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Food Supplies and Prices

Leonard Benning
South Dakota State University

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Editor: Donald C. Taylor

Economics Department South Dakota State University Brookings, S.D. 57007 (605) 688-4141

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by Leonard Benning
Extension Economist
Marketing

Food and agriculture policies evolve as economic conditions change and "new" problems emerge. The changes of the past 14 years have been reflected in the Food and Agriculture Acts of 1970, 1973 and 1977, and will need to be taken into account in the new legislation slated for 1981. The agricultural policies incorporated in this new legislation will influence food availability and prices. Therefore, it is important that South Dakotan's anticipate future problems and circumstances confronting the food and agriculture sector, and consider policies that are most appropriate.

Since raw farm products account for only 27 percent of U.S. food expenditures, non-agricultural policies such as those that influence the rate of inflation, the levels of wages, the structure of the food processing industry, and the levels of imports and exports influence food prices more than agricultural policies do. Nevertheless, agricultural policies do influence indirectly the level and stability of food prices. In this Newsletter issue, the expected impacts of farm policies on food supplies and prices are examined.

Food Prices

From 1967 to 1979, prices for food in the U. S. increased at an annual rate of more than 11 percent. During the same period, the Consumer Price Index, in which food is a component, grew at an annual rate of about 9 percent.

Increases in the retail price of food are caused by increases in the costs for marketing (processing, storing and transporting) food, the costs for imported food and farm commodity prices. By far the major cause, however, is increased food marketing costs, especially expenditures on labor. Marketing costs tend to go up rather steadily over time in accordance with general inflation, whereas farm commodity prices rise and fall rather directly in response to variations in production. To illustrate, year-to-year variations in farm prices over 1967-1979 were more than double those for food prices.

Impacts of Various Agricultural Policies on Food Prices

The four major agricultural policies influencing food prices and supplies are: (1) grain reserves that affect stability in farm supplies, (2) disaster and deficiency payments that affect the costs of producing farm commodities, (3) acreage controls that affect product supply, and (4) price supports that can affect minimum product prices. The potential impacts of stabilization polices on food prices and supplies are much greater than the potential impacts of the other policies.

Farm Supply stabilization

The farmer-held grain reserve program, along with government purchases and the eventual resale of these commodities, affect the variability of farm product supplies being shipped to market. Purchases and sales of publically held stocks and farmer-held grain reserves reduce the the extent of price fluctuations for agricultural products. When product supplies are large, prices are normally depressed and government purchases and reserve programs can help reduce the lowering pressure on prices. Likewise, when production is short, sales from reserves tend to lessen upward price tendencies.

Maintaining the stability of farm product supplies reduces the risks encountered by producers, food manufacturers and processors. The reduced uncertainties decrease the need for firms to have excess capacity, and otherwise lower firm operating costs. Thus, lower-cost products can be made available to retail food outlets.

Cost of Production

Several farm policies have been established to reduce the risks of farm production. Examples are disaster payments intended to reduce risks faced by farmers during times of natural hazards, and deficiency payments geared to target prices that reduce income risks to farmers from sharply depressed prices. A reduction in risks often helps to reduce the costs of production, which in turn lessens the upward pressures on farm prices and hence on food costs.

Acreage controls

Policies designed to influence agricultural production directly affect supply and indirectly affect food and farm prices. When feed and food grains are restricted by acreage allotments, the supply of these products is generally lower. This, in turn, has an upward effect on the prices of these commodities. Acreage controls are most often used when inventories of crops in government storage become large and hence are costly to maintain.

Price Supports

Farm price supports have a direct upward influence on food prices. Because farm products account for only 27 percent of total retail food cost expenditures, however, their impact is rather limited. Price supports currently apply to basic products such as milk, food grains, some oilseeds and feed grains. Most livestock, poultry, fruits and vegetables are not directly affected by price supports. Since these products make up about one-half of the national food supply, price support programs influence directly only about 15 percent of the factors relating to retail food prices.

In summary, food prices are influenced most directly by non-agricultural policies involving inflation, wage levels, market structure, and imports and exports. Of the agricultural policies, those involving the stabilization of farm supplies and prices have the greatest impact on the availability and prices of foods to the retail consumer. Since many South Dakotans are both producers and consumers of farm products, they are influenced by a broad scope of national and state polices.

1981 AGRI-BUSINESS DAY

When: Monday, March 30th

Where: Staurolite Inn, Brookings

Theme: Coping with Inflation in the 1980's