



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.

11.90  
C 20V 8

22

5

# Proceedings



USDA  
 NAT'L AGRIC LIBRARY  
 RECEIVED  
 MAR 29 '89  
 U.S. DEPARTMENT OF AGRICULTURE  
 ACQ./SERIALS BRANCH

# OUTLOOK '88

64th Agricultural Outlook Conference  
 U.S. Department of Agriculture  
 Washington, D.C. Dec. 1-3, 1987

# ANNUAL AGRICULTURAL OUTLOOK CONFERENCE

United States Department of Agriculture  
Washington, D.C.



Outlook '88, Session #26

For Release: Wednesday, December 2, 1987

## THE 1988 OUTLOOK FOR FOOD PRICES

Ralph L. Parlett

Agricultural Economist, Economic Research Service, USDA

The Consumer Price Index (CPI) for food in 1987 has risen at a slightly stronger pace than it has in the past few years. The annual average of the CPI for 1987 is expected to be about 3.5 percent higher than 1986 and the food component will be up 4.1 percent. While the increase this year is slightly higher than the trend of the last 5 years, it is not a signal of renewed food price inflation. Prices of food sold in grocery stores have risen 4 percent this year and prices for food sold in restaurants and fast food establishments are up about 4.1 percent.

Major factors influencing retail food prices are; farm prices, costs of processing and distributing food, and consumer demand. Higher farm prices for a few farm commodities have had a significant impact on retail prices this year. Costs of processing and distributing food have increased slightly because of higher oil prices and some increase in labor costs. Consumer demand for food has remained stable as disposable personal income has risen very little. Each of these factors has had a positive effect on food prices this year, but farm prices for meat, fresh fruits, and fresh vegetables have had the strongest impact on the CPI for food.

Supplies of farm commodities in any given year have the most influence in determining the farm price. Therefore, a discussion of fruit and vegetable supplies this year along with a look at total meat supplies over the last few years will help to explain why prices have averaged higher this year. We will also look at the supply situation for next year, which will help to show why food price inflation is expected decrease.

### Fresh Fruit

Apples, oranges, and bananas account for 44 percent of consumer expenditures for fresh fruit. Price changes for any one of these fruits, then, can have a significant impact on the whole fruit CPI. Such was the case in 1987. Prices of apples and oranges have averaged higher, pushing the index up. The CPI for fresh fruit is expected to average nearly 10 percent above 1986. Summer fruits were plentiful this year with prices below 1986 levels, but the strong weight and high prices of apples and oranges kept the index high.

Late frosts in the spring of 1986 damaged apple blossoms in the East as well

as in the Northwest. As a result, the apple harvest last fall was much smaller than normal and supplies in storage for 1987 were low. Because of the short supplies, retail apple prices increased, averaging at times 10 to 12 percent above year earlier prices. Good growing conditions this year brought a record large apple harvest, and prices this fall have dropped. Supplies in storage for 1988 are much larger and prices will average below 1987.

Orange trees are still recovering from freeze damage suffered several years ago. Total orange production was up this past season by about 4 percent over the previous season, but still remains below production levels prior to the freeze in late 1983. Much of the increased production was used to meet export commitments, therefore, little if any of the increased production reached domestic fresh markets. The current season's crop is estimated to be smaller than the 1986/87 crop and orange prices will remain high through most of 1988.

The CPI for fresh fruit in 1988 is expected to increase again but at a much lower rate than this year. Higher prices for oranges will be partially offset by lower prices for other fruits, particularly apples. Currently, the CPI for fresh fruit is expected to average 1 to 3 percent above 1987.

### Fresh Vegetables

The CPI for fresh vegetables in 1987 will average slightly over 9 percent above 1986. Smaller supplies of potatoes, lettuce, and winter vegetables were the primary cause of price increases.

Potato prices have averaged higher this year than the very low levels of 1986. Because of a large 1985 fall potato harvest, stocks were large during 1986 and prices were very low. Growers reacted to the low prices by reducing potato acreage for the fall 1986 harvest. Smaller 1987 stocks resulted in prices significantly higher than 1986, but only slightly higher than 1985.

Lettuce supplies have also been smaller this year. Heavy rains in California have at times disrupted harvests and slowed shipments. Some California lettuce growing areas have been plagued with disease this year, further reducing supplies. Lettuce prices are extremely sensitive to supply disruptions and prices increased dramatically when shipments were down.

Fresh vegetable supplies during the first quarter of the year are usually supplemented by imports from Mexico. This year, a freeze in Mexico curtailed imports significantly, and markets were more dependent on production from Florida and California. As a result, fresh vegetable prices in the first quarter were well above year earlier, even though domestic winter vegetable acreage was up and production was above 1986. Otherwise, prices would have increased even more.

The CPI for fresh vegetables in 1988 is expected to average at or slightly below the levels of 1987. Good grower returns this year will likely induce growers to expand production in 1988. With larger supplies, prices are likely to remain stable if not fall slightly. These expectations are based on normal weather conditions. Fresh vegetable crops are vulnerable to severe weather, particularly from December to March, and a freeze could change the forecast considerably.

### Meats and Poultry

Since 1983, the livestock industry has been in a period of adjustment. A drought that year severely damaged the corn crop reducing supplies of feed grains considerably and feed prices rose sharply. Pastures were also burned up because

of the drought. Feeding animals became very costly to producers at a time when farm financial conditions were less than ideal. As a result, producers began liquidating cattle and hogs and the size of breeding herds began to decrease. With larger supplies of cattle and hogs in the market, prices fell. Beef and pork production increased and retail meat prices decreased. Poultry production was also cut because of high feed costs and poultry prices rose sharply during 1983. The liquidation of cattle and hogs continued through 1984 and most of 1985, even though feed prices had declined. Red meat production began to decline, but poultry production was expanding to fill the void left by reduced supplies of red meats. By mid 1986 pork supplies were at record low levels and prices increased sharply. Beef production would have decreased also in 1986 had it not been for the dairy termination program where dairy farmers sent whole herds to slaughter in order to reduce milk production. Because of the very low pork supplies, beef prices rose and so did poultry. Poultry production continued to increase as producers took advantage of low feed prices prompted by the 1985 Farm Bill. Poultry was in strong demand in 1986, not only in grocery stores but by fast food chains who had heavily promoted new chicken items on their menus. Therefore, poultry prices increased sharply in the third quarter of last year even though production was also increasing sharply.

This year, beef production has declined about 4 percent and retail prices have continued to increase. Pork production remained low through the first three quarters of 1987 with prices also increasing. Because of high farm prices and low feed costs, pork producers have expanded production and supplies have now started to increase and prices have softened. Poultry production has continued to increase, with more than an 8 percent increase in broiler production and a 17 percent increase in turkeys. Retail prices for poultry have been falling for a year as supplies have increased. Retail poultry prices this year will likely average about 2 percent below 1986, but beef and pork prices will average 7 to 8 percent above 1986. Increased red meat prices this year have had a strong influence in the rise in the CPI for all food.

Beef supplies will continue to decrease in 1988, but pork and poultry supplies will continue to increase. Total supplies of red meats and poultry will exceed 1987 pushing per capita consumption to over 222 pounds from 216 pounds. With larger supplies next year, retail pork prices are expected to drop 8 to 12 percent and retail poultry prices will likely be down 6 to 10 percent from 1987. Although beef supplies will be smaller, lower prices of competing pork and poultry will prevent beef prices from rising much above 1987 levels.

#### Other Food Categories

Retail prices of foods in most other food CPI categories in 1987 have risen at a rate below that of the CPI for all food. The CPI for eggs this year will average nearly 5 percent below 1986 because of larger production prompted by low feed costs. The nonalcoholic beverage CPI will decline about 2.5 percent from last year because of lower coffee prices. The dairy product category will increase about 2.5 percent, most of which can be attributed to higher processing costs for processed dairy products. The CPI for cereals and bakery products is expected to increase 3.7 percent this year because of higher processing and distribution costs.

The CPI for fish and seafood is an exception. This will be the second year of strong increases in fish prices. Last year the index increased 9.2 percent over

1985 and this year an increase over 1986 of nearly 11 percent is expected. Demand for fish and seafood is extremely strong in America as the increase in consumption indicates. Per capita consumption of fish was 12.8 pounds in 1980, 14.4 pounds in 1985, and 14.7 pounds in 1986. Any increase in consumption in 1987 will likely be small because world fish and seafood supplies are declining. The U.S. and Canada have taken conservation measures which limit the quantities of certain species that can be landed by commercial fisherman until populations increase. These measures further limit supplies in the short term. In 1988 the supply situation for fish will not improve. Fish merchants will be searching longer and harder to find supplies to satisfy demand, bidding prices higher in world markets. Since much of our fish is imported, the declining value of the dollar will also play a role in higher prices.

Changes in Food Price Indicators, 1985 through 1988

	1985	1986	1987	1988
			---Forecast---	
<hr/> Consumer Price Indexes <hr/>				
All Food	2.3	3.2	4.1	2 to 4
Food away from home	4.0	3.9	4.1	3 to 5
Food at home	1.4	2.9	4.0	0 to 2
Meat, poultry, and fish	-0.3	4.3	6.0	-2 to -4
Meats	-1.0	3.2	7.0	-2 to -4
Beef and veal	-2.1	0.6	7.1	-1 to 1
Pork	0.2	8.2	7.9	-8 to -12
Other meats	0.6	2.6	5.7	-2 to -4
Poultry	-1.0	7.5	-1.7	-7 to -10
Fish and seafood	4.9	9.2	10.7	8 to 12
Eggs	-16.6	6.9	-4.9	1 to 3
Dairy products	1.9	0.2	2.4	-1 to 2
Fats and oils	2.2	-2.2	1.7	1 to 3
Fruits and vegetables	2.6	0.9	7.2	0 to 2
Fresh fruits	10.1	2.1	9.7	1 to 3
Fresh vegetables	-4.3	4.0	9.3	-2 to 2
Processed fruits and vegetables	2.6	-1.6	3.5	1 to 3
Sugar and sweets	2.5	3.2	1.9	1 to 3
Cereals and bakery products	3.8	2.8	3.7	3 to 5
Nonalcoholic beverages	2.0	5.9	-2.5	2 to 4
Other prepared foods	3.3	2.6	4.4	3 to 5

Source of historical data: Bureau of Labor Statistics, U.S. Department of Labor.  
Forecasts: Economic Research Service, U.S. Department of Agriculture.

## Market Basket Statistics

The Market Basket Statistics represent the retail cost, the farm value, and the farm to retail price spread for a fixed market basket of domestically produced farm foods. The farm value of food and the farm to retail price spread help us understand the underlying causes of food price changes. The farm value of food accounts for about 30 percent of the retail cost and depicts that part of the consumer food dollar which goes to the farmer. The farm-to-retail price spread represents that part of the consumer food dollar which goes for processing and distributing foods from the farm gate through the retail store.

The retail cost of the market basket is expected to increase 4.5 percent for 1987. This rate of increase is greater than that of the CPI for food, but the market basket does not include nonalcoholic beverages, specifically coffee. Coffee prices decreased considerably over the year. Contributing to the market basket increase was a 2.9 percent increase in the farm value, and 5.7 percent increase in the farm-to-retail price spread.

The 2.9 percent rise in the farm value of food came from higher farm prices for beef, pork, and fresh fruits and vegetables. Rises in the farm value of these commodities more than offset lower farm values for poultry, eggs, cereal and bakery products, and fats and oils.

The farm-to-retail price spread is rising 5.7 percent this year. The spread accounts for the costs of processing and distributing foods which we call marketing costs. The major inputs are labor, packaging, transportation, and energy and account for 85 percent of all marketing costs. Our marketing cost index, which measures changes in prices of inputs, increased about 2 percent. Another reason for the rise in the spread is an increase in input use. The number of workers in the food industry has increased about 4 percent this year and would account for a large share of the rise in the farm-to-retail price spread.

In 1988, we expect the farm value of food to decrease. Most of the decrease will come from lower farm prices for poultry, pork, and fresh fruits. The farm value of other food categories will not likely increase enough to offset the drop in pork, poultry, and fresh fruits.

### Percent Changes in Market Basket Statistics

	1985	1986	1987	1988
			---Forecast---	
Retail cost	1.1	2.2	4.5	2 to 4
Farm-to-retail spread	5.2	3.7	5.7	4 to 6
Farm value	-6.8	-1.3	2.9	-2 to -4

Source: Economic Research Service, U.S. Department of Agriculture.



## Consumer Demand for Food

Growth in the general economy this year has been moderate, but steady. Unemployment has decreased, but per capita disposable income has risen only 0.5 percent over 1986. This is the slowest rate of increase in disposable personal income since 1982. The slow growth in income lends little if anything to strength in consumer demand, particularly for food. The outlook for 1988 is brighter. Economic growth is expected to continue at a modest rate. Unemployment is not likely to increase, and disposable personal income will increase at a slightly stronger rate. Still, consumer demand for food in 1988 is not likely to strengthen as a result of increased income.

## Summary

The CPI for food in 1988 will increase at a slower rate than it did in 1987. Lower prices for pork and poultry along with larger supplies will keep beef prices from rising even though beef supplies will decline. The lower total meat and poultry prices are the primary cause of the expected smaller increase in the food CPI. Lower farm prices will help to dampen food price increases at retail. In contrast, marketing costs will increase at about the same rate as the general rate of inflation, having a strengthening effect on food prices. Consumer demand will be steady, and will not affect food prices. Retail food prices will rise 2 to 4 percent in 1988 and currently, I expect the rise to be in the lower end of the forecast range.