

Labor, Energy Costs Affect The Grocery Bill More Than Corn Prices

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Since my last article about ethanol, I have had a number of phone calls and emails, all positive and asking for more information. So here are a few more interesting things.

Merrill Lynch analysts recently announced that with-

out ethanol production, the world energy situation would be much worse. They believe that ethanol has reduced the price of oil by \$13 a barrel, which equates to saving the U.S. \$65 billion in foreign oil payments, thus helping to balance trade deficits.

If we look domestically, a \$3 box of corn flakes, (15 oz.) currently only contains around 8 cents of corn based on what the farmer receives. We have to wonder how the price of corn has had more than a few cents effect on the price of corn flakes. Jason Henderson wrote in *The Main Street Economist*, an analyst publication of the Federal Reserve Bank of Kansas City, that currently 80 percent of the cost of food is due to labor and energy costs, which recently have significantly increased. The publication also states that corn farmers only receive about 4 percent of the food dollar when it comes to corn flakes.

In a study released in April, Texas A&M University states that "higher corn prices have very little effect on consumer food prices." Ephraim Liebttag from the U.S. Department of Agriculture reports that their studies have shown higher corn prices affect retail food prices at less than 10 percent of the change in the price of corn.

The recently released study by John M. Urbanchuk, of Laidlaw Energy Group, states that a \$1 per gallon increase in the price of gasoline has three times the impact on food prices as does a \$1 increase in the price of corn. Here's a comparison: In 1949, the price of corn was \$1.24 per bushel and oil was \$2.54 per barrel; today, the local corn price is \$5.60 while oil has increased to \$121+ per barrel.

The U.S. Department of Labor just released some figures on cost increases from March 2007 to March 2008. Food went up 4.5 percent, transportation costs increased 8.2 percent, motor fuel increased 26.4 percent, and fuel oil increased a big 40.2 percent.

Corn farmers only increased the cost of corn flakes by around 3 cents a box, or about 1 percent. Wouldn't it be nice if everyone else held down their costs to that level? △

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