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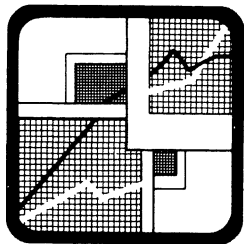
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Situation & Outlook

FOOD SITUATION AND OUTLOOK

Somewhat stronger than expected food price increases early this year, coupled with a sharp reduction in pork production prospects and a higher rate of inflation in the economy than expected earlier, point to higher food prices. For all of 1978, food prices may average around 6 to 8 percent above last year.

For the second year in a row, the winter weather has had an adverse impact on food prices. February food prices in grocery stores jumped nearly 2 percent from the previous month, following a January rise of a little over 1 percent. These sharper-than-expected increases were caused primarily by strong livestock prices, by delays in marketing many commodities (including livestock) because of severe weather, and by heavy rainfall which delayed and disrupted normal planting and harvesting of fresh vegetable crops in California.

As a result, it now appears that first quarter grocery store prices averaged around 3 percent above the previous quarter, and nearly 8 percent above year-ago levels. However, price information for the first quarter will not be complete until March data become available in late April. First quarter prices had been expected to rise only about 1 or 2 percent from last fall and average 6 or 7 percent above a year earlier.

Farm Prices Pick Up

In contrast to most of last year and to prior expectations, much of the recent strength in retail food prices stemmed from rising prices

for farm commodities. Farm prices of raw foodstuffs hit a seasonal low last fall while large crops were being harvested. Although all commodity prices have not shared equally in the gain, and prices for many items remain below the levels which many farmers feel are equitable, average farm commodity prices turned upward late last year and registered further increases in early 1978.

From the seasonal low last September, prices received by farmers for all commodities had risen around 15 percent by March, and were about 5 percent above March 1977. A big part of the overall recent price rise was for meat animals—primarily cattle and hogs—which have been running higher than earlier expected. Barrow and gilt prices increased to over \$50 per cwt. at Omaha, and have held in the upper \$40 range to late March. Cattle prices have also strengthened, with Choice steers at Omaha selling for over \$50 per cwt. in late March. Broiler prices have also been bolstered by strength in hog markets.

Crop prices also rose some in March after holding fairly stable the past few months. The largest gainer was soybeans. Increased demand for U.S. beans, caused by Brazil's drought-reduced 1978 soybean crop, drove domestic prices up around \$1 a bushel during March. Grains have also risen, with wheat prices exceeding \$3 a bushel at Kansas City in late March for the first time since September 1976.

Grower prices for some fresh vegetables have been volatile in early 1978. For example, lettuce prices in California jumped to \$10 a carton in mid-January, then

dropped back to as low as \$2.25 before a modest rise occurred in late March.

It now appears that the farm value of U.S.-produced food commodities in the first quarter probably averaged around 5 percent above the previous quarter and about 7 percent above a year earlier.

Rising farm product prices this winter reflected a combination of forces. Part of the increase was seasonal in nature, as major field crops and some of the fresh produce staples began to be drawn from storage, rather than moving directly to market at harvesttime. Perishable vegetable supplies also shifted, as usual, from widespread local producing areas last summer and fall to winter-producing districts in the South where both production and transportation costs are higher.

However, adverse weather this winter also took its toll. Excessive rains in California damaged some fresh vegetable crops and interfered with harvesting operations. Meanwhile, winter storms in the Midwest and Northeast slowed rates of gain for livestock and disrupted the flow of farm commodities and food products to market in some areas.

Meat Prices Reflect Smaller Supplies

Production adjustments in the livestock sector have impacted farm prices of livestock and poultry in early 1978 and are expected to exert a major influence during the rest of this year.

USDA's *Hogs and Pigs Report* issued March 21 reported significantly fewer hogs than had been indicated last fall. Although farm-

ers indicated last December they intended to farrow 13 percent more sows in the December 1977-February 1978 period, the March report showed that sows farrowing were actually down 1 percent. Disease problems, death losses and sows aborting this winter were factors. Producers now indicate that they intend to farrow about the same number of sows as a year ago in March through August. Based on this report, pork production in 1978 may be up 1 to 3 percent, rather than the 10-percent rise earlier expected.

Cattle inventories have been reduced over the past 3 years in response to reduced profitability and drought in important range and pasture areas, leading to smaller beef supplies throughout this year. In the face of apparently strong consumer demand for meats, these reduced supplies have pushed retail prices of beef and pork well above previously anticipated levels.

Marketing Costs Still Rising

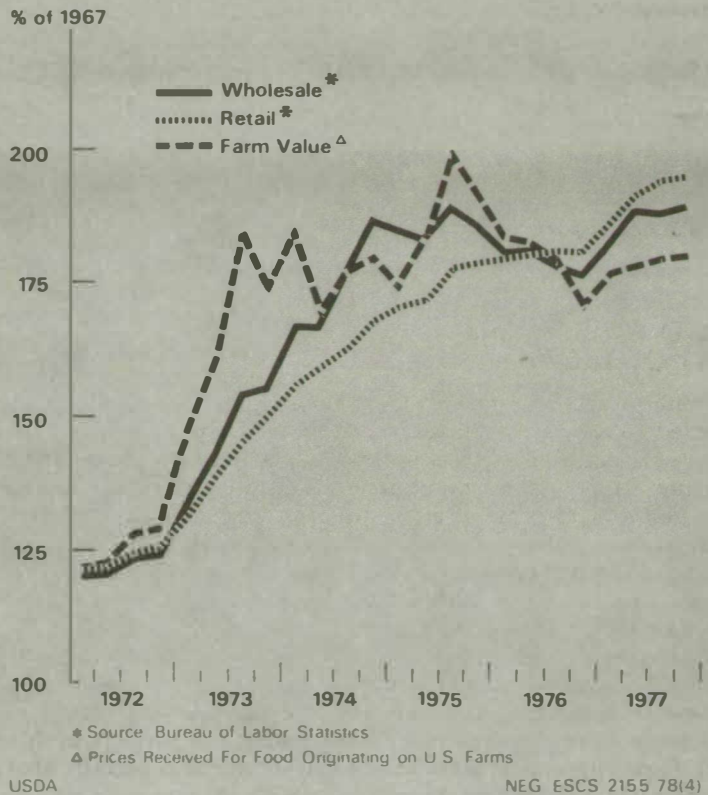
Costs in the processing and marketing sector have also continued to increase. Farm-to-retail spreads during the first quarter averaged about 2 percent above the previous quarter and around 5 percent above a year earlier, reflecting rising wage rates and higher prices for most inputs purchased by food marketing firms.

Prices for imported foods and fish also contributed a small amount to the winter food price rise. Although retail coffee prices continued to decline slowly, increases for sugar and other imported foods were more than offsetting. However, the small average price increase this year for this food category stands in stark contrast to early 1977 when rapidly rising coffee prices contributed heavily to overall food price increases.

Food Price Rise May Ease This Spring

Following their sharp rise through the winter, food price increases are expected to slow

FOOD PRICES



somewhat during the second quarter of 1978. Larger supplies of pork, broilers, and milk in prospect this spring will be partially offset by expected smaller supplies of beef. Farm prices of eggs, hogs, and milk are likely to be easing seasonally in the second quarter. However, seasonal price declines of these products will be limited by April 1 boosts in dairy support prices required under the 1977 Farm Act for dairy. And, lower nonfed beef slaughter will reduce overall beef production, pointing to continued strong market prices, and reflecting strength in hog markets.

Supplies of most crop food products are ample to adequate. However, delays in planting schedules for some vegetables due to recent heavy winter rains in California could result in temporary shortages for a few fresh produce items this spring.

On balance, the farm value of food commodities is expected to hold relatively steady during this quarter. But further cost increases

for transportation and marketing services likely will push marketing spreads higher. Consequently, retail food prices for the second quarter are expected to average around 2 percent above the first quarter. Since this would be a smaller rise than occurred last year, the second quarter increase from a year earlier may narrow to around 6 percent.

Second Half Food Price Gains May Slow

Food price rises are likely to taper off further during the second half. Seasonally larger supplies of fresh produce and some meats will partially offset the anticipated increases in marketing costs. Actions already taken by farmers indicate larger supplies of grain-fed beef and broilers in the second half relative to year-ago levels, although total meat and poultry supplies may be off a little.

At this time, it looks like food price gains will probably be slowing in the second half of 1978, with fairly stable prices likely late in the year. However, prices during

the rest of 1978 will depend on a number of key developments including:

- Weather impacts both here and abroad on 1978 crops. Moisture conditions early this year have improved in many areas and our price forecast is based on generally favorable conditions for 1978 crops.

- Production decisions by livestock and poultry producers. Actions already taken indicate larger supplies of fed beef and broilers in the second half. However, reduced slaughter of nonfed cattle will likely cut overall beef production by 5 to 6 percent from July-December 1977, and lower-than-expected hog numbers may hold second half pork production only a little above a year ago, although supplies of both pork and poultry will be up seasonally from the summer. Consequently, retail meat prices may decline seasonally in the fourth quarter but remain well above a year earlier.

- Developments on the general economic front. Economic recovery is expected to continue in 1978, although at a somewhat slower pace, which implies a moderate rise in food demand.

- Further actions in the farm policy arena. Current food price assessments do not include specific analysis of Administrative initiatives or legislative changes being considered by Congress. However, further Government actions to boost farm prices would probably have little impact on retail food prices until late in 1978 or in 1979.

1978 Food Prices

Grocery store food prices for all of 1978 are expected to average 6 to 8 percent above a year earlier. This would be above the 4-to-6-percent average increase estimated earlier and compares with a 6-percent rise in 1977. All three of the major components of grocery store food prices—the farm value of domestic food commodities, farm-to-retail price spreads for these foods, and prices for imported foods and fish—are expected to show roughly similar gains. Last year, average prices for foods and

fish jumped 31 percent, led by an 85-percent hike for roasted coffee, to account for most of the rise in overall food prices.

Prices for food away from home are also expected to rise 6 to 8 percent for the year, reflecting strong demand and cost pressures from labor and other inputs. As a result, the average price increase for all foods will be about the same as that expected for grocery store prices.

Helping boost food demand early this year has been an improving employment picture and larger consumer incomes. The unemployment rate declined to 6.1 percent in February, lowest since 1974, as total employment edged up to 93 million. Public service employment programs have added around 400,000 to the total payroll since June 30, 1977, nearly a third of the total employment rise.

Real disposable income per person closed out 1977 on a strong note—up around 5 percent from a year ago in October-December 1977. However, income gains have slowed during the first part of 1978 partly because of increased social security payments.

Declines in durable good purchases, such as automobiles, may have released more income for food spending, thus helping boost demand for higher-priced meats. Also, saving rates are at historically low levels as consumers use a larger share of their incomes for purchases of nondurable goods.

However, the strong demand for food does not mirror demand conditions for the economy as a whole. Recent indicators, while biased by poor weather and the coal strike, indicate first quarter growth rates may be weak. Consequently, the strong food demand we have witnessed early this year may be short-lived.

Harsh Winter Impacts Economic Activity

The economy in February strengthened somewhat from January but some general weakness continues. The recent string of faltering economic indicators is expected to result in a signifi-

cantly reduced first quarter rate of growth in real gross national product (GNP). The most recent revision reduced the real GNP growth rate during the fourth quarter of 1977 to 3.8 percent.

The severe winter weather and the coal strike has been blamed for much of the reduced economic activity early this year. It is probable that, like last year, these disruptions will not leave any permanent scars on the economic expansion during 1978. However, the current expansion is now a decidedly aged one by historical standards, reaching 37 months in April. Developments in particular sectors, such as the recent slowdown in automobile sales, may be taken as evidence of a more general slowing.

Industrial production rose a seasonally adjusted 0.5 percent in February. The coal strike is estimated to have reduced February's total output by about 0.2 percent. Industrial production in January plunged a revised 0.8 percent. And despite the slight increase in housing starts in February, total starts remain at a level some 25 percent below the last quarter of 1977.

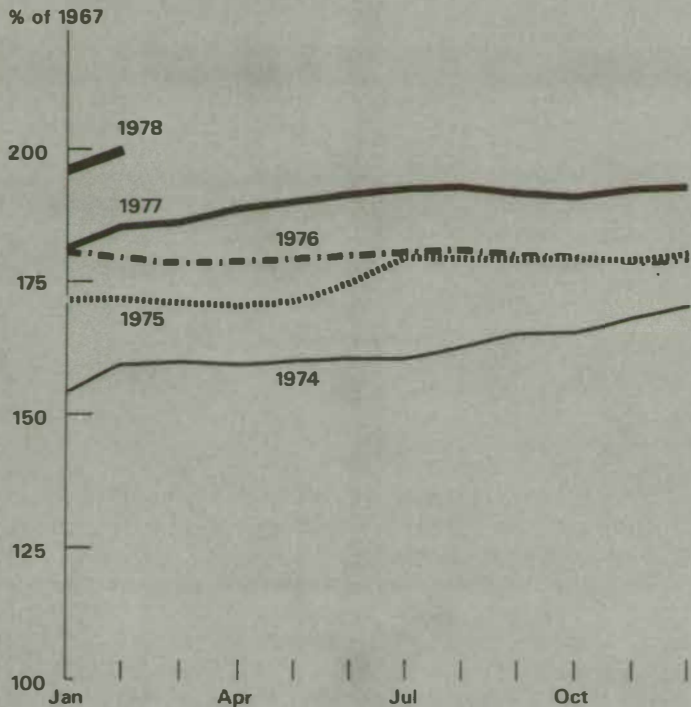
February Food Prices Continue Up

Livestock—particularly red meat and poultry—and fresh fruits and vegetables contributed a good deal to the nearly 2-percent gain in grocery store prices in February. The February increase followed a January rise of little over 1 percent.

The February food price rise was sparked by a 2½-percent rise in returns to farmers and a 2-percent increase in the marketing spread for processing and distributing foods from U.S. farms. Food marketing firms were pressured by rising wage rates (including new Federal minimum wage rates) and upward price movements for most marketing inputs, such as transportation charges and packaging materials.

Crop and livestock products contributed almost equally to the February rise. Beef and pork prices

RETAIL FOOD PRICES*



* Food at Home. Source: Bureau of Labor Statistics.

USDA

NEG ESCS 2147-78(4)

were up about 3 percent, with poultry up about 2 percent. Eggs, which increased 14 percent in January, decreased 4 percent in February.

On the crop side, fresh fruit and vegetable prices were up nearly 6 percent, sugars and sweets about 3 percent, and cereal and bakery products and processed fruits and vegetables each a little under 2 percent.

Prices of imported foods rose slightly as sharp increases for bananas, sugar, and chocolate products more than offset continued decreases for coffee. Prices for fishery products were about unchanged from January.

Compared with a year earlier, February food prices were up a little over 7 percent. Retail prices for domestic farm foods were up about 5 percent, the result of similar increases in both average farm values and marketing spreads. Prices for imported foods and fish remained almost a fifth above February 1977.

FOOD CONSUMPTION DECLINED LAST YEAR

Per capita food consumption during 1977 remained high but was slightly below the record level of 1976. The food consumption index for all foods was the second highest on record—1 percent below 1976. Domestic consumption of food below animals was down slightly from a year earlier while food from crops was down 2 percent.

The per capita food consumption index is derived by combining per capita consumption poundages with constant retail prices for each food item. Dollar values are then compared to the base year and expressed as a percentage change. The reference year is 1967 and consequently the index for that year is 100. This method of adding up all the different foods gives more weight to higher priced foods, such as beef or coffee, than would be the case if actual poundage were added together.

While the consumption of all animal products combined was vir-

tually the same as the previous year, individual items showed some changes. Poultry consumption was up 2 percent from 1976 due to an increase in chicken consumption. This increase nearly offset small declines in the remaining categories. Per capita consumption of red meats and fish declined less than 1 percent from a year ago. Dairy products showed a small change and egg usage was down slightly more than 1 percent.

A significant change in the red meat category was a 3-percent decline in beef consumption which was nearly offset by a 4 percent increase in pork consumption. This reflected different cycles in livestock production. The cattle cycle was in a declining phase while pork production was expanding.

Dairy product consumption was more sluggish than anticipated. Fluid whole milk consumption was down 4 percent and only partially offset by a 6-percent gain in the lowfat milk usage. Ice cream consumption was down sharply from the previous year, while cheese showed a small increase.

More than half of the 2-percent decline in food from crops was due to a reduction in coffee consumption. Coffee usage declined 25 percent from the preceding year, reflecting the tight world supplies and sharply higher prices. Fruit and vegetable consumption showed only 1-percent declines from year-earlier levels, despite the disastrous Florida freeze in January 1977. Citrus fruit consumption was reduced but usage of other fresh fruits expanded. The consumption of dried fruits was reduced, while canned and frozen fruits showed small gains. Melon consumption was up nearly 2 percent and potato consumption was up 1 percent from the previous year.

Sugar and sweetener consumption in 1977 was 2 percent higher than a year earlier. Cereal product consumption was off 3 percent from 1976. Vegetable oil usage was down 4 percent, reflecting reduced supplies and higher prices experienced during the first part of 1977.

Early indications for 1978 show that total food consumption will be slightly below 1977. A small increase is expected in the consumption of foods from crops but food from animals may be reduced. Declines in red meat consumption are anticipated while poultry will likely increase. Increases for vegetables and potato products are likely, but domestic usage of fruits and coffee may decline.

Food Outlook Highlights

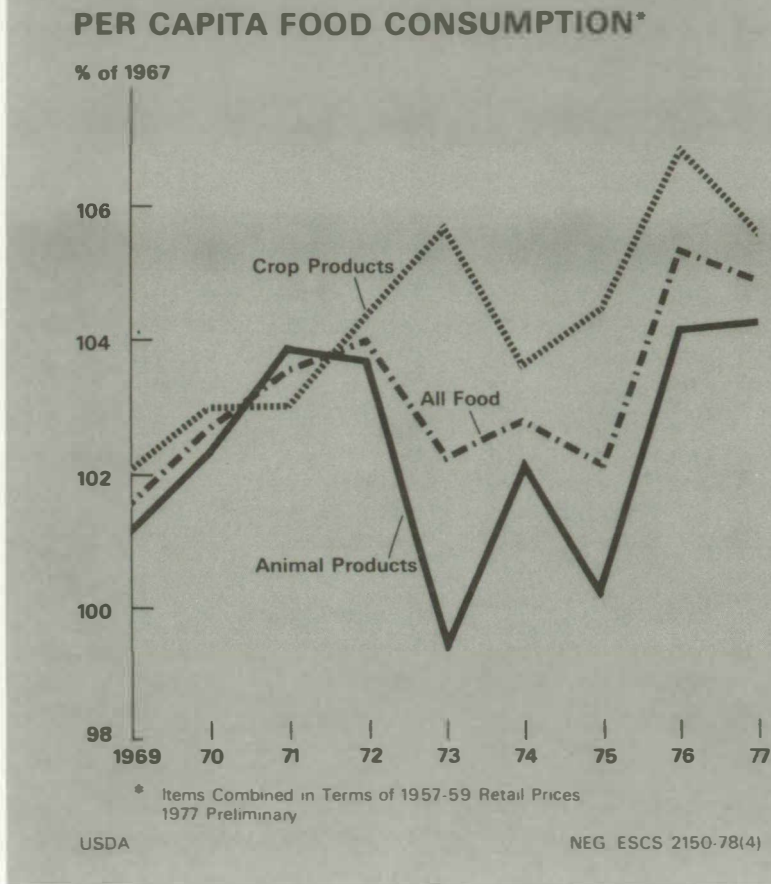
Red Meat. Retail beef prices are expected to rise throughout 1978 as beef supplies decline. The retail price of Choice grade beef could increase about 12 percent above last year. However, prices for hamburger could rise more than prices for Choice cuts.

Per capita beef consumption rose to nearly 96 pounds (retail weight) in 1976 and dropped to about 93 pounds last year. This year a decline of 4 to 5 pounds per person is expected. However, during the early months of this year per capita consumption will probably be only slightly below a year earlier. Year-to-year declines are expected to become larger during the last half of the year.

The slaughter of grain fed cattle, from which beef cuts such as Choice steaks come, will be up this year. But the slaughter of grass fed steers and heifers and cows—which have supplied the large quantities of hamburger or lean beef during the past few years—will be sharply reduced. Therefore, a sharp reduction in the supply of lean beef is anticipated this year.

Beef producers incurred large financial losses during most of the last 3 to 4 years. This caused a massive selloff of the beef cattle herd since 1975. During this herd reduction, beef supplies increased and consumers had a large quantity of beef available to them, particularly the lean type beef. But now beef supplies are declining and likely will continue to do so for 2 or 3 more years.

Retail pork prices for both fresh and cured cuts for 1978 are



expected to average 10 to 12 percent above those of 1977. Prices are expected to show substantial increases throughout the year.

During 1977, pork consumption rose to about 57 pounds (retail weight) per person, about 2 pounds above 1976. This year pork consumption will be about the same as last year. Previously expressed plans by pork producers to expand output have been dampened by severe winter weather and disease problems. Seasonal consumption trends will parallel those of 1977.

Fish. Retail prices for fishery products are expected to increase about 10 percent in 1978, equal to the gain recorded in 1977. Demand for these food products continues strong particularly in the away-from-home market. Demand will be strengthened further this year by rising consumer incomes and higher prices for competing meats.

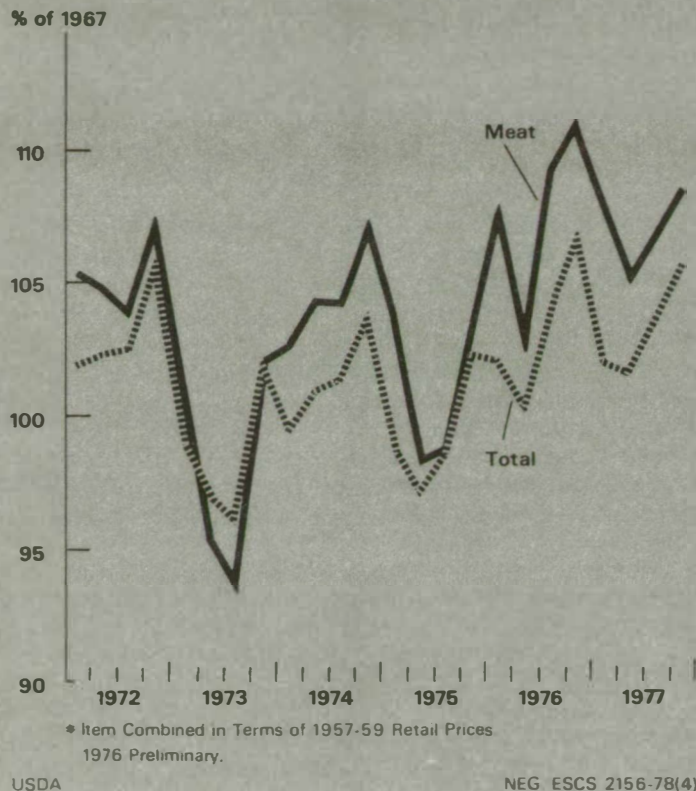
Supplies of most major food and shellfish in the first half of 1978 are expected to be equal to or greater than a year ago. Landings

are normally at seasonal lows during the first 4 or 5 months of the year as commercial fishing is curtailed because of the effects of winter. The effects of management plans governing harvesting will be to limit increases in domestic landings of some fish until resources recover from past excessive fishing effort. These effects are not likely to be noticeable in retail markets.

Poultry. Retail poultry prices during the beginning months of 1978 have been above year-ago levels, and prices are expected to trend upward this spring and summer. Despite an increase in poultry supplies, prices have continued strong, since competing meat supplies (mainly pork) have not been liberal.

Chicken consumption during 1977 was a record high 44 pounds per person. Per capita consumption is expected to increase another 2 to 3 pounds in 1978. Broilers account for 90 percent of chicken usage and production is expected to be 6 to 8 percent above

PER CAPITA CONSUMPTION OF LIVESTOCK PRODUCTS*



a year earlier in 1978. Further production gains may be limited in the spring and summer by hatching egg availability.

Turkey consumption during 1977 was about the same as the record level of 9.2 pounds per person in 1976. A small increase in consumption is expected for 1978. Turkey output in the first half of 1978 will be up 5 to 10 percent from a year ago. However, the larger output will be partially offset by reduced cold storage stocks on January 1, 1978. Good grower profits in the first half will lead to continued expansion in the second half of 1978.

Eggs. Retail egg prices in early 1978 have been stronger than expected earlier but well are below a year earlier. They are expected to decline in coming months and average below 1977 during most of 1978.

Per capita egg consumption in 1977 was 272 eggs (34.5 pounds) per person, almost 1 percent below 1976. Consumption is anticipated

to increase a small amount in 1978. During the first half of 1978, production is expected to be up 2 to 4 percent from year-earlier levels because of a larger laying flock and increased output per hen. However, production gains will likely narrow after midyear.

Dairy. Retail dairy prices probably will rise during the first half of 1978. These increases will reflect both the higher support price for milk and some increase in the marketing spread. The average retail price increase for dairy products for all of 1978 is expected to be 4 to 6 percent.

Per capita fluid milk consumption during 1978 may be up slightly from 1977. Gains in low fat and skim milk will offset declines in whole milk sales.

Commerical use of cheese in 1978 could be up substantially, after a relatively small increase during 1977. Growth in consumer purchasing power and higher retail meat prices probably will add to the long-run growth in

cheese demand.

Butter consumption will continue at about the same level as last year. A wider difference in butter and margarine prices may hurt butter sales but improved income should bolster institutional and ingredient uses.

Among other dairy products, consumption of cottage cheese may increase slightly while condensed and evaporated milk consumption will continue its downward trend. Ice cream consumption is expected to be stable while other frozen dairy products may increase.

Coffee and Tea. Retail prices for roasted coffee are expected to average significantly lower in 1978. Retail prices reached a peak in June 1977 and have been trending down since that time. A continuation of the price pattern during the last half of 1977 is expected.

Coffee consumption showed a substantial decline in 1977 and a further reduction is in prospect for 1978. The big increase in domestic coffee prices during 1976 and 1977 significantly affected coffee consumption patterns. Consumers have shifted to tea and other beverages such as soft drinks.

A substantial recovery in world coffee production is expected in 1977-78. The present estimate is that production will be 11 percent above a year earlier. With global consumption depressed because of recent high retail prices, the larger crop is expected to meet world import needs.

Further increases in retail tea prices are anticipated. Global tea consumption is expected to continue to rise. While the world tea crop was a record level in 1977, the increase is not sufficient to lower prices. U.S. tea consumption in 1978 will probably be slightly higher than in 1977.

Sugar and Sweeteners. Retail prices can be expected to average 8 to 10 percent higher in 1978. Sugar prices will move up in line with the domestic raw sugar support level required by the Food and Agriculture Act of 1977. U.S. sugar consumption could decline 1 pound

per person from the 1977 level, due to the higher prices.

Conventional corn sirup use will be slightly above 1977. High fructose corn sirup usage will continue to show substantial gains as this product becomes more competitive with sugar for some industrial uses.

Fruits and Vegetables. Retail prices for fresh and processed fruit during the first half of 1978 will be up from a year earlier. This is a reflection of generally smaller supplies.

The 1977-78 citrus crop is estimated to be 7 percent smaller than the previous crop due partly to damage associated with the January 1977 freeze in Florida. The smaller orange crop and lower supplies of frozen concentrated orange juice have resulted in higher prices for both. In addition, reacting to more freezing temperatures in Florida this year and relatively good demand in the face of higher prices, wholesale prices of frozen concentrated orange juice have increased.

Storage stocks of apples and pears are also smaller than a year ago. Retail prices for both have been above last year and will increase seasonally until the new harvest begins this summer.

Supplies of canned noncitrus fruit on January 1 were smaller than last season. Prices for most canned fruit items will continue above year earlier levels, reflecting both smaller supplies and increased costs of processing.

Raisins and prunes are more plentiful this year after last year's abnormally small supplies. Frozen fruit supplies, especially cherries and strawberries, are abundant.

Heavy rains in central sections of California have delayed and disrupted normal planting and harvest activity of several vegetables. The volume, and sometimes the quality, of lettuce, celery, carrots, and broccoli, have been lower than earlier expectations.

Head lettuce planting activity in the important Salinas Valley was not able to proceed normally. This will leave a gap in mid-April to mid-May supplies. F.o.b. prices

will be advancing, and are expected to hold well above year earlier levels.

With the exception of processed tomato products, prices for wholesale canned and frozen vegetable prices have been firm to slightly stronger in recent weeks. This reflects generally good institutional and retail demand for these products. Tomato acreage probably will be cut substantially in 1978, but no big change in the total of all other processing crops combined is expected.

Potato prices are expected to continue below a year ago into the spring months. March 1 potato stocks were 6 percent above a year earlier, even though fall 1977 potato production was 1 percent less than the record in 1976. Processed potato consumption, especially frozen, is expected to show a larger gain in 1978 than table use.

Food Fats and Oils. Per capita use of food fats in 1978 is expected to increase. Gains are anticipated for margarine, shortening, and cooking and salad oils. The expansion will be mostly in products made from vegetable oils, as animal fats—butter and lard—are expected to show little change from last year.

Abundant supplies of vegetable oils should encourage use. Production of both soybean and cotton-

seed oils will be up sharply as a result of increased soybean and cottonseed production in 1977. Sunflower oil—an expanding domestically produced vegetable oil—also will be up sharply, but imports of palm and coconut oils likely will be down.

The prospects for large soybean plantings this spring should keep downward pressure on vegetable oil prices. Also world production of competing food fats and oils are expected to increase.

Peanut supplies in 1977/78 are down about a tenth from the previous year due to the smaller 1977 peanut crop. Nevertheless, supplies are adequate to meet edible requirements at about the current price level, and per capita use is expected to be up slightly from last year.

Cereal and Bakery Products. Moderately higher prices are expected for 1978. Wheat prices have been rising from last summer's lows and will be reflected in increased ingredient prices to both flour mills and bakers. Also, upward pressure on marketing and distribution cost supports strengthening retail prices.

Winter wheat acreage is indicated to be 14 percent below last year. Farmers are adjusting production downward in response to last year's low wheat prices and the Government's acreage set-aside program.

USDA FOOD PROGRAMS

By Fredericka Bunting and Thomas Stucker

An average of over 14 million people participated in the Food Stamp Program during October-December 1977, a 9-percent decline from the nearly 16 million participating a year earlier. Most of the decrease has been among those not receiving other forms of public assistance. Nonpublic assistance participation averaged 6.7 million during this period, a decline of over 1 million from a year earlier. Participation among those receiving public assistance fell

nearly 1½ million to 7½ million.

As a result of less participation, Federal expenditures on food assistance in the form of bonus stamps dropped 6 percent, from \$1,107 million during October-December 1976 to \$1,037 million. However, largely as a result of the July cost-of-living adjustment in the value of the coupon allotment, the average bonus received per participant rose 3 percent, from \$23.44 a month in the fourth quarter of 1976 to \$24.11 in the fourth quarter of 1977.

General increases in employment should continue to influence lower levels of participation, especially among participants not receiving public assistance. However, several factors could reduce