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TOWARD UNDERSTANDING OUR ECONOMY
The Demand For Farm Food Products

by
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(Editor's Note: The Newsletter resumes publication with this issue after a delay for reorganization of the mailing list and other technicalities. The Newsletters are serially numbered with normal publication days of the second and fourth Tuesdays of each month with additional issues as the situation warrants.)

In a previous Newsletter we considered very briefly the supply and demand factors that combine to determine price and which must be considered in "Outlook." In this letter we will look more closely at what the analyst must consider on the demand side of the market. Future issues will give separate treatment to supply and to the pricing mechanism.

Consumer Demand and Prices

The total demand for farm food products is really quite inelastic--a 10 percent change in price will result in a much smaller percentage change in the amount taken. The consumer cannot easily substitute non-foods for foods. Since the number of pounds of food that U.S. consumers eat in a given year does not change much, the general price level reflects the amount that is available for them to buy. In recent years, fluctuating exports and inflation have played more important rolls in this total demand and influence individual product and general prices.

The demand for individual products, however, is much more elastic and does fluctuate rapidly with changes in each of their prices. The consumer can rather easily substitute one food for another. If the price of pork remains about the same while the price of beef rises, he may shift some of his spending to lower-priced pork. If the price of all meat rises, the customer may shift some of his spending to more bread and potatoes. Since the shift from meat will leave an excess supply of it at the higher prices, there will be a tendency for the price of meat to drop back somewhat to clear it from the market. In the meantime, the increase in demand for bread (wheat) and potatoes will tend to raise the prices of those commodities. This could lead to a higher price level for all of these products, but would likely result in lower levels of demand for other foods.

Demand at the Farm

The demand for an individual farmer's products is almost completely elastic, which means that the consumer does not care whose wheat or beef he buys. The farmer can sell all of the produce he wants at the going price but he can get no more than the going price. There is also no reason for him to sell for less. This is a result of nearly perfect competition in that there are large numbers of sellers with no one of them able to influence the market price.

The demand for farm products is a derived demand - the demand of the consumer is a demand for steak or bread,not beef or wheat. To be offered to him in its final form, it must normally pass through a number of channels. Each of these has a demand for goods of its own from the next one on down the line. As the demand backs down the line, it does become more elastic. For individual items, the price does make some difference in the amount of it that can be sold.

It might be noted that consumers, individually, cannot significantly influence the market price. They are also in nearly perfect competition for the food they buy and must pay the price asked.

Demand Changes

With a limited income, the consumer must adjust in some manner to price changes. Normally, the shopper tries to buy those items that will give the most satisfaction for the amount of money available to spend. Thus prices will influence him (or her) to buy more or less of one item at a particular time. As consumer incomes tend to rise over time, the amount spent for food may increase somewhat and this problem may not be quite so acute.

There are sometimes more permanent changes in demand, however. These are called demand changes. Consumers, over time, change their preferences for different goods. The evidence indicates, for example, that in recent years consumers have come to prefer beef to pork. Very recently, that has meant hamburger over most other beef products. Higher incomes may also "permanently" change demand to higher-priced products such as meat and more table-ready foods.

Thus the major factors to be considered in the demand for farm food products is the ease with which the consumer can substitute one item for another and the things that cause demand to change. These include: incomes, the supplies and prices of competing commodities, changes in peoples' tastes and preferences, and the number of people wanting the item. Behind some of these are such factors as the level of employment, which affects consumer incomes; changes in per capita consumption rates, which show up as changes in their tastes and preferences; and changes in exports, which are a part of the number of people. The U.S. population grows at a predictable rate from year to year, but export demand is less certain and frequently causes sharp changes in total U.S. demand and therefore of prices.

Demand is Just One Outlook Factor

The outlook specialist analyzes large masses of data to try to detect changes in the demand factors which would indicate a change in the elasticity or the level of demand in the future and the impact it may have on production and prices. Some of them will be more important as indications of change in the near future; others are more important in the longer-run outlook. The data are not always the best for the purpose. He often must use other "indicators". He may, and usually does, draw on past experiences. But he is applying economic principles to a practical problem.

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