

MONTHLY

REVIEW

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FEDERAL RESERVE BANK OF MINNEAPOLIS

DECEMBER 1965

Forecasts bright for nation's farmers

Not to be outdone by the expansion occurring in the general economy, the nation's agricultural sector is just completing what will be recorded as one of the best years in recent times and farmers can look ahead to what promises to be an even better year in 1966. The Annual Outlook reports of the U. S. Department of Agriculture put the 1965 gain in net farm income at \$1 billion over that of 1964. In looking ahead to 1966 the USDA estimates give every indication that the 1966 total will surpass that of 1965 by as much as \$.5 billion — a bright outlook indeed!

1965 — a profitable year for livestock producers

Most of the gains made during 1965 were attributable to a marked increase in cash receipts from livestock marketings. An expanded domestic market coupled with a 4 per cent drop in red meat production resulted in an increase of about 16 per cent in average prices over those of 1964. This, together with higher prices, resulted in a rise of about \$1.75 billion in livestock receipts. Crop receipts in 1965 are about equal to those of a year earlier in spite of weaker price levels this past fall.

The prosperity of 1965 agriculture was further enhanced by an estimated \$200 million increase over 1964 in direct payments to farmers under the various federal farm programs. Another income strengthening factor was the export market which absorbed an even larger amount of U. S. farm output.

In all, gross farm income in 1965 is expected to reach a record high of over \$44 billion in the U. S. Some of the gains are offset, of course, by the seemingly perpetual rise in farm expenses, although net farm income will be around \$14 billion for the year. Per farm income during 1965 is expected to exceed \$4,100, a gain of 10 per cent over that of 1964.

Strong backing for the farmer

The same forces that contributed to a strong farm economy during 1965 are expected to continue to provide support through 1966. The general economic gains achieved in 1965 are expected to be exceeded during the coming 12 months resulting in further gains in employment, lower rates of unemployment, and a rise in disposable personal income. With these gains, a strong demand is expected for food and other farm products. The export market for farm products is also expected to continue to rise and total shipments for fiscal 1965-66 are likely to exceed the record agricultural exports of the past two years.

The recently enacted 1965 Farm Law is expected to add greatly to the 1966 farm income stream. While support prices are expected to be set near world price levels, direct payments for program participation and other program provisions are expected to take up the slack in farm income. Total payments to farmers are expected to exceed those of 1965 by about \$1 billion.

Gains likely in livestock

Following through from 1965, cash receipts for livestock and livestock products reappear as agri-

culture's strong point. Total livestock production in 1966 is expected to be little changed from that of 1965. An enlarged domestic market, however, should push the average price levels slightly higher than those of the past year. Fed beef production is expected to expand during the year as a result of favorable feeding margins. That increase, however, will probably be offset by a cutback in non-fed beef slaughter.

In all, the beef producer can look for continued favorable prices through 1966. Hog production is expected to continue at depressed levels well into 1966 and favorable prices are in prospect through much of the year. Whether or not hog prices hold at relatively high levels late in 1966 depends upon how farmers respond to the current price situation. A large build-up in hog production next fall could have a considerable effect on prices. Sheep and lamb slaughter during the coming year is expected to be somewhat below that of 1965 as farmers and ranchers proceed to rebuild breeding flocks. Lamb prices are expected by the USDA to average higher than 1965 levels during the first half of 1966, with some price weakening possible later in the year.

The nation's milk output is likely to be higher in 1966 as compared with the 1965 total and just under the record production of 1964. The shift toward greater production per cow and declining cow numbers will undoubtedly continue in line with the trend that has been in effect over the past ten years. Milk prices, according to the USDA, are likely to increase slightly during 1966. The expected increase in milk prices, however, will leave dairying at a relative disadvantage with alternative livestock enterprises in view of other livestock price expectations.

Lag likely in crop receipts

The 1965 bumper crop harvest, together with lower price supports, is expected to depress 1966 average crop prices below those of 1965 with a resulting slight decrease in cash receipts from crop marketings. This fall's record output of feed grains and lower prices will make livestock feeding more profitable for the producer than last year and likely will increase total grain disappearance over that of 1965. The total feed grain supply for 1965-66, however, is up about 5 per cent over a year earlier and despite the large disappearance, both domestically and for export, year-end feed grain carry-overs are expected to be up about 5 million tons.

Wheat prices are expected to average just over the loan price during the first half of 1966 as total wheat use will exceed production for the fifth straight year. Wheat exports for 1965-66 are estimated at 750 million bushels or higher which would result in a year-end carry-over of just over 700 million bushels.

1966 adds up to an increase

Summing up, moderately higher livestock receipts and little change in crop receipts in 1966 as compared with 1965 should result in a slightly higher total cash farm receipt. That total, however, will be supplemented by increased governmental payments, and gross farm income can be expected to exceed \$45 billion. The gain in gross farm income will probably be greater than the expected advance in farm production expenses. Thus, it is estimated that net farm income in the U. S. will reach near the \$14.5 billion level in 1966.

— RICHARD J. HERDER

Current conditions . . .

Ninth district economic activity has proceeded at a brisk rate in 1965 as measured by most of the region's major statistical business series. Perhaps of major significance to the region's economy has been the higher trend in farm commodity prices, particularly for livestock, and record or near record farm outputs. Final crop production estimates released on November 10 show sharp increases from last year as well as from 1959-63 averages. Total district wheat production was up 13 per cent from 1964 and 39 per cent from the 1959-63 average. Most other principal crops were also higher. An exception was corn: cold and wet spring and fall seasons were not conducive either to a big corn crop or to one of high quality. Nevertheless, over-all cash incomes for 1965 from farm marketings of all commodities may exceed year-earlier levels by 6 per cent or more.

Nonagricultural employment data available through the first ten months of 1965 indicate about a 3 per cent rate of growth from the same period a year earlier. The existence of a relatively tight labor situation has been spotlighted by a spectacular increase during the year in the area's "help wanted" advertising index. Also, considering seasonal differences, unemployment rates during the year have been substantially below the national rates.

That industrial output in the region also has expanded is evidenced by steady increases in the

district's Index of Industrial Use of Electric Power and the Index of Production Worker Man-hours, up about 5 per cent and 3 per cent respectively from year-earlier data. Also, the bank debits series, reflecting the dollar value of checks written against depositors' accounts, through October shows a 9 per cent increase from the same period of 1964.

That construction activity may have leveled off in late 1965 is suggested by a substantial reduction in the total valuation of construction contracts let during the first nine months as compared with the same period in 1964.

A brisk demand for loans in 1965 has characterized the banking picture. Activity in commercial and industrial loans has been particularly strong although most other loan categories, including agricultural loans, have also increased. Bank deposits, especially time deposits, also have increased but not at a sufficient rate to prevent a moderate further increase during the year in the loan-to-deposit ratios at both city and country banks. In mid-November these ratios stood at 63 per cent for the so-called "city" banks and 53 per cent for the "country" banks. (City banks are the larger banks that report certain banking data on a weekly basis while the country banks report bi-monthly.)

The following selected topics describe particular aspects of the district's current economic scene:

Ore shipments up

With much of the pressure gone out of the steel market because of settlement of labor negotiations in the industry, many Great Lakes ore carrying boats were laid up early for the winter. But even with the early lay-ups, lake shipments are expected by industry authorities to reach 66 million tons this year. This would be the best ore-transporting year since 1960 when 66 million tons also were hauled out of U. S. ports in the effort to make up for tonnage lost in the 1959 steel strike.

According to December figures from the American Iron Ore Association, lake shipments for the first 11 months of the year were 62 million tons from U. S. ports compared to 61 million for the same period in 1964. A total of 145 Great Lakes boats sailed from both U. S. and Canadian ports this year compared to 141 last year.

Heavy steel demand resulted from the threatened steel strike. But following the early September settlement, demand abated. The steel production index for the U. S. dropped from 135 (1957-59=100) the week before the labor settlement to 109 in mid-November.

Employment impact in the Minnesota and Michigan iron ranges of expanded shipments reflected the increased ore shipments in corresponding degree. Levels of mine and plant employment October 1 in Upper Michigan were about 200 higher than in 1964. In Minnesota, mining employment, which usually declines from August to September, remained at its August levels. For the first 10 months of 1965, Minnesota mining employment averaged 6 per cent above 1964 levels.

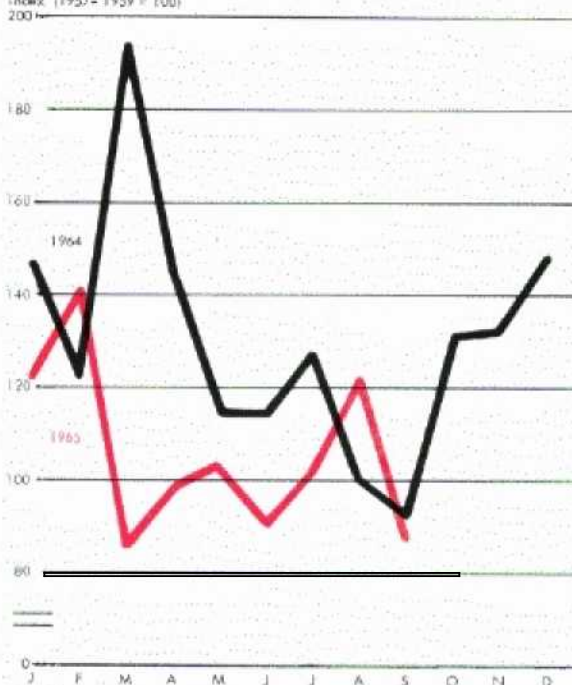
Construction contracts down

Nearly all economic indicators for 1965 are showing growth, but one sector seems to be hard pressed. Figures indicating valuation of construction contracts awarded in recent months have been moving only laterally for the nation; for the district, they have been trending lower.

Construction contracts awarded by valuation, Ninth district

(Adjusted for seasonal variation)

Index: 1957-1959 = 100



District construction contracts data indicate considerable decline. For the first ten months of the year the total valuation of contracts let has averaged more than 20 per cent below year-earlier levels. The decline has been spread among all major categories. Nonbuilding construction, which consists mainly of public expenditures rather than private, is 30 per cent below year-earlier levels; residential building is down about 3 per cent, nonresidential building, about 10 per cent.

But along with these downward trends, the level of employment in the construction sector has been moving upward. Over the first ten months of 1965 employment in this area grew at a rate of about 5 per cent, a movement reflecting the rather high level of construction contracts let during 1964. (The impact of contract awards is not reflected in the economy until the projects are actually underway — sometimes constituting a lag of several months.)

The number and valuation of building permits issued in the district are somewhat more encouraging than the level of construction contracts awarded. Still, the number of permits issued for housekeeping units during the first ten months of the year was significantly below the total number of permits issued during the corresponding period of 1964. The decline appears to be somewhat worse than that which occurred in the nation.

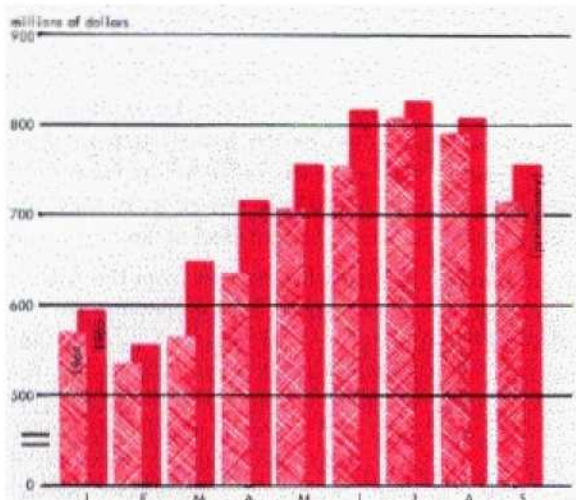
Retail sales high

High levels of employment and income have resulted in a correspondingly high level of spending at the retail level within the Ninth district. Although the rate of increase in sales slackened somewhat during the fall, the growth rate during the first eight months of the year was significantly higher than the national rate of expansion.

Retail sales have grown even faster than the level of employment. Part of the explanation for this rate of growth relates to the fact that consumer credit outstanding has experienced significant gains.

Nondurable goods sales have contributed more to the gain in total district sales than has been generally true throughout the nation. Sales of durable goods, of course, also have shown signi-

Total estimated monthly retail sales, Ninth district



Source: "Estimated Monthly Retail Sales for All Stores by Federal Reserve Districts", Board of Governors of the Federal Reserve System.

ficant increases: the automobile buying craze has been as widespread here as elsewhere. District sales of automobiles during the first nine months of the year (both new and used cars) were about 19 per cent higher than sales during the comparable period of 1964. Expenditures on food have also advanced, but a large part of this movement has been due to price increases.

Bibliography announced

The Board of Governors of the Federal Reserve System has announced the publication of Part I of a bibliography in the field of monetary theory and policy. The volume cites more than 1,400 works published in English since 1950 by 325 authors and focuses on domestic aspects of the subject area. A companion volume covering international aspects is planned for later publication.

Requests for copies should be sent to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D.C., 20551. Remittance should accompany requests and be made payable to the Board of Governors of the Federal Reserve System.

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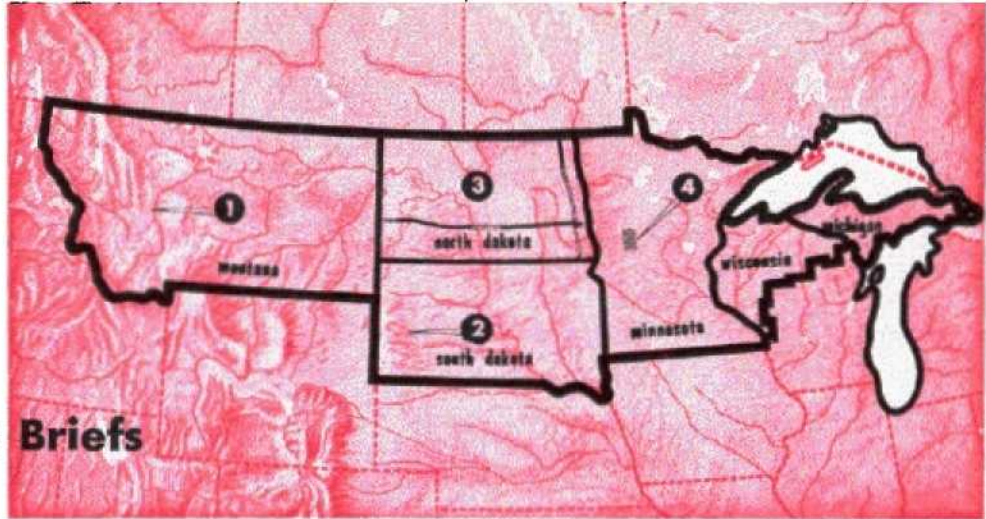
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Economic Briefs

1. Oxygen by the ton

The first on-site plant in the United States to supply oxygen for lead smelting and zinc recovery has been announced for East Helena, Montana. To be built and operated by National Cylinder Gas Division of Chemetron Corporation, the facility will supply more than 42 tons of liquid and gaseous oxygen per day via pipeline to plants of American Smelting and Refining Company and The Anaconda Company.

2. Circuits plant for Rapid City

Midwest Circuits, Inc., has announced plans to locate a new plant at Rapid City, South Dakota. The company produces printed circuit boards for the computer industry as well as electronic module assemblies. Personnel from the company's Hopkins, Minnesota plant will locate in Rapid City to train workers. Fifty persons will be employed initially.

3. Highway half-way mark surpassed

North Dakota has completed 55 per cent of its scheduled mileage for the Interstate Highway System. A total of 312 miles of 4-lane divided highway is now open to traffic. The national 41,000-mile System, linking the country's metropolitan areas and industrial centers, is to be completed in 1972.

4. Minnesota county chosen for pilot project

Todd county, Minnesota, is part of a U. S. Government pilot project which will investigate methods for developing economic prosperity in rural areas. Participating in the project are the State Employment Service, Farmers Home Administration, Small Business Administration, Agricultural Extension Service, and public health services. Also being utilized are various educational, vocational, and on-the-job training programs. The county is one of three in the nation chosen for pilot study.