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Outlook for U.S. Retail Food Prices and Inflation in 2009



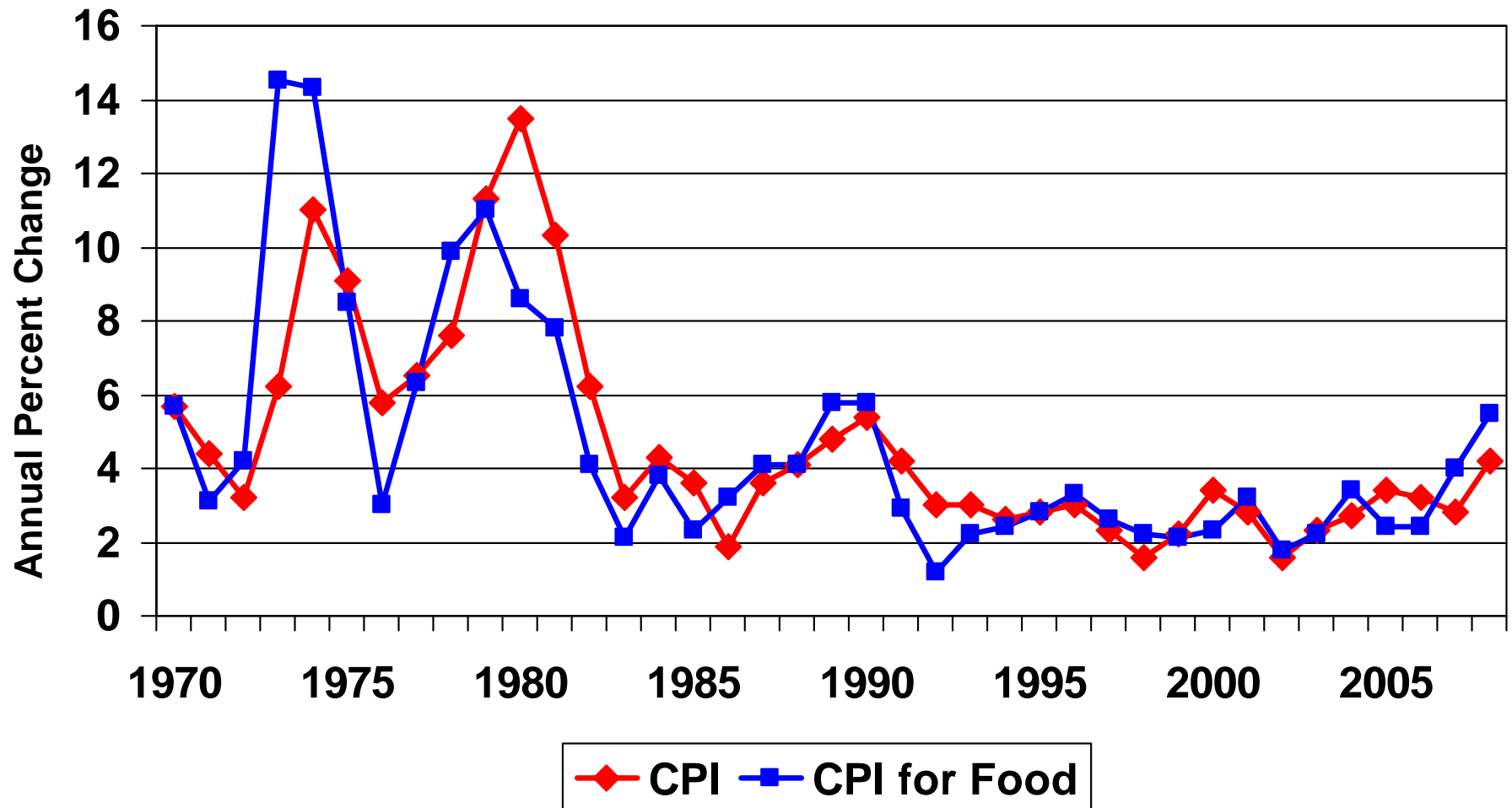
Ephraim Leibtag, PhD

Food Markets Branch, Food Economics Division
ERS-USDA

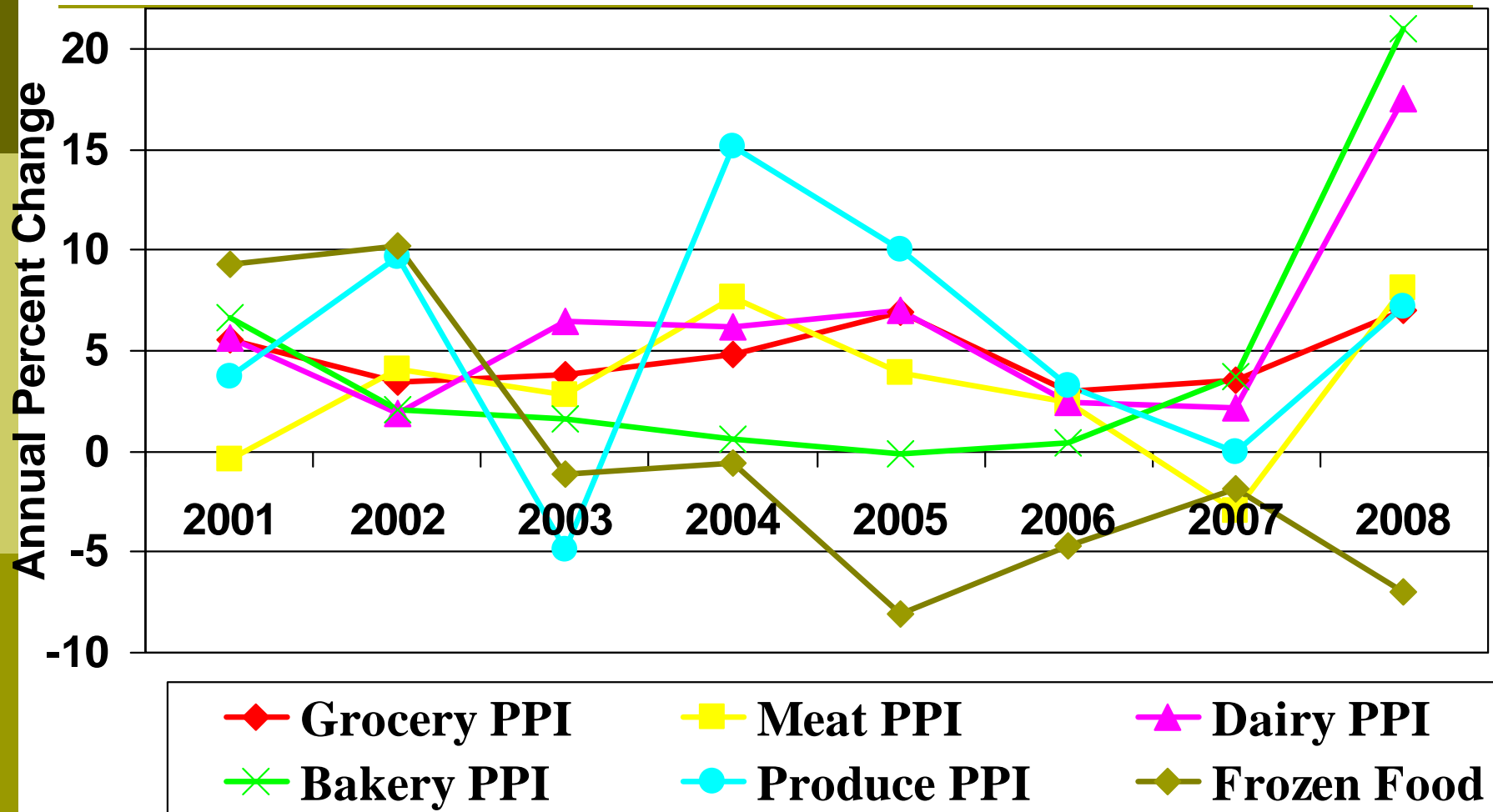
**Presented at the 2009 Agricultural Outlook Forum
*Global Agriculture & Rural America in Transition***

February 26, 2009

CPI vs. CPI for Food 1970-2008



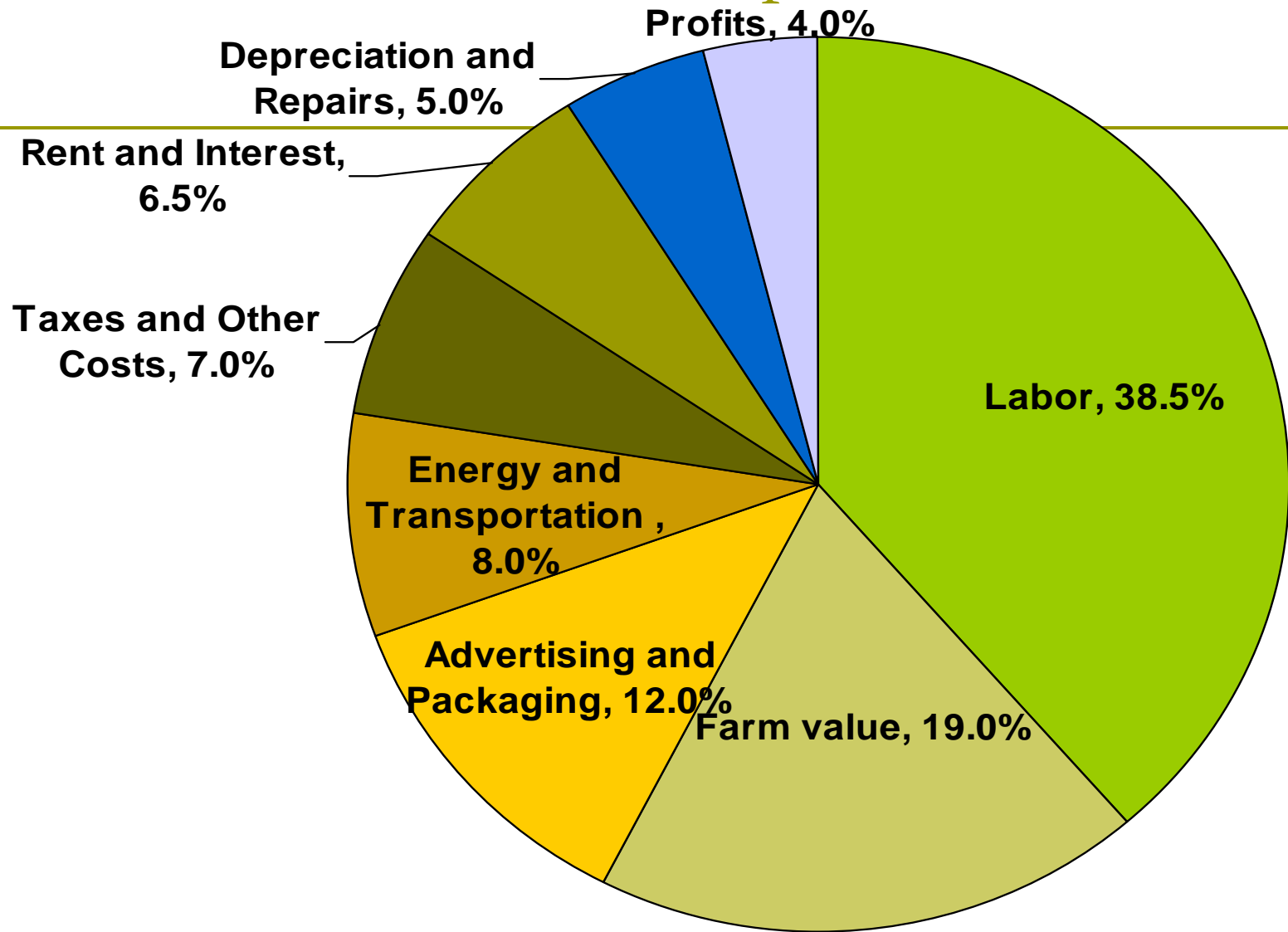
PPI for Retail Grocery Department Margins



Sources of Retail Price Changes

- ❑ Changes in Costs
 - Cost of Goods Sold
 - Operating Costs
- ❑ Changes in Retail Market Competition
 - Number of retailers in a market
 - Type of retailers
 - ❑ Specialization
 - ❑ Differentiation
- ❑ Changes in Consumer Demand

Where a Consumer Dollar Spent on Food Goes

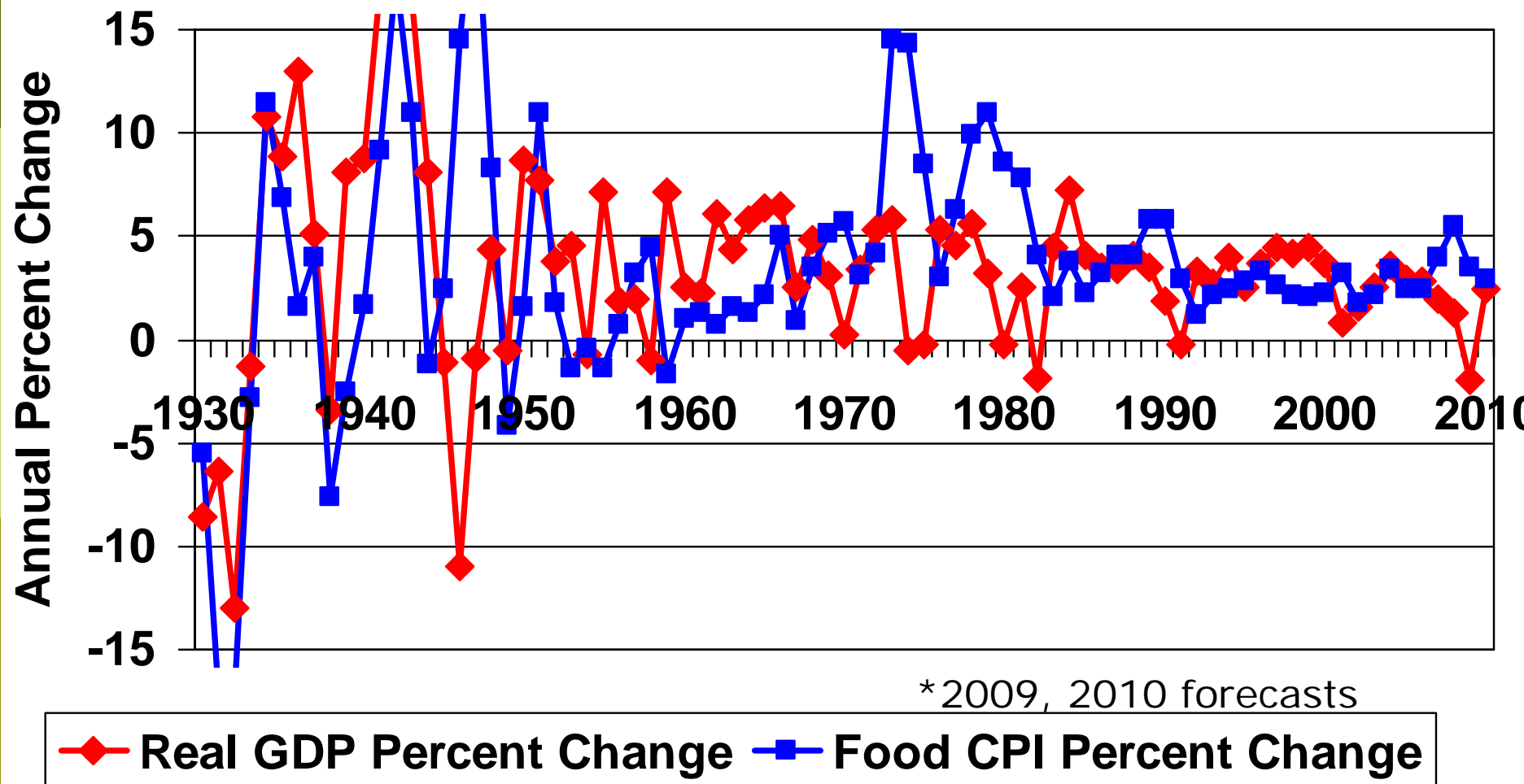


Source: Economic Research Service Calculations
using 2006 Data
February 26, 2009

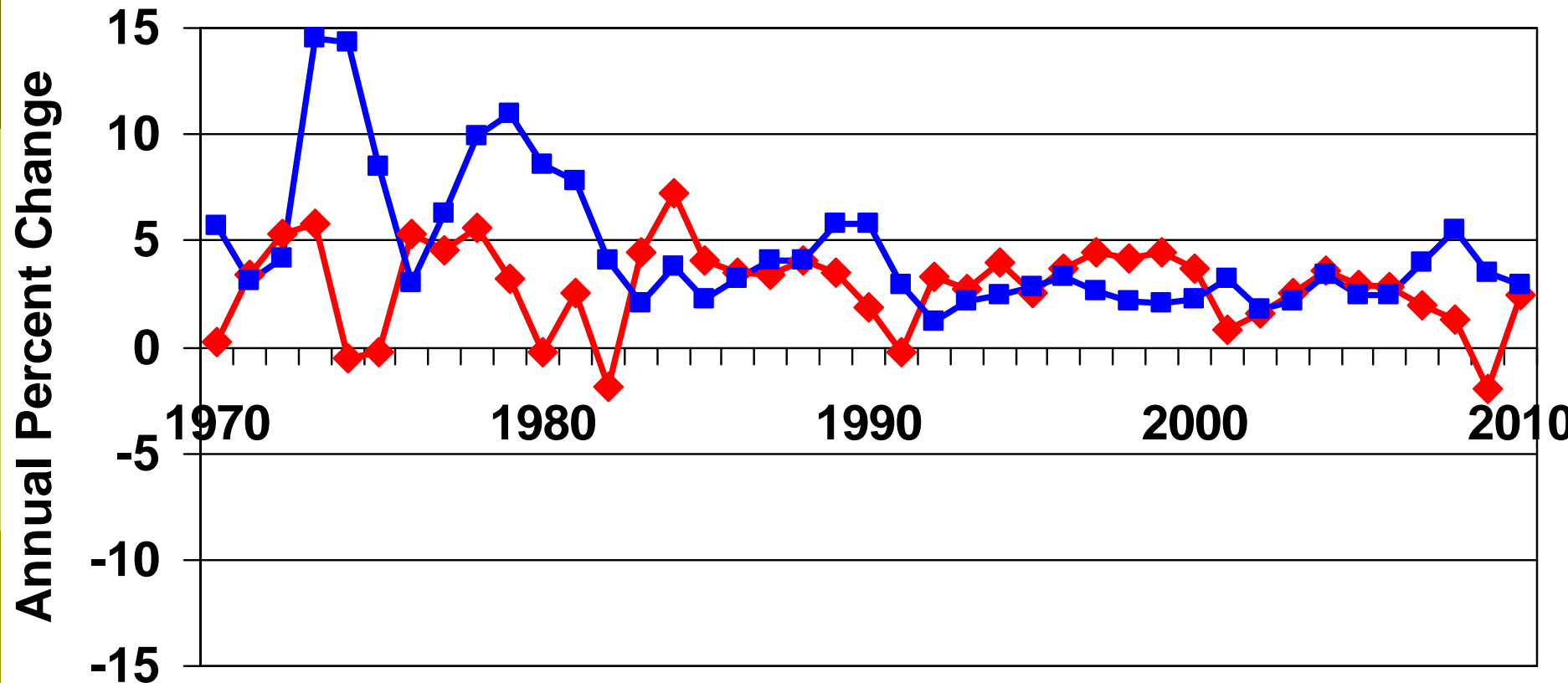
Trends in Retail Food Markets

- ❑ Impact of the Recession
- ❑ Volatility in food commodity markets
- ❑ Transportation and energy costs
- ❑ Competition from a variety of formats
 - Supercenter/Warehouse Club/Dollar/Limited Assortment/Upscale/Gourmet
- ❑ Food Safety
- ❑ Location and size of store
- ❑ Lowfat/Sugar Free/Natural/Organic /Fresh/NoTransFat/Local...

GDP Growth and Food Inflation, 1930-2010*



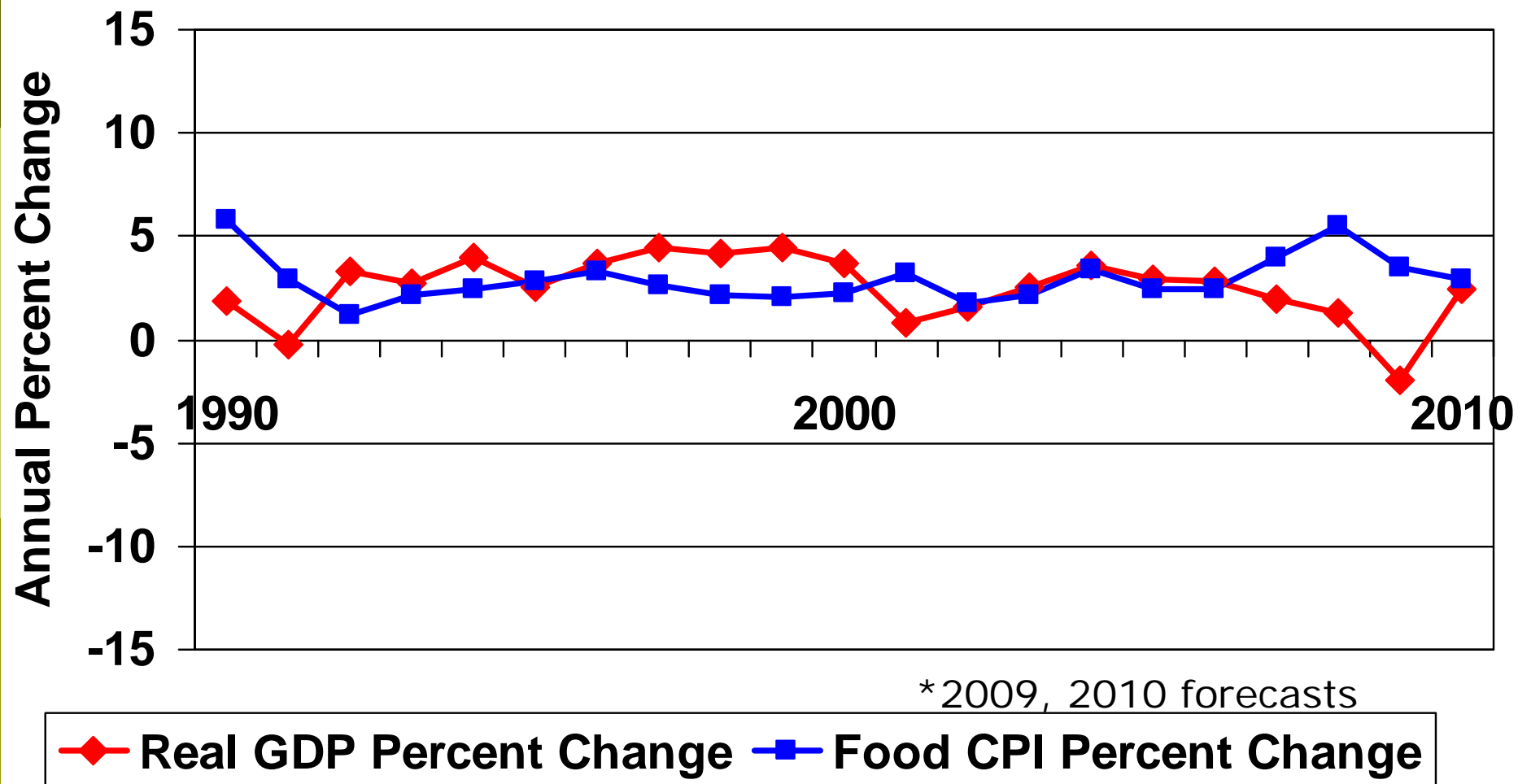
GDP Growth and Food Inflation, 1970-2010*



*2009, 2010 forecasts

◆ Real GDP Percent Change ■ Food CPI Percent Change

GDP Growth and Food Inflation, 1990-2010*



GDP Growth and Food Inflation Trends

□ Mean Growth Rate

■ 1930-2008: GDP 3.5, Food CPI 3.5

- 1930-1949: GDP 3.7, Food CPI 2.6
- 1950-1969: GDP 4.3, Food CPI 2.0
- 1970-1989: GDP 3.2, Food CPI 6.3
- 1990-2008: GDP 2.8, Food CPI 2.9

□ Same Year Correlation Patterns

■ 1930-2008: 0.37

- 1930-1949: 0.51
- 1950-1969: 0.09
- 1970-1989: -0.21
- 1990-2008: -0.39

GDP Growth and Food Inflation Lags

□ 1-Year Lag Correlation Patterns

■ 1930-2008: 0.26

- 1930-1949: 0.27
- 1950-1969: 0.41
- 1970-1989: 0.35
- 1990-2007: 0.08

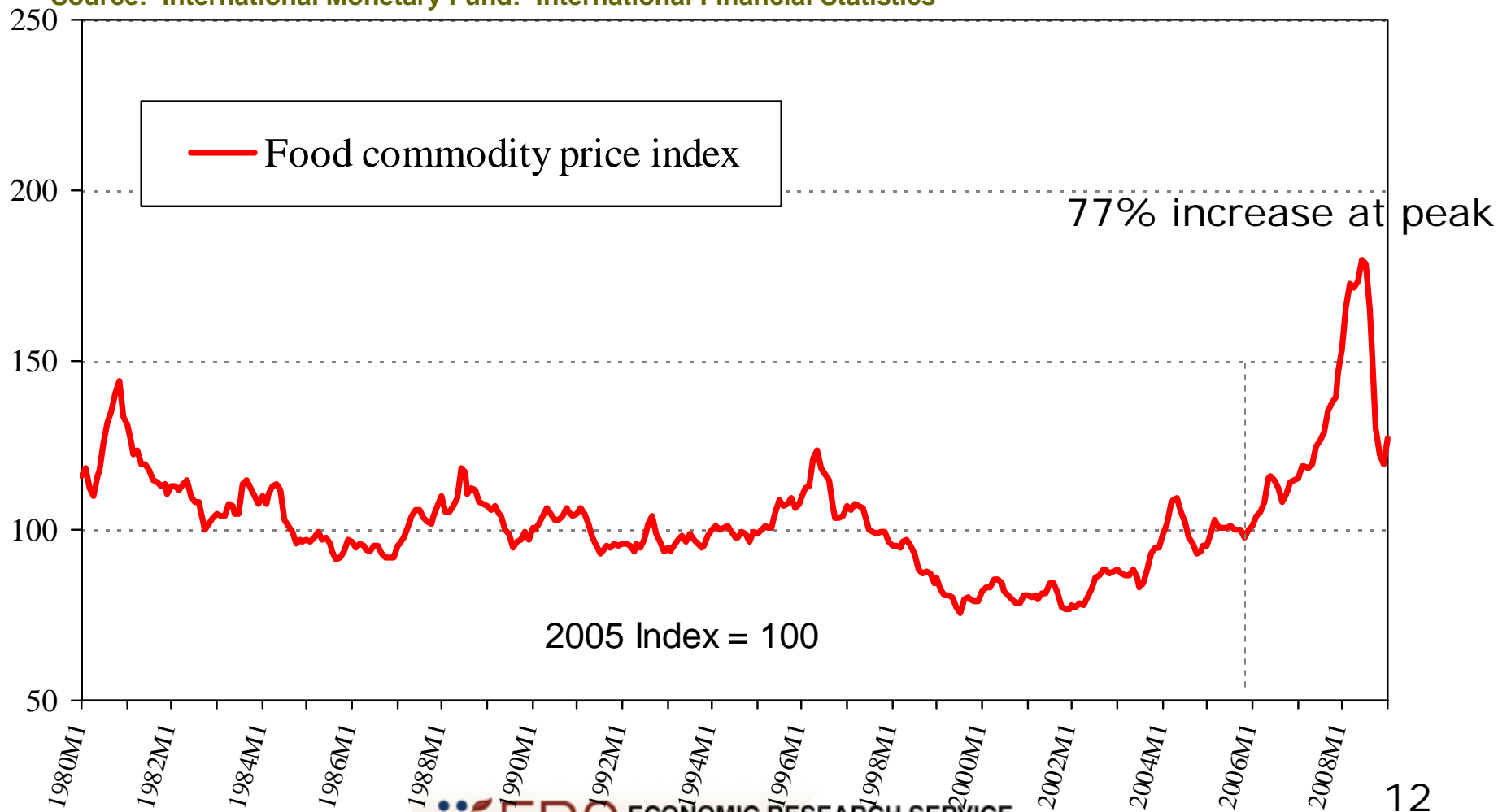
□ 2-year Lag Correlation Patterns

■ 1930-2008: 0.05

- 1930-1949: 0.04
- 1950-1969: 0.05
- 1970-1989: 0.36
- 1990-2006: 0.08

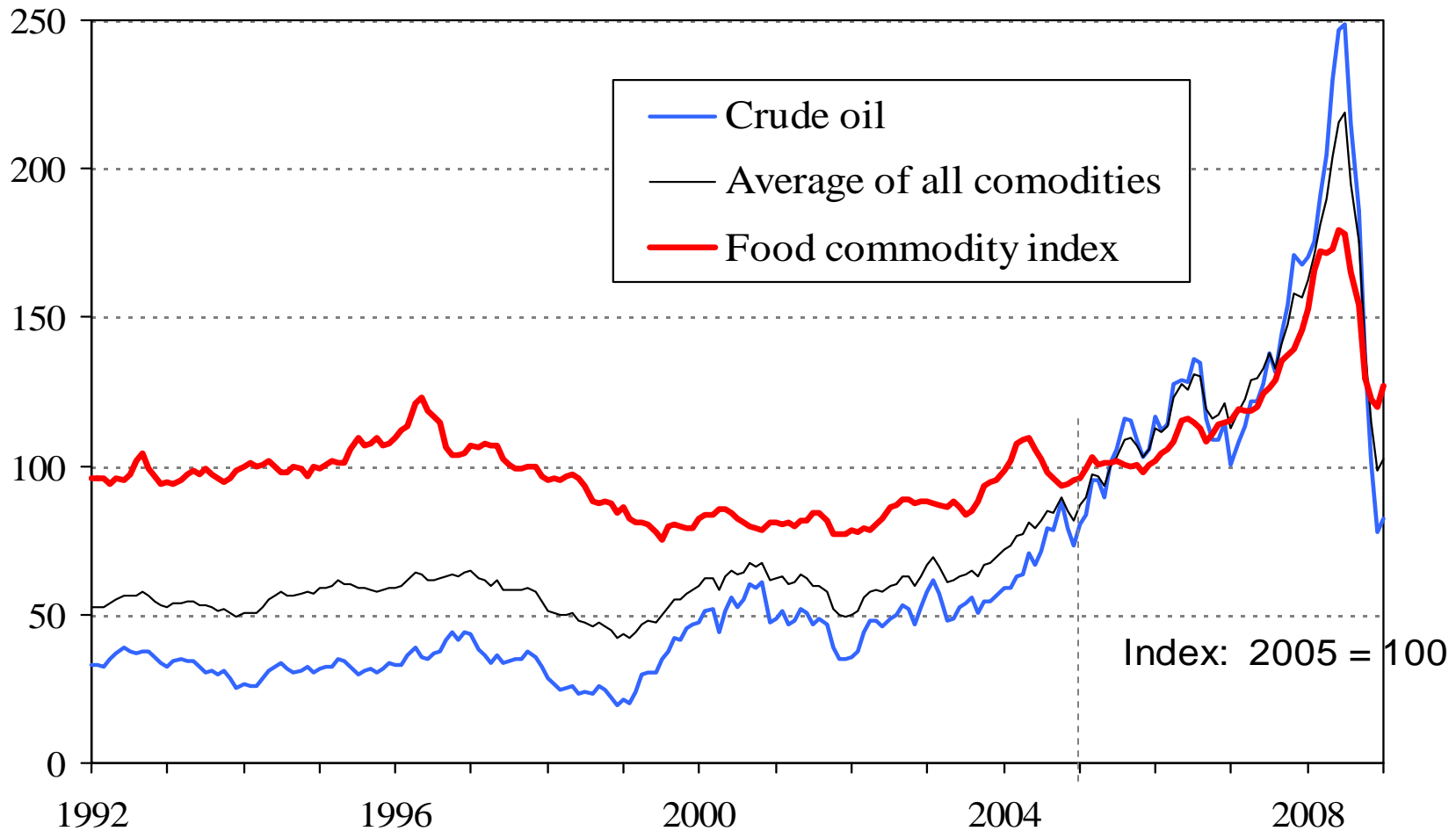
Food commodity prices down 30% from the summer, but still up 25% since January 2006

Source: International Monetary Fund: International Financial Statistics



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Prices of Many Commodities Rose Even More



Source: International Monetary Fund: International Financial Statistics

February 26, 2009

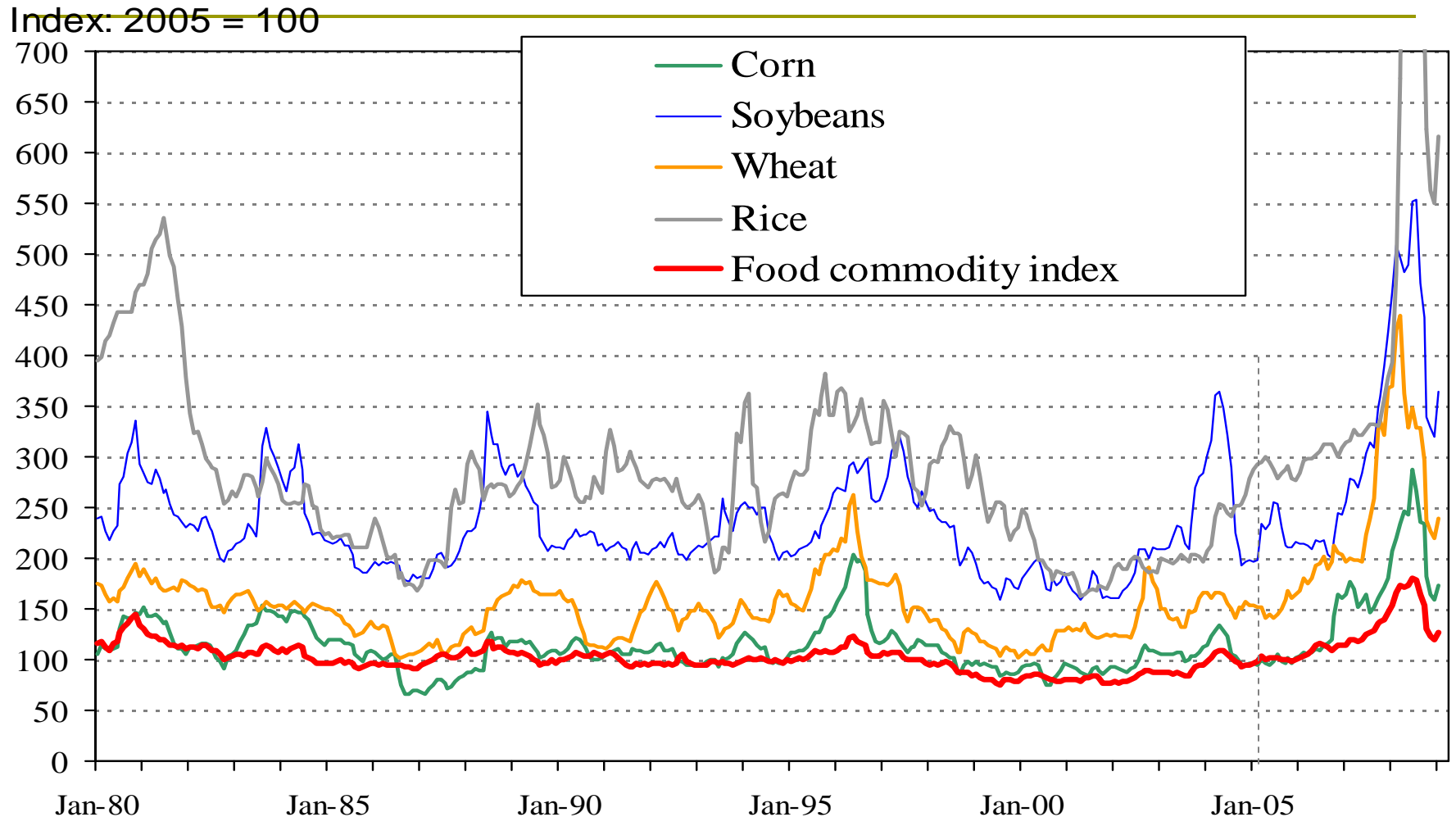


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United States Department of Agriculture

The Economics of Food, Farming, Natural Resources, and Rural America

Spikes in food commodity prices: Will this time be any different?



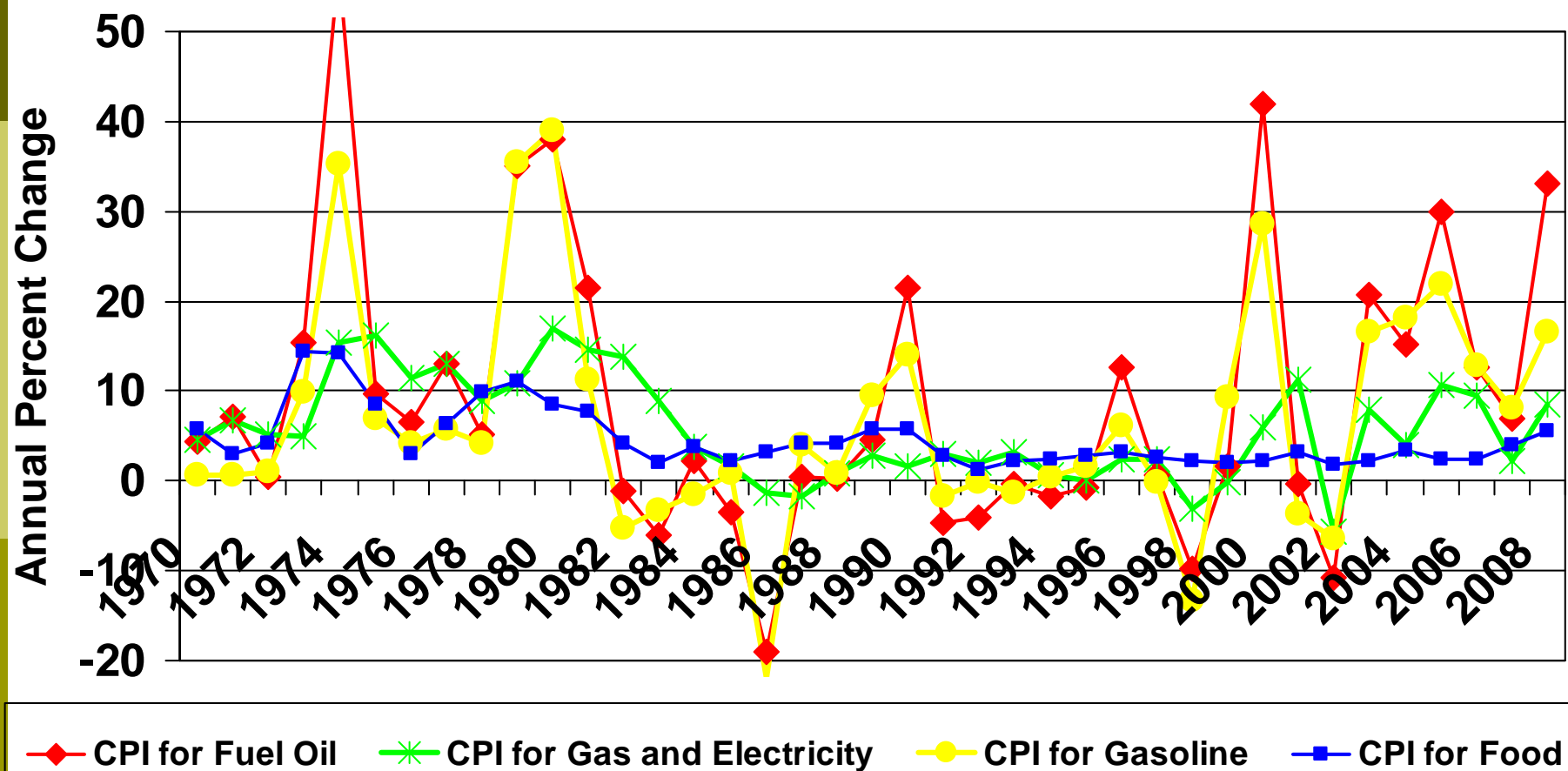
Source: International Monetary Fund: International Financial Statistics

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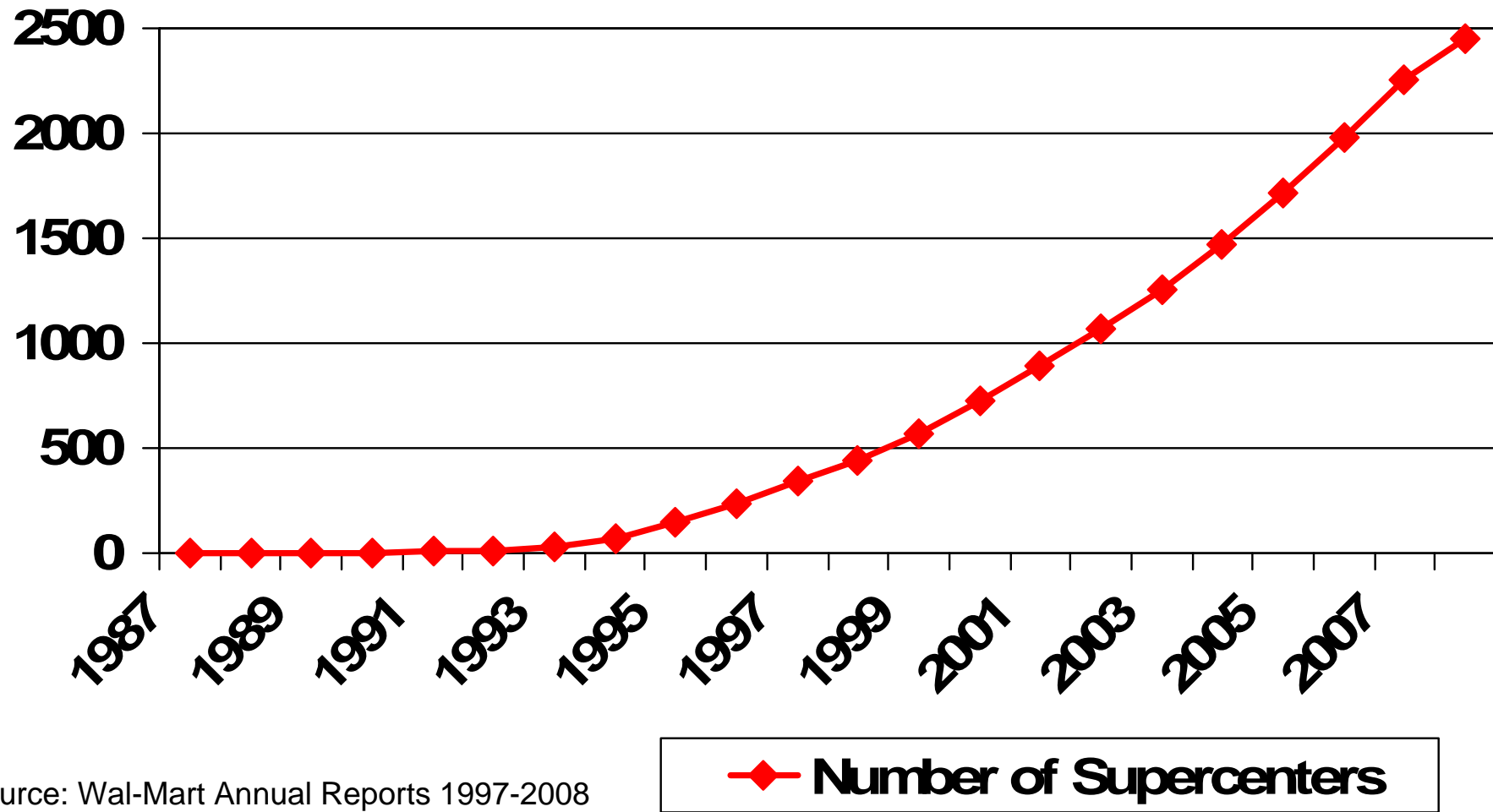
The Economics of Food, Farming, Natural Resources, and Rural America

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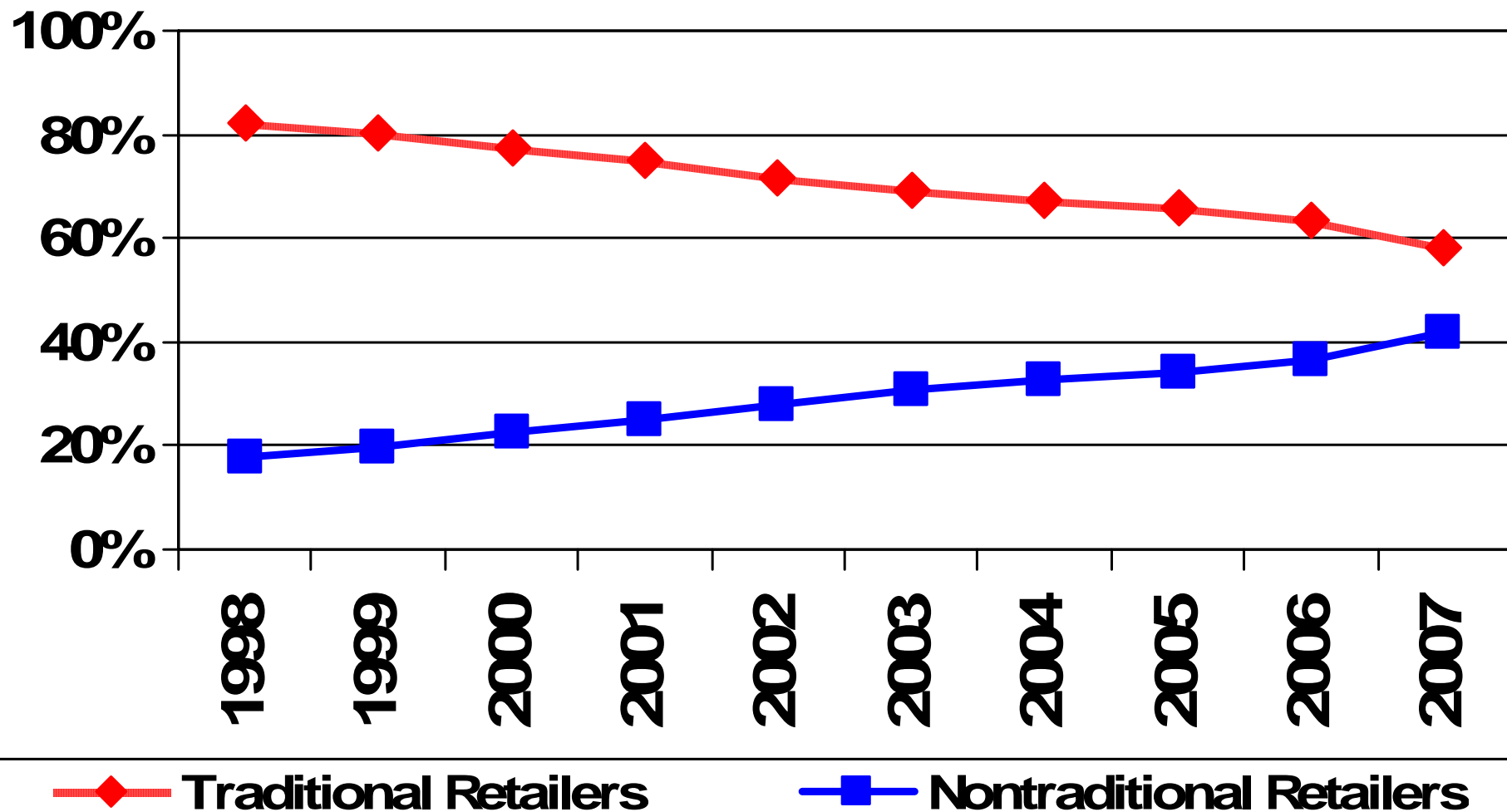
Food vs. Energy, 1970-2008



Wal-Mart Supercenter Store Count



Expenditure Shares for Nontraditional Food Stores Continue to Rise



Source: ERS Calculations of ACNielsen Homescan Data

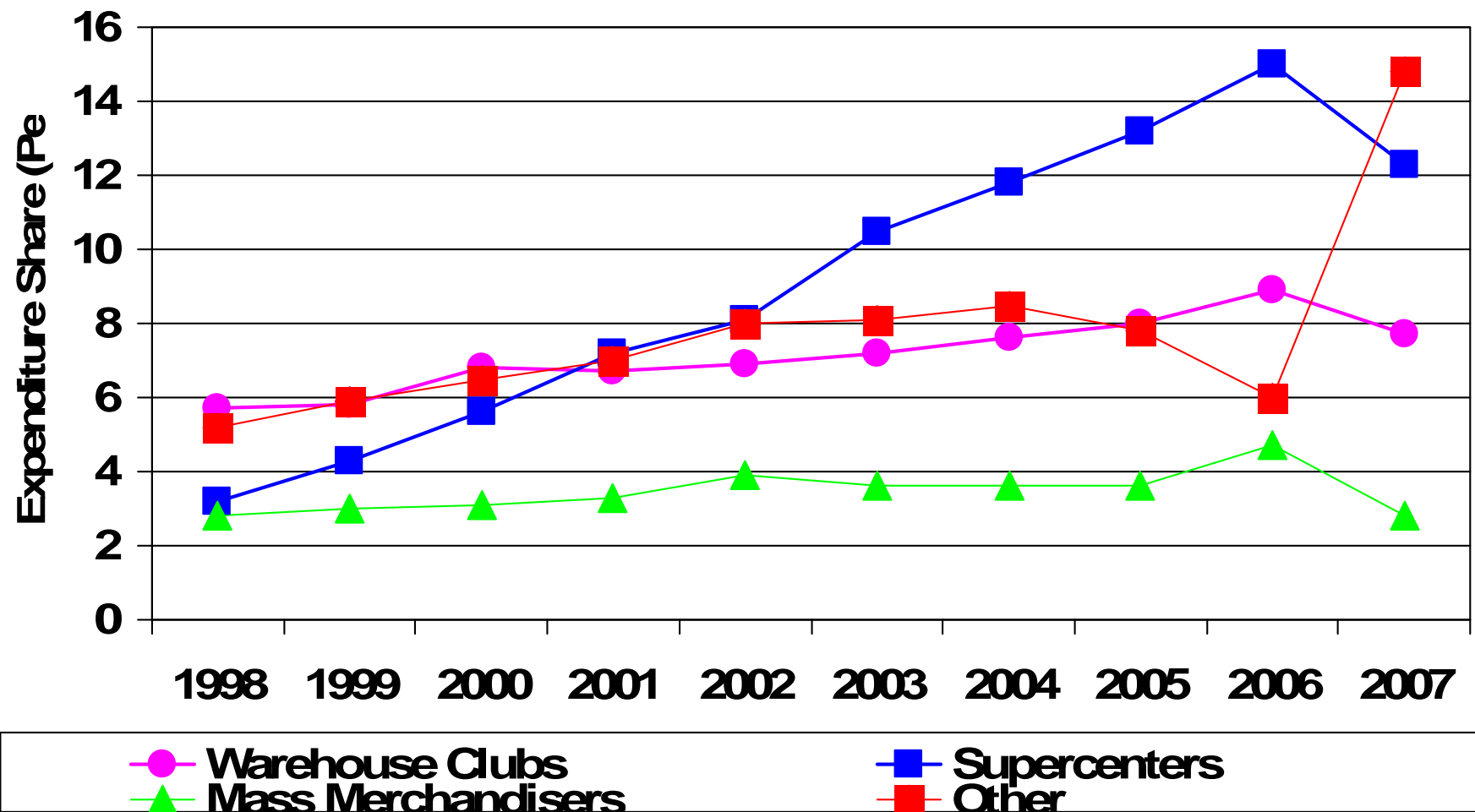
February 26, 2009



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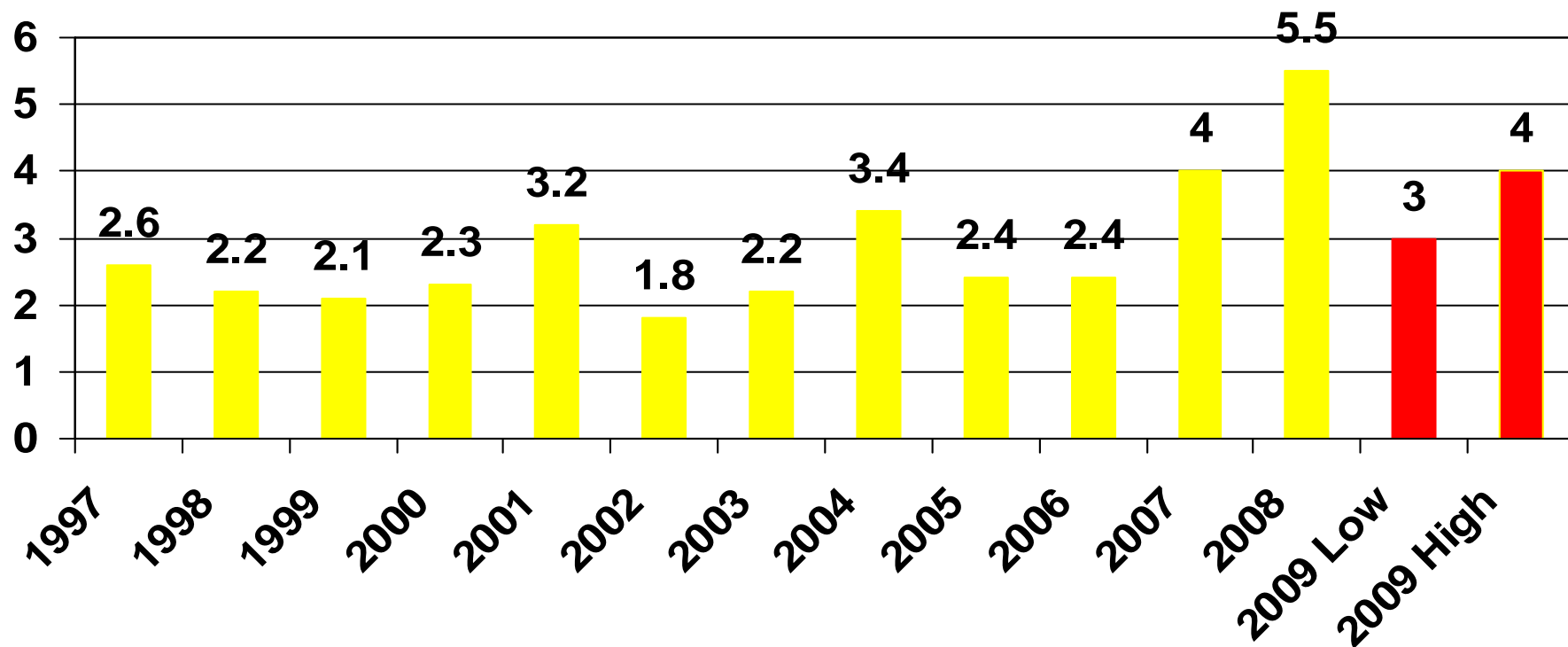
The Economics of Food, Farming, Natural Resources, and Rural America

Expenditure Shares for Nontraditional Formats 1998-2007



Food CPI Well Above Historical Average in 2008, Lower in 2009

Annual Percent Change in CPI for Food



Why?

□ 2008

- Higher commodity costs (corn, wheat, soybeans, etc.)
- Higher energy and transportation costs
- Increased U.S. exports due to weaker dollar/growing global demand

□ 2009

- Food commodity costs down from summer highs
- Energy prices down
- Domestic and global demand weakens

Caveats

- ❑ Food commodity volatility
 - Commodities safe or...
 - Nothing is safe
- ❑ Food ~ Energy Connection
- ❑ Global demand for U.S. exports
- ❑ Duration and depth of recession
 - Consumer demand for food

Percent Change in Food CPI (a)

Items	2006	2007	2008	Forecast 2009
All Food	2.4	4.0	5.5	3.0 to 4.0
Food Away from Home	3.1	3.6	4.4	3.5 to 4.5
Food at Home	1.7	4.2	6.4	2.5 to 3.5
Beef	0.8	4.4	4.5	1.5 to 2.5
Pork	-0.2	2.0	2.3	1.5 to 2.5
Other Meats	1.8	2.3	3.1	0.0 to 1.0
Poultry	-1.8	5.2	5.0	2.0 to 3.0

Percent Change in Food CPI (b)

Items	2006	2007	2008	Forecast 2009
All Food	2.3	4.0	5.5	3.0 to 4.0
Food at Home	1.7	4.2	6.4	2.5 to 3.5
Fish and Seafood	4.7	4.6	6.0	4.0 to 5.0
Dairy	-0.6	7.4	8.0	-4.0 to -3.0
Fats and Oils	0.2	2.9	13.8	3.0 to 4.0
Sugar + Sweets	3.8	3.1	5.5	3.0 to 4.0
Eggs	4.9	29.2	14.0	-5.0 to -4.0

Percent Change in Food CPI (c)

Items	2006	2007	2008	Forecast 2009
All Food	2.3	4.0	5.5	3.0 to 4.0
Food at Home	1.7	4.2	6.4	2.5 to 3.5
Fresh Fruits	6.0	4.5	4.8	4.0 to 5.0
Fresh Vegetables	4.6	3.2	5.6	3.5 to 4.5
Processed F + V	2.9	3.6	9.5	3.0 to 4.0
Cereals + Bakery	1.8	4.4	10.2	2.5 to 3.5
Nonalcoholic Bev.	2.0	4.1	4.3	3.0 to 4.0

Contact Information

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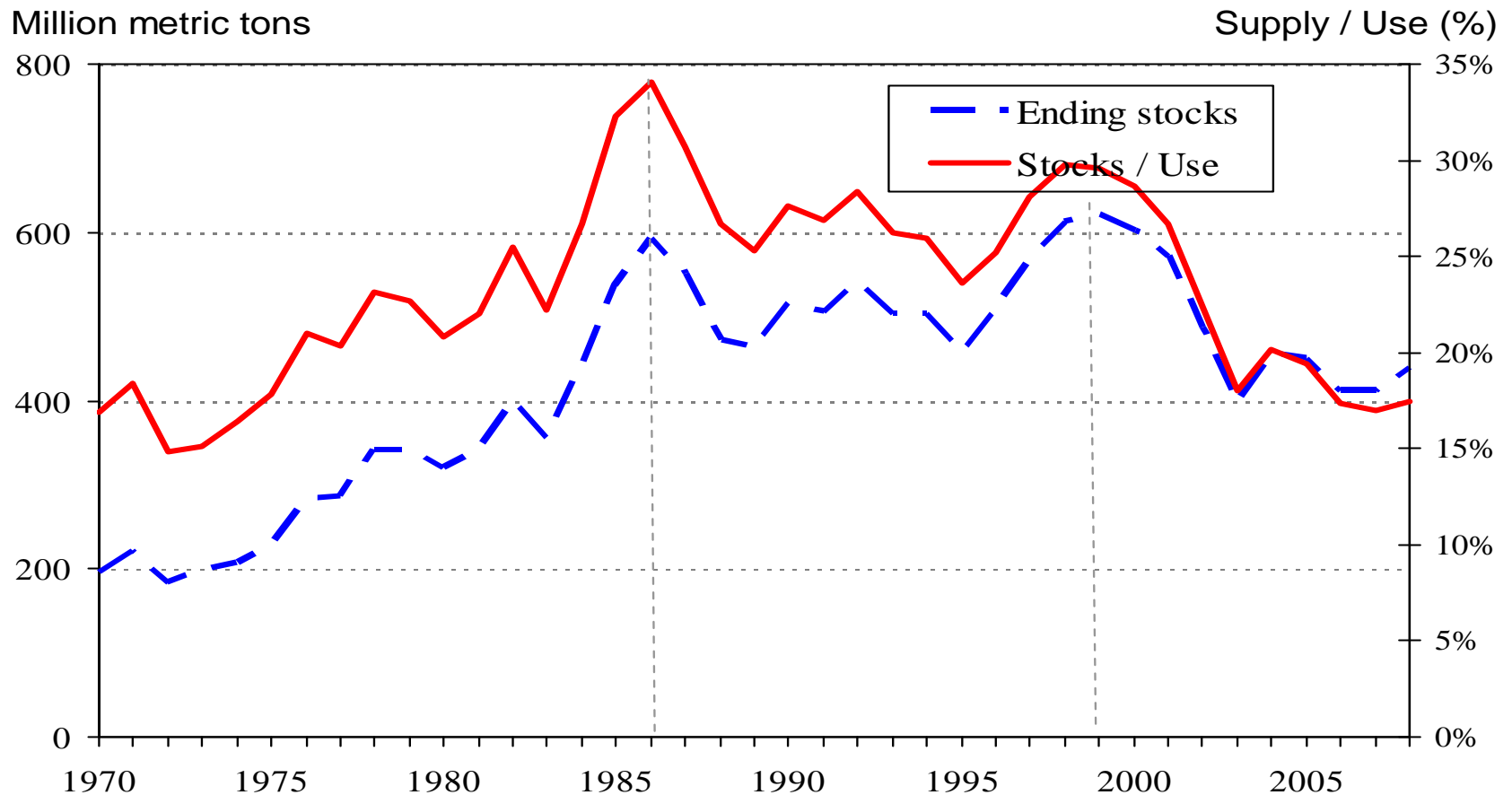
202-694-5349

For more information, see

<http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/>

Total world grain & oilseeds

Stocks and stocks-to-use ratio



Source: USDA PS&D Database

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Nontraditional Expenditure Shares

	Warehouse Clubs	Supercenters	Mass Merchandisers	Other
1998	5.7%	3.2%	2.8%	5.2%
1999	5.8%	4.3%	3.0%	5.9%
2000	6.8%	5.6%	3.1%	6.5%
2001	6.7%	7.2%	3.3%	7.0%
2002	6.9%	8.1%	3.9%	8.0%
2003	7.2%	10.5%	3.6%	8.1%
2004	7.6%	11.8%	3.6%	8.5%
2005	8.0%	13.2%	3.6%	7.8%
2006	8.9%	15.0%	4.7%	6.0%

Source: ERS Calculations using Nielsen Homescan Data

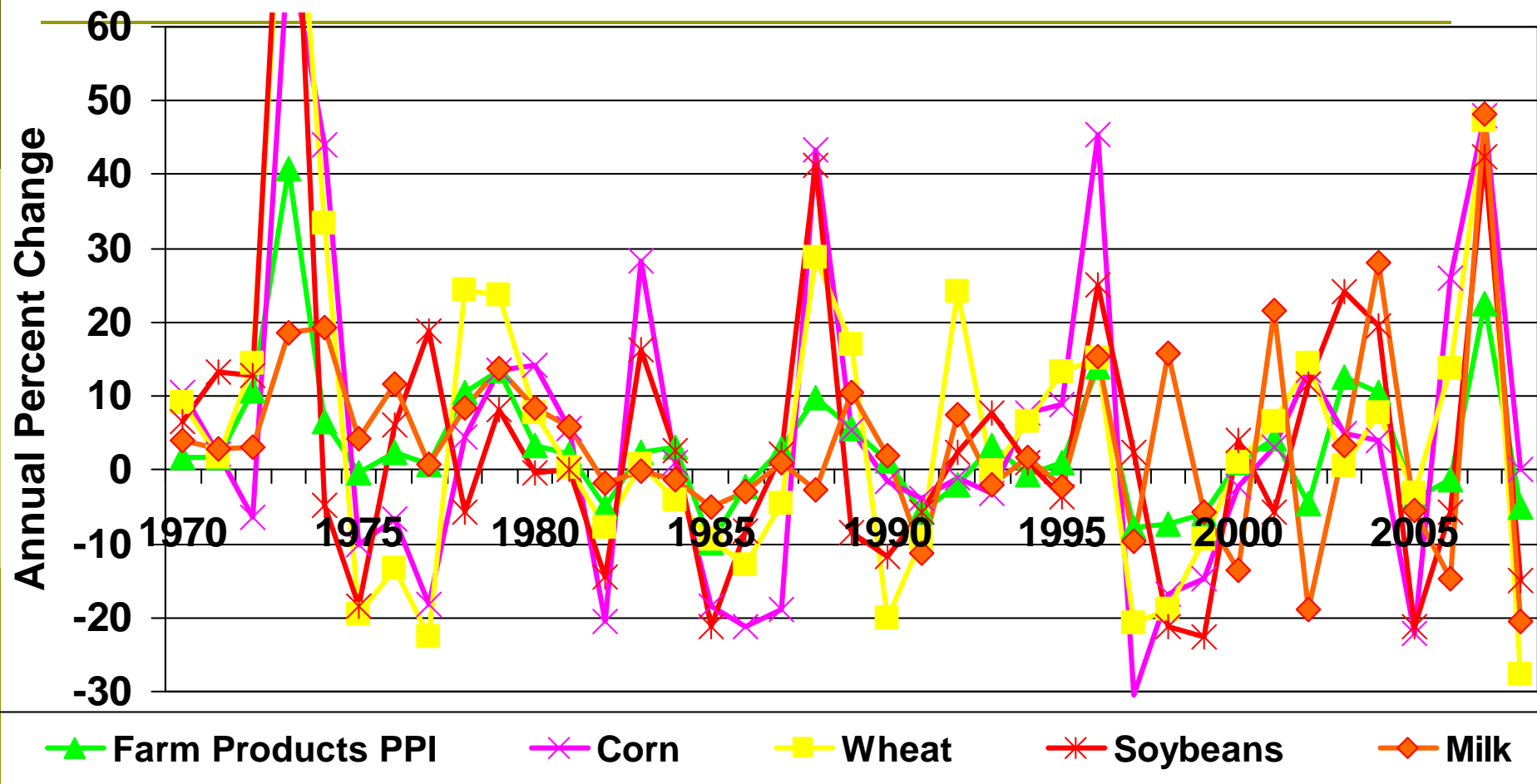
January 26, 2009



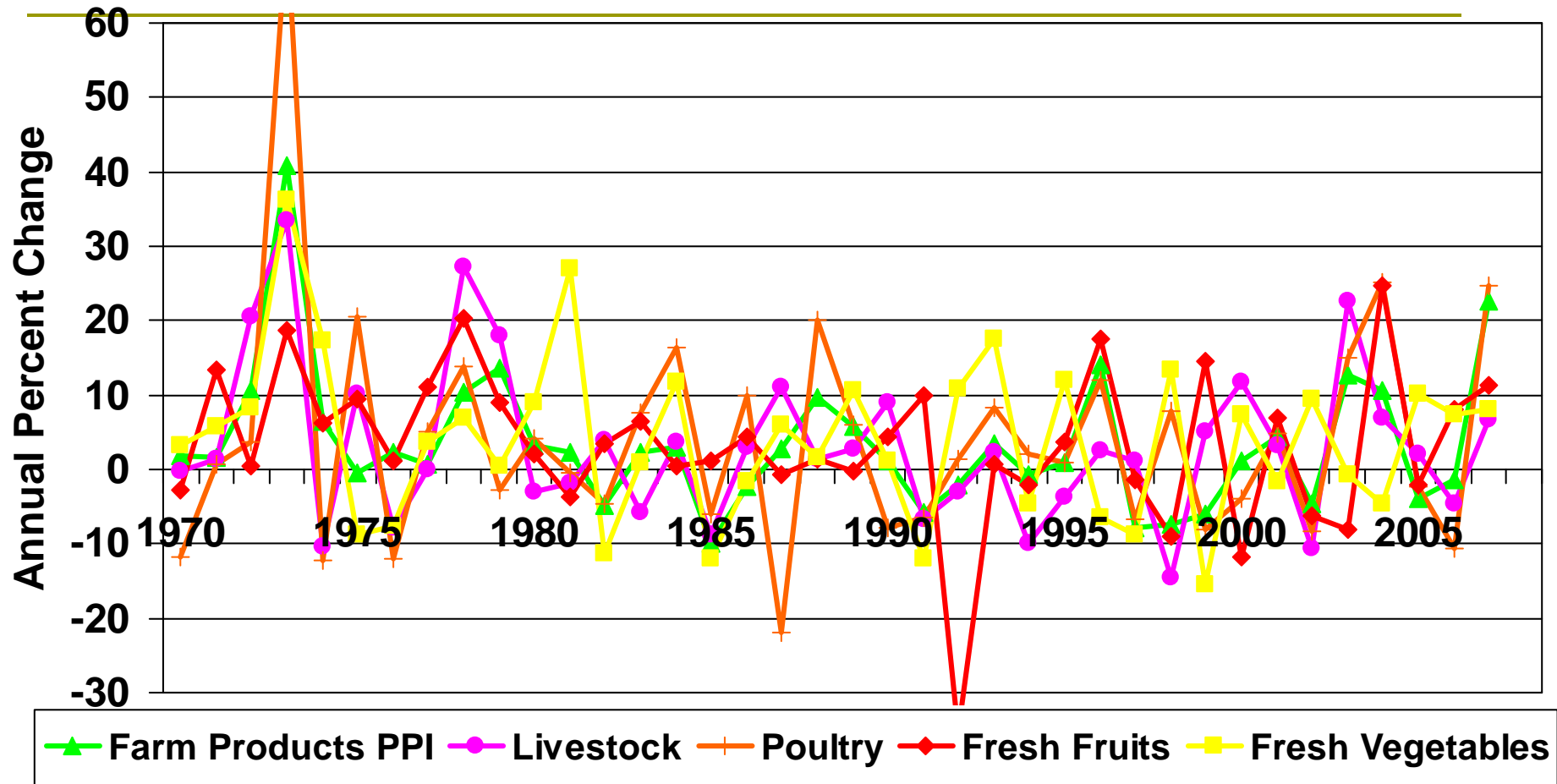
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Volatile Farm Product PPI Components



Farm Product PPI Components (b)



Food at Home vs Food Away from Home, 1997-2007

Annual Percent Change

