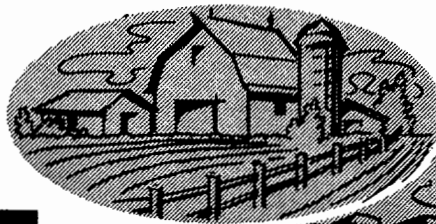


DEMAND AND PRICE SITUATION



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GENERAL ECONOMIC SITUATION

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Selected measures of economic activity

Item	Unit	1967			1968			Year	Year
		I	II	III	I	II	III ^{1/}	1966	1967
Gross national product.....	Bil. dol.	772.2	780.2	795.3	831.2	852.9	871.0	747.6	789.7
Disposable personal income.....	Bil. dol.	534.2	541.5	550.0	574.4	586.3	592.7	511.6	546.3
Personal consumption expenditures.....	Bil. dol.	480.9	490.3	495.5	519.4	527.9	541.1	465.5	492.2
Food spending (excluding alcoholic beverages).....	Bil. dol.	94.4	94.4	94.7	98.6	101.0	102.2	92.7	94.9
Implicit price deflator for GNP.....	1958=100	116.0	116.6	117.7	120.0	121.2	122.3	113.8	117.3
Unemployment rate ^{2/}	Percent	3.7	3.8	3.9	3.6	3.6	3.6	3.8	3.8
Cash receipts from farm marketings.....	Bil. dol.	42.5	43.0	43.0	43.2	44.0	44.9	43.2	42.8
Farm production expenses.....	Bil. dol.	34.4	34.9	35.0	35.4	35.9	36.2	33.4	34.8
Realized net farm income.....	Bil. dol.	14.5	14.4	14.2	14.4	14.8	15.4	16.2	14.2
Agricultural exports ^{3/}	Bil. dol.	1.6	1.6	1.4	1.6	1.5	1.4	6.9	6.4
Agricultural imports ^{3/}	Bil. dol.	1.2	1.1	1.1	1.2	1.3	1.3	4.5	4.5
Prices received by farmers ^{4/}	1910-14=100:	253	251	255	256	259	263	267	253
Livestock.....	do.	277	275	284	280	283	295	292	277
Crops.....	do.	223	224	220	229	232	226	237	224
Prices paid by farmers ^{4/} ^{5/}	do.	339	341	343	350	354	355	334	342
Wholesale price index, all com- modities ^{4/}	1957-59=100:	106.0	105.8	106.3	107.8	108.5	109.0	105.9	106.1
Consumer price index, all items ^{4/}	do.	114.8	115.6	116.8	119.0	120.4	121.9	113.1	116.3
All food.....	do.	114.4	114.2	116.2	117.4	118.7	120.3	114.2	115.2

- ^{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 22, 1968

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SUMMARY *

The agricultural outlook through the first half of 1969 points to larger supplies of livestock products and crops. These supplies plus continued but perhaps slower growth in consumer demand are expected to put farm product prices under some pressure. However, the volume of marketings will be up, particularly for cotton and oilseeds. As a result, total cash receipts to producers likely will run slightly above levels of the first half of 1968.

Farm incomes in 1968 have improved. Realized net farm income is turning out near \$15 billion, up more than 5% from last year. This brings realized income per farm up to around \$4,900, sharply above last year's \$4,526 per farm.

A record volume of crop and livestock marketings this year, plus higher prices because of sharp advances in consumer demand, are boosting cash receipts in 1968. They may total about \$1½ billion over last year's \$42.8 billion. With help from direct Government payments and slightly increased nonmoney income, realized gross farm income for 1968 could total around \$51 billion, compared with \$49.1 billion last year. Rising production costs are offsetting much of this gain.

The general economy made record advances in the first 3 quarters of 1968. Personal incomes continued climbing as wages rose and employment levels stayed high. Consumer after-tax incomes rose more slowly in the third quarter due to the 10% surcharge on income taxes.

The gross national product in 1968 may total nearly 9% above 1967. Real growth rose 5%. Disposable personal income will probably be up around 7½% from 1967.

A number of recent developments and prospects for coming months point to some slackening of demand expansion. Federal spending will probably advance more slowly in coming months. Moreover, the step-up in Federal revenue has materially reduced the Federal deficit and has had some dampening effect on the rise in the economy. Gross private domestic investment is not expected to change much in the next several months. At current levels of industrial activity, plants are operating below preferred rates. The inventory accumulation which took place in the second

*The Summary of this report, along with a table on selected measures of economic activity, was released on November 22, 1968.

and third quarters may take time to absorb. A slower rise in economic activity and in after-tax incomes will probably slow advances in consumer spending for food and other goods.

The demand for food has been expanding at near-record rates in 1968 as consumer incomes progressively reached new peaks. So far this year, total food expenditures have averaged 6 $\frac{1}{2}$ % above those of a year earlier. For the year as a whole, food spending (excluding alcoholic beverages) is expected to total around \$101 billion.

Demand for food in 1969 is expected to expand at a slower pace, moderating the rise in food expenditures. Larger supplies of beef, pork, chicken, citrus fruit, and processed vegetables are virtually assured for coming months. If these increases occur, food prices at grocery stores are expected to hold fairly stable in the first half of 1969. Prices for food eaten away from home are expected to continue to rise. In total, retail prices for food may undergo some small increase between now and mid-1969.

Feed and other nonfood uses of farm products are also expected to increase in the 1968/69 marketing year. However, with increased domestic use of major crops and the possibility for slightly smaller exports, total utilization is not expected to exceed the large 1968 crops. As a result, some further buildup in stocks is indicated, mainly in wheat and soybeans.

Looking at the major farm commodities...

...Increased fed cattle marketings are boosting beef output again in 1968. But strong demand and lighter weights are holding up producer prices. Fed cattle marketings during July-September ran 7% above a year earlier; gains are expected to be as large into next spring. Prices may be under some downward pressure.

...Hog slaughter so far this year is running above year-earlier levels and prices since May have averaged a shade

below to about the same as a year ago. Farrowing intentions are up and price relationships are favorable to further increases in hog production in 1969.

...Broiler slaughter this year is running about the same as a year earlier. However, output is currently picking up and will be larger next year. Prices are above a year ago, reflecting less turkey and strong demand.

...Egg output has been dropping below a year earlier since May. Prices have increased and will probably stay above a year earlier through the first half of 1969.

...Turkey production is down 16% this year, and supplies will probably continue reduced through mid-1969. Prices in coming months likely will continue relatively strong.

...Less milk is being produced this year, but the decline as compared to a year ago is narrowing. Milk prices are expected to average about 5% above year-earlier levels through next March. After that, they probably will continue around year-earlier levels unless there is a change under the programs.

...Another record wheat crop and a larger carryover is resulting in bigger supplies for 1968/69. Prices have strengthened from relatively low levels at harvest; for the 1968/69 season they may average close to the loan rate.

...Feed grain supply is up in 1968/69. Larger carryover is accounting for the increase. Favorable livestock-feed price ratios may encourage a pickup in feed use this season.

...Larger stocks and increased output are boosting soybean supplies to a new high in 1968/69. Although combined domestic use and exports may increase a little, a further buildup in carryover stocks is expected during 1968/69.

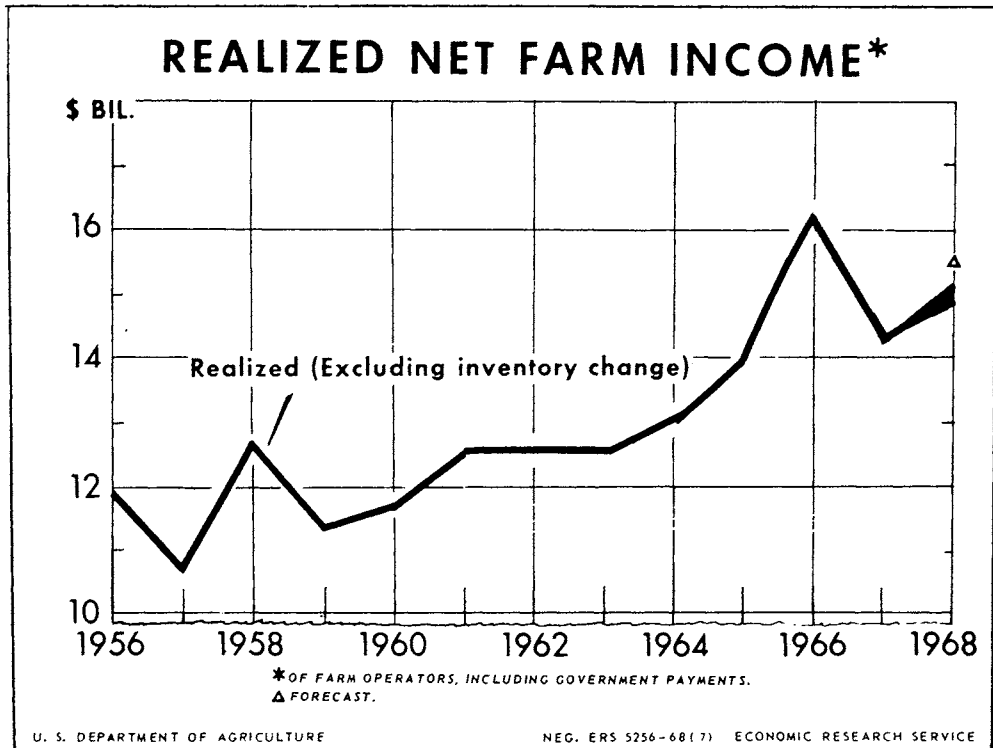
...Cotton production is estimated 46% larger this year than last, but still

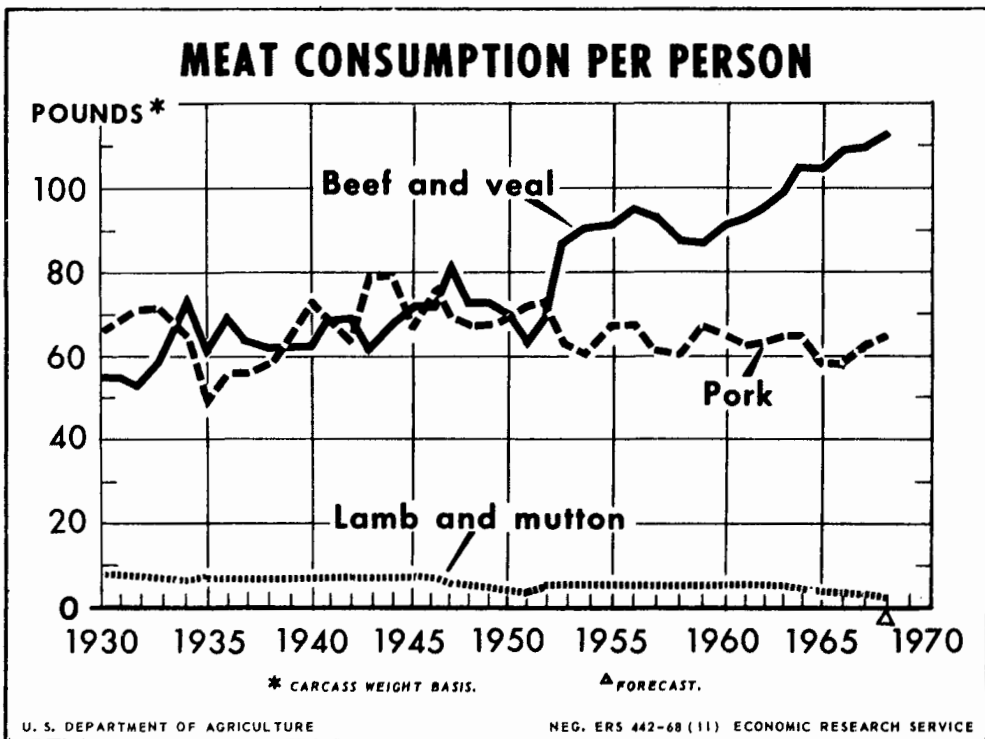
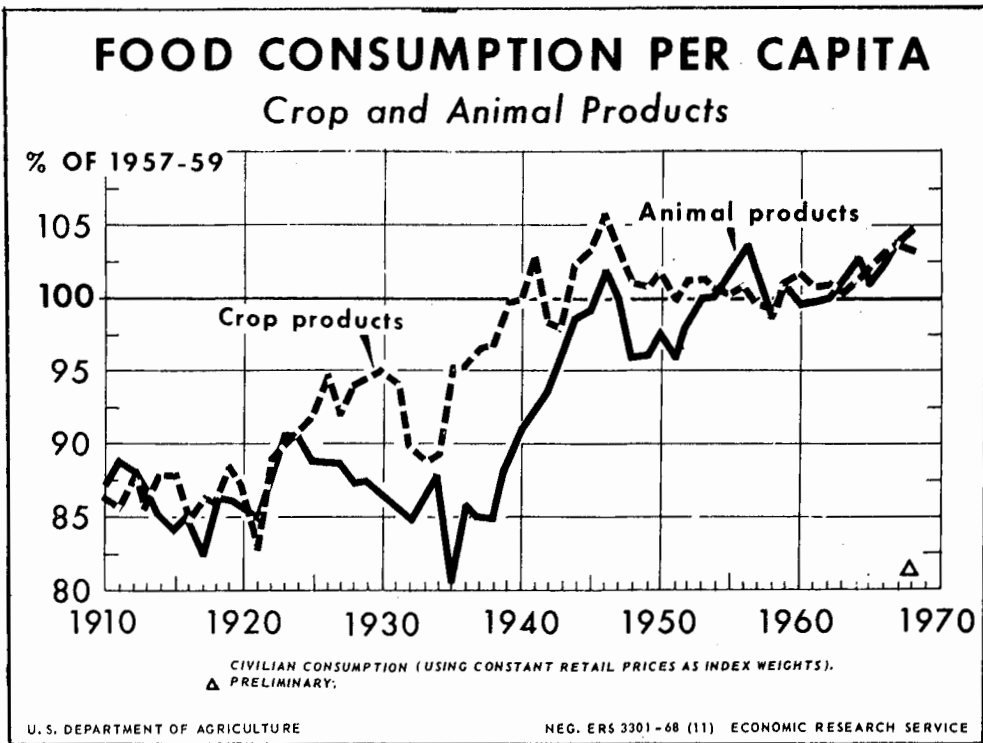
small. Total use is expected to work down stocks further by the end of season.

...Fresh and processed fruit supplies in 1968/69 are expected to be substantially above those of last year. Prices are expected to average lower.

...Fresh vegetable supplies this fall are about the same as last year. But production of vegetables for processing is a fifth larger and a record.

...A smaller tobacco crop and a drop in carryover are resulting in reduced supplies for 1968/69.





AGRICULTURAL SITUATION

Farm prices and incomes have improved in 1968. Even though farm output is running record large again this year, sharp advances in consumer demand are contributing to higher farm prices and incomes. In addition, price bolstering in early 1968 came from reduced 1967 crops of cotton, fruit, and fresh vegetables, while higher support and Federal order Class I prices for milk have

strengthened prices since April. During the third quarter of 1968, farm product prices averaged 3% above year-earlier levels (see below). Crop prices were up about the same, despite lower grain and soybean prices. In the livestock sector, prices were up slightly more than for crops, with poultry and egg prices showing the sharpest rise. Evidence of strong demand is shown particularly by higher meat animal prices, despite beef and pork production increases of 7 and 4%, respectively, over a year earlier.

Prices received and paid by farmers,
third quarters 1967 and 1968

(1910-14=100)			
Index	: 3rd : qtr.: : 1967:	: 3rd : qtr.: : 1968:	: Per- : centage : change : 1968/67
<u>Prices received</u>			
All farm products.....	255	263	3
Livestock & products..	284	295	4
Meat animals.....	351	356	1
Dairy.....	302	317	5
Poultry & eggs.....	131	150	15
Wool.....	225	228	1
All crops.....	220	226	3
Food grains.....	168	150	-11
Feed grains & hay..	171	152	-11
Cotton.....	181	204	13
Tobacco.....	552	572	4
Oil-bearing crops..	270	263	-3
Fruit.....	237	307	30
Vegetables.....	271	277	2
Potatoes, sweet- potatoes, & dry edible beans.....	210	217	3
<u>Prices paid</u>			
Commodities & serv- ices 1/.....	343	355	3
Production items 1/.....	357	368	3

1/ Including interest, taxes, and wage rates.

Although farm product prices dropped slightly in October, they remained above those in 1967. In the fourth quarter they are expected to continue to average slightly above a year earlier. Although market prices for grains have recently strengthened due to reduced production prospects, increased price support activity, and a pickup in exports, crop prices from now through next spring will probably average a little below those of last season. The increase in 1968/69 food grain and soybean supplies will likely exceed prospective increases in utilization. This will continue the downward pressure on prices. The larger citrus crop is also expected to hold market prices at reduced levels during much of the 1968/69 marketing year, and record supplies of processing vegetables are already putting pressure on wholesale prices.

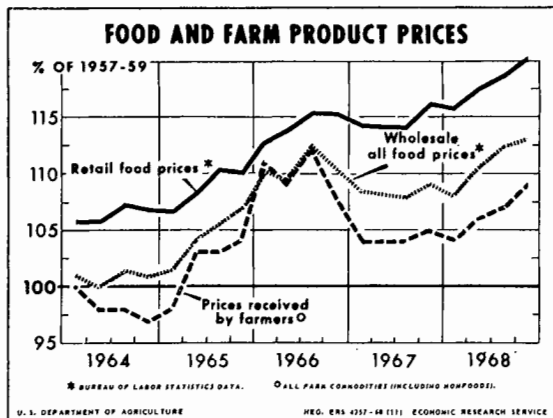
For livestock, total market supplies probably will continue to run larger this fall, but with solid prospects for less lamb and veal, and substantially fewer eggs and turkeys than last year. Thus, livestock product prices into early winter may hold around those of a year earlier. However, if potential output gains for red meats and broilers materialize, and demand grows more slowly, livestock prices will be under pressure into next summer and may average below first-half 1968 levels. Prices for milk, eggs, and turkey are expected to average higher than a year earlier in the first half of 1969.

Demand for Farm Products

The demand for food has been expanding with the record increase in consumer incomes during the past year. So far this year, consumer incomes are up nearly 8% and food expenditures are averaging $6\frac{1}{2}\%$ above those of a year earlier. In the third quarter, expenditures for food were running 8% above the year-earlier pace. For the year as a whole, food spending (excluding alcoholic beverages) is expected to total slightly more than \$101 billion. The percentage of disposable income spent for food in 1968 may average around 17.2% compared with 17.4% in 1967. Looking at 1969, food spending is expected to expand further but at a rate below the 1968 pace.

Retail food prices (grocery and restaurant food) in 1968 have been averaging nearly $3\frac{1}{2}\%$ above those of last year, with prices for food eaten away from home up 5%. Retail food prices in September declined for the first month this year, but the seasonal drop was less than usual.

Early 1969 should see larger supplies than last year for beef, pork, chicken, citrus fruit, and processed vegetables. These increases in supplies are expected to limit advances in retail food prices. Prices for food at home may average around current levels in the first half of 1969, while prices for food eaten away from home are expected to continue above year-earlier levels.



Demand for Feed and Nonfood Products

Feed and nonfood uses of farm products expanded only slightly during 1967/68. However, consumption of feed concentrates during 1968/69 is expected to be larger because of prospective increases in livestock output and relatively favorable livestock-feed price ratios. Moderate increases are currently expected for feed grain use during 1968/69, and wheat feeding has been substantially larger in recent months compared with last year. Feed grain production is about equal to projected requirements for 1968/69, leaving little change in ending stocks from the 48 million tons at the beginning of the season. However, with wheat exports running less than those in the same period last year, wheat stocks are expected to increase further during the 1968/69 season. In the case of soybeans, the increase in utilization has slowed during the last 2 years. Crushings during 1968/69 are not expected to change much from last season's 576 million bushels. And with the crop larger again this year, carryover stocks by next September may be almost double this year's 167 million bushels.

Use of U.S. cotton in domestic and foreign markets combined may be down about a million bales from the 13.2 million in 1967/68. But with output estimated at less than 11 million bales, stocks are expected to drop about a million bales during 1968/69 from the 6.4 million bales at the beginning of the season. This would be the smallest carryover since the early 1950's.

Foreign Agricultural Trade

The value of U.S. farm product exports totaled \$1.4 billion in July-September 1968, virtually unchanged from the same period last year (table 1). Exports declined moderately in value during fiscal 1968. A sharp drop in the value of wheat exports during July-September was about offset by increases for other grains, cotton, tobacco, animal products, and oilseed products.

In early November, wheat export business picked up, but so far this year volume

has been running at a rate well below last year's 761 million bushels. A slightly larger volume of soybean exports is expected this season. Larger exports are also in prospect for fruits, vegetables, and some fats and oils. Exports of feed grains and tobacco may total about the same as in 1967/68, but smaller cotton exports are expected. The above export prospects for major crops point to the possibility of slightly smaller exports in 1968/69.

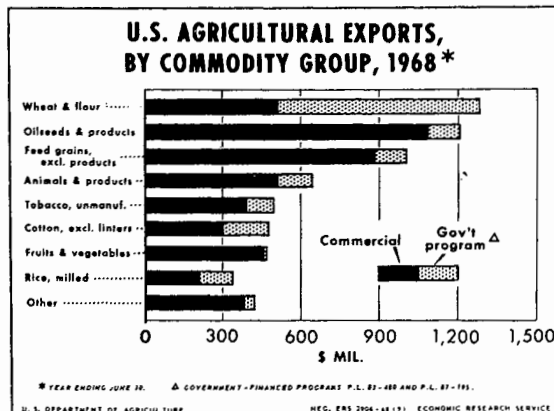
Imports of agricultural products spurted in July-September 1968. They totaled \$1.3 billion, up more than one-fourth from the previous year. September imports were the largest in value for any month since April 1951. Nearly all products participated in the gain.

Reasons for the sharp September upsurge in purchases include:

...Possibilities of a longshoreman's strike

...Speculative cocoa purchases set off by uncertainty about West African cocoa production

...Increased beef imports



Livestock and Livestock Products

Output of livestock and livestock products is increasing in 1968. This

Table 1.--U.S. agricultural exports, value of major commodities, July-September 1967 and 1968

Commodity	July-September		Percentage change
	1967	1968 ^{1/}	
	Mil. dol.	Mil. dol.	Percent
Cotton, excluding linters.....	85	98	15
Dairy products.....	26	38	46
Feed grains, excluding products.....	232	241	4
Fruits and preparations.....	82	81	0
Soybeans.....	126	134	6
Tobacco, unmanufactured.....	120	154	28
Vegetables and preparations.....	34	36	6
Wheat and flour.....	341	222	-35
Rice.....	50	63	26
Other.....	333	358	8
Total exports ^{3/}	1,429	1,425	0

^{1/} Preliminary.
^{2/} Change computed from unrounded data.
^{3/} Totals may not add due to rounding.

will be the third consecutive year of expansion. The increase this year comes from a 3% pickup in beef and pork production (carcass weight basis) which is offsetting cutbacks in other products. Supplies are running substantially smaller for turkey; moderately lower for lamb, veal, and milk; and slightly smaller for eggs and broilers. But demand has been unusually strong this year for livestock products, particularly meats. Expanding demand, coupled with cutbacks in supplies of some products, higher dairy supports, and increased Federal order Class I prices have contributed to higher producer prices in 1968. During January-October, livestock and product prices averaged 3% above the previous year's level.

Looking to the closing period of this year and the first half of 1969, further and possibly larger gains in live-

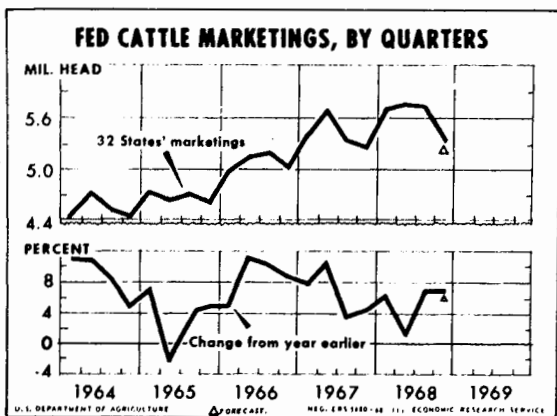
stock output are in prospect. Feed supplies are plentiful and livestock-feed price ratios appear high enough to encourage increased feeding. Recent livestock reports indicate producers plan to market 7% more fed cattle in the fourth quarter of 1968 than during this period last year, and it appears hog slaughter may be up slightly. About 11% more cattle were on feed October 1, compared with a year ago, and substantially more are in weight groups that will be marketed this winter and next spring. Hog producers in Corn Belt States indicated plans to farrow about 4% more sows this fall and winter. This evidence points to larger beef and pork supplies in the first half of 1969.

Fed cattle prices this year have continued above 1967 levels, reflecting increased preference for red meats and the effects of smaller turkey, lamb, veal, and

Table 2.--Production and prices received by farmers for major livestock and livestock products, 1965, 1966, 1967, and third quarters of 1967 and 1968

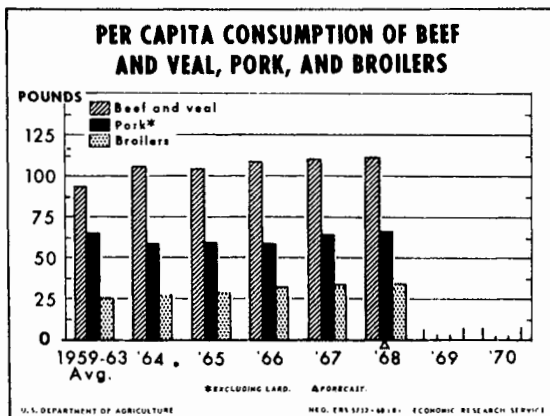
Item	Unit	Annual			Third quarter	
		1965	1966	1967	1967 1/	1968 1/
<u>Production 2/</u>						
Cattle and calves	Mil. lb.	19,747	20,636	21,011	3/5,182	3/5,493
Hogs	Mil. lb.	11,141	11,339	12,581	3/2,893	3/2,998
Sheep and lambs	Mil. lb.	651	650	646	3/157	3/148
Chickens	Mil. lb.	6,649	7,309	7,537)		
Turkeys	Mil. lb.	1,521	1,685	1,881)	3/2,655	3/2,543
Eggs	Mil. lb.	8,594	8,698	9,180	2,261	2,205
Milk	Mil. lb.	124,173	119,892	119,294	29,148	28,833
<u>Prices received by farmers</u>						
Cattle	Dol./cwt.	19.90	22.20	22.30	23.20	23.80
Hogs	Dol./cwt.	20.60	22.80	18.90	20.30	19.80
Lambs	Dol./cwt.	22.80	23.40	22.10	22.60	24.20
Chickens	Ct./lb.	14.4	14.7	12.7	12.7	14.2
Turkeys	Ct./lb.	22.2	23.1	19.5	20.2	20.2
Eggs	Ct./doz.	33.7	39.1	31.2	30.6	36.5
All milk (wholesale)	Dol./cwt.	4.23	4.81	5.02	4.98	5.25

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.



egg supplies. Hog prices since May have averaged from slightly below to about the same as year-earlier levels. If supplies expand as now expected, beef and hog prices next winter and spring will probably average below early November levels.

Broiler, turkey, and egg output this year is running below the 1967 level. Because of smaller supplies and expanding consumer demand, poultry and egg prices through October averaged $3\frac{1}{2}\%$ above those of last year. Most of the price improvement has occurred since midyear when turkey and egg production dropped below year-earlier rates. Looking ahead, broiler output is expected to pick up during the rest of this year, and in the first half of 1969, may run well ahead of that in early 1968. Broiler-feed price ratios have been favorable to expanded output, and egg settings have been increasing. But turkey and egg output will probably continue to lag year-earlier rates until around mid-1969.



Milk production is declining again in 1968. But, the drop from a year earlier has been narrowing in recent months, and current indications suggest output may about stabilize in 1969. Milk cow numbers are dropping off more slowly, output per cow is gaining more rapidly, and dairy-feed price relationships are very favorable to increased feeding. Prices to milk producers will probably continue about 5% above a year earlier through next March. Afterward, price levels will depend on the dairy price support level and on Federal order actions.

Crop Production

Crop output is climbing to another record in 1968. According to the November crop report, crop production this year will total 3% above the 1967 record (see below). An improvement in output per acre this year more than offsets a slight reduction in cropland use. Although most of the output gain is due to a 46% larger cotton crop, increases are also occurring for rice, most fruit, processing vegetables, wheat, soybeans, flaxseed, and sugar beet crops. Feed grain, tobacco, and hay production are estimated below last year's output.

U.S. crop production: Index numbers of production of crops, 1967 and 1968

Item	(1957-59=100)		
	1967	1968	Per-centage change 1968/67
All crops 3/.....	117	120	3
Feed grains.....	124	120	-3
Hay and forage..	115	113	-2
Food grains.....	134	144	7
Vegetables.....	112	115	3
Sugar crops.....	136	165	21
Cotton.....	60	88	46
Tobacco.....	116	99	-15
Oil crops.....	171	188	10

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

Table 3.--Supply-distribution and season average prices of selected major crops, 1965/66, 1966/67, 1967/68, and 1968/69

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price ^{1/}
Feed grains										
1965/66	Mil. tons	54.8	0.3	157.4	212.5	141.3	29.1	170.4	42.1	2/1.16
1966/67	Mil. tons	42.1	.3	157.6	200.0	140.9	22.0	162.9	37.1	2/1.24
1967/68 p.	Mil. tons	37.1	.3	175.1	212.5	141.6	23.0	164.6	47.9	2/1.05
1968/69 e.	Mil. tons	47.9	.3	170.6	218.8	147.5	23.3	170.8	48.0	---
Wheat										
1965/66	Mil. bu.	817.3	.9	1,315.6	2,133.8	731.2	867.4	1,598.6	535.2	1.35
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 p.	Mil. bu.	425.0	1.0	1,524.3	1,950.3	651.7	761.1	1,412.8	537.5	1.39
1968/69 e.	Mil. bu.	537	1	1,598	2,136	(730-780)	750	(1,480-1,530)	(606-656)	---
Rice										
1965/66	Mil. cwt.	7.7	.7	76.3	84.7	3/33.0	43.3	76.4	8.2	4.93
1966/67 p.	Mil. cwt.	8.2	4/	85.1	93.3	3/32.7	52.0	84.7	8.5	4.95
1967/68 e.	Mil. cwt.	8.5	4/	89.6	98.1	32.9	---	---	---	4.92
1968/69 e.	Mil. cwt.	---	4/	106.9	---	---	---	---	---	---
Soybeans										
1965/66	Mil. bu.	29.7	0	845.6	875.3	589.1	250.6	839.7	35.6	2.54
1966/67	Mil. bu.	35.6	0	928.5	964.1	612.4	261.6	874.0	90.1	2.75
1967/68 p.	Mil. bu.	90.1	0	972.7	1,062.8	629.6	266.6	896.2	166.6	2.49
1968/69 e.	Mil. bu.	166.6	0	1,079.5	1,246.1	---	---	(900-925)	(321-345)	---
Cotton ^{2/}										
1965/66	Mil. bales	14.3	.1	14.8	29.3	9.5	2.9	12.4	16.9	28.14
1966/67	Mil. bales	16.9	.1	9.6	26.8	9.5	4.7	14.2	12.5	20.84
1967/68 p.	Mil. bales	12.5	.1	7.5	20.1	9.0	4.2	13.2	6.5	25.60
1968/69 e.	Mil. bales	6.5	.1	10.9	17.5	8.8	3.3	12.2	5.4	---

^{1/} Dollars per bushel, except cotton which is cents per pound. ^{2/} Price for corn. ^{3/} Includes the following statistical discrepancies: 1965/66, 2.2 and 1966/67, 1.2 mil. cwt. ^{4/} Less than 50,000 cwt. ^{5/} Total cotton supply includes city crop and production prior to August 1 (end of season).

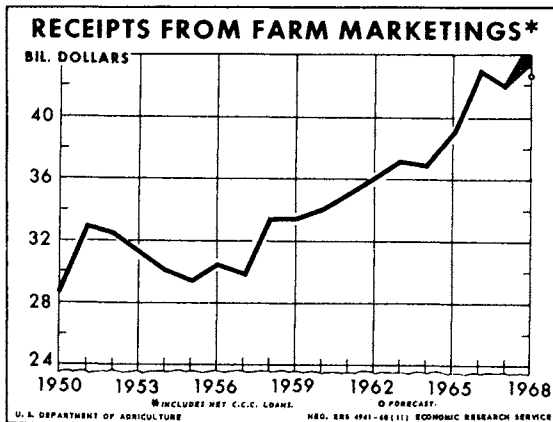
p. Preliminary e. Estimated.

Details may not add to totals due to rounding.

Big 1968 crops and larger carryover stocks of grains and soybeans have increased supplies available for the 1968/69 marketing year. Some strengthening is expected in grain and soybean prices as more eligible 1968 crops move under loan, but prices for the season will likely average below 1967/68 levels. Much larger 1968/69 citrus crops are expected to bring lower prices, and large supplies of processing vegetables are already resulting in lower wholesale prices. On balance, prices received for crops in the 1968/69 marketing year are expected to average a little below 1967/68.

Farm Income

Farmers are earning larger incomes in 1968. Both higher average farm prices and a larger volume of farm marketings are contributing to increased cash receipts this year. Cash receipts were up 2% during January-September 1968. The gain is expected to be much larger in the final quarter of the year. In addition, direct Government payments to producers through August were running higher than last year due mainly to the 1968 Feed Grain Program.



Most of the pickup in cash receipts this year is coming from higher livestock prices and increased livestock marketings, reflecting the strong consumer demand for beef. In the first 9 months of 1968, livestock and product receipts were running 3% above those in the same period

last year. Most of the gain was due to increased receipts from cattle. Receipts also totaled higher for broilers, milk, and eggs. On the other hand, cash receipts from turkey and hogs fell below 1967 levels.

Crop receipts during January-September 1968 about held their own with the year-earlier rate. Higher cash receipts from fruit, cotton, and vegetable sales about offset lower grain, soybean, and tobacco receipts.

For 1968 as a whole, total cash receipts are expected to run slightly more than \$1½ billion above the \$42.8 billion in 1967. Direct Government payments will probably total about \$300 million above the \$3.1 billion in 1967, and nonmoney income is expected to run slightly higher than last year. Thus, gross farm income for all of 1968 could climb to a record of around \$51 billion. But, production expenses will probably increase by around \$1½ billion. As a result, realized net income is expected to total near \$15 billion. This would be an increase of more than 5% above the \$14.2 billion in 1967. Realized net income per farm is estimated near \$4,900, up 8% from the year-earlier pace.

Cash receipts from crop and livestock marketings in the first half of next year may total above those in the first half of 1968. Production prospects discussed earlier for the first half of 1969 point to a larger volume of farm marketings. Market supplies of livestock and products in early 1969 could run as much as 2 to 3% above those of a year earlier, with fed beef, hogs, and broilers contributing to the rise. This, together with a possible slowing in the growth of consumer demand may cause livestock prices in early 1969 to average slightly lower than a year earlier. Thus, a larger volume of marketings and slightly lower average prices indicate some increase in cash receipts for livestock and products may occur over first-half 1968 levels. On the crop side, larger marketings for cotton and oilseeds in early 1969 may about offset prospects for slightly weaker prices for crops.

Farm Costs

Production expenses are climbing again in 1968 because of higher prices for most inputs and increased purchases of feeder livestock, fertilizer, and feed. So far this year, prices paid for production items (including interest, taxes, and wage rates) are running 3% above those in the same period last year. Prices are up for all major items except fertilizer and feed.

Farmers applied about 6% more fertilizer, in terms of primary plant nutrients, during the year ended June 30, 1968 (approximately 3/4 of all fertilizer is applied in the spring of the year). The annual increase in fertilizer use was restricted somewhat during the year ended June 30, by smaller 1968 wheat and feed grain acreages, and poor weather last fall and spring.

Farmers' expenditures for capital items tend to fluctuate more widely than outlays for production items, which have been rising persistently. This is because purchases of machines and buildings can often be delayed without greatly affecting operations in any given year. Tractor expenditures rose annually from 1961 to 1966, and the value of other farm machinery and equipment has advanced ever since 1961. However, in 1967 outlays for new farm tractors dropped below a year earlier. Moreover, farmers last year boosted purchases of other farm machinery only slightly.

Again this year, farm machinery purchases appear to be lagging 1967 rates. During January-August 1968, shipments of wheel type tractors were off 14% from a year earlier. ^{1/} But with sharply higher prices and a continued trend toward bigger tractors, the value of shipments was down only 5% from the 1967 pace. The value of shipments of farm machinery and equipment (other than tractors) during this same period was below the year-earlier rate by about 4%, implying a smaller volume of purchases. However, recent sales of big self-propelled combines and other large harvesting machinery have been holding up relatively well.

Farm Assets

Farm asset values have continued to advance this year. On January 1, 1968, they were valued at \$283.5 billion, with farm real estate accounting for about two-thirds of the total. Assets are expected to expand around 4% during 1968. Most of the pickup this year is due to further increases in farmland values.

The farm debt is expected to rise further in 1968, although reports indicate the increase may be slightly slower than in recent years. Short-term borrowing appears to be gaining more rapidly again this year than farm real estate loans.

^{1/} Bureau of Census, Current Industrial Report.

GENERAL ECONOMIC SITUATION

This year's sharp advance in economic activity continued in the third quarter, though recent signs point to some moderation of the rise. Industrial production has held relatively steady and at a high level since last spring. Retail sales have leveled and Federal purchases have slowed, though they continue well above last year. Employment and total output of goods and services also continue high. Unemployment through October remained close to $3\frac{1}{2}\%$ of the total labor force.

The third quarter increase in the gross national product represented the fifth consecutive large advance since the slowdown in the first half of 1967. The GNP in the first 3 quarters averaged 9% above a year earlier. Production of goods and services was 5% higher; the general price level (GNP deflator) rose 4%.

Major GNP components, change from
previous quarter

Item	1968		
	1st qtr.	2nd qtr.	3rd qtr. 1/
	:- - -Bil. Dol.- - -		
Total change in GNP	20.2	21.7	18.1
Consumption.....	17.2	8.5	13.2
Private nonresi- dential fixed investment.....	3.6	-1.6	3.1
Housing.....	.6	.4	0
Inventory 2/.....	-6.2	8.7	-3.3
Net exports.....	-1.9	.5	1.3
Government.....	7.0	5.2	3.9

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

Outlook for 1968/69

A somewhat slower demand expansion appears likely for the next 6 to 8 months. Business investment expenditures, consumer expenditures, and Government purchases of goods and services all are expected to rise, but less than during the past year.

Government Expenditures and Receipts

Major changes have been occurring in the Government sector. The Federal Government, guided by the Revenue and Expenditure Control Act of 1968 passed in June, is slowing its purchases. Moreover, the tax surcharge on corporate and personal incomes and the extension of some excise rates have increased revenues. These actions sharply reduced the Federal deficit in the third quarter this year and have had some dampening effect on the rise in the economy.

Federal purchases of goods and services rose slightly in the third quarter due largely to the Federal pay increase. Prospects for a slower rise in Federal expenditures follows the intent of the June legislation which provides specific limitations on 1969 budget authority and outlays.

State and local government expenditures for goods and services rose \$2.8 billion in the third quarter. Although grants-in-aid received from the Federal Government slowed, receipts from indirect business taxes, the major source of funds, continued to rise at a fairly steady rate. Expenditures by State and local governments will continue to advance in 1968/69, but probably somewhat slower than so far this year.

Investment Demand

Business fixed investment has been rising in recent months after a brief decline in the second quarter. According to the OBE-SEC survey of businessmen's intentions, investment outlays will likely remain high for the rest of the year.

Table 4.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	1967				1968			Year	Year
	I	II	III	IV	I	II	III <u>1/</u>	1966	1967
	- - - - - Billion dollars - - - - -								
Gross national product	772.2	780.2	795.3	811.0	831.2	852.9	871.0	747.6	789.7
Gross national product (1958 prices).....	665.7	669.2	675.6	681.8	692.7	703.4	712.3	657.1	673.1
Disposable personal income.....	534.2	541.5	550.0	559.6	574.4	586.3	592.7	511.6	546.3
Personal consumption expenditures....	480.9	490.3	495.5	502.2	519.4	527.9	541.1	465.5	492.2
Durable.....	69.8	73.4	73.1	74.2	79.0	81.0	85.1	70.5	72.6
Nondurable.....	212.9	215.3	216.4	218.4	226.5	228.2	232.7	206.7	215.8
Services.....	198.2	201.6	205.9	209.6	213.9	218.7	223.4	188.3	203.8
Personal savings.....	39.7	37.0	40.5	43.4	40.8	44.0	37.1	32.9	40.2
Net Government receipts.....	160.2	161.5	165.6	171.0	180.4	184.4	---	157.9	164.6
Government purchases.....	173.1	177.3	179.6	183.5	190.5	195.7	199.6	156.2	178.4
Federal.....	87.4	90.0	91.3	93.5	97.1	100.0	101.2	77.4	90.6
State and local.....	85.8	87.2	88.4	90.0	93.4	95.6	98.4	78.8	87.8
Deficit or surplus (on income and product accounts).....	-12.9	-15.9	-14.0	-12.5	-10.3	-11.3	---	1.7	-13.8
Gross private domestic investment....	113.0	107.6	114.7	121.8	119.7	127.3	127.1	120.8	114.3
Fixed investment.....	104.6	105.4	109.3	113.5	117.6	116.5	119.6	106.1	108.2
Residential.....	21.1	22.7	26.0	28.5	29.1	29.5	29.5	24.8	24.6
Nonresidential.....	83.5	82.7	83.3	85.0	88.6	87.0	90.1	81.3	83.6
Change in business inventories.....	8.4	2.3	5.3	8.3	2.1	10.8	7.5	14.7	6.1
Gross retained earnings.....	91.3	91.8	93.5	95.9	92.7	97.3	---	91.6	93.1
Excess of investment.....	-21.7	-15.8	-21.2	-25.9	-27.0	-30.0	---	-29.2	-21.1
Net exports of goods and services....	5.2	5.1	5.4	3.4	1.5	2.0	3.3	5.1	4.8
Per capita disposable personal income (1958 dollars).....	2,379	2,395	2,404	2,418	2,454	2,474	2,478	2,332	2,401
Total civilian employment (Mil.) <u>2/</u> ..	74.0	73.9	74.6	75.1	75.6	75.8	76.0	72.9	74.4

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

U.S. Department of Commerce.

Private surveys of investment plans for 1969 show increases of as much as 5% to 8% over 1968 despite increased taxes, low utilization rates, and high inventory accumulation.

GNP and final sales, change from previous quarter

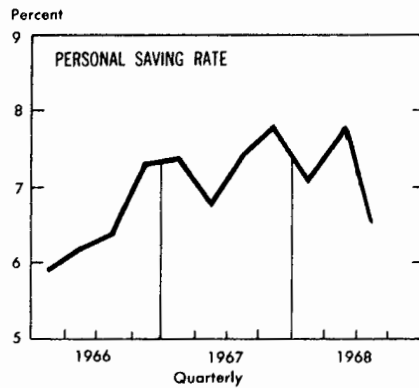
Year	GNP	Final sales	Inventory change <u>1/</u>
Bil. dol.			
1966: I	18.4	17.2	1.2
II	12.0	7.5	4.5
III	12.9	15.5	-2.6
IV	14.9	7.9	7.0
1967: I	4.0	15.4	-11.4
II	8.0	14.1	-6.1
III	15.1	12.1	3.0
IV	15.7	12.7	3.0
1968: I	20.2	26.4	-6.2
II	21.7	13.0	8.7
III <u>2/</u>	18.1	21.4	-3.3

1/ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the third quarter of 1968 (\$7.5 billion) less the change in the second quarter of 1968 (\$10.8 billion) equals minus \$3.3 billion.

2/ Preliminary.

Business fixed investment rose in the third quarter, mostly for producers' durable equipment. Expenditures for non-residential structures and housing remained fairly stable.

A strong demand for housing, low vacancy rates, and some improvement in the financial environment apparently helped to stimulate housing starts in recent months. Starts have been at a 1½ million annual rate after a slump in May and June. Housing activity is expected to continue strong in coming months.



Consumer Demand

Consumer spending continued to gain in the third quarter despite the jump in personal income taxes. Although personal income (before taxes) increased sharply, tax payments rose even more. The result was a slowing in the rise of disposable personal income. However, consumers continued to spend freely, materially reducing the rate of personal savings. To help finance continued large purchases, consumer credit has risen at record rates in the last 4 months. Retail sales have leveled, but continue well above year-earlier levels.

Income and Employment

Output remains at a high level despite the decline in steel production in the third quarter. This decline was caused by the adjustment of inventories accumulated earlier in the year. The rapid rise in personal income slowed to an advance in October about half as large as gains in recent months. Wage and salary payments continue to rise with increases in hourly earnings. The workweek and overtime rates, however, declined slightly in October.

Civilian employment, seasonally adjusted, totaled 76 million in October, about the same as August and September. Gains in nonagricultural civilian employment were offset by a dip in agricultural employment. The total civilian labor force has grown about 730 thousand over a year ago, but unemployment continues relatively small.

Table 5.--Federal receipts and expenditures in the national income accounts, semi-annually 1966-68

Description	1966		1967		1968	
	First	Second	First	Second	First	Third
	half	half	half	half	half	quarter
RECEIPTS, NATIONAL INCOME BASIS						
Personal tax and nontax.....	59.4	63.9	65.6	69.0	73.4	83.7
Corporate profits tax accruals....	32.3	32.5	30.4	31.5	37.6	38.4
Indirect business tax and non-tax accruals.....	15.6	16.0	16.0	16.4	17.2	17.8
Contributions for social insurance.....	32.2	34.2	36.2	37.4	40.8	42.0
Total receipts, national income basis <u>3/</u>	139.4	146.6	148.2	154.3	169.2	181.9
EXPENDITURES, NATIONAL INCOME BASIS						
Purchases of goods and services.....	74.0	80.7	88.7	92.4	98.6	101.2
Transfer payments.....	34.4	37.0	41.8	42.8	46.4	48.7
Grants-in-aid to State and local Governments.....	13.8	15.0	14.8	16.4	18.0	18.5
Net interest paid.....	9.2	9.8	10.0	10.4	11.6	12.1
Subsidies less current surplus of Government enterprises.....	5.2	5.7	5.0	4.7	4.0	4.4
Total expenditures, national income basis <u>3/</u>	136.6	148.2	160.4	166.8	178.5	184.9
SURPLUS (+) OR DEFICIT (-) NATIONAL INCOME BASIS	2.8	-1.6	-12.2	-12.6	-9.4	-3.0

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

2/ Preliminary.

3/ Totals may not add due to rounding.

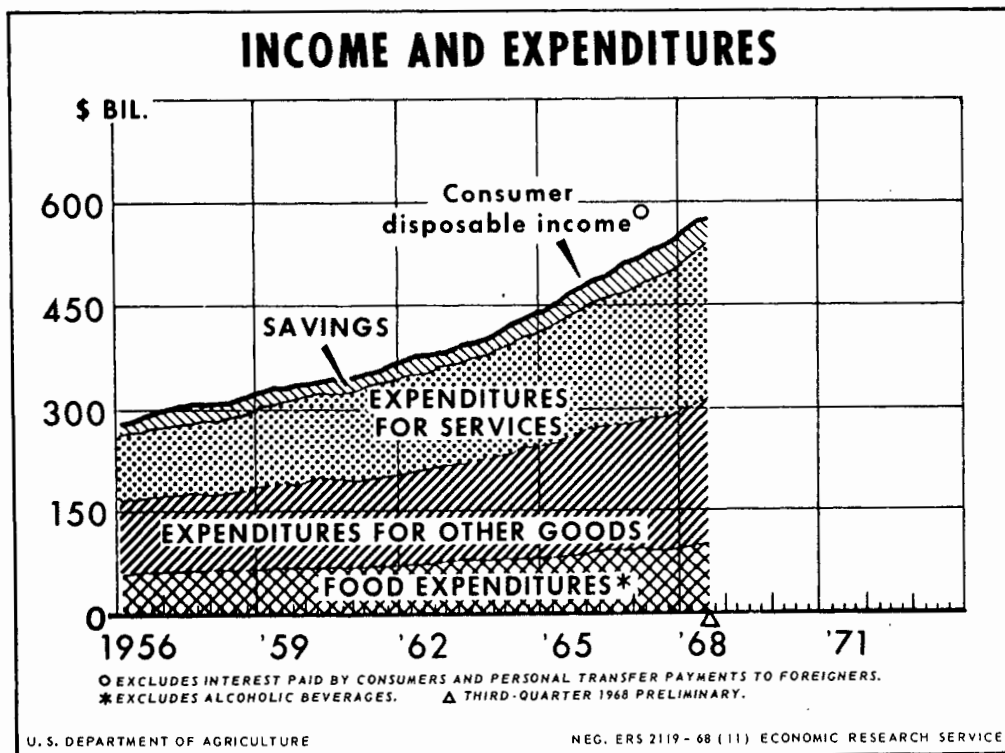
U.S. Department of Commerce.

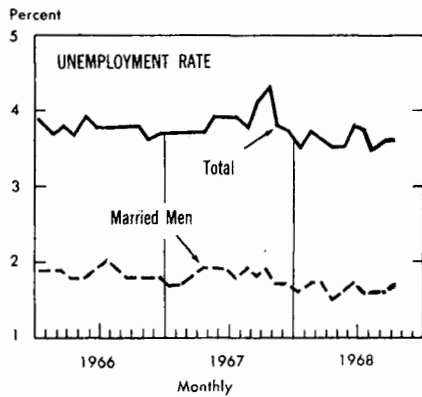
Table 6.--Change from previous quarter in selected measures of personal income and spending 1967-I to 1968-III

(Billions of dollars, seasonally adjusted annual rates)

Item	1967				1968		
	I	II	III	IV	I	II	III 1/
Total personal income	10.3	6.8	12.1	11.5	17.5	15.4	16.2
Wages and salaries	6.1	4.3	8.7	10.1	11.9	9.3	11.4
Manufacturing.....	.3	-.2	2.3	2.5	4.1	2.6	2.9
Nonmanufacturing.....	4.0	2.7	4.2	4.2	5.6	4.5	5.2
Government	1.9	1.6	2.2	3.5	2.2	2.2	3.3
Transfer payments	3.2	.9	.7	.8	2.8	2.6	1.2
Personal tax payments	1.3	-.4	3.5	2.0	2.7	3.6	9.7
Disposable personal income ...	8.8	7.3	8.5	9.6	14.8	11.9	6.4
Personal consumption							
expenditures	7.2	9.4	5.2	6.7	17.2	8.5	13.2
Durable	-1.3	3.6	-.3	1.1	4.8	2.0	4.1
Nondurable.....	3.6	2.4	1.1	2.0	8.1	1.7	4.5
Services.....	4.9	3.4	4.3	3.7	4.3	4.8	4.7
Personal savings	1.6	-2.7	3.5	2.9	-2.6	3.2	-7.2

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





contrast to the rapid pace at which prices were rising in June and July. Most of the gain in the consumer price index in September was attributed to increases in apparel prices and an advance in medical care costs. Food prices declined in September for the first time this year, although the decrease was less than usual.

The wholesale price index for all items rose slightly in September to a level 2.7% above a year ago, after declining in August. Within the wholesale price index, the rise in industrial commodity prices in September was the most widespread in several months.

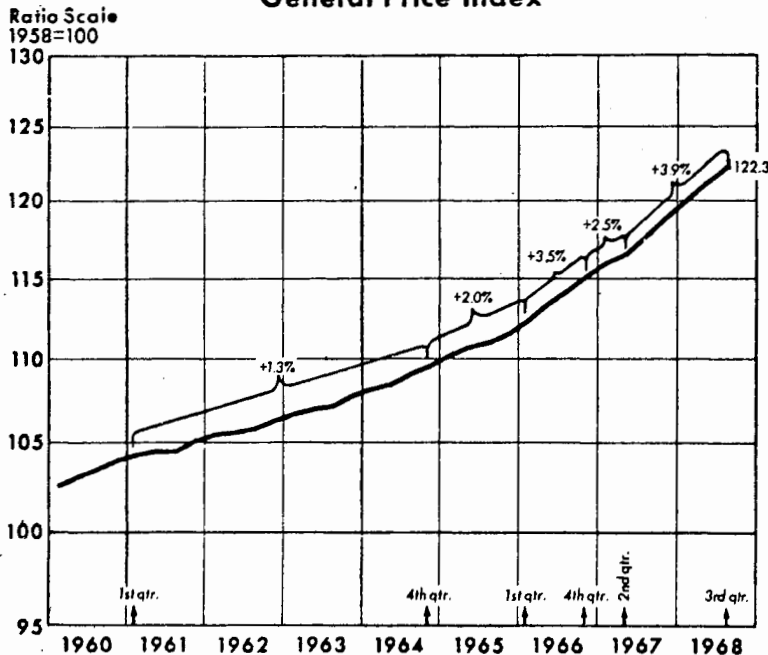
Prices

The increase in the general price level, as measured by the gross national product deflator, slowed to around a 3½% annual rate in the third quarter from about 4% in the second quarter. The rise in the consumer price index slowed in September but was still 4.4% above a year ago. The smaller September rise was in

Foreign Trade

Net exports (exports minus imports) of goods and services continued to edge upward in the second and third quarters. After reaching a peak a year ago, net exports had dipped sharply through the first quarter of 1968. Most of this decline was due to the brisk rise of imports.

General Price Index *



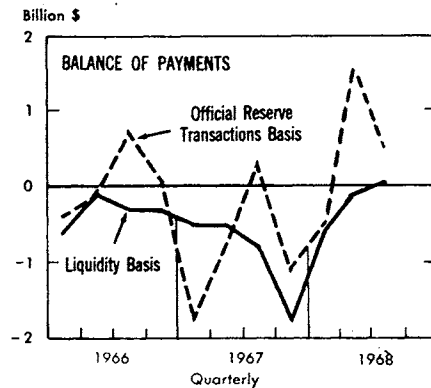
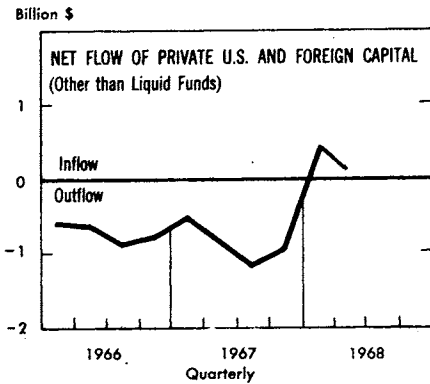
* As used in National Income Accounts Source: U.S. Department of Commerce
 Percentages are annual rates of change between periods indicated. They are presented to aid in comparing most recent developments with past trends.
 Latest data plotted: 3rd quarter preliminary

Prepared by Federal Reserve Bank of St. Louis

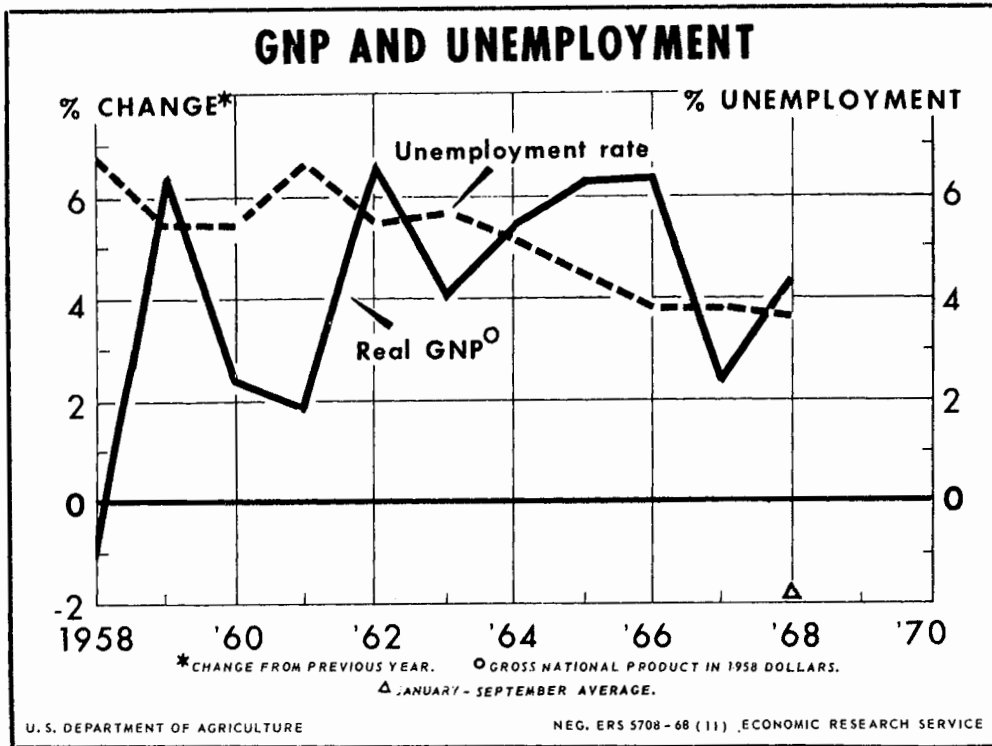
The strong advance in the U.S. economy and rising prices in this period encouraged purchases of foreign goods and services.

The Nation's balance of payments position also improved in the first 9 months of this year. Preliminary data indicate that the deficit is very low because of some improvement in the net export balance, the early success of mandatory controls on direct foreign investment, and the purchases of U.S. securities by foreign governments and individuals. Although a small surplus was reported for the third quarter, there were some special and perhaps nonrecurring transactions which helped to bring about the improvement.

The U.S. gold stock increased in August and September after a slight dip in July. An increase in June had been the first gain in 8 consecutive months and the largest increase in 4 years. Tax legislation in June apparently convinced international bankers of U.S. determination to slow price advances which had hurt its balance of payments position.



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



Annual Outlook Conference Scheduled for February 1969

The National Agricultural Outlook Conference, which has been held in mid-November in recent years, has been scheduled for February 17 to 20, 1969. The Conference will give more emphasis to the general economic situation with limited time devoted to the Commodity Sessions.

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