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DeMarrais: Higher food prices on the way

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Floods roll through Australia, and a Teaneck bagel shop raises its price by 15 cents.

Drought conditions persist in Uganda, and the Starbucks in Paramus ups the price of a latte by 20 cents.

Frost hits near the Caspian Sea in Russia, and a Hackensack grocer raises the price of a box of raisin bran by 20 cents.

Sound far-fetched?

Well it shouldn't. These examples are exaggerated — the cause and effect are not that direct — but they do reflect what is happening in supermarkets, food stores and restaurants across North Jersey.

Supply problems thousands of miles away, along with a growth in demand by middle-class consumers in China and India, are leading to double-digit increases in the wholesale price of many foods, and that is leading to higher retail prices.



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"Everything is tied together," said Brian Todd, president of The Food Institute in Upper Saddle River. Increased demand in one place means fewer supplies in others, "and that means higher prices."

Consumers have thus far seen only a hint of what's to come.

Last week the Bureau of Labor Statistics reported that its food-at-home index — the part of the Consumer Price Index that measures supermarket prices — rose by 0.8 percent in February, its biggest monthly gain since September 2008.

Increases were reported in nearly all food groups, including fruits and vegetables (up 2.2 percent) and meat, poultry, fish and eggs (up 1.2)

Over the past year, the CPI's food-at-home index is up a modest 2.8 percent, with some of those increases hidden on shrinking package sizes for a variety of products, including coffee, sugar, cereal and orange juice.

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But the Producer Price Index, which tracks costs in getting products to market, was up 3.9 percent last month for "finished" consumer foods (those ready for the supermarket shelf) — the biggest monthly gain since November 1974. Also, the index of crude foodstuffs and feedstuffs, a category that includes wheat, corn, soybeans, sugar, meat and poultry, rose 29 percent in the past year.

That's why, despite efforts by business owners to eat or at least limit any increases, the upward trend at retail is likely to continue.

The latest government forecast predicts retail price increases of up to 4 percent this year, Todd said.

"I think most merchants have been absorbing the costs, cutting back where we can," said Domenic Scalia, manager of Corrado's market in Clifton. "No one wants to be the first one to raise prices."

Competition has a lot to do with it, said Ed Doherty, whose Allendale-based company, Doherty Enterprises Inc., owns 93 restaurants in New Jersey and New York, including 60 Applebee's and 26 Panera Bread cafés.



"Restaurants, in addition to competing against restaurants, also compete against supermarkets," he said. "We're competing for the same share of stomach."

"Supermarkets tend to raise prices quicker, and that puts us in a little advantage as long as I can hold off," he said.

To maintain that edge, "you try to reduce costs in other areas, tighten the hours, cut off utilities earlier, try to do every little thing to save," he said.

Supermarkets take the same approach, said Karen Meleta, a ShopRite vice president.

Manufacturers are beginning to pass on some of their price increases, and more are coming, "but we're doing everything we can to hold our prices," she said.

It will be a challenge.

In the last two months, Kellogg Co., the world's biggest cereal company, said it would raise prices 3 percent to 4 percent because

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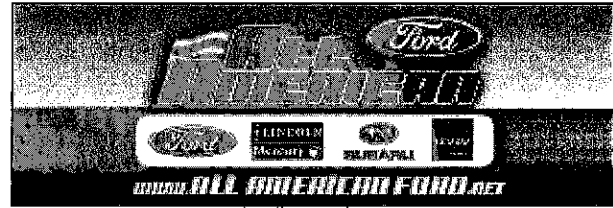
of higher grain costs. Sara Lee Corp., maker of several processed meat brands, as well as baked goods, said it will "continue to increase prices" this year to offset higher supply costs.

In February J.M. Smucker Co. said it would raise prices on Folgers and Dunkin' Donuts coffee for the third time this year. Increases have averaged about 10 percent each. On Friday, Starbucks announced it was raising the prices of its packaged coffee by up to 12 percent.

Some recent price increases, especially on fruits and vegetables, are due to seasonal weather-related produce shortages, so the impact is likely to be short-lived as new crops from other regions replace tomatoes, lettuce or bean crops wiped out by rain or frost in Mexico or Florida.

But pressures on many grain crops and other basics — even with some downward adjustments in the past couple of weeks — are not short-lived or regional. These commodities are bought and sold on world markets, much like oil and gold, so supply disruptions and increased demand anywhere in the world have an impact on prices in North Jersey.

"There are so many influences all converging



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at the same time," Meleta said.

Among them:

* A United Nations agency reported this month that food prices surged 2.2 percent just in the past month to their highest point in 20 years, and could increase further because of rising oil prices due to unrest in Libya and the Mideast.

* Even with some recent pull-backs, wheat futures have climbed in price more than 70 percent in the past year. It is classic economics: growing demand and shrinking supplies due to weather-related problems around the globe, including the driest winter in as much as 200 years in the wheat-growing region of northern China.

* Corn supplies have fallen to their lowest point in 15 years, partially due to an 8 percent increase in demand for ethanol, resulting in near-record prices. The price of corn affects most food products because it is used as feed for meat and poultry and is converted to corn syrup as a sweetener.

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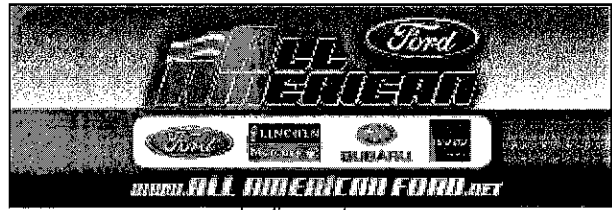
* Cattle futures have risen nearly 20 percent this year after increasing nearly 27 percent in 2010 in response to growing export demand even as supplies of cattle in feedlots decline.

* Orange juice futures surged to a three-year high last month due to lack of rain and frigid weather in Florida, followed last week by a wildfire that charred 16,000 acres in Central Florida.

* Coffee prices, which are at their highest level since 1997 after doubling in the past year, may soar another 48 percent as demand outpaces supply, according to Hackett Financial Advisors Inc.

Even chocolate, which many of us include among our essential foods, has been hit as political unrest in Ivory Coast, the African country that produces 40 percent of the world's cocoa beans, has helped push cocoa futures to a 30-year high.

If that weren't enough, with crude oil going over \$100 a barrel this month, the cost of processing foods and transporting them to market will go up, and that will be passed along to consumers. In addition, higher gasoline prices could lead to increased demand for ethanol, and that could raise corn prices even higher.



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Some prices are dropping. Rain and snow in early March brought some relief in China, the world's largest wheat producer, and prices of some other commodities have eased off from their peaks due to high prices cutting demand.

And the Japanese earthquake and tsunami led to a drop in several commodities last week as traders anticipated that demand would fall.

Even so, many wholesale prices have had double-digit increases over recent months, and consumers have yet to feel the full impact, Todd said.

For one thing, it takes months for higher grain prices to pass through to chicken products and processed foods, and as much as two years for beef, he said.

Also, with packaged goods, raw materials account for less than a fifth of the retail cost, Todd said. Most of the rest goes to packaging, labor and energy costs.

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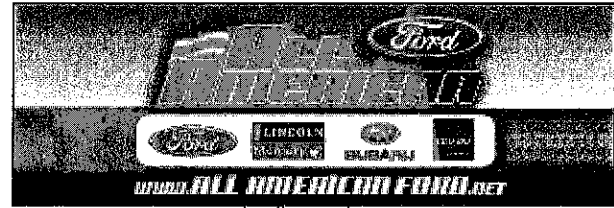
In addition, some businesses locked in prices before the recent surge.

"We do as much forward buying as we can," ShopRite's Meleta said. "That has allowed us to hold our prices a little longer than the rest of the industry."

And if a major chain such as ShopRite holds the line, other supermarkets are forced to do the same — even if it is tough in this economy in an industry that operates on very small margins.

Even so, as long as wholesale prices remain high, higher retail prices are inevitable; the only question is when.

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