FRB CHICAGO AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO

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Retail food prices

The upward momentum in retail food prices is easing this year. The index of retail food prices during the first five months of this year averaged 3.8 percent above the same period a year ago, down considerably from annual gains of 5.8 percent the last two years. Further moderation is expected in the months ahead. The mid point of the USDA's latest projection for all of 1991 points to a rise of 3.5 percent, portending the smallest increase in retail food prices since 1986.

The retail food price statistics reported by the U.S. Department of Labor include a component for food consumed at home and a separate component for food consumed away from home. So far this year, both components have averaged about 3.8 percent above 1990 levels. For the year as a whole, however, the USDA expects the rise in the at-home (or grocery store) component will be considerably less than the rise in prices of food consumed away from home. These expectations foreshadow a reversal of the pattern of recent years. Grocery store food prices registered gains of 6.5 percent in both 1989 and 1990, nearly two percentage points above the rise in prices of food consumed away from home.

The moderating pressures on grocery store food prices are expected to be mostly evident for meats, eggs, and dairy products. Last year, retail prices for red meats rose 10 percent on the strength of lower supplies and a firming demand. However, red meat prices have leveled off so far this year and prospects for increased supplies and weaker cattle and hog prices foreshadow further moderation in the second-half. Retail prices of poultry meats, which were unchanged last year following a 10 percent rise in 1989, are projected to average lower this year. Egg prices, which soared more than 25 percent two years ago and rose another 5 percent last year, are expected to average 5 to 10 percent lower this year. Retail prices of dairy products, after averaging 9 percent higher last year, are forecast to decline modestly this year.

Smaller rise expected for retail food prices

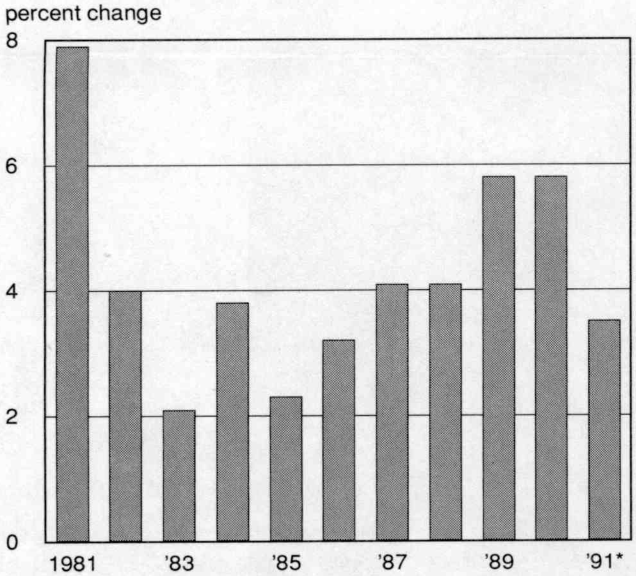

*Figure shown represents the mid-point of the range forecast by the USDA.

After recording average annual gains of 8 percent the past three years, the rise in fruit and vegetable prices at grocery stores has narrowed to about 4 percent so far this year. As is often the case, however, weather-related supply disruptions have once again imparted considerable volatility to this component of grocery store food prices. A California freeze last winter contributed to a sharp rise in fresh fruit prices which so far this year have averaged 14 percent higher than a year ago. Fresh vegetable prices, after averaging 13 percent under the high year-ago levels during the first quarter, registered a contra-seasonal surge this spring and averaged 18 percent higher in April and May. On a more favorable note for consumers, retail prices of both processed fruits and processed vegetables so far this year have averaged about the same as in the first five months of last year.

Over the past several years, changing dietary patterns have contributed to comparatively strong gains in per capita consumption of fresh fruits and vegetables. Tabulations by the USDA show that per capita consumption of fresh fruits rose about a sixth during the decade of the 1980s. Virtually all of the rise was in noncitrus fruits which rose 25 percent. Per capita consumption of fresh vegetables during the 1980s also rose about 25 percent.

In addition to the availability and cost of the raw commodities, the trend in retail food prices also reflects the extensive processing and distribution costs incurred beyond the farm gate. These costs account for about 70 cents of every consumer dollar spent on domestically-produced foods. The USDA measure of the cost of labor, supplies, and services used in processing and distributing food has risen some 3 to 3.5 percent annually the last three years. The gain widened temporarily last fall with a surge in fuel and power costs. But preliminary estimates for the first quarter of 1991 shows the year-over-year gain retreated to just over 3 percent.

Gary L. Benjamin

Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(1977=100)*	May	152	2.0	–1	2
Crops *(1977=100)*	May	137	4.6	2	–4
Corn *($ per bu.)*	May	2.34	–3.3	–11	–9
Oats *($ per bu.)*	May	1.15	–0.9	–21	–46
Soybeans *($ per bu.)*	May	5.59	–3.1	–6	–22
Wheat *($ per bu.)*	May	2.67	2.7	–21	–33
Livestock and products *(1977=100)*	May	166	0.0	–4	6
Barrows and gilts *($ per cwt.)*	May	55.20	7.8	–11	30
Steers and heifers *($ per cwt.)*	May	80.80	–1.5	3	9
Milk *($ per cwt.)*	May	11.30	0.0	–16	–8
Eggs *(¢ per doz.)*	May	59.5	–8.6	–3	–5
Prices paid by farmers *(1977=100)*	April	190	1.1*	4	7
Production items	April	175	1.2*	3	5
Feed	April	126	1.6*	–2	–10
Feeder livestock	April	223	3.2*	5	21
Fuels and energy	April	198	–9.6*	5	8
Producer prices *(1982=100)*	May	122	0.7	3	7
Agricultural machinery and equipment	May	124	0.2	2	5
Fertilizer materials	May	99	–0.9	6	–9
Agricultural chemicals	May	126	1.0	5	9
Consumer prices *(1982-84=100)*	May	136	0.3	5	10
Food	May	137	0.1	4	10
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	4,789	N.A.	0	–8
Soybeans stocks *(mil. bu.)*	March 1	1,190	N.A.	13	34
Beef production *(bil. lbs.)*	May	1.95	4.1	–3	–3
Pork production *(bil. lbs.)*	May	1.29	–5.1	3	–4
Milk production *(bil. lbs.)***	May	11.2	3.0	0	2

N.A. Not applicable.
*Prior period is three months earlier.
**21 selected states.

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