



JOINT ECONOMIC COMMITTEE
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Opening Statement of Sen. Charles E. Schumer
Chairman, Joint Economic Committee
Hearing: “How Are High Food Prices Impacting American Families?”
May 1, 2008
(as prepared for delivery)

I would like to welcome you to the first Congressional hearing this year about the soaring prices of food and the impact on families here at home.

For many years price increases in certain foods like cereal have vexed consumers, but now we are hearing from people about food prices going up across the board. When you walk down the street, you hear people complaining about food prices almost as much as gas prices. **While gas prices seem to be the number one issue today, I believe the anxiety felt over higher food prices is going to be just as widespread and will equal or surpass the anger and frustrations so many Americans have about higher gas prices.**

I want to look at what’s behind the rise in food prices and frankly, what that rise in prices looks like for average American families.

My wife, Iris, and I went to Fairway last weekend, our neighborhood grocery store in Brooklyn, and we continue to be floored by the prices. From aisle to aisle, shelf to shelf, including everything from staples to special treats, the prices families are paying to fill their shopping carts have gone up – a lot. **While we have been cringing at gas stations as gas prices have more than doubled since 2001, now it’s a double whammy. We pay more to drive to the supermarket, and then get hit with higher prices when we get there.**

Our family does pretty well, but even we feel it. Like many others we have a family budget, and right now we are budgeting \$40 more a month for groceries – while we feel the 40 dollars, we can afford it, but for many families it is a much greater struggle. They don’t have extra income for higher food prices and have to stretch their dollars, or even worse, cut back on their food purchases altogether.

The prices of milk, cheese, chicken, eggs, ground beef - regular stuff -- are way up. If you’re trying to eat healthier it is even worse. We buy light wheat bread, which we’re paying almost \$4.00 for now, up from almost \$3.00 since we started eating it a few years ago. I’m a meat-eater and what we buy now is largely dictated by what is on special that week at Fairway or Costco.

My daughter, like many young people and families now, wants to buy organic chicken and other

organic food. Those prices are shooting up even higher. At Fairway, we can buy a whole regular chicken for about \$5; but an organic chicken is almost \$12.

Higher food prices have squeezed small businesses too. Our local bakeries closed recently -- Uprising, which sold bread and cakes on 7th Avenue, and Regina's Italian Bakery. Was it because of higher grain prices? I don't know for sure, but it certainly wasn't because local bakeries are making a killing off their Brooklyn customers. Even bagels are over \$5 for a dozen now.

When it comes to higher food prices, even when they're not going up by large percentages, there isn't much room for error. Everyone has to buy food to feed their families and it already swallows over **12 percent** of the average household budget. When gas prices are high, families may decide to drive a little less or carpool or take the subway. When food prices are higher, families can't just decide to not feed their children. And because they have less to spend on food, what they do buy is often much less healthy.

Now to be clear, not every single product in the grocery store is more expensive than it was a year ago or even seven years ago. Some food products, because of more efficient processing, less transportation, or just more plentiful supplies, cost consumers less or as much as they have for years. For instance the price of pork per pound has gone **down about 20%** from January 2001 to last month.

But the prices of the staples we all depend on for a healthy diet, like eggs, bread, milk, fruits, are rising by eye-popping leaps and bounds, especially in the last year.

For instance, between January 2007 and January 2008, egg prices alone went up nearly **40 percent** and are up almost **80 percent** since January 2001. Eggs are just one example in a broader trend; from January 2007 to January 2008, the Consumer Price Index (CPI) for all food grew by nearly **5 percent**, the highest 12 month increase in over 17 years. Americans are paying five percent more for food and the same time many people are seeing their paychecks shrinking.

As we'll learn in more detail from our panel, flour prices have gone up at least **30 percent** since January 2001. This has raised prices for good old processed white bread, but has also raised the costs for fresh baked breads, rolls, bagels, or muffins you might buy at Reinwald's Bakery or H&H bagels.

Another area that is not on the radar screen just yet but will be a bigger problem as farmers adjust their crops is the rising costs and potentially dwindling supplies of fruits and vegetables. Apples, grapefruits, potatoes, beans and broccoli have gone up over **20 percent** since January 2001 and peppers are almost **40 percent** more expensive than January 2001.

While some might be telling us to make lemonade out of the lemons this economy has given us -- that too will be more expensive -- since January 2001 the price of lemons have gone up nearly 50 percent.

Let's look at some of the average prices of items we shop for in our grocery stores – and how much they've gone up since last March.

As I said, fruits and vegetables have gone up a lot:

Peppers are up almost 20%, tomatoes and bananas are up about 13%, apples are up almost 10%.

A pound of pasta is up over 13%, a regular loaf of bread is almost 12% higher, and a pound of beans is 17% higher. And flour is up a whopping 32%.

Milk is almost 20% higher per gallon, and buying a dozen eggs is 30% more expensive than it was last year.

While the economic message we are getting out of the Bush Administration sounds like “let them eat cake,” I assure you, it is a much more expensive cake than you were eating when President Clinton was in office.

Even the foods that aren't going up as much are still going up beyond the level of inflation.

Energy Costs:

Two of the main culprits sending food prices higher are commodity and energy costs. Agricultural prices were up over 33 percent in the past 12 months. And between March 2007 and March 2008, inflation-adjusted corn and soybean prices shot up 35 and 67 percent, respectively. To Mr. Reinwald's detriment, wheat prices increased unbelievably, by over 130 percent.

Energy is a key ingredient to the food industry, both for primary commodities and for processing, marketing, and distributing everything from apples to zucchini and bread to yogurt.

- And the price per barrel of oil per barrel has rocketed beyond \$100 and is currently \$116!
- Prices for natural gas - the primary ingredient for making fertilizer - are up 33% from a year ago;
- Diesel fuel is up over 45%; and
- Regular unleaded gasoline prices have jumped 27% over the year.

High gasoline prices don't just raise transportation costs; they increase demand for gasoline substitutes, mainly ethanol derived from corn.

On top of higher gasoline prices, tax subsidies and federal bio-fuel mandates have boosted the amount of domestic corn crops devoted to producing ethanol to nearly **one quarter** of the crop in 2007, from less than **15 percent** in 2005. And in 2008, over **30 percent** of the corn crop will be going into gasoline tanks according to USDA estimates. This has obviously raised the price of corn and grains because farmers have shifted more land into corn production, squeezing domestic supplies of wheat, soy, and many other crops. In other words, you don't have to be a big corn eater to feel the result of the demand for corn. When farmers produce more corn, they produce less of everything else – driving up prices across the board.

Corn, soybean, wheat, and energy prices have gone up so much that consumers are seeing significant increases in the price of groceries. Eggs, and dairy prices are up sharply in part because the cost to feed animals has more than doubled since 2001. Energy costs have also helped drive fruit and vegetable prices higher. Highly processed foods are less vulnerable to higher commodity prices, but are still going up for many Americans because of increased energy costs. The Food and Agricultural Policy Research Institute predicts that continuing high oil prices and bio-fuel mandates from last year's energy bill will keep prices at historic highs across the board.

It is also critical to remember that commodities are global and supply reductions in other countries are transmitted to prices paid in U.S. markets. Bad weather, like droughts in Australia and Eastern Europe and reduced production in Canada, Western Europe, and the Ukraine has put world grain stocks at historically low levels as demand has grown, especially in places like China and India.

Beyond increasing energy prices, bio-fuel mandates, global demand, and weather issues, speculation emboldened by low interest rates may also have some role in raising prices for consumers. Low real interest rates increase the profitability and decrease the risk of speculating in commodities and also act as a hedge against inflation. Moreover the falling U.S. dollar has decreased consumer purchasing power and made these higher food costs tougher to swallow – especially among middle and lower income families.

Those families are spending an even higher percentage of their incomes on food. According to this chart 80 percent of families spend more than 10 percent of the budgets on food and for the bottom 20 percent of families making the least, almost one of every three dollars they earn after taxes goes towards buying food.

Higher food prices are especially bad news for poor households. The share of U.S. households that receive food stamps has climbed dramatically from 7.5 percent in December 2001 to over 11 percent in December 2007, and these numbers may even understate the problem. On a global scale, higher food prices and scarcity are leading to civil unrest in many developing nations, like Haiti, that rely almost solely on imports for food.

Last week, Costco and Sam's Club discount stores were limiting the amount of rice customers could buy per visit. **Prohibiting customers from purchasing more than four 20-pound bags of rice is not worthy of rioting, but it is evidence that families, even here at home, are very anxious.**

Getting to the bottom of the cause of high food prices will not be easy, but as we consider appropriate policy responses, we need to understand them and hopefully our panelists will help us do that today.