Colorado
Kansas
Missouri
Nebraska
New Mexico
Oklahoma
Wyoming

FEDERAL RESERVE BANK OF KANSAS CITY February 1998

Fed Letter

New postage stamp honors the Federal Reserve

The U.S. Postal Service has issued a new 32-cent postage stamp this month honoring the Federal Reserve. The stamp features the marble eagle that adorns the Federal Reserve Board of Governors' building on Constitution Avenue in Washington, D.C. The words "Federal Reserve System 1913" also appear on the stamp. The year 1913 was when the Federal Reserve Act was signed into law.

The Federal Reserve stamp is one of 30 stamps to commemorate the first two decades of the 20th century. The stamp is part of the Postal Service's Celebrate the Century series — an unprecedented commemorative stamp and education program that will honor the most memorable and significant people, places, events, and trends of the 20th century.

The Federal Reserve stamp comes on a sheet containing 14 other stamp designs honoring the 1910s. Stamps representing the years 1900-1949 were recommended by the Citizen's Stamp Advisory Committee, a group of citizens appointed by the Postmaster General to review all stamp suggestions and make recommendations for future stamps. Stamp subjects representing the years 1950-1999 will be voted on by the public. Ballots are available at all post offices, in special promotions and selected publications, and via a special web site located at **http://stampvote.msn.com**. The public will choose stamp subjects from the following categories: people and events, arts and entertainment, lifestyle, sports, and science and technology.

New quarters will honor 50 states

The reverse side of quarters will get a new look during the next several years. The Fifty States Commemorative Coin Program calls for the redesign of the reverse (tails) side of circulating quarters with designs symbolic of each of the 50 states. The portrait of George Washington will remain on the obverse (heads) side of the quarters.

Beginning in 1999, five states will be featured each year for a ten-year period. Each state's quarter will be produced in the order in which the state ratified the U.S. Constitution or was admitted into the Union. The first state quarters to be issued will be Delaware, Pennsylvania, New Jersey, Georgia, and Connecticut.

As part of the design selection process, each state will provide the U.S. Mint with three to five design concepts or themes representative of the state. The governor of each state will decide the process for identifying these concepts in accordance with the procedures and criteria outlined by the Treasury. The Treasury Secretary will determine final approval of the design concepts, and the U.S. Mint will issue the coins.

Commemorative quarters for states in the Tenth District will be issued as follows, based on the year of statehood.

Commemorative Coin Program Issue Dates for Tenth District States

State	*Coin issue date*	*Statehood date*
Missouri	2003	1821
Kansas	2005	1861
Nebraska	2006	1867
Colorado	2006	1876
Wyoming	2007	1890
Oklahoma	2008	1907
New Mexico	2008	1912

Additional information about the Fifty States Commemorative Coin Program, as well as a list of when each state coin will be issued, can be obtained from the U.S. Mint section of the Treasury's web site at **http://www.usmint.gov/10.htm**.

January Beige Book reports continued moderate growth in regional economy

The Federal Reserve's Beige Book released in late January reports that the district economy continued to grow moderately in December. Retail sales increased during the holidays, energy activity improved, and manufacturing activity remained fairly strong. The only sign of weakness was a slight slowdown in construction activity. In the farm economy, the winter wheat crop was in good shape and ranchers are expected to benefit from good quality pasture. Labor markets remained tight in much of the district, with more evidence of wage pressures than in the recent past. Prices edged up for some manufacturing materials and at the retail level.

The Beige Book, published eight times a year, summarizes economic information collected from businesses across the Tenth District, including retailers, home builders, manufacturers and purchasing agents, and banks.

The contents of the Beige Book are available on the Bank's web site at **http://www.kc.frb.org**. A new Beige Book report on the region's economic conditions will be out mid-March.

Retail sales increased during holidays

Retailers report that sales increased during the holiday season but were generally unchanged from a year ago. Retailers say they are optimistic that sales will hold steady or edge up over the next three months. Most were satisfied with current stocks but expect to trim inventories slightly in the coming months. Auto sales edged up in December but were slightly lower than a year ago. Sales of sport utility vehicles remained strong, while sales of other vehicles held steady. Dealers have kept inventories unchanged as they expect no major shifts of sales in the coming months.

Manufacturing continued to expand

Manufacturers continued to operate at moderately high levels of capacity in December. Purchasing agents reported some difficulties obtaining materials due to rail shipping delays, which increased lead times. Some agents expect rail transportation problems to continue in the near future. Despite a moderate decline in inventories in December, most manufacturers say they plan further reductions because stocks exceed desired levels.

Slight slowdown in construction activity

Housing starts were down slightly in December but were up somewhat from a year ago. Builders anticipate normal seasonal improvement in construction activity in the coming months. Sales of new homes edged down in December due primarily to seasonal factors, resulting in a slight increase in inventories of unsold new homes. Mortgage lenders say demand was unchanged in December, but demand is expected to increase somewhat in coming months as more consumers refinance mortgages.

Bankers report increase in loans, deposits

Bankers report that loans and deposits increased in December, while loan-deposit ratios edged downward. Loans increased in all categories except consumer loans and home equity loans, which were flat. Increases in demand deposits, NOW accounts, and money market deposit accounts outweighed declines in large CDs and small time deposits.

All respondent banks left their prime lending rates unchanged in December and most expect to hold rates steady in the near term. In addition, most banks did not change their consumer lending rates and anticipate no future changes. Lending standards were unchanged at most banks.

Energy activity improved

After declining for three consecutive months, district energy activity improved in December. Crude oil prices fell but not as much as natural gas prices. Both prices remained well below year-ago levels. Despite lower prices, the district rig count was up 11 percent in December to a level 17 percent higher than a year ago.

Agriculture reports are generally favorable

The district's winter wheat crop is in good shape with favorable growing conditions, and wheat pasture is reported as good to excellent. Area bankers indicate that ranchers have experienced a rebound, and cattle loan portfolios are healthier than a year ago. The railroad shortage did not appear to have a significant impact on district producers and businesses.

The majority of the farm loan portfolios in the district are doing well, with very few loans turned down due to financial weakness. Loan demand is expected to increase in grain producing areas, while areas of the district that produce livestock are not anticipating an increase in demand. Due to healthy profits for district farmers, farm equipment dealers are enjoying a substantial increase in sales. Auto and truck sales have risen more slowly.

Labor markets remained tight

Labor markets remained tight in December in much of the district, with somewhat more evidence of wage pressures than in previous reports. Retailers and manufacturers report a shortage of workers at almost all levels. Builders say framers and other skilled tradespeople are hard to find. Respondents from many firms say that computer-related positions cannot be filled. Some companies have raised wages more than in the recent past to attract or retain workers, while many say wage increases were about average.

Most retailers report steady prices, while a few say prices edged up last month. Prices increased slightly for some manufacturing materials, such as metals, while prices of construction materials held steady. Retailers expect prices to decline slightly in the coming months.

Workshop explores community development issues

The Community Affairs Department of the Kansas City Fed, in partnership with others, will present a series of community development workshops in New Mexico and Nebraska, titled "Doing Undoable Deals."

The workshops provide a framework for understanding the issues and resources of community development. The sessions address the following topics:

- Attracting business
- Providing affordable housing
- Bringing people together who can solve problems
- Finding the resources to make deals work
- Building communities

Participants will analyze the costs and benefits of resources, develop an understanding of the perspective of all the partners in a deal — entrepreneurs and nonprofits, lenders, and providers of government resources — and consider the economic ties between neighboring communities and between housing and business development efforts.

For registration information regarding the New Mexico workshops, contact Kathy McCormick of the New Mexico Department of Economic Development at (505) 827-0382. For information about the Nebraska workshops, contact Dwight Johnson, Small Business Administration, (402) 221-7206.

A schedule of the New Mexico and Nebraska workshops is included on the next page.

New Mexico Community Development Workshops

Date	***Location***
March 10	Albuquerque, New Mexico
March 11	Espanola, New Mexico
March 12	Las Vegas, New Mexico
March 18	Roswell, New Mexico
March 19	Clovis, New Mexico
March 24	Las Cruces, New Mexico
March 25	Silver City, New Mexico
April 1	Farmington, New Mexico
April 2	Gallup, New Mexico

Nebraska Community Development Workshops

Date	***Location***
July 14	Scottsbluff, Nebraska
July 15	North Platte, Nebraska
July 16	Grand Island, Nebraska
July 21	Norfolk, Nebraska
July 22	Omaha, Nebraska
July 23	Nebraska City, Nebraska

Farm credit conditions improved in third quarter of '97

Ag credit conditions in the Tenth District continued to improve in the third quarter of 1997, according to a survey of 337 agricultural bankers. Improvements in the cattle sector and increased crop production helped lift farmland values in the district. Demand for operating loans at district banks remained strong, while repayment rates improved and interest rates edged down.

Results of the survey appear in an article by Kendall McDaniel, research associate, and Russell Lamb, economist, in the Bank's Fourth Quarter 1997 *Regional Economic Digest*, the Bank's review of financial and economic conditions in the district. The publication is available on the Bank's web site at **http://www.kc.frb.org**. Copies also are available by contacting the Kansas City Fed at (800) 333-1010, extension 2989. The local number is 881-2989.

Farmland values rise

Ranchland values rose 2.0 percent over the previous quarter and 7.8 percent over a year ago, reflecting a recovery in the cattle sector. Gains were greatest in Oklahoma, however most district states saw increases.

District cropland values rose in the third quarter due to strong wheat, corn, and soybean production and favorable prices. Irrigated cropland values rose 1.4 percent during the quarter and were 5.4 percent higher than a year ago. Nonirrigated cropland values rose 1.3 percent in the quarter and 6.2 percent over the past year. The largest cropland value increases were in Nebraska, Kansas, and Oklahoma. The other four states in the district had modest gains.

Demand for farm loans remains strong

Bankers report that demand for farm loans strengthened in the third quarter. The average loan-deposit ratio at district agricultural banks jumped to 65.5 percent. This is the highest level since the survey began in 1976. Slightly more than a third of the bankers surveyed indicate their loan-deposit ratio was greater than desired, but less than 2 percent refused loans due to a shortage of funds. A large fall harvest and a recovering cattle sector should lead to healthy loan repayments, helping relieve liquidity pressures.

Loan repayments increase

The farm loan repayment rate in the district rose in the third quarter, reflecting a better than expected winter wheat harvest and higher feeder cattle prices. The index for loan renewals or extensions fell to the lowest level since 1990.

Farm loan interest rates edge down

Interest rates on new farm loans in the district averaged 9.38 percent on farm real estate loans, 9.91 percent on feeder cattle loans, 9.90 percent on intermediate loans, and 10.05 percent on farm operating loans. The easing of farm interest rates is not surprising since farm interest rates generally follow trends in national money markets, which edged down during the third quarter.

Commodity prices fall

The district index of farm commodity prices fell 2.8 percent in the third quarter and was 3.8 percent below last year's levels. Prices were lower for hogs, corn, wheat, and soybeans; this offset moderate gains in both feeder cattle and fed cattle prices in the third quarter. Soybean prices fell significantly due to expectations of record production. However, strong export demand and low stock levels are expected to support commodity prices in early 1998. Corn and wheat prices have risen since September. But a large harvest of corn and soybeans this past fall limited price gains that were otherwise supported by strong export demand and low stock levels. Winter wheat prices have weakened since September. Hog prices have moved down due to large pork supplies and weaker than expected exports. Prices for feeder cattle have moved down since July, while fed cattle prices have remained steady.

Crop and livestock production expanded last year

Expectations of higher prices prompted district farms to expand production of crops. The 1996 winter wheat crop was the largest since 1990, and producers planted more acres in the fall of 1997 than in the fall of 1996. Corn production and soybean production were near record levels. Large meat supplies in the livestock sector continued to dampen meat prices. A large cattle slaughter and heavier cattle weights have boosted beef production. Significant expansion in the hog industry has led to an increase in pork supplies.

Outlook for farm income

In response to a special survey question, district agricultural bankers say they expect farm income to edge up in 1997. District bankers expect much higher livestock returns in 1997 due to a recovering cattle sector and continued profitability of hog producers. Bankers expect 1997 crop incomes to edge down from 1996 highs, as lower prices offset bigger output.

Outlook for 1998

The outlook for the district agricultural economy remains solid. Although winter wheat prices have been low, they have likely bottomed out and could rise in the coming months. Low world stocks should support prices for grains and oilseeds in 1998, although profits are not likely to reach the levels of the previous two years.

Economic Review

Fourth Quarter 1997

"Looking Forward: The Role for Government in Regulating Electronic Cash"

Government's role in ensuring the quality of currency when electronic cash is privately issued is examined in a new article by Stacey L. Schreft, senior economist at the Bank.

Schreft first describes the various emerging forms of electronic cash, such as stored-value cards and digital cash, and how they differ from today's paper currency. She notes that in most countries today, the government is the sole issuer of metallic and paper currency. That might not be the case, however, with electronic currency. Schreft says, "The concern for policymakers is not that electronic cash is electronic, but rather that private firms are issuing it."

Schreft argues that the issuance of electronic currency by private firms could someday be problematic because it might reduce the quality of the nation's currency stock, as measured by the currency's stability, safety, and uniformity. She emphasizes that most experts predict it will be a long time before electronic cash comes into widespread use. However, because privately issued electronic cash might eventually be commonplace, "The challenge confronting policymakers today lies in determining what restrictions, if any, are needed to maintain the currency stock's quality in the presence of privately issued electronic cash."

Schreft notes that at the present time, the United States has few legal restrictions on who may issue electronic cash and what steps issuers must take to protect the public's interests.

She turns to economic theory and economic history to assess the possible impact privately issued electronic cash might have on the nation's currency — and the desirability of various government regulations, ranging from strict entry restrictions to no intervention at all. She concludes that both theory and history suggest there is a role for government — albeit a limited role — in ensuring the currency's quality when private issuance is allowed.

Fed Letter **February 1998**

Fed Letter is published by the Public Affairs Department, Federal Reserve Bank of Kansas City, 925 Grand Boulevard, Kansas City, Missouri, 64198-0001, (800) 333-1010. **Fed Letter** also is available on the Internet at **http://www.kc.frb.org**.

Editor: Lori Hand