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U.S. Economy Less Robust

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May 31, 2000

Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

U.S. Economy Less Robust

Market Report	Yr Ago	4 Wks Ago	5/26/00
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	$ *	$74.37	$69.76
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	83.67	95.64	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	81.52	101.92	94.92
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	101.14	117.38	112.96
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	33.75	50.75	45.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	36.23	61.50	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	95.40	126.50	108.45
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	88.70	86.50	97.37
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	186.00	185.00	210.00
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu.	2.81	2.76	3.02
Corn, No. 2, Yellow Omaha, bu.	1.97	2.04	2.07
Soybeans, No. 1, Yellow Omaha, bu.	4.33	5.10	5.04
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	3.35	3.46	3.92
Oats, No. 2, Heavy Sioux City, IA , bu.	1.33	1.41	1.26
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	*	85.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	*	47.50	47.50
Prairie, Sm. Square, Good Northeast Nebraska, ton.	55.00	*	67.50

* No market.

The U.S. economy is a lot like the human body. Experts know a great deal about both. That doesn't mean, however, that quick remedies are possible for every ailment that comes along.

The nation's "economic doctors" have had an unprecedented string of good luck since March 1991. That's when the last recession ended. Since then, economic growth, inflation, interest rates and unemployment levels generally have been good, even excellent. (Segments of the economy, including agriculture, have not always shared in that prosperity).

Now, however, the patient looks a bit wobbly. Interest rates have been increasing since mid-1999. On most debt instruments, interest rates are about two percentage points higher than a year ago at this time. Gasoline prices have reached an all-time high, at least in nominal terms. Housing starts and resale of existing homes are below year-earlier levels. After roaring gains in each of the previous four years, the stock market has been shaky since the beginning of 2000.

The nation's chief economic doctor is Alan Greenspan. As Chairman of the Federal Reserve Board, he is at the vortex of economic policymaking. Specifically charged with regulation of the nation's money supply, Greenspan and his Fed colleagues know that such regulation can impact on inflation. They want as little inflation as possible because it distorts all kinds of transactions. Better to take a dose of higher interest rates now, not destructive inflation later, is the Fed's motto.

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Chairman Greenspan has been concerned since at least late 1996 that stock market gains have been so large as to be unhealthy. Consumers with "paper wealth" from stocks tend to spend more than otherwise would be the case. Initially, more consumer spending may stimulate the economy. However, if economy's ability to supply goods and services lags behind consumer demand, conditions are ripe for inflation. With over 50 percent of American families now having some stock investments (mostly through retirement plans), consumers have been anything but reluctant buyers. Since early 1999, consumption expenditures have grown at about twice the normal rate.

A strong economy offers almost anyone who wants to work a job. Unfortunately, in a strong economy, at some point the number of jobs may exceed the supply of available workers. With much competition among employers, wages and salaries are bid higher. As long as the productivity of workers is increasing, greater compensation to employees is warranted. In fact, it would be grossly unfair if workers did not receive higher pay. The problem comes when compensation increases (because of worker shortages) begin to exceed productivity gains. It's a contributor to inflation.

Finally, higher oil prices are part of the inflation mix. This is a different type of inflation, however, than the kind caused by excessive demand. In this case, suppliers, including foreign oil producers, simply establish a higher selling price for crude oil. Because U.S. consumers use much more oil than our producers provide, we have little choice but to pay the foreign asking price. In short, we put more money in circulation without receiving any more product. That's inflationary.

There is one bit of good news with regard to oil, though. As the U.S. economy has been transformed into a high-tech emphasis, the demand for oil as a percentage of economic activity, has declined. We simply are not as dependent on smokestack industries as in prior years. In this sense, high-tech probably has kept the Fed's inflation-controlling actions from being even more severe.

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