RETAIL FOOD PRICE OUTLOOK

USDA Agricultural Outlook Forum
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Annemarie Kuhns
USDA, Economic Research Service
SHARE OF U.S. HOUSEHOLD CONSUMER EXPENDITURES BY MAJOR CATEGORIES, 2014

Housing, 33.3
Transportation, 17
Food, 12.6
Personal insurance, pensions, 10.7
Healthcare, 8
Entertainment, alcoholic beverages, 6
Apparel, 3.3
Savings, 3.3
Other, 3.3
Education, 2.5

Note: "Other" includes personal care products, tobacco, and miscellaneous expenditures.
### PERCENT CHANGE IN MAJOR CPI CATEGORIES, 2011-2015

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All items</td>
<td>5.4</td>
</tr>
<tr>
<td>Food</td>
<td>8.5</td>
</tr>
<tr>
<td>Housing</td>
<td>8.7</td>
</tr>
<tr>
<td>Apparel</td>
<td>3.1</td>
</tr>
<tr>
<td>Transportation</td>
<td>-6.3</td>
</tr>
<tr>
<td>Medical care</td>
<td>11.6</td>
</tr>
<tr>
<td>Education and communication</td>
<td>5.1</td>
</tr>
<tr>
<td>Recreation</td>
<td>2.3</td>
</tr>
</tbody>
</table>

PERCENT CHANGE IN THE ALL-ITEMS CONSUMER PRICE INDEX (CPI) AND FOOD CPI, 1984 - 2015

2015 RETAIL FOOD INFLATION BELOW HISTORICAL AVERAGE

Food-at-home inflation, 2006 - 2015

ANNUAL PERCENT CHANGE IN FOOD PRICES BY CATEGORY, 2015

- Beef and Veal: 7.2%
- Pork: -3.9%
- Poultry
- Fish and seafood
- Eggs: 17.8%
- Dairy products
- Fats and oils
- Fresh fruits
- Fresh vegetables
- Sugar and sweets
- Cereals and bakery products
- Nonalcoholic beverages
- Other foods

GROCERY VERSUS RESTAURANT PURCHASES, 2014

Food away from home 41%
Food at home 59%

Average American’s Food Purchases

FOOD PURCHASES BY CATEGORY, 2014

Average American’s Food Purchases

- Meats, poultry, and fish: 12%
- Eggs: 1%
- Dairy products: 6%
- Fats and oils: 2%
- Fruits and vegetables: 11%
- Sugar and sweets: 2%
- Cereals and bakery products: 8%
- Nonalcoholic beverages: 6%
- Other foods: 11%
- Food away from home: 41%

ANNUAL PERCENT CHANGE IN FOOD AT HOME AND FOOD AWAY FROM HOME CPIs, 1990-2015

GROCERY STORE INFLATION VARIES BY METROPOLITAN STATISTICAL AREA

Note: Price indices for all series were converted to 1985 dollars using the all-items CPI (non-seasonally adjusted) and then the percentage change over the 30 year period was calculated.

PRICES, SELECTED FOODS: 1985 vs 2015

Ground beef, 100% beef, per lb.
1985: $1.24
2015: $4.17

Eggs, grade A, large, per doz.
1985: $0.80
2015: $2.47

Bananas, per lb.
1985: $0.37
2015: $0.58

Lettuce, iceberg, per lb.
1985: $0.54
2015: $1.16

Peanut butter creamy, all sizes, per lb.
1985: $1.54
2015: $2.68

2015 dollars adjusted for inflation:
$1.83
$1.08
$0.26
$0.51
$1.18

2016 RETAIL FOOD INFLATION NEAR HISTORICAL AVERAGE

Food-at-home inflation, 2006-16

2016 FORECASTS, BY RETAIL FOOD CATEGORY

- Beef and Veal
- Pork
- Poultry
- Fish and seafood
- Dairy products
- Fats and oils
- Fresh fruits
- Fresh vegetables
- Sugar and sweets
- Cereals and bakery products
- Nonalcoholic beverages
- Other foods

Forecasted percent change

WHERE A FOOD DOLLAR GOES...

EXTERNAL FACTORS IMPACTING FOOD PRICES IN 2016

• Energy prices
  • The importance of energy prices depends on the food category
  • More important as processing and transportation costs increase in share
  • Diesel and electricity prices are key inputs to ERS CPI forecast models

• Drought

• Strength of U.S. dollar
CRUDE OIL PRICES AND FOOD PRICES

POTENTIAL FOR DROUGHT TO IMPACT FOOD PRICES

• CA drought impact on food prices
  • Potential to have long an lasting effects on fruit, vegetable, dairy, and egg prices
  • Length and severity is not yet realized
  • Crop decisions affect prices further down the line

• Drought conditions in Texas/Oklahoma impacted beef and veal prices, but have improved
U.S. Drought Monitor

February 10, 2015
(Released Thursday, Feb. 12, 2015)
Valid 7 a.m. EST

Drought Impact Types:
- Delineates dominant impacts
- S= Short-Term, typically less than 6 months (e.g., agriculture, grasslands)
- L= Long-Term, typically greater than 6 months (e.g., hydrology, ecology)

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

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

http://droughtmonitor.unl.edu/
DROUGHT SEVERITY AND FOOD PRICES

Percent of California land in drought, annual average, by severity

Average annual price index, 1982-84 = 100

Drought severity from least to most severe
- Abnormally dry
- Moderate
- Severe
- Extreme
- Exceptional

Retail food category
- Fresh fruits
- Fresh vegetables

STRENGTHENING U.S. DOLLAR

Source: Bloomberg Business, Dollar Index Spot (DXY: CUR), 5 year.
RETAIL FOODS TO WATCH IN 2016: FRESH PRODUCE

• Fresh fruit prices expected to increase **2.5 to 3.5** percent in 2016
• Fresh vegetable prices expected to increase between **2.5 and 3.5** percent in 2016
RETAIL FOODS TO WATCH IN 2016: EGGS

- Egg prices increase 17.8 in 2015
- Predicted to decrease 0.5 to 1.5 percent in 2016 as industry recovers from the Highly Pathogenic Avian Influenza (HPAI)

Change in PPI for Farm Eggs vs. CPI for Retail Eggs, Monthly

RETAIL FOODS TO WATCH IN 2016: BEEF AND VEAL

- Favorable pasture conditions in some areas and lower feed prices have allowed cattle producers to feed cattle longer and to hold cattle for herd expansion.
- Beef and veal prices expected to decrease **0.0 to 1.0 percent** in 2016.

RETAIL FOODS TO WATCH IN 2016: DAIRY

• Dairy prices deflated 1.3 percent in 2015

CPI for Dairy and Related Products, monthly

-1.5 -1 -0.5 0 0.5 1 1.5
Percent change
Jan-13 Jan-14 Jan-15

• Dairy product prices to rise 2.0 to 3.0 percent in 2016

ERS FOOD PRICE OUTLOOK

• Updated 25th of each month
• 12 – 18 month forecast horizon (new year is added in July)
• Forecast 7 farm, 6 wholesale, and 19 retail food categories

Available at:
Economic Research Service has released a new report, providing a detailed outline of ERS's forecasting methodology, along with measures to test the precision of the estimates.
Amber Waves:

Presents current ERS economic and policy research on agriculture, food, rural America, and the environment for policymakers, academics and the public.

- Via web connection or mobile app

http://www.ers.usda.gov/AmberWaves/
THANK YOU!

Contact Information:

Annemarie Kuhns
amkuhns@ers.usda.gov
202-694-5351

or

David Levin
david.levin@ers.usda.gov
202-694-5353
RESOURCES FOR FOOD PRICE TRENDS RESEARCH


RETAIL EGG PRICES ROSE 21 PERCENT IN THIRD QUARTER 2015

Quarterly changes in retail egg and food-at-home prices, percent

Note: HPAI = Highly Pathogenic Avian Influenza