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LIKELY TRENDS IN RETAIL FOOD PRICES

T.E. Elam

THE PAST FEW YEARS have seen a dramatic increase in consumer awareness about food prices. In the main, this is, of course, due to the rapid increases in retail prices. Food prices have increased so quickly that food expenditures as a percentage of disposable income went from an historic low of 15.3 percent in the fourth quarter 1972 to 17.3 percent in the first quarter of 1975. Looking at price data, food prices increased 39 percent from 1972 through the first quarter of 1975, while nonfood prices went up by 22 percent during the same period.

Major forces leading to the upward movement of retail food prices are not difficult to pinpoint. General inflationary pressures have increased the cost of materials and wage rates at every level of the food production-marketing system. Additionally, strong domestic demand resulting from inflation-swelled incomes, and increased foreign demand as a result of the devaluation of our currency relative to those of food-buying nations, helped force higher U.S. food prices.

Bad weather over much of the U.S. grain-growing area during the 1974 crop year resulted in a 6-percent decrease in total U.S. farm output for that year as opposed to 1973. With reserves of storable food commodities, especially feed grains, at low levels in 1974, this drop in production certainly increased upward pressures on food prices. Finally, in 1972, reversing a long-standing policy, the Soviet Union became a major buyer of world grain. The unanticipated purchases by Russia caused rather dramatic increases in U.S. commodity prices; thus, higher retail food prices.

Looking to the future, the emerging retail food-price situation may be very much different from that of the recent past. Many of the forces resulting in upward pressure are easing. Overall inflation, while still worrisome by historical standards, is now 6 to 8 percent, compared to the double-digit levels of 1974. Recently, a recessionary U.S. economy has somewhat weakened the domestic demand for food products. Compared to 1974, weather and crop yields have improved significantly. Soviet grain purchases no longer catch world markets unprepared, and will occur on a more predictable basis because of the October 20 grain agreement.

For the next year, look for stable to slightly lower commodity prices. Overall, retail food prices will continue to rise somewhat, probably 4 to 6 percent, as

increases in marketing and distribution costs (60 percent of the retail price of food) are passed along to food consumers. However, keep in mind that the prices of particular food products respond to the supply and demand peculiarities of their individual markets, including seasonal factors (as in the fresh vegetable markets) and the time lags inherent in the livestock markets.

The above material was prepared by Dr. T.E. Elam for this newsletter.

M.B. Kirtley, Extension Economist, Livestock Marketing

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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