

# Food Price Situation and Outlook Highlights

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Food is one of the most prominent components of the general price level, because of frequency of purchase and the media attention given rising prices. Food, therefore, commands an importance disproportionate to its share of the general price level. Although food price increases have been rather dramatic in recent years, it hasn't always been that way.

Historical year-to-year variations in retail food prices show that in 18 of the 29 years since 1949, food prices contributed less than 1 percent to the overall rate of inflation. In 22 of those years, food prices increased at an annual rate lower than the rate of inflation in the general economy.

Since 1950, food prices have increased 185 percent. From 1950 to 1967, the increase was relatively slow, averaging 2.5 percent per year. Since then, however, the rate has accelerated, increasing an average of more than 9 percent per year. The two largest year-to-year increases were in 1973 and 1974, when retail food prices increased 14 percent.

## 1978 in Review

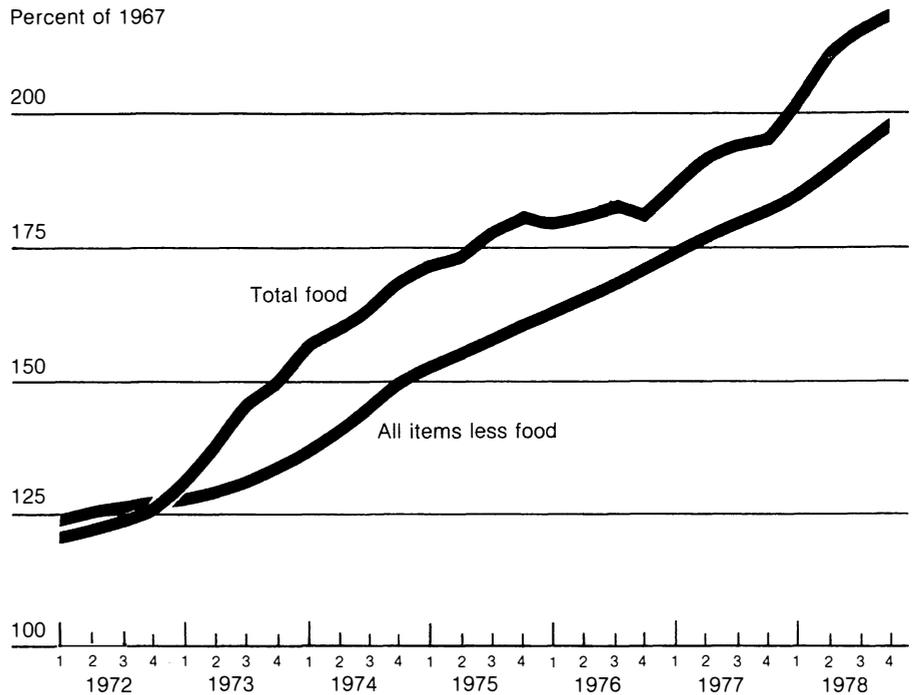
Food prices in 1978 rose 10 percent above the 1977 level. The extent of the increase was largely unexpected in November 1977 when the first official USDA forecast was released. The major contributors to the price increase were red meats and fresh vegetables. In both cases, weather was the indirect, if not the direct, cause. Two years of severe cold weather in the primary hog producing States adversely affected the availability of pork. While early indications were for relatively large increases in pork output, actual production was only 1 percent higher than in 1977.

The weather-induced problems touched off a chain reaction in meat prices. Without the increased pork production as a substitute, prices of both beef and poultry increased more than expected. Weather problems in vegetable producing areas translated into smaller-than-expected supplies and, thus, higher prices.

Increased costs of moving food from the farm gate to the consumer market basket also increased food prices in 1978. Approximately 40 percent of the

## Consumer Price Index

Percent of 1967



Source: Bureau of Labor Statistics.

10-percent annual increase was the result of higher marketing costs for domestically produced foods. Increased costs for imported foods and fish contributed about 13 percent to the higher costs.

## Forecast for 1979

In November 1978, USDA forecast moderating food prices for 1979—increasing about 7-1/2 percent for the year. While this was considered the "most likely" estimate, analysts warned that adverse weather conditions and a higher-than-expected rate of inflation in the general economy could push prices up about 10 percent.

Information thus far for 1979, has resulted in slight adjustments in our food price forecast. The December Hog and Pigs Report indicated significantly larger than expected pork production. And weather conditions in Texas, Arizona, and California have affected fruits and vegetables. In addition, beef prices have increased somewhat more

than originally expected. With these three events, the Consumer Price Index for all food is now forecast to increase about 8-1/2 percent above 1978 (revised from the November 1978 forecast of 7.3 percent). Despite this, with continued harsh winter weather in the Midwest, the potential for a 10-percent increase in 1979 food prices still exists.

## Food Highlights

The rising food prices forecast for 1979, although led by beef prices, are the result of higher prices in each of the major commodity categories. Here's a look at what is forecast for the prices, supplies and consumption figures in each of the food categories expected to contribute to the higher cost of food this year.

### Red Meats

Retail beef prices are expected to lead the increase in 1979 food prices. Retail beef prices are expected to trend upward and average 13 to 15 percent above 1978.

Beef consumption on a retail weight basis is projected to total 85 pounds per person. This would be the smallest rate since 1973 when price control regulations were in effect.

Beef consumption is decreasing because the number of cattle and calves on farms is declining in response to low profits and adverse weather in the past. Cattle and calf inventories on January 1, 1979 totaled 111 million head—a 5-percent decline from a year ago.

Although the beef production base is declining, there are indications that producers are beginning to hold back cattle to rebuild herds. This results in a substantial decrease in the production of grass-fed beef—the main source of beef used for hamburger, frankfurters, and other processed beef products.

The number of cattle in feedlots is slightly below a year ago. This will be the main source of beef supplies for 1979. Although beef imports will increase in 1979, this extra tonnage only increases consumption about 1 pound per person.

Veal consumption is expected to decline in 1979. Calves will be diverted from slaughter in order to increase the feeder cattle supply and to rebuild the breeding herd. Veal consumption is expected to be about 1.2 pounds per person.

Lamb consumption is expected to be 1.4 pounds on a per capita basis. This is the same as last year.

Retail pork prices in 1979 are expected to average only 1 percent above last year. Prices are likely to trend downward throughout the year. In contrast to 1978, pork production is expanding and consumption should be up 4 pounds per person in 1979. This is sufficient to offset the decline in beef consumption on a retail weight basis.

**Poultry**

Poultry producers are responding to good profits in 1978 and prospects look favorable for 1979. Broiler production is expected to be 7 to 9 percent above record-high 1978 levels. Retail broiler prices will average 8 to 10 percent above 1978 levels during the first half of 1979 with smaller gains in the second half.

Turkey production will be up 20 to 25 percent in the seasonally-small production months of the first half. The increase

will be smaller in the second half of 1979 but will remain well above last year. Retail turkey prices will be above 1978 during the first quarter of 1979 but should drop below during the second half of 1979.

Both chicken and turkey consumption will reach record levels in 1979.

**Eggs**

Egg production will increase about 1 to 2 percent from 1978. However, part of the increase will be hatching eggs needed to expand broiler production. Egg prices are expected to show a small increase over 1978. Retail prices will probably be lowest during the second quarter followed by seasonal increases during the third and fourth quarters.

**Fish**

Retail prices for seafood in 1979 are expected to increase about 8 percent above 1978 due to higher prices for competing meats and gains in food consumed away from home. The food service industry accounts for a substantial portion of the seafood market. Total fish and shellfish consumption in 1979 is not expected to increase significantly from the record levels in 1978. Although shrimp is in short supply, substantial quantities of tuna and other fish will maintain total supplies.

**Fruit**

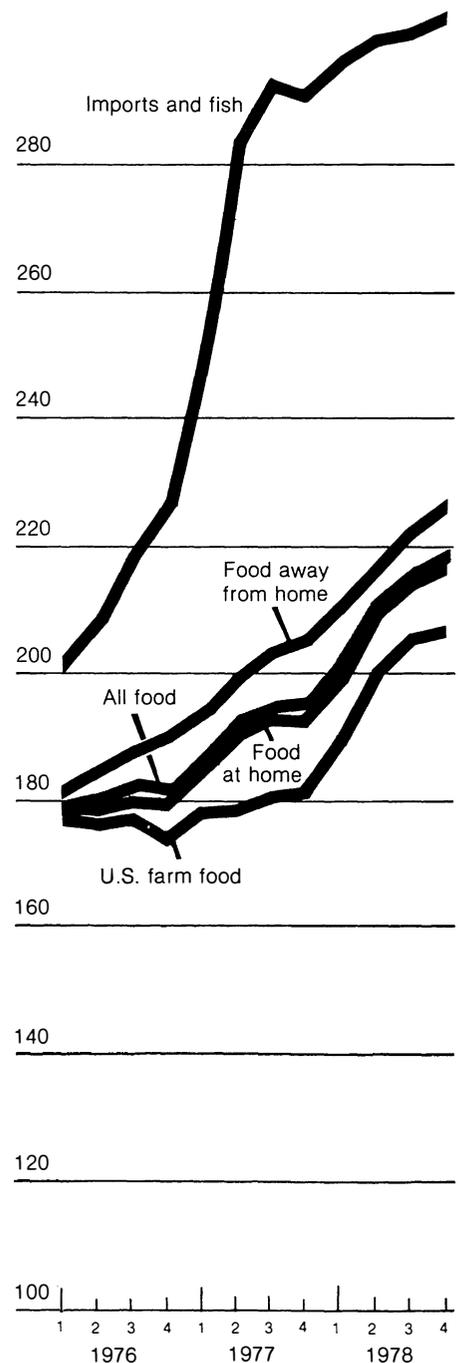
Fresh fruit prices are expected to average 12 percent above 1978. Freezing temperatures in California, Arizona, and Texas citrus-producing areas in early December reduced citrus supplies and will bolster prices during the remainder of the 1978/79 season. The January 1 estimate of total citrus production dropped 6 percent below last season. The lemon crop was 26 percent smaller than last season. The December freeze also caused a 5-percent reduction in the Texas grapefruit crop.

As a result of the freezes, there will be some tradeoff in citrus utilization. More California and Texas citrus will be diverted to processing outlets and more Florida citrus will be sold on the fresh market where prices are higher.

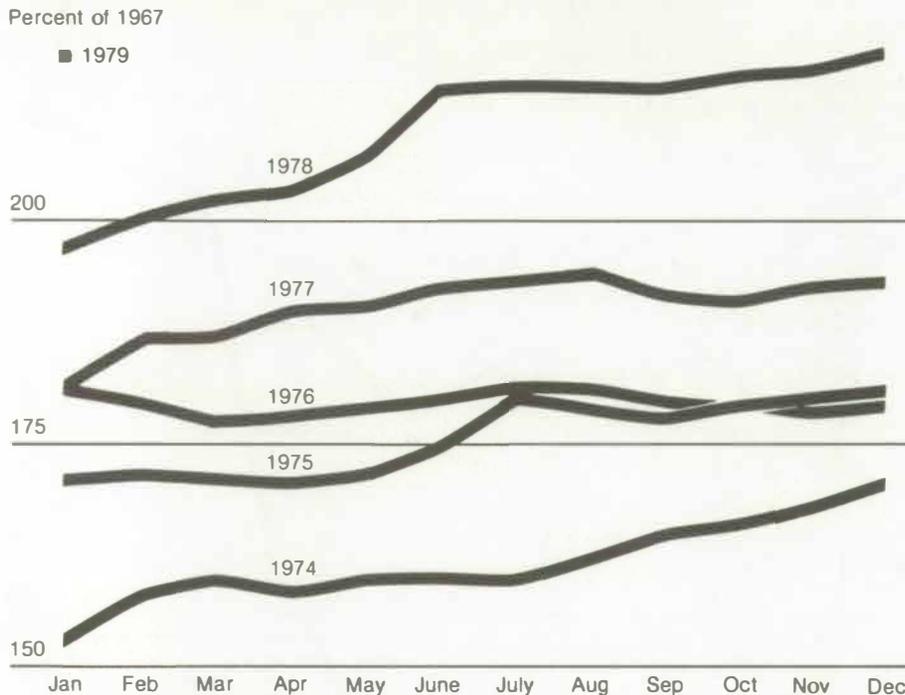
Production and supplies of other fruits is expected to offset the declines in citrus output.

**Major Components of CPI — For All Foods**

Percent of 1967



## Retail Food Prices



Food at home. Source: Bureau of Labor Statistics.

Processed fruit prices will continue 11 to 14 percent above a year ago. This is due to the increase in processing and packaging costs in addition to the higher prices for the fruit that was packed.

### Vegetables

Fresh vegetable retail prices during the first quarter of 1979 are expected to average 10 percent higher than the corresponding period last year. During the first quarter, fresh vegetable supplies were interrupted by rain and a farm-workers strike in California. These factors, along with a cold snap in Texas, pushed prices above last year. Barring further unusual developments, vegetable prices the second quarter of this year may be expected to be lower than the comparable period a year earlier.

Processed vegetable prices in 1979 are expected to average about 12 percent above 1978. This is the result of reduced packing activity of canned vegetables and increased costs for processing, packaging, and marketing.

Retail potato prices may show only small increases over a year earlier. The 1978 fall crop was record large and generous supplies of Western Russets are available for fresh consumption.

### Food Fats and Oils

Retail prices of food fats during 1979 are expected to average about 9 percent over 1978. Wholesale oil prices may be relatively stable. However, higher processing and marketing costs will bolster retail prices. The consumption of all fats and oils is likely to be about the same as last year.

Larger supplies of soybean, sunflower, and corn oil will be partially offset by smaller supplies of cottonseed oil and palm oil. Lard output may increase slightly as hog production expands. Tallow output will decline in 1979 due to anticipated reductions in cattle slaughter.

### Sugar

Wholesale and retail prices of refined

sugar and retail prices of sweetener-containing products can be expected to average higher in 1979. Prices are expected to move up in line with the current 15-cent-per-pound domestic raw sugar price objective. Import fees have been adjusted to meet this objective. Other factors such as labor, transportation, and energy costs will be reflected in the retail price.

### Cereal and Bakery Products

Retail prices of cereal and bakery products are expected to increase in line with the general rise in food costs. Wheat and flour prices are above a year ago due to a reduction in last year's wheat crop. Higher prices of other commodities such as fats and oils, dairy products, and sugar and sweeteners will add to ingredient costs. Manufacturing and marketing charges are expected to keep pace with the general rate of inflation.

### Beverages

Prices of nonalcoholic beverages in 1979 are expected to show only a small increase compared with 1978. Declines in retail coffee prices will offset increases in soft drink prices. World coffee supplies are large and domestic supplies are adequate. ■

