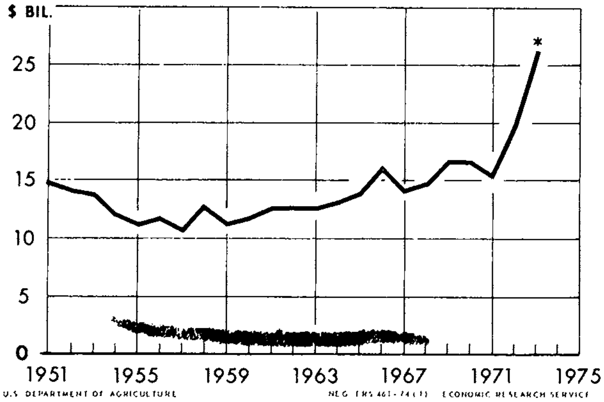
DPS-139 FEBRUARY 1974

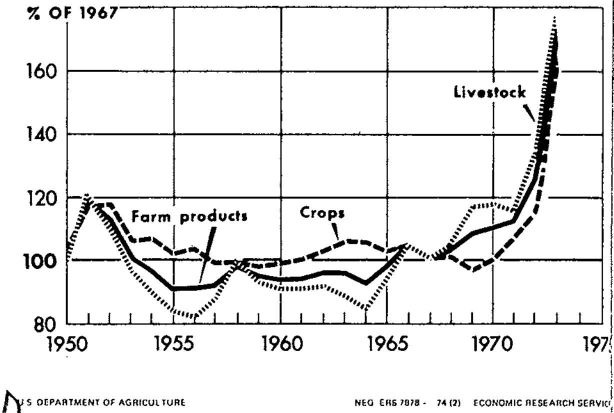
DEMAND AND PRICE Situation

ECONOMIC RESEARCH SERVICE U.S. DEPARTMENT OF AGRICULTURE

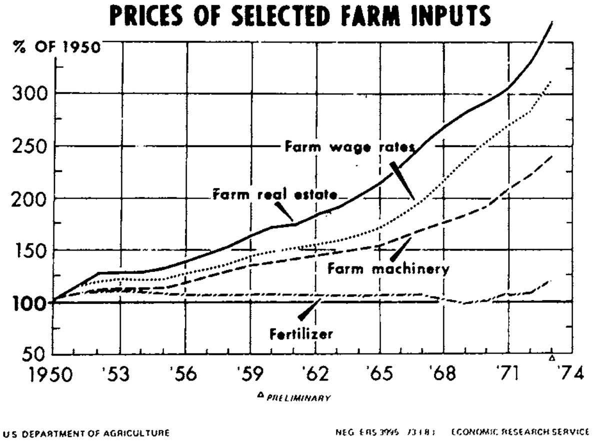
REALIZED NET FARM INCOME



PRICES RECEIVED BY FARMERS

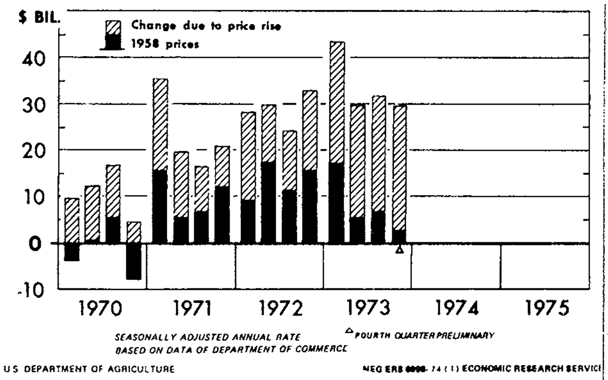


PRICES OF SELECTED FARM INPUTS

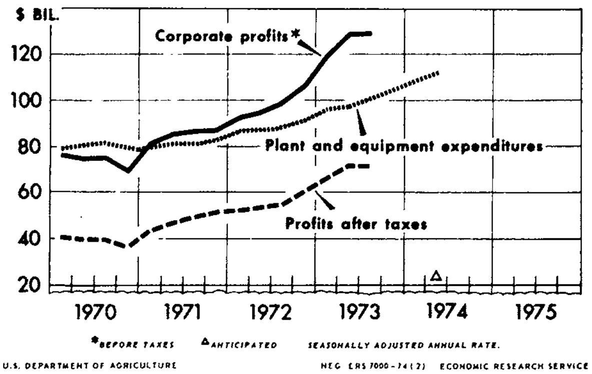


GROSS NATIONAL PRODUCT

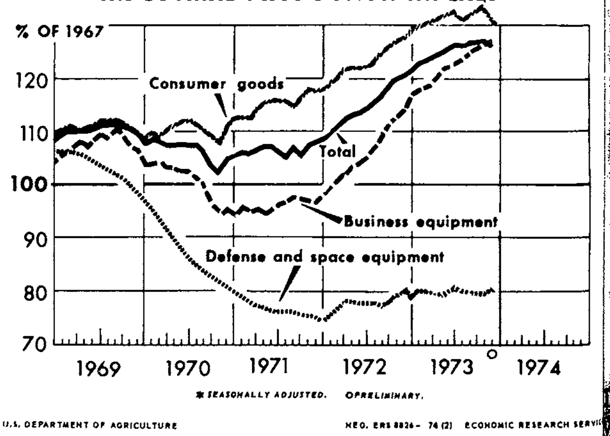
Change from Previous Quarter



CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



INDUSTRIAL PRODUCTION INDEXES*



THE DEMAND AND PRICE SITUATION

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Approved by
Outlook and Situation Board
and Summary released
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ne *Demand and Price Situation* is published in February, ay, August, and November.

SUMMARY

Fresh from making $26 billion in 1973, by far the highest realized net farm income in history, American farmers are planning to increase crop output sharply in 1974. If their plans are achieved and if foreign and domestic demand remains strong, their earnings will total only $1-2 billion less than in 1973 and sharply above the $20 billion of 1972. While gains in cash receipts would nearly match the sharp increases in production expenses, the drop in government payments would account for most of the decline in realized net income from 1973. Farm prices and marketings would average significantly above 1973 levels with price increases in the first half offsetting a likely easing in farm prices late in the year.

However, the range of uncertainties can hardly be minimized. To achieve the record output, the farmer must have fuel, fertilizer, good weather, and the expectation of good demand. If shortages of inputs develop, weather is not favorable or demand appears too uncertain, output could be curtailed and, in the face of strong demand, net farm income could reach $30 billion. On the other hand, if the energy crisis were to generate a concerted slowdown in major foreign markets and the U.S. economy were to weaken sharply under high inflation and increasing unemployment, demand would be substantially weaker. With this weaker demand, a record farm output could result in a net farm income of $20 billion.

Item	1973 preliminary	1974		
		Most likely	High	Low
Realized Net Farm Income (Bil. dol.)[1]	26	24	30	20

[1] Farm income estimates are in the process of revision. Proposed revisions in the major components of the series for 1959-73 will be shown in the February *Farm Income Situation*, available February 22, 1974. Final revisions will appear in the July 1974 *Farm Income Situation*. The net effect of the revisions will be a reduction in the level of realized net income from the current series of around $1½ to $2½ billion for each year since the mid-sixties, including the 1973-74 income numbers shown above.

Both crop and livestock supplies will likely remain tight until midyear with foreign and domestic demand putting heavy pressure on dwindling stocks and red meat and poultry production achieving only modest gains over a year earlier. After midyear if farmers have carried out their January 1 intentions and world crops have returned to more normal levels, the expectation of some easing in grain supplies could bring about the turn around in livestock production which was anticipated in 1973.

The outcome of these uncertainties is also of particular concern to the consumer. Higher farm and wholesale commodity prices in early 1974 point to a sharp acceleration in retail food prices in the first quarter and some continued rise in the second quarter. With widening farm-retail spreads providing strong upward pressure on retail prices throughout the year and an easing in farm prices after midyear, food prices for all of 1974 would average 12 percent above the 1973 level. This compares with the 14½ percent increase registered in 1973. If food output increases much more than present indications suggest and at the same time foreign and domestic demand falls below current indications, food prices for all of 1974 may average about 8 percent above 1973 due to the increases through midyear. On the other hand, if 1974 food output turns out much below what is now indicated and demand proves to be stronger than expected, prices could average as much as 15 percent higher for the year.

The concern in the general economy in 1974 will be to moderate the slowdown and achieve a relatively stable transition into renewed economic expansion. The degree of success will to a large extent depend on the outcome of policies designed to confine the impact of the energy shortage to the consumer sector and achieve some price stability by midyear. The difficulties faced in this area are in part a reflection of the uniqueness of the 1974 slowdown.

In the past, slowdowns have been accompanied by lower interest rates and slowing of inflation as demand pressures ease. However, the 1974 slowdown is induced by shortages in basic industries which cannot be quickly eliminated and require plant and equipment expansion. Thus, with plant and equipment investment continuing strong while profits are declining, long-term interest rates are likely to remain high. Additionally, the easing in demand will not have as much impact on prices as in previous slowdowns since many basic materials remain in very tight supply. The result is a slowdown in the economy accompanied by inflation and nominally high interest rates.

Although a technical recession, two consecutive quarters of negative real growth, is a real possibility, the current outlook is for on moderate slippage in the growth of the econom By midyear most of the impacts of the events 1973 will have run their course and the econo should again resume growing at moderate rat Stagflation may be the best description for 19 with real growth of less than 1 percent a inflation in excess of 7 percent. Growth in curre dollars will exceed 8 percent.

The effects of the dramatic 23 percent drop housing starts from the third to fourth quarter 1973 is now beginning to be reflected in residenti construction expenditures. Residenti construction will continue weak with housi starts in 1974 likely to average 20 percent bel 1973 levels. Late in 1974, the uncertainty ov energy could be resolved and financial mark will again supply ample funds for mortga lending. Inventory investment will remain fi but will provide little growth impetus. The fu shortage will continue to force a drawdown inventories with the over $4 billion in large c inventories which appeared in the fourth quar to be worked down in early 1974. The strong impetus to growth is still plant and equipme investment, likely to increase on the order of percent.

The consumer will face the squeeze between desire to increase savings and the erosion discretionary purchasing power by inflation. Th will be particularly acute in the first half of 19 when inflation is at its most rapid pace. Gains disposable personal income will average low than in 1973 and coupled with sharply high inflation will yield very little growth in re income. As a result, the consumer will provide strong impetus to growth until very late in 19

A key concern for 1974 is labor and employme With a drop in economic activity, accelerati inflation, increasing unemployment, a declining real incomes, nearly 40 percent of the 4 million workers under major contracts will ent into collective bargaining negotiations. It see unlikely that the 1973 pattern of relatively mod union wage demands and easily conclud agreements can be repeated in 1974. The ma groups involved are steelworkers, miners, a longshoremen.

The rate of growth in the money supply has be accelerating in recent months as the Fede Reserve attempts to ease interest rates witho accelerating inflation. Federal purchases of goo and services will rise around 10 percent in 19 with increases in both defense and nondefen spending.

The overall U.S. trade balance was in surplus $1.7 billion in 1973, an improvement of over billion from 1972. Exports totaled $70.8 billion— percent greater than in 1972 and well above the percent increase in imports, which totaled $69.1 billion. Price increases played the major role in the sharp advance in the value of U.S. trade.

Agricultural exports surged to $17.7 billion, 88 percent above calendar 1972, and accounted for nearly 40 percent of the $21.6 billion total increase in exports. Higher prices stemming from tight worldwide supplies of many farm commodities accounted for more than half the gain. With agricultural imports totaled $8.4 billion, the agricultural trade balance reached $9.3 billion.

. . . .Despite 6 percent fewer *cattle* on feed on January 1 than a year earlier, beef supplies will not be significantly different than in the first half of 1973. Prices will likely fluctuate near recent levels this winter and spring.

. . . .*Hog* slaughter in the first half of 1974 will be about the same as a year earlier. Hog prices are expected to strengthen seasonally this winter and spring.

. . . .*Milk* output will be down in the first half of 1974 but may show some increase in the second half.

. . . .*Egg* production will match year-earlier levels early in 1974 and will exceed 1973 production for the balance of the year. Prices may slip below year-earlier levels by mid-1974.

. . . .*Broiler* output will slightly exceed year-earlier levels in the first quarter and continue higher for the balance of the year. Prices in 1974 may average near the relatively high levels of 1973.

. . . .*Turkey* production will be well above the 1973 levels in the first half of 1974. Turkey prices should average well below those of 1973.

. . . .*Feed grain* production from the indicated prospective acreage in 1974 would total 235 million tons, 15 percent more than in 1973. This would exceed projected needs and allow some recovery in stocks.

. . . .*Wheat* exports continue at a record pace and stocks this summer will be extremely small. Prospects are for a record crop in 1974.

. . . .*Rice* supplies in 1973/74 edged up slightly as a larger crop more than offset sharply lower stocks. Both foreign and domestic demand remain strong.

. . . .*Soybean* supplies for the 1973/74 marketing year are estimated at 1.6 billion bushels, about a fifth above last season. Prospective disappearance is smaller than supplies, so stocks should rise about 200 million bushels by next September 1.

. . . .*Upland cotton* production and disappearance during 1973/74 will be about in balance, so ending stocks next summer will change little from the beginning level of 4 million bales.

. . . .Demand for *wool* may be spurred this year by energy related problems with man-made fibers.

. . . .Total supplies of U.S. *tobacco* are about 3 percent below last marketing year. The flue-cured marketing quota has been raised 10 percent to meet increased demand.

. . . .Fresh *vegetable* supplies are larger than last year as both acreage and potential production are up. While the pack of frozen and canned vegetables is moderately larger in 1973/74, sharply reduced carryovers left total supplies last fall only about 2 percent above the small quantity available in 1972/73.

. . . .February prospects are for a 1973/74 *citrus* crop about 7 percent below last season's record. Orange production is off about a tenth.

In this report, the low alternative stems from larger commodity output and weaker demand than anticipated under the "most likely" alternative, resulting in lower prices. Conversely, the high alternative reflects smaller output and greater demand than now anticipated and therefore higher prices. The commodity output and domestic demand assumptions, which are the building blocks for the aggregate measures under the high and low alternatives, reflect a range our ERS analysts judge would contain actual values within this range approximately 4 out of 5 times. Due to greater uncertainty there are about 2 chances out of 3 that the underlying export projections will fall within our range.

Table 1.--Selected measures of economic activity

Item	Unit	Year 1972	Year 1973 1/	1972			1973		
				II	III	IV	II	III	IV 1/
Gross national product	Bil. dol.	1,155.2	1,288.2	1,142.4	1,166.5	1,199.2	1,272.0	1,304.5	1,334.0
Disposable personal income	Bil. dol.	797.0	882.6	785.4	800.9	828.7	869.7	891.1	918.0
Personal consumption expenditures	Bil. dol.	726.5	805.0	719.2	734.1	752.6	795.6	816.0	829.0
Food spending (excluding alcoholic beverages)	Bil. dol.	125.0	139.0	124.5	126.1	128.3	136.0	141.5	145.4
Implicit price deflator for GNP	1958=100	146.1	153.9	145.4	146.4	147.6	152.5	155.1	158.0
Unemployment rate 2/	Percent	5.6	4.9	5.7	5.6	5.3	4.9	4.7	4.7
Cash receipts from farm marketings	Bil. dol.	60.7	83.4	59.8	60.5	64.6	75.5	84.5	101.2
Nonmoney income and government payments	Bil. dol.	8.2	7.1	8.3	8.2	8.2	7.0	6.9	7.1
Realized gross farm income	Bil. dol.	68.9	90.5	68.1	68.7	72.8	82.5	91.4	108.3
Farm production expenses	Bil. dol.	49.2	64.1	48.8	49.4	51.5	58.0	65.9	77.9
Farmers' realized net farm income	Bil. dol.	19.7	26.1	19.3	19.3	21.3	24.5	25.5	30.4
Agricultural exports 3/	Bil. dol.	9.4	17.7	2.1	2.1	3.1	4.0	4.1	5.8
Agricultural imports 3/	Bil. dol.	6.5	8.4	1.5	1.6	1.7	2.1	2.0	2.3
Volume of farm marketings	1967=100	112	110	87	110	150	83	106	151
Livestock and products	do.	109	104	112	107	112	102	98	110
Crops	do.	116	118	55	114	201	59	116	202
Prices received by farmers 4/	do.	126	172	123	128	133	164	190	183
Livestock and products	do.	134	178	129	136	141	170	198	182
Crops	do.	115	164	114	116	121	156	181	185
Prices paid by farmers 4/ 5/	do.	127	145	125	127	130	143	149	152
Wholesale price index, all commodities 4/	do.	119.1	135.5	118.2	119.9	121.2	133.6	139.3	142.2
Consumer price index, all items 4/	do.	125.3	133.1	124.7	125.8	126.9	131.5	134.4	137.6
All food	do.	123.5	141.4	122.6	124.5	125.4	138.1	146.2	149.9
Food at home	do.	121.6	141.4	120.5	122.6	123.4	138.0	147.1	150.1

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

Quarterly data seasonally adjusted except as noted.

Departments of Agriculture, Commerce, and Labor.

The 1974 agricultural situation will be very sensitive to domestic and foreign crop developments, particularly in the second half of the year. Both livestock and crop prices have strengthened and will remain firm throughout the first half of 1974 as strong foreign and domestic demand puts heavy pressure on supplies and dwindling stocks. In the second half, if farmers have carried out their January intentions and world crops have returned to more normal levels, the expectation of some easing in feed costs should encourage the turn around in livestock production which was anticipated in 1973. If the record crops do not materialize and the strong demand pressure continues, no substantial second half easing in farm prices could be expected.

Based on current crop intentions and continuing strong demand, prices received by farmers for crops and livestock will average higher than in 1973. The higher prices coupled with a larger volume of marketings would push cash receipts up $9 billion over a year ago. Although this increase would match the expected increase in production expenses, the reduction in government payments would leave realized net farm income in 1974 around $1-2 billion below the record $26 billion of 1973.

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

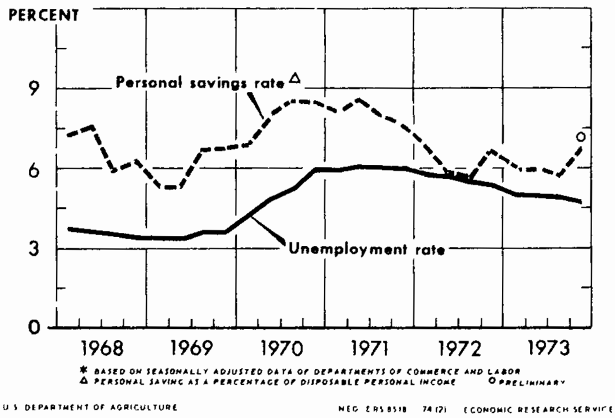
Month	All crops	Livestock and products
	Percent	*Percent*
January 1973	18.0	20.5
February	20.9	22.9
March	29.6	34.9
April	27.7	33.3
May	35.1	30.0
June	46.6	31.1
July	42.6	31.6
August	66.7	60.7
September	56.4	43.5
October	55.6	34.5
November	50.8	31.9
December	52.0	22.8
January 1974	61.1	24.8

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

Domestic Demand Squeezed

Consumers will be squeezed in 1974 by reduced discretionary buying power and a desire to increase savings as a hedge against rising uncertainties. Disposable personal income will likely rise around 8½ percent in 1974 with real disposable income gaining only about 1 percent over 1973. The rate of personal savings had already increased sharply in the fourth quarter of 1973 to 6.9 percent compared with the 5.7 percent of the previous quarter.

UNEMPLOYMENT AND SAVINGS RATES*



Demand for food and other consumer products in 1974 will be somewhat softer than in 1973, with purchase of food, alcohol, clothing, shoes, and tobacco averaging 11 percent higher, largely due to price increases. Expenditures for clothing and shoes totaled $69.8 billion in 1973, 12 percent above 1972. Purchases of food and beverages increased by 11 percent to $161.5 billion.

Consumer outlays for food in the fourth quarter of 1973 were at a $145.4 billion annual rate, a 13 percent increase over a year earlier. Expenditures for food will be around 13-14 percent higher in 1974, almost entirely due to increased prices.

Retail prices of all food in 1973 averaged 14.5 percent above 1972 with food at home averaging 16.3 percent higher. Retail prices of livestock products averaged 22 percent higher and crop related products average 11 percent higher. Higher farm and wholesale commodity prices in early 1974 point to a sharp acceleration in retail food prices in the first quarter and some continued rise in the second quarter. With widening farm-retail spreads providing strong upward pressure on retail prices throughout the year and an easing in farm prices after midyear, food prices for all of 1974 would average 12 percent above the 1973 level. This compares with the 14½ percent increase registered in 1973. If food output increases much more than present indications suggest and at the same time foreign and domestic demand falls below current indications, food prices for all of 1974 may average about 8 percent above 1973 due to the increases through midyear. On the other hand, if 1974 food output turns out much below what is now indicated and demand proves to be stronger than expected, prices could average as much as 15 percent higher.

Per capita food consumption will increase about 1 percent in 1974 following the 2 percent decline experienced in 1973. Consumption of animal products in 1974 will average nearly 2 percent above 1973 but average below 1972 levels.

Exports Continue Record Rate

In July-December 1973, the first 6 months of the current fiscal year, U.S. agricultural exports totaled $9.9 billion, 92 percent greater than the level of a year earlier. Exports of grains and preparations were 1½ times larger, accounting for around two-thirds of the value increase. Nearly three-fourths of the increase in farm exports over a year earlier stemmed from higher prices.

U.S. agricultural exports, value of major commodities

Commodity	July-December 1972	July-December 1973[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	582	814	40
Cotton	217	400	84
Feed grains, excluding products	909	2,135	135
Fruits	236	314	33
Soybeans	818	1,288	57
Tobacco, unmanufactured	344	418	22
Vegetables	125	201	61
Wheat and flour	906	2,705	199
Rice	209	314	50
Other	820	1,339	63
Total exports	5,166	9,928	92

[1] Preliminary.

Farm product imports reached a record quarterly high in October-December 1973, bringing the July-December total to $4.3 billion. This represented a 33 percent value increase over the year-earlier level. Higher prices for a wide variety of agricultural items accounted for a large part of the gain. Competitive or "supplementary" agricultural imports in July-December totaled almost $2.95 million, compared with $2.1 billion the previous year. Prices were up sharply, but volume also expanded. Noncompetitive agricultural imports during July-December totaled nearly $1.37 billion or 22 percent above the same months of 1972.

U.S. agriculture had a favorable trade balance of $5.6 billion in July-December—substantially above the $1.9 billion surplus of a year earlier. The trade balance for nonagricultural products was less in the red in July-December 1973: $3.7 billion in deficit, compared with $5.2 a year earlier. With the upsurge in agricultural exports, the total trade balance for the United States advanced to a $1.95 billion surplus.

Prospective Planting Key to 1974

As a result of increased demand for farm products and more flexibility in farm programs, U.S. farmers

U.S. Agricultural imports, value of major commodities

Commodity	July-December 1972	July-December 1973[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	994	1,471	48
Fruits	78	89	14
Oilseeds and oil products	92	180	96
Sugar and molasses	446	567	27
Tobacco, unmanufactured	74	87	18
Vegetables	119	135	13
Wines and malt beverages	138	182	32
Other	189	235	24
Total	2,130	2,946	38
Complementary			
Bananas	95	94	-1
Cocoa and chocolate	31	38	23
Coffee	682	763	12
Rubber	94	205	118
Other	222	267	20
Total	1,124	1,367	22
Total imports	3,254	4,313	33

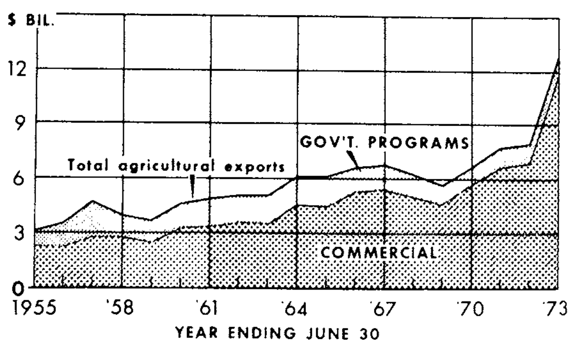
[1] Preliminary.

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

Item	1972	1973[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	5,166	9,928	92
Imports	3,254	4,313	33
Trade balance	1,912	5,615	194

[1] Preliminary.

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



U.S. DEPARTMENT OF AGRICULTURE

are planning sharp increases in crop acreages this year. Indications are that acreage planted to major crops will be up around 17 million acres from 1973. This follows a substantial rise last year; the increase over 2 years likely will be around 37 million.

The increase in cropland acreage harvested is due mainly to recent high farm prices and the release of "set-aside" cropland. Although the acreage harvested in 1974 will be the most since the early 1950's, it will fall far short of the record 371 million acres of crops harvested in 1932, but about the same as the acreage during the early 1950's.

Wheat, cotton, and corn acreage is expected to gain at the expense of barley and soybeans. Prospective wheat acreage is up 19 percent from 1973, cotton up 17 percent, and corn up 10 percent over 1973. Altogether, increases for the three crops, plus small increases for sorghum and sugar beets, account for 20.6 million planted acres. This is partly offset by probable drops of 15 percent for barley and 3 percent for soybeans—a total decline of 3.5 million acres.

Crop Supplies Tight

Prospective plantings for the U.S. are for 127 million acres to be planted to *feed grains* this year. This acreage would be 5 percent about 1973 acreage and 10 percent above 1972. If weather is normal and agricultural inputs adequate, feed grain production would total approximately 235 million short tons, 15 percent more than in 1973. A crop of this magnitude would be ample for projected needs and permit some recovery in stocks at the end of 1974/75.

The 1973/74 feed grain supply was 238 million tons, 4 percent less than in 1972/73. Beginning stocks were small at 32 million tons, while production of 205 million tons was down slightly from the record of 2 years ago. With tighter supplies, higher prices and more soybean meal available, domestic use of feed grains in 1973/74 may not quite match last year's record 173 million tons. Exports for 1973/74 are estimated at 40 million tons, down somewhat from last year's record 43 million tons.

Feed grain prices are nearly double those of a year earlier and will stay strong over the next few months because of tight supplies and strong demand. Prices this summer will hinge primarily on 1974 crop and foreign demand prospects.

Late December plans by farmers included seedlings of 78.8 million acres (U.S. basis) to corn, 10 percent above 1973. If a yield of 97 bushels is achieved, that acreage would produce a crop of 6.7 billion bushels, 18 percent above 1972 production. Corn disappearance in 1973 will likely total around 5.8 billion bushels, down 4 percent from 1972/73. Domestic use is estimated at over 4.6 billion bushels, down approximately 100 million, while exports at over 1.1 billion bushels would be off roughly 135 million bushels. This means that carryover on October 1 will drop to about 600 million bushels, about 15 percent less than a year earlier and the lowest since 1952.

Domestic feeding of protein feed is estimated at 20 million tons, 8 percent above 1972/73 but still only near the high marks set during 1969-71. Prices this season are lower and much more stable than last year. The large U.S. supply of soybeans is stabilizing the market as meal prices (Decatur) in recent weeks have hovered around $165 per ton. Barring any new developments in export demand, meal prices likely will continue near current levels until the outlook for the soybean crop becomes clearer this summer.

A record export pace and prospects for extremely small *wheat* stocks this spring dominate the 1973/74 wheat outlook.

1973 Plantings and prospects for 1974, 10 major crops, United States

Crop	1973		Prospective plantings, 1974		
	Acres planted	Change from 1972	Acres planted	Change from 1973	
				Acres	Percent
	Million acres	*Million acres*	*Million acres*	*Million acres*	*Million acres*
Wheat	59.0	+41.1	70.0	+11.0	+19
Rice	2.18	+.36	2.31	+.13	+6
Corn	71.6	+4.6	78.8	+7.2	+10
Sorghum	19.3	+2.0	19.6	+.3	+2
Upland cotton	12.4	-1.5	14.5	+2.1	+17
Sugar beets[1]	1.206	-.129	1.240	+.034	+3
				+20.764	
Soybeans	57.3	+10.4	55.4	-1.9	-3
Flax	1.777	+.586	1.765	-.012	-1
Barley	11.3	+.7	9.6	-1.7	-15
Oats	19.2	-1.0	19.0	-.2	-1
				-3.812	
United States	255.3	+20.1	272.2	+16.9	

[1] 14 States.

Sources: 1973 Winter Wheat Seedings Report and Prospective Plantings Report for 1974—35 States, Statistical Reporting Service; Agricultural Supply and Demand Estimates, January 25, 1974, Economic Research Service.

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

(1967=100)

Item	1972	1973[1]	Percent-age change
All crops[2]	113	119	5
Feed grains	114	117	3
Hay and forage	105	109	4
Food grains	101	111	10
Sugar crops	137	120	-12
Cotton	182	173	-5
Tobacco	89	90	1
Oil crops	129	156	21

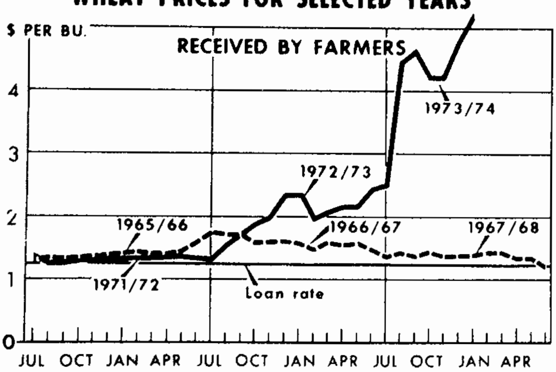
[1] Indicated as of January. [2] Includes other products not included in the separate groups shown.

Exports are currently estimated at a record 1.2 billion bushels, up slightly from a year ago and a record for the second consecutive year. Exports during July-December totaled a record-shattering 737 million bushels. The pace is expected to ease noticeably during the next 6 months. Domestic use has not been quite as strong as last season. Wheat feeding has fallen off, reflecting the increased cost of wheat relative to other grains. However, food usage is expected to be up for the year as price comparisons appear to be influencing consumers to switch to wheat products. Growers will likely use around 20 percent more seed wheat.

Total disappearance for the year will exceed the 1973 crop, causing old-crop stocks to plummet next July to around 180 million bushels, smallest in 27 years.

Mid-month farm prices averaged $2.47 in July, and have since risen to over $5.00 per bushel. For the season, farm prices are likely to average around $3.90 per bushel, up from $1.76 in 1972/73.

WHEAT PRICES FOR SELECTED YEARS



EXCLUDES SUPPORT PAYMENTS RECEIVED BY PROGRAM PARTICIPANTS

U.S. DEPARTMENT OF AGRICULTURE

U.S. wheat growers are raising another record crop. Based on a 19 percent increase in planted acreage, the 1974 wheat crop is forecast at around 2.1 billion bushels. If world grain production returns to mo normal levels, demand could weaken significantly 1974/75. U.S. exports are projected to drop around sixth to 1 billion bushels while domestic use expected to be about the same as in 1973/74. Wi demand projected to turn down and a record crop prospect, carryover by the summer of 1975 could mo than double to around 480 million bushels.

Rice supplies in 1973/74 edged up slightly as larger crop more than offset sharply lower stock Foreign and domestic demand both contin exceptionally strong. Strong import demand a relatively tight supplies in Asia will push U exports to a near record 55.4 million cwt. This will c already small stocks further by the summer of 197 Farm prices have been exceptionally strong and f the season may average over $14.00 per cwt., mo than double the loan rate.

The national acreage allotment for 1974 crop ri has been increased 27 percent from the earli announced level of 1.7 million acres. This increa should encourage production of a crop that will fulf export demand and allow for more adequate yea ending stocks.

Soybean supplies for the 1973/74 marketing ye which began last September are estimated at a reco 1.6 billion bushels, about a fifth above last seas and more than a tenth above previous record suppli in 1969/70. Total disappearance should approach 1 billion bushels or about 8 percent above the record u last season. However, this disappearance would nearly 200 million bushels smaller than the 19 crop, indicating a sizable carryover at season's end about 240 million bushels, 4 times that of la September 1. Soybean prices received by farmers f 1973 are expected to average $5.65 per bush compared with $4.37 for the 1972 crop.

Based on early January planting intentio farmers will plant about 55½ million acres soybeans in 1974, about 3 percent less than the 19 record acreage. This would be the first acrea decline since 1959. If harvested acreage and yiel are on trend, total soybean supplies in 1974/75 wou rise to a new record of 1.8 billion bushels, due to t large expected carryover next fall. To disappearance would approximate 1.5 billi bushels, or about 60 million bushels less than t 1974 crop. Consequently, carryover stocks September 1, 1975, are projected to increase to arou 300 million bushels or about 60 million more th now estimated for September 1, 1974.

A near balance between *upland cotton* producti and disappearance during 1973/74 will leave endi stocks next summer at near the beginning level o million bales. The 1973 crop totaled 12.9 milli bales, down 5 percent from 1972 because of floodi last spring in the Delta. Disappearance is expected total about 13.1 million bales—7.4 million for mill u and 5.7 million for exports. While mill consumptio

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

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1970/71	Mil. tons	48.6	0.4	160.1	209.1	155.2	20.7	175.9	33.2	2/1.33
1971/72	Mil. tons	33.2	.5	207.7	241.4	165.7	27.3	193.0	48.4	2/1.08
1972/73p	Mil. tons	48.4	.4	199.9	248.7	173.2	43.1	216.3	32.4	2/1.57
1973/74e	Mil. tons	32.4	.4	205.0	237.8	171.4	39.8	211.2	26.6	2/2.37
Wheat										
1970/71	Mil. bu.	884.9	1.1	1,351.6	2,237.6	768.6	737.5	1,506.1	731.5	1.33
1971/72	Mil. bu.	731.5	1.0	1,617.8	2,350.3	854.7	632.5	1,487.2	863.1	1.34
1972/73p	Mil. bu.	863.1	1.3	1,544.9	2,409.3	786.6	1,184.2	1,970.8	438.5	1.76
1973/74e	Mil. bu.	438.5	1.0	1,711.4	2,150.9	772	1,200	1,972	178	3/3.90
Rice										
1970/71	Mil. cwt.	16.4	1.5	83.8	101.7	4/36.6	46.5	83.1	18.6	5.17
1971/72	Mil. cwt.	18.6	1.1	85.8	105.5	4/37.2	56.9	94.1	11.4	5.34
1972/73p	Mil. cwt.	11.4	.5	85.4	97.3	4/38.2	54.0	92.2	5.1	6.73
1973/74e	Mil. cwt.	5.1	.5	92.8	98.4	38.3	55.4	93.7	4.7	14.14
Soybeans										
1970/71	Mil. bu.	229.8	0	1,127.1	1,356.9	824.3	433.8	1,258.1	98.8	2.85
1971/72	Mil. bu.	98.8	0	1,176.0	1,274.8	786.0	416.8	1,202.8	72.0	3.03
1972/73p	Mil. bu.	72.0	0	1,270.6	1,342,6	802.8	480.2	1,283.0	59.6	4.37
1973/74e	Mil. bu.	59.6	0	1,566.5	1,626.2					5.65
Cotton 5/										
1970/71	6/ Mil. bales	5.8	7/.1	10.3	16.2	8.1	3.9	11.9	4.3	21.98
1971/72	6/ Mil. bales	4.3	7/.1	10.4	14.8	8.2	3.4	11.6	3.3	28.23
1972/73p	6/ Mil. bales	3.3	7/8/.1	13.7	17.0	7.8	5.3	13.1	4.1	27.5
1973/74e	6/ Mil. bales	4.1	7/.1	13.0	17.1	7.5	5.7	13.2	3.9	9/44.6

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Price for corn. 3/ Based on estimates of the Interagency Estimates Committee. 4/ Includes the following statistical discrepancies: 1970/71, 2.2, 1971/72, 1.8 and 1972/73, 2.2 mil. cwt. 5/ Production based on ginnings between August 1 and July 31. 6/ 480 pound net weight bales. 7/ Includes city crop. 8/ Less than 50,000 bales. 9/ Average price to January 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.
p. Preliminary. e. Estimated.

Stocks of grains

Grain and position	January 1, 1973	January 1, 1974	Percentage change 1974/73
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	124	113	-9
Off farms[2]	50	48	-2
Total	174	161	-7
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	510	368	-28
Off farms[2]	889	566	-36
Total	1,399	934	-33
SOYBEANS			
On farms[1]	429	616	44
Off farms[2]	438	552	26
Total	867	1,169	35

[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.

down slightly because of extremely high cotton prices and tight supplies, exports are increasing with strong foreign demand. So, August 1, 1974, stocks will likely total about 3.8 million bales.

Production prospects point to some rebuilding of cotton stocks during 1974/75. Farmers indicated in early January intentions to plant 14½ million acres of upland cotton this spring. This increase of 2.1 million acres is up 17 percent from 1973, reflecting favorable prices. Given average yields and abandonment, production should easily be adequate to satisfy prospective domestic and export demand for U.S. cotton next season. Total use may remain near the current season's relatively high 13.1 million bales as slightly larger mill use may about offset a little smaller prospective exports. U.S. mills are expected to increase cotton use in response to reduced availabilities of man-made fibers because of the energy crisis.

Small domestic supplies and increased demand for *wool* are likely this year. Low beginning stocks of both apparel and carpet wool and a decline in sheep and lamb numbers point to considerably less wool availability. Domestic use of raw wool and products may increase if energy-related problems with man-made fibers continue and consumer demand for woolen and wool-blended fabrics remain strong.

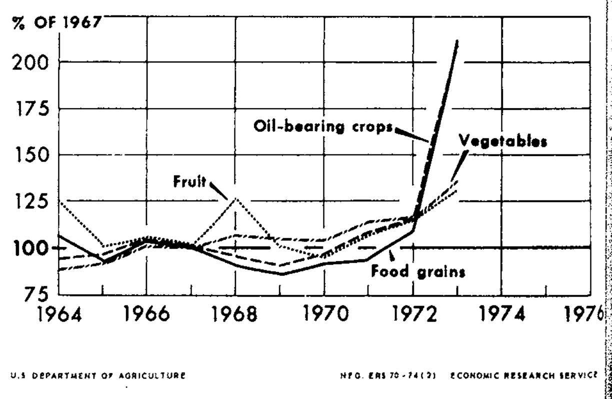
Total supplies of U.S. *tobacco* are about 3 percent below last marketing year. With the increase in cigarette use and high level of exports, some users' stocks are relatively tight. Last year's flue-cured output was up about 13 percent but burley production declined 21 percent. Total carryin stocks were down about 6 percent. An increase in cigarette output is expected to raise leaf use this marketing year, while exports stabilize. This would leave carryover off about 6 percent.

In January, USDA raised the national marketing quota for the 1974 flue-cured crop 10 percent to meet increased export demand. Allowing for carryover of undermarketings of the 1973 farm quota, this year's quota is up about 12 percent. Projections are for a 1974 crop about 10 percent above last season's output.

With most of the burley crop sold, prices have averaged 93 cents per pound, 17 percent above last season. Prices surged because of the weather-reduced crop and strong export demand. Due to rising domestic use, burley use may gain again this marketing year. USDA has announced an 8 percent increase in the national burley quota. The farm quota is expected to result in the largest crop since 1963 but about in line with projected disappearance.

Fresh vegetable supplies are larger than a year ago, as both acreage and potential production are up. Supplies of lettuce, broccoli, carrots, and celery are substantially heavier. A smaller crop of Florida tomatoes will probably be supplemented by relatively heavy Mexican imports. No serious shortages of the important fresh vegetable crops have shown up thus far this season. Onion stocks are not large compared with most other seasons, though they were 12 percent larger than the short supply on hand a year earlier. Grower prices are expected to move higher than the last quarter of 1973, though they may not reach the record highs recorded last year. Fresh vegetable retail prices for the first quarter of 1974 may overall hold close to or slightly lower than January-March 1973. However, sharply higher onion and potato prices are expected.

PRICES RECEIVED BY FARMERS FOR SELECTED CROP PRODUCTS



The combined pack of *canned and frozen vegetables* probably was only moderately larger last season. Also, sharply reduced carryovers left a total supply this past fall probably no more than 2 percent above the relatively small quantity available in the 1972/73 marketing year. Brisk demand is steadily working supplies of the 10 important canned vegetables to the tight levels of a year ago. Stocks of frozen vegetables on January 1 were 5 percent more than the moderate amount available a year earlier. Supplies of canned and frozen peas, canned corn, and concentrated tomato products are the items in tightest supply.

Storage stocks of fall crop *potatoes* were 4 percent less than the small quantity on hand the same date a year earlier. Supplies are tightest in the East, but fresh market prices have been steadily advancing in recent weeks in all the major production areas. High prices are expected at all levels through the spring months at least. Despite two seasons of relatively light supplies, processing use continues to gain. For example, processors in the leading States had used 11 percent more than last year's crop up to February 1. Stocks of all frozen potato products on January 1 were 19 percent less than a year ago, and frozen French fries by themselves were 24 percent less. Trade demand is strong despite advancing wholesale prices.

February 1 prospects are for a 1973/74 *citrus crop* approximately 7 percent below last season's record. Most of the decline is expected in Florida orange production. The Nation's orange crop is now expected to total 205.5 million boxes, 8 percent below the 1972/73 record crop, but still the second largest on record. Florida's 1973/74 orange crop at an estimated 157 million boxes is 7 percent below last season's record, although 15 percent above 2 years ago.

Grower prices for oranges in December were substantially higher than a year ago, and will likely remain above year-earlier levels since demand for frozen orange juice concentrate and chilled orange juice remains strong.

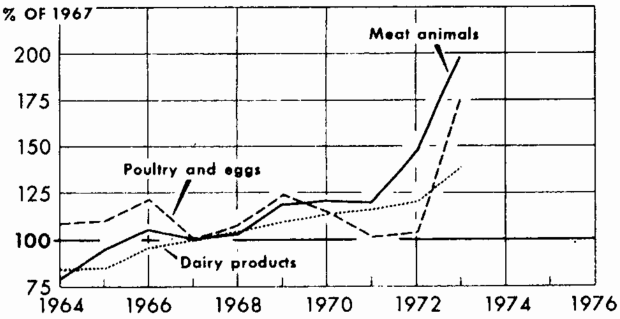
U.S. production of grapefruit is now expected to total 64.6 million boxes, slightly less than last season. Domestic movement of fresh grapefruit through mid-January was slightly above last year's level and export demand remains strong. Mid-January shipping point prices in Florida were slightly above last season's level. Prospects in California and Arizona point to a lemon crop of 18.2 million boxes for the 1973/74 season—18 percent below last season's record high. Grower prices for lemons have been sharply above a year ago and are expected to remain high during the season.

Production of *noncitrus fruit* during 1973 was nearly a quarter larger than the abbreviated 1972 crop. Despite a record crop in Washington, f.o.b. prices for fresh apples have remained high and will continue to the remainder of this season, due primarily to strong processor demands. In spite of a more typical crop situation in 1973 (with the exception of tart cherries) and generally larger packs, the stock situation for most processed noncitrus items indicates that 1973/74 is another season of tight supplies and firm or rising prices.

Livestock Production Lags

Commercial meat production last year was down 6 percent from 1972 as all classes of meat declined. Beef output was off 5 percent, pork dropped 7 percent, lamb and mutton slipped 5 percent, and veal was down 24 percent. Prices received by farmers for beef cattle in 1973 averaged $42.80 per one hundred pounds, over $9 more than a year earlier. Hogs averaged $39.30, $13.30 above 1972. Lambs averaged $35.30, up $6.20 from 1972 and calves were $57, about $13 higher.

PRICES RECEIVED BY FARMERS FOR SELECTED LIVESTOCK AND LIVESTOCK PRODUCTS

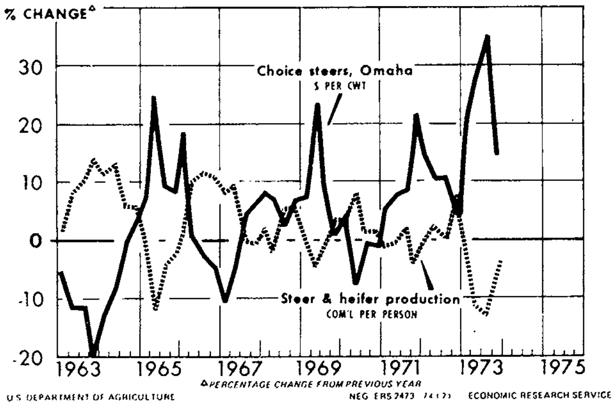


Fed cattle marketings were down 6 percent with most of the decline in the second half. Summer marketings were off 14 percent reflecting producers' adverse reactions to price ceilings. Fall marketings were down 4 percent because of sharply reduced spring and summer placements and slowed movement from feedlots.

The January Cattle on Feed report indicated cattle feeders in 23 major feeding States plan to market almost as many cattle this winter as last. Although there were 14 percent more cattle on feed in the heavier weight groups, slower gains will cause winter marketings to continue to lag. Even though lighter weight cattle were down 12 percent, spring marketings could rise above a year earlier. Shipments in the spring of 1973 were curtailed by slowed gains resulting from severe weather, the consumer boycott, and the ban on DES. Also, cattle placed on feed this winter will be heavier than normal and could reach marketable weight by spring. Placements this winter and spring should push up fed cattle shipments in the second half. Fed cattle marketings in 1974 could exceed 1973 levels by a significant margin, but be only approaching 1972 levels.

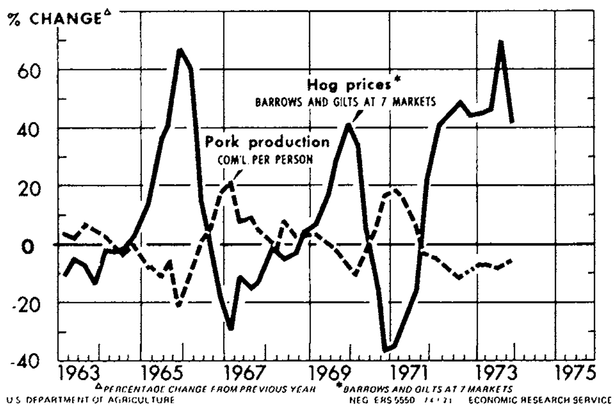
Fed cattle prices in early February were near $48 per 100 pounds for Choice grade steers at Omaha. This was nearly $7 above a year earlier and up $10 from mid-December lows. Prices will probably fluctuate near recent levels this winter and spring.

CHANGES IN BEEF PRICES AND PRODUCTION



Pork supplies may continue near or below a year earlier for the next few months. Hog prices have been fairly steady since last fall, running near $40 at 7 major markets and averaging about $10 above a year earlier. Hog prices are expected to strengthen seasonally this winter and spring, but the rise will probably be less than the $8 increase of last year. Barrows and gilts could average more than $5 above last January-June's $36 at 7 markets.

CHANGES IN HOG PRICES AND PORK PRODUCTION



Lamb and mutton production is expected to continue below year-earlier levels in 1974. Lamb prices were relatively steady in the second half of 1973, running mostly $35-$37 at 5 major markets. Recently prices have been averaging near $40. Lamb prices could average around 10 percent above a year earlier in the first half of 1974.

Milk production for 1973 totaled 115.6 billion pounds, some 3½ percent below the previous year. High feed prices reduced milk output per cow, for the first time in almost 30 years, and combined with strong slaughter cow prices, accelerated the rate of decline in milk cow numbers. Milk output will likely remain below year-earlier levels in the first half of 1974, but may increase toward the end of the year.

Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Pct.	*Pct.*	*Pct.*	*Pct.*
1972/71				
I	35.1	82.5	11.1	5.3
II	29.4	79.8	-3.4	5.6
III	12.5	56.6	3.3	8.3
IV	-9.6	15.8	3.8	-7.5
1973/72				
I	-1.1	15.1	3.3	-14.0
II	-12.6	1.9	21.4	-18.9
III	-31.8	-13.4	19.4	-23.8
IV	-34.9	-19.1	-3.7	-9.3

Substantial gains in farm milk prices since last August brought 1973 average prices to $7.16 per 100 pounds, up from $6.09 in 1972. January milk prices were up about a third from a year earlier and prices should continue showing strong gains from a year ago in the first half of this year.

Retail prices of milk and dairy products rose substantially in the second half of 1973, after relatively small gains in recent years, reflecting tight supplies. This brought the 1973 average to around 9 percent above a year earlier. Retail dairy prices will probably continue showing strong gains from a year ago in coming months.

Commercial disappearance of milk in all dairy products rose about 1 percent in 1973. However, sales dropped late in the year reflecting large rises in retail prices and smaller available supplies. Reduced domestic milk production in 1973 was partly offset by increased dairy product imports which reached about 3.9 billion pounds milk equivalent, up from 1.7 billion in 1972.

Egg production for 1973 was down 5 percent but gained over year-earlier levels late in the year. Production will continue to increase and match year-earlier levels in early 1974. Output will then exceed that of 1973 for the balance of the year. Hatchery activity rose sharply in late 1973 in response to high egg prices and increased profits from eggs. This will increase the number of pullets available for flock replacement this winter and spring by about 15 percent and should significantly increase egg production by mid-1974.

Egg prices in 1973 increased sharply and New York wholesale prices for Grade A large eggs averaged about 60 cents a dozen, well above the 35 cents for 1972. Egg prices likely will weaken in coming weeks but strengthen again as Easter approaches. Prices will decline as usual following Easter and may slip below year-earlier levels in the spring as supplies continue to gain. However, prices are expected to remain well above pre-1973 levels.

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

Item	Unit	Annual			Fourth Quarter	
		1971	1972	1973 1/	1972	1973 1/
Production 2/						
Beef and veal...	Mil. lb.	22,450	22,871	21,578	3/5,825	3/5,721
Pork............	Mil. lb.	14,792	13,626	12,651	3/3,507	3/3,347
Lamb and mutton.	Mil. lb.	555	543	513	3/137	3/123
Chickens........	Mil. lb.	8,720	9,101	9,000	3/2,022	3/2,091
Turkeys.........	Mil. lb.	1,811	1,939	1,937	3/752	3/777
Eggs............	Mil. lb.	9,178	9,088	8,655	2,210	2,161
Milk............	Bil. lb.	118.5	119.9	115.6	4/27.7	4/26.6
Prices received by farmers						
Cattle..........	Dol./cwt.	29.00	33.50	42.80	34.10	39.90
Hogs............	Dol./cwt.	17.90	26.00	39.30	27.90	39.80
Lambs...........	Dol./cwt.	25.90	29.10	35.30	28.20	33.60
Broilers........	Ct./lb.	5/13.7	5/14.1	5/23.8	14.2	21.0
Turkeys.........	Ct./lb.	21.9	22.1	34.3	23.0	41.6
Eggs............	Ct./doz.	31.1	31.6	54.1	37.0	60.9
All milk (sold to plants).....	Dol./cwt.	5.87	6.07	7.16	6.48	8.58

1/ Preliminary. 2/ Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Data for 48 States. Commercial production only. 4/ Based on monthly data. 5/ Marketing year average December-November.

Broiler meat output through Federally inspected plants for 1972 declined 1 percent from a year earlier. However, first quarter output this year will slightly exceed a year earlier and continue to run moderately higher during the balance of 1974. Output for all of 1974 may total 3-4 percent above 1973. Broiler prices fell sharply in the fourth quarter as supplies increased relative to 1972 and red meat prices eased. But wholesale prices in 9 cities for all of 1973 averaged 50 percent above the prior year. Broiler prices will strengthen this winter and spring and may average near the relatively high levels of 1973.

The 1973 *turkey* crop was up 2 percent but turkey meat output was down slightly from 1972 because of lighter marketing weights. Turkey poult placements in late 1973 for marketing in the first half of 1974 indicate turkey meat output in the seasonally light winter and spring production months will be 10-15 percent larger than in the same months of 1973. In addition to larger output, turkey cold storage stocks on January 1 were 80 million pounds above the 208 million pounds of a year ago. Thus, first half turkey supplies will be up sharply, resulting in 1974 turkey prices well below those of 1973.

Farm Inputs

Prices paid by farmers for production items, interest, taxes, and wages rose over 17 percent in 1973 and 18 percent in the fourth quarter as compared to the same period a year earlier. Among production items the largest increases were for feed which increased 52 percent and feeder livestock up 28 percent. Interest expenses increased 16 percent while taxes were up 5 percent and wage rates advanced 10 percent. Petroleum and fertilizer prices increased dramatically, particularly in the second half.

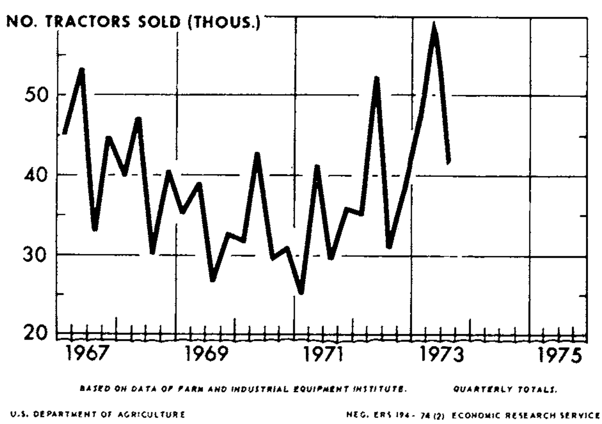
It can be expected that farm production expenses will continue to rise in 1974 but may increase less rapidly than in 1973. Continued prospects for high commodity prices should keep pressure on supplies of several important farm inputs.

Fertilizer supplies, in part tied to the availability of fuels, were unavailable at retail in many States as of February 7, according to reports from county Agricultural Stabilization and Conservation Service offices across the Nation. Another factor in the shortages is that farmer-purchases of fertilizer are up substantially, 35 percent above a year earlier in the July through November period. Fertilizer prices in 1973 were stable at wholesale levels as prices were controlled until October 25. From April to September retail prices rose about 12 percent. However, after October 25 when prices were decontrolled they jumped almost 40 percent overnight. Prices of fertilizer with a high nitrogen content are up 55-71 percent from last October 25. Phosphate prices are up over 40 percent and potash price increases are in the area of 26 percent. Continued prospects for high crop prices and an increase in acres planted will keep the pressure on the already tight supplies at current prices.

Farm wage rates (per hour without board or room) advanced about 10 percent from a year earlier to $2.17 on January 1, 1974. Wage rates for the calendar year 1973 averaged $2.00 per hour without board and room, up 9 percent from the 1972 average.

The Farm and Industrial Equipment Institute reports that retail sales of farm tractors through November 1973 were up 26 percent and for the month of November sales increased 34 percent over a year earlier. High grain prices and record farm income should keep tractor sales firm well into 1974.

RETAIL SALES OF FARM TRACTORS

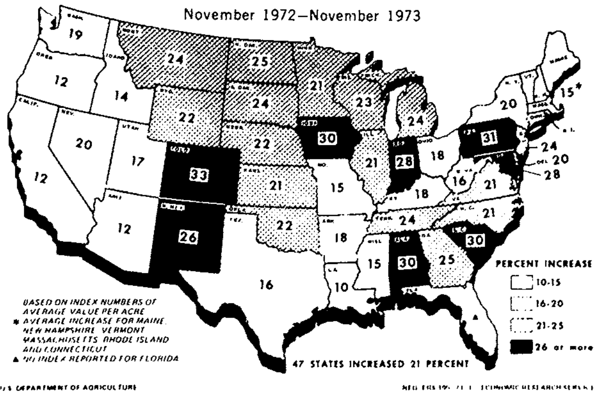


Retail sales of farm machinery other than tractors through November 1973 were up, with corn heads showing the greatest increase of 38 percent and corn pickers the smallest of 16 percent. Sales of machinery in November were off from the year to date average for all eight items listed.

The per acre value of farmland increased a record 21 percent in the year ended November 1, 1973, as compared to a 10 percent increase in 1972. The record increase reflects farmer optimism over income, commodity prices, and the availability but higher cost of credit. As in the previous year the Southeast region led the Nation in per acre increases with the Pacific region showing the smallest gains. Although the energy crisis and reduced residential construction will lead to a dampening in demand for acreage for non-farm use, many of the factors that increased farmland values in 1973 will be present again in 1974. Cropland acreage harvested rose around 25 million acres in 1973 and based on intention surveys, will increase around 17 million nationally in 1974. Farm real estate value per acre this year may rise 15 percent.

PERCENTAGE INCREASE IN AVERAGE VALUE
OF FARM REAL ESTATE PER ACRE

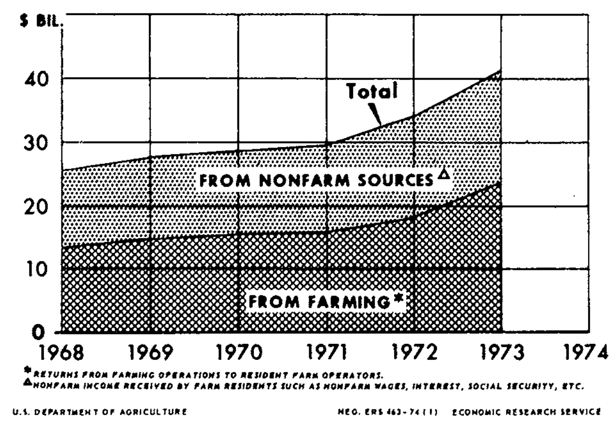
November 1972–November 1973



Record Farm Income

Farmers ended 1973 with record farm incomes. Continued strong domestic and foreign demand kept prices and marketing receipts at high levels even though total volume declined slightly.

PERSONAL INCOME OF FARM PEOPLE

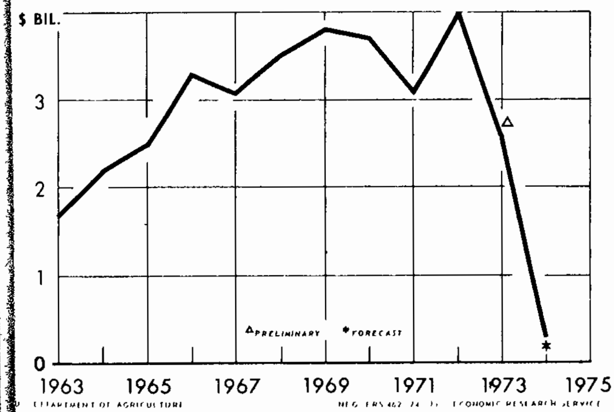


Realized gross farm income for 1973 totaled $90.5 billion, up more than $21 billion from 1972. All of the gain was a result of the large increase in cash receipts from farm marketings since government payments declined by more than $1 billion. Although production expenses continued to rise at a much faster rate than in 1972 to just over $64.1 billion, up about $15 billion. Thus, realized net farm income in 1972 was a record high of $26 billion, up around $6 billion from 1972.

Farm income for 1974 will be very sensitive to crop developments both here and abroad. Current prospects for farm income in 1974 indicate a slight drop in realized net income. In 1974 farm prices for both livestock and crops will average higher than a year earlier. The higher prices coupled with a larger volume of marketings, particularly for crops, will lead to larger cash receipts. Marketing receipts may be around $9 billion above 1973 levels, with crops up at least $6 billion. With the volume of livestock marketings expected to be up after midyear as supplies of fed cattle expand, livestock receipts will be up somewhat less than $3 billion over 1973. However, reduced government payments, down $1-2 billion from last year's total of $2.6 billion will offset some of the gain in marketing receipts.

Although gross farm income will increase by about $9 billion, production expenses will continue to rise and may more than offset the gain. As a result, net farm income in 1974 may dip about $1-2 billion below the $26 billion in 1973. However, the range of uncertainties can hardly be minimized. To achieve the record output, the farmer must have fuel, fertilizer, good weather, and the expectation of good demand. If shortages of inputs develop, weather is not favorable or demand appears too uncertain, output could be curtailed and, in the face of strong demand, net farm income could reach $30 billion. On the other hand, if the energy crisis were to generate a concerted slowdown in major foreign markets and the U.S. economy were to weaken sharply under high inflation and increasing unemployment, demand would be substantially weaker. With this weaker demand, a record farm output could result in a net farm income of $20 billion.

DIRECT GOV'T. PAYMENTS TO FARMERS



FARM LOAN FUNDS OUTSTANDING JANUARY 1

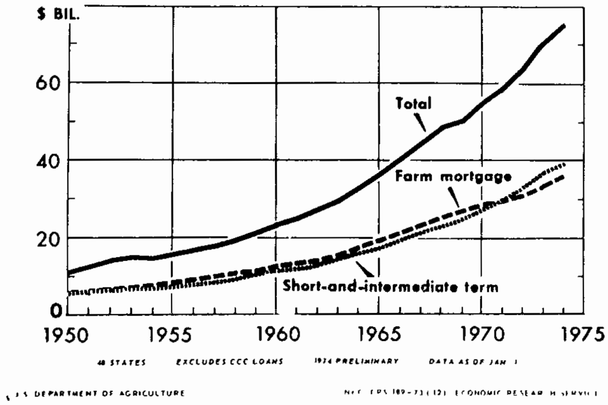


Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1972	Year 1973 1/	1973 II	1973 III	1973 IV 1/
	Billion dollars				
Gross national product	1,155.2	1,288.2	1,272.0	1,304.5	1,334.0
Gross national product (1958 dollars)	790.7	837.3	834.3	841.3	844.1
Disposable personal income	797.0	882.6	869.7	891.1	918.0
Personal consumption expenditures	726.5	805.0	795.6	816.0	829.0
Durable	117.4	131.1	132.8	132.8	126.8
Nondurable	299.9	336.3	330.3	341.6	351.1
Services	309.2	337.6	332.6	341.6	351.2
Personal savings	49.7	53.8	51.0	51.1	63.3
Net government receipts	252.2	288.8	286.9	293.3	---
Government purchases	255.0	277.2	275.3	279.0	285.8
Federal	104.4	106.9	107.3	106.8	107.8
State and local	150.5	170.3	168.0	172.2	178.0
Deficit or surplus (on income and product accounts)	-2.8	11.6	11.6	14.3	---
Gross private domestic investment	178.3	201.5	198.2	202.0	211.2
Fixed investment	172.3	194.0	193.7	197.3	195.3
Residential	54.0	58.0	59.6	59.2	54.2
Nonresidential	118.2	136.0	134.1	138.0	141.1
Change in business inventories	6.0	7.4	4.5	4.7	15.9
Gross retained earnings	124.4	134.7	132.0	136.9	---
Excess of investment	-53.9	-66.8	-66.2	-65.1	---
Net exports of goods and services	-4.6	4.6	2.8	7.6	8.0
Per capita disposable personal income (1958 dollars)	2,767	2,890	2,877	2,894	2,909
Total civilian employment (millions) 2/	81.7	84.4	84.1	84.8	85.7

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

GENERAL ECONOMIC SITUATION

The peak of the growth rate in the 1971/73 expansion occurred in the first quarter of 1973 when real output rose at an 8.7 percent annual rate and inflation was moving at a 6 percent rate. Gross national product rose at a phenomenal 15.2 percent annual rate. From that time on the rate of expansion in the economy slowed dramatically until the energy crisis dealt a final blow.

Almost every sector of the economy in 1973 showed strong growth on a year to year basis with personal consumption expenditures up 11 percent, gross private domestic investment up 13 percent, and net exports doubling. However, the pattern was one of extreme early strength deteriorating to little growth in every case except plant and equipment investment. At the same time interest rates, prices, and capacity utilization moved strongly upward throughout the year with the rate of price increases yet to peak.

Major GNP components, change from previous quarter

Item	1973 II	1973 III	1973 IV[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Total change in GNP	29.5	32.5	29.5
Consumption	16.2	20.4	13.0
Private nonresidential fixed investment	3.2	3.9	3.1
Housing	.6	-.4	-5.0
Inventory[2]	-.1	.2	11.2
Net exports	2.8	4.8	.4
Government	6.7	3.7	6.8

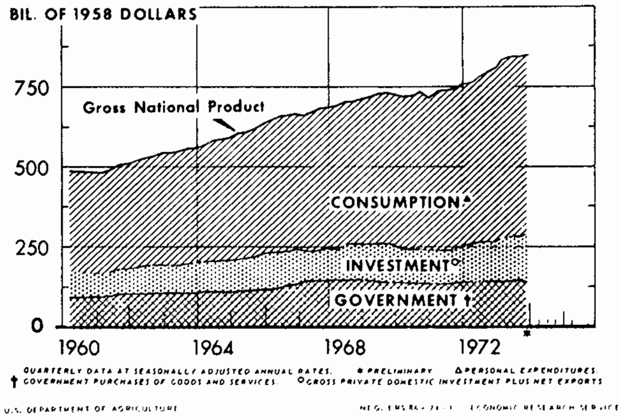
[1] Preliminary. [2] See footnote text table below.

Stagnation-Inflation

The concern in the general economy in 1974 will be to moderate the slowdown and achieve a relatively stable transition into renewed economic expansion. The degree of success will depend to a large extent on the outcome of policies designed to confine the impact of the energy shortage to the consumer sector and achieve some price stability by midyear. The difficulties faced in this area are in part a reflection of the uniqueness of the 1974 slowdown.

In the past, slowdowns have been accompanied by lower interest rates and slowing of inflation as demand pressures ease. However, the 1974 slowdown is induced by shortages in basic industries which cannot be quickly eliminated and require plant and equipment expansion. Thus, with plant and equipment investment continuing strong while profits are declining, long-term interest rates are likely to remain high. Additionally, the easing in demand will not have as much impact on prices as in

MAJOR SOURCES OF DEMAND



previous slowdowns since many basic materials remain in very tight supply. The result is a slowdown in the economy accompanied by inflation and relatively high interest rates.

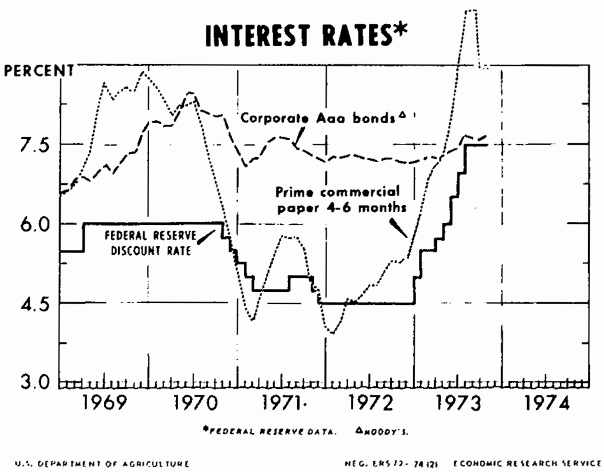
Although a technical recession, two consecutive quarters of negative real growth, is a real possibility, the current outlook is for only moderate slippage in the growth of the economy. By midyear most of the impacts of the events of 1973 will have run their course and the economy should again resume growing at moderate rates. Stagflation may be the best description for 1974 with real growth of less than 1 percent and inflation in excess of 7 percent. Growth in current dollars will exceed 8 percent.

Residential construction will continue weak with housing starts likely to average 20 percent below 1973 levels. Late in 1974, the uncertainty over energy should be resolved and financial markets will once again supply funds for mortgage lending. Inventory investment will remain firm but will not provide substantial growth impetus. The fuel shortages will continue to force a drawdown in inventories with the over $4 billion in large car inventories which appeared in the fourth quarter to be worked down in early 1974. The strongest impetus to growth remains plant and equipment investment which is likely to increase on the order of 12 percent.

The consumer will face the squeeze between a desire to increase savings and the erosion of discretionary purchasing power to inflation. This will be particularly acute in the first half of 1974 when inflation is at its most rapid pace and real income is showing little gain over a year ago. The rate of gain in disposable personal income in 1974 will about match the rate of increase in consumer prices.

One of the key areas of concern must be the area of labor and equipment. Within an environment of possible recession, accelerating inflation, increasing unemployment, and declining real incomes, nearly 40 percent of the 4.5 million workers under major contracts will enter into collective bargaining negotiations. It seems unlikely that the 1973 pattern of relatively modest union wage demands and easily concluded agreements can be repeated in 1974. The major groups involved are steelworkers, miners, and longshoremen.

The rate of growth in the money supply has been accelerating in recent months as the Federal Reserve attempts to promote an easing in interest rates. Federal purchases of goods and services will increase around 10 percent in 1974 with increases in both defense and nondefense spending.



Consumer Spending Continues to Cool

The rate of increase in personal consumption expenditures peaked in the first quarter of 1973 and by the fourth quarter, real expenditures were declining. The dominant factors in this pattern were slowing gains in income relative to 1972, rapidly accelerating food prices in early 1973, and dramatic price increases in petroleum products late in 1973. The consumer in 1974 will attempt to rebuild savings while inflation erodes his discretionary purchasing power.

As interest rates and prices continued to rise the consumer became less willing to borrow and spend for houses and big-ticket items. By the fourth quarter the personal savings rate had reached 6.9 percent compared with an average 5.8 percent for the first three quarters of 1973. For the year, however, personal consumption expenditures increased 11 percent with nondurable and durable purchases each up around 12 percent.

In 1974 the consumer will provide little growth impetus until after midyear when most of the impacts of the events of 1973 will have run their course and some stability is achieved. Gains in disposable personal income will average lower than in 1973, and coupled with sharply higher inflation, they indicate very little growth in real income.

GNP and final sales, change from previous quarter

Year		GNP	Final sales	Inventory change[1]
		Billion dollars	*Billion dollars*	*Billion dollars*
1970:	I	9.6	13.0	-3.4
	II	12.1	9.3	2.8
	III	16.8	15.6	1.1
	IV	4.4	5.4	-.9
1971:	I	35.4	33.5	1.9
	II	19.7	19.0	.6
	III	16.6	20.0	-3.3
	IV	20.7	19.7	1.0
1972:	I	28.3	31.9	-3.6
	II	29.9	26.1	3.8
	III	24.1	20.9	3.2
	IV	32.7	33.2	-.5
1973:	I	43.3	46.8	-3.6
	II	29.5	29.7	-.1
	III	32.5	32.3	.2
	IV[2]	29.5	18.3	11.2

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the fourth quarter of 1973 ($15.9 billion) less the change in the third quarter of 1973 ($4.7 billion) equals plus ($11.2 billion).
[2] Preliminary.

Housing May Turn Around

Expenditures for residential structures totaled $58 billion in 1973, 7.4 percent greater than in 1972. However, the year-to-year increase is overshadowed by the dramatic 23 percent drop in housing starts from the third to the fourth quarter of 1973 which resulted from a collapse of funds flowing into mortgage fund outlets. Because of the long lag between housing starts and home completions, the full effects are only now appearing. Fourth quarter residential structure expenditures were down sharply. Although the energy crisis may prolong the slowdown, the increased flow of funds into major mortgage-lending institutions should lead to some stimulation in housing after midyear.

Plant and Equipment Investment Strong

The high capacity utilization which prevailed through much of 1973, particularly in basic material producing industries, has led to a sharp increase in planned plant and equipment investment for 1974. The industry has been expanding at a very slow rate—around 2½ percent—for some time and now has the incentive for more aggressive expansion particularly in view of the high ratio of cash flow to capital spending. Although the energy crisis may dampen the expansion in early 1974, it seems likely that this investment will be the major impetus to growth in 1974, rising around 12 percent.

Inventory investment is already becoming highly volatile as huge inventories of large cars appeared in the fourth quarter. These stocks will probably be worked off in the first half with a stable rate of inventory accumulation appearing after midyear.

Government Spending to Accelerate

Government expenditures increased 8.7 percent in 1973, as State and local spending rose much faster than Federal outlays. However, Federal expenditures in 1974 will likely increase by over 10 percent, about the same as State and local.

Federal purchases of goods and services increased 2.4 percent in 1973 and reflected the desire to achieve a nearly balanced budget in fiscal 1974. State and local expenditures rose 13 percent.

The proposed Budget presented in February 1974 indicates a greater degree of fiscal ease as the budget deficit is estimated at $4.7 billion in fiscal 1974 and $9.4 billion in fiscal 1975. The proposed expenditure level in fiscal 1975 is $304.4 billion.

Federal receipts and expenditures, national income basis[1]

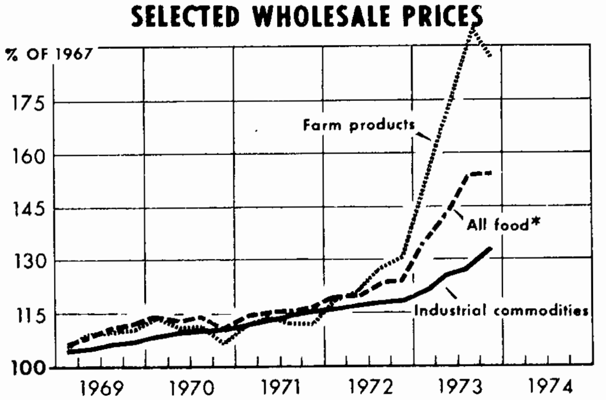
Item	1972 Second half	1973 First half	1973 Second half[2]
	Billion dollars	*Billion dollars*	*Billion dollars*
Receipts	233.2	258.0	[3]272.4
Personal tax	109.7	110.0	119.0
Corporate profits tax	39.4	48.7	[3]50.5
Indirect business tax	20.1	21.0	21.2
Social insurance	64.1	78.4	81.7
Expenditures	248.6	260.5	269.0
Goods and services	102.5	106.4	107.3
Transfer payments	85.9	92.8	98.0
Grants to State and local government	40.2	40.8	41.5
Net interest paid	13.6	15.2	16.6
Subsidies less surplus	6.4	5.3	5.5
Surplus or deficit	-15.4	-2.5	[3]3.4

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

Accelerated Inflation Key to 1974

The heavy pressure on production was reflected in all price indexes throughout 1973. The wholesale price index for all commodities increased 14 percent with farm products averaging 41 percent higher.

SELECTED WHOLESALE PRICES



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

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The Consumer Price Index for all items rose 6.2 percent with sharp increases in the latter part of the year.

The implicit price deflator for gross national product increased 5.3 percent for the year but was increasing at a nearly 8 percent rate in the fourth quarter.

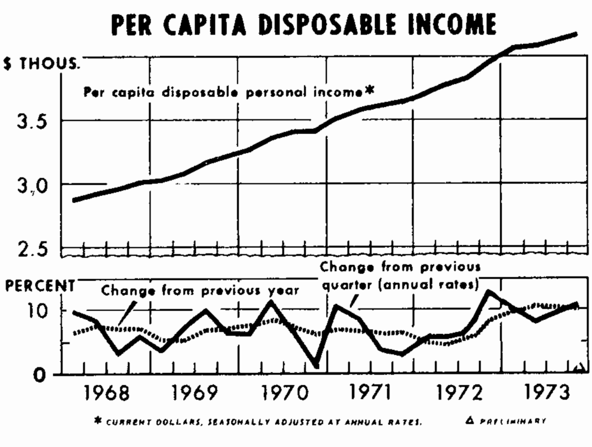
With the energy crisis and the tight supplies in basic materials industries, the price pressures in early 1974 will be particularly intense and an acceleration in the pace of inflation seems likely.

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	-8.8	18.8
October	136.6	9.7	7.9	148.4	.8	18.8
November	137.6	8.8	8.4	150.0	12.9	19.6
December	138.5	7.8	8.8	151.3	10.4	20.1

Real Earnings Decline

As in other sectors of the economy, the year-to-year comparisons of employment and income data provide a poor barometer for future months. In 1973 the unemployment rate declined to 4.9 percent compared with the 5.6 percent of 1972. Productivity in 1973 grew at a rate of 2.9 percent over 1972, nearly equalling the long-term growth rate of 3 percent. Real hourly compensation (hourly compensation adjusted for changes in the consumer price index) went up 1.4 percent, the smallest increase since 1958. Per capita disposable income was up nearly 10 percent with real income up 4½ percent. However, in fourth quarter of 1973 the unemployment rate was unchanged from third quarter levels at 4.7 percent; productivity in the private economy declined at an annual rate of 1.3 percent; and real hourly compensation declined 1.7 percent in the private economy. Although per capita disposable income increased at an 11.2 percent annual rate in the fourth quarter, real income rose at an annual rate of only 2 percent.



In January 1974 the unemployment rate reached 5.2 percent, nonfarm payroll employment declined after making steady gains through 1973, and the average workweek reached the lowest monthly average since the series was first collected in 1964.

Major personal income components, change from previous quarter

Item	1973		
	II	III	IV[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	22.4	28.1	32.1
Wages and salaries	15.9	16.7	18.3
Manufacturing	5.7	4.3	5.2
Nonmanufacturing	8.1	10.1	8.8
Government	2.1	2.4	4.2
Other income	5.0	9.6	11.2
Transfer payments	2.1	3.0	3.2
Social insurance payments (minus)	.7	1.0	.6
Personal tax payments	4.2	6.7	5.2
Disposable personal income	18.2	21.4	26.9
Personal outlays	17.2	21.4	14.5
Personal savings	1.0	.1	12.2

[1] Preliminary.

For the remainder of 1974 unemployment will continue to rise particularly in energy related areas and may reach 6 percent by year end. Although nominal disposable income gains will be substantial, on the order of 8½ percent, significant gains in real income are unlikely. To a large extent the outcome of the various wage negotiations involving major unions will set the pace of income gains for 1974.

LIST OF TABLES

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