

January 1966

FEDERAL RESERVE BANK OF ST. LOUIS

Review

CONTENTS

	Page
<i>Rapid Monetary Growth Continues</i>	1
<i>The Central Mississippi Valley: A Review of 1965</i>	5
<i>Farm Income Rises Markedly</i>	16



Volume 48 • Number 1

FEDERAL RESERVE BANK
OF ST. LOUIS

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

Rapid Monetary Growth Continues

A MARKED INCREASE in spending since summer has brought about a strong rise in economic activity. The demand for goods and services has been stimulated by expansionary Government and Federal Reserve actions. As the economy has continued to expand rapidly, pressures have been mounting on a broad range of resource markets. Increases in prices and interest rates have resulted.

As the economy approaches capacity, real product cannot rise as fast as when resources were not so fully used. At this stage, stabilization policy must foster only that growth in demand which is consistent with the potential growth of output. By doing so sustainable economic growth may be encouraged with a minimum of inflation.

The Economy

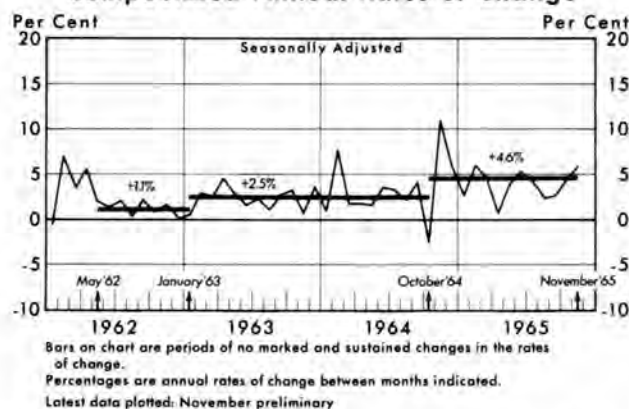
Record retail sales, rising industrial output, greater employment, and price increases during the fall and early winter witness the broadly based increase in demand. Income has gone up faster than usual in the past six months, reflecting an increase in number of workers employed, a rise in average wages, and more liberal social security benefits.

Retail sales have risen at about a 6 per cent annual rate since midsummer and are up about 8 per cent over the past year. By comparison, these sales grew at a 4.5 per cent rate from 1960 to 1964 and at a 3.8 per cent average rate from 1951 to 1960.

Despite less unused capacity and shortages of skilled labor, industrial production has advanced at a 9 per cent annual rate since September and is up about 7 per cent over a year ago. The past year's rise compares with a 5.0 per cent rate of growth from 1960 to 1964, and a 3.3 per cent average rate from 1951 to 1960.

The vigor of the economic expansion since summer is also evidenced by rapid growth of employment and a lower level of unused labor resources. Payroll employment has increased at a 4.0 per cent rate since summer, compared with a 1.8 per cent rate of rise from 1960 to 1964. Unemployment was 4.2 per cent of the labor force in November, down from 4.5 per cent in July and 4.9 per cent in November 1964. The unemployment rate for married men fell from 2.3 per cent in July to 2.0 per cent in November.

Payroll Employment Compounded Annual Rates of Change



Personal income has gone up at an annual rate of 8 per cent since June and is 8 per cent above its year-ago level. Personal income increased at a 5 per cent rate from 1960 to 1964.

Prices

The rise in spending since mid-1965 has been reflected in price rises as well as in gains in real output. Industrial wholesale prices, led by quotations on crude materials, have been working up almost steadily for several months. These prices have risen at a 1.6 per cent rate since summer and at a 1.5 per cent rate since mid-1964. Industrial wholesale prices were little changed on balance from 1958 to mid-1964.

Since summer wholesale prices of farm products and processed food, primarily those of meat, have resumed a sharp rise which began in early 1965. Higher prices of meat have resulted from both a decrease in supplies and a growth in demand. Production of beef, veal, pork, lamb, and mutton during the first 10 months of 1965 was 3 per cent below the comparable 1964 period.

Wholesale Price Indexes



The demand for meat increased during 1965 because of a 1.3 per cent rise in population and a marked rise in incomes.

Consumer prices also have risen since late last spring, paced by an increase in the price of food. Consumer prices have gone up at an estimated 2 per cent rate since May, despite cuts in excise taxes which resulted in price markdowns on some consumer durable goods. The recent advance in consumer prices compares with an average annual 1.4 per cent rise from 1951 to 1964.

Individual price increases resulting from market forces channel resources into production of those goods which are in short supply, encourage the development of substitute goods, and allocate available supplies most efficiently. However, an overall price rise brought about by excessive aggregate demand is undesirable for domestic and balance-of-payments reasons.

Interest Rates

The demand for loanable funds by business and government has outpaced the supply, and interest rates have risen since July. Higher rates generally allocate available credit more efficiently than some other system of rationing.

AVERAGE INTEREST RATES

	July	Dec.
3-month Treasury bills	3.83	4.38
Prime 4- to 6-month commercial paper	4.38	4.65
Large CD's, secondary market rate	4.28	4.78
Long-term Government bonds	4.15	4.44
Corporate Aaa bonds	4.48	4.68
Municipal Aaa bonds	3.16	3.40

Part of the increase in credit demands in recent months resulted from the need for funds to market



crops, build up Christmas inventories, and meet other seasonal uses of funds. These factors cause some interest rates to rise regularly during the fall and early winter.

INCREASES IN INTEREST RATES

(July to December)

	3-Month Treasury Bills	Corporate Aaa Bonds
1965	14.4%	4.5%
1964	11.0	0.9
1963	10.7	2.1
1951-1962 Average	34.5	1.8

However, some of the increase in credit demands during recent months reflects strong economic expansion and rising state and local government capital expenditures.

A 15 per cent spurt in plant and equipment expenditures from 1964 to 1965 forced businesses to turn to long-term capital markets to a greater extent. New long-term capital raised by corporations in 1965 was an estimated 17 per cent above the total for 1964 and 44 per cent above the 1963 figure. The increase in bond offerings was greatest in the last half of 1965, when interest rates were rising. Also, state and local governments were estimated to have raised about 12 per cent more new capital during the fourth quarter of 1965 than during the comparable 1964 quarter.

Businesses may have turned to bond markets to a greater extent in the last half of 1965 rather than rely so heavily on commercial banks for credit. Business loans at commercial banks rose at an estimated 11 per cent annual rate from July to December, compared with a 25 per cent rate of rise during the first half of 1965.

Federal Reserve Action

The Federal Reserve System bought a substantial volume of securities in late 1965. Such purchases tend to hold down interest rates and add to member bank reserves. With greater reserves, banks expanded their loans and investments, which also put downward pressure on interest rates. Nevertheless, interest rates rose from July to early January as demand outpaced the overall supply of funds. To have maintained the previously existing level of interest rates in the face of the strong demand for credit, the Federal Reserve would have had to inject a yet larger volume of reserves into the banking system. Such a policy (lower interest rates, greater bank credit, and more money) would probably have been inflationary, since demands for goods were already rising faster than real output.

Recent price increases and expectations of future markups may have been a factor in the recent rise in interest rates in the United States. Inflation, or expectations of it, has frequently been accompanied by higher interest rates. Inflation depreciates the real value of the dollar, and, hence, lenders may require a higher return on loans to equate the present and future real value of funds lent. Borrowers may be willing to pay higher interest rates since they will be repaying the debt with less valuable dollars. For example, in a country such as Italy, where inflation has been rapid, interest rates have been high. On the other hand, interest rates have been relatively low in the United States, where there has been little inflation.

Effective December 6, the discount rate, the rate at which Reserve Banks lend funds to member banks, was raised from 4 per cent to 4½ per cent at the New York and Chicago Reserve Banks. Most other Reserve Banks took similar actions within a few days. At the St. Louis Bank the rate increase was effective December 10.

The increase in the discount rate did not completely return the discount rate to its normal relationship with other money market yields. Since early 1960 the discount rate has averaged 3.39 per cent or 0.28 percentage points above the average three-month Treasury bill rate. In late December and early January, however, the newly set discount rate of 4½ per cent exceeded the bill rate by only 0.02 percentage points. Thus, even though the discount rate was increased in response to a general rise in other interest rates and increasing prices, it is still lower relative to market interest rates than during periods when economic activity was less buoyant.

Simultaneously with the discount rate rise, the interest rate ceiling on time deposits having a maturity of 30 days or more was raised from 4½ per cent to

5½ per cent. The rate of growth of large certificates of deposit slowed in the fall of 1965, even though banks were offering the then maximum interest rate. This slowing of deposit growth may have been a factor in the reduced rate of business loan expansion in late 1965. The higher ceiling since early December permits an increase in CD yields, if market forces so dictate.

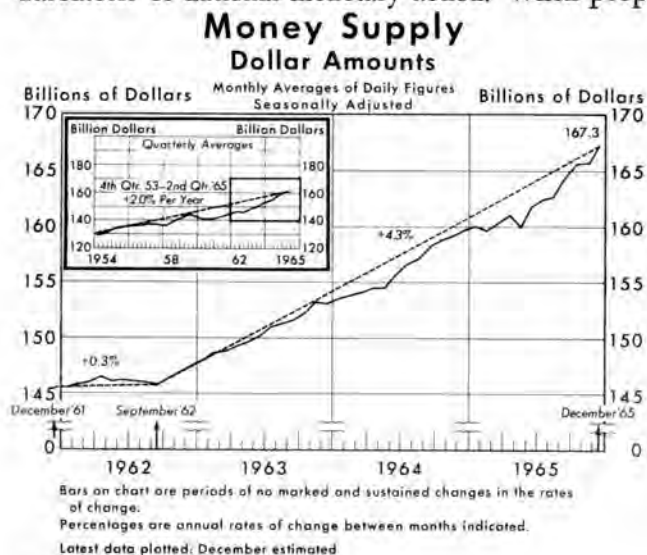
Monetary Expansion

Since summer monetary growth has been especially rapid, and, contrary to some accounts, monetary developments have continued expansionary since early December. Reserves available for private demand deposits and the money supply have risen at unusually rapid rates, and growth in bank credit has been substantial.

Since July reserves available for private demand deposits have risen at about a 5 per cent annual rate, and from November to December the jump was at an 11 per cent rate. These increases compare with a 1.9 per cent rise over the previous year and a 1.4 per cent average rate of rise from 1951 to 1964. These reserves are an important determinant of the money supply.

Since July the nation's money supply has grown at a 7 per cent annual rate, and from November to December money increased at a 12 per cent rate. By comparison, money has risen at an average annual rate of 4.3 per cent since September 1962, the last marked and sustained change in the rate of monetary expansion. Over these past 39 months, money supply growth has been comparatively rapid. Its longer run growth from 1951 to 1962 was at a 1.9 per cent average annual rate.

The rate of growth of money is a commonly used barometer of national monetary action. When people



have more money than they want to hold, spending rises. Historically, continuing rapid rises in the money supply have usually been followed by higher levels of spending, production, employment, and prices.

Bank credit expansion since last summer has been at an estimated 8 per cent annual rate, compared with a 5.6 per cent average annual rate from 1951 to 1964. Loans at commercial banks have continued to rise, and since July banks have added to their investment portfolios.

Fiscal Developments

The Government's fiscal actions turned more stimulative in the last half of 1965. Expansionary actions included a reduction in excise taxes, higher social security benefits, greater defense outlays, and increases in Government wage payments. The full employment surplus,¹ one measure of Government actions, has declined markedly since midyear, indicating an expansionary development. The surplus is estimated to have been about \$0.5 billion (annual rate) in the last half of 1965, compared with a \$6.7 billion rate in the first half of 1965.

During the first half of 1966 increases in defense and other outlays will probably more than offset increases in social security taxes and cause the Federal Government to put an even stronger upward pressure on demand for goods and services.

Conclusion

Economic activity has been expanding rapidly, and some upward pressures on prices are evident. Activity has been spurred by a rapid growth in the money supply and net Government expenditures.

As the economy approaches capacity, questions arise as to what is the appropriate growth in total demand for goods and services. Total demand should continue to grow, for the labor force, plant capacity, and technology of the nation are growing. But it now appears appropriate that total demand should not increase as rapidly as when resources were not so fully used.

¹The full employment budget abstracts from influences on the budget which result from fluctuations in economic activity and isolates and measures effects of changes in Government taxing and spending programs. Fiscal developments are said to be more expansionary the smaller the full employment surplus or the greater the full employment deficit. For a further explanation of the full employment budget see the December, 1964 and April and October 1965 issues of this *Review*.

The Central Mississippi Valley: A Review of 1965

NINETEEN SIXTY-FIVE was a year of substantial economic growth in the Central Mississippi Valley. Employment and personal income gains in the five Central Mississippi Valley states¹ equaled the rapid national rate of growth. In the metropolitan areas of the Valley, employment, production, spending, and banking activity were well above year-earlier levels.

In this article data for Missouri, Arkansas, Kentucky, Tennessee, and Mississippi are combined and analyzed to give a general picture of the region's growth. Thereafter, each state and each metropolitan area in the Central Mississippi Valley is discussed separately, since growth rates in the various states and areas differed significantly. The primary period considered is from late 1964 to late 1965. The period since second quarter 1960 (the most recent national business cycle peak) is used to place recent developments in longer run perspective.

Region

The pace of economic activity in the Central Mississippi Valley quickened in 1965, following a period of substantial growth in the preceding four years. Strong gains were reported in production, payroll employment, incomes, spending, and banking activity. Total employment increased only slightly during the year as a decline in agricultural employment nearly offset payroll gains.

Payroll employment in the region increased 4.4 per cent in 1965, compared with a 2.9 per cent average annual rate since second quarter 1960. Manufacturing and nonmanufacturing employment gains were about equal from 1960 to 1964, but in 1965 manufacturing employment grew more rapidly than nonmanufacturing. Unemployment rates in each of the Valley states declined substantially during the year.

NOTE. Statistics quoted in this article are summarized in Tables I, II, and III on page 13. All data except personal income and farm cash receipts are adjusted for seasonal variation.

¹Combined totals for Missouri, Arkansas, Kentucky, Tennessee, and Mississippi. Illinois and Indiana are not discussed in this article because only a relatively small percentage of the population of each is located within the Eighth Federal Reserve District.

Personal income in the Central Mississippi Valley increased 9 per cent during 1965, compared with a 7 per cent average annual rate during the preceding five years. Nationally, personal income advanced 8 per cent during the year.

Farm cash receipts in the region rose about 6 per cent in 1965. Receipts from livestock sales were up about 10 per cent, primarily because prices for livestock products increased. Crop receipts were slightly higher, as a larger volume marketed more than offset lower average prices.

In the eight metropolitan areas of the region,² production and spending advanced at about the same rate in 1965 as in the preceding four years. Manufacturing output rose 6 per cent, while the volume of spending, as measured by check payments, expanded 12 per cent.

Banking activity³ in the metropolitan areas rose moderately. A 7 per cent increase in deposits plus a decrease in investment portfolios enabled banks to expand their loans 12 per cent. Business loans, primarily short-term loans for manufacturing, distribution, and construction purposes, rose 15 per cent, compared with an 8 per cent average rate from 1960 to late 1965. Banks also expanded credit to consumers and on real estate.

Missouri

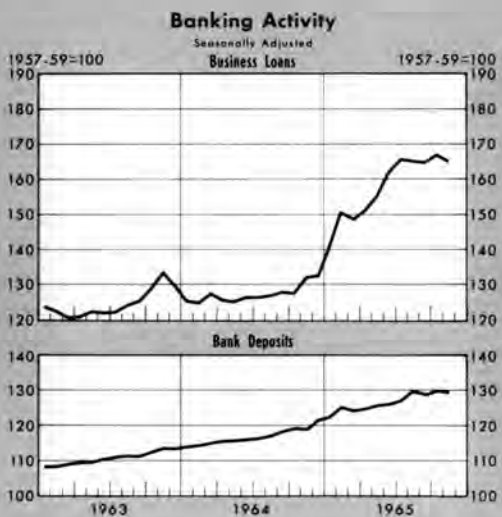
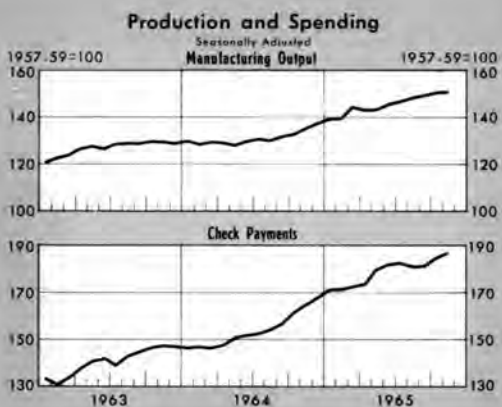
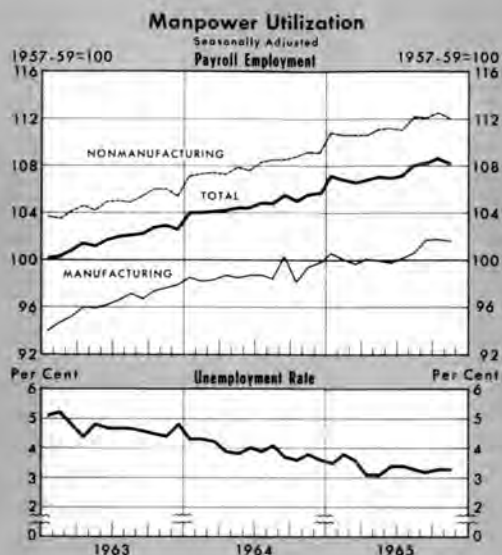
Economic expansion in Missouri was more rapid in 1965 than in the preceding four years but somewhat less rapid than in the nation.

Missouri employment increases during 1965 were significant in comparison with the growth rates since 1960. Payroll employment expanded 2.9 per cent during the year; from mid-1960 to 1965 the average annual rate of growth was 1.5 per cent. Manufacturing employment, which had advanced at a 0.9 per cent annual rate since 1960, expanded 3.4 per cent during 1965. Rapidly growing industries included nonelectrical machinery and transportation equipment. In the non-manufacturing sector, significant employment gains

²Combined totals for St. Louis, Louisville, Memphis, Little Rock, Evansville, Springfield (Missouri), Fort Smith, and Pine Bluff.

³At weekly reporting commercial banks, which are members of the Federal Reserve System.

St. Louis



were reported in contract construction and state and local government employment.

Total employment, which includes nonfarm payroll, self-employed, unpaid family, domestic, and agricultural workers, advanced 0.7 per cent over the past year, compared with a 0.4 per cent average rate since 1960. A long-term decline in agricultural employment continued, nearly offsetting payroll employment gains. In late 1965 there were about 25,000 fewer agricultural workers in the state than in late 1964. Unemployment declined slightly during the year and at 3.7 per cent of the labor force in late 1965 was below the national rate of 4.2 per cent.⁴

Personal income in Missouri jumped from late 1964 to early 1965 and continued to increase in subsequent months. The overall growth rate for the year was 8 per cent, about the same rate as in the nation and above the 6 per cent trend rate for Missouri since 1960. Per capita income was estimated at \$2,700 in 1965, compared with \$2,600 in 1964.

Gross farm receipts for the year were about 10 per cent above 1964, reflecting sizable gains from sales of both livestock and crops.

St. Louis

Economic activity in the St. Louis Metropolitan Area advanced much more rapidly in 1965 than in the preceding four years.

Employment gains last year were striking when compared with those of previous years. Payroll employment rose 2.5 per cent, compared with a 1.2 per cent average annual rate from second quarter 1960 to late 1965. Nonmanufacturing employment expanded 2.6 per cent in the last year. Service employment increased by 5,100 persons, trade by 5,100, and government by 3,700. Manufacturing employment rose 2.2 per cent, compared with essentially no change over the last five years. Durable goods industries showing strong gains in employment were transportation equipment and nonelectrical machinery. Employment in most nondurables industries declined slightly; the exception was the chemical industry, in which employment increased by about 1,000 over the year.

Total employment in the St. Louis area rose 1.8 per cent during the year, while the labor force expanded only 1.5 per cent. Consequently, the unemployment rate declined from 3.8 per cent to 3.3 per cent.

Production and spending in St. Louis both expanded at faster-than-national rates during 1965. Manufac-

⁴These figures are estimates obtained by different methods. Whether they are reasonably comparable is not certain.

turing output rose 12 per cent, compared with 7 per cent for the nation. Output of firms manufacturing transportation equipment increased substantially. This industry now employs about 21 per cent of the people engaged in manufacturing in the St. Louis area and produces more than 28 per cent of the manufacturing output.

Check payments, often used as a summary measure of local activity, advanced 13 per cent, about the same as the average annual rate for the last five years.⁵

The rise in employment and production was reflected in increased activity at St. Louis weekly reporting banks. Loans advanced 11 per cent, compared with an 8 per cent average rate since 1960. Business loans were up 25 per cent, with especially sharp gains reported during the first half of the year. Investments declined from the high level reached in late 1964.

Total deposits increased 9 per cent during the year. Time deposits rose markedly, as in the past five years, and demand deposits continued to decline slightly.

Springfield

After a period of rapid growth in late 1964 and early 1965, economic activity in the Springfield area fluctuated around a high level during the remainder of the year.

Payroll employment increased 1.2 per cent on balance. Manufacturing employment rose 3.6 per cent, with much of the gain attributed to increased hiring by food processors. Nonmanufacturing employment showed little net gain over the year.

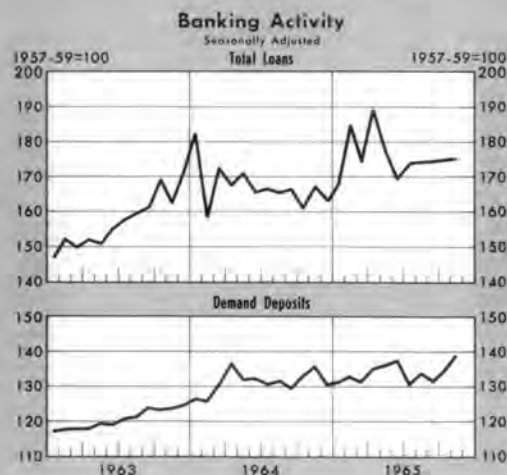
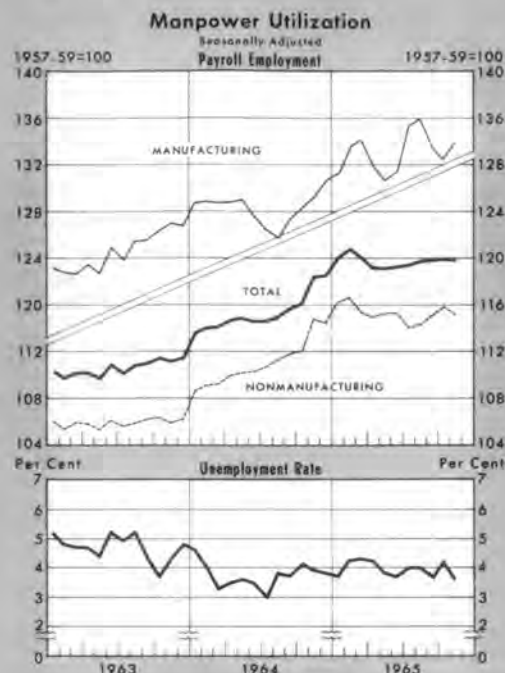
Manufacturing output rose 9 per cent during 1965, compared with 7 per cent in the nation. From mid-1960 to late 1965 manufacturing output growth in Springfield averaged an 11 per cent annual rate.

Check payments rose rapidly until late 1965, when a decline occurred. Net growth during 1965 was 13 per cent.

Outstanding loans at Springfield commercial banks fluctuated widely during the year. In late 1965 they were about 5 per cent above year-earlier levels. Demand deposits rose during the spring and gained 2.4 per cent on balance.

⁵Although the volume of bank debits (check payments) is often used as an indicator of local business conditions, these data should be used carefully and in conjunction with other local economic indicators. The usefulness of debits as an economic indicator is limited because of the large and varying amounts of (1) financial transactions unrelated to production and consumption, (2) transactions from outside the area, (3) payments not resulting in debits at local banks, and (4) outlays recorded several times.

Springfield



Little Rock



Arkansas

The Arkansas economy continued to expand in 1965, though at a slightly less rapid rate than in previous years.

Employment growth in Arkansas, which was more rapid than in the nation from 1960 to 1964, did not equal the national rate of growth in 1965. Total employment fluctuated considerably and rose 0.7 per cent on balance, compared with an average annual rate of increase of 1.8 per cent since 1960 and a national rate in 1965 of 2.9 per cent. The number of agricultural workers decreased by about 10,000 from late 1964 to late 1965. About 11 per cent of total employment in the state was agricultural in 1965, compared with 16 per cent in 1960.

Payroll employment increased 3.4 per cent in 1965, compared with a rate of 4.0 per cent from 1960 to late 1965. Manufacturing employment growth in Arkansas kept pace with the nation but was somewhat less than the rapid 5.5 per cent average rate for the state over the last five years. Significant gains were reported in the food processing and apparel industries, while employment in the lumber industry declined by more than 1,500.

Nonmanufacturing employment in Arkansas rose 3.1 per cent in 1965, slightly below the longer run rate. During the summer sharp gains were reported in this sector because a large number of youths were employed under the Youth Opportunity Program. The termination of this summer program, plus a greater-than-seasonal decrease in construction workers, was largely responsible for a decline in nonmanufacturing employment in the fall.

Personal income advanced 8 per cent in Arkansas during 1965, the same rate as in the nation. Estimated per capita income was \$1,797, compared with \$1,655 in 1964.

Farm cash receipts increased approximately 10 per cent during the year, about double the national gain. Both crop and livestock receipts were up; however, a portion of the gain in crop receipts was the result of marketing crops grown in the previous year.

Little Rock

Economic activity in the Little Rock area during 1965 was marked by rapid manufacturing growth. Non-manufacturing employment, spending, and banking activity all advanced less rapidly than in previous years.

Manufacturing employment in Little Rock increased 6 per cent over the last year, compared with 5 per cent

in the United States as a whole and in Little Rock since 1960. Employment in the instruments industry rose by 900 during 1965, accounting for much of the gain. Furniture and electrical equipment showed smaller increases. Manufacturing output rose 8 per cent. The comparable national rate was 7 per cent.

Total payroll employment expanded 3.0 per cent, slightly below the rate of the past five years. Employment increases in construction and state and local government were primarily responsible for a 2.3 per cent growth in the nonmanufacturing sector. Late in 1965 Little Rock's unemployment rate was 2.2 per cent, about the same as a year earlier.

The volume of spending, as measured by check payments, rose 8 per cent during the year, compared with a longer run growth rate of 13 per cent in Little Rock.

Total bank credit rose 8 per cent in 1965, compared with an 11 per cent annual rate since 1960. Funds to meet the strong loan demand were obtained from net sales of securities and a moderate increase in deposits. Investment holdings declined 15 per cent in 1965, continuing the trend of the previous year. Bank deposits increased 7 per cent. Time deposits expanded 18 per cent, about the same rate as in the nation; demand deposits were little changed.

Fort Smith

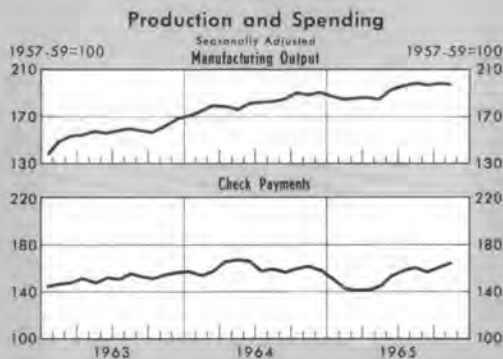
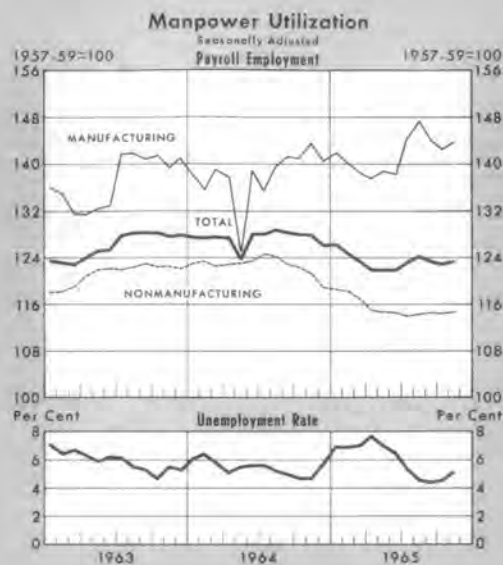
The Fort Smith economy declined sharply during the first half of 1965 but appeared to be adjusting to a new level of activity later in the year. The closing of Fort Chaffee, with 950 employees and a payroll of about \$2 million per month, was primarily responsible for the economic contraction.

Nonmanufacturing employment in Fort Smith showed a 5 per cent loss. The closing of the military installation decreased government employment and also directly affected contract construction and, to a lesser extent, trade. Manufacturing employment fluctuated widely but showed little net gain. Furniture manufacturers and food processors expanded their employment, but these increases were about offset by declines in the metals industry.

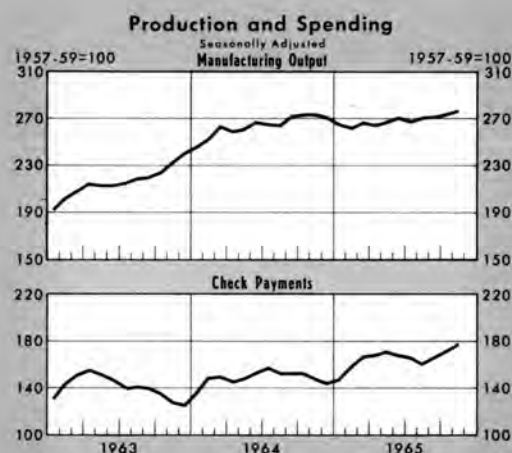
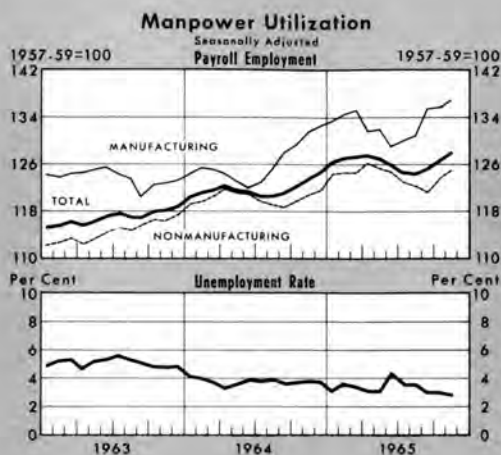
Total employment declined 4.1 per cent from late 1964 to late 1965. Early in the year this decline was reflected in a high 7.0 per cent unemployment rate in Fort Smith. In late summer and in the fall, a number of those unemployed apparently found jobs in other regions. By November the unemployment rate was 5.1 per cent, compared with 4.7 per cent in late 1964.

Manufacturing output remained on a plateau during the first half of 1965 but gained substantially during

Fort Smith



Pine Bluff



the summer and fall.⁶ The overall growth rate was 4.4 per cent, compared with a 13 per cent average annual rate during the past five years. Check payments rose 1.8 per cent, with year-end gains more than offsetting declines early in the year.

Outstanding loans by commercial banks in Fort Smith rose 9 per cent. Bank deposits remained at a high level throughout 1965.

Pine Bluff

Employment growth in the Pine Bluff Metropolitan Area was moderate during 1965. Output expanded more slowly than in preceding years, while the rate of spending accelerated.

Payroll employment rose sharply from November 1964 to April 1965 and showed little net gain during the remainder of the year. Overall growth was 3.6 per cent. Increases in Federal Government employment were primarily responsible for the nonmanufacturing gains. A 4.0 per cent increase in manufacturing employment was concentrated in the durable goods sector.

Manufacturing output in Pine Bluff declined in early 1965 but had regained year-earlier levels by November. During the last five years manufacturing output has expanded at an average annual rate of 17 per cent.

Check payments rose at a brisk pace early in the year and had advanced 20 per cent by November 1965, compared with an 11 per cent average rate since mid-1960.

Total loans, which have risen at a very rapid rate since 1960, increased 8 per cent during 1965. Bank deposits rose 6 per cent, with a marked rise in the autumn more than offsetting a spring decline.

Kentucky

Economic growth in Kentucky during 1965 was more rapid than in the nation. Significant gains were reported in employment and income, while farm receipts were slightly below the high 1964 level.

Payroll employment in Kentucky advanced 7 per cent, compared with 4.1 per cent for the United States as a whole. Although nonmanufacturing employment increased substantially, the largest gains were reported in the manufacturing sector. Rapidly growing industries included food products, lumber

⁶The lack of uniformity between manufacturing employment and manufacturing output has also been observed in the national series on industrial production and manufacturing employment. Differences may be caused by many factors, such as changes in productivity or in hours worked.

and wood products, and machinery. Among nonmanufacturing industries, construction, trade, and state and local government showed significant employment increases. Unemployment in Kentucky declined substantially during the year.

Personal income in late 1965 was 9 per cent above the year-earlier level. Per capita personal income rose to \$2,053 from \$1,830 in 1964.

Farm income in 1965 was slightly less than the 1964 total because of the unusually large marketing of the previous year's tobacco crop in the early months of 1964. Cash receipts from livestock sales in 1965 were up about 10 per cent, but receipts from crop sales were down about one-fifth. The value of crops produced rose about 3 per cent from year-earlier levels.

Louisville

Economic activity in the Louisville Metropolitan Area expanded faster in 1965 than in the previous four years, but growth still fell short of the extremely rapid rate for Kentucky as a whole.

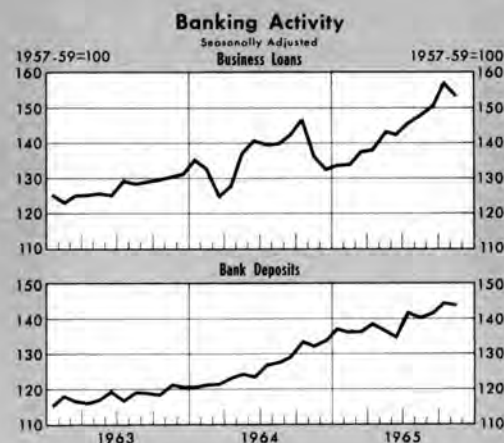
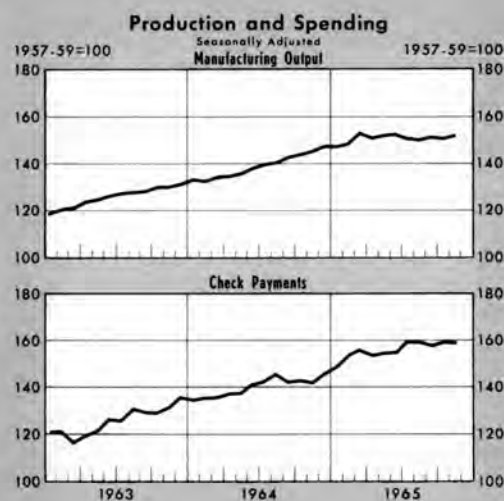
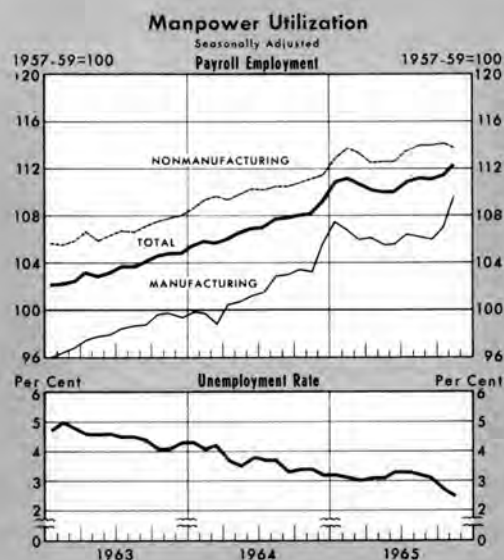
Louisville employment expanded at an uneven pace, with a dip occurring during the spring, but overall gains were significant. Total employment rose 3.6 per cent, compared with a 1.7 per cent average annual rate during the last five years. Unemployment in Louisville was 2.5 per cent of the labor force in late 1965, compared with 3.4 per cent a year earlier.

Manufacturing firms were primarily responsible for the 3.8 per cent increase in payroll employment. Manufacturing employment expanded 6 per cent in 1965, compared with an average rate of 2.3 per cent since 1960, with all of the recent gain in durables industries, particularly machinery and transportation equipment. Trade, services, and government accounted for much of a 2.4 per cent rise in nonmanufacturing employment.

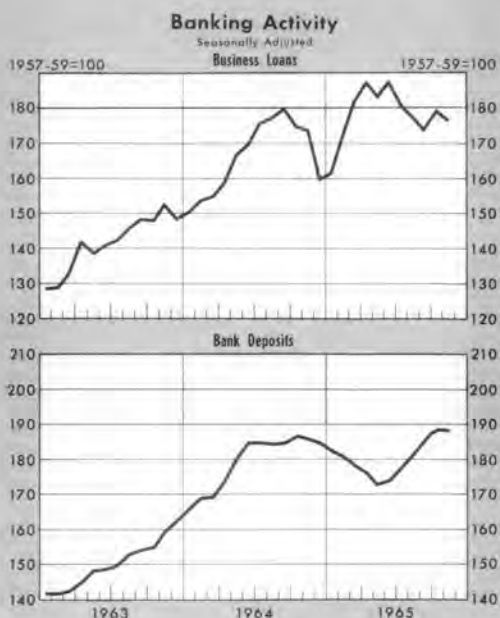
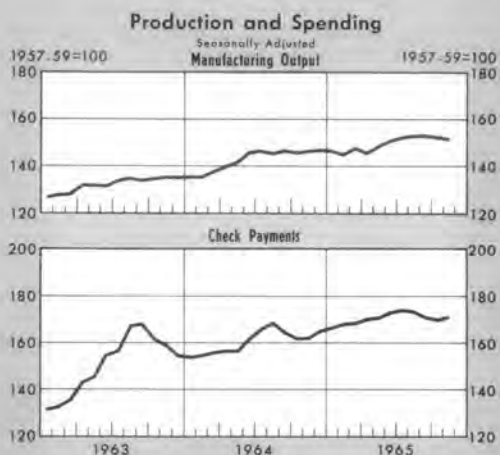
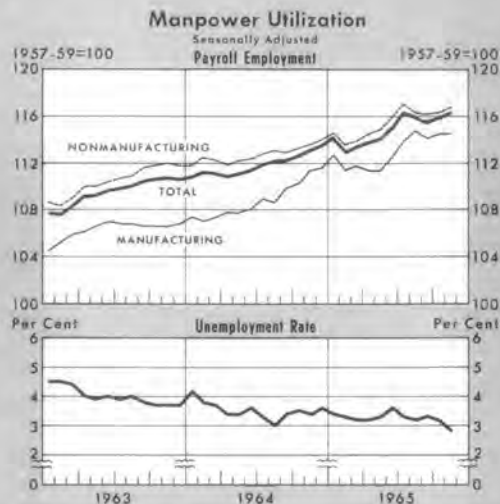
Increases in production, as indicated by industrial use of electric power, were moderate, while spending rose at a brisk pace. Manufacturing output advanced early in the year and remained on a plateau in subsequent months. Overall growth was 5 per cent. Durables output rose 9 per cent, while output by nondurables firms remained at 1964 levels. Spending, as measured by check payments, advanced 12 per cent during the year, compared with a 10 per cent growth rate since 1960.

Trends in Louisville banking activity roughly paralleled those in the nation. Business loans rose at a brisk pace, while investments remained at about the 1964 level. Total deposits increased 9 per cent. Time de-

Louisville



Memphis



posits expanded 24 per cent, somewhat below the 34 per cent average annual rate of the last five years.

Tennessee

Rapid growth prevailed in the Tennessee economy during 1965, particularly after midyear.

Payroll employment advanced 5 per cent, compared with a 3.7 per cent average annual rate during the last five years. A 5.5 per cent increase in manufacturing employment was about evenly divided between durables and nondurables industries. Firms producing furniture and fixtures, fabricated metals, and machinery increased their employment substantially. Among nondurables, extremely rapid employment growth was reported in the apparel industry. Chemicals and leather showed smaller increases.

Nonmanufacturing employment in Tennessee advanced 4.9 per cent, compared with a 3.5 per cent average annual rate during the last five years. State and local government and trade each employed 10,000 more people in late 1965 than in late 1964.

Personal income in the state rose 10 per cent above late 1964 levels. Growth in personal income averaged 8 per cent during the last five years. Estimated per capita personal income was \$1,982 in 1965, up from \$1,859 in 1964.

Farm cash receipts were about 4 per cent higher in 1965 than a year earlier. Crop receipts declined slightly, but the decline was more than offset by a 7 to 8 per cent gain in livestock receipts.

Memphis

Employment growth in the Memphis Metropolitan Area was moderate during 1965, but production, spending, and banking activity increased more slowly than in previous years.

Total employment rose 1.9 per cent during 1965. A 2.8 per cent expansion in payroll employment was more rapid than the average rate for Memphis during the last five years. Several manufacturing industries reported increases, while nonmanufacturing gains were concentrated in trade and government. The anti-poverty program and the staffing of new schools were primarily responsible for the expansion in government employment. Unemployment in Memphis was 2.8 per cent of the labor force in late 1965, well below the national rate of 4.2 per cent.

Manufacturing output remained on a plateau during the second half of 1964 and in early 1965 but began moving upward in the spring. For the year as a whole

Table I
ECONOMIC INDICATORS
Central Mississippi Valley States
Annual Rates of Change

	Total Employment ¹		Payroll Employment ¹		Manufacturing Employment ¹		Nonmanufacturing Employment ¹		Unemployment Rate ²		Personal Income ³		Gross Farm Income ⁴	
	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65	1964	1965	1960-65	1964-65	1960-65	1964-65
Missouri	0.4	0.7	1.5	2.9	0.9	3.4	1.7	2.8	3.9	3.7	5.9	7.8	2.2	10.0
Arkansas	1.8	0.7	4.0	3.4	5.5	4.4	3.4	3.1	4.5	3.9	9.0	8.3	8.5	10.0
Kentucky	n.a.	n.a.	3.7	6.5	3.8	7.5	3.6	6.3	n.a.	n.a.	7.0	9.4	5.4	-3.0
Tennessee	n.a.	n.a.	3.7	5.1	4.1	5.5	3.5	4.9	n.a.	n.a.	8.2	10.1	3.9	4.0
Mississippi	n.a.	1.3	3.7	4.1	5.1	8.1	3.0	2.4	3.9	3.2	8.2	8.5	7.7	5.0
Total 5 states	n.a.	0.5 ⁵	2.9	4.4	3.2	5.3	2.8	3.9	n.a.	n.a.	7.2	8.8	5.2	6.0
United States	1.6	2.9	2.3	4.1	1.5	4.6	2.7	3.9	4.9	4.2	6.5	8.1	2.7	5.0

¹Rates computed from 2nd quarter 1960 and from November 1964 to October 1965, except for United States data, which are computed to November 1965.

²Unemployment as a per cent of the labor force, November 1964 and October 1965.

³Rates computed from first nine months 1960 and from first nine months 1964 to first nine months 1965.

⁴Rates computed from 1960 total and from 1964 total to estimated 1965 total.

⁵Total for Missouri, Arkansas, and Mississippi only.

n.a.—Not available.

Sources: State employment security offices, U. S. Bureau of Labor Statistics, *Business Week*, and U. S. Department of Agriculture.

Table II
ECONOMIC INDICATORS
Central Mississippi Valley Metropolitan Areas
Annual Rates of Change

	Total Employment ¹		Payroll Employment ¹		Manufacturing Employment ¹		Nonmanufacturing Employment ¹		Unemployment Rate ²		Manufacturing Output ^{1, 3}		Check Payments ^{1, 4}	
	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65	1964	1965	1960-65	1964-65	1960-65	1964-65
St. Louis	0.8	1.8	1.2	2.5	0.3	2.2	1.7	2.6	3.8	3.3	7.0	11.7	12.2	13.4
Springfield	0.7	0.2	1.3	1.2	0.9	3.6	1.4	0.3	3.9	3.6	11.0	8.9	9.8	12.7
Little Rock	2.3	2.2	3.6	3.0	5.1	6.0	3.3	2.3	2.1	2.2	4.1	8.2	12.7	8.4
Fort Smith	2.3	-4.1	5.3	-3.6	7.2	0.1	4.4	-5.4	4.7	5.1	12.7	4.4	10.8	1.8
Pine Bluff	2.5	1.6	3.3	3.6	1.6	4.0	4.0	3.5	3.8	2.8	17.1	1.2	10.5	20.3
Louisville	1.7	3.6	2.2	3.8	2.3	6.2	2.0	2.4	3.4	2.5	8.9	4.6	10.1	12.1
Memphis	1.6	1.9	2.1	2.8	1.5	2.8	2.2	2.8	3.4	2.8	6.2	3.8	10.2	5.4
Evansville	1.8	-0.5	2.4	-0.4	2.7	0	2.2	-0.6	2.9	3.4	9.0	-2.2	10.7	16.6

¹Rates computed from 2nd quarter 1960 and from November 1964 to November 1965.

²Unemployment as a per cent of the labor force, November 1964 and November 1965.

³Five-month moving averages.

⁴Three-month moving averages.

Sources: Basic data from state employment security offices, utility companies, firms using self-generated power, and commercial banks.

Table III
BANKING INDICATORS
Central Mississippi Valley Metropolitan Areas
Annual Rates of Change¹

	Bank Credit		Investments		Total Loans		Business Loans		Total Deposits		Demand Deposits		Time Deposits	
	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65	1960-65	1964-65
St. Louis ²	6.5	5.3	4.2	-4.6	7.6	10.7	6.2	25.3	6.8	8.8	-1.6	-1.3	26.9	19.4
Springfield ³	n.a.	n.a.	n.a.	n.a.	7.9	5.0	n.a.	n.a.	n.a.	n.a.	5.3	2.4	n.a.	n.a.
Little Rock ²	11.4	8.0	-1.5	-14.5	21.3	18.0	14.8	19.3	9.0	7.1	3.9	0.8	23.8	18.3
Fort Smith ⁴	n.a.	n.a.	n.a.	n.a.	14.8	8.6	n.a.	n.a.	13.5	2.6	n.a.	n.a.	n.a.	n.a.
Pine Bluff ⁴	n.a.	n.a.	n.a.	n.a.	16.5	8.1	n.a.	n.a.	11.4	5.9	n.a.	n.a.	n.a.	n.a.
Louisville ²	8.0	8.7	4.8	1.9	10.1	12.9	7.6	12.6	8.2	9.0	1.9	1.4	33.6	23.7
Memphis ²	15.1	7.1	12.2	-5.1	16.3	12.5	10.2	1.8	14.0	1.2	4.0	0.7	30.3	1.6
Evansville ²	9.3	5.9	6.5	-5.6	10.5	10.8	10.7	7.5	8.8	6.9	3.8	-4.6	19.9	26.5
Total 8 metropolitan areas ⁵	8.9	6.5	5.3	-4.2	10.7	12.0	7.9	15.2	8.8	6.6	0.9	-0.3	28.1	14.5
United States ⁴	9.9	10.0	6.1	-0.8	11.9	15.2	10.1	21.0	9.7	9.7	1.1	1.2	26.5	18.1

¹Rates computed from 2nd quarter 1960 and from November 1964 to November 1965.

²Weekly reporting banks.

³Total loans are for all Federal Reserve member banks, and total deposits are for all commercial banks.

⁴All commercial banks.

⁵Member banks in the Eighth Federal Reserve District.

n.a.—Not available.

Sources: Federal Reserve Bank of St. Louis and Board of Governors of the Federal Reserve System.

output rose 3.8 per cent, with an increase of 6 per cent in durable goods and 2.9 per cent in nondurables.

The volume of checks drawn on Memphis banks rose 5 per cent during the last year, about half the rate since 1960.

Banking activity in Memphis slowed considerably in 1965, following a period of substantial growth from 1960 to 1964. Deposits rose only 1.2 per cent, while loans expanded 13 per cent. The funds to increase loans were obtained primarily by reducing investment portfolios. Business loans, which expanded rapidly in other district cities and in the nation, showed a net increase of only 1.8 per cent in Memphis. Time deposits decreased substantially during the first half of the year and had barely regained 1964 levels in late 1965. The lack of growth may be the result of higher interest rates paid on such deposits in other areas. A Tennessee state law limits interest paid on time deposits to 4 per cent.

Mississippi

The Mississippi economy continued to expand during 1965, with strong gains reported in manufacturing.

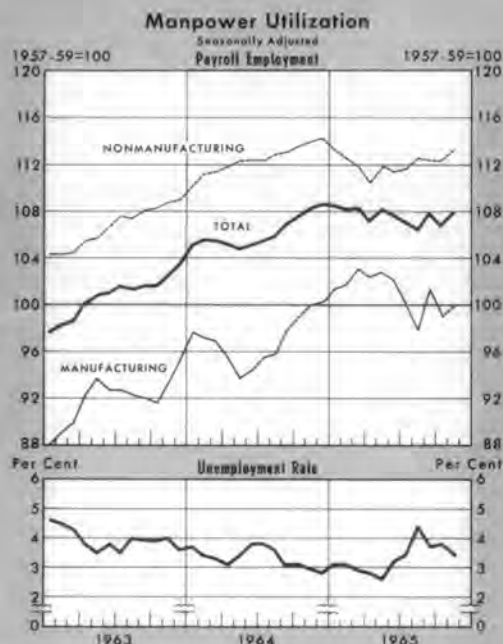
Payroll employment rose 4.1 per cent, somewhat faster than the rate of the preceding four years. Employment by manufacturing firms gained steadily throughout the year. The overall growth rate was 8 per cent, substantially above the national rate of 4.6 per cent and the 5 per cent average rate in Mississippi since 1960. Most of the 1965 gain was in durable goods industries: furniture and fixtures, machinery, and transportation equipment each increased employment by more than 1,000. Apparel was the most rapidly growing nondurables industry. Much of the 2.4 per cent rise in the nonmanufacturing sector was accounted for by increased state and local government employment.

Total employment in Mississippi advanced 1.3 per cent during 1965. Agricultural employment remained at about 1964 levels until the fall, when unusually bad weather plus mechanization reduced the number of persons needed to pick cotton by more than 10,000. The unemployment rate in Mississippi declined substantially during the year, from 3.9 per cent in late 1964 to 3.2 per cent in late 1965.

Following a period of rather slow growth in 1964, personal income in Mississippi advanced 9 per cent in 1965. The state's per capita income was \$1,586, compared with \$1,438 in 1964.

An increase in cash farm receipts by about 5 per cent in Mississippi equaled the national rate of gain.

Evansville



Crop receipts were only slightly above year-earlier levels in 1965, but livestock receipts rose about 10 per cent.

Evansville, Indiana

Little net change was evident in the Evansville economy during 1965 following a period of rapid expansion in the second half of 1964.

Total employment decreased slightly while the labor force remained the same, resulting in increased unemployment. The unemployment rate in late 1965 was 3.4 per cent, compared with 2.9 per cent in late 1964.

Payroll employment showed little change on balance. Employment in some industries lagged behind 1964 levels, but gains in others filled the gap. In the manufacturing sector an employment decline in the refrigeration and air-conditioning equipment industry

was offset by small gains in other durable goods. In nonmanufacturing the downtrend in mining was about offset by slight increases in trade and government employment.

Manufacturing output rose rapidly in late 1964 and remained at a high level during 1965. In contrast to other economic indicators, check payments grew substantially during the year. The 17 percent increase was greater than the 13 per cent United States rate and also above the longer run rate for Evansville.

Banking activity increased during the year, but not so fast as in the nation. Loans rose 11 per cent, while investments declined 6 per cent.

Deposit growth was slightly below the longer run rate of the last five years, primarily because demand deposits declined 5 per cent. Time deposits expanded 27 per cent.



BULK MAILINGS of this bank's REVIEW for classroom use will be made monthly during the school year to teachers requesting this service. Requests should be directed to: Research Department, Federal Reserve Bank of St. Louis, P. O. Box 442, St. Louis, Missouri 63166.

Farm Income Rises Markedly

FARM INCOME ROSE MARKEDLY last year, reflecting the continued economic expansion and the accompanying strong demand for agricultural products. Net farm income rose to \$13.9 billion in 1965, almost 10 per cent above a year earlier, reaching its highest level since 1952.

Gross farm income totaled \$43.9 billion, up from \$42.2 billion a year earlier. Increased receipts for livestock contributed most of the gain, but returns from many major crops and Government payments were also slightly above levels of the previous year.

Farm production expenses resumed their long-term upward trend after a slight decline in 1964. Such expenses in 1965 were about \$0.7 billion above the \$29.3 billion of a year earlier.

Net income per farm rose to \$4,100 from \$3,727 in 1964. Off-farm incomes of farm people continued to rise, and their total per capita income after taxes was about one sixth larger than in 1964.

NOTE. This article is primarily a summary of information presented by the staff of the United States Department of Agriculture at the 43rd Annual Agricultural Outlook Conference in Washington, D.C., November 15-18, 1965.

Demand and supply conditions for farm commodities point to further gains in farm income in 1966. Although cash receipts will probably remain about unchanged, net income may be up one-fourth to one-half billion dollars as increased Government payments will more than offset increases in expenses. Per capita income of farm people is likely to show further gains since income from off-farm sources is expected to continue to rise, and the farm population, to decline.

Gross Income

Cash Receipts

Cash receipts from farm marketings were about \$38.4 billion in 1965, up 4 per cent from 1964 (Table I). The gain resulted from an increase of about \$1.75 billion in receipts from livestock products; crop receipts were about unchanged from 1964. There were notable increases in receipts from sales of hogs, beef cattle, and poultry. Receipts from marketing dairy products increased slightly.

The volume of livestock marketings was down slightly in 1965, but prices were substantially higher. During the first ten months hog prices received by farmers averaged \$19.88 per cwt. or one-third higher than in the same months a year earlier (Table II). The December peak in hog prices exceeded \$30 per cwt., a record high for that month. In the first ten months of 1965 choice steers averaged 12 per cent higher than a year earlier. Broilers and milk were also somewhat higher, but eggs were lower.

Generally reduced per capita supplies were an important factor contributing to higher prices for livestock. Increased incomes also contributed to a strong demand for farm commodities and, thus, to higher prices. The decline in per capita supplies reflected both smaller production of livestock and continued population growth.

Table I

INCOME FROM FARMING

(Billions of Dollars)

	1950	1955	1960	1961	1962	1963	1964	1965 ¹
Cash receipts	28.5	29.5	34.0	34.9	36.2	37.3	36.9	38.4
Nonmoney income and Government payments	3.8	3.6	3.9	4.7	4.8	4.8	5.3	5.5
Realized gross	32.3	33.1	37.9	39.6	41.0	42.1	42.2	43.9
Production expenses	19.4	21.9	26.2	27.0	28.5	29.6	29.3	30.0
Realized net	12.9	11.2	11.7	12.6	12.5	12.5	12.9	13.9
Inventory change	.8	.3	.3	.3	.6	.6	.8	.3
Total net	13.7	11.5	12.0	12.9	13.1	13.1	12.1	13.6
Direct Government payments to farmers	.3	.2	.7	1.5	1.7	1.7	2.2	2.4
Per cent of total net income	2.1	2.0	5.8	11.5	13.3	12.9	17.9	17.6
Cost of Government subsidy programs for agriculture ²		1.3	4.1	5.0	5.7	5.3	5.8	6.2
Per cent of total net income		11.7	34.3	38.6	43.7	40.6	47.9	45.5

¹Seasonally adjusted annual rate, first three quarters.

²Data exclude net change in commodity inventories.

Sources: USDA, *Farm Income Situation*, and U. S. Department of Commerce, *Statistical Abstract of the United States*, 1965, pp. 398, 399.

Table II
AVERAGE PRICES RECEIVED
SELECTED LIVESTOCK PRODUCTS

	First Ten Months		Change
	1964	1965	
Hogs (per cwt.)	\$14.91	\$19.88	33.3%
Choice steers (per cwt.) ¹	22.86	25.64	12.2
Commercial broilers (per lb.)	.143	.151	5.6
Milk, wholesale (per cwt.)	4.11	4.18	1.7
Eggs (per dozen)	.338	.323	- 4.4

¹At Chicago.

Red meat¹ supplies were down to 168 pounds per person from 175 pounds in 1964. Pork was down to 60 pounds from 65 pounds a year earlier. Beef and veal were down to 104 pounds from 105 pounds, and lamb and mutton were down to about 4 pounds from 4.5 pounds.

Milk production declined about 12 pounds or 2 per cent per capita. Egg production also was less on a per capita basis. The lower average prices for eggs reflected the persistent decline in the per capita use of eggs in recent years. Partially offsetting these declines was a 2 pound per capita increase in poultry to 40.4 pounds.

Crop receipts in 1965 were about the same as a year earlier as a sizable increase in output was offset by lower average prices. Crop harvests were up sharply from the drouth-depressed levels of a year earlier even though the average number of acres planted was about the same. Output of all crops rose 7 per cent and was 4 per cent above the previous high in 1963. Production increases from 1964 levels totaled about 18 per cent for feed grains, 20 per cent for soybeans, 3 per cent for wheat, 7 per cent for hay, and 24 per cent for fall potatoes.

As larger crops moved to market in the autumn, prices generally declined from year-earlier levels. Government price support programs cushioned the extent of the downward movement, however. The all-crop index of prices received in October averaged 6 per cent below a year earlier. Soybean prices were down 9 per cent; cotton, 5 per cent; corn, 4 per cent; potatoes, 22 per cent; and orange and grapefruit, 50 per cent.

A further expansion in exports also tended to reduce the extent of the crop price declines. In the third quarter of 1965 exports were about 7 per cent greater than a year earlier, and the volume for the entire year is expected to exceed the year-earlier total by 4 to 5 per cent. In recent years 20 to 25 per cent of total crop production has been exported. Exports amount to more than half of the wheat and rice crops, a third of

¹Beef, veal, pork, lamb, and mutton.

the soybean, cotton, and flue-cured tobacco crops, and about a fourth of food fats and oils production.

Government Payments

Direct Government payments to farmers in 1965 were about three and one-half times as great as in 1960 (Table III). Such payments in 1965 totaled about \$2.4 billion or 18 per cent of net income (Tables I and III). In 1960 Government payments totaled \$0.7 billion or 6 per cent of net farm income.

Table III
DIRECT GOVERNMENT PAYMENTS BY PROGRAM

	(Millions of Dollars)				
	1950	1955	1960	1964	1965 ¹
Conservation	246	188	217	227	
Sugar Act	37	41	50	67	
Wool			51	25	
Soil bank			370	199	
Feed grain				1,163	
Wheat				438	
Cotton				39	
Total ²	283	229	693	2,169	2,400

¹Estimated.

²Includes payments not listed separately.

Although detailed data for 1965 are not yet available, total payments under the feed grain and cotton programs are estimated to have been well above 1964 levels. Increased participation in the feed grain program and larger payments made directly to cooperating cotton producers were the major factors in the higher level of Government payments. Some further phasing out of soil bank contracts again reduced payments under this program, partially offsetting the other programs.

Most of the increase in direct Government payments has been offset by reduced price support costs. Total expenditures for agricultural subsidy programs of about \$6.2 billion in 1965 were a slightly smaller per cent of net income than a year earlier.

Farm Operating Costs

Farm production expenses rose almost \$1 billion (3 per cent) in 1965 after declining slightly a year earlier (Table IV). The increase resulted mainly from higher prices for feeder livestock and increases in overhead costs such as taxes, interest, and insurance. Slight increases occurred in prices paid for motor supplies, fertilizer, and building and fencing materials.

Farm expenses have risen more than 50 per cent since 1950, continuing a trend of several decades (Table IV). Farm expenditures for feed, seed, fertilizer, taxes, and depreciation of capital items have in-

creased most. Part of the increase can be traced to higher prices and tax rates. The higher depreciation of capital to some extent reflects higher building and machinery costs. A large part of the cost increase, however, resulted from a greater volume of inputs as new technology and practices which tend to reduce costs per unit of output have been adopted. The increased use of fertilizer from 1950 to 1964 exemplifies these trends. The use of nitrogen on farms rose from 1.0 million to 4.4 million tons; phosphorus, from 0.9 million to 1.5 million tons; and potassium, from 0.9 million to 2.3 million tons. The use of all fertilizer nutrients combined rose from 2.8 million to 8.1 million tons, almost a threefold increase during the period.

Despite the major increases in total farm production expenses, cost per unit of farm output has remained relatively stable in recent years, reflecting increased productivity. During the period from 1950 to 1962 cost per unit of output rose about 1 per cent per year on the average. From 1962 to 1964 unit cost remained unchanged, and in 1965 it declined 2 per cent.

Income of Farm People

Incomes of farmers have moved strongly upward in recent years. Average net income per farm rose from \$2,956 in 1960 to an estimated \$4,100 in 1965, an average annual increase of 6.8 per cent (Table V). Per capita total income of the farm population increased from \$1,194 to \$1,612, 6.2 per cent per year, as substantial income gains from off-farm work also occurred during the period (See Chart).

Table V
INCOMES OF FARM AND NONFARM PEOPLE

	Realized Net Per Farm	Total Personal Per Farm	Personal Per Capita of Farm Population	Personal Per Capita of Nonfarm Population
	Amount			
1950	\$2,277	\$3,606	\$ 884	\$1,643
1955	2,417	3,777	921	2,027
1960	2,956	4,724	1,194	2,345
1965 ¹	4,100	5,920	1,612	2,813
	Annual Rate of Change			
1950-55	1.2%	0.9%	0.8%	4.3%
1955-60	4.1	4.6	5.3	3.0
1960-65	6.8	4.6	6.2	3.7

¹ Estimated.

Sources: USDA, *Farm Income Situation*, and U. S. Department of Commerce.

Table IV

FARM PRODUCTION EXPENSES

(Millions of Dollars)

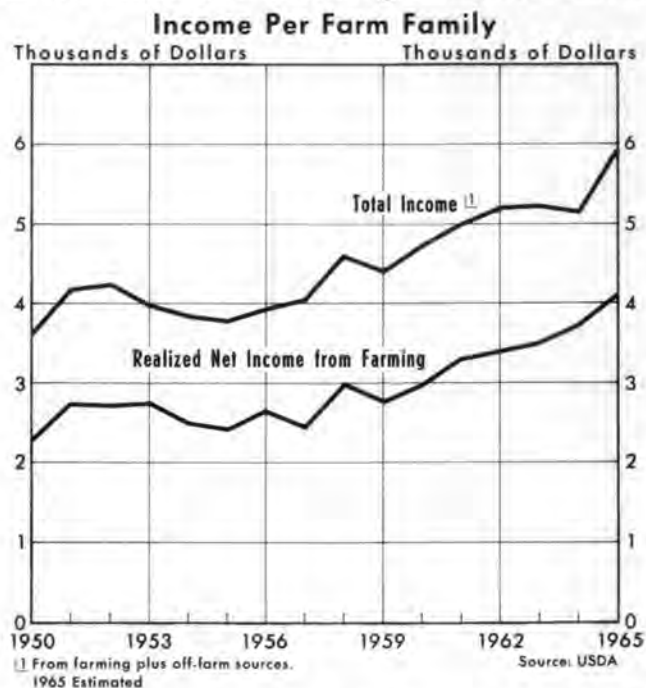
	1950	1955	1960	1961	1962	1963	1964	1965
Feed, seed, and fertilizer	4,776	5,631	6,725	6,991	7,546	8,276	8,197	
Livestock purchased	2,004	1,539	2,500	2,728	3,104	2,915	2,408	
Repairs and operations of buildings and machinery	2,975	3,600	3,957	3,849	3,934	3,936	3,939	
Hired labor	2,811	2,615	2,864	2,918	2,902	2,894	2,708	
Depreciation	2,665	3,700	4,237	4,210	4,340	4,481	4,655	
Taxes	919	1,141	1,500	1,594	1,682	1,761	1,834	
Other ¹	3,260	3,663	4,459	4,723	5,018	5,309	5,508	
Total ²	19,410	21,889	26,242	27,013	28,526	29,572	29,249	30,000
Farm output (1950=100)	100	112	123	124	126	130	129	135
Expenses per unit of output (1950=100)	100	101	110	112	117	117	117	115

¹ Includes interest, miscellaneous supplies, hardware, hauling, marketing charges, tolls, blacksmithing, and rent to nonfarm landlords.

² 1965 estimated. Operators' labor excluded for all years.

Source: USDA, *Farm Income Situation*, July 1965, and *Changes in Farm Production and Efficiency*.

Since 1955 personal incomes of farm residents have moved up at a greater rate than incomes of others. From 1955 to 1960 per capita income of farm people rose at a 5.3 per cent annual rate, compared with a 3.0 per cent rate for the nonfarm population. Since 1960 the rates of increase have been 6.2 and 3.7 per cent, respectively. Although the measured levels of incomes in the two sectors are not precisely comparable for indicating levels of living or for measuring the forces operating to allocate the labor force more efficiently,² the fact that the labor force in agriculture continues to



² See the September 1964 issue of this *Review* for additional discussion of this topic.

decline is evidence that farm incomes have remained below those available in other industries. However, the higher rate of gain for the farm population indicates a narrowing of the gap.

Prospects for 1966

Agricultural prospects are for an even better year for farmers in 1966 than in 1965. Gross income from farming is expected to rise sharply. Cash receipts from farm product sales are expected to remain about unchanged at \$38.4 billion, but Government payments to farmers may reach \$3.6 billion in 1966, about \$1 billion greater than in 1965. This rise in gross income is expected to exceed a rise in farm expenses; hence, a gain of one-fourth to one-half billion dollars in realized net income to farm operators is likely.

The outlook for little change in the level of cash receipts is based on an anticipated gain in volume of marketings coupled with lower average prices. While receipts from crop sales will probably be somewhat less in 1966 than in 1965 (as lower prices more than offset a larger volume of marketings), receipts from livestock products may be greater, with little change in output and a small increase in average prices.

Crops

A considerably larger volume of crops is expected to be marketed during the 1966 calendar year than in 1965. A large portion of crops marketed during a calendar year are produced during the prior year. Thus, 1965 crop marketings reflected in part the relatively low production of 1964, whereas 1966 marketings will reflect in considerable part the 1965 crops, which were about 7 per cent larger than a year earlier. Feed grain crops were up 18 per cent, while soybeans rose 20 per cent, and wheat and rice rose 3 and 5 per cent, respectively (Table VI). Cotton production remained at about the 1964 level, and tobacco output was down 14 per cent.

Table VI
PRODUCTION OF MAJOR CROPS

(Amounts in Millions)

	Average 1959-63	1964	Preliminary 1965	Change 1964-65
Corn, grain (bu.)	3,817	3,584	4,171	16%
Sorghum, grain (bu.)	550	492	666	35
Oats (bu.)	1,044	880	959	9
Barley (bu.)	418	403	412	2
Rice (cwt.)	60	73	77	5
All wheat (bu.)	1,190	1,291	1,327	3
Soybeans, for beans (bu.)	627	702	844	20
Cotton (bales)	15	15	15	0
Tobacco (lbs.)	2,092	2,227	1,913	-14

Supplies of most crops (current production plus carry-over) for 1966 are substantial despite some reductions in grain stocks in recent years. Carry-over stocks of feed grains declined from 85 million tons in 1961 to 55 million tons in 1965, which is about one half of a year's supply. The large 1965 crop may increase carry-over to about 60 million tons in 1966. Total disappearance of wheat has likewise exceeded production for several years, and carry-over stocks declined from 1,322 million bushels in 1962 to 819 million in 1965, slightly more than a half-year's disappearance. Supplies of flue-cured tobacco are slightly below the record level of the 1964-65 marketing year,³ with production down about 15 per cent. Carry-over stocks going into the 1966-67 marketing year are likely to be reduced from the high level of a year earlier. On the other hand, cotton production in 1965-66 (estimated at 15 million bales) exceeds estimated disappearance for the fifth consecutive year. Total use (domestic plus export) of all kinds of cotton is estimated at 13.3 million bales, and carry-over on August 1, 1966 is expected to total 16.2 million bales. This compares with a 14.3 million bale carry-over a year earlier and a previous high of 14.5 million in 1965.

Receipts from crop sales will probably decline in 1966 from 1965 levels, reflecting changes in the Government price support programs. This anticipated decline will be more than offset, however, by a sizable increase in direct Government payments to farmers. The major reason for anticipating such a change is a shift in the support program for cotton to one similar to the wheat and feed grain programs. The loan level (support price) for 1966 cotton is set at 21 cents per pound, down from 29 cents in 1965. In addition to the loan, however, cooperating cotton farmers will receive direct payments of not less than 9 cents per pound on 65 per cent of the cotton acreage allotment for the farm.

Although the program is voluntary, the payments are such that a sizable reduction in cotton acreage is likely. This incentive, combined with a new long-term land retirement program, is likely to alter the distribution of production in the Cotton Belt Area, with major curtailment of production in the higher cost areas of the Southeast and minor reductions in the lower cost Delta and Southwestern States.

This change in the cotton price support program continues the move toward less need for general export subsidies. Export subsidies have now been removed on all major crops with the exception of rice and tobacco. Price support loans have been drastically reduced in the process. For example, price support loan rates for wheat were \$2.00 per bushel in 1962 and

³Year beginning July 1.

\$1.25 in 1965. Wheat and feed grain programs for 1966 are scheduled to remain similar to those in 1965, with prices at or near world price levels. The support rate for corn was \$1.20 in 1962 and \$1.05 in 1965; the support rate for cotton was 32.47 cents per pound in 1963 and will be 21 cents per pound in 1966. Direct Government payments to farmers to supplement income and encourage land retirement have generally offset these reductions in price support outlays.

Livestock Products

Most of the expected increase in receipts for livestock and livestock products will apply to meat animals. Slaughter of all major classes of meat animals is expected to be down on a per capita basis, resulting in still higher prices. Since price increases will probably more than offset any decline in volume marketed, cash receipts should show another gain.

The cattle inventory in 1966 is expected to be down from 1965 levels. In view of the relatively high prices and favorable outlook, however, producers will probably start rebuilding herds in 1966. Such rebuilding requires keeping additional female animals for breeding and reduces the number of such stock for slaughter. Consequently, the total number of cattle for slaughter is likely to be down. Average slaughter weight declined in 1965. An increase of slaughter weight in 1966 could result in almost the same per capita beef supplies as a year earlier, despite a reduction in number. Nevertheless, a prospective reduction in other red meat supplies should result in higher average beef prices and increased cash receipts from marketings.

The relatively high hog prices in late 1965 are expected to continue through the first half of 1966. The late 1965 peak in hog prices was the highest on record. Recent and indicated farrowings point to continued reductions in per capita pork supplies well into 1966. A recent drop in sow slaughter, however, indicates plans for a production expansion which may increase supplies and depress prices later in the year.

Sheep and lamb slaughter in 1966 is expected to decline somewhat further. Prices are therefore expected to continue strong, averaging above 1965 levels.

Cash receipts from dairying, estimated at \$5.1 billion in 1965, are expected to show a moderate increase in 1966. Average prices will probably be above the \$4.23 per hundred pounds of milk in 1965, and volume of marketings may slightly exceed the 119.7 billion pounds marketed in 1965. The legal minimum Government support price is likely to rise from the \$3.24 per hundred pounds for manufactured milk as a result of an increase in the parity index. Milk which

commercial channels will not purchase at this price is moved into Government stocks. Such stocks declined somewhat in 1965 with the reduced level of output.

The number of milk cows on farms has fallen steadily from 21.7 million in 1953 to about 15.5 million in 1965. However, gains in milk output per cow have more than offset this decline, and total milk production has trended slowly upward. Favorable farm alternatives to dairying plus the drouth in the north-eastern states interrupted the upward trend in production in 1965, but with normal weather conditions it is expected to be resumed in 1966.

Poultry output in 1966 is expected to expand more rapidly than demand, causing prices to decline from the 1965 average. With the reduced red meat supplies in 1965, broiler and turkey producers sold 6 per cent more poultry at prices averaging 5 per cent higher than a year earlier. This incentive led to a sizable increase in production which by the end of the year was about 10 per cent above year-earlier levels. This uptrend in production is likely to continue in the first half of 1966, and, as increasing competition from red meat develops after midyear, broiler prices may decline substantially.

Egg production in early 1966 will probably be below early 1965 levels as numbers of laying hens are expected to fall. Prices are thus likely to average above year-earlier levels in the first quarter of the year. The recent high level of egg-type hatchings and higher prices in prospect for eggs point to a younger and more productive laying flock later in the year and prices somewhat below the average of a year earlier.

Summary

Prospective supply and demand conditions for farm commodities point to a further increase in income from farming in 1966 from the sharply increased level of 1965. Little change is likely in the level of cash receipts, as a prospective gain in livestock receipts will probably be offset by a decline in receipts from crop sales. Increases in direct Government payments will probably exceed increases in farm expenses, resulting in net income gains.

Income per farm and per farm person will likely move up even more rapidly than aggregate net income of farm people, since the downtrend in number of farms and farm population is expected to continue. Furthermore, with greater opportunities for supplementing income from off-farm sources, total personal income per capita of the farm population should reach a new high.