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The Current Food Situation and The Outlook for 1982

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A number of important developments in the last two years affected the food and agricultural sector and will continue to have important implications for food prices, consumption, and consumer expenditures in 1982. The drought-reduced harvest of 1980 was followed by a record grain crop in 1981; the 1980 restrictions on crop exports to the Soviet Union were followed by larger Soviet imports last year; and following several years of declining production, the cattle cycle "bottomed out" in 1980 and beef production has been increasing. Declines in Gross National Product made 1980 and 1981 recession years; a January 1981 freeze in Florida pushed up domestic prices for fruits and vegetables; a turn-around in world sugar production caused a drastic fall in raw sugar prices last year; scheduled April dairy price support increases were eliminated; and a new farm bill evolved.

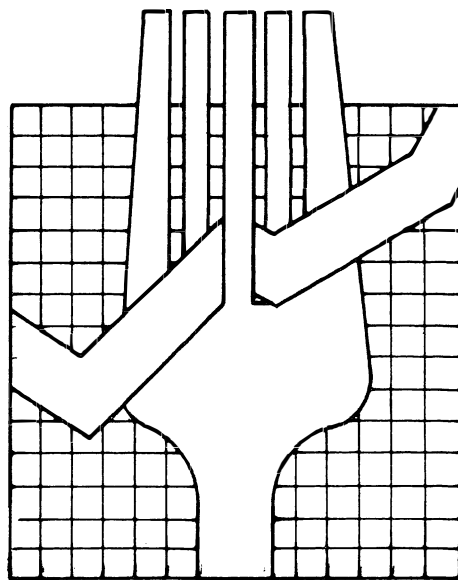
Food Market Developments in 1981

The 1981 rise in retail food prices was 7.9 percent. This compares with an 8.6-percent increase in 1980, and is the third consecutive year that food prices rose less than prices for nonfood goods and services. Marketing costs accounted for about three-fourths of last year's food price rise, while only about one-eighth was attributed to a higher farm value. The remainder was due to higher costs for fish and imported foods.

Food Product Highlights

Meats and poultry. Commercial beef production in 1981 increased about 3 percent from the 1980 level. Increased beef production, along with a rise in veal production and a slight increase in lamb and mutton production, was partly offset by a 6-percent decline in pork production, leaving 1981 total red meat production only slightly above the 1980 level. But given population increases, per capita red meat consumption declined last year.

The post-war expansion of the chicken and turkey processing industry continued last year, and it appears that per capita consumption exceeded the previous record of 61 pounds. Increased chicken consumption in recent years has been strongly supported by brand merchandising and the spread of specialized fast-food restaurants.



Eggs. In contrast, egg production was down for the second consecutive year. Per capita consumption continued a downward trend, falling to the lowest level in the post-war era.

Dairy products. Milk production in 1981 increased about 3 percent, reflecting increased output per cow and a larger number of milk producing cows. Output of most dairy products rose as well. Importantly, public and private cold storage stocks of butter increased sharply, while cheese stocks were up more than a tenth. This was largely a consequence of the dairy price support program which encouraged expanded production. The decision to abandon scheduled April 1 increases in dairy price supports resulted in virtually no movement in retail prices for dairy products through the summer months of 1981 as relatively large stocks and continued large production kept farm-level prices relatively stable.

Sugar. A collapse of raw sugar prices started in late 1980 and continued through most of last year. Two factors were primarily responsible—increased world sugar production, which recovered in response to the initial surge of sugar prices in late 1979; and increased production of high-fructose corn syrup, which food manufacturers increasingly substitute for refined sugar. The decline in raw sugar prices was an important factor holding down retail prices for sugar, desserts, ice cream, and soft drinks.

Fruits and vegetables. The January 1981 freeze in Florida drove up prices for orange

juice and orange juice concentrate and substantially reduced domestic supplies of tomatoes. As a consequence of the freeze, orange juice production was higher in January but reduced in later months. Frozen orange juice concentrate prices rose sharply through the spring and for the year averaged nearly a fifth higher than in 1980.

Tomato production was reduced and prices rose sharply in late winter. However, by May, tomatoes from plantings made in February after the freeze began to reach consumers and retail tomato prices fell. Nonetheless, as a result of the freeze, fresh vegetable prices in 1981 averaged 18.7 percent higher than in 1980.

Fish. Fish consumption in 1981 (including game fish) continued a decade-long pattern of stability, holding near the 1980 level of almost 17 pounds per person. Retail prices for fish and seafood rose 8.3 percent.

Coffee. Retail coffee prices declined substantially last year, largely in response to increasing international supplies. Although per capita coffee consumption may have risen some, it has trended downward over the last three decades. In recent years, cocoa and tea consumption have also declined.

Food Marketing Costs

Marketing costs account for almost two-thirds of every consumer dollar spent on food. Prices for marketing inputs rose about 11 percent last year, directly accounting for most of the increase in retail food prices.

Labor. Food sector labor costs averaged about 10.5 percent higher last year compared with 1980, primarily because of an 11-percent increase in wages for food retailing workers. Rising wages are principally due to cost-of-living adjustments and deferred wage increases provided by many union contracts. Larger payments for employee benefits, greater employer contributions to Social Security, and an increase in the minimum wage also added to labor costs.

Packaging. Prices for packaging materials used in food manufacturing and processing averaged about 7.5 percent above the 1980 level. Increases were held down by moderate price rises for polyethylene resin—the major material used in plastic containers and packages. This also partly offset a 12-percent rise in glass container prices, an increase partially attributable to a significant boost in

industry labor costs. Rising production costs contributed to a 10-percent rise in paper and paperboard prices.

Transportation. Transportation costs in 1981 averaged about 9 percent higher than in 1980. General rate hikes and fuel surcharges to cover higher operating expenses were primarily responsible.

Energy. Diesel and fuel oil prices rose about 24 percent because of crude oil price increases in the fall of 1980 and decontrol of domestic crude oil prices in early 1981. Electricity and natural gas prices increased 14 percent, but coal prices were up only 7 percent.

Outlook for 1982

Relatively large agricultural supplies will limit farm-level price increases in 1982, and

the farm value of domestic food production will probably rise only about 1 to 4 percent. However, food marketing costs will rise 8 to 10 percent and be the major source of food price inflation in 1982. These increases imply that grocery store food prices will be up 5 to 8 percent with a 6-percent rise being most likely. Prices at restaurants, cafeterias, and fast-food chains are expected to rise 6 to 9 percent this year. Combining these forecasts, retail prices for all food in 1982 will probably increase 5 to 9 percent, with current conditions suggesting a rise of about 7 percent. This increase would be below 1981's increase of 7.9 percent and represents a significant decline from the double-digit increases of 1978 and 1979 (see table).

Conditions required to push retail food prices to the upper bound of the forecast

range would be extremely poor weather, larger than expected export demand, and greater than anticipated price increases for food marketing costs. On the other hand, extremely good weather, low export demand, and a lower rate of marketing cost inflation would push the change in retail food prices to the lower end of the forecast interval.

Food Product Outlook

Meats and poultry. Last year's record corn crop will hold down livestock feeding costs in 1982, providing some stimulus for increased beef and poultry production. Increases will be small, however, as continued high interest rates discourage placing animals in feedlots. Pork production will decline from the 1981 level as producers continue to react to losses

Table 1. Changes in the Consumer Price Index (CPI) for Food 1978 through 1981, and 1982 Forecasts

Component	Relative importance in food CPI	Change in				
		1978	1979	1980	1981	1982 (Forecast)
Food	100.0	10.0	10.9	8.6	7.9	5-9
Food away from home	30.7	9.0	11.2	9.9	9.0	6-9
Food at home	69.3	10.5	10.8	8.0	7.3	5-8
Cereals and bakery products	8.7	8.9	10.1	11.9	10.0	7-8
Beef and veal	9.8	22.9	27.3	5.7	0.9	4-7
Pork	4.7	12.9	1.5	-3.4	9.3	6-9
Other meats	3.0	17.8	14.7	3.8	4.3	4-7
Poultry	2.3	10.3	5.0	5.1	4.1	2-5
Fish and seafood	2.3	9.5	9.8	9.2	8.3	5-7
Eggs	1.3	-5.5	9.5	-1.8	8.3	2-5
Dairy products	9.3	6.7	11.6	9.8	7.1	2-4
Fresh fruits	2.4	19.4	12.4	6.2	5.4	10-12
Fresh vegetables	2.8	7.9	2.9	8.9	18.7	1-3
Processed fruits and vegetables	4.5	10.5	8.6	7.0	12.0	10-12
Sugar and sweets	2.9	12.2	7.8	22.9	7.9	3-5
Fats and oils	1.9	9.5	8.0	6.6	10.7	2-4
Nonalcoholic beverages	7.6	5.7	5.0	10.6	4.2	3-5
Other prepared foods	5.8	8.0	10.1	10.8	10.3	7-9

Data for 1978, 1979, 1980, and 1981 are from the Bureau of Labor Statistics.

experienced over much of 1981. Higher per capita beef and poultry consumption will be more than offset by declining pork consumption, leading to a decrease in total domestic meat consumption. Increased beef and poultry supplies will hold down retail price increases for these foods in 1982, while the decline in pork production will lead to larger increases in retail pork prices.

Eggs. Egg consumption will also likely decline in 1982. Retail egg prices are expected to rise 2 to 5 percent.

Dairy products. Cheese consumption is expected to continue rising, and butter consumption may increase, as well. Large supplies of dairy products and the change in the price support program will probably hold increases in dairy product prices below the average rate of increase for all foods.

Fruits and vegetables. Fresh fruit production last fall was lower than in 1980. The fall apple harvest was small in the Northeast and Great Lakes regions because of cold weather in the spring of 1981, and production of pears and grapes last year was also lower. Smaller fresh market Florida citrus supplies are available this winter because of tree damage during the January 1981 freeze and the impact of the January 1982 freeze. These production declines could lead to an increase in retail prices for fresh fruits of 10 to 12 percent in 1982. Retail prices for fresh vegetables are expected to rise 1 to 3 percent this year. Potato production in 1981 was larger than in the previous few years, while dry edible bean production was up almost a fifth. Winter vegetable production this year was reduced by the January freeze in Florida, although imports from Mexico may be partly offsetting.

Lower contracted acreage for processed vegetables, especially tomatoes, will push up prices for processed vegetables. Production of Florida frozen concentrated orange juice was reduced by the January 1982 freeze, although large carry-over stocks and the potential for continued large imports from Brazil will moderate the impact of the freeze. Also, large supplies of canned fruit will limit retail price increases for processed fruits.

Other foods. Farm-level prices for other foodstuffs are not expected to rise much in 1982. Record 1981 wheat and rice crops will keep farm-level prices for these products

low. Large carry-overs of vegetable oils, large soybean and peanut crops, and a continued recovery in world sugar production will keep prices for oils and sugar low.

Food Marketing Costs

Labor. The most important factor contributing to higher food marketing costs in 1982 will be rising employee compensation in the food sector—nearly half of all food marketing costs are employee wages and benefits. Labor costs last year averaged 10.5 percent higher than in 1980. But several factors suggest a slowing of labor cost increases in 1982, with a 9 to 10 percent rise likely. One limiting factor is that the minimum wage will not rise this year as it has the past 4 years. This will particularly affect the food service industry. Also, increases in employer contributions to Social Security will be much smaller than in 1981.

In addition, major collective bargaining contracts covering 315,000 workers in food retailing and manufacturing are to be renegotiated in 1982. In 1981, contracts covering only 280,000 workers were negotiated. The largest contracts involve the meat-packing industry and the California fruit and vegetable processing industry. Retail clerk and meatcutter contracts in many metropolitan areas will also be renegotiated throughout 1982. Importantly, only moderate wage demands are expected, largely because of the relatively low inflation rate over the last half of 1981, the anticipated slow growth in the economy during early 1982, and the likelihood of wage concessions by unions to protect jobs. The slowing inflation rate also means smaller cost-of-living wage adjustments.

Packaging. Prices for packaging materials and containers are expected to increase 7 to 8 percent in 1982, close to the 1981 increase. Higher manufacturing costs are expected to push prices for paperboard and paper products up 9 to 10 percent. However, smaller price increases are likely for metal, glass, and plastic containers because of the low rate of capacity utilization in the container industry, partially reflecting some food manufacturing firms producing their own containers.

Transportation. Transportation costs for food products are expected to increase 8 to

10 percent in 1982. Rail freight charges will rise faster than inflation as rates are adjusted to reach an "adequate revenue" level as specified in the Staggers Act of 1980. Additionally, the less restrictive regulatory environment will permit surcharges to cover higher costs for deliveries on low volume lines. Increases in trucking rates will be limited by more competition resulting from a loosening of industry regulations. Collective bargaining agreements with the Teamsters and increases in fuel costs also will be important in determining trucking rates.

Energy. Energy costs for food manufacturers and retailers are expected to rise less than the general inflation rate, although small increases in prices for petroleum products will be a restraining factor. World petroleum supplies are large and petroleum demand is expected to decline because of slow economic growth and increased substitution of alternative fuels. Coal prices will likely rise more than the inflation rate, primarily because of increased demand and higher labor costs resulting from the 1981 collective bargaining agreement with the United Mine Workers. Higher coal prices and increasing financing costs will push electricity prices up more than the inflation rate. Natural gas prices will move up substantially as a consequence of decontrol—the Natural Gas Policy Act of 1978 decontrolled some wellhead prices and much of the resulting price increases will be passed through to final users. ■

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