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United States Department of Agriculture

Retail Food Price Outlook

USDA Agricultural Outlook Forum

February 19, 2015



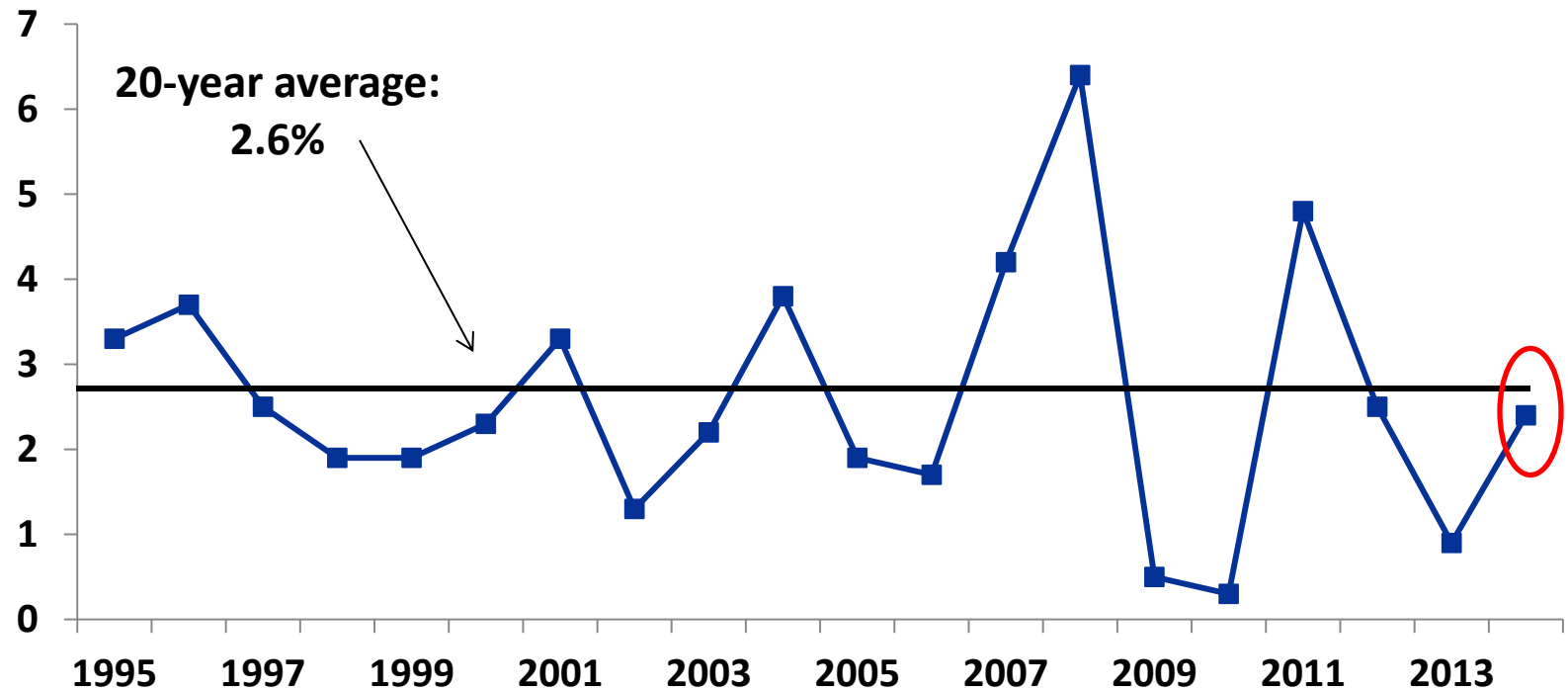
Annemarie Kuhns
USDA, Economic Research Service



2014 inflation near historical average

Percent change in the annual Consumer Price Index (CPI) for food at home, 1995 - 2014

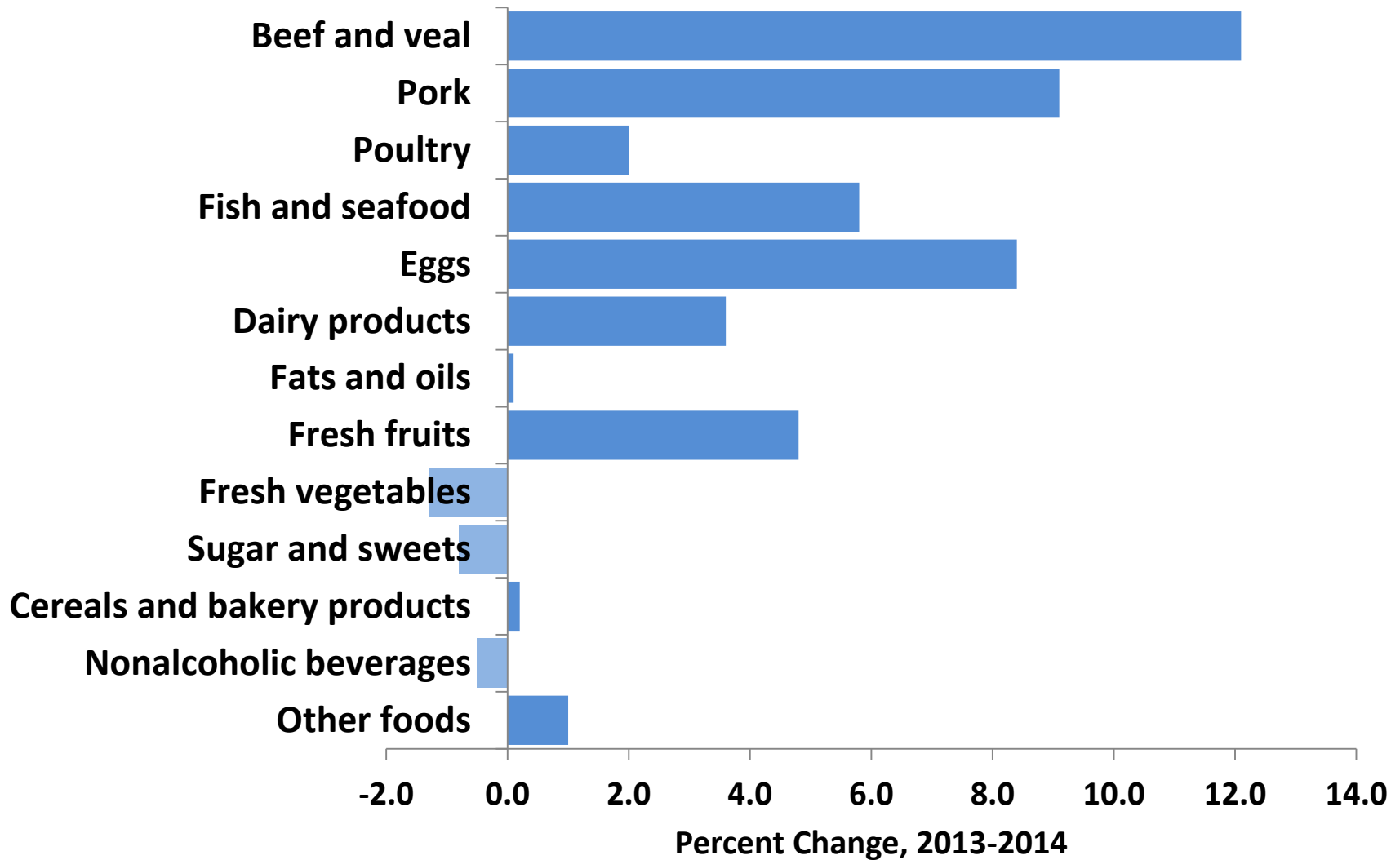
Percent Change



Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



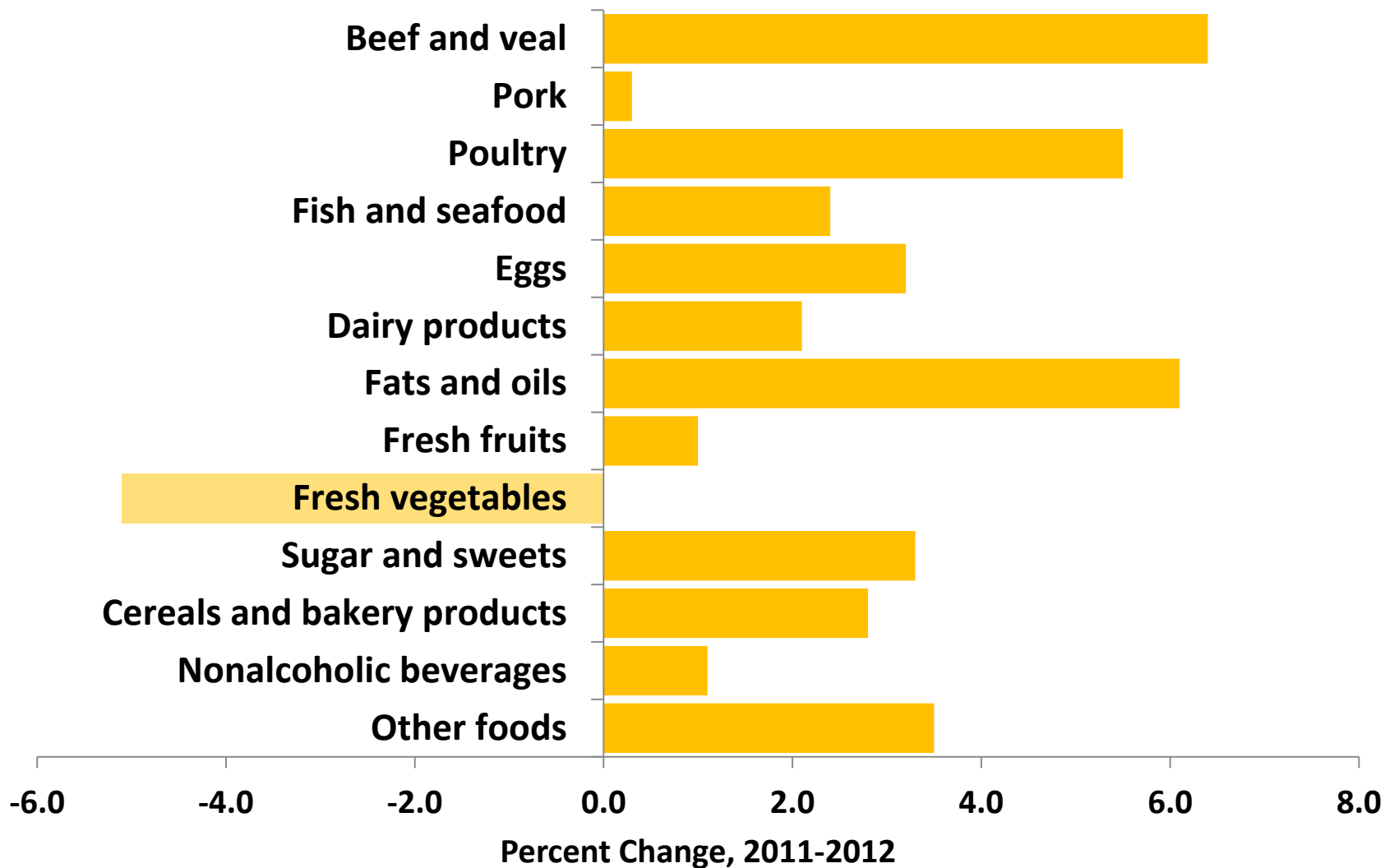
Annual percent change in food prices by category, 2014



Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



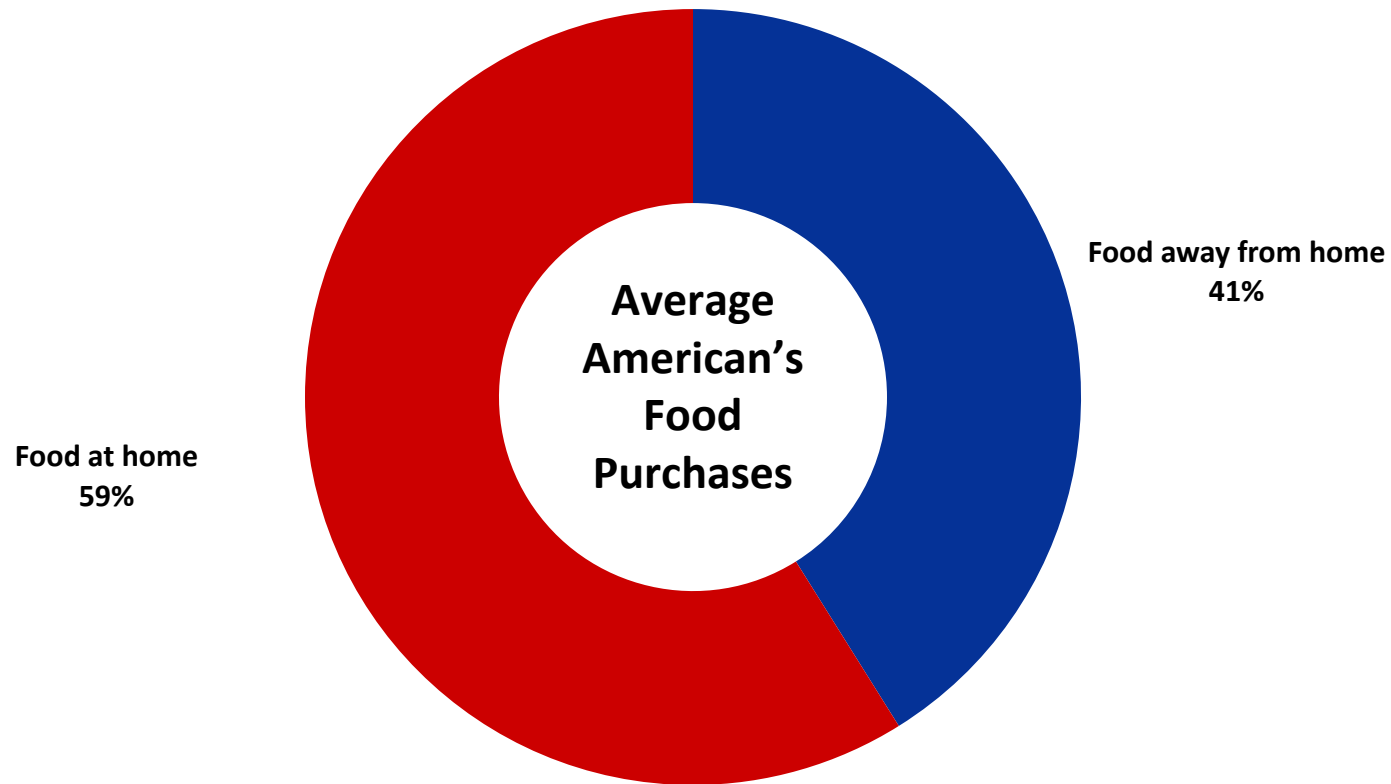
Annual percent change in food prices by category, 2012



Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



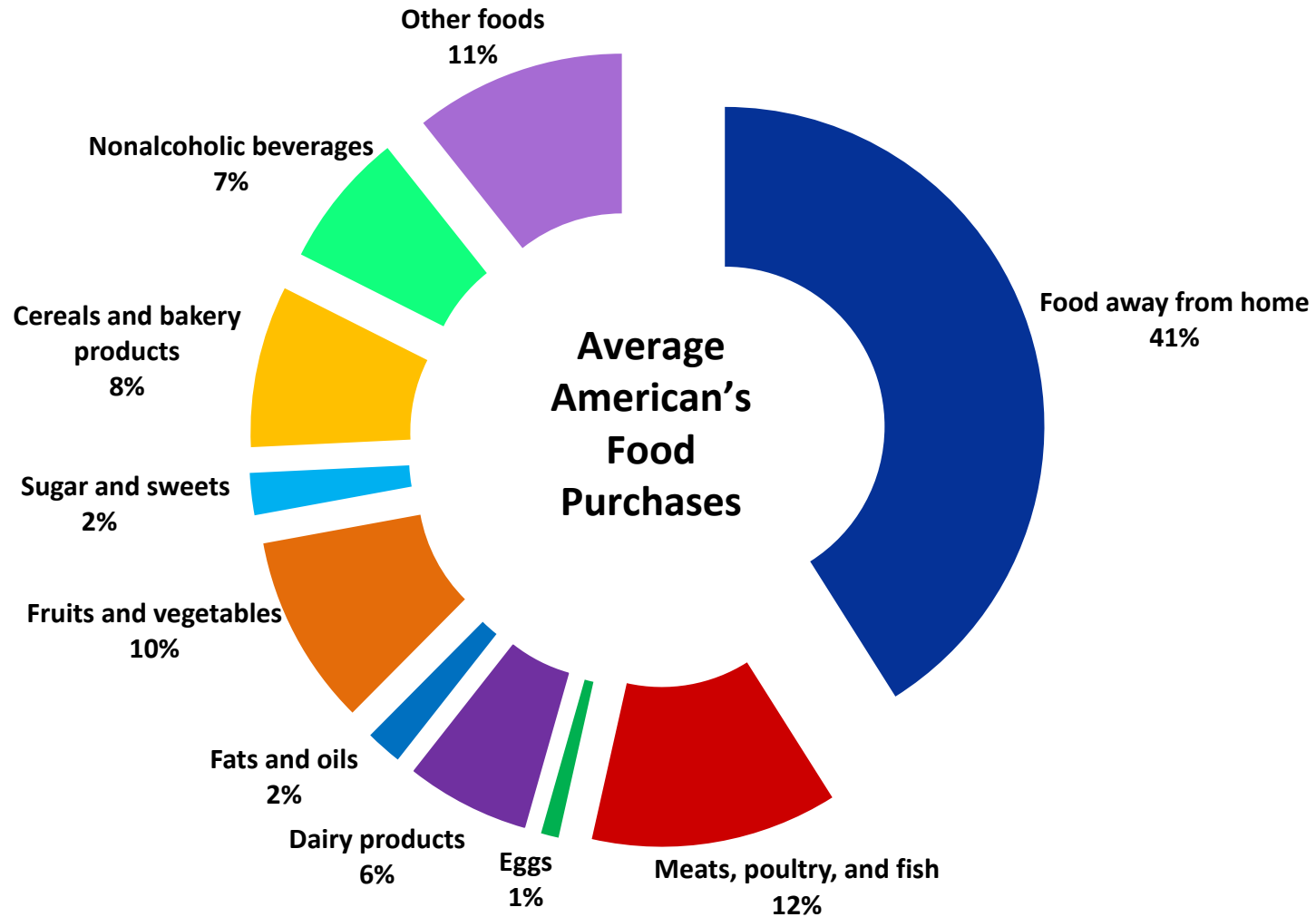
Grocery versus restaurant purchases, 2013



Source: USDA, Economic Research Service using U.S. Bureau of Labor Statistics Consumer Expenditure Survey, 2013



Food purchases by category, 2013

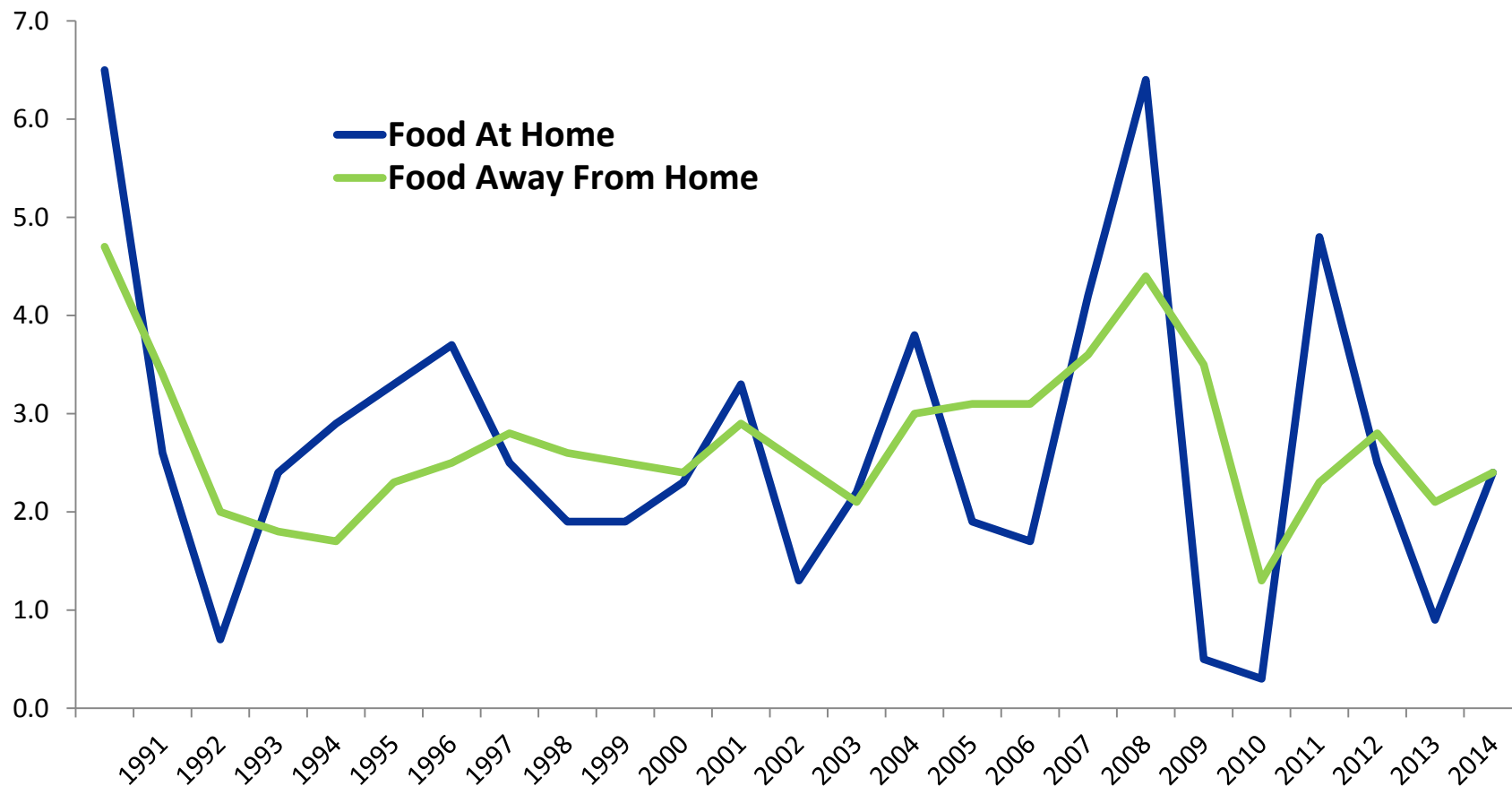


Source: USDA, Economic Research Service using U.S. Bureau of Labor Statistics Consumer Expenditure Survey, 2013



Annual percent change in food at home and food away from home CPIs, 1990-2014

Percent



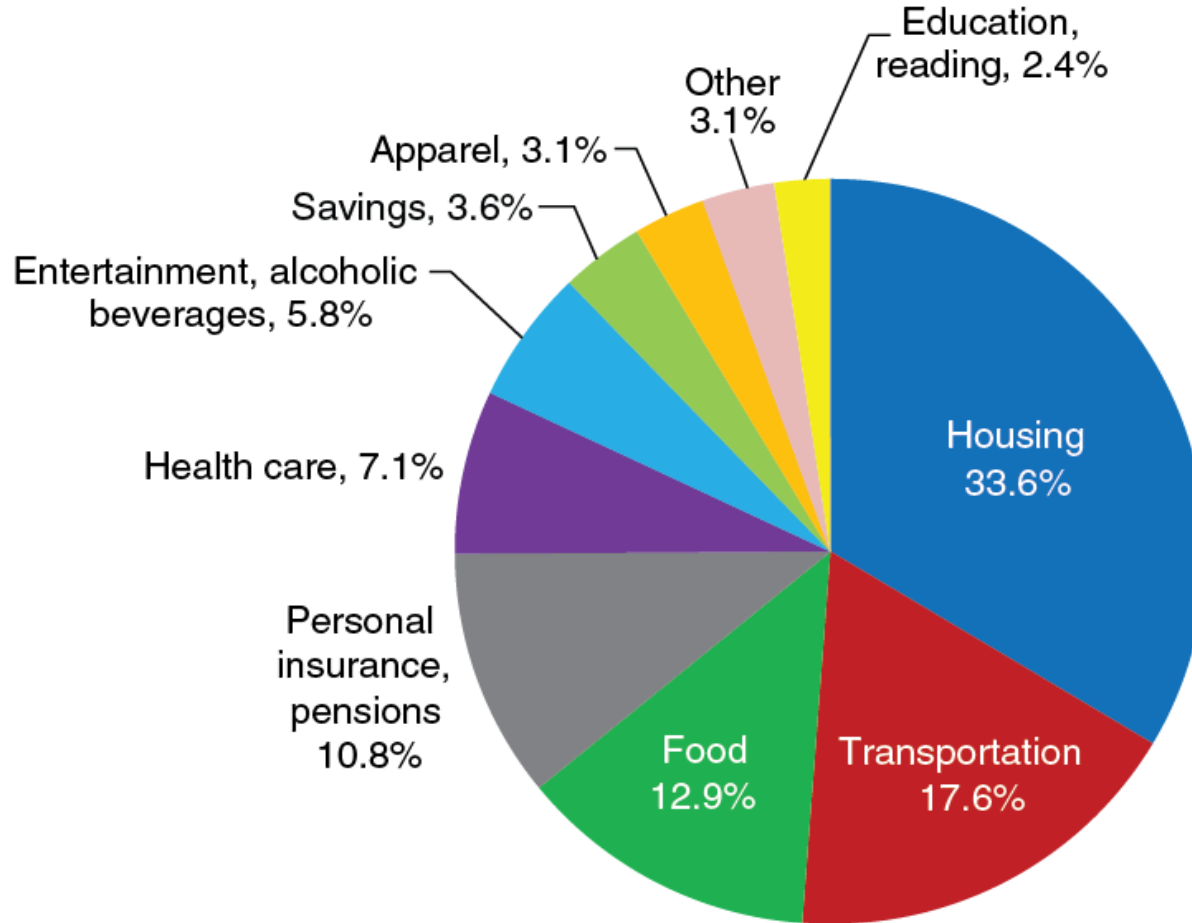
Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



Economic Research Service
www.ers.usda.gov



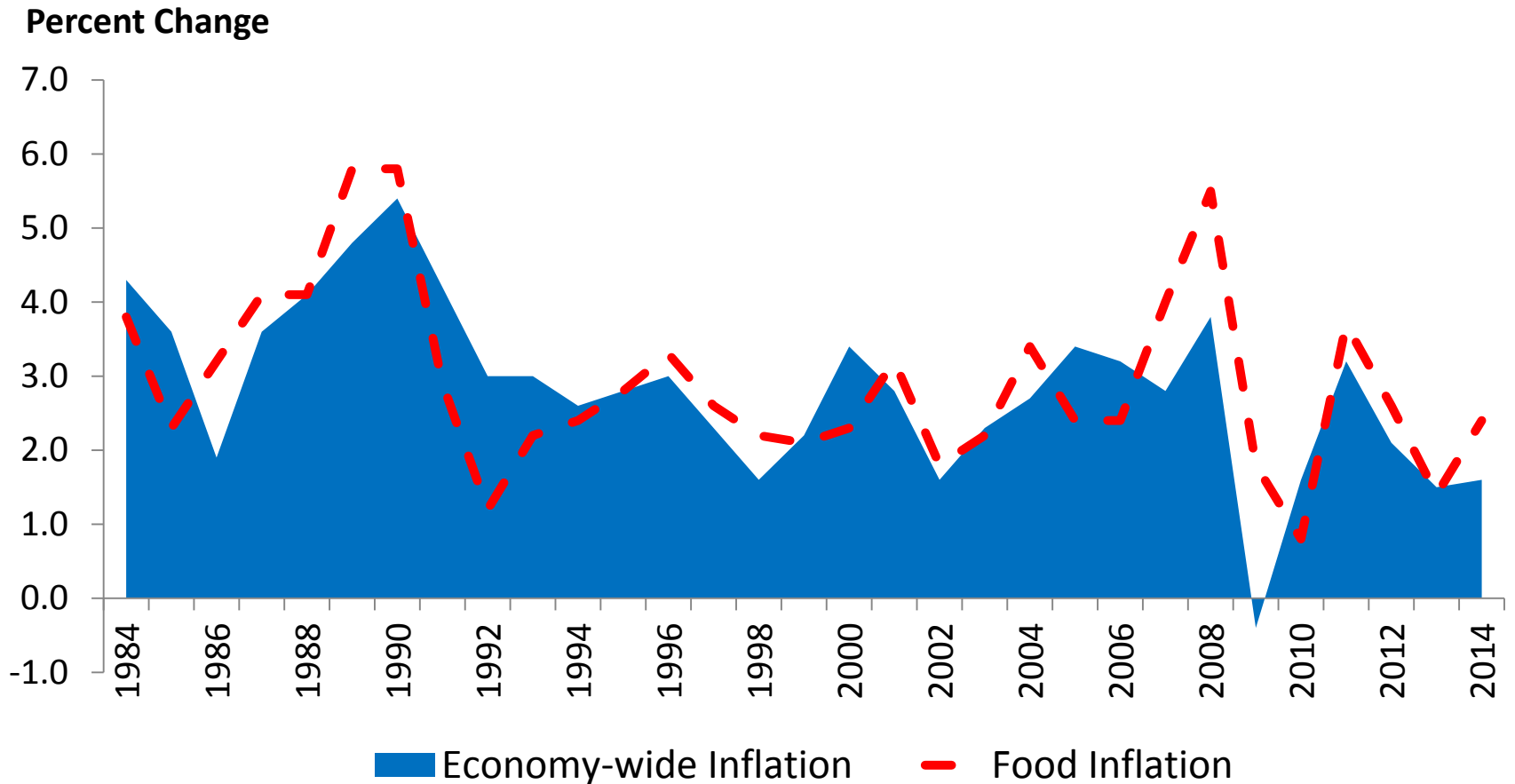
Share of U.S. household consumer expenditures by major categories, 2013



Note: "Other" includes personal care products, tobacco, and miscellaneous expenditures.
Source: USDA, Economic Research Service using data from U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2013.



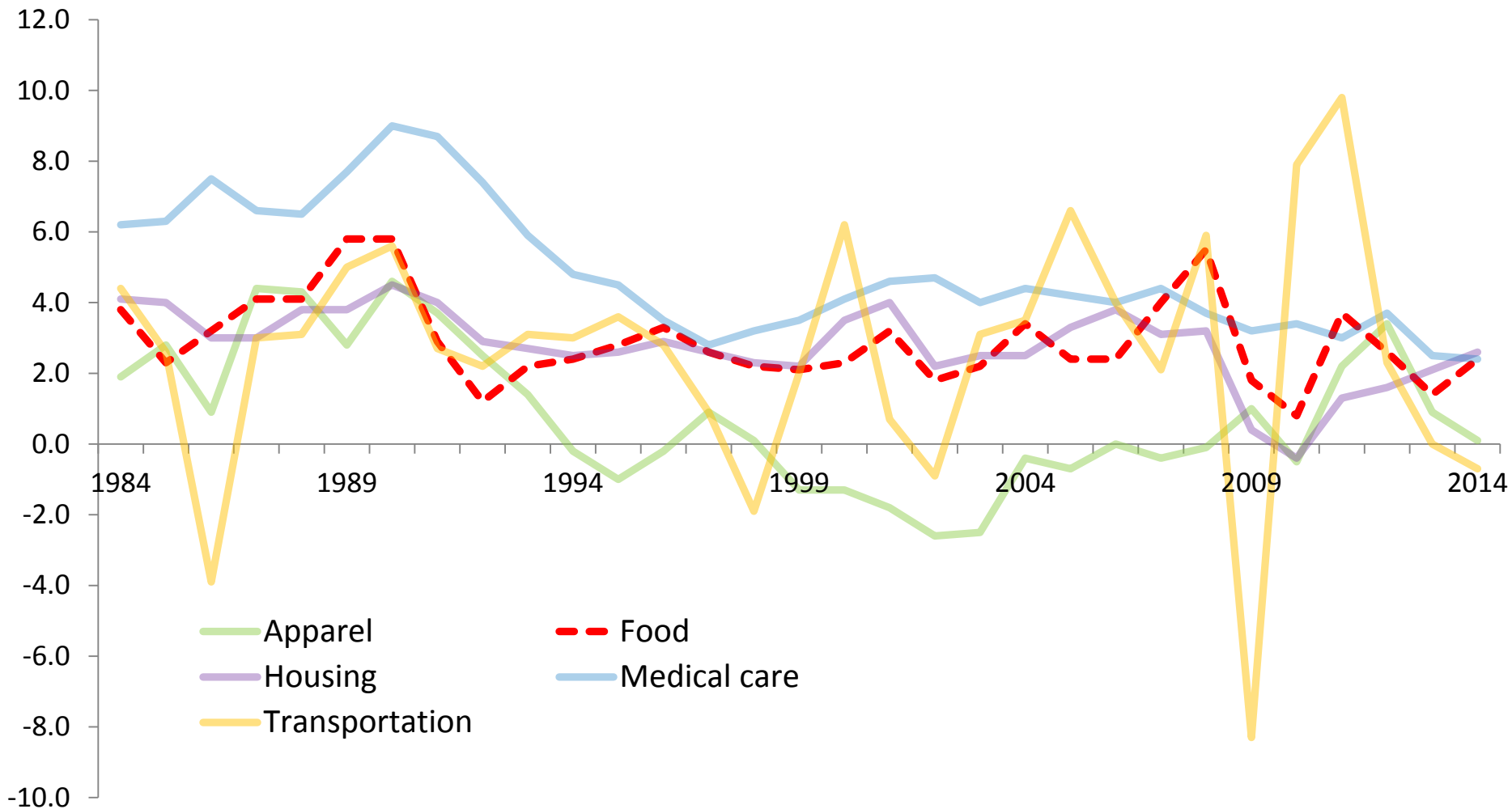
Percent change in the all-items consumer price index (CPI) and food CPI, 1984 - 2014



Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



Percent change in the Consumer Price Index (CPI) by sub-category, 1984-2014

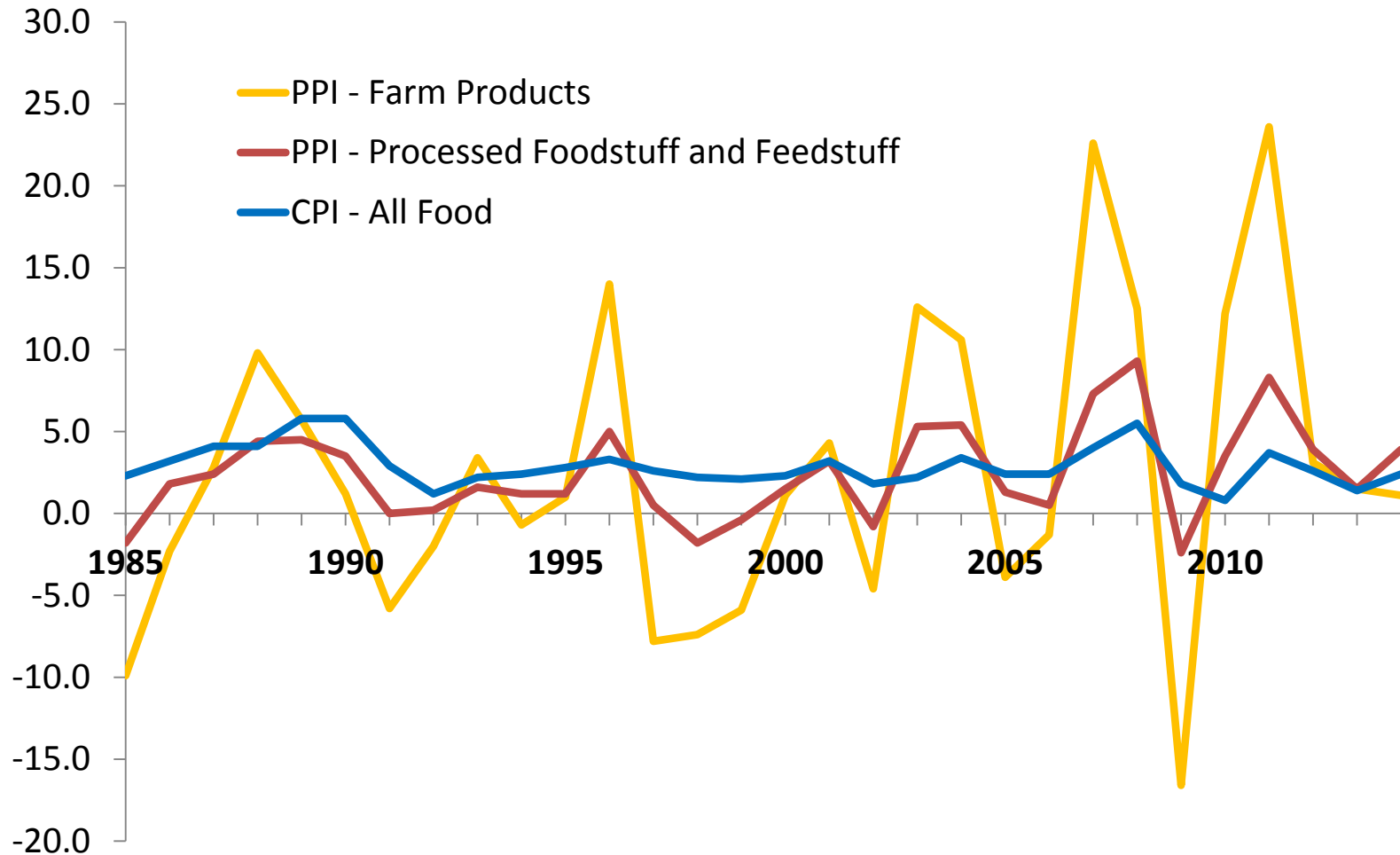


Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



Annual percent change in price, by stage of production

Percent change



Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



Where a food dollar goes...

2012 Food at home dollar: Industry Group (nominal)



Source: USDA, Economic Research Service, 2012



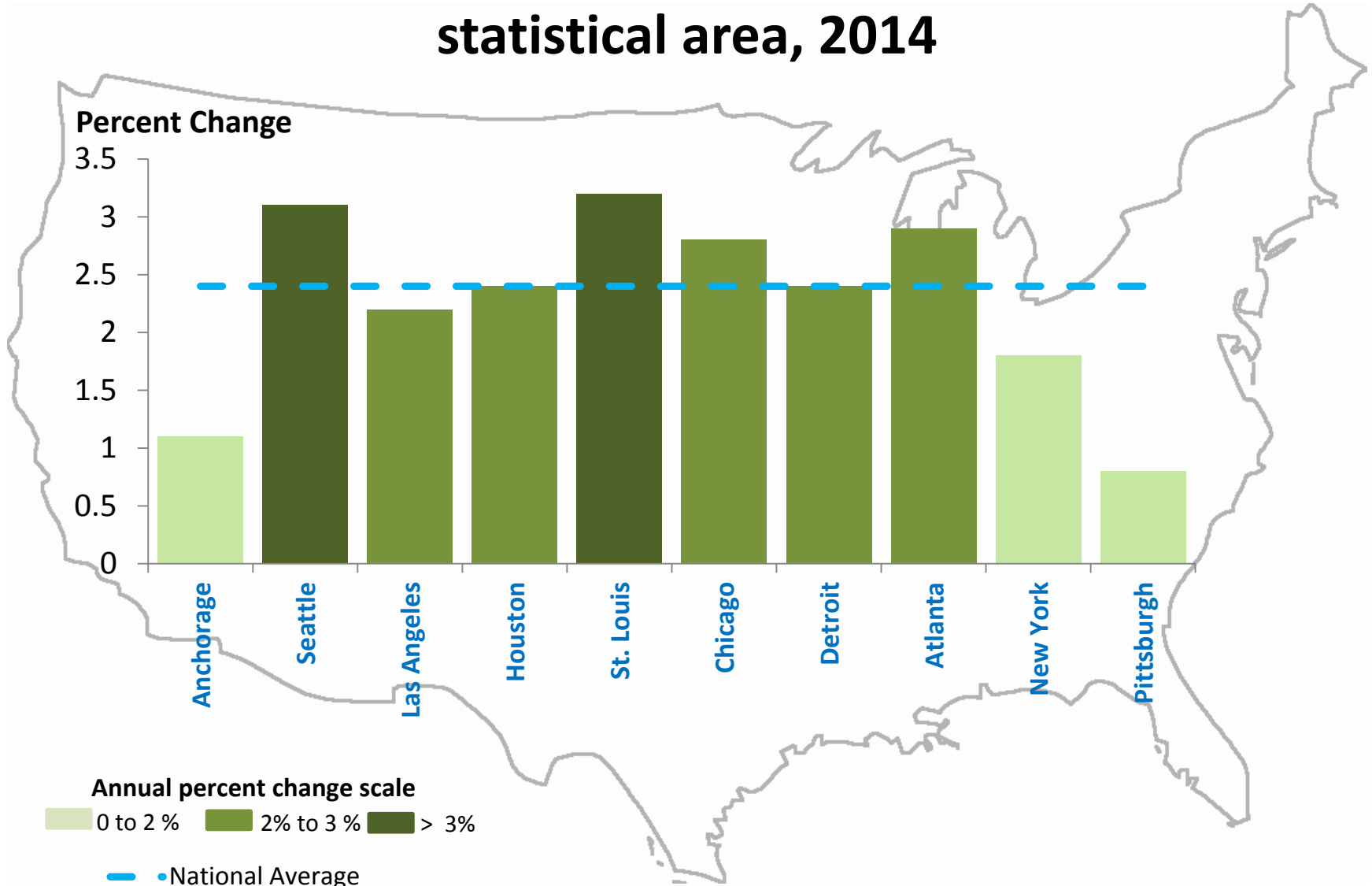
Pass through percentages and times

Retail Category	Time to Pass Through (Months)
Beef	1 to 2
Pork	1 to 3
Poultry	1 to 2
Eggs	3 to 5
Milk	1 to 5
Bread	1 to 6
Oranges	1 to 2
Lettuce	1 to 2

Source: Leibtag, E. "How Much and How Quick? Pass Through of Commodity and Input Cost Changes to Retail Food Prices," American Journal of Agricultural Economics 91: 1462-67, 2009.



Annual grocery store inflation by metropolitan statistical area, 2014



Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



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 impact beef and veal prices, but are improving

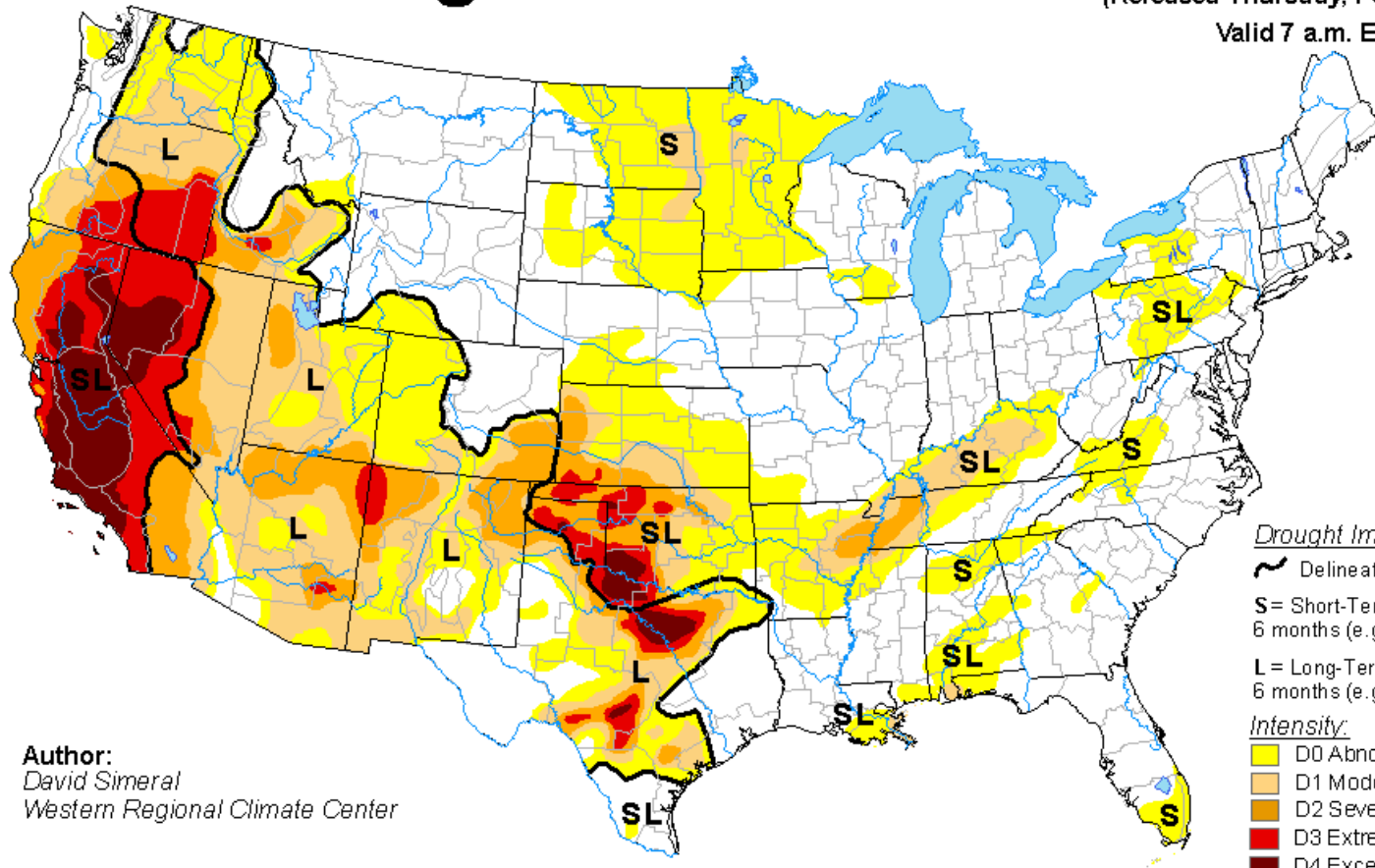


U.S. Drought Monitor


February 10, 2015

(Released Thursday, Feb. 12, 2015)






Valid 7 a.m. EST



Drought Impact Types:

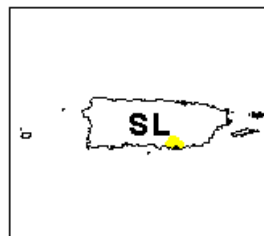
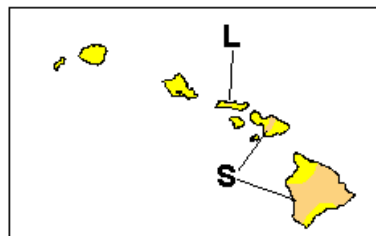
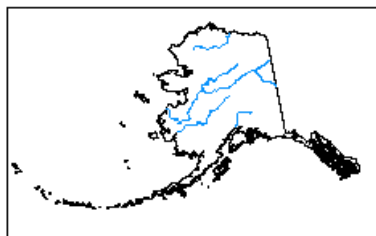
-  Delineates dominant impacts
- S** = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
- L** = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

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.

Author:
David Simeral
Western Regional Climate Center



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



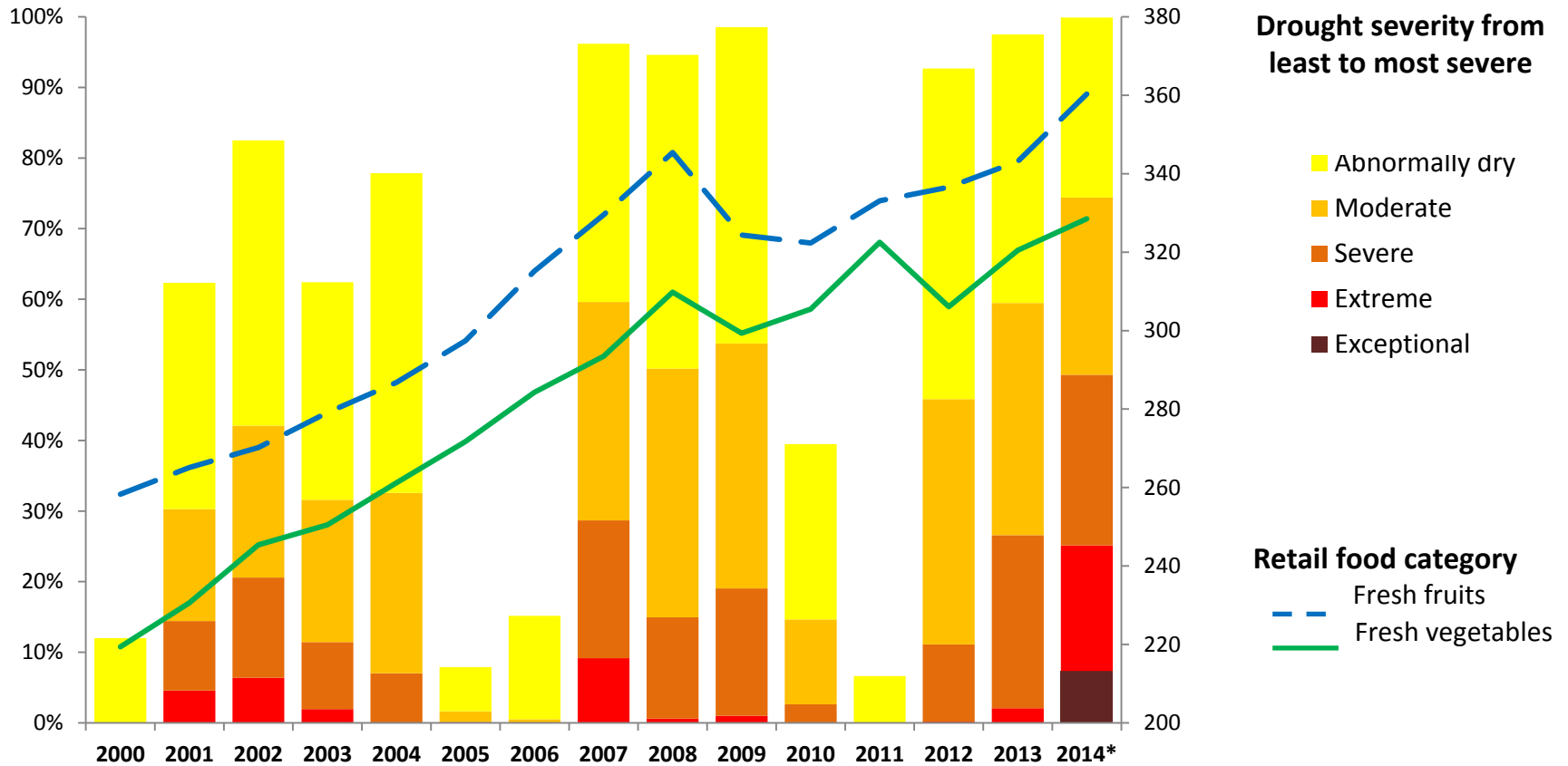
Economic Research Service
www.ers.usda.gov



Drought severity and food prices

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

Average annual price index, 1982-84 = 100



Source: USDA, Economic Research Service using data from The National Drought Mitigation Center and the U.S. Bureau of Labor Statistics.

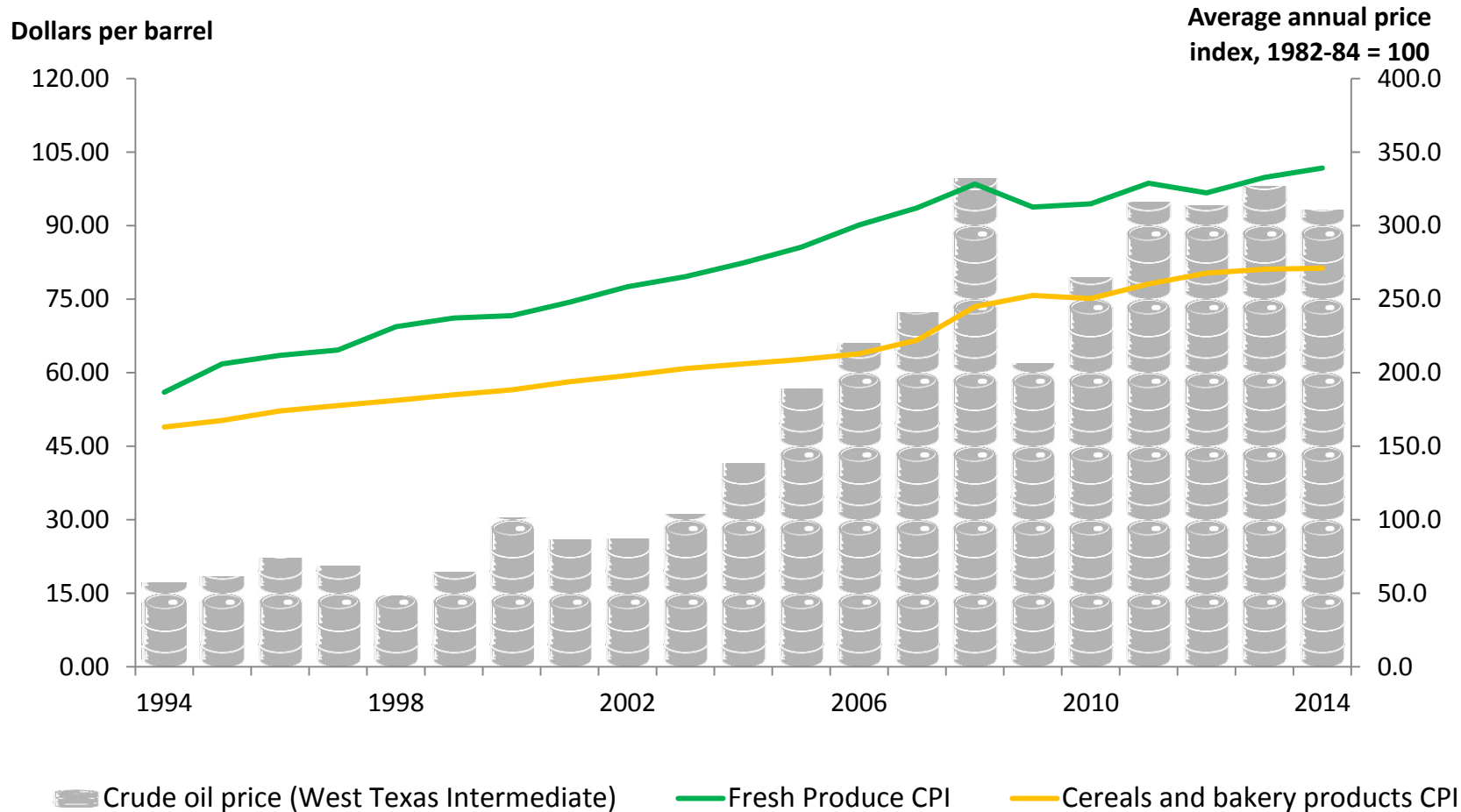


Energy prices and food prices

- 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



Price of crude oil and change in Consumer Price Index (CPI) for selected food categories



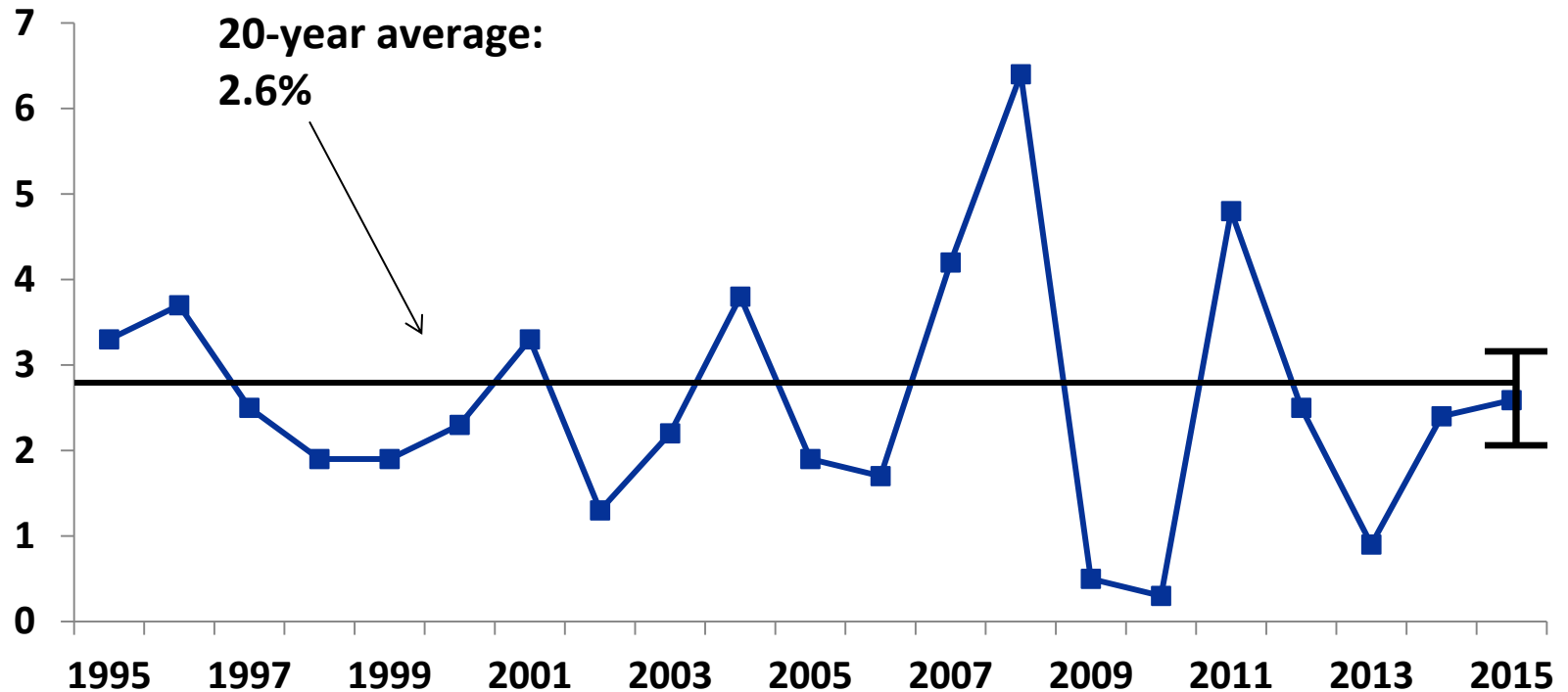
Source: USDA, Economic Research Service using data from the St. Louis Federal Reserve Economic Data (FRED) and U.S. Bureau of Labor Statistics.



2015 inflation predicted to be near historical average

Percent change in the annual Consumer Price Index (CPI) for food at home, 1995 - 2015

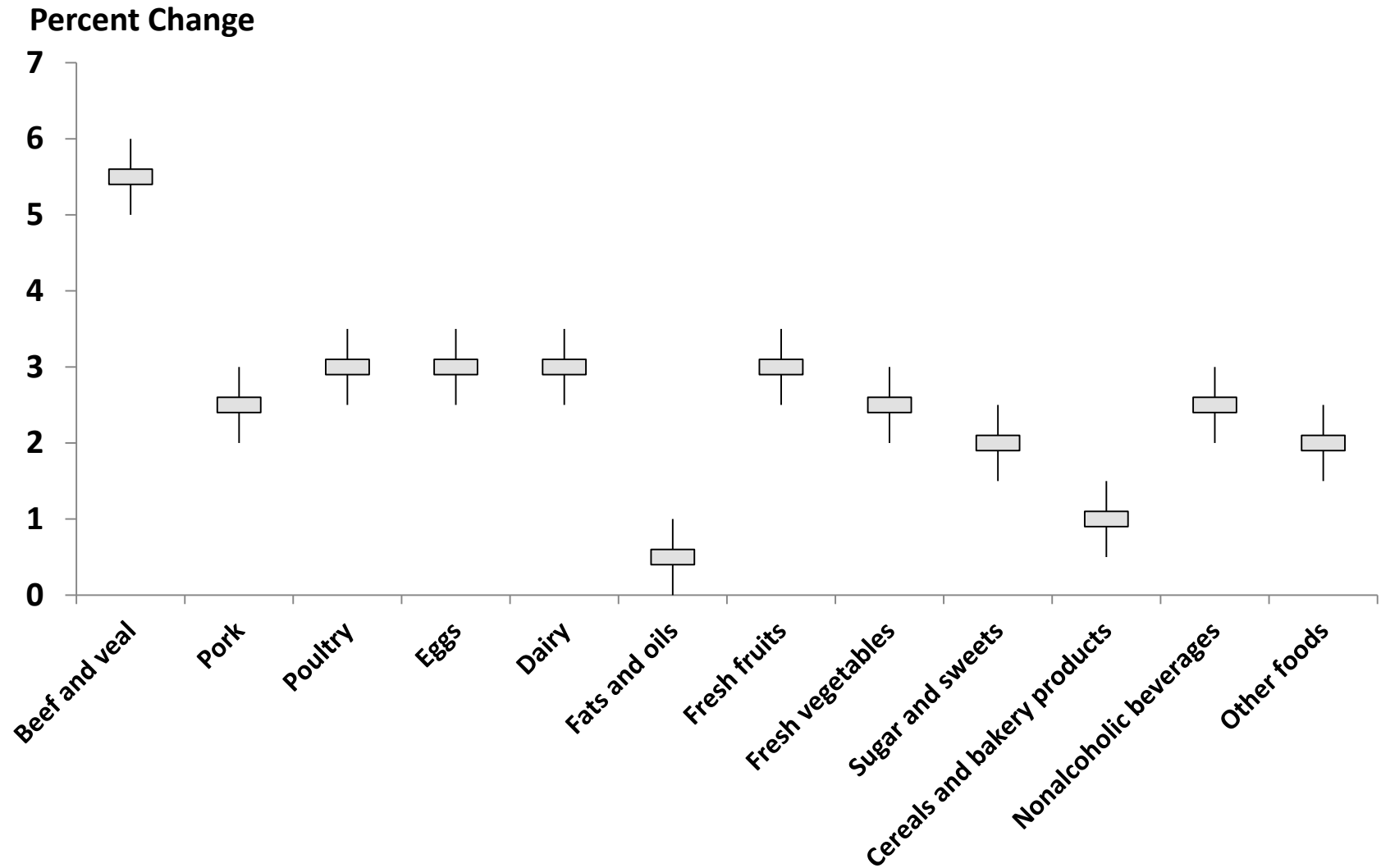
Percent Change



Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



2015 forecast intervals, by retail food category



Source: USDA, Economic Research Service.



Food categories to watch in 2015:

Beef and veal



- Retail beef and veal prices forecast to rise 5 to 6% in 2015
- Reductions in U.S. cattle inventory
 - Herd sizes similar to the 1950s
 - Texas and Oklahoma drought further delayed herd expansion
- Expectation of herd expansion in 2015



Food categories to watch in 2015:

Fresh produce



- Fresh fruit prices are expected to rise 2.5 to 3.5 percent
 - California drought
- Fresh vegetable prices are expected to rise 2 to 3 percent
 - Potential for further impacts from California drought



Food categories to watch in 2015:

Eggs



- Egg prices rose 8.4% in 2014 and expected to rise 2.5 to 3.5 percent in 2015
 - Prices are volatile and vary seasonally
 - Will the new law in CA requiring larger cages for birds have an effect?



Food categories to watch in 2015: Non-perishable food items



- **Fats and oils and cereals and bakery products** are expected to see below average inflation
 - Large crop yields for soybeans and wheat
 - Fats and oils are expect to rise 0 to 1 percent
 - Cereals and bakery products predicted to rise 0.5 to 1.5 percent

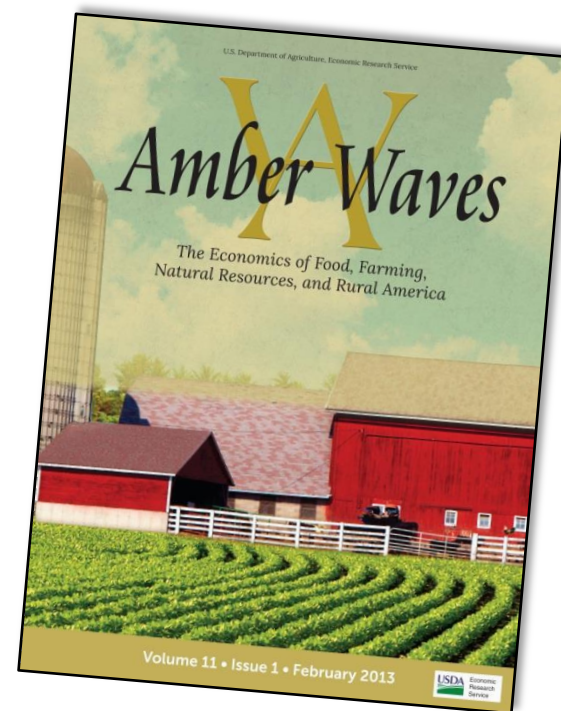


Amber Waves:

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/>



Resources for food price trends research

- ERS CPI Forecasts:

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

- ERS California Drought Page:

<http://www.ers.usda.gov/topics/in-the-news/california-drought-2014-farm-and-food-impacts/california-drought-2014-food-prices-and-consumers.aspx>

- 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>



Thank You!

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