Remember the food vs fuel controversy?

Since the price of corn has driven up the price of milk so much, you can have cereal or you can have milk, but you can’t have both!
Much ado about nothing

Ethanol Production and Food Price Inflation

Source: BLS, RFA
Corn prices appear to have shifted upward as ethanol expands
Oil led the commodity price bubble

Source: ERS; EIA
Oil prices also drove retail food prices

Source: BLS; EIA
The farm share of retail food prices is small and declining.

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%.
  - $1.82\% \times 0.33 = 0.6\%$
  - $0.2709 \times 3.3 = 0.9\%$

- 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.