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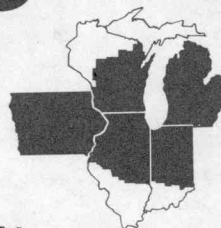
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September 3, 1976

# Agricultural Letter



Number 1394

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**RETAIL FOOD PRICES** have edged upward since March, but the overall performance of the past year has been one of considerable moderation. The July index of retail food prices was less than 1 percent above the January level and only 2 percent above a year earlier. Current estimates imply the average annual gain for all of this year may approximate 3.5 percent, well below the 8.5 percent gain recorded last year and 14.5 percent in 1973 and 1974. Prospects appear reasonably good that the reduced rates of gain experienced this year will extend into the first half of next year.

Although food prices have moderated, pressures are still evident for imported foods and for foods eaten away from home. The July index of retail prices of food eaten at home—a measure of all grocery store food prices that abstracts from the escalating prices of restaurant meals—was virtually unchanged from the January level and only 0.6 percent above a year earlier. In contrast, prices of food eaten outside the home were 3 and 7 percent higher than six and 12 months earlier, respectively. Similarly, the July index of grocery store food prices for domestically produced raw food products—a measure that further abstracts from the escalating prices of imported foods—was about 1 percent below the levels of both six and 12 months earlier. In retrospect, the moderation in domestically produced food prices is a far cry from the implications voiced just one year ago when the Soviets were purchasing large quantities of U.S. grains.

Among all grocery store food categories, sizable increases in prices of some items have been offset by declines in others. Beverage prices in July averaged 24 percent higher than a year ago, largely reflecting the explosion in coffee prices. Increases of 10 to 13 percent were also evident in prices of dairy products, fish, and eggs. In contrast, year-to-year declines of 10 to 12 percent occurred for beef, fresh fruits and vegetables, and fats and oils. July pork prices, while still slightly above the rapidly climbing level of a year ago, were down 10 percent from last fall's peak.

**High farm-to-retail spreads**—a rough measure of the costs associated with manufacturing, processing, and distributing food products beyond the farm gate—have precluded an even greater moderation in food prices. Since March the farm-to-retail price spread for a specified market basket of domestically produced foods has averaged 5 percent above year-earlier levels. Higher spreads have been most evident in meat products, and particularly in the wholesale-to-retail spreads for beef and pork. During the April-July period, the wholesale-to-retail spread for both beef and pork averaged more than two-fifths above the same period a year earlier and about one-fourth above the annual average for all of 1975. While the sharply higher meat margins are difficult to explain, cost-push

inflationary pressures that have boosted input prices are a major factor behind the higher spreads for most food products. Preliminary estimates indicate that prices of intermediate goods and services—all goods and services except raw materials and plant and equipment—purchased by food marketing firms averaged nearly 7 percent above a year earlier during the second quarter. Hourly earnings of employees in food manufacturing and trade firms averaged more than 9 percent higher. Similarly, the second-quarter index of rail freight rates for food products was up 14 percent. Costs of these and other nonraw material inputs account for about two-thirds of the annual food expenditures in the United States and will no doubt be the major factor in food price trends for several months.

**Prospects for continued moderation** in food prices have been strengthened by recent sharp declines in both farm level prices and wholesale food prices. Pork and poultry prices will likely trend lower throughout the remainder of the year. Beef prices should also follow suit during the next month or two, although an uptrend that will likely carry into the first half of 1977 may be evident late this year. While some other food prices—such as dairy products—may rise seasonally during the remainder of the year, the USDA's projection of a 2 percent year-to-year gain for all food prices at the end of 1976 appears highly realistic.

First-half 1977 price developments hinge heavily on the size of this fall's feed grain harvest and the continued strength of the overall economic recovery. Most forecasts suggest consumer demand will remain strong with significant growth in both real and nominal income. Prices of inputs and services purchased by food manufacturing and trade firms will likely continue to register large gains—although the rate of increase may slow—adding further upward pressures to food prices. On the other hand, however, a fall harvest of the magnitude currently envisioned would seemingly suggest total meat supplies will continue to expand—although beef may decline—and preclude any major broadscale upward pressures on food prices from developing at the farm level. In line with these assumptions, the USDA recently projected first-half 1977 food prices would average 3 to 4 percent above year-earlier levels, or equivalent to the average annual increase expected for all of this year.

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