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Food Prices Rose Moderately for the Third Consecutive Year

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With consumers cutting back on spending and other effects of the slow pace of economic recovery, food prices, as measured by the Consumer Price Index (CPI), rose at a slower rate than the CPI for all other goods and services for the third consecutive year. Food prices in 1993 increased 2.2 percent above 1992 levels (see table 1).

Prices for food purchased in grocery stores rose 2.4 percent, while the cost of food purchased in restaurants and fast food establishments rose only 1.8 percent. These increases compare with a 3-percent rise in price levels of all other goods and services. Adjusted for inflation, however, food prices in 1993 declined—just as they did in the previous 2 years.

Lackluster Consumer Demand Held Down Price Rises

The slow recovery in the general economy has been the major factor keeping the rise in food prices low. Economic recovery from the 1991

recession continued at a slow pace through 1993.

Disposable income, a key factor influencing consumer demand, rose very slowly—less than 1 percent. When income growth is sluggish, consumer demand, including

demand for food, will also be sluggish. This is not to say that consumers eat less—rather, they buy different kinds of foods. For example, consumers cut back on foods with convenience or services added, such as heat-and-serve and other ready-to-eat foods. People



The cold, wet weather throughout the first half of 1993 pushed up prices for meat and fresh vegetables—particularly lettuce and tomatoes. Combined, these foods carry a 16-percent weight in the food CPI and are responsible for about a third of its 2.2-percent rise in 1993.

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also cut back on eating at restaurants and fast food establishments. And, they buy more basic ingredients and prepare meals at home from scratch. This behavior has been evident since the recession began and it continued through 1993. One indicator of lackluster demand is the small 1.8-percent increase in the CPI for food away from home—the smallest increase since 1964.

Weather Hinders Production, Pushes Up Meat and Produce Prices

Overall, 1993 was a miserable year for U.S. agriculture. Weather in 1993 brought record- or near record-low temperatures, record-high temperatures, record precipitation, and drought.

Most of the country was wetter, snowier, and colder than normal during the winter. California had the wettest winter in 24 years, with precipitation 400 percent of normal. In February, heavy rains caused flooding in southwest Arizona's farm belt. Bitter cold hit the Nation's midsection in early March. Winter precipitation was 150 percent of normal in the upper Mississippi Valley, saturating soils and contributing to record flooding a few months later.

As spring approached in mid-March, a storm of record magnitude developed in the Gulf of Mexico. The storm tracked up the East Coast to New England, leaving in its wake record snowfall and record cold temperatures. As spring progressed, damp, cool weather in the western Corn Belt, east-central Plains, and the Mississippi Delta delayed planting and slowed progress of crops already planted. Spring rains over Minnesota, Wisconsin, South Dakota, Iowa, Missouri, and Kansas were 150 percent of normal. This wet spell was to remain unbroken through most of the summer.

Table 1

1993 Was the Third Consecutive Year of Moderate Increases in the CPI for Food

| Consumer Price Indexes | 1993 | 1992 | 1991 |
|--------------------------------|----------------|-------|------|
| | Percent change | | |
| Food | 2.2 | 1.2 | 2.9 |
| Food away from home | 1.8 | 2.0 | 3.4 |
| Food at home | 2.4 | .7 | 2.6 |
| Meat, poultry, and fish | 3.3 | -.8 | 2.3 |
| Meats | 3.0 | -1.4 | 3.1 |
| Beef and veal | 3.6 | -.1 | 2.8 |
| Pork | 3.1 | -4.7 | 3.3 |
| Other meats | 1.6 | .2 | 3.7 |
| Poultry | 4.2 | -.1 | -.8 |
| Fish and seafood | 3.2 | 2.3 | 1.1 |
| Eggs | 8.1 | -10.6 | -2.3 |
| Dairy products | .7 | 2.7 | -1.1 |
| Fats and oils | .2 | -1.4 | 4.3 |
| Fruit and vegetables | 2.3 | -.3 | 4.6 |
| Fresh fruit | 2.5 | -5.0 | 13.5 |
| Fresh vegetables | 6.6 | 2.3 | 2.2 |
| Processed fruit and vegetables | -1.6 | 2.7 | -1.9 |
| Processed fruit | -3.9 | 4.5 | -3.7 |
| Processed vegetables | 1.6 | .2 | .8 |
| Sugar and sweets | .2 | 2.9 | 3.7 |
| Cereals and bakery products | 3.4 | 3.9 | 4.1 |
| Nonalcoholic beverages | .3 | .2 | .5 |
| Other prepared foods | 2.6 | 2.2 | 4.5 |

Source: Bureau of Labor Statistics.

With soils saturated from winter and spring rains, summer rains caused widespread flooding in the Midwest. The flooding covered 10 million acres, 87 percent of which was cropland. Losses to property amounted to over \$12 billion and flood-related deaths came to 48. A stagnant Bermuda High, which caused the rains in the Midwest, also caused record-high temperatures and a severe drought in the southeast. Corn crops from Georgia to Virginia, many of which were planted late due to spring storms, had little chance to develop because of the heat and dry conditions.

As fall came, weather patterns changed, allowing drying in the Midwest. However, cool temperatures hindered final crop development. The fall brought wintery cold to much of the Nation; however, the East Coast experienced record-warm temperatures during mid-November.

The cold, wet weather throughout the first half of 1993 pushed up prices for fresh vegetables and meats. Combined, these foods carry a 16-percent weight in the food CPI and are responsible for about a third of its 2.2-percent rise in 1993.

In January through March 1993, the wet, cold weather damaged crops or disrupted harvests in western and eastern growing areas, reducing supplies of a number of fresh vegetables and pushing prices up. This weather also prevented field preparation for spring crops. As a result, spring crops were planted late in California as well as in East Coast growing areas as far north as New Jersey, where planting usually begins in mid-March. By April, dry weather helped planting progress in most areas, but cool weather still slowed plant development and harvests were held back even further.

This pushed fresh vegetable prices, particularly lettuce and tomatoes, sharply higher than a year earlier. Prices peaked in May 1993 at 26.7 percent above those of May 1992. By June, vegetable harvests

were beginning from a much wider geographic area as the summer season started (spring harvests ordinarily would be winding down by June). However, late-planted spring vegetables in California and on the East Coast were finally being harvested, causing large supplies of fresh vegetables in the markets. The CPI for fresh vegetables declined about 12 percent from May to June but remained above June 1992 levels. The fresh vegetable CPI for all of 1993 averaged 6.6 percent above 1992.

The cold weather also affected meat and pork supplies and prices. Wet, muddy conditions in feedlots—along with cold temperatures—retarded weight gains in cattle. The number of cattle going to slaughter slowed, with very few finished cattle that would grade USDA Choice beef. The CPI for

beef and veal continued to climb until it peaked in May when warmer, dryer weather brought better conditions in feedlots and cattle began finishing faster. Retail prices began to decline but remained well above levels of a year earlier. Cold weather also slowed weight gains in hogs. Time required for hogs to reach market weights increased, causing a slowdown in pork production. For all of 1993, beef prices averaged 3.6 percent above 1992 and pork prices were 3.1 percent higher. Because of higher red meat prices, consumers chose more poultry, pulling poultry prices up 4.2 percent.

Summer brought more rain to the Midwest, causing serious flooding in the western Corn Belt. The floods, however, had a minimal impact on the CPI for food because most of the damage involved corn

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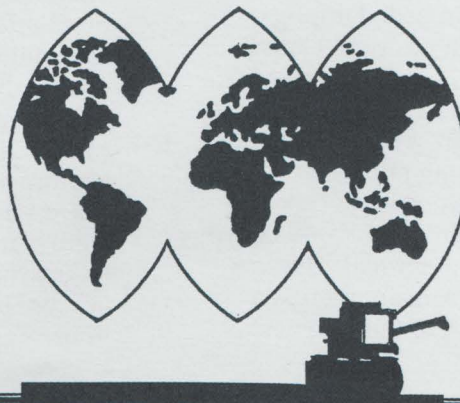
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and soybeans used primarily for animal feed. However, some vegetables for processing were lost in Wisconsin and Minnesota. Shoppers may find higher prices in 1994 for canned and frozen peas, green beans, and sweet corn. Higher prices for these vegetables alone can have only a negligible effect on the CPI for all food.

Other Food Prices Rose Only Slightly

For most other foods, prices were modestly higher—with some up only tenths of a percent. Among the foods not already mentioned, cereals and bakery products group was the only category which increased more than the CPI for all items.

Cereals and Bakery Products

The CPI for cereals and bakery products rose 3.4 percent last year—up 4.5 percent for cereals and up 4.1 percent for bread. Those increases were partially offset by a 0.2-percent decline in the CPI for flour and prepared flour mixes. Most of the price rise can be attributed to stronger demand as consumers switched to more basic foods to prepare at home. For example, cereal is relatively inexpensive on a per-serving basis, easy to fix, and is considered healthy. Also in order to economize, consumers working outside the home are more likely to carry a brown bag lunch rather than buying lunch at a local eatery, thus one source of stronger demand for bread.

Fresh Fruit

The CPI for all fresh fruit rose 2.5 percent over 1992. Declines in

prices for apples and bananas—the most popular fruit—were offset by increased prices for oranges and other summer fruit. A small California Valencia orange crop sharply boosted orange prices, particularly in late summer. The wet, cool weather caused lower yields for nectarines, apricots, grapes, and plums, pushing the CPI for other fresh fruit higher.

Dairy Products

The CPI for dairy products rose only 0.7 percent last year. Retail prices for fresh milk and cream rose slightly (1.3 percent) in 1993, while prices for manufactured dairy products (except ice cream) declined. Cheese prices declined 0.1 percent, and butter prices fell 6.1 percent. Lackluster demand in the dairy market is indicative of the sluggish 1993 general economy. Slow movement of dairy products in 1993 brought a buildup of inventories of some processed products which, in turn, led to lower prices.

Fats and Oils

The fats and oils CPI rose 0.2 percent in 1993. While prices of

margarine, salad oils, and shortening inched up slightly, those increases were essentially offset by lower prices for peanut butter. Large supplies of peanuts following 2 years of relatively strong yields were responsible for lower peanut butter prices. Vegetable oil stocks were drawn down slightly from high levels of the previous year, pushing oil prices slightly higher. Higher oil prices pitted against lackluster consumer demand had little effect on fats and oils at the retail price level.

Eggs

The CPI for eggs rose 8.1 percent—the highest increase of all the food categories in 1993. This followed a 10.6-percent decline the year before.

Very small changes in egg supplies elicit large changes in prices. Egg production expanded in 1992—driving prices down and pressuring producer profits. In 1993, producers held production gains to a minimum. With stronger export demand reducing supplies available for the domestic market, prices increased.

What's in Store for 1994

Food prices in 1994 are expected to increase at a modest pace similar to 1993. Consumer demand will strengthen as the general economy improves, particularly for food away from home. Demand for foods with services added, such as heat-and-serve or already prepared foods, may remain sluggish until consumer confidence in job security and income stabilizes. ■

