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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR FOOD CONSUMPTION AND PRICES

Talk by Stephen J. Hiemstra
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at the 42nd Annual Agricultural Outlook Conference
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Summary

Food expenditures are increasing sharply this year. They are totaling about $80 billion, up 5 percent from 1963. The outlook for 1965 is for continued expansion in food expenditures, though at a reduced rate. The increase may more nearly approach the average annual 3 percent rise between 1961 and 1963.

This year's gain in food expenditures is partly due to price increases, partly due to increased population, partly due to larger consumption of food per capita, and partly due to more and higher priced marketing services. Retail food prices so far this year have averaged a little more than 1 percent above the same months of 1963. The population is larger by about 1.4 percent. Per capita food consumption is rising nearly 1 percent this year.

Population is expected to continue growing at about the same rate next year. But retail price increases may be smaller, and per capita food consumption is expected to remain about equal to 1964's high level.

Underpinning the rise in food expenditures is an exceptionally large increase in consumer incomes this year. Disposable personal income is nearly 7 percent above last year (figure 1). Higher wages and profits are the primary stimulants, but part of the increase results from last spring's cut in Federal tax rates. A good share of the increased income is being spent for nondurable goods, the largest component of which is food. The outlook is for a continued advance in incomes and in general economic activity, but gains are not expected to match those of 1964.

Expenditures vs. Income

About 18½ percent of disposable income is being spent for food this year (figure 2). It is a new record low, and a further decline is looked for next year. If food expenditures and incomes rise as anticipated, about 18 percent of income will be spent for food in 1965. The industry campaign of "only 19" will be outdated.

The estimate of 18½ percent of income spent for food this year comes from the Department of Commerce's national income accounting data. Civilian expenditures for food originating on U. S. farms, computed by the Economic Research Service, also are shown in figure 2 as a percentage of disposable income.

The ERS series omits expenditures for fish and other seafoods, imported foods such as coffee and bananas, home-produced foods, and food furnished by the Government to the Armed Forces. The ERS estimate of food expenditures includes items such as meals served in hospitals and on airlines and other food expenditures that are not included with food expenditures in the national income accounts.

Civilian expenditures for U. S. farm food can be broken down into the farm value and the total marketing bill, as shown in the chart. The marketing bill includes all costs and profits associated with processing, distributing, storing, and marketing food from the time it leaves the farm gate as a raw farm product. The chart shows that this component of total expenditures has remained almost constant as a percent of disposable income since 1950. This means that the total marketing bill has risen at almost the same rate as disposable income. In contrast, the farm value is a declining proportion of disposable income. Total dollars of farm value have risen over this period, but not as rapidly as disposable income. Further, all of the decline in total food expenditures appears to have come from the farm value.

Some confusion has arisen recently regarding the percent of income spent for food. The 1960-61 survey of consumer spending conducted by Bureau of Labor Statistics in 66 cities found that 24.3 percent of total expenditures for current consumption was spent for food. The question then arises as to the difference between this figure and the $18\frac{1}{2}$ percent of disposable income mentioned earlier.

Most of the difference is a matter of definition; the rest is due to differences in sampling, measurement, and time period. The largest difference is the base with which food expenditures are compared. The survey data usually show food expenditures as a proportion of current consumption expenditures, which is less than disposable personal income. Uses of income other than for current consumption expenditures include expenditures for personal insurance, gifts and contributions, and savings. In addition, the definition of food expenditure in the survey excludes home-produced food, but Commerce includes it.

When data from the BLS survey are adjusted to the concepts in the national income accounts, the survey estimates food expenditures for urban consumers at 20.8 percent of disposable income for 1960-61. It compares with 19.7 percent of disposable personal income spent for food, using Department of Commerce data for 1960-61. The remaining variance of about 1 percentage point is due to sampling and measurement problems. The survey applied only to consumers; it omitted purchases by institutions.

The survey data are extremely useful in understanding variations in food expenditures among families with different income levels, families of different sizes and with other varying characteristics, and families located in different regions of the country. For example, urban families with incomes more than roughly $7,500 spent less than average proportions of

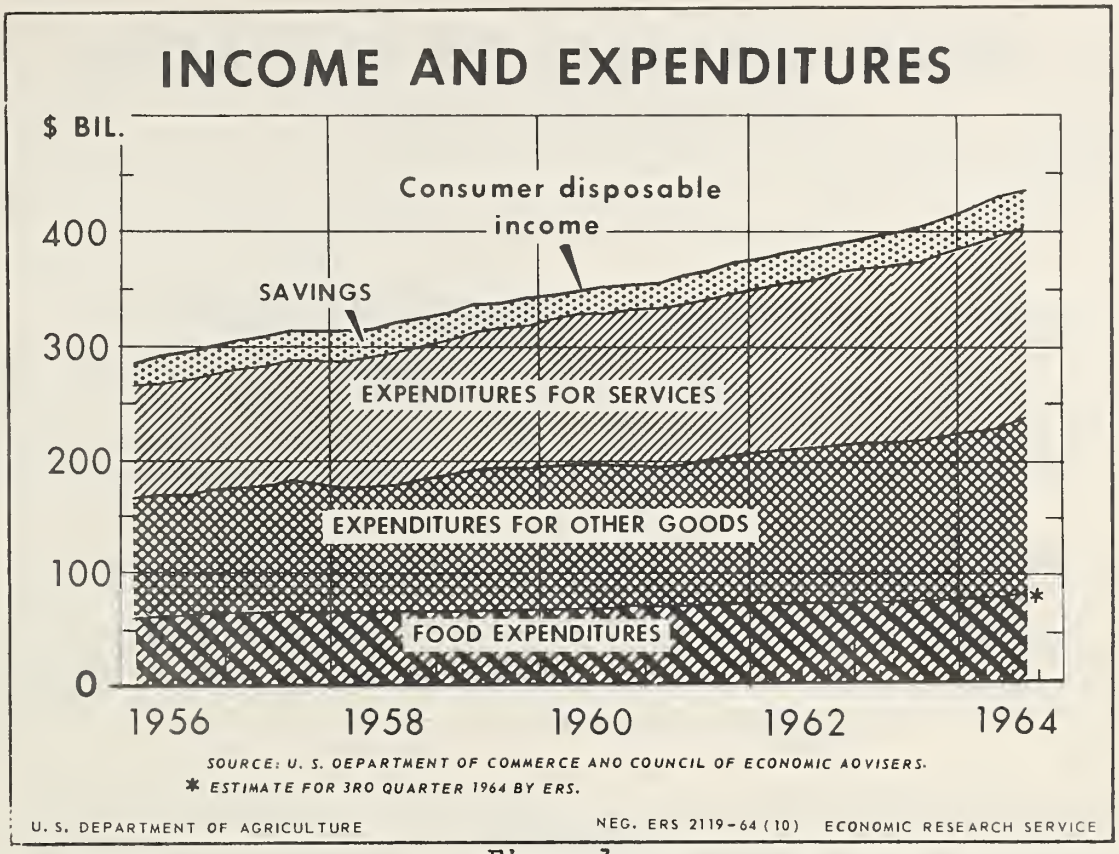


Figure 1

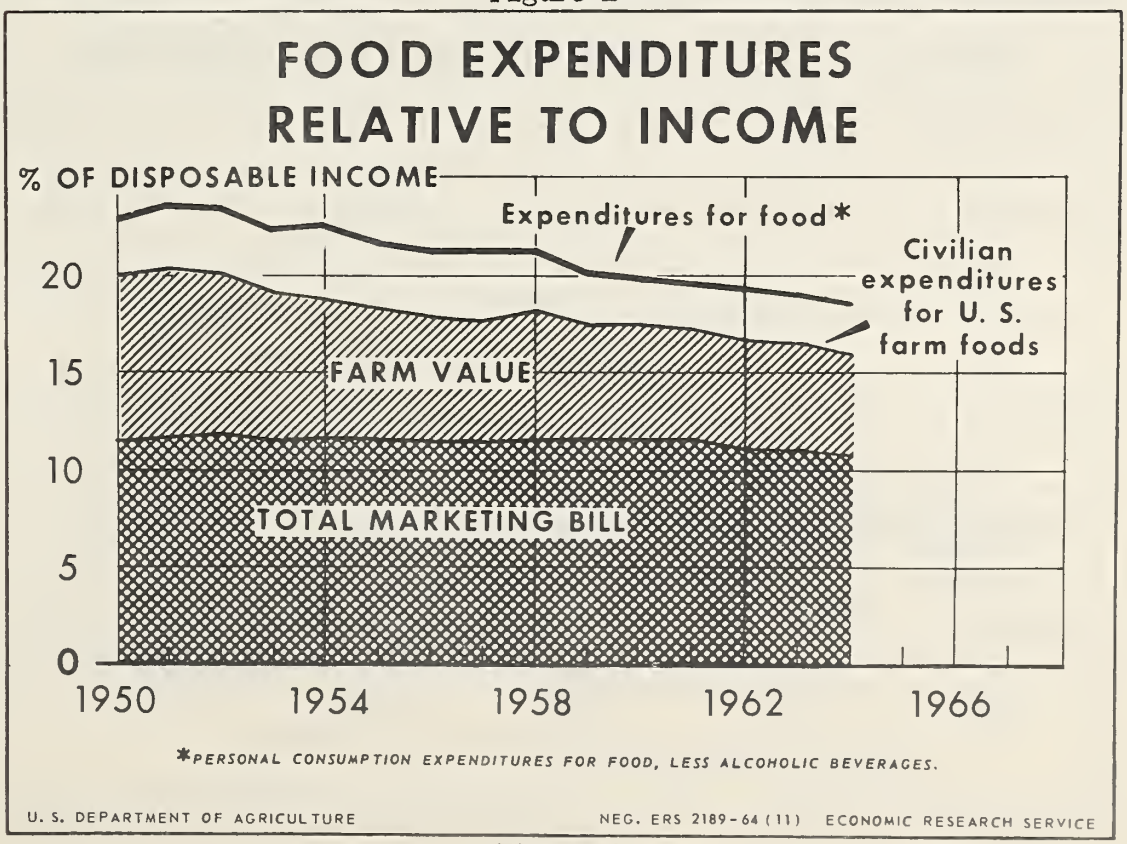


Figure 2

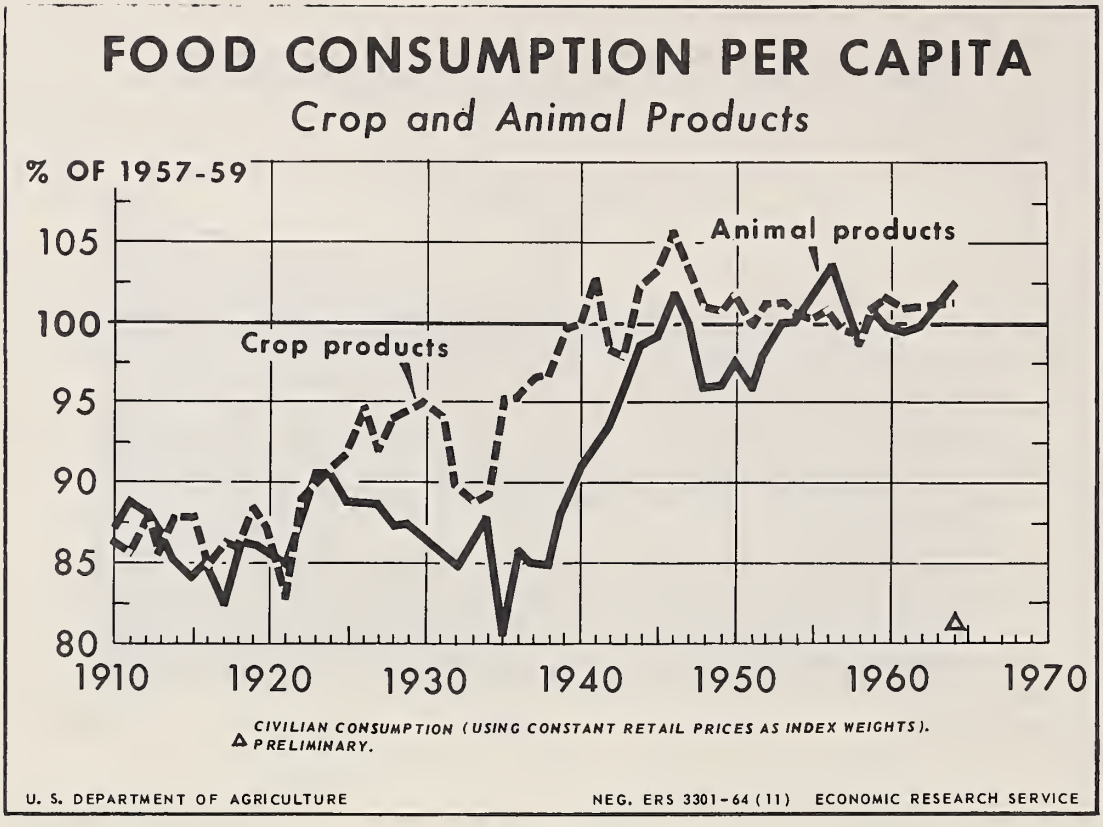


Figure 3

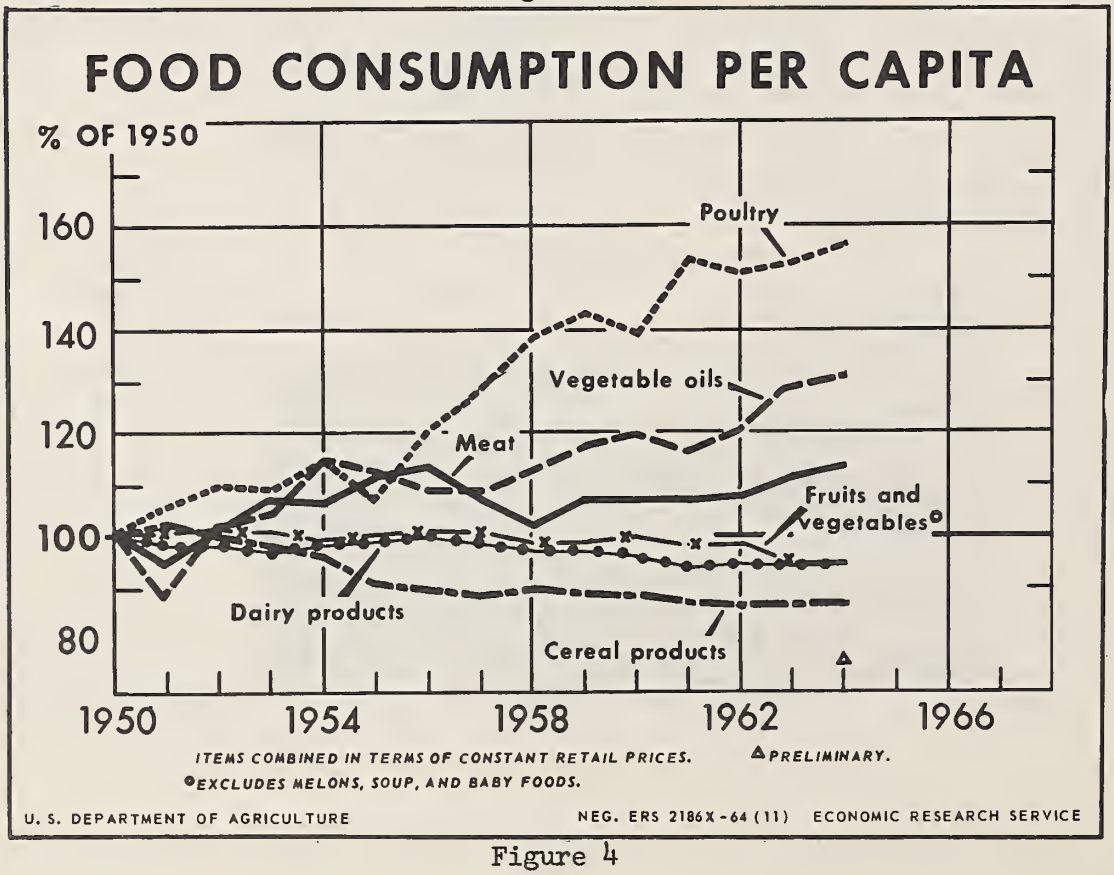


Figure 4

income for food. Those with incomes below about $6,000 spent more than average. Urban families with less than $2,000 annual income spent a third or more of their incomes for food in 1960-61. No marked differences in food expenditures relative to income were found associated with regional variations. Regional expenditures for food varied from 20.0 percent in the South and North Central to 22.2 percent in the Northeast, based on the urban survey for 1960-61.

Food Consumption Per Capita

This year's increase of nearly 1 percent in per capita food consumption is due largely to increased consumption of animal products (figure 3). Large increases in per capita consumption of beef and turkey outweigh small declines for pork and lamb. Consumption of food from crops is increasing only slightly. Gains for fresh fruits, mostly apples and citrus, are nearly offset by declines for potatoes and some other vegetables.

The outlook for 1965 is for per capita consumption to about equal 1964 levels. Some further increases in consumption of beef and perhaps turkey may be about balanced by continuing declines for pork and lamb. On the crop side, the only important change foreseen is a moderate increase in fruit consumption, principally processed fruits. Consumption of citrus next year is expected to rise from depressed levels in both 1963 and 1964 partly due to the Florida citrus freeze about 2 years ago.

The chart shows that a pattern of increasing consumption of animal products and stable consumption of crop products has typified the post-World War II period. Over the past half century, consumption of crop products has increased about the same proportion as consumption of animal products -- roughly 15 to 20 percent. However, note the disparity in historical trends between about 1920 and 1940. During that period, consumption of crop products rose more rapidly than animal products. Per capita consumption of fruits and vegetables rose dramatically during the interwar period. It more than offset declines for cereal products and potatoes. Meat and poultry consumption lagged, though dairy products gained in use. Since 1950, per capita consumption of beef and poultry has been particularly strong, but uses of many dairy products, eggs, and fruits and vegetables have stabilized or tapered off (figure 4).

A close follower of these trends will note some variations from data published previously. We have just revamped the per capita food consumption index so the data that form the basis for this and the previous chart have been revised. Consumption of various items since 1955 are combined using average retail prices in 1957-59. Certain food groups have been recombined into new groupings. For example, food fats and oils have been subdivided into animal fats and vegetable oils. This division enabled presentation of the chart showing consumption of crop and animal products. Other changes included putting processed potatoes with fresh potatoes and separating melons, soups, and baby foods from vegetables. The data now are on a 50-State basis beginning with 1960.

As a result of these and other changes, trends since 1955 have been depressed slightly for meats and for fruits and vegetables but raised for dairy products. The revised data gave relatively more importance in the all-food index to crop products, but animal products still have 55 percent of the index weight. A full explanation of the changes in the consumption data will be made in a revision of Consumption of Food in the United States, 1909-52, Agricultural Handbook No. 62, planned for publication this fall or winter.

Animal Products

A substantial gain of about 10 percent in beef production is leading to an increase of about 6 percent per capita in beef consumption this year, to a total of about 100 pounds per capita (figure 5). Population growth and a cut in imports account for the difference between the production and consumption increases. Retail prices of beef and veal are averaging about 4 percent lower than last year, which implies a further expansion in demand. The outlook for 1965 is for a continued increase in beef consumption but at a reduced rate. Retail prices may again decline.

A small decline in pork production per capita and a sizable decline in lamb production is resulting in higher prices and reduced consumption of these meats this year. Continued declines in production are anticipated for 1965, so further price advances can be expected.

Poultry consumption is continuing upward this year as it has in most years since the late 1940's. Most of this year's increase is in consumption of turkey, which is rising about 7 percent (figure 6). Broiler use continues to gain at the expense of farm chickens. The outlook is for poultry consumption to increase slightly again next year. Egg consumption this year is about equal to last year's average of 315 eggs per capita. Use of shell eggs is down, but offset by increased use of eggs in processed form. Retail prices this year are averaging lower for both poultry and eggs; these trends, at least for turkey and eggs, are expected to continue into 1965.

Per capita consumption of total dairy products is remaining about the same as last year. Nonfat dry milk consumption is rising rather sharply. Low-fat fluid milk and cottage cheese consumption also are increasing (figure 7). By small declines are occurring in per capita consumption of evaporated whole milk and fluid cream. Generally, per capita consumption of solids-not-fat has not declined as much as consumption of milkfat. Retail prices this year are averaging a little higher than last year; for 1965, they may hold about steady.

Per capita consumption of edible animal fats is declining again this year, as a result of a sizable decline in lard consumption (figure 8). Consumption of animal fats has declined about 13 percent since 1957-59. At the same time, per capita consumption of vegetable oils has increased about 17 percent. About a 1-percent increase is taking place this year for edible vegetable oils. Margarine and shortening use are both rising. Consumption of total fats and oils is holding about even at 47 pounds per capita, on a fat content basis.

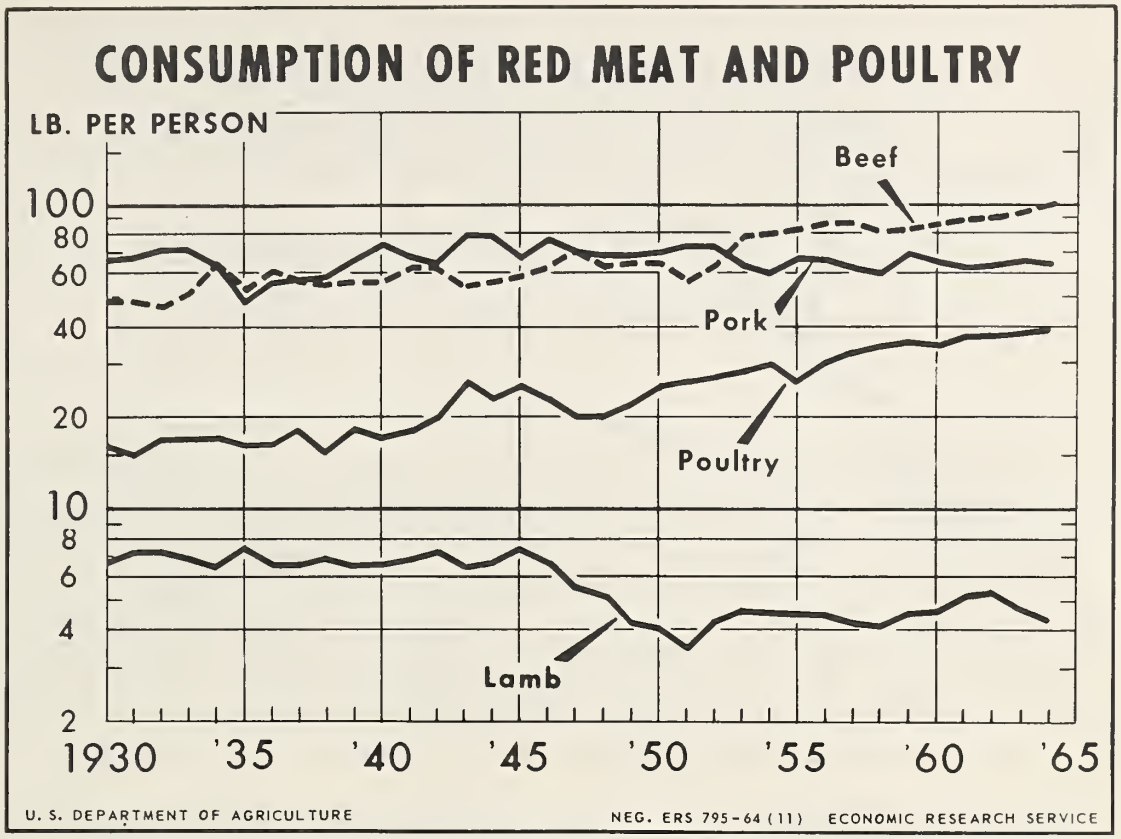


Figure 5

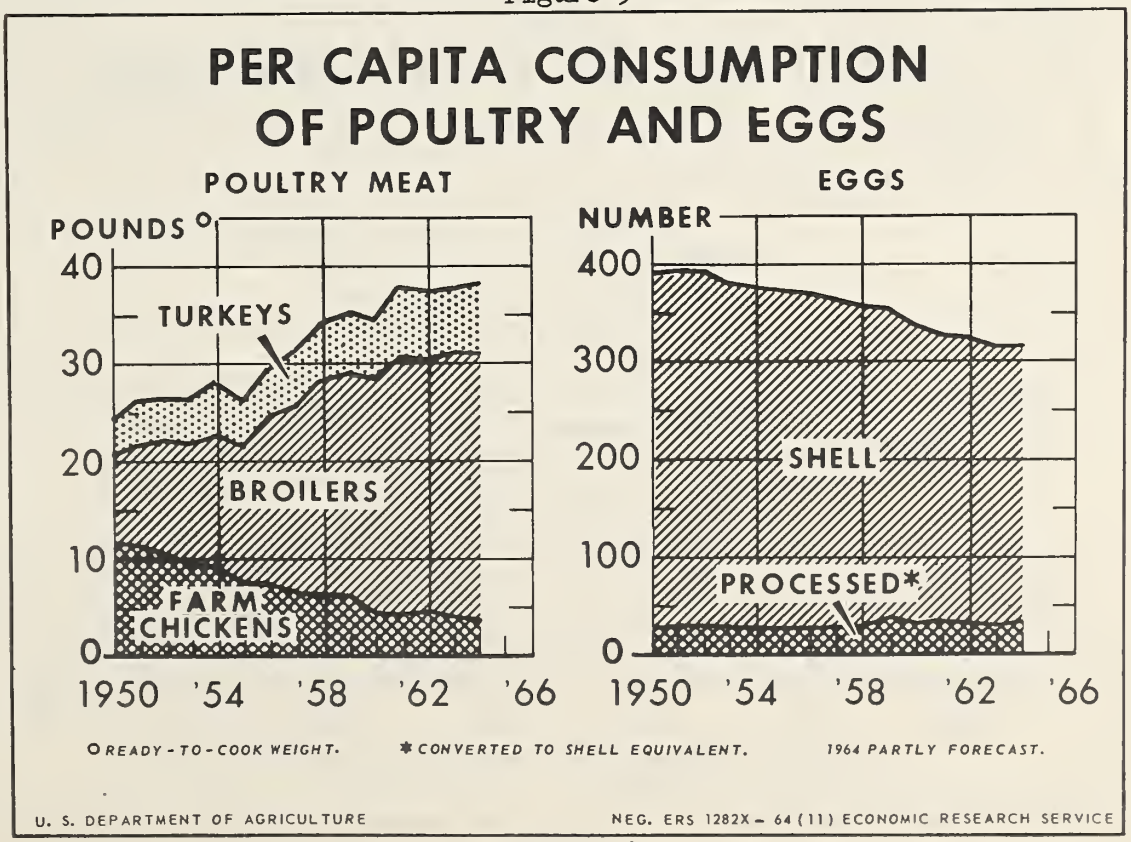


Figure 6

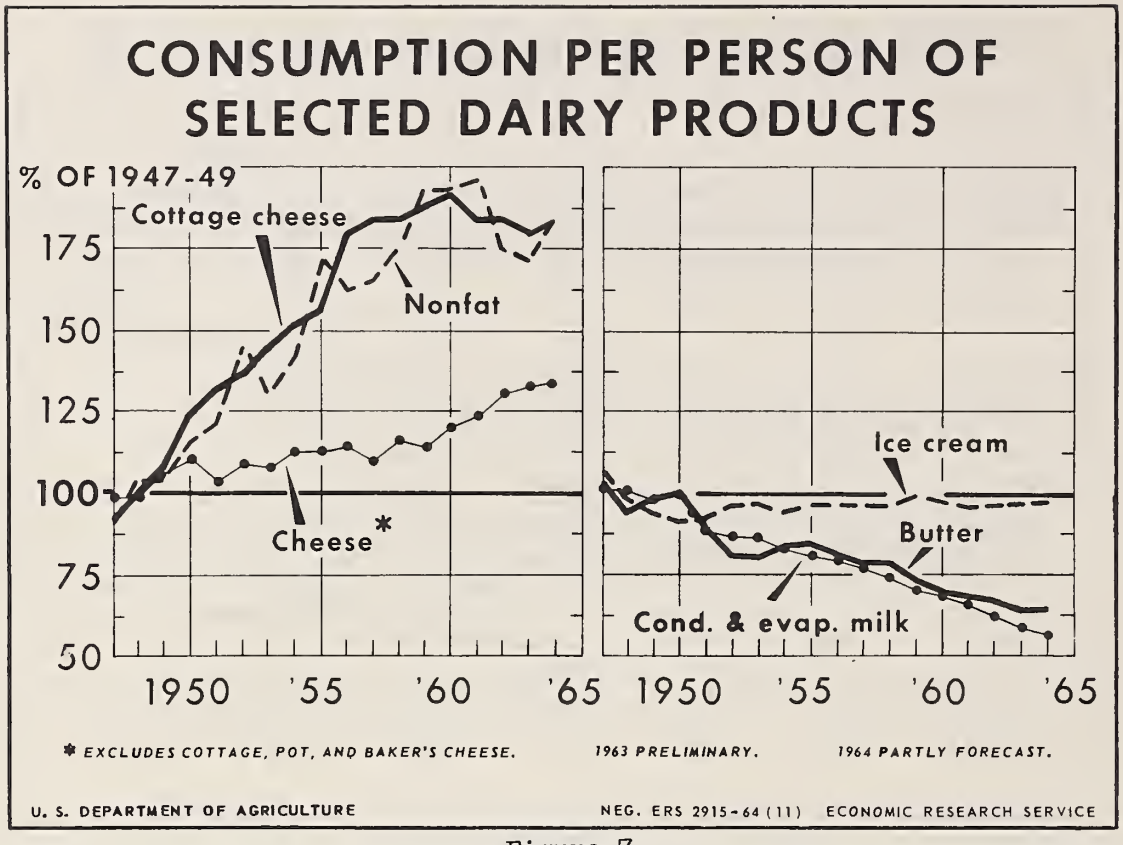


Figure 7

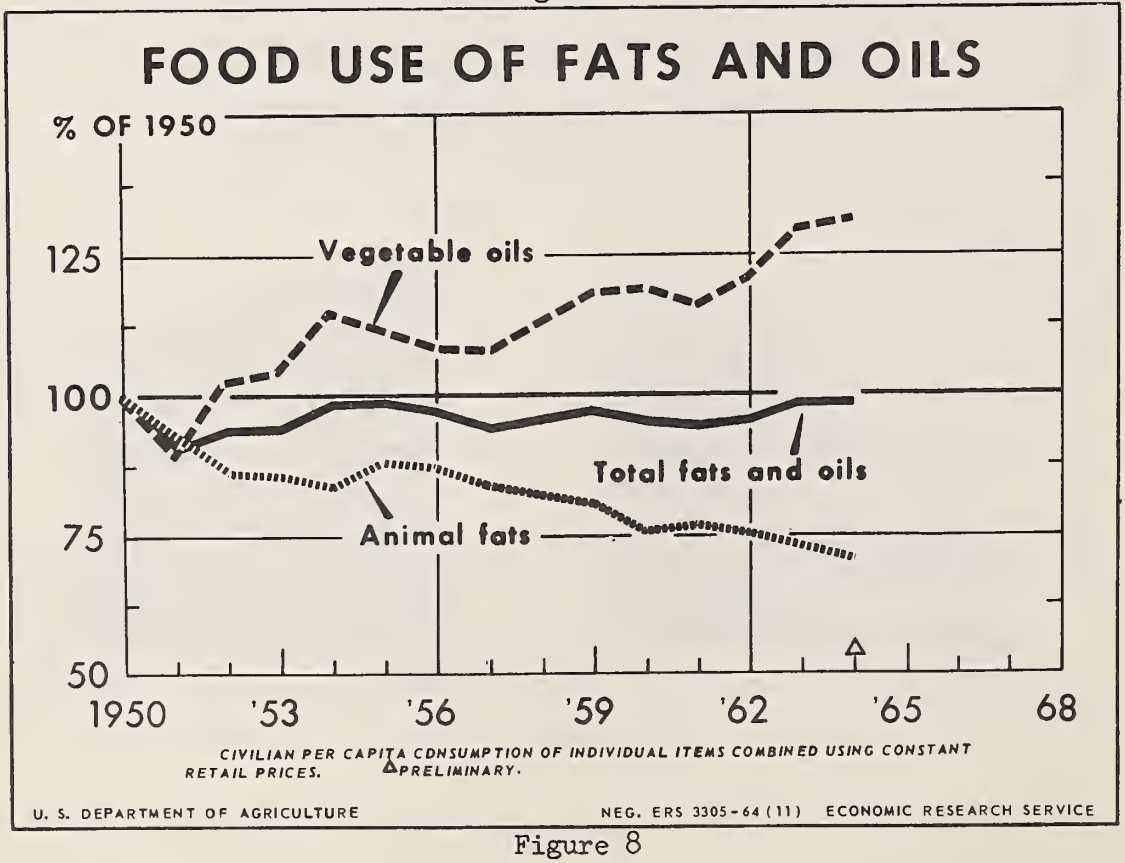


Figure 8

Foods From Crops

Per capita consumption of fruits is rising about 3 percent this year from sharply depressed levels of 1963. The increase is occurring both for citrus and noncitrus fruits (figure 9). Though citrus consumption is rising from last year's low point, total use is remaining well below that of earlier years. Fresh citrus consumption is rising around 4 pounds per capita, but consumption of processed citrus, both canned and frozen, is going below year-earlier levels. The outlook for 1965 is for citrus consumption to recover strongly from low consumption during the last couple years but still not reach the level of earlier years.

Noncitrus fruit consumption also is rising this year (figure 10). The rise is spearheaded by a large gain in apple consumption. As for citrus, the increase is for fresh rather than processed products, which is a switch from the usual pattern. Reduced packs from last year's crop and higher prices have resulted in decreased use of canned deciduous fruits and juices this year. But, consumption of frozen fruits and juices is continuing to rise. This year's pack is larger for many items. Canned peaches and fruit cocktail, for example, are record large. As a result, noncitrus consumption also is expected to rise next year, particularly for processed fruits. The rising retail prices that have characterized both citrus and noncitrus fruits during the past 2 years are expected to give way to price declines in the coming year (figure 11).

Per capita consumption of vegetables is declining about 2 percent this year, to a point 3 percent below the 1957-59 average. Declines this year are occurring for both canned and fresh vegetables, though consumption of frozen vegetables (excluding potatoes) is continuing to rise. Declining per capita use is taking place for tomatoes and tomato products, cabbage, lettuce, carrots, and corn, among others. Retail prices have averaged higher so far this year. Prices are expected to remain above comparable year-earlier levels through the winter, but then decline from this year's highs. Consumption next year is not expected to differ much from 1964.

I'm sure you are all aware that potato prices are sharply higher this year than for many years. Production is down sharply, but since stocks are being depleted and nonfood uses are down, consumption is declining only about 2 pounds per capita. The drop in consumption is in fresh rather than processed use; consumption of frozen french fries, for example, is continuing to rise. Potato production in 1965 is likely to increase, so retail prices are expected to average much lower than this year.

Per capita consumption of total sugars and other sweeteners this year is remaining about the same as last year. However, substitutions are taking place among them as use of corn sugar and sirups continues to gain. Sugar prices began the year much above year-earlier levels, but since then substantial declines have taken place. Retail sugar prices remain above prices in early 1963, but not by much.

Per capita consumption of most cereal and grain products is remaining about stable this year, aside from a slight increase for rice. Wheat flour in all final products may total the same as 1963's 116 pounds and not differ much next year. Some selective price increases have occurred, but average prices of all cereal and bakery products have not increased as much as usual this year.

Retail coffee prices rose sharply during the first half of this year in response to rising prices of green coffee beans; the result of anticipated lower production in Brazil. After bean prices receded, retail prices stabilized and some declines took place for instant coffee. For the year, coffee prices are averaging about a fifth above 1963 but consumption per capita is down only slightly. Little change from current levels in prices and consumption is anticipated in 1965.

Retail Food Prices

Retail food prices this year are averaging about 1 percent above 1963, but prices next year may not rise as much as in 1964 (figure 12). The upward pressure on prices of foods from crops that has persisted for the past 2 years likely will not be repeated next year. Increased production of fruits and potatoes are expected to ease prices for these items. And, no repeat of price runups for sugar and coffee are foreseen at this time. Continued large consumption of animal products is expected to maintain average retail prices near current levels. Certain food groups no doubt will continue to experience increasing prices, particularly those with a large proportion of highly processed products such as cereal and bakery products. Also, prices of food purchased and consumed away from home typically rise at about the rate as the all-services component of the Consumer Price Index, as you can see in the chart. As a result, some continued rise in the average retail price of all food is anticipated. But the increase may be less than that of recent years and likely will be less than that of the entire Consumer Price Index.

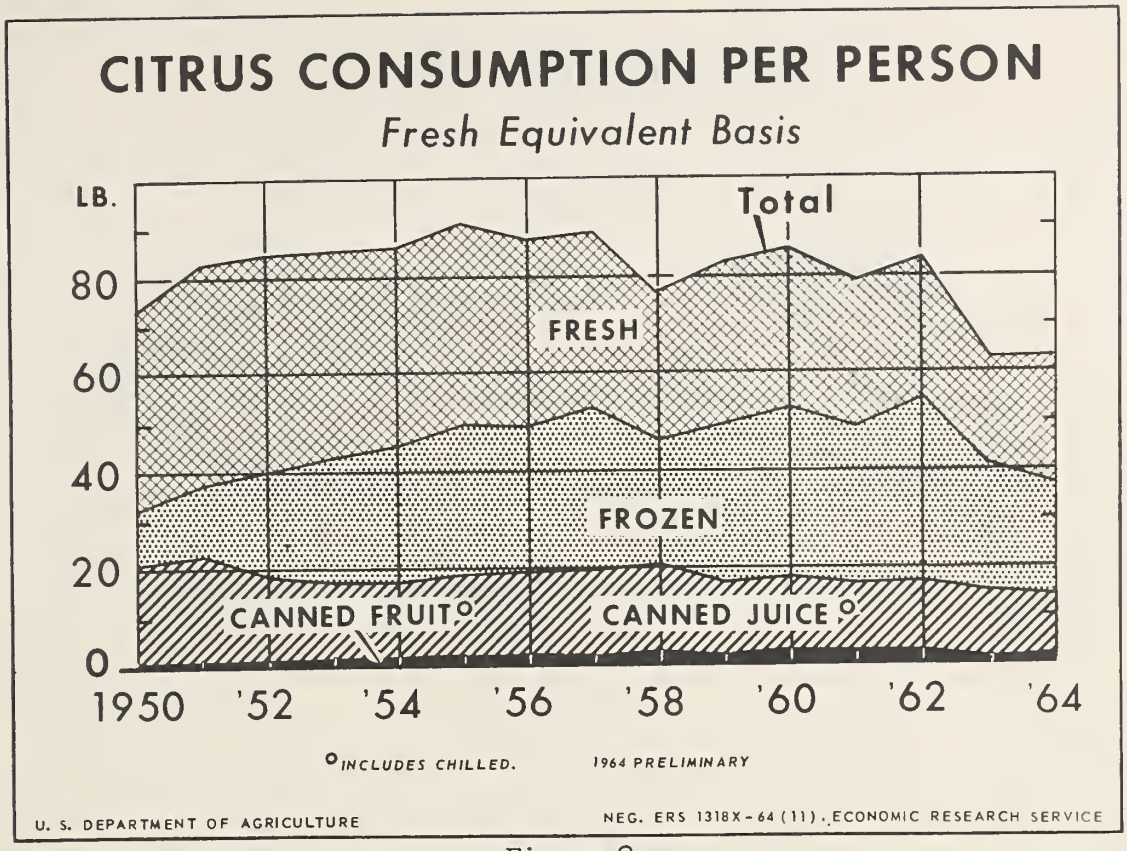


Figure 9

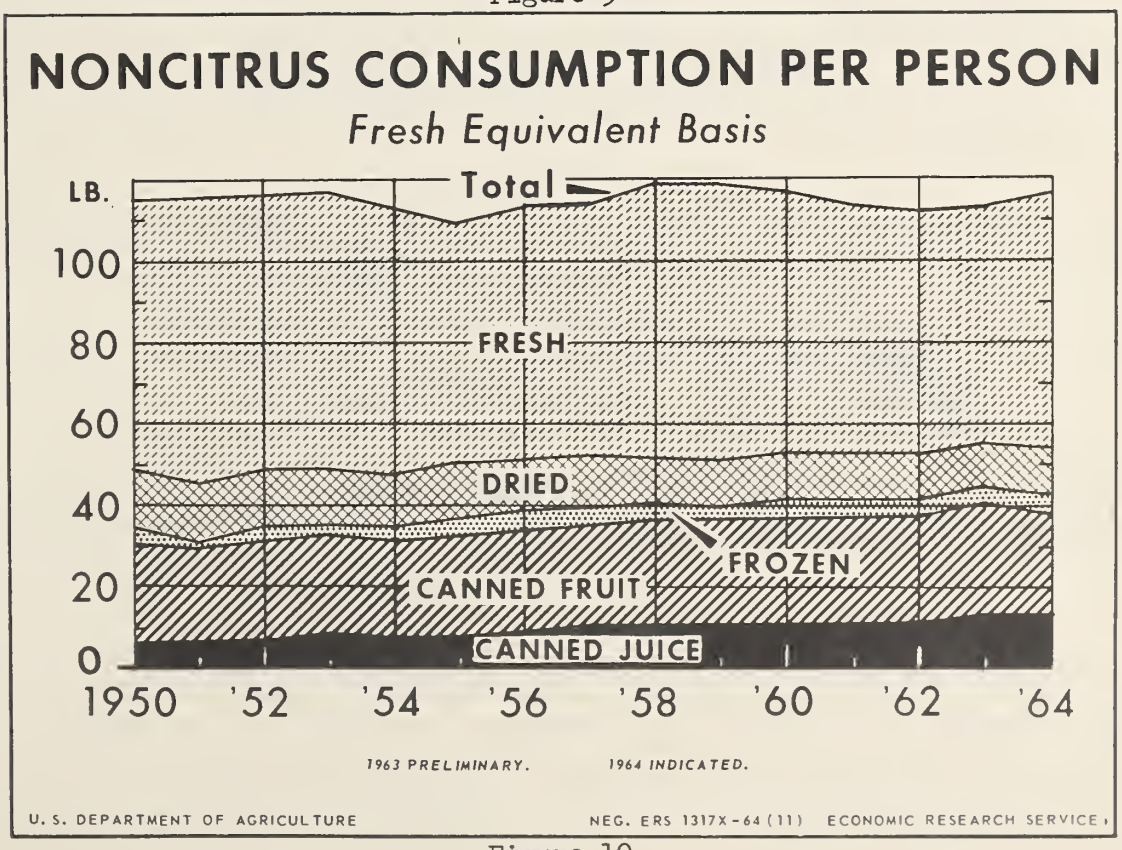
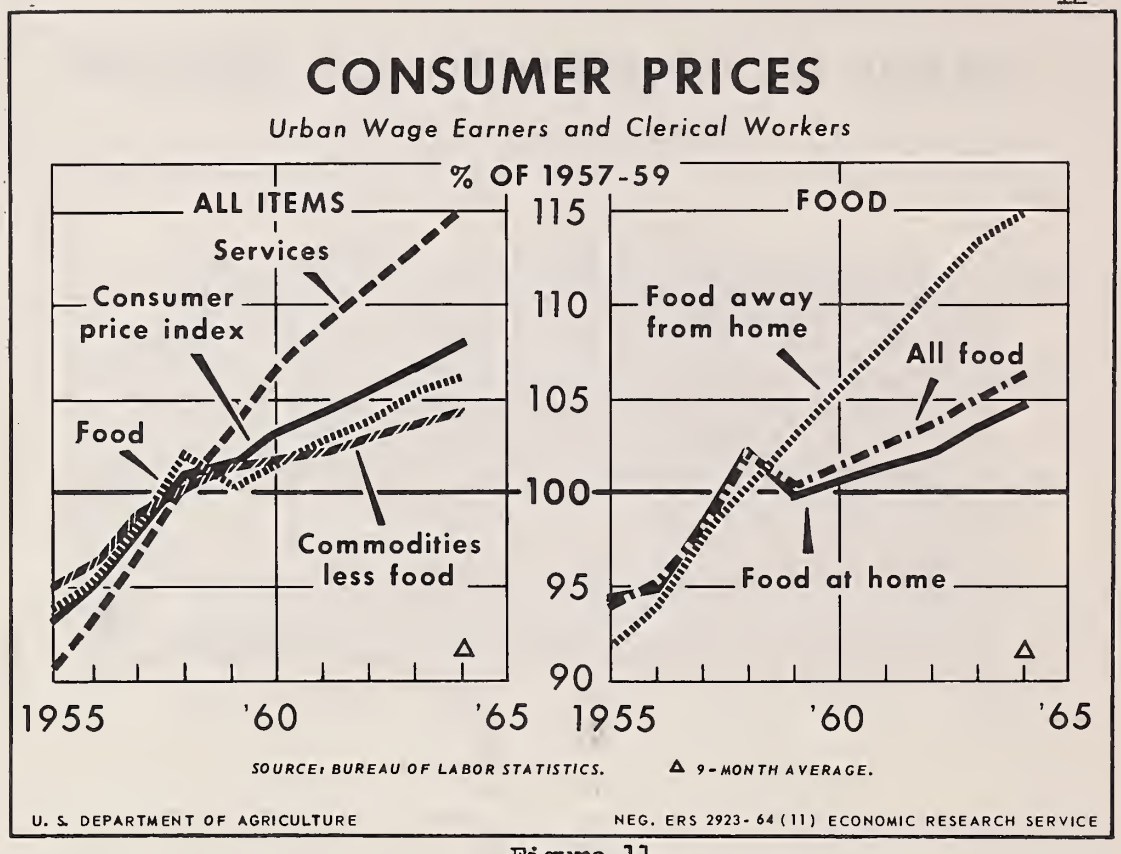


Figure 10



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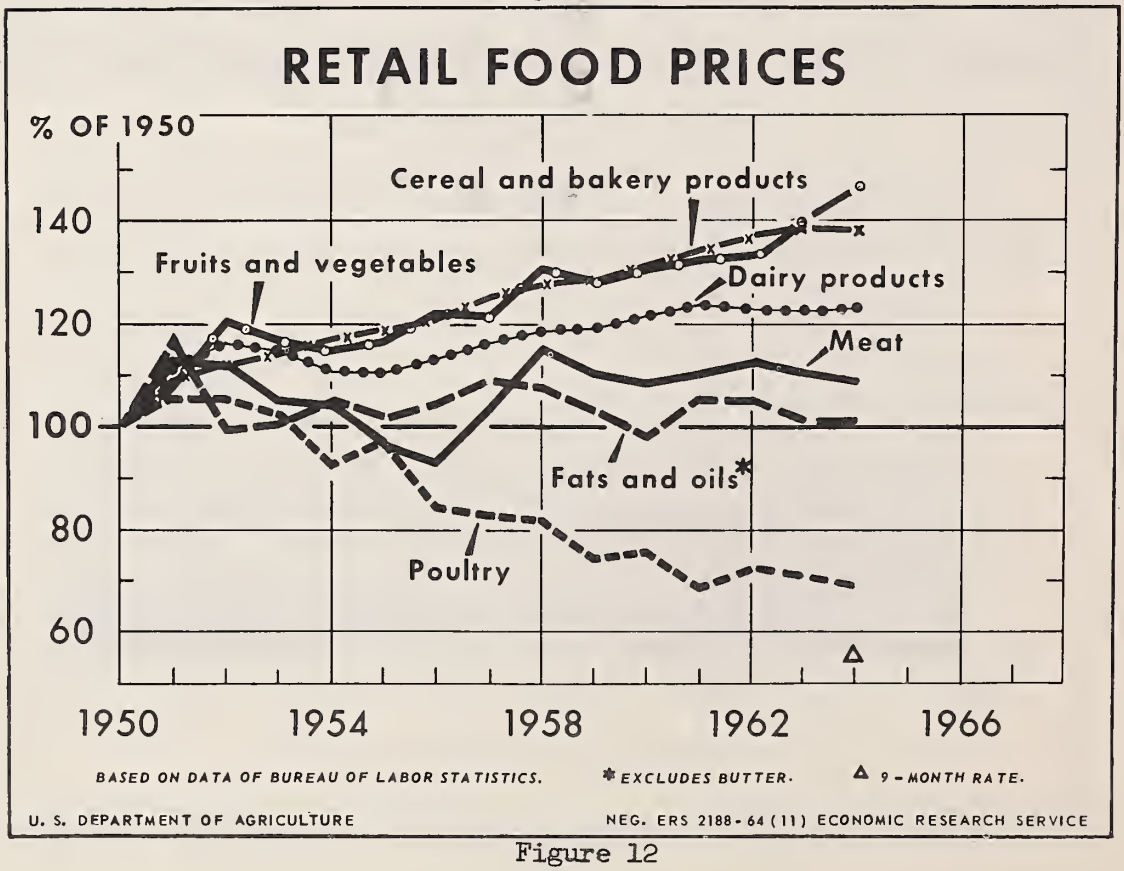

Figure 12