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# Consumers and Food Price Inflation

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### Summary

The heightened price volatility of global commodity markets in 2008, the devastating U.S. drought of 2012, China's growing demand for international commodities, and almost routine media reports of daunting world population growth all raise the specter of food price inflation and generate Consumers and Food Price Inflation many questions about farm and food price movements. Understanding food Consumers and Food Price Inflation price changes and their effects on consumers is an important matter for Members of Congress and their constituents. This report provides information on the current status and outlook for U.S. food prices, measuring their changes and how such changes relate to U.S. consumers.

Despite the Consumers and Food Price Inflation hype associated with media coverage of international catastrophes, historical evidence suggests that prices for retail food products are driven Consumers and Food Price Inflation more by consumer demand (strongly linked to general economic conditions), than by price changes in raw commodity markets, although this linkage varies with the degree of raw commodity content in the retail product. For a Consumers and Food Price Inflation discussion of the relationship between farm and retail prices, Consumers and Food Price Inflation and the major factors influencing farm-level and wholesale food prices, see CRS Report R40621, *Farm-to-Food Price Consumers and Food Price Inflation Dynamics*.

During the 1991 to 2006 period, U.S. food prices were fairly stable—annual food price inflation, as measured by the Consumer Price Index (CPI) for All Food (excluding alcoholic beverages), averaged a relatively low 2.5%. However, several economic factors emerged in late 2005 that began to gradually push market prices higher Consumers and Food Price Inflation for both raw agricultural commodities and energy costs, and ultimately retail food prices. U.S. Consumers and Food Price Inflation food price inflation increased at a rate of 4% in 2007 and at 5.5% in 2008—the highest since 1990 and Consumers and Food Price Inflation well above the general inflation rate of 3.8%. The situation of sharply rising prices came to a sudden halt Consumers and Food Price Inflation in late 2008 when the financial crisis led to a severe global economic

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recession. Consumers and Food Price Inflation Annual food price inflation dropped to 1.8% in 2009 and 0.8% in 2010, driven by the global financial crisis and its aftermath. In 2011, improving U.S. and global economic conditions led to a 3.7% rise in average food prices. However, by mid-2011 through 2013, food price inflation leveled off—due in part to continued sluggish economic growth, stagnant wages, and persistently high unemployment, which combined to weaken consumer purchasing power. The U.S. Department of Agriculture (USDA) projects that annual U.S. food price inflation will be in the 2.5% to 3.5% range in Consumers and Food Price Inflation 2012 and from 3% Consumers and Food Price Inflation to 4% in 2013.

For households with low disposable income levels where food expenditures are a large share of the budget, rising food prices result in diminished purchasing power and may force difficult budgetary tradeoffs. To help food-deficient households during periods of rising prices, many domestic food assistance programs are linked to price inflation through escalation clauses, in order to retain consumer purchasing power during periods of rising food prices. However, even for households with escalation clauses, a time lag usually occurs between the time the price inflation is measured and the time when the wage or program benefit is adjusted upward to compensate.

The All-Food CPI has two components—Food-at-Home and Food-Away-from-Home. The Food-at-Home CPI is most representative of retail food prices and is significantly more volatile than the Food-Away-from-Home index. The Food-at-Home CPI is projected at 3% to 4% for 2013, compared with 2.5% to 3.5% for Food-Away-from-Home prices. This difference is partially explained by the larger share of farm products in the final price of retail foods than in Food-Away-from-Home. Farm product prices are, in Consumers and Food Price Inflation general, substantially more volatile than Consumers and Food Price Inflation the other marketing and processing costs that enter into retail or ready-to-eat foods.

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