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1988 Retail Food Bill To Rise

Less Than Last Year

Consumers can expect retail food prices to rise 2 to 4% in 1988. This compares with the overall 1987 Consumer Price Index (CPI) which was up 3.5% and for food 4.1%, according to the U.S. Department of Agriculture.

Food prices in grocery stores will likely be up 2 to 4% while food sold in restaurants and fast food establishments will be up 3 to 5%.

Major factors influencing retail food prices are farm prices, cost of processing and distribution and consumer demand. Last year, higher farm prices for red meats, fresh fruits and fresh vegetables contributed to higher than anticipated food price increases. Price increases in these food categories will be down considerably compared with last year.

The livestock industry has been in transition since 1983. A combination of earlier drought damage, the dairy herd termination program, the farm financial situation, lower feed costs due to the 1985 Farm Bill, and changing consumer demand... all have impacted livestock supplies and prices.

Last year beef production declined about 4% and retail prices moved up. Because of high

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farm prices and lower feed costs, pork producers expanded production and supplies started to increase and prices dropped in the last quarter of 1987. Retail prices for poultry products have been falling for a year as supplies have increased (8% for broilers and 17% for turkeys). Poultry prices in 1987 averaged 2% below, while beef and pork prices averaged 7 to 8% above a year earlier. Increased red meat prices last year had a strong influence in the rise in the CPI for all foods.

Beef supplies will continue to decrease this year while pork and poultry supplies continue upward. Total supplies of red meats and poultry will exceed 1987 pushing per capita consumption to over 222 lbs. from 216 lbs. With larger supplies next year, retail pork prices are expected to drop 8 to 12% and retail poultry prices will likely be down 6 to 10% from 1987. Although beef prices will be smaller, lower prices of competing pork and poultry prices will prevent beef prices from rising much above 1987 levels.

Apples, oranges and bananas account for 44% of the consumer expenditures for fresh fruits. Prices of apples and oranges in 1987 averaged nearly 10% above the year earlier.

Although summer fruits were plentiful, the strong weight and high prices of apples and oranges contributed greatly to prices of fresh fruit prices levels.

The CPI for fresh fruit is expected to increase again (1 to 3%) but at a much lower rate than last year. Higher prices for oranges will partially be offset by lower prices of other fruits, particularly apples. Orange trees are still recovering from freeze damage suffered several years ago.

Smaller supplies of potatoes, lettuce and winter vegetables were the primary cause of the 9% increase in fresh vegetable prices in 1987. Lettuce supplies were smaller due to heavy rains which at times disrupted harvests and slowed shipments plus some disease problems in California.

Last year a freeze in Mexico curtailed imports, and markets were more dependent on production from Florida and California. As a result, fresh vegetable prices in the first quarter were well above a year earlier, even though domestic winter vegetable acreage was up and production was over 1986.

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quarter were well above a year earlier, even though domestic winter vegetable acreage was up and production was over 1986.

The CPI for fresh vegetables this year is expected to average at or slightly below the levels of last year. Good grower returns last year will likely induce grower returns to expand in 1988, and with larger supplies, prices are likely to remain stable if not fall slightly. Fresh vegetable crops are vulnerable to severe weather particularly from December to March, and a freeze could change the forecast.

This year will be the third in a row of strong increases in fish and seafood prices. Demand continues high at the same time that world fish and seafood supplies are declining and the U.S. and Canada have taken conservation measures which limit the quantities of certain species than can be landed until fish populations increase. Since much of our fish is imported, the declining value of the dollar will also play a role in higher prices.

Retail prices in 1987 for most other foods increased at a rate below that of the CPI for all food. A similar rate of increase is expected

this year. Eggs averaged 5% below 1986 because of large production prompted by low feed costs. The nonalcoholic beverage products declined due to lower coffee prices. Dairy products were up 2.5% and breads and cereals up 3.7% because of higher processing and distribution costs.

CHANGES IN FOOD PRICE INDICATORS
1987 and 1988

<u>Consumer Prices Indexes:</u>	<u>1987</u>	<u>1988</u>
	<u>Percent</u>	
All Food	4.1	2 to 4
Food Away From Home	4.1	3 to 5
Food at Home	4.0	0 to 2
Meats	7.0	-2 to -4
Beef and veal	7.1	-1 to 1
Pork	7.9	-8 to -12
Poultry	-1.7	-7 to -10
Eggs	-4.9	1 to 3
Fish and Seafood	10.7	8 to 12
Dairy Products	2.4	-1 to 2
Fats & Oils	1.7	1 to 3
Fruits and Vegetables	7.2	0 to 2
Sugar and Sweets	1.9	1 to 3
Cereals & Bakery Prod.	3.7	3 to 5

P = Preliminary

F = Forecast

Source: Economic Research Service
U.S. Department of Agriculture