DPS-144

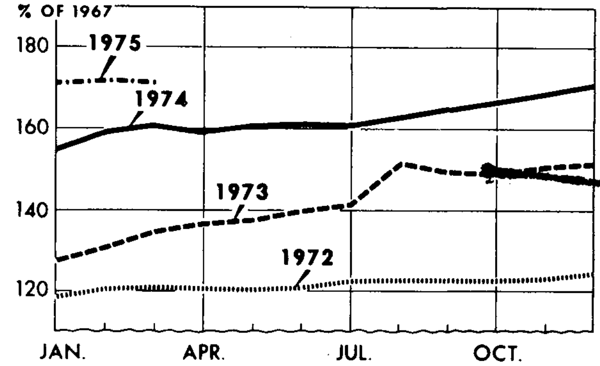
MAY 1975

DEMAND AND PRICE Situation

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

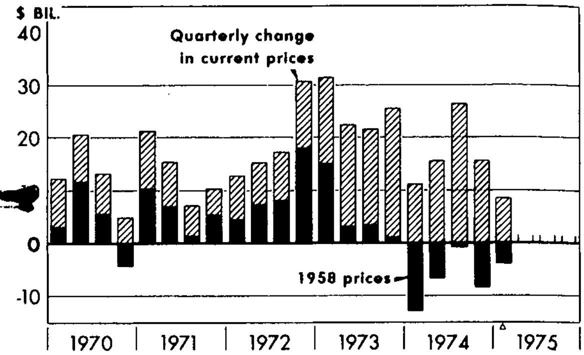
RETAIL FOOD PRICES*



*FOOD AT HOME SOURCE BUREAU OF LABOR STATISTICS

USDA NEG. ERS 6300-75(6)

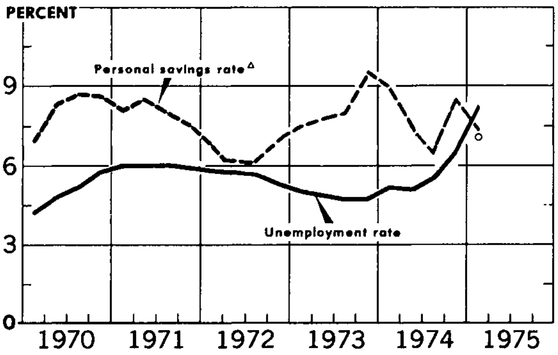
DISPOSABLE PERSONAL INCOME*



*CHANGE FROM PREVIOUS QUARTER SEASONALLY ADJUSTED ANNUAL RATE BASED ON DATA OF DEPARTMENT OF COMMERCE △PRELIMINARY.

USDA NEG. ERS 6889 - 75 (5)

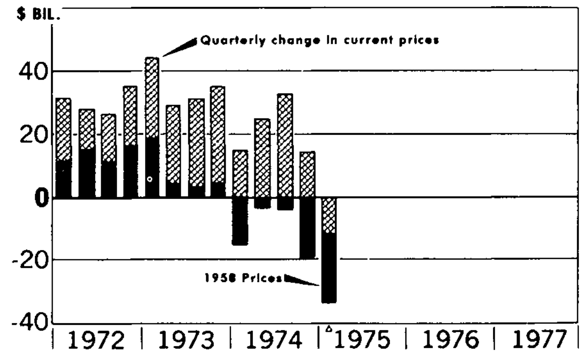
UNEMPLOYMENT AND SAVINGS RATES*



*BASED ON SEASONALLY ADJUSTED DATA OF DEPARTMENTS OF COMMERCE AND LABOR.
△PERSONAL SAVING AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME.
○PRELIMINARY.

USDA NEG. ERS 6518 - 75 (6)

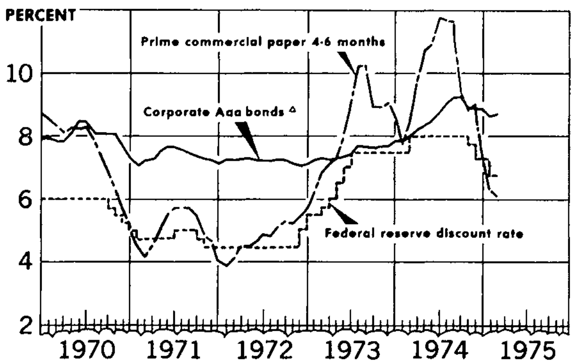
GROSS NATIONAL PRODUCT*



*CHANGE FROM PREVIOUS QUARTER SEASONALLY ADJUSTED ANNUAL RATE. BASED ON DATA OF DEPARTMENT OF COMMERCE △PRELIMINARY.

USDA NEG. ERS 6998 - 75 (5)

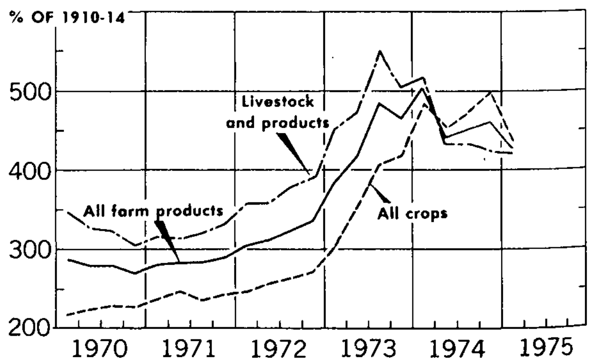
INTEREST RATES*



* FEDERAL RESERVE DATA △MOODY'S.

USDA NEG. ERS 72 - 75 (6)

PRICES RECEIVED BY FARMERS



U S DEPARTMENT OF AGRICULTURE NEG ERS 6999- 75 (6) ECONOMIC RESEARCH SERVICE

THE DEMAND AND PRICE SITUATION

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Approved by
Outlook and Situation Board
and Summary released
May 9, 1975

Principal contributors:

Terry N. Barr
Arthur J. Malloy

National Economic Analysis Division
Economic Research Service

U.S. Department of Agriculture

Washington, D.C. 20250

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SUMMARY

Farm prices eased significantly in the first quarter and, coupled with the persistent rise in production expenses, left realized net farm income at a seasonally adjusted annual rate of $21½ billion. This compares with the $33 billion rate in the first quarter of 1974. If crop production reaches the levels indicated by planting intentions and weather is good, net farm income in 1975 likely would continue to decline in the face of slowly rising production expenses. For 1975 realized net farm income will likely total around $20 billion, with the major determinants being the size of the 1975 crops and the general economic situation.

The rate of increase in retail food prices slowed dramatically in the early months of 1975 and in March registered a small decline. However, first quarter prices averaged 2 percent above the fourth quarter of 1974 and a little over 9 percent above a year earlier. Retail prices are expected to increase further through midyear, following the recent brief period of stable or slightly declining prices. As the year progresses, food prices will become more dependent upon 1975 crop conditions both in this country and abroad. If weather is favorable and crop harvests large, the increases in food prices could be largely behind us by midyear and the second half of 1975 could be a period of relative stability. Food prices in 1975 would then average 6-8 percent above 1974 levels. However, poor weather and reduced harvests would force some acceleration in prices in late 1975 and for the year retail food prices could average 8-10 percent above 1974.

Total red meat supplies during the winter have continued to run larger than a year earlier. Substantial increases in beef and veal production more than offset reduced pork and lamb supplies. Cattle prices during the winter drifted lower as near-record slaughter continued unabated from the fall level. The number of cattle slaughtered commercially in the first quarter was up 14 percent from last year. All of the increase was due to slaughter of more cows and nonfed steers and heifers. Fed cattle made up less than 60 percent of cattle slaughter this winter, about the same as in the fall but well below the 70 percent of a year ago.

Cattle feeders have indicated plans to reduce fed marketings more sharply in the months ahead. Intentions for April-June are for 4.7 million fed cattle to be marketed, the fewest for that period since 1965 and

Table 1.--Selected measures of economic activity

Item	Unit	Year 1974	1973 III	1973 IV	1974 I	1974 II	1974 III	1974 IV	1975 I 1/
Gross national product	Bil.dol.	1,397.4	1,308.9	1,344.0	1,358.8	1,383.8	1,416.3	1,430.9	1,419.2
Disposable personal income	Bil.dol.	979.7	913.9	939.4	950.6	966.5	993.1	1,008.8	1,017.4
Personal consumption expenditures	Bil.dol.	876.7	816.3	823.9	840.6	869.1	901.3	895.8	916.3
Food spending (excluding alcoholic beverages)	Bil.dol.	164.5	147.7	152.4	157.5	160.8	167.6	171.9	177.4
Implicit price deflator for GNP	1958=100	170.2	155.7	158.9	163.6	167.3	172.1	178.0	181.4
Unemployment rate 2/	Percent	5.6	4.7	4.7	5.1	5.1	5.5	6.6	8.3
Cash receipts from farm marketings	Bil.dol.	95.0	93.6	98.5	98.0	91.3	94.5	96.2	90.6
Nonmoney and other farm income	Bil.dol.	7.0	8.2	8.2	7.0	7.1	7.6	6.3	7.4
Realized gross farm income	Bil.dol.	102.0	101.8	106.7	105.0	98.4	102.1	102.5	98.0
Farm production expenses	Bil.dol.	74.8	67.0	69.0	72.1	74.5	76.5	76.1	76.5
Farmers' realized net farm income	Bil.dol.	27.2	34.8	37.7	32.9	23.9	25.6	26.4	21.5
Agricultural exports 3/	Bil.dol.	22.0	4.2	5.8	5.9	5.5	4.5	6.2	6.3
Agricultural imports 3/	Bil.dol.	10.2	2.0	2.3	2.6	2.6	2.5	2.5	2.3
Volume of farm marketings	1967=100	115	109	157	105	94	114	148	102
Livestock and products	do.	107	100	113	103	106	103	116	109
Crops	do.	126	121	215	108	76	130	193	91
Prices received by farmers 4/	do.	183	191	183	198	174	178	181	169
Livestock and products	do.	163	199	183	187	156	156	154	152
Crops	do.	212	180	185	215	202	210	221	193
Prices paid by farmers 4/ 5/	do.	169	149	152	160	165	172	179	180
Wholesale price index, all commodities 4/	do.	160.1	138.7	139.9	149.2	154.5	165.4	171.2	171.2
Consumer price index, all items 4/	do.	147.7	134.4	137.6	141.4	145.4	149.9	154.2	157.0
All food	do.	161.7	146.2	149.9	156.8	159.5	162.8	167.9	171.3
Food at home	do.	162.4	147.1	150.1	158.0	160.2	163.0	168.4	171.6

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.

well below the level of the past 9 months. Fewer fed cattle this spring, an expected seasonal reduction in cow slaughter, and smaller pork supplies are price-strengthening factors in the fed cattle market. Weekly slaughter rates in late March and April have dropped substantially from the near-record levels of earlier in the winter. With prospects for substantial reductions in fed cattle supplies, Choice steer prices responded sharply in early May, with the average topping $49 per 100 pounds at most markets, the highest since the summer of 1973 and up about $15 from March lows. Some of this price strength should be sustained through the spring.

But cattle slaughter supplies are potentially large and, with a smaller proportion of slaughter coming from feedlots, cattle slaughter is subject to more than the usual amount of variability—depending on weather and other short term market conditions.

With normal weather, cattle slaughter in the summer and fall will continue heavy and prices could trend lower. On the other hand, general optimism among cattlemen for a rising market, or sharp reductions in feed prices, could temporarily reduce nonfed slaughter supplies, producing a spurt in cattle prices. Another dry summer and a poor feed crop would result in some liquidation of the cattle herd and severely depress prices of all classes of cattle.

Hog farmers are cutting pork production more than they planned earlier. This reflects continued uncertainties faced by farmers and high feed prices. The March pig crop report indicated December-February farrowings were reduced a fifth from last year and further cuts of 17-21 percent are planned through August. While higher hog prices in the months ahead may temper farmers' plans for farrowings in 1975, the reported intentions, if realized, would mean pork production will be the lowest in 9 years, and per capita pork consumption could be the smallest in almost 40 years. Even further declines are possible in 1976.

Broiler meat output during the first quarter of 1975 was down about 6 percent from a year earlier. Chick placements and egg settings indicate April-June marketings also will be down around 6 percent. If the outlook remains favorable for large 1975 feed grain crops, producers are likely to gradually expand output.

Turkey meat output during January-March was down 23 percent and output will remain well below year-earlier levels in coming months. Despite low off-season production, turkey meat supplies likely will be adequate through the summer because of relatively large cold storage holdings.

Egg production during January-March was down 4 percent. Production likely will decline further in coming months with spring production 5-6 percent below a year earlier. Egg prices fell as usual early this spring but seasonal increases are likely in the summer and fall.

Milk production so far this year has held just slightly above a year ago, and may stay close to year-earlier levels in coming months. However, if feed prices moderate, some production increases may occur later this year.

This year's wheat scene has been highlighted by a continued strong export demand and a pullback in domestic use. The record 1974 crop of 1.8 billion bushels was not enough to offset the smallest carryin stocks in over 20 years; consequently, supplies at 2.0 billion were the smallest in 6 years. It now appears that both domestic use and exports will fall below the last year's level. For the 1974/75 crop year total disappearance is expected to run around 1.8 billion bushels resulting in yearend stocks of around 230 million bushels, slightly below last year's relatively low level. Farmers are indicating a 1975 wheat acreage of just over 73 million acres, 3 percent above last year and the largest since 1953. All of the increase is in winter wheat.

The 1974 rice crop totaled a record 114 million cwt. (rough) as both acreage and yields rose from the 1973 levels. Carryin stocks were also larger. Total use is projected at a record shattering 108 million cwt. with nearly all of the growth in exports. Even if disappearance does reach record proportions, some of the 1974 crop is expected to be added to stocks. Consequently, carryover this summer is expected to climb to over 13 million cwt., nearly double a year ago. Rice prices to growers are averaging well below 1973/74 levels and for the crop year are expected to average around $3 below last year's record of $13.78. Rice producers, in their March 1 planting intentions, indicated a 1975 acreage of 2.56 million acres, only 1 percent below a year ago.

The 1974 corn crop of 4.7 billion bushels was about 18 percent smaller than the average of the three preceding crops. With sharply reduced carryover stocks, the 1974/75 corn supply was 5.1 billion bushels, 19 percent smaller than in 1973/74. The supply of the four feed grains (corn, sorghum, oats, barley) totaled 188 million short tons, down 21 percent. This resulted in record high feed grain prices in the fall of 1974, and is leading to sharp reductions in domestic use of feed grains for livestock feeding and to lower exports in 1974/75.

Domestic feed grain use in October 1974-March 1975 was down 20 percent from a year earlier. Exports were down 5 percent. Reductions in domestic feeding of livestock and poultry accounted for the bulk of the decline in domestic disappearance. Feed grain prices have been high in relation to what livestock and poultry producers could get for their products and feeding operations have been cut back sharply. This resulted in substantial drops in feed grain prices from the highs last fall. No. 2 yellow corn at Chicago averaged $3.85 per bushel in October but fell to $2.67 in April. With reduced feed demand, prices in the second half of the 1974/75 marketing year are expected to be lower than in the first half, particularly if the 1975 corn harvest is large.

Farmers indicated as of March 1 that they planned to plant 122½ million acres to feed grains for 1975, nearly the same as 1974 plantings. These intentions included 75 million acres of corn, 3 percent less than 1974; 19 million of sorghum, up 7 percent; 10 million barley, up 12 percent; 18 million oats, virtually the same as 1974.

Soybean growers on March 1 reported they intended to plant 56.6 million acres in 1975, about 3 million more than in 1974. Increased acreages are indicated outside the main North Central producing States where yields per acre are usually lower.

The 1974/75 cotton situation is highlighted by moderately smaller production and sharply reduced cotton use. This season's prospective disappearance of about 9.3 million bales is over 4½ million below 1973/74 level. Thus, it now appears we will carry over about 6.1 million bales into the new marketing year on August 1. This represents a buildup of 2.2 million bales this season and will place stocks at the highest level since August 1, 1969. In early March, farmers indicated intentions to plant 10 million acres of cotton this spring, down from 14 million last year and the smallest since 1967.

The general economy continues to adjust to earlier declines in final demand. An $18 billion annual rate of inventory liquidation, which followed a similar fourth quarter increase in inventories, dominated the first quarter decline in general economic activity. This was reflected in sharply lower production and a higher unemployment rate. Although inventory liquidation is currently exerting downward pressure on economic activity, it is a prerequisite to a turnaround in production and employment later in the year.

With inventory liquidation continuing in the second quarter, the economy will be characterized by falling demand and production, rising unemployment, and slower inflation through midyear. By the third quarter of 1975, inventory liquidation may be largely accomplished and inflation rates could be considerably lower than the peak 1974 levels. The ability of the economy to respond to the stimulative tax reductions which will then be fully in effect will become the key factor in the unfolding of economic events.

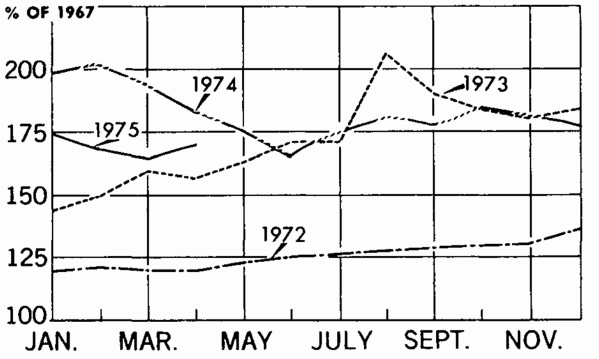
If the beginning of an upturn in demand triggers a new round of inflation, or if increased government borrowing drives interest rates sharply higher, the recovery may be choked off before it is fully underway. Fortunately, a realistic appraisal suggests that the danger of such an occurrence is minimal. Since the economy is operating well below capacity, the increased demand which is expected to result from the tax cut should not cause a dramatic resurgence of inflation. Futhermore, business investment in plant and equipment will lag the upturn and remain low for the remainder of 1975. With business demand for credit weak, an accommodating monetary policy should enable government credit demands to be satisfied without putting severe pressure on interest rates. But despite the brighter outlook for the second half, employment will lag behind real GNP and the unemployment rate will remain near 9 percent at yearend.

New Report to Replace Demand and Price Situation

Starting in July, the *Demand and Price Situation* will be merged into a new monthly analytical report entitled *Agricultural Outlook*. Published 11 times a year, the new report will carry aggregate analyses for the general and agricultural economies and will digest and update commodity and foreign agricultural production and trade developments. All persons presently on the *Demand and Price Situation* mailing list will receive a notification copy of the new report in July

The current outlook for U.S. agriculture continues to be dominated by the adjustments to the poor grain production of 1974 and the expectations and uncertainties surrounding potential crop production in 1975. With many of the adjustments by the livestock sector to the poor crop of 1974 already in progress, attention has turned to 1975 crop prospects and the readjustments by the livestock sector which might be necessary. The evaluation of these readjustments is further complicated by the uncertainties about general economic developments in the United States and the world and their impact on the demand for U.S. agricultural products.

PRICES RECEIVED BY FARMERS



US DEPARTMENT OF AGRICULTURE NEG. ERS 8268- 75 (5) ECONOMIC RESEARCH SERVICE

Farm Income Declines Sharply

Farm prices eased significantly in the first quarter and, coupled with the persistent rise in production expenses, left realized net farm income at a seasonally adjusted annual rate of around $21 billion. This compares with the $32.9 billion rate in the first quarter of 1974 when farm prices were at record high levels due to the reduced crop production. If 1975 crop production reaches the levels indicated by planting intentions and good weather, farm income likely would continue to decline in the face of moderately rising production expenses. For 1975, realized net farm income likely will average around $20 billion, with the size of the 1975 crops and the general economic situation being major determinants.

Agriculture Contributes to Trade Balance

U.S. agricultural exports for the current fiscal year are still projected to reach about $22 billion, slightly above a year earlier. All of the increase will stem from higher prices during the early part of the year as volume of exports is expected to decline about 15 percent. Exports during the first 9 months (July-March 1974/75) totaled $16.9 billion, up 7 percent over the same months a year earlier. To reach the $22 billion, exports would only have to total $5.1 billion for the balance of the current fiscal year (April-June), requiring a monthly average of $1.7 billion. This compares with the $1.8 billion monthly average in the last quarter of fiscal 1974.

World prices of major agricultural commodities have taken a considerable downtrun since the beginning of this calendar year. Despite generally poor economic conditions throughout the world, demand for many food items continues at record levels.

U.S. agricultural imports for fiscal 1975 are now expected to be under $10 billion, down from the earlier estimate of $10.7 billion, mainly due to the drop in sugar prices. As a result, agriculture's contribution to the U.S. trade balance should total around $12 billion, slightly above the $11.8 billion of fiscal 1974.

U.S. agricultural exports, value of major commodities

Commodity	July-March		Percentage change
	1973/74	1974/75[1]	
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	1,307	1,263	-3
Cotton	875	757	-14
Feed grains, excluding products	3,352	3,797	13
Fruits	447	465	4
Soybeans	2,356	2,476	5
Tobacco, unmanufactured	598	724	21
Vegetables	307	415	35
Wheat and flour	3,849	3,938	2
Rice	527	739	40
Other	2,161	2,365	9
Total exports	15,781	16,938	7

[1] Preliminary.

Totals may not add due to rounding.

World production of wheat is forecast to be about 372 million metric tons in fiscal year 1976 up from this fiscal year's 347.

World production of coarse grains is up from last year's slump, possibly reaching a record 626 million metric tons in fiscal 1975 over last year's 562 million.

Food Prices Easing

The rate of increase in retail food prices has slowed markedly during the early months of 1975. First quarter prices averaged 2 percent above the fourth quarter of 1974.

Much of the average retail price increase during the first quarter was associated with sugar-containing

U.S. agricultural imports, value of major commodities

Commodity	July-March 1973/74	July-March 1974/75[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	2,247	1,327	-41
Fruits	153	164	7
Oilseeds and oil products	287	511	78
Sugar and molasses	851	2,028	138
Tobacco, unmanufactured	139	168	21
Vegetables	278	268	-4
Wines and malt beverages	252	243	-4
Other	408	494	21
Total	4,615	5,203	13
Complementary			
Bananas	147	147	0
Cocoa and chocolate	58	80	38
Coffee	1,322	992	-25
Rubber	339	323	-5
Other	459	555	21
Total	2,324	2,097	-10
Total imports	6,939	7,301	5

[1] Preliminary.

Totals may not add due to rounding.

U.S. agricultural trade balance July-March 1973/74 and 1974/75

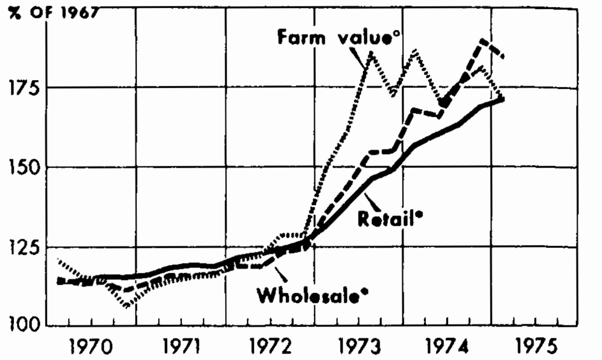
Item	1973/74	1974/75[1]	Percentage change
	Million dollars	*Million dollars*	*Percent*
Exports	15,781	16,938	7
Imports	6,939	7,301	5
Trade balance	8,842	9,637	9

[1] Preliminary.

products in the sugar and sweets, cereal and bakery, and nonalcoholic beverage categories. While both wholesale and retail sugar prices have fallen from their extremely high peaks of late last year, prices of many items continued to increase, reflecting the upward spiral in sugar costs which occurred earlier. Prices for most fresh vegetables also climbed sharply during the first quarter, although part of this rise was offset by a major drop in potato prices. Among animal-related products, beef prices continued to decline in response to heavy cattle slaughter, offsetting moderate price increases for pork, poultry, and fish. Dairy product prices advanced slightly but egg prices slipped because of weakening demand.

Retail food prices during the second quarter of 1975 may average about 1-2 percent above the first quarter. In

FOOD PRICES



°PRICES RECEIVED FOR FOOD ORIGINATING ON U.S. FARMS •SOURCE: BUREAU OF LABOR STATISTICS

USDA NEG. ERS 6622-75(8)

contrast to the first 3 months of the year, price increases during the second quarter are likely to be associated with animal-related products. Red meat prices are expected to rise most as beef output contracts in the spring to join with sharply reduced pork supplies. Smaller production relative to a year earlier also will maintain upward price pressure on poultry meat prices, although egg prices will be seasonally lower. Moderate increases are likely for fish and dairy product prices.

Favorable weather and prospects for large grain and oilseed crops in this country, along with declining export demand for these commodities, could be expected to result in continued strength in retail food prices during the summer, followed by some small declines later in the year. Under these conditions, for all of 1975, the consumer price index for food at home would probably average about 6-8 percent above a year earlier with much of the average rise already accounted for by price increases which occurred in late 1974 and early 1975.

Unfavorable weather again this year, resulting in low yields for major U.S. grain and oilseed crops similar to those in 1974, accompanied by continued strong export demand, would likely accelerate food price increases during the second half of the year. Liquidation of cattle herds would largely offset smaller supplies of pork and poultry products, holding average prices for livestock-related products temporarily in check. However, crop related food prices would average higher. For all of 1975, retail food prices would probably average 8-10 percent above a year earlier.

Feed Grain Supplies Tight

Domestic feed grain use in October-March 1974/75 was down 20 percent from a year earlier. Exports were only down around 5 percent. Reductions in domestic feeding of livestock and poultry accounted for the bulk of the decline in disappearance. Feed grain prices were high in relation to what livestock and poultry producers could get for their products and feeding operations were cut back sharply. This resulted in substantial drops in feed grain prices from the highs last fall. No. 2 yellow

Table 2—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*
1974						
January	139.7	10.4	9.4	153.7	19.1	19.5
February	141.5	15.5	10.0	157.6	30.5	20.2
March	143.1	13.6	10.2	159.1	11.4	18.3
April	143.9	6.7	10.1	158.6	-3.7	16.2
May	145.5	13.3	10.6	159.7	8.3	15.8
June	146.9	11.5	11.0	160.3	4.6	14.7
July	148.0	9.0	11.5	160.5	1.4	13.9
August	149.9	15.4	11.0	162.8	17.2	9.0
September	151.7	14.4	12.0	165.0	16.2	11.3
October	153.0	10.3	12.0	166.1	8.0	11.9
November	154.3	10.2	12.1	167.8	12.2	11.9
December	155.4	8.5	12.2	169.7	13.6	12.2
1975						
January	156.1	5.4	11.7	170.9	8.5	11.2
February	157.2	8.5	11.1	171.6	4.9	8.9
March	157.8	4.6	10.3	171.3	-2.1	7.7

corn at Chicago averaged $3.85 per bushel in October but averaged $2.67 in April. Domestic use during the remainder of the marketing season likely will continue about a fifth below year-earlier levels. Exports are expected to slow from the heavy movement of recent months as large crops of feed grains in the Southern Hemisphere countries will be available for world markets this spring and summer.

The 1974 corn crop of 4.7 billion bushels was about 18 percent smaller than the three preceding crops. With sharply reduced carryover stocks, the 1974/75 corn supply was 5.1 billion bushels, 19 percent smaller than in 1973/74. The supply of the four feed grains (corn, sorghum, oats, barley) totaled 188 million short tons, down 21 percent. This resulted in record-high feed grain prices in the fall of 1974, and is leading to sharp reductions in domestic use of feed grains and lower exports in 1974/75.

Stocks of grains

Grain and position	April 1, 1974	April 1, 1975	Percentage change 1975/74
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	67	49	-27
Off farms[2]	36	27	-25
Total	103	76	-26
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	181	250	38
Off farms[2]	366	388	6
Total	548	638	17
SOYBEANS			
On farms[1]	332	336	1
Off farms[2]	406	323	-20
Total	738	659	-11

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

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

Prices received by farmers for corn in 1974/75 are expected to average around $3.00 per bushel. With reduced feed demand, prices in the second half of the 1974/75 marketing year are expected to be lower than in the first half if the prospective 1975 corn harvest is large. Livestock feeding operations are not expected to expand appreciably until favorable livestock-feed price relationships develop.

For corn, 1974/75 use will include about 3.2 billion bushels for feed; 450 million for food, seed, and industry; and 1.1 to 1.3 billion bushels for exports. Carryover stocks on October 1 are likely to be down to 360 million bushels. For total feed grains (corn, sorghum, oats, barley), 118 million short tons are expected to be used for feed; 18 million tons for food, industry, and seed; and 37 million tons exported, with carryover stocks declining around to 15 million tons.

Farmers indicated as of March 1 that they planned to plant 122½ million acres to feed grains for 1975, nearly the same as 1974 plantings. These intentions included 75 million acres of corn, 3 percent less than 1974; 19 million of sorghum, up 7 percent; 10 million barley, up 12 percent; 18 million oats, virtually the same as 1974.

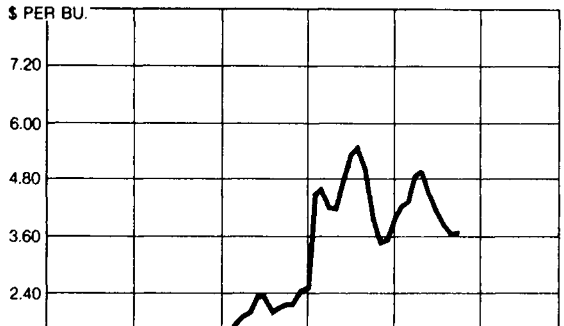
Given these planting intentions and normal weather, the 1975 corn crop would range between 5.7 and 6.4 billion bushels. Domestic use for feed would increase to 3.9-4.1 billion bushels; there would be a modest increase to 465 million bushels in use for feed, industry, and seed; exports likely would be 1.1 to 1.3 billion bushels.

Total feed grain production would be 205-229 million short tons. Domestic use for feed would be 137-149 million tons; exports would total 38-46 million tons; carryover stocks would be 25-30 million tons, up from the expected 1974/75 carryover of around 15 million tons.

This year's wheat scene has been highlighted by a continued strong export demand and a pullback in domestic use. The record 1974 crop of 1.8 billion bushels was not enough to offset the smallest carryin stocks in over 20 years. Consequently, a supply of 2.0 billion was the smallest in 6 years. It now appears that exports will total 1.1 billion bushels, not much below the 1972/73 record. Domestic use also has slipped as high wheat prices combined with a sharp cutback in the number of cattle on feed resulted in a drop in wheat feeding. For the 1974/75 crop year, total disappearance is expected to run around 1.8 billion bushels. This would be the third heaviest on record and only slightly below the level of the past 2 years. If these projections are realized, stocks this summer would total around 230 million bushels, down slightly from a year earlier.

Wheat prices at the farm have continued to slide since posting a November high of $4.87 per bushel. Some export sales cancellations, more abundant world wheat supplies than earlier expected, and good prospects for the 1975 wheat crop resulted in a weakening of the wheat market. However, demand for the remainder of the crop year is expected to be fairly strong which should limit any further price decline. For the 1974/75 season, farm wheat prices may average around $4.10 per bushel, up from last year's record high.

WHEAT PRICES RECEIVED BY FARMERS



Farmers are indicating a 1975 wheat acreage of just over 73 million acres, 3 percent above last year and the largest since 1953. Last fall the winter wheat producer put in 55.5 million acres, 6 percent more than the preceding year and the largest in over 20 years. Farmers reacted to dry weather across the Northern Plains and uncertainty about prices by cutting spring wheat planting intentions 6 percent from last year's 18.8 million acres.

If wheat yields range from 30 to 33 bushels per acre in 1975, the harvest could total a record shattering 2 billion bushels or more. Combined with carryover stocks, the total supplies could range from 2.3 to 2.5 billion bushels. Domestic demand is expected to strengthen some from this year's low level as wheat feeding expands. Exports are projected in a range of 1,050-1,200 million bushels. This reflects the uncertainty surrounding exportable supplies of our major foreign competitors and the world's import demand for 1975/76. It now seems likely that disappearance will fall short of the crop and stocks could climb to over 400 million bushels by the summer of 1976. With less pressure on supplies, prices to farmers likely would average well below the $4.10 per bushel level of 1974/75.

The 1974 rice crop totaled a record 114 million cwt. (rough) as both acreage and yields rose from the 1973 levels. Carryin stocks were also larger, pushing total supplies to a record 122 million cwt. Total use is projected at a record shattering 108 million cwt., with nearly all of the growth in exports. Domestic use in 1974/75 may total around 37 million cwt., up from a year earlier. Exports are estimated at a record 71 million cwt., 25 percent above the previous high set in 1971/72. Chiefly responsible are a pickup in PL-480 rice shipments along with a surprisingly strong commercial demand. Even if disappearance does reach record proportions, some of the 1974 crop should be available for adding to stocks. Consequently, carryover this summer is expected to climb to over 13 million cwt., nearly double a year ago.

Rice prices are averaging well below 1973/74 levels. The March average farm price of $10.60 per cwt. was 38 percent below a year earlier. For the crop year, prices are expected to average around $3 below last year's record $13.78. Rice producers, in their March 1 planting intentions, indicated a 1975 rice acreage of 2.56 million acres, only 1 percent below a year ago. If yields recover from weather-reduced levels of the past 2 years, the 1975 crop could total from 113 to 120 million cwt. This would push supplies to another new record. Demand is expected to continue strong in 1975/76 but may not be strong enough to use up a record large crop. Consequently, stocks by the summer of 1976 could be close to double the 13.4 million cwt. of 1975. This would result in additional price weakness from 1974/75 levels.

The 1974/75 cotton situation is highlighted by moderately smaller production and sharply reduced cotton use. This season's prospective disappearance of about 9.3 million bales (5.8 million for U.S. mill use and 3.5 million for export) is over 4½ million below the 1973/74 level. Thus, it now appears that we will carry over about 6.1 million bales into the new marketing year on August 1. This represents a buildup of 2.2 million bales this season and will place stocks at the highest level since August 1, 1969.

Weakening demand relative to supplies has caused cotton prices to tumble this season from 1973/74's high levels. However, spot market prices have strengthened during recent weeks, reflecting slightly improved demand in the face of continued reluctance by producers to sell at current prices. With steadily mounting production costs, this season's lower prices are encouraging producers to devote considerably less acreage to cotton in 1975.

In early March, farmers indicated intentions to plant 10 million acres of cotton this spring, down from 14 million last year and the smallest since 1967. Over a fourth of the land planted to cotton last year is being shifted to more attractively priced alternative crops, such as grain sorghum in the Southwest and soybeans in the Southeast and Delta. However, March planting intentions for cotton are up about 0.4 million acres from those indicated in early January because of softening in soybean and grain sorghum prices.

Smaller cotton production is a near certainty in 1975 in view of the sharp cut in intended acreage. However, output likely will decline less than acreage since yields are expected to rebound from 1974's very low 442 pounds per harvested acre. Given more normal weather and the seeding of land most suitable for cotton production, yields could challenge 1965's record-high 527 pounds.

On the demand side, larger cotton disappearance is on tap for 1975/76. The extent of recovery will depend greatly on the general economic situation and overall textile activity, both here and abroad. At a minimum, U.S. mill use and exports are likely to total 6 million bales and 3.8 million, respectively. However, there are increasing signs now of an even sharper turnaround in textile demand, pointing to mill consumption of about 6.5 million bales and U.S. cotton exports of around 4.3 million.

Soybean supplies this marketing year totaled 1.4 billion bushels, about 13 percent below last year. However, because of declining disappearance, supplies are more than adequate to meet requirements and some buildup in stocks is anticipated.

Total soybean disappearance is estimated at 1.2 billion bushels, about 15 percent below last year. Declining demand for both soybean oil and meal has curtailed crushings and exports. Crushings are estimated at 715 million bushels, down from 821 million last season. Exports are estimated at 425 million, compared with 539 million last year. However, total use will fall a little short of output, resulting in an increase in carryover stocks to around 185 million bushels, compared with 171 million last September. Soybean stocks on April 1 totaled 659 million bushels, about 11 percent below a year ago.

Prices to farmers have dropped sharply since last fall, reflecting the decline in disappearance. For the entire season they are expected to average about $6 per bushel, compared with $5.68 for the 1973 crop. Prices over the next few months will be influenced by prospects for the 1975 soybean crop and by developments affecting the overall economy.

According to March 1 intentions, farmers will plant nearly 57 million acres to soybeans this year—about 3 million above last year. If planting and growing conditions are favorable and yields per acre are at the upper level of the projected range, soybean production would total 1,550 million bushels, some 300 million above 1974. With estimated carryover of about 185 million bushels next September, 1975/76 supplies would total 1,735 million bushels, about a fourth above the current year. Under these conditions soybean exports are projected to be around 475 million bushels.

If planting and growing conditions are less favorable and yields are at the lower level of the projected range, production would total 1,450 million bushels, some 200 million above last year. Total supplies would be almost 1,635 million bushels, about 16 percent above the current season, and exports likely would be about 425 million bushels.

Total domestic use and exports of tobacco during 1974/75 are expected to exceed the 1974 crop, leaving carryover stocks a little below last season. U.S. tobacco growers plan to boost plantings 11 percent from the 962,000 acres harvested last year. An increase of 90,000 acres is in prospect for flue-cured with the basic quota up 15 percent. Burley, too, may gain—some 18,000 acres due to a 10 percent boost in the basic quota and the large carryover quota from last year's below-quota production.

With average growing conditions, the prospective tobacco acreage indicates a crop around 2.1 to 2.3 billion pounds, about a tenth more than last year. The crop actually harvested can vary from this projection due to weather, economic conditions, and availability of production inputs. Even adding a smaller carryover, the tobacco supply could gain a little from that in 1974/75.

Last year's output of cigarettes declined 1 percent to 635 billion after a sharp rise in 1973. Filter-tip cigarette output continued to gain and its share rose to about 87 percent of the total. U.S. smokers puffed a record 600 billion cigarettes in 1974 or 2 percent more than the previous year. Consumption per adult was maintained at 4,150 cigarettes (208 packs). For 1975, per capita use may be about the same again but increasing population will raise this year's total cigarette use.

For the current fiscal year ending June 30, 1975, unmanufactured tobacco exports may decline slightly. They totaled 530 million pounds, (farm-sales weight), for July-March, 2 percent below a year earlier. Exports are expected to fall during the rest of the season due to reduced supplies and higher prices.

Flue-cured tobacco disappearance in current marketing year may remain near the previous year's record high of 1.3 billion pounds. Domestic use is expected to be up some but exports will probably slip below last year's level. So while the 1974 crop was larger, carryover in mid-1975 may drop to around 1.54 billion pounds, slightly below a year earlier.

With larger domestic use, total disappearance of burley tobacco in 1974/75 may rise from last year's 619 million pounds. Despite unfavorable weather, larger acreages helped boost last year's production one-third from 1973's very short crop. But burley carryover for next October 1 probably will decline a little below the year-earlier level.

Acreage for harvest of 14 spring fresh market vegetables is 1 percent larger than the same quarter of 1974. Based on average yields, this would suggest a slightly reduced supply. In addition, a smaller acreage of spring melons implies moderately smaller output. Farm and retail prices for fresh vegetables likely will hold steady to slightly higher in the second quarter with some seasonal decline expected in third quarter 1975.

Processed vegetable supplies have been ample this season. The combination of increased packs and some reduction in demand has eased the tight supply position which prevailed for much of 1974. With a generally adequate supply picture, processors handling 8 major vegetable crops expect to contract for 3 percent more vegetable acreage in 1975. These 8 vegetables account for about 90 percent of all processed vegetable tonnage. A larger total canned pack is likely for 1975, but freezers may cut back moderately to avoid excessive supplies in 1975/76.

After 2 years of high prices and relatively light market supplies, the potato industry is working its way out of a serious oversupply situation resulting from the record large 1974 crop. April 1 stocks of 73 million cwt. were very large for that date. The spring crop production estimate is down a fourth, but prices to Eastern growers are expected to be generally weak well into the spring quarter. Western Russet Burbank prices have shown recent strength. Growers intend to plant 5 percent less acreage this summer and fall with the sharpest reductions in Maine, Minnestoa, and Idaho.

Prospective plantings reported in mid-March show that sweetpotato growers expect to plant 1 percent fewer acres this season. With heavy stocks of canned sweets now on hand, processors are not likely to use as many this coming season.

With generous supplies of dry beans now on hand, growers' intentions are to plant 8 percent less acreage to dry beans this year. The largest cuts are to come in California where limas and blackeyed peas are grown, and in Michigan, the major source of pea beans. These classes are currently in heaviest supply. An 8 percent acreage cut under average yield conditions would still provide more than adequate supplies for the coming season.

Fruit supplies for the remainder of the 1974/75 season are expected to total substantially above a year earlier. Large citrus supplies continue to dominate the fruit scene. A record U.S. citrus crop of 14.5 million tons is estimated for the 1974/75 season. Current stocks of most processed products are ample for market needs. Cold storage holdings of fresh deciduous fruits (mostly apples) are also adequate.

The index of prices received by growers for fresh and processed fruit averaged slightly lower during the first quarter of 1975 than the comparable period a year earlier. The index is expected to advance seasonally during the second quarter of 1975 and likely will average near year-earlier levels. Retail prices of fresh fruit have advanced since January 1975 and averaged moderately higher than a year earlier. As remaining supplies of fresh fruit decline seasonally, consumer prices are likely to advance during the second quarter of 1975 and continue to average moderately above the comparable 1974 period.

The Nation's orange crop is now expected to total a record 238 million boxes. This output is nearly 10 percent above last season and 6 percent above 1972/73. About three-fourths or 176 million boxes will come from Florida, which expects a 6 percent larger output. California's orange crop, estimated at 53 million boxes, would be the largest since 1946/47. With a large crop this season, the supply for fresh market is expected to be adequate in spite of the diversion of freeze-damaged fruit to processing. Arizona's indicated production of 4.5 million boxes is 32 percent above last season, while the forecast for Texas at 4.5 million boxes is 32 percent smaller.

On-tree returns to growers for all U.S. oranges have been below a year ago but in April returns advanced to levels about the same as a year ago. Supplies of oranges remaining for harvest this season are substantially larger than last season and stocks of most processed orange products are ample. Current prospects indicate orange prices will advance seasonally but are likely to be below year-earlier levels through spring.

Prospective U.S. grapefruit production at 60.7 million boxes is 7 percent less than last season. Florida's crop is expected to total 45 million boxes, 6 percent less than last season, while the Texas crop is 32 percent smaller. Through mid-April the movement of fresh grapefruit into domestic and foreign markets was substantially ahead of last year's pace, while deliveries to processors were lower. With smaller remaining supplies available and larger exports, grower prices likely will advance and remain above year-earlier levels.

Indicated lemon production in California and Arizona is a record 27 million boxes, over 55 percent above last season's harvest. Grower returns for fresh and processed lemons have averaged sharply below a year ago and are expected to remain low during the remainder of the season.

Supplies of fresh apples remaining in storage on March 31 were 1 percent below a year ago. This past winter, average U.S. apple prices to growers have been below year-earlier levels, reflecting larger supplies and slackening processor demand. Later in the season when most of the fresh apples will come from Washington State, prices for fresh apples are expected to be moderately higher than a year ago.

The 1974/75 pack of canned noncitrus fruit was considerably larger than last year's levels. Thus, even with a substantially smaller carryover, total supplies of canned fruit for the 1974/75 marketing season are considerably above those a year earlier. Despite the larger supply, canners selling prices increased early in the season as a result of higher costs for raw materials, processing, and marketing. The BLS Index of wholesale canned fruit prices was 170.1 in April 1975, an increase of 23.4 percent from a year ago. These higher wholesale prices have also been reflected at retail.

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

Month	All crops	Livestock and products
	Percent	*Percent*
January 1974	58.8	24.5
February	67.9	17.3
March	56.5	2.9
April	43.4	0
May	30.5	-7.1
June	17.1	-18.4
July	25.9	-14.4
August	9.2	-26.6
September	15.9	-22.2
October	26.7	-17.6
November	23.8	-16.4
December	8.7	-14.5
January 1975	-1.9	-20.7
February	-12.7	-20.5
March	-15.3	-15.1
April	-8.3	-7.1

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

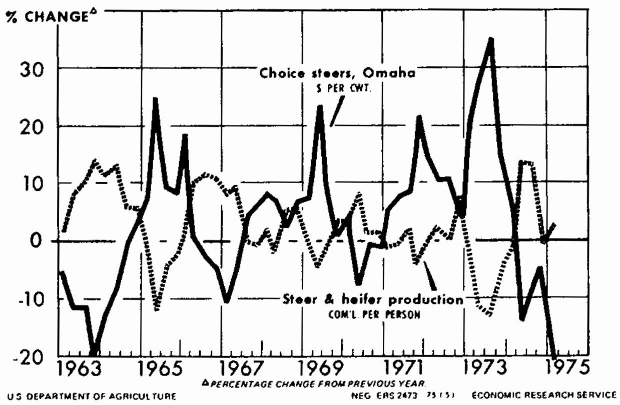
Livestock Adjustments Continue

Cattle prices turned sharply higher in late March and early April as slaughter began to abate from the near-record levels earlier in the winter. Fed cattle prices rose from lows of $35 per 100 pounds in mid-March to nearly $50 by early May in most markets, the highest since the summer of 1973. Feeder cattle prices also moved higher, but not to the same degree as fed cattle. Some of this price strength should be sustained through the spring as cow slaughter declines seasonally with the resumption of grazing and fed cattle marketings dropping off more sharply.

Continued losses to cattle feeders during the winter resulted in further reductions in cattle feeding activity. Marketings from feedlots far exceeded placments of new feeders moving into lots during January-March resulting in a 12 percent decline in inventories from January 1 to April 1. The April 1 inventory stood at 8.5 million head, the fewest on that date since 1963 and 31 percent fewer than a year earlier. Cattle feeders have indicated plans to market the fewest fed cattle this spring since 1965.

Improved fed cattle prices along with stable feed prices may give placements a boost in the spring. Placements of cattle on feed in seven major feeding States were up 20 percent in March. Further increases

CHANGES IN BEEF PRICES AND PRODUCTION



from the depressed level of last year are likely through the spring, reflecting the possibility of improved profit margins.

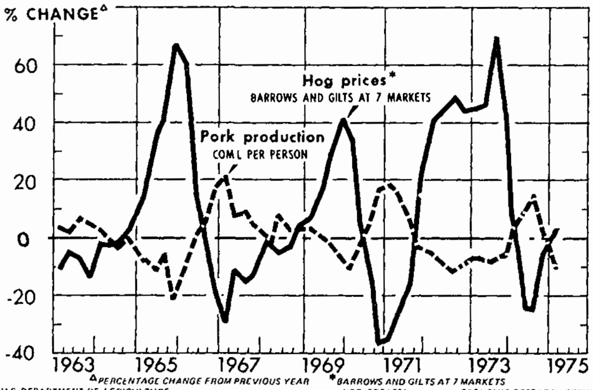
Range conditions and prospects for the 1975 feed grain crop will largely determine slaughter supplies and prices this summer and fall. The record large and growing cattle herd still indicates a potential record level of slaughter supplies later this year with prices moving generally lower again. Poor growing conditions on the range, coupled with another restricted feed grain harvest and continued high feed prices, could result in a substantial liquidation of cows and other range cattle with prices near or below the depressed level of last winter. Alternatively, the best growing conditions could provide ranchers with sufficient holding power to carry the herd forward. Also, a sharp decline in feed grain prices could improve profit margins sufficiently to encourage a surge in placements of cattle into feedlots, temporarily reducing nonfed slaughter supplies. In this event, cattle prices could move higher from spring to summer before trailing off by yearend. More fed cattle in 1976 would then be a price-dampening force in the cattle market.

Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Pct.	*Pct.*	*Pct.*	*Pct.*
1973/72				
I	-1.1	15.1	6.7	-13.3
II	-12.6	1.9	21.4	17.8
III	-31.8	-13.4	16.1	-19.8
IV	-34.9	-19.1	-3.7	-8.1
1974/73				
I	-43.3	-43.3	-15.6	-5.1
II	-38.8	-50.5	-23.5	5.8
III	-35.5	-47.1	-30.6	-13.8
IV	-34.9	-37.1	-3.8	-23.9
1975/74				
I	-23.8	-6.3	7.4	-10.8

Hog slaughter during January-March dropped about 7 percent below last year's level and further sharp reductions are likely in the spring. Market hog inventories on farms March 1 suggest a 12-14 percent reduction in hog slaughter during April-June. Market hog prices had remained fairly stable since last fall, averaging $39 per 100 pounds in October-December just over $39 in January—March for barrows and gilts at seven markets. A stronger cattle market and further reductions in slaughter hog supplies are boosting hog prices, which in early May were running $4-$6 per 100 pounds higher than the winter level.

CHANGES IN HOG PRICES AND PORK PRODUCTION



^PERCENTAGE CHANGE FROM PREVIOUS YEAR *BARROWS AND GILTS AT 7 MARKETS

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Sharpest reductions in hog slaughter this year are likely during the summer months. Seventeen percent fewer lightweight market hogs on farms March 1 likely will result in a similar reduction for July-September hog slaughter. Even further reductions are possible if feed prices move lower as prospects for the fall harvest develop and more females are withheld for breeding. The cattle market will again have a strong bearing on hog prices this summer. Unless cattle prices drop much lower than now seems likely, hog prices could top $50 per 100 pounds for barrows and gilts at seven markets.

Last March 1 hog farmers planned to reduce March-May sow farrowings by about one-fifth from a year earlier. These pigs will supply most of the hog slaughter late this year. If farmers carry out these plans, slaughter through the fall months will continue to run 15-20 percent under previous-year levels. Seasonal increases in slaughter hog supplies from summer to fall could be less than usual this year, keeping hog prices near the $45 mark through the end of the year.

Egg production in 1974 was 1 percent below 1973 and the smallest since 1965. Production continues to lag in 1975 and during January-March was 4 percent below a year earlier. On April 1 the number of hens in the laying flocks was 5 percent below a year ago and the smallest for this date since 1925. The rate of lay on April 1 was about the same as in 1974. Pullets for flock replacements will be well below the previous year in coming months, as 9 percent fewer egg-type chicks were hatched during October-March.

Although hatchery activity picked up and about matched year-earlier levels during the winter, eggs in incubators on April 1 were down about a tenth. The size of the Nation's egg laying flock may gain relative to a year earlier after midyear but will probably stay below 1974 levels throughout 1975.

Egg prices this year trailed 1974 levels through mid-April before moving above a year earlier. Egg prices dropped sharply in late March as the usual post-Easter decline in demand developed; New York wholesale prices for grade A large eggs fell 13 cents a dozen to 47 cents on April 2. Subsequently, prices strengthened and averaged 52 cents a dozen in late April. Prices are expected to increase seasonally during the summer and fall. Egg prices during the spring and summer are expected to average well above a year earlier.

Broiler meat output in federally inspected slaughter plants during the last quarter of 1974 was 8 percent below the like period of 1973. Output during the first quarter of 1975 was 6 percent below a year-earlier. Chicks placements and eggs set for broiler marketings during April-June are down around 6 percent from a year ago. Thus, first half 1975 broiler meat output will be around 6 percent below January-June 1974. Producers likely will expand broiler production gradually in coming months if the outlook is favorable for 1975 feed grain crops. Broiler output may reach or exceed year-earlier levels in the fall.

Broiler prices have been relatively strong in 1975. The nine-city wholesale price during the first quarter of 1975 averaged 41 cents a pound, about 2 cents above the same period of 1974. Broiler prices have been bolstered by lower production of broilers, turkeys, and pork. However, larger beef production and eroding consumer purchasing power have limited price gains. With continued lower output of meats other than beef and improved general economic conditions, broiler prices should remain strong with some further rise in the spring and summer.

Turkey meat output fell sharply in late 1974 (October-December output was down 17 percent from 1973) after running substantially above year-earlier levels through the first 9 months of the year. Turkey meat output through federally inspected plants during the first quarter of 1975 was 23 percent below a year earlier. Output during the seasonally light first half of this year is likely to be 15-20 percent below a year earlier. Second half production will increase seasonally and may reach 1974 levels late in the year.

Turkey prices declined in early 1975 as consumer demand lagged. New York wholesale prices for 8-16 pound young hen turkeys fell to around 46 cents a pound in February before turning upward. Prices for April averaged around 48 cents a pound, up about 1 cent from March and 8 cents above April 1974. Turkey prices probably will continue to strengthen in coming months as supplies of meats, other than beef, continue well below 1974 levels.

Table 3.--Production and prices received by farmers for major livestock and livestock products, 1972, 1973, 1974 and first quarters of 1974 and 1975

Item	Unit	Annual			First quarter	
		1972	1973	1974	1974	1975 1/
Production 2/						
Beef and veal	Mil. lb.	22,878	21,634	23,624	3/5,517	3/5,998
Pork	Mil. lb.	13,640	12,751	13,805	3/3,370	3/3,044
Lamb and mutton	Mil. lb.	543	514	465	3/120	3/101
Chickens	Mil. lb.	9,102	8,920	9,061	3/2,106	3/1,964
Turkeys	Mil. lb.	1,945	1,961	1,941	3/216	3/166
Eggs	Mil. lb.	9,098	8,709	8,620	2,186	2,098
Milk	Mil. lb.	119.9	115.4	115.4	4/28.0	4/28.1
Prices received by farmers						
Cattle	Dol./cwt.	33.50	42.80	35.70	42.90	27.40
Hogs	Dol./cwt.	26.00	39.40	34.30	38.20	38.30
Lambs	Dol./cwt.	29.10	35.10	37.50	38.20	38.30
Broilers	Ct./lb.	5/14.1	5/24.0	5/21.5	22.4	24.2
Turkeys	Ct./lb.	22.1	38.2	28.0	33.2	31.0
Eggs	Ct./doz.	5/30.9	5/52.5	5/53.3	62.4	55.2
All milk (sold to plants)	Dol./cwt.	6.07	7.14	8.30	8.90	8.25

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

Milk cow numbers are declining at the slowest rate since the mid-1950's. Low slaughter cow prices likely will continue to discourage herd culling throughout 1975, and the lack of off-farm employment opportunities may keep more farmers in the dairy business. Coupled with large numbers of herd replacements on hand, this may mean only a relatively small drop in milk cow numbers this year.

Milk production later this year will depend to a large degree on feed prices and on milk prices, as well as on the slaughter cattle market and the general economic situation. If the large projected feed grain and soybean crops materialize and help moderate feed prices, feeding rates could pick up, bringing normal gains in output per cow. Under these conditions, we could see some strong gains in milk production later on this year. On the other hand, another disastrous grain crop in 1975 would mean continued high feed prices and forestall any increase in milk production during the second half.

For all of 1975, milk production is likely to total about 1 billion pounds above 1974's 115.4 billion pounds. Under the most favorable conditions, output could go even higher. Milk production was slightly above year-earlier levels in March. The cutback in grain and concentrate feeding has limited gains in output per cow to just large enough to offset the slower rate of decline in milk cow numbers.

Effective April 1, USDA raised the support purchase prices for American cheese by 2 cents to 79.25 cents per pound and for butter by 1.25 cents to 70.75 cents per pound at New York. The increases were made to provide greater assurance that the annual average farm price of manufacturing milk will equal the previously announced support level of $7.24 per 100 pounds in the 1975/76 marketing year.

Farm prices of milk have shown small seasonal drops since the beginning of the year and, at $8.05 per 100 pounds in April, were 9 percent below a year ago.

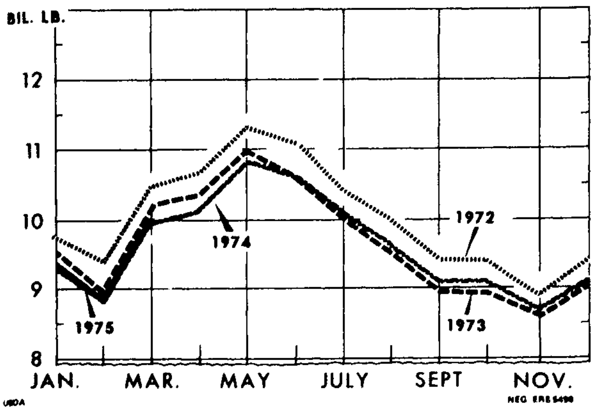
Table 4.--Supply-distribution and season average prices of selected major crops, 1971/72, 1972/73, 1973/74, and 1974/75

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
Feed grains										
1971/72	Mil. tons	33.2	0.5	207.7	241.4	165.7	27.3	193.0	48.4	2/1.08
1972/73	Mil. tons	48.4	.4	199.9	248.7	173.2	43.1	216.3	32.4	2/1.57
1973/74	Mil. tons	32.4	.2	205.0	237.6	171.0	44.4	215.4	22.2	2/2.55
1974/75p	Mil. tons	22.2	.5	165.1	187.8	136.2	37.0	173.2	14.6	2/2.95
Wheat										
1971/72	Mil. bu.	731.5	1.0	1,617.8	2,350.3	854.7	632.5	1,487.2	863.1	1.34
1972/73	Mil. bu.	863.1	1.3	1,544.9	2,409.3	784.6	1,186.3	1,970.9	438.4	1.76
1973/74	Mil. bu.	438.4	3.8	1,705.2	2,147.4	751.3	1,148.7	1,900.0	247.4	3.95
1974/75p	Mil. bu.	247	2	1,793	2,042	712	1,100	1,812	230	4.04
Rice										
1971/72	Mil. cwt.	18.6	1.1	85.8	105.5	3/37.2	56.9	94.1	11.4	5.34
1972/73	Mil. cwt.	11.4	.5	85.4	97.3	3/38.2	54.0	92.2	5.1	6.73
1973/74	Mil. cwt.	5.1	.2	92.8	98.1	3/40.6	49.7	90.3	7.8	13.80
1974/75p	Mil. cwt.	7.8	0	114.1	121.9	37.3	71.2	108.5	13.4	10.45
Soybeans										
1971/72	Mil. bu.	98.8	0	1,176.0	1,274.8	786.0	416.8	1,202.8	72.0	3.03
1972/73	Mil. bu.	72.0	0	1,270.6	1,342.6	803.6	479.4	1,283.0	59.6	4.37
1973/74	Mil. bu.	59.6	0	1,547.2	1,606.8	893.9	542.0	1,435.9	170.9	5.68
1974/75p	Mil. bu.	170.9	0	1,233.4	1,404	794	425	1,219	185	6.69
Cotton 4/										
1971/72	5/Mil. bales	4.3	6/.1	10.4	14.8	8.2	3.4	11.6	3.3	28.23
1972/73	5/Mil. bales	3.3	6/7/	13.7	17.0	7.8	5.3	13.1	4.1	27.3
1973/74	5/Mil. bales	4.1	6/.1	13.1	17.2	7.5	6.1	13.6	3.9	44.6
1974/75p	5/Mil. bales	3.9	6/.1	11.5	15.4	5.8	3.7	9.5	5.9	8/43.0

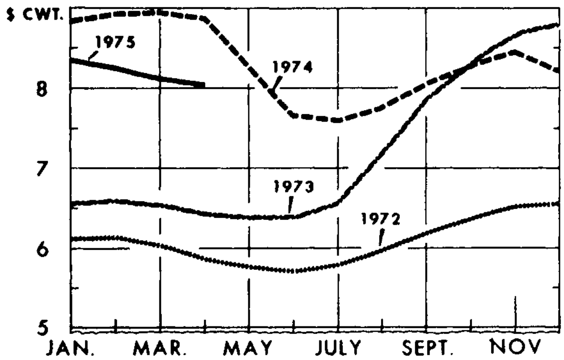
1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Prices for corn. 3/ Includes the following statistical discrepancies: 1971/72, 1.8, 1972/73, 2.4 and 1973/74, 3.9 mil. cwt. 4/ Production based on ginnings between August 1 and July 31. 5/ 480 pound net weight bales. 6/ Includes city crop. 7/ Less than 50,000 bales. 8/ Average price to Apr. 1, 1975, with no allowance for unredeemed loans.

1974/75 based on recent crop reports. Details may not add to totals due to rounding. p. Preliminary.

U.S. MILK PRODUCTION BY MONTHS



MILK PRICES*



*U.S. AVERAGE PRICE RECEIVED BY FARMERS FOR DELIVERIES TO PLANTS AND DEALERS

USDA

Manufacturing milk prices picked up slightly in April with the boost in support purchase prices of butter and cheese. Farm milk prices are likely to show only small seasonal drops through the flush production season and will move closer to year-earlier levels.

Wholesale dairy prices of butter and cheese reflected the boost in purchase prices early last month. Market prices are likely to remain near CCC purchase prices for the next few months.

Prices of milk and dairy products at the retail level held steady between last December and March. Prices were up only about 3 percent from March 1974, while retail prices of all foods were rising 8 percent. Retail dairy prices may show some increases in coming months, although such rises should be quite moderate.

Commercial disappearance of milk in all dairy products during the first quarter dropped below a year ago, but was above the same months of 1973. Cheese sales have tapered off and nonfat dry milk use stays weak. However, favorable price relationships have consumers eating more butter and fluid milk sales are recovering. We could see some growth in retail dairy sales this summer with rather stable retail dairy prices expected. However, demand could be weakened by the economic recession with its high unemployment rates and lower consumer purchasing power.

Commercial dairy product stocks on April 1 came to 5.0 billion pounds milk equivalent. Although down 7 percent from a year ago, commercial holdings were still the second highest on record. American cheese stocks in commercial hands have been dropping seasonally but were still a record high for April 1. Nonfat dry milk stocks have been building substantially. Government stocks of butter and cheese are still relatively small but CCC nonfat dry milk uncommitted stocks have risen sharply, reaching 273 million pounds by May 1.

Dairy imports have continued steady in recent months at normal rates. First quarter imports were equivalent To 0.4 billion pounds, down from 1.4 billion a year ago when the Cheddar cheese import quota was temporarily increased. Exports of most dairy products remain small but sizable quantities of CCC-owned nonfat dry milk have been programmed for export under foreign aid programs.

Farm Inputs Available But Expensive

Supplies of inputs from nonfarm sources are likely to be more available in 1975 than in 1974. However, prices of most items will likely remain high relative to the recent past. While some shortages in LP gas are in prospect, gasoline and diesel fuel supplies appear adequate. Fertilizer quantities are improved over 1974, but will likely remain tight relative to demand. Delays in delivery of large machinery items will probably still occur, but with some easing in the availability problem for smaller units.

Table 5.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1974	1974 II	1974 III	1974 IV	1975 I 1/
	Billion dollars				
Gross national product	1,397.4	1,383.8	1,416.3	1,430.9	1,419.2
Gross national product (1958 dollars)	821.2	827.1	823.1	804.0	782.3
Disposable personal income	979.7	966.5	993.1	1,008.8	1,017.4
Personal consumption expenditures	876.7	869.1	901.3	895.8	916.3
Durable	127.5	129.5	136.1	120.7	125.5
Nondurable	380.2	375.8	389.0	391.7	399.3
Services	369.0	363.8	376.2	383.5	391.5
Personal savings	77.0	71.5	65.5	86.5	74.8
Net government receipts	303.0	303.3	312.4	299.1	---
Government purchases	309.2	304.4	312.3	323.8	332.8
Federal	116.9	114.3	117.2	124.5	127.7
State and local	192.3	190.1	195.1	199.3	205.1
Deficit or surplus (on income and product accounts)	-6.3	-1.0	.2	-24.6	---
Gross private domestic investment	209.4	211.8	205.8	209.4	164.6
Fixed investment	195.2	198.3	197.1	191.6	182.6
Residential	46.0	48.8	46.2	40.4	35.2
Nonresidential	149.2	149.4	150.9	151.2	147.4
Change in business inventories	14.2	13.5	8.7	17.8	-18.0
Gross retained earnings	136.8	135.7	130.6	141.0	---
Excess of investment	-72.6	-76.1	-75.2	-68.4	---
Net exports of goods and services	2.1	-1.5	-3.1	1.9	5.4
Per capita disposable personal income (1958 dollars)	2,845	2,850	2,842	2,798	2,775
Total civilian employment (millions) 2/	85.9	86.0	86.4	85.7	84.1

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

Inventory liquidation was the dominant factor in the first quarter of 1975 as real GNP declined at a 10.4 percent annual rate. This followed a 9.0 percent rate of decline in the fourth quarter and was the fifth consecutive quarter-to-quarter decrease. Real GNP was $782.3 billion at an annual rate, compared with $804.0 billion in the fourth quarter.

Major GNP components, change from previous quarter

Item	1974 III	1974 IV	1975 I[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Total change in GNP	32.5	14.6	-11.7
Consumption	32.2	-5.5	20.5
Private nonresidential fixed investment	1.5	.3	-3.8
Housing	-2.6	-5.8	-5.2
Inventory[2]	-4.8	9.1	-35.8
Net exports	-1.6	5.0	3.5
Government	7.9	11.5	9.0

[1] Preliminary. [2] See footnote text table page 20

Disposable personal income increased from $1,009 billion to $1,017 billion but, once again, inflation accounted for all of the increase. Real disposable personal income in 1958 dollars fell from $595 billion to $591 billion. Following the unusually large decline in real consumption expenditures in the fourth quarter, the annual rate of real personal consumption expenditures increased by about $4 billion in the first quarter. Consequently, the saving rate dropped from 8½ percent to 7½ percent.

Sharply lower demand in the last half of 1974 resulted in substantial involuntary accumulation. As a result, industrial production plummeted at a 33 percent annual rate and inventories were liquidated at an $18 billion annual rate in the first quarter. While the turnaround in inventory investment accounted for three-fourths of the $30 billion first quarter decline in real gross private domestic investment, real business fixed investment and real residential fixed investment were also below fourth quarter levels. Exports of goods and services exceeded imports at an annual rate of $5.4 billion, compared with $1.9 billion in the fourth quarter.

As capacity utilization decreased further, there was additional easing of inflation in the first quarter. Wholesale and retail prices both advanced more slowly and prices of nonfood crude materials continued to decline. On the bad news side, the unemployment rate climbed to 8.3 percent in the first quarter and stood at 8.9 percent in April.

Tax Cut Response is Key

The ability of the economy to respond to the stimulus contained in the tax cut bill signed by the President on March 29 is the key factor in the economic outlook. If the beginning of an upturn in demand triggers a new round of inflation, or if increased government borrowing drives interest rates sharply higher, the recovery may be choked off before it is fully underway. Fortunately, a realistic appraisal suggests that the danger of such an occurrence is minimal.

Since the economy is operating well below capacity, the increased demand which is expected to result from the tax cut should not cause a dramatic resurgence of inflation. Furthermore, business investment in plant and equipment will lag the recovery and remain low for the remainder of 1975. With business demand for credit weak, an accommodating monetary policy should enable government credit demands to be satisfied without putting excessive pressure on interest rates.

Major personal income components, change from previous quarter

Item	1974 III	1974 IV	1975 I[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	33.6	18.7	6.1
Wages and salaries	17.8	6.2	-4.3
Manufacturing	5.7	-1.4	-10.5
Nonmanufacturing	8.5	4.0	2.6
Government	3.6	3.6	3.5
Other income	8.5	5.5	-1.8
Transfer payments	8.2	7.1	13.0
Social insurance payments (minus)	.9	.1	.7
Personal tax payments	6.9	3.0	-2.4
Disposable personal income	26.6	15.7	8.6
Personal outlays	32.7	-5.3	20.2
Personal savings	-6.0	21.0	-11.7

[1] Preliminary.

Beginning in the second quarter, real consumer purchases should increase in response to the income tax rebate and lower withholding rates. The 5 percent tax credit for new home purchases is likely to stimulate a reduction in the stock of unsold new homes which could cause an upturn in residential fixed investment in the second half. At the same time, the increase in the investment tax credit to 10 percent and the reduction in corporate profits taxes will maintain real business fixed investment near the current level. However, with inventory liquidation continuing in the second and third quarters, an upturn in real GNP is unlikely before the third quarter. Since employment will lag behind GNP, the unemployment rate is likely to remain near 9 percent for the remainder of 1975.

Consumption Rises Slightly

Personal consumption expenditures in current dollars increased from $896 billion in the final quarter of 1974 to $916 billion in the first quarter of 1975. In constant 1958 dollars, personal consumption expenditures increased from $528 billion to $532 billion. Although current dollar disposable personal income increased from $1,009 billion to $1,017 billion, real disposable personal income fell from $595 billion to $591 billion.

Increased availability of consumer credit at lower interest rates, automobile rebates, a slower rate of inflation, and a readjustment following the unusually large $19 billion fourth quarter decline in real personal consumption expenditures contributed to the first quarter increase in real consumption expenditures. These factors had an especially strong impact on real expenditures for consumer durables, which accounted for about three-fourths of both the fourth quarter dip and the first quarter increase in real personal consumption expenditures.

GNP and final sales, change from previous quarter

Year	GNP	Final sales	Inventory change[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
1971: I	36.0	33.3	2.8
II	19.5	19.1	.2
III	14.0	18.4	-4.3
IV	21.9	20.3	1.6
1972: I	31.8	32.2	-.4
II	28.0	25.1	3.0
III	26.3	24.0	2.2
IV	35.4	34.6	.8
1973: I	44.2	45.2	-1.0
II	29.0	28.3	.7
III	31.0	29.8	1.1
IV	35.1	18.1	17.1
1974: I	14.8	26.8	-12.0
II	25.0	28.4	-3.4
III	32.5	37.3	-4.8
IV	14.6	5.5	9.1
1975: I[2]	-11.7	24.0	-35.8

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the first quarter of 1975 (-$18.0 billion) less the change in the fourth quarter of 1974 ($17.8 billion) equals minus ($35.8 billion). [2] Preliminary.

The outlook for consumer spending depends on the reaction of consumers to the tax rebate and reduced withholding rates, the future course of prices and unemployment, and the availability of consumer credit. The tax rebate and reduced withholding rates will begin to have a positive effect on consumer income in the second quarter. Additional stimuli to consumer spending will be provided by continued easing of inflation and the availability of consumer credit at relatively stable interest rates. At the same time, consumers are likely to save a higher proportion of the rebate windfall compared with a permanent increase in disposable income, unemployment will remain high, and part of the increase in income resulting from the tax cut will be used toward housing purchases. Consequently, real consumption expenditures probably will increase steadily but undramatically in each of the remaining quarters of 1975.

Investment Plummets

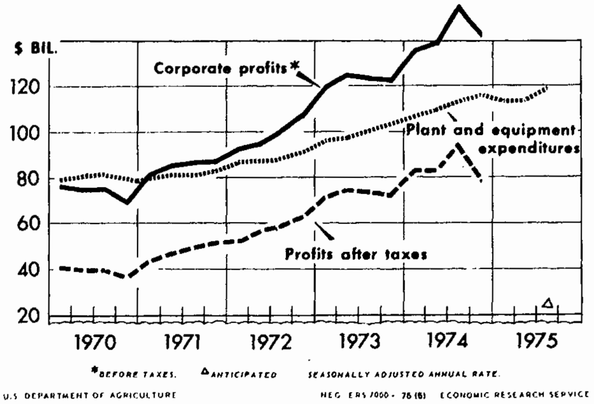
Gross private domestic investment declined sharply from a $209 billion annual rate in fourth quarter 1974 to $165 billion in first quarter 1975 (real gross private domestic investment declined from $121 billion to $91 billion). Four-fifths of the decline in current dollar investment was due to an abrupt turnaround in inventory investment following the accumulation of undesired inventories in the last half of 1974. In fact, the $18 billion inventory liquidation, which followed an equal fourth quarter increase in inventories, was the dominant factor in the general first quarter decline in economic activity. Not surprisingly, changes in automobile inventories accounted for a substantial part of the accumulation and subsequent liquidation.

Although inventory liquidation is currently exerting downward pressure on the economy, the elimination of excess inventories is a prerequisite for an upturn in production and employment. Only when undesired inventories have been depleted will businesses expand production. Based on current inventory levels and likely developments in final demand, inventories will probably stabilize after additional liquidation in the second quarter.

Real business fixed investment fell $8 billion from an annual rate of $110 billion in the fourth quarter to $102 billion in the first. This followed an identical decline from the third to the fourth quarters of 1974. Recent declines in real business fixed investment have resulted from falling demand and profits, low rates of capacity utilization, and business expectation of continued weakness in the economy. The increase in the investment tax credit to 10 percent and the reduction in corporate profits taxes contained in the tax cut bill, together with stable interest rates, should maintain investment in plant and equipment near the current level. But with capacity utilization remaining low as final demand gradually increases, investment is not likely to show any significant increase until well after the onset of an upturn in economic activity.

Continuing to respond to the depressed level of new home purchases, real residential fixed investment dropped from $20½ billion in the fourth quarter to $17½ billion, roughly half the 1972 level, in the first. Despite the continued decline in the first quarter, there is reason to expect an upturn in new home purchases which will stimulate residential investment in the latter half of 1975. As yields on alternative investments have fallen, funds have been flowing into savings and loan associations in recent months. This has caused an improvement in the availability and terms of home

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



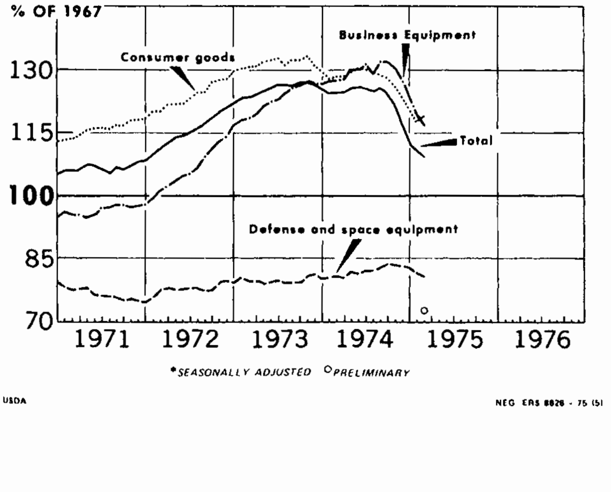
mortgages. In addition, the tax cut bill, particularly the tax credit for new home purchases, should also contribute to a reduction in the stock of unsold new homes.

Production Off Sharply

Industrial production recorded its most precipitous decline of the current recession in the first quarter, falling 33 percent at an annual rate. However, the 1 percent March decline was significantly smaller than that experienced in any month since October and this may indicate that production has begun to stabilize. The largest annual rates of decline in production were in consumer durables, down 55 percent, and business equipment, down about a third.

Additional weakness in demand was evidenced by further declines in capacity utilization in major materials industries in the first quarter. Overall, the rate of capacity utilization in major materials industries fell from 79 percent in the fourth quarter to 71 percent in the first. Capacity utilization decreased in every major materials industry and was below 80 percent in each.

INDUSTRIAL PRODUCTION INDEXES*

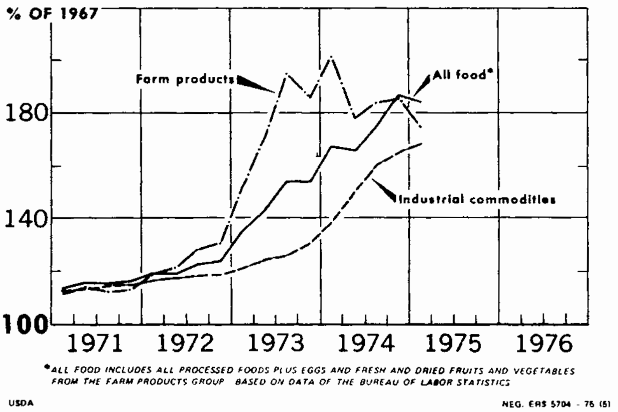


Inflation Subsiding

The annual rate of inflation in the first quarter (as measured by the change in the GNP implicit price deflator) was 8.0 percent, a significant improvement over the 14.4 percent rate in the fourth quarter. The Consumer Price Index also advanced more slowly, increasing 1.8 percent in the first quarter compared with 2.9 percent in the fourth. Wholesale prices were unchanged, with decreases in February and March offsetting an increase in January.

A decline of 4.0 percent in prices of farm products and processed foods and feeds accounted for the stability of wholesale prices. Wholesale prices of industrial commodities increased 1.6 percent, compared with 3.0 percent in the fourth quarter. Nonfood crude materials prices fell 3.0 percent in the first quarter, while finished goods prices were virtually unchanged. As of March, seasonally adjusted prices of nonfood crude materials had declined for 6 straight months. This is an encouraging development because these declines should contribute to future retail price stability.

SELECTED WHOLESALE PRICES



Although wholesale prices advanced a full 1 percent in April, this does not signal the return of double-digit inflation. Much of the April increase was due to a 2.2 percent rise in prices of farm products and processed foods and feeds. Industrial commodity prices increased a relatively modest one half percent.

Consumer prices of both food and nonfood items advanced more slowly in the first quarter. Food prices were up 2.0 percent in the first quarter, compared with 3.1 percent in the fourth. Retail prices of nonfood items increased 1.7 percent, compared with 2.9 percent.

As developments in the first quarter indicate, inflation at the retail level remains high by historical standards, with retail prices continuing to reflect previous increases in wholesale prices. Nonetheless, considerable improvement has occurred. The 1.8 percent increase in consumer prices in the first quarter is a big improvement over the 3.1 percent advance registered in

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