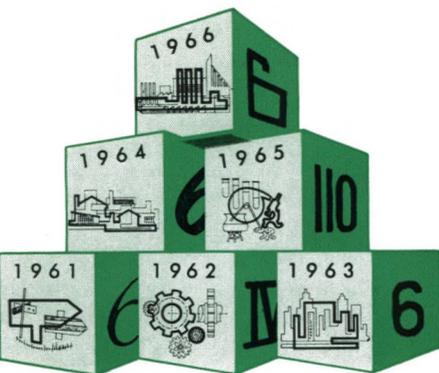


MONTHLY REVIEW



Defense expenditures are expected to be a major factor raising Gross National Product to a record high level in 1966.



6th YEAR OF GROWTH IN '66

The recent forecasting season was an unusually turbulent one. Major economic and financial developments plus several revisions of basic economic data created treacherous footing for the forecaster. Since most of the news was on the expansionary side, the late bloomers were considerably more optimistic than the trail blazers. As a result, predictions of gross national product for 1966 ranged from less than \$700 billion to more than \$720 billion.

This brief article summarizes the more readily available forecasts. As in previous years, the discussion attempts to convey the general tone and pattern of the predictions, which this year number over 50, including several group efforts.

The views and opinions set forth here are those of the various forecasters. No agreement or endorsement by this Bank is implied.

THE ECONOMIC BACKGROUND

Generally, 1965 was a very good business year. Almost all sectors of the economy operated at higher levels of activity than had been expected or predicted. GNP rose by about 7.5% instead of the typically predicted 5.7%. The improvement in employment was especially striking, with total civilian employment rising by about 1.7 million. The average rate of unemployment for the year declined to about 4.6%, whereas almost all the forecasters a year ago expected it to remain well above 5%.

A year ago the economy as a whole was expected to show strong gains in the first half of 1965, followed by somewhat smaller gains in the second half, largely because of gyrations in the steel industry. As it turned out, the economy absorbed the impact of the steel slowdown with little trouble and the closing months showed some of the best gains of the year. The decline in steel production was brief, due in considerable part to the high rates of steel consumption in the automobile and business equipment industries, which provided much of the impetus responsible for the high-level performance of the whole economy. Automobile production and sales bettered their 1964

records by wide margins, with domestic production of about 9.3 million units and sales of approximately 8.7 million. In addition, about 550,000 foreign cars were sold. Expenditures for new plant and equipment showed increasing strength as the year advanced and amounted to \$51.8 billion for the year, some 15% above 1964 and nearly 8% above predictions.

Personal income and personal consumption expenditures showed strength throughout the year, and especially in the last four months. Income was boosted by the high level of employment, a longer than average workweek in manufacturing, and wage and salary increases, including increases in military and civil service pay by the Federal Government. In addition, social security payments were raised. New construction showed only a modest gain for the year and even that improvement slowed during the latter part of the year.

Prices moved upward during the year. The increase in consumer prices was somewhat more than the average for recent years despite the reduction in excise taxes which should have lowered the index by about 0.3%. After seven years of remarkable stability, wholesale prices moved up appreciably, and by year end the index was up 3.4% over a year earlier.

Corporate profits continued their growth for the fifth successive year. The published amounts were increased substantially by conceptual changes in the method of computation used by the Department of Commerce. Much the greater part of the 1965 increase was recorded in the first quarter; increases thereafter were quite modest. The high level of corporate profits in recent years has been a major factor in stimulating the demand for new plant and equipment, and has provided a large part of the funds to finance their acquisition.

Contrary to the experience of 1964, tensions in the international area eased somewhat and difficulties with our balance of payments declined as the year advanced. Two important reasons for this were the voluntary foreign credit restraint program and the

gradual improvement in the position of sterling.

Three developments which occurred in early December, after most of the forecasts were prepared, may influence economic activity in 1966. They were: (1) announcement by the Treasury Department of higher Federal expenditures and a larger deficit in the current fiscal year; (2) a sharp upward revision in the estimates of past and future expenditures for new plant and equipment; and (3) an increase by Federal Reserve Banks in the discount rate from 4% to 4½% and a concurrent increase by the Board of Governors in maximum rates payable on time deposits. The latter moves were followed by sharp upward adjustments in interest rates.

THE FORECASTS IN BRIEF

The forecasts are unanimous in predicting that economic activity generally will be distinctly higher in 1966. The amount of the expected improvement varies but in a great majority of cases it falls between 5% and 7%. Only an occasional forecaster makes a qualified prediction that activity in some particular sector, such as steel or automobiles, *might* be a little lower. Generally, there is no discernible pattern or time table for variations in rates of growth, although a few forecasts call for a slightly slower growth rate in the first quarter because of the liquidation of steel inventories and the impact of higher payroll taxes.

Gross National Product The forecasts for 1966 GNP in current dollars are heavily concentrated in the area between \$710 billion and \$720 billion. The mid-point of this range—\$715 billion—would represent an increase of 5.8%, and would be slightly less than the percentage gains actually realized in 1964 and 1965. After allowance for expected price increases, the increase in “real” GNP would be about 4.1% contrasted with increases of 5.0% in 1964 and 5.5% in 1965.

The forecasters are in essential agreement that three factors will provide most of the impetus for improvement in 1966. The first is sharply higher Government spending, especially for defense, although the increase in state and local spending is also expected to pick up somewhat. Total Government expenditures for goods and services are expected to approximate \$147 billion—an increase of nearly 9% over 1965. The second factor is a continuation of large business investment expenditures, mainly for new plant and equipment. Finally, the consumer is expected to provide solid support for the uptrend by increasing his expenditures in the amount of some \$24 billion, which would raise the total to \$450-\$455 billion and be an increase of about 5.6% over 1965.

Larger social security benefits and higher pay scales for military and civil service personnel are mentioned as factors which may encourage larger consumer outlays.

Gross private investment, another major component of GNP, is expected to rise from about \$105 billion to near \$108 billion. Included in this is an increase in inventories which is expected to amount to only about \$5 billion compared to \$7 billion in 1965. Thus, the forecasters definitely do not anticipate a speculative buildup of inventories; as one writer put it, they will be a “neutral rather than a disturbing factor.”

Employment and Unemployment For the first time in a number of years, several forecasters show some concern about a tightening labor market. As one expressed it, American industry is now “pressing against its manpower ceiling” and further employment gains “will be from the ranks of marginal labor,” which is likely to result in higher unit labor costs. Another forecaster gave the arithmetic of the situation in simple terms. In 1965 employment rose by 1.7 million while the labor force was rising by only 1.3 million. Unemployment was down by 425,000. In 1966 the labor force should grow by about 1.4 million of which the armed forces may take some 275,000, leaving an increase in the civilian labor force of a little more than 1.1 million. If employment should increase as much in 1966 as it did in 1965, some 600,000 would have to come from the ranks of the unemployed, which would bring “powerful upward pressure on wages and prices.” This was in line with a recent statement of the Chairman of the Council of Economic Advisers, who said that “the difference between 5½% and 6% unemployment has little importance for price levels, while the difference between 3½% and 4% may be quite significant.”

Of the forecasters who gave figures, only a few predicted a rate of unemployment below 4% for 1966. The others gave figures varying from 4.1% to 4.7%, which would average somewhat above the rate prevailing at the end of 1965. The arithmetic in the preceding paragraph would give a figure of about 3.7%. It would appear that in many cases the estimates of employment and unemployment have not been closely integrated with the other elements of the forecasts.

Industrial Production Industrial production is expected to increase somewhat less in 1966 than in 1965. From a 1965 average of 143 and a year-end figure of 148, most forecasters expect a rise to about 148-150 on the Federal Reserve index. This would

be an average increase of six points compared with an increase of eleven points in 1965. Production of steel, automobiles, and business equipment engage most of the forecasters' attention. The output of business equipment will almost certainly rise substantially but there are questions about the other two. Production of passenger automobiles in 1965 was about 9.3 million units, due in part to low inventories at the beginning of the year. Sales of domestic cars were about 8.7 million units, nearly 1.1 million above 1964. With inventories generally adequate at the beginning of the year, sales in 1966 would have to rise by some 600,000 units to support production equal to that of 1965. A few forecasters see the possibility of some decline in sales; none predicts any significant increase in production.

Despite the sharp slowdown after September 1, steel production set a record of more than 131 million tons in 1965. Large excess inventories were accumulated as a strike hedge in the first eight months of the year and some part of them probably was carried over into 1966. In view of these remnants and with little, if any, increase in automobile production likely, forecasters generally see no increase in steel production and a few predict small declines.

New Plant and Equipment Expenditures for new plant and equipment have been rising steadily and rapidly for nearly three years, reaching a total of nearly \$52 billion in 1965. Concurrently, capital appropriations were increasing even more rapidly, producing a backlog of unspent appropriations at the end of September 1965 of more than \$18 billion. In early December, data for past and estimated future expenditures were revised sharply upward by about \$1 billion at an annual rate. This revision largely invalidated most of the forecasts on this sector since they were made before the revised data were available. Several of the forecasts predicted increases of 8% to 12% instead of giving absolute figures. Even before the new figures were released, most forecasters were looking to these expenditures as a major factor to lead the economy upward in 1966. Of course, they assume even greater importance now.

Construction For the large construction sector of the economy, the forecasters anticipate continued moderate growth in 1966. For residential housing, the analysts see four major factors which will largely determine the rate of activity. They are: income, the rate of family formation, credit terms, and governmental assistance. Income is expected to remain favorable. In this connection, one observer notes that if defense outlays rise sharply, the states of the Far West, where defense industries are heavily con-

centrated and where housing demand has been weak, will be especially benefited. The rate of family formation is expected to pick up in the near future but not soon enough to have any significant effect in 1966. Interest rates on mortgages have been stable and comparatively low throughout this upswing, but most forecasters expect them to be somewhat higher this year. A new element in the governmental assistance program is the Housing and Urban Development Act of 1965, but it is generally expected that it will be some months yet before its effects will be felt. As a result of all these considerations, the predictions for private nonfarm housing starts in 1966 range between 1,500,000 and 1,565,000, which would be a modest gain over 1965.

In the industrial and commercial sector of construction—covering such things as factories, warehouses, office buildings, and utility plants—the volume of activity is about \$10 billion per year. It is expected to rise moderately in 1966, perhaps by about 3%. The large public construction sector includes such items as hospitals, schools, highways and streets, and water and sewer facilities. The general expectation is that activity in this area will continue to move up at about the same rate as in recent years, which is about 5%. For all sectors combined, expenditures for new construction in 1966 are estimated at about \$72 billion, which would be an increase of approximately 6% over the \$68 billion for 1965.

Corporate Profits The forecasters expect a sharp reduction in the growth rate of corporate profits in 1966 and a few even mention the possibility of an absolute decline. The figures for corporate profits discussed here are quite different from the figures used in previous years. During the past summer the Department of Commerce made substantial revisions in its methods of computing GNP and its major components. The combined definitional and statistical revisions in methods of computing corporate profits before taxes had the effect of increasing the figure for 1964 by \$7.2 billion, or 12.5%. For profits after taxes the increase was \$5.4 billion, or 17.0%. These changes do not affect the comparisons made here since revised data are used throughout but the level of profits is considerably higher than it would have been on the old basis.

In 1965 corporate profits before taxes not only scored their fifth successive annual increase, but they registered the largest gain, by a considerable margin, for any year in the upswing. The gain probably was between \$9 billion and \$10 billion. Such a large

RESULTS FOR 1965 AND EXPECTATIONS FOR 1966

	Unit or Base	1965*	1966**
Gross national product	\$ Billions	676	710 to 720
Personal consumption expenditures	\$ Billions	429	450 to 455
Government purchases of goods and services	\$ Billions	135	146 to 148
Gross private domestic investment	\$ Billions	105	107 to 109
Net exports of goods and services	\$ Billions	7	6.0 to 7.0
Index of industrial production	1957-59	142	148 to 150
New construction put in place	\$ Billions	68	71 to 73
New plant and equipment expenditures	\$ Billions	52	56 to 59
Change in business inventories	\$ Billions	+7	+4.5 to +5.5
Corporate profits before taxes	\$ Billions	74	76 to 78
Rate of unemployment	Per cent	4.6	4.1 to 4.7
Wholesale price index	1957-59	102.5	103.5 to 105.0
Consumer price index	1957-59	109.8	111.5 to 112.5

*Estimated figures.

**Figures are rough approximations of the typical forecast for 1966.

gain coming so late in the period of expansion, was indeed surprising. Several factors contributed to it: (1) the remittance of profits from abroad by foreign subsidiaries; (2) the high and rising volume of business; (3) comparatively stable unit labor costs; and (4) in some lines, small price increases. For profits after taxes there was added the two percentage point reduction in the rate of the Federal income tax.

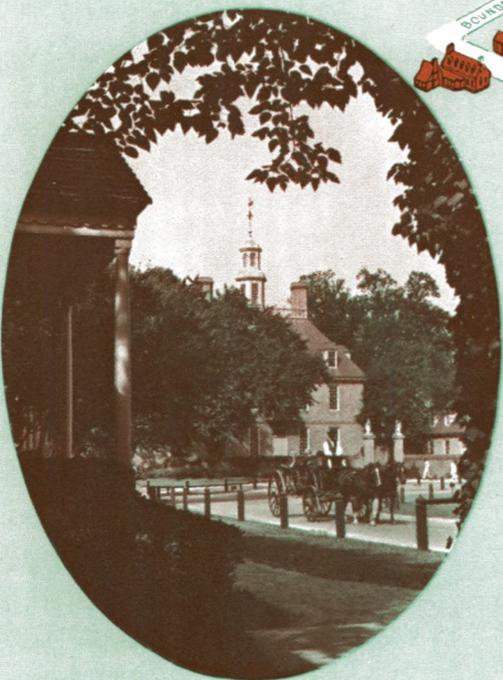
Most of the 1965 gain was realized in the first quarter. Profits before taxes rose from an annual rate of \$65.9 billion in the fourth quarter of 1964 to \$73.1 billion in the first quarter of 1965. The comparable increase in profits after taxes was from \$37.8 billion to \$44.0 billion. Increases in the second and third quarters were quite small.

Forecasters looked at the very large gain made in 1965 and were unable to see any repetition in 1966. Remittances from abroad are not likely to show any further gain. Unit labor costs have risen some and are likely to rise more. Prices of many industrial materials have risen sharply, while several factors discourage producers from raising the prices of their products. Depreciation charges are rising steadily and rapidly on an ever-growing plant investment. Employers' payroll taxes will rise by more than \$2 billion in 1966; it may not be possible or feasible to pass on all of the increase. Profits after taxes will not be boosted by any further reduction in the income tax rate. In the light of all these considerations, the few forecasters who make specific predictions see only modest gains in the order of \$2 billion to \$3 billion in corporate profits in 1966.

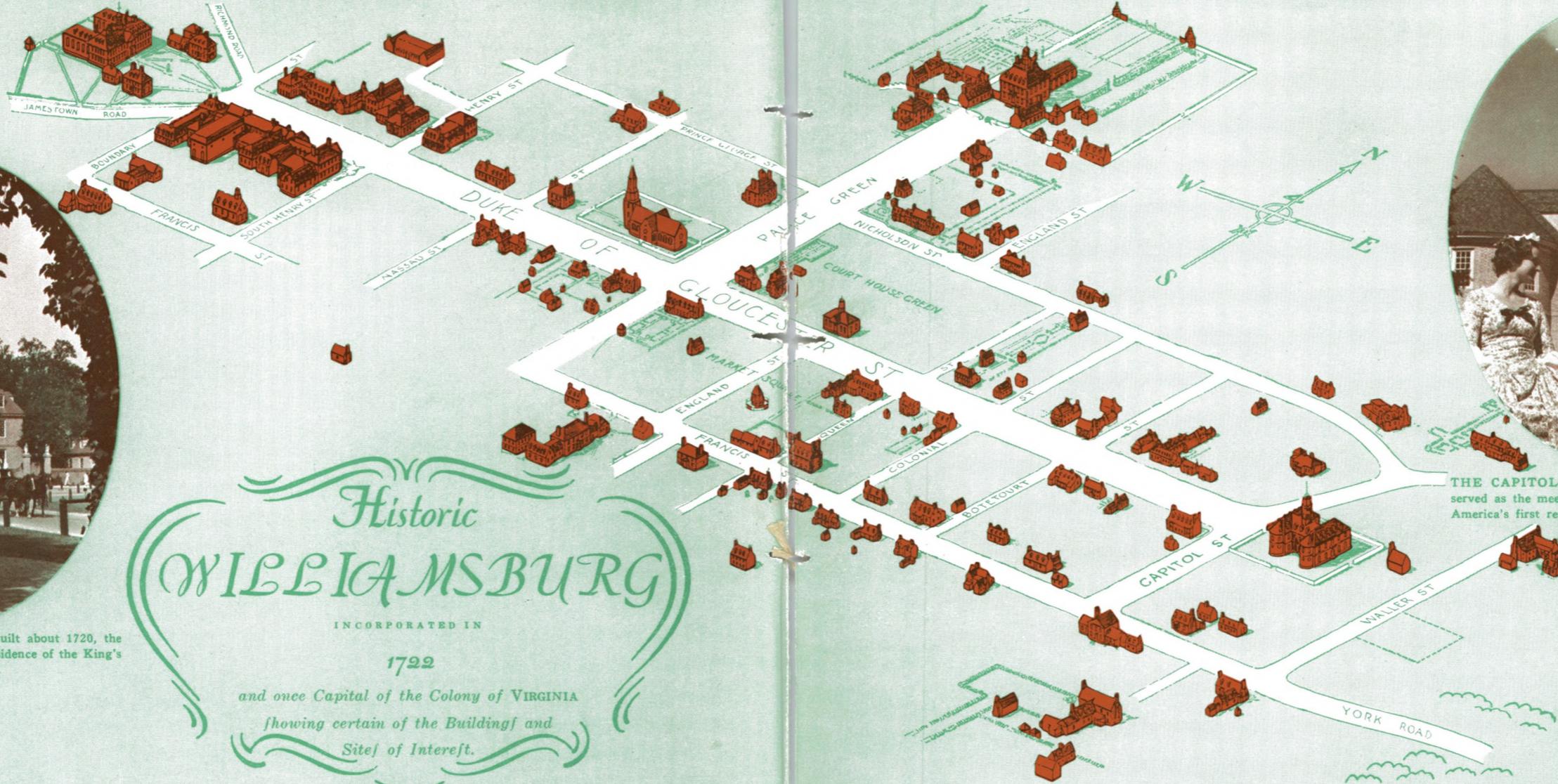
Prices Those forecasters who deal with the point are unanimous in predicting greater price increases in 1966 than in 1965. The reasons assigned include a tighter labor market, higher wages, slower growth in productivity, higher payroll taxes, and a considerably expanded program of military procurement. Generally, the predictions are for only modest increases on the order of 2%—none foresees any rapid inflationary buildup. The venturesome few who set down absolute figures quoted 103.5-105.0 for the wholesale price index and 111.5-112.5 for the consumer index.

Summary In summary, the consensus of forecasters is that 1966 will see a gain in economic activity slightly less than that realized in 1965. The principal factors which are expected to provide the impetus are increased defense expenditures, a strong program of business investment, and vigorous consumer spending, sustained by higher social security benefits and rising wages and salaries. Construction is expected to sustain but not stimulate the rise. A considerably slower growth of corporate profits is predicted. It is anticipated that both wholesale and consumer prices will rise somewhat more than in recent years but not enough to create serious problems of inflation.

A compilation of forecasts with names of forecasters and details of estimates may be obtained from the Federal Reserve Bank of Richmond.



THE GOVERNOR'S PALACE—Built about 1720, the Governor's Palace was the official residence of the King's representative to the Virginia Colony.



Historic
WILLIAMSBURG
INCORPORATED IN
1792
and once Capital of the Colony of VIRGINIA
showing certain of the Buildings and
Sites of Interest.



THE CAPITOL—The Capitol was built in 1699 and served as the meeting place for the House of Burgesses, America's first representative assembly.



THE BOOKBINDER—A popular artisan in Williamsburg, the bookbinder binds 18th century books with fine handtooled leather, using tools and methods of colonial days.

Colonial Williamsburg is one of the nation's foremost tourist attractions. Since its restoration was begun in 1926, more than 13,000,000 visitors have found their way to this unique colonial city situated on the historic Virginia peninsula between the York and James Rivers, making tourism the area's chief industry. Last year more than a million tourists visited the restored city, with over 600,000 admissions to exhibition buildings. This is ample evidence of the popularity of this colonial city whose restoration to its 18th century atmosphere was made possible through the generosity of the late Mr. John D. Rockefeller, Jr.

The restoration is organized into two corporations. Colonial Williamsburg, Inc. is a non-profit educational organization, devoted to the historical and educational aspects of the restoration. It operates an Information Center, the Exhibition Buildings, the craft shops, and an extensive educational program. In 1964 the corporation's expenses totaled \$3.8 million, while its income was only \$2.7 million, leaving an operating deficit of \$1.1 million.

This deficit was financed from investment income of \$2,705,673 collected as interest on the endowment fund of the corporation, most of which was made available to Colonial Williamsburg through the personal generosity of Mr. Rockefeller. The \$1.6 million remainder of investment income, after meeting the operating deficit, was used to finance the continuing capital program which includes the purchase and restoration of historic buildings and other projects.

The second corporation—Williamsburg Restoration, Inc.—is a profit-oriented organization which operates commercial and other business properties outside the Historic Area. Included are hotels, restaurants, and a merchandising program. In 1964 the corporation's gross income was \$10,059,616 and operating expenses were \$9,278,107, leaving an operating profit of \$781,509.

Colonial Williamsburg has about 2,000 employees and paid out \$7,096,528 in wages and salaries during 1964. The combined budget for the two corporations totaled more than \$13,000,000.



CHRISTIANA CAMPBELL'S TAVERN—Christiana Campbell's Tavern was reconstructed on its original site and reopened in 1956 as a distinctive 18th century eating place.

EMPLOYMENT IN BANKING



A successful bank, like a winning football team, is often the result of successful recruiting. With the recent burgeoning of demand for clerical workers and executives at all levels, the recruitment of capable men and women in sufficient numbers is becoming increasingly difficult. The largest banks, with trained recruiters, training programs, and a wide range of possible promotions for new employees may find the task less difficult than the smaller banks; but most of the banks in the Fifth District, and in the nation, are relatively small. Small banks may also find the problem intensified by the loss of some of their best personnel to more attractive positions in larger banks, but the movement is not all in one direction. Larger banks frequently help their smaller correspondents fill key positions.

The relatively slow rate of growth in banking for many years after the Depression of the thirties retarded the hiring and training programs of most banks. Now, many of the management teams (and other senior personnel) acquired in the pre-war years are retiring or moving out of active management, and replacements for these men are often hard to find, especially since the need arises at a time when the demand for lower and middle echelon management is also rising. Many banks have been forced to sell to holding companies or merge with other banks as a result of management shortages. In a recent study of reasons given for bank mergers during the years 1955-60, a management succession problem was given as the first reason by 48% of the banks for which information was available, and the first or second reason by 63%.

Greater Opportunities In the Fifth District, the number of banks has declined in the past decade, from over 1,000 in 1955 to less than 900 today; but the number of branches has more than doubled, rising from less than 800 to almost 2,000. The combination of numerous retirements and rapid expansion of the industry has resulted in excellent opportunities for

young people in banking in recent years. Starting salaries, traditionally below those in other fields, have risen substantially and chances for steady promotion and raises are somewhat better than in most of the alternatives.

The changes in salary scales are paralleled by changes in the type of work expected of the bank employee. Today's typical bank is competing vigorously for the privilege of selling an ever-increasing variety of services, and is intensely aware of the importance of good public relations. The small borrower as well as the small saver is welcome in most banks, and in fact loans are actively solicited through advertising and by sales-minded loan officers.

Room at the Top Bank management teams have also been greatly enlarged. A generation ago, many banks, even some rather large ones, were operated primarily by a small group consisting of the top two or three officers. Few other officers were called upon for important management decisions. In today's complex and highly competitive business world, the typical view of management responsibility is much broader. New markets, new tools, and a new banking environment have created a pressing need for larger and more diversified management teams. Increased compensation of junior officers relative to top management reflects the trend. Rapid geographic dispersion of banking offices through mergers and the establishment of new branches has also created a need for more management personnel. Each branch, no matter how small, must have at least one person capable of making limited management decisions.

There was a time when most bankers acquired their skills very slowly and gradually. Many of today's top bank executives found the road to the top to be very different from the route being followed by most young bankers today. The typical future bank executive of a generation ago began work for his bank at a very early age, perhaps just out of high

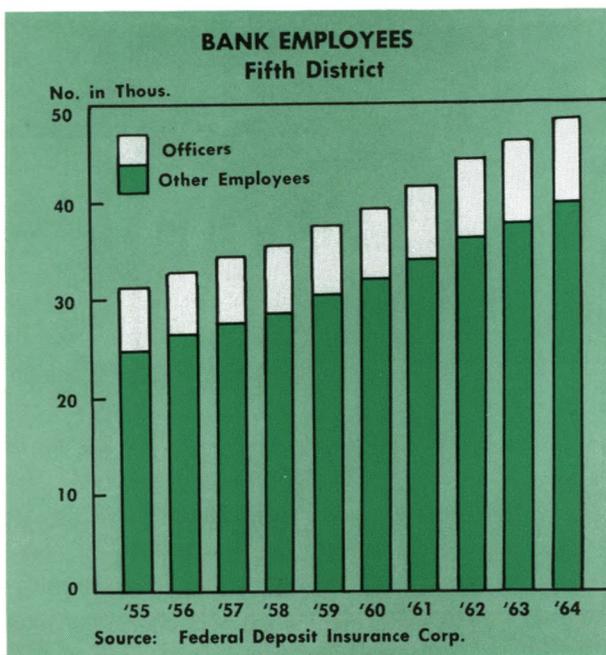
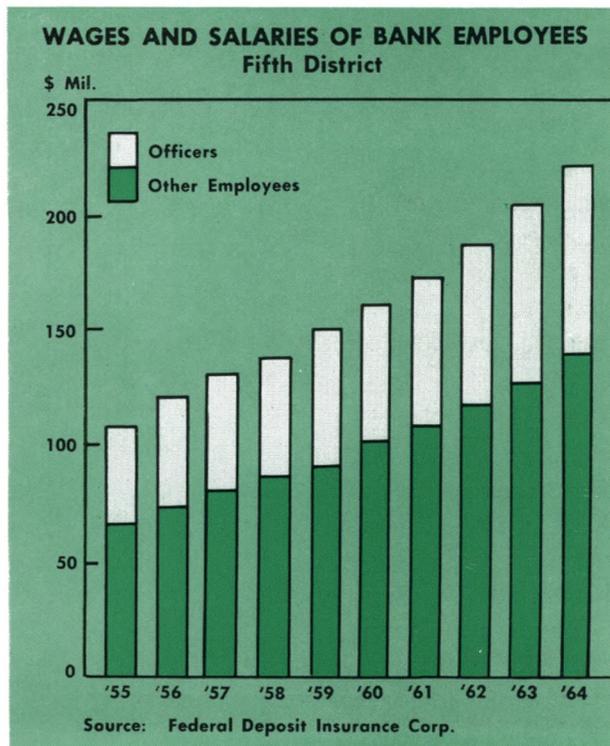
school. He worked first as a messenger or office boy, then moved up the line through a variety of clerical jobs until, after 20 or 25 years, he was elected an officer.

Changes in hiring and training policies throughout the economy, plus rapid expansion in banking, make it impossible for most new bankers to follow the same route today. Now, the ladder to the top is usually much shorter. Many new officers have more formal education than was typical a few years ago, but less practical experience. At some of the larger banks, there are extensive training programs designed to convert inexperienced young men and women into capable bank officers in record time.

Automation Higher starting salaries, training programs, and rapid promotions have helped fill the executive ranks, but banks have been forced to turn to other means to meet growing shortages of clerical personnel. Some banks have found handicapped workers, unsuited to many types of manufacturing and sales work, to be ideal for a variety of clerical jobs. Others have turned to part-time help, primarily housewives and college students, to meet peak seasonal or weekly demands. But many banks are now meeting the challenge of rapid growth through the use of electronic data processing. New electronic equipment, including computers, differs significantly from the adding machines, calculators, and billing machines which have been used for many years. The new machines may carry out an extended series of

operations when triggered by a single stimulus, instead of having to be fed additional information by hand. In fact, much of the equipment is designed around the ability of the machines to store large amounts of information in relatively little space, and to process and deliver the information as required.

Computers and other electronic devices are not, in general, replacing present bank employees. In-



stead, they are being used to make possible a wider range of services, sometimes at greater speed, and to handle volumes of business which would require much larger clerical staffs—if they could be found. To the extent that it affects personnel policies, electronic data processing is primarily a tool for coping with shortages of workers, rather than replacing existing employees.

Ten-Year Gains The sustained rapid increase in bank employment and wages and salaries paid by banks in the Fifth District over the past decade are shown in the accompanying charts. The total number of bank employees rose from 31,000 in 1955 to 48,000 in 1964, a gain of more than 55%. By contrast, the total number of nonagricultural employees in the Fifth District rose by only 20.7% in the same period. As might be expected, the number of of-

**NUMBER OF BANK EMPLOYEES, 1955 AND 1964
BY STATES**

	Officers		Other Employees		Total Employees	
	1955	1964	1955	1964	1955	1964
D. C.	438	605	3,182	3,845	3,620	4,450
Md.	940	1,245	5,012	7,680	5,952	8,925
Va.	1,810	2,465	6,510	10,583	8,320	13,048
W. Va.	711	872	2,231	3,268	2,942	4,140
N. C.	1,601	2,364	5,726	10,464	7,327	12,828
S. C.	679	1,014	2,242	3,971	2,921	4,985
TOTAL	6,179	8,565	24,903	39,811	31,082	48,376

Officers increased somewhat less rapidly than the number of other employees. One of the economies of larger scale operation is that management can be used more intensively; that is, it is not necessary to increase the size of the management team as rapidly as the size of the total operation. The statistics show that Fifth District banks have taken advantage of that relationship. The number of officers increased from slightly over 6,000 in 1955 to 8,500 in 1964, or about 39%, while the number of other employees rose from 25,000 in 1955 to about 40,000 in 1964, a gain of 60%.

Wages and salaries paid to bank employees in the Fifth District rose much more rapidly than the number of employees. The total rose over 103% during the decade, from \$109 million to \$222 million. The increase for officers was only 91%, up from \$43 million to \$82 million, but payments to other employees totaled over \$140 million in 1964, 111% higher than the \$66 million paid in 1955.

In discussions of salaries, averages may be very misleading. In banking, average salaries for many years have been relatively low, but large numbers of part-time and semi-skilled workers give the statistics a downward bias which is quite unrealistic. Also, many top bank officers, especially in smaller banks, are substantial stockholders in their banks, and take much of their pay in capital appreciation instead of salary. Thus the average bank salary in the District was approximately \$3,500 in 1955, and rose 31.4% to \$4,600 in 1964. For officers, the increase was from \$6,900 to \$9,500, a gain of 37.7%. Salaries of other employees rose 29.6%, from \$2,700 to \$3,500. By comparison, the average of all nonfarm wages and salaries in the District, including those

**WAGE AND SALARY PAYMENTS TO
BANK EMPLOYEES, 1955 AND 1964
BY STATES**

(thousands of dollars)

	Officers		Other Employees		Total Employees	
	1955	1964	1955	1964	1955	1964
D. C.	4,686	8,027	10,029	16,614	14,715	24,641
Md.	5,935	11,997	12,776	28,393	18,711	40,390
Va.	11,570	22,277	16,639	35,880	28,209	58,157
W. Va.	4,552	7,722	5,943	11,079	10,495	18,801
N. C.	11,643	22,596	15,280	35,289	26,923	57,885
S. C.	4,386	9,218	5,707	12,852	10,093	22,070
TOTAL	42,772	81,837	66,374	140,107	109,146	221,944

in banking, rose 36.8% from \$3,800 in 1955 to \$5,200 in 1964.

The rate of expansion in Fifth District bank employment varies widely from state to state. Apparently, the most important factor in the determination of the rate of growth in employment during the past decade was the number of new offices opened. Employment rose most rapidly in North and South Carolina, both of which permitted statewide branch banking over the entire decade. In North Carolina, the total number of employees rose from 7,327 in 1955 to 12,828 in 1964, a gain of more than 75%. The increase in South Carolina was almost 71%, from 2,921 to 4,985. In the District of Columbia, where branching is limited by the boundaries of the District, employment rose only about 23%, from 3,620 to 4,450; and in West Virginia, which prohibits branch banking, the increase was only from 2,942 to 4,140, less than 41%.

Virginia, which has permitted limited branching since 1947, revised its laws to permit statewide branching through merger in 1962. Total bank employment in Virginia, which increased 57% over the decade, from 8,320 to 13,048, continued at the highest level in the District, but North Carolina had narrowed the gap sharply to a difference of only 220 by 1964.

Although the percentage increases in bank employment and wages and salaries paid in banking over the past decade have been substantial for the Fifth District, in absolute terms the changes are small compared with those in many other industries. The key role played by banking in economic development means, however, that these changes represent a significant contribution to the growth of the area's economy.

THE FIFTH DISTRICT



AGRICULTURAL OUTLOOK FOR 1966

Agricultural market demand, both domestic and foreign, will likely continue to expand in 1966. Farm earnings are expected to be up. The production and price outlook for livestock appears favorable, and the Food and Agriculture Act of 1965 will provide some increase in crop income. Farmers' total realized net income (income above production expenses that has not been adjusted for changes in inventories) is thus expected to rise. Realized net income per farm and per capita disposable income of the farm population should also be better. This, in a nutshell, is the outlook for the nation's farmers in 1966 as viewed by top analysts of the U. S. Department of Agriculture.

In appraising the agricultural outlook for the year ahead, USDA's economists assumed average growing conditions and considerable participation in the new farm program, especially as it relates to cotton, wheat, and feed grains. They also assumed a continued advance in the Gross National Product, along with increases in employment and in consumer incomes.

Farm Prices, Costs, and Income Crop prices in 1966 are expected to average lower than last year, and cash receipts from crop marketings will probably run somewhat below 1965 levels. With larger direct Government payments to farmers participating in the major farm programs, however, total crop returns will likely be higher than in 1965. On the livestock side, 1966 gives promise of being another good year.

Farm costs are expected to continue their long-term upward trend. The 1966 rise in production expenses is not expected to be as large as in 1965, however. A number of important production items, notably fertilizer and pesticides, will likely be more costly. And it appears highly probable that farmers' expenditures for taxes, interest, insurance, and wages will increase. Depreciation and other overhead costs will also rise further.

The nation's realized gross farm income holds promise of chalking up a further gain in 1966, possibly going slightly above the \$45-billion mark compared with about \$44 $\frac{1}{4}$ billion in 1965. The continued rise in farm costs, even though probably not as great as the increase in 1965, will offset much

of the anticipated gain in gross farm income. Total realized net income thus may show an increase of \$ $\frac{1}{4}$ to \$ $\frac{1}{2}$ billion over 1965's \$14 billion.

Supply and Demand Conditions The 1965-66 *supply* situation varies considerably depending upon the commodity in question. Peanuts and soybeans are at record levels, and cotton supplies are the largest since 1956. Feed grains are up slightly, while supplies of most kinds of tobacco continue large relative to requirements. Wheat and red meat supplies, on the other hand, are below year-ago levels. Canned vegetable supplies are about the same as last year, but those of frozen vegetables are moderately larger. Total fruit supplies may remain about the same, but some major fruit groups will differ significantly.

Strong *demand* conditions, both at home and abroad, are expected for farm products in 1966. Healthy general economic activity and rising consumer incomes are indicated here and in foreign markets. Domestically, the combination of a growing population and the projected strong advance in the business upswing is expected to spur spending. Rising incomes may bring some shifts in demand among foods, but per capita consumption will hold about steady. Larger expenditures for food will likely result from increased services, more restaurant meals, and greater military food procurement.

Exports of United States farm products in the current fiscal year may total \$6.2 billion—up from \$6.1 billion in each of the past two years. But the gain in volume may be greater than the gain in value. A new record is in prospect for dollar sales. Large shipments of food to less developed countries under Food-for-Peace programs will continue. Biggest dollar earners in markets abroad are expected to be soybeans and soybean oil, feed grains, wheat, and tobacco.

Commodity Highlights A capsule view of the outlook for major District commodities shapes up in this manner:

Poultry and Eggs: The outlook for 1966 points to a large increase in the production of both broilers and turkeys but only a slight rise in the output of

eggs. Demand for broilers and turkeys is expected to benefit from small red meat supplies into summer and from rising consumer incomes. Increasing supplies of pork later in the year and the substantially larger output of broilers and turkeys will influence prices considerably. Lower average prices to broiler and turkey producers are a distinct possibility. Turkey prices, however, may not fall below year-earlier levels until the second half of the year. On the other hand, egg prices in the early part of the year will probably run above the depressed level of a year ago but for the year as a whole may average about the same as in 1965.

Meat Animals: Focusing on the livestock picture, it appears that the relatively favorable situation that existed for most livestock farmers in 1965 will continue in 1966. Cattle, hog, and lamb prices seem likely to average higher than in 1965. Cash receipts are thus expected to show a further rise, despite the possibility of slightly reduced marketings.

Feeder cattle prices will probably record a strong seasonal rise this winter and remain relatively strong throughout the year. Sustained price strength for hogs through most of 1966 is indicated if hog slaughter continues below year-ago levels through the summer. The extent of the buildup in the spring and fall pig crops may produce lower prices late in 1966 and in 1967, however.

Dairy Products: Prospects for dairy products in 1966 seem somewhat better on all fronts. Marketings will be slightly larger; commercial demand is expected to increase moderately; and year-end stocks are expected to hold at the 1965 level. Higher support levels and a slight increase in prices are anticipated, and dairymen's costs are expected to rise less than income from sales of milk and cream.

Tobacco: The supply position of District tobaccos varies considerably, but supplies of most types are large in relation to demand. Flue-cured supplies, down 4% from last year's record high, are beginning to adjust to a better balance with requirements.

The nation's consumption and production of cigarettes—chief outlet for flue-cured, burley, and Maryland tobaccos—reached new highs last year, and further modest gains appear likely as the smoking-age population increases. The tobacco export situation is somewhat cloudy in view of the political climate in Rhodesia—the United States' major flue-cured competitor—and the economic sanctions that have been, or may be, taken against it.

The 1966 flue-cured crop will be produced under the acreage-poundage program for the second year, with the national poundage quota, average yield

goal, and acreage allotment the same as in 1965. Burley growers will hold a referendum March 10 to determine whether or not acreage-poundage controls will be in effect for their 1966, 1967, and 1968 crops; Maryland farmers will vote February 25 to determine whether their next three crops will be grown under acreage controls. Allotments for most Virginia fire-cured and sun-cured farms will be about the same as last year. Current indications are that 1966 price support levels will be about 2% above 1965's.

Cotton: The nation's supply-demand situation for cotton in the current crop year is highlighted by another large crop, a further buildup in stocks, and an expected carry-over on August 1, 1966 of 16.5 million bales—an all-time high. Total disappearance, estimated at 13.0 million bales, is slightly below last year. Mill consumption is expected to account for about 9.5 million bales, up from 9.2 million in 1964-65, while exports will probably equal 3.5 million bales, down from the 4.1 million exported a year ago. Man-made fibers will continue to provide severe competition for cotton, both at home and abroad.

New legislation, effective for the 1966 through 1969 crops of upland cotton, is a major factor in the cotton outlook. The new program, to be discussed in detail in the *March Review*, retains a number of features of the program effective for the 1964 and 1965 crops but differs in several respects. Prominent among these differences are the strong incentives provided to cut acreage and the dropping of price supports below world price levels.

Soybeans and Peanuts: Supplies of soybeans for 1965-66 are sharply above last year's levels. A new high is expected in soybean usage, however, as somewhat lower soybean prices seem likely to stimulate record high exports and crushings for oil. But some slight buildup in carry-over stocks at the end of the current marketing year seems probable.

Peanut supplies for the 1965-66 marketing year are at an all-time high, up 7% from a year earlier. Total edible consumption may rise slightly, while crushings are expected to continue heavy and may show a slight increase over last year. Some further gain in exports also seems probable. Peanut prices are expected to average around 11.2 cents per pound, roughly the same as last year.

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