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DEMAND AND PRICE SITUATION

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MAY 6 1969

STRONG DEMAND BOOSTS PRICES

DESPITE SLIGHT INCREASE

IN SUPPLIES OF FARM PRODUCTS

DPS-120

MAY 1969

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

Selected measures of economic activity

DPS-120

Item	Unit	1967		1968				1969	Year 1968
		III	IV	I	II	III	IV	I <u>1/</u>	
Gross national product	: Bil. dol.	: 795.3	811.0	831.2	852.9	871.0	887.4	903.4	860.6
Disposable personal income	: Bil. dol.	: 550.0	559.6	574.4	586.3	592.7	602.4	608.6	589.0
Personal consumption expenditures	: Bil. dol.	: 495.5	502.2	519.4	527.9	541.1	546.8	558.4	533.8
Food spending (excluding alcoholic beverages)	: Bil. dol.	: 94.7	96.2	98.6	101.0	102.2	103.1	105.5	101.2
Implicit price deflator for GNP	: 1958=100	: 117.7	118.9	120.0	121.2	122.3	123.5	124.8	121.8
Unemployment rate <u>2/</u>	: Percent	: 3.9	3.9	3.6	3.6	3.6	3.4	3.3	3.6
Cash receipts from farm marketings	: Bil. dol.	: 43.0	42.7	43.2	44.0	44.9	44.3	45.0	44.1
Farm production expenses	: Bil. dol.	: 35.0	35.0	35.4	35.9	36.2	36.3	37.0	35.9
Realized net farm income	: Bil. dol.	: 14.2	13.9	14.4	14.8	15.4	14.8	14.8	14.9
Agricultural exports <u>3/</u>	: Bil. dol.	: 1.4	1.8	1.6	1.5	1.4	1.7	.9	6.2
Agricultural imports <u>3/</u>	: Bil. dol.	: 1.1	1.1	1.2	1.3	1.3	1.2	1.0	5.0
Prices received by farmers <u>4/</u>	: 1910-14=100:	: 255	252	256	259	263	262	267	260
Livestock	: do.	: 284	273	280	283	295	293	303	288
Crops	: do.	: 220	228	229	232	226	225	225	228
Prices paid by farmers <u>4/ 5/</u>	: do.	: 343	344	348	354	355	359	366	354
Wholesale price index, all commodities <u>4/</u>	: 1957-59=100:	: 106.3	106.4	107.8	108.5	109.0	109.5	111.2	108.7
Consumer price index, all items <u>4/</u>	: do.	: 116.8	117.8	119.0	120.4	121.9	123.3	124.8	121.2
All food	: do.	: 116.2	115.8	117.4	118.7	120.3	120.9	122.1	119.3

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

Departments of Agriculture, Commerce, and Labor.

MAY 1969

THE DEMAND AND PRICE SITUATION

Approved by the Outlook and Situation Board, May 9, 1969

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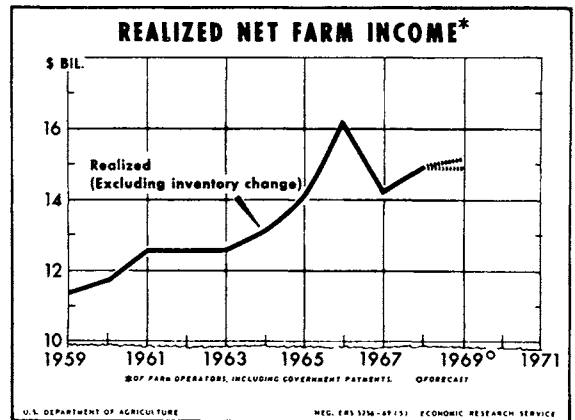
SUMMARY*

Farm product prices and market receipts in 1969 are being buoyed by strong consumer demand and general price pressures. Although beef production in the first quarter was up less than expected, supplies are running larger for red meats, broilers, fruits, and vegetables compared with a year earlier. In addition, stocks of food grains and soybeans are up sharply. But supplies of milk, eggs, and turkeys continue below a year ago. Farm product prices so far this year have averaged 4% higher. Prices for livestock and livestock products averaged nearly 9% higher; crop prices were down 2%.

Higher average farm product prices and a slightly larger volume of farm marketings are contributing to a substantial increase in cash receipts this year. However, accelerated increases in prices paid by farmers led to a big first quarter jump in farm production expenses. As a result, first quarter realized net income held at the fourth quarter 1968 rate of \$14.8 billion (seasonally adjusted annual rates). This was still more than \$400 million above the rate for the first quarter 1968.

The agricultural outlook for the rest of 1969 points to larger supplies of livestock products and crops. However, because of a strong domestic demand situation, average farm product prices will probably be fairly well maintained and

cash receipts are expected to show a moderate increase for the year. In addition, direct Government payments are also expected to be up slightly. However, the gain in realized gross farm income may be absorbed by rapidly expanding farm production expenses, leaving net farm income for the year around the \$14.9 billion realized in 1968.



The general economy continues to show strength coupled with inflationary

*The Summary of this report was released on May 9, 1969.

pressures. Employment, output, and personal incomes advanced substantially in the first quarter. But the rise in gross national product in this period lagged the sizable quarterly increases of 1968, partially as a result of fiscal and monetary measures designed to slow the rapid expansion in demand.

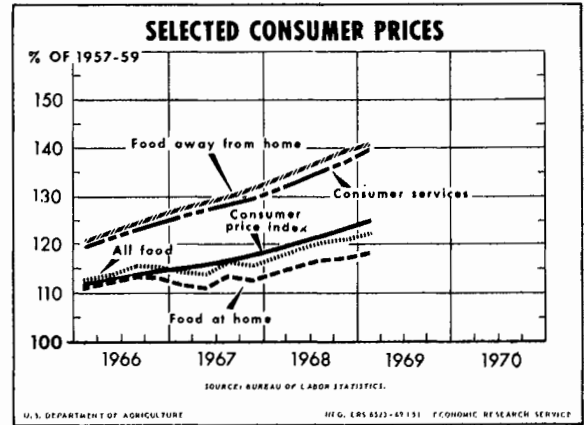
A strong but somewhat slower demand expansion is expected for the rest of the year with some moderating of price advances. The Federal Government, barring an emergency, plans to continue limiting purchases of goods and services while at the same time it is increasing its tax revenues. If the surtax is extended, the 7% investment tax credit is repealed, and proposed defense and welfare program expenditures are reduced, there should be a surplus in the Federal accounts in fiscal year 1970. However, State and local Government expenditures are expected to continue their steady upward trend.

Nonresidential fixed investment in the first quarter made one of the largest advances ever recorded. Moreover, businessmen, encouraged by 1968 profits and a favorable long-term outlook, raised their spending plans for the entire year. More recently, however, these plans may have been tempered by rising construction and credit costs.

Residential construction made slight gains in the past quarter despite a tight and expensive mortgage market. But housing starts declined on a seasonally adjusted basis in February and March. Whether the pent-up demand for living space can continue to compete for funds in the near future is a moot question. Tight mortgage terms may continue to limit new housing starts.

Increased consumer expenditures provided the main source of expansion in the first quarter, despite a slowing in disposable personal income gains. Consumer buying is expected to continue to be a source of strength throughout the year.

Demand for food was very strong in the first quarter as retail food expendi-



tures (excluding alcoholic beverages) climbed to a \$105.5 billion rate. About half of the rise in outlays for food was due to higher retail food prices. Food prices at grocery stores were up $3\frac{1}{2}\%$ in the first quarter from a year earlier, while restaurant prices were $5\frac{1}{2}\%$ higher. Retail food prices will continue above 1968 levels throughout the year. For all of 1969, retail food prices are expected to show a somewhat smaller increase than the $3\frac{1}{2}\%$ advance in 1968. Prices at grocery stores may be up about $2\frac{1}{2}\%$; those at restaurants 4 to 5% higher. These rates compare with last year's gains of 3 and 5% , respectively.

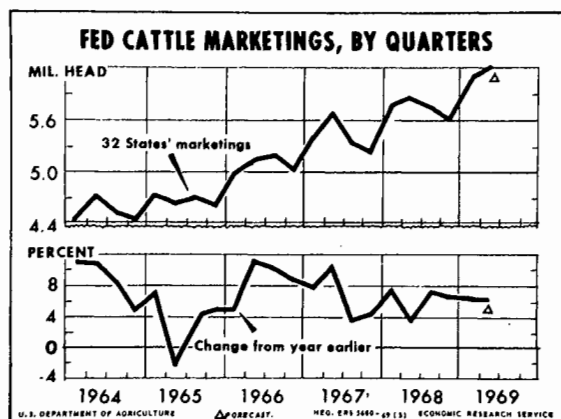
Our international trade situation will probably hinge upon an improved competitive position resulting from a slowing in domestic price advances. The recent dock strikes apparently limited exports more than imports, lowering our net trade balance in the first quarter.

Export markets for U.S. farm products have been disappointing this fiscal year because of large world supplies and the prolonged longshoremen's strike which was only recently settled. However, domestic markets for most farm products are expanding this year.

The outlook for major commodities...

...Beef production was up 2% in the first quarter, and is expected to continue larger in 1969 due to prospects for larger marketings of fed cattle. Prices are

currently well above a year ago and are expected to continue higher in coming months.



...Pork production is running about 5% larger this year, and current indicators suggest this increase over 1968 levels will continue. Producer prices in April averaged about \$1 per 100 pounds above a year ago, but in the second half they may average close to a year earlier if further increases in supplies of pork and competing meats materialize.

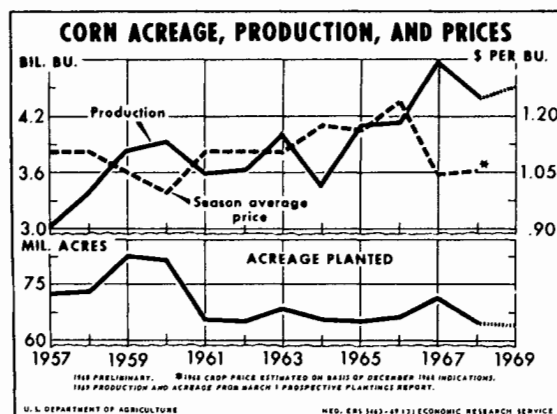
...Broiler production exceeded year-earlier output by around 7% in early 1969. Prospects point to an even larger gain this spring. Prices averaged higher than a year earlier during January-March but may be under some pressure later in the year.

...Turkey production is currently below 1968 levels, but cold storage stocks are relatively large. Prices were up a tenth in the first quarter, but in the second half they likely will average close to a year earlier, if producers carry out plans to expand output by 3% during the main marketing season.

...Egg production is expected to continue to lag year-earlier rates until late this year. Prices averaged nearly a third above a year earlier in the first quarter, and they are expected to continue above 1968 levels until around mid-summer.

...Milk output has averaged about $1\frac{1}{2}\%$ lower this year. However, declines from a year ago are expected to narrow in coming months. Producer prices will probably continue above a year earlier.

...Sharply expanding domestic demand for feed grains is more than offsetting smaller exports. Carryover stocks are expected to be lower. Prospective plantings indicate the 1969 crop may total a little above the 168 million tons in 1968. Coupled with stocks, supplies would change little from 1968/69.



...Disappearance of wheat during 1968/69 is running below a year earlier, due to sharply reduced exports. Although domestic use is up, stocks have risen substantially. A 1969 wheat crop of 1.4 billion bushels is in prospect, about 8% below last year's crop. However, with a larger carryover, total supplies are expected to be up in 1969/70.

...Domestic use and exports of soybeans are expanding slightly in 1968/69. But the increase is not enough to offset substantially larger supplies, and carryover is expected to be up sharply. Prospective plantings point to a 1969 soybean crop of 1.1 billion bushels, about the same as last year's crop. But with a bigger carryover, total supplies in 1969/70 would be substantially larger.

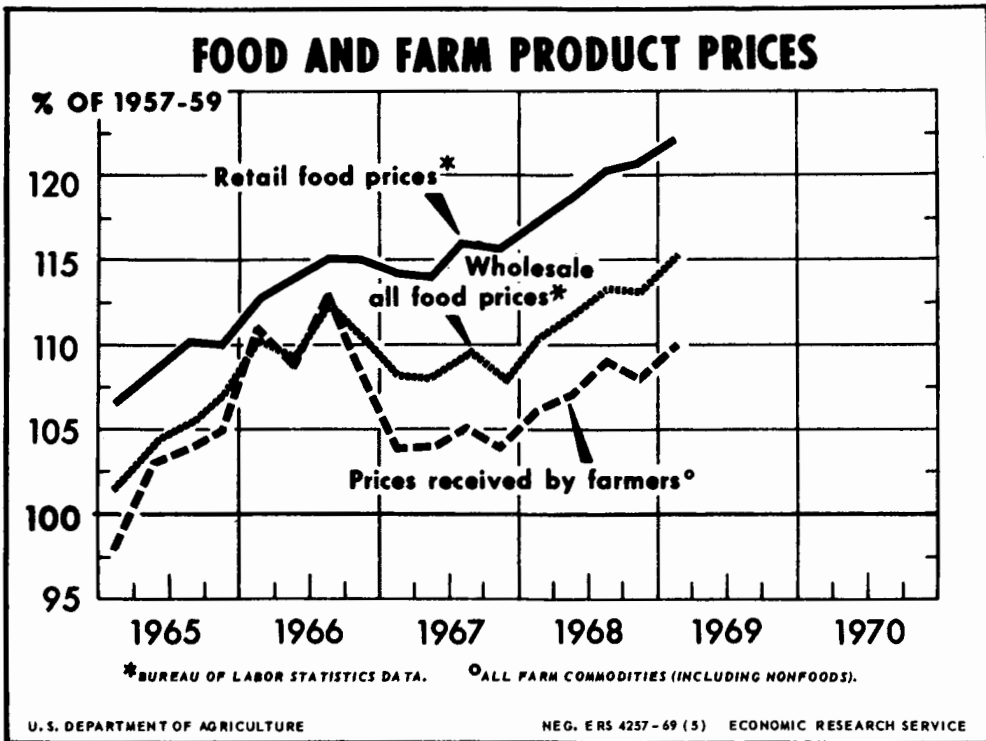
...Disappearance of cotton has been down in 1968/69 due to reductions in domestic consumption and exports. But total use will probably be only a little

below the 1968 crop, and carryover next August may change little from last year's 6½ million bales. Planting intentions indicate about 12 million acres will be put in cotton in 1969, about 1.1 million more than were planted in 1968.

...Fresh and processed fruit supplies are considerably larger this season and prices are generally lower. The sea-

son's citrus crop is up more than a third; processed noncitrus inventories are heavy.

...Fresh vegetable supplies this spring are about as large as last year. Prices are expected to continue slightly under the high 1968 levels. Stocks of processed vegetables are up substantially and prices will probably continue lower until the new season begins.



AGRICULTURAL SITUATION

Prices of farm products and market receipts are being buoyed by strong consumer demand and advancing price pressures throughout the economy. Although beef production was up less than expected in the first quarter, supplies are running larger for red meats, broilers, fruits, and vegetables compared with a year earlier. In addition, stocks of food grains and soybeans are larger. But supplies of milk, eggs, and turkeys continue below a year earlier. So far this year, prices received by farmers averaged 4% above 1968 levels, and cash receipts were up 6%.

Most of the demand strength has been in the livestock sector where producer prices in the first 4 months of this year climbed 9% above a year earlier. Livestock prices were higher than expected because the increase in beef supplies was smaller than anticipated. In addition, output of veal, lamb, eggs, and milk was reduced. Support prices for milk, above a year earlier in the first quarter, also contributed to strength in livestock product prices. Crop prices, however, have been under downward pressure; they have averaged 2% below a year earlier so far this year. Domestic use of grains and soybeans in 1968/69 has expanded, but consumption of cotton and tobacco has lagged. In addition, export markets for grains and cotton have been depressed. Although shipments of farm products abroad picked up in March after settlement of the longshoremen's strike, the near-term export outlook is still not promising in view of large world supplies, particularly of grains.

Domestic Demand

Growing domestic markets continue to be the primary source of demand expansion for farm products. Favorable livestock-feed price relationships have encouraged increased feeding of feed grains, wheat, and oilmeals during

1968/69. Current prospects are also favorable for expanded domestic use of raw wool during 1969. Domestic consumption of cotton, however, has again eased lower, because of intense competition from man-made fibers. On the tobacco scene, U.S. smokers consumed slightly fewer cigarettes in 1968, and rising prices and smoking-health publicity are expected to limit any increase for this year.

Domestic demand for food was very strong in the first quarter. Retail food expenditures (excluding alcoholic beverages) climbed to a \$105.5 billion rate, and averaged nearly 7% above the same period in 1968. Although after-tax incomes were up only about 6% from a year earlier, consumers continued to increase spending for food and other goods and services by lowering their current savings. About half of the first quarter rise in outlays for food represented higher retail food prices.

Expenditures for food are expected to continue upward, but increases this year will probably moderate as monetary and fiscal actions temper further gains in consumers' disposable income.

Retail food prices rose 1% from the fourth to the first quarter. Compared with a year earlier, they were up 4%. Food prices at grocery stores were up $3\frac{1}{2}\%$ while restaurant prices were around $5\frac{1}{2}\%$ above a year earlier.

Food supplies in general are expected to continue larger than a year earlier throughout 1969. Among the major foods, larger per capita consumption is likely for pork, beef, chicken, citrus fruit, and vegetables. Consumption of fats and oils and cereal and bakery products may about match 1968 levels, while declines are indicated for milk, veal, and lamb. Retail food prices will probably average higher in 1969 despite expectations for some increase in food sup-

plies. For all of 1969, retail food prices are expected to show a somewhat smaller increase than the $3\frac{1}{2}\%$ advance in 1968. Prices at grocery stores may run about $2\frac{1}{2}\%$ higher; those at restaurants 4 to 5% higher.

International Trade

The U.S. agricultural export situation has been disappointing this season. Movement of farm commodities abroad during July-March 1968/69 totaled \$4 billion, 16% below the year-earlier level (see table). The reduction was partly due to the longshoremen's strike which was recently settled. Also, large well-distributed world grain supplies have increased competition in world markets and sharply reduced the requirement for U.S. food aid shipments to India and Pakistan. Moreover, foreign supplies of cotton are increasing in relation to utilization, and as a result, U.S. cotton exports are lower in 1968/69.

U.S. agricultural exports, value
of major commodities

Commodity	July-March		Per- centage change
	1967- 1968	1968- 1969 ^{1/}	
	Mil. dol.		Pct.
Animals and animal products	455	506	11
Cotton	350	200	-43
Feed grains, excl. products	811	574	-29
Fruits	220	214	-3
Soybeans	580	591	2
Tobacco, unmfng.	385	365	-5
Vegetables	120	123	2
Wheat and flour	1,009	617	-39
Rice	235	192	-18
Other	663	661	0
Total exports	4,828	4,043	-16

^{1/} Preliminary.

^{2/} Change computed from unrounded data.

Although most of the drop in exports was due to sharply reduced ship-

ments of wheat, cotton, and feed grains, most other major commodities also declined. Notable exceptions were animal products, vegetables, and soybeans.

During the April-June quarter, exports are expected to show some improvement following settlement of the longshoremen's strike which lasted several months. However, complete recovery of the sharp losses already incurred during this fiscal year is unlikely. For the year as a whole, exports of animal products, vegetables, and soybeans will likely total larger, but substantial declines in value are likely for the grains and cotton, with little change for tobacco.

Imports of agricultural commodities, less affected than exports by port closings, continue to outpace those of a year earlier. Despite a sharp drop from a year ago during January-March, imports so far this fiscal year (1968/69) totaled \$3.6 billion, 6% larger than in the same period last year. This increase reflects a strong upsurge during July-December 1968. Most increases in imports have been in the competitive or partially competitive goods such as live cattle, beef, cheese, sugar, wine, fruits, and vegetables. Noncompetitive items have shown only a slight rise as increases for bananas, rubber, hard fibers, spices, drugs, and oils have been nearly offset by cutbacks for coffee.

Livestock Production and Prices

Output of livestock and products in the first quarter continued slightly ahead of the year-earlier level. Although most production costs have been rising rapidly in the past few years, feed prices have risen only moderately. But prices for livestock products have advanced sharply. As a result, livestock-feed price relationships have become more favorable, encouraging producers to expand output. During January-March, increases in production of pork, beef, and broilers were large enough to slightly more than offset cutbacks in output of lamb, veal, milk, eggs, and turkey. But prices of livestock products held up very well even though total supplies were slightly larger.

Recent widespread strength in livestock product prices reflects very strong consumer demand, rather general inflationary pressures, and smaller than expected increases in production.

Production of red meats was 3% larger in January-March than a year earlier. A 5% increase in pork production and a 2% rise in beef output more than offset declines for lamb and veal. Recent feeder and producer reports indicate further gains in output of red meats are likely this year. Cattle feeders plan to market about 6% more fed cattle during April-June than they did last year. And, the number of cattle currently on feed indicates marketings will probably continue

moderately above last year through summer. In addition, pork production will probably continue above last year because of the larger number of hogs now on hand combined with recent increases in pig crops and breeders' intentions to expand farrowings. The downtrend in output of veal and lamb, however, is expected to continue through the rest of the year.

Even though supplies of total red meats are expected to run larger in coming months, recent market strength and demand prospects suggest beef and pork prices will probably average well above a year earlier at least through midyear. After that, beef prices will likely continue stronger than a year earlier if production

Table 1.--Production and prices received by farmers for major livestock and livestock products, 1966, 1967, 1968, and first quarters of 1968 and 1969

Item	Unit	Annual			First quarter	
		1966	1967	1968 ^{1/}	1968 ^{1/}	1969 ^{1/}
Production ^{2/}						
Cattle and calves	Mil. lb.	20,636	21,011	21,610	3/5,224	3/5,313
Hogs	Mil. lb.	11,339	12,581	13,063	3/3,197	3/3,353
Sheep and lambs	Mil. lb.	650	646	602	3/153	3/142
Chickens	Mil. lb.	7,309	7,527	7,525)	3/1,836	3/1,924
Turkeys	Mil. lb.	1,685	1,883	1,615)		
Eggs	Mil. lb.	8,698	9,163	9,070	2,324	2,223
Milk	Bil. lb.	119.9	118.8	4/117.3	4/28.9	4/28.2
Prices received by farmers						
Cattle	Dol./cwt.	22.20	22.30	23.40	22.70	24.30
Hogs	Dol./cwt.	22.80	18.90	18.60	18.40	19.40
Lambs	Dol./cwt.	23.40	22.10	24.40	23.40	26.30
Chickens	Ct./lb.	14.7	12.7	13.6	13.5	14.2
Turkeys	Ct./lb.	23.1	19.6	20.5	18.2	19.9
Eggs	Ct./doz.	39.1	31.2	34.0	30.9	40.4
All milk (wholesale)	Dol./cwt.	4.81	5.01	5.25	5.17	5.44

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

Table 2.--Supply-distribution and season average prices of selected major crops, 1965/66, 1966/67, 1967/68, and 1968/69

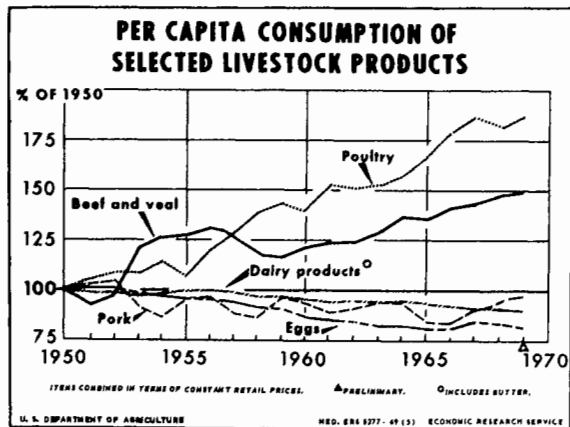
	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price ^{1/}
Feed grains										
1965/66	Mil. tons	54.8	0.3	157.4	212.5	141.3	29.1	170.4	42.1	<u>2/1.16</u>
1966/67	Mil. tons	42.1	.3	157.6	200.0	140.9	22.0	162.9	37.1	<u>2/1.24</u>
1967/68 p.	Mil. tons	37.1	.3	176.0	213.4	142.2	23.3	165.5	47.9	<u>2/1.04</u>
1968/69 e.	Mil. tons	47.9	.3	168.1	216.3	148.3	20.0	168.3	48.0	<u>2/1.05</u>
Wheat										
1965/66	Mil. bu.	817.3	.9	1,315.6	2,133.8	731.2	867.4	1,598.6	535.2	1.35
1966/67	Mil. bu.	535.2	1.7	1,311.7	1,848.6	679.3	744.3	1,423.6	425.0	1.63
1967/68 p.	Mil. bu.	425.0	.9	1,522.4	1,948.3	649.7	761.1	1,410.8	537.5	1.39
1968/69 e.	Mil. bu.	537	1	1,570	2,108	(730-780)	(600-625)	(1,330-1,405)	(703-778)	1.22
Rice										
1965/66	Mil. cwt.	7.7	.7	76.3	84.7	<u>3/33.2</u>	43.3	76.5	8.2	4.93
1966/67	Mil. cwt.	8.2	<u>4/</u>	85.1	93.3	<u>3/33.2</u>	51.6	84.8	8.5	4.95
1967/68 p.	Mil. cwt.	8.5	<u>4/</u>	89.4	97.9	<u>3/34.2</u>	56.9	91.1	6.8	4.97
1968/69 e.	Mil. cwt.	6.8	<u>4/</u>	105.3	112.1	---	---	---	---	5.00
Soybeans										
1965/66	Mil. bu.	29.7	0	845.6	875.3	589.1	250.6	839.7	35.6	2.54
1966/67	Mil. bu.	35.6	0	928.5	964.1	612.4	261.6	874.0	90.1	2.75
1967/68 p.	Mil. bu.	90.1	0	976.1	1,066.2	633.0	266.6	899.6	166.6	2.49
1968/69 e.	Mil. bu.	166.6	0	1,079.7	1,246.3	646	285	931	315	2.42
Cotton ^{5/}										
1965/66	Mil. bales	14.3	.1	14.8	29.3	9.5	2.9	12.4	16.9	28.14
1966/67	Mil. bales	16.9	.1	9.6	26.8	9.5	4.7	14.2	12.5	20.84
1967/68 p.	Mil. bales	12.5	.1	7.2	19.9	9.0	4.2	13.2	6.5	25.60
1968/69 e.	Mil. bales	6.4	.1	10.9	17.5	8.2	2.7	11.0	6.6	25.30

^{1/} Dollars per bushel, except cotton which is cents per pound. ^{2/} Price for corn. ^{3/} Includes the following statistical discrepancies; 1965/66, 2.3, 1966/67, 1.3, and 1967/68, 0.6 mil. cwt. ^{4/} Less than 50,000 cwt. ^{5/} Total cotton supply includes city crop and production prior to August 1 (end of season).

p. Preliminary. e. Estimated.

Details may not add to totals due to rounding.

gains ease somewhat as expected. But pork prices are expected to reflect larger supplies of pork and other competing meats and thus may average near year-earlier levels.



Output of poultry meat in the first quarter was 5% larger than that of a year earlier. The increase reflected around a 7% rise in production of broilers which more than offset a sizable cutback in out-of-season turkey production. Even though production of broilers increased, and red meat supplies were larger, strong consumer demand contributed to 4% higher average prices for broilers so far this year.

Recent data on hatchings and egg settings indicate production of broilers during April-June will exceed first quarter gains. For the rest of 1969, placements of broiler breeder chicks point to continued increases over a year earlier in the size of the hatchery supply flock. Production of turkeys will probably lag year-earlier levels until around the main marketing season (September-December). Producers reported plans to increase the turkey crop by 3% this year; most of these birds will move to market in the second half. If these increases in supplies of poultry and red meat develop, and consumer income advances continue to moderate, prices may average about the same as those of last year.

January-March egg production fell 4% below a year earlier. But the number

of recent replacement pullets added to laying flocks and those currently available indicate egg production may at least match 1968 levels by late summer. Prices for eggs during January-March averaged nearly a third above 1968 levels. As production begins to increase late in the year, egg prices in late 1969 will probably be close to 1968 levels.

Milk production continued to trail last year's level during the first quarter. Total output was down about 1 $\frac{1}{2}$ % from last year as small gains in production per cow failed to offset declines in cow numbers. Much of the drop occurred in the North Central States where poor hay quality and unusually cold weather apparently limited output. Milk production in the second quarter will probably continue a shade below a year earlier, but perhaps by a smaller margin. Average wholesale milk prices to dairy farmers during January-March were 5% above those of last year. Prices are expected to continue higher than a year ago in coming months, but increases will likely be smaller.

U.S. wool production is dropping off again in 1969 because of the continued downtrend in sheep numbers. With some pickup in worldwide use of wool, prices to domestic wool growers averaged slightly higher this spring. Prices are expected to continue above a year earlier throughout most of 1969, due partly to expectations for some expansion in U.S. demand for apparel wool.

Crop Supplies and Prices

Supplies of most crops are larger than a year earlier. However, prices recently have averaged only slightly lower, because of expanding domestic markets and support programs for major crops. With a gain in domestic use of grains and soybeans, and some recovery in exports following the dock strike, average grower prices for crops are likely to be fairly well maintained in coming months.

Supplies of wheat and feed grains have been larger this year because of

bigger carryin stocks and large 1968 crops. However, domestic use of feed grains has expanded sharply last fall and winter, offsetting a sharp drop in exports. Feeding of wheat has increased significantly during 1968/69, but the rise was not large enough to offset substantially reduced shipments abroad. As a result, stocks of wheat are up, while stocks of feed grains are a little less than those of last year (see table). Feed grain prices in April averaged 13% above the lows of last fall, a little more than seasonal for this period. Prices probably will continue strong, averaging somewhat above a year earlier during May-September. Wheat prices, however, have been under pressure and are currently about 6% below a year earlier.

Total use of soybeans (domestic and export) is running above that of last year, but big supplies are holding prices around the support level. Carryover stocks next September are expected to

exceed 300 million bushels compared with last year's 167 million bushels.

Prospects for disappearance of cotton have weakened in recent months. Total use will probably be only a little below the 1968 crop, and carryover stocks next August 1 may change little from last year's 6½ million bales. Cotton prices have steadied in recent weeks after trending down from late 1967 highs.

A fairly stable domestic and export market for tobacco may about maintain total disappearance this marketing year. Total use of tobacco in 1968/69 will probably exceed the 1968 crop by about ¼ billion pounds. This would work down carryover stocks to around 3.8 billion pounds, compared with last year's 4.1 billion.

Supplies of most fruits and vegetables have been plentiful this year and prices are averaging lower. This season's citrus crop is currently estimated 36% larger than last year's reduced output. Prices are expected to average lower at least into midsummer. Prices for most processed citrus items, however, are above a year ago due to smaller carryin stocks and lower juice yields from new-crop oranges. Storage holdings of processed noncitrus fruits, are considerably larger and wholesale prices have averaged slightly lower. According to current prospects, strawberry production will drop sharply this year and prices likely will average materially above last year. Supplies of fresh vegetables and potatoes this spring are expected to about match last year's crops. As a result, prices for most fresh vegetables will probably run below last spring's near-record levels, except for fresh lettuce prices which are expected to average higher because of a sharply reduced crop. Stocks of processed vegetables are substantially larger so far this year and prices will likely continue lower until the new packing season begins. Potato prices have been sharply higher than a year ago in the West, but large storage stocks have kept pressure on markets in other areas. Delays in early spring crop harvests may cause a temporary marketing gap in June.

Grain and position	Apr. 1, 1968	Apr. 1, 1969	Percentage change 1969/68
	<u>Mil. tons</u>		<u>Pct.</u>
TOTAL FEED			
GRAINS			
On farms 1/	80	76	-4
Off farms 2/	37	39	5
Total	117	115	-1
	<u>Mil. bu.</u>		<u>Pct.</u>
WHEAT			
On farms 1/	362	462	28
Off farms 2/	477	650	36
Total	840	1,112	32
SOYBEANS			
On farms 1/	236	258	9
Off farms 2/	301	449	49
Total	537	707	32

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

1969 Crops

Growers' planting intentions and other recent reports on crop production point to another increase in total crop output this year. Farmers reported plans to plant around a million more acres than they planted in 1968. However, if allowance is made for the acreage seeded to winter wheat and rye last fall, total acreage planted for harvest in 1969 is about 5 million less than a year earlier. But higher expected yields and sizable acreage increases for a number of crops such as cotton, tobacco, and flaxseed are expected to contribute to another record crop in 1969. In addition, small increases are expected in output of feed grains, peanuts, sugar beets, and dry beans and peas. On the other hand declines are expected in production of potatoes and particularly food grains. Output of soybeans and hay will probably total about the same as in 1968 (table below).

Prospective crop production
(48 State data)

Crop	Unit	1968 Production	Indicated 1969 as % of 1968 ^{1/}
Winter wheat	: Mil. bu.	: 1,229	<u>2/92</u>
Spring wheat	: Mil. bu.	: 342	87
Rice	: Mil. cwt.	: 105	96
Corn	: Mil. bu.	: 4,375	103
Sorghums, all	: Mil. bu.	: 739	105
Oats	: Mil. bu.	: 930	98
Barley	: Mil. bu.	: 418	98
Hay	: Mil. tons	: 125	100
Cotton	: Mil. bales	: 10.9	<u>3/</u>
Tobacco	: Mil. lb.	: 1,716	111
Soybeans	: Mil. bu.	: 1,080	100
Flaxseed	: Mil. bu.	: 27	114
Peanuts	: Mil. lb.	: 2,528	106
Potatoes, all	: Mil. cwt.	: 293	98
Sweet potatoes	: Mil. cwt.	: 13.3	109
Beans, dry edible	: Mil. cwt.	: 18	104
Peas, dry field	: Mil. cwt.	: 4	114
Sugar beets	: Thou. tons	: 25	107

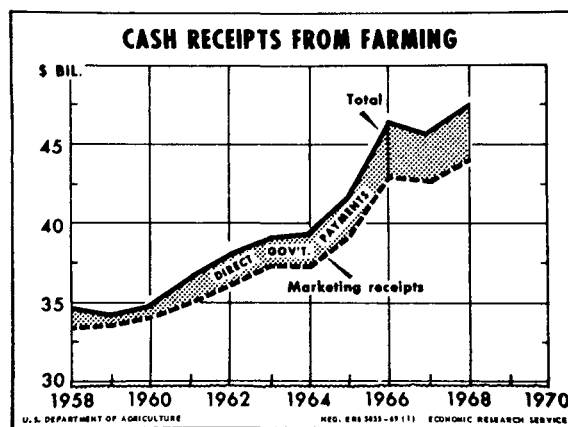
^{1/} Based on March 1969 prospective plantings and average yields with an allowance for trend.

^{2/} Based on May 1969 estimate.

^{3/} Not available.

Farm Income

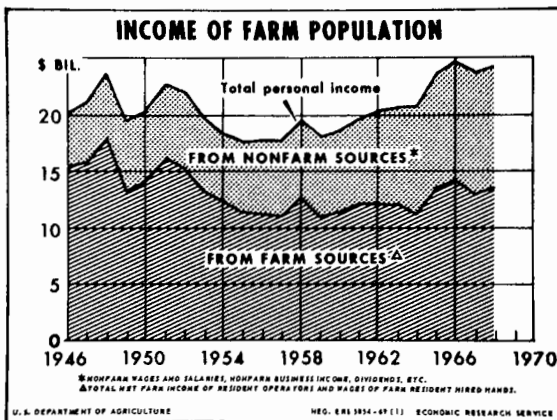
Cash receipts to farmers surged to a first quarter record of \$10 billion in 1969. This was more than a \$ $\frac{1}{2}$ billion increase over the same period a year earlier. Most of the increase came from higher prices for livestock and products. Receipts to crop growers were up slightly, due to a larger volume of marketings. But strong price pressures throughout the economy boosted the index of prices paid by farmers for production items including interest, taxes, and wage rates, to a record high in the first quarter, 5% above a year earlier. As a result, farm production costs rose sharply and held real-ized net farm income around the fourth quarter 1968 level of \$14.8 billion (seasonally adjusted annual rates). However, first quarter realized net income was up about \$400 million from January-March 1968.



Although expectations for increases in output of livestock and products this year have weakened somewhat, a gain in the volume of livestock marketings still seems likely. And planting intentions and other crop indicators point to another large crop output. Although a larger volume of crop marketings is in prospect, current market strength and demand expectations suggest average prices for crops will be fairly well maintained for the year. As a result, cash receipts are expected to

expand by more than \$1½ billion from last year's \$44 billion. In addition, direct Government payments to farmers are expected to be slightly larger in 1969.

However, prices paid for goods and services used in farm production are rising, and purchases of some major production items are on the increase. As a result, most of the increase in realized gross farm income will probably be absorbed through higher production costs this year, leaving producers with about the same net income as the \$14.9 billion they realized in 1968. But the long-term decline in farm numbers and farm population is continuing. Thus, net income realized per farm will probably rise from last year's \$4,865. In addition, farmer participation in nonfarm business opportunities is expected to add substantially to advances in off-farm incomes of farm people.



Farm Input Costs

Prices paid for farm production inputs, and particularly overhead costs, have been accelerating during the past few years. In the first quarter, prices paid for production items alone were 3% above those of a year earlier, but when

costs of interest, wages, and taxes were added the increase over a year earlier climbed sharply to more than 5%. Among the items showing the sharpest price increases over a year earlier were building materials, interest, and wages--all up more than a tenth; feeder-livestock, farm machinery, motor vehicles, and taxes ranged between 5 and 10% higher. Although farmers will likely face further advances in production costs this year, increases are expected to be tempered some later in the year by recent monetary and fiscal actions designed to reduce inflationary pressures.

It is still early to accurately assess the fertilizer situation for this year, but it now appears that total U.S. supplies are generally larger, with some exceptions. Prices paid by farmers for fertilizer are currently below a year earlier and if crop prices continue fairly well maintained, fertilizer purchases will likely show some increase in 1969 unless distribution problems arise.

Preliminary information indicates that shipments of farm machinery may be getting off to a slightly stronger start this year than last. Although only January-February 1969 data are available, the value of farm machinery shipped was up nearly 7% from the same months last year. However, wheel tractor shipments were down by more than this amount. The Farm and Industrial Equipment Institute reports retail tractor sales around a tenth below a year earlier during January-February. Prospects for farmers' expenditures on farm machinery for the year are still uncertain and will depend primarily on the cost and availability of financing, farm product-machinery price relationships, and the age and conditions of existing equipment on farms. Also, elimination of the 7% investment credit on taxes would probably have some dampening effect on purchases of capital equipment.

GENERAL ECONOMIC SITUATION

The economy continues to show strength coupled with inflationary pressures. Employment, output, and personal incomes advanced substantially in the first quarter. Sales to final users 1/ surged. However, the rise in gross national product in this period lagged the sizable 1968 quarterly advances, partially as a result of fiscal and monetary measures designed to slow the rapid expansion in demand.

Inventory accumulation was slower, net exports declined, and Federal purchases advanced only slightly. Nonresidential investment made one of its largest quarterly advances ever recorded, and consumer spending doubled its fourth quarter 1968 advance which had slowed from record highs earlier in the year. State and local expenditures continued their steady trend upward.

Outlook for 1969

The remainder of 1969 will be influenced by some offsetting trends in demand. In the second quarter, gains in disposable incomes will be partially tempered by the settlement of large 1968 income tax liabilities. Consumer expenditure advances may be slowed accordingly, bringing about some increase in inventory.

For the year, major indicators point to further increases in business investment and strong consumer buying. But a slower rise is in prospect for Government expenditures as previously proposed Federal budgets are now being trimmed. Tight money and rising costs will likely temper the rate of building activity this year. The pent-up demand for housing is still evident and may continue to compete for funds. The outlook for an improved net export balance for the entire year is not encouraging in view of the effect of domestic inflation upon our competitive trade situation.

The gross national product is expected to increase around 7% this year, about the same as the rise of the first quarter on an annual basis. This compares with a 9% rise in 1968. A little more than half of this gain would be due to further advances in the general price level. If price increases are slowed in the remainder of the year, the economy may make a moderate advance in real GNP exceeding the advance for 1967 but still much lower than 1968's growth.

GNP and final sales, change
from previous quarter

Year	GNP	Final sales	Inventory change <u>1</u> / Bil. dol.
1966: I	18.4	17.2	1.2
II	12.0	7.5	4.5
III	12.9	15.5	-2.6
IV	14.9	7.9	7.0
1967: I	4.0	15.4	-11.4
II	8.0	14.1	-6.1
III	15.1	12.1	3.0
IV	15.7	12.7	3.0
1968: I	20.2	26.4	-6.2
II	21.7	13.0	8.7
III	18.1	21.4	-3.3
IV	16.4	13.3	3.1
1969: I <u>2</u> /	16.0	20.2	-4.2

1/ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the first quarter of 1969 (\$6.4 billion) less the change in the fourth quarter of 1968 (\$10.6 billion) equals minus \$4.2 billion.

2/ Preliminary.

Increases in nonresidential investment and consumer spending were primarily responsible for the first quarter expan-

1/ Final sales equal GNP minus inventory change.

Table 3.--General economic activity

(Seasonally adjusted annual rates)

Item	1968			1969	Year	Year
	II	III	IV	I <u>1</u> /	1967	1968
	<u>Billion dollars</u>					
Gross national product	852.9	871.0	887.4	903.4	789.7	860.6
Gross national product (1958 prices)	703.4	712.3	718.4	723.6	673.1	706.7
Disposable personal income	586.3	592.7	602.4	608.6	546.3	589.0
Personal consumption expenditures	527.9	541.1	546.8	558.4	492.2	533.8
Durable	81.0	85.1	85.1	86.9	72.6	82.5
Nondurable	228.2	232.7	233.7	239.1	215.8	230.3
Services	218.7	223.4	228.0	232.4	203.8	221.0
Personal savings	44.0	37.1	40.9	35.3	40.2	40.7
Net Government receipts	184.4	195.4	202.6	---	164.6	190.6
Government purchases	195.7	199.6	203.0	206.2	178.4	197.2
Federal	100.0	101.2	101.7	102.3	90.6	100.0
State and local	95.6	98.4	101.2	103.9	87.8	97.2
Deficit or surplus (on income and product accounts)	-11.3	-4.1	-.4	---	-13.8	-6.6
Gross private domestic in- vestment	127.3	127.1	136.6	138.9	114.3	127.7
Fixed investment	116.5	119.6	126.0	132.5	108.2	119.9
Residential	29.5	29.5	31.6	32.7	24.6	29.9
Nonresidential	87.0	90.1	94.3	99.8	83.6	90.0
Change in business inventories	10.8	7.5	10.6	6.4	6.1	7.7
Gross retained earnings	97.4	99.9	99.9	---	93.1	97.5
Excess of investment	-29.9	-27.2	-36.7	---	-21.1	-30.2
Net exports of goods and services	2.0	3.3	1.0	0	4.8	2.0
Per capita disposable per- sonal income (1958 dollars)	2,474	2,478	2,483	2,480	2,401	2,473
Total civilian employment (million) <u>2</u> /	75.9	76.0	76.4	77.6	74.4	75.9

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

U.S. Department of Commerce.

Major GNP components, change from previous quarter

Item	1968		1969
	III : qtr.	IV : qtr.	I : qtr. ^{1/}
	Bil. dol.		
Total change in GNP	:18.1	16.4	16.0
Consumption	:13.2	5.7	11.6
Private nonresidential fixed investment	: 3.1	4.2	5.5
Housing	: 0	2.1	1.1
Inventory ^{2/}	:-3.3	3.1	-4.2
Net exports	: 1.3	-2.3	-1.0
Government	: 3.9	3.4	3.2

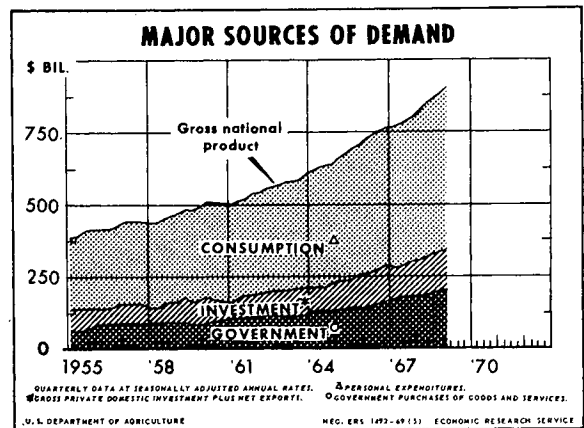
^{1/} Preliminary. ^{2/} See footnote ^{1/}, previous text table, page 15.

Government Expenditures and Receipts

The Federal Government continues to limit its expansion of purchases of goods and services while increasing its tax revenues, and a budget surplus is likely for the first quarter of 1969. This action, expected to ease demand pressures on economic activity, represents a substantial swing away from the large deficits registered in 1967 and the first half of 1968.

Federal purchases are expected to rise only slightly above present levels during 1969 and 1970. The President has recently outlined further reductions in the proposed 1970 Budget outlays presented to Congress in January 1969. Assuming an extension of the surtax through 1969 and a repeal of the 7% investment tax credit, these latter reductions in proposed expenditures, mostly in defense and welfare programs, should lead to larger surpluses in fiscal years 1969 and 1970. A major tax reform program now being considered may further alter the pattern of Federal revenues and their effect upon different income groups.

Expenditures by State and local governments for goods and services rose moderately in the first quarter but at a shade slower rate than the quarter before. First quarter 1969 marked the first time State and local expenditures exceeded those of the Federal Government since 1966. Because of higher taxes and the buoyant economy, State and local revenues are also rising although not uniformly throughout the country with deficits rising in many jurisdictions.



Investment Demand

Gross private domestic investment rose substantially in the first quarter, with the vigorous expansion of investment for construction and new plant and equipment offsetting the large decline in inventory accumulation. Gains in business fixed investment outlays occurred despite increased taxes, relatively low plant operating rates, and an increasingly restrictive monetary situation. The Department of Commerce-SEC survey, compiled before the recent rise in the Federal Reserve rediscount rate and the bank reserve requirement, reported that businessmen planned to increase their plant and equipment expenditures by about 14% in the first half of 1969 over last year, with a smaller additional increase later in the year. A more recent McGraw-Hill survey of investment plans, though differing in detail, generally confirmed the Commerce-SEC survey.

Table 4.--Federal receipts and expenditures in the national income accounts, semi-annually 1966-68 and first quarter 1969 1/

Description	1966		1967		1968		1969
	Second half	First half	Second half	First half	Second half	First half	First quarter <u>2/</u>
RECEIPTS, NATIONAL INCOME BASIS							
Personal tax and nontax	63.9	65.6	69.0	73.4	85.2	92.7	
Corporate profits tax accruals	32.5	30.4	31.5	37.6	39.2	40.1	
Indirect business tax and non-tax accruals	16.0	16.0	16.4	17.2	18.0	18.4	
Contributions for social insurance	34.2	36.2	37.4	40.8	42.2	46.3	
Total receipts, national income basis <u>3/</u>	146.6	148.2	154.3	169.2	184.6	197.5	
EXPENDITURES, NATIONAL INCOME BASIS							
Purchases of goods and services	80.7	88.7	92.4	98.6	101.4	102.3	
Transfer payments	37.0	41.8	42.8	46.4	49.1	50.6	
Grants-in-aid to State and local Governments	15.0	14.8	16.4	18.0	18.8	19.8	
Net interest paid	9.8	10.0	10.4	11.6	12.2	12.6	
Subsidies less current surplus of Government enterprises	5.7	5.0	4.7	4.0	4.2	4.2	
Total expenditures, national income basis <u>3/</u>	148.2	160.4	166.8	178.5	185.9	189.5	
SURPLUS (+) OR DEFICIT (-) NATIONAL INCOME BASIS							
	-1.6	-12.2	-12.6	-9.4	-1.3	8.0	

1/ Calendar years in billions of dollars, seasonally adjusted annual rates.

2/ Preliminary. Corporate profits tax accruals estimated by USDA.

3/ Totals may not add due to rounding.

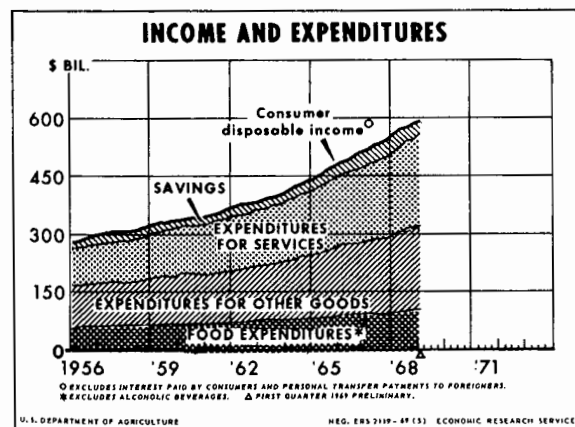
U.S. Department of Commerce.

Housing made some encouraging gains in the first quarter despite a tight and expensive mortgage market. More than half of the increase in residential construction expenditures was due to rising prices rather than rising volume. Whether the pent-up demand for housing for the rest of 1969 can continue to overcome competition from other types of investment for funds is open to question. Housing starts declined in February and March after rising in January.

Consumer Demand

Advances in consumer expenditures provided the bulk of demand expansion in the first quarter. Consumers apparently did not react adversely to the fact that income taxes and increased social security taxes cut into their large income gains. Lowering their personal savings rate to less than 6% from nearly 7% in the fourth quarter, they financed a large expansion in consumer purchases. From a broader view, however, gains in consumer expenditures for the past 6 months have been far short of those registered a year earlier.

The pattern of consumer outlays included increased expenditures for non-durable goods and services in the first quarter. Outlays for durable goods also rose moderately despite a drop in domestic and foreign new car sales.



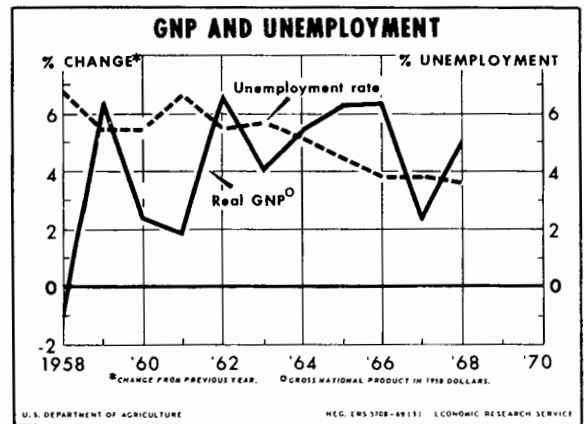
In the second quarter, the unusually large settlement on 1968 tax liabilities is expected to continue to slow advances in after-tax consumer incomes. Thus, even

if consumer savings continue fairly low, spending will probably grow more slowly. Moreover, the savings rate may rise, further weakening consumer buying.

Income and Employment

Personal incomes rose substantially in the first quarter as a result of larger employment and higher hourly rates of pay. A great deal of this strength in recent months has come from the capital goods and residential construction industries. Wages and salaries were about 9% over a year earlier, nearly matching their increase in 1968. Transfer payments, a smaller but growing component in the income picture, also continued a strong upward trend.

The employment situation remains very tight, particularly for certain occupational groups. Employment rose for the first three months of 1969 on a seasonally adjusted basis. But in March and April, unemployment rose slightly. This brought the seasonally adjusted unemployment rate to 3.5% by April, up slightly from the 15-year low of 3.3% recorded from December through February.



These employment data were reflected in the large advances in output in the first quarter. This trend continued in March with a rise of 0.6% bringing the industrial production index to 170.5 or 4.6% above a year earlier.

Prices

Inflation fighters were discouraged by the sharp March rise in retail and

Table 5.--Change from previous quarter in selected measures of personal income and spending 1968-I to 1969-I

(Billions of dollars, seasonally adjusted annual rates)

Item	1968				1969
	I	II	III	IV	I 1/
Total personal income	17.5	15.4	16.2	13.9	13.2
Wages and salaries	11.9	9.3	11.4	10.0	11.5
Manufacturing	4.1	2.6	2.9	3.2	2.7
Nonmanufacturing	5.6	4.5	5.2	5.1	7.1
Government	2.2	2.2	3.3	1.7	1.6
Transfer payments	2.8	2.6	1.2	1.3	1.5
Personal tax payments	2.7	3.6	9.7	4.2	7.0
Disposable personal income	14.8	11.9	6.4	9.7	6.2
Personal consumption expenditures	17.2	8.5	13.2	5.7	11.6
Durable	4.8	2.0	4.1	0	1.8
Nondurable	8.1	1.7	4.5	1.0	5.4
Services	4.3	4.8	4.7	4.6	4.4
Personal savings	-2.6	3.2	-6.9	3.8	-5.6

1/ Preliminary.

U.S. Department of Commerce.

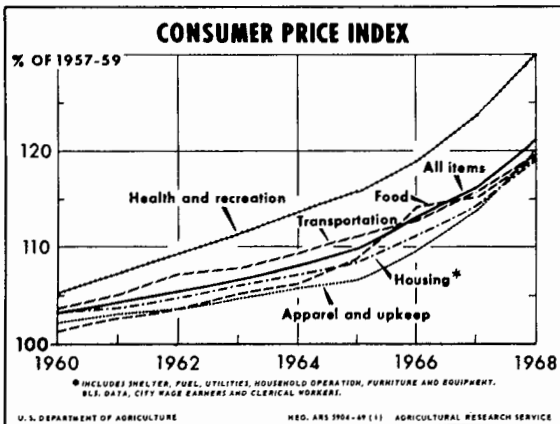
wholesale prices. The Consumer Price Index 2/ rose 0.8% in March, to 125.6. It was the largest monthly increase since February 1951. Major contributions to the rise were significant boosts in home ownership costs and prices for used cars. There were substantial increases also for food, clothing, and gasoline. During the first quarter of this year, consumer prices rose 1-1/2%, the sharpest advance for any 3-month period since May-July 1956. The index now stands over 5% above a year ago.

The Wholesale Price Index rose 0.5% in March, to more than 3% above a year earlier. Softwood lumber prices continued to climb sharply and prices were also up for fuels, metals, and machinery.

The general price level in the first 3 months of 1969, as measured by the gross national product deflator, rose about 4%, on a seasonally adjusted annual basis, a shade above the average annual change recorded for 1968. While general price advances are expected to be slower during 1969, due to fiscal and monetary measures taken earlier this year and in late 1968, the pressure of built-in cost factors on prices is expected to continue.

Monetary Situation

In recent months, growth rates of most monetary measures have slowed considerably from the rapid increase of the previous 2 years. The money stock, consisting of private demand deposits and currency held by the public, averaged \$194.2 billion in March, and increased at only a



2/ 1957-59=100

2.3% annual rate from December. This compares with a $6\frac{1}{2}\%$ average annual rate in the previous two years.

The Federal Reserve discount rate was raised from $5\frac{1}{2}\%$ to 6% effective April 4. The percentage of demand deposits which member banks are required to hold as reserves was also raised $\frac{1}{2}$ of 1%, effective during April. These actions, coupled with the slower growth in the money supply since December, are expected to have a significant restraining impact on total spending in the economy, particularly later in the year.

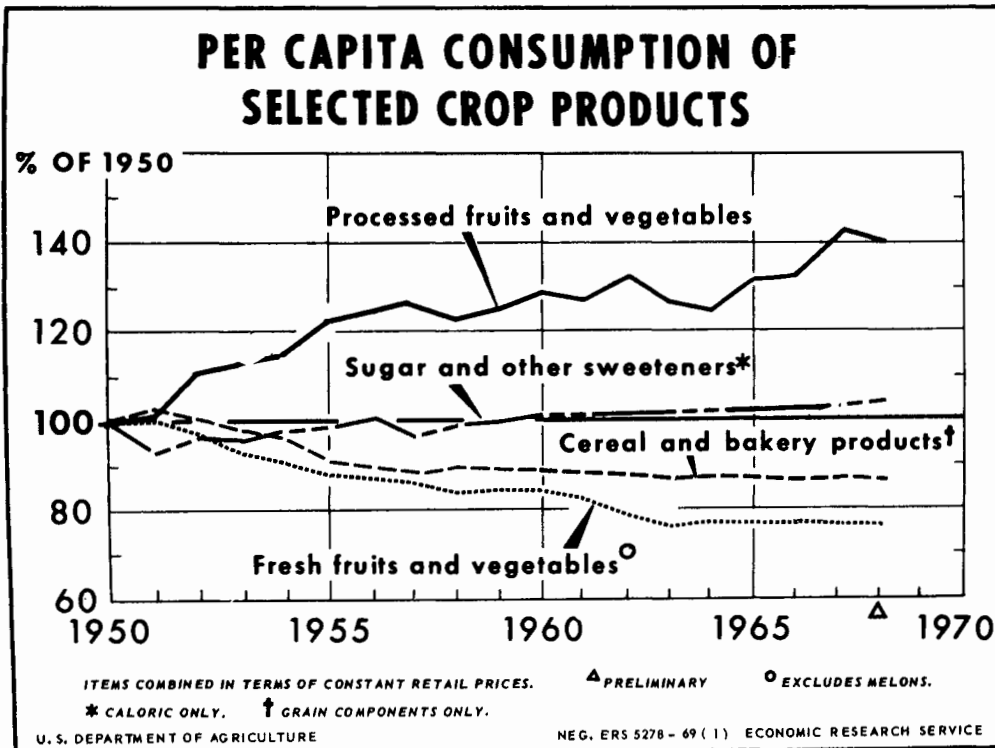
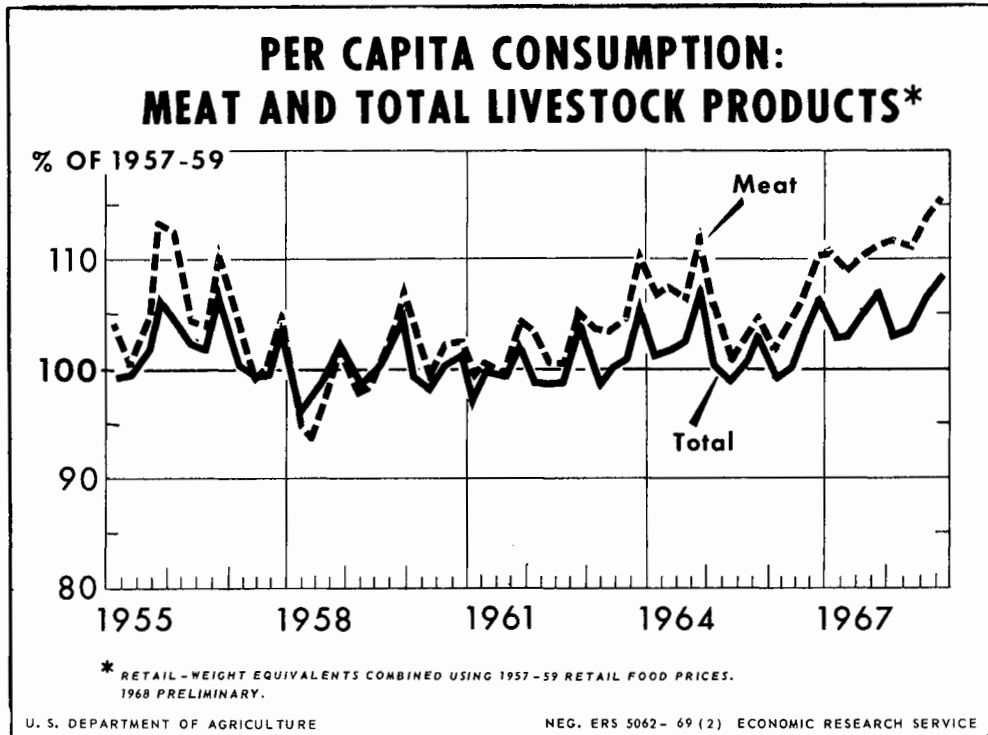
Foreign Trade

The preliminary estimate of net exports (exports minus imports) of goods and services declined to a zero balance in the first quarter of this year from a favorable balance of \$1 billion in the fourth quarter of 1968. In the second half of 1968, net exports had shown some strength after a poor first half. For 1968 as a whole, however, the balance was only \$2 billion--the lowest for the United States since 1959.

The merchandise trade balance in March was in surplus by over \$200 million, seasonally adjusted. The March surplus was in sharp contrast to the February deficit of about \$360 million, leaving nearly \$70 million deficit for the entire first quarter. This was the first time since the third quarter of 1950, immediately after the Korean War began, that the quarterly trade balance was in deficit. But most of the 1969 quarter was affected by the East and Gulf Coast dock strikes which distorted trade movements. And the second quarter is expected to show the after-effects of the strike, with exports trying to overcome loading delays. This may give net exports a large increase in the second quarter.

If a slowdown in gains in the U.S. economy occurs, exports should show some expansion as our prices become more competitive. Early reports indicate the balance of payments, which showed a small surplus in 1968, may show a deficit in the first quarter.

The Demand and Price Situation is published February, May, August, and November. The next issue is scheduled for release in August 1969.

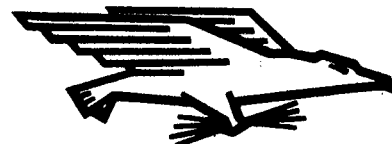


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