Inflation Drives Up Grocery Prices

The fundamental disconnect between the Federal Reserve Bank, which claims that inflation is low, and the economic realities facing the American people is stunning and stark: Simply put, Ben Bernanke and his associates claim to see deflation, while working Americans are hit hard by the harsh realities of inflation at the gas pumps, shopping malls, and supermarkets.

A Stealthy Price Index

Accounting for this discrepancy is the fact that the Federal Reserve utilizes a roundabout mechanism for economic forecasting known as the Personal Consumption Expenditures Price Index, a nationwide indicator of the average increase in prices for all domestic personal consumption. The PCE Price Index, also known as the Implicit Price Deflator for Personal Consumption Expenditures, constitutes the deceptive means by which the Federal Reserve skirts the ugly truths of inflation and consumer prices.

By utilizing a biased and rigged means of economic forecasting and evaluation, lacking in validity, the Federal Reserve stealthily covers its tracks and hides under the protective sheath of the PCE Price Index, shielding itself from criticism by those who challenge its policies and economic indicators.

The fundamental problem, however, with the PCE Price Index is that it is based on changes in prices of items that are actually used during a period, rather than on a fixed basket of purchases. The econometrics utilized by the Federal Reserve conveniently exclude volatile food and energy prices, which explains why the Federal Reserve documents a core consumer rate increase of only 0.8 percent, when in actuality, the index level was up 1.2 percent since last January. Such figures are the inevitable outcome when the Federal Reserve's core rate excludes food and energy prices, the two factors that most directly affect Americans' daily lives.

The Federal Reserve's switch in 2000 to the PCE Price Index away from the Consumer Price Index (which better reflected the needs of the American people by being more microeconomic in scope, showing the price of out-of-pocket expenditures made by consumers) was clearly a crucial component of a broader Federal Reserve strategy to convey the illusion of deflation, in what Ludwig Von Mises Institute scholar [Richard Ebeling](#) has described as "False Deflationary Fears in Dangerous Inflationary Waters:

> Listening to the Fed, you would have the impression that America is facing a severe deflation,

> when what we face is the serious danger of rising prices due to a massive monetary expansion by the Federal Reserve. The Fed has created a tidal wave of monetary expansion. And if they were not to radically reverse the growth in the money supply they have created, significantly rising prices will be facing the American consuming and taxpaying public [in] the months and years to come.

The overt manipulation of inflation statistics, the unbridled printing of money, coupled with a chronic 40-plus-year continuation of fiat currency (i.e., no gold standard), unemployment, declining median incomes, and the rising prices of commodities — all taken as a whole — serve to create a toxic stew of economic depression that will churn the national stomach.

While the Federal Reserve claims that inflation is decreasing and declares that it will be years before there is any significant inflation, in the words of Dennis Lockhart, president of the Atlanta Federal Reserve, "There seems to be a disconnect between what the Fed is saying and what people are experiencing when they fill up their gas tanks or read about rising food prices around the world."

On Different Wavelengths

Though the Fed claims that inflation is not exerting its influence on American consumers, the reality is bleak. While Bernanke ignores the reality of inflation, the European Union and England have publicly stated that they are on alert as inflation is ticking higher. Furthermore, the price of food in the United States is expected to skyrocket beyond already high prices, according to *Bloomberg Business News*:

> U.S. food costs will rise as much as 4 percent this year after a surge in prices for farm goods, more than the 2 percent to 3 percent forecast last month, U.S. Department of Agriculture Chief Economist Joe Glauber said. "Higher prices for crops and livestock will again pressure food prices," as increased commodity costs work their way through the food-supply chain toward consumers, Glauber said today during remarks at a government-sponsored agriculture forum in Arlington, Virginia. Global food prices rose 25 percent last year and set a record last month as world grain inventories were headed for a 13 percent decline before the next harvest, the USDA estimates. Tighter supplies and higher costs have contributed to unrest in North Africa and the Middle East as rising demand causes isolated food shortages and accelerating inflation in poor countries, even as it boosts incomes for U.S. farmers.
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> For consumers battered by high fuel prices and a moribund job market, the potentially unpleasant effect of higher food prices is plain. It's no less aggravating for local grocers and restaurateurs, who face the distasteful dilemma of keeping prices in check and shaving their margins even thinner or edging them higher and risk losing customers, as the Agriculture Department says that U.S. retail food prices, in groceries and restaurants, are expected to increase faster than the overall rate of inflation both this year and next.

Still, food inflation is accelerating at the fastest pace since reaching a 28-year high in 2008, the USDA said. The U.S. Bureau of Labor Statistics estimates that food prices rose 0.5 percent in January, the biggest jump since September 2008, and were up 1.8 percent in the past 12 months.

The price of corn, used mostly in livestock feed, is up 80 percent from a year ago on the Chicago Board of Trade, and touched a 31-month high on February 22. The increase is partly driven by soaring demand for the grain as a biofuel — about five billion bushels will be devoted to making ethanol this year, compared with 4.95 billion for the 2010 crop, Glauber said. Corn isn't the only grain to see gains; in the past year, soybean meal prices have risen 37 percent, and wheat is up 73 percent.

While the rising food prices could be remedied by limiting government interference in the commodities markets, government instead meddles in the affairs of the market by demanding that farmers produce corn and other foodstuffs for the Quixotic goal of developing “green energy,” rather than allowing these commodities to be utilized for human need. This is another classic example of how environmentalists place their misguided exaltation of the environment over human needs, as the quest for ethanol, windmills, and other green technologies continues to ravage the economy.

Owing to the use of corn for ethanol production (an economically impractical venture supported even by some “conservatives” such as Newt Gingrich), conditions of scarcity (lower supply), coupled with greater demand, result in higher prices. Higher costs for corn, which is the primary feed for pigs and chickens, may boost pork prices as much as 6.5 percent and eggs 4.5 percent this year, the USDA said.

Additionally, the department's forecasts also recently were raised for meats, eggs, cooking oils, fruits and vegetables, sweets, cereals, and baked goods. A chilly winter in Florida, Texas, and Mexico has hurt tomato crops in all three areas, likely meaning that prices will be higher until later this month or mid-April. Harvard economist Richard Benson has described these rising commodities as “an inflationary cocktail in the making,” outlining the following agriculture commodity price percentage increases year-by-year:

Coffee — 45%
Barley — 32%
Pork — 68%
Oranges — 35%
Cotton — 40%
Salmon — 30%

Contributing to the surmounting crisis in food prices is taxation on groceries. Data from the Federation of Tax Administrators (FTA) show that in 2010, 13 states collected sales tax on groceries, and in these states, many local municipalities also levied taxes on groceries — an attractive option, because of the stabilizing effect grocery taxes bring to a state's economy, as food sales tend to be consistent. In addition, as part of several progressive “public health”-oriented drives to legislate nutrition and good eating habits, several states are proposing to raise revenues by levying discriminatory taxes on soda and other sugary soft drinks, candy, fast food, and other foods the “nanny-state” Left deems unpalatable.

Known as agflation, the continual, sustained increase in food prices has been an ominous trend in the U.S. economy, indicative of the disastrous effects of the Federal Reserve and its continued manipulation of American currency and consumer commodities. As food prices rise at a rate faster than inflation, companies such as Kellogg, McDonald’s, Kroger, and Safeway have been open about the economic dilemma faced by their consumers: The public will have to shoulder more of the higher costs for ingredients. For these companies, the big challenge will be how much they can swallow and how much they can pass along to consumers, in terms of offsetting the costs and benefits inherent in the inflationary food spiral.

Thanks to the Federal Reserve’s manipulative policies, coupled with the environmentalist menace, poor crop yields, and record-breaking harsh winters (on a planet that is allegedly warming), sheer survival will become the new fiscal aim for most American families, as their hard-earned dollars will yield less food and smaller quantities per unit at weekly trips to the supermarket.