

The Fundamentals of Food Prices: Costs, Consumer Demand, and COVID-19

The pandemic upended the food supply chain and continues to influence food prices



As the pandemic spread in the spring of 2020, uncertainty and anxiety swept across the country as the unprecedented public health crisis left many Americans unsure about the impact on their lives.

An enduring image of the early days of the pandemic was consumers stocking up on everything from toilet paper to baking supplies.



In an instant, people went from eating more than half of their meals at restaurants to cooking virtually all their meals at home.

Prior to the pandemic, in February 2020, 52 percent of all household food spending was at restaurants. Two months later, that number fell to 34 percent.

This shift presented a huge challenge for the supply chain because food sold to restaurants and other food service buyers can't just be re-routed to grocery stores, and there were some initial struggles to keep up with the surge in demand.



COVID-19 contributed to increased costs at nearly every stage of the food supply chain, from the farmers and ranchers who produce food, to the manufacturers who turn raw commodities into the products sold in supermarkets, to the grocers who provide those foods to communities and families.

The shock to the food supply chain – exacerbated by panic buying and stockpiling – led to a 5.6 percent inflation rate in food prices from June 2019 to June 2020.

Beef and veal prices soared by 25.1 percent, while egg prices increased by 12 percent, potato prices by 13.3 percent, and tomato prices by 8.4 percent.

Despite the dramatic increase in sales, grocery stores – which historically operate on razor-thin margins – reported their profits increased in 2020 by an average of only 1.44 percentage points to 2.50 percent.



Still, the food supply chain was resilient. Americans never experienced the types of food shortages that were seen around the world, and grocers invested \$24 billion in everything from increased cleaning to personal protective equipment to keep stores open and employees and customers safe.

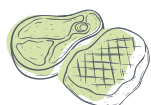
A variety of factors are contributing to elevated food prices, including ongoing supply chain disruptions and the war in Ukraine



The food retail industry historically operates on very slim 1 to 2 percent profit margins, and grocers are doing everything possible to avoid passing inflationary production costs onto shoppers. Also, competition in the grocery sector is fierce, and the battle for market share helps keep prices down for shoppers.



Inflation has caused the price of all consumer goods – from gasoline to apparel – to increase.



According to the August 2023 Consumer Price Index Summary, the food index increased 0.2% in August, the same amount it increased in July.

The index for meat, poultry, fish and eggs increased 0.8% in August, while the index for cereals and bakery products also rose 0.5% over the month. Conversely, the index for dairy and related products fell by 0.4% while the fruits and vegetables index declined by 0.2%.



Yet even as the global economy begins to open back up, we continue to see increased demand on the food supply chain.



Grocery prices continue to show some volatility, especially as consumer demand has not abated. Average household weekly spending currently stands at \$155, an increase from \$148 in October 2022 but below peak spending of \$161 at the height of the pandemic.

The price of food at restaurants rose slightly more than prices at the grocery store, with the food away from home index increasing 0.3% in August, higher than the 0.2% it rose in July.



The biggest challenges remain the lingering effects of the pandemic, a shortage of truck drivers needed to deliver products to the grocery store, the conflict in Ukraine disrupting global energy and commodity markets, and weather effects like the ongoing drought.



While supply chain bottlenecks and labor shortages have impacted the food retail industry's ability to bring some products to shelves, severe weather could cause even further disruptions.

Severe events like flooding and drought can delay shipments, damage crops, and prevent some products from reaching store shelves.



When the cost of raw materials – like corn, wheat, soybeans, and vegetable oils – goes up, the price of the products they are used to make, like bread and pizza dough, also increases.

Higher corn and soybean prices also increase the price of feed for livestock, which in turn pushes up the cost of meat products.



The cost of raw materials used for packaging – like aluminum – have also risen, which has also contributed to the increase in food prices.

The price of aluminum has been on a significant upward trajectory over the past year, which impacts the cost of things like cans for drinks and vegetables.

Even as consumers cook more meals at home, there are still ways to save at the grocery store



Despite the gradual return of dining out, consumers have expressed a desire to continue enjoying the health, social and economic benefits of a home-cooked meal.



To maximize the benefits of cooking at home, meal planning, smart budgeting, and getting the most out of leftovers are the best ways for shoppers to save at the grocery store.

First, plan as many meals as possible as far in advance as you can. As an added convenience and a way to stretch your food dollar, plans can include leftovers.

Second, sign up for your grocery store's loyalty program and download your grocer's app to receive alerts on sales, deals and coupons when they are available. Knowing the prices of items before you go to the store will help with meal planning and making a grocery list that fits your budget.

Third, consider buying grocery store brands for their comparable quality and traditionally lower price.