

THE OUTLOOK FOR FOOD PRICES IN 2001

Annette L. Clauson
Agricultural Economist
Economic Research Service, USDA

Consumers continue to see only modest increases in food prices. The Consumer Price Index (CPI) for all food increased 2.3 percent in 2000, after increasing 2.1 percent in 1999 and 2.2 percent in 1998. Following three years of modest increases, the CPI for all food is expected to increase 2 to 2.5 percent in 2001. Food at home is projected to increase 2 to 2.5 percent while food away from home should increase 2.5 to 3 percent in 2001. This follows the baseline projection of an average growth rate of 2.3 percent for all food from 2000 to 2010. The projected food price increase compares to a 2.9-percent average rise expected in the CPI for all items, continuing a long-term trend of food prices increasing at slightly less than the general inflation rate. The CPI for all items is forecast to increase 3.0 percent in 2001.

Food price changes are a key variable determining what proportion of income consumers spend for food. In 1999, 10.4 percent of household disposable personal income went to pay for food, with 6.2 percent for food at home and 4.2 percent for food away from home. The downward trend in the proportion of household disposable personal income going toward food should continue into 2000 and 2001. In 2000, food at home sales are forecast to increase 5.1 percent, the largest increase since 1990 when sales increased 8.9 percent. Food away from home sales are forecast to increase 9.7 percent in 2000, the largest increase since 1987 when sales increased 10.9 percent. This indicates that food expenditures for all food in 2000 could increase to \$842.7 billion dollars, from \$788.6 billion dollars in 1999. Rising incomes in 2000 were chiefly responsible for the increased spending on food away from home, which could reach 48 percent of total food expenditures in 2000.

Higher energy prices did not translate into higher food prices in 2000. This was due largely to the fact that transportation and energy costs are fairly small components of the total food marketing bill, which is 80 cents for every dollar spend by consumers on food. Transportation costs are 4 cents and energy costs are 3.5 cents of the marketing bill. U.S. economic growth slowed markedly in the second half of 2000 with consumer spending also dropping. In 2001, consumer spending is projected to grow by 3 percent, but it will be held in check by a tight labor market, more limited credit, and higher energy prices.

In summarizing 2000 food price increases, a booming economy and large consumer demand led to higher retail prices for beef and pork; higher retail prices for fresh vegetables were due to reduced planted acreage and cooler than usual growing conditions; and large consumer demand for eggs in the fourth quarter led to higher retail prices. In summarizing 2000 food price decreases, fresh fruits were down largely because of the citrus crop rebounding in California and large supplies of apples and

bananas; and the fats and oils index was down due to large supplies of oil on the world market and lower butter prices. The following discussions highlight 2000 supplies and prices and focus on expected CPI changes for 2001:

C Meats. U.S. red meat and poultry production continues to slowly increase, posting nearly a 1-percent gain in 2000. In 2001, the gain in meat production is expected to be lower as beef production declines 4 to 5 percent, reflecting several years of cattle herd reduction and near record heifer slaughter in 2000. In 2000, retail prices were higher for all meats, especially beef and pork. In 2001, cattle prices are expected to continue rising, with poultry, hog, and turkey producer prices expected to remain steady or decline. Continuing record large meat production, lackluster growth in exports, and a slowing domestic economy may pressure wholesale and retail prices downward.

Red meat and poultry exports rose 6 percent in 2000, the highest rate of growth since 1997, led by a double digit increase in broiler exports. However, in 2001, broiler exports are expected to rise less than 1 percent over last year. As a result, meat exports are expected to rise less than 0.5 percent, which would be the lowest since the decline in 1985. Pork exports are expected to rebound with a 3-percent increase after remaining about steady in 2000. U.S. meat exports are facing increased competition in slower growing world meat markets. Red meat imports in 1999 and 2000 rose about 10 percent each year, boosted by 17 and 18-percent increase in pork imports. In 2001, both pork and beef imports are expected to slow dramatically. Large stocks of corn and soybeans are expected to keep feed prices relatively low this year--barring any major weather problems in the 2001-growing season.

C Beef and veal. Beef production was up 1.5 percent in 2000, with prices for retail Choice beef setting a record \$3.06 a pound. The CPI for beef rose 6.4 percent in 2000 and is expected to increase 2 to 3 percent in 2001. The slowing economy is expected to dampen the demand for higher quality cuts of beef, which led to the record setting retail prices in 2000. Beef production in first-half 2001 continues to be revised upwards as more cattle are forced into feedlots, but second-half production estimates are forecast to be lower to compensate for larger first-half marketings. Fewer calves are likely to be placed on grazing programs due to poor pasture-range conditions in the South and West. Low grain prices and continued strong fed-cattle prices are encouraging large feedlot placements.

First-half 2001 beef production is likely to decline 2-3 percent from a year earlier, while second-half production may decline 5-9 percent. If forage conditions improve and encourage stronger heifer retention for breeding, 2001 production may decline even more. Continued large heifer slaughter and large heifer-on-feed inventories strongly suggest that expansion will be delayed until females are retained from this year's calf crop in second-half 2001, with beef production declining through 2003.

C Pork. Commercial pork production in 2001 is forecast at 19.25 billion pounds, up 2 percent from 2000. If the 2001 production is realized, it would be just 28 million pounds short of the

record set in 1999. Retail pork prices rose a sharp 7.3 percent in 2000 with the 2001 CPI expected to increase slightly, up 1 to 2 percent. Per capita pork and competing meat consumption should stay about the same in 2001. It is expected that the slowing economy and sharply higher energy costs experienced by consumers this season may temper the demand experienced by beef and pork last year.

The cautious production increase for this year could be attributed to concerns about a possible squeeze on slaughter capacity in late 2001, when most of the March-May pig crop comes to slaughter. With the larger pig crops, hog prices are expected to weaken and average in the \$40's per cwt this year, compared to nearly \$45 in 2000. Given the expected continuing low feed prices, producers' returns should support a year-over-year increase in the number of sows farrowing this year, suggesting a further rise in pork production in 2002. Over time, pork demand appears to have remained steady or increased slightly in response to higher quality, greater consistency, and larger cut size offered by the industry.

C **Other meats** increased 2.6 percent in 2000, and in 2001 prices are expected to increase 2 to 3 percent, slightly above forecasted beef and pork price increases. Other meats are highly processed food items (hot dogs, bologna, sausages) with their price changes influenced by the general inflation rate as well as the cost of the meat inputs.

C **Poultry.** The CPI for poultry increased 1.2 percent in 2000, with an increase of 1 to 2 percent expected in 2001. Broiler production in 2001 is forecast at 31.2 billion pounds, up slightly from 30.5 billion pounds in 2000. Responding to low prices through most of 2000, broiler producers have indicated that they will slow down production growth in 2001.

With strong exports to the three largest markets (Russia, Mexico, and China/Hong Kong) and a number of smaller markets, U.S. broiler exports surged to over 5 billion pounds in 2000. It is expected that exports should increase to over 5.5 billion pounds in 2001, because the economies of Russia and Mexico have both gained from rising world oil prices. The export expansion is expected to continue driving the poultry industry's ability to efficiently convert feed to meat, lowering its cost relative to both beef and pork. Additionally, demand in developing countries is expected to expand due to rising populations.

C **Fish and seafood.** The CPI for fish and seafood was up 2.8 percent in 2000, with an expected 2 to 3 percent increase in 2001. A strong U.S. economy in 2000 boosted away from home food demand as people traveled and ate out more. This was especially important for seafood, as a large percentage of seafood is consumed at restaurants. More than 50 percent of the fish and seafood consumed in the U.S. in 2000 came from imports, with another 20 to 25 percent from U.S. farm-raised production.

The U.S. has one of the world's largest fishing industries with year-round production. In the 1990's, U.S. per capita seafood consumption has remained flat, between 14.8 and 15.2 pounds of edible meat per year, with any increases in total domestic seafood consumption

coming from population growth.

C Eggs. Retail egg prices increased 3.0 percent in 2000, with a 2 to 3 percent increase expected in 2001. Table egg production increased 2 percent in 2000, with hatching egg production showing no increase. Retail egg prices were highest during the fourth quarter, reflecting seasonal demand and supplies that were only 2 percent above third quarter supplies. Per capita consumption is expected to reach 258.2 eggs in 2001, down slightly from 2000.

C Dairy and related products prices increased 0.7 percent in 2000, following a 5.8 percent increase in 1999. Strong consumer demand for dairy items, especially gourmet ice cream, cheese, and butterfat products is expected to continue this year with the CPI for dairy products expected to increase 1 to 2 percent in 2001. Growth in milk output is expected to ease slightly in 2001, after consumer demand outstripped supplies in 1998 and 1999.

Markets for dairy products have changed substantially in recent years. Retail sales are no longer the main outlet for most dairy products. Although most fluid milk is still sold at retail, cheese and butter are used mostly by away-from-home eating establishments or by makers of processed foods. Large shares of ice cream and fluid cream sales go to retail channels other than grocery stores. With spending for food away from home increasing, dairy products have benefitted. The strong restaurant and fast-food markets have increased cheese demand, as restaurants serve cheese for its versatility and flavor and fast-food chains include cheese, often paired with bacon on their sandwiches. Pizza sales and sales of commercially prepared entrees using cheese also continue to increase. Greater away-from-home eating has reduced fluid milk sales because people tend to order other beverages in restaurants.

C Fats and oils fell 0.6 percent in 2000, but is expected to increase 1 to 2 percent in 2001. The decrease in the 2000 index was largely due to lower retail prices for butter, which accounts for 31 percent of the fats and oils index. The remaining items contained in the fats and oils index are highly processed food items, with their price changes influenced by the general inflation rate in addition to U.S. and world supplies of vegetable oils.

C Fresh fruits. The 1999/2000 citrus crop rebounded in California, leading to a 3.0 percent decrease in the fresh fruit index in 2000. There were large supplies of other major fruits which also contributed to a decrease in the fresh fruits CPI. Apple production for 2000 was estimated at 10.3 billion pounds, down 1 percent from 1999. Grape production for 2000 totaled a record 7.31 million tons, up 17 percent from the 1999 crop. Peach production in 2000 was estimated at 2.52 billion pounds, up 4 percent from 1999 and 8 percent above 1998. Pear production, at 957,170 tons was down 6 percent from the 1999 crops. Through November 2000, banana imports were about 6 percent below 1999, with retail banana prices 2 percent higher in calendar 2000 than the year before. With the 2000/01 citrus crop and supplies of noncitrus fruits expected to be about the same as last year and continued strong U.S. consumer demand for fresh fruits, the CPI for fresh fruits is expected to increase 1 to 2 percent in 2001.

C **Fresh vegetables.** The CPI for fresh vegetables increased 4.8 percent in 2000 due to lower production and strong demand for fresh vegetables. Fresh-market vegetable harvested area was estimated at 2.1 million acres in 2000, about 1 percent below 1999, as growers reduced acreage in response to financial losses caused by lower grower prices the year before. California, accounting for almost 50 percent of fresh market vegetable production in 2000, reduced acreage 3 percent. Per capita use of all vegetables and melons was expected to reach a record 459 pounds in 2000, up 2 percent from 1999 with most of the gain coming from processed products and potatoes. Fall 2000 U.S. potato production was a record 463 million cwt, up 7 percent from a year earlier.

A combination of reduced winter acreage, in the first quarter of 2001 and several bouts of sub-freezing weather in Florida has reduced supplies of fresh market vegetables and raised vegetable prices. Vegetables effected by the freeze include green peppers, snap beans, squash, eggplant, tomatoes, and cucumbers. Considering consumers' vegetable basket, low prices for leafy green and other cool season vegetables from California have helped offset higher prices for Florida vegetables. Also, potato retail prices, the most heavily-weighted item in the fresh vegetable CPI, are low this year due to a record-large fall crop. Although imports from Mexico and Central America countries will help fill some of the supply gaps, the impact of the Florida freeze on vegetable prices may continue until March 2001, when replanted crops boost supplies. In addition to the effects of the freeze, vegetable growers have indicated that they expect to harvest 2 percent fewer acres this winter. The Florida freeze and reduced planted acreage in 2001 should increase the fresh vegetable index another 4 to 6 percent in 2001.

Processed fruits and vegetables. Adequate supplies of most fruits and vegetables for processing limited the CPI increase for processed fruits and vegetables to 1.1 percent in 2000. Contract production of the four major processing vegetables (tomatoes, sweet corn, green peas, and snap beans) declined 13 percent in 2000. Virtually all of the decline is from tomatoes, with ample stocks dampening wholesale prices. Snap beans for processing increased 2 percent, contract production of sweet corn was unchanged from a year earlier, and green peas were up 8 percent. With lower supplies of processed vegetables and adequate supplies of frozen concentrate orange juice and other fruit supplies, the processed fruits and vegetables CPI is expected to increase 1 to 2 percent in 2001.

C **Sugar and sweets.** Domestic sugar production for 1999/2000 was a record 9.0 million tons, more than 600,000 tons larger than the previous fiscal year. Low prices for soybeans, corn, wheat, barley, and rice reduced producer returns for these alternative crops, leading to increases in acreage for sugar crops. Relatively low inflation, along with increased production led to a CPI increase of only 1.1 percent in 2000.

Although demand for sugar and sugar-related products continues to increase, large U.S. sugar supplies are outpacing consumer demand. Per capita consumption of caloric sweeteners increased almost 20 pounds per person from 1990 to 2000. Some of the increase was due to

a dramatic drop in inflation-adjusted retail prices from 33 cents per pound in 1990 to 26 cents per pound in 2000. Other key factors include increased spending for away-from-home eating and consumers' willingness to treat themselves. With large sugar supplies also expected in 2000/01, 8.5 million tons, the CPI for sugar and sweets is expected to increase a moderate 1 to 2 percent in 2001.

C **Cereal and bakery products** account for a large portion of the at-home food CPI-- almost 16 percent. With grain prices lower and inflation-related processing costs modest, the CPI for cereals and bakery products increased 1.8 percent in 2000. Most of the costs to produce cereal and bread products are for processing and marketing, more than 90 percent in most cases, leaving the farm ingredients a minor cost consideration. With competition among producers and consumer demand for bakery products expected to remain fairly strong, the CPI is forecast up 2 to 3 percent in 2001.

C **Nonalcoholic beverages.** The CPI for nonalcoholic beverages increased 2.6 percent in 2000 and is forecast to increase another 2 to 3 percent in 2001. Coffee and carbonated beverages are the two major components, accounting for 28 and 38 percent of the index. Retail prices were slightly higher in 2000 for ground roast coffee (up 1 percent) and soft drinks (up 4 percent).

World coffee production in 2000/01 is forecast at a record 108.7 million 60-kilogram bags, nearly 2 percent above last year's level and 570,000 bags above the previous record crop in 1998/99. Up to 80 percent of U.S. imports are arabica beans and 15-20 percent are robustas. The robustas go mainly to soluble (instant) coffee or are blended with arabicas. Recent near-record production in Brazil, the largest producer of arabica beans, should lead to larger U.S. stocks and continued moderate consumer prices.

C **Other foods.** Other miscellaneous prepared foods are highly processed and are largely affected by changes in the all-items CPI. These products include frozen dinners, pizzas, and precooked frozen meats. Competition both among these products, and from the away from home market, should continue to dampen retail price increases for items in this category. In 2000, the CPI for this category increased 2.0 percent and is expected to increase 2 to 3 percent in 2001.