

# Outlook for U.S. Retail Food Prices and Inflation, 2013

Richard Volpe, Ph.D.

Food Markets Branch  
Food Economics Division  
ERS-USDA

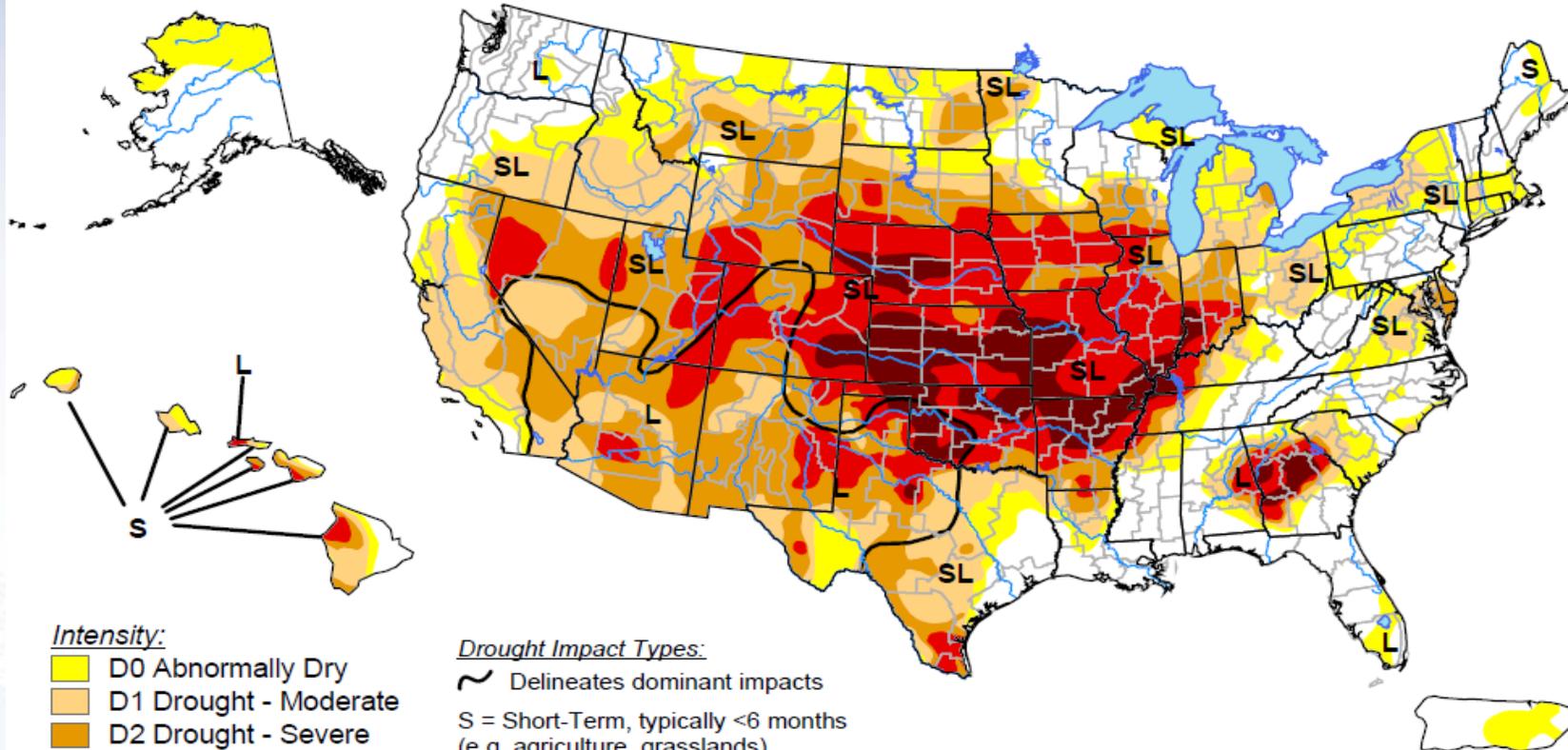
*Presented at USDA's Agricultural Outlook Forum  
February 21, 2013*

 United States Department of Agriculture  
Economic Research Service

# U.S. Drought Monitor

August 21, 2012

Valid 7 a.m. EDT



## Intensity:

-  D0 Abnormally Dry
-  D1 Drought - Moderate
-  D2 Drought - Severe
-  D3 Drought - Extreme
-  D4 Drought - Exceptional

## Drought Impact Types:

-  Delineates dominant impacts
- S = Short-Term, typically <6 months  
(e.g. agriculture, grasslands)
- L = Long-Term, typically >6 months  
(e.g. hydrology, ecology)

The Drought Monitor focuses on broad-scale conditions.  
Local conditions may vary. See accompanying text summary  
for forecast statements.

<http://droughtmonitor.unl.edu/>

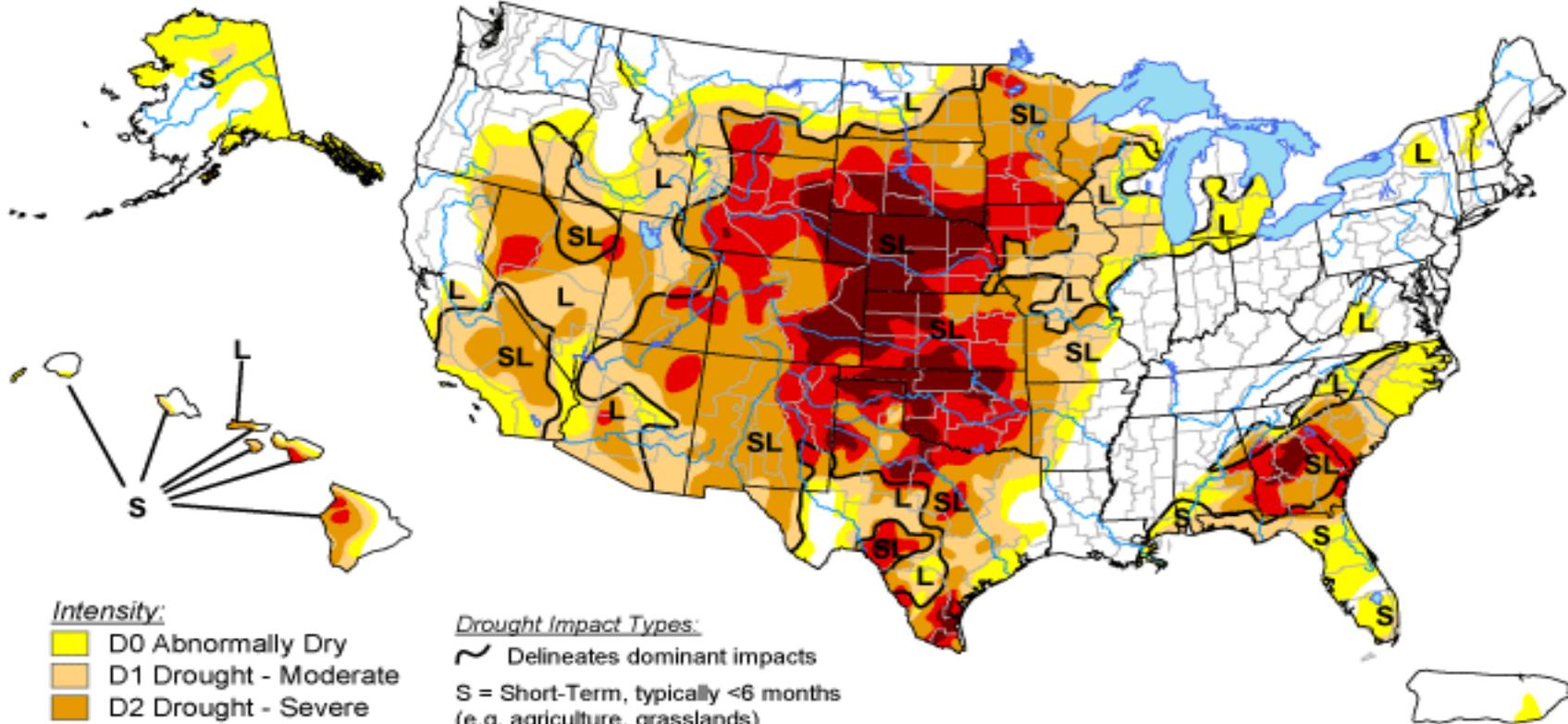


Released Thursday, August 23, 2012

Author: Michael Brewer/Liz Love-Brotak, NOAA/NESDIS/NCDC

# U.S. Drought Monitor

February 5, 2013  
Valid 7 a.m. EST



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Released Thursday, February 7, 2013

Author: Michael Brewer/L. Love-Brotak, NOAA/NESDIS/NCDC

# The Ongoing Drought

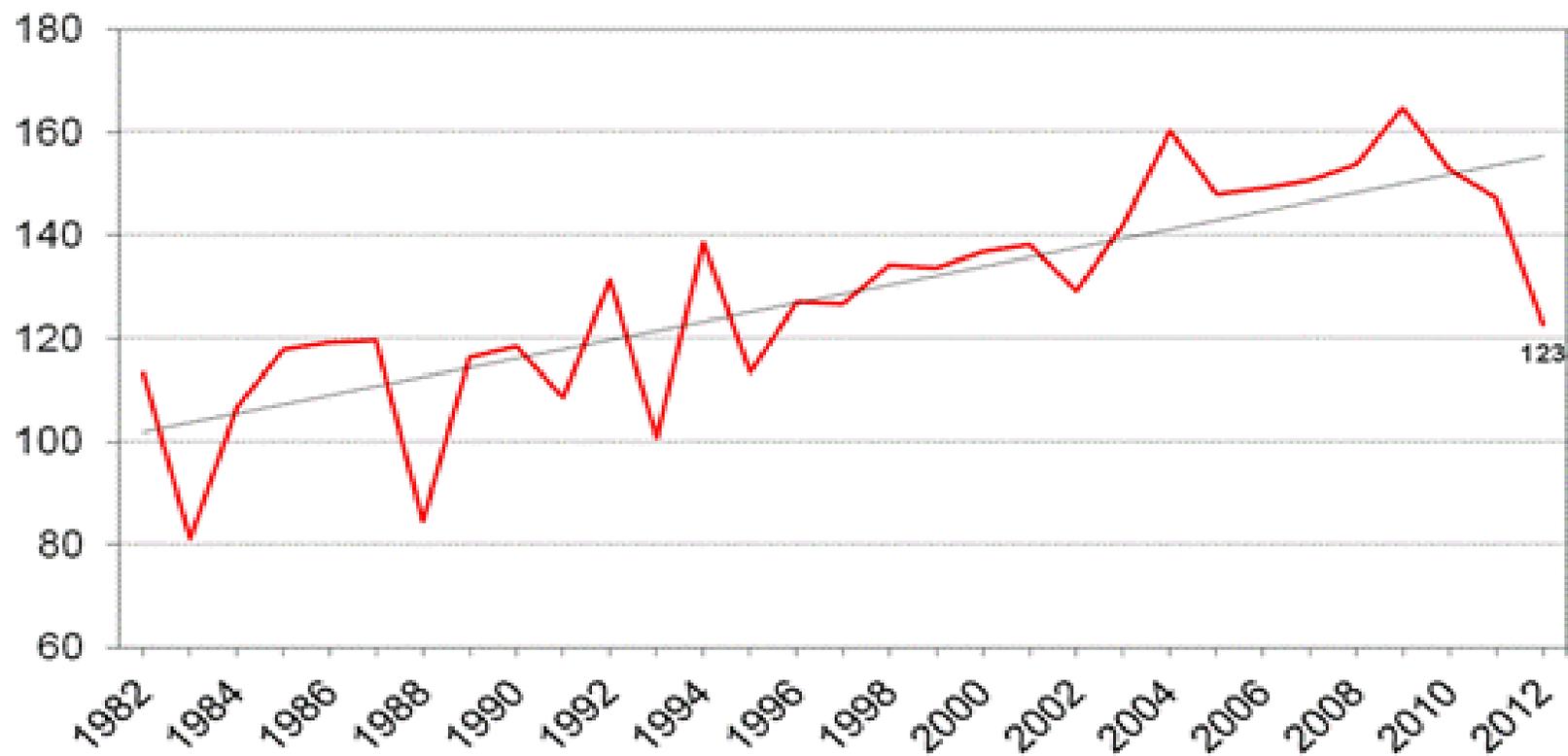
- 54.23% of USA in moderate or worse drought
  - Largest percentage yet
- 34.35% in severe drought or worse
- Hard red winter wheat in KS, OK, TX
  - Warm temps but no moisture
- Major concerns begin in the late spring/early summer



# U.S. Corn Yield



Bushels/acre



Source: Steve Wallander, USDA-ERS

USDA-NASS  
09-12-12

# Corn sector impacts

## Higher prices and lower use

U.S. corn projections, 2012/13 marketing year, May and October 2012

Item	May 2012 forecast	Oct. 2012 forecast	Change	Percent of supply change
Planted acres (million acres)	95.9	96.9	1.0	
Harvested acres (million acres)	89.1	87.7	-1.4	
Yields: Bushels per harvested acre	166.0	122.0	-44.0	
<b>Supply and use (million bushels):</b>				
Beginning stocks	851	988	137	
Production	14,790	10,706	-4,084	
Imports	15	75	60	
Supply	15,656	11,769	-3,887	100
Feed & residual	5,450	4,150	-1,300	33
Ethanol and by-products	5,000	4,500	-500	13
Other food, seed, & industrial	1,425	1,350	-75	2
Domestic use	11,875	10,000	-1,875	
Exports	1,900	1,150	-750	19
Total use	13,775	11,150	-2,625	
Ending stocks	1,881	619	-1,262	32
Farm price (dollars per bushel)	4.60	7.80	3.20	

Source: Paul Westcott, USDA-ERS

# Soybean sector impacts

## Exports adjust relatively more

U.S. soybean projections, 2012/13 marketing year, May and October 2012

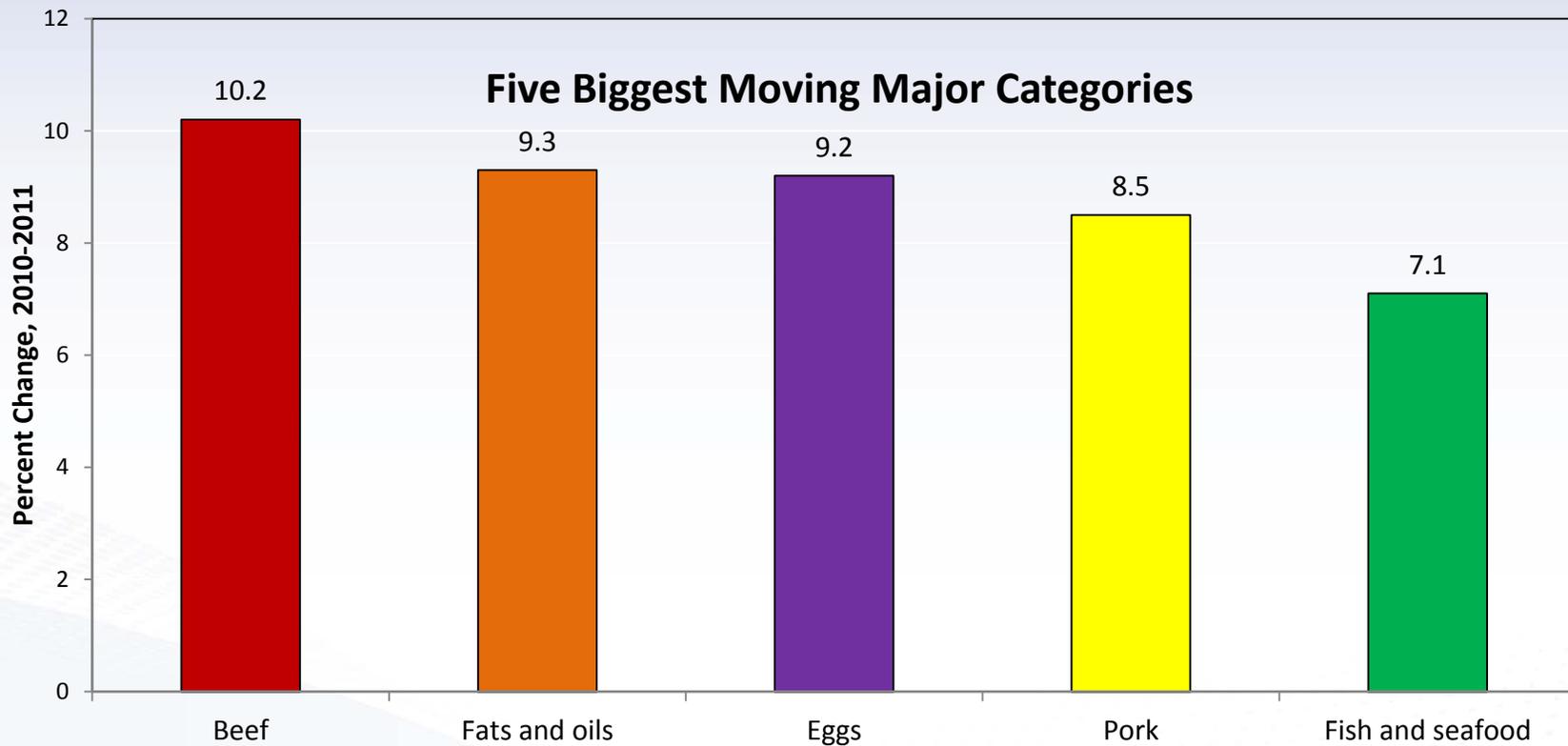
Item	May 2012 forecast	Oct. 2012 forecast	Change	Percent of supply change
Planted acres (million acres)	73.9	77.2	3.3	
Harvested acres (million acres)	73.0	75.7	2.7	
Yields: Bushels per harvested acre	43.9	37.8	-6.1	
Supply and use (million bushels):				
Beginning stocks, September 1	210	169	-41	
Production	3,205	2,860	-345	
Imports	15	20	5	
Total supply	3,430	3,050	-380	100
Crush	1,655	1,540	-115	30
Seed and residual	125	115	-10	3
Exports	1,505	1,265	-240	63
Total disposition	3,285	2,920	-365	
Ending stocks	145	130	-15	4
Prices:				
Soybean price, farm (\$ per bushel)	13.00	15.25	2.25	
Soybean oil (dollars per lb)	0.545	0.550	0.005	
Soybean meal (dollars per ton)	350	485	135	

Source: Paul Westcott, USDA-ERS

# What Does this Mean for Consumers?

- Food prices increase
- Questions abound about market power/retail competitiveness
  - But nobody will permanently absorb losses post-farmgate
- Field corn -> animal feed -> animals -> animal products
- Field corn -> corn syrup, corn flour, etc.
- Field corn -> ethanol -> production/transportation

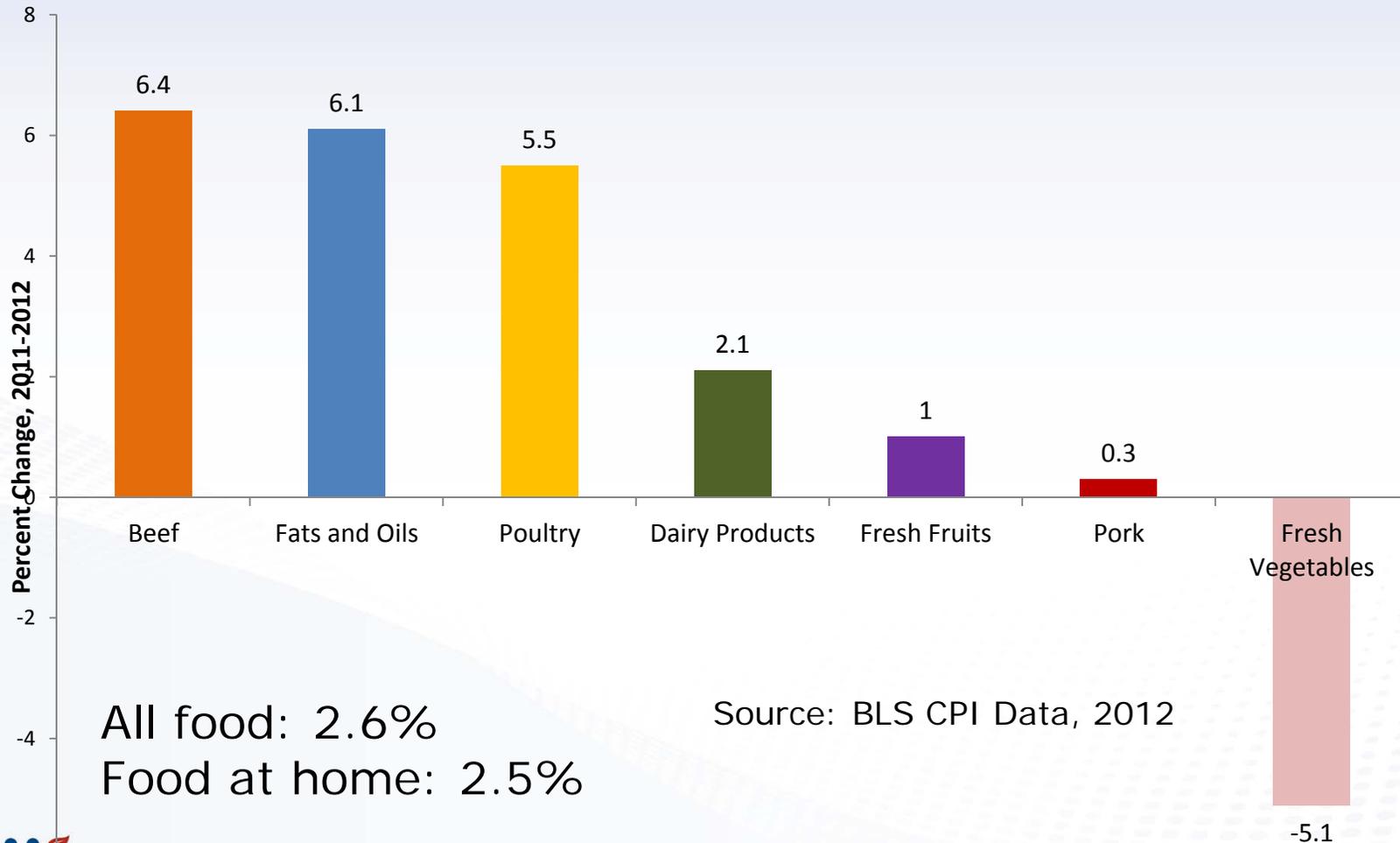
# Above-average Food Price Inflation in 2011



- All food: 3.7%
- Food-at-home: 4.8%

Source: BLS CPI Data, 2011

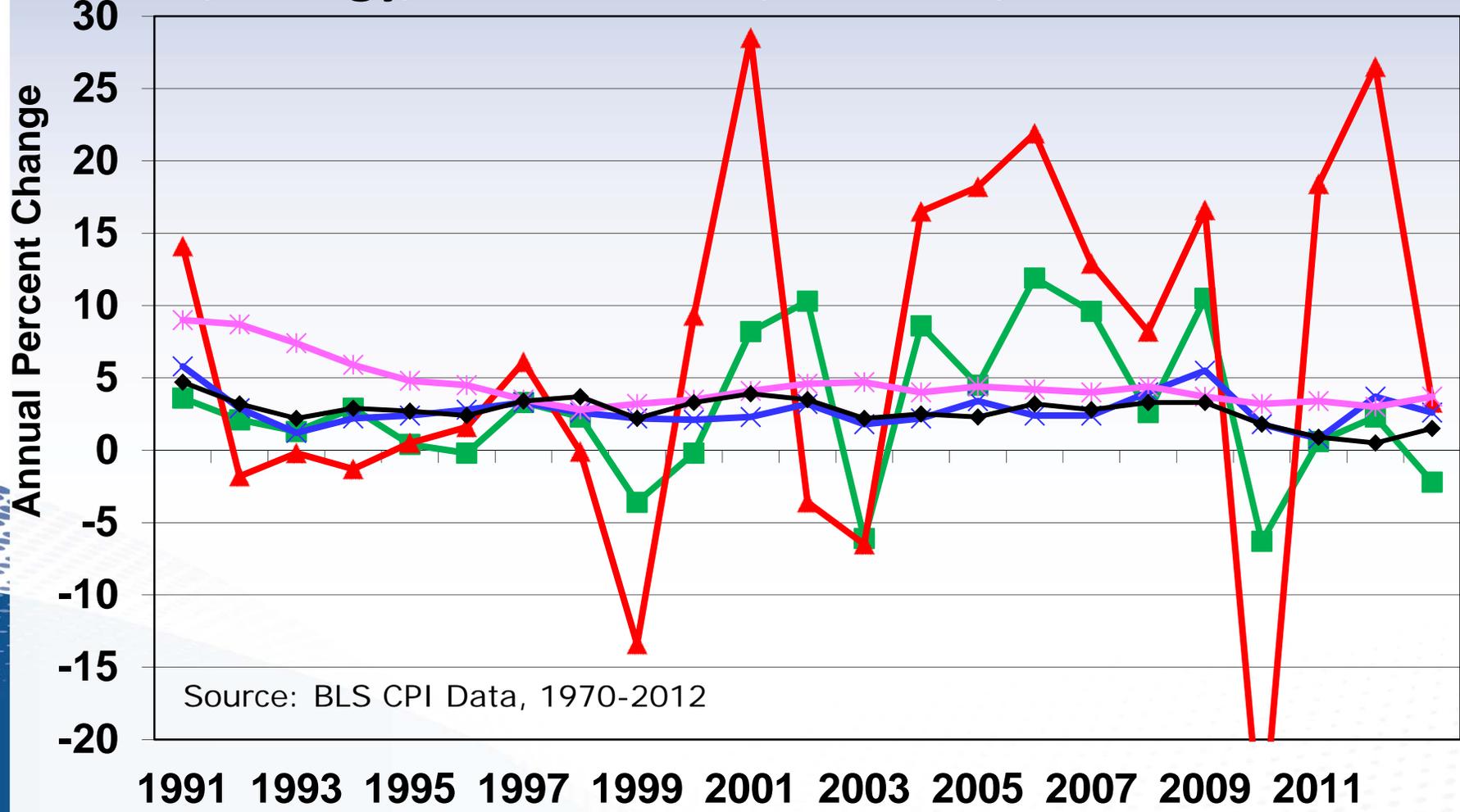
# Further Inflation in 2012



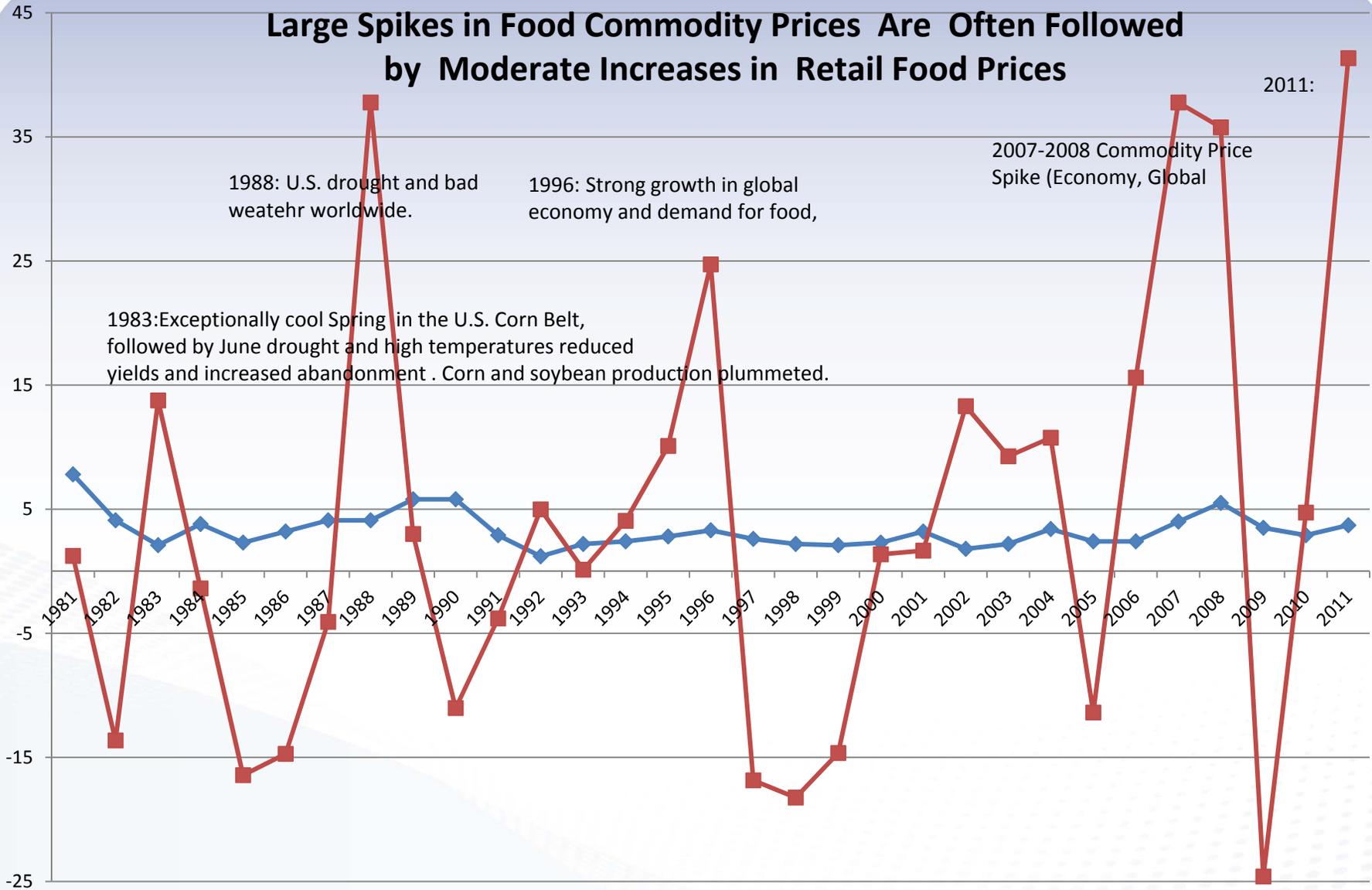
All food: 2.6%  
Food at home: 2.5%

Source: BLS CPI Data, 2012

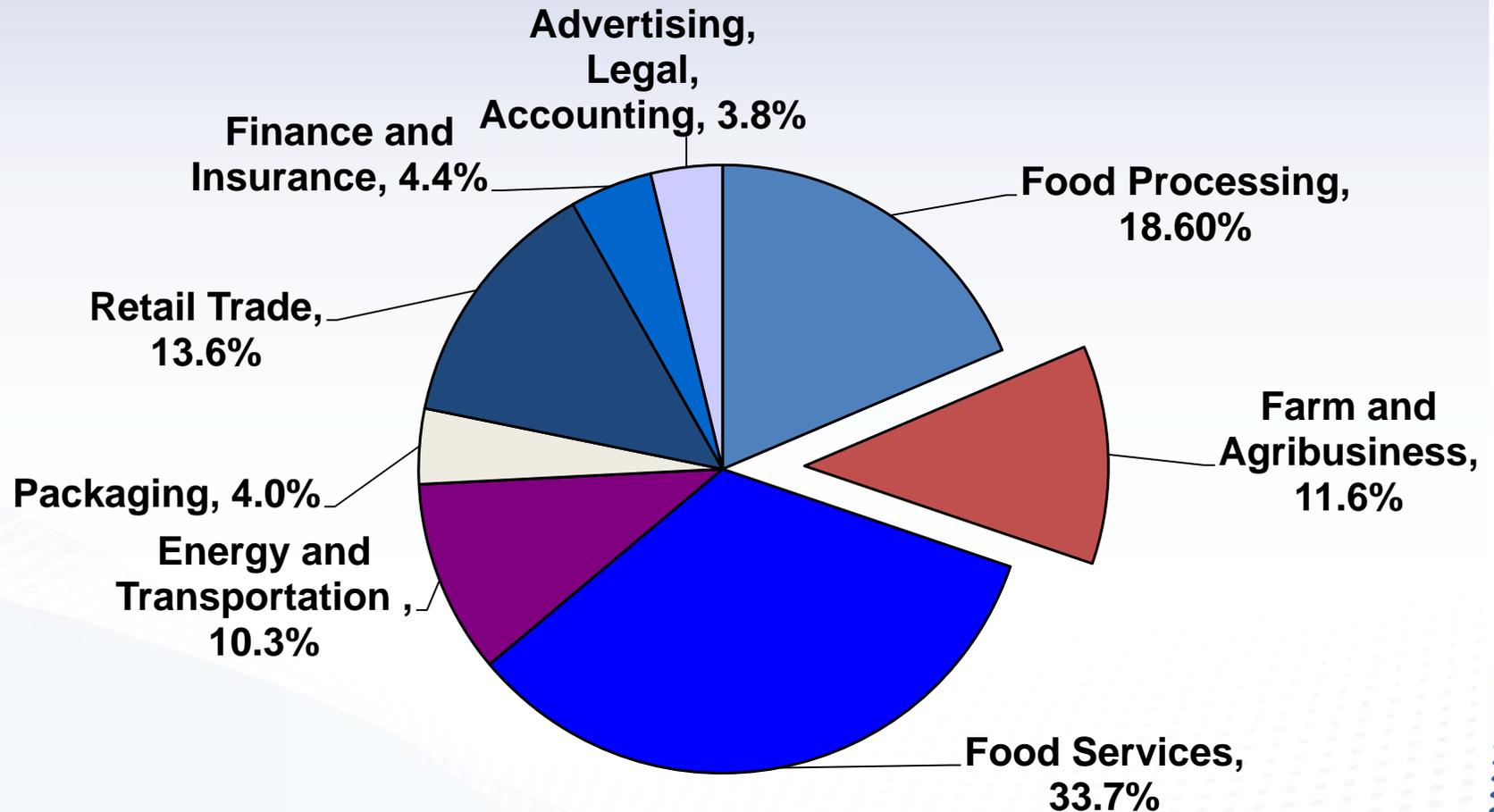
# Food, Energy, Medical Care, Services, 1990-2012



## Large Spikes in Food Commodity Prices Are Often Followed by Moderate Increases in Retail Food Prices

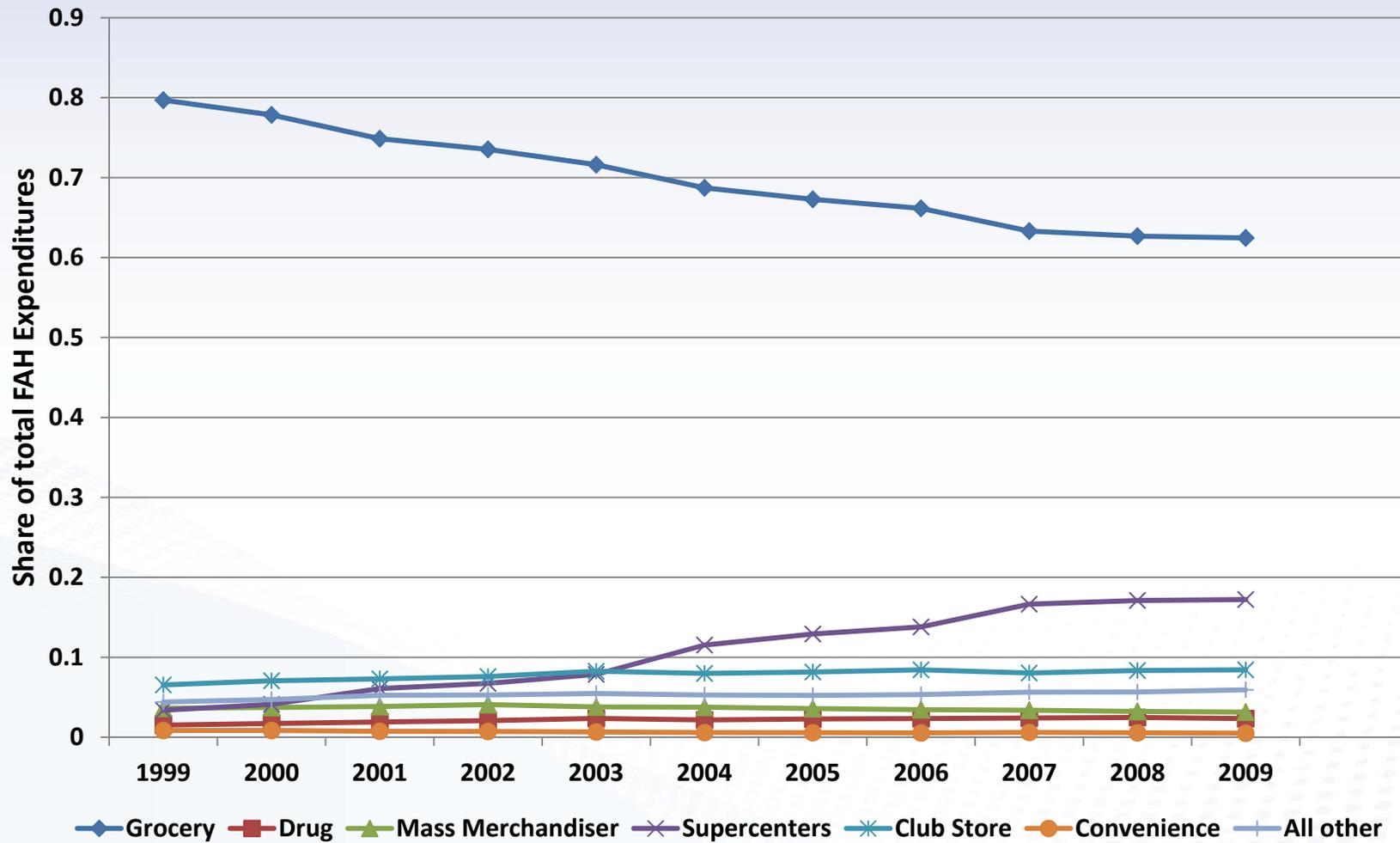


# Where a Consumer Dollar Spent on Food Goes

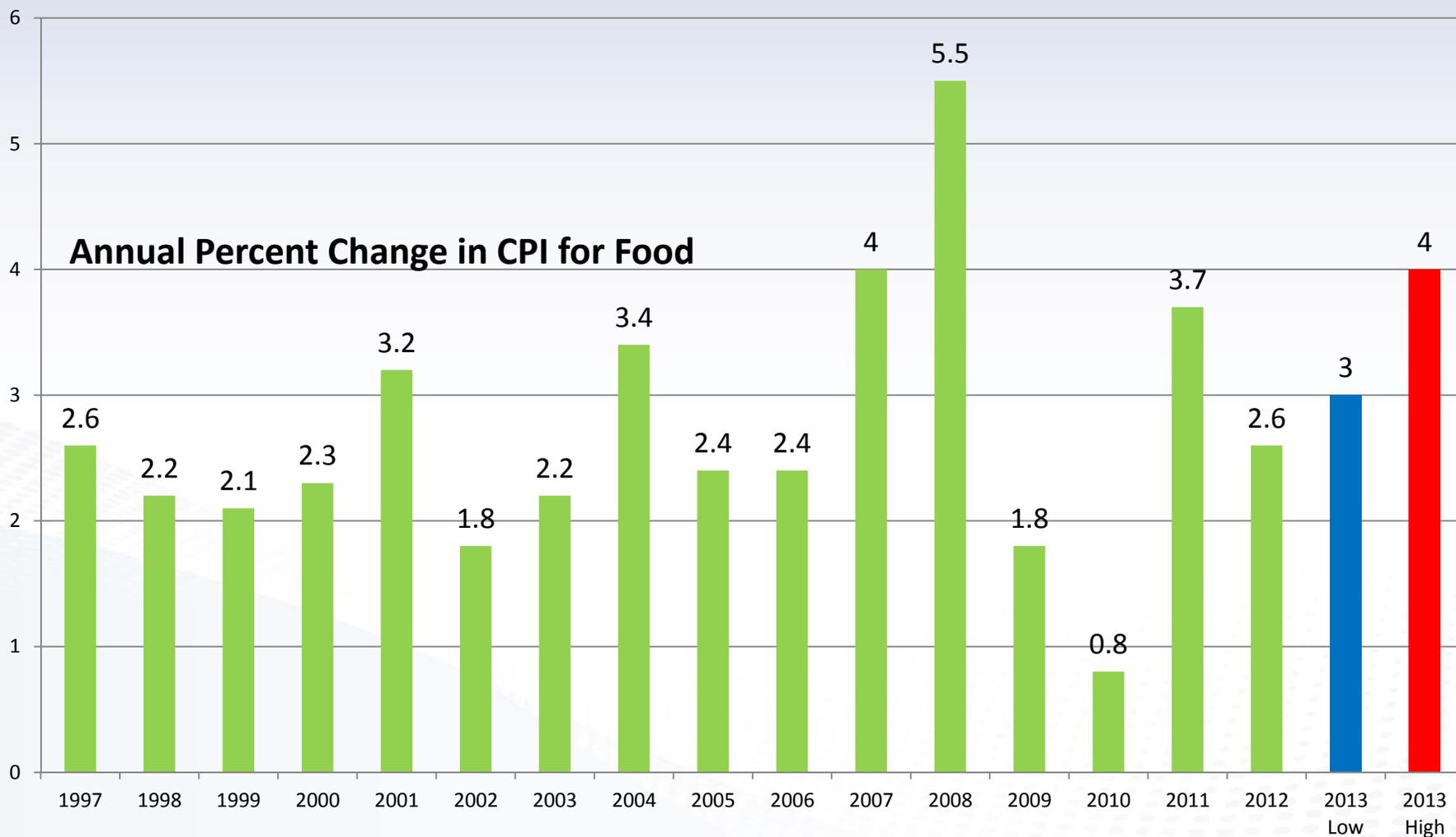


Source: *A Revised and Expanded Food Dollar Series* (2011), ERR114, Economic Research Service,  
[www.ers.usda.gov/data/FoodDollar/](http://www.ers.usda.gov/data/FoodDollar/)

# Consumers Increasingly Shop at Nontraditional Formats

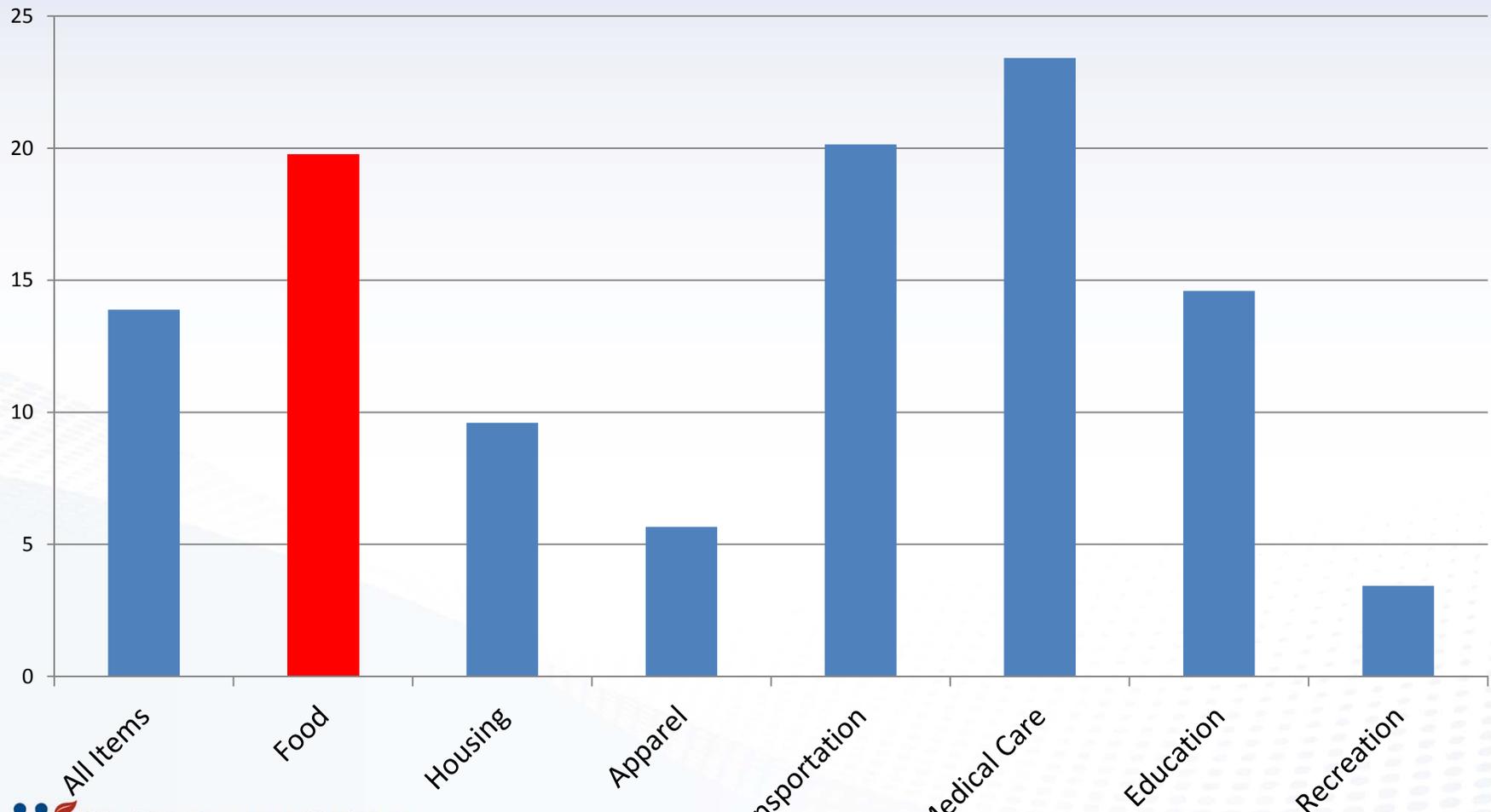


# 2012-2013 Food Inflation Unlikely to Approach 2007-2008 Levels



# But Food Price Inflation Will Continue to Outpace Overall Inflation

## Percent Change in Major CPI Categories, 2006-2012



# Food Inflation 2009-2011

- 2009
  - Food commodity costs down from summer 2008 highs
  - Energy prices down
  - Recession leads to weakened domestic and global demand
- 2010
  - Sputtering global economy, deflation concerns
  - Renewed commodity price pressures
- 2011
  - Higher commodity costs (corn, wheat, soybeans, etc.)
  - Higher energy and transportation costs
  - Increased U.S. exports due to growing global demand, weak U.S. Dollar
  - Large animal supplies at historic lows due to lingering effects of 2008
  - Retailers slow to pass on cost increases for most of year

# Food Inflation 2012

- 2012
  - Most inflationary pressures remain but do not intensify
  - Retailers begin to pass on costs in earnest
  - US economy improves, dollar strengthens
    - Domestic demand grows little
    - Exports fall
  - Late-2011 surge in prices means higher starting point for year
  - Drought has modest impacts on animal-based products
  - Excellent weather and low prices for most fruits and vegetables act to curb inflation

# Outlook for 2013

- 2013
  - Inflationary pressure on major field crops should ease (weather-dependent)
  - But high-priced corn, soybeans, and wheat will permeate supermarkets
  - Structural inflation for beef, pork will intensify
  - Overall inflation higher than historical average
  - Weather shocks, high fuel prices could create another 2011

# Outlook in Depth: Categories to Watch

- Beef and veal
  - Structural inflation: low supply, high demand
  - High prices are here to stay: CPI fell three times since 1/11, up 3.5% over 2012
    - Only 0.5% for FAH
  - Finely textured beef controversy was a temporary blip, not a redirection of prices
  - Prices fell for a couple of months as herds were culled
    - But structural inflation will only worsen

# Outlook in Depth: Categories to Watch

- Poultry
  - Some evidence that consumers are shifting away from beef and pork
  - Broilers will reflect (have reflected) higher feed prices before cattle, hogs
  - Strong inflation for 2013
  - Weather, rainfall conditions in south most important determinant of poultry inflation

# Outlook in Depth: Categories to Watch

- Dairy
  - Production per cow is up, dry milk exports are down
  - Fluid milk prices were forecast to be flat or slightly down on the year
  - But fluid milk will be an early indicator of high feed prices
  - Milk prices surged 4.3% in Q4 2012
    - Next is cheese, butter, sour cream, etc.

# Outlook in Depth: Categories to Watch

- Fruits and vegetables
  - Crops up, prices down across the board for 2012
  - Fruit prices stronger but still down or flat
  - Vegetable prices achieved rare deflation for a major category in 2012
  - The bright spot for consumers in 2012
  - Forecast a course correction in 2013

# Outlook in Depth: Categories to Watch

- 'Other foods'
  - Soups, condiments, packaged sides, etc.
  - More shelf stability -> slower, less efficient price transmission
  - Big category felt effects of 2011 in 2012
  - Higher commodity prices will filter up and down the aisles through 2013 and even into 2014
  - In many cases prices will rise but only the most conscious consumers will notice at the UPC level
    - Basket costs will rise more substantially

## Current Forecasts (a)

Items	2010	2011	2012	Forecast 2013
All Food	0.8	3.7	2.6	3 to 4
FAFH	1.3	2.3	2.8	2.5 to 3.5
FAH	<b>0.3</b>	4.8	2.5	3 to 4
Beef	2.9	<b>10.2</b>	<b>6.4</b>	3 to 4
Pork	<b>4.7</b>	<b>8.5</b>	0.3	3 to 4
Other Meats	-0.1	6.4	1.7	3 to 4
Poultry	-0.1	2.9	<b>5.5</b>	3 to 4

# Current Forecasts (b)

Items	2010	2011	2012	Forecast 2013
All Food	0.8	3.7	2.6	3 to 4
FAH	<b>0.3</b>	4.8	2.8	3 to 4
Fish	1.1	<b>7.1</b>	2.4	2.5 to 3.5
Dairy	1.1	6.8	2.1	3.5 to 4.5
Fats and Oils	-0.3	9.3	<b>6.1</b>	2 to 3
Sugar + Sweets	2.2	3.3	3.3	2 to 3
Eggs	1.5	<b>9.2</b>	3.2	3 to 4

# Current Forecasts (c)

Items	2010	2011	2012	Forecast 2013
Fresh Fruits	<b>-0.6</b>	3.3	1	3 to 4
Fresh Vegetables	2.0	5.6	<b>-5.1</b>	4 to 5
Processed F + V	-1.3	2.9	3.8	2 to 3
Cereals + Bakery	-0.8	3.9	2.8	3 to 4
Nonalc. Bev.	-0.9	3.2	1.1	2.5 to 3.5
Other Foods	-0.5	2.3	<b>3.5</b>	3.5 to 4.5

# Caveats

- Food commodity volatility
- Food ~ Energy Connection
- Global demand for U.S. exports
- Retail margin pressure
  - Post-recession consumer response
- Weather is major source of uncertainty
- Longer term structural inflation concerns

# Resources for Food Price Trends Research

- ERS CPI Forecasts  
<http://www.ers.usda.gov/data-products/food-price-outlook.aspx>
- New ERS Reports  
<http://www.ers.usda.gov/publications/err129/>  
<http://www.ers.usda.gov/Publications/EIB75/>  
<http://www.ers.usda.gov/Publications/ERR105/>
- BLS CPI, PPI, and Average Price Data  
<http://data.bls.gov/PDQ/outside.jsp?survey=cu>  
<http://data.bls.gov/PDQ/outside.jsp?survey=wp>  
<http://data.bls.gov/PDQ/outside.jsp?survey=ap>
- AMS Fruit and Vegetable Report  
<http://www.ams.usda.gov/mnreports/fvwretail.pdf>
- IMF World Commodity Prices  
<http://www.imf.org/external/np/res/commod/index.asp>

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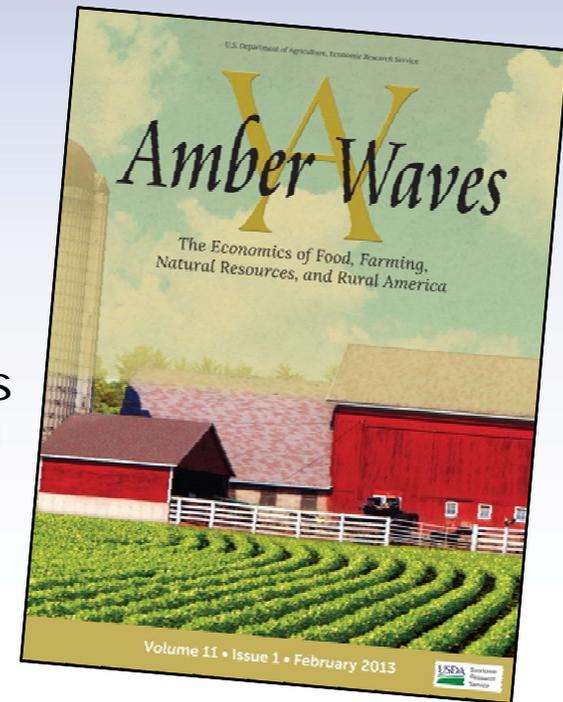
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# Contact Information

Richard Volpe, PhD

[rvolpe@ers.usda.gov](mailto:rvolpe@ers.usda.gov)

202-694-5395

For more information, see

<http://www.ers.usda.gov/data-products/food-price-outlook.aspx>