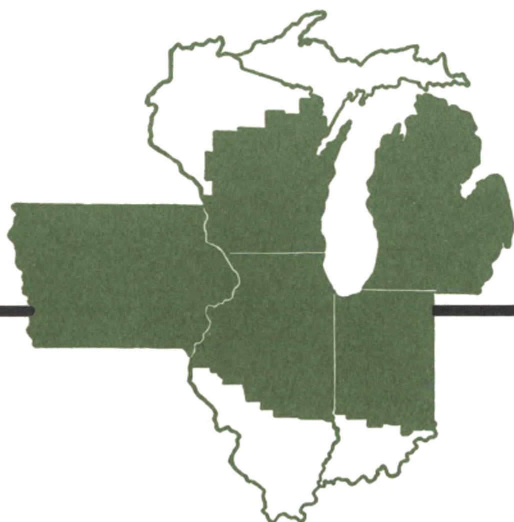
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1967 June

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THE Trend OF BUSINESS

A consensus grew in Midwest business and financial circles in late spring that the danger of a cumulating business decline had passed. Support was developing, moreover, for the view that a general tax increase and a somewhat less easy monetary policy would be needed to dampen a possible resurgence of price inflation in the second half of 1967.

Confidence in rapid expansion for the remainder of the year was not yet supported by available statistical evidence charting the recent course of the economy. Industrial production declined 2 percent from the December high to April, and the durable goods sector was off 4 percent from the October record. Total employment edged up only moderately in the first four months of 1967, and manufacturing employment declined.

New claims for unemployment compensation in March and April were 40 percent above the year-earlier level in the United States and up 150 percent (from a low level) in the states of the Seventh Federal Reserve District. Average weekly hours were being reduced further in most industries. Personal income continued to rise but retail sales remained essentially flat through April, continuing the plateau started last summer. First quarter corporate profits were sharply lower, especially in the auto and steel industries.

Defense and consumption

In some cases confidence that a new upsurge of activity is close at hand is based upon the belief that the expansionary monetary policy begun last fall will encourage an appreciable rise in construction and other private expenditures. Commercial bank credit increased at an annual rate of 13 percent from November through April. Corporate and municipal security issues for new capital were up 15 percent from last year's record in the first four months. Net savings inflows to savings and loan associations in the first quarter totaled 2.5 billion dollars, almost double the year-earlier rate. Inflows of time and savings deposits at commercial banks in the January-April period rose at an annual rate of almost 18 percent.

Emphasis has been placed also on the impact of rising military outlays and a prospective large Federal deficit on economic activity.

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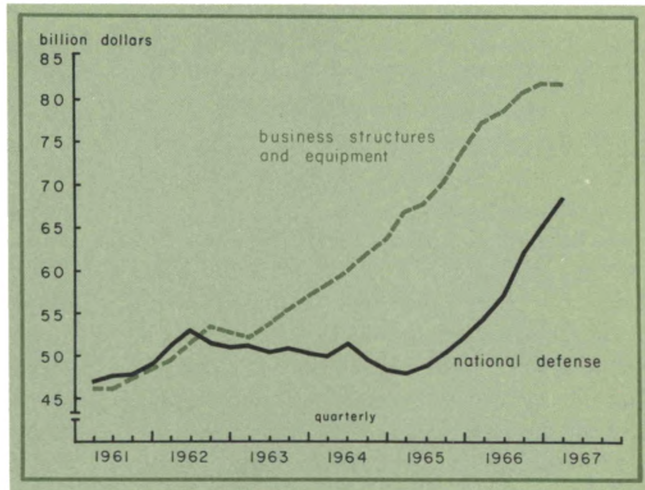
In the second quarter of 1965, prior to the decision to increase the United States role in the Vietnam war, purchases of goods and services by the Defense Department (including military salaries) were at an annual rate of 49 billion dollars. A year later they had risen 17 percent to a rate of 57 billion dollars. By the first quarter of 1967, defense spending reached a 70 billion dollar rate—more than 40 percent above the second quarter 1965 level. During this period defense outlays rose from 7.3 percent of total output (GNP) to 9.1 percent. Government spokesmen have suggested that defense spending will continue to rise, at least through the remainder of 1967. At various times in the past year and a half, the expectation developed that military outlays would soon level off. No such view is influencing business planning now.

Business investment has leveled but uptrend in defense outlays continues



Consumer outlays also are expected to rise. Personal after-tax income has continued to climb throughout the recent period of sluggish activity. During the first quarter disposable income was 7 percent above the year-earlier level. Nevertheless, until recently, consumers reduced their outlays on most types of durable goods and slowed purchases of some nondurables. Retail sales were only 3 percent above last year in the first four months. Personal savings have risen relative to income and new borrowing by consumers is at a reduced level.

Preliminary data showed a substantial rise in retail sales in March, but the estimate was revised downward on the basis of additional information, thereby providing a reminder of the need to regard advance statistical estimates with caution. In April and May indications appeared that purchases of automobiles and household appliances were reviving. Consumer surveys released earlier in the year pointed to an improvement in consumer confidence and a greater willingness to make big-ticket purchases. Consumers are in a position to substantially increase their expenditures.

With growing frequency, labor-management agreements call for annual increments in compensation of 5-7 percent. Since output per man-hour appears to be rising very slowly this year, wage rates apparently are outpacing the rate of advance consistent with long-run price stability by a widening margin.

Union contract negotiations cover only a part of the wage-salary picture. Continued strong competition for most types of trained and experienced workers commonly has resulted in annual increments in compensation and other benefits that compare favorably with those determined at the bargaining table.

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Steel orders remain slow

Output of raw steel (formerly termed "output of steel for ingots and castings") has remained near an annual rate of about 125 million tons since early last December. The industry produced a record 134 million tons in 1966, and sustained rates of about 145 million tons for periods of several weeks in both 1965 and 1966.

A marked difference exists between the patterns of inventory holdings of the steel mills and their principal customers—the metal fabricating firms. At the end of March the mills were estimated to have 9.3 million tons of finished steel ready for shipment and an additional 10 million tons of steel in process. These totals, virtually unchanged from February, were well above any level reached since such data first became available in late 1961. Manufacturers' holdings of finished steel, meanwhile, were estimated at 9.9 million tons in March, compared to 17.2 million tons in August 1965, prior to the settlement of pending labor negotiations. At only 1.8 times March consumption, these holdings were nearly as low as in any previous month of the 1961-67 period.

Steel consumption in the machinery and equipment industries and in fabricated structural steel has remained at or near record levels. But order backlogs for both equipment and construction have been declining, indicating a future drop in shipments for such use.

In April and May steel producers were heartened by an acceleration in auto industry orders required by upward revisions in output schedules. Along with most other customers, however, the auto manufacturers continued to purchase steel on a hand-to-mouth basis, pressing for rapid deliveries that are often possible because of heavy mill stocks.

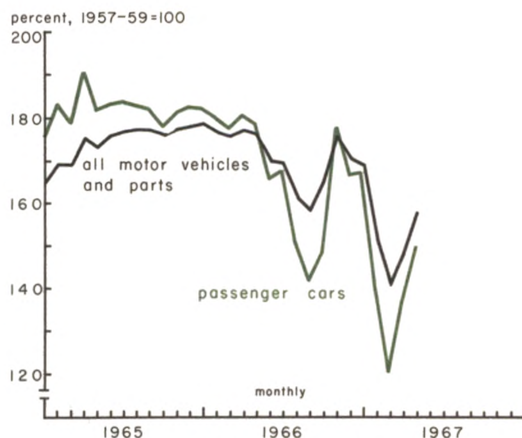
Reduced domestic steel output this year has been accompanied by a rise in imports from last year's level, which was thought at the time to be abnormally high. Imports accounted for more than 10 percent of United States consumption of finished steel in both 1965 and 1966. In recent months the industry has been pressing for tariff protection.

Auto purchases improve

Deliveries of domestically produced passenger cars to United States customers in the first quarter were 20 percent below last year's extremely high level and were the lowest since 1963. Dealer inventories, at 1.5 million units, equaled a 60-day supply at the end of March, compared to 49 days a year earlier and 40 days at the same date in 1963. Preliminary second quarter output schedules were reduced by about 100,000 units.

Auto sales in April were only slightly below the reduced rate of April 1966, but the performance was sufficiently strong to cause projected second quarter output to be raised. The first ten days of May saw auto deliveries

Auto output is rising again as a result of sales improvement



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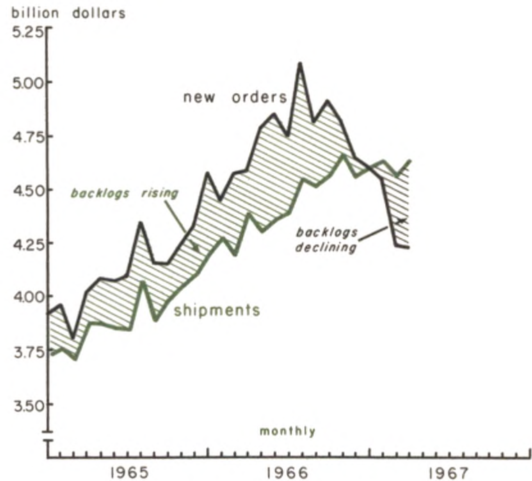
at a very high rate, not far below the 1965 record, but this pace was not maintained during the remainder of the month.

Production schedules now call for 2.2 million passenger cars in the April-June period, 11 percent below last year, in contrast to a 25 percent drop in the first quarter. With inventory problems eased, auto output can be expected to compare more favorably with last year through the remainder of 1967.

Foreign autos, like foreign steel, are taking a growing share of the United States market. Last year imports from Europe and Japan accounted for 7.3 percent of the total number of domestic auto sales—the highest proportion since 1960. This year the overseas producers' share of the United States market appears to be increasing again.

New orders for machines and equipment have dropped sharply since last summer



Producers' equipment declines

Total output of business equipment declined almost 3 percent from the very high December level to April. However, since last summer the dollar volume of manufacturers' shipments of completed machinery and equipment has changed little. New orders reached a peak in July and have since declined substantially. Until last December backlogs for these goods increased as new orders continued to exceed shipments. Since December total backlogs also have trended downward.

Demand for light trucks began to decline last spring along with sales of automobiles. Later in the year orders for heavier trucks also softened. Construction equipment orders were dropping late in the third quarter as a result of the lower level of construction activity. Demand for farm machinery has eased recently as farm income receded from the high level of last year.

Since last October the basic strength of demand for machinery and equipment has been clouded by suspension of the 7 percent investment tax credit. The President's request for a restoration of the credit as of March 10 was expected to receive early congressional approval; instead an extended delay ensued. Agreement finally was reached on a compromise version of the restoration in late May. The new legislation raises the ceiling on total credit that may be taken in a given year to 50 percent of a firm's tax liability, compared to 25 percent prior to the suspension.

Many business firms had been reluctant to order desired equipment until the precise terms of the legislation to restore the investment credit were known, because it was feared that eligibility of purchases might be affected. Railroads are a case in point. Orders for freight cars were 65 percent below last year in the first quarter, and orders for locomotives were off even more. Apparently only moderate improvement occurred in April and early May. For some types of equipment, notably commercial aircraft, electrical gener-

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ating equipment and advanced types of machine tools, reduced levels of orders have not affected output, which has been limited only by practicable capacity.

The outlook

The improvement in business sentiment in recent months continues to be based largely upon psychology and expectations. But such factors often have played a very real part in economic trends.

Working under the pall of a general business recession, businesses may curtail new hirings, delay expansion and renovation plans and cut inventories sharply. But with a probable revival near at hand, such "economies" can be costly in the long run if customer orders cannot be filled promptly.

Nevertheless, the 1966-67 reminder that future economic trends cannot be foreseen with certainty may prove to be a contribution to long-run stability. A year ago sanguine expectations, encouraged by rapid credit expansion and rising Government outlays, threatened the economy with spiraling wage-price inflation. During the remainder of 1967, continuing uncertainty will tend to moderate a possible renewal of excessive exuberance.

Bank credit cards

Stampede in the Midwest

Bank credit cards have attracted more attention than any other recent innovation in banking services. In part, this is because of the rapidity with which card plans have spread in recent months and the broad distribution of the cards among residents of some areas. In Chicago and much of the surrounding area, for example, virtually everyone who has had satisfactory credit relations with a bank or other establishment by now has been supplied with one or more of the cards.

Advantages and disadvantages of the credit card plans have been debated vigorously. The card-issuing banks believe the card to be a logical extension of their financial services to both retail establishments and consumers. Merchants have found the new plans a stimulant to sales or a cost-saving substitute for their own credit operations and, of course, thousands of card-carrying customers now appreciate the convenience of this key to "instant credit."

Others, however, including some bankers, merchants and card recipients, insist that credit cards are not an appropriate service for commercial banks. They foresee serious consequences not only for the card-issuing banks but also for the nation's credit structure if the recent aggressive activity continues.

The surge in bank credit cards has been especially strong in the Seventh Federal Reserve District. More than 800 banks in the five-state area—Illinois, Indiana, Iowa, Michigan and Wisconsin—either have issued their own cards or are participating in plans sponsored by other banks or nonbank firms. Most of the credit card services have been launched within the last year and a half; less than 30 banks provided such service before 1965. No accurate estimate is available of the numbers

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of cardholders and participating merchants, but most observers agree that at least 2.5 million individuals are using the cards and more than 50,000 merchants in the Seventh District are accepting them.

What is the bank credit card?

In the Midwest the bank credit card provides a combination charge account and revolving credit service. A single card entitles the holder to charge purchases in a number of stores. These purchases are billed to the customer by the sponsoring bank on a single monthly statement. If he pays the bill in full within a short time (usually 20 to 30 days), the holder has utilized the conventional charge account service of the card. If, however, the customer wishes to make only a partial payment, he is then making use of the credit service—for which a specific charge is made. The option of charge or credit or both is the customer's.

When making a purchase, the cardholder presents an embossed plastic card to the merchant. The card identifies both the holder and the issuing bank. The merchant then prepares a sales slip itemizing the purchases; one copy is provided to the cardholder and another is forwarded to the merchant's bank. (In order to accept the credit card, the merchant, of course, has "signed up" with a bank offering such a service, either directly or through a correspondent bank.) The merchant receives immediate credit to his account at the bank, less a predetermined discount. The customer's charge account is with the bank that issued his card, not with the merchant, nor, necessarily, with the merchant's bank. The card user is billed by the card-issuing bank and it is with this bank that he settles later.

There are several possible relationships between the merchant and the card-issuing bank. In the simplest example, the merchant and his customers use the same bank. The bank simply credits the account of the merchant as sales slips are received and assembles the charges to be billed to each cardholder at the end of the period. Upon receiving his bill, the cardholder can pay the bank in full within the period specified, and the account is closed. If he so desires, however, the holder of the card may make only a partial payment. This is deducted from the amount owed to the bank and a service charge is made for carrying the unpaid amount. The balance remaining, including the service charge and the amount of any new purchase, appears on the next monthly statement.

If the bank receiving the sales slips is not itself a card issuer but is a participant in a service provided through its correspondent bank—which issues the credit cards—a somewhat different arrangement exists. In this example, the merchant's account will be credited as before and the sales slips forwarded by the receiving bank to its correspondent. The receiving bank's account at the correspondent bank will be credited with the amount of the sales transaction less a somewhat smaller discount than charged the merchant. The cardholder's monthly statement is prepared and mailed by the correspondent bank and remittance is made to that bank. The correspondent bank is the credit grantor, not the receiving bank or merchant.

A merchant may routinely honor the cards issued by several different banks, although he is signed up with only one bank that may not necessarily issue cards directly. This is a common arrangement in the Midwest, where "compatible" cards are issued by several banks. Again, the merchant simply deposits his sales slips with his bank and receives credit to his account. This bank passes the slips to its correspondent bank, which in turn "clears" the sales receipts with the banks that

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issued the various charge cards "accepted" by the merchant. The holders of the cards receive one consolidated bill from their card-issuing banks for all purchases made.

History of the bank credit cards

Charge accounts and revolving credit plans have been used widely for many years. But until quite recently, only a few commercial banks provided such services. Although the first bank charge account service was introduced in the New York City area in 1939, the program developed in 1951 by the Franklin National Bank of New York is usually considered to be the direct predecessor of most of the present-day plans.

The first plan in the Seventh Federal Reserve District was introduced in September 1952 by the First National Bank and Trust Company of Kalamazoo, Michigan. This pioneering effort for the Midwest was followed in early 1953 by two other Michigan banks and one bank in Indiana. After the initial enthusiasm, the movement slowed as District banks became aware of the sizable costs of obtaining merchant participation and customer acceptance of the plans and of handling the substantial volume of paper.

Only a few Midwest banks entered the credit card business during the Fifties and early Sixties, although another spurt of activity had occurred nationally in the late Fifties with the introduction of cards by the two largest banks in the United States. The most recent wave of interest began in 1965 when certain of the larger banks in Michigan and Wisconsin introduced their programs. In 1966 activity rose abruptly with the introduction of compatible cards in the Chicago area.

Why 1966?

A number of factors were operating to bring credit card developments to a head in 1966. For some time, banks had been searching more actively for ways to expand services. By 1966, prior experience with bank credit cards, the widening acceptance of credit cards generally and the growing availability of efficient processing equipment made the credit card a feasible vehicle for further extension of banking services.

Some of the plans started in the Fifties were later discontinued because the sponsoring institutions failed to obtain profitable volume. In other instances, banks were unwilling or found themselves unable to make the large investment required to develop successful programs. Nevertheless, the knowledge gained from these experiences provided a basis for subsequent developments.

One of the most important determinants of success or failure is the acceptability of credit cards by merchants and customers. With the wide distribution of credit cards in recent years for gasoline, travel and entertainment and purchases at department stores and other retail establishments, the cards have become generally acceptable. Although occasionally criticized on the ground that the cards promote "free-spending" and over-indebtedness, they have become an integral part of the American scene.

Possibly the most important factor leading to the widespread introduction of bank credit cards in the mid-Sixties was the development of sophisticated equipment for handling large volumes of accounts and transactions. High-speed processing and economical handling of accounts are indispensable if operations are to be profitable. During the last few years, many banks have acquired computer facilities and the skills to use them effectively.

The specific circumstances precipitating the mass introduction of credit card plans in 1966 rather than later still are obscure. The rapid entry into the business in the Midwest,

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particularly the Chicago area, has been attributed by some to the local banks' concern over competition from nonbank cards and bank cards originating outside the area. In addition, simultaneous entry by a number of banks has been thought vital both to obtain the greatest possible user and merchant participation and to preserve established positions in the consumer credit market.

Modifications of the earlier plans

Credit card services offered by Seventh District banks today are broadly similar to those first provided in Michigan in the early Fifties. Many of the initial programs provided for the charge service only, without the revolving credit feature. This was added later. In the earlier plans, the merchant discount and the participation fee were the major sources of income to the card-issuing banks. As a result of the current keen competition, merchant discounts generally have been narrowed and participation fees eliminated. Consequently, revolving credit charges have become or are likely to become the major source of income from credit card operations.

The service feature of the cards has been expanded in several ways. Insurance against fraudulent use is now provided. Cash advances may be obtained upon presentation of the card at a participating bank. But the most significant development has been the provision of compatible cards, which enables holders to make purchases in establishments far more numerous than the number signing up with any single card issuer.

Economic implications

The spreading use of the bank cards is likely to expand the role of credit (or debt) in the financing of consumer purchases. Indeed one of the most frequent criticisms of card plans is that they may lead to an unusual and undesirable increase in consumer debt.

The most obvious expansion will occur as users charge more of their purchases, one of the major features cited as an advantage by card-issuing banks and participating merchants. Some increase in consumer debt arising from the use of the revolving credit feature of the card is also probable because of the easier accessability of credit. While there is room for doubt that the instant credit will increase credit purchases of such big-ticket items as furniture and major household appliances, there seems little question that a growing proportion of the many small and frequent purchases made by most householders will also be financed in this way.

Increased credit buying need not be a major concern if customers are creditworthy. The expiration of credit cards every six months or so provides issuing banks with a periodic opportunity to discontinue cards used inappropriately. Problems may develop as a result of declines in income in local areas but this would not be a new experience for lenders in the consumer credit business.

Immediate availability of the proceeds of charge (and revolving credit) sales should tend to lessen the dependence of merchants on short-term trade credit extended by suppliers and receivables financing provided by banks and other sources. Whether the impact here will be measurably large, of course, remains to be seen.

The net effect of the introduction and more widespread use of the bank credit cards probably will be to increase somewhat consumer indebtedness and to alter the composition of private indebtedness, with some increase in the proportion owed by consumers and an offsetting reduction in that owed by merchants. The extent of such a shift is not likely to be sizable and it probably will take place only slowly.

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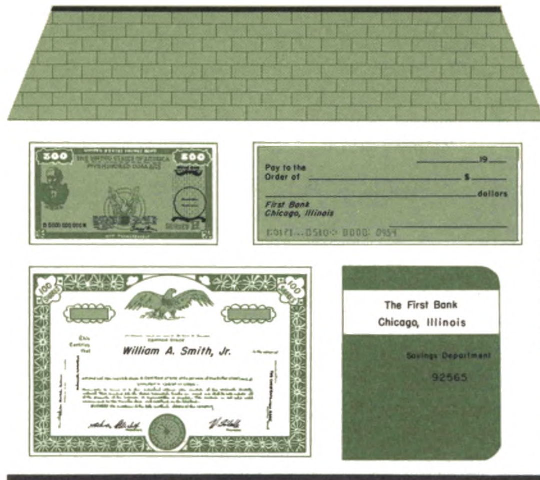

New findings on consumer finances

Closer look at the well-to-do

Sample surveys have long since demonstrated their usefulness as a means of obtaining information on the economic behavior and position of American consumers. Thanks to modern methods of sampling and questionnaire design, field interviews conducted with a small number of randomly selected family units often yield dependable descriptions of the whole consumer population.

The problem of sample selection may be complicated, however, when such a survey seeks information on population characteristics that are unevenly distributed, such as wealth. While nearly all family units possess at least some wealth, the amounts vary widely; substantial holdings, of course, are largely concentrated among the relatively small number of the well-to-do.

If a sample is no larger than is necessary to provide dependable information on the numerous family units in the lower and middle income and wealth ranges, it may be too small to include enough cases from the upper brackets to produce useful information for that group. Similarly, if the size of a sample is great enough to yield valid information for the top-bracket families, it ordinarily will be far larger than is necessary to cover adequately those in other strata of the population. And, of course, the larger the sample, the greater the cost of a survey.

Because of these factors less information generally has been available on consumer wealth and the forms in which it is held than on other aspects of consumer finance. Released late in 1966, however, were results of a sample survey, conducted by the Federal Reserve Board with the cooperation of the U.S. Bureau of the Census, which was specifically designed to provide meaningful information on consumers' wealth and other financial characteristics, for the population overall and especially for the comparatively small number of families holding the bulk of individual wealth.[1]

A total of 2,557 consumer units (families and unrelated individuals in separate households) were covered by field interviews conducted in the spring of 1963. Findings of the initial survey were checked by re-interviews held in the spring of 1964 in connection with another study, devoted to consumer saving in 1963. The 1963 interviews dealt with the assets and debts of respondents as of December 31, 1962, and income received during the year 1962.

If a simple proportional sample of all households had been taken, only about 50

[1]Findings appear in the monograph, *Survey of Financial Characteristics of Consumers*, by Dorothy S. Projector and Gertrude S. Weiss, available from the Board of Governors of the Federal Reserve System, Washington, D. C. 20551 ($1.00 per copy).

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with wealth of 100,000 dollars or more would have been included. Moreover, only a few of these would have had holdings as great as 500,000 dollars. Obviously, so small a number of such households could not be expected to yield information that would provide a basis for reliable estimates concerning the large wealth holdings of this group. Therefore, the sample was structured to include a greater portion of those in the population expected to hold substantial wealth. Of the 2,557 interviews conducted, 532 were with units having wealth of at least 100,000 dollars and almost half of these held at least 500,000 dollars. These numbers were great enough to produce dependable readings on certain features of the wealth profile of the well-to-do.

The survey sought information on a wide variety of forms of wealth. But the information furnished by respondents on one of the major categories—equity in life insurance, annuities and retirement funds—proved undependable and therefore was omitted from the totals finally compiled. (Many persons have only the most general of impressions on their equities in such assets.)

The various kinds of wealth and debt covered were grouped under six major headings: homes, automobiles, business or professions, liquid assets (checking and savings accounts and U. S. savings bonds), investment assets (mainly marketable securities, investment real estate and mortgages) and a miscellaneous group made up principally of assets in trust funds. This enumeration excludes household goods, personal effects, jewelry and works of art, boats, sports equipment and the like—largely because of the virtual impossibility of assigning consistent value estimates to such properties.

Assets were valued for the most part at market. Wealth as used in the survey was an

Major forms of wealth holdings

Size of wealth	All wealth	Home	Auto	Business	Liquid assets	Investment assets
(thousand dollars)	(percent of wealth group having asset form)					
Under 1	100	9	74	3	70	4
1 - 4	100	54	76	8	78	14
5 - 9	100	78	77	16	85	30
10 - 24	100	84	82	19	96	42
25 - 49	100	80	88	38	97	64
50 - 99	100	72	89	54	98	89
100 - 199	100	86	93	53	100	93
200 - 499	100	84	84	57	97	95
Over 500	100	81	79	66	100	99
	(average equity in thousand dollars)					
Under 1	*	*	*	*	*	*
1 - 4	3	1	*	*	1	*
5 - 9	7	4	1	1	1	*
10 - 24	16	9	1	1	3	2
25 - 49	35	13	1	7	6	8
50 - 99	69	14	1	17	11	24
100 - 199	133	23	2	23	19	64
200 - 499	300	26	2	72	21	169
Over 500	1,260	56	3	295	46	628

*Less than $500.

equity concept in that debt secured by assets was deducted from the asset values. Three-fourths of the debt thus deducted represented home mortgages. Debts secured by automobiles, marketable securities and investment real estate also were deducted from related asset values.

By its nature, a survey of consumer wealth ignores several elements that can play a role somewhat akin to that of wealth itself. One of these is the face value or the size of the stream of prospective benefits that may accrue under insurance and retirement income plans, including social security. The motive to acquire wealth as it is conventionally defined may be affected materially by the availability of such resources. Another factor is the family's "credit line," or its borrowing potential. Ready access to credit may be a

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good substitute for some portion, if not all, of financial savings.

Highlights of the survey

Of the nation's total of 57.9 million consumer units, 10 percent were estimated to have either zero or negative equity in the asset classes covered in the survey.[2] Another 16 percent had positive equities of less than 1,000 dollars. In short, roughly one consumer unit in four had wealth of less than 1,000 dollars; alternatively, three out of four of the units had wealth greater than this.

For the big majority of units, the amount of wealth owned was the result of the size and the nature of past saving. In only 5 percent of all the cases had inheritances contributed substantially to the wealth held. Inheritances, however, were of considerable importance to the well-to-do. Thus, assets acquired in this manner constituted a substantial portion of total assets to 34 percent of those units having total wealth of at least 500,000 dollars and to 57 percent of those with income of 100,000 dollars or more.

One or more of the forms of liquid assets (checking and savings accounts and U.S. savings bonds) were held by 79 percent of all consumer units and by virtually all of those with an income over 5,000 dollars and wealth over 10,000 dollars. Checking accounts at commercial banks were owned by more than 90 percent of those having an income of 15,000 dollars or more, or total wealth in excess of 50,000 dollars.

The frequency of savings account holdings was the same as for checking accounts—59 percent. But these, unlike checking accounts, were reported less frequently by the top income and wealth groups than by those in the middle range. In part, this reflects a sharp fall-off in the frequency of savings and loan share ownership as between the middle and upper income and wealth groups, although savings account holdings at banks also were less commonly reported by those with an income of 50,000 dollars or more than by those in the 10,000 to 50,000 dollar range. Top level wealth holders (those with assets exceeding 500,000 dollars), however, reported such holdings with about the same frequency as those in the 25,000 to 500,000 dollar range.

The survey results show a strong direct relationship between the level of income and amount of wealth, on the one hand, and the relative importance of investment assets on the other. By contrast, liquid assets, while widely dispersed among consumer units in all income and wealth categories, tend to diminish in relative importance with greater income and wealth. Investment assets, of course, are exposed to fluctuation in market value, unlike liquid assets whose face values remain constant. The strong uptrend in common stock prices during the postwar period undoubtedly accounted for a substantial portion of the wealth in investment asset form held by consumer units in the upper and upper-middle wealth ranges.

In addition to liquid assets, homes and automobiles, of course, were found to be widely distributed among the consumer population, with well over half of all units owning such assets. Corporate stock, investment real estate and business and professional equities,

[2]This and succeeding characterizations of the survey population, of course, are literally descriptive only of the small number of consumer units sampled in the survey. If *all* consumer units had been interviewed, results undoubtedly would differ somewhat from those given here as well as in the full report. But the differences would be "small," so that the sample results may be interpreted as generally applicable to the population. For a discussion of the survey design and details on error ascribable to sampling variability and nonresponse, the reader is referred to the Technical Note included in the report.

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however, were much more highly concentrated, each of these categories being represented in the holdings of fewer than one-fifth of all units.

Financial assets of the well-to-do

Substantially all—95 percent or more—of all consumer units having total wealth of at least 10,000 dollars or income of 7,500 held liquid and investment assets in some combination. Among the top three wealth and income strata (wealth exceeding 100,000 dollars and income of 25,000 or more), portfolios of such assets were found almost universally. The ownership of investment-type assets, particularly common stocks and municipal securities, appeared to be strongly related to both wealth and income. The upper wealth and income groups clearly favored such assets, which considerably overshadowed their holdings of the more liquid deposit and deposit-type assets dominant in investment portfolios of the less well-to-do.

Especially striking is the pronounced appeal of municipal bonds to the topmost income and wealth group. Two-thirds of all units with income exceeding 100,000 dollars and 41 percent of those having total wealth of at least 500,000 owned state and local government securities. The tax-exemption feature, naturally, explains this, the structure of the Federal individual income tax making municipal obligations highly attractive to upper-bracket taxpayers but quite unappealing to those in more modest circumstances.

Wealth in such other forms as mortgages, U. S. Government securities and mutual fund shares also displays a tendency to loom larger in relative importance the greater is total wealth or income. Holdings of real estate, direct investments in business and equities in company savings plans, however, taper off somewhat, relatively, within the upper wealth and income ranges.

Meat supply to diminish

Meat supplies have been large in recent months and prices have dropped well under last year's levels. Per capita red meat production during the first quarter rose to a record level of nearly 45 pounds—4 pounds higher than a year earlier while prices received by farmers for meat animals were down about 13 percent.

For processors and distributors the results have been favorable because of the larger volume. Moreover, housewives shopping at retail counters have liked the lower prices that accompanied the increased supplies. But joy has not abounded everywhere; gross receipts to hog raisers have dropped more than one-fourth from last year and many cattle feeders have sold finished livestock in recent months for less than the cost of the feed and feeder animals.

The impact of these developments has been especially acute in the Seventh District states because of the predominance of livestock production. In 1966, for example, farmers in this area accounted for about one-fourth of the nation's production of beef and about two-fifths of total pork output. Cash receipts from sales of these animals accounted for 44 percent of the total cash receipts from all

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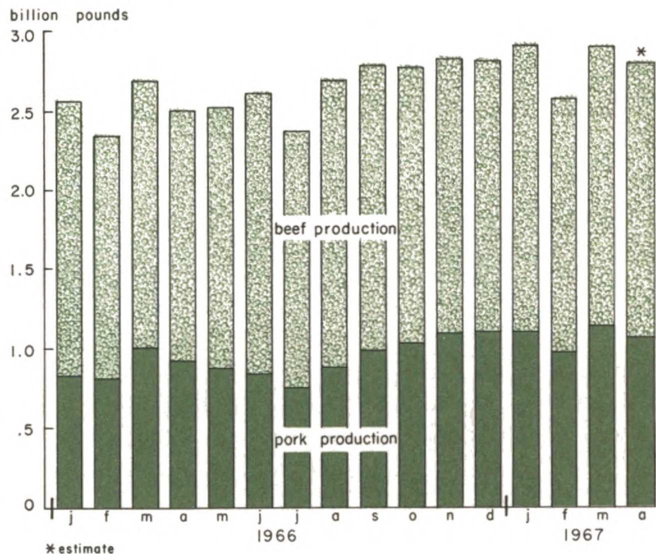
farm commodities sold by District farmers during the year.

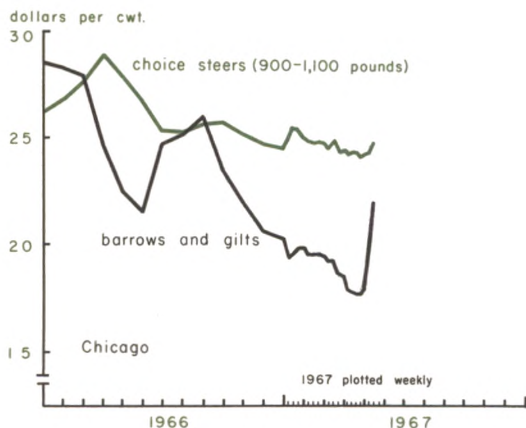
Incomes of livestock producers were boosted sharply during 1966 by higher livestock prices, especially in the early part of the year. Although prices trended downward throughout most of 1966, they averaged well above 1965 levels for the year as a whole. The average cattle price topped $22 per hundredweight compared with slightly less than $20 the year before, and hog prices averaged the highest since 1948—nearly $23 per hundredweight compared with $20.60 in 1965.

Gross income from meat animals, as a result, reached a record level in 1966, 15 percent above the previous year. Income from sales of cattle and calves rose from 9.1 billion dollars in the previous year to 10.6 billion; for hogs, gross income totaled 4.3 billion dollars compared with 3.8 billion in 1965.

Meat supplies at record levels



Bottom of price decline reached



The stage was set

Livestock producers responded to these relatively favorable prices and incomes by stepping up production—feeding rates were increased, the number of sows farrowing was expanded and larger numbers of cattle were placed on feed.

Hog farmers boosted the number of pigs farrowed in the 1966 spring period nearly 8 percent from the year before and increased the fall crop about 9 percent. These pigs began coming to market toward the end of last year. Reflecting the expanded farrowings, hog marketings rose sharply during the fourth quarter and continued to exceed the year-earlier level by a substantial margin during the first four months of 1967. These larger marketings, coupled with heavier weights per animal (reflecting the increased feeding rates) boosted pork production 13 percent above the previous year during the fourth quarter. For the first four months of 1967,

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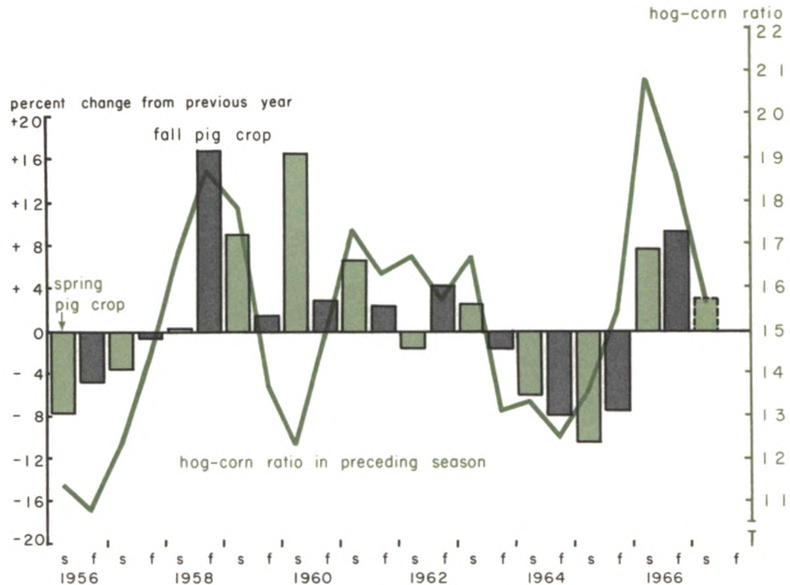
moreover, production was about one-fifth above the year-earlier level.

But lower prices were required to move this larger volume of pork into consumption. Consequently, the price of hogs fell sharply. From the high of about $27 per hundredweight in early 1966, prices of barrows and gilts declined to about $21 during the fourth quarter, and in the first four months of this year prices averaged only $19 per hundredweight—nearly $8 below a year ago.

The cutback has started



Concurrently, while hog prices were plunging, the price of corn (the principal hog feed ingredient) was rising. As a result, the hog-corn price ratio (one measure of profitability of producing hogs) dropped from the very high level of more than 20 during the early part of 1966 to around 15 during the final quarter, and during the first four months of 1967 the ratio averaged about 14.

Cattle feeders have fared no better than hog raisers. Encouraged by the relatively favorable prices during the early part of 1966 and optimistic about continued favorable returns from feeding operations, cattle feeders further expanded the number of animals being fed. Marketings of grain fed cattle, as a result, have been running well above year-earlier levels for several months. The overall number of cattle slaughtered, however, has been only slightly greater than that of a year earlier because of reduced slaughter of other cattle. Slaughter of cows, for example, has been well under the previous year since last June, and since January 1 has averaged about 14 percent below a year ago.

Nevertheless, because of the sharp increase in slaughter weights, which reflect in part an increase in the proportion of grain fed cattle slaughtered, total beef production exceeded the year-earlier level during the fourth quarter by about 2 percent, and during the first four months of 1967 production increased nearly 6 percent compared with the same months a year before.

Prices have declined rather sharply in the face of the increase in production and since most of the overall gain in beef output has been in the top grades, the price declines have been sharpest for the higher-quality animals. Prices of standard steers at seven major markets averaged about $2 per hundredweight below last year during April; choice steers

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averaged about $4 lower and prime grades nearly $5 lower per hundredweight.

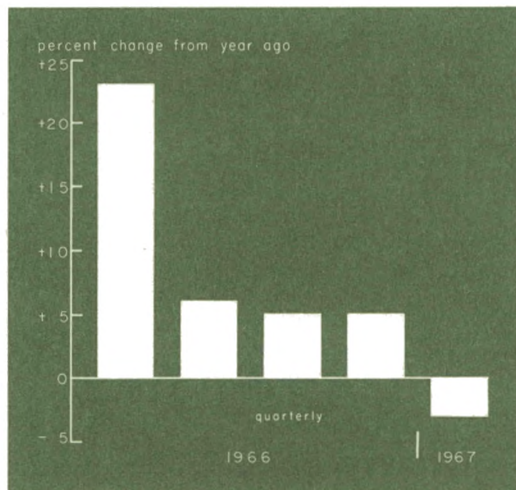
A turnabout started?

The unfavorable price ratios and incomes apparently have caused some hog farmers to reduce production although the substantial discrepancy between estimated farrowings and actual marketings during the first part of the year causes some uncertainty about potential supplies. On Corn Belt farms, the estimated number of slaughter hogs weighing under 120 pounds (which make up the bulk of supplies through the summer months) was 4 percent larger in March than a year before; but the number of sows intended to farrow in March through May was 3 percent lower, and in the June through August period, 5 percent lower. The bulk of these hogs would be marketed during the latter part of 1967 and the first part of next year.

Hog production, therefore, will probably continue to average above the year-earlier levels during the summer months while declining seasonally. The margin over a year ago, however, will likely narrow appreciably and by fall production may dip below 1966.

Similarly, the low prices have led to generally unsatisfactory returns to cattle feeders, who recently have been exhibiting little enthusiasm for increasing cattle feeding activity. During the first quarter, the number of feeder cattle placed on grain feed lagged the year-ago level by 3 percent. The April 1 survey showed the number of cattle on grain feed to be up about 3 percent, but most of the increase was in heavyweight cattle that had been on feed for some time. Many of these presumably have been marketed since the date of the survey. Both numbers and weights of grain fed cattle slaughtered likely will decline from present levels, probably dropping below 1966 during the fall.

Feeder cattle placements curtailed



The number of other cattle marketed for slaughter during the remainder of the year is necessarily uncertain. The weather will have an important influence. Drought in major grazing areas could cause heavy marketings but adequate feed supplies would likely encourage some moderate enlargment of the breeding herds. If feed supplies remain adequate, marketings of "non-fed" cattle will most likely continue below the number of last year.

Although meat supplies are expected to remain relatively large through the summer months, the margin above a year ago is likely to continue to narrow in comparison with the steady increase in supplies experienced throughout the past year. By fall both pork and beef production are likely to drop below the corresponding year-earlier level. Accordingly, higher prices appear to be in prospect for hogs and cattle, and for meats at the nation's food stores.

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