

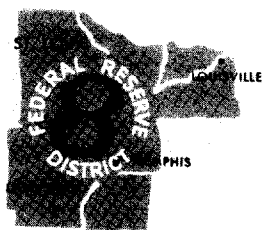
July 1965

FEDERAL RESERVE BANK OF ST. LOUIS

Review

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Volume 47 • Number 7

FEDERAL RESERVE BANK
OF ST. LOUIS

P.O. Box 442, St. Louis, Mo. 63166

Economic Expansion Has Moderated

THE PACE OF ECONOMIC ADVANCE appears to have slowed somewhat since February, after a very rapid and probably unsustainable increase during the winter. From a somewhat longer viewpoint, the expansion in economic activity since last September has been a continuation of the rapid pace which has prevailed since mid-1963. Both consumer and wholesale prices have risen since the end of last year.

The money supply has risen only moderately since last November, compared with a 4 per cent average annual rate of expansion over the previous 26 months. There has been some moderation since April in the rate of increase in commercial bank credit (loans and investments), compared with the marked expansion earlier this year. Yields on short-term Treasury bills have declined somewhat since February, offsetting some of the rise from last November to February. Interest rates on most other short-term debt instruments and on long-term bonds have remained about unchanged or have continued to rise moderately.

Problems of Short-Run Analysis

As recent experience illustrates, indicators of economic activity typically move at an uneven pace over short periods of time. Since an analyst of current economic trends is interested primarily in detecting changes in fundamental, underlying economic

movements as quickly and as reliably as possible, fluctuations of economic measures pose several problems for assessing the state of the economy during brief periods of time.

Fluctuations in data may result from any of a multitude of causes. Some movements occur regularly with the calendar (such as increases in retail sales before Christmas) or because of the changing seasons (e.g., greater use of air conditioning equipment in summer). These seasonal variations in data tend to obscure the fundamental movements over periods of less than a year. The task of making proper allowances for seasonal variations is difficult, especially when the seasonal pattern is changing, and, hence, month-to-month changes of "seasonally adjusted" data should be interpreted cautiously.

Strong irregular movements in the economy (such as those caused by strikes, weather, and sales promotions) also distort the data, further obscuring the underlying movements. In analyzing current data there is a further problem: the first figures released are usually based on preliminary observations and are frequently revised as more information becomes available. Because of these problems it is not advisable to rely completely on one- or two-month movements in data; rather, trends over several periods of varying lengths should be considered.

In order to place observed economic movements during a given period in perspective, it is useful to compare these movements to those of some other periods, which may be of different time spans. Such analyses present a further problem. Whenever periods of varying lengths of time are examined, meaningful comparisons cannot be made by calculating changes measured in terms of dollars, physical units, or percentage changes.

Use of Rate-of-Change Triangles

The accompanying tables, "rate-of-change triangles," illustrate a device useful in view of the above mentioned problems for analyzing trends in economic activity. Table I presents a triangle of monthly annual-rate-of-change data for the money supply, and Table II, a triangle of yearly rates of change. Table III presents a triangle of yearly rates of change of payroll employment.

With reference to Table I, each entry is the annual rate of change in money (seasonally adjusted) from an initial month (listed across the top) to a terminal month (listed on the left side). Since the data are standardized on an annual-rate-of-change basis, they

Availability of Rate-of-Change Data

COMPOUNDED yearly rate-of-change triangles have been prepared for a number of economic time series and are available on request. The series include member bank reserves, money supply, bank credit, and selected business indicators (such as gross national product, retail sales, industrial production, employment, and prices).

Monthly rate-of-change data are available for most of the above mentioned series in this Bank's semi-monthly release, "Bank Reserves and Money." This release contains data similar to the diagonal entries of monthly rate-of-change triangles as well as the bottom row entries (see accompanying article, "Economic Expansion Has Moderated").

Requests for the releases containing these series may be addressed to the Research Department, Federal Reserve Bank of St. Louis, St. Louis, Missouri 63166.

may be compared between periods of different lengths of time.

Rate-of-change triangles may be used in several ways for analyzing current economic developments. For example, in Table I the terms in the diagonal (from upper left to lower right) present month-to-month annual rates of change in money. The entries in each row are rates of change from various initial months to a common terminal month. In each column the entries are the annual rates of change from a fixed initial month to the various terminal months.

Rates of change over any period within the limits of the table are presented. Initial and terminal dates may be selected in such a manner as to reduce distortions caused by irregular movements in the data. Points in time when there are marked and sustained changes in the rates of growth become relatively easy to locate.

Recent Economic Developments

Money Supply. Expansion of the nation's money supply (demand deposits adjusted plus currency held by the nonbank public) has been very uneven in recent months. Since the increase in the discount rate in November, alternating periods of expansion and contraction have resulted in a slower rate of expansion in money.

The money stock in May averaged \$159.3 billion, a decrease of \$1.2 billion from April, or an 8.6 per cent annual rate (Table I, lower right entry). Moving up the diagonal in Table I, this 8.6 per cent rate of decrease followed increases at a 5.4 per cent rate in each of the two preceding months. Moving further up the diagonal, a decrease in money at a 5.1 per

Table I
MONEY SUPPLY
Compounded Annual Rates of Change¹

Year	1-64	2-64	3-64	4-64	5-64	6-64	7-64	8-64	9-64	10-64	11-64	12-64	1-65	2-65	3-65	4-65
2-64	.0															
3-64	1.6	3.1														
4-64	1.8	2.8	2.4													
5-64	1.4	1.8	1.2	.0												
6-64	2.8	3.6	3.7	4.4	8.9											
7-64	3.8	4.6	5.0	5.8	8.9	8.8										
8-64	3.8	4.5	4.7	5.3	7.2	6.3	3.9									
9-64	4.1	4.7	5.0	5.5	7.0	6.3	5.1	6.3								
10-64	4.2	4.7	4.9	5.4	6.5	5.9	4.9	5.5	4.6							
11-64	4.2	4.6	4.8	5.2	6.0	5.5	4.7	4.9	4.3	3.9						
12-64	4.0	4.4	4.5	4.8	5.5	5.0	4.2	4.3	3.6	3.1	2.3					
1-65	3.9	4.3	4.4	4.6	5.2	4.7	4.0	4.0	3.5	3.1	2.7	3.1				
2-65	3.2	3.5	3.5	3.6	4.0	3.4	2.6	2.4	1.7	1.0	.0	-1.1	-5.1			
3-65	3.3	3.6	3.6	3.8	4.1	3.6	3.0	2.9	2.3	1.8	1.3	1.0	.0	5.4		
4-65	3.5	3.7	3.8	3.9	4.2	3.8	3.3	3.2	2.7	2.4	2.1	2.1	1.8	5.4	5.4	
5-65	2.7	2.9	2.8	2.9	3.1	2.6	2.0	1.8	1.2	0.8	0.3	-0.1	-0.9	0.5	-1.9	-8.6

¹ Calculated from seasonally adjusted monthly averages of daily figures.

Table II
MONEY SUPPLY
Compounded Annual Rates of Change¹

Year	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	
1948	0.4																		
1949	-0.3	-1.0																	
1950	0.7	0.8	2.6																
1951	1.6	2.0	3.5	4.5															
1952	2.3	2.8	4.0	4.8	5.0														
1953	2.3	2.7	3.6	4.0	3.7	2.5													
1954	2.2	2.5	3.2	3.4	3.0	2.0	1.6												
1955	2.3	2.6	3.2	3.3	3.0	2.4	2.3	3.1											
1956	2.2	2.4	2.9	3.0	2.7	2.1	2.0	2.2	1.2										
1957	2.0	2.2	2.6	2.6	2.3	1.8	1.6	1.6	0.9	0.6									
1958	2.0	2.1	2.5	2.4	2.2	1.7	1.5	1.5	1.0	0.9	1.2								
1959	2.1	2.2	2.5	2.5	2.3	1.9	1.8	1.8	1.5	1.6	2.2	3.2							
1960	1.8	1.9	2.2	2.1	1.9	1.5	1.3	1.3	0.9	0.9	1.0	0.9	-1.3						
1961	1.8	1.9	2.1	2.1	1.9	1.5	1.4	1.4	1.1	1.0	1.1	1.1	0.1	1.6					
1962	1.8	1.9	2.1	2.1	1.9	1.6	1.5	1.4	1.2	1.2	1.3	1.4	0.8	1.9	2.1				
1963	1.9	2.0	2.2	2.2	2.0	1.7	1.6	1.6	1.4	1.5	1.6	1.7	1.3	2.2	2.6	3.0			
1964	2.0	2.1	2.3	2.3	2.1	1.9	1.8	1.8	1.7	1.8	1.9	2.0	1.8	2.6	3.0	3.4	3.8		

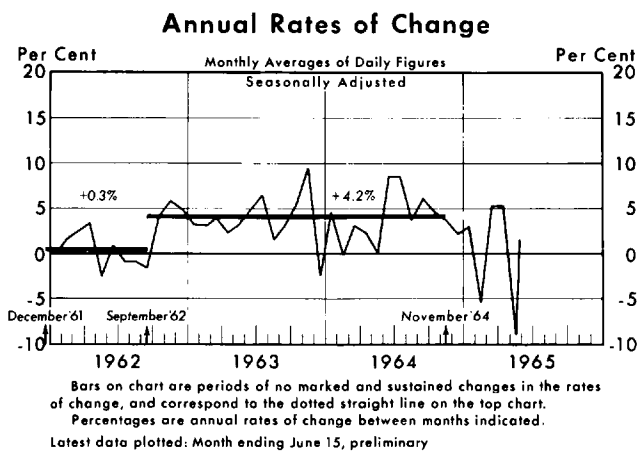
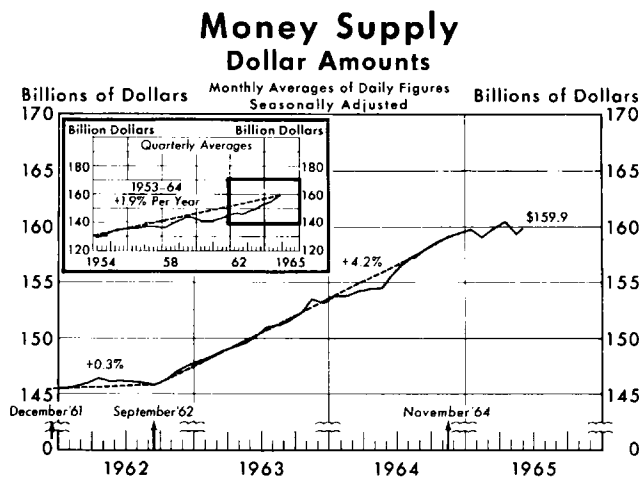
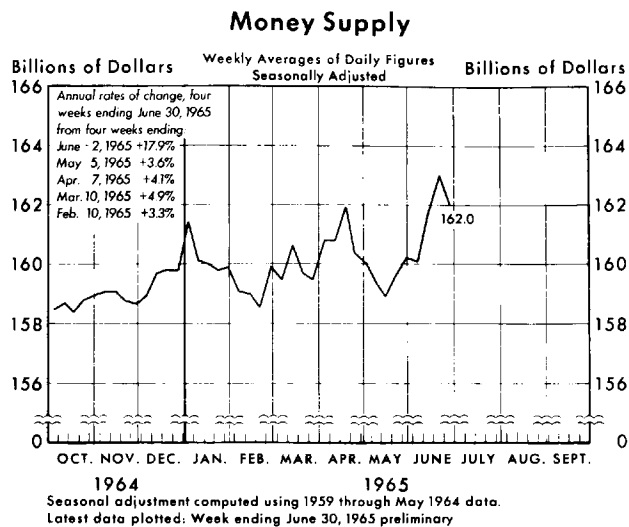
¹ Calculated from annual averages of daily figures.

Table III
PAYROLL EMPLOYMENT
Compounded Annual Rates of Change¹

Year	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	
1948	2.3																		
1949	-0.1	-2.5																	
1950	1.0	0.4	3.3																
1951	2.2	2.2	4.6	5.8															
1952	2.2	2.1	3.7	3.9	2.0														
1953	2.3	2.3	3.5	3.6	2.5	2.9													
1954	1.6	1.5	2.3	2.0	0.8	0.2	-2.4												
1955	1.8	1.8	2.5	2.3	1.5	1.3	0.4	3.4											
1956	2.0	2.0	2.6	2.5	1.8	1.8	1.4	3.4	3.4										
1957	1.9	1.8	2.4	2.3	1.7	1.6	1.3	2.6	2.2	0.9									
1958	1.4	1.4	1.8	1.6	1.0	0.9	0.5	1.2	0.5	-1.0	-2.9								
1959	1.6	1.6	2.0	1.8	1.4	1.3	1.0	1.7	1.3	0.6	0.4	3.8							
1960	1.6	1.6	2.0	1.8	1.4	1.3	1.1	1.7	1.4	0.9	0.8	2.7	1.7						
1961	1.5	1.4	1.8	1.6	1.2	1.1	0.9	1.4	1.1	0.6	0.5	1.7	0.7	-0.4					
1962	1.6	1.5	1.8	1.7	1.4	1.3	1.1	1.6	1.3	1.0	1.0	2.0	1.4	1.2	2.8				
1963	1.6	1.6	1.9	1.8	1.4	1.4	1.2	1.6	1.4	1.1	1.2	2.0	1.5	1.5	2.4	2.0			
1964	1.7	1.6	1.9	1.8	1.5	1.5	1.3	1.7	1.6	1.3	1.4	2.1	1.8	1.8	2.5	2.4	2.7		

¹ Calculated from annual averages of monthly figures.

cent rate from January to February offset increases during the two previous months. According to weekly data, money rose markedly in June.¹



¹This Bank issues a release, "Weekly Financial Data," which includes the weekly money supply figures. Names can be added to the mailing list by writing the Research Department, Federal Reserve Bank of St. Louis, St. Louis, Missouri, 63166.

Over the whole November to May period money rose at a 0.3 per cent annual rate (Table I, bottom entry, November column).² Taking into consideration the above mentioned increase in June, money rose from November to the four weeks ending June 30 at a 2.6 per cent annual rate. By comparison, money rose at a 4.2 per cent annual rate from January 1964 to November 1964 (January 1964 column, November 1964 row), continuing the rate of expansion which prevailed from September 1962 to January 1964. Over a much longer period, 1951 to 1964, money expanded at an average annual rate of 2.1 per cent (Table II, 1951 column, 1964 row).

Bank Credit. Total bank loans and investments have continued to increase sharply since April but less rapidly than earlier. Because of problems associated with short-term analysis of data discussed above, this change should be interpreted cautiously. Total commercial bank credit rose at a 7.8 per cent rate from April to May, and preliminary data indicate a 6.7 per cent rate of increase from May to June. The increases in the last two months compare with an 11.9 per cent annual rate of expansion in the five months ending with April.

The slight reduction in the rate of total bank credit expansion since April has reflected primarily a more rapid decrease in bank holdings of U. S. Government securities and a slower rate of acquisition of municipal bonds and other securities.

Through June business loans outstanding at commercial banks continued to grow at about the rapid 20 per cent annual rate which has prevailed since last fall. Over a longer period (since 1952) business loans have risen at an average annual rate of 7.4 per cent.

Interest Rates. Yields on short-term U. S. Government securities have declined from the levels reached in late February. After last November, when the discount rate on member bank borrowings from Reserve Banks was marked up from 3½ per cent to 4 per cent, most short-term rates, including those on Treasury bills, rose. Yields on 90-day Treasury bills averaged 3.99 per cent in the last week of February, 38 basis points higher than in the week prior to the increase in the discount rate last November. Subsequent to late February, yields moved down to around the 3.80 per cent level in June. Yields on six-month

²New seasonal adjustment factors currently are being computed for money, and it appears possible that when the new factors are applied to the period since November there will be a slightly greater expansion in money.

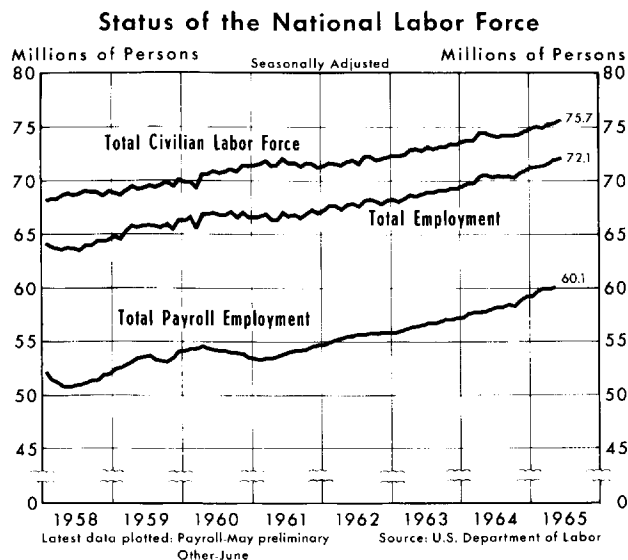
bills have also drifted downward during the last four months (Table IV).

In contrast to the general decline during recent months in yields on short-term Government securities, interest rates on some other important types of short-term debt instruments have remained steady or have risen (Table IV). In early March interest rates on four- to six-month prime commercial paper reached 4.38 per cent, and rates on three- to six-month finance company paper reached 4.25 per cent; these rates have remained unchanged since then. Interest rates on 90-day bankers' acceptances in June were at 4.25 per cent, the same as in late April. Secondary market rates paid on 90-day negotiable certificates of deposit rose from 3.99 per cent in November to 4.33 per cent in June, continuing an upward trend which started in mid-1964.

Yields on long-term debt instruments have been virtually unchanged since the end of last year. In June the yield on long-term Government bonds was 4.14 per cent; on high-grade corporate bonds, 4.46 per cent; and on Aaa rated state and local government bonds, 3.14 per cent.

Business Activity. Since February, there has been a marked slowing in the rate of economic advance from the rapid pace experienced earlier. At the same time wholesale prices have risen, whereas they had been nearly stable for a prolonged period.

Payroll employment increased at a 2.6 per cent rate from February to May, compared with a 5.0 per cent rate of gain from last September to February. The number of people of working age (18-64) has



been rising at about a 1.6 per cent per year rate. Payroll employment rose at an average annual rate of 1.5 per cent from 1951 to 1964 (Table III, 1951 column, 1964 row). From Tables II and III the following breakdowns of the average growth rates for money and employment can be obtained readily:

Period	Annual Rates of Growth	
	Money Supply	Payroll Employment
1951-1953	3.7	2.5
1953-1954	1.6	-2.4
1954-1956	2.2	3.4
1956-1958	0.9	-1.0
1958-1959	3.2	3.8
1959-1961	0.1	0.7
1961-1964	3.0	2.5
Average 1951-1964	2.1	1.5

Table IV
SELECTED INTEREST RATES

Averages of Daily Figures
(Per Cent Per Annum)

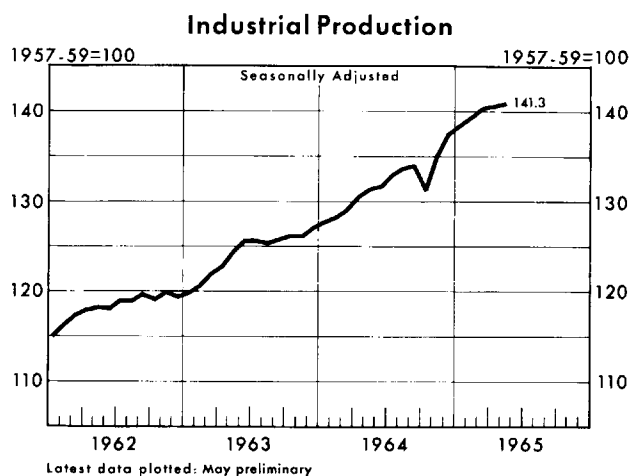
		Prime Commercial Paper 4 to 6 mos.	Finance Company Paper Placed Directly 3 to 6 mos.	Prime Bankers' Acceptances 90 Days	U. S. Government Securities (Taxable)			Corporate Bonds Aaa	C.D.'s Secondary Market Rate ¹	State & Local Govt. Bonds Aaa	Conventional First Mortgages
					3-Mo. Bills	6-Mo. Bills	Long-Term Bonds				
1964	Nov.	4.02	3.89	3.79	3.64	3.81	4.12	4.43	3.99	3.08	5.75
	Dec.	4.17	3.98	4.00	3.84	3.94	4.14	4.44	4.16	3.01	5.76
1965	Jan.	4.25	4.05	4.00	3.81	3.94	4.14	4.43	4.11	2.97	5.79
	Feb.	4.27	4.12	4.10	3.93	4.00	4.16	4.41	4.20	2.97	5.79
	Mar.	4.38	4.25	4.15	3.93	4.00	4.15	4.42	4.28	3.09	5.72
	Apr.	4.38	4.25	4.19	3.93	3.99	4.15	4.43	4.30	3.09	5.74
	May	4.38	4.25	4.25	3.89	3.95	4.14	4.44	4.31	3.09	5.74p
	June ²	4.38	4.25	4.25	3.81	3.87	4.14	4.46	4.33	3.14	5.74

¹ Negotiable time certificates of deposit at commercial banks.

² Estimated.

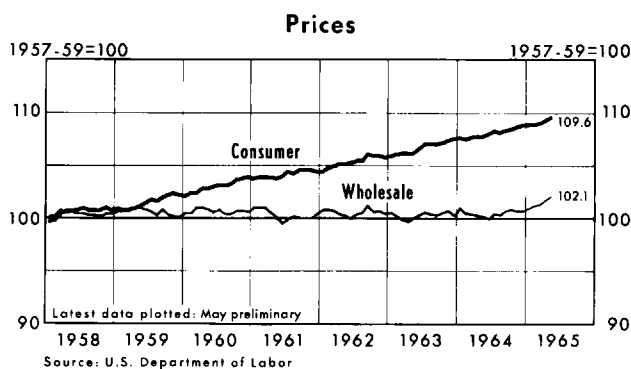
p—Preliminary.

Industrial production has risen at a 6.3 per cent rate since February, compared with a 9.1 per cent rate from September to February. Since 1961, industrial production has risen at an average 6.3 per cent rate, and, since 1951, it has increased at an average 3.8 per cent rate.



Retail sales rose at an average 2.6 per cent annual rate from February to May, a decline from February to April being more than offset by a jump from April to May. By comparison, retail sales rose at an 11.5 per cent annual rate from last September to February. Since 1961, retail sales have risen at an average 6.1 per cent rate and, since 1951, at an average 4.0 per cent rate.

Prices have inched up in recent months. From February to May wholesale prices increased at a 3.6 per cent annual rate. From last September to February they rose at a 1.2 per cent rate. By contrast, wholesale prices were virtually unchanged on balance from 1958 to 1964. Consumer prices have also been moving up at a faster rate since February (about 2.6 per cent rate) than from last September to February (1.1 per cent rate).



Employment Growth

in the

Central Mississippi Valley

PAYROLL EMPLOYMENT INCREASED in each of five Central Mississippi Valley states in early 1965. In the aggregate, employment in the five states rose at an annual rate of 3.4 per cent from December to April, compared with a 3.7 per cent rate nationally.¹

Arkansas. Payroll employment in Arkansas increased at a 3.8 per cent annual rate from December to April to a level nearly 27 per cent above the 1957-59 average. By comparison, employment nationally in April was about 14 per cent above the 1957-59 average.

Kentucky. From December to February employment rose in Kentucky, but from February to April it drifted lower. On balance, employment rose at a 3.1 per cent average rate from December to April. In April employment in Kentucky was 18 per cent above the 1957-59 average, compared with the national gain of 14 per cent.

Mississippi. Employment has expanded markedly since December in the State of Mississippi. From December to April payroll employment grew at a 5.6 per cent annual rate. The April figure was about 25 per cent above the 1957-59 average, compared with the 14 per cent gain nationally.

Missouri. Payroll employment in Missouri rose at a 2.8 per cent annual rate from December to April. Since 1961, employment in Missouri has risen at an average 2.1 per cent rate, compared with the 2.9 per cent rate nationally.

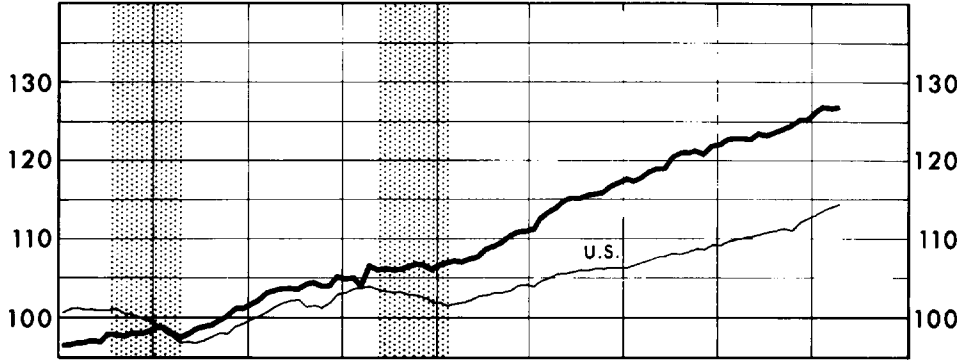
Tennessee. From December to January employment rose sharply in Tennessee but, since January, has changed little. From December to April employment rose at an average rate of 2.5 per cent. In April employment was nearly 23 per cent above the 1957-59 average as against the 14 per cent gain for the entire United States.

¹Current figures on payroll employment for five states in the Mississippi Valley are available in the monthly release "Selected Economic Indicators," which is available from the Research Department, Federal Reserve Bank of St. Louis, P. O. Box 442, St. Louis, Missouri 63166.

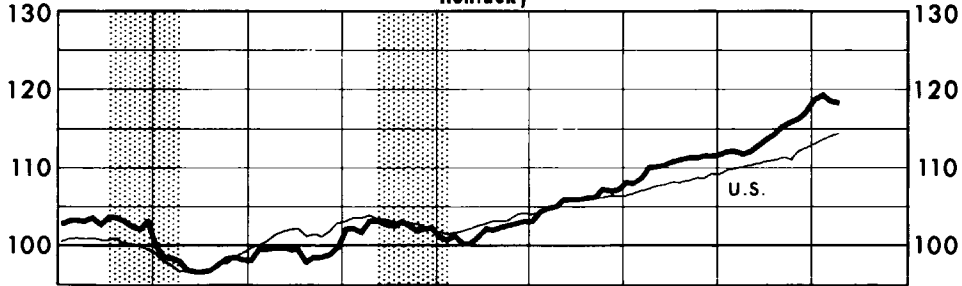
Total Payroll Employment

Seasonally Adjusted

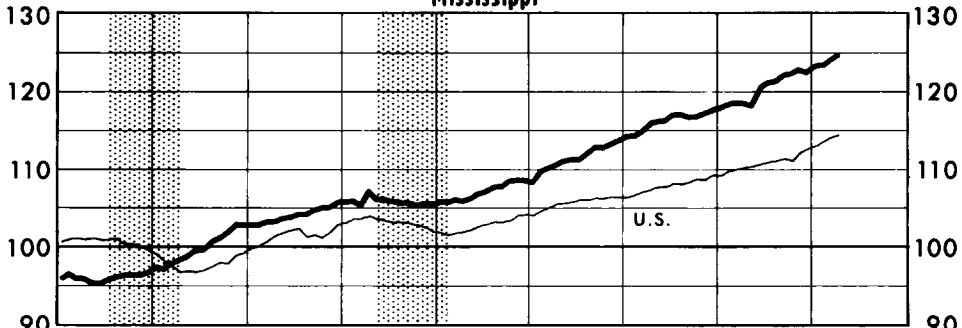
1957-59=100 **Arkansas** 1957-59=100



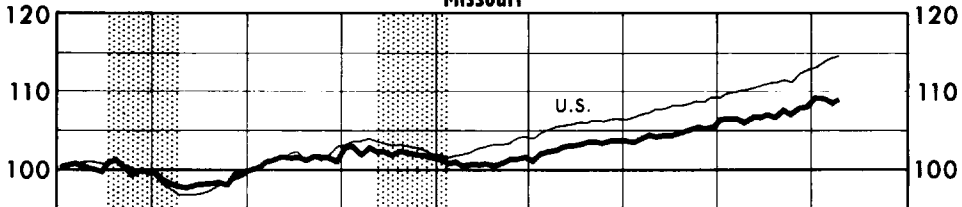
Kentucky



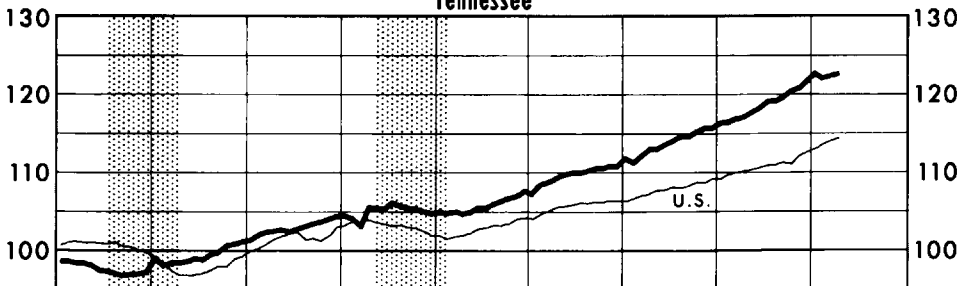
Mississippi



Missouri



Tennessee



1957 1958 1959 1960 1961 1962 1963 1964 1965

Shaded areas represent periods of business recession.

Sources: State Employment Security Offices and U.S. Department of Labor

Latest data plotted: April

Agriculture at Midyear

HIGHER PRICES FOR FARM PRODUCTS in recent months have improved income prospects for Central Mississippi Valley farmers. The outlook for farming at the beginning of the year, as summarized in the December and January issues of this *Review*, indicated little change in net and gross farm income, a slight decline in cash farm receipts, a larger output of farm products, and slightly lower average prices. However, unexpected strength in prices of major farm products, particularly livestock products, grown in the Central Mississippi Valley has led to an improvement in the farm situation.

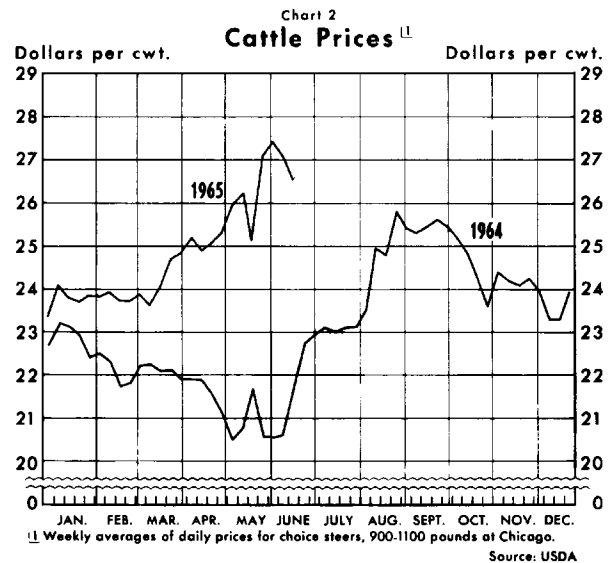
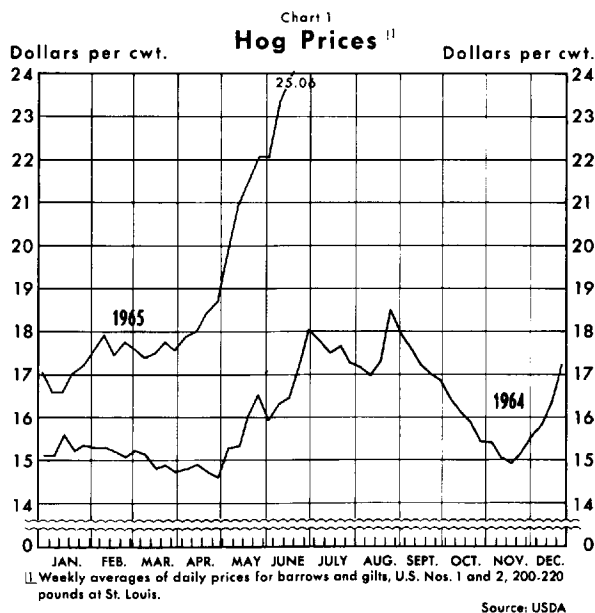
Livestock

Prices of almost every major livestock product have been somewhat higher than a year earlier. Since April 1, hog prices have averaged about 33 per cent higher than in the corresponding months of 1964. Choice beef cattle have averaged about 25 per cent higher, broilers are up about 10 per cent, milk is up 3 per cent, and eggs are about unchanged.

Hog prices recently approached the 1958 peak and were about equal to the average of the late 1940's and early 1950's. Prices at St. Louis were about \$17.00 per cwt. at the beginning of the year, almost \$2.00 above a year earlier. In February and March they rose to about \$17.50 per cwt., or \$2.50 above year-earlier levels (Chart 1). A moderate price rise through-

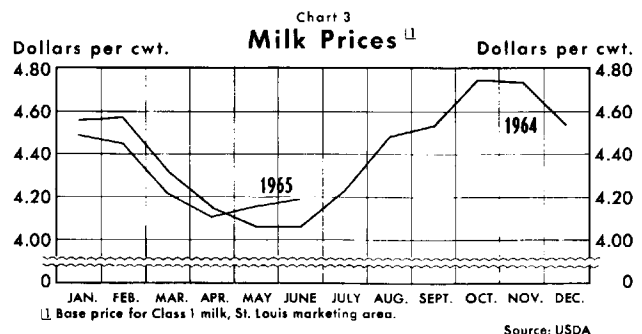
out April was followed by a substantial rise beginning in early May, and by mid-June hog prices had reached \$23.50, about \$7.00 above year-earlier levels. Although hog prices have advanced sharply, net returns to producers have not risen proportionately, since higher feed grain prices have increased feeding costs.

Prices of fed cattle have likewise moved to unexpectedly high levels in recent weeks. During the week ending June 5 choice steers in the 900-1,100 pound range were \$27.50 per cwt. at Chicago (Chart 2). This was the highest weekly average price for

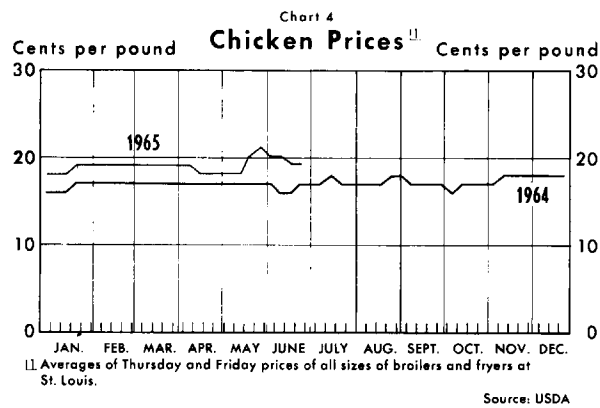


such cattle since 1962 and was about 35 per cent above the depressed price of similar cattle a year ago.

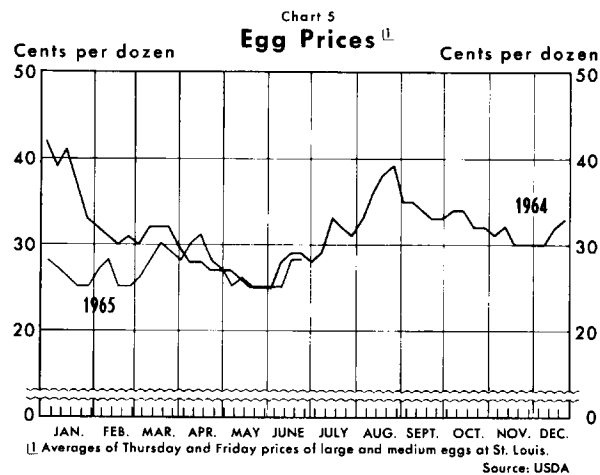
Prices of most other important livestock products have also exceeded year-earlier levels. The price of milk in the St. Louis marketing area during June was \$4.20 per cwt., 14 cents above the year-earlier price (Chart 3). Broilers and fryers on the St. Louis market



averaged 19.0 cents per pound in the week ending June 19, more than 3 cents per pound above the corresponding week a year earlier (Chart 4). At the



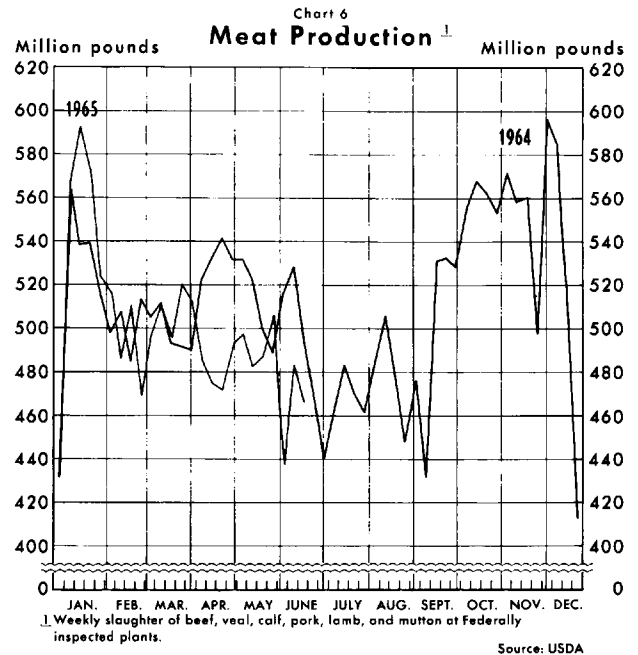
turn of the year broilers and fryers averaged about 1¾ cents per pound above year-earlier levels, and the spread widened as the year progressed. Eggs were about 14 cents per dozen below year-earlier levels at the beginning of 1965 (Chart 5). By mid-June, how-



ever, the spread had declined to less than one cent per dozen.

The major factor in higher prices for livestock products has been a reduction in supplies. Red meat production per capita was expected to be down slightly in 1965, with some gains in beef output more than offset by a decline in pork. Supplies generally followed the predicted path during the first quarter of the year, with the exception of the last two weeks in January when heavier-than-normal cattle marketings occurred (Chart 6). However, in the second quarter both beef and pork output declined substantially from 1964 levels, and supplies of both combined were down about 7 per cent per capita.

Total meat production from January 1 through May of this year was about 2 per cent less than for the



same months a year earlier. Although beef production rose about 3 per cent and veal production increased about 10 per cent, these increases were more than offset by a decrease of 9 per cent in pork output as both numbers and slaughter weights declined (Table I). Livestock inventories indicate that a gen-

Table I
U. S. MEAT PRODUCTION
(Millions of pounds)

	First Five Months	
	1965	1964
Beef	6,349.5	6,161.9
Veal	232.1	212.5
Pork	4,247.0	4,608.0
Lamb and Mutton	252.9	273.8
Total Meat ¹	11,081.5	11,256.2

¹ Federally inspected slaughter. Includes about four-fifths of all cattle, seven-eighths of hogs, and nine-tenths of all sheep slaughtered for commercial purposes. Federally inspected slaughter was probably a slightly larger per cent of the total in early 1965 than in 1964.

Source: USDA, Livestock Market News.

erally lower level of meat production and somewhat higher prices compared to a year earlier will likely continue throughout most of the second half of 1965.

Indicative of prospective pork supplies is the reduced December-May pig crop and the June-November intended farrowings. The 33.9 million December-May pig crop in ten leading Corn Belt States was 10 per cent smaller than a year earlier, reflecting farmers' response to last year's generally depressed hog prices. A sample of farmers reported that intended farrowings of sows would be down 8 per cent in both the

June-August and the September-November periods. Realization of these intentions would limit pork supplies throughout the remaining months of 1965 and early 1966.

Recent reports of cattle on feed and shipments of stocker and feeder cattle into the North Central States indicate a smaller supply of beef in the second half of the year than a year earlier. On April 1, 1965, 8,450,000 cattle and calves, 2 per cent less than a year earlier, were on feed for slaughter in 32 major feeding states. Much of the decrease was in cattle weighing 700 pounds and over, indicating a reduction in slaughter during the remaining months of the year. Shipments of stocker and feeder cattle into eight leading North Central States during January-April 1965 was down about 12 per cent from a year earlier.

Foreign trade has not been a significant factor in the reduced meat supplies this year. Red meat imports of 206 million pounds in the first quarter were 79 million pounds less than a year earlier. With the increases in domestic prices in recent months, however, imports have picked up and were probably somewhat greater in the second quarter than a year earlier.

Production of dairy products has not changed greatly from 1964. Milk production in the first four months of this year was 42.7 billion pounds, a fraction of a per cent above 1964 output for the same period but slightly less than per capita output a year earlier, since the population increased about 1½ per cent.

Total milk production for the year is expected to exceed 1964 output by about 1 per cent, as rising production per cow is more than offsetting the decline in number of milk cows. At the beginning of the year the nation had about 17.6 million cows and two-year-old heifers. This total is down 2.7 per cent from a year earlier and will probably continue to decline this year. However, because of the relatively favorable relation between feed prices and milk prices, the decline in milk cows will probably moderate somewhat.

Egg production early in the year exceeded the year-earlier pace but by late February had declined to slightly less than the 1964 output rate, as substantially depressed prices resulted in heavy culling of flocks. In recent weeks, however, egg output has slightly exceeded levels of a year earlier. Chick replacements during January to May were 14 per cent less than a year earlier, indicating a strengthening of egg prices might be expected during late summer and fall.

Crops

Data based on planting intentions, yield trends, and prospective prices suggest that receipts from 1965 crops in the Central Mississippi Valley will not differ greatly from last year. Although total crop acreage in the area will change little from 1964, yields will likely recover from last year's reduced level, with total crop production slightly higher. Somewhat lower prices for crops produced in 1965 may result, based on an expected increase in supplies of some crops and a slight reduction in Government loan levels.

Wheat

Cash receipts from the 1965 wheat crop in the Central Mississippi Valley will probably be down somewhat from last year. National production is currently estimated at 1,239 million bushels, 4 per cent below a year earlier. The Central Mississippi Valley is expected to share in the decline. In addition, prices to producers (including direct payments) will likely be lower. The national loan rate of \$1.25 per bushel for the 1965 crop is 5 cents per bushel less, while the direct payment of 44 cents per bushel, based on applicable allocation of normal production, is 1 cent higher.

Wheat supplies remain excessive despite major Government surplus disposal-foreign aid programs. Carry-over of 900 million bushels on July 1 this year was about the same as a year earlier. This volume of carry-over is sufficient to meet domestic consumption needs for almost one and one-half years. Exports in the marketing year ended June 30, 1965, totaled about 700 million bushels, four-fifths of which moved under special Government programs. The remaining fifth was exported for dollars with Government aid of 21 to 38 cents per bushel.

Corn

Current returns to corn producers are substantially better than a year earlier. Corn prices rose sharply, about 10 cents per bushel, from November to December and, since December, have risen about 2 cents per bushel per month, about equal to storage costs. At mid-June No. 2 yellow corn at St. Louis was selling at \$1.41 per bushel, 10 cents above the year-earlier price and well above the Government loan level of \$1.10 per bushel.

Prices for the 1965 corn crop are supported at \$1.25 per bushel, the same as in 1964. The loan rate of \$1.05 per bushel is 5 cents less, but direct payments to farmers have been increased from 15 to 20 cents per bushel.

Indicated plantings of 66.9 million acres are 1 per cent less than in 1964. However, allowing for a normal uptrend in yield and in view of last year's relatively low yields, production may exceed year-ago levels by about 15 per cent if normal weather prevails.

Stocks of all feed grains on April 1 were 13 per cent less than last year, reflecting smaller holdings of each of the four types—corn, oats, barley, and sorghum.

Production of feed grains may total 150 million tons, 10 per cent more than a year earlier. Acreage will be about the same as 1964, but yields will likely recover from last year's reduced level (Table II). This,

Table II
U. S. FEED GRAIN ACREAGE AND PRODUCTION

	1964		1965	
	Acreage (Thousands of acres)	Production (Millions of bushels)	Acreage (Thousands of acres)	Prospective Production (Millions of bushels)
Corn	67,393	3,549	66,888	4,100
Oats	26,570	882	25,080	865
Barley	12,176	403	10,767	339
Sorghum ...	16,862	490	17,533	580
Total ¹	123,001	5,324	120,268	5,884

¹ Computed on the basis of prospective plantings and assumed yields. Total production is not precisely comparable because of differences in bushel weights.

Source: USDA, Feed Situation.

plus a 56 million ton carry-over, indicates supplies about equal to year-earlier levels and about 10 per cent below the 1960-61 record.

Feed grain use this year is expected to total 153 million tons. Exports will probably equal last year's level of 19 million tons, and domestic use will be about 134 million tons.

Soybeans

Current returns are also higher for soybeans than a year earlier. Soybean prices to farmers rose from \$2.55 per bushel last October to \$2.81 in February, remained near this level through March and April, and have since declined to about \$2.75 per bushel.

Tentative projections by the United States Department of Agriculture have placed production from the 1965 soybean crop at 829 million bushels. This is about 15 per cent more than production in each of the past two years, 50 per cent above 1960, and almost three times that of 1950.

Demand for soybeans has been increasing rapidly. Domestic processors used 212 million bushels from October 1 through February of this year, 12 per cent more than last year. Domestic crushings for the year

are expected to be about 470 million bushels, 7 per cent more than a year earlier. Despite a four-week halt because of the dock strike, exports in the October 1, 1964–March 19, 1965 period totaled 104 million bushels, up 4 per cent from a year earlier. Exports for the year are expected to total 205 million bushels, compared with 191 million bushels last year. Based on the above estimates of use and allowing for normal amounts for feed, seed, and loss, carry-over into next year will be only about 10 million bushels. Carry-over last year totaled 32 million bushels.

In view of the growth in demand for soybeans, and assuming that production exceeds last year's level by only 5 to 10 per cent, prices received for the 1965 crop will likely approximate 1964 levels. However, if production is 15 per cent more, as indicated by planting intentions, somewhat lower prices could result. The support rate of \$2.25 per bushel (the same as in 1964) will, nevertheless, prevent a major price decline.

Cotton

Returns to cotton farmers in the Central Mississippi Valley this year will probably be about the same as in 1964, assuming a continuation of the upward trend of recent years in yields per acre.

Intended plantings as of March 1 of 14.2 million acres nationally were 4 per cent less than actual plantings in 1964. Intended plantings in the Central Mississippi Valley, however, are only one per cent below a year earlier (Table III). Cotton yields in this

Table III
COTTON ACREAGE
Central Mississippi Valley

	Thousands of Acres			1965 as Per Cent of 1964
	1959-63 Average	1964	1965 Indicated	
Arkansas	1,360	1,275	1,265	99
Mississippi	1,580	1,498	1,485	99
Missouri	395	356	350	98
Tennessee	535	512	500	98
Total	3,870	3,641	3,600	99
United States	15,927	14,843	14,294	96

Source: USDA, Cotton Situation.

area averaged about 650 pounds of lint per harvested acre in 1964, 21 per cent above the 1959-63 average. Yields have increased steadily in recent years; another small gain in 1965 would push production above 1964 output.

Prices received by farmers for cotton will probably differ little from last year. Cotton prices are generally determined by the Government support rate, and the

announced rate of 32.60 cents per pound on average quality upland cotton is only a fraction of a cent below the 1964 rate.

Cotton supplies remain excessive despite the substantial subsidies involved in both domestic use and exports. Carry-over stocks on August 1, the end of the current marketing year, are expected to total 13.4 million bales, 10 per cent more than a year earlier and the fourth consecutive year that carry-over has increased. Although domestic consumption of cotton during the year ending August 1 is expected to total 9.4 million bales, up 10 per cent from a year earlier, exports are expected to decline by more than 20 per cent.

Rice

Cash receipts from the 1965 rice crop are likely to remain about the same as a year earlier, with a slight increase in production offsetting lower prices. State acreage allotments were unchanged from 1964. However, yields per acre have trended upward in recent years, and, if the trend continues, 1965 production will exceed that of 1964. On the other hand, the national average support price has been reduced from \$4.71 to \$4.50 per cwt. for rough rice. Since the support price determines the farm price, this decline will quite likely offset any increase in production, resulting in little change in cash returns to farmers.

Rice stocks on August 1, 1965, are expected to total 9.7 million cwt., the largest since 1961 but substantially below the average of the 1950's. Domestic use, estimated at 29.5 million cwt., has been rising at about the same rate as population, and exports under the sizable Government export programs have grown even more rapidly. Exports during the year ending August 1 are expected to total 41.5 million cwt., more than 50 per cent above the 1957-61 average.

Burley Tobacco

Returns from the 1965 tobacco crop in the Central Mississippi Valley will likely be slightly above 1964 levels. Production is expected to be slightly higher,

and the price support rate, which determines farm prices, will be 0.6 of a cent per pound higher.

Burley tobacco producers indicated plans to plant 277,600 acres of tobacco this year, 10 per cent less than in 1964. However, yields last year were quite low, and, on the basis of yield trends of recent years, the current crop will exceed last year's by about 3 per cent. This increase in production, coupled with a slight gain in prices, should provide growers with a small increase in cash receipts.

Burley tobacco carry-over into the 1965-66 marketing year will be the largest on record, and, if production expectations this year are realized, supplies in 1965-66 will reach a record high. Production has trended up quite rapidly since 1960 (from 485 to 620 million pounds). In contrast, total use (domestic plus exports) has grown only slightly (from 549 to 571 million pounds). Most of the excess was added to Government-held stocks. These stocks now total 341 million pounds, or more than a half of one year's use.

Summary

Farm income in the Central Mississippi Valley improved somewhat during the first half of the year. Stronger prices for most livestock products are the chief factor. The higher prices reflect a continued strong demand and slightly reduced per capita supplies of most livestock products.

Current returns from most major crops in the area are also above 1964 levels. Prices of feed grains and soybeans remain strong. Returns from the 1965 crops of rice and cotton may equal the 1964 level, while wheat sales will probably be 5 to 10 per cent less than a year earlier.

Returns in the northern portion of the area, where livestock, grain, and soybean production is concentrated, will probably be greater relative to 1964 levels. The cotton, tobacco, and rice areas to the south will probably show little change from year-earlier levels, given normal crop growing and harvesting conditions.

