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FEDERAL RESERVE BANK OF CHICAGO

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RETAIL FOOD PRICES have been a moderating influence on the overall inflation rate for several months. The index of consumer food prices in May was only 3.6 percent higher than in December and only 6.9 percent higher than the year before. In comparison, the overall index of consumer prices was up 6.5 percent from December and up 14.4 percent from a year earlier. Seasonally adjusted, the December to May rise in retail food prices was 1.8 percent compared to 6.1 percent in all consumer prices.

The slow rise in food prices has been most apparent for foods purchased in grocery stores. The index of retail prices of food consumed at home—the best available measure of grocery store food prices—in May was only 3.3 percent higher than in December and only 5.6 percent higher than the year before. In comparison, prices of food consumed away from home were up 4.4 percent from December and up 9.7 percent from a year earlier. The faster rise in prices of food consumed away from home reflects the squeeze on profits facing food-serving establishments. Costs at such firms are more heavily weighted by labor and energy, which have risen rapidly. Moreover, the volume of away-from-home food sales—which turned lower last year with the cutback in vacation travel—has continued to slide this year.

Lower prices for most livestock and poultry products account for all the slower rise in grocery store food prices. Retail prices of red meats in May were down 1 percent from December and 5 percent from a year earlier. The decline has been most apparent for pork, down 14 percent from a year ago, but beef prices are also down 2 percent from the May peak of last year. Poultry prices have trended lower over the past year and in May were down 6 percent from the year before. Egg prices were down 14 percent. Retail prices of dairy products in May were 11 percent higher than the year before, marking the only exception to the downtrend in prices of foods from the livestock and poultry complex. The increase in dairy product prices mostly reflects the government's support program which has negated the otherwise price-depressing market conditions of surplus production.

Most other grocery store food prices have risen substantially over the past year. Retail prices of sugar and sweets have risen dramatically this year and in May were 18 percent higher than the year before. Prices for cereals and bakery products and for nonalcoholic beverages were up 13 percent from a year ago. And prices for fish and seafood and fruits and vegetables were 9 percent higher.

Prospects for the second half point to a faster rise in retail food prices. At the farm level, prices of hogs, cattle, and broilers have all risen sharply from depressed levels in the second quarter. In some cases, not all the recent gain in prices is likely to hold. But the overall fundamentals point to considerably higher livestock prices in the second half than in the first half. Per capita production of all meats was about 5 percent above year-earlier levels in the first half. Production will be seasonally smaller this summer, and for the entire second half is expected to be below year-earlier levels.

Several other factors portend second-half pressures on retail food prices. Planted acreage of vegetables for processing is down 14 percent this year, suggesting stronger price gains in the months ahead. Although sugar prices have already risen rapidly this year, continued pressures are likely at the retail level. Dairy prices will rise seasonally in the second half and may be subject to another increase in support prices on October 1.

Retail food prices will also be pressured by rising processing and distribution costs. The recent legislation to deregulate the trucking industry and the impact of the recession may slow the rise in some processing and distribution costs. But pass-throughs from earlier sharp increases in energy prices will continue to boost transportation costs. And labor costs will continue to show large gains as cost-of-living adjustments and employee bargaining positions reflect a catch-up with the surge in inflation witnessed in recent months.

The likelihood of faster increases in the second half suggests food prices for all of this year may average 8 to 9 percent higher than in 1979. By year-end, however, the increase may be on the order of 10 to 11 percent, a margin that will likely extend into the early months of next year.

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Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	June	207	+ 1.1	+ 6
Time deposits	1972-73=100	June	259	+ 0.3	+12
Demand deposits	1972-73=100	June	120	+ 3.7	-10
Total loans at agricultural banks†	1972-73=100	June	253	+ 0.1	+ 2
Production credit associations					
Loans outstanding					
United States	mil. dol.	May	19,857	+ 1.8	+22
Seventh District states	mil. dol.	May	4,084	+ 1.2	+27
Loans made					
United States	mil. dol.	May	2,588	-13.1	+10
Seventh District states	mil. dol.	May	551	-17.7	+18
Federal land banks					
Loans outstanding					
United States	mil. dol.	May	33,154	+ 2.2	+24
Seventh District states	mil. dol.	May	7,758	+ 2.5	+30
New money loaned					
United States	mil. dol.	May	827	-11.6	+34
Seventh District states	mil. dol.	May	211	-20.8	+25
Interest rates					
Feeder cattle loans††	percent	1st Quarter	15.32	+21.6	+49
Farm real estate loans††	percent	1st Quarter	14.60	+19.5	+41
Three-month Treasury bills	percent	6/26-7/2	7.82	+ 1.4	-13
Federal funds rate	percent	6/26-7/2	9.41	-12.4	-10
Government bonds *(long-term)*	percent	6/19-6/25	9.64	- 5.4	+ 8
Agricultural trade					
Agricultural exports	mil. dol.	May	3,203	- 7.6	+28
Agricultural imports	mil. dol.	May	1,436	+ 0.1	+ 4
Farm machinery sales[p]					
Farm tractors	units	May	10,606	- 0.2	-15
Combines	units	May	931	- 8.0	- 1
Balers	units	May	1,067	+30.0	-30

†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.
[p]Preliminary.

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