

Grocery chains mull charging more for milk

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Stop & Shop, Shaw's eye competitors amid rise in farm prices

By Bruce Mohl, Globe Staff, 8/29/2003

The region's big supermarket chains, which kept their milk prices high even as the price farmers received for their milk plummeted to a 25-year-low, are now trying to decide whether a sharp uptick in the farm price warrants an increase in their retail margins.

Stop & Shop Supermarkets and Shaw's Supermarkets, the two biggest chains, which have moved in lockstep on milk prices in the past, say they are analyzing the situation and waiting to see what their competitors do.

"The cost of milk to us has gone up," said Faith Weiner, a spokeswoman for Stop & Shop. "We just need to assess what the cost impact is to us and make decisions based on what makes sense, what's right for consumers, and what we need to do to stay competitive."

Terry Donilon, a spokesman for Shaw's, said the supermarket chain is monitoring its competitors closely. "We are committed to remaining competitive, understanding the fact that consumers are price-conscious," he said.

Milk pricing has become a controversial subject in New England over the last year as supermarkets have kept their prices high even as their costs have fallen significantly.

The wide disparity between prices to the farmer and to the retailer has spurred calls in several New England states, including Massachusetts, for legislation that would make it a crime to sell milk at "unconscionably excessive" prices.

In Massachusetts, according to surveys conducted by the Department of Food and Agriculture, the retail price of milk in the Boston area has held steady at \$2.99 a gallon since January 2002 and hasn't gone below that level since October 1999.

The retail price held steady since the start of 2002 even though the farm price set by an arm of the US Department of Agriculture dropped steadily over that period. The so-called Class I price, which dairy processors pay for their raw milk, dropped from \$1.33 a gallon in January 2002 to a low of \$1.13 a gallon during the spring this year.

Over the past two months, the Class I price has started to rebound. It jumped to \$1.24 a gallon in August and is scheduled to rise to \$1.48 a gallon next month, which would be its high since November 2001.

Industry analysts say increases in the price of raw milk are routinely passed along by dairy processors, so retailers will be paying about 34 cents a gallon more for the milk on their shelves in September.

Ronald W. Cotterill, an agricultural economist at the University of Connecticut, said retail profit margins on milk would still be fairly high. He said his research has indicated supermarkets have been making as much as \$1 a gallon in profit on milk, so the recent run-up in farm prices would only reduce their profit, not eliminate it.

Cotterill said he believes supermarkets have been able to charge such high prices because there is so little competition. He says Stop & Shop dominates the market in southern New England and its pricing policies are often followed by competitors.

Another factor is the inelastic consumer demand for milk: A price cut doesn't increase consumption significantly, nor does a price increase reduce consumption. As a result, Cotterill said, supermarkets have little incentive to cut prices when their costs drop and little incentive to put off price increases when their costs rise.

"If there's no scrutiny on the issue, they'll probably raise their prices," Cotterill said.

In New York, milk prices are rising even though the state has what it calls "a milk price-gouging law." The law limits the maximum retail price of a gallon of milk to 200 percent of the federally set farm price plus any premiums paid by dairy processors to farmers. Under the law, the maximum allowable price of a gallon of milk in New York City will rise 47 cents to \$3.16 next month.

Weiner said Stop & Shop, which operates stores in New York, hasn't decided whether it will raise its prices to that level.

Raw milk prices have been rising in part because of seasonal factors and because increases in milk production appear to be tapering. A run-up in cheese and butter prices, which are used by federal regulators in setting farm milk prices, have also contributed to the recent increase.

Douglas DiMento, a spokesman for Agrimark, the largest dairy cooperative in New England, said the increase in farm prices is good news for dairy farmers. He said the cooperative expects farm prices to stay at least at current levels for the next few months. By then, he hopes efforts by cooperatives to voluntarily reduce milk production will prevent prices from falling.

As for the prospect of an increase in the retail price of milk, DiMento said it's not warranted. "I certainly don't see the rationale for any price increase when their prices didn't change when prices hit a 25-year-low," he said.

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