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Good News, Maybe Many Food Prices Dip, But Is It the Beginning Of a Lasting Decline?

Raw-Commodity Prices Are Down, but Wages & Costs Of Processing Are Rising

Chasing the Wrong Rabbit?

BY JOSEPH M. WINSKI
Staff Reporter of The WALL STREET JOURNAL

OAK PARK, III. — In a national food store in this community bordering the West Side of Chicago, Larry Ladner is stamping "21 cents" on cans of mushroom soup. The ones on the shelves are priced 20 cents.

"Yeah, this one's up again," he says. "But they're not all up anymore. I just finished marking margarine down six cents a pound."

Over in the next aisle where the baking supplies are, Floyd Holmes adjusts the numbers on his price marker. "Pillsbury flour, five pounds for 89 cents—we used to be $1.15," he says. Right next to the flour are five-pound bags of Great Western sugar with "$1.99" price stickers. Mr. Holmes carefully peels the sticker off one bag to reveal some numbers underneath. "Used to be $2.28," he says with a grin. "Something's happenin' here."

"Something may very well be happening. The black-stained fingers of Larry Ladner and Floyd Holmes, and supermarket cashiers across the country may be posting evidence of the most significant development yet in this country's lengthy fight against inflation: a drop in food prices.

A Bargain in Beef

It's still too early to say how deep and how lasting a break is in progress. Food-industry officials say a goodly number of products have a drop in price in the last couple of weeks, including margarine, flour, sugar, eggs, tuna fish, some canned fruits and vegetables, frozen vegetables, cheese, some cake mixes, mayonnaise, salad dressing and turkey. Though prices of most of these are still above year-ago levels, beef has continued its long decline and is a clear-cut bargain; the average price of five popular cuts is now 34 cents a pound cheaper than last year, according to the latest 19-city survey by the American National Cattlemen's Association.

In addition, stores and manufacturers have greatly increased their coupon offerings so that many items are obtainable at less than shelf prices. "There's no question in my mind that the prudent shopper can spend less for the week's groceries than she did a year ago," says James Watson, president of National Tea Co.

Some shoppers might say that requires more prudence than they can muster; most inflation fighters believe a nice string of weekly declines in the food bill, perhaps leading to a month-to-month drop in the index of consumer food prices, would be accomplishment enough to begin with. Food represents the largest single expenditure in the typical family's budget, and a Federal Reserve Board study last fall concluded that food prices have been the major cause of inflation in several industrial countries. In the U.S., food prices jumped 19% last year and 14.5% the year before that.

Lifting the Spirits

Moreover, food prices are the most visible and frequently encountered symbol of general inflation. Shelling out less at the supermarket each week might lift the sagging spirits of the American consumer "and make him think that things really are going to get better," one industry observer says. "He might even feel like going out and buying a new car."

Many food-price watchers warn that such speculation is premature, however. Some fear that the food-price slide may die aborning. Prices of some foods have dropped from very high levels because of consumer resistance. Most of the declines, however, so far have been caused solely by the starting plunge in raw-commodity prices since late last year. There simply hasn't been little if any progress in combatting the inflation still raging in the food-distribution system beyond the farm. Given the volatility of commodity prices in recent years, the present lull in retail prices is something like a quiet spell on the top of an active volcano, these observers say.

Other people think that these misgivings amount to pessimistic niggling that obscures the first genuine good news about food prices since last April, when the consumer food-price index dipped slightly. (That bit of good news was quickly forgotten in the barrage of subsequent price rises, however.)

"The fact is," says Clarence Adamy, president of the National Association of Food Chains, "food stores are posting more price declines now than they have at any time in the last three years." According to association figures, the average store last year made about 40 price changes, and 85% of them increases. Now, Mr. Adamy says, stores are moving "much closer" to the pre-1972 level of about 150 price changes a week, half up and half down.

Lower Prices at Year-End?

Mr. Adamy says there's a "slight chance" that the February consumer price index for food, the most closely watched barometer of food prices, will show a drop from January when it is released later this month. There's an "outstanding chance" that the March index will be down, and by the end of the year, Mr. Adamy thinks food prices might be running 2% to 4% lower than last year.

If that happens, it may be because the industry is shaking off a hoarding mentality that dates back to the price controls of 1973 and that was aggravated by last year's poor harvests. "The psychology of the business has changed," says Wendell Earle, professor of marketing at Cornell University. "The industry seems to have decided it's time to reduce inventories and move aggressively after business again."

Fear of new controls was itself a factor in keeping food prices high, some observers believe. That's one reason that companies

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stepped up coupon offerings instead of merely posting lower prices, which could have been subjected to controls. The fear of controls has eased somewhat, and more price cuts may be on the way, Mr. Earle believes.

So why are they so glum over at the Agriculture Department, the government agency that has borne the brunt of criticism about high food prices? "Any relief that merely reflects declining prices received by farmers gives me no pleasure," says Don Paarberg, director of the department's economic research division. Mr. Paarberg's views reflect his concern about "farmers in deep trouble," but also, he says, an awareness that no meaningful progress can be made to halt food-price inflation until "marketing costs are brought under control."

There isn't much good news on that front. According to the Grocery Manufacturers Association, which represents producers of about 85% of products sold in food stores, industry costs from January 1974 to January 1975 have risen thusly: fuel 43%, cans 33%, paper products 25% and glass containers 16%.

These rises, which ultimately are borne by the consumer, have resulted in a widening spread between the prices that farmers receive for their products—which have dropped four months in a row—and what the shopper hands over at the cash register. For all of 1974, the farm-retail spread widened by 20%, nearly three times the previous largest annual increase, the Agriculture Department says. Since peaking at 52% of the consumer's food dollar in August 1973, the farmer's share has fallen to less than 40%.

These phenomena have resulted in anomalies such as these: Though soybean prices have fallen 35% from last March, the price in Chicago of an eight-ounce bottle of salad dressing, which uses soybean oil as a main ingredient, has risen by about 20%. A year or so ago, wheat was selling for about $6 a bushel and the baking-industry trade group was saying that we'd better get ready for $1-a-loaf bread. Today, wheat sells for about $3.70 a bushel, or 25% less than a year ago, and the price of a loaf of whole wheat bread in Chicago has gone up 15% to about 60 cents a pound.

Soaring Processing Costs

Salad dressing and bread are both examples of items that have a large amount of processing costs built into the final price and hence take a long time to reflect declines in raw-materials costs. Rarely are the retail changes of the same magnitude. Products such as fresh onions and potatoes, which undergo relatively little processing, reflect changes in farm-level prices much more readily; prices of both, in fact, have dropped sharply of late, reflecting large harvests.

Given the soaring processing costs, "the likelihood of food prices coming down just isn't very good," says Mr. Paarberg of the Agriculture Department. The department still estimates that food prices will rise at a 10% annual rate during the first half of 1975.

Last year, according to department figures, about 80% of the rise in food prices occurred beyond the farm level. This year, says Cornell's Prof. Earle, "it's quite conceivable that farm prices could drop sharply and retail prices will still be up." That would mean 100% of the increase in food prices will have occurred after the products left the farm. "We've just been chasing the wrong rabbit," Agriculture Secretary Earl Butz says.

The food industry especially needs to concentrate on increasing its productivity, says Gordon F. Bloom, senior lecturer of marketing at the Massachusetts Institute of Technology and a former chairman of the National Association of Food Chains.

Productivity Problems

Mr. Bloom believes that the food industry simply hasn't kept pace with the rest of U.S. industry, "Productivity in food warehouses and retail food stores is probably lower today than it was five years ago," he says. Yet the industry, with its larger volume and operations that include many repetitive actions by workers, is an ideal candidate for technological improvements. Mr. Bloom contends, "But they're still putting cans on the shelf by hand."

Wages, which account for nearly half of the total food-distribution costs, probably will increase by another 8% to 10% this year, Mr. Bloom says. He sees no chance for a productivity improvement matching the pay increase. "This (lack of improvement) simply will continue to take dollars out of the consumer's pocket," he says.

The experts say this means that the hopes of keeping food prices from soaring again fall upon farmers' willingness and ability to produce. "A good crop will be the only thing to keep the lid on," says Cornell's Mr. Earle.

"What we see through our rose-colored glasses now may well change very quickly," a grocery manufacturers association official adds.

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