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DeMarrais: Grocery bills heading higher

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 By **KEVIN DEMARRAIS**
RECORD COLUMNIST

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Food prices rose sharply last year, and the outlook is for more of the same in 2012.

This year's increases may not be as big as in 2011, when supermarket prices were up nearly 6 percent. But the factors that drove those price hikes remain, including changing eating habits in Asia, drought in Texas and increased use of corn to make ethanol in the United States.

Throw in the vagaries of Mother Nature, along with supermarkets that are trying to recoup some of the higher wholesale costs they have been eating, and you have the formula for consumers having to dig deeper into their pockets to put food on the table.

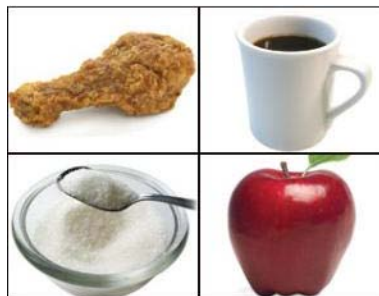
It comes down to the most basic economic principles — supply and demand — and pressure remains on both, said Ron Lawson, a founding partner and managing director of LOGIC Advisors, an independent commodities research firm based in Upper Saddle River and Sonoma, Calif.

"Prices go up, prices go down, but people still have to eat," he said.

There is likely to be "some moderation" in prices this year, said Brian Todd, president and chief executive of The Food Institute, an Upper Saddle River-based trade organization.

But that means smaller increases, not lower prices.

Double-digit increases



The average price for selected items at selected North Jersey supermarkets in the past two years (clockwise from top left): Chicken (Perdue, whole fryer, per pound): Up 18.6%; Coffee (Folgers, regular, 10/13 oz.): Up 20.9%; Apples (1 lb., Red Delicious): Up 12.0%; Sugar: 5 lb. bag, store brand: Up 10.5%.

By the numbers

[The Record's North Jersey Marketbasket Survey, 2001-2011](#)

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Todd cited "substantial increases" in the price of red meats, eggs and dairy last year, but it went beyond that, as seen in The Record's monthly Marketbasket Survey of North Jersey prices. It recorded year-over-year, double-digit increases in the price of eggs, apples, sugar, pasta, coffee and chicken, with December prices for many items, including ground beef, chicken and pasta near their highest for the year, indicating that they remain on the rise.

And orange juice prices shot up to a record high last week, hit by a one-two punch of a feared freeze in Florida and a temporary Food and Drug Administration ban on orange juice from all countries — primarily Brazil — after a banned fungicide was found in some imports.

Overall, the jump in prices could have been worse, as retailers "were holding back on passing along increases for quite a while," Todd said.

They started raising prices to catch up at the end of 2011, "but they're not there yet."

Restaurants also ate some of the increase, which is why dining at home got comparatively more expensive than eating out last year.

Food prices for home consumption were up 5.9 percent for the past 12 months, more than double the 2.9 percent increase in restaurant foods, according to the December Consumer Price Index issued by the Bureau of Labor Statistics. By comparison, the overall CPI rose 3.4 percent.

Why is this happening?

We tend to focus on supply, especially disruptions caused by the weather, but people tend to discount the demand side of the dynamic to too great an extent, Lawson said by phone from his California office.

One factor is changing eating habits in China, Lawson said.

"If you go back 10 to 15 years, the average person in China ate animal protein once a month; meat was a real surprise," he said. "Today, the average person eats animal protein once a week. That's a fourfold increase."

Impact on supplies

But that's just the start because the heavier demand for animal protein means a tenfold increase in demand for bean meal, corn or other grains and vegetables that are used to feed animals.

"The demand side is out there, and it is not going down," he said. "Look at the demographics of China, India and lesser-developed countries. There is a constant increase in demand for the calories we produce."

That has an impact on supplies.

Up until two years ago, China was a net exporter of corn; now it has to import corn to meet demand, with much coming from "the country that can produce the most, the United States," Lawson said.

The big unknown is the weather, including La Niña, the ocean-atmosphere phenomenon that contributed to extreme weather around the globe during the first half of 2011 and is still a factor.

Weather-related problems

"Projected forward, we are going to have some fairly abnormal weather in the next 12 to 18 months," and that could reduce yields at a time demand has increased, Lawson said.

Another potential weather-related problem is the lack of snow in the Midwest.

Winter wheat is planted in the fall for spring harvest and is usually insulated from the extreme cold by snow, Lawson said. Without snow, however, the wheat could die.

Corn, a critical feed crop for livestock and sweeteners in beverages and other processed foods, has problems of its own. It is in increased demand for making ethanol — which comprises about 10 percent of the nation's gasoline supply — at the same time there is a shortage of some premium seeds, so farmers may not be able to plant as many acres as they want, Lawson said.



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That, too, could lead to higher food prices, often timed to the bad news, Lawson said.

"The reality is that there is only about a half a cent of corn in a box of corn flakes, but whenever you have [wholesale] corn prices go up, General Mills or Kellogg's says it has to add 50 cents to the cost of a box," he said.

It's the same with fuel surcharges, he said.

Lawson's advice to consumers concerned about the rising prices: Plant a garden.

"It's not difficult in your back yard, once the snow melts," he said.

"It becomes a way to save a lot of money."

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