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Food Spending and Income

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U.S. food spending in the second quarter of 1980 advanced about 1 percent above spending during the first quarter, as an increase in grocery store food expenditures offset a sharp drop in restaurant eating.

Personal consumption expenditures for food during the second quarter reached \$289 billion. But the \$3 billion increase from the first quarter was entirely due to

price increases. Apparent real volume dropped about one-half of 1 percent, while food prices averaged 1 1/2 percent higher than the previous quarter.

The decline in real volume of food spending reflected a very sharp drop in away-from-home sales. Restaurant food spending in current dollars dropped \$1 billion to about \$71 billion during the second quarter, or about 1 1/2 percent lower

than that of the previous quarter. But, when adjusted for price increases, apparent real volume dropped about 4 percent. This drop was largely due to a decline in the economy. Per person disposable income, adjusted for price increases, dropped almost 2 percent. In the past, expenditures on away-from-home eating have largely mirrored changes in domestic income.

Personal Consumption Expenditures (Major Items)

	1978						1979			1980	1980
	1977	1978	1979	III	IV	I	II	III	IV¹	I	II
	Billions — current dollars²										
Food,excluding alcoholic beverages	217.9	240.7	267.8	243.1	251.7	260.0	263.1	267.7	279.8	286.1	288.9
For use at home	162.7	179.3	200.6	180.8	187.3	193.3	197.7	201.2	209.3	214.1	217.9
Food away from home	55.2	61.4	67.2	62.3	64.4	66.8	65.4	66.5	70.6	72.0	71.0
Nondurables excluding food.	263.4	289.9	329.2	293.6	306.4	311.1	317.7	336.4	350.9	365.9	365.2
Clothing and shoes.	82.4	91.2	90.6	92.7	96.8	95.5	96.9	100.9	103.6	103.9	104.1
Gas and oil	46.7	50.9	65.1	51.5	55.0	58.4	60.2	68.1	73.4	83.6	83.6
Fuel oil and coal	13.1	14.0	18.2	13.4	13.6	15.4	17.2	20.2	20.4	21.7	22.2
Alcoholic beverages.	28.8	31.0	34.0	31.5	32.2	32.9	33.3	35.0	35.8	36.5	36.9
Other	92.5	102.9	112.4	104.7	108.9	108.9	110.1	112.2	117.7	120.2	118.3
Durable goods	178.8	200.3	217.8	203.5	212.1	213.8	208.7	212.5	216.2	220.2	195.7
Motor vehicles and parts	81.6	91.2	91.3	92.4	94.9	97.7	89.1	88.8	89.4	92.9	71.8
Furniture and household equipment.	70.9	77.6	85.7	78.9	82.7	82.1	84.2	87.5	88.9	88.2	86.0
Other durables.	26.3	31.5	35.8	32.2	34.5	34.0	35.4	36.2	37.9	39.1	37.9
Services.	549.8	619.8	700.0	629.1	645.1	669.3	686.0	711.2	733.4	757.3	776.9
Housing	187.3	212.2	241.6	215.0	222.1	229.5	236.3	245.0	255.2	263.4	272.1
Household operation	82.0	91.4	102.0	92.5	93.7	99.2	99.1	102.6	105.5	105.2	110.1
Transportation	43.6	49.2	55.7	49.7	50.8	52.9	54.5	56.8	58.4	59.6	60.4
Other	236.9	267.2	300.7	271.9	278.5	287.7	295.4	306.8	314.3	329.1	334.3
Total personal consumption expenditures.	1,210.0	1,350.9	1,509.8	1,369.3	1,415.4	1,454.2	1,475.9	1,527.7	1,580.4	1,629.5	1,626.6
Total disposable income.	1,305.1	1,458.4	1,624.3	1,476.5	1,524.8	1,572.2	1,601.0	1,638.4	1,683.1	1,737.4	1,755.9
Savings rate (percent)	5.0	4.9	4.5	4.7	5.0	5.4	5.4	4.3	3.5	3.7	4.9
	Billions — 1972 dollars										
Food excluding alcohol.	143.3	143.4	144.1	143.1	145.3	143.8	143.2	145.0	148.0	148.8	148.0
Food for use at home	106.7	106.3	107.4	105.7	107.1	105.6	106.8	109.0	110.6	112.0	112.6
Food away from home	36.7	37.1	36.7	37.4	38.2	38.2	36.4	36.0	37.4	36.8	35.4
Nondurables excluding food.	189.1	199.9	205.2	201.6	206.6	204.3	200.9	203.5	207.1	205.3	199.8
Durables	138.2	146.7	147.0	147.5	152.1	150.2	144.8	146.9	146.7	145.4	127.4
Services.	390.8	410.8	428.2	413.1	416.4	423.1	426.0	430.6	433.6	437.0	435.6
Total personal consumption expenditures.	861.7	900.8	924.1	905.3	920.3	921.8	915.0	925.9	935.4	936.5	910.8
Disposable personal income.	929.5	972.6	994.1	976.2	991.5	996.6	993.0	993.5	996.2	998.5	983.1

¹Preliminary.

²Quarterly data are adjusted at annual rate.

Source: U.S. Dept. of Commerce. Total may not add due to rounding.

Retail Food Prices: A Look at 1980 and 1981

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Spending for food at home, however, rose about 1 percent to almost \$218 billion. This increase largely reflected a 1 percent rise in prices; apparent real volume rose about one-half of 1 percent. Red meat consumption, which comprises a sizeable bulk of food expenditures, remained unchanged as an increase in pork consumption offset a decline in beef consumption. Poultry consumption was higher, while dairy consumption was lower.

Disposition of Disposable Income

While food-at-home expenditures remained unchanged, the decline in real disposable income took its toll on other components of the Nation's Personal Consumption Expenditures. In real terms (1972 dollars) PCE for durables, nondurables, and even services dropped between the first two quarters of 1980.

The sharpest decline was for durable goods, which fell 12 percent when adjusted for price increases and 10 1/2 percent in current dollars. Motor vehicles and parts, an important component of the durable goods category, fell almost a fourth, from \$93 billion. All other durable goods components also dropped.

Nondurable goods purchases, unadjusted for price increases, remained essentially unchanged at \$654 billion; when adjusted for price increases, they dropped 2 1/2 percent. In addition to a decline in real food-away-from-home expenditures, drops also occurred for gasoline and oil, fuel oil and coal, clothing and shoes, reading materials, household and beauty aids, and many other nondurable items.

Expenditures for services rose 2 1/2 percent, but when adjusted for price increases they declined slightly.

Because total personal overlays declined \$3.4 billion, and disposable personal income increased about \$18 1/2 billion, the savings rate rose sharply. Second quarter savings as a portion of Disposable Personal Income (DPI) rose to 4.9 percent, compared with 3.7 percent during the previous quarter.

The percent of DPI spent on food remained at about 16.4 percent. Food at home as a percentage of DPI rose to 12.4 percent, while food away from home declined from 4.1 to 4.0 percent. ■

Inflation is one of the major economic problems facing the Nation. Food is a prominent component of the general price level for two major reasons. First, food is a basic necessity. Expenditures on food are required living costs. Second, food is purchased usually more than once a week.

Food price changes in 1980 are following a different pattern than they had the previous 2 years. In 1978 and 1979, the largest food price rises occurred in the first half of the year, with more moderate rates of increase observed in the second half. Until the middle of this year, however, food prices had been rising at a relatively slow rate. The farm value of foods rose very slowly in the first half of 1980. This moderated food price increases. During the first six months of 1980, retail food prices rose at an annual rate of 8.7 percent, about half as fast as prices in the rest of the economy.

The larger price rises occurring in the second half of 1980 can be expected to continue in 1981. The farm value of foods will contribute more to food price inflation as farm-level prices recover from their low levels of the first half of 1980.

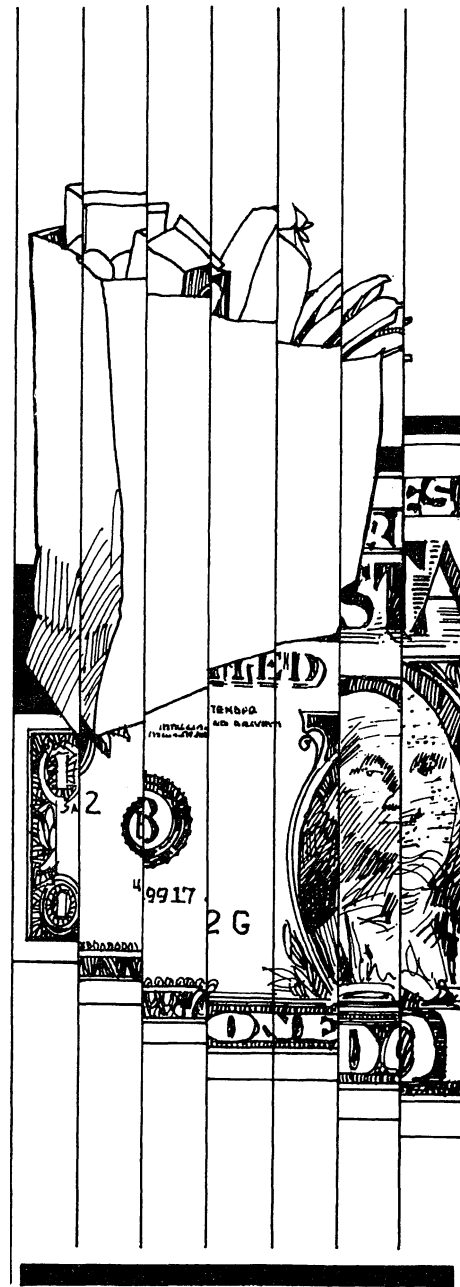
Major Food Price Components

The retail food dollar is comprised of three major components: the farm value of domestically produced farm foods, marketing costs, and the costs of foods not produced on domestic farms, including fish and imported foods. All food price changes can be traced to changes in these three components.

Pricing Process in the Food Marketing Chain

For domestically produced farm foods, higher prices for raw farm products increase the farm value component of retail prices. Higher farm foodstuff prices raise costs for the participants in the food marketing chain — food manufacturers, distributors, and retailers. As costs increase, each participant raises prices to cover these higher costs. Ultimately, higher prices for farm products are passed on to the consumer as higher grocery store prices. Changing costs in the processing or distribution of foods affect retail food prices in a similar manner.

The consumer is not confronted with higher prices instantaneously. For highly processed foods such as cereals, bakery



products, and canned foods, it may take many months for higher farm-level prices and higher marketing costs to reach retail prices. For other food products, such as fresh fruit, fresh vegetables, poultry and eggs, recent studies have shown that changes in farm-level prices and marketing costs get to consumers within a few weeks.