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# The USDA Food Price Monitoring System

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Following the announcement of the President's program of voluntary wage and price standards in October 1978, a food price monitoring program was established in the Economics, Statistics, and Cooperatives Service (ESCS) of USDA in cooperation with the Council on Wage and Price Stability (CWPS).

The responsibilities of the food price monitoring effort initially included (1) the monitoring of price changes at various levels in the food system (2) the identification of significant movements in food prices, and (3) the development of policy alternatives to reduce inflation in the food sector of the economy. Since October, these functions have been expanded and now include margins monitoring.

## Food Industry Standards

The wage and price standards set by the Council on Wage and Price Stability Act apply to all goods and most workers in the United States. The basic price standard restricts firms to price increases of no more than 9.5 percent. However, agricultural products and commodities traded on organized exchanges are exempted on the assumption that there are limited benefits from the imposition of standards on effectively competitive markets.

Wholesale and retail food distributors can use a percentage margin standard as an alternative to the price standard. A company satisfies the percentage margin standard if the growth in its average percentage gross margin between the base year (October 1977–September 1978) and the program year (October 1978–September 1979) is no greater than its margin trend or if the average percentage gross margin for the program year does not exceed that of the base year.

Food manufacturers and processors can use a margin standard as an alternative to the price standard. Firms satisfy the margin standard if the change in the firm's margin from the third quarter 1978 through the third quarter in 1979 does not exceed 6.5 percent.

The standards are to be largely self-

administered, although some firms have been requested to submit information to the CWPS. Most food manufacturers, processors, wholesalers, and retailers have indicated they will attempt to comply with the percentage margin or margin standard as an alternative to the price standard.

## Price Monitoring Efforts

The basic activities of the ESCS monitoring group involve a continuous review and evaluation of price information received from USDA sources, the Bureau of Labor Statistics, and other sources. The basic effort includes:

- The review of farm-level food prices, and changes in the prices of inputs used in farm production.

- An analysis of changes in wholesale and producer food prices and the impacts of these changes on consumer prices.

- The monitoring of changes in food industry wage rates and changes in prices of major inputs used in food manufacturing and distribution.

- A review of changes in retail food prices and a determination of the causes of change.

These activities relate directly to the evaluation of the consistency of food price changes with program price standards.

## Margin Monitoring Efforts

Since most food manufacturing, processing, wholesaling, and retailing firms have special problems in satisfying the price standard and are attempting to meet the percentage margin or margin standard as an alternative. A major focus of the USDA monitoring effort has been on the identification and analysis of margins at the industry level. Margins for major food groups and specific food products are included in this effort.

Margins for major food groups are computed monthly using retail price information from the Consumer Price Index and farm price information from USDA's *Agricultural Prices*. If real in-

put costs do not change from month to month and product quality remains constant, larger percentage margins imply higher nonfarm profits. The control of margins implies control of nonfarm profits. So the voluntary standards for margins imply the voluntary limitation of profits. Once food groups with margins exceeding the allowable program rates are identified by ESCS, further investigation at the firm level is undertaken by CWPS.

Margins for specific food products are also computed on a monthly basis. Retail price data for these analyses come from USDA surveys, market reports, and other sources. Farm price information used to compute margins for specific food products comes predominantly from USDA sources. Recent studies of margins for beef, pork, broilers, hamburger, eggs, butter, lettuce, tomatoes, potatoes, coffee, bread, and sugar have been performed.

The results of the monitoring group's analysis of changes in margins and causes of food price changes are disseminated in several ways. These include:

- The preparation of a weekly report on food price changes and related developments which presents the results of monitoring activities and is circulated internally within the USDA and CWPS; and

- The public release of a monthly report prepared jointly with CWPS. This report presents the significant findings from the ongoing monitoring effort. In addition, research monographs and analytical reports are prepared for use within ESCS.

## References

1. Council on Wage and Price Stability. "Fact Book: Wage and Price Standards," October 31, 1978.
2. CWPS. "Wage and Price Standards: Revised," December 13, 1978.
3. CWPS. "Pay and Price Standards Implementation Guide," January 22, 1979.
4. Economics, Statistics, and Cooperatives Service. "The USDA Food Price Monitoring Effort," February 9, 1979.