



Rising Food Prices Affect Consumer Confidence

There are ways for consumers and farmers to buffer themselves during the price storm.

by Carol Spence

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The family food budget doesn't stretch as far as it did a year ago. Food prices from Laos to Louisville are increasing at the fastest rate in years, fueling consumer concerns. Reflecting those concerns, the Consumer Confidence Index for May 2008 declined for the fifth month in a row and fell to a 16-year low.

Around the globe, the cost of food is increasing. On average, food prices in this country have risen 5% in the last year. That may not sound like a huge increase, but prices haven't risen this sharply for 30 years. And it looks as if the trend will continue for a while.

"To find a similar food price increase situation, we have to go back to the 1970s," says Larry Jones, University of Kentucky (UK) agricultural economics professor.

Both eras have similar characteristics, including a run-up in energy prices and rapidly rising commodity prices. In the 1970s, as prices soared so did inflation, and the Federal Reserve moved to curtail it by raising interest rates.

"Interest rates went sky high, and the farm economy really plummeted," he says. "Those of us who have a few years on us and remember those times get a little nervous when we see low interest rates and rapidly rising commodity prices again. We hope it's not an artificial bubble that's going to break, but that's a concern."

Global effects

In a global marketplace, what affects one country affects others. The economic development of the world's two largest nations, China and India, has had an effect on global prices. Part of that effect comes from their increased demand for grain.

"As their incomes increase, they tend to, like us, eat more meat, and that typically takes more feedgrains like corn," Jones says.

The demand for ethanol is also fueling the skyrocketing demand for corn.

Both Jones and Lee Meyer, UK agricultural economist and Extension specialist for sustainable agriculture, feel as if this particular situation may take a few years to play out. Meyer attributes that timeline to the fact that the current situation seems to be demand- rather than supply-driven.

"If we have a drop in supply, such as a bad crop year, all of a sudden prices go way up," he says. "But then you can come back to normal, and in one or two years, you recover the supply-demand balance. When an increase in demand drives the situation, there's not excess capacity to recover. You need to remobilize a lot more resources into that sector to increase supply to respond to that high price. So that extends the time period."

It's the demand that is creating record-breaking crude oil prices, analysts say. Oil prices continue to set records, with crude oil trading for more than \$135 per barrel at one point in May. Analysts warn that prices could rise to \$200 per barrel in the not-so-distant future. Those higher prices affect everything: food in the field, in the form of higher fertilizer and chemical costs; food in the factory where processing occurs; food on the roads, since several studies indicate food is often transported more than 1,000 miles before it reaches our tables; and food in the stores, where even the higher utility costs of lighting and refrigeration will find their way into your wallet.

In the United States, the value of imported

food — anything from canned mushrooms from Indonesia to frozen fish from China to vine-ripened Mexican tomatoes — is expected to exceed \$76 billion this year. In this case, it's not just energy costs driving up those prices. In the last fiscal quarter, the U.S. dollar fell to its weakest point against the euro since 1999 and against the Japanese yen since 2005. A weak dollar drives the cost of imported food and crude oil skywards.

"The dollar is the common denominator, the common currency for most oil sales anywhere in the world," Jones says. "Because that dollar is not worth as much, it's not going as far in terms of paying for a barrel of oil. So I think that one of the factors behind rising oil prices and rising commodity prices is the fact that the value of the U.S. dollar is so cheap."

Coping strategies

American consumers, as well as farmers, may feel a bit helpless under this onslaught on their wallets. But Meyer says there are some ways for consumers — and farmers — to buffer themselves during the price storm.

The skyrocketing price of nutrients for their crops may encourage farmers to insulate themselves from steep prices by doing more composting and making use of other sources of nutrients, he says. And consumers seeking out locally produced foods might find that lower transportation costs keep prices more stable.

Because of those factors, consumers purchasing locally raised products may soon see only modest price increases, especially in comparison to what is likely to happen at supermarkets.

Ann Bell Stone of Elmwood Stock Farm in Scott County, Ky., a certified organic operation, says that she has seen the cost of her organic chicken feed rise by 100% compared to this time last year. That increase has been caused by the steep rise in grain prices as well as the increase in transportation costs.

"But on the opposite side, because of the transportation costs, restaurants, institutions, customers, [and] retailers are now more interested in sourcing local," she says. "It may be cheaper to have romaine lettuce from California, but getting romaine lettuce in a box here to a grocery store is going to be more equal to the cost of Kentucky farmers growing romaine lettuce. It's definitely evening out the opportunities in the marketplace. And local is becoming much more on the tip of people's minds, whether it's an individual customer or the food buyer at a store or a restaurant's chef."



Editor's Note: Carol Spence is an editorial officer for the Agriculture Communications Service in the UK College of Agriculture, which supplied this article.