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DALE C. DAHL and MARY E. RYAN

# Consumer Concern With 1966 Food Prices

Concern over rising food prices has resulted in housewives' revolts in many states including Minnesota. These revolts have taken two forms:

1. A boycott against retail food stores to force retailers to lower food prices.
2. A general expression of concern about increased food prices and inflationary trends.

Several questions, raised in relation to this concern, are discussed below.

## Is the Concern Justified by Food Price Changes?

This question must be answered both yes and no. The answer is yes when changes in food price over the past 2 years are considered. In 1964, retail food prices were about 6 percent above the 1957-59 average. In 1965, this percentage was 8.8. By the end of 1966, prices may be 13-14 percent above the 1957-59 average (see the figure). The increase over the past year will be approximately 7-8 percent.

If we look at prices of all consumer goods and services rather than just food, the question must be answered no. Prices of all items together also now stand at 13-14 percent above the 1957-59 level.

Although food prices have increased, prices of almost everything else have risen by as much or more. For example, the price of medical care is

over 25 percent greater than it was in 1957-59. Costs of footwear, homeownership, public transportation, reading, and recreation also have increased as much or more than the cost of food.

## Why the Great Concern over Food Prices?

The food price increase was fairly sudden while price increases for nonfood items were comparatively gradual. Food prices increased substantially in 1965-66. A quick jump in the price of any product group is more noticeable than gradual increases.

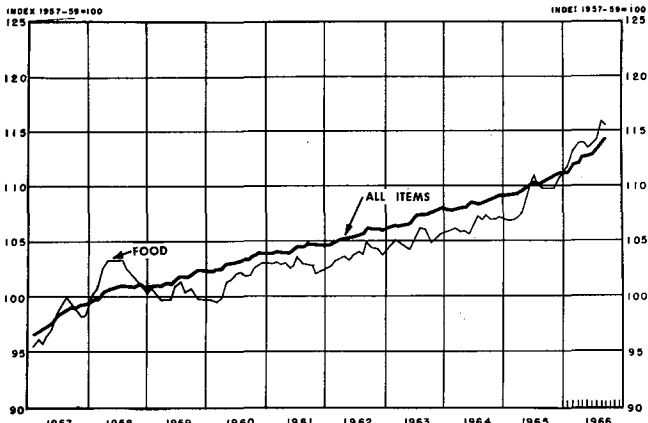
Because food is purchased very frequently, consumers are usually very conscious of price changes. If the price of one-half gallon of milk goes up by a penny, consumers know about this increase within a short time. But if the price of men's suits increases by \$10, not all consumers soon learn about the change. And they usually are not as concerned about this increase, even though it is proportionately much greater.

Moreover, food is a major component of total consumer expenditures. On the average, about 18 percent of a consumer's disposable income is spent on food. But about one-fourth of consumption expenditure is made in grocery supermarkets because many nonfood items are purchased there. This concentration of expenditures for both food and nonfood items in retail food markets focuses greater attention on such stores than on drygood stores, barber shops, gasoline stations, and other retail outlets.

Furthermore, not many consumers are "average." A family with less than \$3,000 income uses about one-third of it for food; a family with \$10,000 or more income uses about one-sixth of this income for food. <sup>1/</sup> Also, large families spend a greater percentage of their income for food than do small families. The impact of food price increases is felt most by families with limited budgets.

Consumers can focus attention upon supermarkets and, therefore, get some response. The business of the supermarket manager is to be sensitive to consumer demand. This fact is evidenced by price drops in some stores due to consumer pressures.

<sup>1/</sup> Stephen J. Hiemstra and Helen M. Eklund. August 6, 1966. "Food Expenditures in 1960-61." National Food Situation. ERS, USDA.



Consumer price indexes: all items and food  
Source: U.S. Dept. of Labor.

### What Makes Price Decreases Possible?

Some retailers may realign the price structure in their stores by raising prices of certain items while decreasing other prices. Some managers may cut their profit margins or even absorb a temporary loss, hoping to recover normal profits later. Because profits of food retailers are only 1-2 cents on every \$1 of sales, the ability to reduce prices by eliminating profits is not great.

Another way to reduce prices is to reduce operating and selling costs. Operating costs include carryout services, store personnel, and store hours. Selling costs include advertising, trading stamps, and promotional activities such as games and drawings. On the average, about 2 1/2 cents of every \$1 of sales are spent for advertising alone.

### Can Housewives' Revolts be Successful?

Where boycotts are now in effect, some food prices have decreased. However, these decreases probably will be temporary. If retailers tried to absorb losses over a long period, they would have to go out of business. Shifting price increases from certain foods to others does not reduce overall food expenditures unless consumer preferences also shift.

Longrun price reductions can be obtained only by:

1. A reduction in services to consumers-- both services offered by supermarkets and services that come with food such as prewashing, prepeeling, precooking, and prepackaging. According to some recent estimates, reduced supermarket services might reduce food prices by 3-5 percent.

2. A change in the general inflationary pressures in our present economy.

### How Can Consumers Fight Inflationary Pressures?

When consumers are willing and able to purchase more goods and services than total resources

make available in the economy, inflationary pressures exist. This situation increases the general price level. The major way to fight inflation is through the selective use of government fiscal and monetary policies. The federal government already has used many so-called monetary tools. For example, interest rate increases have discouraged large item purchases such as homes.

According to many economists, a tax increase or reduction in government spending is the most direct way to fight price increases on items not requiring credit. However, a request for a tax increase may seem paradoxical when household budgets already are difficult to balance.

The major way individual consumers can encourage the fight against inflation is to influence their congressmen in government policies by letters and through the ballot box.

Consumers also can allay inflationary trends by selective purchasing--holding off on the purchase of durable goods until prices recede and "bargain hunting."

### What is the Outlook for Food Prices?

Average retail food prices in December 1966 should be down 1-2 percent from the July 1966 peak. This decrease will be due to increased seasonal supplies of many important foods. Farmers currently are expanding meat supplies; milk production is expected to gain on year-earlier levels; supplies of potatoes and processed fruits and vegetables should about equal 1965 levels.

All of this decline in retail food prices probably will be concentrated in prices for food purchased in food stores. Prices for food eaten away from home should continue to trend upward. Expectations for 1967 are for continual, gradual increases in prices of all consumer items including food.

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