable weather has dampened potential quality and yields in the High Plains and Low Rolling Plains of Texas. Cold, wet weather in those areas in mid-September caused widespread leaf defoliation that resulted in bolls opening prematurely.

Consequently, the October 1 forecast for cotton production in states of the District—4.1 million bales—is 5 percent below the September 1 forecast. Cotton output this year will likely be 10 percent lower than the poor 1974 crop. Meanwhile, cotton output in the nation as a whole is projected at 9.1 million bales, a 22-percent smaller crop than in 1974.

• The rise in the seasonally adjusted Texas industrial production index slowed to an annual rate of 8.5 percent in September. Output of durable goods was off from a month earlier, mainly because of declines in transportation equipment and primary metals. But production of nondurable goods was up sharply, with the only decline in petroleum refining.