



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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PERSONAL INCOME DOWN, EXPENDITURES UP--WHAT NEXT?

A PROJECTED INCREASE IN PERSONAL CONSUMPTION EXPENDITURES (PCE) for the third quarter (PCE) raises a question about recent predictions for a recession. According to the September *Survey of Current Business*, the Department of Commerce expects PCE to increase by about 3 percent. Since PCE accounts for about three-fourths of the gross national production (GNP), an increase of 2 to 3 percent for the GNP during the third quarter can be implied.

The expected rise in PCE for the third quarter is coming from additional purchases of furniture, food, clothing, and services. Even purchases of automobiles are increasing in the third quarter, suggesting that concerns over fuel availability are diminishing and the incentive and rebate programs are taking effect. This is quite different from the second quarter, when PCE and the GNP slumped because of energy prices and availability problems and the subsequent decline in auto sales.

Unfortunately, the expected increase in the GNP does not really represent a trend away from recession. Other economic indicators still show weakness in the economy. Real disposable income appears to be declining for the second straight quarter (July-September). The unemployment rate rose from 5.7 to 6 percent in August. Although not an indication of recession, the inflation rate is still hovering above 10 percent and shows no signs of falling. Finally, actions by the Federal Reserve to increase interest rates and reduce the money supply will surely dampen consumer borrowing for homes and large durable goods, as intended.

The concensus among economists is that a recession will take place soon, probably beginning in the fourth quarter of 1979 or the first quarter of 1980. This is virtually assured by the Federal Reserve's steps to fight inflation. The recession will probably not be as severe as that of 1974 and 1975, when the GNP declined by well over 6 percent and unemployment approached 9 percent. Under current expectations, the GNP will decline by 4 percent or so and unemployment will rise as high as 8 percent in the first half of 1980. The recession may last as long as three quarters (it takes two quarters of declining GNP in succession to be an official recession). In addition, the recovery may be slow since the government must take steps to increase economic activity and to reduce the rate of inflation. These

and LP gas about 28 percent. In 1980, fuel prices and supplies will remain tight, so prices will continue to increase. If fuel supplies tighten, then farmers will in general be allotted 100 percent of their fuel requirements in the base period (November, 1977 through October, 1978). Fuel prices are likely to rise by 25 to 50 percent in 1980.

PESTICIDES. Supplies are expected to be available for all uses in 1980. Ag chemicals increased about 3 percent in 1979; however, herbicide and insecticides prices are likely to increase 5 to 10 percent. Some fungicide prices may go up by as much as 20 percent for the year ahead.

Pesticide regulations continue to play an important role in pest-control decisions. The Rebuttable Presumption Against Reregistration (RPAR) process remains behind schedule. From 35 to 50 percent of the pesticides are being reviewed. Recent regulations are having major effects on the cost of pesticide registration, slowing the introduction of new materials and limiting the use of many others.

FARM MACHINERY. Prices increased about 11 percent during 1979 and are likely to rise another 10 percent in 1980. Increases in wages and the prices for raw materials are expected to boost machinery prices. The demand for farm machinery is expected to remain at current levels into early 1980. As the costs of other inputs go up, purchases of farm machines may be postponed. If farm income declines in 1980, as expected, sales of farm equipment may drop significantly during the second half of the year.

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