DPS-138

NOVEMBER 1973

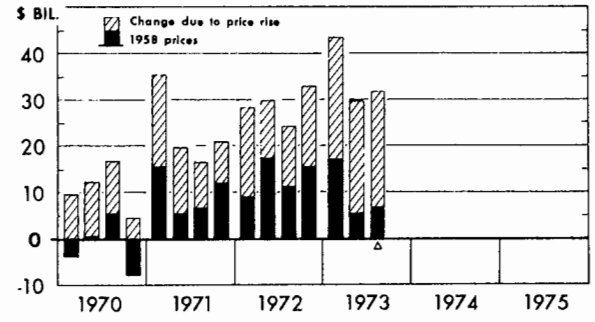
DEMAND AND PRICE Situation

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

GROSS NATIONAL PRODUCT

Change from Previous Quarter



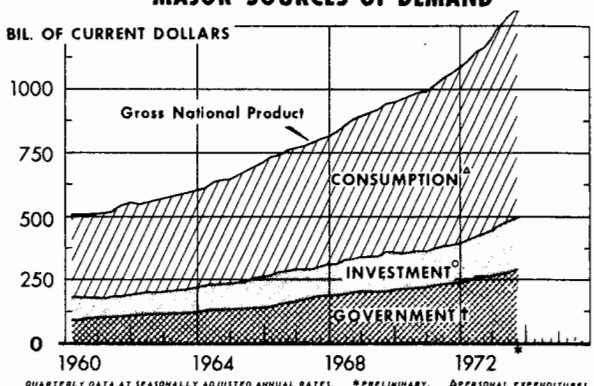
SEASONALLY ADJUSTED ANNUAL RATE BASED ON DATA OF DEPARTMENT OF COMMERCE

△ THIRD QUARTER PRELIMINARY

U.S. DEPARTMENT OF AGRICULTURE

NEG ERS 6998-73(11) ECONOMIC RESEARCH SERVICE

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.

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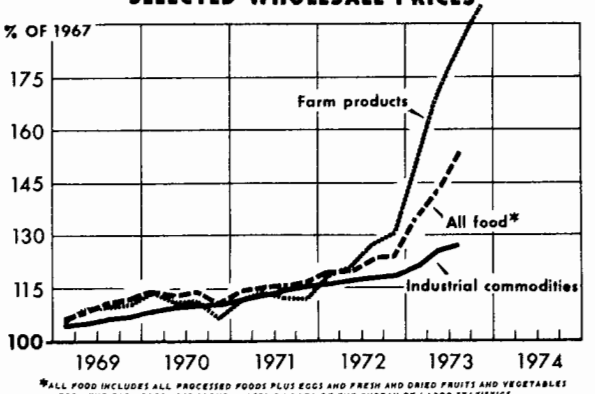
NEG ERS 1492-73(11) ECONOMIC RESEARCH SERVICE

SELECTED WHOLESALE PRICES

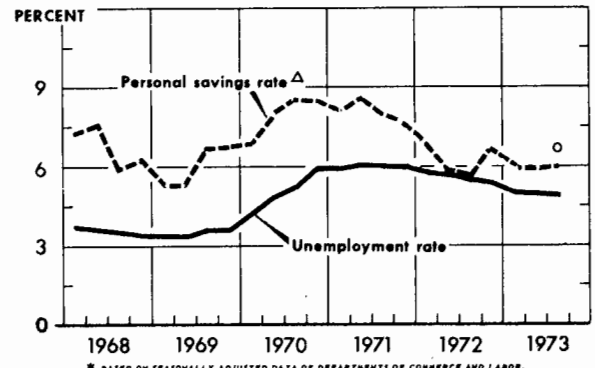


*ALL FOOD INCLUDES ALL PROCESSED FOODS PLUS EGGS AND FRESH AND DRIED FRUITS AND VEGETABLES FROM THE FARM PRODUCTS GROUP. BASED ON DATA OF THE BUREAU OF LABOR STATISTICS.

U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5704-73(6) ECONOMIC RESEARCH SERVICE

UNEMPLOYMENT AND SAVINGS RATES*



* BASED ON SEASONALLY ADJUSTED DATA OF DEPARTMENTS OF COMMERCE AND LABOR.
△ PERSONAL SAVING AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME. ° PRELIMINARY.

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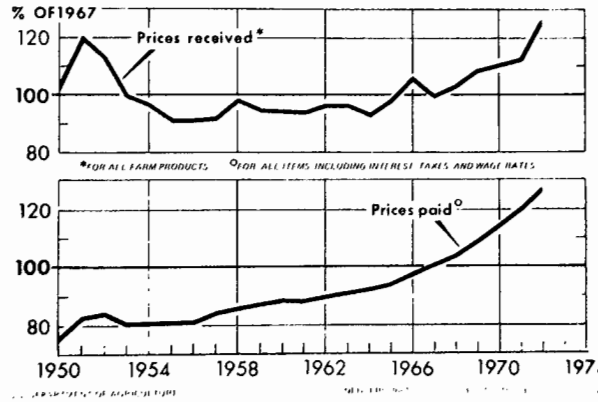
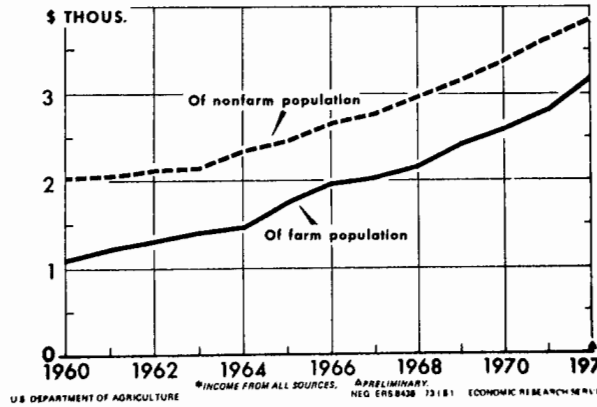
NEG. ERS 8518-73(11) ECONOMIC RESEARCH SERVICE

FARMERS' PRICES, 1950-72



DISPOSABLE PERSONAL INCOME PER CAPITA*



*INCOME FROM ALL SOURCES. △PRELIMINARY.

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NEG. ERS 8438-73(8) ECONOMIC RESEARCH SERVICE

THE DEMAND AND PRICE SITUATION

CONTENTS

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Approved by
Outlook and Situation Board
and Summary released
November 9, 1973

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The *Demand and Price Situation* is published in February, May, August, and November.

SUMMARY

Record farm income, sharply higher farm and food prices, and continuing tight supplies have brought the farmer to the forefront of the U.S. economy. Strong domestic demand coupled with reduced world agricultural production have boosted demand for U.S. agricultural output worldwide and pushed net farm income for 1973 to a record high $25 billion, $5 billion above 1972.

Prices received for all farm products this year will likely average about 36% above 1972 with crop prices up around 40% and livestock prices up a third. With increased crop marketings offsetting lower livestock marketings, cash receipts will probably rise nearly 35% to $82 billion. Livestock and product receipts may be up almost $10 billion with crop receipts increasing by $11 billion. Although Government payments are down almost $1½ billion, gross farm income will likely increase by around $20 billion. However, inflation and raw material shortages will not leave the farmer untouched as production expenses in 1973 will likely increase $14 billion, up 35% over 1972.

The outlook for 1974 reflects some of the uncertainties of the past year. The uncertainties include such transitory factors as weather, input shortages, foreign production, rates of inflation, international stability of the dollar, and slower economic growth domestically.

The first half of 1974 will see continued tight supply-demand conditions for most crops and livestock products, so farm prices and income are likely to remain strong. In the last half of 1974 the sharply increased U.S. crop output in prospect will face a level of worldwide demand which may be governed by some of the same transitory factors which appeared in 1973. Although the net impact of these factors remains uncertain, farm income in 1974 will probably be higher than for any year except 1973.

The 1971-73 expansion in the U.S. economy has slowed. The total value of goods and services (GNP) made sizable annual rate gains of 15.2%, 9.9%, and 10%, respectively, in the first three quarters of 1973. Real GNP registered an unsustainable 8.7% annual rate of growth in the first quarter, only 2.4% in the second, and 3.6% in the third quarter. The rate of inflation slowed somewhat to 6.7% in the third

quarter after rising from 6.1% in the first to 7.3% in the second.

For 1973 as a whole, GNP will likely rise 11-12% with real growth and rising prices each accounting for about half the increase. It seems unlikely that the rate of inflation can be kept below 5%. Within this environment, consumer sentiment has reached new lows and businessmen may be having some second thoughts about plant and equipment expansion plans. The improving trade balance, the nearly balanced Federal budget, and reduced unemployment are the bright spots for 1973.

With the Administration committed to a balanced budget and with increasing pressure for the elimination of price and wage regulations, the Federal Reserve inherits the basic task of slowing inflation and stabilizing the dollar without precipitating a recession. The Federal Reserve and its adjustment of money supply aggregates will hold the key to the 1974 outlook.

The bulge in food prices, which many economists expected to occur after the beef price ceilings were lifted on September 10, failed to materialize as slightly increased livestock marketings faced uncertain and cautious consumers. As a result, consumer prices for food at home for 1973 may average 15 to 17% above 1972. This is down from our previous forecast of 18 to 22% for 1973.

U.S. agricultural exports in the current fiscal year (ending June 30, 1974) are expected to total $19 billion, sharply above the previous record of $12.9 billion in 1972/73. Most of the increase will stem from higher prices, especially for wheat, feed grains, rice, soybeans, soybean meal, cotton, and some horticultural products. The volume of exports is expected to exceed last year's record of 92 million metric tons by about 2 million tons. Value of shipments in July-September doubled the year-earlier rate.

Sharply higher prices and selected volume gains are expected to raise U.S. agricultural imports to a record $8.9 billion, well above the $7.3 billion record of 1972/73. Price increases will account for perhaps three-fourths of the gain.

Agriculture's contribution to the U.S. trade balance will thus be at an all time high of around $10 billion, nearly double last year's $5.6 billion. This substantially increased contribution could return the United States to a favorable overall trade balance in 1973/74 from the $3.5 billion deficit of a year earlier.

. . . .Outlook for major farm commodities

. . . .*Hog* slaughter continues below year-earlier levels. Hog prices are expected to decline slightly from recent levels this fall but average well above year-earlier levels next winter and spring.

. . . .*Fed cattle* marketings this fall are expected to be slightly below the same period a year ago. Continued consumer resistance to high meat prices may keep prices from rising this fall, but winter marketings are likely to drop and prices to strengthen.

. . . .*Broiler* production this fall will come closer to 1973 levels. Prices will decline seasonally in the fall but remain well above year-earlier levels.

. . . .*Turkey* output for fall is near year-earlier levels. Although prices have recently come down a little, they will remain well above last year's prices through the remainder of 1973.

. . . .*Egg* production has lagged as a result of high feed costs and declining profitability. Egg prices will strengthen during the balance of 1973 and remain well above year-earlier levels.

. . . .*Milk* production has declined moderately this year. Cash receipts from dairying will be up this year due to sharply higher prices. Sharply increased feed costs are reducing output per cow and together with strong slaughter cow prices, are encouraging a sharper decline than usual in milk cow numbers.

. . . .Record *feed grain* production fails to offset reduced carryin stocks, so supplies for 1973/74 are 2% below a year earlier. Prices are expected to average well above last year.

. . . .*Wheat* supplies in 1973/74 will be smallest since 1968 as a record crop failed to offset sharply reduced stocks. High prices reflect the tight supply situation.

. . . .*Soybean* supplies for 1973/74 are up a fifth, exceeding projected use. Prices, however, will average near the $4.75 per bushel estimated for last year.

. . . .*Upland cotton* supplies remain tight and demand strong. Total supply will slightly exceed last year's 16.8 million bales. Total use will exceed production.

. . . .*Tobacco* supplies are smaller despite a slightly larger crop. The drop leaves supply is about in balance with demand.

. . . .Both *canned* and *frozen vegetables* supplies are slightly above a year ago, but prices of processed vegetables are likely to rise more in the new season than in the one just past.

. . . .*Citrus fruit* supplies for 1973/74 are expected to fall slightly below the records of a year earlier. Non-citrus fruit production is up nearly a fourth, led by substantially increased grape production.

Table 1.--Selected measures of economic activity

Item	Unit	Year 1972	1972 I	1972 II	1972 III	1972 IV	1973 I	1973 II	1973 III 1/
Gross national product	Bil. dol.	1,155.2	1,112.5	1,142.4	1,166.5	1,199.2	1,242.5	1,272.0	1,304.0
Disposable personal income	Bil. dol.	797.0	772.8	785.4	800.9	828.7	851.5	869.7	890.9
Personal consumption expenditures	Bil. dol.	726.5	700.2	719.2	734.1	752.6	779.4	795.6	813.4
Food spending (excluding alcoholic beverages)	Bil. dol.	125.0	121.2	124.5	126.1	128.3	133.0	136.0	141.6
Implicit price deflator for GNP	1958=100	146.1	144.8	145.4	146.4	147.6	149.8	152.5	154.9
Unemployment rate 2/	Percent	5.6	5.8	5.7	5.6	5.3	5.0	4.9	4.8
Cash receipts from farm marketings	Bil. dol.	60.7	57.8	59.8	60.5	64.6	72.4	75.5	84.5
Nonmoney income and Government payments	Bil. dol.	8.2	8.0	8.3	8.2	8.2	7.4	7.0	6.9
Realized gross farm income	Bil. dol.	68.9	65.8	68.1	68.7	72.8	79.8	82.5	91.4
Farm production expenses	Bil. dol.	49.2	47.0	48.8	49.4	51.5	55.8	58.0	65.9
Farmers' realized net farm income	Bil. dol.	19.7	18.8	19.3	19.3	21.3	24.0	24.5	25.5
Agricultural exports 3/	Bil. dol.	9.4	2.2	2.1	2.1	3.1	3.7	4.0	4.1
Agricultural imports 3/	Bil. dol.	6.5	1.7	1.5	1.6	1.7	1.9	2.1	2.0
Volume of farm marketings	1967=100	112	100	87	110	150	101	83	106
Livestock and products	do.	109	105	112	107	112	101	102	98
Crops	do.	116	93	55	114	201	101	59	116
Prices received by farmers 4/	do.	126	121	123	128	133	151	164	190
Livestock and products	do.	134	129	129	136	141	163	170	198
Crops	do.	115	110	114	116	121	135	156	181
Prices paid by farmers 4/ 5/	do.	127	123	125	127	130	136	143	149
Wholesale price index, all commodities 4/	do.	119.1	117.0	118.2	119.9	121.2	127.0	133.6	139.3
Consumer price index, all items 4/	do.	125.3	123.7	124.7	125.8	126.9	128.7	131.5	134.4
All food	do.	123.5	121.6	122.6	124.5	125.4	131.4	138.1	146.2
Food at home	do.	121.6	119.8	120.5	122.6	123.4	130.5	138.0	147.1

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.

AGRICULTURAL SITUATION

Strong foreign and domestic demand, tight supplies, and soaring farm production expenses highlight the agricultural situation for 1973. With exports in the July-September quarter at record levels and anticipated carryover stocks sharply reduced, crop prices have soared and for the year will average around 40% above 1972. Livestock prices will average 35% above last year reflecting increased consumer demand, reduced supplies, and disruptions in the flow of livestock marketings.

With increased crop marketings just offsetting a decline in the volume of livestock products marketed, cash receipts from marketings will be around $82 billion, 35% above 1972 levels. With production expenses likely to increase by 29% to $14 billion and Government payments down almost $1½ billion, realized net farm income will still be about $25 billion, a 27% increase over 1972.

While crop production is expected to expand next year in response to sharply higher prices and strong export markets, livestock marketings should reflect the continuing buildup in inventories of cattle. At present it appears that farm prices will remain firm at least until midyear when the full impact of expanded production encounters such uncertainties as weather, foreign demand, input shortages, and a cooling domestic economy.

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

Month	All crops	Livestock and products
	Percent	*Percent*
January 1972	6.7	15.5
February	4.8	11.0
March	-.9	12.2
April	2.8	10.5
May	4.6	14.0
June	3.6	16.8
July	6.5	19.3
August	11.4	15.4
September	14.7	17.9
October	12.5	17.8
November	11.1	16.0
December	16.5	18.9
January 1973	18.0	20.5
February	20.9	22.9
March	29.6	34.9
April	27.7	33.3
May	35.1	30.0
June	46.6	31.1
July	42.6	31.6
August	66.7	60.7
September	56.4	43.5
October	55.6	34.5

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

Domestic Demand Firm

Increasing employment, higher wages, and longer workweeks have continued to push up personal income and domestic demand at a rapid pace. Disposable personal income in the third quarter was 11% above a year ago and for 1973 will average around 10% above 1972. Sharply higher consumer prices and limited supplies have dampened the impetus to increase consumption. Consumer purchases of food, alcoholic beverages, clothing, shoes, and tobacco continued strong in the third quarter at a $248 billion seasonally adjusted annual rate, up 3% from the second quarter.

Consumer outlays for food are currently at a $141.6 billion annual rate, up 12% from a year earlier. Third quarter expenditures were 4% above the second quarter with price increases more than offsetting the nearly 1% decline in quantity purchased. With the decline in quantity consumed only partly offsetting the price increases, total food expenditures will likely rise by over 12% this year over 1972.

Per capita food consumption for 1973 will likely be down about 1½%. Increased per capita consumption of crop-related foods, largely fruits and processed vegetables, partly offset the 3% decline in per capita consumption of livestock products and fish. Red meat consumption fell nearly 6%.

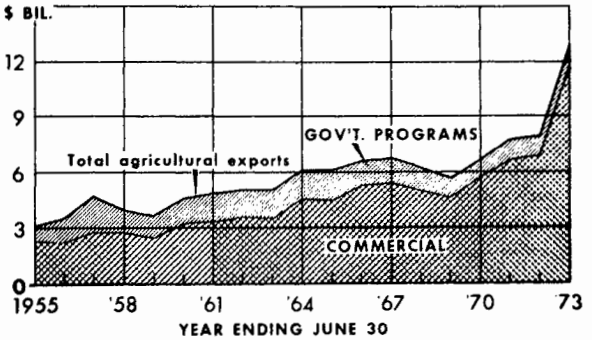
Prices of all food at retail increased nearly 6% in the third quarter to average 17% over a year ago. Food at home was up 6.6% over second quarter and 20% above a year earlier. While prices of crop products showed increases of around 2%, prices of livestock products soared 10% above second quarter levels. Meat prices rose by nearly 11% and poultry and egg prices increased around 25%. The rate of increase in food prices is slowing dramatically in the fourth quarter as increased livestock marketings begin to reach the consumer.

Farm Exports Continue at Record Pace

U.S. agricultural exports in the current fiscal year (ending June 30, 1974) are expected to total $19 billion, sharply above the previous record of $12.9 billion in 1972/73. Most of the increase will stem from higher prices, especially for wheat, feed grains, rice, soybeans, soybean meal, cotton, and some horticultural products. The volume of exports is expected to exceed last year's record of 92 million metric tons by about 2 million tons.

Grain and feed exports are expected to reach about $10 billion, over half of the total value of agricultural exports. Nearly all of the increase in the value of grain exports can be attributed to higher prices. Volume of wheat exported is estimated to be slightly

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



U.S. DEPARTMENT OF AGRICULTURE

below last year's record levels while feed grain shipments will be up about 6 percent. Exports of oilseeds and products will reach $4.5 billion, nearly a quarter of the total value of agricultural exports. High prices will account for most of the gain in value with volumes near last year's levels. Cotton exports during the current fiscal year are expected to be over a million bales larger than the 4.7 million bales a year earlier. Livestock and meat product exports, the fourth largest money earner among agricultural exports, should remain at about the $1.2 billion level attained last year. Exports of fruits and vegetables should expand sharply, with a value approaching $1 billion. Dairy exports are expected to again decline sharply.

U.S. agricultural exports, value of major commodities

Commodity	July-September 1972	July-September 1973[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	252	337	34
Cotton	42	160	281
Feed grains, excluding products	445	1,111	150
Fruits	121	141	17
Soybeans	231	256	11
Tobacco, unmanufactured	142	162	14
Vegetables	47	79	68
Wheat and flour	357	1,239	247
Rice	91	93	2
Other	341	558	64
Total exports	2,069	4,136	100

[1] Preliminary.

U.S. agricultural exports during July-September totaled a record high of $4.14 billion—double the year earlier rate. About one third of the $2 billion increase during July-September stemmed from larger volume. The balance came from higher prices especially for wheat, feed grains, soybeans, soybean meal, some fruits and vegetables.

U.S. Agricultural Imports to Increase

Sharply higher prices and selected volume gains are expected to raise U.S. agricultural imports to a record $8.9 billion, well above the $7.3 billion record of 1972/73. Price increases will account for perhaps three-fourths of the gain. Farm product imports which compete directly or indirectly with domestic items may reach about $5.8 billion, up from the $4.7 billion a year earlier. Part of the increase in competitive commodities is expected to result from volume gains, principally dairy products, meat, fruits, vegetables, wines, and tobacco. However, much will be attributable to price effects. For noncompetitive items—largely tropical products—price increases will account for nearly all of the anticipated increase to $3.1 billion, up from 1972/73's $2.6 billion.

U.S. agricultural imports, value of major commodities

Commodity	July-September 1972	July-September 1973[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	474	659	39
Fruits	34	41	21
Oilseeds and oil products	49	72	47
Sugar and molasses	247	286	16
Tobacco, unmanufactured	38	38	0
Vegetables	49	55	12
Wines and malt beverages	61	86	41
Other	90	111	23
Total	1,042	1,348	29
Complementary			
Bananas	46	42	-9
Cocoa and chocolate	12	15	25
Coffee	341	363	6
Rubber	42	99	136
Other	99	126	27
Total	540	645	19
Total imports	1,582	1,933	26

[1] Preliminary.

U.S. imports of agricultural products during July-September 1973 totaled nearly $2 billion, a 26% increase over the same quarter last year. Higher prices and larger quantities contributed to this sharp rise. Competitive farm product imports were valued at $1.35 billion, nearly one-third above a year earlier. Cattle, beef, pork, dairy products, eggs, fruits and vegetables, sugar, and wine accounted for most of the

gain in competitive imports. Noncompetitive agricultural inflows were up 19% in value, largely because of price increases.

Trade Balance Improves

Agriculture's contribution to the U.S. trade balance in 1973/74 will be at an all time high of around $10 billion, nearly double last year's $5.6 billion. This substantially increased contribution could return the United States to a favorable overall trade balance in 1973/74 from the $3.5 billion deficit of a year earlier. In the July-September period the agricultural trade balance was $2.1 billion, up $1.7 billion from the same period a year ago.

U.S. agricultural trade balance July-September 1972 and 1973

Item	1972	1973	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	2,069	4,136	100
Imports	1,582	1,993	26
Trade balance	487	2,143	340

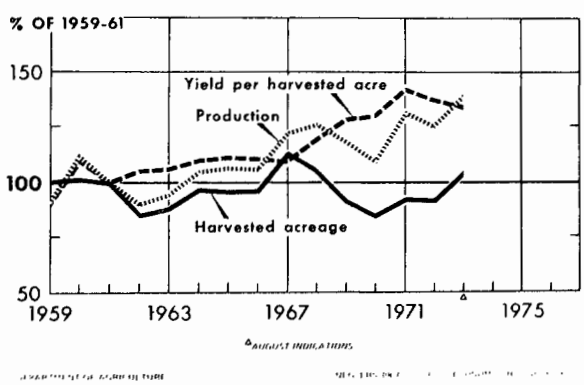
[1] Preliminary.

Record Crops and Tight Supplies

Despite record feed grain and wheat crops, supplies remain below last year's levels. With exports continuing at a near record pace, no rebuilding of feed grain and wheat stocks can occur in 1973/74.

Domestic production of feed grains in 1973 is a record 208 million short tons, according to November 1 indications. However, with reduced carryin stocks, feed grain supplies for the 1973/74 marketing year are about 2% smaller than in 1972/73. With continued heavy domestic and foreign demand for feed grains, prices have been strong through the early part of the harvest although below midsummer peaks.

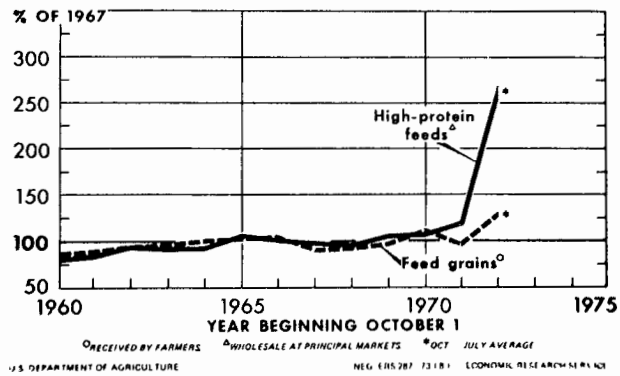
WHEAT ACREAGE, YIELD, AND PRODUCTION



Domestic use of feed grains is estimated at 172 million tons, slightly above use in 1972/73. Feed grain exports are estimated at 40 million tons, down from 43 million tons in 1972/73. Domestic and foreign usage of feed grains at these levels would reduce carryover stocks next fall to around 30 million tons, below the relatively low carryover of 32 million tons this year. Feed grain prices in 1973/74 are expected to average well above 1972/73.

The 1973 corn crop was estimated at a record 5.8 billion bushels as of October 1, 4% larger than the 1972 crop. However, with a smaller carryin the supply for the 1973/74 marketing year is 6.5 billion bushels, about 3% less than in 1972/73.

FEED GRAIN AND HIGH-PROTEIN FEED PRICES



Domestic disappearance of corn in 1973/74 is projected at 4.7 billion bushels, slightly above use in 1972/73. Although grain consuming animal units will increase about 2½%, lower feeding rates will result in little change in domestic feeding. Carryover stocks are expected to be around 650 million bushels next October 1, compared to 707 million, this October.

Wheat supplies in 1973/74 total 2.2 billion bushels, about 10% below a year ago and the smallest since 1968. The record 1973 crop of 1.7 billion bushels failed to offset sharply reduced stocks. Demand is continuing strong during 1973/74. Exports are especially strong with the major limiting factor apparently being supplies. The current export estimate of 1,150 million bushels is only fractionally below last year's record.

High wheat prices have cut wheat feeding. July-September feeding slipped substantially from last year's 170 million bushels and for the year, feeding may total less than 150 million bushels. With demand in 1973/74 likely to exceed the crop, stocks will tumble to around 250 million bushels by the summer of 1974, the lowest since 1948. Although prices are below peak levels, recent price movements have reflected the current tight supply situation. Prices for the year could average almost triple the $1.25 loan rate.

Stocks of grains

Grain and position	October 1, 1972	October 1, 1973	Percentage change 1973/72
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	41	29	-29
Off farms[2]	21	17	-20
Total	61	46	-26
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	725	636	-12
Off farms[2]	1,141	839	-26
Total	1,866	1,475	-21
SOYBEANS[3]			
On farms[1]	12	10	-19
Off farms[2]	60	50	-17
Total	72	60	-17

[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.

Despite losses in September due to tropical storm Delia, the 1973 rice crop as of October 1 was estimated at 95.5 million cwt., 12% larger than a year ago. The larger crop will more than offset the smallest stocks since 1962, and supplies this year will increase 5%. Total demand is expected to continue strong and prevent any stock buildup. The tightest world supply situation in years will buoy exports while high prices of other foods encourage increased domestic consumption of rice. Farm rice prices, currently at record levels, may moderate as the harvest progresses, but any sharp drop is unlikely unless the Asian harvest this winter is larger than expected.

Soybean supplies for 1973/74 total a record 1.65 billion bushels, more than a fifth above the previous year. Larger production accounts for the increase, as carryin stocks were down.

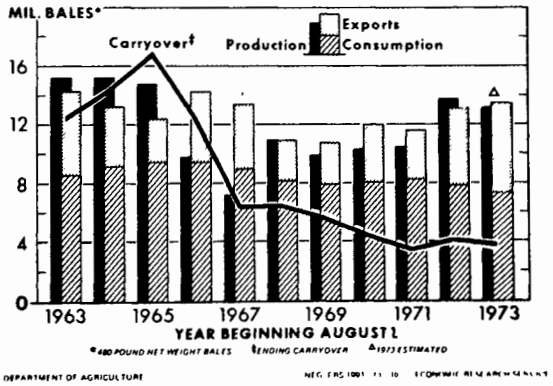
Both crushings and exports are expected to expand, boosting total use about 100 million bushels above the record 1.3 billion of 1972/73. Since usage will not match output, carryover stocks next September will increase sharply—possibly to around 240 million bushels or about 4 times the extremely low 60 million of September 1, 1973.

Increased domestic demand for soybean oil and strong worldwide demand for beans are factors behind the expected increase in usage. Domestic crushings are expected to increase to around 775 million bushels, compared with 722 million last season. Exports for the crop year are expected to expand from 480 million bushels to about 550 million.

Soybean farm prices are expected to continue strong and likely will average near the $4.75 per bushel now estimated for 1972/73. Prices probably have already peaked, reflecting the small carryover and early season tightness in availabilities.

The 1973/74 upland cotton outlook is highlighted by continuing strong demand and tight supplies. Larger beginning stocks only slightly more than offset the smaller indicated 1973 crop, so the total supply will marginally exceed last season's 16.8 million bales. As of October 1, the 1973 crop was estimated at 13 million bales, down from 13.6 million last year. With strong foreign demand for U.S. cotton, prospective disappearance will probably top 1973 production. Thus, the carryover next summer may total about 3.8 million bales, down from 4 million on August 1, 1973, but moderately above the August 1972 level.

COTTON PRODUCTION, USE, AND CARRYOVER



The October 1 estimate is for a tobacco crop of about 1.78 billion pounds (U.S. including Puerto Rico), up 1½% from 1972. This results from 5% larger acreage and a 3½% lower yield forecast. Carryover of tobacco at the start of the 1973/74 marketing year (July 1 for flue-cured and cigar wrapper types, October 1 for all others) was down about 6%. The slightly larger crop will not offset the reduced carryover and supplies will be about 3½% below 1972/73. This drop, the ninth straight annual decline, leaves the supply at 5.1 billion pounds. Disappearance in 1973/74 may total near the 1.96 billion pounds of the marketing year now ending. Increasing U.S. cigarette production and persistent demand for high value tobacco in foreign markets are helping to sustain U.S. flue-cured use. With lower tobacco supplies worldwide and general price inflation, U.S. leaf exports this fiscal year may stay near last season's 570 million pounds (629 million, farm-sales weight).

As fall began, fresh vegetable prices were running slightly lower than in 1972. Onion and salad vegetable supplies are more plentiful than earlier this

Table 2.--Supply-distribution and season average prices of selected major crops, 1970/71, 1971/72, 1972/73, and 1973/74

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1970/71	Mil. tons	48.6	0.4	160.1	209.1	155.2	20.7	175.9	33.2	2/1.33
1971/72	Mil. tons	33.2	.5	207.7	241.4	165.7	27.3	193.0	48.4	2/1.08
1972/73p	Mil. tons	48.4	.4	199.8	248.6	173.1	43.1	216.2	32.4	2/1.60
1973/74e	Mil. tons	32.4	.4	207.7	240.5	171.8	39.7	211.5	29.0	
Wheat										
1970/71	Mil. bu.	884.9	1.1	1,351.6	2,237.6	768.6	737.5	1,506.1	731.5	1.33
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
1972/73p	Mil. bu.	863.1	1.3	1,544.8	2,409.2	795.4	1,184.2	1,979.6	429.6	1.80
1973/74e	Mil. bu.	429.6	1.0	1,726.8	2,157.4	755	1,150	1,905	253	
Rice										
1970/71	Mil. cwt.	16.4	1.5	83.8	101.7	3/36.6	46.5	83.1	18.6	5.17
1971/72	Mil. cwt.	18.6	1.1	85.8	105.5	3/37.2	56.9	94.1	11.4	5.34
1972/73p	Mil. cwt.	11.4	.5	85.2	97.1	3/38.0	54.0	92.0	5.1	6.73
1973/74e	Mil. cwt.	5.1	.5	95.5	101.1	37.6	58.1	95.7	5.4	
Soybeans										
1970/71	Mil. bu.	229.8	0	1,127.1	1,356.9	824.3	433.8	1,258.1	98.8	2.85
1971/72	Mil. bu.	98.8	0	1,176.0	1,274.8	786.0	416.8	1,202.8	72.0	3.03
1972/73p	Mil. bu.	72.0	0	1,282.9	1,354.9	814.9	480.2	1,295.1	59.8	4.75
1973/74e	Mil. bu.	59.8	0	1,574.6	1,634.4					
Cotton 4/										
1970/71	5/ Mil. bales	5.8	6/.1	10.3	16.2	8.1	3.9	11.9	4.3	21.98
1971/72	5/ Mil. bales	4.3	6/.1	10.4	14.8	8.2	3.4	11.6	3.3	28.23
1972/73p	5/ Mil. bales	3.3	6/ 7/.1	13.7	17.0	7.8	5.3	13.1	4.1	8/26.7
1973/74e	5/ Mil. bales	4.1	6/.1	13.2	17.3	7.4	6.0	13.4	3.9	

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Price for corn. 3/ Includes the following statistical discrepancies: 1970/71, 2.2, 1971/72, 1.8 and 1972/73, 2.2 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, 1973, with no allowance for unredeemed loans.

1972/73 based on recent crop reports and disappearance estimates. Details may not add to totals due to rounding. p. Preliminary. e. Estimated.

year. Nevertheless, continued strong demand will keep vegetable prices on the high side. Summer vegetable supplies probably totaled slightly larger than in 1972 and fall production of 14 major fresh vegetables is projected to be 6% above last year.

Processed vegetable supplies for 1973/74 will be up slightly. Supplies of canned snap beans, beets, sauerkraut, spinach, and tomatoes will be larger in 1973/74 than the season just ended and supplies of 7 major frozen vegetables, excluding potatoes, will increase. But because the Phase IV regulations allow liberalized cost pass-throughs, prices of processed vegetables are likely to rise more in the new season than in the one just past. Price restrictions in late 1972 and much of 1973 tended to hold down the rate of price rise for many processed vegetables while prices of many other fresh food items were rising sharply.

U.S. fall potato production is expected to be 2% larger than the small 1972 harvest. Grower prices this year have been sharply above previous years, and may remain above 1972 levels for several months. Processors, especially dehydrated and frozen products manufacturers, are facing eager markets for their products.

Dry bean production is a tenth below last year, largely as a result of the expected 21% falloff in Michigan's crop. Thus, supplies are not adequate to fully satisfy domestic and external markets, except at the recent unprecedented high price levels.

A relatively large citrus crop for the 1973/74 season is following the record production of last season. Non-citrus fruit production is up sharply from last year's low level. Nevertheless, fresh fruit prices have been generally higher than a year ago, reflecting strong domestic and foreign demand. Average prices are likely to remain above year-earlier levels at least until midwinter.

Citrus fruit production for the 1973/74 season is expected to be slightly below the record quantities available in 1972/73. October 1 prospects are for a crop (excluding California's Valencia oranges, lemons, and "other" grapefruit) 2% below last season.

Production of non-citrus fruit during 1973 is estimated nearly a fourth larger than last season, but 2% less than 1971. Much of this reflects a grape crop nearly 50% above the short 1972 season. The short 1973 non-citrus output, excluding grapes, is 12% above last season's small crop.

Livestock Production Lags

Commercial red meat production in the first half of 1973 was down 6% from a year earlier with all classes of meats showing declines. In the summer, continued reductions in livestock slaughter netted a sharper 10% decline in meat output. A factor contributing to this decline was the beef price freeze that was lifted on September 10. The freeze put meat packers in an untenable situation of paying sharply higher prices for cattle without being able to charge higher price for meat.

Summer shipments of fed cattle were down 14% from a year earlier and 6% less than in the spring. Some of the decrease in shipments, and corresponding increase in numbers of cattle held on feed (up 6% from a year earlier on September 1) was a result of farmers holding cattle in anticipation of higher prices once the ceiling on beef prices was lifted

U.S. crop production: Index numbers of production of crops, 1972 and 1973

(1967=100)

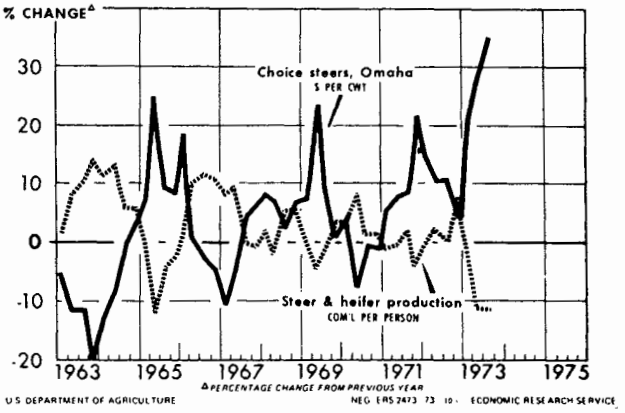
Item	1972[1]	1973[2]	Percentage change
All crops[3]	113	120	6
Feed grains	114	120	5
Hay and forage	104	105	1
Food grains	101	112	11
Sugar crops	139	125	-10
Cotton	181	175	-3
Tobacco	89	90	1
Oil crops	130	158	22

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

Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Pct.	*Pct.*	*Pct.*	*Pct.*
1972/71				
I	35.1	82.5	11.1	5.3
II	29.4	79.8	-3.4	5.6
III	12.5	56.6	3.3	8.3
IV	-9.6	15.8	3.8	-7.5
1973/72				
I	-1.1	15.1	3.3	-14.0
II	-12.6	1.9	21.4	-18.9
III	-31.8	-13.4	19.4	-25.0

CHANGES IN BEEF PRICES AND PRODUCTION



on September 10. Some of these animals are being added to fourth quarter marketings. Cattle feeders in 23 major states plan to market the same number of cattle this fall as last fall. This would be 12% more than in the summer. Fed cattle marketings in the winter will be down from fall and year-earlier levels, but are expected to rise sharply in the spring.

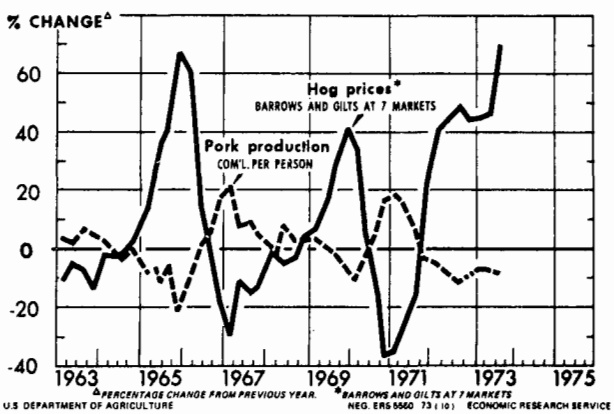
In response to stiff consumer resistance and seasonally increasing supplies, prices for all classes of livestock have declined sharply from the mid-August highs. Fed cattle prices in early November were near $41 per 100 pounds for Choice steers at Omaha, about $7 above a year earlier, but down sharply from the peak of $56.50 in mid-August. Prices are not expected to change much this fall, but should strengthen in the winter.

Pork supplies will probably continue below year-earlier levels for the next several months. Summer hog slaughter was about 13% below last year and this spring. The recent 10 States hogs and pigs report showed about the same number of hogs on farms September 1 as a year ago in weight groups normally marketed in the fall. Nevertheless, hog slaughter this fall is expected to run under year-earlier levels but more than 20% above the summer just ended.

Hog prices have dropped sharply from their mid-August highs of near $59 per 100 pounds, and in early November, barrows and gilts at 7 markets were running near $42 still about $14 above a year earlier. Hog prices are expected to drop from recent levels this fall but average $10-12 above October-December last year. Prices will strengthen again in the winter.

Lamb and mutton production through September was down 3% from a year earlier. Output is expected to drop further below year-earlier rates this fall and winter. Lamb prices have declined from midsummer levels when Choice grade slaughter lambs were near $40. Although prices have been running mostly in the high $30's, smaller supplies are expected to strengthen prices this winter.

CHANGES IN HOG PRICES AND PORK PRODUCTION



Broiler meat output through September was about 2% below last year. Broiler slaughter by federally inspected plants through October was down about 1% with weights down slightly. Output is expected to decline seasonally in the fall but gain relative to 1972 and surpass those levels late in 1973. Broiler chick placements for November and December marketings are up about 2%. Output likely will gain moderately in 1974 and may surpass 1973's output by 3 to 5% by midyear. Continued uncertainty about high feed prices will probably keep broiler output gains somewhat limited.

The farm value of broilers averaged 31.5 cents a pound for July-September, 16.3 cents above a year ago. Broiler values declined seasonally this fall but remained well above the 14.2 cents a pound of October-December 1972. High red meat prices will hold broiler prices relatively high through the first half of 1974 even if broiler output rises above year-earlier levels.

Turkey meat production through September this year was down about 3% from last year. The 1973 turkey crop is expected to total a record 132 million birds, 2% above the previous record in 1972. Based on poult placements, output for October will be down slightly, but will gain and average about 2% more than a year ago in November and December. Output may gain substantially in 1974. As of September 1, producers indicated plans to keep 15% more breeder hens in 1974. However, prospects for high feed costs probably will limit output gains.

Use of turkey meat during the first half set a record despite sharply higher prices. Turkey stocks as of September 1 were 17% below year-earlier levels. Lagging turkey output in recent months, smaller cold storage stocks, and high meat prices have pushed turkey prices to near the record levels of 1948-49. Farm prices averaged 38.5 cents a pound for the third quarter, 17 cents above a year ago. New York wholesale prices for 8-16 pound young hens during September averaged 75 cents a pound, nearly 40 cents above a year earlier. However, stocks built up in October and prices moderated, averaging around 67 cents a pound in late October. Limited supplies and high red meat prices will hold fall prices well above October-December 1972. If producers expand output in 1974 as indicated by poult intentions to hold more breeder hens, prices in the spring of 1974 may dip below year-earlier levels.

Egg production during January-September was about 5% below last year. Layer numbers will increase in coming months, but likely will not match year-earlier levels before early 1974. High feed costs and declining profitability for eggs in past months limited production of pullets for flock replacements for the remainder of the year. However, it is expected that output will gain moderately in 1974. Cold storage stocks of shell eggs and egg products totaled 1.4

million shell equivalent cases on October 1. This was 1 million cases below a year ago.

The third quarter farm price for eggs was 61.6 cents a dozen, up 30 cents from a year ago. The New York wholesale price for grade A large eggs as of October 1 averaged about 60 cents per dozen. Egg prices are strengthening seasonally as the holiday season approaches, but fourth quarter prices will average below the third quarter. Strong consumer demand, lower supplies, and continued breaker activity will hold egg prices at relatively high levels well into 1974.

Milk production through September 1973 totaled 90 billion pounds, down about 2½% from a year ago. The rate of decline accelerated from about 1% early in the year to 4% in September. Production will continue to lag during the rest of 1973 and for the year will likely total around 3% below 1972's 120.3 billion pounds. Sharply increased feed prices are reducing output per cow, and together with strong slaughter cow prices, are encouraging a sharper than usual decline in milk cow numbers. Output per cow, which is down for the first time in 30 years, is accounting for a large part of this year's drop in milk production. The decrease in milk cow numbers reached about 3% in September, the sharpest decline since early in 1969. Continued strong feed and slaughter cow prices will likely cause a further decline in milk production next year.

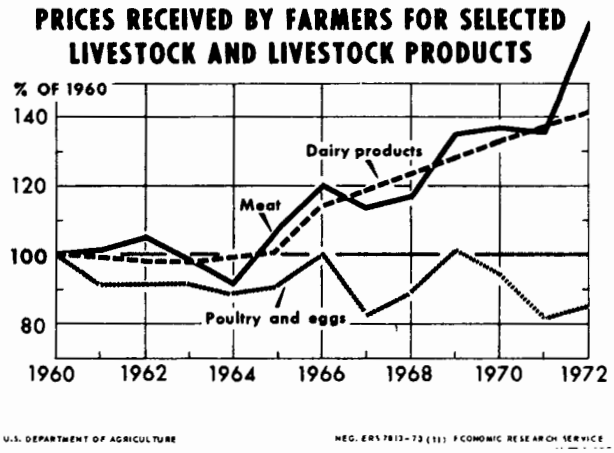


Table 3.--Production and prices received by farmers for major livestock and livestock products, 1970, 1971, 1972, and third quarters of 1972 and 1973

Item	Unit	Annual 1970	Annual 1971	Annual 1972	Third quarter 1972	Third quarter 1973 1/
Production 2/						
Beef and veal	Mil. lb.	22,273	22,450	22,871	3/5,664	3/5,065
Pork	Mil. lb.	13,438	14,792	13,626	3/3,064	3/2,792
Lamb and mutton	Mil. lb.	551	555	543	3/124	3/128
Chickens	Mil. lb.	8,671	8,720	9,101	3/2,126	3/2,099
Turkeys	Mil. lb.	1,762	1,811	1,939	3/683	3/631
Eggs	Mil. lb.	8,966	9,178	9,092	2,233	2,109
Milk	Bil. lb.	117.0	118.5	120.3	4/29.9	4/28.7
Prices received by farmers						
Cattle	Dol./cwt.	27.10	29.00	33.50	34.10	47.70
Hogs	Dol./cwt.	5/22.70	5/17.50	5/25.10	27.90	47.10
Lambs	Dol./cwt.	26.40	25.90	29.10	30.20	36.90
Broilers	Ct./lb.	5/13.6	5/13.7	5/14.1	15.2	31.5
Turkeys	Ct./lb.	22.6	22.1	22.2	21.6	38.5
Eggs	Ct./doz.	5/39.1	5/31.4	5/30.9	31.5	61.6
All milk (sold to plants)	Dol./cwt.	5.71	5.87	6.07	6.00	7.11

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 production only. 4/ Based on monthly data. 5/ Marketing year average December-November.

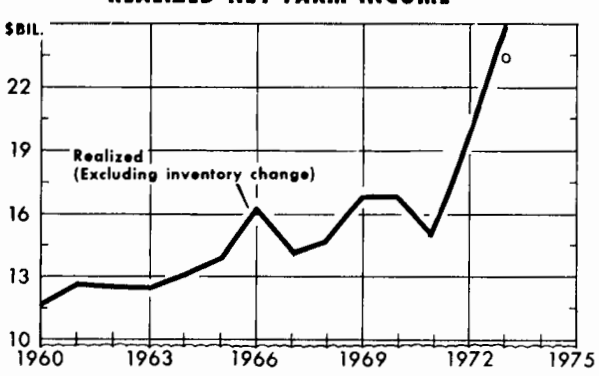
While commercial disappearance of milk in all dairy products during January-August was up about 2½% from a year earlier, it dropped about 1½% from a year earlier in September. Stocks of dairy products on October 1 were down about 2 billion pounds milk equivalent from a year ago. January-August dairy imports were above year-earlier levels, primarily reflecting larger cheese and nonfat dry milk imports. A Presidential proclamation issued on November 1 authorizes additional imports of butter and butter oil equivalent to about 84 million pounds of butter to be entered by December 31.

Farm milk prices rose to a record $8.10 per 100 pounds in October, 27% above a year ago. Prices should continue well above a year ago in the fourth quarter. This would bring 1973 average farm milk prices to around $1 per 100 pounds above the $6.07 in 1972. Wholesale prices of most dairy products increased sharply in the third quarter and retail dairy prices soon followed suit. These advances reflect the tight dairy supply-demand situation. However, wholesale butter prices have dropped about 16 cents from the September highs.

Farm Income

Cash receipts from farm marketings in 1973 will probably be around $82 billion as compared with $61 billion in 1972. Receipts from crops are expected to be almost 50% above 1972 level of $25.1 billion while livestock and products receipts are forecast at around $44 billion, up almost $10 billion. Although Government payments are expected to be down around $1½ billion, the substantial increase in cash receipts will push realized gross farm income up to around $89 billion, a 30% increase. Production expenses are expected to increase by $14 billion, leaving realized net farm income for 1973 more than $5 billion over 1972. For 1973 net farm income should reach about $25 billion, $5 billion above 1972.

REALIZED NET FARM INCOME*



*OF FARM OPERATORS, INCLUDING GOVERNMENT PAYMENTS. ○FORECAST.

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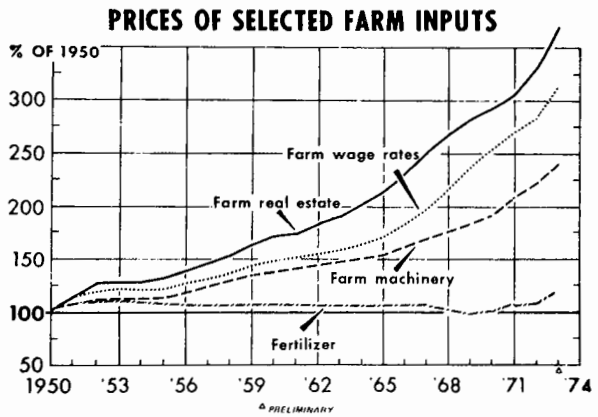
Prices have declined from the highs of this past summer but will remain well above 1972 levels. With both foreign and domestic demand continuing strong, realized net farm income in 1974 will be higher than any year except 1973.

Farm Input Supplies Tight

The index of prices paid by farmers for production items, interest, taxes, and wages through October 15, 1973 averaged 14.5% over a year ago. The rate of advance showed some signs of tapering off in the third quarter by rising 4.7% over the second as compared to a 6.5% rise in the second quarter over the first. All farm origin input indexes advanced in the third quarter with the feed index posting a 15% gain, feeder livestock 10%, and seed a 26% increase. However, by the end of the quarter, sharp declines in both the feeder livestock and feed index were evident.

For the balance of the year and early 1974, strong farm prices, record net farm income, and the elimination of all set aside requirements will maintain the surging demand for agricultural inputs. Several important farm inputs such as energy, certain chemicals, fertilizers, and labor, will be in tight supply.

PRICES OF SELECTED FARM INPUTS



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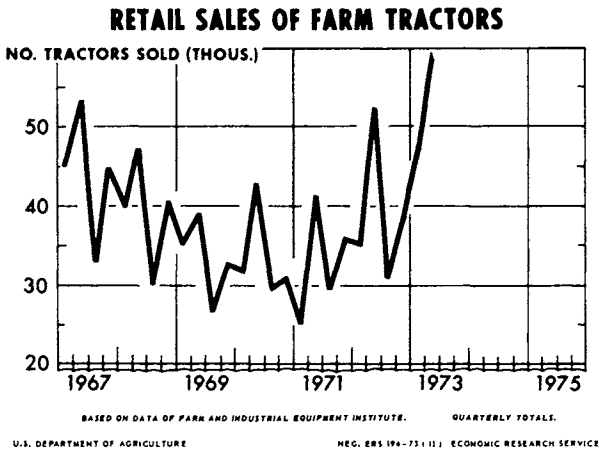
Farm wage rates on October 1, 1973, were up about 9% from a year earlier. The average cash rate without board and room was $1.97 per hour, up 15 cents from October 1, 1972. Although farm wage rates were still only about half the hourly rate of industrial nonfarm workers, the farm labor force as of October 1, 1973, had increased slightly over year-earlier levels for the first time in many years.

Retail sales of all major categories of farm machinery showed substantial increases over a year earlier for the month of August 1973. Corn pickers, corn heads, and combines each showed increases of around 70%. Through August 1973 these groups showed increases of 41%, 46%, and 48% respectively, over the same period a year earlier.

Retail sales of farm tractors as reported by the Farm and Industrial Equipment Institute through August 1973 showed a 23% gain over the same period last year. As a result of this strong demand, some farmers are having to wait for deliveries of new farm machinery.



Farmers are not major users of petroleum products and account for only 3% of total gasoline and diesel sales. However, they use about 17% of the liquid petroleum gas (LPG) and 22% of the propane sold. About half of these fuels are used in the last four months of the year. In an attempt to correct this situation, the Energy Policy Office has drafted a mandatory allocation program for propane which became effective October 1973 which gives agricultural production priority over all but the residential users. However, the outlook is for LPG and propane to be in tight supply.

Fertilizer prices, which had remained relatively stable over the past several years, increased 4.5% and 7.7% in second and third quarters of 1973 respectively. As a result of growing domestic shortages, the Government removed price controls on fertilizer. Fertilizer prices will likely rise to a level close to the world price, a 30-35% increase at the retail level for the U.S. farmer. Although nitrogen and phosphate supplies through June 1974 are likely to be 8% and 4% above year-earlier levels, it is expected that the supplies will fall short of the quantities demanded.

Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1972	1972	1973		
		IV	I	II	III 1/
	Billion dollars				
Gross national product	1,155.2	1,199.2	1,242.5	1,272.0	1,304.0
Gross national product (1958 dollars)	790.7	812.3	829.3	834.3	841.6
Disposable personal income	797.0	828.7	851.5	869.7	890.9
Personal consumption expenditures	726.5	752.6	779.4	795.6	813.4
Durable	117.4	122.9	132.2	132.8	132.1
Nondurable	299.9	310.7	322.2	330.3	340.8
Services	309.2	319.0	325.0	332.6	340.5
Personal savings	49.7	54.4	50.0	51.0	53.4
Net government receipts	252.2	256.9	277.4	286.9	---
Government purchases	255.0	260.7	268.6	275.3	279.9
Federal	104.4	102.7	105.5	107.3	107.1
State and local	150.5	158.0	163.0	168.0	172.8
Deficit or surplus (on income and product accounts)	-2.8	-3.8	8.9	11.6	---
Gross private domestic investment	178.3	189.4	194.5	198.2	206.7
Fixed investment	172.3	181.2	189.9	193.7	198.0
Residential	54.0	56.9	59.0	59.6	59.3
Nonresidential	118.2	124.3	130.9	134.1	138.7
Change in business inventories	6.0	8.2	4.6	4.5	8.7
Gross retained earnings	124.4	131.6	131.5	132.0	---
Excess of investment	-53.9	-57.8	-63.0	-66.2	---
Net exports of goods and services	-4.6	-3.5	0	2.8	4.0
Per capita disposable personal income (1958 dollars)	2,767	2,841	2,878	2,877	2,895
Total civilian employment (millions) 2/	81.7	82.6	83.2	84.2	84.7

1/ Preliminary

2/ U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The U.S. economy in the third quarter of 1973 appeared to be in the midst of a transitional phase from the 1971-73 expansion. The exact outcome of this transition will depend a great deal upon the events of late 1973. Thus far, 1973 has seen a maze of controls with a devaluation, meat shortages, soaring inflation, exploding food prices, and expanding world markets. Within this environment, consumer sentiment has reached new lows and businessmen are having second thoughts about the extent of their plant and equipment expansion plans.

Major GNP components, change from previous quarter

Item	1973		
	I	II	III[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Total change in GNP	43.3	29.5	32.0
Consumption	26.8	16.2	17.8
Private nonresidential fixed investment	6.6	3.2	4.6
Housing	2.1	.6	-.3
Inventory[2]	-3.6	-.1	4.2
Net exports	3.5	2.8	1.2
Government	7.9	6.7	4.6

[1] Preliminary. [2] See footnote text table below.

In the third quarter, Gross National Product rose at a 10.4% annual rate with a 6.7% rate of price increase accounting for much of the movement. Real GNP rose at a 3.6% annual rate, a distinct improvement over the 2.4% rate of the second quarter. However, since there may be some seasonal adjustment problems it may be more realistic to indicate that real growth in the economy since the first quarter of 1973 has been at an annual rate of 3%. While personal consumption expenditures and investment remained strong, residential construction began to slip and inventories began to accumulate. While net exports made significant gains in the third quarter, unemployment remained around 4.8%. However in October the unemployment rate declined sharply to 4.5%.

GNP and final sales, change from previous quarter

Year	GNP	Final sales	Inventory change[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
1970: I	9.6	13.0	-3.4
II	12.1	9.3	2.8
III	16.8	15.6	1.1
IV	4.4	5.4	-.9
1971: I	35.4	33.5	1.9
II	19.7	19.0	.6
III	16.6	20.0	-3.3
IV	20.7	19.7	1.0
1972: I	28.3	31.9	-3.6
II	29.9	26.1	3.8
III	24.1	20.9	3.2
IV	32.7	33.2	-.5
1973: I	43.3	46.8	-3.6
II	29.5	29.7	-.1
III[2]	32.0	27.8	4.2

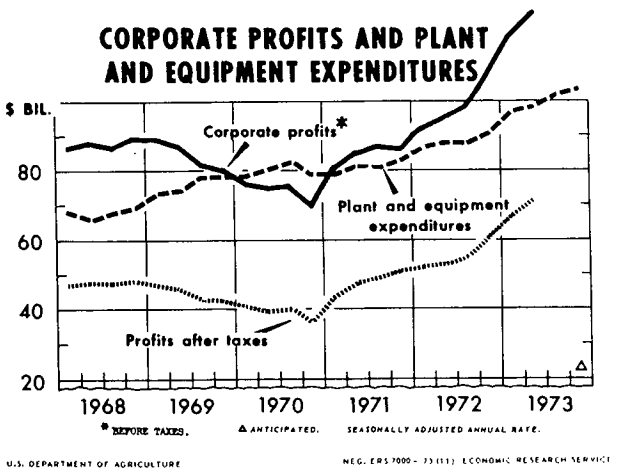
[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the third quarter of 1973 ($8.7 billion) less the change in the second quarter of 1973 ($4.5 billion) equals plus ($4.2 billion). [2] Preliminary.

Inventories Begin to Accumulate

Inventories began to accumulate in the third quarter reaching $8.7 billion compared with $4.5 billion in the second quarter. This uptrend is likely to continue into 1974 as consumer demand softens in the face of sharp increases in prices and accumulated consumer credit and as businessmen attempt to achieve a more desirable inventory/sales ratio. Residential construction outlays in the third quarter declined $0.3 billion, reflecting the downturn in housing starts. Housing starts during June-September declined 12% over the previous 4 months and averaged 13% below the same period a year ago. This decline will likely continue well into 1974.

Business fixed investment increased $4.6 billion in the third quarter, compared with $3.2 billion in the second. Nonresidential construction outlays were up $2.8 billion while purchases of equipment rose $1.9 billion. Second quarter increases for the same items were $1.9 billion and $1.4 billion, respectively.

While a sharp decline is expected in the housing sector, business spending on plant and equipment and inventories may provide fuel for the economy in 1974. In addition to rebuilding more desireable inventory/sales ratios, business will attempt to alleviate shortages in productive capacity. This will include some planned plant and equipment expansion which was scheduled for 1973 but delayed



due to raw material shortages. The McGraw-Hill Fall Capital Spending Survey taken in October indicated that a 14% increase in capital spending was being planned for 1974.

Consumer Spending Firm

Personal consumption expenditures increased $17.8 billion to $813 billion at a seasonally adjusted annual rate in the third quarter compared with a $16.2 billion increase in the second quarter. Increased purchases of nondurable goods and services more than offset a $0.7 billion decline in durable goods purchases. Expenditures for nondurable goods rose $10.5 billion, compared with a $8.1 billion increase in the second quarter. Increases in purchases of services matched the second quarter increase of $7.9 billion.

In the first half of 1973, the consumer had a number of reasons for seeking durables at the expense of savings and other assets. Large tax refunds and increasing expectations of price increases resulted in an unprecedented increase in purchases of durable goods including automobiles. However, current inflationary trends and lack of confidence in Phase IV controls will continue to dampen consumer sentiment, which is below the levels which prevailed during the 1969/70 mini-recession. Thus, despite disposable income gains in current dollars in 1973 of around 11% and the likelihood of gains around 8% in 1974, the consumer will continue to maintain nondurable goods and services purchases but begin to build savings in lieu of any substantial increases in durable good purchases.

Major personal income components, change from previous quarter

Item	1973		
	I	II	III[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	20.5	22.4	27.7
Wages and salaries	18.0	15.9	16.3
Manufacturing	5.4	5.7	4.4
Nonmanufacturing	8.7	8.1	9.6
Government	3.8	2.1	2.4
Other income	7.2	5.0	9.6
Transfer payments	1.6	2.1	3.0
Social insurance payments (minus)	6.2	.7	1.0
Personal tax payments	-2.3	4.2	6.5
Disposable personal income	22.8	18.2	21.2
Personal outlays	27.2	17.2	18.8
Personal savings	-4.4	1.0	2.4

[1] Preliminary.

Consumer sentiment has been declining steadily since mid-1972 and the burden of carrying the economy may now be too much. For the remainder of 1973 and well into 1974, the consumer may continue to step back from the counter and attempt to maintain nondurable purchases while permitting income to catch up with the increasing installment debt and savings to accumulate in preparation for the slowdown that pervades consumer sentiment.

Prices

Third quarter prices, as measured by the implicit price deflator for GNP, increased at an annual rate of 6.7%, compared with 7.3% in the second quarter. It now seems likely that the rate of inflation for all of 1973 will be about 5%.

The Consumer Price Index accelerated to a 10.3% seasonally adjusted annual rate in the third quarter with the largest factor being the food index. The rate of increase in the nonfood commodities index slowed sharply.

The Wholesale Price Index rose at a seasonally adjusted annual rate of 13.2% in the third quarter despite a 1.8% decline from August to September. The annual rate in the second quarter was 23.4%. The annual rate of increase in the third quarter for industrial commodities was 4.5% while the index for farm products and processed foods and feeds rose at a 35.9% rate. Although third quarter increases were substantial, the rate of increase slowed from the second quarter rates, and continued slowing is expected for the rest of 1973. In October the Wholesale Price Index declined 0.5%. With capacity utilization at historic levels and effective wage settlements approaching 7%, strong price pressures will continue into 1974. At this time it seems unlikely that inflation in 1974 will be kept below 4%.

Industrial Production and Capacity

Industrial production accelerated in the third quarter of 1973, rising 1.7% following the previous quarter's 1.4% increase. As of September, the index stood 8.3% above a year earlier. The third quarter increase was led by a 3.3% increase in the mining and utilities group. Production in the manufacturing group slowed to a 1.4% quarter-to-quarter increase. Most of the slowdown occurred in the consumer goods area where the third quarter increase was only 0.1%

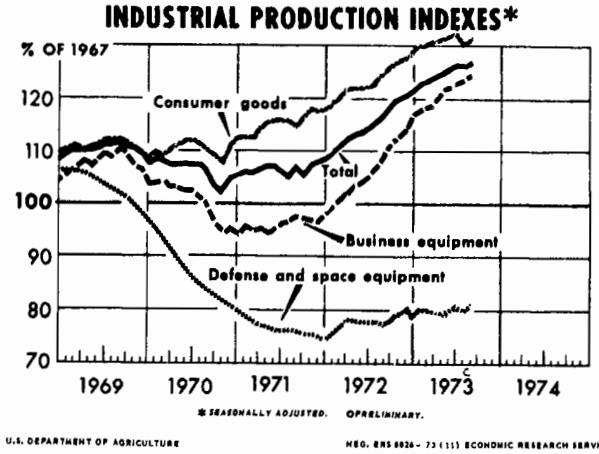


Table 5.—Consumer Price Index (1967=100)

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*
1972						
January	123.2	1.0	3.4	120.3	0	4.2
February	123.8	5.9	3.7	122.2	19.0	5.4
March	124.0	1.9	3.5	122.4	1.9	4.6
April	124.3	2.9	3.4	122.4	0	3.9
May	124.7	3.8	3.2	122.3	-1.0	3.5
June	125.0	2.9	2.9	123.0	6.8	3.2
July	125.5	4.8	3.0	124.2	11.8	3.7
August	125.7	1.9	2.9	124.6	3.8	3.8
September	126.2	4.8	3.3	124.8	1.9	4.8
October	126.6	3.8	3.4	124.9	1.0	5.0
November	126.9	2.9	3.5	125.4	4.8	5.4
December	127.3	3.8	3.4	126.0	5.8	4.7
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	-8.8	18.8

compared with the near 1% increase in the second quarter.

The rate of capacity utilization in major materials industries rose to 96.3% in the third quarter from 94.5% in the second quarter. This high rate reflects near-capacity operations in industries such as steel, wood pulp, paper, paperboard, and man-made fibers.

Employment and Income

While the unemployment rate declined to 4.5% in October, employment rose sharply to 85.7 million, up 3.3 million from a year earlier. The Department of Labor's hourly earnings index for October, adjusted for inter-industry shifts, overtime hours, and seasonality, was 6.5% above a year ago. However, the index, in dollars of constant purchasing power, declined 0.6% during the 12-month period ending in September.

Disposable personal income increased by $21.2 billion at a seasonally adjusted annual rate in the third quarter compared with an $18.2 billion increase in the second quarter. With the rate of increase in consumption expenditures slowing, personal savings increased by $2.4 billion and represented 6% of disposable personal income. For the year, disposable personal income may increase by over 10%, with the rate of personal savings around 6%.

Government Expenditures and Receipts

Federal, State, and local Government expenditures in the July-September quarter were $279.9 billion at a seasonally adjusted annual rate, 10% above a year earlier. State and local purchases increased $4.8 billion in the third quarter while Federal purchases actually declined $0.2 billion. The decrease occurred in defense spending which declined $0.6 billion. Nondefense spending increased $0.4 billion.

Federal receipts and expenditures, national income basis[1]

Item	1972		1973
	Second half	First half	Third quarter[2]
	Billion dollars	*Billion dollars*	*Billion dollars*
Receipts	233.2	258.0	[3]269.5
Personal tax	109.7	110.0	116.8
Corporate profits tax	39.4	48.7	[3]51.0
Indirect business tax	20.1	21.0	20.9
Social insurance	64.1	78.4	80.8
Expenditures	248.6	260.5	265.7
Goods and services	102.5	106.4	107.1
Transfer payments	85.9	92.8	96.7
Grants to State and local government	40.2	40.8	40.5
Net interest paid	13.6	15.2	16.2
Subsidies less surplus	6.4	5.3	5.2
Surplus or deficit	-15.4	-2.5	[3]3.8

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

International Trade and Balance of Payments

Net exports of goods and services continued to make significant gains, increasing by $1.2 billion in the third quarter. This was the third consecutive quarter in which the trade balance was zero or positive. Higher prices were a major contributor as exports increased 5.7% from the second quarter and imports rose 4.7%.

The U.S. balance of payments showed a deficit of $1.8 billion for the first half of 1973 on a basic balance concept which excludes short-term capital transactions. This represents a 59% decline in the deficit from the second half of 1972. The basic factor in this large swing is the U.S. balance of payments with Japan. Since the first half of 1972 the U.S./Japan balance has moved from a deficit of $2.6 billion to a surplus of around $200 million.

Member countries of the International Monetary Fund continue to seek a reform of the international monetary system. At the September meeting in Nairobi the basic controversy revolved around fixed versus floating exchange rates. European powers argued that rates are too unstable under the managed float and would not move toward equilibrium. In addition the policies have not slowed the rate of worldwide inflation. Proponents of floating exchange rates, including the United States, argued that the problem is one of adjusting payments imbalances in a continually changing world. Varying rates of inflation and economic growth differentials are among the factors which will eventually force any set of fixed exchange rates out of line. The draft reform proposal submitted by a committee of 24 deputies suggested stable but adjustable par values.

Monetary Policy Key to 1974

With the Administration committed to a balanced budget, and with increased pressure for the relaxation of wage and price regulations, the Federal Reserve must assume the task of slowing inflation and stablizing the dollar without precipitating a recession.

Current monetary trends indicate that a relatively restrictive monetary policy will be utilized to achieve this goal. For the 3 months ending in September, the money stock (currency plus demand deposits) increased at only a 0.3% annual rate compared with a 10.3% rate for the previous 3 month period. Since December 1972 the money stock has increased at around a 4% annual rate.

Although short and long term interest rates have eased from the highs of August and September, the current restrictive monetary policies will keep the rates high relative to historical experience well into 1974.

LIST OF TABLES

OUTLOOK CONFERENCE SCHEDULED FOR DECEMBER 17-19, 1973

The National Agricultural Outlook Conference has been set for December 17 through 19, 1973, at the U.S. Department of Agriculture in Washington, D.C. This year's Conference is about 2 months earlier than usual to give farmers and farm suppliers more time to plan for 1974 food production.

The 1974 outlook for U.S. agriculture and the general economy will receive particular attention at the Conference. The outlook for farm inputs such as fuel, fertilizer, pesticides, and farm equipment will be stressed. Sessions on the 1974 outlook for major commodities will make up an important part of the Conference as usual. The Conference is sponsored by USDA's Economic Research Service, Extension Service, and Agricultural Research Service.

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