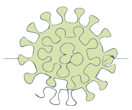
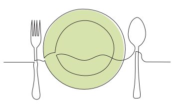
The Fundamentals of Food Prices: Costs, Consumer Demand, and COVID-19

The pandemic upended the food supply chain and continues to have an effect on 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% of all household food spending was at restaurants. Two months later, that number fell to 34%.

This shift presented a huge challenge for the supply chain because food sold to restaurants and other foodservice 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% inflation rate in food prices from June 2019 to June 2020.

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

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%.

The food supply chain was – and continues to be – 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 have contributed to elevated food prices in 2021

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

Over the next several months, consumers will likely continue to see short-term grocery price increases as a result of supply chain related inflation and ongoing levels of elevated consumer demand.

We went from a dining out culture to a cooking at home culture almost overnight, and that shift has largely persisted.

Average household spending on food has recently held steady at $143 per week. While this is down from peak spending of $161 at the height of the pandemic, it is still significantly higher than the average pre-pandemic amount of $113.50.

Prior to COVID-19, inflation was relatively low and other sectors of the food supply chain like restaurants were competing for that share of the food dollar, helping to keep overall food prices lower by easing consumer demand on grocery stores.

The good news is there is plenty of food in the supply chain, and any short-term issues related to product availability are largely due to logistical challenges and delays in getting that food to the consumer. These issues are often regional and difficult to predict.

Even as the global economy continues to open back up, pressures caused by the pandemic are still impacting multiple links across the supply chain. Those disruptions, delays, and bottlenecks have both short-term and local impacts, and can also cause ripple effects that reverberate through the entire supply chain.

The biggest challenges are due to labor shortages and transportation disruptions.

Unpredictable weather patterns – including drought in the West and tropical storms – have also driven short-term grocery price increases.

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.

We have also seen increases in the cost of materials that go into packaging – like aluminum – 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.

This combination of increased costs for raw materials, production, and distribution could potentially result in increased food costs well into 2022.

The food retail industry historically operates on very slim 1-to-2% 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.

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 homecooked meal.

To maximize the benefits of cooking at home, meal planning, smart budgeting and getting the most out of leftovers are the best way 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 grocers' 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.