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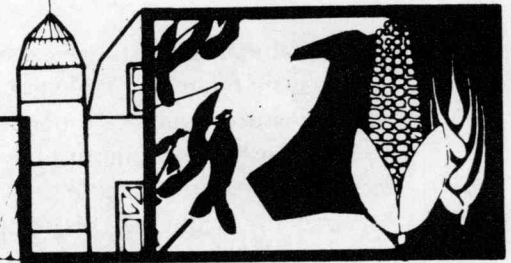
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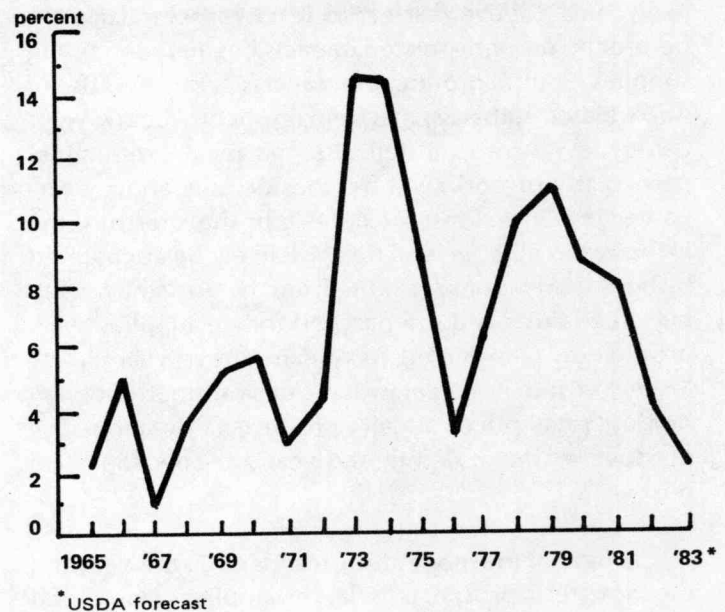
# LETTER

**RETAIL FOOD PRICES** have drawn increased attention once again with the widespread drought damage to this year's crops. While understandable, the concerns over the drought implications for grocery prices have veiled the remarkable slowing in food price pressures the past two or three years. After rising nearly 11 percent in 1979, the annual gains in retail food prices slowed to 8.6 percent in 1980, 7.9 percent in 1981, and 4.0 percent in 1982. Retail food prices were under slight upward pressures earlier this year—reflecting temporary weather-related shortages in fresh fruits and vegetables—but the pressures have abated since May. As a result, retail food prices in July were only 1.2 percent higher than the year before. With favorable prospects for the rest of this year, it now seems likely that 1983 will mark the seventh year out of the past eight in which the annual rise in retail food prices has lagged the overall rise in consumer prices.

The slowing uptrend in food prices has been especially apparent for food purchased in grocery stores. Reflecting this, the July index for retail prices of food consumed at home was unchanged from the year-earlier level. In contrast, the index for prices of food consumed away from home was up 4.0 percent. Although grocery store prices for red meats averaged slightly above year-earlier levels in the first half, by July meat prices were down nearly 4 percent from the cyclical peak of a year ago. Retail poultry prices, although recently under upward pressures because of drought-related death losses, were nearly 1 percent lower than a year ago in July. Fruit and vegetable prices in July, although at the highest level in several months, were nevertheless nominally below the year-ago level. In contrast to these declines, retail prices of dairy products and non-alcoholic beverages were up about 1 percent, while prices of eggs, sugar and sweeteners, and cereal and bakery products in July ranged from 2 to 3 percent above year-earlier levels.

As has been the case since the beginning of the

Rise in retail food prices this year may be smallest since 1967



1980s, the slowing uptrend in retail food prices reflects the low prices for raw food materials, the abating rise in the cost of processing and distributing domestically grown food beyond the farm gate, and the moderating uptrend in the price of imported foods. In the first half of this year, the index of prices received by farmers for food commodities averaged 3 percent lower than a year ago. Simultaneously, the index of food marketing costs in the first half of this year averaged only 2.5 percent higher than in the first six months of 1982, down sharply from the 5 percent rise last year and the 11 percent rise in 1981. The slowing has been apparent for virtually every component of the processing and distribution costs, including labor, packaging and container materials, fuel and power, and interest. And reflecting the favorable implications of the strong dollar for costs of imported foods, the index for retail prices of imported foods and fishery products averaged less than 2 percent higher than in the first half of last year, marking a continuation of the moderating uptrend for imported foods in recent years.

**In looking ahead**, analysts are expecting that retail food prices may be relatively stable the rest of this year, but upward pressures will likely become apparent in 1984. Although fresh vegetable supplies in the Midwest were affected, the major vegetable growing areas of the nation escaped the drought. This coupled with large stocks of processed vegetables foreshadows adequate vegetable supplies for the foreseeable future. Fruit supplies remain relatively abundant despite production setbacks this year for peaches and tart cherries. For both fruits and vegetables, however, the forthcoming winter weather, as always, presents a major uncertainty regarding 1984 supplies.

Supplies of livestock-related food products will likely remain above year-earlier levels for several months before the drought-related impacts begin undercutting supplies. Poultry production, down recently because of heat-related setbacks, may remain slightly below year-earlier levels into the fall. But red meat production, particularly of pork, will be considerably above year-earlier levels well into next year. In the short run, the gains in red meat production will likely be augmented by herd liquidations resulting from the drought-related high feed costs and the parched forage supplies. Milk production is expected to remain above year-earlier levels well into next year with the dairy support program holding retail prices of dairy products fairly stable. Egg production, down slightly this year, may decline again next year.

In light of the moderating trends so far this year and the short-term prospects for larger supplies of most food items, retail food prices may hold fairly steady for the next few months. This view is consistent with most analysts who are projecting that the annual rise in retail food

prices this year may be only about 2 percent. If that is the case, it would mark the smallest annual rise in food prices in 16 years.

Current projections of food supplies for 1984 are tentative, at best. But it does appear that this summer's drought had a relatively minor impact on prospective fruit and vegetable supplies. However, prices of some crop-related foods—such as cooking oils, sugar and sweeteners, and peanuts—may be pushed up by the effects of the drought on this year's production. Moreover, the drought may indirectly end the cyclical uptrend in meat production around mid-1984, adding upward pressures to food prices. Prospects for further economic growth enhance the likelihood of a stronger consumer demand and larger per capita food expenditures. Costs of processing and distributing food will continue to rise, but at a modest pace relative to a few years ago. In this vein, labor, which represents the largest component of the processing and distribution costs, continues to exert a moderating influence on overall food marketing costs.

While most analysts concur with these underlying trends, their projections for next year's rise in retail food prices encompass a fairly wide range. Some private analysts are projecting gains of up to 8.5 percent. The USDA is projecting a range of 4 to 7 percent, but presently believes that the more likely outcome lies in the lower half of that range. With the moderating trends in food processing and distribution costs and barring adverse weather disruptions to fruit and vegetable production this winter, the USDA assessment would seem reasonable at this time.

Gary L. Benjamin

**CROP PRODUCTION** estimates released by the USDA this week reflected the extent of the damage from this summer's drought. The persistence of hot and dry weather across much of the country throughout August resulted in sharply reduced output projections for most crops. Based on September 1 conditions the corn and soybeans crops were both revised downward from the August estimates by more than a sixth. The estimate for sorghum was lowered 15 percent, while those of oats, barley, and spring wheat were lowered 4 to 6 percent. The production shortfalls are expected to lead to in-

creased prices and hence, lower utilization in the coming year.

Corn production is now projected to be about half of the 1982 record crop. Estimated at 4.39 billion bushels, this would represent the smallest corn crop since 1970. Both the acreage for harvest and per acre yields have been revised downward from August, but the lower production estimate primarily reflects a 26 percent year-to-year reduction in per acre corn yields. Soybean production, placed at 1.53 billion bushels, is down a third

from last year's output, largely due to a 23 percent decline in per acre yields.

The effect of the drought on crop production in District states has been mixed. Illinois and Indiana are among the hardest hit states in the country, having experienced state-wide per acre yield declines of a third in corn and over 22 percent in soybeans from the acreage level of the last five years. Iowa has not fared much better, experiencing drops of 25 and 13 percent from the five-year average yields for corn and soybeans, respectively. The damage is most pronounced in the south-eastern portions of these three states. In these areas corn yields are expected to range from 45 to 65 percent below the five-year norm. In the northern areas of the District, the drought has had a less severe effect on crop production. In Wisconsin projected corn and soybean yields for this year are less than 5 percent below the 1978-82 average. In Michigan per acre corn yields are expected to equal the five-year average for that state while soybean yields are expected to be up 2 percent.

Crop production forecasts for northern hemisphere countries other than the United States were revised downward from August estimates as well. The USDA expects coarse grain production in Canada and Europe to be 7 and 4 percent lower, respectively, than the August estimates, resulting in a modest decline in output for the group from last year's level. However, wheat and soybean production among northern hemisphere countries other than the United States are still expected to exceed last year's level despite declines in output projections since August.

Although buffered by large reserves, the production shortfalls have further dampened corn and soybean utilization estimates for the year ahead. The USDA has trimmed its corn utilization projection for the marketing year beginning in October to 6.9 billion bushels, down from 7.2 this year. A 10 percent reduction in projected feed use from this year's level accounts for all of the decline. The estimate for corn exports was lowered slightly, but, at 1.9 billion bushels, still exceeds the 1.8 billion bushels exported over the past year. Declines in exports and crushing from last year of 18 and 8 percent, respectively, are forecast for soybean utilization in the year ahead. As a result, the USDA expects total utilization of soybeans to fall to 1.84 billion bushels, down from 2.1 billion the past year.

### Corn and soybean production expected to be down in all District states\*

	Yield per acre		Production	
	Bushels	Percent change**	Million bushels	Percent change**
<b>Corn</b>				
Illinois	78	-42	608	-60
Indiana	75	-42	345	-58
Iowa	90	-26	756	-52
Michigan	95	-13	176	-43
Wisconsin	100	-7	240	-34
District States	85	-31	2,125	-54
United States	85	-26	4,390	-48
<b>Soybeans</b>				
Illinois	28	-28	248	-32
Indiana	28	-30	110	-40
Iowa	33	-12	261	-19
Michigan	30	-3	27	-17
Wisconsin	31	0	12	-13
District States	30	-22	658	-28
United States	25	-23	1,535	-33

\*USDA estimates based on September 1 conditions.

\*\*From year before.

Although revised downward, utilization estimates for both corn and soybeans still substantially exceed the production estimates. The shortfall will be covered by a substantial drawdown in carryover stocks. Carryover stocks of corn next fall are expected to drop to 900 million bushels, down from the record 3.4 billion bushel carryover of this year. Carryover stocks of soybeans are expected to drop from 450 million bushels to 150 million next fall. These sharply reduced levels of stocks leave little room for additional production declines and should apply enough pressure to maintain prices well above year-ago levels for the next several months.

Based on September 1 conditions the USDA expects corn prices for the marketing year beginning October 1 to range from \$3.50 to \$3.75 per bushel. The forecast range is well beyond the \$2.95 to \$3.20 per bushel estimate in August and about a dollar above the average for the past year. The September estimate places soybean prices between \$8.50 and \$9.50 per bushel for the 1983/84 marketing year, up from last year's average of \$5.65 per bushel. Some analysts, however, are expecting slightly lower season average prices.

Peter J. Heffernan

## Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
<b>Farm finance</b>					
Total deposits at agricultural bankst	1972-73=100	August	282	+ 0.4	+11
Total loans at agricultural bankst	1972-73=100	August	296	+ 0.8	+ 6
Production credit associations					
Loans outstanding					
United States	mil. dol.	July	20,284	+ 0.6	- 8
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Loans made					
United States	mil. dol.	July	1,925	-21.6	-13
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Federal land banks					
Loans outstanding					
United States	mil. dol.	July	47,901	+ 0.2	+ 3
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
New money loaned					
United States	mil. dol.	July	277	-11.6	-30
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Interest rates					
Feeder cattle loanst†	percent	2nd Quarter	13.58	- 3.0	-21
Farm real estate loanst†	percent	2nd Quarter	13.32	- 3.9	-20
Three-month Treasury bills	percent	9/8-9/14	9.10	- 3.5	+12
Federal funds rate	percent	9/8-9/14	9.54	- 1.3	- 7
Government bonds (long-term)	percent	9/8-9/14	11.67	- 0.9	- 5
<b>Agricultural trade</b>					
Agricultural exports	mil. dol.	July	2,596	- 6.9	+ 6
Agricultural imports	mil. dol.	July	1,297	+ 2.5	+12
<b>Farm machinery sales<sup>P</sup></b>					
Farm tractors	units	August	7,337	-22.5	-17
Combines	units	August	1,106	+ 9.6	-16
Balers	units	August	981	-56.8	0

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

<sup>P</sup>Preliminary.

N.A. - Not available.

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**FEDERAL RESERVE BANK**  
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