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# Food Prices Rose Modestly

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**F**ood prices, as measured by the Consumer Price Index (CPI), rose 2.4 percent in 1994, slightly higher than 1993's 2.2-percent rise. These increases followed 1992's 25-year record low of 1.2 percent, but were moderate compared with the almost 6-percent rise in 1990.

Retail prices for some products, however, increased considerably—fish and seafood up 4.5 percent, fresh fruits 6.5 percent, canned and frozen vegetables 4.4 percent, cereals and bakery products 4.1 percent, and nonalcoholic beverages 7.5 percent. But record-high corn and soybean harvests, combined with a record-large meat supply in 1994, helped hold down overall food prices.

And, the forecast for food-price increases remains moderate. U.S. food prices in 1995 are projected to increase about the same as the overall CPI (fig. 1). The overall consumer-price inflation rate is projected at about 3.0 percent in 1995, up from 2.6 percent in 1994. Overall food prices are forecast to rise 2.5-3.5 percent in 1995, slightly above the last 4 years. The general economy will likely expand more slowly than in 1994, and employment will

rise only slightly. Slow growth in the economy translates into small rises in disposable income. The resulting moderate consumer demand adds little upward pressure on food prices.

## Overall Retail Food Prices Held Down

In 1994, prices for food purchased in grocery stores (food at home) rose 2.9 percent (table 1). These prices are forecast to rise 3-4 percent in 1995.

Over 70 percent of retail food costs goes to pay for processing and distributing. These marketing costs include labor, packaging, transportation, energy, and other inputs (for more information on these costs, see "Food Marketing Costs Rose Modestly in 1993" in the September-December 1994 issue of *FoodReview*).

While food marketing costs are expected to rise modestly again in 1995, they may not be completely passed on to consumers, because of



*Given the low prices received for many vegetables in 1994 and weather-reduced planting and harvesting in California, fresh vegetable prices are expected to rise 10-12 percent in 1995.*

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expected slow growth in consumer demand and aggressive competition among retailers to hold down prices. Farm-level prices of some commodities, depressed because of large supplies, will also be a factor limiting retail-price increases for many major food categories, especially meats and poultry.

### Meats, Poultry, and Fish

Record supplies held retail price increases for meats—beef, pork, veal, and other meats (frankfurters, bologna, and lamb and mutton)—to just 0.6 percent in 1994. Price changes for beef, pork, veal, and other meats significantly affect the picture for overall food-price changes because these meats account for over 12 percent of the CPI for all food.

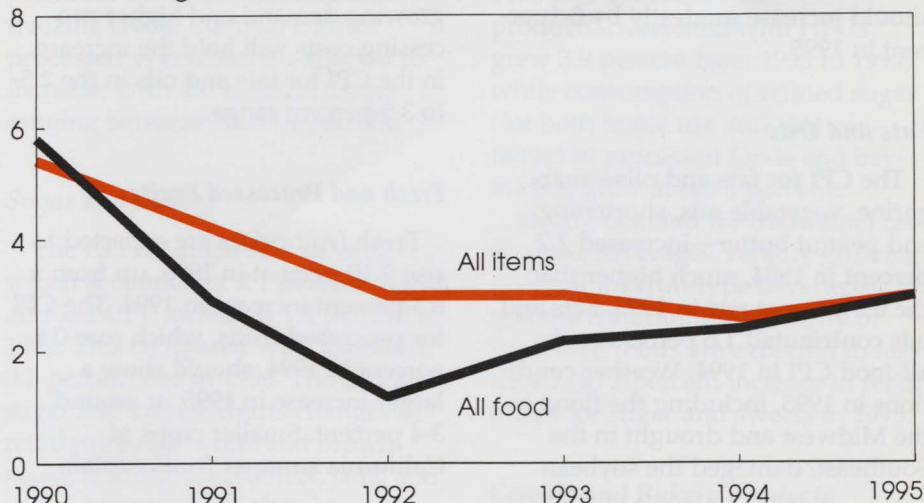
Beef prices fell 0.9 percent in 1994 from 1993. Pork prices rose an estimated 1.8 percent from their relatively low levels of early 1993. After record supplies in 1994, beef and pork production is expected to increase only slightly in 1995, limiting any increase in the CPI for beef and pork.

The CPI for chicken, turkey, and other poultry products rose 3.4 percent in 1994, mostly due to higher demand, notably a 40-percent growth in exports and a 3-percent increase in domestic poultry consumption. However, production increases needed to meet the increasing demand will likely lower poultry prices (and producer returns) in 1995. In fact, poultry prices started to weaken in the last quarter of 1994. Broiler production is expected to increase about 6 percent in 1995. Turkey growers will also expand production an estimated 5 percent in 1995. Although domestic and foreign demand for poultry is expected to remain strong in 1995, the CPI for poultry, which accounts for 2.7 percent of the CPI for all food, is expected to stay in the range of -1 to 1 percent because

Figure 1

### U.S. Food-Price Increases Are Expected To Remain Lower Than Overall Inflation

Percent change in Consumer Price Index



Note: 1995 forecast.

of large supplies and increased price competition from beef and pork producers.

The CPI for fish and seafood, which contributed 2.4 percent to the all-food CPI, increased 4.5 percent in 1994. Most of this increase stems from higher prices for imported shrimp, which, on a dollar-value basis, makes up about 50 percent of U.S. fish and seafood imports. Shrimp accounted for about 17 percent of the fish and seafood available for consumption in 1994. Dampening the overall increase in retail prices for fish and seafood was a 2.2-percent price increase for canned fish and seafood, due in part to large domestic wild harvests of pink salmon.

### Eggs

After rising 8.1 percent in 1993—the largest gain among all food categories that year—egg prices declined an estimated 2.6 percent in 1994 because of large supplies. Egg exports grew over 16 percent, while domestic consumption increased 1-1/2 percent to 237 eggs per capita in

1994. Eggs accounted for 1 percent of the all-food CPI in 1994.

Egg prices are forecast to be flat or slightly higher in 1995, as production is expected to rise just 1-2 percent after the 2.4-percent decrease in 1994, and domestic consumption and exports are expected to remain at 1994 levels.

### Dairy Products

Accounting for 7.4 percent of the all-food CPI, dairy products posted a modest 1.8-percent price increase in 1994. Retail prices for fresh fluid milk and cream increased almost 3 percent in 1994. Prices for processed dairy products (except butter) also increased, by 1 percent. Cheese prices increased almost 1 percent, while butter prices fell 4.5 percent. In 1994, strong demand for butter, cheese, and nonfat dry milk absorbed a 2-percent expansion in milk production and boosted prices slightly for some products.

Although demand for milk and most other dairy products is projected to continue to be strong in 1995, expanded milk production is expected to outpace fluid milk sales



and use in commercial dairy products, resulting in about 6 percent lower milk prices for dairy farmers in 1995. The CPI for dairy products should increase modestly by 0-1 percent in 1995.

### Fats and Oils

The CPI for fats and oils—margarine, vegetable oils, shortening, and peanut butter—increased 2.7 percent in 1994, much higher than the 0.2-percent rise in 1993. Fats and oils contributed 1.6 percent to the all-food CPI in 1994. Weather conditions in 1993, including the flood in the Midwest and drought in the Southeast, damaged the soybean

and peanut crops, reducing oil production and contributing to price increases for fats and oils. Despite larger supplies projected in 1995, growing demand and higher processing costs will hold the increase in the CPI for fats and oils in the 2.5- to 3.5-percent range.

### Fresh and Processed Fruits

Fresh fruit prices are expected to rise 9-10 percent in 1995, up from a 6.5-percent increase in 1994. The CPI for processed fruits, which rose 0.6 percent in 1994, should show a larger increase in 1995, at around 3-4 percent. Smaller crops of California summer fruits explain

these increases. The CPI for fresh fruits accounts for 4.5 percent of the all-food CPI, while processed fruits contribute only 2.1 percent.

Record or near-record crops of oranges, grapefruit, apples, and pears in 1994 kept down price increases in early 1995. However, unfavorable spring weather in California, which reduced harvests, along with strong export demand for fruits, especially apples and oranges, raised retail prices by summer 1995. Citrus production in marketing year 1994/95 is estimated to rise 9 percent from the last season. The 1994 U.S. apple crop was 6 percent higher, a record production level. Washington State, the leading

Table 1  
Retail Food Prices Rose 2.4 Percent in 1994

Consumer Price indexes	Relative importance in all-food CPI	1993	1994	Forecast, 1995
	Percent	Percent change from previous year		
All items	N/A	3.0	2.6	2.5 to 3.5
All food	100.0	2.2	2.4	2.5 to 3.5
Food away from home	37.3	1.8	1.7	2 to 2.5
Food at home	62.7	2.4	2.9	3 to 4
Meats, poultry, and fish	17.3	3.3	1.5	0 to 1
Meats	12.2	3.0	.6	-1 to 1
Beef and veal	6.2	3.6	-.9	-2 to 0
Pork	3.4	3.1	1.8	-1 to 1
Other meats	2.5	1.6	2.5	-1 to 1
Poultry	2.7	4.2	3.4	-1 to 1
Fish and seafood	2.4	3.2	4.5	4.5 to 5.5
Eggs	1.0	8.1	-2.4	1 to 2
Dairy products	7.4	.7	1.8	0 to 1
Fats and oils	1.6	.2	2.7	2.5 to 3.5
Fresh fruits and vegetables	8.9	4.4	3.4	9 to 11
Fresh fruits	4.5	2.5	6.5	9 to 10
Fresh vegetables	4.5	6.6	2.3	10 to 12
Processed fruits and vegetables	3.8	-1.6	2.2	2.5 to 3.5
Processed fruits	2.1	-3.9	.6	3 to 4
Processed vegetables	1.6	1.6	4.4	2 to 3
Sugar and sweets	2.1	.2	1.4	1 to 2
Cereals and bakery products	9.2	3.4	4.1	2.5 to 4
Nonalcoholic beverages	5.0	.3	7.5	7.5 to 8.5
Other prepared food	6.5	2.6	2.7	2 to 3

Note: N/A = Not applicable. Sources: Relative importance and 1993-94 historical data are from the Bureau of Labor Statistics, U.S. Department of Commerce; 1995 forecasts are by the Economic Research Service, USDA.



apple production area, harvested 10 percent more than in 1993, offsetting smaller crops in the East. A 6-percent larger Bartlett pear crop also pulled down processed and fresh prices.

### *Fresh and Processed Vegetables*

Fresh vegetable prices, which account for 4.5 percent of the all-food CPI, rose 2.3 percent in 1994, although retail prices for some items dropped in 1994. During the fall, Tropical Storm Gordon in Florida and rain in California reduced supplies and boosted prices for some vegetables, which carried into early 1995. Unfavorable spring weather in California in early 1995 reduced the State's spring and early summer vegetable crops. Given the low prices received for many vegetables in 1994 and weather-reduced planting and harvesting in California, fresh vegetable prices are expected to rise 10-12 percent in 1995.

Retail prices for canned and frozen vegetables, contributing 1.6 percent to the all-food CPI, increased 4.4 percent in 1994. Price increases were due to limited supplies for processing following adverse weather in 1993. Producer prices for processed vegetables will likely increase in 1995 as smaller supplies for the fresh market may lead to shortages of some items in the processing market. Contract production of the four major vegetables for processing—tomatoes, sweet corn, snap beans, and green peas—increased 24 percent in 1994,

after adverse weather reduced production in 1993. With these rebuilt inventories and reduced wholesale prices for the major canning and freezing crops, the 1995 CPI for processed vegetables is expected to increase, with the annual change ranging between 2 and 3 percent.

### *Sugar and Sweets*

The CPI for sugar and sweets, which accounts for 2.1 percent of the all-food CPI, increased 1.4 percent in 1994. This compared with a modest 0.2-percent rise in 1993. The CPI for sugar and sweets charts changes in retail prices for white and brown sugar, artificial sweeteners, jams and jellies, honey, syrup, chewing gum, and candy.

Retail prices for sugar and sweets are also influenced by the amount of sugar, high-fructose corn syrup (HFCS), and other sweeteners used in

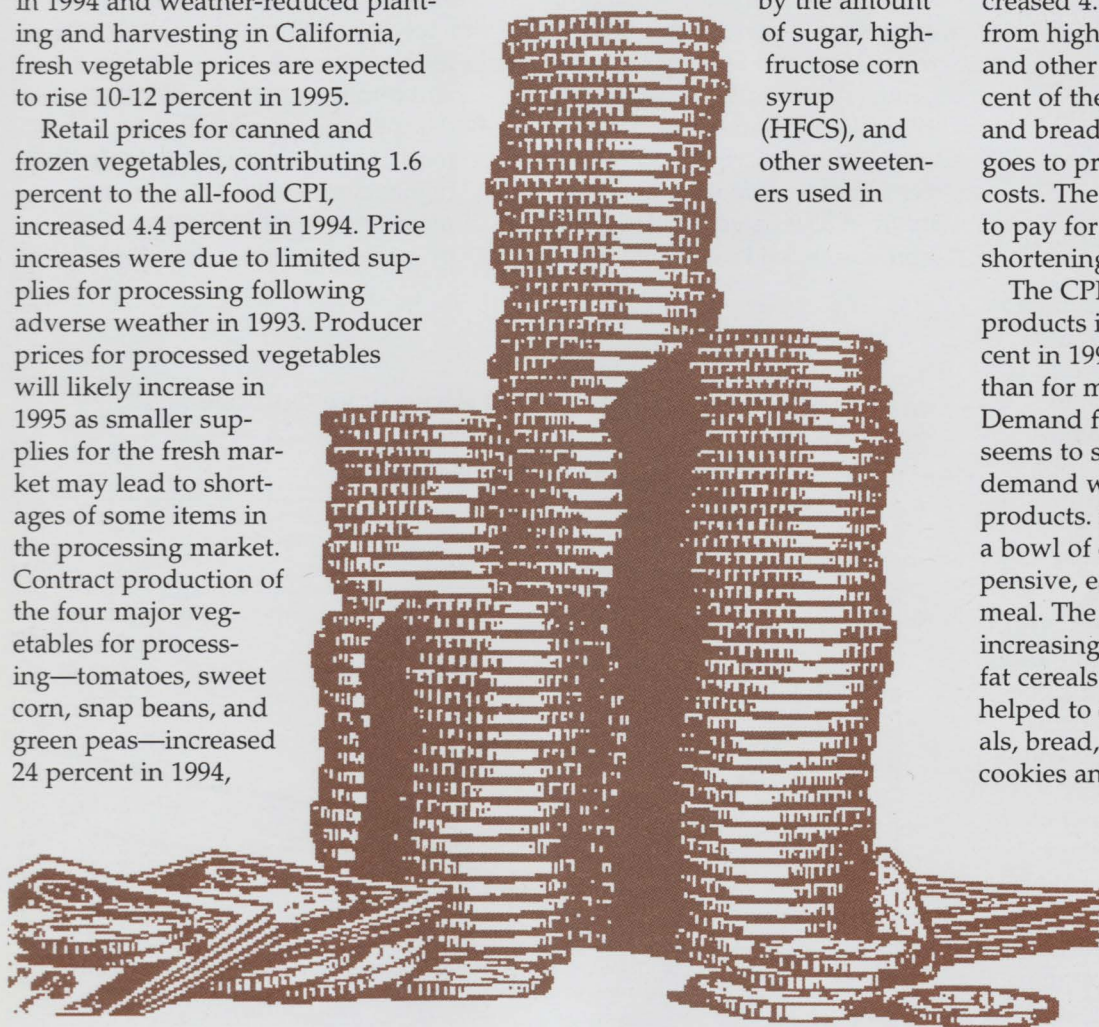
food and beverage manufacturing. U.S. consumption of total caloric sweeteners rose 2.3 percent between 1993 and 1994. Consumption of products sweetened with HFCS grew 3.9 percent from 1993 to 1994, while consumption of refined sugar (for both home use and that contained in processed foods and beverages) grew about 1 percent.

Strong demand for traditional carbonated beverages, rapidly growing demand for fruit-type beverages, and the continuing popularity of processed foods are expected to foster a 1- to 2-percent increase in retail prices for sugar and sweets in 1995.

### *Cereals and Bakery Products*

The CPI for cereals and bakery products (which accounts for 9.2 percent of the all-food CPI) increased 4.1 percent in 1994, mostly from higher costs of labor, energy, and other inputs. More than 90 percent of the cost of breakfast cereals and bread products, for example, goes to processing and marketing costs. The remaining 10 percent goes to pay for the grains, flours, sugar, shortening, and other ingredients.

The CPI for cereals and bakery products is forecast to rise 2.5-4 percent in 1995, a slightly higher rate than for most other food categories. Demand for cereals and bread seems to strengthen, even when demand weakens for most other products. Consumers may perceive a bowl of cereal as a relatively inexpensive, easy to fix, and healthful meal. The recent success, and increasing availability, of reduced-fat cereals and bakery products have helped to expand markets for cereals, bread, and cakes as well as cookies and frozen bakery products.





### Nonalcoholic Beverages

Prices for nonalcoholic beverages increased 7.5 percent in 1994—the largest increase of any category. Coffee, which accounts for 27 percent of the CPI for nonalcoholic beverages, was responsible for most of the price increase. Since nonalcoholic beverages account for 5 percent of the CPI for all food, the 22-percent jump in retail coffee prices was a significant factor behind the 2.4-percent increase in the all-food CPI in 1994.

Retail coffee prices surged 22 percent in August 1994 after major frosts hit Brazilian coffee crops in late June and early July. Coffee prices stabilized in September 1994, but rose about 1 percent in October and 0.3 percent in November before decreasing 1.1 percent in December.

Brazil accounts for approximately one-quarter of global coffee production. Reports by the Brazilian Government and an April 1995 report from USDA indicate that frost damage, followed by subsequent droughts in Brazil's major coffee producing areas, will reduce its 1995-96 coffee production by 30 to 35 percent.

However, world coffee production in marketing year 1994/95 is forecast to rise 1 percent. Larger crops are expected from Colombia, El Salvador, Ethiopia, Cote d'Ivoire, Uganda, and Vietnam.

The CPI for carbonated drinks, which constitute 54 percent of the CPI for nonalcoholic beverages, fell 1 percent in 1994.

The CPI for noncarbonated drinks other than coffee (such as fruit juices and bottled water) increased 1 percent. Total sales of ready-to-drink teas, fruit drinks, and bottled water grew about 10 percent in 1994 and should continue to be popular alternatives to soft drinks in 1995.

The CPI for nonalcoholic beverages is forecast to rise 7.5-8.5 percent in 1995, a higher rate than for most other food categories. Although retail coffee prices have fallen since the

initial price increases in August 1994, coffee prices in 1995 are expected to remain above early 1994 levels.

### Other Prepared Food

The CPI for other prepared food, which accounts for 6.5 percent of the all-food CPI, rose 2.7 percent in 1994 and is expected to average 2-3 percent above 1994 levels in 1995. Other prepared food items include: canned and packaged soup; frozen prepared food; snacks; seasonings, condiments, sauces, and spices; and miscellaneous prepared foods, such as baby food. Price increases for this group are largely influenced by costs of processing and marketing.

### Menu Prices Away From Home Continue To Rise

The share of money spent on food away from home, primarily in restaurants and fast-food establishments, has risen every year since the 1990-91 recession. These eating establishments accounted for 34.6 percent of total food dollars in 1994, up from 33.9 percent in 1991. Away-from-home food sales grew 6.0 per-

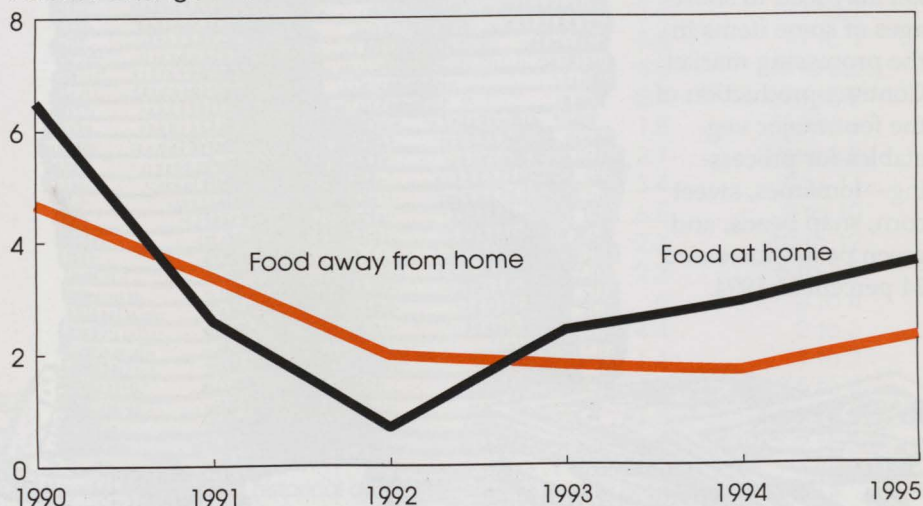
cent in 1994, while sales of food from retail grocery stores (food at home) grew 3.4 percent.

Despite strong growth in away-from-home food sales during 1994, competition held increases in the CPI for this item to 1.7 percent, less than the 2.9-percent increase for food at home. During the last 2-3 years, price competition has been fierce among fast-food establishments, with firms offering more and more reduced price, special-value meals. This competition has spilled over into other foodservice sectors, moderating overall menu prices.

Prices for food away from home are expected to increase 2-2.5 percent in 1995, and prices for food at home are expected to rise 3-4 percent (fig. 2). Lower meat and poultry prices will likely be offset by higher prices for fresh fruits and vegetables and nonalcoholic beverages, especially for purchases of food at home. Although lower meat and poultry prices should also dampen the increase in the CPI for food away from home, potentially higher costs for labor, paper, and plastic goods would put upward pressure on menu prices. ■

Figure 2  
In Recent Years, Prices for Food at Home Have Outpaced Food Away From Home

Percent change in Consumer Price Index



Note: 1995 forecast.