DPS-136

MAY 1973



# DEMAND AND PRICE Situation



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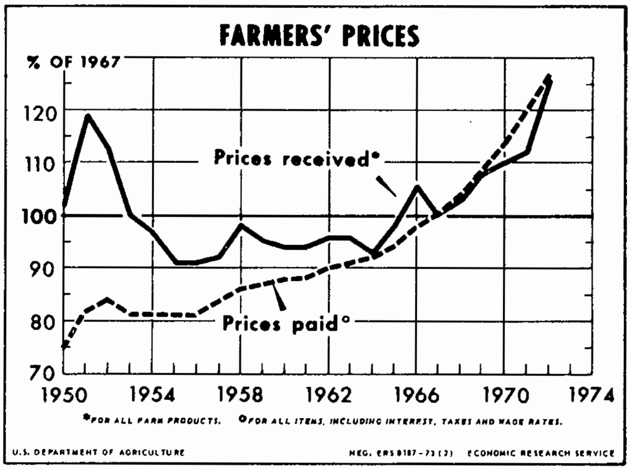
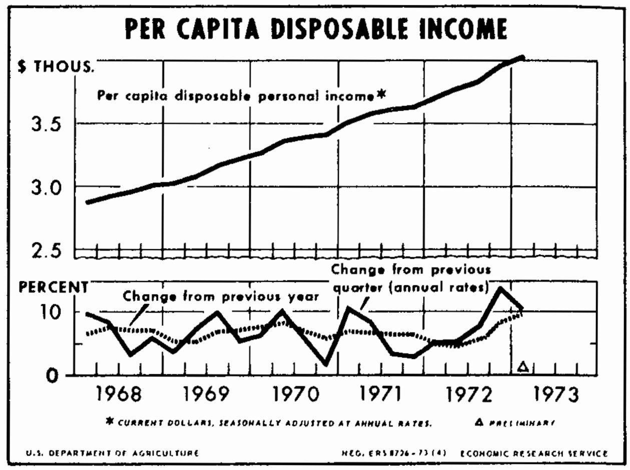

FARMERS' PRICES
% OF 1967
Prices received*
Prices paid°
*FOR ALL FARM PRODUCTS. °FOR ALL ITEMS, INCLUDING INTEREST, TAXES AND WAGE RATES.
U.S. DEPARTMENT OF AGRICULTURE
NEG. ERS 8187-73 (2) ECONOMIC RESEARCH SERVICE


PER CAPITA DISPOSABLE INCOME
$ THOUS.
Per capita disposable personal income*
PERCENT
Change from previous year
Change from previous quarter (annual rates)
* CURRENT DOLLARS, SEASONALLY ADJUSTED AT ANNUAL RATES. Δ PRELIMINARY
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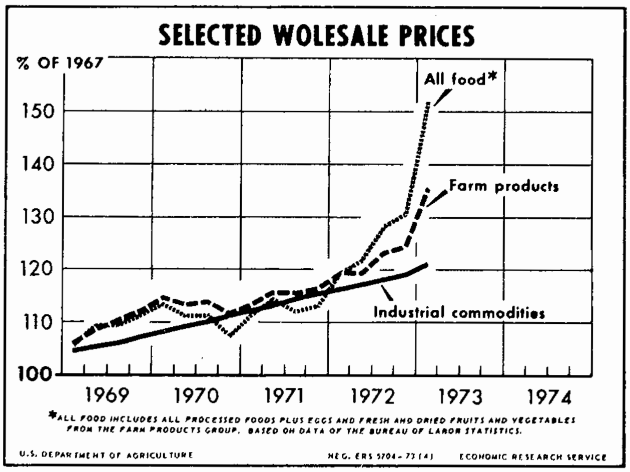
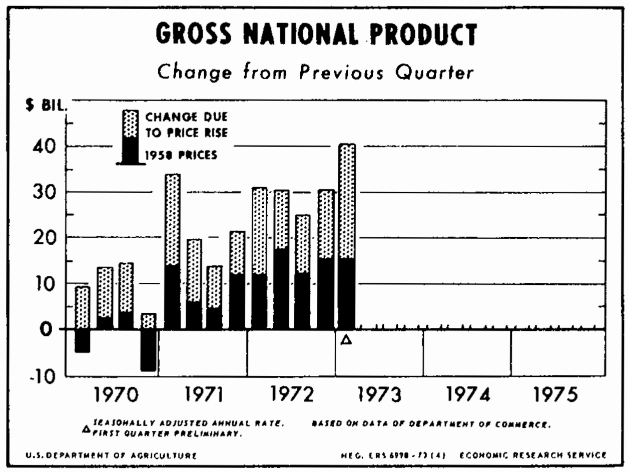
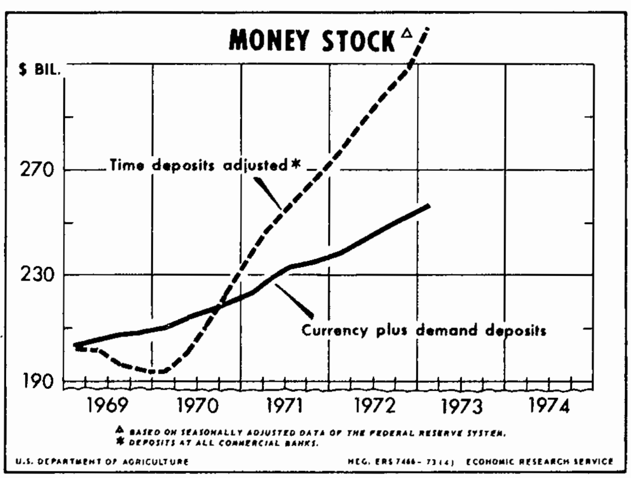
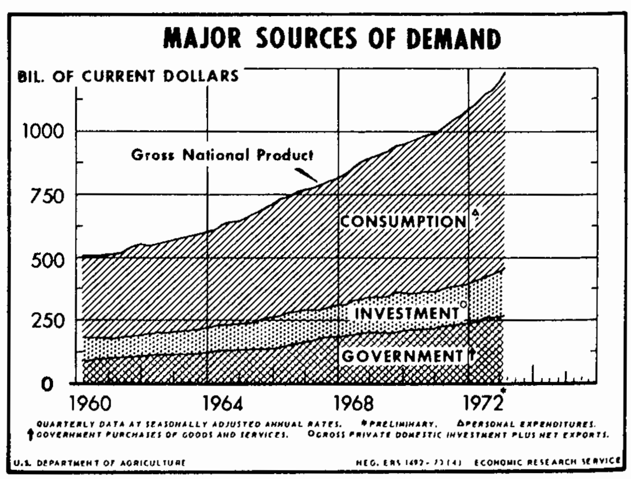

SELECTED WOLESALE PRICES
% OF 1967
All food*
Farm products
Industrial commodities
*ALL FOOD INCLUDES ALL PROCESSED FOODS PLUS EGGS AND FRESH AND DRIED FRUITS AND VEGETABLES FROM THE FARM PRODUCTS GROUP. BASED ON DATA OF THE BUREAU OF LABOR STATISTICS.
U.S. DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE


GROSS NATIONAL PRODUCT
Change from Previous Quarter
$ BIL.
CHANGE DUE TO PRICE RISE
1958 PRICES
SEASONALLY ADJUSTED ANNUAL RATE.
ΔFIRST QUARTER PRELIMINARY.
BASED ON DATA OF DEPARTMENT OF COMMERCE.
U.S. DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE


MONEY STOCK Δ
$ BIL.
Time deposits adjusted*
Currency plus demand deposits
Δ BASED ON SEASONALLY ADJUSTED DATA OF THE FEDERAL RESERVE SYSTEM.
* DEPOSITS AT ALL COMMERCIAL BANKS.
U.S. DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE


MAJOR SOURCES OF DEMAND
BIL. OF CURRENT DOLLARS
Gross National Product
CONSUMPTION
INVESTMENT
GOVERNMENT
QUARTERLY DATA AT SEASONALLY ADJUSTED ANNUAL RATES. *PRELIMINARY. ΔPERSONAL EXPENDITURES.
GOVERNMENT PURCHASES OF GOODS AND SERVICES. °GROSS PRIVATE DOMESTIC INVESTMENT PLUS NET EXPORTS.
U.S. DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE

# THE DEMAND AND PRICE SITUATION

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Approved by
Outlook and Situation Board
and Summary released
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Principal contributors:

Terry N. Barr

George E. Dudley

Douglas M. Paquin

Economic and Statistical Analysis Division
Economic Research Service
U.S. Department of Agriculture
Washington, D.C. 20250


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## SUMMARY


Farm prices reached record levels and lifted realized net farm income to a record seasonally adjusted annual rate of over $22 billion in the first quarter of 1973. Both crop and livestock products face exceptionally strong consumer demand, and farm prices will likely ease only slightly by midyear. Reduced carryover in many commodities may hold some farm prices high until weather impacts can be quantified.

The second half of 1973 should find livestock supplies expanding and record grain production. The greatest uncertainty is the weather, particularly its impact on the feed grain-soybean production expansion which has been encouraged by the government. Although the expanded farm production should find ready domestic and foreign markets, prices are expected to ease by year-end. For the year, farm prices will average well above 1972 levels.

With prices rather than volume accounting for most of the increase, cash receipts from farm marketings in 1973 may increase by over $9 billion. Direct government payments to farmers will be down more than $1 billion from the record $4 billion paid out in 1972. As a result, gross farm income is expected to rise by around $8 billion.

Prices paid by farmers for production items are also rising to record levels. Feed and feeder livestock prices were up sharply in early 1973. Although the rise in production expenses is expected to ease as the year progresses, they will make a deeper cut into gross farm income than in 1972. Nevertheless, realized net farm income will probably reach a record of around $21 billion in 1973, up a tenth from 1972.

The general economy accelerated at such a rapid rate in the first quarter that fears of inflation have been rekindled in consumers and businessmen alike. However, Federal expenditures are being restrained and monetary policy is assuming a more restrictive posture. If inflationary expectations are dampened, inventories should begin to accumulate and fixed investment will continue to increase throughout the year. As industrial production continues upward, unemployment will likely fall below 5%.

Consumer demand dominated the entire economy in the first quarter. While spending a $22.7 billion increase

in disposable income, consumers also reduced personal savings below fourth quarter levels and boosted total installment credit to a record. The pace was so torrid that the rate of increase in business inventories declined from the fourth quarter. As a result, GNP increased 14% over the fourth quarter and the GNP implicit price deflator rose at a 6% annual rate. Only the housing sector showed signs of weakening. Housing starts fell sharply in March.

The recent easing in farm prices suggests a less stringent increase in retail food prices for the remainder of 1973. However, the first quarter's record demand and unfavorable weather make the earlier forecast of a 6½% retail food price increase for 1973 too low. Exactly how much larger the increase may be depends heavily upon the impacts, both actual and psychological, of weather during the current planting season and the growing season to follow. It appears that retail food prices for 1973 may average around 9% above last year.

Exports of U.S. agricultural products in July-March reached an all-time high of $8.9 billion, 49% above a year earlier. Around three-fifths of the rise was due to the increased value of grain exports.

....*Cattle* on feed are more numerous in weight groups that typically supply the bulk of spring and summer marketings than they were a year ago. Prices in late spring and early summer probably will remain below the peak prices of March.

.... *Hog* slaughter will be near year-earlier levels this spring but will exceed them in the summer and fall. Prices will probably remain above a year earlier until the fourth quarter.

.... *Broiler* output may exceed last year's levels in late summer or fall, although uncertainty over feed costs clouds the picture. Prices will remain strong in the spring and summer but may decline from current levels.

.... *Egg* prices will remain sharply above the low levels of 1972 for most of the year. Output will continue below 1972 levels but may equal last year's output towards the end of 1973.

.... *Turkey* production will be up substantially in the seasonally light first half but second half supplies may be below a year ago. Prices may weaken during the summer.

.... *Milk* production will be down a little from last year. Reduced supplies will keep dairy prices strong in coming months.

.... *Wool* prices have come down from extreme March highs, but reduced production and stocks here and abroad should keep prices above year-earlier levels in coming months.

.... *Wheat* exports, forecast at 1,150 million bushels for 1972/73, are a third over the old record set in 1965/66. World demand and prices may remain strong well into 1973/74. U.S. production in 1973/74 may total about 1¾ billion bushels.

.... *Feed grain* acreage may sharply exceed March 1 intentions due to modifications in the feed grain program. If weather conditions are favorable, supplies will increase and feed buyers can expect lower feed costs this fall.

.... *Soybean* plantings may exceed 54 million acres. Farm prices are the highest on record and are expected to remain strong in the face of minimum carryover.

.... *Tobacco* growers plan to boost plantings about 7% above last year. While the crop is indicated larger, a smaller expected carryover will maintain supply at about the 1972/73 level.

.... Export demand for *cotton* is particularly strong this season. Even so, disappearance is falling short of 1972's production and stocks will increase substantially above the low level of a year earlier.

.... Fresh *vegetable* supplies are expected to be below a year ago, and farm prices will remain strong.

.... *Citrus* production is exceeding last season by around 14%. With larger supplies, prices are running below a year ago.

The 1973 agricultural forecasts assume that trend or projected yields are achieved for important crops, especially feed grains and soybeans, and that planted acreages exceed the March intentions. Weather limited farmers in the midsection of the country to substantially less land preparation than usual last fall. So far this spring, excessive moisture and wet fields have prevented farmers from catching up on land preparation and planting operations. Less than a sizable increase in crop output would intensify the upward pressure on prices of farm products.

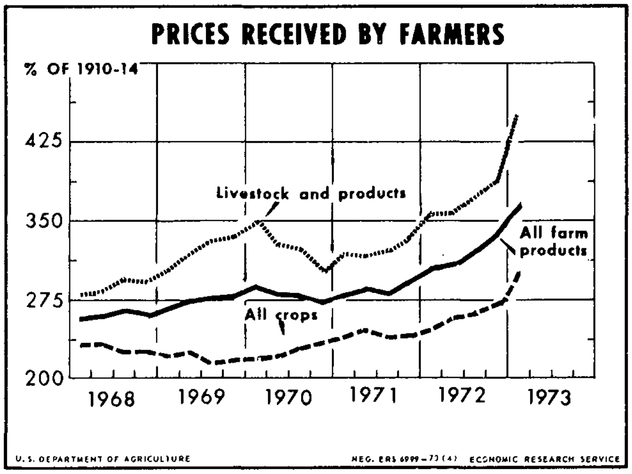
Table 1.--Selected measures of economic activity

| Item | Unit | Year 1972 | 1971 | | 1972 | | | | 1973 |
|---|---|---|---|---|---|---|---|---|---|
| | | | III | IV | I | II | III | IV | I 1/ |
| Gross national product | Bil. dol. | 1,151.8 | 1,056.9 | 1,078.1 | 1,109.1 | 1,139.4 | 1,164.0 | 1,194.9 | 1,235.5 |
| Disposable personal income | Bil. dol. | 795.1 | 750.4 | 758.5 | 770.5 | 782.6 | 798.8 | 828.2 | 850.9 |
| Personal consumption expenditures | Bil. dol. | 721.0 | 670.7 | 680.5 | 696.1 | 713.4 | 728.6 | 745.7 | 773.7 |
| Food spending (excluding alcoholic beverages) | Bil. dol. | 124.4 | 117.3 | 118.3 | 120.6 | 124.0 | 125.5 | 127.7 | 133.0 |
| Implicit price deflator for GNP | 1958=100 | 145.9 | 142.4 | 142.9 | 144.7 | 145.3 | 146.2 | 147.2 | 149.4 |
| Unemployment rate 2/ | Percent | 5.6 | 6.0 | 5.9 | 5.8 | 5.7 | 5.6 | 5.3 | 5.0 |
| Cash receipts from farm marketings | Bil. dol. | 58.5 | 53.4 | 54.9 | 56.5 | 56.9 | 58.1 | 62.5 | 68.5 |
| Nonmoney income and government payments | Bil. dol. | 7.9 | 7.0 | 6.9 | 7.6 | 7.9 | 8.0 | 8.1 | 7.1 |
| Realized gross farm income | Bil. dol. | 66.4 | 60.4 | 61.8 | 64.1 | 64.8 | 66.1 | 70.6 | 75.6 |
| Farm production expenses | Bil. dol. | 47.2 | 44.3 | 44.9 | 45.6 | 46.5 | 47.3 | 49.4 | 53.5 |
| Farmers' realized net farm income | Bil. dol. | 19.2 | 16.1 | 16.9 | 18.5 | 18.3 | 18.8 | 21.2 | 22.1 |
| Agricultural exports 3/ | Bil. dol. | 9.4 | 1.9 | 1.9 | 2.2 | 2.1 | 2.1 | 3.1 | 3.7 |
| Agricultural imports 3/ | Bil. dol. | 6.5 | 1.7 | 1.1 | 1.7 | 1.5 | 1.6 | 1.7 | 1.9 |
| Volume of farm marketings | 1967=100 | 111 | 113 | 151 | 98 | 83 | 110 | 149 | 99 |
| Livestock and products | do. | 107 | 109 | 114 | 102 | 105 | 108 | 112 | 101 |
| Crops | do. | 115 | 118 | 201 | 92 | 54 | 113 | 198 | 98 |
| Prices received by farmers 4/ | do. | 126 | 112 | 115 | 120 | 122 | 128 | 132 | 151 |
| Livestock and products | do. | 133 | 116 | 120 | 129 | 128 | 136 | 140 | 163 |
| Crops | do. | 116 | 107 | 108 | 110 | 114 | 117 | 121 | 134 |
| Prices paid by farmers 4/ 5/ | do. | 127 | 120 | 122 | 124 | 125 | 127 | 130 | 136 |
| Wholesale price index, all commodities 4/ | do. | 119.1 | 114.7 | 114.8 | 117.0 | 118.2 | 119.9 | 121.2 | 127.0 |
| Consumer price index, all items 4/ | do. | 125.3 | 122.0 | 122.7 | 123.7 | 124.7 | 125.8 | 126.9 | 128.7 |
| All food | do. | 123.5 | 119.6 | 119.4 | 121.6 | 122.6 | 124.5 | 125.4 | 131.4 |
| Food at home | do. | 121.6 | 117.7 | 117.2 | 119.8 | 120.5 | 122.6 | 123.4 | 130.5 |

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

Departments of Agriculture, Commerce, and Labor.

Farm prices reached record levels in the first quarter of 1973 as foreign and domestic demand created ready markets for livestock and crop supplies. The volume of crop marketings rose substantially from year-earlier levels, but livestock marketings were lower. Although production expenses also reached new highs, realized net farm income rose to a record $22.1 billion at a seasonally adjusted annual rate, about a fifth higher than in the first quarter 1972.




The farm sector situation for the remainder of the first half of 1973 seems relatively clear. Foreign and domestic demand will continue to put pressure on available supplies and average farm prices will ease only slightly from first quarter peak levels. The second half of the year could be a different story. If current production projections are realized, supplies of grains and soybeans would expand dramatically and help ease the current tight supplies. Average farm prices would decline to slightly above year-earlier levels by the end of the year. Farm income for the year would set new records. The uncertainties surrounding the second half of 1973 run the gamut from weather vagaries to possibilities of a downtrend in the economy. By midyear some of these uncertainties should be resolved.

### Domestic Demand Soars

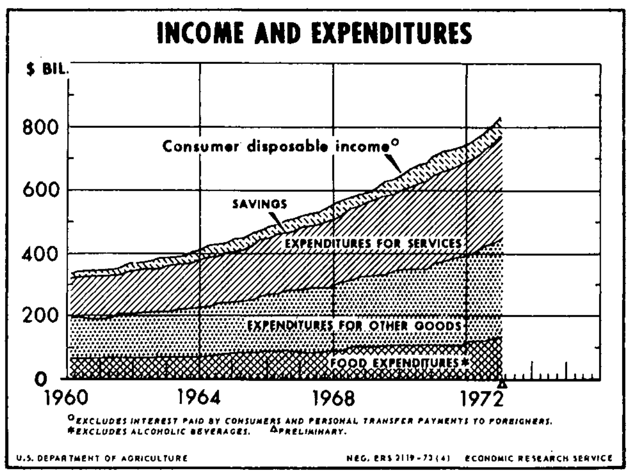
Rising wage rates, increased employment, and tax refunds as well as inflationary expectations, have stimulated consumers into a dramatic spending spree. With rapidly rising food demand and the uncertainty over the strength of Phase III controls leading to rapid general price increases, consumers apparently sought to buy automobiles and other durable goods in advance of further price increases. Savings, which traditionally increase when substantial transfer payments are received, actually declined in the face of the large tax refunds.

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

| Month | All crops | Livestock and products |
|---|---|---|
| | *Percent* | *Percent* |
| January 1972 | 8.8 | 14.5 |
| February | 4.8 | 12.0 |
| March | 0 | 12.2 |
| April | 3.7 | 9.6 |
| May | 4.5 | 13.2 |
| June | 2.7 | 15.9 |
| July | 6.4 | 19.3 |
| August | 11.2 | 15.4 |
| September | 12.5 | 17.1 |
| October | 9.4 | 16.9 |
| November | 10.1 | 16.0 |
| December | 17.6 | 18.9 |
| January 1973 | 18.0 | 21.4 |
| February | 20.0 | 22.9 |
| March | 29.6 | 34.9 |
| April | 27.7 | 34.4 |

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

Consumer purchases of food and beverages in the first quarter increased 10% over year-earlier levels to $155 billion at a seasonally adjusted annual rate. Purchases of clothing and shoes reached $68 billion, 14% above the 1972 level. With personal disposable income expected to increase by 11% this year, total purchases of these goods should average well above last year's $207 billion.




Consumer outlays for food in the first quarter were at a $133 billion annual rate, about 10% over a year earlier and $5.3 billion more than the total for the fourth quarter of 1972. Roughly four-fifths of the advance over first quarter 1972 is attributable to price increases.

Prices of all food at retail in the first quarter were 8% above a year earlier, with food at home up 9%. Sharp increases in the retail prices for livestock products accounted for much of the increase as demand for meat products and eggs outstripped supply. While red meat prices advanced 16%, egg prices jumped by 35%.

It appears that retail food prices for 1973 may average around 9% above last year assuming that farm output expands as anticipated for the year. However, if the larger output does not materialize, increased upward pressure on retail food prices could be expected.

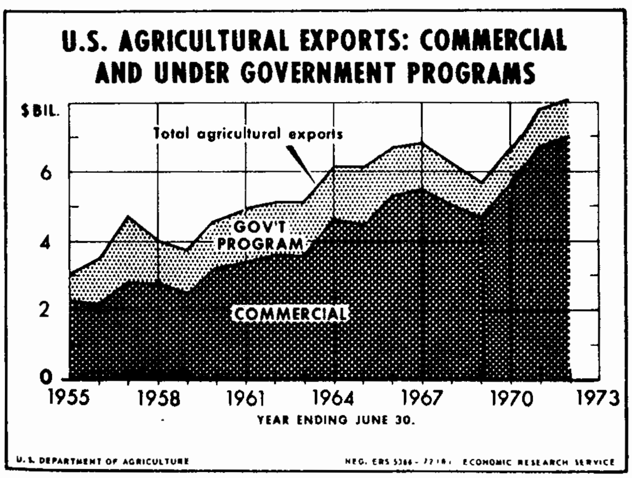
### Exports and Imports of Agricultural Products

U.S. agricultural exports for the first nine months of 1972/73 reached an all-time high of $9 billion—50% above a year earlier. Around three-fifths of the total increase in this July-March period was due to the increased value of grain exports. Soybeans and soybean products, cattle hides, and cotton also contributed substantially to the value gain. Tobacco exports were about equal to the level of a year earlier, while dairy products, and vegetable oils declined.

**U.S. agricultural exports, value of major commodities**

| Commodity | July-March | | Per-centage |
|---|---|---|---|
| | 1971/72 | 1972/73[1] | |
| | Million *dollars* | Million *dollars* | *Percent* |
| Animals and animal products | 756 | 974 | 29 |
| Cotton | 435 | 509 | 17 |
| Feed grains, excluding products | 789 | 1,563 | 98 |
| Fruits | 272 | 334 | 23 |
| Soybeans | 1,050 | 1,563 | 49 |
| Tobacco, unmanufactured | 470 | 495 | 5 |
| Vegetables | 169 | 199 | 18 |
| Wheat and flour | 748 | 1,561 | 109 |
| Rice | 208 | 333 | 60 |
| Other | 1,067 | 1,361 | 28 |
| Total exports | 5,964 | 8,892 | 49 |

[1] Preliminary.




U.S. agricultural imports increased sharply in July-March to nearly $5.2 billion, nearly 15% above year-earlier levels. Nearly 50% of the increase was attributable to animal and animal products with beef and veal accounting for over 19% of the total increased value.

Competitive agricultural import items totaled nearly $1.5 billion in July-March, 24% above a year earlier. Noncompetitive import commodities jumped 14% over a year ago to a level of $1.8 billion.

**U.S. agricultural imports, value of major commodities**

| Commodity | July-March | | Per-centage change |
|---|---|---|---|
| | 1971/72 | 1972/73[1] | |
| | *Million dollars* | *Million dollars* | *Percent* |
| Supplementary | | | |
| Animals and animal products | 1,208 | 1,498 | 24 |
| Fruits | 112 | 129 | 15 |
| Oilseeds and oil products | 30 | 31 | 3 |
| Sugar and molasses | 670 | 669 | 0 |
| Tobacco, unmanufactured | 123 | 113 | -8 |
| Vegetables | 222 | 272 | 23 |
| Wines and malt beverages | 161 | 204 | 27 |
| Other | 364 | 419 | 15 |
| Total | 2,890 | 3,335 | 15 |
| Complementary | | | |
| Bananas | 130 | 144 | 11 |
| Cocoa and chocolate | 44 | 47 | 7 |
| Coffee | 920 | 1,104 | 20 |
| Rubber | 161 | 154 | -4 |
| Other | 364 | 393 | 8 |
| Total | 1,619 | 1,842 | 14 |
| Total imports | 4,509 | 5,176 | 15 |

[1] Preliminary.

The U.S. agricultural trade balance reached a record $3.7 billion, more than double that of a year ago.

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

| Item | 1971/72 | 1972/73[1] | Per-centage change |
|---|---|---|---|
| | *Million dollars* | *Million dollars* | *Percent* |
| Exports | 5,964 | 8,892 | 49 |
| Imports | 4,509 | 5,176 | 15 |
| Trade balance | 1,455 | 3,716 | 155 |

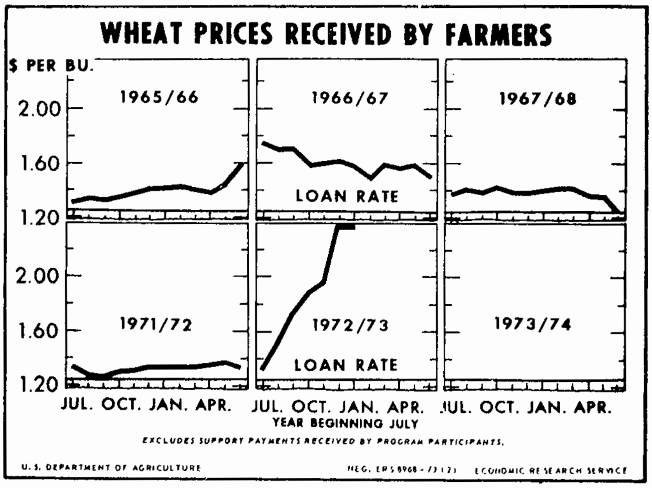
[1] Preliminary.

### Grain Demand Domintes Crop Scene

Record exports continue to dominate the 1972/73 wheat scene. At 1,150 million bushels, they will total a third over the old record of 1965/66. With total disappearance forecast at a record 1,991 million bushels, carryover this summer will drop to around 418 million, lowest since 1967.

The world wheat market remains bullish and current exportable supplies are extremely tight. Although the winter wheat crop in the USSR wintered well, production is still expected to fall short of established goals. The poor Asian rice crop has added further demand to the already strong world wheat market. Thus, world demand may continue very strong well into the 1973/74 marketing year.

As of March 1 farmers indicated spring wheat plantings of 15.4 million acres, 21% above last year's level. Durum acreage was up 18% and other spring wheat was 22% higher. If planting intentions are realized and average yields are on trend, the 1973 spring wheat crop could total around 454 million bushels, a fourth larger than last year.




The 1973 winter wheat crop was estimated at 1,278 million bushels last December. The elimination of required set aside is expected to increase the 88% December estimate of the percentage of planted acreage which will be harvested. With winter wheat generally in good condition and yields near the level indicated in December, the winter wheat crop could reach 1,300 million bushels. Combining winter and spring crops would yield a record 1973 harvest of around 1,750 million bushels, 14% higher than 1972.

The March 1 prospective plantings report indicated 122 million acres to be planted to feed grains this year. Production on that acreage would be approximately 209 million tons, 5% more than in 1972, but less than anticipated needs for the 1973/74 marketing season.

The March report also indicated corn acreage at 71.6 million acres, 7% above 1972. That acreage would indicate a crop of about 5.8 billion bushels, 4% above 1972. Intended sorghum acreage of 18.6 million acres would produce a crop of around 831 million bushels, about the same as 1972 and 5% below 1971.

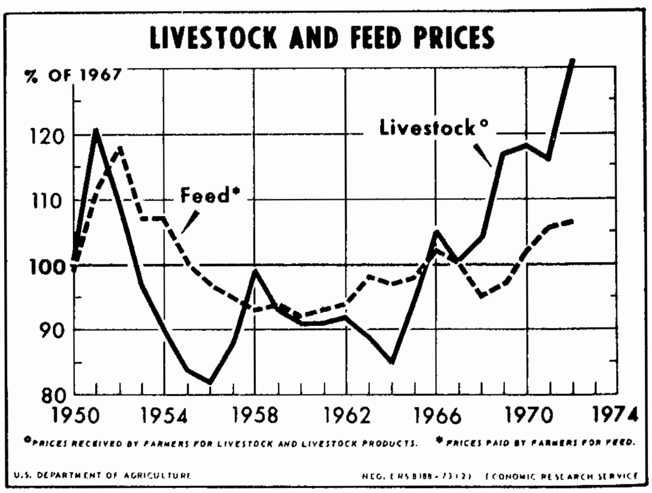
**Stocks of grains**

| Grain and position | April 1, 1972 | April 1, 1973 | Percentage change 1973/72 |
|---|---|---|---|
| | *Million tons* | *Million tons* | *Percent* |
| TOTAL FEED GRAINS | | | |
| On farms[1] | 86 | 79 | -8 |
| Off farms[2] | 41 | 40 | -2 |
| Total | 127 | 119 | -6 |
| | *Million bushels* | *Million bushels* | *Percent* |
| WHEAT | | | |
| On farms[1] | 525 | 316 | -40 |
| Off farms[2] | 685 | 607 | -11 |
| Total | 1,210 | 923 | -24 |
| SOYBEANS | | | |
| On farms[1] | 219 | 147 | -33 |
| Off farms[2] | 334 | 358 | 7 |
| Total | 552 | 506 | -8 |

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

Totals may not add due to rounding.

Feed grain plantings, however, may significantly increase from March 1 indications. USDA changed the feed grain program on March 26 to free about 13½ million acres for crop production and other uses. About 2½ to 3½ million of this acreage may go into corn, with smaller increases in other feed grains. Normal yields would produce about 10 million more tons of feed grains than indicated March 1. However, persistent wet weather has seriously delayed land preparation in the major corn and soybean areas. A period of warm dry weather is urgently needed if farmers are to achieve the intended expansion.




Expanding beef cattle and hog inventories will boost grain consuming animal units in 1973/74 by around 4%,

Table 2.--Supply-distribution and season average prices of selected major crops, 1969/70, 1970/71, 1971/72, and 1972/73

| Item | Unit | Beginning stocks | Imports | Production | Total supply | Domestic use | Exports | Total use | Ending stocks | Season average price 1/ |
|---|---|---|---|---|---|---|---|---|---|---|
| Feed grains | | | | | | | | | | |
| 1969/70.......... | Mil. tons | 50.2 | 0.4 | 177.4 | 228.0 | 158.2 | 21.2 | 179.4 | 48.6 | 2/1.15 |
| 1970/71.......... | Mil. tons | 48.6 | .4 | 160.1 | 209.1 | 155.2 | 20.7 | 175.9 | 33.2 | 2/1.33 |
| 1971/72p......... | Mil. tons | 33.2 | .5 | 207.7 | 241.4 | 165.7 | 27.3 | 193.0 | 48.4 | 2/1.08 |
| 1972/73e......... | Mil. tons | 48.4 | .3 | 199.8 | 248.5 | 178.1 | 33.4 | 211.5 | 37.0 | 2/1.29 |
| Wheat | | | | | | | | | | |
| 1969/70.......... | Mil. bu. | 816.7 | 3.2 | 1,442.7 | 2,262.6 | 771.6 | 606.1 | 1,377.7 | 884.9 | 1.25 |
| 1970/71.......... | Mil. bu. | 884.9 | 1.1 | 1,351.6 | 2,237.6 | 768.6 | 737.5 | 1,506.1 | 731.5 | 1.33 |
| 1971/72p......... | Mil. bu. | 731.5 | 1.0 | 1,617.8 | 2,350.3 | 854.7 | 632.5 | 1,487.2 | 863.1 | 1.34 |
| 1972/73e......... | Mil. bu. | 863.1 | 1.2 | 1,544.8 | 2,409.1 | 841.4 | 1,150.0 | 1,991.4 | 417.7 | 1.77 |
| Rice | | | | | | | | | | |
| 1969/70.......... | Mil. cwt. | 16.2 | .2 | 91.9 | 108.3 | 3/35.0 | 56.9 | 91.9 | 16.4 | 4.95 |
| 1970/71.......... | Mil. cwt. | 16.4 | 1.5 | 83.8 | 101.7 | 3/36.6 | 46.5 | 83.1 | 18.6 | 5.17 |
| 1971/72p......... | Mil. cwt. | 18.6 | 1.1 | 85.8 | 105.5 | 3/37.1 | 57.0 | 94.1 | 11.4 | 5.34 |
| 1972/73e......... | Mil. cwt. | 11.4 | 1.2 | 85.2 | 97.8 | 36.8 | | | | 6.73 |
| Soybeans | | | | | | | | | | |
| 1969/70.......... | Mil. bu. | 326.8 | 0 | 1,133.1 | 1,460.0 | 797.6 | 432.6 | 1,230.2 | 229.8 | 2.35 |
| 1970/71.......... | Mil. bu. | 229.8 | 0 | 1,127.1 | 1,356.9 | 824.3 | 433.8 | 1,258.1 | 98.8 | 2.85 |
| 1971/72p......... | Mil. bu. | 98.8 | 0 | 1,176.0 | 1,274.8 | 786.0 | 416.8 | 1,202.8 | 72.0 | 3.03 |
| 1972/73e......... | Mil. bu. | 72.0 | 0 | 1,282.9 | 1,354.9 | 820.0 | 475 | 1,295 | 60 | 4.13 |
| Cotton 4/ | | | | | | | | | | |
| 1969/70.......... | 5/ Mil. bales | 6.5 | 6/.1 | 10.0 | 16.6 | 8.0 | 2.9 | 10.9 | 5.8 | 21.09 |
| 1970/71.......... | 5/ Mil. bales | 5.8 | 6/.1 | 10.3 | 16.2 | 8.1 | 3.9 | 11.9 | 4.3 | 21.98 |
| 1971/72p......... | 5/ Mil. bales | 4.3 | 6/.1 | 10.4 | 14.8 | 8.2 | 3.4 | 11.6 | 3.4 | 28.23 |
| 1972/73e......... | 5/ Mil. bales | 3.4 | 6/.1 | 13.8 | 17.2 | 7.8 | 4.7 | 12.5 | 4.7 | 7/26.8 |

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Price for corn. 3/ Includes the following statistical discrepancies: 1969/70, 1.9, 1970/71, 2.2 and 1971/72, 1.7 mil. cwt. 4/ Production based on ginnings between August 1 and July 31. 5/ 480 pound net weight bales. 6/ Includes city crop. 7/ Average price to January 1, 1973, with no allowance for unredeemed loans.

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

adding to domestic feed requirements. Exports will probably increase from the 33 million tons forecast for 1972/73.

Feed buyers are paying the highest prices ever for ingredients this year. Although feed grains prices are relatively high, most of the increased feed costs are for protein feeds which are in extremely tight supply throughout the world. However, with prospective soybean plantings of 54 million acres, 7 million more than in 1972, feed buyers can expect lower feed costs this fall, if growers are able to plant the necessary acreage and the growing season is normal.

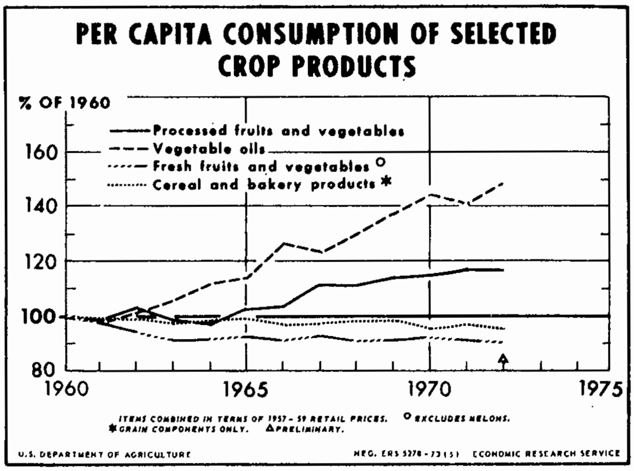
Change from a year earlier in livestock-feed price ratios

| Year | Beef steer-corn | Hog-corn | Broiler-feed | Milk-feed |
|---|---|---|---|---|
| | *Pct.* | *Pct.* | *Pct.* | *Pct.* |
| 1971/70 | | | | |
| I . . . . | -13.5 | -48.9 | -12.9 | -5.1 |
| II . . . . | -8.3 | -39.9 | 0 | -5.3 |
| III . . . . | 15.8 | -9.5 | 7.1 | -1.8 |
| IV . . . . | 41.7 | 57.0 | 4.0 | 3.9 |
| 1972/71 | | | | |
| I . . . . | 35.1 | 82.5 | 11.1 | 8.3 |
| II . . . . | 29.4 | 79.8 | -3.4 | 6.3 |
| III . . . . | 12.1 | 56.6 | 6.7 | 4.2 |
| IV . . . . | -9.6 | 16.3 | 3.8 | -5.9 |
| 1973/72 | | | | |
| I . . . . | 10.6 | 15.1 | 3.3 | -15.8 |

Although the 1972 growing season was especially favorable, a notoriously wet fall hurt the quality of late-harvested corn. The record average yield of 96.9 bushels was 8.8 bushels above the previous high in 1971 and total production was only 2% below the previous year's record level. Domestic consumption during 1972/73 is forecast at 4.8 billion bushels, around 400 million more than in 1971/72. The revision reflects continuation of heavy consumption in January-March, greater anticipated use of corn in lieu of high-protein feeds, and the need to feed more low quality corn. The export forecast remains at a billion bushels. These estimates suggest a carryover of about 900 million bushels this October 1, down from the 1.1 billion of a year earlier.

Corn prices were fairly stable between December and March, ranging mostly between $1.50 and $1.60 a bushel at Chicago. But during April, prices ranged generally upward to between $1.60 and $1.68 as continued heavy rains and flooding delayed land preparation and planting in the central portion of the Nation. Prices over the next few weeks will continue to be sensitive to weather conditions and developments in corn plantings.

If farmers carry out March 1 intentions, they would plant a record 54 million acres to soybeans this year, 7 million above 1972. If yields are near trend, production would total about 1½ billion bushels, compared with 1,283 million last year. With carryover stocks next September estimated to be at minimum levels, supplies for 1973/74 would total some 200 million bushels above the 1,355 million for 1972/73. Recent changes in the feed grain program could boost plantings to over 54 million acres.




Demand for soybeans continues strong, but tight supplies are limiting utilization to about 1.3 billion bushels or approximately the 1972 production. Crushings may total around 745 million bushels compared with 721 million last season. Exports are estimated at 475 million bushels, compared with 417 million last season. Heavy world requirements for high-protein meals are influencing both the large domestic crush and exports. Soybean stocks on April 1 totaled 506 million bushels, about 8% below a year ago.

Soybean farm prices this season are the highest of record, rising from $3.13 per bushel last October to $6.14 in April. The season average price is $4.13 per bushel compared with $3.03 last season. Prices the rest of the marketing year are expected to remain high but may fluctuate widely.

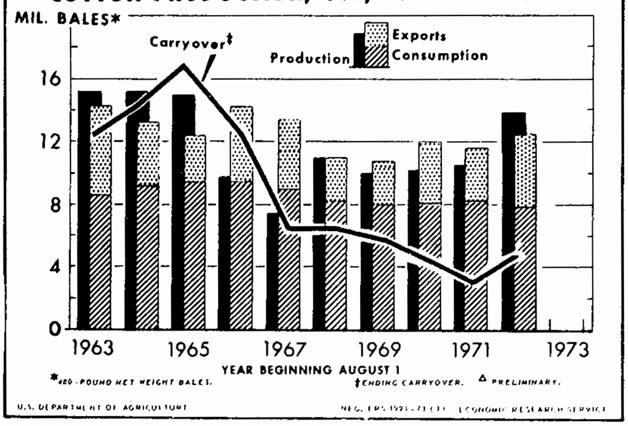
U.S. tobacco growers plan to boost plantings about 7% from the 843,000 acres harvested last year. Prospective tobacco acreage, with average growing conditions, indicates a crop of 1.9 billion pounds, 8% more than last year. But the smaller expected carryover will keep the supply about the same as in 1972/73.

Total domestic use and exports of tobacco for 1972/73 should exceed the 1972 crop output and reduce carryover stocks 4% from last season. Larger output in 1973 might equal next season's anticipated use, which may remain about steady.

Exports of unmanufactured tobacco totaled 435 million pounds, export weight, for July-March, about 1% above a year earlier. Exports for the remainder of the year are expected to hold close to year-earlier levels.

Cotton production may decline sharply this year, as cotton farmers March 1 intentions were to plant 13.1 million acres, down from 14.0 million in 1972. The decline primarily reflects a 13% cut in the national base acreage allotment and intensified competition from crops such as feed grains and soybeans for cropland. Wet weather and flooding in the Delta States will likely restrict planting activity and cause actual planted acreage to fall short of the March intentions. However, the current high market and contract prices are encouraging plantings in the West and in other areas to exceed the March intentions.

**COTTON PRODUCTION, USE, AND CARRYOVER**



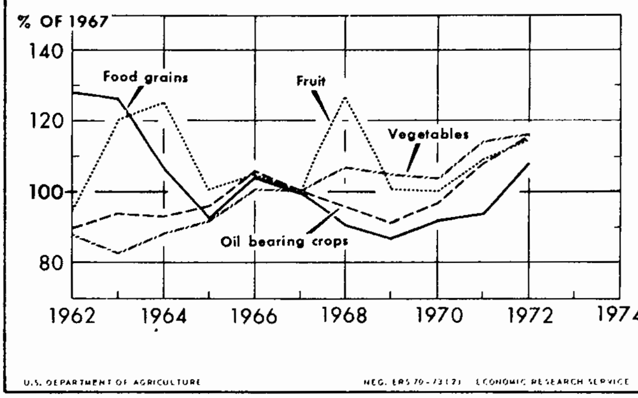

Export demand for U.S. cotton is particularly strong this season. Shipments will likely total about 4.7 million bales, up from 3¾ million during 1971/72. Major factors include stock rebuilding in importing countries, larger cotton use abroad, and poor crops in a number of foreign countries. Domestic mill use of U.S. cotton during 1972/73 is estimated at 7¾ million bales, down from 8.2 million last season. Last year's tight supplies and continuing high prices have led to intensified competition from man-made fibers and textile imports. So, despite larger exports, disappearance will fall short of production and stocks in August will increase to about 4.6 million bales, up from 3.4 million last August.

Acreage of 14 spring fresh vegetables is 2% more than a year ago, but projected production would be 2% less than the high yielding 1972 crop total. With smaller supplies, farm prices in the second quarter will probably decline seasonally but will hold moderately higher than a year ago.

Supplies of processed vegetables are smaller than a year ago and the smallest in several recent seasons. Prices for most items have moved up steadily through the marketing season and are expected to hold firm at least until the size of new pacts become apparent.

The potato market has been experiencing the highest prices since the 1964/65 season. Storage stocks are substantially smaller, and processing use has been heavy. For the new crop, the picture is mixed. In the Spring States which include California, 6% larger tonnage is expected this season, but summer acreage prospects are off slightly. Despite high prices and a relatively small 1972 crop, U.S. fall crop acreage is presently forecast only 1% more than 1972. Larger gains in the Pacific Northwest offset smaller plantings expected in Central and Eastern Regions.

**PRICES RECEIVED BY FARMERS FOR SELECTED CROP PRODUCTS**



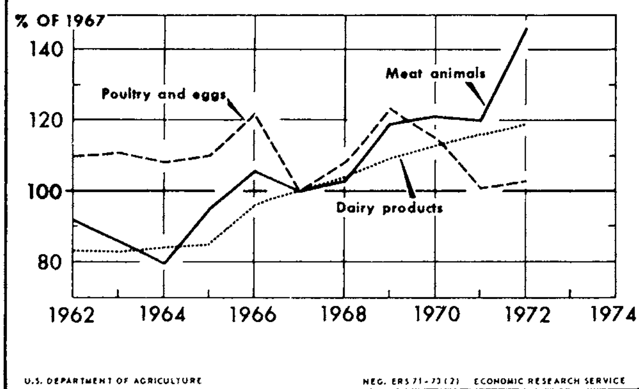

This season's citrus crop is expected to exceed last season's record output by 14%. As of April 21, nearly two-thirds of the Florida Valencia orange crop remained to be harvested. This Valencia crop, our main source of orange supplies through late summer, is expected to total 14% above last season's crop. Likewise supplies of grapefruit and lemons this spring and early summer will also be up.

With larger supplies grower prices for oranges will likely be below year-earlier levels for the remainder of the season. U.S. grapefruit prices to growers in January-April have averaged near last year's levels, and while movement into domestic marketing channels appears to be lagging, export demand continues strong. Prices may remain near year-earlier levels assuming continued heavy exports. Fresh lemon prices at the f.o.b. level declined substantially during April and are expected to continue below the level of last year during the remainder of the season.

### Output and Demand for Livestock

Total output of livestock and products was down slightly in the first quarter of 1973 compared with the same period last year. Imports were above last year's levels and beef production was about the same, but pork production was sharply lower than a year earlier. Production of eggs and milk registered moderate declines. Broiler production was down only slightly and turkey production showed a modest increase in output. The slightly smaller supplies and the vigorous consumer demand for meat products have pushed farm prices of livestock and products an average of 26.5% above last year's levels.

**PRICES RECEIVED BY FARMERS FOR SELECTED LIVESTOCK AND LIVESTOCK PRODUCTS**



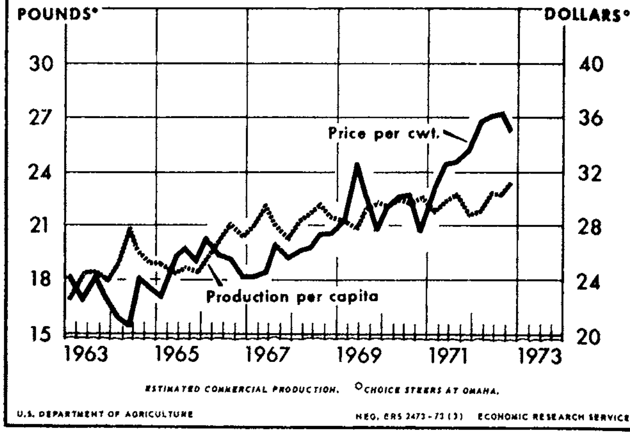

Several unusual developments have affected livestock and meat markets in recent weeks, increasing the uncertainty in the outlook for meat supplies and prices for 1973. These developments include the consumer meat boycott, a slowdown in marketings, severe late-winter weather followed by spring flooding, the ban on using DES as a growth stimulant for cattle, renewed increases in feed costs, imposition of price ceilings on meat, and a sharp gain in pork purchases for export. The net impact suggests that the increase in red meat supplies this year might be less than had been anticipated a few months ago.

Rising commodity prices this past winter, especially meat prices, led to the meat boycott during the first week in April. Cattle and hog slaughter dropped off the week before the boycott and then remained somewhat reduced for the next several weeks. The temporary reduction in the meat supply about matched the boycott-induced drop in consumer demand, and little significant change in average retail, wholesale, or farm prices was noted. However, as cattle and hogs withheld from the market began to be marketed in late April and early May along with the normal marketings, meat animal prices declined somewhat.

Continued favorable prices, fueled by strong consumer demand should encourage beef and pork producers to maintain expansion efforts throughout the year with most of the impact becoming evident in the second half. Any increase in the production of poultry, eggs, and milk will likely hinge on the feed situation. Prices for livestock for the remainder of the year will average above 1972 levels but below the high levels of March. Declines can be expected in the fall if increased output materializes.

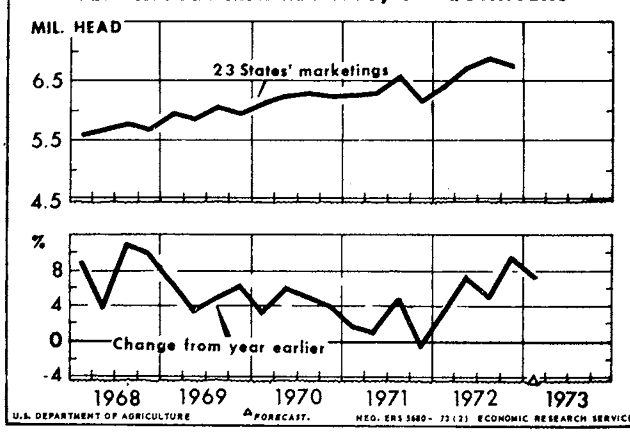
Fed cattle marketings were 3% larger in the first quarter of 1973 compared to year-earlier levels as

**STEER AND HEIFER BEEF PRODUCTION AND PRICES**

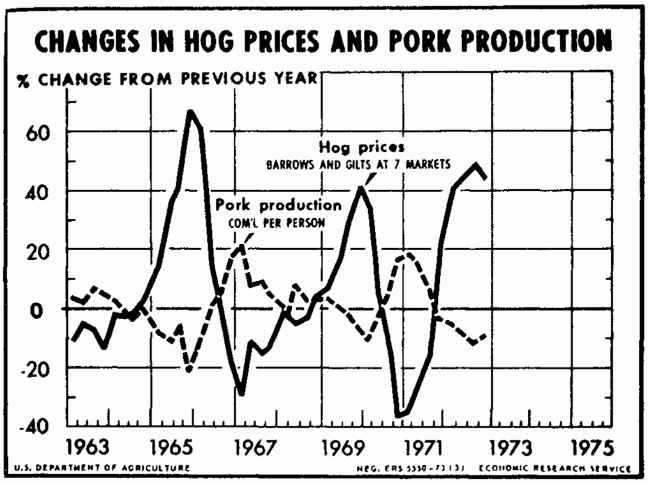



reported by 23 major cattle feeding States. Cow slaughter was up 5% in the first quarter due primarily to an increase in dairy cow culling. Choice steers at Omaha have eased from their high in March by $1 per 100 pounds to around $45 in early May. This was still $10 above prices a year ago. With cattle feeders reporting 3% more cattle on feed on April 1 in weight groups typically marketed in the summer months, fed cattle marketings should continue to increase in the third quarter of 1973. Nevertheless, strong consumer demand and seasonally smaller pork output will hold fed cattle prices well above year-earlier levels.

**FED CATTLE MARKETINGS, BY QUARTERS**




With hog slaughter down sharply in the first quarter, partially due to the low kill rate in late March, hog prices at 7 markets in early May were averaging about $34.50 per 100 pounds, about $11 higher than at the same time last year. While spring slaughter rates will average near last year levels, prices and slaughter should follow the usual seasonal patterns in the summer months, with some decline in slaughter and an increase in price. However, prices in the summer are not likely to regain the mid-March high of $40. Hog farmers encouraged by 1972 prices are responding with a 4 to 6% larger spring pig crop which should show up in the second half hog slaughter. The decline in prices to be brought on by this second half slaughter may result in October-December prices averaging below the 1972 fourth quarter levels of $29.



CHANGES IN HOG PRICES AND PORK PRODUCTION

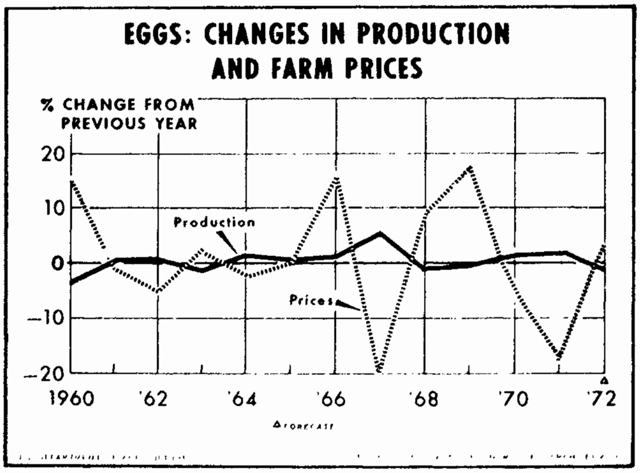
Lamb prices are averaging $6 above 1972's early spring prices in response to a generally strong consumer demand for meat and a sharply reduced lamb slaughter. Prices will likely be above a year earlier for the remainder of the year because of a continuing reduction in slaughter supplies.

Broiler production in the first quarter of 1973 was down slightly from 1972's record first quarter levels and wholesale prices for broilers in early April were at their highest point since the mid-1950's. However, feed costs, a major outlay in poultry production, were at record levels. This caused hatcheries to cut back around 5% on the number of chicks placed for April-May marketings and may affect production for the remainder of the year.

High red meat prices, smaller spring and summer broiler supplies, and increased consumer incomes will hold broiler prices well above the low year-earlier levels throughout 1973. Prices probably will remain strong in the spring and summer but decline from current levels.

First half turkey output is up substantially. However, this production accounts for around one-fourth of annual output. Again, as in broilers, turkey production in the second half will depend heavily on feed prices. Turkey prices may weaken in the summer but remain well above last year's prices.

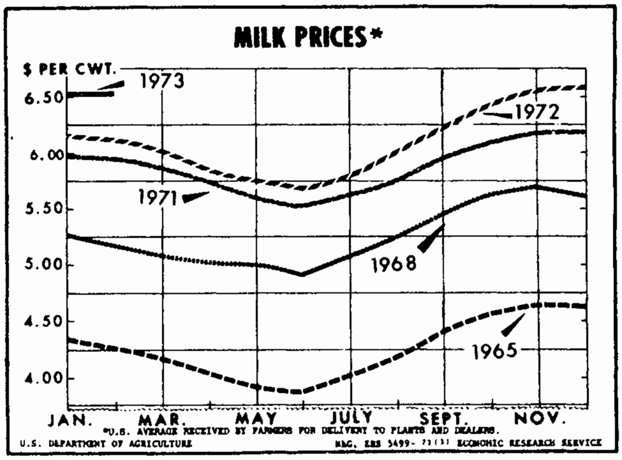
Egg production during the first quarter trailed 1972 by 7%. Lower production coupled with reduced supplies of egg products, will cause prices to remain sharply above the unusually low 1972 levels for the remainder of the year. New York wholesale prices during April averaged around 50 cents per dozen which was 20 cents



EGGS: CHANGES IN PRODUCTION AND FARM PRICES

above the depressed year-earlier levels. Egg prices will decline as usual this spring, then rise seasonally in the summer and next fall.

Milk production for the first quarter of 1973 totaled 29.0 billion pounds, down slightly (on a daily average basis) from a year earlier. This reflected high feed prices, along with poor quality roughage and short feed supplies in several key producing States. Feed conditions are limiting gains in milk output per cow and together with high cow prices are encouraging a quickening pace of milk cow slaughter. Prices received by dairy farmers advanced to $6.54 per 100 pounds for milk in the first quarter of 1973, a 7½% increase over a year ago.



MILK PRICES*

Gross dairy income may advance to $7½ billion in 1973, up from $7.2 billion last year. However, feed and other production costs are rising at a faster pace and may reduce net income below 1972 levels. Following last year's 3¼% gain, commercial disappearance of milk in all dairy products in the first quarter of 1973 was only slightly above year-earlier levels.

Farm prices of shorn wool will easily top last year's 35 cents a pound and likely exceed the Wool Act incentive price of 72 cents. This means a strong market

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

| Item | Unit | Annual | | | First quarter | |
|---|---|---|---|---|---|---|
| | | 1970 | 1971 | 1972 | 1972 | 1973 1/ |
| Production 2/ | | | | | | |
| Beef and veal | Mil. lb. | 22,273 | 22,448 | 22,871 | 3/5,488 | 3/5,482 |
| Pork | Mil. lb. | 13,438 | 14,792 | 13,626 | 3/3,503 | 3/3,262 |
| Lamb and mutton | Mil. lb. | 551 | 555 | 543 | 3/142 | 3/125 |
| Chickens | Mil. lb. | 8,671 | 8,720 | 9,320 | 3/2,009 | 3/1,991 |
| Turkeys | Mil. lb. | 1,762 | 1,811 | 1,939 | 3/149 | 3/157 |
| Eggs | Mil. lb. | 8,966 | 9,178 | 9,092 | 2,348 | 2,183 |
| Milk | Bil. lb. | 117.0 | 118.5 | 120.3 | 4/29.6 | 4/29.0 |
| Prices received by farmers | | | | | | |
| Cattle | Dol./cwt. | 27.10 | 29.00 | 33.20 | 32.10 | 40.40 |
| Hogs | Dol./cwt. | 5/22.70 | 5/17.50 | 5/25.20 | 23.90 | 34.50 |
| Lambs | Dol./cwt. | 26.40 | 25.90 | 28.70 | 27.40 | 35.70 |
| Broilers | Ct./lb. | 5/13.6 | 5/13.7 | 5/14.1 | 14.2 | 20.0 |
| Turkeys | Ct./lb. | 22.6 | 22.1 | 22.2 | 22.6 | 25.6 |
| Eggs | Ct./doz. | 5/39.1 | 5/31.4 | 5/30.9 | 30.2 | 46.4 |
| All milk (sold to plants) | Dol./cwt. | 5.71 | 5.87 | 6.07 | 6.08 | 6.54 |

1/ Preliminary. 2/ Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Data for 48 States. Commercial slaughter only. 4/ Based on monthly data. 5/ Marketing year average December-November.

return and no government payments on 1973 output. Although market prices have fallen in recent weeks, as the ranks of avid buyers thinned out, producers had already sold or contracted two-thirds of the clip. Southern Hemisphere auction prices of competitive wools, including the March turnaround, have dominated the U.S. situation with stocks and production down in most areas of the world.

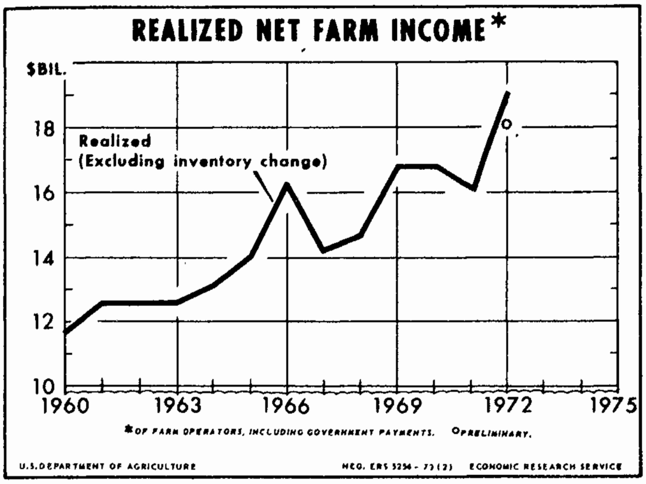
## Farm Income and Prices

Prices received for farm products accelerated sharply in the first quarter of 1973 and averaged 25% above a year ago. Prices received for crops rose nearly 23% above the corresponding prices in 1972 with food grains and oil-bearing crops registering gains of over 50%. Prices received for livestock and livestock products increased 26% with meat animals and poultry and egg products registering gains of 31% and 44% respectively.

The volume of farm marketings in the first quarter rose almost 2% over a year earlier, with crop marketings up over 6%. Cash receipts from crop marketings were up 30%. The 26% increase in cash receipts for marketings of livestock and livestock products was attributable to price increases.

First quarter realized gross farm income reached $76 billion at a seasonally adjusted annual rate, 18% above first quarter 1972. Production expenses in the first quarter increased at nearly the same percentage rate. As a result, net farm income rose to just above $22 billion at a seasonally adjusted annual rate, compared with the year-earlier level of $18½ billion.

For the remainder of 1973, larger marketings will partially offset the probable easing in farm prices that is likely to occur as increased supplies of livestock and new harvests add to the available supply.




For the year, cash receipts from livestock marketings will probably increase by $5 billion or more over 1972. Crop receipts may increase by $4 billion. With Government payments expected to drop over $1 billion for the year, gross income realized by farmers may total over $74 billion. Although production expenses will provide a large offset, realized net farm income may reach $21 billion, a new record.

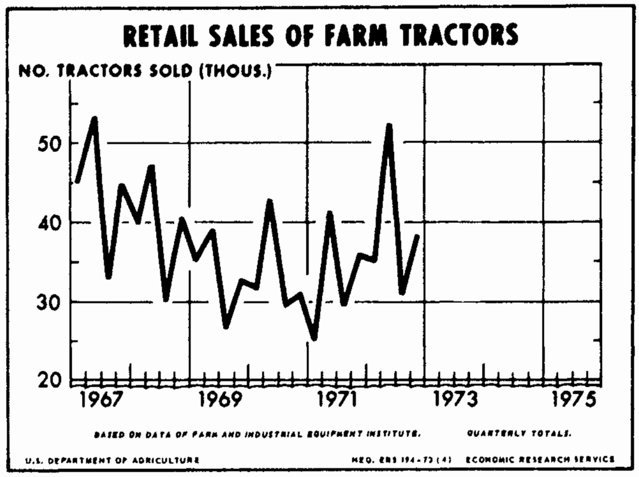
### Farm Inputs

Prices paid by farmers for production items, interest, taxes, and wages through the first quarter of 1973 averaged 12% above a year earlier. This is the sharpest quarter-to-quarter rise in over 20 years. A closer examination of the production items reveals that feeder livestock prices rose by 27% and feed by 35%. Together they account for 29% of the weighted average of production items, interest, taxes, and wage rates. Other items increased at more moderate rates: for example, fertilizer 3%, interest 9%, taxes 6%, and farm machinery 8%.

For the balance of the year, prices of inputs of farm origin will not advance as steeply, due largely to expected lower prices for feeder cattle and feed. However, the surging economy may push prices upward at a faster rate than last quarter for most non-agricultural inputs. Farmers are already experiencing tight supplies of fertilizer, seed, and fuel.

Farm wage rates (per hour excluding room and board) on April 1, 1973 advanced to $1.97 per hour, up 7% over last year.

Retail sales of farm tractors as reported by the Farm and Industrial Equipment Institute through February 1973 showed a gain of 35% over last year at this time. As in past months, the main ingredients in the surge are record farm incomes and strong demand for grains and most other crops.




Retail sales of farm machinery other than tractors through February of 1973 showed increases in all machine categories. The most substantial gains were for corn heads 104%, mower conditioners 88%, cornpickers 58%, and combines 39%.

Continued large sales of farm machinery and most farm inputs are likely for the balance of the year. Last year's record farm income and prospects for another record year, plus additional set-aside acres released for planting, are the dominant factors favoring continued good sales performance. However, as the year progresses, possible large price increases and higher interest rates could discourage some farmers from the purchase of selected inputs.

Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

| Item | Year 1972 | 1972 II | 1972 III | 1972 IV | 1973 I 1/ |
|---|---|---|---|---|---|
| | Billion dollars | | | | |
| Gross national product | 1,151.8 | 1,139.4 | 1,164.0 | 1,194.9 | 1,235.5 |
| Gross national product (1958 dollars) | 789.5 | 783.9 | 796.1 | 811.6 | 827.1 |
| Disposable personal income | 795.1 | 782.6 | 798.8 | 828.2 | 850.9 |
| Personal consumption expenditures | 721.0 | 713.4 | 728.6 | 745.7 | 773.7 |
| Durable | 116.8 | 113.9 | 118.6 | 120.8 | 130.1 |
| Nondurable | 299.5 | 297.2 | 302.0 | 310.4 | 322.9 |
| Services | 305.4 | 302.4 | 308.0 | 314.5 | 320.7 |
| Personal savings | 54.8 | 50.1 | 50.8 | 62.8 | 56.9 |
| Net government receipts | 249.0 | 247.3 | 253.1 | 254.5 | --- |
| Government purchases | 254.6 | 254.1 | 255.6 | 259.3 | 266.8 |
| Federal | 105.8 | 108.1 | 105.4 | 104.0 | 107.0 |
| State and local | 148.8 | 146.0 | 150.2 | 155.2 | 159.8 |
| Deficit or surplus (on income and product accounts) | -5.4 | -6.9 | -2.4 | -4.8 | --- |
| Gross private domestic investment | 180.4 | 177.0 | 183.2 | 193.4 | 199.4 |
| Fixed investment | 174.5 | 172.0 | 175.2 | 183.1 | 191.5 |
| Residential | 54.0 | 52.8 | 54.4 | 57.0 | 59.2 |
| Nonresidential | 120.6 | 119.2 | 120.7 | 126.1 | 132.3 |
| Change in business inventories | 5.9 | 5.0 | 8.0 | 10.3 | 7.9 |
| Gross retained earnings | 124.1 | 124.8 | 125.1 | 130.1 | --- |
| Excess of investment | -56.3 | -52.2 | -58.1 | -63.3 | --- |
| Net exports of goods and services | -4.2 | -5.2 | -3.4 | -3.5 | -4.4 |
| Per capita disposable personal income (1958 dollars) | 2,770 | 2,739 | 2,773 | 2,851 | 2,887 |
| Total civilian employment (millions) 2/ | 81.7 | 81.5 | 82.0 | 82.6 | 83.2 |

1/ Preliminary

2/ U.S. Department of Labor.

U.S. Department of Commerce.

# GENERAL ECONOMIC SITUATION

Consumers dominated the first quarter of 1973 by unleashing their buying power. The result was a first quarter gross national product of $1,236 billion at an annual rate, 14% above fourth quarter levels. However, the implicit GNP deflator increased by 6% at a seasonally adjusted annual rate, indicating on 8% growth in real GNP. The consumers' role is reflected in seasonally adjusted retail sales which reached a level 17% above a year earlier and 6% above the fourth quarter. Automobile sales ran 26% above year-earlier levels. As a result, business inventories increased only $7.9 billion at a seasonally adjusted annual rate, well below the level expected by most economists. While personal disposable income increased at a 11% annual rate, personal savings declined and total consumer installment credit reached record highs. Industrial production rose at an 8.0% annual rate, while fixed investment increased at an 18% rate.

**Major personal income components, change from previous quarter**

| Item | 1972 III | 1972 IV | 1973 I[1] |
|---|---|---|---|
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Personal income | 17.8 | 34.7 | 19.3 |
| Wages and salaries | 10.3 | 18.0 | 19.6 |
| Manufacturing | 2.5 | 7.3 | 5.4 |
| Nonmanufacturing | 5.1 | 7.7 | 9.5 |
| Government | 2.7 | 3.0 | 4.7 |
| Other income | 6.1 | 6.7 | 4.9 |
| Transfer payments | 2.1 | 10.8 | .9 |
| Social insurance payments (minus) | .7 | .7 | 6.2 |
| Personal tax payments | 1.6 | 5.3 | -3.4 |
| Disposable personal income | 16.2 | 29.4 | 22.7 |
| Personal outlays | 15.5 | 17.5 | 28.4 |
| Personal savings | .7 | 12.0 | -5.9 |

[1] Preliminary.

## Economy at Crossroads

In early 1973 the economy appeared to be expanding at a boom-like pace for the first half of the year but was expected to gradually slow into the full-employment long-run growth path as the year closed. But some uncertainties were apparent. Federal expenditures would have to be controlled, Phase III was untested, monetary policy was uncertain, and the dollar remained unstable internationally. The problem of the Federal expenditures seemed resolved by the budget submitted for 1974.

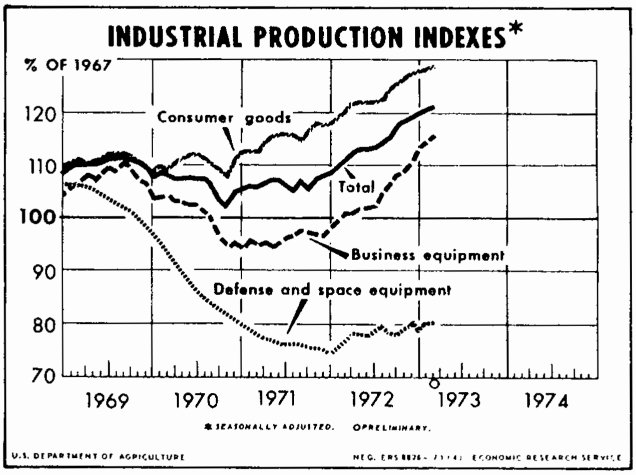
However, the performance of the economy in the first quarter has now cast the remaining uncertainties in a much more critical role. The degree of inflationary expectations among consumers and businessmen may

**Major GNP components, change from previous quarter**

| Item | 1972 III | 1972 IV | 1973 I[1] |
|---|---|---|---|
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Total change in GNP | 24.6 | 30.9 | 40.6 |
| Consumption | 15.2 | 17.1 | 28.0 |
| Private nonresidential fixed investment | 1.5 | 5.4 | 6.2 |
| Housing | 1.6 | 2.6 | 2.2 |
| Inventory[2] | 3.0 | 2.3 | -2.4 |
| Net exports | 1.8 | -.1 | -.9 |
| Government | 1.5 | 3.7 | 7.5 |

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

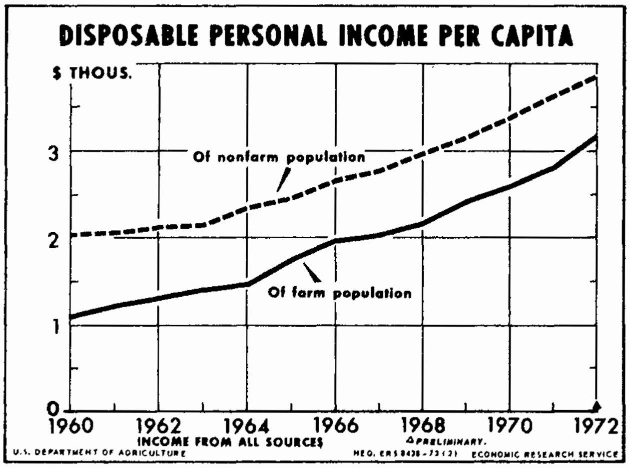
now determine the course of the economy for the remainder of 1973. If the stick in the Phase III closet fails to appear in the near future and the dollar fails to stabilize on the international market, businessmen may attempt to accelerate inventory and capital investment in fear of higher prices and interest rates. Money markets would become increasingly tight and monetary policy would be forced to adjust to avoid a credit crunch. If the consumer also continues the spending spree begun in the first quarter, supplemented by additional tax refunds and wage increases, the demand-pull cost-push spiral could continue. The result would be a sequence of sector excesses which result in a downturn in the economy.




Policymakers have recognized the situation and recent actions by the Federal Reserve and the Administration to establish a two-tier loan system and increase the discount rate to somewhat closer to market rates are designed to alleviate credit-crunch pressures as the rate of growth in the money supply is slowed dramatically. If Phase III controls are given additional muscle in the next few months, and with the rate of increase in food prices slowing and the dollar stabilizing internationally, the economy could settle into a full employment growth path. This of course assumes the current monetary restraint remains flexible and adaptable to the changing economy.

### Consumers Unleash Buying Power

Consumers continued to put heavy pressure on available supplies as personal consumption expenditures reached $774 billion at seasonally adjusted annual rates. Consumption expenditures for goods and services rose $28.0 billion in the first quarter, as compared with an increase of $17.1 billion in the fourth quarter 1972, with the acceleration confined to the purchase of goods. Purchases of durable goods increased $9 billion, more than quadruple the $2.2 billion increase in the fourth quarter, with purchases of autos and related equipment accounting for over half the increase.




### Pressure Reflected in Inventories

The rapid acceleration in demand is reflected in the change in business inventories which declined to a seasonally adjusted annual rate of $8 billion in the first quarter from the $10 billion addition made in the fourth quarter. Larger increases in inventories had been expected by most economists but were apparently unattainable in the face of such heavy demand. All components of fixed business investment continued to increase with the total reaching nearly $200 billion at a seasonally adjusted annual rate. The slowing in the rate of increase of investment in residential structures was more than offset by some acceleration in the growth of nonresidential structures and producers' durable equipment.

Industrial production continued to reflect the sharp increases in consumption and investment as it rose 0.7% in March and reached a level 9% above a year earlier. Production of household appliances was maintained at record levels while gains were recorded for other consumer goods, business equipment, and materials.

Total new housing starts declined sharply on a seasonally adjusted basis in March, but for the quarter remained at the 1972 fourth quarter levels. Housing expenditures increased $2.2 billion in the first quarter to a $112.4 billion annual level.

**GNP and final sales, change from previous quarter**

| Year | | GNP | Final sales | Inventory change[1] |
|---|---|---|---|---|
| | | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| 1969: | I | 16.8 | 17.9 | -1.2 |
| | II | 16.5 | 15.4 | 1.2 |
| | III | 18.2 | 15.7 | 2.5 |
| | IV | 7.2 | 12.3 | -5.1 |
| 1970: | I | 9.1 | 13.0 | -4.0 |
| | II | 13.7 | 9.1 | 4.8 |
| | III | 14.6 | 14.7 | -.1 |
| | IV | 3.4 | 3.9 | -.5 |
| 1971: | I | 33.7 | 34.4 | -.8 |
| | II | 19.6 | 17.9 | 1.7 |
| | III | 13.9 | 19.2 | -5.3 |
| | IV | 21.2 | 20.8 | .4 |
| 1972: | I | 31.0 | 32.2 | -1.3 |
| | II | 30.3 | 25.8 | 4.6 |
| | III | 24.6 | 21.6 | 3.0 |
| | IV | 30.9 | 28.6 | 2.3 |
| 1973: | I[2] | 40.6 | 43.0 | -2.4 |

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the first quarter of 1973 ($7.9 billion) less the change in the fourth quarter of 1972 ($10.3 billion) equals minus ($2.4 billion). [2] Preliminary.

### Government Expenditures and Receipts

Federal Government expenditures in the first quarter fell to a $260 billion seasonally adjusted annual rate, down $2.3 billion from fourth quarter 1972. This reduction was largely accomplished through a $4.7 billion reduction in grants-in-aid to State and local governments. Federal Government purchases of goods and services increased $3 billion, with $2 billion of the increase attributable to the pay raises which went into effect January 1. Excluding the pay raise, defense spending increased $0.6 billion and nondefense expenditures rose $0.5 billion at annual rates.

With Federal Government receipts increasing sharply, the Federal deficit will likely show a substantial reduction from the fourth quarter. Net personal tax and nontax receipts were down $4.6 billion at an annual rate indicating that taxpayers are receiving substantial refunds from the overwithholding in 1972.

State and local government budgets continue to remain in surplus although the reduction in Federal grants-in-aid severely reduced the amount.

**Federal receipts and expenditures, national income basis[1]**

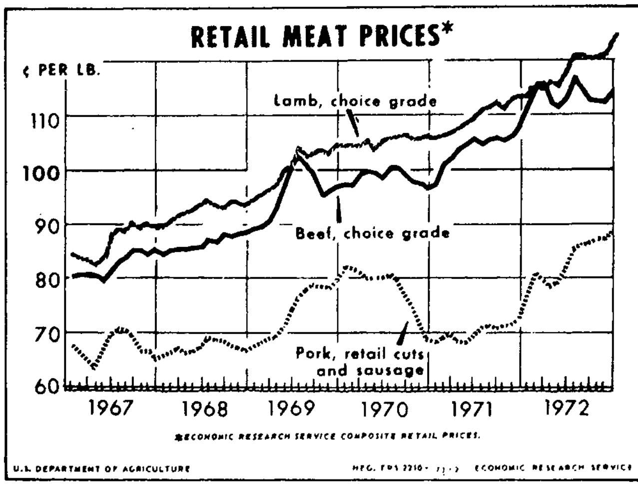
| Item | 1972 | 1973 | |
|---|---|---|---|
| | First half | Second half | First quarter[2] |
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Receipts | 223.2 | 234.1 | [3]242.5 |
| Personal tax | 106.6 | 111.4 | 109.0 |
| Corporate profits tax | 34.6 | 37.8 | [3]41.3 |
| Indirect business tax | 19.8 | 20.4 | 20.8 |
| Social insurance | 62.2 | 64.6 | 71.4 |
| Expenditures | 241.4 | 252.2 | 260.4 |
| Goods and services | 106.9 | 104.7 | 107.0 |
| Transfer payments | 79.9 | 86.9 | 92.3 |
| Grants to State and local governments | 35.3 | 40.5 | 41.8 |
| Net interest paid | 13.5 | 13.7 | 14.1 |
| Subsidies less surplus | 5.8 | 6.4 | 5.2 |
| Surplus or deficit | -18.2 | -18.0 | -17.9 |

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

## Price Indexes Continue Rise

In April, the Wholesale Price Index for all commodities rose 0.8% from March and reached a level 11% above a year earlier. Prices of farm products and processed foods and feed increased 25% from a year earlier while industrial commodities rose 6%. Prices for consumer finished goods were 10% above 1972 levels with the food component showing a rise of 19%.

The first quarter Consumer Price Index rose 1.4% above fourth quarter 1972 and 4.0% above year-earlier levels. Most of this increase was due to rapidly increasing food prices which rose 4.8% above the fourth quarter level and 8.1% above levels of a year ago. Food at home increased 5.8% in the first quarter to a level 8.9% above a year earlier. Significant increases for clothing, rent, and other services were also recorded.




The GNP implicit price deflator, which is based on shifting weights that reflect changes in the composition of GNP, rose at a 6.0% seasonally adjusted annual rate in the first quarter. Some of this rise reflected military and civilian government pay raises which count as price increases.

## Income and Employment

Personal income in the first quarter of 1973 was $994 billion at a seasonally adjusted annual rate, nearly 10% above a year earlier. Personal income rose $19.3 billion with income tax refunds partially offsetting a $6.2 billion increase in social security contributions.

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

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

A revealing clue to the tremendous first quarter expansion in the economy is found in the changes in per capita disposable personal income and savings. Since the third quarter of 1972, per capita disposable income has increased $233 at a seasonally adjusted annual rate. The fourth quarter increase of $132 resulted in an increase of$12.0 billion in total personal savings. In the first quarter of 1973, per capita disposable income increased $101 and total personal savings fell $5.9 billion. The fact that price increases reduced the first quarter real dollar increase in per capita disposable income to $36 provides some rationable for decreased savings, but does not contradict the picture of a very free spending consumer. Additionally, total consumer installment credit continues to attain new record levels in 1973.


Civilian employment rose by over 600,000 in the first quarter to a seasonally adjusted level of 83.2 million. With the civilian labor force growing by around 400,000, the unemployment rate declined to 5.0%. Over 60% of the working age population was employed or seeking employment in the first quarter. Although this is roughly equivalent to the 1972 level, the composition continues to change as participation rates for women and teenagers increase while the rate for adult men continues downward.

By April, average hourly earnings for total non-agricultural private workers had risen 5.8% above a year ago and average hours worked increased only slightly from year-earlier levels. As a result, average weekly earnings were up 6% after seasonal adjustment.

### Balance of Payments

The U.S. balance of payments improved substantially in 1972 but remained in deep deficit. The Official Reserve Transactions Balance was in deficit by $10.3 billion as compared with a $29.8 billion deficit in 1971. The Net Liquidity Balance deficit was reduced $8.0 billion to $14.0 billion.

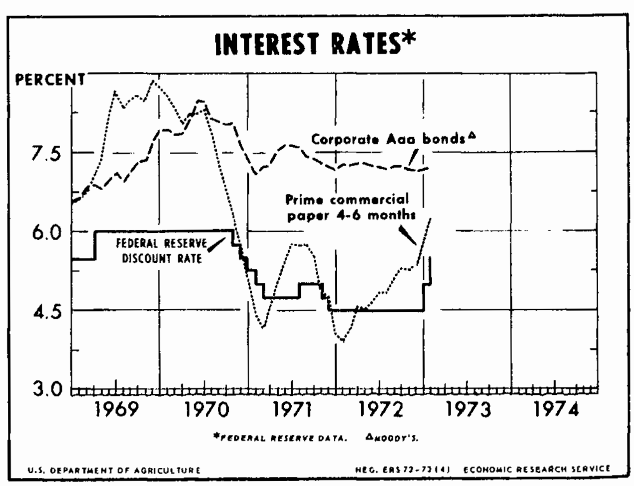
The improvement in the balance for 1972 came primarily from two sources: (1) an $11.4 billion increase in private liquid capital flows resulted in a net inflow of $3.7 billion for the year, and (2) foreign purchases of U.S. stocks and non-Treasury securities increased $2.3 billion over 1971. These gains are partially offset by the deterioration in the net balance of trade by $4.9 billion to a deficit of $4.2 billion.

With devaluation and strong domestic consumer demand, the U.S. net trade balance for the first quarter of 1973 was in deficit by $4.4 billion at a seasonally adjusted annual rate. This represented a $0.9 billion increase in the deficit as both exports and imports increased significantly.

### Money Supply

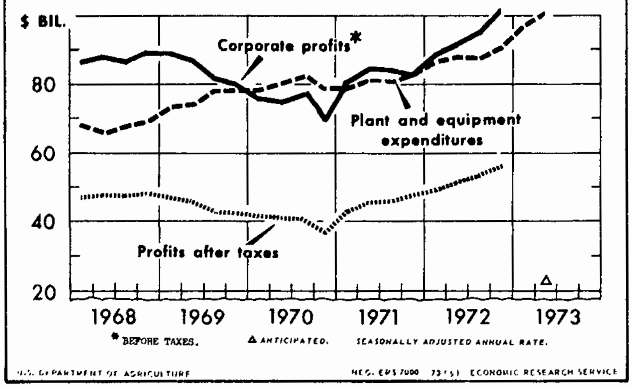
The money stock, which consists of demand deposits and currency, has increased at a 2% seasonally adjusted annual rate since December 1972. This compares with the 8.6% increase which occurred in the fourth quarter 1972. This sharp slowdown reflects the severely restrictive stance of the Federal Reserve so far in 1973. Meanwhile, the growth in bank credit (total commercial bank loans and investments) has accelerated. Although the banks are heavily in debt to the Federal Reserve due to previous demand for reserve funds, a sharp rise in time deposits (up almost 6% in the first quarter) supplemented the reserve base since they require less reserve holdings than demand deposits. As a result, banks are able to meet the sharp growth of installment and mortgage loans to consumers and the heavy switch from commercial paper to cheaper bank loans by business customers.

In April the Federal Reserve System allowed the discount rate to rise from 5½% to 5¾% for 7 of the system's 12 banks. However, this move is not likely to drive up interest rates since the discount rate had become artifically low relative to other short-term interest rates which have risen sharply. The prime rate now stands at 7%.

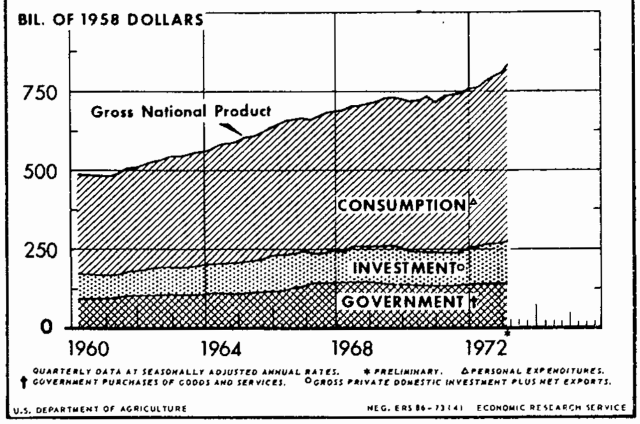


The boost in the discount rate is in line with the Administration's guidelines issued for a two-tier loan pricing system that allows the prime rate to move freely while containing interest charges on loans to small business and farmers. The two-tier loan pricing system is designed to curb loan demand by preventing companies from switching from commercial paper to the relatively cheap bank loans which resulted from the rate ceilings imposed by the Committee on Interest and Dividends. While this policy serves as a qualitative control over credit, it does not resolve the basic question of what rate of growth in the money supply is consistent with avoiding a credit crunch and inducing a possible recession.

**CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES**




**MAJOR SOURCES OF DEMAND**



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