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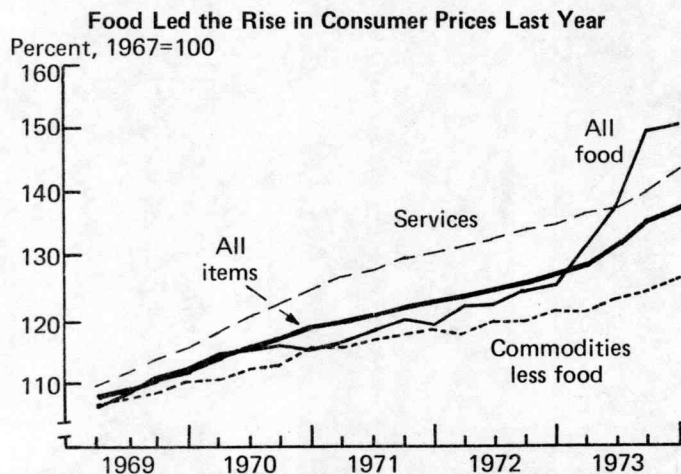
Agricultural Letter



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FOOD PRICES are expected to remain a major obstacle in the nation's fight against inflation at least until midyear. According to the U. S. Department of Agriculture, grocery store food prices are likely to average 12 percent above 1973 levels this year. Reflecting an unusually high level of uncertainty, however, the increase could range from a low of 8 percent to a high of 16 percent. This range of projected increases compares to last year's staggering rise of 16.3 percent, and the average annual gain of 4 percent during the 1968-72 period.

Prices of virtually all foods rose sharply last year, but the increase for livestock-related foods was about double that of crop-related foods. Retail prices of beef and veal averaged a record 20 percent above 1972 levels, while pork prices were up 33 percent. Prices of milk and dairy products rose sharply in the latter half of 1973 and averaged 9 percent above year-earlier levels for the entire year. Poultry prices averaged 40 percent higher, and egg prices zoomed 50 percent. Prices of fruits and vegetables averaged 14 percent higher; cereal and bakery products were up a record 11.5 percent.



The tight worldwide demand/supply conditions that boosted farm prices are the major factors behind the increases in food prices. But rapidly rising marketing costs, which account for well over half of retail food costs, is also a contributing factor. The farm-to-retail price spread in the market basket of domestically-produced farm foods rose 6.5 percent last year, a gain exceeded only once in the past 20 years and sharply above the average annual increase of 2.9 percent experienced in the past decade.

The bulk of the increase in marketing costs occurred in the latter part of the year after the relaxation of food price controls. In December, for example, the farm-to-retail price spread was 17 percent above the August level and 19 percent above the year-earlier level. Because of the widening margins, the retail cost of the market basket in December was about unchanged from its August peak even though the farm value was down 16 percent.

The breadth of the projected range in food price increases this year reflects uncertainty in both consumer demand

and available supplies. While there is little doubt that the growth in the U. S. economy will slow this year, the extent and the duration of the slowdown is uncertain. Although people must eat, rising unemployment and little or no growth in real consumer disposable incomes could ease heavy demand pressures for many food items, particularly the more expensive meats and fresh fruits and vegetables.

While general economic developments portend an easing consumer demand for food, part of the slack will be taken up by larger government food program expenditures. Last year, the federal cost of USDA food programs totaled \$3.8 billion, up 8 percent from 1972 and equal to 3 percent of personal consumption expenditures for food. The food stamp program, which accounted for three-fifths of the federal cost of all food programs last year, will likely show a particularly large increase. Last year's amendment to the Food Stamp Act permitting semi-annual cost of living adjustments in coupon allotments resulted in a 22 percent increase in the value of the coupon allotment for a family of four in the January 1974 adjustment. Moreover, food stamp program benefits will be available to more people this year as a result of a revision that boosted permissible earnings by participants. For example, a family of four can earn \$473 per month—up from \$387—and still qualify for the food stamp program.

Although the outlook for food supplies is particularly cloudy, the U. S. Department of Agriculture anticipates that comparatively large increases in the second half will result in a slight increase for the year as a whole. Beef production may increase slightly this year, possibly offsetting about one-third of the cutback that occurred in 1973. Broiler production is expected to exceed 1973 levels by 3 percent. Virtually no change in the tight pork supplies is expected, however, and dairy supplies are likely to be down. Stocks of a number of fruits and vegetables are also tight which will cause prices to fluctuate sharply with seasonal harvesting patterns.

Higher food prices can also be expected to result from rising energy prices. Although fuel costs in all stages of production and marketing of food account for a small proportion of retail food prices, a recent study suggested that a doubling in fuel costs could, depending on the type of food, result in a 7 to 13 percent increase in retail food prices. However, only those higher fuel costs at the wholesale and retail levels are likely to be reflected in higher food prices in the near future.

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