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Labor Costs in Food Marketing

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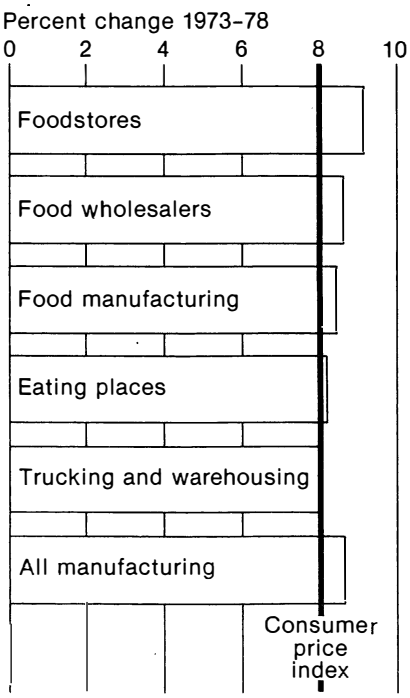
Labor costs are a significant portion of the value of food bought in foodstores and a major factor in the increasing cost of marketing food products. At one or more stages of the food marketing system, most foods must be cleaned, graded, packed, processed, priced, and stocked on shelves—operations that now require nearly 7 million workers.

Excluding food product costs, labor costs are the largest expense item of firms directly engaged in processing and distributing food after it leaves the farm. In 1978, labor costs accounted for 47 percent of total food marketing costs, and just about equalled the dollar amount farmers received for foods produced on U.S. farms. These costs consist of wages, salaries, employee benefits, imputed earnings of unpak family workers who do not receive money wages or salaries, and tips for service.

Average Annual Changes in Hourly Earnings and Consumer Prices



Labor costs relate only to workers in establishments of processors, wholesalers, retailers, and eating places engaged in marketing domestically produced farm foods. Labor costs related to intercity transportation and the manufacture of supplies, such as food containers, used by marketing firms are not included because these are direct expenses of firms and are components of total marketing costs.

In 1978, labor costs of firms that process and distribute foods grown on U.S. farms rose 10.4 percent, about equal to the average annual rate since 1973. Available information indicates a further increase of 10 to 11 percent in 1979.

Wage Increases

Higher wages coupled with slow growth in productivity were mainly responsible for the upward trend in labor costs over the last 5 years. Hourly earnings of employees of foodstores, food wholesalers, food manufacturers, and eating places increased at an average annual rate of 8.4 percent between 1973 and 1978. For all workers in the economy, the rate of increase was 7.6 percent. Hourly earnings of food industry workers increased only slightly more than the 8-percent annual average rate of increase in prices of all items in the Consumer Price Index.

In the last 5 years, retail foodstore workers received bigger increases in wages than other workers in the food industry. One reason for their larger rate of increase, 9.2 percent, is the relatively high proportion of union contracts containing provisions for cost-of-living adjustments to wages based on changes in the CPI. Average hourly earnings of food industry workers continued to increase in 1979. In the first quarter, average hourly earnings were more than 8 percent above a year earlier.

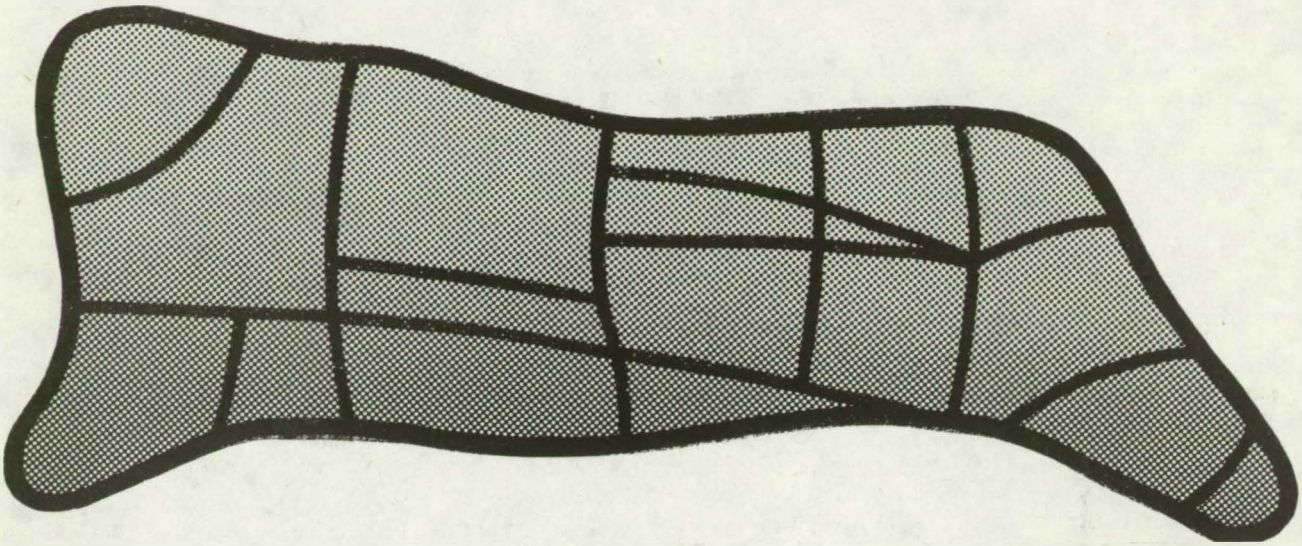
Union Settlements

About 987,000 food industry workers are covered by major collective bargaining contracts. Workers belonging to smaller bargaining units probably would push the number of union workers in the food industry to about 1.5 million.

The majority of foodstore employees belong to the United Food and Commercial Workers International Union (a June 1979 merger of the Retail Clerks International and the Amalgamated Meat Cutter and Butcher Workman Unions). Most workers in the food-processing industry belong to the Teamsters and United Food and Commercial Workers Unions.

Major collective bargaining contracts affecting 430,000 workers, primarily in food retailing and processing, will be renegotiated in 1979. This total includes contracts in the food-manufacturing industry affecting 204,000 workers, or roughly 60 percent of that industry's workers covered by major collective bargaining agreements. The majority of the workers affected are employed by the meatpacking and canned fruit and vegetable industries. Negotiations in meatpacking will determine wages and benefits for 80 to 85 percent of industry workers.

Collective bargaining in the retail food industry is highly decentralized and involves many groups of workers and many locations. This results in considerable variation in pay levels and negotiated wage increases within the industry. However, wage increases appear to average about the same as for the economy as a whole. The Bureau of National Affairs, a national



news gathering organization, reports that the medium first-year wage increase so far this year in union contracts covering all industries has been slightly over 8 percent. An examination of 17 wage settlements in food retailing covering 142,000 workers over a period of a year also showed a median pay increase of about 8 percent the first year and a total wage increase of about 23 percent over the life of 3-year contracts.

Based on recent wage increases, upward pressure on labor costs in food marketing appears to be continuing at the approximate rate of recent years. One possible exception is among segments of the industry with largely nonunion workers. There is evidence that the wage guideline of 7 percent has imposed somewhat of a lid on wage increases for nonunion workers, since employers can more easily impose the guideline on nonunion workers than on union workers. Bureau of Labor Statistics data for all industries in the Economy show that percentage wage increases for nonunion workers averaged 7.5 percent in the first quarter of 1979 compared with 8.2 percent for union workers.

The gap between union and nonunion wage increases continues to exist, in part, because many union workers get cost-of-living adjustments to wages based on rising consumer prices. For these workers, double-digit inflation will result in wage increases in excess of other workers. However, the Council on Wage and Price Stability indicates that it may be necessary to modify the wage guideline to restore equity to nonunion workers, as well as union workers whose pay arrangements do not include cost-of-living adjustments.

In addition to wage increases negotiated in 1979, labor costs will rise this year because previous union contracts provide for deferred wage increases averaging 5.9 percent for 433,000 workers in food retailing and 5.7 percent for 104,000 persons in food manufacturing. Food manufacturing workers covered by contracts without cost-of-living (COLA) clauses will receive wage increases averaging 6.4 percent versus 4.8 percent for workers with COLA clauses in contracts. In food retailing, 75 percent of union members are covered by COLA's, compared with only 36 percent in food manufacturing.

Minimum Wage

The minimum wage was increased 9.4 percent in 1979 from $2.65 per hour to $2.90 per hour. This increase mainly will affect wages of workers employed in public eating places. This should have little impact on total food marketing costs since only a relatively small portion of total good industry workers are earning minimum wages. For example, when the minimum wage was raised in 1978, only 18 percent of the workers in public eating places received a pay increase to reach the new minimum.

Employee Benefits

Hourly employee benefit costs in the food, beverage, and tobacco industry rose from 81 cents in 1967 to $2.06 in 1977—154 percent—while wages for time workers increased 93 percent. Both the amount and growth rate of employee benefit costs in food manufacturing are similar to the average for all industries.

Hours worked in food marketing grew at an annual rate of 1.8 percent during the last 5 years and likely will increase again this year, contributing to the increase in total labor costs. In food retailing, hours worked have risen as a result of the trend toward Sunday openings, longer operating

hours during the week, and the growth of such service-oriented operations as store bake shops and delicatessens. In the food service industry, growth in volume of food sold has caused a rise in employment and hours of work.

Productivity growth in food marketing has been very slow since the early 1970's. Output per hour of labor input, in industries primarily manufacturing domestically produced food, increased 1 percent a year from 1972 to 1977. Productivity in retail foodstores was 6 percent lower in 1977 than iN61972.

The slow growth of productivity is the result of such factors as fewer major technological innovations; reluctance of business to invest in new plants and equipment because of rising costs; lack of confidence in the economy; and increases in marketing services.□

Average Hourly Earnings for Food and Other Industries

	1973	1978	Change 1973 to 1978	
		Dollars per hour	Value	Percent
Foodstores	3.38	5.24	1.86	55
Food manufacturers	3.85	5.80	1.95	51
Meat packing	4.77	7.05	2.28	48
Poultry dressing	2.55	3.79	1.24	49
Dairy	3.93	5.81	1.88	48
Processed fruits and vegetables	3.28	5.06	1.78	54
Bakery products	4.01	5.98	1.97	49
Sugar and confectionery	3.71	5.62	1.91	51
Food wholesalers	3.90	5.93	2.03	52
Eating places[1]	2.17	3.21	1.04	48
Composite food marketing[2]	3.34	5.00	1.66	50
Transportation				
Trucking and warehousing	5.27	7.75	2.48	47
Railroads	5.40	7.87	2.47	46
All manufacturing	4.07	6.17	2.10	52
Total private nonagricultural economy	3.94	5.69	1.75	44

[1]Excludes tips and meals. [2]Production employees in food manufacturing and nonsupervisory employees in foodstores, wholesale trade, and eating places.

Generics Revisited

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In the year since this topic was last covered in the *National Food Review* generic labels have become big business.[1] Today, approximately 125 grocery firms sell generic labeled items in about 11,000 stores. These stores sell from 1 to over 150 food and nonfood generic labeled items. The nonfood items have been more popular than food items.

Recent interviews with representatives of grocery firms found divergent views on proportionate sales of generic labels. About half of those interviewed stated that generic products were increasing in sales; others said that sales of such products have reached a plateau. This article investigates the reasons for the apparent differences in views.

Expansion-Contraction

Generic food labels now account for 9 to 12 percent of sales in any given product category. Their share of total food and nonfood sales is about 5 to 15 percent. One executive said that the generic labeled products have captured 28 percent of the sales of canned green beans.

Top sellers in canned generics are kernel corn, green beans, peas, whole tomatoes, mixed cocktail fruits, tomato catsup, and peaches. These products are generally used as ingredients in other dishes where color and quality are not considered critical.

In areas where a majority of the chains and independents sell generic grocery labels, growth has slowed. The generic product has become commonplace—just another label sold at the lower end of the price scale. Some of the retailers surveyed stated generic sales have "dented but not severely injured" the national and private label sales. They maintain that

[1]Editors Note: The September 1978 issue of *National Food Review* featured an article on generic labeled products sold in grocery stores.