



# ILLINOIS FARM AND FOOD OUTLOOK

## COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

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### MARKETING COSTS FOR PORK HAVE INCREASED

MARKETING COSTS FOR FOOD HAVE INCREASED DRAMATICALLY SINCE 1970. Differences between retail food and farm commodity prices have increased substantially in the last 6 years. From 1970 through 1975, the USDA farm-to-retail price spread for a market basket of U.S. farm foods increased by 46 percent. For pork, however, the price difference between the farm gate and the retail meat counter widened by only 25 percent over this same period. The difference is due in part to the fact that marketing costs are lower for pork and other meats than for crop-based foods which require more processing than meat. Also, the increase in overall pork marketing costs masks a significant downward shift in the share of the pork dollar received by packers.

The USDA reports prices per pound for hogs and wholesale pork cuts on the basis of their equivalent retail yield. About 1.07 pounds of wholesale pork cuts and roughly 1.97 pounds of live hog are required to produce 1 pound of retail pork. These factors are used to convert wholesale pork and live hog prices to a "retail weight equivalent." As a final refinement, the market value of pork-related byproducts not sold directly at retail--snouts, offal, skins, etc.--are netted from the retail price-equivalent of live hogs. Thus, 50 cents per pound for live hogs converts to a gross retail weight-equivalent price of 98.5 cents, and a net of 92.5 cents when pork byproducts sell for 6 cents per pound.

On the basis of the retail equivalent, the difference between live hog prices and wholesale pork prices can be taken as a representation of the pork packer's charge for transforming a live hog into wholesale pork cuts--loins, hams, bellies, and spareribs. In a period of rising business costs, this price differential has narrowed considerably. For the first quarter of 1976, the average retail-equivalent prices for wholesale pork and hogs were 100.3 and 86.4 cents, respectively. The 13.9-cent differential between these two prices is the lowest that this figure has been on a quarterly basis within the past four years. As a result, there have been closings of several pork-packing facilities over the past few months.

Present indications point to increased hog slaughter in the third and fourth quarters of 1976. Increased supplies of slaughter hogs will create a chance for packers to increase the difference between wholesale pork prices and live hog



prices. Given the current financial difficulties faced by pork packers, they will be under pressure to take advantage of such an opportunity. This situation is likely to produce lower hog prices during the last half of 1976, as compared to the same period a year ago.

*The above material was prepared by T.E. Elam for this newsletter. Issued by M.B. Kirtley, Extension Economist, Livestock Marketing*

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