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Value-Added and the Declining Farm Share of Consumer Expenditures for Food

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Market Report	Yr Ago	4 Wks Ago	11/3/00
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	$69.43	$66.97	$69.83
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	83.49	87.46	90.71
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	87.31	97.35	97.61
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	108.04	102.50	105.78
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	31.50	42.00	36.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	25.46	32.50	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	95.50	118.35	106.80
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	70.00	69.30	63.50
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	157.00	153.00	149.00
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu.	2.90	3.11	3.24
Corn, No. 2, Yellow Omaha, bu.	1.69	1.70	1.94
Soybeans, No. 1, Yellow Omaha, bu.	4.38	4.54	4.56
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	2.74	3.00	3.45
Oats, No. 2, Heavy Sioux City, IA , bu.	1.15	1.22	1.29
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	90.00	107.50	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	32.50	75.00	72.50
Prairie, Sm. Square, Good Northeast Nebraska, ton.	*	82.50	82.50

* No market.

The farm share of consumer expenditures for food has fallen substantially over the past five decades. As shown in Figure 1, consumer expenditures for domestically produced farm foods increased from $50.9 billion in 1952 to $618.4 billion in 1999. The farm value of these foods increased from $20.4 billion to $120.5 billion during the same period, representing a decline in the farm share from 40 percent to 20 percent.

The decline in the farm share of consumer expenditures can be attributed to several factors, including a decrease in farm prices relative to retail prices. In 1952, the farm value of a fixed market basket of food products equaled 47 percent of the retail price according to data from the Economic Research Service of the U.S. Department of Agriculture. By 1999, the farm value of that same market basket had fallen to 21 percent. This farm-to-retail price spread varies considerably across commodities and depends on market structure, supply and demand conditions and government farm policies.

Another important factor in explaining the decrease in the farm share of consumer expenditures for food is the increasing value added to farm foods by processors, wholesalers, retailers and others in the marketing channel that extends from the farm gate to consumers. Value is added to a product by the creation of form, place, time or possession utility. Form utility is created when a product is changed into a more valuable form, such as when a processor converts a raw product into a product desired by consumers. Place utility is created when a product is moved to a location where it is more valuable, as when a shipper transports a product from where it is produced to where it will be consumed. Time utility is created when the timing and availability of a product is altered, as when a grain elevator stores grain from harvest until it is sold. Possession utility is created by marketing activities that help consumers find and purchase desired products. For example, possession utility is created both by advertising and by supermarkets that make it possible for consumers to choose from a wide variety of foods in one place. All of these activities are as essential to the production of the final food products purchased by consumers as are the commodities produced by farmers.

The total value of all processing, wholesaling, transportation and retailing activities associated with farm foods is represented by the marketing bill shown in Figure 1. The marketing bill consists of the costs of these activities plus the profits of the firms engaged in them, and is equal to the difference between consumer expenditures for farm foods and the farm value. The marketing bill includes labor, packaging materials, inter-city rail and truck transportation and local for-hire transportation, fuels and electricity, advertising and promotion, depreciation and repairs, interest, taxes and other costs, as well as corporate profits and the earnings of proprietors, partners and family workers. Between 1952 and 1999, the marketing bill increased from $30.5 billion to $497.9 billion.

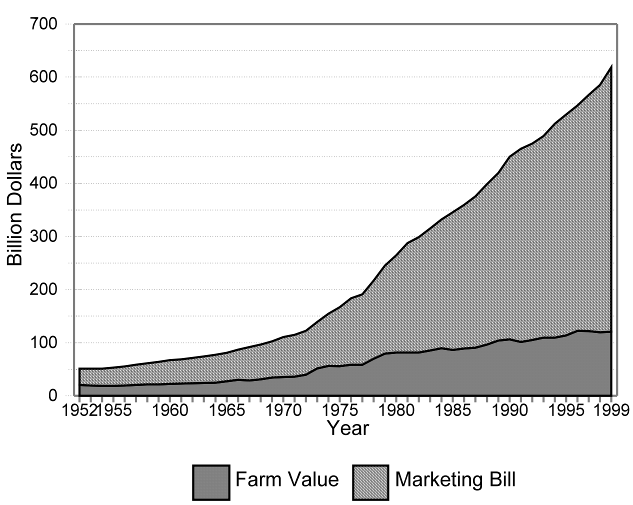

Figure 1. Consumer Expenditures for Domestically Produced Farm Foods, 1952-1999.

Source: Economic Research Service, U.S. Department of Agriculture.

Much of the increase in the food marketing bill relative to the farm share can be attributed to change in the composition of consumer food expenditures. As real incomes have increased, more women have entered the work force and there has been a shift to two-income households, consumers have increased their demand for convenience foods, including microwavable and frozen food preparations. Consumers also have increased the proportion of food products they purchase at restaurants and other sources away from home. In the past, consumers primarily purchased food products for preparing meals at home, eating out only occasionally. In 1963, consumers purchased $16.0 billion in food products away from home, an amount representing 24 percent of total food expenditures. By 1999, however, food purchases away from home had risen to $253.4 billion, accounting for 41 percent of total food expenditures. Both the manufacture of convenience foods and food purchased away from home represent additional value added to the farm value of food products.

In light of the declining farm share of consumer expenditures for food, agricultural producers have sought strategies for capturing some of the margins from marketing and processing activities beyond the farm gate. Although several regional cooperatives have been successful in marketing branded products to consumers, producer involvement in the marketing channel typically has been limited to the early stages where margins are relatively low. Recently, however, advances in biological and informational technology have increased producer interest in value-added activities. New technologies allow producers and processors to define and control product qualities at the earliest stages of production, thereby allowing producers to market products to niche markets of consumers with increasingly specific preferences.

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