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Review

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Prices in the Current Expansion

THE ECONOMY has been expanding rapidly, following the moderated pace of activity in early 1967. Upward pressure on prices, resulting from growth in demand relative to supply and reinforced by increasing costs of production, has been felt in various markets.

Sources of Pressure on Prices

Recent price movements have reflected both rapid expansion in spending and strong cost pressures. Total spending has risen at an 8.5 per cent annual rate since mid-1967, whereas the growth in real output is estimated to be at about a 4.5 per cent rate. Although some of the increase in spending has been needed to utilize previously idle resources, the rate of expansion has been unusually rapid, causing some prices to move up. Also, in 1965 and 1966 some wages and other resource prices could not rise in response to the increase in demand. However, at times of renegotiation these prices have been marked up, placing further upward pressure on other prices.

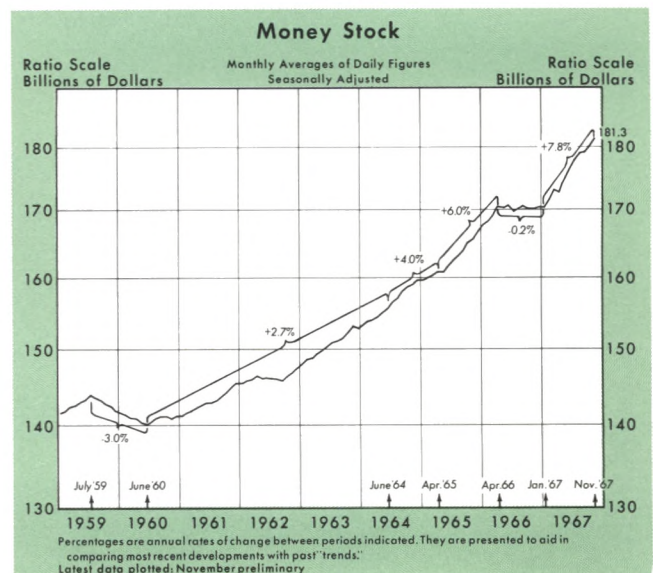
The upward surge in spending has been fostered by stimulative fiscal and monetary actions. The strong expansionary force of fiscal actions moderated a bit in the second half; the deficit in high-employment budget increased from \$4 billion in the second half of 1966 to \$12 billion in the first half of 1967, but remained essentially unchanged during the rest of the year. However, the maintenance of a very strong government demand in the second half, as private demand accelerated, contributed to upward pressure on prices.

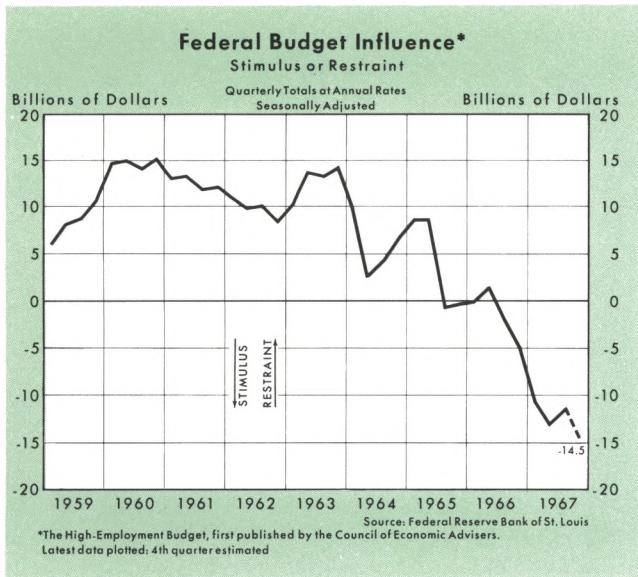
Monetary actions were also a strong upward force on spending and prices during late 1967. Bank reserves and bank credit rose rapidly during the year. The money supply expanded about 6 per cent in the year, compared with a 2.4 per cent rate of growth from 1957 to 1966.

General Price Developments

All major measures of prices have demonstrated rapid upward movements recently. The broadest measure of prices, the GNP deflator, increased at an accelerated 3.8 per cent annual rate in the second half of 1967, after having risen at a 2.3 per cent rate in the first half. Consumer prices increased at a 2.3 per cent rate during the first six months of the year but accelerated to a 4 per cent rate after mid-year. Wholesale industrial prices increased at a 2.5 per cent rate from June to November, after having increased at a 1 per cent rate during the previous six months.

Aggregate measures of prices, computed from numerous goods and services in many markets, are not indicative of movements of particular prices in specific markets. An examination of some specific price movements gives a better perspective of developments than a review of overall indexes.



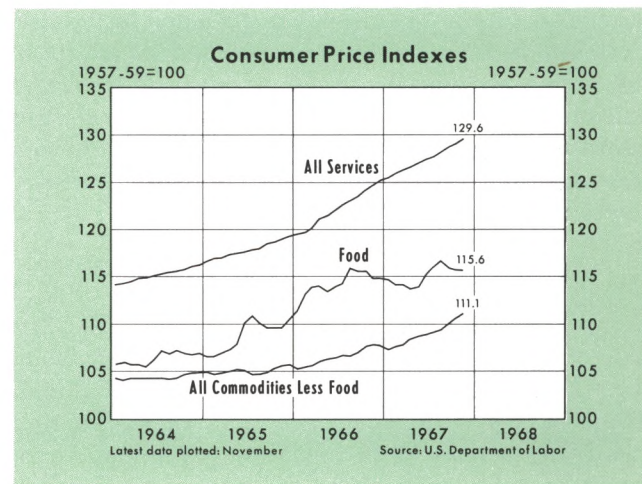


changes in the prices of food have been caused primarily by supply factors. Food prices fell during the first half of 1967 as a result of an increased supply of farm products, which probably reflected the response of producers to rapid increases in food prices in 1966. During the late summer and early fall food prices again fell sharply, reflecting large harvests.

Prices of commodities other than food increased at a 2.4 per cent rate during the first eight months of the year. Since August the prices of these commodities have risen at a sharp 6.4 per cent rate; prices of both durable and nondurable goods advanced. Used car prices accounted for much of the increase in durable goods through the first half of the year, and in the fall, as the 1968 models reached the market, new car prices increased significantly. Large increases in the prices of apparel contributed to the acceleration of non-durable prices in the second half.

Consumer Prices

Personal services account for over one-third of consumer purchases. Since most services are produced with primarily human effort, costs of services tend to reflect wage and salary increases. In addition, the high proportion of labor input makes increases in efficiency and quality difficult to measure. The prices of services have increased at about a 3 per cent average rate over the past decade, and have been a major factor in the upward trend of consumer prices in the past year. The prices of services increased at about the trend rate through the first half but accelerated later in the year. The acceleration reflected in part rapid increases in the prices of medical care and household services.

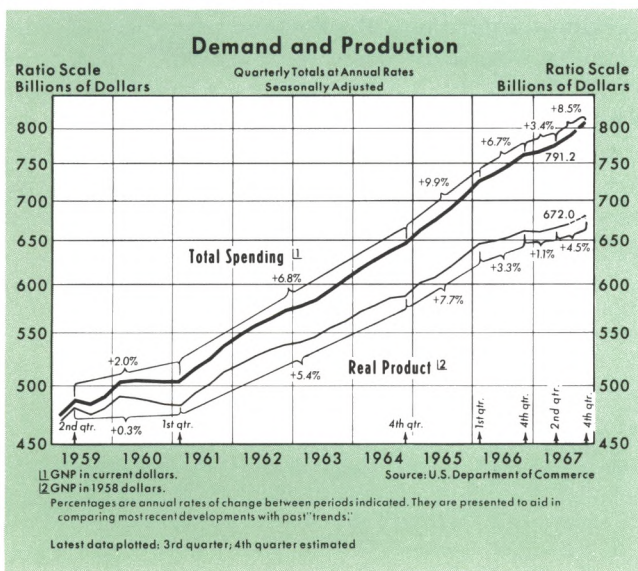


In contrast to the prices of services, food prices fluctuated sharply in 1967. Since the demand for food grows at a relatively stable rate over time, most

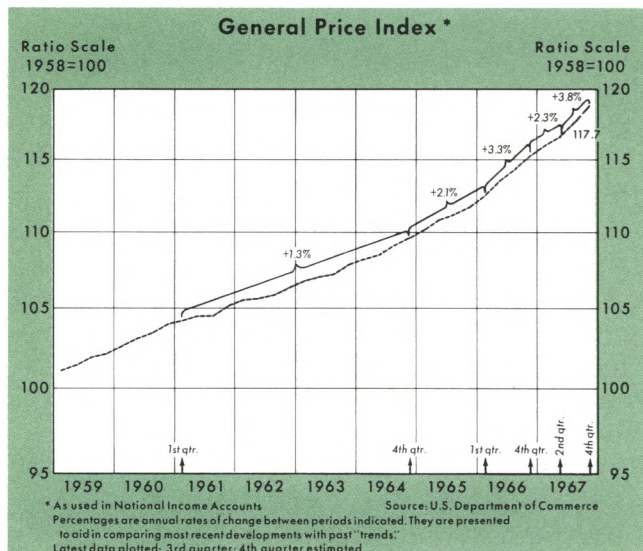
Wholesale Prices

Wholesale prices declined early in the year, rose rapidly during the spring and early summer, and remained about unchanged late in the year. This pattern primarily reflected movements in prices of farm products and processed foods, and these price changes in turn reflected supply factors.

The prices of industrial crude materials declined through most of the year, but showed some increases in late fall. The movement in these prices paralleled changes in industrial production and largely reflected sudden changes in demand. As industrial production moderated in late 1966 and then fell in early 1967, the abrupt decrease in demand for raw material put downward pressure on the prices of these items. As production began expanding near mid-1967, the prices of raw materials began rising after a brief lag.



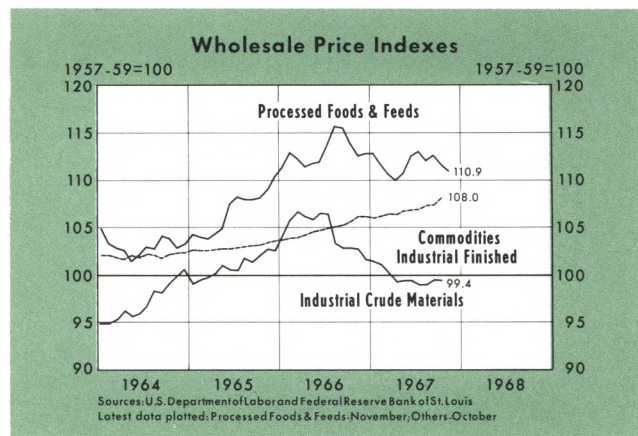
In contrast to the prices of raw materials, quota-



tions on industrial finished goods rose throughout the year. Cost factors significantly contributed to the rise. Cost increases during the year resulted largely from the price developments of the previous year. Wages and other resource prices set by contracts could not adjust in 1965 and 1966 to increasing demand. As contracts expired this past year, wages and other resource prices rose.

Increases in wage rates not matched by increases in productivity lead to higher labor costs per unit of production. As industrial production fell in the first half of 1967 and some firms attempted to maintain their labor force, productivity was sharply reduced. This, coupled with the increases in wages, led to a significant increase in the labor cost per unit of manufacturing output. The increased labor cost placed a strong upward pressure on the price of output.

The extent to which prices could be increased, however, depended on the strength of demand. Large wage increases were experienced in industries producing finished consumer nondurables. The higher costs, in addition to strong consumer demand for nondurable goods, accounted for large increases in the prices of industrial nondurable consumer goods. Industrial finished consumer durables showed a more moderate rate of increase in prices. As a whole, the prices of in-



dustrial finished commodities increased at a 1.3 per cent rate in the first half of the year. They have risen at a 2.3 per cent rate since mid-year in response to the acceleration of demand.

Conclusion

With the exception of food and farm products, all major categories of goods and services have recently been exhibiting rising prices. The rapid expansion of demand for goods and services in conjunction with increasing costs of production has been the cause of the increases. Price developments in the coming year depend on the nature and relative strength of these two forces.

There is little indication that the demand for goods and services will moderate soon. Both monetary and fiscal actions have been expansionary and may have their heaviest impact with a brief lag. Spending for investment continues to increase as residential construction expands and businesses increase their rate of inventory accumulation. Plant and equipment expenditure probably will accelerate next year, after remaining essentially unchanged in 1967. Unused industrial capacity is a potential brake to price pressure caused by increasing demand; however, shortages are developing in some resource markets such as that for skilled labor. The future expansion of demand relative to production will determine what happens to prices, in both the product and resource markets.



Economic Activity Slows In The Central Mississippi Valley In 1967

MOST MEASURES of economic activity in the Central Mississippi Valley continued to advance during 1967, but at slower rates than in most other recent years.¹ Growth in employment and population slowed considerably, while personal income advanced at a somewhat faster pace than in the preceding eight years. Construction contract awards rose substantially from late 1966 to late 1967.

Economic activity in the metropolitan areas of the Central Mississippi Valley showed the same general trend as in the region as a whole. Employment continued to rise in most metropolitan areas but at slower rates than in the previous eight years. Spending was about unchanged during the first half of 1967 but rose rapidly after mid-year. Construction contracts were up significantly in all metropolitan areas. Bank deposits and bank investments rose at an accelerated pace, while bank loan growth slowed.

In this article, combined data for Arkansas, Kentucky, Mississippi, Missouri, and Tennessee are analyzed to give a general picture of the region's growth. Thereafter, each state and metropolitan area is discussed separately. The primary period considered is from late 1966 (average September-November) to late 1967 (average September-October for states and September-November for metropolitan areas).² The

growth trend from the 1957-59 average to 1966 is used to place recent developments in perspective.

The Region

Total employment in the Central Mississippi Valley declined slightly from late 1966 to late 1967, reflecting both a continued downtrend in agricultural employment and a relatively slow gain in payroll employment. From the base period 1957-59 to 1966, employment in the region grew at about the same rate as in the nation. During 1967 the slowdown was more pronounced in the region than nationally.

Unemployment in the region rose during the first half of the year and then changed little subsequently. Regional unemployment increased from 3.7 per cent of the labor force in late 1966 to 4.2 per cent in late 1967. The national unemployment rates were the same as in the region in these periods.

Payroll employment was about unchanged on balance, as gains in nonmanufacturing approximately offset losses in manufacturing. Industries showing sizable declines included lumber and wood products and furniture and fixtures. About one-half of the 1.6 per cent reduction in manufacturing employment last year can be attributed to labor disputes. (Workers involved in strikes are not counted as either employed or unemployed.) Manufacturing employment has grown at a relatively high rate in the region during recent years. Manufacturing employment in the region rose 33 per cent from 1957-59 to 1966, whereas nationally such employment rose about 16 per cent.

Average hourly earnings of production workers in manufacturing in the Central Mississippi Valley in 1967 advanced faster than in the nation. Gains were particularly large in Mississippi, Arkansas, and Tennessee, where wages have traditionally been low.

¹For an analysis of national economic conditions during 1967 see "Economic Pause, Acceleration and Excesses—1967 in Retrospect" by Norman N. Bowsher in the December 1967 issue of this *Review*.

²Exceptions are population and per capita income figures, computed as of July 1; total personal income figures for states, cumulative from January to September; and department store sales for metropolitan areas, cumulative from January to October. In each case comparisons are made with the same period a year earlier. Hours and earnings figures for metropolitan areas do not include data for November 1967.

In analyzing the state and area data from late 1966 to late 1967, a more meaningful picture can be obtained by placing the nation's economy in its appropriate cyclical setting. Economic activity nationally was in a period of pronounced hesitation in late 1966 and early 1967. By early summer of 1967, however, the pace of economic activity had quickened, and the faster pace continued through the fourth quarter. Highly cyclical measures such as contracts awarded, which were in a trough in late 1966, thus tend to overstate long-run growth possibilities. On the other hand, part of the employment slowdown in late 1967 was the result of an increase in striking workers that occurred with the business expansion.

Much of the change in banking activity in the region reflected a combination of monetary actions and cyclical forces. In late 1966 demand for loans was intense, while the supply of funds available to lend was restricted by the slower rate of growth of bank credit and money. By the second half of 1967, however, monetary policy was very expansive, and demand for investment funds rose faster than demand for loans; thus the proportion of bank portfolios in investments rose.

Other data may not be precisely comparable. For example, total employment and total payroll employment data are obtained from different samples. Similarly, the unemployment data for states and metropolitan areas are obtained from different series than the national unemployment figures. State population data are available only as of July 1; thus income per capita is calculated from July to July, while total personal income is based on year-to-date figures.

Despite these deficiencies, the data have been included to provide a complete set of indicators. For each state and metropolitan area, however, the set should be considered as a whole rather than separately in drawing conclusions relative to economic activity and growth.

Average earnings for the region advanced 5.7 per cent compared with a 3.6 per cent gain for the nation. Over the longer run, earnings in both the region and nation advanced at a 3.1 per cent rate. Average hours worked per week declined slightly in 1967 in all regional states.

Construction contracts in the region rose 17 per cent from late 1966 to late 1967. In the three-month period August-October, residential contracts exceeded by 50 per cent those of the corresponding months a year earlier, when the industry was unusually depressed. Conversely, nonresidential contracts declined somewhat over the same period.

Personal income in the Valley rose somewhat faster

last year than in the longer period 1957-59 to 1966. Personal income figures are not adjusted for price changes, and 1967 was a year of rapidly rising prices. Thus, the growth in real income (money income adjusted for price changes) was probably about the same or less than the average of the previous years. In current dollars per capita personal income averaged \$2,453 in 1967, an increase of 6.3 per cent from 1966. From 1957-59 to 1966 personal income in the region grew at the average rate of 6.2 per cent.

Population growth was slower in both the region and in the nation in the year ending in mid-1967 than in the previous eight years. Population in the five states combined advanced an estimated 0.6 per cent from 1966 to 1967, compared with the trend rate of 1.2 per cent from 1957-59 to 1966. Nationally, population rose 1.0 per cent last year and at a 1.5 per cent rate during the longer period from 1957-59 to 1966.

Arkansas

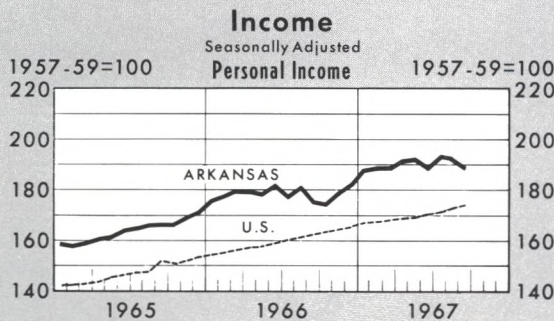
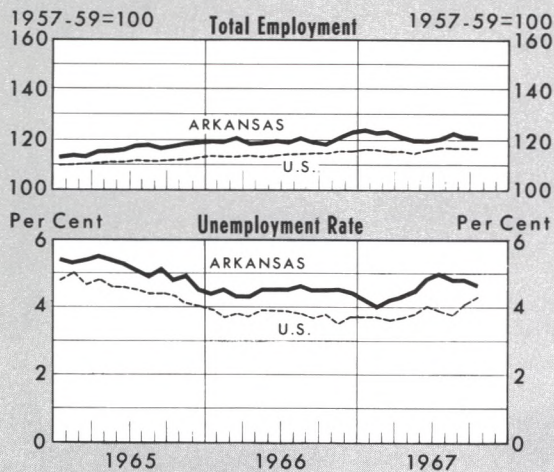
The Arkansas economy paused during 1967, after expanding very rapidly from 1957-59 to 1966. Total employment dipped slightly at mid-year but had regained the previous peak by late 1967. The unemployment rate rose to 4.7 per cent, the highest level in the state since mid-1965. On the other hand, average hourly earnings of manufacturing workers increased substantially. Despite the hesitation in 1967, most measures of economic activity in Arkansas increased faster than in the nation over the longer period from 1957-59 to 1966.

Payroll employment, which accounts for about three-fourths of total employment, rose 1.0 per cent during the year, with a gain in nonmanufacturing more than offsetting a slight decline in the manufacturing sector. The construction and service categories showed significant increases in employment, while lumber and wood product and apparel industries in the manufacturing sector had sizable declines.

Average hourly earnings of production workers in manufacturing during 1967 rose 7 per cent, about double the national increase and also double the rate of increase in Arkansas from 1957-59 to 1966. At \$2.04, however, average hourly earnings in Arkansas last year were still well below the \$2.85 average for the United States. During the year average weekly hours worked declined from 41.5 to 40.9, about the same decrease as in the nation. The unemployment rate in September-October of 4.7 per cent was slightly higher than a year earlier, but has declined since mid-year.

Construction contracts awarded rose 14 per cent from late 1966 to late 1967. Residential contracts rose

Arkansas



sharply, while nonresidential contracts declined somewhat, in accordance with regional trends. Employment in the construction industry rose by 2,300, a gain of 6 per cent.

Personal income rose 6 per cent in 1967, compared with a 7 per cent average rate of gain in the last eight years. Although gains in income have been large in the state, per capita income, estimated at \$2,123 in 1967, was still below both the regional and national averages.

Population expanded 0.7 per cent in 1967, about half the rate of the preceding eight years. In mid-1967 the population of Arkansas was estimated at 1,969,000.

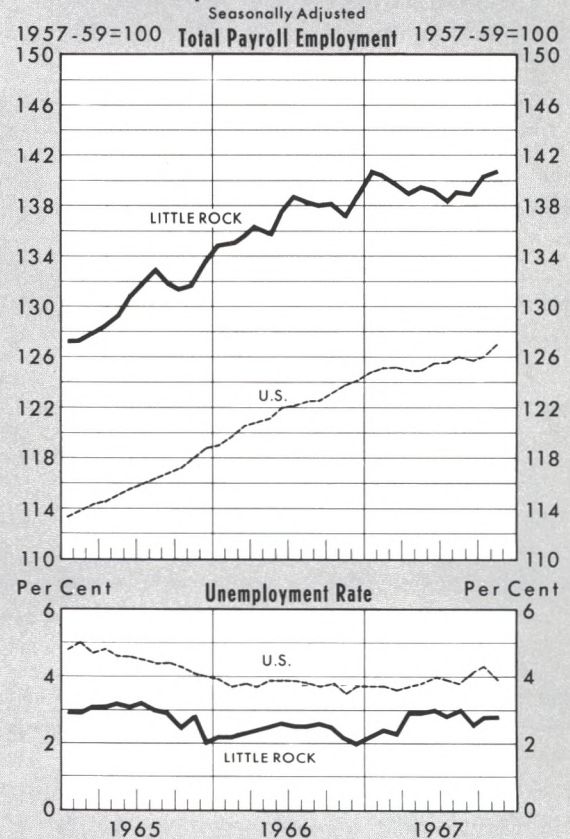
Little Rock

Economic activity in the Little Rock Metropolitan Area continued to expand last year, but at a reduced rate. Employment rose slightly, and unemployment also moved up from late 1966. At 2.7 per cent of the labor force, the unemployment rate in late 1967 was still very low relative to regional and national rates.

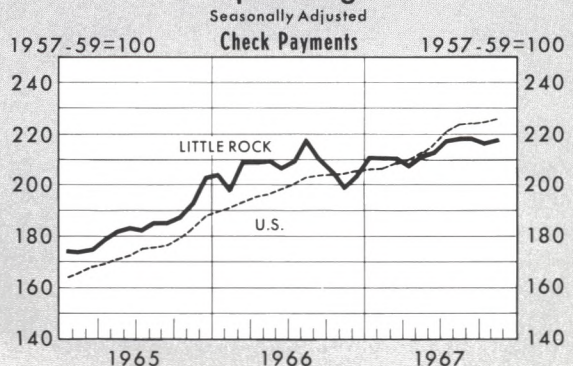
Payroll employment showed a net gain for the year of 1.6 per cent. It rose sharply in late 1966 and early 1967, declined somewhat during the late winter and spring, but turned upward again at mid-year. Manufacturing employment declined during the fall of 1967 but late in the year was still 2.5 per cent above the level of the previous year. Employment in the metals industries increased by several hundred, while employ-

Little Rock Metropolitan Area

Manpower Utilization



Spending



ment in lumber and wood products and furniture and fixtures declined. Nonmanufacturing employment rose slightly, with the largest gain in state and local government.

Construction contracts for Little Rock in late 1967 were well above year-earlier levels. Construction contracts rose 46 per cent, with contracts for residential purposes showing a much larger increase than for non-residential. These gains have been partially reflected in construction activity, as employment in the construction industry rose slightly.

Check payments, a measure of over-all spending, rose 6 per cent during the year, with most of the gain in the second quarter, after expanding at a 10 per cent annual rate from 1957-59 to 1966. Department store sales rose 8 per cent last year, about average for the other large metropolitan areas in the region.

Bank deposits increased rapidly and loan growth slackened, reflecting the very expansive national monetary policy and slower growth in demand for loans. Bank investments rose 9 per cent during the year, after remaining relatively unchanged during the 1957-59 to 1966 period.

Fort Smith

The Fort Smith economy, which had declined sharply in the second half of 1966 as a result of layoffs in one plant, rebounded last year. By mid-year, employment had about regained the early 1966 level, and unemployment had declined. Construction contracts were substantially greater in the period August-October 1967 than in the corresponding months a year earlier.

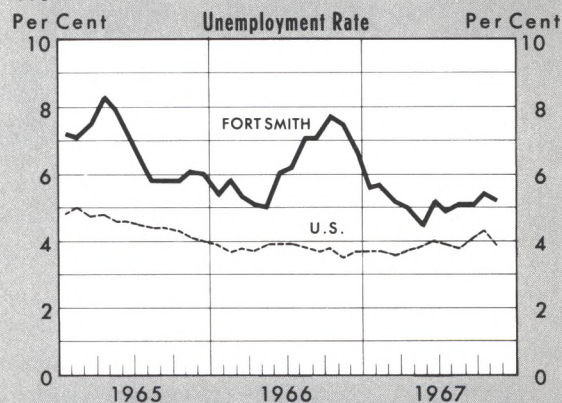
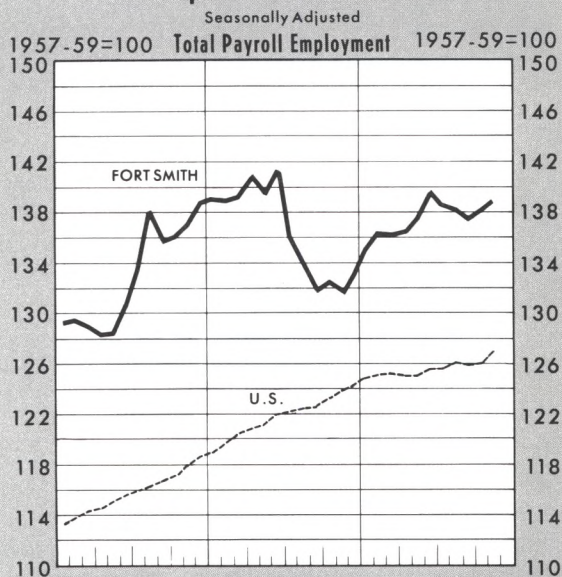
The unemployment rate in Fort Smith declined to 5.2 per cent of the labor force in late 1967 from 7.4 per cent a year earlier. While the 1967 rate was above that of other regional metropolitan areas and the nation, it was less than the average rate for Fort Smith during other recent years.

Payroll employment rose 4.7 per cent in 1967, with most of the gain occurring before mid-year. Manufacturing employment declined sharply in late 1966, when a large electrical machinery manufacturing firm reduced employment following a change of ownership. However, it regained the earlier level in 1967. Construction, which had been in a slump following the closing of Fort Chaffee in 1965, also showed a sizable employment gain. Construction contracts rose 17 per cent from the year-earlier level, with all of the gain in residential awards.

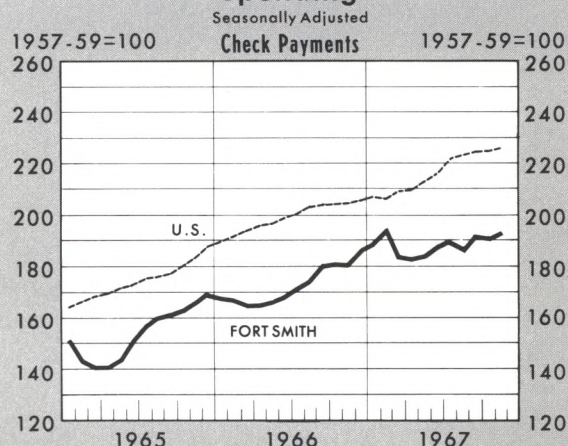
Spending in Fort Smith grew slowly last year. Check payments increased 6 per cent, somewhat below the

Fort Smith Metropolitan Area

Manpower Utilization



Spending



longer-term rate. Department store sales in the Fort Smith area advanced 1.0 per cent.

Banking activity grew more slowly in Fort Smith than in other regional metropolitan areas. Deposits rose 7 per cent, with most of the gain after mid-year. Total loans were essentially unchanged. Bank investments rose very rapidly, corresponding to the trend in other metropolitan areas and the nation.

Pine Bluff

Following several years of rapid expansion, economic activity in Pine Bluff slowed in 1966 and had not regained its previous momentum by late 1967. Employment has been about unchanged during the past two years. Unemployment increased moderately during the year ending in late 1967, rising from 3.7 to 4.1 per cent of the labor force.

The stability of payroll employment in 1967 resulted from an increase of about 3 per cent in non-manufacturing employment, which was offset by a decline in manufacturing employment. Agricultural employment in the area, which includes all of Jefferson County, declined more than usual late in the year because of a smaller cotton crop.

Despite the employment slowdown, average hourly earnings of production workers in Pine Bluff manufacturing firms increased at a significant rate. Such earnings rose 12 per cent in the year to \$2.54 per hour in late 1967. This was well above the regional and national increases of 4.3 and 3.6 per cent, respectively.

Check payments expanded in early 1967 and declined in later months, partially as a result of reduced cotton marketings. Cotton production in the area served by the Pine Bluff market was well below the year-earlier crop. Deposits rose 8 per cent, equaling the trend rate, while loans rose 6 per cent, about half of the trend rate. Investments were up substantially in accordance with regional and national trends.

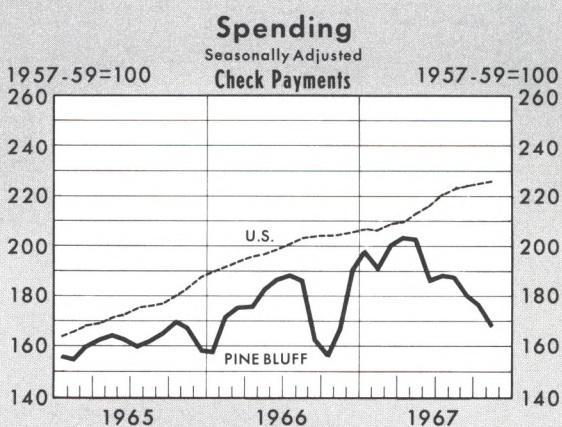
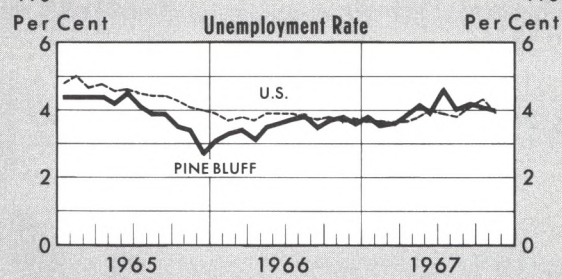
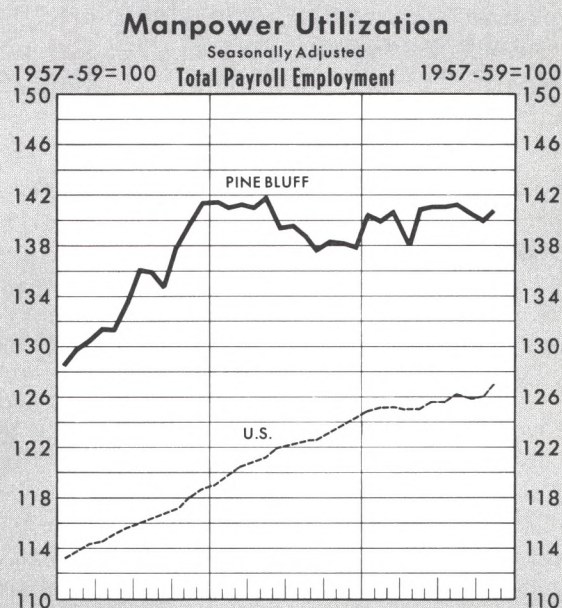
Kentucky

Economic activity in Kentucky remained about unchanged during 1967. Payroll employment and population changed little, and personal income rose at a slightly faster rate than in preceding years.

Total employment declined 2.3 per cent over the year, as the long-term decline in agricultural and other non-payroll employment was not offset by gains elsewhere. The unemployment rate of 4.1 per cent in late 1967 was slightly higher than a year earlier.

Payroll employment in Kentucky was about un-

Pine Bluff Metropolitan Area



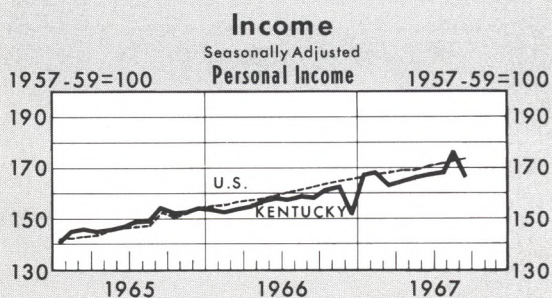
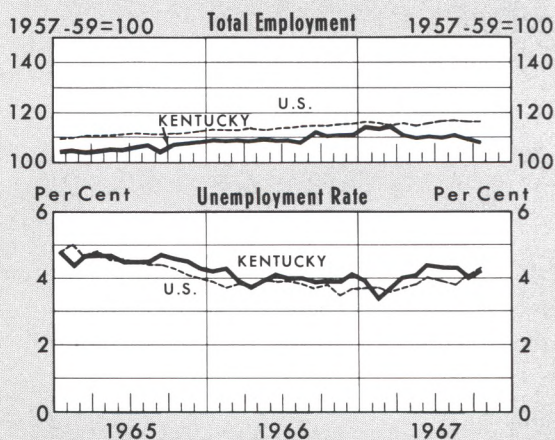
changed in the year ending in late 1967. Manufacturing employment declined 3 per cent, reflecting in part a larger number of workers involved in labor disputes. The apparel and food products industries increased their employment substantially, while the electrical machinery industry showed a large decrease. Average weekly hours in manufacturing declined from 41.2 to

40.6, corresponding closely to the national pattern. Average hourly earnings rose 4.8 per cent to \$2.73. This compares with a growth rate of 3.1 per cent during the previous eight years. Nonmanufacturing employment rose 1.3 per cent, with growth primarily in trade, services, and government.

The sharp decline in construction employment which began in 1966 continued last year. In late 1967, 7,500 fewer construction workers were employed than a year earlier. Construction contracts, however, were up 10 per cent, with a sharp increase in residential more than offsetting a decline in nonresidential awards. These awards are an indicator of future construction activity. The marked increase in construction contracts from late 1966 to late 1967 thus indicates that construction employment may soon be on the upturn.

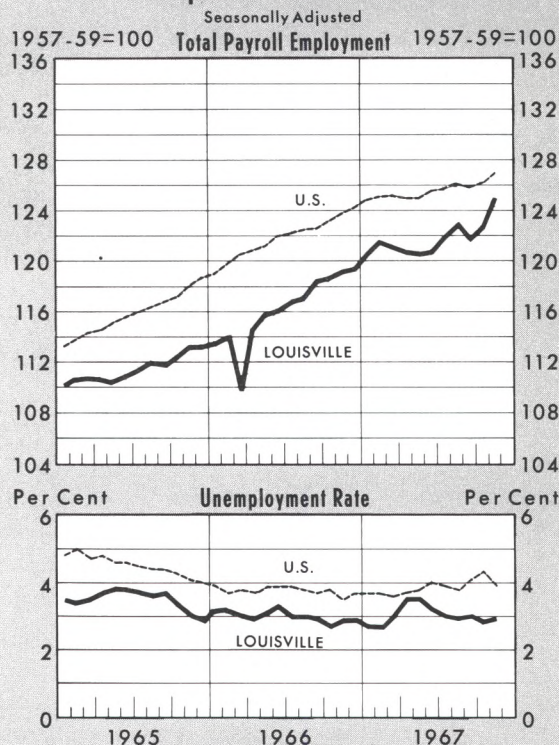
Personal income in Kentucky advanced 8 per cent in 1967, compared with an average annual growth rate of 6 per cent from 1957-59 to 1966. Per capita income of \$2,416 was about average for the Central Mississippi Valley, but well below the national average of \$3,157. The income gap between Kentucky and the nation as a whole has been narrowing percentagewise since 1957-59.

Kentucky



Louisville Metropolitan Area

Manpower Utilization



Population rose 0.3 per cent from mid-1966 to mid-1967. This was about one-third the annual rate of increase for the state in the preceding eight years, and well below the 1.0 per cent increase in U. S. population during 1967.

Louisville

Economic growth in Louisville was more rapid than in most other metropolitan areas of the region during 1967. Employment, construction, spending, and banking activity all advanced rapidly.

Total employment advanced 3.8 per cent during the year, and unemployment was a relatively low 2.9 per cent of the labor force in late 1967. Unemployment rose in the spring but subsequently declined to the late 1966 level.

Payroll employment rose 3.7 per cent in Louisville during 1967, with gains in both the manufacturing and nonmanufacturing sectors. Manufacturing employment increased 3.9 per cent, despite labor disputes late in the year involving 5,000 workers. Employment in ordnance more than doubled. Nonmanufacturing employment rose 3.5 per cent in 1967, with increases of

more than 1,000 in each of the categories — trade, services, and government. Average hourly earnings in manufacturing rose 1.0 per cent, less than in the other metropolitan areas in the region. At \$3.05 the Louisville average earnings in manufacturing is second only to St. Louis among district metropolitan areas, and is above the national average.

Substantial increases in construction activity were evident in Louisville last year. Construction employment rose by 500, an increase of 3 per cent. The value of construction contract awards rose 14 per cent.

Check payments at Louisville banks rose 4 per cent in 1967, somewhat less than the long-term trend from 1957-59 to 1966. Department store sales, however, rose a brisk 7 per cent, well above the national rate of gain.

Banking activity followed the same general trends as in most other regional metropolitan areas and in the nation. Deposit growth accelerated, loans advanced at a slower rate, and investments jumped 30 per cent.

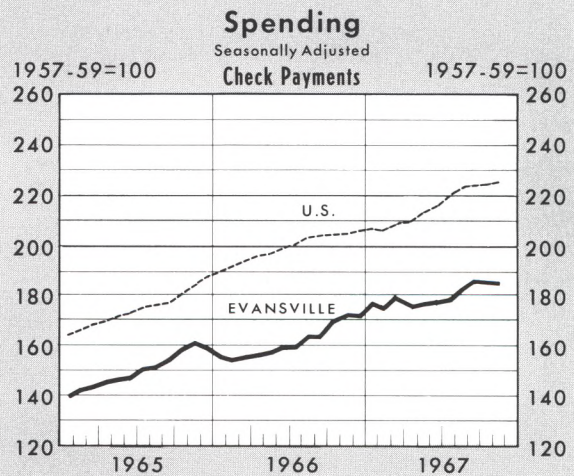
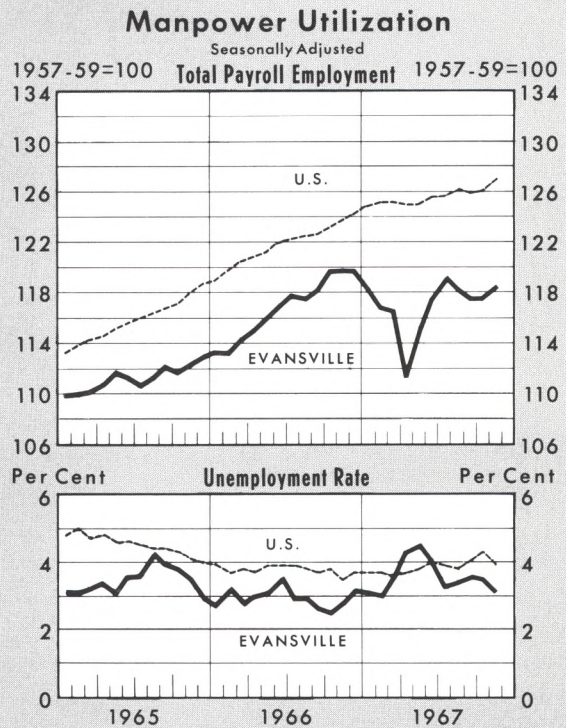
Evansville, Indiana-Kentucky

Employment in the Evansville area declined slightly in 1967, but spending and banking activity continued to rise.

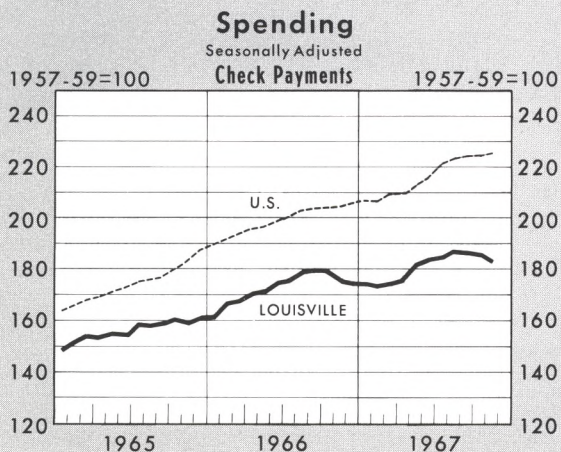
Total employment declined 0.4 per cent, reflecting a drop in payroll employment. The unemployment rate turned upward in late 1966 and moved to above 4 per cent in the spring of last year. It subsequently declined to about 3.4 per cent, well below the preceding eight-year average.

Payroll employment in Evansville declined 1.2 per cent, following a very substantial gain in 1966. This

Evansville Metropolitan Area



Louisville Metropolitan Area



decline, all in the manufacturing sector, resulted from a major cutback in the refrigeration and airconditioning industry. Employment in this industry increased by 2,000 in 1966, but this gain was not sustained, as demand for products of this industry declined with the cutback in construction last year. Nonmanufacturing employment declined sharply in April due to a strike in the construction industry, but late in the year had more than recovered the loss.

Construction contracts awarded in late 1967 were

2 per cent above a year earlier, with most of the gain in nonresidential awards. Construction employment was essentially unchanged.

Spending, as measured by check payments, rose 10 per cent in Evansville during 1967, well above the longer-term rate of 6 per cent.

Bank deposits and loans grew rapidly, reflecting a very expansive monetary policy. Deposits rose 13 per cent, substantially above the rate for the preceding eight years. Loans increased 10 per cent, also above the trend rate and well above the rate in most regional metropolitan areas last year. Bank investments also rose significantly.

Mississippi

A considerable slowdown was evident in the Mississippi economy last year after several years of rapid expansion.

Total employment declined 1.0 per cent during the year, reflecting a slower rate of growth in payroll employment and a sharp decline in agricultural workers. Agricultural employment was down about 7,000. The unemployment rate, which had declined for several

	Aug.- Oct. 1966	Aug.- Oct. 1967	Per Cent Change
Arkansas	78.3	89.3	14%
Kentucky	145.6	160.5	10
Mississippi	58.9	85.3	45
Missouri	200.7	251.8	25
Tennessee	199.7	213.2	7
Total	683.2	800.2	17
Southern Illinois	67.3	83.7	24
United States	9,220.8	11,046.4	20

Source: F. W. Dodge Company.

years, rose during the first half of 1967 and remained at about 5 per cent of the labor force during the autumn months.

Payroll employment was about unchanged last year, following fairly steady increases of about 4 per cent per year in the previous eight years. Manufacturing employment declined 2.1 per cent, reflecting both the general economic slowdown and labor disputes. As in Arkansas, the lumber and wood products and furniture industries reported the largest employment decreases. Average hourly earnings in manufacturing rose 8 per cent to \$2.07, but average hours worked per week declined slightly.

Nonmanufacturing employment in Mississippi increased slightly, as employment gains in wholesale and retail trade and local government more than offset a decline in construction employment. In late 1967 construction contracts were well above 1966 levels. Changes in construction activity should follow changes in contract awards. Thus, construction employment may soon be on the upturn in the state.

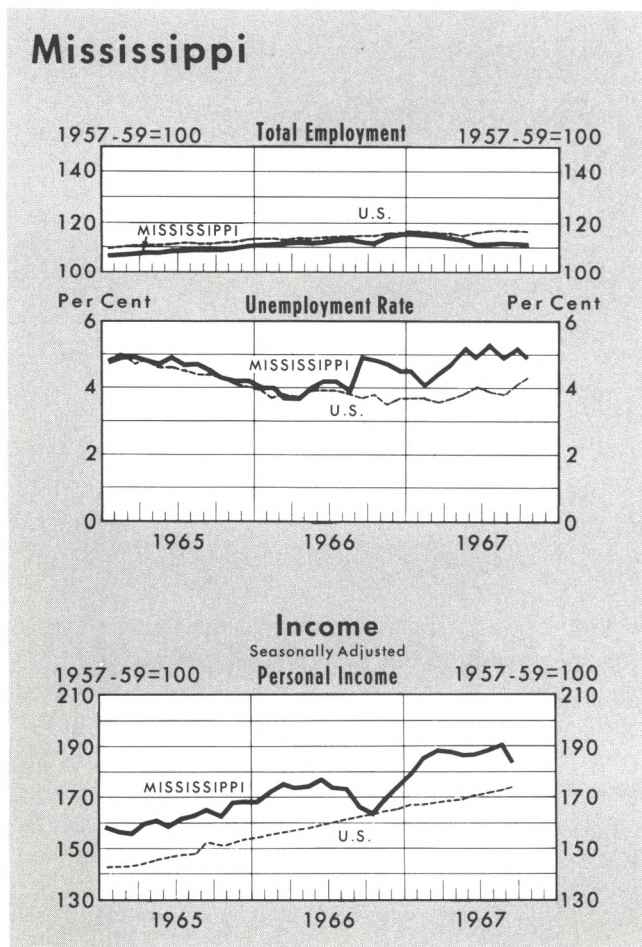
Personal income in Mississippi rose 6 per cent in 1967 with most of the gain in the first quarter. Per capita income, which had advanced at a faster rate than in the nation for several years, failed to equal the national growth rate in 1967.

Population rose 0.5 per cent from mid-1966 to mid-1967, compared with a 1.3 per cent average rate in the longer-run period.

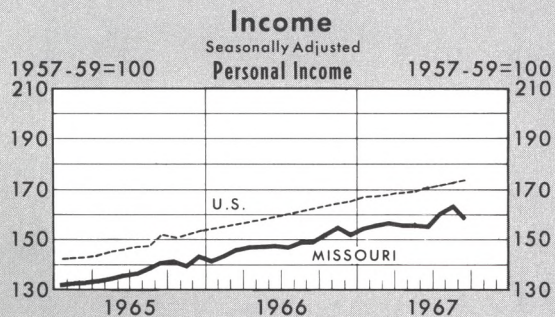
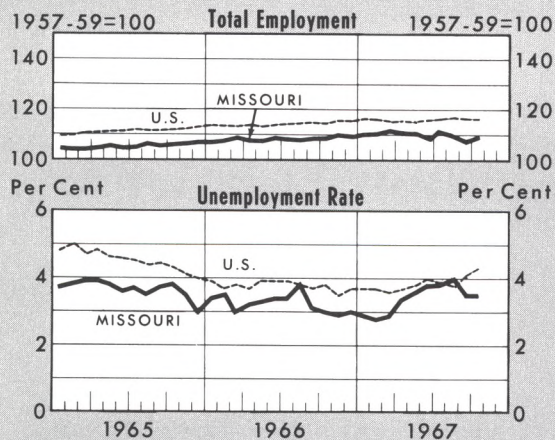
Missouri

Population and income expanded moderately in Missouri during 1967, but employment remained essentially unchanged.

The stable level of employment reflected a decline of



Missouri



about 11,000 workers in agriculture, which was nearly offset by an increase in payroll employment. The unemployment rate rose from about 3.0 per cent in late 1966 to 3.9 per cent in the summer months, but declined later in the year.

Manufacturing employment in Missouri was about unchanged for the year ending in late 1967. Non-manufacturing employment rose 2.3 per cent, reflecting sizable increases in service and state and local government employment. Employment in the construction industry decreased substantially. Construction contracts in late 1967, however, were well above year-earlier levels.

Personal income rose at a faster rate than in the nation or in Missouri in the previous eight years. Per capita income increased faster than the long-run rate. Per capita income, estimated at \$3,000, was higher than in any other Central Mississippi Valley state and only slightly below the national average.

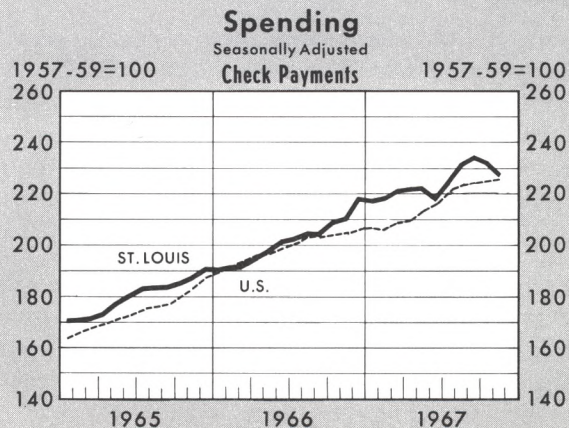
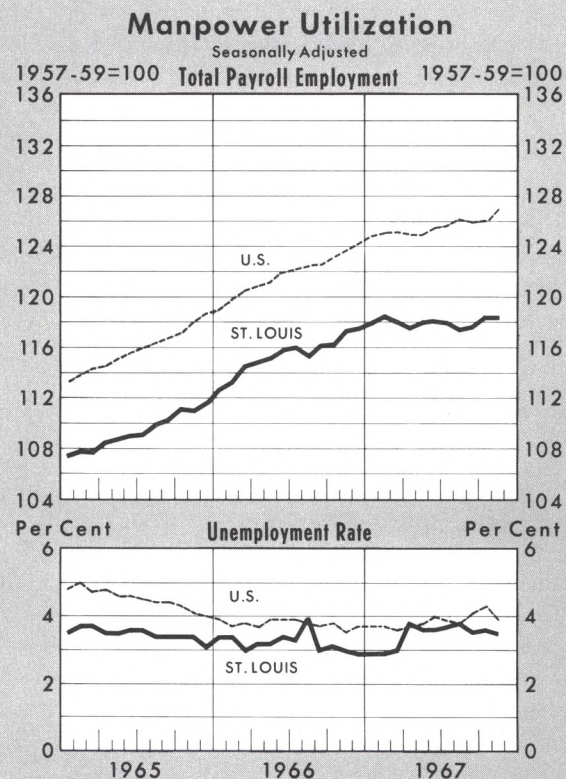
St. Louis

Economic activity in the St. Louis Metropolitan Area

advanced at a slower rate in 1967 than in most other recent years. A decline in automobile production early in the year, together with increased labor disputes, partially accounted for the slowdown. Increased defense activity was an offsetting factor.

Total employment was about unchanged over the year, compared with a 1.5 per cent average annual rate of gain in the previous eight years. Unemployment was 3.5 per cent of the labor force in late 1967,

St. Louis Metropolitan Area



somewhat above the 1966 rate, but about average for the previous two years.

Payroll employment rose 1.5 per cent on balance, with an increase in nonmanufacturing employment more than offsetting a slight decline in the manufacturing sector. Employment in the trade, service, and government groups each rose by several thousand. In the manufacturing sector, defense industries (specifically ordnance, aircraft, and electrical machinery) showed sizable increases. On the other hand, employment in primary metals and motor vehicle manufacturing was substantially less than a year earlier, partially due to labor disputes. The gradual long-term decline in employment by producers of nondurable goods continued. Average hourly earnings in manufacturing rose 4.9 per cent to \$3.22, the highest in the region and well above the U.S. average.

Construction activity declined during 1967. Construction employment was substantially less in late 1967 than a year earlier. Recent trends in construction contracts awarded, however, point to increased activity in this area. During the three months August-October the value of such contracts was 43 per cent above year-earlier levels.

Spending in St. Louis, which slowed during the first six months, advanced rapidly after mid-year. Check payments rose 11 per cent, with most of the gain in the last half year. This was well above the eight-year trend rate of 9 per cent. Department store sales advanced 8 per cent.

Activity at St. Louis banks quickened, in line with national trends during the past year. Deposits increased 8 per cent and loans rose 5 per cent, compared with longer-term growth rates of 4 per cent for deposits and 7 per cent for loans. Bank investments, which had changed very little on balance from 1957-59 to 1966, rose 19 per cent last year.

Springfield

In contrast to some leveling off of economic activity in most metropolitan areas of the region in 1967, activity continued to expand at a high rate in the Springfield area. Growth in spending, banking activity, and construction was very rapid. Employment continued to expand but at a slower rate.

Total employment rose 1.4 per cent. The unemployment rate advanced from 3.0 per cent early in the year to 4.0 per cent at mid-year and then declined somewhat. Late in the year the unemployment rate was well below the average of the preceding eight years.

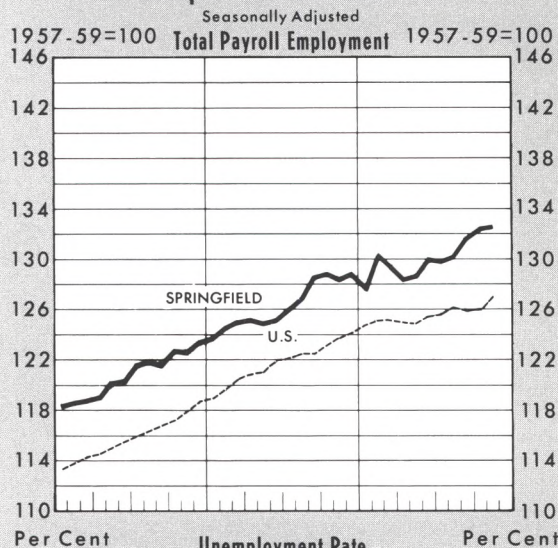
Payroll employment in Springfield increased 2.9 per

cent during 1967, with both manufacturing and non-manufacturing sectors sharing in the gain. Most of the manufacturing employment increase was attributed to expansion by a manufacturer of color televisions, while small gains occurred in several nonmanufacturing categories. From 1957-59 to 1966 payroll employment rose at an average 3.0 per cent rate.

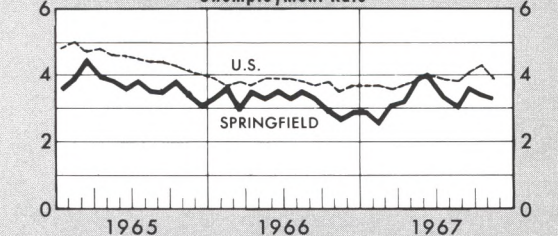
Construction employment in late 1967 was about unchanged from a year earlier, but the value of con-

Springfield Metropolitan Area

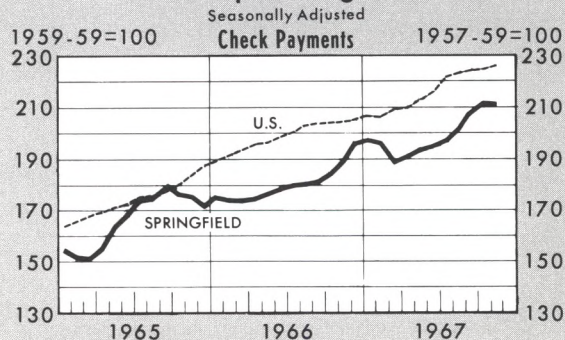
Manpower Utilization



Unemployment Rate



Spending



struction contracts awarded advanced sharply, particularly in the nonresidential sector. Total contracts awarded during August-October were up 60 per cent from the level during the same months a year earlier.

Check payments rose 14 per cent during 1967 compared with a trend rate of 8 per cent. Department store sales were 5 per cent above the level of late 1966, about the same as the national rate of gain.

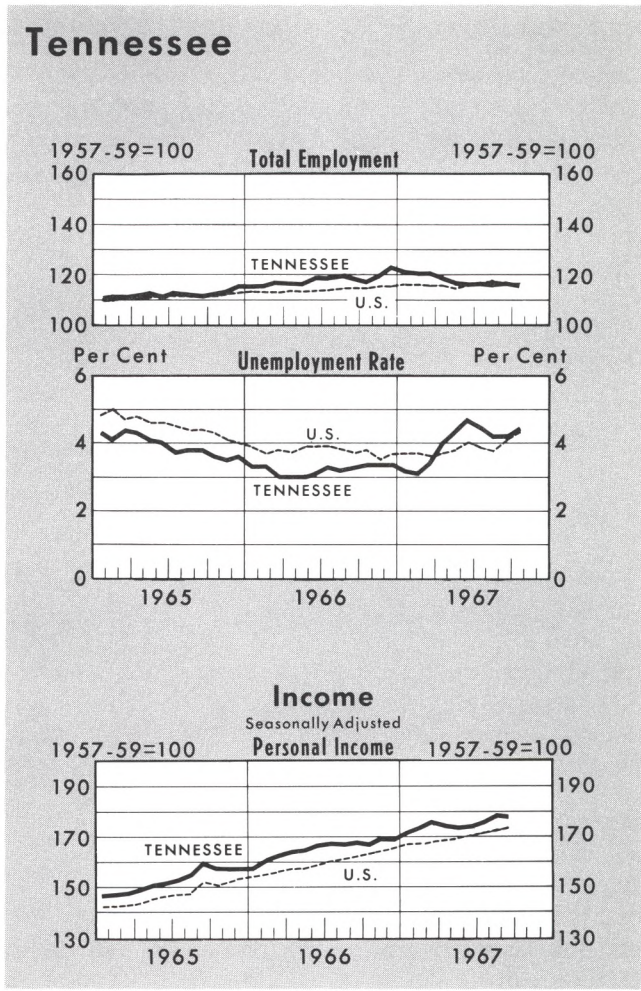
Deposits at Springfield banks rose 24 per cent and loans were up 20 per cent, but the increase in loans reflects in part net purchases of loans from banks in other areas. Bank investments also rose at a very rapid rate, continuing the trend since 1957-59.

Tennessee

Economic trends in Tennessee were typical of other Central Mississippi Valley states during 1967. Payroll employment was relatively stable. Personal income continued to advance moderately, and population increased at a slower rate than in most previous years.

From late 1966 to late 1967 total employment declined 2.1 per cent, and the unemployment rate rose from 3.4 per cent to 4.3 per cent. Prior to April 1967, the unemployment rate in Tennessee had been below the national average. Since April the rate has generally been above the national average.

Little growth occurred in payroll employment in Tennessee during 1967. This stability was the result of a decline of about 2 per cent in manufacturing employment and a small gain in nonmanufacturing. Greatest declines in the manufacturing sector occurred in the furniture industry and in stone, clay, and glass manufacturing. Manufacturing employment levels were also depressed in the autumn months by a larger-than-usual number of striking workers. A small increase in nonmanufacturing employment was largely the result



of growth in state and local government payrolls.

As in the other states with relatively low wages compared with the national average, hourly earnings of manufacturing workers in Tennessee increased substantially in 1967, and hours worked declined slightly. These wage gains relative to the national average indicate that the former reservoirs of surplus labor in the region are being depleted.

Construction contracts rose 7 per cent over levels of late 1966, with residential awards increasing substantially to more than offset a decline in nonresidential awards.

Personal income rose 7 per cent in 1967, about the trend rate for the previous eight years. Per capita income advanced 5.5 per cent to \$2,349. Although the rate of gain in per capita income in the state has been somewhat above the average for both the region and the nation, per capita income in the state is low relative to both.

Population in Tennessee in mid-1967 was estimated at 3,888,000, a 0.6 per cent increase over 1966. This

VALUE OF CONSTRUCTION CONTRACTS CENTRAL MISSISSIPPI VALLEY METROPOLITAN AREAS

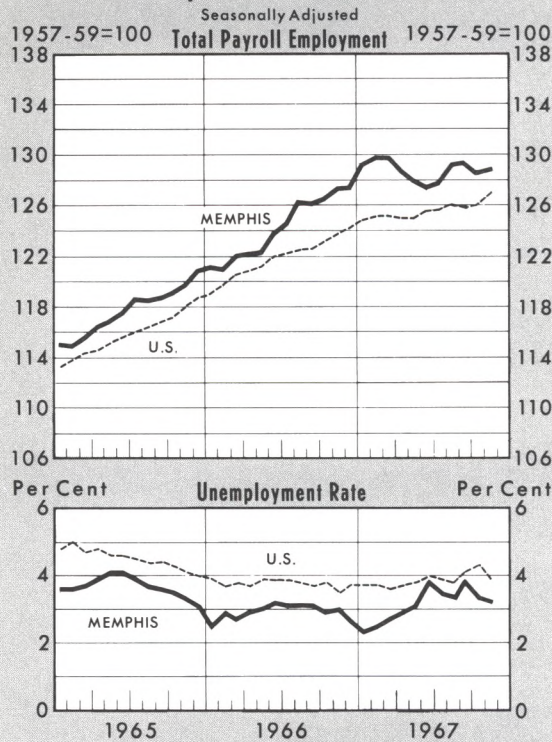
(Millions of Dollars)

	Aug.- Oct. 1966	Aug.- Oct. 1967	Per Cent Change
St. Louis	96.1	137.8	43%
Louisville	49.3	56.2	14
Memphis	46.0	61.6	34
Little Rock	15.0	21.9	46
Evansville	8.5	8.7	2
Springfield	6.5	10.4	60
Fort Smith	2.4	2.8	17

Source: F. W. Dodge Company

Memphis Metropolitan Area

Manpower Utilization



was less than half the growth rate of the 1957-59 to 1966 period.

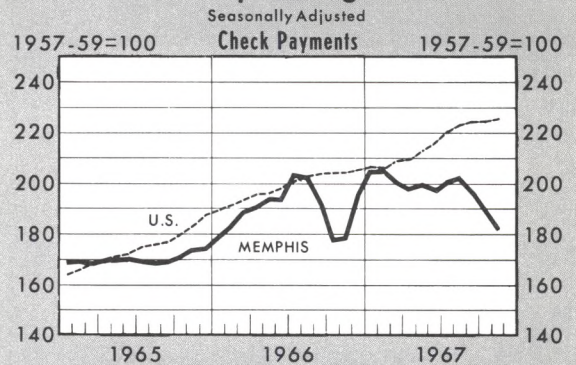
Memphis

Economic activity in the Memphis area showed mixed trends in 1967, with banking activity, average hourly earnings, and department store sales expanding rapidly. Employment, however, gained little on balance.

The unemployment rate rose from 2.3 per cent early in the year to about 3.6 per cent at mid-year and then fluctuated near the higher level. Unemployment rates in late 1967 were still well below the national rates.

Total employment in Memphis was about unchanged from late 1966 to late 1967. Payroll employment rose 1.8 per cent, well below the trend rate of 2.7 per cent in the previous eight years. Manufacturing employment increased in the first quarter and then declined sharply in the spring and early summer as the result of a decline in the nonelectrical machinery industry and a strike of 2,400 workers in the rubber

Spending



industry. Following settlement of the strike, manufacturing employment moved upward, but it had not regained the high February-March level by late 1967. The electrical machinery industry had the largest increase among manufacturing industries in the Memphis area. Nonmanufacturing employment has remained about unchanged since January, following an increase in late 1966.

Construction employment declined by several hundred over the year. Total construction contract awards in August-October were 34 per cent above year-earlier levels, pointing to a possible increase in construction activity.

Check payments at Memphis banks, which indicate the level of spending, dipped sharply in late 1966 but regained the earlier peak soon after the first of the year. Debits remained relatively high until the autumn months, when they again declined as a result of reduced cotton marketing. Most of the cotton produced in the surrounding area flows through the Memphis market to both domestic and foreign mills. The 1967 crop was down sharply from the 1966 crop, resulting in lower marketings in the area. Department store sales rose 9 per cent, the highest rate among regional metropolitan areas.

Bank deposits, which increased at rates of 2 and 6 per cent, respectively, in 1965 and 1966, rose 13 per cent last year, reflecting a very expansive national monetary policy. Loans rose sharply early in the year and declined slightly in the autumn months. Investments continued to expand very rapidly.

CLIFTON B. LUTTRELL
CLAIRE ARMENTROUT

Farm Income Declines

NET FARM income in the United States was 10 per cent less in 1967 than a year earlier, according to the United States Department of Agriculture. Cash receipts from sales of farm products were down slightly, while production expenses continued to rise. Prices received by farmers averaged 5.3 per cent lower in the first 11 months than in the same months in 1966, reflecting sizable gains in supplies of both livestock and crops.

Although net income per farm declined noticeably from the \$5,049 in 1966, it still was the second highest on record. Income (after taxes) per capita of the farm population was essentially unchanged from the \$1,717 received in 1966. Despite the setback last year, income per farm has increased at a relatively high rate in recent years. Net income per farm and per capita after-tax incomes of farm people have risen at a 6.5 per cent annual rate since 1960. By comparison, after-tax incomes per capita of the nonfarm population have increased at a 4.6 per cent rate.

Farm income in the Central Mississippi Valley states in 1967 probably declined about the same per cent from the 1966 level as the national figure.² Cash receipts from products sold in the Valley states during

¹This article is based on data presented at the National Agricultural Outlook Conference in Washington, D.C., November 13-16, 1967.

²The "Central Mississippi Valley" is used as a descriptive name for the Eighth Federal Reserve District. The district includes all of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee, as shown by the map on the cover.

the first 10 months of 1967 were one per cent above those of the same period a year earlier. This favorable comparison is not expected to continue through the remaining months, however, because of the greatly reduced cotton crop. With a lower level of estimated cash receipts and some further increases in production costs, net income to Central Mississippi Valley farmers was probably well below the 1966 total.

Production and Supply of Farm Commodities

Production of both crops and livestock in 1967 was well above year-earlier levels. The record 1967 crop was estimated to be 4 to 5 per cent greater than the 1966 harvest, reflecting major gains in corn, sorghum grain, soybeans, rice, and wheat. Among livestock products, sizable increases occurred in the production of red meat (beef, pork, veal, lamb and mutton), poultry, and eggs.

	1966	1967	Per Cent Change
Total Red Meat (mil. lbs.)	32,622	33,850 ¹	3.8
Eggs (mil.) ²	55,070	58,540	6.3
Milk (mil. lbs.)	120,230	119,800	- 0.4
Chicken and turkey (mil lbs.) ³	5,219	5,766	10.5

Source: U. S. Department of Agriculture
¹Estimated
²January-October inclusive
³January-August inclusive

Larger feed grain acreage together with a favorable growing season contributed to the 1967 feed grain crop of 176 million tons. This was 12 per cent above the 1966 output and about 6 million tons above estimated domestic use plus exports. Carry-over stocks, which had declined to 37 million tons at the beginning of the current market year, are likely to be somewhat higher at the end of the year.³

Corn production, which accounts for the major portion of the feed grain supply, rose to 4.7 billion bushels, up 15 per cent from a year earlier. This large harvest resulted from a 6 per cent increase in acres harvested and a record average yield of 78 bushels per acre. Sorghum grain production of 766 million bushels was 7 per cent larger than a year earlier. Oat production was down 2 per cent and barley was down 6 per cent.

Supplies of edible fats, oils, and oilseeds are sharply above year-earlier levels as a result of the record soybean crop. These supplies, estimated at 19.0 billion pounds, are 8 to 9 per cent greater than in 1966-67. The soybean crop was almost one billion bushels, or about 5 per cent above the year-earlier level and 35 per cent above the previous five-year average. Cottonseed production, which accounts for about one-sixth of total oilseeds, was down 21 per cent, and peanuts were up 4 per cent.

Demand for oilseed products, both for domestic use and exports, has grown rapidly. Usage of soybeans in the current marketing year is expected to total about 950 million bushels, almost 10 per cent more than last year. Nevertheless, carry-over stocks are expected to rise somewhat from the 91 million bushels last year.

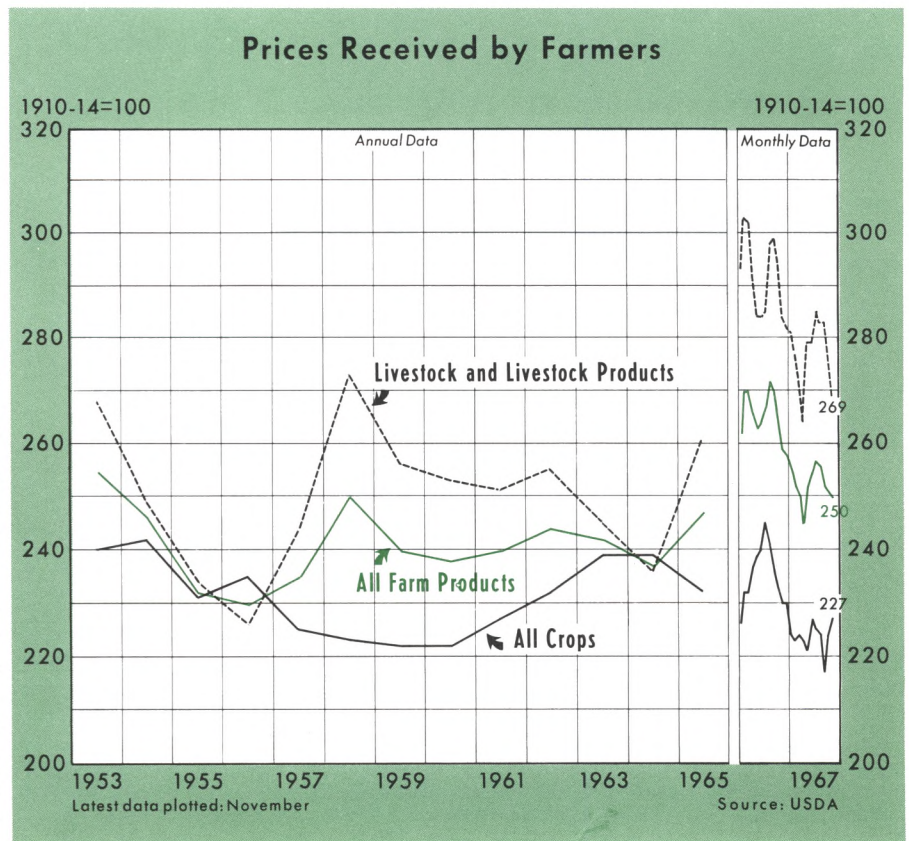
Carry-over stocks of wheat, which had declined for several years, are also likely to remain about unchanged despite the record 1967 crop of 1.5 billion bushels. This is 16 per cent larger than wheat production in 1966 and about 26 per cent greater than the 1961-65 average. Domestic use of wheat for feed, however, is expected to rise substantially, and exports may increase

³The market year begins with the harvest season and varies with individual crops. The market year for corn begins on October 1; for wheat, July 1; rice and cotton, August 1; and soybeans, September 1.

somewhat. Wheat usage (both domestic use plus exports) is estimated to total about 1.5 billion bushels in the current marketing year, and carry-over may be less than 500 million bushels, about as in 1967.

Rice supplies in the 1967-68 marketing year total almost 100 million cwt., reflecting a record crop of 90 million cwt. plus 6 million cwt. in carry-over stocks. Although rice supplies are about 7 per cent above the 1966-67 level, carry-over stocks this year may remain about unchanged. Use of rice for both domestic food and export has increased steadily in recent years, and this trend is expected to continue in the current marketing year. In 1966-67 food and export use totaled 25 and 52 million cwt., respectively, with industry (primarily breweries) and seed accounting for another 8 million cwt.

Cotton stocks at the end of this year are expected to be sharply below the generally excessive levels since 1952. The 1967 crop, estimated at 7.6 million bales, was down 20 per cent from a year earlier. This is 49 per cent below the 1961-65 average and is the smallest crop since 1895. The small cotton crop reflects a combination of factors including reduction of 600,000 acres planted, greater abandonment of planted acres because of a poor growing season, and lower yields. Carry-over stocks dropped about 4.5 million bales last



year, and the outlook points to a 5.5 million bale stock reduction this year. This estimate is based on predicted exports of 4.7 million bales, about the same as last year, and domestic mill consumption in excess of 9 million bales, slightly below the 1966-67 level. These estimates suggest a carry-over of 6.7 million bales at the end of the current year, which will be the smallest carry-over of cotton since 1953.

The excessive stocks of tobacco, typical of the late 1950's and early 1960's, have been reduced in recent years, and the 1967 crop points to some further reduction of burley tobacco carry-over. The flue-cured crop of 1.28 billion pounds is about 15 per cent greater than a year ago and slightly above estimated domestic consumption plus exports. The carry-over of this type of tobacco at the end of the current marketing year may be slightly higher than last year, when stocks were the lowest since 1962. With a decline of 6 per cent in the burley crop to 546 million pounds, coupled with an estimated disappearance in excess of 620 million pounds, stocks will be down further at the end of the current market season. The desirable ratio of burley supplies for aging purposes is about 2.8 times annual usage. The ratio is now about 3.0 times annual use.

Livestock production gains were similarly large in 1967. Production of pork and poultry were each about 15 per cent greater in the first 6 months than in the same months a year earlier. Commercial beef production was up about 6 per cent, along with both broiler and egg production, while milk production remained about the same. In the third quarter, however, production of most livestock products was nearer 1966 levels. During the July-September months cattle slaughter was only 2 per cent above that of the same months a year earlier, and hog slaughter was only 9 per cent higher. By September broiler production had been reduced to the September 1966 level. Despite this decline, production of most livestock products in 1967 was well above year-earlier levels.

With the abundance of farm production, per capita supplies of meat and poultry in 1967 were estimated at record levels. Per capita consumption of red meat (beef, veal, lamb and mutton, and pork) was estimated at 175.3 pounds, about 5 pounds above the 1966 average and above the previous high of 174.5 pounds in 1964. Per capita consumption of ready-to-cook poultry averaged 37.5 pounds, up from the previous record of 36.0 pounds in 1966. Turkey consumption of 8.8 pounds per person was also above the previous high of 7.8 pounds in 1966.

Impact of Supply on Prices

The larger flow of commodities to market in 1967 depressed farm prices. Prices of all farm products averaged 5.3 per cent lower in the first 11 months of 1967 than in the same period a year earlier. Crop prices were down 4.7 per cent, and livestock prices were down 5.5 per cent. Both crop and livestock prices declined sharply from the fourth quarter of 1966 to the first quarter of 1967 and remained at these lower levels through the second quarter. With the large harvest prospects, crop prices remained at this generally lower level throughout the year. Livestock prices rose somewhat in the third quarter, with reduced marketings, but declined again in the fourth quarter.

Of the major crops, the greatest price declines occurred in cotton and soybeans, which averaged 14 and 10 per cent lower, respectively, during the first 11 months compared with the same months in 1966. Wheat and corn were down about 4 per cent each. Part of the decline in cotton prices reflects a change in the Government price support program. In late 1967 cotton prices had regained much of their earlier loss, reflecting the major decline in 1967 production and lower Government stocks.

Hogs, broilers, and eggs showed the greatest price declines of the livestock products. During the first 11 months of the year, hog prices averaged 16 per cent below year-earlier levels, and broiler prices were down 14 per cent, both reflecting major gains in production. A decline in egg prices of 20 per cent for the same months reflects a 6 per cent gain in production and a continued downtrend in demand. Egg consumption per capita reached a peak of 403 eggs in the mid-1940's and has declined substantially since that time. Consumption averaged only 318 eggs per person in the past three years, despite the relatively low prices during most of the period.

Agriculture in the Central Mississippi Valley

Cash receipts from farm commodity sales during the first 10 months of 1967 were 1 per cent higher in the Central Mississippi Valley states than during the corresponding months a year earlier. Returns from crop sales were up about 6 per cent, reflecting a heavier carry-over of tobacco marketings into 1967 than in the previous year. When data for the remaining months are compiled, however, crop returns in the area will probably decline relative to year-earlier levels as a result of the sizable reduction in cotton output.

**CASH RECEIPTS FROM FARMING
CENTRAL MISSISSIPPI VALLEY**
(millions of dollars)

	Jan.-Oct. 1961-1965 Average	Jan.-Oct. 1966	Jan.-Oct. 1967	Per Cent Change 1966-1967
Arkansas	573.1	644.0	587.9	- 8.7
Kentucky	399.6	467.2	518.6	11.0
Mississippi	523.9	543.9	563.3	3.6
Missouri	931.5	1,073.8	1,092.2	1.7
Tennessee	390.1	423.3	421.0	- 0.6
Central Mississippi Valley	2,818.2	3,152.2	3,183.0	1.0
Illinois	1,835.8	2,329.4	2,166.5	- 7.0
Indiana	1,014.8	1,171.9	1,092.4	- 6.8
United States	29,244.6	34,512.2	34,126.8	- 1.1

Source: U.S.D.A.

Similar to the national pattern, major increases in production of most crops occurred in the Central Mississippi Valley in 1967. Production of all major crops in the region, with the exception of cotton and tobacco, was well above year-earlier levels. Soybean output was up 6 per cent, with all states showing major gains except Missouri. Arkansas and Mississippi, which have become major soybean producing states in recent years, produced 9 and 18 per cent larger soybean crops, respectively, in 1967 than a year ago. Arkansas, with a production of 91.7 million bushels last year, was the leading soybean producing state in the Valley group and third largest in the nation. The 1967 soybean crop in the five Valley states was estimated at 49 per cent above the five-year 1961-65 average. In comparison, soybean production in the nation was 35 per cent above the average for the same period.

Corn production in the region was up 18 per cent in 1967 with all Valley states sharing in the increase. Kentucky, with an increase of 44 per cent, showed the greatest percentage gain.

Production of cotton, formerly the major cash crop in the region, continued down in each state in 1967. Bales produced in the area were down 30 per cent from a year earlier. Greatest percentage declines occurred in Missouri and Tennessee where production was down 63 and 57 per cent, respectively. Cotton production in Missouri totaled only 60 thousand bales, compared with 162 thousand a year earlier and a 1961-65 average of 419 thousand bales. Production in Tennessee fell to less than 50 per cent of the 1961-65 average. Production in the major producing states of Arkansas and Mississippi in 1967 was down 31 and 19 per cent, respectively, from the year-earlier levels and 65 and 43

per cent, respectively, from their 1961-65 average. Although part of the decline in cotton production during the past two years was caused by poor weather conditions, much of the reduction reflects basic supply and demand forces that have pointed toward reduced cotton output for several years. These forces include rising cotton production outside the United States, reduced demand for American cotton relative to other fibers, and increased competition for land and labor resources formerly used for cotton production.

The Arkansas rice crop, which accounts for about 90 per cent of the area total, continued upward, rising to 5 per cent above 1966 production and 26 per cent above the 1961-65 average. This was about equal to the national rate of gain.

The area's tobacco crop in 1967, which is primarily in Kentucky, was 6 per cent smaller than a year ago and about 13 per cent below the 1961-65 average. For the nation as a whole, tobacco production was up about 6 per cent in 1967 from a year earlier.

Outlook for 1968

The United States Department of Agriculture predicts a net farm income in 1968 of about \$15 billion, roughly equal to the 1967 level. An expected gain in cash receipts plus a moderate gain in direct Government payments may boost realized gross farm income more than a billion dollars. Farm production expenses, however, are expected to rise about the same amount as realized gross income.

With fewer farms and farmers in prospect, realized net income per farm will probably be higher than in 1967 but somewhat below the record level of 1966. This rise will be coupled with some further gains in off-farm income by farm people. Consequently, per capita disposable income of farm people should be somewhat larger than the 1967 level, which was about equal to that of a year earlier.

Prospects for Production and Prices

The volume of farm product marketings in 1968 may be somewhat larger than in 1967. Livestock output is expected to remain about the same, but the volume of crop marketings, because of the large output in 1967 and the lateness of a number of major crops, will be substantially greater.

Estimates of little change in volume of livestock production in 1968 are based on projections of about the same amount of red meat and milk production,

MAJOR CROP PRODUCTION 1967 COMPARED WITH PAST OUTPUT

(Percentage Change)

	Corn		Wheat		Soybeans		Rice		Cotton		Tobacco	
	Average 1961-65 to 1967	1966 to 1967	Average 1961-65 to 1967	1966 to 1967	Average 1961-65 to 1967	1966 to 1967	Average 1961-65 to 1967	1966 to 1967	Average 1961-65 to 1967	1966 to 1967	Average 1961-65 to 1967	1966 to 1967
Arkansas	- 52.2%	16.0%	159.6%	60.4%	47.8%	9.4%	25.8%	4.7%	- 64.9%	- 31.2%	-	-
Kentucky	42.1	43.7	70.9	35.9	89.7	40.2	-	-	-	-	- 10.9	- 5.2
Mississippi	- 26.8	9.6	493.8	85.3	95.9	18.0	36.8	-0-	- 43.4	- 18.7	-	-
Missouri	13.0	8.9	42.8	30.8	14.3	- 12.0	25.7	2.6	- 85.7	- 63.0	- 25.2	- 20.3
Tennessee	7.1	21.1	128.6	90.3	123.5	30.6	-	-	- 74.8	- 57.3	- 20.5	- 8.2
Central Mississippi Valley	14.1	17.9	85.1	45.7	49.2	6.3	26.8	4.2	- 58.8	- 30.3	- 13.3	- 6.0
Illinois	44.4	31.9	23.9	25.6	14.9	14.8	-	-	-	-	-	-
Indiana	26.3	13.1	9.8	8.5	- 5.3	- 3.9	-	-	-	-	- 7.6	- 2.8
United States	25.6	14.7	25.6	16.2	35.3	4.8	31.9	5.4	- 49.0	- 20.4	- 7.1	6.3

Source: USDA, 1967 estimates as of December 1.

some decline in egg production, and a relatively small increase in poultry output. On the basis of cattle numbers and number on feed, total cattle slaughter in 1968 will probably continue at about the 1967 level, with somewhat larger fed cattle marketings offsetting a decline in marketings of cows and calves. Hog slaughter for the year may average slightly higher. Little change from year-earlier levels is expected during the first six months, but with larger feed supplies and lower feed prices, hog slaughter will probably rise above year-earlier levels in the second half of 1968. Lamb slaughter is expected to continue the downward trend of recent years. Dairy cow numbers will probably decline another 3 to 4 per cent in 1968, but output per cow has been increasing at about this rate. Thus, little change in milk production is anticipated.

Broiler production is expected to continue up in 1968 but at a slower rate than in 1967. Recent placements of pullet chickens for broiler supply flocks have been down from year-earlier levels. This cutback, coupled with the very low prices of recent months, point to a reduction in the rate of increase of broiler output in early 1968. If prices provide the incentive later in the year, the smaller laying flocks still have the capacity for an increase in broiler production.

Egg producers are expected to cut back from the record number produced in 1967 in response to the relatively low prices received. Production may run slightly above 1967 levels in the first half of the year, but after mid-year production is expected to drop below the year-earlier rate.

The record production of crops in 1967 of 4 to 5 per

cent above 1966 assures larger marketings of most crops during the 1967-68 marketing season. What happens later in the year as the new harvesting season begins depends upon numerous factors including anticipated prices, growing conditions, and government programs. The 1968 government programs which have been announced are designed to reduce wheat and feed grain acreage by about 10 per cent and expand cotton production to equal estimated domestic consumption plus exports. This would require an increase in 1968 output of about 75 per cent from the very small 1967 crop.

Prices received by farmers for all commodities in 1968 are expected to average somewhat higher than in 1967. Despite the large volume of crop marketings in prospect, crop prices are likely to average about the same as in 1967. Most crop prices currently reflect government price supports, thus the larger supplies are not expected to depress prices much more. If overall livestock product marketings are unchanged as anticipated, output per capita will decline somewhat. This decline, coupled with a very strong prospective demand, points to higher prices.

Prices are expected to average somewhat higher for cattle, hogs, calves, and lambs. Milk prices are likely to average near 1967 levels if current price supports and Federal milk marketing order price levels continue. Egg prices to producers may average below year-earlier levels in the first half of 1968, but higher in the second half of the year. Broiler prices in the early months of 1968 should remain about unchanged, al-

though they are expected to be moderately higher later in the year.

Outlook for Food Costs

Reflecting a sizable decline in prices received by farmers and an offsetting increase in processing and distribution costs, food prices at retail stores in 1967 remained about unchanged. Total food prices, which include retail store sales plus restaurant sales, rose 1 per cent, as a 5 per cent increase occurred in restaurant

prices.

Advances in food prices are expected in 1968. Farm commodity prices are expected to rise rather than fall. Demand for food will continue up, but supplies may remain about unchanged. Also, continued advances in food marketing costs must ultimately be reflected in food prices. Thus, in contrast to 1967 when a larger per capita supply of food products contributed to price stability, little change in supplies and higher prices suggest an overall increase of 2 to 3 per cent in food costs for 1968.



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