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PRESENTED BY —

- **Agricultural Economics Association of South Africa**
- **Co-ordinating Committee of Agricultural Marketing Boards**
- **Department of Agricultural Economics and Marketing**
- **Department of Agriculture and Water Supply**
- **SA Agricultural Union**

**CSIR CONFERENCE CENTRE
Pretoria**

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THE SOUTH AFRICAN AGRICULTURAL UNION

THE EFFECT OF THE PRODUCER PRICE OF VEGETABLES ON THE CONSUMER PRICE

1. INTRODUCTION

It is often said that the prices of products are too high. The rising vegetable prices then have the result that the producer is benefitted while the consumer has to lower his standard of living.

Statements like the above are definitely not based on facts and a factual analysis of vegetable prices clearly proves the opposite.

To carry out a significant analysis of the facts, attention must, among other things, be given to the standard of exchange of producers, the food basket of products, the role of vegetables in the consumer price index and the market system of vegetables.

2. STANDARD OF EXCHANGE OF PRODUCERS

The standard of exchange of producers is the difference between the input prices and producer prices of producers.

Table 1 is an exposition of the change in the standard of exchange of agricultural producers for the past three years.

TABLE 1: GROSS VALUE OF PRODUCTION AND PARITY CHANGES OF PRODUCER PRICES AS AGAINST PRICES OF FARMING REQUISITES FOR AGRONOMY, HORTICULTURE AND STOCK-BREEDING

Year	Gross value of agricultural production (R million)			Producer prices 1975 = 100			Prices of farming requisites 1975=100	Standard of exchange		
	Agronomy	Horticulture	Stockbreeding	Agronomy	Horticulture	Stockbreeding		4/7	5/7	6/7
	1	2	3	4	5	6	7	8	9	10
1981/82	3 111,2	1 178,1	3 103,4	207,2	170,5	239,8	248,7	0,83	0,69	0,9
1982/83	2 468,7	1 372,1	3 364,1	243,6	207,2	237,1	291,2	0,84	0,71	0,8
1983/84	2 184,7	1 487,1	3 778,0	295,2	198,7	264,2	317,3	0,93	0,63	0,8

Source: Department of Agriculture

1) Vegetable prices were taken into consideration

Table 1 clearly indicates that the standard of exchange of agriculture has weakened gradually and that the standard of exchange of vegetables is relatively very poor. Where a standard of exchange of 1 reflects a balance between producer prices and the prices of inputs, it thus follows that the profitability of vegetable producers could have weakened gradually as a result of the cost-price squeeze. Consequently it is clear that vegetable producers did not progress to a more profitable position over the past three years on the ground of price increases.

3. THE FOOD BASKET

The food basket indicates the share of the producer in the price paid by the consumer.

Table 2 is an exposition of the food basket of agricultural producers for the past three years.

TABLE 2: FOOD BASKET OF AGRICULTURAL PRODUCERS

As on	30-6-82	30-6-83	30-6-84
	Percentage share		
Grain Products	40,2	38,5	32,5
Meat	55,0	50,5	52,6
Fats and Oils	31,2	34,0	35,0
Dairy Products and eggs	69,3	67,3	64,4
Vegetables	32,4	31,5	30,4
Fruit	40,0	34,1	37,4
Sugar	34,2	39,9	28,3

SOURCE: Department of Agriculture

Table 2 indicates that the producer share in the consumer price of vegetables has been the lowest for all agricultural products over the past three years. From this the following can be concluded, viz that even should the consumer price of vegetables be high, the producer receives only 30,2 % of the price. The costs of finale price of vegetables and the high consumer price can thus not necessarily be ascribed to the producer.

4. THE ROLE OF VEGETABLES IN THE CONSUMER INDEX (CPI)

The weight allocated to vegetables by the Central Statistics Service in the calculation of the CPI, is 3,5 %.

TABLE 3.gives an exposition of the average price increases of all consumer goods and services, food and certain food items over the past three years.

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TABLE 3: CONSUMER PRICE INDEXES

	1981/82	1982/83 1975 = 100	1983/84	1983/84 1982/83 %
All items	218,6	248,6	275,9	111,0
Food	237,8	264,8	294,0	111,0
Meat	256,6	262,8	288,7	109,9
Dairy products and eggs	207,3	244,0	272,9	111,8
Grain products	235,9	281,0	313,1	111,4
Vegetables	214,0	262,6	284,0	108,0
Fruit	207,4	244,3	285,4	116,8
Sugar	301,4	331,4	353,2	93,8

SOURCE: Department of Agriculture.

Table 3 indicates, among other things, that vegetable prices increased by 8,1 % during 1983/84.

Table 4 indicates the effects of the changes in vegetable prices on the CPI over the past three years.

TABLE 4: EFFECT OF VEGETABLE PRICES ON THE CPI

	% change		
	1981/82	1982/83	1983/84
CPI	15,17	13,72	11,0
Vegetable index	9,86	22,71	8,1
% contribution of vegetables to CPI	0,35	0,79	0,28
1) Vegetable producers' price	5,6	21,5	-4,1
2) Food basket share of vegetable producer	32,4	31,5	30,2
1) + 2) (Share of vegetable producers in vegetable price increases.	1,8	6,8	-1,2

Table 4 indicates that the increase in vegetable prices for 1983/84 contributed 0,28 % to the increase of 11,0 % of the total CPI. Vegetable producers, however, had a restraining effect on the increase of 0,28 % in that they show a negative share of 1,2 %. It thus follows that vegetable producers have in fact prevented the CPI from increasing further.

Table 4 also indicates that the consumer price increase in vegetables of 8,1 % did not result from a producer price increase, since the producer price decreased by 4,1 %.

5. THE MARKET SYSTEM OF VEGETABLES

The marketing of vegetables is based totally on the free market system. In other words, prices are in no way controlled and the price is determined only by supply and demand. If vegetable prices are then professed to be too high, it is determined by the consumer (via the market) and not by the vegetable producer.

6. CONCLUSION

From the above it is clear that vegetable products and producers are not to be blamed for the "high" increases in vegetable prices. It is also evident that the price of vegetables cannot influence the standard of living of the consumer significantly, since it has a minimum share in the CPI.

The statement that increases in vegetable prices benefit the producer whilst harming the consumer, is thus totally incompatible with the actual situation.

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SOUTH AFRICAN AGRICULTURAL UNIONNATIONAL MARKETS1. TURNOVER AND MASS OF VEGETABLES AND FRUIT SOLD ON THE FOURTEEN NATIONAL FRESH PRODUCE MARKETS

<u>YEAR</u>	<u>TURNOVER</u> (R)	<u>% INCREASE</u>	<u>MASS</u> (t)	<u>% INCREASE</u>
1974	125 399 763	9,1	1 386 999	4,23
1975	165 007 528	31,58	1 415 698	2,07
1976	172 080 201	4,29	1 530 741	8,13
1977	180 481 727	4,88	1 565 215	2,25
1978	198 244 255	9,84	1 621 432	3,59
1979	249 974 825	26,09	1 565 295	-3,46
1980	309 942 185	23,98	1 663 485	6,27
1981	345 543 154	11,48	1 828 631	9,93
1982	429 084 414	24,17	1 925 801	5,31
1983	528 002 835	23,05	1 843 778	-4,26

The turnover of the fourteen National Fresh Produce Markets increased from R125 million in 1974 to R528 million in 1983 - an increase of 322 % over this period. The mass increased from 1,3 million tons to 1,8 million tons - an increase of 38,5 % over the same period.

2. PERCENTAGE OF TOTAL MASS AND VALUE OF FEW COMMODITIES

<u>Commodity</u>	<u>% Total Mass</u>	<u>% Total Value</u>
Potatoes	45,59	37,20
Tomatoes	12,51	26,16
Onions	7,30	9,84



3. AVERAGE VALUE OF VEGETABLES AND FRUIT SOLD ON THE FOURTEEN NATIONAL FRESH PRODUCE MARKETS 1974/73

<u>YEAR</u>	<u>R/METRIC TON</u>
1974	83,1
1975	110,0
1976	107,0
1977	115,3
1978	122,0
1979	160,21
1980	175,0
1981	166,0
1982	198,0
1983	260,0

THE SOUTH AFRICAN AGRICULTURAL UNION

1. PRODUCER AND MIDDLEMAN SHARE

The producer and middleman share in the consumer price of various food items over the past three years, is as follows:

As on:	30-6-1982		30-6-1983		30-6-1984	
	Percentage Share					
	Producer	Middleman	Producer	Middleman	Producer	Middleman
Grain	40,2	59,8	38,5	61,5	32,5	67,5
Meat	55,0	45,0	50,5	49,5	52,6	47,4
Fats and oils	31,2	68,8	34,0	66,0	35,0	65,0
Dairy and eggs	69,3	30,7	67,3	32,7	64,4	35,6
Vegetables	32,4	67,6	31,5	68,5	30,2	69,8
Fruit	40,0	60,0	34,1	65,9	37,4	62,6
Sugar	34,2	65,8	39,9	60,1	28,3	71,7

2. PRODUCER PRICE INDEX

The average producer price index for the past three years is as follows:

	1981/82	1982/83	1983/84	1983/84 1982/83
	1975 = 100			%
All agricultural products	214,3	233,8	265,7	113,6
Field crops	207,2	243,6	295,2	121,2
Summer grain	197,0	234,6	296,4	126,3
Winter grain	230,1	262,3	281,1	107,2
Horticulture produce	178,4	196,5	196,8	100,2
Fruit	182,9	196,1	200,0	102,0
Vegetables	170,5	207,2	198,7	95,9
Livestock products	239,8	237,1	264,2	111,4
Livestock slaughtered	248,7	238,3	264,1	110,8
Dairy produce	211,5	227,2	251,2	106,2
Wool	230,0	222,2	244,2	109,9

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PRODUCTION

PRODUCTION OF VEGETABLES

I. Year

1 000 t

	<u>Potatoes</u>	<u>Tomatoes</u>	<u>Onions</u>	<u>Carrots</u>	<u>Cabbage</u>
1974	648	240	126	63	150
1975	712	264	108	77	136
1976	684	330	118	84	147
1977	757	335	141	80	160
1978	701	270	139	90	170
1979	696	293	133	91	190
1980	686	276	151	91	177
1981	859	310	142	107	225
1982	992	384	151	120	248
1983	940	412	156	124	243

II. Quantity of vegetables sold on fourteen national fresh produce markets

Year Potatoes Tomatoes Onions Carrots Cabbage

1 000 t

1975	429	146	74	42	103
1976	484	154	85	35	106
1977	493	167	91	38	116
1978	507	175	88	41	130
1979	441	172	94	40	124
1980	500	181	95	41	149
1981	634	175	101	47	172
1982	601	228	107	50	176
1983	509	229	111	49	195

From tables 1 and 2 it is clear that the following percentage of mentioned vegetables produced annually are sold on the fresh produce markets (1983 only)

Year	Potatoes		Tomatoes		Onions		Carrots		Cabbage	
	Market %	Other %	Market %	Other %	Market %	Other %	Market %	Other %	Market %	Other %
1983	54	46	55	45	71	29	40	60	80	20