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Food Price Situation and Outlook Highlights

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Retail food prices in 1979 will average about 11 percent higher than in 1978. The farm value of the market basket of domestically produced farm foods is expected to average 11 to 13 percent above, 1978, accounting for about two-fifths of the yearly increase in grocery store prices for food. The farm-to-retail price spread is expected to average 11 to 12 percent higher and account for about half of the rise. Prices for fish and imported foods will be about 6 percent higher, accounting for the remaining tenth. Food-away-from-home prices are expected to average about 11 percent higher this year than in 1978.

First Half of 1979

During the first 6 months of 1979, food prices increased at an annual rate of 12.5 percent. In the first quarter, increases in farm commodity prices were the primary cause of a 17.7-percent rise in food prices. High levels of consumer income affected a strong demand for food. Adverse winter weather and labor disputes diminished supplies of livestock and some fruits and vegetables. As a result, retail prices for meats increased 51.5 percent and prices for fresh fruit and vegetables increased 20.2 percent.

Retail food price rises in the second quarter moderated significantly from the large first quarter increases. From March to June, the Consumer Price Index (CPI) for food increased 7.5 percent, much less than the 17.7-percent rise from December 1978 to March 1979.

Marketing costs, rather than farm commodity prices, were the primary source of food price increases in the second quarter. The farm value of the market basket fell steadily in April, May, and June, but the farm-to-retail price spread increased enough in each month to more than offset the farm value declines.

Meat price increases moderated substantially in the second quarter.

Beef prices began to stabilize, reflecting lower cattle prices and a temporary production increase. Pork and poultry prices fell as increased production affected the retail markets.

Fruit and vegetable prices were slightly higher in June than in March. Price declines for fresh vegetables from high first quarter levels did not offset increases in fresh fruit prices, while prices for processed fruits and vegetables increased modestly since the first of the year.

Outlook for Second Half of 1979

Recent moderate monthly food price increases are expected to continue for the second half of the year. The continued weakening of the economy likely will result in some slowing

in demand for food products. Falling real incomes and rising unemployment will lessen demand for beef. Also, the recession and the higher gasoline prices are expected to slow the demand for food eaten away from home.

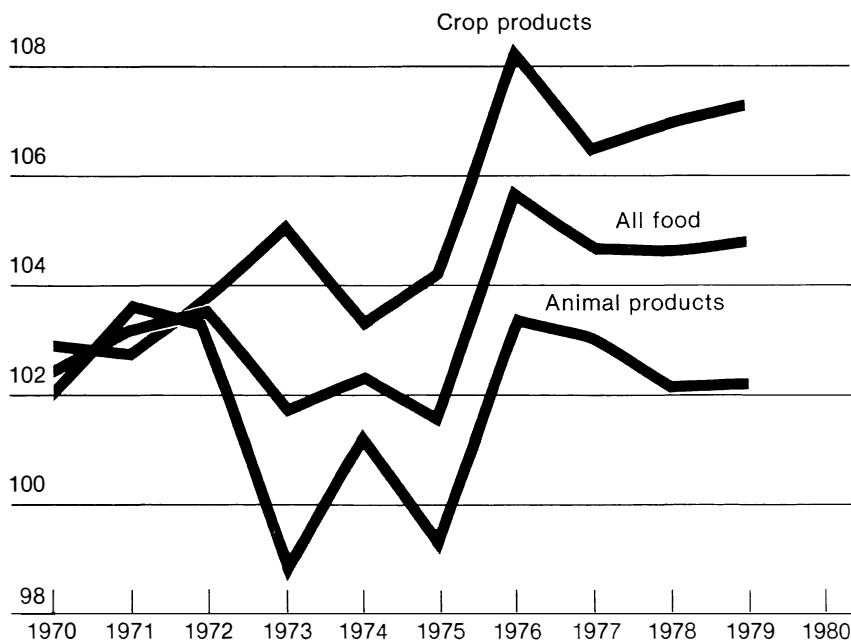
Meats

Retail meat prices are expected to decline further as slaughter increases seasonally. Per capita meat and poultry supplies during the second half of 1979 are expected to be 6 to 8 percent above the first half. The supply increase will be primarily due to a continuation of the large pork production.

Beef supplies will remain near first-half levels, but still below a year earlier. With weakening demand for

Per Capita Food Consumption

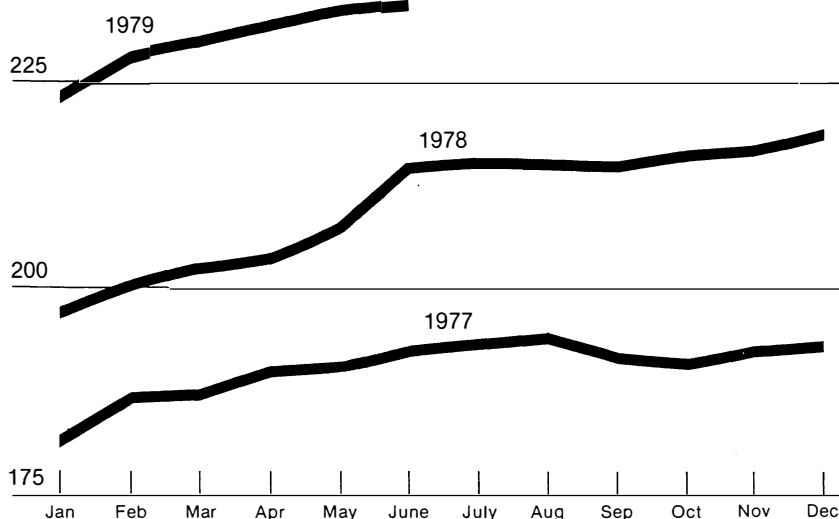
Percent of 1967



Items combined in terms of 1967-69 retail prices. 1978 preliminary, 1979 forecast.

Retail Food Prices (Food at Home)

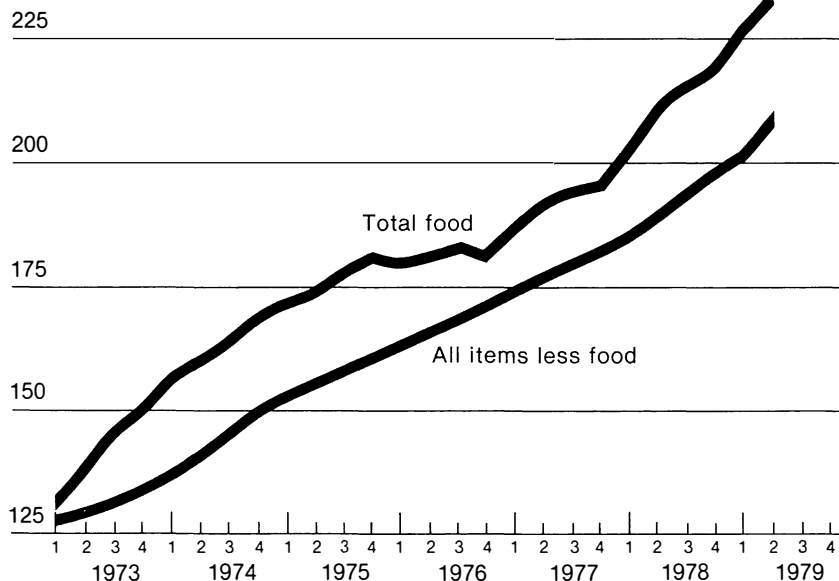
Percent of 1967



Source: Bureau of Labor Statistics.

Consumer Price Index: All Items and Total Food

Percent of 1967



Source: Bureau of Labor Statistics.

more expensive beef cuts, retail prices are expected to fall near the end of the year.

Poultry and Eggs

Broiler production will continue to be expanded and will average 8 to 10 percent higher than a year ago, causing retail poultry prices to fall through the end of the year.

Retail prices for eggs have been averaging higher in 1979 than 1978 despite an increase in production. This is largely a result of stronger demand including the increased use of hatching eggs to support the expansion in poultry production.

Dairy Products

Prices of milk and dairy products will likely rise at all levels during the rest of 1979 as supply-demand conditions tighten seasonally. Output during the rest of 1979 is expected to be up slightly from a year earlier.

Fruits and Vegetables

Production of noncitrus fruits is expected to be 9 percent higher than last year. Record crops may be realized for apples, California grapes, nectarines, and plums. With demand good for fruit, and stocks of most processed fruits low, prices for fruit will remain seasonally higher in the third quarter before falling near the end of the year. Prices for fresh vegetables are expected to remain below their high early-year levels.

Production of potatoes likely will be below a year ago. Because of large carryover stocks from last fall, producers have cut back planted acres. Prices for potatoes will decline seasonally but will likely exceed last year's levels.

Cereals and Bakery Products

Retail prices for cereals and bakery products are expected to increase with the rate of inflation in the general economy. The strong export de-

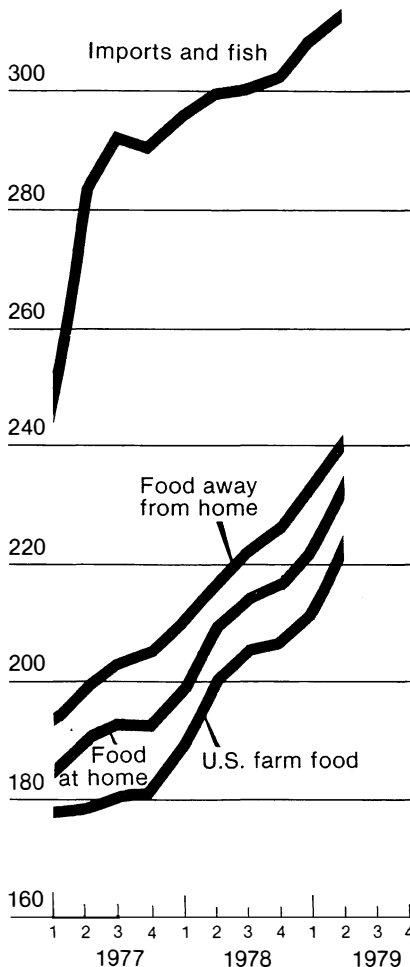
Domestic Food Programs

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mand for grains will affect these prices only minimally because U.S. production and stocks are both large and the farm value of cereals and bakery products accounts for less than one-fifth of the final retail price. □

Major Components of the CPI- For All Foods

Percent



Family Food Programs

Participation in the Food Stamp Program (FSP), the largest domestic food assistance plan, reached 16.6 million people in the second quarter of this year. This is a 14.7-percent increase from the same period in 1978. The increased participation is primarily due to the elimination of the purchase requirement implemented in January 1979 under the 1977 Food Stamp Act.

The value of stamps issued during the second quarter totaled \$1.5 billion, 30.5 percent more than the bonus stamps issued for the same period in 1978. Thus, the average benefit rate has increased due to deduction changes, changed participation standards, and adjustments made to offset rising food costs.

With the removal of the purchase requirement, coupon face value is now the amount of assistance given per recipient. Previously, total coupon issuance included both "bonus" stamps—the actual value of assistance—plus the value of purchased stamps. Eliminating the purchase requirement made food assistance more readily available to those most in need. Recipients now have greater freedom in their consumption decisions since they are not required to use personal income to obtain their food stamps. The potential for error or fraud in the disbursement of stamps is reduced since handling cash is no longer involved.

The 1977 food stamp legislation included a "cap" on annual expenditures for the FSP. The amount for fiscal 1979 was limited to nearly \$6.2 billion. The increased benefits and the increased participation necessitated greater outlays during the year, and the limit would have been reached well before the end of the fiscal year—severely curtailing benefits. These eventualities were averted by congressional authorization of increased appropriations for FY 1979.

By law, food stamp allotments are adjusted twice each year, on January 1 and July 1. Food stamp allotments were increased on July 1 to reflect the 6.8-percent increase in the cost of USDA's "Thrifty Food Plan" (TFP) between September 1978 and March 1979. The 6.8-percent increase in food stamp allotments is less than the rise in the cost of all foods during the same period, which was 7.9 percent, because the TFP selects low-cost foods to achieve a nutritionally adequate diet.

A four-person, eligible household now may receive up to \$204 in FSP benefits per month. The amount of stamps issued to eligible households is based on food costs and participant income. Coupon allotment is determined by subtracting 30 percent of net income from the TFP amount for households of that size. A standard deduction, an earned income deduction, and an excess shelter cost deduction are subtracted from gross income where applicable, making income lower and benefits higher.

A food stamp monitoring system to improve FSP operations has been proposed by USDA in response to a provision of the Food and Agriculture Act of 1977. The system would have three major parts: Quality control reviews to reduce errors; management evaluation reviews to assure better administration; and a planning and evaluation system to correct program deficiencies. States found to have low error rates would receive a 10-percent increase in Federal administrative payments.

Participation in the Special Supplemental Food Program for Women, Infants and Children (WIC) has also increased since the second quarter of 1978. Participation in the same period this year averaged 1.5 million, with Federal expenditures of \$138.2 million. WIC participants receive food from a delivery system operated at