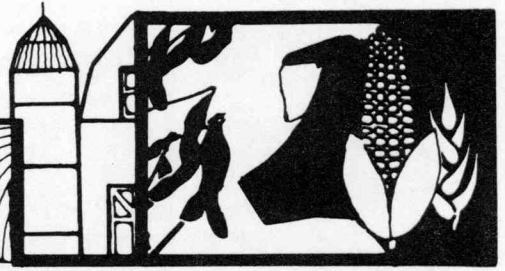


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FEDERAL RESERVE BANK OF CHICAGO

# AGRICULTURAL

ISSN 0002 - 1512



June 22, 1984

WAITE MEMORIAL BOOK COLLECTION  
DEPT. OF AGRIC. AND APPLIED ECONOMICS

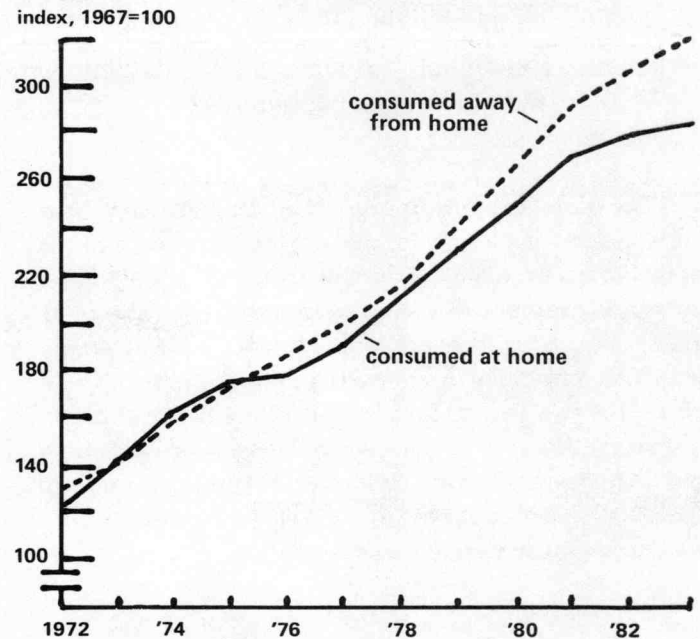
# LETTER

**RETAIL FOOD PRICES** jumped sharply in January and February but leveled off in the following three months. The early spurt pushed May prices 2.6 percent above the December level and 3.1 percent above the year-earlier level. Upward pressures on food prices are likely to resume in the second half as year-to-year declines in meat supplies and tight fruit supplies push prices higher. Current USDA estimates suggest that food prices for all of this year will average about 5 percent higher than last year. A rise of that magnitude will reverse the slowing in annual food price increases of the last several years. Since rising 10.9 percent in 1979, the year-to-year increase in food prices has declined continuously with the 2.1 percent increase of last year marking the smallest rise in 16 years.

The rise in food prices so far this year has been apparent at the grocery store as well as in the prices of food consumed away from home. Reflecting this, the May index for food consumed at home was up almost 2.5 percent from December's level, while the May price index of food consumed away from home was up only 2.1 percent from December. Prices at grocery stores and for food consumed away from home were up 3.1 percent and 4.4 percent, respectively, from year-ago levels.

Meats, eggs, and fruits and vegetables paced the rise in food prices during the first five months of the year. Retail prices of red meats in May, although still 1.8 percent below May 1983 levels, were up almost 4 percent from December, with all of the rise coming in the first two months of the year. Beef prices rose 4.6 percent during the first five months of the year but were nominally below year-earlier levels in May. Pork prices in May were 3.2 percent above the year-end 1983 level but 3.6 percent below the May 1983 level. Poultry prices in May were almost 4 percent above the December level and 3.5 percent higher than a year ago. Egg prices remained high but volatile through the first four months of 1984, but prices in May dropped sharply and were 6.5 percent below the December level. Despite the large decline,

Trends in retail food prices

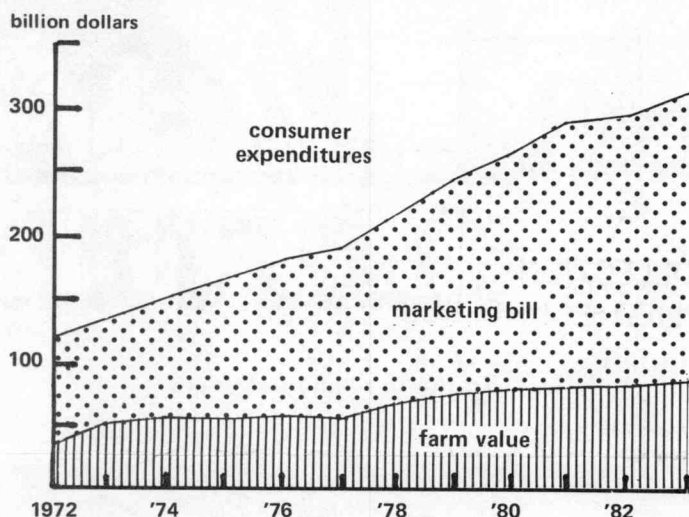


SOURCE: Bureau of Labor Statistics.

May egg prices remained 20 percent above last year's level. Fruit and vegetable prices rose more than 6 percent through the first five months of the year, mostly because of the December freeze that reduced domestic supplies. However, vegetable prices have moderated in recent months with increased supplies of celery, lettuce, and tomatoes from California, Arizona, and Florida.

Small increases in the prices of cereals and bakery products, fats and oils, and dairy products through May have tempered the overall rise in food prices this year. Cereal and bakery product prices along with those of fats and oils, although registering year-to-year gains in May of 4 percent and 9.5 percent, respectively, have each risen about 2 percent during the first five months of this year. Cuts in the support price of milk have held dairy product prices stable, with the May index up less than 1 percent from both December and a year ago.

### Marketing bill accounts for most of consumer expenditures on food



SOURCE: USDA.

**The farm value component** of domestically produced foods rose considerably during the early months of this year, reversing the decline recorded in 1983. After falling 2.2 percent in 1983, the farm value of the retail cost of a fixed "market basket" of foods was up 6 percent from December and up more than 7 percent from a year ago. The rise in the farm value of retail food prices outpaced the gain in marketing costs—represented by the farm-to-retail price spread—boosting the share of the retail food expenditures going to farmers to 34.4 percent from 33 percent a year ago.

Food marketing costs, however, continued to rise. The index of total marketing costs for the first quarter was up 2 percent from the previous three months and up 4.5 percent from the year before. During the first quarter, packaging and container costs were up 10.3 percent from a year ago, paced by a 35 percent rise in the cost of plastics. The labor component of the marketing cost index for the first quarter showed a 4 percent year-to-year gain. The cost of transportation services, after holding steady throughout 1983, jumped 4 percent during the first three months of this year. For all of 1984, total food marketing costs are expected to average 4 percent to 7 percent above last year's level.

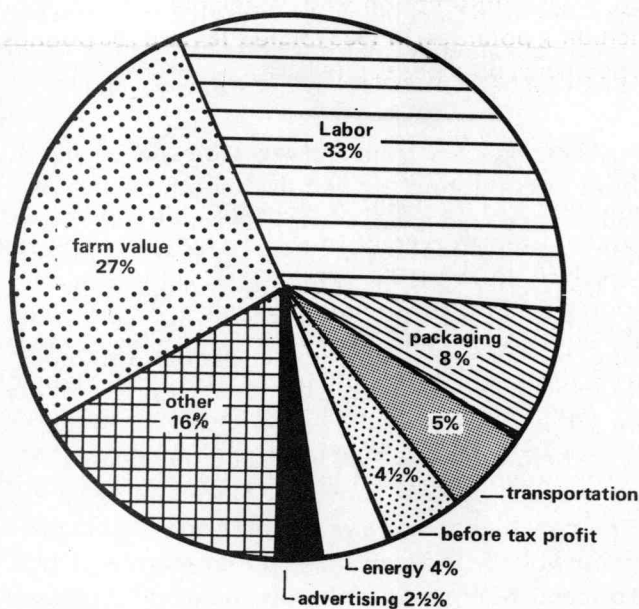
**The rise in food prices this year** is expected to exceed the year-ago pace. Retail food prices are expected to be 5 percent to 6 percent above year-ago levels by the end of 1984. USDA estimates suggest that the upward trend will be led by red meat and fruit prices. Beef prices are projected to be up 8 percent, while pork prices are expected to show a year-to-year gain of about 20 percent in the fourth quarter. Poultry prices, although

projected to trend down during the year with increases in production, are expected to remain 5 percent above year-ago levels during the last three months of the year. Fresh fruit prices are expected to remain high through the year, registering a 12 percent year-to-year increase at year-end. Egg prices are projected to decline throughout the year from the first quarter peak and, although 2 percent below the high level of the fourth quarter of 1983, will remain well above the average level for all of last year. The cut in the milk support price, which moderated price increases early in the year, is likely to contribute to further production declines through the year. As milk output falls, dairy product prices are expected to rise, showing a 3 percent year-to-year increase in the fourth quarter.

Food expenditures in 1983, with a moderate gain in prices and little increase in per capita consumption, rose less than income. Food expenditures were equivalent to 15.6 percent of disposable income last year, down from 16.1 percent in 1982. In comparison, expenditures for food averaged 16.6 percent of income through the 1970s and 18.7 percent of disposable income in 1963. The decline in the proportion of income spent on food over the last twenty years has been accompanied by considerable shifts in the consumption patterns of some foods, but only a slight uptrend in overall consumption.

**U.S. per capita consumption of food**, although varying with overall production trends, has registered little change since the early 1960s. Measured in terms of retail

### Distribution of the food dollar for 1983\*



\*Preliminary.  
SOURCE: USDA.

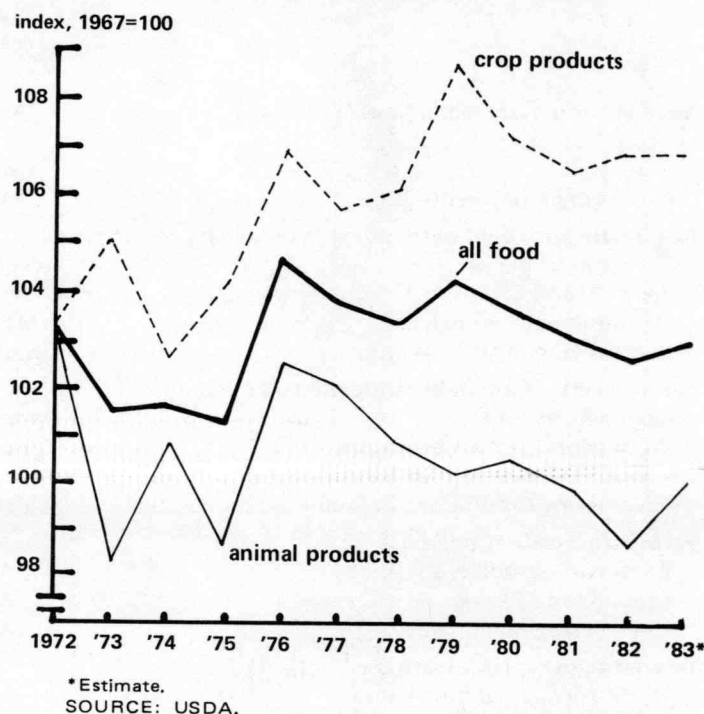
weight equivalent, per capita food consumption in 1983 totaled 1,396 pounds, down from the 1979 peak of 1,421 pounds per person, but only 20 pounds above the 1962 level. Although overall food consumption has been relatively stable, substantial shifts in the types of foods consumed have occurred during the last twenty years.

The upward trend in total per capita meat consumption, which includes poultry, has slowed considerably in recent years. After posting a gain of 15 percent in the 1960s, per capita meat consumption last year, although at a record level, was only 7 percent above the 1969 consumption level. Beef consumption last year, although still higher than any other meat, was down 16 percent from the 1976 peak and about equal to the level of the mid-1960s. Although there has been considerable variation associated with the production cycle, no clear trend in per capita pork consumption has emerged over the last twenty years. Poultry consumption, however, jumped sharply in the 1970s and has continued to grow in the 1980s so that its proportion of total meat consumption is about equal to that of pork. Last year, beef accounted for 38 percent of the almost 210 pounds of meat consumed per capita, while pork and poultry accounted for 30 percent and 31 percent, respectively. In comparison, per capita meat consumption totaled 200 pounds in 1970, with beef accounting for 42 percent, pork 31 percent, and poultry 24 percent.

Per capita consumption of fruits and vegetables exhibited upward trends during the 1970s. Increases in fresh produce consumption over the period offset the stable level of processed fruit and vegetable consumption. Including allowances for home garden consumption, fruit consumption and vegetable consumption (including potatoes) in 1983 totaled 164 and 280 pounds, respectively, on a per capita basis.

The steady downtrend in per capita egg and dairy product consumption in the 1960s and the 1970s has continued into the 1980s. Annual egg consumption has dropped from an average of about 320 eggs per person in the 1960s to about 260 eggs in 1983. During the same period per capita consumption of milk and cream (fluid milk equivalent) fell almost 100 pounds, despite an almost three fold increase in per capita consumption of low-fat and skim fluid milk products. Per capita cheese consumption jumped 50 percent during the 1970s and has continued to expand into the 1980s surpassing 24 pounds.

### Trends in per capita food consumption



Per capita consumption trends of other food groups are mixed. Consumption of potatoes on a per capita basis declined during the last twenty years, while flour and cereal products consumption held at a steady level during most of the period before trending up in recent years. Consumption of fats and oils increased as well, with greater per capita consumption of vegetable oils more than offsetting the sharp decline in animal fats. Sugar and sweetener consumption on a per capita basis increased by 10 percent in both the 1960s and 1970s, paced by a five fold increase in corn sweetener consumption.

**The projection for per capita food consumption** this year reflects the close association between production and consumption. The expected declines in beef and pork production this year are forecast to hold per capita consumption of red meats to 153 pounds, down 2 percent from last year. Similarly, expected lower milk output this year is contributing to a projected slight decline in dairy product consumption. However, poultry consumption is expected to remain at 63 pounds per person in 1984, while per capita vegetable consumption rises with expected ample supplies for both the fresh and processing markets. The forecast for all food items in 1984, at 1,395 pounds, suggests that per capita food consumption will be virtually unchanged from last year.

Peter J. Heffernan



# Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Receipts from farm marketings (\$ millions)</b>	March	10,223	+ 8.9	+ 1	- 3
Crops*	March	4,040	+10.5	+ 6	- 6
Livestock	March	6,159	+11.6	0	+ 2
Government payments	March	24	-88.8	-84	-80
<b>Real estate farm debt outstanding (\$ billions)</b>					
Commercial banks	December 31	9.29	+ 2.5†	+11	+12
Federal Land Banks	April 30	48.0	+ 0.1	+ 1	+ 6
Life insurance companies	March 31	12.5	- 0.3	- 1	- 3
Farmers Home Administration	December 31	9.76	+ 1.5†	+ 4	+ 8
<b>Nonreal estate farm debt outstanding (\$ billions)</b>					
Commercial banks	December 31	39.0	- 0.2†	+ 8	+19
Production Credit Associations	April 30	18.4	+ 0.6	- 6	-12
Farmers Home Administration	December 31	15.4	- 2.9†	- 1	+ 2
Commodity Credit Corporation	December 31	10.7	-12.0†	-30	+34
<b>Farm loans made (\$ millions)</b>					
Production Credit Associations	April	2,750	- 8.0	- 4	-16
Federal Land Banks	April	335	- 8.5	- 4	-43
Life insurance companies	March	94	+15.0	+28	+36
<b>Interest rates on farm loans (percent)</b>					
7th District agricultural banks					
Operating loans	1st Quarter	13.74	+ 0.4	- 2	-20
Real estate loans	1st Quarter	13.36	+ 0.2	- 4	-20
Commodity Credit Corporation	June	11.38	+ 4.6	+30	-17
<b>Agricultural exports (\$ millions)</b>	April	3,181	-16.8	+ 7	- 9
Corn (mil. bu.)	April	175	- 1.2	+11	-10
Soybeans (mil. bu.)	April	69	-13.1	- 7	-20
Wheat (mil. bu.)	April	105	-17.4	-15	-34
<b>Farm machinery sales<sup>P</sup> (units)</b>					
Tractors, over 40 HP	May	6,245	-21.0	- 8	+ 7
40 to 139 HP	May	4,700	-16.7	- 8	+ 2
140 HP or more	May	1,545	-31.9	-11	+28
Combines	May	438	- 4.2	+21	-27

\*Includes net CCC loans.

†Prior period is three months earlier.

<sup>P</sup>Preliminary

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