The Impact of Big-Box Stores on Retail Food Prices and the Consumer Price Index

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Abstract

Over the past 10 years, the growth of nontraditional retail food outlets has transformed the food market landscape, increasing the variety of shopping and food options available to consumers, as well as price variation in retail food markets. This report focuses on these dynamics and how they affect food price variation across store format types. The differences in prices across store formats are especially noteworthy when compared with standard measures of food price inflation over time. Over the past 20 years, annual food price changes, as measured by the Consumer Price Index (CPI), have averaged just 3 percent per year, while food prices for similar products can vary by more than 10 percent across store formats at any one point in time. Since the current CPI for food does not fully take into account the lower price option of nontraditional retailers, a gap exists between price change as measured using scanner data versus the CPI estimate, even for the relatively low food inflation period of 1998-2003.

Keywords: food prices, retail markets, CPI, dairy, nontraditional retailers

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