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Agricultural Outlook

for 1961

A COMBINATION OF RECORD-HIGH output and demand for agricultural products resulted in an improvement in the farm income situation during the past year. Despite a record volume of marketings, the index of prices received by farmers stabilized and, during the last quarter of the year, was above comparable year-earlier levels. Strong demand, bolstered by the effects of price supports and export disposal programs, prevented huge supplies from depressing prices below late 1959 levels.

Thus, in planning their 1961 programs, farmers are confronted with a number of crosscurrents. Supplies of farm products, in the aggregate, are large and continue to act as a depressant on prices. Demand, however, remains unusually strong. Furthermore, conditions vary by commodities and regions. All of these factors are of importance to farmers and financial agencies in making plans for this year, and much helpful information is available in appraising the current situation. This information was brought together by the various specialists in the U. S. Department of Agriculture and presented at the 38th Annual Agricultural Outlook Conference. The following material is a resume of this information that is of particular significance to farmers and others in the Tenth Federal Reserve District.

Markets Strong

In recent years, the domestic market has absorbed between 80 and 85 per cent of our

farm output. Export outlets took about 12 per cent and the remainder has accumulated in the form of stocks.

Increasing consumer incomes and population growth have caused demand for farm products to increase sharply during the past quarter of a century. In this period, the average consumer has increased his consumption of livestock and livestock products by more than 100 pounds. At the same time, the consumption of cereal products and potatoes has declined by about an equal amount. This shift toward more costly foods has upgraded diets and increased per capita demand for farm products.

With present levels of income, consumers are likely to buy the kinds and amounts of farm products they want. Changes in income from the current higher levels probably will not have the same influence on demand for food as compared with similar changes made from lower levels. In other words, moderate changes in income probably will not cause consumers to modify their diets as much as they have previously. Thus, projected increases in domestic demand for farm products in the next several years are likely to be dependent primarily on population growth.

Although some slack has developed in the economy, it was concluded by Conference specialists that consumer incomes for 1961 as a whole can be expected to average higher than for 1960. Declines in some sectors of the general economy will tend to be offset by

strengthening in other sectors, with renewal of expansion likely as the year progresses. Increases in Government expenditures, consumer buying, and possibly in residential construction may largely offset any weakness that develops in business investment and inventory demand. Thus, it is anticipated that domestic demand for food will continue to remain strong.

The volume of agricultural exports for the fiscal year ending June 30 is expected to equal or exceed last year's record high. The foreign economic outlook favors an expansion in world agricultural trade. Gold and dollar holdings in most dollar-area importing countries are at record highs, trade barriers against American farm products are gradually being lowered, and economic activity remains high—particularly in Western Europe.

Population is almost certain to continue growing in the near future. Under these circumstances, if consumer incomes and the volume of exports remain favorable as anticipated, a record-high demand for farm products is likely to prevail.

Productivity High

Farm production in 1960 was at new all-time high levels on both a total and per capita basis. Output was about 30 per cent higher than the 1947-49 average. This increased output was achieved by approximately 30 per cent fewer farm workers on about 5 per cent fewer crop acres than were used during the base period.

Specialists at the Conference assumed that the above trends are likely to continue for several years in the future, despite current record supplies of farm products. With average production conditions this year, it seems reasonable to assume that output of farm products will equal or perhaps slightly surpass last year's record. Although weather conditions were better than average in 1960, crop yields this year, with average weather, could

be as good as last year because improved technology has been causing yields to trend upward in recent years. To illustrate, the average yield of 28 field crops now is 40 per cent above the 1947-49 average. New techniques also are causing productivity of livestock to increase at a substantial rate. This information indicates that supplies of farm products are likely to remain abundant through 1961 and, barring unusual conditions, for a number of years in the foreseeable future. Furthermore, it appears probable that less labor and land will be needed to produce this expanding volume of output in the years immediately ahead.

Prices Nearly Stable

Relatively large supplies of farm products in recent years have caused prices received by farmers to be somewhat depressed. Farm prices last year remained below year-earlier levels until October. For the year as a whole, they averaged lower than in 1959. With supplies of farm products expected to remain large in 1961, it was the consensus at the Conference that farm prices probably would not average much different than for 1960. The high levels of demand are expected to about offset the influences of continued large supplies. Prices of the different commodities, however, are likely to vary substantially from last year's levels, with increases in prices of some tending to offset decreases in prices of others.

Little Change in Costs and Income

Total farm production costs have been rising sharply in recent years because farmers have been using an increasing volume of purchased inputs and paying higher prices for these goods and services. The rise in production expenses leveled off in 1960 at slightly more than \$26 billion. Little change is expected in total production expenses during 1961.

With prices and volume of marketings assumed to be comparable to year-earlier levels, gross income for 1961 is not expected to vary substantially from 1960 levels. If this outlook proves to be correct, the total purchasing power of the farm sector of the economy should be maintained and aggregate realized net farm income should about equal the \$11.4 billion now estimated for 1960.

The trend toward fewer and larger farms is likely to continue. If it does, and the preceding analysis of the aggregate outlook is approximately correct, gross income, production costs, and net income on a per farm basis would be larger this year as compared with last year despite the stability expected for the farm economy as a whole.

Outlook Varies for Commodities

Although the general agricultural outlook points toward considerable stability, supply and demand conditions vary more from commodity to commodity than they do for farm products generally. Thus, the situation for the major commodities produced in the Tenth District will be reviewed briefly.

Wheat WHEAT IS THE MOST important cash crop produced by Tenth District farmers. In recent years, wheat has accounted for about a sixth of all cash receipts from farm marketings in District states. Only receipts from the sale of cattle are more important as a source of income for District farmers.

Wheat is of crucial importance to the District farm economy, since excess productive capacity is especially acute in this case. Stocks of wheat have been accumulating at a rapid rate despite production restrictions (acreage allotments, marketing quotas, and Soil Bank programs) and special disposal programs in both domestic and foreign markets. It was emphasized at the Conference that the present overabundance of wheat and other farm

products is not attributable to low consumer purchasing power. Neither can it be ascribed to lack of exports, since exports have been maintained at record levels by adding special disposal programs to sales for dollar exchange.

Wheat supplies for the marketing year July 1, 1960, to June 30, 1961, are estimated at a record high of 2,685 million bushels—11 per cent above the previous record for the preceding marketing year. This estimate includes indicated production of 1,363 million bushels, a carryover of 1,315 million bushels, and an allowance of 7 million bushels for imports. Current estimates on disposition include 609 million bushels for domestic use and 550 million bushels for export. If the above estimates are accurate, the carryover at the end of this marketing year (June 30, 1961) will be 1,526 million bushels—16 per cent above the beginning of the marketing year.

If exports of 550 million bushels should be achieved, they would equal the record high reached in the 1956-57 marketing year. Exports are expected to be up from last year because of anticipated increases in sales to the traditional dollar markets of Western Europe, along with somewhat larger sales under Government programs. Considerable emphasis was placed upon the fact that domestic prices are above world prices as a result of price-support programs and, thus, all exports from the United States require export payments. Shipments under special export programs, such as sales for foreign currencies, barter arrangements, and donation programs, are in addition to these payments. In the 1959-60 marketing year, 73 per cent of all wheat exports from the United States moved under these special programs.

Wheat prices since the end of the 1960 harvest have been higher than usual relative to support levels because of large quantities withheld from the market and large-scale exports. With prices near or above effective support levels, further advances may be less than

usual, with some temporary weakness being displayed at times.

**Farm
Fibers**

IT NOW APPEARS THAT disappearance of United States cotton during the marketing year which began August 1, 1960, may be larger than the 14.2 million bales produced in 1960. If this proves to be the case, the carryover on August 1, 1961, will be about 7 million bales, which would be less than half the postwar record-high carryover on August 1, 1956.

Cotton consumption outside the United States continues to rise and is expected to remain at high levels during the coming year. World cotton stocks declined during the past marketing year for the fourth consecutive time. Although world cotton prices rose somewhat last season, the increased levels did not prevent cotton from competing successfully with manmade fibers. Furthermore, cotton prices in the United States remained competitive with world prices. National acreage allotments for 1961 have been set at 18.6 million acres, which compares with total allotments of 17.6 million acres in 1960. Longer-term projections currently point toward some increase in cotton consumption from present levels.

Domestic wool production has been increasing in recent years. Shorn wool output was estimated to be up about 3 per cent in 1960 and the highest since 1946. Pulled wool production probably was higher as slaughter of sheep and lambs was above year-earlier levels. Some further increase in shorn wool output is expected this year, as sheep numbers probably will continue to rise.

Domestic wool consumption in 1960 was about equal to that of 1959. Larger imports of wool manufacturers tended to offset lower mill consumption. Little change is expected in mill consumption of wool this year, and it is anticipated that prices received by domestic producers will show much the same pattern as in 1960.

Feed

SUPPLIES OF FEED GRAINS and other concentrates have been increasing consistently in recent years. For the feeding year which began October 1, 1960, supplies are estimated at 274 million tons—11 million more than for the previous year and a new record high for the seventh straight year. The increase this year is caused largely by an increased carryover and is not as large as the average rise of the previous 7 years. The total supply this year is about double that of 20 years ago.

Total utilization of feed grains also has increased substantially in recent years. More liberal feeding of livestock has caused domestic consumption to increase by nearly a third during the last 5 years. Exports during this period have about doubled. Despite this rapid increase in utilization, it has consistently fallen below production. Although the yearly addition to stocks has not been large, the carryover has increased gradually from 20 million tons in 1952 to 75 million tons at the beginning of this feeding year. Such a carryover is sufficient to provide for nearly half of the total requirements for the year. Even with a continuation of heavy rates of consumption, last year's production is expected again to exceed total use for this feeding year. Thus, the carryover for the 1961-62 feeding year probably will increase by another 5 to 10 per cent.

The smaller pig crop in 1960 likely will result in a slight drop in the number of animal units to be fed. Over the past 5 years, the rate of increase in number of animal units on farms has been moderate. The rate of feed concentrates consumed per unit, however, has increased about 20 per cent. Most of the increase in consumption of feed grains and other concentrates since 1954 must be attributed to increased consumption per animal. With favorable livestock-feed price ratios, feeding rates are likely to remain high.

Since supplies of feed grains are abundant in relation to demands, prices of feed

grains probably will average a little lower this year as compared with year-earlier levels. Prices of high-protein feeds also are expected to average somewhat lower this year because of more abundant supplies.

The roughage feed situation also is generally favorable insofar as supplies are concerned. Hay production last year was about 8 per cent above the 1949-58 average and 5 per cent above that of 1959. For the Nation as a whole, pasture conditions at the beginning of this feeding year were 7 per cent above the 10-year average and about 3 per cent above 1959 levels. Thus, the feed situation generally is favorable for an expansion in output of livestock and livestock products.

Meat Animals

MEAT PRODUCTION, it now appears, will increase enough this year to supply each consumer with about 4 pounds more meat than in 1960. The increase will be accounted for mostly by beef. Per capita supplies of veal are likely to be up moderately, those of pork to be about the same, and those of lamb and mutton to be somewhat less. Hence, red meat consumption per person may total about 165 pounds, which would be second only to the 166.7 pounds consumed in 1956. With demand for meat expected to remain strong, changing supplies are most likely to dominate the price outlook for meat animals.

Unless severe drought over a wide area should arise during the year and result in abnormal liquidation, cattle numbers probably will continue to increase this year. Numbers have been increasing for 3 years in the current cycle. The increase in cow and calf slaughter that has occurred recently indicates that the rate of buildup in numbers is easing.

In recent decades, cattle numbers have increased at about the same average rate as population growth. Beef and veal production have trended upward sharply because of increased output per animal. The increased pro-

duction per animal has been caused by the relative increase in the proportion of beef cattle, raising more calves to mature animals, and feeding to heavier weights.

With normal weather conditions, it is anticipated that cattle and calf slaughter this year will be about 10 per cent larger than last year. Although more fed cattle are likely to be slaughtered, most of the increase will be in nonfed cattle and calves. Thus, slaughter weights in 1961 may go against the trend of recent years and average somewhat lighter than last year. However, the decrease will not be enough to prevent anticipated supplies of beef from being substantially larger.

If per capita supplies of beef and veal increase as anticipated, cattle prices in 1961 are likely to continue trending downward. A relatively close inverse relationship between per capita beef and veal supplies and prices received by farmers for cattle has existed in recent years. Barring extensive drought, a severe cyclical break in cattle prices does not appear probable, but prices are likely to remain under pressure. The decline is not expected to be greatly different than that which occurred during 1960. Prices of the lower grades of slaughter cattle, however, may weaken more than those of other classes and downward pressure on all classes will likely be greater in the last half of the year than in the first half.

Hog slaughter in late 1960 was down substantially from year-earlier levels. During the first half of 1961, slaughter is likely to continue falling short of year-earlier levels. By midyear, however, any differences existing probably will be small and, during the last half of the year, slaughter may be larger than in the last half of 1960. Increased slaughter during the last half of the year is based upon the assumption that this year's spring pig crop will be larger than that of last spring because of abundant feed grain supplies and a favorable hog-corn price ratio.

If the above slaughter estimates are accurate, it appears most logical to assume that per capita supplies of pork during the first half of this year will be lower than for the first half of 1960. During the last half of the year, per capita supplies are likely to be higher than in the last half of 1960. Based on this analysis, Conference specialists concluded that hog prices can be expected to remain relatively favorable in the first half of this year but, by next summer and fall, they may average somewhat lower than during the comparable periods of 1960. For the year as a whole, they are not expected to differ greatly from 1960 levels.

Higher lambing ratios, lower death losses, and heavier slaughter weights have caused lamb and mutton production to increase at a more rapid rate than numbers during the past decade. The upward trend in production has about matched population growth and per capita consumption has been relatively stable.

During the past year, slaughter of sheep and lambs increased nearly enough to interrupt the 3-year uptrend in numbers. Presently, the most likely prospect is that sheep and lamb numbers will increase slightly this year. Since slaughter is not expected to change much, prices next year may be near or a little below this year's levels.

Dairy COMMERCIAL SUPPLIES of milk products this year are likely to be slightly above the levels of recent years and at a new record high. Demand probably will increase, but at a less rapid rate than population. Prices of dairy products to farmers and consumers are expected to average above year-earlier levels until April, with the level of price support to be announced before April 1 being an important price determinant after that time. Cash receipts from the sale of dairy products are likely to average somewhat higher this year than last year. However, costs also are increasing.

Demand for milkfat has been declining in recent years, while that for solids-not-fat has been increasing. The rise in demand for solids-not-fat, however, has had little opportunity so far to affect prices of dairy products. Supplies of solids-not-fat continue to exceed market demand by a wide margin because of the decreasing use of milk as a livestock feed. It was pointed out at the Conference that it may be a whole decade before the complete transition to whole milk sales is completed. Consequently, the large surplus of milk solids-not-fat, as well as some surplus of milkfat, has persisted despite a drop in per capita production of milk to record-low levels in 1960.

Eggs and Poultry BOTH EGG AND POULTRY prices in 1960 averaged significantly higher than in 1959. Although conditions in the poultry industry were chaotic in 1959, the improvement in 1960 was substantial enough to encourage producers to expand output. It now appears that production may be expanded to the extent that the outlook for producers is less favorable than in 1960.

Egg prices are expected to remain favorable early this year and set the stage for an increase in chicks produced during the important hatching months. If chick production is increased sharply during the early months of the hatching season, supplies of eggs will be abundant late in the year. Such an expectation would prevent storers and breakers from taking their usual springtime quantities of eggs, except where lower prices than otherwise might prevail.

The poultry meat outlook is similar to that for eggs except that the production response is faster and the cycle shorter. Thus, broiler prices can be expected to weaken during the early part of this year.

Applicability to Tenth District

Although a wide variety of agricultural products contributes to the economy of the

District, wheat, feeds, and meat animals provide for a major proportion of farm income. Thus, production and price prospects for these commodities are of crucial importance to economic activity in the District.

Wheat production prospects in the District as of the beginning of the year are excellent. The winter wheat crop was planted under near ideal conditions and moisture supplies are good throughout most of the major wheat-producing regions. Despite present conditions of the 1961 crop, it is unlikely that production in most parts of the District will equal or surpass last year's excellent crop. With the "advance" minimum national average support level of \$1.78 per bushel, it was considered improbable at the Outlook Conference that prices of the 1961 crop would be any higher than those for the 1960 crop. Thus, cash receipts from 1961 wheat production in the District are likely to be somewhat lower than those from the 1960 crop. Barring unforeseen events, however, cash receipts from wheat in 1961 should remain quite favorable in the District, since much of the large 1960 crop will be marketed this year and production prospects for 1961 are favorable.

It is too early to anticipate feed production conditions for 1961 at the present time. Output of feeds in 1960, however, was unusually good. Grain sorghum and corn production last year were both at new record-high levels in District states. Furthermore, except for Wyoming, pasture conditions and prospects at the beginning of this year were more favorable than average. Thus, supplies of feed will

be abundant in most parts of the District and will continue to encourage the expansion that apparently is occurring in meat animal production.

All indicators point toward the fact that meat animal production in the District is being expanded, except for cattle production in the drought areas of Wyoming. Abundant feed supplies in most areas, combined with the current stages of the cattle and hog cycles, indicate that marketings of meat animals in the District are likely to be higher in 1961 than they were in 1960. As was pointed out previously, prices of meat animals are expected to average lower in 1961 as meat supplies increase. Since meat animal prices usually drop relatively more than marketings increase, cash receipts from the sale of meat animals are likely to be slightly to moderately lower in 1961 as compared with 1960.

In summary, the outlook for District agriculture generally is favorable, except in Wyoming where an extended period of drought has dimmed prospects. Cash receipts from farm marketings as a whole normally would be expected to average somewhat lower because of the improbability of last year's favorable levels of production being duplicated and also because of the anticipated lower level of prices for meat animals. However, the large carryover of crops from 1960 into 1961 and the stimulus provided to cattle prices by the huge feed supplies and generally good pasture conditions may hold 1961 cash receipts from farm marketings at levels not too different from those of 1960.

Economic Problems of the Early Sixties

A YEAR AGO, OPTIMISM was generally widespread with regard to the future course of national economic developments. Expansion from the 1958 recession, interrupted by the steel strike, had resumed and total output was again moving upward. Many markets were foreseen as dynamic sources of increased demand. These included consumer spending, business capital outlays, and inventories, not only to replace depleted supplies but also to accommodate a rising volume of business. Moreover, entry upon the decade of the "fabulous sixties" seemed to give added assurance that growth would be a dominant characteristic of the year.

The initial performance of the economy after the end of the steel strike was brisk. Industrial production rose sharply in January to a new peak. Almost immediately, however, the pace slackened slightly and remained on a high plateau through midsummer. Employment, after advancing in the opening months of the year, soon leveled off also. The broadest measures of economic activity, including gross national product, thus began rather early to signal a shift from growth to stability at record levels. More recently, weaknesses in the various sectors of the economy cumulated and over-all decline has become evident.

From the vantage point of the present, the expectations of a year ago—not held universally, to be sure—appear grossly overoptimistic. Indeed, failure to grow and the accompanying increase in the margins of unused resources became the major domestic economic problem of 1960. The potential seriousness of the problem is highlighted by the failure of the economy, for the first time since World War II, to achieve a high level of resource use during a period of cyclical upswing.

While current developments exhibit many of the characteristics of short-run business fluctuations, influences of a longer-term nature also appear to be operative. First, supply considerations no longer occupy the key role in economic developments that they did in earlier years after World War II. Industrial capacity has been expanded greatly and the period of augmented manpower availability is already evident. At the same time, consumers are in a much better position to defer purchases than they were some years ago. The pent-up demand of the early postwar years has given way to a situation in which spending decisions may be made in a more leisurely fashion—and perhaps even encouraged in that regard by the mounting total of consumer debt. This does not mean consumer markets are saturated but it does suggest that suitability and attractiveness of the product together with its price receive greater attention. Similarly, in other major markets, such as business capital investment and community facilities, decisions which in other years were governed largely by urgent needs for outright expansion may now be broadened to include additional considerations.

Thus, a new atmosphere, so to speak, has emerged—one in which capacity and potential supplies of raw materials and finished goods are larger relative to total consumption than was true earlier in the postwar period. It has contributed, in turn, to greater competition and to increased efforts on the part of business to control costs and to reduce upward pressure on prices. Meanwhile, a considerable improvement in the ability of other industrial countries to meet their own needs and to compete with U. S. producers has become widely recognized. As a consequence of these and

other considerations, the recent history of prices constitutes the first real containment of inflation since World War II.

Adjusting to stable prices, on the part of both business and individuals, has unquestionably contributed to the uncertainty which has characterized recent months. Yet, while the emergence of price stability is unsettling, its importance to sustained economic growth and to successful international competition must be recognized. It probably should be noted, however, that despite the distinctly stable level of industrial prices and the increased acceptance of price stability as a major end of economic policy, there is concern that this stability might only be temporary.

Emphasizing these longer-run aspects of the recent and current sluggishness in the economy does not mean that the promise of the sixties has been dissipated. The factual bases for the promise—increased numbers of young adults, the fruits of increased efforts in research and development, etc.—remain intact. The fulfillment of the promise, however, will depend upon new thinking by individuals in their various private capacities and upon the pursuit of appropriate public policy.

Nature of the Recent Adjustment

The primary impact of the changing national economic picture has occurred, as implied, in the area of goods production. The output of goods in the GNP attained a peak in the opening quarter of 1960 and shortly thereafter began to ease off. During the summer, output fell rather sharply to a level about equal with that in the second quarter of 1959 prior to the steel strike. As the final quarter of 1960 unfolded, the drop in production became more apparent.

Offsetting in large degree the decline in goods production has been the strength in other major groups. Measured in real terms, construction held steady during most of the year after reversing early in 1960 the down-

trend of the second half of 1959. The volume of activity, however, fell short of the peak in the spring quarter of 1959. Services, on the other hand, continued to rise. Part of the advance in service expenditures, to be sure, is again represented by price advances—for example, the rise in consumer service prices was about 2½ per cent over the year, compared with an increase of about 1 per cent in the consumer price index for all goods and services. Considering all services—not just those entering into personal consumption—and tracing their volume in constant dollars, it is apparent that they rose during most of 1960 at about the rate prevailing since early 1958.

Inventories and Raw Materials

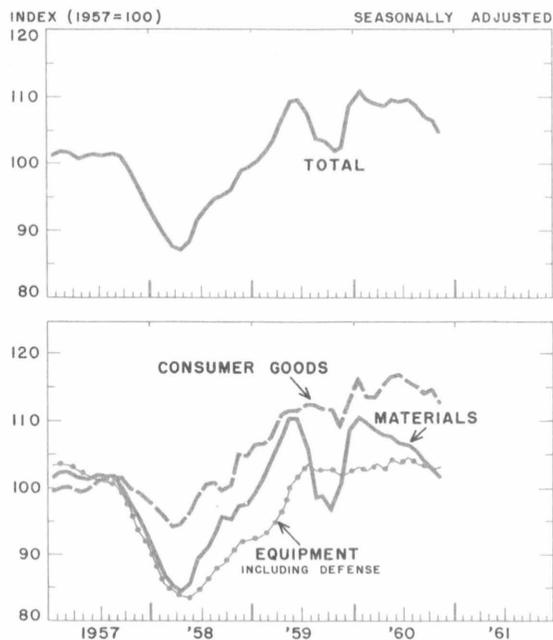
In relating developments in goods production to changes in the sources of demand, the cessation of the buildup in inventories stands out as the principal factor. Inventory demand was high at the end of the 1959 steel strike but it was satisfied at an unexpectedly rapid rate. The abundant capacity of the steel industry provided ample margins of production for restocking, for assuring rapid delivery, and for offsetting tendencies toward a price rise.

Thus, while manufacturers' inventories were accumulated at a rapid pace around the beginning of 1960, the rate of addition began quickly to drop and at midyear the level of inventories reached a peak. Since then, they have been declining as producers' policies of inventory restriction began to effect a net liquidation of stocks.

The focus of the inventory adjustment has been largely upon purchased materials, since they represent the component most directly subject to managerial control. The level of purchased material holdings stabilized early in 1960 and turned down at midyear. On the other hand, stocks of goods in process and especially stocks of finished goods continued to mount, with increases in the latter persisting into the final quarter.

In terms of production activity, the impact of these inventory developments may be seen in the declining trend of materials output. Materials-producing industries, as a matter of fact, have been the primary source of weakness in over-all industrial production since early 1960. A major part of the reduction in materials output has been due to the substantial drop in steel production as steel mills reduced output to a point of approximate balance with, and even less than, steel users' consumption. After midyear, the monthly mill operating rate generally ranged between 50 and 55 per cent of capacity, although the December rate fell to 46 per cent. For 1960 as a whole, it is estimated that steel production was about 100 million tons, which is about 7 million tons larger than the 1959 tonnage and 12 million tons short of the 1957 volume. Steelmaking capacity for 1960 is estimated at 148.5 million tons.

Industrial Production Trends in Major Markets



SOURCE: Board of Governors of the Federal Reserve System.

Production adjustments have been evident in other material-producing industries also. Primary aluminum and refined copper production declined somewhat after mid-1960. The magnitude of the decline was much smaller than in steel, however, although plant inventories of both metals were higher early in the fourth quarter than at the beginning of the year. Construction material production reflected the trend of construction, particularly the lower volume of residential building. In the textile industry, a downward trend in production, which began in mid-1959 and which was interrupted for several months, was apparently resumed in mid-1960.

Final Product Markets

During the first half of 1960, increased output of final products—equipment and consumer goods—about offset the steady decline in materials, resulting in a rather steady volume of near-record production. Subsequently, output of final products eased somewhat and by November total industrial production was down about 5 per cent from the average of the first 7 months of 1960.

The easing in final products output reflects the decline in consumer outlays for goods and the downward trend in business capital outlays. Both of these important sectors of demand attained their highs for the 1958-60 upswing during the second quarter of 1960. Consumer goods purchases achieved a record level in both current dollars and in real terms. Business plant and equipment outlays, on the other hand, fell short of the 1957 quarterly record by about \$1.5 billion in current dollars and considerably more than that measured in dollars of constant purchasing power.

Autos and Other Consumer Goods. Auto sales have been very important in retail sales developments and correspondingly auto production has occupied a major role in consumer goods output. The pace of new auto sales advanced in the second quarter to the

neighborhood of 6.3 million on a seasonally adjusted annual basis. During the summer, auto sales fell and accounted for the major part of the decline from the second quarter in total retail sales. In October and November, new car sales regained the rate of the spring quarter and helped assure sales for 1960 of about 6.1 million domestic autos. Only in 1955 and 1950 were larger totals recorded. It should be noted that in October and November both 1961 and 1960 models were available, with the 1960 models subject to factory rebates which may have assisted in the sales volume achieved.

Interestingly enough, however, prices — as outlined in general earlier — were important in sales developments during the entire year. Effective prices, as distinguished from list prices, of new, low-priced, standard 1960 models fell below year-earlier levels by March. In addition, the growing proportion of compacts tended to reduce average new car prices. Used car prices began to decline in late 1959 and by the early autumn of 1960 were about 10 per cent less than their year-earlier level. The 1961 models introduced in September and October were generally priced about the same, or less, as compared with the 1960's and the introduction of additional compact lines increased the emphasis on lower-priced models.

At the production end, inventory considerations, as well as sales, have exerted an influence. For 1960 as a whole, domestic production is estimated at 6.7 million units. Thus, inventory building was a significant feature during the year. With dealers' stocks estimated at about 1 million units in mid-December, however, such stimulus seems likely to be absent during early 1961.

In the markets for home goods—household appliances, radios, television sets, phonographs, and floor covering—the lagging volume of consumer purchases and the reduced demand from home builders resulted in a

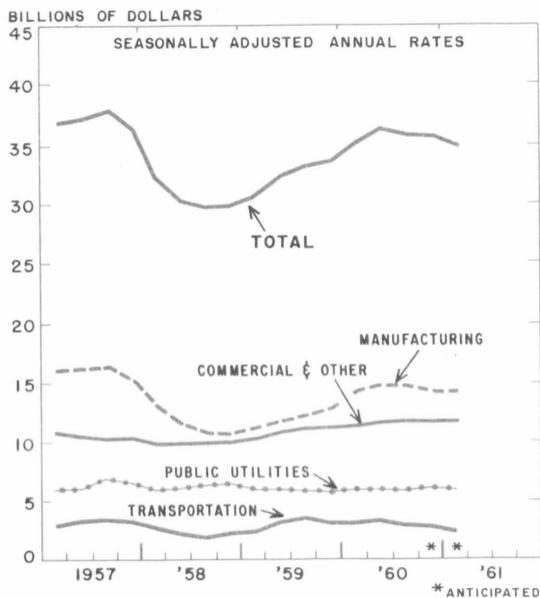
downward trend in production during most of 1960. Relative to year-earlier levels, output in the early months of the final quarter of 1960 was down about 10 per cent. The decline terminated a period of almost 2 years of rather steady advance from early 1958. High production during 1959, along with the failure of sales to live up to expectations, contributed to a substantial rise in inventories at both the manufacturers' and distributors' levels. While output curtailments were designed to bring stocks into better balance with sales, inventories were still large early in the fourth quarter. It should be noted also that price concessions were made on several of these product lines during 1960.

Output of the large and cyclically insensitive group of consumer nondurable items—apparel and staples—has been maintained at near-record levels for several months. Output of staples, which includes food, consumer fuels and lighting, etc., has been quite steady. Apparel production, on the other hand, has declined recently as consumer expenditures for apparel leveled off.

Business Equipment. Among the plants producing business equipment, activity held at advanced levels throughout 1960. While the rate of production in November was slightly below the midyear record, it was above that of a year earlier. Mixed trends were evident in this broad market grouping during the year. Railroad transportation equipment output moved irregularly downward, offsetting gains in commercial equipment production. Meanwhile, industrial equipment output held steady to slightly lower.

In a general way, total equipment output and its divergent composition correspond with movements in business capital outlays. Manufacturing firms maintained an advanced level of spending during the second and third quarters of 1960 and expected to reduce their outlays somewhat during the following 6 months. Commercial firms, on the other hand, leveled

Trends in Plant and Equipment Programs



SOURCE: U. S. Department of Commerce and Securities and Exchange Commission.

off their outlays in the third quarter and indicated that they expected to maintain that rate on into 1961. Railroads, after maintaining a rather steady volume of outlays during 1960, planned a substantial drop early in 1961.

The difference in price developments in the business equipment market during recent years compared with some other times is quite striking. In the 1955-57 upswing, for example, wholesale prices of producers' equipment rose by nearly one fifth. During the last expansion, prices rose by less than 3 per cent during early 1959 and thereafter held practically unchanged.

Factors in the Outlook

The trend in the production of goods reflects the recent flow of orders and the gradual lowering of the volume of unfilled orders. The backlog of orders declined steadily during the first 10 months of 1960 and in October

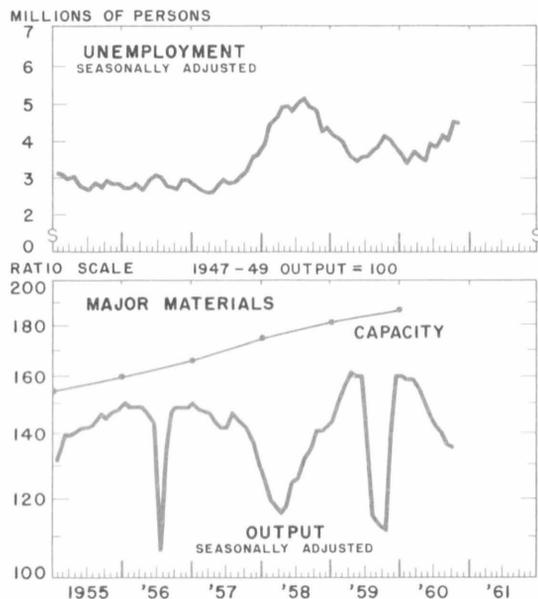
was about \$5 billion less than in October 1959. Of the over-all reduction, however, primary metal goods industries accounted for three fifths and the impact of that contraction had largely run its course.

Some industries have incurred in their flow of new orders stimulation from expanding segments of demand. Orders for electronic and electrical equipment rose during most of 1960, although the level weakened during the fourth quarter. Mounting defense requirements, which are expected to advance further, combined with the growing demand for data processing machines, have bolstered new business for electronics firms. The electrical machinery industry, in turn, has benefited from the near-record volume of orders and sales of electric power generating and transmission equipment. Power consumption has risen rather steadily during the postwar period even during periods of business decline and the latest Government survey of business capital plans indicated that electric utilities are expected to maintain high rates of investment through the autumn and winter.

Overall, business capital spending plans as reported by the McGraw-Hill survey call for a 3 per cent decline in 1961. The more recent Government survey, which reported moderate downward revisions for the second half of 1960 and a downward drift in expenditures in early 1961, is not inconsistent with such an outlook, although the future time span of the Government report is much shorter.

Thus, increases in Federal Government expenditures have already been initiated which will produce a sizable addition to over-all activity by the middle of 1961. Moreover, state and local government outlays are expected to continue to advance. At this point, the combined expansion of all government spending appears to be more than enough to offset the prospective decline in business capital outlays, even if the decline is somewhat more than currently anticipated. Moreover, it is also gen-

Yardsticks of Resource Availabilities



SOURCE: U. S. Department of Labor and Board of Governors of the Federal Reserve System.

erally assumed that the increases in Federal Government spending already initiated will be accelerated and bolstered by additional programs to stimulate economic activity in the fiscal year 1962.

In the forecasts commonly made for 1961, these assumptions are combined with others in order to arrive at a likely judgment of the future course of economic activity. It is recognized, for example, that there is a lack of enthusiastic consumer demand. The judgment of many forecasters, however, is that consumer expenditures may be essentially steady and that housing starts may be expected to increase as a result of a fairly strong pickup in the last half of the year. As for inventories, the 1960 correction is viewed largely as marking the end to accumulation and it is expected that further liquidation will take place before

a new advance begins. Based on these assumptions, it is widely held that activity may continue downward during the early months of 1961 and be followed later by recovery. A commonly stated average for the GNP in 1961 thus might be in the range between \$510-\$515 billion.

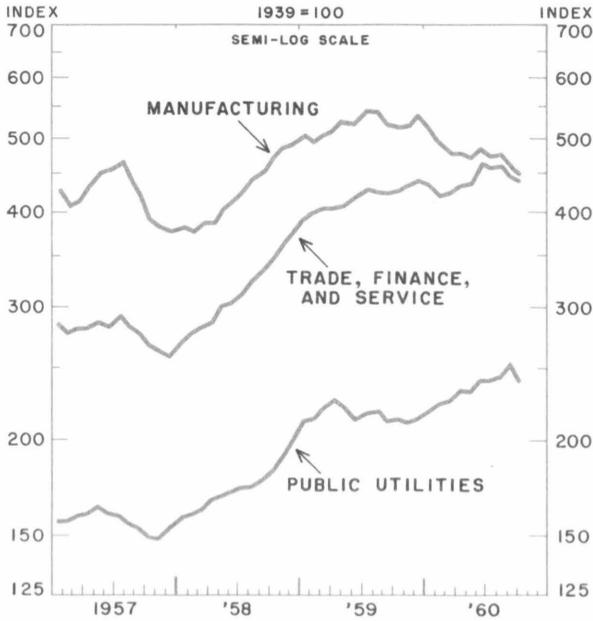
Outlook Implications

Should the outlook for 1961 turn out to be somewhat in line with such prospects, major questions related to resource utilization still remain. In November, the number of unemployed was about 4 million persons, which constituted a seasonally adjusted unemployment rate of about 6 per cent of the civilian labor force. Industrial capacity also was underutilized. Although there is no widely accepted method of measuring capacity utilization, all measures suggest the abundance currently available.

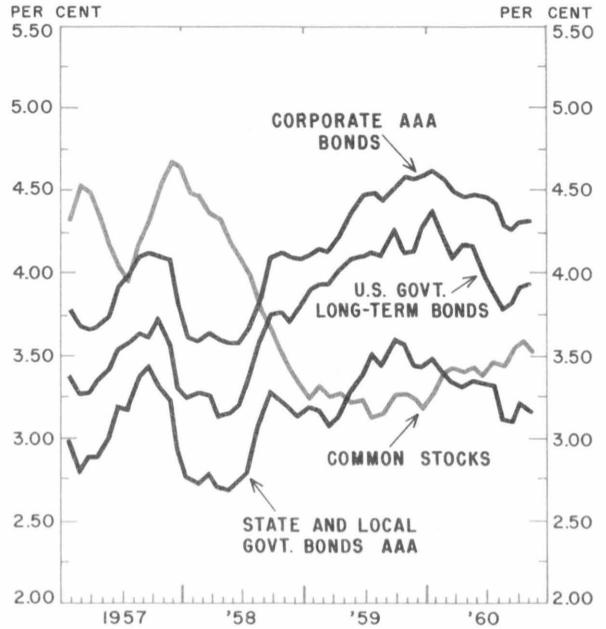
An increase of \$6-\$10 billion in GNP during 1961 would not, of course, bring about a generally accepted satisfactory level of resource utilization. As a matter of fact, the projected level of over-all activity would imply an unemployment rate above 6 per cent during at least a substantial part of the year.

While various alternative formulations relative to future labor force growth, productivity gains, hours of work, etc., may be made, reasonable assumptions would suggest that the over-all growth rate of the economy will have to be increased substantially relative to that of recent years in order to attain a satisfactory level of manpower utilization during the early part of the sixties. Accordingly, a sustainable expansion in over-all demand in accordance with possible additions to resources will continue to command great attention. The importance of the problem is underscored by the necessity of accomplishing it in an environment of relatively stable costs and prices.

INDEXES OF COMMON STOCK PRICES



SECURITY YIELDS



SOURCE: Statistical Bulletin, Securities and Exchange Commission.

BANKING IN THE TENTH DISTRICT

District and States	Loans				Deposits			
	Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks	
	Oct. 1960	Nov. 1959	Oct. 1960	Nov. 1959	Oct. 1960	Nov. 1959	Oct. 1960	Nov. 1959
	November 1960 Percentage Change From							
Tenth F. R. Dist.	†	+3	†	+10	+2	+5	†	+4
Colorado	-1	+2	-1	+11	+1	+4	+1	+7
Kansas	-4	+3	+2	+19	-1	+2	†	+7
Missouri*	†	+5	†	+8	+2	+6	-1	+2
Nebraska	+2	-3	+1	+10	†	+2	†	+4
New Mexico*	**	**	-7	+5	**	**	+3	+6
Oklahoma*	+2	+6	-1	+6	+6	+10	-1	†
Wyoming	**	**	-1	+9	**	**	+1	+3

*Tenth District portion only.

**No reserve cities in this state.

†Less than 0.5 per cent.

PRICE INDEXES, UNITED STATES

Index	Nov. 1960	Oct. 1960	Nov. 1959
Consumer Price Index (1947-49=100)	127.4	127.3	125.6
Wholesale Price Index (1947-49=100)	119.6	119.6r	118.9
Prices Rec'd by Farmers (1910-14=100)	241	240	231r
Prices Paid by Farmers (1910-14=100)	297	297	296r

r Revised.

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales	
	Percentage change—1960 from 1959			
	Nov.	Year to date	Nov.	Year to date
Tenth F. R. District	+7	+3	+6	+1
Denver	+14	+9	+8	+3
Wichita	-4	-4	-10	-13
Kansas City	+5	+3	+5	+2
Omaha	+6	+2	+37	+10
Oklahoma City	-3	+1	-1	0
Tulsa	+14	+2	-9	-4