FEDERAL RESERVE BANK OF ST. LOUIS

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REVIEW

CONTENTS

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Operations of the Federal Reserve Bank of St. Louis – 1975

JEAN M. LOVATI

THE operations of the Federal Reserve System are conducted through the Board of Governors and a network of 12 Federal Reserve Banks located in districts across the country. The Federal Reserve System provides a variety of services for member commercial banks, the United States Government, and the public. Federal Reserve Banks clear and collect checks, transfer funds, distribute coin and currency, and extend credit to member banks. They supervise and regulate member banks and bank holding companies. As bankers for the Federal Government, Federal Reserve Banks carry the principal checking accounts of the United States Treasury and market Treasury securities.

The Federal Reserve Bank of St. Louis serves the Eighth Federal Reserve District, which includes all of Arkansas and parts of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee. Branch offices of the St. Louis Federal Reserve Bank are located in Little Rock, Louisville, and Memphis. This article reviews the functions and operations of the St. Louis Federal Reserve Bank and its branches during 1975.

Bank Supervision and Regulation

The Federal Reserve Bank of St. Louis, along with the state banking authorities, has responsibility for the supervision of the 84 state chartered banks in the Eighth Federal Reserve District which have elected to become members of the Federal Reserve System. Bank supervision is concerned essentially with the safety and soundness of individual banks. To ensure solvent and effective banking institutions and adherence to bank laws and regulations, each Federal Reserve Bank conducts field examinations of member banks within its district. These examinations involve an evaluation of the banks' assets and liabilities as well as their capital and liquidity positions and an appraisal of the capabilities of their managements.

Although they have authority to examine all member banks, Federal Reserve Banks generally do not examine national banks, which are required to be members of the Federal Reserve System. Primary responsibility for examination and supervision of national banks, which number 344 in the Eighth District, lies with the office of the Comptroller of the Currency. The Federal Deposit Insurance Corporation (FDIC), along with respective state banking authorities, examines state nonmember banks that are insured by the FDIC. Noninsured banks are examined only by state authorities.

Federal Reserve Banks also supervise bank holding companies. At the end of 1975, the Federal Reserve Bank of St. Louis had jurisdiction over 19 multibank and 71 one-bank holding companies. Prior approval must be obtained from the Federal Reserve System for bank holding company formations and for acquisitions of additional banks and permissible nonbank subsidiaries. Applications for holding company formations and for acquisitions of additional subsidiaries are analyzed by the Bank Supervision and Regulation Department along with the Legal and Research Departments. In the analyses, these departments consider the history, financial condition, and prospects of the institutions, and evaluate the quality of management. They also assess the legal aspects of the proposal and its likely effects on banking and nonbanking competition. During 1975, the Federal Reserve Bank of St. Louis processed 19 applications to form one-bank or multibank holding companies and 20 applications by holding companies to acquire additional subsidiaries, engage *de novo* in nonbank activities, or establish new locations.

Upon formation, bank holding companies are required to register and thereafter to file annual reports with Federal Reserve Banks. These annual reports are analyzed by the staff of the Bank Supervision and

Table I

VOLUME OF OPERATIONS[1]

	Number (thousands)		Percent	Dollar Amount (millions)		Percent
	1975	1974	Change	1975	1974	Change
Checks handled[2]	628,079	614,104	2.3%	$225,061.2	$210,413.3	7.0%
Transfers of funds	816	614	32.9	748,395.6	691,202.7	8.3
Coin received and counted	1,160,485	1,292,669	−10.2	122.5	127.8	−4.1
Currency counted or weighed[3]	309,610	291,841	6.1	2,648.1	2,434.1	8.8
U.S. Savings Bonds and Savings Notes[4]	11,659	11,422	2.1	674.2	668.2	0.9
Other Government Securities[4]	576	674	−14.5	40,337.7	28,326.2	42.4
U.S. Government coupons paid	681	646	5.4	267.7	257.9	3.8
Food Stamps received and counted	163,733	180,365	−9.2	567.4	427.7	32.7

[1]Total for the St. Louis, Little Rock, Louisville, and Memphis offices.
[2]Excludes U.S. Government checks and postal money orders.
[3]Beginning in 1974, some currency has been verified by weighing without counting.
[4]Issued, serviced, or redeemed.

Regulation Department to verify accuracy and completeness, to ascertain the financial condition of the holding company and its subsidiaries, and to determine compliance with applicable laws and regulations. Examination reports submitted to the primary Federal supervisory agency of the respective bank subsidiaries are also analyzed by the Federal Reserve Bank to determine the overall condition of such subsidiaries. In addition, the Bank conducts discretionary on-site inspections of bank holding companies and their nonbank subsidiaries. The purpose of these inspections is similar to that of examinations of member banks.

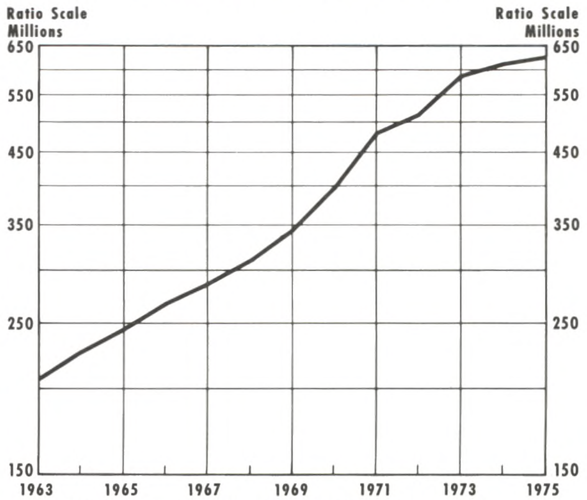
Check Collection

Checks drawn on commercial banks can be cleared through facilities maintained by the Federal Reserve System. Settlement for the checks collected is made by entries to member banks' reserve accounts at Federal Reserve Banks. To increase the speed of the payments process, the Federal Reserve System has instituted a network of Regional Check Processing Centers (RCPCs). Through this network checks are processed overnight, thereby achieving prompt credit and payment for the items. Each of the four Eighth District Federal Reserve offices serves an RCPC area.

Banks deposit checks at RCPCs according to specific time schedules. Personnel at the RCPCs process the checks overnight, deliver them to the paying banks, and obtain payment by an automatic charge to the reserve accounts of Federal Reserve member banks. Checks drawn on member banks are paid on the day of presentment by charges to their reserve accounts or to the reserve accounts of correspondent member banks. Similarly, payment for checks drawn on nonmember banks is effected on the same day the checks are presented for payment by an authorized reduction in the reserve accounts of correspondent member banks. Most of the dollar volume of checks cleared in the Eighth District is accomplished through this overnight system.

The number and dollar amount of checks handled by the Eighth District Federal Reserve offices increased slightly in 1975 (Table I). During the year, 628 million checks with a value of $225 billion were cleared through the four offices, an increase of 2.3 and 7 percent, respectively, over the volumes handled in 1974. The dollar amount of checks cleared has increased steadily since 1970 at an annual rate of 10.2 percent. The quantity of checks, on the other hand,

Number of Checks Handled*



*Excludes U.S. Government checks and postal money orders.

increased at a 6.9 percent annual rate between 1971 and 1975. This represents a deceleration in the growth of the quantity of checks cleared from an 11.2 percent rate in the previous eight years.

Electronic Transfer of Funds

The Federal Reserve Banks make available to member banks a computer-based communication system which can be used to transfer funds from one part of the country to another. Through the Federal Reserve Communications System, member banks may transfer funds to other member banks for their own accounts or for their customers. These electronic transfers of funds are made through debits or credits to member banks' reserve accounts. No charge is made for transfers of $1,000 or more. The System's communication facilities are often used by member banks to transfer marketable Government securities or to lend their excess reserves to other banks for temporary reserve adjustments.[1] Nonmember banks have access to funds transfer services through correspondent banks which are members of the Federal Reserve System.

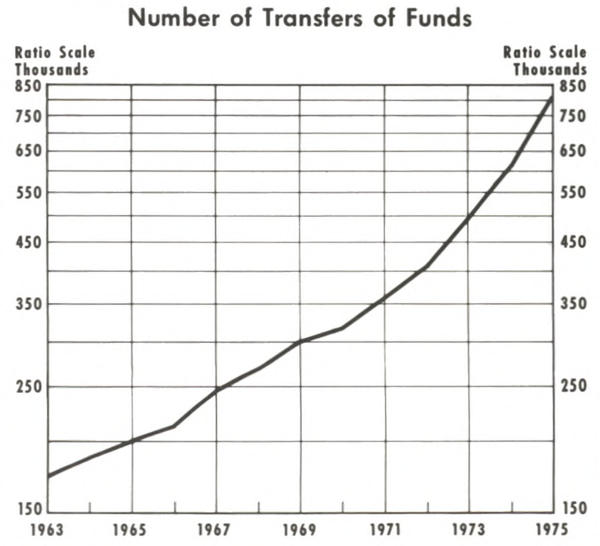
The size of the communication network in the Eighth District has continued to increase. At the beginning of 1975, three commercial banks in St. Louis and two in Memphis, plus the Louisville, Memphis and St. Louis Federal Reserve offices were already equipped with on-line terminals. During the year, on-line terminals were installed at the Little Rock branch plus an additional 14 commercial banks in the Eighth District. Of these commercial banks, five are located in the Little Rock zone, four in the Louisville zone, four in the St. Louis zone, and one in the Memphis zone. Thus, all four Federal Reserve offices and a total of 19 commercial banks in the Eighth District are currently on-line.

The terminals are linked directly to the computer at the St. Louis Federal Reserve Bank which serves as the communication and switching center for the entire Eighth District. Through the terminals, the on-line commercial banks are able to initiate funds transfers directly from their offices instead of telephoning or teletyping the information to the St. Louis Reserve Bank for transmission. The transfers are then switched automatically by computer from the Federal Reserve Bank of St. Louis through a central switching unit to the Federal Reserve office of the receiving commercial banks with no direct involvement by Federal Reserve personnel. If the receiving bank is also on-line, the transfer is again automatically switched by computer to that bank through its Federal Reserve office without being handled by the personnel at that office.

In processing a transfer of funds, the computer records the accounting data and other information needed to complete the transaction. This information is then used to update member banks' reserve accounts. Banks with on-line terminals receive an immediate record of each transaction.

Since the installation of on-line terminals at the 19 district commercial banks, an average of 2,857 transactions per day sent and received are no longer handled by Eighth District Federal Reserve personnel, reducing the number of transfers handled by District personnel by 78 percent. Automated switching through these terminals has reduced the time for completion of a typical funds transaction from nearly an hour to only a few minutes.

The number and value of transfers facilitated by the four Eighth District offices continues to increase swiftly. This year, 816,000 transfers of funds, with a value of $748 billion, were made by the St. Louis Federal Reserve Bank and its branches. This is a 33 percent increase in the number and an 8 percent increase in the value of 1974 transfers. Since 1973, the number of transfers has increased at an annual rate of 28.5 percent and the dollar value has risen at a 23.4 percent rate. While the quantity of transfers handled by the four Eighth District offices is still far below the quantity of checks cleared, the dollar value



[1]The market which brings banks together for the borrowing and lending of excess reserves is called the Federal funds market.

of funds transferred has surpassed the value of checks handled. Since 1968, the dollar volume of funds transferred has grown at a 23.7 percent annual rate.

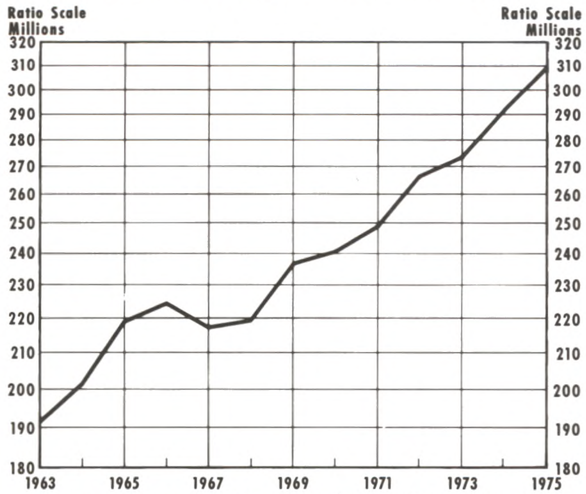
In August 1975, the Federal Reserve Bank of St. Louis implemented the payment of Air Force payroll by electronic means. Payment data on magnetic tape are received twice a month and sorted at the Reserve Bank, which then forwards the data to receiving banks by magnetic tape or paper listings. Settlement is made through credits to the reserve accounts of member banks. Payments made in December, 1975, for example, totalled 21,458 and were transferred to 987 banks. Three of these banks, whose 9,098 items represented 42.4 percent of total payments in December, receive their Air Force payment data on magnetic tape.

Coin and Currency

Virtually all coin and paper currency move into and out of circulation through Federal Reserve Banks. Coin and paper currency play an important role in settling relatively small financial transactions, and currently account for approximately 25 percent of the nation's money stock.

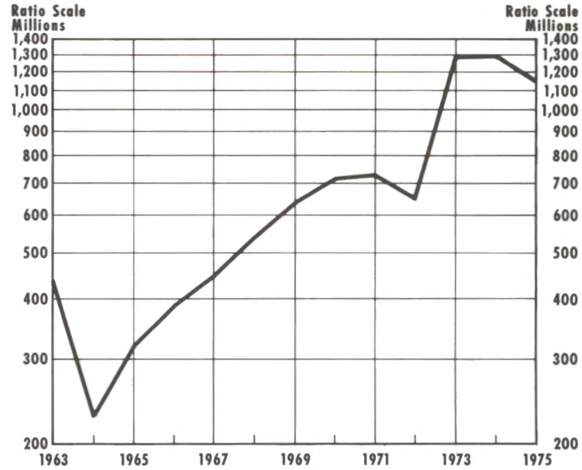
There are seasonal fluctuations in circulating currency which reflect, in part, changes in retail trade, travel, and variations in agricultural production. Currency demand rises, for example, during the intensified shopping period before Christmas and just before certain holidays such as Easter and the Fourth of July. To meet the public's demand for cash, member banks hold stocks of coin and currency which are maintained through orders from Federal Reserve Banks. These orders are charged by the Federal Reserve Banks to the member banks' reserve accounts. When the stocks of currency on hand exceed desired levels, member banks forward the excess to their Federal Reserve Banks for credit to their reserve accounts. Member banks generally service the demand for currency of nonmember banks.

Pieces of Currency Counted or Weighed*



*Beginning in 1974, some currency has been verified by weighing without counting.

Number of Coins Received and Counted



During 1975, about 310 million pieces of currency with a value of $2.6 billion were received and counted or weighed by the four Eighth District offices. This represents increases of 6.1 percent in number and 8.8 percent in dollar volume from 1974. Both the number and value of coins received and counted are down from the 1974 levels. Pieces of coin received and counted totalled 1.2 billion in 1975, amounting to $122.5 million, decreases of 10.2 and 4.1 percent, respectively, from 1974. Despite these declines, combined sorting, counting, and wrapping of coin and currency at all four offices averaged over 6.7 million pieces per working day in 1975.

Paper currency is sorted at the Reserve Banks and that which is no longer usable is removed from circulation and destroyed. During 1975, the Federal Reserve Bank of St. Louis and its branches verified and destroyed currency totalling $865 million.

Lending

The Federal Reserve Bank provides three types of credit to member banks: short-term adjustment, seasonal, and emergency credit. Short-term adjustment credit is extended as banks seek funds to make temporary adjustments in their reserve positions due to

As of February 1, 1976

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RAYMOND C. BURROUGHS, President, The City National Bank of Murphysboro, Murphysboro, Illinois

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Price Waterhouse & Co., Memphis, Tennessee

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STALLINGS LIPFORD, President, First-Citizens National Bank of Dyersburg, Dyersburg, Tennessee

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Member, Federal Advisory Council

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First National Bank in St. Louis
St. Louis, Missouri

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F. GARLAND RUSSELL, JR., *Senior Vice President, General Counsel, and Secretary of the Board*

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HAROLD E. UTHOFF, *Senior Vice President*

LEONALL C. ANDERSEN, *Economic Adviser*

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JOSEPH P. GARBARINI, *Vice President*

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JAMES R. KENNEDY, *Vice President*

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BERNHARDT J. SARTORIUS, *General Auditor*

DELMER D. WEISZ, *Vice President*

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ALBERT E. BURGER, *Assistant Vice President*

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JOAN P. CRONIN, *Assistant Counsel & Assistant Secretary of the Board*

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RICHARD O. KALEY, *Assistant Vice President*

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EUGENE F. ORF, *Assistant Vice President*

ALEXANDER P. ORR, *Assistant Vice President*

PAUL SALZMAN, *Assistant Vice President*

LESLIE F. SCHMEDING, *Assistant Vice President*

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CHARLES D. ZETTLER, *Assistant Vice President*

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THOMAS R. CALLAWAY, *Assistant Vice President*

DAVID T. RENNIE, *Assistant Vice President*

Louisville Branch

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JAMES E. CONRAD, *Assistant Vice President and Assistant Manager*

ROBERT E. HARLOW, *Assistant Vice President*

GEORGE E. REITER, JR., *Assistant Vice President*

Memphis Branch

L. TERRY BRITT, *Vice President and Manager*

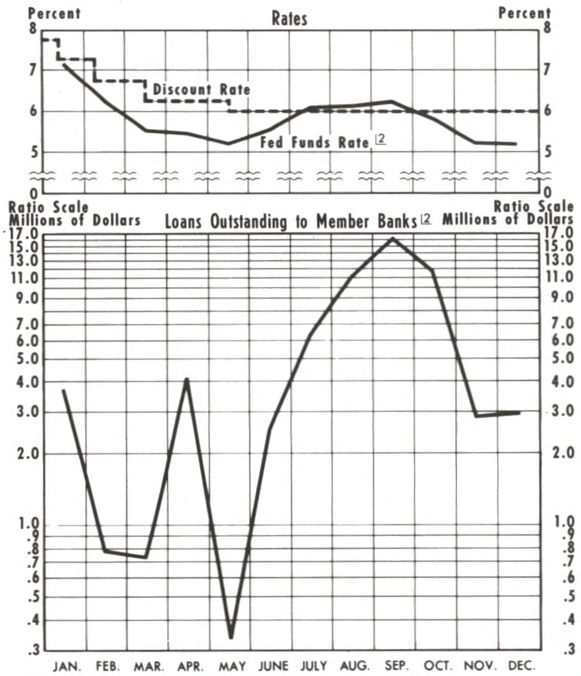
PAUL I. BLACK, JR., *Assistant Vice President and Assistant Manager*

A. C. CREMERIUS, JR., *Assistant Vice President*

CHARLIE L. EPPERSON, JR., *Assistant Vice President* unexpected or unusual increases in loan demand, deposit losses, or other portfolio changes encountered by the individual banks. Seasonal credit is extended to those eligible member banks, usually small in size, which have highly seasonal loan demands. Such demands arise from a recurring pattern of movement in deposits and loans. Banks must arrange for this type of credit in advance. During 1975, five banks in the Eighth District made use of this seasonal borrowing privilege. Federal Reserve credit is also available for longer periods to aid member banks in meeting emergency situations which may result from unusual local, regional, or national financial developments, or from adverse circumstances involving particular member banks. No emergency loans were made in 1975.

The interest rate at which member banks borrow from the Federal Reserve Banks is called the discount rate. The volume of credit extended by the Federal Reserve Banks is influenced by the level of the discount rate in relation to other short-term market interest rates. When the discount rate is higher than alternative market interest rates, member banks are reluctant to borrow from the Federal Reserve to make temporary reserve adjustments. They may choose, instead, to obtain funds from the Federal funds market or through markets for other short-term instruments.

Influence of Relative Interest Rates on Member Bank Borrowings [1]



[1] Discount rate and loan data for Federal Reserve Bank of St. Louis.
[2] Monthly averages of daily figures.

On the other hand, when the discount rate is low relative to market rates, Federal Reserve lending is likely to increase as member banks take advantage of the cheaper rates. Member banks which borrow from the Federal Reserve under emergency situations are charged a special interest rate which is higher than the discount rate just described.

The discount rate at the start of 1975 was 7.75 percent; it was lowered four times and stood at 6 percent at year-end. The discount rate remained above short-term market interest rates throughout most of the year. Accordingly, member bank borrowings were low, with the daily average of loans outstanding at $5.3 million. This is a substantial decrease from 1974, when the discount rate remained below other market rates and outstanding loans averaged about $55 million. During 1975, the St. Louis Federal Reserve Bank made 280 advances, amounting to $1.1 billion, to 44 Eighth District member banks. This compares with the 2,164 advances totalling $11.1 billion to 111 member banks in 1974.

Fiscal Agency

The Federal Reserve Banks perform a variety of services for the Federal Government in acting as its fiscal agent. As bankers for the Government, Federal Reserve Banks carry the principal checking accounts of the U.S. Treasury, through which the Treasury makes payments for all major types of Government spending. The Treasury receives funds directly into its accounts at Federal Reserve Banks or through deposit accounts, called tax and loan accounts, at approved commercial banks. Such funds are received mainly from the payment of taxes and the sale of Government securities to the public. Funds initially deposited in tax and loan accounts are transferred periodically to the Treasury's accounts at Federal Reserve Banks in order to maintain a balance large enough to meet all of the Treasury's near-term payments.

The Federal Reserve Banks also act on behalf of the Government in marketing Government securities. When the Treasury offers new securities, the Reserve Banks receive subscriptions from those who wish to buy. Reserve Banks then allot the securities among the subscribers according to instructions from the Treasury, collect payment, and deliver them to the purchasers. With funds from the Treasury's accounts, the Federal Reserve Banks pay interest on securities and redeem them at maturity. Reserve Banks also pay interest on and redeem the securities of most Government sponsored corporations.

As fiscal agent, Federal Reserve Banks hold in safekeeping the securities pledged by commercial banks to secure Government deposits in tax and loan accounts. In addition, Reserve Banks will also hold other securities in safekeeping as a service to member banks. U.S. Treasury and most Government Agency securities are held in the form of book-entries in the records of the Reserve Banks. Other securities, such as municipal bonds, are held in physical form in the vaults of the Federal Reserve Banks.

Federal Reserve Banks issue, service, and redeem U.S. savings bonds. During 1975, 11.7 million savings bonds with a dollar value of $674 million were issued, serviced, or redeemed by the St. Louis Federal Reserve Bank and its branches. Also, 576,000 other Government securities totalling $40 billion were issued, serviced, or redeemed, and 681,000 Government bond coupons totalling $268 million were paid by these offices.

As fiscal agents, Federal Reserve Banks also redeem U.S. Government food stamps. A total of 164 million food stamps totalling $567 million were received and counted by the four Eighth District Federal Reserve offices in 1975.

Research

Through its collection of business, monetary, and financial data, the Research Department of the Federal Reserve Bank of St. Louis analyzes economic conditions on a regional, national, and international level. These analyses are used by the President of the Bank in making monetary policy recommendations at meetings of the Federal Open Market Committee and in providing information to the public.[2]

Economic data and analyses on recent developments are available to the public through the Research Department's 10 weekly, monthly, and quarterly publications. The *Review*, with a monthly circulation of 42,000, incorporates much of the analytical research undertaken by the Research staff.

In addition to these functions, the Research Department engages in studies of bank market structure. These studies include review and analysis of proposed bank holding company acquisitions and bank mergers. The particular emphasis of the Research Department's analysis is the expected effects of the proposed acquisitions and mergers on competition and on meeting the convenience and needs of the area to be served.

Bank Relations and Public Information

The Federal Reserve Bank of St. Louis strives to maintain personal contact with member banks through its visitation program. Through this program, the St. Louis Bank keeps member banks informed of changes in Federal Reserve regulations and procedures and

Table II

COMPARATIVE STATEMENT OF CONDITION
(Dollar Amounts in Thousands)

	December 31, 1975	December 31, 1974
ASSETS		
U.S. Government Securities:		
Bills	$1,417,460	$1,437,167
Certificates	—	—
Notes	1,675,830	1,564,002
Bonds	210,358	128,351
TOTAL U.S. GOVERNMENT SECURITIES	$3,303,648	$3,129,520
Discounts and Advances	$ 650	$ 2,100
Acceptances	—	—
Federal Agency Obligations	231,329	183,812
TOTAL LOANS AND SECURITIES	$3,535,627	$3,315,432
Gold Certificate Account	$ 449,371	$ 517,979
Special Drawing Rights Certificate Account	20,000	15,000
Federal Reserve Notes of Other Banks	59,242	47,993
Other Cash	25,419	21,197
Cash Items in Process of Collection	473,744	420,998
Bank Premises (Net)	13,151	13,560
Interdistrict Settlement Account	403,896	—
Other Assets	51,301	36,961
TOTAL ASSETS	$5,031,751	$4,389,120
LIABILITIES AND CAPITAL ACCOUNTS		
LIABILITIES		
Deposits:		
Member Bank — Reserve Accounts	$ 740,663	$ 828,804
U.S. Treasurer — General Account	521,866	154,696
Foreign	8,928	9,860
Other Deposits	9,420	18,737
TOTAL DEPOSITS	$1,280,877	$1,012,097
Federal Reserve Notes (Net)	$3,321,416	$2,969,610
Deferred Availability Cash Items	328,733	305,965
Other Liabilities and Accrued Dividends	38,251	41,384
TOTAL LIABILITIES	$4,969,277	$4,329,056
CAPITAL ACCOUNTS		
Capital Paid In	$ 31,237	$ 30,032
Surplus	31,237	30,032
Other Capital Accounts	—	—
TOTAL CAPITAL ACCOUNTS	$ 62,474	$ 60,064
TOTAL LIABILITIES AND CAPITAL ACCOUNTS	$5,031,751	$4,389,120

MEMORANDA: Contingent liabilities on acceptances purchased for foreign correspondents decreased from $33,415,000 on December 31, 1974 to zero on December 31, 1975.

[2]The Federal Open Market Committee consists of the seven members of the Board of Governors of the Federal Reserve System and five of the twelve Reserve Bank Presidents, four of which serve on a rotating basis. It directs the purchase and sale of Treasury and Government agency securities on the open market by the Federal Reserve System.

Table III

COMPARATIVE PROFIT AND LOSS STATEMENT
(Dollar Amounts in Thousands)

	1975	1974	Percent Change
Total earnings	$231,796	$229,890	0.8%
Net expenses	34,083	32,732	4.1
Current net earnings	197,713	197,158	0.3%
Net additions (+) or deductions (−)	−6,714	−2,414	—
Net earnings before payments to U.S. Treasury	$190,999	$194,744	−1.9%
Distribution of Net Earnings:			
Dividends	$ 1,845	$ 1,764	4.6%
Interest on Federal Reserve Notes	187,948	191,433	−1.8
Transferred to Surplus	1,206	1,547	−22.0
TOTAL	$190,999	$194,744	−1.9%

provides assistance if questions arise. The Bank Relations and Public Information Department makes available to all member banks in the Eighth District the Federal Reserve Functional Cost Analysis Program. This program enables a participating bank to measure its profitability by comparing its cost and revenue figures with System-wide average figures of participating banks. The Functional Cost Analysis program makes possible comparisons by size of banks and particular functions. Last year, 50 banks in the Eighth District participated in this program.

It is also through this department that the Bank maintains contact with the public. During 1975, the officers and staff members of the St. Louis Federal Reserve Bank and its branches delivered 302 addresses before groups of bankers, businessmen, and educators. The Bank was represented at 469 banker, 500 professional, and 308 miscellaneous meetings. Under the bank visitation program, 1,121 banks were visited. During 1975, 228 groups requested films, and 5,352 visitors toured the four Federal Reserve offices in the Eighth District.

Financial Statements

At the end of 1975, assets of the St. Louis Federal Reserve Bank and its branches totalled $5 billion, an increase of 14.6 percent from the previous year (Table II). Increases in Federal agency obligations and in U.S. Government notes and bonds were largely responsible for the increase in total assets. Approximately 66 percent, or $3.3 billion, of the Bank's total assets were held in U.S. Government securities. The remaining assets, which include the gold certificate account, the special drawing rights certificate account, Federal Reserve notes of other banks, and interdistrict settlement account, amounted to $1.7 billion.

Total liabilities of the four offices of the St. Louis Federal Reserve Bank increased to $5 billion in 1975, 14.8 percent higher than the year-earlier figure. A major source of this change was the increase of $367 million in U.S. Treasury deposits held at the Bank. Total deposits rose 26.6 percent in 1975, to $1.3 billion. Federal Reserve notes, the principal type of circulating currency, amounted to $3.3 billion, 66.8 percent of the Bank's total liabilities.

Federal Reserve Banks' earnings result mainly from interest on Government securities, loans to member banks, and other investments. The portion of the Federal Reserve System's earnings allocated to the St. Louis Bank and its branches increased 0.8 percent in 1975, to $232 million (Table III). After statutory dividends of $1.8 million were paid to member banks and operating expenses of $34 million were covered, $1.2 million was transferred to surplus and $188 million, or 81.1 percent of total earnings, was paid to the Treasury as interest on Federal Reserve notes.

Outlook for Agriculture

With Special Reference to Eighth District Farm Products

CLIFTON B. LUTTRELL

CHANGES in agricultural conditions in the Eighth Federal Reserve District generally follow the national pattern. Hence, the projections of the national pattern presented by the United States Department of Agriculture (USDA) at the National Agricultural Outlook Conference in Washington, D.C. last November, and in more recent reports, may be applied to the District. These projections are generally limited to the current crop marketing year which begins at different dates for the various crops.[1]

The mid-November forecast of realized net farm income in the nation for the current marketing year (1975-76) is well above that of 1974-75, and the forecast of total net is larger than realized net since inventories will be increasing. Cash receipts from farm product sales are projected at $101 billion, $10 billion above the 1974-75 level. Since the forecasts were made, however, prices of some major commodities have declined somewhat and may, therefore, reduce returns from the forecasted levels. Although production expenses are likely to continue up, their rate of increase is expected to be less than in recent years.

NATIONAL OUTLOOK

Farm Commodity Sales

The projected increase in farm product sales this year is based on increased returns from both crops and livestock. There was an 11 percent increase in the volume of crops harvested last fall, and slightly lower average crop prices are anticipated. The volume of livestock production for the 1975-76 marketing year is expected to be about the same as in 1974-75, but a sizable increase in average prices of livestock products is anticipated. Most of the projected year-to-year gain in livestock product prices has already occurred, as prices rose sharply with the declining livestock output during 1975. Livestock output is expected to rise this year from the low rate of production experienced in late 1975, and rising output will tend to offset the upward price pressure of further increases in demand.

Despite the sharp increase in production since last fall, crop prices during the 1975-76 marketing year are forecasted to average only 5 percent less than a year earlier as a result of rising foreign and domestic demand. Last summer's higher prices for livestock products provided incentive for increased livestock production and enhanced domestic demand for all types of crop feed.

Export Demand Up Sharply

Export demand for U.S. grain crops has increased sharply this year (1975-76) as a result of crop failures in some major grain producing areas. The value of farm commodity exports during the 1975-76 marketing year is expected to total $22.7 billion, well above the 1974-75 total of $21.6 billion. The price of such exports is expected to average somewhat less than last year, but the volume is projected to be 15 percent larger. This is the sixth consecutive marketing year of rising dollar value of farm commodity exports. From about $5 billion per year in the late 1960s, the total value of such exports rose to more than $10 billion in 1973 and to $20 billion in 1974. Reflecting both the sharp increase in the amount of crops harvested and an increase in export demand, the volume of exports of some major crops, including wheat and corn, is expected to exceed the 1974-75 levels by 25 to 30 percent (Table I). An increased volume of soybean

[1]Year beginning July 1 for oats, barley, and tobacco; August 1 for rice and cotton; October 1 for soybeans, corn, and sorghum.

Table I

ESTIMATED SUPPLY AND USAGE OF MAJOR EIGHTH DISTRICT CROPS IN 1975-76 AND PERCENT CHANGE FROM 1974-75

Crop	Beginning Stocks Amount	Beginning Stocks Percent Change	Production Amount	Production Percent Change	Domestic Use Amount	Domestic Use Percent Change	Exports Amount	Exports Percent Change
Wheat (million bushels)	320	+30%	2,134	+19%	707	+ 4%	1,350	+30%
Corn (million bushels)	359	− 7	5,767	+24	4,040	+11	1,450	+26
Rice (million cwt.)	7.1	− 9	127.6	+14	41.8	+ 4	111.3	+ 1
Soybeans (million bushels)	186	+ 9	1,521	+25	850	+ 7	475	+13
Cotton (million bales)	5.7	+50	8.3	−28	7.0	+19	3.8	− 2
Tobacco (million pounds)*	2,731.5	+ 2	2,049.0	+10	1,182.3	− 4	618.3	−10

*Flue cured types 11-14 and burley type 31.

Source: USDA Wheat Situation, Feed Situation, Rice Situation, Fats and Oil Situation, Cotton Situation, and Tobacco Situation.

exports is anticipated, whereas rice volume may total about the same as a year ago, and cotton and tobacco shipments may decline.

Commercial sales, rather than government subsidized exports, are likely to account for most of the export increases. Sizable increases in exports of grain to the Soviet Union and Eastern Europe are indicated. The volume of farm exports to Western Europe and Latin America is expected to equal that of last year, but the dollar value of shipments to these areas may decline. Increases are projected in both volume and value of farm exports to Japan, which continues to be our largest single foreign market for farm products.

The sharp increase in Soviet demand for U.S. grain reflects both their increased livestock production of recent years and their much publicized shortfall of crops. The U.S.S.R. grain crop, estimated at 140 million tons, was about 55 million less than a year earlier and 75 million below the original amount planned. It was the smallest grain harvest in the Soviet Union since 1965. Soviet imports of grain during the July 1975-June 1976 period are projected at 27 million metric tons, about one-half of which will be shipped from the United States. Despite these imports, the Soviets are expected to cut feed usage by about 5 percent. Substantial numbers of livestock, primarily hogs and poultry, have already been slaughtered.

The feed supply situation in Eastern Europe is somewhat less severe than that in the Soviet Union. Total grain output in these nations is down about 5 percent, and reports indicate a slowdown in livestock feeding.

The grain situation improved considerably in the less developed countries this year with production rising about 5 percent from the 1974 level. Even though this reverses a four-year deterioration in per capita output in these nations, per capita grain supplies are still only equal to those in 1973-74, and remain below the average for the 1969-71 marketing years.

Production Expenses Rise at Slower Rate

Farm production expenses in the United States are expected to continue their upward trend in 1976; however, the rate of increase will likely decline from the relatively high rates of recent years. As gross farm income rose at a relatively rapid rate, farmers bid up the price of production items. Such prices rose at an annual rate of 15 percent from 1971 to 1974.

The variable costs for producing six major crops is projected to increase an average of 6 percent this year from the 1975 level.[2] These costs rose an average of 19 percent in 1975. The costs per unit of production will rise less than 6 percent, since higher average yields are expected.

The slower growth of farm production expenses this year largely reflects the slower rate of increase in the price of farm inputs. In contrast to the substantial price increases for most input items during the past three years, such prices are tending to level off, and the price of some will be less than a year ago. The price of fertilizer, for example, is expected to average 7 percent less (Table II). Fertilizer prices dropped sharply last summer and, with the exception of potash, now average below late 1974 levels.

Part of the increase in farm input prices since 1971 has been of a short-term nature, reflecting maladjustments caused by higher oil prices, wage-price con-

[2]Crops included are wheat, corn, grain sorghum, barley, soybeans, and cotton.

trols, and some unexpectedly poor crop yields both here and abroad. The actions of the foreign oil cartel led to higher prices for both fuel and fertilizer, but unless more restrictive actions are taken, the cartel will have no further impact on farm input costs. With the reduced incentive to produce during the period of wage-price controls, production of many input items was cut back and "shortages" developed. With the removal of controls and a return to free markets, prices increased sharply to short-run equilibrium levels. Supplies of farm inputs, however, adjust more slowly than input prices as a period of time is required to increase the productive capacity for major input items. For example, the higher prices for fertilizer in 1974 eventually led to a buildup in production last year.

Some upward pressure on farm wage costs is expected to result from an increase in the Federal agricultural minimum wage rate to $2 an hour, effective January 1, 1976. This will result in fewer workers being hired, increased unemployment, and higher per unit labor costs. Relatively high nonagricultural unemployment, however, will tend to moderate the overall increase in farm labor costs.

Table II

PRICE INCREASES OF SELECTED FARM INPUT ITEMS SINCE 1973

Item	Percent Increase		
	1973 to 1974	1974 to 1975 Preliminary	1975 to 1976 Projected
Feed	17%	− 3%	− 9%
Feeder livestock	−23	−13	+10
Motor supplies	33	+ 9	+ 8
Motor vehicles	13	+18	+ 5
Farm machinery	16	+23	+11
Fertilizer	70	+15	− 7
Farm supplies	24	+16	+ 8
Seed	37	+ 8	− 3
Wages	11	+10	+ 9
All production items including interest and taxes	16	+ 9	+ 3
All items excluding feed and feeder livestock	21	+14	+ 7

Source: Original data from John G. Stovall, "The Cost of Producing Agricultural Commodities" (paper delivered at the National Agricultural Outlook Conference, November 18, 1975).

PROSPECTS FOR MAJOR EIGHTH DISTRICT FARM PRODUCTS

Beef Cattle

With the greater incentive for cattle feeding, a return to more normal relationships between slaughter of fed and nonfed cattle is expected this year. Fed cattle slaughter has steadily declined, on a seasonally adjusted basis, since the second quarter of 1973. By spring of 1975 such slaughter accounted for only about one-half of the total number of cattle slaughtered, as compared with 80 percent two years earlier. A turnaround in the fed-nonfed cattle slaughter ratio is expected this year. The number of cattle on feed on January 1 in the 23 major feeding states was up 28 percent from a year ago pointing to a larger slaughter of fed cattle. In contrast, nonfed cattle slaughter is expected to decline as a result of the higher demand for feeder animals and the increased incentive for calf production.

Total cattle slaughter picked up in late 1974 and 1975 as feeder cattle prices declined to levels where there was no incentive for further herd increases. The price of feeder cattle for slaughter became competitive with prices of cattle moving into feedlots, and large numbers of cattle began to move to slaughterhouses directly from pastures and ranges. The total number of cattle slaughtered in 1975 was about 10 percent above that of 1974, but the decline in nonfed cattle slaughter in 1976 may more than offset the increase in fed cattle slaughter, resulting in a small decline in the total. The beef cattle inventory, which had been increasing at a relatively rapid rate since the early 1970s, may have declined slightly last year, the first reduction in the beef cow herd since 1958.

While beef production is expected to increase somewhat this year, demand for fed beef cattle is likely to rise, and prices may average for the year near or slightly above the 1975 average. The greater incentive for feeding will also result in an increase in demand for feeder cattle, and rising cow and feeder cattle prices from the relatively low levels of 1975. Feeder prices might again exceed fed cattle prices, rising to $40 to $50 per cwt. for higher grade steers on midwestern markets. This compares with prices of $25 to $30 per cwt. in January and February 1975.

Hogs

Hog producers have also reacted to the higher profit margins from feeding, but major increases in pork production are not likely to occur before mid-1976. Based on the number of hogs on farms last September, pork production through the first quarter of 1976 will be 10 to 15 percent below the relatively low levels of a year earlier. As a result of the sharp increase in farrowings beginning in the fourth quarter of 1975, however, slaughter in the spring quarter will rise somewhat from the first quarter and will likely continue up through the year, with the total for 1976 exceeding that of 1975 by 3 to 5 percent.

Despite the upswing in hog production, pork output will remain relatively low throughout the first half of the year, as compared with recent years. Hog prices are expected to average above year-ago levels through mid-year; however, they dropped below $50 per cwt. near yearend and are likely to move lower during the year as marketings increase.

Poultry and Eggs

A year ago poultry producers were facing declining profits and bleak prospects for a recovery of earnings; consequently, production declined. Since then, however, the spread between feed costs and broiler prices increased, providing incentive for expanded production. Broiler production is likely to be up about 10 percent in the first half of 1976 from a year earlier. Last November USDA analysts did not expect broiler prices to decline much in the first half of 1976 from the fourth quarter of 1975 with the smaller supply of red meat in prospect; but broiler prices have already dropped about 10 percent from the mid-October level. In late January such prices were only $0.02 per pound above the year-ago level.

Turkey production in the first half of 1976, although small relative to most recent years, will likely be substantially above that of a year earlier. Turkey prices rose steadily from last February through August as production declined and prices of other meats rose. In late October New York wholesale turkey prices averaged $0.07 per pound above those of a year earlier, but a seasonal decline occurred near yearend. Similar to the broiler situation, relatively high prices for red meat and rising consumer incomes will tend to maintain turkey demand and prices above year-ago levels during the first half of 1976.

Per capita consumption of eggs has trended downward for a decade or more reflecting consumer preference for other foods; the demand for eggs this year is not expected to reverse this trend. Several egg substitutes have been introduced which are making inroads into traditional egg markets. Egg production increased late last summer and fall, but the third quarter production was still slightly below a year earlier. Despite the relatively weak demand, production is expected to continue up in early 1976 as a result of the lower feed prices.

Egg prices began to drift below year-earlier levels late last summer, but in recent weeks they have increased and moved above year-earlier levels. Nevertheless, egg prices are likely to average near or below late 1975 levels through the first half of 1976.

Dairy Products

Milk production has been stable during the past three years with total output ranging between 115 and 116 billion pounds each year. However, net exports have trended downward, and per capita supplies of dairy products have been about constant since 1967.

Dairy products are subject to Government price supports, and in early 1975 a substantial amount of Government buying occurred as market prices were below the support level. Production declined somewhat during the summer, but turned up in October, and is expected to rise throughout 1976 because of the greater incentive for feeding. Milk prices turned up during the year, rising to an average farm price of $9.53 per hundred pounds in October. The price of milk averaged about $8.60 per hundred pounds in 1975, up from $8.32 in 1974.

Milk prices will possibly show sharper-than-normal seasonal declines in early 1976, but the decline will be limited by Government price supports, and farm prices for milk are expected to average above year-earlier levels.

Feed Grain

Estimated feed grain production of 202 million tons in 1975 (about 80 percent of which was corn) was 22 percent larger than a year earlier and only slightly below the record 207.7 million ton crop in 1971. Carryover stocks last year were down to 15.8 million tons, the smallest since 1948. Hence, despite the large crop the total quantity available this year is only 16 percent larger than a year ago. The growth in domestic demand, however, will be held in check by the relatively small number of grain consuming animals on farms. By yearend, stocks of feed grains were 21 percent above the relatively low year-earlier levels. Nevertheless, domestic use of corn is expected to rise 11 percent from the 1974-75 level (Table I).

Export demand for feed grain is relatively strong. As indicated earlier, the drought in the Soviet Union will result in major increases in exports to that nation. Total corn exports are projected at 1.4 to 1.5 billion bushels, compared with 1.15 billion a year ago. Sorghum grain exports of 250 to 300 million bushels are projected, well above the 212 million of a year ago. Oats and barley exports are also expected to increase.

Given the projected supply and demand situation, corn prices at the farm are forecasted to average about $2.60 per bushel during the 1975-76 marketing year. Prices of the other feed grains will tend to move with corn prices. Based on a January 1, 1976, survey of growers, acreage planted to feed grains will be increased again in 1976. Farmers reported intentions to increase corn acreage 4 percent, sorghum 2 percent, and oats 1 percent.

Soybeans

Large carryover stocks last year and a near record crop boosted the quantity of soybeans available for the year to a new high, 23 percent above the year-ago level. The harvest last fall was 25 percent larger than a year earlier, and carryover stocks were 9 percent larger (Table I). Although domestic soybean use plus exports is expected to continue moving upward, rising to 1.3 billion bushels, this may be the third consecutive year in which total utilization is less than production. By yearend soybean stocks were 26 percent above the January 1, 1975 level, and stocks at the end of the marketing year on October 1 are projected at 375 million bushels — double last year's carryover.

Reflecting the larger supply, prices received by farmers for soybeans last fall averaged less than $5 per bushel, compared with $8 a year earlier. Prices may increase somewhat during the year, but the season average price is expected to fall sharply below the $6.50 per bushel of 1974-75. Reflecting the relatively low price for soybeans, farmers reported intentions to reduce the acreage planted to soybeans this year by 7 percent.

Cotton

The trend in usage of U.S. cotton has been declining. Thus, while production last fall was down 20 percent from a year earlier, carryover stocks were up, and the total available for the year is down only moderately. Production declined to 8.3 million bales from 11.5 million in 1974, but carryover stocks were up almost 2 million bales, resulting in production plus carryover of 14.1 million bales (Table I). This is the second smallest quantity of cotton available for any year since the early 1930s.

Domestic consumption plus exports declined from an average of 13.8 million bales during the five years 1960-64 to 12.5 million in 1965-69, and to 12.1 million in 1970-74. Domestic use of cotton declined faster than exports, dropping 15 percent from 1960-64 to 1970-74, while exports dropped 12 percent.

The major factors contributing to this decline were the rising competition in the fiber market from both manmade fibers and cotton production abroad. Per capita consumption of manmade fibers in the United States rose almost four-fold from 1960 to 1974, whereas per capita consumption of cotton declined about 33 percent. Cotton production in the foreign noncommunist countries rose from 22 million bales in 1962 to more than 28 million in 1974, somewhat faster than cotton usage grew in these nations during the period.

Domestic demand for all fiber is strengthening somewhat this year, however, and mill consumption of cotton is projected to rise. Exports, however, may be down slightly because U.S. cotton prices have been above prices of foreign competitive cotton for about a year. As a result, numerous export contracts were cancelled by foreign purchasers, and a sharp decline in shipments occurred. However, some recovery in foreign cotton prices is expected in early 1976, and U.S. cotton exports for the year may be only slightly below the 1974-75 level.

Reflecting the prospects for a relatively small 1975 crop, cotton prices rose sharply from January to September last year and are now above those of domestic competitive manmade fibers. This slight price disadvantage for cotton, however, is not considered a major factor in domestic cotton consumption for the year. The higher cotton prices have provided incentive for increased cotton acreage. In January farmers reported intentions to increase their acreage of upland cotton by 17 percent this year.

Rice

The main features in the outlook for rice are the currently large domestic supplies and a continuing growth of demand. The estimated 1975 rice crop of 128 million cwt. was 14 percent larger than the previous record crop in 1974. Carryover stocks at the close of the 1974-75 marketing year were 7 million cwt., slightly less than a year earlier, resulting in a total supply of 135 million cwt. — about 12 percent above the quantity available a year ago. However, rice shipments this year have been relatively slow, and on January 1 stocks of rice were about 32 percent above year-earlier levels.

Demand for rice, however, is expected to continue upward for the year. Domestic use has increased about two percent per year in recent years, and a similar rise is expected this year. Exports are expected to remain at last year's relatively high level. Exports to the Mid-East rose sharply last year to 15.5 million cwt., reflecting the enhanced oil revenues of OPEC (Organization of Petroleum Exporting Countries). A high level of exports to these nations is expected again this year. Larger commercial sales to the U.S.S.R. and larger shipments through Government aid to Bangladesh are also in prospect. The generally larger world rice crop, however, may result in smaller shipments to some traditional commercial markets.

The season average price for rice is likely to fall short of last year's $10.45 per cwt. Prices to farmers averaged $8.29 in mid-December, down from $9.80 in August. Some increase in price may occur during the marketing season, but the increase is not likely to be as great as a year ago.

Tobacco

The tobacco outlook is highlighted by increasing supplies both in the United States and abroad. U.S. tobacco production in 1975 was about 10 percent more than a year earlier, and the total amount available is up about 5 percent. The quantity of burley tobacco (the major type grown in the Eighth District) available for domestic use plus export this year is up about 3 percent from the year-ago level. Burley usage was down last year, but may increase this year with the somewhat larger amount available. Carry-over stocks at the close of the year are expected to be about the same as a year ago.

Burley production is subject to government acreage controls, marketing quotas, and price supports. The legal formula requires that price supports go up about 13.5 percent this year. The marketing quota is expected to be maintained at about 667 million pounds.

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