

News Release

THE FEDERAL RESERVE BANK of KANSAS CITY

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THE FACTORS BEHIND HIGHER FOOD PRICES

Retail food prices surged in 2007, posting their highest gains in almost two decades. Robust food demand, record high crop prices and accelerating costs for labor and energy fueled these sharp gains. Is the stage set for a new era of even higher food prices?

“What is Driving Food Price Inflation?” uncovers the factors propelling the momentum in food prices, as well as what the future may hold for agricultural producers and consumers. The article is featured in the most recent edition of the Federal Reserve Bank of Kansas City’s *Main Street Economist*.

Economist and Omaha Branch Executive Jason Henderson found that food price inflation in 2007 rose twice as fast as overall inflation, accelerating as the year progressed. In 2008, food price inflation is expected to ease but remain high by historical standards.

In analyzing factors that drive food prices, Henderson found that marketing costs (the non-farm portion of retail food costs) have risen sharply over the past 50 years, consuming a greater share of the retail food dollar. Labor costs have emerged as the biggest component of the retail food dollar, fueling continued food price increases. Higher energy prices also are a large component of the retail food dollar, being quickly passed through to higher retail food prices.

Henderson found the recent sharp rise in farm commodity prices, however, may signal a new era of higher food prices. Increased demand for farm commodities outside retail food production, straining food supplies, and rising food demand from global population growth and rising incomes worldwide will further support higher prices. The best option to keep food prices in check, Henderson finds, may be boosting agricultural productivity.

The complete article is available on the Bank’s Web site at www.kansascityfed.org.

The Tenth Federal Reserve District encompasses Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

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