Corn's Impact on Retail Food Prices: Five Truths

1 **Despite rising food prices, food in the United States remains an affordable part of the family budget.**
Americans spend just 10 percent of their disposable income on food expenses, the USDA reports, while households in countries like India often spend 50 percent of their budget on food. Even countries in Europe spend more than twice what U.S. consumers spend on food costs. And the amount Americans have been spending on food over the years (as a percentage of their income) has decreased significantly.

2 **Food price increases are overall stable.** Over the years, with a few exceptions, food prices have followed or slightly trailed overall inflation. Recently, the U.S. Department of Agriculture reported that marginal increases in retail prices due to higher energy and other costs are projected to continue and lead to food price increases somewhat greater than general inflation through 2009. After that, however, retail food prices are estimated to increase at less than the general inflation rate. For some perspective, food inflation was 4 percent in 2007, compared to the 25-year average of 2.9 percent.

3 **Farm products such as corn are a small part of the food bill.** Numerous cost factors contribute to retail food prices. According to USDA, labor costs account for 38 cents of every dollar a consumer spends on food. Packaging, transportation, energy, advertising and profits account for 24 cents of the consumer food dollar. In fact, farmers receive just 19 cents of every consumer food dollar.

4 **Corn is an inexpensive food ingredient.** If corn rises 50 percent from its 2007 average price, from $4 to $6 per bushel, that only means a per-pound price of about 11 cents. Even a standard box of corn flakes contains approximately 10 ounces of corn – less than a dime's worth. And while corn is a more significant ingredient for meat, dairy, and egg production, the USDA reports that higher corn prices pass through to retail prices at a rate less than 10 percent of the corn price change.

5 **We have production and supply to meet all corn demands.** Corn growers are not only growing enough corn to meet all demands – but to carry over a surplus into the next year. For 2007, that carryout was 10 percent of production. One reason for our success is increased yield, or bushels grown per acre. And also thanks to technology improvements, we are getting more efficient when it comes to producing ethanol and developing valuable uses for its co-products, such as grain that provides good nutrition for livestock.

> *"What effect do these higher commodity costs have on retail food prices? In general, retail food prices are much less volatile than farm-level prices and tend to rise by a fraction of the change in farm prices."*
> ***— Ephraim Leibtag, USDA economist***

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