Research Department
Federal Reserve
Bank of
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Food, Fuel and Families

Consumer food prices have increased 18 percent over the past year and—because of the rise in staple foods—the cost increase has been even greater for low-income families. This information hardly surprises, but merely reinforces the sentiments harbored by the beleaguered consumer every time he has reached the checkout counter in the past year. But in this inflationary era, the rise in food prices has been eclipsed by annual increases of 39 percent for gasoline and 58 percent for fuel oil. If anything, the combined scarcity and greater cost of gasoline has made an even deeper impression upon the consumer as motorist. These developments raise the question as to how well the consumer is adjusting to the upsurge in prices of these key budget items.

Price increases of this magnitude for food and fuel far exceed the 10-percent rise in disposable per capita income recorded during the past year. However, because of the slower rise of other consumer prices, the total impact upon consumer expenditures has been much less dramatic. Expenditures for food (except beverages) amounted to less than 16 percent of total disposable income last year, while expenditures for fuel oil, utilities, and gasoline and oil amounted to little more than a third of food outlays. Nonetheless, if consumers are to maintain their consumption of these increasingly expensive budget items, they must forego or restrict purchases of other commodities and services.

Where does the dollar go?
In recent years, the largest portion of after-tax income has gone to housing—the expenses and services connected with shelter. Since the mid-1950's, the housing share of disposable income has been fairly constant at about 26 percent of the total.

Over this period, however, food accounted for the largest shift in consumer expenditures, exhibiting a sharp decline in its budget share. From a high of nearly 29 percent of disposable income in the post-World War II inflation, the proportion of after-tax income spent for food declined steadily to just under 15½ percent in 1971, before turning upward again in 1972-73. This food-budget share was well below that reported in other major industrial nations, where food accounts for as much as one-quarter to one-third of consumption expenditures.

The sharp decline in the claim of food upon the consumer's dollar allowed consumers to increase their share of discretionary purchases of other commodities and services over the past quarter-century. For example, expenditures for transportation grew from just over 8 percent in the early 1950's to about 12 percent in the early 1970's, reflecting the completion of the Federal interstate-highway system, the flight from the cities to the suburbs, the growing size of automobiles and the rising number of cars per household. The budget shares of education, medical care and recreation also increased, and

(continued on page 2)

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in a sense, these outlays were subsidized by the declining proportion of income allocated to food.

It should be noted that the food share can be computed in two different ways—either by measuring aggregate spending as a percentage of disposable income (a Commerce Department series) or by relating food spending to various family-income levels (an Agriculture Department series). The latter yields a somewhat higher figure, although the two series tend to move together over time. The family-income series specifies a family of four, with one breadwinner, one housewife, and two elementary school children as its "typical" family for budget purposes. In February, the cost of food eaten at home as a percentage of the family income varied from 23 percent for a low-income family ($4,000-8,000) to 20 percent for a family in moderate circumstances (over $10,000). This indicates that the food share of the family budget declines as income increases, an effect known in economics as Engel's Law. (To a lesser extent, this is also true of expenditures for clothing.)

Adjusting, adjusting

Soaring prices obviously have forced a shift in food consumption patterns over the past year. Consumers are free, within rather broad limits, to adjust their expenditure patterns, through elimination, postponement or substitution of items. In the case of food, the alternatives are much more restricted than for durable goods; nobody stops eating altogether for very long. Nonetheless, American consumers made a most remarkable adjustment to the 20-percent hike in food prices in 1973.

Despite the fact that rising food prices far outran the 10-percent increase in per capita disposable income, consumers held their outlays for food to less than 16 percent of disposable income, matching the 1972 proportion. This was done through adjusting downward to cheaper substitutes. In particular, per capita consumption of beef dropped for the first time in 20 years, as consumers sought out less expensive sources of protein. But as inflation continued, food purchases exceeded 16 percent of disposable income in early 1974.

The consumer adjustment to higher gasoline prices was even more dramatic. Despite a 39-percent jump in prices, spending for gas and oil remained at less than 3½ percent of disposable income in the first quarter of 1974, although the share undoubtedly would have been greater if more fuel had been available. Additionally, the demand for large cars simply dried up, as a result, in an unprecedented mid-model year changeover, auto manufacturers shut down plants that had produced large cars and switched to the production of smaller cars with reduced fuel requirements. However, there are signs that consumers are again looking with favor upon big cars now that the oil embargo has been lifted.

In the short run, say, one or two quarters, saving is the balancing item in the family budget. Consumers tend to maintain their spending patterns in the face of changes in income or in the face of sharp increases in prices. An adjustment in saving is an interim response—witness the significant decline in the saving rate, from 7.3 to 6.5 percent, in the quarter just ended. If the changes in income or in the prices of budget items appear to be permanent, an adjustment will be made in the allocation of the consumer budget and consumers will return to their long-run pattern of saving.

There are some grounds for believing that there will be a slowdown in the rate of inflation in the second half of the year, and that the prices of food, fuel and gasoline will level off or decline slightly. There is much less reason to believe that these prices will return to their levels of a year ago. Consequently, consumers will probably continue to spend a larger fraction of after-tax income on food and gasoline at the expense of other goods. Expenditures for discretionary budget items, such as durable goods and recreation, may be most vulnerable in this respect.

How about debt?

The boom in the durable goods and housing industries in the early 1970's boosted outstanding mortgage and instalment debt by nearly 27 percent between 1971 and 1973. But total employment increased by 5.3 million persons during the period, and the growth in jobs and in income levels supported the booming sales of homes, home furnishings and autos. The debt-to-income ratio thus did not increase by as much as total consumer debt. Even so, repayments as a percentage of income rose from 22 to almost 24 percent, a record level of consumer repayment liabilities. At the same time, consumer delinquency rates soared, reaching higher levels than in any recession of the past two decades.

Consumer income available for discretionary expenditures in 1974 thus is constrained not only by the current inflation but also by the obligations incurred over the past several years. Increasing claims of debt repayments on disposable income have reduced that fraction of purchasing power available after payment for food, shelter and taxes. But on the other hand, the real resources—autos, housing, furniture and the like—acquired in the past several years through the sharp expansion of debt have added to the consumer's stock of goods and presumably to his creature comfort.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 4/10/74	Change from 4/3/74	Change from year ago Dollar	Change from year ago Percent
Loan gross adjusted and investments*	81,578	+ 100	+9,313	+ 12.89
Loans gross adjusted—	62,443	+ 74	+7,978	+ 14.65
Securities loans	962	− 95	− 274	− 22.17
Commercial and industrial	22,598	+ 70	+2,706	+ 13.60
Real estate	18,777	+ 23	+3,012	+ 19.11
Consumer instalment	9,168	+ 30	+ 990	+ 12.11
U.S. Treasury securities	5,936	+ 52	− 312	− 4.99
Other Securities	13,199	− 26	+1,647	+ 14.26
Deposits (less cash items)—total*	78,364	+1,244	+7,399	+ 10.43
Demand deposits adjusted	23,528	+ 883	+1,550	+ 7.05
U.S. Government deposits	362	− 292	− 142	− 28.17
Time deposits—total*	52,953	+ 630	+5,721	+ 12.11
Savings	18,107	− 51	− 119	− 0.65
Other time I.P.C.	25,661	+ 296	+6,248	+ 32.18
State and political subdivisions	6,569	+ 244	− 479	− 6.80
(Large negotiable CD's)	12,791	+ 495	+4,283	+ 50.34

Weekly Averages of Daily Figures	Week ended 4/10/74	Week ended 4/3/74	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves	75	41	68
Borrowings	22	119	108
Net free (+) / Net borrowed (−)	+ 53	− 78	− 40
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions Net purchases (+) / Net sales (−)	+1,625	+2,134	+657
Transactions: U.S. securities dealers Net loans (+) / Net borrowings (−)	+ 76	− 16	+185

*Includes items not shown separately.

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