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Retail food prices

After recording the largest increase in seven years during 1989, retail food prices surged even higher during the early months of 1990. These recent price trends, combined with late plantings and tightening stocks of grains, have contributed to some concerns about a continuing food price spiral during the remainder of 1990. However, most analysts expect pressures on overall food prices to abate during the course of the year. Downtrends from the winter highs are already evident in most categories of the consumer price index for food. And while some commodity prices are expected to show sizable increases, the costs associated with processing and distributing food, which account for most of the consumers food dollar, are expected to rise at a more moderate rate than last year.

Consumer food prices in 1989, averaged almost 6 percent higher than during the previous year, substantially higher than the 2 to 4 percent annual gains registered between 1982 and 1988. The current USDA forecast for 1990 suggests food prices will likely rise 3 to 5 percent from the year-ago level. Like last year, most of the projected increase is expected to have occurred during the early months of 1990, with prices trending lower during the second half of the year.

The first quarter 1990 consumer price index for food was up almost 3.3 percent from the final months of 1989, implying an annual rate of increase of almost 13.7 percent. The food at home component of the consumer price index, which reflects prices for food sold in grocery stores, rose more than 4.5 percent from the previous quarter, which would compound to an annual rate of increase of almost 20 percent. The component reflecting food consumed in restaurants, in contrast, rose at annual rate of less than 5 percent during the first three months of 1990.

A substantially different trend in food prices has emerged during the second quarter. The overall index of consumer food prices is expected to show no change from the previous quarter. A continued moderate rise in the price of food consumed away from home will be offset by a decline in the index of grocery store prices.

Much of the rise in retail food prices during the early months of 1990 is attributable to the winter freeze that disrupted fruit and vegetable production in the southern United States. After rising sharply in January and February, fresh vegetable prices have trended lower. By May, prices of fresh vegetables were down 25 percent from the February peak as spring crops became available, and are expected to continue to drop as summer crops become available. For all of this year fresh vegetable prices are forecast to average 5 to 7 percent higher than in 1989.

Fresh fruit prices surged during the early months of 1990 as well. The freeze damaged the Texas and Florida citrus crops and some non-citrus fruits, pushing prices for all fresh fruits during the first quarter 10.5 percent higher than the previous three month period. However, fresh fruit prices have continued to rise during the second quarter. USDA analysts attribute the continued rise to the unusually warm weather in March causing an early bloom on apple and peach trees and subsequent frosts which caused widespread damage to the crops. Through the first five months of 1990 fresh fruit prices have averaged more than 14 percent higher than during the comparable period last year, and are expected average between 14 and 17 percent higher over the course of the entire year. Processed fruit prices are expected to rise 5 to 8 per-

Consumer price index for food

	1988	1989	1990*
	(- - - - - percent change - - - - -)		
All food	4.1	5.8	3 to 5
Food away from home	4.1	4.6	3 to 5
Food at home	4.2	6.5	3 to 5
Beef and veal	5.5	6.4	2 to 4
Pork	-3.0	.6	8 to 12
Poultry	7.2	9.9	-1 to -4
Fish & seafood	5.8	4.5	3 to 5
Eggs	2.3	26.6	-7 to -10
Dairy products	2.4	6.6	4 to 6
Fats and oils	4.6	7.2	2 to 4
Fresh fruits	8.3	6.6	14 to 17
Processed fruits	10.3	3.2	5 to 8
Fresh vegetables	6.3	10.7	5 to 7
Processed vegetables	4.8	10.7	0 to 2
Sugar and sweets	2.7	4.7	3 to 5
Cereal and bakery products	6.4	8.4	5 to 7
Other prepared foods	3.7	6.4	3 to 5

*USDA forecast.
 Source: BLS and USDA.

cent from last year's level during 1990, due largely to the decline in Florida orange production leading to higher juice prices.

Retail prices for meat products have been trending higher through the first five months of 1990, and have averaged more than 8 percent higher than the comparable period of a year ago. A slow down in marketings of cattle from feedlots held first quarter beef production about 4 percent below a year earlier. The limited supplies combined with strong demand have supported prices during the first five months of the year, with the index of retail beef and veal prices averaging more than 7 percent higher than during the same months last year. However, the large numbers of cattle on feed are expected to boost supplies and pressure prices lower later in the year. For all of 1990, beef and veal prices are projected to average between 2 percent and 4 percent higher than last year. An even larger boost to meat prices is attributed to limited pork supplies. While first quarter pork supplies were near the year-ago level, current USDA projections point to a 7 percent drop in pork output during the second quarter and another 4.4 percent year-to-year decline during the summer months. As a result, retail pork prices have averaged 9.5 percent above the year-ago level through May, with USDA projections pointing to an 8 to 12 percent rise in average retail pork prices for all of this year.

Retail prices for dairy products have also contributed to the rise in overall food prices early in the year. After

peaking in February, dairy product prices have trended steadily lower through May, and are expected to decline further during the remainder of this year. Through May, the prices paid by consumers for dairy products have averaged almost 11 percent higher than during the first five months of 1989. However, the expected downtrend in prices for the remainder of the year will moderate the rapid increase in the first half, with USDA forecasting a 4 to 6 percent rise in the CPI for dairy products during 1990.

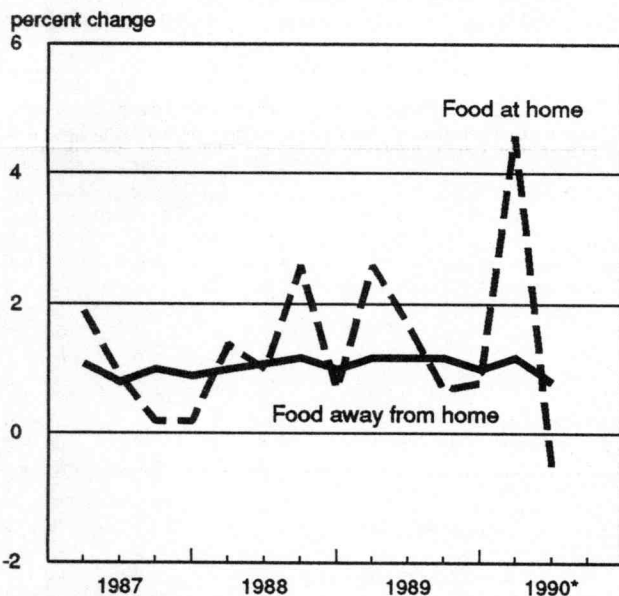
Price increases among other food groups are expected to be more moderate than for fresh fruits and vegetables, pork, and dairy. Prices for fish and seafood items, along with sweeteners and other prepared foods are forecast to rise 3 to 5 percent during 1990. Prices for fats and oils may show a more moderate 2 to 4 percent increase in 1990 compared to the 7 percent rise recorded in 1989. Cereals and bakery product prices are forecast to average 5 to 7 percent higher than a year ago, down from the 8.4 percent rise in 1989.

Partially offsetting the increases expected to be seen in most food prices, poultry and egg prices in 1990 are expected to average lower than last year. After holding below year-ago levels during the first quarter, egg production began to register year-to-year increases during the second quarter of 1990. As a result, egg prices dropped sharply in May and are forecast by USDA to hold slightly below last year's level during the second quarter. However, a 2 percent year-to-year increase in the second half of 1990 is projected to push prices well below the high year-ago levels. For all of this year, retail egg prices are expected to fall 7 to 10 percent from the average for 1989.

Large increases in poultry meat production will pressure prices lower during the course of the year. Poultry production is expected to record an almost 9 percent increase from a year earlier during the first half of 1990, with a further 6 percent year-to-year increase in the second half. Although consumer prices for poultry products have averaged the same level as a year ago during the first five months of 1990, prices dipped below a year ago in April. However, retail poultry prices are expected to average only 1 to 4 percent below 1989 for all of this year, as high prices for red meats offset some of the downward pressure on poultry prices.

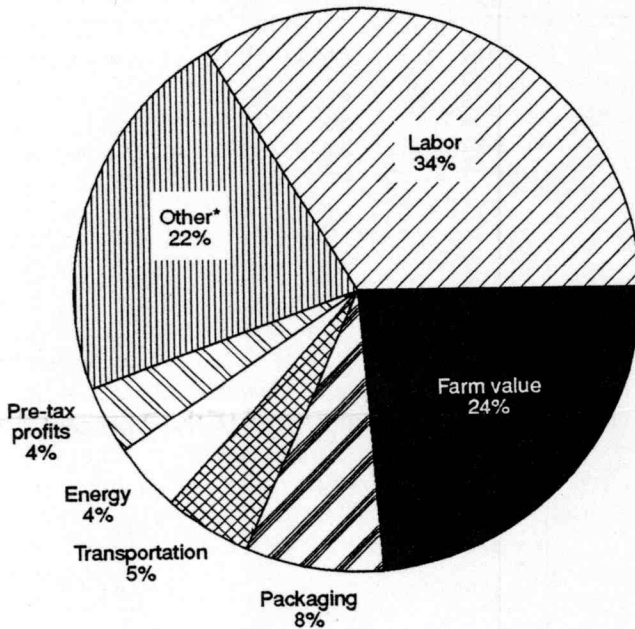
While the current USDA forecast of retail food prices could be altered by severe production disruptions, the relatively small share that raw commodity prices represent in the overall retail cost of food tends to dampen the effects registered in consumer food prices. Over the past three years, the farm value of the retail price of a fixed market basket of domestically produced foods has averaged about 30 percent. The

Quarterly changes in food prices



*Second quarter 1990 projected
SOURCE: USDA

Distribution of consumer expenditures on domestically produced foods in 1989
(\$423.4 billion)



*Including depreciation, rent, advertising, interest, insurance and other items.

SOURCE: USDA

remaining proportion represents the share of retail prices associated with processing, packaging, shipping, and retailing food beyond the farm gate. The farm value component of retail cost varies considerably across commodities. The raw commodity value of meat and poultry prices typically averages 45 percent or more, while the proportion of the retail cost of eggs accounted for by their farm value approached an unusually high 58 percent last year. The farm value of fruit and vegetable prices has ranged from about 25 percent to 30 percent in recent years. Interestingly, the farm value of food products that would be most affected by a disruption of grain production, cereal and bakery products, accounts for less than 10 percent of the retail cost of those products.

USDA estimates of total consumer expenditures on food in 1989 show year-to-year increases of about 6 percent in both the farm value and marketing bill components of those expenditures. Unlike the price of the fixed market basket of foods, the share of consumer expenditures going to the farm value of the raw commodities equals about a fourth of the \$423 billion

that civilian consumers spent on food last year. The food marketing bill, the proportion of expenditures going to processing, wholesaling, transporting and retailing of food, accounted for the remaining \$320 in consumer expenditures.

A major factor behind the rise in the marketing bill and overall food expenditures during the last few years has been rising labor costs. The labor costs account for more than 45 percent of the marketing bill and more than a third of total food expenditures. Although wages rose moderately last year, a rising level of employment in food related industries pushed labor costs up almost 6.4 percent in 1989.

Packaging costs rose more than 8 percent from the previous year's level in 1989, consistent with the increases recorded in the previous few years. The increase last year is attributable to both higher prices for some materials and increased volume. Energy costs associated with the marketing bill jumped almost a tenth from last year's level with a substantial boost from oil price increases.

More moderate increases were recorded in the other major components of the marketing bill. Transportation costs rose only 4.5 percent last year, but that was faster than the 2 to 3 percent annual increases during the previous three years. Before tax profits, which account for about 3.5 percent of the marketing bill, declined almost 2 percent in 1989. Other costs, including depreciation, rent, advertising, interest, property, taxes, insurance, services and other miscellaneous items, rose 5.6 percent in 1989, a slightly faster rate than during the previous few years.

Peter J. Heffernan

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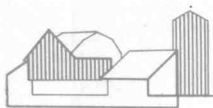
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (1977=100)					
Crops (1977=100)	May	154	2.0	3	14
Corn (\$ per bu.)	May	135	3.1	-5	14
Oats (\$ per bu.)	May	2.66	6.0	3	37
Soybeans (\$ per bu.)	May	1.44	0.0	-32	-22
Wheat (\$ per bu.)	May	5.92	1.7	-18	-15
	May	3.44	-1.4	-14	16
Livestock and products (1977=100)					
Barrows and gilts (\$ per cwt.)	May	172	1.2	10	14
Steers and heifers (\$ per cwt.)	May	61.20	12.9	44	30
Milk (\$ per cwt.)	May	78.70	-0.4	6	7
Eggs (¢ per doz.)	May	13.20	-1.5	7	16
	May	60.2	-15.7	-4	37
Prices paid by farmers (1977=100)					
Production items	April	183	1.1†	3	9
Feed	April	169	0.6†	2	9
Feeder livestock	April	128	0.0†	-9	14
Fuels and energy	April	213	3.9†	15	9
	April	187	-6.5†	2	13
Producer Prices (1982=100)					
Agricultural machinery and equipment	May	118	0.6	3	9
Fertilizer materials	May	120	-0.2	2	6
Agricultural chemicals	May	93	-1.2	-14	-5
	May	120	1.4	4	12
Consumer prices (1982-84=100)					
Food	May	129	0.2	4	10
	May	131	0.0	5	12
Production or stocks					
Corn stocks (mil. bu.)	June 1	2,839	N.A.	-17	-51
Soybean stocks (mil. bu.)	June 1	596	N.A.	28	-9
Beef production (bil. lbs.)	May	2.01	14.9	0	5
Pork production (bil. lbs.)	May	1.26	0.7	-6	2
Milk production (bil. lbs.)††	May	11.2	3.4	2	1

N.A. Not applicable.

†Prior period is three months earlier.

††21 selected states.



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