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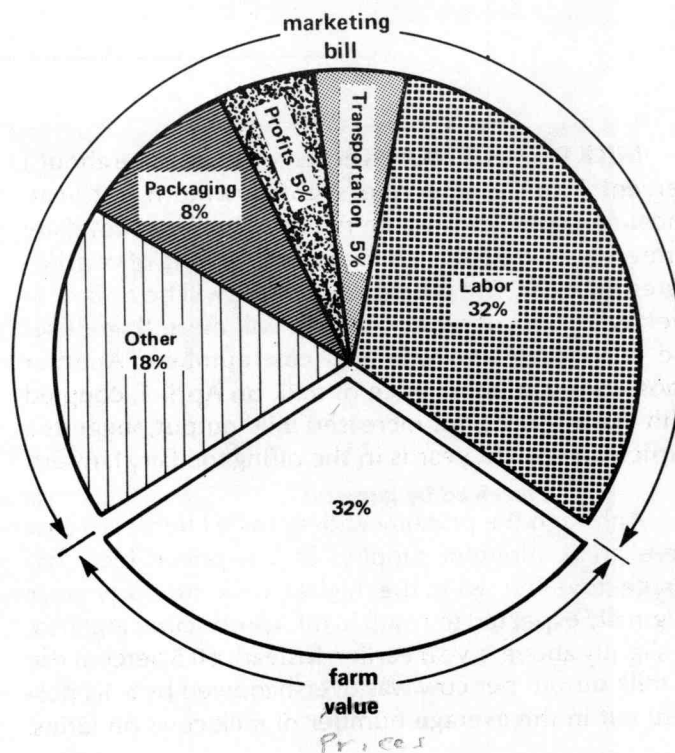
PRESSURES ON FOOD PRICES have accelerated since late last year. On a seasonally adjusted basis, wholesale prices of finished consumer foods jumped 4.5 percent during the three months ended in February. That spurt pushed wholesale food prices 12.5 percent higher than a year earlier. The mounting pressures boosted retail food prices upward by an adjusted 1.4 percent in January. The increase for February, to be announced late this week, will probably be even bigger. These early-year increases in food prices stem from several factors, some of which may have about run their course. Nevertheless, it appears that the average annual rise in retail food prices this year may exceed the 6 to 10 percent range previously projected by the USDA.

The recent pressures on food prices have been most apparent in beef and fresh vegetables. Seasonally adjusted, wholesale beef prices rose 23 percent in the past three months. Prices of fresh and dried vegetables jumped 24 percent. Compared with a year ago, wholesale beef prices are up 33 percent and vegetable prices are up 28 percent. Not all categories of food, however, reflect the uptrend in prices. Fresh fruit prices—although up 21 percent from a year earlier—declined 4 percent on a seasonally adjusted basis in the three months ended in February. This downturn was despite killing frosts in California and Texas that damaged this winter's citrus harvest. Egg prices have edged lower since November and are less than 4 percent higher than a year ago. Wholesale prices of roasted coffee are down 11 percent since November and 23 percent less than a year ago.

Weather problems have been a major factor behind the rapid increase in food prices. Untimely rains in California hampered the planting, harvesting, and the quality of the winter supply of fresh vegetables. In the Midwest, bitter cold and heavy snows disrupted livestock marketings and slowed the weight gains of cattle in feedlots. And from a longer-term perspective, the harsh winter may have contributed to another year of relatively high death losses among livestock.

The contribution of weather problems to the pressures on food prices appears to be easing. But other factors will likely continue affecting food prices. From the supply side, the workings of the cattle cycle now suggest beef production will be down much more than the 5 percent decline previously projected for this year. Although pork and poultry production is expected to be up substantially—particularly in the second half—per capita supplies of all meat may be down slightly this year. Recent labor problems have prevented the harvesting of fresh vegetables in some areas of California. And although the planted acreage of spring vegetables is up considerably from a year ago, labor disputes may continue to interrupt the movement of fresh vegetables to market this spring.

Components of farm food expenditures, 1978
(\$207.7 billion)

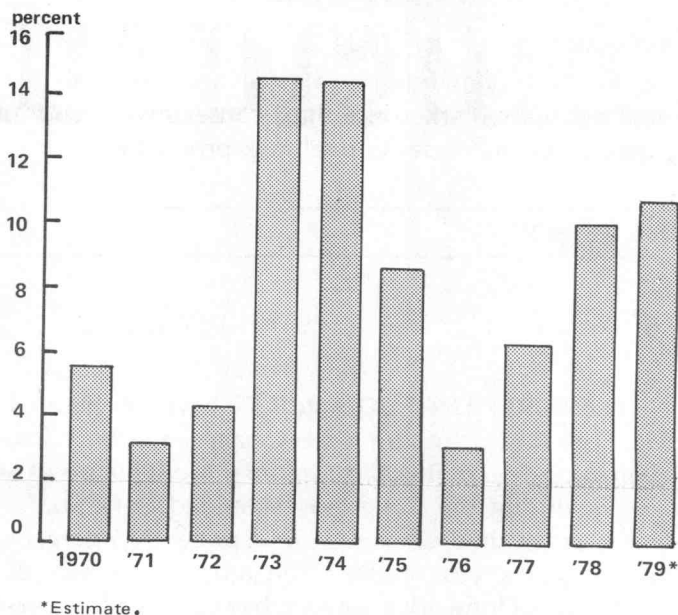


Higher costs of processing and distributing food have also added to the pressures on food prices. Rail freight rates for food products, raised 7 percent in December, now exceed the year-earlier level by 12 percent. The recent surge in energy prices will have a bearing on food costs. Hourly earnings of employees in food manufacturing and marketing firms average about 9 percent higher than a year earlier. Labor costs of processing and distributing food account for about the same proportion of consumer food expenditures as raw food commodities at the farm gate. Therefore, the high proportion of unionized food industry employees renegotiating contracts this year will have an important bearing on labor's contribution to pressures on food prices the rest of the year. This is particularly true since labor productivity in food processing and distribution has recently been even more dismal than in the economy overall.

The increase in food prices also reflects continued strength in consumer demand for food. Total non-agricultural employment continued to make impressive gains through the early part of this year. In February, employment was up more than 4 percent from a year earlier. Per capita disposable income in the fourth quarter was up 10 percent from a year ago in current dollars and 2.5 percent in real dollars. Total consumer spending, at least temporarily, has been supported by large increases in consumer debt. And despite the concerns of a possible downturn in the economy, most current measures suggest the economy is still strong.

There are obviously many caveats for projecting future food price trends. Underlying conditions affect-

This year's rise in retail food prices may be the largest since 1974



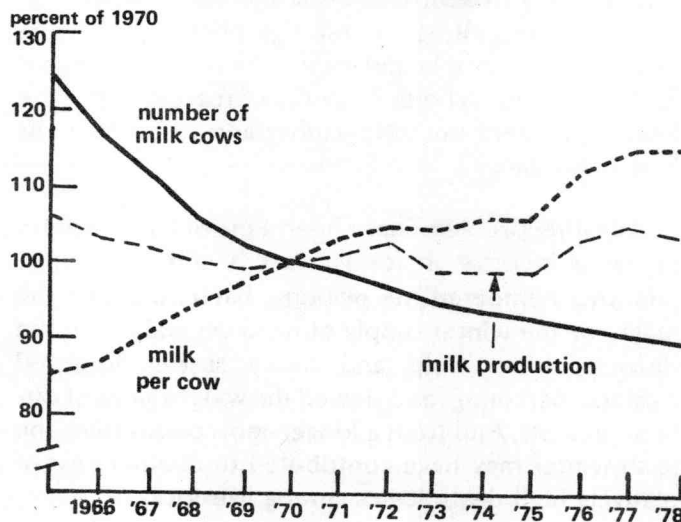
ing both demand and supply can change abruptly. But from developments so far this year, it is clear that the sharp uptrend in retail food prices has persisted through the first quarter and will most likely extend well into the second quarter. Most observers expect pressures to ease considerably during the second half of the year. However, it now seems likely that the annual rise in food prices this year might average somewhere between 10 and 12 percent.

Gary L. Benjamin
Agricultural Economist

MILK PRODUCTION is expected to increase about 1 percent in 1979, after the slight downturn last year. Encouraged by a favorable milk-feed price ratio, dairy farmers are expected to increase the feeding of concentrates this year. The probable outcome will be a boost in average production per cow that will more than offset the continuing downtrend in cow numbers. Another boost in the support price of milk on April 1, coupled with the prospects for increased milk output, suggests a particularly bright year is in the offing for dairy farmers.

Although the price incentives to cull herds last year were great, plentiful supplies of low-priced feed and forage together with the higher milk supports were originally expected to result in milk production equal to, or slightly above, a year earlier. Instead, a 0.5 percent rise in milk output per cow was overshadowed by a 1.1 percent cut in the average number of milk cows on farms.

Milk production has varied little despite divergent trends for cow numbers and output per cow

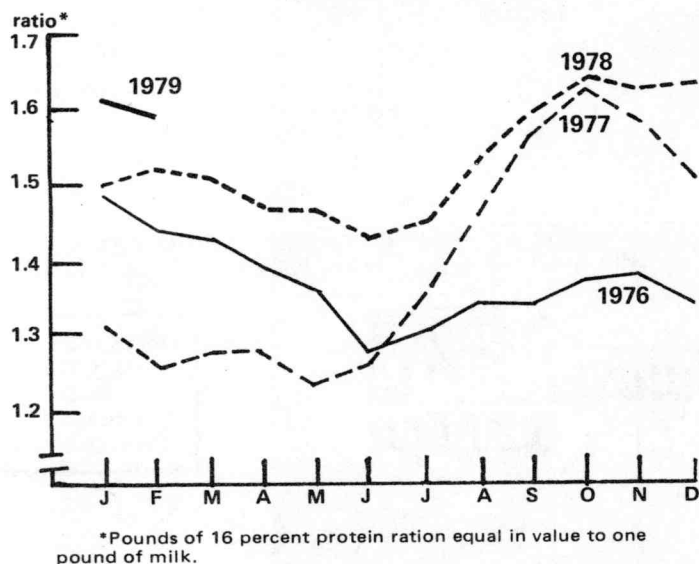


Milk production totaled 122 billion pounds in 1978, down 0.6 percent. This year seems to be developing differently, however. Federally inspected cow slaughter through February was down roughly a third from last year, even though utility cow prices are at record highs. And February marked the third consecutive month of year-to-year increases in total milk production.

Contrary to the nation as a whole, Wisconsin and Michigan—ranked first and sixth in milk production—both increased output about 1 percent in 1978. Iowa was unchanged, while both Illinois and Indiana reduced milk output more than 4 percent. Buoyed by the rises in Wisconsin and Michigan, milk output in district states exceeded that of a year before by a slight margin. All of the Seventh District states numbered among the top 15 nationwide in milk production.

Milk prices received by farmers last year averaged \$10.58 per 100 pounds, up nearly 9 percent from 1977. Dairy cash receipts totaled \$12.7 billion, up 8 percent to a level 28 percent higher than in 1975. In January and February, milk prices averaged \$10.85, almost 17 percent higher than a year before. A boost of roughly 8 percent in the milk support price is expected April 1. This higher support level, together with prospects for strong commercial demand, suggests farm milk prices will likely average 10 to 14 percent higher for all of 1979.

Milk-feed price ratio likely to be favorable through most of 1979

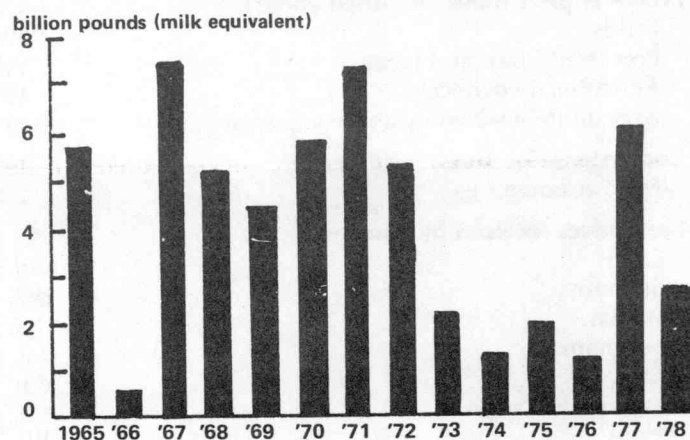


Last year's higher milk prices and reasonably priced feed supplies contributed to a near-record milk-feed price ratio of 1.53 for the year, exceeded only by the 1.54 average ratio in 1969. (Due to a recent change in computational procedure, the series is no longer comparable to previously published figures.) In the fourth quarter, the ratio averaged 1.63, topping the former record of 1.62

in 1971. Current expectations are for a favorable ratio through most of 1979. February marked the 20th consecutive month that the ratio has exceeded its year-earlier level.

Commercial stocks of dairy products are low and consumer demand continues strong. As a result, government support purchases in 1979—despite the prospective increase in production—are not likely to differ much

Government purchases of dairy products dropped sharply in 1978



from last year. Last year, CCC net removals totaled 2.7 billion pounds (milk equivalent), down 55 percent from a year before. In the first two months of this year, the government purchased 239 million pounds, only about a fifth as much as last year. So far no cheese has been purchased and only purchases of evaporated milk, at 3 million pounds, have exceeded those of a year ago.

Dairy products imported into the United States increased more than 300 million pounds last year above the 1977 level of 2.0 billion pounds (milk equivalent). Cheese imports—up 16 percent—accounted for most of the increase. A large share of the increased cheese imports occurred in November and December as importers reportedly tried to beat the January imposition of countervailing duties on many types of European cheeses. Exports, on the other hand, fell almost a fifth last year to 368 million pounds.

Prospects appear good for a banner year in earnings of dairy farmers. The likelihood of large feed grain plantings this year on top of the near-burdensome carryover stocks portends continued favorable feed prices. If the current, strong commercial demand holds up, prices farmers receive for milk could exceed support levels much of the year. And for dairy farmers planning to trim the size of their milking herd, prices for cull cows are likely to appear attractive throughout 1979.

Don A. Langford
Agricultural Economist

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers	1967=100	February	240	+ 3.4	+24
Crops	1967=100	February	214	+ 2.4	+13
Livestock	1967=100	February	264	+ 4.8	+35
Index of prices paid by farmers	1967=100	February	238	+ 1.7	+13
Production items	1967=100	February	235	+ 2.2	+14
Producer price index* (finished goods)	1967=100	February	207	+ 1.0	+10
Foods	1967=100	February	225	+ 2.0	+12
Processed foods and feeds	1967=100	February	219	+ 1.6	+12
Agricultural chemicals	1967=100	February	203	+ 0.7	+ 7
Agricultural machinery and equipment	1967=100	February	223	+ 0.4	+ 7
Consumer price index** (all items)	1967=100	January	205	+ 0.9	+ 9
Food at home	1967=100	January	223	+ 2.4	+13
Cash prices received by farmers					
Corn	dol. per bu.	February	2.13	+ 0.9	+ 5
Soybeans	dol. per bu.	February	7.00	+ 6.4	+27
Wheat	dol. per bu.	February	3.02	+ 1.0	+17
Sorghum	dol. per cwt.	February	3.46	- 2.3	+ 8
Oats	dol. per bu.	February	1.26	+ 3.3	+ 3
Steers and heifers	dol. per cwt.	February	67.00	+ 6.3	+57
Hogs	dol. per cwt.	February	52.80	+ 4.3	+10
Milk, all sold to plants	dol. per cwt.	February	11.90	0	+17
Broilers	cents per lb.	February	28.9	+ 7.0	+19
Eggs	cents per doz.	February	60.1	- 0.3	+ 9
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	4th Quarter	118	+ 8.0	+18
Net realized farm income	bil. dol.	4th Quarter	32	+17.0	+35
Nonagricultural personal income	bil. dol.	January	1,769	+ 0.6	+12

*Formerly called wholesale price index.

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