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FOOD COSTS

- Retail Prices
- Farm Prices
- Marketing Spreads



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service
Washington, D. C.

The consumer's food dollar pays for the services of the many different groups in the economy that produce, process, and distribute our food supply. It pays the workers in agriculture and for the services, supplies, and equipment used in farming. It pays for processing, transporting, wholesaling, retailing, and other marketing services. The money the consumer spends for food becomes income to the farmer and the food industry workers.

This publication summarizes the major trends through 1965 in farm and retail prices of food, marketing charges, and the relation between food costs and consumer income. It shows, for example, that marketing charges have increased since 1947. But prices received by farmers for food products have declined. Retail food prices have increased less than many other

consumer prices. Prices marketing firms pay for goods and services have risen steeply. But improvements in efficiency of marketing firms have kept their costs from rising as much as prices. Gains in output of marketing services per man-hour have held the rise in labor costs per unit of product to about one-third the rise in employees' hourly earnings.

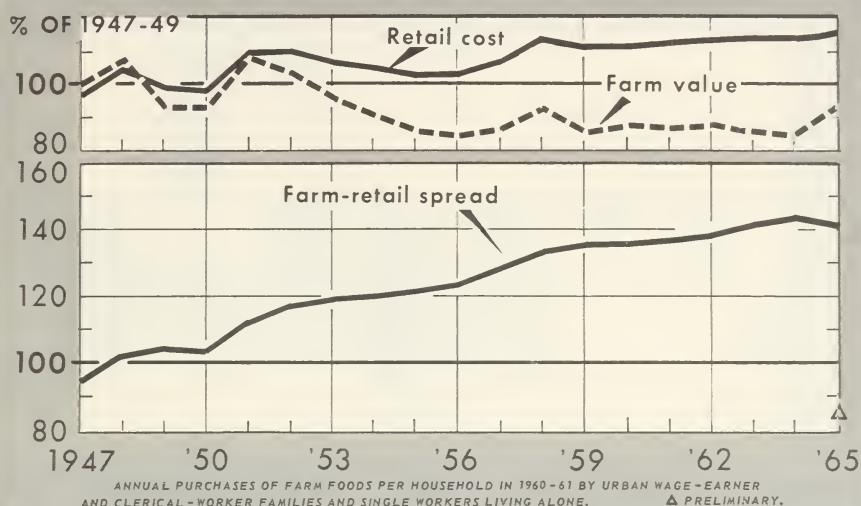
The total bill for marketing food in 1965 was more than five times that in 1940, reflecting rising unit marketing charges, an expanding volume of food marketed—caused mainly by the growing urban population—and the addition of marketing services per unit of product. Incomes per capita have risen more than food prices, however, so that a year's income or an hour's work buys more food and marketing services than it did in 1940.

The FARM-FOOD MARKET BASKET contains the average quantities of farm-originated foods purchased annually in 1960-61 per household by urban wage-earner and clerical-worker families and single workers living alone. It does not include imported foods or other foods not originating on American farms. The foods in the market basket are valued at retail store prices. The FARM VALUE is the return to the farmer for the farm products that go into the farm-food market basket. The FARM-RETAIL SPREAD is the difference between the retail cost of the foods in the market basket and their farm value. It consists of all charges by marketing agencies for moving products from the farmer to the consumer, including those for assembling, processing, transporting, and distributing.

Revised September 1966

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RETAIL COST FOR MARKET BASKET, FARM VALUE, AND SPREAD



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 263BX - 66 (6) ECONOMIC RESEARCH SERVICE

Increase in Farm-Retail Spreads Keeps Retail Food Prices Up

Much of the time since World War II, retail prices of food products originating on American farms have been climbing slowly. But prices farmers receive for these products have been declining. Rising marketing charges have prevented retail food prices from declining with farm prices. In 1965, retail prices of farm-originated foods averaged 17 percent higher than in 1947-49. Their farm value, however, was 7 percent lower and farm-retail spreads were 41 percent wider.

In 1965, the farm values of the

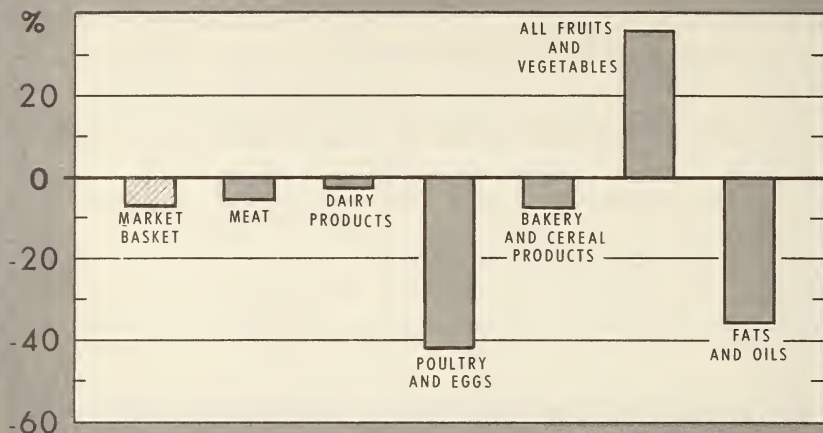
foods in the market basket averaged higher than in 1964, mainly because of rising prices for meat animals. Prices of meat animals rose because of a decrease in pork production, failure of beef production to keep pace with the growing population, and increases in consumer incomes.

Marketing spreads for meat declined, as frequently happens when prices of meat animals go up rapidly. This decline accounted for most of the decrease in the farm-retail spread in 1965.

For Market Basket of Farm Foods

CHANGE IN FARM VALUE OF FOODS

1947-49 to 1965



ANNUAL PURCHASES PER HOUSEHOLD BY URBAN WAGE EARNERS AND CLERICAL WORKERS IN 1960-61.

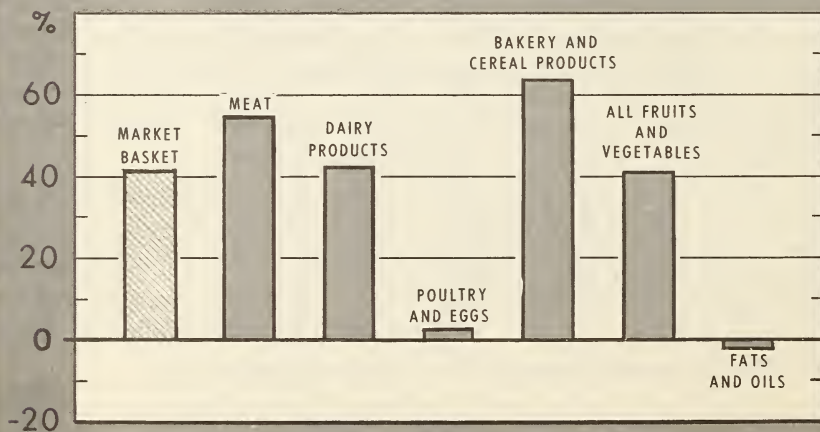
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For Market Basket of Farm Foods

CHANGE IN FARM RETAIL SPREADS

1947-49 to 1965

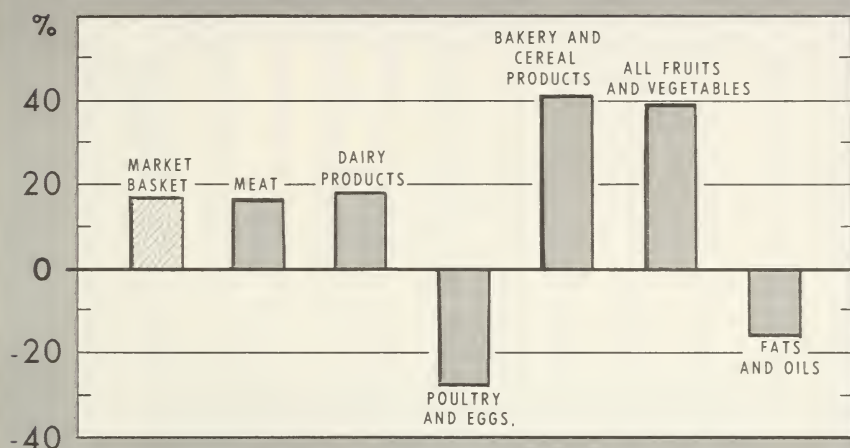


ANNUAL PURCHASES PER HOUSEHOLD BY URBAN WAGE EARNERS AND CLERICAL WORKERS IN 1960-61.

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CHANGE IN RETAIL COST 1947-49 to 1965



ANNUAL PURCHASES PER HOUSEHOLD BY URBAN WAGE EARNERS AND CLERICAL WORKERS IN 1960-61.

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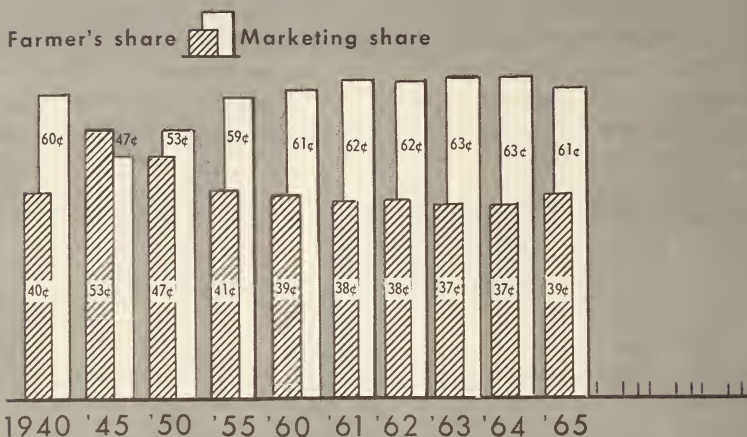
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Rise in Retail Cost of Most Food Product Groups

Farm values of all groups of products in the market basket except fruits and vegetables were lower in 1965 than in 1947-49. Decreases resulted partly from increases in quantities marketed relative to demand. Marketings increased most for the poultry and eggs and fats and oils groups, and least for the bakery and cereals, fruits and vegetables, and dairy

products groups. For most product groups, the reduction in the farm value was more than offset by an increase in the farm-retail spread. Thus, the retail cost was higher for each product group except poultry and eggs and fats and oils. The farm-retail spread decreased for fats and oils and increased only about 2 percent for poultry and eggs.

FARM AND MARKETING SHARES OF RETAIL FOOD DOLLAR *



* DATA FOR MARKET BASKET OF FARM FOODS BASED ON ANNUAL AVERAGE 1960-61 PURCHASES PER HOUSEHOLD.

U. S. DEPARTMENT OF AGRICULTURE

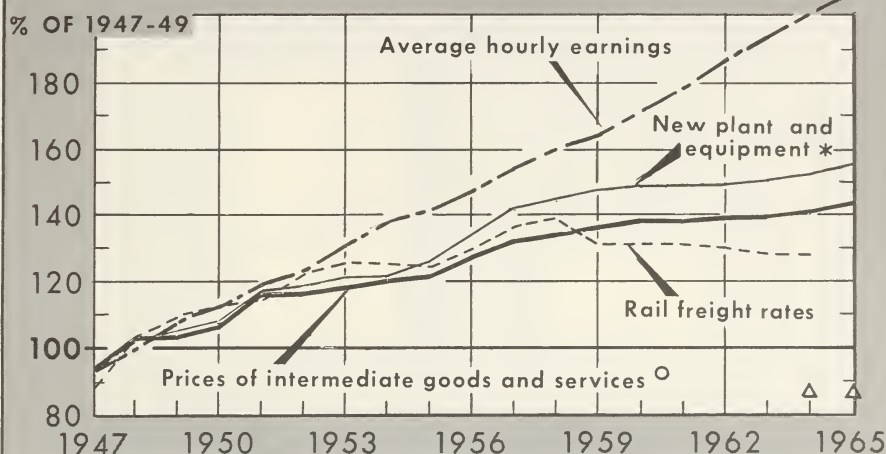
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Rising Marketing Charges, Declining Farm Prices Reduce Farmer's Share

Prices received by farmers for food products rose faster than marketing charges (farm-retail spreads) from 1940 to 1945, increasing the farmer's share of the retail food dollar. In 1945, farmers received a record 53 cents of the dollar spent by consumers for farm foods in retail food stores. But the almost steady climb in marketing charges and the downward trend in farm prices after

1948 reduced the farmer's share to 37 cents in 1963 and 1964. This share was the smallest since 1934, when the farmer's share was 34 cents. The increase in marketing charges did more to reduce the farmer's share than the decrease in his prices. The farmer's share increased to 39 cents in 1965 mostly because of higher prices for meat animals.

PRICES OF INPUTS USED BY FOOD MARKETING FIRMS



* WEIGHTED AVERAGE OF GNP IMPLICIT PRICE DEFLATORS FOR PRODUCERS' DURABLE EQUIPMENT AND NEW CONSTRUCTION, OTHER THAN RESIDENTIAL, DEPARTMENT OF COMMERCE.
 ○ FUEL, POWER, CONTAINERS, RENT, PROPERTY INSURANCE, ETC. △ PRELIMINARY.

U. S. DEPARTMENT OF AGRICULTURE

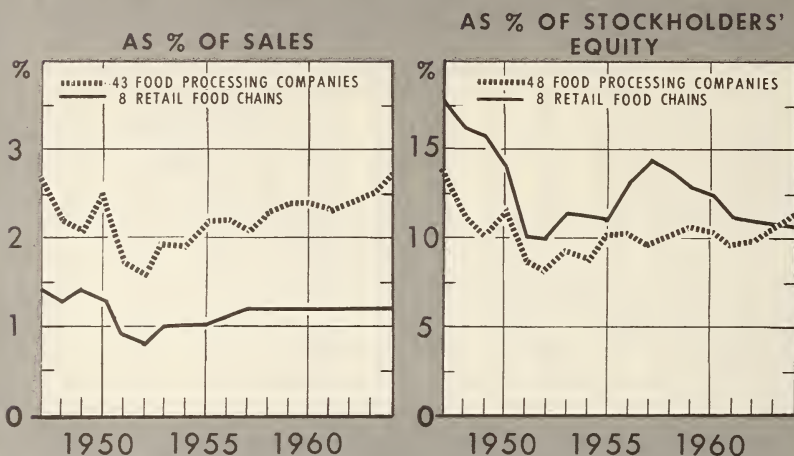
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Rising Prices of Inputs Cause Increase in Marketing Charges

Increases in marketing firms' costs have accounted for the rise in farm-retail spreads since World War II. Hourly earnings of employees have risen steadily. Prices of containers, packaging materials, fuel, and many goods and services used by marketing firms are much higher now than in 1947-49, although many prices have been relatively stable in recent years.

Rising prices of new plant and equipment have boosted marketing firms' depreciation charges. Transportation charges, interest rates, taxes, and many other costs have risen substantially. Though railroad freight rates for farm products have declined in recent years, their average level remains much higher than in the early postwar years.

PROFITS OF LEADING CORPORATIONS MARKETING FOOD PRODUCTS



PROFITS LESS TAXES ON INCOME.

DATA COMPILED FROM COMPANY ANNUAL REPORTS AND FINANCIAL PUBLICATIONS.

U. S. DEPARTMENT OF AGRICULTURE

NEG. ER5 2657-66 (6) ECONOMIC RESEARCH SERVICE

Profits as Percentage of Sales Up Since Early 1950's

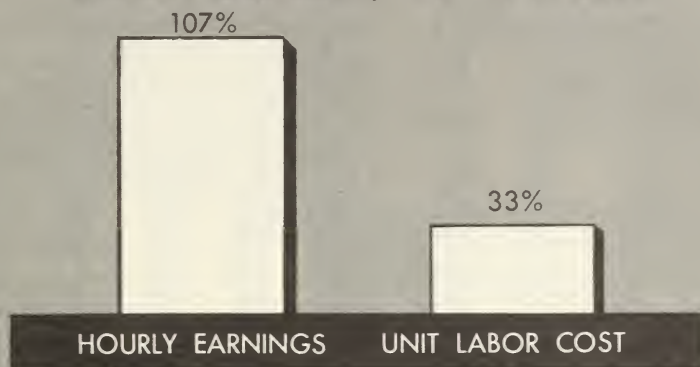
Leading corporations processing food products have had higher profit ratios in recent years than in the early 1950's, when profits declined sharply. After-tax profits of 43 food processing corporations averaged 2.5 percent of sales in 1961-64 compared with 1.8 in 1951-54. After-tax profits of these corporations and five others averaged 10.4 percent of stockholders' equity in 1961-64 compared with 8.7 in 1951-54.

Profits after taxes for eight leading retail food chains as a percent-

age of sales averaged the same each year from 1957 to 1964. However, their profits as a percentage of stockholders' equity decreased each year. During 1961-64, profits after taxes averaged 11.0 percent of sales and 10.4 percent of stockholders' equity, slightly more than in 1951-54.

Total profits of food marketing corporations before payment of taxes on income have made up 5 to 6 percent of the bill for marketing domestic farm foods in recent years.

UNIT LABOR COSTS RISE LESS THAN HOURLY EARNINGS, 1947-49 to 1965



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Increased Productivity Slows Rise in Marketing Charges

By improving efficiency, marketing firms have been able to make a profit without raising marketing charges as much as the increase in employees' average hourly earnings. Farm-retail spreads for farm-originated foods increased 41 percent from 1947-49 to 1965 as shown in the chart on page 3. Average hourly earnings, including fringe benefits, doubled during this period. However, increased output of marketing services per man-hour kept labor costs

per unit of product from rising more than a third. Gains in productivity resulted mainly from technological improvements in marketing facilities and in production and distribution practices, from increased skill and capability of management and workers, and from economies of scale. Increases in the proportion of higher skilled employees in the work force caused part of the rise in average hourly earnings.

INDEX OF MARKETING SERVICES

1940=100



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NEG. ERS 3589-66 (6) ECONOMIC RESEARCH SERVICE

Services Provided by Marketing System Increase More Than Employment

The total volume of services provided by marketing firms in assembling, processing, and distributing domestic farm-originated foods to civilian consumers in this country more than doubled from 1940 to 1965. This increase resulted from growth in the volume of products handled and from an increase in marketing services per unit of product. Much of the increase in services per unit came in the form of more meals eaten in restaurants and other eating places and more packaging, processing, and other marketing operations that provide conveniences and improve quality.

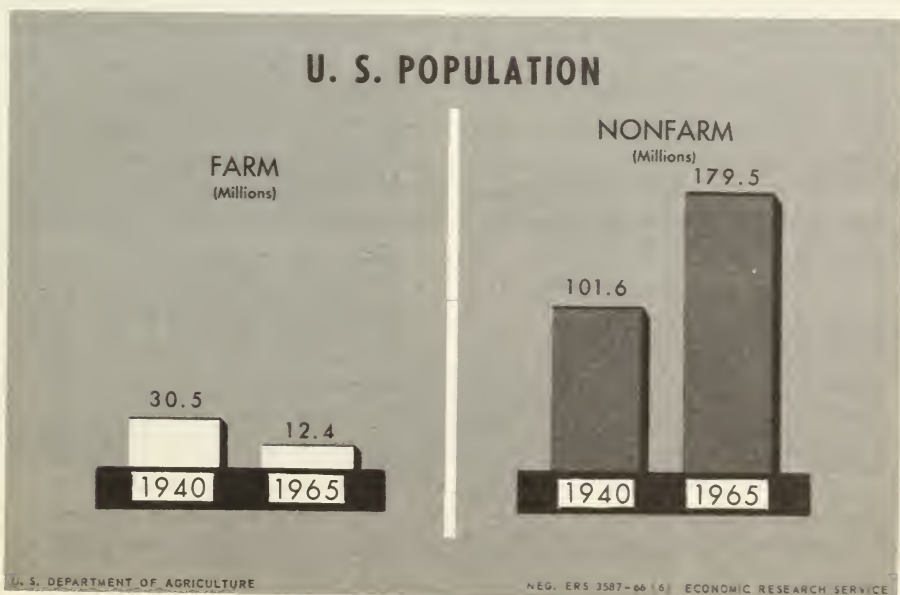
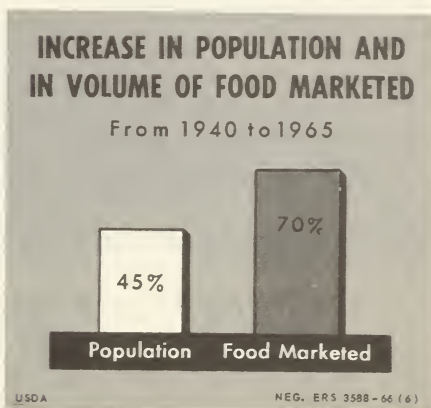
Not all services add to consumer costs. The extra cost of processing and packaging, for example, may be offset by reduction in waste and spoilage and in shipping and handling costs.

Although marketing services more than doubled, the number of persons employed by firms to provide these services increased by less than a third from 1940 to 1965. Moreover, hours worked per week decreased during this period. Improvements in the output of marketing services per man-hour kept employment from increasing as much as the volume of marketing services.

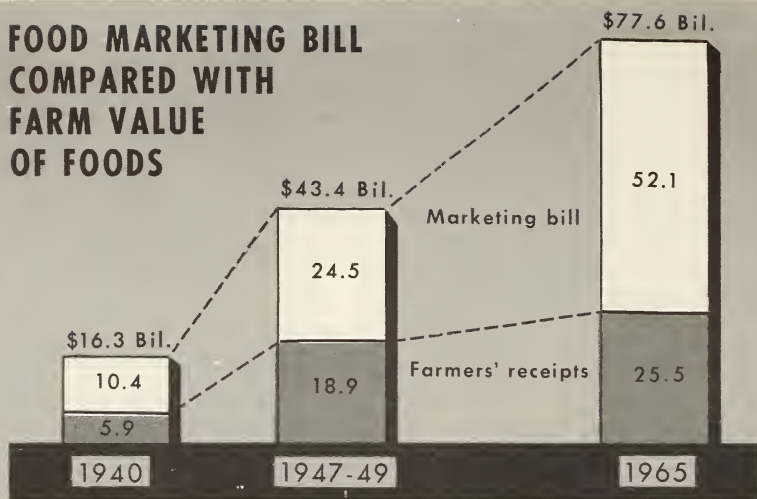
Quantity of Farm Food Marketed Increases More Than Population

The quantity of domestic farm foods sold to civilian consumers in this country increased 70 percent and the resident civilian population increased 45 percent between 1940 and 1965. Marketings increased relatively more than population, mainly because a larger proportion of the food products produced went through the marketing system. Movement of farm people to the city increased the proportion of food marketed, since these people bought much of the food they formerly produced on their farms. Moreover, both farm and non-farm people now buy a larger proportion of their food than they did before World War II. The

farm population decreased 18 million between 1940 and 1965, and the nonfarm population increased about 78 million.



FOOD MARKETING BILL COMPARED WITH FARM VALUE OF FOODS



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NEG. ERS 3586-66 (7) ECONOMIC RESEARCH SERVICE

National Farm Food Marketing Bill Up \$42 Billion

Not only have marketing costs per unit risen, but the volume of products handled has increased and more services have been provided by the marketing system. Consequently, the total bill for marketing domestic farm food products sold to civilian consumers in this country increased from approximately \$10 billion in 1940 to \$52 billion in 1965. Farmers' receipts from sales of

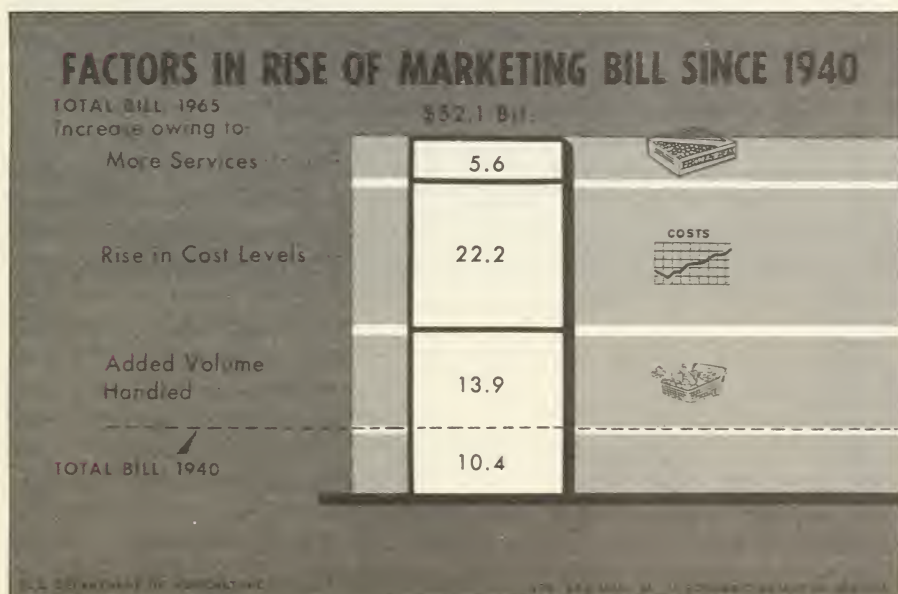
these products climbed from less than \$6 billion to more than \$25 billion, while consumer expenditures went from about \$16 billion in 1940 to about \$78 billion in 1965. During the last 10 years, 1956-65, the marketing bill and consumer expenditures increased each year, but in one of the years farmers' receipts dropped. They varied from \$19.2 billion in 1956 to \$25.5 billion in 1965.

The marketing bill includes all charges for marketing food products originating on American farms and sold to civilian consumers in this country. Food sold in restaurants and other eating places and that sold at less than retail prices is valued at the point of sale.

Rising Unit Costs Account for Half of Increase in Marketing Bill

The chart below shows factors that accounted for the increase of about \$42 billion in the marketing bill from 1940 to 1965. Charges for performing marketing operations rose 141 percent per unit of product marketed, and the volume of food marketed increased 70 percent. This increase in unit marketing charges resulted from the general rise in costs and profits since 1940. It is estimated that rising unit marketing

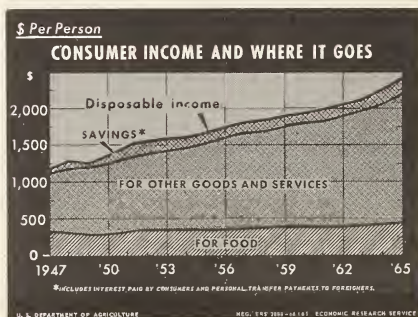
charges accounted for approximately \$22 billion, and expanding volume for \$14 billion of the rise in the marketing bill. The remaining \$6 billion represents payments made by consumers for increases in marketing services per unit of product handled. Increased services include more meals eaten away from home, more processing, transportation, refrigeration, and packaging.



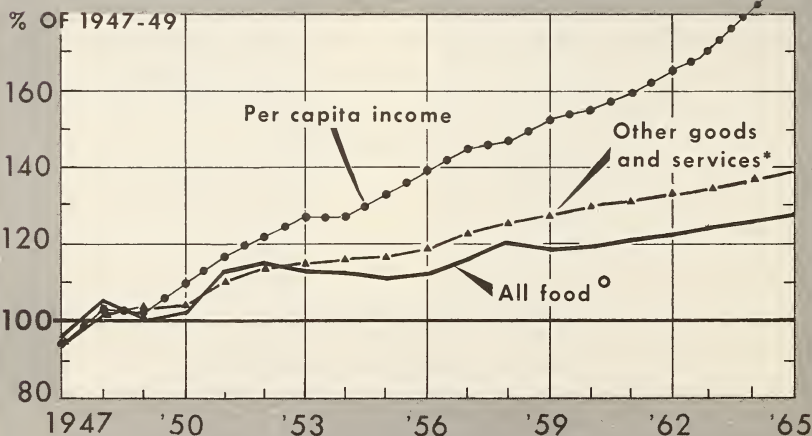
Consumers Spend Decreasing Share of Income for Food

Consumers spent \$439 per person for food in 1965, up 43 percent since 1947-49. But the 1965 expenditure represented slightly more than 18 percent of their disposable income, compared with 25 percent in 1947-49. Thus, the food bill did not rise as much as disposable income, although consumers shifted to more expensive foods and bought more marketing services. Retail food prices did not increase as fast as disposable income per person. Expenditures for other goods and services per person increased at a faster rate than food expenditures, partly because retail prices of those items went up more than food

prices. Retail food prices increased less, mainly because of decreases in prices received by farmers.



CONSUMER PRICES AND DISPOSABLE INCOME PER CAPITA



*BLS INDEX OF RETAIL PRICES OF ALL ITEMS LESS FOOD.

°BLS RETAIL FOOD PRICE INDEX INCLUDING MEALS EATEN AWAY FROM HOME.

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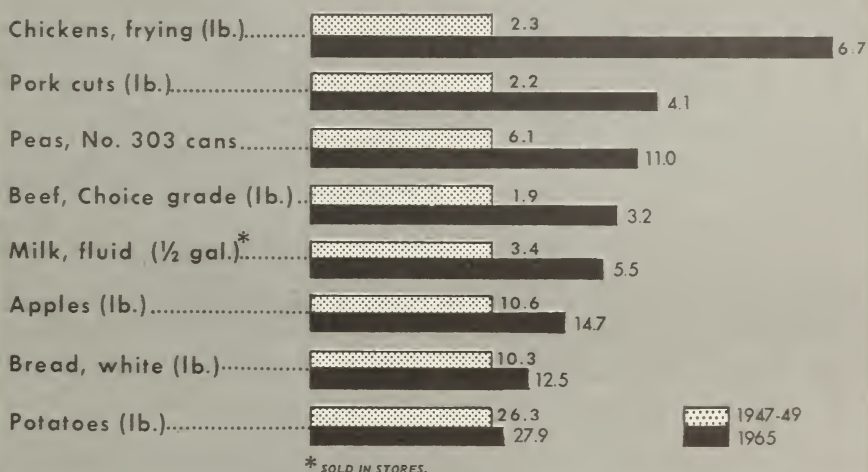
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An Hour's Labor Buys More Food

Wages have risen at a faster rate than retail food prices since World War II. Thus, with an hour's wages a factory worker could buy more of most foods

in 1965 than he could in 1947-49. He could, for example, buy 3.2 pounds of beef in 1965, compared with an average of 1.9 pounds in 1947-49.

QUANTITIES OF FOOD 1 HOUR OF FACTORY LABOR WILL BUY 1947-49 and 1965



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 3578-66 (6)

ECONOMIC RESEARCH SERVICE

OTHER EXAMPLES OF TODAY'S INCREASED MARKETING SERVICES

More resources used in maintaining and improving quality and in developing new products to satisfy consumer taste.



Consumers eat more meals away from home.



More foods are being packaged-- many in more convenient and quality-maintaining packages.



Many more products now require less home preparations.



