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1973 FOOD PRICES IN LONG-RANGE PERSPECTIVE

Consumers and farmers are well aware that prices of food and farm commodities rose sharply during the first part of 1973. Consumers' prices for food reached a level for the first quarter that was six percent higher than the 1972 annual average, and prices received by farmers increased 20 percent during the same period. Food prices to consumers may rise another three percent in the rest of 1973.

Food prices are usually set by supply and demand. However, rapid increases such as those occurring this year spark much discussion and debate concerning their justification. They have received considerable attention among those concerned with national economic policy aimed at limiting inflation, and this has led to imposition of price ceilings including meat price ceilings.

The price of particular foods, or other items, do not necessarily follow in step with a general upward trend in prices which is the measure of inflation in the economy. In fact, deviations from the trend may be considerable and lags may persist for many years. Therefore, consideration of long-term food price trends to place current food prices in historical perspective is essential background for understanding why prices may have risen so much so fast and for forming judgments about the justification for present levels.

A review of trends of food and other prices indicates that during this century food price trends have lagged behind rising general price trends for long periods and have risen quickly when the trends come together again. The latest upward long-term trend in prices began after the Korean War in the early fifties.

The data below show long-term changes among prices by comparing 1973 levels with 1950 levels.

Consumers', Farmers', and Middlemen's Prices

Prices paid by farmers, consumers' food prices, and the farm-retail spread advanced persistently during the period from 1950 to 1973. However the trend of prices received by farmers for farm products rose during the Korean War, then dropped, and was nearly flat from 1953 to 1969. Consecutive year-to-year price increases in prices received by farmers have occurred during the last six years, but the 1951 peak was not reached again until 1972.

The 1973 first quarter levels and the cumulative increases from 1950 to 1973 in eight measures of consumers', farmers', and middlemen's (farm-retail spread) prices ranked in order of cumulative increases are as follows:

<u>Price</u>	<u>Index</u> (1950=100)
1. Prices paid by farmers	181.6
2. Consumers' prices for all goods and services	178.5
3. Consumer prices for all foods (including imported foods, sea foods, and meals away from home)	176.0
4. Farm-Retail Price Spread (Marketing, transportation, and processing cost between farm and consumer)	172.8
5. Retail store prices for food produced on U.S. farms	161.0
6. Wholesale prices for all goods and services	153.7
7. Prices received by farmers for all products	148.4
8. Price (farm value) of food at the farm	148.0

The average retail price of choice beef rose 54.6 cents per pound from 1950 to 1973, a percentage increase of 73 percent. This change compares with an increase of 78.5 percent for all goods and services and an increase of 76 percent for all foods during the same period. The average retail price of pork increased 44.3 cents per pound from 1950 to 1973, an 82.3 percent increase.

The percentage change from 1950 to 1973 in the component of the retail price going to the farmer was 58 percent for choice beef and 85 percent for pork. The farm-retail spread increased from 1950 to 1973 by 115 percent for beef and 77 percent for pork.

Further perspective on price changes may be attained by relating them to changes in purchasing power as well as changes in other prices. Disposable personal incomes are the measure of purchasing power. Disposable personal income is personal income after deduction of taxes.

Consumers' Income and Food Expenditures

Disposable personal income reached a record high level during the first quarter of 1973, an annual rate of \$4,064 per person. Expenditures for food per capita in 1973 were double the 1950 rate while disposable personal income expanded three fold during the same period. The proportion of disposable personal income spent for food declined from 22.2 percent in 1950 to 15.6 percent in 1973.

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