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September 30, 1977

RETAIL FOOD PRICES rose sharply during the first eight months of this year, but prospects are for more modest price increases throughout the remainder of 1977. The August index of retail food prices was 6.4 percent above the January level and 7.0 percent above a year earlier. Current indications suggest that the index for all of this year may average nearly 6.5 to 7.0 percent above that of a year ago—more than double last year's 3.1 percent gain, but below the 8.5 percent rise recorded in 1975 and less than half the 14.5 percent increases experienced in 1973 and 1974.

Among major grocery store food items, prices for pork, milk, and fresh fruits rose sharply in August. Beef and poultry prices, which typically rise seasonally in August, declined slightly. Fresh vegetable prices moved downward for the fourth consecutive month, although the decline was less than anticipated for the season. Instant coffee prices rose sharply in August as they have done throughout much of this year, but the impact of the rise was tempered somewhat by the second consecutive month of declining prices for ground coffee.

The pressures this year on the food price index—which comprises slightly less than one-fourth of the Consumer Price Index—have largely stemmed from imported foods and fish and, to a lesser extent, food consumed away from home. The August index of prices for imported foods and fish stood 35 percent above the year-earlier level, accounting for more than half of the increase in grocery store food prices over the past year. In contrast, retail prices of domestically produced farm foods revealed a 2.4 percent increase for the 12 months ending in August. Much of this increase can be attributed to higher costs of processing and distribution since estimates of market basket returns to farmers in 1977 indicate little change from last year's level. The index of the farm value of the market basket rose only 0.1 percent, while the index of the farm-retail spread increased 3.5 percent over the same period.

The outlook for retail food prices suggests that monthly increases for the next several months are likely to slow appreciably from the rate experienced during the first half. (Year-to-year gains, however, will probably continue to widen, reflecting the generally flat prices experienced during the latter part of 1976.) Most forecasts reflect confidence of a strong consumer demand through at least the first half of 1978. Recent developments in coffee prices and indications for higher levels of farm production of most commodities suggest that supplies of food are also on

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the increase. These conditions indicate that upward pressures on retail food prices early next year are apt to stem largely from increased costs of manufacturing, processing, and distribution.

Food stamp program participants will no longer be required to purchase a portion of their coupon allotments under provisions of the Food and Agriculture Act of 1977 signed by President Carter this week. These provisions amend the Food Stamp Act of 1964, which was enacted to raise nutrition levels among low-income households. It was believed that more nutritious diets among low-income households could be attained through normal trade channels by increasing the food purchasing power of households who participated in the program. In the past participating households had to purchase a portion of their monthly coupon allotment. The difference between the allotment and the purchase requirement—which varied by the household's income—represented bonus stamps. Henceforth, participants' allotments, in essence, will simply correspond to the value of bonus stamps.

A major concern among legislators during the drafting stages of the bill was that the removal of the cash outlay requirement would result in a large increase in the number of participants. (The number of participants at the current time approximates 16 million.) Studies have indicated that many eligible low-income households do not participate in the program, due in part to the purchase requirement. Consequently—and in contrast to past legislation—the new Act stipulates maximum authorized levels of appropriations. The maximum appropriation authorized for the fiscal year ending September 30, 1978, is \$5.85 billion. (Government outlays in fiscal 1977 are expected to approximate \$5.3 billion.) Appropriations in each of the three succeeding fiscal years shall not exceed \$6.16, \$6.19, and \$6.24 billion, respectively. In the event that a large increase in the number of food stamp participants should transpire, the Secretary of Agriculture is directed to limit the value of allotments accordingly to stay within the appropriated ceilings.

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