Penn Experts See Good '74

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Most forecasters agree that real economic growth will probably be slower in 1974 than in 1973. A mild business slowdown is expected. The extent of the slowdown and the level of economic activity are subject to a wide dispersion of views.

Real growth

Real growth outlook for 1974 will likely advance about 2½ to 3 percent with inflation continuing in the 5 to 6 percent range. Real growth during 1973 is expected to be 6 percent at this writing: Gross National Product (GNP) in current dollars will likely rise 7 to 8 percent in 1974. Unemployment will creep above 5 percent and corporate profits will probably decline substantially. Housing will continue to slide downward while business investment may show some declines.

Consumer expenditures

A major uncertainty in assessing the current state of the economy, and the outlook, is how inflation and high interest rates are affecting the consumer's propensity to spend. Surveys this year suggest a deterioration of consumer optimism, but there is no recent evidence of any marked weakening of spending.

If some element of stability and confidence is achieved in prices and interest rates by the first quarter of 1974—even with lower growth rates and inflation increasing prices about 5 percent—consumer expenditures may rebound by the last half of 1974, fueled by income gains. Although some quarters of very slow growth are likely, the year will end on the upswing as accumulated inventories diminish and investment picks up. The key is to provide an environment in which the consumer and the businessman can make commiments without excessive hedges.

Bright spots

Continued improvement in the trade balance, a nearly balanced federal budget, and increased stability in the dollar abroad are bright spots. A strong and growing foreign demand for U.S output is an element in the current economic situation which contrasts rather sharply with conditions in recent years. This country's ability to compete in terms of price has improved substantially as the result of exchange rate changes over the past two years and a slower rate of inflation here than abroad. A slowing of growth in major foreign economies could dampen the expansion of U.S. exports, but continued solid gains seem probable.

Capital spending

The latest Bureau of Economic Analysis' survey of intentions for plant and equipment spending indicated businessmen expect to make substantial outlays in the second half of '73. Outlays for 1973 are expected to total $100 billion, 13.2 percent above last year. This would be the most rapid advance since 1966.

Food retailing

The varying rates of sales growth and profitability experienced by major segments of the food distribution industry in recent years will continue in 1974. Overall prospects are very favorable for the food service (food away-from-home) industry and for small grocery stores of the convenience type. But the problems causing depressed earnings in supermarketing will not be resolved within the coming year. Having achieved its maximum potential in the volume of food handled, the supermarket industry is now obliged to make fundamental changes that will extend over a considerable period of time.

Real growth in total domestic food sales is limited to the small yearly percentage gains in total population and to whatever trading up consumers do in choosing higher quality foods.

It appears that all of the real growth occurring in 1973 went to the food service industry and that grocery store sales, accounting for about 90 percent of all food consumed at home, will show no real growth in 1973. If so, this is a matter of considerable economic and historic significance. For the first ten months of 1973 food-at-home prices averaged 13.6 percent higher than the same period of the previous year while total grocery store dollar sales increased by only 10.5 percent. It's too early to conclude that this difference represents an actual decline in the volume of food and related products sold by grocery stores. Much of the gap may be explained by consumers trading down—buying less expensive food—and by a slower advance in the prices of non-foods included in grocery store sales.

Chain supermarketing in the 1972-73 fiscal year experienced the lowest rate of after-tax net profit since the 1930's. The average for 51 chains was 0.49 percent. Overstoring is considered to be the underlying cause. In recent years according to one estimate, supermarketing sales space has been increasing by 10 percent each year while real sales volume has been growing by only 1½ to 3 percent. Meanwhile, higher wages and other operating costs have been continuously pushing up the break-even sales level for all supermarkets. In over-stored areas, with little or no real growth in sales, firms are fighting to take business away from one another.

At present operating costs, most chains have found only their higher volume supermarkets to be profitable—generally those with weekly sales over $50,000. Consequently, several of the larger chains will continue to close many unpprofitable low-volume stores. Most new chain stores are about twice the size of units built ten years ago. In these "superstores" most of the additional display space is devoted to non-foods. This signifies increasing dependence on non-foods to provide satisfactory sales growth and return on investment in the supermarket industry.

In the convenience store industry, higher store construction costs and a scarcity of good sites are expected to slow down the rapid growth rate of the last few years. However, their average profitability, projected at 3.44 percent of sales before taxes in 1973, is expected to continue close to this level.

It was apparent from the demand during 1973 for gardening and canning supplies and from the increased patronage by consumers of farm markets, hucksters, and perishable food jobbers, that a larger than usual share of food consumed at home was acquired from sources other than conventional grocery or specialty food stores. Interest in these possibilities for reducing food expenditures will likely continue.

Record grain crops

The 1973 corn crop is forecast at a record 5.8 billion bushels, up about 4 percent from last year. The combined winter and spring wheat crop will exceed last year's record by about 12 percent. The increase in soybean production is the biggest of all. At 1.6 billion bushels, the soybean harvest will be about 24 percent greater than last year's record crop and 128 percent larger than the crop harvested 10 years ago. Total feed-grain production will be a record 211 million tons, up 6 percent from 1972.

The crops look so good that there is now concern that export markets may not be large enough to sustain grain prices at current high levels. While there has been general optimism that price levels would remain high, recent international events do not seem to support this optimism. Russia and China may not buy as much U.S grain as anticipated. China has been a recent heavy buyer of Canadian and Australian wheat and Russia is harvesting a record grain crop. In recent weeks export markets for grain have not been up to expectations.

A price supporting factor for grains has been a general reluctance of farmers to sell their grain as harvest progresses.Farmers feel they can gain higher prices by selling after the first of the year.

Grain carryover next year is expected to be no larger than this year. In order to build production in the years ahead there will be no acreage reserve and no set-aside for 1974 crops. Farmers have responded by planting about 8 percent more wheat this fall and are expected to plant about 6 percent more acreage to corn next year. If these acreages materialize, the tight supply situation which existed during the past two years should be averted.

Livestock industry unsettled

Many livestock producers have not made firm production commitments for 1974. Contributing to the uncertainty have been the recent memories of consumer boycotts, price ceilings and freezes, and the lack of profits in the livestock business despite record high prices for livestock.

More beef in '74

The number of cattle on feed in the leading cattle-feeding states on October 1 was up only 3 percent from a year ago, about in line with the small increases in most months since the second quarter of 1973. These small increases should not be interpreted as a prelude to continued beef shortages in 1974 or 1975.

The cattle inventory has increased sharply in recent years. The 1973 calf crop was about 50 million head, up 4 percent from 1972. The beef calf crop increased 6 percent. Because farmers did not place large numbers of cattle on feed after the ceiling prices for meat were announced on March 29, there was a total carryover of young animals which on July 1 exceeded that of July 1972 by about 10 percent. These animals are available to go into feedlots through the spring of 1974. Feeder cattle prices have dropped sharply since August but further price weakness is not expected.

Fed cattle prices in the December-March period should be strong because placements on feed were off about 15 percent in the July-September period. Marketings of fed cattle will be at least 5 percent lower in the first quarter than a year earlier. Beginning in April, and continuing for the rest of 1974, fed cattle marketings are likely to be sharply higher than during the same period of 1973.

No hog expansion

The price outlook for hogs is excellent at least through next summer. On September 1, hog farmers in the leading states said they planned no expansion in numbers at least through February 1974. Hog marketings, therefore, should not change from year-earlier levels through mid-1974.

High hog prices have not encouraged producers to expand hog numbers. Hog prices in the $44 range are $15 per hundred higher than a year ago but feed prices are even higher by comparison. While the hog-corn ratio was a very favorable 21 a year ago, it is currently down to 18. It is likely that many farmers who normally feed most of their corn to hogs have this year decided to sell a portion of their corn at current attractive prices.

Sheep numbers still falling

Sheep and lamb slaughter fell about 6 percent in the January-September period. Ewe slaughter has been higher than normal through most of the year, which will contribute to even lower sheep numbers on January 1, 1974. Through most of 1973 the price of lambs has not been strong as would be expected when slaughter volume drops. Perhaps an increasingly important factor in the lamb market is that lamb numbers have declined for many years and are now at such a low level that buyer competition has also been declining.

Meat consumption

Meat production declines in 1973 have resulted in less per capita consumption. Red meat consumption dropped sharply to about 178 pounds in 1973. Beef consumption in 1973 will be about 111 pounds per person compared to 116 last year. Pork will total 62½ pounds per person, down about 5 pounds. Per capita veal consumption will be only 1.8 pounds and lamb and mutton consumption will total 2.8 pounds, a record low.

Dairy outlook

Heavy culling, reduced feeding rates, and herd liquidations resulted in Pennsylvania milk output being down about 5 percent during the first 9 months of 1973 compared with the same period a year earlier. Nationally, production was off about 3 percent from last year during the 9-month period.

Average production per cow in Pennsylvania during the first 9 months was down 3 percent; cow numbers were down 2 percent. During the period milk prices to dairymen averaged nearly 12 percent higher than the same period a year ago. Production costs, as indicated by Crop Reporting Services Index, increased about 20 percent during the year.

Milk and dairy product sales have been better than last year by about 2½ percent. Most of the increase has come in low fat and skim milk and cheese. During November there appeared what might be early warnings of consumer resistance to current prices in the dairy field.

The best indicator of the feed and milk price relationship is the milk feed price ratio (pounds of feed equal in value to 1 pound of milk). This dropped to 1.45 in August, compared to 1.74 a year earlier.

With a favorable 1974 crop season, there should be some loosening of feed prices by the second half and they could return to more reasonable levels. Gains in milk production are anticipated in the event this circumstance occurs. A poor 1974 crop season will be a basis for continuation of the 1973 feed squeeze.

In the longer term, the dairy situation turns on the feed grain supplies in late 1974. Both foreign and domestic crop production will play an important role in this picture.

In August the Agricultural and Consumer Protection Act of 1973 was enacted. This new act increased the maximum price support level from 75 to 80 percent of parity until March 31, 1975. This resulted in a $5.61 support level for manufactured milk (3.79 B.F. test) The new support program had no effect on milk prices, since market prices are considerably above the new levels. This program is not expected to affect milk prices in 1974.

Poultry outlook

More eggs, turkeys, and broilers are in prospect for 1974. Prices for eggs and poultry meat will average lower through most of 1974. Quantity of eggs and poultry meat produced will be influenced by feed costs. Increasing feed costs will tend to put a brake on expansion but, if feed costs happen to decline, output may expand.

Prices of large white eggs on the New York City wholesale market in 1974 are likely to average several cents below a year earlier but not as low as the first half of 1972. If monthly gains in the quantity of chicks hatched for laying flock replacements continue at the September rate—19 percent increase— and the pullets are housed as layers, prices could drop below cost of production before mid-1974. It looks as though there will be considerably more pullets grown for laying flock replacements in the next 6 months than a year earlier. One of the uncertainties next year will be a demand for eggs—what will consumers be willing to pay for the quantity of eggs produced next year?

This year with a 6 percent reduction in egg production, prices increased substantially over a year earlier. It takes only a relatively small increase in supply to bring on a sizeable reduction in egg prices.

Factors such as weather conditions, feed costs, consumer purchases, and eggs used for hatching of both laying and meat-type chicks should help strenthen prices. The situation in 1974 will continue to depend on whether the industry continues to adjust production to market needs.

Broiler production will probably increase slightly in 1974. In the first quarter of next year, production will be about 2 percent above a year earlier. The situation in the broiler industry can change more rapidly than in either the turkey or egg business because of the relatively short time it takes to get broilers ready for market from the time they are hatched. Feed prices will be influential in speeding up or slowing down expansion. The potential is available for expansion.

Turkey production in 1973 will set a record. The situation in 1974 will be influenced by prices and movement of turkeys during the Thanksgiving and Christmas marketing period. Current indications are that the 1974 turkey crop will be a little larger than in 1973.

Fruit and vegetable outlook

For the second year in a row, weather conditions have played a dominant role in determining the supply of fruits and vegetables. Weather factors in the U.S. and other parts of the world reduced the supply and increased the prices of other food products. As a result, fruit and vegetable demand has been strong and prices for most of them have been high by historical standards.

For 1974 the supply of fruits and vegetables is an imponderable. Farmers have not yet made their decisions regarding intended acreages of annually planted crops.

In 1973 the acreage of seven major vegetables for processing was nearly ten percent greater than in 1972

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