

Food Prices Facts

Over the past four months there has been a great deal of speculation and misinformation about the relationship between rising food prices and the production of corn-based ethanol. And based on the arguments of the grocery industry, lower grain prices should mean lower retail food prices for consumers. Yet despite the drop in grain and oil prices, food prices remain high and climbing.

- The Bureau of Labor Statistics reports that, “the price of basic foods in the United States is currently rising at twice the rate of inflation and is expected to continue to escalate in the future.”
- The cost of food at grocery stores has gone up 7.6 percent over the past year. (*Bureau of Labor Statistics, September 2008*)
- Milk prices increased by 13.3 percent; cheese by 12.5 percent; eggs by 29.9 percent; and bread by 14.7 percent from March 2007 through March 2008. Moreover, gasoline prices have more than doubled in the past five years and diesel prices, which affect the cost of food, have increased even more. (*Consumer Federation of America, February 2008 letter to Joint Economic Committee*)

Meanwhile, corn prices are falling. If the grocery industry’s argument that corn was driving up the cost of food was correct, then food prices should be dropping. They aren’t.

- Corn is down about 50 percent from its record high in June, even as the amount of the grain used to produce the renewable fuel in the United States remained the same. (*Reuters, October 23, 2008*)
- Studies show that only 4 percent of the change in the Consumer Price Index (CPI) is directly related to corn prices. The balance of the cost of rising food prices is due to marketing, advertising and transportation. (*Consumer Federation of America*)
- Higher corn prices increase animal feed and ingredient costs for farmers and food manufacturers, but pass through to retail prices at a rate less than 10 percent of the corn price change. (*USDA, Economic Research Service, February 2008*)

Food companies continue to profit.

- Kraft’s revenue rose 19 percent from the year-earlier period. Kraft’s net income for the third quarter was \$1.4 billion, or 93 cents a share, up from \$596 million, or 38 cents, a year earlier. (*Wall Street Journal, October 31, 2008*)

- Kellogg's sales climbed 9.5 percent. While Kellogg's is making better than expected profits they still expect to raise prices 5 percent in 2009. As the food companies announce higher profits, spurred in part by higher food prices, they've indicated prices will stay in place. "I don't think you're going to see this dramatic across-the-board decline," Kellogg CEO David Mackay said when asked about commodities and pricing. (*Grand Rapids Press, October 30, 2008*)
- Soleil Securities analyst Edgar Roesch estimated that General Mills' profit will jump to \$4.18 a share next year from \$3.81 a share this year and sees Kellogg's profit rising to \$3.32 a share from \$3.02 a share. (*Wall Street Journal, October 17, 2008*)
- Food companies have outperformed the broader stock market in the last three months, with their shares down 18 percent versus a 29 percent decline for the Dow Jones U.S. Total Market Index. (*Wall Street Journal, October 17, 2008*)
- Sara Lee Corp.'s net income rose 15 percent in its fiscal first quarter, helped by price increases and solid volume growth in North America. (*Wall Street Journal, November 5, 2008*)

The fact is, increased ethanol production does play a small part in food prices, but other factors have a far greater impact such as oil prices, growing global demand and weather. Study after study has shown that ethanol has minimal impact on food prices.

- Important food items like bread, eggs, and milk have high prices that are largely unrelated to ethanol or corn prices, but correspond to fundamental supply/demand relationships in the world. (*Texas A&M study, April 2008*)
- Today's food price levels are the result of complex interactions among multiple factors — including crude oil prices, exchange rates, growing demand for food and slowing growth in agricultural productivity — as well as the agricultural, energy and trade policy choices made by nations of the world. (*Farm Foundation/Purdue, July 2008*)
- Worldwide demand for grain is increasing, especially with a growing middle class in China and India that is able to afford a better diet with more protein. Over the past 15 years, China's per capita consumption of meat has more than tripled 15 kg to more than 50 kg. (*Biofuels Digest*)
- Energy prices have a stronger influence on overall food costs than corn prices do. While each \$1 increase in the cost of a bushel of corn translates into a 0.3 percent increase in consumer food prices, a \$1 increase in a gallon of gas increases consumer food prices by twice that amount (0.6 percent). (*John Urbanchuk, LECG, June 2007*)

The food dollar is impacted more by marketing and labor costs, than by anything else.



- Marketing costs — the difference between the farm value and consumer spending for food at grocery stores or restaurants — account for approximately 80 percent of food prices today. (*The Federal Reserve Bank of Kansas City report, February 2008*)
- Labor costs account for 38 cents of every dollar a consumer spends on food. Farm Value accounts for roughly half of that, or 19 cents of the consumer food dollar. (*USDA, 2006*)
- Given that foods using corn as an ingredient make up less

than a third of retail food spending, overall retail food prices would rise less than 1 percentage point per year above the normal rate of food price inflation when corn prices increase by 50 percent. (*USDA, Economic Research Service, February 2008*)

More information, go to:

The Effects of Ethanol on Texas Food and Feed, Agricultural and Food Policy Center, Texas A&M University study, April 2008: <http://www.afpc.tamu.edu/pubs/2/515/RR-08-01.pdf>

What's Driving Food Prices, Farm Foundation/Purdue University issue report, July 2008: <http://www.farmfoundation.org/news/articlefiles/404-FINAL%20WDFP%20REPORT%207-28-08.pdf>

U.S. Corn Growers: Producing Food and Fuel report, September 2008: http://www.necga.org/food_and_fuel/FoodFuel08.pdf

The Impact of Ethanol Production on U.S. and Regional Gasoline Prices and on the Profitability of the U.S. Oil Refinery Industry, Center for Agricultural and Rural Development (CARD), Iowa State, April 2008: <http://www.card.iastate.edu/publications/DBS/PDFFiles/08wp467.pdf>

What is Driving Food Price Inflation, Federal Reserve Bank of Kansas City report, February 2008: http://www.ethanol.org/pdf/contentmgmt/KC_Fed_Reserve_food_price_inflation_April_08.pdf

Analysis of Potential Causes of Consumer Food Price Inflation, Informa Economics, November, 2007: <http://www.ncga.com/growersresources/PDFs/InformaFoodPriceAnalysisPresentation.pdf>