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## Retail Food Prices: Review of 1980

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by 5.2 percent. The number of free and reduced-price meals, however, increased by .6 and 6.7 percent, respectively.

Participating schools receive a Federal reimbursement based on the number of meals served. A basic rate of 18.5 cents was given for each lunch served from July 1, 1980, to December 31, 1980, plus 83.5 cents for each free lunch. Reimbursement for reduced-price lunches is established at 10 to 20 cents less than the free lunch rate, depending on the State-established price charged the student. These USDA national payment factors are adjusted semiannually according to changes in the Consumer Price Index for food away from home for all urban consumers.

Over the past decade, the Federal Government has assumed a greater portion of the cost of the National School Lunch Program. Federal payments for fiscal year 1978 (most recent year data are available) were estimated at 51.2 percent of total school lunch contributions. Student payments for meals accounted for 27.3 percent, and State and local contributions amounted to 21.5 percent of total funding.

In comparison, for fiscal year 1970, Federal payments amounted to 25.6 percent of program funding, while State and local, and student payments comprised 24.6 and 49.8 percent, respectively.

The National School Lunch Act of 1946 requires that non-Federal funds be supplied according to a two-part matching formula. The first requirement pertains only to the basic per-lunch rate of 18.5 cents. These funds must be matched by three non-Federal dollars for every Federal dollar provided. Matching funds may be obtained from three sources: student payments for meals, State revenues, or local community revenues. The required amount of matching funds is reduced in States with per capita income below the U.S. average, proportional to the income difference.

The second part of the formula applies specifically to appropriated or other available State funds. Revenues from this source must be supplied at a rate of 30 cents for every Federal dollar spent on meal costs for the program. These required funds may be applied toward the 3-to-1 provision. ■

**R**etail food prices rose 8.6 percent in 1980, the smallest annual increase since 1977, and significantly less than the 14.6 percent rise in nonfood prices. This helped moderate overall inflation.

The farm value of foods in 1980 averaged 5.4 percent above 1979 levels and accounted for about one-fifth of the food price increase. About half of this increase was due to the 8.4 percent rise in the farm-to-retail price spread last year, with the remainder due to prices for fish and imported foods, which averaged 11.7 percent higher.

### Farm Value of Foods

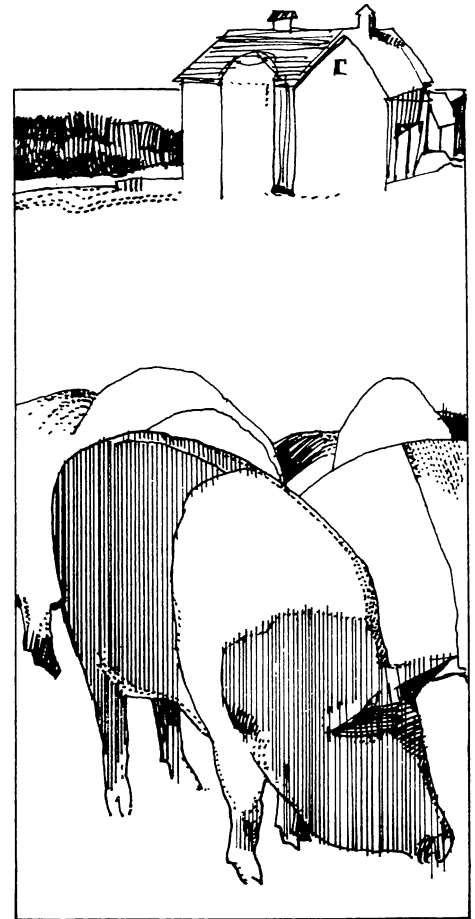
Large production and adequate stocks of many farm foods kept commodity prices low in the first half of 1980, leading to the relatively small 5.4 percent farm value increase for the year. In the first half of the year, large hog slaughter led to record supplies of pork. Poultry supplies were also ample. Mild winter weather resulted in an abundant citrus crop. At the same time, real consumer incomes were falling as the economy entered a recession, and demand for more expensive foods slackened. As a result, the farm value of foods rose very slowly in the first half of 1980 and was the major moderating factor in food prices.

In contrast, a sharp rise in the farm value of foods occurred in the third quarter. Live-stock prices rose substantially, reflecting planned production cutbacks, seasonal marketing patterns, and adverse weather conditions. Prices for fresh fruits and vegetables rose seasonally. The farm value of fats and oils also rose sharply due to reduced production of oilseeds. Although the farm value of foods continued to climb in the fourth quarter, it increased less rapidly due to harvests.

### Farm-to-Retail Price Spread

The farm-to-retail price spread represents about two-thirds of the cost to consumers of domestically produced foods. Reflected in the spread are labor, packaging materials, transportation, energy, profits, taxes, rent, depreciation, advertising, and numerous other inputs in the processing and distribution of food.

Labor is the largest component, account-



ing for about 46 percent of food marketing costs. Changing labor costs reflect wage increases, employee benefits, and productivity. Wage increases tend to rise in line with the rate of inflation, with larger increases generally occurring in periods of sustained productivity gains, and smaller increases occurring when productivity declines. Cost-of-living adjustments are included in many labor contracts of food system workers. Wages increased about 9.5 percent last year.

Employee benefits, such as paid vacations, pensions, and health programs, represented about 10.8 percent of labor costs in 1972 and 12.6 percent in 1979. Because rising nominal incomes have pushed workers into higher tax brackets, benefits which are not taxable as income have become an attractive alternative to wage increases. The cost of benefits rose about 12 percent in 1980, adding about 2 percent to total labor costs.

Declining productivity in food manufac-

turing and retailing heightened unit labor costs in the late 1970's. The trend in consumer demand for more highly processed foods and more eating away from home added less productive service-oriented labor functions to food production. In 1980, however, preliminary data indicate that there was a slight gain in productivity in food manufacturing. This productivity gain held down labor costs and was a major reason that the increase in the farm-to-retail price spread last year was lower than the general inflation rate.

The cost of direct-use energy—energy used in food processing factories and retail grocery stores—represents about 6 percent of the farm-to-retail price spread. Transportation and packaging costs are two important food marketing components whose prices have been affected by higher petroleum prices in recent years. Prices for these three inputs rose very rapidly in early 1980 and, along with labor, were the primary cause of food price rises through mid-year. Because energy prices leveled off some in the second half of the year, increases in transportation and packaging costs slowed as well. Nonetheless, prices for transportation and packaging materials each averaged 14 percent higher than in 1979, and energy prices were 35 percent higher.

Corporate profits account for about 6 percent of food industry marketing costs. Unit profits for food manufacturers and food retailers in 1980 averaged lower than in 1979 because consumer demand was not strong enough to allow a complete pass-through of higher farm values and marketing costs to retail prices. This was another major moderating factor holding the 1980 farm-to-retail price spread below the inflation rate.

**Fish and Imported Foods**

Fish and imported food prices rose 11.7 percent in 1980, adding about 2 percentage points to the retail food price increase. Higher sugar prices were the major cause as production fell in some of the major producing countries. Fish prices rose 9.2 per-

cent and roasted coffee prices, although falling through much of the year, still averaged 10.6 percent above 1979 levels.

**1980 Food Product Highlights**

Larger retail meat and poultry supplies were one of the major causes of the smaller rise in retail food prices in 1980 than in 1979. In response to favorable hog-to-corn price ratios in early 1979, pork producers increased output 7 percent in 1980. The resulting larger supplies were evident in the first half of the year. Poultry producers also increased output, mostly in the first half of the year. Beef production averaged slightly higher than in 1979, mainly due to drought-induced slaughter of nonfed cattle last summer and fall. This resulted in an increase in per capita meat and poultry supplies of

more than one percent over 1979 levels and led to a retail price rise for these foods of 3.1 percent, the smallest annual increase since 1977.

Egg production last year was the largest since 1972. Combined with the large supply of meat and poultry, the high level of egg production caused retail egg prices to average 1.8 percent below 1979 levels.

Prices for dairy products were moderated by high levels of Government and commercial stocks. Milk production in 1980 was about 3.5 percent higher than in 1979. Large meat and poultry supplies and declining real incomes diminished demand for dairy products. However, rising processing and delivery costs and farm-level price increases mandated by the price-support program pushed retail prices up 9.8 percent.

**Retail Food Price Changes**

Food Category	1977	1978	1979	1980
	Percent Change			
All Food	6.3	10.0	10.9	8.6
Food Away From Home	7.6	9.0	11.2	9.9
Food At Home	6.0	10.5	10.8	8.0
Meats	-2.2	18.7	17.0	2.9
Beef and Veal	-.5	22.9	27.3	5.7
Pork	-5.4	12.9	1.5	-3.4
Other Meats	-.6	17.8	14.7	3.8
Poultry	.6	10.3	5.0	5.1
Fish and Seafood	10.7	9.5	9.8	9.2
Eggs	-3.2	-5.5	9.5	-1.8
Dairy Products	2.7	6.7	11.6	9.8
Fats and Oils	10.2	9.5	8.0	6.6
Fruits and Vegetables	9.2	11.1	8.0	7.3
Sugar and Sweets	5.1	12.2	7.8	22.9
Cereals and Bakery Prod.	1.6	8.9	10.1	11.9
Nonalcoholic Beverages	50.7	5.7	5.0	10.6
Other Prepared Foods	3.5	8.0	10.1	10.8

Source: Bureau of Labor Statistics; based on the Consumer Price Index, all urban consumers.

## Food Spending and Income

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Retail prices for fats and oils averaged 6.6 percent above 1979 levels. Record oilseed production in 1979, led by soybeans, along with only a small rise in oilseed usage, contributed to the relatively small increase in fats and oils prices. Lard production also rose, primarily reflecting increased 1980 hog slaughter. These factors partly offset higher marketing costs.

Prices for fruits and vegetables in 1980 averaged 7.3 percent higher than in 1979, the smallest annual rise since 1976. The 1979-80 apple and orange harvests both set records, providing large supplies for much of 1980. Production of many vegetables, especially potatoes, lettuce, carrots, and tomatoes, was also very high. Large stocks of processed fruits and vegetables, including frozen concentrate orange juice, tomatoes, and peas, and competition from fresh supplies exerted downward pressure on prices for those foods. Additionally, many promotional discounts on processed fruits and vegetables were offered as high interest rates made inventory holding more costly.

Prices for sugar and sweets averaged 22.9 percent higher than in 1979. World sugar production in 1979-80 was about 6 million metric tons below consumption, the first deficit in seven years. Reduced production in many producing countries including the USSR, Cuba, India, and Thailand offset record production in the European Community.

Food marketing costs, especially for energy and packaging materials, dominated price increases for cereals and bakery products (up 11.9 percent) and nonalcoholic beverages (up 10.6 percent). Higher sugar prices have been an additional inflationary factor for these food groups.

Prices for food away from home in 1980 averaged 9.9 percent higher than in 1979. Moderate increases in wholesale food prices and slackening demand kept the rise in these prices below the inflation rate. Consumers purchased less food away from home as real incomes fell and travel was reduced because of higher fuel prices. ■

*The national income and production accounts that incorporate benchmark information from the 1972 and 1977 economic censuses are being revised. Consequently, all Personal Consumption Expenditure (PCE) data and income back to 1968 will be revised. The revisions will appear in a future issue of the NFR.*

**T**he Nation's personal consumption expenditures for food neared the \$300 billion level during the third quarter of 1980, just 4 years after reaching the \$200 billion mark. Expenditures in that period went up roughly one-half, but only about 7 percent reflected a gain in real volume. The other 43 percent was due to food price inflation.

Third-quarter 1980 food expenditures averaged \$298 billion at a seasonally adjusted annual rate, of which \$226 billion was spent on food at home and \$72 billion on food away from home. For the third consecutive quarter, the portion of the food dollar allocated to away-from-home eating dropped.

While food-at-home expenditures advanced about 3.7 percent above the second quarter of 1980, this gain was due to higher grocery store food prices. Apparent real volume showed no change. Compared with the third quarter of 1979, however, real volume was about 3 percent higher. Expenditures in current dollars were about 12.5 percent higher; the rest largely reflected higher prices.

Food away-from-home expenditures rose a little more than 1 percent above the second quarter of 1980, but this increase was less than the increase in prices. Real volume dropped about 1 percent, the sixth decline during the last seven quarters. Compared to third quarter 1979, real volume was 1.5 percent lower.

All of the decline in away-from-home eating volume was due to a sharp drop in sales at the Nation's restaurants. Fast food chain sales, adjusted for price changes, were about 2 percent above a year ago.

### Disposition of Income

The Nation's disposable personal income (DPI) totaled over \$1.8 trillion during the third quarter, or about a 3 percent advance

