DEMAND AND PRICE SITUATION

HIGHER PRICES FOR

LIVESTOCK PRODUCTS

BOOST FARM INCOME

SUBSTANIALLY IN 1969

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NOVEMBER 1969

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

Table 1.--Selected measures of economic activity

Item	Unit	1968				1969			Year 1968
		I	II	III	IV	I	II	III 1/	
Gross national product	Bil. dol.	835.3	858.7	876.4	892.5	908.7	924.8	942.8	865.7
Disposable personal income	Bil. dol.	575.0	587.4	593.4	604.3	610.2	622.0	639.0	590.0
Personal consumption expenditures	Bil. dol.	520.6	530.3	544.9	550.7	562.0	572.8	579.8	536.6
Food spending (excluding alcoholic beverages)	Bil. dol.	97.4	99.3	100.3	100.6	102.4	102.9	103.7	99.4
Implicit price deflator for GNP	1958=100	120.5	121.7	122.9	124.2	125.7	127.3	129.0	122.3
Unemployment rate 2/	Percent	3.6	3.6	3.6	3.4	3.3	3.5	3.7	3.6
Cash receipts from farm marketings	Bil. dol.	43.4	44.2	45.0	45.0	46.0	48.2	48.0	44.4
Farm production expenses	Bil. dol.	35.6	36.1	36.5	37.2	37.9	38.8	38.8	36.3
Realized net farm income	Bil. dol.	14.4	14.8	15.3	14.7	15.0	16.3	16.5	14.8
Agricultural exports 3/	Bil. dol.	1.6	1.5	1.4	1.7	.9	1.7	1.4	6.2
Agricultural imports 3/	Bil. dol.	1.2	1.3	1.3	1.2	1.0	1.4	1.2	5.0
Prices received by farmers 4/	1910-14=100	257	260	263	263	267	279	279	261
Livestock	do.	280	283	295	293	303	320	330	288
Crops	do.	230	234	226	227	225	232	219	229
Prices paid by farmers 4/ 5/	do.	348	354	355	359	366	374	374	354
Wholesale price index, all commodities 4/	1957-59=100	107.8	108.5	109.0	109.5	111.2	112.6	113.4	108.7
Consumer price index, all items 4/	do.	119.0	120.4	121.9	123.3	124.8	126.9	128.7	121.2
All food	do.	117.4	118.7	120.3	120.9	122.1	124.1	127.2	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.

THE DEMAND AND PRICE SITUATION

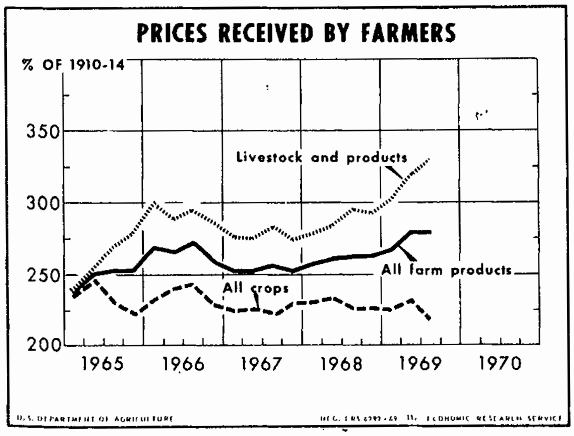
Approved by the Outlook and Situation Board, November 18, 1969

CONTENTS

SUMMARY*

Farmers are participating in the economy's advance this year. Realized net farm income is running close to $16 billion, up sharply from last year's $14.8 billion.

The livestock sector has been agriculture's source of price strength again this year. Unlike the past several years, however, market supplies of livestock and products have expanded only modestly. And with substantial gains in consumers' after-tax incomes, and inflationary pressures throughout the economy, prices received by farmers for livestock and products have averaged 11% above last year.



On the crop side, a record harvest slightly above last year's appears in the making. This and bigger carryovers for grains and soybeans have weakened average prices a little for crops. However, with the volume of crop marketings up, cash receipts to crop producers have held about steady.

A small rise over 1969 levels in the volume of livestock marketings is likely for the first half of 1970. But demand is expected to expand further. Although prices for livestock are down from summer highs, they are not expected to drift much below current levels. Thus, cash receipts to livestock producers in the first half of 1970 probably will post a small rise over year-earlier levels. The smaller 1969 wheat crop and lower prices for soybeans point to some easing in crop receipts.

With production expenses continuing to advance, realized net income in the first half of 1970 may slip below the $15.6 billion rate of January-June 1969.

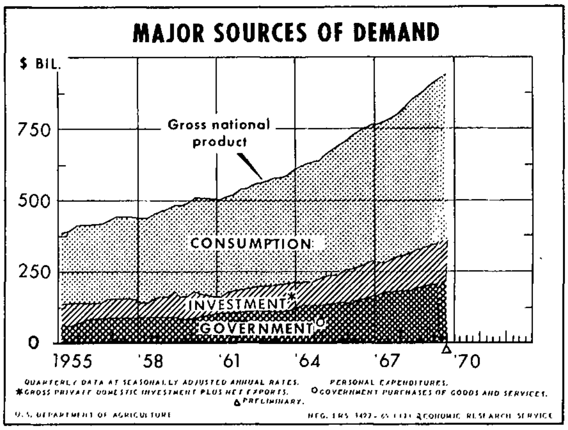
Per capita food supplies in the first half of 1970 will probably run about

*The Summary of this report was released on November 18, 1969.

the same as those of a year earlier. Larger supplies of beef, broilers, eggs, and fruits may be about offset by reduced supplies of other meats, dairy products, and vegetables. With little change in overall per capita supplies, and a continued advance in consumer income, retail prices for food will likely rise further in the first half of 1970. However, prices for farm products are expected to continue below last summer's highs. As a result, the advance in retail food prices in the first half of 1970 is expected to be smaller than in 1969.

The general economy is maintaining a lively pace despite tight monetary and fiscal policies designed to slow inflationary pressures. Demands on the economy continue to expand despite some cutback in defense orders and housing, as well as slower advances in business investment. Wages are still rising briskly and employment remains at high levels for workers in most occupations.

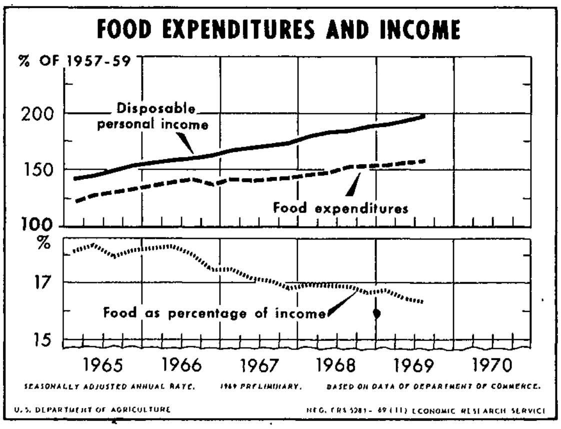
In the next 6-9 months, however, moderating trends will likely dominate economic activity. Recent surveys show that resistance by industry and consumers to higher costs and expensive credit is increasing. The rise in business investment plans is tapering, and surveys of consumer buying plans indicate some signs of caution.



Federal expenditures for goods and services may dip as budgets are trimmed in order to extend the current surplus. The announced curtailment of government defense spending would affect heavy industry, while reduction in construction plans would set back local programs.

If prices slow and interest rates moderate some, the pent-up demand for housing may arrest the downtrend in residential housing starts by late 1970. The outlook for the international trade balance has improved recently, but much depends on ability to curb inflation and improve the U.S. competitive position.

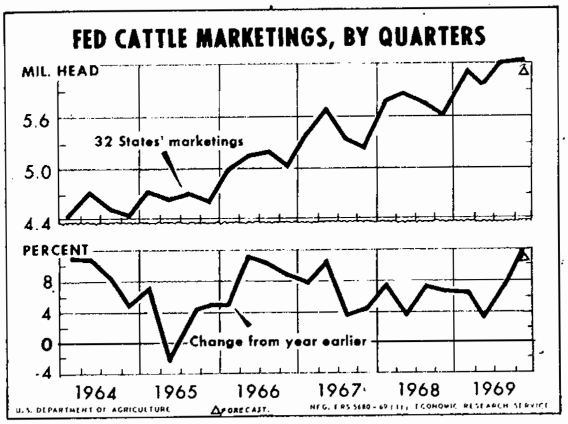
Although unemployment may rise further as general demand slackens, rising wage rates, scheduled reduction in personal income taxes, and a proposed rise in social security payments suggest a continued advance in after-tax incomes.



Spending for food through the spring of 1970 is expected to continue to rise in response to a growing population with increased buying power. Expenditure increases may reflect largely the rise in retail food prices, as consumers continue to attempt to offset rising food costs by purchasing lower priced foods. The percentage of disposable income spent for food would, however, continue to decline from the 16½% now expected for 1969.

Outlook for Major Commodities....

Fed cattle marketings are running larger and gains are expected to continue through next spring. If increases in marketings turn out as large as indicated for the next few months, fed cattle prices will likely continue near fall levels.



Hog slaughter has been up slightly so far this year, but for the next 6-9 months, slaughter supplies are expected to trail year-earlier rates, especially for the rest of 1969. Prices for hogs are currently substantially above a year earlier, and will likely continue higher until spring if production is cut back as now indicated.

Output of broilers, up substantially this year, likely will continue well above a year earlier through the first half of 1970. Prices have been running above a year earlier so far in 1969, but have eased some from summer levels.

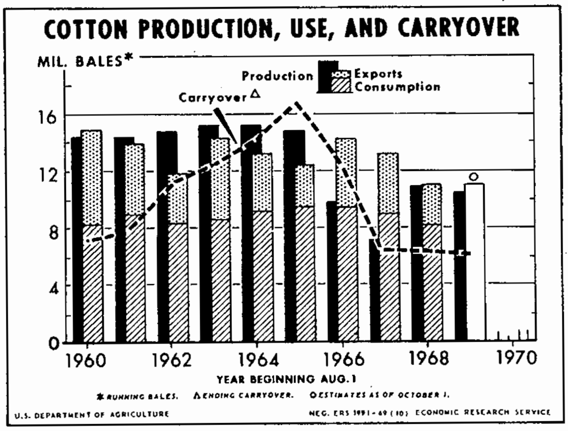
Egg production is picking up and will likely run moderately larger than a year earlier through mid-1970. Egg prices, which have been exceptionally strong, will likely average close to year-earlier levels.

Milk output edged above year-earlier rates beginning in August. If output per cow continues gaining at the third quarter pace, production will continue larger through mid-1970. Producers' prices for milk are currently 2 to 3% above year-ago levels, but may be up less in early 1970.

Feed grain supplies are currently about in balance. Domestic and export demand is expected to continue strong and may bring a moderate reduction in carryover by the end of the current season. Prices are expected to average slightly higher in 1969/70.

Despite a smaller 1969 wheat crop, substantially larger stocks are boosting total 1969/70 supplies. Increased feeding of wheat and a slight pickup in exports are expected for 1969/70, but a further rise in the carryover appears likely.

U.S. cotton stocks are expected to decline moderately in 1969/70. Sharp declines in yields are reducing the 1969 crop from last year's output; disappearance may hold near last season's low level.



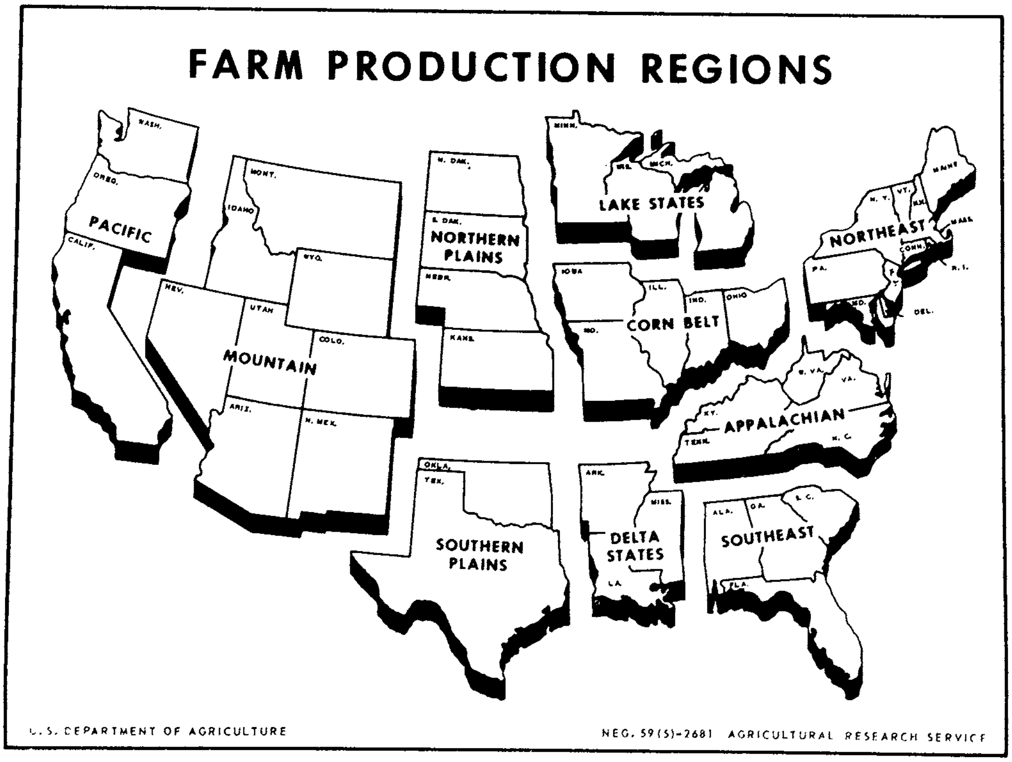
Soybean supplies are record large again in 1969/70 for the sixth consecutive year. The gain this season is due to a record crop and bigger carryin stocks. Lower prices are expected to boost domestic use and exports, and carryover may rise only moderately in 1969/70.

The 1969 tobacco crop is up but a smaller carryover is holding total supplies below a year earlier. Disappearance during 1969/70 may be near that of last year.

Fresh and processed supplies of fruits are expected to be substantially larger during 1969/70. Prices for most items probably will average below last year.

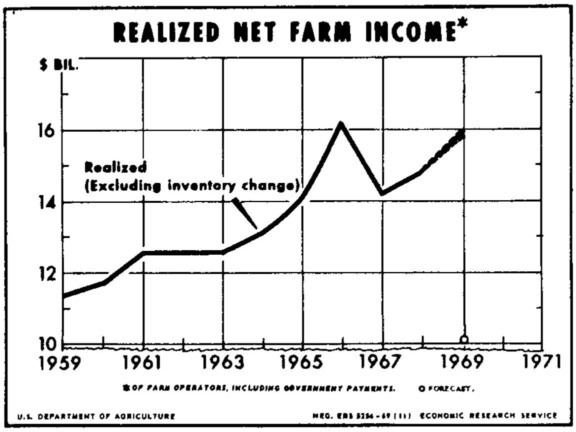
Fresh vegetables supplies this fall will likely be moderately smaller than last season and prices higher. Although the 1969 pack is expected to be much smaller, extremely large carryover stocks will help keep supplies of processed vegetables plentiful in 1969/70 but moderately below last year's record levels.

Domestic consumption of sugar is expanding slightly this year with a little more than half of the requirements coming from U.S. cane and beet output. Consumption will likely expand further next year, about in line with expected growth in population. The cyclamate ban is expected to have only a modest effect on sugar use.



AGRICULTURAL SITUATION

The agricultural situation has improved materially in 1969. Realized net farm income this year has been running close to $16 billion, up more than $1 billion from last year's pace.



Farm product prices and cash receipts, which began rising early in the year, especially for livestock products, climbed sharply in the second quarter of the year when red meat supplies dipped below year-earlier levels. Although prices have eased slightly from the June highs, current supply and demand prospects indicate that producer prices and cash receipts will likely hold near current levels this winter and next spring. However, production expenses are expected to continue to advance, and as a result, realized net income in the first half of 1970 may not match year-earlier rates.

The livestock sector has been agriculture's source of price strength again this year. Unlike the past several years, however, production of livestock and products has risen only very modestly. And with substantial gains in consumers' after-tax incomes and inflationary pressures throughout the economy, prices for livestock and products so far this year have averaged 11% higher. In the case of crops, another record harvest appears likely although gains in crop output have also been small this year. With big carryovers for grains and soybeans, prices for crops have averaged 2% lower so far in 1969.

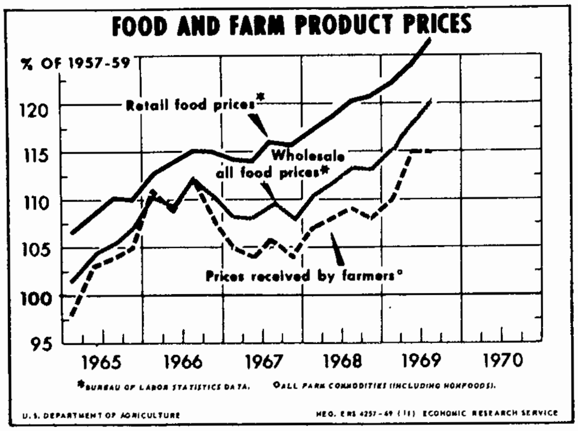
Prices for farm products are currently slightly below the June peak, but for the entire July-September quarter, they averaged 6% above a year earlier. Prices paid by farmers have also risen considerably this year; during the third quarter they were 5% above those in the same period last year.

Demand for Farm Products

In domestic markets, slightly smaller gains in disposable incomes in 1969--compared with the advances in recent years--and consumer resistance to higher prices contributed to smaller increases in outlays for food. However, a strong consumer demand for livestock products has led to increased domestic use of feed concentrates, while the consumption of other nonfood farm products has been sluggish.

Foreign markets are expected to provide some expansion in utilization of U.S. farm products during 1969/70. During January-June 1969, exports were hampered by last winter's longshoremens' strike and large world supplies of grains, cotton, and dairy products. Export gains now appear likely for grains, soybeans, fruits, and vegetables. On the domestic scene, increases in general business activity appear to be easing slightly. However, built-in wage advances, a reduction in personal income taxes, and proposed increases in social security benefits are expected to more than offset the effects on consumer incomes of an expected rise in unemployment. As a result, advances in consumers' disposable incomes through next spring will likely run somewhere near the 6% average gain for the past 12 months.

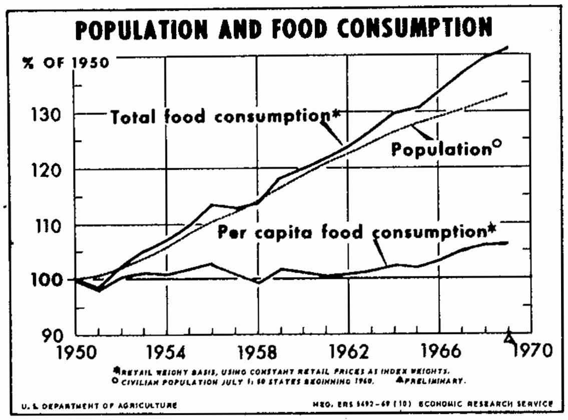
Retail expenditures for food so far this year have risen about 4%. This compares with a gain of 6% during all of 1968. The slower rise in outlays for food this year reflects consumers' efforts to switch toward less expensive foods because of substantially higher retail prices.



Per capita consumption of all food during 1969 is holding about steady, as slight increases in consumption of crop foods are about offsetting small reductions for livestock products. Because supplies have held about steady this year, the continued advance in demand and inflationary pressures have accelerated the rise in retail food prices. During the third quarter retail food prices were running nearly 6% above those of a year ago, with prices up sharply for red meats, eggs, and restaurant meals. For 1969 as a whole, retail food prices are expected to average about 5% higher, compared with a 3½% rise in 1968.

During the first half of 1970, per capita food supplies will likely change little from those of a year earlier. Larger supplies of beef, broilers, eggs, and fruits may offset declines in pork, veal, lamb, dairy products, and vegetables. Since consumer incomes are expected to continue to advance, retail prices for food will likely rise further in the first half of 1970. However, since prices received by farmers for major food commodities are averaging below last summer's highs, the advance in food prices next year is expected to be smaller than in 1969.

Spending for food through the spring of 1970 is expected to continue to advance in response to a growing population with increased buying power. However, expenditure increases may hold about in line with the rise in retail food prices. Consumers probably will continue attempts to offset rising food costs by purchasing lower priced foods. The percentage of disposable income spent for food would, however, continue to decline slightly from the 16½% now expected for 1969.



Exports

U.S. agricultural exports for July-September quarter totaled $1.4 billion, slightly below the comparable year-ago period. Contributing to the decline were smaller exports for wheat, cotton, soybeans, tobacco, and dairy products. Increases were scored for fruits and preparations, feed grains, rice, soybean meal, and animal products.

Export prospects for fiscal year 1969/70 show signs of improving moderately. Soybean exports are expected to increase substantially to a new record, feed grain shipments may continue heavy at least through the winter months, wheat exports may move up, and larger exports of fruits and vegetables are expected. Exports of tobacco and cotton, however, may run close to last year's level.

U.S. agricultural exports, value of major commodities

Commodity	July-Sept. 1968	July-Sept. 1969 1/	Percentage change 2/
	Mil. dol.	Mil. dol.	Pct.
Animals and animal products	172	178	3
Cotton	98	70	-29
Feed grains, excl. products	241	278	16
Fruits	81	101	25
Soybeans	134	118	-12
Tobacco, unmfg.	154	134	-13
Vegetables	36	37	3
Wheat and flour	222	203	-9
Rice	63	78	24
Other	224	213	-5
Total exports	1,425	1,410	-1

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

Imports

U.S. agricultural imports totaled $1.2 billion in July-September, down 7% from a year ago, due mainly to a big drop in the volume of coffee purchases.

Livestock Supplies and Prices

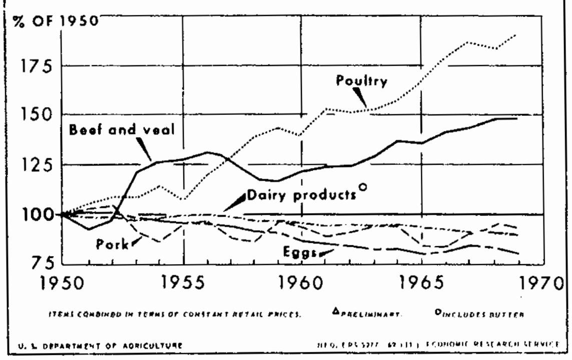
Production of livestock and products is running only slightly larger in 1969. In view of favorable livestock-feed price relationships in the past 2 years, overall gains in output appear small this year. During the first 9 months of 1969, broiler output was running 8% higher, and production of pork was up slightly. But output of milk, eggs, and lamb was down, and beef and turkey production was about unchanged from a year earlier. Since overall production is up only fractionally, per capita supplies of livestock and products are slightly smaller than a year earlier. With consumers' after-tax incomes registering substantial gains, producer prices advanced to a peak in midsummer. Prices for meat animals spurted upward during May and June when marketings dipped. Since then, prices for hogs and eggs have continued strong, while prices for cattle have dropped substantially from the early summer highs.

Continued increases in cattle on feed indicate that beef production will run slightly larger than a year earlier this fall and through next spring. However, production of pork this fall and winter is expected to lag a year earlier. Slaughter of lamb and mutton will also likely continue to trail year-earlier rates into 1970. As a result, red meat supplies through the first half of 1970 will probably run close to those of a year earlier.

Prospects for continued gains in consumer incomes indicate that average prices for meat animals will likely hold around recent levels and continue above a year earlier into spring of 1970. Prices for cattle may hold near year-earlier levels this fall and winter. Prices for hogs are expected to continue well above a year earlier through the winter, but the margin will likely narrow. Prices for slaughter lambs in the next few months will likely continue moderately above those in late 1968.

Because of favorable poultry-feed price ratios, production of poultry meat through next spring likely will continue above year-earlier levels. If gains in

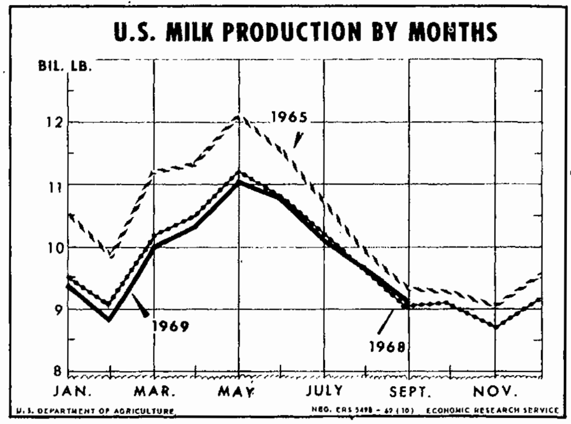
PER CAPITA CONSUMPTION OF SELECTED LIVESTOCK PRODUCTS



broiler production are as large as now indicated for this fall, prices for broilers may average lower the rest of the year despite a relatively tight red meat situation.

Egg production through next spring is expected to moderately exceed year-earlier rates. Prices for eggs have been unusually strong this year. Prices in early 1969 were running from a fourth to a third above the low levels of 1968. Although egg supplies are expected to be larger in the first half of 1970, strong demand for eggs used in liquid egg production will tend to hold average prices for eggs near year-earlier levels.

Milk production flowed ahead of a year earlier during August-October. If the uptrend in output per cow continues



at the August-October average, milk production during the rest of 1969 will exceed that of a year earlier. Moreover, milk output in the first half of 1970

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

Item	Unit	Annual			Third quarter	
		1966	1967	1968	1968	1969 1/
Production 2/						
Cattle and calves	Mil. lb.	20,636	21,011	21,610	3/5,484	3/5,515
Hogs	Mil. lb.	11,339	12,581	13,063	3/2,998	3/2,988
Sheep and lambs	Mil. lb.	650	646	602	3/149	3/130
Chickens	Mil. lb.	7,309	7,527	7,525)	3/2,543	3/2,688
Turkeys	Mil. lb.	1,685	1,883	1,615)		
Eggs	Mil. lb.	8,698	9,163	9,070	2,205	2,213
Milk	Bil. lb.	119.9	118.8	117.3	4/28.8	4/28.9
Prices received by farmers						
Cattle	Dol./cwt.	22.20	22.30	23.40	23.80	27.00
Hogs	Dol./cwt.	22.80	18.90	18.60	19.80	25.20
Lambs	Dol./cwt.	23.40	22.10	24.40	24.40	27.40
Chickens	Ct./lb.	14.7	12.7	13.6	14.2	15.8
Turkeys	Ct./lb.	23.1	19.6	20.5	20.2	21.1
Eggs	Ct./doz.	39.1	31.2	34.0	36.7	37.7
All milk (wholesale)	Dol./cwt.	4.81	5.01	5.24	5.26	5.39

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.

would equal or slightly exceed first half 1969 production rates. Because of ample feed supplies and the improved position of dairying relative to other alternatives, the decline in cow numbers may continue slowing, even though slaughter cow prices are unusually strong. Milk-feed price relationships are favorable to increased grain feeding and this could cause some further pickup in output per cow. Though milk output is expanding, prices for milk this fall are averaging 2 to 3% above those in 1968. In mid-1970 producer prices may be close to 1969 levels assuming support prices are not changed.

U.S. crop production: Index numbers of production of crops, 1968 and 1969

(1957-59=100)

Item	1968 1/	1969 2/	Percentage change 1969/68
All crops 3/	119	120	1
Feed grains	118	120	2
Hay and forage	114	113	-1
Food grains	141	130	-8
Vegetables	113	113	0
Sugar crops	162	175	8
Cotton	88	81	-8
Tobacco	99	104	5
Oil crops	188	194	3

1/ Preliminary.
2/ Indicated.
3/ Includes other products not included in the separate groups shown.

Crop Supplies and Prices

The 1969 crop harvest will be record large though only fractionally above 1968. However, because of slightly larger crops and big grain and soybean carryovers, supplies of crops are generally more plentiful than a year earlier. Despite larger supplies, prices for the major supported crops are expected to be well maintained through the current marketing season by the loan programs. Prices near loan levels, a slightly improved outlook for exports, and prospects for some further expansion in the domestic economy suggest that the use of major crops will increase slightly during 1969/70.

The supply-demand situation for feed grains appears to be about in balance going into the 1969/70 marketing season. Although supplies are slightly larger than a year ago, total use is expected to expand enough this season to draw down stocks slightly by next October. Both domestic and export markets will likely share in the overall expansion. Prospects for continued strong demand suggest that prices for feed grains will be a little higher during 1969/70.

The 1969 wheat crop is smaller, but substantially larger carryover stocks have boosted total supplies above those of last season. Although domestic and export use of wheat may rise slightly this year, some further buildup in carryover now appears likely by next summer. Wheat prices have recovered slightly from the harvest lows with the recent upsurge in price support loan activity. For the year, prices are expected to average around the $1.25 per bushel loan rate.

Record soybean supplies this year are due to a record crop and growing carryover stocks. Despite prospects for a healthy expansion in domestic and foreign use this season, carryover will probably increase only slightly this sea-

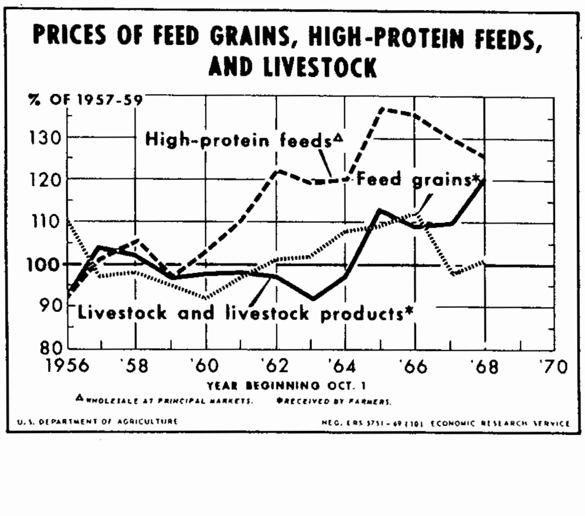


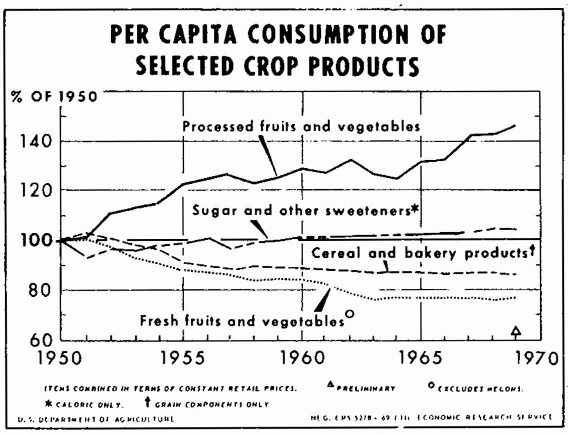
Table 3.-- Supply-distribution and season average prices of selected major crops, 1966/67, 1967/68, 1968/69, and 1969/70

	Unit	Beginning stocks	Imports	Production	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	148.1	18.4	166.5	50.2	2/1.06
1969/70 e.	Mil. tons	50.2	.3	3/170.6	221.1	154.4	19.7	174.1	47.0	2/1.10
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	1.1	1,570.4	2,111.9	749.1	544.1	1,293.2	817.7	1.24
1969/70 e.	Mil. bu.	817.7	1.0	3/1,456.3	2.275.0	805	550-600	1,355-1,405	870-920	1.25
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	5/39.7	56.2	95.9	16.2	4.89
1969/70 e.	Mil. cwt.	16.2	4/	3/90.2	106.4	---	---	---	---	---
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	656.3	286.8	6/943.0	321.9	2.42
1969/70 e.	Mil. bu.	321.9	0	3/1,094.5	1,416.4	720	335	1,055	361	2.25
Cotton 7/										
1966/67	Mil. bales	16.9	.1	9.8	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	11.0	17.5	8.2	2.7	11.0	6.5	22.10
1969/70 e.	Mil. bales	6.5	.1	3/10.0	16.6	8.2	2.7	11.0	5.6	---

1/ Dollars per bushel, except cotton which is cents per pound. 2/ Price for corn. 3/ Estimated as of November 1, 1969. 4/ Less than 50,000 cwt. 5/ Includes the following statistical discrepancies: 1966/67, 1.3, 1967/68, 0.6, and 1968/69, 4.0 mil. cwt. 6/ Reported disposition exceeds computed disposition by 19 million bushels. 7/ 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.

son, carryover will probably increase only slightly this season. Prices for soybeans are expected to average near the $2.25 per bushel support rate.

Supplies of fresh and processed fruits are expected to be substantially larger during 1969/70. Citrus supplies in the season ahead are likely to be moderately larger than last year's big supply, particularly if juice yields are up from last year's reduced levels. In addition, production of deciduous fruits is estimated considerably larger than last year, with a sharp gain in apple output leading the way. As a result, prices for fruit will likely trail last season's levels in both fresh and processed markets.



Processed vegetable supplies during 1969/70 are expected to be ample but moderately below the record levels of last season. Moreover, indicated supplies of fresh vegetables this fall are also smaller than those of last year. As a result, prices for most important fresh items are generally higher and will likely continue above a year earlier through the fall. Potato supplies, however, are moderately larger. Although the fall crop is estimated larger than last year, output is expected to be down in some major producing areas. Current indicators suggest, however, that prices will average below last year's levels.

The 1969 domestic sugar crop is slightly larger than a year ago. A bigger beet crop has more than offset a reduction in sugar cane output. Domestic consumption of sugar this year is expanding slightly with a little more than half of the requirements coming from U.S. grown cane and beet output. Consumption of sugar is expected to increase further next year, about in line with population growth. The recent government ban on cyclamates (an artificial sweetener) is expected to have only a small effect on consumption of sugar.

Among the nonfood crops, sharp declines in cotton yields have lowered prospective cotton production for 1969 below last season's crop. Current indications suggest that total use during 1969/70 will hold close to last season's low level but exceed this year's crop. Thus, carryover next August will probably drop moderately.

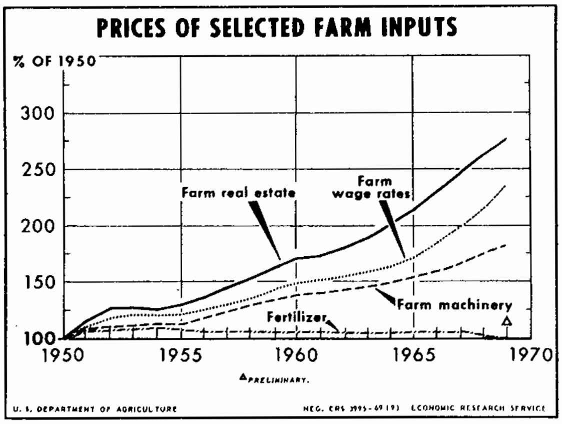
Despite a larger tobacco crop this year, a smaller carryover is reducing slightly the 1969/70 tobacco supply. Supplies are down for the fifth year in a row, but still ample to meet expected demand.

Farm Income

Incomes to farmers have risen substantially in 1969. For the year as a whole, it now appears that cash receipts from farm marketings will total slightly more than $3 billion over the $44.4 billion in 1968. Most of the gain in market receipts this year has been to producers of livestock and products, although receipts to crop producers are expected to be about the same as in 1968. With total cash receipts up sharply and direct government payments also expected to rise, realized gross farm income in 1969 may total close to $54½ billion compared with last year's $51.1 billion.

Inflationary pressures operating throughout the economy this year have boosted more than usual prices paid by farmers for nonfarm items used in production. Moreover, higher prices for farm products have also contributed to increased costs to farmers, because roughly one-third of all farm production expenses--feeder livestock, feed, and seed--originate on farms. Despite higher costs, the volume of purchased inputs has also been running higher for a number of major production items. For the year as a whole, farm production outlays are expected to rise somewhere around $2\frac{1}{4}$ billion over last year's $36.3 billion. Such an increase, with gross farm incomes up nearly $3\frac{1}{2}$ billion, would result in realized net farm income for the year at close to $16 billion, compared with last year's $14.8 billion.

Market receipts to farmers in the first half of 1970 will likely ease some from the high levels late this year, but net incomes may total near the first half of 1969. The volume of livestock marketings may rise only slightly due primarily to larger fed cattle and broiler marketings. But with prospects for continued demand expansion, prices for livestock and products are not expected to ease much below current levels. As a result, market receipts for livestock products are expected to post a small rise over the first half of 1969. But cash receipts from crop marketings may ease slightly lower primarily because of reduced market receipts for soybeans and wheat.



Production expenses are certain to advance again in 1970. Hopefully, fiscal and monetary measures now in effect will reduce some of the inflationary price pressures operating in the economy. However, any moderation in advances in prices paid and in production outlays will likely be small. Thus, cost-price pressures in agriculture may tighten in the first half of 1970 and realized net farm income may not match the $15.6 billion rate in January-June 1969.

Farm Costs

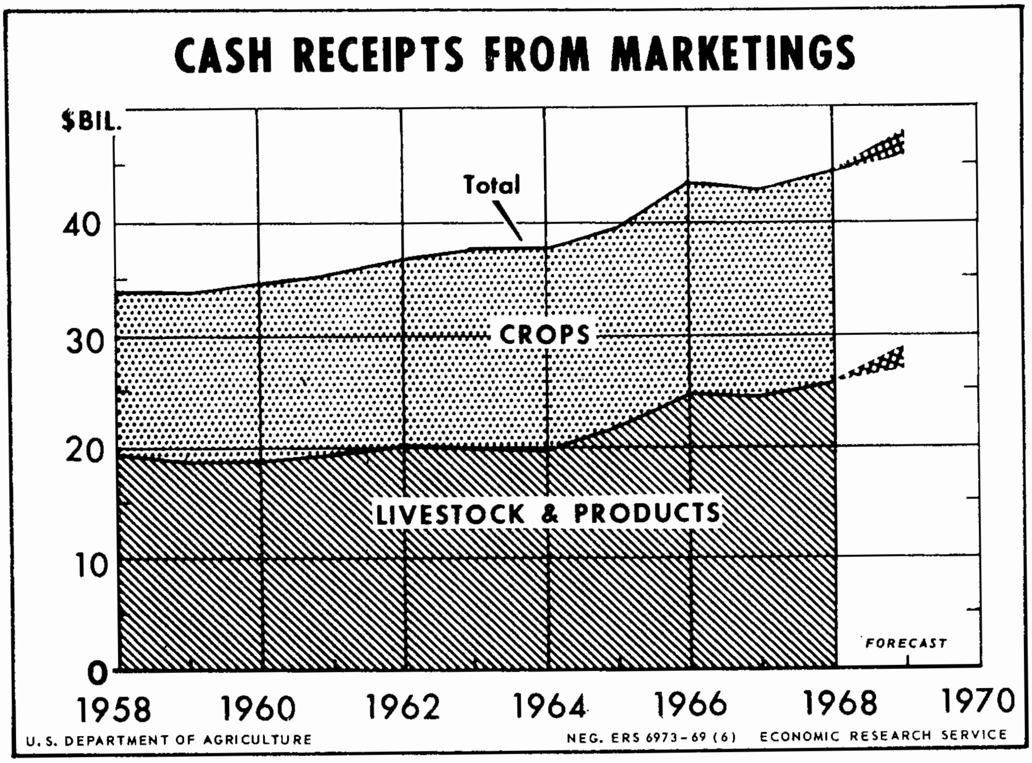
Prices advanced for all major inputs this year except fertilizer. Largest increases were recorded in farm wage rates and prices paid for feeder livestock and building materials.

Farm wage rates continued to advance in the third quarter. The composite farm wage rate edged up to $1.37 per hour, nearly 8% above the same period of last year. The largest gains were registered in New England and the Central States.

Fertilizer utilization on a plant nutrient basis increased by only 1% in the year ended June 30, 1969. A slight reduction in crop acreage harvested and poor weather in some regions last spring, contributed to the smaller rise in consumption. With prices for fertilizer declining, prospects for 1969/70 point to some improvement in fertilizer use despite an expected reduction in total acreage for 1970 crops.

Sales of farm tractors continued sluggish this fall after showing some strength in May and June. The Farm and Industrial Equipment Institute indicates that during January-September 1969 the volume of tractor sales dipped 5% below the same period of 1968. A sales breakdown reveals that the demand for smaller tractors is running about steady with most of the decline coming in the larger units.

Sales of other farm machinery through September continued to trail the same period last year. Partially offsetting were increases in the demand for mowers, forage harvesters, and other hay and forage equipment. Key factors in the sales declines were moderately depressed markets for combines and corn pickers.



ANNUAL OUTLOOK CONFERENCE SCHEDULED FOR FEBRUARY 1970

The National Agricultural Outlook Conference is scheduled for February 16 to 18, 1970. The Conference will give emphasis to the general domestic and international economic situation with time also devoted to the Commodity Sessions.

Table 4.--General economic activity

(Seasonally adjusted annual rates)

Item	1968 IV	1969 I	1969 II	1969 III 1/	Year 1967	Year 1968
	Billion dollars					
Gross national product	892.5	908.7	924.8	942.8	793.5	865.7
Gross national product (1958 prices)	718.5	723.1	726.7	730.6	674.6	707.6
Disposable personal income	604.3	610.2	622.0	639.0	546.5	590.0
Personal consumption expenditures	550.7	562.0	572.8	579.8	492.3	536.6
Durable	86.3	88.4	90.6	89.8	73.0	83.3
Nondurable	234.3	238.6	242.1	245.1	215.1	230.6
Services	230.1	235.0	240.1	244.9	204.2	222.8
Personal savings	38.0	32.5	33.3	43.1	40.4	38.4
Net Government receipts	205.7	217.8	223.9	---	165.6	193.6
Government purchases	206.7	210.0	212.9	217.0	180.1	200.3
Federal	101.9	101.6	100.6	103.2	90.7	99.5
State and local	104.8	108.5	112.3	113.8	89.3	100.7
Deficit or surplus (on income and product accounts)	-.9	7.8	10.9	---	-14.5	-6.7
Gross private domestic investment	133.9	135.2	137.4	143.3	116.0	126.3
Fixed investment	123.4	128.6	130.5	132.5	108.6	119.0
Residential	31.9	33.3	32.7	31.1	25.0	30.2
Nonresidential	91.5	95.3	97.8	101.1	83.7	88.8
Change in business inventories	10.5	6.6	6.9	10.7	7.4	7.3
Gross retained earnings	98.2	98.2	98.5	---	93.3	96.7
Excess of investment	-35.7	-37.0	-38.5	---	-22.7	-29.6
Net exports of goods and services	1.2	1.5	1.6	2.7	5.2	2.5
Per capita disposable personal income (1958 dollars)	2,485	2,482	2,494	2,526	2,399	2,474
Total civilian employment (million) 2/	76.4	77.6	77.5	78.1	74.4	75.9

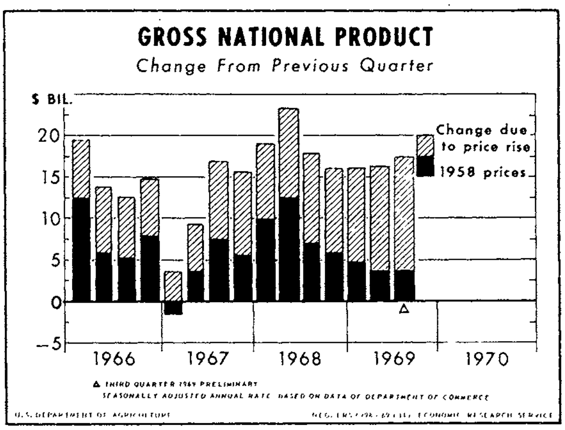
1/ Preliminary.

2/ U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The economy is maintaining a lively pace despite tight monetary and fiscal policies designed to slow accelerating prices. Demands on the economy continue to expand although some cutbacks are occurring in defense spending and housing, and business investment outlays are increasing more slowly. Wages are still rising briskly and employment remains at high levels in most occupations. Although labor stoppages threaten. Many merchants expect improvement in retail sales during the holidays in contrast to last year's disappointing season attributed to heavy snows and the Hong Kong flu.



Some signs of moderation, however, are appearing. The advance in personal incomes slowed in September and October. And the unemployment rate rose in September to its highest level in 2 years. Moreover, industrial production has edged downward for the past 3 months, although in October it was still nearly 4½% above a year earlier. Durable goods orders have been rising, but sales in most other industries have been sluggish.

Consumer purchases and government expenditures were primarily responsible for third quarter expansion in the gross national product. Business fixed investment also rose and inventories built up. Net exports increased slightly. Outlays for new homes declined reflecting considerably higher construction costs and scarce mortgage money. However, the gain in final product sales (excluding inventories) slowed only slightly from the second quarter advance.

GNP and final sales, change from previous quarter

Year		GNP	Final sales	Inventory change 1/
			Bil. dol.	
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	16.1	15.8	.3
	III 2/	18.0	14.1	3.8

1/ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the third quarter of 1969 ($10.7 billion) less the change in the second quarter of 1969 ($6.9 billion) equals plus $3.8 billion.
2/ Preliminary.

Looking Ahead

Moderating trends, already appearing, will likely dominate economic activity during the remainder of the year and the first half of 1970. Recent surveys show that consumer resistance to higher price tags is increasing. The announced cutback in government defense and construction expenditures will seriously affect heavy industries. Prospects for corporate profits will further dampen as business costs grow and credit remains scarce and expensive.

A stronger second half is expected in 1970 if monetary conditions ease and price rises slow, especially in housing, foreign trade, and construction. Industry is planning substantial outlays for new plant and equipment on the basis of the long-term outlook, and should expand even further if profits improve in the latter part of the year. For the year as a whole, GNP should increase 6-6½% over 1969, although growth for real GNP may dip as low as 1½-2%.

Maintenance of after-tax incomes should offset some of this slower growth next year. Although unemployment will probably rise, proposed increases in social security payments in April, a scheduled income tax reduction in January, and rising wage rates should produce some pickup in retail sales.

Government Expenditures and Receipts

Federal Government expenditures increased in the third quarter, and tax receipts declined slightly; but a substantial surplus was still maintained for the third straight quarter. Prospects are good for a continued surplus in the fourth quarter as programs and payrolls are critically examined for possible cutbacks by the Administration and Congress.

Reductions in defense expenditures from their present $80 billion level is anticipated in 1970. However, on the revenue side, a slower business expansion and reduced corporate and personal income tax rates will limit prospects for additional surpluses. The composition of the tax reform bill now under consideration by Congress will also have some impact.

State and local governments may also experience further difficulty in raising revenues and limiting expenditures in the near future. Nevertheless, third quarter expenditures by these jurisdictions proved to rise less than in recent quarters. Smaller payrolls and construction outlays accounted for most of the slowdown. Greater difficulty in financing new bonds has caused delay of many projects. Still, State and local government purchases of goods and services continue, as has been the case since 1968, to exceed those of the Federal Government.

Federal receipts and expenditures, national income basis 1/

Item	1968	1969	
	Second half	First half	Third quarter 2/
RECEIPTS	184.4	200.2	200.9
Personal tax	85.6	95.4	95.0
Corporate profit tax	39.1	40.4	39.4
Indirect business tax	18.4	18.6	19.1
Social insurance	41.3	46.0	47.5
EXPENDITURES	185.8	188.9	193.6
Goods and services	101.4	101.1	103.2
Transfer payments	49.4	51.4	52.7
Grants to State and local governments	18.7	19.2	19.8
Net interest paid	12.0	12.7	13.1
Subsidies less surplus	4.5	4.5	4.6
SURPLUS OR DEFICIT	-1.4	11.3	7.3

1/ Calendar years in billions of dollars, seasonally adjusted annual rates. 2/ Preliminary.

Investment Demand

Gross private fixed investment rose further in the third quarter, but less than the second quarter rise. Expenditures for nonresidential construction provided a large portion of the expansion, but the increase in outlays for producers' durable equipment was the smallest it has been this year. Housing expenditures registered their second straight quarterly decline. Although housing starts rose modestly in September after declining in each of the previous 6 months, they dropped sharply in October and will probably decline further in coming months.

The gains recorded in the third quarter for business investment in new plant and equipment represented the fifth consecutive quarterly increase. Although a slower fourth quarter is suggested by the July OBE-SEC survey of business intentions, the increase in new plant and equipment expenditures for all of 1969 may average about 10% over those for 1968. A number of more recent private surveys indicate that investment for new plant and equipment will be strong throughout 1970 despite the expected elimination of the 7% investment tax credit and an expected slowing in the overall demand. But, for the year as a whole outlays for plant and equipment are expected to trail the 1969 pace.

Consumer Demand

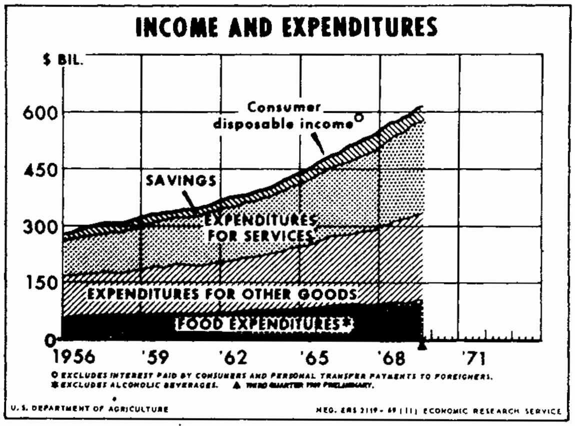
Gains in consumer spending slowed in the third quarter, failing to maintain the first-half rate of advance. This moderation occurred despite an exceptionally large increase in disposable income. Apparently, showing greater resistance to higher prices and expensive credit, consumers chose to save a larger portion of their after-tax income.

Major GNP components, change from previous quarter

Item	1969 I qtr.	1969 II qtr.	1969 III qtr. 1/
	Bil. dol.		
Total change in GNP	16.2	16.1	18.0
Consumption	11.3	10.8	7.0
Private nonresidential fixed investment	3.8	2.5	3.3
Housing	1.4	-.6	-1.3
Inventory 2/	-3.9	.3	3.8
Net exports	.3	.1	1.1
Government	3.3	2.9	4.1

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

Consumer outlays for durable goods declined during July-September for the first time in 2 years. Increased expenditures for food and beverages were among the nondurable items showing gains. Spending on services continued its upward trend. But a reduction in spending for furniture and household equipment more than offset increased purchases of automobiles, and was responsible for the durable goods decline. Sales of new cars were helped by an earlier than usual model change.



Income and Employment

Rising average hourly earnings and expanding employment contributed to a substantial advance in personal income during the third quarter. However, a considerably slower increase in personal income in September and October reflects the recent rise in unemployment. Gains in nonagricultural employment failed to be large enough to support additions to the labor force, while agricultural employment showed a substantial decline.

The unemployment rate (unemployment as a percent of the civilian labor force) spurted to 4% in September then slipped slightly to 3.9% in October. These unemployment rates, accompanied by declines in average work week and overtime in October, were the largest in 2 years. This development has caused many to believe that fiscal and monetary restraints are beginning to slow real growth. Further rises in unemployment are expected to accompany the fight against inflation despite labor hoarding and continued smaller increases in productivity.

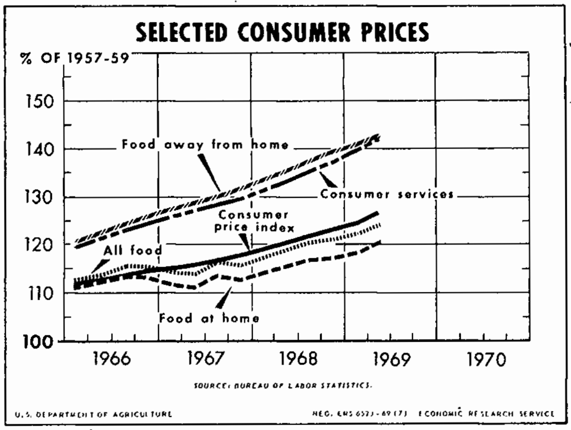
Major personal income components, change from previous quarter

Item	1969 I qtr.	1969 II qtr.	1969 III qtr. 1/
	Bil. dol.		
Personal income	13.2	16.1	16.0
Wages and salaries	11.2	11.0	12.6
Manufacturing	2.6	3.3	3.3
Nonmanufacturing	6.9	6.2	5.1
Government	1.6	1.6	4.2
Other income	2.0	4.2	2.9
Transfer payments	2.0	1.3	1.2
Social insurance payments (minus)	2.1	.5	.7
Personal tax payments	7.2	4.3	-1.1
Disposable personal income	5.9	11.8	17.0
Personal outlays	11.5	11.1	7.2
Personal savings	-5.5	.8	9.8

1/ Preliminary.

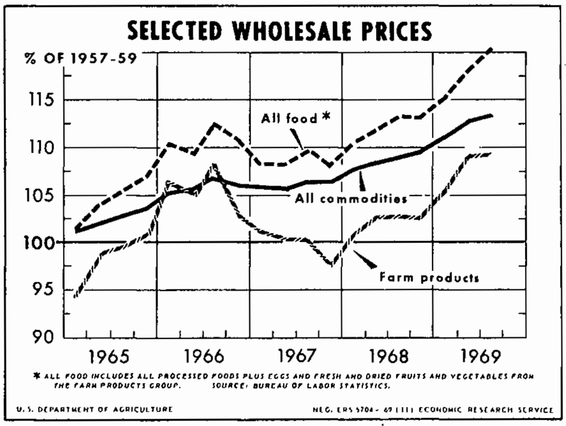
Prices

Price advances are not abating as hoped, despite some slowing in demand expansion. On the contrary, the general price level as measured by the gross national product deflator heated up in the third quarter, rising at a 5½% annual rate. The increase was somewhat more than the 5% annual rate in the second quarter, and more than the 4% rise from 1967 to 1968. However, the third quarter



price rise was somewhat exagerrated by the Government pay raise.

Although the rise in wholesale prices throughout the quarter was relatively moderate, retail prices surged forward at a fairly rapid rate. The Consumer Price Index rose 0.5% in September to a level more than 5¼% above a year ago. Major contributors to the rise were significant boosts in housing costs and prices for clothing, food away from home, and medical care.



Wholesale prices rose moderately in October. Declines in prices of farm products were more than offset by a large rise in industrial commodity prices. Wholesale prices in October were about 4.4% over a year ago.

Monetary Situation

Increasing restraint remains the order of the day as monetary authorities seek to dampen demand expansion and accelerating prices. Most monetary aggregates either remained unchanged from June to September or declined. Federal Reserve credit and member bank reserves, for example, declined considerably from their first-half positions.

There was practically no change in the money supply from June through September. The money stock has been

about unchanged in the past 3 months, compared with a 4.4% annual rate growth in the first half of this year, and a 7% increase in 1968. Demand deposits declined at about a 1% annual rate from June through September. This is in sharp contrast with a 7% increase in 1968 and a 3.7% rise (annual rate) in the first half of 1969.

Strong demand for loanable funds has driven up both short-term and long-term interest rates. Banks, limited earlier in the year by higher Federal Reserve discount rates, higher reserve requirements, and restrictions on use of Eurodollars, are unable to satisfy total business requirements. Many corporations are turning more and more to commercial paper for their credit needs.

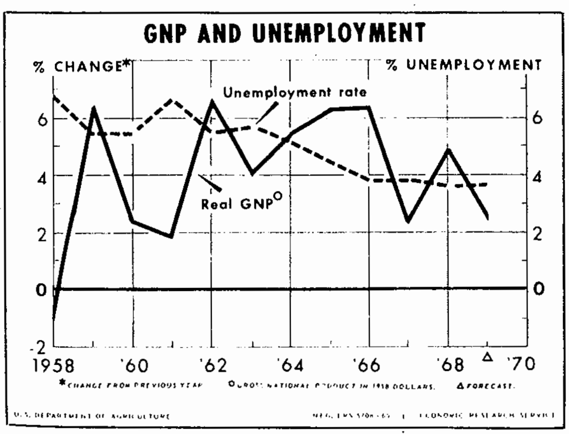
Foreign Trade

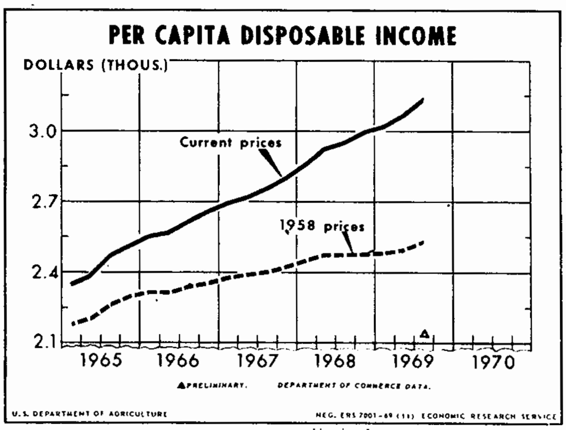
The preliminary estimate of net exports (exports minus imports) of goods and services in the third quarter shows an increase over the amount registered in each of the preceding three quarters. However, the $2.7 billion balance is far below 1966, 1967, and most years following World War II.

The merchandise trade balance rose to a surplus of $340 million in the third quarter. This improvement has given hope that 1969's net will exceed 1968's very small balance. Last year, the foreign trade surplus fell below $1 billion after being between $4 and $5 billion for several years.

The U.S. balance of payments on the liquidity basis continued in deficit in the third quarter. However, at $2.53 billion, seasonally adjusted, the deficit was an improvement over the large $3.85 billion deficit in the second quarter. A slowdown in the inflow of foreign capital to our stock markets, the increased outflow of U.S. private direct investment overseas, and attractive Eurodollars profits have been the principal reasons for the deficits this year.

The big news in monetary-trade circles in October was West Germany's 9.3% rise in value for the mark. This action was designed to reduce Germany's trade surplus with the rest of the world, to discourage currency speculation, and to slow the inflow of foreign capital. The German action followed a 11% devaluation of the franc this summer. Unlike the French monetary move, the Bonn government first allowed the mark to "float" to a market level. Then, after their national election, revaluation followed with the formal approval of the International Monetary Fund.





LIST OF TABLES

The next issue of the Demand and Price Situation is scheduled to be available February 1970.

The summary is scheduled to be released to the press immediately after the Outlook and Situation Board meeting February 1970.

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