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HIGH PRICES

and the demand for Idaho fresh-market potatoes

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Throughout the 1964-65 marketing season, U. S. potato prices were much higher than the industry had anticipated. Yet, Idaho Russets maintained a wider dollar margin over competitive russets than was recorded the previous season. Consumer resistance to much higher potato prices did not materialize to the degree that many had expected.

Because of the short crop, Idaho producers could not supply all of the needs of their regular customers—the fresh and processing markets. Processors wanted enough potatoes to finish out their normal seasonal runs and were compelled to bid prices up in Idaho to insure this quantity. Prices rose early and stayed exceptionally high all through the season.

TERMINAL MARKET HANDLERS RESISTED EARLY PRICE RISES

It seemed to the industry, especially fresh market handlers, that potato price increases originated in Idaho and were followed in the majority of instances by price increases in competitive potato-producing areas. Idaho fresh market handlers, who had built a reputation on Idaho quality, were worried that rising prices on Idahos would harm the Idaho market—for the season and permanently. These fears caused some evident ill feeling toward Idaho early in the season. Idaho shippers were accused of raising prices unduly and arbitrarily. As the season continued with supplies remaining low, prices rising, and potatoes moving, these ill feelings were largely dispelled. The price increases were recognized as the effect of supply and demand.

REDUCED ACCEPTANCE FORECAST

Early season price rises caused fresh market handlers to forecast a drastic reduction in consumption of all fresh potatoes. It was predicted that at $10 to $12 per hundred, retail fresh potatoes would stop moving in quantity. Some handlers predicted that Idaho Russets could not maintain their usual premium at the higher price levels. The predictions did not come true. All potatoes continued to move. Idaho potatoes sold at an increasing premium.

WHAT REALLY HAPPENED

In an effort to determine the effect of the 1964-65 prices on the demand for Idaho potatoes, data on potato shipments and unloads and on potato advertising were analyzed, and a questionnaire was mailed to terminal market handlers and chain store produce buyers for their subjective opinions.

POTATO SHIPMENTS COMPARED

U. S. carlot shipments[1] of fresh potatoes from the 1964 late crop were 87% of the 1963 crop (table 1). However, Idaho shipments were only 59% of the 1963 crop.

Table 1. U. S. Commercial Carlot Shipments, Rail and Boat Only, 1963 and 1964 Fall Potato Crop

	Carlot Shipments (through July 1, 1965)		
Area	1963 Crop	1964 Crop	1964 as % of 1963
Idaho	31823	18904	59%
Maine	24646	27565	112%
All others	85397	77631	91%
TOTAL	141866	124100	87%
Total all except Idaho	110430	105196	95%

Source: Federal-State Market News Service, Potato Report No. 69, July 2, 1965, Bakersfield, California.

Unfortunately there is no data on type of potato shipped so no comparison of Russet Burbanks from various states is possible.

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[1] Does not include truck shipments.

POTATO UNLOADS COMPARED

Total potato unloads from the 1964 crop were 92% of those of the 1963 crop. However, Idaho unloads were only 64% of 1963, considerably less than average. It is not possible to determine from the published data the type of potato unloaded, whether Russet or not.

Table 2. Rail, Boat and Truck Unloads of Fall Crop Potatoes 41 cities, 1963 and 1964 Crops (in carlot equivalents)

State of Origin	1963 crop	1964 crop	1964 as % of 1963
Colorado	9070	7128	79%
Maine	27206	27265	101%
Idaho	20994	13412	64%
Michigan	4369	5036	115%
Minnesota-North Dakota	15380	10951	71%
New York-Long Island	14539	15148	104%
Oregon	5489	5098	93%
Washington	7427	8832	119%
Wisconsin	6484	6302	97%
Canada	485	1691	349%
All others	60566	56785	94%
TOTAL	172,009	157,648	92%
Total except Idaho	151,015	144,236	96%

Source: USDA Market News Service, Weekly Summary, Shipments-Unloads, No. WS-25-65, June 28, 1965.

Of the potatoes from the major growing areas, unloads from Maine and New York-Long Island were slightly above the 1963 level, while those from Idaho and the Red River Valley were far below. "All other" (table 2) growing areas supplied nearly the same amounts as in 1963. Michigan, Washington and Canada supplied more than they had the previous year to make the total unloads come closer to 100% of 1963. The four major growing areas—Idaho, Maine, Red River Valley and New York-Long Island—had only 85% as many unloads from the 1964 crop as the 1963 crop, as compared to 92% for all growing areas combined. Canadian unloads were 1691 cars this past season as compared to 485 from the 1963 crop.

Comparing potato shipments, Table 1, with unloads, Table 2, shows that while only 59% as many Idaho potatoes were shipped from the 1964 crop as compared to the 1963 crop, 64% as many, a higher percentage, were unloaded in the 41 major markets. This indicates a different distribution pattern for the higher-priced year. A higher percentage of shipments went to major markets.

F.O.B. PRICES

The average f.o.b. price for 1964 crop US1A Idaho potatoes in 100-pound burlap sacks was \$6.56—more than 2½ times the average 1963 price of \$2.54. In both years prices climbed up as the season progressed. The average price in April for the 1963 crop was \$3.37, or 162% of the October price. The average price in April for the 1964 crop was \$8.44, or 189% of the October price for that crop year.

To get an indication of what the higher 1964-65 prices meant in terms of income to the State of Idaho, the monthly average price was multiplied by the carlots moved that month, which in turn was multiplied by the average weight per car, 430 hundredweight. On this basis, the 26,885 cars shipped from the 1963 crop would bring in \$29 million, while only 17,899 cars shipped from the 1964 crop would bring in \$50 million. With only ⅔ as many cars of potatoes from the 1964 crop, income was 72% greater. The price used to determine the average price in this paper is the minimum price; actual income in both years was probably considerably greater because of the higher prices for higher quality packs than US1A that were shipped.

PRICES IN CHICAGO AND NEW YORK MARKETS

During the 1964-65 marketing season Idaho Russets not only kept a premium price above

Table 3. Average Price Per Month of 1963-64 Fall Crop Idaho Russets at Idaho Falls, Number of Shipments per Month and Total Income from these Shipments

	1963 Crop			1964 Crop		
Month	Average Price[1]	Number Carlots[2]	Index of Dollar Income[3]	Average Price[4]	Number Carlots[2]	Index of Dollar Income[3]
Oct.	2.07	3474	\$3,811,230	4.47	2193	\$4,215,290
Nov.	2.12	4200	\$3,828,720	4.74	2980	\$6,073,750
Dec.	1.99	4385	\$3,752,180	6.70	2465	\$7,101,880
Jan.	2.25	5081	\$4,915,760	7.24	2868	\$8,928,520
Feb.	2.68	4435	\$5,196,980	7.03	2063	\$6,235,860
Mar.	3.32	4706	\$6,714,020	7.34	3638	\$11,482,290
Apr.	3.37	594[6]	\$ 860,860	8.44	1682[7]	\$6,104,280
TOTAL	17.80	26885	\$29,079,750	45.96	17889	\$50,141,870
Avg.	2.54	3840		6.56	2556	
Weighted Avg.[5]			2.45			6.52

1. Calculated from Federal-State Market News Service, Daily Potato Report, Idaho Falls, Idaho. US1A 100# sack price used when quoted; if no quotation for this quality 10% 10 oz. larger, 10-20% 10 oz. or larger or 25-30% 10 oz. or larger price used.

2. Includes truck shipments converted to carlot. Includes only "East Idaho" and "Twin-Burley" shipments.

3. Average price multiplied by 430 bags per car multiplied by number of cars.

4. Only US1A price used.

5. Total income divided by 430 sacks per car, divided by number of cars, gives average price per cwt. per car for season.

6. Reported T=U April 3.

7. Reported T=U April 15.

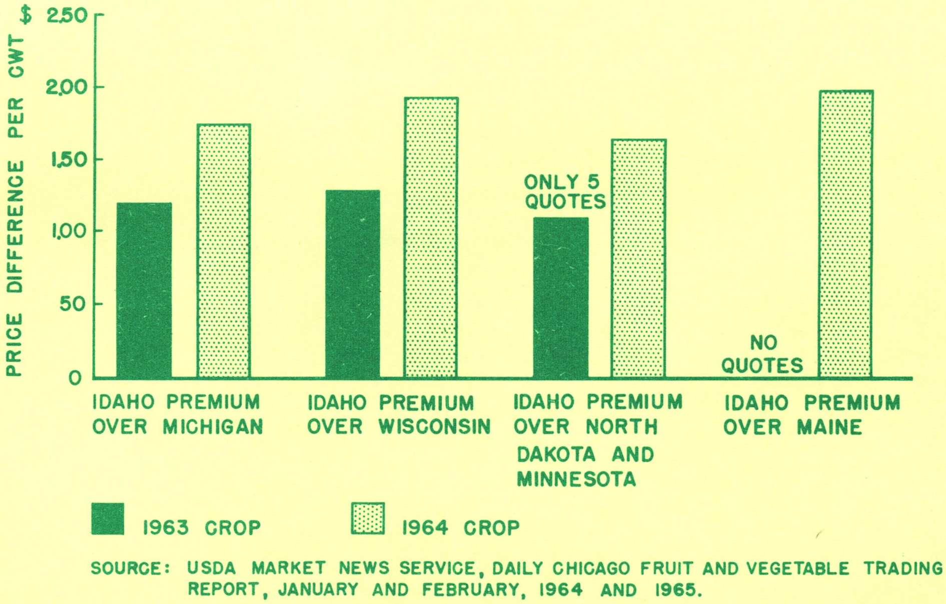

Figure 1. During January and February 1965, Idaho Russet "street sales" (sales on the wholesale market in less-than-carload lots) in Chicago averaged about $1.80 per cwt over equivalent grade Russets. During the same period of 1964, the difference was only $1.15 per cwt. In New York the difference was even greater. Idaho Russets in 1965 wholesaled for approximately $3.40 more than Maine Russets. In 1964 the difference was only $1.25.

other Russets in the same market, but the premium was larger than it had been the previous year.

ADVERTISING OF IDAHO POTATOES

From November 1963 through April 1964 there were 192 ads for Idaho potatoes. The average advertised price was $5.40 per hundred. In the 1964-65 marketing season there were only 81 ads, and the average advertised price was $9. In calculating the average advertised price no distinction was made between grade or area of the country so the prices cannot be interpreted as being absolute prices or indicative of a margin, but only as an indication of differences between years.

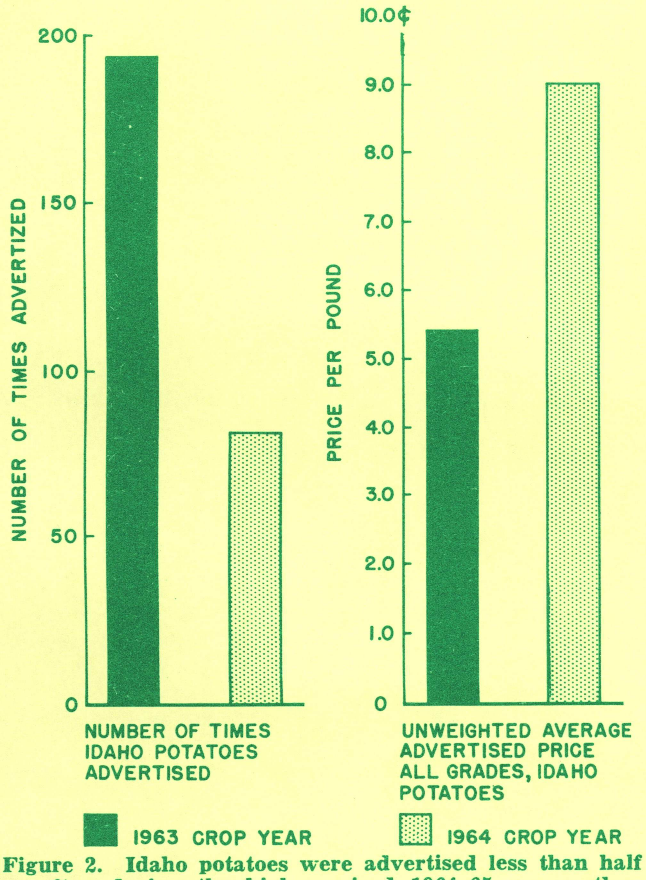

Figure 2. Idaho potatoes were advertised less than half as often during the higher-priced 1964-65 season than the previous season. The advertised price was nearly twice as much.

These figures come from a study of food store advertising which is being conducted by the Department of Agricultural Economics of the University of Idaho. Food store newspaper ads from 10 major metropolitan centers in the United States have been read and recorded on IBM cards daily since January 1, 1963.

High prices did affect the amount of promotion put behind Idaho potatoes. Before a final evaluation of advertising in this high-priced year can be made the advertising data must be analyzed to determine the price for different grades and how the advertising and advertised prices of other potatoes compared to Idahos area-by-area across the country.

SUBJECTIVE OPINIONS OF TERMINAL MARKET HANDLERS AND CHAIN STORE BUYERS

Questionnaires were mailed to chain store headquarters and terminal market handlers. Handlers and chain store buyers were personally interviewed in Denver, Minneapolis, Chicago, New York, Boston, Pittsburgh, Atlanta, and Dallas in an effort to determine how the higher prices of potatoes, and particularly of Idaho potatoes, affected their trade.

At what price do consumers stop buying fresh potatoes altogether or switch to processed potato products? Experienced produce people expressed amazement at the way fresh potatoes continued to move even with the exceedingly high prices this past season. Many stated that they expected potatoes to stop moving at prices much lower than actually reached. They sold approximately 85% to 90% as many potatoes this past season as the one before. There were some variations between firms; some reported selling considerably fewer potatoes than average, while others actually increased their tonnage.

The produce people believe that sales of processed potatoes increased, but they don't have the data to back up their opinions and had not made an effort to check with other parts of their organizations for sales figures. Only two small chain organizations submitted actual sales data on processed and fresh potatoes; this data showed an increase in sales of frozen and dehydrated potatoes and a decrease in fresh.

Another source, however, sheds some light on the situation. The National Association of Frozen Food Packers states that the production of frozen cooked potato products, other than sweet potatoes, increased nearly 30% in calendar year 1964 over 1963, when a 10% to 15% increase had been expected. This actual increase of 30% in the production of frozen potatoes may have been due to increased consumption because of the high cost of fresh potatoes.

At what price do consumers switch away from Idaho Russets to other Russets or other types of potatoes? Produce people again expressed amazement at the way Idaho potatoes continued to move even though the premium was greater at high prices than at low prices. In other years, they said, a price difference of $1 per hundred between Idaho Russets and other Russets caused considerable switching away from Idahos or even stopped their movement altogether. But much greater premiums this past season didn't seem to affect sales of Idahos as much.

What class or classes of consumers stick with fresh potatoes, even when prices are high, and what class or classes tend to stay with Idahos? It was the opinion of produce people that all classes of consumers stayed with fresh potatoes since all classes of stores continued to sell potatoes in nearly as large quantities as before.

However, it was the higher income suburban area consumers who tended to stay with Russets and with Idaho Russets.

At what level in the retailing structure is the decision made as to what potatoes will be handled in the stores and what decisions were made this past season because of the high prices? It was unanimously agreed by chain store produce personnel that the decision as to what will be handled in the stores is an administrative decision made at the headquarters level. When the merchandiser or buyer feels an item won't move at a certain price he will not buy it.

This past year some chains reported dropping Idaho potatoes altogether because they thought the price was too high for their customers. Others dropped Idahos for a while when the price got to a point the administrator figured was too high, but, as he watched Idahos continue to move in competitors' stores, he re-stocked them and found that they still moved. Still other chain retailers stayed with Idahos right through the season and were satisfied with the movement in view of the situation. In fact, one medium-sized chain reported not only continuing to stock Idahos at the higher prices, but of stocking more and putting more promotion behind them as competitors stopped handling them. This chain reported an increase in potato sales and in Idaho sales for the past season.

One major chain organization, which handles thousands of cars of potatoes per year, reported selling 80% as many carlots of potatoes during January and February 1965 as during the same two months of 1964. They sold 85% as many Idahos during the same period. This organization advertised potatoes approximately the same number of times each year and used the same size packages in most divisions.

Will this high-priced year affect the future sale of Idaho potatoes? It is the concensus of handlers and chain store buyers that with adequate supplies so that prices are only moderately over competitive Russets, and good quality packs, Idaho can regain most of its customers in one season. The northeast section of the country will be the hardest area in which to regain lost customers.

CONCLUSION

With the smaller crop this past year, Idaho supplied only 60% as many potatoes to the fresh market as the previous year. That is, it lost 40% of its volume, but received an average f.o.b. price of $6.52 which is more than 2½ times the previous year.

While Idaho was initially blamed by many persons in the trade for the unusually high prices of all potatoes, it became apparent as the season went on that the high prices were the result of supply and demand.

The contention of terminal market handlers that price increases for potatoes seemed to initiate in Idaho, then spread to other areas, appears to have some foundation when analyzing the statistics. Other areas, while down some in production and shipping, were not down enough to account for the extraordinarily high prices. It was Idaho's small crop that seemed to have the most effect on price. It is unlikely that the short Idaho crop could have had as much effect as it did if other areas in the country had produced a normal or above-normal crop.

Retailers were amazed that consumers would continue to buy as many fresh potatoes as they did, about 90% of what they typically buy, at this past season's much higher prices. Many experienced produce people expressed astonishment that there was so little consumer resistance to higher potato prices.

The fact that consumers bought about 90% of typical potato needs despite high prices last season demonstrates that potatoes have a relatively inelastic demand, at least in the short run. Consumers tend to buy approximately the same number of units no matter what the price. Since retailers have seen that potatoes continue to move satisfactorily at higher prices, there could be a trend at the retail level to increase the retail margin.

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