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## Food Prices, Farm Prices, and Marketing Margins

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# Economics Newsletter

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## FOOD PRICES, FARM PRICES, AND MARKETING MARGINS

(Editors note: Marketing margins are defined as the difference between retail cost of all foods originating on U.S. farms sold in retail food stores and the farm value. The retail cost is a component of the Consumer Price Index. The farm value is the payment to the farmers for equivalent quantities of food products less an allowance for byproducts.)

Although continuing some six to seven percent above the first half of 1975, retail food prices are expected to rise about one percent each quarter during the first half of 1976.

Retail food prices in 1975 averaged about 8½ percent above 1974. This compares with average increases of about 14½ percent for each of the two preceding years. The Consumer Price Index includes other food items than those produced in the U.S. such as sea food, coffee, bananas and imported sugar. Prices of the CPI items increased more in 1975 on the average than did the market-basket foods.

Farm-to-retail marketing spreads this year will again probably have more to do with how much retail food prices rise than will farm prices. See Table 1. However, the increase in marketing spreads should moderate from the nine percent rise in 1975, primarily because of some prospects for a slower increase in prices of materials and services purchases by food marketing firms.

Much of the increase in marketing margins early this year will be a carry-over from the high levels for meat that developed last fall as cattle and hog prices dropped sharply. Spreads for bakery and cereal products and fat and oil products, which also are at high levels, should contract some as retail prices are adjusted to reflect the drop in grain and oil-seed prices last fall. Spreads for other foods may increase

gradually during the year reflecting rising costs of inputs purchases by food marketing firms.

Table 1. Market Basket of Farm Foods

Year	Retail cost	Farm value	Farm-Retail spread
		1967=100	
1967.....	100.0	100.0	100.0
1968.....	103.6	105.3	102.5
1969.....	109.1	114.8	105.5
1970.....	113.7	114.1	113.4
1971.....	115.7	114.4	116.5
1972.....	121.3	125.1	118.9
1973.....	142.3	167.2	126.5
1974.....	161.9	178.4	151.4
1975.....	173.6	186.7	165.3

Month-to-month variations in the spread for a market basket of farm foods may be simply differences between changes in retail and farm prices. But over a longer period, the margin represents charges incurred between the farm and consumer for assembling, processing, transporting, and distributing farm products.

In 1975, higher retail prices raised the cost of the farm-food market basket to \$1,878, up about \$127 or seven percent for the year. However, this was only about half the rise in both 1973 and 1974.

Most of the rise in food prices last year was the result of tight meat supplies and sharply increasing farm-retail spreads for processed crop products. Higher retail prices for live-

stock products, particularly pork, accounted for about half of the rise in the retail cost of the market basket.

Marketing spreads accounted for almost three-fourths of last year's rise in retail food prices, the farm side representing the other fourth.

The farm-retail spread for foods averaged about \$1,094 in 1975, up \$92 or nine percent from 1974. This was a slow-down from the record increase of 20 percent in 1974, but well ahead of the six percent gain in 1973 and the two percent rise in 1972. Marketing spreads have increased every year during the past decade.

The farm value of foods in the market basket averaged \$782 in 1975, up five percent from 1974. Values were sharply higher for hogs, poultry, and fruits and vegetables, but lower for eggs, oilseeds and sugar.

Despite the increasing farm-retail margins, it is unfair to assign it all to the middleman. His costs have risen, too, and tend to be quite inflexible with built-in increases in labor costs (including wage increases, escalation contracts and fringe benefits), energy, taxes, and other items that tend to rise continuously. The farmer's share of the market value of goods is reflected in Table 2 below. This table does not exhibit a radical reduction in the share taken by the producer, either over a nine year span or within the last year or two.

Year	Percent	Year	Percent
1967	39	<u>1973</u>	
		1st Qtr	44
1968	39	2nd Qtr	45
		3rd Qtr	49
1969	41	4th Qtr	44
1970	39	<u>1974</u>	
		1st Qtr	45
1971	38	2nd Qtr	41
		3rd Qtr	42
1972	40	4th Qtr	42
1973	46	<u>1975</u>	
		1st Qtr	40
1974	43	2nd Qtr	42
		3rd Qtr	44
1975	42	4th Qtr	42

In summary, prices in the first half of 1976 should continue above a year ago and, along with increasing output, will boost cash receipts from livestock and products. Although crop prices are expected to remain under last year's levels, larger volumes of marketings and generally stronger domestic and foreign demands will help maintain cash receipts. Production expenses will probably continue upward, but at a slower pace.

Marketing costs will also rise some, thus resulting in higher retail costs but not at the pace of recent quarters and years. Some relief for producers, marketers and consumers appears in sight.

--Robert J. Antonides,  
Extension Economist-Marketing--

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