3/04/24; Why groceries are still so expensive

[HALF SECOND OF SILENCE]

[BILLBOARD]

NOEL: Groceries are expensive, much more expensive than they were pre-pandemic.

NOEL: Kellogg’s CEO Gary Pilnick was roundly mocked last week for suggesting everyone eat cereal for dinner.

*<CLIP>: Gary Pilnick: “Cereal for dinner is probably more on trend now, and we would expect to continue as that consumer is under pressure…”*

NOEL: Cereal prices are up 28% since 2019, Gary.

*<CLIP> BIDEN: “Come on, man!”*

NOEL Meanwhile, a big grocery chain in Europe is refusing to SELL PepsiCo products, accusing the brand of gouging customers.

NOEL: That’s unlikely to happen in the USA / but the 2024 election is barreling toward us. High grocery prices have become political and President Biden is on the offensive.

NOEL: Coming up on Today, Explained: ready set go it’s supermarket weep.

*<CLIP> TikTok: I might not have money for food or to hang out with my friends, but I always have money for candles.*

VMPN: Today, Explained: every weekday in your feed.

[PREROLL]

[THEME]

NOEL:’m Noel King with Whizy Kim, a Senior Reporter at Vox who has been covering the rise of grocery prices. Whizy… what it do?

WHIZY: in general grocery prices have increased like 25 percent since 2019, like before the pandemic.

*<CLIP> CBS: Overall, inflation is certainly easing or slowing, if you will. But new Labor Department data shows that the amount being spent on eating has hit a 30 year high.*

WHIZY: One 12 ounce can of soda, for example, is about 75 percent more expensive today than it was before the pandemic

NOEL: but it is still the same size can, right? Isn't there another thing where we're getting we're kind of getting less???

WHIZY: it's harder to quantify, I guess, how many brands are doing it and for which products. But there certainly have been instances where, let's say, bottled drink of some sort is a smaller volume, but selling for the same price. And this is called Shrinkflation because you're paying the same amount of money for less product.

*<CLIP> PRESIDENT JOE BIDEN: As an ice cream lover, what makes me the most angry is that ice cream cartons hae actually shrunk in size, but not in price. I've had enough of what they call shrinkflation. It’s a ripoff.”*

NOEL: Shrinkflation and inflation. What's driving all of this? What's behind it?

WHIZY: Some of it is genuinely from higher input costs. So that might be things like just the actual, base material for a product might be more expensive. Like I think we all remember when egg prices were super high.

NOEL: Mh-hmm!

*<CLIP> TIK TOK: I just left the deli. Guess how much they charge me for the dozen eggs? 699 699 for the eggs. Can't even have an egg sandwich. This is ridiculous. I'm done, I'm done.*

WHIZY: And that's because the egg prices going high was due to the avian flu. Just because there weren't enough healthy eggs and healthy chickens to go around for a while. And now that that's better, egg prices are down. It's things like transportation costs, just the supply chain getting tangled up so things taking longer to arrive somewhere. All of those things did add up to higher prices.

*<CLIP> TIK TOK: “Y’all these prices at the fast food establishments blow my mind. 40 dollars to take your kids to eat breakfast at McDonalds. Now you got Wendy’s talking about surge pricing—the only thing you are fixing to see a surge in is ramen noodles!”*

WHIZY: But there is also a part of this that is about companies seeing an opportunity to push prices maybe a little bit higher than they actually need to.

*<CLIP> ABC NEWS: Major food companies are raking in record profits. ConAgra, which owns Chef Boyardee, hunts, and Slim Jim, posting a 56% jump in profits last quarter compared to a year ago….*

WHIZY: While it's not like we as a consumer know exactly like, oh, the higher input costs are just X amount, and anything beyond this is we don't know to that level of detail. So it's opportunistic as well.

*<CLIP> ABC NEWS:* And as we the shoppers get used to paying more. Economists warn that grocery prices could stay higher for longer.

NOEL: Into all of this madness over grocery bills being too damn high walks Carrefour. Tell us what Carrefour is and what they did.

SCORING IN—BIRDS DRESS ME IN THE MORNING

WHIZY: Carrefour is a European grocery chain.And they recently started pulling some PepsiCo products off their shelves in at least five countries, citing unacceptable price increases.

Some people in Europe noted, like Doritos or Cheetos, chips like that maybe not being available

*<CLIP> FRENCH REPORTER: Pepsi, Lipton, 7Up, Lay's, Doritos… (continues in French)*

WHIZY: There hasn't been much detailed info on exactly which products are off the shelves, but we do know that certain PepsiCo products are not being stocked as they normally would be.

*<CLIP> STRAIGHT ARROW NEWS: “Pepsi has hiked prices for 7 quarters in a row. And despite reporting a 2.5 percent slump in sales, the company reported a 14 percent spike in profits, that’s according to data from 2023”*

NOEL: How did Pepsi respond to this?

WHIZY: While Pepsi said that actually it was their choice to not supply certain care for locations because their their negotiations broke down and they couldn't, agree on terms to sell and buy from each other.

NOEL: Did did Carrefour only target PepsiCo?

WHIZY: Carrefour, as of now, has only taken PepsiCo products off the shelves in this manner, citing unacceptable price increases. But last year they did do a shrinkflation campaign, where they would put these little labels next to certain products like Lipton Ice Tea,

<CLIP> FRENCH GUY: “Lipton…”

WHIZY: which is also a PepsiCo product, and note that the volume had gone down of this product, but the prices were the same.

*<CLIP> CARREFOUR SPOKESPERSON: [SPEAKING FRENCH] We consider that there's a lack of honesty towards customers and that the customer can be deceived because the product appears to be exactly identical to the previous products that they used to buy.*

SCORING OUT

NOEL: Europe Takes a Stand is like a familiar theme. And, here in the United States, we're dealing with exactly the same thing. Have any American grocery stores been like PepsiCo? It's too much. We won't, we won't carry you.

WHIZY: Well, so I reached out to the four biggest grocery chains in the US, which includes Walmart, Kroger, Costco, and Publix, I believe. And none of them got back to me.

NOE: [laughs]

WHIZY: All of them declined to comment. I think the answer is no.

NOEL: It wasn't like, no, we're not going to do that. It's because we want our consumers to have the choice. It's we're not going to hit that one head on. Do we have a sense of why they wouldn't respond to I mean, this is a sticky thing. I read about it. People sent me the article. I have friends who are like, texting me weekly about their grocery bills. Why would American companies not at least want to talk about it? Do you think.

WHIZY: That's kind of hard to say definitively? You know, who knows what they're thinking? But I have some theories, and I think one of them is that the grocery market is even more dominated by really one company in the U.S., unlike in Europe.

*<CLIP> WALMART COMMERCIAL, 1990s: Where is it written that prices have to go up?* Not at Walmart.

WHIZY: So Walmart is just overwhelmingly the biggest grocery retailer. Something like 25, 26% of the market.

*<CLIP> WALMART COMMERCIAL: “It’s a commitment to save you money wherever we can. Rolling up our sleeves, rolling up the price together…”* .

WHIZY: So Walmart doesn't really need to drag this out into the public. I'm sure. To some degree, it does want to keep prices reasonable for consumers. It behooves them to do that, but they don't need to be public and aggressive about it. They can just do it behind the scenes. They can just say, hey, we would really like you to not raise prices this quarter. And a lot of these food companies will be like, well, it's Walmart. We should try to listen to them. Another reason we are seeing such differences across the board is because in France, where Carrefour is based, grocery retailers can only set prices or negotiate those prices once a year. In the US that can happen anytime food companies want to do it. And it does pretty much happen anytime they want. So I would say those ar ethe biggest reasons we are seeing such a difference across the board.

NOEL: And so at the moment, grocery stores are not going to have our backs until companies what to do. It wouldn't be the American way I guess. Fair enough. Is there anything, I mean, in your reporting? Is there anything you came across about how individual shoppers can ease the cost of groceries at all?

WHIZY: I think it's really, really hard

SCORING IN—ALL THESE PIECES DRIFTING INTO PLACE

because again, you could and I'm sure many people already do this, go to a value grocery chain, which Walmart is, and just find the cheapest price as possible, whether it's buying the store brand or just cutting back on something, whatever it is. And Walmart does often offer the cheapest prices for groceries. But, you know, the issue with that is long term. That also reinforces what I was just talking about, where Walmart has the biggest share in the market and command the biggest price setting power, and that can just have this ripple effect on what prices other retailers can offer, because Walmart can basically demand lower prices from suppliers because they're so big. And other grocery chains don't have that power. So you're going to go to Walmart. And that's just going to leave us fewer choices.

SCORING BUMP

NOEL: Coming up: these United States are unlikely to ban Pepsi. What they CAN do.

[MIDROLL]

[BUMPER]

LIZ: My name is Elizabeth Pancotti, and I am a strategic advisor at the Groundwork Collaborative, a progressive think tank here in DC.

NOEL: Earlier in the show, we were talking to Vox's Wizzy Kim about how a grocery chain in France is fighting high prices by saying, we're just not going to carry PepsiCo products. American grocery stores will not do the same. We talked about how it doesn't feel like the American way, but I'm really curious whether it is an option. Could the government make food retailers lower prices?

LIZ: Technically, no. Right now, as it exists under current law, we have no authority for the government to come in and kind of establish price controls specifically. The example you gave in France is a little bit different. Just because retailers negotiate in kind of a regulated way with food manufacturers, we don't have that system here. So while the government can't necessarily control the prices that retailers put on stickers, we can give more money to low income people to deal with those higher prices. And so the Biden administration has done this kind of incredible and pretty underrated thing for about 40 million Americans who are on SNAP, which is food stamps or the Supplemental Nutrition Assistance Program. For those people, we actually can help them weather the storm of higher prices.

NOEL: What did the Biden administration do exactly?

LIZ: So over the last three years, the Biden administration has actually increased the average benefit for those families on Snap by more than double how much grocery prices have increased.

*<CLIP> WMTW NEWS: The new maximum Snap benefit for one person will be $291. For a family of four, they'll get $973.*

It's sort of incredible. And I think like both people receiving those benefits and people in general just like aren't super aware of the really targeted and progressive food assistance policies that the administration has done.

NOEL: What about all the Americans who make too much money to qualify for SNAP, but too little to afford groceries these days?

LIZ: So the Biden administration's efforts so far have fallen into one big bucket that I'll call tackling concentration in our grocery and food markets. They've done great work there, but we think there are a couple other things they could do using existing law, to bring down food prices. Not not so much to tackle their growth, but to actually bring the levels down. And so the first is enforcing price discrimination statutes. And the second is eliminating, junk fees in grocery stores.

NOEL: Price discrimination is like personalized pricing - I’m charging some people lower prices than others. So the big effort you say is tackling concentration. What’s the Biden administration doing there?

Liz: Just last week we actually found out that the Federal Trade Commission is suing to block the 25 billion dollar merger deal between the grocery store giants Kroger and Albertsons…

*<CLIP> CBS NEWS: “This deal would give Kroger and ALbertson control of more then 10 percent of the grocery market domestically. Both companies argue that this merger would lower prices for consumers, and create good paying union jobs.*

LIZ: This had been kind of rumored in the news that the FTC was considering it. This deal was announced, about a year and a half ago, and some state attorneys general have already sued to, sort of say that this merger would make grocery markets less competitive, in certain regions and certain states. But now the Federal Trade Commission, has sued to block the merger entirely across the entire country.

*<CLIP> CBS NEWS: “The FTC argued the merger of Kroger and Albertson would be bad for competition, lowering worker wages and driving up the cost of food…”*

LIZ: And then there is the meat industry.

SCORING IN — SKIPPING BURGLARS

LIZ: So for beef, pork and poultry, there are about six players that control between half and 75% of the market. But this wasn't always the case. The industry has become highly consolidated over the last 30 to 40 years, and that has kind of two big effects. One, ranchers make a lot less money, so they're getting about $0.30 on the dollar for, the meat that they produce where it used to be nearly double that. And then consumers are paying a lot more at the grocery store. And because of this consolidation.

*<CLIP> BIDEN: “Capitalism without competition isn’t capitalism—it’s exploitation. That’s what we are seeing in meat and poultry…”*

LIZ: So the Biden administration has proposed rulemaking, as part of a big plan to tackle fairness, competition and resiliency in meat supply chains. These regulations, unsurprisingly, were severely weakened by the Trump administration. And so, in October of 2022, the Department of Agriculture proposed regulations to increase competition and integrity in those markets.

*<CLIP> BIDEN: strengthening competition is good for all of us. Farmers and ranchers deserve a fair shake. American families facing high prices at grocery stores deserve a fair price to put food on the table…”*

The Biden administration has proposed those rules, but they have not yet finalized them, meaning that they are not the law of the land currently. And so we really urge the administration to, finalize those rules and put them into place to ensure that, the law really protects ranchers and consumers here.

SCORING OUT

when you have a consolidated meat market, meaning there's a couple players, it means that small supply shocks, like most folks have heard about avian flu and its effect on chicken prices and egg prices.

*<CLIP> TIK TOK: “Can’t even have an egg sandwich!” “This is ridiculous”*

LIZ: They have a much bigger price effect because there are so few players, and so there's no competition in the industry for them to say, okay, we've been affected by avian flu, but, Wolf, we won't pass that full price on to consumers to be competitive. The pricing power of these few players in the industry is really outsized when these supply shocks happen. And so the administration has not only, you know, proposed regulations that would prohibit price discrimination and deceptive practices, but they've also invested over $1 billion in diversifying our meat supply chain so that there is more competition among suppliers.One other thing. We think that the Biden administration can do that they haven't done yet, is tackle price discrimination.

SCORING IN—TINY DETECTIVE AGENCY

an interesting thing about big box retailers like your Walmarts and your Kroger is that they go to Frito-Lay and they say, okay, we'd like to buy, you know, 100 bags of

*<CLIP> FRENCH GUY: Doritos.*

LIZ for every store this week. Conversely, when a small grocer goes to Frito Lay and says, I want to buy five bags of

*<CLIP> FRENCH GUY: Doritos.*

LIZ: you can imagine that the price of those Doritos will be really different. ~~Oh,~~ there's actually a law on the books about how companies can charge different prices depending on the size of their buyer, and so it's much cheaper to manufacture a 100 bags of

*<CLIP> FRENCH GUY: Doritos.*

LIZ for every single Walmart store in America. Right? Like you've got an economy of scale there that brings down frito-lay's price. you probably really want Walmart to buy a lot of Doritos from you if you're Frito-Lay. And so you might give them a discount above and beyond how much cheaper it is for you to make that outsized number of bags of

*<CLIP> FRENCH GUY: Doritos.*

LIZ: That's illegal under the Robinson Patman Act.

NOEL: Oh

LIZ: And so that law is on the books, but not really enforced. It's been used like, three times over the past 40 years. And so we think that the federal government could enforce this law that's on the books. And in doing so, make sure that the smaller grocers get the really good low prices that Walmart and Kroger are able to negotiate.

SCORING OUT

NOEL: Anything else that the government could do to ensure that those Americans that are struggling at the grocery store struggle less?

LIZ: there's this one sort of niche thing that most folks probably don't know about. And so I think the best example of this is on the ice cream aisle. you can only pack so many freezers into the aisle at Trader Joe's or Costco or Walmart, right, that you just can't have 100 aisles of freezer space as a result. Let's say you're Ben and Jerry's and, Breyers. You have to compete for the amount of freezer space that you get at a grocery store. And so the way that grocers allocate this freezer space for, you know, your favorite two types of ice cream flavors is they essentially charge a fee that they give to the they give the space to the highest bidder. So if Ben and Jerry's has a new flavor they want to launch, or if they really want a ton of pints of Cherry Garcia in a Walmart in Washington, DC, they can just buy more of that shelf space. That means that Breyers has to take some pints out of the freezer space. And so this means that what Ben and Jerry's does is instead of just paying, you know, Kroger, a Walmart, a bunch of money, and then taking that as the cost of business, they pass that on to consumers. So your pint of ice cream might be $4, but then once they have to pay this fee called a slotting fee, they might charge you another dollar to cover the cost of that fee.. And if we're trying to bring down grocery prices using the authorities, the limited authorities that the federal government has, we think they should start with banning slotting fees.

NOEL: President Joe Biden famously loves ice cream.

*<CLIP> JOE BIDEN: “I came down because I heard there was chocolate ice cream! [crowd laughs] By the way I have a whole refrigerator full upstairs…”*

NOEL: if he, if he fixed that, he could do like a really authentic ad!

LIZ: I think so I mean, we have I think the, the best parts of the president are when he's at the ice cream shop eating chocolate chip ice cream. And so we should just have him do that for the next nine months until the election!

NOEL: The thing is, I'm still getting angry texts and phone calls from my friends and family. I kid you not saying such and such is so expensive. I just spent $75 at the grocery store. I myself see it every time I go grocery shopping. It doesn't seem to be working right now. Am I reading that wrong?

LIZ: I think that's right. But I think really the culprit here is corporate greed. We have found that all of these companies, at first they were bragging about how big their margins were getting and how they were raising prices for consumers, and now they're not so much raising prices like grocery prices really have slowed in terms of growth. They're only they only rose by about 1.3% last year, lower than regular inflation. So like we've seen the tides turn, but prices aren't coming down even as cost for people making our food are coming down significantly.

NOEL: And that is a problem with America.

LIZ: Yeah, I think that's just the problem with unfettered capitalism, right? I mean, we've talked about how in France, the retailers and the government have a lot more power to regulate this kind of thing. So one recent example is that, Justin Trudeau, the prime minister of Canada, told all the grocery stores in Canada that they had to come up with a plan to lower prices for Canadians at the grocery store. And if they didn't, if their plan wasn't satisfactory, he would raise their corporate tax rate.And I think you have a problem in America where if Joe Biden called up the CEO of Walmart and said, you have to lower your prices or I'm going to hike your corporate tax rate, the lobbyists of Walmart would probably laugh in his face and say, no, you won't.

SCORING IN—THE FOUR ALE BAR (APM)

NOEL: Friend of the show, capitalism. Elizabeth Pancotti, thank you so much for taking the time for us. We really appreciate.

LIZ: It. Of course. This is so fun. Thanks for having me.

SCORING BUMP

CREDITS: Elizabeth Pancotti of the Groundwork Collaborative, a progressive think tank. Today’s episode was produced by Miles “Doritos” Bryan and edited by Matthew Collette. It was engineered by Patrick Boyd, and our senior fact-checker, as ever, is Laura Bullard. Please email any thoughts about today’s show to Paul Krugman at the New York Times. I’m Noel King. It is Today, Explained.

[10 SECONDS OF SILENCE]