FOOD AND THE AMERICAN CONSUMER

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We can well imagine that more than one car executive in Detroit has recently thought back to a particular line from an old song. In his planning on customers he should have "been aware that our love affair was too hot not to cool down." As it turned out, he was surprised by the quick consumer switch to smaller cars -- which may be short-lived nevertheless.

Now I bring to you today no special warning or inside information that anything similar is about to happen with regard to food. Indeed, all our economics indicators point to strong demand, increasing output, wider food choices for Americans, and continuing progress in food merchandising and safety and quality.

But it seems particularly timely now to put into perspective where we have been and where we seem to be headed. It's both a good time and a bad time. It's good because people are so anxious to get a better understanding about the food situation. They are ready to listen. It's bad, from the economist's standpoint, because of the abundant uncertainties now.

I can certainly agree with what is purported to be a Chinese proverb: To prophesy is extremely difficult, especially with respect to the future.

Is this period we have been going through an aberration, or is it a new norm? Here's a quotation: "The acceleration of change radically alters the balance between novel and familiar situations. Rising rates of change thus compel us not merely to cope with a faster flow, but with more and more situations to which previous personal experience does not apply." Perhaps Alvin Toffler, who wrote that in Future Shock in 1970, is sitting back today and saying "I told you so."

Nevertheless, the best thinking among economists in the Department of Agriculture is that for food there has been something of a bubble, that we are due for a return to a more stable supply-consumption-price relationship.

Let's consider what that bubble meant last year. For one thing, Americans ate less and paid more for it. After years of trailing the rise in nonfood prices, retail food prices in 1973 averaged 14½ percent above 1972, the largest increase in a quarter of a century. With price controls limiting increases due to processing and distribution costs, most of the rise reflected sharply higher farm prices.

For all of 1973, food expenditures totaled $139 billion, an increase of 11 percent from 1972 and the largest rise since 1941. With consumption down and a transition from the more to the less costly foods, real food expenditures (those adjusted for price increases to essentially reflect quantity changes) dropped 2½ percent in 1973, the sharpest decline since 1933.

Thus, 1973 was certainly an abnormal year. Food supplies were short relative to demand, both at home and abroad. Let me discuss a few of the forces contributing to this situation.

Reduced Domestic Food Supplies -- On the domestic supply side, a number of conditions significantly reduced the amount of food available for consumption during much of 1973. Part of the supply problem can be traced back to Hurricane Agnes on the East Coast and spring frosts in the Western States at the beginning of the 1972 growing season. These weather conditions resulted in reduced harvests of several important fruit and vegetable crops that fall, much of which was stored to provide the basis of some of the food supplies for the first half of 1973. Bad weather in the midsection of the country seriously hampered grain and soybean harvests in the fall of 1972 and persisted through the winter and spring of 1973, causing abnormally high livestock death losses.

Strong Domestic Demand -- Economic activity moved ahead at an extremely fast pace. The Nation's output of goods and services rose nearly 12 percent last year, with hefty increases in personal consumption, business, government, and export sectors. The total number of people employed rose sharply while the unemployment rate dropped. Average hourly earnings were almost 7 percent above 1972.

Increased Foreign Demand -- More important, in terms of the food pressures, was the tight supply situation prevailing elsewhere in the world. Unfavorable weather had curtailed grain and forage production in the USSR, People's Republic of China and other Asian countries as well as Africa, Australia, and parts of Latin America. Moreover, a sharp drop in the Peruvian anchovy catch impacted heavily on the world protein meal supply situation. These things happened almost in lock-step with three others: (1) The now-famous decision by the USSR to buy grain rather than engage in belt-tightening as it had done before in shortage situations; (2) The general economic boom that the prosperous countries of the world experienced simultaneously, which sharply enhanced their consumers' food-buying affluence; and (3) The realignments of major currencies which made our products more attractively priced in foreign markets.

Contributing to the U.S. supply-demand problems were the government's on-again, off-again price controls, ceilings, and export limitations.

Will 1974 be another abnormal year? Apparently not. Although sharp increases in food prices early this year reflected a spillover from 1973, we think most of the rise is now behind us. For the year, per capita food consumption in the U.S., barring adverse weather, is expected to gain around 1 percent, with livestock products up almost 2 percent and crop foods up slightly.

Last year's higher farm prices, along with the removal of govenmental restrictions on production, are inducing greater farm production this year. Farm prices recently have been moving down, consumer resistance has been increasing with the slowdown in the national economy, and the prospects for exports have weakened a little.

But this does not mean a reversion to the "good old days." That was when bacon sold for 49 cents, milk a dollar gallon, and there were such things as 15 cent hamburgers. Indeed, the time between now and the good old days seems to be growing ever shorter. For example, it wasn't long ago that we made the wheat sale to Russia, and it was a good deal at the time. In less than a year, however, wheat prices had risen to such a level that the deal seemed not so good after all. And we can take it a step further. Undoubtedly the Russians thought they got a good deal from us; then they had to sell gold in 1973 to finance their wheat purchases. The price was reportedly $90 an ounce. They may very well be kicking themselves now for not waiting longer to make the sale, since the gold price has nearly doubled.

What could government do to help prevent a repeat of 1973's food price experience? Retail food prices could be directly controlled through price ceilings, but if prices are artificially low, producers will produce less and we will have less available for consumption. You may recall the situation last spring and summer when the combination of ceiling prices and rapidly increasing costs of production caused supply disruptions and curtailed the output of meat and poultry products. The government could impose export controls, but this could also reduce the incentive for farmers to increase production, and both farmers and consumers would be worse off. The best way to have more food and pay less for it is to increase agricultural output, and this is what is being done. Virtually all programs which had been restricting agricultural production have been removed. In addition, import quotas have been relaxed to permit more food in from abroad.

Sharply rising farm output is a reflection of the responses of a very competitive sector of our economy. There are some 3 million farmers and no one of them is large enough to have any measurable impact on the price. Thus, the classical supply and demand conditions apply. If the country wants more agricultural production, the way to get it is to free the prices. Last year we saw the futility of trying to increase meat supply by freezing prices.

Contrary to rumors you may have heard, the conglomerates have not taken over U.S. agriculture. A number of large corporations have tried their hand at farming. Most of them have found that the strengths of corporate management do not convey some magical ability to outcompete the family farmer. In no case has corporate control of any segment of agriculture made it possible to extract monopoly profits.

The broiler industry is a case in point. Certainly if there is any part of agriculture where corporate control in a small number of hands should make it possible to extract monopoly profits, it would be the broiler industry. It has only about 150 decision makers determining production levels. And certainly it is the archtype of agricultural industries where the corporate integrators are accused of exploiting the contract farmers. Yet the broiler integrators are unable to control production so as to maintain prices above the break-even level.

The new farm law now in effect lets farmers grow the kinds and amount of products they wish. The consumer should welcome this, not because it means that tax money will no longer be used to pay farmers not to produce, but because it means that farmers are allowed to become more efficient producers of food. Their productivity is increasing as a result. Further, this development means not only that we will benefit from the increased efficiencies in the kinds and costs of foods we eat. It also means that as jobholders, our businesses will benefit from prosperity in the farm economy.

However, with his land no longer idle now, the farmer can produce much more than the domestic market can buy. So he is also selling to a lucrative foreign market. This raises an important point: The American farmer's exports last year so far outdistanced agricultural imports that the difference equaled the cost of this country's oil imports in 1973. A further point is that we must export our farm products to earn the foreign exchange to buy other critical raw materials from abroad.

Thus, foreigners will continue shopping at our grocery store. We certainly should be aware of that by now. The world's interdependence is here to stay. We go to the store and buy Japan's transistor radios which we couldn't produce nearly as efficiently ourselves, and figuratively the Japanese walk into our supermarkets and buy our soybean products which they hardly produce at all. It makes sense to encourage sales of our products to foreigners where we have a comparative production advantage. And let's face it. Our agriculture is where we have the biggest advantage today.

Studies in my agency project that American farmers can further expand their food production in the future to accommodate both an increase in domestic demand between now and 1985 and an increase which is likely in foreign demand, too.

So it's unlikely that foreigners will be buying us out of food. Interestingly, some of the same people who were saying a few years ago that we should welcome all the meat imports we could get have recently been saying we should cut off exports of grains. While I can understand the sentiments, the logic escapes me. If we want the meat to come in, we must continue to let the grain go out.

That kind of two-way trade encourages cooperation. And there is a special need for cooperative effort now over the question of grain reserves. Ours formerly provided a world market cushion but now they are low. While it is unreasonable to expect Americans to again finance all the cushion, it is clear that without a reserve, the world will continue to experience great instability.

When the American consumer ate less food last year and switched toward small cars, was he trying to tell us something? I want to conclude with the same idea I began with for two reasons. First I hope to stimulate your thinking for the question and answer session that is to follow. Also, while I believe we should be vigilant to check out any suspicious blips on our early-warning radar, we should guard against sounding the alarm prematurely.

It's tempting during these unusual times to make hasty judgments about consumer behavior. For example, many people saw the beef backing up in stores this winter while live cattle prices tumbled. It was easy to conclude that consumer demand for beef was falling as demand for gasoline was rising. We take the longer view that consumer demand for beef is continuing to rise. The backup of beef at retail, we believe, reflected consumer resistance to the unusually high retail prices being set. The retail prices were up sharply as the stores stockpiled beef anticipating a long truckers' strike. January beef production was record large for the month and end-of-month stocks were largest on record, too. We think the beef will move well as retail prices adjust.

We seem to be in the process now of working out the abnormalities that affected the food system for the past year or so. You will recall that U.S. per capita food consumption until 1973 was rising sharply. From 1965 to 1972, our consumption of livestock-related food products in the aggregate rose about 7 percent per capita, with very sharp increases for beef and substantial gains for poultry and fish. Meanwhile, our consumption of crop-related food products rose nearly 6½ percent, with notable gains for processed fruits and vegetables, vegetable oils and sugar, and a slowing in the downtrend for cereal products and fresh produce.

We are in fact projecting further increases in per capita food consumption in the future. For one thing, the consumer will have the buying power. According to projections by the Census Bureau, if family income continues to grow at the average rate of the last 20 years, by 1990 more than half the families in the United States will have incomes greater than the purchasing power of $18,000 in 1971. The actual 1971 median was $10,300. So people will continue to have the affluence to buy the kind of food they wish to buy.

Ultimately, of course, any further gains in per capita consumption will rely upon the farmer. As I have stressed today, our farmers are operating in a very competitive environment, they are being encouraged to produce both for profitable domestic and foreign markets, and they have the ability to further step up their production in the years ahead.

For these reasons, I am optimistic that the American consumer will continue to eat very well.