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Allen C. Wellman

University of Nebraska - Lincoln

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G 77-339

Price Spreads for Beef and Pork

Al Wellman, Extension Economist (Marketing)

The price spreads for beef and pork are determined by calculating the differences between prices at three marketing levels; farm (live animals), wholesale (carcass or wholesale cuts), and retail (average of retail cuts). Three price spreads, farm-wholesale, wholesale-retail and farm-retail can be estimated from these prices. Farm-to-retail price spreads for beef and pork represent the total marketing charges for processing and distribution from farm gate through retail counter. All data in *Tables 1* and *2* include the effect of price specials, an adjustment for retail shrink, use of carlot wholesale prices and changes in the computation of by-product values.

Price spread data are useful to the analyst who wishes to understand and evaluate relationships in the food production and distribution systems. The meaningfulness of spreads for interpreting retail and farm price movements ordinarily is greatest when the farm value of a food (as is the case with beef and pork) is a substantial proportion of the retail price. The closeness of the relationship between retail and farm price movements is largely a function of the importance of the farm value in the final retail price and the identification of the retail product with the farm product.

It is not possible to judge whether the price spread for a specific food is economically justified merely by observing the amount of the spread. Price spreads can be used as a starting point for evaluating the food industry's performance if these questions are asked:

- (a) Are the functions for which marketing costs are incurred necessary ones?
- (b) Are the functions efficiently performed?
- (c) Are profits reasonable?

If the answer in each case is "yes", then the price spread is justified and the industry is

performing well in this respect. Of course, these questions can be answered only by detailed examination of the industry.

The farm-retail price spread for beef and pork has widened considerably in recent years. Substantial cost increases have occurred for nearly every energy related input used by the food industry, such as packaging materials, transportation services and utility rates. Higher labor costs have also contributed significantly to the widening spreads.

Trends in Farm-Retail Spread for Beef

The beef farm-retail spread moved steadily upward from 1950-61 (*Figure 1*). The spread moved somewhat erratically during the early and mid-60's until 1968, but generally was relatively stable. From 1968 to the present the beef farm-retail spread has increased sharply.

The wholesale-to-retail spread has trended upward most of the time. The most stable period was during the middle 1960's. The spread has moved sharply upward during the 1968-1975 period. In 1975 this spread was 289 percent of 20 years earlier. The farm-wholesale spread has moved in a narrow range from 1950 to 1973. The spread moved somewhat higher in 1974-75.

Trends in Farm-Retail Spread for Pork

The total cost of marketing pork has steadily trended upward during the last 25 years (*Figure 2*). Since 1955 the pork farm-retail spread has approximately doubled.

The trend has been consistently upward for the wholesale-retail spreads since the early 1950's. The wholesale retail spread has increased to about 326 percent since 1955. The farm-wholesale

spread generally increased some from 1955 to 1971 but in 1975 was only slightly higher than 20 years earlier.

Additional Information

Price spread information on food products is more readily available today than in the past. The importance of food to the consumer has received much needed publicity recently. A complete discussion on price spreads can be found in a publication entitled "Review and Evaluation of Price Spread Data for Foods," Economic Research Service, USDA, dated January 1976. This bulletin references several other data sources for price spreads.

Table 1. Price Spreads Choice Beef.

Year	Retail Price per lb. ^{1/}	Total	Farm-Retail Spread ^{2/}		Farm Share
			Whole-sale-Retail	Farm-Whole-sale	
	Cents	Cents	Cents	Cents	Percent
1950	74.6	19.4	12.9	6.5	74
1951	87.3	20.3	12.7	7.6	77
1952	85.7	22.7	15.1	7.6	74
1953	68.4	23.1	14.7	8.4	66
1954	67.8	21.4	13.7	7.7	68
1955	66.8	22.4	14.0	8.4	66
1956	65.4	23.2	14.3	8.9	65
1957	69.9	24.4	16.0	8.4	65
1958	80.2	26.2	18.7	7.5	67
1959	82.0	27.6	19.9	7.7	66
1960	80.2	28.1	20.7	7.4	65
1961	78.4	29.6	22.1	7.5	62
1962	81.6	26.4	19.8	6.6	68
1963	78.5	30.1	23.2	6.9	62
1964	76.5	30.3	23.2	7.1	60
1965	80.1	28.3	22.1	6.2	65
1966	82.4	30.1	23.9	6.2	63
1967	82.6	29.6	23.2	6.4	64
1968	86.6	29.9	23.5	6.4	65
1969	96.3	34.1	27.6	6.5	65
1970	98.6	37.1	30.3	6.8	62
1971	104.3	36.4	28.7	7.7	65
1972	113.8	41.3	33.8	7.5	64
1973	135.5	45.6	37.4	8.2	66
1974	138.8	52.5	41.4	11.3	62
1975	146.0	53.1	40.5	12.6	64
1976	139.0	61.0	50.3	10.9	61

^{1/} Estimated weighted average price of retail cuts.

^{2/} Spread is in cents per pound for equivalent of one pound of retail cuts.

Sources: *Cost Components of Farm-Retail Price Spreads for Selected Foods*, ERS-USDA, Ag. Econ. Rpt. No. 343, July 1976; and *Price Spreads for Farm Foods*, ERS-USDA, December 23, 1976.

Table 2. Price Spread for Pork.

Year	Retail price per lb. ^{1/}	Total	Farm-Retail Spread ^{2/}		Farm Share
			Whole-sale-Retail	Farm-Whole-sale	
	Cents	Cents	Cents	Cents	Percent
1950	53.8	19.4	7.3	12.1	64
1951	57.8	21.3	8.7	12.6	63
1952	56.2	22.2	8.3	13.9	60
1953	62.1	20.6	8.2	12.4	67
1954	63.4	22.3	9.3	13.0	65
1955	53.6	24.9	10.0	14.9	54
1956	51.4	24.8	10.2	14.6	52
1957	59.4	26.6	11.4	15.2	55
1958	63.8	26.8	11.3	15.5	58
1959	56.3	30.4	13.8	16.6	46
1960	55.9	27.2	11.7	15.5	51
1961	58.4	27.9	13.3	14.6	52
1962	58.8	28.7	13.6	15.1	51
1963	56.6	29.2	14.0	15.2	48
1964	55.9	29.1	13.7	15.4	48
1965	65.8	27.7	13.2	14.5	58
1966	74.0	31.8	16.1	15.7	57
1967	67.2	32.4	15.7	16.7	52
1968	67.4	32.9	15.7	17.2	51
1969	74.3	32.0	15.8	16.2	57
1970	78.0	38.5	19.3	19.2	51
1971	70.3	38.0	18.2	19.8	46
1972	83.2	35.3	18.0	17.3	54
1973	109.8	38.3	22.5	15.8	65
1974	108.2	47.4	30.8	16.6	56
1975	135.0	48.2	32.6	15.6	64
1976	136.0	55.9	40.9	15.0	59

^{1/} Estimated weighted average price of retail cuts.

^{2/} Spread is cents per pound for equivalent of one pound of retail cuts.

Sources: *Cost Components of Farm-Retail Price Spreads for Selected Foods*, ERS-USDA, Ag. Econ. Rpt. No. 343, July 1976; and *Price Spreads for Farm Foods*, ERS-USDA, December 23, 1976.

Figure 1. Price Spreads Choice Beef.

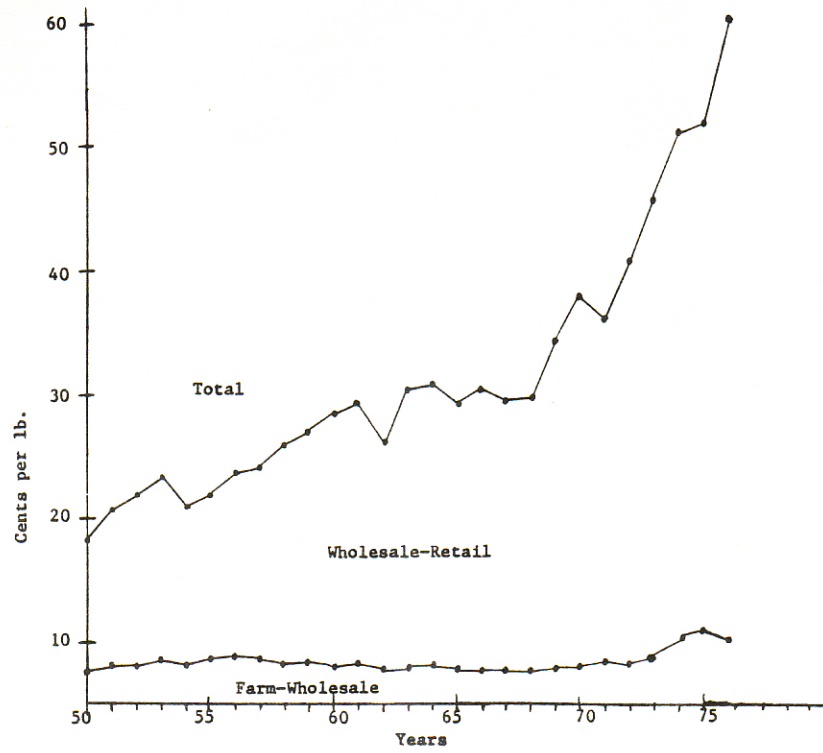
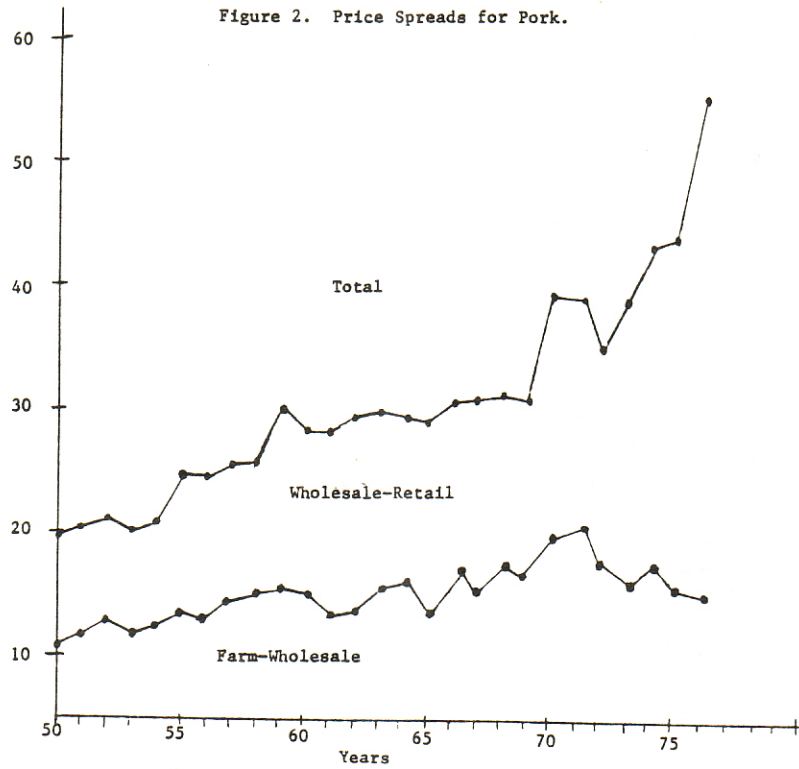


Figure 2. Price Spreads for Pork.



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File Under: FARM MANAGEMENT

K-6, Marketing

Issued April 1977, 15,000