# Marketing Bill Rose, While Farm Value Declined in 1997

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Consumers spent $561.1 billion on domestically produced food in 1997, $14 billion more than in 1996 (table 1). This amount was less than the total consumers spent for all food because it excluded expenditures for imported foods and seafood (for total food spending, see "Spotlight: National Food Spending," elsewhere in this issue). Consumer expenditures for domestic farm foods in 1997 rose approximately 2.6 percent. This increase was smaller than both the 3.2-percent rise of 1996 and the 4.1-percent average annual increase of the last decade.

The amount spent on food reflects two main components: the farm value and the marketing bill. The farm value is a measure of the payments farmers receive for their raw commodities used in food purchased by consumers at foodstores and eating places. The marketing bill represents the difference between the farm value of food produced on U.S. farms and the final costs to consumers. Labor, packaging, transportation, and energy are among the many costs incurred in processing agricultural commodities into food and bringing them from the farm to the dinner table.

## Lower Farm Value in 1997

For every dollar spent on food, 21 cents covered farm costs. The farm value dropped $2.2 billion in 1997—the first decrease since 1991. The lower value reflected lower farm prices, which offset abundant supplies of beef, pork, dairy products, poultry, eggs, and grains.

The share of the retail price accounted for by the farm value varies widely among foods. It is generally larger for animal products than for crop-based foods, and smaller for foods that require considerable processing and packaging. That is, the percentage generally decreases as the degree of processing increases. For example, the farm value of meat was 36 percent in 1997, but only 7 percent for cereal and bakery products. The farm inputs needed to feed, house, and maintain the health of livestock are greater than those required to grow crops, and there are fewer manufacturing processes required for meats.

Table 1
**Labor Costs Are the Largest Share of Food Expenditures**

| Component | 1980 | 1985 | 1990 | 1996 | 1997 |
|---|---|---|---|---|---|
| | *Billion dollars* | | | | |
| Labor[1] | 81.5 | 115.6 | 154.0 | 204.6 | 216.2 |
| Packaging materials | 21.0 | 26.9 | 36.5 | 47.7 | 48.7 |
| Rail and truck transportation[2] | 13.0 | 16.5 | 19.8 | 22.9 | 23.6 |
| Fuels and electricity | 9.0 | 13.1 | 15.2 | 19.6 | 20.0 |
| Pretax corporate profits | 9.9 | 10.4 | 13.2 | 19.2 | 18.4 |
| Advertising | 7.3 | 12.5 | 17.1 | 20.6 | 21.0 |
| Depreciation | 7.8 | 15.4 | 16.3 | 19.6 | 20.1 |
| Net interest | 3.4 | 6.1 | 13.5 | 12.1 | 13.0 |
| Net rent | 6.8 | 9.3 | 13.9 | 20.4 | 21.0 |
| Repairs | 3.6 | 4.8 | 6.2 | 8.2 | 8.4 |
| Business taxes | 8.3 | 11.7 | 15.7 | 19.7 | 20.2 |
| Total marketing bill | 182.7 | 259.0 | 343.6 | 424.5 | 441.4 |
| Farm value | 81.7 | 86.4 | 106.2 | 122.2 | 120.0 |
| Consumer expenditures | 264.4 | 345.4 | 449.8 | 546.7 | 561.1 |

Notes: [1]Includes employees' wages/salaries and health and welfare benefits.
[2]Excludes local hauling charges.

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Aside from livestock and poultry products, most foods entail fewer inputs at the farm level, but more processing, transportation, wholesaling, and retailing costs, which tend to hold down the farm value.

## Marketing Bill Continues To Rise

Marketing costs are by far the largest portion of food expenditures—taking nearly 80 cents of every dollar consumers spent on food in 1997. The cost of providing marketing services beyond the farm gate continues to be the most persistent source of rising food expenditures. The marketing bill grew 3.9 percent ($16.6 billion) in 1997, following a 2.1-percent rise in 1996. This increase was larger than the 1997 general inflation rate of 2.3 percent, the reverse of the situation recorded in 1996. This was the largest growth in marketing costs in both absolute dollars and percentage terms since 1994. The 1997 rise was the result of a modest drop (1.8 percent) in the farm value, coupled with a somewhat larger rise (2.6 percent) in consumer food expenditures.

While the marketing bill rose higher than the 3.6-percent average annual increase of the rest of the 1990's, moderate inflation continued to restrain marketing cost increases. Recent increases in the bill are much smaller than during periods of rapid inflation, such as the late 1970's, when marketing costs gained as much as 13 percent in a single year. That compares to a 14.7-percent total rise between 1993 and 1997.

The marketing bill increases every year (fig. 1), largely reflecting rising costs of packaging and other processing and marketing inputs—especially labor.

## Labor Costs Exert Largest Influence on Marketing Costs

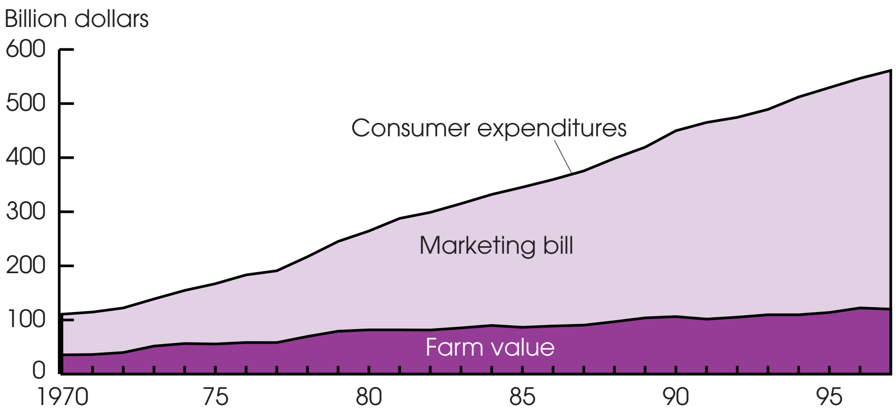
As the largest component of the marketing bill, labor costs (wages and salaries, and employee benefits, such as health insurance) constituted 38.5 percent of total consumer food expenditures (fig. 2). Labor costs grew more than any other cost component—up about 5.7 percent in 1997, higher than the 5.2-percent average annual rise of the last decade. This rate primarily reflected higher average hourly earnings, which outpaced those for food manufacturing, wholesaling, and restaurant employees in 1997. Slower rises in the cost of benefits and a slower increase in hiring rates mitigated these increases.

Hourly earnings of food manufacturing employees rose 2.6 percent in 1997, slightly higher than in 1996. Average hourly earnings of foodstore workers rose 2.3 percent, compared with 3.1 percent in 1996. Wage increases in these two sectors continue to reflect union contract provisions negotiated during the last few years. Meanwhile, average hourly earnings of wholesaling employees rose 3.3 percent, about the same as in 1996. The average hourly earnings of foodservice employees advanced at the fastest pace of any food industry sector at 4.5 percent, compared with 3.6 percent in 1996. This higher growth rate reflects the federally legislated increase in the minimum wage to $5.15. The foodservice sector has both the largest workforce and the highest proportion of minimum-wage employees of the food industry.

Food industry employment increased 1.3 percent in 1997, smaller than the 1.9-percent rise recorded in 1996. This smaller rate of increase reflects flat retail sales, whose impact has reverberated throughout the food marketing sector. In 1997, 13.7 million people were employed in the food sector beyond the farm. About 25 percent worked in foodstores, 12 percent in food manufacturing, and 7 percent in wholesaling. Eating and drinking places represented the single-largest share, 56 percent. These shares are comparable to trends recorded in recent years.

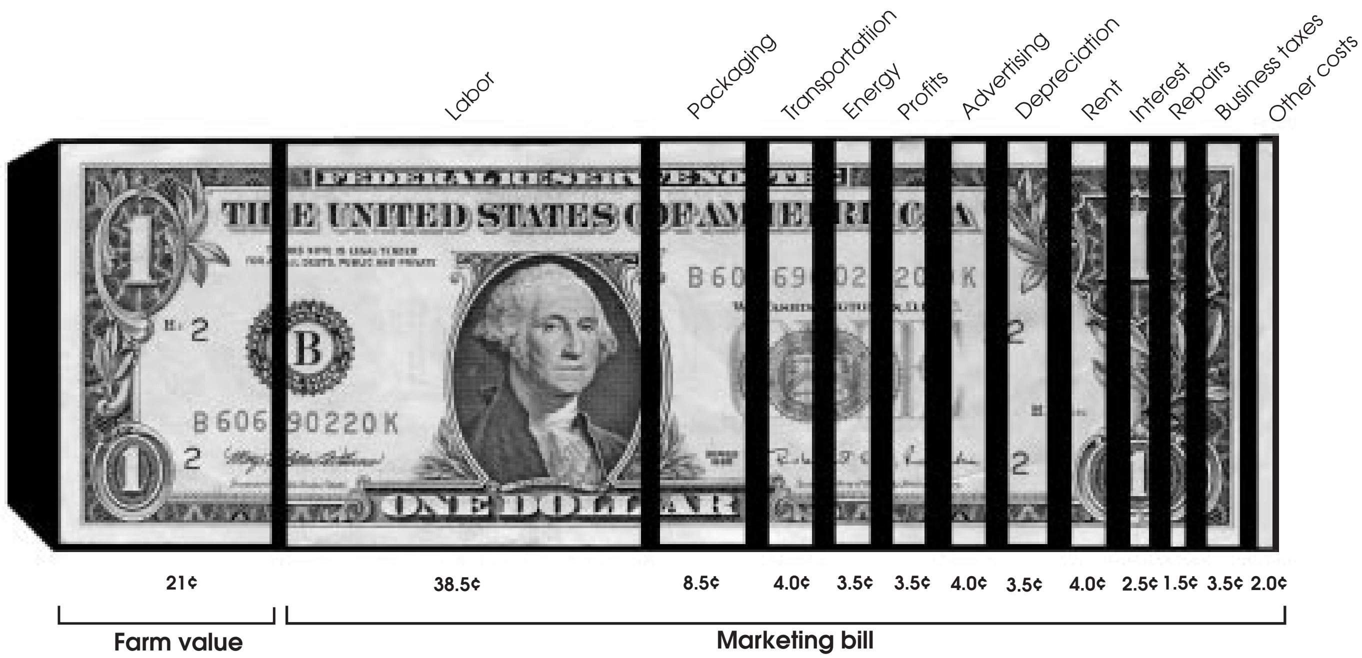
Wage supplements make up about 20 percent of total labor costs. However, the cost of medical care had a smaller impact on labor costs than in recent years. The Consumer Price Index for medical services rose just 2.8 percent in 1997, compared with a 6.1-percent annual average increase over the last 10 years. Similarly, the Bureau of Labor

Figure 1
**The Marketing Bill Was 79 Percent of 1997 Food Expenditures**




Note: Data for foods of U.S. farm origin purchased by or for consumers for consumption both at home and away from home.

Figure 2
**What a Dollar Spent for Food Paid for in 1997**




Economic Research Service, USDA.

Statistics Employment Cost Index (ECI) for private industry benefits crept up 2.1 percent in 1997, less than half the 4.6-percent average annual rise of the last decade.

The ECI can be further used to illustrate developments in labor costs. Although benefit costs rose modestly for private industry as a whole, they dropped slightly for foodstores. The ECI for foodstores (the only food industry sector for which data are available) rose 2.4 percent in 1997, smaller than the 1996 gain of 3.6 percent. The 1997 increase in worker compensation included a wage and salary gain of 3.1 percent, also a smaller increase than for 1996. Compensation costs rose less than wages and salaries in 1997 because increases in benefit costs were smaller than gains in wage rates for the first time since 1989, when the ECI series was initiated. Although not reported separately, the costs of benefits probably decreased about 0.4 percent in 1997. Lower benefits reflect union contracts negotiated for foodstores which require workers to pay a greater portion of medical care costs.

## Labor Productivity Differs Throughout the Food Industry

Labor productivity in food manufacturing industries has risen moderately over the years. The average annual increase in output per unit of labor in seven food manufacturing industries for which data are available was 2.3 percent from 1980 to 1995. These increases generally resulted from higher output and a small decline in hours worked. Labor productivity among food manufacturers has risen most in grain milling, fluid milk, and poultry processing. However, productivity has grown erratically for most other food industries, partly because of fluctuating output and business conditions.

In contrast, labor productivity in foodstores declined 1.7 percent in 1995 (the most recent year for which data are available), consistent with the downward trend since 1980. Increased use of labor (as reflected in a 1.8-percent rise in foodstore hiring and a trend toward more labor-intensive services, such as prepared meals) and a small increase in output (as measured by real sales) likely combined to produce productivity declines in 1996 and 1997.

Labor productivity among eating and drinking places rose slightly less than 1 percent in 1995, consistent with higher productivity levels since the mid-1980's. Productivity rose because hours worked increased about 1.4 percent, while output was up 2.3 percent.

## Packaging, Transportation, and Energy Costs Continue To Rise

Packaging costs account for 8.5 percent of food expenditures. Greater use of shipping boxes, food containers, and plastic materials pressured packaging costs up, but only 2.1 percent, well below the 5-percent average annual increase of the last decade. The price of paperboard, which accounts for about 40 percent of total packaging expenses, fell 6.0 percent in 1997 for a second consecutive annual decrease. Excess production capacity continued to plague the industry in 1997.

Excess capacity also was a problem for metal can producers, who saw prices decline 1.5 percent for a second consecutive annual decrease. The demand for competing plastic containers (which constitute about 20 percent of total packaging costs) continued to weaken the market for metal cans, as was the case in 1996. Meanwhile, the price of plastic packaging held steady in 1997. Lower oil prices offset higher demand for plastic, which is an oil derivative. The price of glass containers, used largely to enhance product image, also declined in 1997.

Transportation costs accounted for 4 percent of food expenditures, consistent with the trend of recent years. Transportation costs rose 3.1 percent, slightly more than in 1996. This increase was mainly due to higher trucking rates, which increased 2.9 percent in 1997, 0.5 percent higher than the rise in 1996. Labor costs incurred by truckers increased 1.2 percent and accounted for nearly 40 percent of total labor costs. Fuel costs, which accounted for 21 percent of trucking costs, declined 1.8 percent due to lower crude oil prices. Truckers also incurred higher interest expenses, which jumped 7.5 percent. A variety of miscellaneous costs incurred by truckers (depreciation, licenses, insurance, overhead, and maintenance) rose an average of 1.4 percent in 1997. Meanwhile, railroad rates were only 0.5 percent higher.

Energy costs rose 2 percent in 1997, less than half the 5.3-percent pace recorded in 1996. Energy costs incurred by food marketing firms stem from two primary fuel sources—electricity and natural gas—although the specific composition varies by industry subsector. Energy costs were restrained by a 0.4-percent drop in electricity prices. Even though natural gas prices were boosted 6.8 percent by low inventory levels, electricity is by far the predominant source of energy for the food industry.

Electricity supplies 85 percent of energy consumed in restaurants, and nearly all of the energy used by foodstores. On the other hand, electricity accounts for 55 percent of the energy costs incurred in food manufacturing, with natural gas making up the remaining 45 percent.

## Food Industry Profits Drop

Food industry profits decreased 4.2 percent in 1997. This decline was largely due to a 14-percent decline in foodservice profits. Several factors account for the decline. First, keen competition among fast-food chains, coupled with the slow inflationary pace prevailing in the general economy, has made it difficult for restaurants to raise prices. Moreover, the rise in the minimum wage contributed to higher labor costs in this industry, where a large share of employees are paid minimum wage.

Food manufacturers also saw profits decline, which were 14 percent below 1996 levels. Much of this drop was due to accounting losses stemming from restructuring activities at several large processing firms. Meanwhile, profits for supermarket firms rose 5.9 percent in 1997, mainly from sales of profitable products, such as prepared convenience foods.

## The Remaining Costs

Advertising costs account for about 4 percent of food expenditures, and rose 1.9 percent in 1997—less than half as high as the rise in total food marketing costs. Food manufacturers make up about 51 percent of total food industry advertising expenditures, with foodservice contributing another 27 percent, and food retailing adding another 15 percent.

Business taxes account for another 3.5 cents of the U.S. food dollar. These include property, State, unemployment insurance, and Social Security taxes, but exclude Federal income taxes. Business taxes rose 2.5 percent in 1997. Net interest accounted for only 2.5 percent of total consumer expenditures. The 7.4-percent increase in 1997 interest expenses occurred as a result of increased debt from long- and short-term loans booked during years of rising interest rates (such as 1995). Depreciation, rent, and repairs totaled $49.5 billion in 1997, accounting for 9 percent of the consumer food dollar. Foodservice establishments continued to incur high property rental expenses, and thus had the highest total of any sector. The foodservice sector incurred about 42 percent of these costs, foodstores made up 27 percent, and manufacturing and wholesaling firms together accounted for the remaining 31 percent. ■