U.S. and Global Food Price Inflation

Author(s): Will Snell

Published: May 28th, 2021

Food price inflation continues to be headline news as the food system adjusts from the lingering effects of COVID-19 amidst tight labor/ag supplies, a resurgence in the U.S. economy, and a host of other factors discussed below. From 2010-2019, food price inflation in the United States was relatively benign, averaging 1.7% annually. Last year, COVID induced major disruptions in our food supply chain ranging from temporary closures of meat processing plants and restaurants to the panic buying of consumers. As a result U.S. food prices overall jumped 3.5% in 2020 -- its second-highest annual level spike over the past 30 years. Since peaking in April 2020, food price inflation eventually trended downward during the latter half of 2020 as the supply chain recovered. However, food prices were up 0.4% in April 2021 – its highest monthly increase since the 1.5% increase in April 2020.

U.S. Food Price Inflation (1970-2021)

Source Federal Reserve Economic Data (FRED).
1/ Note: 2021 data reflect changes in monthly prices over the past 12 months
For the past 12 months, food prices have increased 2.4%, with a much higher boost for food consumed away from home (+3.8%) versus food consumed at home (+1.2%). Again, this reflects a much higher than the pre-COVID era price hike, but as the chart above indicates today’s food price inflation is still relatively low compared to the decade of the 1970s and 1980s.

**Retail pork prices have escalated to record levels** in recent weeks, plus retail beef prices have been on the rise of late even prior to the seasonal bump generally induced by the summer grilling season. For the past 12 months, pork prices are up 4.9%, compared to 4.2% for beef, but only 0.7% for poultry. For the year, **USDA is projecting** that food prices will increase only between 2 and 3% for the year, as inflation for most food categories is expected to be at or below their 20-year historical averages.

In a recent article, Lusk and McFadden claim that higher unemployment induced by the recessionary fall-out from COVID-19 reduced the “opportunity cost” of time for many food consumers which allowed them more time to shop for lower food cost alternatives. This combined with an increase in the number of more meals consumed at home (which are generally prepared at a lower cost), and bulk buying amidst supply chain concerns may have helped constrain the growth in food prices during COVID-19.

Much of the recent run-up in food prices is being caused by several different factors that the industry experienced last year. While **crop prices** have retreated over the past two weeks, they still remain considerably higher than a year ago due to soaring exports (especially China) and weather concerns evolving from the grain regions in South America.

As has been discussed before in this newsletter, **increases in commodity prices alone typically do not have a relatively large impact on food prices** since the farm value for every one dollar that consumers spend on food averages only 14 cents. The farm value of highly processed items such as breads and cereals is generally less than 5% of the food dollar, while higher grain prices typically have a much great impact on retail meat prices.

But the recent surge in food prices goes much beyond higher commodity prices. Other inputs in the food supply chain such as escalating labor costs in response to tight labor supplies in processing plants and restaurants, increased packaging costs, and higher transportation costs moving food products across the nation as fuel prices rebound. On the demand side, a growing economy with **a recovery in dining away from home** coupled with expanding commodity/food demand overseas puts additional upward pressure on food prices and overall general inflation. Each 1% increase in the price of food in the United States causes the Consumer Price Index (CPI, a general measure of inflation) to increase by 0.14%. While food prices are increasing, the prices of many other goods in the economy such as lumber, automobiles, copper, iron/steel and semiconductors are increasing at a much higher level. The **U.S. Bureau of Labor Statistics CPI May 2021 report**, indicates that overall U.S. inflation is running at a 4.2% clip in 2021, the largest 12-month increase since a 4.9% increase recorded in September 2008.

While recognizing that inflation is increasing, officials at the Federal Reserve (i.e., the Fed) at the present time believe the **recent run-up in prices is temporary** as the market adjusts to some short-term supply chain challenges. Consequently, the Fed at the present time does not indicate an immediate change in monetary policy to boost interest rates as a way to slow down the inflationary pressures on the U.S. economy. However, policy-makers and financial markets are watching closely to observe how increased government spending, supply chain issues, and consumers with excess cash emerging from COVID-19 might have on inflation which would provoke the Fed to respond in the coming months.
While U.S. consumers are complaining about higher food costs, food price inflation is a much more alarming issue in many developing nations where food accounts for one-third to one-half or more of a family household budget compared to less than 10% on average in the United States. According to the latest FAO World Food Price Index, food prices have increased for eleven straight months, recording their highest level since May 2014. Over the past 12 months, the global food price index has soared by more than 30%. Although food price volatility is newsworthy in the United States, it is typically pale in comparison to what we observe globally. Over the past 30 years, U.S. food prices have moved on average 2.5% annually, versus nearly a 9% average globally.

Recommended Citation Format:

Author(s) Contact Information:
Will Snell | Extension Professor | wsnell@uky.edu