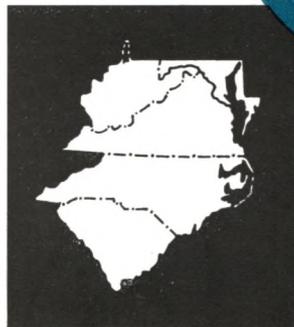


FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

The Federal Debt
Interest On The Federal Debt
Changes In Consumer Spending
The Fifth District



APRIL 1969

The Federal Debt

A not uncommon view is that the Federal debt emerged full-blown from the Great Depression. While the debt outstanding increased one and one-half times during the 1930's, this expansion is overshadowed by the steep rises which have occurred during major wars, particularly World War II. During this war a spectacular \$226.4 billion was added to the \$43 billion of debt already outstanding in 1940.* At present, the Federal debt totals over \$360 billion. This article will discuss the size, composition, maturity structure, and ownership of the Federal debt.

Size and Composition In ordinary usage, the term Federal debt includes all securities directly issued by the United States Government and a small amount of securities guaranteed by the Government. Most debt incurred by Federal agencies is excluded, even though much of it is guaranteed.

Gross Federal debt totaled \$348.1 billion in June 1968, having grown at an average annual rate of 1.7% since 1950. In contrast, state and local government debt has increased almost 10% per year during this time. As a per cent of GNP, gross Federal debt has declined from 90% in 1950 to slightly over 40% in 1968. Measured on a per capita basis, gross Federal debt is about \$50 lower than the \$1,697 level of 1950, but has risen quite steadily from the 1961 postwar low of \$1,573.

Before breaking down the major components of the Federal debt, Treasury Department data net out guaranteed securities, composed of Federal Housing Authority bonds and District of Columbia Stadium bonds. These are marketable securities sold on a one-shot or irregular basis by Federal agencies but backed by the full faith and credit of the United States Government. The remaining public debt is divided into (1) non-interest-bearing and matured debt, and (2) interest-bearing debt. Non-interest-bearing and matured debt consists primarily of special notes to the International Monetary Fund in recognition of subscription commitments and equals less than 1% of the gross debt. The important interest-bearing portion is divided into special issues,

and marketable and nonmarketable securities. The table lists the principal components of the debt, as classified by the Treasury.

Special Issues and Nonmarketable Securities

Special issues are nonmarketable securities sold directly by the Treasury to Government agencies and trust funds. In June 1968, almost \$35 billion of the \$59.5 billion of special issues outstanding was held by the two largest funds, the Federal Old-Age and Survivors Insurance Trust Fund (Social Security) and the Federal Employees Retirement Fund. The Treasury will redeem special issues on demand.

Nonmarketables are those securities other than special issues that cannot be bought or sold in the market. The original purchaser must turn them back to the Treasury for early redemption if he needs cash, or hold them until maturity. Savings bonds constitute close to 90% of total nonmarketable debt and 15% of gross Federal debt. The volume of

GROSS FEDERAL DEBT AS OF JUNE 1968

(\$ millions)

Gross Federal Debt	\$348,147
Less guaranteed securities	<u>569</u>
Total Public Debt	347,578
Less matured and non-interest-bearing securities	<u>3,178</u>
Total Interest-bearing Public Debt	344,401
Less special issues	<u>59,526</u>
Total Public Issues	284,874
Less total nonmarketable securities:	
Savings bonds	51,712
Treasury bonds, investment series	2,516
Foreign series and foreign currency series	3,741
Other	<u>312</u>
	<u>58,282</u>
Total Marketable Securities:	
Treasury bills	64,440
Treasury notes	71,073
Treasury bonds	<u>91,079</u>
	226,592

Note: Figures may not add to totals due to rounding.

Source: U. S. Treasury Department.

* All annual figures are for fiscal year-end unless specified otherwise.

savings bonds outstanding has been remarkably steady since 1950 at roughly \$50 billion. First offered in 1935, savings bonds are designed as an investment medium for relatively small individual savers and groups; commercial banks may not purchase them. Only Series E and Series H bonds are currently being sold, although a few Series J and K bonds are still outstanding. Series E bonds, which constitute the bulk of total savings bonds outstanding, are sold at a 25% discount and are redeemed at par in seven years. Series H bonds are issued at par and redeemed after seven years, with interest paid semiannually. As with marketable bonds, interest on savings bonds is restricted by law to a 4¼% maximum coupon rate. The 5% Freedom Shares currently being offered to purchasers of Series E bonds are exempt from the ceiling because they are classified as notes.

The balance of nonmarketable debt outstanding is composed principally of "convertible" bonds and two foreign series issues. The convertibles, officially named Investment Series B, are nonredeemable bonds which were offered in exchange for certain marketable issues following the Treasury-Federal Reserve Accord in 1951. The bonds may be exchanged for marketable 1½%, 5-year notes. The two foreign series consist of special notes and bonds issued to foreign governments either in exchange for dollars or to facilitate currency transactions. The "other" category includes Freedom Shares, Rural Electrification Administration bonds, and Depositary bonds issued to banks as recompense for their handling of Government payrolls.

Marketable Securities Marketable issues totaled \$226.6 billion in June 1968, or 66% of all interest-bearing public debt. These issues are classified as marketable because they may change hands an unlimited number of times after their original sale. The heart of the secondary market is in New York City where about 20 Government securities dealers maintain a highly organized market capable of handling huge volumes of transactions.

There are four marketable instruments sold directly by the Government: Treasury bills, certificates of indebtedness, notes, and bonds. Of these, Treasury bills are the shortest term, with maturities of 91, 182, 270, or 365 days. The two shorter bills are auctioned weekly, and the two longer ones, monthly. Bills are sold on a discount basis, with the yield determined by the difference between the purchase price and par. In addition to the regularly auctioned bills, tax anticipation bills are offered from time to time depending on the Treasury's need for

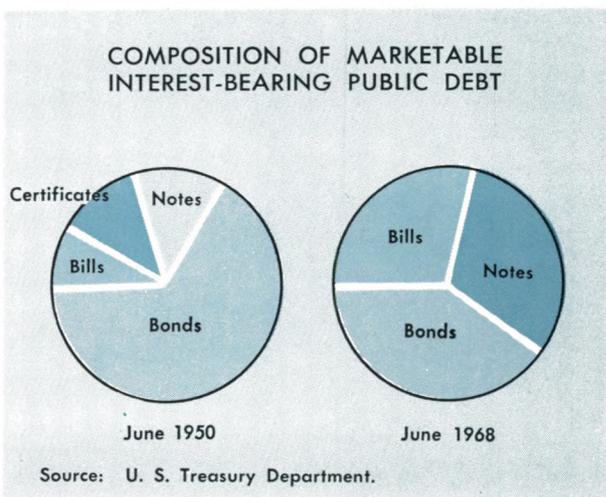
additional revenue. The increase in bills as a share of marketable debt from about 9% in 1950 to almost 30% in 1968 bears witness to their growing importance as a debt instrument.

In contrast to Treasury bills, certificates, notes, and bonds are coupon issues and interest on them is paid regularly at set dates. They are generally sold through the solicitation of subscriptions. Depending on the terms of the offering, payment is either in maturing issues or cash. By law, certificates must mature within one year. Between 1950 and 1963 certificates outstanding averaged 12% of total marketable debt. In 1963, their use was discontinued in favor of bills, but in 1966 they were revived in a limited way. Currently, however, there are none outstanding.

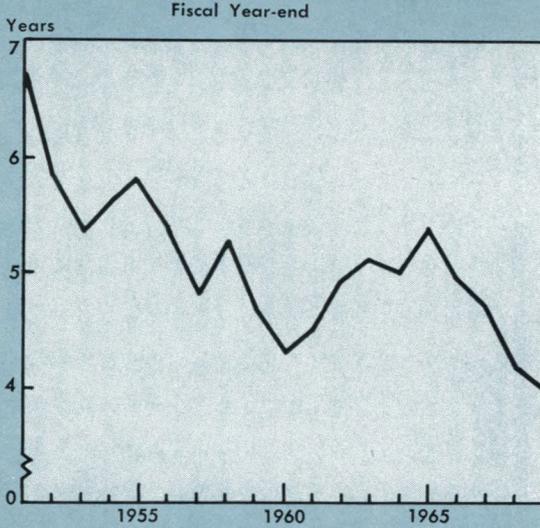
Notes may have maturities of not less than one year or more than seven. (The maximum maturity was extended from five years to seven in June 1967.) At present they equal about 30% of marketable debt, somewhat higher than their average of 23% since 1950.

Bonds may have any original maturity but in practice these maturities exceed five years. Their relative importance has diminished since 1950 when they accounted for 66% of total marketable debt. By 1962, bonds accounted for only 38%. While the continued redemption of war debt has accounted for some of the attrition, the 4¼% ceiling on the coupon interest rate on bonds has been the principal deterrent to bond sales since the fourth quarter of 1965 when rising interest rates rendered them noncompetitive at the ceiling level. The pie chart illustrates the changing mix of marketable debt.

Maturity Reflecting the decreasing proportion of bonds, the average maturity of marketable interest-



AVERAGE MATURITY OF MARKETABLE INTEREST-BEARING PUBLIC DEBT



Note: Final figure is for December 1968.
Source: U. S. Treasury Department.

bearing debt declined from eight years and two months in June 1950 to four years and four months in June 1960, despite moderate lengthening which occurred in 1954, 1955, and 1958. The trend was reversed temporarily in the first half of the sixties with the development of the advance refunding technique. This technique permitted the Treasury to offer holders of selected Government securities the option of exchanging them for longer term bonds before they were scheduled to mature. The sale of bonds was facilitated in this way because the Treasury could schedule the refundings to take advantage of favorable market conditions. The eleven advance refundings completed between June 1960 and January 1965 contributed substantially to the lengthening of the debt to a peak of five years and five months in January 1965. No bonds have been sold since May of 1965. In December 1968 the average maturity of the debt fell to a postwar low of four years. The increase in the legal maturity of notes from five to seven years was an attempt to realize some debt extension in the face of the interest rate ceiling which currently prevents bond sales.

Ownership The Federal debt may be classified as officially or privately held. Official holdings refer to those of United States Government trust funds and agencies and of the Federal Reserve System. While ownership patterns have fluctuated since 1950, the proportion of the debt officially held has increased. During these years, the Federal Reserve

and Government investment accounts have absorbed \$66 billion, or 73% of the entire \$91 billion increase in gross Federal debt outstanding. The officially held portion currently totals about 38% of gross Federal debt, up from 22% in 1950. The rapidly growing portfolios of Federal agencies and trust funds have reflected the absolute growth in their investment funds. Also, from time to time in recent years, the Treasury has tried to mitigate congestion in the capital markets by absorbing as much Government debt as possible directly into the Government's own portfolios. About three-fourths of the combined portfolios of the Government trust funds consists of special issues with the balance comprised of securities purchased on the open market.

The size of the Federal Reserve System's portfolio of Government securities is determined by a number of complex processes. Unlike the Government trust accounts, the System does not hold any securities for investment purposes, but rather as tools for the implementation of monetary policy. Through open market purchases and sales of securities the Federal Reserve System is able to influence commercial bank reserve positions and hence general credit conditions. In the broadest sense, the absolute increase in System holdings from \$23 billion in June 1951 to \$52 billion in June 1968 reflects the expansion of the economy. Over three-quarters of the total growth in the System's portfolio since 1950 has occurred since 1960. From 1951 through 1961, the Federal Reserve's share of gross Federal debt remained very close to 9%. Since 1962, however, this percentage has risen steadily, reaching 15% in June 1968.

In contrast to the 118% increase in the officially held portion of the debt since 1950, the privately held portion has grown by less than 1% and the total of privately held marketable securities has actually declined about 9%. Commercial banks dominate the market for privately held Government securities. Since 1950 their share has fluctuated between \$55 billion and \$65 billion, but their holdings as a per cent of gross Federal debt have slipped steadily from about 25% to 17%. Faced with rising interest costs and strong loan demand, banks have pared their holdings of Governments to switch to higher yielding investments. Banks must hold sufficient Governments to secure certain public deposits, however.

While individuals hold a larger share of the Federal debt than commercial banks, about two-thirds of their holdings are savings bonds. Individuals' ownership of marketable securities has fluctuated with the relative attractiveness of the return on the

securities. For instance, the period of high rates in 1959 induced individuals to add \$7 billion of Governments to the \$16 billion they already held. Since 1964, individuals have again been increasing their holdings of Governments, although irregularly.

In 1961, state and local government funds displaced individuals as the second largest nonbank holders of marketable securities. To some extent, this development reflects statutory restrictions on investment choices which prevent managers of many of these funds from switching out of Governments into higher yielding securities.

Aside from state and local governments, only two other categories of holders of Federal debt have increased their share since 1950: foreign and international accounts, and miscellaneous, which includes savings and loans, dealers and brokers, nonprofit institutions, and corporate pension funds. Foreign holdings have climbed from 2% to 8% of the total privately held marketable portion, and miscellaneous holdings account for about 11% of this portion, up from 4% in 1950. Corporations, insurance companies, and mutual savings banks have all decreased

their holdings of Governments since 1950 in favor of higher yielding investments.

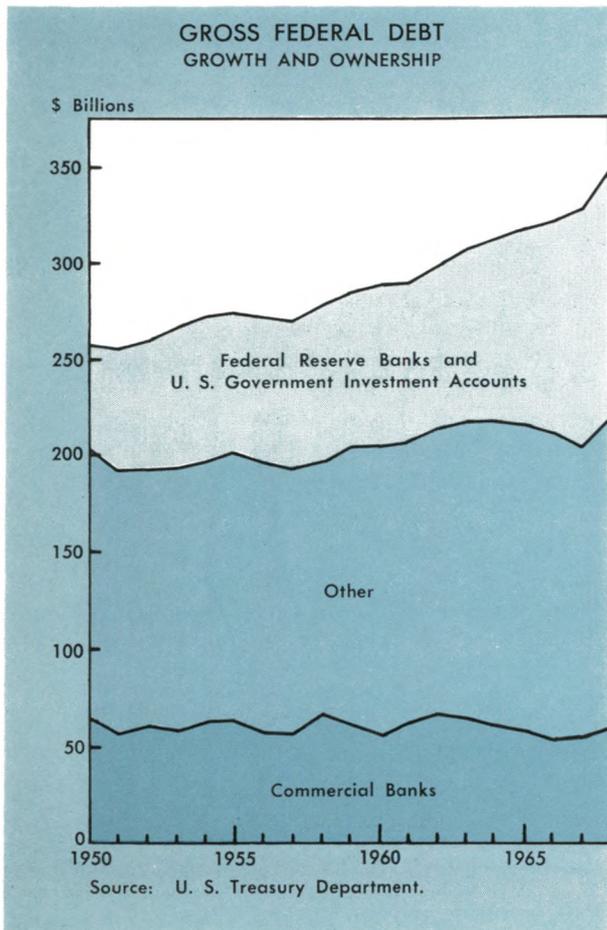
Participation Certificates and Federal Agency Borrowing A discussion of the Federal debt would not be complete without mentioning participation certificates (PC's). While these securities are not included by the Treasury in its tables on total Federal debt outstanding, PC's issued during fiscal 1968 are subject to the debt ceiling established by Congress. Currently, about \$3.3 billion of the \$11.1 billion of PC's outstanding are subject to limitation.

A PC represents a beneficial interest in a pool of assets (loans and mortgages) belonging to various eligible Government agencies. The agency collects the interest and principal payments on the pooled loans and uses these funds, in turn, to service the PC's. While both the Federal National Mortgage Association (Fannie Mae) and the Export-Import Bank had sold participations in their loan portfolios prior to 1966, the passage of legislation in that year greatly broadened the use of PC's by increasing the number of agencies eligible to pool their loans under Fannie Mae's trusteeship. The Export-Import Bank continues to sell its own PC's independently of Fannie Mae. In September 1968, when Fannie Mae was divided into two agencies, the role of trustee was retained by the Government National Mortgage Association (Ginnie Mae) together with the special assistance and management and liquidating functions. The secondary market operations function remained with Fannie Mae, which became a privately owned, Government-sponsored corporation.

Prior to the adoption of the unified budget, PC sales were treated as a direct offset to budgetary outlays on the grounds that they represented a sale of agency assets and a reduction of loan disbursements. The new unified budget, however, treats PC's as another borrowing tool, like bills, notes, or bonds.

Apart from the total Federal debt subject to the statutory debt ceiling, there is another \$15 billion of debt outstanding incurred by Federal agencies. More than half of this total consists of PC's backed by assets of several agencies, and most of the remainder is comprised of securities sold by the Export-Import Bank and the Defense Department's Family Housing Program. Finally, there are now five privately owned, Government-sponsored corporations with a combined debt outstanding of \$21 billion, namely, Fannie Mae, the Federal Land Banks, the Federal Home Loan Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives.

Jane F. Nelson



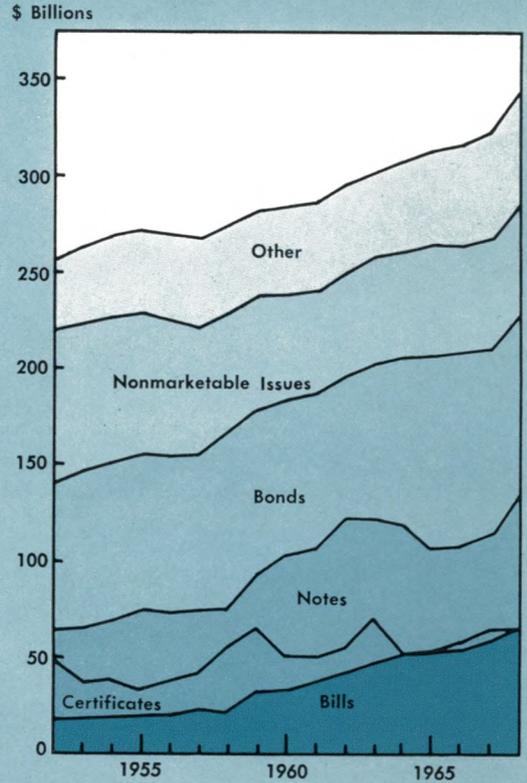
Interest On The Federal Debt

Interest payments on the Federal debt have burgeoned in recent years, due largely to rising interest rates and the mounting Federal debt. Between the fiscal years 1958 and 1968 interest payments nearly doubled, from \$7.6 billion to \$14.6 billion.

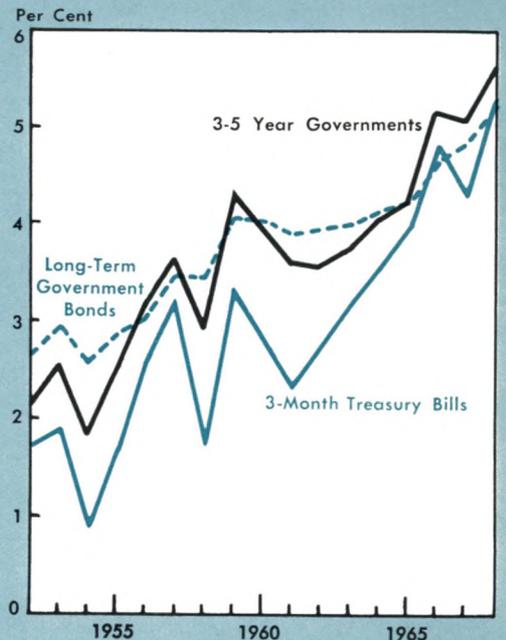
At the end of the fiscal year 1968 Federal debt outstanding totaled about \$348 billion, of which \$344 billion was interest-bearing. Interest payments accruing on that amount for the month of June 1968 amounted to \$15.4 billion at an annual rate, as shown in the third chart. This amount corresponds to an annual interest cost of 4.499%, as shown in the fourth chart. Six months later, in December 1968, accrued payments had risen to a \$16.3 billion annual rate and the average annual cost had risen to 4.632%.

In recent years interest payments have represented a fairly steady proportion of Federal expenditures, as exhibited in the final chart. This has not always been the case, however. For example, as a result of the large Federal borrowing required during World War II, interest payments ranged from about 13%

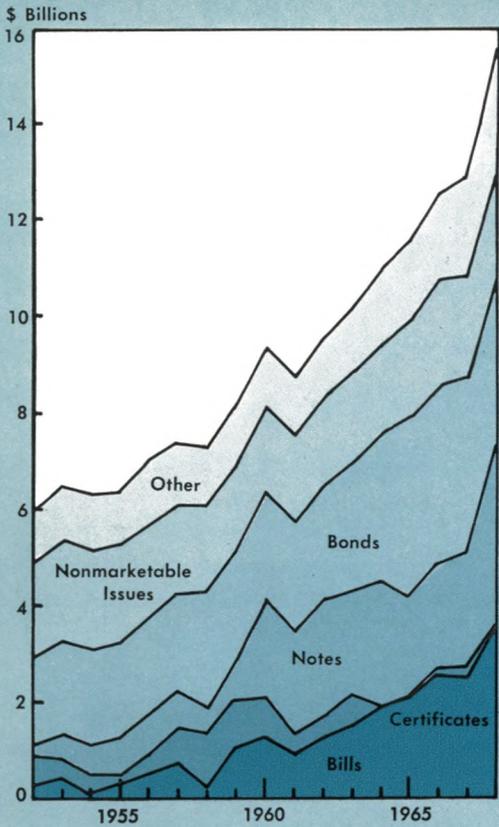
As interest-bearing Federal debt outstanding has increased . . .



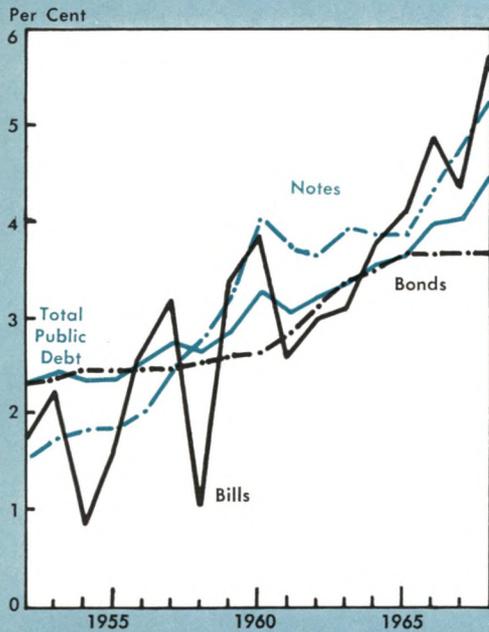
. . . and market rates of interest have risen . . .



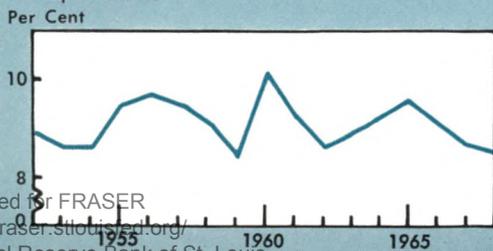
... total Federal interest payments have soared ...



... as has the average interest cost to the Treasury.



Interest payments, however, have remained between 8 and 10 per cent of total Federal expenditures.



to 17% of total expenditures between 1947 and 1951. Since 1952 they have ranged from 8.4% to 10.1% of expenditures. In 1968 their priority in the Federal budget was highlighted when they were exempted from the ceiling established on total Federal expenditures in the Revenue and Expenditure Control Act of that year.

Of the total debt outstanding, United States Government investment accounts hold about \$80 billion and Federal Reserve banks hold over \$50 billion. Interest paid to the investment accounts, of course, does not go directly into the hands of the public and all but a small part of interest paid to Federal Reserve banks is returned to the Treasury in the form of interest on Federal Reserve notes. Individuals comprise the largest non-Government investor group, holding about \$75 billion, of which about two-thirds is in Savings bonds. Commercial banks currently hold about \$65 billion and state and local governments hold about \$27 billion. Receipts of interest, however, cannot be assumed to be in direct proportion to the ownership of the debt as of a certain date since different investor groups hold securities bearing varying interest rates and since they hold them for varying periods.

Joseph C. Ramage

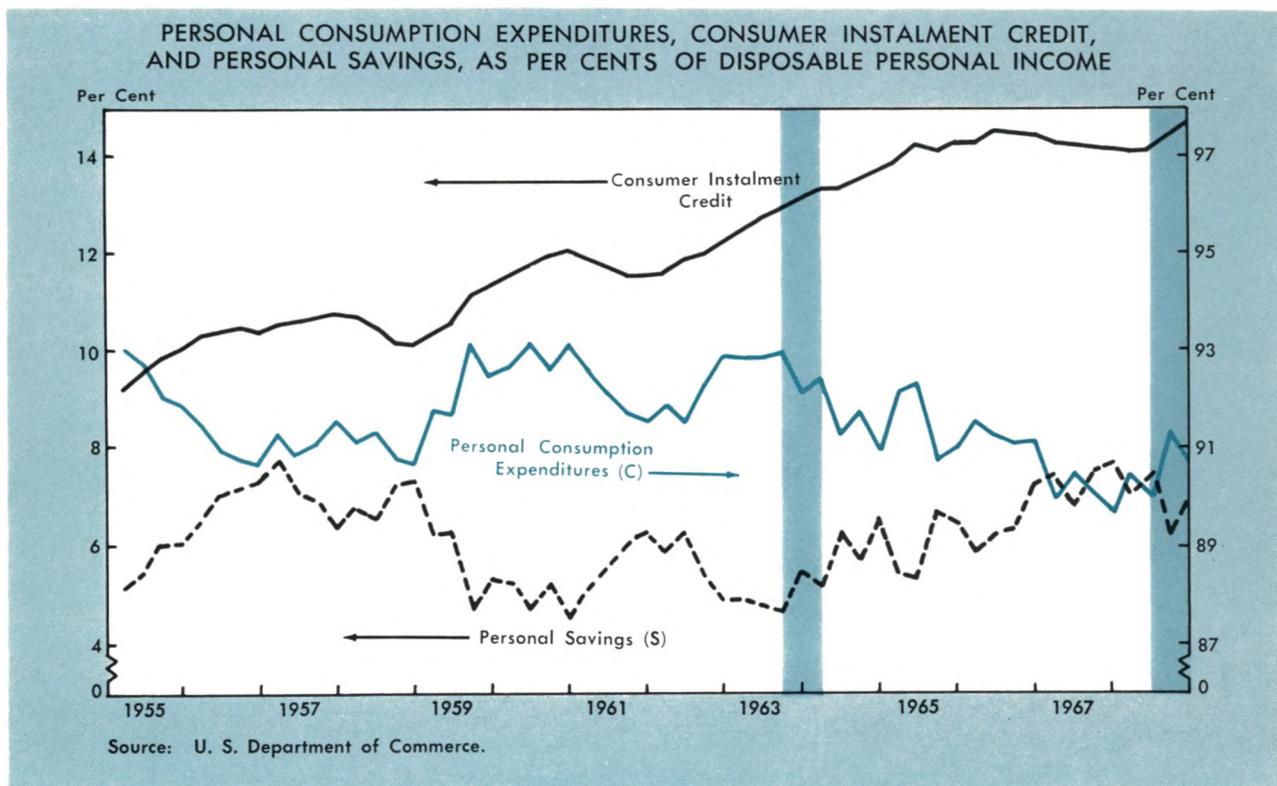
Consumer Reactions to Income Changes

The United States economy has experienced a sustained expansion since early 1961. For the most part, this period of prosperity has been accompanied by only moderate price increases. From 1960 to 1965, for example, the consumer price index increased by an average of around 1.4% per year. But as the economy came nearer to a full employment level in years subsequent to 1965, the price level began to increase more rapidly. The consumer price index increased 2.9% in 1966, 2.8% in 1967, and 4.6% in 1968. The income tax surcharge of 1968 was passed with the expectation that a cooling of the economy would follow since the tax increase would reduce the rate of growth of consumer disposable incomes and, therefore, the pace of consumers' expenditures on goods and services. When

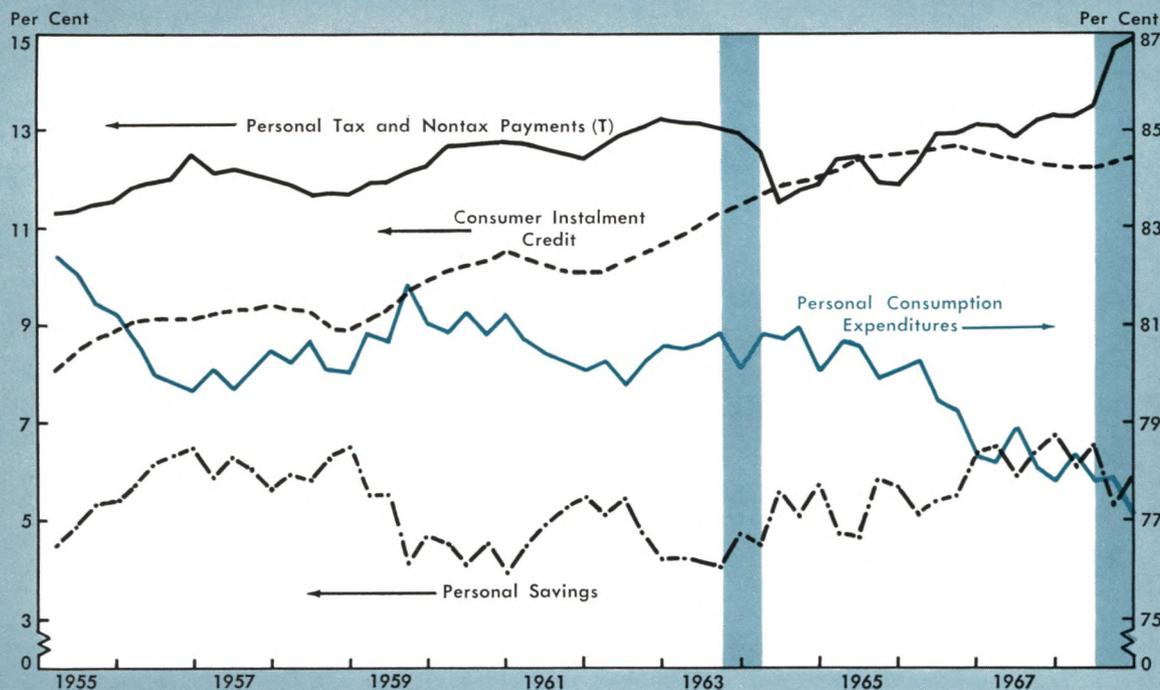
the surcharge was passed, many economists and businessmen expected the effects to be immediate and considerable. The term "overkill" was often used to describe what some thought to be the potential effect of the surtax.

Since the passage of the income tax surcharge, the financial press has devoted many columns to discussions of the impact, or lack thereof, of the new levy on consumer incomes. Indeed, the consumer reacted to the tax increase in a different way than that predicted by those who expected a slower economy during the second half of 1968. Instead of immediately moderating his expenditures as expected, the consumer maintained them for at least one quarter at the expense of his saving rate.

This article reviews briefly the reactions of con-



PERSONAL CONSUMPTION EXPENDITURES, PERSONAL TAXES, CONSUMER INSTALMENT CREDIT, AND PERSONAL SAVINGS, AS PER CENTS OF PERSONAL INCOME



Source: U. S. Department of Commerce.

sumers to tax changes in the 1960's. For purposes of reference, the major Federal taxation changes in this period are summarized below.

1. *Investment tax credit passed October 1962.*
2. *Revenue Act of February 1964 reduced personal and corporate income taxes; personal withholding rates cut from 18% to 14% March 1964.*
3. *Excise taxes reduced June 1965.*
4. *Social Security taxable base raised effective January 1, 1966.*
5. *Rescinded or postponed some excise tax reductions, introduced graduated withholding rates, and accelerated corporate payments March 1966.*
6. *Investment tax credit and accelerated depreciation suspended October 1966.*
7. *Investment credit reinstated June 1967.*
8. *Social Security taxable base raised effective January 1, 1968.*
9. *A 10% surcharge placed on personal income taxes (retroactive to April) and corporate income taxes (retroactive to January) June 1968.*

Aggregate Consumption, Saving, and Taxes, 1962-1968 Charts I and II show the changes over time in personal consumption expenditures, per-

sonal saving, and consumer instalment debt as percentages of personal and disposable personal income from 1955 to 1968. Chart II also shows personal taxes as a per cent of personal income. The shaded areas indicate the time spans in which the immediate impact of the major tax revisions became evident. The first area indicates the tax easing of 1962-1964; the second represents the recent attempt at fiscal restraint through the 10% surtax.

In response to the tax reductions of 1962-1964, consumers initially increased the percentage of disposable personal income used for personal saving (S), and decreased the percentage going to personal consumption expenditures (C). In the first half of 1965 the consumption ratio increased again, but only briefly. After this short-lived recovery it declined to a 12-year low during the fourth quarter of 1967.

During roughly the same time span—from the third quarter of 1965 to the fourth quarter of 1967—the tax ratio (T), defined throughout this article as personal taxes as a percentage of personal income, began a rapid increase after a brief initial fall. By the second quarter of 1967, in fact, this tax ratio had recovered from the tax reduction and was as high as it had been at the previous 1962 peak level.

The increases in the tax ratio are partially attributable to the rescinding of the investment tax credit, increases in Social Security taxes, graduated withholding rates, and to higher state and local government tax collections relative to personal income. But the higher tax ratio was also probably due to the growth of income during 1965-1967, since personal incomes were rising rapidly and unemployment was declining throughout the period. The fact remains, however, that by the third quarter of 1967, the tax ratio was as large as it had been before the tax reduction, and it has continued its upward trend to date. With the enactment of the 1968 income tax surcharge, the upward trend became particularly pronounced.

During the second quarter of 1965, as the tax ratio began its penultimate dip, the percentage of disposable personal income going into personal saving (S) began to increase. By the last quarter of 1967 this saving ratio had reached the highest level in recent history.

In summary, the consumer responded to the 1964 tax cuts by initially increasing his saving ratio, and as consumer incomes began to reach new heights in the later 1960's, consumers were able to further expand the percentage of their income saved. On the other hand, when the tax increase of 1968 began to take effect, they made the opposite response of maintaining consumption by allowing the saving ratio to fall. The extent of this last reaction is apparently what those who expected an immediate cooling of the 1968 economy did not foresee.

Interpretation of Aggregate Consumption Responses to Taxes In 1949, J. S. Duesenberry, Professor of Economics at Harvard University, formulated a "relative income" hypothesis concerning the behavior of aggregate consumption spending. According to this hypothesis, consumers experiencing a decline in income strive to maintain their accustomed living standard by reducing the percentage of income they allocate to saving. Further, if the decline in income proves temporary and is followed by quick recovery to previous levels, consumers would use much of the recovered income to restore the earlier level of saving. Therefore, consumers will initially respond to reductions in income by increasing their consumption ratio and allowing the saving ratio to fall.

More recently, George Katona and Eva Mueller in a study published in 1968 by the Brookings Institution (*Consumer Response to Income Increases*) attempted to determine how consumers generally re-

spond to income increases and in particular to the tax cut during 1964 and 1965. They took a random sample of 1,000 consumer units and periodically asked its members to report their consumption expenditures and actual realized saving.

Perhaps the most interesting finding of the Katona-Mueller study is related to the adjustment of consumer outlays to income increases over time. They found that if a consumer has a sustainable income increase of less than 20%, his initial response is to increase his liquid savings. He will increase both discretionary and everyday expenditures, but usually only after a lapse of one or two quarters. The sample results indicate that people who have sustainable gains of over 20% of their income increase their discretionary expenditures with less delay.

A simple statistical test indicates that their finding of a delayed response to a small income change is consistent with the aggregate data, for the data seem to show that changes in the consumption ratio lag rather consistently behind changes in the tax ratio. A test was performed to see whether changes in the consumption ratio seemed to lag behind changes in the tax ratio, and it was found that over the past 14 years the consumption ratio has probably been associated with the tax ratio of two to six quarters earlier. Moreover, it was found that the consumption and tax ratios seem to be inversely related after the appropriate time lag.¹

The findings of Katona and Mueller, the relative income hypothesis, and the aggregate data do indeed seem to be consistent with one another—at least with respect to income increases. It is too early to determine how consumers will eventually react to the tax surcharge, but their initial response was to decrease their rate of saving. This action could have been predicted by either the relative income hypothesis, the use of the findings of the Katona-Mueller study, or an analysis of past aggregate consumption behavior, for all of these point to a time lag involved in a consumer's response to an income change. To be sure, most economists did expect some initial reduction in the saving rate out of deference to the "relative income" and similar hypotheses as well as to the empirical studies of these hypotheses, but they underestimated the extent of the reduction.

William E. Cullison

¹ The statistical test used involved computing simple correlation coefficients for C paired with T after lags of from 0 to 7 quarters. The resulting values were -0.15, -0.19, -0.29, -0.33, -0.34, -0.31, -0.29, and -0.26.

The Fifth District



WHAT'S AHEAD FOR AGRICULTURE IN 1969?

Domestic demand for farm products is expected to expand but at a slower pace than in 1968; foreign demand may be slightly weaker; volume of marketings will probably be larger; the uptrend in farm production expenses will likely continue; and realized net farm income may be down slightly from the 1968 level. This, briefly, is the national outlook for agriculture in 1969 as forecast by leading economists of the U. S. Department of Agriculture.

This appraisal of the agricultural outlook for 1969, made by the Department of Agriculture's analysts, assumes that general economic activity will show a strong advance, although not as rapid as in 1968. It also assumes average growing conditions, continuation of price support programs for major crops and dairy products, and a continued large volume of exports.

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

Farm Prices, Costs, and Income Farm prices in 1969 are expected to average about the same as in 1968, and larger marketings of both livestock and crops are anticipated. These indications point to larger cash receipts from farm marketings in 1969. A small gain in Government payments to farmers is also in prospect.

Farm production expenses will probably rise further to another record high. Sharp increases are expected for overhead items such as taxes, mortgage interest, and depreciation charges. Farm wage rates and prices paid for production items are apparently headed higher, and it is anticipated that operators will use more purchased inputs such as feed, fertilizer, and pesticides.

Should larger cash receipts and some increase in Government payments materialize, the nation's realized gross farm income in 1969 will likely increase around \$1 billion to a record of almost \$52 billion. Farm production expenses will probably rise more than the increase in realized gross income, however. Realized net farm income thus may decline slightly from the \$14.9 billion estimated for 1968. But realized net income per farm is expected to change little from the year-earlier level.

Supply and Demand Conditions Larger supplies of major farm products, especially foods, are expected for this year. Supplies of beef, pork, broilers, fruits, and vegetables are currently running well above a year ago, with further increases in prospect. Big supplies of wheat and soybeans are well in excess of prospective demand. The major exception to the increased supply situation for most farm products is the sharply lower supply of cotton.

Domestic demand for farm products is expected to expand further in 1969, although at a somewhat slower rate than in 1968. Consumption of food per capita may increase nearly 1% over the record 1968 level, with gains likely for both animal and crop products. Retail food prices are expected to average from 2% to 2½% above a year earlier, versus a 3½% increase last year. With rising retail food prices and a possible 2% increase in the volume of sales, expenditures for food this year will probably increase 4½% to 5% if disposable personal income rises around 6% as expected. In dollar terms, the increase in food spending would amount to around \$5 billion compared with a rise of more than \$6 billion in 1968.

Foreign demand for United States farm products will probably be down slightly from a year earlier. The value of agricultural exports in 1968-69 is expected to total \$6.0 billion. This would be a little under last year's \$6.3 billion and substantially below the record of \$6.8 billion set in fiscal year 1967. Dollar sales, including barter, will probably approach \$5.0 billion, also down a little from last year's level.

Outlook for Commodities Highlights in the outlook for major Fifth District commodities follow:

Tobacco: Supplies of tobacco in 1968-69 promise to be ample, although 5% below last year because of smaller crops and carry-overs. Should cigarette output and leaf exports continue at last year's high levels, as is now anticipated, some further reduction in carry-over stocks will occur this season.

United States cigarette production in 1968 was slightly larger than a year earlier. Total domestic consumption remained about the same as in 1967, but cigarette consumption per capita declined some 2%.

Because of the smoking-health publicity and possible further retail price increases, total cigarette consumption in 1969 may do well to equal the 1968 level. United States leaf exports last year were 5% above a year earlier and the largest since 1946. This high export level will probably be maintained in 1969.

Price support levels for the 1969 tobacco crops will be 3.6% higher than in 1968. The national flue-cured marketing quota is essentially the same as in 1968. The effective poundage quota is 6% larger, however, because undermarketings of the 1968 crop exceeded overmarketings. This means the 1969 crop could be one-fifth larger than 1968's.

Soybeans: Supplies of soybeans for the 1968-69 marketing year are estimated at a record $1\frac{1}{4}$ billion bushels, 17% more than last year. Domestic use and exports are expected to increase only moderately over last season's levels. As a result, carry-over stocks next September 1 will likely exceed 300 million bushels compared with 167 million last September. Soybean prices were depressed during the peak harvesting months and averaged slightly under the support level. This situation led farmers to put a record volume of beans under the loan program. Prices the rest of the marketing year are likely to average near the support rate.

Cotton: Sharply smaller supplies and prospects for reduced disappearance highlight the cotton outlook this year. Because the smaller beginning carry-over was only partially offset by the larger 1968 crop, 1968-69 supplies are about 12% below a year ago. Exports this season may total around 3 million bales, down more than 1 million bales from last year's 4.2 million, while domestic mills may use 8.5 million bales, 0.5 million below a year ago and the lowest level since 1962. Should these prospects materialize, carry-over next August 1 may equal about 6 million bales, around 0.5 million below last August.

Poultry and Eggs: Prospects for 1969 point to a slight decline in egg production, a substantial rise in broiler output, and a small gain in turkey production. Egg prices will probably continue well above a year earlier through the first half of 1969, but they will likely average below a year ago in the second half. Broiler prices may fall below a year ago in the spring and remain below the rest of the year. Should production of turkeys increase 3% as indicated by growers' intentions, turkey prices during the main marketing season will likely average about the same as in 1968.

Meat Animals: Livestock farmers are expected to produce more red meat in 1969. Fed cattle marketings were a record high in 1968, and prospects for 1969 point to a further sizable increase. Fed cattle prices will likely decline somewhat from the late January levels but for the year as a whole may average about the same as in 1968. Demand for feeder cattle is expected to remain relatively brisk this winter and spring, and feeder cattle prices are likely to continue steady to strong.

Pork production is expected to exceed year-earlier levels again this year. Hog prices will likely average above a year ago during the winter but generally below 1968 levels the rest of the year.

Dairy Products: Dairy farmers can look forward to higher milk prices and larger gross cash receipts from dairying in 1969. Rising costs of production may largely offset any gains in gross receipts, however. Milk production this year will probably be slightly below that in 1968. Gains in output per cow are expected to continue but are unlikely to offset the effect of decreases in milk cow numbers. Farm prices for milk will stay above 1968 levels at least until April and may average slightly higher for the year.

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