

# Americans Guzzle More Coffee Despite Bubbling Prices

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NEW YORK (AP) — People are paying more to fuel up these days — on coffee.

Coffee price increases have outpaced even the hike in gasoline prices the past year. A one-pound can of ground coffee sold for \$5.10 in April, up 40 percent from \$3.64 the year before, according to the Department of Labor. By comparison, a gallon of regular gasoline cost \$3.83 on average on Tuesday, up 37 percent from a year earlier.

And while fuel prices are expected to stabilize, coffee increases could continue for some time because the prices that coffee companies pay for unroasted beans are still climbing — fast. Coffee futures were trading for \$2.61 per pound Tuesday, roughly double a year earlier.

J.M. Smucker Co., the maker of grocery store stalwart Folgers and of packaged varieties of Dunkin' Donuts coffee, said Tuesday that it is raising prices of most of its U.S. coffee products by 11 percent, its fourth increase in a year. Kraft Foods Inc., Peet's Coffee and Tea Inc. and Green Mountain Coffee Roasters Inc. have also recently hiked their prices for coffee.

Starbucks Corp. also said Tuesday that it will raise prices on packaged coffee in its stores by an average of 17 percent in the U.S. and 6 percent in Canada. That follows a 4 percent increase in 2009. The company also raised prices in March for its packaged coffee sold in grocery stores and at other retailers.

But the drink remains essential to many.

Eboney and Tyson Owens say they've noticed higher coffee prices. The couple aren't about to give up their buzz, but they're buying different brands depending on what costs least among their top four preferred brands — Starbucks, Dunkin' Donuts, Godiva and Seattle's Best.

"I'm a Starbucks fan, I swear by it," Eboney Owens, 32, said during a recent grocery trip in Portland, Ore.

However, if something else is on sale or has a coupon available, she'll switch.

"We won't go bottom of the barrel, though," Tyson Owens, 31, added.

Overall coffee crops increased 8 percent last year, according to the International Coffee Organization, helped by strong supplies from Ethiopia, the Ivory Coast and other countries. But this year, some major exporters, including Indonesia, are

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suffering from smaller crops because of drought, flooding or other inclement weather, which is affecting prices. The rise in coffee prices also has roots in the economic growth of China, where an upwardly mobile work force is fueling demand.

Unlike many other discretionary items, coffee usually emerges from a recession relatively unscathed, economists say. That's because when money is tight, people may buy cheaper brands of coffee, but they won't give it up completely. Americans consumed 21.7 million 60-kilogram bags of coffee in 2008, during the depths of the recession, up from 21 million the year before, according to the ICO. That's nearly 2.9 billion pounds of coffee.

Coffee is part of a bigger story about rising prices for household staples as diverse as food, clothing, diapers and batteries. Food prices soared 5.5 percent in 2008, then ticked up a slower 1.8 percent in 2009 and 0.8 percent in 2010 as meat and produce prices steadied. But in recent months oil and grain prices have soared, sending global food prices to their highest point in 20 years, according to the UN's Food and Agriculture Organization.

Labor Department data showed that food prices in the U.S. increased 0.8 percent in March, the largest monthly increase in nearly three years. The pace slowed to a 0.4 percent increase in April.

U.S. Department of Agriculture economist Ricky Volpe notes that food price inflation was much higher in the '70s, when year-over-year increases averaged 8.1 percent. While food price increases are far below that, more are expected. In the most recent quarter, 89 percent of consumer product makers tracked by FactSet said they have raised some prices or have plans to do so.

Sara Lee Corp., which sells Maison du Cafe, L'Or and Cafe Pilao, said this winter that rising green coffee costs led it to raise its prices. Kraft, which sells Maxwell House coffee, cited rising coffee prices in a broad price hike it levied this winter. Peet's Coffee and Tea Inc. has raised its retail prices twice recently in response to raw material costs.

Starbucks said Tuesday that it has been continually monitoring the costs of green coffee, fuel and other operational costs and has made price adjustments as needed. A one-pound bag of coffee currently goes for \$9.95 to \$13.95 in stores. After it puts the latest price changes in place, the price will jump to between \$11.95 and \$14.95 a pound.

Smucker said that its latest price increase includes Smucker's Millstone and Folgers Gourmet Selections packaged coffees. For the Dunkin' Donuts brand, the increase affects only packaged coffee sold in grocery, club, drug and general-merchandise stores. Items sold at Dunkin' Donuts shops are not Smucker products.

The company also raised coffee prices by 10 percent in February, 9 percent in August 2010 and 4 percent last May.

The cost increases haven't deterred Smucker from expanding its U.S. coffee

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portfolio. It announced last week that it purchased privately held Rowland Coffee Roasters Inc. for \$360 million in cash. Rowland, based in Miami, sells Cafe Bustelo and Cafe Pilon, which are sold primarily in the Northeastern U.S. and South Florida and target Latino shoppers. Rowland is a leading producer of espresso coffee in the U.S.

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*Sarah Skidmore in Portland and Michelle Chapman in New York contributed to this report.*

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