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Federal Reserve Bank of Chicago - -

February 16, 1973

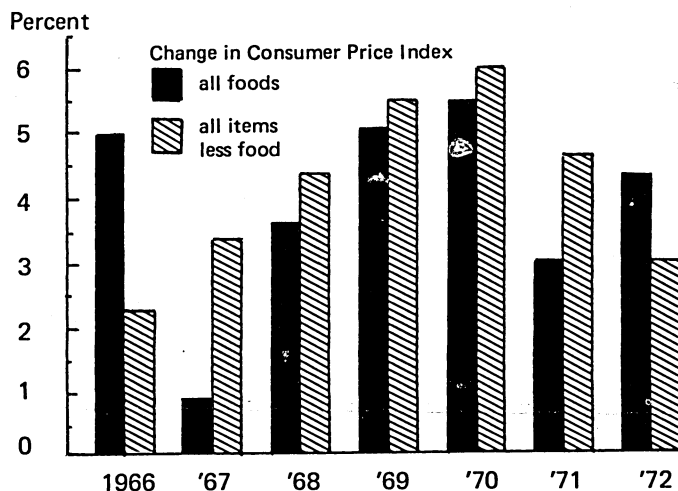
Agricultural Letter

Number 1209

EXPENDITURES FOR FOOD rose sharply last year, as increased demand boosted prices in the wake of modest gains in supplies. Consumer expenditures for food rose to around \$125 billion in 1972, up 6 percent from the previous year. The increase, which was more than double the gain posted in 1971, was due largely to higher prices rather than expanded consumption. Preliminary estimates indicate per capita food consumption actually dipped slightly last year for the first time in seven years.

Smaller meat supplies, particularly pork, accounted for most of the 1972 dip in per capita food consumption. Per capita pork consumption last year fell to less than 68 pounds—down from the unusually high 73 pounds the year before—reflecting the 10 percent drop in commercial hog slaughter. Although beef consumption increased slightly, total per capita red meat consumption declined an estimated 4 pounds to 188 pounds. This loss was partially offset by the continuing uptrend in per capita consumption of poultry and fish, and a surprisingly large increase in consumption of dairy products, particularly cheese. Current estimates indicate domestic per capita consumption of milk in all uses rose nearly 1 percent last year, the first increase since the mid-Fifties.

Food Paced Gains in Consumer Prices in 1972



Food prices rose 4.3 percent in 1972, as the gains in personal disposable income boosted consumer demand. The advance was well above the increase registered in 1971, but substantially below the gains posted in both 1969 and 1970. Nevertheless, last year's increase in food prices was particularly prominent since it occurred during a period when economic controls contributed to a marked slowing in the overall rate of inflation. Indeed, the advance in the consumer price index of all items less food slowed to 3 percent last year, down from 4.6 percent in 1971.

Food consumed away from home accounted for a comparatively large portion of the overall gain in food expenditures, although prices of food away from home rose more slowly than that consumed at home. The rapid advance in expenditures for food consumed away from home continues a long upward trend. Since 1960, such expenditures have doubled and presently account for around 22 percent of total

food expenditures. Several factors have contributed to this advance, but the increased availability of quick-food franchises, the greater participation by women in the labor force, and the shift in the age distribution of the population toward young adults are among the major factors.

Individual eating establishments serve the largest portion of the demand for food eaten away from home. A recent study by the U. S. Department of Agriculture found that individual eating establishments account for nearly three-fifths of the value of food purchased by the food service industry. Hospitals, colleges, and tourist facilities were all tied for a distant second, with each accounting for about 6 percent of the total value of food purchased by the food service industry.

The outlook for food expenditures and prices in the current year suggests the trends of 1972 will be extended and the rate of increase may be even larger than during the past year. A recent report by the U. S. Department of Agriculture projected this year's gain in food prices would reach a 22-year high of 6 percent. This actually implies a slowdown in price increases from the current situation, as gains of 8 percent have been estimated for both January and February.

Several factors will play a role in food prices during the ensuing months of 1973. The continuation of price controls on food during Phase III may temper some of the retail price pass-throughs to consumers. The recent devaluation of the dollar could also play a role by diverting a larger portion of food supplies into export markets and boosting the price of imported foods. But in the final analysis, consumer demand likely will play the largest role in food prices. The expected continuation in the growth of the economy will most likely be evident in rising disposable incomes. If consumers use these gains to purchase more food of a higher quality, upward pressures on food prices will be the obvious result since supplies, while adequate, are not likely to show sizable gains during much of 1973.

In relation to demand, meat supplies are expected to remain tight throughout most of the first half of the year. During the second half, however, a turnaround in pork production should boost meat supplies above a year ago and permit a slight overall gain in red meat consumption. Moderately larger supplies of poultry, fish, dairy products, and vegetables are also expected to result in increased consumption for the entire year. Overall, per capita food consumption may increase slightly during 1973.

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