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***THE OUTLOOK FOR FOOD PRICES IN 2002***

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Consumers' demand for beef, dairy products, and fresh fruits and vegetables contributed to a 3.1 percent increase in the all food Consumer Price Index (CPI) in 2001. The CPI for all food is forecast to increase 2.5 to 3 percent in 2002. The two main components of all food, food at home and food away from home, are also projected to increase 2.5 to 3 percent in 2002.

The CPI for food away from home increased 2.9 percent in 2001 and includes 2 main sub-categories. Full service meals and snacks (restaurants) represents 53 percent of the index, increasing 3.2 percent in 2001. Limited service meals and snacks (fast-food establishments) is 29 percent of the index, and increased 3.1 percent in 2001. Other categories of the index are food at employee sites and schools, which increased 1.0 percent in 2001 and food from vending machines and mobile vendors, which increased 1.4 percent. Restaurants and fast-food establishments will continue to compete vigorously with food-at-home sales and take-home meals offered by supermarkets in 2002. The three main sources of takeout food are fast-food establishments (33 percent), restaurants (23 percent), and supermarkets (20 percent).

Food price changes are a key variable determining what proportion of income consumers spend for food. In 2000, 10.2 percent of household disposable personal income went to pay for food, with 6.2 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 going toward food should continue into 2001 and 2002.

In 2001, food at home sales are estimated to increase 4.7 percent, slightly below the 5.2 percent increase in 2000. Food away from home sales are forecast to increase 4.9 percent in 2001, slightly below the 6.1 percent increase in 2000. Two of the major outlets for food away from home sales are full-service restaurants and limited-service eating places. In 2001, food sales at full-service restaurants increased 3.6 percent from \$134.4 billion in 2000. Food sales in 2001 at limited-service eating places were up 4.0 percent, from \$127.5 billion in 2000.

Total food expenditures (sales, plus home production, donations, and supplied foods) could increase to \$860.3 billion dollars in 2001, up almost 5 percent from \$821.9 billion dollars in 2000. With a recovering economy in 2002, total food expenditures are forecast to average \$885 to \$890 billion dollars, continuing the trend of 3- to 5- percent annual increases.

In summarizing 2001 food price increases, a booming economy and large consumer demand the first half of the year led to higher retail prices for beef, pork, poultry, eggs, dairy products, and fresh fruits and vegetables. The following discussions highlight 2001 supplies and prices and

focus on expected CPI changes for 2002:

- **Meats.** U.S. red meat and poultry production is expected to show little change in 2002 after posting a 1 percent gain in 2001. Another 3 percent decline in beef production in 2001, reflecting several years of cattle herd reductions and continued high heifer slaughter, was mostly offset by the gain in broiler production. Despite the plateau in meat production, lackluster growth in exports and a relatively weak U.S. economy may pressure retail prices. Red meat and poultry exports in 2002 are expected to rise less than 1 percent over 2001, the smallest increase since the decline in 1985. U.S. meat is facing increased competition in world meat markets, in addition to slowing consumer demand. Red meat exports are expected to decline 3 to 4 percent, which nearly offsets the expected 3 percent increase in poultry exports. In 2001, red meat and poultry exports rose about 7 percent, compared with a 5 percent increase in 2000. Pork, broiler, and turkey exports rose at double-digit rates in 2001, with beef exports registering a double-digit decline.
- **Beef and veal.** Weather-reduced beef supplies during the first half of 2001 resulted in sharply higher fed-cattle prices and record retail choice beef prices of \$3.48 a pound in June, as competition for the reduced supplies of beef increased. During the first half of 2001, beef production was down 5 percent as both marketings and slaughter weights declined. During the second half of 2001, drought conditions throughout much of the southern Great Plains and Pacific Northwest resulted in large numbers of cattle going to feedlots, with fewer heifers being retained for breeding. Second-half production declined almost 1 percent, less than previously expected due to heavier slaughter weights. The rate of production decline will depend on reductions in both beef cow and heifer slaughter, along with reduced feeder cattle supplies. Calf crops are likely to decline through 2004, with beef supplies not expected to rise until 2005.

The CPI for beef rose 8.4 percent in 2001 and is expected to increase 1 to 2 percent in 2002. The slowing economy during the second-half of 2001 dampened the demand for higher quality cuts of beef, which should continue into 2002. Beef production is likely to decline 2-3 percent in 2002, resulting in consumption of 67 pounds per capita.

- **Pork.** 2001 commercial pork production was up 1 percent from the year before due to a 3-pound increase in the average dressed weight. Annual hog slaughter in 2002 is forecast at 19.165 billion pounds, slightly above 2001. Commercial hog slaughter in 2002 is expected to be slightly lower than in 2001, with heavier slaughter weights supporting production levels. Large supplies of soybeans and corn have kept feed prices relatively low, and barring any major weather problems in the 2002 growing season, relatively cheap feed should lead to an increase in the average dressed weight in 2002.

Expectations through first-quarter 2002 are for continued strong international demand for U.S. pork products. Japan is expected to continue to import large quantities of U.S. pork and U.S. exports to Mexico increased about 5 percent in 2001. Two factors that have potential for slowing demand for U.S. pork products in 2002 include the world economic slowdown and the relatively high value of the U.S. dollar. Record 2001 retail beef prices

made pork more attractive to consumers, with retail pork prices increasing 3.8 percent. The CPI for pork is expected to increase 1 to 2 percent in 2002, as pork demand appears to remain steady or increase slightly in response to higher quality, greater consistency, and larger cut size offered by the industry.

- C **Other meats** increased 2.9 percent in 2001, and in 2001 prices are expected to increase 2 to 3 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.

- C **Poultry.** The CPI for poultry increased 3.2 percent in 2001, with an increase of 1 to 2 percent expected in 2002. Broiler production in 2002 is forecast at 31.9 billion pounds, up slightly from 31.1 billion pounds in 2001. Turkey production totaled 5.6 billion pounds in 2001, with 2002 production forecast to remain flat.

Broiler exports were strong in 2001, with increases in exports to the two largest markets (Russia and Hong Kong/China) plus increases in Central and Eastern Europe and Asian countries such as Korea and Taiwan. Due to the January 2002 discovery of a low pathogen Avian Influenza in Pennsylvania, Japan announced that it will embargo imports of U.S. poultry and egg products for 90 days, through April 12, 2002. Japan is the 4<sup>th</sup> largest export market for U.S. poultry. The Ukrainian also placed a ban on U.S. poultry imports effective January 1, 2002, for an undetermined time period. However, U.S. poultry exports to the Ukrainian vary widely, so it is difficult to determine the impact on U.S. poultry exports. Diminished sales during the first half of 2002, could lead to a smaller 2.5 percent increase in poultry exports, well below the 13 percent increase in 2001.

- C **Fish and seafood.** The CPI for fish and seafood was up 0.5 percent in 2001, with an expected 1 to 2 percent increase in 2002. A strong U.S. economy in the first half of 2001 boosted away from home food demand as people traveled and ate out more. This was especially important for seafood, as a large percentage of seafood is consumed at restaurants where it faced strong competition from beef in 2001. More than 50 percent of the fish and seafood consumed in the U.S. in 2001 came from imports, with another 20 to 25 percent from U.S. farm-raised production. 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 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.

- C **Eggs.** Retail egg prices increased 3.5 percent in 2001, with a 1 to 2 percent increase expected in 2002. Table egg production increased 2 percent in 2001 and is expected to increase another 2 percent in 2002. Wholesale, farm, and retail prices all increased in the first half of 2001, partly due to higher costs. Some of these added costs resulted from the adoption of guidelines from the fast-food industry regarding larger space recommendations in poultry houses and elimination of forced moulting. Per capita consumption is expected to reach 262.1 eggs in 2002, up slightly from 2001.

- C Dairy and related products** prices increased 4.0 percent in 2001 and are expected to increase 2 to 3 percent in 2002. Strong consumer demand for dairy items, especially gourmet ice cream, cheese, and butterfat products along with a 1 percent decline in milk production, led to retail price increases in 2001. The relatively high producer milk prices and low concentrate feed prices normally would promote growth in milk production. However in 2001, operation expansion plans were slowed by very tight supplies of replacement heifers and high-quality forage. The uneven quality of the 2001 forage probably will continue to affect milk per cow through mid-2002. Additionally, herds may contain some cows that normally would have been culled if replacement heifers were available. Growth in milk production is expected to reach 2 to 3 percent in 2002, if milk per cow recovers.

Markets for dairy products have changed substantially in recent years. Retail sales are no longer the main outlet for most dairy products. Although most fluid milk is still sold at retail, cheese and butter are used mostly by away-from-home eating establishments or by makers of processed foods. Large shares of ice cream and fluid cream sales go to retail channels other than grocery stores. The strong restaurant and fast-food markets in 2000 and 2001 increased cheese demand, as restaurants serve cheese for its versatility and flavor and fast-food chains include cheese, often paired with bacon on their sandwiches. Pizza sales and sales of commercially prepared entrees using cheese continue to be popular for away-from-home eating. Dairy demand in 2002 remains uncertain, but the projected production increase should lead to lower retail prices for most dairy products.

- C Fats and oils** increased 5.6 percent in 2001, but is expected to increase 1 to 2 percent in 2002. The increase in the 2001 index was largely due to higher retail prices for butter, which increased 26 percent. Butter 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.
- C Fresh fruits.** In the fall of 2001, retail prices were higher for apples, pears, tangerines, tangelos, fresh market oranges, grapefruit, and lemons. With smaller harvests this past fall for several fruit crops, the CPI for fresh fruits increased 2.6 percent in 2001 and is expected to increase 3 to 4 percent in 2002. The CPI for fresh oranges and tangerines this past fall were 13 percent higher than a year ago. Reduced crops of apples and lemons will also continue to be reflected in higher retail prices in the next few months. Most of these crops have a marketing season that extends through the early months of the year, so fruit prices are expected to remain higher through spring 2002. Also, reduced world banana production in the near-term may mean continued lower imports and higher retail prices for bananas in the coming months.
- C Fresh vegetables.** The CPI for fresh vegetables increased 5.1 percent in 2001 due to strong demand for fresh vegetables. Fresh-market vegetable harvested area was estimated to be up 4 percent from a year ago. Assuming continued mild weather and a slower

economy, fresh market vegetable supplies should remain at or above year earlier levels. Potato prices will be on the rise over the next 6 months because the fall crop declined 14 percent, to the lowest level since 1993. The extent of the impact on retail prices will depend largely on domestic and international demand for potatoes and potato products, particularly frozen french fries.

Given average weather, fresh vegetable supplies are expected to remain at or above year earlier levels through the first quarter of 2002. However, for the year as a whole, fresh area harvested is expected to decline slightly. In planning for each market window, growers and shippers consider prices received a year ago, costs of production, and the expected strength of the domestic market and export demand. Factors supporting increased area include higher grower prices in 2001 and lower input prices for energy-related items like fertilizer and fuel. After a small increase in area during the first quarter of 2002, acreage is expected to remain near year-earlier levels in the spring and summer seasons. Given the poor prices that growers received fall 2001, they are likely to reduce acreage during the fall quarter this year. Assuming average weather in 2002, annual fresh vegetable and melon supplies from domestic sources could be slightly lower for the year.

**Processed fruits and vegetables.** Contract production of the four major processing vegetables (tomatoes, sweet corn, green peas, and snap beans) was down 13 percent in 2000 and down an additional 10 percent in 2001. Fruit supplies for processing were also smaller in 2001. With lower supplies of both fruits and vegetables, the CPI for processed fruits and vegetables increased 3.2 percent in 2001 and is expected to increase 3 to 4 percent in 2002. Since frozen fruit and vegetable demand has been shown to be income sensitive, in the current economic climate retailers will be hard-pressed to raise prices more than a modest amount in the coming year.

- C **Sugar and sweets.** Domestic sugar production for FY2002 is projected at 7.925 million short tons, raw value (STRV), down from 8.674 million STRV in FY2001. Cane sugar production is projected at 4.025 million STRV in FY2002 and beet sugar production at 3.9 million STRV. Although cane production increased in Louisiana, Hawaii, and Puerto Rico, these increases were more than offset by projected decreases in Florida and Texas. Sugarbeet acreage planted was down 13 percent in 2001 due to the closure of two processing factories in California, uncertainty in the Central Great Plains regarding the purchasing of processing factories by producers, and a decision to suspend operations for this year at a processing plant in Washington State due to higher energy costs and low sugar prices at planting time.

Although demand for sugar and sugar-related products continues to remain strong, lower retail prices for selected sugar-related products kept the 2001 CPI index increase for sugar and sweets to only 1.2 percent. With a recovering economy in 2002, the CPI for sugar and sweets is expected to increase a moderate 1 to 2 percent. The sugar and sweets index has 3 sub-categories. They include sugar and artificial sweeteners which is 18.7 percent of the index and increased 2.3 percent in 2001; candy and chewing gum which is 60.6 percent of the index and increased 0.5 percent in 2001; and other sweets (jellies, jams,

preserves, and syrups) which is 20.7 percent of the index and increased 1.9 percent in 2001.

- C **Cereal and bakery products** account for a large portion of the at-home food CPI--almost 16 percent. With grain prices lower and inflation-related processing costs modest, the CPI for cereals and bakery products increased 3.0 percent in 2001 and is expected to increase 2 to 3 percent in 2001. This index has two sub-categories. They include cereals and cereal products which is 35 percent of the index and increased 1.6 percent in 2001; and bakery products which is 65 percent of the index and increased 3.7 percent. 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 as a minor cost consideration.

- C **Nonalcoholic beverages.** The CPI for nonalcoholic beverages increased 1.0 percent in 2001 and is forecast to increase 1 to 2 percent in 2001. Carbonated drinks, nonfrozen noncarbonated juices and drinks, and coffee are the three major components of this category, accounting for 39, 30, and 13 percent of the index. Retail prices were higher in 2001 for carbonated drinks (up 1.6 percent) and nonfrozen noncarbonated juices and drinks (up 1.7 percent), but significantly lower for coffee (down 4.7 percent).

Near-record coffee production in Brazil in 2000/2001 contributed to lower consumer prices for coffee, which should lead to larger U.S. coffee stocks and continued lower retail prices in 2002. Up to 80 percent of U.S. imports are arabica beans and 15-20 percent are robustas. Retail prices for carbonated drinks are forecast to be lower during the first quarter of 2002, due to retail store special pricing during the Winter Olympic games. One of the two major carbonated drink companies is a major advertiser during the Olympics, which leads to competitive pricing and generally lower prices at retail stores.

- C **Other foods.** The CPI for other foods increased 2.2 percent in 2001 and is forecast to increase 2 to 3 percent in 2002. Price trends for other foods--which includes soups, frozen and freeze-dried prepared foods, pizzas, snacks, spices, seasonings, sauces, and baby foods--are largely affected by changes in the all-items CPI. Competition among these products should continue to dampen retail price increases.

**Changes in Food Price Indicators  
2000 through 2002**

| <b>Items</b>                  | <b>Relative<br/>importance <sup>1/</sup></b> | <b>2000</b>                     | <b>Final<br/>2001</b> | <b>Forecast<br/>2002</b> |
|-------------------------------|--|---------------------------------|-----------------------|--------------------------|
|                               | <b>--Percent--</b>                           | <b>-----Percent Change-----</b> |                       |                          |
| All Food                      | 100.0  | 2.3                             | 3.1                   | 2.5 to 3                 |
| Food Away From Home           | 37.2   | 2.4                             | 2.9                   | 2.5 to 3                 |
| Food at Home                  | 62.8   | 2.3                             | 3.3                   | 2.5 to 3                 |
| Meats                         | 10.8   | 5.9                             | 5.7                   | 1 to 2                   |
| Beef and Veal                 | 5.0  | 6.4                             | 8.4                   | 1 to 2                   |
| Pork                          | 3.7  | 7.3                             | 3.8                   | 1 to 2                   |
| Other Meats                   | 2.2  | 2.6                             | 2.9                   | 2 to 3                   |
| Poultry                       | 3.1  | 1.2                             | 3.2                   | 1 to 2                   |
| Fish and Seafood              | 2.2  | 2.8                             | 0.5                   | 1 to 2                   |
| Eggs                          | 0.8  | 3.0                             | 3.5                   | 1 to 2                   |
| Dairy and related products    | 6.9  | 0.7                             | 4.0                   | 2 to 3                   |
| Fats and Oils                 | 1.9  | -0.6                            | 5.6                   | 1 to 2                   |
| Fruits and Vegetables         | 9.6  | 0.7                             | 3.7                   | 3 to 4                   |
| Fresh Fruits and Vegetables   | 7.5  | 0.7                             | 3.8                   | 3 to 4                   |
| Fresh Fruits                  | 3.8  | -3.0                            | 2.6                   | 3 to 4                   |
| Fresh Vegetables              | 3.7  | 4.8                             | 5.1                   | 4 to 5                   |
| Processed Fruits & Vegetables | 2.1  | 1.1                             | 3.2                   | 3 to 4                   |
| Sugar and Sweets              | 2.4  | 1.1                             | 1.2                   | 1 to 2                   |
| Cereals and Bakery Products   | 10.0   | 1.8                             | 3.0                   | 2 to 3                   |
| Nonalcoholic Beverages        | 6.7  | 2.6                             | 1.0                   | 1 to 2                   |
| Other Foods                   | 8.4  | 2.0                             | 2.2                   | 2 to 3                   |

<sup>1/</sup> BLS estimated expenditure shares, December 2000.