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JENNIFER OPENSHAW

### Rising food prices take a bigger paycheck bite Here's what you can do about the escalating price of groceries

By Jennifer Openshaw  
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NEW YORK (MarketWatch) -- Aren't those monthly inflation reports confusing? They talk about a "core rate" which strips out food and energy. It's less than 3% per year and the "experts" are somewhat concerned. But what about food and energy? The energy story is well known and clear. But I don't think we can ignore food much longer.

We're used to energy price increases, and we know why they're happening. Gasoline prices, up almost \$1 per gallon since January, make headlines almost daily. So yes, energy costs are still the biggest inflation driver.



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- Cheddar cheese prices, up 65%
- Nonfat dry milk prices, up 117%
- Broiler chickens, up 17.5%
- Beef, select, up 12.8%

#### The reasons why

The factors driving higher food prices are unlikely to go away any time soon:

- Ethanol. The ethanol boom has driven corn prices up 70% in a year. Now more land is planted in corn, and soybeans, wheat, oats, and barley are all up from 5% to 35%. Plus, higher corn prices mean higher prices for animals in the food chain that eat it - such as chickens, cows, and hogs. Corn is also a key ingredient in a long list of processed foods like breakfast cereal, and so far, producers have been able to pass these cost increases on - another sign of a fundamentally inflationary environment.
- Higher distribution costs. Energy hits on two fronts: It costs more to process food and it costs more to move it all to market.
- World demand. The "China effect" on energy prices has been well documented. But it also affects food. Food exports have grown as living standards in China, India and other growing economies have risen. That's good for the economy but not for prices.

The good news is that for years food prices have declined as a percentage of income. According to the Bureau of Labor Statistics, U.S. families spent fully 43% of their incomes on food in 1901. By 1929 it had dropped to 24%, and by 2004 the figure was 14%.

But as income growth slows and food prices increase, this happy long-term trend may be coming to an end.

#### What to do

That means we'll all have to watch our food expenditures more closely. Short of growing your own, try the following:

- Change shopping patterns. Like it or not, buying bulk packaged items in warehouse clubs and discount grocers can save a lot -- \$200 a month or more for a family of four. For many it will be worthwhile to stock up at the discounter, and then add specialty items from the grocery store.
- Find substitutes. Generic or store-branded products have been around for years and, with quality improvements, they've become more credible substitutes for many staples. Less fancy meat cuts such as "flat iron" and "petite sirloin" steaks can fill in for more expensive cuts.
- Eat a little less. There's more than one reason to cut back, but I'll stick to costs. If you have children, it doesn't hurt to implement a "when it's gone, it's gone" policy and buy only once a week to encourage conservation of apples, juice boxes, etc. especially during idle summer breaks.

Bottom line: Our inflation worries, long tied to energy, housing, health care and higher education costs, have expanded into everyday food needs. Now, just like we do for energy, we'll learn to keep our eyes open, watch prices, and adjust behavior accordingly.

Jennifer Openshaw, author of "The Millionaire Zone," has appeared on Oprah, Dr. Phil, CNN and CNBC. She hosts ABC Radio's Winning Advice and serves as an adviser to some of America's top corporations. You can reach her at [openshaw@themillionairezone.com](mailto:openshaw@themillionairezone.com).

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