THE OUTLOOK FOR FOOD PRICES IN 2000

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After increasing 2.1 percent in 1999, the Consumer Price Index (CPI) for all food is expected to increase 2 to 3 percent in 2000. 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 1999 increase of 2.1 percent was the smallest increase for all food CPI since 1992 when the increase was 1.2 percent. This follows the baseline projection of an average growth rate of 2.1 percent from 1999 to 2009.

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 2.3 percent in the baseline for 2000, after increasing 2.1 percent in 1999; a larger share of the food dollar going to purchases of food away from home, which reached a record 47 percent in 1998; the continued decline in the farm value share of the retail price for most food items, which is expected to average 21 to 22 cents in 1999 and 2000; 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 1998, 11.0 percent of household disposable personal income went to pay for food, with 6.7 percent for food at home and 4.2 percent for food away from home. The downward trend in the proportion of household disposable personal income going toward food should continue into 2000. The 1999 CPI increase of 2.5 percent for food away from home was less than the two previous years, indicating that restaurants and fast food establishments have adjusted to the tighter labor markets and increased general wages. Comparing December 1999 with December 1998, prices for full service meals and snacks (restaurants) increased 2.2 percent and prices for limited service meals and snacks (fast-food) increased 2.6 percent. Competition among restaurants and fast-food establishments remained strong in 1999 with lower costs for raw materials, especially food, contributing to a smaller index increase.

In summarizing 1999 food price increases, large consumer demand coupled with slow growth in milk production contributed to higher retail prices for dairy products; reduced fresh fruit supplies led to higher retail prices (four days of freezing temperatures in late December 1998 in California and cold temperatures in Florida squeezed fresh fruit supplies through much of 1999 as the 1998/99 U.S. citrus crop was 23 percent below the previous season); large supplies of competing meats led to retail price decreases for pork and small increases for beef and poultry; lower feed prices led to larger egg production and a drop in retail prices; and adequate coffee supplies led to lower prices in the nonalcoholic beverages index. The following discussions highlight 1999 supplies and prices and focus on expected CPI changes for 2000:

- **Meats**. U.S. livestock producers are benefiting from inventory declines that are reducing production, and a booming economy that is fueling demand for meat products. Feed costs remained relatively low in 1999, boosting producers' returns. Although poultry producers are benefiting from low feed costs, rising production is pressuring wholesale and retail prices. Declining red meat production and moderating poultry production in 2000 will push total meat production below a year earlier for the first time since 1982.

  With the absence of food aid to Russia, red meat exports are expected to decline 4 percent in 2000, but commercial sales will be about the same as in 1999. The expected decline in beef production and higher U.S. prices will make the United States a more attractive market for other beef exporting countries, with beef imports expected to increase about 5 percent. After increasing at double-digit rates in 1998 and 1999, U.S. pork exports are expected to drop about 3 percent in 2000 as major pork exporters try to regain Asian markets lost during the financial crises. After declining the past 2 years, poultry exports are expected to rise about 3 percent.

- **Beef and veal**. Beef production was up nearly 3 percent in 1999 to 26.4 billion pounds, breaking the old beef production record set in 1976. Beef production is expected to remain large the first half of 2000 as the number of cattle on feed inventories remain at a record high, with production expected to decline sharply the second half of the year. Exports are expected to decline 2 to 3 percent in 2000 because of lower production, higher prices, more stable currencies, and no beef aid to Russia. However, beef imports for 1999 surpassed earlier expectations, up almost 9 percent, and are expected to reach a record high of 3.0 billion pounds in 2000, 5 percent higher than 1999.

  Domestic beef supplies are likely to remain tightest in the fourth quarter of 2000 and continue to tighten over the next couple of years. With smaller supplies, consumption is also expected to be lower in 2000, at 67.5 pounds per capita. Retail prices for Choice beef were above $3.00 a pound in late 1999 for the first time since 1993, reflecting tight supplies of Choice beef and very strong demand for higher quality beef. After increasing 2.0 percent in 1999, the CPI for beef is expected to increase 4 to 6 percent in 2000. This would be the largest annual increase since 1993, when the beef CPI increased 3.6 percent.

- **Pork**. Commercial pork production was a record 19.3 billion pounds in 1999, up over 1 percent from a year earlier. Following two consecutive record years, production is expected to fall to 18.6 billion pounds in 2000. Responding to low returns, hog producers began to reduce their breeding herds in late 1998 and continued to reduce them through 1999. The reductions ensure lower pork production in 2000, higher hog prices, and a boost in producers' returns given expectations for continued low feed costs. With pork production expected to decline 4 percent in 2000, pork consumption will likely decline about 1.5 pounds from 1999 levels, to 51.4 pounds per person in 2000.

With beef production declining sharply in second-half 2000 and broiler production expected to moderate, retail pork prices are expected to increase 4 to 6 percent in 2000 after declining 1.8 percent in 1999 and 4.7 percent in 1998. Given the outlook for a strong economy, the demand for meats at fast food outlets is expected to continue, placing upward pressure on bacon as restaurants and fast food establishments bid bacon away from retail food stores. Over time, pork demand appears to have increased in response to higher quality, greater consistency, and larger cut size offered by the industry.

C **Other meats** increased 1.0 percent in 1999, and in 2000 prices are expected to increase 3 to 5 percent, slightly below forecasted beef and pork price increases. 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.

C **Poultry**. The CPI for poultry increased 0.5 percent in 1999, with an increase of 0 to 2 percent expected in 2000. Competing supplies of red meat will be an important factor in overall meat prices in 2000, as projected declines in beef and pork production should prevent broiler prices from dropping even lower. Broiler meat production for 1999 was 29.4 billion pounds, and is expected to increase to 30.9 billion pounds in 2000. Broiler production is expected to continue increasing in 2000, but at a slower 5 percent rate. Turkey production was 5.2 billion pounds in 1999 and is forecast to increase slightly, up to 5.3 billion pounds in 2000.

Broiler exports are expected to expand in 2000, with greater shipments going to a number of Asian markets and to a slowly recovering Russian market. U.S. broiler exports in 2000 are expected to be 4.75 billion pounds, up almost 3 percent from 1999, or about the same as 1998. The export expansion is expected to continue driving the poultry industry’s ability to efficiently convert feed to meat, lowering its cost relative to both beef and pork. Additionally, demand in developing countries is expected to expand due to rising populations and a growing preference for a western type diet.

C **Fish and seafood**. The CPI for fish and seafood was up 2.0 percent in 1999, with an expected 2 to 3 percent increase in 2000. More than 50 percent of the fish and seafood consumed in the U.S. in 1999 came from imports, with another 20 to 25 percent from U.S. farm-raised production. Larger imports of shrimp, talapia, and salmon tempered the CPI increase in 1999 as strength of the U.S. dollar over other currencies continues to favor a rise in imports, especially from the Asian countries.

The U.S. has one of the world’s largest fishing industries with year-round production. 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**. Retail egg prices fell 5.4 percent in 1999, with no CPI index change expected in 2000. Egg production increased nearly 4 percent in 1999, lowering wholesale and retail egg prices. Table egg production is expected to increase about 2 percent in 2000, with a 4 to 5 percent increase in hatching egg production raising the total egg production. This will continue to place pressure on egg prices, with negative net returns expected for producers. Higher production levels and slower growth in exports led to lower retail prices in 1997, 1998, and 1999. Per capita consumption is expected to reach 258.4 eggs in 2000, up 1 percent from 1999.

- **Dairy products**. A robust economy is projected to keep dairy demand brisk in 2000, as milk output is expected to increase more than 2 billion pounds. For most of 1999, production could not keep pace with demand, as the CPI for dairy products increased 5.8 percent. As the growth in milk production progresses due to higher producer prices, lower feed prices, and ample alfalfa supplies, retail prices are expected to decline 1 to 2 percent in 2000.

  Strong consumer demand for dairy items, especially gourmet ice cream, cheese, and butterfat products, is expected to continue this year. Consumer willingness to buy these items is partly due to a 4 percent increase in disposable personal income. Increased spending for away-from-home eating and the willingness to pay for convenience and other forms of commercial food preparation were also important factors.

- **Fats and oils** increased 1.0 percent in 1999 and is expected to be up another 1.5 to 2.5 percent in 2000. The small index increase was largely due to lower retail prices for butter, which accounts for 31 percent of the fats and oils index. 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**. Higher retail prices for Valencia and navel oranges, grapefruit, lemons, and pears boosted the CPI fresh fruit index by 8.0 percent in 1999. The 1998/99 U.S. citrus crop dropped 23 percent from the previous season, mostly due to poor weather. California's citrus output fell 39 percent in 1999 and Florida's citrus production was down 20 percent from the previous year's record.

  After seasonally lower banana prices in 1998, higher retail prices were forecast for most of 1999 due to tropical storm Mitch which hit the banana growing areas of Honduras and Guatemala in November 1998. Significant retail price increases did not occur however. This was due to the ability of Ecuador, Costa Rica, and Columbia, who historically provide the U.S. with an additional 60 percent of bananas, to fill supply gaps caused by tropical storm Mitch.

  Citrus production is expected to be up in 2000, forecast to be 19 percent higher than last season. U.S. orange production in 1999/00 is forecasted at 12.1 million tons, up 22 percent from last year's crop with larger crops in Florida (up 14 percent), California (up 76 percent) and Texas (up 11 percent). The much reduced crop in California last year kept prices for fresh-market oranges up sharply throughout 1999. California's navel and Valencia crops are forecast up 90 percent and 59 percent this year. Grapefruit production is forecast to increase 5 percent to 2.6 million tons, making up 16 percent of the overall domestic citrus crop. Grapefruit production in Florida and California are expected to be up 6 percent and 7 percent, respectively, while the crops in Arizona and Texas are anticipated to be 12 percent and 10 percent smaller. Imports provide most of the tropical fruit supplies in the U.S., with bananas, mangoes, pineapples, and papayas the most popular.

The major fresh fruits consumed continue to be bananas, apples, oranges, and grapes. Higher retail prices for fresh oranges, (navel oranges were up 49 percent and Valencia oranges increased 44 percent), which account for 20 percent of the fresh fruits index, contributed to the fresh fruit index increase of 8.0 percent in 1999. Retail prices averaged above the previous year for other fruits, including grapefruit (up 8 percent), grapes (up 16 percent), lemons (up 11 percent), peaches (up 5 percent), pears (up 2 percent), and strawberries (up 3 percent). With the possibility of significantly higher retail banana prices in 1999, the average retail price was actually unchanged from the year before. Retail prices for red delicious apples in 1999 averaged 5 percent below the previous year. Although apple production fell 7 percent in the fall of 1999, consumers paid lower retail prices earlier in the year due to a record 1998 crop. With continued U.S. consumer demand for fresh fruits and a return to normal production levels for major fruits, the fresh fruit CPI is forecast to increase 2 to 3 percent in 2000.

C **Fresh vegetables**. Fresh-market vegetable acreage increased 1 percent in 1999, with summer vegetable area for harvest up 5 percent over a year ago. With normal growing conditions in major fresh vegetable areas in 1999, the CPI for fresh vegetables fell 3.0 percent in 1999.

Despite cool, rainy spring weather in California, the summer drought in the East, and hurricanes in the South, average shipping-point prices were the lowest since 1994. This lead to lower than average retail prices for many vegetables throughout 1999. Retail prices averaged below the previous year for most major items, including lettuce (down 11 percent), broccoli (down 9 percent), peppers (down 9 percent), cabbage (down 7 percent), celery (down 4 percent), and tomatoes (down 8 percent). Retail prices for carrots increased 1 percent due largely to weather-reduced supplies this past winter and spring, with prices also slightly higher for potatoes.

One benefit of the sustained low prices in 1999 is expected to be increased per capita use of fresh market vegetables into 2000. Per capita use of all vegetables and melons reached a record 455 pounds in 1999, up 4 pounds from 1998. Use of fresh vegetables and melons (excluding potatoes, sweet potatoes, and mushrooms) is forecast to total a record high 165 pounds per person in 2000.

In response to the lower grower and retail prices, growers would have the incentive to reduce acreage. However, the winter-season vegetable acreage in primary desert production areas is up for several major vegetables including tomatoes and lettuce. If the weather and growing conditions in the major fresh vegetable growing areas remain normal in 2000, the fresh vegetable index is forecast to increase 2 to 3 percent.

Processed fruits and vegetables. Adequate supplies of most fruits and vegetables for processing limited the CPI increase for processed fruits and vegetables to 2.1 percent in 1999. Contract production of the four major processing vegetables (tomatoes, sweet corn, green peas, and snap beans) increased 16 percent in 1999. Acreage harvested under contract was up 3 percent and yields were higher for tomatoes, sweet corn, and snap beans. As a result of low stocks and strong wholesale prices, tomato processors increased contract production to 11.5 million tons. 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 2.1 percent in 1999, with an expected increase of 2 to 3 percent in 2000.

C **Sugar and sweets**. Domestic sugar production was up almost 3 percent to 8.3 million tons in 1998/99 and is expected to hit a record 8.9 million short tons in 1999/2000. Relatively low inflation, along with increased production, lower retail prices for selected sugar-related food items kept the 1999 sugar and sweets index increase to only 1.4 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 1.5 to 2.5 percent in 2000.

C **Cereal and bakery products** account for a large portion of the at home food CPI-- almost 16 percent. With grain prices lower this year and inflation-related processing costs modest, the CPI for cereals and bakery products increased 2.2 percent in 1999. 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. With competition among producers and consumer demand for bakery products expected to remain fairly strong, the CPI is forecast up 2 to 3 percent in 2000.

C **Nonalcoholic beverages**. The CPI for nonalcoholic beverages increased 1.0 percent in 1999 and is forecast to increase another 2 to 3 percent in 2000. Coffee and carbonated beverages are the two major components, accounting for 28 and 38 percent of the nonalcoholic beverages index. After lower soft drink prices in 1997 and 1998, retail prices were slightly higher in 1999. Lower coffee prices in 1999 reflected a near-record crop in Brazil, the largest producer of Arabica coffee beans. Weather has been excellent for the current crop, with no shortage of coffee beans expected in the next year. The U.S. imports up to 80 percent arabica beans along with 15-20 percent robustas, which go mainly to soluble (instant) coffee or are 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, the CPI for nonalcoholic beverages is expected to moderate at a 2 to 3 percent increase in 2000.

- **Other 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 1999, the CPI for this category increased 2.1 percent and is expected to increase 2 to 3 percent in 2000.

Changes in Food Price Indicators
1998 through 2000

Items	Relative importance [1]	1998	Final 1999	Forecast 2000
			--Percent--	
-------------Percent Change-------------				
All Food	100.0	2.2	2.1	2 to 3
Food Away From Home	37.2	2.6	2.5	2.5 to 3
Food at Home	62.8	1.9	1.9	2 to 2.5
Meats	10.8	-1.9	0.5	4 to 6
Beef and Veal	4.8	-0.2	2.0	4 to 6
Pork	3.8	-4.7	-1.8	4 to 6
Other Meats	2.2	0.9	1.0	3 to 5
Poultry	3.2	0.3	0.5	0 to 2
Fish and Seafood	2.2	2.6	2.0	2 to 3
Eggs	0.8	-3.3	-5.4	-1 to 1
Dairy products	6.7	3.6	5.8	-2 to -1
Fats and Oils	1.9	3.7	1.0	1.5 to 2.5
Fruits and Vegetables	9.0	5.7	2.5	2 to 3
Fresh Fruits and Vegetables	6.9	7.3	2.8	2 to 3
Fresh Fruits	3.5	4.3	8.0	2 to 3
Fresh Vegetables	3.4	10.9	-3.0	2 to 3
Processed Fruits and Vegetables		2.1	1.7	2.1
2 to 3				
Sugar and Sweets	2.4	1.6	1.4	1.5 to 2.5
Cereals and Bakery Products	10.0	2.0	2.2	2 to 3
Nonalcoholic Beverages	7.0	-0.3	1.0	2 to 3
Other Foods	8.5	2.7	2.1	2 to 3

[1] BLS estimated expenditure shares, December 1998.