



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

August 22, 1975

RISING CROP PRICES are a matter of concern to consumers worried about the ultimate impact on food costs. On the other hand, some crop farmer representatives are disturbed by the temporary embargo on further sales to Russia, viewing it as an attempt to restrain prices. For livestock farmers the trend reduces prospects for lower feed costs and may delay expansion in beef and pork production.

The food industry is enormously complex and that makes it difficult to trace the effects of price changes of individual farm products through to the consumer level. Nevertheless, historical relationships provide the means for making some general estimates. It should be stressed at the outset, however, that there is a lag of at least three months and up to 12 months before changes in grain prices show up at the retail level. The lag varies according to the product's production cycle and the complexity of the processing and marketing channel. Furthermore, changes in grain prices must persist over a significant period, probably one quarter or more, before they affect various foods. This is especially true for livestock products.

Corn, wheat, and soybean prices hit their 1975 lows in May and June of this year. Since then cash prices of corn have risen approximately 45 cents, wheat went up about \$1.40, and soybeans rose around \$1.25 per bushel. Even more significant have been the increases recorded in the futures contracts for these crops. The December futures prices for corn and wheat and the November contract price for soybeans have risen about \$1 per bushel.

The rise in corn prices, especially, will affect the feed costs of livestock producers. For example, a \$1 per bushel increase in corn costs can up the breakeven point for a cattle/hog-feeding operation in the Cornbelt by about \$5.50 per hundredweight, on average. However, feeder-operators are likely to lower their bids for animals in response to increased feed costs. If all the increase in feed costs were reflected in lower bid prices for feeder animals, farmers and ranchers who raise feeder animals would receive about \$9 per hundredweight less for cattle and about \$12 less per 40-pound pig. Most likely, any adjustment would be shared by animal breeders and animal feeders, although a larger portion probably would fall on the breeders.

Increased corn prices transmitted via the livestock sector would have the greatest effect on consumer food expenditures. Livestock products account

Waite Memorial Book Collection
Division of Agricultural Economics

IN LIBRARY USE ONLY

Number 1340

for about one-half of all consumer food expenditures. A \$1 per bushel increase in corn prices may raise per capita food expenditures by about 2.5 to 3.5 percent. Bakery and cereal products, reflecting the effects of wheat price increases, account for less than one-fifth of total consumer food expenditures. As a result, a similar \$1 per bushel increase in wheat prices might raise total per capita food expenditures by slightly less than 0.5 percent. Likewise, a \$1 increase in soybean prices could increase per capita consumer food expenditures by 0.5 percent or less. Should price increases of around \$1 per bushel hold for all three crops, per capita consumer food expenditures might then rise by approximately 3.5 to 4.5 percent.

Since food accounts for slightly less than 20 percent of the total consumer price index (CPI), this translates into a less than 1 percent rise in the total CPI. It is worth repeating that increases in crop prices have to be in effect over some time before they have any effect on retail prices.

The short-term effect of crop price increases might be to build beef supplies as cattle coming off pastureland are diverted to packing houses from feedlots, thereby placing downward pressure on beef prices and red meats in general. Offsetting this would be increases in dairy and poultry products which pass through to the retail level in the least time.

An increase of 3.5 to 4.5 percent in food costs over a year's time is small in relation to the 14 percent rise in food costs in 1974 and the 9 percent rise projected for 1975. Other factors in the processing and marketing sector, which account for 60 percent of retail costs, probably will have at least as great an impact as rising grain prices on food costs next year. For example, labor, packaging, and transportation—all areas where significant upward price pressures have occurred in the last couple of years—are approximately equal to the farm share of total U.S. food expenditures.

Terry Francel
Agricultural Economist