OUTLOOK FOR U.S. RETAIL FOOD PRICES AND INFLATION, 2012

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HEAVY FOOD PRICE INFLATION IN 2011

Five Biggest Moving Major Categories

- Beef: 10.2%
- Fats and oils: 9.3%
- Eggs: 9.2%
- Pork: 8.5%
- Fish and seafood: 7.1%

• All food: 3.7%
• Food-at-home: 4.8%

Source: BLS CPI Data, 2011
PERSPECTIVE:
LONG TERM FOOD-AT-HOME PRICE INFLATION

Average Annual Percent Change in Food Price Inflation by Decade

Source: BLS CPI Data, 1970-2011
CPI AND CPI FOR FOOD, 1970-2011

Source: BLS CPI Data, 1970-2011
FAH and FAFH, 1970-2011

Annual Percent Change

Source: BLS CPI Data, 1970-2011
FOOD, ENERGY, MEDICAL CARE, SERVICES
1990-2011

Source: BLS CPI Data, 1970-2011

Annual Percent Change

CPI for Home Energy
CPI for Motor Fuel
CPI for Food
CPI for Medical Care
CPI for Personal Services
Sources of Retail Price Changes

- Changes in Consumer Demand
- Changes in Retail Market Competition
  - Number of retailers in a market
  - Type of retailers
    - Specialization
- Changes in Costs
  - Cost of Goods Sold (Farm and Wholesale)
    - Regional Variation
  - Operating Costs (e.g. Energy)
Consumers’ FAH Expenditure Patterns, 1999-2009

Source: Nielsen Homescan Data, 1999-2009
CONSUMERS INCREASINGLY SHOP AT NONTRADITIONAL FORMATS FOR FAH

Source: Nielsen Homescan Data, 1999-2009
SPOTLIGHT: NONTRADITIONALS

Source: Nielsen Homescan Data, 1999-2009
PPI FOR RETAIL GROCERY DEPARTMENT MARGINS, REVENUES MINUS WHOLESALE COST

Source: BLS PPI Data, 2001-2011
The Updated Food Dollar

Farm Share: Farmers’ receipts from sale of raw food commodities

Marketing Share: Post-farm receipts to food supply chain industries

Farm Share, 15.8%
Marketing Share, 84.2%

WHERE A CONSUMER DOLLAR SPENT ON FOOD GOES

- Food Services, 33.7%
- Food Processing, 18.60%
- Farm and Agribusiness, 11.6%
- Retail Trade, 13.6%
- Energy and Transportation, 10.3%
- Packaging, 4.0%
- Advertising, Legal, Accounting, 3.8%
- Finance and Insurance, 4.4%

ERS Food Markets and Prices Research

Leibtag & Kumcu (May 2011) examined importance of regional variation in prices
- Key finding: fruit and vegetable prices vary substantially across markets
- 30-70% more expensive in highest-priced markets as compared to lowest-priced markets
- Implications for purchasing power of programs to improve food security, e.g. WIC
ERS Food Markets and Prices Research

- Stewart & Blayney (Aug. 2011) study dairy price transmission
  - Key finding: Milk price fluctuations drive dairy retail price changes, but incompletely and asymmetrically
  - Farm price increases passed on more quickly and completely than decreases
  - But no evidence of a widening of the farm-retail spread from 2000-2010
    - Due in part to retail competitive pressure
ERS FOOD MARKETS AND PRICES RESEARCH

- Volpe (December 2011) examined prices by branding
  - Key finding: Competition within stores, between NBs and PLs, drives prices and sales
    - Lowers prices and increases product variety
  - NB/PL price difference is falling
  - NB/PL competition is fiercest when market competition is weak
ERS Food Markets and Prices Research

- Okrent & Alston (2011) examined FAFH demand
  - Key finding: FAFH demand much more responsive to income-driven changes in consumption
  - Demands for healthful foods less price responsive than unhealthful foods
  - Strong substitutions and complements in demand among FAFH groups, important for any policy consideration
ERS Food Markets and Prices Research

Carlson and Frazao (forthcoming, 2011) compares prices across categories
  • Key finding: How you measure the price of food matters
  • Some other studies have shown that less healthful foods are cheaper, as measured on a caloric basis
  • As measured by edible weight or portion size, the opposite is true: fruits, vegetables, grains, dairy are less expensive than foods high in saturated fats, added sugars, etc.
2011-2012 Food Inflation Is Unlikely to Approach 2007-2008 Levels

Annual Percent Change in CPI for Food

Source: BLS CPI data, 1997-2011
**Food Inflation 2009-2012**

- **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 2009-2012

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
# Percent Change in Food CPI (a)

<table>
<thead>
<tr>
<th>Items</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Forecast 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Food</td>
<td>5.5</td>
<td>1.8</td>
<td>0.8</td>
<td>3.7</td>
<td>2.5 to 3.5</td>
</tr>
<tr>
<td>FAFH</td>
<td>4.4</td>
<td>3.5</td>
<td>1.3</td>
<td>2.3</td>
<td>2 to 3</td>
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<tr>
<td>FAH</td>
<td>6.4</td>
<td><strong>0.5</strong></td>
<td><strong>0.3</strong></td>
<td>4.8</td>
<td>2.5 to 3.5</td>
</tr>
<tr>
<td>Beef</td>
<td>4.5</td>
<td>-1.0</td>
<td>2.9</td>
<td><strong>10.2</strong></td>
<td>4 to 5</td>
</tr>
<tr>
<td>Pork</td>
<td>2.3</td>
<td>-2.0</td>
<td><strong>4.7</strong></td>
<td><strong>8.5</strong></td>
<td>3 to 4</td>
</tr>
<tr>
<td>Other Meats</td>
<td>3.1</td>
<td>2.3</td>
<td>-0.1</td>
<td>6.4</td>
<td>2.5 to 3.5</td>
</tr>
<tr>
<td>Poultry</td>
<td>5.0</td>
<td>1.7</td>
<td>-0.1</td>
<td>2.9</td>
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## Percent Change in Food CPI (b)

<table>
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<tr>
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<tr>
<td>All Food</td>
<td>5.5</td>
<td>1.8</td>
<td>0.8</td>
<td>3.7</td>
<td>2.5 to 3.5</td>
</tr>
<tr>
<td>FAH</td>
<td>6.4</td>
<td><strong>0.5</strong></td>
<td><strong>0.3</strong></td>
<td>4.8</td>
<td>2.5 to 3.5</td>
</tr>
<tr>
<td>Fish</td>
<td>6.0</td>
<td>3.6</td>
<td>1.1</td>
<td><strong>7.1</strong></td>
<td>4 to 5</td>
</tr>
<tr>
<td>Dairy</td>
<td>8.0</td>
<td>-6.4</td>
<td>1.1</td>
<td>6.8</td>
<td>2 to 3</td>
</tr>
<tr>
<td>Fats and Oils</td>
<td><strong>13.8</strong></td>
<td>2.3</td>
<td>-0.3</td>
<td>9.3</td>
<td>3.5 to 4.5</td>
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<tr>
<td>Sugar + Sweets</td>
<td>5.5</td>
<td>5.6</td>
<td>2.2</td>
<td>3.3</td>
<td>2 to 3</td>
</tr>
<tr>
<td>Eggs</td>
<td>14.0</td>
<td>-14.7</td>
<td>1.5</td>
<td><strong>9.2</strong></td>
<td>1 to 2</td>
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# Percent Change in Food CPI (c)

<table>
<thead>
<tr>
<th>Items</th>
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<th>2010</th>
<th>2011</th>
<th>Forecast 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Food</td>
<td>5.5</td>
<td>1.8</td>
<td>0.8</td>
<td>3.7</td>
<td>2.5 to 3.5</td>
</tr>
<tr>
<td>FAH</td>
<td>6.4</td>
<td>0.5</td>
<td>0.3</td>
<td>4.8</td>
<td>2.5 to 3.5</td>
</tr>
<tr>
<td>Fresh Fruits</td>
<td>4.8</td>
<td>-6.1</td>
<td>-0.6</td>
<td>3.3</td>
<td>3 to 4</td>
</tr>
<tr>
<td>Fresh Vegetables</td>
<td>5.6</td>
<td>-3.4</td>
<td>2.0</td>
<td>5.6</td>
<td>1 to 2</td>
</tr>
<tr>
<td>Processed F + V</td>
<td>9.5</td>
<td>6.6</td>
<td>-1.3</td>
<td>2.9</td>
<td>3 to 4</td>
</tr>
<tr>
<td>Cereals + Bakery</td>
<td>10.2</td>
<td>3.2</td>
<td>-0.8</td>
<td>3.9</td>
<td>3.5 to 4.5</td>
</tr>
<tr>
<td>Nonalc. Bev.</td>
<td>4.3</td>
<td>1.9</td>
<td>-0.9</td>
<td>3.2</td>
<td>1.5 to 2.5</td>
</tr>
</tbody>
</table>
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/Briefing/CPIFoodAndExpenditures/Data/cpiforecasts.htm

- **New ERS Reports**
  
  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=ap

- **AMS Fruit and Vegetable Report**
  

- **IMF World Commodity Prices**
  
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For more information, see
http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/