

Rising prices to fall on consumers' shoulders

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Susan Renzulli buys Tropicana orange juice Wednesday at the SuperTarget in North Raleigh. Last year Tropicana reduced its 64-ounce carton to 59 ounces. Numerous products have taken similar steps.

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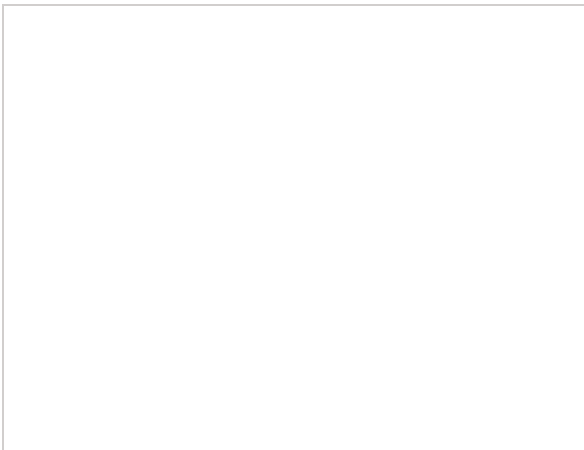
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The price of everything is about to go up - again.

And once again, rising commodity prices are the culprit.

This time, though, increases will be particularly painful. The recession is supposed to be over. Many Americans, who have endured three years of economic depression and budget-tightening, don't have a lot of cash to spare.



But companies say they've reached the breaking point - having absorbed as much of the higher costs as they can, there's no choice now but to raise prices and hit consumers. Those who aren't raising prices are taking other steps, such as shrinking packages, to control costs.

"It's going to be very difficult for companies to avoid passing on some of the higher prices," said Mark Vitner, senior economist for Wells Fargo Securities in Charlotte. "For an economy that's recovering slowly, it's going to be very frustrating."

Four primary factors are driving the increase in the prices of raw materials, including steel, cotton and corn:

- ◆ Demand is surging from developing countries like India and China.
- ◆ Investors looking for better options are funneling cash into commodity funds.
- ◆ Poor harvests have led to some crop shortages.

◆ The rising cost of oil increases the price of everything that's shipped to a store.

Though the overall rate of inflation is expected to rise 2 percent this year, Vitner said, prices of food are projected to go up 5 percent and energy is expected to rise 8 percent. Already in the past 12 months, the price of a gallon of regular unleaded gas has gone up more than 40 cents. Economists tend to ignore food and energy prices when they consider inflation because

of the volatility, but those costs hit hard in many homes.

"The consumer's perception will be that it's a lot worse than it actually is because they pay so much attention to gasoline prices and food prices," Vitner said.

Shopping already cut

For some cash-strapped shoppers, those essentials are pretty much all that they are still buying.

Laurina Uribe lives in Holly Springs and survives on her payments from disability and Medicaid. After her mortgage and health expenses, Uribe has \$20 a month for gas and \$7 to \$8 a day for everything else, from her own food, to light bulbs. She eats mostly canned soup, instant oatmeal, tomatoes, cheese and bread.

"Take tomatoes," she said. "They're \$3.48 a pound. If I buy three pounds a week, that takes a major portion of my budget away. It used to be \$1.99 for the tomatoes. That's a lot of increase."

In the grocery business, prices are always more volatile, and manufacturers have been battling rising commodity prices for years.

Many have been making changes to their product containers so they hold less while customers are charged the same price. But perceived trickery can anger consumers.

Alan Tharp handles most of the grocery shopping for his Raleigh household and has noticed the size difference for everything from ice cream to peanut butter to orange juice.

"What bothers me is that they aren't upfront about this," he said. "What they often do is call it new packaging. ... I think what they're doing is they're trying to fool people."

The price of raw ingredients is only one factor that makes groceries and other items cost more.

"Food prices only contribute about a fifth of the cost of the product," said Brian Todd, president of the Food Institute, a New Jersey organization that tracks food prices. "The rest of it is packaging, shipping and things like that."

Corporate giants including Kraft and Sara Lee have warned that they may increase prices this year.

Shoppers won't escape price increases when they eat out. Restaurants, including McDonald's, are already talking about rising commodity prices to justify possible price increases this year.

Despite their dominance in the food business, companies need to move carefully, warned Candace Corlett, retail analyst for WSL Strategic Retail in New York.

"You can take price increases on products that are truly distinct and that shoppers truly have a passion about," she said. "You can't take price increases on marginal brands. [Shoppers] will either trade down to other less expensive name brands or private labels."

It's not just food

The price increases will extend well beyond food stores and restaurants.

Evenflo announced last week that it will raise prices 7 percent to 10 percent for its entire line of baby and juvenile products, including car seats, baby feeding items and strollers.

President Robert Conley said increasing costs of items like cotton and resin forced the price increase, the first in three years.

Evenflo has tried other options, including changing from Italian knits to fabrics produced in Taiwan and China for some products, and looking for cheaper sewing options.

To compensate, Evenflo is carefully managing its product assortment and how it is presented in stores.

"We might send something in a two-pack rather than a single pack," Conley said. "In doing that, we save a buck and a half, and rather than passing that on to the consumer, maybe they get the same product but not in as beautiful a package."

Companies tighten belts

While shoppers watch their cash register receipts at the store, companies will watch their bottom lines.

Starbucks said last week that higher prices for coffee and other commodity will hurt its earnings this year. But the company does not plan another price increase in addition to one it implemented late last year. Starbucks doesn't want to risk losing customers as competition continues to increase.

Many shoppers, like Tharp, are still out for the best bargain and say they will reward companies that resist the temptation to raise prices - in whatever form.

"Like with ice cream, we switched to Blue Bunny because they have not yet changed their package size," he said. "I do look carefully to see if within a particular item type there's a company that has not [changed its package size], and we will switch to that brand."

Though losing customers like Tharp is a risk, "the argument in terms of the cost savings may be so persuasive that they have no choice," said Tod Marks, senior editor for Consumer Reports. "Grocery product manufacturers are a lot like politicians: They're always banking on the fact that consumers will forget."