



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

MI

89-121

FOOD PRICE INCREASES IN 1990 TO SLOW
FOLLOWING 1989 SPURT

by

Mary D. Zehner

December 1989

Staff Paper #89-121

Michigan State University
Dept. of Agricultural Economics

GIANNINI FOUNDATION OF
AGRICULTURAL ECONOMICS
LIBRARY

WITHDRAWN
SEP 11 1992

FOOD PRICE INCREASES IN 1990 TO SLOW FOLLOWING 1989 SPURT

Consumers can expect retail food prices in 1990 to rise 3 to 5 percent, a lower rate than the price spurt last year. The Consumer Price Index (CPI) for foods last year averaged about 6 percent above the year earlier, the largest increase since 1981 according to the U.S. Department of Agriculture. The price of food at grocery stores was up more than 6 percent, while food sold in restaurants and fast-food establishments averaged just under 5 percent. Food prices added to the general inflation rate last year since the CPI for all items rose at a slower rate of about 5 percent.

Increased farm prices, cost for processing and distributing foods, and consumer demand all played a role in pushing food prices higher last year. Tighter supply of food commodities from the 1988 drought and partly from weather disruptions in the first half of 1989, pushed the farm value of food up about 7 percent. A similar increase in the cost of processing and distributing foods reflects higher cost for the energy, packaging, transportation and labor. Consumer demand has been bolstered by increased real disposable personal income at a rate of nearly 3 percent for the last two years.

In 1990, food purchased at grocery stores will likely average 2 to 4 percent higher compared with the 3 to 5 percent increase for all foods. Farm prices will be relatively stable and the general inflation rate is expected to slow. Cereal and bakery products and fresh fruits are the only categories expected to have price increases greater than for all foods prices. Poultry and egg prices will be substantially lower than last year.

The CPI for foods away from home rose at a slower rate than for food at home last year. This was attributed to the strong competition among fast-food firms where sales gains have been weak and heavy promotional efforts were made to help boost sagging sales.

Food safety is one of the great uncertainties facing the food industry in the 1990's. Recent surveys by the Food Marketing Institute indicate that the majority of consumers feel

that the food they buy is wholesome and safe to eat. However, almost three-quarters of the consumers expressed concern about pesticides and an increasing number about antibiotics and hormone residues in poultry and livestock. This public concern over the use of pesticides and hormones in agriculture production, both in terms of its food safety and environmental impact, is likely to result in the adoption of new legislative measures limiting their use.

Retail prices for red meats will average 1 to 3 percent higher than in 1989. Generally beef and pork production will be slightly higher than last year. Because of higher exports however, the domestic beef supply will be slightly lower than this year. Domestic pork supplies will be up enough to keep the red meat consumption at about the same level.

Considering the record large supplies of total red meat and poultry over the last several years, beef price increases have been larger than might be expected. Analysts speculate that a combination of factors would be supporting stronger demands for beef. Beef has undergone product changes to enhance its image over the last few years...closer fat trim along with more boneless cuts and the promotion of lean beef...have helped improve the image of beef as a healthful food.

Poultry production has been rising at a 4 to 5 percent rate for several years. Per capita consumption has increased about 14 pounds since 1985. It is the increased poultry supply which have given us record large total meat supplies that gave us record large total meat supplies last year, this year, and likely next year too. While production has been increasing, particularly for broilers, so have prices. Retail poultry last year averaged 10 percent above the year earlier.

Higher prices for chicken in the grocery stores stemmed from strong competition for supplies by fast food chains and heavy promotion of new chicken menu items. Demand by fast-food firms becomes quite inelastic and prices are often bid significantly higher when chicken supplies are contracted well in advance. These are the market conditions grocery stores have had to cope with for the past several summers and has been a major factor in their retail prices. The price spiral may have ended, since prices have declined in the second half of 1989.

Declines in retail poultry prices are expected to continue in 1990. Larger supplies of poultry will dampen producer prices, however, producer profits are expected to remain positive encouraging increased production. Thus, retail prices in 1990 will average below 1989 prices.

Retail egg prices will average well below 1989 (-14 to -18%) as production increases during the second half of 1990. Profits have been limited for several years and when feed prices increased following the 1988 drought, production was cut. This along with increase export demand caused the sharp increase in domestic retail egg prices last year.

Dairy product prices last year increased at a rate nearly twice of the past two years, with much of the increase in the fourth quarter. Much of the price increase can be attributed to the production decline caused by poor forage (feed) quality, a carry-over of the 1988 drought. Increased demand for cheese at a time when stocks were low and strong export demand for non-fat dry milk boosted prices, signalling for increased production. The forage situation has improved and milk production will likely increase in 1990 easing the price pressures in both manufactured and fluid products. Retail prices for dairy products in 1990 are expected to remain near the 1989 level.

The CPI for cereals and bakery products will rise at a slower rate than the sharp increase last year. A lower farm value for food grains will contribute some to lower prices, but the expected slow-down in the general inflation rate will have the strongest influence in dampening prices. Nevertheless, consumer demand will remain strong for high fiber cereal products. Retail prices for breads and cereal products are expected to rise 5 to 7 percent above last year with the strongest increase in breakfast cereals.

Higher retail prices for fresh vegetables in 1989 resulted mainly from rising grower level prices, but retailers were faced with stronger food service demand which bid away potential supply.

Cold weather in California, Mexico and a late freeze in Florida slowed fresh vegetable shipments in the first half of 1989, keeping prices high through June. Potato stocks were also tight as a result of the 1988 drought, keeping potato prices sharply higher than a year earlier.

While salad type vegetables have returned to more normal levels and prices have fallen, potato prices remain well above a year ago. Although potato production last year was higher, fresh supplies will likely remain tight as potato processors use much of the added production to rebuild stocks of frozen and dehydrated stock. As a result fresh potato prices will remain high throughout the year. Barring bad weather, supplies of other fresh vegetables will be larger this year and prices will remain near last year's level.

Fresh vegetable production is more dependent on seasonal farm labor than processing vegetables, potatoes or dry edible beans. Thus fresh vegetable production would likely feel the impact from higher wage rates and higher costs associated with maintaining the labor supply.

Even though no estimates for organic production exist, concerns about the safety of produce has lead to increased supply. Organic production of vegetables in the 1990's is likely to increase to fill market niches, however, organic production will by no means supplant the entire market for fresh vegetables.

Processed vegetables prices for last year averaged more than 10 percent above a year earlier. Tight supplies of canned sweet corn, peas, green beans and dried beans resulted from the 1988 drought. Supplies of tomato paste products were also short in the world market due to increased demand by food service establishments and lower output as result of the California earthquake. Peas, lima beans and wax beans will require another growing season for supplies to recover from the drought. In spite of some shortages, retail prices for processed vegetables will likely average below last year.

Retail fresh fruit prices will average 5 to 7 percent above last year, a slower rate than last year. Retail prices for apples, oranges and bananas averaged well above the years earlier levels for most of last year, and three fruits account for nearly half of all the CPI for fresh fruits. A larger apple harvest will help dampen rises in apple prices this year. Although orange production in California will be larger this season, strong export demands will help keep prices high.

The rise in CPI for processed fruits this year will approximate the same as the 1989 level, about 4 percent. Demand for canned and frozen non-citrus fruits has been relatively stable. Prices increased very little from last year. Demand for orange juice, however, has been strong for both fresh squeezed and frozen concentrate. A large orange crop in Brazil last year will force juice prices down in world market, keeping frozen juice prices from rising next year. Other processed fruit supplies will be smaller next year because of the smaller crops in California this past summer, particularly the cling peaches.

**CHANGES IN FOOD PRICE INDICATORS
1989 & 1990**

	1989	Forecast 1990
Consumer Price Indexes	Percent	
All food	5.7	3 to 5
Food away from home	4.7	3 to 5
Food at home	6.3	2 to 4
Meat, poultry and fish	4.5	1 to 3
Meats	3.7	1 to 3
Beef and veal	6.5	1 to 3
Pork	0.0	1 to 3
Poultry	7.7	-6 to -8
Fish and seafood	4.8	3 to 5
Eggs	23.0	-14 to -18
Dairy products	5.7	0 to 2
Fats and oils	7.7	2 to 4
Fruits and vegetables	7.8	1 to 3
Fresh fruits	7.2	5 to 7
Fresh vegetables	9.7	0 to 2
Processed fruits and vegetables	6.7	0 to 2
Processed fruits	4.0	3 to 5
Processed vegetables	10.7	3 to 0
Cereals and bakery products	8.5	5 to 7
Sugar and sweets	5.1	3 to 5

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