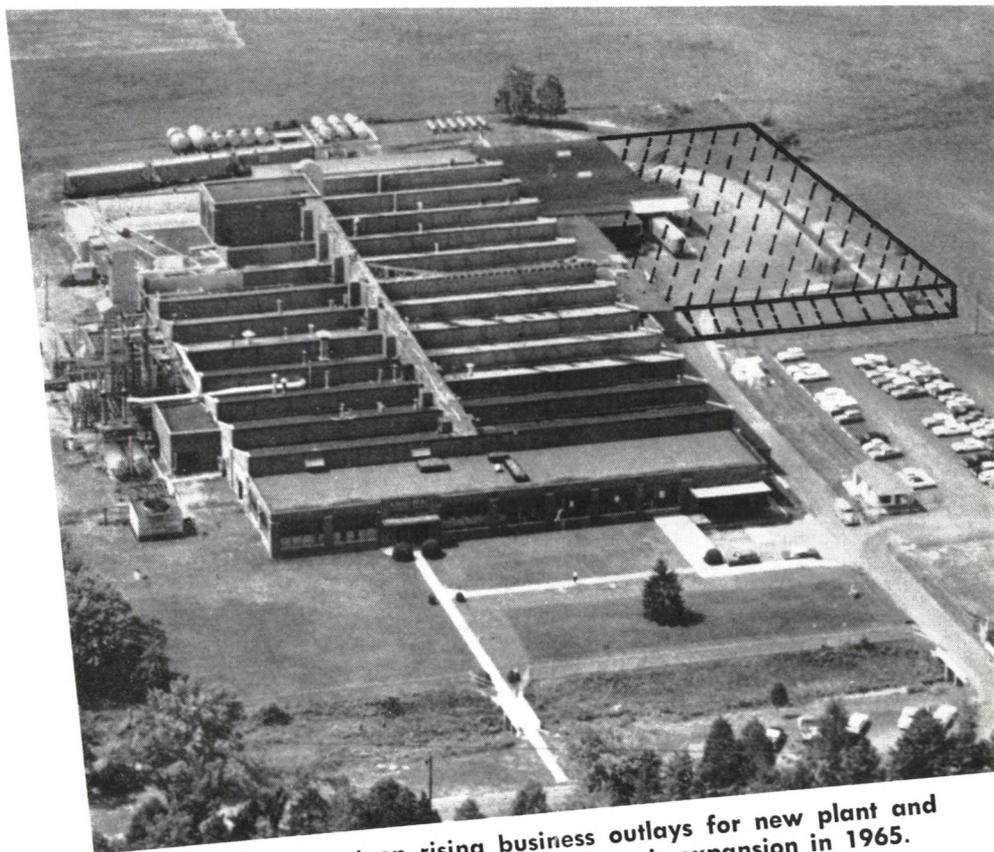


# MONTHLY REVIEW



Forecasters count on rising business outlays for new plant and equipment to promote further economic expansion in 1965.

# SMALLER GAINS IN 1965

For each of the past four years forecasters have looked at the year ahead and have predicted a rising level of business activity. The confidence of the forecasters and the extent of their agreement have varied but the consensus has definitely been on the upside each year. And events have generally validated or bettered the predictions. Now as the economy, in a development almost unprecedented in peacetime, heads into a fifth consecutive year of expanding activity, still another crop of forecasts points toward further gains.

The level of the forecasters' confidence is somewhat lower and the pattern of the expected gains is different, but the consensus is as definite as in earlier years. The clear verdict is for further gains in practically all sectors of the economy but the increases foreseen are distinctly smaller than those realized in 1964.

This brief article attempts to give a summary of available forecasts. As in previous years, the discussion aims to convey the general tone and pattern of the predictions, which this year number over 50, including several group efforts.

*The views and opinions set forth here are those of the various forecasters. No agreement or endorsement by this Bank is implied.*

## THE ECONOMIC BACKGROUND

Prevailing economic conditions in the closing months of 1964, when most of the forecasts were made, were quite favorable. The Presidential election campaign caused no significant disturbance, partly because the results had been generally anticipated. The trend of business activity was moderately but firmly upward. The pace lagged a little in one or two major areas but in no case enough to cause alarm. On the horizon several upcoming developments were potentially troublesome and the forecasters gave due attention to them.

Domestically, business activity had been moving up steadily for many months. GNP rose from an annual rate of \$599 billion in the last quarter of 1963 to an estimated \$633 billion in the fourth quarter of 1964. The index of industrial production moved up from 127 in December 1963 to 134 in September. It dropped two points in October because of strikes in the automobile industry and then snapped back to 137 in December. Inventories increased more slowly than sales, and inventory-sales ratios reached the lowest level since the Korean War. In the

meantime manufacturers' unfilled orders increased steadily from \$50 billion in December 1963 to more than \$56 billion in November 1964.

Total civilian employment, seasonally adjusted, rose from 69.2 million in December to 70.7 million in November—an increase of 1.5 million—while the rate of unemployment was falling from 5.5% to 5.0%. Manufacturers were embarked on a huge program of expansion, and outlays for new plant and equipment in the whole economy rose from an annual rate of \$41 billion in the last quarter of 1963 to about \$47 billion in the corresponding quarter of 1964. Corporate profits after taxes rose substantially from an annual rate of \$28 billion in the final quarter of 1963 to \$32 billion in the third quarter of 1964.

Several factors contributed to these favorable developments. A large reduction in Federal income tax rates in March stimulated consumer demand and raised corporate profits after taxes. Conditions in the money and capital markets encouraged and facilitated growth. Interest rates, while rising a little, remained moderate and credit was readily available. Credit extended by commercial banks continued its rapid growth and the money supply, over the year, grew at an annual rate of about 4%, considerably more than in most recent years.

Construction generally, and residential housing in particular, showed signs of weakness. The F. W. Dodge index of construction contract awards dropped slowly from 147 in January to 138 in April-June, rose to 140 in July, plunged to 121 in August and then rebounded to 143 in November. Private non-farm housing starts dropped rapidly but erratically from an annual rate of 1.8 million in October 1963 to 1.4 million in November 1964. For the first 11 months of 1964 the total was 1.4 million compared with 1.5 million in the same months of 1963.

Among the more disquieting portents as the year closed was the possibility of major strikes and increased labor costs. The wage settlement negotiated in the automobile industry had raised hourly labor costs by an estimated 4% to 5%. Impending wage negotiations in the steel industry were widely expected to bring union demands well in excess of the increases envisaged in the administration's guideposts. The contest for the presidency of the United Steelworkers union complicated the wage issue in this important industry, which tends to set the pattern for large segments of the industrial economy. Stockpiling in anticipation of a strike was already under way and was expected to accelerate in the new

year, to be followed by a correspondingly large liquidation of inventories.

The deficit in the balance of payments, though reduced from the levels of 1962 and 1963, remained large and was an unsettling factor. It was complicated in the closing weeks of the year by the sterling crisis and by the measures taken by the British Government to resolve it. Those measures included a surcharge of 15% on most imports, a subsidy on exports, and a sharp rise in the Bank rate from 5% to 7%. The latter was quickly followed by an increase in the Federal Reserve discount rate from 3½% to 4% and later by massive aid to Britain from the International Monetary Fund and from a group of the major central banks of the Western world. The sterling crisis proved unusually intractable to conventional remedial measures and cast a shadow over economic prospects for the free world in 1965.

In the latter part of 1964 there was a considerable flurry of price increases which aroused concern in many quarters. The increases were concentrated in raw materials and especially in the nonferrous metals. From the end of July to the middle of October the daily index of spot market prices, which is heavily weighted with raw materials prices, rose from 96 to 103, and fluctuated around that level for the remainder of the year. The metals component of that index experienced an especially sharp rise, moving up from 115 in mid-July to 137 in November and then declining to about 131 at year end. The much broader weekly index of wholesale prices rose from 101.1 in September to 101.7 in December.

The steady rise in consumer and mortgage debt continued in 1964 and evoked comment from a number of observers. From September 1963 to September 1964 the total of consumer debt and mortgage debt on one-to-four family homes rose from \$245 billion to \$267 billion—an increase of 9%. During the same period personal income rose by about 6%. Estimated personal savings, however, continued to grow, moving up from an annual rate of \$27 billion in the third quarter of 1963 to \$31 billion a year later. During the same period the public's holdings of liquid assets increased from \$484 billion to \$521 billion—a gain of about 8%. During the year several spokesmen expressed concern over a possible deterioration in the quality of credit generally.

### THE FORECASTS IN BRIEF

As noted above, the predictions are quite uniform in calling for general but smaller gains this year. In the broader measures of activity, the forecasts

fall in the general area of a 5% gain contrasted with a gain nearer 7% in 1964. Most of these estimates are in current dollars; when they are deflated for anticipated price increases they would amount to a little more than 3.5% in real terms. This section gives brief summaries of the predictions for the major economic areas.

**Gross National Product** The predictions of GNP for 1965 are very heavily concentrated in the area between \$655 billion and \$660 billion, with only an occasional figure falling above or below those limits. The midpoint of this range would represent a gain of 5.7% over last year contrasted with an estimated increase of 6.6% realized in 1964 over the preceding year. The most pessimistic prediction among those available is \$645 billion, or a gain of 3.6%, while the most optimistic is \$665 billion, representing a gain of 6.9%. Thus, even the most sanguine are expecting only a very small increase in the rate of growth. The gain of 5.7% represented by the midpoint of the forecasts would be above the gains of three of the past six years. If the average 1965 prediction is realized, it will represent an increase of 30% since 1960 and approximately 130% since 1950.

Personal consumption expenditures comprise the largest component of GNP. Here, too, the predictions are closely grouped, falling almost entirely between \$420 billion and \$425 billion for a gain of about 5.7%. Most forecasters look to continued strength in consumer outlays as a major factor determining the level of GNP. They reason that personal income will continue its steady rise and that consumers have not fully adjusted their buying habits to reflect the large cut in income taxes last year. This is further supported by recent surveys of consumers' buying intentions which indicate a high level of purchases in the early months of 1965. Generally, the expectation is that there will be little, if any, gain in the buying of automobiles for the year as a whole; the major increases for commodities are expected in other durables and in nondurables. Services, it is thought, will continue the steady rise which has been going on for many years.

Gross private domestic investment is another large component of GNP and perhaps the most dynamic one. Here a significant increase is foreseen, largely because of rising business investment. The typical forecast is for a level of about \$94-\$95 billion for 1965 compared with about \$87 billion for 1964, which would be an increase of some 8%.

The third major component of GNP is government purchases of goods and services. This is expected to continue its persistent rise to reach a total

near \$136 billion, which would be an increase of nearly 5.5% over 1964's \$129 billion. The bulk of the increase—some \$5 billion—is expected to be in the area of state and local governments. There will be a number of increases in the Federal area but forecasters think these will probably be offset to some extent by a reduction in defense outlays.

Net exports of goods and services, a final major component of GNP, were up sharply in 1964 to about \$7 billion, which is the highest on record by a wide margin. Most forecasters do not believe that it will be possible to maintain this pace in 1965 and predict a net between \$5 and \$6 billion.

**Industrial Production** The forecasters expect that for the year 1965 as a whole industrial production will continue its moderate rate of growth. The average prediction is for a level of about 138 on the Federal Reserve index. This would represent a gain of 4.5% over the estimated figure of 132 for 1964, and would be an increase of only one point over the level for December 1964.

After three consecutive boom years, the production and sale of new automobiles is not expected to show much, if any, gain over 1964, which set a sales record of about 7.7 million domestic cars and some 400,000 imports. Opinions differ substantially, however. An occasional strong optimist foresees a gain of a million cars or more, while on the other end a few of the less optimistic expect a moderate decline. One sustaining factor foreseen for the early months of the year is a carry-over of unsatisfied demand from the closing months of 1964 when strikes reduced production. Arguments advanced to support a high estimate for the year as a whole are that personal income continues to rise, that automobile prices have remained quite steady for five years while prices of other consumer goods have been rising, and that the quality of new automobiles has been improved significantly. Hence, it is reasoned, automobiles now represent a bargain in comparison with other consumer goods. Still another argument is that the number of youngsters reaching driving age is increasing very rapidly and they represent a most insistent demand (at least in the vocal sense) for an additional car in the family. Finally, the number of cars scrapped has been increasing rapidly and is now well over five million per year.

For 1965 the average prediction is for the sale of a little more than eight million new automobiles, including about a half million imports.

Steel production is another area in which opinions differ. There is no disagreement about the first half—it will be good. Stockpiling in anticipation of

a strike will probably enable the industry to set several new records in the early months. After that, activity will decline as inventories are liquidated. That process may well dominate the industry for several months. While some elements of the industry are optimistic about the year as a whole, many forecasters foresee a moderate decline from 1964's record production of 125-127 million ingot tons.

**Construction** The large and complex construction industry accounts for about 10% of GNP. Since the early months of 1964 total outlays for new construction have fluctuated narrowly around an annual rate of \$66 billion. Housing starts, especially in the form of apartments, and outlays for residential construction have shown distinctly downward trends. On the other hand, industrial and commercial construction have moved up. Forecasters see a continuation of these divergent trends in 1965.

Residential construction is expected to show little, if any, gain and may decline moderately further. Apartment building, which has increased very rapidly in the past few years, is definitely expected to decline, but single-unit housing is expected to remain fairly stable and may increase in dollar volume because of higher prices. Total private nonfarm housing starts in 1964 are estimated at about 1.5 million and most predictions for 1965 are near that level.

Industrial construction is definitely regarded as an element of strength in 1965. The United States Department of Commerce predicts an increase of 11% following a gain of nearly that amount in 1964. In dollar terms this would be a gain of some \$350 million over 1964, and would push total industrial construction to about \$3.6 billion, which would be above its previous peak achieved in 1957. Manufacturing firms are in the midst of an extensive program of plant expansion and are expected to increase construction outlays substantially. Public utilities are continuing their rapid expansion and are expected to spend some \$5 billion for construction.

In other areas the outlook for construction is thoroughly mixed. As the crop of war babies moves along from secondary school to college, institutions of higher learning must continue to enlarge their facilities. While the numbers will be smaller at the college level than at the high school level, the cost per student is considerably higher. Hospitals must expand to meet an ever-growing demand, but the growth foreseen for 1965 is down sharply from 1964. In a few areas absolute declines are indicated for 1965. These include social and recreational institutions, farm construction, and military facilities.

Overall, the predictions for total construction out-

RESULTS FOR 1964 AND EXPECTATIONS FOR 1965

	Unit or Base	1964*	1965**
Gross national product .....	\$ Billions	623	655 to 660
Personal consumption expenditures .....	\$ Billions	400	421 to 425
Government purchases of goods and services .....	\$ Billions	129	135 to 136
Gross private domestic investment .....	\$ Billions	87	94 to 95
Net exports of goods and services .....	\$ Billions	7	5.0 to 6.5
Index of industrial production .....	1957-59	132	137 to 140
New construction put in place .....	\$ Billions	66	66 to 68
New plant and equipment expenditures .....	\$ Billions	44	47 to 49
Change in business inventories .....	\$ Billions	3	4 to 6
Corporate profits before taxes .....	\$ Billions	58	59 to 60
Rate of unemployment .....	Per cent	5.2	5.3 to 5.9
Wholesale price index .....	1957-59	100.5	101 to 102
Consumer price index .....	1957-59	108	109 to 110

\*Estimated figures.

\*\*Figures are rough approximations of the typical forecast for 1965.

lays in 1965 run near \$68 billion. This would be an increase of about 3%, or just about half of the increase realized in 1964.

**New Plant and Equipment** Outlays for new plant and equipment advanced sharply in 1964 for an increase of about 14%, the largest gain in eight years. The chart on page 8 shows that these outlays have been moving up strongly since early 1963 and are now well above the previous peak reached in 1957. Aided by official surveys of business plans which project these outlays ahead, forecasters confidently predict that the expansion will continue during 1965, but at a somewhat reduced rate. In general, the estimates fall near \$49 billion, a figure which would represent an increase of approximately 10%. In many cases the projections involved here are based on programs already under way, which ordinarily would not be abandoned or cut back except for compelling reasons. The substantial increase expected in these outlays constitutes one of the larger and more important factors which lead many forecasters to predict a general increase in business activity this year. Analysts reason that such outlays not only exert a direct stimulating effect but also indicate the confidence of businessmen in future demand.

**Inventories** One of the more troublesome questions confronting forecasters this year concerns the behavior of inventories. In the past inventory changes have been significant both as an indicator and a cause of cyclical fluctuations. But there are many

signs that a secular change is going on in this area and that inventory fluctuations are being reduced in size. In the recent past inventories, contrary to precedent at this stage of the cycle, have increased less than sales and inventory-sales ratios have declined to very low levels. Faced with this trend, forecasters have been uncertain as to how to estimate the change in inventories in 1965. Apparently most of them believe that the trend will be reversed and that the ratios will move toward traditional levels, because they generally predict that inventories will increase more this year than last, while their predictions of sales are the opposite. Most predictions call for an increase in inventories of \$4.5-\$5 billion this year compared with an increase of about \$3 billion last year. The low inventory-sales ratio prevailing at year end and the prospect of some buildup in inventories are cited by several observers as a significant element of strength in the general business situation.

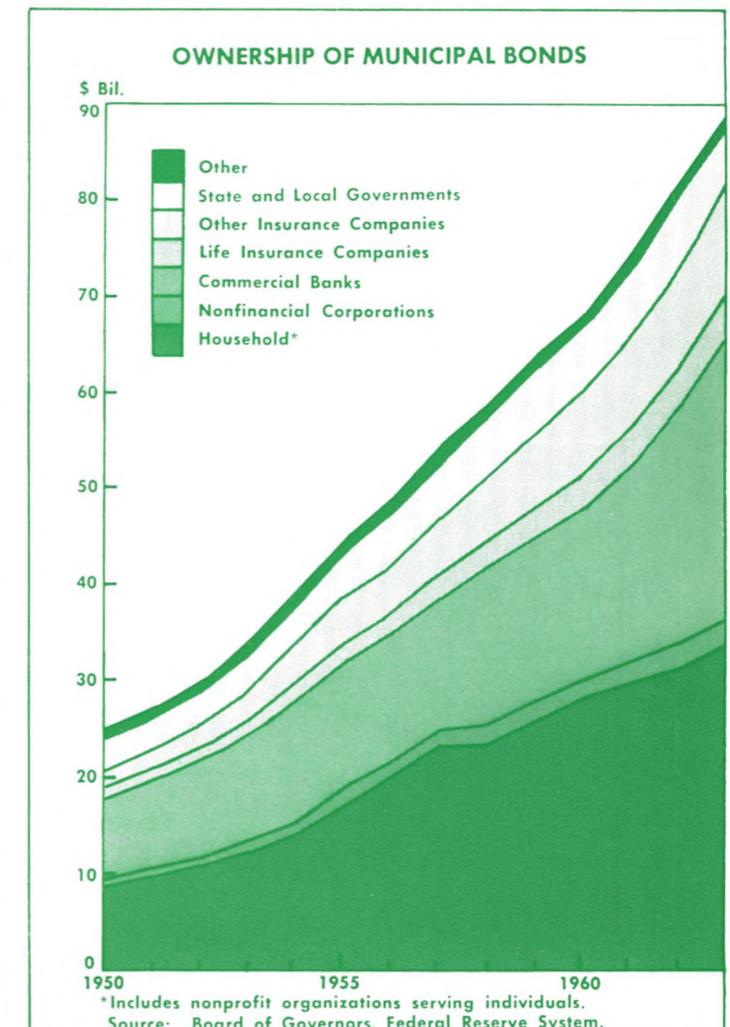
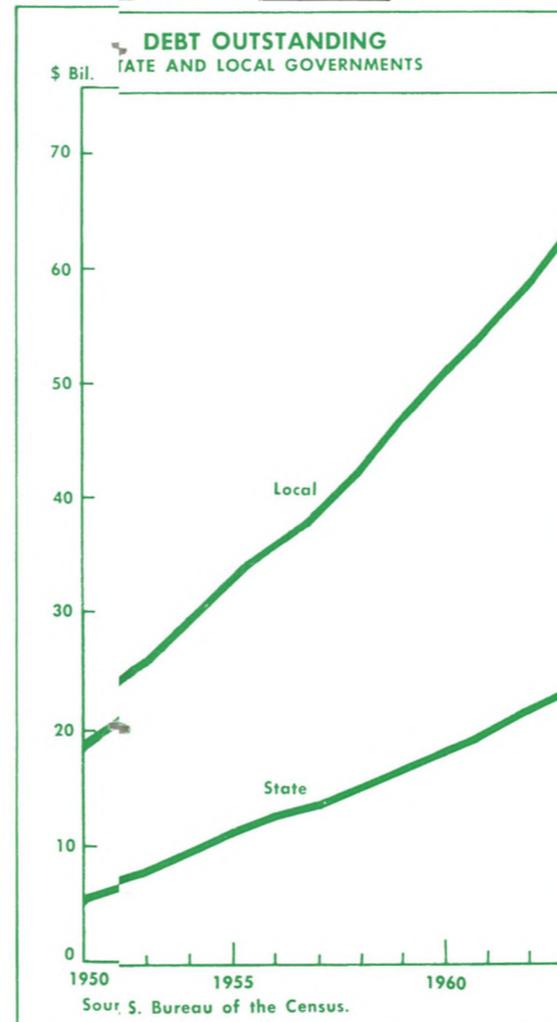
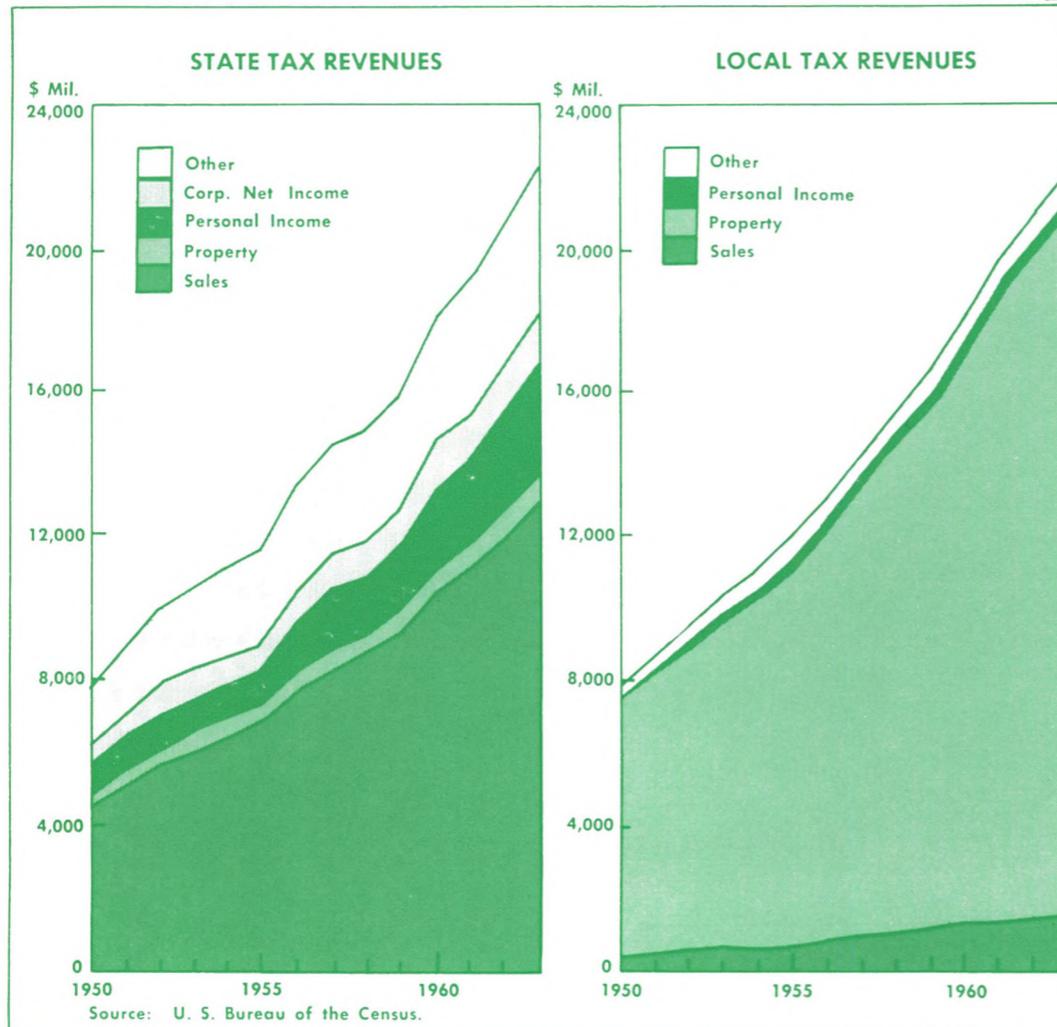
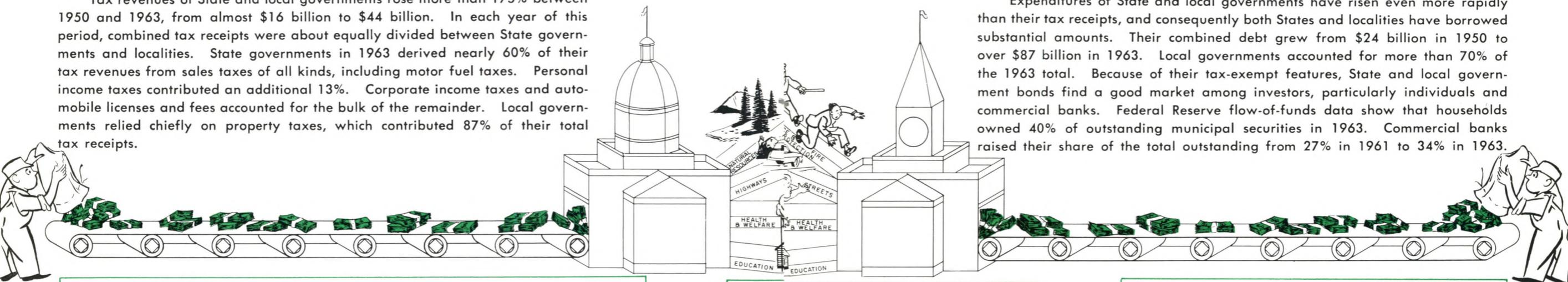
**Corporate Profits** Corporate profits *before taxes* were up considerably in 1964, but the upward trend during the year was quite moderate. The increase for the year as a whole in profits *after taxes* was somewhat larger because of the reduction in the corporate income tax rate. For 1965 most forecasters who discuss the topic foresee increased labor costs, higher materials prices, and keener competition. For these reasons they contemplate only a small increase in profits before taxes this year. Most predictions fall in the area \$59-\$60 billion, compared with an

(Continued on page 8)

# FINANCING STATE AND LOCAL GOVERNMENTS

Tax revenues of State and local governments rose more than 175% between 1950 and 1963, from almost \$16 billion to \$44 billion. In each year of this period, combined tax receipts were about equally divided between State governments and localities. State governments in 1963 derived nearly 60% of their tax revenues from sales taxes of all kinds, including motor fuel taxes. Personal income taxes contributed an additional 13%. Corporate income taxes and automobile licenses and fees accounted for the bulk of the remainder. Local governments relied chiefly on property taxes, which contributed 87% of their total tax receipts.

Expenditures of State and local governments have risen even more rapidly than their tax receipts, and consequently both States and localities have borrowed substantial amounts. Their combined debt grew from \$24 billion in 1950 to over \$87 billion in 1963. Local governments accounted for more than 70% of the 1963 total. Because of their tax-exempt features, State and local government bonds find a good market among investors, particularly individuals and commercial banks. Federal Reserve flow-of-funds data show that households owned 40% of outstanding municipal securities in 1963. Commercial banks raised their share of the total outstanding from 27% in 1961 to 34% in 1963.



(Continued from page 5)

estimated level of about \$58 billion for 1964. After-tax profits should rise a little more, proportionally, because of a further reduction in the tax rate.

**Employment and Unemployment** Unemployment declined slowly and erratically during 1964. This was the result of an increase of nearly 1.5 million in civilian employment and a slightly smaller increase in the civilian labor force. Most forecasters are not able to see any improvement in the unemployment situation in 1965. In fact, most of them foresee an unemployment rate as high as, or higher than, the average rate of 5.2% which prevailed in 1964. If this is correct it would mean a distinct rise from the 5.0% prevailing at year end. The reason for this gloomy prediction is that the expected increase in business activity will not be sufficient to provide jobs for the large number of young people entering the labor market. One observer noted that the expected increase in *real* GNP will be only about 3.5% whereas an increase of about 4.8% would be required to afford jobs for all new job seekers.

**Prices** Prices are expected to remain relatively stable in 1965, but most forecasters expect them to move up slightly more than they did last year. Wholesale prices have been practically unchanged for seven years. Now most predictions are that they will rise by 1.0% to 1.5% this year. Consumer

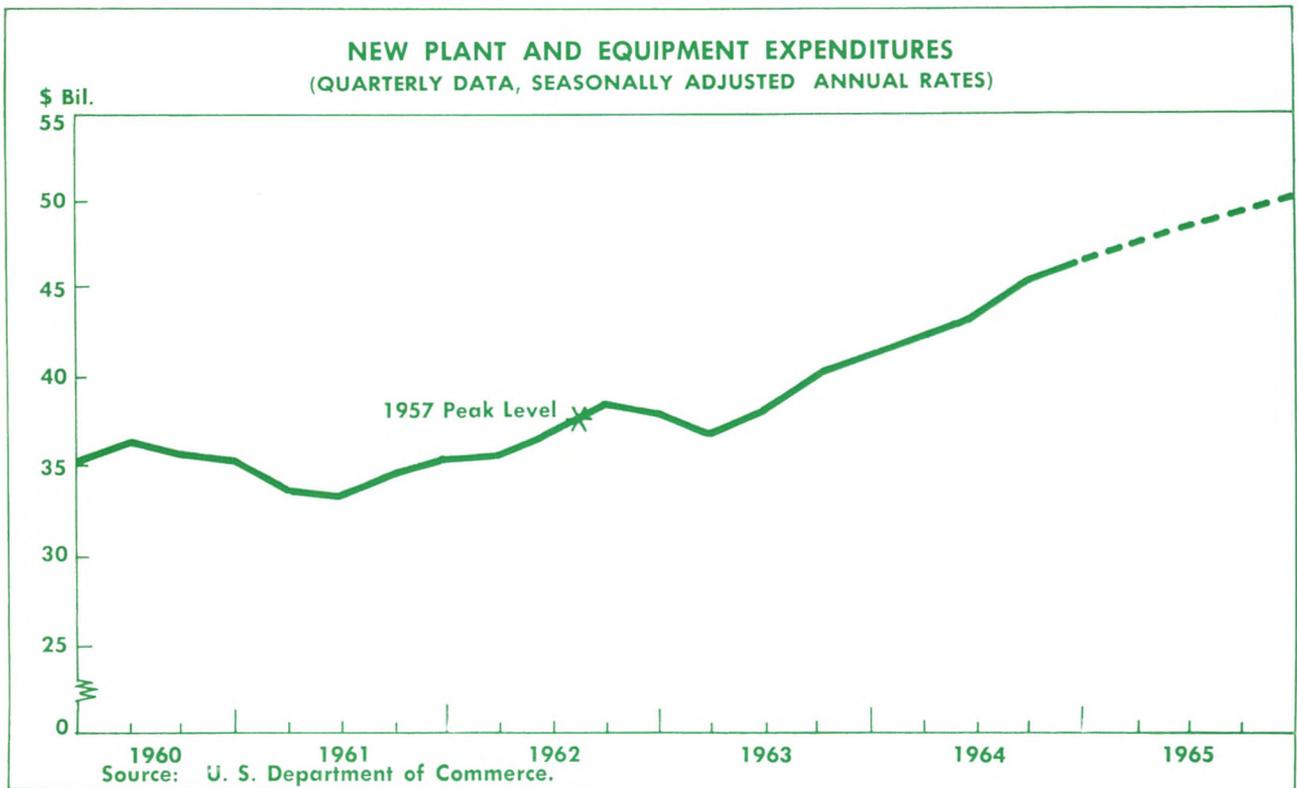
prices have been rising by 1.0% to 1.5% per year for several years. The forecasters see them rising by 1.5% to 2.0% in 1965. Several reasons are cited: higher prices for some raw materials in the latter part of 1964; higher labor costs; moderate interest rates; and the relatively high rates of growth of bank credit and the money supply in 1964.

### THE TIME SCHEDULE

There is a fairly definite pattern in the forecasts with respect to timing. Nearly all of them envisage continued good gains in the early months, followed by some slowing in the latter part of the year. A number of them, however, note that beyond six months the outlook is so clouded that any definite prediction is hazardous.

The reasoning is that the early months will benefit from several factors. Consumer demand will probably remain high because of factors already cited, including the carry-over of some demand for new automobiles as a result of reduced production in the closing months of 1964. Demand for steel is likely to be abnormally high because of stockpiling in anticipation of a strike. The further reduction of two points in the corporate income tax will boost after-tax profits and make income statements look better.

In April, however, many taxpayers will have to make significant outlays to complete payment of their taxes on 1964 income. This may shrink consumer



demand. Shortly after that, if not before, wage negotiations in the steel industry will reach a climax. Whether or not there is a strike, liquidation of steel inventories will begin and may well continue through most of the remainder of the year.

In addition to these dampening factors several forecasters question whether the surging demand for automobiles, which has been moving up steadily for more than three years, can continue throughout the year. If it should weaken, the whole business outlook would be affected and, in particular, the liquidation of steel inventories would be drawn out further. At this point, too, some forecasters note the long, steady, and fairly rapid rise in consumer debt which has been going on for four years and question whether an adjustment is not overdue.

But at this point, as several forecasters note, a hero may be waiting in the wings, ready to come to the rescue of the consumer. It is generally agreed that a substantial cut in excise taxes will be considered by Congress and may be adopted in time to go into effect by midyear or shortly thereafter. Figures between \$2 billion and \$4 billion for the reduction are mentioned as possibilities. If such a reduction is made, some part of it will almost certainly be passed on in the form of lower prices and might well stimulate sales. Automobiles may be affected and this could be the marginal effect which would make possible another record year of sales. A few observers, however, see the possibility of trouble in connection with the tax reduction. If the question is debated at length in Congress, and if the taxes to be reduced and the amount of reduction are uncertain, large numbers of consumers might well delay their purchases, waiting to get the benefit of lower prices. Such an interruption could do much to offset the advantage of the tax reduction for the year 1965 in so far as total sales are concerned.

### THE PROS AND CONS

It might be helpful at this point to list the elements of strength and the elements of weakness in the business situation as noted by various forecasters. Roughly in the order of their importance, they are given below.

#### ELEMENTS OF STRENGTH

1. The high level of anticipated business investment.
2. Rising personal income and the high level of consumer buying intentions.
3. Expected reduction in excise taxes.
4. Persistently low inventories relative to sales.
5. The high level of manufacturers' unfilled orders.

6. Moderate interest rates generally and ample availability of mortgage funds.
7. Higher outlays by state and local governments.

#### ELEMENTS OF WEAKNESS

1. Possibility of strikes and rising labor costs.
2. Liquidation of steel inventories in second half.
3. Lower defense spending and small increase in total Federal expenditures.
4. The high level of consumer and mortgage debts.
5. Prospects of only limited gains, if any, in automobile sales and housing construction.
6. The continuing deficit in international balance of payments and the possibility of a loss of exports to the United Kingdom.

#### CONCLUSION

Finally, a few miscellaneous points should be noted. Last year some forecasters were concerned about the length of the period of business expansion, which was already beyond the average. This gave them pause, but nevertheless they predicted another year of upswing. This year, although the upswing is a year older, the matter seems to arouse little comment. The forecasters do not assume, at least openly, that the business cycle has been conquered. On the other hand, they do not assume that business movements are following the typical pattern of previous cycles. If they did, they would be impelled to predict a downturn for this year. Rather, they seem to follow a neutral philosophy expressed by one observer in these words: "We are moving further into uncharted waters in 1965."

Many of the forecasters were concerned about the deficit in the U. S. balance of payments, but few ventured anything approaching a definite forecast as to what it would be. In fact, few of them expressed an opinion as to whether it would improve or deteriorate. For these reasons, it is not possible to say more than that the problem is considered to be a source of uncertainty and possible trouble.

While no forecast available for this survey predicts a price decline and a large majority expect only small price increases, a few express concern over the possibility of inflation. Some of the reasons suggested were the growth in bank credit and the money supply, the rise in the price of several raw materials in late 1964, pressure for further tax cuts, the wage settlement in the automobile industry, and price increases in several important industrial commodities.

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*A compilation of forecasts with names of forecasters and details of estimates is available upon request from the Federal Reserve Bank of Richmond.*

# THE FIFTH DISTRICT



Fifth District business activity has continued to move briskly and smoothly ahead. As the current expansion moved toward an unprecedented fifth consecutive year, all the broad indicators were at or near record highs. Major District manufacturing industries, already operating at or close to capacity, were also continuing to report strong demand.

**Debits, Employment, Man-Hours Up** Seasonally adjusted bank debits, which usually fluctuate irregularly from month to month, rose sharply to new high levels in both November and December. Comparisons with year-earlier figures add emphasis to the recent strength of this indicator. Debits in 1964 averaged one-tenth higher than in the previous year but were above comparable 1963 levels by as much as one sixth in November and one eighth in December.

Seasonally adjusted nonfarm employment rose in December for the eighth consecutive month, although the September increase was quite small. Nonfarm jobs were more numerous in December in all sectors except nondurable goods manufacturing, government, and trade. As in other recent months, strength was most evident in contract construction.

Factory man-hours rose in each of the final three months of 1964, for a total increase of more than 5%. October gains were concentrated in textiles, apparel, tobacco, furniture, and machinery. November increases centered mainly in durable goods, with lumber mills, stone, clay, and glass plants, and furniture factories heading the list. The nondurables sector also recorded gains, although on a smaller scale. The December rise in man-hours was larger and more pervasive than in either of the other fourth-quarter months. Textile activity rose sharply again, and unusually large gains were registered in paper, transportation equipment, fabricated metals, and lumber. No major industry group experienced a decline.

**Other Favorable Signs** Joblessness remained low throughout the District toward the end of 1964. Estimated rates of total unemployment continued well below the national figure in the District of Columbia and in all states except West Virginia. Insured unemployment rates also remained at com-

paratively low levels. They were below the national average in all parts of the District until December, when West Virginia's figure rose slightly above the national level.

Business failures toward the end of 1964 were about equal in number to those reported during the comparable portion of 1963 but were far less numerous than in any other recent year. Business failure liabilities, on the other hand, were well below the prior year's level and at their lowest ebb in six years.

December retail sales apparently broke all previous records in the District, as in the nation. In the final month of 1964, District department store sales exceeded the previous December figure by 6% while remaining, with adjustment for seasonal variation, about even with the November 1964 level. District furniture store sales rose somewhat less than seasonally in December but, nevertheless, reached a new high for the month, 11% above the year-earlier figure. Trade sources generally continue to indicate that consumer markets for furniture and for most varieties of household durables have remained strong. Employment in trade rose steadily during the fall and stood at an all-time high level at the end of the year.

**Construction Outlook Less Certain** Building activity maintained considerably more than seasonal strength last fall with the result that seasonally adjusted construction employment continued to rise. Contract awards figures, compiled by F. W. Dodge Corporation, gave the future an uncertain tone, however. This indicator declined substantially in October and November, falling well below the levels of a year earlier. While a small increase was recorded in December, the figure for that month was nevertheless the second lowest of the year. The lower figures toward the end of the year were largely a result of declines in public works and utilities and, to a smaller extent, in other types of nonresidential building. The average value of residential contract awards, however, was higher than in the previous fall season. The November and December residential figures were by a considerable margin the highest on record for those particular months.

Building permits in November displayed strength,

but a sharp decline followed in December. For 1964, as a whole, building permits exceeded the previous year's level by more than one tenth, a slightly larger relative gain than occurred in contract awards. Although the construction sector apparently continues to inject considerable strength into District business generally, the less buoyant tone that first appeared in the forward indicators earlier last year still appears to be present.

**Factories Humming** Strength in the manufacturing sector is perhaps the most impressive recent aspect of the District economy. Information from a variety of sources indicates that the substantial increase in man-hours in the final quarter of the year represented a response to a sizable flow of new business and to unusually large order backlogs. Prices in the District manufacturing sector have apparently remained quite stable, but small wage increases have continued to characterize skilled labor markets in a few areas. Textile mills have remained unusually busy. Gray cloth buying resumed, following a market lull during the year-end holiday season. A few recent orders reportedly call for fourth-quarter delivery, and inquiries regarding fourth-quarter goods have become numerous enough to suggest that another significant extension of already heavy mill backlogs may be in the offing.

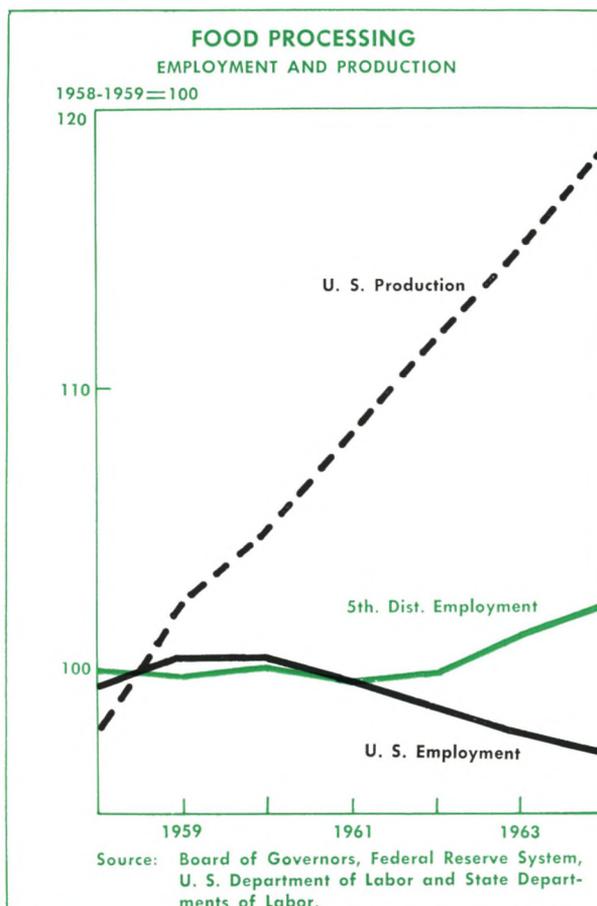
Winter furniture markets, in progress throughout the Carolina-Virginia furniture region during the third week of January, drew the largest crowd of buyers in many a year, and sales were described as "soaring." But trade sources also said that furniture deliveries, backed up from four to eight or more weeks, were causing some concern among both buyers and sellers. Reports of "pyramiding" suggest that demand may not be quite as strong as it seems. This term refers to the practice among some buyers of placing orders for similar items with more than one manufacturer, intending to take those that are shipped first and to cancel the rest.

**Food Industries** Consumer purchases of food products regularly account for a fraction of total retail sales ranging between one fifth and one fourth, depending on seasonal factors. Most food products require processing, and firms manufacturing foods and kindred products provide a significant number of jobs. Nationally, food processing employment reached a recent peak near 1.8 million in 1960 and has since declined by some 70,000. In the District, on the other hand, jobs in food manufacturing have gradually increased in recent years, reaching by last year 133,000, more than one twelfth of all factory jobs. These trends appear on the chart on this page

as index numbers (1958-59=100) and are compared to growth during the same period in national output as reflected in the food and kindred products sector of the Industrial Production Index.

A striking rise in productivity is indicated by this chart. Nationally, a 3% decline in employment from the 1958-59 average level has been accompanied by an increase in output of almost 19%. Measures of productivity within the District are based on the periodic Census of Manufactures and on annual Surveys of Manufactures conducted in other years. The most recent year for which these data are currently available is 1962. According to these figures, food processors are among the more productive manufacturers in terms of value created per unit of labor. In 1962, value added per man-hour amounted to \$7.52 in District food processing plants compared to \$5.93 for District manufacturing as a whole. Food industries nationally, however, achieved \$9.13 of value added per man-hour in 1962. In the five years ending with 1962, value added per man-hour rose 25% in the District and 29% nationally.

**The Farm Outlook** Prospects for District farmers in 1965 appear generally favorable, although some



uncertainties persist. The outlook for flue-cured tobacco is especially cloudy. A brief view of prospects for major District commodities as seen by U. S. Department of Agriculture analysts follows.

*Tobacco:* The tobacco situation for 1964-65 features record supplies of flue-cured, burley, and Maryland, the cigarette tobaccos, and cuts in flue-cured and Maryland acreage allotments of 19.5% and 15%, respectively. Virginia fire-cured allotments are the same as a year ago. If growers approve marketing quotas, 1965 allotments for most burley farms will be reduced 10%, and those for Virginia sun-cured farms will be about the same as last year. Current indications are that 1965 support levels will be up about 1% over 1964.

Overseas supplies of competitive tobaccos are large and United States exports in the current marketing year are likely to be about 9% below 1963-64. Domestic cigarette consumption made a good comeback from the sharp dip early in 1964 and, at current rates, should be larger this year than last.

*Cotton:* The cotton outlook is highlighted by sharply rising mill use, a decline in exports, and a further buildup in cotton stocks. Mill consumption is expected to total 9.6 million bales, up about 1.1 million from last year and at the highest level since 1950. Exports, however, will likely total about 4.5 million bales, down from the 5.7 million exported during the past year.

In light of the combined supply-demand outlook, the nation's 1965 allotment has been set at the legal minimum of 16 million acres, the same as in 1964. The national domestic allotment (acreage required to produce estimated domestic mill use) is 10.4 million acres compared with 10.8 million in 1964. Farmers who plant only the domestic allotment will receive an extra price support payment in addition to the basic price support of 29 cents per pound. This additional payment rate of 4.35 cents per pound compares with 3.50 cents in 1964. There will be no export market acreage in 1965.

*Peanuts and Soybeans:* Peanut supplies about 7% above a year earlier and second only to the 1948-49 record are sharply above probable food and farm uses. With peanuts in surplus, farm prices in 1964-65 will likely average near the loan rate. The national allotment for the 1965 crop is again at the legal minimum of 1,610,000 acres, the same as in recent years.

Supply and demand in soybean markets are expected to be in close balance. Farmers' prices last fall were about the same as a year earlier and sharply above loan rates. With the resumption of the up-trend in soybean usage during the first quarter of

the marketing year, remaining supplies are below year-earlier levels. For the rest of the season, prices are expected to continue strong and may average higher than last year.

*Poultry and Eggs:* Broilers present the most favorable picture in the poultry and egg outlook for 1965. Output may edge upward, but competition from red meat seems likely to be less severe than in the past two years. Broiler prices in 1965 thus may run somewhat above the low levels of 1964. This appears especially likely for the first half of the year, but prices after midyear will probably average lower than during January-June.

The outlook for eggs and turkeys is not as favorable as in 1964. Larger output of both is anticipated, and the increases are expected to be big enough to bring about further price declines. Egg prices in the second half of 1965 could well be much lower than during the same period last year.

*Meat Animals:* This year's price situation for fed cattle may be a little more favorable for producers than were the depressed markets last year. Fed cattle prices will likely keep much of their present strength through the winter months. Factors which seem likely to strengthen cattle prices the next few months are lighter slaughter weights, lower supplies of other red meats per person, population growth, and consumers' continuing preference for beef.

Higher hog and lamb prices than in 1964 are in prospect into mid-1965. This expected strength in prices is based on anticipation of further cutbacks in slaughter. The 1964 pig crop was 7% smaller than 1963's, and indications are that the number of sows farrowing this spring will be 7% below a year ago.

*Dairy Products:* Milk production in 1965 is expected to stay near the 1964 level. A further decline in milk cow numbers is anticipated, but output per cow is expected to continue to increase. With population increasing, consumption of milk and dairy products will probably keep rising. The growth in total consumption, however, will likely not be large enough to halt the downtrend in use per person. Domestic demand, exports, and Government donations for welfare and school lunch programs should keep stocks at relatively low levels. Farm prices of milk and cream in 1965 may be near year-earlier levels. Cash receipts from farm sales, however, may show a slight gain over a year ago because of an expected increase in marketings.

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