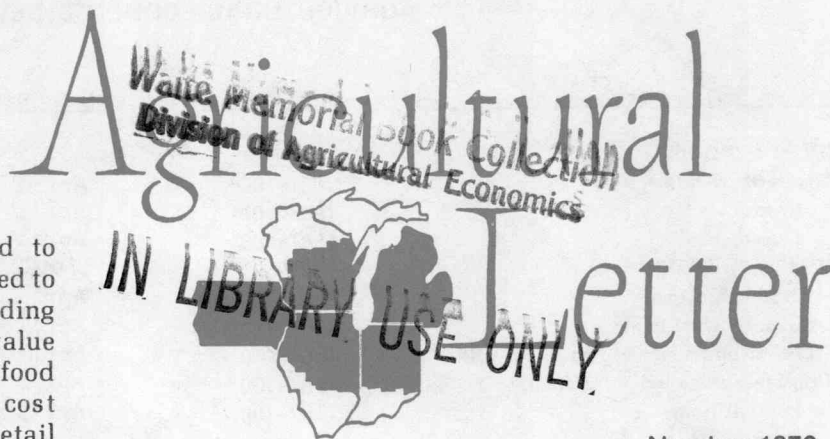


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**FOOD MARKETING MARGINS** continued to widen in April as declines in retail food prices failed to parallel the downtrend in farm level prices. According to the U. S. Department of Agriculture, the farm value of the market basket of domestically-produced food fell more than 4 percent in April, while the retail cost declined only 1 percent. As a result, the farm-to-retail spread—which accounts for nearly two-thirds of the total retail cost of the market basket—rose 1.5 percent and exceeded the April 1973 level by 22 percent.

Farm-to-retail spreads have risen rapidly since the latter part of 1973, reflecting the relaxation of food price controls in September and widespread inflationary pressures that have substantially increased the costs of processing, packaging, transporting, and distributing food. During the fourth quarter of 1973, the spread averaged 15 percent above the year-earlier level, well in excess of the 6.5 percent increase for all of 1973 and the average annual gain of 3 percent for the past decade. The farm-to-retail spread for domestically-produced foods rose further during the first quarter of this year and averaged nearly 20 percent higher than a year ago.

Sharp increases in marketing margins have been evident for virtually all types of foods. Before declining somewhat in April, spreads for beef and pork averaged 26 and 31 percent, respectively, above year-earlier levels during the six months ending in March. Spreads for potatoes averaged 32 percent above year-earlier levels, while for apples the increase was 27 percent. During the six months ending in March, the farm-to-retail spread for chicken averaged 19 percent above year-earlier levels, while those for eggs and milk increased 15 and 17 percent, respectively.

**Labor costs** account for virtually one-half of the marketing costs of food produced on domestic farms. In the fourth quarter of 1973, average hourly earnings of production employees in food marketing firms were 6.5 percent higher than the year-earlier level, a gain somewhat smaller than that for all employees. However, comparatively large increases have occurred so far this year. In April, for example, average hourly earnings for employees of firms manufacturing food and kindred products was 8.2 percent above the April 1973 level.

**Packaging materials** represent the second largest cost of food marketing, accounting for about 12 percent of the total in 1973. During the past six months, the index of prices for containers and packaging materials rose steadily and averaged 8 percent above year-earlier levels.

**Rail and truck transportation costs** (excluding intracity costs) absorb an additional 8 percent of total food marketing costs. While current figures are not yet complete, there is little doubt that such costs have risen sharply this year. For example, railroads have already been granted a 3 percent surcharge to cover rising fuel costs and have petitioned for a 10 percent general rate increase. Similarly, regulated truckers have been granted a 6 percent surcharge to cover higher fuel costs.

**Energy costs** (excluding transportation) account for approximately 3 percent of the total food marketing bill according to the U. S. Department of Agriculture. During the past six months, the index of prices for fuel, power, and light rose sharply and averaged 27 percent above the year-earlier levels.

**Profits** account for roughly 4 percent of the food marketing bill. However, the available evidence suggests that higher profits have contributed to the widening farm-to-retail price spreads. In the fourth quarter of 1973, after-tax profits of food manufacturing firms were equivalent to 15.2 percent of stockholders equity, well above the 12.8 percent average for all of 1973, and the 11.2 percent average for the past decade. Although comparable data for retail food stores are not yet available, preliminary evidence suggests that after-tax profits of 15 retail food chains equaled 1 percent of sales during the past two quarters, the highest level since the first quarter of 1972 and close to the steady 1.1 profits-to-sales ratio that occurred during the late Sixties.

The sharply higher farm-to-retail price spreads that have prevailed for the past several months are likely to remain a major factor in holding food prices at high levels for several more months. There is little doubt that labor costs, as well as the costs of packaging materials, energy, and transportation will continue well above year-ago levels for some time. Although the farm value of the market basket of foods may trend irregularly downward during the remainder of 1974, higher marketing costs may prevent any significant decline in retail food prices.

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## AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change	
				Prior period	Year ago
<b>INDEX OF PRICES</b>					
Received by farmers	1967=100	April	183	- 6	+17
Crops	1967=100	April	205	- 6	+43
Livestock	1967=100	April	169	- 6	+ 1
Paid by farmers	1967=100	April	164	+ 2	+16
Production items	1967=100	April	167	+ 3	+20
Family living items	1967=100	April	157	+ 1	+17
Ratio of prices received to prices paid	1967=100	April	112	- 7	+ 1
Consumer price index (all items)	1967=100	April	144	+ 1	+10
Food at home	1967=100	April	159	- 1	+17
<b>CASH FARM PRICES (U. S. average)</b>					
Corn	dol. per bu.	April	2.41	-10	+70
Soybeans	dol. per bu.	April	5.15	-14	-16
Wheat (all)	dol. per bu.	April	3.98	-20	+85
Sorghum grain	dol. per cwt.	April	3.78	-11	+48
Oats	dol. per bu.	April	1.24	-11	+60
Beef steers and heifers	dol. per cwt.	April	41.20	- 4	- 8
Hogs	dol. per cwt.	April	30.60	-13	-13
Milk, all sold to plants	dol. per cwt.	April	8.86	- 1	+38
Milk cows	dol. per head	April	541	0	+15
Chickens, broilers, live	cents per lb.	April	21.2	- 6	-17
Eggs	cents per doz.	April	50.4	-11	+ 7
<b>INCOME (seasonally adjusted annual rate)</b>					
Cash receipts from farm marketings	bil. dol.	1st Qtr.	103.0	+ 2	+42
Net farm income	bil. dol.	1st Qtr.	28.2	- 7	+18
Nonagricultural personal income	bil. dol.	March	1,061.8	+ 1	+ 9
<b>FARM FINANCE</b>					
Total deposits at agricultural banks <sup>1</sup>	1967-69=100	April	203	+ 1	+17
Time deposits	1967-69=100	April	248	+ 2	+19
Net demand deposits	1967-69=100	April	159	+ 1	+14
Total loans at agricultural banks <sup>1</sup>	1967-69=100	April	225	+ 1	+18
<b>Production Credit Associations</b>					
loans outstanding:					
United States	mil. dol.	March	8,215	+ 3	+18
Seventh District states	mil. dol.	March	1,348	+ 2	+12
new loans made:					
United States	mil. dol.	March	1,340	+ 9	+ 8
Seventh District states	mil. dol.	March	268	+14	+10
<b>Federal Land Bank Associations</b>					
loans outstanding:					
United States	mil. dol.	March	11,635	+ 2	+22
Seventh District states	mil. dol.	March	2,071	+ 3	+16
new loans made:					
United States	mil. dol.	March	309	+34	+15
Seventh District states	mil. dol.	March	77	+88	+22
<b>Interest rates</b>					
		week ended			
Three-month Treasury bills	percent	5/1	8.65	+ 9	+39
Federal funds rate	percent	5/1	11.17	+ 4	+50
Government bonds (long-term)	percent	5/1	8.17	+ 2	+18
<b>AGRICULTURAL TRADE</b>					
Agricultural exports	mil. dol.	February	1,918.5	+ 4	+62
Agricultural imports	mil. dol.	February	806.9	- 1	+31
<b>FARM MACHINERY SALES</b>					
Farm tractors	units	March	20,082	+65	-13
Combines	units	March	1,236	+64	+ 9
Balers	units	March	1,192	+65	- 7

<sup>1</sup> Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.