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1982 Food Price Update

Paul C. Westcott
(202) 447-8801

Retail food prices this year are expected to average 5 to 6 percent higher than last year's prices. This would be below 1981's price increase of 7.9 percent, and would continue a slowdown of annual food price increases that began in 1980. Also, 1982 could be the fourth consecutive year that food prices rise less than nonfood prices.

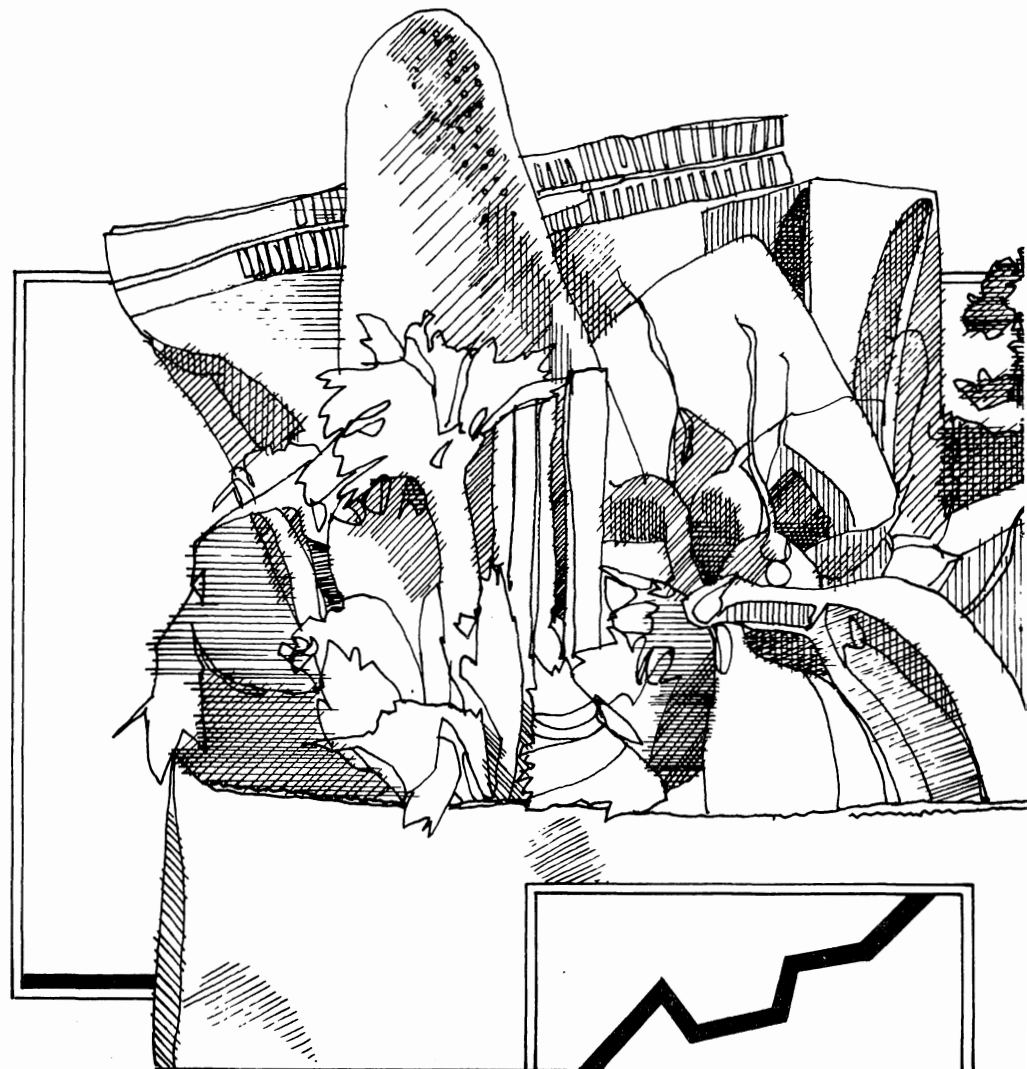
As in 1981, higher food marketing costs will be the major contributor to the food price increase. However, because of the recession and the lower general inflation rate, marketing costs may rise less than they have in recent years. The farm-to-retail price spread, expected to increase 6 to 7 percent above the 1981 spread, may cause about two-thirds of the retail food price increase. The farm value of foods is expected to be up 2 to 4 percent, contributing about one-sixth of the food price rise. The balance of the food price increase will reflect an expected 4- to 6-percent increase in retail prices for imported foods and fish.

Quarterly Pattern

Food prices in the first quarter rose at a 7.3 percent annual rate. This was the largest increase since the first quarter of last year, primarily reflecting weather-related reductions in meat, fruit, and vegetable supplies. Severe weather in January interfered with hog and broiler marketings, pushing retail pork and chicken prices higher early in the year. Retail fruit and vegetable prices moved up sharply as well, in part caused by a freeze in Florida. Also, insect damage to the lettuce crop in California pushed up retail lettuce prices.

Food prices in the second quarter slowed some, rising at a 4.8 percent annual rate. Prices for most vegetables were down from the high levels of the first quarter as supplies recovered from the temporary weather-related shortages. Potato prices, however, rose seasonally as cold storage supplies were reduced. Meat prices rose significantly in the second quarter, primarily reflecting lower pork supplies.

In the third quarter, the food CPI may



accelerate some, reflecting stronger demand for food following the July 1 tax cuts and the recent increase in Social Security payments. This will be especially important for meats and food eaten away-from-home, whose demand is typically more responsive to changes in consumer incomes than is the demand for most other foods.

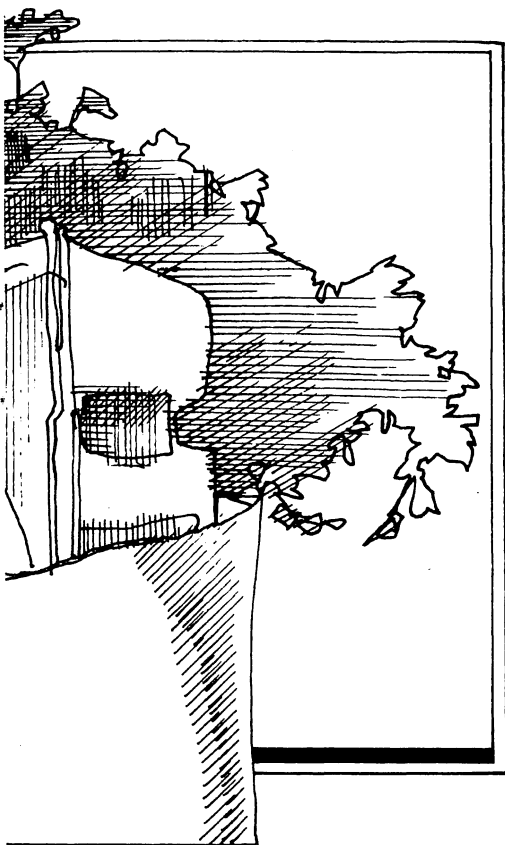
Supplies of some foods will decline. In particular, pork supplies will be sharply lower in the third quarter due to planned production cutbacks. Consequently, retail pork prices are likely to rise substantially over the summer. Also, as lower pork supplies and higher pork prices cause consumer demand to shift from pork to other meats, beef and poultry prices may average above second-quarter levels, as well.

Seasonal production increases will further reduce vegetable prices in the third quarter. However, fruit prices will be rising over the summer as citrus harvest slows and apple stocks are reduced. Also, cold April weather in the Southeast combined with

crop damage from bad weather in California could limit seasonal increases in non-citrus production, thereby putting additional upward pressure on retail fruit prices this summer.

Prices for sugar and foods containing sugar will be rising faster in the third quarter, largely due to the impacts of the sugar import restrictions. Fats and oils prices may also begin to increase faster in the third quarter. This is mainly due to increased demand for vegetable oils, a result of diminished lard supplies caused by pork production cutbacks.

Retail prices for most other foods will continue to rise moderately due to small increases in marketing costs. Notably, dairy product prices are likely to show little movement in the summer as production remains large and the price support level remains at last year's level.



Food price movements in the fall and into 1983 will depend importantly on the timing and sustainability of the expected economic recovery, and on related increases in consumer incomes and food demand. However, seasonal increases in supplies of many foods will dampen fourth quarter food price rises.

Food Industry Labor Costs

A major factor limiting marketing cost increases this year is labor costs in the food industry, which are expected to rise less than in recent years. Significantly, the minimum wage did not increase this year and a lower general inflation rate will reduce cost-of-living wage adjustments. Also, many food industry labor markets are weak, partly because the recession has caused greater worker concern about job security.

Wage increases negotiated in some new

labor contracts this year are smaller, partly because of concessions made by some unions in order to protect jobs. In particular, this has occurred in the meatpacking industry. In settlements with five major companies, meatpacking workers agreed to contracts that essentially freeze wages and eliminate cost-of-living adjustments until the fall of 1984. In exchange, management gave the workers assurances that no meatpacking plants would be closed through the middle of 1983. Also, the contracts provide for a lump-sum payment to each worker equal to the additional amount that would have been paid in wages during 1982 if cost-of-living clauses were operative. Furthermore, the payment of these lump-sum amounts will be deferred until 1983.

The weakness in the economy and in labor markets also has moderated increases in trucking costs in the food industry this year. This is due, in part, to an agreement by Teamsters truck drivers to wage and benefit concessions which limit pay increases to annual cost-of-living adjustments. Under the previous contract, semiannual adjustments were made. Also, instead of adding all of these adjustments to wages, some cost-of-living increases may be used by employers to cover rising costs of employee benefits. Wages will otherwise be unchanged, since the contract does not provide for automatic deferred wage increases common in previous agreements.

Farm Act Affects Retail Dairy and Sugar Prices

The Agriculture and Food Act of 1981 will have little or no impact on retail food prices this year. Most agricultural products affected are either not used for food, such as cotton and tobacco; are used only indirectly, such as livestock feed; or although used directly, their value accounts for only a small part of the retail price, such as wheat and rice. However, provisions regarding dairy products and sugar will affect retail food prices in 1982, holding down dairy price increases but exerting upward pressure on retail sugar prices.

For dairy products, the price support level is now required to be adjusted annually instead of twice a year. Also, the minimum

price support is no longer strictly tied to parity. Under conditions that are linked to parity—based on projected program expenditures or quantities exceeding specified levels—support is set at 70 or 75 percent of parity, down from the minimum 80 percent of parity set under the previous legislation. As a result, unless further dairy legislation is enacted, the dairy price support will likely stay at last year's \$13.10 per hundredweight until October 1, with only a small upward adjustment expected at that time.

Additionally, milk production has continued to be high. This reflects lower grain prices this year, which have reduced feeding costs, and continued low meat-animal prices, which have discouraged net dairy herd reduction. Consequently, retail prices for dairy products are expected to show only small gains through 1982, with an annual rise of 2 to 3 percent. This would be the smallest increase since at least 1977, and could be the lowest since 1972.

In contrast, the price support program for sugar will increase retail prices for sugar and foods that contain sugar. Because the price support level for U.S. raw sugar exceeds world market prices by more than the cost of transporting foreign sugar to the United States, duties and fees on imported sugar have been increased, and a quota system for sugar imports has been imposed to protect the domestic sugar price support program.

These import restrictions had limited impacts on retail prices through midyear because much sugar was imported prior to the imposition of the restrictions, and because high fructose corn syrup can be substituted for sugar in many uses. Also, lower priced sugar from Thailand continued to be available for import in the first quarter of the year. Under the Generalized System of Preferences—where the United States gives duty-free treatment to some developing countries—this sugar was not affected by the higher duties until April 1. However, retail prices for sugar and sweets will likely rise faster in the second half of the year after the less costly stocks are used up. ■