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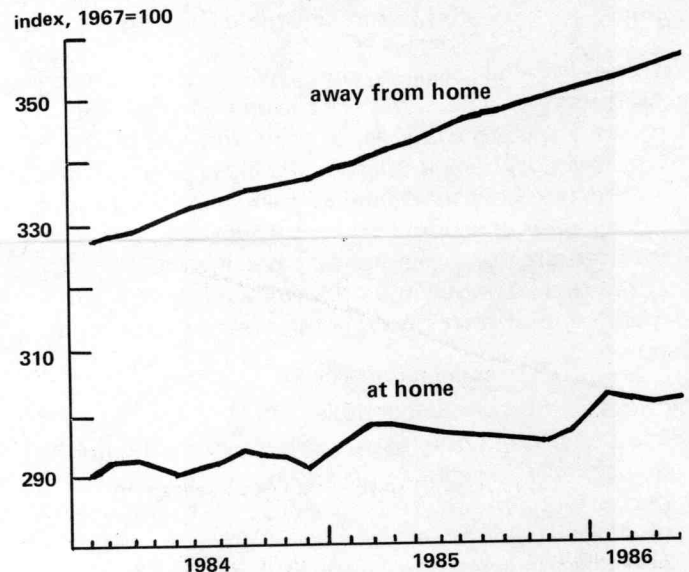
### Food prices and expenditures to rise moderately

Retail food prices, after rising 2.3 percent last year, are projected to average about 2.5 percent higher this year. The small food price rises of the last several years, which have averaged 3 percent since 1982, contrast sharply with the annual gains that averaged more than 9 percent in the late 1970s and early 1980s. The slowdown reflects the large supplies of most food commodities, which have limited gains in raw product prices, as well as some moderation of the rise in food processing and distribution costs. With these trends continuing, the farm value component of consumers' food expenditures is expected to decline for the second consecutive year in 1986, while the proportion representing the cost of processing and distributing food is projected to rise slightly. Overall, consumer expenditures for domestically produced farm foods are projected to rise about 2 percent as increases in retail food prices and population growth are partially offset by a slight drop in per capita consumption of red meats.

Retail food prices have been quite stable during the early months of 1986 and averaged only 2.1 percent above a year ago through April. The stability is due largely to declines in the retail prices of food consumed at home that have offset increases for food consumed away from home. The index of prices for food consumed at home, which is indicative of grocery store prices, has trended down through much of the year and averaged only 1.3 percent higher than a year earlier through April. The index of prices for food consumed away from home, however, has trended up, averaging almost 4 percent above year-ago levels. For all of this year, the rise in the price of food consumed outside the home is expected to outpace the increase for grocery store food prices. USDA projections point to a 3 to 5 percent year-to-year increase in the prices of food consumed away from home, while grocery store prices are expected to rise by 1 to 3 percent.

Farm prices for raw food commodities will again exert a moderating force on food expenditures in 1986. After falling more than 5 percent in 1985, the farm value component of consumer expenditures for domestically produced foods is forecast to decline about 1 percent this year. The sharp drop of a year ago was due largely to lower livestock prices, which are expected to strengthen somewhat during the second

Recent trends in retail food prices



Bureau of Labor Statistics, CPI.

half of this year. Lower grain and milk prices, in contrast, are expected to be the moderating influence in 1986.

Indicative of the easing pressure on food prices, the index of prices received by farmers this year trended steadily lower through April before rising in May. For the first five months of 1986, however, the index averaged more than 8 percent lower than during the comparable period of a year earlier. Crop prices averaged 10 percent below a year ago through May, while livestock and livestock product prices dipped 6 percent below last year's level during the period.

Red meat supplies remained large during the first quarter as continued gains in beef output more than offset declines in pork production, maintaining downward pressure on prices. Although beef output is expected to remain near the year-ago level during the second quarter, a large drop in pork production is expected to push red meat production below a year ago, lending some strength to prices. During the second half of 1986, the production decline is expected to accelerate with beef output dropping more than 6 percent and pork output holding 1 to 2 percent below last year's level. These production trends are expected to boost retail prices of red meats 3 to 4 percent above year-earlier levels during the third and fourth quarters.

Continued rapid gains in poultry production this year will again present stiff competition to red meats, limiting the upward pressure on meat prices. With feed prices down and continued strong consumer demand, poultry producers have responded by significantly increasing output. After rising almost 5 percent in 1985, poultry output is forecast to rise about 6 percent this year. But with poultry meat expected to replace much of the drop in red meat consumption, retail poultry prices are expected to remain stable through the year.

Trends in retail prices for other livestock and poultry products are expected to be mixed this year. Egg prices, although expected to drop from the relatively high level of the first quarter, will likely average about 4 percent higher for the year. Milk and dairy product prices, despite production cuts from the whole herd milk termination program, may decline slightly as continued large output and lower average government support prices exert some downward pressure on prices.

Prices for fruits and vegetables may rise somewhat in 1986. Although down from a year ago during the first quarter, fresh vegetable prices are expected to rise because of a reduction in plantings for spring vegetables. Fresh fruit prices will also be under some upward pressure as citrus trees continue to recover from last year's freeze and with reduced supplies of some fruits.

Among other major food groups, the trends in retail prices are mixed. Lower livestock slaughter in the second half of 1986 is expected to tighten supplies of

fats and oils, raising prices from the low level of the first quarter. However, for the year as a whole retail prices of fats and oils are expected to average about the same as in 1985. Cereal and bakery product prices, despite sharply lower prices for raw input commodities, are expected to rise 2 to 3 percent from last year during 1986. The rise is attributable to increased processing and distribution costs that will more than offset the drop in the farm value of these goods.

With the farm value component of consumer food expenditures expected to be down from a year ago, this year's projected rise of consumer expenditures for domestically produced foods is attributable to increased marketing costs. The cost of moving food from the farmer to the consumer is expected to rise about 3 percent in 1986. That rate of increase would be substantially below the almost 7 percent increase recorded during 1985.

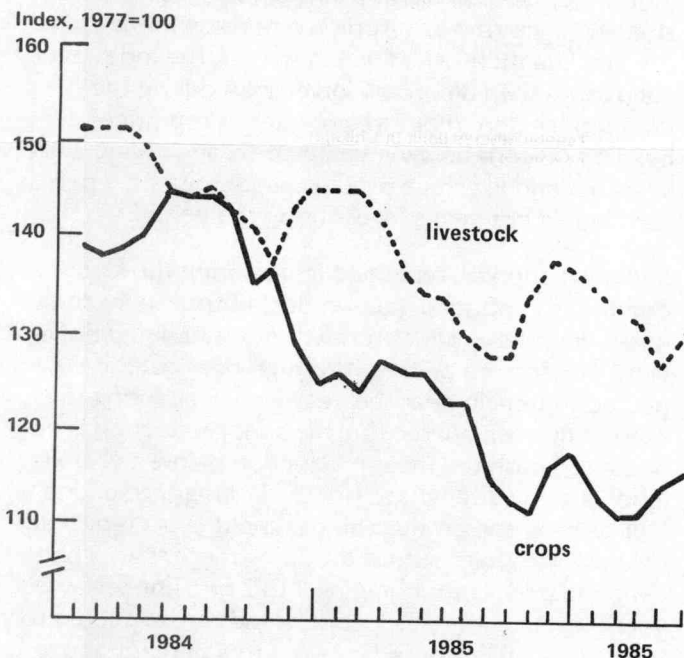
About two-thirds of the food marketing bill is accounted for by the labor, packaging, transportation, and energy used to process and distribute food products beyond the farm gate. Labor costs, which in recent years have accounted for about 45 percent of the marketing bill, rose by 6.5 percent last year, reaching about \$118.6 billion. Much of the gain is attributable to increased employment throughout the food industry. Increased earnings for food manufacturing and wholesale employees, although tempered by slight declines in wages for retail and restaurant workers, also contributed to the sharp jump in labor costs registered in 1985.

Packaging costs, which account for almost 11 percent of the marketing bill for food products, rose by about 3 percent last year. The greater cost was largely due to an increased volume of food marketed. However, higher prices for some packaging materials, notably metal and glass containers, although mostly offset by drops in paperboard and plastic film prices, left packaging material prices slightly higher than a year earlier.

Rail and truck transportation costs, excluding local hauling charges, totaled \$16.6 billion in 1985, up about 2.5 percent from a year earlier and equal to more than 6 percent of the total bill. Much of the increase was due to greater volume, with the rail freight rate index rising less than 1 percent, and stable fuel prices and moderate wage increases tempering the rise in truck rates.

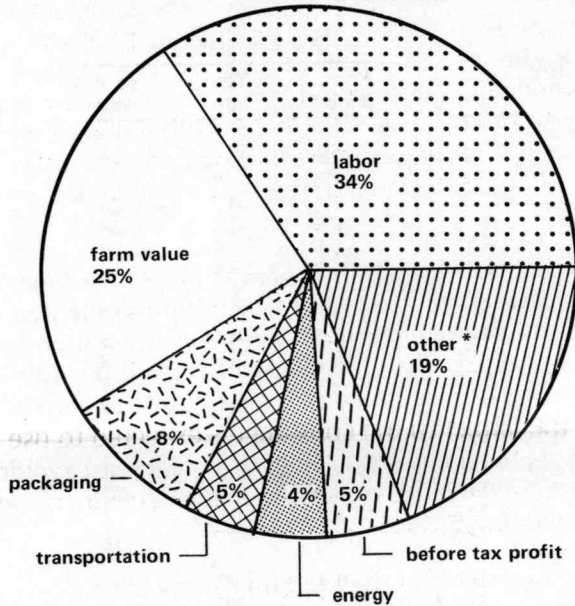
Among other components of the food marketing bill, energy costs rose by about 4.7 percent last year. At \$13.5 billion, energy costs represented more than 5 percent of the marketing bill. Greater use of electricity and a 3.1 percent increase in rates contributed to the

Farm prices have trended down



SOURCE: USDA.

**Distribution of expenditures on domestically produced food in 1985**



\* Includes taxes, depreciation, rent, advertising, interest and other costs.

SOURCE: USDA.

year-to-year gain. Pretax profits, up 6.8 percent to \$17.3 billion in 1985, accounted for about 6.6 percent of the year's marketing bill, the same proportion as the previous year. Much of the year-to-year increase in the level of pretax profits is attributed to greater spending on food consumed away from home. Other costs making up the remaining 26 percent of the marketing bill, including advertising, rent, and depreciation, totaled \$67.7 billion in 1985, a 10.6 percent gain from a year earlier.

The food marketing bill is expected to increase again in 1986, but at a more moderate rate. The midpoint of the current USDA forecast range suggests food marketing costs will total about \$269 billion, up 3 percent from last year. Both moderate increases in prices and a drop in per capita food consumption are ex-

pected to limit the rise in food marketing costs. Labor costs in 1986 are expected to post a smaller increase than a year ago, and packaging cost increases will apply little upward pressure on the marketing bill. Increases in the costs of manufacturing and transporting food items will be damped by lower fuel and energy prices.

The smaller rise in the marketing bill, combined with another decline in the farm value, point to a limited increase in food spending this year. At about \$354 billion, consumer expenditures for domestically produced foods are forecast to rise about 2 percent from last year. About \$85 billion of this total will represent the farm value of raw food commodities, unchanged from 1985. The proportion of expenditures going to farmers, therefore, will likely drop 1 percent from a year ago to 24 percent of the total. The proportional decline in farm value is largely attributable to expected year-to-year declines in prices, particularly for wheat and dairy products. The increase in the proportion of consumer expenditures accounted for by the marketing bill this year will continue the upward trend of the 1980s, and reflects the increases in consumer spending in restaurants and on highly processed convenience foods.

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AGRICULTURAL LETTER (ISSN 0002-1512) is published bi-weekly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice-president, Peter J. Heffernan, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

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## Selected Agricultural Economic Indicators

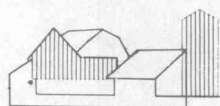
	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers (1977=100)</b>					
Crops (1977=100)	May	124	2.5	-5	-15
Corn (\$per bu.)	May	116	1.8	-8	-20
Oats (\$per bu.)	May	2.36	3.1	-12	-29
Soybeans (\$per bu.)	May	1.13	-0.9	-29	-39
Wheat (\$per bu.)	May	5.18	-0.8	-9	-36
	May	3.16	-6.0	-4	-14
<b>Livestock and products (1977=100)</b>					
Barrows and gilts (\$per cwt.)	May	131	3.1	-2	-10
Steers and heifers (\$per cwt.)	May	46.30	16.0	11	-3
Milk (\$per cwt.)	May	54.80	2.2	-6	-13
Eggs (¢per doz.)	May	11.90	-0.8	-5	-9
	May	56.2	-2.8	11	-19
<b>Prices paid by farmers (1977=100)</b>					
Production items	April	160	-1.8 <sup>†</sup>	-2	-3
Feed	April	145	-2.7 <sup>†</sup>	-5	-8
Feeder livestock	April	112	-0.9 <sup>†</sup>	-7	-22
Fuels and energy	April	147	-2.6 <sup>†</sup>	-9	-7
	April	160	-14.9 <sup>†</sup>	-20	-21
<b>Producer Prices (1967=100)</b>					
Agricultural machinery and equipment	April	287	-0.4	-2	-2
Fertilizer materials	April	339	0.2	0	1
Agricultural chemicals	April	217	-0.9	-6	-12
	April	470	2.1	3	5
<b>Consumer prices (1967=100)</b>					
Food	April	325	-0.2	2	5
	April	316	0.2	2	5
<b>Production or stocks</b>					
Corn stocks (mil. bu.)	April 1	5,945	N.A.	50	83
Soybean stocks (mil. bu.)	April 1	1,176	N.A.	31	49
Beef production (bil. lbs.)	April	2.11	13.4	9	19
Pork production (bil. lbs.)	April	1.29	7.8	0	5
Milk production (bil. lbs.)††	April	10.7	-0.4	5	19

† N.A. Not applicable

†† Prior period is three months earlier.

††† 21 selected states.

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