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12-18-1975

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Recommended Citation

Murra, Gene E., "Economic Outlook for 1976" (1975). *Economics Commentator*. Paper 81.
http://openprairie.sdstate.edu/econ_comm/81

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Economics Newsletter

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No. 82

December 18, 1975

ECONOMIC OUTLOOK FOR 1976

Speakers at the recent National Agricultural Outlook Conference in Washington, D.C., expressed varying opinions regarding the status of the U.S. economy. Although most speakers were of the opinion that the economy was in fact recovering, there was considerable difference of opinion regarding the rate of recovery, both in total and in selected sections of the economy. The following is a year-end over-view of these potential outlook projections.

Government Sector. Most speakers were of the opinion that federal, state and local spending would increase in 1976, but only by a relatively small amount. One estimate was as low as three percent. Other governmental actions were thought to have a greater impact than spending policies. Examples included directions taken in personal income tax, in energy price and conservation and in foreign trade. What is done or not done in these areas will likely affect the economy as much or more than changes in government spending.

Business Sector. A major factor in the business sector is business fixed investment. Opinions regarding this factor ranged from "no real growth" to a growth of 10 percent. The automobile industry and the housing industry were cited by the "no growth" speakers as being particularly troublesome. Although car sales were up in late summer and early fall, much of the growth was due to sales of 1975 inventory. Also, 1974 sales were especially low, so increased sales in 1975 (as a percentage of 1974 sales) were expected.

The housing sector does not appear

to be recovering. Continued inflationary trends within the industry have placed home prices beyond the incomes of many buyers. Thus, housing starts are down and along with housing starts, sales of home furnishings and appliances to furnish new homes are also down.

The net conclusion was that under-utilization of current capacity, unemployment in the labor force and inflationary pressures will combine to dampen growth in the business sector.

Consumer Sector. Consumer incomes in 1976 are expected to increase by five or six percent over 1975. However, the rate of inflation could easily be greater than the increase in incomes, resulting in a net decrease in consumer incomes. At best, there will be no large increases in consumer income. If inflation pressures continue, the rate of savings will also continue relatively high as consumers attempt to build-up real savings. This means upward demand pressures will not be forthcoming from the consumer sector. The rate of unemployment may decrease some, but at the same time, some of the unemployed are nearing the end of their unemployment benefits. Pressures on welfare or other government assistance could increase. One favorable trend was noted regarding employment. Although the rate of unemployment has not gone down, there appears to be a tendency toward more hours worked per week by those employed.

Inflation. There appears to be several factors which could cause a relatively high rate of inflation, with estimates ranging from five or six per-

cent up to 10 percent or more. Although government spending is not expected to increase by large amounts, there will be considerable congressional pressure to spend more on selected projects. The battle to maintain a balanced budget without reducing expenditures will continue.

Labor contracts in some industries are due for expiration and renegotiation in 1976. In general, labor unions have practiced some wage restraint during the past two or three years. This is likely to change in the 1976 negotiations as labor unions attempt to "catch up". Wage increases are expected to exert greater inflationary pressures in 1976 when compared to 1974 and 1975. Just how much pressure depends on changes in labor productivity. Low income, unemployed and retired persons on fixed incomes will again have to bear much of the brunt.

The extent of energy costs increases is uncertain, but the potential for inflationary pressures is there. The same can be said in the food area. U.S. consumers spend less than 18 percent of their income on food. Food prices are low in the U.S. compared to many other countries. This has been largely because of adequate supply responses by producers, a response which has held prices down in the face of increasing

production costs. A combination of factors could affect both the supply and price of U.S. food. Included are weather, foreign demand and a cost-price squeeze on the producer. All of these factors are somewhat unpredictable, but the right (or maybe the wrong) combination could easily result in big changes in agricultural commodity prices. South Dakota producers will need to keep a wary eye on changes and make careful production and marketing plans.

Net Impact on Agriculture. Although the well-being of agriculture does not necessarily follow directly the well-being of the entire economy, it is not independent of it. A good share of what happens in agriculture will depend on foreign trade. Many agriculture products are exported. Both domestic demand and foreign demand must be considered. Then, it must be remembered that there is no guarantee that foreign buyers must buy their products from the U.S.

One encouraging aspect is that people must eat, and since the nation's farmers produce food, domestic demand will be there. The big question is still the extent of the foreign demand and both foreign and domestic supply.

More discussions on our agricultural outlook will appear in later newsletters.

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