DPS-141

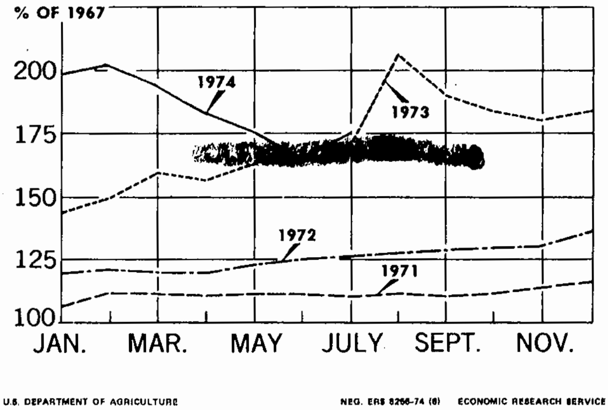
AUGUST 1974

DEMAND AND PRICE Situation

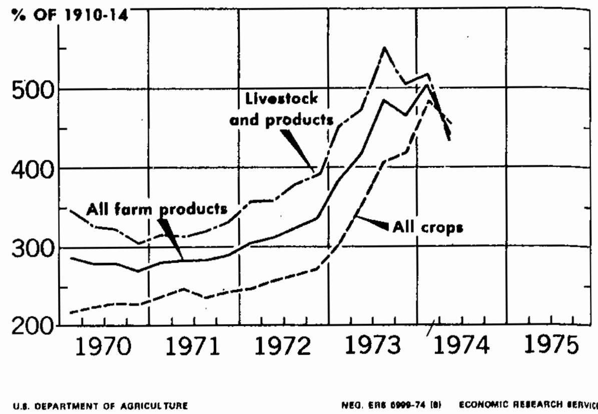
ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

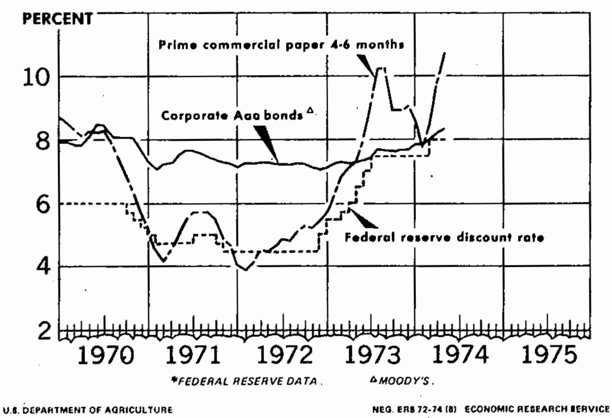
PRICES RECEIVED BY FARMERS



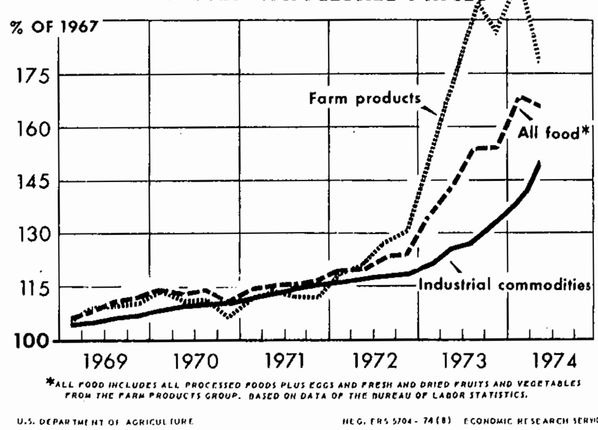
PRICES RECEIVED BY FARMERS



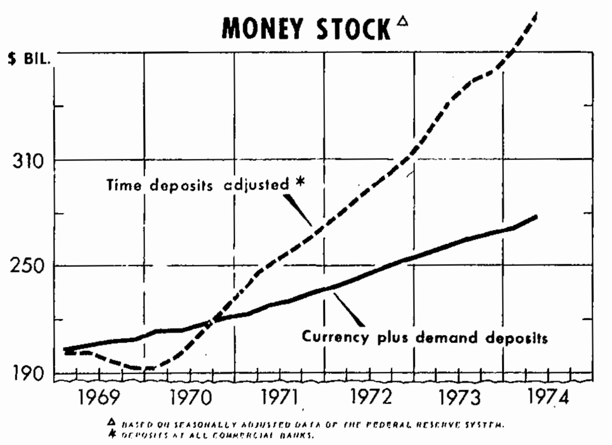
INTEREST RATES*



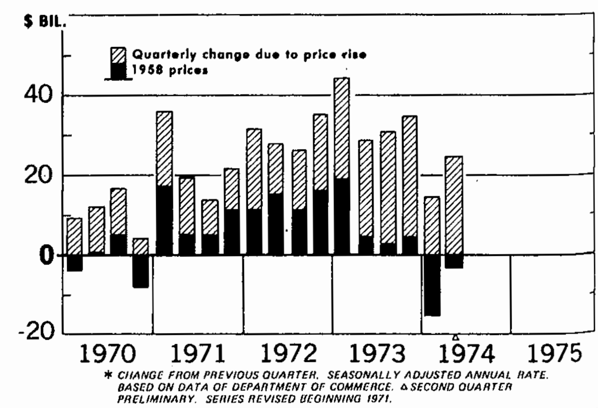
SELECTED WHOLESALE PRICES



MONEY STOCK △



GROSS NATIONAL PRODUCT *



THE DEMAND AND PRICE SITUATION

CONTENTS

• • •

Approved by
Outlook and Situation Board
and Summary released
August 27, 1974

Principal contributors:

Terry N. Barr
Elwin Guild
Robert G. Hoffman

National Economic Analysis Division
Economic Research Service

U.S. Department of Agriculture

Washington, D.C. 20250

• • •

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

SUMMARY

Bad weather has shattered earlier expectations for record crop production in 1974 and a subsequent decline of food prices. The only bright spots are the wheat and rice crops which are expected to be 8 and 15% larger than last year, respectively. Adverse weather has reduced expected yields of the major crops and total crop production may fall 6% below last year.

Feed grain production, particularly corn, was hard hit by the poor weather, dropping total prospects 15% below last year. Corn production is expected to be down with national yield averaging about 78 bushels per acre, down sharply from last year's 91 bushels. With feed grain stocks already at very low levels there will be sharp reductions in both domestic usage and exports of feed grains in 1974/75 and prices will be higher.

Oilseed production is forecast at 47 million tons, 14% less than last year. Soybean production is expected to fall 16% below 1973's record output because of reduced acreage and lower yields. Soybean supply will remain tight in 1974/75 and carryover stocks will be further reduced.

With these prospects, farm prices will strengthen and ultimately will be reflected in higher retail food costs. Livestock producers, whose profit margins are threatened by high feed grain prices, are not expected to expand production for the remainder of this year. As a result, grain-fed beef production likely will not increase over this summer's level through the remainder of the year, and pork production will decline next year.

The rise in retail food prices, which slowed considerably in the second quarter, will accelerate to 3% in the third quarter and moderate in the fourth, pushing this year's food price average 13 to 17% above 1973. That compares with a rise of 14½% last year.

Realized net farm income for 1974 may reach about $26.5 billion, second only to last year's record of $32 billion. For 1974, marketing receipts are expected to increase more than $6 billion largely on the strength of higher crop prices. However, farm production expenses, which rose $12 billion last year, will be up nearly that much again this year, led by costs of petroleum fuels and fertilizer.

In the second quarter of 1974, gross national product rose at an annual rate of 8.7% reflecting an inflation rate of 9.6% and a decline of 0.8% in real GNP. This was the second consecutive quarter of declining real output. Gross private domestic investment remains the major impetus to growth with plant and equipment investment remaining strong. Continued high petroleum import costs have weakened the overall trade balance. Personal consumption expenditures in real terms remained firm in the second quarter after declining in the first quarter.

The first half of 1974 provided little optimism about the outlook for the remainder of this year or for most of 1975. Real GNP declined at a 0.8% annual rate in the second quarter following a 7.0% decline in the first quarter. Inflation as measured by the GNP deflator increased at a 9.6% rate in the second quarter, down from the 12.3% rate of the first quarter. Net exports of goods and services showed a smaller surplus in the second quarter after recording significant surpluses since mid-1973. Fixed business investment remained firm through the first half of 1974 with the increase in nonresidential investment offsetting the sharp drop in housing starts. Revised business inventory data are disturbing and suggest a potentially large inventory overhang. However, with the current state of the economy and the rapid price increases it is difficult to fully interpret these inventory levels. Although the inventories will be worked down, a severe liquidation does not seem imminent in the second half.

So far, the relatively low unemployment rate has been a pleasant surprise to most economists. In the first quarter, much of the decline in real output was centered in the automobile industry where labor productivity is relatively high. Consequently, output could drop with little increase in overall unemployment. Additionally much of the continued decline in real output was the result of material shortages rather than slack demand. Therefore, employers may have been more reluctant to lay off workers.

Inflationary pressures have eroded a large amount of purchasing power. Real per capita disposable income in the second quarter of 1974 was below the fourth quarter 1972 level. The savings rate declined from a high of 9½% in late 1973 to 7½% in the second quarter 1974.

The second half of 1974 will be a period of high inflation and slow growth, with unemployment beginning to move up more rapidly. For all of 1974, inflation will average about 9% above 1973 and real growth will decline more than 1%. 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. This pattern will likely extend at least until mid-1975.

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. Prospects point to a 9 to 9½% annual rate for the remainder of 1974, possibly easing to 7½% by mid-1975. These inflationary developments reflect in part a shift from demand-pull inflation, fueled by demand in excess of available supplies, to a cost-push situation 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. If the restraint can be sustained, the groundwork for a recovery in late 1975 and 1976 will be laid. Longer term objectives must dominate near-term policy.

AGRICULTURAL SITUATION

This year's all-out quest for record farm output was dealt a severe blow by the much publicized drought which plagued farmers throughout mid-America. Corn production is forecast to be down more than a tenth from last year, reflecting a national average yield of 78 bushels per harvested acre. With corn stocks already at low levels, the price of this important feed grain will strengthen, preventing any expansion in livestock production for the remainder of this year. With production down, farm prices will strengthen in the second half and force retail food prices, which had moderated in the second quarter, to move higher. For the year, retail food prices are expected to average 13 to 17% above 1973 levels.

Food Price Rise Slows In Second Quarter

Consumers continue to be squeezed by reduced discretionary buying power. Real disposable income in the second quarter recorded its second consecutive quarterly decline, falling at a 4% annual rate. The decline in the first quarter was 8%. As a result, the rate of personal savings dipped for the second consecutive quarter after posting five straight quarterly gains. The savings rate fell from 8.9% of disposable income in the first quarter to 7.4% in the second.

Inflationary pressures have slowed the growth in consumer purchases. For food in the second quarter, purchases rose less than an 8% annual rate compared to the first quarter's 13% gain. Consumer outlays for food in the second quarter were at a $160.8 billion annual rate. Consumer expenditures for clothing and shoes increased at a 9% rate in the second quarter compared with 11% in the first quarter. Expenditures for clothes and shoes rose to a $74.4 billion annual rate in the second quarter.

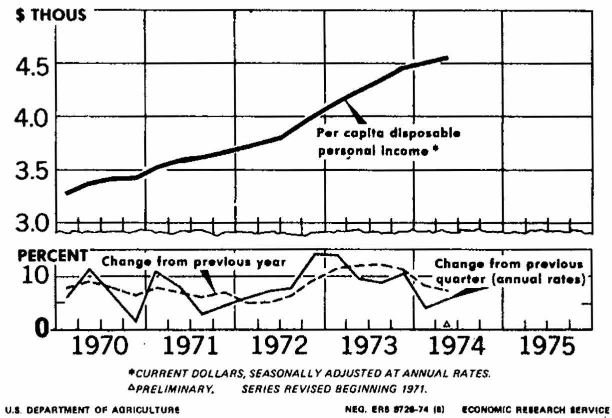
Item	Unit	Year 1973	1972	1973				1974	
			IV	I	II	III	IV	I	II 1/
Gross national product	Bil. dol.	1,294.9	1,204.7	1,248.9	1,277.9	1,308.9	1,344.0	1,358.8	1,387.3
Disposable personal income	Bil. dol.	903.7	838.1	869.5	892.1	913.9	939.4	950.6	966.5
Personal consumption expenditures	Bil. dol.	805.2	757.2	781.7	799.0	816.3	823.9	840.6	869.1
Food spending (excluding alcoholic beverages)	Bil. dol.	143.6	127.9	134.7	139.7	147.7	152.4	157.5	160.8
Implicit price deflator for GNP	1958=100	154.3	148.0	150.0	152.6	155.7	158.9	163.6	167.4
Unemployment rate 2/	Percent	4.9	5.3	5.0	4.9	4.7	4.7	5.2	5.1
Cash receipts from farm marketings	Bil. dol.	88.6	66.4	77.5	84.8	93.6	98.5	98.0	91.3
Nonmoney and other farm income	Bil. dol.	8.4	9.0	8.7	8.4	8.2	8.2	7.0	7.1
Realized gross farm income	Bil. dol.	97.0	75.4	86.2	93.2	101.8	106.7	105.0	98.4
Farm production expenses	Bil. dol.	64.7	54.6	60.1	62.9	67.0	69.0	72.1	74.5
Farmers' realized net farm income	Bil. dol.	32.3	20.8	26.1	30.3	34.8	37.7	32.9	23.9
Agricultural exports 3/	Bil. dol.	17.7	3.1	3.7	4.0	4.1	5.8	5.9	5.5
Agricultural imports 3/	Bil. dol.	8.4	1.7	1.9	2.1	2.0	2.3	2.6	2.6
Volume of farm marketings	1967=100	116	152	110	87	109	157	104	89
Livestock and products	do.	106	112	104	104	100	113	103	111
Crops	do.	130	205	118	65	121	215	106	61
Prices received by farmers 4/	do.	172	132	151	164	191	183	198	174
Livestock and products	do.	179	141	164	171	199	183	187	156
Crops	do.	164	121	133	156	180	185	215	202
Prices paid by farmers 4/ 5/	do.	145	130	136	143	149	152	159	165
Wholesale price index, all commodities 4/	do.	134.7	121.2	127.1	133.2	138.7	139.9	149.2	154.5
Consumer price index, all items 4/	do.	133.1	126.9	128.7	131.5	134.4	137.6	141.4	145.6
All food	do.	141.4	125.4	131.4	138.1	146.2	149.9	156.8	159.5
Food at home	do.	141.4	123.4	130.5	138.0	147.1	150.1	158.0	160.2

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.

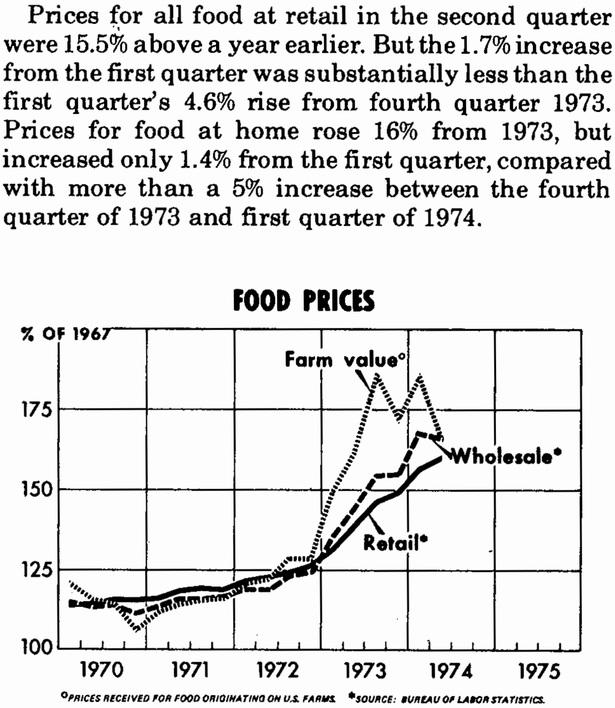
Departments of Agriculture, Commerce, and Labor.

PER CAPITA DISPOSABLE INCOME



Prices for all food at retail in the second quarter were 15.5% above a year earlier. But the 1.7% increase from the first quarter was substantially less than the first quarter's 4.6% rise from fourth quarter 1973. Prices for food at home rose 16% from 1973, but increased only 1.4% from the first quarter, compared with more than a 5% increase between the fourth quarter of 1973 and first quarter of 1974.

FOOD PRICES



Although virtually all livestock product prices declined sharply from the first quarter, higher crop product prices were nearly offsetting. Retail livestock product prices fell more than 5% in the second quarter but were 8% above a year ago. Pork and poultry prices both fell sharply in the second quarter, dipping modestly below 1973 levels. In contrast, crop product prices were more than 25% higher than last year and nearly 10% above the previous quarter. Other sharp advances from a year ago included dairy products up, 25%; fats and oils, up 56%; potatoes, up 59%; and dried beans, up 197%. Fruit and vegetable prices gained 20% relative to 1973 and were 12% higher than the first quarter.

Further advances in average retail food prices now appear likely during the last half of 1974. Prices may advance 3% in the third quarter with the rate of increase slowing to about half that pace during the fourth quarter. For all of 1974, food prices are expected to average about 15% above last year. However, changes in farm output and domestic and world demand could cause the 1974 all food price average to range from 13 to 17% above 1973. Most of the third quarter price pressure will be associated with crop-related products due to farm production declines and wider marketing margins. Retail prices for vegetable oil end-products, cereal and bakery items, beverages, and sugar products are expected to continue to rise for the remainder of the year. Livestock product prices are expected to increase moderately through the summer months before stabilizing in the fall. Red meat prices may decline seasonally this fall and generally offset increases for most other animal-related products.

Farm Income

Realized net farm income for 1974 may decline $6 billion from last year's record $32.2 billion. The current forecast of net farm income reflects both a stronger cash receipts picture for crops in 1974 than earlier anticipated and greater production expenses. The outlook for 1974 could still be altered considerably by weather conditions and changes in both foreign and domestic demand prospects for farm products. Alternatives for output and utilization of major commodities indicate that net farm income this year could total as much as $9 billion or as little as $3 billion below last year's record.

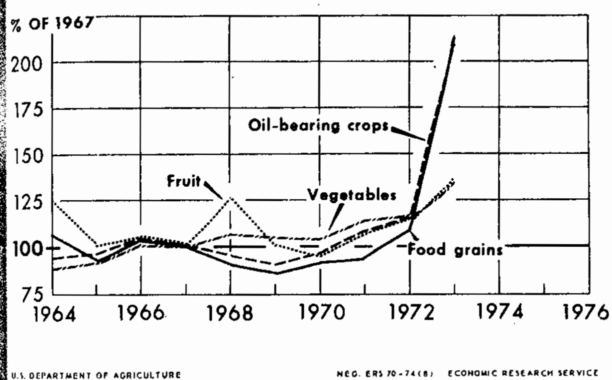
Prices received by farmers, change from a year earlier[1]

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

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

The likely prospect for farm income this year is for an increase of more than $7 billion in marketing receipts. Compared to 1973, crop receipts may be up nearly $9 billion with prices averaging a third higher and volume declining 5 to 10%. However, receipts from livestock marketings are expected to decline about $2 billion from last year's level with lower livestock prices expected to more than offset increased marketings. Government payments this year may be down $2.0 billion. Disaster payments to farmers affected by this summer's drought will represent a major portion of this year's outlay. Last year $2.6 billion was paid to farmers.

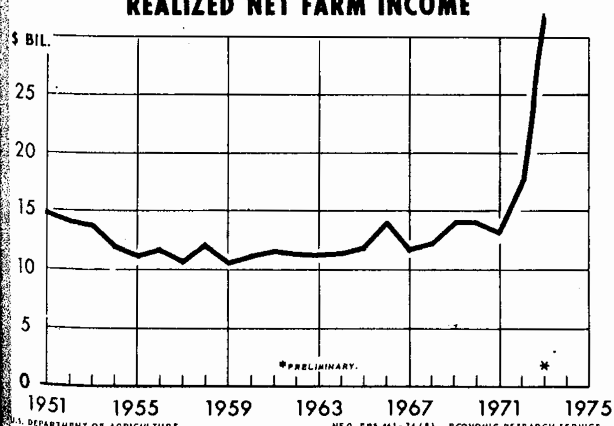
PRICES RECEIVED BY FARMERS FOR SELECTED CROP PRODUCTS



Farm production expenses will be up nearly $12 billion, the same as the increase experienced by farmers in 1973. Prices are up dramatically for petroleum fuels and fertilizer this year, adding to the higher prices being paid for most other farm input items. Furthermore, expanded crop acreage boosted requirements for farm inputs.

Looking ahead to the first half of 1975, realized net farm income may be down from the January-June 1974 level. Cash receipts may be close to year-earlier levels but the upward trend in production expenses will erode any gains in income.

REALIZED NET FARM INCOME



Record Export Activity

For FY 1974, U.S. agricultural exports rose to over $21 billion, two-thirds higher than a year earlier. Most of the gain stemmed from higher prices since export volume increased only 10%. The phenomenal agricultural export activity boosted the U.S. agricultural trade balance to nearly $12 billion despite a nearly 30% gain in agricultural imports which reached a record $9.5 billion. Because of agricultural export growth, the United States had an overall trade surplus of $2.8 billion in FY 1974.

All major commodity groups showed significant export increases with wheat, feed grains, and soybeans showing the largest gains. Although the volume of wheat exports declined slightly to 1,148 million bushels in FY 1974, sharply higher prices pushed the value to nearly double the year before. The People's Republic of China showed the largest value increase although Japan remained the most important country market. Other value increases occurred in the developing countries of Asia, Africa, and Latin America which together represent about one-half of our total wheat exports. However, exports to the USSR fell sharply in FY 1974. For FY 1975 wheat exports are expected to be 900 to 1,000 million bushels, well below last year's level.

U.S. agricultural exports, value of major commodities

Commodity	July-June		Percentage change
	1972/73	1973/74[1]	
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	1,353	1,760	30
Cotton	756	1,311	73
Feed grains, excluding products	2,312	4,651	101
Fruits	457	589	29
Soybeans	2,287	3,268	43
Tobacco, unmanufactured	640	814	27
Vegetables	296	407	38
Wheat and flour	2,385	4,738	99
Rice	437	754	73
Other	1,978	3,028	53
Total exports	12,901	21,320	65

[1] Preliminary.

The value of feed grain exports more than doubled during FY 1974. A record 44 million metric tons were exported at a value of $4.6 billion. The major factor behind the rapid growth in U.S. feed grain exports has been the surge in world demand for meat. However, export demand for U.S. grains will slacken sharply in the coming year due to the sharp reduction in U.S. production, higher prices, larger foreign production, and a slowdown in foreign economic activity.

U.S. agricultural imports, value of major commodities

Commodity	July-June 1972/73	July-June 1973/74[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	2,081	2,785	34
Fruits	206	227	10
Oilseeds and oil products	224	405	81
Sugar and molasses	896	1,332	49
Tobacco, unmanufactured	153	187	22
Vegetables	409	400	-2
Wines and malt beverages	292	336	15
Other	446	575	29
Total	4,707	6,247	33
Complementary			
Bananas	193	197	2
Cocoa and chocolate	61	80	31
Coffee	1,587	1,800	13
Rubber	229	483	111
Other	547	709	30
Total	2,617	3,269	25
Total imports	7,324	9,516	30

[1] Preliminary.

U.S. exports of soybeans and products totaled $4.6 billion in FY 1974, an increase of nearly 50% from the previous year. Most of the increase resulted from higher prices; volume was up slightly. Soybean exports totaled 520 million bushels and meal exports totaled 4.6 million metric tons. A shortage of vegetable oils caused a sharp gain in U.S. soybean exports, with value increasing nearly 90% to about $300 million. Exports for FY 1975 should total near last year's level, led by a strong world demand for soybean oil. The world protein meal supply situation will be very tight because of the reduced prospects for the U.S. soybean crop and a reduced Indian peanut crop. Expected gains in fish meal production in Peru, soybean production in Brazil, and larger African peanut output may be slightly offsetting.

Exports of animals and animal products rose by one-third to a record $1.8 billion. The major gainers were live cattle, poultry meat, and inedible tallow. Dairy exports declined due to a very tight domestic supply situation. Exports of most livestock products are expected to show moderate declines in the current year.

U.S. agricultural trade balance July-June 1972/73 and 1973/74

Item	1972/73	1973/74[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	12,901	21,320	65
Imports	7,324	9,516	30
Trade balance	5,577	11,804	112

[1] Preliminary.

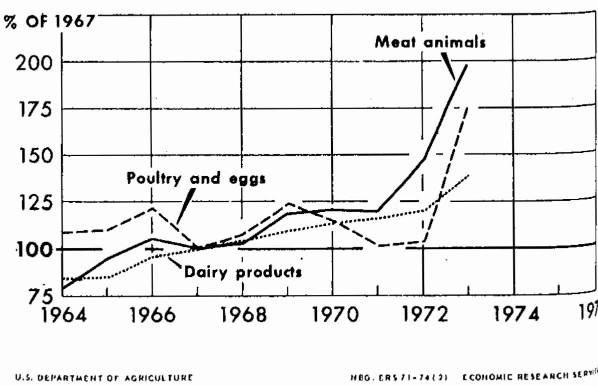
Agricultural exports during FY 1975 will decline in volume, but high prices may bring the value close to last year's record level.

Agricultural imports rose 30% to a record $9.5 billion during FY 1974. In the coming year imports may show relatively little change.

Livestock Marketings Up, Prices Decline

Cattle prices dropped steadily from February through June as spring quarter cattle slaughter was nearly 10% larger than in 1973. Choice steer prices dropped into the mid-$30's before turning higher in early July. Also, average weights were heavier, with some cattle being overfinished, further depressing prices. The declining cattle market caused cattle feeders to sharply curtail feedlot placements. The pressures of a record supply of calves available for placement and reduced demand from feedlots caused feeder cattle prices to fall from a January peak of $50 per cwt. to a low of $31 in early June. Prices received by farmers for beef cattle averaged $36.20 per cwt. in the second quarter down $7.20 from last year and $6.70 lower than in the first quarter. Calf prices averaged $42.50 per cwt. in the second quarter, down $15.50 from 1973. Cow prices were also down averaging $28.20 per cwt. in the second quarter, $4.60 below a year earlier.

PRICES RECEIVED BY FARMERS FOR SELECTED LIVESTOCK AND LIVESTOCK PRODUCTS



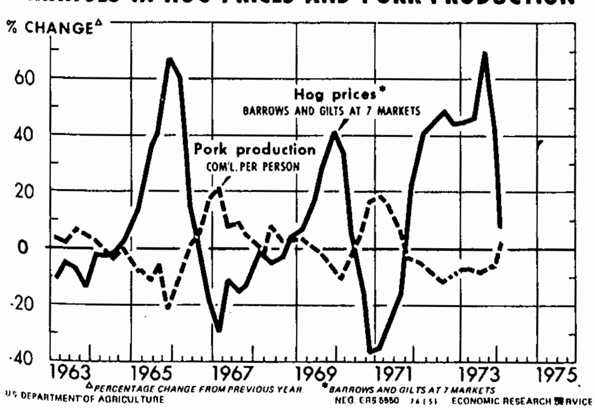
Summer cattle slaughter is expected to be much higher than last summer's low level with almost all of the increase attributable to non-fed cattle marketings. Summer slaughter, however, may slip below the higher spring level by about 3% and fed cattle prices should average in the mid-$40's. Most of the price strength this summer will be in grain fed slaughter cattle. Cow and calf prices during the summer will show little gain from spring levels.

Fall cattle slaughter is expected to be larger than this summer's or last fall's with Choice steer prices dropping back into the low $40's. All of the increase in slaughter is expected to be due to larger non-fed steer, heifer, and cow slaughter. Fed cattle marketings this fall will likely be down 10% or more from last year because placements on feed have been very low in recent months. Cow and calf prices will be under the most downward pressure this fall and are expected to average well below summer levels. But the prospect of lower fed cattle prices this fall assumes a large number of cows and other cattle will move directly to slaughter from the range. If summer drought conditions substantially improve soon, forced movement of cattle from grass could be slowed. In this event the low supply of fed cattle will push slaughter steer prices higher, possibly exceeding $50 per cwt. in the fall.

Second quarter *hog prices* averaged $26.80 per cwt. at the farm level, $9.10 under last year and $11.40 below the first quarter. Like cattle, most of the spring price weakness was due to increased production, up 11% from 1973. But a sharp seasonal decline in hog slaughter and higher cattle prices in early July pulled hog prices back into the upper $30's. Although smaller than spring, summer pork production could be 12% larger than last year, with hog prices averaging above the mid-$30's. By fall, a seasonal increase in hog slaughter will push prices down into the lower $30's. Fall supplies could be 10% larger than the summer and about 3% above last fall.

First half 1975 hog slaughter will come largely from the 1974 fall pig crop which farmers have said

CHANGES IN HOG PRICES AND PORK PRODUCTION



would be down 1%. With normal gains and lighter average weights of slaughter, pork production in early 1975 may drop 5% or more. High feed prices may result in altered feeding programs to reduce costs and slow gains. This could result in even further declines in first half 1975 pork production than now anticipated. Prices would rise into the upper $30's, but meet downward pressure from larger beef supplies.

Lambs in the second quarter averaged a record $40.80 per cwt. at the farm level, $5.80 above last year. The record prices were due to sharply curtailed domestic production and smaller supplies of imported lamb. Although domestic production in the last half of 1974 will remain under last year, lamb prices will be seasonally lower than the spring. Second half lamb prices are expected to range $36 to $44 per cwt.

Egg production during January-June totaled 92.5 million cases, about 1% below last year. Production will continue below 1973 levels during the balance of 1974. Egg-type hatchery figures indicate there will be fewer pullets entering the laying flock during the second half of 1974. Despite the reduced output, egg prices have been well below year-earlier levels since mid-April. New York wholesale prices for Grade A large eggs averaged about 46 cents for the second quarter, 6 cents below the same period of 1973. Egg prices likely will increase seasonally this summer and fall but stay below 1973's high levels.

Broiler meat output during January-June was up nearly 6%, but second half output will be below a year ago. Broiler producers in recent months have cut back hatchery activity as prices dropped below production and processing costs. As a result, chick placements for June-August market supplies will be slightly below a year earlier. Chick placements and eggs set for September-October marketings are down about 6% and the near record-low broiler-feed price ratio of recent months likely will cause producers to hold fall broiler output substantially below year-earlier levels.

Increased supplies of both poultry and red meats pushed broiler prices downward in early 1974. Wholesale broiler prices in 9 cities during June averaged 34 cents a pound, about 2 cents below May and 8 cents below June 1973. Prices strengthened in July and will show some further seasonal rise this summer before declining in the fall. However, the expected sharp decline in marketings this fall may result in less than the normal seasonal decline in prices.

Turkey meat output for the first half of 1974 was nearly a third larger than a year earlier and will continue higher into September before declining substantially in the fall. The fall decline reflects feed price pressures that caused a 9% drop in May-July poult hatchings and 18% fewer eggs in incubators on August 1. Sharply higher turkey output, larger cold storage stocks, and large broiler and red meat supplies caused prices to lag year-earlier levels since early February. July wholesale prices in New York

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
1972/73p	Mil. tons	48.4	.4	199.9	248.7	173.2	43.1	216.3	32.4	2/1.57
1973/74e	Mil. tons	32.4	.3	205.0	237.7	173.4	43.7	217.1	20.6	
1974/75f	Mil. tons	20.6	.4	174.6	195.6					
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
1972/73p	Mil. bu.	863.1	1.3	1,544.9	2,409.3	785.5	1,185.3	1,970.8	438.5	1.76
1973/74e	Mil. bu.	438.5	3.8	1,711.4	2,153.7	757.2	1,147.9	1,905.1	248.6	4.00
1974/75f	Mil. bu.	248.6	1	1,839.9	2,089.5					
Rice										
1971/72	Mil. cwt.	18.6	1.1	85.8	105.5	3/37.2	56.9	94.1	11.4	5.34
1972/73p	Mil. cwt.	11.4	.5	85.4	97.3	3/38.2	54.0	92.2	5.1	6.73
1973/74e	Mil. cwt.	5.1	.1	92.8	98.0	37.7	53.2	90.9	7.1	13.80
1974/75f	Mil. cwt.	7.1	0	107.0	114.1					
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
1972/73p	Mil. bu.	72.0	0	1,270.6	1,342.6	803.6	479.4	1,283.0	59.6	4.37
1973/74e	Mil. bu.	59.6	0	1,566.5	1,627	917	550	1,467	160	5.57
1974/75f	Mil. bu.	160	0	1,314	1,474					
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
1972/73p	5/Mil. bales	3.3	6/7/	13.7	17.0	7.8	5.3	13.1	4.1	27.3
1973/74e	5/Mil. bales	4.1	6/.1	13.0	17.2	7.5	6.2	13.7	3.5	8/44.9
1974/75f	5/Mil. bales	3.5		12.8	16.3					

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 and 1972/73, 2.4 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.

1973/74 based on recent crop reports and disappearance estimates. Details may not add to totals due to rounding.

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

Item	Unit	Annual			Second quarter	
		1971	1972	1973	1973	1974 1/
Production 2/						
Beef and veal...	Mil. lb.	22,448	22,878	21,634	3/5,125	3/5,720
Pork............	Mil. lb.	14,792	13,640	12,751	3/3,178	3/3,540
Lamb and mutton.	Mil. lb.	555	543	514	3/127	3/108
Chickens........	Mil. lb.	8,720	9,102	8,916	3/2,993	3/3,161
Turkeys.........	Mil. lb.	1,811	1,945	1,956	3/358	3/447
Eggs............	Mil. lb.	9,178	9,098	8,706	2,208	2,187
Milk............	Bil. lb.	118.5	119.9	115.6	4/31.9	4/31.4
Prices received by farmers						
Cattle..........	Dol./cwt.	29.00	33.50	42.80	43.40	36.20
Hogs............	Dol./cwt.	17.90	26.00	39.30	35.90	26.80
Lambs...........	Dol./cwt.	25.90	29.10	35.10	35.00	40.80
Broilers........	Ct./lb.	5/13.7	5/14.1	5/24.0	24.4	20.1
Turkeys.........	Ct./lb.	21.9	22.1	34.8	32.4	25.1
Eggs............	Ct./doz.	31.1	31.7	54.1	47.6	43.9
All milk (sold to plants).....	Dol./cwt.	5.87	6.07	7.14	6.41	8.25

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.

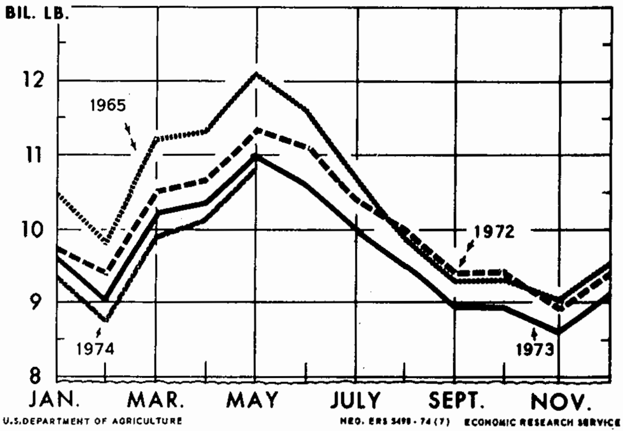
Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Pct.	*Pct.*	*Pct.*	*Pct.*
1972/71				
I	35.1	82.5	11.1	5.9
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	6.7	-13.3
II	-12.6	1.9	21.4	-17.8
III	-31.8	-13.4	16.1	-20.3
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	6.5

for 8 to 16 pound young hen turkeys averaged about 40 cents a pound, 2 cents above June but 17 cents below July 1973. Turkey prices have strengthened in recent weeks but will increase only moderately in coming months because of larger turkey meat supplies and relatively larger supplies of red meats. Although fall output may lag a year ago, record storage stocks will mean larger turkey supplies for the fall holiday marketing season.

Milk output moved above a year earlier in July for the first time since September 1972. Milk output per cow in July was finally showing more normal gains, being up almost 2½% from a year earlier. July's output reflected an increase in previously depressed feeding rates. Also, lower soybean meal prices may have caused an increase in protein use in dairy rations. The drop in milk cow numbers has slowed this year, running down slightly more than 2% in July. Herd culling has likely been reduced because of the decline in slaughter cow prices. Also, there was a large supply of herd replacements on hand at the beginning of this year. However, reduced feed grain and soybean crops this year will mean higher feed costs for dairy farmers which will likely limit milk production in the fourth quarter. For all of 1974, milk production may total some 1½% below 1973's 115.6 billion pounds.

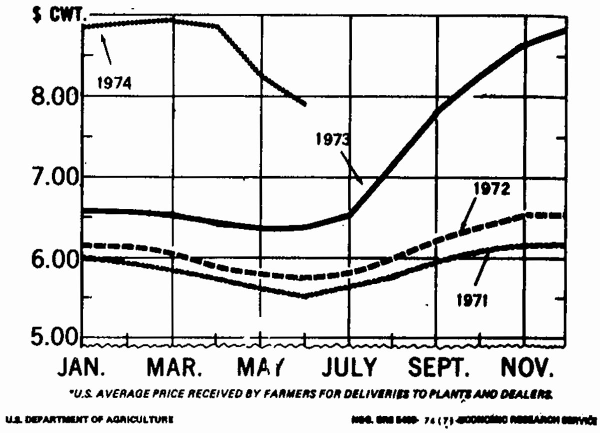
U.S. MILK PRODUCTION BY MONTHS



Higher milk prices are pushing up gross dairy income this year despite a drop in farmer's milk marketings. Cash receipts from dairying may reach around $9½ billion, up from $8.1 billion in 1973. However, gross income gains slowed somewhat in the second quarter as milk prices dropped seasonally. In July, farmers received an average $7.55 per cwt. for milk, 15% above a year earlier. However, farm milk prices dropped $1.39 from March's high, as supplies increased seasonally and demand lagged. The drop was much greater than the normal seasonal drop for that period. Manufacturing milk prices in June fell below the $6.57 support level for the first time since late 1971. Bottling milk prices are being pushed down by the sharply lower Minnesota-Wisconsin manufacturing milk prices (the basic price used in calculating Class I prices in Federal order markets). However, in a number of markets over order premiums have tempered the decline in Class I prices.

Farm milk prices will likely increase seasonally this fall and winter paralleling expected strength in the dairy products market. Milk and dairy products sales in January-June were down about 1% from a year ago. Fluid milk sales dropped 5% with whole milk products down 9 %. But lower prices may hold butter sales about steady this year while cheese sales continue to expand. Commercial use of milk in all dairy products may remain under a year ago in coming months reflecting generally soft economic conditions.

MILK PRICES*



Commercial stocks of dairy products continue to rise, reaching 7.8 billion pounds of milk equivalent on July 1, up from 4.8 billion pounds a year ago. USDA is again buying dairy products, including processed American cheese, under the price support program. CCC bought dairy products equivalent to 0.7 billion pounds of milk in May-July, up from 0.5 billion a year earlier.

U.S. imports of dairy products totaled 1.9 billion pounds of milk equivalent in January-June this year, more than doubling the 0.8 billion pounds of a year ago. The increases were concentrated in the early months of 1974, and imports have since slackened off. This year's import total may again be greater than normal, but should be less than 1973.

Crop Production Disappointing

The 1973/74 feeding season will close with the smallest carryout of *feed grains* in more than 20 years, with grain farmers receiving the greatest income ever from the highest prices of this century. Smaller supplies than the previous year and heavy exports for the second year in a row were major forces behind the higher prices. After bottoming in April, feed grain prices moved higher, reflecting uncertainty over crop yields because of wet weather planting delays and prolonged hot dry weather in June and July. Concern that the 1974 crop would not be large enough to permit a significant recovery in stocks also prompted the higher prices. That concern was reinforced by the low feed grain forecasts presented in the August 1 crop report.

In response to high prices in 1973, farmers planted 77 million acres of corn this year, 8% more than 1973 and the most since 1960. In contrast, combined plantings of sorghum, oats, and barley were down about 9%. But the hot dry weather in June and July took a heavy toll. The 1974 corn crop was forecast as of August 1 at 4,966 million bushels, 12% smaller than the 1973 crop. Acreage for harvest is estimated at 63.8

million, down 3.8 million acres from the July 1 estimate but 3% more than last year. The yield of 77.8 bushels is down sharply from last year's 91.4 bushels. Sorghum grain production is forecast at 619 million bushels, 34% less than last year's record crop. Production in 1974 of corn, sorghum, oats, and barley combined is forecast at 175 million tons, 15% less than last year.

There will be sharp reductions in both domestic usage and exports of feed grains in 1974/75, and feed prices will be higher. Domestic feed grain use in 1974/75 is expected to be down by more than 10% from the 1973/74 season. Exports are projected at 24 to 30 million (short) tons, 30 to 40% below 1973/74's 43 million.

Domestic corn use may total 4.3 billion bushels, down from 4.7 billion in 1973/74. Corn exports are expected to total between 750 and 900 million bushels, down from 1.2 billion bushels in 1973/74. Total corn disappearance in 1974/75 is expected to be slightly more than 5 million bushels, down from 5.9 billion last year. Carryover stocks of feed grains will decline further in 1974/75.

Stocks of grains

Grain and position	July 1, 1973	July 1, 1974	Percentage change 1974/73
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	46	35	-23
Off farms[2]	25	17	-30
Total	70	52	-26
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	134	91	-32
Off farms[2]	305	158	-48
Total	438	249	-43
SOYBEANS			
On farms[1]	34	153	352
Off farms[2]	145	191	31
Total	179	344	92

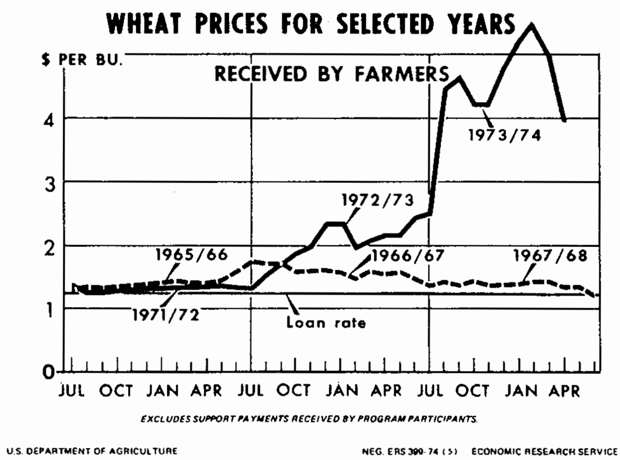
[1] Estimates of the Crop Reporting Board. [2] Including grain owned by Commodity Credit Corporation.

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

Wheat production in 1974, although down from earlier expectations, is estimated at a record 1,840 million bushels, 8% above last year's record crop. Expanded acreage accounts for all of the increase as weather and disease cut yields to their lowest level in 6 years. For the first time since 1971/72, production will exceed demand, permitting some rebuilding of stocks. Wheat stocks on July 1 at 249 million bushels were the smallest since the summer of 1948. For the first time in 25 years virtually no wheat was owned by the Commodity Credit Corporation or outstanding under price support loan. The drawdown in stocks this past year was sharp enough to offset the record 1974 harvest. Consequently, total wheat supplies will fall short of last year's 2,154 million bushels.

Following two extremely high years, demand will ease in 1974/75. Increased competition from other wheat exporters and some easing in import demands could result in U.S. wheat exports in 1974/75 falling below a billion bushels. Most of the reduction will likely come in shipments to the USSR and the People's Republic of China. Wheat feeding is expected to increase from the 1973/74 level of 144 million bushels. Tight feed grain supplies and large discounts on low quality wheat in the East should spur feeding. Also, consumers' search for less expensive foods led them to wheat food products this past year, temporarily reversing the downtrend in consumption. Continued uncertainties at the food counter this year could keep wheat food consumption up during 1974/75.

Uncertainty surrounding both the supply and the demand for U.S. wheat during 1974/75 has resulted in prices strengthening since their spring lows. In July the average price received by farmers was $4.04 per bushel, the highest July farm wheat price on record.



The continued lack of buffer stocks in either the United States or the rest of the world will keep this year's wheat market especially sensitive to world crop conditions and trade patterns. However, if stocks are building and indications point to a large crop in 1975 without a commensurate increase in demand, prices may weaken during the latter stages of the 1974/75 crop year. The expected early season price strength may hold the average farm wheat price near 1973/74's $4 per bushel.

The *rice* production outlook is bright. Acreage is up 10% this year, and after last year's disaster, yields are expected to increase to 4,480 lbs. per acre. The 1974 crop is now estimated at 107 million cwt., up 15% from a year ago. A late season weakening in export demand resulted in a small buildup in stocks in 1973/74 instead of a further decline. Adding August 1 stocks of 6.8 million cwt. to the record 1974 crop pushes supplies to a new high of 114 million cwt. Both domestic and foreign demand are expected to increase this year with exports climbing to a record 61.2 billion cwt., reflecting both larger supplies for export and the world's continuing strong import demand for rice. However, the increase in demand will not offset the larger crop and rice stocks will build sharply during 1974/75. Prices are easing under the pressure of the larger supplies, although uncertainty about the adequacy of world grain supplies is forestalling any sharp break in prices. For the 1974/75 season, prices are expected to average well below this year's $13.80 per cwt.

Soybean supplies this summer are more than ample to meet requirements and provide a comfortable carryover on September 1. Total disappearance is estimated at a record 1.47 billion bushels, about 14% above 1972/73. Strong demand for soybean oil is a major determinant behind the heavy use. Both crushings and exports are expected to reach new records. Crushings are estimated at 820 million bushels, more than a tenth above last year. Exports likely will approximate 550 million bushels, up about 15%. However, this record disappearance will not match the large 1973 crop, resulting in an increase of carryover stocks to around 160 million bushels, compared with 60 million last September. Prices to farmers for 1973/74 were strong, averaging a record $5.75 per bushel, up sharply from the $4.37 of last season.

Based on August indications, soybean acreage for harvest totaled 52.4 million acres, 7% below last year. Production is estimated at 1.3 billion bushels, 16% below the record 1973 crop. With added carryover, 1974/75 supplies would approximate 1.47 billion bushels. Total expected disappearance of 1.4 billion bushels would be 5% below that now estimated for the year just ending but more than probable production. As a result, carryover stocks on September 1, 1975, would fall to around 75 million bushels, about half as much as this September's carryover. Because of short supplies and continuing strong demand, prices to farmers are expected to average sharply above the $5.75 per bushel received for the 1973 crop.

Based on the August 1 forecast, the 1974 *upland cotton* crop will total about 12.7 million bales, slightly below 1973, and considerably below earlier expectations. A severe drought on the Texas Plains and, to a lesser extent, wet weather in northern areas of the Delta have cut prospects. Nearly a tenth of the plantings have been abandoned, leaving an acreage for harvest of 12.9 million, only 9% above last year. Also, yields have been reduced to 470 pounds per harvested acre, 49 pounds below 1973's near-record level.

Sluggish demand, both here and abroad will result in smaller U.S. cotton disappearance during 1974/75. U.S. cotton exports may decline to about 5 million bales from last year's 6.2 million, reflecting larger competitive supplies of foreign cotton and reduced textile demand abroad. Meanwhile, depending on availability and competition from manmade fibers, cotton mill use may range from 7 to 7½ million bales, compared to 1973/74's 7.4 million. As a result, August 1, 1975, stocks may total slightly to moderately above this summer's 3½ million bales.

The August estimate of all *tobacco* acreage for harvest in 1974 is 9% above last year. Production is projected 13% above 1973. The crop plus estimated carryover gives a supply 2% lower than in 1973/74. Since the crop falls about 120 million pounds below projected requirements for 1973/74, carryover is again expected to decline. This year's flue-cured crop is forecast 10% above last year. Acreage is up 8% and the indicated yield is about 2% higher. Total flue-cured supply is estimated slightly below last marketing year. Flue-cured markets for the 1974 crop opened July 15, with initial sales averaging 84 cents per pound, about the same as a comparable period of 1973. However, prices rose to record levels of $1.04 per pound by mid-August, reflecting better quality tobacco.

Burley production may increase more than a fifth in 1974. Acreage of burley is estimated 15% above last year, reflecting higher quota and yield. But carryin stocks are expected to be down sharply so total supply may decline 4% from the season now ending.

Domestic cigarette output for the 1973/74 marketing year is estimated 5% above the previous year. Another gain is likely in 1974/75. U.S. tobacco exports gained a tenth last marketing year, as foreign cigarette output continued to gain and exported leaf output in other countries fell short of earlier expectations.

In marked contrast to 1973, commercial *vegetable* prices to growers this summer are expected to show only slight to moderate seasonal declines. This would make them close to, or slightly higher than a year earlier, thus reversing the trend of the first 6 months of 1974. Furthermore, the commercial vegetable price index this fall probably will be higher than last year when grower prices fell substantially between the third and fourth quarters.

Production of 14 vegetable crops this summer could be 1% lower than last year. Summer acreage for harvest suggests less sweet corn, celery, and tomatoes. Slightly more lettuce and cabbage are possible. In addition to these crops, there will be substantially fewer melons from less acreage, but probably more onions and potatoes.

Summer potato prices to growers are lower than last year, but are expected to hold seasonally high until September. Record amounts are expected to be dehydrated and frozen. Much of the prospective larger production of sweetpotatoes (acreage is up 7%) will go to replenish canned stocks. Heavy processor demand will tend to maintain grower price levels.

A substantially larger dry bean acreage promises larger supplies of all important classes. Production of all classes is expected to be 20.8 million cwt. this year. Prices have been moving steadily downward in anticipation. With acreage up 60%, a sharply larger crop of dry peas is expected this year and prices are expected to move sharply lower this fall.

Moving into the 1974/75 marketing year, canned vegetable inventories were extremely thin. Although overall processing acreage is up 5% over a year ago, retail prices will be higher, with canned vegetable product prices probably advancing more rapidly than frozen items. Frozen items (excluding frozen potato products) in cold storage as of July 1 were up 34% from a year earlier.

Canners and freezers have been facing unusual pressures this season. Not only are raw product costs up, from a fourth to nearly double a year earlier, but high prices and restricted tinplate supplies have been reported, especially in the California tomato area. Other material costs and wage rates are up substantially as well.

Supplies of decidous *fruits* are expected to be about the same this summer as in 1973. Total peach production is expected to be 11% more than last year, while pear production is down 2%. California's grape crop is slightly below the large 1973 crop. Apple production is slightly below last year as increases in the Eastern and Central States failed to offset a production decrease in the Western States. Since the Western States' production is mostly for fresh use, higher fresh market prices may result. Most fresh deciduous fruit prices have been declining seasonally, but are likely to average above year-earlier levels. Wholesale prices for nearly all processed deciduous fruits, particularly canned and dried, have been substantially higher than a year ago. Continued tight supplies are likely to cause further price increases for most canned non-citrus fruit products.

On-tree returns to growers for oranges have averaged above those of a year earlier, but returns for grapefruit have been substantially below last year's high levels. Orange prices will remain above last year's levels through the summer, but grapefruit prices will be below last season's high levels. On-tree returns for fresh lemons have averaged substantially above last season. Florida's pack of most citrus items is slightly below 1973 levels. Current f.o.b. prices of most canned citrus items are slightly above 1973.

Prices at all levels for most categories of fruit will remain high during the remainder of 1974 and the first half of 1975. The index of prices received by farmers for fresh and processed fruit during the remainder of 1974 and early 1975 is expected to be 8% above a year earlier, reflecting low levels of canned non-citrus stocks and continued strong domestic and foreign demand for fresh and processed fruit. Retail prices will parallel the movement of farm prices during this period.

Farm Inputs

Demand for farm inputs is continuing strong this year. With net farm income expected to be the second highest on record, domestic demand will remain heavy. Similarly, foreign demand for U.S. produced inputs will also continue strong spurred by rising incomes and strengthened food production efforts.

With the fuel crisis behind us, the availability of petroleum fuel is expected to continue favorable for farming during the remainder of 1974. However, petroleum product prices will continue higher, averaging 50% above year-ago levels.

The fertilizer situation reflects acute nitrogen shortages in nearly a tenth of all agricultural counties. Five percent of the counties report shortages for phosphate, potash, and mixed fertilizers. On June 30, the fertilizer industry was relieved of all price control commitments with some companies subsequently announcing price increases of nearly 30% on some materials. Price increases ranged from $30 to $75 per ton, f.o.b. Supplies of fertilizer in 1975 will continue tight with the severity depending primarily on crop prices. Continued high crop prices will push fertilizer demand beyond available supplies in 1975.

The supply of nitrogen is expected to increase 7% in 1975 due to the start-up of two new ammonia plants plus the restart of idle plants. With the addition of new plants, the phosphate supply is expected to increase nearly 13%. Net fertilizer exports are not expected to change substantially from current levels. On balance, nitrogen and phosphates will remain in very tight supply through 1975.

In response to record net farm income, 1973 sales of new tractors and other farm machines in the Great Plains and Western regions increased a fourth over 1972 sales. Prices also rose, however, with the June 1974 index of prices paid for farm machinery 16% higher than a year earlier. Prices of new farm machinery in 1974 will increase 8 to 12% above 1973 levels. Demand for new equipment is expected to slacken by mid-1975 because of the decline in 1974 net farm income, high interest rates, and a reduction in replacement needs because of last year's purchases.

Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1973	1973 III	1973 IV	1974 I	1974 II 1/
	Billion dollars				
Gross national product	1,294.9	1,308.9	1,344.0	1,358.8	1,387.3
Gross national product (1958 dollars)	839.2	840.8	845.7	830.5	828.8
Disposable personal income	903.7	913.9	939.4	950.6	966.5
Personal consumption expenditures	805.2	816.3	823.9	840.6	869.1
Durable	130.3	132.4	124.3	123.9	129.5
Nondurable	338.0	343.8	352.1	364.4	375.8
Services	336.9	340.1	347.4	352.4	363.8
Personal savings	74.4	73.2	89.3	84.4	71.5
Net government receipts	279.9	283.6	288.7	298.0	306.8
Government purchases	276.4	276.9	286.4	296.3	304.4
Federal	106.6	105.3	108.4	111.5	114.3
State and local	169.8	171.6	177.9	184.8	190.1
Deficit or surplus (on income and product accounts)	3.5	6.7	2.3	1.8	2.4
Gross private domestic investment	209.4	209.0	224.5	210.5	211.8
Fixed investment	194.0	197.1	195.5	193.6	198.3
Residential	57.2	58.1	53.6	48.4	48.8
Nonresidential	136.8	139.0	141.9	145.2	149.4
Change in business inventories	15.4	11.8	28.9	16.9	13.5
Gross retained earnings	136.5	137.1	140.1	138.3	139.2
Excess of investment	-72.9	-71.9	-84.4	-72.2	-72.6
Net exports of goods and services	3.9	6.7	9.3	11.3	2.0
Per capita disposable personal income (1958 dollars)	2,945	2,952	2,952	2,887	2,850
Total civilian employment (millions) 2/	84.4	84.8	85.7	85.8	86.0

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

GENERAL ECONOMIC SITUATION

The first half of 1974 provided little basis for optimism about the outlook for the remainder of this year or for most of 1975. Real GNP declined at a 0.8% annual rate in the second quarter following the 7.0% rate of decline in the first quarter. Inflation as measured by the GNP deflator increased at a 9.6% rate in the second quarter after the 12.3% rate of increase in the first quarter. Net exports of goods and services showed only a slight surplus in the second quarter after recording significant surpluses since mid-1973. Fixed business investment remained firm through the first half of 1974 with the increase in nonresidential investment off-setting the sharp drop in housing starts.

Revised business inventory data suggest a potentially large inventory overhang. However, given the current state of the economy and the rapid rate of price increases it is difficult to fully interpret these inventory levels. Although the inventories will be worked down, a severe liquidation does not seem imminent in the second half.

Personal consumption expenditures, which represent roughly two-thirds of GNP, continued to rise due to price increases, but real expenditures remain near late 1972 levels. Real durable purchases, particularly autos, were off sharply in late 1973 and have recovered only slightly. Real nondurable purchases have likewise declined and with real purchasing power being eroded by inflation little gain is in sight.

Major GNP components, change from previous quarter

Item	1973	1974	
	IV	I	II[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Total change in GNP	35.1	14.8	28.5
Consumption	7.6	16.7	28.5
Private nonresidential fixed investment	2.9	3.3	4.2
Housing	-4.5	5.2	.4
Inventory[2]	17.1	-12.0	-3.4
Net exports	2.6	2.0	-9.3
Government	9.5	9.9	8.1

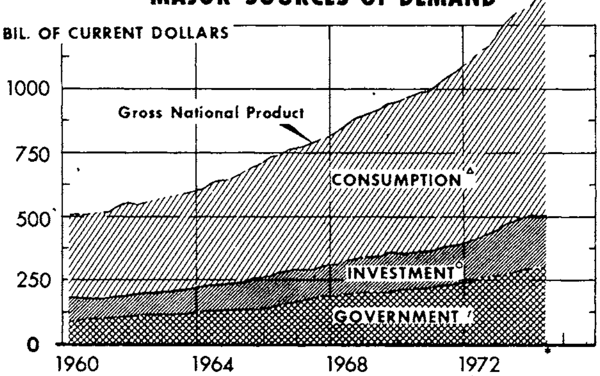
[1] Preliminary. [2] See footnote text table page 19.

Restraint Necessary

The key to weathering the current economic situation will likely be in adhering to the fiscal and monetary restraint necessary to eventually slow inflation. If the restraint can be substained, the groundwork for a recovery in late 1975 and 1976 will be laid.

The outlook for the remainder of 1974 and well into 1975 is for little or no real growth and continued high rates of inflation. The probable quarter to quarter variation is likely to be small, and further quarterly declines are possible. 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. Prospects point to a 9 to 9½% annual rate for the remainder of 1974, possibly easing to 7½% by mid-1975. These inflationary developments reflect in part a shift from demand-pull inflation, fueled by demand in excess of available supplies, to a cost-push situation reflecting sharp rises in unit labor and raw material costs.

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 (8) ECONOMIC RESEARCH SERVICE

Nonresidential fixed investment is the key uncertainty which will likely determine much of the real growth likely to occur over the next four quarters. Although current surveys indicate to a 12 to 14% increase in business investment in nominal terms for 1974, the rapid rate of price increase in investment goods means that real investment will increase only about 2 to 3%. This capacity expansion is crucial to mitigating the slowdown and decline in real output and alleviating widespread shortages, while laying the groundwork for a later recovery.

However, high interest rates may be beginning to influence this investment, particularly by utilities. The dividend omission by Consolidated Edison of New York has made investors wary, and a number of utilities have recently postponed or reduced borrowing and investment plans. If the investment anticipation surveys to be reported in mid-September reflect a downward revision in such plans for late 1974 or early 1975, the decline in real GNP could be sharper and continuous into mid-1975.

Federal receipts and expenditures, national income basis[1]

Item	1973 First half	1973 Second half	1974 First half[2]
	Billion dollars	*Billion dollars*	*Billion dollars*
Receipts	252.0	265.0	285.5
Personal tax	109.1	119.2	126.8
Corporate profits tax	43.8	43.6	49.7
Indirect business tax	21.2	21.2	21.7
Social insurance	78.0	81.0	87.4
Expenditures	261.3	267.0	286.3
Goods and services	106.3	106.8	112.9
Transfer payments	93.4	97.6	110.0
Grants to State and local governments	40.6	40.4	43.0
Net interest paid	15.4	17.2	18.3
Subsidies less surplus	5.8	4.9	1.8
(-) Wage accruals	0	0	-.3
Surplus or deficit	-9.3	2.0	-.8

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

Price Increases Continue

Although the rate of increase in the Wholesale Price Index moderated somewhat in the second quarter, increasing at a 14% annual rate, the index jumped sharply in July, increasing 3.9% from June. Wholesale prices for farm products and processed foods and feeds, which had declined throughout the second quarter, accounted for much of the sharp July increase. The index for industrial commodities continued its persistent rise, particularly the metals, fuels, machinery and chemicals groups.

The Consumer Price Index continued to increase sharply in the second quarter, rising at an annual rate of 11.7%. Although the rate of retail food price increases slowed during the period, nonfood prices increases were more than offsetting. In July the all items index increased at a nearly 10% annual rate.

Prices as measured by the GNP implicit price deflator continued sharply upward in the second quarter at a 9.6% seasonally adjusted annual rate compared with a 12.3% rate in the quarter ending in March.

Although inflation rates may not reach two-digit levels for the remainder of 1974, they will remain at high levels compared to historical experience. Prospects are for a 9 to 9½% annual rate for the remainder of 1974, possibly easing to 7½% by mid-1975.

The likely inflationary pattern over the next several months is not heavily fueled by large increases in prices for petroleum and nonfood primary materials, because these increases have mostly worked their way through the system by now. Rather a number of related factors are at work: (1) by far the most important factor is the sharp increases in unit labor costs. With wage gains expected to average 8 to 9% over the next year and gains in productivity expected to be quite small and possibly even negative, unit costs could increase at an 8½ to 9% rate and exert substantial cost-push pressure. This would build in inflationary pressures for years to come, (2) further food price increases are likely this year and in early 1975 in view of the smaller crop production, and (3) a number of companies made commitments to hold the line on prices until the third quarter 1974 in order to

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

achieve early exemptions from controls. Thus, more post-control increases can be expected.

Real Income and Expenditures Decline

Inflationary pressures have eroded a large amount of real purchasing power from the consumer. Real per capita disposable income in the first half of 1974 was nearly 2½% below a year ago. The savings rate had correspondingly declined from a peak of 9½% in the fourth quarter of 1973 to 7.4% in the second quarter of 1974.

Although personal consumption expenditures in 1974 have continued to rise, largely due to price increases, real purchases have recovered only slightly from a first quarter decline. Real nondurable purchases declined in the first quarter and remained lower in the second. Durable purchases also declined in the first quarter but recovered somewhat in the second quarter largely due to increased auto purchases in anticipation of new model price increases.

The erosion of consumer buying power will continue well into 1975 as a result of the rapid inflation. Correspondingly, consumer sentiment will remain at very low levels, although above the extremely depressed levels at the time of the gasoline shortages. With the unemployment rate likely to reach 6% by late 1974 and continue upward, real personal consumption expenditures will remain virtually flat and average below 1973 levels.

Major personal income components, change from previous quarter

Item	1973	1974	
	IV	I	II[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	31.3	13.2	22.1
Wages and salaries	18.8	10.6	17.6
Manufacturing	6.3	.2	5.3
Nonmanufacturing	8.7	7.8	9.2
Government	3.9	2.5	3.1
Other income	9.7	-.3	-2.3
Transfer payments	3.1	6.1	7.6
Social insurance payments (minus)	.5	3.0	.8
Personal tax payments	5.7	2.0	6.3
Disposable personal income	25.5	11.2	15.9
Personal outlays	9.4	16.1	28.7
Personal savings	16.1	-4.9	-12.9

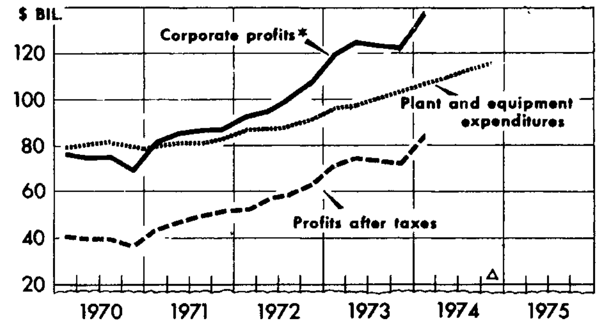
[1] Preliminary.

Investment Softens Downturn

Gross private domestic investment holds the key to any possible real growth and at the same time suggests continued recessionary pressures. Capacity expansion through plant and equipment investment contributed the primary growth impetus in the first half of 1974. The current surveys indicate that such investment may increase 12 to 14% in 1974 over last year. Although this represents only a 2 to 3% increase in real investment it has softened the downturn and helped maintain employment.

With the housing market continuing in a depressed state, investment in residential structures continued at a low level throughout the first half. With interest rates remaining high it is unlikely that any impetus to growth can be expected from the housing market until well into 1975.

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



*BEFORE TAXES ΔANTICIPATED SEASONALLY ADJUSTED ANNUAL RATE

U S DEPARTMENT OF AGRICULTURE NEG. ERS 7000-74 (8) ECONOMIC RESEARCH SERVICE

Revised business inventory data suggest a potentially large inventory overhang which has appeared in four of the last five recessionary periods. A rapid liquidation of inventories due to the high costs and interest rates, with the coincidental slowing in production and capacity expansion, could have serious impacts on an already weak economy. However, it may be premature to interpret the current figures in such a light. A shortage-induced downturn, which we have not experienced in the past, coupled with rapid inflation may lead to an alteration in inventory management practices and policies. At this time a more moderate elimination of inventories seems likely.

Employment and Income to Deteriorate

Although total employment rose rapidly during 1972 and most of 1973, its advance slowed late last year when the oil embargo contributed to the economic slowdown, and at year-end the rate of unemployment rose. A slower rate of labor force growth in 1974 has about equaled the reduced rate of employment gains, and consequently the unemployment rate has shown little change. Additionally, much of the decline in real output in the first quarter was centered in the automobile industry

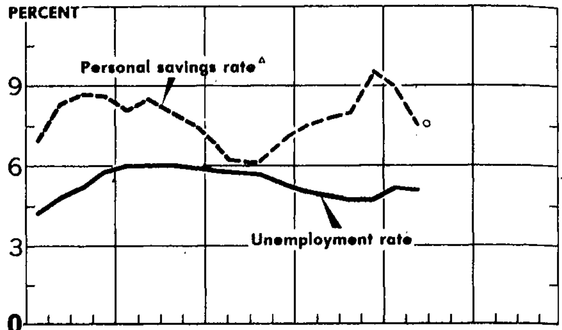
GNP and final sales, change from previous quarter

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	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[2]	28.5	25.1	-3.4

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the second quarter of 1974 ($13.5 billion) less the change in the first quarter of 1974 ($16.9 billion) equals minus ($3.4 billion).
[2] Preliminary.

where labor productivity is relatively high. Consequently the large drop in output could still sustain employment levels. Also, a shortage-induced downturn makes employers more reluctant to let employees go until slackening demand appears imminent.

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. PERSONAL SAVINGS RATE SERIES REVISED BEGINNING 1971.

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 8018-74 (8) ECONOMIC RESEARCH SERVICE

Total employment was 86.3 million in July, essentially unchanged from June but up by 500,000 since April. This increase followed a 6-month period of virtually no change. The number of unemployed persons remained near the June level of 4.8 million with the unemployment rate reaching 5.3% only slightly above June.

With inflation continuing to erode the purchasing power of the consumer and with investment plans dampened by high interest rates, the increasingly slack demand will likely lead to sharp increases in the unemployment rate in coming months. It seems likely that the unemployment rate will reach 6% by year-end.

LIST OF TABLES

Tables

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, $300

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101
FIRST CLASS

U.S.MA

NOTICE: If you don't want future issues of this ERS publication, check here ☐ and mail this sheet to the address below.

If your address should be changed, write your new address on this sheet and mail it to:

Automated Mailing List Section
Office of Plant and Operations
U.S. Department of Agriculture
Washington, D.C. 20250

DPS-141 AUGUST 1974