



The Role of Commodity Prices in Food Inflation in the United States

**Presented to The USDA Agricultural Outlook Forum
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Bill Lapp

AdvancedEconomicSolutions™

2007-2008 US Food Inflation Metrics

| | | 1982-2006 | 2007 | 2008 | 2009F |
|----------|-----------------------|----------------------|------|-------|------------|
| USDA ERS | CPI-Food, Yr over Yr | 1.3 - 5.3% | 4.0% | 5.5% | 3.0 - 4.0% |
| AES | CPI-Food, Dec vs. Dec | 1.3 - 5.3% | 4.8% | 5.9% | 4.5 - 5.5% |
| AES | PPI-Food, Dec vs. Dec | (-1.5) - 7.7% | 7.6% | 3.9% | 3.0 - 7.0% |
| AFBF | Q4 vs. Q4 | - | 4.8% | 15.8% | - |
| | | | | | |
| | | | | | |

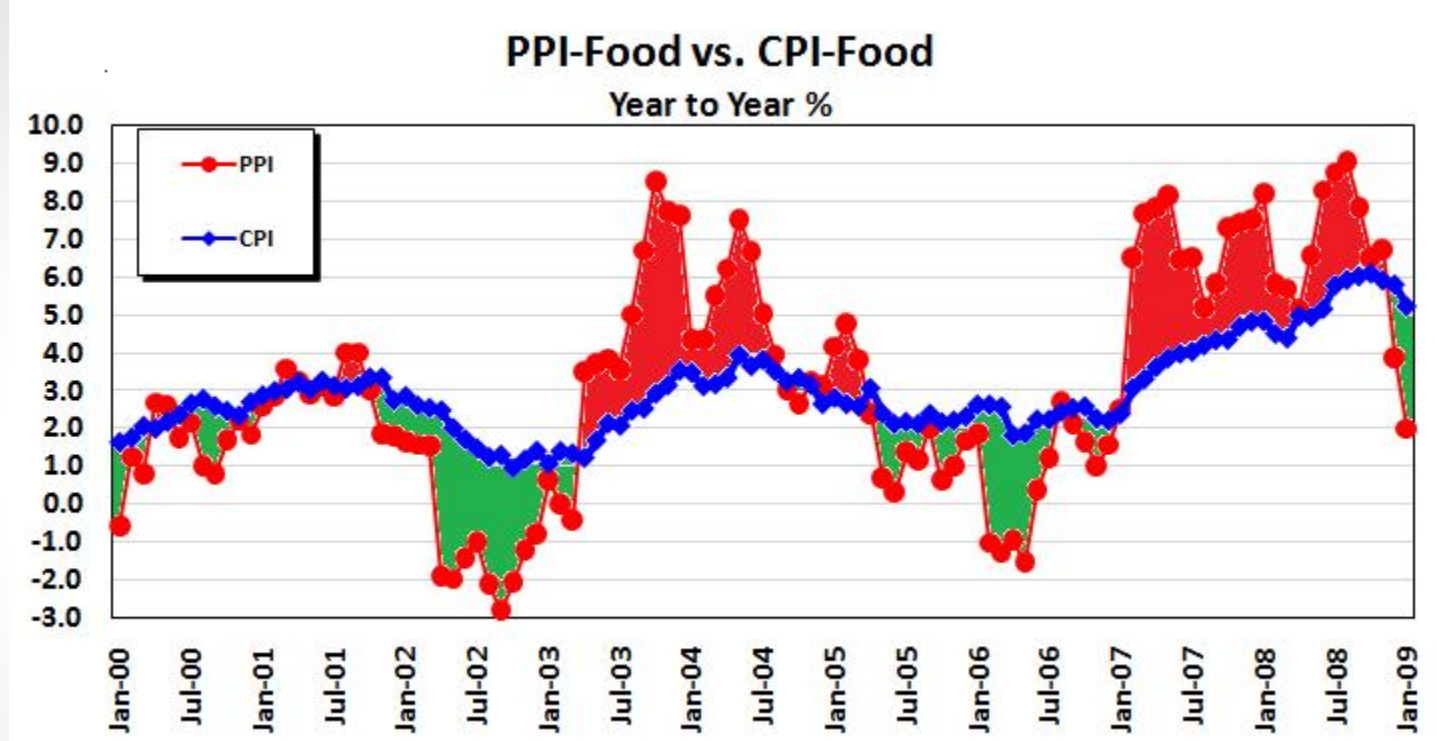
Key Points:

- Food inflation was benign during 1982-2006, but accelerated in 2007 & 2008
- Food inflation results differ depending upon how it is measured
- Expect some moderation in food inflation during 2009

2008 Consumer Food Inflation Detail

| CPI-Food Detail: | | December-08 | |
|-------------------------|-------------|-------------------|-------------|
| | % Change YA | | % Change YA |
| Total CPI - Food | 5.9% | | |
| Cereals/ Bakery | 11.8% | Fats and Oils | 17.4% |
| Bread | 12.5% | Sugars/Sweets | 8.1% |
| Breakfast Cereal | 4.9% | Salad Dressing | 10.5% |
| Rice | 39.4% | Soups | 8.8% |
| Beef | 6.2% | Dairy | 2.7% |
| Pork | 5.1% | Eggs | -9.1% |
| Bacon | 0.3% | Fruits/Vegetables | 3.7% |
| Chicken | 5.4% | Beer | 4.0% |
| Fish | 7.7% | Coffee | 6.2% |

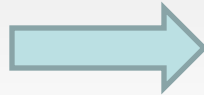
Wholesale Food Costs (PPI-Food) vs. Consumer Food Prices (CPI-Food)



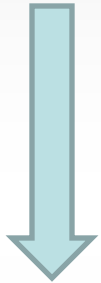
Key Points:

- Over time the CPI-Food exceeds the PPI-Food by roughly 1%
- During most of the past two years, the PPI has exceeded the CPI
- Retailers respond to higher food costs only after an extended period of cost pressures

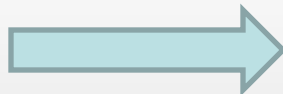
Rising Corn Prices



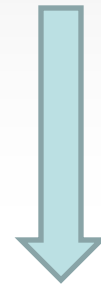
Acreage Allocation Between Crops
(US and World-Wide)



Livestock Prices
Dairy Prices
Egg Prices



Consumer Meat, Dairy
and Egg Prices

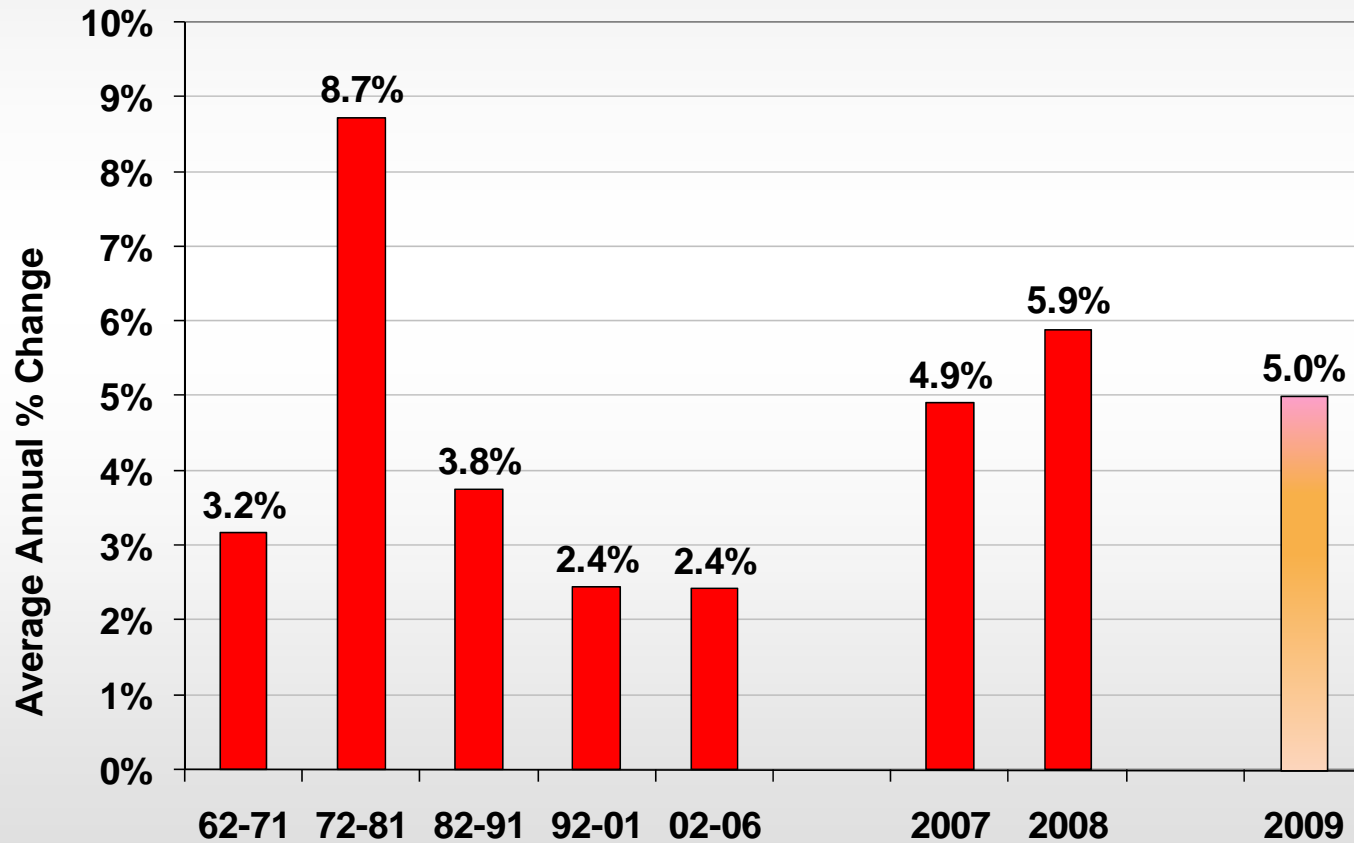


Declining Acreage & Higher
Prices For Other Crops

2009 Food Inflation Prospects

- Grain & vegoil based items have less pressure
 - Weather & biofuel policy loom as upside risks
- Smaller supplies mean higher meat & dairy costs
 - Producer margins negative across the board!
 - US meat output declining for 1st time since 1982
 - Dairy cow slaughter up sharply thus far in 2009
- Non-food cost pressures will recede
 - Most notably transportation costs
- Wildcard: Fruit & Vegetable prices
- Overall consumer food inflation expected to be near 5%
 - Easing prices pressures in grains offset by higher rates of gain in protein and dairy prices

US Consumer Food Inflation (2009 Forecast)



“Further Research Is Warranted”

Key Food Inflation Questions That Deserve Answers

- What is the true relationship between food input costs and retail prices?
 - In total and for individual items
 - Existing relationships that analysts use are out of date
- What are the natural lags between rising input prices and increases in consumer prices?
 - Immediate consumer impact or only after a sustained rise
 - How does this vary by product

Role of Biofuels in Food Inflation

- Not an issue that has passed or is minimal
 - “3% Analysis” is not sound science; politically motivated
- Economics for biofuels will not be the catalyst for increased corn/veg oil usage – mandates will
 - Usage will rise without regard for impact upon crop prices, livestock margins and rate of food inflation
- To meet EPA mandates, corn area will need to rise to over 95 mm acres in coming years
 - This implies an on-going acreage battle in the coming years, and ultimately higher rates of food inflation

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