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RETAIL FOOD PRICE OUTLOOK

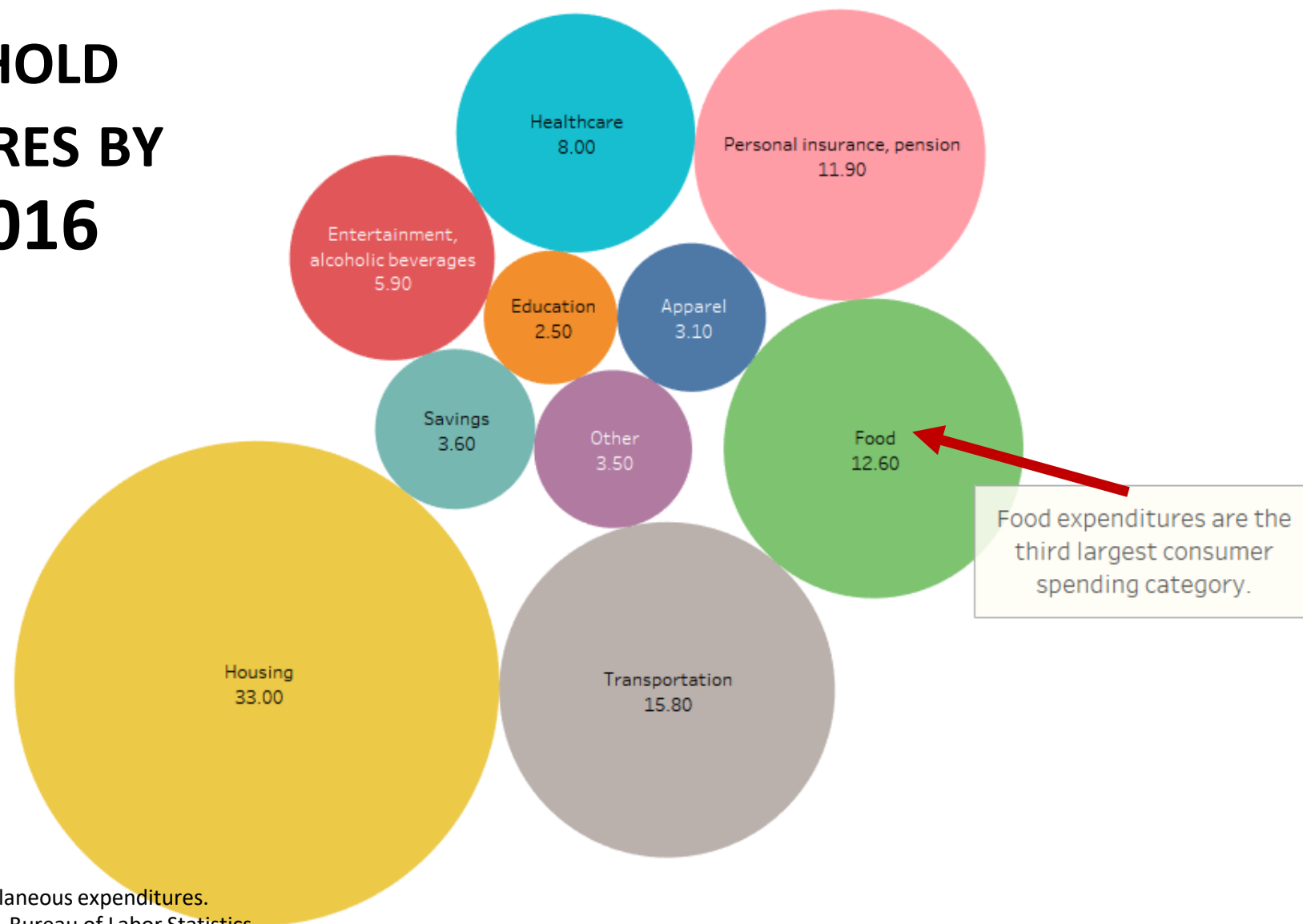
2018 USDA Agricultural Outlook Forum
February 22, 2018



Annemarie Kuhns
USDA, Economic Research Service



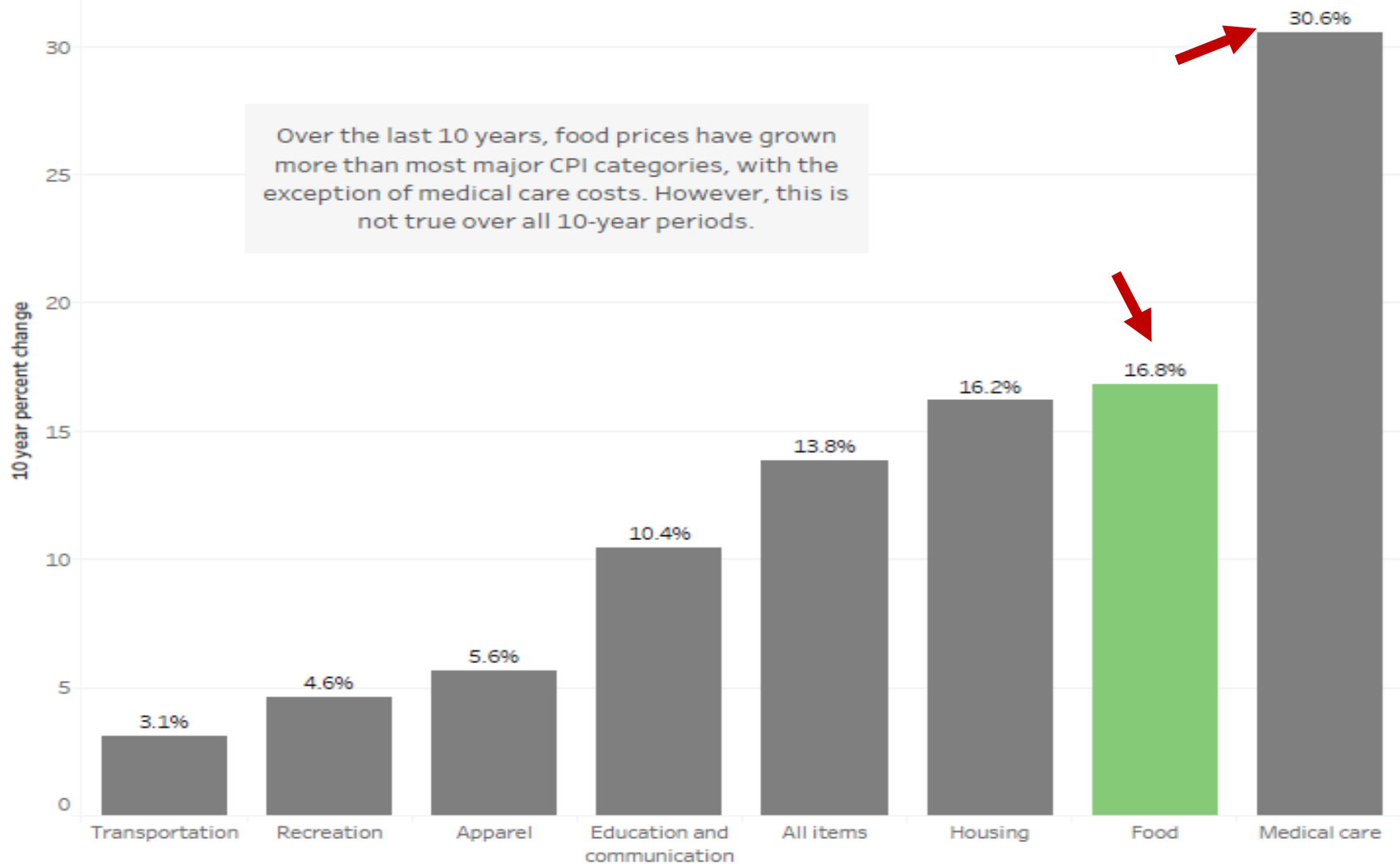
SHARE OF U.S. HOUSEHOLD CONSUMER EXPENDITURES BY MAJOR CATEGORIES, 2016



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



PERCENT CHANGE IN MAJOR CPI CATEGORIES, 2008-2017



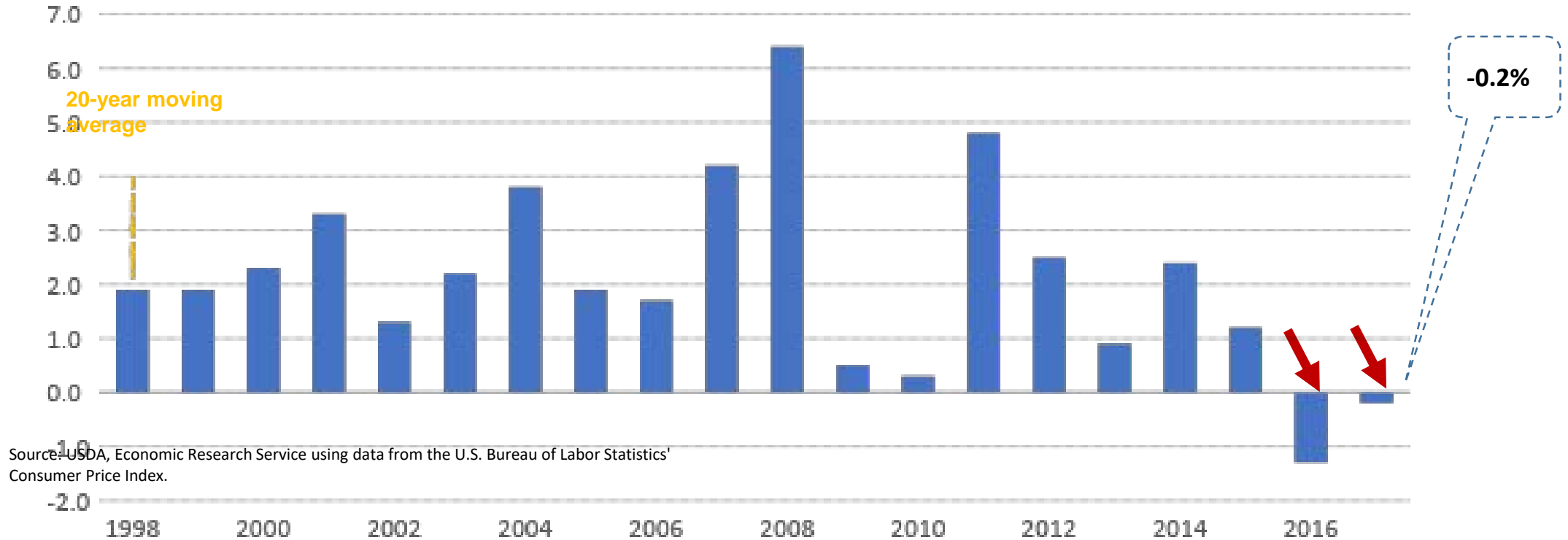
Source: USDA, Economic Research Service using data from the U.S. Bureau of Labor Statistics.



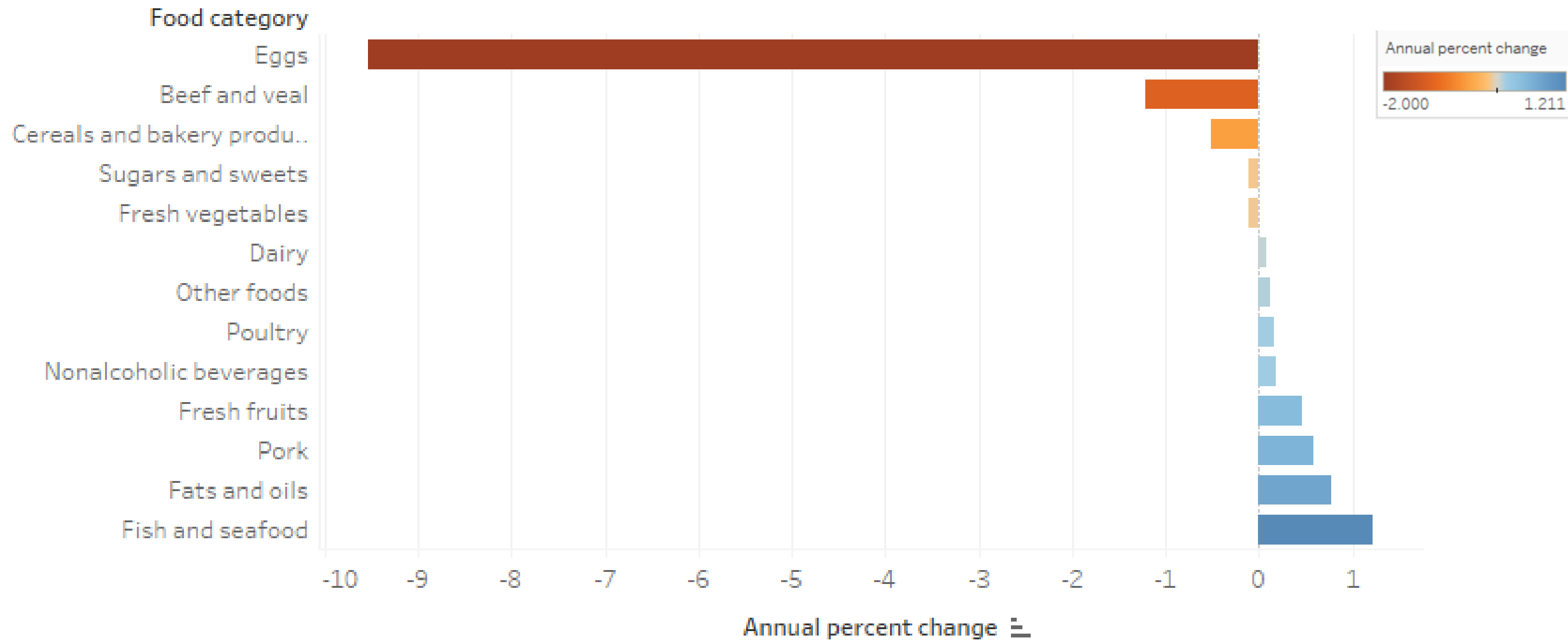
RETAIL FOOD PRICES DECLINED FOR THE SECOND YEAR IN A ROW IN 2017

Annual change in food-at-home prices, 1998-2017

Percent change



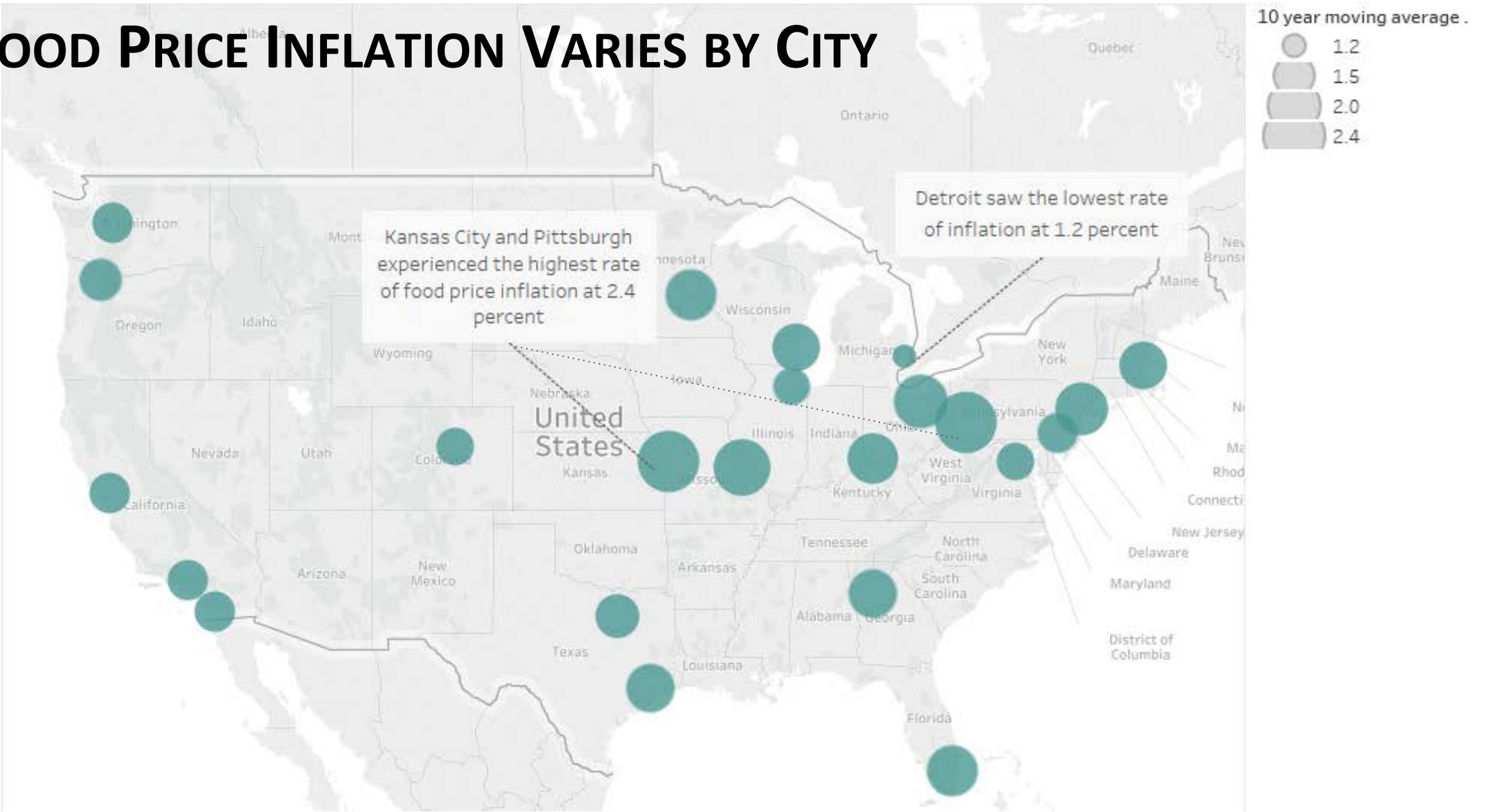
ANNUAL PERCENT CHANGE IN FOOD PRICES BY CATEGORY, 2017



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



RETAIL FOOD PRICE INFLATION VARIES BY CITY



Source: USDA, Economic Research Service using data from the U.S. Bureau of Labor Statistics.



PRICES, SELECTED FOODS: 2016 vs 2017

Ground beef,
100% beef, per lb.



2016: \$3.75

2017: \$3.64

Savings: \$0.11 per
pound

Eggs, grade A,
large, per doz.



2016: \$1.68

2017: \$1.47

Savings: \$0.21 per
dozen

Bananas, per lb.



2016: \$0.57

2017: \$0.56

Savings: \$0.01
per pound

Lettuce, iceberg,
per lb.



2016: \$1.06

2017: \$1.03

Savings: \$0.03
per pound

Peanut butter
creamy, all sizes, per
lb.



2016: \$2.58

2017: \$2.55

Savings: \$0.03 per
pound

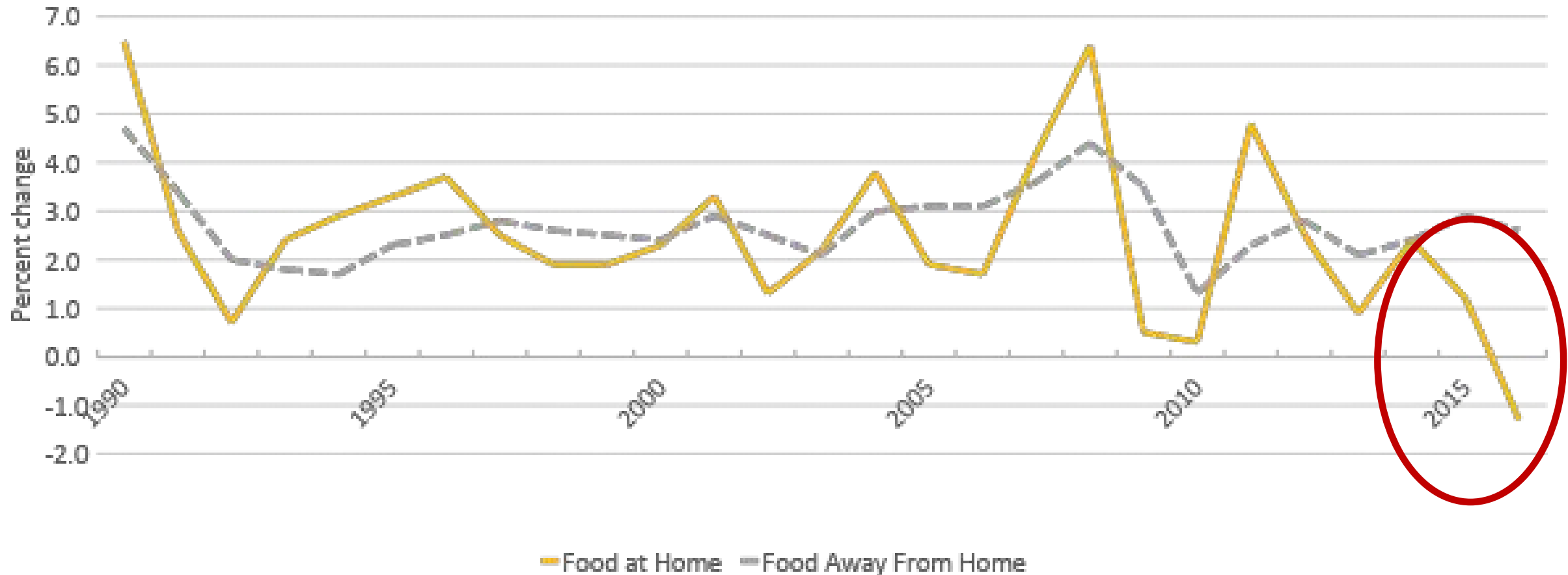
Source: USDA, Economic Research Service using data from the U.S. Bureau of Labor Statistics.



Average yearly savings: \$20.28



ANNUAL PERCENT CHANGE IN FOOD AT HOME AND FOOD AWAY FROM HOME CPIs, 1990-2017

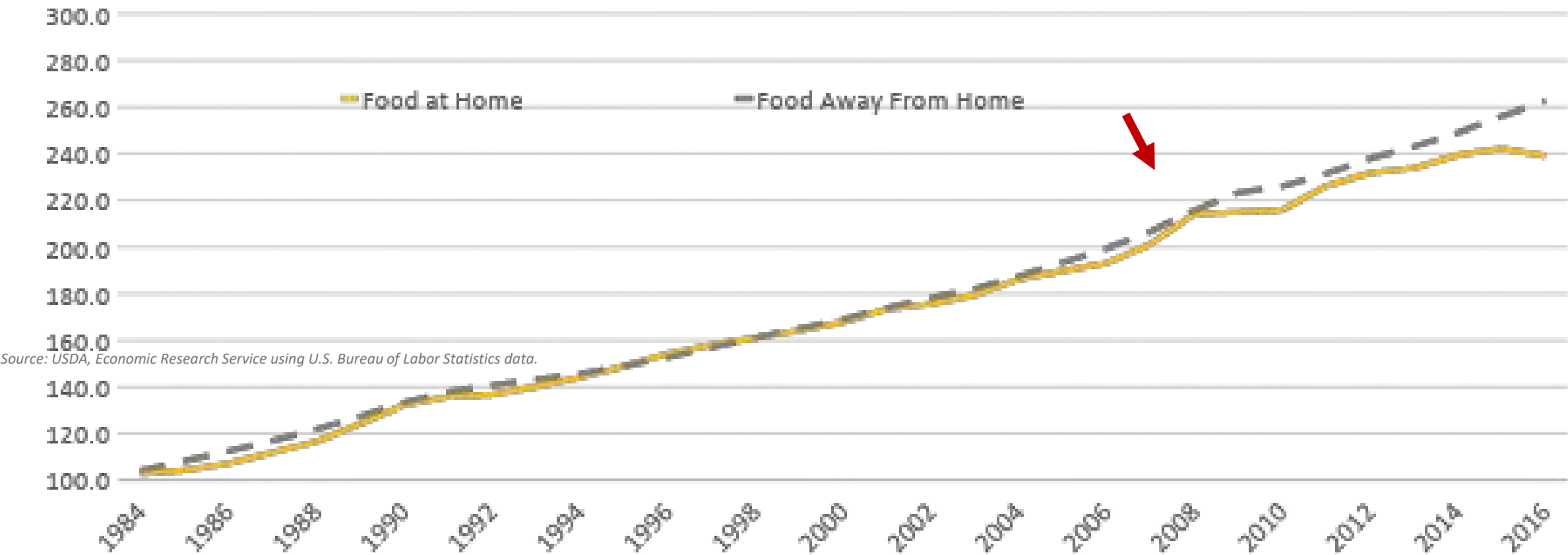


Source: USDA, Economic Research Service using Bureau of Labor Statistics data.



GROWTH IN FOOD AT HOME VS FOOD AWAY FROM HOME CPI, 1984-2017

Index, base year = 1982-84

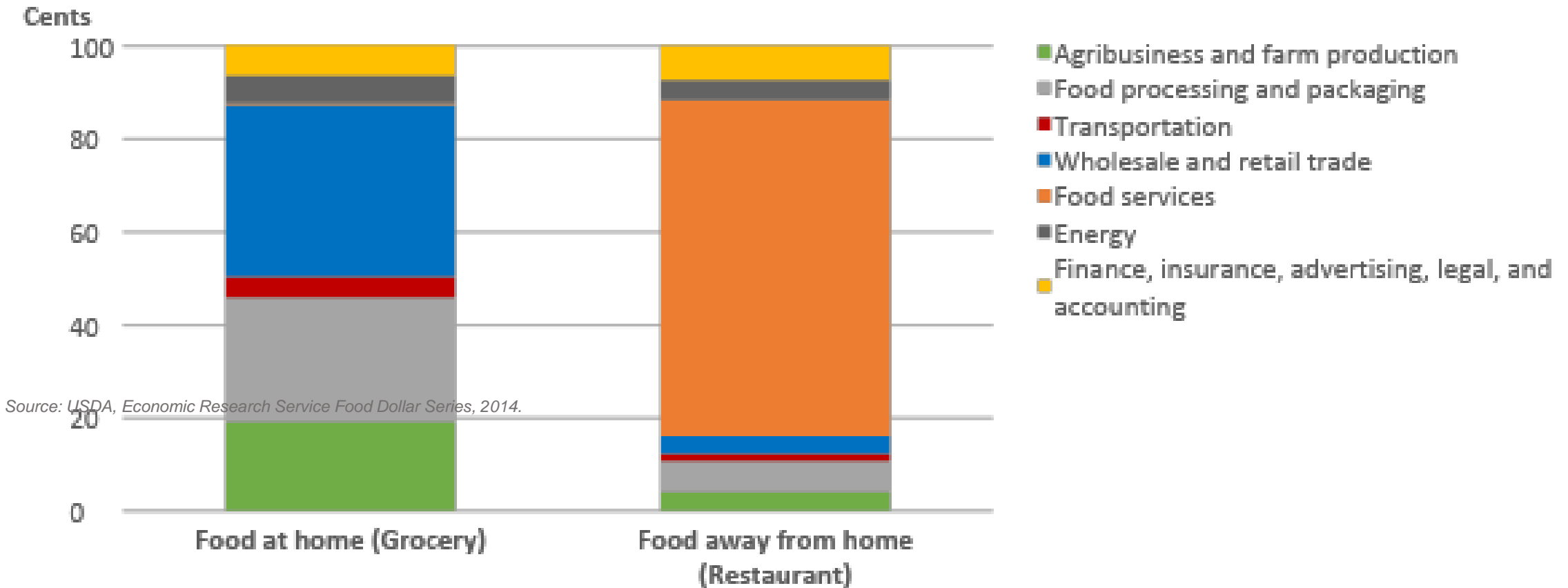


Source: USDA, Economic Research Service using U.S. Bureau of Labor Statistics data.

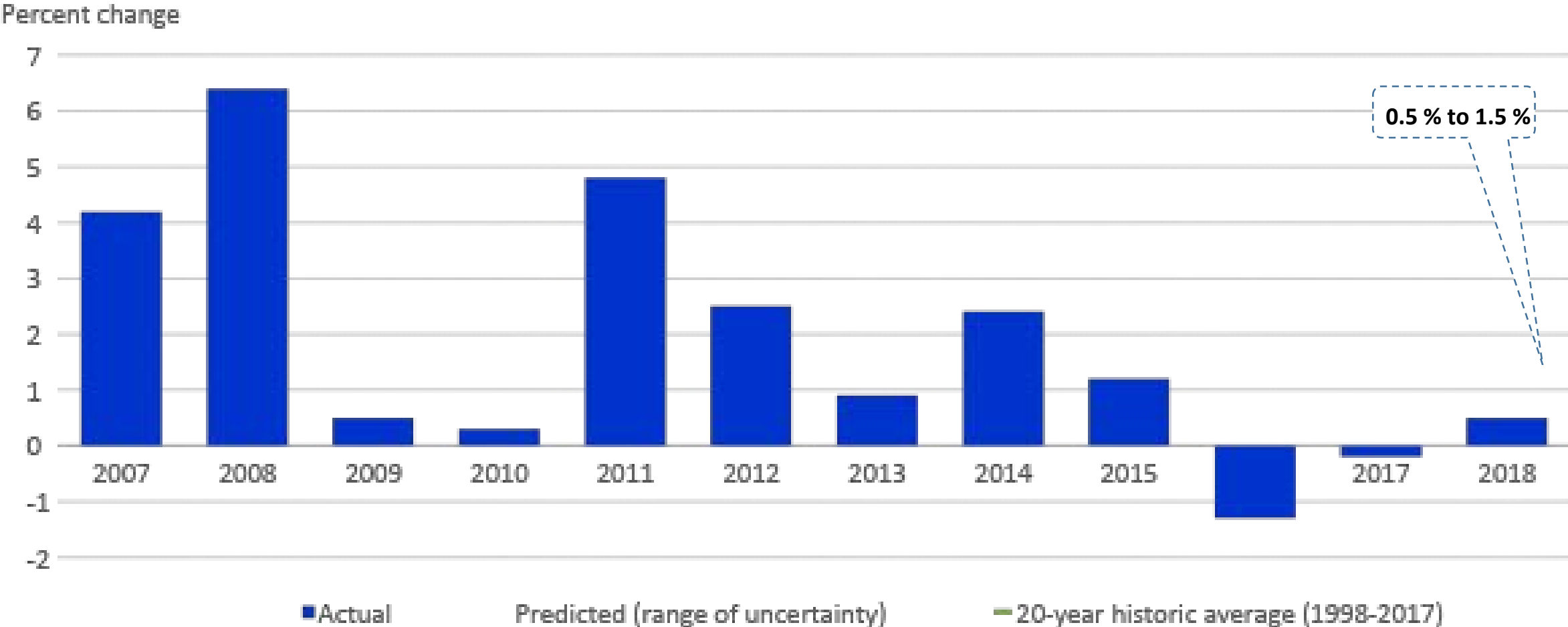


WHERE A FOOD DOLLAR GOES...

Food at home vs food away from home dollar



2018 GROCERY STORE (FOOD AT HOME) INFLATION BELOW HISTORICAL AVERAGE



Source: USDA, Economic Research Service Food Price Outlook.



FACTORS MOVING FOOD PRICES IN 2018

- Production
- Energy prices
- Drought
- Strength of U.S. dollar



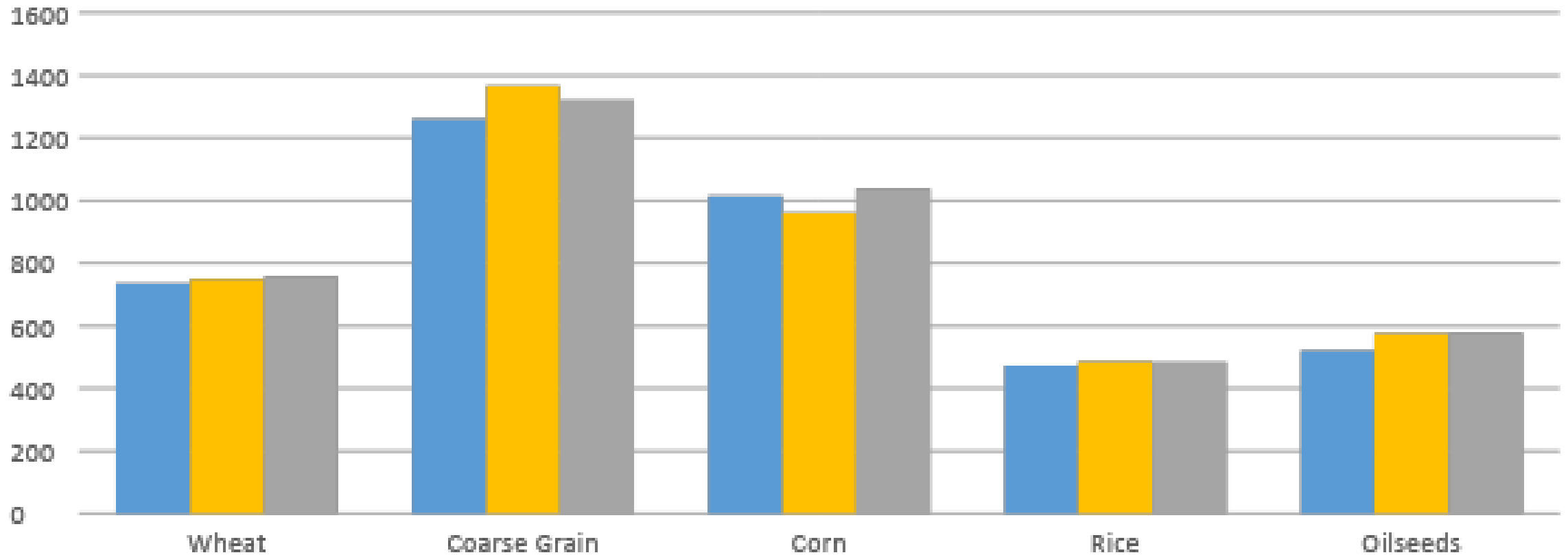
WORLD COMMODITY PRODUCTION

Metric Million Tons

■ 2015/16

■ 2016/17 Est.

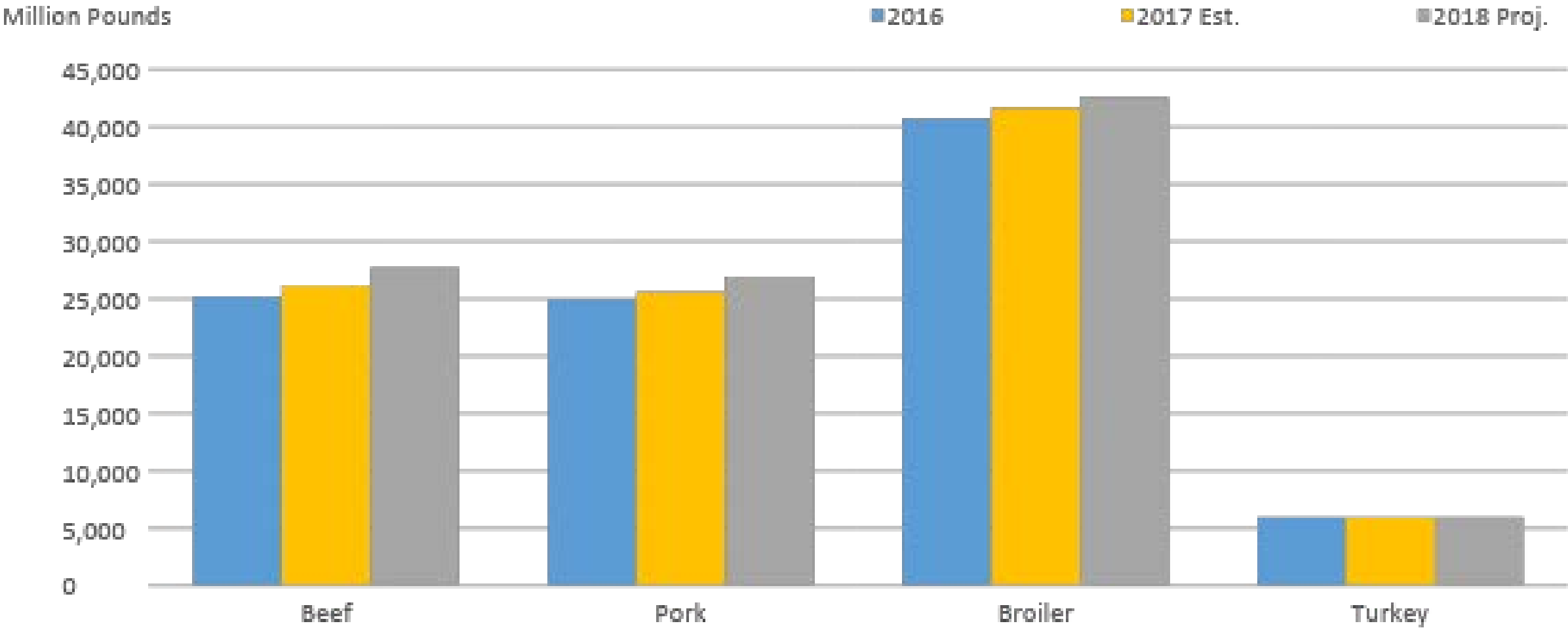
■ 2017/18 Proj.



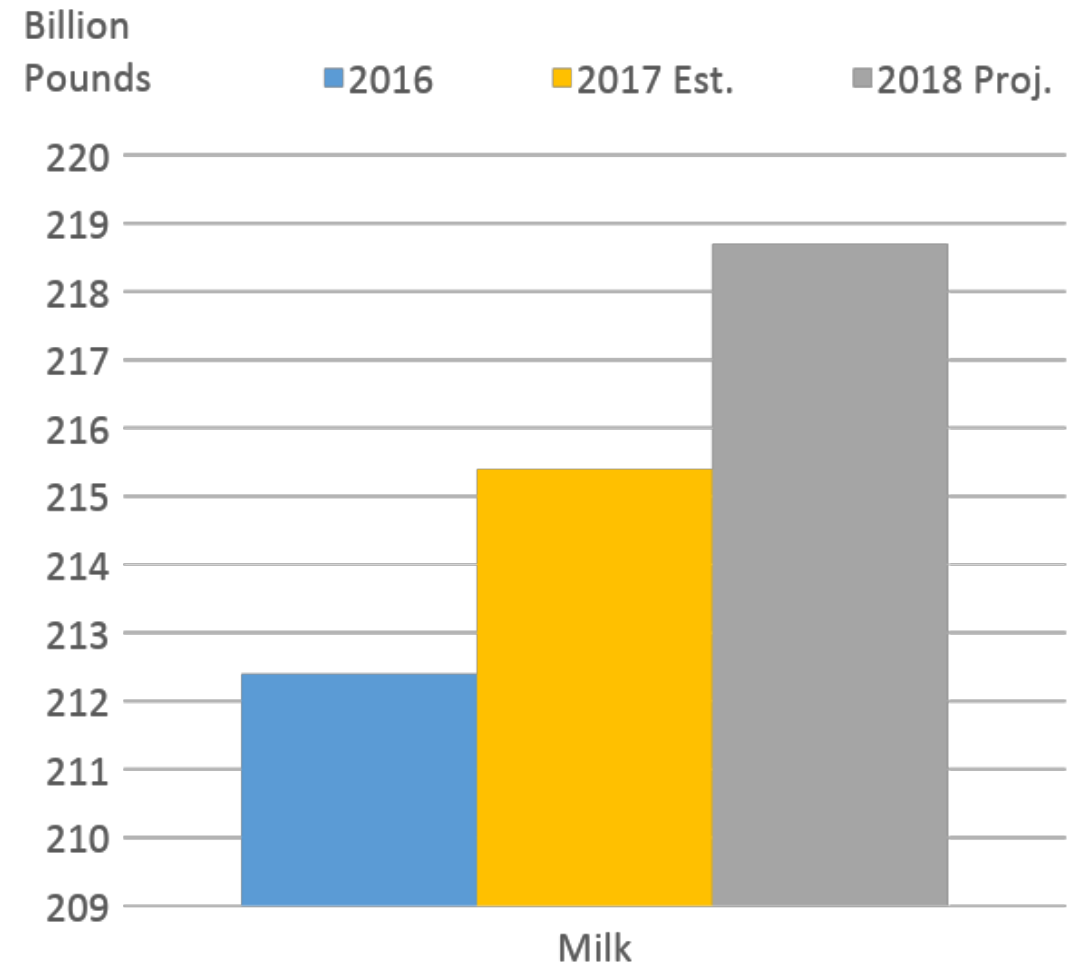
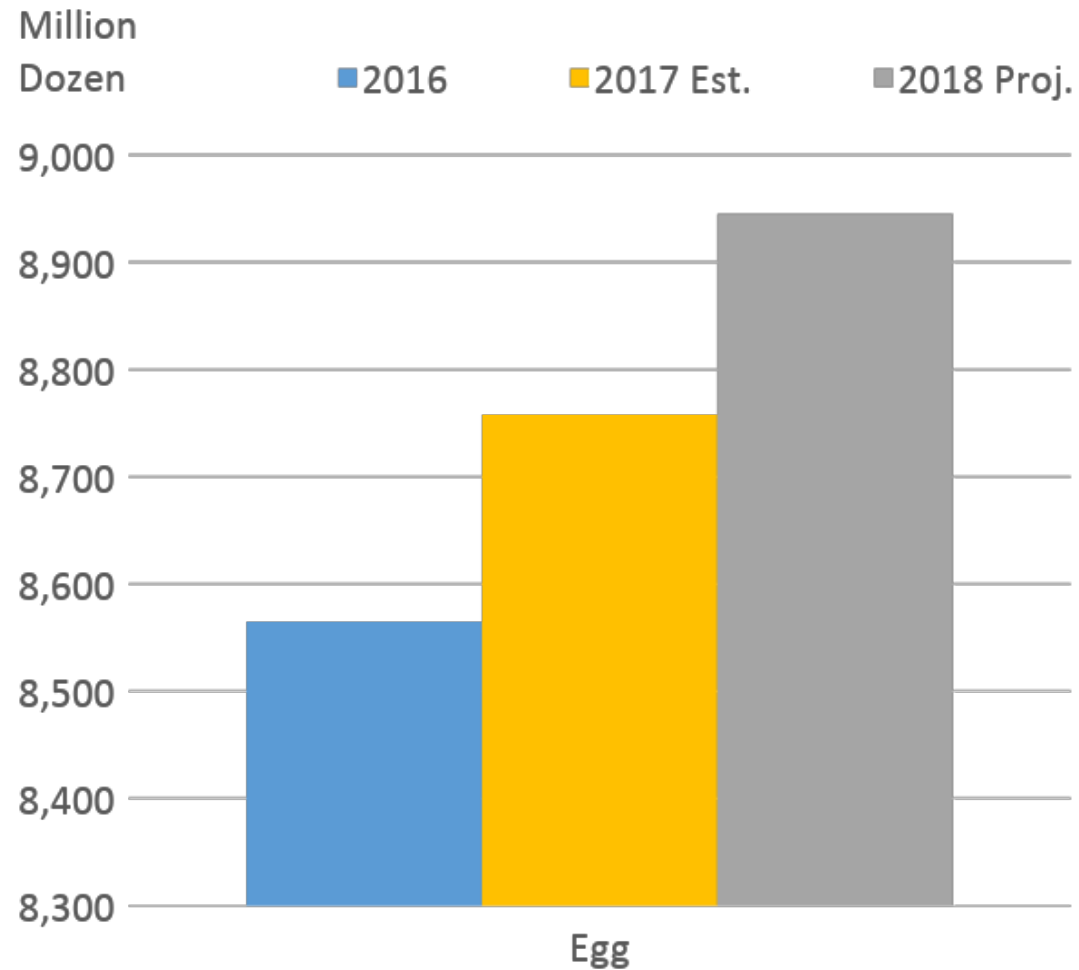
Source: USDA, World Agricultural Supply and Demand Estimates.



U.S. MEAT PRODUCTION



U.S. EGG AND MILK PRODUCTION



Source: USDA, World Agricultural Supply and Demand Estimates.



ENERGY PRICES EXPECTED TO INCREASE IN 2018

Potential to drive up costs for:

- Transportation
- Food processing
- Retail overhead

Price Summary				
	2016	2017	2018	2019
WTI Crude Oil^a (dollars per barrel)	43.33	50.79	58.28	57.51
Brent Crude Oil (dollars per barrel)	43.74	54.15	62.39	61.51
Gasoline^b (dollars per gallon)	2.15	2.42	2.62	2.58
Diesel^c (dollars per gallon)	2.31	2.65	2.91	2.87
Heating Oil^d (dollars per gallon)	2.10	2.53	2.88	2.81
Natural Gas^d (dollars per thousand cubic feet)	10.04	10.97	10.78	10.96
Electricity^d (cents per kilowatthour)	12.55	12.90	13.23	13.62

^aWest Texas Intermediate.

^bAverage regular pump price.

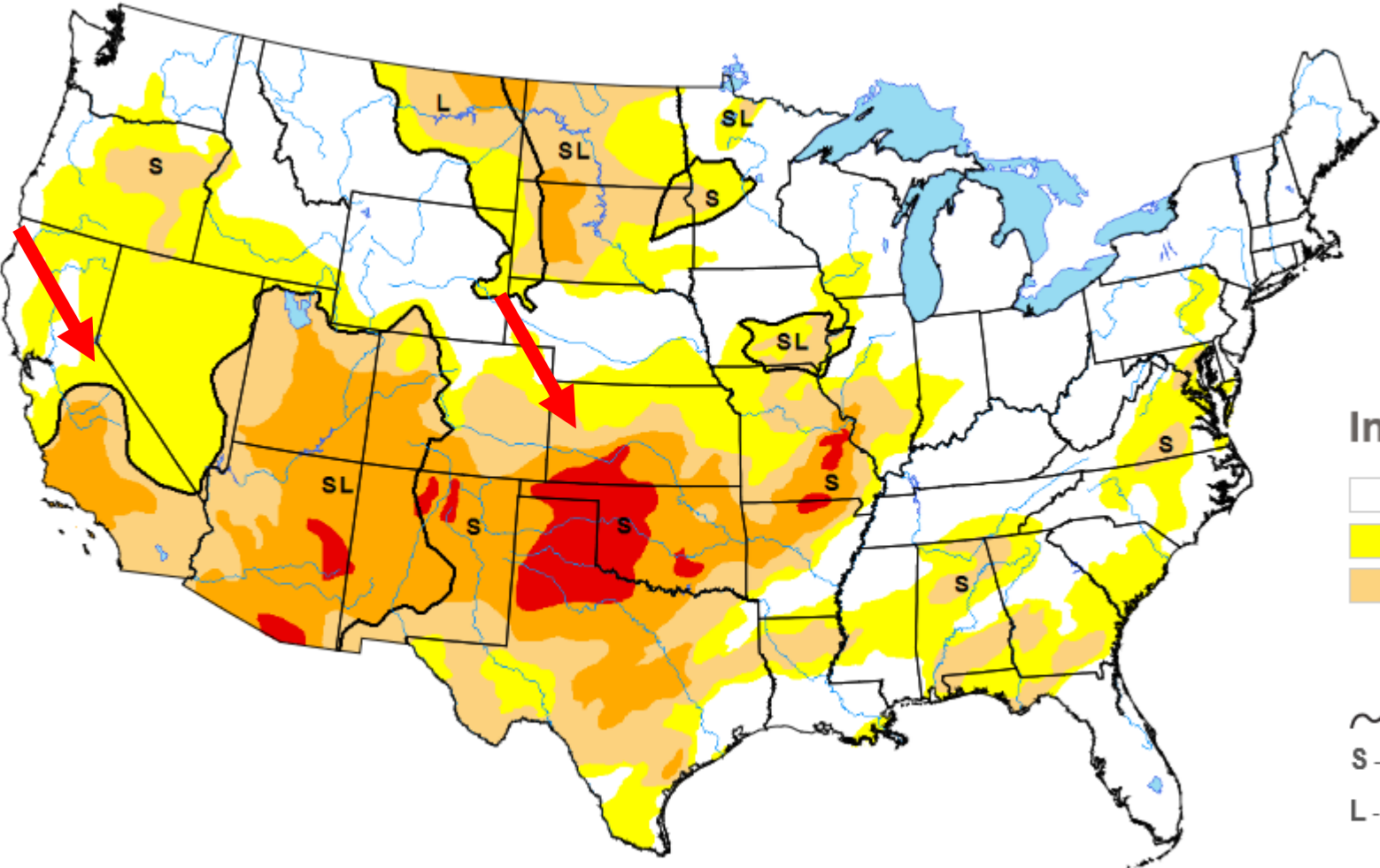
^cOn-highway retail.

^dU.S. Residential average.

Source: U.S. Energy Information Administration.



U.S. DROUGHT MONITOR – FEBRUARY 15, 2018



Intensity and Impacts

- | | |
|-----------------------|--------------------------|
| None | D2 (Severe Drought) |
| D0 (Abnormally Dry) | D3 (Extreme Drought) |
| D1 (Moderate Drought) | D4 (Exceptional Drought) |

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

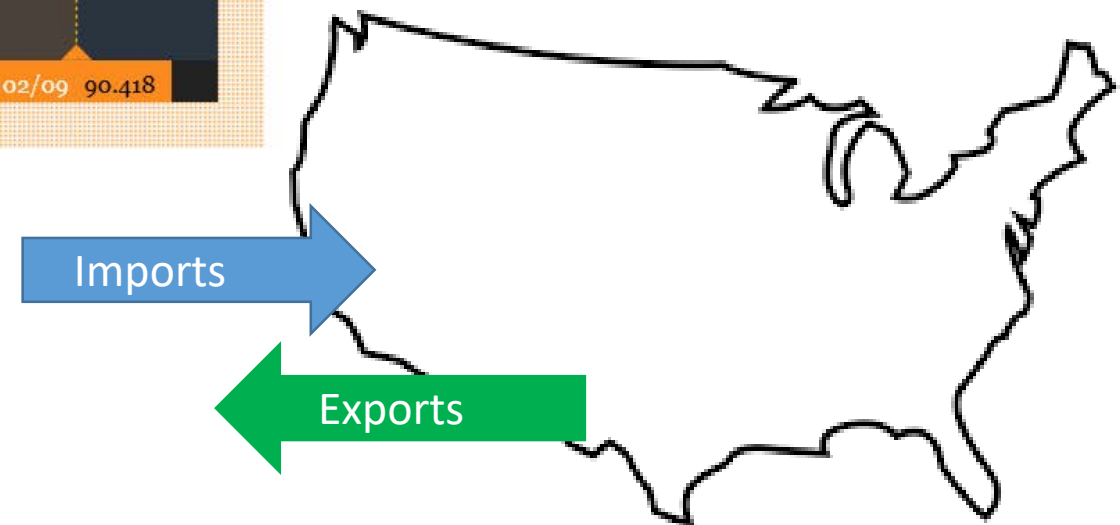
Source: USDA, US Drought Monitor, Feb. 2018



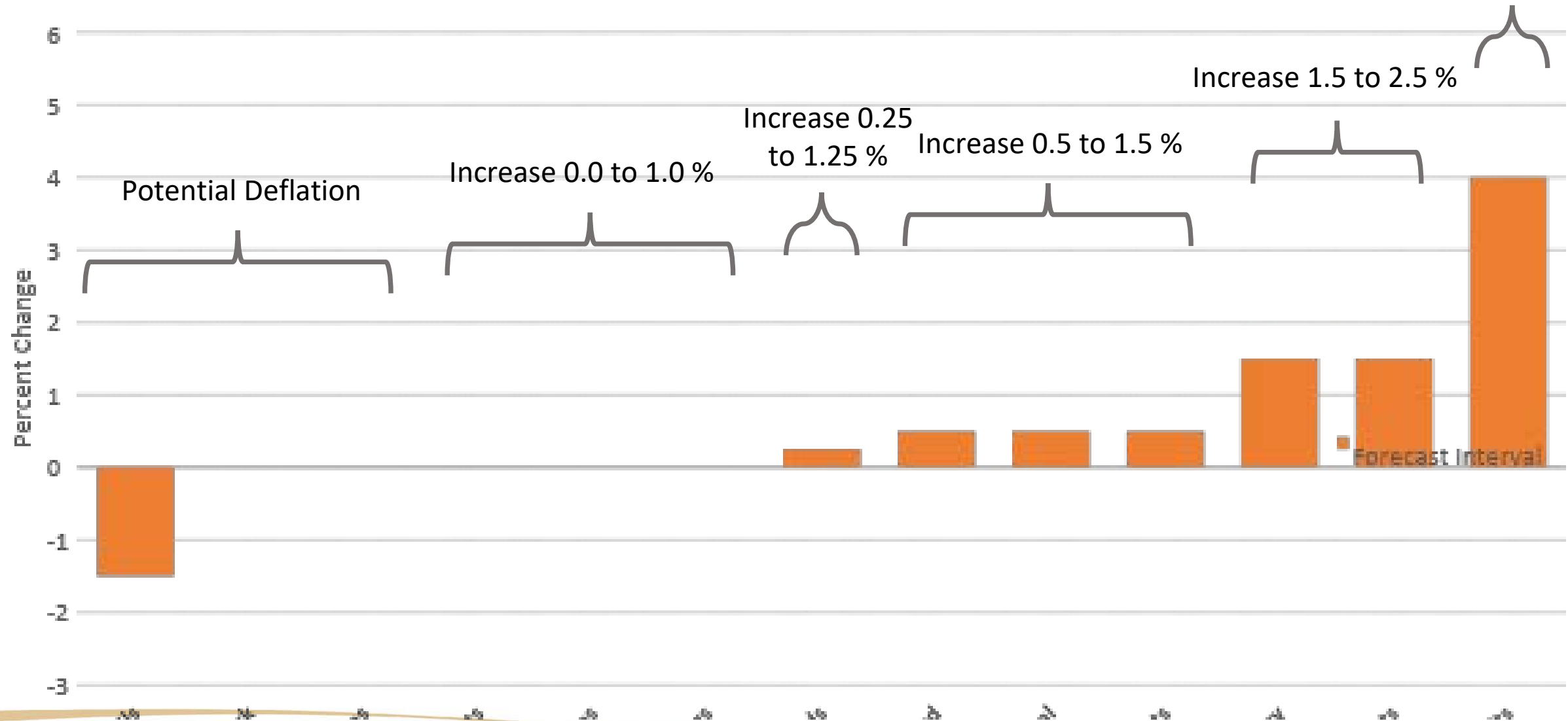
STRENGTH OF U.S. DOLLAR DECLINING



Source: Bloomberg Business, Dollar Index Spot (DXY: CUR), 5 year.



2018 FORECASTS, BY RETAIL FOOD CATEGORY



Source: USDA, Economic Research Service Food Price Outlook.

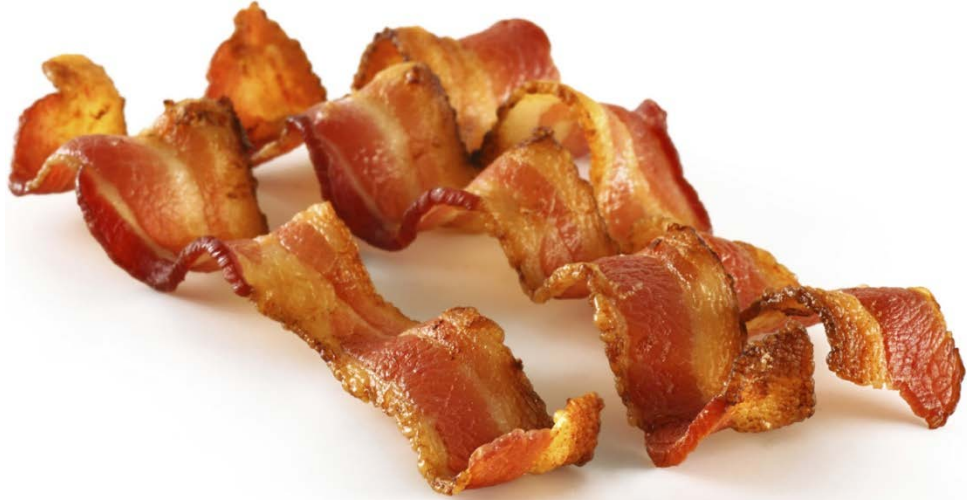


RETAIL FOODS TO WATCH IN 2018: FATS AND OILS

- Prices for fats and oils rose 0.8 percent in 2017
- Part of the story is the high stocks of oilseeds
- This category also includes peanut butter, butter, and margarine
- Fats and oils prices to decline between - **1.5 and 2.5** percent in 2018



RETAIL FOODS TO WATCH IN 2018: PORK



- Pork prices rose 0.6 percent in 2017 due to increasing bacon prices
- Prices at the farm and wholesale level are expected to be lower as pork production is expected to expand
- Retail pork prices to change between **-0.5 and 0.5** percent in 2018



RETAIL FOODS TO WATCH IN 2018: BEEF AND VEAL

- Beef and Veal prices deflated 1.2 percent in 2017
- Prices at the farm and wholesale level are expected to be lower
- Keep an eye on drought conditions in Texas/Oklahoma region
- Retail beef and veal prices to rise **0.5 to 1.5** percent in 2018 (lower than average)



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:

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



PUBLICATION ON FOOD PRICE FORECASTING METHODOLOGY

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.



FOOD PRICE OUTLOOK DATA VIZ DEMO

How does the average American household spend their money?

Are food prices more or less volatile than other spending categories?

Over time, food price inflation has outpaced many other major categories.

Does restaurant inflation differ from grocery store inflation?

In recent years, food-at-home prices have been declining.

Price changes vary by food category as well as year to year.

Food price inflation also varies by city.

Link: <https://www.ers.usda.gov/data-products/food-price-outlook/food-price-environment-interactive-visualization/>



THANK YOU!

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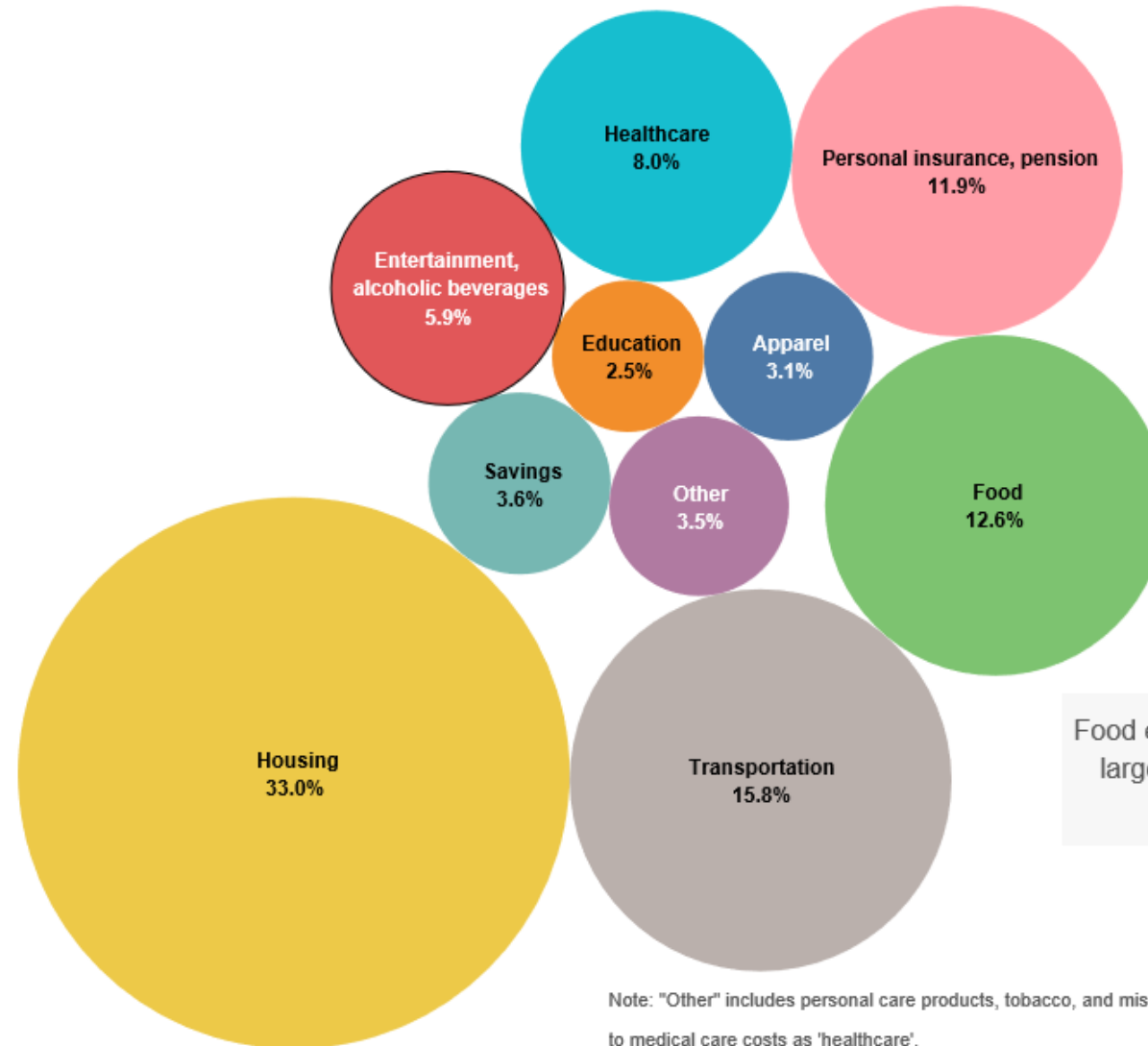
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Year

2016

How does the average American household spend their money?



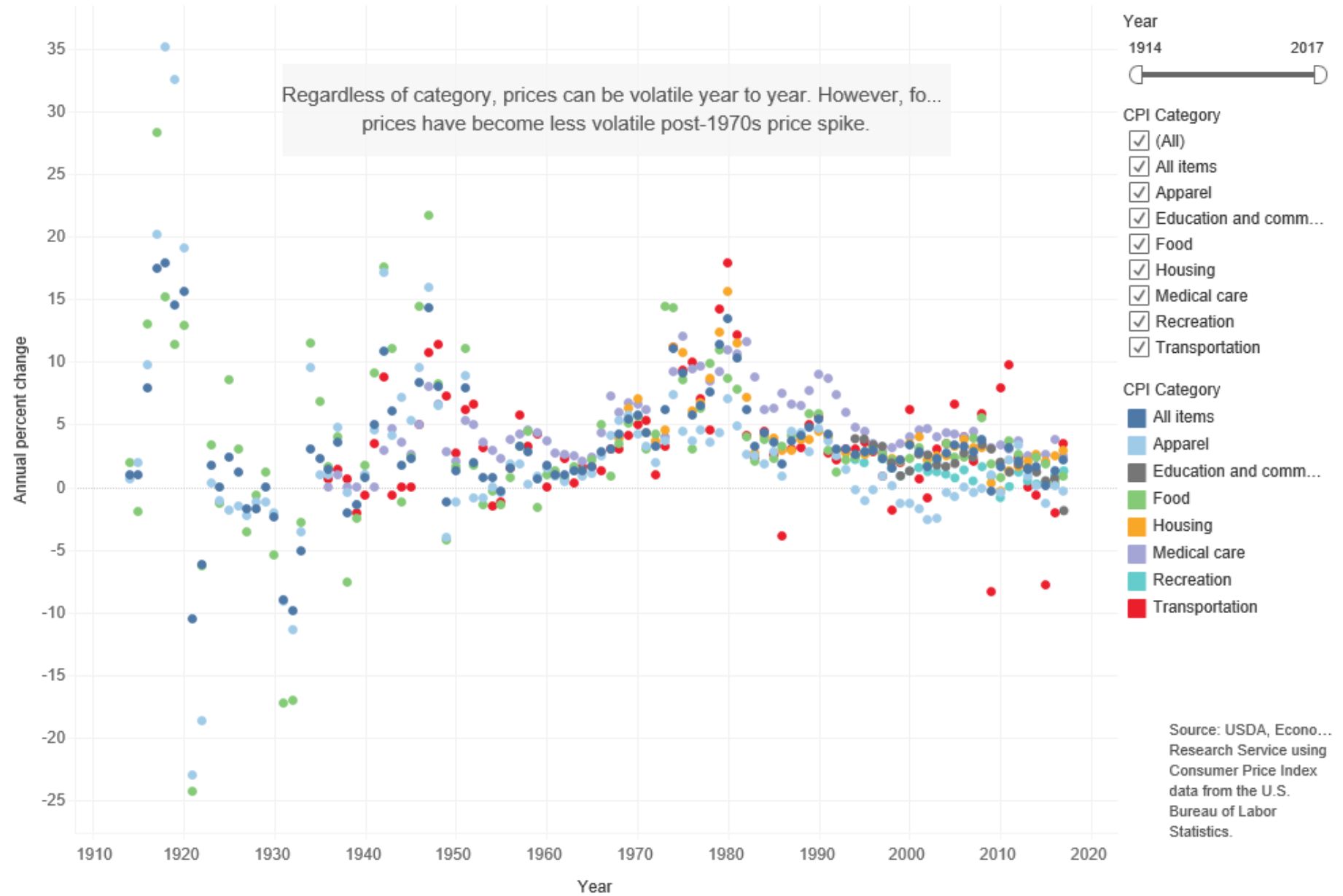
Food expenditures are the third largest consumer spending category.

Note: "Other" includes personal care products, tobacco, and miscellaneous expenditures. The Consumer Expenditure Survey refers to medical care costs as 'healthcare'.

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



Are food prices more or less volatile than other spending categories?

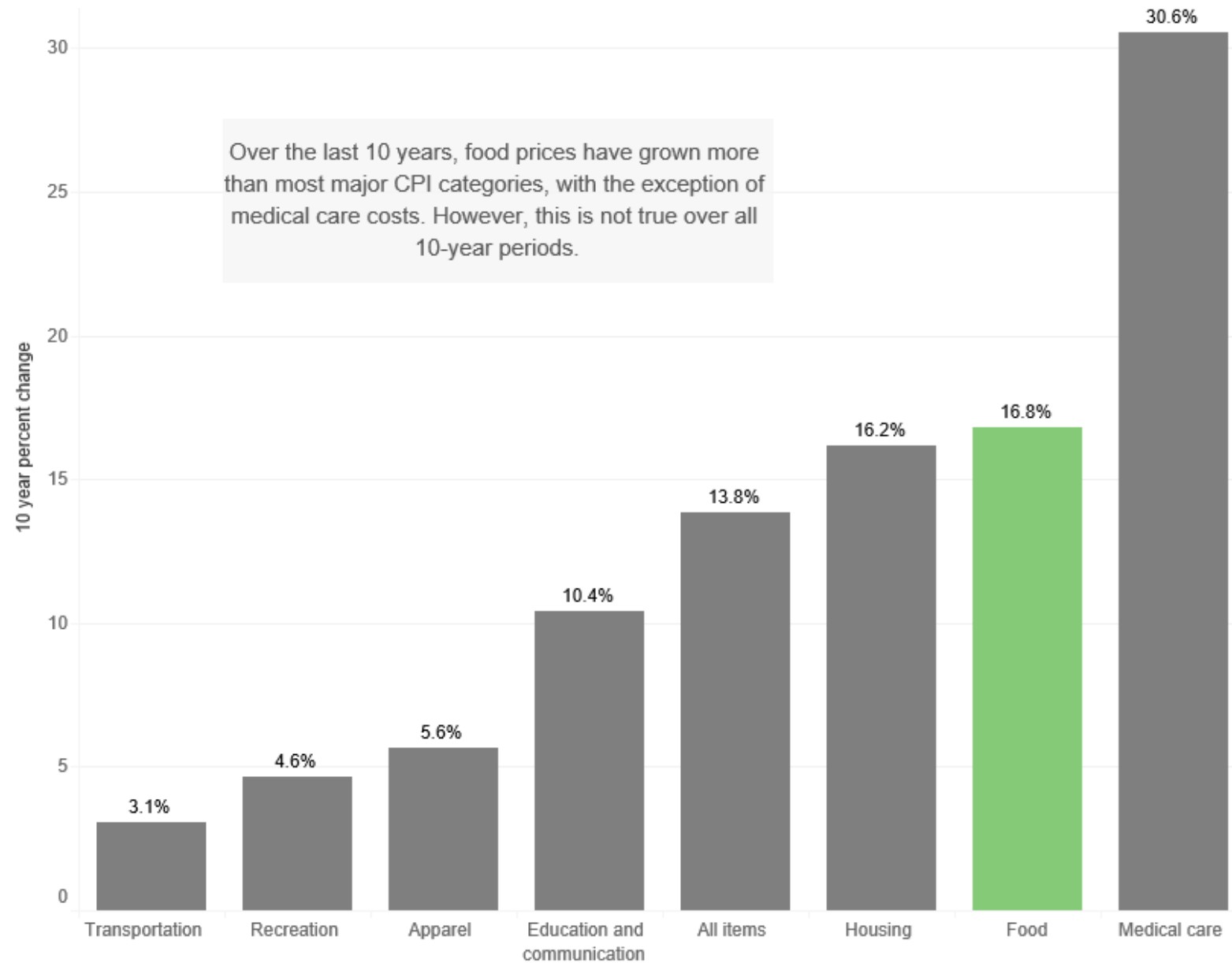


Over time, food price inflation has outpaced many other major categories.

Over the last 10 years, food prices have grown more than most major CPI categories, with the exception of medical care costs. However, this is not true over all 10-year periods.

Year

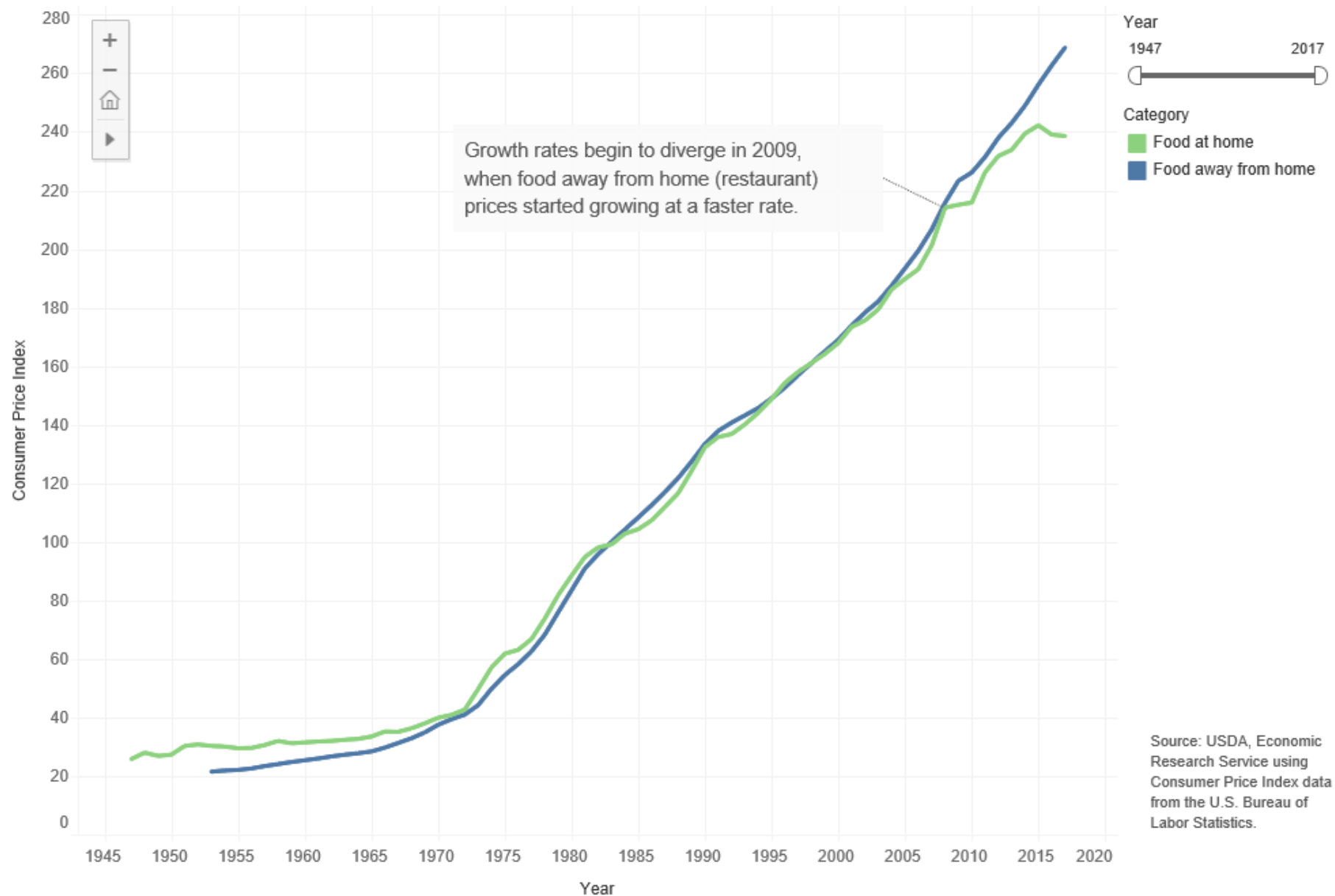
2017



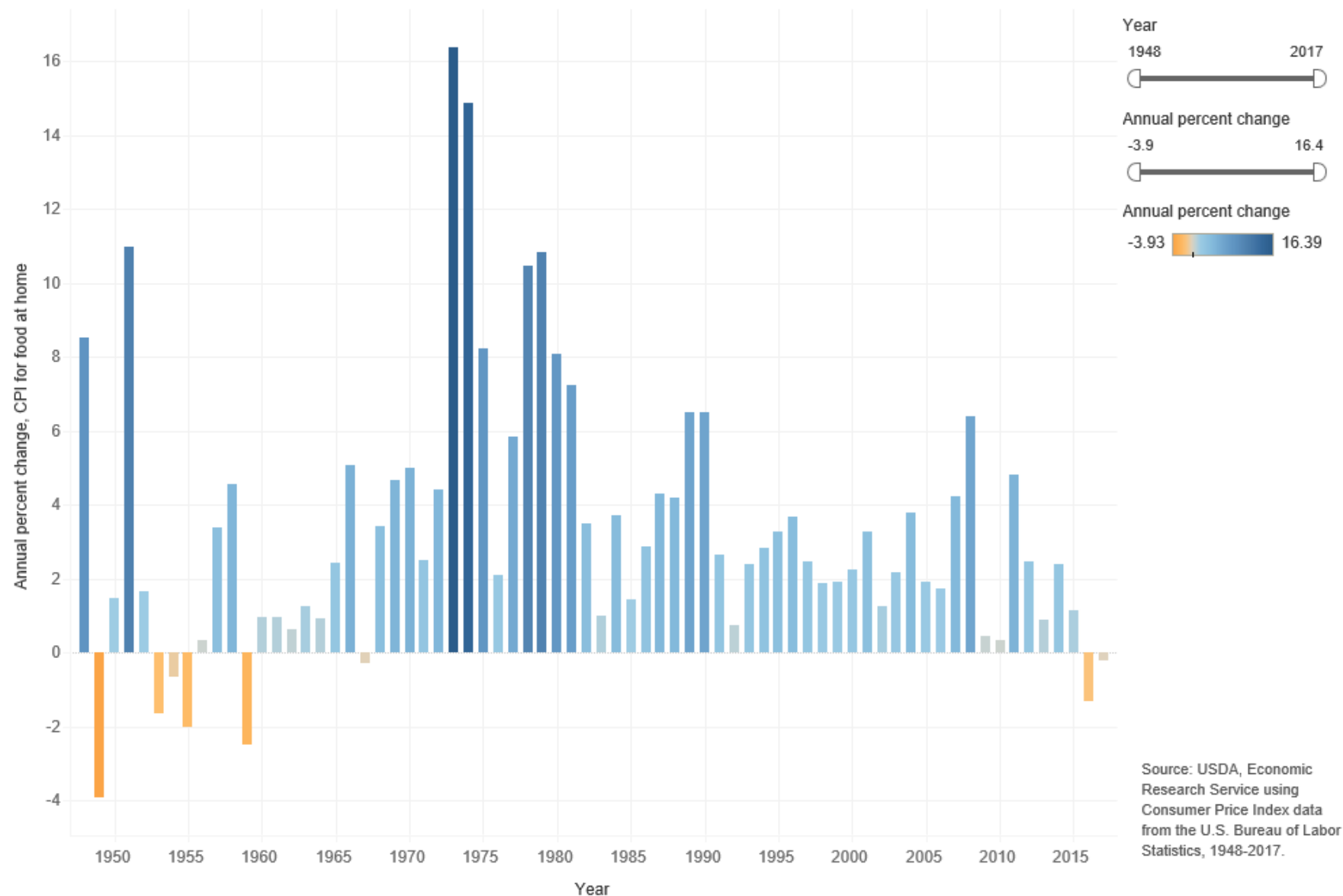
Source: USDA, Economic Research Service using Consumer Price Index data from the U.S. Bureau of Labor Statistics.



Does restaurant inflation differ from grocery store inflation?



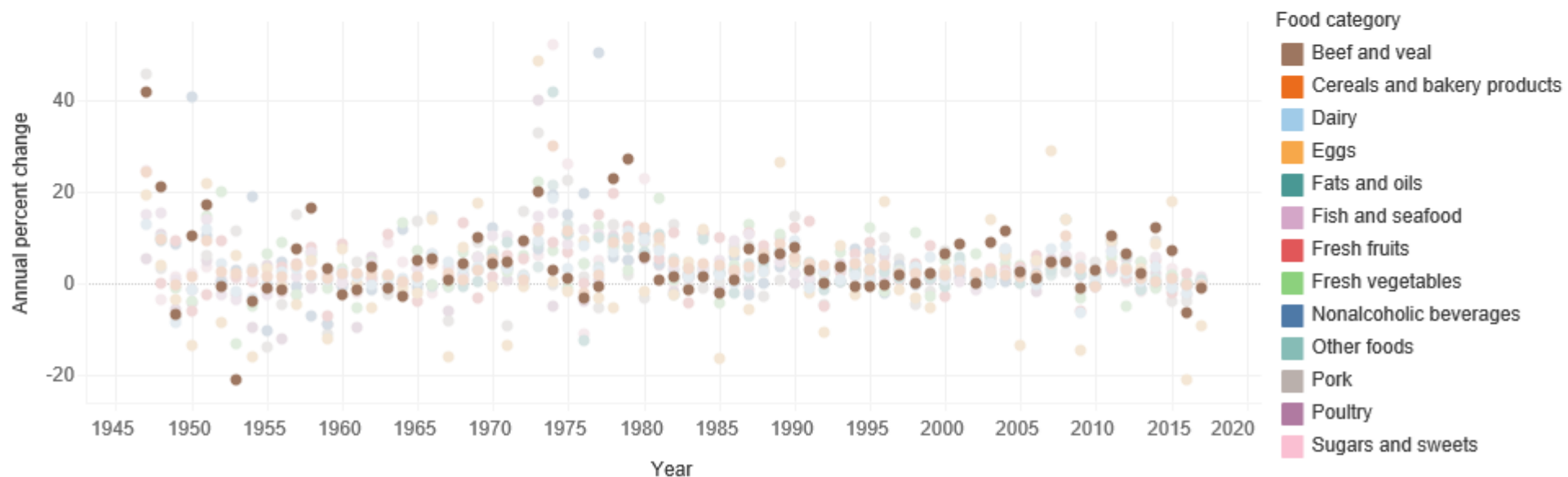
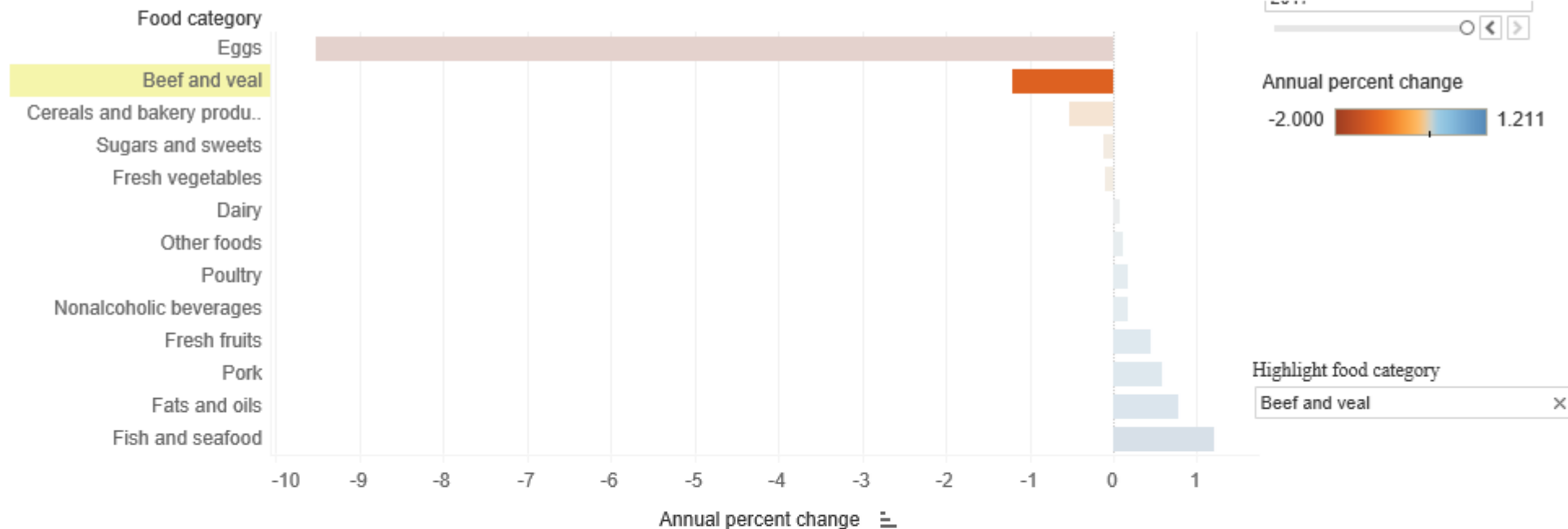
In recent years, food-at-home prices have been declining.



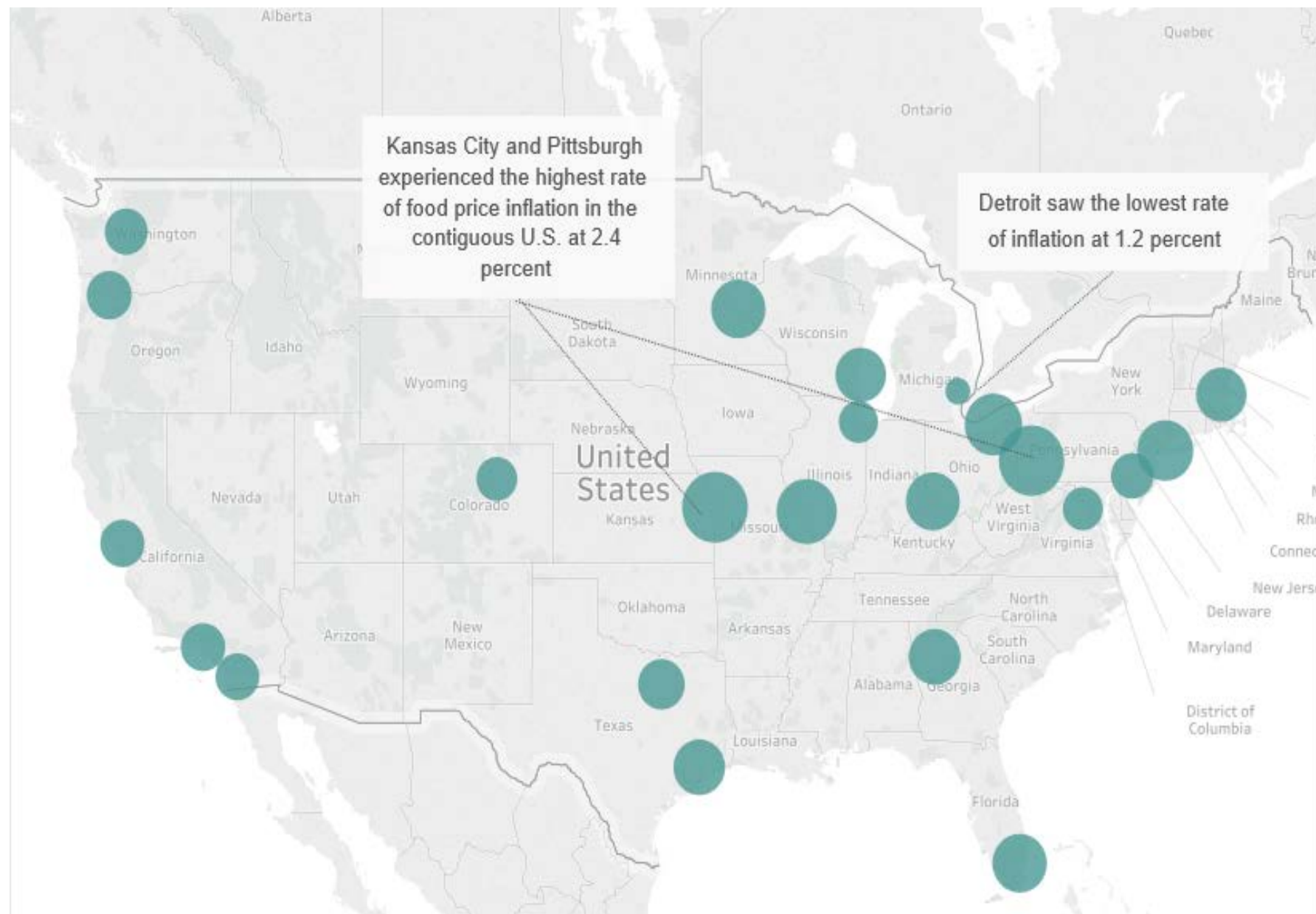
Source: USDA, Economic Research Service using Consumer Price Index data from the U.S. Bureau of Labor Statistics, 1948-2017.



Price changes vary by food category as well as year to year.



Food price inflation also varies by city.



RESOURCES FOR FOOD PRICE TRENDS

- Bureau of Labor Statistics Consumer Price Index

<https://www.bls.gov/cpi/>

- AMS Fruit and Vegetable Report

<http://www.ams.usda.gov/mnreports/fvwretail.pdf>

- IMF World Commodity Prices

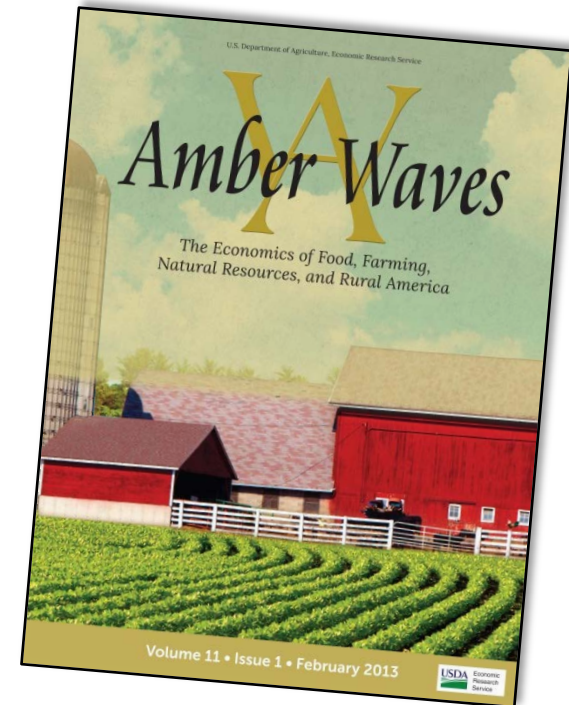
<http://www.imf.org/external/np/res/commod/index.asp>



Amber Waves:

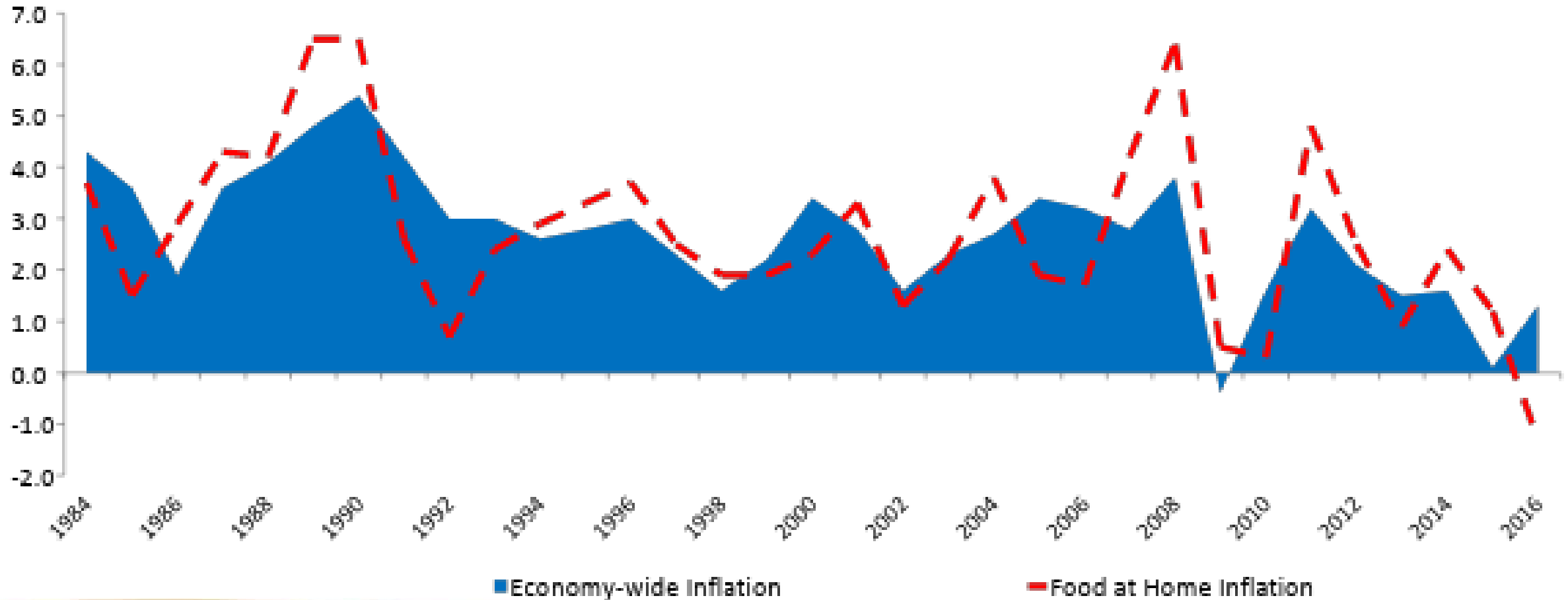
Presents current ERS economic and policy research on agriculture, food, rural America, and the environment for policymakers, academics and the public.

<http://www.ers.usda.gov/AmberWaves/>



PERCENT CHANGE IN THE ALL-ITEMS CONSUMER PRICE INDEX (CPI) AND FOOD CPI, 1984 - 2017

Percent Change



RETAIL FOODS TO WATCH IN 2018:

EGGS

- Egg prices decreased 9.5 percent in 2017
- Industry recovers from production lows in 2015.
- Farm-level egg prices have trended upwards over the last several months
- Predicted to increase **0.0 to 1.0** percent in 2018



RETAIL FOODS TO WATCH IN 2018: FRESH PRODUCE



- Declining dollar could put upward pressure on price of imported goods
- Fresh fruit prices expected to increase **4.0 to 5.0** percent in 2018
- Fresh vegetable prices expected to change between **-0.5 and 0.5** percent in 2018

