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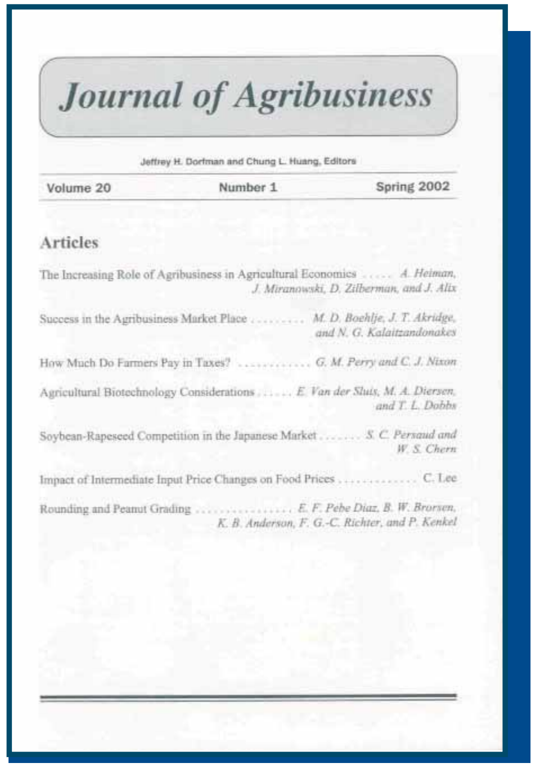
The Impact of Intermediate Input Price Changes on Food Prices: An Analysis of "From the Ground Up" Effects



Journal of Agribusiness

Jeffrey H. Dorfman and Chung L. Huang, Editors

Volume 20 | Number 1 | Spring 2002

Articles

Journal of Agribusiness

Volume 20, Number 1, Spring 2002

Agricultural Economics Association of Georgia, Athens, GA

"The Impact of Intermediate Input Price Changes on Food Prices: An Analysis of 'From-the-Ground-Up' Effects"
Pages 85-102

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HOW MUCH WILL AN increase in the price of intermediate inputs increase food prices? Assessing the effect of intermediate input prices on food prices is important because food prices are greatly affected by the cost-push squeeze, which stems from input price increases. Intermediate inputs are bought from other industries to produce output. These inputs accounted for 70 percent of the cost of the food and kindred products industry's production in 1992, much more than the 43-percent average cost of all U.S. industries. Therefore, the effect of intermediate input price increases is more significant for food prices than for nonfood prices.

This study simulates scenarios of input price increases and empirically examines how each scenario affects food prices. Since the meat-processing sector greatly depends on intermediate inputs (livestock), an increase in intermediate input prices would have greater effect on consumer prices for processed meat than a price increase in any other intermediate input. Another major element of the "ground up" investigation of consumer food price increases is the effect of price increases in nonfarm intermediate inputs on food production: (1) Price increases in the service sector have much the same effect on overall food prices as price increases in intermediate agricultural commodities; (2) Price increases in nondurable goods have more influence on food price increases than price increases for durable goods.