

Extended Abstract

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Paper/Poster Title	Retailer Response to Price Gouging Litigation and Consumer Food Prices
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Abstract prepared for presentation at the 96th Annual Conference of the Agricultural Economics Society, K U Leuven, Belgium

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Abstract	200 words max
<p>The COVID-19 pandemic fundamentally changed how consumers obtained food with a dramatic shift out of food service and restaurants into grocery retail. At the onset of the pandemic, prices of a variety of goods, including groceries, increased rapidly. In many cases, U.S. states filed lawsuits alleging price gouging behaviour of food retailers and producers. In this paper, we examine the case of eggs and find that price gouging litigations lead to a dramatic change in retailer behaviour, long after the resolution of many of these disputes. We find that retailers responded by rigidly adhering to pre-pandemic price levels for eggs, despite that fact that costs of production of eggs increased sharply during this time. We determine a breakdown in the pre-pandemic relationship between input costs and output prices for eggs. Additionally, we find that retailers significantly decreased their purchases of eggs and reduced the number of advertisements they placed for eggs, suggesting they are now willing to accept empty shelves in lieu of increasing prices.</p>	
Keywords	Price gouging, COVID-19, food retailing, eggs
JEL Code	Q11, K2 see: www.aeaweb.org/jel/guide/jel.php?class=Q)
Introduction	100 – 250 words
<p>The onset of the COVID-19 pandemic drastically altered food consumption behaviour and shifted consumption away from restaurants and food service in favour of grocery retail. Alongside increased grocery retail demand increases, retail prices have spiked for some staple food products. Consequently, consumer groups and state attorneys general filed a flurry of lawsuits alleging food retailers (Albertson's, Costco, H.E.B, Kroger, Trader Joe's, Walmart) and distributors engaged in anti-competitive behaviour in the form of price gouging (Progressive Grocer 2020). Price gouging protections are not present in all states, and those states that do have them differ in how they specify these consumer protections (Morton 2021). Generally, price gouging laws activate only during a state of emergency and prohibit producers and retailers of essential goods from increasing prices above some threshold, relative to prices before the declaration of emergency.</p> <p>Price gouging laws are designed to protect consumers from skyrocketing prices, but are they beneficial to food consumers in practice? In this research, we analyse this question by studying the responses of food retailers to price gouging litigation in the case of eggs. The increase in grocery demand for eggs, a storable animal protein, led to sharp price increases; 200-300% price jumps over the course of just a few</p>	

weeks, despite declarations of states of emergency, which activated price gouging protections. Several states have filed price gouging lawsuits against egg producers (Sexton and Sumner 2021), and although the majority of the suits have been dismissed or settled (Ondeck et. al. 2021), retailers have ongoing concerns about pricing strategies.

Methodology

100 – 250 words

We examine historical prices of inputs in egg production and wholesale egg prices to determine the relationship between input and output prices in the egg market. We employ a vector-error-correction model to estimate this relationship (Engle and Granger 1987). Further, we apply a structural break analysis to identify when a structural change in egg profit margin occurs. We then estimate the egg pricing relationship before and after this date of structural change to determine how the egg pricing relationship changed following the onset of the pandemic. Additionally, we collect data on quantity of eggs produced in the U.S. as well as share of eggs sold in retail outlets and number of advertisements placed for eggs to identify if retailers have changed their behaviour following the price gouging litigations.

Results

100 – 250 words

Egg prices are largely determined by the price of inputs like corn, soybeans, and energy (Carter, Schaefer, Scheitrum 2020). Shortly after the initial pandemic lockdowns, egg prices returned to their pre-pandemic levels (Malone, Schaefer, and Lusk 2021), yet input prices climbed dramatically. The margin producers receive has declined sharply following these price gouging suits; suggesting food retailers are unwilling to pay increased prices likely due to fear of litigation. Using USDA data on volumes sold and number of advertisements placed, our results indicate that the quantity of food retailer purchases and advertisements of eggs have plummeted following the price gouging litigations and suggests retailers are willing to accept empty shelves in lieu of increasing prices. Further, the relationship between the prices of inputs in egg production and wholesale egg prices changed fundamentally following the onset of the COVID-19 pandemic.

Discussion and Conclusion

100 – 250 words

When large retailers, with an aversion to possible litigation, respond by rigidly adhering to typical price levels, producers facing higher production costs will be unwilling or unable to supply these large retailers. Given the perishability of commodities, producers will be forced to attempt to store unsalable product, take prices that don't cover costs of production, or find alternative market outlets.



Consumers are also harmed by retailers' pricing strategies if they are unable to purchase the quantity of eggs they desire, are forced to substitute toward alternative protein sources, or forgo protein altogether. Food shortages and empty shelves harm both producers and consumers, especially the most economically. In light of retailers' pricing strategies, states need to revisit their price gouging protections in order to afford more economic-based considerations to define future violations.