

FEDERAL RESERVE BANK OF ST. LOUIS



January 1967

CONTENTS

	Page
<i>Private Demand Weakens</i>	2
<i>1966: A Year of Continued Expansion in the Central Mississippi Valley</i> ..	5
<i>Prospective Prices for Food and Farm Products in 1967</i>	16

Review

Volume 49

Number 1

Private Demand Weakens

AGGREGATE DEMAND has continued to increase in recent months but less rapidly than in 1965 and early 1966. Prices have risen more slowly, and interest rates have declined. Economic stabilization policy continues to combine an expansionary fiscal situation and restrictive monetary developments.

Aggregate Demand

Growth in aggregate demand has slowed from the rapid pace of 1965 and early 1966. Retail sales, a major component of total demand, have increased little since midsummer, after rising about 8 per cent during the year ended in June. Reduced automobile sales have been a major factor in the slower growth of total retail sales. Personal income, however, has continued to grow at about an 8 per cent annual rate.

Slackening in demand may also be reflected in the relation of business inventories to sales. By October 1966 inventories had risen to 1.52 times the volume of sales. From 1961 to early 1966 inventories trended downward from about 1.60 times sales to about 1.43.

During periods of rapid growth in demand for goods and services, inventories do not usually keep pace with sales. Subsequently, when sales begin to slow, firms usually do not adjust inventory accumu-

lation immediately with the result that inventories tend to increase relative to sales. The ratio of inventories to sales in October was about 3.5 per cent above the trend relationship, roughly the same level as has frequently occurred around peaks in business activity.

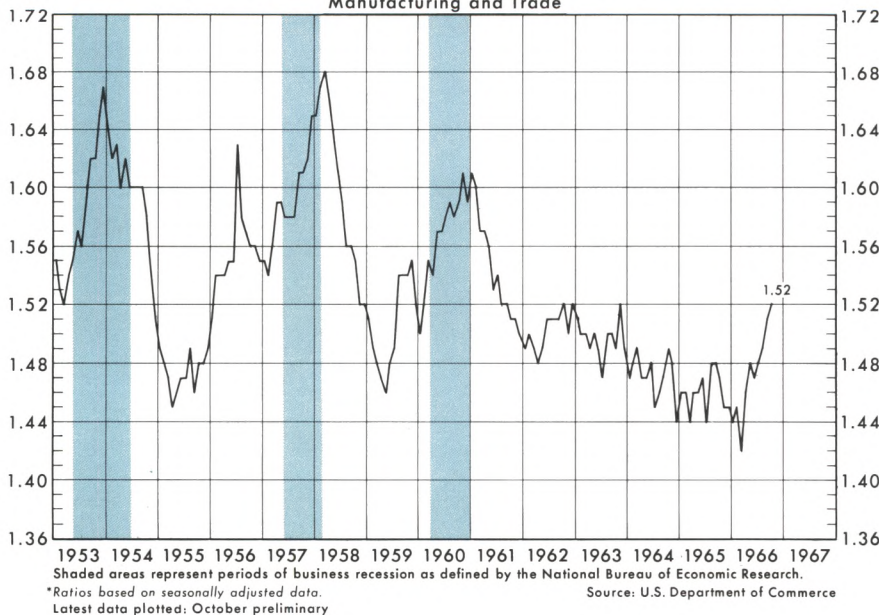
An impetus to inventory accumulation is provided by rising prices if firms attempt to hedge against the possibility of future price increases and shortages. Relatively high interest costs are normally less of a deterrent to inventory accumulation if debt repayment is expected to be made in cheaper dollars.

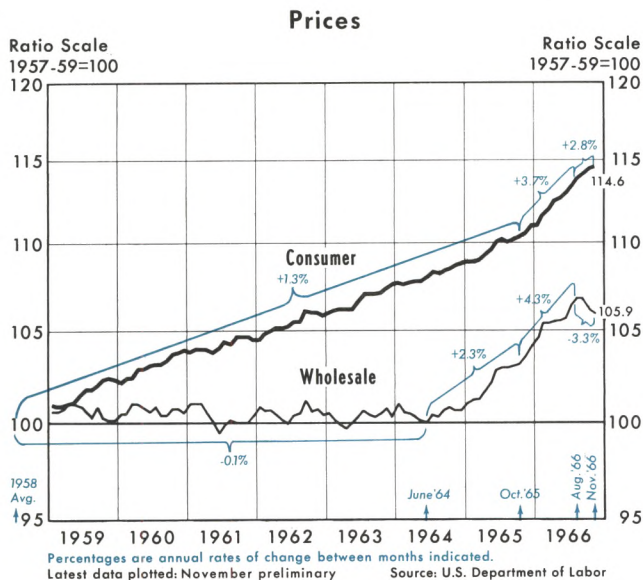
Real Output and Prices

Output has recently increased at a reduced pace. Industrial production rose at a 1 per cent annual rate from August to November after advancing at a 7 per cent rate from March to August and 9 per cent during the year ended last March. Total production measured in constant dollars grew at a 3 per cent rate from the first to the third quarter of 1966 compared with a 7 per cent rate from late 1964 to early 1966. The decline in the rate of increase of real product reflects problems of resource bottlenecks resulting from near-capacity utilization in some areas, and problems of redirecting resources to the production of military goods, as well as a reduced rate of increase in total demand.

Upward pressures on prices appear to have moderated, reflecting less rapid growth in total demand. Consumer prices increased at a 2.8 per cent annual rate from August to November compared with a 3.7 per cent rate from October 1965 to August. General wholesale prices have declined since August compared with an increase at a 4.3 per cent rate from October 1965 to August. The recent decline in these prices is a reflection of price decreases in farm products and processed foods accompanied by only slight rises in industrial prices.

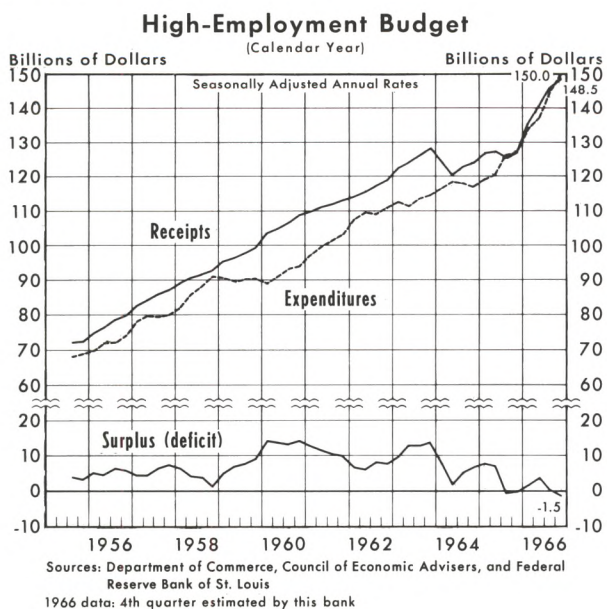
Inventories Compared With Monthly Sales*
Manufacturing and Trade





Fiscal Developments

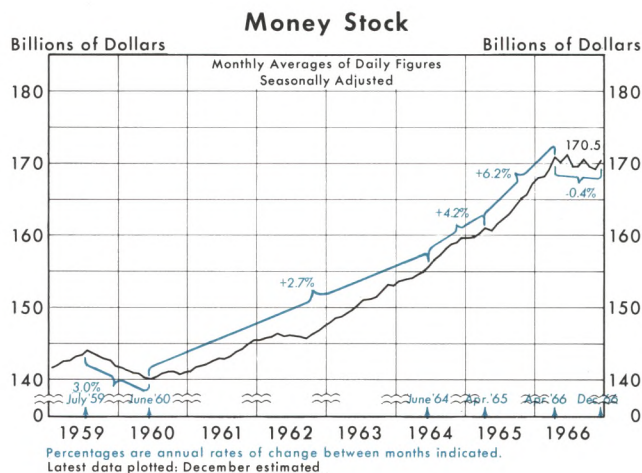
The Federal Government has continued to provide a major stimulus to economic activity primarily as a result of the large defense expenditures for the Vietnam conflict. On a national accounts basis adjusted for cyclical variation in economic activity, the so-called high-employment budget, the Federal Government ran a \$1 billion surplus during the year ended in the third quarter compared with about an \$8 billion average surplus from 1961 to 1965. It is estimated that in the fourth quarter of 1966 this budget measure showed a \$1.5 billion deficit. The lower this measure, the more stimulative the budget, according to a view expressed in several annual reports of the Council of Economic Advisers.



From the first to the third quarter of 1966 an increase in defense expenditures accounted for about 30 per cent of the rise in GNP compared with 2 per cent in the previous three years. These data indicate that a sizable shift of resources from the production of civilian goods and services to military goods and services took place in 1966. The current and immediately prospective changes in Federal Government expenditures will be crucial to the future course of the economy.

Monetary and Financial Developments

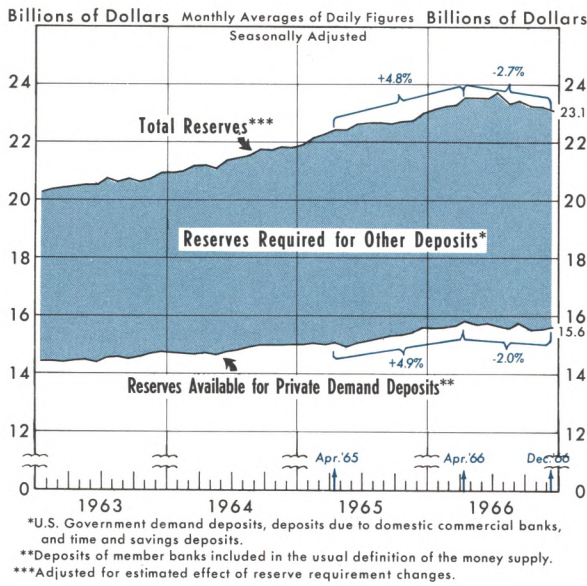
Beginning in the spring of 1966 monetary developments provided some offset to the expansionary or inflationary effects of the Federal budget. Since spring the nation's money stock has declined at about a 0.5 per cent annual rate compared with an increase of 6 per cent during the previous 12 months.



This decline in money reflected a substantial reduction of member bank reserves available for private demand deposits. Since spring these reserves, adjusted for changes in reserve requirements, have declined at a 2 per cent annual rate compared with an increase of 5 per cent during the year ended in April. Total reserves of member banks have followed a similar course. Since spring these reserves, adjusted for changes in reserve requirements, have declined at an annual rate of 2.7 per cent compared with a 5 per cent increase during the preceding 12 months.

These abrupt changes in the course of reserves reflected a marked change in the rate of expansion of Federal Reserve credit, particularly a much slower rate of Federal Reserve net purchase of securities. Since late August this credit has remained about unchanged. Since spring it has increased at an annual rate of about 3 per cent compared with 8 per cent during the previous year.

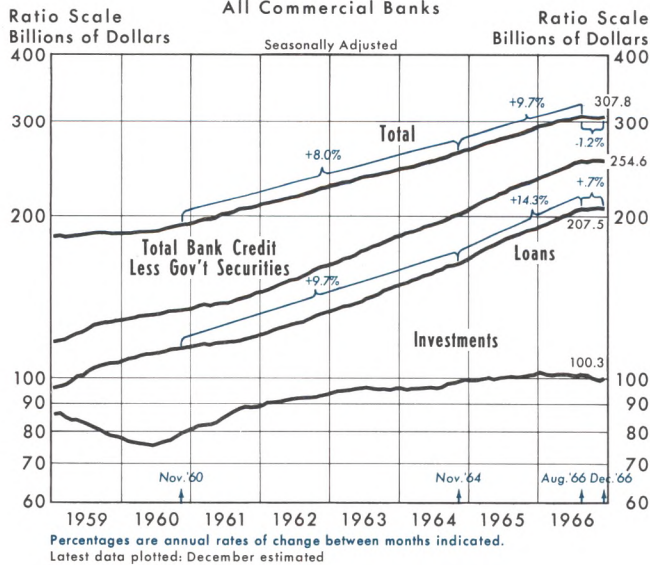
Reserves of Member Banks



Percentages are annual rates of change between months indicated.
 Latest data plotted: December estimated

Total bank credit (loans and investments) declined at an estimated 1.2 per cent annual rate from August to December after increasing 9 per cent during the previous 12 months. The decline after August reflected slower growth of total loans and other securities and accelerated liquidation of Government securities.

Bank Credit



Interest Rates and Time Deposits

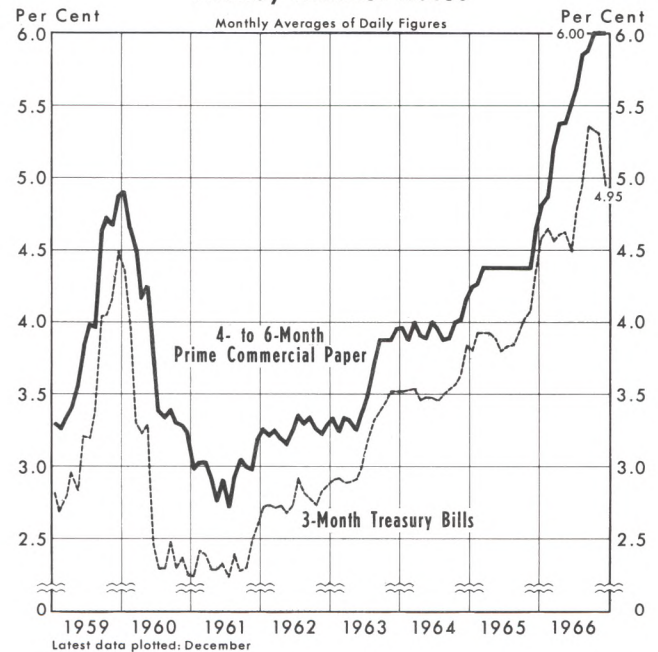
Interest rates have declined since mid-September after increasing rapidly during the summer. These

SELECTED INTEREST RATES

	September 1966	Latest Available
Prime bankers' acceptances	5.75%	5.50%
3-month Treasury bills	5.36	4.80
Long-term Government bonds	4.79	4.54
State and local Aaa bonds	3.93	3.74
Corporate Aaa bonds	5.49	5.43

recent declines may represent in part reduced demands for credit by business and individuals for the Federal Government borrowed heavily.

Money Market Rates



Some short-term market interest rates, through mid-December, remained above the 5.5 per cent maximum rate which commercial banks can pay on certificates of deposit (CD's) over \$100,000. For example, the prime 4- to 6-month commercial paper rate stood at 6 per cent, a half percentage point above the maximum CD rate. This continuing differential limited the growth of time deposits. From mid-August to early December time deposits at all commercial banks changed little, remaining at about \$157 billion compared with a 12 per cent increase during the 12 months ended in August. Large CD's, a component of time deposits, declined sharply from late August to mid-December. Since these deposits are especially sensitive to interest rate differentials, they might reverse their recent decline and rise markedly if short-term market rates were to decline further.

1966: A Year of Continued Expansion in the Central Mississippi Valley

ECONOMIC ACTIVITY in the Central Mississippi Valley advanced at a brisk pace during 1966, with regional gains roughly paralleling those in the nation. Population increased only slightly, but employment and personal income in Arkansas, Kentucky, Mississippi, Missouri, and Tennessee combined were well above year-earlier levels. In the metropolitan areas of the region (Eighth Federal Reserve District), employment, spending, and banking activity moved strongly upward, with largest increases occurring in the first half of the year.

Population in the Central Mississippi Valley rose an estimated 0.6 per cent during the year ending in mid-1966 compared with a 1.1 per cent annual rate from 1960 to 1965 (Table I). In the nation population growth also slowed last year, declining to a 1.1 per cent rate from a 1.6 per cent average rate during the previous five years.

NOTE: Data for the Central Mississippi Valley and for each state and metropolitan area discussed in this article are published monthly in a release, "Selected Economic Indicators—Central Mississippi Valley," which is available upon request.

Total employment in the Central Mississippi Valley advanced 1.1 per cent during the past year, with the long-term decline in agricultural employment continuing to partially offset gains in other industries. Payroll employment, which excludes agricultural, unpaid family, domestic, and self-employed workers, increased 4.4 per cent, about equal to the national rate of expansion. Manufacturing employment rose sharply and by late 1966 was 6 per cent above year-earlier levels. Increased production by ordnance plants in several areas contributed to this gain. Nonmanufacturing employment increases were slightly above the average rate of the preceding five years.

Total personal income in the Central Mississippi Valley advanced at about the same rate as the 8 per cent national gain from 1965 to 1966 despite the slower rate of population growth in the region. Per capita personal income rose 8 per cent in the Valley, somewhat more than the 7 per cent gain nationally. Per capita income in the five states of the Valley averaged about \$2,285 in 1966, with income in each of the states below the estimated national average of \$2,935.

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

	Population ¹		Total Employment ²		Payroll Employment ²		Personal Income ³		Per Capita Personal Income	
	1960-65	1965-66	1960-65	1965-66	1960-65	1965-66	1960-65	1965-66	1960-65	1965-66
Arkansas.....	1.7	0.7	2.5	-0.7	4.3	4.4	7.8	10.3	6.1	9.6
Kentucky.....	0.9	0.3	n.a.	n.a.	3.0	4.6	6.3	6.3	5.4	6.0
Mississippi.....	1.2	0.8	1.0	0.9	3.5	3.7	7.1	7.9	5.9	7.1
Missouri.....	0.8	0.4	0.7	1.8	1.7	3.0	5.5	8.3	4.7	7.9
Tennessee.....	1.5	0.9	n.a.	n.a.	3.7	6.5	7.0	8.8	5.5	7.9
Total 5 states.....	1.1	0.6	1.1 ⁴	1.1 ⁴	2.9	4.4	6.4	8.2	5.2	7.6
United States.....	1.6	1.1	1.6	2.5	2.3	4.7	5.9	8.1	4.4	6.9

¹Rates computed from April 1, 1960 to July 1, 1965 and from July 1, 1965 to July 1, 1966.

²Rates computed from 1960 average to 1965 average and from average for September-October 1965 to average for September-October 1966.

³Rates computed from 1960 total to 1965 total and from first nine months 1965 to first nine months 1966.

⁴Total for Arkansas, Mississippi, and Missouri only.

n.a.—Not available.

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

In the metropolitan areas of the region spending and banking activity increased substantially from late 1965 to late 1966, but the rates of increase were somewhat less than in the nation. Check payments, often used as an indicator of spending, rose sharply in the region during the first six months and subsequently remained about unchanged. The net increase was 10 per cent compared with a national gain of 12 per cent and with a regional growth rate of 9 per cent in the preceding five years (Table II). Business loans at weekly reporting banks of the region in late 1966 were 10 per cent above year-earlier levels compared with an 18 per cent gain for the nation; bank deposits rose rapidly to midyear and then leveled off, corresponding to the national pattern.

Since growth rates varied greatly among the states and metropolitan areas, each state and area is discussed separately in this article. The primary period considered is late 1965 to late 1966. The average growth rate from 1960 to 1965 is used to place recent developments in perspective.

Arkansas

Economic activity in Arkansas continued to expand at a rapid rate during 1966, as indicated by significant gains in payroll employment, particularly in manufacturing employment, and in personal income. Population continued to rise but at a reduced rate. Estimated population in Arkansas in mid-1966 was 1,955,000, a 0.7 per cent gain from mid-1965. In

the preceding five years population advanced at a 1.7 per cent annual rate, slightly above the 1.6 per cent rate for the United States as a whole.

Total employment in the fall of 1966 was slightly below the year-earlier level, reflecting a substantial decline in farm employment. The unemployment rate declined to 4.3 per cent of the labor force in late 1965 and remained about unchanged at this relatively low rate through 1966.

Nonfarm payroll employment rose rapidly from late 1965 through April and then remained about unchanged. Manufacturing employment rose rapidly from late 1965 to January 1966, remained about unchanged through June, and increased again in the last half of the year. For the year as a whole, such employment increased 7 per cent, with the machinery, food, lumber and wood products, and furniture industries each employing at least 1,000 more workers than in late 1965. Nonmanufacturing employment grew rapidly in the early months of the year but remained about unchanged during the remaining months.

Total personal income in Arkansas advanced 10 per cent from 1965 to 1966, the highest rate for any Valley state. Per capita income rose from \$1,845 to \$2,022, a gain of 10 per cent. Although per capita personal income has grown rapidly in Arkansas in most recent years, it is still well below both the regional and national averages.

Table II
ECONOMIC INDICATORS
Central Mississippi Valley Metropolitan Areas
Annual Rates of Change¹

	Total Employment		Payroll Employment		Check Payments ²		Bank Deposits ³		Business Loans ³	
	1960-65	1965-66	1960-65	1965-66	1960-65	1965-66	1960-65	1965-66	1960-65	1965-66
Little Rock.....	3.5	0.6	4.0	2.0	10.8	8.2	8.3	6.9	10.9	12.5
Fort Smith.....	3.2	-3.5	6.0	-2.4	7.9	10.4	10.9	0.9	11.6 ⁵	1.2 ⁵
Pine Bluff.....	3.1	-0.9	3.9	2.2	7.5	-10.1	9.0	0.1	13.4 ⁵	-0.6 ⁵
Louisville.....	1.8	4.7	2.6	4.6	8.6	11.8	6.9	5.4	5.7	11.5
Evansville.....	2.4	5.5	3.2	6.5	8.1	5.8	7.4	11.7	9.2	3.1
St. Louis.....	1.1	3.1	1.6	4.2	9.8	12.2	6.0	2.7	5.7	17.8
Springfield.....	0.9	3.4	1.5	5.1	8.4	5.3	4.8 ⁴	8.9 ⁴	7.2 ⁵	10.3 ⁵
Memphis.....	1.8	3.6	2.4	5.5	8.6	1.6	10.8	2.9	8.6	-3.5
Total 8 metropolitan areas	1.6	2.9	2.1	4.2	9.3	9.6	7.5	4.0	6.8	10.4
United States.....	1.6	2.6	2.3	4.7	8.9	12.2	8.0	3.5	8.1	17.6

¹Rates computed from 1960 average to 1965 average and from average for October-November 1965 to average for October-November 1966.

²Three-month moving average.

³Selected sample of banks.

⁴Demand deposits only.

⁵Total loans.

n.a.—Not available.

Sources: State employment security offices, U. S. Bureau of Labor Statistics, and commercial banks.

Little Rock¹

Economic activity in the Little Rock area grew moderately in 1966, but some indicators showed little or no gain in the later months of the year. Employment, spending, and banking activity all advanced less rapidly than in previous years.

Total employment rose less than 1 per cent during the year, well below the longer term growth rate. The labor force, however, was fully utilized and remained about unchanged from late-1965 levels. Unemployment averaged only 2.4 per cent of the labor force during the 12 months ending in November 1966, the lowest for any metropolitan area of the region.

Payroll employment rose 2.0 per cent during the year, with manufacturing gains exceeding those in nonmanufacturing until strikes caused a sharp drop in apparel and nonelectrical machinery manufacturing in November. Metal working was the fastest growing manufacturing industry. In the nonmanufacturing category government employment increased substantially, while contract construction employment declined.

Check payments rose 8 per cent from late 1965 to late 1966, with practically all the growth concentrated in the early part of the period. This indicator of spending declined sharply in November 1966, probably reflecting the decline in employment because of strikes.

Banking activity rose rapidly from late 1965 to April 1966 and then leveled off. Deposits moved up 7 per cent for the year as a whole, while business loans expanded 12 per cent. The increase in deposits was slightly below the trend rate, while the increase in business loans was somewhat above the average 11 per cent rate of gain from 1960 to 1965.

Fort Smith²

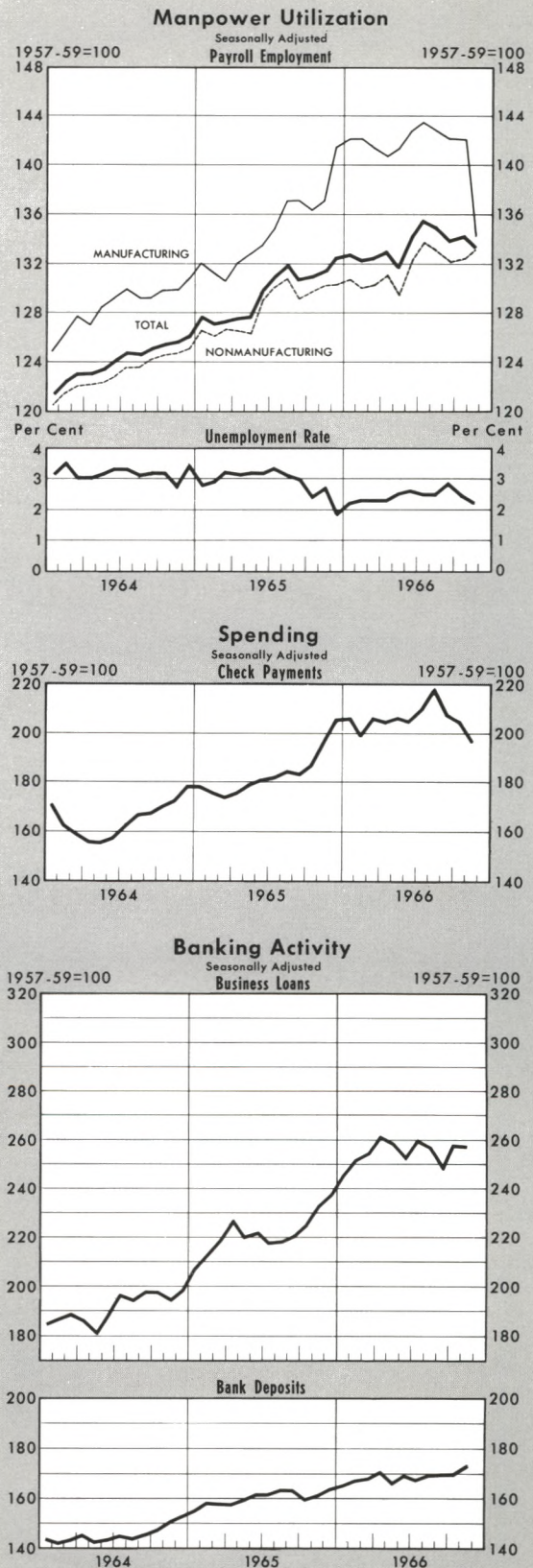
The Fort Smith economy, which was seriously affected by the closing of Fort Chaffee in 1965, continued to decline during 1966. Employment rose early in the year, but the increase was more than offset by a decline during the second half. Check payments rose moderately, and other banking activity remained about unchanged.

Total employment declined 3.5 per cent during the year ending in the fall of 1966, while the labor force

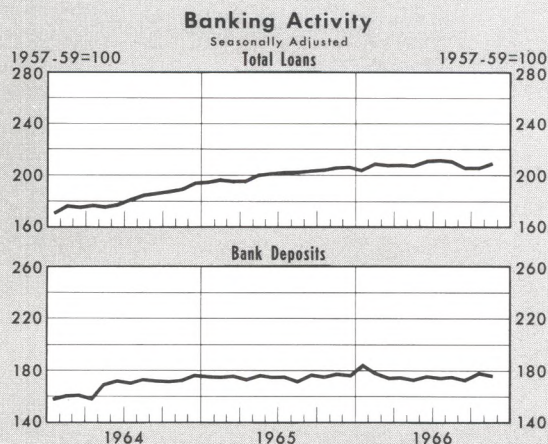
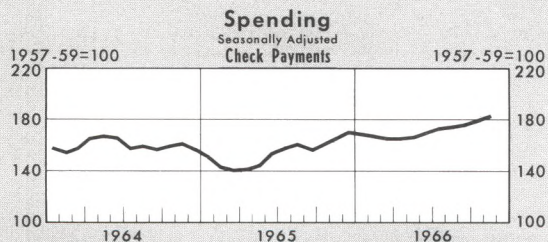
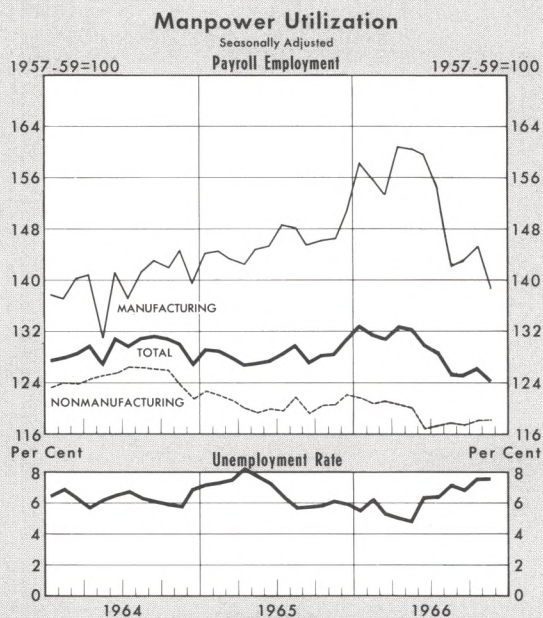
¹The Standard Metropolitan Statistical Area (SMSA) is Pulaski County, Arkansas.

²The SMSA consists of Sebastian and Crawford Counties, Arkansas and LeFlore and Sequoyah Counties, Oklahoma.

Little Rock



Fort Smith



increased slightly. Consequently, the unemployment rate rose markedly, from 6.0 per cent of the labor force in the autumn of 1965 to 7.6 per cent a year later. Unemployment has generally been between 6 and 7 per cent of the labor force during the past three years. Fort Smith was the only metropolitan area in the Central Mississippi Valley classified as an "area of substantial unemployment" in 1966.

Payroll employment in the area declined 2.4 per cent from late 1965 to late 1966, in contrast to a 6 per cent average annual rate of growth during the period 1960-65. Manufacturing employment was 3.0 per cent below year-earlier levels. Employment in the metals industry dropped sharply while one plant re-tooled following a change in ownership, but employment in the food processing and furniture industries increased. Strikes in the stone, clay, and glass industry and in the metals industry late in the year contributed to the depressed level of manufacturing employment. Nonmanufacturing employment continued to decline from the high level reached in mid-1964, with employment in contract construction showing the sharpest decline.

Check payments in Fort Smith were counter to the general trend of economic activity, expanding 10 per cent in 1966, slightly above the 8 per cent average rate of expansion from 1960 to 1965.

Banking activity, which had risen rapidly since the late 1950's, continued to increase but at a reduced rate. Deposits rose only 0.9 per cent, and total loans, 1.2 per cent compared with growth rates of 11 and 12 per cent, respectively, from 1960 to 1965.

Pine Bluff³

Economic activity in the Pine Bluff area declined somewhat last year following a period of rapid growth from 1960 to 1965. Employment and banking activity were only slightly below year-earlier levels, but spending, as measured by check payments, dropped sharply during the second half of the year.

Total employment decreased 0.9 per cent, primarily because a small cotton crop reduced the demand for agricultural workers. The unemployment rate rose slightly, from 3.6 to 3.8 per cent. Payroll employment, which had increased rapidly in late 1965, reached a high level in January and then declined somewhat.

Check payments rose rapidly until July and then declined sharply through October and November, reflecting the general decline in other sectors of the economy.

³The SMSA is Jefferson County, Arkansas.

Banking activity also slowed last year. After rising in the first three quarters of the year, total loans declined markedly in October. Bank deposits changed little on balance during the year in contrast to a 9 per cent annual growth rate in the preceding five years.

Kentucky

The year 1966 was one of moderate economic growth in Kentucky, following very rapid growth in 1965. During the past year population, employment, and income all expanded somewhat less rapidly than in the previous year.

The population of the state was estimated at 3,183,000 in mid-1966, up 0.3 per cent from 1965. Since 1960 population has increased at a 0.9 per cent average annual rate, about half the average rate of 1.6 per cent for the nation.

Payroll employment rose 4.6 per cent during the year ending in late 1966, with most of the gain occurring prior to April. Manufacturing employment increased somewhat more rapidly than nonmanufacturing, with sizable gains in the petroleum refining and rubber products and electrical and nonelectrical machinery industries. In the nonmanufacturing sector government and trade had much higher levels of employment than a year earlier. Partially offsetting these gains was a sharp decline in contract construction employment, reflecting the housing slump.

Personal income rose 6.3 per cent from 1965 to 1966, a slightly lower rate than the average for the Valley but equal to the average rate of gain for Kentucky from 1960 to 1965. The growth of personal income in the state during these five years more than kept pace with the 5.9 per cent rate of growth in the nation but was slightly below the 6.4 per cent average rate for the Valley. Per capita personal income in Kentucky in 1966 was estimated at \$2,168, about average for the Valley but well below the estimated \$2,935 average in the nation.

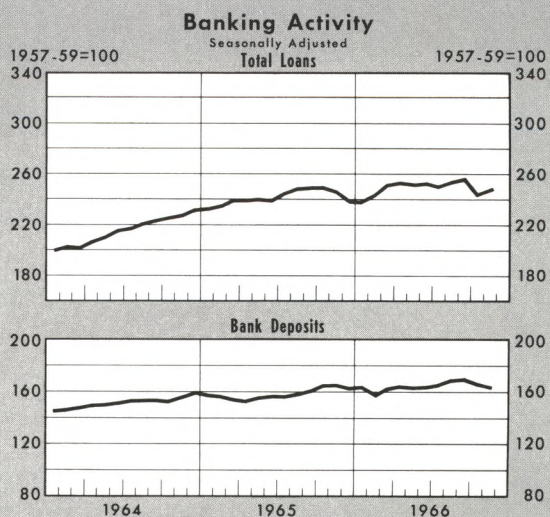
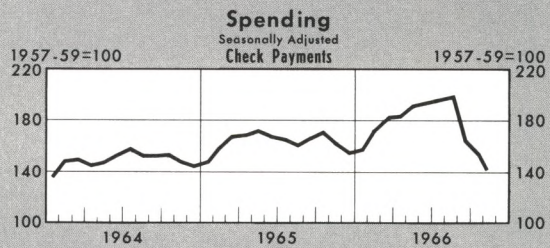
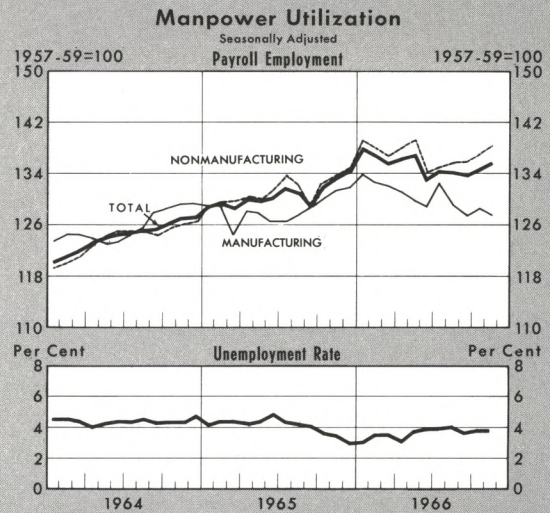
Louisville⁴

Economic activity in the Louisville metropolitan area rose significantly during 1966. Employment, spending, and banking activity increased at rates well above the trend rate.

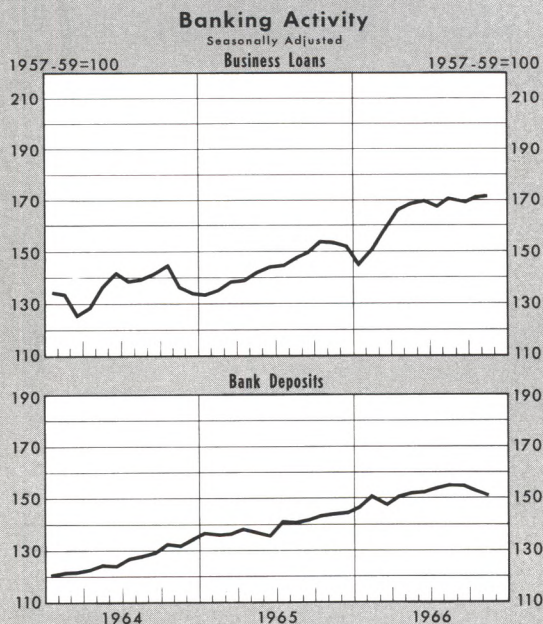
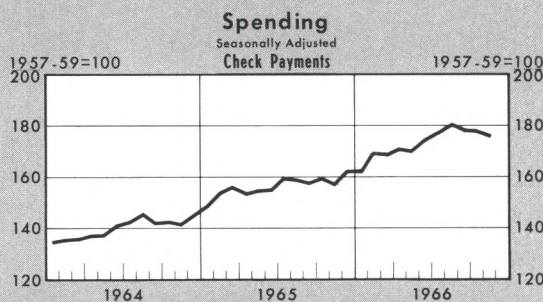
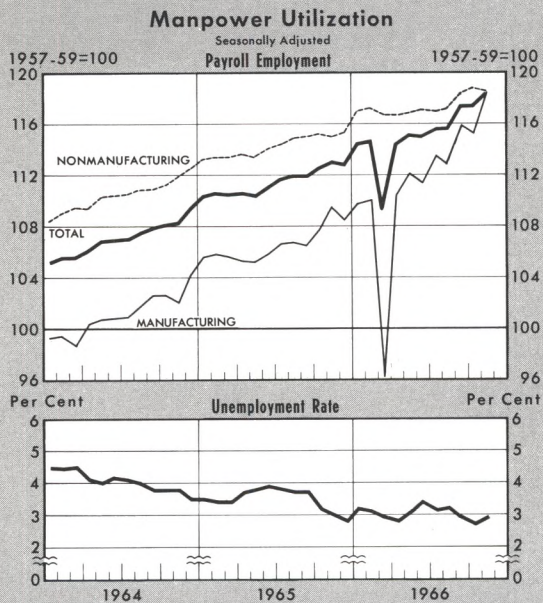
Total employment expanded 4.7 per cent, more than double the 1.8 per cent average rate for the previous five years. The unemployment rate remained about 3 per cent throughout the year, generally below the rate

⁴The SMSA consists of Jefferson County, Kentucky and Clark and Floyd Counties, Indiana.

Pine Bluff



Louisville



of the preceding year and well below the 1960-65 average.

Payroll employment advanced 4.6 per cent, with manufacturing employment expanding more than twice as fast as nonmanufacturing employment. Increased production of machinery and of war materials was primarily responsible for the gain in manufacturing employment. Labor disputes tended to retard business activity. In March several thousand workers in the electrical appliance industry were on strike, and manufacturing employment levels dropped sharply. In each month from June to October at least 1,000 workers were on strike during each employment-reporting period.

Spending in Louisville, as measured by check payments, rose quite rapidly during most of the year. A 12 per cent net gain for the 12-month period ending in November was only slightly less than the national growth rate.

Banking activity advanced during the 12 months ending in November 1966 at a rate slightly greater than the trend rate. Deposits rose 5 per cent, somewhat less than the 7 per cent rate of the preceding five years. Business loans expanded 12 per cent, primarily in the early part of the year; the longer run rate of expansion was 6 per cent.

Evansville, Indiana-Kentucky⁵

The economy of the Evansville area, which showed little net gain during 1965, moved up strongly in 1966. Manufacturing employment and bank deposits increased substantially.

Total employment expanded 6 per cent compared with a 2.4 per cent average rate from 1960 to 1965. The unemployment rate, 2.9 per cent of the labor force in late 1966, was about unchanged from a year earlier.

Payroll employment in Evansville rose at a faster pace than in the nation, reflecting primarily a 15 per cent increase in the manufacturing sector. Employment in the refrigeration and air-conditioning equipment industry rose by more than 2,000 workers. In addition, a new industrial operation in the area began hiring personnel to work on defense contracts. This plant is expected to expand during 1967. A small gain in nonmanufacturing employment was concentrated in the government category.

Check payments in Evansville rose 6 per cent during the 12 months ending in November, well below

⁵The SMSA consists of Vanderburgh and Warrick Counties, Indiana and Henderson County, Kentucky.

the 8 per cent trend rate of the preceding five years. Other banking trends were mixed. Deposits expanded very rapidly, while business loans showed only a slight increase. This experience was the reverse of the national pattern. Total deposits expanded 12 per cent, and business loans, 3.1 per cent. In contrast, deposits nationally expanded 3.5 per cent, and loans, 18 per cent. This diversity of trends in Evansville compared with the nation may reflect the source of capital involved in the area's expansion. Most of the employment growth in Evansville was in plants owned by larger national corporations which borrowed elsewhere for local expansion. The area's bank deposits, however, reflected new income and savings generated by the expansion.

Mississippi

Economic activity in Mississippi advanced at about the same rate in 1966 as in the 1960-65 period.

Population rose 0.8 per cent from mid-1965 to mid-1966 compared with a 1.2 per cent average rate of growth in the previous five years. Population in the nation increased 1.1 per cent during the year.

Total employment in the state rose 0.9 per cent during the past year, slightly below the average 1960-65 growth rate. Agricultural employment rose less than seasonally during the fall months as bad weather and a smaller cotton crop reduced the demand for farm workers.

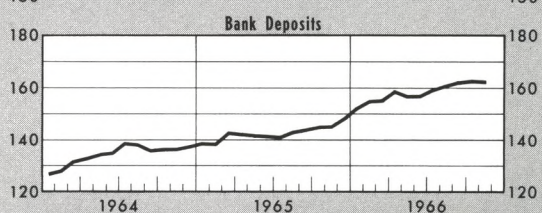
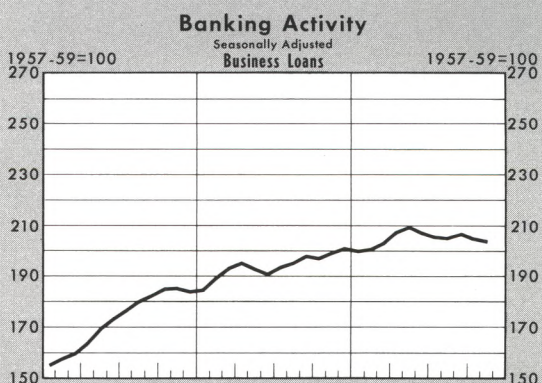
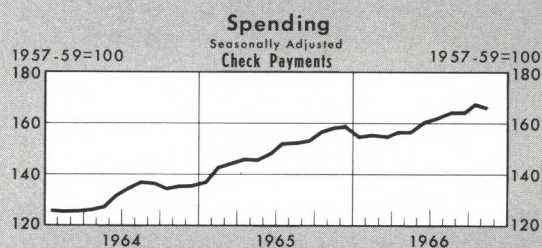
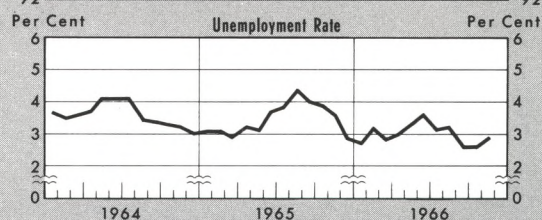
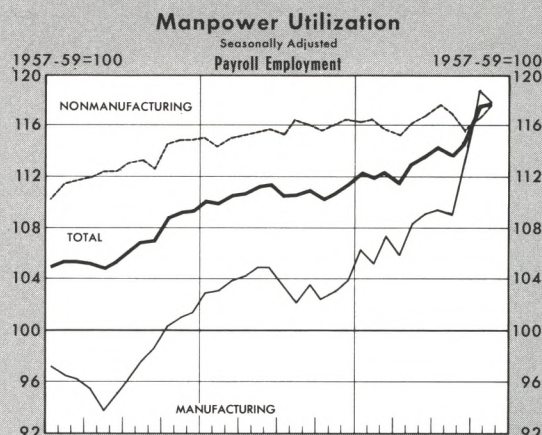
Payroll employment advanced 3.7 per cent over levels of late 1965, with manufacturing employment gains slightly more rapid than nonmanufacturing gains. Among durables the furniture, primary metals, and electrical machinery industries showed the largest increases in number of workers. In the nondurable goods category employment in the apparel industry rose substantially. Government employment in most recent months was well above year-earlier levels, and several other nonmanufacturing categories showed small increases.

Personal income in the state expanded about 8 per cent last year. This increase was about the same as for the nation as a whole. Estimated per capita personal income of \$1,722 was 7 per cent greater than in 1965, about the same gain as nationally.

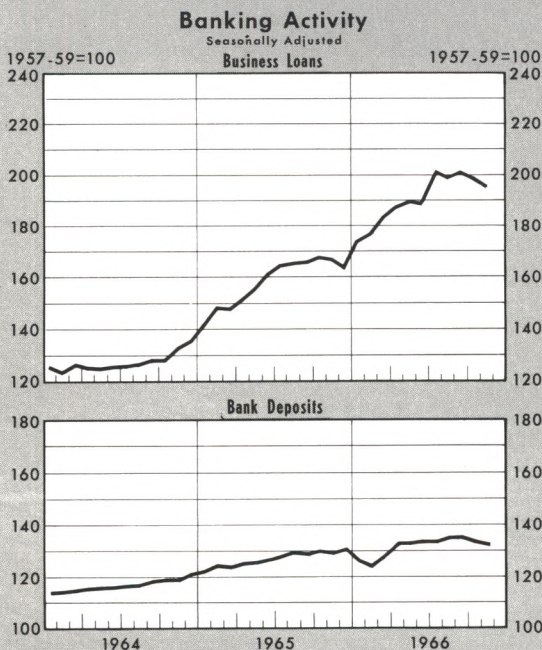
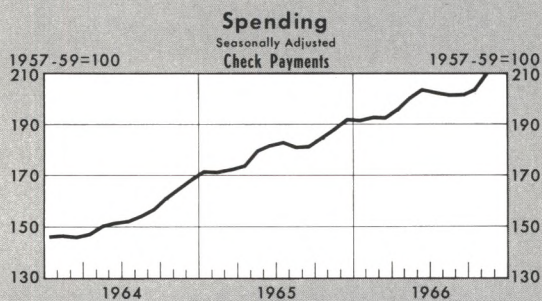
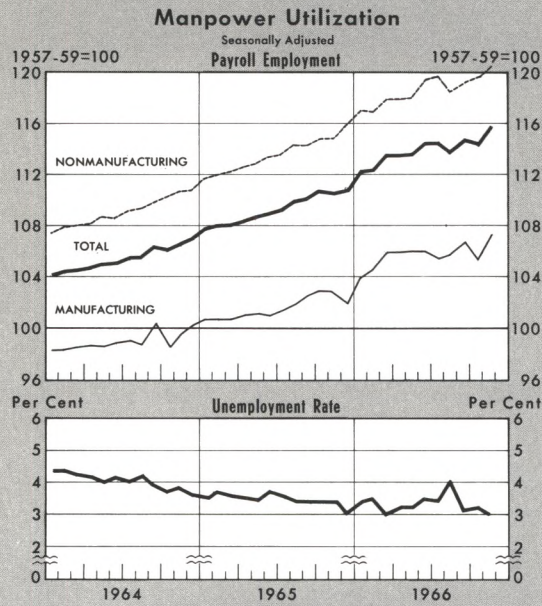
Missouri

Economic trends in Missouri were mixed in 1966. Employment gains were striking compared with those of previous years, though population expanded less rapidly than the average 1960-65 rate. Personal in-

Evansville



St. Louis



come also rose at a higher rate than in the longer run period.

Population was estimated at 4,508,000 in mid-1966, a 0.4 per cent gain from a year earlier. In the five years 1960-65 population rose at an 0.8 per cent average rate, half the rate for the United States as a whole.

Total employment increased 1.8 per cent during the past year, substantially above the 0.7 per cent average rate of growth from 1960 to 1965. Unemployment was about 3.1 per cent of the labor force in 1966, a little below the level of a year earlier.

Payroll employment advanced more rapidly during 1966 than in any year since the late 1950's. The 3.0 per cent rate of gain was almost double the 1.7 per cent average annual rate for the longer run period. Manufacturing employment rose 4.7 per cent, with all major durables industries, particularly ordnance and transportation equipment, showing increases. Much of the 2.3 per cent rise in nonmanufacturing employment was attributable to an increase in government workers.

Personal income in Missouri rose 8 per cent during the year, about the same rate as in the nation and greater than the trend rate in Missouri. Per capita personal income, estimated at \$2,873, was higher than in any of the other Central Mississippi Valley States and 8 per cent above the year-ago level for Missouri.

St. Louis⁶

The St. Louis economy advanced rapidly during the first half of 1966 but leveled off somewhat after mid-year. Net growth for the year was well above trend rates for St. Louis but below the national average.

Total employment in the area rose 3.1 per cent, about triple the 1960-65 average rate of gain. Employment gains during the past year would probably have been even greater had there not been an increase of labor disputes. In only three of the first ten months did striking workers number under 1,000, and, at one time in the last half of 1966, 7,000 workers were on strike. Unemployment declined to 3.2 per cent of the labor force in the autumn compared with 3.4 per cent a year earlier.

Payroll employment rose rapidly through June and then stabilized, with the level during the fall 4.2 per cent above a year earlier. The annual rate of gain in the previous five years was 1.6 per cent. In the long-

⁶The SMSA consists of St. Louis City, St. Louis, St. Charles, Jefferson, and Franklin Counties, Missouri and Madison and St. Clair Counties, Illinois.

run period, manufacturing employment showed only a slight increase, as gains in durable goods employment were largely offset by declines in nondurables. In the early part of the past year, however, manufacturing employment rose sharply and stabilized at a high level after March. Employment increased during the year in the production of both durable and nondurable goods. Employment in the transportation equipment industry continued to expand more rapidly than in any other area of manufacturing. The manufacture of aircraft and parts employed several thousand more workers than in 1965. The ordnance industry will probably grow rapidly as a new defense plant is staffed. Nonmanufacturing employment expanded 4.6 per cent, with most of the expansion in the first half of the year. The trade, service, and government fields each employed about 7,000 more workers in late 1966 than a year earlier.

Total spending, as measured by check payments, rose rapidly from late 1965 to mid-1966 and leveled off during the last half of the year. The net gain for the year was 12 per cent compared with a 10 per cent average rate from 1960 to 1965.

Banking trends were mixed. Deposits at weekly reporting banks rose in the first half of the year but were about unchanged after June. Deposit expansion for the whole year was only 2.7 per cent, compared with a 6 per cent trend rate and a 3.5 per cent increase in the United States last year. Business loans rose 18 per cent, with all of the increase in the first half of the year.

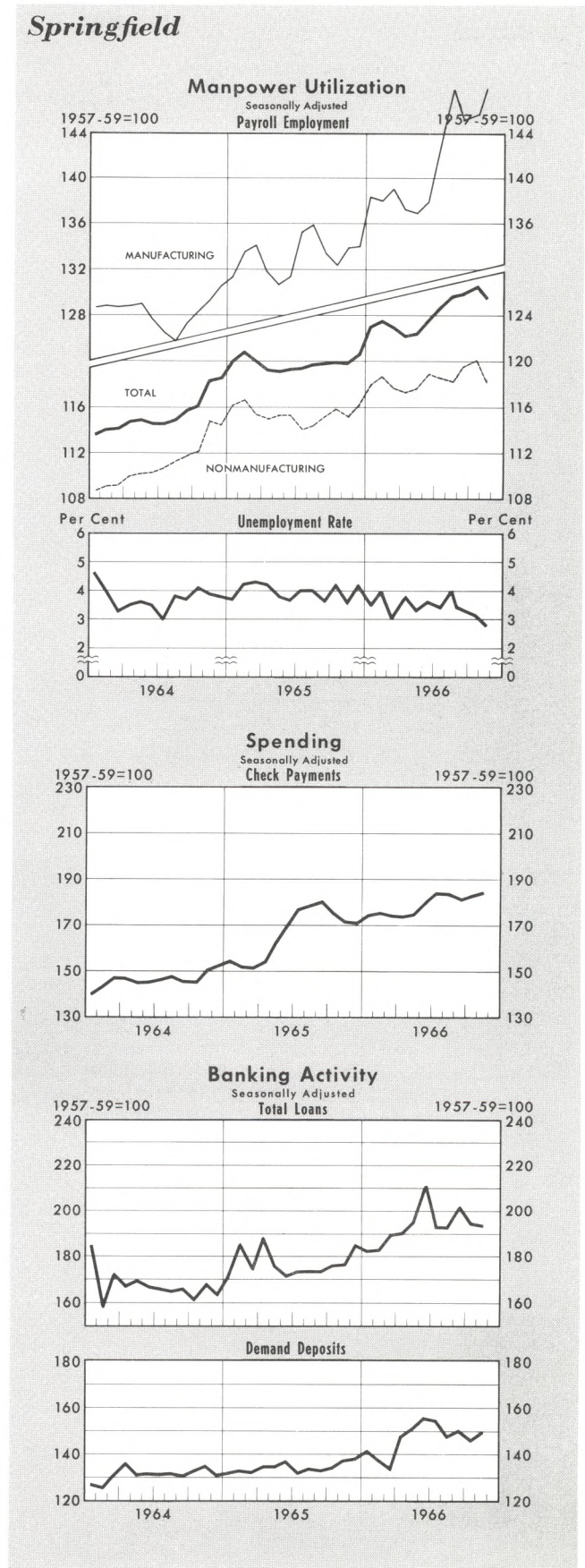
Springfield⁷

Economic activity in the Springfield area was marked by rapid growth in manufacturing employment. Banking activity expanded moderately from year-earlier levels. Spending rose somewhat, but at a slower rate than the long-term trend.

Near the end of the year total employment was 3.4 per cent higher than in late 1965. Unemployment was 2.8 per cent of the labor force late in 1966 compared with 3.6 per cent a year earlier.

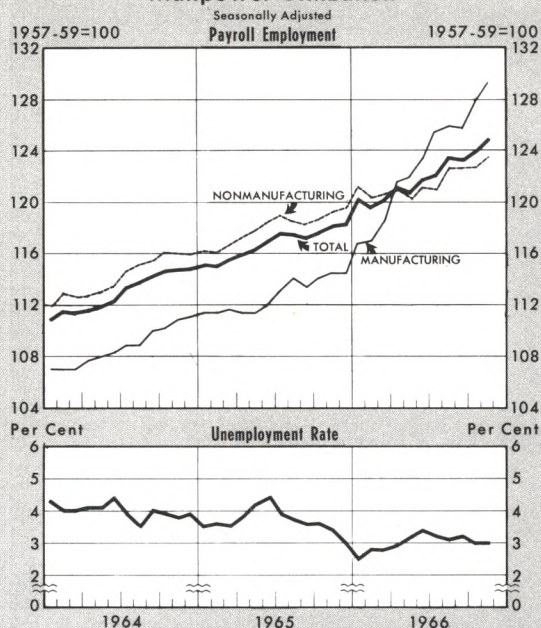
Payroll employment advanced 5 per cent with most of the gain in manufacturing. Employment in the machinery industry rose by several hundred workers, primarily because of expansion by a firm which produces office machines. Other industries showed smaller increases. Among the nonmanufacturing groups employment in trade increased most, but employment in construction was also well above year-earlier levels.

⁷The SMSA is Greene County, Missouri.

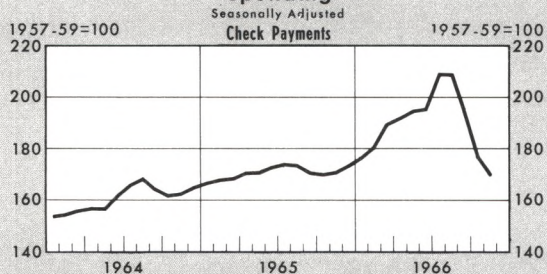


Memphis

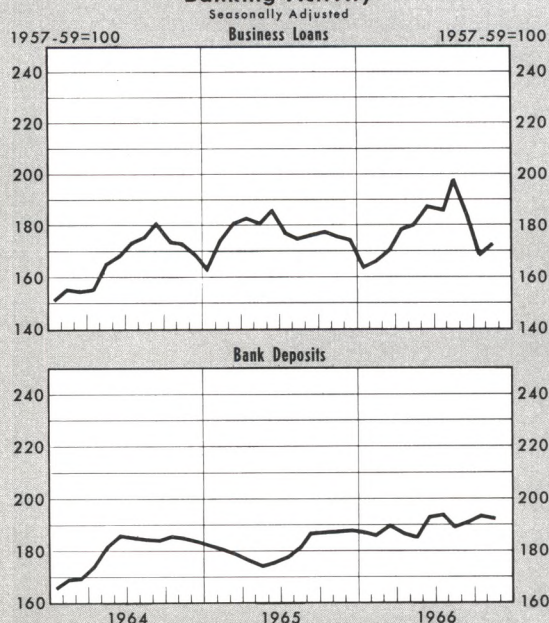
Manpower Utilization



Spending



Banking Activity



Check payments advanced 5 per cent during the year, substantially below the 8 per cent average annual increase from 1960 to 1965. Demand deposits expanded 9 per cent, and total bank loans rose 10 per cent.

Tennessee

A period of exceptionally rapid economic expansion in Tennessee which began in mid-1965 continued through 1966. Population growth lagged, but employment and personal income expanded faster than in the nation during the past year.

Population increased 0.9 per cent compared with 1.1 per cent in the nation and a 1.5 per cent average annual rate in Tennessee from 1960 to 1965.

Payroll employment moved strongly upward at a 6 per cent rate compared with a 4.7 per cent increase for the nation. Manufacturing employment advanced 8 per cent. Sharp gains were reported in the electrical machinery, chemical, and apparel industries. Among the nonmanufacturing categories construction, trade, services, and government all showed substantial increases in employment during the year.

Tennessee's 9 per cent gain in personal income exceeded the national rate of growth. Per capita personal income rose from \$2,013 in 1965 to \$2,172 in 1966, an 8 per cent increase.

Memphis⁸

The Memphis economy displayed widely varying trends in 1966. Employment growth accelerated sharply, but spending and banking activity rose at below-average rates.

Employment in Memphis rose at a faster pace than in the nation. Total employment was 3.6 per cent above year-earlier levels. Payroll employment rose 6 per cent compared with a 4.7 per cent national rate. Much of the area's gain was attributable to a large increase in manufacturing employment. A new plant which produces television sets was opened in mid-1966 and initially employed about 1,000 workers. The work force at the plant is expected to increase to about 2,400 by mid-1967. In addition, several other industries showed employment increases last year. In the nonmanufacturing sector trade, services, and government each had employment increases of more than 1,000 workers. Unemployment was near the 3 per cent level throughout the 12-month period ending in November 1966, well below the rate for most of the previous 12 months.

⁸The SMSA consists of Shelby County, Tennessee and Crittenden County, Arkansas.

Spending, as measured by check payments, rose rapidly in early 1966 but dropped sharply after mid-year. The net gain for the 12 months was 1.6 per cent, substantially below the 9 per cent trend rate for the area.

Banking activity, after rising rapidly during most of the period from 1960 to 1964, slowed considerably during the last two years. Deposits in 1966 moved up

2.9 per cent, well below the 11 per cent annual increase from 1960 to 1965. This low rate of deposit increase probably reflects the 4 per cent limit on interest rates that can be paid on time and savings deposits by Tennessee banks. Business loans rose rapidly during the first seven months of 1966 but declined sharply after August. Near the end of the year these loans were 3.5 per cent below year-earlier levels.



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.

Prospective Prices for Food and Farm Products in 1967

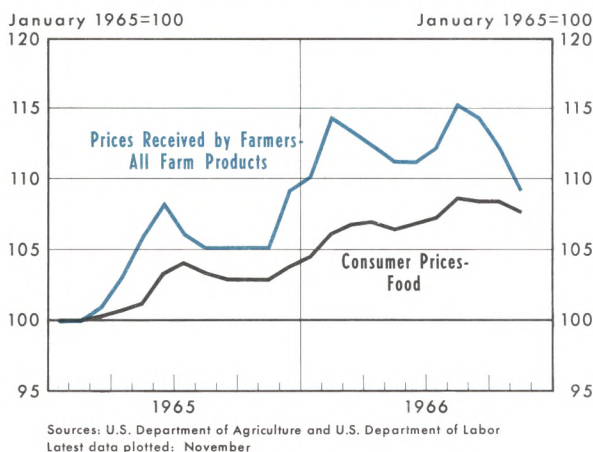
Food Prices

CONSUMER FOOD PRICES rose about 5 per cent and accounted for about one-third of the 3.7 per cent increase in the consumer price index during the year ending in October 1966. Food prices in 1967 are likely to continue to rise, but their upward thrust on consumer prices will be less than in 1966, according to the United States Department of Agriculture.

The estimated slower rate of increase in food prices in 1967 is based on projections of stable farm commodity prices accompanied by increases in food processing and marketing costs at about the same rate as in most recent years. Farm commodity costs account for about two-fifths of total food costs, and processing and marketing costs, for three-fifths.

The large increase in food prices in 1966 reflected both a sizable increase in farm commodity prices and higher costs of processing and marketing. Farm prices rose somewhat in 1965 and increased at a faster rate in 1966. During the first eleven months of 1966 such prices averaged 7.9 per cent above levels for the same months a year earlier (Chart 1).

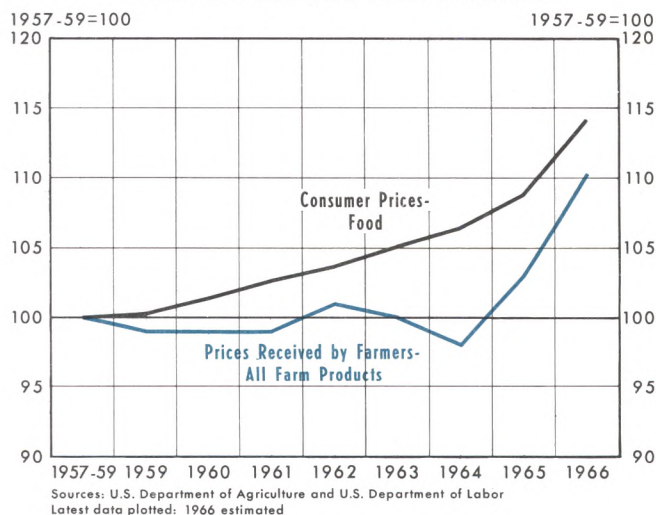
Chart 1
Prices of Food and Farm Products



NOTE. This article is based on information presented by the staff of the United States Department of Agriculture at the 44th Annual National Agricultural Outlook Conference in Washington, D. C., November 14-17, 1966.

Since the late 1950's food processing and distributing costs have gone up at a faster rate than farm commodity prices. During this period food prices rose at a rate of 1.7 per cent, while prices received by farmers increased at a rate of 1.2 per cent (Chart 2). Farm commodity prices actually remained almost stable from the late 1950's to 1964. The increase in food processing and marketing costs has been the major factor in rising food prices.

Chart 2
Prices of Food and Farm Products



The upward trend of food prices over the past several years reflects changes in the amount of food processing demanded by consumers and rising costs of processing and distribution which are not offset by greater efficiencies. It is estimated that 1,500 new grocery items, most of which represent additional processing of farm products, are placed on supermarket shelves each year. Approximately 500 of these items survive the first year; thus each two years about 1,000 new items are added.¹ This large array of new food products is an indication of the additional processing services that contribute to rising food costs and for which consumers are willing to pay.

¹USDA, "Agricultural Markets in Change," talk by Kenneth Ogren at the 44th Annual National Agricultural Outlook Conference, Washington, D. C., November 14, 1966.

Farm Commodity Prices

The relatively small change in average farm commodity prices predicted for 1967 is based on an increase in farm output with an offsetting increase in demand. A larger farm output and stable prices point to an increase in gross receipts from farm marketings in 1967. However, since Government payments to farmers are likely to be smaller, little change is expected in gross farm income, which totaled about \$49 billion in 1966. Production expenses are likely to continue upward, resulting in a decline in net farm income from the near-record level of \$16.1 billion in 1966. Net income is expected, however, to be well above the \$14.2 billion of 1965. Net income per farm may decline slightly from the 1966 record level but should still be the second highest on record and about 60 per cent above the 1960 figure.

Supplies of livestock products will likely be about the same in 1967 as the near-record production of 1966. Crop supplies in the 1966-67 marketing year are down from year-earlier levels as a result of both smaller crops in 1966 and a reduction in carry-over stocks from prior years. Supplies of wheat are down about 300 million bushels, to 1.8 billion bushels. Feed grains are down 15 million tons, to 201 million tons. Cotton and tobacco supplies are also somewhat smaller. Rice and soybean supplies are greater (Table I).

Upward pressure on prices of most crops which would ensue from the more stringent supply situation

is limited to some extent by the carry-over stocks held by the Government. Such stocks can be released to augment supplies in commercial channels. Also contributing to the prospects for relatively stable prices for crops, despite reduced supplies in the early part of the calendar year, are the sizable increases in prospect for 1967 production. The revised Government program for 1967 crops is expected to release a large amount of land to crop production purposes from the Acreage Diversion Program. In total, 25 to 30 million of the 60 million diverted acres could be used, but only about 15 million acres are expected to be returned to production.

Demand for farm products is expected to rise further in 1967. A larger population, more jobs, and prospects for a further increase in wage rates will increase consumer buying power and the domestic demand for farm products.

Reflecting greater foreign demand, exports of farm products are expected to increase about 6 per cent in 1966-67, to \$7 billion from the \$6.7 billion total of 1965-66. Exports were up \$0.5 billion in 1965-66 or about 10 per cent from a year earlier. Increases are likely for cotton, tobacco, soybeans, and rice. Most of the export increase is expected in commercial sales for dollars. Exports under Government-financed programs, largely donations, will probably continue near the \$1.6 billion total of the 1965-66 fiscal year.

Table I
SUPPLIES OF MAJOR CROPS¹

	Feed Grains (Million tons)	Wheat (Million bushels)	Rice (Rough) (Million cwt.)	Soybeans (Million bushels)	Cotton (Thousand bales) (Weight 500 lb.)	Tobacco (Million pounds)
Carry-Over Stocks						
from Previous Year						
1964-65	69	901	8	67	12,378	4,323
1965-66	56	818	8	30	14,291	4,496
1966-67	43	536	8	36	16,862	4,342
Production						
1964-65	138	1,291	73	702	15,182	2,228
1965-66	161	1,327	77	844	14,956	1,855
1966-67	158	1,296	85	927	9,627	1,909
Total Supply						
1964-65	207	2,192	81	769	27,560	6,551
1965-66	216	2,144	85	873	29,247	6,351
1966-67	201	1,832	93	963	26,489	6,251
Total Use						
1964-65	152	1,375	74	740	13,230	2,055
1965-66	174	1,690	74	838	12,439	2,007
1966-67 ²	175	1,390	85	916	14,675	2,146

¹Marketing year beginning July 1 for wheat and tobacco, October 1 for most feed grains, August 1 for rice and cotton, and September 1 for soybeans.

²Projected estimates.

Source: USDA.

Table II
SELECTED U. S. CROP EXPORTS

	Quantity (Millions)				Value (Millions of dollars)			
	1959-63 Average	1964	1965	1966 ¹	1959-63 Average	1964	1965	1966 ¹
Feed grains (pounds)	28,266.8	35,953.2	46,868.0	56,008.0	634.0	853.3	1,133.6	1,374.6
Wheat (bushels)	600.9	818.0	693.2	929.5	1,049.5	1,467.0	1,139.3	1,551.6
Rice, milled (pounds)	2,024.6	2,929.0	3,402.7	2,913.5	132.2	204.6	243.0	215.4
Soybeans (bushels)	148.0	209.5	227.7	197.7	367.9	566.9	650.1	610.3
Cotton (running bales)	5.2	5.2	3.8	2.9	680.9	681.7	486.2	353.6
Tobacco, unmanufactured (pounds)	487.4	514.5	468.1	454.8	378.6	412.8	382.7	386.7

¹ Annual rate, first nine months.
Source: USDA.

Increases in exports in recent years have been greatest for feed grains, wheat, rice, and soybeans (Table II). Exports of feed grains in calendar year 1966 were up about one-fourth from a year earlier and were more than double the 1959-63 average. World exports of feed grains have increased 16 per cent per year in the last five years. The United States accounted for more than half the total of such exports in 1965-66. Wheat and rice exports during the past two years have exceeded the 1957-59 average by more than 50 per cent, and the increase in soybean exports has been only slightly less.

Livestock and Livestock Products

Prices of livestock and livestock products are expected to be about the same in 1967 as in 1966. Prices in 1966 were about 12 per cent higher than a year earlier primarily because of reduced supplies of pork, eggs, and milk. In the first quarter of the year livestock prices reached the highest level since 1952, and hog prices in January were the highest for any month since September 1948. Production increases for livestock products in late 1966 point to larger supplies and somewhat lower prices in early 1967.

Fed cattle marketings this winter are expected to run ahead of year-earlier levels, and hog slaughter is likely to exceed last year's levels by 10 to 12 per cent. Egg production may be 3 to 5 per cent larger, and poultry production is expected to be somewhat greater. Later in the year fed cattle slaughter may decline, resulting in somewhat less beef production for the entire year than in 1966. Increased hog slaughter and somewhat larger beef imports will partially offset the reduced beef and veal production; however, total red meat supplies for the year may be down about 3 per cent. Supplies of broilers and turkeys will be larger and should about offset the decline in red meat.

Prices for poultry and eggs are likely to average below year-earlier levels, at least during the first half of 1967. Increased broiler hatchings during late 1966 and a build-up in laying flocks point to increased supplies during the first half of the year. Broiler production is expected to continue to rise at the 5 to 10 per cent rate of a year earlier. Most of the gain may occur, however, in the first part of the year, and the lower prices anticipated will tend to inhibit increases during the last half. Turkey production may not match the 11 per cent gain of a year earlier but should about equal the lower rate of the previous two years. Egg production may exceed 1966 output by 3 per cent. In late 1966 the number of potential layers on farms exceeded year-earlier numbers by 4 per cent, and the proportion of high-laying pullets was also greater. Larger-than-year-earlier output from this flock should continue at least through the summer months.

Farmers are assured higher prices in early 1967 than a year earlier for manufacturing-grade milk by the current Government price support level of \$4.00 per cwt. Prices for the entire year are likely to average higher than year-earlier levels. Milk prices in 1966 averaged about 60 cents per cwt. more than in 1965 and close to the \$4.88 per cwt. record of 1948.

Supplies of milk in 1967 are expected to rise somewhat from year-earlier levels. Production has been on the upswing since February 1966, when output was 6 per cent below year-earlier levels. By the end of 1966 output probably exceeded the year-earlier rate. Rising output, coupled with favorable prices, suggests a high level of milk output in 1967. Higher production is shielded to some extent from market forces by Government price support and will not be reflected in lower prices. Production gains will be reflected in larger Government removals of milk from the market through Commodity Credit Corporation purchases. Such purchases, however, will still be low relative to 1961-64 levels.

Crops

Crop prices in 1967 are likely to average about the same as in 1966. Although total crop output in 1966 was down about 4 per cent from the year-earlier record and carry-over stocks were less, these supply reductions are not expected to influence prices greatly. Release of commodities from Government stocks is expected to provide supplies adequate to meet demand at current prices.

The somewhat reduced supplies of feed grain and continued strong demand are expected to result in somewhat higher feed grain prices during the early part of the 1966-67 marketing year. Prices, well above year-earlier levels near the close of 1966, however, are not expected to increase as much during the spring and summer as during the past two years. The 1966-67 feed grain supply totals about 201 million tons, 7 per cent less than a year earlier. The 1966 crop totaled 158 million tons, and carry-over, 43 million (Table I). Utilization is expected to continue at the 1965-66 rate of 174 million tons. In this event, carry-over into the 1967-68 marketing year will decline to 25 to 30 million tons, or about 15 per cent of annual use. It is this change in the supply situation which has prompted the Administration to change the Feed Grain Program for 1967 to encourage larger production. This increase will tend to weaken prices during the autumn months. The program also provides for an increase from \$1.30 to \$1.35 per bushel in the price support for corn, with comparable increases in the support rates for other feed grains.

Based on current supply and demand factors, the average price for wheat is likely to be 10 to 20 per cent above last year's \$1.34 per bushel. Total supplies of 1,832 million bushels (production of 1,296 million bushels plus carry-over of 536 million bushels) are down about 15 per cent from year-earlier levels. Utilization, however, is expected to decline sharply from the record 1965-66 rate that resulted in a reduction in carry-over stocks of almost 50 per cent. Domestic use of wheat may decline about 10 per cent from the 742 million bushels in 1965-66, primarily because of a reduction in use of wheat for feeding livestock. Exports, about two-thirds of which are Government financed, are expected to be down 100 to 125 million bushels from the record 867 million bushels exported in 1965-66.

The price of wheat will also be affected by expanded program plans for 1967. Wheat allotments were increased 8.9 million acres last August, bringing the total allotment to 68.2 million acres. The total of price supports and marketing certificate payments

is also likely to be somewhat higher. The price support rate will be \$1.25 per bushel, the same as a year earlier, while the marketing certificate payments (parity price less \$1.25 per bushel) on 520 million bushels will likely be higher.

Rice prices to farmers in the marketing year 1966-67 are likely to average about the same as the \$4.89 per cwt. received a year earlier. Supplies, the 1966 crop plus the carry-over, total about 93 million cwt., 10 per cent more than a year earlier. Utilization is expected to rise by about the same amount as the increase in supplies. Rice for domestic food, seed, and industrial uses may climb about 1.5 million cwt. to a total of 32 million cwt. Exports in 1965-66 totaled 43.3 million cwt. (27.1 million cwt. for dollars) and some further increase, especially for dollars, is likely in 1966-67. Carry-over stocks at the end of the year may increase slightly from the 7 to 8 million cwt. of recent years.

Prices of soybeans moved up rapidly from \$2.38 per bushel during the 1965 harvesting season to \$3.63 per bushel in August 1966 and held part of this gain during the 1966 harvesting season, with prices averaging about \$2.78 per bushel, 20 per cent above year-earlier levels. Although prices were substantially higher during the 1966 harvesting season than a year earlier, for the entire year they may average only about 10 per cent higher, as only moderate increases from the seasonal trough are expected. The Government support price for soybeans is \$2.50, 25 cents above the rate of a year earlier. However, the market price, as in most recent years, is likely to be above the support price. Supplies of soybeans of about 963 million bushels, 10 per cent above year-earlier levels, are about in line with the long-run growth trend. Production has tripled since 1950, and carry-over stocks have never been excessive, exceeding 10 per cent of total supplies in only two years. Domestic utilization is forecast at 641 million bushels, and exports, at 275 million, both about 19 per cent above year-earlier levels. Carry-over stocks may thus be somewhat in excess of the 36 million bushels last year.

Cotton prices are determined largely by the level of Government price supports. The loan rate on the 1966 crop was 21.00 cents per pound, and an additional 9.42 cents per pound was paid on the normal production of domestic allotment acres to farmers who cooperated in the Government Cotton Program. Under this system the volume of stocks rather than price reflects changing supply and demand conditions. Stocks totaling 16.9 million bales at the beginning of the 1966-67 marketing season are well above annual use in recent years. Production of only 9.6 million bales,

however, was the smallest crop since 1945. This crop reflected the smallest planted acreage, 9.8 million acres, in nearly 100 years and a slight decline in average yield. Carry-over into the current season totaled 16.9 million bales, well above total annual domestic and export use. On the demand side, domestic mill consumption of cotton is expected to total 9.6 million bales in 1966-67, up about 5 per cent from a year earlier. Exports may total 5 million bales, which would represent a sharp recovery from last year's 2.9 million level. If these rates of use are achieved, carry-over stocks on August 1, 1967 will be reduced 5 million bales from year-earlier levels to about 11.9 million bales. A 1967 cotton acreage allotment of 16 million acres, the same as last year, has been announced by the United States Department of Agriculture. This is the same allotment as for the past four years. The Government loan rate has been lowered from 21.00 to 20.25 cents per pound, and production payments on domestic allotment acres have been raised from 9.42 to 11.53 cents per pound. The diversion payment was also slightly increased.

The price of tobacco, like the price of cotton, is determined largely by the Government Price Support Program. Price supports were up 2 per cent for the 1966 tobacco crop, and support levels for the 1967

crop are likely to be up another 2 per cent. Total tobacco supplies of 6,251 million pounds for the 1966-67 marketing year were slightly below levels of the past two years. Tobacco use (domestic plus exports), however, was down in the marketing year beginning July 1, 1965 from a year earlier. Use of flue-cured tobacco totaling 1,175 million pounds was the lowest since 1956, and use of burley tobacco totaling 601 million pounds was down from 616 million pounds a year earlier but was above that of prior years. Domestic use of flue-cured tobacco in 1966-67 is not expected to vary much from the reduced level of 1965-66. Exports, however, which account for about one-third of total use, may rise substantially as a result of the ban on Rhodesian tobacco by most major importing countries. Thus, flue-cured stocks, which totaled 2,439 million pounds on July 1, 1966, the third largest on record, are likely to decline by a sizable amount during the current marketing year. Burley tobacco supplies of 1,938 million pounds are about 4 per cent less than the comparatively high levels of the previous two years. Combined use for domestic and export purposes in 1967 will likely be somewhat above the 601 million pounds of last year and well above the relatively small 1966 crop of 538 million pounds. Stocks on October 1, 1967 will likely be down substantially from year-earlier levels.

