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The Background of Financial Developments

Acceleration of Business Activity

THE UPSWING IN BUSINESS ACTIVITY, which slowed in late summer and early fall, quickened in October and, according to preliminary data, in November. Many important measures of economic activity registered improvement. The volume of goods produced by the nation's factories, mines, and utilities increased. Employment rose, total personal income increased, and sales of retail stores expanded.

Production and Construction

Industrial production, adjusted for seasonal influences, rose from September to October to a level of about 113 per cent of the 1957 average. Indications are that output expanded again from October to November. In contrast to the 1.4 per cent increase from September to October, the average monthly increase in production from June to September was 0.3 per cent. Over the first eight months of recovery industrial production rose 11 per cent. This may be compared with 14 per cent and 11 per cent gains during like periods of the 1958 and 1954-1955 recoveries, respectively.

The September-October rise in production was widespread. Auto assemblies in October, despite strikes early in the month, increased markedly from the strike-bound September low, but were still about 10 per cent below the prestrike months of June-August. Output of paperboard increased further and was at a record level. Activity at petroleum refineries rose contraseasonally. On the other hand, steel ingot output, which usually rises in October, was about unchanged from the September rate of 71 per cent of the 1961 estimated capacity.

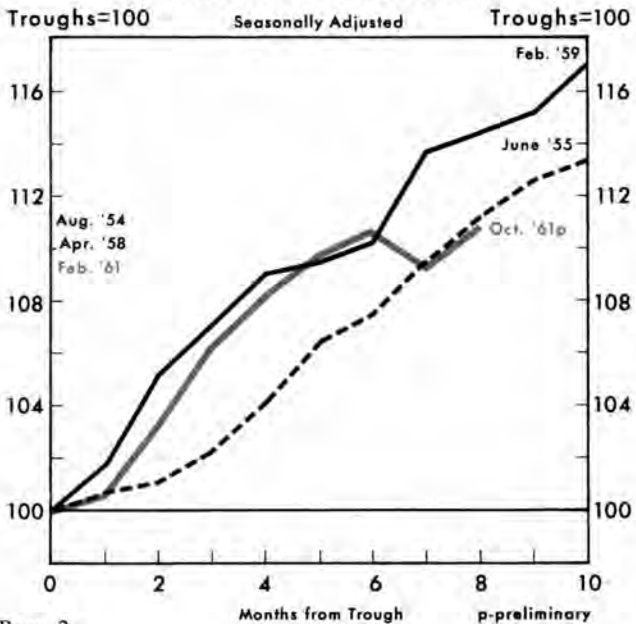
Preliminary data suggest that output continued to rise from October to November. Reflecting an increased sale of automobiles in October and the low level of dealers' stocks, automobile production schedules for November were increased. Automobile production in November was about 5 per cent above the October level. However, steel production in November was somewhat less than during October.

Construction put in place during October was little changed on a seasonally adjusted basis from the record September rate and was about 5 per cent above the February level. Residential and other private construction edged off from the previous month, and public construction tended somewhat higher.

Employment and Unemployment

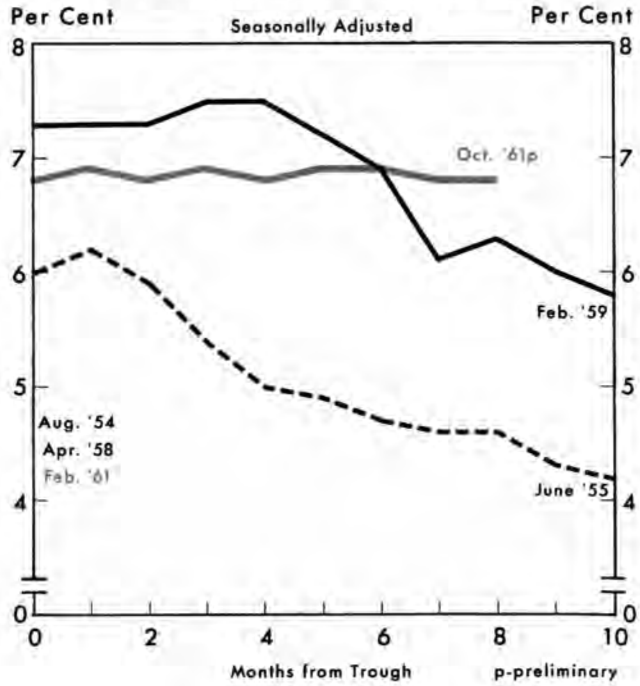
Employment rose more than seasonally from the mid-September to mid-October surveys of the Bureau of the Census. The number of agricultural workers,

Industrial Production



Unemployment

as a Per Cent of Civilian Labor Force



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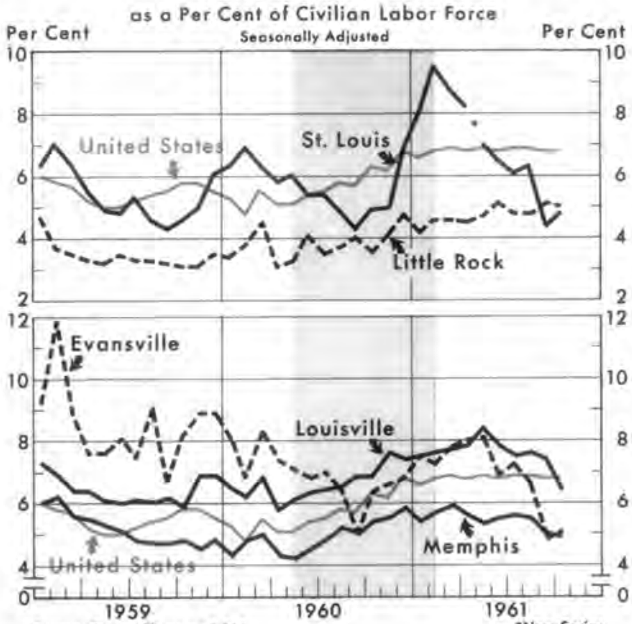


Source: State offices and BLS
Latest data plotted: October preliminary
Shaded area represents period of business recession.

seasonally adjusted, increased, and, reflecting the pick-up in productive activity, employment of wage and salary workers also rose somewhat more than usual at this season. The October level of nonagricultural employment was 600,000 (or 1 per cent) higher than in October last year. However, nonagricultural employment changed little on balance from July of this year to October. On the basis of continued strength in production, employment probably increased again from mid-October to mid-November.

Unemployment declined by 150,000 from mid-September to mid-October, about the seasonal amount for the period. In October 3.9 million individuals were estimated to be unemployed. The seasonally adjusted unemployment rate, at 6.8 per cent of the civilian labor force in October, has been virtually unchanged since last December. Preliminary data indicate that the rate of unemployment declined from October to November.

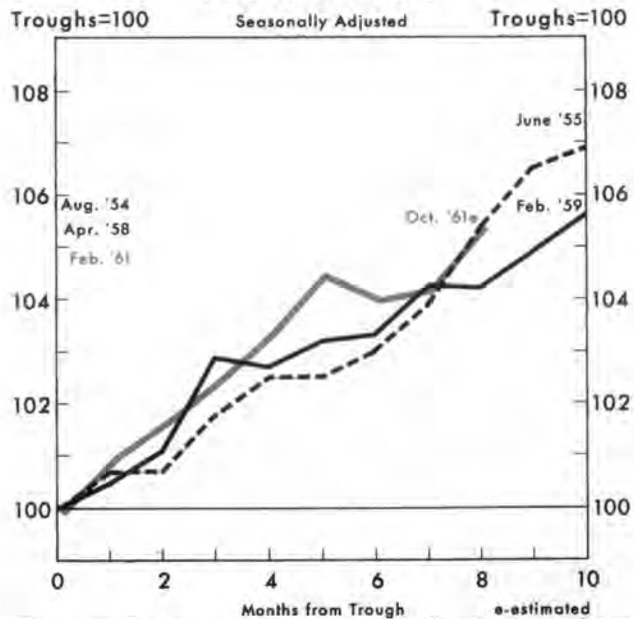
The unemployment rate in October was somewhat higher than in the corresponding month of the 1958 recovery. However, the composition of the unemployed was significantly different in October of this year from that of the earlier period. There was a higher proportion of unemployed females in the labor force in October of this year than in December 1958, 7.6 per cent this year compared with 6.2 per cent in the earlier period. The unemployment rate among those who were previously employed in manufacturing was well below the earlier period, while the unemployment rates in trade and services were higher than before.

The rate of unemployment declined from February to October in all but one of the major labor markets of the Eighth Federal Reserve District. The exception was Little Rock where the level of unemployment remained relatively low throughout the recession. The decrease from February to October in the portion of the labor force unemployed was particularly marked in the St. Louis and Evansville areas. Even though unemployment was relatively low in the Memphis area at the trough of the recession, there was some reduction in the unemployment rate in this labor market from February to October. In the Louisville region the rise of the unemployment rate last spring was more than offset by declines during the summer and early fall.

Personal Income and Retail Sales

Reflecting the increase in employment, as well as increases in hours worked and average hourly pay rates, personal incomes have been rising in recent months. From February to October, total personal income rose at an annual rate of about 8 per cent. There was probably a further rise in incomes from October to November.

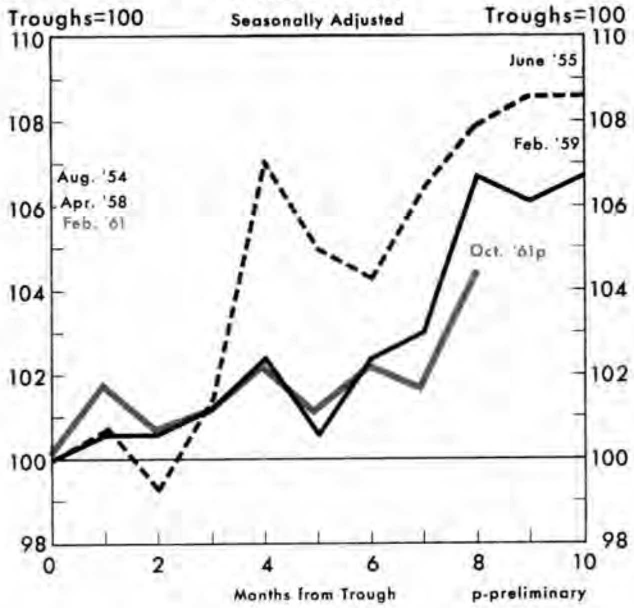
Personal Income



Despite the greater incomes, retail sales have been sluggish during most of the recovery. Sales rose modestly from February to June and moved within a narrow range during the rest of the summer and early fall. In contrast to the rapid rise in personal incomes, from February to September the increase in retail sales was at an annual rate of about 3 per cent. In October retail sales showed marked improvement, totaling $18.6 billion on a seasonally adjusted basis, an increase of nearly 3 per cent from the previous month. Sales of durable goods rose more than 5 per cent, with the automobile sector leading the upswing, while sales of nondurable goods rose less than 1 per cent.

Fragmentary data suggest that retail sales rose further from October to November. Department store sales, after adjustments for seasonal influences, were

Retail Sales



somewhat higher in November than in the previous month. Automobile sales also ran at an advanced pace in November.

Consumer Credit

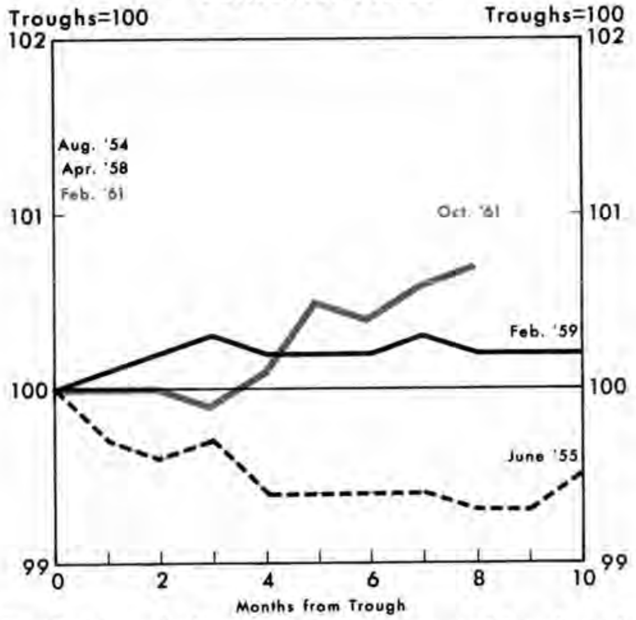
Total consumer instalment credit increased $184 million, seasonally adjusted, during October. There was an increase in credit outstanding on both automobiles and other consumer goods. Personal cash loans continued to expand. From February through October consumer instalment credit, seasonally adjusted, rose nearly $100 million. Preliminary indications suggest a further rise in November.

Repayments of consumer instalment credit rose over 3.5 per cent on a seasonally adjusted basis from February to October. However, income rose more rapidly in the period; as a result the ratio of payments to disposable income declined from 13.6 per cent to an estimated 13.4 per cent. In the first eight months of the 1958 recovery the ratio of repayments to disposable income decreased from 13.1 per cent (April) to 12.6 per cent (December). These relations may indicate that an increase in consumer demand based on an expansion in consumer credit in the near future is likely to be somewhat less than in the same period of the 1958 recovery.

Prices

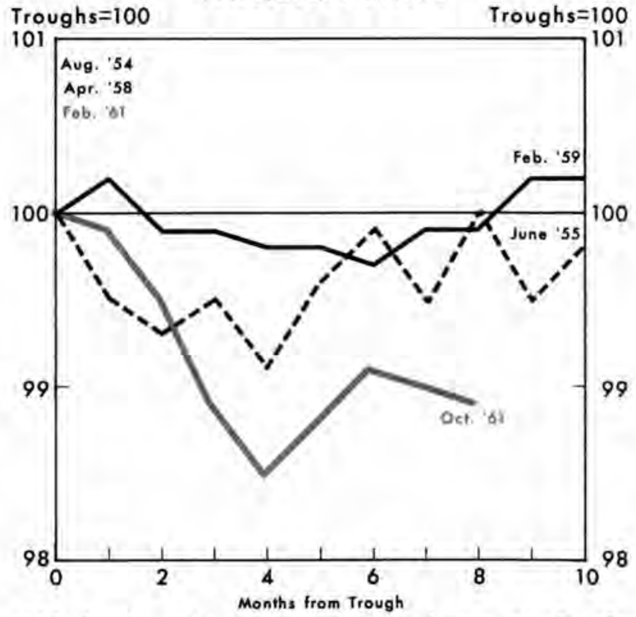
Prices have been relatively stable in recent months. The consumer price index was at 128.4 per cent of the 1947-49 average in mid-October. Since February, consumer prices have risen at an annual rate of approximately 1 per cent with increases occurring in durable goods and services. Prices of nondurable goods other than food remained almost unchanged.

Consumer Prices



Food prices declined from February to May, but the decline was offset by rises in more recent months. Over the first eight months of the 1958 recovery consumer prices rose at an annual rate of approximately 0.3 per cent. Prices declined during the corresponding period of the 1954-1955 recovery.

Wholesale Prices



Wholesale prices were slightly lower in October than in February. A price decline (1.5 per cent) from February to June was occasioned primarily by a 5 per cent contraction in prices of farm products and a decrease of 3 per cent for processed foods. Industrial prices showed a modest decline. From June to October, wholesale prices rose, partially offsetting the previous decline. Farm products and processed foods were again the dominant influence, this time rising while industrial products continued about unchanged. Wholesale prices displayed weakness through the corresponding periods of the 1958 and 1954-1955 recoveries.

Balance of Payments Developments

Preliminary data indicate that the deficit in the United States balance of international payments increased to a seasonally adjusted annual rate of just over $3 billion during the third quarter of 1961. This exceeds the second quarter rate of $1.9 billion and the first quarter rate of $1.4 billion. For the first three quarters of 1961 the payments deficit averaged an annual rate of $2.1 billion.[1] In 1960 the annual deficit rate for the first three quarters averaged $3.3 billion.

The rise in the third quarter deficit reflected a rapid increase in merchandise imports and a sharp decline in the inflow of foreign capital for investment purposes.

The surplus of merchandise exports over merchandise imports amounted to an annual rate of $6.6 billion in the first quarter, declined to a rate of $5.4 billion in the second quarter and to $4.2 billion in the third quarter.

The gold outflow from the United States for the first three quarters of 1961 amounted to $314 million. During October and November[2] the United States monetary gold stock dropped by $476 million. The total gold outflow of $790 million for the period January through November 1961 is considerably less than the $1.5 billion transferred to foreign ownership during the same period in 1960.

[1] This annual rate excludes the second quarter repayments of foreign aid debt by West Germany and other nations.

[2] Through the week ending November 22.

Financial and Monetary Developments

Increase of the Money Supply

MONETARY EXPANSION proceeded at a rapid rate during the fall of this year. The volume of member bank reserves rose sharply, bank credit expanded, and the money supply grew substantially. Most interest rates in October and November remained in the narrow ranges within which they had stayed for over a year, although Treasury bill rates rose in November. The Treasury successfully carried out a heavy autumn financing program.

Bank Reserves

Total reserves of member banks rose markedly, at an annual rate of about 12 per cent, in the four months ending with November. Most of the increase resulted from net purchases of Government securities for the Federal Reserve Open Market Account. Member bank borrowing from Reserve Banks remained at nominal levels, generally below $100 million. The rise in reserves was much more rapid than during comparable periods of the 1958 and 1954-55 business expansions.

In the earlier months of the 1961 business recovery total member bank reserves declined slightly. However, for the period from February (trough month) to November total member bank reserves grew at a relatively advanced rate, 4.1 per cent per annum. In

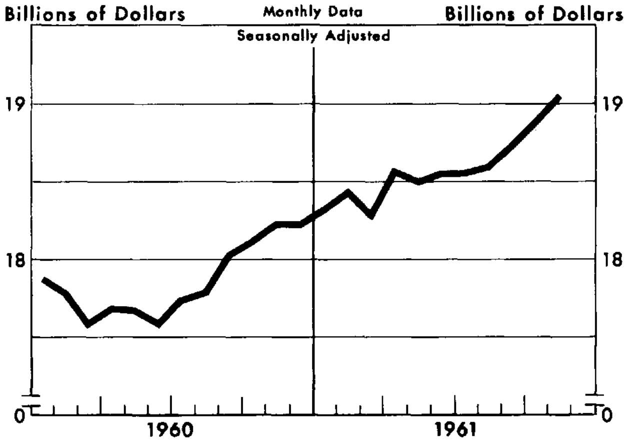
Total Reserves of Member Banks*

*Reserves of member banks adjusted for changes in the percentages of reserves required, sometimes referred to as "effective" reserves.
1951-60 Average Annual Rate of Change 2.3 Per Cent
Latest data plotted: November estimated

the first nine months of the earlier recoveries reserves increased at a more moderate rate, about 3 per cent per annum.

Since Treasury deposits in commercial banks are not usually defined as part of the money supply, it may be useful to consider the increase of reserves other than those required to support Treasury deposits. Total member bank reserves less reserves required to support Treasury deposits also rose rapidly, both in recent months and during the entire expansion period from February to November (see chart). Such

Member Bank Reserves Less Reserves Behind Treasury Deposits*



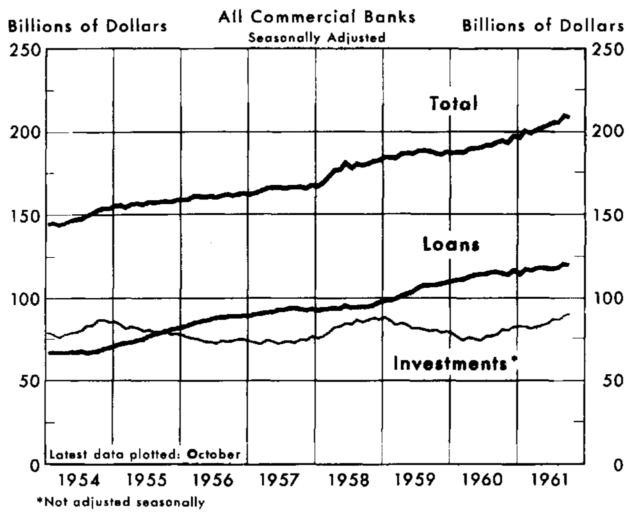
*Reserves of member banks adjusted for changes in the percentages of reserves required, sometimes referred to as "effective" reserves.
1951-60 Average Annual Rate of Change 2.6 Per Cent
Latest data plotted: November estimated

reserves grew at more moderate rates in the two previous economic upturns.

Bank Credit

Along with the increase in bank reserves total loans and investments of commercial banks, seasonally ad-

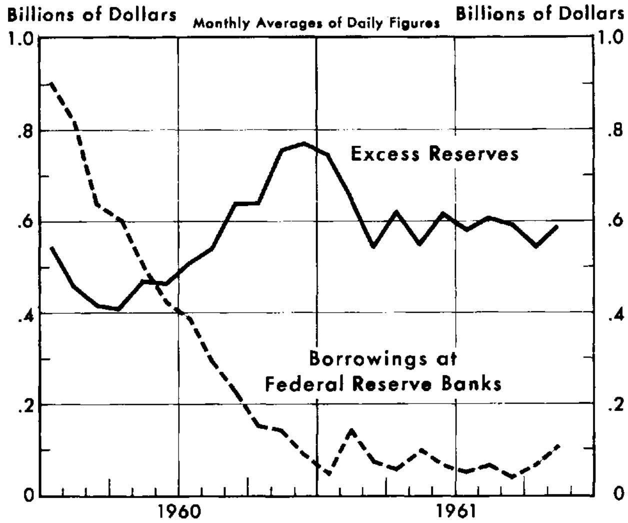
Bank Credit



*Not adjusted seasonally

justed, rose by about $3.3 billion during the three months ending with October, a 6.4 per cent annual rate of increase. The expansion was caused primarily by a sharp increase from August to September. Bank credit rose again in November, according to preliminary data. Largely because of the expansion of credit at member banks, excess reserves remained about unchanged from July to November, despite a rapid increase in total reserves.

Excess Reserves & Borrowings of Member Banks



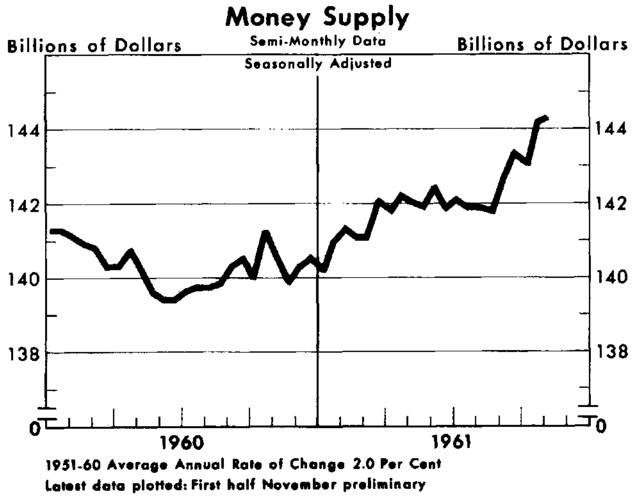
Source: Federal Reserve Board
Latest data plotted: November estimated

Both loans and investments shared in the expansion of commercial bank credit from July through October. Total loans, seasonally adjusted, increased approximately $2.3 billion. Commercial and industrial loans rose slightly more than seasonally during the period.[1] Loans secured by real estate also rose moderately. Loans on securities, especially advances on U. S. Government securities to brokers and dealers, rose markedly. Total bank investments increased by over $1 billion after allowance for seasonal factors, with most of the rise occurring in holdings of U. S. Government securities.

Money Supply

Reflecting the rapid growth of bank reserves and credit, the money supply (demand deposits adjusted plus currency outside banks) increased at an annual rate of 6 per cent from July to early November. This rate of expansion was very high compared with the rates in the corresponding periods of the two previous business upturns. The recent growth in the money

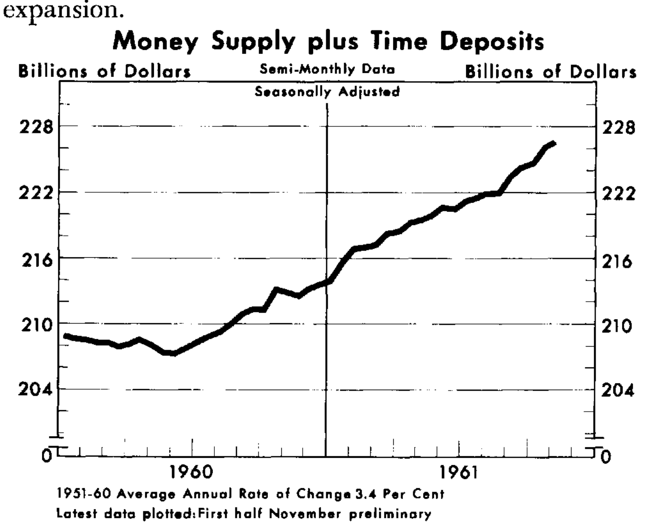
[1] Based on information received from weekly reporting banks in leading cities, holding three-fifths of total commercial bank loans.



supply was also high judged by the experience of the past ten years.[2]

The sharp increase in the money supply during recent months was greater than during the corresponding periods of 1958 and 1954-55. Also, the recent expansion was in marked contrast to virtually no change in the earlier months of the current business upturn.

The rate of increase in the money supply from February to early November was 3.2 per cent per annum. This was above the average of rates experienced over the past decade but not so rapid as the expansion during the corresponding periods of the 1958 and the 1954-55 recoveries. During the first eight and one-half months from the 1958 trough month, there was a 4.7 per cent annual rate of increase in the money supply. In the comparable months of the 1954-55 upturn, there was a 4.0 per cent rate of expansion.



As with money narrowly defined, the rate of increase of money plus time deposits was very rapid during the last few months relative to the record of the past decade. Moreover, this recent rate of increase was considerably more rapid than in the comparable periods of the two previous recoveries.

Eighth District Bank Reserves, Credit, and Deposits

At Eighth District member banks, total reserves, seasonally adjusted, rose at an estimated annual rate of 11 per cent from July to November. The sharpest increase occurred from October to November, and resulted largely from a net inflow of funds from other districts. Borrowings of district member banks from the Reserve Bank remained at low levels.

Total member bank credit in the Eighth District rose at an annual rate of 7 per cent from July through October, about the same rate as for the entire nation. Preliminary data indicate that the expansion continued in early November. Both loans and investments shared in the growth.

At Louisville banks, total loans rose substantially more than seasonally from September to early November, after showing little net change from July to September. Total loans at St. Louis area banks, although fluctuating from week to week, increased more than usual from July to mid-November. At Memphis banks, loans declined from July to mid-October, after adjusting for seasonal influences, but rose from mid-October to mid-November, probably reflecting the late marketing of the cotton crop this year. Loans at Evansville and Little Rock banks showed little net change from July to mid-November.

Total deposits at district member banks rose at an annual rate of 13 per cent from July to November. Both demand and time deposits increased markedly. Banks both in large cities and in the smaller cities and rural areas shared in the gains.

Treasury Financing

Accompanying the rapid monetary expansion from early August through the first half of November, the Federal debt increased approximately $5 billion. During this period the Treasury successfully marketed securities in order to raise new money and to refund several issues. Without significant disturbance to the level or structure of interest rates or to private security flotations, a total of about $17 billion of securities, in addition to regular bills, was sold to the public for cash or exchange.

The Treasury raised about $6.8 billion in new money in the early August to mid-November period.

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[2] See "Changes in Selected Liquid Assets, 1951-1961" in the October issue of this *Review*.

Two new money offerings announced in September raised about $4.8 billion: tax-anticipation bills totaling $2.5 billion and nineteen-month notes amounting to $2.3 billion. In addition, the Treasury raised nearly $2 billion in new money by increasing from $1.5 billion to $2.0 billion the issue of one-year bills which matured in October, by issuing $800 million of special bills in mid-November, and by increasing the amount of regular three- and six-month bills.

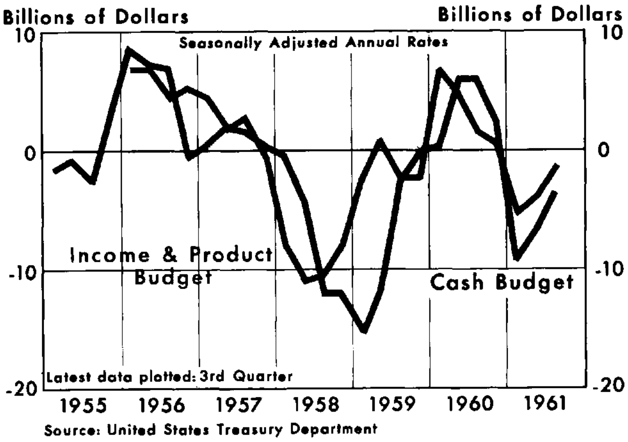
In addition to the new money financing there were two large refunding offerings during the period from early August to mid-November: an advance refunding in September of $7.6 billion, and the refunding in November of a maturing issue of $6.9 billion. Exchanges on the two refundings amounted to $10.3 billion. The November refinancing was the last Treasury financing scheduled for 1961 outside of the regular bill sector.

Treasury financing activities, as well as the passage of time, during the early August to mid-November period altered the maturity structure of the Federal debt held by the nonbank public. Marketable Government securities maturing in one year or less increased from about $42 billion, seasonally adjusted, to an estimated $43 billion. An increase in the public's holdings of these highly liquid assets generally is counted a stimulative factor. At the same time the average maturity of the marketable Federal debt was extended from 4 years 5 months to an estimated 4 years 8 months.

The Treasury operations resulted in a cash deficit of roughly $5.5 billion during the heavy financing

U.S. Government Fiscal Operations

(+)Surplus; (-)Deficit



Source: United States Treasury Department

period of early August to mid-November. This deficit was financed by a $500 million reduction in cash balances, chiefly at Tax and Loan Accounts in commercial banks, and by the $5 billion increase in net Treasury borrowing. Much of the Treasury's deficit during this period was seasonal. Because of the heavier flow of receipts during the first half of the calendar year, the Treasury normally experiences a cash surplus in the first half of the year, and a deficit in the last half of the year. Thus, the autumn financing of the Treasury largely reflects the fact that its cash borrowing needs are normally greatest during the last half of the calendar year.

The Government Budget for Fiscal Year 1962

Recent estimates, in the President's *1962 Budget Review*, are that the Treasury's cash deficit for fiscal 1962 (ending next June 30) will be close to $8.4 billion. During the period from June 30 to December 31, 1961 the Treasury is expected to operate at an actual cash deficit of about $9 billion. This will be equivalent to about $2 billion, after allowing for seasonal factors. These estimates indicate that the Treasury's actual cash surplus in the following six months, from December 31, 1961 to June 30, 1962, will be under $1 billion, and that after taking seasonal patterns into account the Government will be operating at a sizable cash deficit (perhaps over $6 billion).

The *1962 Budget Review* notes that major expenditure increases will be for national security and agricultural price support programs. Also, the outlays of several trust funds, notably the expenditures from the old-age and survivors insurance fund, probably will exceed their receipts. A partial offset is expected to result from larger tax receipts as business activity and personal incomes rise.

As a supplement to the cash budget, some analysts use the national income and product account statistics[3] to evaluate the impact of Government deficits and surpluses.[4] This approach directs attention to Federal fiscal activities which are believed to have a direct influence on the current output of the economy. Government expenditures on currently produced goods and services are included in the national income accounts, while cash outlays for existing assets are excluded. The national income and product account statistics therefore include a narrower range of Government activities than the cash budget. Since 1955

[3] Prepared by the Department of Commerce and published in the *Survey of Current Business.*

[4] For a discussion of this subject, see: "Federal Receipts and Expenditures — Alternative Measures," *Monthly Review,* August 1961, Federal Reserve Bank of Kansas City; "Expansion of Government Programs During Fiscal Year 1962," *Survey of Current Business,* November 1961; *Money and Credit,* The Report of the Commission on Money and Credit, Prentice-Hall, Inc., 1961; pp. 141-143.

the net deficit has been substantially smaller in the national income and product accounts than in the cash budget.

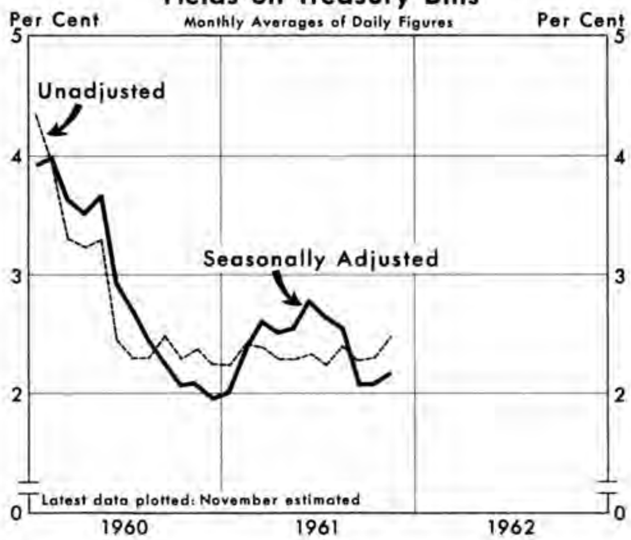
Also, the timing of deficits and surpluses in the income and product accounts differs from those in the Treasury cash budget. Principally, this is because corporate tax liabilities and certain Government receipts and expenditures are recorded on an accrual basis in the national income accounts. Under the accrual approach, Government deficits and surpluses in the national income accounts are highly responsive to changes in economic conditions. Deficits generally change toward surpluses earlier in an economic expansion in the income account than in the Treasury cash budget (see chart).

As contrasted to the sizable cash deficit predicted for the second half of fiscal 1962, the estimated income and product accounts project a moderate surplus for the same period. The main reason for the difference in the projections of the two accounting systems is that expected higher tax liabilities on corporate profits will be accrued in the national income accounts before they are realized as Treasury cash receipts. In addition, the larger deficit in the cash budget estimates reflects the inclusion in the cash budget of items which are not recorded in the national income accounts.

Interest Rates

Despite the large volume of Treasury financing, interest rates on most marketable securities were little changed through November, remaining near the level prevailing since mid-1960. However, during November there was a rise in the yields on short-term Treasury securities.

Yields on Treasury Bills



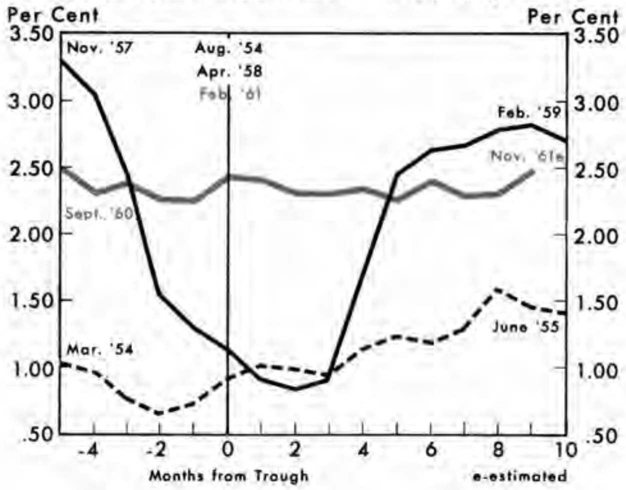
Yields on three-month Treasury bills, which had fluctuated for over a year within the rather narrow range of about 2.25 to 2.40 per cent, averaged 2.30 per cent during October. Three-month bill rates rose from 2.28 per cent in the week ending November 3, to 2.58 per cent in the week ending December 1. However, because interest rates generally rise at this time of year, it may be useful to examine movements after correction for seasonal influences.[5] Yields on three-month Treasury bills, seasonally adjusted, declined from about 2.50 per cent during August to an estimated 2.25 per cent in November.

Interest rates on long-term Government bonds declined slightly from September to November, from 4.02 per cent to 3.97 per cent. Highest grade corporate bond yields moved roughly parallel with long-term Government bond yields over the three months ending with November.

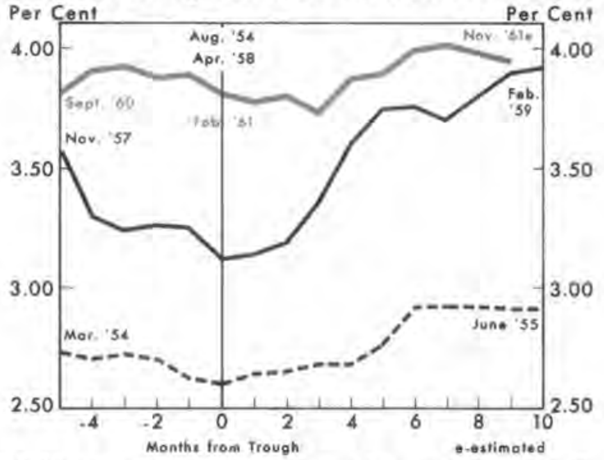
Interest rates were remarkably steady during the first nine months of the current business expansion, which contrasts with the corresponding periods of the two previous business upturns. The three-month Treasury bill rate fluctuated within a narrow range about the 2.30 per cent level during the February-October 1961 time span. By contrast, during the first nine months following the April 1958 trough the Treasury bill rate increased from 1.13 per cent to 2.82 per cent; in the same number of months following the August 1954 trough the bill rate increased from 0.92 per cent

[5] For discussions of seasonal factors in interest-rate movements, see: "The Seasonal Pattern of Interest Rates," the November 1960 issue of this *Review;* "A Survey of the Municipal Bond Market," IBA *Statistical Bulletin,* Vol. 16, September 1960; "A Closer Look at Interest-Rate Relationships," *The Morgan Guaranty Survey,* April 1961.

Yields on Three-Month Treasury Bills



Yields on Long-Term U.S. Government Bonds



to 1.45 per cent. The rise in yields on long-term Government bonds was also greater during the first nine months of the two previous recoveries than in the period from February to November 1961.

Interest rates have been at a generally higher level during the current economic expansion than in either of the two previous recoveries, although short-term rates have been slightly lower in recent months than during the comparable period of the 1958 business upturn. The three-month Treasury bill rate averaged 2.30 per cent in the first nine months of the 1961 expansion. By comparison, during the nine months following the April 1958 and August 1954 troughs, yields on Treasury bills averaged 1.96 per cent and 1.20 per cent, respectively. Similarly, long-term rates averaged 3.89 per cent during the February-November 1961 period, which was higher than the average rates in the first nine months of the 1958 and 1954-55 recoveries (see chart).

While short-term interest rates in the United States have remained relatively stable during the 1961 economic upturn, short-term rates in several other leading industrial nations have changed substantially during the year. The three-month German Treasury bill rate declined from 3.25 per cent in January to 2.25 per cent in May, remained at this rate through September, and averaged an estimated 2.13 per cent in October. The yield on Canadian three-month Treasury bills fluctuated in the 3.0 to 3.2 per cent range during the early months of 1961, and declined to an estimated 2.4 per cent in November. The British three-month Treasury bill rate fluctuated around 4.40 per cent during the first half of this year and then rose sharply in late summer, largely reflecting the British austerity program. British bill rates then declined from a high of 6.71 per cent in August to a 5.46 per cent average in the first half of November, partially offsetting the previous rise.

Stock Yields

Yields on common stocks have fallen in recent months, despite the recovery of corporate profits from their recession low of early this year. In September, the latest month for which figures are available, the aggregate earnings-price ratio on common stocks averaged just above 4 per cent. Indications are that the

Change in Maximum Interest Rates Payable on Time Deposits

On December 1, 1961 the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation announced a change in the maximum interest payable on time and savings deposits in insured banks effective January 1, 1962. The following table presents maximum rates permissible since November 1, 1933.

MAXIMUM INTEREST RATES PAYABLE ON TIME DEPOSITS

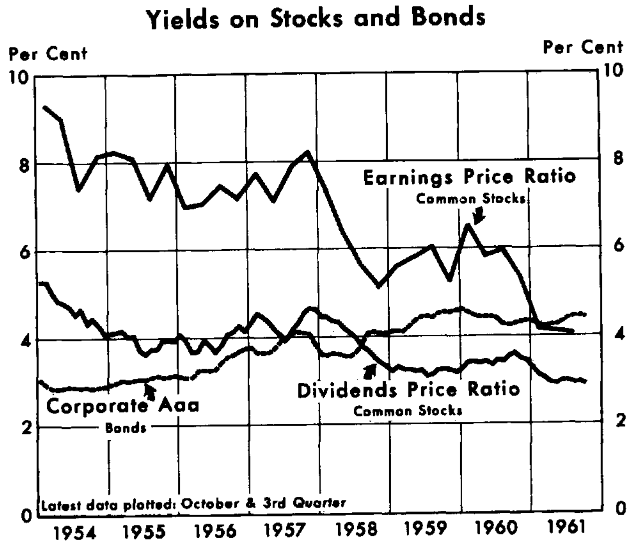
(Per cent per annum)

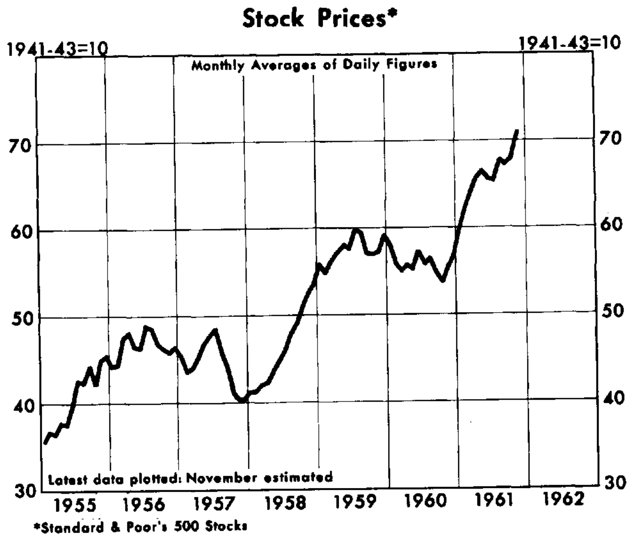
Type of deposit	Nov. 1, 1933-Jan. 31, 1935	Feb. 1, 1935-Dec. 31, 1935	Jan. 1, 1936-Dec. 31, 1956	Jan. 1, 1957-Dec. 31, 1961	Effective Jan. 1, 1962
Savings deposits in bank:					
For one year or more	3	2½	2½	3	4
For less than one year	3	2½	2½	3	3½
Other time deposits payable:					
In one year or more	3	2½	2½	3	4
In 6 months to one year	3	2½	2½	3	3½
In 90 days to 6 months	3	2½	2	2½	2½
In less than 90 days	3	2½	1	1	1

NOTE.—Maximum rates that may be paid by member banks as established by the Board of Governors under provisions of Regulation Q. Under this Regulation the rate payable by a member bank may not in any event exceed the maximum rate payable by State banks or trust companies on like deposits under the laws of the State in which the member bank is located. Effective February 1, 1936, maximum rates that may be paid by insured nonmember commercial banks, as established by the F.D.I.C., have been the same as those in effect for member banks.

earnings-price ratio was below 4 per cent in November. By comparison, this ratio was above 5 per cent last December.

The decline in stock yields at the same time that corporate profits have been improving resulted from a sharp rise in stock prices. Stock prices rose in fairly





The dividends-price ratio on common stocks was estimated to be 2.80 per cent in November as against 3.41 per cent last December. By contrast, corporate Aaa bonds in recent months have been selling at prices to yield 4.40 per cent or more.

active trading to record levels during November. From the end of September through November, Standard and Poor's composite index of 500 common stocks rose 7 per cent. Stock prices in November averaged 28 per cent higher than during November last year and 75 per cent above November of 1957 (see chart).

*Farm Outlook for 1962**

NET FARM INCOME IN 1962 is not expected to change appreciably from the 1961 level, according to outlook information released by the United States Department of Agriculture. Cash receipts from farm marketings may total about the same as in 1961. Government payments to farmers are expected to be up slightly, but the slight increase in farm returns will probably be offset by a prospective increase in production expenses.

Demand for Farm Products

A high demand for farm products is expected to continue through 1962. Expenditures for farm-produced foods, which in 1961 are running more than 3 per cent above 1960 levels, may rise further in 1962. Much of the anticipated increase in demand for food is based on prospects for higher consumer incomes and spending. General economic activity in the fourth quarter of 1961 is above the recession low in the first quarter, and most evidence points to continued expansion in 1962. With increases in output and employment, there will probably be substantial gains in personal income and personal expenditures.

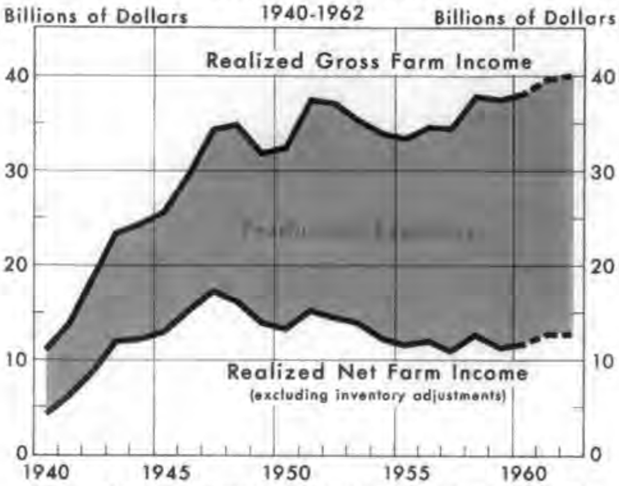
Net Farm Income

Although anticipated net farm income of about $12.8 billion in 1962 is the same as that estimated for 1961, it is well above levels of most recent years. Net income reached a peak of $17.3 billion in 1947, following the elimination of wartime price ceilings on most farm commodities (Chart 1). Excluding the Korean War period, there was a general decline during the next ten years to a low of $11.0 billion in 1957. A sharp increase in the prices received for livestock and products, especially beef cattle, and a larger volume

* This article is a summary of *The Agricultural Outlook for 1962* and other reports presented at the 39th Annual Agricultural Outlook Conference of the United States Department of Agriculture.

of crops marketed pushed income up sharply in 1958 to $12.6 billion. Farm income, however, was down again in 1959 and 1960 as a result of greatly reduced prices and rising production costs.

Farm Income-U.S.



Source: United States Department of Agriculture—1961, 1962 estimated

Farm Commodity Sales

Cash receipts from farm marketings in 1962 are expected to continue at about the same level as in 1961. Slightly lower receipts from crops may be offset by increased sales of livestock and livestock products. Total physical volume of products flowing to markets probably will not differ greatly from the 1961 level, and average prices for all farm products are expected to be about unchanged from the average of this year.

Government Payments to Farmers

Government payments to farmers in 1962 may be up slightly from the 1961 level. Such payments in the first three quarters of 1961 were at the annual rate of about $1.3 billion, or $0.6 billion above those for the corresponding period of 1960. Payments under the 1962 Feed Grain Program may total about $750 million, the same as in 1961, but payments under the 1962 Wheat Stabilization Program are expected to exceed those for 1961, when the program was just getting underway. Other payments, including those under the Wool Act, the Agricultural Conservation Program, and the Soil Bank, are not expected to change appreciably from 1961 levels.

Production Costs

Farm production expenses are expected to increase further during 1962 but at a somewhat slower rate than in 1961. Production expenses, at a record level of about $27 billion in 1961, were $0.5 billion above the level of the previous year. Higher interests costs, rising taxes, higher wages, and higher average prices for production items contributed to the increase. Also, there was a larger volume of purchases of some production items during 1961. These upward trends are likely to continue in 1962 but at a reduced rate.

Outlook for Major Eighth District Commodities

Crops

Price support levels on such major crops as corn and other feed grains, cotton, soybeans, and cottonseed were increased in 1961. These higher support prices contributed to the rise in farmers' cash receipts. The Feed Grain Program (started for corn and grain sorghum crops in 1961) will be continued in 1962 and a similar program has been placed in effect for the 1962 wheat crop.

Cotton

With the 1961 cotton crop estimated at 14.5 million bales and 1961-62 exports at about 5.5 million bales, 1 million bales less than in 1960-61, carryover in 1962 may total 7.6 million bales or about .4 million more than in 1961. This will equal the 1960 carryover but is well below peak levels of 1954 and 1959. Domestic cotton consumption is expected to increase by about a half million bales, offsetting part of the anticipated decline in exports.

Average prices for the 1962 crop will likely be determined by price support levels as in the past several years. Price increases for the 1961 crop have accompanied the higher support levels for the marketing year.

Rice

Rice supplies (carryover plus current production) in the 1961-62 marketing year are about 5 per cent less than in 1960-61 and about 12 per cent below the 1955-59 average. Domestic use plus exports will probably be about the same as last year, further reducing the carryover in 1962.

Prices received for the crop have averaged above the support level in all but 2 years since 1947. With the reduced supply, prices are expected to average above the announced support rate of $4.71 per cwt. this year.

Total world rice exports are expected to hold at about the same high level of last year with higher shipments from non-communist exporting nations offsetting a decline in exports from communist countries, especially communist China where supplies are reported to be reduced substantially by adverse weather.

Tobacco

Total tobacco supplies (current crop plus carryover) this marketing year (1961-62) are expected to be about the same as in 1960-61. Domestic consumption may be up somewhat, but exports will probably decline slightly from the high level of 1960-61. Thus, total disappearance may not change appreciably.

Supplies of flue-cured tobacco are about the same as last year but 10 per cent below the 1956-57 peak. Domestic use gained 3.5 per cent last year and exports rose 13 per cent. Domestic use this year is expected to increase further. However, part of the increase may be offset by a decline in exports.

Burley supplies of 1.7 billion pounds are a little less than last year despite an 8 per cent increase in the 1961 crop. Domestic use of 510 million pounds last year was 2 per cent more than in 1959-60 and the largest since 1952.

Total United States tobacco leaf exports in 1960-61 reached 503 million pounds, up slightly from the level of the previous year and ending a four-year decline.

The United States now supplies only about 33 per cent of the free world tobacco exports. Although the volume of this nation's exports has not greatly changed in the past decade, the per cent of such trade by this nation has declined regularly. Our share of world exports is expected to continue downward though the current volume of exports may be maintained if growth in world demand continues.

Feed Grains

There may be a further moderate reduction in supplies of feed grains, the extent depending upon the effectiveness of the Feed Grain Program and the character of the growing season. Provisions of the 1962 Feed Grain Program are essentially the same as those in 1961 for corn and sorghum, and the program has been extended to include barley. It is estimated that the 1961 program resulted in an 18 per cent reduction in corn acreage and a 29 per cent decrease in acreage of sorghums harvested for grain. A similar response is expected of the 1962 program which would maintain the corn and sorghum grain acreage near the 1961 level. Barley acreage is expected to be about 2 million less than in 1961. Oat acreage may total about the same as in 1961. Thus, the combined acreage of the four feed grains may be somewhat lower in 1962. The reduction in acreage may be offset by higher yields per acre. A normal growing season, however, would be expected to produce a smaller crop than in 1961 when the growing season was considered above average. Prices will probably be maintained above the 1960-61 level by Government support prices and the expected smaller supplies.

Livestock and Livestock Products

Hogs

Based on the September 1961 survey of producers' intentions in ten Corn Belt states, a larger hog slaughter is in prospect for the first half of 1962. Producers indicated that the 1961 fall pig crop would be about 2 per cent above the 1960 level, providing a slightly larger slaughter in the winter and spring months. This level of production, however, is not expected to push hog prices significantly below levels of a year earlier and, if the corn-hog price ratio remains above the 15-1 level as anticipated, an increase in the 1962 spring pig crop can be expected, suggesting a high rate of slaughter throughout the year.

With the higher level of production in prospect, hog prices for 1962 may average slightly lower than in 1961. Prices will probably move downward in late winter and early spring and rise to their usual summertime peak. They are, however, expected to be below those of a year earlier throughout the period.

Cattle

The number of cattle slaughtered in 1962 may total about 4 per cent above that of 1961. However, because of a lighter average dressed weight per animal, beef production is expected to be only about 3 per cent greater. If imports decline as anticipated, total beef supplies per capita may not exceed the 86.7 pounds per person estimated for 1961.

Prices of fed cattle are expected to hold fairly stable in the first quarter of 1962 and to decline somewhat in the spring and summer months. Such prices, however, are not expected to break as sharply as this year. By early summer they may rise above 1961 levels and remain higher throughout the summer months.

In the last half of 1962 slaughter cow prices are expected to be below year-earlier levels. Price declines will reflect an anticipated increase in the volume of slaughter cattle marketed. The largest price declines are expected in the canner and cutter grades.

Much of the increase in cow slaughter reflects normal adjustments in the industry. There may be as many as four million head of over-age cattle that will be sent to slaughter along with the normal culls in the next three or four years. These cows will probably be replaced by heifers and will thus limit the rate of heifer feeding while the replacement process is underway.

Meat Supplies

Production of red meat (beef, pork, veal and lamb) is expected to rise to 29.3 billion pounds in 1962. This compares with an estimated output of 28.6 billion pounds in 1961 and 28.2 billion pounds in 1960. The projected 1962 increase will slightly more than offset the anticipated population growth, providing about 161 pounds of meat per person or four-tenths of a pound more than in 1961.

Increased production of both beef and pork are in prospect for the year. Veal production may be about the same as in 1961, but lamb output is expected to be down somewhat.

Imports of meat may decline slightly in 1962 from the relatively high level of 1961. Meat imports rose from 543 million pounds in 1957 to 1.4 billion pounds in 1959 and in 1960 they were only slightly below the 1959 level. Imports accounted for about 4 per cent of total civilian consumption of red meat in each of the past two years. One of the important items in the high level of meat imports has been boneless processed beef. As cow slaughter is expected to return to a more normal level in 1962, the domestic demand for processed meat will be more nearly met by domestic production.

Milk

Milk production is expected to rise again in 1962 as it did in 1961. Output reached a peak in 1956 and then declined for three successive years. The trend, however, was reversed in 1959. A decline in beef cattle prices provided increased incentive for dairy production. Further stimulation for the upturn in milk production was provided by two increases in Government price supports, one in September 1960 and the other in March 1961. Also important in the recovery of milk production was the improvement in output per cow. After having slowed somewhat in 1960 and early 1961, production per cow is again increasing at an annual rate of about 4 per cent.

Butter and fluid milk sold commercially in 1961 declined sharply from levels of the previous three years. Offsetting the declining commercial demand for these products were significantly larger purchases by the CCC (Commodity Credit Corporation). Such purchases are expected to total about 6 per cent of all milk fat produced and about 9 per cent of other milk solids. Although some recovery in demand for dairy products may occur in 1962, CCC purchases are expected to exceed the large purchases of 1961 because of increased production.

Poultry and Eggs

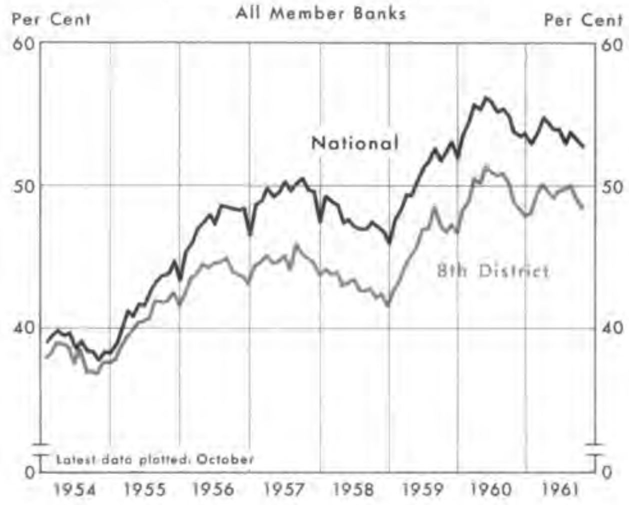
Egg production in 1962 is expected to exceed the 170 million cases estimated for 1961. With the increase in output, egg prices to producers are likely to average somewhat less than the 36 cents per dozen estimated for 1961.

Broiler and turkey production is likely to be large again in 1962, despite the relatively low prices received in 1961. Production of turkeys, however, could be influenced by proposed marketing orders, if the orders are approved by producers and take effect early in the year.

MONTHLY REVIEW INDEX—1961

EIGHTH FEDERAL RESERVE DISTRICT DATA

Ratio of Loans to Deposits



BANK DEBITS[1]

Reporting Centers	Three Months Ending with Oct. 1961 (In Millions)	Percentage Change from Previous Three Months[2]	Percentage Change from Like Three Months a Year Ago
Arkansas			
El Dorado	$ 108	-0-%	+ 9%
Fort Smith	218	+ 1	+ 8
Helena	47	+21	+19
Little Rock	795	+ 1	+ 7
Pine Bluff	192	-0-	-0-
Texarkana	92	+ 1	+ 6
Illinois			
Alton	137	+ 2	+ 1
East St. Louis & Nat'l Stock Yards	432	+ 3	— 1
Quincy	166	+ 2	+ 4
Indiana			
Evansville	565	+ 4	-0-
Kentucky			
Louisville	2,897	+ 2	+ 3
Owensboro	183	-0-	+ 8
Paducah	117	— 1	+ 2
Mississippi			
Greenville	115	+ 2	+ 7
Missouri			
Cape Girardeau	63	— 4	— 9
Hannibal	44	— 4	+ 5
Jefferson City	547	+ 2	+33
St. Louis	8,852	+ 1	+ 3
Sedalia	65	+ 1	+ 4
Springfield	384	+ 4	+ 6
Tennessee			
Jackson	104	— 4	— 4
Memphis	3,120	— 2	+ 6
Total	$19,243	+ 1%	+ 4%

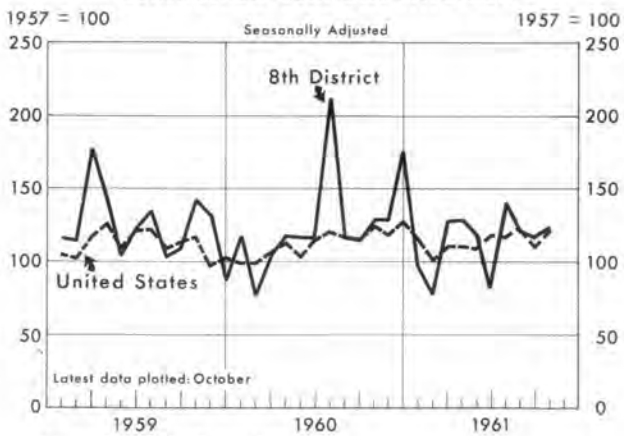
[1] Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

[2] Adjusted for seasonal influences.

Total Loans*

*Last wednesday of month

Construction Contracts Awarded



Source: F. W. Dodge Corporation

Department Store Sales

Latest data plotted: October
Standard Metropolitan Statistical Areas