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From milk to meat, US food prices spike upward

The rise in grocery costs is up more in the first six months of 2007 than in all of 2006.

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ATLANTA and BOSTON

A gallon of milk in Birmingham, Ala., is expected to cost \$4.50 this summer, perhaps more. At Wetzel's Market in Glen Rock, Pa., the New York strip steaks that were on sale for \$4.99 a pound last Fourth of July will be \$6.99 this year. In Boston, some shoppers report checkout prices on certain items that are 30 percent higher now than last summer.

"Prices are incredible," says Suzanna Wyman, shopping Monday at Shaw's Supermarket in Boston's Back Bay. "Milk, I heard, is going up even more.... I love fresh peppers and vegetables, but they're too much. Cereal is very expensive compared to what you used to be able to get it for."

The reason people are smarting: Inflation in grocery aisles is up by more in the first six months of 2007 than in all of 2006. That means food costs are on track for the biggest annual percentage hike since 1980, according to the Labor Department. The anticipated 7.5 percent increase would readily outflank the 2.6 percent core inflation rate to date, which excludes food and energy. It's across every grocery aisle, too, from burgers to bagels, from duck to dumpling.

Added to sticker shock at the gas pump, high food prices, especially for meat, are forcing consumers to scrimp, coupon-clip, and ponder the possibilities of a deep freeze to take advantage of discounts, says Boyd Brady, an extension agent at Auburn University in Alabama.

"There's a ... combination of higher demand, natural disasters, higher energy prices – just a myriad of factors driving what price increases we're seeing across the food sector," says Chad Hart, an agricultural economist at the Center for Agricultural and Rural Development in Ames, Iowa.

The chief culprit is corn, namely No. 2 feed corn, the staple of the breadbasket. In answer to President Bush's call for greater oil independence, the amount of feed corn distilled into ethanol is expected to double in the next five to six years. Distillation is already sucking up 18 percent of the total crop. The ethanol gambit, in turn, is sending corn prices to historic levels – topping \$4 per bushel earlier this year, and remaining high. All of this trickles down to the boards at the Chicago Mercantile Exchange, affecting the price of everything from sirloin to eggs (which are up, by the way, 18.6 percent across the nation).

In a welcome response, US farmers told the government in April they plan a record-breaking 93-million-acre corn crop, though its true size won't be known until the end of June. But corn alone does not explain the number of products that have become more expensive of late.

Facing higher costs at the farm and shareholder pressure to maintain profits, companies such as Tyson Chicken and Coca-Cola are raising prices. The fact that fuel prices remain relatively high hasn't helped either, allowing no break in the cost of transporting perishable goods.

For fruit and vegetable growers, labor shortages are also a factor. A \$2 cantaloupe sold for \$3 at the South Carolina Farmer's Market in Greenville recently, largely because of labor woes, says Thompson Smith of the South Carolina Farm Bureau. Winter cold snaps and hard freezes in California and the Southeast have made peaches, apples, and oranges pricier.

In the heartland, low yields on winter wheat mean cookies and baguettes are more expensive. Meat costs are up by 15 percent in some regions, in part because of drought that, as in Alabama, caused a cattle sell-off. Milk prices are up in part because of a global shortage, with milk exporters such as New Zealand unable to add capacity and Australia enduring a debilitating drought, even as demand rises in Europe, China, and India.

Because of the multiple causes, some prices may drop in coming months and as new crops come in, says Patrick Jackman, an economist at the Bureau of Labor Statistics, which tracks grocery store costs in population centers across the country. A few years ago, he says, iceberg lettuce spiked 113 percent after a freeze. Today, a head of iceberg is one of the few items to decrease in price – from \$1.19 to 99 cents.

Still, household budgets are taking a "double whammy" at the grocer's and at the gas station, says Mr. Jackman. Barrels of sweet crude are expected to stay at about \$60 per barrel. A family's average grocery tab could leap from \$300 a month last year to \$400 a month this year, economists say. "People have to adjust by cutting back," he says.

For some consumers, it's tough to hang on. In Savannah, Ga., the Salvation Army expects to serve 10,000 more meals this year because of high food prices. Americans are coping, too, simply by food shopping less often. Their average number of grocery store trips each week dipped below two for the first time since the Food Marketing Institute began its annual survey.

"You could get culture shock coming into this place, and it's not getting better," says Richardson Daniel, a longtime resident of Boston's Roxbury neighborhood, swooping into Shaw's.

Most customers are content, for now, to grumble, says Mike Wetzel, manager of Wetzel's Market in Glen Rock, Pa. What about? For one, ground beef at Wetzel's is up from \$1.49 a pound last year to \$1.79.

"Five-dollar milk by the end of the summer – that's the big rumor," Mr. Wetzel said in a phone interview. "It's one of those things that nobody's happy about, but when everybody's prices go up, they're pretty well stuck." With gasoline prices high, he suggests, consumers are less likely to shop at different stores for bargains.

But one standard is back in vogue: the supermarket flier. Newspaper coupons can take 30 percent off the top of the grocery tab, almost wiping out the recent price increases, economists say. Shoppers are also using websites such as TheGroceryGame.com and SupermarketGuru.com to search for sales and values across ZIP codes. Ms. Wyman, the Boston shopper, takes advantage of 2-for-1 deals, stocking up on essentials.

For Mr. Brady, the Alabama extension agent, there's a lot of meaning in a gallon of milk: a nutritious but perishable drink that's traveled thousands of miles, on refrigerated trucks across the Sonoran Desert, to get to places like Rick's Market in Marion, Ala.

"When I see the rising prices I realize we've actually been very fortunate to have cheap food," he says. "I think that will continue, but we might not have the luxury of what we've had in the past."

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