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Business & Financial Letter

At the Checkout Counter

The price trends, the recriminations, the exhortations—even the cartoons—all are reminiscent of the early days after World War II, when hordes of affluent consumers with ravening appetites for red meat descended upon the supermarkets and practically swept the shelves clean. Admittedly, recent price increases have not approached the 15-to-20-percent annual increases of the 1946-47 period, which were caused in part by the lifting of controls (including rationing) within a relatively short time span. Still, there is reason for concern when Department of Agriculture spokesmen forecast a 6.5-percent increase in retail food prices for 1973—almost double the forecast made several months ago—and suggest that even that projection may be conservative.

Where prices go up

Except for food, consumer prices have increased much more slowly this past year than during most other recent years. During Phase II, nonfood commodities increased at about a 2.5-percent annual rate, while services rose at about a 3.5-percent rate. In each case, this was no more than half the rate recorded during the 1969-70 period. But retail food prices increased at more than a 6.0-percent rate during Phase II and (unlike other prices) they rose at a faster rate as the period came to an end. Food prices have risen at a 9.0-percent rate during the past six months, primarily because of a January gain which was the largest monthly increase since Korean War days.

Within the food category, some items have increased only modestly in price. At retail, prices of cereals and bakery products have risen only 2.3 percent over the past year, despite the soaring price of grain, and prices of dairy products have advanced by a like amount. But fruit and vegetable prices are now 7.9 percent above a year ago, reflecting such factors as weather-caused shortages, while the meat-poultry-fish category—one-third of the entire budget for home-prepared food—is up 12.8 percent for the year.

Further increases can be expected in retail prices of meat and other foods, especially in view of the sharp upsurge recently in farm and wholesale prices. (Historically, the movement of retail food prices follows the wholesale-price index, although not necessarily by the same amount.) Wholesale prices of consumer food increased at an 11.2-percent rate during Phase II, but during the November-January period the annual rate of increase was 27.2 percent, because of sharp gains in farm prices of meat animals.

Why demand expands

An examination of meat market developments should suggest a few explanations for these startling price trends. One obvious explanation is the strong expansion of consumer after-tax income, which rose 8.5 percent last year and has far more than doubled since 1960. As incomes have advanced over time, the demand for income-elastic food items has strengthened, causing in

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particular a strain on available meat supplies. Per capita food consumption has increased 7 percent overall since 1960, but cereals and dairy products have declined 5 to 6 percent, in contrast to a 35-percent rise in beef consumption and a 50-percent jump in poultry consumption. An Agriculture Department study made just a half-decade ago forecast beef consumption of 117 pounds per capita in 1980, but that consumption figure may be exceeded by 1974.

Another important factor is the substantial rise in the population of meat-eating teenagers and young adults. This category of 16-to-24 year-olds, although making up only one-sixth of the total population, has accounted for almost one-half of the total population increase since 1960. Young adults normally consume about one-third more meat per capita than the middle-aged and elderly, and with their growing importance on the employment rolls, they now have the incomes to support that habit.

The rapid expansion of Federal food programs has helped support meat and other prices during the past several years. The Government's cost for such programs has more than tripled since 1969, to about $3.5 billion in 1972, largely because of increased distribution of food stamps. Government policies have shifted recipients to higher income brackets for food-consumption purposes. Since rising incomes mean a rising demand for meat, as opposed to such staples as cereals and potatoes, food programs thus have provided an extra stimulus to meat purchases.

International events also have affected prices significantly. Reduced food production in several major countries—China, India, and the Soviet Union—along with increased livestock production in Japan and Western Europe, have expanded worldwide demand for food and feed grains. The U.S., being the only major food exporter with large carryover supplies of wheat and other grains, has met most of this increase in worldwide demand with a 22-percent jump in food-crop exports last year alone. (Moreover, with a second devaluation, these and other U.S. products should be increasingly attractive to foreign buyers.) Yet, the upsurge in exports has meant a jump in farm prices of grains, and this has been translated into a jump in meat-production costs and thereby in retail meat prices.

Why supply lags

The current supply problem can be traced back to the 1970-71 period, when first cattle and then hogs reached the low end of their respective cycles, even while prices remained quite low. (Cattle prices then were about one-third below current levels, and hog prices were less than half current quotations.) A number of weather problems—the 1970 corn blight, the 1971 Texas drought, and the 1972 California drought—then led to substantial reductions in output of feed.

Farmers passed along higher feed costs when they brought whatever livestock they had to market, but at the same time, the high levels of feed costs discouraged them for some time from building up their herds more rapidly.
Altogether, domestic production of food commodities declined about 2 percent last year. Sharp weather-related cutbacks in fruit and vegetable production accounted for much of this, but meat output also declined slightly, although remaining about 6 percent above the levels of the late 1960's. Pork reached a low phase in its production cycle, and beef output rose less than anticipated, partly because favorable market prices caused cattlemen to feed their steers to heavier weights and to retain more stock for the expansion of herds.

Produce, produce, produce

The Administration recently began to attack the supply problem, in many cases by modifying or even reversing restrictive legislation put on the books a generation ago. It has withdrawn export subsidies on such commodities as flour and chickens, hoping thereby to redirect those commodities into the domestic market. Also, it has lifted all quotas on meat imports; these increased about 12 percent last year, and accounted for roughly one-third of the total increase in beef consumption, despite being concentrated in cheaper grades such as hamburger meat.

As a short-run measure, the Administration is selling grain from Government stocks to make more feed available for livestock and poultry. As a longer-run measure, it is bringing back into production about one-half (30 million acres) of the land idled in earlier years under crop-control programs, and it is opening much idle land for grazing to help expand beef supplies. The just-reported February decline in grain prices may reflect the impact of these output-expansion plans.

Some observers fear that 1973 will be a replay of 1967 and similar years in the past, with the upsurge in supply generated by a previous jump in demand leading to a precipitous fall in farm prices. The possibility may seem ridiculous at this stage, but still it is unwise to ignore the immense productivity of the American farmer.

In contrast to a one-third increase in nonfarm productivity since 1960, output per manhour has increased more than two-thirds in crop production and has more than doubled in livestock production. (Earlier gains came about from changes in feeding patterns, for example by feeding calves to heavier weights before slaughtering, but future gains may result from changes in breeding patterns, perhaps by emphasis on multiple calving.) Given a continuation of this trend in farm productivity and production, the current expansion of consumer demand should be met with reduced pressure on consumer prices.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 2/21/73	Change from 2/14/73	Change from year ago Dollar	Change from year ago Percent
Loans adjusted and investments*	69,395	— 60	+7,984	+13.00
Loans adjusted—total*	51,861	+403	+8,650	+20.02
Commercial and industrial	18,537	+124	+2,593	+16.26
Real estate	15,320	+ 52	+2,500	+19.50
Consumer instalment	7,915	+ 18	+1,402	+21.53
U.S. Treasury securities	6,299	—471	— 555	— 8.10
Other securities	11,235	+ 8	— 111	— 0.98
Deposits (less cash items)—total*	66,905	—818	+6,652	+11.04
Demand deposits adjusted	19,856	—761	+1,366	+ 7.39
U.S. Government deposits	1,415	—437	+ 489	+52.81
Time deposits—total*	44,275	+115	+4,511	+11.34
Savings	18,032	0	+ 103	+ 0.57
Other time I.P.C.	17,644	+146	+3,083	+21.17
State and political subdivisions	6,252	— 27	+ 829	+15.29
(Large negotiable CD's)	7,170	+ 93	+1,959	+37.59

Weekly Averages of Daily Figures	Week ended 2/21/73	Week ended 2/14/73	Comparable year-ago period
Member Bank Reserve Position			
Excess reserves	101	3r	6
Borrowings	250	20	0
Net free (+) / Net borrowed (—)	—149	—17r	+ 6
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (—)	+371	—34	—945
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (—)	+ 3	+71	+ 39

*Includes items not shown separately.

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