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# Agricultural

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# Letter



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**FOOD PRICE INCREASES** moderated appreciably during the first quarter. The index of retail prices of food consumed at home rose only 1 percent in the January/February period, less than half the rate of gain posted during the final two months of 1974. Moreover, the index of wholesale food prices declined for the fourth consecutive month in March, falling 7.5 percent below the November 1974 peak. This suggests further moderation in retail food prices may have occurred in March and April. While upward pressures will probably become more evident during the latter part of the current quarter, it now appears that the first-half 1975 rise in food prices may be considerably less than anticipated a few months ago.

The downtrend in farm and wholesale food prices, coupled with gains in retail food prices, has resulted in a further widening in the farm-to-retail price spread. (The farm-to-retail price spread reflects the charges for transportation, processing, and merchandising of food products.) During the first two months of this year the farm-to-retail spread for a market basket of farm-originated foods averaged nearly 5 percent above the closing two months of 1974 and 20 percent above the year-earlier level. Compared to a year ago, particularly large increases occurred in bakery and cereal products, processed vegetables, and fats and oils.

Changes in food purchasing patterns, due to rising unemployment and the marked slowing in economic activity, appear to be associated with the recent slowing in food price increases. Total food consumption is typically a stable element, in part reflecting the necessity to eat and the availability of programs—such as the food stamp program and unemployment compensation—which substantially mitigate the impact of business cycles on food demand. This stability is fairly well indicated by the annual index of per capita food consumption which has fluctuated less than 2 percent during the past five years.

Nevertheless, consumers often alter the types of food consumed in response to such factors as unusually wide price changes or general financial well-being. Both factors appear to have been at work in recent months. For example, exceptionally high prices for sugar and processed vegetables apparently slowed the purchase of these products. Although the 1974 pack of canned and frozen vegetables was up only moderately, cold storage stocks of frozen vegetables in February were 16 percent above the year-earlier level and 36 percent above the level of two years ago. Moreover, processor inventories of several types of canned

vegetables are up sharply in conjunction with notable declines in shipments.

This evidence of declining movements through the food distribution system no doubt is largely due to high prices. For example, in contrast to the sharp declines in the overall wholesale food price index during the past four months, the wholesale price index for processed fruits and vegetables in March was close to the late-1974 highs, 20 percent above the year ago level and 34 percent above two years ago. In recent weeks, however, some processors have offered various concessions—some of which may not be reflected in price indices—in order to move the bulging stockpiles.

Over and above consumer reactions to price changes, food consumption patterns also can be altered by income levels and perceptions of overall economic conditions. The decline in employment of some 2.6 million individuals since last September has not only slowed the growth in disposable incomes, but has also contributed to pessimistic consumption patterns among those still on payrolls. Such developments add credence to reports that consumers are “trading down” in some food items—purchasing fewer of the higher-priced convenience foods and more lower-priced basic foods.

The outlook for food prices remains highly uncertain. For the near term recent and anticipated gains in farm and wholesale prices of some major livestock products may add pressures to retail food prices for at least three or four more months. Large declines in pork and poultry production are expected to hold meat supplies below year-ago levels for the remainder of 1975. Additional upward pressures will be evident in farm-to-retail spreads—which account for over 60 percent of retail food purchases—due largely to rising wage rates and energy-related costs. The possibility of price concessions in sugar and in some processed vegetables, however, may be partially offsetting. Lower raw material prices for cereals and bakery products also could abate pressures on retail food prices in the months ahead if the 1975 crop harvests measure up to their potential.

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