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Study Shows Higher Corn Prices Have Little Effect on Cost of Food

A recently released study by American Farm Bureau Federation (AFBF) economists shows increased demand for corn driven by ethanol production has little to do with a recent rise in food prices.

The study shows that nearly all the evidence points to factors other than ethanol demand, including crop failures, low world supplies of wheat, milk production cutbacks and the rising cost of energy.

The AFBF quarterly marketbasket survey shows prices for 16 basic grocery items, including chicken, bread, apples, eggs, cheese, flour, vegetable oil, mayonnaise, oat cereal, corn oil, milk and others, increased four percent during the first quarter of this year. Although American consumers spend less disposable income on food than consumers in any other country (10.4 percent in 2006), rising food costs are putting strain on families.

Data uncovered by AFBF shows corn is usually a tiny fraction of a product's price. For instance, the value of the corn that goes into a box of Corn Flakes is estimated at 2.2 cents. Even if the cost of corn doubled from today's price, it's difficult to understand how it relates to an increase of 10 to 20 times that much in the price of a box of cereal.

Food and beverage prices rose about four percent in May, compared to last year, according to the U.S. Labor Department's Consumer Price Index (CPI). At the same time, ethanol production, mostly from grain corn, has more than doubled since 2002. Tax incentives and a federal renewable fuel standard continue to increase ethanol production. In result, the price of a bushel of corn has nearly doubled to \$4 since 2005. But blaming ethanol production for the increase in food prices is not looking at the full picture. The price of corn is going up because of ethanol, but food prices are not going up because of corn.

Rising energy prices are the biggest culprit in relation to the increasing cost of food, according to the AFBF economic data. The negative attention in this "food versus fuel" debate is unfortunate for ethanol. The growing use of renewable fuels is a good thing for our country. Ethanol and biodiesel production reduces our dependency on foreign oil, creates jobs, are better for the environment and help support our rural economy.