

**December 1963**

**FEDERAL RESERVE BANK OF ST. LOUIS**

*Review*



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**Volume 45 • Number 12**  
**FEDERAL RESERVE BANK**  
**OF ST. LOUIS**

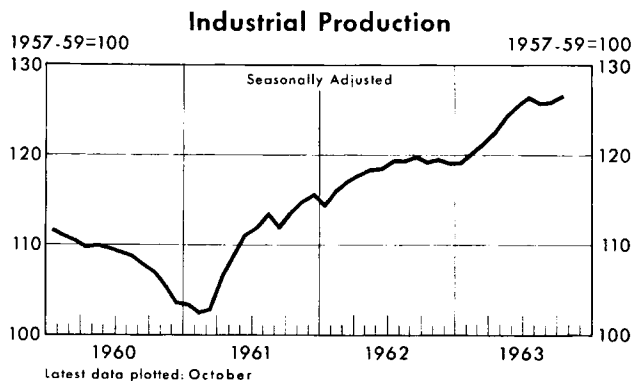
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# National Economic Developments

**E**CONOMIC ACTIVITY has expanded less rapidly since July than during the first half of the year. Credit demands nevertheless have remained strong, as loans to business and consumers have continued to expand markedly. While total member bank reserves have declined slightly since July, the money supply has continued to rise at a rapid pace. Interest rates rose sharply during the period.

## Business Activity

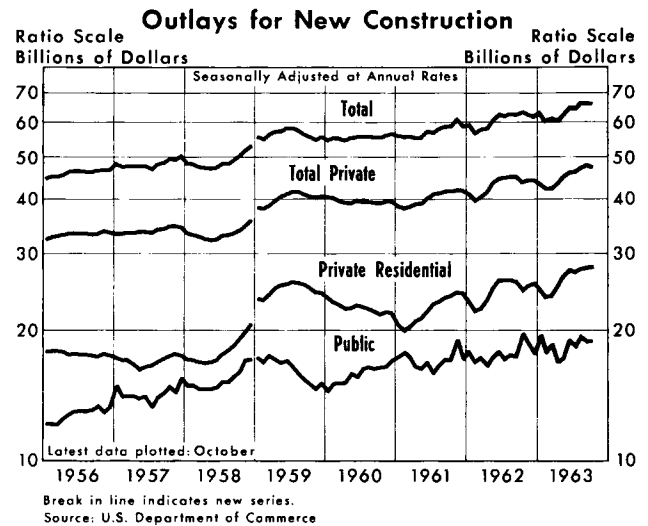
Industrial production rose slightly from September to October, regaining its July level, and moved up slightly in November. From January to July industrial output had expanded at a 12 per cent annual rate, partly reflecting a buildup in inventories of steel in



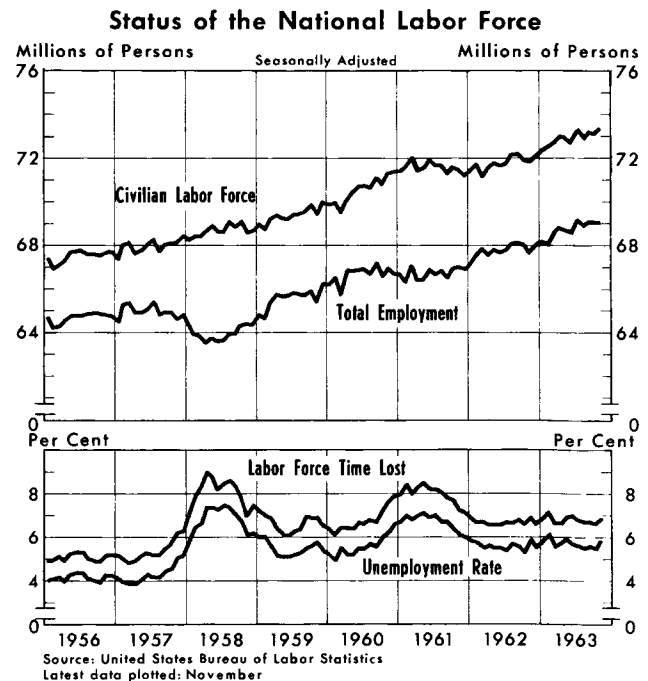
anticipation of a steel strike. Auto assemblies rose 9 per cent in October; preliminary data suggest that automobile output continued to rise during November. Steel production continued to rise in November. Output of coal and crude oil declined in October and the beginning of November, reflecting the unseasonably warm weather.

After increasing rapidly since the first of the year, new construction expenditures in September and October were down somewhat but appeared to be little changed in November. Private construction fell slightly from September to October; residential construction activity was unchanged, while commercial and other nonresidential activity dipped moderately. Ex-

penditures on public construction, which had risen markedly from May to August, declined from August to September and remained about unchanged through October.



Total civilian employment has changed little since midsummer in comparison to a 3 per cent (annual rate) increase in the first half of 1963. Employment



had grown at a compounded annual rate of 1.0 per cent from 1951 to 1962.

While unemployment rose to 5.9 per cent of the labor force in November, a statistic for a single month for this series is not very reliable. It may be most meaningful simply to observe that the unemployment rate remains in the range within which it has fluctuated for the past year. Long-term unemployment (those unemployed 15 weeks or more) was unchanged at 1.0 million in November, about the same number as last month and a year ago.

While employment has been little changed in recent months, personal income has continued to rise. During this same period, however, retail sales have been virtually unchanged on balance. Auto sales rose sharply in October but declined in November. Store closings following President Kennedy's assassination may have contributed to the decline in retail sales in the second half of the month.

Both consumer and wholesale prices have been about unchanged since midyear. The wholesale price index was 100.6 (1957-59=100) in July, 100.5 in October and remained near this level in November. The index of consumer prices was 107.1 from July to September and rose slightly in October. A decline in food



prices in this period was offset by increases in prices for nonfood commodities and services.

### Financial Developments

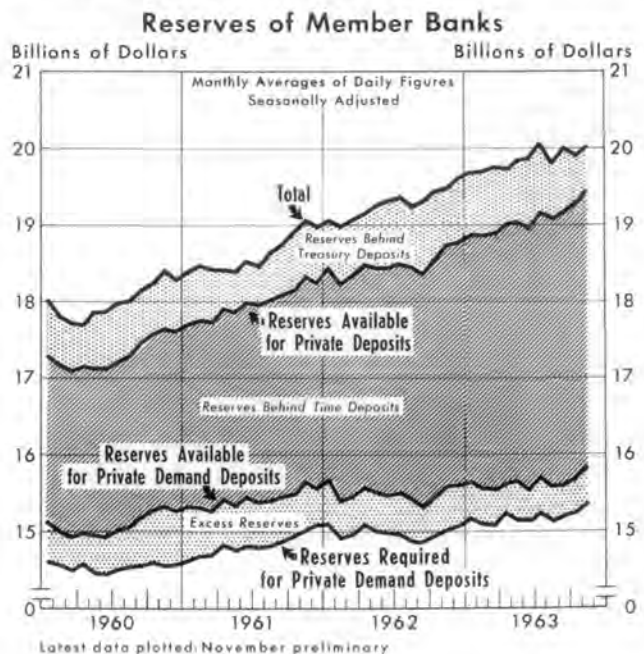
**D**ESPITE an apparent moderation in the pace of business expansion after July, public demand for credit has continued to show considerable strength. Bank loans have continued to grow rapidly, and interest rates have risen. Although total reserves have declined slightly since early summer, banks have met loan demands in part by reducing their holdings of excess reserves and by liquidating short-term securities. The money supply has continued to increase sharply since early summer, reflecting primarily a shift in demand deposits from Treasury to private balances.

#### Slowdown in Reserve and Credit Expansion

Total reserves of members banks declined slightly from July to November after increasing rapidly from September 1962 to July 1963. The rate of increase of bank credit declined from an annual rate of 10 per cent to 5 per cent.

Total commercial bank loans have increased as rapidly since July as they did in the preceding 10 months. Business loans have been increasing especially rapidly. Banks have been able to increase loans since July by liquidating \$700 million of investments (chiefly short-

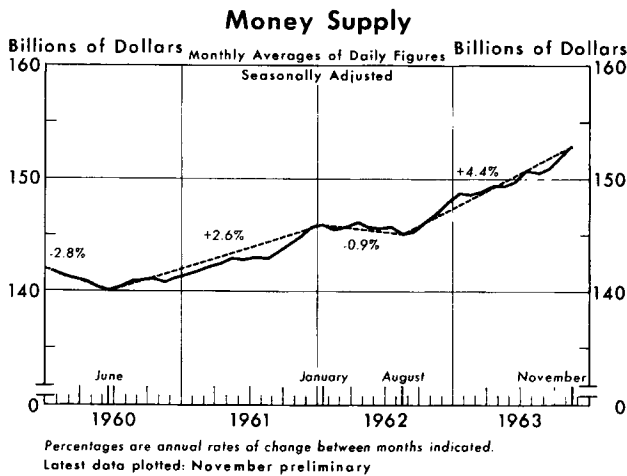
term Government securities) and by reducing their holdings of excess reserves.



#### Expansion in the Money Supply

Accompanying the growth in total bank credit, the money supply (privately held demand deposits plus

currency) expanded at a 4.6 per cent rate from July to November. This rate of increase was little changed

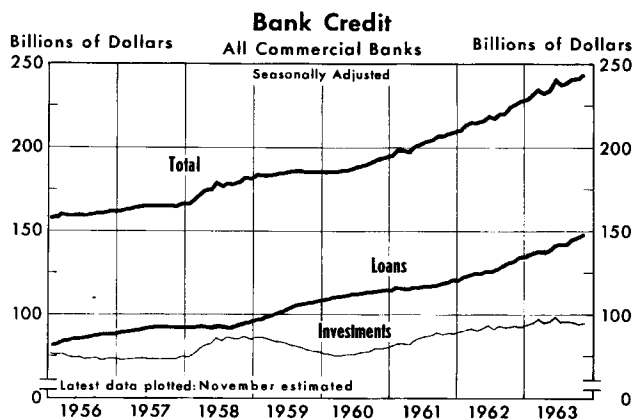


from the pace which had prevailed since August of last year. The increase in money since July has resulted largely from a shift in demand deposits from Treasury accounts (deposits not included in the money supply as usually defined) to private accounts.

Time deposits also expanded substantially from July to the month of November. The 14.8 per cent annual rate of increase was somewhat greater than the 10.9 per cent rate from March to July, but considerably less than the 18 per cent rate of expansion during 1962.

### Interest Rates Continue to Rise

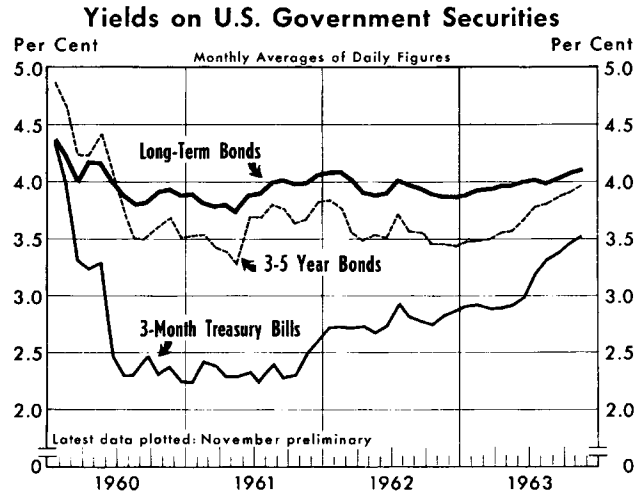
Interest rates rose sharply in July and August and continued to work up through November. This in-



crease has been a favorable development for limiting the nation's balance-of-payments deficit. The Federal Reserve discount rate was increased from 3 to 3.50 per cent in July. The three-month Treasury bill rate

rose from an average of 2.99 per cent in June to an average of 3.52 per cent in November.

Since July, rates on prime 4- to 6-month commercial paper and the yield on directly placed 3- to 6-month finance paper have risen 40 basis points, and prime 90-day bankers' acceptances 30 basis points. Long-term rates have continued to rise. In November the rate on long-term Government bonds was 4.10 per



cent, 9 basis points above the July yield and 22 points higher than the 3.88 per cent rate in January of this year.

### International Developments

The balance-of-payments deficit on regular transactions declined from an annual rate of \$5.1 billion in the second quarter to \$1.4 billion in the third quarter. According to preliminary data, the bulk of this improvement was the result of a contraction in private capital outflows. This improvement was, to a large extent, a reflection of uncertainty arising from the proposed interest equalization tax on foreign securities. Following this proposal, new issues of foreign securities on the New York market fell markedly.

To the extent that capital movements are responsive to movements in interest rates, the rise in domestic short-term rates may have also helped to improve the payments deficit. There are several international interest rate indicators generally regarded as being some measure of possible short-term movements of capital. One is the margin between the London rate on three-month dollar deposits (the so-called "Euro-dollar" rate) and the rate on three-month certificates of deposit in U.S. banks. This margin in favor of London nar-

*Continued on page 8*

# The Euro-Dollar Market

RECENTLY there has been discussion in the financial press devoted to the somewhat mysterious "Euro-dollar" banking market. This note describes the market, its origins, and its effects, especially on the United States balance-of-payments position. The word "mysterious," used with respect to the market, is rather apt in the sense that the statistical information on Euro-dollar operations is scanty and, consequently, it is difficult to evaluate fully the impact of the market on the U. S. balance of payments.

## *The Market*

The focus of this article is the market for dollars, although currencies such as sterling, Swiss francs, and Deutsche marks are traded in a similar fashion in what could be more generally referred to as the "Euro-currency" market. It is impossible to give a precise estimate of the size of foreign markets for dollars and other currencies, but it has been put at between \$4-5 billion in mid-1962, with dollars constituting the biggest proportion of the currencies traded. Mr. Oscar Altman, Advisor, International Monetary Fund, estimates that \$2½ billion of this total was outstanding in the London market.<sup>1</sup>

Euro-dollar operations are a particular form of banking whereby foreign banks, chiefly European, accept deposits of dollar claims and, in turn, lend these dollar claims to their customers. Typically, these deposits and loans are made for short periods. The supply of funds to the market comes mainly from foreigners having dollar claims as a result of the U. S. balance-of-payments deficit. The demand for dollar claims comes from a wide range of sources, including international traders who use the dollar as the world's major trading currency and American corporations which find the Euro-dollar market a relatively cheap and convenient source of borrowed funds.

<sup>1</sup>Oscar Altman, "Recent Developments in Foreign Market for Dollars and Other Currencies," *Factors Affecting the United States Balance of Payments*. Compilation of Studies prepared for the Subcommittee on International Exchange and Payments, 1962.

The original impetus for the development of the Euro-dollar market has been ascribed to the desire of several banks in Eastern Europe to leave their dollar balances with their correspondents in France and England rather than to carry them in their own name in the United States.<sup>2</sup> The correspondent banks found that, operating with only a small interest rate spread, they could make a profit by lending these dollar balances at rates lower than those charged by traditional lending outlets in the United States. Other dollar holders soon found that they also could engage in similar operations. Further impetus was given to the market when British Authorities in 1957 put restrictions on the use of sterling for refinancing of foreign trade credits for nonresidents and banned sterling acceptance credits covering trade between countries outside the sterling area. British banks then offered their customers and correspondents dollar facilities to take the place of the prohibited sterling credits, obtaining requisite balances in the European dollar market. Similar selective controls in other countries have helped to stimulate the Euro-market.

The introduction of nonresident convertibility in Western Europe at the end of 1958, whereby nonresidents could exchange European currencies into dollars without restriction, aided the development of foreign exchange operations and the Euro-dollar market. European banks were then able to accept deposits in foreign currencies, exchange the foreign currencies for dollars (while at the same time "covering" the transactions by repurchasing the foreign currency for delivery at a future date), and then invest these dollars in the Euro-dollar market.

Although the introduction of convertibility and the existence of exchange and other selective controls have helped to stimulate the market, the main reason for its continuance is the existence of a spread between borrowing and lending rates in the United States market. This spread enables Euro-bankers to

<sup>2</sup>Alan R. Holmes and Fred M. Klopstock, "The Market for Dollar Deposits in Europe," Federal Reserve Bank of New York, *Monthly Review*, November, 1960.

offer higher interest rates on dollar deposits than could be obtained in U.S. banks and at the same time to offer lower rates on dollar loans, relying on large transactions and a heavy volume of business to make their profit. This same feature characterizes the United Kingdom market and similarly has encouraged the Euro-sterling market centered in Paris.

It should be pointed out that the transfer of dollar deposits among European banks, or to users of dollars in the United States or elsewhere, is conducted through the transfer of ownership of dollar deposits lodged in American banks. Thus, when a European bank lends dollars to, say, a French importer who imports from the United States, the appropriate sum of dollars is first transferred (within a U. S. bank) to the account of the French importer. The importer then pays for United States' goods by drawing on that account in favor of the U. S. exporter. The U. S. exporter finally "owns" that dollar deposit. The whole complex of Euro-dollar operations is reflected in the transfer of ownership of dollar deposits within the United States banking system.

Transactions in the Euro-dollar market are typically confined to large customers and are usually denominated in terms of \$1 million. The present low limit for individual transactions is probably \$100,000.<sup>3</sup> Thus, banks engaged in the Euro-dollar market can best be regarded as "wholesaling" units which can operate on smaller margins than can banks operating in the domestic market.

Because of higher interest rates on dollar deposits in Europe, dollars coming into the hands of foreigners as a result of the U. S. deficit on current and long-term capital account can be more profitably deposited in Europe than in the United States. In addition to foreign-owned dollar deposits, U. S. corporations have been attracted to the market because of the higher interest rates and because of the availability of interest rate returns on very short-term investments, e.g., for 7 days. American funds have been placed in the market mainly through depositing with Canadian banks which have in turn loaned them to the Euro-dollar market. Nonetheless, at present most of the funds in the market come from nonresidents. According to Altman, a substantial proportion of the funds have been supplied to the market by foreign central monetary authorities.

<sup>3</sup>Paul Einzig, "Has the Euro-Dollar a Future?" *The Statist*, October 11, 1963.

The demand for Euro-dollars comes from a variety of sources, mostly in the private sector. The commercial banks of a large number of countries accept and employ dollar deposits for use in both international and domestic operations. A substantial amount of Euro-dollars are used to finance firms engaged in international trade. These firms use Euro-dollar finance in preference to the more normal acceptance credits because of lower interest rate charges and because of the convenience of borrowing (given both the wide range of maturities available and the ready supply of funds in the market). Japan has figured prominently in the use of Euro-dollars for international trading. The highest interest rate that a Euro-banker could charge for lending dollars would be what it would cost that borrower to raise dollars on the New York market. This does not mean, however, that the effective upper limit to lending charges is the New York prime rate, as relatively few foreign borrowers would be eligible for that rate.

Perhaps most of the funds provided in the Euro-dollar market are lent in the United States. Virtually since the market began, U. S. banks, through their European branches, have been active in the borrowing side of the market. The European branches have actively bid for Euro-dollars and have then repatriated the funds to the United States. To the extent that the subsidiaries have attracted U. S. resident funds, domestic residents may have been paid, indirectly, rates on time deposits in excess of those permitted under Regulation Q.

It has been suggested that one unexpected result of higher interest rates in the United States in recent months has been that American nonbanking borrowers have appeared in the Euro-dollar market for the first time on a large scale.<sup>4</sup> While large American corporations still find it worthwhile to lend short-term Euro-dollar deposits, they also find it worthwhile to borrow Euro-dollars for six months or longer. The fact that corporations have come to operate both as borrowers and lenders is regarded as a landmark in the evolution of the market by Einzig. The market is now regarded as a competitor for American domestic financing. U. S. banks are now competing against Euro-bankers for both domestic and international lending.

A feature of some interest in both the evolution of the Euro-dollar market and the revival of the London international capital market was the issue of

<sup>4</sup>Einzig, *Ibid.*

a \$20 million Belgian Government loan in London during May 1963. The loan had a three-year maturity and was denominated in dollars. The subscribers were a group of British banks which, it is generally thought, financed the loan in Euro-dollars.<sup>5</sup> This was a departure from the normal short-term lending prevalent in the market and was the first issue handled by British banks in currencies other than sterling since the war.

Euro-dollars are also used as money market instruments by foreign commercial banks. In view of the fact that dollars can be loaned or borrowed for various periods they constitute an excellent medium for banks to adjust their liquidity positions. In these operations the market is analogous to the Federal Funds Market in the U. S. Often banks are trading on both sides of the balance sheet, both lending Euro-dollars and at the same time borrowing.

As well as loaning dollars, the Euro-bankers may use the dollars to buy other currencies and lend in foreign markets. In such a case the bank will arrange to sell its foreign currency holdings for dollars at a future date, i.e., it will hedge against the exchange risk. Occasionally, dollar deposits in European banks are used to take advantage of interest arbitrage opportunities. For example, there is likely to be a strong relationship between the amount of dollars switched into sterling and loaned to the United Kingdom Local Authority Market<sup>6</sup> and the margin between rates of interest on Local Authority deposits (adjusted for the cost of forward cover) and the rates on Euro-dollar deposits. At times, Local Authorities have borrowed substantial short-term funds from the Euro-dollar market. Although Euro-bankers will not usually ignore an interest arbitrage possibility, the main type of transaction is that in which dollars are loaned directly.

Selling dollars for foreign currencies can be profitable either for the Euro-banker or for the borrower who wants to be financed in his own currency. In such a case, the limit would be where the cost of borrowing dollars and switching into the foreign currency and covering the transaction for exchange risk equalled the rates charged on local funds. It can be seen that Euro-dollar operations are similar to nor-

mal foreign exchange operations. Therefore, the market can best be regarded as a supplement to normal foreign exchange operations whereby foreigners having claims on the United States sell their dollars for other currencies, and others, wanting dollars, buy them through the exchanges.

It should again be emphasized that the whole complex of Euro-dollar operations is reflected in the transference of ownership of dollar deposits within the U.S. These dollar deposits will continue to be held in U.S. banks unless (1) at some stage, dollars are converted into a foreign currency, or (2) the dollars come into the hands of central banks, that, in turn, convert them into gold, or (3) the dollars are used to pay off a loan at a United States bank.

### *Implications of the Market*

The growth of the Euro-dollar market has had two types of effects—on the international structure of interest rates and on international flows of funds. Since the general return to convertibility in late 1958, international movements of capital have become considerably more flexible with funds in the hands of Euro-bankers being particularly interest-rate sensitive. If interest rates in one country become out of line, after allowing for the premium or discount on forward cover, with those of other countries, Euro-bankers will be induced to switch funds into the relatively high market, and out of the relatively low market. This has tended to bring short-term interest rates (allowing for forward cover), into closer alignment. And as a result it may be somewhat more difficult for monetary authorities to carry out changes in monetary policy. An easing of credit, which may be accompanied by lower domestic interest rates, tends to lead to an outflow of funds. The converse is true if rates stand at a premium compared with Euro-dollar rates.

Although movements of Euro-dollars do *tend* to bring short-term interest rates into closer alignment, the effects of these flows of funds are inhibited both by the lack of suitable money market investments in various countries and by artificial barriers. If money market investments are not available in foreign markets, it follows that there will be no inflows or outflows and hence no effects on interest rates or domestic monetary policy. However, there could be indirect effects if Euro-dollar financing was used in such countries for foreign trade loans.

<sup>5</sup>See "All About Euro-Dollars," *The Economist*, May 25, 1963.

<sup>6</sup>The Local Authority Market is broadly similar to the Market for Municipal Bonds in the United States.



Altman mentions three ways in which the effects of Euro-dollar flows have been prevented by artificial constraints from exerting major effects on domestic rates. First, attempts have been made to regulate (i.e., increase) the rates of interest charged on dollar loans. Agreements by Italian banks covering minimum rates on loans in lire were supplemented in 1961 by minimum rates on dollars and other foreign currencies. Second, under the stress of competition, it has been agreed or understood by banks in some countries, e.g., Germany, that loans in foreign currency should be made to the foreign trade sector only. Third, in many European countries, the competitive effect of foreign currency loans, and, therefore, of lower interest rates, has been restricted by exchange and capital control regulations. These regulations prevent domestic residents from borrowing foreign currencies without permission of the monetary authorities. In these various fashions the foreign markets are isolated to some extent from the effects of competition by the Euro-dollar market.

In addition to the Euro-dollar market's effects on interest rates and international flows, the growth of the market has increased the use of the dollar and has reduced the cost of foreign trade financing as the Euro-bankers have undercut domestic charges. Also, the interest rates on dollar deposits have probably been influential in the decision of private foreign dollar holders to invest in dollar deposits rather than in other currencies. To the extent that private dollar holders have been willing to remain invested in dollars rather than other currencies, the amount of dollars in the hands of foreign central monetary authorities is less than it otherwise would

have been. If the foreign monetary authorities have limits on their dollar holdings, the market has helped, to some extent, to finance the U. S. deficit on current and long-term capital account with smaller gold losses than would otherwise have been the case. Although foreign central monetary authorities are unlikely to determine their dollar holdings on the basis of interest rate returns, to the extent that the market has increased the willingness of some of these institutions to hold dollars, international liquidity has been also increased. In other words, the foreign central monetary authorities acquire an increase in reserves without any parallel loss to the U. S. gold stock.

On the other hand, the high dollar deposit rates have attracted some United States residents to invest in the Euro-dollar market thus adding to the outflow of dollars and to the over-all balance-of-payments deficit. There are two ways of looking at this latter point. By one view, although lending by U. S. residents to the market constitutes an outflow of dollars, the lending is generally undertaken for short periods, and hence the U. S. asset may be thought of as offsetting the liability of a short-term outflow. By this method of accounting, the existence of the Euro-dollar market would be regarded as having no effect on the over-all balance of payments. However, the alternative view is that the outflow constitutes a claim (for a given period) on the U. S. gold stock, while the asset equivalent, being private, is not available to defend the dollar against a speculative movement. Consequently, a flow of dollars from the United States to the market is regarded as adding to the over-all payments deficit.

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### *National Economic Developments—Continued from page 4*

rowed during the third quarter from over 0.5 per cent to under 0.3 per cent. The margin narrowed because the average yield on domestic certificates of deposit rose from 3.375 per cent to 3.75 per cent, while the Euro-dollar rate remained almost unchanged at around 4.0 per cent.

A second indicator of short-term capital movements is the covered interest differential on U.S.-U.K. Treasury bill rates (i.e., the margin between U.S.-U.K. bill rates adjusted for the cost of avoiding exchange rate risks). This differential remained moderately favorable to Britain in the third quarter but may have been too narrow to induce movement of funds. As

U.S. bill rates continued to rise in October, the differential reversed and favored the United States through mid-November, but by narrow margins.

The margin on covered U.S.-Canadian Treasury bill rates may also give some indication of the possible direction of short-term capital movements. This interest differential favored Canada during most of the second quarter and into July, but from then until the first week in September tended to be slightly in favor of the United States. As Canadian rates firmed in September, the differential again favored Canada until mid-October. The incentive remained negligible through mid-November.



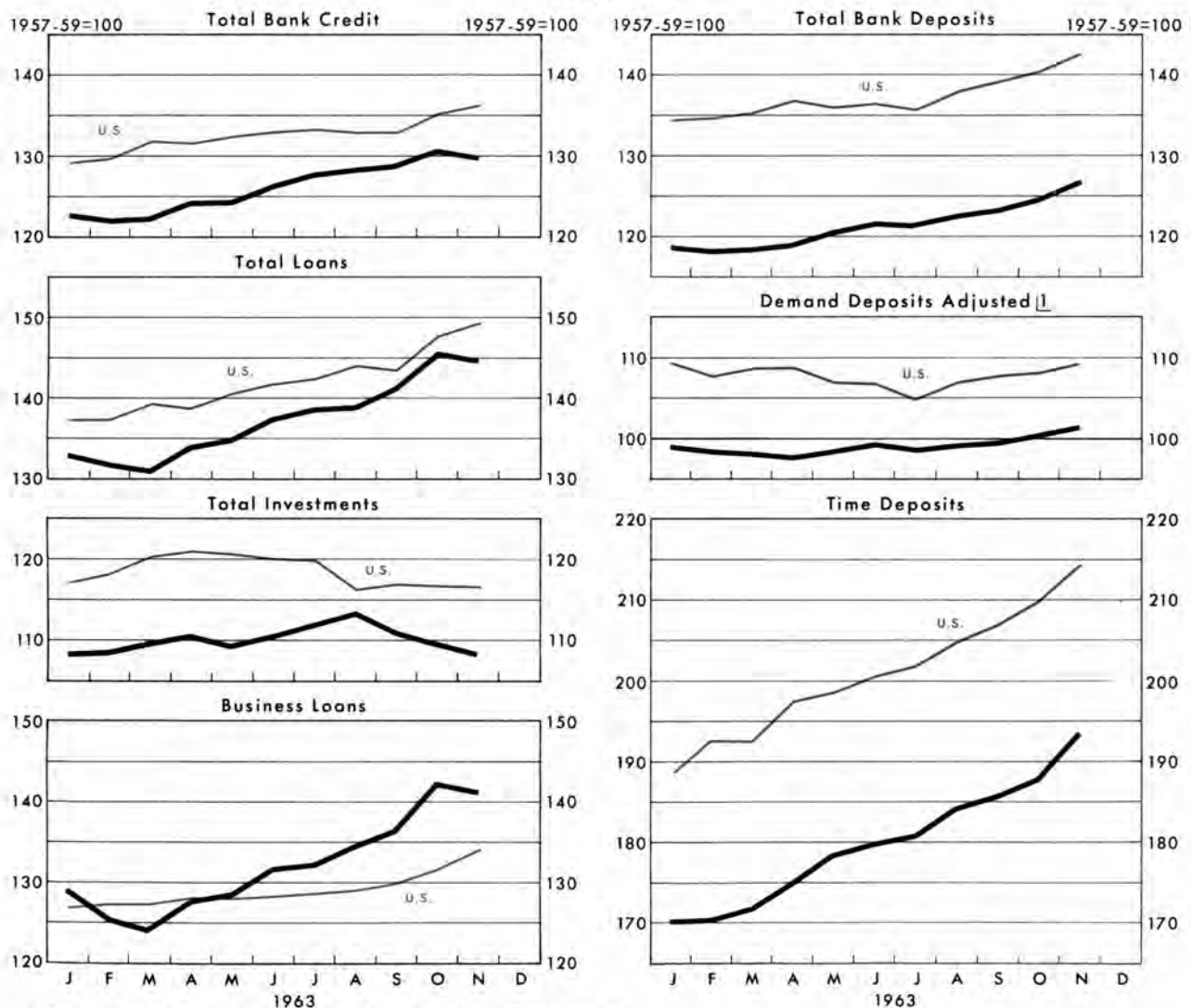
# Central Mississippi Valley Banking Activity

## The Region

SINCE August, loans of large city banks in the Central Mississippi Valley have risen markedly after growing more moderately in the earlier part of the year. From August to November these loans rose at an average monthly rate (seasonally adjusted) of 1.4 per cent. In the preceding eight months the average rate was 0.7 per cent.

Real estate and business loans have been growing most rapidly. Business loans, seasonally adjusted, rose at an average monthly rate of 1.7 per cent from August to November compared with 0.7 per cent per month during the first eight months of the year. Loans to commodity dealers and to food, liquor, and tobacco processors accounted for a major portion of the recent expansion.

**Central Mississippi Valley Banking Indicators**  
Eighth District Weekly Reporting Member Banks  
Monthly Averages of Weekly Figures  
Seasonally Adjusted



[1] Other than interbank and U.S. Government, less cash items in process of collection.  
Latest data plotted: November preliminary

Funds to accommodate the loan expansion since August have come from a net sale of securities and from growth in deposits. Investments declined at an average monthly rate of 1.5 per cent from August to November; demand deposits rose at a 0.7 per cent rate, and time deposits increased at a 1.7 per cent rate.

### Major Metropolitan Areas

Total loans of banks in St. Louis, Louisville, Memphis, and Little Rock have risen since August. Despite increases in demand and time deposits, banks in each of the four metropolitan areas found it necessary to sell securities in order to acquire funds to meet the growth in loan demand.

Total loans at the fourteen reporting banks in the St. Louis Metropolitan Area increased at an average monthly rate of 1.7 per cent (seasonally adjusted).

Table 1  
Central Mississippi Valley Banking Indicators

	Seasonally Adjusted		
	Amount	Average Monthly	
		Percentage Change	
November 1963† (000,000)	Aug. 1963 to Nov. 1963	Dec. 1962 to Aug. 1963	
Total Loans	\$2,449.4	+1.4%	+0.7%
Business Loans	934.9	+1.7	+0.7
Total Investments	1,278.6	-1.5	+1.1
Demand Deposits*	1,717.0	+0.7	- 0 -
Time Deposits	1,250.8	+1.7	+1.5

†Monthly averages of weekly data

\*Other than interbank and U. S. Government, less items in process of collection.

Source: Data from twenty-nine Eighth District weekly reporting member banks.

Table 2  
Banking Indicators  
Major Metropolitan Areas  
November 1963†

	Seasonally Adjusted			
	(In Millions of dollars)			
	St. Louis	Louisville	Memphis	Little Rock
Total Loans	\$1,186.4	\$378.9	\$606.6	\$156.2
Business Loans	449.6	147.7	246.9	44.0
Total Investments	638.4	257.4	224.0	89.7
Demand Deposits*	741.6	364.7	349.7	149.8
Time Deposits	605.3	149.4	373.1	64.7

†Monthly averages of weekly data

\*Other than interbank and U. S. Government, less items in process of collection.

Source: Data from twenty-nine Eighth District weekly reporting member banks.

## Changes in Standard Metropolitan Statistical Area Definitions

THE BUREAU OF THE BUDGET announced on October 18 a revised list of Standard Metropolitan Statistical Areas based on the 1960 Census of Population. The latest definitions for SMSA's in the Eighth Federal Reserve District are listed below.<sup>1</sup> The newly added counties are starred.

### St. Louis, Missouri—Illinois

St. Louis City, St. Louis, St. Charles, Jefferson and \*Franklin counties, Missouri; Madison and St. Clair counties, Illinois.

### Louisville, Kentucky—Indiana

Jefferson County, Kentucky; Clark and Floyd counties, Indiana.

<sup>1</sup>The Texarkana, Texas—Arkansas SMSA is not included in the Eighth District listing above since over 80 per cent of its population is outside district boundaries.

### Memphis, Tennessee—Arkansas

Shelby County, Tennessee; \*Crittenden County, Arkansas.

### Little Rock—North Little Rock, Arkansas

Pulaski County, Arkansas.

### Evansville, Indiana—Kentucky

Vanderburgh and \*Warrick counties, Indiana; Henderson County, Kentucky.

### Springfield, Missouri

Greene County, Missouri.

### Fort Smith, Arkansas—Oklahoma

Sebastian and \*Crawford counties, Arkansas; \*Le Flore and \*Sequoyah counties, Oklahoma.

# Outlook for Farming in 1964

*This article is a summary of farm outlook information presented by representatives of the United States Department of Agriculture at the National Agricultural Outlook Conference in Washington, D. C., November 18-21, 1963.<sup>1</sup>*

**NET FARM INCOME** in the nation in 1964 is expected to be about five per cent less than the estimated \$12.3 billion in 1963. This would be the second successive year of declining net income. Gross farm income will probably be somewhat less than the \$41 billion in 1963. While it is anticipated that supplies of farm commodities will be up somewhat from 1962-63 levels, prices will average slightly lower. The agricultural outlook for the Eighth Federal Reserve District<sup>2</sup> is somewhat better

than for the nation as a whole.

A substantial boost in farm exports is in prospect, assuming negotiations are successful for the sale of a large quantity of wheat to the Soviet Bloc of Nations. Reflecting this improvement, commercial exports of farm products may exceed imports for the first time in recent years, contributing to a reduction in the balance-of-payments deficit.

## National Outlook

A combination of reduced gross returns and increased costs may reduce net farm income in 1964 by 5 per cent from the \$12.3 billion estimated for 1963. Cash receipts from farm commodity sales in 1964 are expected to decline slightly from the estimated \$36 billion of 1963, a record high. Although the volume of farm commodities marketed in 1964 is likely to increase from the 1963 level, the increase may be more than offset by slightly lower average prices. Also, Government payments to farmers may be somewhat lower than a year ago. While returns are expected to decline, farm production expenses may increase about \$0.6 billion to about \$29.3 billion.

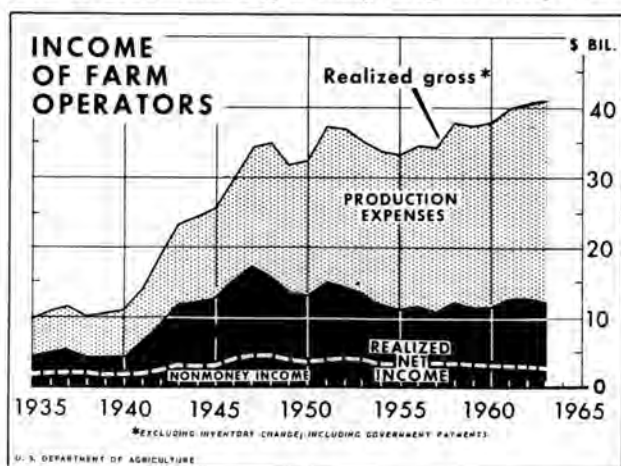
Cash receipts from crop marketings will probably be lower in 1964, reflecting a sharp drop in receipts from

wheat because of lower prices. Some of the loss in wheat receipts may be offset by gains in income from other crops including soybeans, feed grains, truck crops and citrus fruits.

Cash receipts from marketings of livestock and livestock products are apt to be moderately higher in 1964 with small increases anticipated for meat animals, poultry and eggs, and dairy products. On the basis of a small increase in beef output, assuming no significant change from average 1963 prices, it is expected that there will be increases in cash receipts from beef cattle. Hog prices may increase sufficiently to more than offset reduced output. Egg and broiler prices may average about the same as in 1963 with slight increases in output. The volume of dairy products marketed may be up somewhat with little change in prices received. Notwithstanding these gains in cash receipts from livestock and livestock products, the increases may not be sufficient to offset fully the decline in proceeds from crop sales.

In addition, with the elimination of payments under the Wheat Stabilization Program and a further decline in Soil Bank payments, the outlook is for reduced Government payments to farmers in 1964. Payments under the Feed Grain Program, projected at about \$225 million higher, will partially offset the reductions.

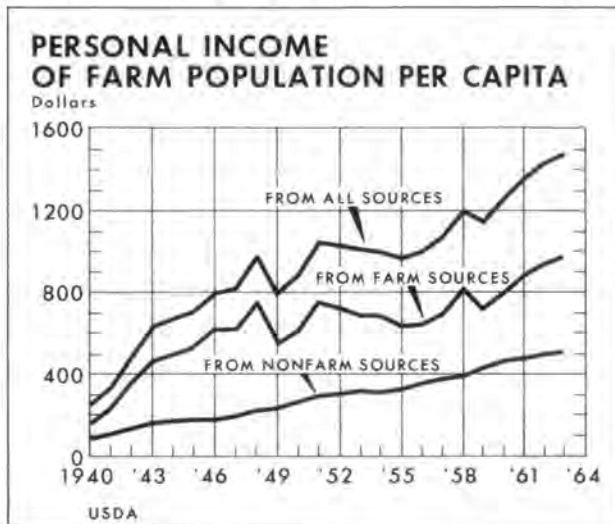
Farm production expenses in 1964 are expected to rise at least 2 per cent from the \$28.7 billion level of 1963. Increases are expected for several important items including feed purchased, fertilizer, taxes, interest, and depreciation charges. Production expenses in 1962 were 57 per cent higher than the 1947-49 average. The increase is attributed to both a larger volume of purchased inputs and higher prices paid for the inputs. Each accounted for about half of the increase.



<sup>1</sup>Those who would like more information concerning the agricultural outlook can obtain detailed reports from the United States Department of Agriculture, Washington, D. C.

<sup>2</sup>Arkansas, and portions of the states of Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee.

Although realized net farm income may be down in 1964, per capita personal income of the farm population is expected to be about the same as in 1963. Per capita income in 1963 was an estimated 3 per cent higher than the previous record of \$1,436, reached in 1962. While income from farming will be a little lower in 1964, the



decline is expected to be more than offset by an increase in income from nonfarm sources. Per capita income of the farm population from nonfarm sources has increased throughout the past decade.

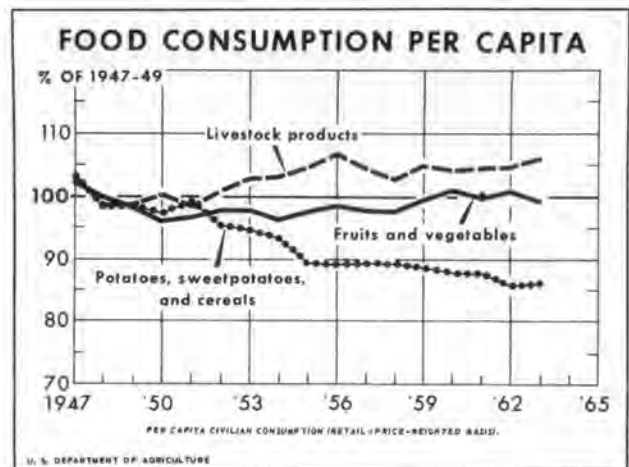
Continued growth in the demand for farm products, both domestic and export, is anticipated for 1964. Domestic demand may expand by 3 per cent as a result of population growth and gains in consumer incomes. Population is expected to increase about 1.7 per cent. Consumer incomes after taxes in 1963 were about 5 per cent above 1962 levels and a further rise is indicated in 1964.

The volume of farm commodity marketings increased in 1963 and a further moderate increase is expected in 1964. Production of crop and livestock products in 1963 was about 2 per cent above that of 1962. With average growing conditions and continuing adoption of new technology, another increase in crop production is likely in 1964. Prospects are also for further gains in the volume of livestock product marketings. Cattle, and poultry and egg production will probably be up, but pork production may be down slightly.

Trends in domestic consumption are expected to vary according to the farm commodity under consideration. Per capita consumption of meats, primarily beef and poultry, has generally increased over the past two decades. The increase in beef consumption seems to have been the result of changing consumer preference. In the case of poultry, price declines have provided a stimulus.

Total per capita meat consumption in 1964 may be about the same as in 1963 (207 pounds) but somewhat higher than the per capita consumption in 1962 (201 pounds). Continued increases in beef consumption are expected to offset reductions in consumption of pork, veal, lamb and mutton. Consumption of beef rose to a new

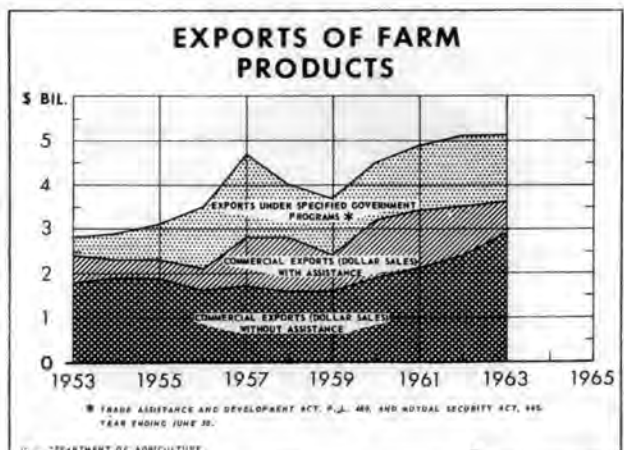
record of about 95 pounds per person in 1963, up 6 pounds from a year earlier. Consumption is also expected to rise in 1964 but not as much as in 1963. Pork consumption, estimated at 65 pounds per person in 1963, was a pound above that of a year earlier, but is expected to decline slightly in 1964.



While some further increase may occur in broiler consumption in 1964, the dramatic growth of the industry over the past decade appears to be losing momentum. Broiler output rose 22 per cent from 1958 to 1962, as compared with an increase of 53 per cent in the preceding four years. Per capita consumption of chicken in 1963, with broilers accounting for about 86 per cent of the total, is estimated to be 30.6 pounds, compared with 30.1 pounds a year earlier.

Per capita consumption of dairy products, eggs, and cereals has generally declined in recent years, and a further decline may occur in 1964. The decline in per capita egg consumption, however, may not be as great as in recent years.

Recent developments point to a new record of agricultural exports in the fiscal year ending June 30, 1964. Assuming that there will be a sale of a large quantity of wheat to Russia, the value of farm exports may total \$6.0 billion for the year, up from the estimated \$5.1 billion in 1963 and substantially higher than the average of \$4.4 billion in the period from 1958 to 1962.



Most of the gain in exports in 1964 is expected to be in commercial sales, in contrast to exports under various Government programs. Total commercial exports may advance to around \$4.2 billion in fiscal 1964, up from an estimated \$3.6 billion in 1963 and an average of \$3.1 billion in the period from 1958 to 1962. In recent years commercial agricultural exports have not been sufficient to offset agricultural imports. In 1964, however, commercial exports of farm products may exceed agricultural imports; this means that agriculture will be making a net contribution to a reduction of the United States balance-of-payment deficit. Major commodities which are ex-

pected to increase in total exports include wheat, cotton, soybeans, fats and oils, dairy products, dry edible beans, and tobacco.

A substantial portion of the export gain is expected to last only through fiscal 1964. Part of the anticipated increase in foreign demand reflects reduced grain production in the Soviet Bloc and a smaller harvest of lower quality wheat in Western Europe. If normal crops are produced in these areas next year, export demand for American products is likely to decline.

## Major Eighth District Commodities

The 1964 outlook for agriculture in the Eighth District is somewhat better than that for the nation on the basis of prospects for major farm commodities produced in the area. The outlook is good for all major district commodities except wheat, which accounts for only 3.5 per cent of farm sales. Thus, although cash receipts from wheat sales are expected to decline substantially on a national basis, the impact in the district will probably not be as great. Also, most district soils are well adapted to growing other crops which are competitive with wheat in terms of prospective returns per acre. Crops account for about 55 per cent of farm products marketed in the district while livestock and livestock products constitute the remaining 45 per cent.

Major Farm Products Marketed in Eighth Federal Reserve District<sup>1</sup>

Livestock	Per Cent of Total District Marketings
Cattle .....	18.4%
Hogs .....	11.5
Milk .....	7.4
Broilers .....	3.6
Eggs .....	2.3
Other .....	2.2
	45.4%
<b>Crops</b>	
Cotton .....	22.0%
Soybeans .....	12.0
Corn .....	6.1
Tobacco .....	4.0
Wheat .....	3.5
Rice .....	2.2
Other .....	4.8
	54.6%
	100.0%

<sup>1</sup>Calculated from 1959 Census of Agriculture data. These relationships do not reflect total production. Large quantities of crops are consumed by livestock on farms where produced.

### Livestock and Livestock Products

Cash receipts from livestock and livestock products for the nation will probably be a little higher in 1964 than in 1963. Some gain may occur for meat animals, poultry

and eggs, and dairy products—the three major livestock commodity groups.

Supplies of red meat products in 1964 will continue at the high level attained in 1963, 170 pounds per person. Beef production will be up about 3 per cent, more than offsetting a slight decline in pork. Output of veal and of lamb and mutton will continue to decline.

**Cattle**—Cash receipts from cattle sales in 1964 are expected to be greater than the estimated \$8.1 billion in 1963, with prices averaging about the same and pounds marketed somewhat greater. Cattle prices are expected to average about \$24.00 per hundred pounds, the same as in 1963, with a continued high consumer demand for beef. Commercial cattle slaughter will be 3 to 4 per cent above the 27.3 million animals estimated for 1963. The gain in beef production, however, will probably be slightly less than the gain in number slaughtered because animals marketed are expected to be somewhat lighter in weight.

At the beginning of 1964, cattle numbers are expected to total about 107 million, up 3 per cent from a year earlier. The number kept for milk production is expected to be down by about 3 per cent and beef cow numbers to be about 5 per cent higher than in 1963. This larger cow herd will furnish the increased supply of feeder cattle for fattening.

**Hogs**—Cash receipts from hogs are expected to rise somewhat in 1964. In response to lower per capita pork supplies, hog prices will average higher. The higher prices will more than offset the decline in volume marketed. September-November farrowings in 10 Corn Belt states were down about 3 per cent from year earlier levels and breeding intentions reported in September indicate that farrowings may be down slightly in the three-month period from December 1963 through February 1964. The March-May 1964 litters may also be somewhat lower than a year earlier. Thus, slaughter supplies are expected to fall below year earlier levels in the second quarter of 1964 and to remain lower for the remainder of the year.

**Dairy Products**—Cash receipts for dairy products in 1964 may be up slightly from 1963 levels. Some increase in volume of marketings is in prospect with little change expected in the prices which prevailed in 1963. These price



expectations are based on the assumption that present supports will continue at 75 per cent of parity. Government support levels have not been announced for the year beginning April 7, 1964.

Dairy production will probably continue well in excess of consumption in 1964 with the Commodity Credit Corporation purchasing the excess. Government purchases of milk equivalent, which reached a record of 10¼ billion pounds in 1962, was about 8 billion pounds in 1963. The 1963 purchases accounted for about 6.5 per cent of total milk fat production and 9.5 per cent of other milk solids. Government purchases are expected to decline slightly in 1964. The decline in dairy cow numbers which began in 1944 is likely to continue in 1964. The decline, however, has generally been offset by increasing output per cow.

Consumption of dairy products per person apparently stabilized in 1963 after a downtrend which began in 1956. With population increasing, fluid milk consumption will almost certainly rise, but commercial demand will probably increase at a somewhat smaller rate than population growth. The difference between commercial sales and domestic consumption represents donations by the Government.

**Chickens—**Broiler production in 1964 may be up for the seventeenth consecutive year. Recent egg settings indicate a broiler output in the first part of the year about equal to that of a year earlier. On the other hand, abundant supplies of red meat will probably hold down prices and restrain expansion. In addition, slightly higher feed prices will tend to be a restraining factor. Later in 1964, however, competition from red meat may decline and broiler output may tend to expand. Consumption per capita for the year is expected to exceed the 1963 record level.

The rate of expansion in poultry consumption appears to be losing momentum after a rapid increase during the past decade. Per capita consumption of 30.6 pounds of chicken in 1963 was only 0.3 of a pound above that of 1961. In comparison, per capita consumption rose from 21.9 pounds in 1953 to 30.3 pounds in 1961, a gain in excess of a pound per year.

As a result of increased levies by the Common Market countries, exports of broilers from January to August 1963, totaling 69.1 million pounds, were sharply lower than the 132.7 million pounds in the same months a year earlier. Levies on United States broilers were increased from 5.0 to about 13.4 cents per pound on August 1, 1962. In October 1963, levies on exports to West Germany were reduced to about 12.3 cents per pound as a result of recent increases in world poultry prices.

Government purchases of broilers for the National School Lunch Program account for about one per cent of national output. Such purchases totaled 60 million pounds in 1962 and approached that amount in 1963.

**Eggs—**Egg production in 1964 may be up from the 176 million cases in 1963, and prices received by farmers in the first half of the year may average less than the 34.1 cents per dozen for the year 1963. The number of layers in the fall of 1964 is expected to be down and prices will show a greater than seasonal rise.

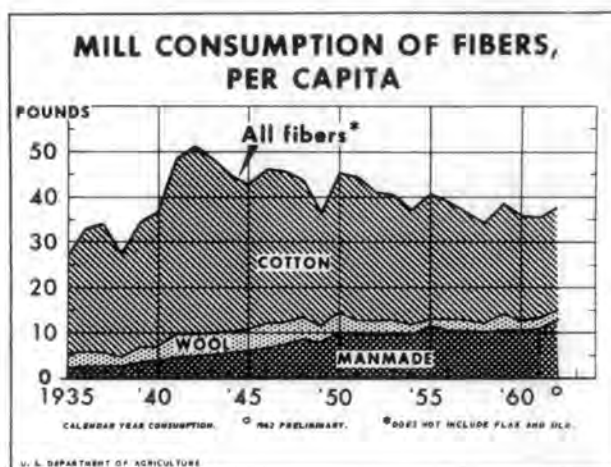
Egg production has not kept pace with population growth since 1950. Output increased 7 per cent from 1950 to 1962 while population expanded 22 per cent and disposable income 50 per cent. Total egg consumption by civilians during this period rose only 1 per cent.

## Crops

**Cotton—**Cotton production in 1963 will most likely exceed disappearance (domestic mill consumption plus exports) for the third successive year. The 1963 crop, estimated at 15.5 million bales, is about 0.7 million greater than in 1962 and about 1.7 million in excess of estimated domestic use plus exports. Carryover on August 1, 1964 may total 13.1 million bales, the largest since the record high of 14.5 million in 1956. Approximately three-fourths of the carryover on August 1, 1963 was cotton held by the Commodity Credit Corporation and was acquired through price support operations.

A referendum will be held in December 1963 on 1964 cotton marketing quotas. Quotas must be approved by two-thirds of the producers if they are to go into effect.

Consumption of cotton by domestic mills during the 1963-64 marketing year is estimated at 8.8 million bales, up 0.4 million from 1962-63 but 0.2 million less than in



1961-62. Total domestic consumption has not changed much during the past decade, but during the 1940's and through 1952 consumption was one to two million bales more.

Per capita consumption of cotton and cotton's share of total fiber consumption have trended down since World War II. Per capita consumption for the calendar year 1963 is estimated at 21.6 pounds, a record low, and cotton's share of all fiber consumption will total only about 57 per cent. In comparison, during the early postwar years per capita cotton consumption averaged over 30 pounds and cotton accounted for more than 70 per cent of total fiber consumption.

Net exports of American cotton in 1963-64 may total 5 million bales, up from 3.4 million a year earlier. This increase reflects a moderate increase in foreign demand for cotton and a decline in foreign production. Domestic prices of cotton are maintained well above world prices, with

the difference made up by payments to shippers under the export sales program. During 1962-63 such payments were at the rate of 8.5 cents per pound and the domestic price for middling 1 inch 1963 cotton averaged about 33 cents per pound.

**Fats and Oils**—United States supplies of edible fats, oils and oilseeds (primarily soybeans) in the 1963-64 marketing year beginning October 1 are at a record 17.0 billion pounds (oil content basis). This supply is about three per cent more than the previous peak in 1962-63. With the rapidly expanding demand, however, prices are likely to average higher throughout the coming marketing year than they did a year earlier. Domestic disappearance will rise in line with population growth, requiring an additional 0.2 billion pounds above the 9.4 billion total in 1962-63. Exports may total 4.9 billion pounds, leaving a carryover of about 2.4 billion, the same as on October 1, 1963.

Soybean supplies in the 1963-64 marketing year total about 742 million bushels compared to 723 million in 1962-63. Prices are expected to continue well above the \$2.25 per bushel support rate throughout the current year. Domestic crushings may total 495 million bushels. With a strong demand for high-protein soybean meal, crushings in 1962-63 totaled 475 million bushels, somewhat more than was required for oil usage. Oil carryover was at a record 920 million pounds compared to 618 million a year earlier. Oil disappearance in 1962-63 was 3.7 billion pounds. Consumption in 1963-64 may total 3.8 billion pounds. Soybean meal consumption in 1963-64 may total 10.0 million tons, 4 per cent more than a year earlier.

Exports of soybeans in 1963-64 may total 190 million bushels compared to 180 million bushels a year earlier. Exports of soybeans and soybean products are the leading dollar earner of United States agricultural exports. Such exports accounted for 41 per cent of the 1962 crop. Chief purchasers in 1962-63 were Japan, West Germany, Netherlands and Canada. These four nations, combined, accounted for two-thirds of the total shipped.

With the outlook for total disappearance (domestic crushings plus exports) at 685 million bushels, carryover into the 1964-65 marketing season will again be at the low levels of recent years relative to annual usage. The cottonseed outlook is similar to that of soybeans. Supplies of oil are relatively high and demand for meal strong. Total supplies of cottonseed, at 6.4 million tons, are about the same as last year. Also, the total crush will be about the same. Average prices in the 1963-64 marketing year are expected to be about \$2 per ton above last year and well above the support level.

**Feed Grains**—Feed grain production (primarily corn), at 152 million tons in 1963, was 6 per cent larger than in 1962 and only slightly less than the record output of 1960. With a smaller carryover (63 million tons), supplies in 1963-64 are about the same as a year earlier. Domestic use plus exports may total 156 million tons, 3 million above the 1962-63 level. Carryover at the end of the year will be reduced to about 59 million tons.

Domestic use plus exports of feed grains has been increasing at about 3 per cent per year since 1950. Do-

mestic use will increase again in 1963-64 with increased cattle feeding. Exports, however, may decline slightly from the 17 million tons of the past two years, with increased feed supplies being grown in the West European countries. The increased movement of wheat from North America may also limit transportation facilities for shipping feed grain.

The corn supply for 1963-64 is about 5.3 billion bushels, slightly larger than last year but 0.4 billion bushels less than in 1960-61. The 1963 crop reached a new record of slightly over 4.0 billion bushels and the carryover was 1.3 billion bushels. Corn carryover will be down at the end of the year but the decline will be less than in the past two years.

The Feed Grain Program for 1964 is basically the same as for 1963. Price support levels for 1964 crops are the same but support loans will be a little higher, \$1.10 per bushel, and support payments lower, \$0.15 per bushel. The participant may get price support loans on his entire crop but support payments are based on normal production. Under the 1964 program, as was the case in 1963, participants must divert a minimum of 20 per cent of base acreage. The maximum acreage that can be diverted, however, has been raised to 50 per cent under the 1964 program. Producers with 25 acres or less, as in prior years, may divert all their acreage.

Corn and sorghum prices are expected to rise above loan rates later in the marketing year. The seasonal increase, however, is not expected to equal the 19 per cent rise from November 1962 to July 1963.

**Wheat**—The outlook for wheat in 1964 is characterized by greatly increased export demand and lower price support rates. Exports may total 1 billion bushels in the 1963-64 marketing year beginning July 1, 1963, up from 639 million bushels last year. For the first time in 10 years farmers may ignore acreage allotments without direct financial penalties. Those ignoring the allotments, however, will forego the price support of \$1.25 per bushel available to those complying and will also lose part of their acreage history plus any payments they were eligible to receive under the Soil Bank Program.

Cash receipts from wheat sales in 1964 may be down substantially from 1963 levels with the reduced price supports. Farmers received an average of \$2.00 per bushel, the price support rate for 1963 wheat. With the support price reduced to \$1.25 per bushel and no change in the Wheat Program between now and harvest time, the price received by participating farmers in 1964 will probably be well below the 1963 level. Gains in production are not likely to offset much of the price decline.

Wheat supplies in the United States in the 1963-64 marketing year are estimated at 2,327 million bushels, down about 75 million bushels from a year earlier. Carryover on July 1, 1963 was 1,189 million bushels and production 1,133 million. Imports for the year may total 5 million bushels.

A sharp reduction in wheat carryover is in prospect for the year ending July 1, 1964. Prospective exports of one



billion bushels are 50 per cent above last year's level and almost double the 1957-61 average. Most of the gain is attributed to the shift of the Soviet Union from an exporting to an importing nation. Estimates indicate that the 1963 Soviet crop was at least 25 per cent below the relatively small 1962 crop. Instead of exporting 150-200 million bushels as is normally the case, the Soviets are purchasing 350 million bushels from Canada and Australia and are negotiating for purchases of United States wheat. Domestic use of wheat in 1963-64 may total 602 million bushels, about average for the past six years. With total disappearance of 1,600 million bushels, carryover of wheat stocks on July 1, 1964 will be down to about 725 million bushels, the lowest since 1953 and only about 50 per cent as large as carryover on July 1, 1961 and July 1, 1962.

**Rice**—The rice outlook in 1964 is marred by somewhat heavier than average supplies for recent years. Estimated carryover of 9.6 million cwt. into the 1964-65 marketing season is not excessive, relative to carryover in most recent years. Rice supplies for the marketing year beginning August 1, 1963 were estimated at 75.1 million cwt., about 8 per cent above the previous year's level and 15 per cent above the 1957-61 average. The 1963 rice crop of 67.3 million cwt. was the largest on record and about 25 per cent above the 1957-61 average. Carryover on August 1, 1963 totaled 7.7 million cwt., somewhat larger than a year earlier but well below the 1957-61 average of 12.3 million cwt.

Both domestic use and exports of rice are expected to exceed average levels of recent years. Domestic use is estimated at 29.5 million cwt. compared to 28.1 million last year and a 1957-61 average of 27.1 million. Exports may total 36.0 million cwt., up slightly from last year's level and up substantially from the 1957-61 average of 25.2 million cwt.

No official announcements have been made on acreage allotments or price supports for the 1964 rice crop; the minimum permitted support level, however, is 65 per cent of parity.

**Tobacco**—Stocks of burley tobacco, the major type grown in the district, have been increasing in recent years and a further moderate increase in carryover is estimated for October 1, 1964. Burley stocks on October 1, 1961 of 1,127 million pounds rose to 1,137 million pounds a year later and to 1,231 million pounds at the beginning of the 1963-64 marketing season. The 1963 crop of 685 million pounds was 10 million above 1962 output. Domestic use in 1962-63 was estimated at 530 million pounds and exports 51 million, making total disappearance 581 million pounds. Both domestic use and exports have been increasing in recent years and further gains are expected in 1963-64.

Price supports may be increased for the 1964 burley crop. The 1963 crop was supported at 58.3 cents per pound, one per cent above the 1962 level. The 1964 price supports are expected to rise another one per cent or about one-half of a cent per pound.

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