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THE OUTLOOK FOR THE GENERAL ECONOMY

Some conferees at the 1970 National Agricultural Outlook Conference, recently held in Washington, D.C., took a restrained view of the outlook for 1970, expecting the United States to pass through a mild recession this year, or barely avoid one. One of these was Dr. Raymond J. Saulnier of Columbia University's Barnard College, who based his analysis on a critical look at the Administration's forecast for the year.

According to the Administration, the economy will perform as follows.

- In current prices, GNP will rise 5.7 percent from its 1969 level to $985 billion.

- With allowances for price rises, real GNP will be about 1.3 percent higher, with little or no growth in the first half of the year but a resumption of expansion in the second half.

- Unemployment in the first half will rise to between 4 and 4.5 percent and then drop below 4 percent in 1971.

- Average price levels will still rise, gaining about 4.2 percent, compared with 4.7 percent in 1969. But the annual rate of inflation will be substantially lower at the end of 1970 than at the end of 1969.

- Government purchases will increase, but much slower than in recent years. The scheduled reduction in defense outlays will more than offset prospects for a small gain in nondefense expenditures. Outlays by state and local governments will also increase, however, and about as much as in 1969.

- Business investment plans indicate a continued rise in fixed capital outlays through mid-1970, but at a slower rate than in 1969. A slowdown now appears likely, however, since credit is expensive, plant operating rates are the lowest in several years, and prospects for sales and profits are not promising.

- Continuation of tight money and rising construction costs will probably result in further curtailment of residential construction, despite the strong and increasing demand for housing.

- Consumer outlays will continue to rise, making sizable overall gains. Expenditures for food, other nondurable goods, and services will still increase, but the demand for consumer durable goods will continue sluggish.

- The effects of slower economic growth on personal incomes will be more than offset by scheduled reductions in taxes and higher Social Security payments. By the last half of the year, the annual rate of these adjustments could be adding from $12 billion to $13 billion to the after-tax consumer income flow.

Dr. Saulnier noted that this forecast is based on a belief that the inflation rate can be lowered substantially without slowing the production of goods and services, or in other words, without a recession. This, in turn, is based on the belief that a gap between actual and potential GNP will provide the needed deflationary effects. He pointed out that some people doubt the probability of overcoming inflation, not because of a possibly significant decline in output but because of a gap that may be developing between actual production and a hypothetical potential output. He described the basis for such skepticism as follows.

• While a GNP gap has a deflationary effect, it usually takes considerable time (up to one year) for the effect to work itself out. Also, in the past, large gaps have been associated with only fairly small changes in the rate of inflation.

• The GNP gap that is projected for 1970 is only half as large as the one in the late 1950's that was associated with a significant drop in price inflation.

• The gap in the second half of the 1950's was accompanied by a slower rate of increase in the money supply than is likely in 1970.

• Inflationary psychology is more deeply rooted now than in the 1950's. To uproot the expectations of further price inflation, a greater GNP gap would be needed than the official forecast suggests that there will be.

• In order to achieve the Administration's price-level objectives, the rate of increase in annual labor costs will have to be reduced approximately 2 percentage points. This will be hard to do because of the level and momentum of current increases and the small increase in unemployment contemplated.

Dr. Saulnier cited a second basis for skepticism regarding a 1970 no-recession forecast. That has to do with the dim view some economists take of the possibility of holding the present economic trend to a pause in the upsweep and preventing a downturn. Although a period of little or no change in real output is possible, such periods have been rare. The dynamics of the economy typically transform a pause rather quickly into either a decline or a resumed advance.

There are also possibilities, Dr. Saulnier said, that the 1970 GNP may turn out close to the $985 billion estimated for 1969. First, he said, a comparison of indicators in 1969 with their behavior before downturns in 1957 and 1960 suggests a mild cyclical pattern may be emerging. If so, a bottoming-out could come in late spring or early summer and a second-quarter downturn in output could be avoided. Second, although early easing of monetary policy could help avert a second-quarter downturn, the inflation situation precludes any vigorous move toward ease.

Whether the economy passes through a recession in 1970 or avoids one, Dr. Saulnier said the slowdown could have a substantial and possibly long-lasting effect on growth. It is quite possible, he said, that a shift toward less restrictive monetary and credit policies would avoid a recession, at least for the time being. But that, he pointed out, would mean less progress in overcoming inflation. A substantial relaxation now would mean less assurance of finally achieving the level of price stability essential for vigorous growth.

Conversely, continuation of restraints would lower growth potentials in the near term, increasing the risk of a recession. But, Dr. Saulnier said, the more inflation is slowed now the better are the chances of achieving a more vigorous growth with less inflation in the longer run. Since a premature relaxation of monetary restraints could prolong inflation without any improvement in the prospects for lasting growth, the choice then is not between inflation and growth but between reduced growth in the near term and the chance to enjoy more vigorous growth in a less inflationary atmosphere over the long haul.

THE OUTLOOK FOR THE AGRICULTURAL ECONOMY

The USDA expects the agricultural economy to be about the same this year as last, with little change in net farm income. A large volume of farm marketings and slightly higher average prices are expected to raise cash receipts. With Government payments holding close to the $3.8 billion paid in 1969, gross farm income may rise about $1.5 billion over the $54.5 billion farmers and ranchers received last year. But production expenses continue to rise, and the additional costs are apt to offset gains in gross income.

Domestic Demand

Per capita after-tax income, buoyed by higher wage rates, tax reductions, and increased Social Security payments, will probably continue rising, helping maintain demand for food, other nondurable goods, and services. General price advances are expected to be slower than in 1969, particularly after midyear. This, together with an increase in livestock production, will help ease the upward pressure on retail food prices, although these will again show substantial rises over the year.

Prospects are for a moderate increase in food expenditures — probably about the 4.5-percent rise in 1969 that brought outlays to almost $104 billion. Reflected in the prospective advance will be a slightly larger volume of sales and higher retail food prices.

Retail food prices advanced sharply in 1969, averaging slightly more than 5 percent higher than in 1968. They will probably rise another 3.5 to 4 percent this year. About half the increase in spending on farm foods went to farmers last year, with the rest going for processing and marketing costs. Prices of food products may average a little higher this year, and the uptrend in costs of processing and marketing will probably continue. But the marketing bill may increase faster than last year, with farmers receiving a smaller share of the increase in food spending.

Exports

The uptrend in agricultural exports has been interrupted the past few years, mainly by large, well-distributed world grain crops and declining dependence of foreign countries on U.S. cotton. The volume of agricultural exports changed little between 1967 and 1968 and declined about 9 percent in 1969. Most of the decline was due to cutbacks in exports of wheat, feed grains, and cotton. Shipments in 1969 represented about 15 percent of the value of the nation's farm production. For crops, the ratio was nearly a fifth.

Foreign demand for U.S. farm products improved late in 1969, and the current outlook for exports is a little brighter. Export gains are now being made in soybeans, wheat, vegetables, fruits, and most animal products. But shipments of both cotton and dairy products continue to lag. Despite pressure from large foreign supplies, the value of farm exports for the 1969-70 marketing year may exceed $6 billion, compared with $5.7 billion in 1968-69.

Imports

U.S. imports of agricultural products have risen over the years and were equivalent to more than a tenth of total domestic use last year. But approximately two-fifths of these imports were coffee, cocoa, tea, bananas, carpet wool, and similar commodities which do not compete directly with U.S. production.

Livestock Product Supplies and Prices

After a relatively profitable year in 1969, livestock producers are expected to expand output somewhat this year. Demand will continue to increase, and prices to producers will probably average a little above last year.

- Beef production is expected to be up. There were 6 percent more cattle on feed January 1. And there will probably be larger fed cattle marketings into midyear. With a somewhat larger feeder cattle supply than a year ago, fed cattle marketings in the second half probably will continue above 1969 levels. As in 1969, increased fed beef production will be partly offset by a reduction in slaughter of nonfed steers and heifers. Little change is likely in cow slaughter. Prices for fed cattle probably will strengthen into spring and summer, but less than the sharp jump last spring.

- Pork output will continue well under year-earlier levels through the first half of the year, but producers have indicated plans to increase spring farrowings by 3 percent. This would provide larger slaughter supplies in the second half. Hog prices likely will strengthen seasonally into summer, then decline in the fall.

- Sheep and lamb inventories on January 1, 1970, were down from a year earlier. Slaughter in the first half of 1970 is expected to be below last year. The lamb crop this year will likely be smaller since there were 4 percent fewer ewes one year old and older in the January 1 inventories. Slaughter lamb prices are expected to be near or above a year earlier throughout 1970. Prices will probably rise as spring lambs reach the market but then follow the usual pattern of decline to a low in late summer or early fall.

- Milk production in 1969 was 1 percent below a year earlier, and output in 1970 may show little change. The slower decline in milk cow numbers, coupled with rising output per cow, interrupted the downtrend in the last half of 1969. In early 1970, cow numbers were down about 2 percent from a year ago, and output per cow was up 2 percent. Milk prices received by producers are expected to average moderately above last year.

- Egg production likely will be up in 1970. Output during late 1969 was a little larger than a year earlier, but continued strong consumer demand and relatively high meat prices resulted in sharply higher prices for eggs. Prices have dropped considerably from late January levels but continue above a year earlier. If production in the second half of 1970 is up moderately, as now anticipated, egg prices should average below a year earlier.

Crop Supplies and Prices

Crop supplies in the 1969-70 marketing year are a little larger than in the previous season. Carryover at the beginning of the season was larger for a number of items, and crop output was up about 1 percent. Expanding domestic markets, increasing exports of a number of crops, and existing support programs are expected to maintain prices for crops near those of last season.

• Feed grain consumption is expanding in the 1969-70 season, again promising a fairly close balance between supplies and requirements. Feed grain supplies were up this season, mainly because of a 1969 crop 5 million tons larger than last season. But liberal feeding of slightly more animals than last season is anticipated. While exports have been heavy so far this year, prospects are less promising this spring and summer. Strong domestic and export demand has boosted feed grain prices a little. Prices in October-January averaged 5 percent above a year earlier.

• Grain sorghum output in 1969 was practically the same as in 1968 but 15 percent below the 1963-67 average. The strong domestic demand for grain sorghum continued into 1969-70. More cattle on feed probably will boost feeding in 1970 about 10 percent over last year's record high. Even allowing for a moderate drop in exports, total disappearance is expected to be up 50 million bushels, reaching nearly 800 million.

• Wheat supplies for the 1969-70 marketing year are up about 160 million bushels from a year earlier. Total disappearance in July-December was down slightly. Exports of all wheat in 1969-70 are expected to total about 10 percent above the 544 million bushels last season. Even so, carryover in June may rise to 900 million bushels, 80 million more than a year earlier.

• Cotton supplies are down this season. Although disappearance will be under last year's 11 million bales, it will still exceed the 1969 crop. Carryover this summer is estimated at the 6-million-bale level, half a million below last August and the smallest since the early 1950's. Exports likely will not exceed 2.5 million bales this marketing year, down at least a quarter of a million bales from last year's low level. Domestic use may not quite equal last season's below-average use. If the crop is larger in 1970, cotton utilization should show some recovery next season.

Farm Income

Farmers entered 1970 in a generally better financial condition than a year earlier. Realized net farm income was up substantially in 1969. Proprietors' equities in farm assets also increased, with almost two-thirds of the gain due to advances in value of farmland and buildings. But farmers in 1969 used a larger-than-usual portion of their earnings and reserves for operating expenses and capital outlays in order to reduce borrowings at high interest rates. Farm debt increased 6 percent last year.

Realized gross farm income is expected to advance again in 1970. Another large crop this year would result in some increase in crop marketings. Output of livestock products showed virtually no change in 1969 but likely will be up a little in 1970. Prices received by farmers may average slightly above 1969 because of higher prices of livestock products. Thus, cash receipts from farm marketings are expected to be larger. And gross farm income may run around $1.5 billion higher, to about $56 billion.

But farm production expenses will continue to advance in 1970, due mainly to rising prices of goods and services used in farm output. And farmers also are expected to purchase more feed and livestock. The increase in farm production expenses will likely be less than the sharp increase of 1969 but may offset the gain in gross farm income. Thus, realized net farm income this year may match last year's $16 billion.

With the continuing decline in farm numbers, realized net income per farm likely will be a little above the record $5,401 for 1969. Also, a slight gain is likely in the per capita income of the farm population as they continue to obtain additional income from nonfarm sources. The average after-tax income of farm people, from all sources, is expected to remain around 75 percent of the average per capita income of nonfarm people.

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