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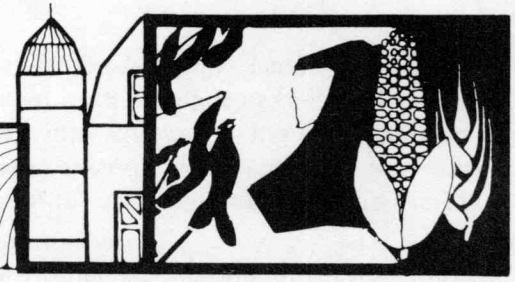
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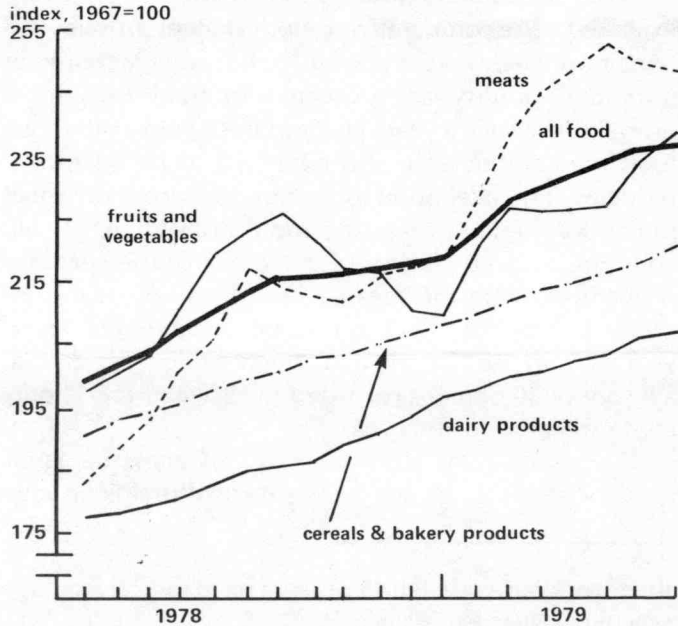
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LETTER

THE UPTREND IN RETAIL FOOD PRICES slowed appreciably this summer. Monthly increases in retail food prices averaged 1.7 percent in the first quarter, equivalent to a 22 percent annual rate of rise. Since then, the increases have been smaller, averaging less than 0.6 percent in June and July. Although wholesale food prices, seasonally adjusted, increased sharply in August, near-term trends at the retail level are expected to be about the same as the more modest increases of early summer. Rapidly rising food processing and distribution costs will, nevertheless, exert pressure on food prices well into next year.

Since then, beef production has recovered seasonally and pork and poultry production has risen sharply above year-ago levels. As a result, beef prices have declined, reaching a six-month low in August. But they are still about a sixth higher than a year ago.

The uptrend in retail food prices eased this summer



The rise in fresh fruit and vegetable prices of more than a fifth between December and July reflected several factors. (Despite the big increase, fresh fruit and vegetable prices only averaged 8 percent higher than year-earlier levels.) Adverse weather last winter curtailed supplies of several fresh produce items. More recently, abundant rains in the Midwest and tropical storms in the Southeast have also caused some minor supply problems. But pressures on fruit and vegetable prices this year have also reflected periodic disruptions from the seven-month-old United Farm Workers strike in California and the midyear "strike" by independent truckers, which caused a temporary bottleneck in distribution and skyrocketing costs of shipping produce.

Government programs also contribute, directly or indirectly, to pressures on food prices. Programs that affect crop production and prices, or encourage the building of grain reserves, are indirectly linked to food prices because they impact on feed costs and the production of livestock. More direct impacts arise from government programs that set support prices for such items as sugar or milk. For instance, boosts in the milk support price of nearly 5 percent last October and 9 percent in April have contributed to the 12 percent rise in average retail dairy product prices through July. In October, the milk support price will be raised another 6.5 or 7 percent.

Pressures on retail food prices this year have arisen from raw commodity prices and from the cost structure of processing and distributing food. Surging commodity prices earlier in the year were primarily responsible for the large increases in retail prices of beef and fresh fruits and vegetables. Because workings of the cattle cycle contributed to reduced supplies, beef prices rose nearly a fourth from the end of last year to the peak in May.

Rising costs for processing and distributing food—which account for two-thirds of expenditures for farm foods—have been the dominant pressure on retail food prices more recently as higher labor and energy costs have begun filtering through to the retail level. A recent settlement between retail clerks and three major chains in Chicago has boosted wage rates for top line employees 9 percent for the first year of a three-year contract and 26 percent over the life of the contract. A

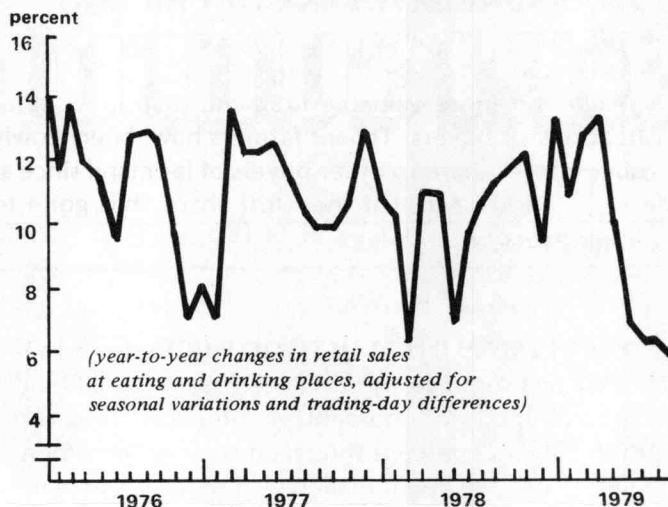
similar settlement in New York boosts the wage structure for top line clerks roughly a third over the next three years. Some recent settlements with meatpackers boost labor costs a reported 34 percent over the next three years, assuming a 9 percent rate of inflation.

In addition to labor costs—which account for nearly half of all food processing and distribution costs and a third of retail expenditures for all farm foods—rising costs of transportation, packaging, and other energy-related inputs portend added pressures on retail food prices. The index of rail freight rates for food products has risen nearly 4 percent over the past three months to exceed the year-earlier level by nearly 12 percent. USDA estimates show costs of operating a ten-truck fleet have increased nearly a tenth since March, due mostly to rising fuel costs.

The outlook for food prices also hinges on consumer demand, particularly at this juncture where evidence suggesting the economy is in a downturn continues to mount. Most analysts forecast a modest downturn of short duration. But vagaries surrounding the availability of energy and the impact of sharply higher energy prices on other consumption expenditures suggest the downturn and subsequent recovery could be more protracted. The impact of the energy-related downturn has already been evident in food demand for away-from-home meals. Since April, retail sales in eating and drinking places have averaged only 6.5 percent higher than in the same months a year ago. That is down from the 10 percent rise last year and well below the year-to-year rise of 12 percent registered in the first quarter. Moreover, since retail prices of food consumed away from home have been holding about 11 percent above year-earlier levels, it suggests an appreciable decline in the quantity of food consumed in eating and drinking places.

The slowing in sales at eating and drinking places is apparently concentrated among fast-food establishments, reflecting both the high prices of beef, which dominates the menus in these establishments, and

Growth in sales at eating and drinking places has slowed, despite high prices



the decline in tourism, which traces to concerns over the availability and price of gas. The recent slowing counters, at least temporarily, the rapid long-term growth in fast-food sales. Because of that growth, fast-food outlets account for roughly a third of the away-from-home food market sales, as opposed to only 5 percent in the mid-fifties.

For the rest of this year, gains in retail food prices are expected to be comparatively modest. Beef supplies will remain well below year-ago levels, but large increases in pork and poultry are expected to hold total meat production above a year ago. Supplies of most other raw food commodities are also expected to be adequate, reducing the likelihood of major pressures on retail prices. But higher processing and distribution costs will continue to exert pressure for the rest of the year and probably for the foreseeable future. Although the increase in retail food prices may be somewhat less next year, it may not be all that much under the annual average of 10 percent recorded in 1978 and the 11 percent estimated for this year.

Gary L. Benjamin
Agricultural Economist

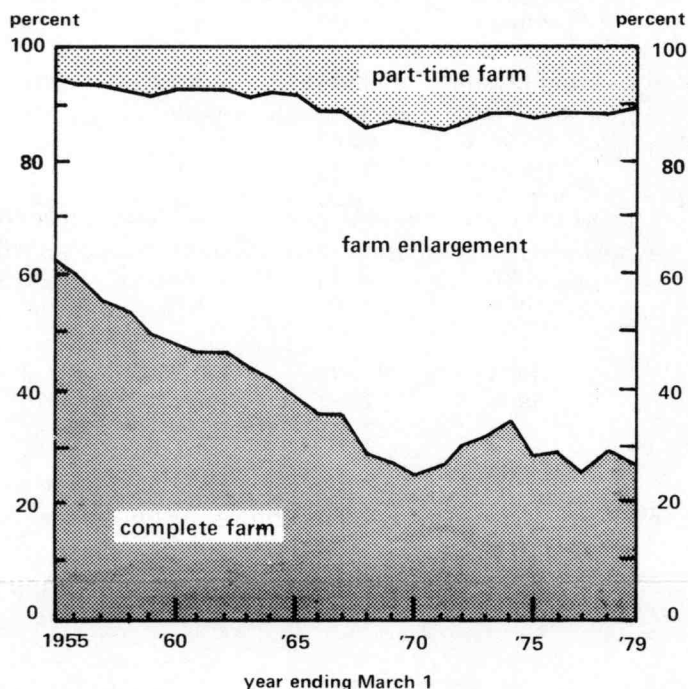
FEWER TRANSFERS OF FARM REAL ESTATE were reported for the year ended February 1 than the year before. According to the USDA's *Farm Real Estate Market Developments*, the rate of farm transfers last year fell 5 percent to 39.6 tracts per 1,000 farms. The rate of voluntary and estate transfers, which accounted for four-fifths of all transfers last year, was down only about 2 percent and the acreage sold rose nominally to 23 million acres, a four-year high. As a method of transfer, foreclosure represents a very small share of the total (less than 3 percent last year). This category, however, played an important role in the overall decline in last year's rate of farm title transfers. In the year ended February 1, 1979,

the foreclosure rate fell 45 percent from the 21-year high reached a year earlier.

Farm transfers last year were characterized as being, on average, higher priced per acre, larger sized, more likely to have involved some use of debt financing, and—among those transfers using some credit—more dependent on the use of debt relative to the purchase price. Strong demand for farmland, together with a scarcity of listings, inflationary expectations, and prospects for higher farm earnings, are expected to boost farm real estate prices another 14 to 16 percent this year, despite sharply higher interest rates.

The largest category of farmland buyers last year—and for roughly the 20 years preceding—was owner-operators. Owner-operators bought slightly more than half the farm tracts sold in the year ended March 1. On average, purchases by owner-operators involved larger acreage and more valuable farmland than most other categories of buyers. Tenant farmers have been slowly losing market share to other buyers of farmland since at least the 1940s. Most of their lost share has gone to owner-operators. Tenants bought 15 percent of the tracts sold last year and accounted for only 11 percent of the acreage transferred. The remaining third of last year's farm real estate transfers went to other categories of buyers, including retired farmers, local nonfarmers, and absentee landowners. This residual group of buyers has accounted for a nearly stable share of the market since at least the 1940s.

Trend in farmland transfers in recent years has been to increase size of existing operations

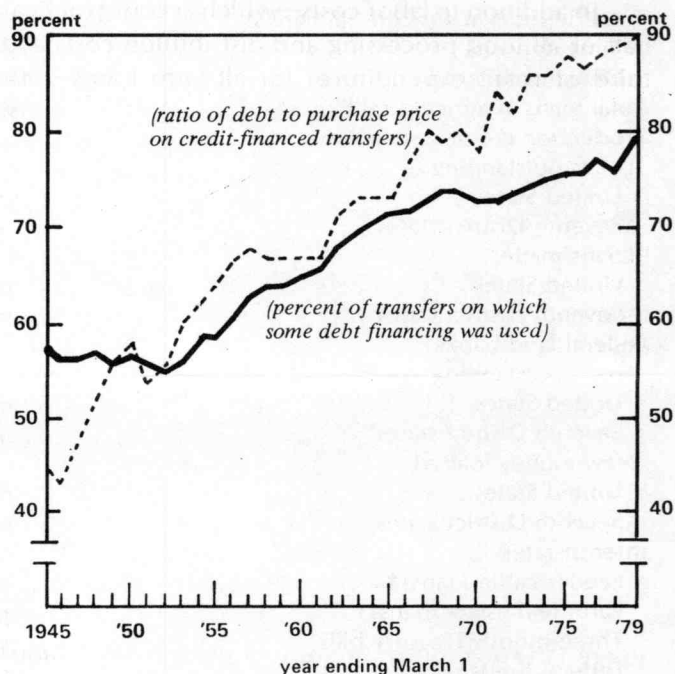


Excludes Alaska and Hawaii.

Nearly half the transfers last year involved acreages that had been part of another farm prior to the sale. Another two-fifths involved land that had previously been operated as a complete farm. The rest of the transfers involved tracts that had been part-time farming operations before the sale. More than three-fifths of the farmland purchased last year was to be added to existing operations. This reason for buying farmland—to enlarge farms—has been trending upward for many years. Twenty-five years ago, for instance, farm enlargement accounted for only 29 percent of all farmland transfers, while 65 percent of the purchases were made by buyers intending to operate the tract as a complete farm. Last

year only a fourth of the transfers were intended to become complete farming operations.

Debt plays an increasing role in farmland transfers



Debt plays an increasingly significant role in financing farm real estate purchases. A record 90 percent of the farmland transfers in the year ended March 1 involved the use of at least some debt financing. And among these credit-financed transfers, the ratio of debt to purchase price rose to a record 79 percent. Twenty-five years ago only 62 percent of the transfers involved any debt financing and the ratio of debt to purchase price was 59 percent.

With this increased use of debt in financing farmland purchases, several changes have occurred over time in the structure of the farm mortgage lending industry. The total amount of U.S. farm real estate debt outstanding was estimated at \$72 billion on January 1, 1979, up 13 percent from a year earlier. Of that, federal land banks held 34 percent as did individuals and others. The remainder of the farm mortgage loan outstandings was held by life insurance companies (14 percent), banks (12 percent), and the Farmer's Home Administration (6 percent). Federal land banks have been increasing their market share for many years, mostly at the expense of the share held by individuals and others. Twenty-five years ago their share of the total was 15 percent, compared with 42 percent for individuals and others.

Don A. Langford
Agricultural Economist

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural bankst	1972-73=100	August	196	+ 0.1	+ 8
Time deposits	1972-73=100	August	235	+ 0.9	+10
Demand deposits	1972-73=100	August	130	- 2.5	+ 2
Total loans at agricultural bankst	1972-73=100	August	250	+ 0.5	+12
Production credit associations					
Loans outstanding					
United States	mil. dol.	August	17,242	+ 1.3	+16
Seventh District states	mil. dol.	August	3,460	+ 1.3	+20
Loans made					
United States	mil. dol.	August	1,910	- 2.7	+20
Seventh District states	mil. dol.	August	387	- 7.1	+17
Federal land banks					
Loans outstanding					
United States	mil. dol.	August	28,103	+ 1.6	+19
Seventh District states	mil. dol.	August	6,302	+ 1.7	+25
New money loaned					
United States	mil. dol.	August	554	+ 6.5	+44
Seventh District states	mil. dol.	August	132	+ 4.2	+38
Interest rates					
Feeder cattle loanst†	percent	2nd Quarter	10.64	+ 3.5	+18
Farm real estate loanst†	percent	2nd Quarter	10.65	+ 3.1	+16
Three-month Treasury bills	percent	9/6-9/12	10.43	+10.1	+35
Federal funds rate	percent	9/6-9/12	11.35	+ 5.1	+36
Government bonds (long-term)	percent	9/10-9/14	9.20	+ 2.8	+10
Agricultural trade					
Agricultural exports	mil. dol.	July	2,715	- 1.6	+27
Agricultural imports	mil. dol.	July	1,280	-15.1	+ 8
Farm machinery sales					
Farm tractors	units	June	12,499	+ 0.2	+ 2
Combines	units	June	2,198	+132.6	+ 5
Balers	units	June	2,373	+55.0	-57

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks.

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