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Food Prices: Farm and Retail (A Tale of Three Products)

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What are these costs? Wages and salaries for labor take the largest share. Lights, heat, rents and interest, materials and equipment, transportation, taxes and profits all take their portions. All, of course, have been under the upward pressure of the general inflationary situation.

Lessons from the Tale of Three Products
1. Prices of different food products tend to fluctuate up and down. These fluctuations often are initiated at the farm level as farmers change their production plans in response to changing profits and losses. In many cases (such as fruits and vegetables) these changes may be weather oriented and beyond anyone's control. Such production oriented farm price changes do not either increase or decrease the rate of general price inflation.

2. Changes in farm prices are only a part of the retail price picture. Processing and marketing costs play a major role. Retail food prices reflect both the farm price of raw products and changing "in-between" costs.

3. Processing and marketing costs of food products are increasing. These increases contribute significantly to higher food prices. Of the 5% retail price increase for eggs, 75% was associated with higher processing and marketing costs. Of the 34% increase in retail beef prices, 42% is attributable to these higher "in-between" costs. Pork prices could have been 16% lower, if these costs had not risen.

4. Inflationary forces that exist in the economy are a major cause of the increased price of food. Even without any changes in farm production of raw products, retail food prices will be higher each succeeding year unless inflation can be brought under control.

Food Prices: Farm and Retail (A Tale of Three Products) is one of a series of pamphlets intended to provide Indiana's citizens with information about the agricultural food production, processing and marketing system which supplies our huge variety of safe and nutritious food on a daily basis.
Food Prices: Farm and Retail
(A Tale of Three Products)
by R. L. Kohls, Department of Agricultural Economics

Our current rate of inflation is a worry and concern to most of us. During the past seven years consumer prices have risen at an 8% average yearly rate. And, outlook for the future is for more of the same!

Food prices in this setting are a very sensitive issue. We all must eat. And each week when we buy groceries, we are reminded of their rising costs.

Because the farm is the beginning of the food production and processing chain, close association is drawn between farm prices and food prices.

Prices that consumers paid for all items during the first six months of 1980 were 23% higher than during a like period of 1978. Prices paid for foods eaten at home during this period were 19% higher. (Weekly or monthly price changes are often erratic and misleading. Using the six-month period gives a more realistic picture of changes.)

Various food items differ in their price behavior. Let’s take a more detailed look at the price behavior of three items—beef, pork and eggs during this same period.

Changes at the Retail Level
Retail prices of these three products have behaved quite differently. Beef prices are up substantially. Pork prices are a little cheaper. Eggs cost slightly more.

These averages hide some other interesting variations. We normally buy eggs as shell eggs in the cartons. However, we buy both beef and pork as different cuts and products. The data shown are for the average prices of all beef products and all pork products. Within this average, prices for different cuts and products behaved differently. For example:

In beef: Porterhouse steaks and rump roasts were up 30%; pot roasts and ground beef were up about 50%.

In pork: Loin chops were down 4%; hams down 2%; bacon down 19%.

Changes at the Farm Level
Farm prices for hogs, cattle and eggs also changed during this period. Cattle prices were up substantially; hog prices down substantially; egg prices were about unchanged.

These price changes were closely related to production changes that took place on the nation’s farms between the first half of 1978 and 1980.

Beef production in response to the preceding poor profit years declined 13% during this period.

Pork production in response to the preceding high profit years increased 30% during this period.

Egg production fluctuated slightly and increased only 4%.

Changes in the “In-between”
This, of course, is not the complete story. Hogs are not pork. Cattle are not beef. Eggs at the farm are not eggs in the supermarket. Processing and marketing must be done in-between farm production and retail market. Currently about 61¢ of the retail beef dollar goes to the farmer for cattle; 39¢ goes for these “in-between” costs. For the retail pork dollar the division is 41¢ to the farmer and 59¢ for processing and marketing. For the retail egg dollar, the division is 60¢ to the producer and 40¢ to marketing and processing.

The “in-between” costs have increased for each of these products. It now costs more to transfer a pound of hogs and cattle and a dozen of eggs into consumable products on the supermarket shelf.

Source of data: U.S. Dept. of Agriculture statistics.