Outlook for U.S. Retail Food Prices and Inflation, 2012

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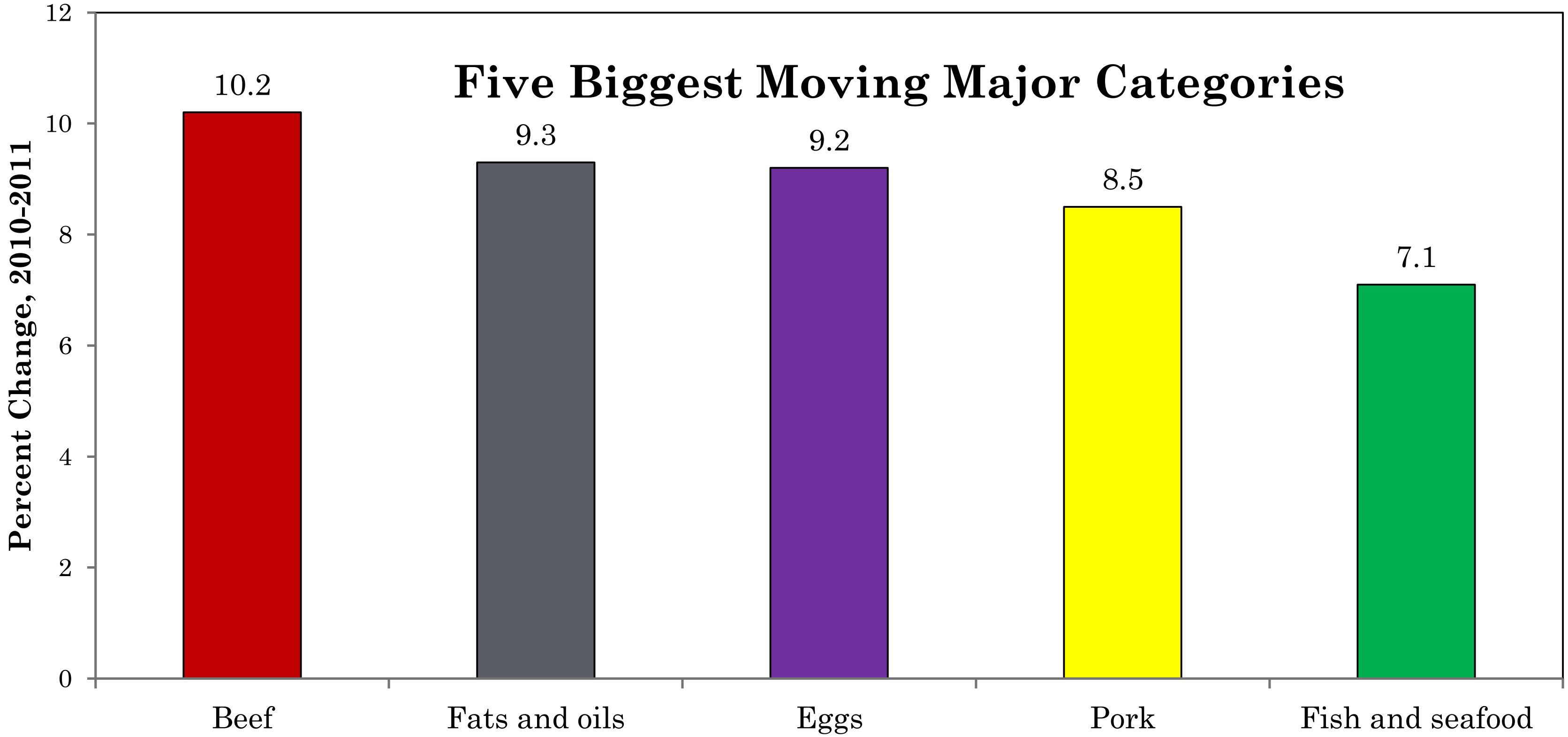
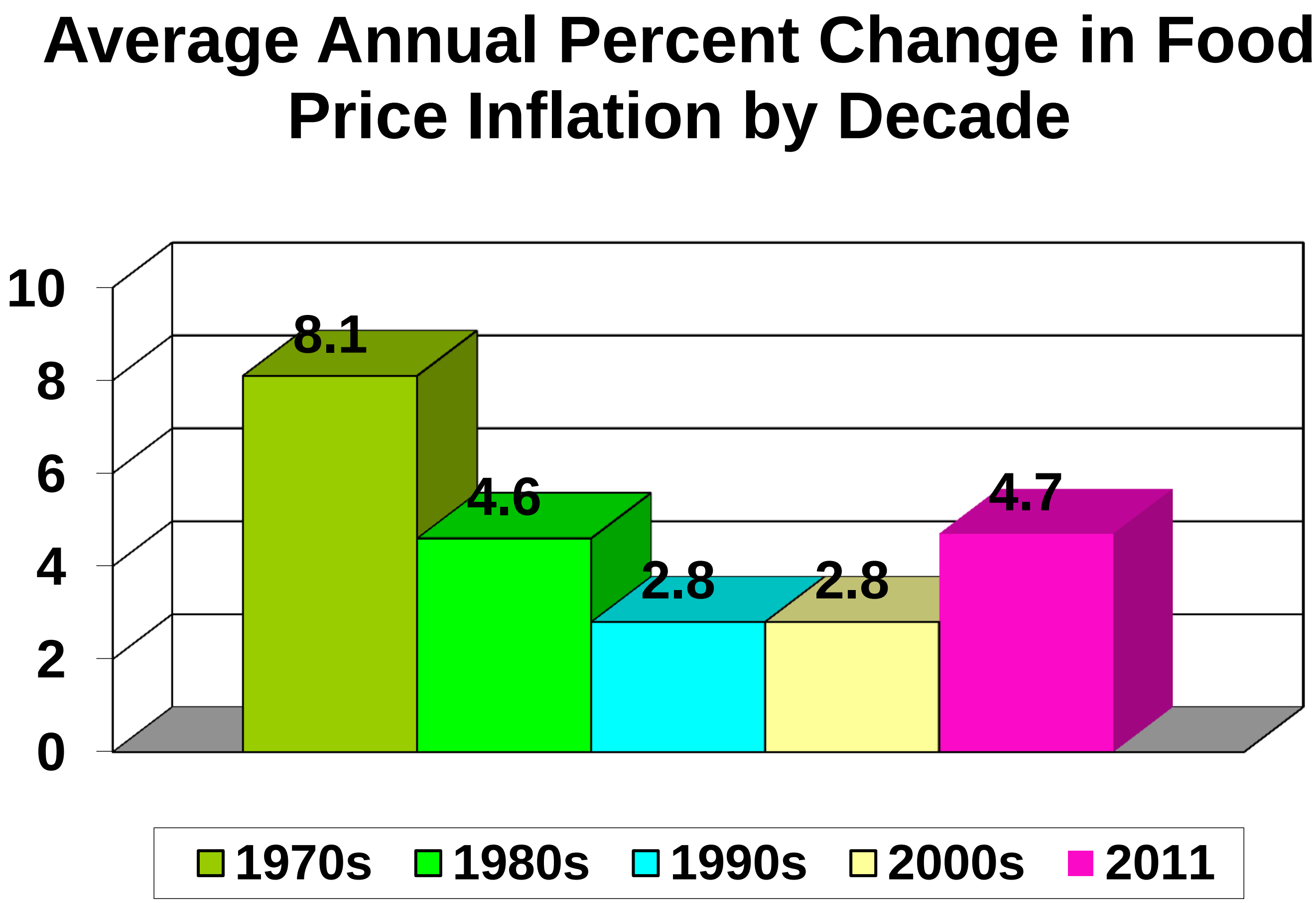
Heavy Food Price Inflation in 2011



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

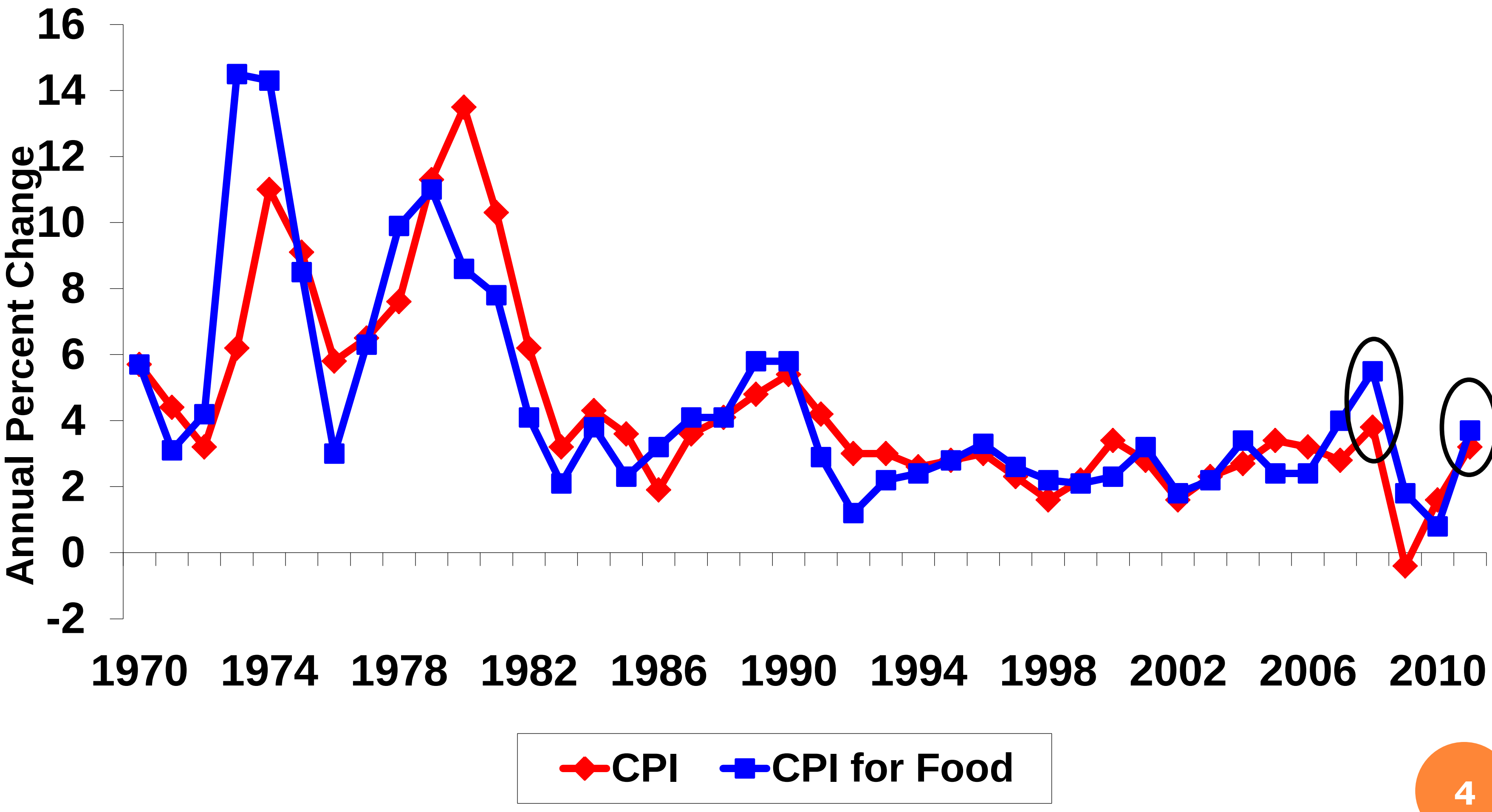
Source: BLS CPI Data, 2011

Perspective:
Long Term Food-at-Home Price Inflation



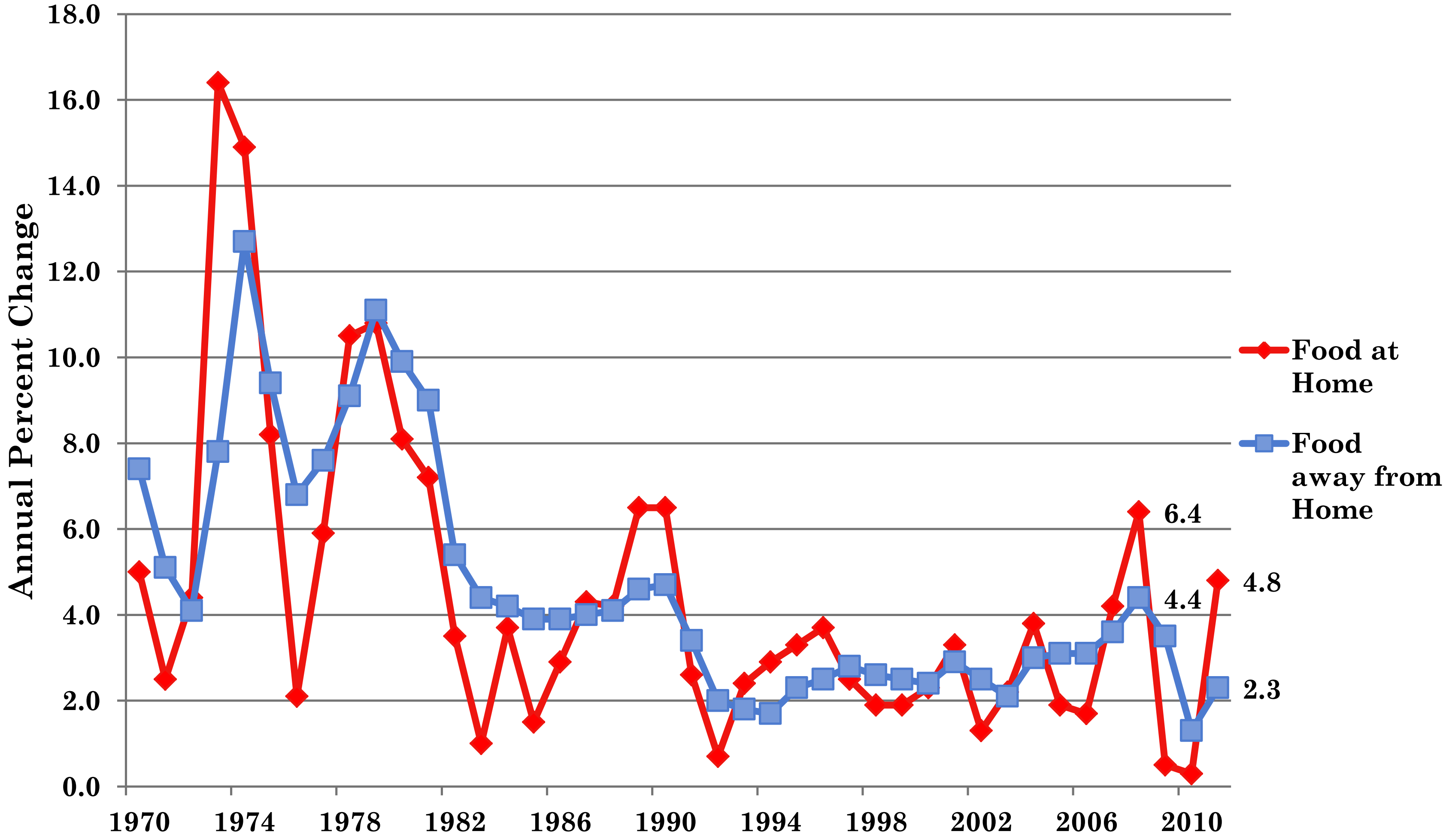
Source: BLS CPI Data, 1970-2011

CPI AND CPI FOR FOOD, 1970-2011



Source: BLS CPI Data, 1970-2011

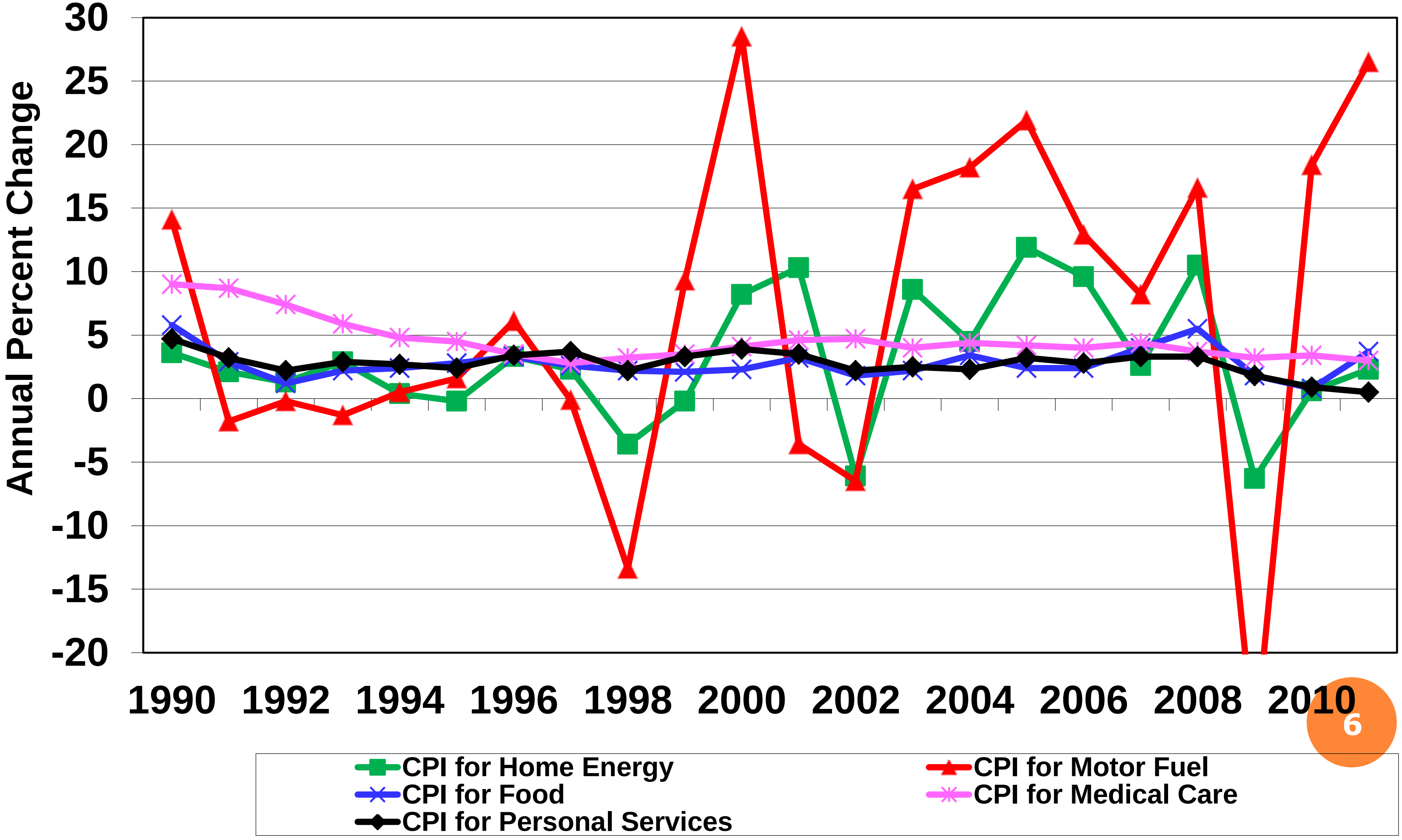
FAH AND FAFH, 1970-2011



Source: BLS CPI Data, 1970-2011

Food, Energy, Medical Care, Services 1990-2011

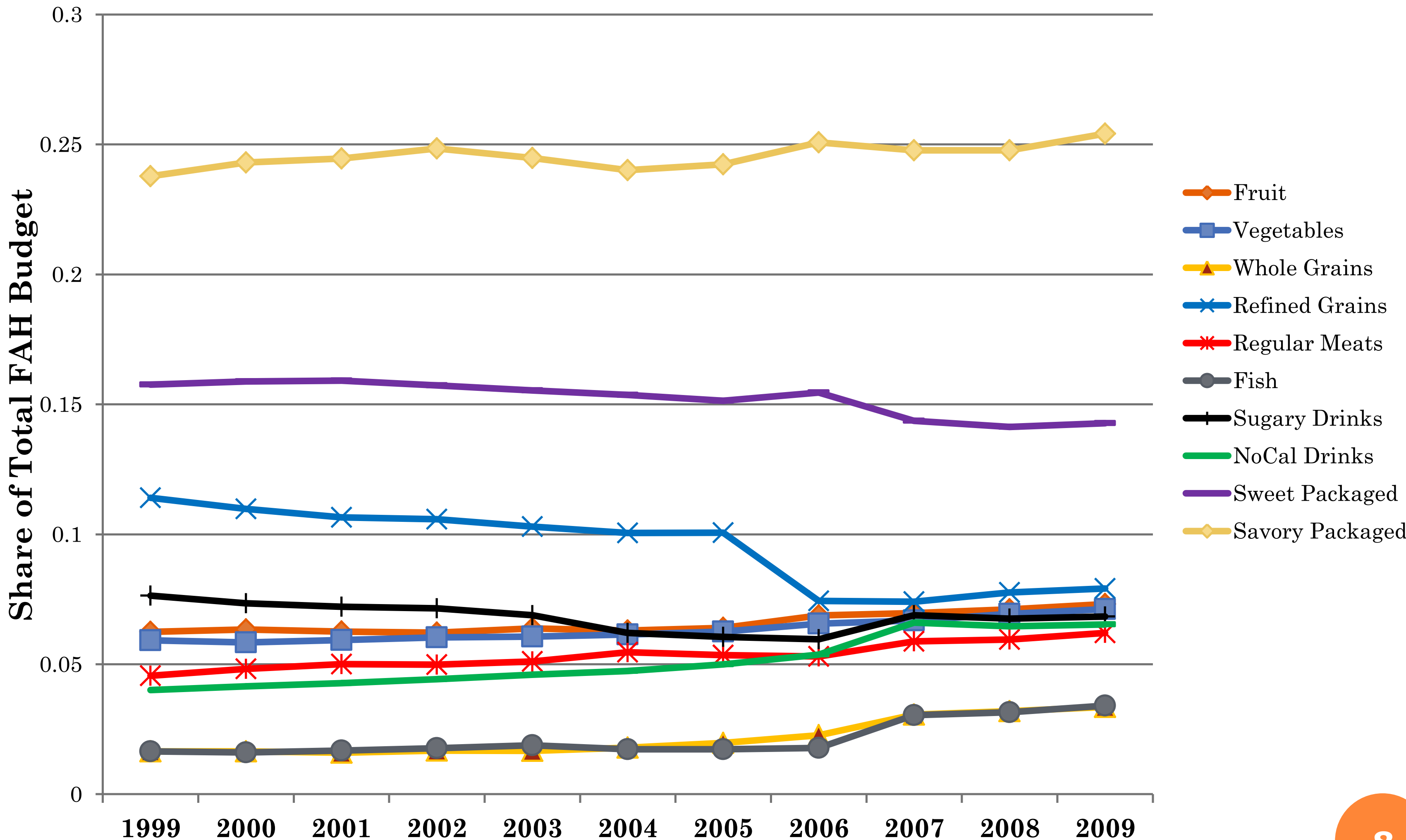
Source: BLS CPI Data, 1970-2011



Sources of Retail Price Changes

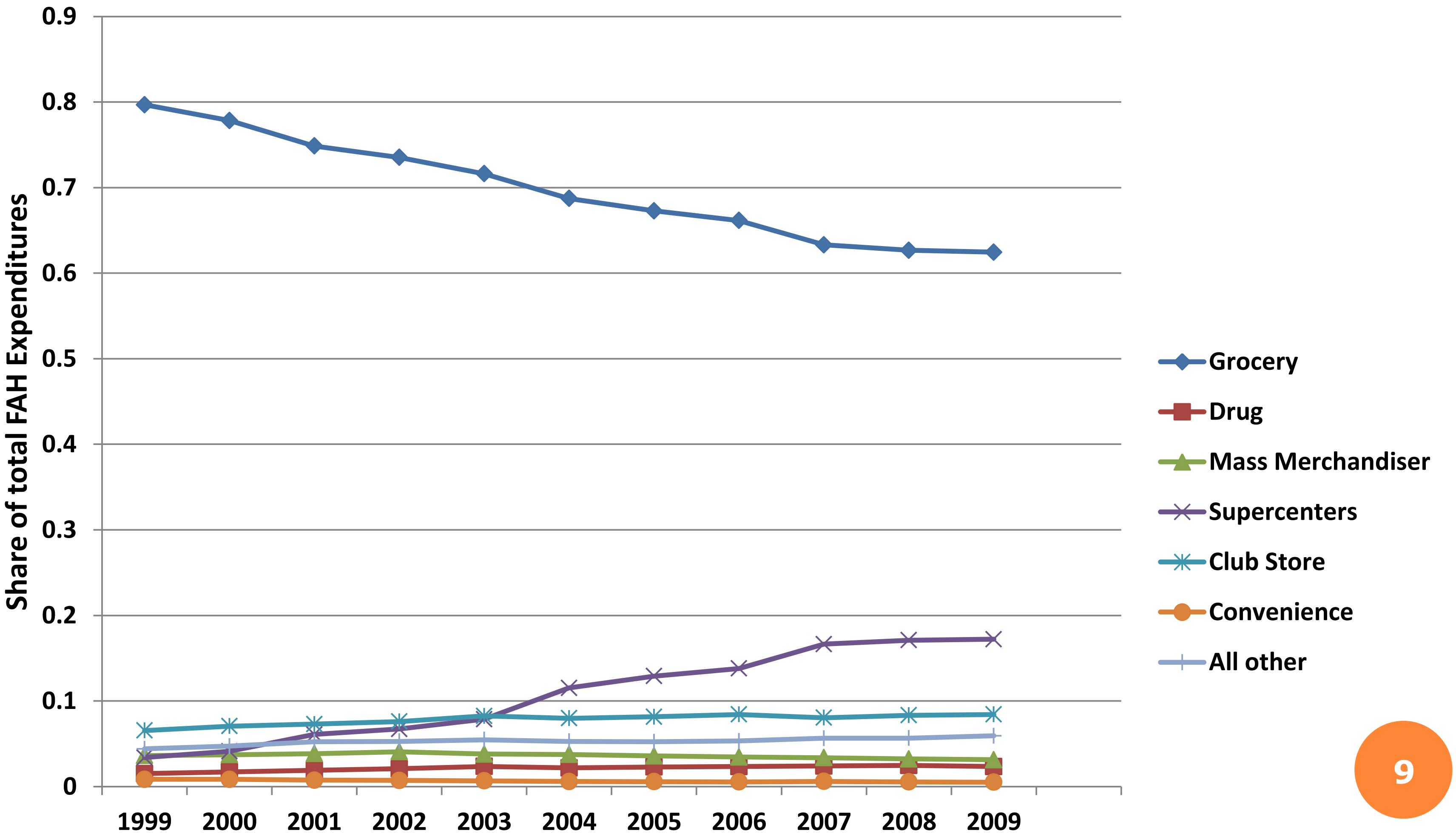
- Changes in Consumer Demand
- Changes in Retail Market Competition
  - Number of retailers in a market
  - Type of retailers
    - Specialization
- Changes in Costs
  - Cost of Goods Sold (Farm and Wholesale)
    - Regional Variation
  - Operating Costs (e.g. Energy)

Consumers' FAH Expenditure Patterns, 1999-2009



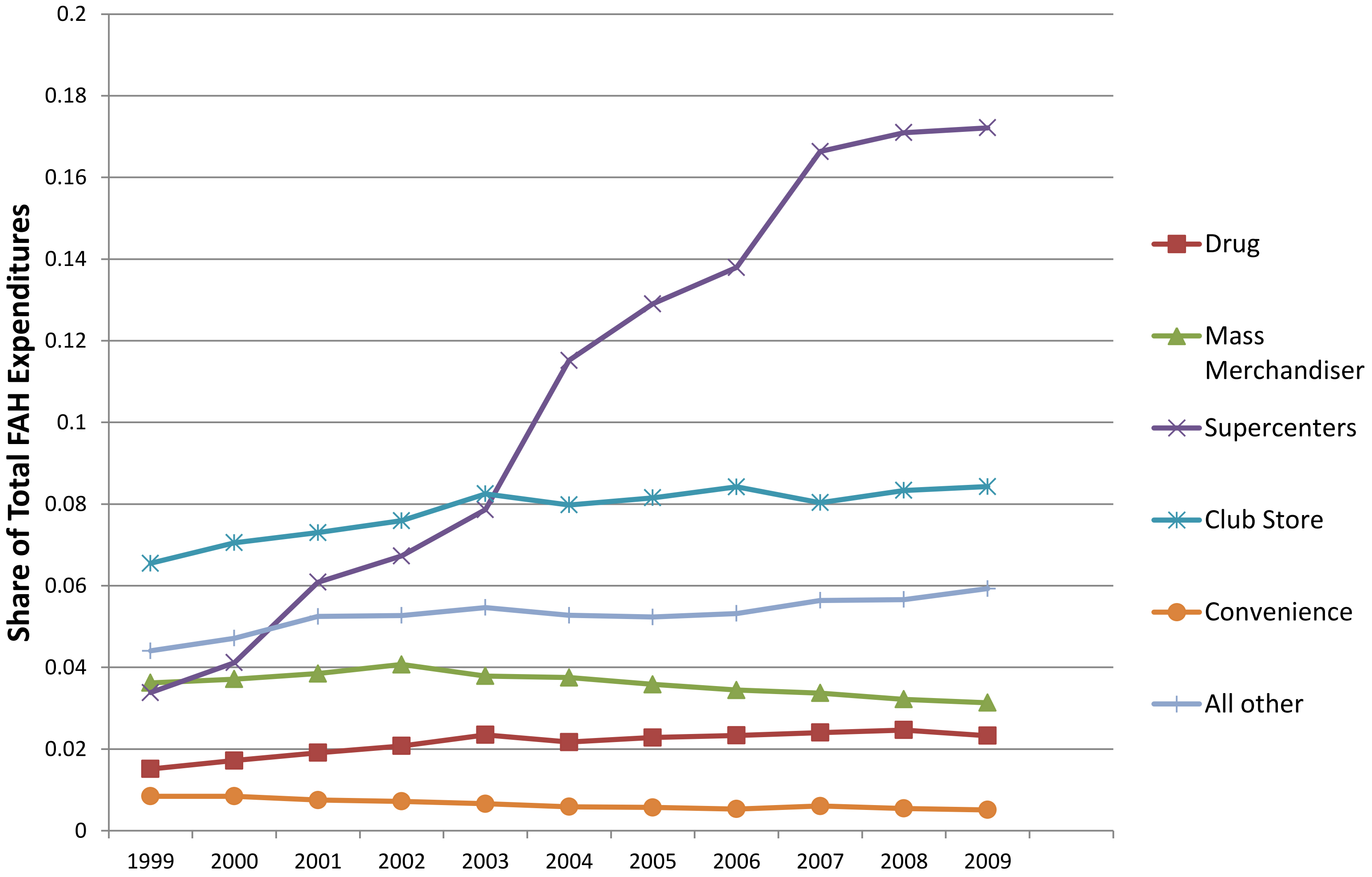
Source: Nielsen Homescan Data, 1999-2009

Consumers Increasingly Shop at Nontraditional Formats for FAH



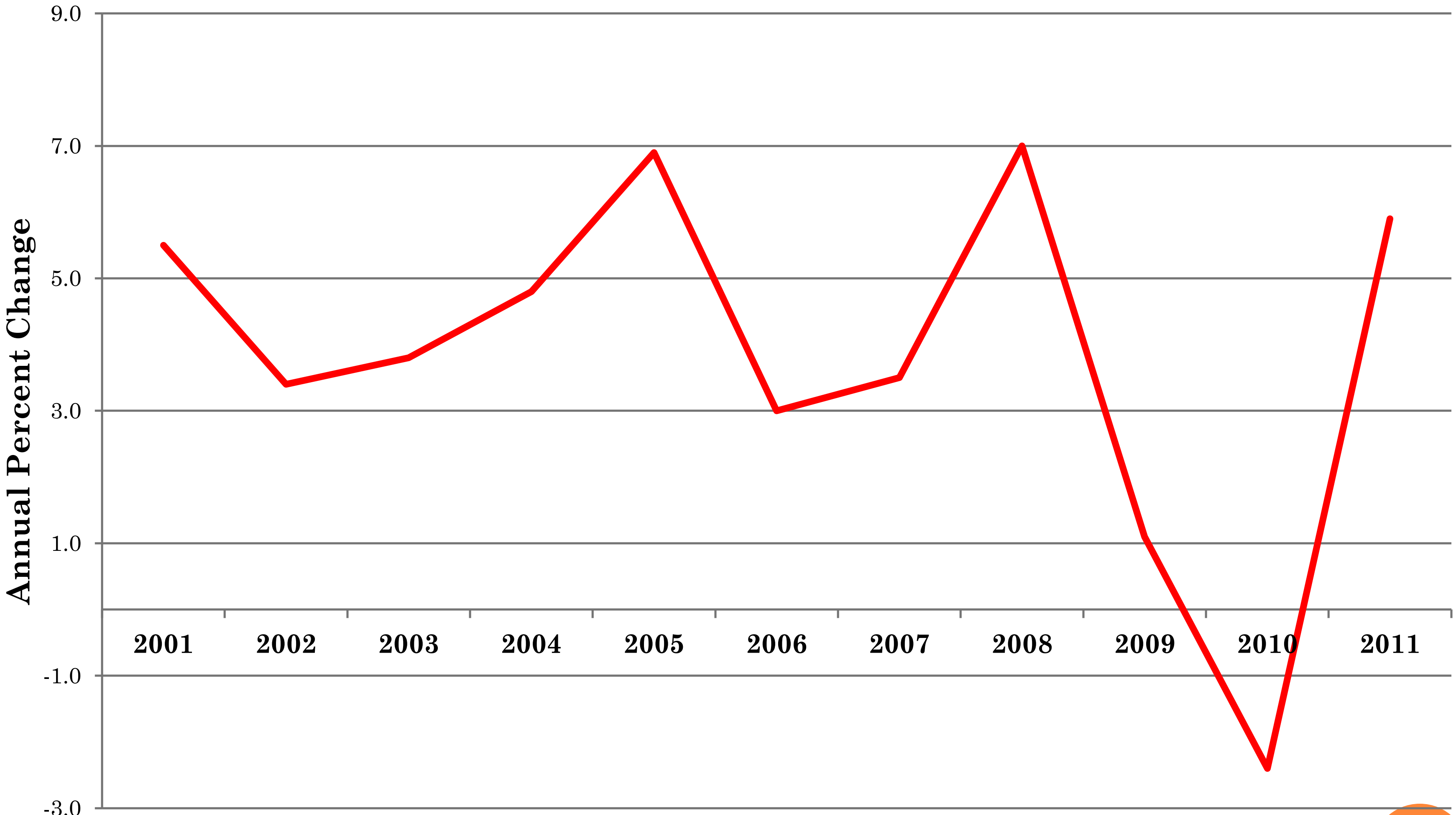
Source: Nielsen Homescan Data, 1999-2009

SPOTLIGHT: NONTRADITIONALS



Source: Nielsen Homescan Data, 1999-2009

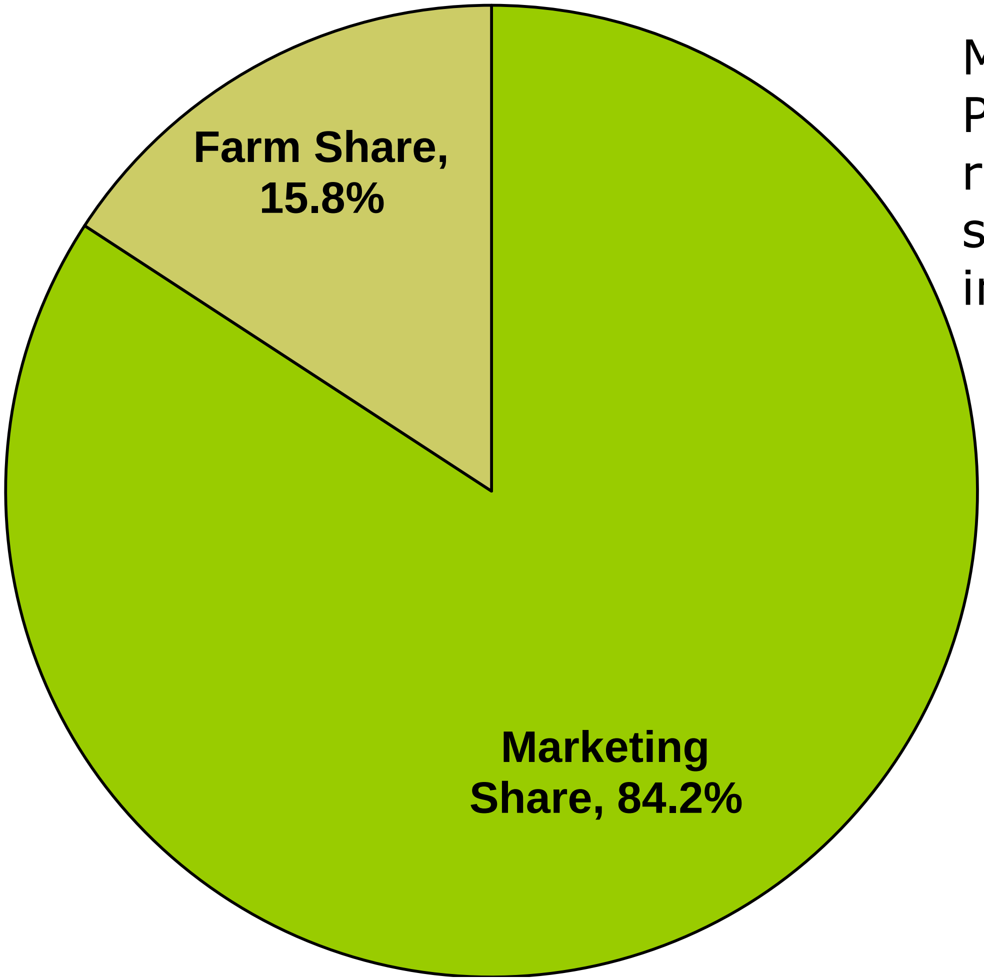
PPI for Retail Grocery Department Margins, Revenues Minus Wholesale Cost



Source: BLS PPI Data, 2001-2011

The Updated Food Dollar

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

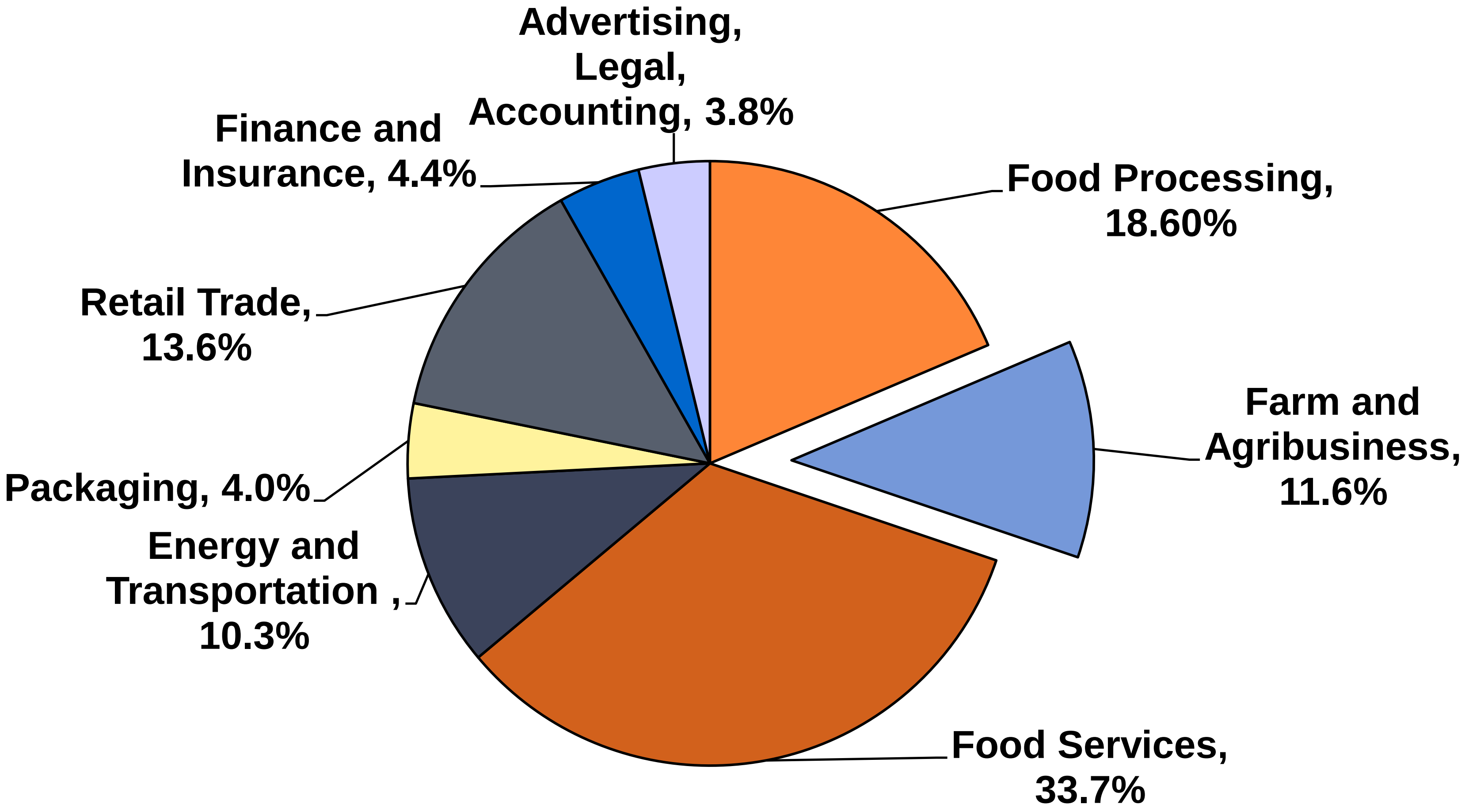


Marketing Share: Post-farm receipts to food supply chain industries

Source: *A Revised and Expanded Food Dollar Series* (2011), ERR114, Economic Research Service,

www.ers.usda.gov/data/FoodDollar/

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/

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

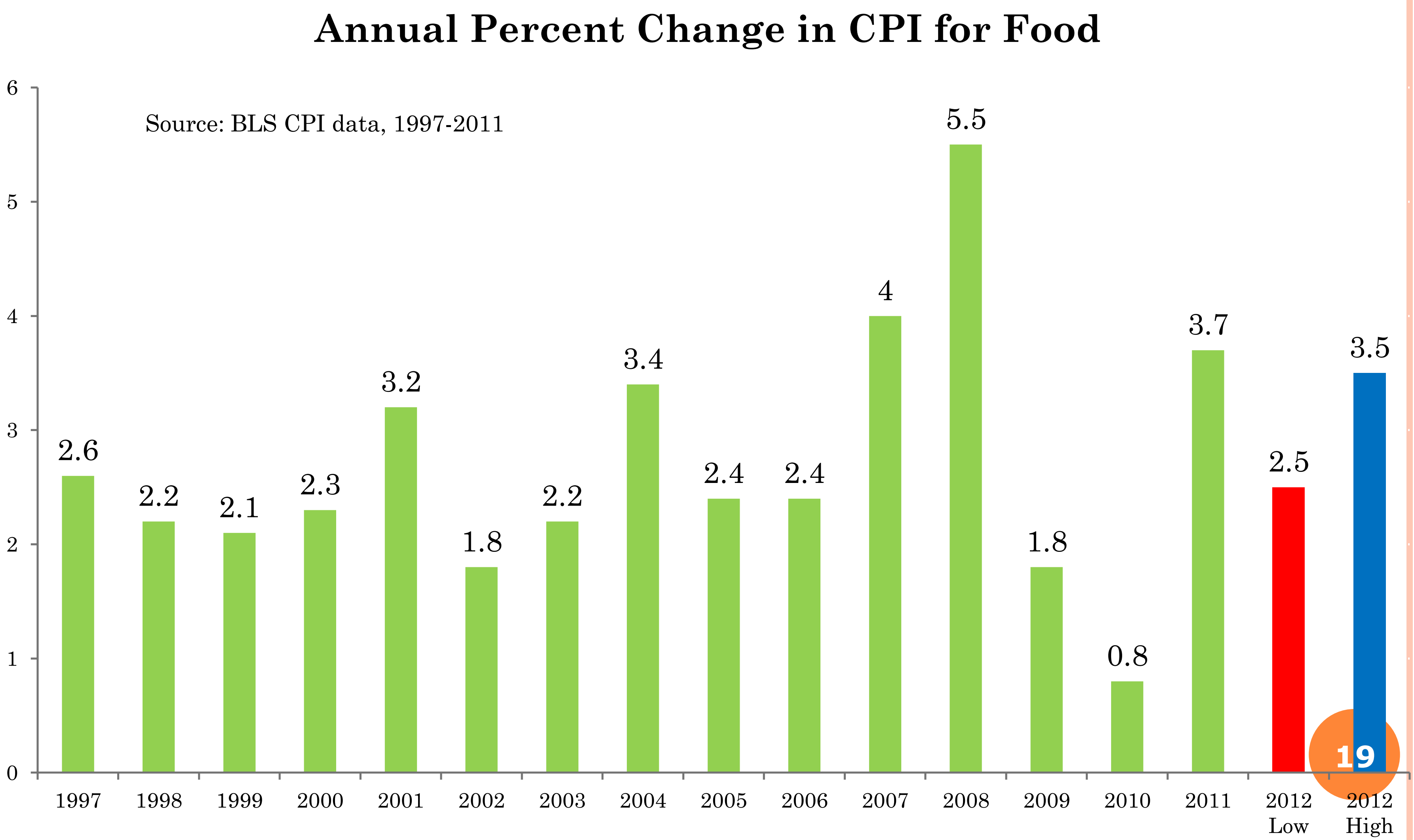
ERS Food Markets and Prices Research

- 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



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)

Items	2008	2009	2010	2011	**Forecast 2012**
All Food	5.5	1.8	0.8	3.7	2.5 to 3.5
FAFH	4.4	3.5	1.3	2.3	2 to 3
FAH	6.4	**0.5**	**0.3**	4.8	2.5 to 3.5
Beef	4.5	-1.0	2.9	**10.2**	4 to 5
Pork	2.3	-2.0	**4.7**	**8.5**	3 to 4
Other Meats	3.1	2.3	-0.1	6.4	2.5 to 3.5
Poultry	5.0	1.7	-0.1	2.9	3 to 4

Percent Change in Food CPI (b)

Items	2008	2009	2010	2011	**Forecast 2012**
All Food	5.5	1.8	0.8	3.7	2.5 to 3.5
FAH	6.4	**0.5**	**0.3**	4.8	2.5 to 3.5
Fish	6.0	3.6	1.1	**7.1**	4 to 5
Dairy	8.0	-6.4	1.1	6.8	2 to 3
Fats and Oils	**13.8**	2.3	-0.3	9.3	3.5 to 4.5
Sugar +Sweets	5.5	5.6	2.2	3.3	2 to 3
Eggs	14.0	-14.7	1.5	**9.2**	1 to 2

Percent Change in Food CPI (c)

Items	2008	2009	2010	2011	**Forecast 2012**
All Food	5.5	1.8	0.8	3.7	2.5 to 3.5
FAH	6.4	**0.5**	**0.3**	4.8	2.5 to 3.5
Fresh Fruits	4.8	**-6.1**	**-0.6**	3.3	3 to 4
Fresh Vegetables	5.6	**-3.4**	2.0	5.6	1 to 2
Processed F + V	9.5	6.6	-1.3	2.9	3 to 4
Cereals + Bakery	**10.2**	3.2	-0.8	3.9	3.5 to 4.5
Nonalc. Bev.	4.3	1.9	-0.9	3.2	1.5 to 2.5

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/Briefing/CPIFoodAndExpenditures/Data/cpiforecasts.htm

- 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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For more information, see

http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/