DPS-137

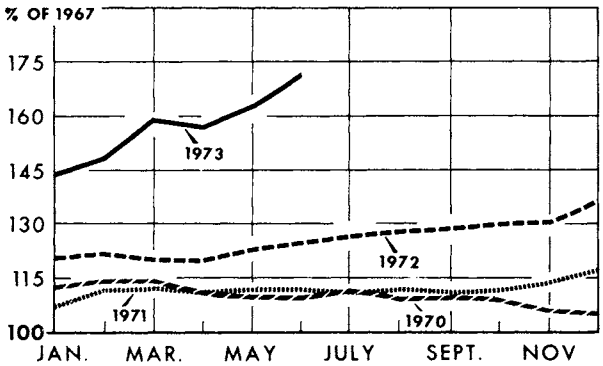
AUGUST 1973

DEMAND AND PRICE Situation

ECONOMIC RESEARCH SERVICE

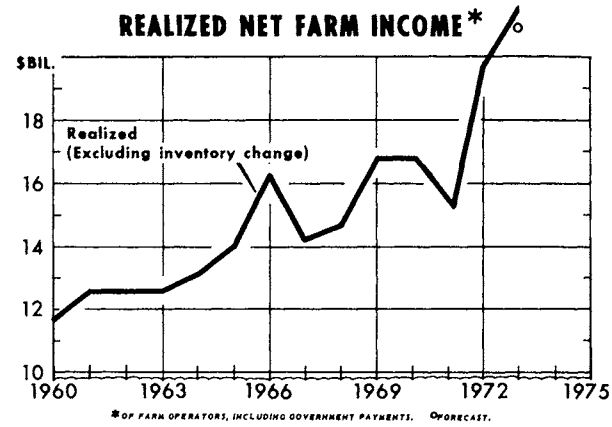
U.S. DEPARTMENT OF AGRICULTURE

PRICES RECEIVED BY FARMERS



U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 8266-73 (8) ECONOMIC RESEARCH SERVICE

REALIZED NET FARM INCOME*

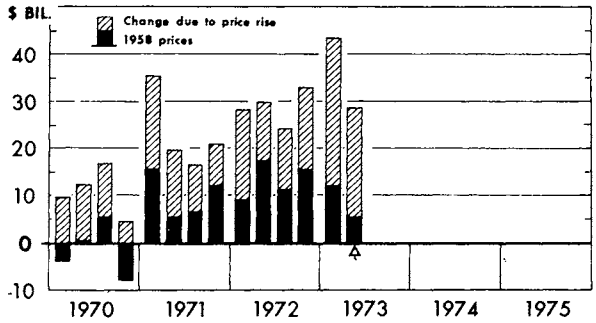


*OF FARM OPERATORS, INCLUDING GOVERNMENT PAYMENTS. °FORECAST.

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 5256-73 (7) ECONOMIC RESEARCH SERVICE

GROSS NATIONAL PRODUCT

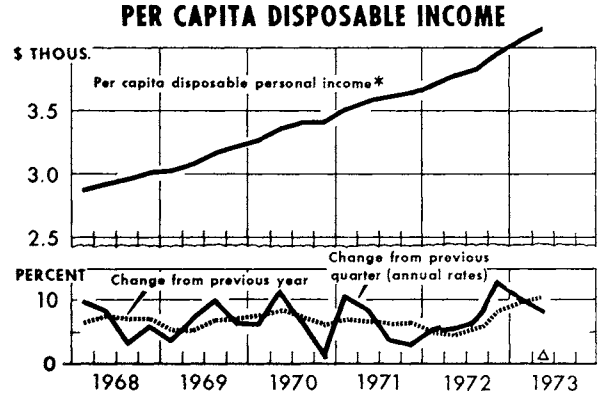
Change from Previous Quarter



SEASONALLY ADJUSTED ANNUAL RATE. △SECOND QUARTER PRELIMINARY. BASED ON DATA OF DEPARTMENT OF COMMERCE.

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 6998-73 (8) ECONOMIC RESEARCH SERVICE

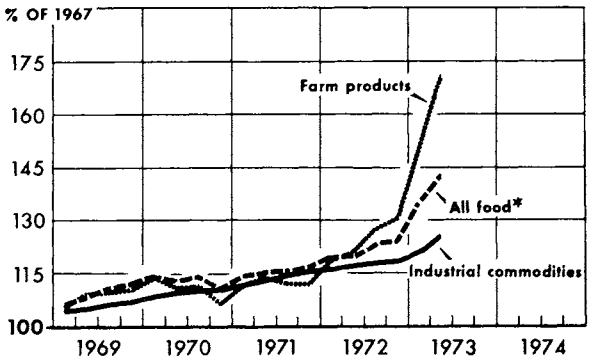
PER CAPITA DISPOSABLE INCOME



* CURRENT DOLLARS, SEASONALLY ADJUSTED AT ANNUAL RATES. △ PRELIMINARY

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 8736-73 (7) ECONOMIC RESEARCH SERVICE

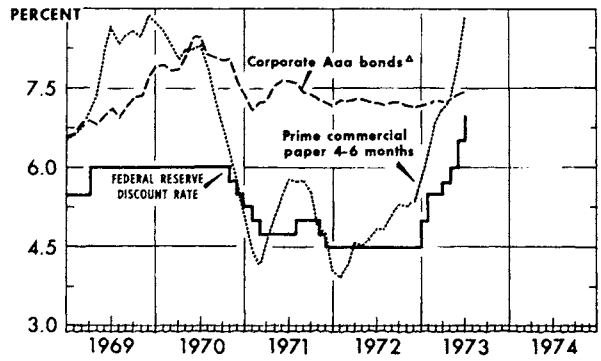
SELECTED WHOLESALE PRICES



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

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 5704-73 (7) ECONOMIC RESEARCH SERVICE

INTEREST RATES*



*FEDERAL RESERVE DATA. △MOODY'S.

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 72-73 (7) ECONOMIC RESEARCH SERVICE

THE DEMAND AND PRICE SITUATION

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Approved by
Outlook and Situation Board
and Summary released
August 7, 1973

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

SUMMARY

Sharply higher farm prices for both livestock and crops in the first half of 1973 have boosted gross farm income to a record level. Although upward spiraling input costs have precipitated soaring production expenses, realized net farm income also has reached a record annual rate of just over $24 billion. The continuing strong demand for livestock products and the exceptionally strong foreign demand for crops will maintain cash receipts for the remainder of 1973 well above last year's levels.

Livestock prices in the second half of 1973 will be well above prices in the first half, even though total livestock production will approach last year's levels by year-end. High feed prices have caused producers to temper their plans to increase output of poultry and pork, while the retention of price ceilings on beef until September 12 has resulted in a slowdown in fed cattle marketings. Ending stocks of most major crops are sharply reduced by 1972/73's heavy domestic disappearance and exports. Thus the price impacts of projected record production levels will be sharply mitigated by the prospective repeat of the phenomenal foreign and domestic demand levels of 1972/73. Crop prices will remain strong through harvesttime and average well above 1972 season average prices.

Gross farm income for 1973, reflecting higher prices and larger crop marketings, is now estimated at $84 billion, up $15 billion from 1972. Farm production expenses will continue to increase for the rest of the year and total about $60 billion, up more than $11 billion from a year earlier. Thus, net farm income may total around $24 billion for 1973, by far the highest on record.

With continued strong demand for crop and livestock products, retail food prices will continue sharply above year-earlier levels. Contingent upon the success of Phase IV and other actions to moderate wage and price increases, retail food prices for 1973 will average about a fifth above 1972.

The performance of the U.S. economy in the second quarter yielded some disturbing indicators and led to significant policy actions. The rate of price inflation reflected in the implicit GNP deflator did not slow as anticipated but increased slightly to a 6.8% annual rate. Real growth, which had been expected to moderate from the unsustainable 8.7% annual rate of

the first quarter, fell sharply to a 2.6% rate. Short-term interest rates climbed above corporate bond rates for the first time since the "credit-crunch" of 1969. The dollar continues unstable in foreign money markets despite two previous devaluations. On the positive side, the net trade balance was solidly in the black for the first time since 1971 and the Federal budget remains close to targeted levels. The unemployment rate continued to decline, averaging 4.9%.

The outcome of recent policy actions will determine the timing and degree of future slowdowns in the economy. The inflationary pressures are now confronted with Phase IV. The instability of the dollar in foreign money markets may be dampened by actual and potential Federal Reserve intervention through the swap network and by the improving U.S. trade balance. The rapidly expanding money supply is being combated by the higher Federal Reserve discount rate and larger reserve requirements. The increase in regulation Q ceilings may increase the supply of loanable funds by permitting a higher payable interest on consumer-type savings. This could dampen further interest rate increases. The objective of these policies can be summed up in one word—confidence. They seek to reaffirm the confidence of Congress and business, industry, agriculture, and consumers, both domestic and foreign, in the ability of the U.S. economy to sustain long-run economic expansion and reduce inflationary forces. Whether the slowdown in the economy will lead to recession, or whether the second quarter will be remembered as a temporary aberration caused by excessive first quarter rates of growth, will be greatly influenced by the success of these policies.

Agricultural exports reached a record $12.9 billion in 1972/73. This boosted the U.S. agricultural trade surplus by about $3½ billion to a record of $5.6 billion, despite a one-fifth advance in agricultural imports. The favorable agricultural trade balance helped to offset the U.S. trade deficit in nonagricultural products, which amounted to around $9 billion.

....Outlook for major farm commodities

....*Corn* planted on 71.3 million acres could produce a record crop assuming trend yields. But foreign and domestic demand will remain heavy, so prices will continue strong.

....A record *wheat* crop combined with a low old crop carryin will put total wheat supplies in 1973/74 10% below last season. With domestic and foreign demand near last year's levels, prices will average well above the 1972/73 season average of $1.80 per bushel and ending stocks will fall below 300 million bushels, the least since 1952.

....A projected 1973/74 record *soybean* crop of around 1.6 billion bushels would slightly exceed expected use requirements and allow some buildup in the extremely low soybean carryover.

....*Tobacco* production is expected to increase by 2%. Output in some areas may suffer from wet weather and late planting.

....Upland *cotton* plantings are estimated at 6% below the 1972 level. With prospects for reduced production, and continued strong demand, output may fall close to a million bales short of satisfying domestic and export needs.

....Despite greater acreage planted to processing *vegetables* this year, carryin supplies were small and prices of processed products will likely remain firm.

....Decidious *fruit* supplies are substantially larger than in 1972, and prices may be somewhat weaker for some items.

....Fed *cattle* marketings are expected to stay below year-earlier levels this summer and then be up somewhat late in the year. Prices for cattle will bulge when the ceiling price is lifted but may fall back after the initial reaction subsides.

....*Hog* slaughter in the second half will be down a little from last year, reflecting fewer hogs on farms this June 1. Prices will remain well above last year.

....*Broiler* meat output fell 2% in the first half from the comparable period in 1972 and will decline further this summer. Prices will continue strong this fall and well above last year.

....*Turkey* meat production this January-May was more than a tenth higher than a year ago but will slip below 1972 levels in coming months—the period of seasonally large marketings.

....*Egg* output will continue to lag year-earlier levels as high feed costs discourage expansion in output for the remainder of the year. Prices will continue strong.

....*Milk* production fell 1½% in the first half of 1973. Supplies will continue tight reflecting high feed costs and favorable slaughter cow prices. Prices for dairy products will remain strong.

....*Wool* prices will be more than double last year's 35 cents a pound and exceed the incentive payment of 72 cents offered under the Wool Act.

Table 1.--Selected measures of economic activity

Item	Unit	Year 1972	1971	1972				1973	
			IV	I	II	III	IV	I	II 1/
Gross national product	Bil. dol.	1,155.2	1,084.2	1,112.5	1,142.4	1,166.5	1,199.2	1,242.5	1,271.0
Disposable personal income	Bil. dol.	797.0	760.4	772.8	785.4	800.9	828.7	851.5	870.4
Personal consumption expenditures	Bil. dol.	726.5	683.4	700.2	719.2	734.1	752.6	779.4	795.1
Food spending (excluding alcoholic beverages)	Bil. dol.	125.0	118.9	121.2	124.5	126.1	128.3	133.0	135.8
Implicit price deflator for GNP	1958=100	146.1	142.8	144.8	145.4	146.4	147.6	149.8	152.3
Unemployment rate 2/	Percent	5.6	5.9	5.8	5.7	5.6	5.3	5.0	4.9
Cash receipts from farm marketings	Bil. dol.	60.7	54.4	57.8	59.8	60.5	64.6	72.4	75.5
Nonmoney income and Government payments	Bil. dol.	8.2	6.9	8.0	8.3	8.2	8.2	7.4	7.0
Realized gross farm income	Bil. dol.	68.9	61.3	65.8	68.1	68.7	72.8	79.8	82.5
Farm production expenses	Bil. dol.	49.2	45.9	47.0	48.8	49.4	51.5	55.8	58.0
Farmers' realized net farm income	Bil. dol.	19.7	15.4	18.8	19.3	19.3	21.3	24.0	24.5
Agricultural exports 3/	Bil. dol.	9.4	1.9	2.2	2.1	2.1	3.1	3.7	4.0
Agricultural imports 3/	Bil. dol.	6.5	1.1	1.7	1.5	1.6	1.7	1.9	2.1
Volume of farm marketings	1967=100	112	151	100	87	110	150	101	83
Livestock and products	do.	109	114	105	112	107	112	101	102
Crops	do.	116	201	93	55	114	201	101	59
Prices received by farmers 4/	do.	126	114	121	123	128	133	151	164
Livestock and products	do.	134	120	129	129	136	141	163	170
Crops	do.	115	107	110	114	116	121	135	156
Prices paid by farmers 4/ 5/	do.	127	121	123	125	127	130	136	143
Wholesale price index, all commodities 4/	do.	119.1	114.8	117.0	118.2	119.9	121.2	127.0	133.6
Consumer price index, all items 4/	do.	125.3	122.7	123.7	124.7	125.8	126.9	128.7	131.5
All food	do.	123.5	119.4	121.6	122.6	124.5	125.4	131.4	138.1
Food at home	do.	121.6	117.2	119.8	120.5	122.6	123.4	130.5	138.0

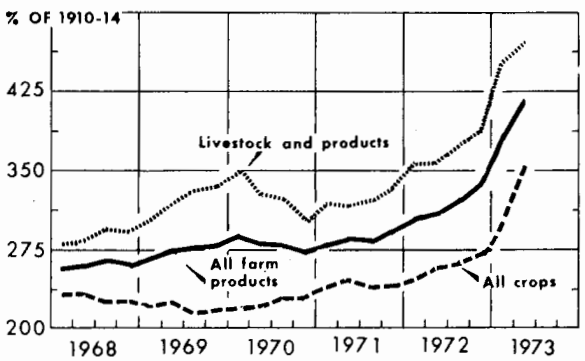
1/ Preliminary. 2/ Unemployment as a percent of the civilian labor force. 3/ Actual values, not seasonally adjusted annual rates. 4/ Not seasonally adjusted. 5/ Including interest, taxes, and wage rates.

Quarterly data seasonally adjusted except as noted.

Departments of Agriculture, Commerce, and Labor.

The outlook for the agricultural sector for the remainder of 1973 is highlighted by prospective record grain and soybean production, sharply reduced stocks, an apparent repeat of the phenomenal 1972/73 foreign demand for grains and soybeans, continued heavy consumer demand for livestock products, and soaring production expenses. These factors coupled with the gains of the first half will push gross farm income around $15 billion above 1972 levels. With production expenses likely to rise by more than $11 billion, realized net farm income may reach $24 billion for 1973.

PRICES RECEIVED BY FARMERS



U.S. DEPARTMENT OF AGRICULTURE — NEG. ERS 6999-73 (7) — ECONOMIC RESEARCH SERVICE

With fed cattle marketings not likely to expand significantly until the retail price ceilings on beef are lifted, and expansion plans for pork and poultry being shelved by unfavorably high feed prices, livestock prices in the second half of 1973 will average well above the first half levels. Crop prices will remain strong through harvesttime as the projected record production levels are being offset by the extremely low old crop carryin and foreign demand is rapidly approaching the high levels of 1972/73.

Domestic Demand Slows From Record Pace

Consumer purchases of food and beverages increased at an 8% annual rate in the second quarter compared with a 15% rate in the first quarter. Purchases of clothing and shoes slowed to an annual rate of 8% compared with the 20% rate of the first quarter. Even at these lower rates, both categories remain well above year-earlier levels.

Consumer outlays for food in the second quarter were at a $135.8 billion annual rate, around 9% above a year earlier and $2.8 billion more than the total for the first quarter. A decline in the total quantity of food consumed was more than offset by price increases.

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

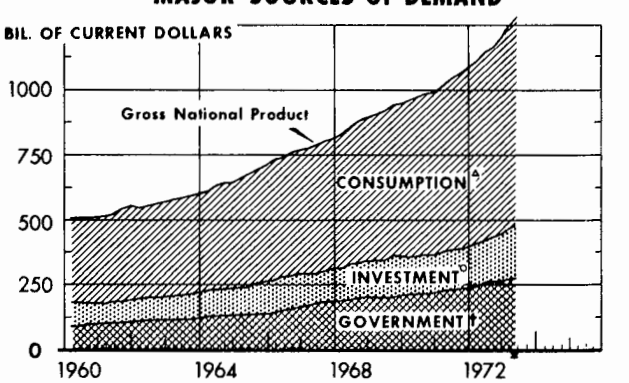
Month	All crops	Livestock and products
	Percent	*Percent*
January 1972	6.7	15.5
February	4.8	11.0
March	-.9	12.2
April	2.8	10.5
May	4.6	14.0
June	3.6	16.8
July	6.5	19.3
August	11.4	15.4
September	14.7	17.9
October	12.5	17.8
November	11.1	16.0
December	16.5	18.9
January 1973	18.0	20.5
February	20.9	22.9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

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

Prices for all food at retail in the second quarter were 12.6% above a year earlier, with food at home up 14.5%. Although livestock products were the prime contributors, rising 19% above year-earlier levels, the crop products climbed almost a tenth. Poultry, eggs, pork, and fresh vegetables and potatoes reached levels 30 to 40% above last year at this time.

With the current tight supplies and high prices in most of the feed and food grain areas, little expansion can be expected from livestock producers for the remainder of 1973. As a result retail food prices for all of 1973 will average from 18 to 22% above 1972 levels.

MAJOR SOURCES OF DEMAND



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

U.S. DEPARTMENT OF AGRICULTURE — NEG. ERS 1492-73 (8) — ECONOMIC RESEARCH SERVICE

Agricultural Exports at New High

U.S. agricultural exports in fiscal 1972/73 reached a record $12.9 billion, up from $8.0 billion a year earlier. Exports of grains and products accounted for over half of this total increase in value, with soybeans and products accounting for another fourth.

A number of factors contributed to this sharp increase in exports of U.S. farm products: (1) Unfavorable weather conditions that reduced harvests in the Soviet Union, Southeast Asia, parts of Latin America, Africa, and Australia, (2) the continuing trend in increased foreign demand for U.S. farm products because of rising incomes, (3) the realignment of currencies following two devaluations, which decreased the price of U.S. farm products for many major importers, and, of course, (4) the now infamous failure of the Peruvian anchovy catch.

U.S. agricultural exports, value of major commodities

Commodity	July-June 1971/72	July-June 1972/73[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	1,027	1,353	32
Cotton	534	755	41
Feed grains, excluding products	1,118	2,312	107
Fruits	381	457	20
Soybeans	1,391	2,288	66
Tobacco, unmanufactured	570	640	12
Vegetables	235	296	26
Wheat and flour	1,071	2,382	122
Rice	306	435	42
Other	1,414	1,979	40
Total exports	8,047	12,897	60

[1] Preliminary.

U.S. agricultural imports, value of major commodities

Commodity	July-June 1971/72	July-June 1972/73[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	1,621	2,082	28
Fruits	168	206	23
Oilseeds and oil products	43	51	19
Sugar and molasses	920	943	2
Tobacco, unmanufactured	159	153	-4
Vegetables	329	409	24
Wines and malt beverages	217	292	35
Other	492	571	16
Total	3,949	4,707	19
Complementary			
Bananas	178	193	8
Cocoa and chocolate	55	61	11
Coffee	1,169	1,585	36
Rubber	203	229	13
Other	487	548	13
Total	2,092	2,616	25
Total imports	6,041	7,323	21

[1] Preliminary.

U.S. agricultural trade balance July-June 1971/72 and 1972/73

Item	1971/72	1972/73[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	8,047	12,897	60
Imports	6,041	7,323	21
Trade balance	2,006	5,574	178

[1] Preliminary.

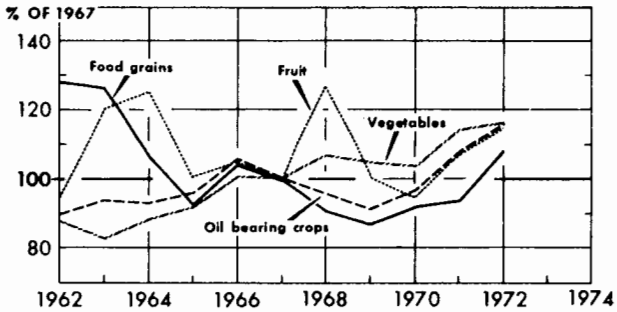
U.S. farm product imports advanced strongly in fiscal year 1972/73 to $7.3 billion, a 21% gain over last year. Price increases accounted for about three-fourths of this advance as volume rose only 6%. Competitive agricultural imports moved up 19%, while noncompetitive items jumped 25%. Uncertainties about exchange rates, weather-induced supply shortages, and the relaxation in import restrictions on dairy products and meat were important factors in the rapid growth.

The rapidly increasing agricultural exports produced a record agricultural trade surplus of $5.6 billion. This represented over a $3½ billion increase over 1971/72.

Strong Foreign Demand Dominates Crop Sector

Farmers planted 71.3 million acres to corn this year, nearly a tenth more than in 1972. Plantings would likely have been larger, except for a notoriously wet spring which delayed plantings and apparently caused some farmers to switch to soybeans, which can be planted later than corn. Since planting time, weather has favored the development of corn. With an estimated 61.5 million harvested acres and a yield of 92 bushels per acre, the 1973 production would total a record 5.7 billion bushels, 2% more than last year's crop. A crop of this size would bring the total supply for 1973/74 to 6.4 billion bushels, about the same as for the current year.

PRICES RECEIVED BY FARMERS FOR SELECTED CROP PRODUCTS



U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 70-7317 ECONOMIC RESEARCH SERVICE

Recent high feed prices and concern about future supplies and prices have caused livestock, dairy, and poultry producers to shelve planned expansion. Livestock and poultry feed price ratios have dropped sharply below the relatively favorable levels of last winter and the outlook is for only a 2½% increase in grain consuming animal units in 1973/74 rather than the 4% expected last winter. With feeding rates easing from the recent high levels, estimated domestic use in 1973/74 may be around this year's 4.7 billion bushels.

U.S. corn exports for 1972/73 are now forecast at 1.2 billion bushels, 50% more than 1971/72. This year's increased exports are going both to our traditional customers and to the Soviet Union and the People's Republic of China. These two countries account for about half of the increase in corn exports. The export market for corn will continue strong for 1973/74.

Corn prices declined modestly during the winter, but since then they surged to the highest levels since the 1947/48 season. When export controls were placed on protein feed, the market weakened, but strengthened again when no export controls on corn were imposed. Even with a 6 billion bushel crop, prices received by farmers for corn in 1973/74 would continue strong, averaging above the estimated $1.45 per bushel received for the 1972 crop.

The 1973 wheat crop as of August 1 is estimated at a record 1,717 million bushels, 11% above a year ago's harvest. However wheat supplies in 1973/74 at almost 2.2 billion bushels, will slip a tenth from a year ago. The slimmest carryover since the summer of 1952 more than offset the increased harvest.

Total wheat disappearance will likely continue at a near record level. Wheat feeding may be off a little due to high prices. Food and seed use will likely continue near the level of a year ago. Early indications point to exports near the 1972/73 record level of 1,185 million bushels. As of July 13, reported export commitments remaining to be shipped for 1973/74 totaled 947 million bushels of wheat as grain. A decline in wheat exports to the USSR is being offset by sharply larger sales to India and the People's Republic of China. With demand expected to exceed the 1973 harvest, U.S. wheat stocks may slip sharply next summer to around 300 million bushels, the lowest level since 1952.

Stocks of grains

Grain and position	July 1, 1972	July 1, 1973	Percentage change 1973/72
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	54	45	-17
Off farms[2]	27	25	-7
Total	82	70	-14
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	355	125	-65
Off farms[2]	508	303	-40
Total	863	428	-50
SOYBEANS			
On farms[1]	58	34	-41
Off farms[2]	174	145	-17
Total	233	180	-23

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

Totals may not add due to rounding.

Uncertainties about world import demand, available supplies, and the general economy, which have precipitated the heavy early season commitments of new crop wheat, continue to dominate the grains market, and have pushed wheat prices to new highs. Although prices are expected to average above 1972/73 for the season, they may moderate slightly as the season progresses and foreign production enters world markets.

Rice acreage for harvest in 1973 at 2.2 million acres is nearly a fifth larger than a year ago. Plantings were delayed but much of the crop is in, and progressing nicely. However, with the delayed planting, yields are expected to be below trend and the crop may total only around 99 million hundredweight. Domestic use in 1973/74 will differ little from the level of recent years. Demand for U.S. rice in the international market is expected to continue strong.

Soybean supplies this summer are extremely tight, and pressures will ease slightly in the 1973/74 marketing year. Soybean planted acreage is now estimated for 1973 at a record 57.2 million acres, more than a fifth above 1972. If yields are on trend, the 1973 soybean crop would be 1,540 million bushels, about a fifth above last year. As the carryover September 1

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
1971/72p	Mil. tons	33.2	.5	207.7	241.4	165.7	27.3	193.0	48.4	2/1.08
1972/73e	Mil. tons	48.4	.4	199.8	248.6	171.6	42.0	213.6	35.0	2/1.60
1973/74f	Mil. tons	35.0	.3	206.7	242.0					
Wheat										
1970/71	Mil. bu.	884.9	1.1	1,351.6	2,237.6	768.6	737.5	1,506.1	731.5	1.33
1971/72p	Mil. bu.	731.5	1.0	1,617.8	2,350.3	854.7	632.5	1,487.2	863.1	1.34
1972/73e	Mil. bu.	863.1	1.3	1,544.8	2,409.2	796.8	1,184.6	1,981.4	427.8	1.80
1973/74f	Mil. bu.	427.8	1.3	1,717.0	2,146.1					
Rice										
1970/71	Mil. cwt.	16.4	1.5	83.8	101.7	3/36.6	46.5	83.1	18.6	5.17
1971/72p	Mil. cwt.	18.6	1.1	85.8	105.5	3/37.1	57.0	94.1	11.4	5.34
1972/73e	Mil. cwt.	11.4	1.0	85.2	97.6	37.1	n.a.	n.a.	n.a.	6.73
1973/74f	Mil. cwt.	n.a.	1.5	99.3	n.a.					
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
1971/72p	Mil. bu.	98.8	0	1,176.0	1,274.8	786.0	416.8	1,202.8	72.0	3.03
1972/73e	Mil. bu.	72.0	0	1,282.9	1,354.9	815	490	1,305	50	4.35
1973/74f	Mil. bu.	50	0	1,540	1,590					
Cotton 4/										
1970/71	5/ Mil. bales	5.8	6/.1	10.3	16.2	8.1	3.9	11.9	4.3	21.98
1971/72p	5/ Mil. bales	4.3	6/.1	10.4	14.8	8.2	3.4	11.6	3.4	28.23
1972/73e	5/ Mil. bales	3.4	6/.1	13.7	17.1	7.8	5.4	13.2	3.9	7/26.7
1973/74f	5/ Mil. bales	3.9	6/.1	12.8	16.8					

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Price for corn. 3/ Includes the following statistical discrepancies: 1970/71, 2.2 and 1971/72, 1.7 mil. cwt. 4/ Production based on ginnings between August 1 and July 31. 5/ 480 pound net weight bales. 6/ Includes city crop. 7/ Average price to April 1, 1973, with no allowance for unredeemed loans.

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

is forecast at around 50 million bushels, total 1973/74 supply would be 1,590 million bushels compared with 1,355 million for the currently ending season.

A soybean crop of 1,540 million bushels would exceed the anticipated 1½ billion bushel use requirement in 1973/74 and allow the carryover to increase to around 125 million bushels September 1974. Demand is extremely strong, and prices received by farmers will average well above the record $4.35 per bushel estimated for 1972/73.

Soybean usage for the 1972/73 season is totaling 1.3 million bushels, nearly a tenth above 1971/72, and in excess of production for the fourth consecutive year. Crushings are estimated to total 725 million bushels,about the same as in 1971. Exports may total 490 million bushels, compared with 417 million last season. Exports have been limited by the tight supply situation and by the export controls which were imposed in early July.

The August estimate of all tobacco acreage for harvest in 1973 is 5% above last year. Although output in some producing areas may be below last year due to wet weather and late plantings, total production is estimated 2% above last year. The crop plus estimated carryover gives a supply slightly below the 1972/73 level. Since the crop falls about 40 million pounds below projected requirements for 1973/74, carryover is again expected to decline.

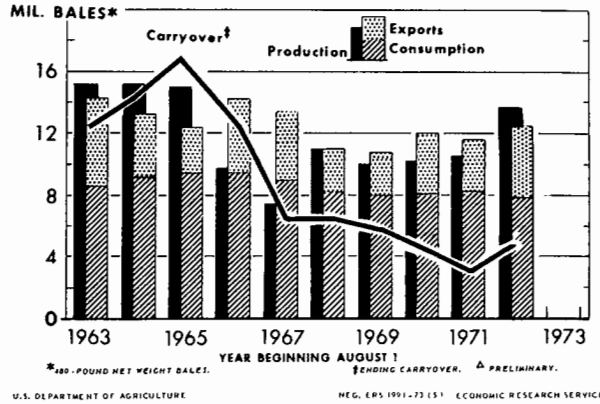
Domestic cigarette use for the 1972/73 marketing year is estimated slightly above the previous year and may gain some in 1973/74. U.S. tobacco exports may edge downward as the enlarged European Community (EC) develops a coordinated tobacco policy. Policy in the original EC was to discourage use of high valued U.S. leaf. The devaluation of U.S. currency made our exports less costly to major purchasers, although most of our competitors also devalued.

With worldwide supplies somewhat reduced, prices received by farmers at the beginning of the 1973 auction season averaged about the same as last season.

Upland cotton growers planted about 13 million acres to the 1973 crop. This was the same as indicated in March, but 6% below 1972 plantings. The smaller acreage primarily reflected a 13% drop in the national base acreage allotment and intensified competition from other crops, particularly soybeans in the Delta. Cotton acreage dropped nearly a fifth in the Delta as this spring's extensive flooding plagued growers. However, attractive cotton prices helped boost acreage 6% in the West and 2% in the Southwest. Planted acreage is off a tenth in the Southeast.

With smaller acreage and possibly a little lower yields, upland cotton production will probably decline moderately from 1972's output of 13.6 million bales. Output will fall more than one million bales short of anticipated domestic and export needs. Thus,

COTTON PRODUCTION, USE, AND CARRYOVER



the August 1, 1974, carryover will decline from this summer's estimated level of slightly over 4 million bales. Current stocks are sharply above the 1972/73 beginning carryover of 3.3 million bales as the big 1972 crop easily exceeded mill consumption and exports.

Potential output from 14 summer vegetable crops is 2% larger than a year ago, based on 4% larger acreage and average yields, although much of the increased acreage reflects spring harvests being delayed into the summer quarter in California and Texas. Larger supplies of sweet corn, lettuce, and celery are expected as well as more watermelons and cantaloups. Lower tomato and cabbage production is expected.

Substantially greater acreage has been planted to processing vegetables this season. Carryover of frozen items into the 1973/74 season is only moderately larger than the unusually low 1972 carryover and the canned vegetable carryover this summer was the smallest in years. If 1973/74 disappearance continues heavy, pressure will intensify for price increases. Less acreage and lower yields are pushing summer potato production nearly a tenth below a year ago and potato prices will remain high through at least early September. The estimated fall potato acreage was 1.1 million acres, 6% above a year ago. Stocks of frozen potatoes are lighter than a year ago, and demand will continue strong in the face of high fresh prices.

Supplies of decidious fruits this summer are substantially larger than in 1972. Total peach production is expected to be up a tenth this year and while early prices were mixed relative to a year ago, heavy supplies from some important late producing States may cause prices later this summer to fall short of last season's unusually high levels. Total pear production is estimated nearly a fifth above last year's small crop; prices will decline seasonally, and for the season average below 1972's exceptionally high level. California's grape crop is expected to be up nearly two-thirds from last year's small crop and the largest since 1965. Since raisin stocks are the

smallest of record and demand for wine continues strong, prices are unlikely to decline stubstantially despite the increase in production. Apple production in 1973 is forecast at 6.1 billion pounds, 4% above last year. Production is up sharply in the Western States, where production is largely for fresh use, so fresh market prices may be lower than last season in that section of the country.

Output of most processed citrus items has increased materially, reflecting record citrus production. Florida's output of frozen concentrated orange juice through early July was a fourth above a year ago, with many Florida Valencias remaining for harvest. Total output for the season is expected to substantially exceed last year's record pack. On-tree returns to growers for oranges have averaged substantially below the high levels of 1971/72, but will likely advance seasonally during the summer. Grapefruit and lemon supplies for this summer are both below a year ago. Returns to growers for both grapefruit and lemons will advance until the new season gets underway. New crop citrus prospects are termed good to excellent.

Livestock Expansion Stalled

Commercial red meat production in the first half of 1973 slipped 6% from a year earlier, reflecting severe weather conditions, the consumer meat boycott, high feed costs, and the imposition of the retail meat price ceilings in March. Commercial output in the second quarter was down 5% from January-March, and 8% below a year earlier.

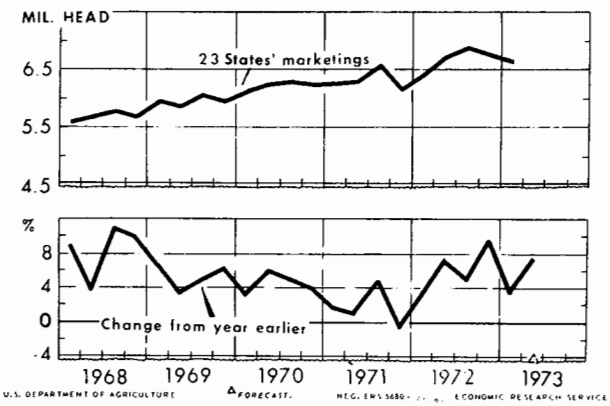
In response to smaller output and very strong consumer demand, prices for all classes of livestock in the first half averaged well above their year-earlier level. Prices received by farmers for beef cattle averaged nearly $9 above 1972. Hogs were up $11, calves were up $14, and lambs were over $6 higher.

Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Pct.	*Pct.*	*Pct.*	*Pct.*
1971/70				
I	-13.5	-48.9	-12.9	-4.5
II	-8.3	-39.9	0	-5.3
III	15.8	-9.5	7.1	-1.8
IV	41.7	57.0	4.0	3.9
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

Declines in fed cattle marketings in the second quarter pushed marketings for January-June 2% below a year ago. Output in the summer would have been near the level of last summer, according to feeders' July 1 intentions. However, with price ceilings on beef extended to September 12, a holdback is occurring and summer slaughter is below last year's level. Marketings in the fall will be larger. On July 1, there were 4% more cattle on feed in weight groups that typically reach slaughter weights in the fall. Cattle on feed in these weight groups usually make up about 60% of fall shipments from feedlots.

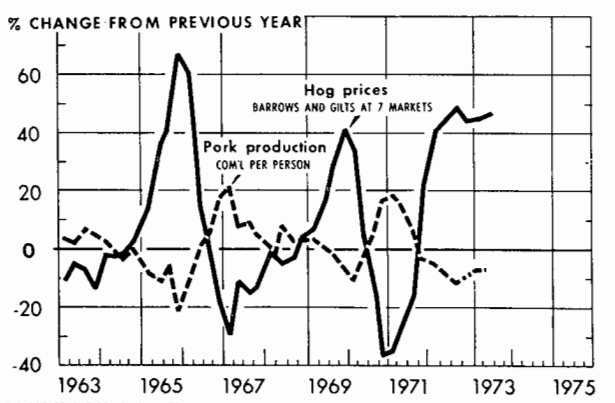
FED CATTLE MARKETINGS, BY QUARTERS



Fed cattle prices in early August exceeded $50 per hundredweight, over $11 above early January. Prices will likely advance further after the ceiling price on beef is lifted. But after the initial bulge, there may be some downward adjustment.

Second half hog slaughter will be down slightly from last year, as there were fewer market hogs on farms June 1 of this year than last. These hogs, born last winter and spring, will provide the bulk of summer and fall market supplies. So prices in the second half are expected to remain well above last year, and any seasonal declines from summer to fall will be small. As hog producers plan no change in

CHANGES IN HOG PRICES AND PORK PRODUCTION



June-November farrowings, earlier expectations of increased pork output next winter and spring likely will not materialize.

Lamb and mutton production in the first half was off 7% from last year and is expected to remain down in the second half, reflecting a 9% smaller lamb crop. Lamb prices recently have averaged about $2 per 100 pounds above last year. Prices this summer and fall will remain firm as supplies will be tight and demand for all classes of livestock strong.

Broiler meat output during January-June fell 2% below last year and will decline further this summer. Broiler chicks hatched for marketing in August and early September are down about 2%. However, producers responding to high feed prices and the price freeze further reduced hatchery activity for the balance of the late September broiler marketings. As Phase IV allows increased costs to be passed through, hatchings for fall marketings are expected to rise relative to 1972. For the year as a whole, however, supplies of broiler meat will be down, and per capita consumption will slip around a pound from 1972's record 38.8 pounds.

Broiler prices increased sharply following the announcement of Phase IV. Reduced supplies, high red meat prices, and large consumer incomes will hold broiler prices well above 1972 levels for the rest of the year.

Turkey meat production for January-May this year was more than a tenth higher than a year ago, but output is expected to slip below 1972 levels in coming months. Poult production in April-June was down about 1% and eggs in incubators on July 1, were up 1%. Thus, turkey meat output will lag 1972 during most of the balance of 1973. Sharply higher feed costs and reduced profitability have caused producers to cut earlier production plans.

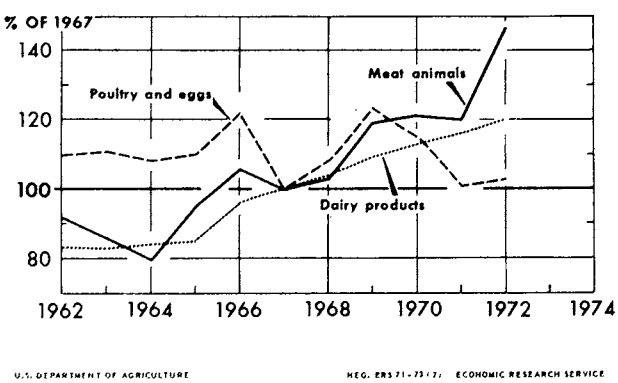
Turkey meat use in 1973 probably will be about the same as 1972's record consumption of 9.1 pounds per person. Turkey prices, particularly for consumer size turkeys, weakened during the June price freeze. New York wholesale prices for 8-16 pound young hens averaged 55.9 cents a pound during June, a half cent below May but 21 cents above June 1972. Prices have strengthened under Phase IV. Lagging output, reduced cold storage turkey stocks and high red meat prices will cause further price strengthening in coming months.

Egg output for January through June of this year was 6% below the same months of 1972. Layer numbers on July 1 were down 6% from 1972 and the lowest for this date since the early 1960's. Increased production costs combined with price ceilings on eggs after the first sale (in effect in mid-June and mid-July) resulted in larger marketings of mature hens. High feed costs will check expansion in egg chick placements and output will not reach year-earlier levels this fall as previously expected. Egg supplies for 1973 will be moderately below last year. Per capita use of eggs this year will be the lowest since the 1930's.

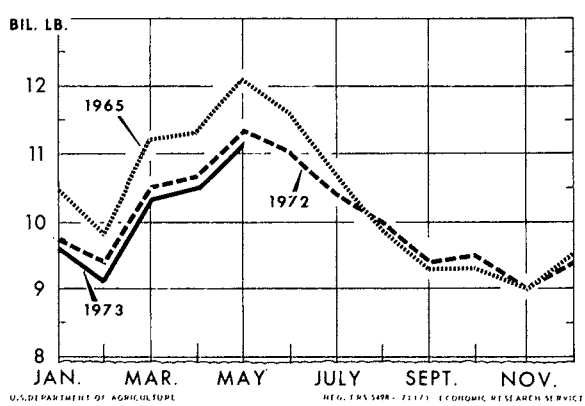
Egg prices have risen sharply in 1973, reflecting reduced supplies and high prices of other protein foods. New York wholesale prices for Grade A large eggs in late July were nearly 80 cents a dozen, 25 cents above a month earlier and 45 cents above 1972. Prices will continue high through the rest of the year in response to tight supplies and strong demand.

Milk production in the first half of 1973 totaled 61.3 billion pounds, down 1½% (on a daily average basis) from a year earlier with June output 2½% below last June. High feed prices precipitated lower milk output. The feed situation is not only limiting milk output per cow, but is also quickening the pace of milk cow slaughter. Milk cow numbers dropped 2.2% in June, the sharpest decline in almost 3 years, while milk output per cow was down slightly from last June after increasing 2½% last year. With feed expensive and slaughter cow prices strong, farmers continue to cull their herds heavily. Milk output will continue to lag last year's level the rest of this year, and total 1973 production will probably be about 2% below 1972's 120.3 billion pounds.

PRICES RECEIVED BY FARMERS FOR SELECTED LIVESTOCK AND LIVESTOCK PRODUCTS



U.S. MILK PRODUCTION BY MONTHS



Farm milk prices in the first half of 1973 were around 9% above a year earlier, and will continue strong in the last half. Wholesale dairy product prices increased markedly after the price ceilings were removed, and retail dairy prices are also expected to rise sharply. The supply-disappearance situation will continue very tight this fall and winter, keeping strong upward pressure on prices.

In the first half of 1973, commercial disappearance of milk in all dairy products (milk equivalent, fat solids basis) was up about 2½% from a year earlier. On July 18, the President increased nonfat dry milk import quotas another 80 million pounds, in addition to the 85 million pounds of extra nonfat dry milk imports allowed to enter earlier this year. Also, cheese quotas were temporarily increased by 50% (about 64 million pounds) this year.

Average farm prices for shorn wool during 1973 will more than double last year's 35 cents a pound, and exceed the Wool Act incentive price of 72 cents. Although prices have retreated from the March peak of nearly a dollar a pound, most of the 1973 clip was sold at the earlier high prices. Prices advanced sharply during 1972 and early 1973 as world consumption expanded and supplies became increasingly tight. Despite recent declines in wool prices around the world, foreign prices have continued unusually high relative to domestic prices.

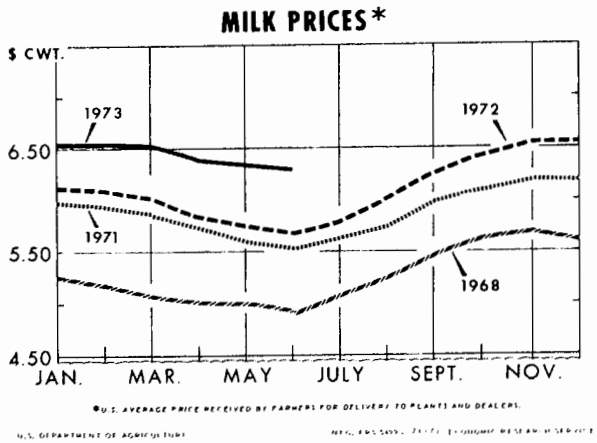


Table 3.--Production and prices received by farmers for major livestock and livestock products, 1970, 1971, 1972, and second quarters of 1972 and 1973

Item	Unit	Annual 1970	Annual 1971	Annual 1972	Second quarter 1972	Second quarter 1973 1/
Production 2/						
Beef and veal	Mil. lb.	22,273	22,450	22,871	3/5,670	3/5,117
Pork	Mil. lb.	13,438	14,792	13,626	3/3,386	3/3,177
Lamb and mutton	Mil. lb.	551	555	543	3/130	3/126
Chickens	Mil. lb.	8,671	8,720	9,101	3/2,052	3/1,986
Turkeys	Mil. lb.	1,762	1,811	1,939	3/268	3/283
Eggs	Mil. lb.	8,966	9,178	9,092	2,297	2,202
Milk	Bil. lb.	117.0	118.5	120.3	4/32.9	4/32.3
Prices received by farmers						
Cattle	Dol./cwt.	27.10	29.00	33.50	33.30	43.20
Hogs	Dol./cwt.	5/22.70	5/17.50	5/25.10	24.30	35.80
Lambs	Dol./cwt.	26.40	25.90	29.10	29.90	35.10
Broilers	Ct./lb.	5/13.6	5/13.7	5/14.1	13.6	24.6
Turkeys	Ct./lb.	22.6	22.1	22.2	21.6	31.7
Eggs	Ct./doz.	5/39.1	5/31.4	5/30.9	27.6	47.5
All milk (sold to plants)	Dol./cwt.	5.71	5.87	6.07	5.79	6.38

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. 5/ Marketing year average December-November.

Farm Income Reaches New Record

Cash receipts from farm marketings during January-June 1973 were estimated at $31 billion, $6 billion above the first half of 1972. Prices received averaged almost 30% higher while the volume of marketings was down 1%. Farm prices for livestock averaged nearly 30% higher while volume was off 6%. The decreased volume reflected a nearly 10% decline in cattle and hog marketings. Farm prices for crops were up about 30% and the volume of farm marketings increased about 8%. Increases in crop receipts generally reflected higher prices and increased volume of marketing for food and feed grains, oil crops, and vegetables.

Realized gross farm income in January-June was estimated around $81 billion, seasonally adjusted annual rate, up $14 billion from the comparable period in 1972. Farm production expenses continued their persistent rise to $57 billion, some $9 billion above a year earlier. With gross income showing a much larger jump over first half 1972 than production expenses, realized net farm income stood at an alltime record of just over $24 billion, a gain of about $5 billion.

In the second half, livestock prices are expected to average higher than in first half 1973, and well above year-earlier levels. Consumer demand will remain strong, and livestock and product supplies will continue tight. Extremely high feed prices have shelved earlier expectations for expanded pork and poultry output.

Current indications point to record crop output this year. However, unprecedented foreign demand is putting pressure on prospective supplies of major 1973 crops. This demand and supply picture points to strong prices as 1973 crops are harvested.

So, with livestock and crop prices expected to remain very strong along with increased volume of crop marketings, cash receipts for the year will run substantially above a year earlier. Production expenses will also show sharp gains in coming months due in large part to the high prices for purchased feed and livestock. The Government's efforts to fight inflation could dampen somewhat the rise of prices paid by farmers for production items.

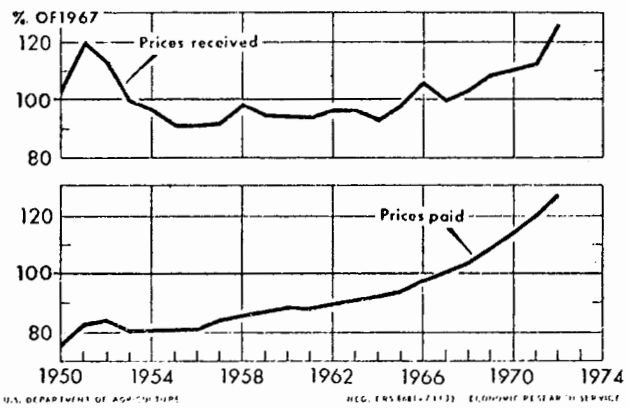
For all of 1973, the prospective increase in realized gross farm income will outpace the sharp rise in farm production expenses. Realized gross income to farmers could be up around $15 billion; expenses up more than $11 billion. Accordingly, realized net farm income this year will probably exceed the revised estimate of $19.7 billion for 1972 by some $4 billion.

Farm Inputs

For farm inputs during the first half of 1973, the story was the same as elsewhere in the economy—strong demand, rapidly rising prices, and limited supplies. Fuel, fertilizers, and feed which have usually been in adequate or even abundant supply in the past are now barely meeting current demands.

The index of prices paid by farmers (1967=100) for production items, interest, taxes, and wages in the second quarter of 1973 increased 6.5% over the first quarter to a level 16.5% above a year earlier. Spiraling feed cost, 13% above the first quarter and 50% over last year's second quarter, was the dominant factor in the unprecedented increase in the prices paid index. Feeder livestock prices, which had advanced 16% in the first quarter, rose only 3.9% in the second quarter. Other items in the prices paid index such as wages, fertilizer, motor supplies, and farm machinery advanced briskly.

FARMERS' PRICES, 1950-72



The motor supplies index advanced to a level 7% over the second quarter of 1972. A major portion of the increase can be attributed to gasoline and diesel fuel prices which rose 5 cents a gallon, about a 28% increase. Tight supplies of gasoline which were experienced by farmers during the first half may be easing slightly with the announcement by several major oil companies of increased allocations to their distributors. The President has also ordered that agriculture receive high priority in any gasoline allocation plan put in effect. Shortages of liquid propane gas which developed last fall could occur again this year if the moisture content of the 1973 fall corn and soybean crop is high.

Fertilizer supplies, primarily nitrogen and phosphates, were touch and go in meeting current demand in the first half of 1973 as prospects for high crop prices encouraged farmers to plant more acres and use more nitrogen fertilizers. Combined with the strong fertilizer demand are prospects of some shortages of natural gas, an important ingredient in the manufacture of nitrogen fertilizers. Fertilizer prices had been one of the more stable items in the prices paid index in the recent past, but they

advanced sharply this spring and the April index was 8.7% above a year earlier.

Farm wage rates on July 1, 1973, stood at $2.02 per hour (without board or room), up 9.2% over last year. Congress has recently passed a new minimum wage bill which calls for a 30 cent per hour increase in the minimum wage bill for agricultural workers in the first 60 days after enactment with a minimum wage of $2.20 in 3 years. The regional impact would be greatest in the South where wages have traditionally been lower than the rest of the Nation.

Continued strong retail sales of farm machinery and equipment for May 1973 were reported by the Farm and Industrial Equipment Institute. Balers and mower conditioners led the advance gaining 45% and 87% respectively over a year earlier. The number of new corn heads sold declined 9%. The index of prices paid for farm machinery advanced 8% over the June 1972 index.

Farm tractor sales continued their strong upward trend through May by advancing 30% over a year earlier. Prospects for record farm income should help keep tractor sales well above last year's levels.

The outlook for farm inputs in the second half depends in part on the size and prices received for the fall grain crop and farmers' plans for putting set-aside acreage into production. Feed prices may decline from recent record levels while prices of other inputs will depend on the success of Phase IV.

RETAIL SALES OF FARM TRACTORS

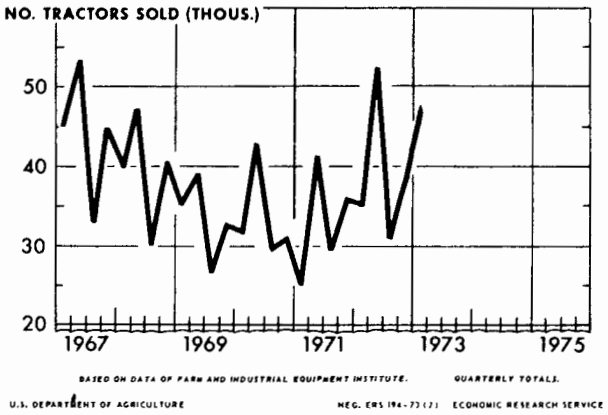


Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1972	1972 III	1972 IV	1973 I	1973 II 1/
	Billion dollars				
Gross national product	1,155.2	1,166.5	1,199.2	1,242.5	1,271.0
Gross national product (1958 dollars)	790.7	796.7	812.3	829.3	834.6
Disposable personal income	797.0	800.9	828.7	851.5	870.4
Personal consumption expenditures	726.5	734.1	752.6	779.4	795.1
Durable	117.4	120.2	122.9	132.2	133.1
Nondurable	299.9	302.3	310.7	322.2	329.8
Services	309.2	311.6	319.0	325.0	332.2
Personal savings	49.7	45.8	54.4	50.0	52.4
Net government receipts	252.2	256.5	256.9	277.4	---
Government purchases	255.0	254.7	260.7	268.6	275.0
Federal	104.4	102.3	102.7	105.5	106.5
State and local	150.5	152.4	158.0	163.0	168.5
Deficit or surplus (on income and product accounts)	-2.8	2.0	-3.8	8.9	---
Gross private domestic investment	178.3	181.5	189.4	194.5	199.2
Fixed investment	172.3	172.9	181.2	189.9	194.0
Residential	54.0	54.5	56.9	59.0	59.5
Nonresidential	118.2	118.3	124.3	130.9	134.4
Change in business inventories	6.0	8.7	8.2	4.6	5.3
Gross retained earnings	124.4	124.5	131.6	131.5	---
Excess of investment	-53.9	-57.0	-57.8	-63.0	---
Net exports of goods and services	-4.6	-3.8	-3.5	0	1.7
Per capita disposable personal income (1958 dollars)	2,767	2,771	2,841	2,878	2,884
Total civilian employment (millions) 2/	81.7	82.0	82.6	83.2	84.2

1/ Preliminary

2/ U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The U.S. economy in the second quarter appeared to slow dramatically. Although GNP in current dollars increased at a 9.5% annual rate, most of the increase was due to prices, as the GNP price deflator increased at a 6.8% annual rate. Real GNP increased at only a 2.6% rate. Personal consumption expenditures and fixed investment both showed marked deceleration. Consumers and businessmen appeared to be adopting a wait and see attitude after the rapid pace set in the first quarter and the failure of inflation to slow. With disposable personal income rising by $18.9 billion and expenditures slowing, personal savings increased slightly to $52.4 billion. Inventory investment failed to reach levels many economists felt necessary to sustain the current economic boom. Unemployment and net exports provided bright spots as unemployment fell below 5% and net exports moved into a surplus position.

Major GNP components, change from previous quarter

Item	1972	1973[1]	
	IV	I	II[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Total change in GNP	32.7	43.3	28.5
Consumption	18.5	26.8	15.7
Private nonresidential fixed investment	6.0	6.6	3.5
Housing	2.4	2.1	.5
Inventory[2]	-.5	-3.6	.7
Net exports	.3	3.5	1.7
Government	6.0	7.9	6.4

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

Policy Actions Key Outlook

The outlook for the second half of 1973 and early 1974 appears to hinge on the success of a number of recent policy actions. Phase IV is designed to combat inflation in prices and wages. The rapidly increasing money supply is being offset by higher Federal Reserve discount rates and reserve requirements. The increase in regulation Q ceilings may increase the supply of loanable funds by permitting a higher payable interest on consumer-type savings. This could dampen further interest rate increases. Dollar instability may be moderated by direct Federal Reserve intervention in foreign exchange markets.

The objective of these policies can be summed up in one word—confidence. They seek the confidence of Congress and business, industry, agriculture, and consumers, both domestic and foreign, in the ability of the U.S. economy to sustain long-run economic expansion and reduce inflationary forces. Whether the slowdown in the economy will lead to a recession, or whether the second quarter will be remembered as a temporary aberration caused by excessive first quarter rates of growth, will be greatly influenced by the outcome of the policy actions.

Consumers Begin Applying Brakes

Personal consumption expenditures increased $15.7 billion in the second quarter, following a $26.8 billion increase in the first. Only expenditures for services accelerated, increasing by $7.2 billion, compared with the $6.0 billion increase in the first quarter. Durable goods purchases rose only around $1 billion after increasing by $9.3 billion in the first quarter. The increase in purchases of nondurables slowed to $7.6 billion from the $11.5 billion of the previous quarter.

With the rise of $18.9 billion in disposable personal income exceeding the increase in personal expenditures, personal saving accelerated slightly—to 6% in the second quarter. The rate remains low relative to the recent past. However, disposable personal income by the second quarter was nearly 11% above a year earlier.

GNP and final sales, change from previous quarter

Year		GNP	Final sales	Inventory change[1]
		Billion dollars	*Billion dollars*	*Billion dollars*
1969:	I	16.8	17.9	-1.2
	II	16.5	15.4	1.2
	III	18.2	15.7	2.5
	IV	7.2	12.3	-5.1
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[2]	28.5	28.0	.7

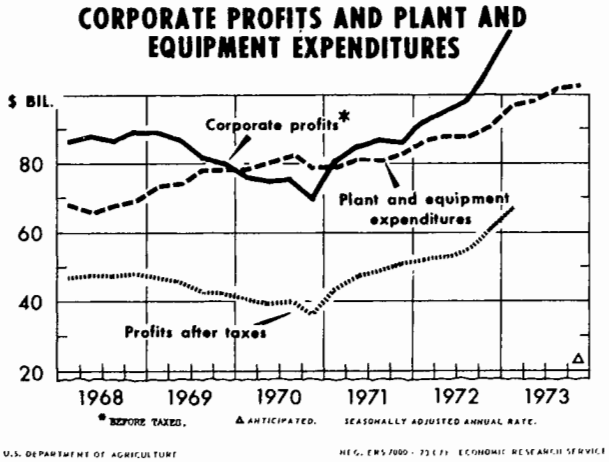
[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the second quarter of 1973 ($5.3 billion) less the change in the first quarter of 1972 ($4.6 billion) equals plus ($0.7 billion). [2] Preliminary.

Investment Increases Sluggishly

The rate of increase in gross private domestic investment slowed in the second quarter of 1973. The seasonally adjusted annual rate increased by $4.7 billion in the second quarter compared to a $5.1 billion increase in the first. Most of the increase was

in fixed business investment as the residential construction area is beginning to feel the impact of soaring interest rates. Only business inventories registered an increase, rising $0.7 billion compared to the previous decline of $3.6 billion. Although the trend in inventory investment is encouraging, the level of investment remains well below what is necessary if the near-term growth in the economy is to be sustained by such investment.

Although the rate of increase in industrial production slowed noticeably in June, the second quarter rise in the index was substantial, particularly with regard to business equipment and materials. While the total index in the second quarter was increasing at a near 8% annual rate, business equipment and materials reflected annual rates of 11 to 13%. The rate of increase in the consumer goods index continued to slow.



Government Expenditures and Receipts

Federal Government purchases increased $1.0 billion in the second quarter, with nondefense spending accounting for 80% of the increase. Federal purchases in the first quarter had risen by about $2.8 billion, with two-thirds of the increase due to pay raises. Thus, Federal purchases expanded at about the same rate for both quarters. With increased personal tax and nontax receipts and corporate profits tax accruals, the Federal deficit will likely show improvement over the first quarter position.

State and local government surpluses continue to shrink as Federal grants-in-aid continue at lower levels and State and local expenditures continue to expand at around a $5 billion annual rate.

Employment and Income to Improve

Total employment increased substantially in June to a seasonally adjusted level of 84.7 million. In addition, the unemployment rate fell to 4.8%, the first time in 3 years that the rate has fallen below 5%. This decline comes in the face of the seasonally large influx of young persons into the labor market at the end of the school year which normally swells the unemployment ranks. With the substantial movements in June, the second quarter of 1973 saw the overall labor force participation rate climb to 60.8%, the highest quarterly average in at least 20 years. While the labor force in the second quarter was increasing by over 900,000, seasonally adjusted, total employment rose by almost 1 million and the quarterly unemployment rate declined from 5% to 4.9%. In July, the rate of unemployment continued to decline reaching 4.7%.

Federal receipts and expenditures, national income basis[1]

Item	1972		1973
	First half	Second half	First half[2]
	Billion dollars	*Billion dollars*	*Billion dollars*
Receipts	224.2	233.2	[3]257.8
Personal tax	106.1	109.7	109.8
Corporate profits tax	36.4	39.4	[3]48.7
Indirect business tax	19.7	20.1	20.9
Social insurance	62.0	64.1	78.4
Expenditures	240.5	248.6	260.3
Goods and services	106.4	102.5	106.0
Transfer payments	79.9	85.9	92.8
Grants to State and local governmen	35.1	40.2	40.8
Net interest paid	13.4	13.6	15.2
Subsidies less surplus	5.7	6.4	5.4
Surplus or deficit	-16.4	-15.4	[3]-2.5

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

Major personal income components, change from previous quarter

Item	1972	1973	
	IV	I	II[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	32.4	20.5	22.5
Wages and salaries	16.0	18.0	15.8
Manufacturing	6.7	5.4	5.7
Nonmanufacturing	6.5	8.7	8.0
Government	2.8	3.8	2.1
Other income	5.9	7.2	5.1
Transfer payments	10.9	1.6	2.3
Social insurance payments (minus)	.5	6.2	.6
Personal tax payments	4.6	-2.3	3.7
Disposable personal income	27.8	22.8	18.9
Personal outlays	19.2	27.2	16.5
Personal savings	8.6	-4.4	2.4

[1] Preliminary.

After adjustments for normal seasonal fluctuations in the average work week and hourly

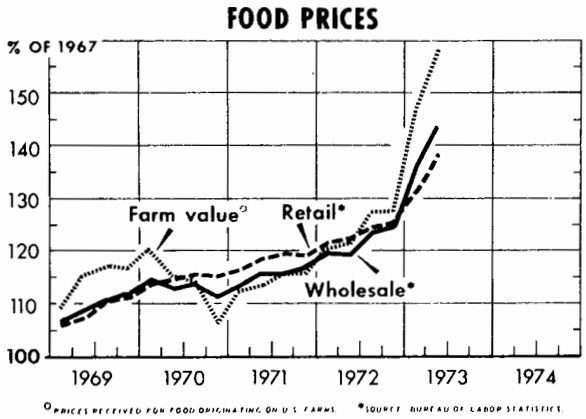
earnings, the average weekly earnings in June increased only 74 cents over a month earlier. Since June 1972, weekly earnings have increased by 6.9% while the Consumer Price Index during the same period increased by 5.9%.

Legislation has been passed by Congress to raise the minimum wage of nonagricultural and agricultural workers to $2.20 over a 3 year period.

Price Indexes

The Wholesale Price Index continued to soar as it increased over 23% seasonally adjusted annual rate in the second quarter following the 21% rate of the previous quarter. The index for farm products and processed foods and feeds slowed to an annual rate of 43% compared with the first quarter rate of 52%. The rate for industrial commodities accelerated from the 10% rate in the first quarter to 15% in the second. However the Wholesale Price Index declined 1.3%, in July.

The Consumer Price Index slowed slightly in the second quarter to a seasonally adjusted annual rate of 7.4% compared with the 8.6% rate in the quarter ended in March. This was largely due to a significant slowdown in the rate of increase in the food index from 28.6% to 14.7%. Nonfood items accelerated from 4.0% to 5.4%.



Prices measured by the GNP implicit price deflator registered a very disturbing increase in the second quarter to an annual rate of 6.8% compared with the 6.1% in the first quarter. Although the acceleration was slight, the level indicates that inflation worsened in spite of the Phase III controls.

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

Year and month	All items index	Change from previous month annual rates	Change from year-ago	Food index	Change from previous month annual rates	Change from year-ago
	1967=100	*Percent*	*Percent*	*1967=100*	*Percent*	*Percent*
1972						
January	123.2	1.0	3.4	120.3	0	4.2
February	123.8	5.9	3.7	122.2	19.0	5.4
March	124.0	1.9	3.5	122.4	1.9	4.6
April	124.3	2.9	3.4	122.4	0	3.9
May	124.7	3.8	3.2	122.3	-1.0	3.5
June	125.0	2.9	2.9	123.0	6.8	3.2
July	125.5	4.8	3.0	124.2	11.8	3.7
August	125.7	1.9	2.9	124.6	3.8	3.8
September	126.2	4.8	3.3	124.8	1.9	4.8
October	126.6	3.8	3.4	124.9	1.0	5.0
November	126.9	2.9	3.5	125.4	4.8	5.4
December	127.3	3.8	3.4	126.0	5.8	4.7
1973						
January	127.7	3.7	3.7	128.6	24.7	6.9
February	128.6	8.4	3.9	131.1	23.3	7.3
March	129.8	11.2	4.7	134.5	31.1	9.9
April	130.7	8.3	5.1	136.5	17.9	11.5
May	131.5	7.3	5.5	137.9	12.4	12.8
June	132.4	8.2	5.9	139.8	16.6	13.7

International Dollar Instability

In spite of two devaluations, the dollar continues to lose value against the floating bloc of European currencies and the German mark, and to many experts now appears undervalued. This depreciation has been characterized by Federal Reserve Chairman Arthur Burns as unjustified by any realistic evaluation of international price levels or economic trends.

The success of the current exchange rate system, apart from central bank intervention, is based on the theory that a floating rate should not deviate greatly from its long-run equilibrium rate. Movements in either direction from this equilibrium rate are moderated by operators in the market who take long or short positions in anticipation of a correction in perceived temporary disequilibriums. However, such moderating actions require stability in prices and policies or at least relatively equivalent inflation rates among the various countries. If this stability is absent, the short position may predominate in anticipation of further movements away from the long-run equilibrium rate. Inflationary rates in the United States and in other countries certainly do not provide this stable environment. The United States has now passed through three economic control phases and two freezes but expectations of stability are still elusive as inflation rates continue to increase. Only in regard to the trade balance has the United States position shown much improvement.

However, any market which is strongly influenced by speculation and expectations can turn around quickly and by year-end the U.S. dollar may float up to the levels of January or February. A number of factors suggest just such a possibility:

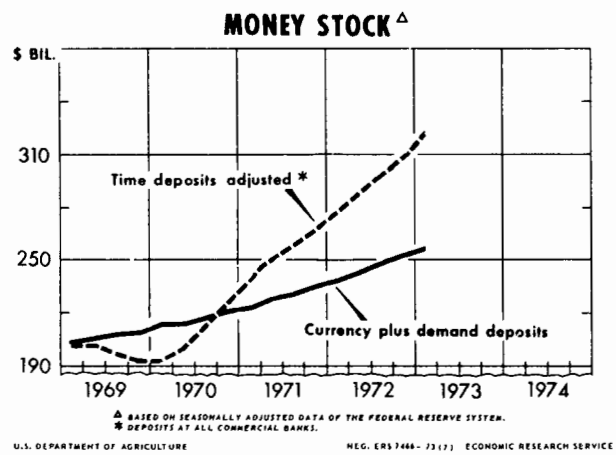
(1) The extremely tight monetary position taken by the Federal Reserve is a show of strength which should take the impetus out of the boom and indicates potential stability. This move is important in that many feel that the expansive policies of the Federal Reserve in the past were insulated since the dollars were going abroad. Thus, the United States may now see some of the inflation which was exported being reflected in devaluation and depreciation.

(2) Capital inflows have increased sharply. Foreign purchases of U.S. corporate securities are currently rising at a rate which could push foreign investment past $9 billion compared with the 1968 record of $4.2 billion.

(3) The Federal Reserve swap network was expanded in mid-July by $6.25 billion to a level of $18 billion. The swap network is designed to permit the Federal Reserve, the Bank of International Settlements, or one of 14 major foreign central banks to enter the foreign exchange markets to defend a currency. In the case of the United States, the Federal Reserve could credit the German central bank in dollars and receive a credit in marks with the German bank at the prevailing exchange rate. The Federal Reserve could then enter the exchange market when the dollar again begins to depreciate and take a "long" position of absorbing dollars to moderate the downward fluctuations and limit further depreciation in the dollar. The Federal Reserve recently announced that it has in fact already begun to enter the foreign exchange markets.

Money and Interest Rates

The U.S. money stock has increased at an annual rate of over 10% in the past 3 months, one of the highest quarterly increases since 1948. At the same time short-term market interest rates were approaching the peak levels of late 1969 and early 1970. Long-term rates have also begun to increase but have not reached their mid-1970 levels. The prime rate charged to preferred customers has reached 9%. The rapid rise in market interest rates, and the ceilings on payable interest rates have led to a slowing in savings flows into commercial banks and nonbank thrift institutions.



This environment, coupled with some second quarter acceleration in the rate of inflation, has stimulated a number of actions by the Federal Reserve: (1) raising regulation Q ceilings on the payable interest rate on consumer-type savings deposits, (2) raising the Federal Reserve discount rate to 7%, the sixth advance this year, from 4½% in January, and (3) increasing by half a percentage point the reserve requirement on most categories of demand deposits at member banks. The net effect of these actions will theoretically slow the rapid growth in the money supply and thus moderate the inflation. The encouraged savings flows are designed to

moderate the interest rate increases by making more loanable funds available.

The concern, however, is that we must tread dangerously closely to a full-scale "credit crunch". The key victims of such a crunch are financial intermediaries who obtain funds from savers and extend loans to borrowers. In a "crunch" situation the institutions are "disintermediated" when the rates they are able to pay savers do not rise as fast as market interest rates. The parallels with the 1966 and 1969 "credit crunches", which were both followed by mini-recessions, are not exact but close enough to be disquieting to many economic observers. Currently, the housing sector and the farm sector are reportedly having difficulty acquiring funds for further expansion. This is particularly critical for the farm sector where expansion is the key to slowing the rising food prices.

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