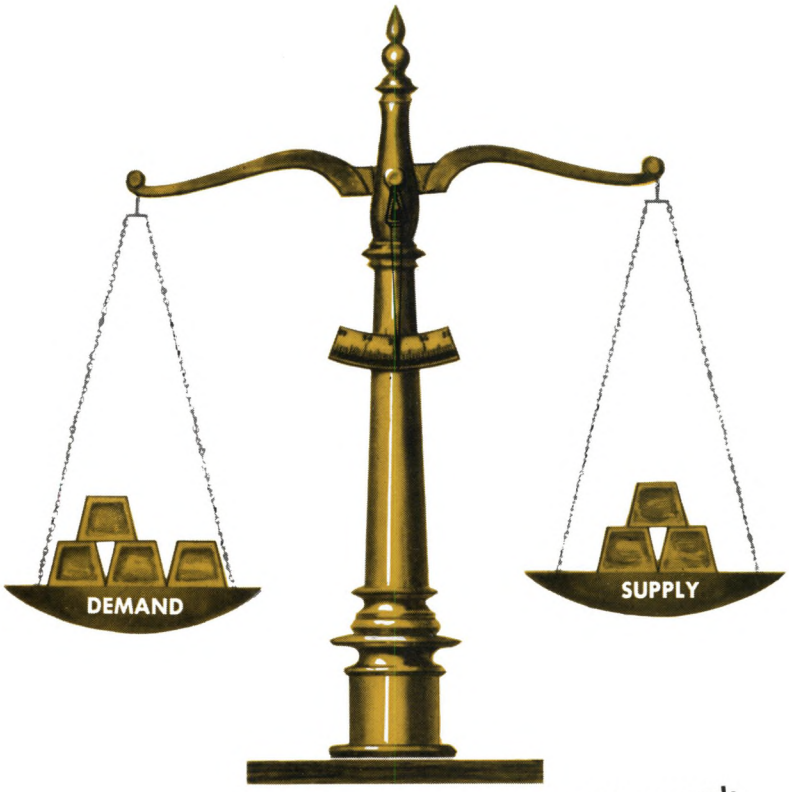
MONTHLY REVIEW



The price of gold on the London Gold Market responds readily to small changes in market supply or demand.

FEDERAL RESERVE BANK OF RICHMOND AUGUST 1964

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THE LONDON GOLD MARKET

Among the world's leading commodities gold is unique chiefly because of its close connection with national currencies and with the international payments system. Apart from this connection, however, it possesses certain important characteristics in common with such leading commodities as cotton, wheat, sugar, copper, lead and other metals. It is susceptible of relatively simple and uniform grading standards; it can be transported over long distances at relatively low costs; and it is subject to an extensive—indeed, almost universal—demand. Commodities that possess these characteristics are generally traded in worldwide markets characterized by elaborate trading facilities that converge on a single market center, usually a major city which has succeeded in establishing itself as the hub of the trade. Thus for generations the market for cotton centered in Liverpool while that for wheat and other small grains has long focused on Chicago. Similarly, for about three centuries now, London has been the principal center of the world market for gold.

London's pre-eminence in the gold trade dates back to the 17th century, when the city became the world's leading financial center. By the early 19th century it had become the world's chief center for the refining, as well as for the marketing, of gold bullion. In recent times, the market was closed during the period 1939-1954, but it has maintained its eminence in trading in both gold bullion and gold coin.

International Significance Gold is, of course, widely used for commercial and industrial as well as monetary purposes, and some of the trading in the London market is related to its nonmonetary uses. From the standpoint of the market's significance, however, such trading is of secondary importance. The bulk of the trading is associated with gold's monetary uses and it is this aspect of the market's activities that renders it different from other commodities markets.

Among the countries of the Western world, trading in monetary gold is engaged in mainly by national monetary authorities. The basic monetary reserves of most of these countries are held in the form of gold or national currencies that can be converted to gold. The principal reserve currencies are the United States dollar and the United Kingdom's pound sterling. Generally speaking, the several national monetary authorities hold reserves of these currencies to implement operations in foreign exchange markets designed to maintain exchange rates between their own and foreign currencies. In the course of these operations, a country's authorities may accumulate more of these key currencies than it deems necessary to hold as working balances or reserves. It may then use these currencies to buy gold. On the other hand, if its holdings of these currencies decline below some critical point, it may sell any gold it possesses in order to rebuild its balances.

Trading in the London market by national monetary authorities is exclusively in terms of pounds sterling or dollars. In this connection, it should be noted that only sterling balances officially classified as "foreign account" sterling can be used to buy gold on the market. Foreign account sterling is sterling acquired by foreigners in the course of their current operations. Such sterling balances are fully convertible into dollars or other currencies.

The London market is also important as a focal center through which newly-produced gold is divided between monetary and nonmonetary uses and through which additions to the world's monetary gold stock are distributed among the countries of the world. The great bulk of new gold turned out annually is marketed through London. In the same connection, the market is also an important center through which redistribution of the existing gold stock among the countries of the world is effected.

Gold and Private Interests In much of the Western world, acquiring gold for non-industrial purposes by private interests is prohibited by law. This is notably the case in the United States, the United Kingdom, and the group of countries com-

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prising the so-called sterling area. Citizens and residents of these countries cannot legally enter the London market as buyers except with the permission of the monetary authorities.

Private interests in many other countries, however, confront no such restrictions and a sizable fraction of trading in the London market is related to private demand for monetary gold. Nations of the Near, Middle, and Far East, where gold is widely preferred as a store of value, are the main source of private demand. Private holding of gold is also not uncommon in some Western countries.

Private holding of gold is important for two reasons. In the first place, it drains away supplies that could otherwise be used to augment official reserves. In the second place, private demand in the London market is a major factor occasioning sharp fluctuations in market prices. Generally speaking, the London market is a fairly "thin" market at any given moment and relatively small changes in quantities demanded or supplied can precipitate relatively sizable price changes. Such price movements, especially those associated with sudden increases in private demand, can generate doubts about existing gold parities of national currencies and encourage speculative international capital flows that may prejudice orderly international payments.

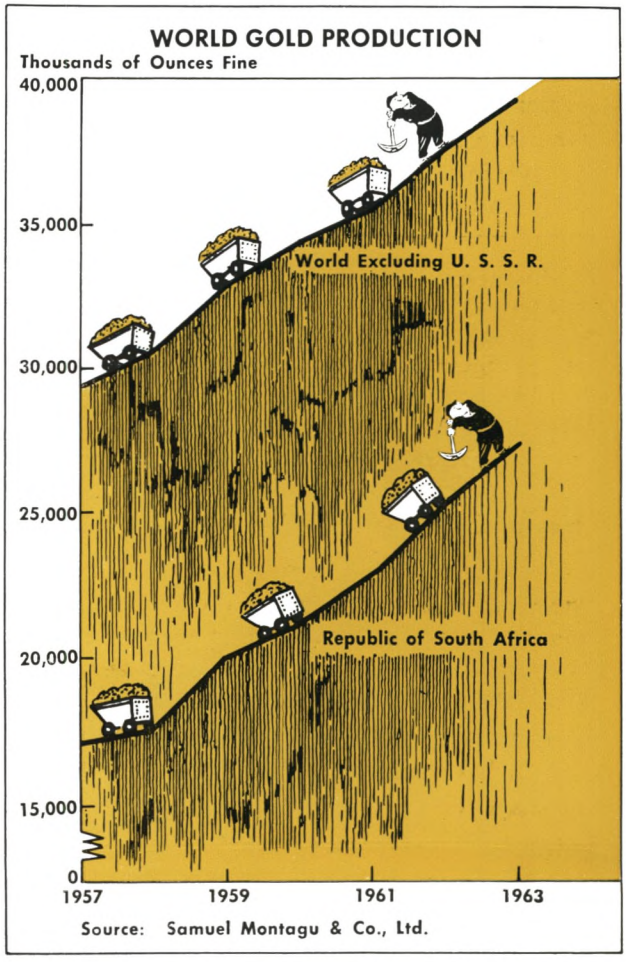
The Gold Pool Since 1961 most of the activity of the major Western countries in the London market has been carried out through the so-called Gold Pool. This cooperative arrangement is in fact a buying and selling consortium of the respective national monetary authorities of the major Western countries, including the United States. Its purchases and sales in the market are executed through the Bank of England, which acts as agent for the Pool.

The Gold Pool was established in the wake of the sudden run-up in the London gold price past $40 an ounce in October 1960. This development dramatized the significance of the London market, underscoring the importance of orderly trading and of relative stability in the dollar and sterling prices of gold. The Pool was set up to insure such order and stability, and in particular to combat speculative capital flows that might be touched off by wide price fluctuations. Since its formation, the Pool has been a very substantial net buyer of gold, prorating its net acquisitions among the member countries.

Market Machinery Little descriptive literature on the London gold market exists. One of the few detailed descriptions of the market's organization and functioning was published recently by the Bank of England in its *Quarterly Bulletin*. The paragraphs that follow are based on that description.

As with other important Anglo-Saxon institutions, the organization of the London gold market rests on no formal or legal basis. Rather the market has grown like Topsy, adapting its machinery to the changing requirements of the gold trade. As presently structured, the market centers around five member firms: Johnson, Matthey & Co., Ltd.; Mocatta & Goldsmith, Ltd.; Samuel Montagu and Co., Ltd.; N. M. Rothschild & Sons; and Sharps, Pixley and Co. These firms engage in other activities in addition to their trading in gold. Montagu's, for example, is a famous merchant bank, while Johnson, Matthey is an equally renowned metallurgical firm. Rothschild's is not only a well-known merchant bank, but it also melts, refines, assays, and processes gold.

While some banking institutions are authorized to deal in gold, trading in the market proceeds chiefly, but not entirely, through the five member firms. Only their representatives are present at the daily price fixing, which is based on an evaluation of purchase and sale orders held by the members. Since



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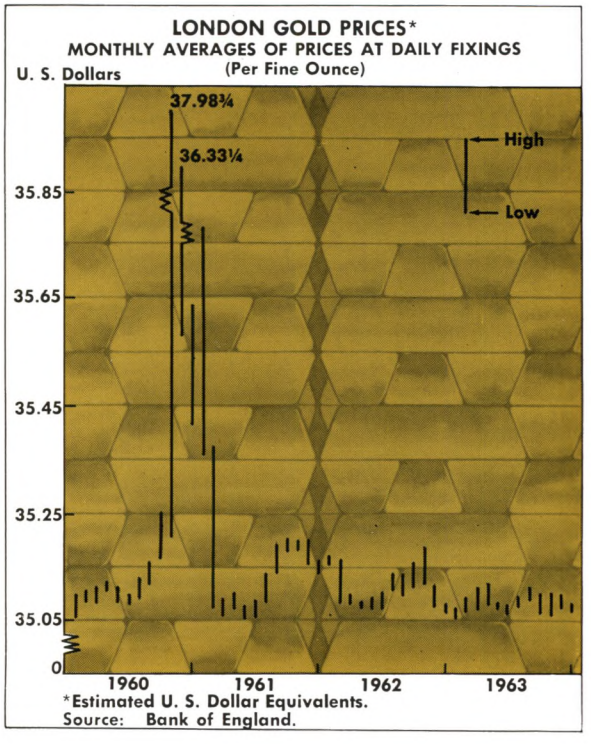
the reopening of the market in 1954, Rothschild's representative has served as chairman of the market.

The most important institution in the market is the Bank of England, which, technically, is not a member of the market and accordingly is not represented at the daily price fixing. Rather, like other market participants, it must enter its buy and sell orders through a member and for this purpose it employs the services of Rothschild's. Yet the Bank serves as agent for many important buyers and sellers and is in position to influence the fixing price through regulating the flow of its orders to the market. It is agent, for example, for the South African Reserve Bank, the world's largest seller of new gold, as well as for the Gold Pool. It serves in the same capacity for the United Kingdom's Exchange Equalization Account, which manages the British Treasury's gold position, and for many central banks. Because of its position in the channeling of buy and sell orders to the market, the Bank of England can exercise a significant moderating influence on the market.

Standards and Procedures Gold coins of all kinds as well as gold bullion are traded in the London market. Bullion must meet certain strict standards before it can be traded. It must be in the form of bars carrying a certification that it has been melted and stamped by one of the 40-odd approved refineries or mints located at various places in the world. At least 995 parts in 1,000 must be pure gold and the bar must contain 350 to 430 troy ounces of fine gold. The London market's standards for bullion are accepted in most countries of the world. A notable exception is the United States, which will accept only the stamp of the U. S. Assay Office.



The single most important procedure on the market is the daily price fixing, which takes place at 10:30 a.m. of each working day at Rothschild's. Present at the fixing, the purpose of which is to establish an opening price for the day's trading, are representatives of the five member firms. Each is usually in direct communication with his own trading room and often with dealers in foreign centers as well. The chairman of the meeting suggests a price, in shillings, pence, and farthings, based on his own evaluation of buying and selling interests in the market. Members then disclose their buying and selling interests at the suggested price. If it appears that buyers and sellers can come together, the tentative price holds and becomes the fixing price. But if, at the suggested price, the buying interest clearly outweighs selling interests, a new and higher price is suggested. Conversely, when selling interests predominate, the chairman suggests a lower price. In any event, the procedure continues until it is clear that the price is one at which buy and sell orders are in line. During the course of the day's trading, prices can and do vary from the fixing price.

Members are under no obligation to declare or to execute all orders at the time of the fixing. Frequently orders to buy and to sell "at the fixing price" are matched prior to the fixing and do not enter into the fixing procedure. On the other hand, when members deem it advantageous, they may postpone execution until later in the day when they are in better position to judge price trends. Transactions other than those at the fixing, however, are negotiated separately between dealers. The same is true of transactions in currencies other than sterling.

Purchases and sales are ordinarily for delivery in London, with settlement two working days later. There is no regular market for forward delivery. Forward transactions do take place, however, although they must be negotiated separately. Similarly, delivery in centers other than London can be negotiated. Commission charges for orders executed at the fixing are .025%. Negotiated transactions are usually at net prices.

Supply and Demand In addition to supplies that originate with the gold stocks of national monetary authorities, gold flowing through the London market emanates from two principal sources: 1) new production, and 2) privately-owned gold hoards. New

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production in the Free World has amounted in recent years to 35-40 million fine ounces annually or $1.2 to $1.4 billion, valued at $35 per fine ounce. As the chart on page 3 shows, the bulk of this output is accounted for by South Africa and enters the market via the agency of the Bank of England. The Soviet Union is probably the world's second largest producer and Soviet gold is a major supply factor in the market. In recent years, Soviet sales have been of the order of $200-$250 million annually, but they increased significantly over the past 12 months.

On rare occasions private holders may also supply gold to the market. Private hoarders in industrialized countries usually move into gold when their faith in their own national currencies or important international currencies is shaken. On the other hand, developments that strengthen their confidence in the currencies in terms of which their wealth is usually held will encourage them to sell gold and invest in income-earning assets. Private holders in the less well-developed countries of the East generally exert a continuous demand in the market.

Over the long-term, demand in the London market comes largely from official holders of monetary gold. Demand from private holders at times can assume great importance, especially in periods of financial or political crisis. For example, private demand was a major factor pushing the price past $40 an ounce in October 1960.

The third major source of demand on the market is industrial users of gold. Industrial uses have absorbed in recent years some $200 million of gold annually, with the bulk probably purchased through the London market.

The U. S. Treasury and the Market An important, although complicated, interrelationship exists between the London market and the U. S. Treasury. Since 1934 the U. S. Treasury has stood ready to buy gold at $35 per fine ounce and to sell at the same price to any foreign monetary authority. In a sense, this amounts to making a market for gold at the $35 price. If all buyers and all sellers were perfectly free to move between the London market and the U. S. Treasury, arbitrage between the two markets and between dollar and sterling exchange markets would insure the establishment of an equivalent price in London.

In practice, of course, only official foreign holders are free to move between the two gold markets and, for the most part, the monetary authorities of most important Western countries are not guided by price differentials in deciding whether to buy or sell in Washington or in London. Accordingly, there is no strong tendency for a strict price equivalency between the two markets. Rather the London price can and does depart from the U. S. Treasury official price. Fluctuations in the London market are, nevertheless, around a norm of $35 an ounce.

In its gold transactions, the U. S. Treasury usually levies a handling charge of ¼%, or 8¾¢ per ounce. Thus its sales are at a price of $35.08¾ and its purchases at $34.91¼ and London price fluctuations between these levels provide no incentive to shift between London and Washington even if all market participants were free to shift and responsive to price differentials. Moreover, shifting of purchases by foreigners from London to this country involve, except in the case of foreign holders willing to hold their gold in this country on earmark, transportation costs estimated roughly at 12¢ per ounce. Accordingly, fluctuations in the London price of 20¢ on either side of the $35 U. S. price may be regarded as within the range of "normal."

The London price can, of course, rise above $35.20, as it did in October 1960. Any sudden or large movement, however, may generate serious problems of confidence. This could touch off currency speculation and lead to large-scale capital flows that may overtax the international payments mechanism. For this reason, the Gold Pool stands ready to sell gold to prevent such disturbing price movements.

Other Gold Markets While the London market and the U. S. Treasury are by far the most important of the world's gold markets, lesser markets exist in other cities. Many of these are in the Orient, where gold-hoarding and gold-trading are extensive. Among the better-known markets of the Far East are Hong Kong, Macao, Saigon, and Bangkok. In the Arab world, sizable markets exist in Beirut, Aden, Cairo, Kuwait, and Bahrein. In recent years a market has also been established at Johannesburg, South Africa, center of the world's greatest gold-producing area. Important markets on the European continent exist in Zurich and in Brussels.

Generally speaking, prices on these lesser markets are higher than in London. In the Orient, for example, quotes of $38 and higher are commonplace. Currency restrictions and limited supplies, often associated with restrictions on gold imports, are the chief reasons for higher prices in these other markets. Before the reopening of the London market in 1954 these prices ran still higher and fluctuated over a wider range than currently. Development of London's facilities has introduced greater stability in international trading in gold and has moderated price fluctuations in all these markets.

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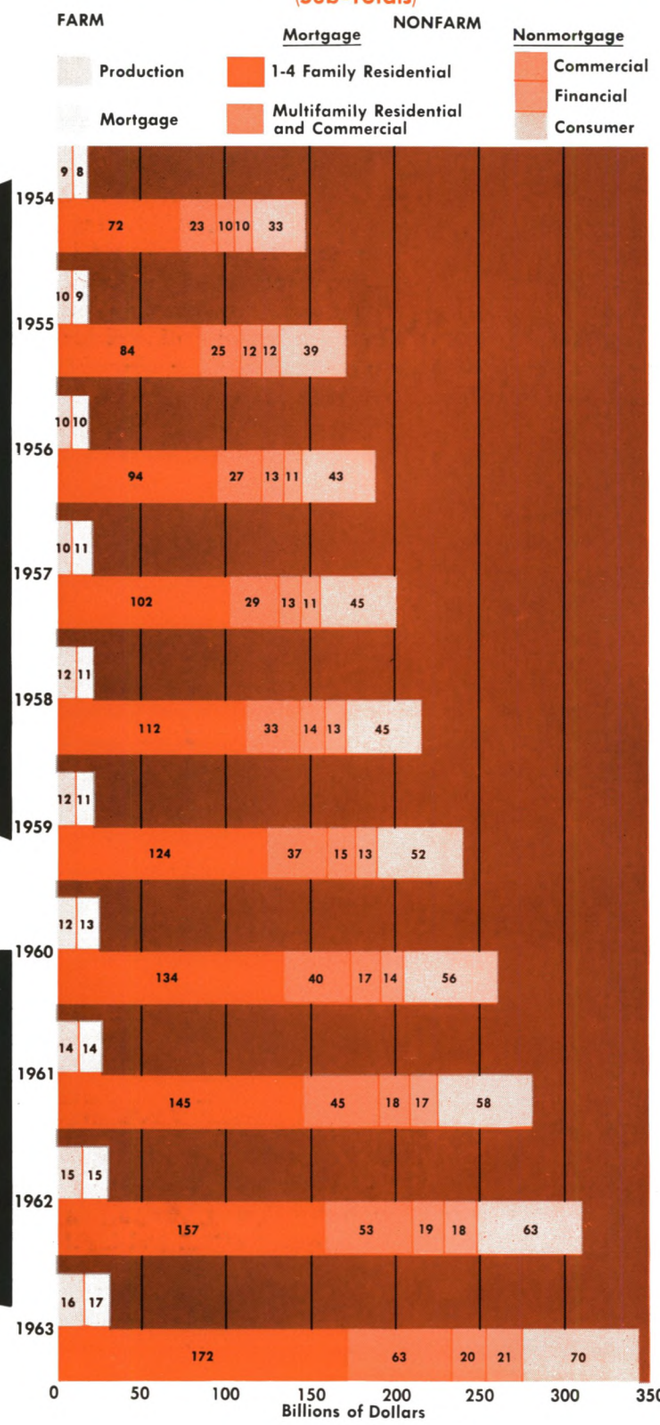
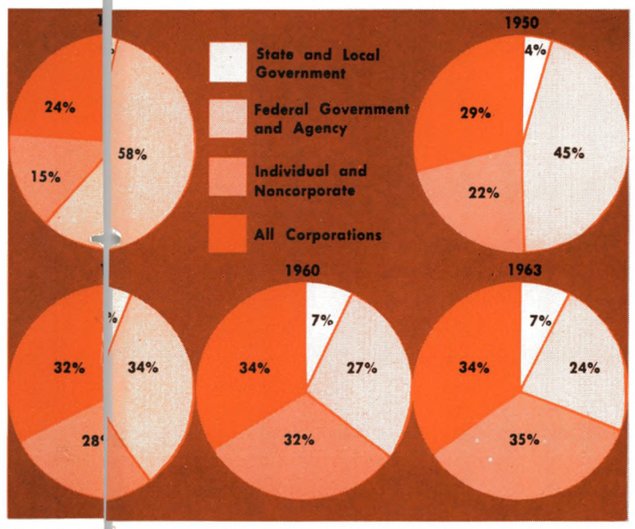
DEBT IN THE U.S.

INDIVIDUAL AND NONCORPORATE DEBT, NET (Sub-Totals)



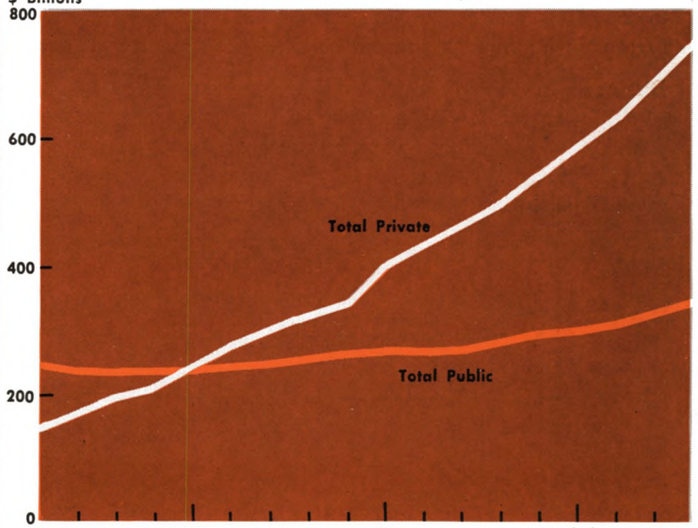
Individual and noncorporate debt increased nearly $213 billion between 1954 and 1964. The percentage distribution of the total between farm and nonfarm components remained fairly constant over the period. Within the farm component, farm mortgage debt became relatively more important, rising from 47% to 51% of the farm total. Residential mortgages have also increased in relative importance in the nonfarm total.

COMPOSITION OF PUBLIC AND PRIVATE DEBT



The relative importance of public and private debt in the total has been reversed since World War II. In 1946, public debt was 61% of the total, while private debt was only 39%. By 1963, the public debt had decreased to 31% of the total and private debt rose to 69%. Corporate emphasis on debt, rather than equity financing and large increases in residential mortgage financing have been major factors in the growth of private debt. Rapid growth in consumer installment debt has also contributed.

PUBLIC AND PRIVATE DEBT, NET



Private debt has grown far more rapidly than the debt of governmental units in the postwar period. Since 1954, for example, private debt has grown at an average annual rate of more than 9%, reaching nearly $753 billion at the end of 1963. Over the same period, the combined net indebtedness of the Federal, State, and local governments has grown at an annual rate of just over 2%. Within the public sector, State and local government debt has grown much more rapidly than the Federal debt.

The charts on these pages show the growth of public and private debt in the United States since 1946. The data presented are estimates compiled by the U. S. Department of Commerce from reports made to a number of Federal agencies, including the Treasury Department, the Federal Reserve System, and the Federal Home Loan Bank Board.

The cited figures are on a net, rather than a gross, basis. Thus net Federal Government and agency debt is defined as gross Federal debt outstanding *minus* U. S. Government and agency securities held by Federal agencies and trust funds. The figure for State and local government debt, however, includes State loans to local governmental units.

Total private debt includes the long-term and the short-term debt of individuals as well as all private corporations. Noncorporate debt is further subdivided into farm and nonfarm components. The farm total includes the debt of farmers and farm cooperatives to institutional lenders and to Federal Government lending agencies, as well as farm mortgage debt owed to individuals and others. Debts of farmers incurred for consumption purposes, for purchasing and carrying securities, and on life insurance policies, however, are included in the nonfarm total.

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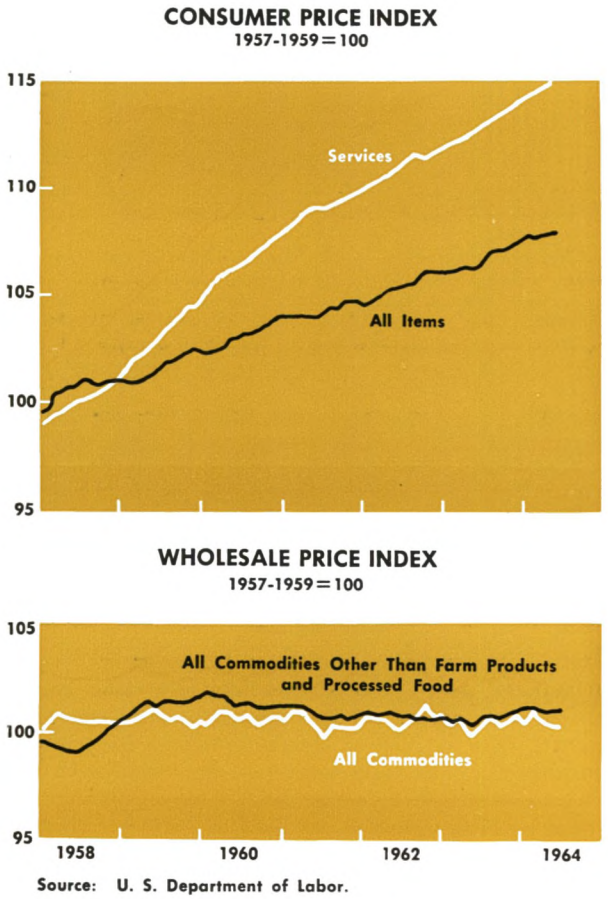
PRICES SINCE THE TAX CUT

The tax cut that went into effect in March of this year was the largest in this country's history. Over the course of the year it will reduce tax payments of individuals and businesses an estimated $8 billion, with further reductions scheduled for 1965. While there is widespread agreement that the economy needed such a stimulus, there have been numerous expressions of concern that such a large tax reduction might generate serious inflationary pressures. This article provides a review of the behavior of the principal price indicators in recent months, with a view to assessing whether or not such pressures were present in the months immediately after the tax cut.

Business in the First Half The tax cut was generally regarded as a certainty as early as mid-January and probably began influencing the economy even before it went into effect. In any event, the major indicators of business activity, which had been trending upward for three years, took on new strength early in the year and by June had recorded impressive gains. The industrial production index, for example, rose from 127 in December 1963 to 132 in June. The gain in Gross National Product amounted to some $19 billion, or about 3%, during the first half of the year. Retail sales rose to a new record in February, perhaps in anticipation of the tax cut, but were somewhat disappointing in the following two months. Retail buying, however, reached record levels in both May and June. The unemployment rate in May was at the lowest level in four years, although it inched up slightly in June. On the whole, the behavior of the broad indicators suggests a rate of economic growth in the first half in excess of 5% per year.

Against this background, publicized announcements of specific price increases seemed to underscore sporadic inflationary fears expressed by some observers. For the most part, however, these specific increases were concentrated in the raw commodities area and involved only a few industrial materials, chiefly metals. Moreover, there were less-publicized specific price reductions that offset some of the announced increases. As a result, the aggregate price measures, as shown in the charts on these pages, showed little or no upward movement.



Source: U. S. Department of Labor.

Consumer Prices The Consumer Price Index has been inching upward steadily for some years. The Bureau of Labor Statistics' all items index, for example, rose from an average of 100.7 in 1958 (1957-59=100) to 103.1 in 1960 and to 106.7 in 1963. The greater portion of this rise was accounted for by increases in the prices of services included in the index. The services component of this series moved from an annual average of 100.3 in 1958 to 113.0 last year. Over the same period, the commodities component rose from 100.8 to 104.1.

The same general trends are apparent in the monthly data so far this year. The all items index of consumer prices rose only one tenth of a percentage point between January and May—from 107.7 to 107.8. This small increase was concentrated in the services component, which rose seven tenths of a percentage point against a one-tenth decrease in the commodities' component. It is reasonably clear that this sector of the price structure did not come under inflationary influences in the first months following the tax cut.

Farm Prices The U. S. Department of Agriculture's Indexes of Prices Received by Farmers have

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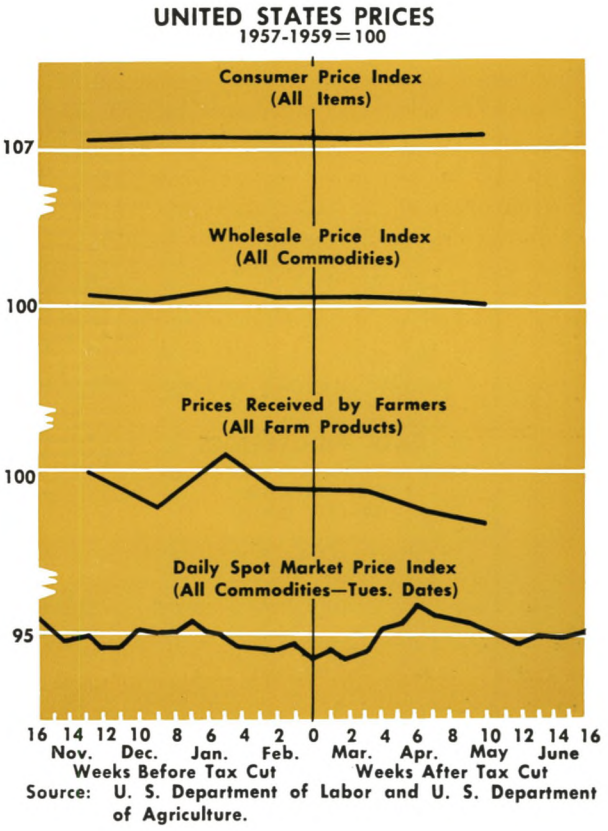
exhibited a see-saw movement over most of the post-war period. The all farm products index, for example, jumped 18 points in 1951, dropped 6 and 14 points in 1952 and 1953, respectively (based on annual average figures with 1957-59=100). Since 1959, however, the annual changes have ranged from one to two points.

At the end of 1963 the all farm products index stood at 98, the crops index at 108, and the livestock and products index at 91. After an upward jump in January to 101, the index for all farm products drifted downward to 96 by June. This decline was attributable to lower prices for livestock and products. The latter index dropped from 94 in January to 87 in May and June. There was little variation during this period in the crops component index.

Wholesale Prices The BLS Index of Wholesale Prices, which includes only commodities, has shown remarkable stability since 1958. Over the past six years, variations in the annual average of the all commodities index were in a range of only four tenths of a percentage point and the 1963 figure was fractionally below that for 1958. Of the various components of this broad index, prices of farm products exhibited the largest movement over this period, a drop from 103.6 to 95.7, with a slight reversal of trend in 1962. Prices of processed foods declined slightly from 102.9 to 101.1 with a low of 99.2 in 1959. In contrast, the index for commodities other than farm products and foods (all industrials) rose slightly from 99.5 for 1958 to 100.7 for 1963. The high for the all industrial component during this period was 101.3 in 1959 and 1960.

Thus far this year, the monthly all commodities index has continued the same degree of stability. The only perceptible movement has been a slight downward drift. The index for May and June stood at 100.1 (1957-59=100), two tenths below the December 1963 level and nine tenths under the January 1964 figure. The downward trend in prices of farm products continued in 1964 except for the rather sizable jump in January and the slight rise in March. By June this component was one tenth below the 1963 low reached in December. Prices of processed foods drifted downward from the January high of 102.5 to 99.4 for May, but rose to 100.2 in June. The all industrials component showed practically no movement during the first six months of this year, the monthly change never varying by more than one tenth of a percentage point.

On a weekly basis, the wholesale price index has risen rather steadily since mid-June, although the total increase has been fractional. The weekly index,



Source: U. S. Department of Labor and U. S. Department of Agriculture.

which is an interim measure of the monthly index, stood at 100.2 in the week ending June 16, rose to 100.4 in the last two weeks of the month, and to 100.5 in the first two weeks of July. Most of this increase can be attributed to the processed foods component index, which rose from 100.4 to 101.8 over these five weeks. The recent increase in these prices is probably no more than a seasonal rise. Over the same weeks the farm products component of the weekly index exhibited an overall increase of only five tenths of a percentage point to 93.7 on July 14 and the all industrials component remained at the 101.1 level.

Industrial Materials Much of the publicized price activity since the tax cut has been in the area of industrial materials. Some of these prices are generally the first to reflect inflationary pressures. One of the most sensitive price indicators is the BLS Daily Spot Market Index of Raw Industrials prices. Before the tax cut, this index had shown a gradual upward drift, responding to steady improvements in production. Shortly after the tax cut, it moved up at an accelerated rate, rising from 98.6 on March 3 to 103.5 on April 14. Although it declined steadily in the remaining weeks of April and throughout May, the index on May 26 was almost two percentage

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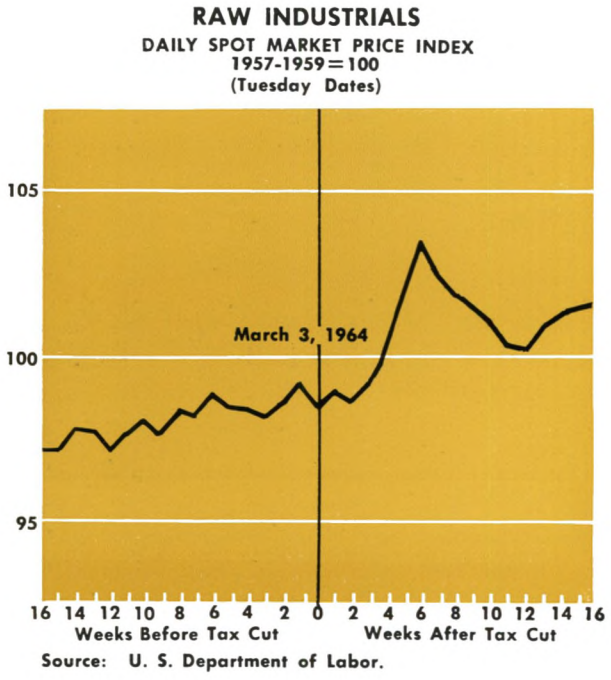
points above its March 3 level. It has drifted upward since May and on July 14 stood at 102.2.

The industrial crude materials component of the BLS monthly wholesale index moved from 94.5 in December 1963 to 96.2 in April of this year. It fell back to 95.5 in May and rose to 95.9 in June. The industrial intermediate materials component showed virtually no change during these six months.

Industrial Products Prices of consumer nondurable finished goods, excluding foods, have declined slightly during the first half of the year. This component of the BLS monthly wholesale price index



in June was one percentage point below the December 1963 level. In contrast, the indexes for consumer durables and producer finished goods rose by five tenths and six tenths of a percentage point, respectively. All three of these broad categories of finished goods declined one tenth of an index point from May to June.

Specific Prices As noted earlier, the small rise in the Consumer Price Index so far this year is attributable to increases in prices of services. Prices in this area that have continued to move up this year include golf green fees, movie admissions, apartment rents, and medical and hospital charges. Among nonservice items, prices of apparel and used cars have also moved up somewhat. Offsetting declines, especially in food products, have held the rise in the total index well within the limits that characterized its movement before the tax cut.

The more publicized price increases in recent months have come in the wholesale area, and especially in industrial materials. Prices of steel scrap, copper, tin, lead, and zinc have moved up sharply, as the primary metals industry has experienced a surge of new demand. Not all the new demand, however, is related to current business prospects. The increase in copper prices, for example, appears to be associated in part with some stockpiling touched off by labor problems in the industry. Steel scrap has been in heavy demand for some months now, as this market follows closely the current and prospective fortunes of the steel industry. Supply bottlenecks have been an important factor in zinc, lead, and tin, especially the latter, and have led to sales of these metals from Government stockpiles. Prices of wool, coal, and machine tools also moved up in the first half.

Less-publicized price declines have offset these increases, however, and this accounts for the stability in the composite wholesale index. Over the first half, price reductions were announced for stainless steel and for steel pipe and rods in metals lines. Prices of most farm commodities also declined, as did prices for refined cane sugar, automobile tires, and electric motors.

The Supply Factor An easy supply situation in most lines has been a major factor in maintaining price stability in the face of the tax cut's expansionary effects. Excess productive capacity has been the rule rather than the exception in most domestic industries over the past several years, and producers have been able to expand output readily in response to demand increases. Imports have also become an increasingly important source of supply as productive capacity abroad has increased rapidly in recent years.

As for future prospects, it is notable that much of the recent impetus in the domestic economy has been provided by increased business outlays for new plant and equipment. This means, sooner or later, further expansions in capacity with corresponding increases in the market's ability to meet growing demands without upward pressure on prices. To the extent that current multilateral negotiations lower international trade barriers, a similar effect may be expected from this quarter.

Summary The statistical record thus far indicates that the sizable March tax cut has not set in motion an inflationary squeeze on the economy as some business observers feared. It is yet too early however, to determine whether or not the increased spending capacity of business and consumers may eventually cause some general increase in prices.

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THE FIFTH DISTRICT

CROP PRODUCTION PROSPECTS

Fifth District crop prospects at midsummer generally ranged from fair to good. Wet soils in March and April hampered spring field work, but planting activities were about on schedule by mid-May. Dry weather in May and June lowered crop prospects over a wide area of the District, although drought damage is less severe this year than last. General rains in July brought welcome relief to much of the District. Weather during the remainder of the season holds the key, of course, to whether or not prospects as of July 1 materialize.

The total acreage of principal District crops planted for harvest this year is about 4% larger than in 1963. Sizable declines in tobacco and Irish potato acreages and a slight cut in cotton acreage were more than offset by major increases in acreages of wheat, rye, soybeans, and feed grains. Declines from last year in yields per acre are expected only for the corn, Irish potato, and flue-cured and burley tobacco crops.

Tobacco Prospects The District's 1964 tobacco crop is expected to be about 10% smaller than last year. Yields per acre will probably average second only to last year's record level, but growers plan to harvest the smallest tobacco acreage since 1916. Smaller flue-cured and burley crops will account for all of the decline in production. If current prospects materialize and prices average the same as in 1963, the combined value of the flue-cured and burley crops will be around $77 million below a year earlier.

Basic acreage allotments for the flue-cured and burley crops were cut 10% from last year, and per-acre yields for both types will be down somewhat. Flue-cured output is expected to be slightly more than 10% below a year ago but 0.5% above the recent five-year average. Anticipated burley production will be down 14% from last year but 5% larger than average. Larger acreages and indicated higher yields per acre are combining to bring about bigger crops of Southern Maryland and Virginia fire-cured tobaccos, while sharply increased yields are expected to produce a larger sun-cured crop.

Fewer Peaches, More Apples Fruit prospects vary considerably by type of fruit and area of production. The District's peach crop, severely damaged in the Carolinas by freezing temperatures in late March, is estimated to be nearly 70% below a year ago and two-thirds smaller than average. South Carolina's production is expected to be only 12% as large as in 1963, while the North Carolina crop is estimated at 17% of last year's level. By contrast, peach prospects in Virginia are the same as a year earlier and those in Maryland and West Virginia suggest sharply larger output than last year.

Prospects for the commercial apple crop on July 1 indicated that this year's output will be 17% above last year's harvest and about 4% more than average. Except in North Carolina, where prospective pro-

Fifth District crop prospects as of July 1 generally ranged from fair to good, and rains since then have brightened the outlook.

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duction is about one-fifth below that in 1963, late frosts were no problem to the District's apple crop this year. Orchardists in Virginia—largest apple producing state in the District—are expected to harvest an 18% bigger crop than in 1963. West Virginia and Maryland apple producers meanwhile are looking for even bigger increases, some 30% and 38%, respectively, above a year earlier. The size of the fruit has been reduced to some extent because of the dry weather.

Grapes, grown commercially only in North and South Carolina, are reported to have developed well this season. Estimated production indicates this year's crop will be 8% larger than in 1963 and nearly 90% above average.

Feed Crops and Food Grains Probably because of 1963's drought-reduced production of feed, District farmers planted larger acreages of all feed crops this year. With expanded acreage and higher anticipated yields per acre, 1964 production of hay will probably be up 15% from 1963. Total feed grain output will likely be about the same as a year earlier, however, primarily because this year's dry weather has cut prospective per-acre yields of corn. The corn harvest is expected to be down 5% from last year, while indicated production of oats is up 18% from a year ago. Barley prospects point to an increase of nearly 40% over 1963.

Pasture conditions deteriorated sharply during June, particularly in Maryland and Virginia, and on July 1 were poorer than a year ago in all District states except Virginia. Except in South Carolina, pasture feed supplies were also well below average for the date. Because of the shortage of pasture feed, livestock in the drier areas were already being fed hay and silage.

Increases over last year are anticipated for both food grains. Considerably larger acreages coupled with higher expected yields per acre are joining forces to increase winter wheat production by 27% over a year ago and the rye crop by more than two fifths.

Irish and Sweet Potatoes District Irish potato growers cut this year's acreage some 5% below that in 1963, and dry weather in June limited growth and reduced per-acre yields sharply. As a result, total production of Irish potatoes this year is expected to be slightly more than one-fifth smaller than a year earlier and around 30% lower than average. Greatest reduction from last year is anticipated in the late spring crop, particularly in the big producing area in northeastern North Carolina. The crop of early summer potatoes on Virginia's Eastern Shore, the main area of production, is also expected to be down sharply.

The sweet potato harvest, according to July 1 indications, will be up only 3% from last year but slightly less than average. If prospects are realized, the gain over a year earlier will be the result of slight increases in both acreage and yields per acre. All of the prospective upturn is in Virginia where the outlook is for a 21% larger crop than in 1963.

Output Indications Production estimates for cotton, peanuts, and soybeans are not yet available. Acreages and crop conditions, however, provide good clues to probable output in 1964. This year's planted acreage of cotton in the District is around 1% less than in 1963 but about 1% above the recent five-year average. Cool, wet weather this spring delayed planting, but cotton appears to have recovered from the slow start and prospects are said to be promising. The crop is fruiting freely, and boll weevil damage thus far is reported to be light.

Only eight District farmers, all in South Carolina, chose to increase their basic cotton allotment by 5% and sell the cotton from this extra acreage for export without the benefit of price supports. Export acreage from these farms totals only 71 acres. There is no information relative to the number of cotton farmers who chose to reduce their basic allotment by one third in order to receive an additional payment of 3.5 cents per pound over the basic support price.

Peanut acreage planted for all purposes is 1,000 acres, or less than one half of 1%, smaller than last year. All of the decline is in Virginia where the change in acreage is the first since 1959. Stands are said to be excellent. Lack of rain has caused concern in some isolated spots, but condition of the peanut crop as a whole is reported to be generally good, especially in the commercial producing area.

District farmers expanded soybean acreage again this year for the eighteenth year in a row. Acreage which they plan to harvest for beans is at a new record level, 5% larger than in 1963. Because of dry soils, there was some delay in planting the late acreage following small grains. The outlook for the crop remains mostly favorable, however, following rains which fell over much of the drought-stricken area of the District during the first two weeks of July. Generally, the crop is said to be in mostly good condition and growing well.

PHOTO CREDITS

11. National Cotton Council of America; Virginia Department of Agriculture; Southern States Cooperative; Liggett & Myers Tobacco Co.

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