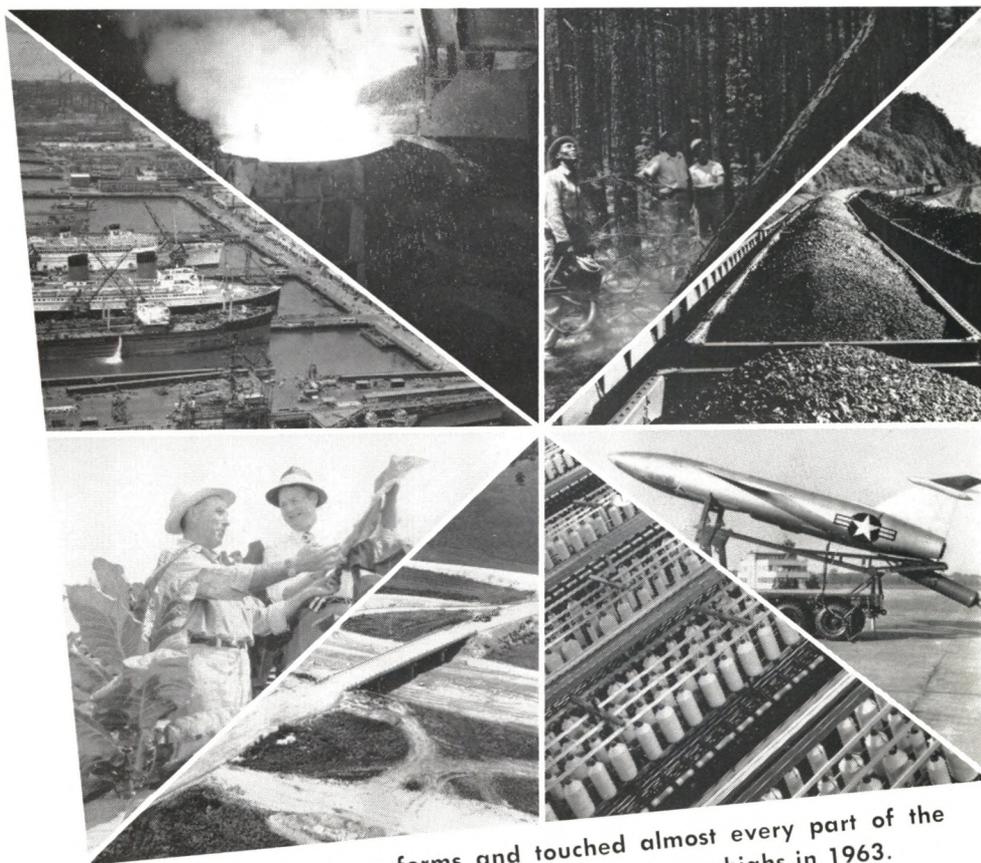


MONTHLY REVIEW



Progress took many forms and touched almost every part of the District as business activity climbed to new highs in 1963.

FIFTH DISTRICT

1963



Last year was a good one in the Fifth District. When the year opened, most business barometers were already at record levels, and by December many of the old records had been broken again.

Perhaps the most striking development has been the sharp rise in construction outlays. Everywhere, new office buildings, factories, stores, and homes dot the landscape. The lengthening network of modern highways has steadily reduced the inconvenience of travel. The most spectacular project nearing completion at the end of 1963 is the Chesapeake Bay Bridge-Tunnel—an engineering marvel spanning 17.65 miles of virtually open ocean between the lower tip of the Delmarva Peninsula and the Norfolk-Virginia Beach area.

Population, Employment, and Unemployment

Fifth District residents benefit from many natural resources—coal, timber, arable land, favorable climate, waterways, and other useful physical and geographical characteristics. As with any region, however, people are the most important resource, and progress basically depends on their numbers, energy, and ingenuity.

During 1963, District population increased at an average rate in excess of 18 thousand per month, and passed the 17.5-million mark about the middle of October. According to Census estimates for the year ended July 1, 1963, population gains reached 56 thousand or 1.7% in Maryland, 9 thousand or 1.1% in the District of Columbia, 83 thousand or 2.0% in Virginia, 56 thousand or 1.2% in North Carolina, and 35 thousand or 1.4% in South Carolina. West Virginia's population declined by 18 thousand, about 1%. Thus in three District states, relative increases equaled or exceeded the national gain of 1.4%.

Toward the end of the year the District labor force reached 6.9 million. The number of workers actually rose more rapidly than population as a whole because of in-migration and as a result of increases in the number of young people entering labor force age groups. Nonfarm employment increased at an average rate of some 8.4 thousand per month, reaching the 5-million level by mid-year. Employment surpassed the previous year's levels in all re-

gions of the District except West Virginia where virtually no change occurred. Regional gains amounted to 4% in Maryland, 3% in the District of Columbia and Virginia, and 2% in North and South Carolina compared to an increase of 2% for both the nation and the Fifth District as a whole.

Jobs were easier to find in 1963 than in other recent years. Workers were on the job with greater regularity, and pay scales were selectively higher. More money income usually meant more "real" income, because wage increases typically ranged up to 5% while price increases on consumer items amounted to little more than 1% over the year, becoming more apparent during the later months.

Unemployment declined significantly during the year. The District's jobless numbered more than one-third of a million at the start of the year but dropped to 220 thousand in the fall. Much of the decline was seasonal, but it was significant enough to drop average unemployment in 1963 6% below 1962 levels to the lowest figure since 1956.

New Landmarks In virtually every section of the District, residents could view the year's tangible achievements with pride. Dozens of projects of local and regional importance advanced impressively during 1963. Among the more interesting were the continued modernization of downtown Baltimore, the apartment boom in and near Washington, D. C., new highway facilities including the Bridge-Tunnel, and new electrical utility projects and industrial plants.

The modernization of downtown Baltimore topped off a steady advance in Maryland business. The sheer walls of new buildings rose beside rubble heaps which marked all that is left of the old. Early in the year, for instance, Mercy Hospital—a unique, 18-story building rising from a base 124 feet by 99 feet and expanding above the fifth floor to 141 feet by 116 feet—was dedicated. Elsewhere in Maryland, new shopping centers and office buildings cropped up. Numerous companies, including some of the nation's largest corporations, began or advanced sizable expansion programs in the state. In November, the new expressway leading northeast from Baltimore toward the Delaware Bridge and the New Jersey Turnpike opened, greatly facilitating

the flow of traffic over this heavily used route.

Southward through the coastal areas, other spectacular new projects provide obvious and dramatic evidence of progress. Highways around the nation's capital were improved and enlarged, extending the boundaries of accessible terrain and hastening the transformation of recently empty fields into bustling residential and commercial areas. A real estate survey showed that 13 high-rise apartments were completed in the District of Columbia in 1963 and seven more were under construction. A similar survey is contemplated for neighboring areas of Maryland and Virginia where an even more vigorous expansion of apartment houses is reportedly under way. Washington's crescendo of activity gives little indication of a slowdown.

Across the lower reaches of Chesapeake Bay, the impressive Bridge-Tunnel project advanced about as planned during 1963 toward its opening scheduled for April 15. This \$200-million crossing consists of 12.2 miles of trestle at a height of about 30 feet above typical high water levels, 1.6 miles of causeway and two bridges at the northern end, and two mile-long tunnels entered from the trestle via man-made islands. The tunnels provide unobstructed passage for ships heading northward up the Bay or westward into Hampton Roads. This link from the mainland to the business and recreational opportunities of Virginia's Eastern Shore promises to attract tourists and to provide a significant stimulus to business throughout the peninsula.

Elsewhere in Virginia, industrial and commercial expansion proceeded apace. Plans were advanced in Richmond for construction of the first modern general office buildings in some time. New plants sprouted up in many parts of the state including Roanoke and other business centers west of the Blue Ridge.

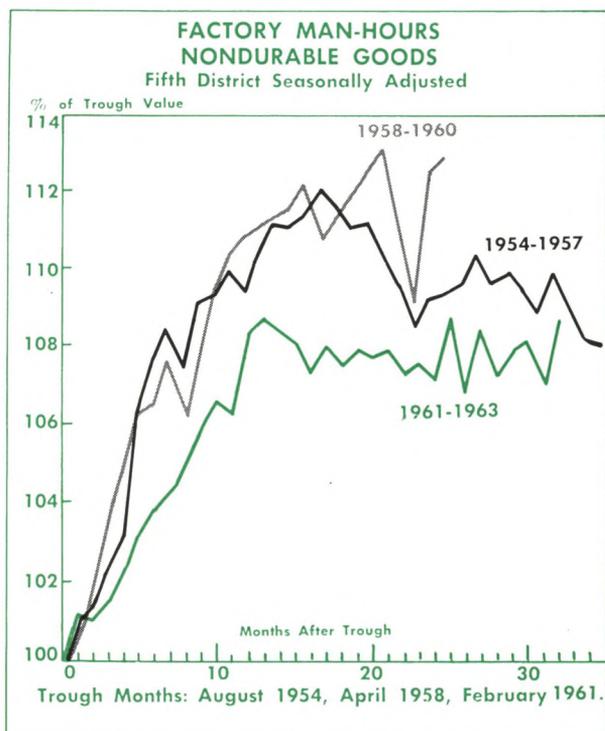
West Virginia, despite its lingering economic problems, also made substantial progress in 1963—much of it linked to coal. Production and transportation costs declined another notch as additional modern equipment was put to work mining, loading, carrying, and processing the black chunks of energy. At the same time, the demand for coal in both domestic and overseas markets strengthened markedly. To meet rising needs on the part of electrical utilities, steel producers, and other industrial users, many mines stepped up output almost to capacity, actually straining the labor resources of some mining areas. As a result, unemployment rates during 1963 were the lowest in years.

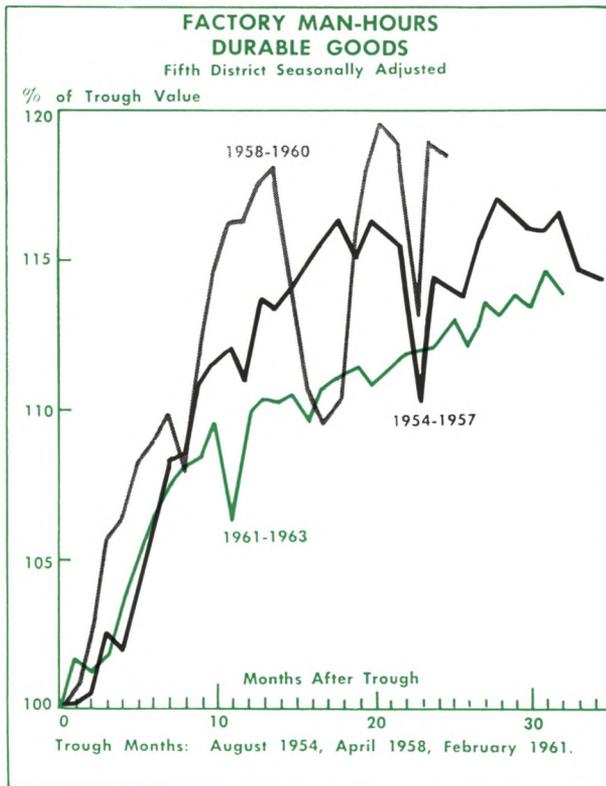
West Virginia officials announced late in 1963 that 22 new industrial plants were begun and 29 were

expanded during the year. These figures were slightly below those of 1962, however. Perhaps the most spectacular project to show significant progress in 1963 was a 1,600-foot-long dam across the Stony River in Grant County. The lake thus created will be four miles long, will cover an area of 1,200 acres, and will have a maximum depth of 130 feet. At an elevation of 3,150 feet, it is expected to offer ideal recreational opportunities. The waters of the lake will be used for cooling and condensation purposes in the operation of an ultramodern, million-kilowatt, thermal electric plant that will utilize large coal reserves underlying the area and transmit its power over ultrahigh-voltage lines. This use of the water is expected to keep the temperature of the lake near 60°F in winter and somewhat warmer in summer.

New business and other facilities progressed impressively in North Carolina during 1963. New bank buildings were frequently in the news—21 stories in Greensboro, 14 in Raleigh, and 9 in Asheville, to name but three. Other new construction included a wide variety of industrial, commercial, educational, research, recreational, and residential projects. Charlotte will have a 12-story cooperative apartment building. In Research Triangle Park, a new textile research center will be completed early in 1964. Other new facilities increased the state's productive capacity in many lines ranging from tools and furniture to paper, apparel, chemicals, and textiles.

In South Carolina, spokesmen for Carolinas-





Virginia Power Associates, Inc., the cooperative venture of several District power companies formed to build and operate the Parr atomic electric plant, announced successful completion of "low power" tests. Full power production began in December. As for new construction, South Carolina added significantly to its public facilities and witnessed some ventures in large-scale commercial and residential building, but most of the state's new facilities were apparently industrial in nature. Many were in textiles and apparel. But the trend toward diversification, prominent in South Carolina's economy since the end of World War II, continued strongly in 1963. A good many of the new plants under construction during the year will produce metal products, machinery, electronic equipment, chemicals, paper products, and other items. Perhaps the largest single program announced in 1963 was a \$75-million expansion of the state's power generating capacity to meet fast-growing industrial, commercial, and residential needs.

Growth With Stability Products, especially the conspicuous creations of modern architects and engineers, are spectacular. But processes are also important. Consequently, it is helpful to compare the upswing in District business since February 1961 with other recent periods of business improvement.

Accordingly, much of the rest of this article attempts to put 1963 business into this perspective.

The accompanying charts make these comparisons. In each chart the black line shows the upswing following the August 1954 trough, the gray line depicts recovery following the April 1958 low, and the green line represents the latest growth period, beginning in February 1961. The vertical scales on each chart are index numbers, percentages based on the trough level from which each recovery period began. The horizontal scales show the months following the three business cycle troughs. For example, October 1963 is the 32nd month of the current upswing. The 1961-1963 growth lines end with the latest available month for each series charted.

Nondurable Manufacturing District manufacturing prospered in 1963. As noted previously, productive capacity increased in all parts of the District. Reflecting both the new facilities and greater utilization of the old, factory man-hours rose, though sometimes unevenly, throughout the year. Industrially classified data show that most of the recent growth occurred in durable goods industries. There were some sharp month-to-month fluctuations in the non-durables group but practically no net rise.

Buried in the man-hour data and beyond the analyst's reach, at least until measures of output become available at a later date, lie the effects of rising productivity. There is strong circumstantial evidence that District manufacturers achieved more output per man-hour in 1963, but how much more and in which particular industries are questions requiring more information than is currently available.

Nondurable goods man-hours, nearly two-thirds of the District total, have zig-zagged along a plateau for about 20 months. As shown in the chart on page 3, man-hours in nondurable goods factories rose quite sharply from the February 1961 low, but the rise was not as rapid, nor did it last as long, as in the two previous growth periods. Some evidence of why this happened can be found in the size and character of Fifth District nondurables industries.

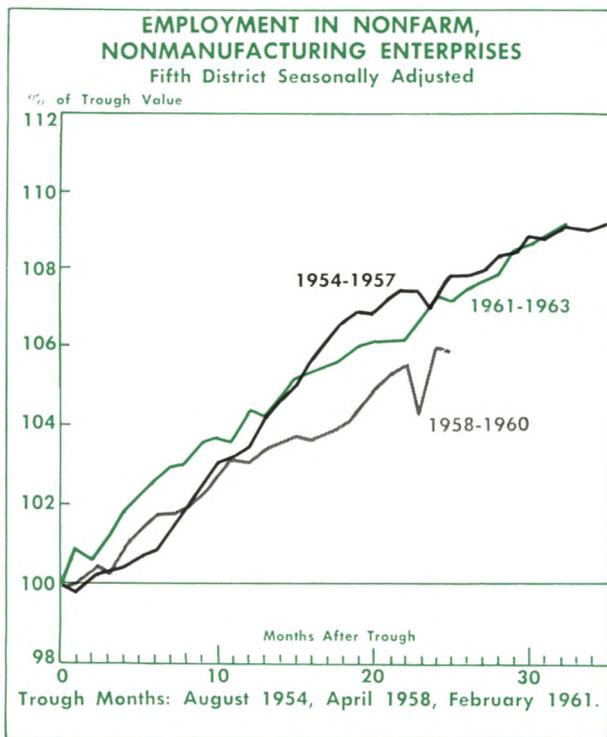
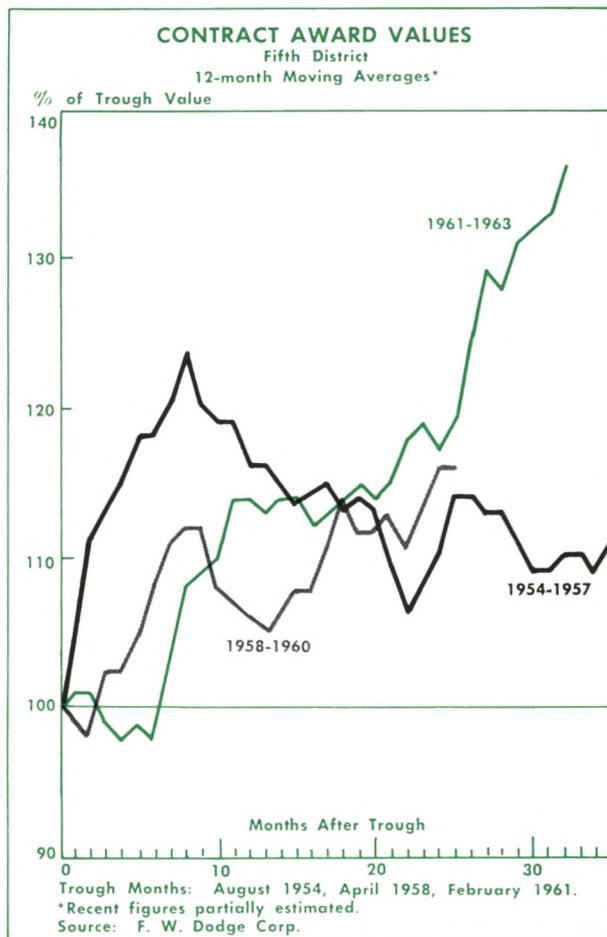
In the food, paper, and printing industries, which account for about one-fourth of total District nondurables manufacturing, man-hours late in 1963 were substantially the same as in March 1962. In contrast to this stability, textile man-hours (making up 42% of District nondurables) and tobacco (comprising 4%) declined quite regularly after March 1962. Tending to offset these decreases, man-hours in the apparel and chemical industries, another one-fourth of the nondurable goods total, registered strong gains. As shown on the chart, these various

patterns combined to produce sharp changes month to month but virtually no net increase or decline.

Conditions within industries are difficult to detect without the aid of special studies. It is clear, however, that improvements in manufacturing methods and equipment have played an important role in recent developments. A significant amount of new investment has been devoted to modernization of existing capacity. It is interesting to note that the principal man-hour gains among producers of non-durable goods centered in apparel, a fast-growing District industry where more automation is contemplated but remains to be realized, and in chemicals, where automation reached an advanced level some years ago and additional progress has been gradual.

In textiles, on the other hand, recent years have witnessed significant productivity gains. Textile firms nationally invested an estimated \$650 million in new plant and equipment in 1963, an investment rate which is expected to continue into 1964. Textile company annual outlays for new plant and equipment are now nearly twice as great as in the early 1950's and are 25% above any previous year except 1962.

Automation in the textile industry has been described as "evolutionary" and significant progress of this type was made in 1963. Textile machinery manufacturers have announced innovations in production equipment and control devices with surprising regularity over a period of several years. A number of

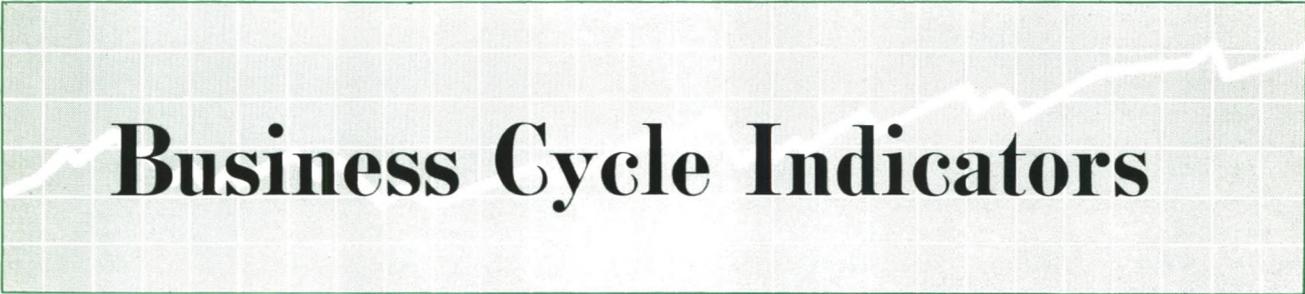


new plants incorporating many of these began production during 1963. A finishing plant described as "fully automated" was planned and built from the ground up in six months. Three large, integrated cotton mills utilizing the latest in electronically controlled equipment began production in the fall.

Textile production, measured by the seasonally adjusted textile mill component of the Industrial Production Index, has risen steadily this year. New orders and order backlogs also reflected a steadily growing average volume of business. With new equipment, textile mills will probably handle increasing volume with little change in man-hours.

Growth Continues in Durables Unlike nondurable goods industries, District durable goods producers stepped up their activity as measured by man-hours in 1962 and 1963. Mild fluctuations around a line of gradual growth were, as shown in the chart on page 4, characteristic of this group. Such steady conduct contrasts sharply with the two previous upswings which clearly show the sharp gyrations usually associated with cycles in durables.

(Continued on page 8)



Business Cycle Indicators

In recent years, the indicator approach to business cycle analysis, developed by the National Bureau of Economic Research (NBER), has been cited more and more in private and government publications. The businessman is confronted with such economic expressions as reference dates, peaks, troughs, turning points, and leading, coincident, and lagging indicators. The purpose of this article, the last in the Keys for Forecasting series, is to define briefly these terms as used in the NBER method of business forecasting.

THE BUSINESS CYCLE DEFINED A business cycle as defined by the NBER "consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle." Thus business cycles are alternating and recurring movements. They relate to aggregate economic activity, as distinguished from the cycle of an individual statistical series, discussed in the seasonal adjustment article in this series. There are two essential ingredients in the NBER definition: first, many economic activities cumulate into a composite picture of the U. S. economy; and second, forces working contrary to the general course of the economy gain sufficient strength to cause a directional change in the path of the economy.

REFERENCE DATES The "turning points", or "peaks" and "troughs", of the business cycle have been dated for the period from 1854 to 1961 by the NBER. These dates, termed "business cycle reference dates," mark off 26 U. S. business cycles for the period. The cycles range in duration from 28 months (from the trough of March 1919 to that of July 1921) to 99 months (December 1870 to March 1879).

The expansion phase—the rise in business activity from the trough to the peak—is usually of longer duration than the contraction phase—the drop from the peak to the trough. For the 26 cycles, the average expansion lasted 30 months and the average contraction ran 19 months. For the four complete post-World War II cycles, the disparity in length between the two cycle phases is more evident. Postwar expansions have averaged 36 months in contrast to an average contraction of 10 months. At the time of this writing, the last turning point that has been dated was the trough of February 1961.

COINCIDENT SERIES The reference dates provide the framework for classifying individual economic series into three groups according to whether their turning points lead, lag, or coincide with the turning points in general business. Individual series whose peaks and troughs roughly parallel those in general business are termed the "roughly coincident series." Among the nine most commonly used "coincident indicators" are the following measures discussed in earlier Keys for Forecasting articles: gross national product; personal income; industrial production; nonagricultural employment; the unemployment rate; and the index of wholesale prices of commodities other than farm products and food.

The turning points of these individual series do not always coincide with the NBER reference dates which are chosen on the basis of how the turning points of the coincident series are

BEHAVIOR OF ECONOMIC INDICATORS DURING RECENT BUSINESS CYCLES

clustered. Individual analysts sometimes prefer, however, to designate peaks and troughs in general business on the basis of the behavior of a single indicator, particularly GNP and the industrial production index.

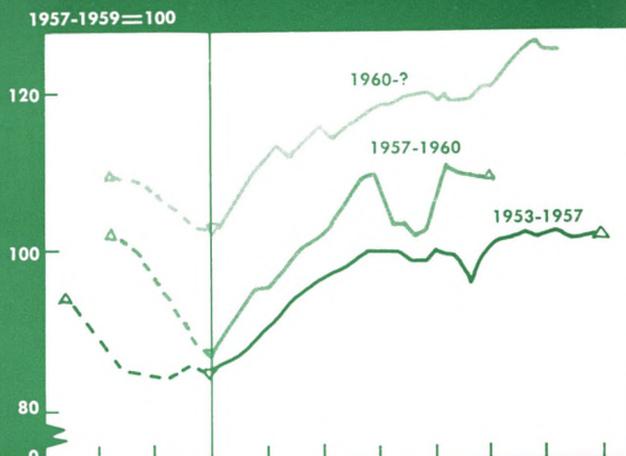
LEADING AND LAGGING SERIES Turning points in some series typically precede the reference dates marking the peaks and troughs of general business. These series are accordingly termed "leading indicators." The 12 major series in this category relate primarily to future production and employment. Included in this group are such measures as manufacturers' new orders for durable goods, the average workweek in manufacturing, housing starts, corporate profits after taxes, common stock prices, and spot market prices of industrial materials.

On the other hand, peaks and troughs in some important economic series typically follow the turning points in general business. These series are referred to as "lagging indicators" and reflect chiefly business investment costs. Included in this group of five major series are plant and equipment expenditures, manufacturers' inventories, and bank interest rates on business loans.

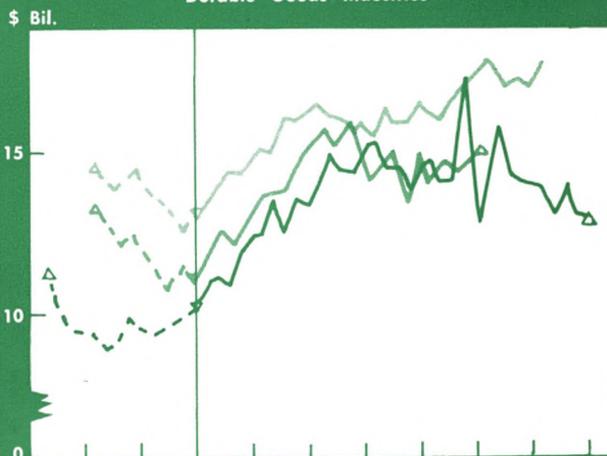
The number of months an individual series precedes or follows the turning points in general business varies from cycle to cycle. Moreover, the average length of leads and the average length of lags at peaks differ from those at troughs. The charts on this page illustrate the timing of the turns in a coincident, a leading, and a lagging indicator relative to the NBER reference dates; the cyclical movements shown are the past two complete business cycles (measured from peak to peak), and the current cycle since May 1960, the latest upper turning point that has been dated by NBER.

SOME WARNINGS There is no sure-fire, short-cut method of calling the turns in the business cycle. The discriminating forecaster must make a careful, detailed analysis of the statistical evidence on hand and weigh his evaluation against an understanding of the nature and causes of fluctuations in aggregate economic activity. He realizes that complete reliance on past performance of an individual statistical series or a group of series is fool-hardy. The one fact accepted by all economists is the inconsistency of the business cycle. No period of expansion or contraction is identical with earlier periods in duration, in intensity, or in causation.

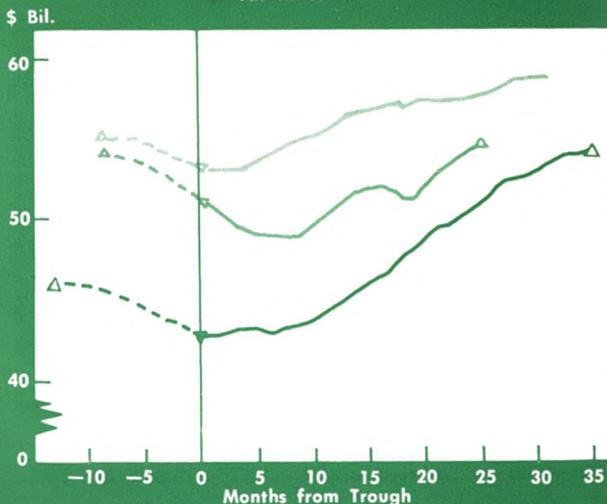
A COINCIDENT SERIES
Industrial Production Index



A LEADING SERIES
Value of Manufacturers' New Orders,
Durable Goods Industries



A LAGGING SERIES
Value of Manufacturers' Inventories,
All Industries



Legend ▲ Peak Dates: July 1953, July 1957, May 1960
▼ Trough Dates: August 1954, April 1958, February 1961

Note: Classification of the series and the reference dates are those designated by the National Bureau of Economic Research. Series in above charts are adjusted for seasonal variation

FIFTH DISTRICT 1963

(Continued from page 5)

As in nondurables, however, individual industries followed different paths over the course of the year. Furniture, primary metals, and machinery, accounting for just under half of District durable goods man-hours, advanced quite steadily and imparted this general trait to the entire group. Fabricated metals and lumber, nearly one-fourth of the total, showed no significant change over the year, while man-hours in transportation equipment and stone, clay, and glass, nearly one-fifth of the durables total, trended downward. Transportation equipment man-hour levels were lower at the end of the year than at the beginning despite an all-time high in June.

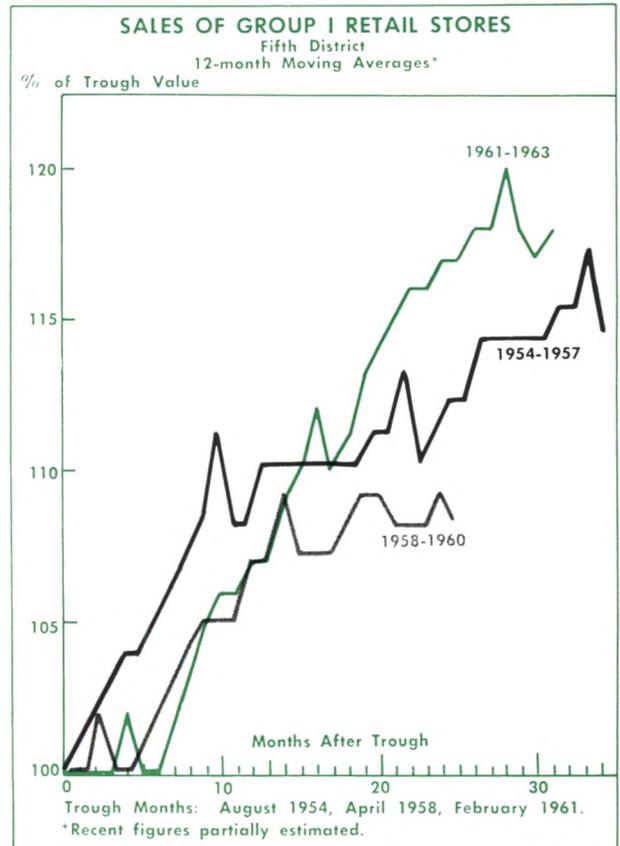
Nonmanufacturing Sectors Nonmanufacturing enterprises provide 70% of the District's nonfarm jobs. Toward the end of 1963 government accounted for 29%; trade, 27%; services, 18%; transportation, communications, and public utilities, 9%; contract construction, 8%; finance, insurance, and real estate, 6%; and mining, 2%. The consistent growth of employment in these enterprises is shown in the first chart on page 5. Employment increases have followed a steadier course in the current period of growth than in either of the previous two. The 1954 recovery was slow for six months, advanced sharply for fifteen, then slowed again. The 1958-1960 upswing was shorter and weaker and also showed some slight tendency toward fits and starts. The present period, in contrast, shows just as much progress as the 1954-1957 upswing and has behaved more consistently. At a point roughly comparable to year-end 1963, the 1954-1957 curve leveled out and turned down. No change is apparent as yet in the current picture.

The progress achieved in 1963 is suggested by the extent to which employment in major nonfarm, nonmanufacturing categories increased in the course of the year. Between January and October about 77 thousand such jobs were created. Government made the largest contribution, about 23 thousand; trade was next with 16 thousand; then services with about 13 thousand; transportation, communication, and public utilities, about 11 thousand; contract construction, about 8 thousand; and finally finance, insurance, and real estate, about 6 thousand. Some 15 hundred were added to mining payrolls over the ten month period. Nearly uniform relative gains enhanced the impression of cyclical stability. These amounted to 2% in government, services, and trade, and 3% in other sectors.

Construction Construction, a sector of considerable importance in 1963, also bears significantly on the outlook for the future. For this reason, some special attention is warranted.

The second chart on page 5 clearly reveals a strong uptrend in contract awards that is both a cause (in the creation of employment and income) and a result (reflecting demand for new facilities) of the present growth. The data on the chart are 12-month moving averages, used to smooth out seasonal and random variations. Following the eleventh month of the current upswing, some leveling out occurred due to slowdowns in residential building, but the rise was resumed after the twentieth month as residential awards stabilized, and in 1963 renewed strength in nonresidential categories sharply increased the totals. Award values late in the year averaged more than 30% above the cyclical low of early 1961. Once again, the contrast between the present and previous growth periods is striking.

Trade Trade generally continued to expand in the District during 1963 but at a somewhat reduced pace. Since comprehensive data are not avail-



able, it is difficult to characterize this sector in concrete terms. Employment rose about 2% in the course of the year, and the total rise since the 1961 low was 6%. Department store sales were quite erratic during the year. The 1962 high was exceeded in 1963 in March, June, August (the all-time high to date), and September. However, the data showed almost no trend at all over the year, par for the course, perhaps, in view of the growing importance of other retail outlets.

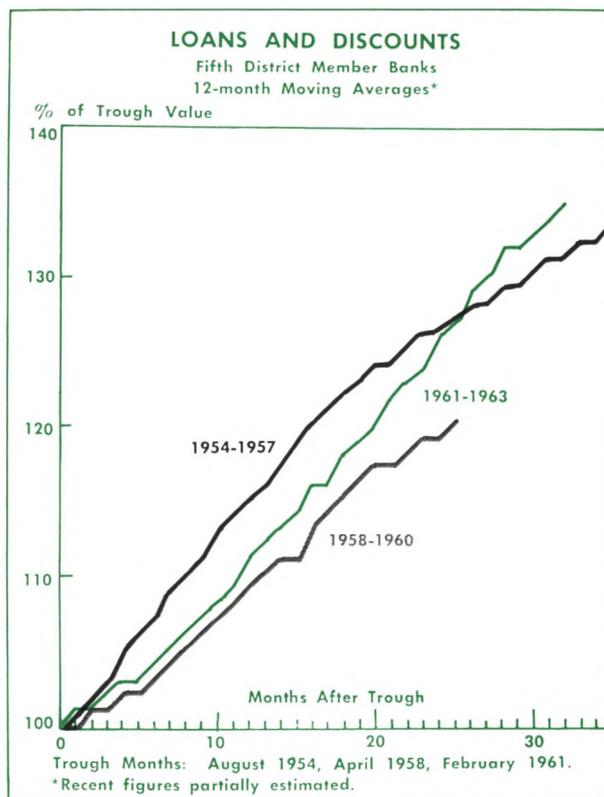
As a somewhat more comprehensive measure of trade, 12-month moving averages of sales of "Group I" retail stores (stores with 1 to 10 outlets) have been computed and are plotted on the chart on page 8. As in similar comparisons presented previously, the current upswing reveals more consistency and more strength than either of the two prior recovery periods. In the last few months, however, the data have tended to fluctuate around a level some 18% above the February 1961 low. Where they will go from this point remains to be seen.

Agriculture Fifth District farmers began 1963 in generally good financial shape, but a sizable number apparently reduced their savings and reserves in the course of the year. Thus, at the end of the year a good many farmers had less cash, larger debts, or both than at the beginning.

This was due primarily to drought, the cost-price squeeze, and cuts in flue-cured tobacco and cotton acreage allotments. Drought played the villain over wide areas, particularly in Maryland's dairy and tobacco country, in most of Virginia, and in counties of West Virginia and North Carolina bordering the Old Dominion. The cost-price squeeze was felt everywhere.

Paradoxically, the dry weather checked boll weevil infestation and provided nearly ideal harvesting conditions so that the cotton crop was of good quality and 12% larger despite reduced allotments. Tobacco farmers, on the other hand, except those in the Eastern North Carolina Belt, were particularly hard hit. Drought forced many livestock farmers and dairymen to buy feed, and some will continue to do so through the winter. Many dairy herds in Virginia were liquidated. Most crops were significantly smaller than a year earlier, but livestock production, except for dairying and beef cattle, continued to increase.

Farmers' use of mortgage and non-real estate credit rose further in 1963, and delinquencies and carry-overs were slightly more prevalent than in the previous year. Market values of farm real estate continued to advance, adding further strength to farmers' assets and equity positions.



Banking District banking data reveal a favorable comparison between the current and previous periods of business growth. The attendant chart shows that average levels of loans and discounts at Fifth District member banks have increased 35% compared to 31% in the 1954-1957 upswing, and only 20% in the 1958-1960 expansion. Gains in the current upswing have been unusually consistent.

Member banks reporting weekly to the Federal Reserve did not increase their outstanding credit as much as in 1962 and were occasionally somewhat more pressed for reserves. In the first eleven months both in 1963 and 1962, banks increased their loans outstanding about 6%, but the loan expansion in 1963 was made possible by a 5% reduction in investments while investments over the same period of the previous year remained unchanged.

The composition of loan expansion in the two years was also quite similar. Business loans rose about 4% and consumer loans around 10%. The most dramatic development in the past two years has been the very substantial rise in real estate loans, which increased 22% in 1963 and 16% the year before. Much of this can apparently be attributed to the higher rates paid on time and savings deposits and the substantial flow of these deposits into commercial banks. In 1963 as in 1962, time and savings deposits rose about 14% in the first 11 months.

AGRICULTURAL OUTLOOK FOR 1964



Domestic demand for farm products will continue to expand; exports are expected to be at record levels; farm output, if growing conditions are favorable, will remain high and could set a new record; production expenses will continue to rise; and net farm income will be lower. This, in capsule form, is the national outlook for agriculture in 1964 as seen by leading economists of the U. S. Department of Agriculture.

In appraising the agricultural outlook for the year ahead, USDA's analysts assumed average growing conditions, no change in present farm programs for wheat, cotton, and dairy products, and success in the negotiations for sales of wheat and other farm commodities to the Soviet Union and its satellites. They also assumed that the proposed tax cut will come early in 1964.

Below, in more detail, are the forecasts of the Department of Agriculture.

Farm Prices, Costs, and Income The farm price situation for 1964 promises to be much like that in 1963. Prices received for all farm products are expected to average a shade lower and prices paid by farmers a little higher than a year ago. Prices for livestock and livestock products may show little change from 1963, but crop prices will probably average slightly lower, largely because of an anticipated drop in wheat prices.

Farm production expenses in 1964 will likely increase by at least as much as in 1963. Costs for current operating expenses such as fertilizer, purchased feed, and the repair and operation of farm machinery and equipment will probably increase noticeably. Taxes on farm property, interest on indebtedness, and depreciation charges are also expected to rise.

Both cash receipts from farm marketings and Government payments to farmers are likely to be lower than last year. The nation's realized gross farm income in 1964 will probably be down slightly from the record \$41 billion received in 1963. With farm production costs continuing upward, realized net farm income will likely be 5% or more below the 1963 level of \$12¼ billion. Realized net income per

farm is not expected to fall as much as total income, however, because of a probable continued decline in the number of farms.

Supply and Demand Conditions Total carry-over stocks of farm commodities are expected to be down slightly in 1964. There will probably be increases in cotton, tobacco, and peanut stocks, but the carry-overs of wheat, feed grains, soybeans, and dairy products are expected to decline. Food supplies are ample, although reduced supplies of both fresh and processed fruits and fresh, canned, and frozen vegetables are in prospect for the 1963-64 season.

Growing business activity both at home and abroad points to expanding markets for the nation's farm products in 1964. Domestically, the demand for farm products will be sustained by continued growth of the general economy, further expansion in employment and consumer income, and a growing population. The extent of the improvement in domestic demand will depend in large measure, however, on the size and timing of the proposed cut in personal and corporate taxes.

Foreign demand for United States farm products in 1963-64 is brighter than at any time in the nation's recent history. Total shipments of farm products to export markets are expected to rise to around \$6.0 billion. This would be 15% above a year ago and a new high. The magnitude of the increase will depend on whether or not the anticipated exports to countries in the Soviet Bloc materialize. Export demand is supported not only by strengthening economic activity abroad but also by record gold and dollar holdings in most countries which pay dollars for United States farm products. Dollar sales, which are expected to account for the bulk of the increase in farm exports, may hit a new peak of \$4.2 billion. This would amount to around 70% of the total value of all farm exports and should contribute to an easing of the balance of payments problem.

Outlook For Commodities Highlights in the outlook for major Fifth District commodities and commodity groups shape up about like this:

Tobacco: The 1963-64 supplies of flue-cured and

burley, the leading cigarette tobaccos, are larger than those of most of the past several years by sizable amounts. Flue-cured supplies are the highest since 1956-57, while the burley supply is the largest on record. Carry-overs of both types are the largest in five years. The supply of Maryland tobacco is up slightly from a year earlier, but supplies of Virginia fire-cured and sun-cured tobaccos are down.

Both cigarette output and consumption rose to new highs in 1963. Despite these facts, domestic use of flue-cured tobacco declined slightly and consumption of burley was up only about 1% over that of the previous year. A growing population and continuing high levels of income favor a further increase in cigarette consumption in 1964. The amount of tobacco used per 1,000 cigarettes, however, apparently continues to decline. Consumption of smoking and chewing tobacco will probably change little from 1963 but the downtrend in the use of snuff is expected to continue. Whether the outlook for tobacco products will be affected by the U. S. Public Health Service's Advisory Committee report on smoking and health, scheduled for January 1964, is problematical.

Exports of flue-cured tobacco in 1962-63 declined 11% from a year earlier and were the second smallest in eight years. Burley exports, however, increased about one-sixth and were at record levels. Tobacco exports in 1963-64 are expected to rise moderately. Favorable factors contributing to this expectation are the better quality flue-cured available from the

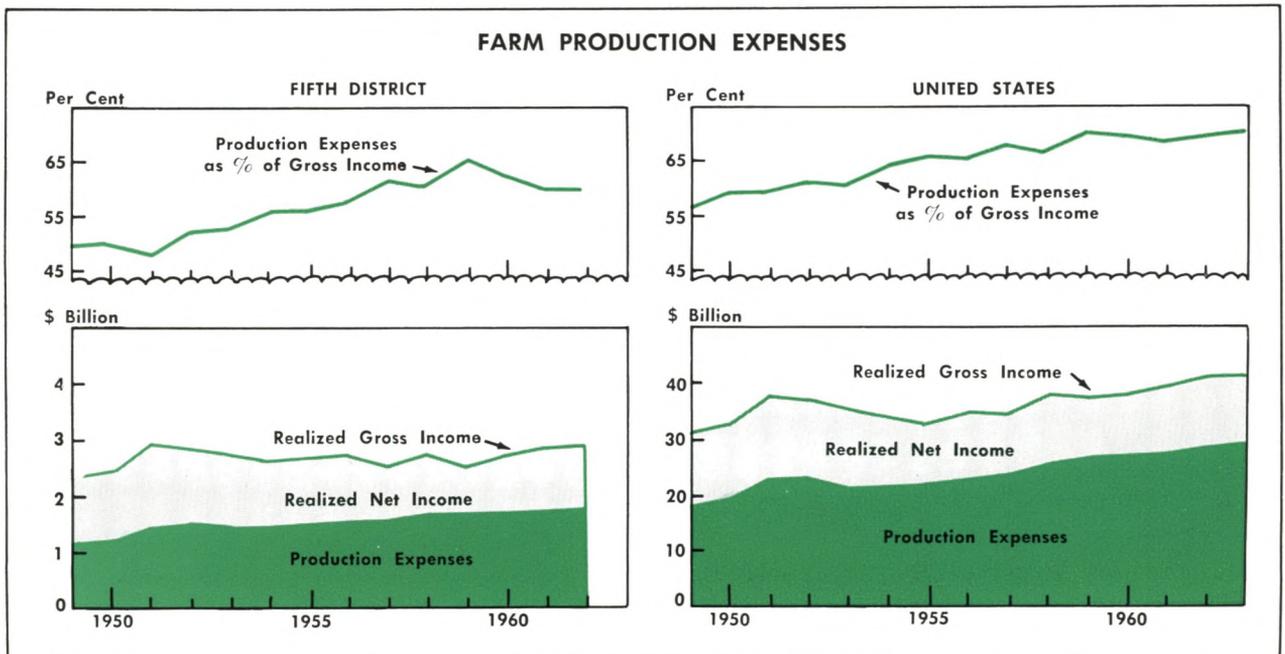
1963 crop, smaller flue-cured crops of major foreign producers, and lower stocks of United States flue-cured in the United Kingdom.

With the current supply-demand situation, flue-cured tobacco farmers face a 10% cut in acreage allotments in 1964 on the heels of a 5% cut in 1963. Marketing quotas and acreage allotments for burley and other types of tobacco will be announced by February 1. Prices of 1964-crop tobaccos will be supported on the same basis as in the past several years. Present indications are that the 1964 support levels will be up about 1% over those in 1963.

Cotton: The large 15.5-million-bale cotton crop produced on the nation's farms in 1963 is expected to be 1.7 million bales larger than estimated disappearance in 1963-64 and marks the third consecutive year in which production has exceeded use. Total disappearance of cotton this season is estimated to be around 13.8 million bales, about 2 million bales larger than a year earlier. Both domestic mill consumption and exports are expected to increase. Consumption by United States mills is estimated at 8.8 million bales. This is 400,000 bales larger than a year earlier but 200,000 smaller than in 1961-62. Cotton exports during 1963-64 are expected to total about 5 million bales, well above the relatively low level of 3.4 million bales exported last year. Reasons for the anticipated increase are a moderate upturn in foreign consumption, reduced production in foreign countries, smaller inventories in both importing and other

Farm production expenses, which have trended upward in both the District and the nation for more than a decade, are expected to continue to increase in 1964. They now take a much larger proportion of realized gross farm income than they did ten years earlier.

FARM PRODUCTION EXPENSES



exporting nations, and the Commodity Credit Corporation's export sales program which makes United States cotton prices competitive in world markets.

Despite the increased disappearance, the carry-over of cotton next August 1 will probably total around 13.1 million bales. This would be 1.9 million bales above last August and the third successive year that the cotton carry-over has increased. It would also be the largest carry-over since the record high of 14.5 million bales in 1956.

Peanuts and Soybeans: Supplies of peanuts are 5% above a year ago and the largest since 1948-49. Once again, supplies are sharply larger than domestic needs for food and farm uses, and the CCC will acquire the surplus under the support program. Civilian consumption of peanuts per person has risen in recent years, climbing from 5.8 pounds in 1955-56 to 7.0 pounds last year. The same rate of consumption per capita is expected to continue during 1963-64. This means that, with increased population, total consumption of peanuts will increase slightly. Though both total civilian consumption and crushings under the CCC diversion program are likely to rise during 1963-64, the carry-over of peanuts is also expected to increase. Prices to growers in 1963-64, as in recent years, will probably average near the loan rate.

The 1963-64 supplies of soybeans are at a record 733 million bushels, about 10 million larger than last year. Farm prices for soybeans are expected to continue strong and will probably average about \$2.60 per bushel, or around 35 cents above the support level. There are indications that the entire 1963 crop may be needed to meet demand. Crushings are expected to be larger, and exports may hit a new high. Carry-over stocks next fall will probably be very small again.

Poultry and Eggs: The outlook for 1964 points to increased production of both eggs and poultry. The increase in egg production will likely be small, with most of the increase coming during the first half of the year. Egg prices early in 1964 will therefore probably be lower than a year earlier. They are likely to show a greater seasonal rise than in 1963, however, and for the year as a whole are expected to average only slightly below the 1963 level.

Broiler output will probably be about the same as a year ago during the first half of 1964, but production is expected to rise in the second half and for the year will likely average higher than in 1963. Broiler prices the first half of the year will probably be held down by the availability of large supplies of beef. Competition from red meats may lessen late in the year, broiler prices will likely strengthen, and for

1964 as a whole they may average close to the 14.6-cent level received in 1963. A small to moderate expansion in turkey production is likely in 1964, and turkey prices during the main marketing season will depend largely on how much producers expand production. With only a moderate increase, prices may average as high as in 1963.

Meat Animals: Hog raising is expected to be slightly more profitable this year than it was in 1963. Slaughter of hogs will likely drop below year-earlier levels before the second quarter and will remain below the rest of the year. Hog prices will probably continue under year-ago levels this winter, but they are likely to be a little higher in the spring as slaughter supplies decline. Prices for the year as a whole are expected to average slightly higher than in 1963.

Little change from 1963 is anticipated for cattle and lamb prices. Cattle marketings will rise again in 1964, but demand prospects for beef continue to be favorable. With large marketings and little change in average prices, cash receipts from cattle and calves can be expected to increase.

Dairy Products: Farm marketings of milk will likely increase a little in 1964, and commercial demand may be slightly higher. Marketings will again exceed commercial use, and excess dairy products will continue to move into the CCC. Farm prices for dairy products will probably average about the same as in 1963. Cash receipts may increase slightly, but net income from dairying will likely decline because of the continuing rise in production expenses.

District Farmers and The Outlook Much of the decline in the nation's farm income in 1964 is expected to be concentrated on farms where income from wheat comprises a significant part of total receipts. Wheat's contribution to total cash farm income in the Fifth District is small by comparison with its relative importance in the nation. This, plus the fact that drought played a significant role in reducing Fifth District farm income in 1963, suggests that, given average growing conditions, District farmers in 1964 should fare better in comparison with 1963 than those in the nation as a whole. Income of flue-cured tobacco farmers will, however, be affected considerably by the 10% cut in allotments.

PHOTO CREDITS

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