Special Briefing on Food Supplies and Food Prices

United States Department of Agriculture

WORLD FOOD SITUATION

by echam
Quentin M. West*, 1920 -

The world food outlook is improved over last year at this time when there was alarm over the possibility of massive starvation in places like India, Bangladesh, and the Sahel. A modest increase in world food production now seems in prospect for 1975/76, perhaps some 3 percent above last year. Such a rate of increase and level of output would be in keeping with the rising trend in world food output over the past 2 decades, which saw a 2.8-percent average annual increase in total production and an 0.8-percent increase in per capita output. This very preliminary estimate is based on current forecasts of world grain and oilseed production and on meat output in the leading meat trading nations. Nevertheless, the low level of world grain stocks continues to make grain prices volatile and to keep the world dependent upon current harvests for meeting current food needs.

World economic growth in 1974 and so far in 1975 is reduced sharply from the rates prevailing in 1972. The OECD group of 24 developed countries is projected to show a 1.4 percent decline in real GNP in 1975 compared with the increase of 6 percent in 1972. Inflation for most of these countries is now ranging between 10 - 20 percent compared with the 3 to 7 percent in 1972. The slower economic growth, inflation problems, and unemployment are probably tempering increases in demand for food in the major developed countries. However, their slow down in food demand is being offset by reduced grain production in many developed countries, necessitating more imports.

<u>World grain production</u> is now expected to total about 1,188 million metric tons, about 4 percent above last year, but about 20 million tons below the 1960/61-74/75 trend. This is about 19 million tons below USDA's July 15 estimate. Production is for the most part up from last year in the United States, the developing countries, and China, but down in the Soviet Union and in both Western and Eastern Europe. This year's continued tight supplies and high prices are likely to slow growth in consumption, particularly grain feeding.

<u>World grain stocks</u> were somewhere near minimum levels at the beginning of 1975/76. A buildup to more comfortable levels seemed in prospect until unfavorable weather brought sharp reductions in forecasts of grain production in the Soviet Union, North America, and Europe. These forecasts, along with current demand prospects, indicate that global grain stocks at the close of 1975/76 are likely to be little if any larger than at the beginning of the period--perhaps 10 percent below that at the end of 1973/74 or 1972/73, and sharply below the level of earlier years. While the world grain production shortfalls of 1972 and 1974 were over 30 and 50 million metric tons respectively, this year's shortfall is likely to be about 20 million tons.

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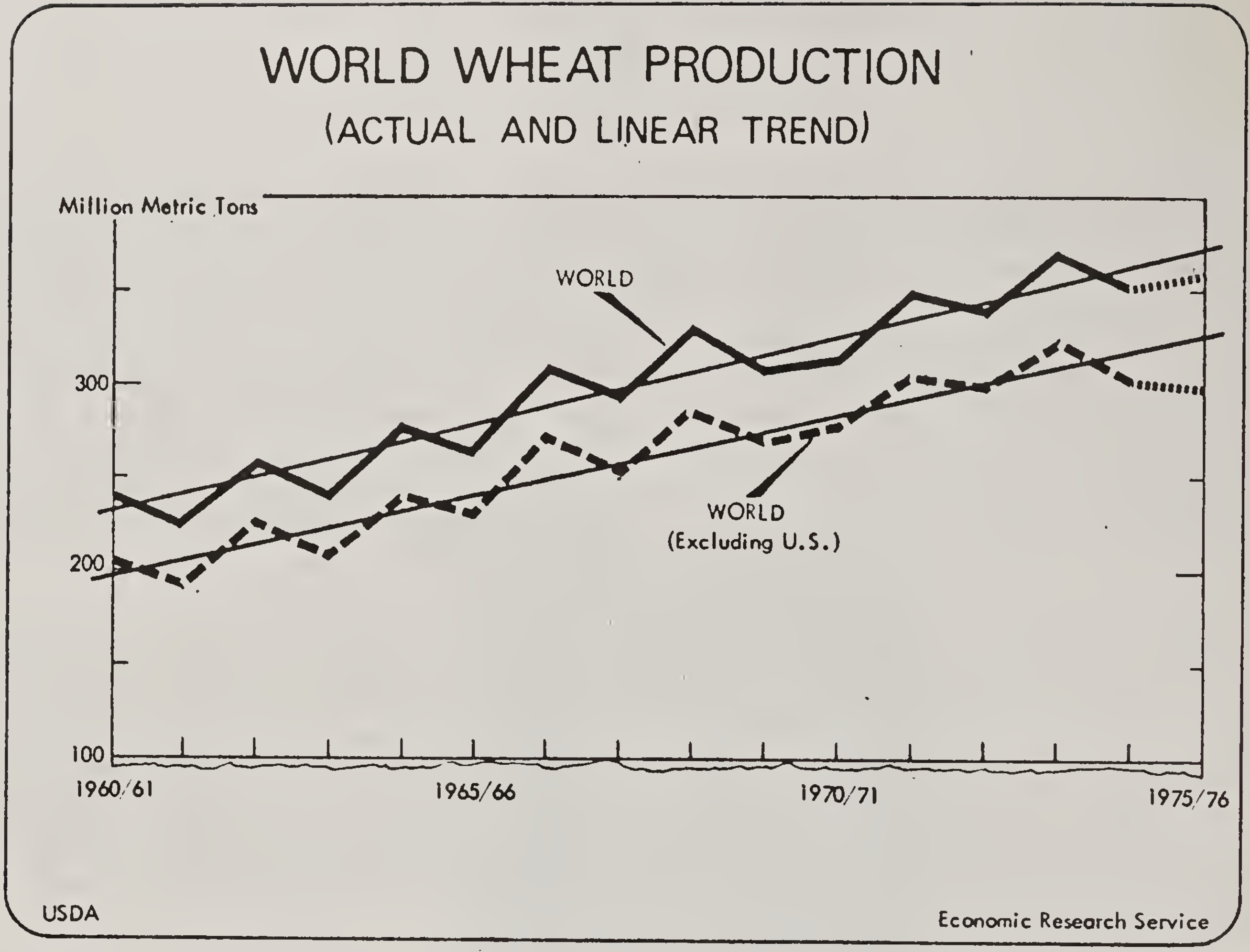
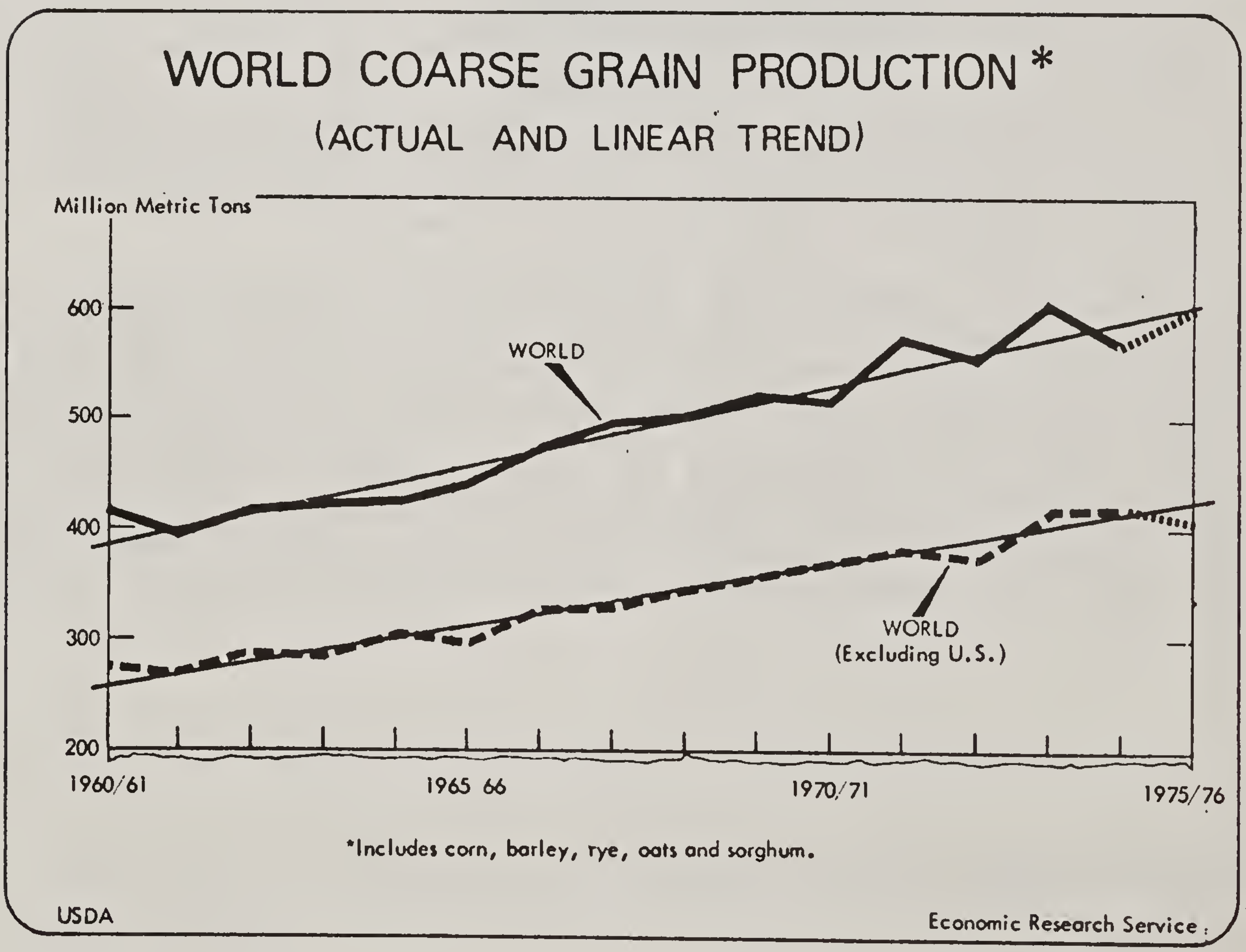
Washington, D.C. August 21, 1975



WORLD WHEAT PRODUCTION
(ACTUAL AND LINEAR TREND)
Million Metric Tons
WORLD
WORLD
(Excluding U.S.)
300
200
100
1960/61
1965/66
1970/71
1975/76
USDA
Economic Research Service



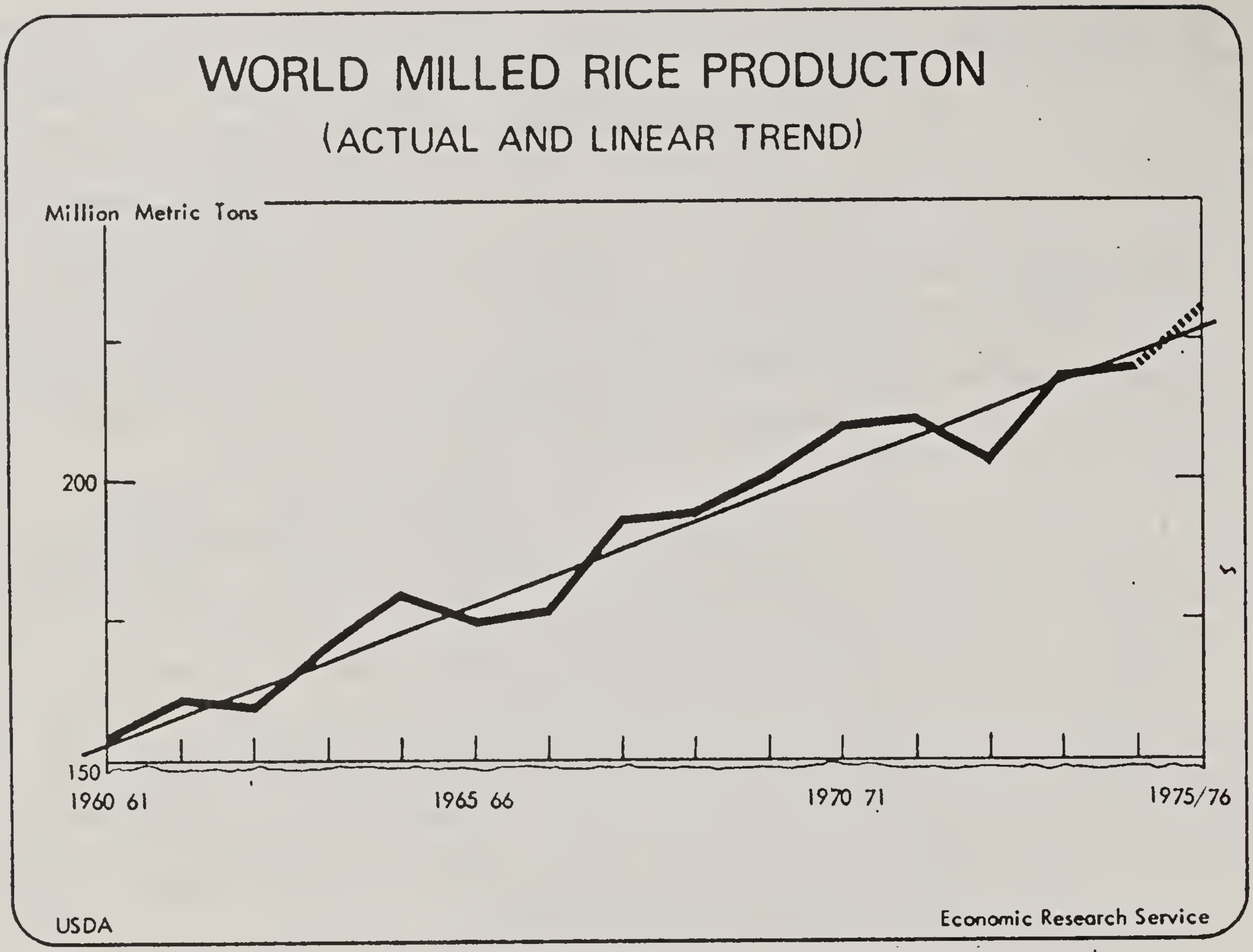
WORLD COARSE GRAIN PRODUCTION *
(ACTUAL AND LINEAR TREND)
Million Metric Tons
WORLD
WORLD
(Excluding U.S.)
600
500
400
300
200
1960/61
1965 66
1970/71
1975/76
*Includes corn, barley, rye, oats and sorghum.
USDA
Economic Research Service

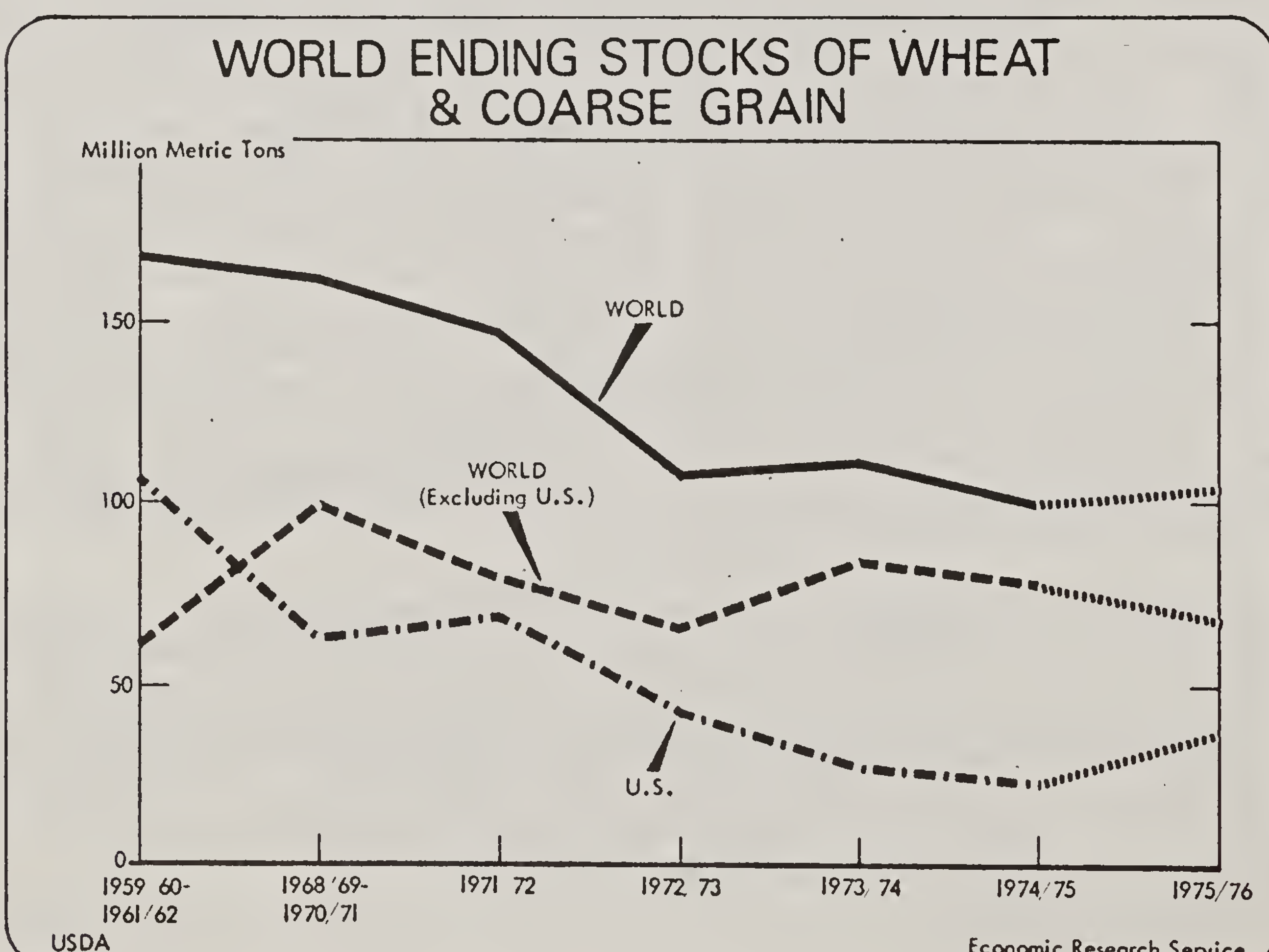
World wheat production is forecast at about 357 million tons, 2 percent above last year, but about 17 million tons below the 1960/61-74/75 trend. This is down about 7 million tons from the July estimate largely because of reductions in estimates for the USSR, Western Europe, and the United States. The United States should still achieve a record crop, about 10 million tons above last year (also a record). But production outside the United States is expected to fall to roughly the 1972 level which was a little below 1974's output. The sharpest reductions from last year were experienced in Western and Eastern Europe and by the Southern Hemisphere exporters. These reduced supplies were partly offset by a recovery in south Asian production--particularly in India--and in North Africa and the Middle East and by a good crop in China. Estimates for Australia and Argentina are not likely to be firmed up until their harvests are more imminent in December.

The world rice crop got off to a good start largely because of generally favorable monsoon rainfall in Asia. Prospects are especially brighter in two of the countries where fears of famine were greatest last year--India and Bangladesh--and in Indonesia. China's rice crop could equal or possibly exceed last year's record if normal weather continues to prevail. The bulk of the world rice harvest is months away, making any forecast extremely tentative, but current estimates suggest a crop of around 230 million tons of milled rice. That would be more than 4 percent higher than last year, and perhaps 3 million tons above the 1960/61-74/75 trend. Most of the increase probably will be consumed in the countries where grown, but more will also likely be available for export. Production is expected to be up in the traditional exporting countries, such as the United States which expects a record crop.

World coarse grain production is now expected to reach about 600 million tons, a 5-percent gain over last year, but around 7 million tons below the 1960/61-74/75 trend. This represents a 20-million-ton reduction from USDA's July estimate. Lower estimates for the Soviet Union, the United States, and Western Europe are largely responsible for the reduction. U.S. output--now forecast to be up a fourth from 1974--could still exceed the 1973 record. Production elsewhere is now expected to be a percent or two below the record crops achieved in 1973 and 1974. The predicted 17-million-ton drop in Soviet production from last year more than offsets gains by the leading exporters outside the United States and by India and China. The pressure on supplies has been reduced somewhat by recession in many parts of the world which has slowed the growth in demand for livestock products. Cattle producers outside the United States are expected to reduce grain feeding somewhat in response to the recent higher prices and shorter supplies of feed. But we cannot be certain that producers everywhere, particularly in Western Europe, will reduce feeding as rapidly as now anticipated.

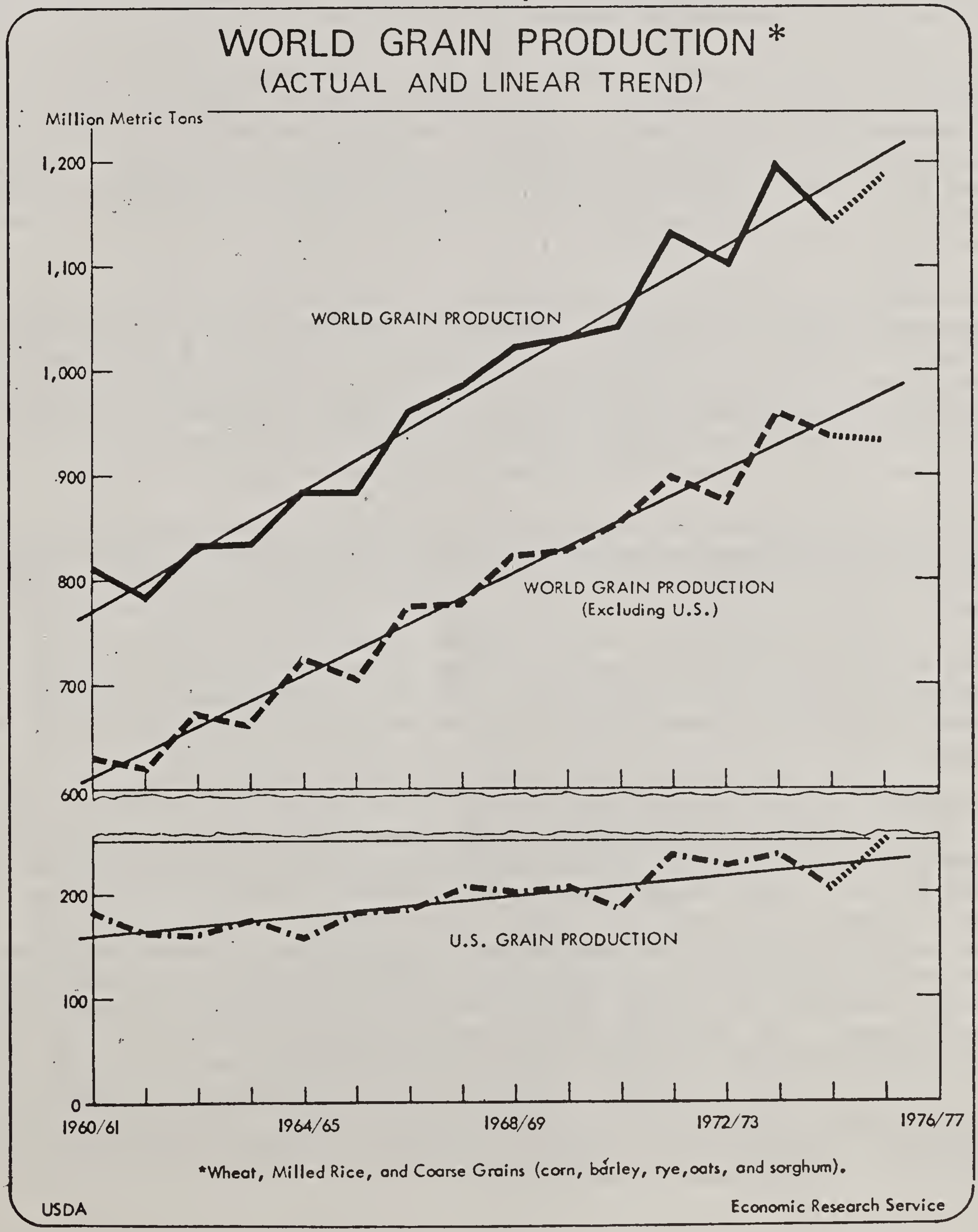
World production of oilseeds is expected to be up about 12 percent, thanks largely to gains for soybeans in the United States and Brazil. Sunflower production will be down in the Soviet Union, but may be up in other producing countries. Canada should register gains in rapeseed output, and Philippine coconut production should recover, and palm oil output will also be up. The limited recovery in the Peruvian anchovy catch should make more fish meal and oil available for export. A substantial buildup in stocks of meal and oil appears underway in the major producing countries.


WORLD MILLED RICE PRODUCTON
(ACTUAL AND LINEAR TREND)
Million Metric Tons
200
150
1960 61
1965 66
1970 71
1975/76
USDA
Economic Research Service


WORLD ENDING STOCKS OF WHEAT
& COARSE GRAIN
Million Metric Tons
150
100
50
0
WORLD
WORLD
(Excluding U.S.)
U.S.
1959 60-
1961/62
1968/69-
1970/71
1971 72
1972 73
1973/74
1974/75
1975/76
USDA
Economic Research Service

Beef and veal output by leading meat trading countries is expected to be up about 6 percent, while pork production may be down about the same percentage. Cattle herds are large in the United States, Australia, and Argentina, and are potentially vulnerable to a forced increase in slaughter should dry weather cause a deterioration in pastures later this year. In that event, Southern Hemisphere countries would face severe difficulties in marketing excess meat production.

The 1975/76 sugar crop could be around 5 million tons larger than last year despite recent bad weather in some West European countries, the USSR, Brazil, some Caribbean and Central American countries, and the United States. While lower prices recently have boosted consumption, world sugar requirements should be quite a bit below production.



HOW MUCH GRAIN AND MEAT WILL WE HAVE?

By

Donald Seaborg*

Crop output is increasing sharply this year although not as much as we had earlier anticipated. Despite prospects for record crops, poor growing conditions in many areas of the world and the surge in foreign demand make commodity markets sensitive to day-to-day developments at home and abroad.

Discussion so far has covered the general deterioration in crop production prospects in the major regions of the world and how this translates into larger exports of U.S. food and feed grains. With this background, we can examine crop production prospects in the United States and try to see what lies ahead for farmers and consumers.

First let's examine the situation for wheat. Production last year rose to a record 1.8 billion bushels, but unfavorable weather caused the final outturn to be smaller than anticipated earlier. Domestic use during the 1974/75 marketing year just ended declined slightly because of less wheat feeding. Wheat exports also sagged, totaling just over a billion bushels. This left a carryover of 320 million bushels, up a little from the very small pipeline level at the end of 1973/74.

The wheat crop this year is even larger, 2.1 billion bushels according to the August Crop Production report. Farmers are harvesting more acres and yields per acre have increased to about 31 bushels, up from the weather-reduced 27 bushels of last year. We look for little change in domestic use during the 1975/76 marketing season just underway. But exports could be very large--1,150 to 1,350 million bushels. The lower figure takes into account all of the recent wheat purchases by the Soviet Union.

If exports approximate the lower end of the range, stocks on July 1, 1976 will probably increase to around 600 million bushels. Wheat prices received by farmers would average well below the $4 per bushel of 1974/75, perhaps running in the neighborhood of $3 to $3.50 per bushel. With exports as large as 1.4 billion bushels, the supply-demand situation would remain relatively tight during the marketing year. And stocks would total about 400 million bushels by year's end. Under these conditions, wheat prices likely would average about $4 per bushel, but there may be wide price swings during the season.

Last year's weather-reduced corn crop is still having a substantial impact on crop and livestock markets and the supply of meat. As we all so vividly remember, farmers planted substantially more corn in the spring of 1974 in hopes of producing a bumper crop, but the crop was about 20 percent smaller than in each of the previous 3 years. With a smaller supply, corn prices rose sharply along with the cost of other feedstuffs and livestock farmers were put in a severe price-cost squeeze. They responded by cutting back on feeding, and feed use during 1974/75 may be down 20 percent. Exports also are off some. Even with reduced use, ending stocks this fall will probably drop below 350 million bushels, which is exceptionally low.

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This spring farmers planted about the same number of acres to corn as in 1974. However, yield prospects look better. The August report indicated yields would run about 87 bushels per acre, up from 71 last year and that the 1975 corn crop would top 5.8 billion bushels. But many corn fields in the Western Corn Belt were under stress from lack of moisture in July and early August. While rains during the past 2 weeks were beneficial, they by no means offset the previous dry conditions. The crop has progressed quite well in the Eastern Corn Belt. On balance, the situation is much better than it was last summer, and the 1975 corn crop will be substantially larger than last year. We will get a new appraisal when the next report is released on September 11.

The larger crop in prospect will likely encourage some expansion in livestock feeding activity. But if overseas demand is very strong and exports rise to 1-1/2 billion bushels, corn prices would remain high enough to limit gains in feed use during 1975/76. Under these conditions, the farm price of corn probably would hold up and stay sensitive to changes in market conditions. This would not stimulate feeding activity very much even though the supply of feeder cattle is large and hog and broiler producers are enjoying improved returns this summer. Reduced feeding may lead to some stock build-up toward the end of 1975/76. In this event, corn prices likely would decline later in the feeding year, reflecting the rather slow pick-up in feed use.

With a large harvest this fall, and if there is no new surge in foreign buying, corn prices probably would settle from recent highs. Large numbers of cattle would be placed on feed, farrowings would pick up and broiler output would increase fairly rapidly. This would increase feed use and moderate the increase in stocks by the end of the 1975/76 marketing year. Corn prices at the farm likely would average 25 to 75 cents below this year's estimated season average of about $3 per bushel. But prices might firm late in the season as feed use began to expand substantially.

Soybean output may exceed 1.4 billion bushels this year, up from 1.2 billion last year. Acreage is up a little, but more important the average yield per acre may top 27 bushels. Last year we harvested only 23-1/2 bushels per acre because of poor growing conditions.

Soybean stocks are building and we will probably end 1974/75 with more than 200 million bushels on hand. This would be equal to about 2 months' usage and much larger than ending stocks in other recent years. Stocks will rise because both crushings and exports are off. Reduced domestic feeding of livestock and poultry and a sharp drop in soybean oil use have curtailed crushings from 821 million bushels of last year to around 700 million this season. The recession in overseas markets and competition from foreign produced commodities are holding exports during 1974/75 to about 400 million bushels compared with the 540 million shipped a year earlier.

The large prospective supply of soybeans available during 1975/76 likely will stimulate larger crushings and larger exports. But even with expanding use, carryover stocks by the fall of 1976 may rise further.

Soybean prices have strengthened recently along with price increases of other grains that accompanied sales of wheat, corn and barley to the USSR. But so far no purchases of U.S. soybeans have been made by the Soviets, although their 1975 sunflower seed crop may be a tenth below last year's. Prices of soybeans in 1975/76 likely will reflect the more fundamental relationships in the market after the crop is harvested and it becomes apparent that U.S. supplies are more than adequate for domestic and foreign requirements. Unless foreign sales pick up from what now seems likely, the average price received by farmers for soybeans during 1975/76 will run 50 cents to $1 below the estimate for 1974/75 of a little over $6 per bushel.

Let's shift now from crops to livestock. Basic to the outlook for future meat supplies is a discussion of the cattle cycle.

Cattle and calves on farms have been increasing in number since 1967, and increases have been substantial in recent years, especially in the beef breeding herd. Up until last year, cattle and calf slaughter had not risen along with increases in the cattle inventory. So slaughter has been low in relation to the inventory and the feeder cattle supply has become large.

The drought and poor returns to cattle feeders last year led to much higher slaughter of both cattle and calves and a reversal of the trend to putting more and more cattle on feed. However, slaughter of cattle directly off grass has risen more than enough to offset declines in fed cattle marketings. The number of cattle slaughtered was up 11 percent in the first half of this year and it will stay large this fall and in 1976. There is little doubt about large slaughter in the coming months but there is considerable uncertainty about the mix of fed and nonfed cattle in slaughter supplies.

With a large supply of feeder cattle, any decline in feed costs would encourage more cattle to be placed on feed this fall and winter. This would temper increases in beef production for a time as more young cattle would move into feedlots before slaughter. Of course, beef output would be given a boost next year if more cattle were moved through feedlots. Even with more beef, fed cattle prices would hold up fairly well in the fall and early next year because pork output will remain small. Choice steers at Omaha might ease off to the low to mid $40's this fall, but recover much of this loss in the first half of 1976.

One of the peculiarities of the current cattle situation is that beef production this fall and winter will be very large if feed costs remain high and returns appear uncertain. In this event, few of the young cattle moving off grass this fall would be placed on feed. Feeder cattle prices would weaken, reducing the primary source of income for stockmen. Cow slaughter would stay very high and total slaughter might be high enough to bring about a reduction in the herd in 1976. With more beef, cattle prices would be under more pressure this fall and into the first half of 1976. Reduced pork output would temper the downward pressure in the cattle market.

Hog slaughter in the second half of 1975 likely will run 15 to 20 percent below July-December slaughter last year. Hog farmers cut production as profits were squeezed in 1974 and as the general level of uncertainties in the market rose. As a result, there were 19 percent fewer market hogs on farms at midyear. And using the make up of the reported inventory as a guide, we would expect fall slaughter to be no larger than the seasonally low summer kill.

Hog farmers have reported plans for a 12 percent reduction in the number of sows farrowing during June-November. So continued reductions in pork output are in prospect for the first half of 1976.

Hog farmers are not likely to make more than a small increase in the number of sows farrowing during the upcoming spring farrowing season if feed prices continue high. These would be the pigs available for second half 1976 slaughter supplies.

Hog prices this summer have been mostly \$56 to \$59 per 100 pounds at Midwest markets. Prices probably will weaken some this fall as beef supplies increase, but are expected to hold up well into next year in view of reduced supplies in prospect.

Broiler producers are placing more chicks for marketing during the fourth quarter following reductions earlier this year. Broiler slaughter is running close to year-earlier levels but improved returns to broiler producers in recent months led to increased hatchery activity. This points to moderately larger broiler output this fall and in the first half of 1976. However, if feed costs remain high producers may limit their expansion in early 1976.

Broiler prices have been on a general uptrend since the spring of 1974 and the 9 city average has been about 50 cents per pound in recent weeks. Some seasonal weakness is expected this fall and prices may average near the 41 cents of last October-December. First half 1976 broiler prices will probably strengthen seasonally from fall levels.

Falling egg prices during the spring dropped egg producers into a loss position but a rise in egg prices during July put them back to near the break even point. Egg production has been trailing year earlier levels so far in 1975 but by late in the year, the gap may narrow. Egg output will gain during the first half of 1976 but likely will not exceed year-earlier levels.

Milk production has been below a year ago this spring and summer, although more favorable milk-feed price relationships may encourage increased output later this year and early in 1976. The dairy herd continues to show small declines but lower feeding rates have caused a drop in milk output per cow. Milk prices have been rising this summer, reflecting rise in butter and cheese prices, strong fluid milk sales, and lower milk output. This points to further seasonal increases in milk prices in the coming months.

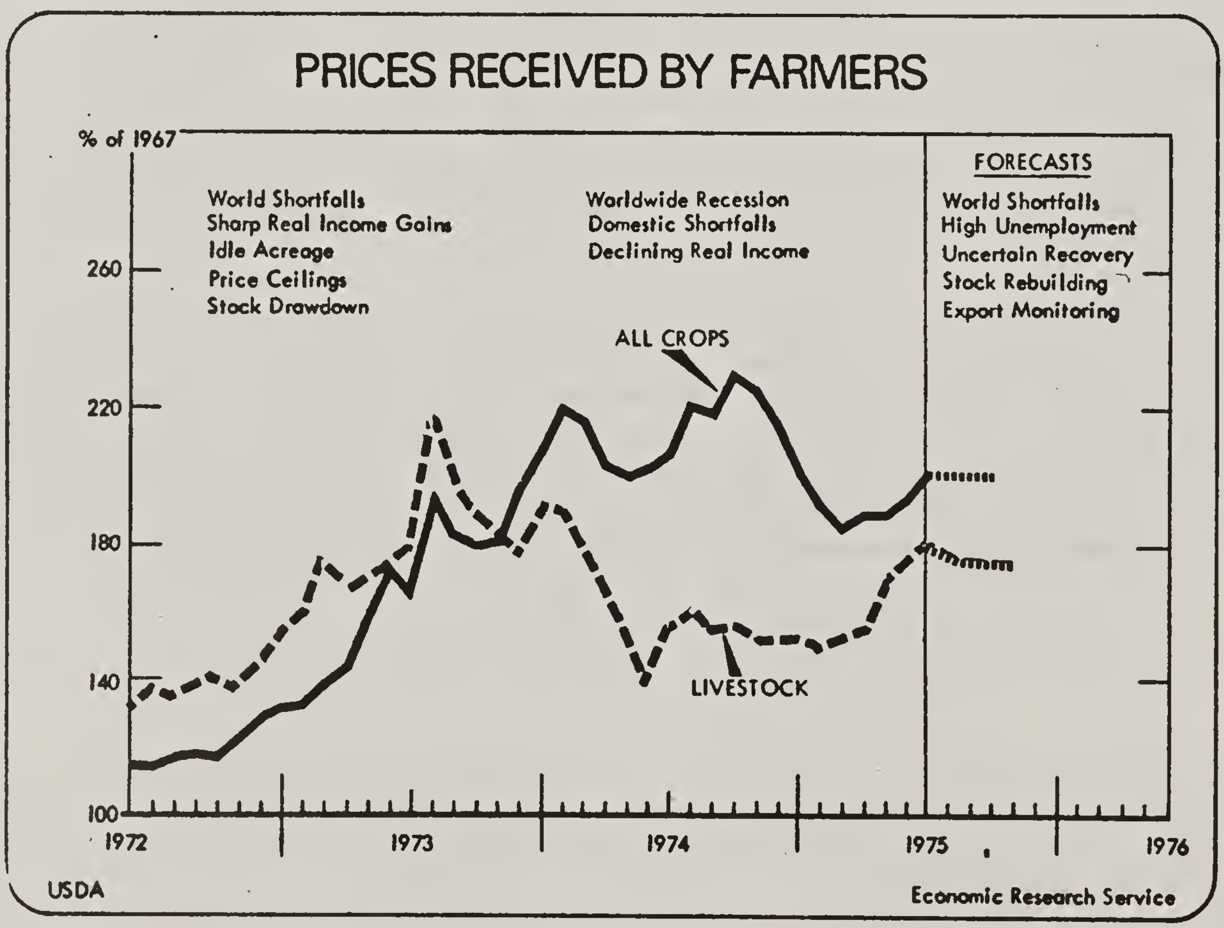
FARM PRICE DEVELOPMENTS

by

Terry N. Barr*

The fears of food inflation have once again been rekindled by the vagaries of weather at home and abroad coupled with significant improvements in domestic consumer purchasing power. However, before pouring water on the fires of speculation, we should note the basic differences between the current situation and the 1972/73 experience.

Some similarities with the 1972 situation are apparent: The potential shortfall in USSR grain production relative to needs may match 1972 in severity and speculation over coming U.S. grain and soybean crops and export levels are dominating the respective commodity markets. Meanwhile a strong transitory recovery in the income position of consumers is providing more dollars for food expenditures just as the impacts of livestock adjustments to 1974 developments emerge at retail. When the recessionary tumble in economic activity began in early 1974 and was compounded by the short grain crops of 1974/75, livestock producers faced declining livestock prices together with rising feed costs. The ensuing liquidation of inventory resulted in increased production for a time and some further easing in livestock prices. However, by mid-1975 production rates for meat and poultry were running well below a year earlier and consumers, armed with increased purchasing power, were bidding for the reduced supplies. The result was sharply higher prices. However, similarities with 1972/73 end at this point.



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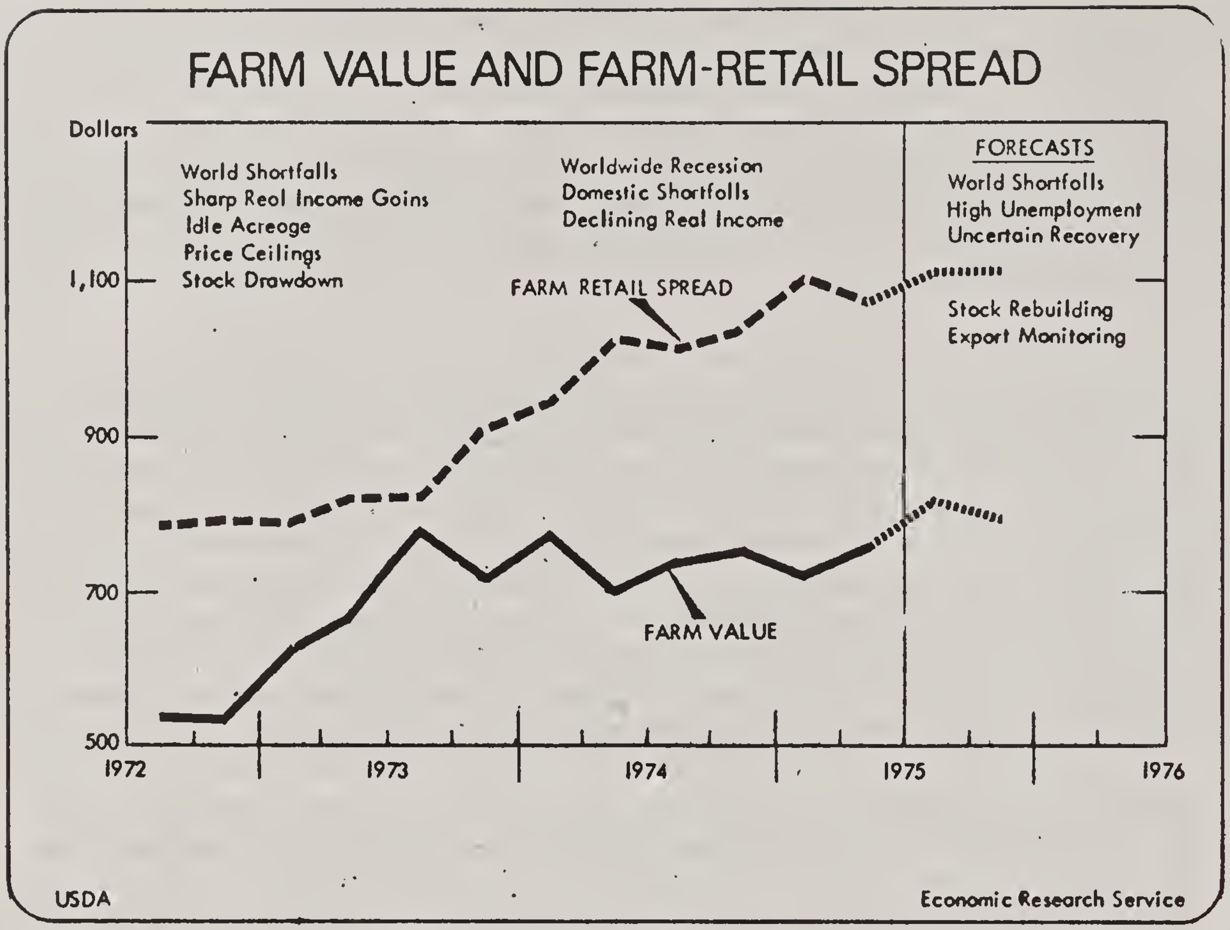
(a) In 1972 the U.S. economy was going wide-open with unemployment below 5 percent and real incomes increasing at a phenomenal 7% rate into late 1973. However, real incomes declined 3 percent from late 1973 to late 1974 and the unemployment rate began to increase. By mid-1975 an uncertain recovery is only beginning and real income is not likely to reach 1973 levels until late 1975 despite large recent gains. Unemployment is likely to remain around 8 percent for the balance of the year.

(b) Speculation is again pushing the grain markets upward, but the export monitoring system and improved information on world production have provided an early warning of the strength of foreign demand. At this time grain exporting firms have been asked to hold all large purchases to the USSR until a better fix on the U.S. crops can be obtained. This is an important change from the mid-1972 situation. The early warning provides an opportunity for all participants in the markets, both domestic and foreign, to appraise the actual nature of the supply/demand balance. As a result, the recent price increases are likely to have a greater rationing effect upon world demand than in 1972 when sales were concluded quickly and quietly.

(c) In 1972 substantial acreage had been held out of production in response to specific programs designed to alleviate burdensome carryover stocks which had depressed grain prices to loan rates. In 1975 farmers were asked to produce all out and they have responded with what is expected to be near-record crops. If the crops materialize, they will permit some stock rebuilding even after satisfying a significant portion of expanded world demand and providing feed to encourage expansion in the domestic livestock industry. More importantly for farmers, it means increased returns for livestock and improved prices for the record 1975 crop. Net realized farm income will likely total in the mid-$20 billion range.

These comparisons with 1972 should not engender complacency, however. Weather has little respect for the forecasts of statisticians, economists or farmers and can undo the best laid agricultural plans. Staying alert to developments in U.S. crops and the needs of foreign markets remain key ingredients in preventing a repeat of 1972.

If the grain and soybean crops reach the levels reflected in the August crop report, the pattern of farm prices would likely put only moderate upward pressure on consumer prices. Crop prices are likely to remain strong well into the harvest of large 1975 crops with uncertainties and corresponding speculation a big factor in the strength. With large crops, some easing in crop prices is likely into 1976. Livestock prices already have slipped some from highs in July and could continue to moderate with increases in beef and poultry production and slower gains in consumer incomes.



From the consumer point of view, 1973 was a costly year as the upward pressure of sharply rising farm prices carried over from late 1972. Then in 1974, average farm food prices changed little but retail food prices rose almost unabated. The upward pressure on retail food prices continued and the farm-to-retail price margins widened. Concentrating only on the food-related commodities and the corresponding farm-retail spreads helps to reveal the pattern and source of food price pressures in 1974. They show that widening farm-to-retail price spreads accounted for nearly 80% of the increase in retail food prices in 1974. Can we expect a repeat of the 1974 experience with regard to farm-retail spreads in coming months?

The upward surge in margins which began in late 1973 reflected an accelerated increase in costs of packaging, transportation, energy and other operating expenses and cost increases that could not be passed through during economic controls. Although price increases are slowing for some factors, further cost increases, particularly for labor, transportation and energy, will keep pressure on price spreads throughout 1975.

Spreads registered their first declines in 4 years in the second quarter of 1975 as the economy slid deeper into recession and farm prices began to rise sharply. As the economy gains momentum in coming months and farm prices rise, farm-retail spreads are expected to widen. However, the rate of increase should moderate significantly by year end. With average farm prices easing, the modest gains in retail prices in coming months may primarily reflect increases in charges for marketing and processing foods.

What is Likely to Happen to Food Supplies and Prices?

By J. Dawson Ahalt *

What is going to happen to retail food costs? This is a key question running through the minds of many Americans in the summer of 1975. It is a fair question and it's easy to see why all the concern. I'd like to try to shed some light on the issue.

After two years of spiraling retail food costs, prices slowed markedly this spring. Although meat prices spurted upward again in June, the overall increase at retail food counters for the second quarter was only 0.5 percent, the smallest quarterly rise in nearly 3 years.

Food prices at retail advanced again during July. Unfortunately, the release of the June CPI came in late July at about the time the Soviets were negotiating in the U.S. for grain purchases. Speculation over the size of the purchases throughout July pushed grain and soybean prices upward. This led some to conclude, inadvertently and otherwise, that purchases by the Soviet Union would set off another explosion in retail food prices as they were attributed by some to have done in 1972/73. Even more disturbing are arguments that the recent upsurge in food and fuel costs portend a rekindling of inflation just at the stage when the economy is recovering. The fact that the situation today is only slightly similar to events which occurred 3 years ago has been well documented by the other speakers, and need not be dwelt on here. But what should be focused on is why food prices accelerated this summer.

The upsurge in retail prices the past 2 months reflects a reduction in meat and poultry supplies brought about by the weather-damaged feed crops of 1974. This rise was not due to what is happening to grain markets this summer. In addition to tight red meat supplies, seafood supplies and smaller than normal crops of potatoes and tomatoes boosted prices this summer. On the other hand, more ample supplies and lower ingredient costs, especially sugar, have pulled down retail prices for beverages, fats and oils and dairy products as well as cereal and bakery products. Although the summer price surge for livestock products appears to have simmered down, average retail food prices for the third quarter will probably run in the neighborhood of 4 percent above April-June level.

Looking toward fall, a number of factors including even the possibility of some additional loss in the estimated record U.S. grain and soybean crops, strong world demand for U.S. crops, and increasingly solid prospects for broad improvements in economic activity all point to stronger market prices. However, substantially larger market supplies are expected in coming months for beef and poultry as well as fresh fruits and vegetables. These larger

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* Staff Economist, Office of Director of Agricultural Economics, U.S. Department of Agriculture.

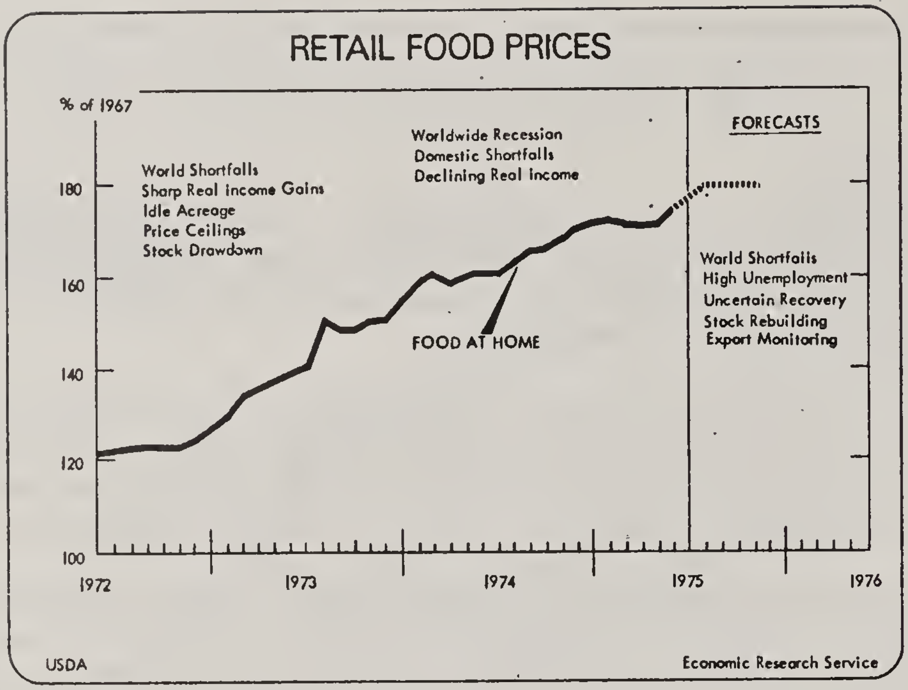

Table 1--Consumer, wholesale, and farm price indexes, 1974-75
(1967=100)

Item	1974 II	1974 III	1974 IV	1974 Year	1975 I	1975 II Index	1975 II Percent change from 1974 II
							Pct.
Retail prices: 1/							
All goods and services (CPI)	145.4	149.9	154.2	147.7	157.0	159.5	9.6
All items less food	141.3	146.1	150.3	143.6	152.9	155.7	10.2
All food	159.5	162.8	167.9	161.7	171.3	172.5	8.2
Food at home	160.2	163.0	168.4	162.4	171.6	172.5	7.7
Food away from home	157.1	161.8	166.2	159.4	170.3	172.7	9.9
Wholesale prices: 1/							
All commodities	154.5	165.4	171.2	160.1	171.2	173.0	12.0
Industrial commodities	150.2	160.8	165.6	153.8	168.3	170.2	13.3
Farm products	178.5	184.2	186.3	187.7	175.1	182.8	2.4
Processed food	161.9	177.2	189.8	173.2	186.8	183.5	13.3
All food 2/	166.0	175.9	187.8	174.4	184.8	182.9	10.2
Prices received by farmers: 3/	174	181	182	180	169	180	3.5
Crops	202	215	223	214	193	177	-12.4
Livestock and products	156	157	154	163	152	168	7.7
Market basket of U.S. farm food: 4/							
Retail cost	160.2	162.0	166.3	161.9	168.8	170.1	6.2
Farm-retail spread	154.6	153.4	157.5	151.8	166.3	162.0	4.8
Farm value	169.1	176.1	180.2	178.1	172.8	182.8	8.1

1/ Department of Labor, Bureau of Labor Statistics.

2/ All food includes all processed foods plus eggs and fresh and dried fruits and vegetables from the farm products group.

3/ Statistical Reporting Service.

4/ Economic Research Service.

food supplies could bring some price declines at retail for some products in these categories. In fact the more abundant supply picture is likely to tone down the overall advance in retail food prices for the fourth quarter, possibly approximating increases experienced during the spring. Most of the upward price drift that does occur during the fall will stem from the continued sharply reduced rate of pork output coupled with tightening supplies of eggs and strength in some dairy products. Additionally, the farm-retail spread which was compressed earlier in the year is likely to widen this fall due to increased costs of labor, transportation and energy.

Looking at 1975 as a whole, with per capita food supplies down 1 1/2 percent from last year retail food prices are expected to average somewhere around 9 percent, slightly above the upper end of the Department's most recent forecast of 6-8 percent for the year. This forecast includes an allowance for the grain purchases by the U.S.S.R. which were estimated to boost the overall level of food prices by something less than 1 1/2 percent above what would have existed in the absence of the purchases. Our conclusions suggest that the overall effect of the U.S.S.R. purchases made thus far will not seriously affect retail food prices nor materially alter the adjustments underway in the livestock industry. However, if estimated record U.S. crops should deteriorate further between now and harvest time, and if export demand expands sharply beyond current expectations, additional pressure would be put on retail prices in coming months.

Speculating on what happens to food prices in 1976 is particularly difficult at this time of year for all the obvious reasons. But the task is especially hazardous this year because of the uncertainty over the size of U.S. and world crops, the impact of feed costs on livestock output and marketings, and the basic strength of consumer demand.

Assessing the likely supply-demand prospects and stepping a bit "out-on-the-limb" it would appear that after the large number of cattle are moved off grass this fall, along with a seasonal drop in an already cyclical low level of pork production, red meat supplies will tighten and put upward pressure on prices at most levels, particularly early next year. However, broiler supplies should continue large and play somewhat of a moderating role on price developments. Crop food product prices will probably advance somewhat more strongly early in the year due mainly to tighter supplies of new crop potatoes and stronger markets for fats and oils. Sugar and heavy sugar using products, however, will remain relatively good buys. As the year progresses, the behavior of food prices will hinge heavily on the pattern in which livestock and livestock products move to market. Cattle numbers will continue quite large through the first half of next year with marketings and price developments determined heavily by feeders' profit expectations this fall.

Table 2--Per capita food consumption index, 1967-75 1/
(1967=100)

Selected years	Meat	Poultry	Fish	Eggs	Dairy products 2/	Fats and oils			Fruits 3/		
						Animal 2/	Vegetable	Total	Fresh	Processed	Total
1967	100	100	100	100	100	100	100	100	100	100	100
1968	103	99	102	99	101	103	104	103	98	97	97
1969	102	103	102	98	100	95	110	105	98	102	100
1970	104	108	109	99	99	90	116	107	101	103	102
1971	107	109	105	97	99	90	113	105	98	106	102
1972	105	113	113	95	100	84	122	109	94	105	100
1973	98	107	117	91	99	78	127	110	93	110	102
1974	105	109	111	89	98	78	121	105	98	107	103
1975 4/	101	105	112	84	99	74	117	102	100	116	108

Selected years	Vegetables 5/			Potatoes and sweetpotatoes		Cereal products	Sugar and sweet-eners	Coffee, tea, and cocoa	All food		
	Fresh	Processed	Total	Fresh	Processed				Animal products	Crops 6/	Total
1967	100	100	100	100	100	100	100	100	100.0	100.0	100.0
1968	99	104	100	101	106	101	103	100	101.5	101.1	101.2
1969	99	104	101	94	118	101	104	97	101.2	102.0	101.5
1970	100	104	101	91	121	98	106	94	102.5	103.1	102.8
1971	99	105	101	87	124	99	106	92	103.8	102.8	103.3
1972	99	108	102	89	123	98	108	98	103.6	104.1	103.8
1973	100	113	104	82	126	98	109	96	99.0	105.3	101.9
1974	100	109	103	82	126	96	106	91	101.6	103.3	102.4
1975 4/	99	113	104	84	128	97	97	88	99.3	103.2	101.0

1/ Civilian consumption only. Quantities of individual foods are combined in terms of 1957-59 retail prices. Data for earlier years are given in the 1972 Supplement to Food Consumption, Prices, and Expenditures, Agricultural Economics Report No. 138, December 1973. 2/ Includes butter. 3/ Excludes melons and baby food. 4/ Preliminary. 5/ Excludes soup, baby food, dry beans and peas, potatoes, and sweetpotatoes. 6/ Includes melons, dry beans and peas, nuts, soup, and baby food in addition to groups shown separately.