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Sticky Food Prices

Inflation has turned a corner, but not yet for food.

By Ryan James Boyle



When economists speak, we do not set out to be controversial. But some phrases catch our audience's attention and invite challenge. Lately, we have raised eyebrows with a simple statement: Inflation is past its peak. Looking across all products, the statement is true, but the average obscures some hot categories. As our listeners have been quick to rebut, food prices continue to strain household budgets and keep inflation top of mind.

Food prices have been volatile ever since the initial COVID lockdowns. It was the first category to inflate as suppliers struggled to match the demand shift away from restaurants and toward grocery stores, and as workers in food production facilities fell ill. Food broadly followed all prices up as inflation took hold in the course of 2021. In the second half of 2022, while headline inflation started to correct, food prices kept climbing.

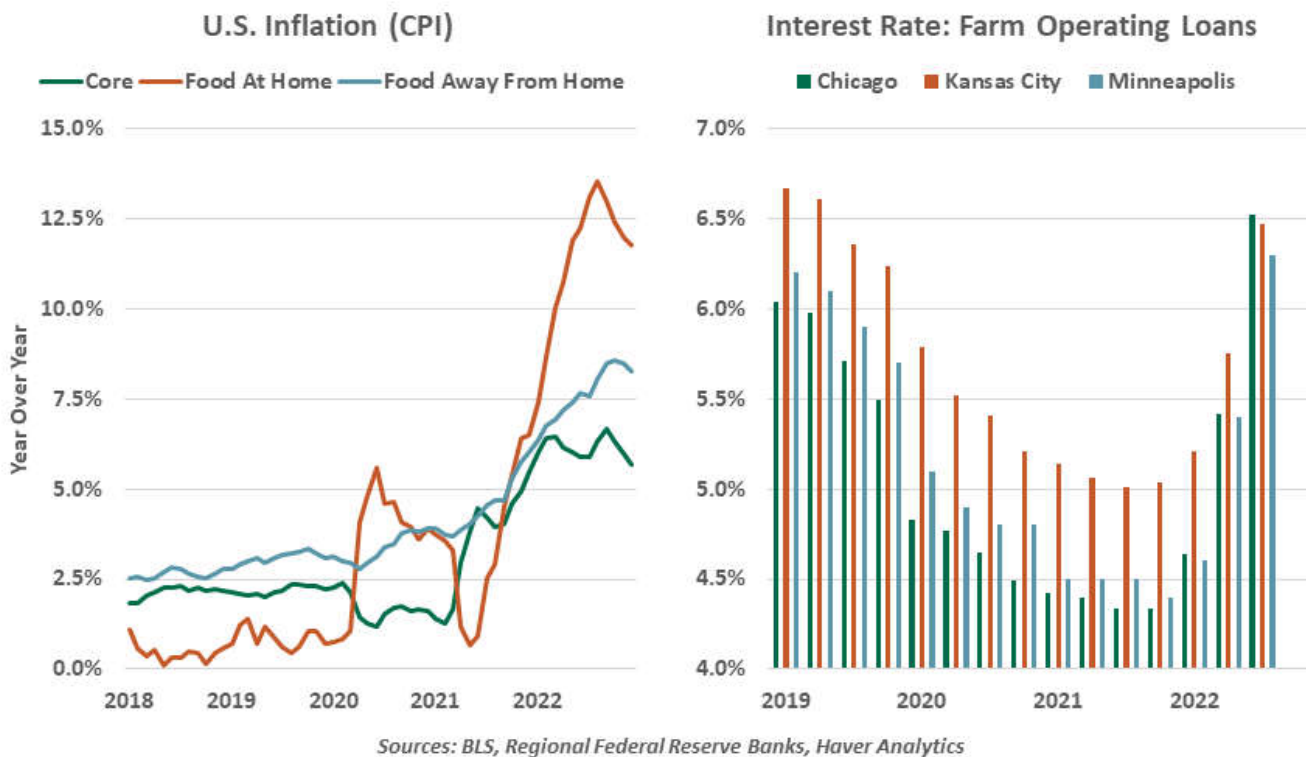
Some of the run-up reflects the systemic challenges battering the economy in recent years. On the production side, farms require labor, which has been in short supply. Immigration flows fell in the pandemic, especially the [temporary work permits](#) that allow migrant

flows fell in the pandemic, especially the **temporary work permits** that allow migrant laborers during peak harvest seasons. Farm wage costs have risen in tandem with all other frontline occupations.

Farms rely on fertilizer, much of which takes petroleum as an input. Oil prices rose during the 2021 reopening and surged in the wake of the Ukraine invasion, leaving farms paying more for these vital inputs. Reduced fertilizer exports from both Russia and Ukraine amplified the price swings. The producer price index of agricultural chemicals has settled 67% above its March 2020 level. And of course, higher fuel prices increase the cost to transport food from farms to retailers.

Higher interest rates have weighed on the agricultural sectors. Many farms routinely rely on operating loans to fund planting and cultivation, which are repaid with the proceeds from their harvest. Higher short-term funding costs have pushed up interest rates on these loans. And what if the harvest doesn't come in? Aside from a difficult macroeconomic backdrop, farmers in many regions have dealt with a myriad of idiosyncratic challenges. Hurricane Ian last September damaged many orange groves in Florida; a prolonged drought in California lowered yields of a variety of fruits and vegetables. Cereal commodities were already in high global demand due to lower production from Ukraine, with price increases compounded by dry weather that lowered winter wheat yields in the U.S. Midwest.

Local and global shocks have kept food pricing climbing.



Asked about food prices today, most consumers would point to eggs, with the price of a dozen roughly doubling in the past year. This can be traced to an outbreak of avian influenza: over 58 million egg-laying chickens were infected or had to be culled to stop outbreaks. Curiously, prices of poultry have declined. Broiler chickens (for consumption)

have a **shorter lifecycle** than egg layers, and they have not been as affected by the influenza. As healthy chickens mature, pressure on egg prices should abate in months to come.

None of these one-off events are novel. Farmers are accustomed to occasional years of poor yields due to factors beyond their control. But they come at a time of particular strain, when reminders of high prices are ubiquitous.

The topic of food prices invites strong opinions, given their essential nature. Even homespun wisdom to save money by cooking at home is not helpful; for the past year, inflation on groceries has exceeded the rate on food at restaurants by a wide margin. From our view, there is only one upside. High prices of tomatoes will make our audiences think twice before throwing them when we broach the topic of inflation.



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