their influence on 1967 crop output; and foreign crop prospects and their effect on export markets.

Domestic demand for food and fiber is expected to increase in 1967, but not so much as the whopping advance this year. Expanding output, more jobs, and prospects for a more rapid rise in wage rates in 1967 will increase consumer buying power and the demand for farm products.

Farm output will likely increase by a sizable margin over this year, with much of the gain in grains, soybeans, hogs, poultry, and eggs. Producer prices for food and farm products as a whole next year may average close to 1966 levels; but wages, transportation and other costs of processing and marketing are expected to rise. Accordingly, a further increase is indicated for retail food prices. The rise is not expected to be anything like the big increase now indicated from 1965 to 1966. However, it is expected to exceed the average annual increase of 1½ percent from 1960 to 1965.

"Factors in the 1967 Economy": Talk by Louis J. Paradiso, Associate Director, Office of Business Economics, U.S. Department of Commerce, 44th Annual National Agricultural Outlook Conference, November 14, 1966

To sum up: The foregoing discussion suggests that business activity may be expected to continue upward through 1967, with a high probability that the increases would be at a slower pace than this year, assuming that the Vietnam war goes on at the present tempo. The momentum of the current boom will carry through in the first half of next year so that a slower rate of increase is quite likely in the second half than in the first half.

This year, real GNP is expected to be about 5½ percent above 1965; the increase in the total labor force is 1.7 million or 2.2 percent; the number in the Armed Forces has increased by about 400,000; this year's gain in productivity for the entire economy is estimated at 2.5 percent. These numbers imply a reduction in the rate of unemployment from the average 4.6 percent in 1965, to 3.9 percent this year which, on the basis of the actual rates for the first 9 months, look reasonable.

I am citing these figures to show how we have accomplished the interim objective of reducing the rate of civilian unemployment to around 4 percent. This rate was achieved with an increase in real GNP of 5½ percent, an expansion which was required to reach the low rate of unemployment. However, in the process, imbalances and price pressures have developed. Such a high growth rate of output is not sustainable without causing further severe pressures and imbalances. Now that we have attained a relative low rate of unemployment, we can maintain this rate with a slower growth in real GNP than we had this year.

For purpose of illustration, let us assume that the gain in total labor force in 1967 will be 1.6 million, a little smaller than the 1966 increase, and that the Armed Forces will rise by 300,000 over this year's average of 3.1 million; the assumed increase is not much above the 3,230,000 in the Armed Forces as of this past September. Also, let us assume that total productivity in 1967 will be a little higher than that expected for this year—a gain of 2.7 percent over 1966; and, finally, we shall assume that the rate of unemployment remains at this year's average of a little below 4 percent. Then it follows that to absorb the growth in the labor force a real GNP growth of about 4½ percent would be needed.

This is not a forecast, but it does provide the dimensions of the real growth in output needed to maintain the rate of unemployment at a relatively low level.

If the growth rate of output is reduced to a more sustainable pace, we shall reap two important benefits: The present imbalances in our economy would be corrected and price pressures would ease. If the present rapid pace of economic activity, however, should continue, the penalty eventually will be a painful adjustment. I don't think anyone knows at this time, considering the uncertainties, that tax increases or control measures would or would not be required to moderate the tempo of economic activity in 1967. The President is watching developments closely and when the picture becomes clearer he will make a decision one way or another.