

Food-industry charges on rise

WASHINGTON, D.C. — Food-industry charges for handling, processing, and retailing food products rose substantially in the 1981 first quarter, according to USDA economists.

The farm-to-retail price spread, a measure of these charges, rose to 4.6 percent from the previous quarter, accounting for all of the 1.9-percent increase in the retail cost of the market basket, a fixed quantity of domestically produced farm foods.

The farm-to-retail price spread is expected to rise during each remaining quarter of 1981, although the gains will likely be much smaller than in the first quarter. This forecast anticipates that increases in the farm value of foods will make it more difficult for the food industry to raise margins and that marketing cost increases will moderate.

For all of 1981, the farm-to-retail price spread for the market basket may average 11 to 12 percent above 1980—much higher than last

year's 8.4-percent rise.

The large increase in the price spread during the first quarter accompanied a decline in farm value. Once farm prices decline, there is a lag before the changes are reflected in retail prices; therefore, the farm-to-retail price spread widens in periods of declining farm prices.

Moreover, the pricing policies of food retailers and manufacturers may permit margins to widen during short-term declines in farm prices. Similarly, the farm-to-retail spread may narrow temporarily when farm prices rise sharply, which is what happened during the third quarter of 1980.

This pricing policy minimizes food price changes and, thus, consumer reaction to prices. These price adjustments generally take place around a steady upward trend in the costs of food marketing.

The first-quarter price spread for the market basket was 10.7 percent larger than a year earlier.

This increase mainly reflects the rising costs of the food industry, including wages and benefits of workers and prices of many inputs bought by food processors and retailers from the nonfarm economy.

The marketing cost index, measuring price changes for inputs used in food processing and distribution, averaged nearly 12.5 percent higher than a year ago in the first quarter. Prices of marketing inputs which include a broad range of goods and services, have closely followed those in the general economy.

Prices of food marketing inputs are expected to rise further during 1981 because of continued inflation throughout the economy. Food industry workers are likely to seek higher wage increases to offset inflation. The union representing food retailing employees believes that wage demands in 1981 will approach 10 percent or slightly more compared with the average

wage settlement of about 9 percent last year.

However, wage bargaining in food retailing will be comparatively light this year, with about 200,000 workers covered by 32 major agreements, involved. Much of this year's wage increase will stem from wage increases under old contracts from the cost of living adjustments tied to the Consumer Price Index.

Although food industry costs are rising, profit margins in 1981 are expected to average near the 1980 level and the average for the last 3 years.

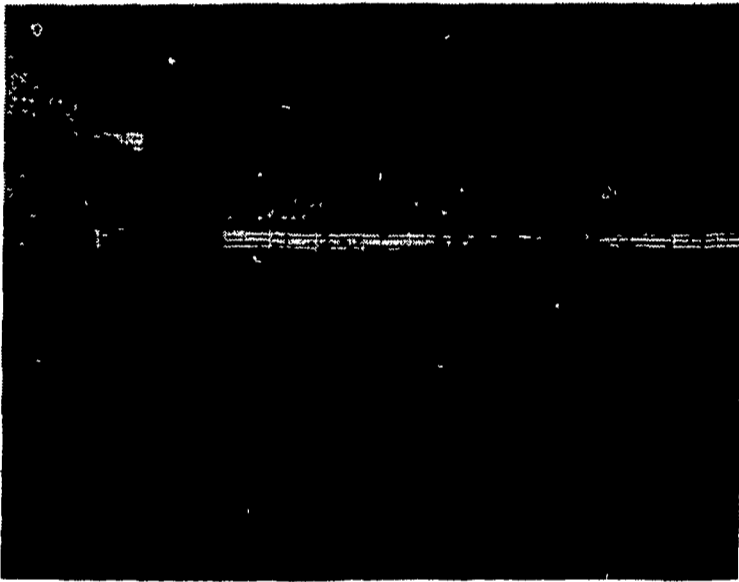
According to data compiled by the Federal Trade Commission, food retailers' after-tax profits in 1980 averaged 0.9 percent of sales

and 13.7 percent of stockholders' equity, compared with 1.7 and 13.3 percent, respectively for all retailers. Food manufacturers' after-tax profits averaged 3.4 percent of sales and 14.7 percent of stockholders' equity, compared with 4.9 and 14.0 percent for all manufacturers.

Food industry profit margins had declined in the second and third quarters of 1980 because of the recession, but they improved substantially in the fourth quarter as food store sales rose seasonally and farm prices leveled off.

First-quarter profit margins probably declined seasonally from the fourth quarter of 1980, but likely equaled or slightly exceeded a year earlier—reflecting the weakness in farm product prices.

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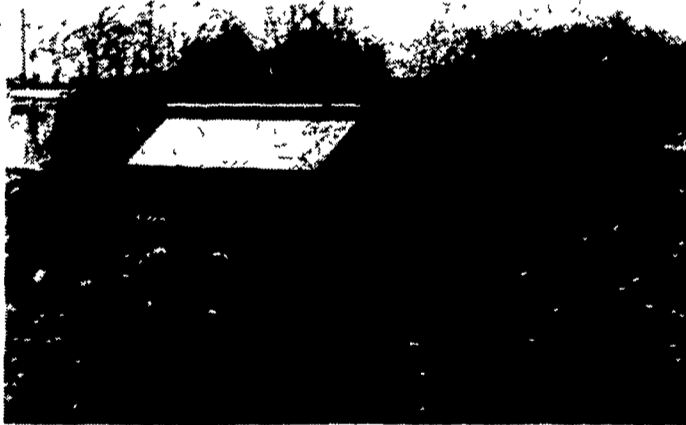
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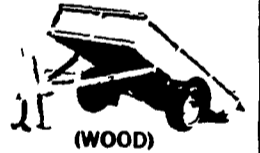


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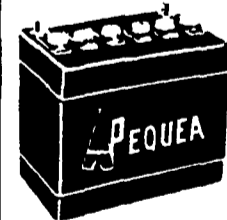
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