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DEMAND AND PRICE Situation

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MAY 1974

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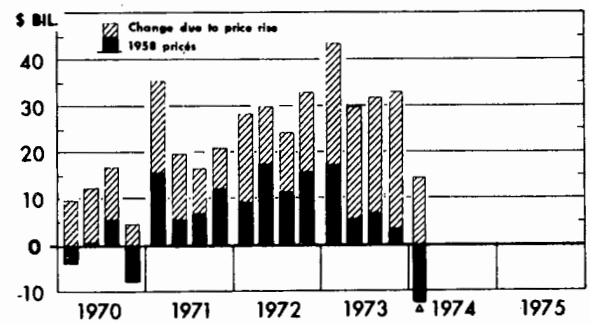
U.S. DEPARTMENT OF AGRICULTURE

GROSS NATIONAL PRODUCT

Change from Previous Quarter



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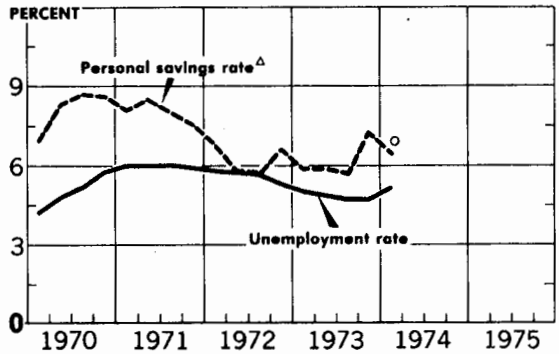

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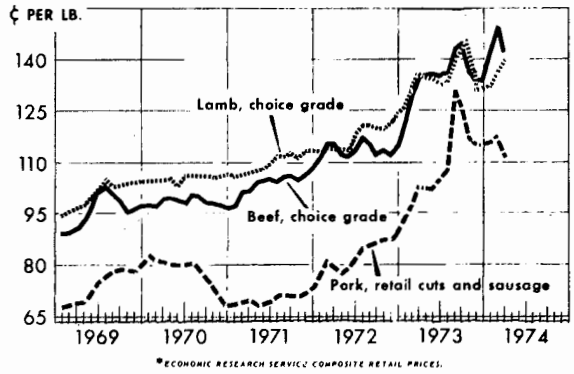
RETAIL MEAT PRICES*



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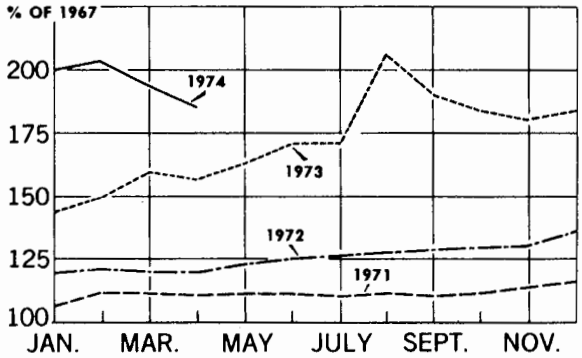
PRICES RECEIVED BY FARMERS



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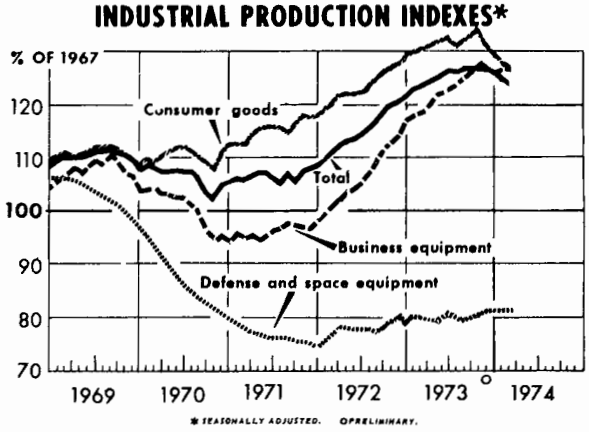

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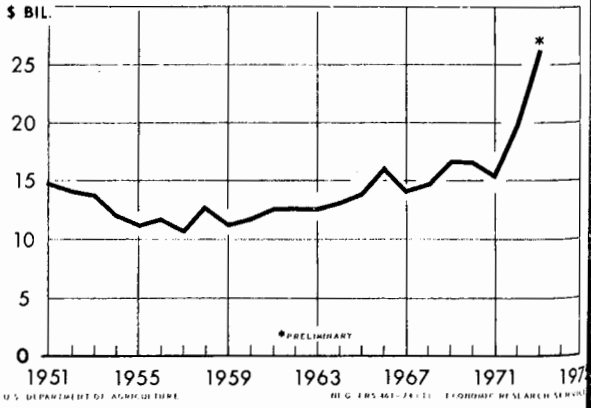
REALIZED NET FARM INCOME



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THE DEMAND AND PRICE SITUATION

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Approved by
Outlook and Situation Board
and Summary released
May 8, 1974

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

SUMMARY

Expanding livestock supplies and record grain production are in prospect for the second half of 1974, assuming normal weather. With increasing output and moderating demand, crop prices could decline dramatically, particularly late in 1974, and average near year-earlier levels. Some crop prices have already dropped sharply. With the expanding livestock supplies, prices for meat animals could weaken slightly in the second half and remain well below 1973 levels.

Farm prices held at near-record levels in the first quarter of 1974, leaving realized net farm income at a seasonally adjusted annual rate of over $28 billion for the quarter despite a record rate of production expenses. Farm prices in general dropped sharply in April, but the seasonally lower livestock supplies should cause prices to trend upward into summer. Similarly, low grain stocks coupled with the usual uncertainties over potential crop production worldwide should keep crop prices fairly firm at current levels.

For all of 1974, marketing receipts from farming may total almost $7 billion above 1973. Subtracting from this a more than $2 billion decline in government payments to farmers would leave gross incomes up about $5 billion.

However, production expenses are up sharply, fueled by the dramatic rise in prices of petroleum products and fertilizer. Outlays for feed and seed also show large increases in both quantity and price. These factors coupled with a rapid rate of general inflation in the economy will push production expenses more than $9 billion above last year. Thus, the increase in expenses would more than offset the increase in gross farm income, and net farm income in 1974 would be around $4 billion below the $26.1 billion of 1973 but still the second highest on record.

This outlook is heavily dependent upon the realization of the current production and use projections for both livestock and crops. Low grain stocks and tight supplies make the outlook more sensitive and volatile. An awareness of the uncertainties within agriculture and the tenuous outlook for the general economy are crucial to understanding the situation.

With grain stocks at historically low levels, any increase or reduction in production either domestically or abroad could alter the projected supply and use levels. The easing of crop prices in the second half of 1974 could be accentuated if foreign and domestic crops are much larger than expected or could be sharply reversed if they fail to meet expectations.

Although higher than expected corn prices would have little effect on red meat production during the balance of 1974, they could significantly affect 1975 output by reducing placements of cattle on feed for the rest of 1974 and into 1975 and tempering any expansion in pork production. Higher corn prices would also keep profit margins low to poultry producers, so they would hold second half output of eggs, broilers, and turkeys to lower than currently expected levels. However, realization of a larger corn crop than expected, with corn prices trending lower, would improve profit margins for all livestock products and boost output.

In the first quarter of 1974 the general economy turned down. Gross national product (GNP) rose at an annual rate of 4.4%, reflecting a 10.8% inflation and a 5.8% decline in real GNP. This performance reflected the lagged impact of the energy crisis upon the consumer and the durable goods and automobile industries. Additionally, the retarding effects of high interest rates upon housing starts have begun to be reflected in residential construction statistics. The impacts were not, of course, confined to these areas. Real per capita disposable income declined at a 7.2% annual rate with the unemployment figures yet to show the full impact of recent developments. The prime interest rate reached a record 11% in early May.

The outlook for the general economy for 1974 is for a shortage-induced downturn, largely the result of developments in housing and automobiles. While a recession (two straight quarters of declining real growth) might be narrowly avoided, the ensuing period of slow growth could continue into 1975. The concern for the remainder of 1974 will be in providing needed breathing space for the economy to build additional productive capacity and in achieving a relatively stable transition into renewed economic expansion. Monetary and fiscal policy will likely remain restrictive as long as the unemployment rate does not rise sharply. High interest rates will be part of the cost of reducing inflation.

Since consumption accounts for approximately two-thirds of gross national product, the economy cannot be expected to improve dramatically until the real purchasing power of the consumer is restored. With real income likely to continue to decline in the second quarter, there seems little chance for sharp gains in consumption until well after midyear. At that time, cost-of-living increases and wage adjustments may provide some offset to developments of the first half.

The principal strength in the economy is largely in plant and equipment investment. Surveys of business plans indicate a strong desire to expand productive capacity and will likely result in a 13-19% increase in such investment. This production of capital equipment, combined with strength in industrial construction and inventory investment will provide the impetus to growth for the remainder of 1974. Inventories remain well managed and are not excessive as has been the case in past recessionary periods. This is in part due to production bottlenecks which when resolved could lead to sharp inventory accumulations in the second half of 1974.

The recent easing in farm and wholesale food prices indicates that most of the increases in food prices anticipated for 1974 may have already occurred. For the remainder of the year, lower farm prices should provide some offset to the inflationary cost-related pressures elsewhere in the economy. For the year, retail food prices will likely average 12% above 1973.

Although the value of U.S. agricultural imports gained 33% in July-March of the current fiscal year export values were up 78% and the favorable U.S. agricultural trade balance rose to a record of nearly $9 billion. This more than offset the deficit in nonfarm trade of $5.5 billion to produce a trade surplus of $3.5 billion during July-March. This compares with a deficit of $3.7 billion a year earlier.

... *Cattle* feeders intend to market about the same number of cattle this spring as last, but like the winter, total slaughter will be boosted by more nonfed cattle. Prices are expected to rise into early summer before declining into the fall.

... *Hog* slaughter this spring and summer will run above a year earlier. Prices are expected to strengthen seasonally into summer but will not approach the record levels of last August.

... *Broiler* meat output in the spring will be larger but the margin over 1973 will taper off from the 6% winter increase. Prices will rise from current levels but average below a year earlier.

... *Egg* prices will average below year-earlier levels this spring and then rise seasonally in the summer and fall but average well below 1973 levels.

... *Turkey* meat output for the first quarter of 1974 was 38% larger than a year ago. Prices will probably strengthen seasonally later in the year but stay well below 1973 levels.

... *Milk* production will be down a little, and prices will continue well above year-earlier levels.

... *Wheat* prices reached record highs in late February but by May had dropped more than a third. A record crop of 2.2 billion bushels is in prospect with some stock rebuilding likely.

... *Corn* prices weakened during March and April and if the corn crop of 6.7 billion bushels materializes some further declines are likely.

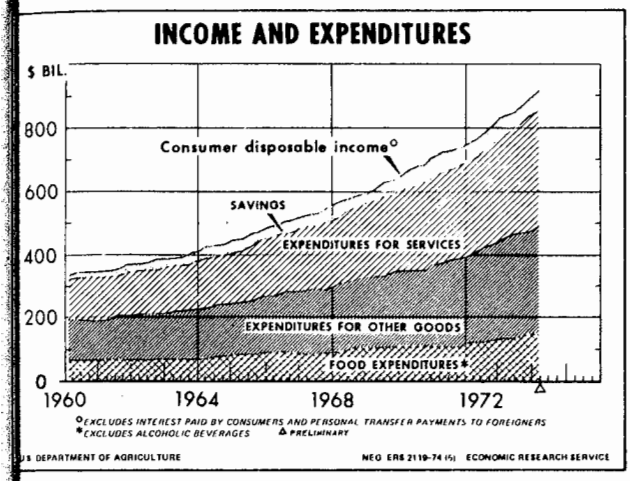
... *Soybean* supplies totaled a record 1,627 million

bushels in 1973/74. Although March 1 intentions indicated plantings of 55 million acres, about 2¼ million acres below last year's record, larger stocks should mean larger supplies in 1974/75.

... *Upland cotton* supplies of 16.9 million bales practically duplicated last season's level. Disappearance is increasing, causing carryover to decline to 3.4 million bales by August 1.

... *Potato* stocks on April 1 were 9% less than the small quantities held a year earlier. Prices will likely remain near current levels.

... *Citrus* output for 1973/74 is now estimated to be 5% less than last season. Prices are expected to remain above 1973 levels.



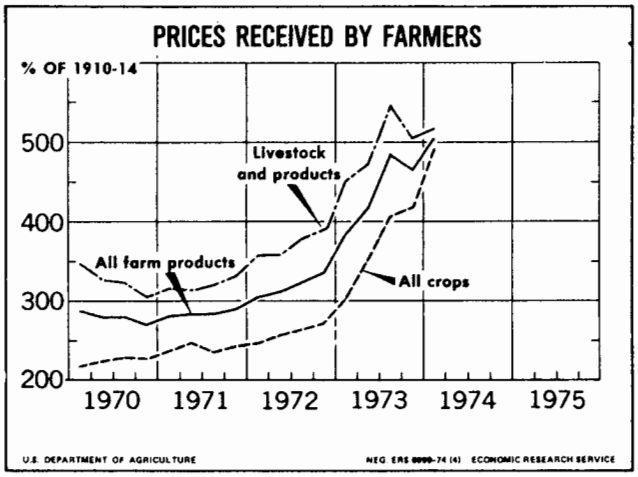


Table 1.--Selected measures of economic activity

Item	Unit	Year 1973	1972		1973				1974
			III	IV	I	II	III	IV	I 1/
Gross national product	Bil. dol.	1,289.1	1,166.5	1,199.2	1,242.5	1,272.0	1,304.5	1,337.5	1,351.8
Disposable personal income	Bil. dol.	882.5	800.9	828.7	851.5	869.7	891.1	917.8	930.5
Personal consumption expenditures	Bil. dol.	804.0	734.1	752.6	779.4	795.6	816.0	825.2	844.6
Food spending (excluding alcoholic beverages)	Bil. dol.	138.8	126.1	128.3	133.0	136.0	141.5	144.8	149.8
Implicit price deflator for GNP	1958=100	153.9	146.4	147.6	149.8	152.5	155.1	158.4	162.5
Unemployment rate 2/	Percent	4.9	5.6	5.3	5.0	4.9	4.7	4.7	5.2
Cash receipts from farm marketings	Bil. dol.	83.4	60.5	64.6	72.4	75.5	84.5	101.2	103.0
Nonmoney income and government payments	Bil. dol.	7.1	8.2	8.2	7.4	7.0	6.9	7.1	5.2
Realized gross farm income	Bil. dol.	90.5	68.7	72.8	79.8	82.5	91.4	108.3	108.2
Farm production expenses	Bil. dol.	64.1	49.4	51.5	55.8	58.0	65.9	77.9	80.0
Farmers' realized net farm income	Bil. dol.	26.1	19.3	21.3	24.0	24.5	25.5	30.4	28.2
Agricultural exports 3/	Bil. dol.	17.7	2.1	3.1	3.7	4.0	4.1	5.8	5.9
Agricultural imports 3/	Bil. dol.	8.4	1.6	1.7	1.9	2.1	2.0	2.3	2.6
Volume of farm marketings	1967=100	110	110	150	100	83	106	151	101
Livestock and products	do.	104	107	112	103	102	98	110	101
Crops	do.	118	114	201	96	59	116	202	101
Prices received by farmers 4/	do.	172	128	133	151	164	190	183	199
Livestock and products	do.	178	136	141	163	170	198	182	187
Crops	do.	164	116	121	135	156	181	185	217
Prices paid by farmers 4/ 5/	do.	145	127	130	136	143	149	152	159
Wholesale price index, all commodities 4/	do.	135.5	119.9	121.2	127.0	133.6	139.3	142.2	152.5
Consumer price index, all items 4/	do.	133.1	125.8	126.9	128.7	131.5	134.4	137.6	141.4
All food	do.	141.4	124.5	125.4	131.4	138.1	146.2	149.9	156.8
Food at home	do.	141.4	122.6	123.4	130.5	138.0	147.1	150.1	158.0

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.

Farm prices averaged near record levels in the first quarter of 1974 as strong foreign and domestic demand continued to put pressure on dwindling grain stocks and as demand for meat remained strong. The total volume of marketings was only slightly above 1973 levels with increased crop marketings offset by lower livestock marketings. In spite of a record rate of production expenses and $2 billion less in government payments, net farm income in the first quarter was at a $28.2 billion seasonally adjusted annual rate, 17.5% above a year earlier.

Nevertheless, substantial price declines for farm products in March and April, combined with the sharply higher production expenses, have dampened the farm income outlook for the remainder of 1974. Net farm income in 1974 may be the second highest on record as increases in production expenses combined with smaller government payments leave net income around $4 billion below last year's record $26.1 billion.

Farm Income and Prices

Prices received by farmers for farm products accelerated in the first quarter of 1974 and averaged 32% above a year ago. However, farm prices in March and April weakened substantially and by mid-April the all farm price index was 8% below the first quarter average with livestock and livestock product prices down almost 10%. Prices received for crops in the first quarter were 60% above comparable 1973 levels with food grain prices more than double a year ago and feed grains and hay nearly three-fourths higher. Prices received by farmers for livestock and livestock products averaged about 15% higher with dairy products and poultry and eggs showing the greatest gains.

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

Month	All crops	Livestock and products
	Percent	*Percent*
January 1973	18.0	20.5
February	20.9	22.9
March	29.6	34.9
April	27.7	33.3
May	35.1	30.0
June	46.6	31.1
July	42.6	31.6
August	66.7	60.7
September	56.4	43.5
October	55.6	34.5
November	50.8	31.9
December	52.0	22.8
January 1974	61.1	25.5
February	67.7	18.0
March	55.7	2.9
April	43.4	.6

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

The volume of farm marketings was up only about 1% in the first quarter than a year earlier as the 5% increase in crop marketings was offset by lower livestock marketings. With cash receipts from crop marketings over two-thirds above 1973 levels, total cash receipts were about one-third higher.

With the rate of government payments down $2.6 billion from a year earlier, first quarter gross farm income reached a $108.2 billion seasonally adjusted annual rate. However, production expenses were up over 40% over first quarter 1973. Thus, net farm income was up slightly over $4 billion to $28.2 billion at a seasonally adjusted annual rate.

Cash receipts in 1974 will likely rise by about $7 billion from 1973, almost entirely because of higher average crop prices and increased volume of crop marketings. Livestock prices are expected to show little change from last year with marketings up slightly. With government payments expected to drop by over $2 billion from the $2.6 billion of 1973 and production expenses likely to rise by over $9 billion, net farm income would show a decline of over $4 billion from the record $26.1 billion of 1973.

Prices Fuel Food Outlays

Consumer purchases of food and beverages in the first quarter increased 12% over a year earlier to $174 billion at a seasonally adjusted annual rate. Purchases of clothing and shoes reached $73 billion, 7% above the 1973 level. For the year total food and beverage purchases should average well above last year's $161 billion due mostly to price increases.

Consumer outlays for food in the first quarter were at a $149.8 billion annual rate, about 12.6% over a year earlier and $5 billion more than the total for the fourth quarter of 1973. All of the advance over a year earlier was attributable to price increases.

Retail food prices for all of 1974 are still expected to average about 12% above 1973. Prices of all food at retail in the first quarter of 1974 were up 4.6% from last quarter and 19.3% above a year earlier. Prices of food at home were up 5.3% from fourth quarter and 21.1% above a year earlier. Barring a repeat of the events like those of 1973, most of the retail food price increases for 1974 occurred in the first quarter.

Agricultural Foreign Trade Up Sharply

U.S. agricultural exports in January-March were valued at $5.86 billion, 57% over the same quarter a year earlier, and 1% above October-December 1973. For the first 9 months of fiscal 1974 agricultural

exports hit an alltime high of $15.8 billion, over three-fourths above a year earlier and one-fifth more than all of fiscal 1972. Exports of grains including products more than doubled to a record of $7.9 billion, accounting for about two-thirds of the total increase. Exports of cotton, tobacco, soybeans, meats, live cattle, fruits, nuts, and vegetables were also at record or near record levels. Only exports of dairy products and hides and skins were less.

U.S. agricultural exports, value of major commodities

Commodity	July-March		Percentage change
	1972/73	1973/74[1]	
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	974	1,308	34
Cotton	509	876	72
Feed grains, excluding products	1,562	3,359	115
Fruits	334	447	34
Soybeans	1,562	2,370	52
Tobacco, unmanufactured	495	598	21
Vegetables	199	308	55
Wheat and flour	1,563	3,848	146
Rice	334	529	58
Other	1,363	2,164	59
Total exports	8,895	15,806	78

[1] Preliminary.

Over three-fourths of the $6.9 billion increase in July-March stemmed from substantially higher prices. Substantial price grains occurred for all major products with rice, tallow, wheat, feed grains, and soybean and products showing the largest gains for the year. In terms of value, all major markets for U.S. agricultural exports, except USSR, showed significant gains.

Meanwhile, during January-March, U.S. agricultural imports totaled $2.6 billion. This compares with $1.9 billion for a year earlier. Cumulative farm product imports for the first 3 quarters of fiscal 1974 were valued at $6.9 billion or 33% above similar months a year earlier. Price increases accounted for most of this gain, since overall volume rose by less than 1%. Competitive or supplementary agricultural import value advanced 38% to $4.6 billion, with most of the gain resulting from price rises. Import volume increased for some commodity groups, including dairy products and eggs, pork, beef, certain fruits and vegetables, sugar, wine, malt beverages, cotton, and tobacco. However, volume reductions for cattle, apparel wool, grains, edible nuts, and oilbearing materials largely offset the increases. Values were higher for all commodity groups except hides and skins. Noncompetitive agricultural imports advanced 26% in value, primarily due to price increases. Most commodities within this group indicated lower quantities entered. Volume was up only for natural rubber, bananas and tea.

U.S. agricultural imports, value of major commodities

Commodity	July-March		Percentage change
	1972/73	1973/74[1]	
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	1,498	2,238	49
Fruits	129	151	17
Oilseeds and oil products	156	286	83
Sugar and molasses	669	884	32
Tobacco, unmanufactured	113	136	20
Vegetables	272	277	2
Wines and malt beverages	204	251	23
Other	293	364	24
Total	3,334	4,587	38
Complementary			
Bananas	144	147	2
Cocoa and chocolate	47	58	23
Coffee	1,104	1,306	18
Rubber	154	335	118
Other	393	470	20
Total	1,842	2,316	26
Total imports	5,177	6,903	33

[1] Preliminary.

Although U.S. agricultural imports gained one-third in July-March, the favorable U.S. agricultural trade balance rose to a record of nearly $9 billion. This more than offset the deficit in nonfarm trade of $5.5 billion to produce a trade surplus of $3.5 billion during July-March. This compares with a deficit of $3.7 billion for these months in fiscal 1973.

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

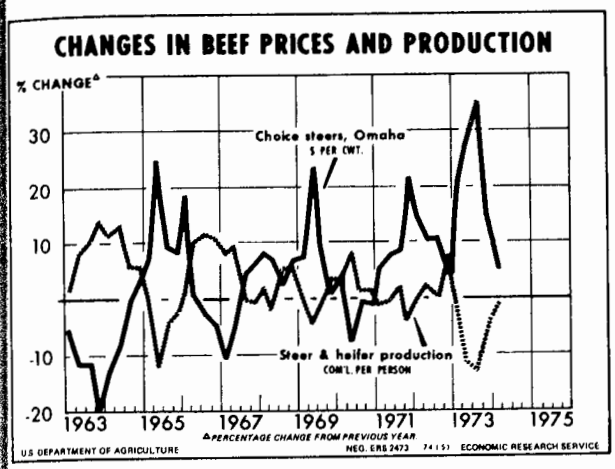
Item	1972/73	1973/74[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	8,895	15,806	78
Imports	5,177	6,903	33
Trade balance	3,718	8,903	139

[1] Preliminary.

Output and Prices of Livestock Products

Red meat output for January-March 1974 was up from a year ago. There was a 3% increase in pork, a slight rise in beef, and a decline in veal and lamb and

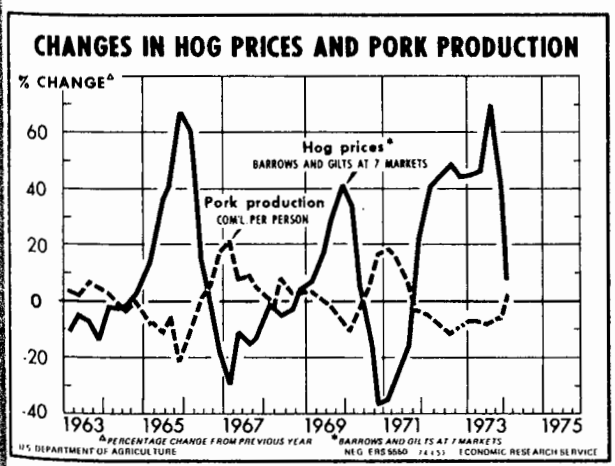
mutton. Livestock prices, boosted by strong demand for meat, averaged higher than a year earlier.



Fed cattle marketings were down sharply from a year earlier, but larger slaughter of non-fed steers and heifers and cows lifted total slaughter to near last year's level. Cattle feeders intend to market about the same number of cattle this spring as last, but like the winter, total slaughter will be boosted by more non-fed cattle.

In the summer, an increase in all classes is expected with total slaughter exceeding spring levels. Fed cattle prices in early May were near $41 per 100 pounds (Choice steers, Omaha). This is down about $5 from a year earlier and nearly $8 below mid-January. Prices are expected to strengthen into early summer before declining in the fall.

Hog slaughter this spring and summer will run above a year earlier. On March 1 there were more Corn Belt hogs in weight groups that will be marketed in the spring. Numbers in weights that account for the bulk of summer supplies will be off slightly, but slaughter is expected to be larger than last summer when supplies were restricted by market



disruptions related to high feed costs and price ceilings on meat.

Barrows and gilts at 7 markets averaged $38.40 per 100 pounds during January-March this year, up $2.80 from a year ago. They are expected to advance from the early May level of $28 into the summer but will not approach last August's record levels. Prices may reach the high $30's by mid-summer.

Sheep and lamb slaughter was 5% smaller than a year earlier in January-March and slaughter supplies will continue reduced during the balance of 1974. Smaller supplies are in prospect because there were 7% fewer breeding ewes on farms and ranches on January 1.

Choice lambs at San Angelo averaged about $40 in the winter, about $1.35 above a year earlier. In early May, Choice spring lambs were selling for $44.50 per 100 pounds at San Angelo, $6.75 above a year earlier. Lamb prices will probably decline some this spring, then remain generally steady during most of the balance of the year.

Egg production during January-March totaled 46 million cases, slightly below last year. With egg-type hatchery figures indicating that there will be more pullets entering the laying flock through midyear, production will exceed 1973 levels by late spring, if the rate of lay holds up. The picture for the last half of 1974 is less clear, although production is expected to remain above 1973 levels. During January-March this year, 10% fewer egg-type chicks were hatched than during the same period in 1973. In addition, eggs in incubators on April 1 were down 3%. This points to substantially fewer replacement pullets reaching laying age in July-October. Egg production during the last half of 1974 will therefore be significantly influenced by the extent of cullings and force moltings of old layers. These practices will depend on the relationship between feed and egg prices.

The New York wholesale price for Grade A large eggs averaged 67.5 cents a dozen for January-March, 17.5 cents above a year prior. However, following Easter the price dipped to 42 cents in late April. Egg prices are expected to average below year-earlier levels this spring and then rise seasonally in the summer and fall but average well below the high levels of 1973.

Broilers meat output during April-June will be larger but the increase over 1973 will taper off from the 6% increase of January-March. Placements for April-May marketings are up around 4% but for June likely will be near a year ago. Higher red meat prices in coming months are expected to boost broiler prices from current levels and with the recent declines in feed ingredient prices, the profitability of broiler production will improve and may result in expanded output. Wholesale broiler prices this spring will trail the 42 cents a pound of April-June 1973. Increasing red meat supplies this summer will dampen the normal seasonal increase in broiler prices, and prices

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

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1970/71	Mil. tons	48.6	0.4	160.1	209.1	155.2	20.7	175.9	33.2	2/1.33
1971/72	Mil. tons	33.2	.5	207.7	241.4	165.7	27.3	193.0	48.4	2/1.08
1972/73p	Mil. tons	48.4	.4	199.9	248.7	173.2	43.1	216.3	32.4	2/1.57
1973/74e	Mil. tons	32.4	.3	205.0	237.7	173.2	41.9	215.1	22.6	2/2.38
Wheat										
1970/71	Mil. bu.	884.9	1.1	1,351.6	2,237.6	768.6	737.5	1,506.1	731.5	1.33
1971/72	Mil. bu.	731.5	1.0	1,617.8	2,350.3	854.7	632.5	1,487.2	863.1	1.34
1972/73p	Mil. bu.	863.1	1.3	1,544.9	2,409.3	785.5	1,185.3	1,970.8	438.5	1.76
1973/74e	Mil. bu.	438.5	5	1,711	2,154	784	1,200	1,984	170	4.00
Rice										
1970/71	Mil. cwt.	16.4	1.5	83.8	101.7	3/36.6	46.5	83.1	18.6	5.17
1971/72	Mil. cwt.	18.6	1.1	85.8	105.5	3/37.2	56.9	94.1	11.4	5.34
1972/73p	Mil. cwt.	11.4	.5	85.4	97.3	3/38.2	54.0	92.2	5.1	6.73
1973/74e	Mil. cwt.	5.1	.2	92.8	98.1	37.7	55.4	93.1	5.0	13.80
Soybeans										
1970/71	Mil. bu.	299.8	0	1,127.1	1,356.9	824.3	433.8	1,258.1	98.8	2.85
1971/72	Mil. bu.	98.8	0	1,176.0	1,274.8	786.0	416.8	1,202.8	72.0	3.03
1972/73p	Mil. bu.	72.0	0	1,270.6	1,342.6	802.8	480.2	1,283.0	59.6	4.37
1973/74e	Mil. bu.	59.6	0	1,567	1,627	877	550	1,427	200	5.57
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
1971/72	5/Mil. bales	4.3	6/.1	10.4	14.8	8.2	3.4	11.6	3.3	28.23
1972/73p	5/Mil. bales	3.3	6/7/	13.7	17.0	7.8	5.3	13.1	4.1	27.5
1973/74e	5/Mil. bales	4.1	6/.1	13.0	17.1	7.5	5.7	13.2	3.9	8/44.6

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Prices for corn. 3/ Includes the following statistical discrepancies: 1970/71, 2.2, 1971/72, 1.8 and 1972/73, 2.4 mil. cwt. 4/ Production based on ginnings between August 1 and July 31. 5/ 480 pound net weight bales. 6/ Includes city crop. 7/ Less than 50,000 bales. 8/ Average price to January 1, 1974, with no allowance for unredeemed loans.

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

Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Pct.	*Pct.*	*Pct.*	*Pct.*
1972/71				
I	35.1	82.5	11.1	5.3
II	29.4	79.8	-3.4	5.6
III	12.5	56.6	3.3	8.3
IV	-9.6	15.8	3.8	-7.5
1973/72				
I	-1.1	15.1	3.3	-14.0
II	-12.6	1.9	21.4	-18.9
III	-31.8	-13.4	19.4	-23.8
IV	-34.9	-19.1	-3.7	-9.3
1974/73				
I	-43.3	-43.3	-12.9	-3.9

may rise only slightly from spring levels and average well below a year earlier.

Turkey meat output for the first half of 1974 will be substantially larger. Although seasonally small, the number of turkeys moved through Federally inspected plants during January-March this year was 29% greater than in the like period of 1973. In addition, the average weight of birds marketed was up 6%. Based on turkey poult production 4-6 months earlier, marketings during April-June will be more than 15% above last spring. However, marketings may slip below a year earlier in the summer. Hatchings for fall marketings may regain some momentum as a result of the recent easing in feed ingredient costs. Large turkey supplies and declining prices for other meats have pushed turkey prices down sharply in recent weeks. Prices may have reached their low and probably will strengthen

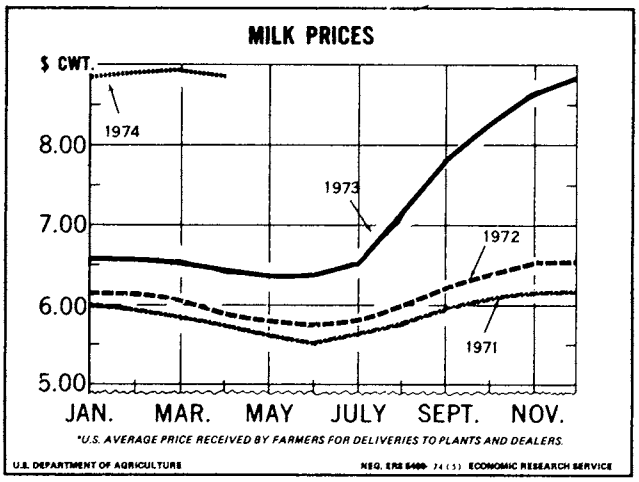
Table 3.--Production and prices received by farmers for major livestock and livestock products, 1971, 1972, 1973, and first quarters of 1973 and 1974

Item	Unit	Annual 1971	Annual 1972	Annual 1973	First Quarter 1973	First Quarter 1974 1/
Production 2/						
Beef and veal...	Mil. lb.	22,448	22,871	21,634	3/5,489	3/5,512
Pork.....	Mil. lb.	14,792	13,626	12,751	3/3,262	3/3,370
Lamb and mutton.	Mil. lb.	555	543	514	3/126	3/119
Chickens.....	Mil. lb.	8,720	9,102	8,916	3/1,991	3/2,101
Turkeys.....	Mil. lb.	1,811	1,945	1,956	3/157	3/216
Eggs.....	Mil. lb.	9,178	9,098	8,704	2,184	2,168
Milk.....	Mil. lb.	118.5	119.9	115.6	4/28.8	4/27.9
Prices received by farmers						
Cattle.....	Dol./cwt.	29.00	33.50	42.80	40.40	42.90
Hogs.....	Dol./cwt.	17.90	26.00	39.30	34.50	38.20
Lambs.....	Dol./cwt.	25.90	29.10	35.30	35.70	38.20
Broilers.....	Ct./lb.	5/13.7	5/14.1	5/24.0	20.1	22.4
Turkeys.....	Ct./lb.	21.9	22.1	34.8	25.7	33.2
Eggs.....	Ct./doz.	31.1	31.7	54.1	46.6	62.4
All milk (sold to plants).....	Dol./cwt.	5.87	6.07	7.14	6.57	8.92

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

seasonally later in the year but stay well below 1973 levels.

Milk production in the first quarterof 1974 totaled 27.9 billion pounds, down almost 3% from a year earlier. While output per cow finally pulled above a year earlier in March for the first time in over a year, cow numbers were down about 3%. Milk production through summer will probably remain under year-earlier levels due to further decreases in cow numbers. The anticipated increases in feed supplies and improved milk-feed price relationships could increase milk output per cow sufficiently to raise total milk production over year-earlier levels by late 1974. However, with a further decline in milk cow numbers milk production in 1974 could total about 1% below 1973. Farmers received $8.86 per 100 pounds for milk in April up 38% from last April. Manufacturing milk prices at $7.95 per 100 pounds were well above the $6.57 support price for the 1974/75 marketing year, and some 43% above April 1973. Milk prices should continue well above year-earlier levels although seasonal declines will be occurring through the summer flush production months.



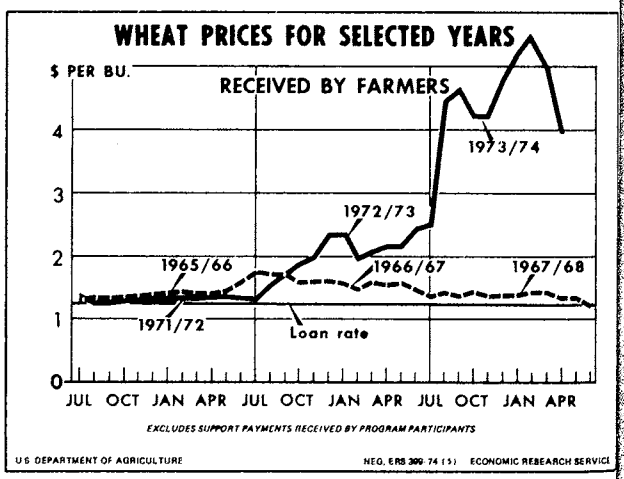
Grain Prices Weaken

Wheat disappearance slowed during the latter part of the first quarter of 1974 as the export pace slackened, falling well below the pace that had prevailed during the 5 preceding quarters. The fall off in shipments in recent weeks has spawned some doubts about reaching the 1973/74 export estimate of 1.2 million bushels.

Domestic food use of wheat continues heavy, running about 2% ahead of last year's pace. This could signal the first significant upturn in annual per capita wheat usage in over a decade. Wheat feeding continues to lag behind last year's level. Total wheat usage for the year is projected at a record shattering 1,984 million bushels. If attained, stocks this summer would be drawn down to around 170 million bushels, smallest since 1947.

The sharp drop in wheat prices since late February 1974 is in contrast to the precipitous climb during August 1973. Wheat prices reached record highs at most markets in late February but by May had dropped by more than a third. Slow ship arrivals which have caused backups, less mill demand, and reduced speculative demand after it became apparent that wheat supplies were adequate, all contributed to the spectacular price decline. However, wheat prices at the farm averaged around $4 per bushel for the season.

Prospects for another record wheat crop appear bright. Farmers are planting 20% more wheat acreage for the 1974 crop and yields should hold above last year's weather-reduced level. A record crop of almost 2.2 billion bushels seems likely. This would be 27% larger than last year. Demand is expected to ease in 1974/75. If good crops are harvested overseas exports are expected to drop substantially. With demand falling short of the crop, stocks will build during 1974/75 and by the summer of 1975 could total around 500 million bushels. However, the exceptionally heavy early season demand should keep prices well above the early season levels of a year ago. Consequently, with a record harvest, prices for the year should average lower.



Rice supplies were up slightly in 1973/74 as a larger crop more than offset sharply lower stocks. Both foreign and domestic demand continues exceptionally strong, limited only by dwindling supplies. Exports are estimated at 55.4 million cwt. The strong demand could result in another small carryover by the *summer* of 1974. Rice prices at the farm have reflected this strong demand situation. From $9 per cwt. at harvest they rose to over $17 in November. Promises of a record 1973/74 world rice crop put pressure on prices during December and January. But the strong world demand continued

unabated and world rice prices recovered, reaching new highs in March. For the year prices to U.S. farmers are expected to average over $14 per cwt.

Acreage planted to rice for 1974 is expected to expand to 2.4 million acres, up 9% from a year ago. The sharply higher prices and a voluntary program has encouraged farmers to expand acreage, and if yields reach the estimated 4,700 lbs. per acre, a record crop of 111 million cwt. would result. Both foreign and domestic demand is expected to continue strong during 1974/75. However, even if usage reaches a record 100 million cwt., stocks would climb, resulting in lower prices to farmers in 1974/75.

After rising sharply from their harvesttime low last fall, *corn prices* weakened during March and early April. Much of the weakness may have been due to producers moving a large volume of grain at the start of the new year. Also, Argentina and South Africa harvested record feed grain crops and were selling aggressively.

Despite the bullish nature of the April 1 stocks report, indicating smaller than expected supplies, market prices of corn did not rebound from late April levels. Early May quotes at Chicago were running about $2.75 per bushel, about 90 cents above a year ago. Prices in May and June will react to tight supplies and any indications of weak domestic demand due to financial losses in the livestock industry. July-September prices will be largely dominated by the development of the 1974 crop and world grain trade.

The current level of stocks show that domestic consumption of corn dropped 3% in October-December from a year earlier but soared to a record 8% above a year earlier in January-March. This brought domestic use through mid season to 2% above 1972/73. Domestic use in January-March was considerably more than anticipated. Unusually heavy weights of hogs and cattle being marketed and larger poultry output are partly responsible for the big feed disappearance.

Domestic feed use may drop fairly sharply in the last quarter. This would imply a domestic use of close to last year's 4.7 billion bushels. With exports forecast at 1.2 billion bushels, the October 1 corn carryover would total about 450 million bushels, somewhat under the previous forecast, about a third less than last year and the lowest since 1948.

If prospects for the projected 6.7 billion bushel crop continue favorable this summer and early prospects for 1974/75 exports are less optimistic than projected, this could lead to a sharp drop in prices which could attract more cattle off grass into feedlots and possibly result in a somewhat lower carryover than forecast. However, an early assurance of a big domestic crop could tend to overshadow any impact of the small carryover.

According to March 1 intentions, farmers will plant about 55 million acres to *soybeans* this year—about 2¼ million below last year's record. If yields are near trend, production would total 1,540 million bushels, compared with the record 1,567 million bushels in 1973. When added to the larger carryover expected this coming September, supplies for 1974/75 would total a record 1.7 billion bushels, about 7% above this season.

Soybean supplies totaled a record 1,627 million bushels this marketing year, around a fifth above the previous season. Supplies are more than adequate to meet requirements, allowing for buildup in stocks by September 1, 1974.

Total soybean disappearance is expected to increase to 1.4 billion bushels, a new record. Tight edible oil supplies and strong demand for soybean oil are expected to keep crushings at a record clip. Soybean exports also are expected to set a new record. Crushings may total about 790 million bushels, compared with 722 million last season. However, total use will fall short of output, resulting in an increase in carryover stocks this coming September to around 200 million bushels, well above the 60 million of last September 1. Soybean stocks on April 1 totaled 742 million bushels, about 50% above a year ago.

Despite record supplies and prospects for a sizable carryover, soybean prices to farmers are high, reflecting the many uncertainties plaguing the agricultural and general economies both at home and abroad. For the entire season, they are expected to average $5.57 per bushel, compared with $4.37 for the 1972 crop. Prices are expected to continue strong, but

Stocks of grains

Grain and position	April 1, 1973	April 1, 1974	Percentage change 1974/73
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	79	67	-16
Off farms[2]	40	36	-10
Total	119	103	-14
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	316	184	-42
Off farms[2]	611	366	-40
Total	927	550	-41
SOYBEANS			
On farms[1]	145	336	131
Off farms[2]	358	406	13
Total	504	742	47

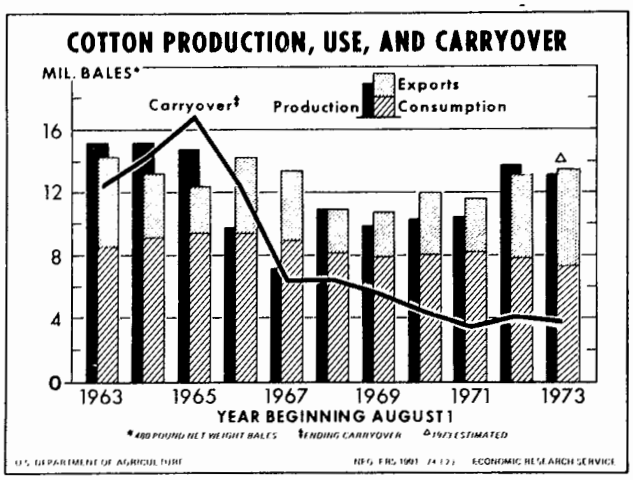
[1] Estimates of the Crop Reporting Board. [2] Including grain owned by Commodity Credit Corporation.

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

over the next few months they will be influenced by the U.S. 1974 crop plantings and outlook, as well as world developments.

Upland cotton production prospects for 1974 are much brighter in view of farmer's intentions to plant a fifth more acreage this spring. However, yields may not match last year's near-record 519 pounds per harvested acre, as more land less suitable for cotton production may be planted. Still, they could end up in the neighborhood of a bale per acre, the average of the past decade. And if 14.7 million acres are planted as indicated by farmers, production would moderately exceed prospective 1974/75 disappearance. While mill consumption may increase a little to about 7¾ million bales next season, U.S. cotton exports are projected at 5½ million, only slightly below current year expectations.

The 1973 upland cotton crop totaled 12.9 million (480-pound net weight) bales and the total 1973/74 supply of 16.9 million bales practically duplicated last season's level. Mill use and exports may total 13.5 million bales and draw this summer's carryover down to about 3.4 million from 4 million at the start of the season.



Total domestic use and exports of *tobacco* during 1973/74 should exceed the 1973 crop output and leave carryover stocks 3% below last season. Plans are for a larger 1974 output about equaling next season's anticipated use.

U.S. tobacco growers plan to boost plantings about a tenth from the 890,000 acres harvested last year. With average growing conditions, the prospective tobacco acreage indicates a crop of 2 billion pounds, up 14%. But tight supplies and sharply higher prices of fertilizer and fuel may limit the increase. With a smaller expected carryover, the supply could stay about the same as in 1973/74. New marketing plans for flue-cured tobacco are expected to provide growers with more equitable access to auction markets.

Acreage planted to 15 spring *vegetables* including onions, is 4% less this year. Using history as a guide, potential output would be about 2% less than last spring. Spring melon acreage is down slightly as well, and is sharply less than 1972. With large supplies of onions expected, and with no seriously short crops of any of the major fresh vegetables, grower prices this spring are expected to continue below a year earlier.

Fresh vegetable shipments, mainly from Mexico, have been running very close to the record attained in the 1973 season. Increases in melons, peppers, cucumbers, and misc ellaneous vegetable shipments have largely offset reduced tomato and onion movement.

Processed vegetable supplies are the smallest in years, and prices have moved up steadily in small steps throughout the selling season. The removal of price controls is not expected to change this pattern of price advances the remainder of the 1973/74 sales season. However, prices for the 1974 pack are expected to reflect sharply higher raw product and packing costs.

The 1973/74 season began with canned vegetable supplies that were probably equal to the modest quantity available the previous season. With retail prices of most other foods substantially higher, economically priced canned vegetables moved in heavy volume through trade channels the first 5 months of the current marketing season. With tightening supplies and some further moderate price rise at retail, the rate of disappearance has slackened in recent weeks. Processors do not have adequate supplies to promote sales the next few months.

Although canned vegetable supplies are tight, a more generous supply prospect has emerged for frozen vegetables. Stocks on April 1 were 25% larger than the relatively light quantity available the same date last year. Also, the 1973 pack was moderately larger, and resulting supplies are proving adequate for trade demand. Despite an easier supply position, wholesale prices for most frozen vegetables have also shown substantial strength. The pack of frozen vegetables in 1973 broke the previous record set in 1972.

In view of the need to rebuild depleted stocks, the prospective planted acreage of 8 leading processing vegetables is 7% larger than a year ago and 14% more than in 1972. Most canners and freezers should be able to contract for sufficient acreage to relieve much of the current pressure on supplies of processed vegetables. Furthermore, the industry apparently has been able to secure the largest gains where the tonnage is most needed. Although supplies may be substantially larger beginning this fall, higher wholesale and retail prices are expected.

The carryover of canned vegetables will be the smallest in recent years, but the prospect of a

substantially larger pack of canned vegetables does suggest at least moderately larger supplies for 1974/75. The carryover of frozen vegetables (excluding potato products) this summer will be substantially larger than the small quantity carried into the current marketing season. But if 1974 yields are average, the slight reduction in the combined acreage of sweet corn, peas, and green beans for freezing will still mean ample supplies for the coming market season.

This is the second consecutive season of high potato prices. April 1 stocks were 9% less than the small quantity held a year earlier. Processors have been using record tonnage from a relatively small 1973 fall crop. In the spring States, the production forecast calls for about 23 million cwt. This would be more than 1972 or 1973, but well below other years of the past decade.

Intentions suggest 5% more sweetpotato acreage this spring, which could easily generate a 6 to 7% production gain. In response to record high prices, dry bean growers expect to plant 20% more acreage this year. With average yields this could translate to a 20 million cwt. crop, one of the largest in years.

For the third consecutive month, prospect's for this year's *citrus crop* have improved. The total citrus output is now estimated at 13.2 million tons, 4% less than last season. The seasonally small citrus supplies remaining for harvest are substantially below year-earlier levels. The early and mid season orange harvest is essentially complete. The Valencia crop, which will be the main source of orange supplies from now through late summer, is expected to be about 10% below last season's crop. Likewise, supplies of grapefruit and lemons this spring and early summer will be below last season.

Despite smaller supplies in prospect, grower prices for oranges will be near year-earlier levels for the remainder of the season. U.S. grapefruit prices to growers have been substantially below last year's levels. The movement of this fruit into domestic marketing channels appears to be lagging, but export demand continues good. Grapefruit prices are expected to move up seasonally but will remain below a year ago. Lemon prices are expected to continue above year-earlier levels.

Current supplies of frozen concentrated orange juice are up sharply, reflecting both larger pack and carryin. Movement of frozen concentrated orange juice remains strong, almost 10% above last season.

Supplies of canned non-citrus fruits total much below any recent years, reflecting a negligible carryover at the beginning of the season. Retail prices for most canned items are moderately higher in response to the reduced supplies, and will probably remain firm until new packing seasons get underway.

Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1973	1973 II	1973 III	1973 IV	1974 I 1/
	Billion dollars				
Gross national product	1,289.1	1,272.0	1,304.5	1,337.5	1,351.8
Gross national product (1958 dollars)	837.4	834.3	841.3	844.6	832.0
Disposable personal income	882.5	869.7	891.1	917.8	930.5
Personal consumption expenditures	804.0	795.6	816.0	825.2	844.6
Durable	130.8	132.8	132.8	125.6	124.5
Nondurable	335.9	330.3	341.6	349.6	362.3
Services	337.3	332.6	341.6	350.0	357.8
Personal savings	54.8	51.0	51.1	67.1	60.6
Net government receipts	288.7	286.9	293.3	296.3	---
Government purchases	277.1	275.3	279.0	285.6	295.9
Federal	106.6	107.3	106.8	106.8	111.3
State and local	170.5	168.0	172.2	178.8	184.6
Deficit or surplus (on income and product accounts)	11.4	11.6	14.3	10.8	---
Gross private domestic investment	202.1	198.2	202.0	213.9	201.8
Fixed investment	194.2	193.7	197.3	195.9	194.0
Residential	58.0	59.6	59.2	54.0	49.5
Nonresidential	136.2	134.1	138.0	141.8	144.4
Change in business inventories	8.0	4.5	4.7	18.0	7.8
Gross retained earnings	135.2	132.0	136.9	140.6	---
Excess of investment	-66.9	-66.2	-65.1	-73.3	---
Net exports of goods and services	5.8	2.8	7.6	12.8	9.5
Per capita disposable personal income (1958 dollars)	2,889	2,877	2,894	2,906	2,853
Total civilian employment (millions) 2/	84.4	84.1	84.8	85.7	85.8

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

GENERAL ECONOMIC SITUATION

In the first quarter of 1974 the general economy turned in a dismal performance. Gross national product (GNP) rose at an annual rate of 4.4%, reflecting a 10.8% annual rate of inflation and a 5.8% annual rate of decline in real GNP. This performance reflected the lagged impact of the energy crisis upon consumer purchases of durable goods especially automobiles. Additionally the retarding effects of high interest rates upon the housing starts has begun to be reflected in residential construction statistics. The impacts were not, of course, confined to these areas. Real per capita disposable income declined at a 7.2% annual rate with the unemployment figures yet to show the full impacts of recent developments. The prime interest rate stood at a record 11% in early May.

Major GNP components, change from previous quarter

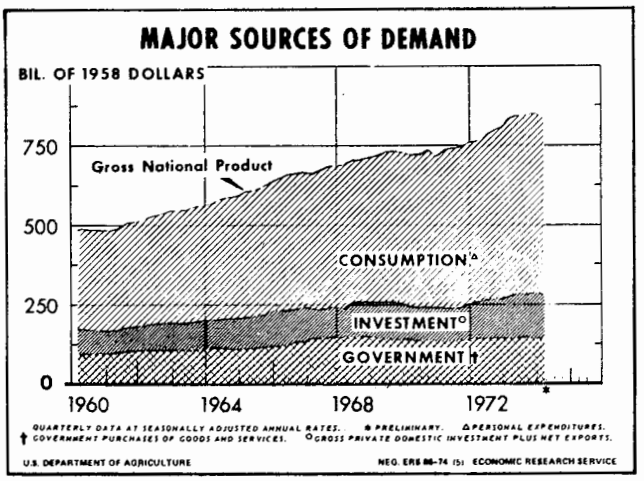
Item	1973		1974
	III	IV	I[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Total change in GNP	32.5	33.0	14.3
Consumption	20.4	9.2	19.4
Private nonresidential fixed investment	3.9	3.8	2.6
Housing	-.4	-5.2	-4.5
Inventory[2]	.2	13.3	-10.2
Net exports	4.8	5.2	-3.3
Government	3.7	6.6	10.3

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

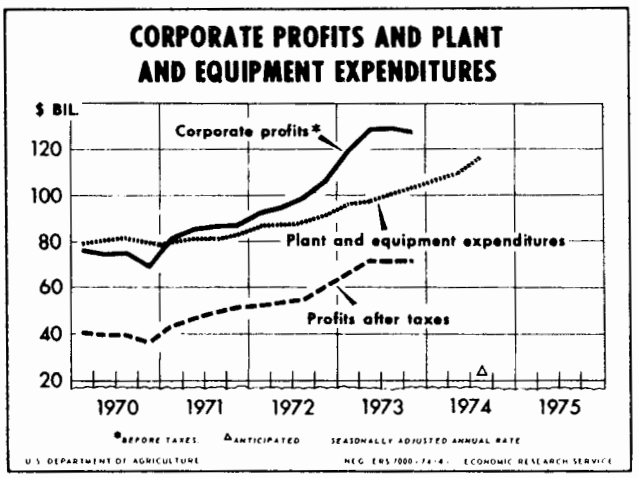
Slow Growth in Prospect

The outlook for the general economy for 1974 is for a shortage-induced downturn, largely the result of developments in housing and automobiles, While a recession (two straight quarters of declining real growth) might be narrowly avoided, the ensuing period of slow growth could continue into 1975. The concern for the remainder of 1974 will be in providing needed breathing space for the economy to build additional productive capacity and to achieve a relatively stable transition into renewed economic expansion. Monetary and fiscal policy will likely remain restrictive as long as the unemployment rate does not rise sharply. High interest rates will be part of the cost of reducing inflation.

Since consumption accounts for approximately two-thirds of gross national product, the economy cannot be expected to improve dramatically until the real purchasing power of the consumer is restored. With real income likely to continue to decline in the second quarter, there seems little chance for sharp gains in consumption until well after midyear. At that time, cost-of-living increases and wage adjustments may provide some offset to developments of the first half.



The principal strength in the economy is largely in plant and equipment investment. Surveys of business plans indicate a strong desire to expand productive capacity and will likely result in a 13-19% increase in such investment. This production of capital equipment, combined with strength in industrial construction and inventory investment, will provide the impetus to growth for the remainder of 1974. Inventories remain well managed and are not excessive as has been the case in past recessionary periods. This is in part due to production bottlenecks, which when resolved could lead to sharp inventory accumulations in the second half of 1974.



Consumers in a Bind

In the first quarter of 1974 the consumer reduced savings to increase personal consumption expenditures by 2½% but purchased roughly 1% less than last quarter in real terms. Real durable and nondurable goods purchases accounted for the

decline, but services showed no change. With the personal consumption expenditures deflator increasing at a 12.3% annual rate in the first quarter, real per capita disposable income declined at a 7.2% annual rate and was 1% below a year ago. Continuing declines in real spendable income and uncertainties over energy, and employment have led to inflationary hedging, more cautious spending patterns, and continued worsening in consumer sentiments.

GNP and final sales, change from previous quarter

Year	GNP	Final sales	Inventory change[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
1970: I	9.6	13.0	-3.4
II	12.1	9.3	2.8
III	16.8	15.6	1.1
IV	4.4	5.4	-.9
1971: I	35.4	33.5	1.9
II	19.7	19.0	.6
III	16.6	20.0	-3.3
IV	20.7	19.7	1.0
1972: I	28.3	31.9	-3.6
II	29.9	26.1	3.8
III	24.1	20.9	3.2
IV	32.7	33.2	-.5
1973: I	43.3	46.8	-3.6
II	29.5	29.7	-.1
III	32.5	32.3	.2
IV	33.0	19.6	13.3
1974: I[2]	14.3	24.6	-10.2

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the first quarter of 1974 ($7.8 bilion) less the change in the fourth quarter of 1973 ($18.0 billion) equals minus (10.2 billion). [2] Preliminary.

Government Expenditures and Receipts

Federal Government expenditures in the first quarter rose to a $111.3 billion seasonally adjusted annual rate, up $4.5 billion from fourth quarter 1973. Most of the increase was due to defense expenditures which increased by $3.2 billion.

With Federal Government receipts increasing at about the same rate as expenditures, the Federal budget will remain in surplus at a $3 billion seasonally adjusted annual rate, as in the fourth quarter of 1973.

State and local government budgets continued in a much lower surplus position as reduced Federal grants-in-aid lowered receipts, and expenditures continued to increase.

Prices Up Sharply

In the first quarter the Wholesale Price Index for all commodities rose at a 29% annual rate with both farm products and processed foods and feeds and

Federal receipts and expenditures, national income basis[1]

Item	1973		1974
	First half	Second half	First quarter[2]
	Billion dollars	*Billion dollars*	*Billion dollars*
Receipts	258.0	271.9	[3] 284.3
Personal tax	110.0	119.0	123.6
Corporate profits tax	48.7	50.2	[3] 52.0
Indirect business tax	21.0	21.2	21.6
Social insurance	78.4	81.6	87.1
Expenditures	260.5	267.6	281.3
Goods and services	106.4	106.8	111.3
Transfer payments	92.8	98.1	106.7
Grants to State and local governments	40.8	41.0	43.2
Net interest paid	15.2	16.6	17.9
Subsidies less surplus	5.3	5.0	2.2
Surplus or deficit	-2.5	4.4	[3] 3.0

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

industrial commodities increasing at a similiar rate. However, in April substantial increases for industrial commodities outweighed declines for farm products and processed foods and feeds.

The first quarter Consumer Price Index rose at a seasonally adjusted annual rate of 12%, and food prices rose at a 15% rate. Prices for commodities less food rose at a 13% seasonally adjusted annual rate. Prices of consumer services increased at an 8% rate.

The GNP implicit price deflator, which is based on shifting weights that reflect changes in the composition of GNP, rose at a 10.8% seasonally adjusted annual rate in the first quarter. This was the sharpest rate of increase since 1951.

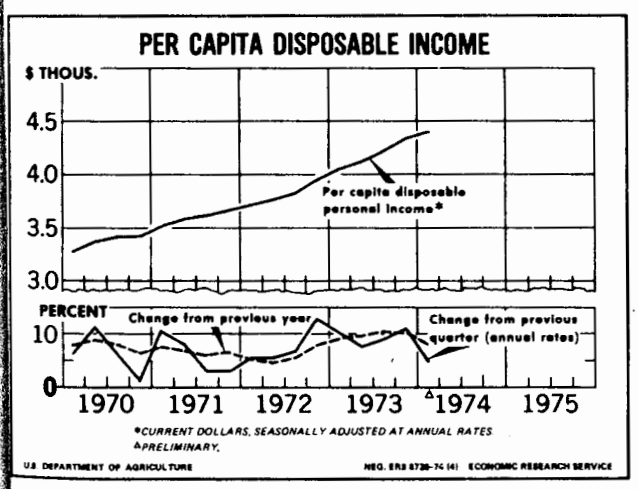
Interest Rates Hit New Highs

Since late March the prime bank loan rate has been adjusted upward in several steps from 8.75% to 11%, surpassing the peak 10% rate achieved in mid-September. A number of factors have contributed to this sharp increase. In the last few months there has been a renewed rapid expansion of bank credit. It increased at about a 14% annual rate from December to March, after a 5.2% rate in the previous three months. The loan component of bank credit rose at a 14.5% rate from December to March, compared with a 7% rate in the previous three months. The investment component increased at about a 12% rate compared with a 1.3% rate from last September to December. Concurrently, monetary growth has varied considerably for short periods within the last 6 months. While increasing the growth in the monetary aggregates could reduce interest rates in the near term, the contribution of such policy to more rapid inflation would eventually lead to still higher interest

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

Year and month	All items index	Change from previous month annual rates	Change from year-ago	Food index	Change from previous month annual rates	Change from year-ago
	1967=100	*Percent*	*Percent*	*1967=100*	*Percent*	*Percent*
1973						
January	127.7	3.7	3.7	128.6	24.7	6.9
February	128.6	8.4	3.9	131.1	23.3	7.3
March	129.8	11.2	4.7	134.5	31.1	9.9
April	130.7	8.3	5.1	136.5	17.9	11.5
May	131.5	7.3	5.5	137.9	12.4	12.8
June	132.4	8.2	5.9	139.8	16.6	13.7
July	132.7	2.8	5.7	140.9	9.5	13.4
August	135.1	21.7	7.5	149.4	72.4	19.9
September	135.5	3.6	7.4	148.3	-8.9	18.8
October	136.6	9.7	7.9	148.4	.8	18.8
November	137.6	8.8	8.4	150.0	13.0	19.6
December	138.5	7.8	8.8	151.3	10.4	20.1
1974						
January	139.7	10.4	9.4	153.7	19.1	19.5
February	141.5	15.5	10.0	157.6	30.5	20.2
March	143.1	13.6	10.2	159.1	11.4	18.3

rates. The result is a much more stringent monetary policy as reflected in the increase in Federal Reserve Banks' discount rates (from 7½ to 8% effective April 25). Such actions are likely to keep short rates above 9% and push long-term rates above current levels.



Real Income Declines

Real per capita disposable income declined in the first quarter of 1974 as price increases outstripped gains in income and consumers drew down savings to maintain real purchases. While real income was declining at a 7.2% annual rate from fourth quarter 1973, the savings rate dropped from 7.3% of disposable personal income to 6.5%. This pattern of rapid inflation eroding away real spendable earnings will likely continue through much of 1974 and will result in greater pressure to recover the lost purchasing power. Although recent union wage settlements have included complex benefit packages such as cost-of-living escalator clauses and liberalized pension provisions which make it difficult to measure the effective wage increase, it seems likely that such increases will average in excess of an 8% effective rate. Minimum hourly wages were recently moved up from $1.60 to $2.00.

Major personal income components, change from previous quarter

Item	1973		1974
	III	IV	I[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	28.1	31.8	15.0
Wages and salaries	16.7	17.9	8.8
Manufacturing	4.3	5.0	-.7
Nonmanufacturing	10.1	8.7	6.9
Government	2.4	4.2	2.6
Other income	9.6	11.1	3.8
Transfer payments	3.0	3.3	5.3
Social Insurance payments (minus)	1.0	.6	3.0
Personal tax payments	6.7	5.1	2.3
Disposable personal income	21.4	26.7	12.7
Personal outlays	21.4	10.7	19.1
Personal savings	.1	16.0	-6.5

[1] Preliminary.

Investment Holds Key to Growth

In the first quarter of 1974 gross private domestic investment declined in both current and real dollar terms. The decline was largely confined to residential structures reflecting the sharp drop in housing starts

that occurred in 1973. Increases in nonresidential construction offset the weakness in producer durables. Inventories remained in a tight condition in part due to bottlenecks and deficiencies which have prevented excessive accumulation. The fact that inventories were in this tight condition at the time of the downturn was important in that it limits the spread of recessionary impacts through inventory corrections.

Industrial production declined for the fourth consecutive month in March dropping 0.5% from February. This followed declines of 0.9% and 0.7% in January and February. The decline in March output was centered in nondurable consumer goods and durable goods materials.

For the remainder of 1974 production of capital equipment, combined with strength in industrial construction, will provide most of the growth impetus. This is supported by the results of the McGraw-Hill survey of business' plans for new plants and equipment for 1974. The fall survey, taken in October 1973, indicated a 14% increase in capital spending. A recheck, taken in mid-January and February, showed plans for 1974 capital spending were up more than 18%. The survey taken in March and early April indicates a solid 19% rise in 1974 business investment plans.

Although present high interest rates may be somewhat dampening on such investment, the high rates of inflation mean that it might pay to invest now rather than face the probable additional cost of such facilities later.

Residential construction will remain weak as high interest rates will continue to dampen housing starts. Inventories are likely to accumulate in the second half of 1974 if bottlenecks are resolved and particularly if the purchasing power lost by the consumer in early 1974 is not recovered.

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