Food Prices

Food prices rose 4.1 percent in 1987, the sharpest increase in the Consumer Price Index (CPI) for food since 1981. The CPI for food sold in grocery stores climbed 4.3 percent, also the highest since 1981. Meanwhile, prices of food sold in restaurants and fast-food outlets moved up 4.0 percent (*table 1*), a gain similar to those recorded in recent years for away-from-home foods.

The upturn in grocery store prices last year reflected stronger farm prices and rising marketing costs. At the same time, restaurant prices rose at a slower rate because moderate increases in employment and wage costs had a stronger influence on restaurant prices than did higher farm prices. These factors reversed the usual pattern of restaurant prices rising faster than grocery store prices. However, because of past rates of gain, the CPI for food away from home remained substantially higher than the food-at-home index.

In 1987, for the second consecutive year, the food CPI rose at a faster pace than the 3.6 rise in the CPI for all items. Smaller supplies and higher prices for beef, pork, and fresh fruits and vegetables, were the primary farm foods responsible for pushing up the index. A large increase in fish and seafood prices also helped advance the index.

Limited pork supplies through most of 1987 resulted from continued low cold-storage stocks and lower slaughter and import rates than the previous year. Consequently, demand for hogs remained strong. Farmers, who were benefiting from generally lower feed costs, were also receiving strong market prices, and therefore had the incentive to increase hog production. However, the expansion did not come until the fourth quarter of last year. Retail pork prices fell some at that time but still averaged 8.2 percent higher in 1987.

Smaller supplies of oranges and apples caused the fresh fruit CPI to rise sharply in 1987. While supplies of summer peaches, plums, apricots, and cherries were well above 1986 levels and prices were lower, the strong influence of the higher priced apples and oranges caused the index to remain high.

The CPI for fresh vegetables—strongly influenced by a poor lettuce crop and higher potato prices—climbed 12.9 percent above 1986. Throughout the year and particularly during the fall, wet weather, disease from white fly infestations, and destruction of fields by birds plagued lettuce growers. Consequently, lettuce prices averaged above 1986 levels all year, with retail prices more than doubling during the fourth quarter of 1987. The annual average for the year was 21 percent higher than in 1986. Potato prices also rose nearly 21 percent above 1986. However, this increase was less an actual price rise than it was a return to normal market conditions because an abnormally large supply of potatoes depressed prices during 1986.

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Retail Price Components

Retail prices can be broken down into two components—the farm value and the farm-to-retail price spread. The farm value represents the price farmers receive for the raw-commodity equivalent of foods in the market basket.
The farm-to-retail price spread is the difference between the retail price and the farm value. The price spread is the charge for processing, distributing, and retailing foods. A related concept is the farm value share—the percentage farmers get, on average, from each dollar consumers spend in retail foodstores.

In 1987, farm value—boosted by higher cattle prices—averaged 2.7 percent above 1986, but still trailed the 5.0-percent rise in retail prices for foods that originated on U.S. farms (*figure 1*). This was the first increase in the farm value of the market basket since 1984, when reduced supplies of many commodities pushed up the farm value. The farm value fell 8 percent during 1985 and 1986.

Table 1. Higher Prices for Pork, Fish, Fresh Fruit and Vegetables Helped Push Up Food Prices in 1987

Item	1983	1984	1985	1986	1987
		Annual percentage change in the consumer price index			
Food at home	1.1	3.7	1.4	3.2	4.3
Beef and veal	-1.5	1.2	-2.1	0.6	7.6
Pork	0.9	-1.3	0.2	8.2	8.2
Other meats	-0.4	0.4	0.6	2.6	6.3
Poultry	1.2	10.6	-1.0	7.5	-1.4
Fish and seafood	1.2	3.2	4.9	9.2	10.6
Eggs	4.7	11.7	-16.6	6.9	-5.9
Dairy products	1.2	1.3	1.9	0.2	2.5
Fresh fruit	-4.3	11.1	10.1	2.1	11.2
Apples	-4.2	12.7	6.1	15.5	0.3
Bananas	10.3	-7.6	2.1	5.1	-0.8
Oranges	-20.4	35.3	6.5	-9.3	25.1
Processed fruit	1.5	7.2	4.1	-2.9	4.0
Fresh vegetables	3.6	10.7	-4.3	4.0	12.9
Potatoes	-1.5	27.0	-12.4	-5.3	20.7
Lettuce	2.5	-6.9	10.5	6.2	21.0
Tomatoes	7.7	4.9	-1.9	7.4	4.9
Processed vegetables	0.4	4.7	1.1	-0.2	2.8
Fats and oils	1.3	9.5	2.2	-2.2	1.5
Sugar and sweets	1.9	3.9	2.5	3.1	1.8
Cereal and bakery products	3.2	4.4	3.8	2.8	3.5
Nonalcoholic beverages	1.9	2.5	2.0	5.9	-2.6
Food away from home	4.4	4.2	4.0	3.9	4.0
All food	2.1	3.8	2.3	3.2	4.1

Source: Bureau of Labor Statistics, Department of Labor.

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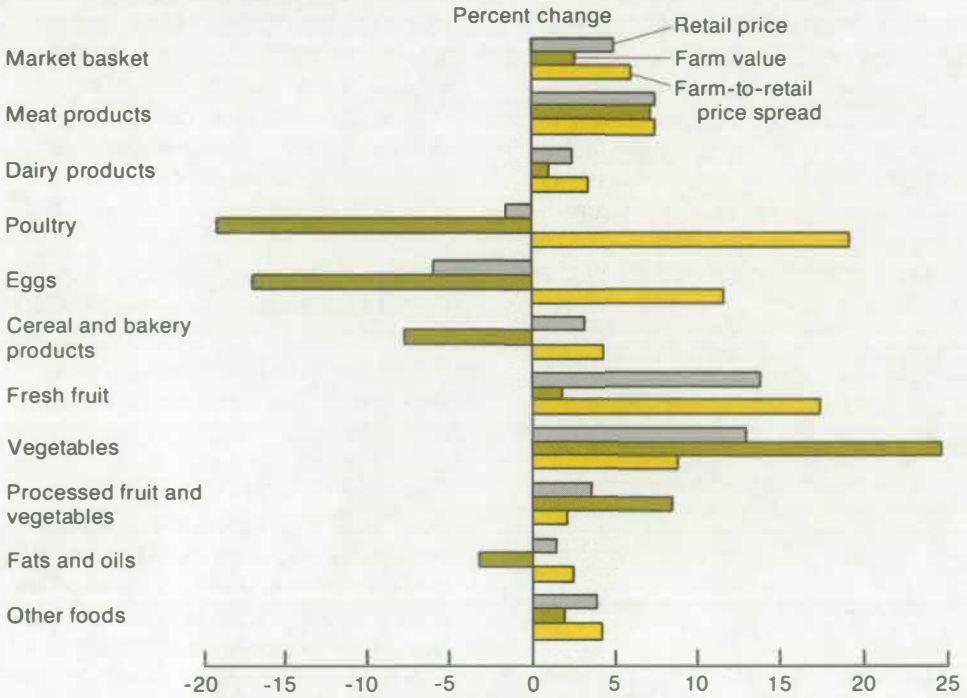
Farmers received about 7 percent more for red meat in 1987 than in 1986. One pound of USDA Choice grade beef sold at retail for $2.43 in 1987, and cattlemen received $1.38 for the equivalent quantity (2.4 pounds) of live animal. This was 14 cents more than they received in 1986. Also increasing the farm value of the market basket in 1987 were higher grower prices for fruits and vegetables.

The farm-to-retail price spread for the market basket rose 6 percent in 1987, a larger increase than in 1986. Several factors widened the price spread. Among these were higher input prices for the food industry, greater use of some inputs such as labor in food retailing and advertising, and larger profit margins on food sales. Handling, processing, and retailing input prices, as measured by an ERS food marketing cost index, increased an average of 2.2 percent in 1987. The biggest contributor, food packaging materials—such as paperboard shipping boxes—rose 4 percent. Hourly labor costs followed with about a 2-percent rise.

Price spreads increased for each of the 10 major food groups in the market basket, reflecting higher costs as well as farm price variations and the normal lag in retail price adjustments. Increases ranged from about 2 to 19 percent. The farm-to-retail spread for red meats rose about 7.5 percent, more than double the 1986 rise. The price spread for cereal and bakery products widened about 4 percent as 1987 retail prices rose 5.8 percent for cereals and 3.5 percent for bakery products. Much of the price spread increase for cereals may stem from the industry's advertising and promotion efforts aimed at capitalizing on growing consumer demand for nutritional products. The increase in the cereal and

Figure 1. Price Spreads Increased for All Food Groups Between 1986 and 1987



Source: *Food Costs. . .From Farm to Retail*, ERS, USDA, April 1988.
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bakery spread also reflects declining farm values of food grains and other farm ingredients.

The farm value share is computed from retail food prices and farm values of foods. Over time, the farm value share reflects relative changes in farm and retail food prices. In 1987, farmers received about 29 cents of each dollar consumers spent for food in retail grocery stores (*table 2*). The remaining 71 cents—which represents the farm-to-retail price spread—paid for marketing services. The farm value share declined over the years because large supplies held farm prices down, while higher charges for marketing services drove retail food prices up.

The farm value share of retail price varies greatly among foods. In general, the more highly processed the product, the smaller the farm share. For example, compare flour with bread. Wheat is the principal ingredient of each, but bread undergoes additional manufacturing. In 1987, farmers received 26 percent of the retail price for flour, compared with only 7 percent for white bread.

Foods from animal products tend to have a higher farm value share than those from crops. This is because farm production costs are relatively greater for animal products than crop products. Another factor is the degree of processing and packaging involved.

Other factors influencing the farm share include shipping distance between the farm and the consumer and the perishability of the product. These factors may partially explain why the farm value share is much lower for California fresh oranges than for frozen concentrated orange juice.

Table 2. Farm Value Share of Food Prices Generally Declined

Item	Farm value share of the at-home food dollar		
	1980	1983	1987
	Percent		
Animal products			
Grade A large eggs, 1 doz.	60	64	62
Choice beef, 1 lb.	61	57	57
Broiler chicken, 1 lb.	54	52	50
Fresh milk, ½ gal.	53	53	49
Pork, 1 lb.	45	45	44
Natural cheddar cheese, 1 lb.	na	na	36
Crops			
Frozen orange juice, 12 fl. oz.	42	42	37
Sugar, 1 lb.	40	40	35
All purpose wheat flour, 5 lbs.	36	33	26
Northeast potatoes, 10 lbs.	35	35	26
Peanut butter, 1 lb.	na	na	26
Shortening, 3 lb. can	30	28	19
California oranges, 1 lb.	14	14	18
Lettuce, 1 lb.	10	10	17
Margarine, 1 lb.	28	na	17
Long grain rice, 1 lb.	30	24	15
Frozen french fried potatoes, 1 lb.	na	na	12
Canned tomatoes, 1 lb. can	12	10	9
White bread, 1 lb.	10	10	7
Average of all foods	37	33	29

na = not available.

Source: *Food Costs. . . From Farm to Retail*, April 1988.

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USDA's Market Basket

USDA uses its market basket concept to track price changes for commodities farmers sell and the foods consumers buy in retail foodstores. The market basket contains the average quantities of domestically produced food for at-home consumption that were purchased in the 1982-84 base period. The basket excludes fish, seafood, and nonalcoholic beverages. Changes in retail prices of the market basket are components of the CPI for foods.

Meat and Poultry Prices

The biggest trend in retail meat and poultry prices is that expensive cuts of meat are increasing in price faster than cheaper cuts.

Beef cuts priced at less than $2.75 per pound decreased in price between 1980 and 1987. Those above $2.75 increased in price, and those above $3.50 increased even more (*table 3*). The higher priced pork cuts—bacon and pork chops—also rose more than cheaper cuts. Broiler and turkey retail prices were generally lower, with increases of only 10 to 15 percent. However, many value-added poultry products increased considerably more. The somewhat more expensive bone-in chicken breasts rose 32 percent. Data on boneless breasts are not available, but those prices probably went up even faster.

If there is an exception to higher priced cuts increasing more, it is canned hams. Although the price did rise between 1980 and 1987, it still dropped from the most expensive pork cut to the second highest. Frankfurters and bologna prices rose slowly, while the price of beef liver fell.

There are several possible explanations for why prices of more expensive meat items climbed faster than their lower priced counterparts. The first is that people want more convenience and service, and they are willing to pay for them. Some of the higher priced cuts are considered simpler to fix. Broiling a T-bone steak is easier than braising a chuck roast.

A second explanation is that Americans, rather than paying higher prices for a low-priced cut of red meat, will substitute even lower priced poultry. In other words, while someone who wants a high-priced cut—like porterhouse steak—seems willing to pay for it, another person may forego buying cuts like chuck roast and switch to poultry, if the roast becomes too expensive.

A third explanation is that higher priced cuts are more price inelastic than are lower priced cuts. This means that when the quantity available falls, people are willing to pay more rather than reduce their consumption of the product.

Table 3. Retail Prices Increased More for More Expensive Meat Cuts

Item	Retail price		
	1980	1984	1987
	Dollars per pound		
Choice beef			
Ground chuck	1.83	1.72	1.71
Ground beef	na	1.29	1.31
Chuck roast[1]	1.82	1.68	1.68
Round roast[2]	2.61	2.58	2.53
Rib roast[1]	2.95	3.35	3.54
Round steak[2]	2.77	2.91	2.89
Sirloin steak[1]	2.95	3.08	3.13
Chuck steak[1]	1.70	1.71	1.63
T-Bone steak[1]	3.61	3.95	4.24
Porterhouse steak[1]	3.73	4.06	4.35
Pork			
Sliced bacon	1.46	1.86	2.14
Center cut chops[1]	1.95	2.38	2.82
Ham, rump or shank-half[1]	1.23	1.32	1.54
Sirloin roast[1]	1.43	1.65	1.94
Shoulder picnic[1]	.99	1.01	1.12
Fresh, loose sausage	1.41	1.71	1.99
Canned ham, 3 or 5 lb	2.32	2.56	2.80
Poultry			
Whole broilers	.72	.81	.78
Chicken breasts[1]	1.37	1.70	1.81
Whole turkeys	.89	.99	1.01
Miscellaneous			
All meat frankfurters	1.72	1.80	1.99
Bologna	2.01	2.13	2.19
Beef liver	1.17	.98	1.03

na = not available. [1]Bone in. [2]Boneless.

Source: Bureau of Labor Statistics, Department of Labor.

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Fresh Fruit

The marketing system for fresh fruit involves assemblers, packers, shippers, wholesalers, and retailers. Because these marketing costs are passed on through the system, and eventually to the consumer, all of these charges directly affect the retail prices of fresh fruit.

Retail and wholesale prices of Red Delicious apples rose across the country between 1980 and 1986. Wholesale prices averaged from a low of $19.30 for a 42-pound carton in the West to a high of $20.47 in the Northeast during 1986 (*table 4*). Higher transportation costs from Washington State production areas to eastern cities seemed to push wholesale prices up in the Northeast.

Freezes in Florida and Texas reduced the supply of fresh oranges and resulted in sharp price increases between 1980 and 1986. Wholesale prices of Florida oranges in Baltimore rose 32 percent. Retail prices in Baltimore climbed 65 percent, primarily because of higher transportation, labor, and marketing costs.

Wholesale prices of California navel oranges rose 39 percent in the West during the 6-year period. In the Northeast, wholesale prices climbed 53 percent, reflecting higher transportation costs. Likewise, retail prices only increased 37 percent in the West, compared with a 47-percent rise in the Northeast.

About 40 percent of California grapes grown for fresh consumption are of the raisin variety—most of which are Thompson seedless. Between 1980 and 1986, wholesale prices rose in all regions except the Northeast, which experienced a 12-percent decline. Retail prices of Thompson seedless grapes increased slightly to moderately across the country, ranging from $22.92 a 23-pound lug in the West to $24.43 in the Northeast and North Central regions.

Table 4. Fresh Fruit Prices Rose Between 1980 and 1986

Items and area	Wholesale price[1]		Retail price	
	1980	1986	1980	1986
	Dollars			
Washington Red Delicious apples (42-lb carton)				
Northeast	16.67	20.47	24.86	29.84
North Central	16.34	19.68	26.77	28.26
West	16.97	19.30	25.75	29.69
Baltimore	15.84	19.48	25.51	30.95
White seedless grapefruit (42.5-lb carton)				
Northeast	5.63	6.96	11.83	15.77
North Central	6.71	8.38	13.26	17.33
South	4.56	6.14	12.71	17.93
Baltimore	5.19	6.64	9.64	13.09
Lemons (38-lb carton)				
Northeast	9.85	17.17	30.39	31.72
North Central	13.31	18.67	24.74	33.94
South	12.26	18.49	24.93	35.67
West	9.90	19.10	20.26	37.44
Baltimore	14.68	20.30	31.11	38.74
Florida oranges (45-lb carton)				
Baltimore	5.67	7.46	10.93	18.04
California navel oranges (37.5-lb carton)				
Northeast	8.18	12.51	13.00	19.17
North Central	9.12	12.49	14.40	18.65
West	6.57	9.14	11.24	15.43
Baltimore	8.26	11.40	14.65	16.98
California valencia oranges (37.5-lb carton)				
Northeast	8.86	12.03	13.60	18.03
North Central	10.17	12.19	15.80	19.58
South	6.96	9.63	13.34	18.52
West	6.56	8.51	11.95	14.63
Baltimore	9.11	11.82	15.37	18.61
Thompson seedless grapes (23-lb lug)				
Northeast	15.73	13.83	22.60	24.43
North Central	14.26	14.81	23.22	24.43
South	12.24	12.64	22.69	23.28
West	11.61	12.02	19.51	22.92

[1]Price paid for a commodity by retailers at wholesale markets.

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Fresh Vegetables

In the first 7 years of this decade, retail prices for various fresh vegetables rose more than wholesale prices (*table 5*). This was also true of foods in general. The CPI for food increased 26 percent from 1980 to 1986, while the Producer Price Index for consumer foods rose just 16 percent. The price increases for vegetables generally reflected higher production and marketing costs, with handling and marketing costs increasing at a faster rate and fueling the rise in retail prices.

Cabbage was one exception to the trend. At retail outlets, prices increased 36 percent during the period, while average wholesale prices rose even more, about 42 percent. Retail carrot prices gained over 15 percent, with wholesale prices increasing almost 11 percent.

Retail prices for celery increased about 23 percent from 1980 to 1986. Wholesale prices rose about 18 percent. Higher production and marketing costs in California prompted the rise.

The retail price of cucumbers rose 15 percent, and wholesale prices, 14 percent. Lettuce, another exception to the general trend, increased almost 17 percent at retail, but rose nearly 24 percent at wholesale.

During the winter months, prices are generally higher due to reduced supplies and higher transportation costs. Many fresh vegetables come from southern locales, where warmer weather allows continued production.

Table 5. Retail Prices for Fresh Vegetables Generally Increased More Than Wholesale Prices

Items and area	Wholesale price[1]		Retail price	
	1980	1986	1980	1986
	Dollars			
Cabbage (1-3/4 bushels)				
Northeast	5.25	7.07	11.45	15.80
North Central	4.72	7.37	12.07	15.96
South	4.02	5.83	10.40	13.84
Baltimore	5.09	6.71	13.30	18.49
Carrots (48 1-lb film bags)				
New York City	8.89	10.37	16.93	19.13
North Central	9.72	10.72	17.03	19.07
West	7.39	7.63	13.38	16.15
Baltimore	8.79	9.79	22.08	22.14
Celery (2-3 doz crates)				
Northeast	10.78	11.54	23.92	29.11
North Central	11.43	12.49	25.14	27.81
West	6.63	9.47	19.51	26.60
Baltimore	10.59	11.77	21.00	24.65
Dry onions (50 lbs)[2]				
New York City	7.30	7.57	19.12	20.35
North Central	7.55	7.41	17.71	17.84
Baltimore	7.20	7.23	17.85	19.57
Green peppers (bushel)				
Northeast	9.96	12.85	20.95	25.91
North Central	12.30	14.32	27.82	33.41
Baltimore	11.03	12.89	24.06	29.32
Sweet corn (4-3/4 bushels)				
Baltimore	7.49	6.57	13.05	13.25
Cucumbers (bushel)				
Northeast	10.77	12.22	23.53	26.75
North Central	11.51	13.97	24.68	29.73
Baltimore	12.25	13.25	29.78	32.62
Lettuce (24-head carton)				
New York City	9.73	12.21	16.56	19.40
North Central	8.30	11.20	20.06	24.24
South	8.03	9.79	21.36	24.70
West	6.60	7.91	15.86	19.57
Baltimore	8.77	10.21	17.76	22.59
Potatoes (100 lbs)				
Baltimore (round white)	12.20	10.42	27.50	26.25
Baltimore (russets)	23.08	22.56	46.50	48.28
Sweet potatoes (100 lbs)				
Baltimore	11.57	11.44	20.95	24.30
Tomatoes (carton)				
Northeast	11.61	13.39	21.42	23.12
North Central	12.69	11.44	21.51	24.14
South	8.82	11.10	20.04	20.36
Baltimore	11.12	12.12	21.93	26.51

[1]Price paid for a commodity by retailers at wholesale markets. [2]Wholesale prices are summer only.

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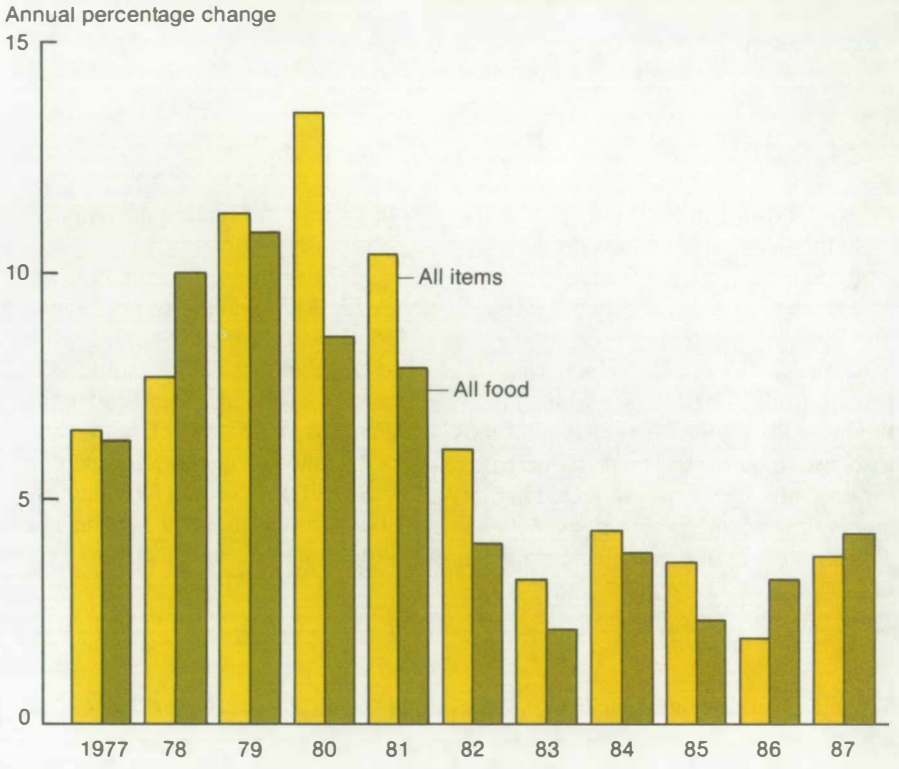
Food Prices. . .At a Glance

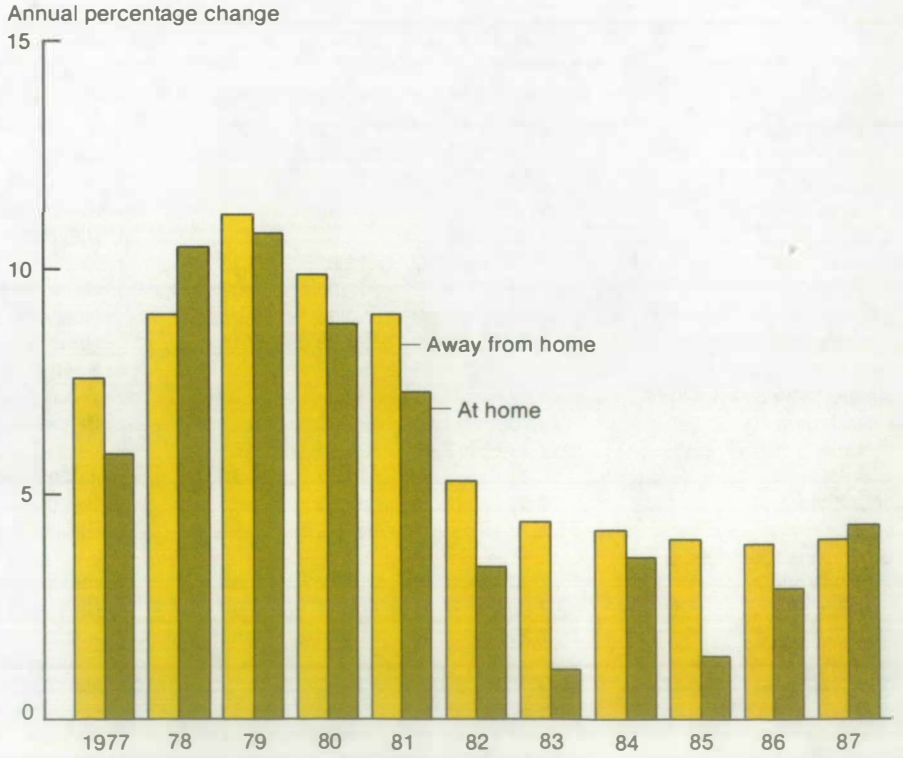
In contrast to the previous 7 years, food prices rose faster than the Consumer Price Index (CPI) for all items in 1986 and 1987. However, this does not indicate a change in food price trends. The CPI for all items is a weighted average of prices for all goods and services. Therefore, in 1986, when energy prices dropped dramatically, the CPI for all items was held to a 1.9-percent increase, while the CPI for food rose 3.2 percent. Had energy prices not changed, the CPI for all items would have increased 3.9 percent. The 1987 CPI for all items, less energy, increased 4.1 percent, compared with the 3.6 percent rise in the CPI for all items. Higher prices for meats, fruits, and vegetables pushed the CPI for food up 4.1 percent last year.

Consumer Price Index for Food and All Items



Last year, for the first time since 1978, the CPI for food at home rose faster than the away-from-home index—4.3 and 4.0 percent, respectively. The change in the trend stemmed from stronger farm prices in 1987 and relatively small increases in food processing and marketing costs. The effect of farm price changes on the CPI for food at home is about double what it is for food away from home. Farmers received about 30 percent of food expenditures spent at grocery stores and 15 percent of expenditures at restaurants and fast-food establishments. The residual in both cases went for processing and marketing.

Consumer Price Index for Food At Home and Away



Source: Bureau of Labor Statistics, Department of Labor.
Contact: Ralph Parlett (202) 786-1870.