



Supermarket sticker shock continues around the region

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By Andrea Gallagher

Going to the grocery store is not getting any easier these days, as food prices remain high and shoppers are having to change their spending habits, or get creative in the kitchen. According to a [recent study](#) by economists at the Federal Reserve Bank of Kansas City, processed food prices have driven the price increases and one reason is because of the labor market.

“American consumers experienced a broad-based increase in food prices at grocery stores in the last two years, but more recently, food items that require more processing and labor have contributed more to the overall increase in food prices,” said Economist Francisco Scott.

Though food prices have ebbed and flowed over the past 20 years, they have continued to climb in the past couple years, remaining high since the pandemic. Tight labor markets and wage increases have put pressure on the costs of labor, production and distribution. This gets passed on to the consumers, as they see it on their grocery bills.

“For each dollar spent on food, 45 cents go toward salaries and benefits of workers across the food supply chain,” Scott added.

“This suggests that increases in wages can substantially increase the cost of producing and distributing food. In an environment of strong demand for food items, as the one the U.S. economy is experiencing today, such cost increases end up putting additional upward pressure on the price of food at grocery stores.”

Meanwhile, many of the same factors affecting grocery prices are also having an impact on menu items at local restaurants.

Assistant Economist Ty Kreitman said demand for eating out has been strong relative to the trends they were seeing before the pandemic.

“How strong that demand remains and how labor costs impact operational costs for restaurants will be important factors for prices going forward,” he said.

Is there relief in sight? Economists say yes for two reasons. One is we are starting to see signs of loosening in the labor markets. The supply of workers has increased and demand for labor has softened. Second, we have seen examples of food prices that have increased sharply, and then came back down. The most recent example is egg prices. American consumers have rarely paid more than \$2 for a dozen eggs, until recently, after an outbreak of avian influenza.

“By the end of 2022, millions of egg-laying chickens had died from the disease, causing the supply of eggs to plummet,” said Senior Economist Cortney Cowley. “In December 2022, egg prices peaked at \$5.30, the highest national average price on record for a dozen large white eggs. Luckily, flocks can be rebuilt quickly. So far in May 2023, the national average price of eggs has been back around \$0.80 per dozen, suggesting that supplies of eggs have caught back up with demand.”

Cowley added that beef prices also had dramatic shifts in price since 2020, and only recently came down as supplies have increased.

“Similar adjustments in other categories of food could result in lower prices at the grocery store for consumers moving forward,” she said.

Cowley said it’s easy to take for granted the amount of work, infrastructure, and logistics it takes to get food from the field to the grocery store shelves. Even though the U.S. has one of the safest and most efficient food systems in the world, something like the pandemic, war, and labor shortages can disrupt it and cause an imbalance.

“Each of these shocks effectively reduced supplies of food. When supply declines, while demand stays constant (or even increases in the case of grocery shopping during the pandemic) prices increase,” she said. “One reason we are seeing much larger increases in food prices than in the past is because the shocks have been larger, more frequent, and more persistent than what we have experienced in the past.”

In addition, depending on a family’s income, the rising cost of food can affect budgets differently and cause more hardship for some than others.

“When we consider how critical food is to our well-being and how the costs of many other essential items have also increased, it’s very easy to see how food inflation can be significant and stressful for many,” Kreitman said.

For more on this research, click on this link: [Tight Labor Markets Have Been a Key Contributor to High Food Inflation - Federal Reserve Bank of Kansas City \(kansascityfed.org\)](https://www.kansascityfed.org/ten/tight-labor-markets-have-been-a-key-contributor-to-high-food-inflation-federal-reserve-bank-of-kansas-city)

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