



# What's driving up food prices?

How Fuel, Farmers And Foreign Trade Affect You

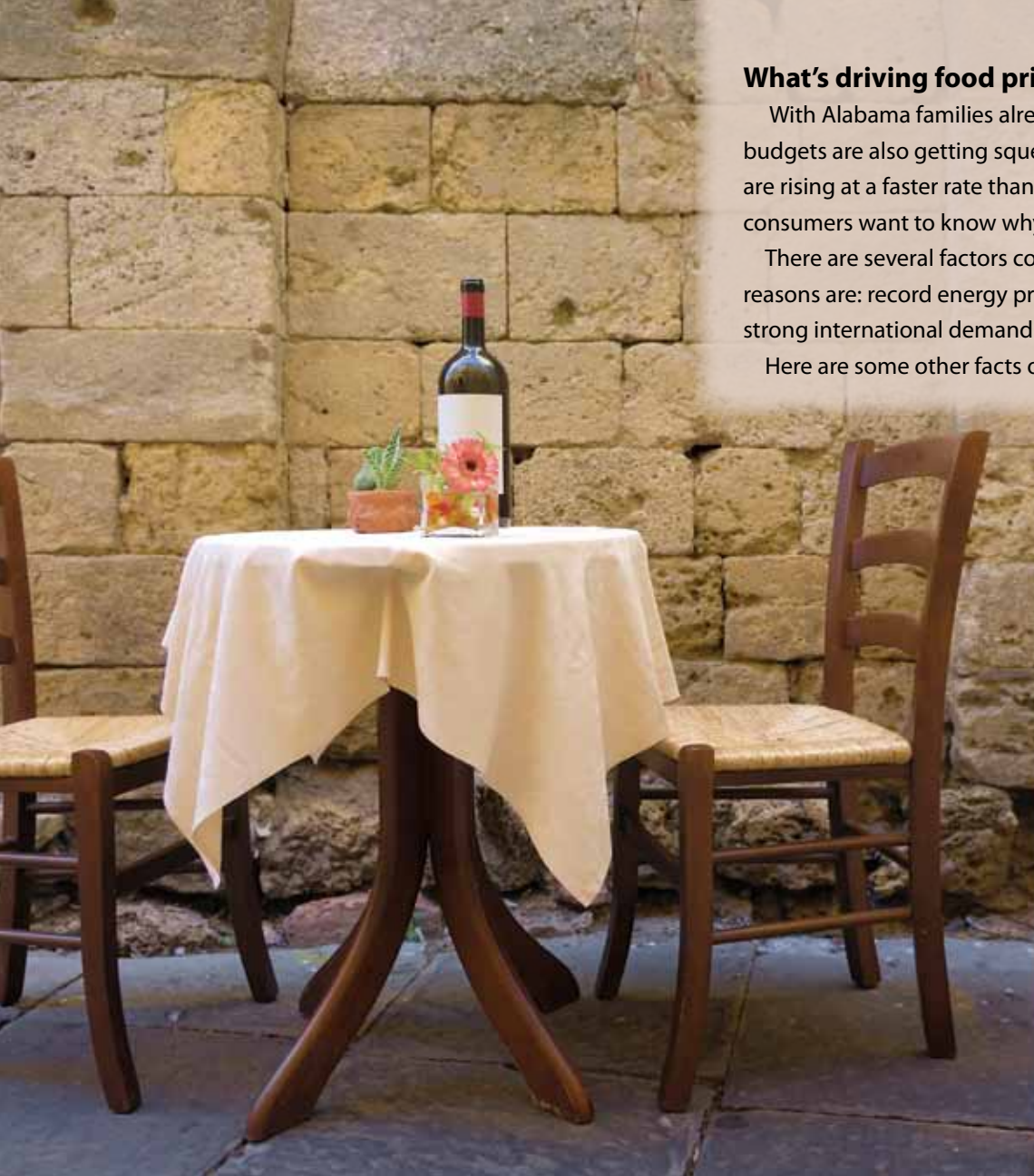


## What's driving food prices?

With Alabama families already hit by rising gas prices, household budgets are also getting squeezed by increasing food costs. Food prices are rising at a faster rate than they have in the past 15 years, and naturally, consumers want to know why.

There are several factors contributing to higher food prices. The major reasons are: record energy prices, a weak U.S. dollar, higher labor costs and strong international demand in developing nations.

Here are some other facts on food prices worth taking a look at...



### Today's Specials!

It takes about  
**36 days**  
for most Americans  
to earn enough  
money to pay for  
their food for  
an entire year!

## Ethanol Benefits the Environment

### Compared to gasoline, ethanol:

- Reduces carbon dioxide emissions 29 percent
- Lowers tailpipe carbon monoxide emissions up to 30 percent
- Lowers toxics content 13 percent
- Lowers tailpipe fine particulate matter emissions 50 percent



American Farm Bureau Federation\* Graphic Source: RFA

### Oil's Ripple Effect

- 44 percent of the increase in food prices can be attributed to fuel, transportation and energy costs.
- Oil and gas prices would be about 15 percent higher if it weren't for ethanol production, according to a Merrill Lynch commodity specialist. It is estimated that ethanol saves consumers more than \$50 billion in fuel costs.

Average Price With Ethanol

4.00

Average Price Without Ethanol

4.60

Without Ethanol, the price of gas would rise an additional 15 percent.



U.S. CROPS	STATUS	IN PERCENT
CORN	EXPORTING	39%
SOYBEANS	EXPORTING	38%
BEEF/VEAL	EXPORTING	22%
COTTON	EXPORTING	21%
MILK	EXPORTING	19%

### Global Impacts on Food

- The value of the U.S. dollar has been slipping since 2002, but it has hit historically low levels. A weak dollar makes U.S. food cheaper in the international market, driving up demand for commodities like corn, soybeans, pork and dairy.
- Consumers in China, India and other newly prosperous areas of the developing world are not only consuming greater quantities of staples such as rice and wheat but are also demanding more meat from grain-fed livestock. Consider, for instance, that per capita meat consumption in China doubled between 1990 and 2005 and is still growing.
- Adverse weather in major production areas across the world, including a multi-year drought that devastated Australia's grain exports, has caused shortages in global food supplies.

## Most of Retail Food Dollar Not Going to Farmers

### OFF-FARM

costs (marketing expenses associated with processing, packaging, wholesaling, distributing, transporting, and retailing of food products) account for **81 cents** of every retail dollar spent on food eaten at home and away from home.



81¢  
OFF FARM

19¢  
FARM

### FARMERS and RANCHERS

receive only **19 cents** out of every retail dollar spent on food that is eaten at home and away from home. In 1980, farmers received **31 cents**.

American Farm Bureau Federation® Graphic  
Source: ERS – USDA (2006)

SPENT ON FOOD  
WHAT A FARMER GETS

1.00  
0.19

## Food Still a Bargain

- The price of 20 basic market items increased only three cents between June 2001 and May 2008 according to the Alabama Farmers Federation monthly survey, when adjusted for inflation.
- U.S. consumers spend just 10 percent of their disposable income on food each year, the lowest average of any country in the world. Of that 10 percent, an average of 5.8 percent is spent on food eaten at home and 4.1 percent is spent on food eaten away from home.
- Even if food prices increase another 4.5 percent this year, U.S. consumers will spend 19 percent less of their disposable income on food compared to 1974.
- The last time a bushel of corn and a barrel of oil sold for the same price was in 1947. In the spring of 2008 corn was up 178 percent from its 1947 price. Meanwhile, a barrel of oil was up 5,450 percent from the 1947 price.

## Farmers' Costs Escalating

- Farmers' profit margins are continuing to narrow as they face the same escalating costs for fuel as consumers, along with rising costs for business necessities, such as fertilizer and livestock feed.
- In the bread aisle, a 20-ounce loaf of bread sells for \$1.78. At a going rate of \$9.10 for a bushel of wheat, a farmer receives about 16 cents for the wheat used to produce the loaf, or only 9 percent of the retail price.
- In 2008, farmers paid 65 percent more for fertilizer, 43 percent more for fuel, 30 percent more for seeds and 3.8 percent more for chemicals such as weedkillers than they did a year earlier.

What Retail  
Food Costs  
To Produce

44%  
Fuel, Transportation  
& Energy

29%  
Raw Farm Products

19%  
Labor Costs

8%  
Other Expenses



Alabama Farmers Federation  
[www.AlfaFarmers.org](http://www.AlfaFarmers.org)

This graph represents an expected increase of about 5% in retail food costs for 2008.