



Farmers get Wholesale in a Retail World

By Leland Hogan

“The American farmer is the only man in our economy who buys everything he buys at retail, sells everything he sells at wholesale, and pays the freight both ways.” This observation by President John F. Kennedy may have greater application today than a generation ago illustrating the economic reality that faces our farmers and ranchers.

Today, less than two-percent of America’s population is producing for our nation’s and world’s food and fiber needs. As consumers, we continue to enjoy high-quality, safe and abundant food at the world’s lowest cost. We have been blessed with processed and fresh food products in our corner grocery store that have traveled an average of 1200 miles before it ultimately reaches our kitchen table.

Unfortunately, current economic conditions, energy policy uncertainty and diesel fuel prices eclipsing \$4.00 a gallon are now affecting food prices and will impact this summer’s farm production costs. Policies protecting local food production capacity and shortening supply chains are critical issues for Utah consumers.

A Corn Flake’s Worth

There have been a lot of media coverage and opinion editorials in the past several months placing blame on various factors purportedly causing food prices to increase. Some of these news reports even go so far as to point the finger at farmers and ranchers for supposedly reaping the benefits of higher retail prices for food products.

In reality, transporting, processing and packaging food and agriculture products cost significantly more today than in recent years. Meanwhile, the farmer’s share of the retail food dollar has continued to hover between 20-25 percent since the 1970s.

One must only look at the cost of raw agricultural products compared to food that has been further processed. For example, today, farmers receive \$5.50 per bushel of corn, while the value of corn in each box of corn flakes averages 7.9 cents. When corn flakes cost approximately \$3.30 for an 18-oz. box at the grocery store, this translates into the farmer getting less than 2 percent of the retail price.

The same can be seen with a loaf of bread that costs \$1.78. As of the end of the first quarter of 2008, farmers received 16 cents for the wheat used to produce a typical 20-ounce loaf of bread, which translates into the farmer receiving 9 percent of the retail price for that loaf.

Beyond the Farm Gate

So, what is really driving the increase in food prices? For starters, runaway energy prices are a major contributor behind the higher retail cost of food. After many commodities leave the farm gate, high costs for energy, fuel and transportation are added and passed onto the consumer. These increased retail prices are especially noticeable on convenience and highly processed foods.

Further, market demand for American farm commodities including corn, wheat and cheese remains strong both here at home and overseas, which plays a role in the recent increase in food prices. The falling value of the U.S. dollar has made American farm commodities more attractive globally. Farm and ranch exports soared to a record \$90 billion in 2007, good news for our burgeoning balance of trade deficit. However, that instability in the value of the U.S. dollar is contributing to world oil futures that are approaching \$120 a barrel.

Farmers are price takers, not makers. This reality, coupled with higher production and transportation costs, has farmers and ranchers also feeling the impact of escalating energy costs and the present economic downturn.

Despite what some critics might say, farmers are still getting wholesale prices in a retail world.

Leland Hogan is President of the Utah Farm Bureau Federation.

About the Utah Farm Bureau

The Utah Farm Bureau is the largest general farm and ranch organization in the state with more than 21,000 member families. Its mission is to improve the net income of the state's farmers and ranchers and the overall quality of life in the state and nation through political action, educational and informational means. The Farm Bureau is a non-partisan, voluntary organization, and its efforts are based on grassroots policies developed by members at the local, county, state and national levels. It is affiliated with the American Farm Bureau Federation, the world's largest general farm organization, with more than 6.5 million family members in 50 states and Puerto Rico. For more information, go to the Utah Farm Bureau Web site at <http://utfb.fb.org>.

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