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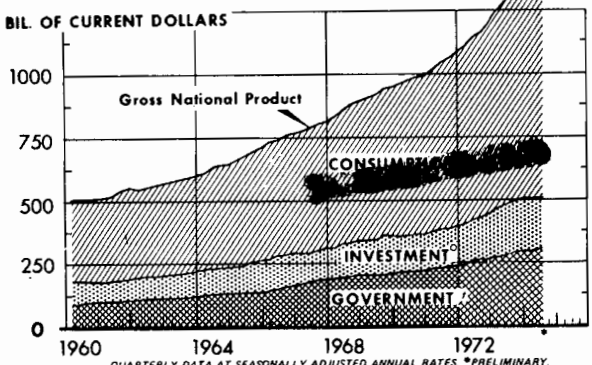
NOVEMBER 1974

DEMAND AND PRICE Situation

MIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

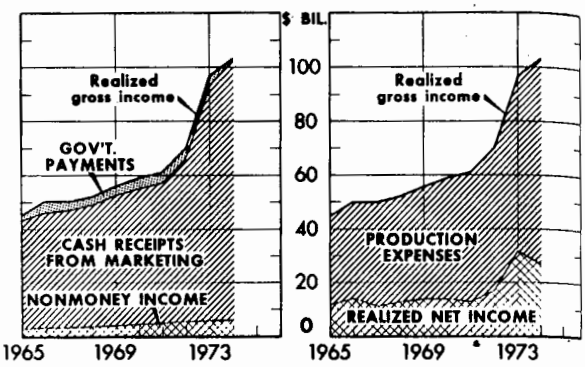
MAJOR SOURCES OF DEMAND



QUARTERLY DATA AT SEASONALLY ADJUSTED ANNUAL RATES. *PRELIMINARY.
△PERSONAL EXPENDITURES. †GOVERNMENT PURCHASES OF GOODS AND SERVICES.
○GROSS PRIVATE DOMESTIC INVESTMENT PLUS NET EXPORTS.

U.S. DEPARTMENT OF AGRICULTURE — NEG. ERS 1492-74 (10) ECONOMIC RESEARCH SERVICE

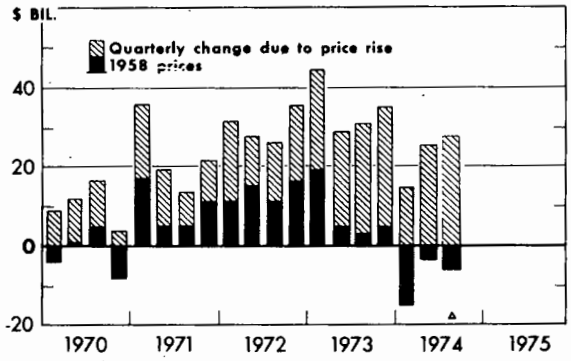
FARM INCOME COMPONENTS



1974 FORECAST.

USDA — NEG. ERS 3780

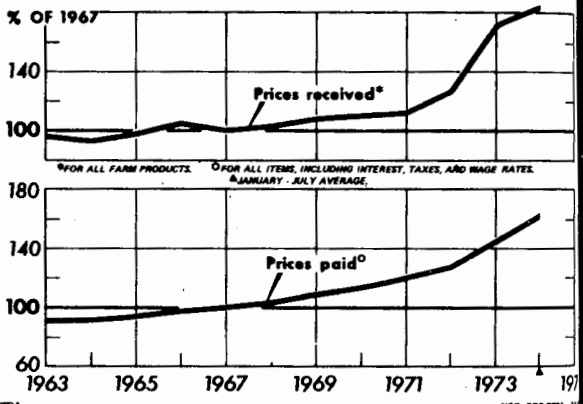
GROSS NATIONAL PRODUCT*



* CHANGE FROM PREVIOUS QUARTER. SEASONALLY ADJUSTED ANNUAL RATE
BASED ON DATA OF DEPARTMENT OF COMMERCE △PRELIMINARY.

USDA — NEG. ERS 6998-74 (10)

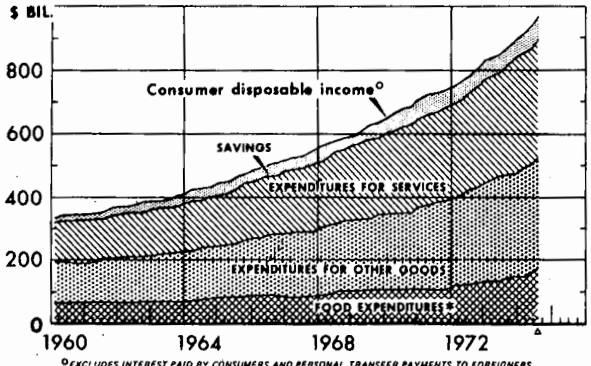
FARMERS' PRICES, 1963-74



*FOR ALL FARM PRODUCTS. ○FOR ALL ITEMS, INCLUDING INTEREST, TAXES, AND WAGE RATES.
△JANUARY - JULY AVERAGE.

USDA — NEG. ERS 8881-74

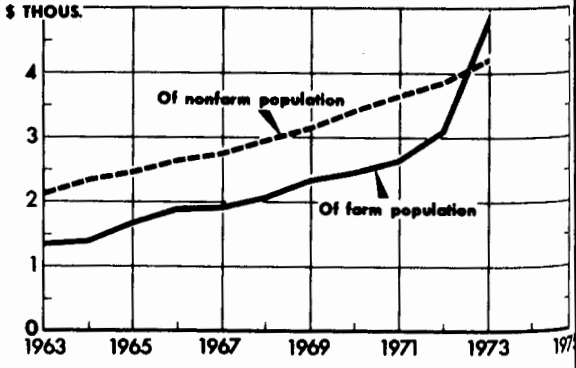
INCOME AND EXPENDITURES



○EXCLUDES INTEREST PAID BY CONSUMERS AND PERSONAL TRANSFER PAYMENTS TO FOREIGNERS.
*EXCLUDES ALCOHOLIC BEVERAGES. △PRELIMINARY.

USDA — NEG. ERS 2119-74 (10)

DISPOSABLE PERSONAL INCOME PER CAPITA*



* INCOME FROM ALL SOURCES.

USDA — NEG. ERS 8438-74

THE DEMAND AND PRICE SITUATION

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Approved by
Outlook and Situation Board
and Summary released
November 11, 1974

Principal contributors:

Terry N. Barr
Elwin E. Guild
Arthur J. Malloy

National Economic Analysis Division
Economic Research Service

U.S. Department of Agriculture

Washington, D.C. 20250

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he *Demand and Price Situation* is published in February, ay, August, and November.

SUMMARY

The agricultural sector of the U.S. economy is undergoing one of the most dramatic readjustments in its history. The U.S. feed grain supply for 1974/75 is estimated to be the lowest since 1957. At the same time the potential feed grain demand is significantly greater. The cattle inventory is over 40% larger than in 1957 with poultry numbers up 80% and hog numbers up about 8%. However, the dairy herd is more than 40% smaller than in 1957.

The short feed grain supply means a substantial reduction in availability for domestic and export markets, substantially higher prices, and significant adjustments for the livestock sector. The readjustment difficulties are further aggravated by continued increases in production costs and family living expenses and the downturn in the general economy.

The root of the problem in 1974/75 was bad weather—a wet spring, summer drought, and early frosts. This bad weather cut the U.S. corn crop to 4.6 billion bushels and combined with a low carryover of 481 million bushels, left corn supplies a fifth below 1973/74 and feed grain supplies the lowest in 17 years.

Hardest hit are the Nation's livestock producers, particularly hog and poultry producers who have little flexibility in feeding practices. As a result, both are planning significant cutbacks in production. The number of sows farrowing during the fall season in 14 major States is expected to be down 7% from last year while the 1975 spring crop may be down about a tenth. Similarly, broiler producers have reduced their hatchings as production costs continue to exceed market prices. Broiler output at least through the spring of 1975 will remain depressed.

There has been a dramatic shift in the composition of cattle slaughtered. In response to the tight feed grain supplies, grain-fed cattle are a smaller proportion of total slaughter while an increasing proportion has received little or no grain. This change reflects a lack of profit in cattle feeding and the resultant decline in fed cattle placements and marketings, despite rapidly increasing feeder cattle supplies. Cattle on feed inventories are the smallest in over 6 years. Adjustments in feeding practices and sharply lower feeder cattle prices may improve the feedlot profit picture and boost fed cattle marketings some in the first half of 1975. If fall 1974 slaughter

continues strong, total slaughter for 1974 will be more than 7% larger than last year and could possibly exceed 1972's record kill of 35.8 million head. All of the increase will come from animals fed little or no grain.

This year's record wheat crop, although smaller than earlier expected, is still 4% above last year. However, low stocks have reduced total wheat supplies 6% from last year. Disappearance is likely to decline but not enough to permit any rebuilding of stocks. Export demand continues strong, but may be down some from 1973/74. The favorable price situation may result in another large planted acreage for 1975. The rice crop, at 114.8 million cwt., is 24% larger than in 1973. Strong demand may push exports to a record 61.2 million cwt.

A disappointing soybean crop reduced the 1974/75 supply despite a larger carryover to 1.42 billion bushels, 13% below last year. Carryover next summer is expected to drop to a minimal 60 million bushels. Crushings are expected to decline somewhat with exports dropping significantly. Farm prices during September-October averaged $7.75 per bushel, about $2 above the same period last year.

Realized net farm income for 1974 may total just under $27 billion, down more than $5 billion from last year. Production expenses will rise about $10 billion, to about $75 billion, with sharply higher fuel and fertilizer prices and high feed costs the major contributors.

Retail food prices for all of 1974 are expected to average 14 to 15% above 1973. Prices for all food at retail in the third quarter were 11.4% above a year earlier. Most livestock and crop product prices advanced from the second quarter. For the fourth quarter, the rate of food price increases is expected to slow as red meat prices moderate.

The general economy continues to weaken in a difficult and uncertain readjustment from the expansion which began in 1970. Beginning of the readjustment had been expected in late 1973 in the form of a mild slowdown, but the oil embargo had dramatic effects upon first quarter 1974 and, combined with the continuing impacts of the high rates of inflation complicated the adjustment process.

In late 1973 a number of factors seemed to influence business decisions. At that time an optimistic appraisal of the oil embargo impacts suggested that much of the economic slowdown would be confined to autos and related industries with the remainder of the economy experiencing only a modest pause. Simultaneously, high rates of capacity utilization in basic material industries were leading to production bottlenecks and uncertain delivery schedules. To cope with these conditions the desired level of business inventories increased sharply with production and employment remaining surprisingly firm during the downturn. However, by mid-1974 the level of desired inventories was apparently revised sharply downward in the face of weakening consumer demand, the erosion of real cash balances by double-digit inflation, and soaring financial costs.

By the end of the third quarter the impacts were fully evident in declining production indexes, a rising unemployment rate, and a sharp drop in the rate of inventory accumulation. They were also reflected in credit market developments as reduced levels of inventory building and downward revisions in near-term production plans led to an easing in current demands for credit and a decline in short-term rates.

An examination of inventory levels, the weakness in fixed investment, and continuing erosion of consumer buying power suggest that the adjustment process is likely to continue well into 1975 with further declines in real output and continuing increases in the unemployment rate. Although the rate of inflation will remain high by historical standards it could break below the double-digit levels by early 1975.

Barring such events as a prolonged coal strike or further oil embargoes, the economy by mid-1975 would likely be experiencing slower rates of inflation, higher unemployment, somewhat lower short-term interest rates, and a better balance between desired and actual inventories. At that time the more stable nature of the economic climate may be more conducive to restoring consumer confidence and encouraging the investment and industrial expansion which must underlie even a modest recovery.

OUTLOOK CONFERENCE SCHEDULED FOR DECEMBER 9-12, 1974

"U.S. Agriculture in the World Economy" is the theme for the 1975 National Outlook Conference to be held December 9-12 at the U.S. Department of Agriculture in Washington, D.C.

The conference will feature presentations and panel discussions. Particular attention will be given to the outlook for agriculture and the general economy in 1975, with special emphasis on supply and demand for food in the world and in the United States. Sessions on the 1975 outlook for major commodities, foreign trade, and rural family living will make up an important part of the conference.

AGRICULTURAL SITUATION

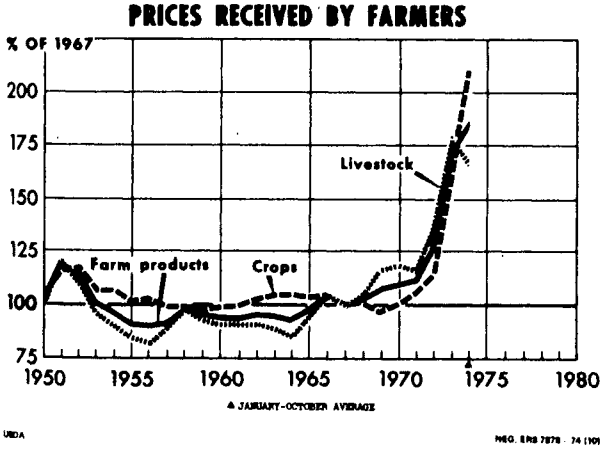
This year's poorer than expected crop production, particularly feed grains, will result in continued high food prices. Although the poor feed grain crop has stimulated livestock slaughter, resulting in lower livestock prices this year, the implications for 1975 output point to higher prices and reduced output particularly for pork and poultry. Vegetable oil and sugar prices are both expected to remain high well into 1975. Consequently, retail food prices are expected to advance further in 1975. For 1974 retail food prices are expected to average 14 to 15% higher than 1973. Despite generally higher farm prices, net farm income is expected to decline in 1974 because of faster rising production costs.

U.S. crop production: Index numbers of production of crops, 1973 and 1974

(1967=100)

Item	1973[1]	1974[2]	Percentage change
All crops[3]	120	110	-8
Feed grains	115	92	-20
Hay and forage	109	102	-6
Food grains	113	119	5
Sugar crops	116	106	-9
Cotton	174	162	-7
Tobacco	89	100	12
Oil crops	156	130	-17

[1] Preliminary. [2] Indicated as of November. [3] Includes other products not included in the separate groups shown.



Food Prices Advance In Third Quarter

Prices for all food at retail in the third quarter were 11.4% above a year earlier and increased 2.1% from the second quarter. Prices for food at home in the third quarter were 10.8% above 1973 and 1.7% higher than the previous quarter.

Virtually all livestock and crop product prices advanced from the second quarter. The exceptions were fresh vegetables, potatoes, and dairy products. Retail product prices for beef, pork, and poultry advanced 0.6, 4.8, and 0.7% in the third quarter, respectively. However, compared with the third quarter of 1973; beef declined 2.7%, pork was down 13%, and poultry prices fell 25%. Dairy product prices declined 1.9% in the third quarter but were 19% above year-earlier levels.

For the crop products, only the fruits and vegetables group declined in the third quarter, falling nearly 3% from the second quarter, but 15% above last year's levels. Third quarter price advances were recorded for fats and oils, up 7.1%; sugar, up 15.3%; and cereal and bakery products, up 2.9%. Relative to a year earlier, fats and oils rose 57%; sugar, 58%; and cereal and bakery products, 33%.

Retail food prices for all of 1974 are expected to average 14 to 15% above the average for 1973. For the remainder of 1974 the rate of retail food price increases is expected to slow. Retail meat prices are expected to decline moderately during the fourth quarter although higher prices for broilers, eggs, and some dairy products will be somewhat offsetting. Crop price declines are expected for rice, potatoes, oranges, and dried beans and peas. However, higher prices for most cereal and bakery items, processed fruits and vegetables, vegetable oil products, sugar, and beverages will be more than offsetting.

The first half of 1975 may find food prices rising on a fairly broad front. Although demand may be moderated by a slowdown in economic activity, higher farm prices, coupled with widening margins, for both crop and livestock related foods will likely surface at retail.

On the demand side, consumers continue to be squeezed by reduced discretionary buying power. Real disposable personal income in the third quarter recorded its third consecutive quarterly decline, falling at a 1% annual rate. However, the rate of decline is moderating, since first and second quarter declines were 8 and 4%, respectively. The rate of personal savings also dipped for the third straight quarter. The savings rate fell from 7.4% of disposable income in the second quarter to 6.5% in the third.

Consumer purchases of food rose at a 16% annual rate in the third quarter, compared with an 8% increase the previous quarter. Consumer outlays for food in the third quarter were at a $167.3 billion annual rate. Consumer expenditures for clothing and shoes rose to a $75.5 billion annual rate in the third quarter, increasing 6% compared to a 9% increase in the second quarter.

Farm Income Declining

Realized net farm income this year is now indicated at nearly $27 billion, down about $5 billion from last year's record high.

Marketing receipts in 1974 are expected to increase around $5½ billion. Crop receipts may be up $8 billion,

Table 1.--Selected measures of economic activity

Item	Unit	Year 1973	1973				1974		
			I	II	III	IV	I	II	III 1/
Gross national product	Bil. dol.	1,294.9	1,248.9	1,277.9	1,308.9	1,344.0	1,358.8	1,383.8	1,411.6
Disposable personal income	Bil. dol.	903.7	869.5	892.1	913.9	939.4	950.6	966.5	990.8
Personal consumption expenditures	Bil. dol.	805.2	781.7	799.0	816.3	823.9	840.6	869.1	899.9
Food spending (excluding alcoholic beverages)	Bil. dol.	143.6	134.7	139.7	147.7	152.4	157.5	160.8	167.3
Implicit price deflator for GNP	1958=100	154.3	150.0	152.6	155.7	158.9	163.6	167.3	171.9
Unemployment rate 2/	Percent	4.9	5.0	4.9	4.7	4.7	5.2	5.1	5.5
Cash receipts from farm marketings	Bil. dol.	88.6	77.5	84.8	93.6	98.5	98.0	91.3	94.5
Nonmoney and other farm income	Bil. dol.	8.4	8.7	8.4	8.2	8.2	7.0	7.1	7.6
Realized gross farm income	Bil. dol.	97.0	86.2	93.2	101.8	106.7	105.0	98.4	102.1
Farm production expenses	Bil. dol.	64.7	60.1	62.9	67.0	69.0	72.1	74.5	76.5
Farmers' realized net farm income	Bil. dol.	32.2	26.1	30.3	34.8	37.7	32.9	23.9	25.6
Agricultural exports 3/	Bil. dol.	17.7	3.7	4.0	4.2	5.8	5.9	5.5	4.5
Agricultural imports 3/	Bil. dol.	8.4	1.9	2.1	2.0	2.3	2.6	2.6	2.5
Volume of farm marketings	1967=100	116	110	87	109	157	104	89	117
Livestock and products	do.	106	104	104	100	113	103	111	112
Crops	do.	130	118	65	121	215	106	61	120
Prices received by farmers 4/	do.	172	151	164	191	183	198	174	178
Livestock and products	do.	179	164	171	199	183	187	156	156
Crops	do.	164	133	156	180	185	215	202	210
Prices paid by farmers 4/ 5/	do.	145	136	143	149	152	159	165	172
Wholesale price index, all commodities 4/	do.	134.7	127.1	133.2	138.7	139.9	149.2	154.5	165.4
Consumer price index, all items 4/	do.	133.1	128.7	131.5	134.4	137.6	141.4	145.6	150.1
All food	do.	141.4	131.4	138.1	146.2	149.9	156.8	159.5	162.8
Food at home	do.	141.4	130.5	138.0	147.1	150.1	158.0	160.2	163.0

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.

Quarterly data seasonally adjusted except as noted.

Departments of Agriculture, Commerce, and Labor.

as prices average a third higher while the volume of marketings is down nearly a tenth. Livestock receipts are expected to drop around $2½ billion, reflecting a 10% decline in prices and a 5% increase in marketings.

Production expenses this year will likely total $75 billion, compared with just under $65 billion in 1973. Sharply higher fuel and fertilizer prices are pushing costs upward, and short crops have kept purchased feed and seed prices higher than previously anticipated. Unit prices for goods and services of nonfarm origin are reflecting inflationary pressures. Feeder cattle are the only major input item showing a decline in price from 1973 levels.

Prices received by farmers, change from a year earlier[1]

Month	All crops	Livestock and products
	Percent	*Percent*
January 1973	18.0	22.0
February	19.1	23.7
March	27.8	34.9
April	27.7	34.1
May	35.1	30.8
June	47.8	31.8
July	40.9	33.1
August	67.5	61.5
September	54.2	43.5
October	55.2	35.3
November	50.8	32.6
December	54.8	23.4
January 1974	58.8	24.5
February	67.9	17.3
March	56.5	2.9
April	43.4	0
May	30.5	-7.1
June	17.1	-18.4
July	25.9	-14.4
August	9.2	-26.6
September	15.9	-22.2
October	26.7	-17.6

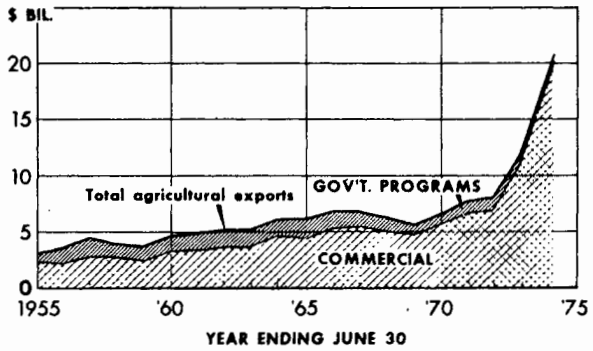
[1] Percent changes computed from indices on 1967 base.

Export Outlook Mixed

Agricultural exports for FY 1975 were estimated in early fall to total near the $21.3 billion of FY 1974. However, relatively strong foreign demand and continued high price levels may push the value of exports above that level. Agriculture's contribution to the U.S. trade balance may total $10 to $11 billion in FY 1975, compared with the $11.8 billion of 1974. Agricultural exports for the first quarter of FY 1975 (July-September) totaled $4.5 billion, 8% above a year earlier. The quantities and value of exports of soybeans, soybean oil, animal fats and oils, hides and skins, tobacco, and rice rose during the first quarter. The export volume of wheat and feed grains was off sharply, while the value was down only slightly because of higher prices.

For our major world markets, the outlook is mixed. U.S. agricultural exports for FY 1975 are expected to

U.S. AGRICULTURAL EXPORTS: COMMERCIAL AND UNDER GOVERNMENT PROGRAMS



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continue at present record levels to the oil exporting countries of the Middle East and North Africa. The import requirements of the developing countries of Asia are expected to rise sharply. Except for Brazil, exports for U.S. products to the major markets of Latin America and the Caribbean are expected to rise moderately. Demand for U.S. farm products in the developed countries of Western Europe and Japan is at a much lower level this year than last year because of increased production, inflation, and balance of payment problems which have reduced real economic growth to near the zero level in the current year. The USSR has purchased 2.2 million-tons of wheat and corn and would have purchased more if U.S. supplies were available. Exports to the People's Republic of China are expected to be down because of generally good crops this year. The PRC recently cancelled its import commitment for 789,000 MT of soybeans, and indications are that it might defer its import commitment for wheat and postpone the scheduled negotiation of future wheat purchases.

U.S. agricultural exports, value of major commodities

Commodity	July-September		Percentage change
	1973	1974[1]	
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	337	401	19
Cotton	161	220	37
Feed grains, excluding products	1,112	902	-19
Fruits	141	162	15
Soybeans	256	494	93
Tobacco, unmanufactured	162	175	8
Vegetables	79	104	32
Wheat and flour	1,254	1,169	-7
Rice	94	181	93
Other	554	658	19
Total exports	4,151	4,464	8

[1] Preliminary.

India's import requirements for FY 1975 are an estimated minimum of 5.5 million tons of wheat and 1 million tons of grain sorghums and rice. Imports of 8 to 10 million tons of cereals will probably be needed to meet growing urban food needs plus demands from drought areas.

World production of wheat is expected to be down but production gains in importing areas may keep import demand and world trade below last year. World feed grain production is also expected to be down, largely because of the drop in U.S. production. Limited supplies and reduced demand are expected to reduce world trade by as much as 20 million tons. World rice production will probably drop at least a million tons from last year's 211 million tons (milled basis). World supplies of vegetable oils will be down somewhat and protein meals will be down significantly, reflecting the short U.S. soybean crop. Export prices are expected to remain high due to short supplies.

U.S. imports of agricultural products in FY 1975 are forecasted to be well above last year's record of $9.6 billion. Higher sugar prices will probably account for a large part of the value increase. Price increases are also expected for vegetable oils, tea, and a number of other products. Volume increases are expected for sugar, grains, swine, tobacco, and crude rubber.

1974 Red Meat Output Up

Beef production in the first 9 months was record large, up 9% from the same period last year. All of the increase is attributable to larger cow and nonfed steer and heifer slaughter which more than offset a 5% decline in fed cattle marketings. Grass-fed cattle and cows will continue to make up a large portion of the slaughter supply this fall and in 1975. With smaller feed grain supplies and high prices, fed cattle marketings next year probably won't reach this year's number. Also, cattle will likely be placed on feed at heavier weights and marketed at lighter weights and with a generally lower degree of finish. Consequently, 1975's fed beef output is expected to decline.

Profit prospects for cattle feeders should improve this fall and in 1975 if feeder cattle prices, which have dropped substantially since midyear, remain low enough in relation to slaughter cattle to allow some feeding profits despite higher feed and other costs.

U.S. agricultural imports, value of major commodities

Commodity	July-September 1973	July-September 1974[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	659	452	-31
Fruits	41	50	22
Oilseeds and oil products	73	173	137
Sugar and molasses	275	731	166
Tobacco, unmanufactured	38	47	24
Vegetables	55	65	18
Wines and malt beverages	86	89	3
Other	122	182	49
Total	1,350	1,790	33
Complementary			
Bananas	42	46	10
Cocoa and chocolate	15	26	73
Coffee	364	309	-15
Rubber	99	145	46
Other	125	187	50
Total	646	713	10
Total imports	1,995	2,503	25

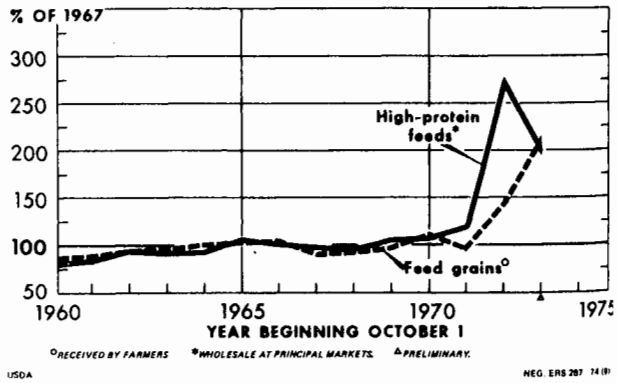
[1] Preliminary.

U.S. agricultural trade balance July-September 1973 and 1974

Item	1973	1974[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	4,151	4,464	8
Imports	1,995	2,503	25
Trade balance	2,156	1,961	-9

[1] Preliminary.

FEED GRAIN AND HIGH-PROTEIN FEED PRICES



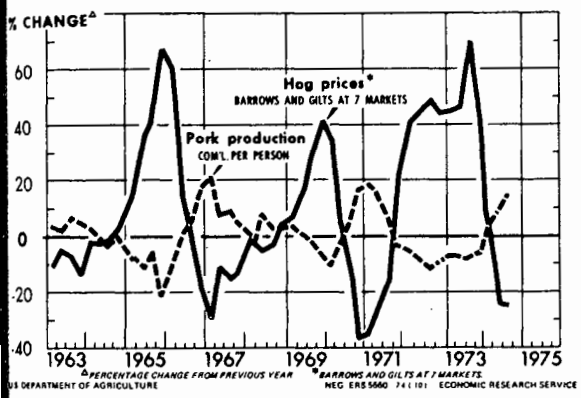
Fed cattle prices this fall are expected to rise from mid-October levels of around $40 per cwt. for Choice steers at Omaha, but average below the summer average of over $44. Prices in the first half of 1975 are expected to strengthen as slaughter supplies drop below seasonally high fall rates.

Weather will be an important factor affecting the level of cattle slaughter in 1975. If the winter is severe, with heavy snows, slaughter rates will be significantly larger than under conditions of a mild winter that would allow more winter grazing. Likewise, normal or better moisture conditions next spring and summer would tend to moderate heavy movement of cattle off grass. The

industry is particularly sensitive to whims of weather in the months ahead because of the very large numbers of cattle on hand relative to available feed grain supplies.

Pork production was up 10% from a year ago in the first 9 months this year with the largest increase in the spring and summer. There were more hogs at heavier weights. Fall marketings likely will continue moderately above a year earlier but will drop sharply below in 1975. High feeding costs in 1974 have caused hog producers to cut back production. The number of sows farrowing in 14 major States this fall is expected to be down 7% from last year. Pigs born during this period (June-November 1974) will make up the bulk of slaughter supplies in the first half of 1975. The 1975 spring crop probably will be a tenth smaller than the 1974 spring crop. These hogs will be slaughtered in the second half of the year.

CHANGES IN HOG PRICES AND PORK PRODUCTION



Larger slaughter last spring, together with heavier market weights, brought hog prices down to near $23 per cwt, in mid-June. But a seasonal downturn in summer slaughter boosted prices to their current upper $30's level. A drop in pork output next year will move hog prices sharply higher. Summer hog prices may rise above fed cattle prices as hog slaughter declines seasonally.

Lamb and mutton production is expected to total about 465 million pounds, down 10% from 1973. With declining stock sheep numbers, a smaller lamb crop next year will mean some further decline in lamb supplies.

Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Pct.	*Pct.*	*Pct.*	*Pct.*
1973/72				
I	-1.1	15.1	6.7	-13.3
II	-12.6	1.9	21.4	17.8
III	-31.8	-13.4	16.1	-19.8
IV	-34.9	-19.1	-3.7	-8.1
1974/73				
I	-43.3	-43.3	-15.6	-5.1
II	-38.8	-50.5	-23.5	5.8
III	-35.5	-47.1	-30.6	-13.8

Lamb prices shifted widely in the first half of 1974, as prices and supplies of other classes of slaughter livestock fluctuated. Wholesale lamb carcass prices dropped from $96.50 per cwt. in late May to $74.75 in late September. Next year's smaller supplies should keep the 1975 price average above this year's level.

Egg production is lagging year-earlier levels, a trend that will continue well into 1975. Output through September 1974 totaled 137 million cases, down 1% from 1973 and the smallest since 1966. The lower production reflects a smaller laying flock which totaled 276.6 million birds on October 1, 5% fewer than October 1, 1973. However, the rate of lay continued at record levels and was 1% above a year earlier.

For this fall and winter, fewer layers, a reduced replacement hatch, and a slowing in the rate of lay may cause egg output to be down 3 to 4% from last year. High production costs and poor profitability in recent months have slowed hatchery activity for flock replacements through early 1975. The hatch of egg-type chicks for November-March flock replacements was down 12% while eggs in incubators on October 1 were down 27%.

Egg prices rose substantially this summer but remained well below 1973 levels. Prices will strengthen during the balance of 1974 as supplies lag and demand increases seasonally. Retail prices for large grade A eggs during the last quarter of 1974 will average above the third quarter's 72 cents per dozen but may not match the 86 cents a year ago.

Broiler production has been declining and will be below 1973 levels for the remainder of 1974. Broiler meat output through September was up 5% from the same period of 1973, reflecting a 3% increase in number and a 2% gain in average liveweight. However, in recent months producers have curtailed both the number of broiler-type eggs set and the number of chicks placed. Placements for November-December marketings are down 12%. With prospects for production and marketing costs continuing to exceed market prices, there is little incentive so far for producers to expand output for 1975. Thus, output through the spring of next year will remain below a year earlier.

Wholesale broiler prices are expected to average near the third quarter's 38 cents per pound this fall and then gain in early 1975 as output slips to well below year-earlier levels. However, larger red meat supplies will moderate price advances. Retail broiler prices this fall will average near the 55 cents per pound of October-December 1973.

Turkey meat output has been well above a year ago but has dropped sharply in recent months. Output through September this year was up 16% from the same period of 1973. However, August-September output was only about 2% above a year earlier. The seasonally large fall output is expected to be down a tenth or more but

Table 2.--Supply-distribution and season average prices of selected major crops, 1971/72, 1972/73, 1973/74, and 1974/75

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1971/72	Mil. tons	33.2	0.5	207.7	241.4	165.7	27.3	193.0	48.4	2/1.08
1972/73	Mil. tons	48.4	.4	199.9	248.7	173.2	43.1	216.3	32.4	2/1.57
1973/74p	Mil. tons	32.4	.3	205.0	237.7	171.1	44.4	215.5	22.2	2/2.60
1974/75e	Mil. tons	22.2	.4	164.6	187.2	144.4	30.9	175.4	11.8	
Wheat										
1971/72	Mil. bu.	731.5	1.0	1,617.8	2,350.3	854.7	632.5	1,487.2	863.1	1.34
1972/73	Mil. bu.	863.1	1.3	1,544.9	2,409.3	784.5	1,186.3	1,970.8	438.5	1.76
1973/74p	Mil. bu.	438.5	3.8	1,711.4	2,153.7	756.0	1,148.7	1,904.7	249.0	4.00
1974/75e	Mil. bu.	249.0	2	1,780.6	2,031.6	713	1,050	1,763	269	
Rice										
1971/72	Mil. cwt.	18.6	1.1	85.8	105.5	3/37.2	56.9	94.1	11.4	5.34
1972/73	Mil. cwt.	11.4	.5	85.4	97.3	3/38.2	54.0	92.2	5.1	6.73
1973/74p	Mil. cwt.	5.1	.2	92.8	98.1	3/40.6	49.7	90.3	7.8	13.80
1974/75e	Mil. cwt.	7.8	0	114.8	122.6	37.6	61.2	98.8	23.8	
Soybeans										
1971/72	Mil. bu.	98.8	0	1,176.0	1,274.8	786.0	416.8	1,202.8	72.0	3.03
1972/73	Mil. bu.	72.0	0	1,270.6	1,342.6	803.6	479.4	1,283.0	59.6	4.37
1973/74p	Mil. bu.	59.6	0	1,566.5	1,626.1	889.6	564.9	1,454.5	171.6	5.57
1974/75e	Mil. bu.	171.6	0	1,243.9	1,415.5	856	500	1,356	60	
Cotton 4/										
1971/72	5/Mil. bales	4.3	6/.1	10.4	14.8	8.2	3.4	11.6	3.3	28.23
1972/73	5/Mil. bales	3.3	6/7/	13.7	17.0	7.8	5.3	13.1	4.1	27.3
1973/74p	5/Mil. bales	4.1	6/.1	13.0	17.2	7.5	6.1	13.6	3.9	8/44.9
1974/75e	5/Mil. bales	3.9		12.1	15.9	6.6	4.3	10.8	5.1	

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Prices for corn. 3/ Includes the following statistical discrepancies: 1971/72, 1.8, 1972/73, 2.4 and 1973/74, 3.9 mil. cwt. 4/ Production based on ginnings between August 1 and July 31. 5/ 480 pound net weight bales. 6/ Includes city crop. 7/ Less than 50,000 bales. 8/ Average price to April 1, 1974, with no allowance for unredeemed loans.

1974/75 based on recent crop reports. Disappearance estimates are mid-points of the range. Details may not add to totals due to rounding. p. Preliminary. e. Estimated.

Table 3.--Production and prices received by farmers for major livestock and livestock products, 1971, 1972, 1973, and third quarters of 1973 and 1974

Item	Unit	Annual			Third quarter	
		1971	1972	1973	1973	1974 1/
Production 2/						
Beef and veal....	Mil. lb.	22,448	22,878	21,634	3/5,071	3/5,870
Pork.....	Mil. lb.	14,972	13,640	12,751	3/2,791	3/3,247
Lamb and mutton..	Mil. lb.	555	543	514	3/128	3/118
Chickens.....	Mil. lb.	8,720	9,102	8,916	3/2,099	3/2,176
Turkeys.....	Mil. lb.	1,811	1,945	1,956	3/631	3/670
Eggs.....	Mil. lb.	9,178	9,098	8,706	2,130	2,098
Milk.....	Bil. lb.	118.5	119.9	115.6	4/27.7	4/26.6
Prices received by farmers						
Cattle.....	Dol./cwt.	29.00	33.50	42.80	47.70	34.80
Hogs.....	Dol./cwt.	17.90	26.00	39.40	47.10	34.70
Lambs.....	Dol./cwt.	25.90	29.10	35.10	36.80	36.30
Broilers.....	Ct./lb.	5/13.7	5/14.1	5/24.0	31.3	21.1
Turkeys.....	Ct./lb.	21.9	22.1	34.8	39.3	25.5
Eggs.....	Ct./doz.	31.1	31.7	54.1	61.5	48.2
All milk (sold to plants).....	Dol./cwt.	5.87	6.07	7.14	7.21	7.74

1/ Preliminary. 2/ Data for 50 States. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/Commercial production only. 4/ Based on monthly data. 5/ Marketing year average December-November.

sharply larger cold storage stocks will keep supplies moderately above 1973 levels.

Turkey prices rose during the summer and remained firm in September even though supplies remained large and movement into consumption channels lagged. Prices gained in October and may show some further seasonal rise this fall and continue strong into 1975. But large turkey supplies, combined with large supplies of red meat, likely will prevent any large price increases for turkey this fall. Retail turkey prices for the fourth quarter may average slightly above the 68 cents per pound of the previous quarter but will be well below the 89 cents recorded in the fourth quarter of 1973.

September *milk* production recorded its sharpest year to year increase in almost a decade, rising nearly 3% from a year earlier. Contributing to the rise was a continued slowing in the decline in milk cow numbers and sharply higher milk output per cow. Lower slaughter cow prices reduced herd culling, more corn moved into silage, and generally favorable pasture conditions prevailed in important dairy States. However, these production gains may be temporary as dairy farmers are likely to adjust feeding rates in reaction to higher feed prices this fall and winter. For all of 1974, milk production is expected to total 1% short of 1973's 115.6 billion pounds.

Farm milk prices will rise seasonally through the fall following sharper than normal declines of this spring and summer. Farmers received an average $8.21 per cwt. for October deliveries, up 21 cents from September, but 11 cents below a year ago. For the year farm prices should average near $8.30 per cwt., up from 1973's average of $7.20. Wholesale butter and cheese prices have strengthened since midyear and currently are above their CCC support purchase prices. Recently Chicago grade A butter was selling at 69 cents per pound and American

cheese at Wisconsin assembly points (40-pound blocks) was nearly 79 cents per pound. However, nonfat dry milk prices remain near CCC's support purchase price of 56.6 cents per pound.

Commercial use of milk in all dairy products during January-September was down slightly from the previous year. Larger use of manufactured dairy products helped offset the continuing drop in fluid sales. Fluid milk sales in September were almost even with a year earlier, an improvement over the more than 5% declines recorded in earlier months. Cheese sales continue to expand and with butter in a more favorable competitive price position with margarine, its sales could increase somewhat this year.

Commercial stocks of dairy products were equivalent to 7.2 billion pounds of milk on October 1, up 60% from a year ago, and a record for that date. Government stocks of butter and cheese are at relatively low levels since CCC has purchased no butter and only moderate amounts of cheese under the price support program since early August. But on November 1, uncommitted CCC nonfat dry milk stocks totaled 135 million pounds as removals continued at sizable levels. A year ago CCC had no stocks of nonfat dry milk.

January-September dairy product imports were equivalent to 2.3 billion pounds of milk, up 1 billion from a year earlier. Almost all of the increase occurred during the first quarter of the year when an increase in the import quota of cheddar cheese was authorized. However, dairy product imports have now slackened to more normal levels as all of the temporary increases in import quotas have expired.

Feed Grain Supply Lowest in 17 Years

Some of the earliest frosts on record and a severe drought in July combined to substantially cut the U.S. corn crop. The crop of 4.6 billion bushels forecast on November 1 is 18% below the last 3 year's. The crop forecast includes the effect of wide spread frosts of October 2-3, which extended as far south as North Georgia and stopped corn growth that escaped September's freezes. A significant portion of the corn crop was seeded after June 15 which pushed "safe from frost" dates to as late as the third week in October. On the basis of the larger crop estimate on September 1, about 350 million bushels of corn has been lost to frosts.

This year's small October 1 carryover of 481 million bushels tightens an already bleak crop situation. As a result, the 1974/75 corn supply of 5.1 billion bushels is a fifth less than in 1973/74 and the lowest since 1966/67. The 187 million-ton supply of all feed grains is also down a fifth and lowest since 1957/58.

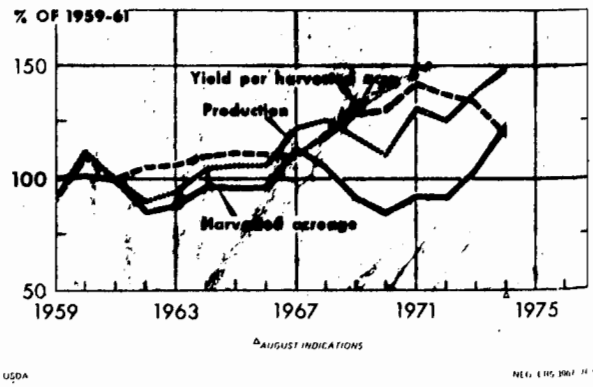
The short feed grain supply means a substantial reduction in availability for domestic and export markets. Also, it occurs at the same time as the rapid buildup in the Nation's beef cattle herd to record proportions. While the cattle industry has some flexibility in either placing, holding, or selling, producers of hogs and poultry do not and so are making significant cutbacks in output because of high costs of production relative to returns.

The projected 11 to 12 million-ton carryout of feed grains at the end of 1974/75, which is less than a month's requirement, is considered a minimum. With exports forecast at 30 to 32 million (short) tons and food, industry, and seed use at 18 million tons, feed use is estimated at 126 to 127 million tons, 18% less than the record in each of the last 2 years.

Based on November 1 feed grain crop prospects and projected levels of livestock and poultry inventories, a significant drop in grain consuming animal units is expected. In addition, the feeding of feed grains per animal unit will be down dramatically from last year's 1.98 tons reflecting the unfavorable livestock and poultry feed-price relationships in 1974/75. Therefore producers will lower both livestock numbers and feeding rates to match short availabilities and high prices of feed concentrates.

The 1974 *wheat* crop is estimated at 1,781 million bushels, 4% larger than last year's record crop, but less than the 2 billion bushels anticipated earlier. Expanded acreage accounts for the increase as unfavorable weather and disease cut average yield to the lowest level in 6 years. Carryin wheat stocks on July 1 were 249 million bushels, down 43% from the previous year, and the smallest since 1948. Thus, despite the larger crop, total wheat supplies for 1974/75 at 2,031 million bushels are 6% below last season.

WHEAT ACREAGE, YIELD, AND PRODUCTION



Disappearance of wheat during 1974/75 is likely to decline 6% from last year's level but the smaller supply may preclude any rebuilding of stocks. Increases in domestic food usage will be offset by lower feed usage and wheat exports. Consumer response to high food prices will likely hold up the earlier consumption gains made by some wheat products. Wheat fed to livestock and poultry is expected to increase in the East where

large discounts for low quality grain make wheat competitive for feeding. However, wheat has been priced well above sorghum in the Great Plains area and with numbers of cattle on feed down sharply, feed use there has been restricted. In contrast to the reduction in total supplies, October 1 wheat stocks totaled 1,546 million bushels, up 6% from a year ago. July-September disappearance of 485 million bushels reflected lower than expected feed usage and the slower export pace.

Stocks of grains

Grain and position	Oct. 1, 1973	Oct. 1, 1974	Percentage change 1974/73
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	28	22	-24
Off farms[2]	17	12	-27
Total	45	34	-25
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	614	664	8
Off farms[2]	843	882	5
Total	1,457	1,546	6
SOYBEANS[3]			
On farms[1]	9	65	594
Off farms[2]	50	106	112
Total	60	172	188

[1] Estimates of the Crop Reporting Board. [2] Including grain owned by Commodity Credit Corporation. [3] As of September 1.

Totals may not add due to rounding. Percent changes computed using unrounded data.

Declining crop prospects in other major exporting countries and some importing countries have increased foreign demand pressure on U.S. wheat supplies. Projected exports have been revised upward to 1 billion bushels or more, which would still be nearly a tenth below 1973/74.

With prospects for disappearance to be about the same as production, the price outlook is considerably more bullish. Farmers have continued to hold an unusually large proportion of the wheat crop off the market. Farm prices averaged a record high of $4.20 per bushel during the first quarter (July-September) of 1974/75. The inability to rebuild world wheat stocks and continued strength in feed grain prices have helped to maintain strong farm wheat prices. Higher prices should result in another large planted acreage for 1975.

The major crop with the brightest supply prospects has got to be *rice*. A 6% increase in yields on top of nearly 17% more harvested acres will result in a record crop of 114.8 million cwt., up more than 24% from a year ago. Both domestic and foreign demands are expected to increase this year but not enough to keep stocks from building sharply. Exports may reach a record level of 61.2 million cwt., reflecting larger available supplies, continued strong import demand, and sizable U.S. commitments to PL-480 aid.

Outlook for a record 1974 crop and the slowdown in export sales caused farm prices to decline substantially from the record high in March of $17.30 per cwt. After declining to a low of $9.67 in August, the first month of the 1974/75 crop year, prices began to strengthen. This was mainly due to recent increases in export sales and general unwillingness among producers to sell rice at lower prices. Continued uncertainty about portions of the Asian rice crop and about the adequacy of world grain supplies have helped to underpin rice prices. However, prices in the 1974/75 season are expected to average well below last year's season average of $13.80 per cwt.

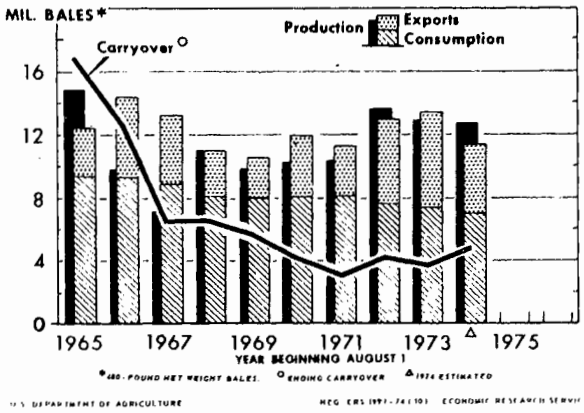
Soybean supplies in 1974/75 total 1.42 billion bushels, more than a tenth below the record supplies of last season. Smaller production accounts for the decline, as carryover stocks were up sharply. Total disappearance probably will drop under 1.4 billion bushels, some 7% below last year. Both domestic crushings and exports are expected to decline from the record levels of 1973/74. Carryover stocks next September will be drawn down to minimal levels of around 60 million bushels. Because of the tight supplies, soybean crushings will be down from last year's record level, possibly as much as 5 to 10%. Smaller supplies will limit the crush even though the demand for soybean oil will continue strong. Exports also are expected to be down, probably nearly a tenth from the record 542 million of last season.

Soybean farm prices during September-October averaged $7.75 per bushel, about $2 above the same period last year. They probably will rise seasonally into the spring. Prices in the second half of the season will be largely influenced by 1975 production prospects. Farmers are likely to be strong holders of soybeans since they have adequate storage facilities and know that in the past 2 years it has been profitable to store soybeans at harvest and sell later.

A much smaller production and extremely weak demand characterize the 1974/75 *cotton* situation. Adverse weather during planting and harvesting has reduced production prospects nearly a million bales from 1973's 13 million. Production, plus beginning stocks of 3.9 million bales, will result in a total supply of 15.9 million, compared with 17.2 million last season. However, domestic consumption and exports are expected to be down even more. General textile activity has fallen off sharply, reflecting slackening consumer demand because of higher prices around the world. Combined mill use and exports are expected to total 10¼ to 11¼ million bales this season, compared with 13.6 million during 1973/74. U.S. mills may consume about 6.3 to 6.8 million bales, down about a million

from last season, while exports may drop to 4 to 4½ million bales, a decline of nearly 2 million. Under these circumstances, stocks are expected to increase from 3.9 million bales this year and total around 5 million by next August.

COTTON PRODUCTION, USE, AND CARRYOVER



The 1974 *tobacco* crop is estimated to be almost 2 billion pounds, 13% larger than the 1973 crop. The gain reflects 8% more acreage and 4% higher yields. However, a 10% smaller carryover will reduce the 1974/75 marketing year supply more than 2%, to almost 5 billion pounds. The reduction in supply is the 10th consecutive annual decline and leaves the supply a little below manufacturers' and exporters' desired balance with utilization.

The supply of U.S. flue-cured tobacco is estimated at nearly 2.9 billion pounds, 1% less than last year. Although the 1974 crop is estimated at nearly 1.3 billion pounds, up 9%, the carryover dropped 8%. Total use is expected to equal or exceed last year's level and carryover next July 1 may be down slightly from the previous year.

The supply of U.S. burley tobacco may total 4% less than last year's. Currently, supply represents about 2.6 years' use, barely enough for trade requirements. The crop is 22% larger than 1973's but carryover is down sharply.

Total tobacco disappearance in 1974/75 may reach 2.1 billion pounds. Gains in U.S. cigarette production and strong foreign demand mean record levels of use of U.S. flue-cured. For the year ending next June U.S. cigarette output is expected to exceed the 652 billion cigarettes produced in fiscal year 1974.

Farmers started marketing the 1974 crop in mid-July, the earliest opening on record. Under the new grower designation program, farmers marketed 80% of the flue-cured crop by October 10. This season's prices surged to record levels, and by the end of October averaged 19% above a year earlier. Only 2% of the marketings were placed under government loan. Based on the formula required by law, 1975 price support levels seem likely to increase 12% over 1974.

Although supplies will be larger than a year ago, the picture for *processed vegetables* is not a balanced one. Tomato lines and frozen lines will gain, while the supply of other major canned vegetables will likely remain as tight as last year. Demand for processed vegetables in 1974/75 is expected to hold close to or fall slightly below last season's despite larger supplies. This is due to general economic sluggishness and greater supplies of other foods such as rice and dry beans.

Fresh market vegetable prices received by growers declined seasonally during August-September, but not as sharply as in 1973. With acreage for fall harvest off 8%, fall prices should show strength relative to a year ago. Affected most by the reduced acreage are Florida tomatoes and Western lettuce and carrots.

U.S. fall *potato* production is expected to be a record 287 million cwt., 13% above last year. All production areas are expected to show significant gains. Grower prices are expected to move lower even though the demand for processing is strong. The size of this crop will provide for only moderate advances in shipping point prices through spring. A larger *sweetpotato* crop up 7%, has lowered grower prices for fresh and processed use below 1973 levels.

Record yields have pushed U.S. *dry bean* production to 22 million cwt., 28% more than last year. This crop will easily meet domestic and export market needs. Grower prices strengthened in October after declining steadily from their March peak, but further selective declines are likely.

The 1974/75 *citrus* crop is expected to be record large, nearly 5% above last season. Dominating the citrus scene is a record large orange crop. Production is expected to reach a record 233.8 million boxes, up 8% from last season. Prospects are up in all producing areas except Texas which suffered a freeze last winter. Production in Florida at 174 million boxes is up 5%, California at 50 million boxes is up 23%, and Arizona production is up 25%. Production prospects for Texas are down 8%.

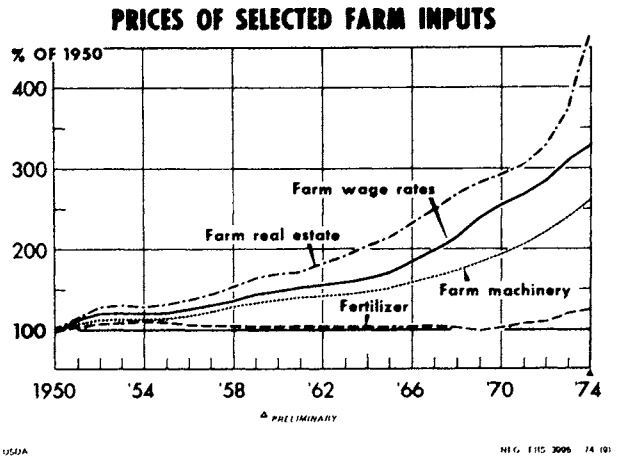
The forecast for grapefruit production is 58 million boxes, excluding California's summer grapefruit, down 8% from last season. Florida's crop is expected to total 45 million boxes, down 6%, while production of 2.8 million boxes in California's Desert Valley's is up 19%. Arizona crop prospects are 17% higher but the Texas crop will be down 27%.

The large orange crop, combined with expected large carryover stocks of processed items, mainly frozen concentrated orange juice, will exert downward pressure on orange prices which will average moderately below year-earlier levels. By winter, returns to grapefruit growers will likely advance above last year's low levels, assuming export prospects remain favorable.

The total 1974 *noncitrus* fruit crop is forecast at 10.9 million tons, about the same as last year. Harvest of

most crops is over and cold storage holdings of fresh fruits on October 1 were generally below year-earlier levels. Supplies of canned noncitrus fruit will be more adequate this season as a result of substantially larger packs. Data indicate that although carryover is down, the pack is up nearly 20%, resulting in a 14% increase in supplies.

Shipping point prices for fresh noncitrus fruit early this season were generally higher. Prices are now declining seasonally and will likely continue to do so throughout fall and early winter. For the first half of 1975, the index of prices received by growers for fresh and processed fruit is forecast slightly below 1974's level.



Farm Inputs

The fertilizer situation will remain very tight the remainder of this year and 1975. If crop prices remain at or above recent levels, the quantity of nitrogen and phosphate demanded will continue to exceed available supply. Nitrogen could be 8% short and phosphate 4% short of the quantity demanded at current fertilizer prices, although the phosphate situation is easing from last spring. Fertilizer use rose 9% in the year ending June 30, 1974 and a further, but more moderate gain is likely next year. This fall, prices will continue to rise and product rationing by some companies can be expected as they attempt to limit further price increases.

Although the availability of petroleum fuels for farming operations is expected to continue favorable, prices of petroleum products will remain high. The price of gasoline on September 17 was 36% above November 1,1973. For the same period the price of diesel fuel was up 52% and LP gas up 24%. However, these prices are expected to stabilize near current levels.

Demand for new machinery is expected to slacken reflecting an expected decline in 1974 net farm income, the high level of past sales of new machinery, and relatively high interest rates. Machinery is a durable good and the recent level of replacement of older machines could have a limiting effect on current demand. It appears that 1974 prices of new machines will average 10 to 15% over 1973 levels.

The pesticide supply situation during 1975 could deteriorate somewhat from 1974. Even though price controls have been removed and Middle East oil availability has improved, plant construction has been delayed because of uncertainty surrounding regulations, price controls, and feedstock and intermediate chemical product availability. Producers are still reluctant to expand because of these uncertainties. In addition, world demand continues to increase at a rapid rate, particularly in developing nations where relatively small amounts of these materials have been used in the past. Prices will most likely increase further in 1975. The amount of the increase will depend on wage rates, cost of intermediate products, and the strength of 1975 demand.

Demand for operating capital (short-term loan funds) is expected to remain strong through the first half of 1975 because of rising input prices and the expected "all-out" production efforts of grain producers. Real estate loan demand should also remain strong during this period. Supplies of loan funds will be available but at interest rates equal to or above current rates. Some livestock ranchers (feeder cattle producers) are expected to face financial problems in early 1975 when annual mortgage payments fall due, because of reduced cash flows from the sale of cattle.

Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1973	1973 IV	1974 I	1974 II	1974 III 1/
	- - - - - - - Billion dollars - - - - - - -				
Gross national product	1,294.9	1,344.0	1,358.8	1,383.8	1,411.6
Gross national product (1958 dollars)	839.2	845.7	830.5	827.1	821.1
Disposable personal income	903.7	939.4	950.6	966.5	990.8
Personal consumption expenditures	805.2	823.9	840.6	869.1	899.9
Durable	130.3	124.3	123.9	129.5	136.0
Nondurable	338.0	352.1	364.4	375.8	388.1
Services	336.9	347.4	352.4	363.8	375.9
Personal savings	74.4	89.3	84.4	71.5	64.6
Net government receipts	279.9	288.7	298.0	305.3	---
Government purchases	276.4	286.4	296.3	304.4	311.2
Federal	106.6	108.4	111.5	114.3	116.4
State and local	169.8	177.9	184.8	190.1	194.8
Deficit or surplus (on income and product accounts)	3.5	2.3	1.8	1.0	---
Gross private domestic investment	209.4	224.5	210.5	211.8	204.6
Fixed investment	194.0	195.5	193.6	198.3	198.8
Residential	57.2	53.6	48.4	48.8	46.3
Nonresidential	136.8	141.9	145.2	149.4	152.5
Change in business inventories	15.4	28.9	16.9	13.5	5.8
Gross retained earnings	136.5	140.1	138.3	133.8	---
Excess of investment	-72.9	-84.4	-72.2	-78.0	---
Net exports of goods and services	3.9	9.3	11.3	-1.5	-4.1
Per capita disposable personal income (1958 dollars)	2,945	2,952	2,887	2,850	2,837
Total civilian employment (millions) 2/	84.4	85.7	85.8	86.0	86.3

1/ Preliminary.
2/ U.S. Department of Labor.
U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The general economy continues to weaken in a difficult and uncertain readjustment from the expansion which began in 1970. The beginning of the readjustment process had been expected in late 1973 in the form of a mild slowdown but the oil embargo had dramatic effects upon the first quarter 1974 and, combined with the continuing impacts of the high rates of inflation, complicated the adjustment process.

On the surface, the performance of the economy through the third quarter of 1974 continued to suggest that a recession is underway. Real GNP declined for the third consecutive quarter, falling by 2.9% at an annual rate. This compares with declines of 7% and 1.6% in the first and second quarters, respectively.

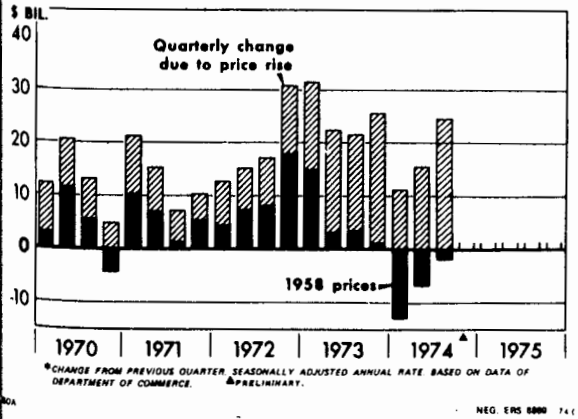
Major GNP components, change from previous quarter

Item	1974 I	1974 II	1974 III[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Total change in GNP	14.8	25.0	27.8
Consumption	16.7	28.5	30.8
Private nonresidential fixed investment	3.3	4.2	3.1
Housing	-5.2	.4	-2.5
Inventory[2]	-12.0	-3.4	-7.7
Net exports	2.0	-12.8	-2.6
Government	9.9	8.1	6.8

[1] Preliminary. [2] See footnote on following text table.

Although real disposable personal income continued to decrease in the third quarter and was 3.2% below a year earlier, real personal consumption expenditures showed a moderate increase. As a result the savings rate continued to decline to 6½%. Imports of goods and services exceeded exports by $4.1 billion, compared with a $1.5 billion deficit in the second quarter.

DISPOSABLE PERSONAL INCOME*



Nominal (current dollar) and real gross private domestic investment, reflecting a sharp drop in the rate of inventory investment, both showed a substantial decrease. Real business fixed investment edged downward after holding firm through the first half of 1974.

The decline in real GNP was accompanied by increases in the inflation and unemployment rates. The annual rate of inflation as measured by the GNP deflator was 11.5% in the third quarter. This was higher than the 9.4% rate in the second quarter and was close to the alarming 12.3% advance registered in the first quarter. The rate of unemployment increased to 5.5% of the labor force for the third quarter as a whole. In October, the unemployment rate continued to increase sharply, reaching 6%.

GNP and final sales, change from previous quarter

Year		GNP	Final sales	Inventory change[1]
		Billion dollars	*Billion dollars*	*Billion dollars*
1971:	I	36.0	33.3	2.8
	II	19.5	19.1	.2
	III	14.0	18.4	-4.3
	IV	21.9	20.3	1.6
1972:	I	31.8	32.2	-.4
	II	28.0	25.1	3.0
	III	26.3	24.0	2.2
	IV	35.4	34.6	.8
1973:	I	44.2	45.2	-1.0
	II	29.0	28.3	.7
	III	31.0	29.8	1.1
	IV	35.1	18.1	17.1
1974:	I	14.8	26.8	-12.0
	II	25.0	28.4	-3.4
	III[2]	27.8	35.5	-7.7

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the third quarter of 1974 ($5.8 billion) less the change in the second quarter of 1974 ($13.5 billion) equals minus ($7.7 billion). [2] Preliminary.

Economy Remains Weak

The remainder of 1974 will be a period of high inflation and slow growth, with unemployment continuing to move up rapidly. For all of 1974, inflation will average near 11% and real GNP will decline nearly 2%. Although disposable income will make some gains in the second half of the year, real per capita disposable income in 1974 will likely average around 4% below 1973.

For the first half of 1975 the outlook for output, employment, and income is gloomy. The weakening of business investment in the third quarter is particularly

distressing in terms of its implications for a recovery in 1975. It now appears that real investment will remain soft through most of the first half of 1975 and that real consumption will not increase much above current levels. Further declines in output levels and real GNP seem very likely. The unemployment rate will probably continue to rise and may approach 7%.

Barring such events as a prolonged coal strike or further oil embargoes, a gradual reduction of inflation rates from the current two-digit levels will likely occur, but inflation will remain at high levels compared to historical experience. Current indications suggest inflation rates around 8-9% for the first half of 1975. The inflationary developments in late 1974 and through the first half of 1975 will continue to reflect a shift from demand-pull inflation, fueled by demand in excess of available supplies, to a cost-push reflecting sharp rises in unit labor costs.

The key to weathering the current situation will likely be the perseverance in adhering to the fiscal and monetary restraint necessary to eventually slow inflation with a cautious awareness of the need for stimulation by mid-1975. Both fiscal and monetary policy will need to remain flexible in order to avoid a long and more severe downturn.

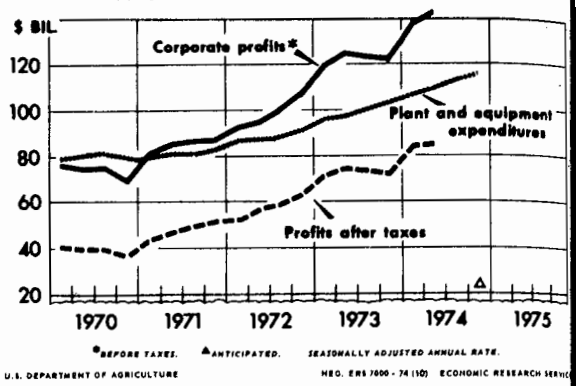
Fixed Investment Weakens

Nominal gross private domestic investment at an annual rate decreased from $211.8 billion in the second quarter to $204.6 billion in the third quarter. Real investment expenditures were down by $8.2 billion at an annual rate. The rate of real inventory investment apparently responded to the accumulation of excess inventories and fell by $5 billion to $3.2 billion at an annual rate.

Home mortgage interest rates continued at extremely high levels through the third quarter. Real investment in residential structures was down from the second quarter by $2.1 billion at an annual rate and was $9.3 billion below the level for 1973 as a whole. Although these figures suggest that if a housing shortage is to be avoided selective measures aimed at stimulating new housing construction may be in order, the historical performance of the construction industry provides a warning that alternative proposals should be carefully considered in terms of their inflationary potential.

Real business fixed investment, which remained strong during the first half of the year, fell by $1.2 billion at an annual rate in the third quarter. Weaker demand, high interest rates, and increasing production costs will continue to erode real expected returns on investment. Consequently, additional weakness in real business fixed investment is likely well into 1975. This development will contribute to further declines in general economic activity and will have negative implications for the long-term prospects of reducing inflationary pressures arising from shortages of essential goods and services.

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



Federal receipts and expenditures, national income basis[1]

Item	1973	1974	
	Second half	First half	Third quarter[2]
	Billion dollars	*Billion dollars*	*Billion dollars*
Receipts	265.0	284.8	[3]299.2
Personal tax	119.2	126.8	134.8
Corporate profits tax	43.6	49.0	[3]52.0
Indirect business tax	21.2	21.7	22.5
Social insurance	81.0	87.4	89.9
Expenditures	267.0	286.3	301.9
Goods and services	106.8	112.9	116.4
Transfer payments	97.6	110.0	120.7
Grants to State and local governments	40.4	43.0	42.2
Net interest paid	17.2	18.3	18.9
Subsidies less surplus	4.9	1.8	2.2
(-) Wage accruals	0	-.3	-1.5
Surplus or deficit	2.0	-1.4	[3]-2.7

[1] Calendar years, seasonally adjusted annual rates. [2] Preliminary. [3] Estimated.

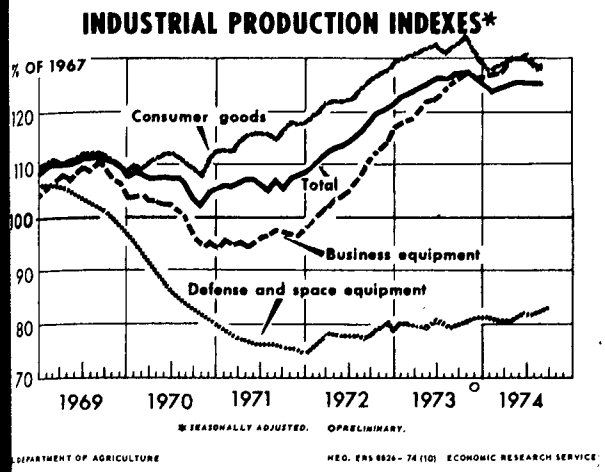
Production Down

Following a 1.9% increase in the second quarter industrial production fell 0.3% at an annual rate in the third quarter. Production was down in all groups except consumer nondurables, and the decline was led by the construction products and consumer durables groups. Production in these groups fell 8.6% and 7% respectively.

Slack demand was evidenced by a 2% decline in the rate of capacity utilization in major materials industries. Capacity utilization declined in every major material industry and, with the exception of paper and pulp, was below 90% in the third quarter.

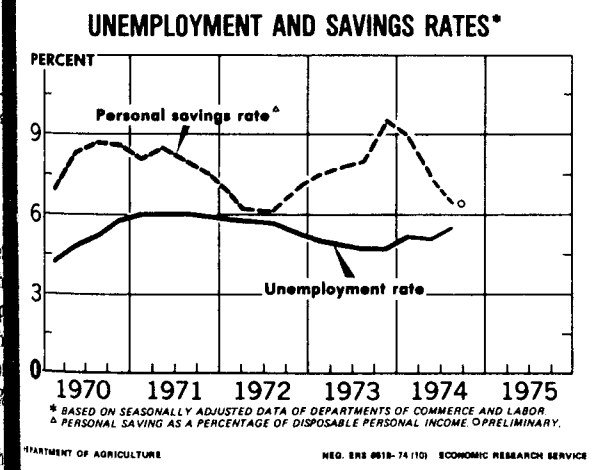
Unemployment Rate Accelerates

Despite a decline in real GNP in both of the first two quarters of 1974, the unemployment rate remained



able during that period. This was unprecendented in he postwar era and may be explained by the response of orkers and employers to the unique features of the urrent situation.

Inflation may have so eroded real average earnings hat some workers with a viable alternative to mployment, such as older workers with the option of rly retirement and teenagers with the options of aying home or remaining in school, remained outside f or left the labor force because of diminished centive. In addition, employers may have regarded the ll in real output as the result of temporary shortages as pposed to slack demand. Consequently, they avoided bor turnover costs and maintained employment levels espite decreases in output.

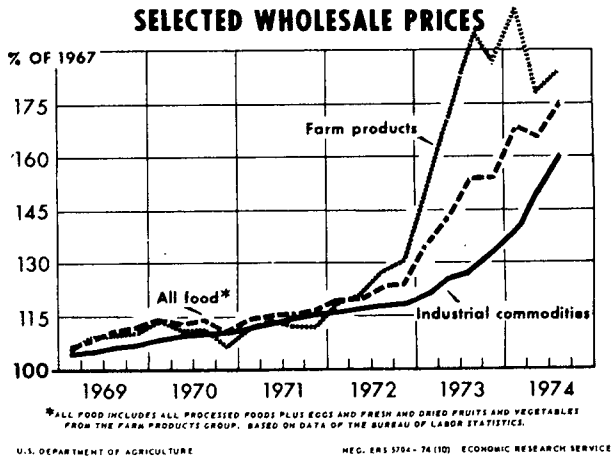


Recent labor force and employment data suggest that effect of these factors is weakening as the economic np continues. In September, the labor force increased m 91.1 million to 91.9 million and the mployment rate was up sharply to 5.8%. This was owed by an additional increase to 6% in October.

Since the number of workers that can be expected to leave or remain outside of the labor force is limited, deteriorating business expectations are likely to result in an increasing unemployment rate for the duration of the current downturn. This is more consistent with historical experience than the behavior of the unemployment rate in the first half of the year and may portend a fall in the rate of inflation during 1975.

Prices Leap

In the third quarter, the increase in wholesale prices as measured by the Wholesale Price Index was a galloping 7.1%. This compares with a 3.6% increase in the second quarter. The rise was largely a reflection of the 3.5% increase registered by the Wholesale Price Index in August. Much of the August increase was accounted for by a 6.2% increase in wholesale prices for farm products and processed foods and feeds.



Wholesale prices fell slightly in September. In that month, prices for farm products and processed foods and feeds declined 2.3%, more than offsetting a 0.8% increase in industrial commodity prices.

The rate of inflation at the retail level was also more rapid in the third quarter. The Consumer Price Index jumped 3.1%, compared with 3.0% in the second quarter. Retail prices for nonfood items continued to increase at a faster pace than did retail food prices.

The annual rate of inflation as measured by the change in the GNP deflator was 11.5% in the third quarter. This return to the two-digit level followed a 9.4% annual inflation rate in the second quarter.

The adjusted index of average hourly earnings of production workers on private nonagricultural payrolls increased 11.2% at a seasonally adjusted annual rate in September, and manufacturing wages increased at a 12.9% annual rate in that month. These figures, together with continuing sharp rises in consumer prices, suggest that cost-push pressure will continue to drive prices higher despite sagging demand. It now appears that the

Table 5.—Consumer Price Index (1967=100)

Year and month	All items index	Change from previous month annual rates	Change from year-ago	Food index	Change from previous month annual rates	Change from year-ago
	1967=100	*Percent*	*Percent*	*1967=100*	*Percent*	*Percent*
1973						
January	127.7	3.7	3.7	128.6	24.7	6.9
February	128.6	8.4	3.9	131.1	23.3	7.3
March	129.8	11.2	4.7	134.5	31.1	9.9
April	130.7	8.3	5.1	136.5	17.9	11.5
May	131.5	7.3	5.5	137.9	12.4	12.8
June	132.4	8.2	5.9	139.8	16.6	13.7
July	132.7	2.8	5.7	140.9	9.5	13.4
August	135.1	21.7	7.5	149.4	72.4	19.9
September	135.5	3.6	7.4	148.3	-8.9	18.8
October	136.6	9.7	7.9	148.4	.8	18.8
November	137.6	8.8	8.4	150.0	13.0	19.6
December	138.5	7.8	8.8	151.3	10.4	20.1
1974						
January	139.7	10.4	9.4	153.7	19.1	19.5
February	141.5	15.5	10.0	157.6	30.5	20.2
March	143.1	13.6	10.2	159.1	11.4	18.3
April	144.0	7.6	10.2	158.6	-3.7	16.2
May	145.6	13.3	10.7	159.7	8.3	15.8
June	147.1	12.4	11.1	160.3	4.6	14.7
July	148.3	9.8	11.8	160.5	1.4	13.9
August	150.2	15.4	11.2	162.8	17.2	9.0
September	151.9	13.6	12.1	165.0	16.2	11.3

inflation rate for 1974 will exceed 10.5% and that rates in excess of 8% are likely through the first half of 1975.

Purchasing Power Eroding

As inflation continued unabated in the third quarter, nominal disposable personal income rose to $990.8 billion at an annual rate and nominal personal consumption expenditures rose to $899.9 billion. Although real disposable personal income at an annual rate fell by $1.6 billion in the third quarter, real personal consumption expenditures were up by $4 billion at an annual rate for the same period. This was the second consecutive quarter in which a fall in real disposable personal income was accompanied by an increase in real consumption. Real consumption expenditures remain below 1973 levels, but it does appear that consumers have been attempting to maintain living standards despite declining purchasing power. As a result, the savings rate has declined from 9½% in late 1973 to 6½% by third quarter 1974.

The simultaneous increases in real personal consumption expenditures and decreases in real personal disposable income in the second and third quarters represent a deviation from the normal relationship between consumption and income which cannot be expected to continue. The fuel shortage of last winter caused strong pessimism among consumers. As a result, a marginal increase in real personal disposable income in the last quarter of 1973 was accompanied by a substantial decrease in real personal consumption expenditures, and excess savings were accumulated. Consumers were able to increase real expenditures in the second and third quarters of this year by cutting into those excess savings which are now depleted. Furthermore, while the burden of unemployment so far

Major personal income components, change from previous quarter

Item	1974		
	I	II	III[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	13.2	22.1	31.3
Wages and salaries	10.6	17.6	17.4
Manufacturing	.2	5.3	5.7
Nonmanufacturing	7.8	9.2	8.2
Government	2.5	3.1	3.6
Other income	-.3	-2.3	6.9
Transfer payments	6.1	7.6	7.9
Social insurance payments (minus)	3.0	.8	.9
Personal tax payments	2.0	6.3	6.9
Disposable personal income	11.2	15.9	24.3
Personal outlays	16.1	28.7	31.3
Personal savings	-4.9	-12.9	-6.9

[1] Preliminary.

has fallen primarily on new entrants to the labor force who have been unable to find jobs, the coming months will bring additional layoffs of currently employed workers. In view of these considerations, further declines in real income are likely to induce decreases in real consumption expenditures and reduce inflationary pressure.

Monetary Policy Firm

It appears that the Federal Reserve Board is holding to its announced target of a 6% rate of growth in the money stock. The money stock grew by 5.9% from September 1973 to September 1974.

A 6% annual growth rate in the money stock represents only a modest decrease from the 7% average annual growth rate from the first quarter of 1970 to the second quarter of 1973. With inflation continuing at two-digit levels, a relaxation of monetary policy at this time is unlikely. However, a continual monitoring of the current policy is necessary if a substantial improvement in the rate of inflation and the beginning of a stable recovery are to occur by late 1975.

LIST OF TABLES

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