THE OUTLOOK FOR FOOD PRICES IN 1999

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After increasing 2.2 percent in 1998, the Consumer Price Index (CPI) for all food is expected to increase 2 to 3 percent in 1999. Food at home is projected to increase 2 to 2.5 percent while food away from home should increase 2.5 to 3 percent. The 1998 increase of 2.2 percent was the smallest increase for all food CPI since 1993 and follows the baseline projection of an average growth rate of 2.3 percent from 1998 to 2008 . Although 1999 looks like another good year for consumers, there are three factors that may determine if the increase for all food is closer to 2 or 3 percent.

The first unknown is whether the sluggish export market for beef and higher-valued cuts of pork and poultry continues throughout 1999; the second factor is if the expected 2 percent increase in milk production can meet consumer demands for butterfat products in 1999, including gourmet ice cream, cheese, and butter; and the third uncertainty is whether higher expected retail prices for oranges and bananas continue longer than the first six months of 1999. The late December 1998 freeze that hit the citrus areas of central California is expected to raise retail prices for fresh oranges 40 to 50 percent for the first 6 months of 1999. Also, higher retail prices for bananas are expected throughout 1999 and peaking in April, due to tropical storm Mitch which hit the banana growing areas of Honduras and Guatemala especially hard in November 1998. Combined, these food categories account for 39 percent of the food at home index: beef, pork and poultry account for 19 percent, dairy and related products account for 11 percent, fats and oils (including butter) account for 3 percent, while fresh fruits account for an additional 6 percent.

Retail food price changes are underpinned by general economic factors that influence food prices and the relationship between farm and marketing costs. In recent years, food price increases have been small due to the low general inflation rate, which is forecast to increase 2 to 3 percent in 1999 after increasing 1.9 percent in 1998; a larger share of the food dollar going to purchases of food away from home, which has averaged 45 percent the past two years; the continued decline in the farm value share of the retail price for most food items, which is expected to average 23 to 24 cents in 1998 and 1999; and increasing economies of size in the farm sector.

Food price changes are also a key variable determining what proportion of income consumers spend for food and what is left for purchases of other goods and services. In 1997, 10.7 percent of household disposable personal income went to pay for food, with 6.6 percent for food at home and 4.1 percent for food away from home. The downward trend in the proportion of household disposable personal income used for food should continue into 1998 and 1999. Preliminary figures on food sales for 1998 show food at home spending up 1.9 percent and away from home spending up 1.0 percent. After adjusting 1998 food sales for inflation, which provides an indicator of food quantities actually purchased, food at home spending went down 0.1 percent while food away from home spending went down 1.5 percent. With continued competition between grocery stores, restaurants and fast-food establishments, this pattern is expected through 1999.

The food at home CPI increase of 2.2 percent in 1998 was moderated by lower grain prices and adequate feed supplies, large supplies of competing meats, adequate supplies of coffee, increased sugar production, and strong competition in the soft drink and prepared food industries. The 1998 CPI increase of 2.6 percent for food away from home was less than the previous year. The smaller increase in the 1998 index was partly due to adjustments by restaurants and fast food establishments to the tighter labor markets. In addition, competition among restaurants and fast-food establishments remained strong in 1998 with lower costs for raw materials, especially food, contributing to a smaller index increase.

A discussion of some individual categories of the CPI for food can help explain price changes in 1998 and expected changes in 1999. In summarizing 1998 food price increases, large consumer demand coupled with stagnant milk production contributed to higher retail prices for dairy products, especially high butterfat items; reduced fresh fruit and vegetable supplies due to El Nino and Hurricane Mitch led to substantial retail price increases; and modest increases in the indexes for sugar and sweets, cereals and bakery products, and other foods were the result of adequate supplies and a small increase in the all items CPI index. In summarizing 1998 food price decreases, large competing supplies of meats led to retail price decreases for beef and pork; lower feed prices led to larger egg production and a drop in retail prices; and adequate coffee supplies along with competition among the soft drink producers for market share led to lower prices for these items in the nonalcoholic beverages index.

- **Beef and veal**. Commercial beef production is expected to decline 2 to 3 percent in 1999, with further reductions in 2000. Economic slowdowns in Asia and Russia resulted in worsening U.S. beef trade balance in 1998. The strong U.S. economy led to a rise in beef imports of about 11 percent in 1998 with exports growing less than 1 percent. Trade is expected to be more in balance in 1999 as world beef supplies decline, slowing U.S. imports to 3 to 4 percent. Also, U.S. beef exports are expected to rise 7 to 9 percent, largely the result of food aid programs to Russia. After falling 0.2 percent in 1998, the CPI for beef and veal is expected to increase 1 to 2 percent in 1999. Continued record large supplies of competing meats at even lower prices relative to beef will hold down large retail price increases. However, as supplies decline, retail beef prices will begin rising modestly in spring 1999.

- **Pork**. With expectations of plentiful supplies of pork and competing meats throughout 1999, pork retail prices are expected to fall another 3 to 4 percent, after falling 4.7 percent in 1998. Pork production increased 10 percent in 1998, leading to the largest per capita consumption rate increase since 1994, increasing almost 4 pounds from 1997 levels. With fractionally lower production and exports expected to increase 10 percent, per capita pork consumption in 1999 will decline slightly from 1998 levels. U.S. pork exports in 1999 are expected to be over 1.3 billion pounds, up from more than 1.2 billion pounds in 1998.

  When hog prices were historically low in late 1998, concerns were raised about retail prices and why they did not drop as sharply. Different demand situations can explain why retail prices do not parallel that of hog prices. First, contractual agreements between hog producers and slaughter plants are increasingly the norm with only about 10 percent of slaughter hogs sold in the open spot markets. When the available slaughter hog supply exceeds plant capacity (e.g., fourth quarter 1998), slaughter plants lower their bid for the available supply of hogs, which sharply reduces spot market prices. Likewise, when slaughter facilities are at relatively low rates of utilization (e.g., third quarter of 1997), packers bid up hog prices sharply.

Second, pork retail prices are generally slow to react to farm price changes and generally do not fluctuate as much as producer or wholesale prices. Historically, it has been found that declines in the farm value of pork take over a year to be passed on to consumers, while increases take about 4 months. In addition, retail values don't rise at the same rate or to the same degree as farm values. For example, in 1990 the net farm value for pork increased 24 percent but the pork CPI index increased by only 14.7 percent in 1990 and 3.3 percent in 1991. Similarly, when farm values fall, retail prices tend to fall less than the pork farm values. In 1991, the net farm value for pork fell 10 percent with an additional decrease of 14 percent in 1992; but the pork CPI index declined by only 4.7 percent in 1992. More recently in 1996, when the net farm value for pork increased 27 percent, the pork CPI index increase was less, 9.9 percent in 1996 and 5.2 percent in 1997.

Retailers strive to offer a variety of meat/poultry products to consumers knowing that increased sales in one meat species comes at the expense of another. And during the holidays, retailers found that they were able to move pork without significant retail price reductions, as pork supplies met rising retail consumer demand at the price range set by retailers.

- **Other meats** increased 0.9 percent in 1998, and in 1999 prices are expected to increase up to 1 percent. Other meats are highly processed food items (hot dogs, bologna, sausages) with their price changes influenced by the general inflation rate as well as the cost of the meat inputs.

- **Poultry**. Broiler meat production for 1999 could increase to 29.4 million pounds, about 5 percent above 1998. However, 1999 turkey production is forecast to be 5.25 million pounds, fractionally below 1998. Turkey producers are recovering from 2 years of negative returns, which has held down production increases. Broiler meat exports are forecast to remain weak through much of 1999, with first-half exports expected to be 20-25 percent lower than 1998. Export prospects for U.S. poultry have become less certain due to the continuing financial crisis in many Asian countries and loss of the Russian market. As these factors continue into 1999, increases in production will likely lead to lower retail prices for much of the year, despite reduced supplies of red meat. The poultry CPI is expected to change slightly, between -1 and 1 percent, after increasing 0.3 percent in 1998.

- **Fish and seafood**. The CPI for fish and seafood was up 2.6 percent in 1998, with an expected 2 to 3 percent increase in 1999. More than 50 percent of the fish and seafood consumed in the U.S. in 1998 came from imports, with another 20 to 25 percent from

U.S. farm raised production. Imports for 1998 were up, especially for salmon, shrimp, tilapia, mussels, clams, and oysters. Strength of the U.S. dollar to other currencies favors a rise in imports, especially from the Asian countries.

The U.S. has one of the world's largest farm-raised fishing industries with year-round production. Domestic production of catfish reached record highs in 1998, about 560 million pounds, with catfish growers expected to expand through 1999. In the 1990's, U.S. per capita seafood consumption has remained flat, between 14.8 and 15.2 pounds of edible meat per year, with any increases in total domestic seafood consumption coming from population growth. However, a strong U.S. economy is expected to boost away from home food demand as people travel and eat out more. This is especially important for seafood, as a large percentage of seafood is consumed at restaurants.

- **Eggs**. After volatile egg prices in 1996, the CPI for eggs fell 1.5 percent in 1997, was down another 3.3 percent in 1998, and is expected to fall 1 to 3 percent in 1999. With table egg production expected to be about 2 percent higher in 1999, consumption is expected to increase again, to the highest level since 1988. Higher production levels and slower growth in exports led to lower retail prices in 1997 and 1998, as well as expected lower prices in 1999.

- **Dairy products**. Robust demand and stagnant milk production produced record retail prices for milk and most dairy products throughout most of 1998. Increased demand and lower feed costs should provide a strong incentive to boost milk production in 1999, however increased production may not occur until the second half of 1999. With milk production expected to increase a modest 2 percent in 1999, the milk CPI is forecast up 4 to 5 percent in 1999 after increasing 3.6 percent in 1998. Strong consumer demand for dairy items, especially gourmet ice cream, cheese, and butterfat products, is expected to continue into 1999.

- **Fats and oils** increased 3.7 percent in 1998 and are expected up another 3 to 4 percent in 1999, after increasing a modest 0.9 percent in 1997. The index increase was largely due to BLS' movement of butter from the dairy products index to the fats and oils index in 1998. Higher retail prices for butter, which accounts for 31 percent of the fats and oils index, contributed to the increase. The remaining items contained in the fats and oils index are highly processed food items, with their price changes influenced by the general inflation rate in addition to U.S. and world supplies of vegetable oils. Soybean oil is the primary oil used in the production of vegetable oil products, however the relationship between soybeans and the retail price of vegetable oils is complex. Soybean oil is a joint product with soybean meal, which is primarily used for animal feed.

- **Fresh fruits**. Reduced production of most summer 1998 stone fruits and fall 1998 pears, helped to boost retail fresh fruit prices in 1998. The 1998 U.S. apple crop, which was up 9 percent from a year ago, helped mitigate retail price increases for other fruits. In 1998, U.S. grape production declined 14 percent, the pear crop was down 12 percent, peach production fell 9 percent, apricots were down 6 percent, sweet cherry production fell 12 percent, strawberry production in the six major production states was down 7 percent, and blueberry production fell 8 percent. Production of tart cherries and cranberries was up slightly. Imports provide most of the tropical fruit supplies in the U.S., with bananas, mangoes, pineapples, and papayas the most popular.

The 1997/98 U.S. citrus crop increased 5 percent over the previous year, mostly because of a record orange crop, which was up 9 percent. However, a cold snap in California's San Joaquin Valley in December 1998 caused USDA to lower orange production estimates for 1998/99. Before the freeze, the wet and cool conditions in California along with drought conditions in the spring in Florida reduced U.S. orange production by 21 percent compared to 1997/98. After the freeze, the orange crop was forecast to be 27 percent smaller than last year's record crop of 13.9 million tons, with California's production down 49 percent. Because California produces about 80 percent of the fresh-market oranges in the U.S., retail prices for oranges are expected to increase 40 to 50 percent for the first six months of 1999. Imports from other countries, including Australia and Mexico, along with diversion of part of Florida's orange production (mostly used for juice) to the fresh market should offset some of the reduced supply from California. To offset the declines in orange juice production, some of the fresh-market California oranges damaged in the December freeze were sent for processing. Fresh market oranges from Arizona and the California desert areas will be available summer 1999.

After seasonally lower banana prices in 1998, higher retail prices are forecast for most of 1999. Tropical storm Mitch, which hit the banana growing areas of Honduras and Guatemala in November 1998, caused major damage to the crop. Historically, Honduras and Guatemala combined have supplied about 30 percent of the U.S. market for bananas. In 1999, Ecuador, Costa Rica, and Columbia, who historically have supplied 60 percent of the U.S. market, will attempt to fill the supply gaps caused by tropical storm Mitch. In 1999, the impact on retail prices should occur as early as February or March, with prices peaking in April. Retail banana prices are forecast to increase up to 15 percent in the first six months of 1999, and an additional 8 percent the last half of the year.

Higher retail prices for fresh oranges, which accounts for 20 percent of the fresh fruits index, along with expected higher prices for bananas--another 18.5 percent of the fresh fruit index, raises the price forecast for 1999. The fresh fruit index, which increased 4.3 percent in 1998, is expected to increase 7 to 8 percent in 1999 due to the expected higher prices for fresh oranges and bananas, along with steady U.S. consumer demand for fresh fruits.

- **Fresh vegetables**. El Nino-driven cold, wet weather in Florida, California, and Mexico reduced fresh-market vegetable supplies, disrupted planting and harvest windows, and raised retail prices throughout the first half of 1998. In addition, tropical storm Mitch caused wind and water damage to some central Florida vegetables in early November. As a result, the fresh vegetable index increased 10.9 percent in 1998.

  Fall acreage was down in 1998, with 2 percent fewer acres of fresh-market vegetables and melons harvested in fall 1998. Acreage of cool-season crops (lettuce, carrots, broccoli) declined 1 percent, while that of warm-season crops (tomatoes, bell peppers, snap beans) dropped 3 percent. Tropical storm Mitch damaged several of the fall-season vegetable crops in Florida, snap beans and radishes were damaged and some fields required replanting. In addition, product quality of vegetables like tomatoes and eggplant were temporarily reduced and yield potential diminished. Strong winds caused some bloom loss for tomatoes and peppers, reducing supplies and causing higher consumer prices into early 1999. Mitch also flooded cantaloup fields in Costa Rica and Honduras, which could result in higher cantaloup prices in early 1999.

Harvested acreage of 13 selected vegetables is forecast to rise 3 percent to 193,500 acres during the 1999 winter season (January-March). Adding to the large domestic supplies this winter will be imports from Mexico. Fresh-market vegetable acreage is expected to increase about 1 percent in calendar year 1999. Potato production, which increased 2 percent in 1998, is also expected to increase another 1 percent in 1999. If the weather and growing conditions in the major fresh vegetable growing areas returns to normal in 1999, the fresh vegetable index is forecast to fall 1 to 3 percent.

Processed fruits and vegetables. Production of the four leading vegetables for processing (tomatoes, sweet corn, snap beans, and green peas) was down 2 percent in 1998, after a 3 percent decline in planted acreage a year earlier. Per acre yields were below a year ago for tomatoes (down 7 percent), green peas (3 percent), and sweet corn (2 percent). Yields were higher for snap beans (up 3 percent). For 1998, wholesale prices of canned vegetables and juices averaged 1 percent above the previous year, leading to minimum pressure on retail prices. The ready availability of canned and frozen vegetables, frozen concentrate orange juice and other fruit supplies kept the CPI increase for processed fruits and vegetables to 1.7 percent in 1998, with an expected increase of 2 to 4 percent in 1999.

- **Sugar and sweets**. Domestic sugar production was up to 8.0 million tons in 1997/98 and is projected up another 3 percent in 1998/99 to 8.3 million tons. Higher sugarbeet prices and lower prices for competing crops led to acreage increases in both years. Along with higher sugar output, lower retail prices for selected sugar-related food items in 1998 increased the sugar and sweets CPI by only 1.6 percent. Although U.S. sugar consumption has grown at a rate of about 1.9 percent per year since 1985/86 and sugar use by industrial users has risen, the CPI is projected to increase a moderate 1 to 3 percent in 1999.

- **Cereal and bakery products** account for a large portion of the at home food CPI - almost 16 percent. While higher grain prices contributed to higher retail prices for selected bakery products in 1996, lower grain prices in 1997 and 1998 held the increase to 2.0 percent in 1998. Most of the costs to produce cereal and bread products are for processing and marketing, more than 90 percent in most cases, leaving the farm ingredients a minor cost consideration. Competition for market share among the three leading breakfast cereal manufacturers led to the cereal component of this index falling 9.7 percent from 1995 to 1996, with an additional decrease of 1.4 percent from 1996 to 1997. In 1998, cereal prices increased slightly, up 1.3 percent. With strong demand for cereal and bakery products, as well as competition among producers expected to continue, the CPI for cereals and bakery products is expected to rise at a rate of 2 to 3 percent in 1999.

- **Nonalcoholic beverages**. Coffee and carbonated beverages are the two major components, accounting for 15 and 38 percent of the nonalcoholic beverages index. After increasing 3.7 percent in 1997 due primarily to higher coffee prices, the index fell 0.3 percent in 1998. Lower coffee prices and strong competition in the soft drink industry by the two major competitors continued throughout most of 1998. After increasing almost 13 percent in 1997, coffee prices fell almost 3 percent in 1998 and carbonated beverages were down 1.4 percent in 1997 and another 1 percent in 1998.

  Brazil's 1998/99 coffee harvest reached a near-record 36 million bags, a third of the world's total and 50 percent above the 1997/98 marketing year. The current large Brazilian crop is forcing other countries to cut prices, which should continue to lower prices in the U.S. Brazil is the largest producer of arabica coffee beans which are preferred for gourmet coffee blends. The U.S. imports up to 80 percent arabica beans along with 15-20 percent robustas, used mainly for soluble (instant) coffee or blended with arabicas.

  U.S. retail coffee prices have fluctuated since 1994, when Brazil experienced a major freeze to their coffee trees. Recent near-record production should lead to larger U.S. stocks and continued lower consumer prices. With coffee prices continuing to decline, along with competition in the soft drink industry, the CPI for nonalcoholic beverages is expected to moderate at a 1 to 2 percent increase.

- **Other prepared foods**. Other miscellaneous prepared foods are highly processed and are largely affected by changes in the all-items CPI. These products include frozen dinners, pizzas, and precooked frozen meats. Competition among these products and from the away from home market should continue to dampen retail price increases for items in this category. In 1998, the CPI for this category increased 2.7 percent and is expected to increase 2 to 3 percent in 1999.

Changes in Food Price Indicators
1997 through 1999

Items	Relative importance [1]	1997	Final 1998	Forecast 1999
	--Percent--	------------Percent Change------------		
All Food	100.0	2.6	2.2	2 to 3
Food Away From Home	37.1	2.8	2.6	2.5 to 3
Food at Home	62.9	2.5	1.9	2 to 2.5
Meats	10.9	3.0	-1.9	-1 to 1
Beef and Veal	4.8	1.7	-0.2	1 to 2
Pork	3.8	5.2	-4.7	-4 to -3
Other Meats	2.2	2.8	0.9	0 to 1
Poultry	3.2	2.8	0.3	-1 to 1
Fish and Seafood	2.2	2.3	2.6	2 to 3
Eggs	0.8	-1.5	-3.3	-3 to -1
Dairy products	6.8	2.4	3.6	4 to 5
Fats and Oils	1.9	0.9	3.7	3 to 4
Fruits and Vegetables	9.1	2.0	5.7	2 to 3
Fresh Fruits and Vegetables	7.0	1.7	7.3	3 to 4
Fresh Fruits	3.6	0.8	4.3	7 to 8
Fresh Vegetables	3.4	2.9	10.9	-3 to -1
Processed Fruits and Vegetables	2.1	2.4	1.7	2 to 4
Sugar and Sweets	2.5	2.9	1.6	1 to 3
Cereals and Bakery Products	10.0	2.1	2.0	2 to 3
Nonalcoholic Beverages	7.0	3.7	-0.3	1 to 2
Other Foods	8.5	3.2	2.7	2 to 3

[1] BLS estimated expenditure shares, December 1997.