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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

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OUTLOOK FOR FOOD CONSUMPTION AND PRICES

Talk by Stephen J. Hiemstra
Economic and Statistical Analysis Division
at the 41st Annual Agricultural Outlook Conference
Washington, D. C., 9:00 A.M., Wednesday, November 20, 1963

Demand for Food

Demand for food is determined primarily by the size of the population and the purchasing power of consumers. The total quantity of food we eat per person does not change much from year to year, but expenditures for food may vary depending upon incomes of consumers and prices and quantities of the various foods (including services) offered for sale (fig. 1).

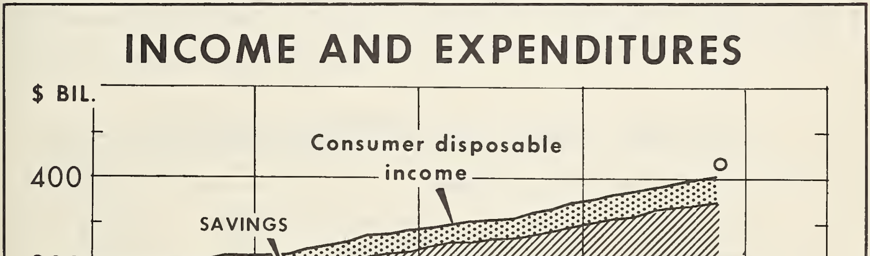

Figure 1

We've been told earlier this week that present prospects point to continued expansion in our economy next year. Contributing factors are further increases in consumer spending, business investment, and government purchases. Population likely will expand about 1½ percent, about the same as in 1963. Improved profits are in prospect for businessmen as utilization of plant and equipment steps up in response to rising output, sales, and improved consumer demand. The strength of this demand will be conditioned in large measure by the final outcome of the proposed cut in personal income taxes. We are anticipating an increase in disposable income in 1964 equal to or perhaps larger than this year's rise.

Food Expenditures

Total food expenditures in 1964 may outrun the 1963 increase of about 3 percent, if the current outlook for disposable income is achieved. Food expenditures normally trend upward with income, but only about two-thirds as fast. Disposable income is up about 4½ percent this year compared with the 3-percent rise in food expenditures. Last year income was up 5.5 percent and food expenditures were up 3.8 percent.

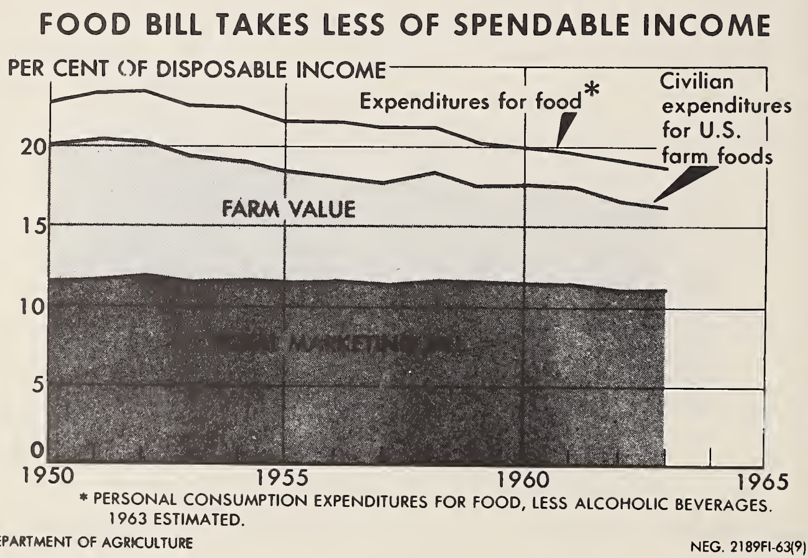

Figure 2

For every dollar of increase in disposable income in 1963, around 15 cents is being spent for food -- this includes food bought in restaurants and other eating places as well as that bought in grocery stores. But of all disposable income earned this year, an average of nearly 19 percent is being spent for food (fig. 2). The tendency for consumers to spend less of the annual increase in income for food than the average of all income has persisted through most of the postwar period. It reflects an income elasticity of food expenditures that is well below one. For this reason, there has been an almost steady decline in the proportion of disposable income spent for food in the last decade. The proportion dropped from $23\frac{1}{2}$ percent of income in 1951 to 19 percent in 1963. And for 1964, it looks as if it may be down to about $18\frac{1}{2}$ percent.

Aside from Department of Commerce's series on expenditure for food, the chart shows civilian expenditures for foods originating on U. S. farms, as computed by Economic Research Service. The ERS series omits imported foods, fish and other seafoods, home-produced food, and food furnished by the Government to the Armed Forces. However, it includes certain items such as meals served in hospitals and on airlines, and other expenditures omitted from the Commerce series to avoid duplicate in the National Income Accounts.

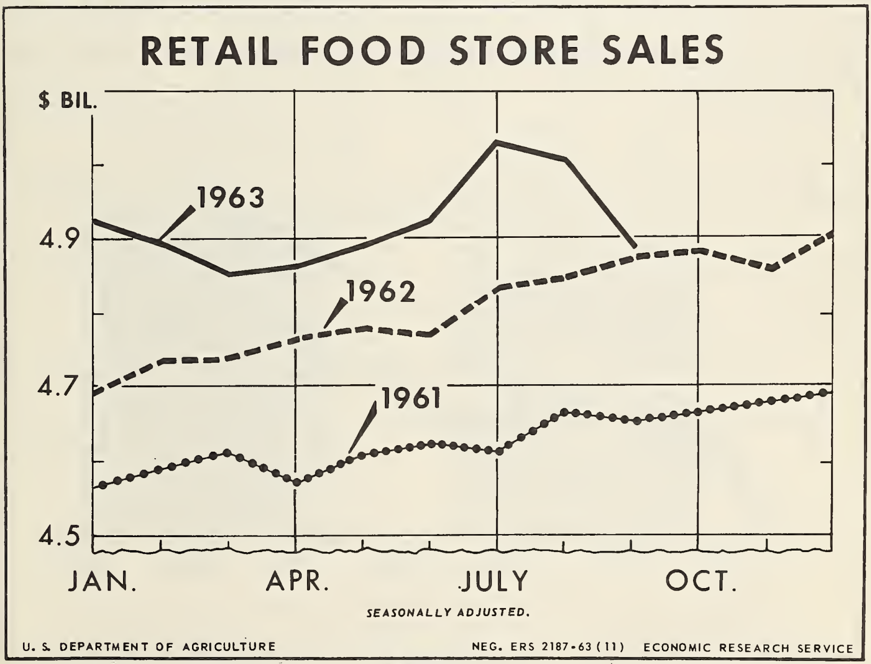

Figure 3

U. S. farm food expenditures are composed of farm value and the total marketing bill (which incl[illegible]es the cost of processing, distribution, and marketing). The decline in proportion of income spent for food in the last decade has come primarily from a decline in farm value relative to disposable income. Both the farm value and income rose, but income went up much faster than did the farm value. On the other hand, the total marketing bill has remained almost steady as a proportion of disposable income. It implies a high elasticity of demand for marketing services.

Retail food store sales, which include sales of nonfood items, have not gone up as sharply this year as they did in 1962 (fig. 3). Sales in the second quarter of 1963 averaged about the same as in the first quarter, on a seasonally adjusted basis. The third quarter was up on the average, but as you see, it was quite irregular. July and August were sharply above the previous year, but September sales exceeded year-earlier sales only slightly. For the 9 months, sales were 3 percent ahead of the same months in 1962. Sales of eating and drinking places have been running ahead of last year at a somewhat faster rate than have those of retail food stores, as is normal. They were up 5 percent in the same 9 months. About 90 percent of total retail food store sales are made by grocery stores, the other 10 percent by meat markets and

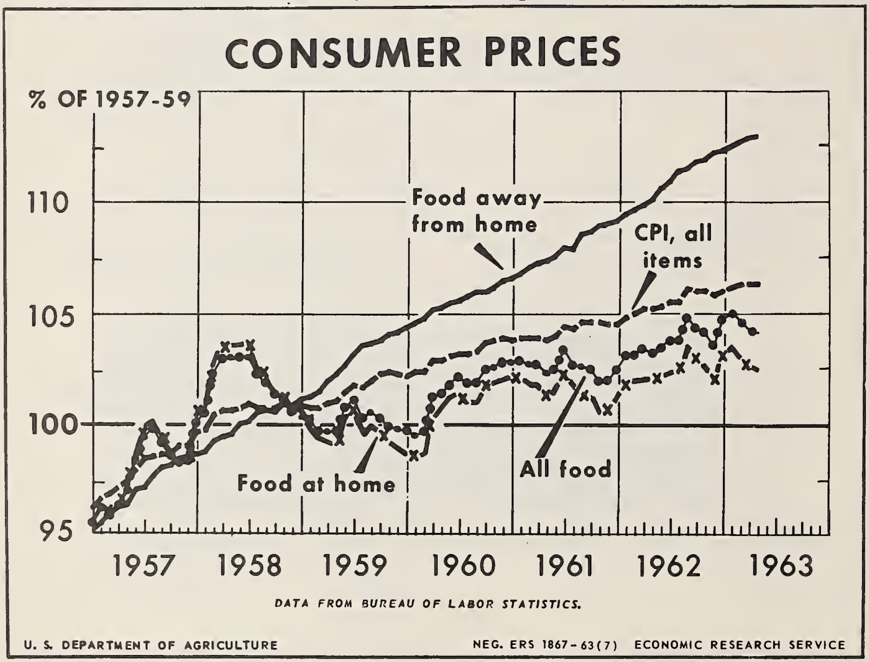

Figure 4

other specialized food stores. According to trade sources, grocery stores sell about half of the total value of all food products consumed.

Retail Food Prices

Food prices in 1963 are averaging about $1\frac{1}{2}$ percent above last year's level (fig. 4). This rise is somewhat greater than in recent years. Charges per unit for processing and marketing foods originating on U. S. farms rose 4 percent during 1963, about twice the average rate of increase in the last decade. Average retail prices of food from livestock products in 1963 are down slightly from 1962. But prices of food from crops are up by 3 or 4 percent, due partly to Florida's freeze-damage and high sugar prices. Prices of food purchased and consumed away from home are up the usual $2\frac{1}{2}$ percent. The total price increase for all food slightly exceeds the average rise in the Consumer Price Index (all commodities and services) in 1963, in contrast to the more usual case of the CPI going up more than its food component.

Of all food used at home, that from livestock products and from crops each account for about two-fifths of the total weight in the Bureau of Labor Statistics' All Food Index. Food purchased as meals and eaten away from home makes up the remaining one-fifth.

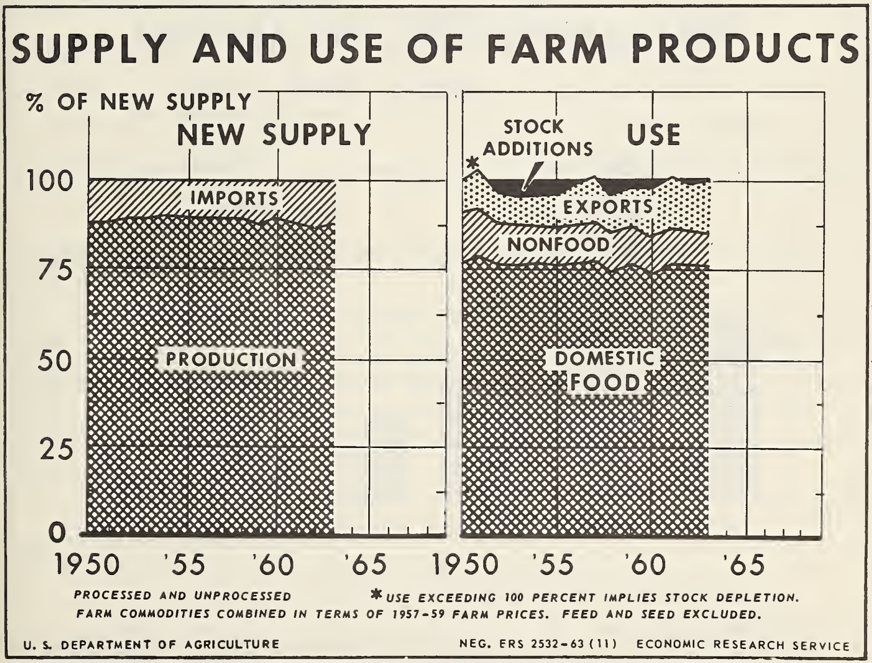

Figure 5

During 1964, retail food prices may creep upward as they have in most postwar years, but the rise is expected to be less than the increase in 1963. Retail prices of food from livestock products in 1964 are expected to average about the same as in 1963. Some upward price pressure may develop on foods from crops, as was the case in 1963. Further increases can be expected in prices of food consumed in restaurants and other away-from-home eating places. The 1964 increase likely will be a continuation of the strong uptrend in these prices since they were first reported in 1953.

Supply and Use of Farm Products

Current farm production furnishes about seven-eighths of our total annual requirements (fig. 5). The rest is imported. These proportions have remained very stable from year to year. The most important imported item is coffee and the next is sugar.

The major use of our farm products is for food (excluding intermediate uses for feed and seed). Domestic food use takes about three-fourths of our annual new supply. One-tenth of the total is for domestic use of nonfood products such as cotton, tobacco, and wool, and byproducts and nonfood uses of food

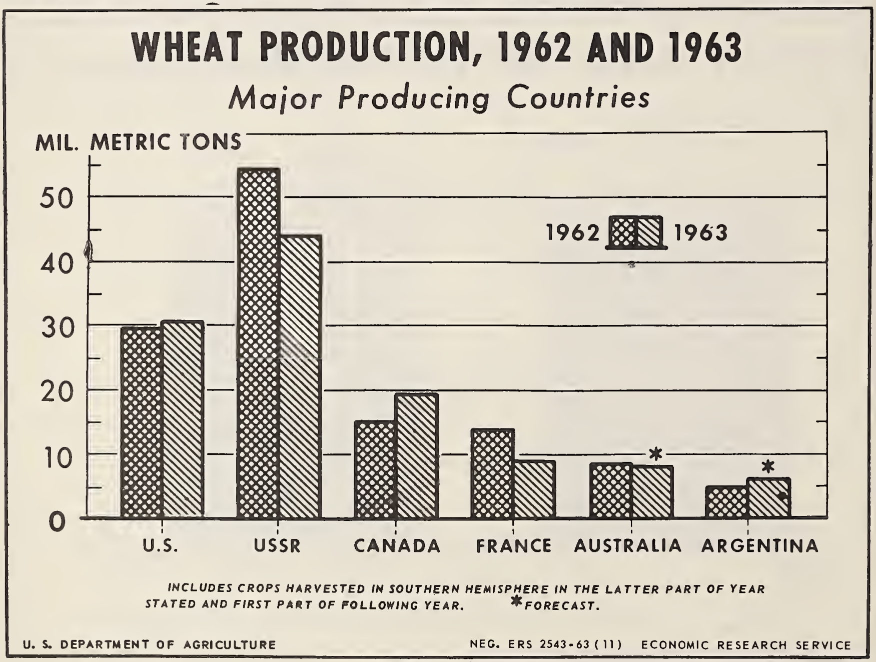

Figure 6

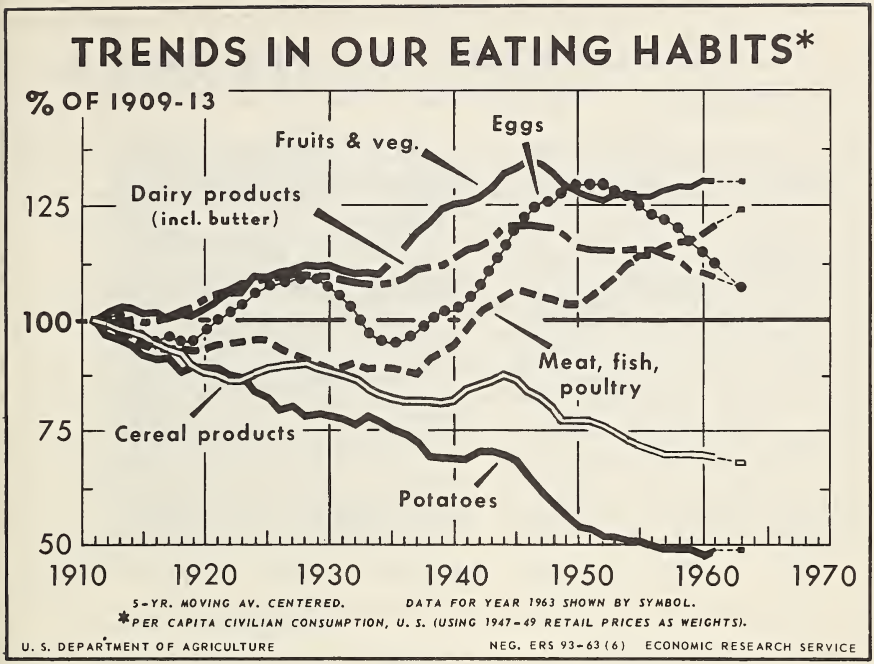

Figure 7

products. Nonfood use has been declining as a proportion of the total in recent years.

Exports of farm products account for a larger part of total supply than imports. In the past decade our net export position in agricultural products has increased significantly. Wheat is our most important exported farm product (fig. 6). Wheat exports in the fourth quarter of 1963 and in 1964 are expected to rise sharply because of reduced production in major producing countries and prospective shipments to the Communist Bloc.

Per Capita Consumption Trends

Long-term trends show that per capita we are eating more meat, fish and poultry, dairy products, eggs, and fruits and vegetables, but less cereal products and potatoes than in past decades (fig. 7).

But many of these long-time trends have been modified or reversed in recent years. Declines since the late 1940's in per capita consumption of dairy products and eggs are notable examples. Total fruit and vegetable consumption seems to have stabilized, though a number of changes have taken

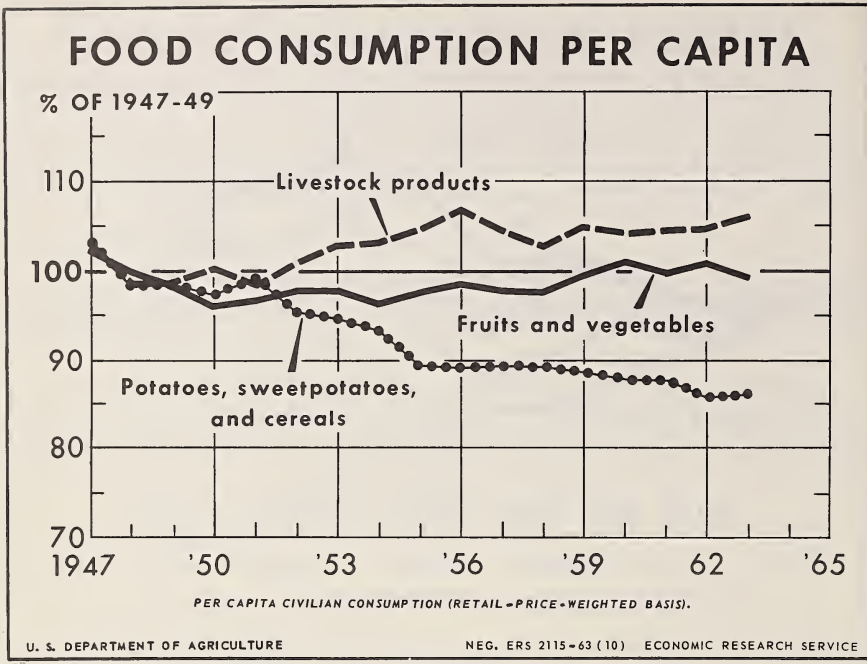

Figure 8

place within this large and heterogeneous group. Even potato consumption is holding its own or rising, thanks to the introduction of new products, such as Phil Dwoskin will be discussing later this morning. But per capita consumption of cereals and potatoes combined is still declining, and livestock product consumption as a group continues to rise (fig. 8).

Total food consumption in 1963 is up about 2 percent from last year (price-weighted index). Since population is up about 1½ percent, per capita food consumption is up about half of 1 percent. Even though this sounds like a small increase, it is the largest since 1959. Since 1947-49, per capita food consumption has increased a total of only 4 percent.

Consumption and Prices of Food From Livestock Products

Retail price and consumption trends of most food products have diverged in recent years. It is particularly noticeable for most livestock products (fig. 9). Poultry meat is the prime example of sharply rising consumption per capita and rapidly declining retail prices since 1950. Dairy product consumption declined during this period, but prices went up rather consistently.

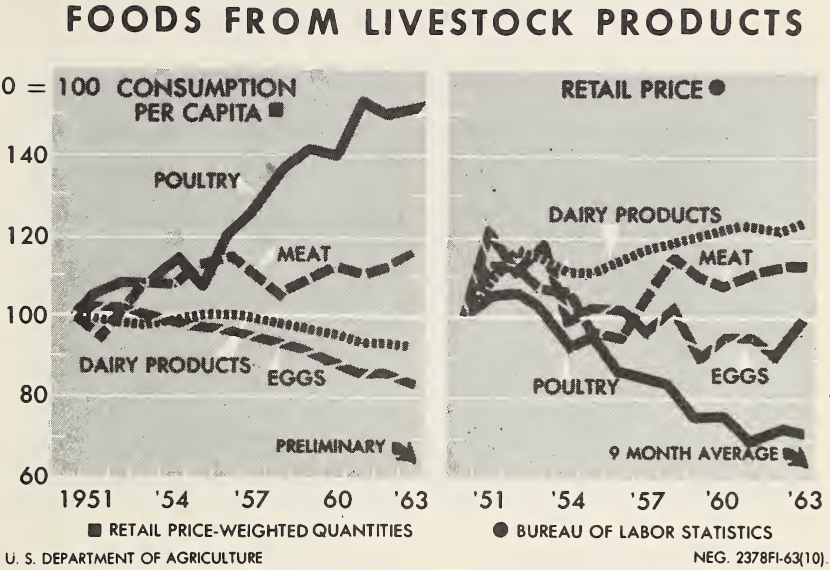

Figure 9

Egg consumption and prices are both down -- suggesting a downtrend in demand for eggs. In contrast, meat consumption trended upward, as did its average price -- which suggests a rise in demand for total meat.

In 1963, red meat consumption per capita is totaling about 170 pounds, carcass equivalent, up 4 percent from 1962. Most of this increase is in beef, up an estimated 7 percent, to a record 95 pounds per capita. Consumption in the final quarter of the year is expected to be up sharply. Veal and lamb consumption are both down from last year. Pork consumption is up about 1 pound for the year to 65 pounds, but is running below year-earlier rates in the final months of the year.

The outlook for 1964 is for total meat consumption per capita to remain near 1963 levels. Some further rise may occur in beef consumption, but no repeat of 1963's sharp increase is in prospect. Pork consumption may be down slightly from 1963.

Broiler consumption per capita in 1963 is up slightly from 1962 but turkey consumption is about steady. In total, poultry consumption is slightly larger for the year, and a further small increase is foreseen for 1964. Per capita egg consumption in 1963 is down by 2 or 3 percent. Production in the winter months is expected to run ahead of the year-earlier period, but the 1964 outlook is for per capita consumption to continue near the 1963 level.

Fish consumption is down in 1963. Despite lower fish landings, lower imports, and higher exports, cold storage stocks on October 1 were 8 percent larger than a year earlier.

Per capita consumption of all dairy products in 1963 is holding about steady with last year's level, even though total production is down. Since population is up $1\frac{1}{2}$ percent, storage stocks are being reduced. Some declines are occurring in per capita consumption of fluid whole milk and cream, condensed and evaporated milk, and cottage cheese. But they are being offset by increases in consumption of other cheese, ice cream, fluid skim milk, and nonfat dry milk. In 1964, little change is expected in consumption per capita of total dairy products, but further shifts may occur among dairy products.

In the first 9 months of 1963, retail prices of livestock products were generally steady to lower than in the same months of 1962. An exception was egg prices, up 3 percent. Meat and chicken prices normally decline in the final months of the year. This year's decline for meat may be more than seasonal because of unusually large supplies. The outlook for 1964 is for retail prices of livestock products to average about the same as in 1963. However, there may be some price declines for beef, eggs, and other products expected to be in large supply.

Consumption and Prices of Food From Crops

Per capita consumption of most foods from crops has been steady to lower since 1950, but retail prices have been steady to higher due partly to increases in demand for certain items (fig. 10). Vegetable oil consumption has increased nearly one-fifth since 1950. But 1963 consumption of all fats and oils (including butter) is slightly below 1950. Prices of fats and oils have vacilated but are not much above the 1950 level.

Fruit and vegetable consumption is up slightly since 1950, but retail prices are up strongly -- indicating a strong demand for these foods, and reflecting costs of increased processing. Consumption of fresh fruits and vegetables is down substantially, but consumption of canned and frozen items is up considerably during this period. Consumption of sugar and sirups has held very stable over time, but average prices of sugar and other sweets have worked upward since 1950. Per capita consumption of cereal products has declined steadily while retail prices of cereal and bakery products have risen sharply.

In 1963, consumption per capita of fats and oils is running a little below 1962. Further declines are taking place for animal fats; lard and butter

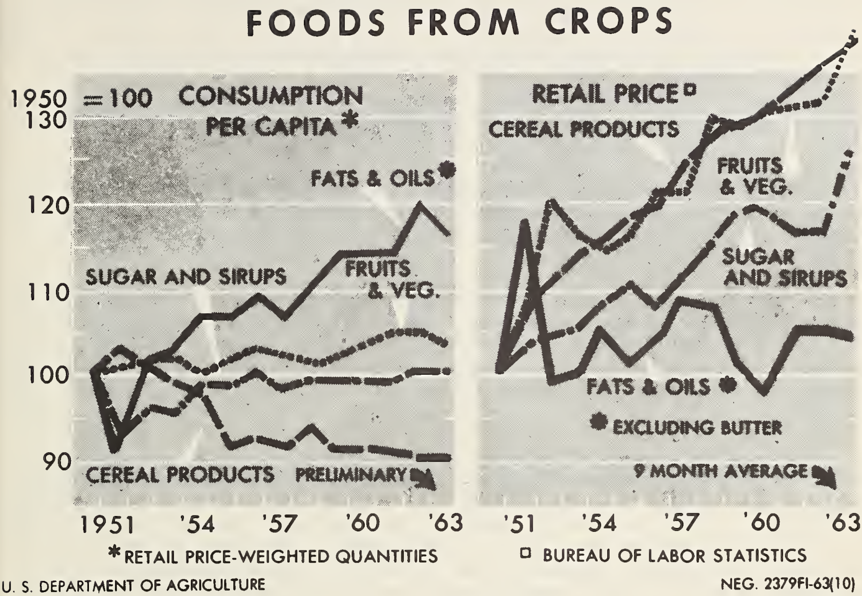

Figure 10

are both down. Consumption of margarine is up slightly but consumption of salad and cooking oils is down from 1962. The outlook for 1964 is for per capita consumption of total fats and oils to remain about steady with 1963's $45\frac{1}{2}$ pounds (fat content). Consumption of vegetable oils may increase and animal fats decline further.

Fruit consumption is down rather sharply in 1963 compared with 1962, mostly because of the freeze damage to citrus fruit. Both fresh and processed fruit consumption are down, but fresh and frozen items are down more than canned fruit. Canned fruit juice consumption is up, largely as a result of an increase in pineapple juice used extensively in fruit drinks. Dried fruit consumption is running ahead of 1962. Some recovery is in prospect for consumption of fresh fruit next year. Citrus consumption likely will increase a little but is expected to remain well below levels of recent years because of tree damage. The consumption of canned fruits and all juices is expected to decline below that of 1963. Tree nut consumption is much greater this year than last. Pecan supplies are at record-large volume after last year's short crop.

Per capita consumption of vegetables in 1963 is running about the same as last year. Slight declines in fresh consumption are being offset by modest increases in processed items, particularly frozen vegetables. Fresh tomato consumption is down, but tomato juice is up for the year. The outlook for 1964 is for stability of consumption in fresh vegetables and some slight rise in processed vegetables. Potato consumption in 1963 is running slightly above 1962 because of increased use of processed potatoes, but sweetpotatoe consumption is down slightly. No change in consumption of potatoes is expected in 1964.

Wheat flour and other cereal product consumption per capita in 1963 is about steady with 1962. Total supply of food grains continues to exceed domestic food use by a large margin. No important changes are foreseen for 1964.

Despite price gyrations, a fractional rise in per capita consumption of sugars and sirups combined is taking place in 1963. Per capita consumption of corn sirup is rising about 4 percent, and corn sugar is rising about 7 percent. But use of these items is minor compared with cane and beet sugar. Next year's consumption of sugars and sirups combined again is expected to be about steady with 1963.

Reduced supplies of fruits and certain vegetables caused average retail prices of all fruits and vegetables to rise 6 percent in the first 9 months of 1963 compared with the same months of 1962. Sugar and sweets averaged 8 percent higher. Cereal and bakery product prices were up 2 percent, about in line with their long-term trend. In the final months of the year, prices of fruits are expected to decline seasonally but remain well above year-earlier levels. No repeat of 1963's unusual supply conditions for foods from crops is anticipated for 1964. But some selective increases may occur in prices of foods that have trended upward during the past decade. Further price increases can be expected in processed fruits whose stocks are being reduced in 1963.

Summary

The food consumption and price situation can be summarized briefly: Food consumption per capita in 1963 is up about half of 1 percent and the 1964 outlook is for continuation at about this year's level. Retail food prices this year are running about 1-1/2 percent ahead of last year. The increases are mostly in prices of foods from crops. Retail food prices in 1964 likely will continue their long-term uptrend, but the rise is expected to be less than occurred this year. With increasing population and larger incomes in prospect for 1964, food expenditures are expected to rise next year. The rise may exceed the 3 percent increase in 1963.