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The Impact of Food Commodity and Energy Costs on Retail Food Prices

USDA Agricultural Outlook Conference

February 18, 2010

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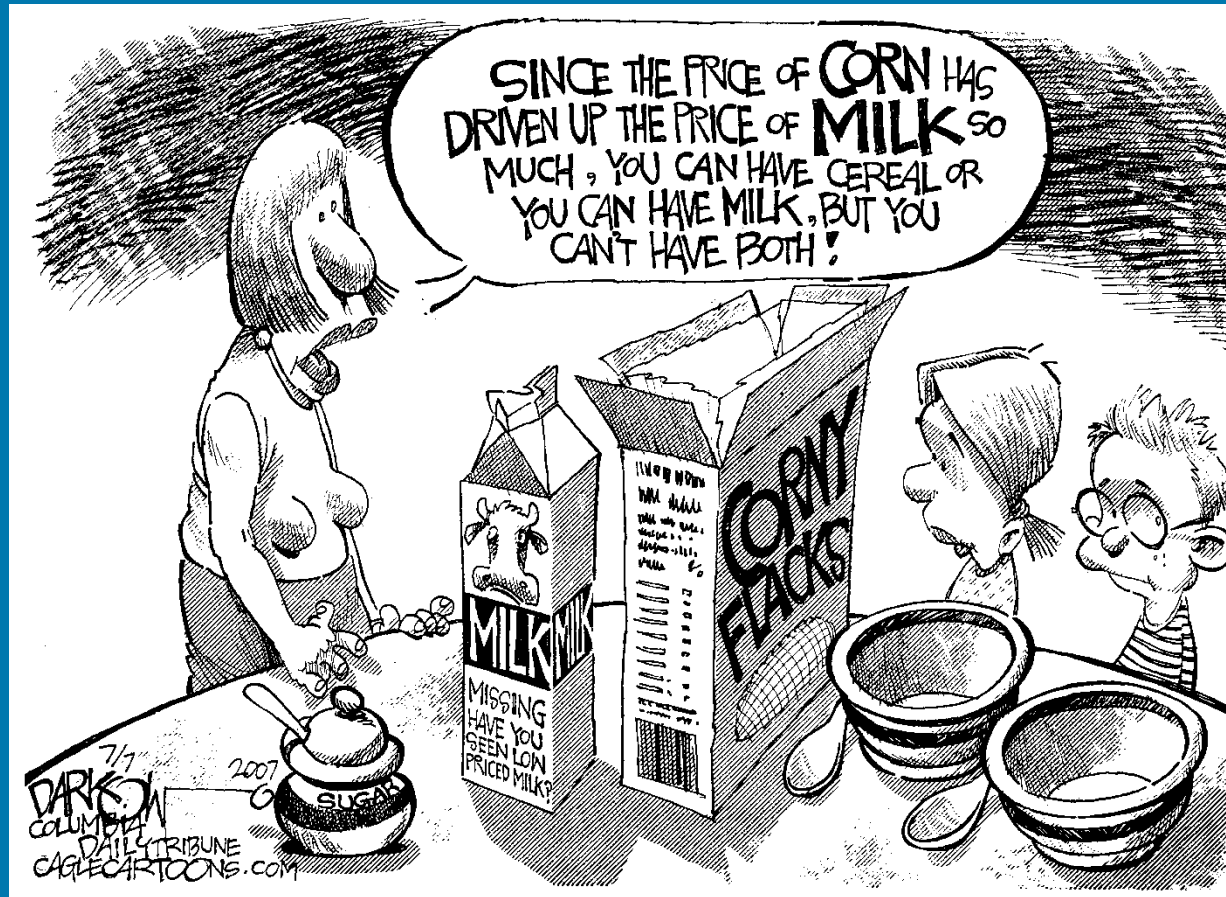


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Down to Earth. Down to Business.™



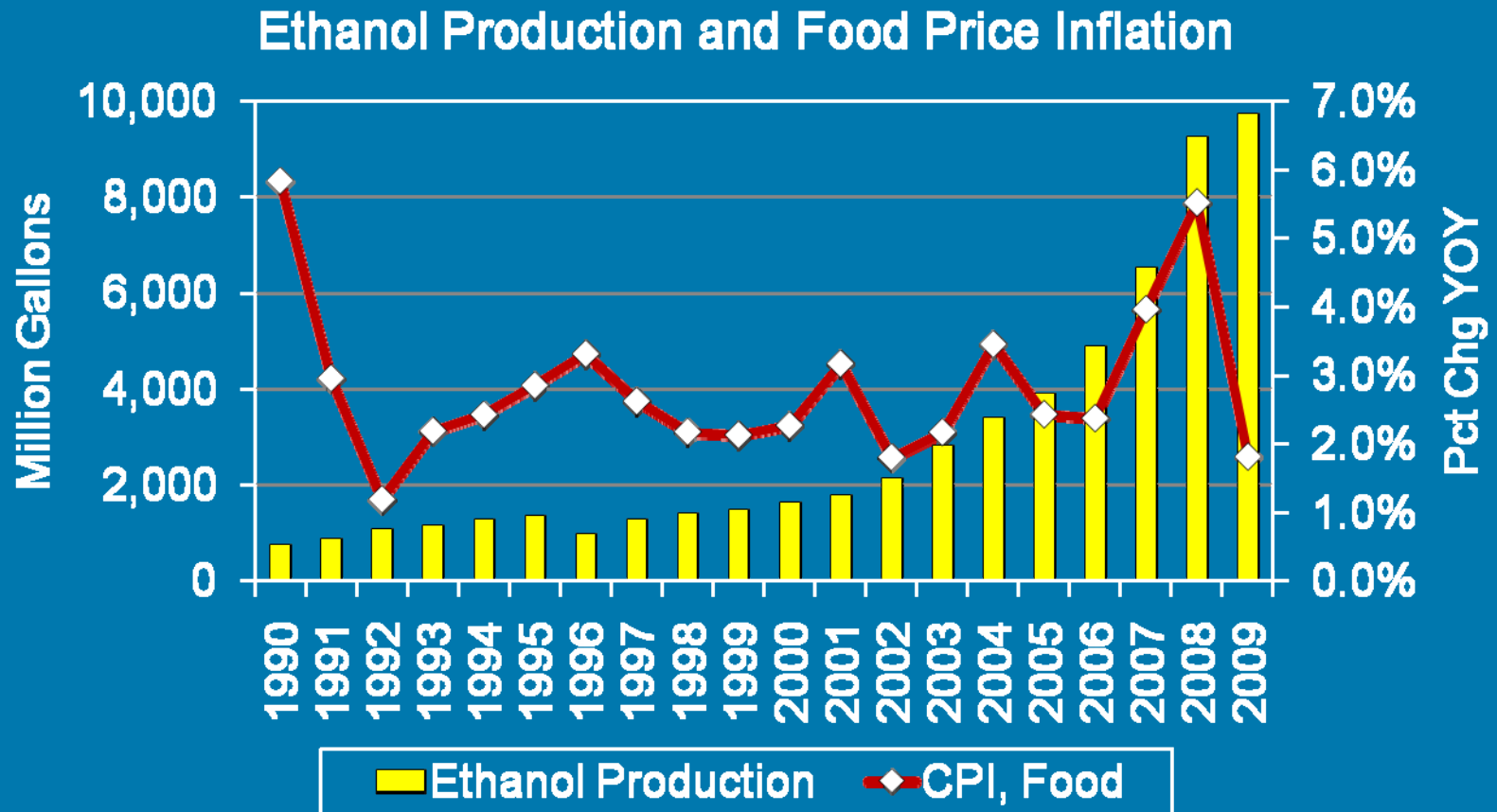
Remember the food vs fuel controversy?



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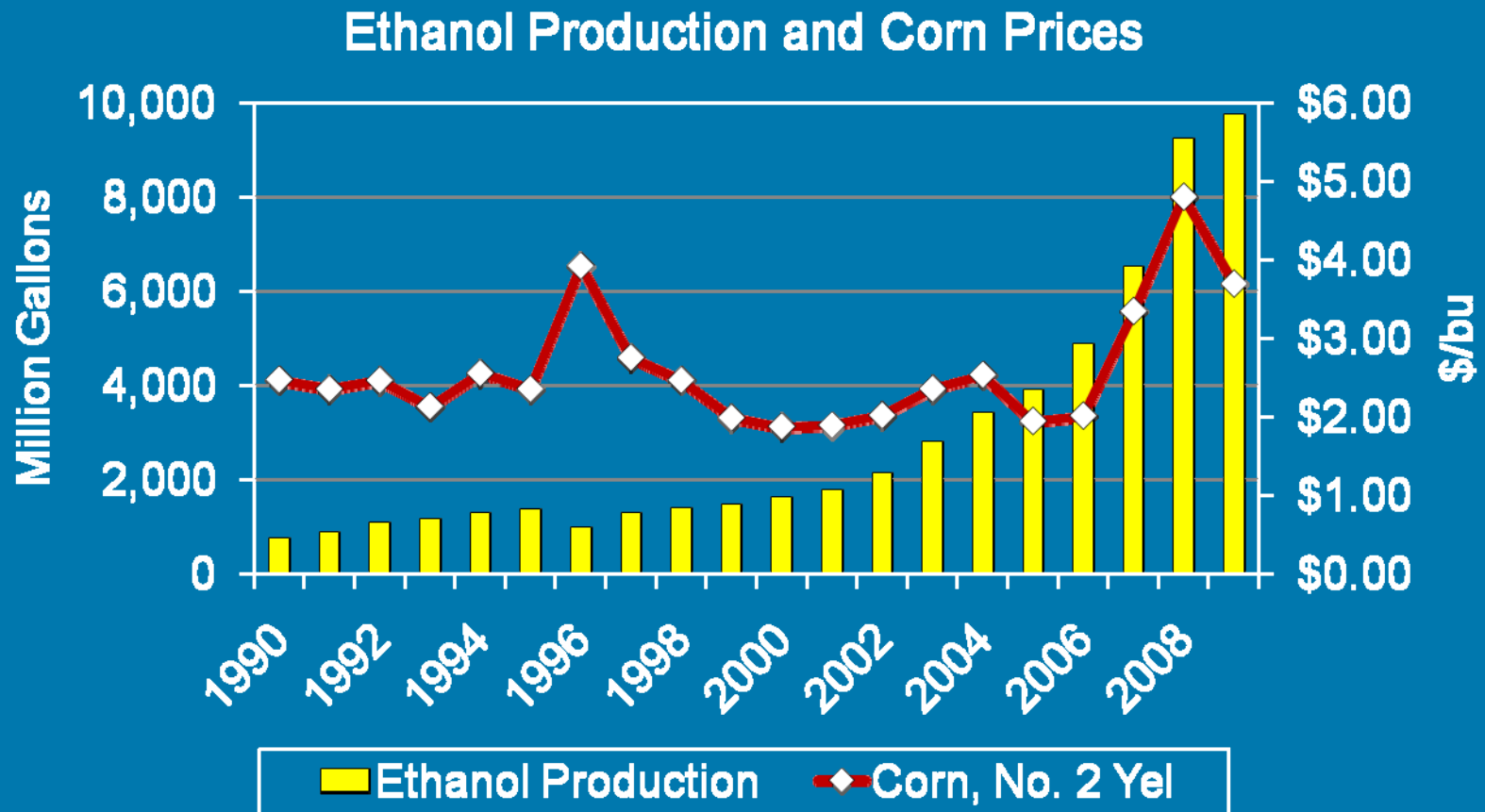
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Much ado about nothing



Source: BLS, RFA

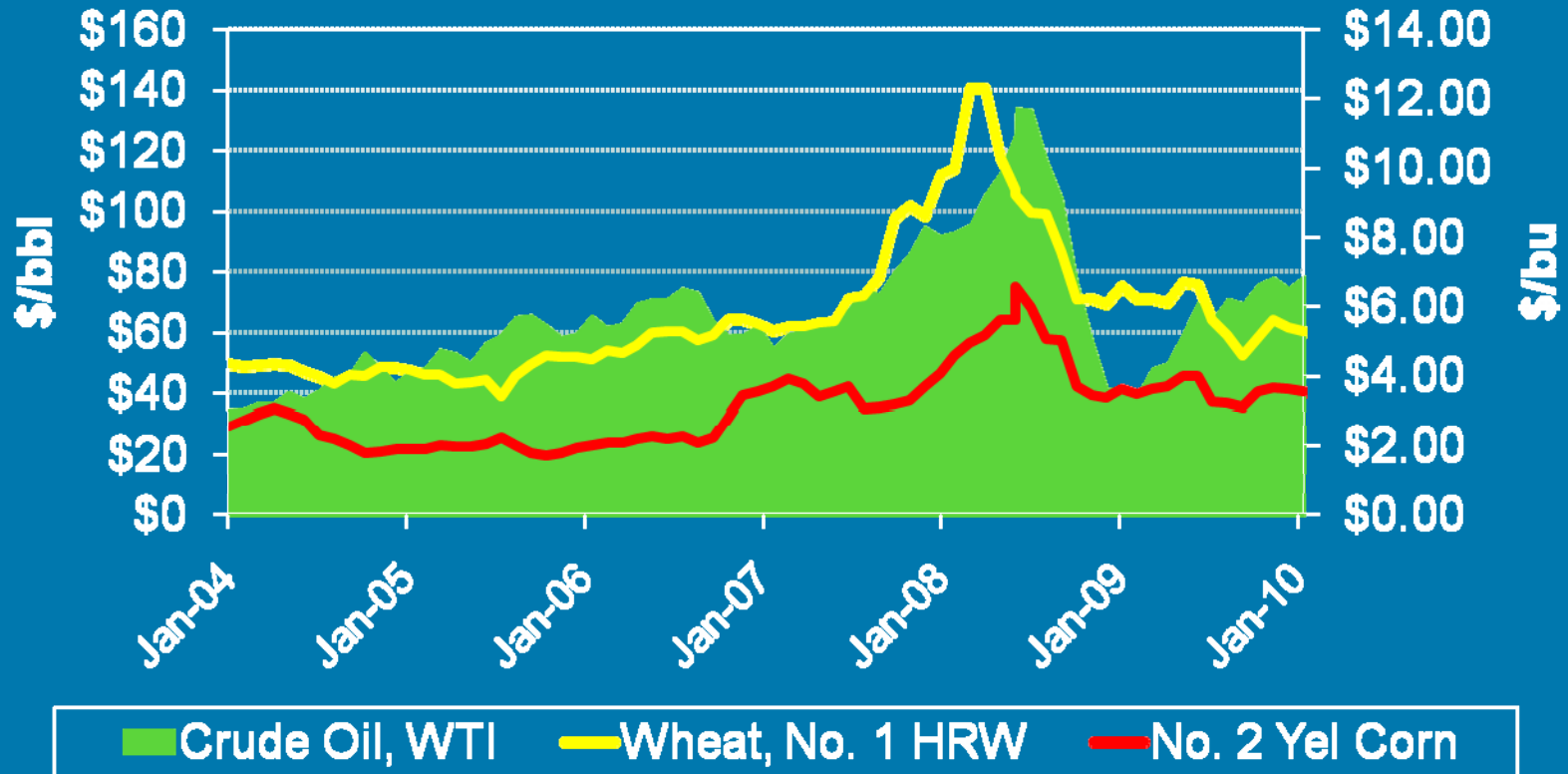
Corn prices appear to have shifted upward as ethanol expands



Source: USDA/ERS; RFA

Oil led the commodity price bubble

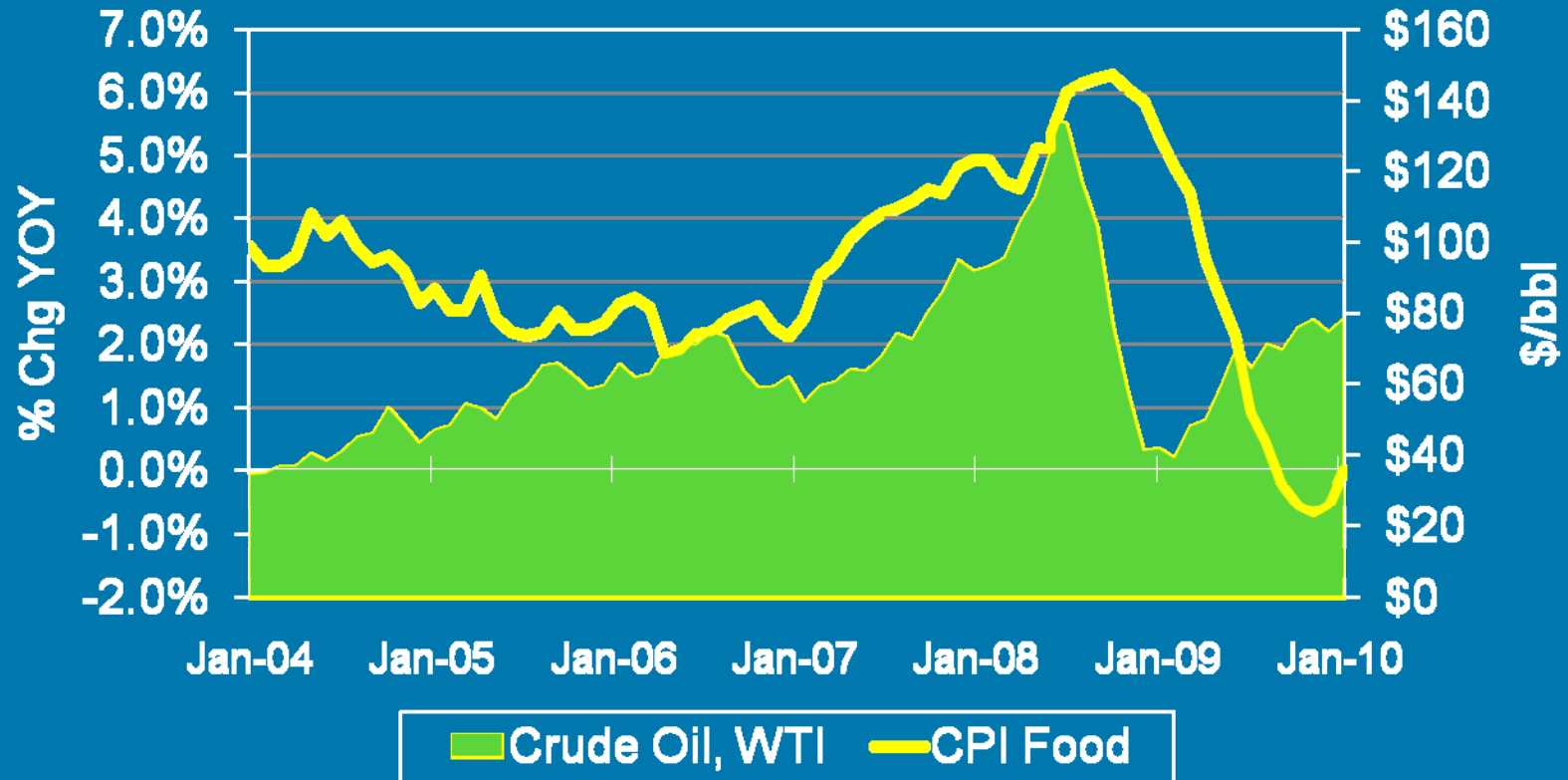
Cash Market Prices



Source: ERS; EIA

Oil prices also drove retail food prices

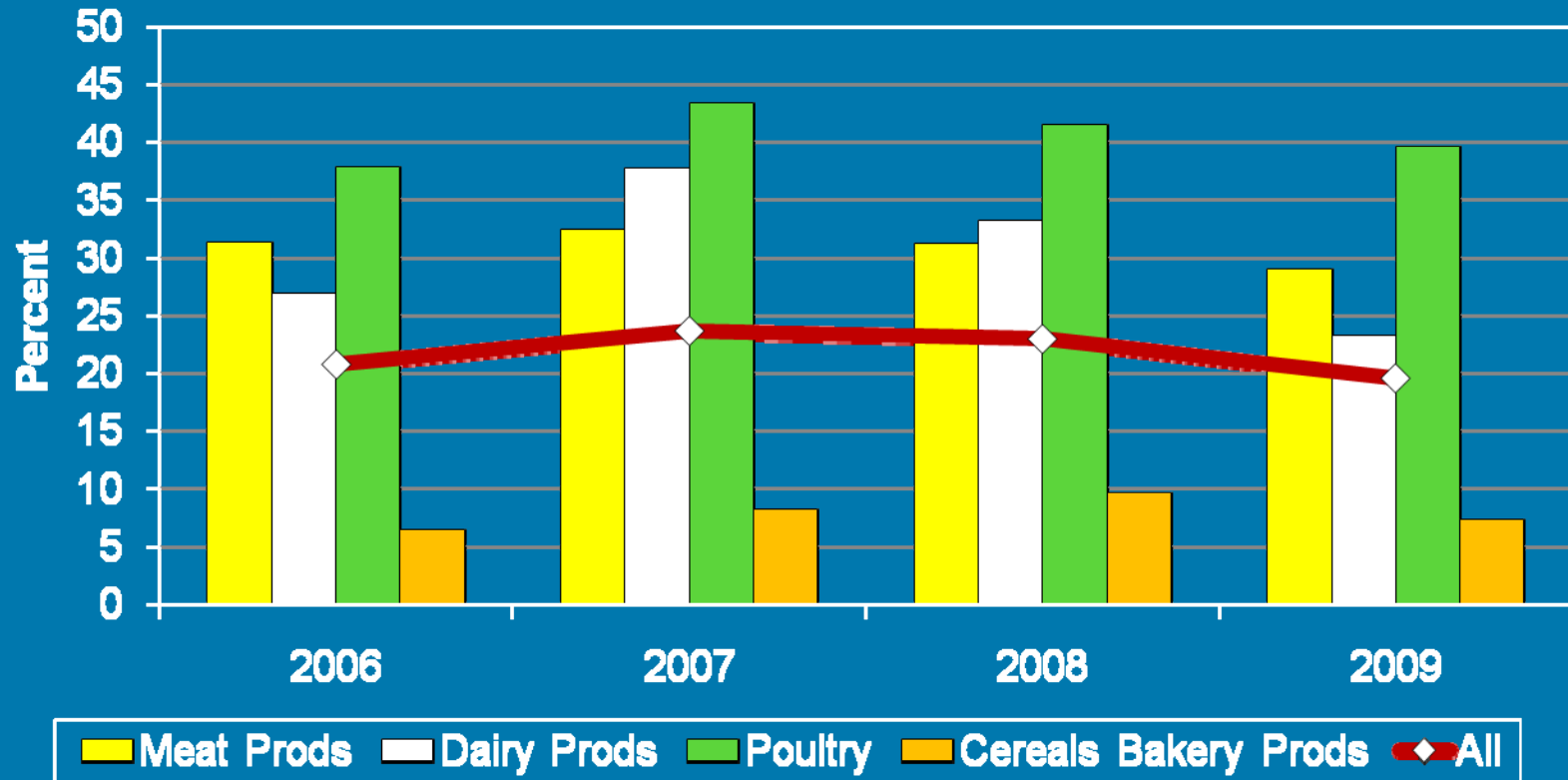
Food Price Inflation and Oil Prices



Source: BLS; EIA

The farm share of retail food prices is small and declining

Farm Value – Retail Cost



Source: USDA/ERS

The Role of Energy and the Marketing Bill

- Only 20 cents of every dollar spent on food makes its way back to the farm.
- Marketing bill makes up the remaining portion of retail food costs.
 - Includes non-commodity costs: labor, packaging, transportation, energy, advertising, depreciation, rent, interest, repairs, business taxes

Source: USDA/ERS

Informa Economics "Analysis of Potential Causes of Consumer Food Price Inflation,"
(www.informaecon.com)

Energy prices have a greater impact on consumer food prices than commodities

- A 33 percent increase in crude oil prices would increase retail food prices measured by the CPI for food by 0.6 to 0.9 percent.
- An equivalent increase in corn prices would increase consumer food prices only 0.3 percent.

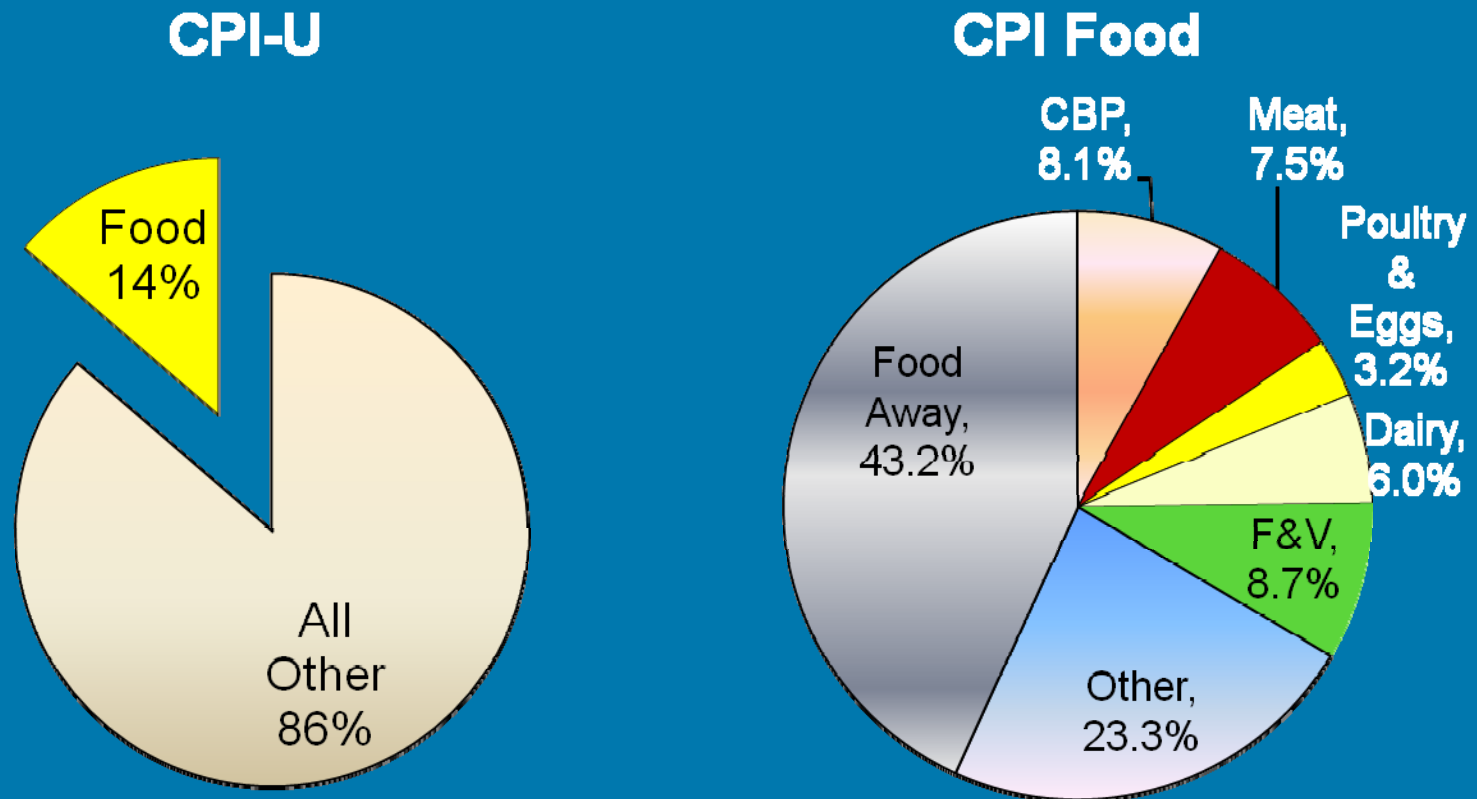
Stems from the importance of energy in the food system

- Petroleum and energy prices affect virtually all aspects of the food system: agricultural raw material transportation, processing, and distribution of all finished consumer food products.
- An individual commodity (e.g. corn) price affects only a segment of consumer foods (e.g. livestock, poultry and dairy)

Commodities are important

- Corn and soybean meal are important feed ingredients for livestock, dairy and poultry producers.
- Wheat and other grains are the major inputs for cereals and bakery products.
- Oilseeds produce oil for food and meal for feed.
- Corn produces HFCS, a major sweetener.

Food is a small share of consumer prices



Source: BLS Components of the CPI, December 2009

Empirical research on energy and food prices

- Reed, Hanson, Elitzak and Schluter (1997) conclude that a doubling in crude oil prices would cause 0.27% to 1.82% increase average food prices
- Lee (2002) examined the impact of energy price increases as an intermediate input for food processing and concluded that a 10% increase in energy prices results in a 0.27% increase in consumer food prices.

Impact of oil prices of food

- Summarizing this research suggests that a 33% increase in oil/energy prices would increase retail food prices by 0.6% and 0.9%.
 - $1.82\% \text{ times } .33 = 0.6\%$
 - $0.2709 \text{ times } 3.3 = 0.9\%$
- Analysis of an equivalent increase in corn prices results in a 0.3% increase in the CPI for food

In conclusion ...

- Agricultural commodities are the basis for food products but their impact on retail prices is overshadowed by other factors.
 - The farm share of the retail food dollar continues to shrink.
- Energy is imbedded in virtually all aspects and phases of food production, processing, packaging, and distribution.
 - Energy prices are a more important determinant of retail food prices than ag commodities.