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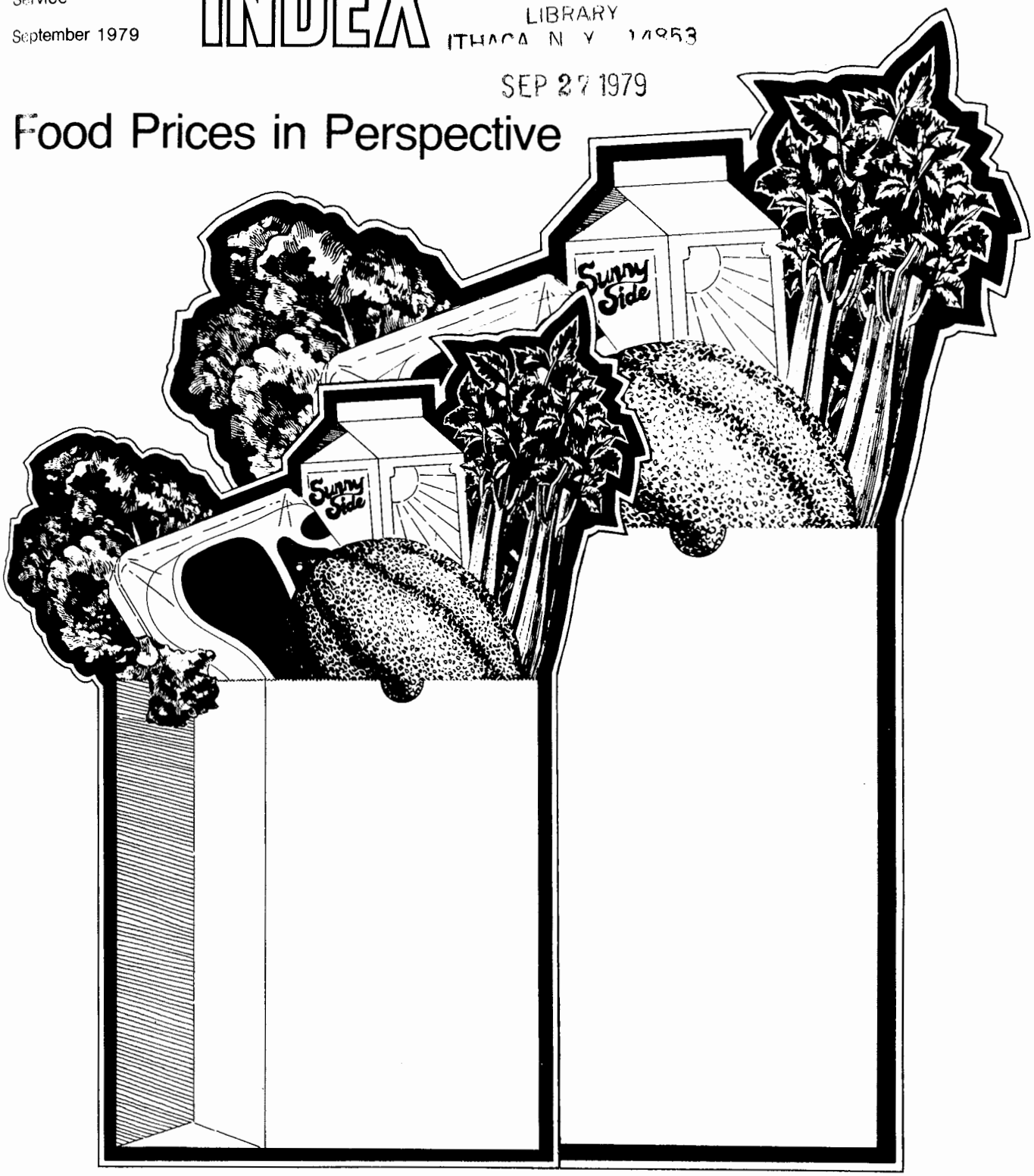
FARM INDEX

Food Prices in Perspective



Outlook

A significant increase in worldwide demand is now nudging farm crop prices upward. However, higher energy costs and a decline in economic growth will skim off some of the farmer's income.

As U.S. farmers bring to an end a bountiful harvest, strong domestic and global requirements will continue to hold grain prices well above last season's levels. This demand will pull down world grain stocks so a favorable growing season will be needed in 1980 to rebuild supplies.

Supply not large. U.S. grain stocks (wheat, feed grains, rice, and rye) were projected to reach 74 million metric tons by the end of the 1978/79 crop year. It seems like a large supply, but is equivalent to only 5.2 percent of annual world use. Moreover, by the end of the current season, stocks are projected to drop to 52.5 million metric tons.

Wheat and feed grain stocks fell to 922 million bushels by midyear, down 22 percent from the previous season. The reduction was due primarily to an increase in exports—something that can be counted on to increase even more in the days ahead.

A case in point is the agreement by USDA to allow the U.S.S.R. to purchase substantially more wheat and corn than they have in the past. With the increased demand, wheat stocks next summer are projected to drop below 860 million bushels.

More acreage expected. However, with good prices for small grains a distinct possibility, U.S. farmers will be planting more acreage. For the first time in 3 years, there will be no set-aside and the farmers are expected to take advantage of it.

Net farm income of between $30 and $34 billion is expected this year. If it reaches the latter figure, it will set a new all-time record. The previous high was $33 billion, reached in 1973. (It should be noted that aggregate measures of farm income are not indicative of the financial status of every farm operator. Net farm income varies according to the commodities produced, debt, size of farm, distance from markets, and other factors.)

Good prices to remain. Farmers can expect the healthy price levels to continue for some time. The season-average farm price of wheat is now forecast at about $3.50 per bushel, up from roughly $3 for 1978/79. Corn prices are expected to average $2.75 per bushel during 1979/80, up from an estimated $2.20 during the season that ends this month.

Crop receipts are expected to be between $58 and $62 billion. Livestock receipts should be around $67 to $71 billion. Total cash receipts are expected to be between $125 and $132 billion, up from $111 billion last year. Higher wage rates and the marketability of farmers' skills will enable off-farm income to exceed last year's record $34 billion.

Farm production expenses will also increase. The 1979 estimate is for expenses to rise to between $110 and $114 billion. Higher fuel and equipment prices will pace the increase.

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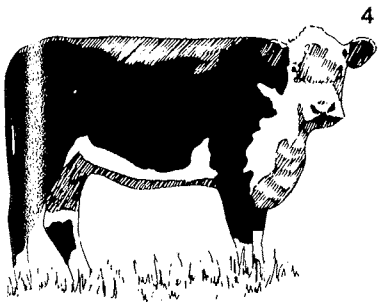

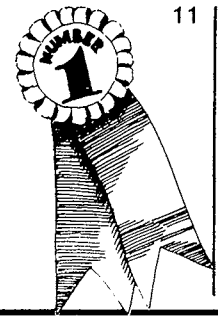

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Surveying the Spreads

Higher retail meat prices have been a major contributor to food price increases this year. And while the current phase of the cattle cycle and strong consumer demand are the most often-cited reasons, they may not fully explain the behavior of meat prices.

In fact, a persistent question has been whether middlemen have been raising meat prices faster than cost conditions in the meat industry warrant.

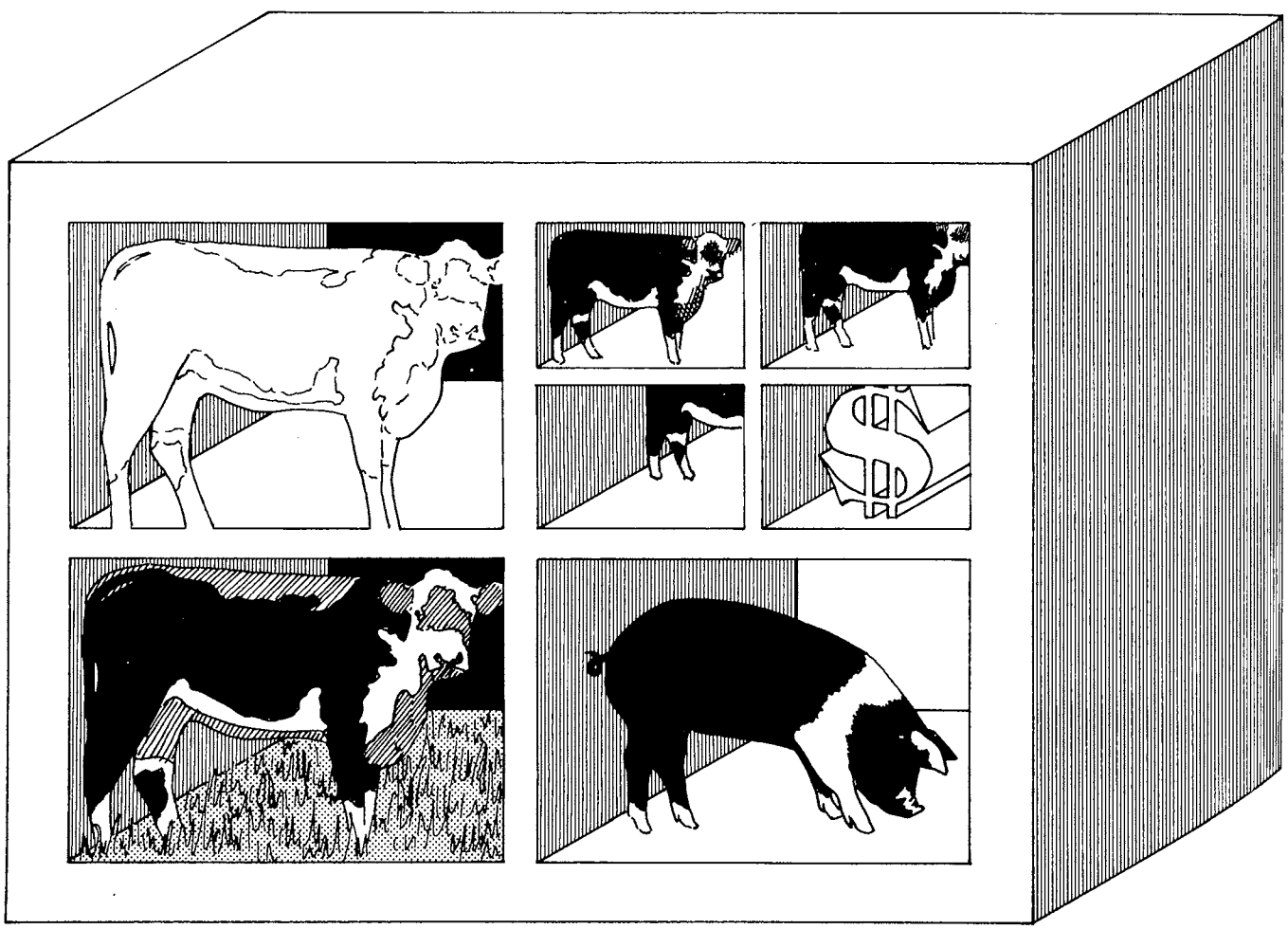
Although there are no easy answers, a recent USDA report took a close look at meat prices in relation to costs and returns to middlemen.

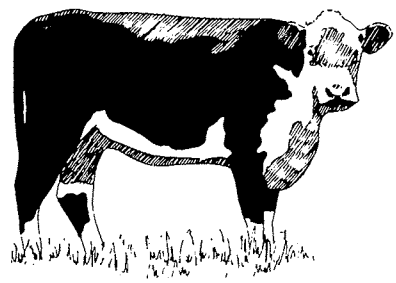
The conclusion: There appears to be evidence of exessive returns over costs in some segments of the marketing sector.

Of course, the trend in meat prices partly reflects higher cattle prices at the farm, where several years of herd liquidation have significantly pared cattle numbers. Livestock prices increased sharply in 1978 and through the first quarter of this year.

Hard-pressed cattlemen

Although higher prices for meat animals are ultimately passed on to consumers, better returns to cattlemen were long overdue. Cost of production





studies indicate that most cattlemen did not begin to receive prices that fully covered their longrun investment costs until late in 1978. Many had accumulated a backlog of losses and debts.

So, smaller supplies of beef cattle have provided a needed boost to farm prices, and these are partly reflected at the meat counter.

Another factor contributing to higher retail meat prices has been continued strong pressure from the demand side. With the help of rising incomes, consumers have generally shown they are willing to pay the price to have beef on the table.

Therefore, it appears that higher meat prices are consistent with supply-demand conditions. However, that's not the full story. While supplies of beef are certainly down from last year, there is more pork and poultry meat available. And total meat supplies this year are expected to be close to the record level of 1977.

Retail prices up

Yet, despite these large meat supplies, retail prices have increased much faster than the rate of inflation in the general economy.

This points to the marketing sector where, along with rising wages and overall inflation in the general economy, costs have been increasing, too. But the question the USDA study examined was whether price spreads indicate excessive returns over costs.

As meat animal carcasses move through the marketing system, costs add to the value of the meat at each stage. Price spreads between one stage and another provide a measuring stick of returns to packers, processors, transporters, wholesalers, and retailers.

For example, the farm-to-retail spread for Choice beef measures the charges added by all segments of the marketing sector after the animal leaves the farm until the beef is sold at the supermarket.

Carcass value

Within the marketing sector, the carcass value is determined by charges added by the packer and the transporter to a quantity of beef equivalent to 1 pound of retail cuts after trimming.

The difference between the carcass and net farm value is the farm-to-carcass spread for beef. Charges added by other middlemen after the packer can be measured by the carcass-to-retail price spread.

Similarly, the retail equivalent charges added by the packer-processor and transporter to pork is the wholesale value.

The difference between the wholesale value and net farm value is the farm-to-wholesale spread for pork, which measures the value added by the packer-processor and the transporter. The value added by other middlemen after the packer-processor can be gauged by the wholesale-to-retail spread for pork.

Projected vs. actual price spreads

When projected price spreads based on changes in costs between 1977 and May 1979 were compared with actual price spreads, USDA found the following:

- The carcass-to-retail price spread for Choice beef was about 15 cents per retail pound greater than estimated cost increases would justify.
- The farm-to-carcass price spread for Choice beef was near the level that underlying costs would apparently warrant.
- The wholesale-to-retail price spread for pork was about 10 cents greater than cost conditions seemed to justify.
- The farm-to-wholesale price spread for pork was about 7 cents less than estimated to be warranted by costs.

Unusual situation

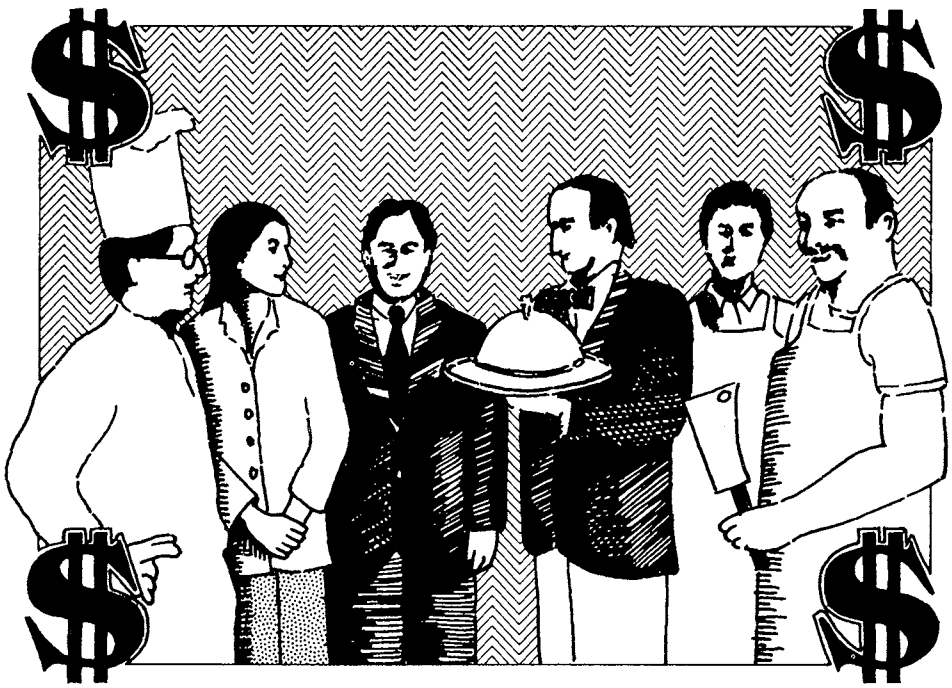
Price spreads usually decrease when livestock prices rise because retailers attempt to stabilize their prices over time. However, during the latter part of 1978 and early 1979, the price spreads increased while farm prices were increasing—an atypical situation which helped push meat prices higher than expected.

Furthermore, the price spreads have continued to widen when livestock prices declined this spring. For example, while retail prices decreased during June, price spreads for beef increased 3 cents per pound from May to June, with June 1979's 17.4 cents larger than June 1978.

Widening price spreads partly reflect higher marketing costs and also may be partially due to some anticipation of price controls. However, the widening of spreads to the point where there are probably excess returns over costs is an unwelcome development for consumers and inflation fighters.

[Based on the study, "An Examination of Price Spreads for Beef and Pork," prepared by the Economics, Statistics, and Cooperatives Service and forwarded to the President's Council on Wage and Price Stability.]

Looming Labor Costs



Meatcutters, wholesalers, food packers, clerks, and waiters. The direct labor required to process and distribute farm foods today receives 32 cents of every dollar we spend in food stores and restaurants.

Farmers receive about the same amount, and the rest pays for marketing costs other than labor, including packaging, transportation, energy, advertising, and corporate profits.

However, while the payments to farmers for farm foods have increased in some years during the last decade, the cost of labor needed in marketing these foods has steadily increased.

Persistent rise

Since 1973, labor costs have risen at an average annual rate of 10.2 percent. In 1979, the increase could reach 11 percent.

The rising cost of labor has been a major factor behind food price inflation in the seventies. Even in years when farm prices did not increase, marketing costs—and labor, in particular—continued to push retail prices up.

What is behind the persistent rise in labor costs?

The key factor is labor productivity, which has not grown fast enough to offset sharp gains in wages. In addition to wages, worker benefits, the minimum wage, and total employment in the food industry have all increased in recent years.

Up with wages

Although hourly earnings of food marketing workers still average less than those of workers in other major nonfarm industries, they are rising at a faster pace.

Between 1973 and 1978, wages for employees in all segments of food marketing—including food manufacturing, wholesaling, and retailing—increased at an average annual rate of 8.4 percent. For employees in other industries, the rate of increase was 7.6 percent.

One reason for this faster rise is the flexibility possible in pricing foods. Necessity, rather than affordability, determines the demand for food.

The food industry therefore can pass increased labor costs on to the consumer without suffering much reduced demand. As a result, food marketing firms probably are less resistant to wage demands from their employees.

The COLA factor

In the last 5 years, retail food workers scored bigger gains in wages than any other group of food marketing employees. One reason for their larger rate of increase—9.2 percent—is the prevalence of cost of living adjustment (COLA) clauses in their union contracts.

COLA clauses cover 75 percent of union members in food retailing. By contrast, they cover only 36 percent of union members in food manufacturing.

Less than one-third of the work force in food retailing and manufacturing is unionized. Nevertheless, wage increases for union workers often spark similar increases throughout the food industry.

Employees benefit

Paralleling the trend that has developed throughout U.S. industry, employee benefits in the food industry have been rising even faster than wages and salaries.

From 1967 to 1977, hourly benefits to employees in food, beverage, and tobacco manufacturing rose 154 percent; wages increased 93 percent. In 1967, benefits to these workers accounted for 24 percent of the total employee compensation. By 1977, this figure had reached nearly 30 percent.

Benefits to retailing and wholesaling employees have increased at an even faster rate, although they make up a smaller percentage of the total compensation. In 1977, benefits to these workers added 26 percent to the total labor cost.

Employers pay

Benefit costs have shot up across the board, but the largest increases have resulted from hikes in Social Security payroll taxes and from increased payments for pensions and insurance programs.

The rate of Social Security taxes paid by employers rose from 4.4 percent to 6.1 percent between 1967 and 1979, and the taxable wage limit increased from $6,600 to $22,900.

In addition, during this period employers picked up an ever larger tab for private pensions and insurance programs. In the food, beverage, and tobacco manufacturing industry, for example, payments for these programs increased 213 percent from 1967 to 1977.

Higher minimum wage

Since 1973, the minimum wage has increased at an average annual rate of 10.4 percent. It rose from $1.60 an hour in 1973 to $2.90 in 1979.

Minimum wage boosts, however, have only a slight effect on total labor costs in food marketing. Employees in restaurants and other public eating places are affected the most, although in 1978 only 18 percent of these employees received a pay increase to reach the new minimum.

Nevertheless, as the minimum wage goes up, employers are likely to raise the wages of other workers so that pay differentials among jobs are maintained.

Increases in work force, hours

In addition to higher wages and costlier benefits, increases in the work force and the total hours of work are partly responsible for advancing labor costs in the food industry.

In 1973, 5.6 million people were involved in marketing food products. By 1978, the industry had 1.3 million more employees. Employment during this period increased by 4.3 percent a year, nearly twice the rate of increase for the civilian work force as a whole.

Employment in food stores and eating places scored the biggest gains, reflecting the trend toward more eating out, longer hours of operation, and growth of service-oriented establishments, such as store bake shops and delicatessens.

From 1973 to 1978, employment at restaurants and other eating places increased by 7.2 percent a year. The number of hours worked increased by 3.5 percent, while the increase for the entire food industry averaged 1.8 percent. By 1978, employees of eating places represented nearly half of the total work force in food marketing.

Productivity up, barely

If labor productivity had grown rapidly over the past decade, the increases in wages, benefits, and employment would not have figured so significantly in the retail price spiral.

However, productivity in the food industry, as in nearly all U.S. industries, has grown very slowly since the early 1970's. In food manufacturing, for example, productivity—the output per hour of labor input—increased only 1 percent a year between 1972 and 1977. Even worse, productivity in retail food stores actually decreased 6 percent during this period.

Reasons why

Many factors are responsible for the slow rise in labor output during the seventies.

- Business has been reluctant to invest in new plants and equipment because of rising costs and lack of confidence in the economy.
- Environmental and safety rules have directed capital away from labor-saving investments into less productive, though perhaps more socially desirable uses.
- Due to rising energy costs, some energy-intensive equipment has become uneconomical or obsolete. As a result, labor has begun to be substituted for energy, reducing total output.
- Productivity at retail food outlets has plummeted because of a steady increase in employment and hours of work that has not been offset by greater sales.
- Work rules designed to protect jobs and maintain the number of hours worked have hindered the adoption of some labor-saving innovations.

[Based on the manuscript, "Labor Cost of Food Marketing: Trends and Current Developments," by Harry Harp, Denis Dunham, and Leland Southard, National Economics Division.]

Food Prices in Perspective

Although it seems like prices everywhere are higher than ever before, the grocery store is where most people really feel the crunch. Unfortunately, there are many factors contributing to the complex problem of ever-increasing food prices.

Food prices have risen more over the past decade than the Consumer Price Index (CPI) for all goods and services. The CPI for all items rose 95 percent from 1967 to 1979, but for food alone it rose 111 percent. And prices for food bought and eaten away from home have gone up even faster than those for foods in the supermarket.

Wages and incomes up, too

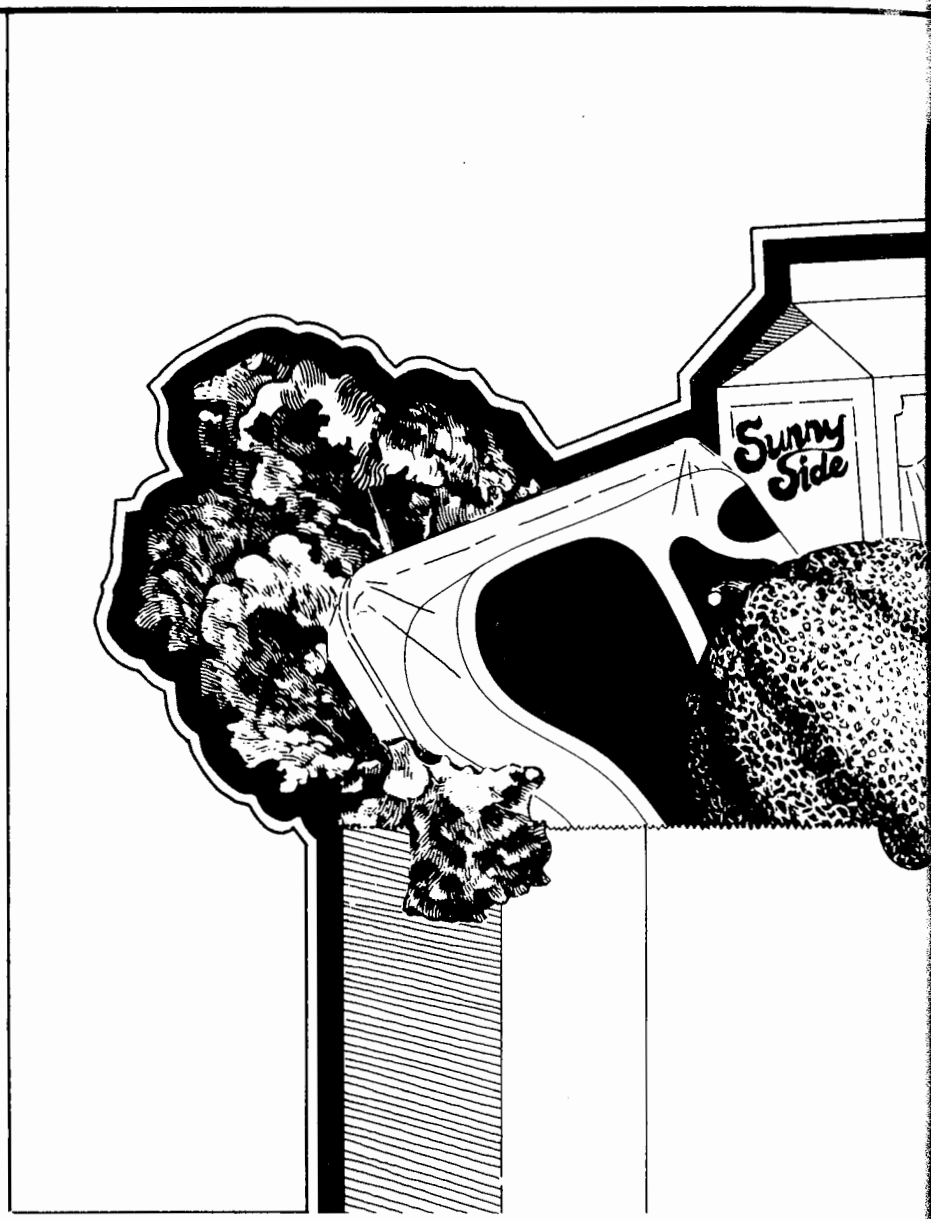
But price increases alone do not tell the entire story. Although it's not as obvious, wages and incomes have risen even faster than food costs.

In 1950, consumers spent an average of 22 percent of their disposable income on food. By 1978, this figure had fallen to nearly 17 percent, indicating that incomes generally have risen faster than retail food costs.

Even last year, when food prices increased 10 percent, disposable income increased 11 percent.

Of course, the 17-percent average masks the effects of higher food prices on different income groups. The poor spend a greater proportion of their income on food, so price inflation hits them harder than others.

For example, families in the lower income categories spend about 30 percent of their income on food, while those in the highest income groups spend less than 10 percent.



What's behind food price changes?

Changes in marketing costs and commodity prices cause the year-to-year changes in food prices. The rapid food price increases in 1973 and 1978 were due largely to higher farm prices for commodities. On the other hand, the food price increases from 1974 to

1977 were largely the result of higher marketing costs.

The ups and downs in farm commodity prices and the higher food marketing costs are the result of several factors, including food production and marketing bill costs, weather, trade policies, biology, and consumer attitudes. Here's a rundown on some of them:

Food production costs. Farmers are spending more and more to produce our food—about 80 percent of their cash receipts go for production inputs.

They have survived the rising prices by becoming more efficient and productive, but in the process they have become increasingly dependent on purchased inputs, such as fertilizer, pesticides, fuel, and equipment.

Any change in the supply or price of these items can critically influence production costs, food output, and farm income.

Some farm input industries are dominated by a few large firms—particularly those producing machinery, herbicides, and insecticides. For example, in 1976, four firms made 78 percent of all tractor sales and 84 percent of all combine sales.

As these industries become more concentrated, the potential for sustained price increases grows. This is because the greater concentration may reduce price competition and increase the likelihood that firms will pass on to farmers any increases in production costs.

The increased reliance on purchased inputs has made farmers more dependent on general economic conditions. They have been pressured to develop arrangements that will assure them some consistency between the prices they pay and the prices they receive—this can be seen in the increased use of forward contracting and the futures market.

Other factors contribute to higher production costs: limited natural resources, increased energy and labor costs, and higher taxes.

So, unless productivity gains occur, commodity prices will need to increase to maintain the economic health of the farm sector.

Marketing bill costs. Retail food prices are also affected by manufacturing, transportation, and selling costs—all commonly referred to as the "marketing bill."

The 128-percent increase in the marketing bill from 1967 to 1978 was due not only to the cost of marketing a larger quantity of food, but also to increases in the per unit cost of marketing food.

For each dollar Americans spent on domestically produced foods in 1950, 40 cents went to farmers and 60 cents to food marketing firms. Today, the farmers' share has fallen to 32 cents, while the share of the marketing firms has risen to 68 cents.

Direct labor costs increased 155 percent from 1967 to 1978 and made up half of the total increase in food marketing costs between those years. Since wage rates and fringe benefits are tied closely to increases in the CPI, labor costs can be expected to continue increasing unless inflation in the general economy is slowed or labor productivity goes up.

Packaging and costs for transporting food products have more than doubled since 1967. And these costs will likely continue to increase as energy prices rise.

Weather. Poor weather in recent years reduced domestic and worldwide production of fruits, vegetables, grains,

and coffee causing retail prices to increase rapidly.

However, the influence of weather and other natural phenomena on retail food prices can be reduced by establishing and managing commodity reserves, such as the farmer-owned grain reserve established in 1977.

These reserves can be used, in times of adverse weather, to augment food supplies and limit fluctuations in retail food prices. In years when relatively large crops depress commodity prices, part of the crop can be used to replenish the reserves as needed and to keep the farm sector economically healthy.

Trade policies. More U.S. emphasis is being given to the development of trade agreements, such as the proposed International Emergency Wheat Reserve, which may significantly reduce the possibility of extreme year-to-year fluctuations in commodity prices.

Biology. The biology of plants and animals limits farmers' ability to increase production quickly. For example, after the decision is made to expand output, it takes about 43 months for significantly more beef to reach the supermarket, 36 months for milk, 18 months for pork, and 3 months for broilers. Prices, therefore, act to allocate the products that are available for sale.

Consumers. Consumers, too, are at least partially responsible for the higher food prices over the past decade. Rising incomes and changing lifestyles increase the use of marketing services, which push up total costs for marketing, and thus, for food.

Demand for such services is expected to grow even more as population and incomes increase, lifestyles continue to change, and more people become aware of the relationship between health and diet.

And finally, consumers' general attitudes toward inflation also affect prices. Attitudes help shape buying patterns and accentuate or lessen the conditions that lead to inflation, whether in the food sector or the general economy.

[Based on *Food Prices in Perspective: A Summary Analysis,* April 1979, ESCS-53.]

Change in Consumer Food Prices

Year	All Items	All Food	Food at Home	Food Away from Home
			1967 = 100	
1968	104.2	103.6	103.2	105.2
1969	109.8	108.9	108.2	111.6
1970	116.3	114.9	113.7	119.9
1971	121.3	118.4	116.4	126.1
1972	125.3	123.5	121.6	131.1
1973	133.1	141.4	141.4	141.4
1974	147.7	161.7	162.4	159.4
1975	161.2	175.4	175.8	174.3
1976	170.5	180.8	179.5	186.1
1977	181.5	192.2	190.2	200.3
1978	195.4	211.4	210.2	218.4

Source: Bureau of Labor Statistics

Toasting the Top 10

Who is number one?

In dollar value of farm products exported, Illinois once again took top honors in the 1978 fiscal year (October 1, 1977 through September 30, 1978).

Illinois farmers produced almost $2.8 billion in farm goods for export during that period—more than a half billion dollars more than second-placed Iowa.

All totalled, Illinois farm exports comprised a tenth of the $27.3 billion in farm goods sold by the U.S. during that period—a national figure 14 percent higher than fiscal year 1977 sales.

Comparative statistics

In a breakdown of sales by commodities, Illinois led the Nation in only two categories: soybeans and products, and feed grains and products. California and Texas each led in three categories.

In fact, Illinois showed up among the top 10 producers in only five farm products, while Texas appeared on 14 of the 17 top 10 lists to indicate its diverse agriculture.

But whatever Illinois farmers may lack in diversity of crops for export, they make up for it in spades by growing a prodigious amount of soybeans and feed grains for sale to foreigners.

Neighboring Iowa, which produced more than $2.1 billion in exported farm goods, led the Nation in sales of meats and preparations, and finished in the top 10 for five other categories.

Lone Star State

Third place went to Texas, which led in export sales of cotton, lard and tallow, and cottonseed oil. Texas finished second in rice, hides and skins, and meats and preparations. Total Texas sales topped $2 billion.

California, the number four exporter with more than $1.9 billion in total sales, led in fruits, vegetables, and nuts. California finished second to Texas in cotton and cottonseed oil.

Minnesota came in fifth in total export sales with almost $1.5 billion, edging Wisconsin for top honors in the dairy category.

Indiana, sixth with better than $1.4 billion in sales, didn't finish first in any product sales. But Hoosier farmers ranked in the top 10 for sales of soybeans, feed grains, and meats.

Kansas wheat

Kansas, with almost $1.4 billion in sales, finished seventh after leading the Nation in wheat exports.

Nebraska, number eight in total sales, finished high on six commodity lists as it produced more than $1.3 billion in exports.

Missouri, which was ranked on five lists, came in ninth with just over $1 billion in sales—only $13 million more than Ohio farmers, who rounded out the top 10 in overall sales.

Not all of the category leaders finished in the top 10 in aggregate sales.

North Carolina was far and away the top exporter of tobacco with better than a half billion dollars in sales.

Wisconsin failed to crack the aggregate top 10, despite finishing even with Texas in hides and skins sales, and coming in a close second to Minnesota in dairy products sales.

Arkansas leads Texas

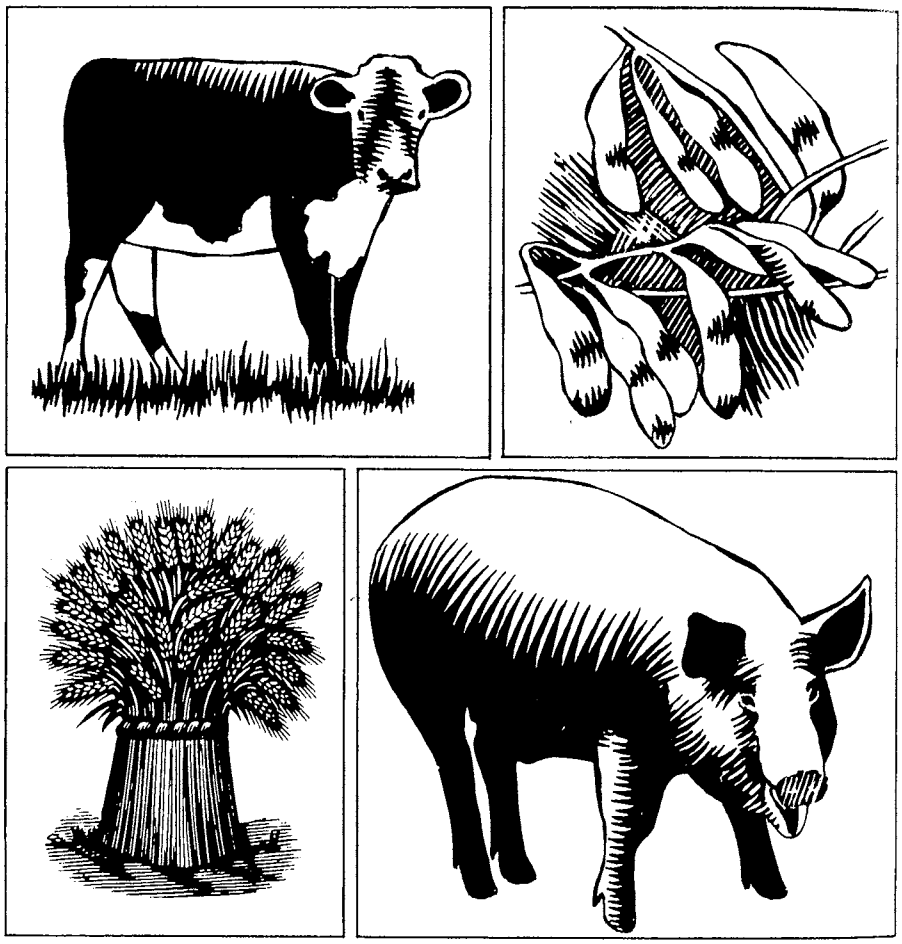
Arkansas outpaced Texas to lead in rice export sales, then edged out Georgia for top position in poultry sales.

North Dakota produced more than twice as much sunflower seed as second-placed Minnesota, and finished second in wheat exports.

The identity of the leading exporter of peanuts should come as no surprise. Georgia almost tripled the output of second-placed Alabama.

[Based on material assembled by the International Economics Division for the March/April issue of *FATUS*.]

Eying Eastern Europe



U.S. farm exports to Eastern Europe (Bulgaria, Czechoslovakia, German Democratic Republic (GDR), Hungary, Poland, Romania, and Yugoslavia) posted impressive gains during the first half of the 1970's, rising from less than $200 million in 1970 to an average of $1.2 billion over the past 3 years.

But can U.S. traders sustain the momentum? This year looks pretty good, as Eastern Europe is expected to buy an estimated $1.3 billion in U.S. farm goods. However, USDA economists expect that over the longer run, the road to increasing or even maintaining sales of U.S. agricultural products to Eastern Europe will be bumpy.

Grains and soybeans dominate the export mix, accounting for about 80 percent of total agricultural shipments. The U.S. share of the region's grain imports rose from just over a fifth in 1971 to nearly one-half during 1975 and 1976; the share of soybean meal imports ranged from 18 percent in 1972 to 36 percent in 1976.

Booming livestock sector

Partly behind this expansion was the faster-than-planned growth in Eastern Europe's livestock sector. Spurred by rising consumer incomes and demand for meat, the region's hog numbers shot up 31 percent between 1971 and 1975, with Poland—a grain-deficit country—accounting for over half the increase.

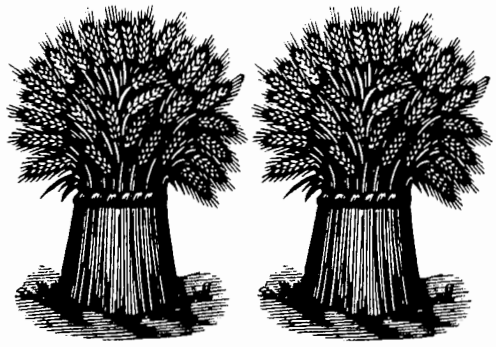
Output of grain also grew faster than anticipated, but not fast enough to keep up with the demand for feed. Further, Eastern Europe could not, as usual, rely on the U.S.S.R. for cheap and abundant feed supplies, since the Soviets were at that time expanding their own meat production and became net grain importers.

Therefore, Eastern Europe turned to the West—particularly the U.S.—for increasing amounts of grain and feedstuffs. This caused additional strain on the region's hard currency balance, as Eastern Europe bought more from Western trading partners than it could sell.

U.S. exports

Whether the U.S. will maintain this current export volume to Eastern Europe over the next several years hinges partly on the region's ability to boost production of grains and oilseeds, partly on availability from other sources, and partly on competitive sales terms.

During the first 3 years of the current (1976–80) 5-year plan, only Hungary attained its planned production level. Grain, oilseed, and sugar beet crops all fell below target. In contrast, livestock output remained fairly close to



targeted levels, rising faster than planned in some countries, but failing to meet goals in Poland and Romania.

However, if crop and livestock production increase at the planned rate in 1980, Eastern Europe could reduce its annual net grain imports by about 1.5 million tons. The region could also lower its net oilseed and meal imports by nearly 300,000 tons (meal equivalent) assuming the grain-oilmeal feeding ratio remains unchanged.

Grain deficits

Currently, Poland, Czechoslovakia, and the GDR are the region's only countries with chronic grain deficits. In the GDR, however, meat consumption already stands at such a high level that no further livestock inventory increase is planned.

Czechoslovakia and the GDR have some chance of having their grain production catch up with domestic demand in the long run. The rest of the countries, except Poland, have better opportunity for self-sufficiency in grain production.

Overall, it appears that the region can gradually improve its livestock-feed balance, thereby reducing its annual net feed grain imports.

On a more positive note for U.S. suppliers, Eastern Europe probably will not reduce its oilseed and oilmeal imports. As feeding efficiency receives more emphasis, demand will continue strong for imported high-protein feed ingredients.

Vegetable oil imports

Imports of vegetable oil—another chief U.S. export commodity—are less likely to expand. The region's crushing capacity has climbed substantially, causing a shift from imported oilmeals to oilseeds—providing Eastern Europe the additional raw material to produce much of its own vegetable oil.

Our annual share of grain and oilseed product exports to Eastern Europe will depend on the availability and price of products from rival suppliers. Recognizing, however, that regular customers get top priority when supplies are tight, the GDR and Poland have agreed to buy a minimum amount of grain from the U.S. each year.

Cattle hides stand out among the rest of U.S. agricultural export items. The U.S. generally supplies about a fourth of the region's cattle hide imports, and probably will maintain this share. Population growth, improved living standards, and exports of finished leather goods should increase the demand for hides and skins in all countries.

Last year, Eastern European imports of U.S. cotton, tobacco, and lemons totaled more than $5 million each. Signs point to expanded trade in all three commodities.

Breeding cattle

In some years, the region—particularly Hungary and Yugoslavia—imported sizable numbers of U.S. Holsteins and other live cattle for breeding. If Eastern Europe's foreign exchange situation eases or credits become more attractive, the region could continue to buy a significant amount of U.S. breeding cattle.

The U.S. also stands to increase its total farm exports to Eastern Europe by extending short- and medium-term credit to countries that are hard pressed for foreign exchange.

While the U.S. boasts a long established trade relationship with Poland and Yugoslavia, and amendment (Title IV) to the 1974 Trade Act restricts credits to countries that prohibit free emigration.

In recent years, waivers have permitted Commodity Credit Corporation credits and Most Favored Nation (MFN) treatment to Romania and Hungary, but these waivers must be reevaluated each year creating uncertainty about continuous MFN access to U.S. markets for these countries.

New trade act

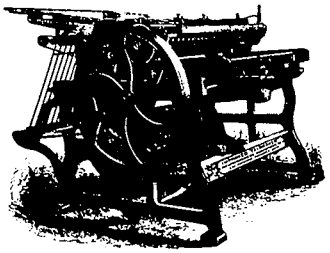
A new trade act in 1978 introduced several features to further U.S. exports, including 3-10 year credit arrangements for buying U.S. breeding animals, building wheat reserves, and for constructing certain facilities for marketing or handling farm commodities.

It's not likely that even the eligible countries will buy wheat for reserve in the near future, but some may take advantage of credits for importing breeding animals or building storage facilities.

The 1978 bill also authorizes the Secretary of Agriculture to establish from 6 to 25 agricultural trade offices in areas that show strong potential as U.S. export markets. While the actual sites still must be agreed upon, some East European countries are among the locations under consideration.

[Based on the speech, "Prospects for U.S. Agricultural Exports to Eastern Europe," by Thomas A. Vankai, International Economics Division, presented at the Eastern Economic Association's annual meeting in Boston, Mass., May 10, 1979]

Recent Publications



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Economics of Water Quality in Agriculture—A Literature Review. Clayton W. Ogg, Lee A. Christensen, and Ralph E. Heimlich, Natural Resource Economics Division. ESCS-58.

This review describes studies in several disciplines which contribute to understanding economic impacts of reducing nonpoint pollution. Cost studies reviewed deal with controlling soil erosion, nutrient losses, and pesticide losses. Other studies reviewed suggest where and how widely control practices may be needed. One area in need of research concerns the relationships between erosion reduction and the delivery of sediment and chemicals to streams.

Health Care in Rural America. Mary C. Ahearn, Economic Development Division. AIB-428.

This report compares health needs and resources in nonmetropolitan and metropolitan areas, and shows that nonmetro areas' lower incomes, larger aged populations, hazardous occupations, and lower educational levels contribute to poorer health care conditions. A positive development has been the Federal Government's recognition of problems and its programs designed to meet these special needs. It will be important to recognize rural residents' health needs under any national health insurance program.

Dairy Manufacturing Plant Capacity and Utilization. Harold W. Lough, National Economics Division. AER-427.

Dairy manufacturing plants have adequate capacity to process supplies of milk over those required for fluid needs, even in flush periods of milk production. Cheese and dry-milk plants operate at the highest level of capacity utilization in May; butter plants run at the lowest level, about 40 percent or less of capacity. Butter plants generally operate fewer days per week and hours per day than do either cheese or dry-milk plants.

Food Prices and Policy. William T. Boehm and Rodney C. Kite, National Economics Division. ESCS-59.

Retail food prices are expected to increase about 10 percent in 1979. This forecast reflects an expected 10-to 14-percent increase in farm prices, a 9-to 11-percent climb in marketing costs, and a 7-percent cost increase for such nonfarm foods as fish and coffee and other imports.

Social Welfare Implications of Federal Marketing Orders for Fruits and Vegetables. Edward V. Jesse, National Economics Divison. TB-1608.

This report explores the effects on consumers and producers of terminating methods of supply management presently permitted through the use of Federal marketing orders for fruits, vegetables, and specialty crops. Changes in net social welfare are outlined both during the season when controls are removed and after longer run production adjustments are completed, using linear demand and supply relationships. Empirical information necessary to appraise welfare changes is indicated where the direction of change is not apparent.

Senior Citizens: Food Expenditure Patterns and Assistance. Anthony E. Gallo, Larry E. Salathe, and William T. Boehm, National Economics Division. AER-426.

The Older Americans Act of 1965, amended in 1972, states that many senior citizens eat inadequately because they lack financial means, knowledge, and mobility to purchase and prepare nourishing foods. This report examines how food purchasing patterns of senior citizens compare with other age groups. The age of the household head exerts a considerable influence on family food expenditure patterns.

Food Expenditure Patterns of Single-Person Households. Benjamin H. Sexauer and Jitendar S. Mann, National Economics Division. AER-428.

Single-person households differ widely in their food purchases according to income, age, and sex. Young upper income men spend more than half their food dollars dining out, while elderly lower income women spend only about 10 percent. The young spend more than three times more per week than the elderly on soft drinks. Men spend more on prepared foods (like frozen dinners) than women, and lower income young men spend more on prepared foods than any other of the 12 subgroups studied.

Economic Trends

[1] Ratio of index of prices received by farmers to index of prices paid, interest, taxes, and farm wage rates. [2] Beginning January 1978 for all urban consumers. [3] Revised to adapt to weighting structure and retail price indexes for domestically produced farm foods from the new Consumer Price Index for all urban consumers (CPI-U) published by the Bureau of Labor Statistics. [4] Annual and quarterly data are on a 50-State basis. [5] Annual rates seasonally adjusted, third quarter. [6] Seasonally adjusted. [7] As of March 1, 1967. [8] As of February 1.

Source: USDA (Agricultural Prices, Foreign Agricultural Trade, and Farm Real Estate Market Developments); U.S. Dept of Commerce (Current Industrial Reports, Business News Reports, Monthly Retail Trade Report, and Survey of Current Business); and U.S. Dept. of Labor (The Labor Force, Wholesale Price Index, and Consumer Price Index).

Item	Unit or Base Period	1967	1978 Year	1978 June	1979 April	1979 May	1979 June
Prices:							
Prices received by farmers	1967=100	—	210	217	244	246	243
Crops	1967=100	—	204	216	212	220	231
Livestock and products	1967=100	—	217	219	272	269	255
Prices paid, interest, taxes, and wage rates	1967=100	—	219	220	246	247	249
Prices paid (living and production)	1967=100	—	212	213	237	239	240
Production items	1967=100	—	216	218	246	247	248
Ratio[1]	1967=100	—	96	99	99	99	98
Producer prices, all commodities	1967=100	—	209.3	209.4	229.7	231.6	233.1
Industrial commodities	1967=100	—	209.4	208.5	228.6	231.1	233.5
Farm products	1967=100	—	212.7	219.5	245.9	245.2	242.8
Processed foods and feeds	1967=100	—	202.6	204.6	222.3	222.1	220.7
Consumer price index, all items[2]	1967=100	—	195.4	195.3	211.5	214.1	216.6
Food[2]	1967=100	—	211.4	213.8	232.3	234.3	235.4
Farm Food Market Basket:[3]							
Retail cost	1967=100	—	199.4	203.6	222.4	224.2	224.9
Farm value	1967=100	—	207.4	216.3	240.7	235.9	230.8
Farm-retail spread	1967=100	—	194.5	195.9	211.3	217.0	221.2
Farmers' share of retail cost	Percent	—	39.3	40.1	40.9	39.8	38.8
Farm Income:[4]							
Volume of farm marketings	1967=100	—	—	—	—	—	—
Cash receipts from farm marketings	Million dollars	42,817.4	111,042.1	8,243.9	9,126.3	—	—
Crops	Million dollars	18,434.4	52,051.3	3,330.4	3,451.0	—	—
Livestock and products	Million dollars	24,383.0	58,990.8	4,913.5	5,675.3	—	—
Gross income[5]	Billion dollars	49.9	124.9	124.3	—	—	144.1
Farm production expenses[5]	Billion dollars	38.2	98.1	97.0	—	—	111.3
Net income before inventory adjustment[5]	Billion dollars	11.7	26.8	27.3	—	—	32.8
Agricultural Trade:							
Agricultural exports	Million dollars	—	—	2,640.0	2,651.5	2,509.1	2,760.6
Agricultural imports	Million dollars	—	—	1,148.9	1,477.7	1,374.7	1,507.0
Land Values:							
Average value per acre	Dollars	[7]168	[7]488	—	[8]559	—	—
Total value of farm real estate	Billion dollars	[7]189	[7]512	—	[8]584	—	—
Gross National Product:[5]	Billion dollars	796.3	2,127.6	2,104.2	—	—	2,327.2
Consumption	Billion dollars	490.4	1,350.9	1,331.2	—	—	1,474.2
Investment	Billion dollars	120.8	351.5	352.3	—	—	391.3
Government expenditures	Billion dollars	180.2	435.6	428.3	—	—	468.7
Net exports	Billion dollars	4.9	−10.3	−7.6	—	—	−7.0
Income and Spending:[6]							
Personal income, annual rate	Billion dollars	626.6	1,717.4	1,704.2	1,881.2	1,893.6	1,903.0
Total retail sales, monthly rate	Billion dollars	24.4	66.6	64.6	71.4	71.3	70.6
Retail sales of food group, monthly rate	Billion dollars	5.8	14.5	14.3	15.9	15.8	16.0
Employment and Wages:[6]							
Total civilian employment	Millions	74.4	94.4	94.8	96.2	96.3	96.8
Agricultural	Millions	3.8	3.3	3.4	3.2	3.2	3.3
Rate of unemployment	Percent	3.8	6.0	5.8	5.8	5.8	5.6
Workweek in manufacturing	Hours	40.6	40.4	40.8	38.9	40.1	40.4
Hourly earnings in manufacturing, unadjusted	Dollars	2.83	6.17	6.11	6.54	6.62	6.65
Industrial Production:[6]	1967=100	—	145.2	144.9	150.0	151.8	151.4
Manufacturers' Shipments and Inventories:[6]							
Total shipments, monthly rate	Million dollars	46,487	125,317	124,839	135,735	142,399	—
Total inventories, book value end of month	Million dollars	84,527	197,802	189,557	208,964	211,264	—
Total new orders, monthly rate	Million dollars	47,062	129,263	128,088	140,965	145,237	—

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