August 1964

FEDERAL RESERVE BANK OF ST. LOUIS Review

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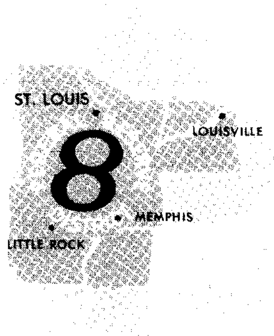

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Economic Expansion with Stable Interest Rates

THE CURRENT BUSINESS EXPANSION, now in its forty-third month, continues to make substantial progress. Spending on currently produced goods and services, the gross national product, reached an estimated $618.5 billion annual rate in the second quarter, nearly $10 billion above the rate three months earlier. Most economic indicators continued to show strength through July. At the same time, wholesale prices remain at about the same level that has prevailed since 1958, while the rate of increase of consumer prices is about the same as since mid-1963. The nation's money supply rose markedly from May to July. As has been the case throughout most of the period of recovery and expansion since 1961, however, interest rates continue to exhibit unusual stability.

Business Developments

Consumers were responsible for much of the gain in total spending from the first to the second quarter, as personal consumption expenditures rose $6 billion. Spending on nondurable goods and services increased about $5.4 billion and purchases of durables $0.7 billion. The winter tax cut has undoubtedly spurred consumer spending. Disposable personal income—i.e., personal income less personal taxes—increased at an annual rate of $12 billion from the first to the second quarter. This compares with gains of $8.3 billion and $6.8 billion in the two previous quarters.

Federal Government purchases of goods and services in the second quarter were up at an annual rate of $2.7 billion, while state and local government spending was up at a rate of $1.6 billion. Investment spending was $1.1 billion greater in the second than in the first quarter. Gains in investment in producers' durable equipment and inventories were partially offset by a decline in spending on new construction. Net exports of goods and services were at a $6 billion annual rate in the second quarter, down from the first quarter rate of $7.7 billion.

Most other economic indicators have also shown strength in recent months. Industrial production, employment, and retail sales all continued to grow substantially through July.

Financial Developments

The money supply rose markedly from May to July. The recent increase in money was primarily in demand deposits rather than in currency. For the entire period since last December money has risen at a 3.9 per cent annual rate, about the same as the 4.1 per cent rate from September 1962 to December 1963 and substantially greater than the 2 per cent average annual rate for the 1951-63 period. The 3.9 per cent rate of increase since December was quite high compared with rates which have characterized the advanced stage of other postwar business cycles.

Money plus time deposits also increased more rapidly from May to July than last winter and spring. Time deposits rose $2 billion compared with a $2.2 billion expansion in money. From December to July money plus time deposits rose at about a 7 per cent rate compared with an 8 per cent rate in the preceding year.

Member bank reserves rose from May to July at a 9 per cent annual rate. Since December, their increase has been at a 3.6 per cent rate. Reserves available for private demand deposits have also risen at a 9 per cent rate since May, but for the entire period since December have risen at only a 1.0 per cent rate, as increases in reserves required to support Government deposits and time deposits absorbed most of the expansion in total reserves.[1]

Recent Interest Rate Stability

Since last November, there has been little change in most interest rates. As shown in Table I, average yields on many securities in July were about unchanged from last November. Several rates have been stable for a much longer period. The prime bank rate, at 4.5 per cent, has not changed since August 1960, and bank rates on short-term business loans have been near 5 per cent since mid-1960. Yields on both new FHA residential mortgages and conventional mortgages have not changed appreciably since early 1963.

Table I

Market Yields on Selected Securities

Monthly Averages of Daily Figures

	November 1963	July 1964
U. S. Government Securities		
3-month Bills[1]	3.52	3.46
6-month Bills[1]	3.65	3.56
3- to 5-year Bonds[2]	3.97	3.99
Long-term Bonds	4.10	4.13
Commercial Paper	3.88	3.96
Finance Company Paper, 90-179 days	3.75	3.73
Bankers' Acceptances	3.71	3.75
Aaa Corporate Bonds	4.33	4.40
Baa Corporate Bonds	4.84	4.83

[1] Except for new bill issues, yields are averages computed from daily closing bid prices.
[2] Includes certificates of indebtedness and selected note and bond issues (fully taxable).
Sources: Board of Governors of the Federal Reserve System, Moody's Investors Service, Federal Housing Administration, and finance companies.

With output, employment, incomes, spending, and investment all showing strength in the first half of this year, it seems reasonable to have expected increases in credit demands accompanied by upward pressure on interest rates. Experience during previous post World War II periods of rapid economic expansion is consistent with such an expectation. During the 1949-53, 1954-57, and 1958-60 periods of expansion, interest rates showed strong increases (see Chart 1 on facing page). Possible explanations of this phenomenon are examined below.

The demand for loan funds on the part of the U. S. Treasury is a factor bearing on interest rate developments. A decline in the supply of outstanding Treasury securities tends to result in a bidding up of prices and a drop in yields. On the other hand, prices tend to fall and yields increase when the supply of outstanding securities is increased. The supply of marketable, interest-bearing public debt, at $206.5 billion in June, was about the same as in November 1963. This compares to a small reduction in the November 1962-June 1963 period and a slight increase in the November 1961-June 1962 period. On the basis of these data it appears that Treasury needs during the past eight months have probably been neutral with respect to interest rates.

Although business investment in plant and equipment has been strong, inventory investment has been

[1] For charts and tables giving detail regarding money and reserves, see this bank's semi-monthly release on deposits and reserves.

Chart I

*Change in series.

Shaded areas represent periods of business recession.

only moderate since the first of the year. Since January, businesses have accumulated inventories at an annual rate of 2.4 per cent. This is substantially less than the 7.3 per cent rate during the 1954-57 expansion, the 4.5 per cent rate during the 1958-60 expansion, and the 3.9 per cent rate from February 1961 to January 1964. A rapid accumulation of inventories is typically accompanied by strong demands for credit, which in turn exert upward pressure on interest rates. Because inventory investment has been moderate since the first of the year, credit demands have been light, and little pressure has been put on rates.

One possible explanation of the recent stability of interest rates is that since about April the market has expected no change in rates. According to this view, the market would treat any movement in rates as only temporary, and adjustment would be immediate. Thus, whenever yields edged higher (and prices lower), this would induce purchases by those attempting to take advantage of the higher rates of return. These purchases would tend to exert upward pressure on security prices (and downward pressure on yields). By the same token, when rates moved lower, the market's reaction would tend to arrest the decline and reverse the movement.

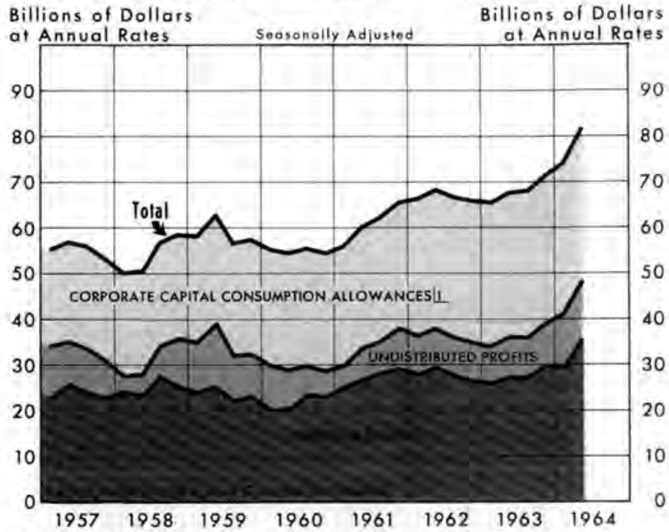
Monetary developments have been intermittently expansive since the beginning of the year. While the rate of increase averaged only 2 per cent from December to May, it was 8.5 per cent from May to July, and for the entire period averaged about 4 per cent. Normally, such a rapid rate of growth in money tends to put some downward pressure on interest rates. The 4 per cent rate since December is in sharp contrast to rates of increase during comparable periods in other expansions when interest rates were generally rising. During the final twelve months of the 1954-57 expansion the money supply increased at a rate of only 0.7 per cent. For the 1958-60 expansion the money supply actually declined at a 2 per cent rate during the final twelve months. On the basis of these comparisons, monetary developments from December to mid-1964 were very easy and therefore, other things equal, may have placed some downward pressure on rates.

A further explanation for the stability of interest rates is that savings have been increasing at a substantial rate for some six months, thereby expanding the supply of funds available for investment. An increase in the supply of investable funds puts downward pressure on rates. The major nonbank sources of investable funds – personal saving, undistributed corporate profits, and capital consumption allowances – have all increased substantially since the fourth quarter of 1963 (Chart 2). Since the fourth quarter, the total of these three sources has increased at an annual rate of about 30 per cent. This compares to a 10 per cent rate from the first quarter of 1961 to the fourth quarter of 1963 and a 6 per cent rate since 1951.

It is unusual for savings (both corporate and personal) to rise substantially at this phase of the cycle. The recent large tax cut may provide a partial explanation. This tax cut was unique in that it came at a time when spending and investment were both high. The tax cut may have served the dual role of stimulating spending and providing additional saving.

Chart 2

Major Nonbank Sources of Investable Funds



1/ Includes depreciation, capital outlays charged to current accounts, and accidental damages.
Source: U.S. Department of Commerce

Interest rate developments over the past nine months have been contrary to experience during comparable periods of previous cyclical upswings. The comparative stability of rates since November has probably been the result of several forces. The strong expansion of business has no doubt put some upward pressure on rates. But at the same time, it appears that the rapid increase in money, the high savings rate, and market expectations have combined to exert downward pressure on rates. The net result has been a stability of rates since November.

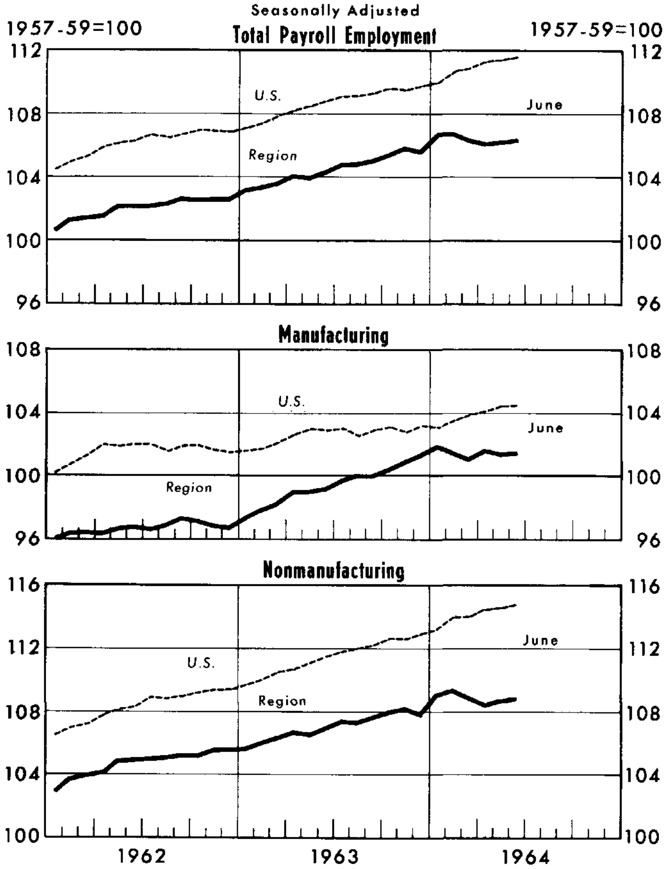
Economic Pause in Central Mississippi Valley

ECONOMIC ACTIVITY in major cities of the Central Mississippi Valley has shown little change so far this year.[1] This is in contrast with the strong expansion in the national economy. After expanding steadily through 1962 and 1963, total payroll employment has not increased since January. Neither manufacturing nor nonmanufacturing employment has increased. The index of industrial production[2] in the region has risen only slightly. Check payments have been unchanged since the first of the year, continuing at rates which have prevailed since August 1963. The relatively lackluster economic situation of the region as a whole was found locally in St. Louis, Louisville, and Memphis.

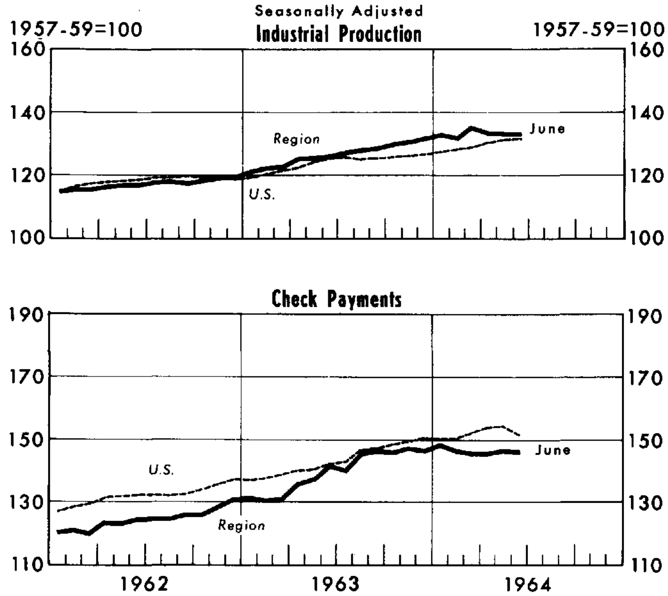
[1] Monthly data and charts for the individual cities may be obtained upon request to the Research Department of this bank.

[2] This *Review* for June presented a new "index of value added by manufacture" for each of the metropolitan areas in the Central Mississippi Valley and for the seven centers combined. Whether the index in question is best denominated an "index of value added" or an "index of industrial production" may depend on whether it is considered primarily as an historical series or as an indicator of current developments. As an historical series, it is a value added series in which known value added data are interpolated and extrapolated by use of industrial use of electric power figures. Over a period of time in which any significant price trends have occurred, any other interpretation would be improper. But, viewed as a current short-run indicator at a time when significant price trends are not in evidence the series may best be considered an "index of industrial production." Industrial use of electric power may then be used as a proxy for industrial production by weighting electric power use by value added by manufacture in the respective industries as estimated from time to time by the Census Bureau.

Manpower Utilization



Production and Spending



While developments have not been dynamic so far this year, economic conditions in the region and in particular cities have nevertheless been generally good. Activity had achieved a relatively high level by January, and has not receded from that level.

A few economic aspects of some cities have continued to show increasing strength. In Louisville, Memphis, and Evansville business loans of banks have been strong. In Little Rock the index of industrial production has surged upward.

The failure of employment to increase in recent months, along with an expanding labor force, has been reflected in a rise in the unemployment rate in some cities. In St. Louis unemployment in June was 4.3 per cent of the labor force, up from a low of 3.7 per cent in April. Louisville unemployment in June was 3.9 per cent of the labor force, higher than in either April or May. In Memphis the June unemployment rate was slightly higher than in May. In Little Rock the proportion of the labor force unemployed jumped from 2.2 per cent in May to 2.7 per cent in June. In Evansville the unemployment rate rose from 3.2 per cent in April to 3.9 per cent in June, the highest since last November. In Springfield the unemployment rate, which had declined quite steadily since 1962, has been about unchanged since March. Fort Smith unemployment rose from a low of 3.6 per cent in April to 4.4 per cent in June, the highest since last September. Most of these present rates, however, are significantly below year-ago levels, and the recent increases may prove to be insignificant or technical.

All the data used here have been adjusted for seasonal variation. Nevertheless, it is possible that the unemployment rate increases in May and June reflect an extraordinarily rapid expansion of the labor force in May and June of this year.

Recent Stabilization Policies Abroad

SUBSTANTIAL PRICE AND WAGE INFLATION has accompanied the rapid economic growth which has occurred in most major developed countries (Chart 1) since the late 1950's. Inflation tendencies became so marked in 1963 and early 1964 that several countries undertook policy actions designed to restrict total demand and thereby the rise of prices and wages.

Inflationary Developments in Europe

Economic growth in Europe was strong and sustained through 1963. Industrial production in the six member nations of the European Economic Community (the "Common Market") in 1963 averaged 5.6 per cent above 1962 and continued to advance in the first months of 1964. As high levels of demand lifted output to near capacity, both price and wage levels rose significantly in the 1960's. Charts 2 and 3 compare price and wage movements in four major foreign countries with the U. S. Annual rates of increase in consumer prices and wages for the period 1960-63 are shown in Table I.

Table I

International Comparisons

(Per Cent - Annual Increase)

	1961	1962	1963
Consumer Prices			
France	4.5	4.3	4.1
Italy	2.9	5.7	7.1
Germany	1.0	2.8	3.7
United Kingdom	4.9	1.9	1.8
United States	1.0	1.0	1.9
Wages			
France	10.2	8.5	8.5
Italy	5.7	9.0	12.4
Germany	9.9	9.8	6.8
United Kingdom	4.7	4.5	2.6
United States	3.7	1.8	3.5
Money Supply			
France	15.5	18.1	14.5
Italy	15.7	18.6	15.4
Germany	14.8	6.6	7.2
United Kingdom	2.1	3.0	5.3
United States	4.1	0.9	3.1
Industrial Production			
France	6.4	5.5	4.7
Italy	5.6	4.5	3.6
Germany	11.0	9.9	8.6
United Kingdom	0.8	0.8	3.1
United States	0.8	8.3	4.6

Source: International Financial Statistics; OECD.

Rising wage levels were induced by rapid growth in the demand for labor accompanied by a relatively slow rate of increase in the labor force. Because of different measurement techniques, it is not precisely meaningful to compare unemployment rates for different countries. It may be instructive, however, to compare unemployment year by year for a given country (Table II).

Table II

Unemployment as a Percentage of the Labor Force

	1958	1959	1960	1961	1962	1963
France	1.1	1.6	1.5	1.3	1.1	n.a.
Germany	3.5	2.4	1.2	0.8	0.7	0.8
Italy	6.5	5.5	4.1	3.5	3.0	2.5
United Kingdom	2.2	2.3	1.7	1.6	2.1	2.6
United States	6.8	5.5	5.6	6.7	5.6	5.7

n.a.—not available
Source: United Nations

The strong demand for labor reflected a marked rise in spending coupled with a rapid monetary expansion (Chart 4). Although money supply, consumer prices, and wages have increased more rapidly in France, Italy, and Germany than in the United States and the United Kingdom since 1960, the same pattern of increase did not occur in export prices (Chart 5). In part, the different composition of goods in the two price indexes may account for the different behavior of consumer and export prices. Also, to the extent that wage increases are offset by productivity gains, labor costs per unit of output do not increase, and upward pressure on prices from this source is avoided. There is some evidence that unit labor costs remained relatively unchanged in Europe from 1958 to 1960, but subsequently rose sharply. For the entire 1958-63 period, unit labor costs are estimated[1] to have risen roughly 20 per cent in Italy and France and 10 per cent in the United Kingdom. Unit labor costs remained about unchanged in the United States during this period.

As incomes and prices rose at differing rates in Europe, patterns of trade among countries shifted. The balance of trade for the six EEC nations combined declined steadily, from a surplus of over $1

[1] Robert Marjolin, Vice President of the EEC.

billion in 1959 to a deficit of $2.8 billion in 1963. Within the Community, Germany was the only surplus nation in 1963. Over 85 per cent of the $600 million improvement in the German trade balance from 1962 to 1963 was accounted for by trade with France and Italy.

Policy Actions and Recent Developments

A wide range of policy steps designed to restrain demand and to stabilize prices were adopted by foreign financial authorities during the last year.

France

In France, anti-inflationary measures were taken early in 1963 and were greatly expanded under the stabilization plan in September. Monetary actions took the form of limiting bank credit expansion and raising bank liquidity requirements. Also, in November, the Bank of France discount rate was raised from 3½ to 4 per cent, increasing the cost of bank borrowing from the central bank. A second major step to restrain demand was a reduction of the government budget deficit. Other features of French policy during the last year included direct control of some prices, tightening of terms of consumer credit, various steps designed to encourage individual saving, longer term financing of the government deficit, lowering of import duties, and actions to restrict the inflow of foreign funds.

These stabilization measures, in affecting monetary expansion and the stimulative influence of the government budget, have tended to moderate demand pressures in the economy. During the first quarter of 1964, the money supply fell at an annual rate of about 3 per cent, compared with a 4 per cent rate of increase in the comparable period of 1963. Government finance also tended to be restrictive. The cash deficit, which was highly expansionary in the first nine months of 1963 relative to the like period of 1962, has since been sharply curtailed. In the two quarters ending in March of this year, reduced expenditures cut the budget deficit to 0.73 billion francs, compared to 4.45 billion francs for the corresponding year-earlier period. The outlook for the rest of this year and 1965 is for continued anti-inflationary budget policies.

In April, industrial production in France was only slightly above January output. Consumer prices were about unchanged. Wage increases during the first quarter, on the other hand, were only a bit below the previous quarter. The trade deficit for the first five months of this year, while nearly $200 million greater than the same period of 1963, has tended to stabilize since February.

Italy

The Bank of Italy began taking steps toward restriction in late summer of 1963. Commercial bank liquidity positions were tightened by reducing central bank credit to commercial banks and by prohibiting commercial banks from increasing their net foreign borrowing. In November, a broader stabilization program was inaugurated. The program included restrictive governmental expenditure policies, higher taxes on "luxury" goods (particularly automobiles), and tighter terms on consumer credit.

Both monetary and fiscal developments have tended to be deflationary thus far in 1964. The money supply decreased 4.4 per cent in the first quarter compared with an increase of 0.9 per cent in the same period of 1963. Financing needs of the Treasury and public institutions fell off sharply in the first two months of this year compared with year-earlier figures.

Economic activity in Italy has leveled off. From September 1963 to April 1964, industrial production declined slightly. Consumer prices rose, but at a rate less than half the rate of increase from 1962 to 1963. On the other hand, wages increased from December to May about 9 per cent, well above the rate of increase which prevailed during 1963. The trade balance, although still adverse, has improved continuously since January, exports rising steadily while the previous strong upward trend in imports has been halted. Official monetary reserves, which had fallen each month since August of last year, showed slight gains in May and June.

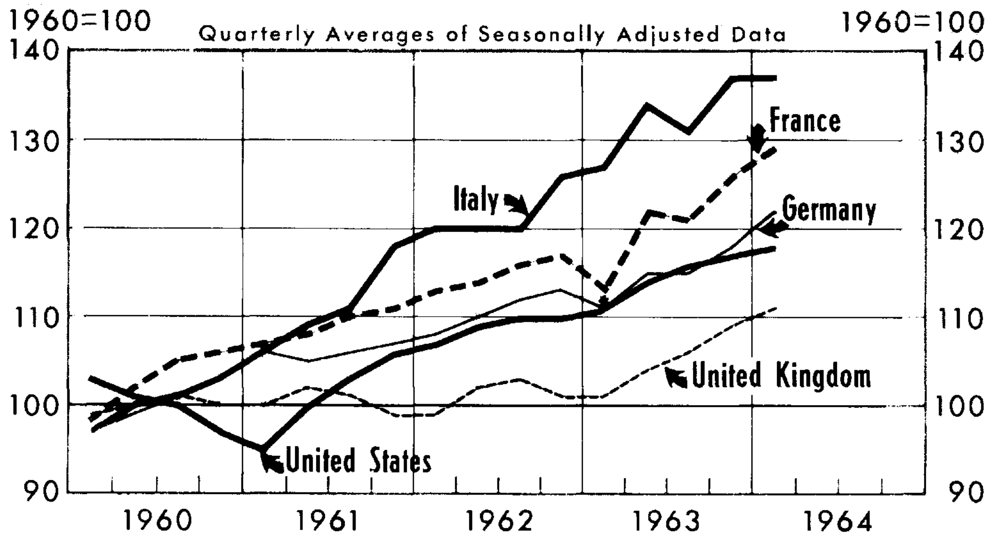
Germany

In Germany, no major changes in financial policies were initiated during 1963. But as the heavy trade surplus continued to grow and was accompanied by large capital inflows, specific measures were taken in the early months of 1964 to reduce potential inflationary forces. The Federal Bank encouraged commercial bank purchases of U. S. Treasury bills by providing forward exchange "cover" at favorable rates; interest payments on new foreign time deposits were prohibited; reserves required to be held against foreign deposits were raised; and a 25 per cent withholding tax on income from fixed interest German securities held by foreigners was proposed. In addition, tariff reductions, primarily on the intra-EEC trade, were made in July 1964 to help reduce the trade surplus.

Charts on International Developments

Chart 1

Industrial Production

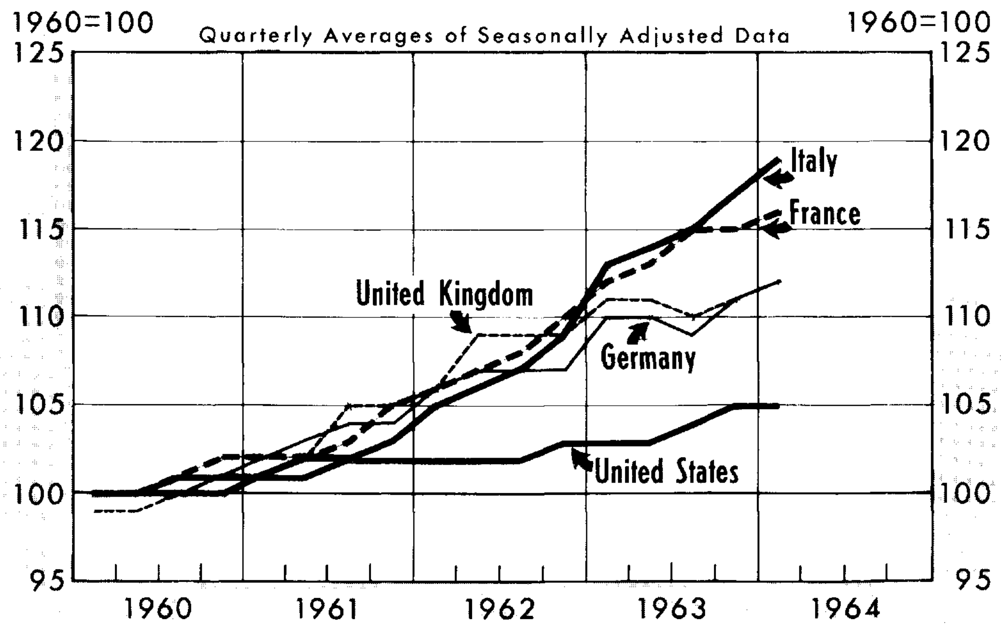


*French and German production affected by strikes.

Source: OECD

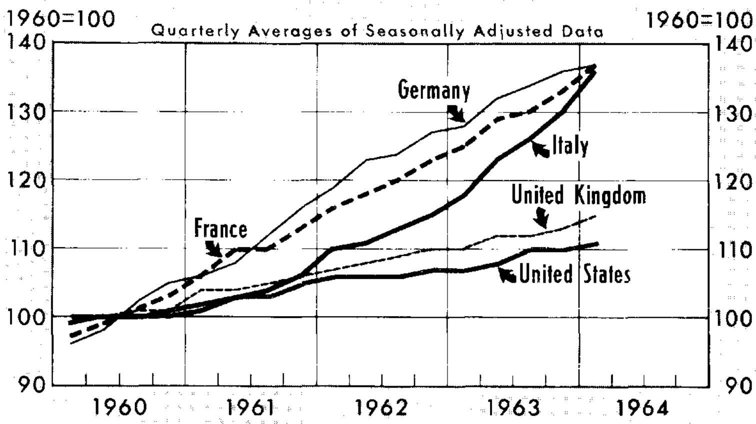
Chart 2

Consumer Prices



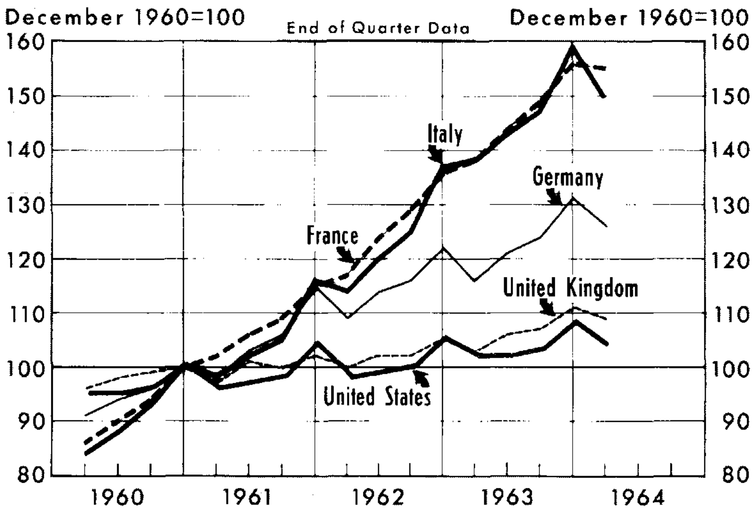
Source: IMF

Chart 3
Wages



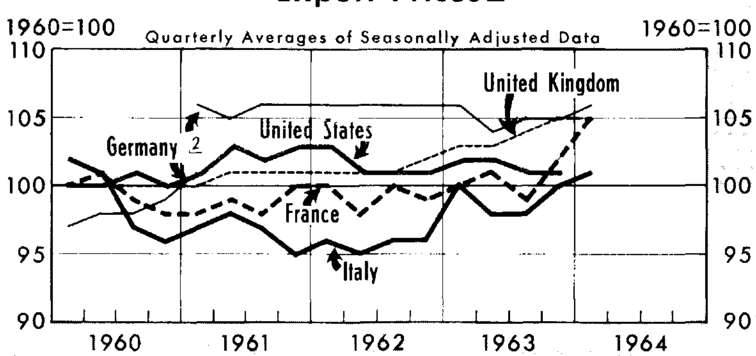
Source: IMF

Chart 4
Money Supply



Source: IMF

Chart 5
Export Prices [1]



[1] In U.S. dollars.
[2] Adjusted for revaluation upward of 5% in March 1961.

Source: IMF

Since the beginning of 1964, economic activity in Germany has accelerated. Industrial production in the first quarter was about 3 per cent above the last quarter of 1963, and new orders received by industry remained high. Both wage and price increases thus far have been moderate, but wage settlements later this year will apparently be negotiated in an atmosphere of rising prices, tight labor market conditions, and high profit levels. The trade surplus in the first five months of 1964 averaged over $200 million per month, comparable to the high level in the fourth quarter of last year.

Official concern over future inflationary pressures is indicated by more restrictive fiscal policies. The Federal cash surplus for the first four months this year is running at a much higher level than a year ago. The proposed budget for 1965 would hold the increase in expenditures to 5 per cent and, with rising tax revenues expected, would exert further dampening effects on total demand. General measures designed to restrain monetary expansion had not been utilized up to mid-1964, because the resulting higher interest rates would tend to increase capital inflows. In early July, however, bank reserve requirements were raised by 10 per cent.

United Kingdom

Beginning in early 1963, output in the British economy rose rapidly after a two-year pause. In the first quarter of this year, industrial production was 10 per cent above the same period a year earlier. This upswing was accompanied by only moderate inflationary pressures. The cost of living increased by less than 1 per cent, but wages were up by slightly more than 5 per cent. The trade balance worsened during 1963 as higher import demand was generated by rising levels of economic activity.

By early 1964, it became necessary to moderate the expansion to a rate more sustainable in the longer run. The bank rate, the cost of bank borrowing from the central bank, was raised in February from 4 to 5 per cent. The budget presented in April for the fiscal year 1964-65 was considered slightly deflationary.

Although output has been unchanged from January to April and price increases through June have been moderate, two developments are especially important in judging whether present stabilization policy will remain appropriate. The labor market by mid-year was exceedingly tight, indicating that wage and price increases might accelerate. Second, the balance of payments, which has been in deficit since mid-1963, shows signs of weakness. The trade deficit in particular has been deteriorating this year. Through June, the average monthly deficit has been about 50 per cent greater than in the fourth quarter of 1963.

Japan

During 1963, the Japanese economy began a new phase of rapid growth. Industrial production during the last quarter of the year averaged nearly 12 per cent higher than a year earlier. Consumer prices rose 7.5 per cent, wages rose 11 per cent, and the trade balance progressively worsened from a monthly average deficit of $47 million to $159 million.

Since December 1963, monetary policy has tightened. Commercial bank reserve requirements have been raised, and bank credit expansion has been directly limited. In March, the Bank of Japan's discount rate was raised, and advance import deposit requirements were increased.

Institutional developments compounded the necessity for restraint. A major source of long-term capital imports—sales of Japanese securities in the U. S.—virtually disappeared after the Interest Equalization Tax was proposed in mid-1963. In April of this year, the yen became freely convertible when Japan accepted the Article VIII responsibilities of the IMF. At the same time, foreign trade became more free when Japan joined the OECD.

Since the beginning of this year, bank lending rates have risen, and bank credit expansion has slackened. The money supply fell at a 23 per cent annual rate during the first quarter compared to a 25 per cent increase during the same period of 1963. The trade balance since January has shown sharp improvement. Price and wage increases, though, have continued. Consumer prices in June had risen at a 6 per cent annual rate from the fourth quarter. Wages in May were up at about a 9.0 per cent annual rate from the fourth quarter. Industrial production rose sharply in January and February, but leveled off in the next three months. In May, production was 18 per cent higher than a year earlier.

Summary

During the past year, several leading industrial countries have strengthened their fiscal, monetary, and other stabilization policies in order to restrain conditions of excessive demand and inflation. These measures appear to have moderated upward price trends while wage increases have not yet been greatly affected.

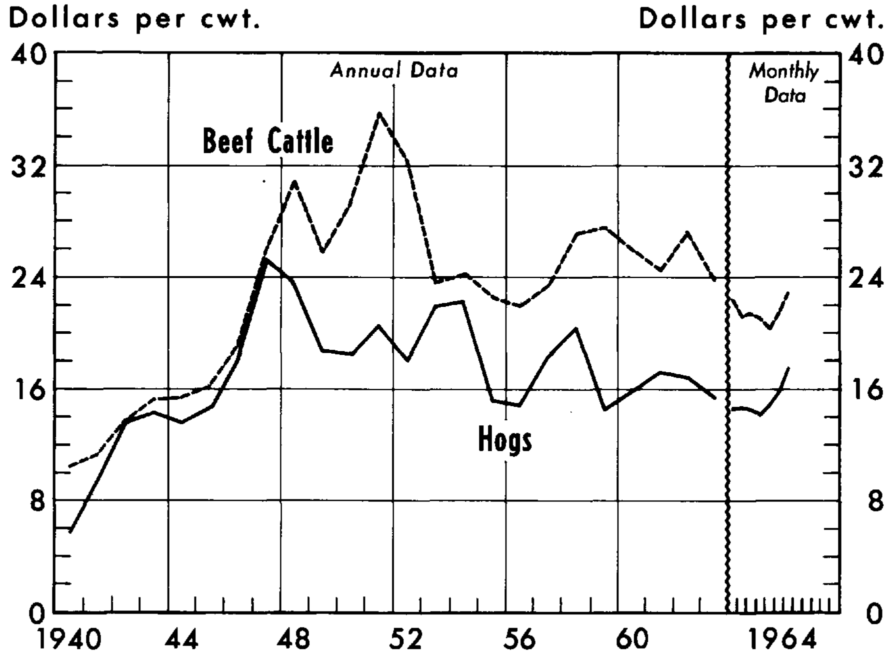
Livestock Prices

PRICES of cattle and hogs increased in June and July from their depressed levels of April and May. Average prices of all grades of slaughter steers at Chicago rose about 13 per cent from May to July, while hog prices at eight leading markets rose about 18 per cent.

After dropping to $20.29 per cwt. in May, their lowest point since February 1957, average prices of all grades of slaughter steers at Chicago rose to $21.37 in June and about $23.00 in July. The July price is well above the average of $10.43 for the pre-World War II year 1940, but somewhat less than the 1950-63 average of $26.38.

Hog prices rose to $15.83 in June and about $17.50 in July from $14.84 in May. In comparison, hog prices averaged $5.68 in 1940, and $17.85 in the fourteen-year period 1950-63.

Beef Cattle and Hog Prices*



*Prices of all grades slaughter steers at Chicago and barrows and gilts at eight markets.
Latest data plotted: July

Source: USDA

Reasons for Price Increases

Government purchases and declining market supplies were probably the major factors contributing to the higher prices for beef cattle and hogs in recent weeks. Also, the recent increase in exports and the decrease in imports may have had some impact on domestic prices.

Government Purchases

On March 1, the United States Department of Agriculture announced programs for the purchase of beef to relieve the downward pressure on cattle prices. Such purchases are for distribution to schools, institutions, and needy families. In late May and June USDA purchases of boneless roast and hamburger meat averaged about 10 million pounds weekly. These purchases accounted for approximately 5 per cent of total cattle and hog slaughter during this period.

Domestic Supply

Total meat production declined in June from the record levels of previous weeks. By the end of the month average weekly output had declined about 8 per cent from the average for the first six months. Beef output was down somewhat, but the percentage decline was greater for pork.

Meat production[1] in the first half of the year averaged in excess of 500 million pounds per week, 8 per cent greater than in 1963, about 20 per cent greater than the average for 1959-62, and 36 per cent greater than in 1958. Most of the increase in meat output this year was in beef production. The number of cattle

[1] Total dressed weight of cattle, calves and vealers, hogs, and sheep and lambs.

The Beef Industry

THE ECONOMICS OF THE BEEF INDUSTRY is described in the May-June 1964 *Monthly Review* of the Federal Reserve Bank of Kansas City. Copies may be obtained from the Research Department, Federal Reserve Bank of Kansas City, 925 Grand Avenue, Kansas City, Missouri 64106.

slaughtered during the first quarter was up 8 per cent from year-earlier levels, and beef output was up 11 per cent. Pork production was up about 5 per cent compared with output in the first quarter of 1963.

Imports and Exports

During the first four months of this year imports of meat were down, and exports were up. Imports during the period, about 3 per cent of domestic production, were down 13 per cent from levels of a year earlier. Imports of pork were down 6 per cent, beef and veal 11 per cent, and mutton, goat, and lamb about 50 per cent. Exports, totaling less than one per cent of domestic output, were up about 50 per cent from year-earlier levels.

Although prices continued downward during the first four months when the increase in exports and decrease in imports tended to reduce domestic supplies, there are indications that these forces have continued to put upward pressure on prices in recent weeks. Beef supplies have been short in Europe, and some of the countries have recently lowered meat import barriers. Consumer demand is rising there, and less meat is available from traditional foreign suppliers. Furthermore, the United States Department of Agriculture recently announced the first sale of domestically produced beef under the long-term credit arrangements of Public Law 480.

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