

Why are food prices still so high? What is price gouging—and why is it so complicated?

August 30 2024, by Tanner Stening



Credit: Pixabay/CC0 Public Domain

Vice President Kamala Harris' [proposal to ban price gouging](#) by grocers and food companies seemed to do more than just stir up the usual partisan bickering: it set off a [highly technical debate](#) between

economists, food executives and policy experts over the cost of food.

Consumers have been feeling the pinch at the [grocery store](#) from high food prices—and that's no secret. Since the beginning of the COVID-19 pandemic, food prices are up 25%, according to federal data, and remain uncomfortably high for most consumers.

What's really going on with food prices, and is there anything that can or should be done to regulate grocery and [food companies](#)?

Northeastern University food pricing expert John Lowrey says the story is a complicated one, especially because of lingering uncertainty from the pandemic that has influenced how businesses price their products.

Food prices fluctuate for a number of reasons.

"Prices have a lot of variability," Lowrey says. "When we talk about price gouging and setting prices, mind you, a retail store can have thousands of different [stock keeping unit](#) (SKU) items, and each SKU item can have different packaging sizes."

Even within a particular product type, Lowrey says, "there's a lot of variability in terms of how product packaging is priced."

Why is that?

One reason has to do with brand strategy, Lowrey says. Some retailers might price certain [food items](#) in such a way as to emphasize the quality and freshness those products deliver.

[Custom food packaging](#)—also an extension of branding—is also becoming the norm in many stores. Sustainability concerns have led to more [environmentally friendly packaging materials](#), such as

biodegradable or compostable materials, which are more expensive than traditional [packaging](#).

Another is "complementary relationships among products," Lowrey says. Complementary products—cereal and milk, for example, or [hamburgers](#) and hamburger buns—present opportunities for retailers to upsell certain products in a strategic way when discounting other items.

Time-of-day, or time-of-use, and "[surge](#)" pricing naturally results in price variations as well. Some experts, however, outright [consider these practices price gouging](#).

Too much price variability

All of this variability makes it difficult to compare prices across the industry in an apples-to-apples way, Lowrey says.

"It's hard to assume an informed perspective on prices because there's a lot of unobserved heterogeneity or price dispersion at stores that can occur throughout the day or throughout the season," Lowrey says.

To truly get a handle on which stores might be engaging in price gouging would mean comparing universal products and package types across many different stores, Lowrey says, and "that's very difficult to do."

It also means understanding the stores' cost structures. That includes direct costs, like the cost of specific goods, and indirect costs, like overhead costs and labor.

"The other issue with the concept of price gouging is that cost is also largely unobserved, and I think this is one of the main criticisms in the whole price discussion," Lowrey says.

Stores like Walmart, Costco and other "hypermarket" retailers compete on price specifically. Oftentimes, they can achieve lower costs through volume discounts that other stores cannot, which translates to lower prices for consumers at the register.

"In theory, these lower wholesale prices upstream in the supply chain translate into lower purchase prices for the consumer downstream," Lowrey says. "There's discussion about why Walmarts and Costos sell products at lower prices, and that's because they have these scale economies that allow them to lower their costs, which then in turn allow them to lower their prices."

Why are food prices still so high?

A [recent report](#) from the U.S. Bureau of Labor Statistics found that [food prices](#) rose by roughly 0.2% from June to July, and 2.9% over 12 months. Two years ago, inflation hit a 40-year high of 9.1%. Though inflation has cooled somewhat over the last year, most Americans still see it as the top issue this election cycle, according to [Pew Research Center](#).

Pandemic-related supply chain issues, the war in Ukraine and an avian influenza outbreak all contributed to [rising food prices between 2019 and 2023](#).

Lowrey says that in addition to supply chain disruptions, labor issues and uncertainty also factor into prices, keeping them elevated.

"Uncertainty or variability costs companies money in the sense that inventory is waiting longer on average, or is displaced or in the wrong position, which then you have to reroute," Lowrey says.

The other part of the story, Lowrey says, is that retailers are still trying to

figure out how to manage demand in a post-pandemic environment.

"With COVID, there's been a whole change in demand patterns," Lowrey says. "It's hard for stores to really figure this out with prices."

This story is republished courtesy of Northeastern Global News news.northeastern.edu.

Provided by Northeastern University

Citation: Why are food prices still so high? What is price gouging—and why is it so complicated? (2024, August 30) retrieved 31 August 2024 from <https://phys.org/news/2024-08-food-prices-high-price-gouging.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.