



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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OVERALL ECONOMY CONTINUES ERRATIC IMPROVEMENT

T.E. Elam

SINCE THE CURRENT ECONOMIC RECOVERY began in April, 1975, the most closely watched statistical indicators of the nation's business health have behaved somewhat erratically.

GNP. During the July-September quarter of 1975, gross national product increased at an annual rate of 19.9 percent. Corrected for price increases, this rate of expansion translated to an 11.9 percent annual growth rate for real production, the strongest quarter-to-quarter increase in the past ten years. In the October-December quarter real growth in gross national product slowed to a 5.4 percent rate, or less than half the rate of the previous quarter.

DISPOSABLE INCOME. After falling throughout 1974, real disposable income--that is, income after taxes corrected for inflation--increased 5.9 percent in 1975. This statistic also exhibited instability during 1975, ranging from a 19.7 percent annual rate increase in the second quarter to a 5.2 annual rate decrease in the third quarter.

PRICES. The rate of increase in prices seems to be slowing. After a 12 percent increase in 1974, consumer prices in 1975 increased by only 7 percent. During last year, however, month-to-month changes in consumer prices ranged from a 2 percent to a 14.7 percent annual rate of increase. Wholesale prices, which also exhibited month-to-month instability in 1975, increased only 5 percent last year following a 27 percent increase in 1974. The 1975 increase in wholesale prices would have been higher had it not been for falling farm commodity prices in November and December of last year. Wholesale price data for January, 1976 show no change over December, 1975, with higher prices for industrial commodities exactly offset by lower farm commodity prices.

UNEMPLOYMENT. The politically sensitive unemployment rate has declined substantially since the peak of over 9 percent in May, 1975. For January, 1976, unemployment was reported at 7.8 percent of the labor force, still a high level by historical standards.

OUTLOOK. The overall economy will continue to exhibit strength through 1976. Short-term instability in production, prices, and unemployment statistics will continue into the foreseeable future, but should not be cause for undue concern, as longer-term trends point to a period of sustained growth over the next 12 months. Real disposable income should increase by 5 percent or more during 1975, and unemployment could fall to as low as 6 percent. With this strong rate of economic expansion, consumer prices will rise about 5 to 8 percent before December. Prices will likely be rising at a more rapid rate in the latter part of the year than at present.

A business recovery of the size outlined above would not be sufficiently large to cause major increases in farm commodity prices over the next year. However, prospective increases in real income will provide a growing base of consumer expenditures for food. Without this support, the outlook for commodity prices over the next year might be dim indeed, especially given favorable weather conditions.

The above material was prepared by T.E. Elam for this newsletter.

M.B. Kirtley, Extension Economist, Livestock Marketing

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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