How are food $$$/divided

WASHINGTON, D.C. — Slower rising food prices last year partly reflected slower rising farm prices.

Farm value—prices farmers receive for products later used for food—rose only 5.3 percent, half as much as in 1979.

Depressed livestock prices, particularly in the first half of the year, take much of the blame. These developments contributed to the sharp drop in 1980 farm income.

The modest gain in farm value also had an effect at the retail level. It helped limit the overall increase in foodstore prices to 8 percent, down from more than 10 percent in each of the two previous years, according to USDA economist Denis Dunham.

However, not all of last year's restraint in retail food prices came from the farm side, Dunham notes. The farm-to-retail price spread—representing the food industry's charges for handling, processing, transporting, and retailing food—rose 8.4 percent, only two-thirds as much as in 1979.

On the other hand, prices rose sharply for fish and imported foods (farm value and the farm-to-retail price spread cover only domestically-produced farm foods). These prices jumped 11.7 percent, much faster than in 1979. Of course, this doesn't mean that fish and imports were mostly responsible for higher foodstore prices.

Farm value, the farm-to-retail spread, and fish and imports each play a different role in the total food price picture. How big a role each plays depends on how much it rises and its contributions to the cost of food, Dunham explains.

For example, USDA estimates that only about one-third of consumers' foodstore spending goes back to farmers as farm value. Thus, the 5.3 percent increase in farm value last year contributed a mere 1.6 percent to the overall 8-percent rise in foodstore prices.

Far more important was the 8.4-percent runup in marketing charges. This larger farm-to-retail price spread accounted for 4.3 percent—or more than half—of the total gain in foodstore prices because marketing charges make up the biggest share of the price of most foods.

Even fish and imported foods, which represent only about a fifth of consumer food purchases, played a bigger role than farm value last year. Due to their steep 11.7-percent price climb, they added 2.1 percent to foodstore prices.

"Farm value not only showed the smallest individual increase of the three components, but it also made the smallest contribution to the overall foodstore price runup last year," Dunham notes.

To a considerable extent, the restrained rise in farm value—and consequently in retail food prices—can be traced back to developments in the farm livestock sector.

Farm prices for livestock suffered last year from larger meat supplies. Pork supplies were up 7.6 percent from 1979, and poultry supplies were up about 2 percent. And even though the amount of beef was about the same as in 1979, it was somewhat larger than it might have been had the drought not forced many ranchers to slaughter cattle they would otherwise have kept.

But why were these developments so influential in determining retail prices when there were sharp farm price increases for grains and other products? A major reason: Meat is one of the product groups in which farm value represents a relatively large share of the total retail price.

The farm value of the retail food dollar varies from one product to another based partly on how much processing the product needs to prepare it for the retail customer.

For example, the farm share is about 9 cents for each retail dollar spent on white bread (wheat only), 30 cents for each dollar spent on potatoes, 55 cents for milk, adn 61 cents for beef.

Thus, a 10-percent change in the farm value of wheat may make a difference of less than 1-percent in the retail price of white bread. In contrast, a 10-percent change in the farm value of Choice beef may translate into a 6-percent price move at retail because about 61 cents of every grocery dollar spent on beef goes to the producer, Dunham says.

Mostly as a result of what happened in the farm livestock sector, retail pork prices averaged more than 3 percent lower than in 1979, and beef and poultry prices rose only about 5 percent.

The small increases in retail beef and poultry prices coupled with lower pork prices help explain the relatively small rise in total 1980 retail food prices. That's because meat accounts for such a large share—about 30 percent—of consumers' food spending.

How much did consumers spend for U.S. farm foods and what did their money pay for? That's another good way to examine the role of farm value, and particularly of marketing costs in the farm-to-retail price spread, Dunham says.

He notes, however, that these figures are for spending on domestic farm foods—excluding fish and imports—and encompass not only grocery store food purchases but also meals in restaurants and other public establishments.

Consumers' expenditures on domestic farm foods totaled $269 billion last year, up $24 billion from 1979 due to higher prices and a slightly larger quantity of food purchased. About 72 cents of each retail food dolar was spent for foods consumed at home.

Farmers received about $86 billion of the total, up $5.4 billion from 1979. About 40 percent of the farm value went to meat producers, and another 18 percent to dairy farmers.

The rest of consumers' food expenditures—$183 billion—went to pay for marketing costs. These costs were up $18.5 billion last year, accounting for three-fourths of the $24-billion increase in food spending.

Labor costs for processing and marketing foods accounted for nerly 45 percent of 1980 food marketing costs. This meant that $82 billion, or 30 percent of total consumer expenditures for U.S. farm foods, went to pay the labor bill—almost as much as went to farmers.

Labor costs, including wages and benefits for food industry employees, rose nearly 11 percent in 1980. Hourly earnings were up more than 9 percent, and benefits rose even more.

Also, more workers were on the payroll than in 1979. Over 7 million people are employed in processing and marketing farm foods. Nearly half of these work in restaurants, fast food outlets, and other eating places.

Food packaging expenses, the second largest food marketing cost, rose 16 percent last year to more than $21 billion. Intercity transportation costs also increased 16 percent to an estimated $14 billion.

The fastest rising item in the marketing bill—although still one of the smallest—was fuels and electricity.

Altogether, the costs of labor, packaging, transporation, and energy accounted for two-thirds of the marketing bill. Other costs include depreciation, rent, advertising, property taxes, repairs, and interest.

Dunham estimates before-tax food industry profits at $10.2 billion, up perhaps only $100 million from 1979. Profit margins as a percent of sales declined as the recession slowed the growth in sales and profit, while inflation boosted operating costs.