MONTHLY REVIEW

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FEDERAL RESERVE BANK OF MINNEAPOLIS

DECEMBER 1962

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Government policy, business cash flows and economic growth

Since the July 1957 cyclical peak the U. S. has experienced a significant retardation in the rate of national economic growth. The tangible representations of this disappointing performance have been a higher general level of unemployment coupled with an extensive under-utilization of the capital capacity. This retardation of the growth rate may be illustrated by a comparison of the behavior of some of the major measures of business activity over the last four cyclical recoveries.

Looking first at the five quarter total percentage increases of real gross national product (gross national product with prices constant) from the specific post-World War II cyclical troughs, as dated by the National Bureau of Economic Research, the figures reveal that the average percentage increase from the October 1949 and August 1954 troughs amounted to 12.4 percent; the later two postwar expansions, from the April 1958 and February 1961 troughs, showed an average five quarter expansion in real gross national product of only 8.4 percent. In the same vein, the average 18 month percentage increase in personal income from the specific cyclical troughs in the earlier two post expansions amounted to 17.8 percent — whereas, in the latter two it amounted to only 9.2 percent. Again, over the first 18 months following the specific cycle troughs, the percentage increase in the number of nonagricultural employees during the earlier two upswings amounted to 9.4 percent — whereas in the latter two, it amounted to only 4.4 percent. In fact, in terms of many of the measures of business activity, the last two expansions appear to be the mildest ones experienced by the U. S. economy since World War I.

The related aspect of the retardation in the rate of economic growth is found in terms of the general under-utilization of the human and capital capacity of the economy. In the period from 1957 to date, for example, the level of unemployment has averaged approximately 38 percent above the 1947-1957 period. (See Table)

HUMAN AND CAPITAL CAPACITY UTILIZATION MEASURES

	Percentage rate of unemployment	Percent of capital capacity utilized*
1947	3.9	90
1948	3.8	87
1949	5.9	78
1950	5.3	88
1951	3.3	91
1952	3.1	90
1953	2.9	93
1954	5.6	83
1955	4.4	90
1956	4.2	89
1957	4.3	85
1958	6.8	76
1959	5.5	84
1960	5.6	84
1961	6.7	82
1962	5.6**	N.A.

*Federal Reserve Board Index of Manufacturing Capacity Utilization.

**Unemployment figure for 1962 represents a January through October average.

N.A.—Not Available.

The same qualitative behavior is revealed by measures of the rate of utilization of the capital capacity. Between 1947 and 1957, the level of capacity utilization, as indicated by the Federal Reserve Board's measure of manufacturing capacity utilization, ran at an average of 88 percent, while between 1957 and 1961, the average rate of utilization was only 82 percent. The average level of manufacturing capacity utilization in this later sub-period, therefore, amounted to only 93 percent of the average level of capacity utilization in the earlier 1947-1957 period.[1]

In terms of the measures of labor and capital capacity utilization, the actual date of the retardation, or slow down, seems to have come even earlier than 1957. For example, labor force data reveal that the annual average level of unemployment after the 1953 cyclical peak never fell below 4.0 percent. Its annual average value between 1954 and 1961, excluding the cyclical trough years, amounted to 4.8 percent. This contrasts with the annual average unemployment level for the period 1947-1953 which, again excluding the cyclical trough years, amounted to 3.7 percent. Indeed, at no time since 1953 have we even succeeded in reattaining the 3.7 percent non-trough average of the early sub-period. Thus far in 1962, the data indicate that this under-utilization of the labor force potential continues.

Again, substantially the same finding may be made with regard to the relative levels of capacity utilization. Prior to the cyclical peak in 1953, the annual average level of capacity utilization excluding cyclical trough years, according to the Federal Reserve Board measure, was 90 percent, while for the post-1953 period through 1961, the non-trough year annual average level was only 86 percent. In fact, in only one year since 1953 has capacity utilization even equalled the earlier sub-period average of 90 percent; that year was 1955. Since 1955, the trend of capital capacity utilization has been consistently downward.

This suggests that the decline in utilization began even before or, at the very least, coincided with the great capital boom of 1955-1957. This fact, in turn, may be a significant component of the total explanation of the slowdown in economic growth.

An allied and not altogether unexpected aspect, both of this retardation in the general rate of economic advance and of the high and growing under-utilization of the human and capital capacity of the economy, has been a significant relative decline in the rate of increase of business investment. In the first five quarters following the April 1958 and February 1961 cyclical troughs, business plant and equipment expenditures had risen by an average of only 9.6 percent. The size of this increase stands in stark contrast to the average five quarter percentage rise from the troughs of the earlier two postwar recessions of 25.2 percent. Looking still more deeply into the historic behavior of this important category of investment, the data reveal that over the period 1947-1957, producers' plant and equipment spending grew at an annual rate of 6.4 percent per year compounded, while the 1957-1961 period showed growth at a compound rate of only 0.9 percent per year.

The central role of capital investment in modern growth and cycle theory has led many to believe that this relative decline in the rate of increase of domestic investment, generally, and of plant and equipment expenditures, in particular, has operated as a prime causitive factor in this unsatisfactory growth in the capacity utilization performance of the national economy.

This argument, as it is stated, would offer little

[1] In discussing the significance of capacity utilization measures, it must be recognized that producers do not generally seek to utilize 100 percent of the available capacity. Rather, they usually plan to maintain some amount of standby capacity to cover their short-run peak production needs. This cushion of standby capacity is often the most inefficient and high cost component of the capital structure and is, therefore, used only under conditions of severe capacity pressure. A capacity utilization rate of approximately 90 percent appears to be a reasonable approximation of the desired rate of capacity utilization in manufacturing.

room for disagreement, for it is generally conceded that the level of investment expenditures and the resultant changes in capital capacity do operate as important determinants of the growth rate. But many have gone on from here to suggest, in addition, that this disappointing investment behavior was and is a consequence of the tax structure. One variant of this argument contends that the burden of business taxes has cut into the magnitude of business cash flows — defined as undistributed earnings plus depreciation allowances — to such an extent that it has operated to inhibit investment.

Two recent policy enactments by the federal government have aimed, at least in part, at increasing the rate of investment by changing the magnitude of business cash flows. A new depreciation schedule has been set up, which increases the effective rate of depreciation, thereby increasing the cash flow to businesses by diminishing their tax liability. More recently the investment tax credit proposal has been passed into law. This new tax policy operates, again at least in part, to enhance the effective magnitude of the cash flow by diminishing, in substance, the price of capital equipment. The investment tax credit legislation, of course, goes beyond the simple notion of stimulating the level of investment by increasing cash flows. It also serves to stimulate investment by, in effect, increasing the profitability of particular capital equipment purchases by lowering their purchase price.

The validity of this increased cash flow-increased investment argument, and therefore the efficacy of the cash-flow bolstering policy prescriptions which are derived, rest upon the presumption that business investment spending is directly related to the magnitude of business cash flows. Moreover, the argument presumes that they are related in such a way that the rate of investment may be modified by changing, via tax policy, the magnitude of business cash flows. The issue at stake here, however, is one which, as a consequence of its complexity, has not secured a consensus of professional economic opinion either way. In fact, current professional economic opinion on this point ranges over the entire spectrum of possibilities.

The basic thought underlying this presupposition as to the importance of cash flows to investment spending is derived from the often noted preference of businessmen for financing investment with internal funds. The explanation of this preference goes to the effect that businessmen believe there to be a basic asymmetry between the amount of risk they must bear in terms of a particular investment undertaking, depending upon whether it is financed from internal or external funds. Internally financed investment is conceived to entail less risk and is therefore more desirable than external financing. In turn, the availability of internal funds is conceived to be related to the size of the cash flow accruing to businesses.

There seems to be evidence to support the position that internal funds and their availability are important considerations in managerial decisions to invest. For example, between 1949 and 1961, the cost of equity financing as measured by the earnings-price ratio on common stocks, declined from 14 percent to 5½ percent. At the same time, the portion of total investment financed by internal funds showed a slight rise. This slight increase in the relative importance of internal financing took place despite the relative decline in the cost of at least one type of external financing, long term equity financing. This evidence would certainly seem consistent with the hypothesis that businessmen have a strong preference for internal financing and that accordingly they heavily weigh the availability of internal funds in making their investment plans. This, in turn, greatly strengthens the argument underlying the use of government policy to modify the rate of investment by varying the availability of internal funds to businesses.

Arrayed against the proponents of this argument would be that group which expresses the

view that cash flows play a minor or secondary role in the determination of investment plans. This latter group argues that, while internal financing may be an important consideration, or even an objective, in investment decisions; this is not to concede that a change in the cash flow, resulting in the increased availability of internal funds, will ultimately result in an increase in the rate of investment. Rather, they maintain that an increase in cash flow will only result in an increase in the rate of investment if a range of profitable investment opportunities should already exist. In this formulation, investment which primarily represents capacity expansion would be undertaken if, and only if, past investment decisions had been validated by the achievement of a desirable level of utilization of the already existing capacity. The proponents of this view would argue that, given a desirable level of capacity utilization, then would a modification of the cash flow perhaps be reflected in a variation in the rate of investment.

This suggests that the proponents of this position hold quite a different theoretical conception of the relevant economic relationships which underly the behavior of investment in the system. They would maintain that the rate of growth and its stability is ultimately determined by a balancing of the growth in capacity to produce, with the ability of the economy to absorb that which can be produced. Any imbalance between these two activities necessarily will result in enhanced instability and diminished growth.

In the eyes of this group, then, the decline in the rate of investment is not primarily an explanation of the disappointing behavior of the U. S. economy (although they would admit that in a completely interdependent world it does have an aggravating effect). Rather, they would argue that the low rate of investment is itself a symptom of some deeper underlying problem. This underlying problem is the slow growth in the absorption ability of the economy relative to the growth of productive capacity. The slowdown in both the growth rate and the rate of investment, then, is looked upon by this group as a consequence of an imbalance between these two vital activities of the system; and the surplus capacity has operated so as to dampen both the level of investment and the growth rate.

The policy prescription which would follow from this conception of the basic economic problem is also quite different in focus from that advocated by those who look to cash flow and the enhanced availability of internal funds as the correct policy program. The implication of this deficient absorption ability thesis is that the absorption capacity of the national economy must be raised; and then as the gap between the ability to produce and the ability to absorb is diminished, i.e., as the capital capacity potential of the economy begins to be used more fully, the need for new capacity will make itself felt. And thus will an increase in investment spending result.

This latter group, then, would not be optimistic about the outcome of the two recent policy enactments which, at least in part, seek to increase the rate of investment by increasing cash flow to businesses. This group would rather place greater stress upon policies which would enhance the absorption capacity of the economy. This, in turn, would require a policy which would raise the level of private and/or public spending. As one proponent of this position has stated:

> Anyone who responsibly advocates a high investment rate to spur the growth of potential must also advocate the kind of monetary and fiscal policy which would expand the demand for goods and services in parallel with the supply.[1]

In this view, then, cash flow operates only as a permissive factor in investment spending. Rather

[1] Robert M. Solon, "Investment for Growth," **The New Republic**, October 20, 1962, page 14.

they argue that it is the validation of past investment decisions, by the utilization of existing capacity, which operates as the initiating factor.

Which of these two competitive formulations of the investment is correct or more nearly correct is something which we will discover only with time and carefully gathered evidence. The objective here has been to point out to the reader the two major competitive approaches to this important economic question.

Cranberries add color to district economy

North America's native cranberry in recent years has brought profits to once marginal land in Wisconsin. Thousands of acres of cranberries have made Wisconsin top state in the U.S. in pounds of cranberry production per acre and have turned the bogs into land worth $3,000 to $5,000 per acre.

Bogs in Ninth district Wisconsin are situated mainly on the Thunder Lake cranberry marsh in the Eagle River area, where the necessary acid peat soil is located. The majority of cranberries grown there are the Seales Jumbo, McFarlin, Native and Howes varieties.

From planting time to crop takes four or five years, but a bed may last a hundred years. The growing of the small, tart berry involves extensive preparation and maintenance. Plant cuttings are taken originally from the wild bushes and developed for commercial bogs. The improved cuttings are transplanted into the bog by means of a wide-track caterpillar which spreads the cuttings and pushes them into the peat, where they take root easily in about two weeks. The beds are fertilized, and insect control measures are brought into effect.

During the years between planting and crop maturation, the beds must be painstakingly cared for. Two important factors to be considered in producing top crop quality and output are the control of bog flooding and the air temperatures which dictate flooding procedures.

Most Thunder Lake bogs are flooded one to two feet deep much of the time, although some of them, in a warm, sandy section of the Wisconsin River area, are never flooded. The bog flooding serves two purposes: to aid in harvesting and to protect the delicate plants from the frost which occurs in the marshlands on many nights the year around. In November, after the harvesting season is completed, the beds are flooded one foot deep. Ice forms a protective shield, or 'saucer,' over the bogs, and excess water drains back into the nearby lake. The ice then is covered with sand for extra protection, and in the spring the sand sifts down to build up and firm the muck soil, making it possible for the harvesting machinery to operate.

Since frost hovers over the area much of the time, the cranberry bogs must be flooded at fre-

quent intervals, even during the warmer seasons. The U.S. Department of Commerce sends a meteorologist to Wisconsin for six months each year, on special assignment, to forecast bog temperatures. The predictions must be precise. The frost is spotty, depending upon the amount of heat absorbed by vegetation and sand during the day; temperatures may vary two or three degrees in a single acre. Commercial radio and television stations give bog temperatures with their regular weather reports, and in cool weather, men are stationed throughout the night in the bogs to watch temperatures, which are recorded on thermometers placed strategically in the coldest places.

When frost warnings go out, operators turn on low lift pumps. The Thunder Lake bogs are only three feet above the level of the lake, and growers there use a unique pumping system to transfer water from the nearby lake onto the bogs and to drain it back again when not needed. The water is channeled through ditches between the beds, then into wide pipes under the road formed by the ditches. When the mercury drops to within three degrees above freezing, wooden dam gates at the ends of the pipes are opened and the beds themselves are flooded.

During the summer, the temperatures of a sanded bed will be higher than an unsanded area, and flooding will take place less often and involve a lower flood level. Care must be taken to drain the water off when it is not needed, because the roots of the cranberry bush require proper soil aeration in order not to drown. And, since each drop of water magnifies the sun's power, causing a breakdown of the inner cellular tissues of the berries, the water always is drained from the bogs at daybreak.

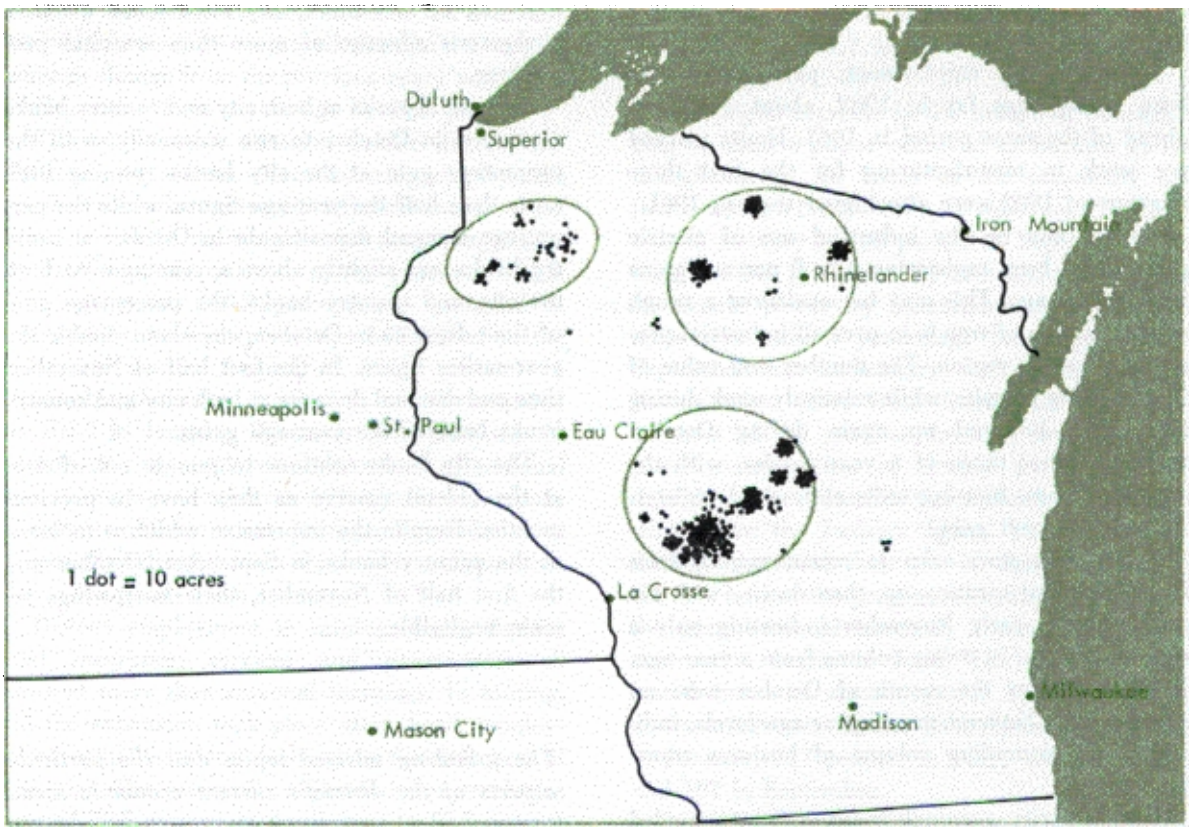
Near the end of summer, the first harvest of the season begins. Mechanized harvesting machines, manned by crews of three in rubber hip boots, shuttle back and forth across the beds. Red berries and vines float on the surface, and bog rosemary and laurel plants are reflected in the dark water. As it chugs down the beds, the harvester rakes the berries, along with some green vines and grasses, onto a wide revolving reel and pours them into flat bottom harvesting boats. Each machine handles an acre a day and does work equivalent to 40 or 50 men.

The harvested cranberries are hauled by truck to a nearby warehouse. Here they are dried artificially, by being rolled up a plane at a 45 degree angle, and moved through baffle plates. Air, heated to 50 degrees by propane torches, is blown through the mesh of the plane by high velocity fans. The berries then are sorted for canning and for the fresh fruit market. Sixty percent are processed, forty percent sold fresh. Products include whole berries, old-fashioned home-style sauce, maraschino cranberries (used in candy), spiced cranberries, orange relish, and six different preserves combining cranberries with strawberries, cherries, pineapple, rhubarb, gooseberries and raspberries. Cranberries and cranberry products are shipped from Eagle River to all parts of the U.S. and to a number of foreign countries, where they are used during the holidays — and all year long.

Areas in northern Minnesota and Michigan have recently entered into cranberry production, too, on a smaller scale, and their entrance into national prominence has not yet occurred. Production of cranberries in Wisconsin is going up with each harvest, and in 1961, according to the latest figures, it was second only to the total output in Massachusetts.

Figures for 1957, which hold true virtually through 1961, show Vilas, Washburn and Oneida counties as the largest cranberry producers in Ninth district Wisconsin. (See map.) Vilas County planted 200 acres for a total of 20,400 barrels, while Washburn and Oneida counties harvested 170 and 160 acres, producing 10,200 and 11,860 barrels respectively. For the state as a whole, the bogs produced upwards of 358,000 barrels. Wisconsin, with only 4,500 acres, produced 45 million pounds of cranberries, while Massachusetts, with 14,000 acres, produced 46 million pounds. This year's harvest promises an even higher output for Wisconsin's contribution to the dinner table.

Wisconsin Commercial Cranberry Bog Acreage, 1957



Current conditions . . .

The economy of the Ninth district continues to move ahead at a moderate pace judging from data available for the September-October period.

Total nonagricultural employment continued to register close to a 2 percent increase over year-earlier figures. Substantially fewer persons were

drawing unemployment insurance, and initial claims for unemployment insurance were fewer than a year ago.

Manufacturing employment, particularly, has been strong thus far in 1962, about 4 percent ahead of the same period in 1961. Hours worked per week in manufacturing for the first three quarters of 1962 were also higher than in 1961.

Recent data on the industrial use of electric power have been registering 6 to 8 percent gains from a year ago. This may be considered a rough approximation of trends in over-all industrial production for the region. The number and value of new building permits, while relatively weak during September, bounced up again during October to levels above those of a year earlier, with the number of new housing units authorized registering a 15 percent gain.

Department store sales in recent months have been somewhat erratic—up, then down—with the latest data in early November indicating only a modest increase in dollar volume from a year ago. Bank debits for the month of October were up sharply from September and year-ago levels, indicating an expanding volume of business transactions.

Total district personal incomes have sounded an up-beat thus far in 1962, in relation to year-ago comparisons, with some increase in tempo since about mid-year. October personal incomes were up .7 percent from the previous month and up 8.4 percent above October 1961. Substantially improved farm incomes, the result of favorable 1962 crops, have been a significant factor in the recent improvement in farmers' income and in personal incomes, as well as in the tempo of district business. The effect of enlarged farm production and marketings likely will continue as an economic stimulus during the current crop year.

Country bank loans in the Ninth district registered record gains in October and in the first half of November, after rising by a near record amount in September. At city banks, a modest decline in loans during October, of seasonal proportions, followed a record September gain. In the first half of November, city bank loans resumed a vigorous advance of more than seasonal proportions.

Demand deposits at both city and country banks continued in October to rise seasonally, with the percentage gain at the city banks running little more than half the year-ago figure, while the percentage demand deposit gain in October at country banks was slightly above a year ago. At both the city and country banks, the percentage gain of time deposits in October was about double the year-earlier figure. In the first half of November, time and demand deposits at both city and country banks bettered the year-ago gains.

The city banks continue to remain out of debt at the federal reserve as they have in previous months. Despite the impressive addition to loans at the country banks in September, October and the first half of November, their borrowings remain negligible.

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

DISTRICT BUSINESS DEVELOPMENTS

Economic activity in the Ninth district continued to expand at a slow rate through the third quarter, but, on the whole, the district fared somewhat better than the nation. To some extent at least, however, this was the result of a belated cycle in the district relative to the nation, rather than to a more rapid rate of growth.

Nonfarm employment in the district rose to an all-time high of 1,544,100 in September, in spite of a less than normal seasonal increase. The seasonally adjusted index of district nonfarm employment (1957-1959=100), which stood at 105.6 percent in June, unchanged from January, rose to 106.6 percent in August and dropped in September

to 106.3 percent. Insured unemployment (for which a seasonally adjusted index is not available and which must be measured therefore as a percentage change from the previous year) was down in September from a year ago by 41.4 percent.

The employment situation in the district differed among sectors. Manufacturing employment as shown by the seasonally adjusted index varied from month to month, but the actual expansion in the first three quarters of the year was small. The low point, 103.9 percent, was recorded in July, while the high point was established in the following month, August, at 105.1 percent. In September the index dropped to 104.6, compared to 104.2 in January. Whatever gain there was in manufacturing employment in excess of seasonal variations, was concentrated in non-durable goods industries. Employment in durable goods on a seasonally adjusted basis was down in September 1.5 index points from January.

District employment in mining, trade, finance and insurance, services and government all showed more than seasonal increases. In mining, all the expansion took place after April, employment actually having declined in the first part of the year. The seasonally adjusted index reached a low of 79.5 percent in April, rose to 88.0 percent in August, and declined again to 86.5 percent in September. However, in two sectors, district employment actually did fall short of the normal seasonal increase; these were construction and transportation, and the communication and public utilities sectors. The seasonally adjusted index shows district construction employment in September at 104.6, down 4 percentage points from January. Transportation, communication, and public utilities employment was at 90.2 percent, down 2 percentage points from January.

Industrial production in the Ninth district, as indicated by the seasonally adjusted index of industrial use of electric power during September, was approximately equivalent to the average monthly increase since January. From January to September the indicator rose 7.6 percent, but with some variations in the rate of expansion from month to month. In February and July it actually declined (by —1.7 percent and —1.6 percent respectively).

The largest increase in the industrial consumption of electric power occurred in durable goods manufacturing. In terms of the seasonally adjusted index (1957=100), it rose from 120 percent in January to 133 percent in September. The high was 143 in August. By contrast, consumption of electric power by manufacturers of nondurables was only 5 percentage points greater in September than in January, with all the increase having taken place from August to September. In most of the previous months, seasonally adjusted consumption of electric power in nondurable goods industries was either level or somewhat below the January figure. The mineral industries increased their use of electric power in the first half of the year, considerably in excess of the usual seasonal increase; however, a gradual contraction began in June. The seasonally adjusted index of electric power consumption by mineral industries in the district was 102 percent in January, 117 percent in May, 100 in August, and 107 in September.

A similar pattern is also visible in the month-to-month district production of individual minerals. Thus, iron ore shipments from U. S. Lake Superior ports increased in every month from the beginning of the season through July, but then declined in both August and September, and again in October. Whereas total shipments in the season up to the end of July were 18 percent above the same period last year, at the end of September they were 10 percent and by the end of October only 6 percent greater than last year. Similarly, district production of copper reached a peak in May and then began to decline. As a result, while in the first five months of the year copper production in the district was 8.5 percent above the same period last year, in the period January through August (August being the last month for which data are available), it was 3.7 percent below

production in the same period last year.

One of the brightest spots in the district was the continued rise in personal income. According to preliminary figures, seasonally adjusted personal income in the district rose 4.5 percent in the third quarter, compared to 0.7 percent in the U. S. The greatest relative gainer among the four states comprising the Ninth district was North Dakota, with an increase in income of 25 percent. South Dakota gained 4.2 percent, Montana 2.4 percent, and Minnesota 1.9 percent.

Most income categories shared in the rise, although not to the same degree. Thus, farm income increased 29.2 percent while non-farm income was up 6 percent. Among the various types of non-farm income, proprietor's income rose 18.1 percent, and wages and salaries were up 1.7 percent. However, other income declined .3 percent.

RESERVE REQUIREMENTS CUT

On October 18 the Federal Reserve Board announced a reduction of reserve requirements against member bank time deposits, from 5 percent to 4 percent, effective October 25 at reserve city banks and November 1 at country banks. In the week before the reduction became effective, the reserve city banks in the Ninth district held daily average time deposits of $524 million, and district country bank time deposits averaged $1,656 million. Hence, required reserves fell approximately $5.24 million at the reserve city banks and $16.56 million at the country banks by virtue of the reduction of time deposit reserve requirements. In the week after the reduction of reserve requirements had become effective, city bank excess reserves at $1.1 million were little changed from the previous week, while country bank excess reserves were up $13 million from the previous week to a level of $29 million.

City and country loans up

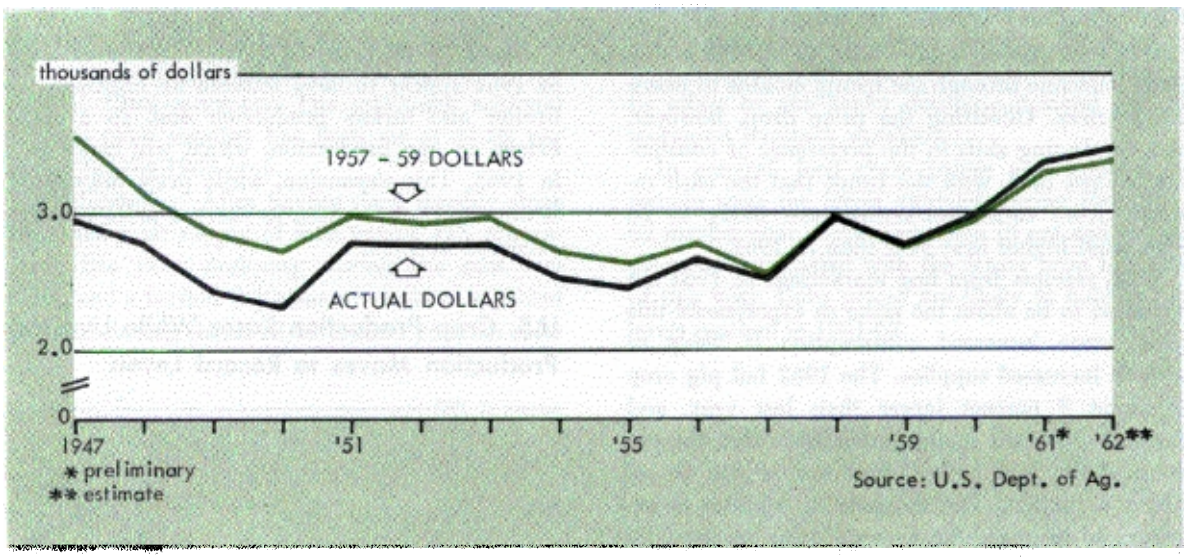
After a postwar record increase of $43 million in September, district city bank loans dropped $6 million in October. The October change was normal for that month. The latest available data show that city bank loans resumed their advance in the first two weeks of November, rising $28 million. This is larger than the increase recorded for the entire month of November in any recent year.

At district country banks the September loan increase of $25 million was second largest for the month in the postwar period, and the October increase of $33 million was the largest for any October in the postwar years. The first two weeks of November showed a rise in country bank loans of $18 million. In none of the postwar years has the increase in country bank loans for the entire month of November been this large. Hence, the most recent information from member banks indicates a continuation of the exceptionally strong loan demand evidenced in September and October at the country banks.

National farm outlook for 1963

The United States Department of Agriculture has presented a favorable outlook for the nation's farmers for 1963. Their predictions are based on an anticipated increase in the domestic demand for farm products due to population increases and a continued rise, although at a decreasing rate, in the after-tax income of consumers. Foreign markets are expected to take

Trend Is Toward Higher Net Farm Income Per Farm in U.S.



near record quantities of farm products, with slightly lower grain export quantities offset by substantially larger sales of soybeans, food fats and oils. Current farm legislation is also expected to influence the farm income situation favorably next year.

According to the USDA, the total volume of farm product sales is expected to be larger in 1963 than during this year due primarily to increased livestock marketings. While lower livestock prices and a slightly lower farm price index are distinct prospects, volume and demand factors likely will lead to greater cash receipts from livestock. Little change is expected in the marketings, average prices and cash receipts from crops in 1963 as compared to 1962. Gross farm receipts will be further augmented by the prospects of larger government payments to farmers during 1963.

An increase in farm product expenses, however, is likely to wipe out most of the gain in gross income. The USDA expects the persistent rise in the prices of farm inputs purchased from the off-farm sector to continue through 1963, along with increases in taxes and mortgage indebtedness. Thus, realized net farm income will probably be at about the same levels as attained in 1961 and 1962. In 1961, this figure amounted to $12.8 billion, the highest since 1953. The realized net income per farm, however, could reach record levels if the expected decrease in farm numbers materializes in 1963.

Commodity highlights

Livestock – The inventory of cattle and calves is expected to number about 102 million head on January 1, 1963, up 2.5 percent from January 1 of this year. This would be the first time in history that the 100 million head mark is surpassed. The total commercial slaughter during 1963 is predicted to reach about 27 million head, up 3 to 4 percent, and to be made up mostly of steers and cows with only a slight increase in heifer slaughter.

Increased beef production and larger supplies

of pork and poultry are expected to exert some downward pressure on cattle prices. Thus, while beef prices are expected to remain above year earlier levels through midwinter, the USDA anticipates a decline through the spring months to below 1962 prices. Offsetting the price drop, however, is a continuing shift in the preference of consumers toward beef, with the result that the cash receipts from cattle marketings are likely to be somewhat higher next year than in 1962.

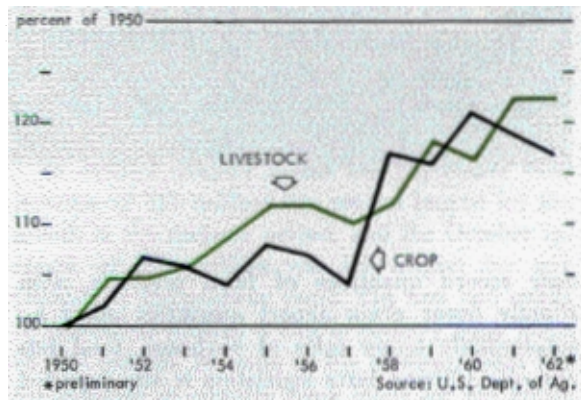
Cash receipts from hog marketings in 1963 are expected to be about the same as experienced this year, since increased consumption is likely to absorb increased supplies. The 1962 fall pig crop is about 3 percent larger than last year, and farmers' reported intentions indicate that the pig crop of the first half of next spring will be up about 4 percent. The increase in supplies is expected to decrease the average price received by farmers to slightly below this year's level.

Moderately higher prices for lambs are anticipated during 1963, as sheep and lamb numbers are expected to reach one of the lowest levels on record. Cash receipts from sheep and lambs, however, are not expected to improve over this year's total because of an expected increase in the rate of decline in the consumption of lamb and mutton during the coming year.

Dairy and poultry — Cash receipts from the sale of milk are expected to decrease from this year's level if current dairy programs are continued through 1963. USDA figures showed cash receipts down about one percent during 1962, from the record level set in 1961. A further decline will occur during the first quarter of 1963 as compared to that period of 1962, due to lower price support levels. Dairy income for the balance of 1963, however, should be about the same as in 1962. Milk output is expected to increase again in 1963, with an anticipated increase of about one billion pounds over the 1962 output. This would mean a record 127.5 billion pounds produced in 1963. While these estimates are based on current programs, new dairy legislation that could change the income picture is in prospect during the coming year.

Higher poultry prices during 1962 over those of 1961 appear to have induced an expansion in broiler and turkey production and, to a lesser extent, in egg production, which will carry over in 1963. This expansion, while price depressing, is not expected to cause as sharp a price break as occurred in 1961.

U.S. Crop Production Eases While Livestock Production Moves to Record Levels



Wheat — The total wheat supply is estimated at 2.4 billion bushels for the 1962-63 marketing year. This figure, about 11 percent below last year's supply, is attributable to decreases in production and to the July 1, 1962 carryover. Disappearance of wheat during the current marketing year should be sufficient to reduce the year-end carryover by 150 million bushels. Production during 1963, however, is likely to be one-fourth greater than the 1962 crop, due to an increase in wheat acres. The increase (total acres harvested in 1963 are expected to reach 52.5 million) is anticipated because the 55 million acre national wheat acreage allotment will be in effect for 1963. The USDA estimates that on the basis of 25.5 bushels per acre average yield, production of wheat will

amount to about 1.34 billion bushels in 1963. Production of that magnitude with an estimated disappearance of about 1.22 billion bushels during the 1963-64 marketing year, would mean an increase of about 12.5 million bushels in the July 1, 1964 carryover. The minimum national average price support has been set at $1.82 per bushel for the 1963 crop.

Feed grains — After having risen steadily since 1952, the total supply of feed grains and concentrates has been declining during the past two years, and a further depletion of stocks is expected to occur during the 1962-63 market year. In spite of higher prices for feedstuffs, the total consumption reached a record high of 155 million tons this past year. The USDA predicts a continued high rate of disappearance during the coming year, with an anticipated reduction in exports to be offset by the heavy domestic demand due to increased livestock numbers.

In general, feed grain prices are expected to remain near the levels attained during the 1961-62 market year. Some reduction in oat and barley prices is anticipated with the larger crop harvests of this year. Corn prices are likely to hold at the levels reached in 1961-62.

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Economic Briefs

1. Shopping center to be located in Fargo, N. D.

Development of a $1.5 million shopping center is underway in Fargo, North Dakota. First of several units under construction is a K-Mart discount department store operated by the S. S. Kresge Co. The K-Mart will occupy 94,800 square feet and will employ ultimately about 150 persons. A supermarket and several shops are included in present plans, which call for an additional 30,000 to 40,000 square feet. The center will be one of the largest shopping center developments in North Dakota.

2. Propane storage plant underway near Twin Cities

Northern States Power Co., Minneapolis, Minnesota, has begun construction on a $1.5 million refrigerated propane storage plant. Facilities of the project being built on a 147-acre tract in Dakota County, include a storage tank 80 feet high and 130 feet in diameter with a 5,750,000 gallon capacity. The project, to be known as the Wescott plant, will supplement Northern States Power's natural gas supplies for the St. Paul area during peak use periods, and it is scheduled for completion by the 1963-1964 winter heating season.

3. Electronics firm adds to industry

Litton Industries, Inc., Beverly Hills, California, international electronics firm, completed establishment of a multimillion dollar branch plant in Duluth, Minnesota, during October. The plant, Duluth Avionics, Inc., is providing an initial 500 jobs with an annual payroll of more than $2 million. The firm is the biggest new industry to locate in northern Minnesota in the last 10 years.

4. New Marquette plant under contract

A contract has been awarded by the Empire Mining Company for the construction of an iron ore pelletizing plant in the Marquette range, near Negaunee, Michigan. The Empire Mining plant, which is scheduled for operation late in 1963, will be the third on the Marquette range managed by Cleveland-Cliffs Iron Co. The plant will undertake to produce high-grade iron ore pellets from low-grade magnetic jasper deposits found in the area. It will operate with an initial capacity of 1.2 million tons of pelletized iron a year, bringing the amount annually available from the range to 4.4 million tons.