DPS 124 MAY 1970

DEMAND AND PRICE Situation

ECONOMIC RESEARCH SERVICE • U.S. DEPARTMENT OF AGRICULTURE

Table 1.--Selected measures of economic activity

Item	Unit	1968 III	1968 IV	1969 I	1969 II	1969 III	1969 IV	1970 I 1/	Year 1969
Gross national product	Bil. dol.	876.4	892.5	908.7	924.8	942.8	952.2	960.4	932.1
Disposable personal income	Bil. dol.	593.4	604.3	610.2	622.0	639.0	647.5	659.9	629.7
Personal consumption expenditures	Bil. dol.	544.9	550.7	562.0	572.8	579.8	589.5	600.6	576.0
Food spending (excluding alcoholic beverages)	Bil. dol.	100.3	100.6	102.4	102.9	103.7	105.2	109.0	103.6
Implicit price deflator for GNP	1958=100	122.9	124.2	125.7	127.3	129.0	130.5	132.1	128.1
Unemployment rate 2/	Percent	3.6	3.4	3.4	3.5	3.6	3.6	4.2	3.5
Cash receipts from farm marketings	Bil. dol.	45.0	45.0	46.0	48.2	48.0	47.5	48.8	47.4
Farm production expenses	Bil. dol.	36.5	37.2	37.9	38.8	38.8	38.9	39.7	38.6
Realized net farm income	Bil. dol.	15.3	14.7	15.0	16.3	16.5	16.2	16.3	16.0
Agricultural exports 3/	Bil. dol.	1.4	1.7	.9	1.7	1.4	1.9	1.6	5.9
Agricultural imports 3/	Bil. dol.	1.3	1.2	1.0	1.4	1.2	1.4	1.4	5.0
Prices received by farmers 4/	1957-59=100	109	108	110	115	115	117	120	114
Livestock	do.	114	114	117	124	128	130	135	125
Crops	do.	101	102	101	104	98	99	99	100
Prices paid by farmers 4/ 5/	do.	122	123	125	128	128	128	132	127
Wholesale price index, all commodities 4/	do.	109.0	109.5	111.2	112.6	113.4	114.6	116.3	113.0
Consumer price index, all items 4/	do.	121.9	123.3	124.8	126.9	128.7	130.5	132.5	127.7
All food	do.	120.3	120.9	122.1	124.1	127.2	128.4	131.3	125.5

1/ Preliminary. 2/ Unemployment as a percent of the civilian labor force. 3/ Actual values, not seasonally adjusted annual rates. 4/ Not seasonally adjusted. 5/ Including interest, taxes, and wage rates.

Departments of Agriculture, Commerce, and Labor.

THE DEMAND AND PRICE SITUATION

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Approved by

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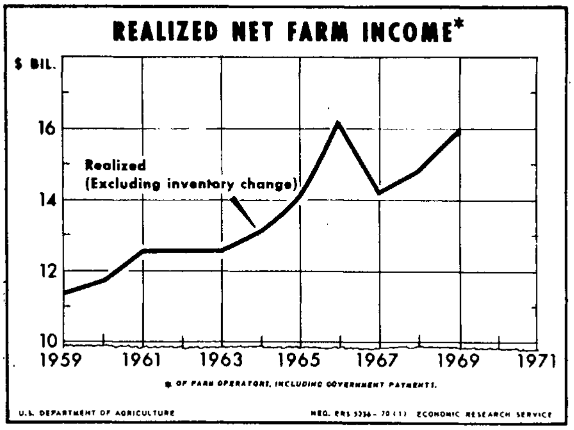
SUMMARY

Farmers may fare relatively well again in 1970. So far this year, producer prices are averaging 7% above 1969 levels. In recent months, however, supplies of livestock products have increased slightly and large increases in red meats, poultry and eggs are likely later in the year, in addition to increased crop supplies. Farm product prices for 1970 as a whole will probably average slightly above last year. Cash receipts for the year may increase close to $2 billion. This would likely offset increasing farm production expenses, leaving farmers' realized net income around last year's $16 billion, the third highest on record.

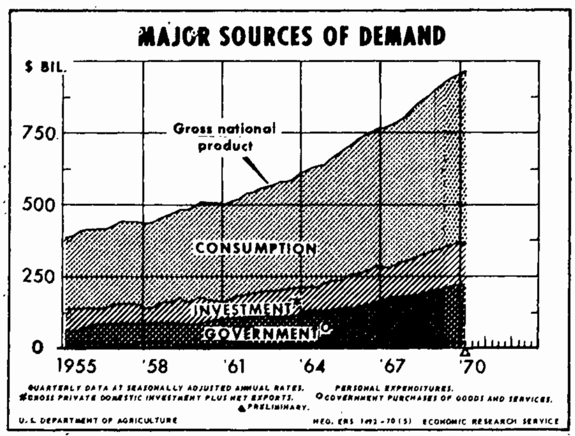
With supplies becoming more plentiful as the year wears on, livestock prices will likely drift lower and reduce the margin in cash receipts over a year earlier. Receipts for the year are expected to total around 6% above the $28½ billion in 1969. Market receipts for crops, however, are expected to differ little from last year's $18.9 billion. A slightly larger volume of marketings will probably about offset slightly lower average crop prices. Direct government payments may edge lower and nonmoney incomes are not expected to rise.



Exports of farm products are running larger this season, particularly for oilseeds and products, feed grains, fruits, rice, and tobacco. Part of this increase, however, reflects last year's dock strike. For the 1969/70 fiscal year, the value of exports is expected to total more than a tenth above last year's $5.7 billion.

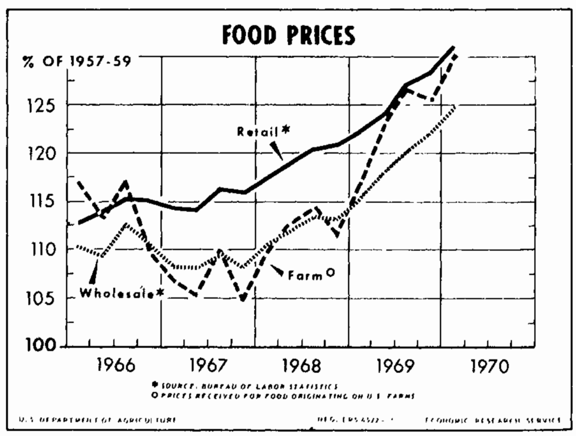
The economy has slowed significantly but consumer demand for nondurable goods continues strong. Real output has declined in response to a substantial drop in sales of autos and other durables, reduced Federal spending, a further slump in housing, and curtailed inventory accumulation. Corporate profits and stock market equities have been hard hit. Unemployment has risen to a 5-year high. Consumer prices are still advancing. But some moderation is appearing in food and farm commodity prices.

Disposable incomes (income after taxes), already up moderately even in real terms in the first quarter, will continue to rise faster, proportionately, than the expected advance in gross national product might otherwise indicate. Increased social security payments, reduced income taxes, rising wage rates, and liberalization of the food stamp program will help boost disposable income and thus maintain consumer demand. This demand, plus substantial investment in new plant and equipment and rising State and local expenditures, will exert small but steady positive influences on the economy.



Expenditures for food rose to an annual rate of $109 billion in the first quarter, up $6\frac{1}{2}\%$ from a year earlier. However, increases in food outlays are expected to moderate during the rest of the year as food supplies become more plentiful and retail prices level off. For 1970 as a whole, food expenditures may rise a little more than 1969's 4% increase. With a strong advance in consumers' after-tax incomes, the portion spent for food would decline from last year's average of $16\frac{1}{2}\%$.

Relatively stable food supplies, coupled with strong demand pressures early in the year, boosted retail food prices sharply. However, during March, retail prices advanced only slightly as supplies expanded and the economy slowed. Even so, first quarter food prices averaged $7\frac{1}{2}\%$ above a year earlier. Because prices have slackened at the farm level recently, retail food prices are expected to level off in coming months and decline more than seasonally in the fall. But because of sharp increases in late 1969 and early 1970, food prices at retail will likely average for the year about $4\frac{1}{2}\%$ above 1969. This compares with the 5.2% increase for 1969 over 1968.

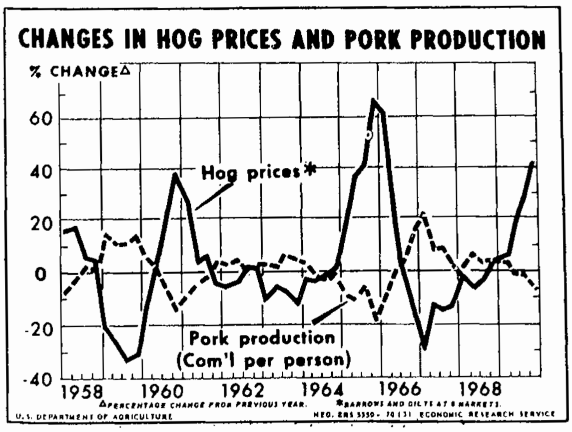


Projections of population and economic growth for the next 10 years point to strong domestic markets for food and other farm products. Moreover, conditions for U.S. farm exports appear moderately promising. Supplies of farm products will probably continue ample for market needs. Production of livestock and livestock products may slightly outrun population growth, but rapid advances in consumer demand indicate continued favorable prices to livestock producers. Supply-adjustment programs for crops, however, will likely continue to balance output to prospective markets. Cash receipts, particularly for livestock products, will improve, although rising production expenses will limit gains in realized net income.

...Outlook for Major Commodities in 1970...

...Marketings of fed cattle this spring are running moderately larger than last year, and may be up during the summer. Prices, now slightly under last years's level, are not expected in May and June to match last spring's highs.

...Hog slaughter this spring still trails a year earlier. But by the summer, production is expected to move ahead of last year and run at least moderately larger during the balance of 1970. Hog prices have dropped this spring but are still well above last year. Prices will probably rise seasonally to a summer peak but then decline in the fall when expected larger supplies of pork and poultry are marketed.



...Smaller sheep and lamb slaughter is in prospect this summer and fall. Lamb prices will probably average close to a year earlier through summer.

...Broiler output continued substantially above a year earlier in the opening quarter. Production will likely continue well above 1969 rates for the rest of the year. Prices dropped below 1969 in February, and are expected to continue under a year earlier.

...The 1970 turkey crop, mostly marketed in the second half, will be larger than last year. Although prices are well above 1969 levels, they are expected to moderate when larger supplies become available.

...Egg output has risen slightly in 1970. Prices have fallen sharply since the beginning of the year but may show some seasonal strength in the summer. However, if production runs moderately larger in the fall, prices may fall substantially below the high levels of late last year.

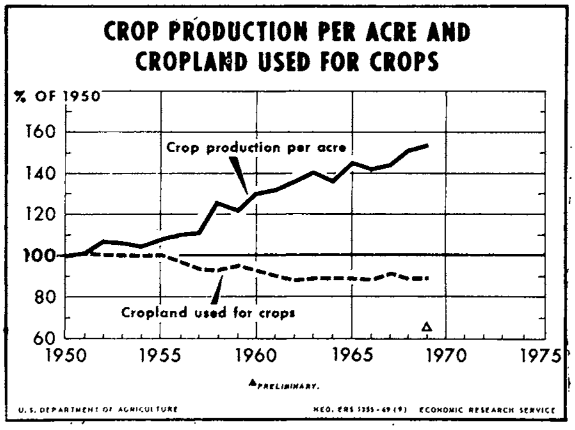
...Milk production has moved slightly ahead of the 1969 pace, and similar gains are indicated through the second quarter. Larger output per cow is more than making up for declining cow numbers. Producer prices were up 4% in the first quarter, and the new support level will likely hold prices up somewhat more in the second quarter.

...Prospective feed grain acreages may produce a 1970 crop of around 185 million tons, 11 million above last year. With carryover at the end of the current season holding nearly steady, total supplies for 1970/71 may be up nearly as much as the crop. Even though use in 1970/71 is expected to be up, carryover would probably be a little larger by the season's end.

...The 1970 wheat crop is currently estimated at 1.4 billion bushels, down slightly from last year. Thus, with carryover currently up slightly, supplies for 1970/71 may total close to last season's 2.3 billion bushels.

...Another record soybean crop is expected in 1970. But sharp increases in demand for soybean products this season are working down soybean stocks. Thus, 1970/71 supplies may total 1.4 billion bushels, slightly below last season's.

...Cotton stocks next August are still expected to total around 6 million bales, about half a million below last summer, and the lowest since the early 1950's. Current disappearance is off slightly, but the 1969 crop was down more, causing the reduction in prospective carryover.



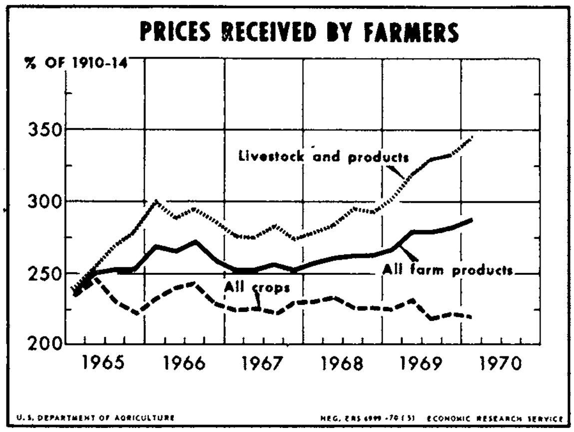
...Tobacco acreage may drop slightly in 1970 but if yields continue their uptrend, the crop may about match last year's 1.8 billion pounds. Carryover is falling again this season. Even though use in 1970/71 may decline slightly, a crop about like last year could result in a further decline in carryover.

...Output of processed orange juice is up substantially this season because of higher juice yields. But the fresh citrus crop is estimated to be down slightly. With smaller fresh supplies in prospect, grower prices are likely to average close to the levels of last season. Current apple supplies are sharply larger than last year and prices are averaging lower.

...Supplies of fresh vegetables this spring may only be slightly less than last season. Stocks of processing vegetables are moderately below the heavy levels of the past two seasons. With supplies ample, packers have contracted for acreage cutbacks this season.

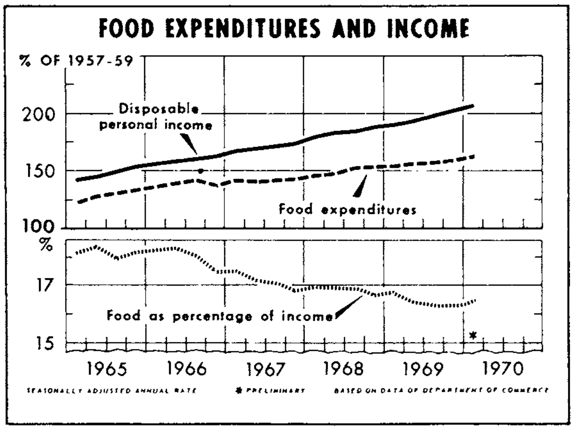
AGRICULTURAL SITUATION

Farm prices and incomes are running higher for livestock producers this year. During the first quarter, reduced supplies of pork, veal, and lamb, coupled with strong demand, boosted average producer prices and market receipts sharply for livestock and products. But large supplies of grains and soybeans and the bigger fruit crop held crop prices slightly lower. Even so, the average for all producer prices in the first quarter was up 8% from a year earlier. Since March, the relatively tight supply situation for livestock and products, including eggs, has eased slightly and prices have drifted a little lower, averaging 4% above a year earlier in April.



As summer approaches, some further price easing is indicated by prospective increases in output, particularly for red meat, poultry, and eggs, and some slackening in inflationary pressures. Moreover, crop prices may also edge seasonally lower even before the harvests begin if the oncoming crops appear large. For the year, however, farm product prices will likely average above 1969 levels. Although prices may be under some pressure as the volume of farm marketings expands, cash receipts for the year may rise somewhere around $2 billion. But increasing farm production expenses will likely absorb most of the gain in gross income, leaving farmers with realized net incomes around last year's $16 billion.

Expenditures for food (excluding alcoholic beverages) rose to $109 billion (annual rate) in the first quarter with most of the gain attributed to higher retail food prices. Increases in food outlays are expected to be much smaller during the rest of the year as food supplies become more plentiful and retail prices level off. For 1970 as a whole, food expenditures will likely rise slightly more than 1969's 4% increase. With disposable incomes rising faster, the portion of income spend for food will continue to decline, falling slightly below last year's 16½%.



Domestic Markets for Farm Products

Despite the slowdown in economic activity, the reduction in the income tax surcharge and wage rate advances contributed to a boost in disposable personal incomes in the first quarter to a level of nearly 8% above a year earlier. Consumers responded with substantially larger purchases of food and beverages. Spending for clothing, shoes, tobacco, and other nondurables produced in part from items of farm origin increased very moderately.

Spending for clothing and shoes rose only slightly to $50.9 billion (annual rate) in the first quarter. Compared with a year earlier, however, these outlays were up about 6% with most of the increase reflecting in higher prices.

Although per capita food supplies are expected to pick up later, prospects for the year point to little overall increase from 1969 levels. Among the livestock and product foods, substantial supply increases are expected for broilers with slight gains for beef, fish, and eggs about offsetting declines indicated for other red meats. Indications for crop foods suggest a larger per capita consumption of processed fruits, vegetable oils, and potatoes. Use of most other items will hold steady to slightly lower.

Early in the year, slightly smaller per capita supplies of livestock and products and strong demand pressures contributed to sharp advances in retail food prices. However, by March some increases in food supplies and the slowdown in economic activity resulted in only a very slight increase in food prices at retail. Even so, for the first quarter, consumers were faced with retail food prices averaging 7½% higher than they paid in the same period last year.

As supplies became somewhat more plentiful in March and April, prices for major foods, at the farm level, drifted slightly below those earlier in the year. Sharpest drops were for eggs and hogs although declines were fairly widespread. Accordingly, prices for food at retail are expected to flatten out in coming months.

If inflationary pressures diminish, and supplies of livestock products, particularly pork, poultry, and possibly fresh vegetables pick up later in the year, prices at retail may show a more than usual decline in the fall. However, because of sharp increases in late 1969 and early 1970, retail food prices will likely average for the year about 4½% above 1969, compared with a 5.2% advance from 1968 to 1969.

Exports and Imports of Agricultural Products

Exports of U.S. farm products are expanding substantially during 1969/70. For July-March of 1969/70, the total value of U.S. agricultural exports was up more than a fifth. Although gains were widespread, biggest improvements occurred in sales of oilseeds and products, feed grains, fruit, tobacco, and rice. Only the value of dairy and poultry exports trailed 1968/69 levels. This year's rise represents increased commercial sales; government program shipments are running slightly lower. Part of this increase, however, reflects last year's dock strike. For the 1969/70 fiscal year, the value of exports is expected to total more than a tenth over the $5.7 billion in 1968/69.

U.S. agricultural exports, value of major commodities

Commodity	July-March 1968/69	July-March 1969/70 1/	Percentage change
	Mil. dol.	Mil. dol.	Pct.
Animals and animal products	506	574	13
Cotton	200	238	19
Feed grains, excl. products	574	788	37
Fruits	214	259	21
Soybeans	591	756	28
Tobacco, unmfg.	365	432	18
Vegetables	123	140	14
Wheat and flour	617	686	11
Rice	192	239	24
Other	660	820	24
Total exports	4,042	4,932	22

1/ Preliminary.

Imports of agricultural products during the same July-March 1969/70 period totaled $4 billion, about 13% over the previous year's level. Both competitive and noncompetitive products contributed to the advance. Among the competitive imports, gains were fairly widespread in both livestock and crop commodities. Most of the advance in the value of noncompetitive products (such as coffee, cocoa, rubber, and pepper) resulted from price increases.

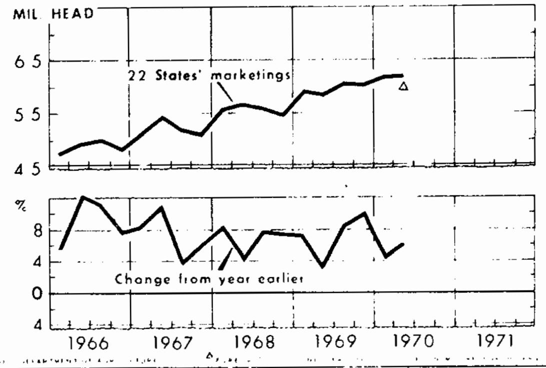
The U.S. agricultural trade balance (exports-imports) is up substantially so far this season. Because the value of exports rose more rapidly than the value of imports, the agricultural trade balance totaled $0.9 billion during July/March 1969/70, compared with $0.5 billion in the same period of 1968/69.

Output and Prices for Livestock and Products

Production of livestock and products showed little change in the opening quarter of 1970 compared with a year earlier. Slight declines in red meats about offset sharp increases in broiler output and small gains for eggs and milk. Because supplies held about steady, brisk advances in consumer demand and continued inflationary pressures boosted producer prices for livestock and products nearly 15% over the first quarter of last year. However, prices peaked in February and have since dropped due to some easing in the tight supply situation. For the year, production of livestock and products is expected to top 1969 levels slightly, particularly if pork supplies run larger later in the year. Although price increases over a year earlier are likely to narrow as output picks up, for the year livestock and product prices are expected to average moderately higher.

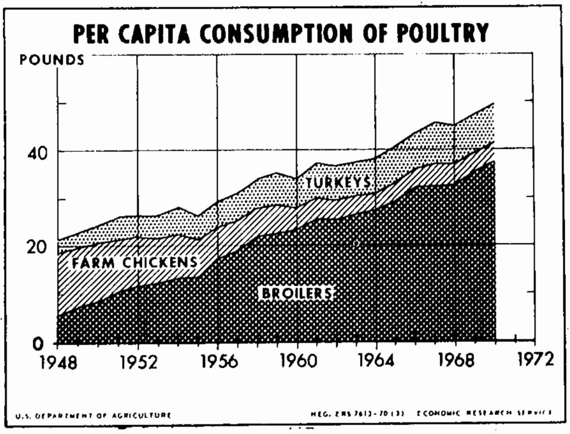
Cattle feeders on April 1, indicated plans to move moderately more cattle to market this spring than they did last year, but during the summer gains may be slight. However, heavier average weights will be adding further to beef supplies particularly in the spring. If these plans develop, fed cattle prices may strengthen further this spring and summer, but they are not expected to match the unusually rapid rise of last May and June.

FED CATTLE MARKETINGS, BY QUARTERS



Hog slaughter will probably continue to trail the 1969 pace until summer, and then rise slightly above a year earlier. By fall, according to breeder intentions, production is expected to pick up and in the closing months run 5 to 6% above last year. Although prices for hogs were down in early May, they will likely hold well above a year earlier through spring. Later, they are expected to dip in response to larger supplies of red meat and poultry, and some dampening in inflation pressures.

Broiler output has expanded at record rates and during the first quarter averaged 14% above a year earlier. Current chick placements point to a gain over last year of about a tenth during the spring. Later, increases may narrow if red meat supplies become more plentiful as expected, but supplies are likely to be large enough to hold prices below 1969 levels. The 1970 turkey crop is likely to run larger. Prices have been up sharply this year because of reduced storage holdings, but they are expected to moderate when larger supplies become available.



Although 1½% more eggs were laid during January-March 1970, producer prices averaged nearly a fifth higher. However, prices have been dropping sharply from the high levels last December and by mid-April they were below a year earlier. With a bigger current laying flock, prospects point to larger egg output and prices below a year earlier for the rest of 1970.

Production of milk pushed ahead of year-earlier levels during the first quarter. Gains in output per cow slightly more than offset the decline in cow numbers. This trend is expected to continue through the first half of the year. Despite the increase in output, producer prices in the first quarter rose 4% over 1969 levels, because of strong markets for milk used in cheese making. The recent increase in the support price for

Table 2.--Production and prices received by farmers for major livestock and livestock products, 1967, 1968, 1969, and first quarters of 1969 and 1970

Item	Unit	Annual			First quarter	
		1967	1968	1969	1969	1970 1/
Production 2/						
Cattle and calves	Mil. lb.	21,011	21,614	21,831	3/5,419	3/5,521
Hogs	Mil. lb.	12,581	13,063	12,953	3/3,437	3/3,138
Sheep and lambs	Mil. lb.	646	602	550	3/145	3/141
Chickens	Mil. lb.	7,527	7,580	8,059	3/1,588	3/1,798
Turkeys	Mil. lb.	1,883	1,620	1,618	3/85	3/87
Eggs	Mil. lb.	9,163	9,064	9,018	2,215	2,249
Milk	Bil. lb.	118.8	117.2	116.2	4/28.2	4/28.3
Prices received by farmers						
Cattle	Dol./cwt.	22.30	23.40	26.20	24.30	27.40
Hogs	Dol./cwt.	18.90	18.60	22.90	19.40	26.40
Lambs	Dol./cwt.	22.10	24.40	27.30	26.30	27.80
Broilers	Ct./lb.	13.3	14.2	15.2	14.7	14.6
Turkeys	Ct./lb.	19.6	20.5	22.4	20.0	25.1
Eggs	Ct./doz.	31.2	34.0	40.0	40.8	47.6
All milk (wholesale)	Dol./cwt.	5.01	5.26	5.46	5.45	5.68

1/ Preliminary. 2/ Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Data for 48 States. Commercial slaughter only. 4/ Based on monthly data.

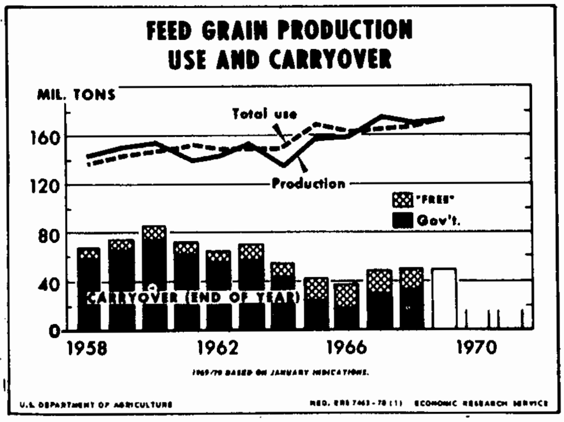
manufacturing milk from $4.28 to $4.66 per 100 pounds will likely hold midyear prices around 5% above a year earlier.

Crop Supply-Price Situation

Growers recently reported plans to plant about 3% more acreage to crops this spring. By combining this increase with an 11% cut in acreage seeded to winter wheat, total acreage planted for harvest in 1970 would about match last year's approximately 300 million acres. If producers carry out their intentions and an allowance is made for an uptrend in yields, total crop output in 1970 would reach a new high.

Bigger 1970 crops of feed grains, soybeans, hay, and cotton are expected to more than offset program cutbacks for food grains and tobacco. Unless export and domestic markets pick up sharply, prices for crops are likely to continue under downward pressure during the 1970/71 marketing year because of prospective production increases and large carryover.

Although total crop output is expected to expand again this year, the supply situation for major crops may be in fairly close balance with projected use in 1970/71. Feed grain supplies, however, could be in excess of total utilization in the coming season. Producers have indicated plans to plant enough acreage to feed grains in 1970 to produce a crop of 185 million tons (assuming some increase in yields), 11 million more than in the current season. With a 49 million ton carryover in prospect, feed grain supplies would climb to a record 234 million tons. Even with a moderate increase in total use, carryover will probably be a little larger by the end of 1970/71. Relatively favorable livestock-feed price ratios are encouraging a record volume of domestic feed grain use during the 1969/70 season. Because of the current strong demand, corn prices are expected to hold up well this summer but decline seasonally this fall if a large crop is realized.



Because of the expected smaller 1970 wheat crop, and a slight rise in carryover, the wheat supply for 1970/71 may total close to the 2.3 billion bushels of 1969/70. The pickup in use and large quantities of 1969 crop wheat under loan are holding prices at most major markets above the loan rate.

More soybeans will be produced in 1970, according to the March planting intentions survey. However, prospects for a workdown in carryover by next September indicate that 1970/71 soybean supplies may total close to last season's 1.4 billion bushels. During 1969/70, surging domestic and foreign demand for oil and meal, with some reduction in world supplies of competing products, is absorbing a record volume of soybeans. Processing margins are favorable and crushers are operating at record rates because of growing oil and meal requirements, and the need to rebuild depleted inventories. Even though producer prices are averaging slightly below last season when the support was higher, they are above the current support rate and some seasonal increase is expected.

A larger cotton crop is expected in 1970. Producers intend to plant about 3% more acreage to cotton this year. Even though carryover is expected to drop to around 6 million bales by next August, total supplies will be adequate for the 1970/71 season. Combined mill use and exports of cotton are running lower in 1969/70 for the third consecutive season. Reduced exports are responsible for this season's drop.

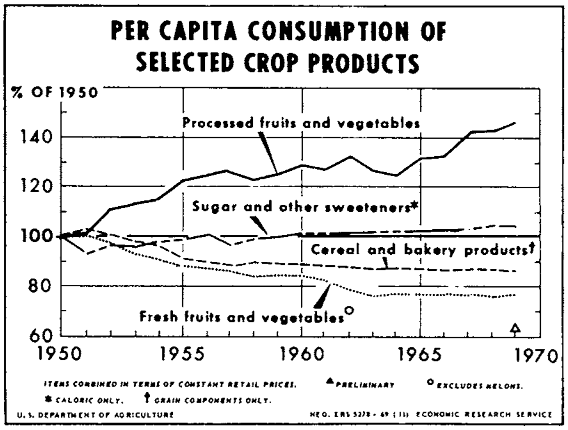
Table 3.--Supply-distribution and season average prices of selected major crops, 1967/68, 1968/69, 1969/70, and 1970/71

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1967/68	Mil. tons	37.1	0.3	176.0	213.4	141.8	23.3	165.1	48.3	2/1.03
1968/69 p.	Mil. tons	48.3	.3	168.9	217.5	149.1	18.4	167.5	50.0	2/1.08
1969/70 e.	Mil. tons	50.0	.3	174.2	224.5	157.3	18.2	175.5	49.0	2/1.13
1970/71 f.	Mil. tons	49.0	.3	185.0	234.3					
Wheat										
1967/68	Mil. bu.	425.0	.9	1,522.4	1,948.3	647.8	761.1	1,408.9	539.4	1.39
1968/69 p.	Mil. bu.	539.4	1.1	1,576.2	2,116.7	754.0	544.1	1,298.1	818.6	1.24
1969/70 e.	Mil. bu.	819	1	1,459	2,279	780	600	1,380	899	1.23
1970/71 f.	Mil. bu.	899	1	1,363	2,263					
Rice										
1967/68	Mil. cwt.	8.5	3/	89.4	97.9	4/34.2	56.9	91.1	6.8	4.97
1968/69 p.	Mil. cwt.	6.8	3/	104.1	110.9	4/38.5	56.2	94.7	16.2	5.00
1969/70 e.	Mil. cwt.	16.2	3/	91.3	107.5	4/35.5	56.0	91.5	16.0	4.92
1970/71 f.	Mil. cwt.	16.0	3/	85.0	101.0					
Soybeans										
1967/68	Mil. bu.	90.1	0	976.1	1,066.2	633.3	266.6	899.9	166.3	2.49
1968/69 p.	Mil. bu.	166.3	0	1,103.1	1,269.4	658.2	286.8	945.0	324.4	2.43
1969/70 e.	Mil. bu.	324.4	0	1,116.9	1,441.3	761.3	375.0	1,136.3	305	2.33
1970/71 f.	Mil. bu.	305	0	1,134	1,439					
Cotton 5/										
1967/68	Mil. bales	12.5	.1	7.2	19.9	9.0	4.2	13.2	6.4	25.59
1968/69 p.	Mil. bales	6.4	.1	11.0	17.5	8.2	2.7	11.0	6.5	22.15
1969/70 e.	Mil. bales	6.5	6/	10.0	16.5	8.2	2.5	10.7	5.8	21.3
1970/71 f.	Mil. bales	5.8								

1/ Dollars per bushel, except cotton which is cents per pound. 2/ Price for corn. 3/ Less than 50,000 cwt. 4/ Includes the following statistical discrepancies: 1967/68, 0.6, 1968/69, 2.8, and 1969/70, 1.0 mil. cwt. 5/ Total cotton supply includes city crop and production prior to August 1 (end of season). 6/ Less than 50,000 bales. p. Preliminary. e. Estimated. f. Forecast. 1970/71 based on planting intentions and recent crop reports. Details may not add to totals due to rounding.

A slight reduction is indicated for tobacco acreage, but with a higher expected yield, output in 1970 may about match last season's crop. A reduction in burley production this year, due to allotment cutbacks, will likely be about offset by increased production of other types. Tobacco carryover is expected to be down at the close of the 1969/70 season. If the 1970 crop is about the same as in 1969, and total use holds, carryover will likely drop again during 1970/71.

Among the food crops, output of frozen and chilled orange juice is substantially larger this year. With a heavier carryin, total supplies are up sharply even though current stocks of canned orange juice are down. Supplies of most processed grapefruit products are also considerably bigger. Fresh citrus production this season is trailing last year's big output. The early and midseason orange harvest was a little larger than last year. Grapefruit production may also be off for the remainder of the year. With smaller supplies of fresh citrus in prospect, grower prices are likely to exceed year-earlier levels.



Stocks of most canned deciduous fruits are well above last year although little price change is expected until the new season begins. Apple supplies in cold storage are substantially larger and prices are well below a year ago. Early spring strawberry production is running slightly larger than a year ago, and prices are down. However, early peach crop prospects indicate a slightly smaller 1970 crop.

Supplies of fresh vegetables this spring are running slightly smaller than last season. Domestic production is off for most early spring vegetables, but a larger crop of lettuce and increased imports of tomatoes are partially offsetting.

Stocks of processing vegetables are currently moderately below the heavy levels of the past 2 seasons. However, wholesale prices have increased only slightly. With supplies ample, packers have contracted for less total acreage of all major items this year.

Potato supplies are currently below a year earlier, and new supplies will continue reduced this spring. However, the important late-summer and fall crop is projected to be up slightly.

Farm Income

Incomes to livestock producers rose sharply in the first quarter of 1970. Total cash receipts climbed nearly a tenth from a year earlier with the increase coming primarily from sharply higher livestock and product prices.

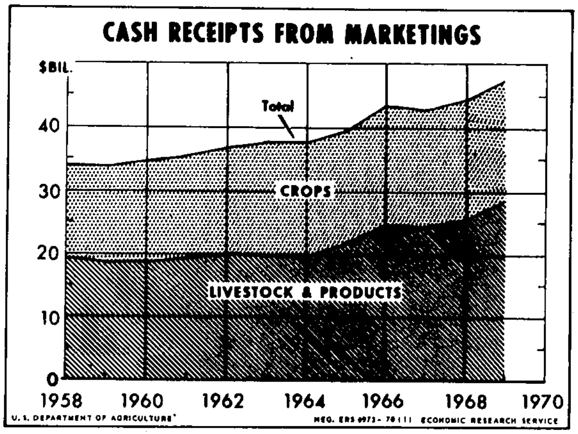
Biggest gains in market receipts went to cattle and hog producers, although receipts also ran larger for milk, eggs, chickens, wheat, and truck crops.

Spurred by the rise in cash receipts, realized gross income was at a \$56 billion rate 1/ in the first quarter, up more than \$3 billion from a year earlier. But production expenses rose to \$39.7 billion, an increase about in line with the 5% rise in prices paid (including interest, wages, and tax rates). Thus, realized net income in the first quarter totaled \$16.3 billion, compared with \$15 billion a year earlier.

Prospects for supplies becoming more plentiful later in the year suggest that

1/ Seasonally adjusted annual rate.

prices for livestock will likely drift lower and reduce the margin in cash receipts over a year earlier. Even so, cash receipts from livestock marketings for the year are expected to total around 6% above the $28½ billion in 1969. Cash receipts for crops, however, may not differ much from last year's $18.9 billion. A slightly larger volume of crop marketings will probably about offset slightly lower average prices.



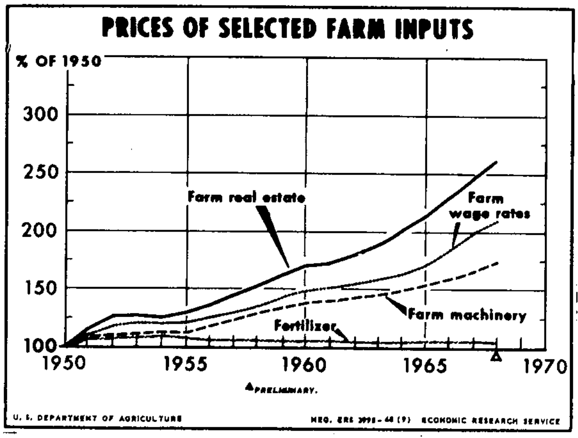
Most of this year's expected $2 billion gain in realized gross income will likely occur in the first half and reflect increased livestock receipts. Direct government payments may edge slightly lower and nonmoney incomes are not expected to rise. Even with a larger gross income, advancing production outlays are likely to increase enough to absorb the gain in gross income and leave realized net farm income for this year around the $16 billion in 1969.

Farm Inputs

Prices paid by farmers for production items, including interest, taxes, and wages rose sharply in the opening months of the year, leveled off in March, then rose again in April. For the first 4 months of the year, prices paid averaged 5% higher than a year earlier.

Largest increases were quoted for feeder livestock, wage rates, interest, and taxes. Prices for fertilizer also moved above a year earlier in April. Some farm supplies, however, registered small price declines during the first 4 months of 1970.

Farm wage rates reported April 1, 1970 were up nearly 7% from a year earlier. Wages rose in every region reflecting fewer farm laborers and high wage rates in nonfarm jobs. Largest gains were recorded for the New England, Mid-Atlantic, and West South Central regions.

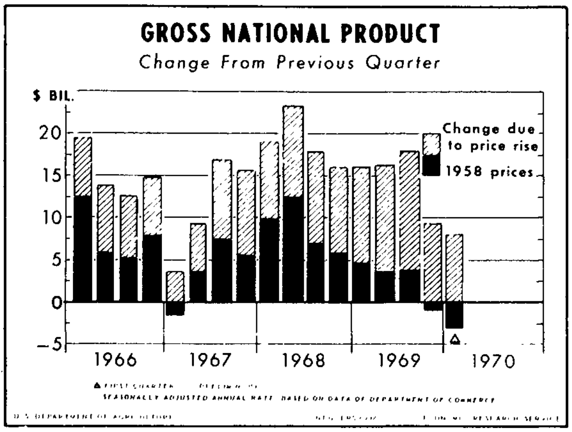


Supplies of fertilizer materials for 1970 crops are expected to total nearly 17 million tons of plant nutrients--nitrogen (N), phosphate (P_2O_5), and potash (K_2O). This would be an increase of more than a tenth over last year and the largest quantity on record. Despite this increase, the index of prices paid by farmers for fertilizer in mid-April moved 3% above a year earlier.

Retail sales of farm tractors through February were down 15% from a year ago as reported by the Farm and Industrial Equipment Institute. Purchases of farm tractors lagged for most sizes except for the small 35-39 horsepower category which was slightly above last year.

GENERAL ECONOMIC SITUATION

The economy has slowed significantly after the longest period of economic expansion in history. For the past 2 quarters, real output of goods and services has declined. The decrease was in response to a substantial drop in auto sales, reduced Federal defense spending, a further slump in housing, and sharply reduced inventory accumulation. With this development, the unemployment rate has risen to a 5-year high of 4.8%, corporate profits are down somewhat, and the stock market is at its lowest since 1963. Prices generally are still advancing with considerable strength. But some moderating is appearing in food and farm commodity prices.



Despite the general economic slowdown, a number of sectors are still registering moderate gains. Total consumer spending, business fixed investment, net exports, and State and local government purchases all rose more early this year than they did in the fourth quarter. And monthly increases in personal income, mainly due to higher pay rates, have been running larger.

Outlook for 1970

Small economic growth is expected later this year. Although a continued drop in profits and sales may alter current plans, recent surveys indicate that businessmen expect to increase their investment in plant and equipment about a tenth in 1970 with outlays rising throughout the year. Disposable incomes, already up moderately even in real terms in the first quarter, will continue to rise faster, proportionately, than the expected rise in GNP might otherwise indicate. Increased social security payments, reduced income taxes, rising wage rates and liberalization of the food stamp program will help maintain consumer income countering in part the negative effects of the recent rise in unemployment and possible labor disputes ahead.

GNP and final sales, change from previous quarter

Year		GNP	Final sales	Inventory change 1/
			Bil. dol.	
1967:	I	3.5	14.4	-10.9
	II	9.3	15.0	-5.7
	III	16.9	12.4	4.5
	IV	15.7	14.0	1.7
1968:	I	19.2	27.0	-7.8
	II	23.4	15.2	8.2
	III	17.7	20.4	-2.7
	IV	16.1	12.8	3.3
1969:	I	16.2	20.1	-3.9
	II	16.1	15.8	.3
	III	18.0	14.1	3.8
	IV	9.4	12.5	-3.0
1970:	I 2/	8.2	13.0	-4.8

1/ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the first quarter of 1970 ($2.9 billion) less the change in the fourth quarter of 1969 ($7.7 billion) equals minus $4.8 bil.
2/ Preliminary.

Table 4.--General economic activity

(Seasonally adjusted annual rates)

Item	1969 II	1969 III	1969 IV	1970 I 1/	Year 1968	Year 1969
	- - - - - Billion dollars - - - -					
Gross national product	924.8	942.8	952.2	960.4	865.7	932.1
Gross national product (1958 dollars)	726.7	730.6	729.8	726.9	707.6	727.5
Disposable personal income	622.0	639.0	647.5	659.9	590.0	629.7
Personal consumption expenditures	572.8	579.8	589.5	600.6	536.6	576.0
Durable	90.6	89.8	90.4	89.7	83.3	89.8
Nondurable	242.1	245.1	248.7	255.3	230.6	243.6
Services	240.1	244.9	250.3	255.6	222.8	242.6
Personal savings	33.3	43.1	41.7	42.8	38.4	37.6
Net government receipts	224.4	224.4	226.6	---	193.6	223.3
Government purchases	212.9	217.0	218.3	218.8	200.3	214.6
Federal	100.6	103.2	102.3	100.2	99.5	101.9
State and local	112.3	113.8	116.0	118.6	100.7	112.7
Deficit or surplus (on income and product accounts)	11.4	7.4	8.2	---	-6.7	8.8
Gross private domestic investment	137.4	143.3	141.8	137.3	126.3	139.4
Fixed investment	130.5	132.5	134.0	134.4	119.0	131.4
Residential	32.7	31.4	31.6	30.1	30.2	32.2
Nonresidential	97.8	101.1	102.5	104.3	88.8	99.2
Change in business inventories	6.9	10.7	7.7	2.9	7.3	8.0
Gross retained earnings	98.0	99.7	97.6	---	96.7	98.3
Excess of investment	-39.4	-43.6	-44.2	---	-29.6	-41.1
Net exports of goods and services	1.6	2.7	2.7	3.7	2.5	2.1
Per capita disposable personal income (1958 dollars)	2,494	2,526	2,522	2,535	2,474	2,507
Total civilian employment (millions) 2/	77.6	78.1	78.6	79.0	75.9	77.9

1/ Preliminary.

2/ U.S. Department of Labor.

U.S. Department of Commerce.

Government outlays will continue to advance. Federal purchases, in total, are scheduled to hold relatively steady. But costs have already risen beyond 1970 budget estimates.

If prices cool somewhat in response to tight monetary and fiscal policies, credit may become more available and less expensive. Housing starts, up for the past 2 months after a year-long decline, will probably pick up to meet the pent-up demand for living space if financing becomes available and if the rise in construction costs moderates. For 1970, as a whole, the gross national product is expected to increase somewhere around $50 billion compared with a nearly $70 billion gain in 1969. Growth in real output for the year may drop to less than 2% as second half gains offset the first quarter decline.

Government Expenditures And Receipts

By cutting defense expenditures to their lowest level in several years, the Federal Government continued this year to decrease purchases of goods and services for the third consecutive quarter. But this reduction failed to offset a large drop in receipts caused by lowered income tax rates and a slowing economy. Preliminary data indicate that the budget surpluses of last year were substantially reduced in the first quarter.

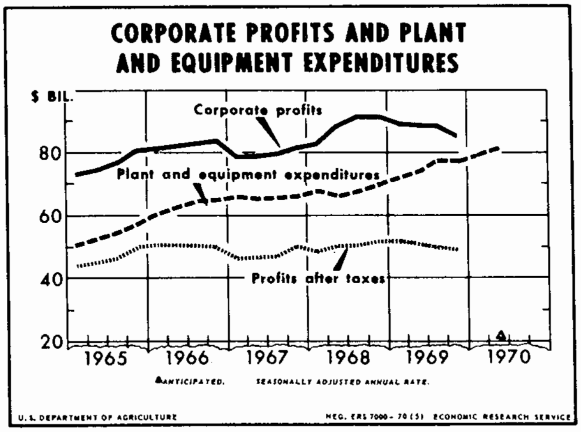
Federal expenses for the remainder of the year are expected to rise above present levels as a result of the recent pay raise and the rising costs of mandatory programs. Offsetting these increases are prospects for trimming of defense, space, and construction programs.

Expenditures by State and local governments accelerated slightly in the first quarter. For 1970, these outlays are expected to increase even more despite difficulties in raising additional revenues. Depending upon the progress in slowing inflation, the grant-in-aid to States from the Federal Government may increase slightly. In recent months, previous Federal discouragement of local construction has been rescinded in order to stimulate this ailing industry.

Federal receipts and expenditures, national income basis 1/

Item	1969 First half	1969 Second half	1970 first quarter 2/
RECEIPTS	200.7	202.3	200.0
Personal tax	95.4	95.8	94.7
Corporate profit tax	40.8	39.6	3/37.2
Indirect business tax	18.6	19.1	19.1
Social insurance	46.0	47.8	49.0
EXPENDITURES	188.9	195.2	197.7
Goods and services	101.1	102.8	100.2
Transfer payments	51.4	53.3	55.7
Grants to State and local governments	19.2	20.9	23.5
Net interest paid	12.7	13.4	13.9
Subsidies less surplus	4.5	4.7	4.4
SURPLUS OR DEFICIT	11.8	7.2	2.3

1/ Calendar years in billions of dollars, seasonally adjusted annual rates.
2/ Preliminary.
3/ Estimated.



Investment Demand

Gross private domestic investment dropped dramatically in the past 2 quarters as inventory accumulation, a volatile and often unpredictable investment component, slowed from $10.7 billion in the third quarter of 1969 to $2.9 billion in the first quarter of this year. As after-tax profits drifted down throughout 1969 and sales in most industries remained sluggish, manufacturers reduced their production while wholesalers and retailers sought to adjust stocks to lower levels of demand. Industrial production eased downward for 7 months before rising a bit in March.

Gains in business fixed investment continue to defy a relatively restrictive monetary situation, rising construction and material costs, low plant operating rates, and a number of gloomy annual reports. Apparently outlays are being increased to partially offset rising labor costs and because of longer range hopes of an expanding market beyond the current slowdown. Expenditures for residential housing remain well below a year ago, awaiting a break in the tight monetary picture.

Major GNP components, change from previous quarter

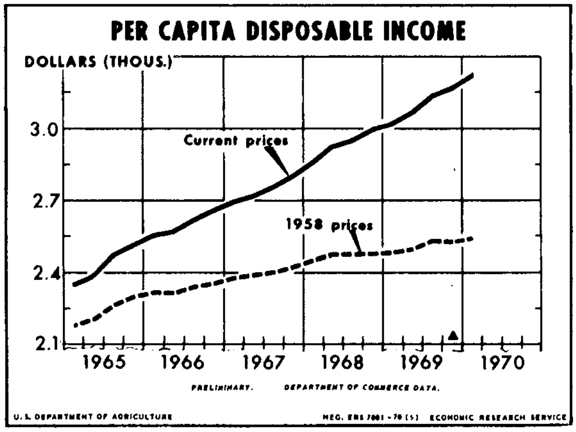
Item	1969 III qtr.	1969 IV qtr.	1970 I qtr. 1/
	Bil. dol.		
Total change in GNP	18.0	9.4	8.2
Consumption	7.0	9.7	11.1
Private nonresidential fixed investment	3.3	1.4	1.8
Housing	-1.3	.2	-1.5
Inventory 2/	3.8	-3.0	-4.8
Net exports	1.1	0	1.0
Government	4.1	1.3	.5

1/ Preliminary. 2/ See footnote 1/, text table, page 15.

Consumer Demand

Although Americans may be riding to the stores in somewhat older cars this year, they accelerated their other spending in the first quarter. Expenditures on nondurable goods expanded $6-1/2 billion as food and beverage outlays, partly reflecting sharply higher prices, rose a record $4.3 billion. Expenditures on services increased $5 billion but outlays for durable goods declined. Increased spending on furniture, household equipment, and other durable goods was largely overcome by a drop of about $3 billion in spending on automobiles.

Consumer buying this year will probably continue to rise as further advances in disposable incomes develop and price increases level out. Surveys of consumer intentions reveal that buyers are still very cautious and are postponing "big-ticket" items until the employment situation firms. This attitude has also been reflected in smaller increases recently in consumer credit balances.



Income and Employment

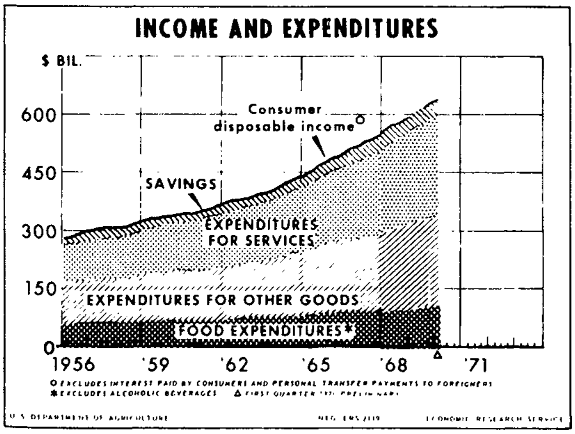
Unemployment continued to increase in April, as the civilian labor force rose and employment declined. The present employment situation largely reflects cutbacks in aerospace and defense related industries as well as a decline in operations in consumer durable goods industries. Both professional and blue collar workers have been hit by these developments over the past year.

Major personal income components, change from previous quarter

Item	1969 III qtr.	1969 IV qtr.	1970 I qtr. 1/
	Bil. dol.		
Personal income	16.0	10.9	11.1
Wages and salaries	12.6	8.1	7.4
Manufacturing	3.3	.6	-.8
Nonmanufacturing	5.1	5.7	6.5
Government	4.2	1.8	1.7
Other income	2.9	1.8	2.0
Transfer payments	1.2	1.1	2.8
Social insurance payments (minus)	.7	.4	.7
Personal tax payments	-1.0	2.4	-1.3
Disposable personal income	17.0	8.5	12.4
Personal outlays	7.2	9.8	11.3
Personal savings	9.8	-1.4	1.1

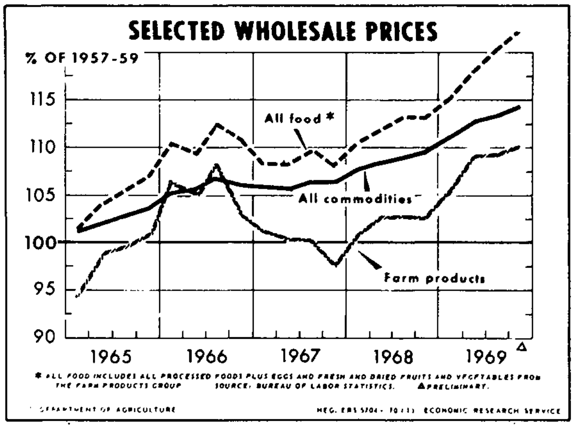
1/ Preliminary.

Personal incomes rose $4 billion in March to a seasonally adjusted annual rate of $782-1/2 billion. Payrolls rose substantially in the commodity-producing, distributive, and service industries and in government. Manufacturing employment dropped further in March, but average hours and pay rates increased and payrolls rose slightly after 2 months of decline. Construction payrolls rose a bit as employment and earning rates both advanced.



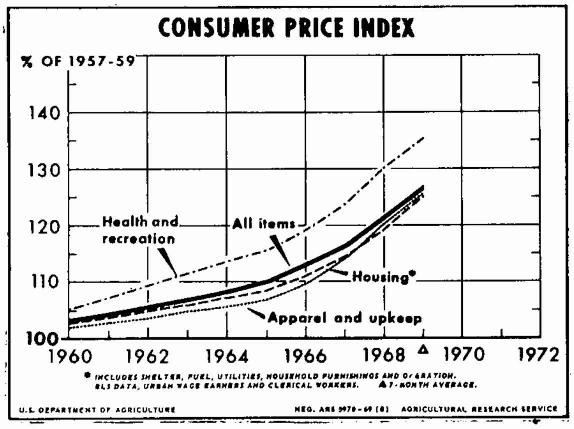
Prices

Wholesale prices declined in April, the first time in almost 2 years. Although industrial commodities maintained their steady rise, farm-product prices dropped and prices for processed foods and feeds declined. Increases among fuels and power contributed to the rise in industrial commodities.



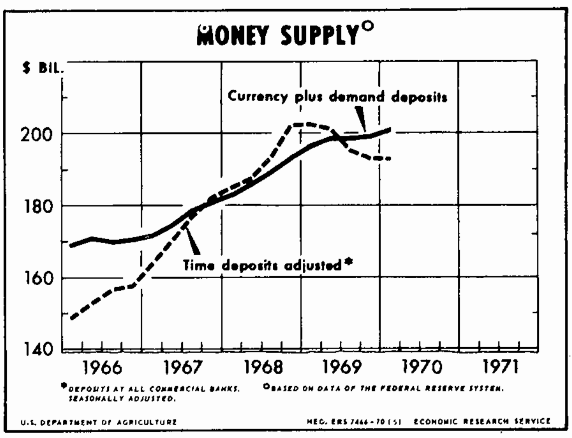
But at the retail level, consumer prices during March continued to climb upward at close to a 6% annual rate. Seventy percent of this rise resulted from price increases for consumer services particularly mortgage-interest rates and medical-care services. The increase in food prices however, slowed materially, rising only 0.1%. Egg prices declined sharply while prices of fresh fruit and vegetables rose less than usual. Meat prices, however, continued to move up at retail.

The gross national product deflator, which measures price changes of final goods and services, reversed its recent slowing, and accelerated slightly to a 5% annual rate in the first quarter.



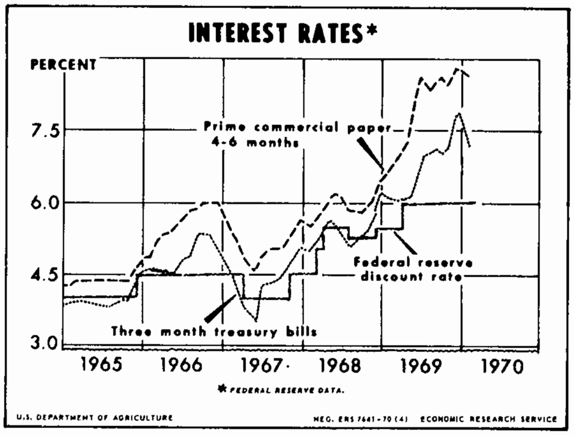
Monetary Situation

As a consequence of the present economic slowdown and to avoid excessive declines in the future, the tight monetary policy followed for the past year or so apparently has been relaxed slightly. The Nation's monetary stock rose slightly from December to March after being virtually unchanged from



last June to December. Federal Reserve Credit, another indicator of monetary conditions, has risen at a 2.6% annual rate since September after little change from the previous May.

Short-term market interest rates rose slightly in early April after declining during the first three months of the year. During the first half of April, 3-month Treasury bills averaged 6.3%, down from a peak of 8% in December. Yields on prime commercial paper went down from 9% to 8% in the same period.



Mortgage rates continued their steady push upward in March despite these monetary developments. The average was 8.51% on conventional mortgages taken in March, an increase of one-tenth of a percentage point from February and a big jump over rates paid in 1968 and 1969.

Foreign Trade

Net exports of goods and services rose to $3.7 billion seasonally adjusted annual rate in the first quarter, reaching their highest point since 1967. Imports increased but exports rose faster, lengthening the steady improvement in our export balance which began in late 1968. Final data for 1969 indicate that last year's $2 billion net export balance came mostly from services. Prospects for an improved trade exchange hinge upon domestic anti-inflationary moves which are expected to improve the competitive position of our exports. Pressure remains strong in several domestic areas to counter nontariff barriers abroad.

Balance of Payments

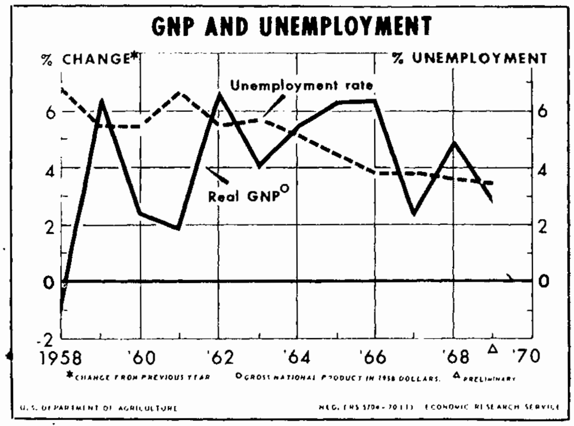
Preliminary indicators suggest that the U.S. balance of payments (which measures capital flows as well as goods and services) was in heavy deficit during the first quarter, representing a sharp deterioration from the large payments surplus reported in the first three months of 1969. For 1969 as a whole, however, the Liquidity Balance was in deficit by $7.0 billion compared to a $0.2 billion surplus in 1968. The large liquidity deficit was related to the large amount of Eurodollars borrowed by U.S. banks and the declining U.S. stock market which reduced the inflow of foreign funds.

Major international transactions of the United States 1/

(Billions of dollars, seasonally adjusted annual rates)

Item	1969 III qtr.	1969 IV qtr. 2/
Balance on goods and services	2.8	2.9
Exports	58.2	58.6
Imports	-55.4	-55.7
Private remittances to foreigners	-.8	-.8
U.S. Gov't. grants and other transfers	-1.9	-2.1
U.S. private capital, net	-5.1	-1.3
U.S. Gov't. capital, net	-2.6	-1.8
Foreign capital, net	1.3	6.1
Unrecorded transactions	-4.1	1.4
Total=Liquidity balance	-10.5	4.4

1/ Excluding military grant aid. 2/ Preliminary.



GNP AND UNEMPLOYMENT

TOTAL RETAIL STORE SALES

AGRICULTURE IN THE SEVENTIES

by

J. Dawson Ahalt and Meyer J. Harron

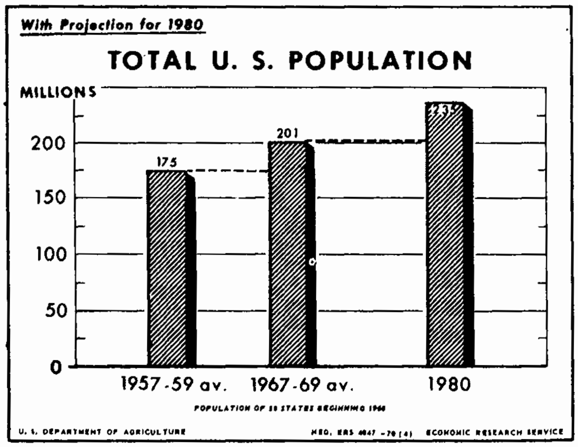
ABSTRACT: Projections for population and economic growth point to strong domestic markets for food and other farm products during the seventies. Moreover, conditions for U.S. farm exports in coming years appear moderately promising. Agriculture's capacity to produce is expected to provide ample supplies to meet market needs. Production of livestock and livestock products may slightly outrun population growth, but rapid advances in consumer demand indicate continued favorable prices to livestock producers. Supply-adjustment programs for crops, however, will likely continue to limit acreage in major crops to balance output to prospective markets. Cash receipts, particularly for livestock producers will improve, although rising production expenses will limit gains in realized net income. Increasing specialization in agriculture will lead to closer coordination between farmers, farm supply firms, and marketing and processing firms.
KEY WORDS: Population, economic growth, supply and demand, prices, income, and projections.

General Economic Setting

The Nation's output of goods and services set new records in the sixties. But beginning in 1965, materials, manpower, and money became scarce and increasingly expensive as price rises began to accelerate. By the end of the decade, most of the gain in gross national product in dollar terms was due to price advances. Because the sixties' expansion went beyond efficient use of resources, the early seventies will be influenced by efforts to dampen widespread inflationary price pressures. Accordingly, economic growth may drop below the economy's output potential for 1 to 2 years. However, output of goods and services is expected to resume a normal growth pattern before the mid-seventies.

More People and Jobs

The total population of the United States is projected to around 235 million



The commodity projections in this article reflect the work of many specialists in the Economic and Statistical Analysis Division of ERS. A More detailed report on agricultural projections will be published by David W. Culver in the July 1970 issue of Agricultural Economics Research.

by 1980. During the seventies, the working sector will expand slightly faster than the population as a whole. The post-World War II baby boom will bring a sizable increase in the 25-44 age group which makes up the bulk of civilian employment. The trend toward greater participation in the labor force by women will continue as they become better trained and more skilled in a widening range of jobs. As social and institutional reforms improve educational opportunities, and as training requirements become more flexible, untrained groups historically outside the "statistical" labor force will become increasingly productive and useful to the technological society. The labor force is likely to increase at a little faster rate than total population, and climb to around 100 million workers by 1980.

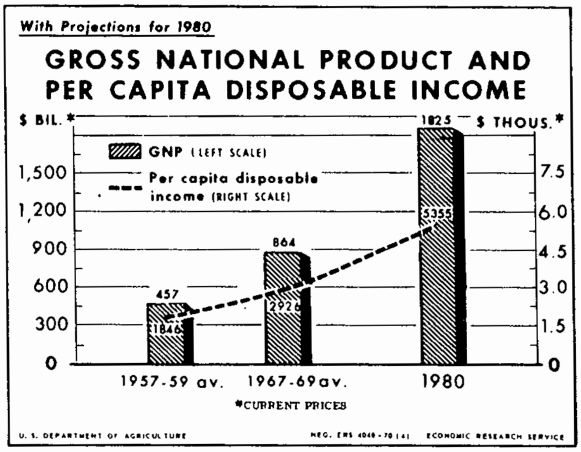
Despite the increase in the labor force, employment probably will not rise quite as fast in the next decade as it did during the late sixties when labor markets were very tight. Assuming average unemployment rates around 4% after 1970, employment would increase about 20% by 1980 compared with an increase of 14% for population growth. Employees probably will average slightly older (more time in school) and more specialized than those of today. More workers will be in service industries but fewer are likely in manufacturing, mining, and agriculture. In addition to more pay, most workers will be spending fewer hours per week on the job and vacations will be longer. More leisure in turn will create more job opportunities in recreation, education, and possibly the arts.

Investment to Aid Output

At the same time as employment rises, substantial investment for new plant and equipment is expected to raise output per man-hour considerably in most industries in the next 10 years. Projected output per man-hour, the number of workers employed, and the average hours worked per employee suggest an annual increase in real gross national product 1/ somewhere in the 4 to 4-1/2% range between 1970 and 1980. This is considered about the optimum rate consistent with price stability. These projections assume hours worked annually will continue to drift downward, while employment rises, and output per man-hour increases 3% annually after 1970--about the same rate as during 1955-68. As a result, real GNP is projected to increase about 50% by 1980.

Dramatic technological breakthroughs could occur that would enable output to surpass present expectations for the seventies. For the past 20 years, the United States and other developed countries have engaged in a "second industrial revolution" characterized by unprecedented scientific and engineering advances. Extensive investment in research and development will likely continue to pay off in more economical sources of power, highly automated systems, and unique production techniques.

With output increases projected roughly in balance with potential growth, price advances are projected to slow materially; an annual increase of 2% is assumed after 1973. Thus, GNP in current dollars is projected to around $1,825 billion by 1980, an increase of 85 to 90% over the gross national product now estimated for 1970. This would represent somewhere around a 6-1/2% annual increase for the decade and the seventies.



1/GNP adjusted for price changes is referred to here as real GNP or GNP in constant 1958 prices.

Table 1.--Output, employment, productivity and income

Item	Unit	Averages			Projected 1980
		1947-49 1/	1957-59 1/	1967-69	
Population (total), July 1	Mil.	146.6	174.2	201.2	235
Labor force 2/	Mil.	62.0	70.3	82.4	101
Employment					
Nonagricultural 2/	Mil.	51.5	60.9	75.8	94
Agricultural	Mil.	10.2	7.5	4.7	3
Gross national product					
Current dollars	Bil. dol.	248.5	457.4	863.8	1,825
1958 dollars	Bil. dol.	319.2	458.6	703.2	1,120
Output per man-hour	Index 1957-59=100	71.7	100.0	137.6	193
Disposable personal income 3/	Bil. dol.	182.5	321.6	588.7	1,260
Per capita disposable personal income					
Current dollars	Dol.	1,244	1,846	2,926	5,355
1958 dollars	Dol.	1,542	1,852	2,460	3,325
Personal consumption expenditures 3/	Bil. dol.	170.4	294.2	535.0	1,150

1/ 48 States. 2/ Includes Armed Forces. 3/ Current dollars.

Larger After-Tax Incomes

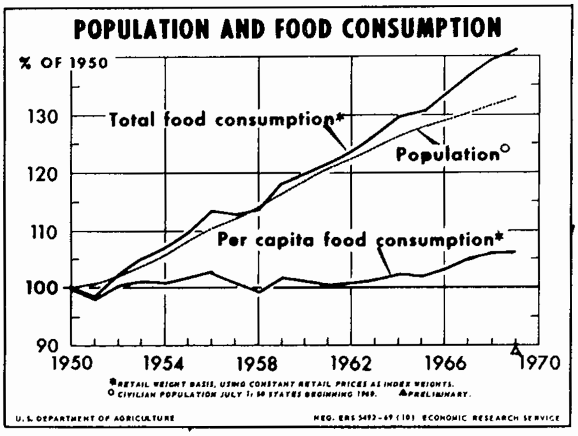
If output continues to rise and employment growth is maintained, incomes will increase for workers as well as for business throughout the seventies. In addition to rising wage rates and greater profits, income flows will likely be supplemented by larger social security payments and an expanded general welfare program. Guaranteed annual wage plans are also spreading throughout industry. More and more firms have adopted pension plans and health insurance. Real after-tax incomes will increase more rapidly as inflation eases.

Spending Patterns

Having more money in their pockets, consumers will probably spend over $1 trillion by 1980. Purchases of food, shoes and other leather products, and other non-durable goods will increase substantially. But a greater portion of after-tax incomes will be spent for services such as recreation, transportation, housing, and improved medical care. The proportion of total income spent on durable goods will probably change little but there will be increased outlays for such luxury items as boats, pleasure aircraft, and more expensive house furnishings.

Demands for durable goods will likely get a boost as residential housing construction experiences a recovery, anticipated within a few years. More family formations, pent-up demand, and less expensive credit and construction costs should result in large scale housing investments, mainly in multiple-family complexes. New construction techniques, such as modular units utilizing factory-made structures, are anticipated as a result of present Federal support.

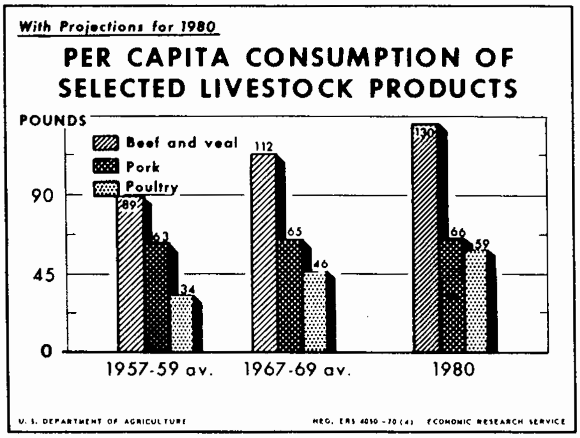
Prospects for continued growth in the seventies are based upon expectations of strong consumer and investment demand in the private economy. The Federal sector may become relatively less important as a purchaser of goods and services. As national priorities change, budgets for defense and space are expected to increase more slowly, or to decline. Many programs having served their purpose will be gradually phased down and new programs for cleaner environment, income maintenance, and education will likely be the order of the day. As growth in the Federal sector eases somewhat, State and local government expenditures will continue upward. They may play an expanding role in programs designed to meet growing economic, social, and technical problems associated with growth.



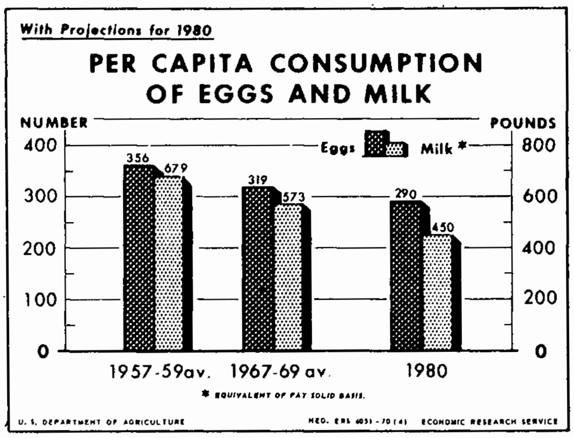
Growing Demand for Farm Products

As the seventies begin, consumer outlays for food, alcohol, tobacco, clothing, and other products containing some items of farm origin are running close to $180 billion annually, and make up about a third of total consumer spending. In coming years, consumers will spend more for these items, but increases may tend to be less rapid than during the last decade. Gains will be determined primarily by the extent of population growth, the advance in after-tax incomes, and trends toward an upgraded diet and more built-in services.

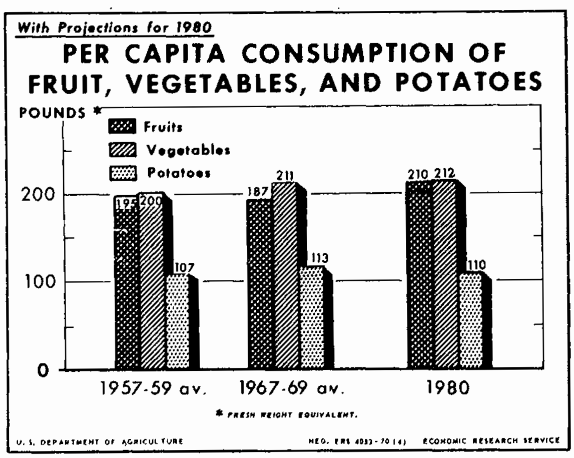
Although consumers will bring home larger after-tax incomes in the seventies, they will continue to spend a declining portion of their incomes on food. Spending for food rose from $70 billion in 1960 to nearly $104 billion by 1969, increasing an average 4-1/2% per year compared with a 7% annual gain in consumers' after-tax incomes. As a result, food expenditures declined from 20% of disposable income in 1960 to 16-1/2% by 1969. Thus, even though rising incomes enable consumers to purchase more expensive foods such as beef, they usually do so by cutting down on consumption of other foods. Total pounds of food consumed per person will remain fairly stable.



A look at trends in food preference patterns indicates that consumers will probably continue to eat more beef, poultry meats, processed fruits and vegetables, and edible vegetable oils per person in the coming decade. Per capita consumption of pork is expected to hold about steady, while the amount of lamb and veal will likely continue to decline. Dietary-health recommendations may lead to some further substitution of vegetable oils for animal fats as well as a further decline in per capita consumption of eggs and dairy products. Higher prices for dairy products will also encourage greater



use of less expensive substitutes. Continued declines are expected in per capita use of fresh vegetables, fruits, and potatoes though use of these foods in processed form is expected to increase. Per capita consumption of grains may decline more slowly in the seventies. These overall trends in eating habits in part reflect the massive move of people to urban areas and the housewife's demand for products with built-in services that can be easily and quickly prepared.

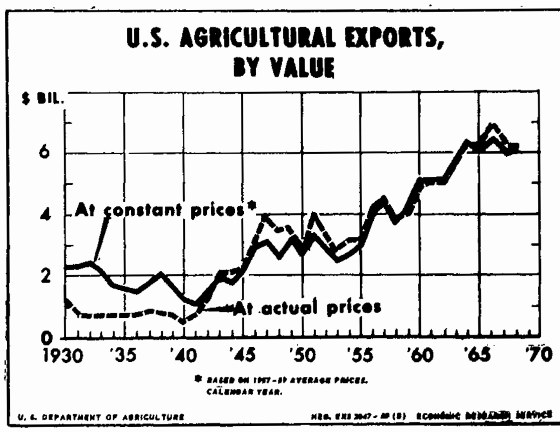


Expanding demand for alcoholic beverages during the past decade is expected to continue in the seventies in response to higher incomes, increased acceptance of social drinking, and additional leisure time. Spending for clothing and shoes also exhibited a strong advance during the sixties, but use of natural fibers in these products will likely face further competition from lower priced man-made substitutes.

Most of the increase in outlays for tobacco products in recent years has been due to higher retail prices. Continued smoking-health publicity and higher prices are expected to contribute to further declines in per capita consumption of cigarettes. Use of other tobacco products, however, may hold up fairly well.

Some Promise For Foreign Markets

Exports of U.S. agricultural products began a strong upsurge during World War II that, except for a few short downturns, continued well into the sixties. This rapid expansion provided an outlet for as much as a fourth of total output of crop products. Beginning in the mid-sixties,



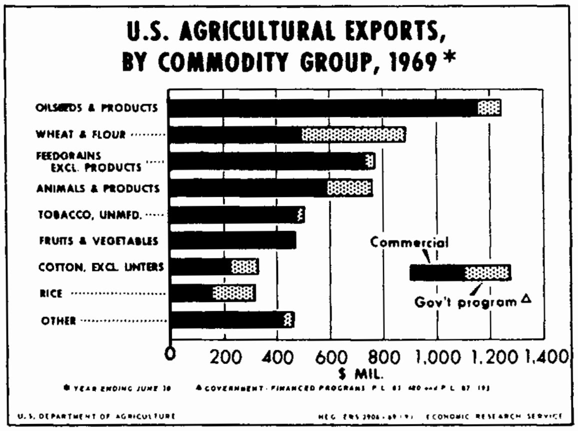
however, a cutback in exports under government programs and extensive competition from large world grain supplies brought about a downturn in the volume of U.S. farm products moved abroad. Some slight recovery is occurring this year and the longer-run outlook for moving our farm products abroad appears moderately promising, if U.S. prices are competitive in world markets.

Table 2.--U.S. per capita food consumption of selected agricultural commodities

Item	Averages 1947-49	Averages 1957-59	Averages 1967-69	Projected 1980
	Pounds			
Beef and veal 1/	75.3	89.2	112.1	130
Pork 1/	68.4	63.0	64.7	66
Lamb and mutton 1/	4.8	4.4	3.8	3
Chicken 2/	18.7	27.5	37.7	49
Turkey 2/	3.3	6.0	8.2	10
Eggs (shell weight)	48.8	46.6	41.8	38
Dairy 3/	742	679	573	450
Grain food products	253.4	221.4	217.7	216
Rice 4/	4.9	5.4	7.7	10
Peanuts (shelled basis)	4.4	4.6	5.8	7
Total food fats and oils (fat content)	42.4	45.3	50.4	55
Fruit 5/	213.0	194.6	187.3	210
Vegetables 6/	199.7	199.7	210.7	212
Potatoes 6/	113.7	107.0	113.3	110
Sweetpotatoes 6/	13.0	8.3	5.9	5
Dry edible beans and peas 7/	7.3	8.2	7.1	7

1/ Carcass weight. 2/ Ready-to-cook weight. 3/ Milk equivalent. 4/ Milled basis. 5/ Fresh equivalent farm weight. 6/ Farm weight. 7/ Cleaned basis.

The volume of U.S. agricultural exports is projected to expand by around 50% by 1980. This increase assumes a growing world demand, continuation of present trends in world farm output, and prices for major U.S. crops close to world levels. Exports in the years ahead will consist primarily of larger shipments of crop products. Biggest gains in volume are likely for feed grains and soybeans. Moderate to slight increases are projected for vegetables, deciduous fruits, tobacco, cotton, and animal products, while exports of citrus fruit may change little. Prospects for exports of wheat, rice, and

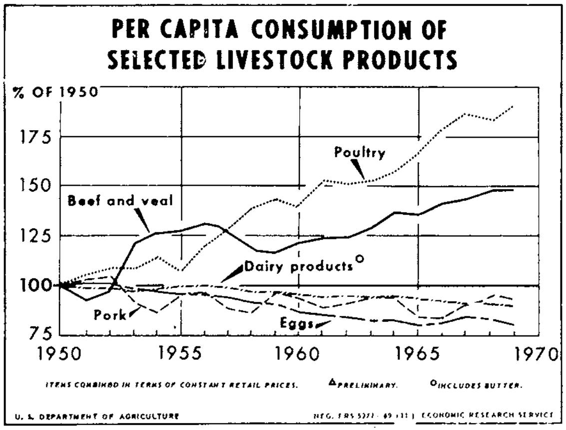


vegetable oils will continue to depend to a considerable extent on government financed programs.

The Supply-Price Picture

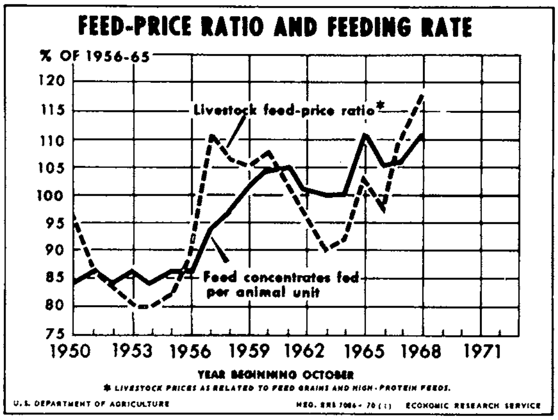
Despite the tendency for excess capacity in agriculture to exert downward pressure on prices, farm prices and incomes, particularly in the livestock sector, improved during the sixties. Production of livestock and products increased at an average rate of more than 1-1/2% annually. But strong advances in consumer demand for livestock and products, especially in the latter part of the decade, boosted prices by a third.

Prospects for relatively favorable livestock-feed price relationships for producers suggest that production of livestock and products probably will expand at rates similar to the past decade. Output of beef, broilers, and turkeys will likely continue to chalk up the biggest gains. Production of pork and eggs, however, may increase about in line with population On the other hand, sheep and lamb slaughter will probably decline further, while the downtrend in milk production is temporarily stabilizing.



Even though production of livestock and products may slightly outrun gains in population over the decade, rapid advances in consumer demand point to continued favorable producer prices for livestock and products. Average prices for beef, lamb, and dairy products are expected to be relatively stronger than prices for poultry, eggs, and pork.

Output of crops increased about a fifth during the sixties, despite an acreage cutback of nearly a tenth. This expansion came about through substantial increases in use of fertilizer per acre, better plant varieties, and new cropping practices. But domestic and foreign utilization failed to keep pace with increases in output, causing stocks for the major crops to continue large and prices about unchanged from levels early in the sixties. However, crop prices strengthened some in the first half of the decade as exports expanded sharply and excessive stocks were worked down. During the seventies, largest advances in domestic demand are expected for feed grains and high-protein feeds (mainly soybean meal) for supporting expanding production of livestock and products. Despite prospects



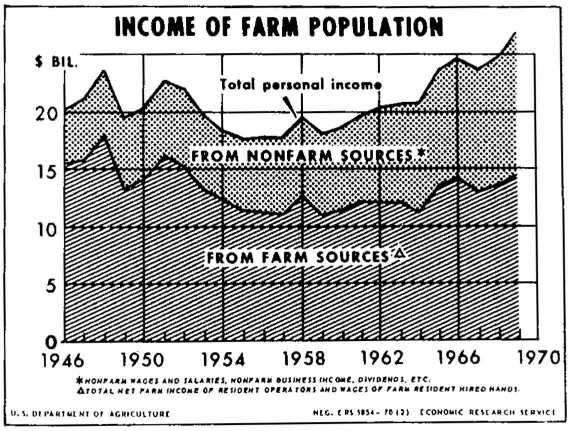
for some tightening in the supply-demand balance for crops in the years ahead, average grower prices may increasingly reflect world market levels.

Supply adjustment programs will likely continue to balance output to prospective markets. These projections assume little overall change in acreage by 1980 from the approximately 300 million acres of cropland currently harvested. With yields continuing to trend upward, production of crops by 1980 may run as much as a fifth larger.

How Farmers Will Fare

Although incomes in agriculture lag those in the nonfarm sector, farmers made significant advances in the last decade. Most of the improvement in cash incomes accrued to livestock producers, although growers' crop receipts also increased. Farm production expenses, however, climbed in every year except one during the sixties offsetting much of the rise in gross income. Thus, realized net farm income closed out the decade more than a third higher, and net income per farm increased more than 80%, due in part to the decline in number of smaller farms.

During the mid-fifties, per capita disposable incomes of farm people averaged about half those of nonfarm people. But by the end of the sixties the ratio had risen to three-fourths. Most of the increase was due to higher net farm incomes, but a steady rise in incomes to farmers from nonfarm sources also contributed. Moreover, the decline in the number of farm people, while nonfarm population increased, contributed importantly to the relative improvement in farm income.



As the seventies emerge, income prospects for livestock producers look more generally encouraging than for crop farmers. Rising production and general cost-price pressures will continue to limit gains in realized net incomes. However, with the number of farms declining, average income per farm will rise. And off-farm income opportunities are expected to boost after-tax incomes of farm people to new highs.

Farm-Nonfarm Relationships

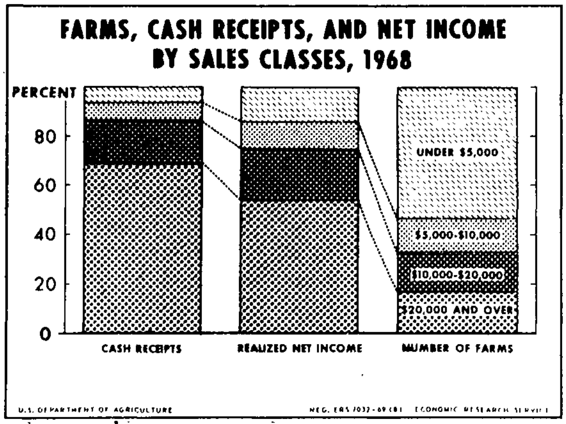
The Nation's agricultural organization has evolved from individual self-sustaining units into a series of complex industries closely integrated with the nonfarm economy. During the past 2 decades, while output has grown and average size of farms enlarged, the number of farms and number of farm workers have dwindled by half. By 1969, about the same number of farm workers were on farms as in 1840 when our country was much smaller, less developed, and agriculture was the principal industry.

At the same time agriculture has grown, the nonfarm supply and processing sectors have expanded by leaps and bounds. Part of this growth has provided farmers with a growing volume of inputs and with markets large enough to absorb most of agriculture's expanding capacity.

Expanding Demand for Inputs

Modern agriculture continues to be one of the Nation's most productive industries. The value of farm output in the past decade expanded by more than a third. This increase took place on fewer but larger farms with substantially less labor and a little less total land. For example, the number of farms dropped from around 4 million units in 1960 to close to 3 million by 1969 (this total includes about 1.2 million part-time or semi-retirement farms). Most of the decline occurred on commercial farms with cash receipts below $10,000. The number of part-time and part-retirement farms also fell sharply. Farms with sales of over $40,000, however, increased in number by about 75% during the decade.

By substituting an increasing volume of productive inputs and better manage-



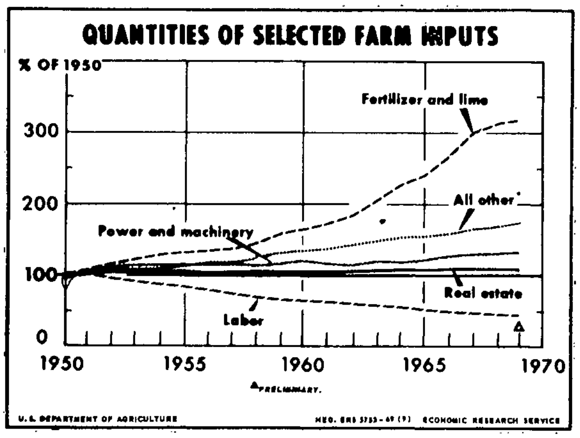
FARMS, CASH RECEIPTS, AND NET INCOME BY SALES CLASSES, 1968

ment skills, farmers expanded production substantially using less land and labor. Technological advances and improvements in yields have exceeded expectations of most prognosticators.

But these input costs to farmers have risen substantially. In 1969, farmers spent about $45 billion on production and capital inputs, nearly 1-1/2 times more than at the beginning of the decade. Although the volume of purchases had expanded greatly, more than half the recent increases reflected spiraling input prices.

Currently, close to a third of total farm production expenses are used to purchase inputs produced within the farm sector itself. Thus, higher prices for farm products also contribute to higher farm costs. This was particularly true in the livestock-feed sector during the late sixties. Prices for inputs purchased from the nonfarm supply sector, however, have moved up about in line with the general price level. Wage rates for hired labor have accelerated sharply in recent years in response to tight labor markets and minimum wage laws. However, the total wage bill held relatively stable due to the decline in number of workers. Interest charges and taxes have also been significant contributors to the farm cost-price squeeze. The major exception to this trend has been the decline in fertilizer prices.

The upsurge in purchases of intermediate inputs (items charged to current cost or used up in the production process) outpaced the increase in value of farm output. Thus, gross product originating in farming was held to a gain of slightly more than 30% during the past decade compared with an increase of over two-fifths in the total value of farm output. 2/ This compares with an increase of over 80% in private nonfarm GNP during the sixties. Thus, gross farm product accounted for only about 3% of total private GNP in 1969 compared with about 4½% a decade earlier.



QUANTITIES OF SELECTED FARM INPUTS

Although gross farm investment (machinery and building expenditures) has leveled in recent years, outlays are currently running about $6.2 billion, a third larger than a decade ago. Despite rapidly rising wage rates, machinery and equipment purchases lagged during the past 3 years primarily because of relatively large inventories, higher prices for machinery and equipment, spiraling borrowing costs and little improvement in incomes to crop producers. Even so, of the purchases made, there has been a trend toward larger machines as farms have increased in size and producers attempted

2/ Gross product originating in an industry is defined as the total value of output minus the cost of intermediate products consumed. It can also be derived by summing the values of purchases for final use.

to lower unit output costs by substituting machine power for labor. Many farmers in the seventies will continue to expand their scale of operation, purchase larger machines, apply more fertilizer, and adopt new output-increasing technologies.

Distributing Farm Output

Farmers, processors, and distributors in recent years, have moved increasingly toward closer coordination to reduce some of the uncertainties which characterize agriculture. Trends have been toward contract growing, mergers, cooperative marketing-processing agreements, farm consolidation, and farm management-information systems. The more efficient production-marketing system that is evolving will continue to contribute to steadier earning flows for farmer and other businessmen in the agribusiness system.

Currently, about four-fifths of total agricultural output is sold to intermediate producing and processing industries and the remainder directly to final users. By 1980, this latter proportion will probably diminish as the trend toward coordination continues and as consumers demand more "built-in" services. The "food and kindred products" industry, now the largest intermediate purchaser of farm products, will remain so in the seventies. At the same time, this industry will likely process an increasing portion of the productive goods and services farmers buy.

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