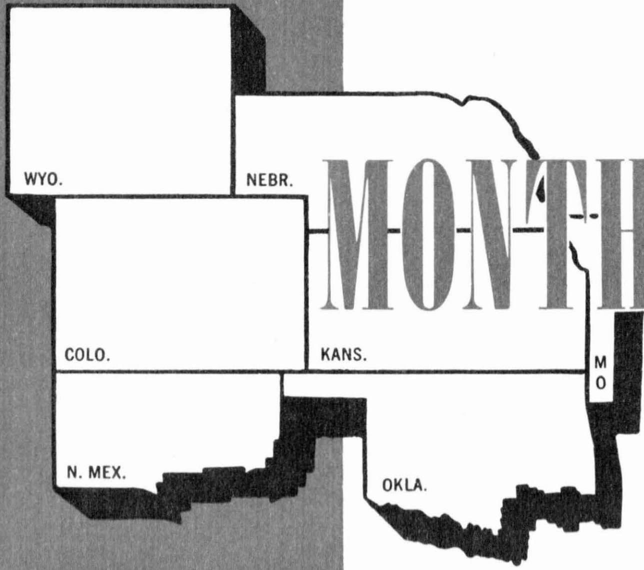
January 1962



MONTHLY REVIEW

In This Issue

FEDERAL RESERVE BANK OF KANSAS CITY

Agricultural Outlook for 1962

REALIZED GROSS farm income—after declining from 1951 to 1955 — recouped all of its loss in recent years and established successive record highs in 1958, 1960, and 1961. During this same period, farm production expenses have trended upward substantially. Consequently, realized net farm income declined sharply from 1951 to 1957, but has increased moderately since that time. Realized net income increased substantially from 1957 to 1958, lost most of this increase from 1958 to 1959, and increased moderately during the past 2 years. A considerable part of the increase from 1960 to 1961 can be attributed to increased Government payments.

Production, financing, and marketing plans now are being made for this year. Such plans must be made on the basis of certain assumptions pertaining to the long-run outlook as well as the outlook for 1962. Since much information is available to help evaluate the agricultural outlook, agricultural extension personnel and other interested persons were invited by the U. S. Department of Agriculture to attend the 39th Annual Agricultural Outlook Conference in November. In this article, the material presented at the Conference will be summarized, evaluated, and updated. Special emphasis will be given to commodities important in the Tenth Federal Reserve District.

SUPPLY PROSPECTS

Farm output has been rising at a spectacular rate during the past 25 years. This rate of increase has been achieved with relatively little change in the total quantity of inputs used. Instead, improved technology has made it possible to obtain a rapid rate of growth in output by changing the kinds and relative amounts of inputs that are used. Generally, these changes have resulted in the rapid substitution of capital inputs for those of labor and land.

By adopting these improved techniques, a farmer can lower his unit costs of production and at the same time increase total output of farm products. The rates of increase in output that have been achieved, combined with the immobility of the labor and land resources used in agriculture, have resulted in supplies of farm products being relatively large for a considerable period of time. These same forces are expected to maintain output in 1962 near record highs. The composition of output this year may be somewhat different, with increased production of livestock products expected nearly to offset a decline in the output of crop products. This type of shift will be encouraged by current legislative programs.

If these assumptions are realistic, total supplies of farm products can be expected to remain relatively large. The heavy supplies of crop products may be reduced somewhat in 1962 because of existing farm legislation. Supplies of livestock products, on the other hand, are likely to be at record highs.

DEMAND PROSPECTS

At the Outlook Conference it was indicated that consumer incomes are likely to rise appreciably during the year. The anticipated increase in income, combined with population growth and other demand and supply factors, is expected to cause retail expenditures for farm-produced foods to be about 3 per cent above those of last year. A considerable part of this increase is likely to represent higher charges for processing and marketing, as well as increased outlays for services purchased with food.

Although total per capita consumption of farm foods has increased slowly with rising incomes in recent years, the relative amounts of the different foods consumed have changed substantially. For example, in 1960 American consumers ate 33 pounds more red meat and poultry per person than in 1940, but 28 pounds fewer potatoes. Many factors influence changes in food consumption patterns. In addition to income, such factors include population shifts, less strenuous work, developments in nutrition, concern about obesity, and technological advances in preparing, preserving, and transporting foods. Since factors such as these are expected to continue to alter our diets in the future, it is likely that demands for specific kinds of farm products may change rapidly, despite the slow rate of growth in demand for farm products generally.

Per capita consumption of nonfood farm products has declined substantially during the past decade. Increased competition from such products as synthetic fibers, detergents, and water-base paints has been responsible for the decline in nonfood uses. Trends such as these have a deterring influence on growth in demand for the farm products with which they compete.

Export demand is relatively more important to the domestic agricultural industry than it is to the nonagricultural economy. Part of the production of nearly every farm community is sold abroad, and the Nation relies heavily on agriculture for export earnings. The value of agricultural exports in recent years has averaged about 13 per cent of cash receipts from farm marketings. In the fiscal year ended June 30, 1961, the value of farm products exported was $4.9 billion—4 per cent above the prior record achieved in fiscal 1957.

It should be emphasized, however, that the export market is fluid and conditions change rapidly. There are many crosscurrents in the highly competitive world market. Economic growth throughout most of the world stimulates foreign trade. On the other hand, most of the highly developed economies in the world market—on which we depend for dollar exports—also engage in various types of agricultural protection. The trade barriers erected by countries with highly developed economies tend to prevent the United States from competing on a favorable basis in these markets.

For the fiscal year beginning July 1, 1961, the Department of Agriculture estimated that the value of agricultural exports from the United States will be at a new record high of about $5 billion. A high level of economic activity in western Europe and Japan, record gold and dollar holdings in many countries trading with the United States, and the accelerated Food for Peace Program are expected to be contributing factors. In the long run, the volume of exports will depend heavily on political developments throughout the world and on the ability of this Nation to compete in the world market.

PRICES AND INCOME

The index of prices received by farmers has been relatively stable during the past 3 years. Information presented at the Outlook Conference indicates that average prices received by farmers and the total volume of farm marketings will continue to remain relatively stable this year. Prices of some commodities are likely to be higher because of increased price supports or changes in supply and demand conditions, while prices of other commodities are expected to be lower. With average growing conditions, the volume of crop marketings may be smaller because of the feed grain and wheat programs. The decline in crop marketings is likely to be about offset by the continued upward trend in livestock marketings.

On the basis of current farm legislation, Government payments to farmers in 1962 probably will be somewhat higher than for 1961. Thus, assuming average production conditions and a continuation of current price supports and other Government programs, it was concluded at the Outlook Conference that gross income of farmers in 1962 may exceed last year's record high. On the other hand, prices paid by farmers are likely to remain high and farm production expenses probably will increase from the record levels of 1961. Thus, the income gains registered in 1961 are expected to be maintained this year with little over-all change in realized net income of farm operators.

COMMODITY REVIEW

Wheat The total supply of wheat in the United States has increased persistently and sharply during the past decade. For the marketing year which began July 1, 1961, the Department of Agriculture estimated that the total supply will be about 2,625 million bushels, second only to the record 2,672 million bushels available a year earlier. Exports this marketing year are expected to be a record high of 675 million bushels, while domestic use probably will be about 595 million bushels. Based on these estimates, the carryover on July 1, 1962, will total about 1,355 million bushels—50 million bushels less than the record carryover that existed at the beginning of this marketing year. If the 1962 Wheat Program is successful in reducing production next year to around 1,075 million bushels, and exports can be maintained at around 625 million bushels during the next marketing year, the carryover during the subsequent marketing year may be reduced an additional 125 million bushels from the estimated figure for July 1, 1962.

In reviewing the long-run outlook for wheat, several factors should be considered. Wheat yields have been increasing sharply in recent years, and this has enabled producers to maintain output at relatively high levels, despite various types of acreage restriction programs. On the basis of known developments, it seems reasonable to assume that further increases in yields are likely to be achieved. It also is interesting to note that during the past 2 years wheat exports from the United States have exceeded domestic utilization. Thus, exports have been more important than the domestic market. Two considerations are important with respect to foreign demand for United States wheat. First, demand in the world market has been stronger than usual in recent years because of poor crop production in much of the world. Second, because of the high level of domestic price supports in relation to world prices and the lack of dollar purchasing power in countries with underdeveloped economies, virtually all wheat exported from the United States is disposed of through some type of special Government program.

Wheat prices this year are expected to average higher than last year because of the increased level of price support. Even though aggregate supplies of wheat are down slightly from last year's high levels, they continue to be excessive. A major portion of the excess is in hard red winter wheat. Supplies of durum wheats are short.

Textiles The general trend toward economic growth throughout most of the world has enhanced demand for textile products. However, these demands have been satisfied to a substantial extent by the increased use of synthetic fibers, which have become intensely competitive with the natural fibers.

The world carryover of cotton has declined steadily since the peak reached in 1956. A further slight decline is anticipated in 1962. Because consumption of cotton abroad has increased more rapidly than production, exports of cotton from the United States have been relatively high during the past 5 years. World consumption also has been stimulated by the lower level of prices during this period. Cotton prices, after reaching a low for recent years in 1959, have been trending upward because supply-demand relationships have been in close balance.

Domestic wool production in 1962 probably will show a moderate reduction from 1961 levels. Imports of raw wool and wool manufactures are likely to remain near the levels of recent years. The limited quantity of the 1961 clip now in producers' hands and an expected increase in consumer incomes and expenditures may cause wool prices to increase moderately during the early months of this year, according to the Department of Agriculture.

Feeds Total supplies of feed grains and other concentrates for the marketing year that began October 1, 1961, are expected to be about 3 per cent smaller than the previous year's large supplies. Prior to this year, supplies increased sharply and established new record highs for each of the preceding 7 years. The reduction this year must be attributed to the 16 per cent reduction in feed grain acreage brought about by the provisions of the 1961 Feed Grain Program, since carryover stocks and yields were at new record-high levels.

Domestic use and exports of feed grains during this marketing year are expected to remain near the high levels of the 1960-61 marketing year. In the domestic market, the number of grain-consuming animal units fed is expected to be about 2 per cent larger than a year ago. The rate of feeding per animal unit, however, probably will be below last year's record high. If total domestic utilization and exports are near anticipated levels, feed concentrate supplies will be reduced during the current marketing year.

It was concluded at the Outlook Conference that feed grain prices this year may be somewhat higher than last year because of higher price supports, reduced production, and increased numbers of livestock. Despite the slight reduction, feed grain supplies will remain abundant due to the huge supplies available during the last feeding year. Supplies of high-protein feeds are about 4 per cent larger than a year ago. Large supplies of soybean meal are expected to result in a somewhat lower level of prices for high-protein feeds generally.

Total hay supplies for this feeding year are about the same as a year ago, but a little below average if computed on a roughage-consuming animal unit basis. On the other hand, hay supplies are well distributed and the excellent condition of pastures last fall and this winter have reduced early seasonal requirements.

Looking forward to the 1962-63 marketing year, it should be pointed out that legislation providing for a 1962 Feed Grain Program is contained in the Agricultural Act of 1961. The program is similar to the 1961 Feed Grain Program, except that barley is included in the new legislation in addition to corn and grain sorghums. If farmers sign up for the 1962 program to the same extent as they did for the 1961 program, supplies may again be reduced moderately during the next marketing year. Whether supplies are reduced will depend on the number of acres diverted from production, and on yields, which are influenced largely by the weather during the growing season.

Meat Animals Production of red meats was at a new record high last year. This year, supplies of red meats are expected to increase again and establish another record. However, supplies have risen only moderately, so per capita consumption has remained relatively stable at near 161 pounds during the past 2 years. Barring unforeseen events, per capita consumption of all red meats is likely to average 161 pounds again for 1962.

Assuming that demand for meat will remain relatively strong during 1962, outlook information indicates that the average farm price for all cattle and calves sold will remain about the same as for 1961. Barring extensive drought or other unforeseen events, both cattle numbers and slaughter are expected to increase for the next year or two. The rate of increase in both, however, is likely to be in line with population growth. With the present strong demand for beef, per capita consumption may increase somewhat above the current record high of about 87 pounds without much influence on prices. This is particularly true since per capita consumption of veal is likely to remain near the relatively low level of 6 pounds because withholding of calves from slaughter is expected to continue.

Analysts at the Outlook Conference indicated that price patterns for certain grades and classes of cattle may vary from those of 1961. Fed cattle prices are likely to remain more stable during the spring and early summer months, as compared with comparable year-earlier periods. Slaughter cow prices, on the other hand, may be lower during the late summer and fall of this year than in the same period of 1961. Producers held more cows and limited culling during 1961 and many of these cows will be slaughtered this year. Thus, it is apparent that if cow numbers are to be maintained or increased this year, fewer heifers are likely to be available for feeding. If there should be a substantial decline in the number of heifers fed during the year, this would be a price-strengthening factor for fed cattle during the latter part of the year. In general, 1962 appears to be a year in which cattle prices, on an average, can be expected to remain relatively stable if weather and feed conditions are normal.

The best available information indicates that per capita consumption of pork is likely to be up about one-half pound from the 63 pounds of last year. Farmers indicated that they increased last fall's pig crop by about 4 per cent and intend to increase this spring's crop by about 2 per cent. If these intentions are carried out, per capita supplies of pork will be up and hog prices during 1962 may average a little lower than in 1961. However, with the feed grain prices that are anticipated, the hog-feed grain ratio should remain favorable.

Per capita consumption of lamb and mutton increased from 4.8 pounds in 1960 to 5 pounds in 1961. The increased supplies available for consumption can be attributed largely to herd liquidation. Many ewe lambs originally intended for replacement were slaughtered in 1961. This situation is not expected to be repeated this year. If this analysis is correct, the lamb market in the first quarter of 1962 is likely to be strong and to return to a more normal pattern of seasonal price movement during the first half of the year.

Dairy Products

Several years of continued favorable milk-feed price relationships and two increases in price supports since mid-1960 have encouraged producers to expand milk production. During the last 2 years, the downtrend in milk cow numbers slowed considerably and milk production per cow is again increasing at a rate of about 4 per cent annually. Last year, a smaller number of dairymen with fewer total cows but with larger herds, expanded milk output by about 2 billion pounds to reach a total output of 125 billion pounds. Current indications are that the same trends will continue in 1962 and milk production may increase by about 2 billion pounds.

Commercial demand for milk declined in 1961. Although the decline may be arrested this year as economic activity increases, it is doubtful that aggregate commercial consumption will increase above last year's levels. With larger milk supplies and little if any increase in commercial demand, Commodity Credit Corporation purchases this year are likely to exceed the large volume of purchases made in 1961. The U. S. Department of Agriculture indicates that supplies of butter in1962 may be large enough to permit a significant increase in exports under Government programs for the first time since 1956.

Poultry

Production of poultry products has been expanded sharply during the past decade because of technological advancements and relatively low feed costs. Supplies of poultry meats last year were at record highs on both a total and per capita basis. Supplies of eggs have been declining on a per capita basis during the past 2 years. Because of an apparent slight increase in flock size and expected increases in rate of laying, total egg production probably will be slightly above 1961 levels this year.

Demand for poultry meats has not been expanding as rapidly as production, while demand for eggs is declining. Under these conditions, prices received by farmers for poultry products have been relatively low during the past few years. In addition to the relatively low farm prices, laborsaving advances in processing techniques and methods of mass handling have made retail prices of poultry products highly competitive. Low prices make poultry products attractive to domestic consumers and competitive in foreign markets.

Despite low prices, broiler production this year is likely to remain near 1961 levels. Turkey production also will remain high unless influenced by a possible marketing order.

THE TENTH DISTRICT OUTLOOK

Farm production prospects in the Tenth District as of the beginning of the year are excellent. The acreage planted to wheat and feed grains is likely to be reduced somewhat from last year's levels because of the Agricultural Act of 1961. However, production of livestock products will be up about enough to offset the effects of reduced acreage from these crops. Although weather conditions in District states can change rapidly, supplies of subsoil moisture and the outlook for irrigation water are generally good. With normal weather through the year, farm production in District states is likely to be maintained near the high levels achieved during the past 4 years.

Although the acreage planted to wheat for harvest is substantially lower than a year ago, the crop is in excellent condition. The effects on income of the reduced acreage are likely to be offset by the land retirement payments and an increase of about 12 per cent in the level of price supports.

The 1962 Feed Grain Program is almost identical to the 1961 program, except that barley now is included. Thus, the acreage planted to barley is likely to be somewhat smaller this spring as compared with last year. However, weather conditions are an important factor in determining the acreage that grain producers will plant to feed grains. Since weather conditions currently are favorable, as they were a year ago, the acreage planted to feed grains probably will be near 1961 levels unless there is a significant change between now and planting time. Yields of most major crops were near record highs throughout the District. Thus, it will probably take better than average weather to duplicate 1961 yields.

Unusually favorable range and feed conditions throughout most of the District for the past several years have encouraged an expansion in meat animal production. Marketings of both beef cattle and hogs are expected to be above year-earlier levels. Marketings of sheep may be down somewhat. With marketings of cattle and hogs at higher levels and prices expected to remain favorable, cash receipts from the sale of meat animals are likely to be higher in 1962 than in 1961.

In summary, information presented at the Outlook Conference indicates that realized gross farm income in District states this year has an excellent prospect of remaining close to the record highs achieved during the past 4 years. Production expenses probably will be somewhat higher, so realized net farm income may be slightly less than last year unless crops again have record yields. Although realized net income may be somewhat below the levels of 1961 for the District as a whole, it is expected to remain above the levels attained in 1958, 1959, and 1960. In the aggregate, agricultural prospects are favorable for 1962. However, the rapid rate of adjustment in farming because of changing techniques and demands may continue to cause difficulties for producers of certain commodities and for those with inefficient units.

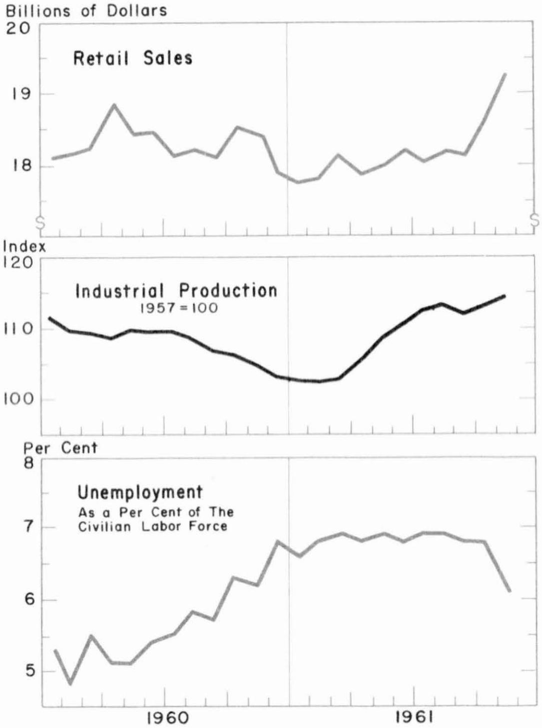
Economic Recovery And Expansion

ECONOMIC RECOVERY continues to dominate national economic developments and has established the initial trend for the new year. Indeed, the pace of the recovery quickened noticeably in the late months of 1961. Thus, the advance again assumed the more vigorous tempo characteristic of the early phases of the upturn and the summer pause seems to have been little more than a temporary interlude. This is the sense, certainly, of the succession of recent favorable reports on retail sales, personal income and employment, industrial production, new orders, and other economic indicators. In these reports, also, are to be found the keys to the currently popular more optimistic outlook for the near future.

Looking back to the summer months, three sources of concern about the performance of the domestic economy were much in the news and caused considerable misgivings about the outlook. First, the pace of the expansion slowed discernibly in the third quarter. Industrial production advanced moderately in August and declined in September. The gain in employment was only a fraction of the rate prevailing from February to midyear. While the slowdown was real, it was reasonable to hold the view that a combination of temporary factors, including the early changeover and strike in the auto industry and severe weather conditions, were largely responsible. With the resumption of significant advances in October, it would appear that this interpretation was substantially correct. Moreover, this position was strengthened by the observation that the small increase in national defense outlays in the summer quarter was not in keeping with planned expenditures for the current fiscal year and that spending rates subsequently would advance considerably. Essentially, then, the summer quarter marked one of those periods during general expansion when, for a variety of reasons, activity in the different sectors of the economy did not mesh with the precision necessary to sustain the pace of recovery.

The second source of concern during the summer months was the persistent unresponsiveness of retail sales to rising incomes. In August and September, retail sales were holding close to the level prevailing since the beginning of 1961. As a matter of fact, the August and September volumes were equal to what they had been in those months of 1960. Meanwhile, personal income had advanced 4.5 per cent from its February low and was about 4 per cent above the September 1960 rate. It was recognized that consumers are spending an increasing proportion of their incomes on services and that when total consumption outlays were related to income, the gap did not appear so broad. Still, the evidence pointed to a tight hold on the purse strings. Personal sav-

CURRENT ECONOMIC INDICATORS
Seasonally Adjusted



SOURCE: Board of Governors of the Federal Reserve System; U. S. Departments of Commerce and Labor.

ings in relation to disposable income mounted steadily through the third quarter. In addition, consumers were reluctant to incur new installment debt.

With the retail sales report for October, the picture in this crucial sector brightened considerably. October sales rose, after seasonal adjustment, by 2½ per cent above the average for June through September. This was followed in November by an additional gain of 3 per cent, bringing sales to a record level.

The third major source of concern during recent months also witnessed encouraging progress in November, as the unemployment rate showed a sharp departure from the near 7 per cent level which had held since December 1960. In November, 6.1 per cent of the civilian labor force was unemployed, after making adjustments for seasonal factors. While this reduction does not by any means suggest that the perplexing problems surrounding manpower utilization may now be dismissed, it is encouraging to see the dimensions of the problem begin to contract significantly.

The new confidence in the domestic economy, however, has not had its counterpart on the international scene. On the contrary, U. S. foreign trade, after making a significant contribution to the economy during the recession, has been weakening. Imports have risen with the advance of economic activity in this country. At the same time, U. S. exports have slipped as expansion in Western Europe and Japan has tapered off and as competition has intensified. As a consequence, the U. S. trade surplus has declined from the high early in 1961. While the surplus for 1961 as a whole may be the largest since 1957, it will fall considerably short of the amount needed to bring the Nation's basic international payments into balance.

CONSUMERS SHED SOME CAUTION

As in earlier postwar cycles, a sustained flow of personal income and well-maintained total consumption outlays supplied a significant buoying influence to the economy during the past year. Following a nominal decline in the early months of 1961, consumer spending advanced and by the third quarter showed a 3 per cent gain over the first quarter. Variation in the strength of demand among particular components was significant. The largest rise was for services, which have followed a strong upward trend in postwar years and are generally unresponsive to cyclical influences. Meanwhile, purchases of food and other staple nondurables held firm during the recession and in recent months outlays for clothing and shoes have responded to rising income.

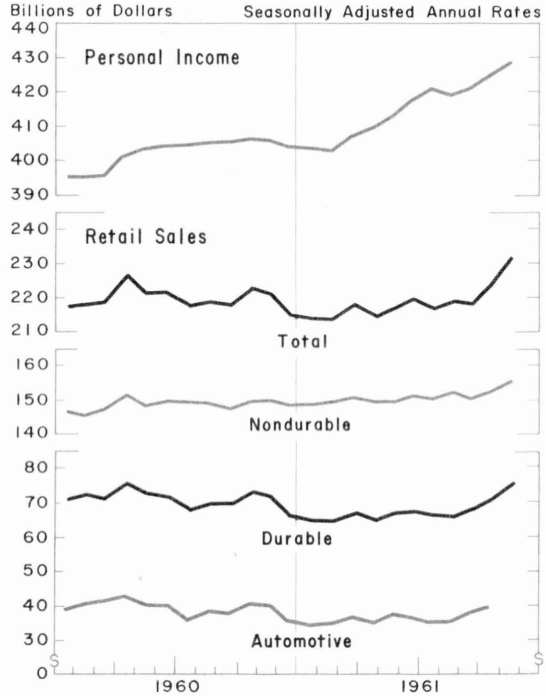
Sales of durable goods, on the other hand, have been generally low in relation to income. A good gain was recorded in the second quarter, largely due to the spring increase in auto sales. Expenditures for furniture and household equipment also began to rise in the early spring and have continued upward. The advance in major home goods came in response to rising income and increased residential building, although in considerably dampened proportions. The spring start, however, did not mature into a sustained rise and virtually no additional improvement developed in the third quarter.

Thus, while consumer outlays for services and nondurables were advancing to new highs, improvement in durable goods markets was slight through the summer of 1961. In keeping with this lack of buoyancy, instalment credit extensions were running at about 13 per cent of income compared with approximately 14½ per cent in the 2 previous years.

In the light of this background, the significant improvement in retail sales beginning with October provided a new spark of confidence in the business situation. Most of the improvement was due to greatly improved auto sales. With a more adequate supply of cars following the settlement of labor disputes, October sales of new domestic autos advanced to a seasonally adjusted annual rate of 6.2 million units. This was followed by a further rise in November to a rate of approximately 7 million. By way of comparison, the pattern for the first three quarters of 1961 was from a 4.9 million average in the opening quarter, to 5.6 million in the second, and down to 5.2 million in the summer quarter.

As 1962 drew near, auto manufacturers were highly optimistic about the prospects for sales and production. Forecasts of production by the U. S. Department of Commerce suggest that domestic output in calendar 1962 would range from 6.4 to 6.8 million units, compared with an anticipated 5.5 million in 1961 and nearly 6.7 million in 1960. In addition to the upward

INCOME EXPANSION AND REVIVAL IN SALES



SOURCE: U. S. Department of Commerce.

trend in employment and income, the Government agency supported its forecast by pointing to the increasing number of 2-car families, a high scrappage rate, a good used car market, and improved highways.

The major reason for the better performance of retail sales recently is the continued increase in employment and income. At the same time, the higher volume of spending seems to spring also from increased confidence in the economic outlook and from an easing of the immediate crisis surrounding Berlin. Significantly, the response in consumer sales has not been limited to the auto sector. Sales of soft goods advanced to a distinctly higher level in November and thereby added confidence to optimistic appraisals of the underlying strength of consumer demand.

EXPANSION IN PRIVATE INVESTMENT

Gross private domestic investment rose sharply in the spring quarter and has continued to advance. In the third quarter, gains were widespread among the major sectors, although nonresidential construction held at the level of the previous quarter. At the same time, the pace of investment in producers' durable equipment stepped up—a development presumably related to improved sales and profits.

Business investment responded to rising activity much earlier than usual in the current recovery. Accordingly, both inventories and fixed investment already have made sizable contributions to the over-all advance.

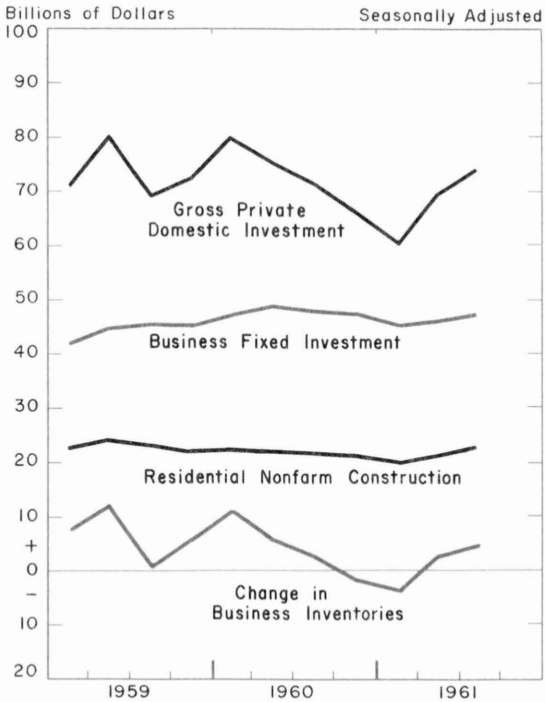
Inventory policy shifted from liquidation in the opening quarter of 1961 to accumulation in the second. From the first to the third quarter, the change in business inventories accounted for $8.5 billion of the $25 billion cyclical increase in gross national product. This development departs from the common pattern of recovery in that inventory liquidation usually continues at reduced rates beyond the upturn in general activity. In 1961, the early response was probably due to the mildness of the recession and to the low level of inventories in several industries when the recession began.

During the period of recovery through early autumn, the largest share of the increase in book value of business inventories was in the stocks of durable goods manufacturers. Increases actually began in the third quarter, following an earlier period of stability. In keeping with the early stages of the upswing, the buildup occurred in stocks of purchased materials and goods-in-process. Meanwhile, retail stocks of durable goods held steady and in October were unchanged from the March level, after seasonal considerations.

Sales of manufacturers have been advancing at about the same rate as inventories. Ratios of inventory to sales, accordingly, have shown little net change for either durable or nondurable producers during recent months. Similarly, at the retail level, inventory-sales relationships were stable through the third quarter but showed some decline in October with the sharp improvement in auto sales.

During the final quarter of 1961 and the first quarter of 1962, it was expected, on the basis of a U. S. Department of Commerce survey, that manufacturers' inventories would increase by about the same amount as they had in the third quarter of 1961. Durable goods producers would continue to account for the major portion of the buildup. At the same time, the flow of orders to the steel industry was apparently already picking up, in part perhaps as a hedge against a possible steel strike in the summer. In the absence of an early agreement, inventory building by steel-consuming industries may be substantial and, imposed upon rising requirements for current

RECOVERY IN INVESTMENT



SOURCE: U. S. Department of Commerce.

consumption, would produce an accelerated rise in steel output in the first half of 1962.

Capital outlays also responded more promptly to the upturn in over-all activity than in previous postwar recoveries. The cyclical low occurred in the second quarter of 1961 and expenditures have been rising since then. In the final quarter of 1961, outlays were scheduled to be about 7 per cent higher than those at the low point and a further advance was scheduled for the first quarter of 1962, according to the autumn Government survey, bringing the level up to the high of the spring of 1960.

All major industries except nonrail transportation and public utilities plan first quarter 1962 outlays to be at seasonally adjusted annual rates above the level for the year 1961. The largest gain is scheduled by commercial and miscellaneous firms and follows upon record levels in 1960 and again in 1961. The large volume of office-building and shopping-center construction is an important factor in this increase. The railroads also plan some recovery from the low levels prevailing during the past year. On the other hand, electric and gas utilities are scheduling a slight decline in the first quarter of 1962, following a slightly rising trend during recent quarters. The nearly complete jet expansion programs of the airlines account for the small decline anticipated in nonrail transportation.

In the manufacturing sector, the existence of a sizable margin of unused capacity continues to influence expansion plans. While utilization rates have risen from the lows of early 1961, they remain below previous cyclical peaks. Manufacturers are expected to increase outlays in the first quarter by about 8 per cent above the recession low of the second quarter of 1961. Outlays of nondurable goods producers mounted steadily in 1961 and the advance is scheduled to continue. Among durable goods producers, the low in capital outlays occurred in the third quarter of 1961 and expenditures have been scheduled to rise from that point. Programs for the first quarter of 1962 are only slightly higher than in the corresponding period of 1961.

The rate of advance in anticipated capital outlays for the first quarter of 1962 is more moderate than the increases occurring or scheduled for the third and fourth quarters of 1961. In general, the slight gain anticipated would seem to be in accord with the recent McGraw-Hill survey which found for the year of 1962 a planned increase of 4 per cent from the 1961 total. However, the incentives are strong to modernize equipment in order to compete more effectively in domestic and foreign markets and to take advantage of the fruits of large research and development efforts. Moreover, the growing volume of internal funds tends to favor expansion in capital outlays. For these reasons, as well as the observation that surveys made in the autumn of 1954 and 1958 considerably understated the expansion which actually occurred in the following years of rising over-all activity, there is a tendency to expect more strength in fixed capital outlays during 1962 than recent surveys show.

Another major component of investment activity, residential construction, also has been an important factor in the recovery. Homebuilding has been advancing since the beginning of 1961 and, in the third quarter, had regained about two thirds of the decline occurring between the summer of 1959 and the end of 1960. Housing starts rose further in October but declined in November, after seasonal correction. While in earlier postwar periods the response in residential construction could be related largely to consumer decisions to purchase single-family dwellings, much of the increase in 1961 represented investor decisions to build new apartment houses.

Other things being equal, the outlook for residential construction was strengthened by recent evidence pointing to a slight decline in the rental vacancy rate, following nearly 2 years of rise. On the other hand, a more powerful factor influencing the housing industry is the trend of interest rates on home mortgages. In recent months, rates appear to have changed little.

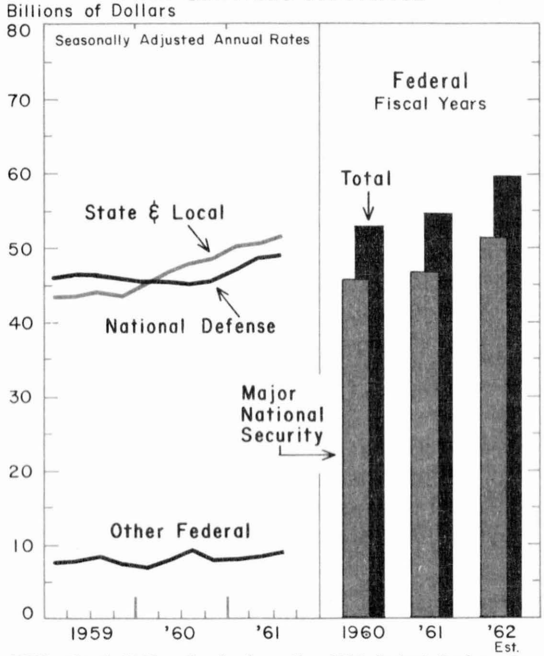
EXPANSION IN GOVERNMENT

Total purchases of goods and services by government have been rising since early in 1961 and are expected to play a major part in the over-all expansion of economic activity in the near future. State and local government outlays continued the upward trend characteristic of postwar years. The largest part of the recent increase, however, derived from enlarged defense expenditures. Through the third quarter, nearly half of the increase in total government expenditures in 1961 reflected defense activities.

Purchases by the Federal Government are scheduled to rise by $5 billion, on a national income and product account basis, in fiscal year 1962. Of this over-all increase, national security outlays account for $4½ billion and are the primary factor in the rise. Purchases of equipment, much of it conventional weapons with relatively short delivery schedules, will increase about $1.5 billion. The remainder of the increase will go for personnel, operation and maintenance, and for other categories of defense spending, except construction which is slated to decline. In addition, orders for defense purchases to be paid for in the following fiscal years are scheduled to exceed planned expenditures in the current fiscal year by $4 billion.

While the purchases of goods and services comprise the major portion of total Federal expenditures and directly stimulate over-all demand in the economy, other expenditures also contribute to the flow of income. In the fiscal year 1962, these other expenditures—social security and other transfer payments, grants-in-aid to states, etc.—are expected to advance about $3.5 billion.

GOVERNMENT PURCHASES OF GOODS AND SERVICES ADVANCE



NOTE: Fiscal 1962 estimate from the **1962 Budget Review.** Purchases of goods and services constitute the major portion of Federal expenditures but they do not include items such as transfer payments, grants-in-aid, and interest.

SOURCE: U. S. Department of Commerce; Bureau of the Budget.

In addition to the expansion in Federal spending, purchases by state and local governments are likely to rise $4 billion in the current fiscal year, according to the U. S. Bureau of the Budget estimates used in preparing the *1962 Budget Review*. This combined increase is one of the major stimulating factors in the $40 billion increase in the Nation's output of goods and services projected for the current fiscal year. Such an expansion, it might be noted, represents an increase of about 8 per cent in GNP from the level of the fiscal year which ended June 30, 1961.

THE OUTLOOK

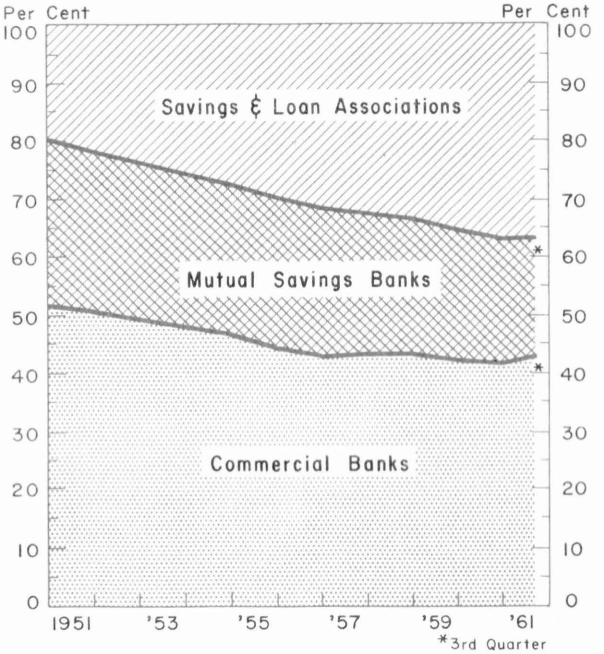
Since the spring of 1961, the expansion in total output has compared favorably with earlier recovery periods. While various sectors of demand have advanced at different rates and have departed somewhat from the pattern of earlier recoveries, the over-all expansion is broadly based. The widespread character of the recovery is especially noticeable when recent developments are reviewed.

The expectations developed above in the discussion of major sectors of demand point to a continuation of rapid economic expansion in the first half of 1962. Used often currently are estimates of GNP rising from the low of $501 billion (annual rate) in the first quarter of 1961 to $540 billion in the final quarter and then upward to $565 billion in the second quarter of 1962. This is, indeed, also the pattern of expansion underlying the Federal budget for fiscal year 1962.

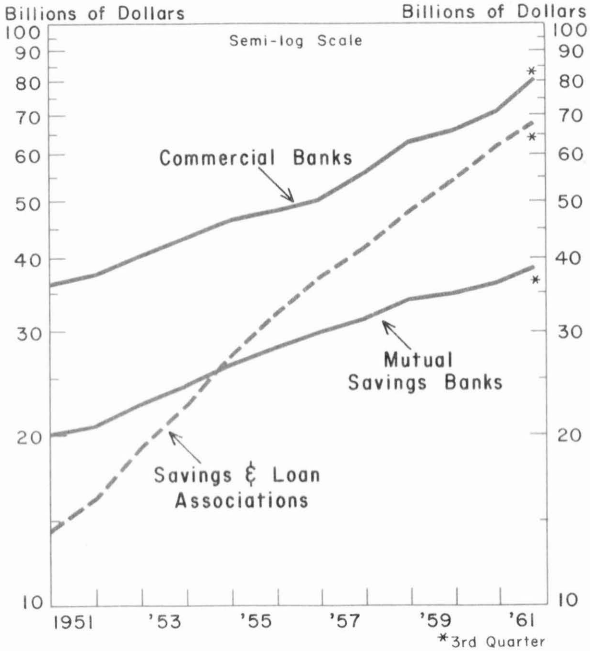
At the same time, the recovery thus far has not produced any general increase in prices or other inflationary developments. The resource base of the Nation is still large relative to current output rates and the potential for further expansion in real output is substantial. Manpower resources continue to be available in relatively plentiful supply. Similarly, the margins of unused capacity in most industries are ample to support large increases in output. These conditions, together with the increased competition of foreign producers, operate as strong controls on the general level of prices.

Thus, the potential for real expansion is substantial and the near-term outlook is favorable for satisfying increasing total demand with a real flow of goods and services. On the other hand, it is reasonable to expect some resumption of price pressures down the road as resources become more fully utilized. Since the ability of the country to tolerate general price advance is rather limited, the task of keeping the economy on a sustainable expansion will demand keen insights and appropriate policy actions.

Percentage Distribution of Time Deposits of Commercial and Mutual Savings Banks and Share Capital of Savings and Loan Associations



Growth of Commercial and Mutual Savings Bank Time Deposits and Share Capital of Savings and Loan Associations United States



BANKING IN THE TENTH DISTRICT

District and States	Loans				Deposits			
	Reserve City Member Banks		Country Member Banks		Reserve City Member Banks		Country Member Banks	
	November 1961 Percentage Change From							
	Oct. 1961	Nov. 1960	Oct. 1961	Nov. 1960	Oct. 1961	Nov. 1960	Oct. 1961	Nov. 1960
Tenth F. R. Dist.	−2	+6	+1	+9	+2	+7	†	+9
Colorado	−3	+6	−1	+9	+1	+10	†	+8
Kansas	−5	+6	+3	+6	−3	+1	†	+8
Missouri*	†	+7	†	+4	−2	+2	+1	+9
Nebraska	−3	+9	+3	+8	−3	+6	†	+8
New Mexico*	**	**	+1	+12	**	**	+1	+8
Oklahoma*	−1	+2	+2	+15	+12	+12	†	+11
Wyoming	**	**	+1	+10	**	**	+2	+8

* Tenth District portion only.
† Less than 0.5 per cent.
** No reserve cities in this state.

PRICE INDEXES, UNITED STATES

Index		Nov. 1961	Oct. 1961	Nov. 1960
Consumer Price Index	(1947-49=100)	128.3	128.4	127.4
Wholesale Price Index	(1947-49=100)	118.8	118.7	119.6
Prices Rec'd by Farmers	(1910-14=100)	238	240	241
Prices Paid by Farmers	(1910-14=100)	301	301	297

TENTH DISTRICT BUSINESS INDICATORS

District and Principal Metropolitan Areas	Value of Check Payments		Value of Department Store Sales	
	Percentage change—1961 from 1960			
	Nov.	Year to date	Nov.	Year to date
Tenth F. R. Dist.	+7	+7	+3	+3
Denver	+11	+13	+4	+6
Wichita	+12	+5	+3	−2
Kansas City	+9	+5	0	+1
Omaha	+6	+4	+2	+13
Oklahoma City	+24	+12	0	−9
Tulsa	−9	+2	+7	−1