



## Food Prices Skyrocket: Your Restaurant Bill Will, Too

By Aaron Crowe, March 17, 2011

Food prices rose 3.9% last month, marking the biggest jump in 36 years, which is certain to affect the groceries people buy and the restaurants they dine at.

The Labor Department's Producer Price Index for February rose 1.6% -- the largest increase since June 2009. About 70% of the rise in food prices is from higher prices for fresh and dry vegetables, which jumped 48.7%.



Much of the increase in food costs can be attributed to rising crude oil prices, and climate change that creates erratic weather conditions and leads to smaller crop yields, said Will Boland, chief administrative officer at Sageworks, a company that follows trends in privately-held businesses.

Sales in 2010 at privately-held sit-down restaurants increased 2.97%, a turnaround from the 2.57% drop the previous year, according to Sageworks' data. The restaurants' costs, however, increased last year, cutting far enough into gross margins so that they may no longer be able to eat the loss.

"There's not a whole lot of room to absorb or contain increased food costs," Boland said.

Private grocery stores also are seeing higher costs affect how much shoppers spend, with sales up only 1.57% last year, compared to around a 5% increase in previous years, excepting a 0.32% drop in 2009.

The several hundred non-chain independent restaurants that Sageworks surveys are usually hit hardest by economic downturns because they're small and don't have the money to withstand a long recession. They're usually the last to raise menu prices, but they now may be forced to because of much higher food prices, Boland said. The good news for such small businesses is that usually they are lean operations and can cut costs quickly.

With wholesale food prices up 3.9% last month, which foods should you expect to see cost more? Corn prices rose 100% in February, and since corn is used in many foods, prices in many areas could rise. The price of meat is going up along with the price of the corn that feeds livestock, which means your ham or steak sandwich will cost more. And wheat prices are also rising, so the bread in that sandwich will also take more out of your

wallet.

Higher oil and gas prices aren't the only areas driving up food prices. Emerging middle-class economies in China and Brazil mean higher demand for meat and higher prices too.

As Americans think twice about spending on travel and other discretionary items, the option of dining out is becoming another cost to reconsider.