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Food Price Situation and Outlook Highlights

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The sharp increase in retail food prices during the first quarter is expected to moderate during the second quarter. Gains in farm prices because of cold weather and labor disputes contributed significantly to rising retail prices.

Prices received by farmers generally stabilized throughout the spring season. Additional retail price increases resulted from increases in marketing costs and margins. These costs, mainly labor, gradually increased due to factors outside the food marketing sector. They probably will be the main cause of food retail price changes for the remainder of 1979.

The current assessment for the 1979 retail food price increase indicates an overall average gain of about 10 percent. Within the food-at-home category, products derived from crops are expected to increase about 7 percent. Products of animal origin are anticipated to rise 13 percent from last year.

The first quarter 1979 Consumer Price Index for food rose 4.4 percent from the preceding quarter and was 12.7 percent higher than the corresponding period a year ago. This was the largest quarter-to-quarter increase since the first quarter of 1974.

Prices of food consumed away from home increased 3.2 percent from the fourth quarter of 1978. These prices include meals and snacks and have lagged the increase in all food prices. Foods purchased in restaurants include more services and reflect increases in wholesale food prices.

Grocery store or food consumed at home prices were up 4.8 percent from the fourth quarter of 1978. Higher beef and veal prices accounted for 36 percent of the gain in grocery store prices. Higher beef prices were due to the 7-percent cutback in supplies along with a strong demand. Gains in fresh vegetable prices made up 15 percent of food-at-home price increases. Reduced and erratic supplies of lettuce were a major cause of higher prices. Most other major categories also showed significant gains over last quarter.

An analysis of first quarter grocery store food price increases indicates that a major portion of the food price rise resulted from higher farm food costs. The farm value of domestically produced foods contributed about 72 percent of the rise in grocery store prices. The farm-retail price spread, a measure of processing and marketing charges, made up 20 percent of the increase and imported foods and fish accounted for the remaining 8 percent.

The demand for food during the first quarter continued strong in spite of severe winter weather. Disposable personal income was up about 3 percent above the preceding quarter and 12 percent over the corresponding quarter a year ago. Food expenditure increases were about in line with income gains.

There are indications that the quarter-to-quarter rise in food prices will taper off throughout the year. Prices received by farmers during April declined 0.8 percent from March. Prices for farm food

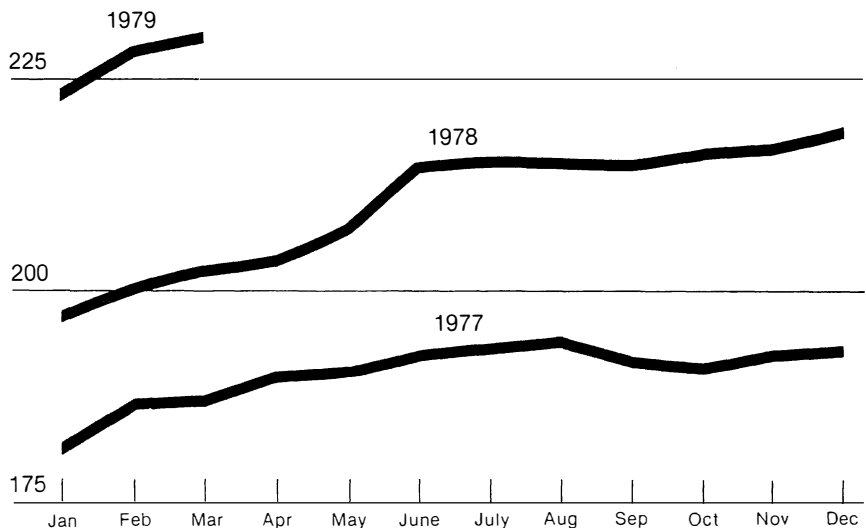
products decreased 1 percent in April. A small increase in the reported beef cattle price was offset by declines in hog prices resulting in no changes in meat animal prices.

The Producer Price Index, formerly Wholesale Price Index, also reported only small farm level price changes during April, declining 0.3 percent. The PPI for consumer food prices also edged down 0.3 percent. Prices for pork, coffee, fresh vegetables, and poultry declined. Beef and veal, eggs, and confectionery products increased less than in March. On the other hand prices rose for rice, bakery products, and fresh fruits.

Total supplies of food in 1979 are expected to be adequate and increase slightly from 1978. Most of the increase will be in crop products with animal products expected to be about stable. However, both pork production and poultry production should increase as the year progresses. This will help to make up for the anticipated 8-percent

Retail Food Prices (Food at Home)

Percent of 1967



Source: Bureau of Labor Statistics.

decline in per capita beef consumption.

While farm level prices are expected to moderate, marketing costs may be the primary source of food price increases. The labor component is the largest part of the food marketing bill and is expected to rise. The Teamsters contract settlement set the stage for higher labor costs. Important labor contracts are yet to be negotiated. Higher energy prices will also support rising food costs.

General business conditions will also bear watching as the year progresses. If unemployment rises and consumers' confidence in the economy erodes, consumer spending could decline. While the impact on food will not be as great as the effect on durables, this, too, could be a moderating influence.

Nonfarm Food Expenditures

Expenditures for food mainly derived from sources other than domestic farms and ranches account for about 20 percent of total food expenditures.

These nonfarm foods include fish, seafood, and imported foods. The foods commercially produced in other countries and marketed in the United States include bananas, coffee, tea, cocoa, and spices.

A selected list of items from the Consumer Price Index (CPI) for food points out the relative importance of these items. The weights in the CPI are based on expenditures of households. Consequently, these weights can be used to calculate the percent of expenditures for foods consumed at home.

Nonalcoholic beverages are the major nonfarm foods, accounting for about one half of the total. Fish and seafood is the next most important category—followed by candy and gum.

Red Meats

The per capita beef supply for 1979 may be only 82 pounds, including farm consumption. This would be about 8 percent less than in 1978 and the lowest

per capita total in 6 years.

A reduction in current beef production is needed to rebuild the cattle herd. Producers are culling fewer cows and the number of heifers placed on feed for slaughter continues to decline, suggesting greater retention for breeding purposes. This liquidation phase of the cattle cycle probably has ended. The January 1980 cattle and calf inventory may be between 112 and 113 million head, slightly larger than at the beginning of this year.

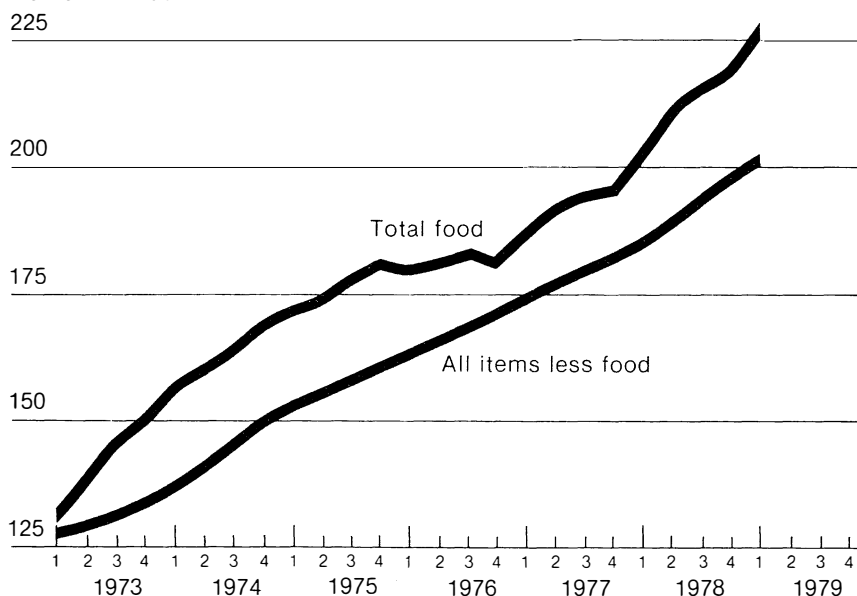
Since the placement of cattle in feedlots has lagged year-earlier levels, another reduction in fed cattle marketing—the main source of Choice beef cuts—is in prospect for the second half. Grass fed cattle slaughter—a major source of hamburger and beef used for processed meat items—will continue to show substantial reduction. Beef production in the second half may be down 10 percent from last year.

The price of Choice beef at retail may average 25 percent higher this year with the rate of increase slowing in the second half.

Pork producers are in the midst of a

Consumer Price Index: All Items and Total Food

Percent of 1967



Source: Bureau of Labor Statistics.

Nonfarm Foods and the Consumer Price Index

Item	Relative importance (December 1977)	Percent of food at home
	CPI weight	
Fish and seafood . . . . .	.4098	3.3
Nonalcoholic beverages	1.5132	12.4
Bananas . . . . .	.0504	.4
Candy and chewing gum . . . . .	.2113	1.7
Sugar, artificial sweeteners . . . . .	.1163	.9
Seasonings, olives, pickles . . . . .	.1057	.9
Other condiments . . . . .	.1657	1.3
Total	2.5724	20.9

major expansion. Winter farrowings were increased 16 percent, while intentions for the spring quarter suggest a 24-percent increase. Pigs that were born during the first half will be ready for market during the last half. The implied increase in second-half pork production—about 18 percent—would offset the reduction in beef output.

Retail pork prices for 1979 are ex-

pected to average 3 to 4 percent higher than in 1978. However, retail pork prices are expected to decline 8 to 9 percent during the year. By the fourth quarter, retail prices may be about 5 percent below last year's level.

Poultry

For the fourth consecutive year, chicken production continues to expand. Favorable producer returns combined with expectations of continued good demand for broiler meat and for adequate feed supplies are expected to hold broiler production 8 to 10 percent above 1978 throughout most of 1979. Consumption of chicken meat in 1979 should increase in line with production.

Broiler prices have been above last year's despite record supplies as higher beef prices have led to increased demand for poultry and other meats. After a seasonal price increase this spring, prices during the last half of 1979 are expected to average about the same as 1978 if the expected sharp increase in pork supplies materializes.

Turkey meat production has expanded in response to very good producer returns. During the seasonally light first half, output was 20 to 25 percent above January to June 1978. Production will remain well above year-ago levels in the second half but the margin of increase will narrow to 7 to 10 percent.

Turkey consumption in 1978 increased to a record 9.4 pounds. Although turkey meat production in 1978 increased 5 percent, more turkey meat went for other uses, and cold storage stocks increased. Per capita use will probably increase by another half a pound in 1979.

Eggs

Egg output during the first half of 1979 is expected to be 3 percent above a year ago. Production will continue 2 to 3 percent above 1978 during the second half of this year.

Egg prices during the first 6 months of 1979 were well above a year earlier. Prices will increase seasonally during the

summer and fall and could average 3 to 5 cents above the 65 cents a dozen (grade A, large, delivered to retailers in New York) for July to December 1978.

Fish

Total fish and shellfish consumption in 1979 is expected to be about the same as the 13.3 pounds per person rate for last year. During 1978 consumption rose 5 percent from 1977 mainly due to gains in canned fish. Apparently, consumers were turning to fish as alternative sources of animal protein since beef supplies were reduced.

Retail prices for seafood in 1979 are expected to increase about 9 to 10 percent from 1978 due to higher costs, higher prices for competing meats, and gains in food consumed away from home including fish. A substantial portion of the seafood market is accounted for by the food service industry.

Dairy

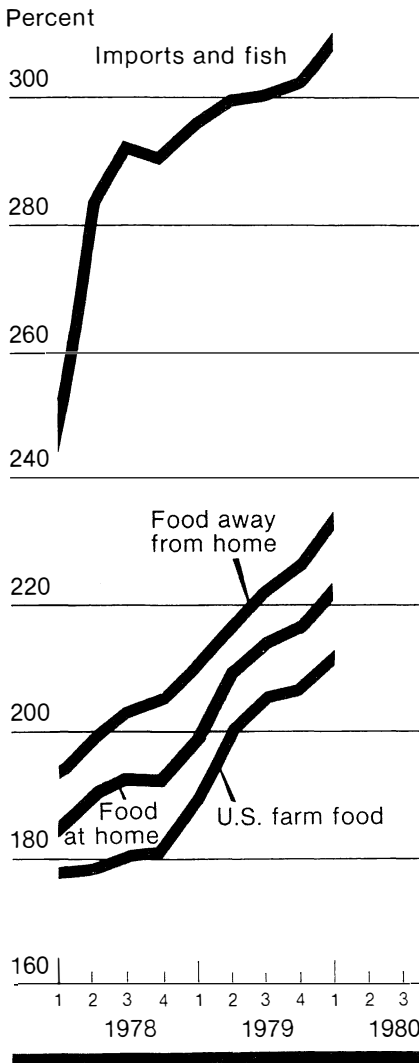
Milk production during the first quarter of 1979 was up about a half percent from a year ago. Relatively favorable economic conditions may cause a slight expansion in milk output during the rest of 1979 and production is expected to be about 1 percent more than last year.

During the first few months of 1979, the increase in the commercial use of milk and dairy products was somewhat more than last year's increase of almost 3 percent. This year, commercial use may rise slightly.

Farm milk prices, which stabilized close to the support price in early spring, are expected to move above support levels this summer. The amount of seasonal increase in milk prices during the second half of the year will depend heavily on the degree of expansion in milk output and the demand for dairy products. Also important are the support purchase and sell-back prices to be set on October 1, and levels of commercial dairy stocks.

Rises in retail milk and dairy product prices this spring continued to slow as farm and wholesale prices stabilized

Major Components of the CPI- For All Foods



close to the support price. For the entire year, retail dairy prices are expected to average 9 to 12 percent higher than last year.

Fruits

Total fruit consumption in 1979 is expected to increase only 1 percent from last year. Fresh fruit usage will be about the same, while processed fruits are anticipated to show a 3-percent gain from last year.

Processed fruit consumption in the form of frozen fruit juice should show the largest increase. Carryin stocks of frozen orange juice were large, imports were substantial, and the Florida pack showed a substantial increase.

The total citrus crop was about 8 percent below a year ago with smaller crops for all citrus. Part of this reduction was due to freeze damage last winter.

Retail prices for fresh fruits are expected to average 8 to 11 percent higher in 1979. Processed fruit prices are anticipated to be 13 to 15 percent above a year ago since processing and marketing costs have risen.

Cereal and Bakery Products

Abundant supplies of cereal and bakery products are in prospect for the last half of 1979, but prices will be rising due to inflation in manufacturing. Basic agricultural commodities used to produce bakery products are expected to show little, if any, price increases for the balance of the year. Despite the outlook for stable ingredient prices, increasing energy and labor costs will drive up prices for bakery products.

Rising costs of manufacturing and distributing will keep upward pressure on retail cereal product prices during the last half of 1979. In addition, increased domestic and export demand may cause corn, oat, and barley prices to rise during the coming year.

Vegetables

Cold weather and labor disputes interrupted fresh vegetable marketing during the beginning months of 1979. Since retail prices are highly responsive to

changes in supplies, prices rose to record levels.

During March, fresh vegetable supplies picked up and prices declined. During the second quarter, farm and retail prices are expected to move downward, averaging moderately below year-earlier levels. Prospective spring acreage of fresh market vegetables was 6 percent more than last year. Acreage is larger for all items except cabbage, sweet corn, and potatoes. A sharply larger lettuce crop in Arizona accounts for the increased spring planting, but California still has two-thirds of this season's total acreage.

Consumption of canned vegetables in 1979 has been generally large but not greatly different from a year earlier. Frozen vegetable usage has increased since supplies have been large in 1979. Retail prices of nearly all canned and frozen vegetables have been above a year ago as demand has remained strong and processing and marketing costs have risen.

The 1979 contracted acreage of processing vegetables is planned to be 3 percent more than a year ago. The changes in individual crops range from a 9-percent increase in peas and tomatoes to a 3-percent reduction in beets and lima beans. In addition, a 6-percent larger kraut cabbage tonnage is planned. A slightly larger supply of processed vegetables is in prospect for this fall.

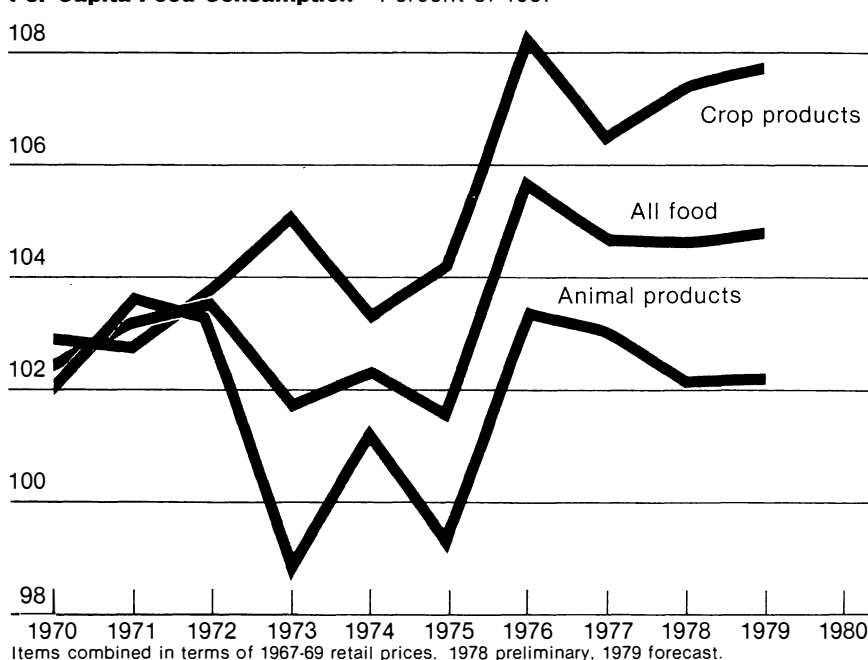
Supplies of potatoes are record large due to a large carryover from last fall plus a spring crop forecast to be 23 percent more than last year. Dry bean growers expect to plant a tenth less acreage in 1979.

Sugar

Sugar consumption during 1979 is expected to be only slightly less than last year. Declining domestic production will be offset by larger imports. World supplies are abundant, a result of a near-record crop.

U.S. beet sugar production is expected

Per Capita Food Consumption Percent of 1967



USDA Food Programs

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to decline because of an 11-percent cut-back in acreage. Cane sugar output is expected to increase slightly.

Domestic sugar prices are expected to average slightly higher in 1979. This is due to an increase in the market price objective that is used to guide domestic and international sugar policy. A price support program is in effect to protect domestic producers—with import duties and fees also imposed on imported sugar.

Food Fats and Oils

Total consumption of food fats and oils in 1979 is expected to be about the same as last year. Supplies of shortening, margarine, and cooking oils should be adequate to meet domestic requirements. While U.S. oilseed supplies are record large there has been a strong overseas demand.

Retail prices for food fats probably will average as much as a tenth higher in 1979 compared with 1978. Price increases in the first half of 1979 probably will be greater than in the second half when oilseed crops are harvested. Higher energy, labor, and other processing and marketing costs will be reflected in the retail price.

Beverages

Per capita coffee consumption in 1979 may be about the same as in 1978. While retail coffee prices are expected to decline, the retail price is still relatively high, making significant increases in U.S. consumption unlikely.

Coffee is the single most important agricultural commodity imported into the United States. The value of coffee imports in calendar 1978 totaled over \$4 billion. World coffee supplies are abundant and U.S. imports will be adequate in 1979. The Brazilian crop was reduced by minor freeze damage but output in other countries increased.

Tea imports and use are expected to increase in 1979. Retail tea prices probably will increase slightly by late 1979, largely reflecting increased processing, packaging, and marketing costs. ■

Family Food Programs

In the first quarter of 1979, the elimination of the purchase requirements, higher food prices, and an increase in the value of coupons issued led to extremely large increases in the number of persons participating in the Food Stamp Program.

Preliminary estimates indicate that an average of 16.6 million people in the 50 States and District of Columbia participated in the Food Stamp Program between January and March 1979, up nearly 20 percent from the preceding quarter and a 9-percent increase over the same period a year earlier. Until this quarter, participation had been declining largely due to increased employment opportunities and a relatively slower rate of food price increase.

The largest increase in participation during the quarter occurred among those not receiving public assistance funds. This indicates that many of the families entering the program generally have incomes close to the poverty line. Under the old program rules, these families were required to purchase a large portion of their stamps. The elimination of this cash outlay apparently has induced many to join the program.

The elimination of the purchase requirement was the first of the new food stamp provisions in the Food and Agricultural Act of 1977 to take effect. The remaining provisions take effect between March and July 1979.

Under the old program rules, the maximum income a family of four could earn and still be eligible was \$660 a month, or \$7,920 per year.

The new program rules set the net monthly income limit for a four-person food stamp family at \$543 or slightly over \$6,500. This rule is intended to bring eligibility criteria more in line with the current poverty level and to better match the new deduction system.

As a result, those current participants with incomes above the poverty line may be determined ineligible sometime between March and July 1979. Recertification will depend upon whether or not the

household meets certain other criteria, both financial and nonfinancial. Reevaluating these participants may reduce program participation and costs significantly.

All participants will face a review of the financial criteria required to retain eligibility.

All household income, with a few exceptions, will be counted when determining a household's eligibility and the amount of benefits it will receive. The exceptions include in-kind payments, vendor payments, irregular income, educational income, most loans, certain reimbursements, third-party care funds, earnings of a child, non-recurring lump-sum payments, cost of producing self-employed income, and income that other laws specifically exclude from consideration for food stamp purposes.

All households, including public assistance and Supplementary Security Income (SSI) recipients, must meet the income standards to be eligible to participate in the Food Stamp Program. A household's income must fall at or below the nonfarm poverty line set annually by the Office of Management and Budget, as adjusted for food stamp purposes.

Income deductions include:

1. A deduction of 20 percent of earned income.
2. A \$65 standard deduction in the 48 contiguous States and District of Columbia.
3. A maximum deduction of up to \$80 for combined excess shelter expenses. Excess shelter expenses are defined as shelter costs in excess of 50 percent of income.

These may be combined with child care costs up to a maximum of \$80.

In addition to income criteria, resource criteria include the following:

1. Maximum allowable assets (liquid and nonliquid) shall not exceed \$1,750, or in the case of households comprised of two or more members where one of the members is 60 years of age, \$3,000.
2. The value of a vehicle in excess of \$4,500 will be included as a resource if