DEMAND AND PRICE SITUATION

... HIGHER

LIVESTOCK PRICES LEAD

FARM INCOME ADVANCES

DPS-121

AUGUST 1969

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

THE DEMAND AND PRICE SITUATION

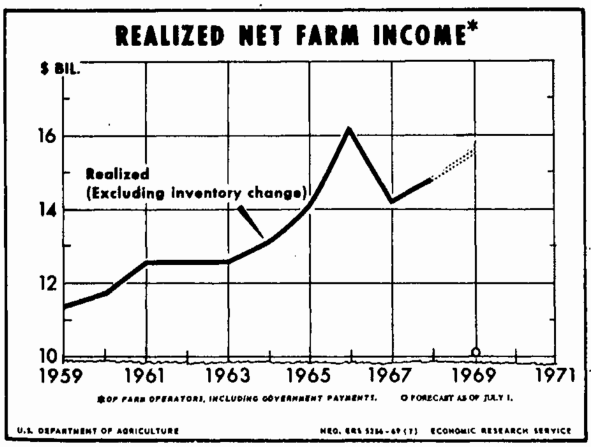
Approved by the Outlook and Situation Board, August 1, 1969

CONTENTS

SUMMARY*

Incomes to farmers, particularly livestock producers, have improved considerably in 1969. Realized net farm income in the first half of this year was at a $15.6 billion annual rate, up 7% from the first half of 1968. This gain is expected to about hold for the second half of 1969. And with the number of farms declining, net income per farm will exceed the 1966 high of $5,044.

Higher prices for livestock and products and a slightly larger volume of crop and livestock marketings are leading to substantial gains in cash receipts this year, which are more than offsetting the continued sharp advance in expenses.



Production of livestock and products in the first half of 1969 ran about the same as year-earlier levels. Prices for all livestock products rose; eggs were sharply higher in price early in the year, and in the second quarter meat animals spurred the price advance. Demand for livestock products continued strong during April-June, while marketings declined temporarily, producing an upsurge in meat animal prices to a level of about a fifth above second quarter 1968. Prospects for the rest of the year imply little overall increase in the production of livestock products compared with a year earlier. Unless the demand expansion tapers off sharply, prices for livestock products are expected to continue well above last year.

Supplies of crops will likely continue large and may keep prices under some pressure. However, loan programs for the major crops will tend to limit any price declines. Also, a pickup in the volume of exports and some further expansion in domestic use may occur.

Food expenditures advanced strongly in the first quarter of 1969 then eased slightly lower during April-June. Apparently, higher food prices and smaller after-tax income gains in the first half of this year have prompted consumers to try to hold down outlays for food.

*The Summary of this report was released on August 1, 1969.

Table 1.--Selected measures of economic activity

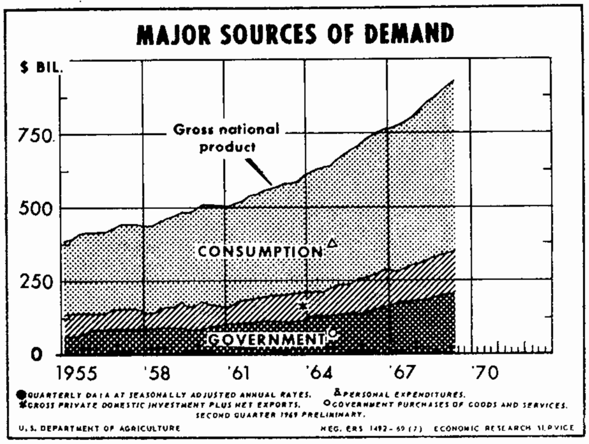
Item	Unit	1967	1968				1969		Year 1968
		IV	I	II	III	IV	I	II 1/	
Gross national product	Bil. dol.	816.1	835.3	858.7	876.4	892.5	908.7	925.1	865.7
Disposable personal income	Bil. dol.	559.8	575.0	587.4	593.4	604.3	610.7	623.0	590.0
Personal consumption expenditures	Bil. dol.	502.6	520.6	530.3	544.9	550.7	562.0	570.7	536.6
Food spending (excluding alcoholic beverages)	Bil. dol.	94.3	97.4	99.3	100.3	100.6	102.4	102.0	99.4
Implicit price deflator for GNP	1958=100	119.4	120.5	121.7	122.9	124.2	125.7	127.2	122.3
Unemployment rate 2/	Percent	3.9	3.6	3.6	3.6	3.4	3.3	3.5	3.6
Cash receipts from farm marketings	Bil. dol.	42.6	43.4	44.2	45.0	45.0	46.0	48.2	44.4
Farm production expenses	Bil. dol.	34.9	35.6	36.1	36.5	37.2	37.9	38.8	36.3
Realized net farm income	Bil. dol.	13.9	14.4	14.8	15.3	14.7	15.0	16.3	14.8
Agricultural exports 3/	Bil. dol.	1.8	1.6	1.5	1.4	1.7	.9	1.7	6.2
Agricultural imports 3/	Bil. dol.	1.1	1.2	1.3	1.3	1.2	1.0	1.4	5.0
Prices received by farmers 4/	1910-14=100	252	257	260	263	263	267	279	261
Livestock	do.	273	280	283	295	293	303	320	288
Crops	do.	229	230	234	226	227	225	232	229
Prices paid by farmers 4/ 5/	do.	344	348	354	355	359	366	374	354
Wholesale price index, all commodities 4/	1957-59=100	106.4	107.8	108.5	109.0	109.5	111.2	112.6	108.7
Consumer price index, all items 4/	do.	117.8	119.0	120.4	121.9	123.3	124.8	126.9	121.2
All food	do.	115.8	117.4	118.7	120.3	120.9	122.1	124.1	119.3

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

Departments of Agriculture, Commerce, and Labor.

Per capita food supplies for all of 1969 are not expected to differ much from 1968 levels. Small indicated declines in per capita supplies of livestock foods will probably be about offset by a slight increase in crop food products.

With little change likely in overall per capita food supplies, higher farm prices for some major foods, and continued strong demand, food prices at grocery stores in 1969 probably will be up by somewhat more than the increase of 3.2% last year. Prices for away from home eating are also likely to increase more than last year's 5.2% rise.



MAJOR SOURCES OF DEMAND

The general economy continues to moderate its strong pace. The advance in output of goods and services and employment is slowing but personal income gains remain substantial. Prices, however, accelerated in the first half and increases generally exceeded the gain in production of goods and services.

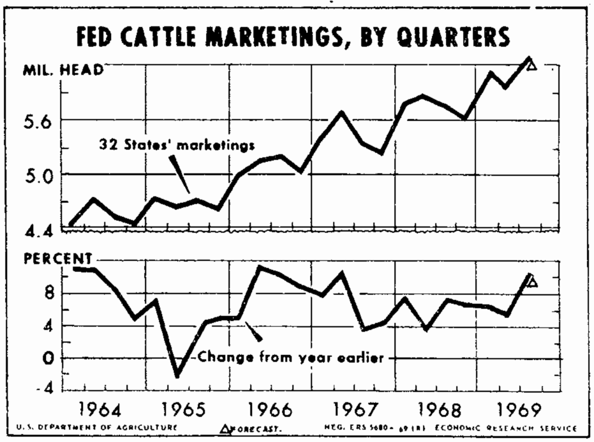
Rising prices will continue to influence economic activity in coming months. Both consumers and businessmen will face higher costs and tight credit. As a result, industry probably will further temper investment plans and consumers may slow their buying. Although unemployment may rise somewhat as general demand slackens, rising wage rates are expected to maintain incomes.

In line with present policy, Federal expenditures have dipped slightly so far this year but they may pick up a little to meet pressing social needs. Although a pent-up demand for housing is still evident, housing starts have declined sharply with advancing costs and limited financing. Outlook for an improved trade balance depends in part on our success in curbing inflation and improving the competitive position of U.S. exports.

Consumer expenditures continued to provide the bulk of demand expansion in the second quarter. But gains in consumer spending were much smaller than in the first quarter despite income advances. Faced with higher price tags, consumers may slow their purchases. Surveys of buying plans point to smaller gains in sales of durable goods and homes. Also, preliminary second quarter data showed nondurable goods advancing proportionately very little in relation to gains in services and durables.

Outlook for major commodities....

....Marketings of fed cattle are expected to average above a year ago this summer and fall. Prices dropped in July, after having gained sharply in late spring, they may edge lower this summer. Fall shipments are expected to continue very large and prices may weaken further but average above year-ago levels.



FED CATTLE MARKETINGS, BY QUARTERS

....Pork production during summer months is expected to about match year-earlier rates. But by fall output will likely trail a year ago due to an indicated cut in farrowings last spring. Prices in the last half are expected to continue above a year ago.

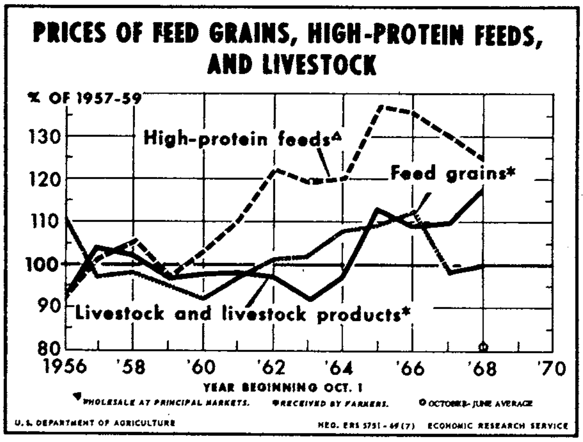
....Egg output is picking up, compared with a year ago, and will probably run larger for the rest of 1969. However, prices through late summer likely will average above a year ago.

....Broiler supplies are running large and are expected to continue well above a year earlier for the rest of 1969. However, with red meat supplies close to year-earlier levels, broiler prices will likely average slightly above 1968.

....Turkey production during the main marketing season will likely total about the same as last year. With storage holdings down, prices may rise moderately to substantially above those of last fall and winter.

....Production of milk is declining again in 1969. A 1 to 2% drop seems likely for the year. Prices are up from last year mainly because of reduced supplies.

....The 1969 feed grain crop probably will fall slightly below 1969/70 consumption. Continued high domestic use and some pickup in exports may reduce carryover at the end of 1969/70.



....Wheat production dropped moderately this year, but larger carryin boosted total 1969/70 supplies to 2.2 billion bushels. With continued low prices some expansion in wheat feeding and exports may occur.

....Soybean supplies are at record levels this summer, and carryover stocks will hit new highs. Lower anticipated prices for 1969/70 soybeans may spur increases in domestic use and exports.

....Acreage planted to cotton this year is estimated to be up a tenth. Some increase in 1969/70 cotton disappearance is in prospect, since exports may exceed the low level of 1968/69.

....Larger supplies of fresh and processed fruits are expected this summer. Prices will likely ease below a year earlier.

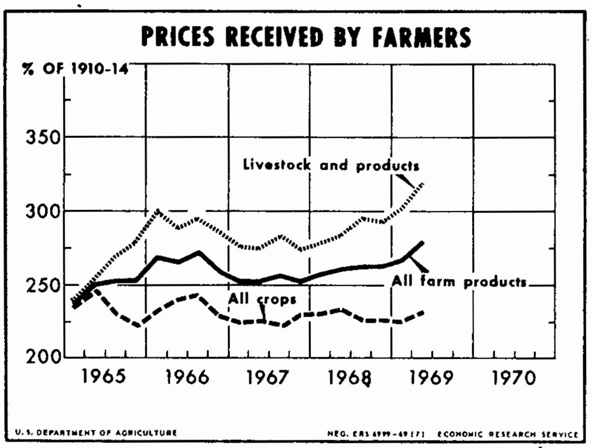
....Fresh vegetables this summer are forecast in slightly smaller supply. Processing vegetable acreage was cut sharply this year, but supplies are expected to be down only a little.

....Tobacco output is estimated to expand this year, but reduced carryover is holding down 1969/70 supplies.

....The 1969 sugar crop is expected to increase slightly. A bigger beet crop is in prospect and will likely more than offset a cutback in cane sugar output.

AGRICULTURAL SITUATION

Farm prices and incomes have risen substantially this year and they probably will continue well above a year ago through the rest of 1969. Most of the improvement this year has been in the livestock sector where small increases in red meat supplies have failed to keep pace with the expansion in consumer demand. Through July this year, producer prices for livestock and products averaged 11% higher than a year ago. Spurring the overall advance were higher prices for eggs early in the year and meat animals in the second quarter. Prices for meat animals were up nearly a fifth during the April-June quarter from a year earlier, in response to a temporary cutback in marketings.



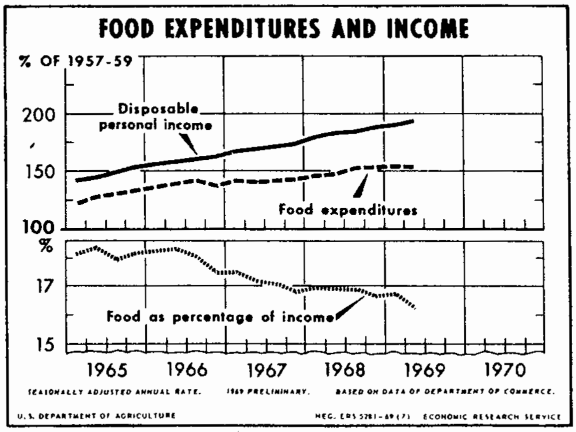
On the crop side, lagging exports coupled with large supplies for many crops held the average for all crop prices 2% below a year earlier during the first half. Exceptions were higher prices for tobacco, feed grains, vegetables, and potatoes.

Prices for farm products will probably reach their peaks this summer but if production increases are moderate, prices this fall are expected to continue above a year ago. Higher prices than in 1968 will probably continue in the livestock sector, where demand is expected to remain strong and increases in overall supplies modest. Supplies of crops, with average growing conditions, will continue large and prices will likely stay under some downward pressure. However, loan programs for major crops will tend to limit any decline in prices. On a brighter note is the prospect for a pickup in exports and some expansion in domestic use of crops.

Domestic Demand

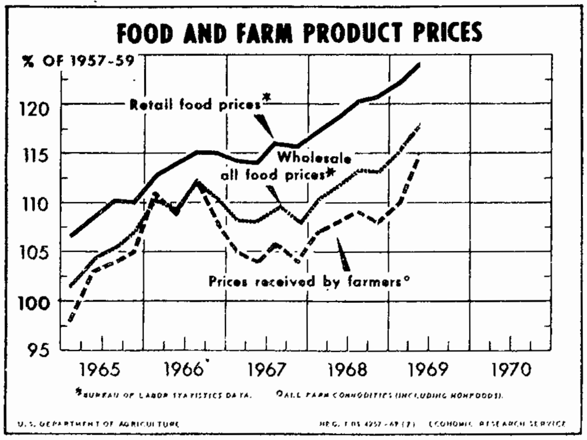
Domestic use of farm products has displayed divergent trends in the past year. Utilization of feed grains, wheat, and soybeans has expanded moderately in response to favorable livestock feed-price relationships. But dissappearance of nonfood commodities was down--cotton declined significantly, mill use of apparel wool dropped moderately, and consumption of cigarettes about leveled.

Increases in consumer spending for food have begun to moderate recently. Higher retail food prices and some slowing in the rise in after-tax incomes this year apparently have prompted consumers tc hold down outlays for food. Preliminary data show that spending for food in the second quarter of 1969 dropped slightly below the first quarter pace, despite substantially higher prices for food. Total food expenditures (excluding alcoholic beverages) for the first half of 1969 averaged 4% above the first half of last year with all of the rise apparently due to higher retail



food prices. This compares with a food expenditure increase for all of 1968 of 6%, when about half the rise was due to higher prices.

Retail food price advances accelerated in June reflecting sharp May increases in wholesale prices for meats. Wholesale vegetable prices also jumped in May, but eased off in June. Prices for most other food groups were up moderately. For the entire second quarter, retail food prices averaged 4½% above those of a year earlier; prices for food at home were up 4% while restaurant prices were nearly 6% higher.



Per capita food supplies for all of 1969 are expected to differ little from 1968 levels. Current prospects indicate that small declines in per capita consumption of livestock products may be about offset by slightly increased consumption of crop foods. Among the major livestock foods, a small per capita increase for beef consumption and a moderate rise for broilers appear likely. However, these gains will probably be offset by expected declines in per capita consumption of pork, veal, eggs, and dairy products. Consumption of turkey and lamb and mutton is expected to be close to 1968 levels. Among the crops, increases are indicated in per capita consumption of fresh and processed fruits, melons, and potatoes. Per capita consumption of food fats and oils, wheat flour, and vegetables for the year may not change much from 1968 levels.

With little change likely in overall per capita food supplies, and continued strong demand the rise in retail food prices at grocery stores in 1969 probably will be up by somewhat more than the increase of 3.2% last year. Prices for away from home eating are also likely to increase more than last year's 5.2% rise.

Export Demand

Fiscal year 1968/69 marked the second consecutive year that U.S. agricultural exports declined. The value of U.S. farm products moved abroad totaled $5.7 billion, 9% below a year earlier. Cotton exports tumbled 31% in value, wheat fell 30%, and feed grain exports were off nearly a fourth. On the upside were soybeans, tobacco, fruits, vegetables, and animal products. However, increases for these commodities were not large enough to overcome the sharp cutback in grain and cotton exports.

Although U.S. farm exports got off to a slow start in 1968/69, for the first

U.S. agricultural exports, value of major commodities

Commodity	Fiscal year 1967-1968	Fiscal year 1968-1969 1/	Percentage change 2/
	Mil. dol.		Pct.
Animals and animal products	625	740	18
Cotton	475	329	-31
Feed grains, excl. products	1,000	774	-23
Fruits	286	291	2
Soybeans	751	785	5
Tobacco, unmfg.	494	507	3
Vegetables	169	170	0
Wheat and flour	1,277	893	-30
Rice	339	319	-6
Other	895	934	4
Total exports	6,312	5,741	-9

1/ Preliminary.
2/ Change computed from unrounded data.

half of the fiscal year they lagged only slightly. Then in late December, the longshoremen's strike closed all Atlantic and Gulf ports. A number of these, including major ports for rice, wheat, and cotton, continued strikebound through March. In the months following, exports increased but an expected upsurge for several major commodities failed to take place. Large crops of grains and cotton in other major exporting countries enabled our competitors to supply traditional U.S. world markets.

Looking at 1969/70, the outlook for U.S. exports is somewhat more promising. Despite large world supplies of grains and cotton, preliminary indications point to a further increase for soybeans and a modest improvement in exports of feed grains, wheat, and cotton. Shipments of animal products and fruits are expected to at least hold their own during 1969/70.

Agricultural Imports

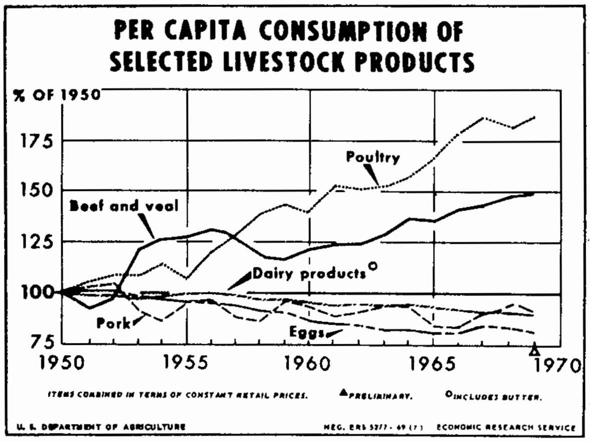
Imports of agricultural products climbed to $4.9 billion during fiscal year 1968/69, up 6% from the previous year. This level of imports was exceeded only during 1950/51. Most of the gain last year came from a pickup in competitive or partially competitive products such as meats, cheese, fruits, vegetables, sugar, and wine. Imports of noncompetitive products were up only slightly, with smaller purchases of coffee and cocoa beans about offsetting increases for other commodities.

Livestock Output and Prices

Production of livestock and products in the first half of 1969 ran about the same as the year-earlier pace. Small increases in beef and pork production and moderate gains in broiler output about offset declines in production of milk, veal, eggs, turkey, and lamb and mutton. With a small decline in per capita supplies in the first half, and demand for livestock and products continuing strong, prices to livestock producers climbed with sharp advances in May and June. Through July of this year, prices for livestock and products have averaged 11% above 1968.

Marketings of fed cattle in January-June ran 4½% larger than a year ago, but because of reduced nonfed cattle slaughter, overall beef output totaled about the same as last year. Commercial pork production was 3% larger in the same period. Production of lamb and mutton dipped 7% below first half 1968 levels.

Because of substantially larger numbers of cattle on feed, cattlemen reported plans to market about 11% more cattle during the third quarter than they did last year. In addition, big increases in the number of lighter weight animals currently on feed indicate that fed cattle marketings will probably run considerably larger than a year earlier during the fall. On the less expansive side, production of pork during the summer months is expected to run close to year-ago levels. Supplies later in the year, because of indicated smaller spring farrowings, will likely dip below a year earlier.



If prospects for a cutback in pork production and a pickup in beef output materialize, per capita red meat supplies for the rest of the year may total about the same as a year earlier.

Supply-demand prospects for cattle indicate that fed cattle prices will probably average above a year ago this summer and fall. Prices dropped in July and after having gained sharply in late spring; they may edge lower this summer. Although smaller pork supplies are in prospect, there may be some moderating price effects from larger beef and broiler supplies and an easing in demand expansion. However, producer prices for hogs during the rest of the year are expected to continue above a year ago.

Combined production of chicken and turkey in the first half of 1969 ran 6% above a year earlier. All of the increase came from an 8% jump in production of broilers which more than made up for a slight cut in turkey production. Continued increases in output of broilers are likely. However, output gains in the last half are expected to narrow some from the pace earlier this year. If so, prices for broilers in the last half may average close to year ago levels.

Turkey marketings in the main marketing season (September to December) will likely be near last year's level, however, storage holdings are down substantially. With smaller supplies, prices of turkeys in coming months will likely move further above a year earlier.

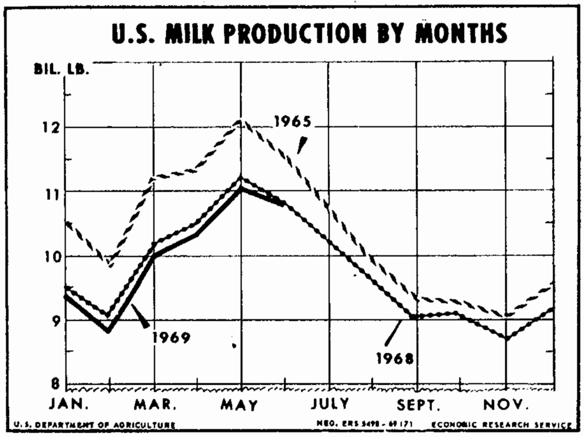
Real strength has shown up in egg markets this year. Production of eggs averaged 2% below a year earlier in the first half, but prices to growers were up a sizable 22%. Recently, however, production of eggs moved above year-earlier rates. Although the number of layers on farms were down slightly, a larger number of replacements have been added to the laying flock this year. As a result, output of eggs is expected to run larger for the rest of 1969. Prices may continue above a year earlier into late summer, then ease below as production expands further over 1968 levels.

Table 2.--Production and prices received by farmers for major livestock and livestock products, 1966, 1967, 1968, and second quarters of 1968 and 1969

Item	Unit	Annual			Second quarter	
		1966	1967	1968 1/	1968 1/	1969 1/
<u>Production 2/</u>						
Cattle and calves	Mil. lb.	20,636	21,011	21,610	3/5,243	3/5,167
Hogs	Mil. lb.	11,339	12,581	13,063	3/3,118	3/3,138
Sheep and lambs	Mil. lb.	650	646	602	3/144	3/133
Chickens	Mil. lb.	7,309	7,527	7,525)	3/1,985	3/2,168
Turkeys	Mil. lb.	1,685	1,883	1,615)		
Eggs	Mil. lb.	8,698	9,163	9,070	2,328	2,315
Milk	Bil. lb.	119.9	118.8	4/117.3	4/32.5	4/32.1
<u>Prices received by farmers</u>						
Cattle	Dol./cwt.	22.20	22.30	23.40	23.70	28.20
Hogs	Dol./cwt.	22.80	18.90	18.60	18.70	21.90
Lambs	Dol./cwt.	23.40	22.10	24.40	25.60	28.00
Chickens	Ct./lb.	14.7	12.7	13.6	13.9	14.4
Turkeys	Ct./lb.	23.1	19.6	20.5	18.9	20.4
Eggs	Ct./doz.	39.1	31.2	34.0	28.9	32.7
All milk (wholesale)	Dol./cwt.	4.81	5.01	5.25	4.98	5.16

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.

Production of milk in the first half of 1969 was 2% below a year earlier, with over a fourth of the drop due to last year's extra day. Declines in cow numbers more than offset the small rise in average output per cow. For the year as a whole, milk production is expected to total 1 to 2% off last year's 117.3 billion pounds. Prices for milk in the first half averaged 4% higher than a year ago, as prices for both manufacturing and fluid milk advanced. Prices are expected to increase seasonally to a fourth quarter high, and continue to average 3-4% above a year earlier.



Crop Supplies and Prices

Moving into midsummer 1969, supplies of crops are generally larger and prices about the same as those of a year earlier. However, because of expected slightly lower crop prices, total use of major crops may expand some in 1969/70 with most of the pickup likely to come from some improvement in exports. Domestic use of most major crops may at least match that in 1968/69.

Output of crops in 1969 is expected to total close to last year's level. Acreage planted for harvest in 1969 is down 2%, but improved yields for several major crops are expected. Larger crops of fruits, oats, tobacco, flaxseed, and sugarbeets are expected. These increases together with expanded acreage for cotton and soybeans are expected to about offset the smaller crops indicated for wheat, rice, hay, feed grains, vegetables, and sugarcane.

Although the 1969 feed grain crop, now estimated at 165 million tons, would be only slightly below last year's crop, the prospective supply situation appears somewhat tighter than for most other crops. Current prospects suggest a slight pickup in use again during 1969/70, with most of the increase coming from the expected larger volume of exports. With a smaller "free" carryover and prospects for a slightly reduced 1969 crop, overall feed grain prices during 1969/70 may average a little higher.

Indicated production of major crops 1/

Crop	Unit	1969 production	Indicated 1969 as percent of 1968 2/
Corn	Mil. bu.	4,286	98
Wheat, all	Mil. bu.	1,425	91
Rice	Mil. cwt.	97	92
Oats	Mil. bu.	931	100
Barley	Mil. bu.	378	90
Hay, all	Mil. tons	124	99
Tobacco	Mil. lb.	1,851	108
Sugarcane	Mil. tons	23	92
Sugarbeets	Mil. tons	27	107

1/ Data exclude Alaska and Hawaii except for sugarcane. 2/ Indicated production as of July 1, 1969.

Despite substantially reduced wheat acreage, record yields produced a 1969 wheat crop of 1.4 billion bushels, moderately below that of last year and the fourth largest of record. Because of the considerably larger carryover at the beginning of the season, the 1969/70 wheat supply is now estimated to total 2.2 million bushels, the largest since 1963/64. In some areas, wheat prices have been close to the effective loan rate for sometime. Recent actions taken to make U.S. wheat more competitive in world markets may lead to a slight increase in exports

Table 3.--Supply-distribution and season average prices of selected major crops, 1966/67, 1967/68, 1968/69, and 1969/70

	Unit	Beginning stocks	Imports	Produc-tion	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1966/67	Mil. tons	42.1	0.3	157.6	200.0	140.9	22.0	162.9	37.1	2/1.24
1967/68	Mil. tons	37.1	.3	176.0	213.4	141.8	23.3	165.1	48.3	2/1.03
1968/69 p.	Mil. tons	48.3	.3	168.1	216.7	151.2	17.0	168.2	48.5	2/1.06
1969/70 e.	Mil. tons	48.5	.3	3/165.0	213.8	---	---	----	---	---
Wheat										
1966/67	Mil. bu.	535.2	1.7	1,311.7	1,848.6	679.3	744.3	1,423.6	425.0	1.63
1967/68	Mil. bu.	425.0	.9	1,522.4	1,948.3	647.8	761.1	1,408.9	539.4	1.39
1968/69 p.	Mil. bu.	539.4	1.4	1,570.4	2,111.2	758.6	542.0	1,300.6	810.6	1.24
1969/70 e.	Mil. bu.	811	1	1,425	2,237	805	(550-600)	(1,355-1,405)	(832-882)	---
Rice										
1966/67	Mil. cwt.	8.2	4/	85.1	93.3	5/33.2	51.6	84.8	8.5	4.95
1967/68	Mil. cwt.	8.5	4/	89.4	97.9	5/34.2	56.9	91.1	6.8	4.97
1968/69 p.	Mil. cwt.	6.8	4/	105.3	112.1	34.5	60.0	94.5	17.6	4.89
1969/70 e.	Mil. cwt.	17.6	4/	97.4	115.0	---	---	---	---	---
Soybeans										
1966/67	Mil. bu.	35.6	0	928.5	964.1	612.4	261.6	874.0	90.1	2.75
1967/68	Mil. bu.	90.1	0	976.1	1,066.2	633.0	266.6	899.9	166.3	2.49
1968/69 p.	Mil. bu.	166.3	0	1,079.7	1,246.0	656	290	946	300	2.42
1969/70 e.	Mil. bu.	300	0	1,080	1,380	---	---	---	---	---
Cotton 6/										
1966/67	Mil. bales	16.9	.1	9.6	26.8	9.5	4.7	14.2	12.5	20.84
1967/68	Mil. bales	12.5	.1	7.2	19.9	9.0	4.2	13.2	6.4	25.59
1968/69 p.	Mil. bales	6.4	.1	10.9	17.5	8.2	2.5	10.7	6.7	22.10
1969/70 e.	Mil. bales	6.7	---	---	---	---	---	---	---	---

1/ Dollars per bushel, except cotton which is cents per pound. 2/ Price for corn. 3/ Includes an allowance for sorghum grain production based on July 1 indicated acreage with normal yield. 4/ Less than 50,000 cwt. 5/ Includes the following statistical discrepancies: 1966/67, 1.3 and 1967/68, 0.6 mil. cwt. 6/ Total cotton supply includes city crop and production prior to August 1 (end of season). p. Preliminary. e. Estimated. Details may not add to totals due to rounding.

during 1969/70. And with wheat prices low relative to corn prices, feeding of wheat may total near last season's high level. However, total use during 1969/70 is not expected to match the crop, and carryover next June may rise slightly.

Soybean supplies this summer are record large. Total use of 1968/69 soybeans has been up moderately, but not enough to offset last fall's record crop. Consequently, ending stocks this September are expected to climb to around 300 million bushels. Acreage planted to soybeans in 1969 is estimated at a record 42.4 million acres, 2% above a year earlier. The first official production estimates will be available on August 11, 1969. Anticipated lower prices for 1969/70 soybeans are expected to spur moderate increases in domestic use and exports.

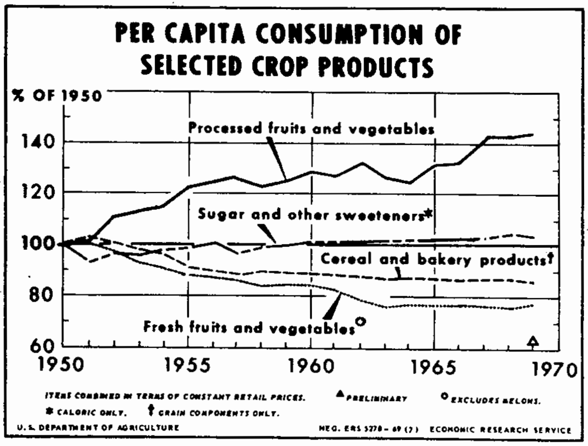
Acreage planted to cotton this year is estimated to total nearly 12 million acres, about 10% above a year earlier. Larger acreage this year stems from changes in the 1969 Upland Cotton Program. Cotton stocks this August are estimated to be $6\frac{1}{2}$ to $6\frac{3}{4}$ million bales, about the same as the previous year's level. Even though total use of cotton during 1968/69 dipped to a 30-yearlow, the 1968 crop of 10.9 million bales was smaller than average. The outlook for utilization of 1969/70 cotton indicates some pickup in exports.

Supplies of fruits and vegetables have been generally plentiful so far this year. For the rest of 1969, supplies of fresh and processed fruits are expected to be larger and prices will likely average below a year ago. In addition to the big citrus crops this year, production of deciduous fruits is expected to be up more than a tenth, with widespread increases expected among the

Stocks of grains

Grain and position	July 1, 1968	July 1, 1969	Percentage change 1969/68
	Mil. tons		Pct.
TOTAL FEED GRAINS			
On farms 1/	54	51	-6
Off farms 2/	25	28	12
Total	79	79	0
	Mil. bu.		Pct.
WHEAT			
On farms 1/	230	327	42
Off farms 2/	309	484	57
Total	539	811	50
SOYBEANS			
On farms 1/	121	134	11
Off farms 2/	164	314	91
Total	285	448	57

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



major fruits. With potential supplies substantially larger, fresh fruit prices this summer and fall will probably average below a year earlier. Production of fresh vegetables this summer is estimated to be a little smaller than last, and prices in coming weeks will likely be above a year earlier. Acreage planted to processing vegetables has been cut back considerably this year with most commodities sharing in the decline. However, frozen and canned vegetable supplies are likely to be only slightly lower than last year's record level because of big carryin stocks.

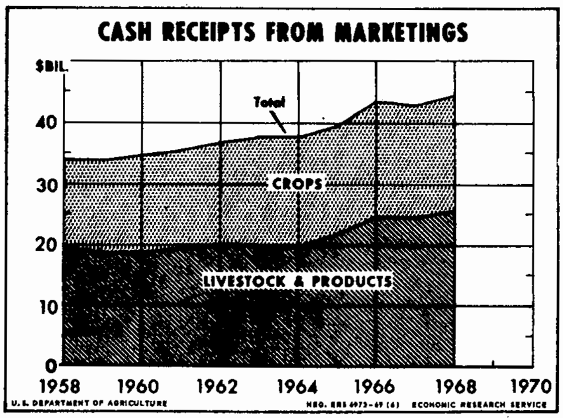
This season's tobacco crop is estimated 8% above last year's output with most of the rise due to a bigger flue-cured crop. But carryin stocks for 1969/70 are estimated substantially below a year earlier. As a result, total supplies of U.S. tobacco for 1969/70 are expected to run about 3% below a year earlier--still ample to meet domestic and export requirements.

Production of U.S.-grown sugar is expected to total 6.1 million tons (raw value) in 1969, nearly 2 1/2% above a year earlier. A substantial increase in beet production is expected to more than offset a moderate cutback in cane sugar output.

Farm Income Shows Good Gain

Cash receipts to farmers rose sharply to a new high in the first half of 1969, with most of the gains going to livestock producers. Substantially higher prices for livestock and products were primarily responsible for boosting cash receipts for livestock products 11% above a year earlier. Cash receipts to crop growers also improved. A moderate rise in the volume of marketings slightly more than offset slight declines in prices and lifted market receipts for crops more than 4% above the previous year. Realized gross farm income in the first half reached $54 billion, on a seasonally adjusted annual rate, well above the $50 1/2 billion annual rate last year.

Farm production costs are also rising substantially again this year. Production expenses for the first half of 1969 were $38.4 billion, at seasonally adjusted



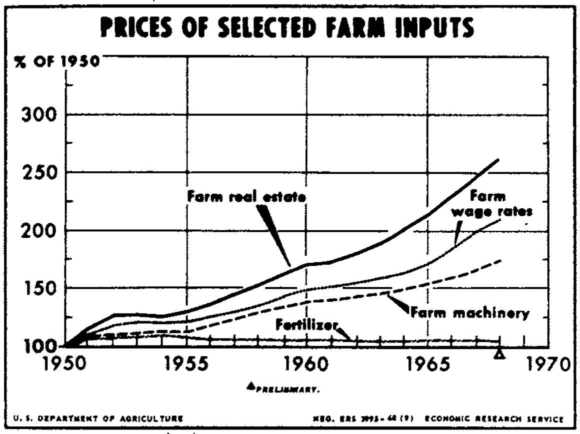
annual rates, a substantial increase of $2 1/2 billion over last year. Prices paid for production items (including interest, taxes, and wages) have been up 5 1/2% from a year ago. In addition, the volume of purchases is apparently running larger for several important inputs such as feeder livestock, purchased feed, and fertilizer.

Outpacing the rise in production expenses, the sharp improvement in cash receipts lifted realized net income for the first half of 1969. At around $15 1/2 billion (seasonally adjusted annual rate), realized net income was about a billion dollars above the same period in 1968.

The current outlook for livestock products suggests that the volume of livestock marketings for the rest of 1969 may not differ much from the last half of 1968. And, with expectations for moderate demand expansion, producer prices in the last half will likely continue well above year-earlier levels. As a result, market receipts to livestock producers are expected to continue above a year ago for the rest of 1969. Crop receipts will depend partly on the outturn of 1969 crops but they probably will total a shade higher for the year. With average growing conditions, a larger volume of marketings would continue to slightly more than offset lower average prices for crops. It now appears that cash receipts in 1969 will total well above 1968. Production expenses are also expected to increase more than in recent years. But the gain in realized net income so far this year may about hold for the last half of 1969. With the downtrend in number of farms, realized net income per farm is expected to reach a new high. Many farmers will continue to supplement their incomes from off-farm sources.

Farm Costs

In the second quarter, the composite farm wage rate climbed to $1.29 per hour. This represents a 9% advance over the same period of 1968. Some offset to this wage increase was a small decline in hired farm employment.



Despite increased farm usage of fertilizer, large supplies continued to depress fertilizer prices. Data through June show a more than 4% decline from 1968 levels in prices paid by farmers for fertilizer.

Through May, the number of farm tractors sold this year was down 6 1/2%, according to the Farm and Industrial Equipment Institute. However, in May, tractor sales registered an 18% pickup over a year earlier. This was the first time in 1969 that sales showed an increase over the previous year. One interesting note has been the increased sales of smaller size tractors in recent months.

Farm machinery retail sales volume through May (excluding tractors) remained moderately below the same period of 1968. Sales data revealed a slowdown in the purchase of some relatively large harvesting equipment. Corn picker sales, however, were starting to recover. One notable exception was the increasing decline in the sale of combines which represent the largest single unit in total dollar volume.

Farm Real Estate

The index of average farm real estate values on March 1, 1969 rose to 179 (1957-59=100). Although this represented a 5% gain over the previous year, increases in average per acre values are showing signs of moderating. On a per acre basis, farmland and buildings averaged $187. Nationally, slower market activity was evident in early 1969 as rising costs of mortgage money curtailed some demand. Exceptions could be found in the Northeast, Lake States, Southeast, and Delta States where farm real estate sales activity strengthened.

Table 4.--General economic activity

(Seasonally adjusted annual rates)

Item	1968 III	1968 IV	1969 I	1969 II 1/	Year 1967	Year 1968
	Billion dollars					
Gross national product	876.4	892.5	908.7	925.1	793.5	865.7
Gross national product (1958 prices)	712.8	718.5	723.1	727.3	674.6	707.6
Disposable personal income	593.4	604.3	610.7	623.0	546.5	590.0
Personal consumption expenditures	544.9	550.7	562.0	570.7	492.3	536.6
Durable	85.8	86.3	88.4	90.4	73.0	83.3
Nondurable	233.3	234.3	238.6	240.6	215.1	230.6
Services	225.8	230.1	235.0	239.8	204.2	222.8
Personal savings	33.2	38.0	33.0	36.4	40.4	38.4
Net Government receipts	199.0	205.7	217.8	---	165.6	193.6
Government purchases	202.5	206.7	210.0	212.5	180.1	200.3
Federal	100.9	101.9	101.6	100.6	90.7	99.5
State and local	101.7	104.8	108.5	111.9	89.3	100.7
Deficit or surplus (on income and product accounts)	-3.5	-.9	7.8	---	-14.5	-6.7
Gross private domestic investment	125.2	133.9	135.2	139.9	116.0	126.3
Fixed investment	118.0	123.4	128.6	130.4	108.6	119.0
Residential	29.9	31.9	33.3	32.4	25.0	30.2
Nonresidential	88.1	91.5	95.3	98.0	83.7	88.8
Change in business inventories	7.2	10.5	6.6	9.5	7.4	7.3
Gross retained earnings	99.2	98.2	97.7	---	93.3	96.7
Excess of investment	-26.0	-35.7	-37.5	---	-22.7	-29.6
Net exports of goods and services	3.6	1.2	1.5	2.0	5.2	2.5
Per capita disposable personal income (1958 dollars)	2,477	2,485	2,484	2,498	2,399	2,474
Total civilian employment (million) 2/	76.0	76.4	77.6	77.5	74.4	75.9

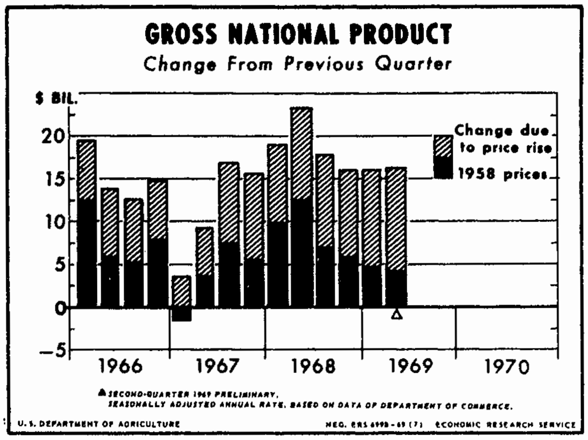
1/ Preliminary.

2/ U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The economy continues to moderate its strong pace. The advance in output of goods and services slowed slightly in the second quarter, rising at a rate well below 1968's sizable increases. Unemployment rose a little, although gains in personal income were substantial. But prices accelerated in this period, and the advance exceeded the gain in production of goods and services.



Although below first quarter gains, increases in consumer spending and State and local government expenditures were primarily responsible for the second quarter expansion. Business fixed investment and heavy inventory accumulation also contributed significantly while net exports edged upward slightly. However, Federal purchases of goods and services and home buying declined. And the slowing of practically all demand components caused final sales to slow from the first quarter rate.

GNP and final sales, change from previous quarter

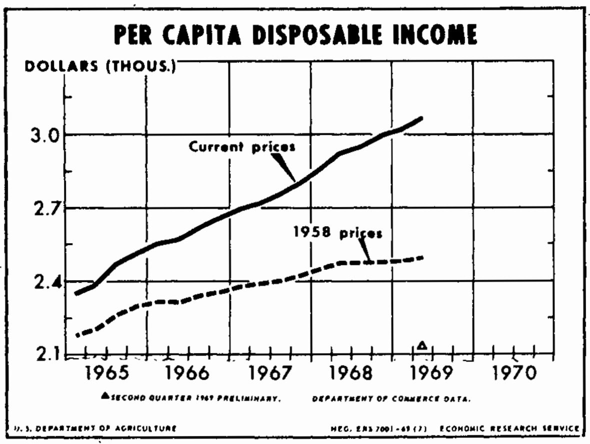
Year		GNP	Final sales	Inventory change 1/
			Bil. dol.	
1966:	I	19.5	17.9	1.6
	II	13.8	8.9	4.9
	III	12.6	16.9	-4.3
	IV	14.8	6.8	8.0
1967:	I	3.5	14.4	-10.9
	II	9.3	15.0	-5.7
	III	16.9	12.4	4.5
	IV	15.7	14.0	1.7
1968:	I	19.2	27.0	-7.8
	II	23.4	15.2	8.2
	III	17.7	20.4	-2.7
	IV	16.1	12.8	3.3
1969:	I	16.2	20.1	-3.9
	II 2/	16.4	13.5	2.9

1/ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the second quarter of 1969 ($9.5 billion) less the change in the first quarter of 1969 ($6.6 billion) equals plus $2.9 billion.
2/ Preliminary.

Looking Ahead

Rising prices will continue to influence economic activity for the next 6-12 months. Consumer buying and business investment will be affected as prices and costs continue to rise and credit remains tight and expensive. Industry is expected to temper previous plans for new plants and equipment as construction and financing costs further dampen the general demand outlook and prospects for corporate profits. The proposed repeal of the 7% investment tax credit now under consideration by Congress as part of a tax reform bill would further slow investment, but the main impact will likely be delayed. Large inventories accumulated in the past 3 quarters must also be absorbed.

Although unemployment rates may rise as overall demand slackens, substantial income advances are expected to help maintain the purchasing power of most of the population. Deferred wage increases, contracted while the economy was accelerating both in real and money terms, will still have to be met. And social security benefits may be increased in January at the same time Federal taxes on personal incomes are expected to be lowered.



A slight pick-up in Federal expenditures is expected reflecting the recent Federal pay raise effective in the current quarter and some increase to meet pressing social needs. The pent-up demand for housing is still evident, but the declines in housing starts and permits indicate that expenditures for homes will continue to decline, perhaps until financing becomes more readily available and less costly. The outlook for some improvement in the export balance also depends on the success of current fiscal and monetary measures in slowing domestic inflation.

A balancing of these differing demand trends suggests an increase in the gross national product of around 7% for this year over 1968's average product. This compares with a 9% average gain in 1968 over 1967. More than half of this increase will likely be due to advances in the general price level. With prospects for further price pressures, real growth is expected to fall to around 3% for the year, far behind the 1968 pace. The slower advance in real growth will likely continue through much of 1970 or until inflation has been significantly reduced.

One example of a change in economic outlook was the dramatic decline in the prices on the stock market during May, June, and July. After reaching a 1969 high in May of 1969, the Dow Jones Industrial average fell steadily to around 800 in late July.

Government Expenditures and Receipts

The Federal Government more than succeeded in following Budget guidelines in fiscal year 1969, ended June 30. Reducing expenditures and increasing tax receipts produced a sizable $3 billion surplus, the first surplus since fiscal 1960 and the largest since fiscal 1957. Personal taxes continued to be the principal revenue gainer offsetting increased transfer payments to consumers and business.

Federal receipts and expenditures, national income basis 1/

Item	1968 Second half	1969 First half 2/
RECEIPTS	184.4	198.7
Personal tax	85.6	94.7
Corporate profits tax	39.1	39.4
Indirect business tax	18.4	18.6
Social insurance	41.3	46.0
EXPENDITURES	185.8	189.8
Goods and services	101.4	101.1
Transfer payments	49.4	51.5
Grants to State and local governments	18.7	19.8
Net interest paid	12.0	12.8
Subsidies less surplus	4.5	4.6
SURPLUS OR DEFICIT	-1.4	8.9

1/ Calendar years in billions of dollars, seasonally adjusted annual rates. 2/ Preliminary. Corporate profits tax accruals estimated by USDA.

The fiscal 1969 surplus was the result of fiscal measures begun in early 1968 designed to ease demand pressures in the economy. It represents a large change from the $25 billion deficit recorded in fiscal 1968, a result of accelerated defense programs begun in 1966.

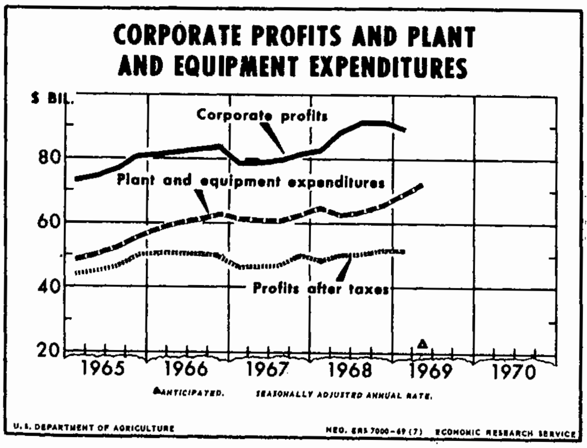
With purchases expected to rise slightly in the next six months, further surpluses will depend on the fate of the surtax extension bill now before Congress. House and Senate have passed bills extending the 10% income tax surcharge on individuals and corporations until January 1, 1970.

A major tax reform program including a repeal of the 7% investment tax credit is also under consideration and could further alter the pattern of Federal revenues and their effect upon the different income groups. The passage of the tax bill would likely lead to a small surplus in fiscal 1970.

Sharply contrasting with the Federal situation, expenditures by State and local governments rose moderately in the second quarter. Rising costs of financing new structures indicate that many local jurisdictions may have more difficulties than in the past in the money market. And certain Federal tax exemptions which favor State and local bonds are now under Congressional study and may be altered. Nevertheless, the steady upward trend of these expenditures by State and local governments shows no signs of slowing.

Investment Demand

Gross private domestic investment rose substantially in the second quarter with most investment components expanding. Expenditures for producers' durable equipment climbed vigorously, offsetting a slight decline in expenditures for both nonresidential and residential structures.



Inventory accumulation also expanded as retail sales lagged.

Gains in expenditures for new plant and equipment occurred despite increased taxes, relatively low plant operating rates, and an increasingly restrictive monetary situation. Recent surveys have indicated, however, that businessmen have modified large expansion plans previously reported as the short-term outlook dims and the growth rate of the economy slows. The fact that inventories have been high for the past three quarters and may become excessive will be an increasingly important factor in new investment decisions.

Major GNP components, change from previous quarter

Item	1968: IV qtr.	1969: I qtr.	1969: II qtr. 1/
	Bil. dol.		
Total change in GNP	16.1	16.2	16.4
Consumption	5.8	11.3	8.7
Private nonresidential fixed investment	3.4	3.8	2.7
Housing	2.0	1.4	-.9
Inventory 2/	3.3	-3.9	2.9
Net exports	-2.4	.3	.5
Government	4.2	3.3	2.5

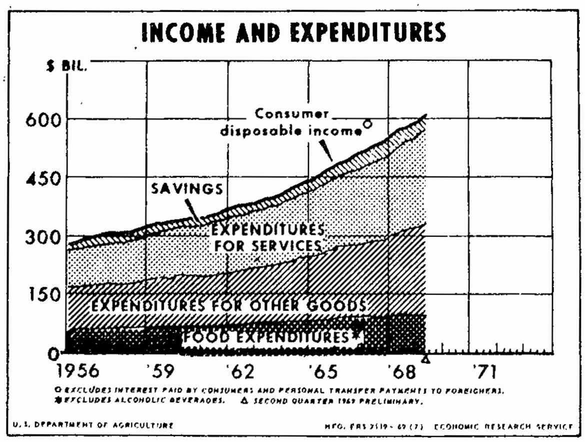
1/ Preliminary. 2/ See footnote 1/, text table, page 17.

Housing starts declined in June for the fifth straight month. Private starts slipped to a seasonally adjusted annual rate of 1.45 million units, off about 4% from May. The rate of new starts may decline even further by the end of the year. Builders have difficulty obtaining money for construction while home buyers have a task in making large downpayments and in obtaining scarce and expensive credit.

Consumer Demand

Consumer expenditures continued to provide the bulk of the demand expansion in the second quarter. Though still relatively large, gains in consumer spending were much smaller than first quarter advances despite large income increases. Faced with higher price tags, and probably digesting a first quarter buying surge, consumers apparently chose to save a slightly larger proportion of their after-tax incomes.

Spending for services accounted for half of the increase in consumption expenditures. The advance in expenditures for durable goods, including a large increase in furniture buying, was fairly moderate, and fell far short of the very large gain in purchases of durable goods a year earlier. Advances for nondurable goods were relatively small. Preliminary second quarter data indicate that expenditures for food and beverages actually declined.



Whether or not the consumer maintains his present high spending level in the next six months will have an important impact on the outlook. Private surveys of consumer buying plans indicate more moderation especially in purchases of durable goods and homes. Manufacturers, in apparent anticipation of some slowing, have leveled consumer goods production.

Income and Employment

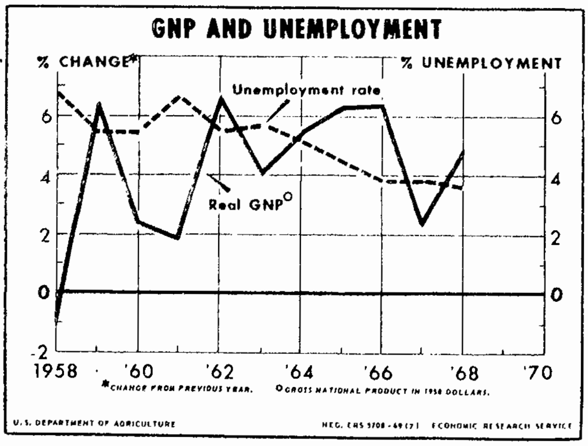
Personal incomes continued to rise at a substantial rate in the second quarter. Higher wage rates coupled with high employment levels produced large increases. Business and professional incomes and farm incomes also rose substantially.

Major personal income components, change from previous quarter

Item	1968 IV qtr.	1969 1/ I qtr.	1969 1/ II qtr.
	Bil. dol.		
Personal income	15.1	13.2	16.3
Wages and salaries	11.4	11.2	10.8
Manufacturing	3.3	2.6	3.2
Nonmanufacturing	6.9	6.9	6.2
Government	1.3	1.6	1.6
Other income	.5	.5	.5
Transfer payments	1.5	2.0	1.3
Social insurance payments	.4	2.1	.5
Personal tax payments	4.4	6.7	4.0
Disposable personal income	10.9	6.4	12.3
Personal outlays	6.0	11.5	8.9
Personal savings	4.8	-5.0	3.4

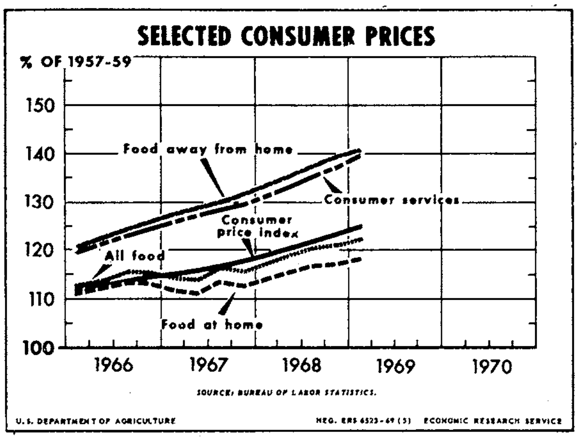
1/ Preliminary.

Unemployment rose a little, but labor is still scarce in some technical categories and some under-utilized workers are being carried. The unemployment rate (unemployment as a percent of the civilian labor force) rose slightly to 3.5% which is still considered very low. If the economy slows and current labor force growth continues, unemployment may increase. So far this year, civilian employment is averaging around 77.7 million, about 2.4% above the 1968 average.

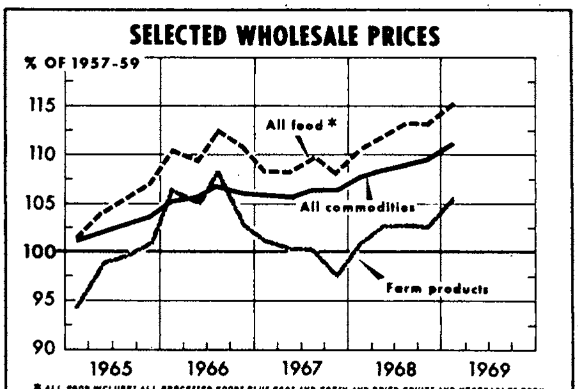


Prices

Despite some slowing in demand expansion, prices continued to accelerate in the second quarter. Inflation fighters are still looking for signs pointing to easing in price advances. Both wholesale and retail price shared in this rapid expansion. The Consumer Price Index rose 0.6% in June to a level more than 5½% above a year ago. Major contributions to the rise were significant boosts in housing costs and prices for meats, clothing, and medical care.



Preliminary data indicate that the wholesale price index barely rose in July. However, the Index rose 0.4% in June to a level more than 4% above a year earlier. Lumber prices were down in June from May but remained about 11% above a year ago.



The general price level during the second quarter of 1969, as measured by the gross national product deflator, rose at the annual rate of 4.8%, far above the 4% average increase in 1968 over 1967. General price advances are not expected to slow much in the next several months. In 1970 there may be some easing although the pressure of built-in cost factors is expected to continue.

Monetary Situation

For the past 6 months, monetary authorities have sought to slow the growth in money supply and bank credit to curb excessive economic expansion. This action reverses the policy pursued in the second half of 1968 when it was thought that deflationary fiscal and monetary measures made in early 1968 may have been too restrictive.

Because of tight money and fear of further restrictions, interest rates rose to a century high. By early June of this year, corporate bonds and commercial paper interest rates rose above commercial bank prime loan rates. Accordingly, to ease pressure on relatively cheaper bank loans, most major commercial banks raised their prime interest rate (rate to best customer) by one full percentage point to 8½%.

Banks, limited earlier in the year by higher Federal Reserve discount rates and increased reserve requirements, sought to borrow Eurodollars (dollars held by individuals and companies in foreign banks) to meet their customers' growing demand for business loans. This action accelerated in May and June to the point that it was offsetting tight monetary policy. As a result, on June 26, the Federal Reserve announced plans to require banks to hold reserves of 10% on Eurodollar borrowing above a minimum level.

Foreign Trade

The preliminary estimate of net exports (exports minus imports) of goods and services in the second quarter shows a slight increase over the amount registered in each of the preceding two quarters. However, the $2 billion balance is still below the 1968 average and far below 1966, 1967, and most years following World War II.

The merchandise trade balance in June was $25.3 million. The June gain was a little more than the May rise but much less than that registered for March and April. Both imports and exports had declined earlier in the year because of the East and Gulf Coast dock strikes. Second quarter levels are above normal trends as the recovery from the strike-depressed first quarter continues.

If inflation in the U.S. economy slows, exports should improve and imports may ease as our prices become more competitive. Unofficial reports indicate that the United States balance of payments deficit, on a liquidity basis, may have been as high as $4 billion in the second quarter compared with a $1.7 billion deficit in the first quarter. The chief factor in the second quarter deficit is believed to be the outflow of capital drawn by rumors of revaluation of the German mark and higher Eurodollar rates in June.

The position of the dollar appears strong despite our very large balance of payments deficit this year. Speculation in gold on the free market has begun to ease as the Union of South Africa sells more gold and as confidence in the world monetary system grows. U.S. gold stocks were up over a year earlier in June, unchanged following three consecutive monthly increases.

The ten major monetary nations, meeting in Paris in July, agreed to use Special Drawing Rights (SDR) as a monetary reserve asset. SDRs, in addition to gold and dollars, can be used to settle payments deficits. Some $9.5 billion of this "paper gold" is to be created over the next 3 years. These countries also decided to add $6-7 billion in currencies via a quota increase over the next 5 years to the International Monetary Fund pool which currently stands at $21 billion. Both these actions are expected to benefit world trade by stabilizing currencies and increasing liquidity.

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

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