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This Issue: BUSINESS IN NEBRASKA

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U.S. FOREIGN TRADE LEGISLATION: TURNING ANOTHER CORNER

The *Trade Act of 1974*—also known as the Trade Reform Act—was passed by Congress at the turn of the year. This is the third in a series of basic laws enacted after the *Hawley-Smoot Tariff Act of 1930* had brought to a final culmination the high-tariff trend which had dominated U.S. foreign economic policy following the Civil War. The Trade Act charts the course which this country currently proposes to take in continuing its fundamental commitment to freer international trade.

TRADE POLICY IN THE PAST

The official about-face of the United States from trade restrictionism to trade liberalization occurred in 1934, within months after the U.S. dollar had been devalued by about 41 percent. President Roosevelt convinced Congress of the need to set the stage for a gradual dismantling of import trade barriers if U.S. exports, one of the most miserable victims of worldwide depression, were to recover lost ground. Reciprocal negotiation with other countries, taken one at a time, of lower duty rates within [illegible]erous limits prescribed by Congress was viewed as the way out of the trade morass. The authority given the President by the *Trade Agreements Act of 1934* was extended numerous times. Amendments to the Act have partly reinforced the original intent of freeing trade from man-made obstacles. They also partly burdened imports with new restrictions when a larger flow of goods into the United States seemed to conflict with national security considerations or to threaten the welfare of domestic producers of import-competing goods.

In 1947 a milestone was reached. At that time, the principle of reciprocal tariff duty reductions was multilateralized. In the newly established General Agreement of Tariffs and Trade (GATT), the Contracting Parties (initially 23, now over 80) pledged themselves to the implementation of a code of commercial conduct in general and to periodic, multilateral (group) tariff negotiations in particular.

By the beginning of the 1960s it had become clear that the trade agreements legislation, based as it was on a philosophy of preventing injury to domestic producers of importable goods, had outlived its usefulness. Further tariff cuts—if needed to expand U.S. exports, or to strengthen the Western Alliance, or for some other purpose—would have to be granted at a sacrifice to some U.S. production; yet anything that curbed the influx of foreign products to U.S. markets would conflict with the policy of trade liberalization.

In an attempt to resolve this dilemma, President Kennedy suc[illegible]eded in 1962 in getting Congress to pass the *Trade Expansion Act*. Like its 1934 predecessor, this law conferred broad authority on the President to lower import duties and otherwise stimulate freer trade. Unlike the preceding legislation, the 1962 Act incorporated the concept of adjustment assistance to domestic firms and/or their workers—provided they were able to demonstrate either serious injury or the threat thereof as a result of increased imports due in major part to the trade agreement concessions.

Presidential authority under the 1962 law was limited to five years. The Kennedy Round of negotiations under GATT started in 1963. Not only were they laborious, but also they led to sharp confrontation between the United States and the European Economic Community. As a result they stretched over nearly four years before being completed with notable success. The main result was across-the-board tariff cuts averaging some 35 percent on industrial tariff rates covering goods whose trade value at that time amounted to about $40 billion. The reductions took effect gradually, however, over the 1967-72 period. Unfortunately, the products in which the less developed countries had expressed particular interest received, on the average, smaller duty reductions than most other products. At any rate, by the late 1960s U.S. import duties incorporated in the Hawley-Smoot Act of 1930 had been reduced substantially, with the trade-weighted average level on dutiable imports down to less than 12 percent from the 1930 level of about 52 percent.

WHERE TO GO FROM HERE?

As the trade-impeding effects of tariffs have been greatly reduced over the last several decades, governments have come to attach growing importance to the potentially paralyzing influence of *nontariff* barriers, such as quotas and a myriad of administrative or technical rules and regulations that can be easily abused for protectionism. A frontal attack on trade distortions resulting from factors other than tariffs did not materialize in the 1960s, but was to be mounted in the next major round of multilateral negotiations. Launched formally in Tokyo in the fall of 1973, actual negotiations began in February of this year in Geneva. These undoubtedly will open up a new and complex phase of GATT encounters. "Prenegotiations" in GATT's Trade Negotiation Committee, as established by the Tokyo Declaration, moved very slowly. One principal reason was that other GATT parties waited for the enactment of the Congressional legislation necessary to give the U.S. administration leeway to negotiate.

The *Trade Act of 1974* runs to nearly 100 pages and consists of six titles, or areas of concern, as follows:

Title I Negotiating and Other Authority
Title II Relief from Injury Caused by Import Competition
Title III Relief from Unfair Trade Practices
Title IV Trade Relations with Countries Not Currently Receiving Nondiscriminatory Treatment
Title V Generalized System of Preferences
Title VI General Provisions

(Continued on page 2)

(Continued from page 1) The following summary of the law will cover, for the most part, Titles I, II, and III.

As under the Trade Expansion Act of 1962, the President is again authorized, during a five-year period, to enter into trade agreements for modifying tariff rates and liberalizing other barriers to trade. While he may eliminate duties of 5 percent ad valorem or less, the chief executive is permitted to reduce by not more than 60 percent duties higher than 5 percent ad valorem. Where negotiated duty reductions exceed 10 percent of the prior rate, they must be staged over a period of years. Within certain limits, the President is also authorized to increase rates of duty as part of negotiated trade agreements.

Significantly, the Act authorizes trade agreements designed to harmonize, reduce, eliminate, limit, or prohibit nontariff barriers and distortions adversely affecting trade in goods—both manufactured and agricultural—and services. In view of the 1973 Mideast oil embargo it comes as no surprise that Congress included as a primary objective in nontariff barrier negotiation fair and equitable access at reasonable prices to supplies of products either scarce or not produced in the United States.

There is an asymmetry in the law. The President *must* impose import restrictions (for example, import surcharges or import quotas) to deal either with serious U.S. balance-of-payments deficits, or to prevent a significant depreciation of the dollar in foreign exchange markets, or both. He is, however, merely *authorized rather than obligated* to take measures (for example, duty reduction or suspension of any import restrictions) to increase imports to alleviate a large and persistent balance-of-payments surplus or to prevent a significant appreciation of the dollar in foreign exchange markets. Regardless of the nature of the disequilibrium, the measures taken are to be temporary. Also, additional restrictions or the relaxation of existing ones, as the case may be, are normally to be applied without discrimination. (Although breaches have been numerous, the principle of nondiscrimination is a cornerstone of GATT.)

The President has authority to offer special trade concessions to countries adversely affected by U.S. import relief measures, imposed when a U.S. industry is seriously injured by increased imports. The idea governing this exception to the nondiscrimination rule stems from the need to protect the integrity and maintain the fairness of the reciprocal and mutually advantageous concessions granted in past negotiating sessions.

All trade agreements entered into must authorize termination within no more than three years from the signing of the agreement, and any duty increases following termination may not exceed certain specified limits.

Under the law, the U.S. Tariff Commission of six members has been renamed the *U.S. International Trade Commission* to indicate the broader scope of its charge. Its principal function remains similar to that of its predecessor: to advise the President, on the basis of lists of articles submitted by him, of the probable economic effects of proposed duty concessions. It will do so after conducting necessary investigations, including public hearings on forthcoming trade negotiations, to which all interested parties, including consumers, shall be given ready access.[1] Overall policy advice on any trade agreement is to be provided by an Advisory Committee for Trade Negotiations appointed by the President and chaired by the Special Representative for Trade Negotiations. Dr. Clayton Yeutter, a fellow Nebraskan formerly associated with the College of Agriculture at the University of Nebraska-Lincoln, who became an Assistant Secretary of Agriculture under the Nixon Administration, was recently appointed as one of the two deputies of the Special Representative.

Of particular importance is the liberalization (in Title II) of the relief and adjustment provisions already set forth in the Trade Expansion Act. In case of injury to domestic industries, such relief may be extended in various forms; however, tariff duties may not be raised by more than 50 percent ad valorem above the existing rate, and the duration of relief may not exceed five years. Though the basic features of adjustment assistance to workers and firms are similar to those of the 1962 law, they are now more specific. The 1974 Act also introduces a new concept: adjustment assistance to *communities* adversely affected by trade liberalization.

Such unfair trade practices as prohibitive tariffs, export subsidies, and dumping, as well as appropriate countermeasures, are dealt with in Title III.

CONCLUSION

It is expected that the less developed countries will press hard for advantages under Title V. This title, however, involves so many debilitating political considerations that (in the author's opinion) little can be expected from this set of provisions by way of narrowing the gap between the Have-Not nations and the Have nations, such as the United States. Also, with protectionist sentiments generally sharpened by worldwide stagflation, the Tokyo Round negotiations are likely to move at a snail's pace for some time to come.

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[1] In March and April the Commission conducted a widespread series of hearings, including one held in Omaha. It had received in January from the President a list of articles on which he will consider granting concessions in the Tokyo Round negotiations. The Commission is required to give its views to the President on or before July 14, 1975.

The Department of Accounting of the College of Business Administration is pleased to note that its recent nominee, Philip G. Johnson, was the recipient of the honorary degree, Doctor of Science, from the University of Nebraska-Lincoln at the May, 1975, commencement. Dr. Johnson, a native of Omaha, attended the University of Nebraska in 1928-29, then Iowa State College where he earned a Bachelor of Science in Engineering in 1932.

Of particular note is that, while working as an engineer, Dr. Johnson studied accounting and, by self-study and correspondence work, passed his CPA exam in 1939 with the second highest grade in the United States. Later, while continuing as a managing partner of his CPA firm, he earned a J.D. degree in the University of Nebraska College of Law.

Among Dr. Johnson's many accomplishments and services are terms as an instructor in the College of Law, authorship of articles for both the *Nebraska Law Review* and the *Nebraska CPA,* and membership on the editorial board of the latter. He co-founded the Great Plains Tax Institute, which is co-sponsored annually at UN-L by the Colleges of Law and Business Administration. He served on the Advisory Group to the Commissioner of Internal Revenue when that group was established in 1961 to counsel the Commission on National Tax Policy.

AGRICULTURE: OUTLOOK FOR 1975 IS CLOUDY

This year's prospects for the nation's agriculture, outlined by leading analysts of the U.S. Department of Agriculture in early December, have recently been revised. A brief summary of these forecasts follows. (This summary is a slightly condensed version of an original article by Sada L. Clarke which appeared in the March/April, 1975, issue of *Economic Review* of the Federal Reserve Bank of Richmond.)

E. L. H.

Many uncertainties cloud the outlook for agriculture in 1975. Weather, as always, is a major unknown. The cost-price squeeze will likely continue; how tight it will get is the question. There seems to be little doubt that production costs will go up. Moreover, prospects regarding the level of farm prices are not at all clear. Supplies of some farm inputs—notably fertilizer—are unsure. And the demand outlook, both domestic and foreign, is hazy.

INCOME AND EXPENSES

Farm income prospects have weakened considerably since early December. Consequently, it now looks as if the nation's farmers will wind up 1975 with less cash in their pockets than they had at the close of 1974. Farmers' net earnings in 1975 could, in fact, show a sizable downturn—possibly even greater than the one last year. Any such decline would follow on the heels of nearly a 16 percent drop in 1974, leaving realized net farm income far short of the record level set in 1973.

Farm production expenses can be expected to shoot upward again. But the 1975 increase may not be as large as that experienced last year. Feed costs are not likely to be quite as high. Moreover, fuel and fertilizer prices are not expected to rise as dramatically as they did in 1974.

Crop output will be a key factor in determining the level of farmers' net income in 1975. Major crop prices have weakened in recent months and are expected to remain highly sensitive to supply and demand developments throughout the year. Significantly larger crop production than in 1974, accompanied by reduced demand, could lead both to lower farm prices and to much lower net farm income. But crop output in the neighborhood of last year's level, coupled with high demand, would tend to shore up prices and maintain net farm income.

Demand factors will, of course, play a major role in determining farmers' 1975 net farm income. Both the domestic and foreign economies continue to sag. With the general economic climate here at home, unemployment has risen dramatically and inflation, while apparently easing, remains only slightly below the double-digit level. Consumers' real purchasing power has, so far, continued to deteriorate. Unless the general economic situation rights itself, some further erosion in the strength of domestic demand could occur. On the other hand, should proposed tax cuts be enacted and contribute to a turnaround in the general economy at an early date, domestic markets could be bolstered significantly.

The worldwide economic slump has softened the foreign demand for U.S. farm products. Furthermore, recent shifts and cancellations in commodity purchases by the Soviet Union and the People's Republic of China have added still more uncertainty to the export outlook. Export volume of the major bulk commodities in fiscal 1975 is currently expected to drop more than 15 percent below the tonnage shipped last season, with much of the decline occurring in grains, soybeans, and cotton. Higher prices for many farm products, however, will more than likely offset the decline in volume and push export value into the neighborhood of $22 billion, up slightly from the record set in fiscal 1974.

FARM FINANCE OUTLOOK

Because of wide differences in the incomes of crop and livestock producers last year, the financial positions of farmers at the beginning of 1975 also varied widely. Crop farmers in general were better off than they were at the same time last year, but livestock producers were much weaker financially. Little change in their respective financial positions is anticipated this year. Farmers and lenders alike will be faced with some tough financial decisions. Some farmers, particularly livestock producers, are going to be hard pressed to repay their old debts. Still others will need to carry over a large amount of short-term debt.

Demand for operating loans is expected to remain strong. There may be some slackening in the need for intermediate-term financing, however, since farmers' purchases of capital goods are expected to ease. The weakened demand for farmland and the slowdown in the advance in farm real estate prices will reduce the need for new money for farm-mortgage loans. Much of the demand for operating loan funds will stem from farmers' needs to finance the higher costs of planned crop production.

Since farmers will need to borrow heavily in 1975, the important question is: "Will farm lenders be able to provide the loan funds?" Overall, it appears that farmers' borrowing needs can and will be met. Most commercial banks are experiencing an increase in their farm lending capacity. Some banks, however, are hesitating to provide additional loans to those farmers who have had to renew last year's production loans and who are showing a deteriorating financial position and prospects. Lenders with access to national money markets—the Federal land banks, for example—and individual farmers who sell their own farms are expected to expand their lending significantly.

Some easing in farm loan interest rates is anticipated during the first half of the year. It appears unlikely, however, that rates will fall more than one-half to 1 percentage point below the 1974 level, since rates at many rural banks, as well as at the Federal land banks, did not follow the sharp rise in 1974 that occurred in short-term rates generally. However, farm borrowers from large banks, and perhaps PCA borrowers also, may experience a significant reduction in their borrowing costs compared with last year.

FOOD PRICE PROSPECTS

The nation's homemakers will be unhappy with the outlook for food prices, for they will need to find ways to stretch their family food budgets still further in 1975. Retail food prices are expected to climb higher during the first half of the year, but the increase is likely to be much smaller than was expected just a few months ago.

By midyear, higher retail prices are likely for both crop- and livestock-related foods. Biggest price gains during the first quarter will show up in crop-related food items, while slightly sharper increases for red meats and (Continued on page 6)

Review and Outlook

The modest upturn in Nebraska business activity which the state enjoyed in January was offset by declines in agriculture and construction during February. At the end of February the Bureau's measure of general business activity, corrected for price changes, stood just below the December, 1974, level. The corresponding index of national business activity continued a decline which began last August.

The slippage in the agricultural sector from January to February was more severe for the nation than for Nebraska. Although prices received by farmers dropped about 5 percent during February both in Nebraska and nationally, the index of farm prices in Nebraska was at a lower level than the national index at the outset.

The Bureau of Business Research index of construction activity, adjusted for price changes, moved down to 105.3 in February from its January value of 116.7. This index, based upon the value of construction permits issued spread over the estimated life of the contracts, attempts to approximate for Nebraska the U.S. Department of Commerce's index of the value of construction put in place. The Department of Commerce index, adjusted for price changes, is reported in Table 2 as the physical volume of construction activity for the U.S. At the national level construction activity was virtually unchanged from January.

Only minor changes occurred in the other economic sectors, either at the state or at the national (Continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

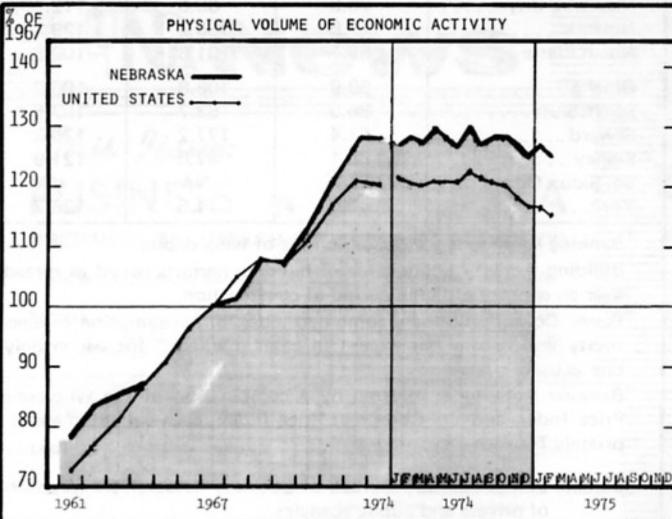
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

February, 1975	Current Month as Percent of Same Month Previous Year		1975 Year to Date as Percent of 1974 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	103.2	106.0	104.7	106.7
Agricultural	74.3	78.7	78.6	83.0
Nonagricultural	110.3	107.3	111.2	107.9
Construction	115.4	94.0	119.7	95.5
Manufacturing	114.3	106.9	116.9	109.0
Distributive	108.0	108.3	108.3	108.2
Government	112.0	109.0	112.0	108.8
Physical Volume	97.5	95.6	98.6	95.8
Agricultural	90.9	94.6	96.1	97.0
Nonagricultural	98.7	95.7	99.0	95.7
Construction	102.3	83.3	105.4	84.2
Manufacturing	97.4	89.6	98.5	90.6
Distributive	97.2	97.5	97.2	97.1
Government	106.1	105.0	106.1	104.8

2. CHANGE FROM 1967

Indicator	Percent of 1967 Average: Nebraska	U.S.
Dollar Volume	203.3	185.1
Agricultural	194.1	187.7
Nonagricultural	204.9	185.0
Construction	194.8	159.7
Manufacturing	228.8	174.9
Distributive	196.4	189.1
Government	211.1	201.2
Physical Volume	125.4	115.5
Agricultural	122.3	113.6
Nonagricultural	125.9	115.5
Construction	105.3	86.3
Manufacturing	132.1	104.1
Distributive	125.0	120.3
Government	129.1	133.7

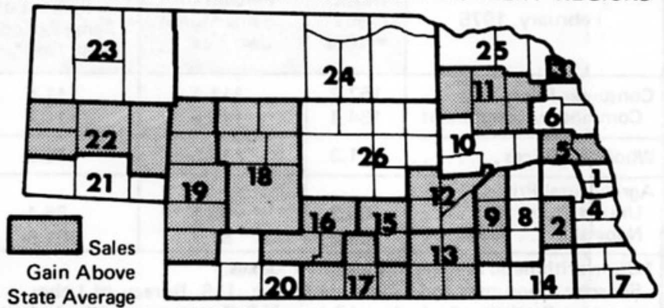


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes)

Region Number[1] and City	City Sales[2] Febr., 1975 as percent of Febr., 1974	Sales in Region[2] Febr., 1975 as percent of Febr., 1974	Sales in Region[2] Year to Date'75 as percent of Year to Date'74
The State	94.3	91.9	91.5
1 Omaha	93.0	92.4	88.9
Bellevue	102.7		
2 Lincoln	92.9	92.4	92.9
3 So. Sioux City	93.2	96.6	91.7
4 Nebraska City	84.5	80.0	83.1
5 Fremont	111.1	100.5	97.1
Blair	88.5		
6 West Point	90.7	78.6	80.8
7 Falls City	99.1	87.3	85.5
8 Seward	96.0	89.5	87.4
9 York	99.4	96.7	98.5
10 Columbus	92.5	89.1	89.5
11 Norfolk	93.3	89.8	92.6
12 Grand Island	98.6	95.5	99.1
13 Hastings	112.7	102.7	101.0
14 Beatrice	85.0	83.1	86.2
Fairbury	84.6		
15 Kearney	96.0	94.5	101.4
16 Lexington	102.1	93.7	96.7
17 Holdrege	103.3	83.9	93.0
18 North Platte	107.1	101.6	100.8
19 Ogallala	82.7	93.8	97.0
20 McCook	90.7	82.1	86.4
21 Sidney	92.0	91.3	90.7
Kimball	82.1		
22 Scottsbluff	96.5	96.4	97.9
23 Alliance	99.0	87.8	90.8
Chadron	86.8		
24 O'Neill	89.4	82.3	81.5
25 Hartington	96.7	86.1	81.3
26 Broken Bow	101.2	87.0	84.0

[1]See region map below.
[2]Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
Compiled from data provided by Nebraska Department of Revenue.

1975 YEAR TO DATE AS PERCENT OF 1974 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



(Continued from page 4) level, when data revisions are taken into account. The principal data revision is in the Nebraska index of manufacturing. Referring to Table 1, the dollar volume index relating manufacturing in January, 1975, to January, 1974, was revised from 122.0 to 119.7, with the revision of the corresponding physical volume index from 101.6 to 99.6. Also, in Table 2, the January dollar volume index for manufacturing relative to the 1967 average was changed to 227.4 from the previously reported value of 241.4; the corrected physical volume index is 130.3. These changes also cause some revisions in the composite nonagricultural and overall Nebraska indexes, but these changes are relatively minor. With the revisions taken into account, manufacturing activity—although at a level about 3 percent below a year ago—appears to have increased about 1.5 percent over the January level, whereas the U.S. index declined by about 2.5 percent. This conclusion must be regarded as tentative because updated employment data for the Nebraska manufacturing sector were received too late to be incorporated into this month's report.

Relative to February, 1974, the overall level of business activity in the state, measured by the physical volume index, is off only 2.5 percent, whereas that of the nation as a whole is down 4.4 percent. Except for the distributive industries and agriculture, sector-by-sector comparisons with February of 1974 indicate that the effects of the recession were being felt in Nebraska, but considerably less severely than in the rest of the nation. For Nebraska, the physical volume indexes for the governmental and construction sectors were even a bit above their February, 1974, levels. For the nation, only the government sector physical volume index managed to rise above its February, 1974, level.

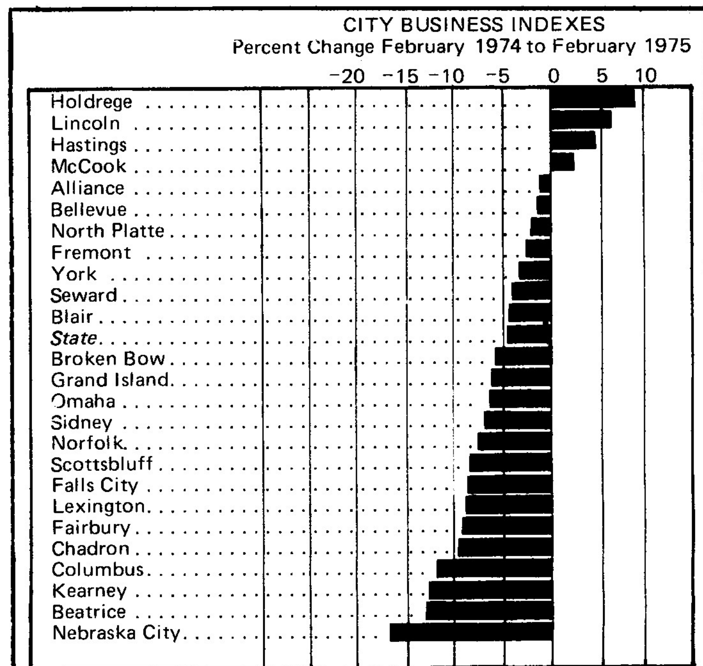
Among the city business indicators, only the average levels of construction activity and power consumption are above the February, 1974, averages. Bank debits, adjusted for price level changes, were about 10 percent below last year's February level, just as was the case in January. Likewise, the average relationship of price-adjusted retail sales to the same month last year was virtually unchanged from January to February. The Department of Revenue has revised the January net taxable retail sales figures for Holdrege and for Region 22. These changes revise the January, 1975, to January, 1974, index for Holdrege down to 115.6 from the previously reported 183.9, and the corresponding figure for Region 17 down to 102.1 from the previous 125.5. Region 22 was revised from 126.4 to 99.3. Despite the effects of the recession, seven Nebraska cities posted gains in retail sales relative to the previous February, and Holdrege and Lincoln enjoyed improvements in both retail sales and banking activity.

D. H.

5. PRICE INDEXES

February, 1975	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	157.2	111.1	111.4
Commodity component	154.4	110.8	111.4
Wholesale Prices	171.3	114.6	115.9
Agricultural Prices			
United States	165.2	83.1	85.4
Nebraska	158.8	81.7	81.6

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.



Source: Table 4 below.

4. FEBRUARY CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Banking Activity[1] (Adjusted for Price Changes)[4]	Building Activity[2]	Power Consumption[3]
The State	89.8	113.3	109.6
Alliance	78.7	411.6	120.3
Beatrice	87.3	51.3	110.6
Bellevue	94.5	71.5	116.2*
Blair	81.3	507.7	103.1
Broken Bow	69.3	270.7	121.8
Chadron	88.1	68.4	117.8
Columbus	72.1	157.0	108.5
Fairbury	75.7	376.4	106.5*
Falls City	76.0	116.9	105.8
Fremont	76.6	149.3	111.1*
Grand Island	86.7	88.0	109.6
Hastings	89.1	164.7	116.5
Holdrege	111.1	118.6	127.4
Kearney	88.5	21.0	104.2
Lexington	76.8	43.1	130.4
Lincoln	108.3	337.1	102.5
McCook	114.1	74.0	120.1
Nebraska City	75.0	65.5	112.7
Norfolk	77.5	130.2	129.8
North Platte	85.7	101.6	109.8
Omaha	89.9	106.8	106.2
Scottsbluff	86.0	63.7	107.5
Seward	81.4	177.2	120.2
Sidney	88.1	87.8	121.9
So. Sioux City	NA	NA	NA
York	89.8	71.5	126.7

[1]Banking Activity is the dollar volume of bank debits.
[2]Building Activity is the value of building permits issued as spread over an appropriate time period of construction.
[3]Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.
[4]Banking Activity is adjusted by a combination of the Wholesale Price Index and the Consumer Price Index, each weighted appropriately for each city.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

(Continued from page 3) poultry will follow in the second.

Many uncertainties surround the outlook for food prices this year. Among them, these three stand out:

The impact of the current economic recession—its length and severity—on consumer demand.

The rate at which beef cattle with limited grain feeding are slaughtered to increase smaller supplies of grain-fed beef, pork, and poultry products.

The weather and its impact on farm production, both here and around the world.

COMMODITY SUMMARY

The Department of Agriculture's analysis of the outlook for commodities shapes up in this manner.

Soybeans: Supplies of soybeans are down 13 percent from last season's record, but a big boost in supplies is likely if the nation's farmers carry out intentions to increase spring plantings by some 3 million acres. This potential boost in supplies is coming at a time when soybean usage is falling from the heavy pace of recent years.

Because of weakened demand for soybean oil and meal, the processing industry is running at only two-thirds of its capacity, and soybean exports are lagging behind last year's rate by more than 10 percent. Based on current indications, soybean crushings this season may fall about 9 percent from year-ago levels, and exports may drop some 12 percent. Major factors behind this slackening demand are the decline in consumers' real purchasing power, reduced feeding and production in the livestock and poultry industries, and larger world supplies of competing fats and oils. These same factors affecting the U.S. market are also affecting our soybean markets overseas.

Farm prices for soybeans have dropped from over $8 per bushel in October to less than $6 in February. Should the recession deepen and prospective 1975 production seem favorable, prices could drift lower.

Meat Animals: Sharply reduced pork supplies will keep hog prices on the high side in 1975. Based on inventories of market hogs last December, hog slaughter and pork supplies in the first half are likely to be the smallest in nine years. Moreover, hog farmers cut breeding stock inventories sharply last fall and have reported plans to reduce sow farrowings this spring to the lowest level on record. These indications point to a 14 to 16 percent reduction in hog slaughter in the second half.

Hog prices are expected to strengthen throughout most of the first six months of 1975 as slaughter dips below year-ago levels and are likely to remain strong in the second half. Large beef supplies and demand uncertainty will temper the advance in hog prices, however.

Huge cattle inventories are threatening to keep cattle producers in a financial bind again in 1975. Winter cattle slaughter is expected to remain large, running about 10 to 15 percent above a year ago as cows and nonfed steers and heifers continue to offset smaller fed cattle slaughter. Cattle feeders' profits this winter will be marginal at best, and placements of cattle in feedlots will continue low. Should total cattle slaughter decline seasonally as expected, even though remaining large, cattle prices could strengthen later in the winter. The smaller supplies of pork and poultry may also provide some price strength for cattle in the spring.

Slaughter supplies in the last half of 1975 could be record large, exceeding a year earlier by a wide margin. Should this potential slaughter materialize, cattle prices could weaken. Range conditions, feed prices, and prospects for the 1975 feed grain harvest will help to determine the direction of prices in the second half.

Dairy Products: Dairy farmers will probably continue to be plagued by cost-price problems early in 1975. Milk output may hold about even as dairymen cut back on feeding high-cost grain and concentrates and reduce dairy herd culling. Commercial stocks of dairy products are large, however, so dairy supplies should be adequate for consumers. With the recent increase in support prices for manufacturing milk and the action bringing minimum Class I prices under Federal milk orders in line with the boost in price supports, farm milk prices may rise slightly. A milk price increase, coupled with the recent easing in grain prices, could bring about some slight improvement in the milk-feed price ratio.

Cheese sales are facing stiff competition from large supplies of other high-protein foods. But butter, which reversed its long-term sales slump in 1974, continues to be priced favorably relative to margarine.

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