UNITED STATES DEPARTMENT OF AGRICULTURE

PROGRAM

34th ANNUAL NATIONAL AGRICULTURAL OUTLOOK CONFERENCE

Program
34th Annual National

November 26-29, 1956
Washington 25, D. C.

Agricultural Marketing Service
Agricultural Research Service
Commodity Stablization Service
Foreign Agricultural Service
Forest Service
and
Federal Extension Service Cooperating

AEP-240 (11-56)

November 26-29, 1956

MONDAY (November 26) MORNING

(Thomas Jefferson Auditorium - South Building)

C. M. Ferguson, Administrator
Federal Extension Service, Chairman

9:00	Registration	
9:30	Opening of Conference	C. M. Ferguson, FES
9:45	World Outlook	Clarence B. Randall Special Consultant to the President P.R. + address
10:15	Discussion	
10:30	Intermission	
10:45	Problems of Economic Policy	Herbert Stein Acting Director of Research Committee for Economic Development P.R. + address
11:15	Discussion	
11:30	General Economic Outlook for 1957	Nathan M. Koffsky, Chief Farm Income Branch, AMS
12:00	Discussion	
12:30	Lunch	

MONDAY (November 26) AFTERNOON

(Thomas Jefferson Auditorium - South Building)

Bushrod W. Allin, Chairman of
Outlook and Situation Board, AMS, Chairman

2:00	Outlook for Agricultural Exports and Foreign Demand	Clayton E. Whipple Deputy Administrator, FAS
2:40	Discussion	
2:55	Family Living Outlook	Gertrude S. Weiss, Chief Household Economics Research Branch, ARS
3:25	Discussion	
3:40	Intermission	
3:50	Agricultural Outlook for 1957	Fred V. Waugh, Director Agricultural Economics Division, AMS
4:20	Discussion	
5:00	Adjournment	

AEP-240 (11-56)

TUESDAY (November 27) MORNING

(Thomas Jefferson Auditorium - South Building)

Longer-Term Outlook

Omer W. Herrmann, Deputy Administrator
Marketing Research and Statistics, AMS, Chairman

9:15	Trends in Consumer Demand	James P. Cavin, Chief Statistical and Historical Research Branch, AMS
9:45	Trends in Production, Costs, and Technology	Carl P. Heisig, Chief Production Economics Research Branch, ARS
10:15	Trends in Marketing Costs and Practices	Kenneth E. Ogren, Head Marketing Information and Statistical Section, AMS
10:45	Discussion	
11:00	Agriculture and Economic Growth	O. V. Wells, Administrator Agricultural Marketing Service
11:30	Discussion	
12:15	Lunch	

TUESDAY (November 27) AFTERNOON

Commodity Outlook Sessions for Producers, Handlers, and Consumers

1:30 - 4:15* Feed, Livestock and Meat - Thomas Jefferson Auditorium
J. B. Claar, FES, Chairman
Outlook Statement: Harold F. Breimyer, AMS
Malcolm Clough, AMS

4:20 - 5:20 Grass and Legume Seeds - Room 331 W. Administration Building
T. E. Hall, FES, Chairman
William H. Youngman, FAS, Outlook Statement

4:20 - 5:20 Forest Products - Room 3106 South Building
M. M. Bryan, FS, Chairman
Horace R. Josephson, FS, Outlook Statement

4:20 - 5:20 Peanuts - Room 3115 South Building
W. E. Jones, CSS, Chairman
George W. Kromer, AMS, Outlook Statement

5:20 Adjournment

5:30 State Specialists Dinner - 4th Wing Cafeteria
South Building

* Sessions formally end at this time but conference room will be free for those who wish to continue the discussion.

TUESDAY (November 27) AFTERNOON

(Freer Art Gallery Auditorium -
Entrance on Independence Avenue)

Family Living Sessions

1:30 - 4:30 Outlook for Consumer Goods
Starley M. Hunter, FES, Chairman

Durable Goods	L. Jay Atkinson Office of Business Economics Department of Commerce
Clothing and Textiles	Harry Kahan Bureau of Labor Statistics Department of Labor
Food	Harry Sherr Agricultural Economics Division, AMS
Trends in Farm Family Food Practices	Mollie Orshansky Household Economics Research Branch, ARS

4:30 Adjournment

5:30 State Specialists Dinner - 4th Wing Cafeteria
South Building

WEDNESDAY (November 28) MORNING

(Freer Art Gallery Auditorium)

Family Living Sessions

9:30 - 12:30 Consumer Credit
Gertrude S. Weiss, ARS, Chairman

Trends in Consumer Credit	Margaret L. Brew Household Economics Research Branch, ARS
Who Uses Consumer Credit?	Emma G. Holmes Household Economics Research Branch, ARS
The Cost of Installment Credit to the Consumer	Robert Johnson Assoc. Professor of Finance University of Buffalo

Panel: Impact of Consumer Credit on the Economy and the Family

Nathan Bailey	Dean, School of Business Administration American University
Allan Fisher	Director of Legal Aid Bureau of District of Columbia
Robert Johnson	Assoc. Professor of Finance University of Buffalo
Loughlin F. McHugh	Office of Business Economics Department of Commerce
Dorothy Thomas	Director of Case Work Services, Family and Child Services of Washington, D.C.

12:30 Lunch

WEDNESDAY (November 28) AFTERNOON

(Freer Art Gallery Auditorium)

Family Living Sessions

2:00 - 3:30 Economic Principles of Outlook
Frances Scudder, FES, Chairman

Implications of Outlook for Family Living	Starley M. Hunter Division of Home Economics Programs, FES

Panel: Methods of Using Outlook

Susan Christian	Florida State University
Patricia Middleton	University of Delaware
Mabel Spray	Ohio State University
Lila Dickerson	State College of Washington

4:00 - 6:00 Housing Supplies - National Housing Center, 1625 L St., N.W.

WEDNESDAY (November 28) MORNING

Commodity Outlook Sessions for Producers, Handlers, and Consumers

9:15 - 11:00* Dairy - Thomas Jefferson Auditorium
Max K. Hinds, FES, Chairman
Herbert C. Kriesel, AMS, Outlook Statement

11:05 - 12:30* Fats and Oils (Special Emphasis on Soybeans) - Room 3106 South Building
Karl G. Shoemaker, FES, Chairman
George W. Kromer, AMS, Outlook Statement

11:05 - 12:30* Fruits and Tree Nuts - Room 218 Administration Building
Lloyd H. Davis, FES, Chairman
Ben H. Pubols, AMS, Outlook Statement

11:05 - 12:30* Rice - Room 5860 South Building
J. A. Satterfield, CSS, Chairman
Robert E. Post, AMS, Outlook Statement

12:30 Lunch

WEDNESDAY (November 28) AFTERNOON

Commodity Outlook Sessions for Producers, Handlers, and Consumers

2:00 - 3:30* Poultry - Thomas Jefferson Auditorium
Homer S. Porteus, FES, Chairman
Edward Karpoff, AMS, Outlook Statement

3:35 - 5:15 Vegetables & Potatoes - Room 218 Administration Building
R. L. Childress, FES, Chairman
Will M. Simmons, AMS, Outlook Statement

3:35 - 4:45 Sugar - Room 4966 South Building
Lawrence Myers, CSS, Chairman — [not published]

5:15 Adjournment

* Sessions formally end at this time but conference room will be free for those who wish to continue the discussion.

THURSDAY (November 29) MORNING

Commodity Outlook Sessions for Producers, Handlers, and Consumers

9:15 - 12:30* A Resume of the Outlook for Producers, and the Outlook for Consumers (By commodities and a discussion of the use of consumption data in consumer marketing programs) - Thomas Jefferson Auditorium

Sharon Q. Hoobler, FES, Chairman

Outlook Statement: Harold F. Breimyer, AMS
Edward Karpoff, AMS
Herbert C. Kriesel, AMS
Will M. Simmons, AMS
Ben H. Pubols, AMS
Malcolm Clough, AMS
Frank Lowenstein, AMS
Marguerite C. Burk, AMS

9:15 - 11:00* Wheat - Room 3106 South Building

T. E. Hall, FES, Chairman

Robert E. Post, AMS, Outlook Statement

9:15 - 11:00* Tobacco - Room 331 W. Administration Building

S. E. Wrather, AMS, Chairman

Arthur G. Conover, AMS, Outlook Statement

11:05 - 12:30* Cotton - Room 509 Administration Building

E. P. Callahan, FES, Chairman

Frank Lowenstein, AMS, Outlook Statement

12:30 Lunch

* Sessions formally end at this time but conference room will be free for those who wish to continue the discussion.

THURSDAY (November 29) AFTERNOON

(Thomas Jefferson Auditorium - South Building)

Francis A. Kutish, Iowa State College, Chairman

1:45 - 2:00	A World Outlook Service	Dr. Henry C. Taylor Former Chief of BAE, USDA
2:00 - Panel:	The General Economic Situation	
	State Department	John W. Evans, Deputy Director Office of Intelligence Research
	Labor Department	Aryness J. Wickens Deputy Commissioner Board of Labor Statistics
	Agriculture Department	O. V. Wells, Administrator, AMS
		Sherman Johnson, Director Farm and Land Management Research, ARS
	Federal Reserve System	Woodlief Thomas Economic Advisor
4:00	Outlook's Challenge	P. V. Kepner Deputy Administrator, FES
4:30	Adjournment	

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

TRENDS IN MARKETING COSTS AND PRACTICES
- The Longer Term Outlook -

Talk by Kenneth E. Ogren
Marketing Research Division
at the 34th Annual Agricultural Outlook Conference
Washington, D. C., November 27, 1956

The outlook for marketing costs in the coming year is a continuation of the steady rise of recent years. On the basis of past experience and present economic indications, no early reversal of this trend can be foreseen.

With respect to the longer term outlook for marketing costs, the following projections seem likely:

1. Services performed by the marketing system in getting products from the farm to the consumer in the time, form, and place desired will increase relative to services performed by farmers in producing the raw materials needed.

2. The number of workers employed in the processing and distribution of farm products, as well as the total resources used by marketing firms, will increase relative to workers and resources in agriculture.

3. The total costs for processing and distributing farm products will increase relative to agricultural production costs. Or, stated in more familiar vernacular, marketing costs will make up an increasing share of the consumer's dollar.

If we assume an expanding economy with rising real incomes, as Mr. Cavin has projected for us this morning, none of these propositions should be startling. With higher incomes and further technological advances, services that consumers want and get with their food products are likely to increase at a faster rate than farm inputs in the form of raw materials going into these foods.

My discussion and charts this morning are primarily about food, not only because more data are available for food products but because these products account for 80 to 90 percent of agriculture's returns from farm products sold to domestic civilian consumers. Also, a note on terminology. My use of "marketing" includes all processing, distribution, transportation, and other services performed after sale of agricultural products by farmers. In other words, it is an "institutional" separation by agriculture and nonagricultural groups rather than on a strictly functional basis.

More Marketing Services

A precise quantitative measurement of marketing services is not available. But, with the increasing importance of processed and prepared foods, purchased meals, and the general trend towards an "urbanized"

economy, there is not much doubt about the growing importance of these services. These added services have been a major factor in maintaining food expenditures at around one-fourth of consumer income over the last two decades.

In a recent AMS study of the long-run demand for farm products, the demand for services was estimated to be around five times as responsive to changes in income as the demand for food products at the farm level. 1/ Increases in per capita real income of 50 percent or more by 1975 were projected in this study. Substantial increases both in workers and resources will be needed to provide the additional marketing services indicated by projected increases in incomes and population.

Except for the depression in the early 1930's, the number of workers in marketing food have increased steadily while the number in agriculture have shown an almost continuous decline (fig. 1). The number of workers in marketing is likely to continue to increase, with a rise of one-third to one-half possible by 1975. With continued increases in productivity, the number of workers in agriculture is likely to be less in 1975 than at the present time.

Note that the lines on this chart are index numbers and are not comparable in terms of actual numbers. In marketing, only food is included — estimates based on census data indicate that more than 5 million workers are engaged in the processing and distribution of food products with at least 10 million for all farm products. These are equivalent full-time workers. The number of workers in marketing agricultural products now exceeds that in agriculture by several million, but direct comparisons cannot be made from available series.

The next chart compares dollars going to marketing agencies for processing and distributing food with dollars going to agriculture (fig. 2). The food-marketing bill has increased steadily since the mid-1930's while agriculture's share, as is typical, has fluctuated more. If we smooth out the peaks in the agriculture line that are associated with World War II and the Korean conflict, we have a pattern of the marketing bill increasing relative to farmers' returns. In 1955, the proportion of consumers' farm food expenditures going to agriculture was less than in any year since the early 1930's. In this chart I am using estimates that involve all marketing services between the farm and the consumer, including those for meals eaten away from home. It is not the usual marketing-bill measurement of farm-to-retail-store charges that may be familiar to some of you.

With workers and services in marketing increasing relative to those in agriculture, we can expect total returns to marketing agencies to increase relative to total returns to farmers. Projections to 1960 indicate that the marketing total may increase another 6 or 7 billion dollars, or about 20 percent over the 1955 level of 32.5 billion dollars. This assumes that marketing costs per unit of product marketed may continue to rise by the

1/ Daly, Rex F., "The Long-Run Demand for Farm Products," Agricultural Economics Research, VIII. 3:73-91, July 1956.

current rate of 1 to 2 percent per year, that volume of food products marketed will increase by a total of 8 to 9 percent between 1955 and 1960, and that some additional costs will come from increased services. The 1955 figure of 18.3 billions to agriculture would not rise much above 20 billion unless there were marked changes in the level of farm prices.

Many of you are in the forecasting business in one way or another, so I need not worry that you will be too impressed with the sanctity of any of these projections. The more significant part of this longer term outlook for more services, more resources, and more dollars for marketing is a recognition of the dynamic factors in our economy that cause these changes and resulting adjustments that affect both agriculture and marketing.

Population Growth and Suburbanization

Population growth is always a key factor, as it increases the overall demand for marketing services and the facilities and resources needed. But changes in the composition of our population are of special significance to marketing. Between 1940 and 1955 the total population increased 25 percent with nonfarm population rising over 40 percent and the farm population shrinking 23 percent (fig. 3). The gain in the nonfarm population was primarily responsible for a 43 percent increase in the volume of farm food products going through the marketing system. Farm families get a sizable proportion of their food supply from their own production and for the food they do buy generally less processing and packaging is used. But people on farms are increasing their food purchases and also buying more services with their food.

"Suburbanization" is the most striking development of our population growth in recent years. Between 1950 and 1955, practically all of the 12 million growth in population was accounted for by the gain in the population of the 168 standard metropolitan areas. Population in the central cities of these metropolitan areas increased 2 million, or 4 percent; the areas outside the central cities -- the suburbs -- increased by more than 9 million, or 28 percent. These suburban areas have required new stores and other facilities with large investments. Indirectly, these developments have probably provided the greatest stimulus to the rapid growth of modern supermarkets, large mechanized warehouses, and other facilities that at the same time have made obsolescent many of the existing facilities in areas of little population growth.

These trends toward suburban living have been accelerated during recent years and there is every reason to expect that these population shifts will continue.

Technology

Technological developments in food processing and distribution by their very nature are almost impossible to predict over any long period. But as they do have profound effects on agricultural production and consumer demand as well as marketing, the potential effects of technological innovations need continual appraisal. One of these is radiation sterilization for preserving perishable foods. Like many other potential developments, it may seem quite remote at present but, if perfected, it would have far-reaching effects.

The rapid growth of the frozen food industry has been sparked by technological developments as well as greater consumer demand for processed foods. As shown in the chart, fruits and vegetables constituted the major part of the industry output following World War II (fig. 4). Beginning in 1949, citrus juice concentrates, principally orange juice, gave a big push to the industry. Recently the most rapid increase has been in prepared foods, which includes a wide variety of foods such as poultry and meat potpies, frozen potato products, and frozen prepared dinners. A sizable proportion of poultry is frozen but relatively little red meat. However, a large expansion in the freezing of red meats is possible over the next few years which, if realized, would have special implications for livestock producers, meat packers, and retailers as well as all parts of the frozen food industry. 2/

Marketing Practices and Institutions

Food retailing is one of the many segments of our economy going through a significant metamorphosis. Data now available from the 1954 census provide some striking comparisons. Retail food stores are getting larger. In fact, the average size increased so much that despite the large increase in total sales between 1948 and 1954 the number of stores declined more than 20 percent (fig. 5). The number of grocery stores with annual sales of over 1 million dollars more than tripled between 1948 and 1954. These large stores were still less than 2.5 percent of the total number of grocery stores in 1954 -- 6,000 out of 270,000 -- but they accounted for almost one-third of total sales. Average sales per retail store (deflated for price change) increased more than two and one-half times between 1939 and 1954, with a large part of that increase occurring between 1948 and 1954 (fig. 6). The number of workers in grocery stores increased over this 15-year period but sales per worker were up by more than 50 percent (fig. 7).

These trends are likely to continue. Large potential growth exists both in the average volume per store and sales per worker. The average sales volume of $123,000 per store in 1954 was only a fraction of the annual sales of a typical supermarket. The supermarket will be, even more than today, the predominant outlet for farm produce.

Mergers in recent years have speeded up the growth in size of food retailing firms. A trade paper reported that during last year through mergers 30 grocery companies acquired 1,610 stores mostly supermarkets. Chain stores, however, do not seem to be taking a significantly larger share of the grocery business. Many independents have met chain-store competition by joining wholesaler groups that give them the advantages of large-scale buying. Both chains and these wholesaler groups to an increasing extent either process their own products or contract for processing under their own private brands. Thus, the market for farm products will be increasingly concentrated among a smaller number of firms.

2/ A comprehensive review of the outlook for frozen foods is given in the current Outlook Issue of The Marketing and Transportation Situation, MTS-123, pp. 17-43.

The merchandising practices of many of these retailing firms together with their large sales volume require the delivery week after week of large lots of produce of a uniform quality. To help them accomplish this, some of these large firms have been making increasing use of Federal inspection services and grades. The need for larger lots of farm products will favor the larger production areas which often are far from major consuming centers over fruit and vegetable farmers and other farmers in nearby market areas.

Changes in the structure of the food processing industry also are likely to have impacts on marketing and agriculture. Plants are increasing in size; economies of scale have been the principal stimulus. Over the last decade processors have made large investments in plant and equipment (fig. 8). Investments were especially large during 1947 to catch up after World War II but they have remained at the high level of around 3/4 billion (in 1955 dollars) in recent years.

The wider application of automatic machinery may accentuate the trend toward larger plants. This will increase the need for a large volume and steady flow of raw materials within an area of relatively low transportation costs. In some cases this may lead to more processor control over production of raw materials through farm ownership or more closely supervised contracts with growers.

Costs and Productivity

To many observers it may seem that the marketing system is running faster and faster but losing ground all the while. From 1952 through 1955, the general price level, as measured by the Wholesale Price Index, was stable; however, unit marketing costs (gross marketing margins), as measured by the "market-basket" price-spread series, increased from 1 to 2 percent each year. Actually, the sliding off of prices of the raw material subgroups of the WPI was what kept this index, as well as the Consumer Price Index, relatively stable. The components of the WPI for articles bought by marketing firms, such as paperboard and paperboard products, metal and glass containers, machinery and motor vehicles, and other manufactured or semimanufactured articles, have increased steadily. This trend is shown by the line "other costs" in chart 9. Considering the rise in prices of factors used by marketing firms, the average annual rise in unit marketing costs of 1 to 2 percent in recent years is relatively small (fig. 9). Most of the sharp decline in the farmer's share of the consumer's food dollar which has received so much attention was the result of lower farm prices rather than higher marketing costs.

In projecting an increase of some 20 percent in the food marketing bill over a 5-year period, I assumed a continued gradual increase in unit marketing costs. The actual changes are obviously going to be tied to trends in the general price level. Even with a fairly stable price level, however, it would appear that the pressure on marketing margins and costs will be mostly upward. Marketing margins have been traditionally inflexible in comparison with farm-product prices. Higher taxes, higher depreciation charges on plant and equipment, wage contracts, minimum wages, and occasionally

guaranteed annual wages are all contributing to less flexibility in the costs making up these margins. Nearly all transportation charges were increased this year, with new increases in rail freight rates of up to 22 percent now being petitioned by most of the nation's railroads. Hourly earnings of food marketing employees have been increasing steadily by 4 or 5 percent annually, in addition to increased fringe benefits, and may continue to increase at that rate. (Wages in the textile industries have not kept pace with the food industries, partly because of the less favorable demand for these products and associated regional "recessions.") Not all parts of the food industry are likely to be able to offset these increases by greater productivity. The prospect for continued cost increases adds to the pressure for replacing outmoded and obsolescent facilities and equipment, although replacement of them adds to depreciation costs and the investment cost structure.

Productivity changes in marketing are difficult to measure precisely. Because of the higher proportion of personal services in retailing, it may be reasonable to assume that productivity may lag somewhat behind that in the agricultural and manufacturing segments of our economy. However, an earlier chart on retailing pictured a substantial increase in sales per retail worker. The number of workers in food processing, according to census figures, has remained almost constant over the last 5 years, with a large increase in food processed. We see by the next chart that labor costs per unit of product marketed have increased by a considerably slower rate than wage rates (fig. 10). Furthermore, the data, although not conclusive, point to a relatively greater increase in labor output in recent years than in the immediate postwar period. This may represent in part the cumulative effect of large postwar investments. But this may be offset in part by higher capital expenses. Data available from the Commerce Department indicate that capital consumption allowances (mainly depreciation charges) represent an increasing share of corporate gross product. (Data are for all corporations, not just food-marketing firms.)

I have given this morning a broad sweep of several factors that are likely to affect the longer term outlook for marketing costs and practices. Many others have been left out. Inadequate historical data in some cases make predictions of the future impossible. Nevertheless, we can be certain of changes that will create problems, some of which may be solved by research workers and others which may involve policy decisions outside both the area of research and managerial decisions. Through an organized and continuing appraisal of the marketing situation, however, we should be able to provide information to farmers, marketing agencies, and consumers as well as public policy groups that will facilitate and expedite adjustments to these changes in an expanding economy.

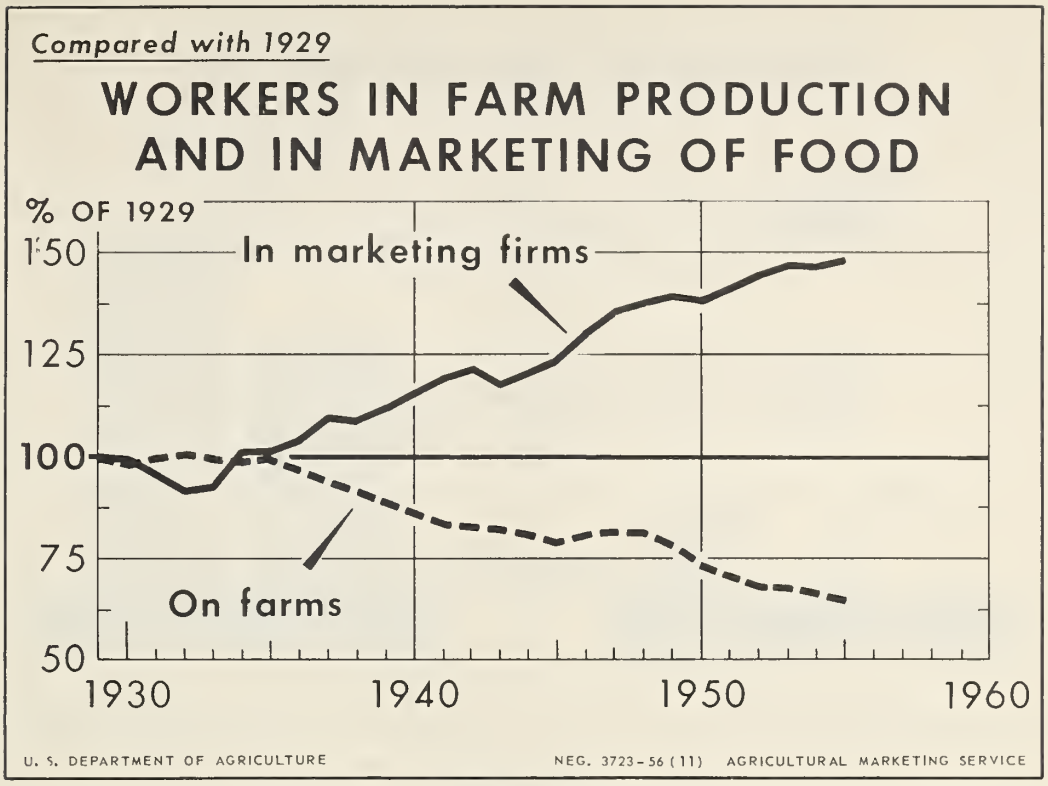

Figure 1.

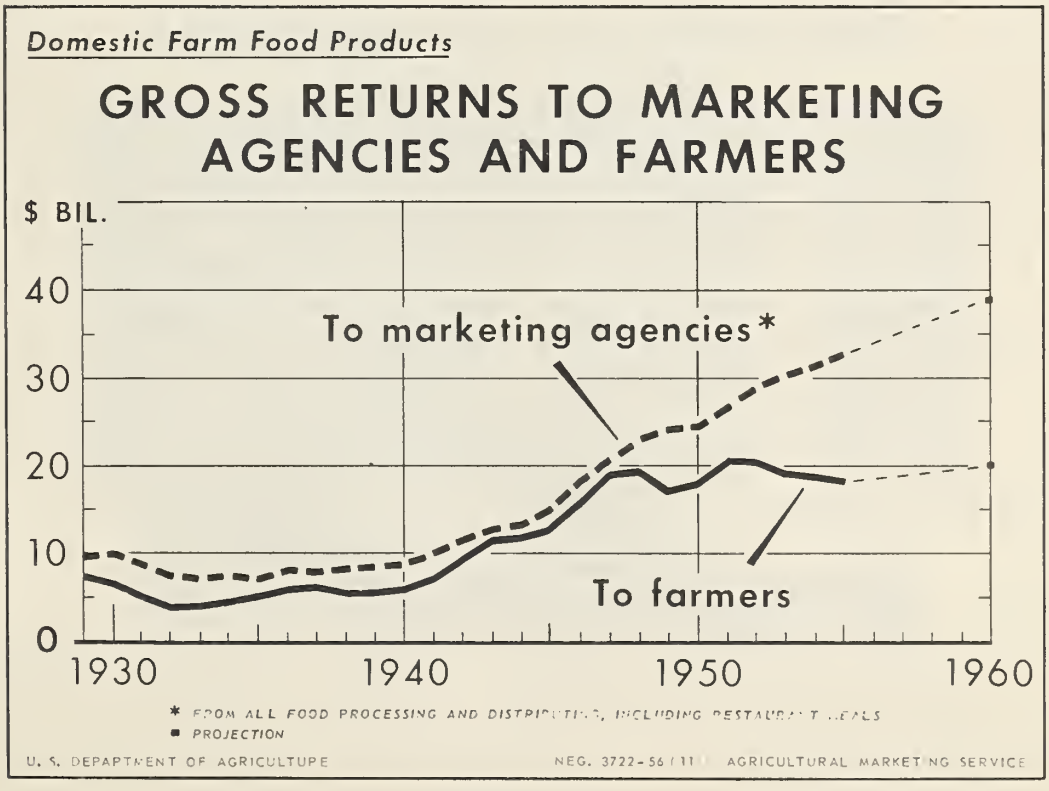

Figure 2.

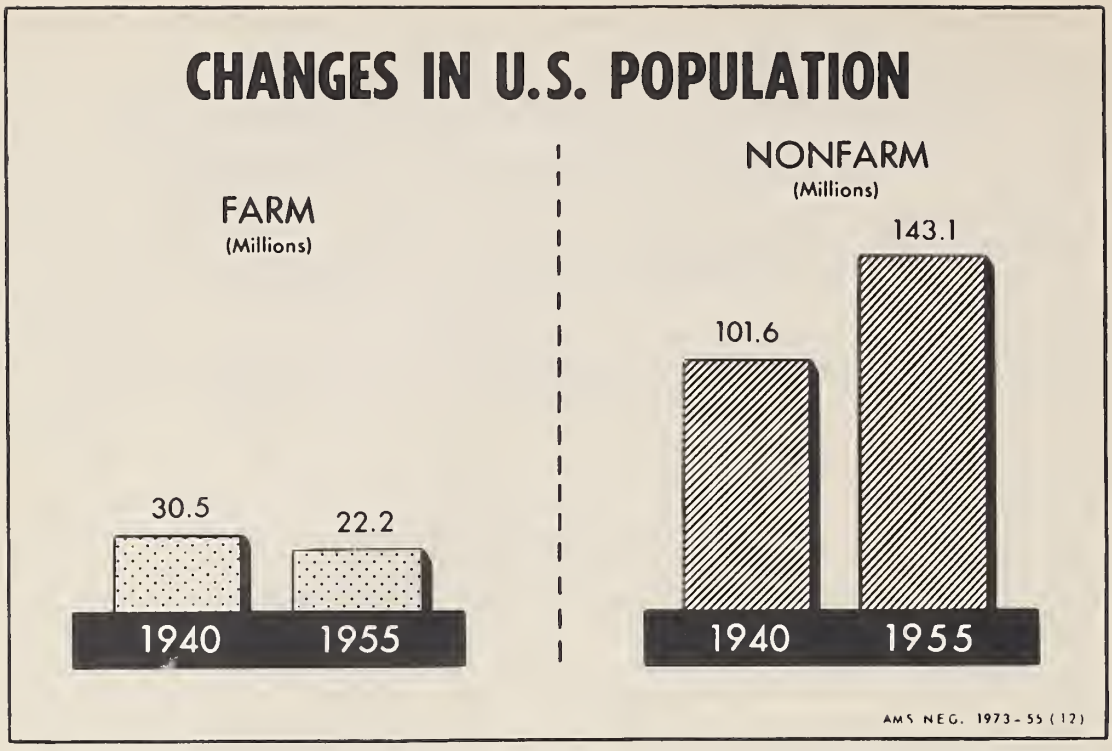

Figure 3.

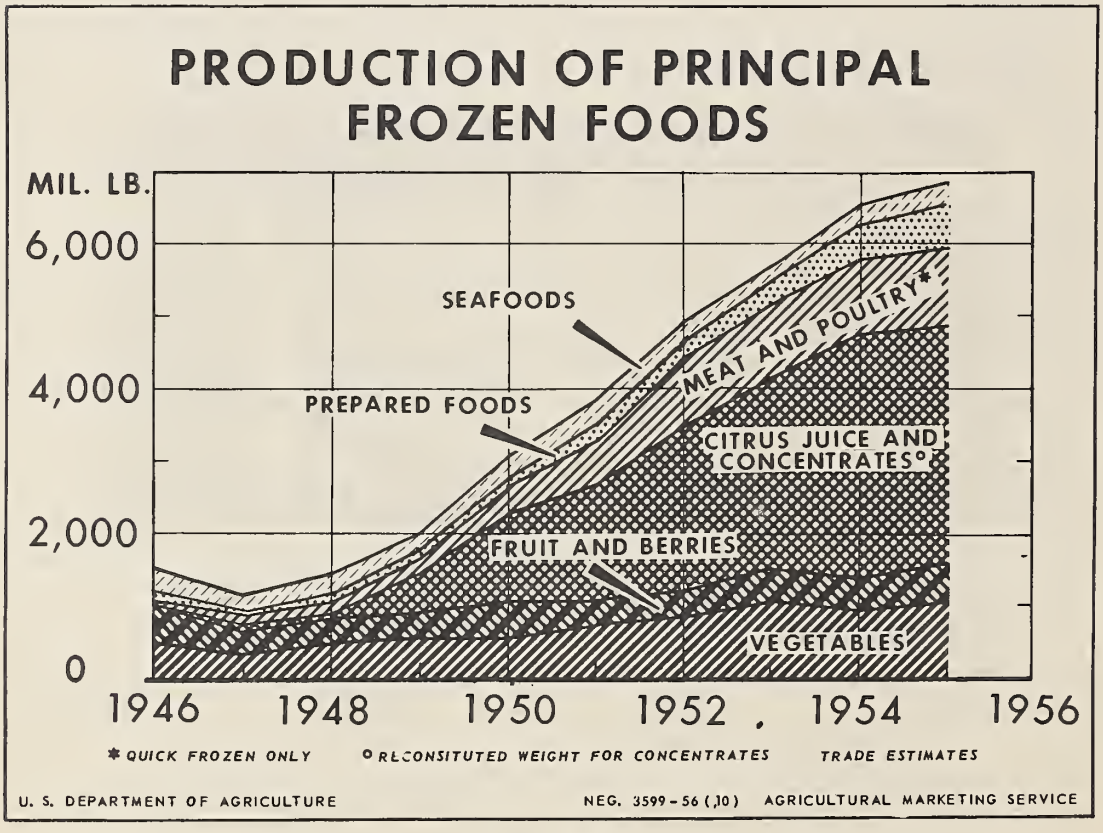

Figure 4.

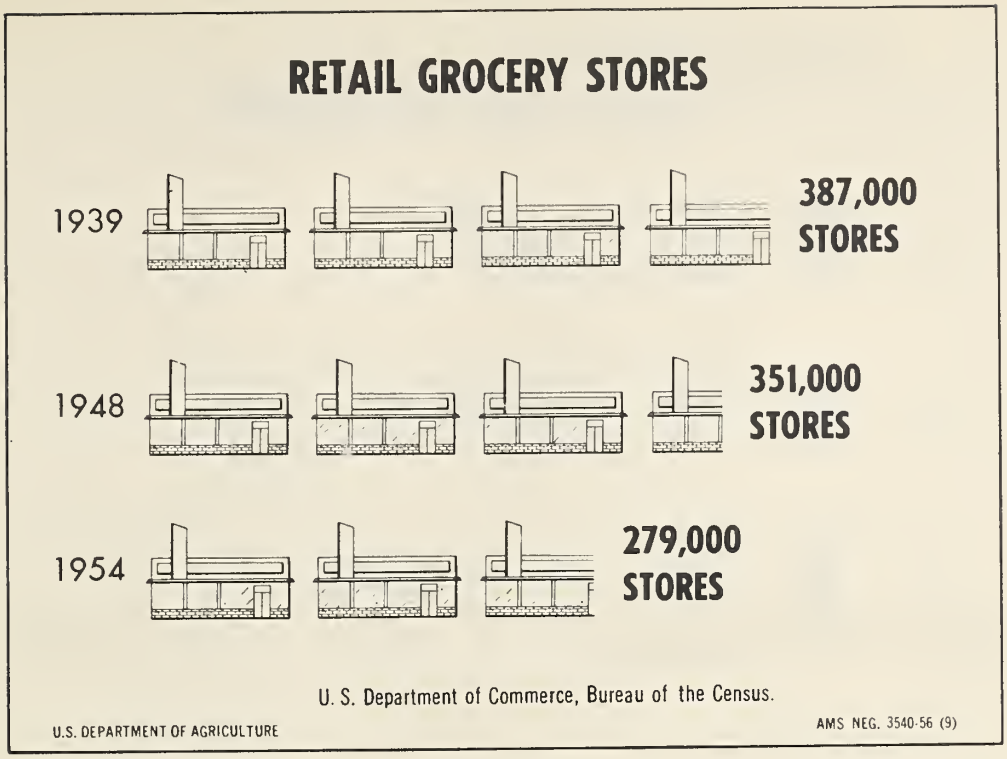

Figure 5.

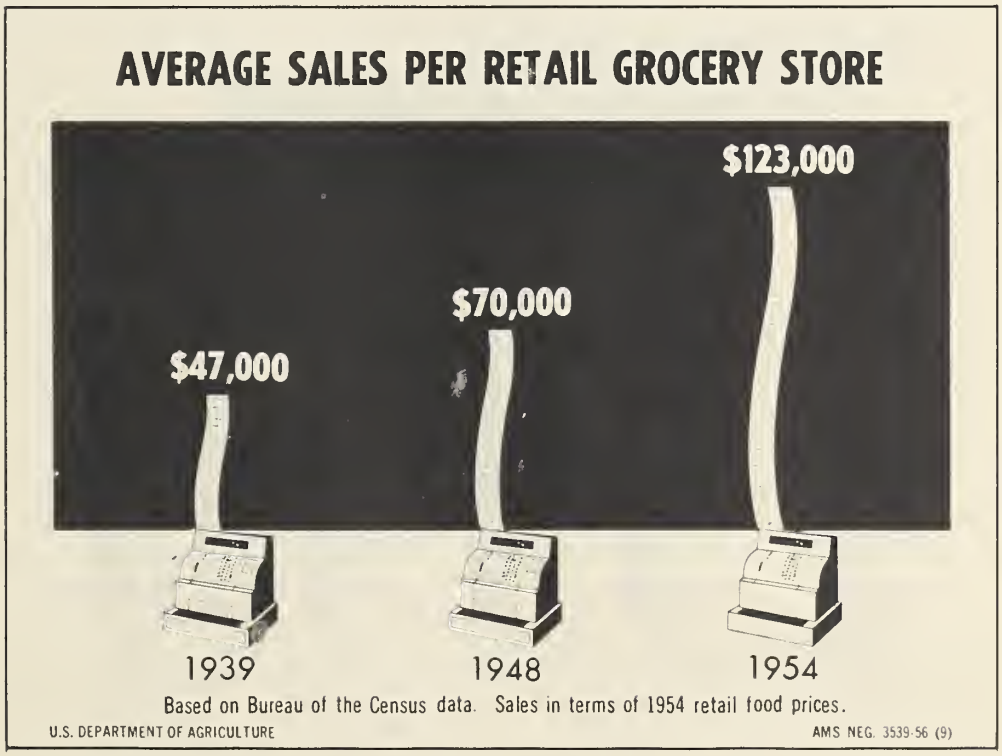

Figure 6.

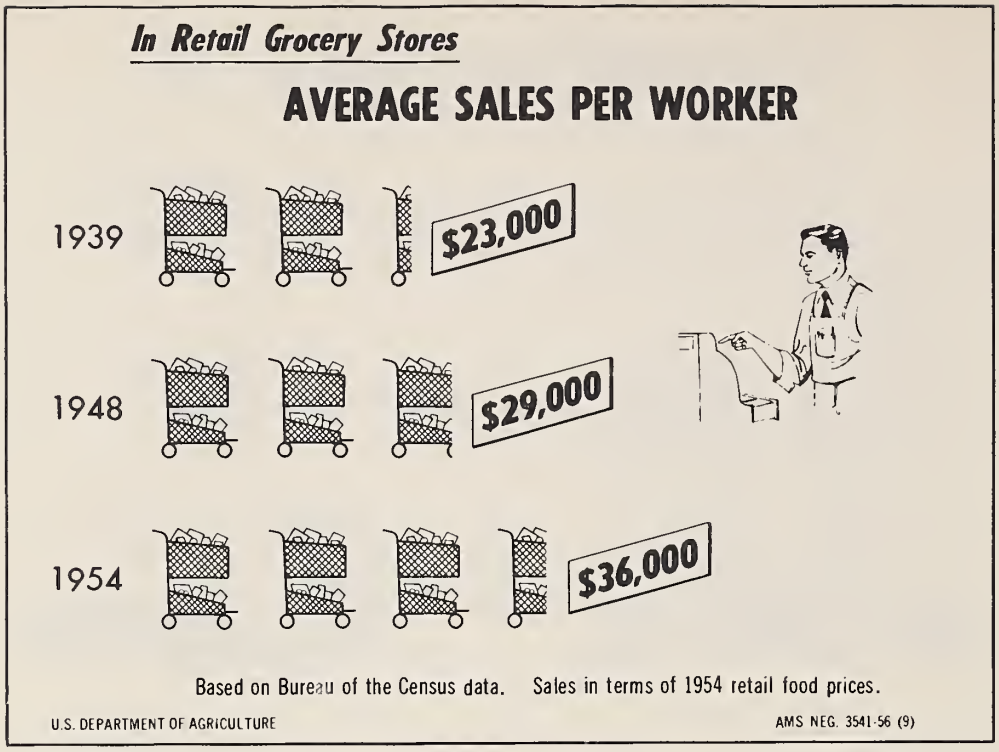

Figure 7.

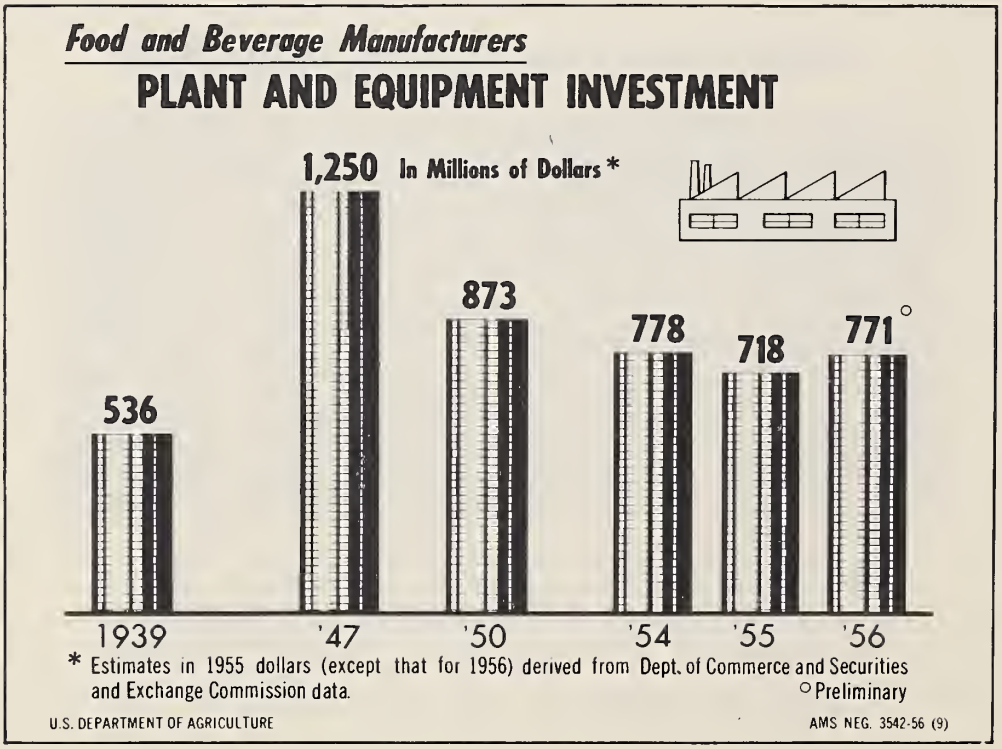

Figure 8.

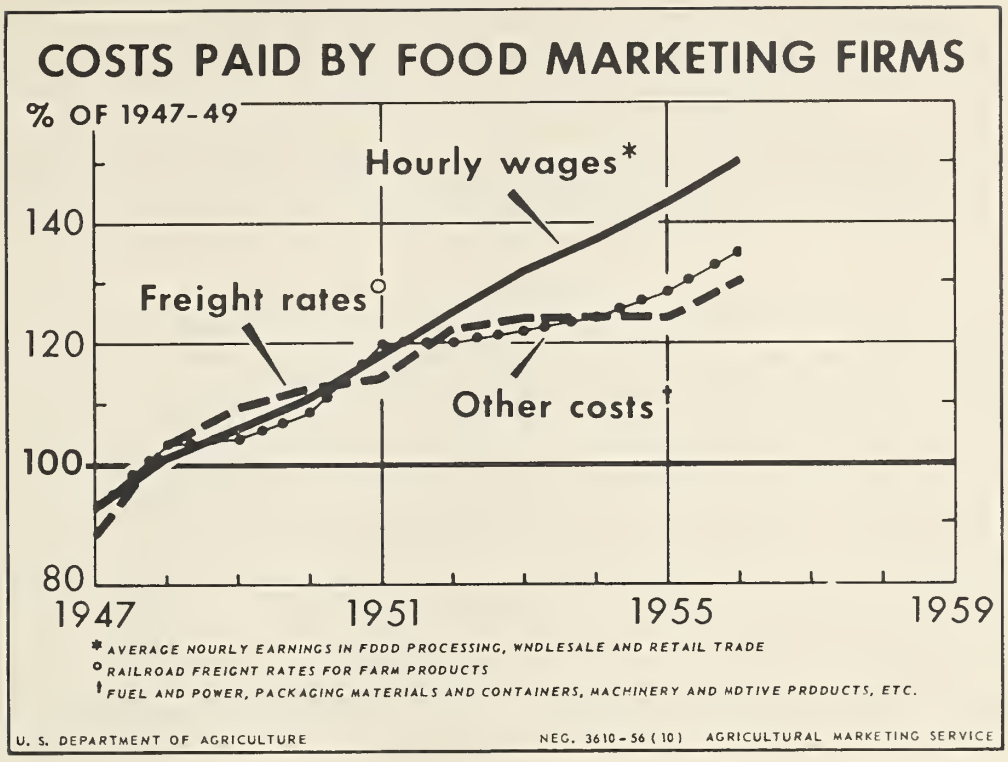

Figure 9.

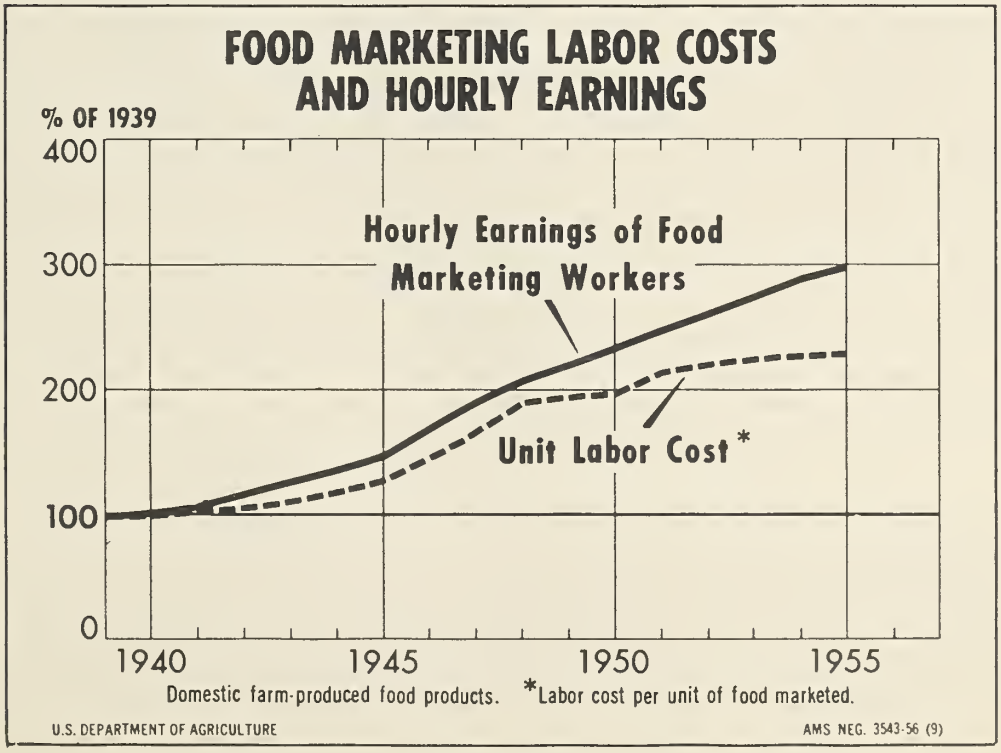

Figure 10.