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**CEA: Grocery Inflation is Finally Showing Signs of Cooling**

Almost immediately after the pandemic began, food processing facilities slowed or paused operations and grocery prices began to climb.

Grocery inflation stayed higher than normal for much of the pandemic thereafter, driven by a variety of factors, including: pandemic-induced shifts in food demand from restaurants to groceries, global supply chain bottlenecks, and unforeseen supply shocks like avian flu, the war in Ukraine, and poor weather. However, in recent months, grocery inflation has finally begun to show signs of cooling. Ahead of next week's data on the Consumer Price Index (CPI) for May, the CEA lays out five facts about grocery prices and their recent dynamics.

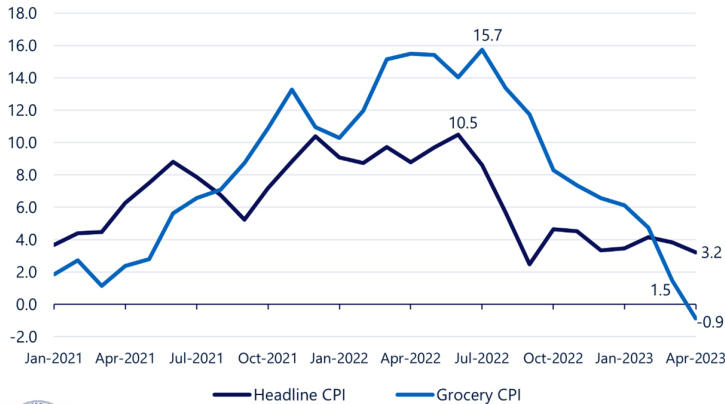
**Fact 1: Grocery prices matter deeply for families.** [1] According to the Consumer Expenditure Survey, groceries made up around 8 percent of total consumer spending in 2021, and more than 11 percent for people in the bottom fifth of the income distribution. For comparison, gasoline was 3 percent of total consumer spending in 2021, household utilities were 6 percent, and shelter costs—including rent and mortgages—were 20 percent.

**Fact 2: Grocery inflation affects households' expectations of overall inflation.** One additional sign of just how salient grocery prices are to families is their effects on household inflation expectations. When groceries become relatively more expensive, households incorporate that experience into their expectations of future overall inflation in the near future. The CEA found that 1 additional percentage point of food inflation is linked to an increase of about 0.11 percentage point in one-year inflation expectations in the University of Michigan survey. For comparison, when gasoline prices—the focus of much of the prior research into the sensitivity of inflation expectations—rise by 1 extra percentage point, near-term expectations tend to increase by around 0.14 percentage point, not much higher than the grocery inflation and expectations relationship.

**Fact 3: Grocery inflation is cooling.** Month-to-month inflation data is timely but can also be noisy. Therefore, the CEA prefers to look at longer averages, such as three-month changes, to better identify recent trends. In April, grocery inflation on a three-month annualized basis was -0.9 percent, down from 1.5 percent in March and a July 2022 peak of 15.7 percent. Accounting for approximately one-tenth of the overall consumer price basket, grocery inflation is now below the headline CPI inflation of 3.2 percent in April on a three-month annualized basis (Figure 1). We will have more information about how recent grocery price trends have evolved with the release of the May CPI next week.

**Figure 1. Grocery and Headline Inflation, January 2021–Present**

Percent, 3-month annualized rate (SA)



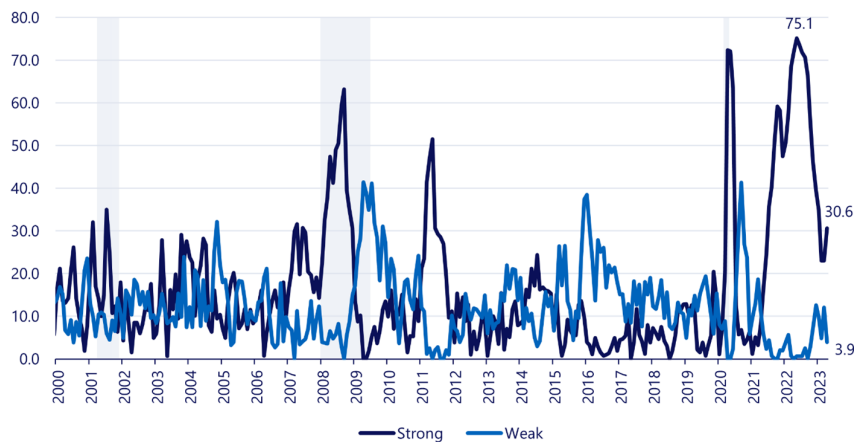
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Sources: Bureau of Labor Statistics; CEA calculations.  
As of June 6, 2023 at 12:00pm.

**Fact 4: Looking across the components of grocery inflation, a growing share of categories is helping to slow inflation.** To capture the breadth and intensity of upward or downward pressure on grocery prices, the CEA constructed two measures. The first measure, which we call the *Strong Share*, is the share of grocery components that have three-month annualized inflation that is more than one standard deviation *above* their historic means. The second measure, the *Weak Share*, is the share of components that have three-month annualized inflation that is one standard deviation *below* their historic means (Figure 2). While still elevated, the Strong Share has dropped to 31 percent from its May 2022 peak of 75 percent and the Weak Share is up slightly to 4 percent from its low of 0 percent in April 2022; together, these point to less upward pressure on grocery inflation.

**Figure 2. Grocery Inflation: Strong and Weak Share Indices**

Percent



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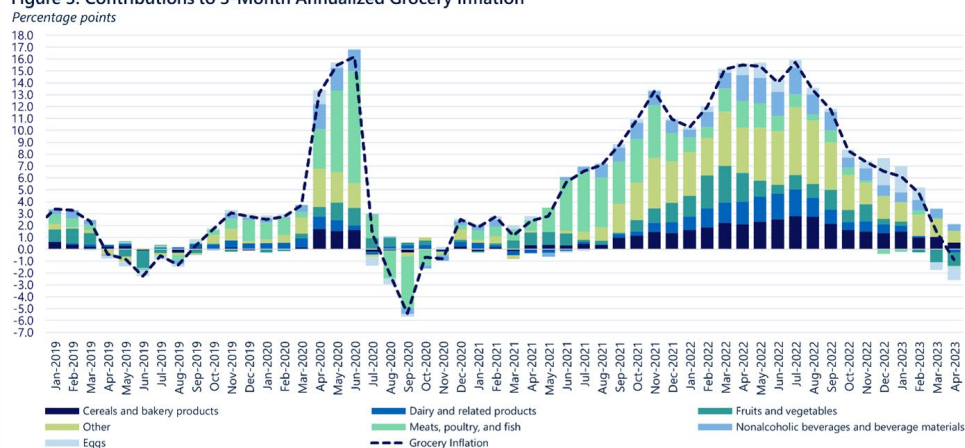
Sources: Bureau of Labor Statistics; CEA calculations.

Note: The strong and weak shares are defined as the share of grocery inflation components with 3M annualized growth more than one standard deviation above and below the 1999-2019 average, respectively.

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**Fact 5: Declines in egg and produce (e.g., fresh fruit) prices are helping drive down grocery inflation** (Figure 3). In addition, the contributions of dairy, cereal and bakery goods, and other goods inflation have declined in recent months. Egg prices, in particular, have been front and center for households in recent months and are now falling. Between January and April 2023, egg prices fell a cumulative 18 percent; however, as of April they were still 40 percent above January 2022 levels. Egg prices account for a relatively small share of the grocery cost basket (2 percent) but, due to the highly pathogenic avian influenza (HPAI) virus, egg prices recently experienced amongst the largest annual increases across grocery categories last year. HPAI affected over 40 million egg-laying hens in the United States during 2022 or over 10 percent of the U.S. egg-laying hen population. Measures to address HPAI generated increased costs and supply constraints for producers and wholesale sellers of eggs over the past year. Fortunately, HPAI incidents have declined and the industry has worked to rebuild the flock, which has increased the supply of eggs and resulted in a 24 percent year-on-year decline in the wholesale price of eggs in April 2023; these wholesale prices are, in turn, passing through to falling retail egg prices. The Easter holiday season is also now behind us, further reducing pressure on egg prices. Taking a signal from the wholesale prices, and barring another supply disruption, retail egg prices will likely continue to moderate in the months ahead.

**Figure 3. Contributions to 3-Month Annualized Grocery Inflation**



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Sources: Bureau of Labor Statistics; CEA calculations.

Note: In some months, the sum of contributions may not equal overall grocery inflation due to changes made by seasonal adjustment.

As of June 6, 2023 at 12:00pm.

**Looking ahead, the CEA staff expect grocery inflation to continue improving alongside headline inflation but remain elevated relative to its pre-pandemic levels through the rest of 2023.** While agricultural input and commodity prices have fallen, they are still elevated relative to their pre-pandemic levels. There are also other sources of grocery price pressure, including a robust labor market that is supporting higher wages for workers along the food supply chain. At the end of the day, the goal is to make grocery prices more affordable for households. While the job is not done yet and there is considerable uncertainty around the outlook, we appear to be moving in the right direction.

[1] “Grocery inflation” is also known as “food-at-home inflation.”