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Despite falling fuel prices, costs for food stay high

BY TOM INCANTALUPO

tom.incantalupo@newsday.com

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Will you settle for two out of three?

Gasoline prices are falling and so are those for heating oil but, if experts are right, grocery prices will stay high for the foreseeable future - including the coming holiday season.

That's despite declines in prices for corn, wheat, soybeans and the fuel to ship them.

"We're not looking for much moderation in food prices for quite a while, basically because the declines we're seeing in commodity prices still are relatively minor compared to the run-up we've seen," said Tom Jackson, agricultural economist based near Philadelphia for Global Insight, the economic analysis and forecasting firm.

Prices will remain higher, Jackson and other experts said, because retailers never passed along the full increases earlier this year in basic food commodities and because the demand for food continues to grow worldwide, especially from developing nations.

Although the U.S. dollar has gained some strength, its weakness made U.S. agricultural products cheaper for offshore buyers. "You go into a grocery store and you are effectively in competition with every Chinese consumer who wants pork in their diet or grain in their diet," said Elaine Kub, a grains analyst for DTN, an Omaha commodities analysis firm.

According to the American Farm Bureau, a Washington-based trade group, about 17 percent of raw U.S. agriculture products are exported yearly and a fourth of the world's beef and nearly one-fifth of the world's grain, milk and eggs are produced in the United States.

Kub said that while the long-term trend is up, the benchmark grade of wheat used for food fell since March to below last year's levels, while corn and soybeans fell by about 20 percent from their peaks in June. Kub added that, because of pre-purchasing of grains by food makers and manufacturing lead times, it can take as much as a year for lower grain prices to be reflected in lower grocery prices.

Some Long Island retailers say they see no signs of prices falling. "Everything, little by little, is inching up and nothing is coming down," said Edna Turner, manager of the Twin Pines Food Coop & Charitable



Thrift store in Port Washington.

But Laura Sen, president of BJ's Wholesale Club, the Massachusetts-based warehouse discounter, said in an interview yesterday that wholesale prices have dropped for a few items - corn oil and the more expensive beef cuts, for example. "Prices have come off their peaks in a few areas but, by and large, that moderated price still is far above where we were a year ago," she said.

At Iavarone Brothers Foods' New Hyde Park market, manager Jonathan Iavarone said his costs for some items have come down. A 100-pound bag of flour, for example, had been as high as \$70 a bag and now is \$35. But, he added, "They're saying it might go back up another 15 to 20 percent." He said fruit and vegetable prices are varying wildly, but added, "I believe they'll stabilize, maybe go down a little."

Experts said Americans have cut back on sit-down restaurant meals and are cutting back on luxury foods - expensive steaks and the like. "There's been a movement to toward lower-priced cuts of meat and toward more grain-based meals," said Harry Balzer, a vice president and the chief food industry analyst for the NPD Group Inc., a Rosemont, Ill., company that provides consumer behavioral information for retail businesses.

Iavarone said more of his customers are ordering online and taking advantage of the free local delivery he offers on orders of \$25 or more. "They don't want to waste gas, so they go to my Web site," he said.

Balzer said he sees little relief in prices except in certain items: "If it's high priced and not moving, there will be pressure to lower the price to get it moving."

BJ's Sen predicts that meals during the holiday season will stay expensive. "I would say we've seen a little glimmer of relief," she said, "but not enough where I would say you're going to have a lot of extra money for presents under the tree."

YOUR GROCERY BASKET Consumer Price Index for food, not adjusted for seasonal changes, from July 2007 to July 2008

Cereals and bakery products 12.1%

Dairy and related items 8.1%

Meats, poultry, fish and eggs 4.3%

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