



THE FARM - RETAIL SPREAD

The cost of processing and marketing farm-originated products has long been the subject of intensive consideration and debate by various firms, agencies, and individuals. Not only producers and consumers of farm-produced foods but also those involved in public-policy decisions that affect their costs are constantly being made aware of the difference between the retail cost and the farm value of such products.

The following is a reprint of an article which was prepared by Henry Badger and Denis Dunham, staff members of the U.S. Department of Agriculture's Economic Research Service Division, and was originally published in the October, 1975, issue of *Agricultural Outlook*. Our readers will find this article both educational and informative about an aspect of economic activity that affects the welfare of consumer and producer alike.

E. L. H.

The rate of increase for farm-retail spreads may slow in the first half of 1976 compared with a year earlier. Marketing spreads—which represent charges for assembling, processing, transporting and distributing a market basket¹ of farm produced foods—are expected to widen by around 5 percent in the first half of 1976 over year earlier levels. This compares with an 11 percent increase for the first half of this year. [See Table below. To calculate the relative change in the farm-retail spread, find the percent of change between the relevant index numbers from the Farm-Retail Spread column. Thus, for example, the 11 percent increase was arrived at as follows:

$$\frac{166.3 + 162.0}{2} \div \frac{142.3 + 154.6}{2} \text{ minus } 1.00 = .1059 \text{ or } 11\%]$$

¹The market basket represents the average quantities of U.S. farm-originated foods purchased annually per household in 1960-61. Retail cost of these foods is based on an index of retail prices for domestically produced farm foods, a component of the Consumer Price Index published by the Bureau of Labor Statistics. The farm value is the payment to farmers for equivalent quantities of food products minus allowances for byproducts. The farm retail spread is the difference between the retail cost and farm value.

Much of this increase will be for livestock products—meats, dairy, and poultry. Uncertainty prevails concerning farm-retail spreads for crop products, particularly bakery and cereal products and fats and oils products. In 1975, farm-retail spreads for these groups averaged from 20 to 25 percent wider than the already inflated level for 1974. Since the increase in spreads for these items appears to have been greater than increases in wages and other marketing costs, there is a possibility that spreads for bakery and cereal products and fats and oils products could either level out or perhaps contract.

Gross returns to farmers for a market basket of food commodities equivalent to retail units most likely will continue at record levels in the first half of next year due mainly to higher returns for livestock products. Retail prices for foods from U.S. farms may average around 7 percent higher in the first half of 1975 than in the first half of this year reflecting both wider marketing spreads and higher prices at the farm level.

The farmer's share of the consumer's dollar spent in retail food stores may average around 43 cents in the first half of 1976, compared with 41 cents in the first half of 1975.

Farm-retail spreads widened 1 percent in the third quarter of 1975 recovering part of the 2.5 percent (Continued on page 6)

MARKET BASKET OF FARM FOODS¹

| Period | Retail Cost | Farm Value | Farm-Retail Spread | Farmer's Share | Period | Retail Cost | Farm Value | Farm-Retail Spread | Farmer's Share |
|-------------------|--------------|------------|--------------------|----------------|-------------------|--------------|------------|--------------------|----------------|
| | 1967 = 100.0 | | | | | 1967 = 100.0 | | | |
| | | | | Percent | | | | | Percent |
| 1964 | 93.4 | 90.0 | 95.5 | 37 | 1974 ² | | | | |
| 1965 | 96.0 | 99.2 | 93.9 | 40 | I | 159.2 | 185.8 | 142.3 | 45 |
| 1966 | 101.1 | 106.3 | 97.8 | 41 | II | 160.2 | 168.9 | 154.6 | 41 |
| 1967 | 100.0 | 100.0 | 100.0 | 39 | III | 162.0 | 177.1 | 152.4 | 42 |
| 1968 | 103.6 | 105.3 | 102.5 | 39 | IV | 166.3 | 181.3 | 156.7 | 42 |
| 1969 | 109.1 | 114.8 | 105.5 | 41 | 1975 ² | | | | |
| 1970 | 113.7 | 114.1 | 113.4 | 39 | I | 168.8 | 172.8 | 166.3 | 40 |
| 1971 | 115.7 | 114.4 | 116.5 | 38 | II | 170.1 | 182.8 | 162.0 | 42 |
| 1972 | 121.3 | 125.1 | 118.9 | 40 | III | 177.6 | 199.8 | 163.6 | 44 |
| 1973 | 142.3 | 167.2 | 126.4 | 46 | IV | | | | |
| 1974 ² | 161.9 | 177.6 | 152.0 | 43 | | | | | |
| 1973 | | | | | | | | | |
| I | 130.8 | 149.4 | 119.0 | 44 | | | | | |
| II | 138.5 | 160.8 | 124.4 | 45 | | | | | |
| III | 148.4 | 186.0 | 124.6 | 49 | | | | | |
| IV | 151.3 | 172.7 | 137.7 | 44 | | | | | |

¹Represents all foods originating on U.S. farms sold in retail food stores. The retail cost is a component of the Consumer Price Index published by the Bureau of Labor Statistics. The farm value is the payment to farmers for equivalent quantities of food products. The farm-retail spread is the difference between retail cost and farm value.

²Preliminary.

ELECTRICAL UTILITIES UNDER PRESSURE

Energy and its related aspects have become a principal concern of everyone. No part of the economy, either from a spatial or sectoral point of reference, is insulated from the "shock waves" being created by the actual or contrived changes in the supplies of the various sources of energy. One particular concern, both at national and local levels of economic policy making, has been the developments in the electric power industry.

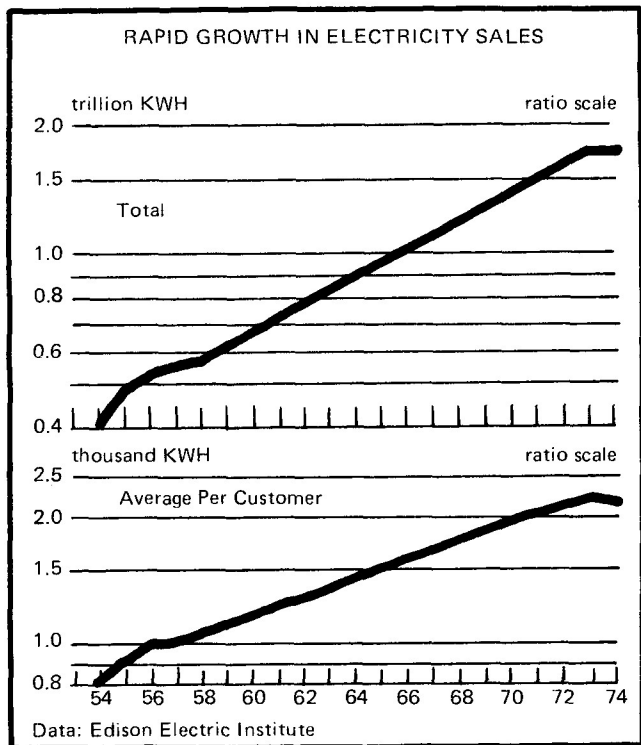
The following is a reprint of an article that appeared in the October, 1975, issue of *Business in Brief*, a bi-monthly publication of the Chase Manhattan Bank.¹ The succinctness of the article makes it especially appropriate as an overview of the current status of "the electric utilities problem." E. L. H.

Everyone seems to be upset about the electric utilities. Customers are up in arms over steep price increases, and stockholders are unhappy because earnings are under severe pressure. One major problem is that the industry's financial structure and traditional regulatory environment make it very vulnerable to inflation. In addition, the utilities are a key channel through which the American economy is feeling the inexorable rise of energy costs.

The situation was particularly bad in 1974. General inflation, a steep rise in fuel prices (gas and coal as well as oil), and a sharp slowdown of demand depressed earnings. Conditions are somewhat better today, but the utilities still face many difficulties. Even with the probability that future demand growth will be slower than in the past two decades, utilities face a serious problem in obtaining the funds they'll need for expansion. There have been numerous cutbacks and delays in expansion plans. If that process went too far, there could be serious power shortages a few years from now.

RISING DEMAND AND RISING COSTS

Electricity sales in the United States totaled 1.7 trillion kilowatt hours (KWH) in 1974 (see chart). That was a fractional

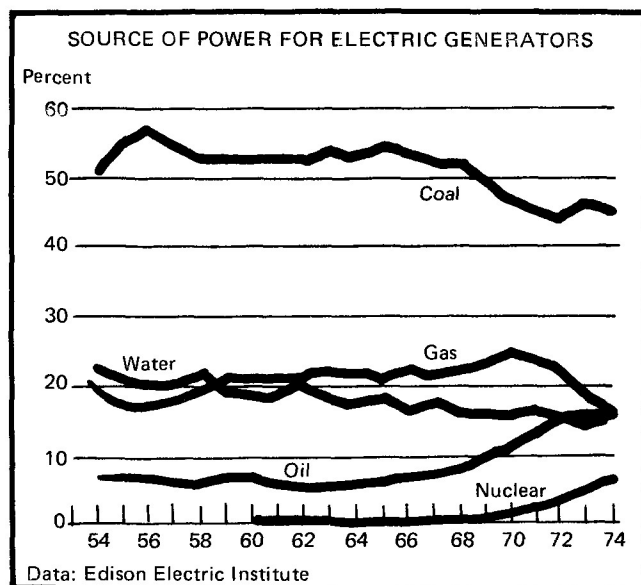


decline from 1973, and a startling break in the long-term growth trend of almost 7½% per year—nearly twice as fast as the growth trend of the overall U.S. economy. Electricity usage slowed in past recessions but didn't decline. But the recent recession was a severe one, and its impact was augmented by steep increases in

electric rates as well as by campaigns for energy conservation. Sales are once again rising in 1975, but the gain from 1974 will be under 3%.

Yet it would be a mistake to extrapolate the recent trend into the future. About 40% of U.S. electricity output is sold to industry, and that is where current demand is weakest. With economic recovery under way, electricity sales could rise by 5%-6% per year through 1977.

Coal is still the dominant source of power for electric generators (see chart). But its share in the mix dropped in the past



decade, spurred by environmental restrictions and by rising costs of production. For a while, natural gas usage rose to offset the declining coal share. But gas shortages were on the way, and the gas share peaked in 1970. It was left to oil to take up the slack, and the share of oil in the utilities' power mix rose steeply until last year.

The role of fuel as raw material is one of the factors that make electric utilities different from other businesses. Another major distinction of electric utilities is that their product for the most part can't be stored. Consequently, they must have capacity to meet peak demands—both daily and seasonal—plus a safety margin that's generally planned at 20% or more over peak. Of course, power can be interchanged between utilities with different peaks, and efficiencies are thus realized.

EXPANSION IS EXPENSIVE

It takes a great complex of physical assets to generate electricity and transmit it to users, and the need to build for peak loads adds to the requirements. This means that capacity expansion by electric utilities requires huge expenditures. Ten years ago, the investor-owned companies spent \$4 billion on plant and equipment,

or about 7½% of total U.S. business capital investment; this year they're laying out \$16 billion, down a bit from 1974 but still about 14% of the U.S. total. This trend is partly the result of more inflation in utilities' construction budgets than in those of other industries, but mainly reflects the very fast rise in electricity output.

The need for capital funds has made the utilities a major element in the financial markets, as issuers of stocks and especially long-term bonds. Heavy reliance on external financing is manageable as long as earnings grow dependably. The utilities enjoyed that sort of earnings trend for years, but clouds began to gather five or more years ago. The core problem was inflation. It drove up construction costs and thus the need for capital funds; it boosted interest rates; and it raised operating expenses.

The problem of the utilities has been further complicated by the fact that they are a regulated industry. Unlike most businesses, they can't adjust to rising costs by altering their own price without first gaining permission from regulatory bodies. Even under the best of circumstances, such rate adjustments lag behind cost increases. The lag becomes especially painful when costs rise as fast as they have in the past few years. Moreover, regulatory bodies have at times dragged their feet on adjustments.

FINANCIAL DIFFICULTIES

Regulators approved large rate increases in 1974, and the companies gained substantial revenues from the automatic adjustments for fuel cost increases that most regulators allow. Nevertheless, the utilities were hard pressed by escalating costs. And the flattening of demand meant that increased fixed costs were spread over a stable volume of output, which eroded profitability.

With earnings deteriorating, the electric utilities had to finance about 75% of their investment last year externally—through selling stock or issuing debt. The typical figure in the late 1960s was more like 60%. The stock market, demoralized by inflation and recession, was inhospitable, and long-term borrowing was hindered by the squeeze on revenues available for covering fixed charges. One result was an increase in borrowing from banks. But bank loans are essentially bridge financing for the period during which facilities are being constructed, before more permanent long-term financing is arranged.

The financial health of the electric utilities is one of the critical problems for the United States economy. Even with slower future demand growth, capital spending should average about \$20 billion per year in 1976-79, compared with \$16 billion this year. If financial problems force the utilities to trim their capital budgets too close to the bone, the consequences for the economy could be serious indeed.

WHAT IS NEEDED

Some have argued—especially last year—that only the Federal Government can assure the utilities the necessary financing, through some program along the lines of loan guarantees or cost subsidization. This would create an additional and undesirable financing role for the Federal Government, and it would treat only effects, not causes; it would do nothing to solve the utilities' basic financial problems. Federal actions of this sort would give the utilities a preferred position in the capital markets, but at the cost of shoving aside other borrowers.

The basic need is, first, to control overall inflation, which is especially troublesome to utilities because of their heavy capital needs and because of the tendency for the regulatory process to

lag. In addition, the utilities' product must be rationally priced. That means pricing to reflect full costs of production, including the return to investors that is needed to attract funds for expansion.

- Regulators must streamline the process of rate adjustment and minimize lags. And they must recognize the role of inflation in driving up operating costs, construction costs, and the cost of funds.
- Rate structures need to be revamped. There's widespread interest in restructuring prices in order to slow the growth of peak loads, which are costly because they increase the amount of standby capacity the utilities must maintain. Experiments are under way testing the use of higher prices at peak-load times of day or year. It's also being proposed that there be revisions in current price structures that reduce the price per KWH as usage rises.
- Management must be vigilantly cost conscious. Not to be so is to flirt with serious danger.
- Environmental constraints must be administered with a recognition of the tradeoff between costs and benefits. Frequently only environmental benefits are considered. Heavy costs to the public are ignored.

Action along these lines should enable the utilities to tap the capital markets for the funds they need on terms they can afford, assuring orderly expansion of the industry and avoidance of threatened shortages.

¹This publication is recommended to the reader as an excellent source of easy-to-understand articles about the economy in general and the financial world in particular. It may be had upon request from The Chase Manhattan Bank, N.A., New York, N.Y., 10015.

POTPOURRI

PERSONAL INCOME rose *nationally* by 2-1/4 percent from the first to the second quarter, 1975. Relevant prices rose 1-1/4 percent; therefore real income rose about 1 percent. *Nebraska's* personal income increased 3.5 percent, or a real increase of about 2 percent. These were the first significant quarter-to-quarter gains in real income since the recession began in late 1973. On a year-to-year basis, however, neither the nation nor the state had a real increase. Supporting Nebraska's gain this year was the substantial increase in farm income, due mostly to improved livestock prices.

HOUSE PRICES rose nationally. The national price index of standard type, new one-family houses rose 0.8 percent during the second quarter of 1975 to 171.7 (1967 = 100.0). The average *sales price* of new one-family houses of *all* types actually sold during the second quarter, 1975, was \$42,000 for a \$1,600 or 3.9 percent increase from the average price of the first quarter. The relative increase in sales price, 3.9, being greater than that of the price index, 0.8, is an indication of an overall shift toward construction of larger houses, houses with more amenities, and, to some extent, a shift in the regional distribution of new one-family houses.

Review and Outlook

In September overall business activity in Nebraska did not hold up quite as well as in August—when compared with year ago levels. Although the dollar volume of production was slightly higher—relative both to the same month of last year (see Table 1) and to the 1967 base (see Table 2)—the physical volume was slightly lower than in August. For the nation both the dollar and physical volumes were at slightly higher levels.

For Nebraska the agricultural dollar index was up, but only because of the large increase in agricultural prices (see Table 5). Agriculture's physical volume was down, being below the September, 1974, level by 15 percent after being below by 11 percent in August. One bright note was found in the distributive (largely

wholesale and retail trade) sector of the economy. The rise in retail trade is discussed below.

Manufacturing was estimated to be up from August's level both in dollar and physical volume, but this may not be the case when the final figures come in from Washington. More important, relative to September of 1974, manufacturing was down considerably. The government and the construction sectors showed a considerable decline in Nebraska, but were higher than in August in the nation. Thus the picture on the recession continues to be somewhat mixed, and about all that can be said is that there was no substantial change.

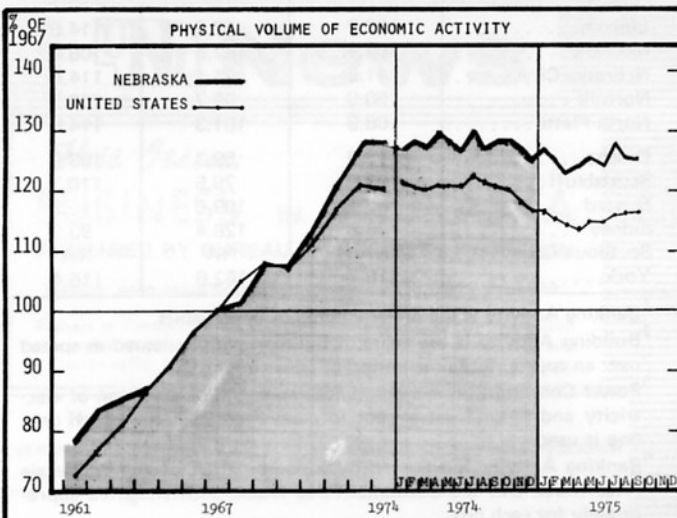
The retail sales figures in Table 3 show a remarkable jump over last year. Whereas the ratios— (Continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

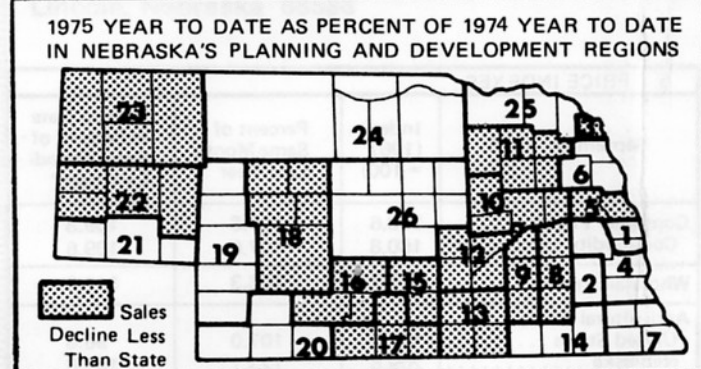
| ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES | | | | |
|---|--|-------|---|-------|
| 1. CHANGE FROM PREVIOUS YEAR | | | | |
| September, 1975 | Current Month as Percent of Same Month Previous Year | | 1975 Year to Date as Percent of 1974 Year to Date | |
| | Nebraska | U.S. | Nebraska | U.S. |
| Indicator | Nebraska | U.S. | Nebraska | U.S. |
| Dollar Volume | 106.2 | 103.4 | 106.3 | 104.3 |
| Agricultural | 105.0 | 110.7 | 97.2 | 95.2 |
| Nonagricultural | 106.5 | 103.1 | 108.2 | 104.7 |
| Construction | 102.1 | 97.7 | 115.1 | 93.0 |
| Manufacturing | 99.5 | 95.3 | 105.2 | 100.5 |
| Distributive | 108.7 | 106.6 | 107.6 | 107.0 |
| Government | 110.7 | 109.4 | 112.9 | 108.8 |
| Physical Volume | 97.3 | 96.7 | 97.6 | 95.4 |
| Agricultural | 85.3 | 103.5 | 92.3 | 98.4 |
| Nonagricultural | 99.5 | 96.5 | 98.5 | 95.3 |
| Construction | 95.8 | 91.6 | 103.6 | 83.7 |
| Manufacturing | 94.0 | 89.4 | 93.7 | 88.8 |
| Distributive | 100.8 | 98.8 | 98.0 | 97.4 |
| Government | 104.2 | 103.7 | 107.0 | 104.2 |

| 2. CHANGE FROM 1967 | | |
|---------------------|-------------------------|-------|
| Indicator | Percent of 1967 Average | |
| | Nebraska | U.S. |
| Dollar Volume | 219.0 | 194.4 |
| Agricultural | 249.4 | 231.2 |
| Nonagricultural | 213.8 | 193.1 |
| Construction | 193.8 | 162.3 |
| Manufacturing | 233.3 | 182.2 |
| Distributive | 207.7 | 198.0 |
| Government | 220.1 | 210.1 |
| Physical Volume | 125.7 | 116.4 |
| Agricultural | 119.0 | 119.4 |
| Nonagricultural | 126.9 | 116.3 |
| Construction | 100.4 | 84.1 |
| Manufacturing | 131.0 | 105.3 |
| Distributive | 126.9 | 121.1 |
| Government | 130.9 | 134.2 |

| 3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES (Adjusted for Price Changes) | | | |
|---|---------------------------------------|---------------------------------------|---|
| Region Number ¹ and City | City Sales ² | | Sales in Region ² |
| | Sept., 1975 as percent of Sept., 1974 | Sept., 1975 as percent of Sept., 1974 | Year to Date '75 as percent of Year to Date '74 |
| <i>The State</i> | 107.6 | 107.0 | 96.1 |
| 1 Omaha | 104.7 | 103.8 | 94.7 |
| Bellevue | 90.2 | | |
| 2 Lincoln | 107.2 | 106.6 | 95.9 |
| 3 So. Sioux City | 95.5 | 101.1 | 97.1 |
| 4 Nebraska City | 100.1 | 103.2 | 92.3 |
| 5 Fremont | 103.6 | 107.7 | 97.9 |
| Blair | 101.0 | | |
| 6 West Point | 124.5 | 115.2 | 91.4 |
| 7 Falls City | 120.7 | 113.5 | 93.8 |
| 8 Seward | 141.7 | 123.1 | 98.6 |
| 9 York | 102.4 | 104.9 | 99.6 |
| 10 Columbus | 100.0 | 107.1 | 96.8 |
| 11 Norfolk | 152.2 | 121.3 | 98.7 |
| 12 Grand Island | 110.6 | 109.1 | 100.6 |
| 13 Hastings | 102.9 | 105.8 | 97.1 |
| 14 Beatrice | 117.7 | 114.0 | 95.0 |
| Fairbury | 110.4 | | |
| 15 Kearney | 110.8 | 111.5 | 102.3 |
| 16 Lexington | 108.0 | 104.6 | 99.2 |
| 17 Holdrege | 95.6 | 103.4 | 96.8 |
| 18 North Platte | 106.3 | 106.3 | 100.1 |
| 19 Ogallala | 105.3 | 105.1 | 95.5 |
| 20 McCook | 105.6 | 103.5 | 93.0 |
| 21 Sidney | 96.6 | 103.5 | 91.6 |
| Kimball | 123.8 | | |
| 22 Scottsbluff | 108.3 | 107.7 | 99.1 |
| 23 Alliance | 111.9 | 109.1 | 96.8 |
| Chadron | 115.2 | | |
| 24 O'Neill | 116.0 | 102.0 | 90.8 |
| 25 Hartington | 127.0 | 112.4 | 95.3 |
| 26 Broken Bow | 114.0 | 108.3 | 92.5 |



¹ See region map below.
² Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.
 Compiled from data provided by Nebraska Department of Revenue.



(Continued from page 4) which represent physical volume changes—showed almost no change from 1974 for August, the September volume was up almost 8 percent (without motor vehicle sales) and 7 percent (when they are included). The only cities showing a decline from September, 1974, were Bellevue, Fairbury, and Sidney. In no case were the sales down for any region. Some of the jumps for individual cities were extraordinary, with Norfolk more than 50 percent above last year, and six cities more than 20 percent above. Many of these high ratios were due, however, to very low sales volumes recorded in September, 1974. It may be noted that in most cases where the city sales soared more than 20 percent above 1974, the corresponding regions rose about half as much, indicating that the rise was almost entirely a city phenomenon.

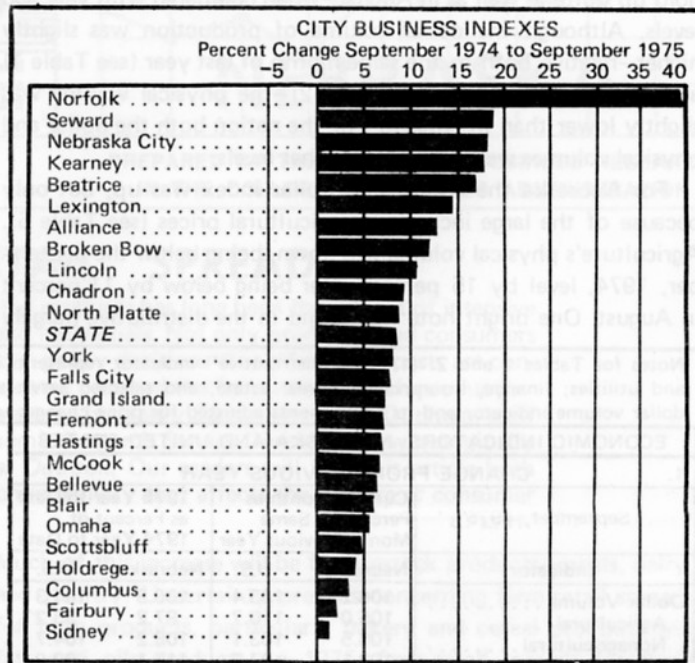
The data for banking activity in Table 4 somewhat confirm those for retail sales. Not a single city had a decline in banking activity (debits to demand deposits deflated for price increases). Norfolk reported both sales and banking up 50 percent. However, there was only a slight relationship for other cities between the rise in sales and that in banking. For instance, Nebraska City sales were almost the same as last year, but its banking activity was 42 percent up; the opposite situation occurred in Seward.

Building activity was quite mixed, as usual. About half of the cities did better in this activity than last year, and half did worse, with the total for all cities down more than 15 percent. Power consumption, on the other hand, was up in every city except Chadron and Sidney.

The city indexes on the chart showed every city as better off than last year (as a result of the increases in retail sales, banking activity, and power consumption). This situation has not been true for any month since July, 1973, although the indexes from then until July, 1974, had been positive for almost all the cities. During last fall and winter, on the other hand, almost all the cities were lower on this index than the year before. Possibly, the cities of Nebraska, at least, are now experiencing a recovery.

The most sanguine optimists who comment on the business scene, while predicting some improvement during 1976, do not expect any great upward surge in the nation's economy. Clearly we are in a fairly long-term depressed state rather than in a mere short-term recession. The situation does not appear to be as bad as that of the 1890s, and certainly not as bad as that of the depression of the 1930s, but both these 40-year periods seem to have ended in severe and long-lasting downturns in business.

E. Z. P.



Source: Table 4 below.

| The State and Its Trading Centers | Percent of Same Month a Year Ago | | |
|-----------------------------------|--|--------------------------------|--------------------------------|
| | Banking Activity ¹ (Adjusted for Price Changes) ⁴ | Building Activity ² | Power Consumption ³ |
| <i>The State</i> | 115.3 | 84.4 | 108.1 |
| Alliance | 119.3 | 72.8 | 114.5 (Est.) |
| Beatrice | 111.1 | 182.1 | 124.9 |
| Bellevue | 113.2 | 187.9 | 128.9* |
| Blair | 111.3 | 69.7 | 127.9 |
| Broken Bow | 114.7 | 100.1 | 103.3 |
| Chadron | 106.1 | 136.7 | 99.0 |
| Columbus | 101.4 | 170.0 | 113.4 |
| Fairbury | 104.8 | 44.0 | 102.3* |
| Falls City | 101.7 | 94.1 | 102.1 |
| Fremont | 114.0 | 89.2 | 116.9* |
| Grand Island | 108.8 | 92.8 | 109.5 (Est.) |
| Hastings | 114.9 | 100.9 | 109.3 |
| Holdrege | 115.5 | 80.5 | 108.6 |
| Kearney | 124.0 | 190.2 | 108.3 |
| Lexington | 130.2 | 55.7 | 115.1 |
| Lincoln | 120.2 | 62.9 | 114.6 |
| McCook | 104.7 | 187.5 | 108.4 |
| Nebraska City | 141.8 | 91.1 | 114.4 |
| Norfolk | 150.9 | 59.7 | 100.2 |
| North Platte | 108.9 | 161.3 | 114.8 |
| Omaha | 113.9 | 59.3 | 103.9 |
| Scottsbluff | 103.9 | 79.5 | 110.3 |
| Seward | 100.1 | 109.0 | 115.9 |
| Sidney | 106.8 | 128.4 | 93.9 |
| So. Sioux City | NA | NA | NA |
| York | 110.7 | 162.6 | 116.4 |

¹ Banking Activity is the dollar volume of bank debits.
² Building Activity is the value of building permits issued as spread over an appropriate time period of construction.
³ Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.
⁴ Banking Activity is adjusted by a combination of the Wholesale Price Index and the Consumer Price Index, each weighted appropriately for each city.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

| September, 1975 | Index (1967 = 100) | Percent of Same Month Last Year | Year to Date as Percent of Same Period Last Year* |
|------------------------|--------------------|---------------------------------|---|
| Consumer Prices | 163.6 | 107.8 | 109.8 |
| Commodity component | 160.8 | 107.6 | 109.6 |
| Wholesale Prices | 177.7 | 106.3 | 111.0 |
| Agricultural Prices | | | |
| United States | 193.6 | 107.0 | 96.8 |
| Nebraska | 209.5 | 123.1 | 105.6 |

*Using arithmetic average of monthly indexes.
 Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

(Continued from page 1) decrease which occurred in the second quarter. Wider spreads for meats and fresh fruits and vegetables contributed most to the third quarter increase, while spreads for most other foods decreased. Third quarter spreads averaged 7 percent wider than a year earlier. Marketing spreads are expected to average about 8 percent wider in 1975 than in 1974. Rising wages and prices of materials and services purchased by food marketing firms undoubtedly contributed to this rise and will continue to be a dominant influence on marketing spreads and food prices. However, spreads for market basket foods have been increasing at a decreasing rate since the first quarter of this year, and in the fourth quarter may average only 3 percent wider than a year earlier, compared with about a 17 percent increase in the first quarter of 1975. Returns to farmers increased steadily each quarter of 1975.

The retail cost of the market basket of U.S. farm food products averaged \$1919 (annual rate) in the third quarter of 1975, up over 4 percent from the previous quarter. Sharp price hikes for beef, pork, poultry, eggs and fresh fruits and vegetables accounted for most of the rise. In contrast, prices dropped sharply for bakery and cereal products, oilseed products and sugar. Prices for other farm foods changed little. Compared with a year ago, the retail cost of the market basket in the third quarter was up about 9½ percent.

HELP FOR THE RAILROADS ?

A particular problem confronting the railroads results from the dual nature of the shipments which they handle. Heilbroner and Thurow, in the December, 1975, issue of *The Economic Problem Newsletter*, suggest that:

"Since railroads have long ago lost high-speed transportation to other forms of transportation, they now specialize in bulk shipments, such as grain, for which speed is not important. This specialization, however, has an important consequence. Because costs of train operation and roadbed maintenance rise rapidly as speed increases, there is an optimum speed at which a freight railroad minimizes its costs. This turns out to be about 40 mph.

"The trouble is, this speed is so slow that rail transportation—especially passenger service—becomes noncompetitive with other forms of personal transportation. [Trains are forced to run] at low speeds because there is no incentive for the private rail companies to install roadbeds capable of handling high-speed passen-

Returns to farmers for market basket foods increased some 9 percent from the second to the third quarter as prices for most products rose significantly in July and September. Prices for hogs, poultry, eggs, potatoes and oilseed led the increase. Returns for apples, a few vegetables, and sugar decreased. Farm values in the third quarter averaged 13 percent higher than a year earlier. Farm values were up for most products except wheat and other ingredients in bakery products, oilseed products, and sugar. Increases were largest for meat animals and poultry. The farmer's share of a dollar spent in retail food stores for market basket foods was 44 cents in the third quarter of 1975, compared with 42 cents in the previous quarter and a year earlier.

For the first time in the history of the beef and pork price-spread series, the retail price for pork cuts in September exceeded the price for Choice beef. Prices for pork averaged a record \$1.54 per pound, 1 cent higher than for beef. The farm value of the live hogs equivalent to a pound of pork cuts averaged \$1.07, leaving a farm-retail spread for pork of 47 cents in September. Hog prices averaged more than \$60 per 100 pounds in 7 mid-western markets in September, an all-time high. With prospects for continued small supplies of slaughter hogs well into 1976, pork prices and marketing spreads may quite likely continue near record levels.

WHAT DO YOU THINK ?

ger service.

"The proposal is that we should nationalize the roadbeds, but not the railroads. The government would take over (for adequate compensation) the actual trackage and would maintain it exactly as it maintains the roadbeds of interstate highways or the "roadbed" of airports and their complicated flight control systems. There would no longer be any reason not to bring this rail roadbed system into a condition capable of moving very high-speed traffic. . . .

"Nationalization . . . would greatly lessen the disadvantage the rails now suffer when they try to meet the competition of buses or trucks that have the use of well-maintained public roadbeds. It would enable the ICC to relax its regulations so that railway companies could compete much more effectively. Different railroad companies could serve the same city over the same common roadbed, just as different airlines or trucking companies serve it over the same common airlines and toll roads."

UNL News

This Issue:

BUSINESS IN NEBRASKA

PREPARED BY BUREAU OF BUSINESS RESEARCH

Member, Association for University Business & Economic Research

Business in Nebraska is issued monthly as a public service and mailed free within the State upon request to 200 CBA, University of Nebraska - Lincoln 68588. Material herein may be reproduced with proper credit.

No. 376

January, 1976

UNIVERSITY OF NEBRASKA-LINCOLN

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