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DEMAND AND PRICE SITUATION

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IN THIS ISSUE

SUMMARY

AGRICULTURAL SITUATION

GENERAL ECONOMIC SITUATION

Published quarterly by
ECONOMIC RESEARCH
SERVICE
DEPARTMENT OF
AGRICULTURE

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MAY 27 1968

Table 1.--Economic factors affecting agriculture

Item	Unit or base period	1967			1968		
		Year	Mar.	Dec.	Jan.	Feb.	Mar.
Industrial production <u>1/ 2/</u>	: 1957-59=100	: 158	: 156	: 162	: 161	: 162	: 162
Final products	: do.	: 158	: 157	: 162	: 161	: 162	: 163
Consumer goods	: do.	: 148	: 147	: 153	: 151	: 152	: 154
Autos	: do.	: 146	: 136	: 175	: 163	: 158	: 173
Equipment, including defense	: do.	: 180	: 180	: 182	: 181	: 182	: 182
Materials	: do.	: 158	: 156	: 162	: 162	: 161	: 162
Construction: <u>3/ 4/</u>	:	:	:	:	:	:	:
Total outlays	: Mil. dol.	: 74,936	: 73,084	: 78,363	: 80,527	: 81,426	: 81,030
Public construction	: Mil. dol.	: 25,353	: 26,178	: 26,005	: 25,981	: 26,346	: 26,461
Private residential	: Mil. dol.	: 23,579	: 20,829	: 26,903	: 26,918	: 27,034	: 27,358
Housing starts, private only	: Thousands	: 1,291	: 1,094	: 1,250	: 1,456	: 1,529	: 1,476
Manufacturers' shipments, orders, and inventories: <u>2/ 3/</u>	:	:	:	:	:	:	:
Total shipments	: Mil. dol.	: 44,745	: 44,650	: 47,946	: 47,785	: 47,243	: 48,155
Durable goods	: Mil. dol.	: 23,123	: 23,137	: 25,290	: 25,227	: 24,646	: 25,169
Unfilled orders	: Mil. dol.	: 82,872	: 77,093	: 82,872	: 82,368	: 82,552	: 83,452
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 82,425	: 79,430	: 82,425	: 82,571	: 82,919	: 83,239
Durable goods	: Mil. dol.	: 53,930	: 51,216	: 53,930	: 53,742	: 54,136	: 54,244
Employment and wages: <u>2/ 6/</u>	:	:	:	:	:	:	:
Total civilian employment	: Millions	: 74.4	: 73.8	: 75.6	: 75.2	: 75.7	: 75.8
Nonagricultural	: do.	: 70.5	: 70.0	: 71.4	: 71.2	: 71.6	: 71.8
Unemployment	: do.	: 3.0	: 2.9	: 2.9	: 2.8	: 2.9	: 2.9
Workweek in manufacturing	: Hours	: 40.6	: 40.4	: 40.7	: 40.2	: 40.7	: 40.7
Hourly earnings in manufacturing, unadj.	: Dollars	: 2.83	: 2.79	: 2.91	: 2.94	: 2.95	: 2.96
Income and spending:	:	:	:	:	:	:	:
Personal income <u>3/ 4/</u>	: Bil. dol.	: 626.4	: 615.6	: 649.3	: 650.9	: 659.3	: 666.0
Consumer credit outstanding <u>1/ 5/</u>	: Mil. dol.	: 99,228	: 92,519	: 99,228	: 98,225	: 97,672	: 97,875
Automobile	: Mil. dol.	: 31,197	: 30,527	: 31,197	: 31,061	: 31,137	: ---
Total retail sales, monthly rate <u>2/ 3/</u>	: Mil. dol.	: 26,125	: 25,739	: 26,470	: 27,065	: 27,482	: 28,009
Durable goods, monthly rate	: Mil. dol.	: 8,306	: 8,150	: 8,327	: 8,523	: 8,760	: 8,919
Inventory stocks, book value <u>5/</u>	: Mil. dol.	: 36,682	: 36,526	: 36,682	: 37,130	: 37,094	: ---
Prices: <u>6/</u>	:	:	:	:	:	:	:
Wholesale prices, all commodities <u>7/</u>	: 1957-59=100	: 106.1	: 105.7	: 106.8	: 107.2	: 108.0	: 108.2
Industrial commodities	: do.	: 106.3	: 106.0	: 107.4	: 107.8	: 108.3	: 108.6
Farm products	: do.	: 99.7	: 99.6	: 98.9	: 99.0	: 101.3	: 102.1
Processed foods and feeds	: do.	: 111.7	: 110.6	: 111.5	: 112.4	: 113.3	: 112.9
Consumer price index, all items	: do.	: 116.3	: 115.0	: 118.2	: 118.6	: 119.0	: 119.5
Food	: do.	: 115.2	: 114.2	: 116.2	: 117.0	: 117.4	: 117.9
Prices received by farmers <u>8/</u>	: 1910-14=100	: 252	: 250	: 253	: 255	: 258	: 259
Crops	: do.	: 224	: 224	: 231	: 232	: 229	: 231
Livestock and products	: do.	: 276	: 272	: 272	: 274	: 282	: 283
Prices paid, interest, taxes, and wage rates <u>8/</u>	: 1910-14=100	: 342	: 339	: 344	: 346	: 348	: 350
Family living items	: do.	: 322	: 319	: 325	: 327	: 329	: 330
Production items	: do.	: 288	: 287	: 287	: 288	: 290	: 291
Parity ratio <u>8/</u>	:	: 74	: 74	: 74	: 74	: 74	: 74
Farm income and marketings: <u>8/</u>	:	:	:	:	:	:	:
Volume of farm marketings	: 1957-59=100	: 124	: 100	: 135	: 135	: 95	: 98
Cash receipts from farm marketings	: Mil. dol.	: 42,471	: 2,927	: 3,766	: 3,720	: 2,830	: 2,981

1/ Federal Reserve Board. 2/ Seasonally adjusted. 3/ U.S. Department of Commerce. 4/ Seasonally adjusted annual rates. 5/ End of year or month. 6/ U.S. Department of Labor. 7/ Beginning January 1967 reflects revised weighting structure and some new series for wholesale prices. Details available from Bureau of Labor Statistics, U.S. Department of Labor. 8/ U.S. Department of Agriculture.

THE DEMAND AND PRICE SITUATION

Approved by the Outlook and Situation Board, May 10, 1968

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SUMMARY*

The Nation's output of goods and services and consumer income made record advances in the first quarter of 1968. Record consumer spending and a large increase in business fixed investment contributed to the rise.

In coming months, further gains in personal consumption expenditures and a high rate of employment are expected to produce a further, but less rapid expansion. Sharp increases in sales and a small inventory rise, plus businessmen's investment intentions, point to further increases in investment spending for the remainder of the year.

Rapid advances in economic activity during the first quarter were accompanied by improvements in prices received by farmers and incomes. Although supplies of grains and soybeans are large and prices are lower, reduced supplies of cotton, citrus, and winter vegetables boosted average crop prices. Citrus prices were sharply higher than last year, when production was record large. During January-March, sharp advances in consumer demand permitted producers to market a large volume of livestock and livestock products at slightly higher prices than those of a year earlier. These developments boosted farm product prices and cash incomes 2-3% above those of the first quarter 1967.

The outlook for the rest of 1968 indicates continued strength in farm prices and incomes. Current indicators point to only slight advances in total market supplies this year. With farm stocks from 1967 crops large, and crop prospects near those of last year, crop marketings are expected to total higher. However, total livestock marketings for the year may run near 1967 levels. With consumer demand expanding, and little change likely in total supplies, crop and livestock product prices in 1968 are expected to average above year-earlier. A liberalized grain resale program and increased dairy support prices will also add to price strength.

Cash receipts for the year are expected to total \$1½ to \$2 billion above the \$42½ billion estimated for 1967. Moreover, direct Government payments to farmers will probably increase about a tenth from the \$3.1 billion last year. However, with continued increases in prices paid by farmers, production expenses are likely to offset more than half the expected rise in gross income. On balance, realized net farm income is expected to total around 5% higher than

*The Summary of this report, along with a table on selected measures of economic activity, was released on May 10, 1968.

AGRICULTURAL SITUATION

Farm incomes are improving in 1968. Rapid advances in consumer buying power, a larger volume of agricultural exports, a liberalized grain resale program, and increased dairy support prices are contributing to higher prices for U.S. farm products. These factors combined with smaller supplies of cotton, fresh vegetables, and citrus boosted prices and cash incomes. As the year unfolds, supply-demand prospects in agriculture point to continued improvement over last year's farm product prices and incomes.

Total market supplies in 1968 are currently estimated slightly larger than a year earlier. Although 1968 crops of corn, grain sorghum, potatoes, citrus, and tobacco are currently expected to be below a year earlier, larger carryover stocks of 1967 grains and soybeans are in prospect. With expectations for larger 1968 crops of soybeans, rice, sugarbeets, and particularly cotton, total crop marketings this year will probably expand slightly. However, total livestock marketings in 1968 are expected to average near year-earlier levels. With continued strong demand expansion likely, average crop and livestock product prices in 1968 are expected to average slightly above 1967 levels. Cash receipts from total 1968 farm marketings could run \$1½ to \$2 billion higher than the \$4½ billion estimated for 1967. Moreover, direct Government payments to producers are expected to total about a tenth larger than the \$3.1 billion in 1967. But continued increases in farm production expenses are likely to offset more than half the expected rise in gross farm income. On balance, realized net farm income is expected to total around 5% above the preliminary 1967 level of \$14½ billion. Realized net income per farm will be up sharply from the 1967 level, and may average close to the 1966 record of \$5,049.

Prices and receipts in the farm sector picked up during first quarter 1968. Cash receipts from farm marketings totaled 2¼% larger than a year earlier. Both higher average farm product prices and a larger volume of farm marketings contributed to the rise.

Estimated market receipts for livestock and products totaled \$6.1 billion in January-March 1968, some 4% more than a year earlier. During recent months, the demand for red meats has been particularly strong. Average producer prices for livestock and products in January-March 1968 were up nearly 1½% despite larger marketings of livestock and products. During the first quarter, meat animal prices received by farmers were up 3% from a year earlier, although total red meat production (carcass weight basis) was about unchanged (table 3). Milk prices were also 2% higher than a year earlier. However, poultry and egg prices declined about a tenth from a year earlier as a result of slightly larger supplies.

Cash income from crops totaled \$3.4 billion during January-March 1968, about the same as last year. Reduced crop marketings about offset the effect of 3% higher average grower prices. Marketings of fresh vegetables, citrus, and cotton were below year-earlier levels and prices averaged higher. However, marketings of most grains and soybeans were larger, reflecting record-large 1967 crops, and prices averaged lower.

Little overall change in total livestock output is expected this year. Although livestock-feed price ratios are relatively favorable, livestock producers appear to be limiting output gains over a year earlier. Currently, larger fed beef and broiler production for the year is expected to about offset reduced output of veal, lamb and mutton, and turkeys.

Table 2.--Index numbers of agricultural prices and marketings 1950-68 annually, and 1966-68 quarterly

Period	Prices received by farmers 1910-14=100			Prices paid by farmers 1910-14=100			Parity ratio	Volume of farm marketings 1957-59=100		
	Total	Crops	Livestock and products	Total 1/	Family living	Produc- tion		Total	Crops	Livestock and products
1950	258	233	280	256	246	246	101	83	85	82
1951	302	265	336	282	268	273	107	84	84	85
1952	288	267	306	287	271	274	100	88	89	86
1953	255	240	268	277	269	256	92	92	95	90
1954	246	242	249	278	270	255	89	93	92	93
1955	232	231	234	276	270	251	84	96	96	96
1956	230	235	226	278	274	250	83	99	97	101
1957	235	225	244	287	282	257	82	94	88	99
1958	250	223	273	294	287	264	85	101	104	98
1959	240	222	256	298	288	266	81	105	108	103
1960	238	222	253	300	290	265	80	107	112	104
1961	240	227	251	302	291	266	80	109	110	108
1962	244	232	255	307	295	270	80	111	112	110
1963	243	239	245	312	298	273	78	116	119	114
1964	237	239	236	313	300	270	76	118	119	118
1965	248	234	261	321	306	276	77	118	119	118
1966	266	235	292	334	315	285	80	121	121	120
1967	252	224	276	342	322	288	74	124	124	123
1968	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2/126	2/128	2/124
1966:										
I	268	232	299	329	311	282	82	106	98	112
II	264	239	286	333	314	283	79	95	65	118
III	270	240	296	335	317	287	80	122	122	122
IV	261	231	286	337	318	287	77	159	197	130
1967:										
I	252	224	276	339	319	287	75	108	96	117
II	251	224	274	342	3/320	3/289	74	99	69	121
III	255	222	284	344	3/323	3/290	74	129	136	124
IV	251	227	272	344	3/325	3/287	73	159	197	130
1968:										
I	257	231	280	350	329	290	74	2/109	2/94	2/121

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1/ Prices paid, interest, taxes, and wage rates. 2/ Preliminary estimates as of April 1, 1968.

3/ Subject to revision. n.a.-Not available.

U.S. Department of Agriculture.

Milk output may be slightly smaller, and production of pork is expected to be about the same as last year.

The number of fed cattle marketed during January-March 1968 was 5% larger than a year earlier. As of April 1, cattle feeders planned to market 1% more cattle out of feedlots during April-June than last year. And, there was a moderate increase in the number of cattle and calves on feed that will probably be marketed during the July-September quarter. These indications, plus relatively favorable steer-corn price ratios, suggest fed cattle marketings will continue moderately above a year earlier through the second and third quarters of 1968. In the first week in May, choice steer prices at Chicago averaged around \$27.50

per 100 pounds. Prices were up from the beginning of the year and are about \$3 above a year earlier. Although very little change is likely in the next few months, prices are expected to continue well above those in the spring of 1967.

Pork production during the first 3 months of 1968 averaged 1% below first quarter 1967 output. In recent weeks, Federally inspected pork production has been running a little above a year earlier. March 1 hog numbers on farms suggest pork production will average slightly above a year earlier until summer. The estimated December 1967-February 1968 pig crop indicates hog slaughter during the summer months will probably average around year-earlier levels. However, hog producers in 10-Midwest States intend to

Table 3.--Production and prices received by farmers for major livestock and livestock products, 1965, 1966, 1967, and first quarters for 1967 and 1968

Item	Unit	Annual			First quarter	
		1965	1966	1967 I 1/	1967 I 1/ 2/	1968 I 1/ 2/
Production 3/						
Cattle and calves	Mil. lb.	19,744	20,635	21,004	4/5,153	4/5,224
Hogs	Mil. lb.	11,140	11,337	12,581	4/3,224	4/3,197
Sheep and lambs	Mil. lb.	651	650	646	4/178	4/153
Chickens	Mil. lb.	6,649	7,303	7,560)	1,823	1,882
Turkeys	Mil. lb.	1,521	1,678	1,900)		
Eggs	Mil. lb.	8,594	8,695	9,180	2,279	2,326
Milk	Mil. lb.	124,173	119,892	119,294	29,525	29,086
Prices received by farmers						
Cattle	Dol./cwt.	19.90	22.20	22.30	21.70	22.60
Hogs	Dol./cwt.	20.60	22.80	18.90	18.60	18.30
Lambs	Dol./cwt.	22.80	23.40	22.10	20.90	23.30
Chickens	Ct./lb.	14.4	14.7	12.7	13.8	13.6
Turkeys	Ct./lb.	22.2	23.1	19.5	21.3	17.9
Eggs	Ct./doz.	33.7	39.1	31.2	35.1	30.6
All milk (wholesale)	Dol./cwt.	4.23	4.81	5.02	5.08	5.18

1/ Preliminary. 2/ Quarterly production data for 48 States. 3/ Annual production data for 50 States. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 4/ Commercial slaughter only.

farrow 3% fewer sows during March-August. If these plans materialize, hog slaughter next fall and winter will run below a year earlier.

Hog prices (barrows and gilts at 8 markets) in April averaged about \$19 per 100 pounds. This is up slightly from a year ago but down from the \$20 per 100 pounds in mid-February. With demand strong, hog prices will probably average slightly higher this summer and moderately above a year ago in the fall months.

Lamb and mutton production was 14% smaller than a year earlier during January-March 1968. This decline was due to the smaller 1967 lamb crop and a reduction in lamb feeding. Lamb prices so far this year have been averaging well above those of a year earlier. Prices for Choice fed lambs at San Angelo, Texas averaged \$27.50 per 100 pounds in late April, about \$1.25 higher than a year earlier. They likely will continue above 1967 levels through the summer.

Production of poultry meat in first quarter 1968 was up about 3% from a year earlier. Broiler output was about equal to January-March 1967 levels. However, recent improvements in broiler-feed price ratios may cause broiler production to exceed last year's level. Broiler prices are up about a fifth from the low levels of the fourth quarter 1967 and by early May were slightly above a year earlier. Prices in the last half of this year may gain strength over a year earlier if competing supplies of turkey and pork are reduced as now indicated.

Turkey production averaged higher than a year earlier in the opening months of this year. With large supplies of turkey meat available from storage, consumption was up even more, compared with a year earlier. As a result, grower prices averaged nearly 16% lower than in first quarter 1967. According to reported intentions, growers plan to produce

about 14% fewer turkeys for the year. If these plans are carried out, supplies in the last half of 1968 will be considerably smaller and prices higher than last year's.

During January-March 1968, egg production was 2% larger than a year earlier. Output gains were due to a 1% larger laying flock and the extra day in February. Although egg prices received by farmers have improved slightly from last fall, in the first quarter they were down 13% from a year earlier. Fewer replacements being added to the laying flock are expected to result in egg output running below year-earlier levels in the second half of the year. Thus, some improvement in egg prices appears likely, and after midyear they may average moderately above prices of a year earlier.

First quarter milk production totaled 29.1 billion pounds. On a daily basis, this was 2.6% below a year earlier. Gains from a year earlier in output per cow continue too small to offset declining cow numbers. With cows on pasture in major dairy areas, increases from a year earlier in milk output per cow are expected to be near normal gains. Milk production during April-June is expected to be lower than a year earlier, and for the year, output will probably total slightly under 1967 levels.

Producer prices for all milk averaged \$5.18 per 100 pounds in the first quarter 1968, 2% above a year earlier. The support price for manufacturing milk was raised to \$4.28 per 100 pounds effective April 1, 1968, up from the \$4.00 in effect since July 1966. Recent USDA actions also increased Class I prices in Federal order markets from May 1968 through April 1969. Increased dairy support prices and Federal order actions are expected to bring farm milk prices in 1968 about 5% above the \$5.03 average for 1967.

Total crop output may be record high again in 1968. Planting intentions for the 17 crops included in the March 1 survey totaled 251 million acres, 2% less

than a year earlier. Realization of these plans, plus winter wheat and rye acreage not included in the March survey, would result in about 304 million planted acres, down 3½% from 1967 plantings. With average weather and projected yields, total crop production in 1968 could run a little above the record 1967 output. This estimate implies a substantial improvement in cotton yields from those of a year earlier.

The 1968 wheat crop is now estimated at around 1½ billion bushels, about the same as last year's record crop. The May 1 forecast for winter wheat was nearly 1.2 billion bushels. Although winter wheat acreage is down, yields are currently estimated a tenth higher than those of last year. Spring wheat production (including durum) is also currently estimated near 1967 levels.

According to the March 1 survey, farmers intend to plant about 6% fewer acres to feed grains in 1968. With a normal growing season and allowing for the uptrend in yields, the prospective acreage would produce a crop of around 166 million tons. This would be about 5% less than the record 1967 feed grain crop. The reduced acreage planted to feed grains this year reflects a change in the 1968 Feed Grain Program which encouraged farmers to divert more acreage from corn and sorghum grain. As a result, a record 1½ million farmers signed up to divert slightly over 34 million acres, about 60% more than last year, and above the large sign up for corn and sorghum in 1965 and 1966.

A record large soybean crop again is in prospect. Based on March 1 intentions, growers plan to seed nearly 42 million acres to soybeans in 1968. With normal yields, this would produce a 1968 crop of 1,040 million bushels, 7% above the 1967 crop.

The 1968 Upland Cotton Program was designed to encourage cotton producers to expand planted acreages. On March 1, growers indicated they would plant about

11 million acres to cotton in 1968. This would be about 17% more than was planted last year. If more normal growing conditions prevail in 1968, production is expected to be up more than the increase in planted acreage.

Larger planted acreages are also indicated for a number of other crops. Producers intend to expand acreages for rice, sugarbeets, flax, and dry beans and peas. On the other hand, declines in acreage are likely for hay, tobacco, and potatoes.

Supplies of fresh vegetables this spring are expected to be slightly smaller than a year earlier. This decline is due to detrimental weather in Florida and Texas. Reductions are indicated for most leading items, with sizable reductions likely for cabbage, sweetcorn, onions, and tomatoes. Lettuce may be the only fresh vegetable in especially heavy supply. During the first quarter, fresh vegetable prices averaged nearly 30% above a year earlier. As harvests increase in the second quarter, prices will move seasonally lower but probably will continue moderately above a year earlier.

Remaining stocks of processed vegetables are much larger than a year earlier, and wholesale prices have declined sharply since last fall. Even so, processors have indicated intentions to contract relatively large acreages. Thus, if yields are average, total supplies for 1968/69 may be record large.

Movement of old crop potatoes out of storage has been heavy. And, with late-spring crop acreage down, markets have strengthened. In early May, f.o.b. prices in most shipping points averaged sharply above those of a year earlier.

Total supplies of both fresh and processed fruits will continue well below year-earlier levels until 1968 harvests begin. The record 1966/67 citrus crop left large inventories of citrus products on hand early this season. However, strong demand and the sharply

Table 4.--Supply-distribution and season average prices of selected major crops, 1965/66, 1966/67, 1967/68, and 1968/69

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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	3/	3/	3/	3/	3/
1968/69 e.	Mil. tons	3/	3/	165.8	3/	3/	3/	3/	3/	
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	681.2	742.4	1,423.6	425.0	1.63
1967/68 p.	Mil. bu.	425.0	1.0	1,524.0	1,950.0	655.0	750.0	1,405.0	545.0	1.39
1968/69 e.	Mil. bu.	545.0	1.0	1,509.0	2,055.0	3/	3/	3/	3/	
Rice										
1965/66	Mil. cwt.	7.7	.7	76.3	84.6	4/33.0	43.3	76.4	8.2	4.93
1966/67 p.	Mil. cwt.	8.2	5/	85.0	93.3	4/32.7	52.0	84.7	8.5	4.95
1967/68 e.	Mil. cwt.	8.5	5/	89.6	98.1	32.9	3/	3/	3/	3/
1968/69 e.	Mil. cwt.	3/	5/	109.0	3/	3/	3/	3/	3/	
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	643.0	270.0	913.0	150.0	2.49
1968/69 e.	Mil. bu.	150.0	0	1,040.0	1,190.0	3/	3/	3/	3/	
Cotton ^{6/}										
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	7.4	20.1	9.1	4.2	13.4	6.8	25.60
1968/69 e.	Mil. bales	6.8	3/	3/	3/	3/	3/	3/	3/	

^{1/} Dollars per bushel, except cotton which is cents per pound. ^{2/} Price for corn. ^{3/} Complete supply and distribution estimates will be released later in individual commodity situation reports. ^{4/} Includes the following statistical discrepancies: 1965/66, 2.2 and 1966/67, 1.2 mil. cwt. ^{5/} Less than 50,000 cwt. ^{6/} Total cotton supply includes city crop and production prior to August 1 (end of season).

p. Preliminary. e. Estimated

Details may not add to totals due to rounding.

smaller 1967/68 crop have resulted in stocks below year-earlier levels. On April 1, packers' stocks of frozen orange juice concentrate were a fourth below a year earlier. Prices of most citrus products are sharply above a year earlier and are expected to remain higher into the fall.

Remaining stocks of most processed noncitrus fruits appear to be substantially below those of a year earlier. Wholesale prices of most processed items have increased considerably since last fall, reflecting the small 1967 output.

Demand for food expanded sharply in January-March 1968. First quarter food expenditures (excluding alcoholic beverages) climbed to \$101 billion (seasonally adjusted annual rate), about \$3 billion above the fourth quarter 1967. The quarterly increase in food expenditures was even larger than the rise in disposable income and was the largest increase since the fourth quarter 1965. For the year as a whole, food spending is expected to continue upward, but at a slower pace than in the first quarter. With prospects for a slight decline in per capita food consumption this year, much of the increase in food expenditures will result from higher retail food prices. A portion of the gain will also be attributable to population growth and increased demand for more expensive foods. Currently, food consumption expenditures are expected to rise 5% or more above a year earlier.

Per capita food consumption in 1968 may not match year-earlier levels. Slightly smaller per capita supplies are in prospect for most meats and dairy products and for both fresh and processed fruits. Small gains are likely for processed vegetables and potatoes, while per capita consumption of most other food items is expected to remain near that of a year earlier.

Retail food prices increased sharply in first quarter 1968. Prices

averaged $1\frac{1}{2}\%$ higher than in the fourth quarter 1967 and $2\frac{1}{2}\%$ higher than in the same months last year. Most items contributed to the rise. Price gains over those of a year ago were largest for fruits and vegetables, while prices for food eaten away from home averaged $4\frac{1}{2}\%$ higher.

With prospects for slightly smaller per capita food supplies and continued gains in consumer demand in 1968, retail food prices are expected to continue to advance through the summer months. However, the rate of increase will probably be less than in the first quarter, and for the year, retail food prices will likely average around 3% above those in 1967.

Stocks of most grains and soybeans are higher, primarily due to record large 1967 crops. Total disappearance of soybeans is running larger this year, while use of most grains is averaging lower. Prices are lower and carryover stocks at the end of the season are expected to be larger.

Feed grain stocks on April 1 totaled 116 million tons, 12% above a year earlier (table 5). Stocks were slightly larger than previously expected, as January-March utilization was down sharply from the heavy rate last fall. Apparent total disappearance of feed grains during January-March was 41 million tons, practically the same as the comparatively low level of a year earlier. For October-March, half of the 1967/68 feeding year, domestic use of feed grains totaled 77 million tons, slightly below a year earlier.

Considerably more feed grains are going under the price support program this season than in the past 3 years. Through March, almost 15 million tons had been put under loan, nearly twice the amount of a year earlier. Corn and other feed grain prices rose 8% from November to February but have since stabilized. Since February, prices received by farmers for corn have averaged \$1.06 per bushel, 9% above

Table 5.--Stocks of grains, with comparisons

Grain and position	April 1, 1959-61 average	April 1, 1967	April 1, 1968
	<u>Mil. bu.</u>	<u>Mil. bu.</u>	<u>Mil. bu.</u>
WHEAT			
On farms <u>1/</u>	248.3	238.8	359.7
Off farms <u>2/</u>	1,354.7	461.4	476.8
Total*	1,602.9	700.1	836.5
CORN			
On farms <u>1/</u>	1,963.6	2,043.9	2,362.2
Off farms <u>2/</u>	1,358.2	671.1	806.2
Total*	3,321.7	2,715.0	3,168.3
OATS			
On farms <u>1/</u>	495.6	354.6	358.1
Off farms <u>2/</u>	71.7	87.9	83.0
Total*	567.3	442.5	441.1
BARLEY			
On farms <u>1/</u>	134.2	114.9	127.7
Off farms <u>2/</u>	126.7	92.2	89.0
Total*	260.9	207.2	216.7
GRAIN SORGHUM			
On farms <u>1/</u>	104.5	133.2	146.8
Off farms <u>2/</u>	632.9	393.3	374.9
Total*	737.4	526.5	521.8
SOYBEANS			
On farms <u>1/</u>	113.3	217.4	235.5
Off farms <u>2/</u>	184.9	240.5	301.3
Total*	298.2	457.9	536.8
RICE (rough equivalent)	<u>Mil. cwt.</u>	<u>Mil. cwt.</u>	<u>Mil. cwt.</u>
On farms <u>1/</u>	2.1	2.1	2.5
Off farms <u>2/</u>	28.6	35.1	29.4
Total*	30.7	37.2	31.9

1/ Estimates of the Crop Reporting Board.

2/ Including grain owned by Commodity Credit Corporation.

*Totals from unrounded data.

the November low. There may be further seasonal strength in prices, but the large "free" stocks will have a stabilizing influence. As usual, prices in the spring and summer will be influenced by weather developments affecting the 1968 crops.

Wheat stocks on April 1 totaled 836 million bushels, about 19% above those of a year earlier. Total disappearance of wheat during the first 3 quarters of the marketing season totaled 1,113 million bushels, 3% less than that of a year earlier. January-March grower prices for wheat were down 9% from prices of a year earlier.

Disappearance of rice during the first 8 months of the 1967/68 marketing season totaled 66 million cwt. (rough basis) compared with 56 million a year earlier. Most of the increase was due to larger rice exports. Rice stocks in all positions on April 1 totaled nearly 32 million cwt. (rough rice basis) down 14% from a year earlier. During January-March 1968, average prices to rice growers were 3% above a year earlier.

Utilization of the 1967/68 soybean crop has been running above the record 1966/67 rate. For the year, the soybean crush may reach a record of 585 million bushels. So far this year (September-March), crushings have totaled 343 million bushels, 7% above a year earlier. In addition, exports are also running larger. However, because of the record large 1967 crop, soybean stocks on April 1 totaled 537 million bushels, 17% above April 1, 1967, levels. The larger stocks are due primarily to the record large 1967 soybean crop. Grower prices for soybeans averaged slightly below the loan rate (\$2.50 per bushel) in the fall months of 1967, but have been slightly above the loan rate from January through April. This compares with \$2.79 during September-April in the previous season.

Total disappearance of cotton in 1967/68 is estimated around 13.4 million bales, down 800 thousand bales from that of last year. Both exports and domestic use are down (table 4). Domestic mill

use of cotton may average about 4% below last year's high level. Reduced mill consumption this year followed a workdown in cloth inventories held by mills, reduced commercial and military orders, and increased competition from manmade fibers. In recent months, spot market and average prices received by farmers have declined from the high levels of last fall as trade and speculative demand weakened. During January-March, average prices to upland growers were 28% below fourth quarter 1967, but 2% above those of the first quarter 1967.

With two more working days in January-February 1968 than last year, domestic cigarette use (taxable removals) was 7½% above year-earlier levels. Cigarette consumption for the year will probably total slightly larger than in 1967. On the other hand, consumption of cigars and cigarillos is not expected to change much from the 1967 level.

Domestic mill consumption of apparel wool in 1967 totaled 229 million pounds (scoured basis), 14% less than in 1966. However, with low prices and relatively small stocks compared with unfilled fabric orders, mill use of wool in coming months is expected to pick up. On the other hand, manmade fibers will likely continue to exert strong competition in fiber markets.

Sugar deliveries to primary buyers through the first quarter 1968 totaled 2,315 thousand tons, about 125 thousand above the first quarter last year. Deliveries for the year are expected to continue above 1967 levels. Raw sugar prices averaged 7.38¢ per pound during January-March 1968, up from 7.17¢ a year earlier.

U.S. agricultural exports picked up in the opening months of 1968. Although exports of most major 1967/68 crops have been running larger in volume during July-December 1967, lower prices for most grains and soybeans held the total value of farm exports 11% below that of a year earlier. But during January-March the value of farm product exports averaged 3% above year-earlier

levels (table 6). Increases in the value of wheat, rice, vegetable, tobacco, and cotton exports more than offset declines in other products. For the period July through March, the value of agricultural exports was 7% below the same period a year earlier.

Exports of wheat and flour showed a 29% rise in value over January-March 1967. The value of feed grain exports declined 1% from a year earlier in the first quarter. However, the volume was up 9% from year-earlier levels. Increased volume of feed grains reflects lower U.S. prices and strong feed demand in Europe and Japan. In addition, corn crops in Argentina and the Republic of South Africa harvested this spring are running below last year's big crops. The value of soybean exports was below first quarter 1967 levels by only 1%. Although the quantity of soybean exports has been running larger, lower prices more than offset the gain in volume.

Cotton exports increased 3% in value during the first quarter compared with a year earlier. This increase was in response to larger supplies of short staple cotton available for export and more competitive short staple cotton prices. The value of unmanufactured tobacco exports was up 8% from January-March 1967. However, so far this fiscal year tobacco exports are not matching year-earlier near-record levels.

The value of U.S. agricultural imports during January-March 1968 was fractionally higher than a year earlier. Imports in March were sharply reduced because of an 11-day longshoreman's strike in the New York-New Jersey area. This strike temporarily suspended most unloading operations in that U.S. customs district. For the first quarter, larger imports of supplementary products including fruits, vegetables, meats, and cotton more than offset declines in complementary items. Among those aver-

Table 6.--U.S. agricultural exports, value of major commodities, January-March 1967 and 1968

Commodity	January-March		Percentage change
	1967	1968 <u>1/</u>	
	Mil. dol.	Mil. dol.	Percent
Cotton, excluding linters	158.2	162.9	3
Dairy products	30.4	23.5	-23
Feed grains, excluding products	276.7	274.4	-1
Fruits and preparations	69.3	60.2	-13
Soybeans	184.3	183.1	-1
Tobacco, unmanufactured	92.8	100.6	8
Vegetables and preparations	40.5	42.0	4
Wheat and flour	263.3	340.3	29
Rice	98.7	106.0	7
Other	380.9	344.5	-10
Total exports <u>3/</u>	1,595.1	1,637.6	3

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

aging lower were cocoa beans and hard fibers.

Although farmers received higher farm product prices in the first quarter, they also paid higher prices for most inputs. The index of prices paid for production items (including interest, taxes, and wage rates) was nearly 3% higher in January-April 1968 than a year earlier. Most major items except feed and fertilizer contributed to the rise.

Feeder and stocker prices have averaged above year-earlier levels since February, with the largest gains noted for feeder lambs and feeder cattle and calves. However, prices paid for baby chicks and turkey poults have generally been slightly below year-earlier levels, while prices paid for feed during January-March were down 5 1/2%.

The demand for hired workers is expected to continue to decline, and there will probably be fewer farm workers again in 1968. During the first 3

months of 1968, there were nearly 7% fewer hired workers on farms compared with the same period last year. This decline occurred although farm wage rates rose 7%. As a result, the total wage bill during January-March 1968 was about unchanged from that of a year earlier.

Farmers' outlays for taxes and interest also rose during the first 3 months of 1968. Interest rates charged by production credit associations have been rising since last October. On April 1, however, they were slightly below a year earlier. If credit conditions remain tight, short-term interest charges will increase further this year.

Preliminary data for early 1968 indicate that farm machinery sales are continuing the decline which began last year. During January-February 1968 retail sales of farm tractors were running more than a tenth below the year-earlier pace according to Farm and Industrial Equipment Institute data.

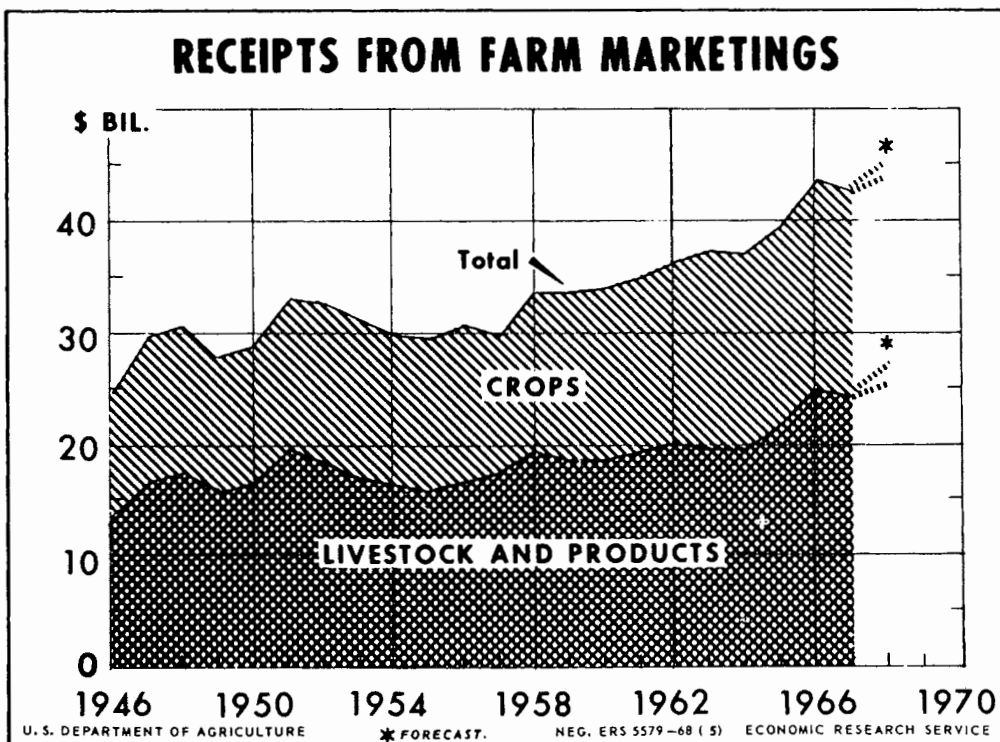


Table 7.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	Year 1967	Year 1966	1966				1967				1968
				I	II	III	IV	I	II	III	IV	I <u>1</u> /
Gross national product	Bil. dol.	785.0	743.3	725.9	736.7	748.8	762.1	766.3	775.1	791.2	807.3	827.3
Gross national product (1958 prices)	Bil. dol.	669.3	652.6	645.4	649.3	654.8	661.1	660.7	664.7	672.0	679.6	689.7
Disposable personal income	Bil. dol.	544.7	508.8	497.5	503.3	512.4	522.0	532.7	540.0	548.2	557.9	571.7
Personal consumption expenditures	Bil. dol.	491.7	465.9	458.2	461.6	470.1	473.8	480.2	489.7	495.3	501.8	517.8
Durable	Bil. dol.	72.1	70.3	71.6	68.2	70.9	70.6	69.4	72.5	72.7	73.8	77.9
Nondurable	Bil. dol.	217.5	207.5	203.2	207.1	209.5	210.3	214.2	217.2	218.5	220.3	228.0
Services	Bil. dol.	202.1	188.1	183.5	186.3	189.8	192.9	196.6	200.0	204.1	207.7	211.9
Personal savings	Bil. dol.	38.7	29.8	26.6	28.7	29.2	34.6	38.8	36.0	38.5	41.6	39.1
Net Government receipts	Bil. dol.	163.7	157.5	150.9	157.5	160.2	161.5	159.6	160.1	164.9	171.0	---
Government purchases	Bil. dol.	176.3	154.3	146.5	151.2	157.7	161.7	170.4	175.0	178.2	181.7	187.5
Federal	Bil. dol.	89.9	77.0	72.1	74.9	79.5	81.5	87.1	89.5	90.9	92.2	95.7
State and local	Bil. dol.	86.4	77.2	74.3	76.2	78.1	80.2	83.3	85.4	87.4	89.5	91.9
Deficit or surplus (on income and product accounts)	Bil. dol.	-12.6	3.2	4.6	6.1	2.6	-.3	-10.8	-15.0	-13.3	-10.8	---
Gross private domestic investment	Bil. dol.	112.1	118.0	115.2	118.5	116.4	122.2	110.4	105.1	112.2	120.8	119.4
Fixed investment	Bil. dol.	107.0	104.6	105.3	104.5	104.9	103.7	103.3	104.6	108.4	111.6	115.5
Residential	Bil. dol.	24.4	24.4	27.0	25.8	23.7	20.9	21.4	23.1	25.6	27.6	28.3
Nonresidential	Bil. dol.	82.6	80.2	78.3	78.7	81.2	82.8	81.9	81.5	82.8	84.0	87.2
Change in business inventories	Bil. dol.	5.2	13.4	9.9	14.0	11.4	18.5	7.1	.5	3.8	9.2	3.9
Gross retained earnings	Bil. dol.	90.2	89.7	87.6	88.4	89.5	93.6	88.9	89.1	90.4	93.9	---
Excess of investment	Bil. dol.	-21.9	-28.3	-27.6	-30.1	-26.9	-28.6	-21.5	-16.0	-21.8	-26.9	---
Net exports of goods and service	Bil. dol.	4.8	5.1	6.1	5.4	4.6	4.3	5.3	5.3	5.4	3.0	2.6
Per capita disposable personal income (1958 prices)	Dol.	2,393	2,317	2,304	2,302	2,324	2,341	2,373	2,388	2,394	2,413	2,442
Total civilian employment <u>2</u> /	Mil.	74.4	72.9	72.3	72.6	73.1	73.6	74.0	73.9	74.6	75.1	75.6

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

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The advance in U.S. economic activity accelerated in the first 3 months of 1968, surpassing the large expansion in the last 2 quarters of 1967. Preliminary data indicate that the Nation's gross national product (GNP) increased a record \$20 billion to a seasonally adjusted annual rate of \$827 billion.^{1/} This gain represented the largest absolute quarterly increase in GNP which has occurred. GNP averaged 8% higher than in the January-March period a year ago.

Although total output increased significantly in the first quarter, demand rose even more rapidly, and prices increased. The 2-1/2% overall GNP increase over the fourth quarter was composed of a 1% quarterly price advance and a 1-1/2% quarterly gain in real output (gross national product measured in constant 1958 dollars). Thus, despite the inflationary factor present in the GNP increase, growth in real GNP was still very substantial.

The outlook for major components of demand appears quite strong, indicating that the economy will continue a strong advance in the second quarter. The second half of 1968 faces at least the usual number of uncertainties. Despite attempts to reduce Government expenditures, the pressure of foreign commitments and domestic programs continues. Business investment outlays rose strongly in the first quarter and are expected to rise further, but more slowly in the second half of this year. The sharp increase in consumer spending so far this year was due to deferred purchases as well as rising incomes, but further advances are in prospect in the coming months.

Personal consumption expenditures showed the largest increase of any component in GNP. They rose a record \$16 billion to \$518 billion. The first quarter rise was more than double the average quarterly increase of the past 2 years. Although all major categories of consumption advanced, the largest absolute gain was for nondurable goods, reflecting larger purchases of food and clothing. Largest

relative gain in consumer expenditures, however, was in durable goods with substantial increases for automobiles and furniture. Domestic automobile sales rose from an annual rate of 7-1/4 million units last fall to 8-1/4 million in the first quarter. The long-term trend of expansion in expenditures for services also continued.

The first quarter increase in consumer spending followed the very large rise in disposable income, ^{2/} and a decline in the rate of personal saving. ^{3/} A high rate of employment (3.6% unemployment), and rising wage rates in most industries contributed to a sharp rise in wages and salary payments. Perhaps reassured by the growth in their personal income and greater employment opportunities, consumers lowered their personal savings rate in the first quarter; it had remained unusually high for several quarters. Although still fairly high at 6.8%, the decline from 7.5% in the fourth quarter of 1967 accounted for about \$2-1/2 billion additional expenditure for consumer goods.

Although overshadowed by the expansion in personal consumption expenditures, business fixed investment rose \$4 billion to a rate of \$116 billion in the first quarter. The increase, the largest in more than 2 years, was mostly for nonresidential construction and equipment. Reduced corporate profits which apparently had a depressing effect on investment in the early quarters of 1967 became favorable later in the year and have continued to show improvement. Corporate profits before taxes jumped

^{1/} All quarterly data in this section are at seasonally adjusted annual rates unless otherwise noted.

^{2/} On a per capita basis, disposable income increased from \$2,789 in the fourth quarter of 1967 to \$2,852. Real (1958 constant dollars) per capita disposable income increased from \$2,413 to \$2,442.

^{3/} The percent saved out of disposable income.

Table 8.--Change from previous quarter in selected measures of personal income and spending
1966-I to 1968-I, seasonally adjusted annual rates

Item	Unit	1966				1967				1968
		I	II	III	IV	I	II	III	IV	I <u>1</u> /
Total personal income	Bil. dol.	11.7	9.5	12.0	12.3	11.3	6.2	11.9	11.5	16.2
Wages and salaries:	Bil. dol.	8.9	8.9	9.4	7.8	7.3	3.6	7.9	9.7	11.6
Manufacturing	Bil. dol.	3.4	3.8	2.8	2.9	.5	-.5	2.0	2.6	3.8
Nonmanufacturing	Bil. dol.	3.5	3.2	3.5	3.0	4.8	2.3	4.1	4.2	6.0
Government	Bil. dol.	1.8	2.1	3.0	2.0	2.0	1.6	1.9	2.9	1.9
Transfer payments	Bil. dol.	1.9	-.5	2.1	3.5	3.3	.6	1.0	.5	2.7
Personal tax payments	Bil. dol.	3.7	3.7	2.8	2.7	.6	-1.1	3.7	1.9	2.4
Disposable personal income	Bil. dol.	8.1	5.8	9.1	9.6	10.7	7.3	8.2	9.7	13.8
Personal consumption expend.	Bil. dol.	10.4	3.4	8.5	3.7	6.4	9.5	5.6	6.5	16.0
Durable	Bil. dol.	3.0	-3.4	2.7	-.3	-1.2	3.1	.2	1.1	4.1
Nondurable	Bil. dol.	5.2	3.9	2.4	.8	3.9	3.0	1.3	1.8	7.7
Services	Bil. dol.	2.3	2.8	3.5	3.1	3.7	3.4	4.1	3.6	4.2
Personal savings	Bil. dol.	-2.7	2.1	.5	5.4	4.2	-2.8	2.5	3.1	-2.5

1/ Preliminary.

U.S. Department of Commerce.

\$5 billion in the fourth quarter to a record \$85 billion, and some private surveys report a further large rise in profits in the first quarter of 1968. The decline in capacity utilization in manufacturing was also halted in the fourth quarter of 1967. Total business sales, which had changed little through most of 1967, also stimulated investment when they started to climb in the latter part of 1967 and early 1968. Sales at the wholesale and manufacturing levels started to pick up in October 1967, and more recently retail sales have gained momentum. Retail store sales, both durable and nondurable goods, for example, in the first quarter have increased 7% over the January-through-March period of last year.

Business outlays for new plant and equipment rose rather strongly in the first quarter. The recent OBE-SEC survey of business intentions reports that expected expenditures for new plant and equipment are 6% higher than in 1967; however, biggest increases are now scheduled for the first half of 1968.

After increases of \$2 billion per quarter during the last 3 quarters of 1967, residential construction leveled off with a gain of only \$800 million. Both housing starts and permits, however, increased slightly over the fourth quarter. Contract interest rates on conventional mortgages, on the other hand, have continued to rise in the first quarter. This increase in interest rates accompanied the rise in the Federal Reserve discount rate and a generally tighter monetary policy.

Another indicator of strong consumer demand in the first quarter of 1968 was the small inventory growth of \$3.9 billion. Inventories grew \$9.2 billion in the previous quarter. The smaller increase this quarter probably reflected the expansion of consumer spending beyond sales expectations. The increase was smaller for all goods--both durable and nondurable.

(Bil. of current dollars)				
: Change from previous quarter				
Item	:	GNP	: Final sales	: Inventory change 1/
1966:	I	17.5	17.5	0
	II	10.8	6.6	4.1
	III	12.1	14.8	-2.6
	IV	13.3	6.2	7.1
1967:	I	4.2	15.6	-11.4
	II	8.8	15.4	-6.6
	III	16.1	12.8	3.3
	IV	16.1	10.7	5.4
1968:	I <u>2/</u>	20.0	25.3	-5.3

1/ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the first quarter of 1968 (\$3.9 billion) less the change in the fourth quarter of 1967 (\$9.2 billion) equals minus \$5.3 billion.

2/ Preliminary.

Federal expenditures rose by \$3.5 billion to \$96 billion after a more moderate rise during the last three quarters of 1967. National defense expenditures, reflecting equipment and supply requirements, increased about \$2-1/2 billion to \$77 billion. Non-defense purchases rose \$1 billion to \$19 billion. The rise in Federal expenditures in the first quarter will likely be offset by a further rise in Federal receipts. The rise in receipts resulted from increased social security tax collections and from the record advance in taxable corporate and personal income. The first quarter Federal deficit in national account terms may be about \$2-1/2 billion lower than that for the fourth quarter of 1967.

As a result of rapidly rising prices, interest rates, and Federal

Table 9.--Federal receipts and expenditures in the national income accounts, semi-annually 1965-68

DPS-116

(Calendar years in billions of dollars, seasonally adjusted annual rates)

Description	Actual						Estimate
	1965		1966		1967		1968
	First : half	Second : half	First : half	Second : half	First : half	Second : half	First quarter 1/
RECEIPTS, NATIONAL INCOME BASIS							
Personal tax and nontax	53.7	54.0	59.3	64.2	64.8	68.3	71.2
Corporate profits tax accruals	28.6	30.0	32.2	32.4	30.3	31.6	36.3
Indirect business tax and nontax accruals	17.0	16.0	15.6	16.2	16.4	16.8	17.5
Contributions for social insurance	24.8	25.6	32.2	34.4	37.1	38.4	41.8
Total receipts, national income basis <u>2/</u>	124.2	125.5	139.3	147.1	148.6	155.0	166.8
EXPENDITURES, NATIONAL INCOME BASIS							
Purchases of goods and services	64.8	68.7	73.5	80.5	88.3	91.6	95.7
Transfer payments	31.1	33.8	34.6	37.4	42.3	43.4	45.8
Grants-in-aid to State and local Governments	10.6	11.8	14.2	15.4	15.4	16.6	18.2
Net interest paid	8.6	8.8	9.2	9.8	10.4	10.6	11.0
Subsidies less current surplus of government enterprises	4.4	4.3	5.0	6.0	5.4	4.8	4.1
Total expenditures, national income basis <u>2/</u>	119.4	127.3	136.6	149.1	161.8	166.9	174.8
SURPLUS (+) OR DEFICIT (-) NATIONAL INCOME BASIS	4.7	-1.8	2.7	-2.0	-13.3	-12.0	-8.0

1/ Actual data for 1965-67 are based on estimates prepared by the Department of Commerce. Data for 1968 based on preliminary estimates by the Bureau of the Budget and the Department of Commerce.

2/ Totals may not add due to rounding.

MAY 1968

expenditures, the Congress is now considering legislation to increase taxes on personal and corporate incomes and reduce proposed budget expenditures. Both actions would tend to slow overall demand expansion.

State and local Government purchases increased \$2.4 billion, continuing their long-term trend. Higher employment and payrolls were the most important elements in the rise. A continued active role by these Governments in providing local facilities, and in urban and rural improvement, assures a further rise in these expenditures.

Net exports of goods and services, which fell sharply in the fourth quarter of 1967, declined a little further in the first quarter of 1968, according to estimates based on incomplete data. Although exports rose, imports rose even more, in part because of strike-hedge buying by domestic steel consumers, unusually heavy copper buying, and the upsurge in imports of foreign cars. In March, the merchandise trade balance on a seasonally adjusted basis suffered its first monthly deficit since January 1963.

Imports have been accelerating since 1967. The strong advances in the U.S. economy and the relatively slower expansion in the economies of the other advanced industrial countries contributed importantly to the rise of imports. The growth in incomes in our economy encourages the purchases of foreign goods. At the same time, rising domestic prices make our own products less attractive to customers in other countries.

The continuing balance of payments deficit position of the United States as well as uncertainties accompanying the devaluation of the British pound in November 1967 led to a heavy speculative demand for gold during the past two quar-

ters. U.S. gold stock in March totaled \$10.7 billion, the lowest in more than 30 years and \$2.5 billion less than a year previous. Congress removed the gold-backing requirement for U.S. currency in March, allowing total gold stocks to be used for settling official international transactions. Potential foreign claims on the U.S. gold stock totaled about \$33 billion by January 31 of this year. Approximately \$15 billion were held by official institutions in the form of short-term liabilities, marketable U.S. Government bonds and notes, and nonmarketable convertible U.S. Treasury bonds and notes. Approximately \$17 billion of the liabilities to foreign countries were held by banks, other private parties, and non-monetary international and regional organizations. Although these liabilities fell slightly during January of this year, these claims were approximately \$3 billion higher than a year previous.

The gold drain and the general international monetary crises led major monetary nations (except France) to agree on March 14 to a "two-tier" price for gold: A fixed official price at \$35 per ounce for monetary transactions among governments and a floating free market price for private transactions in the international market. A conference of finance ministers in Stockholm on March 29-30 agreed to create a new international monetary facility (Special Drawing Rights, "paper gold") to supplement gold reserves in the international monetary system. This agreement will not take effect until formally ratified.

The balance of payments deficit deteriorated further in the fourth quarter of 1967 as liquidity liabilities to all foreigners increased sharply. Preliminary statements by U.S. Commerce officials, however, indicate that this trend may have been reversed in first quarter 1968.

Table 10.--Major international transactions of the United States, 1966-67 ^{1/}

(Billions of dollars, seasonally adjusted annual rates)

Item	Year		1966		1967			
	1966	1967 ^{2/}	III	IV	I	II	III	IV ^{2/}
	Balance on goods and services	5.1	4.8	4.6	4.3	5.4	5.3	5.6
Exports	43.0	45.7	43.7	44.0	45.4	45.4	46.1	45.8
Imports	-37.9	-40.9	-39.0	-39.7	-40.0	-40.1	-40.5	-43.0
Private remittances to foreigners	-.6	-.8	-.6	-.6	-.7	-1.2	-.8	-.7
U.S. Government grants and other transfers	-2.3	-2.2	-2.2	-1.9	-2.2	-2.2	-2.6	-1.8
U.S. private capital, net	-4.2	-5.4	-3.7	-4.7	-3.9	-4.5	-7.0	-6.4
U.S. Government capital, net	-1.5	-2.4	-1.3	-1.4	-2.9	-2.2	-1.9	-2.4
Foreign capital, net ^{3/}	2.5	3.1	1.5	3.1	3.5	4.8	3.2	.9
Unrecorded transactions	-.3	-.6	1.1	-.6	-1.2	-2.2	.8	.1
Total=Liquidity balance	-1.4	-3.6	-.6	-1.7	-2.1	-2.2	-2.5	-7.4
U.S. official reserve assets (increase +)	-.6	-.1	-.3	0	-4.1	1.7	1.5	.7
Liquid liabilities to all foreigners (increase -)	-.8	-3.5	-.3	-1.7	2.0	-3.9	-4.1	-8.1

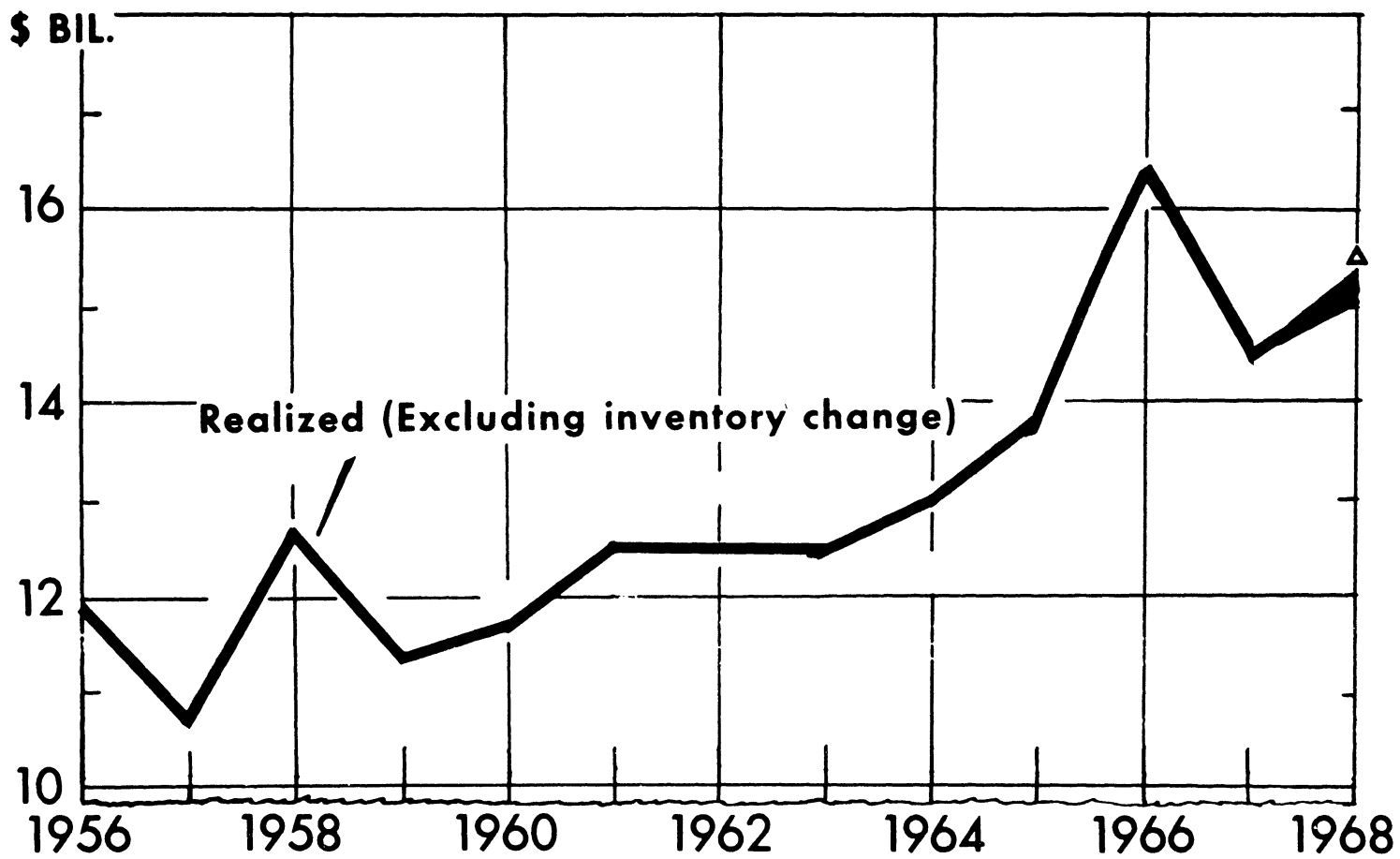
^{1/} Excluding military grant aid.

^{2/} Preliminary.

^{3/} Excluding those liquid items used in calculating the liquidity balance.

Totals may not add due to rounding. Based on data from U.S. Department of Commerce.

REALIZED NET FARM INCOME*



Realized (Excluding inventory change)

*OF FARM OPERATORS, INCLUDING GOVERNMENT PAYMENTS.
Δ FORECAST.

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OFFICIAL BUSINESS

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MAY 1968

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