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# *Retail Food Price Outlook: 2007*

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*ERS-USDA*

*Presented at the 2007 Agricultural Outlook Forum*

*'Agriculture at the Crossroads: Energy, Farm, and Rural Policy'*

March 1, 2007

# Price Index Basics

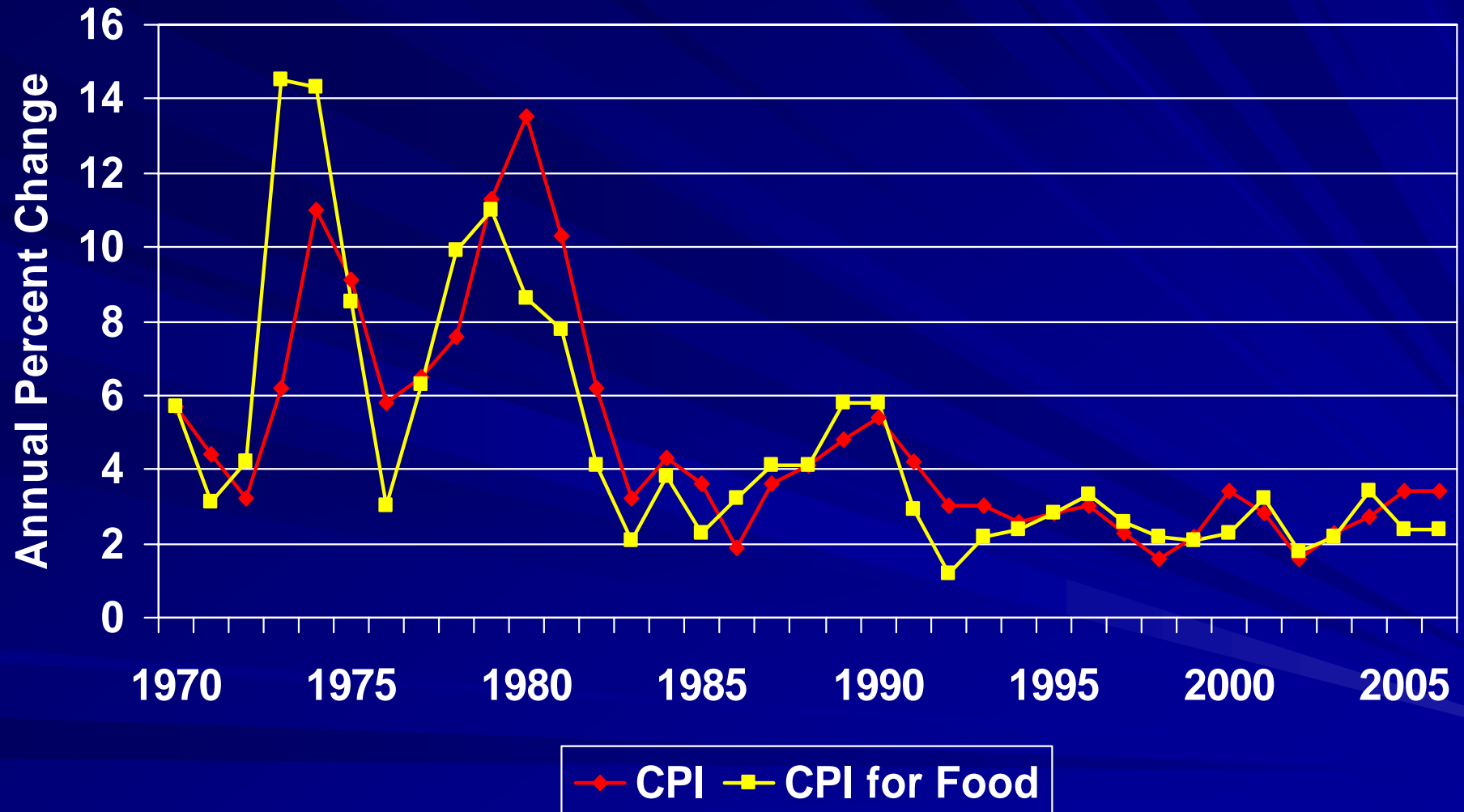
## ■ Consumer Price Index (CPI)

- Average consumer prices collected on a monthly basis
- Nationally representative sample of retail outlets

## ■ Producer Price Index (PPI)

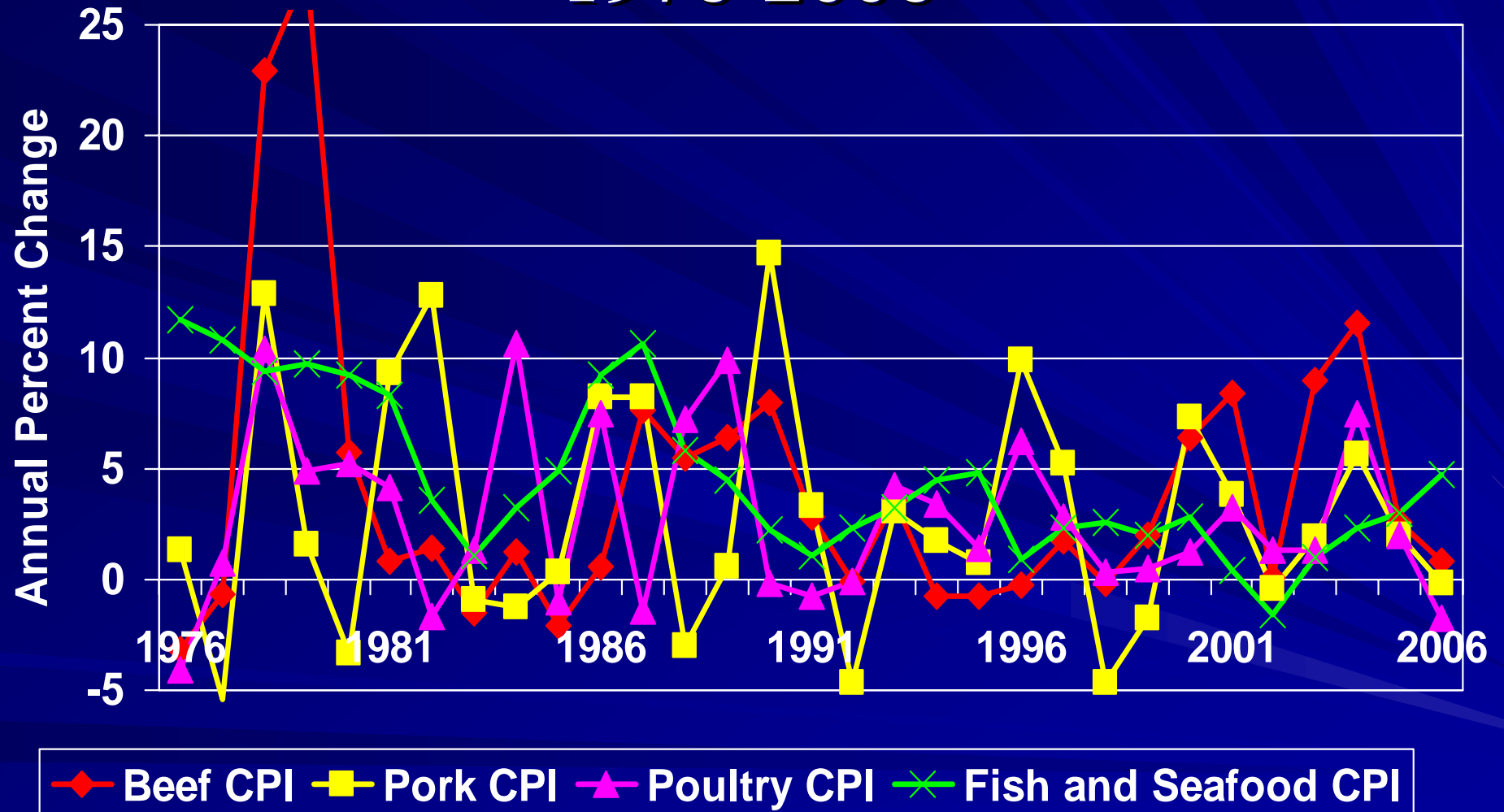
- Average producer prices collected on a monthly basis
- Nationally representative sample of producers across the supply chain

# CPI vs CPI for Food 1970-2006



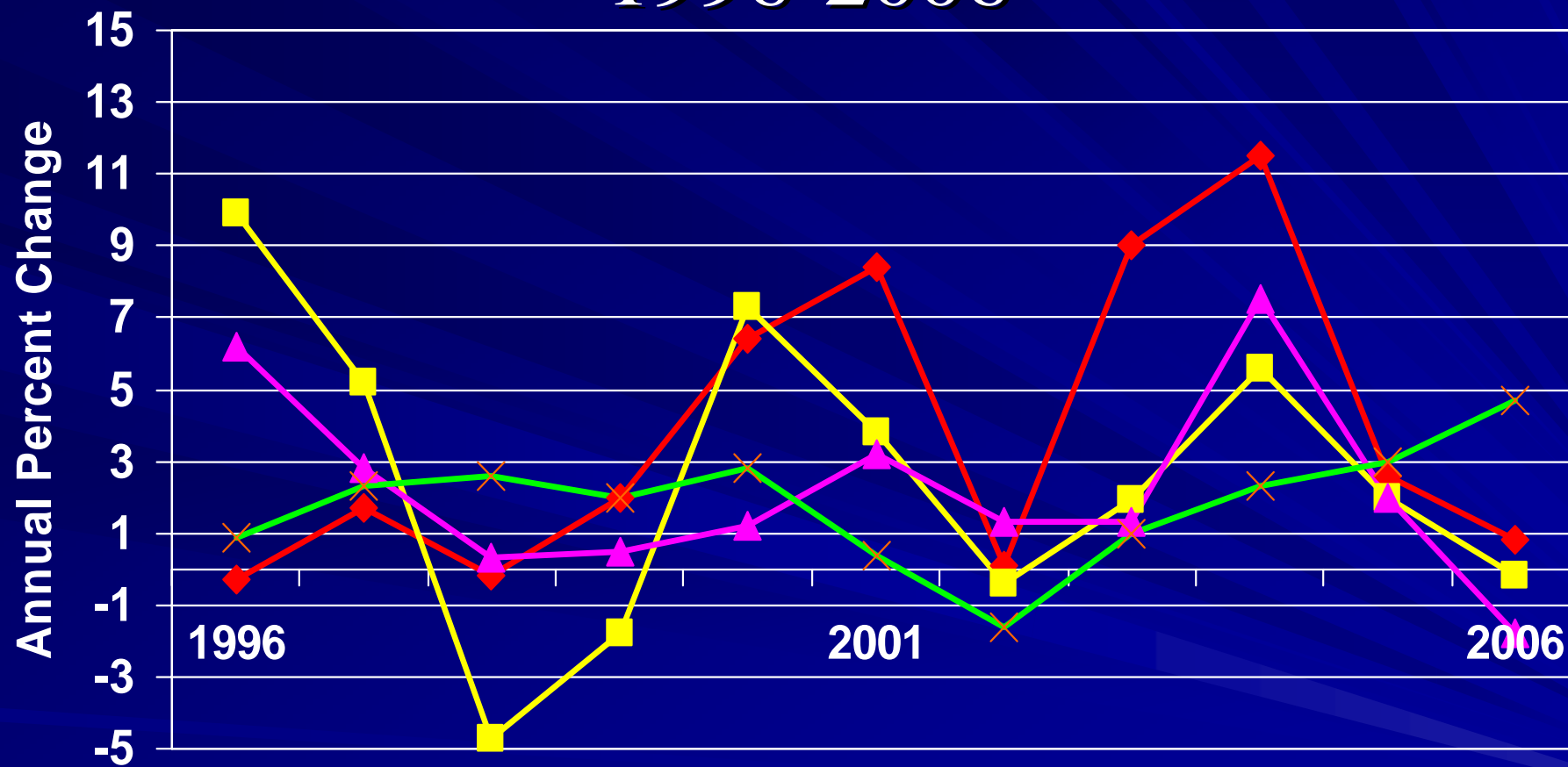
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# CPI for Meat, Poultry, Pork, and Fish 1976-2006



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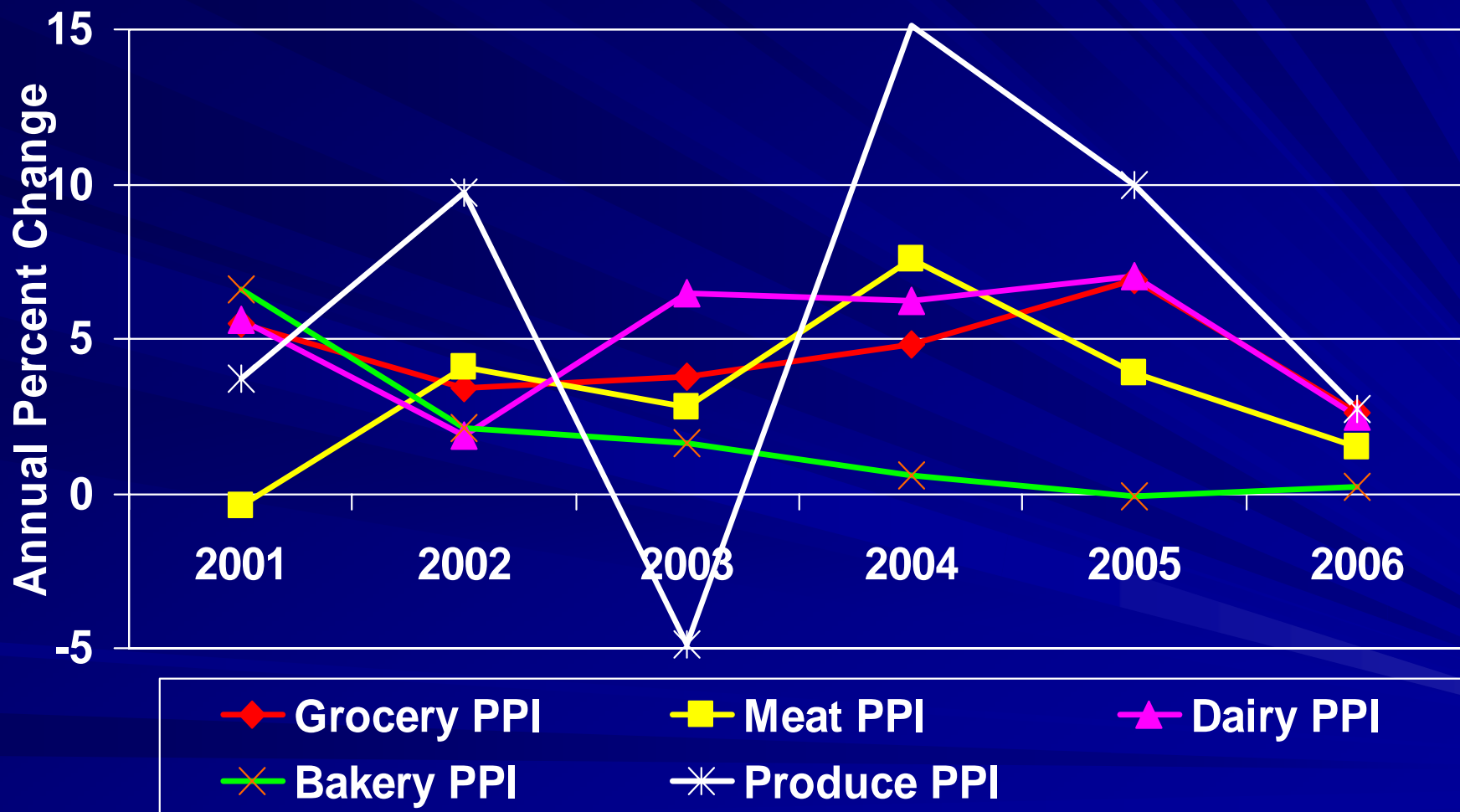
# CPI for Meat, Poultry, Pork, and Fish 1996-2006



◆ Beef CPI 
 ■ Pork CPI 
 ▲ Poultry CPI 
 × Fish and Seafood CPI

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# PPI for Retail Grocery Departments, 2001-2006



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# Sources of Price Changes

## ■ Changes in Costs

- Operating Costs
- Cost of Goods Sold

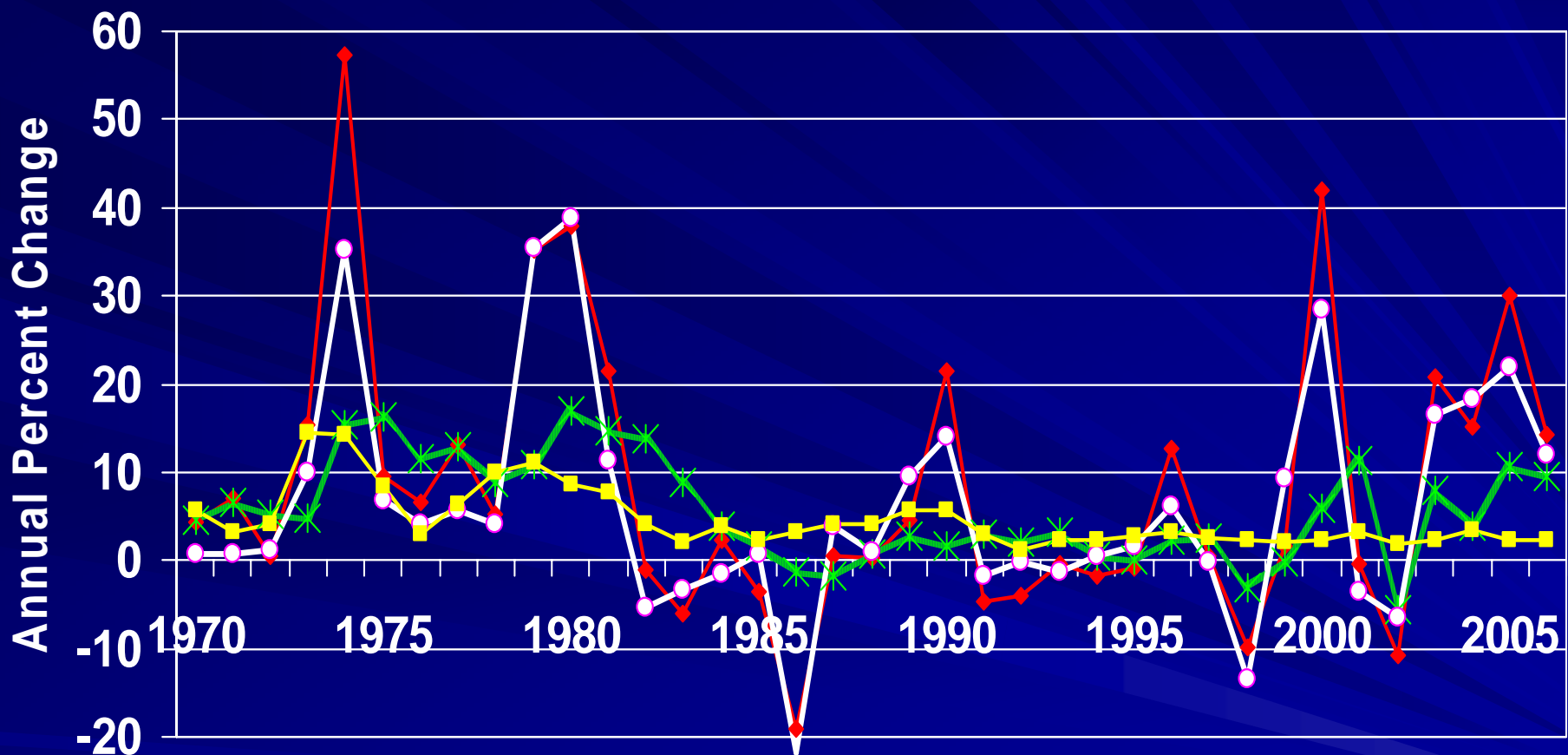
## ■ Competition

- Number of retailers in a market
- Type of retailers
  - Specialization
  - Differentiation

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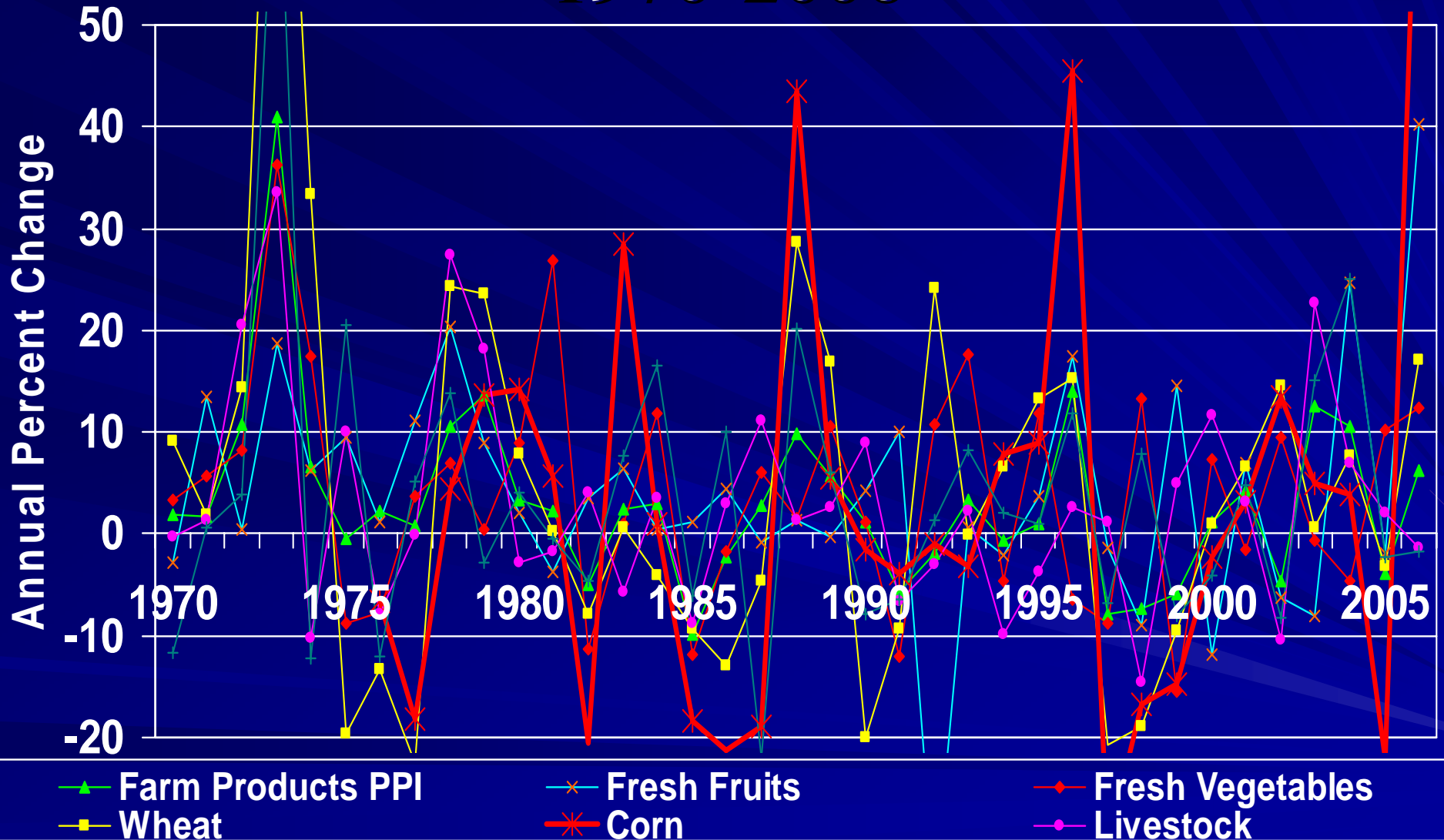
# Food vs. Energy 1970-2006



—◆— CPI for Fuel Oil    —\*— CPI for Gas and Electricity    —●— CPI for Gasoline    —■— CPI for Food

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# Farm Product PPI Components 1970-2006



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# Volatile, Yet Cyclical Farm Prices

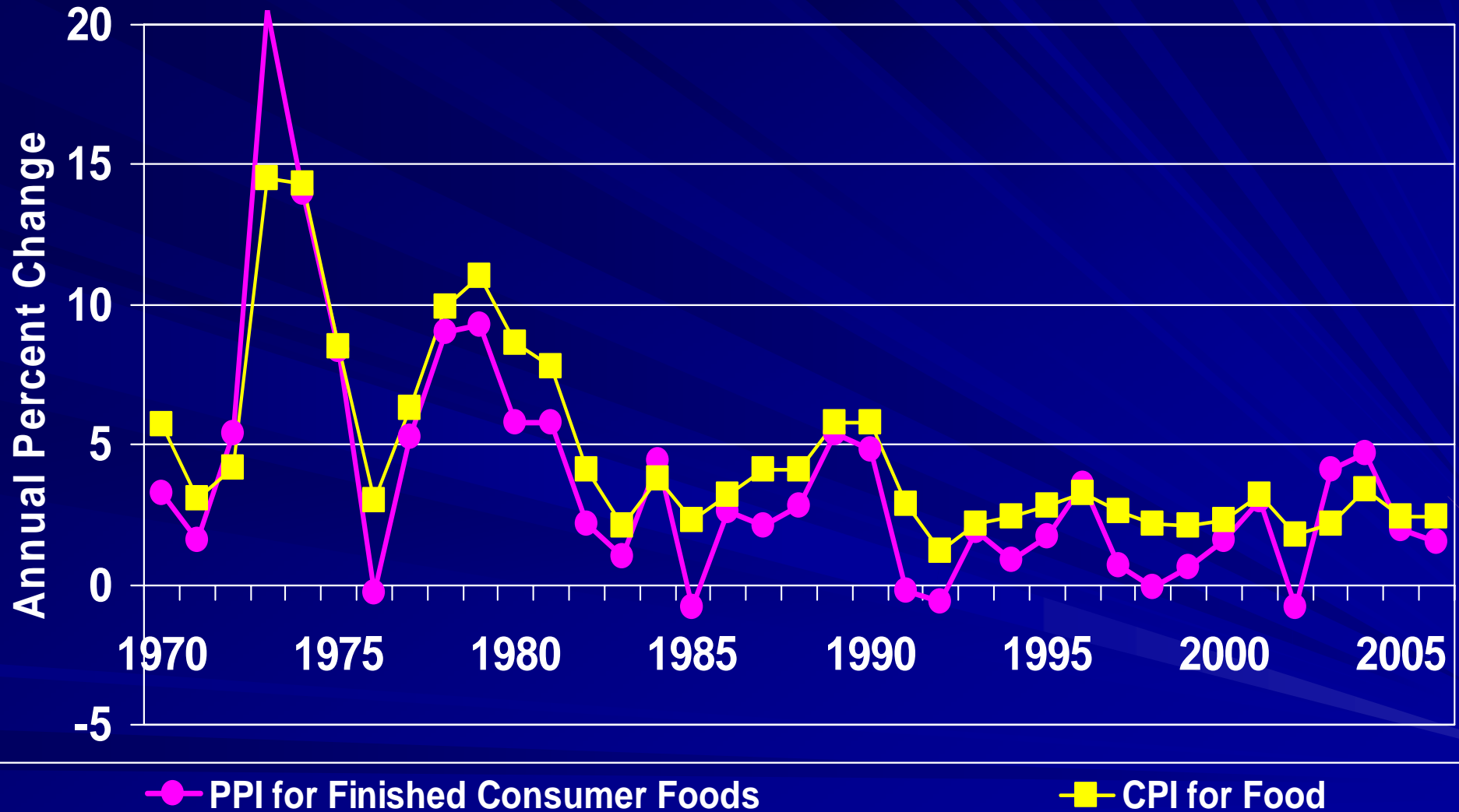
## Average Annual Percent Change

### Farm PPI 3.2

- |              |     |             |     |
|--------------|-----|-------------|-----|
| ➤ Wheat      | 5.1 | ➤ Corn      | 2.6 |
| ➤ Fruits     | 4.0 | ➤ Livestock | 3.1 |
| ➤ Vegetables | 4.0 | ➤ Poultry   | 3.8 |

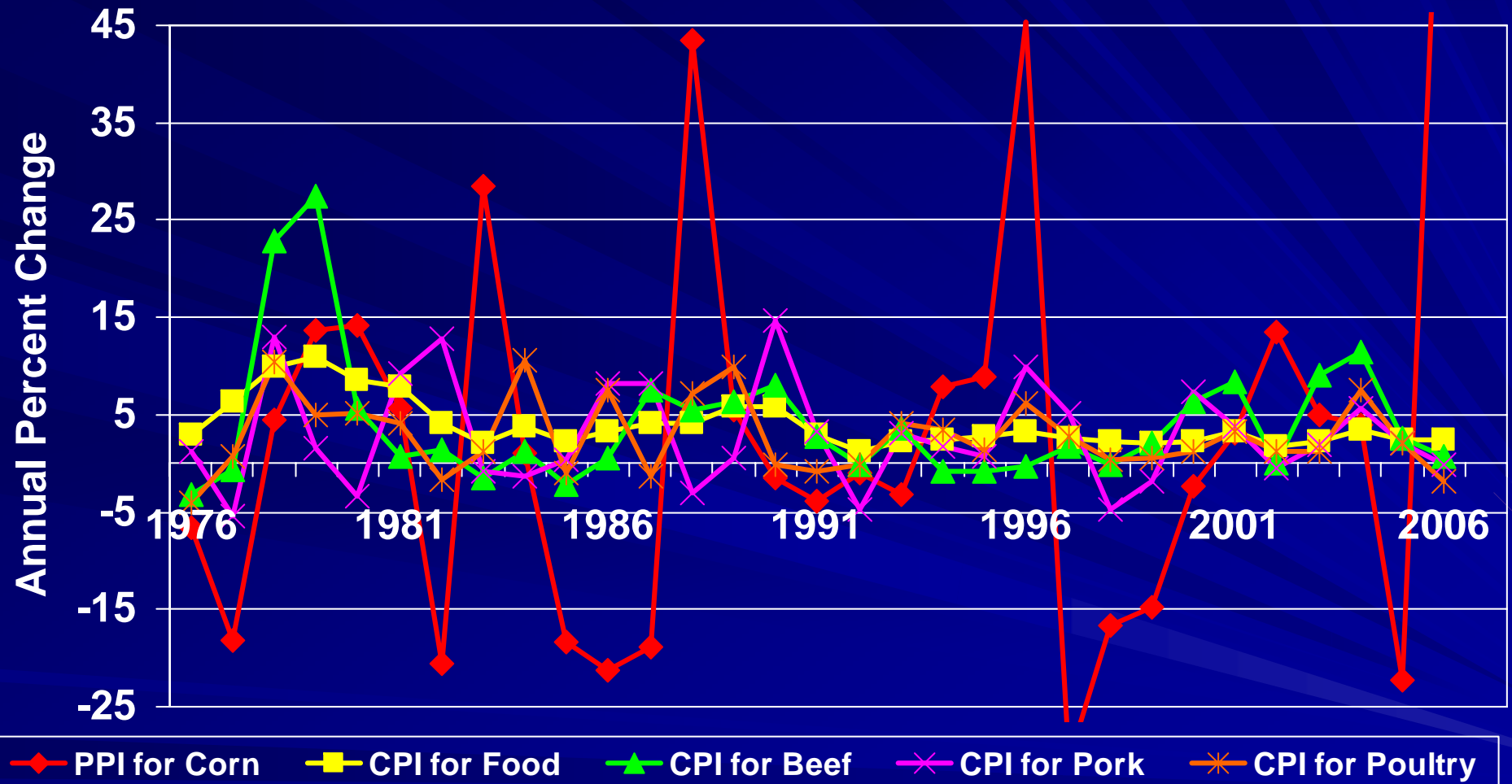
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# CPI vs PPI 1970-2006



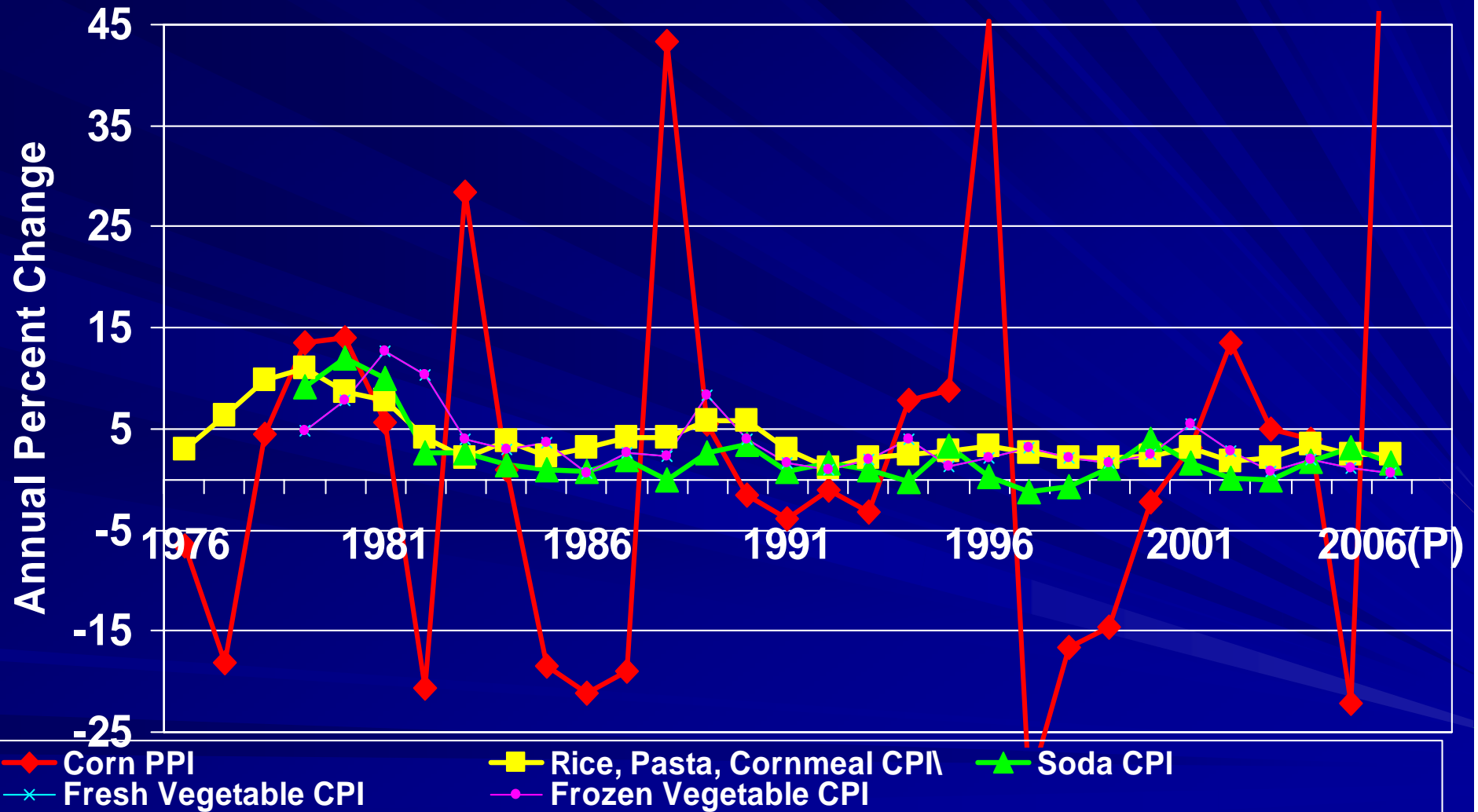
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# Meat vs. Corn, 1976-2006



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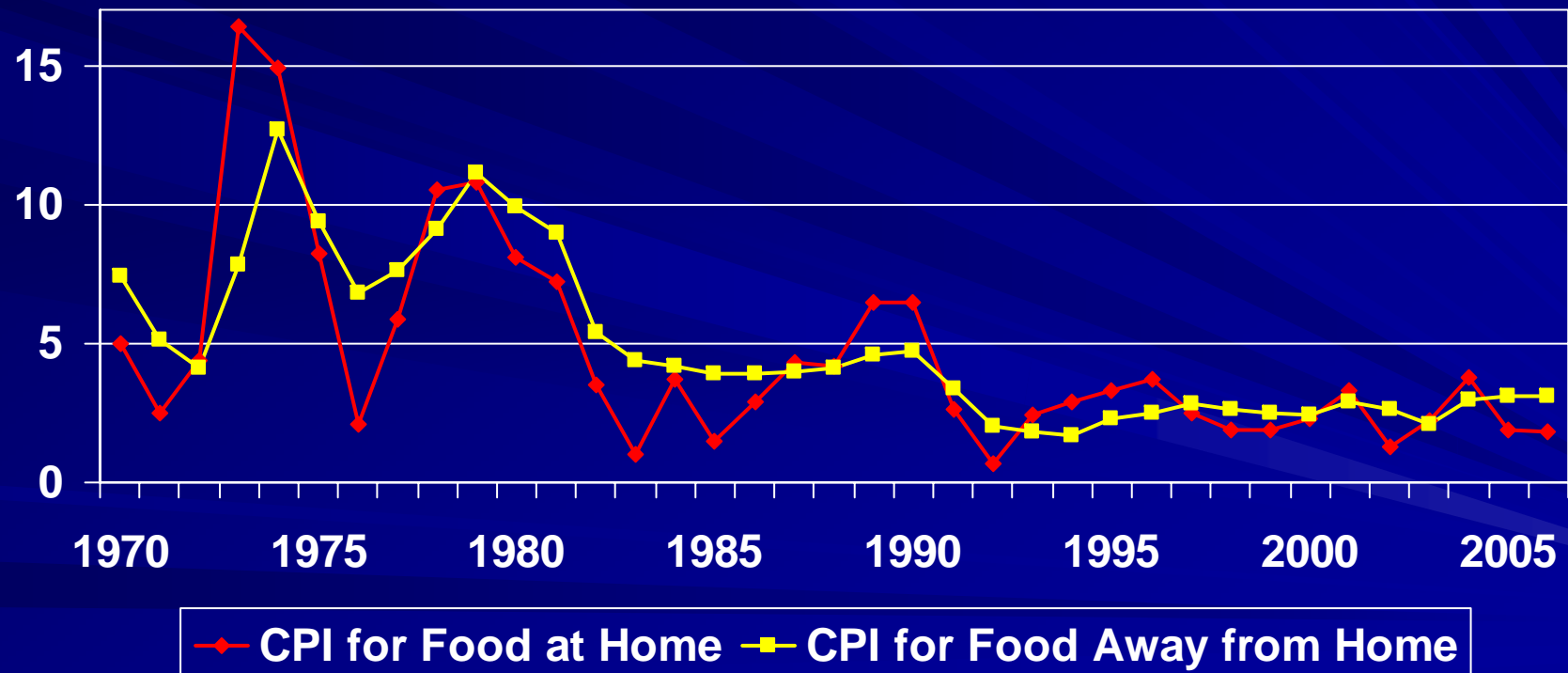
# Other Food vs. Corn, 1976-2006



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# Food at Home vs Food Away from Home 1970-2006

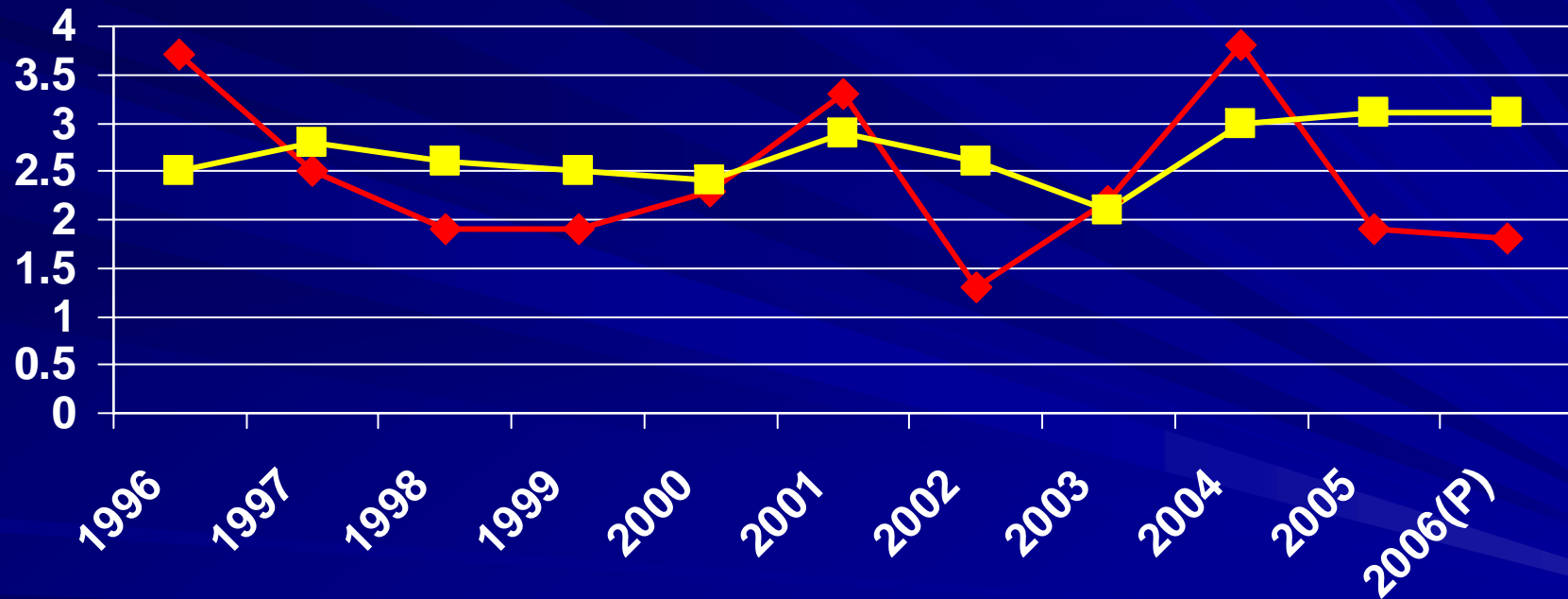
## Annual Percent Change



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# Food at Home vs Food Away from Home 1996-2006

## Annual Percent Change

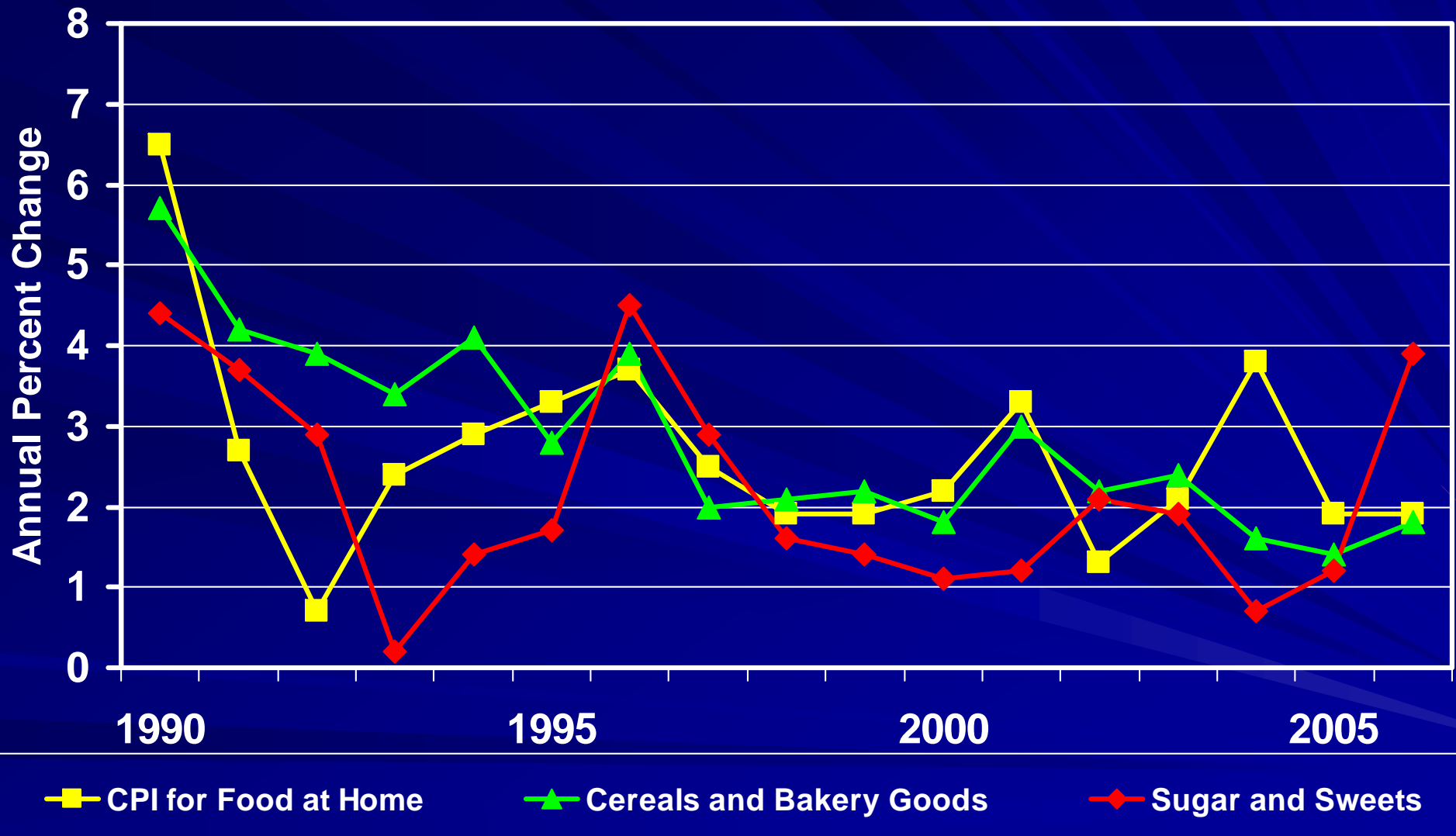


◆ CPI for Food at Home ■ CPI for Food Away from Home

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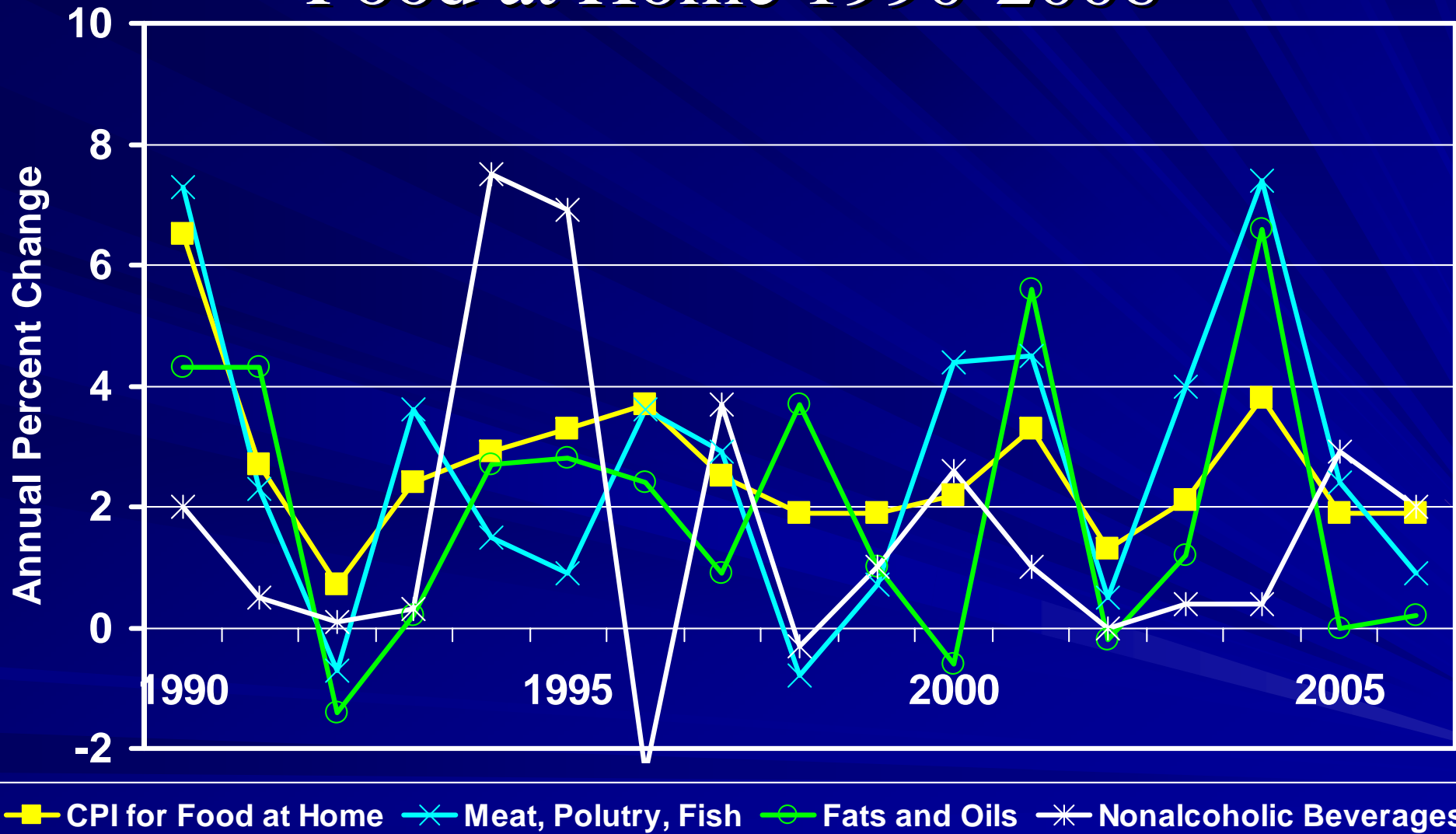


# 'Stable' Components of the CPI for Food at Home 1990-2006



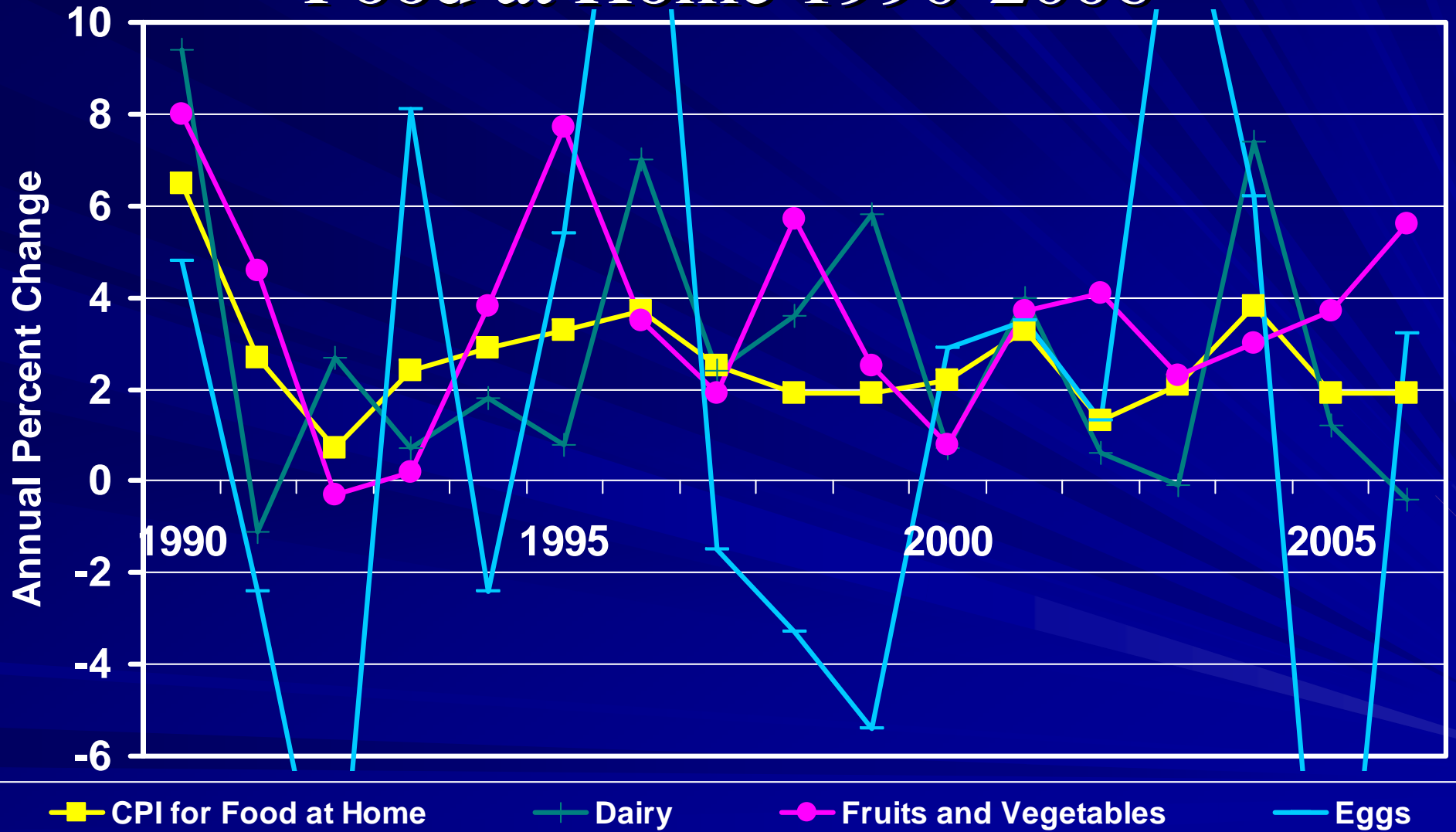
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# Less Stable Components of the CPI for Food at Home 1990-2006



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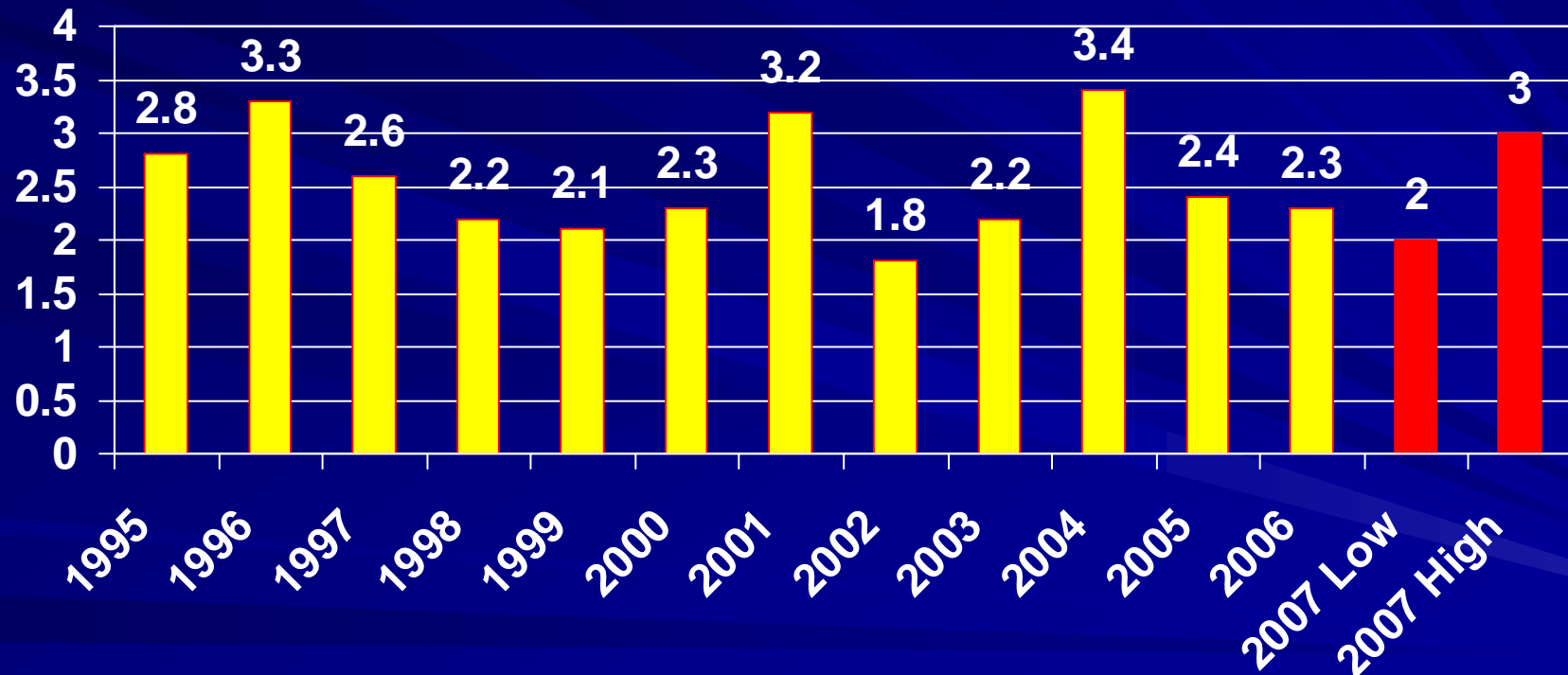
# 'Volatile' Components of the CPI for Food at Home 1990-2006



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# CPI for Food Slightly Higher in 2007

## Annual Percent Change in CPI for Food



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# Why?

## ■ Upward Pull on Retail Food Prices:

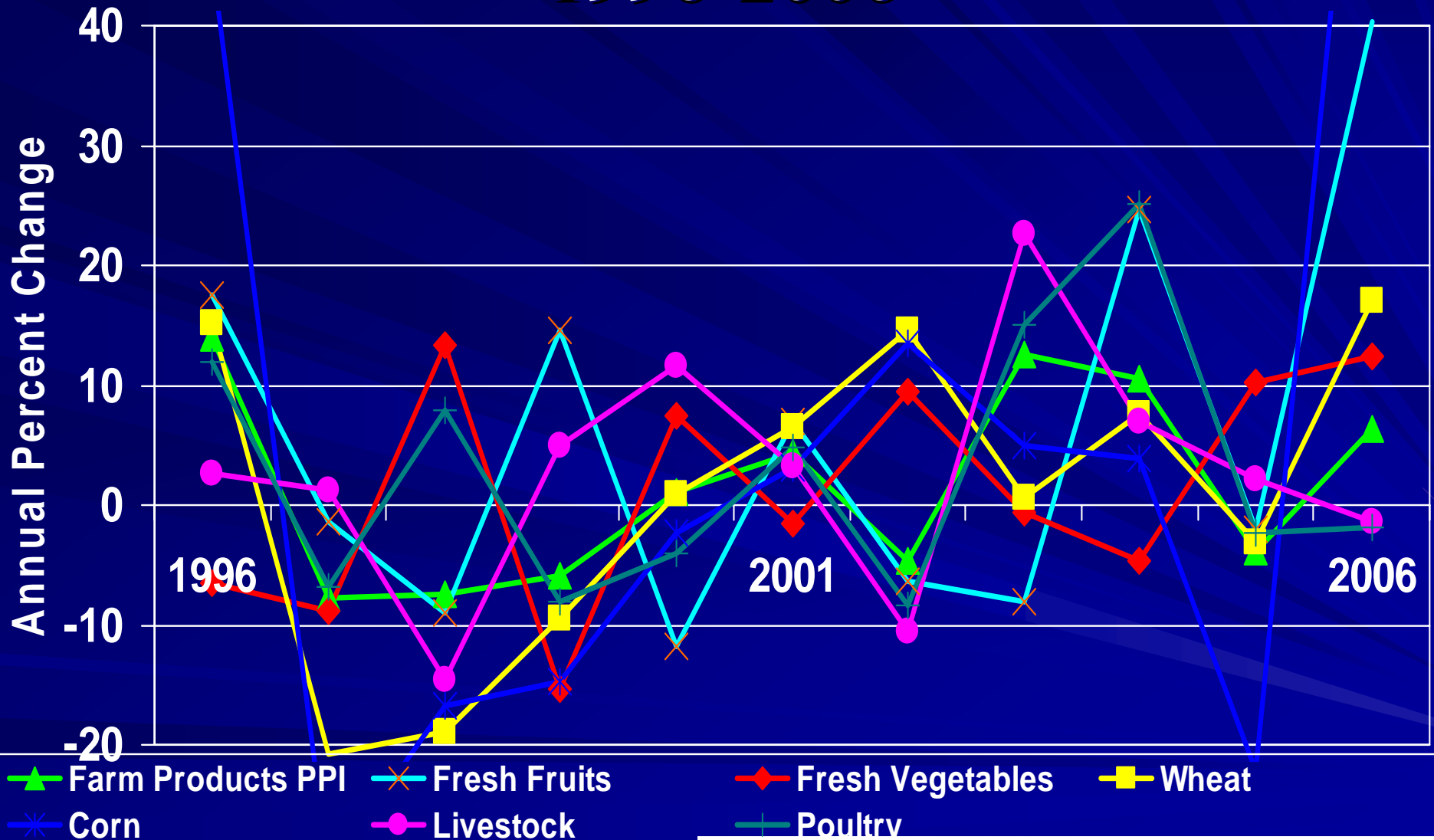
- Higher Commodity Costs (Corn, Wheat, F+V)
- Residual Higher Energy Costs
- Rising Labor and Healthcare Costs
- Specialization leads to Differentiation

## ■ Stabilizing Forces:

- Increased Competition from nontraditional retail formats.
- Better Inventory Management/Cost Saving Technologies
- Globalized Trade: Year-round availability
- Demand by consumers for convenience, quality, *and* low prices.

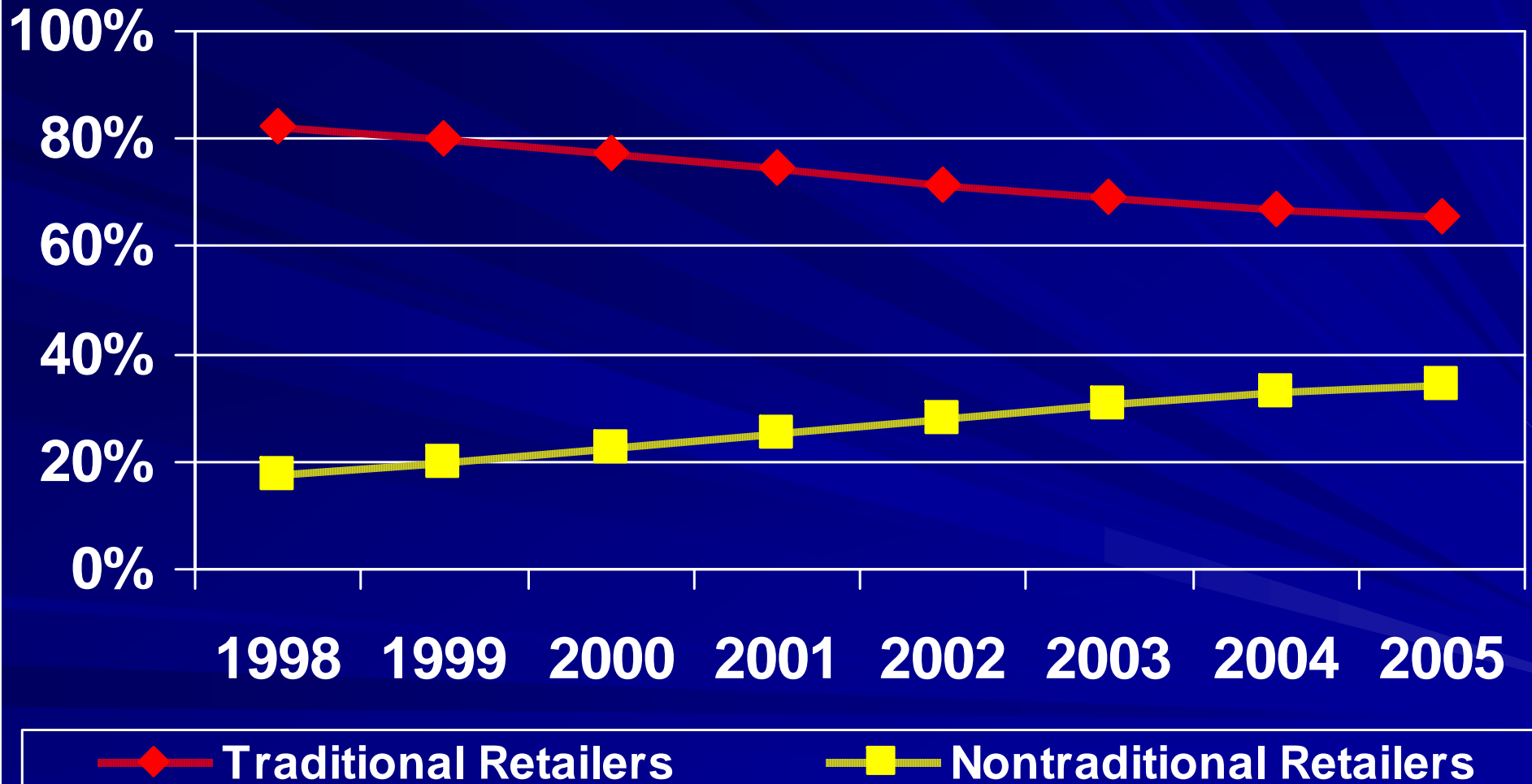
# Farm Product PPI Components

## 1996-2006



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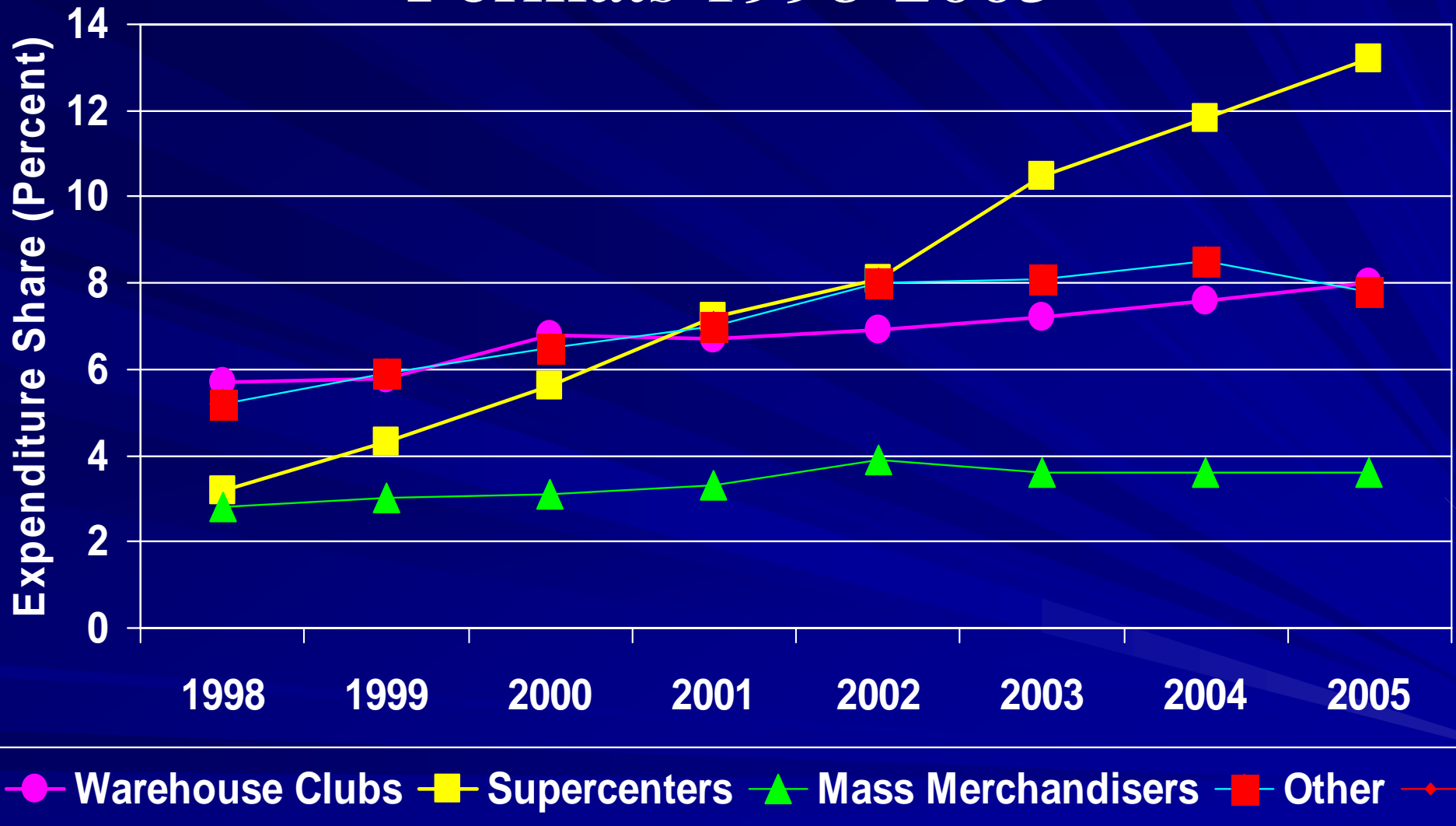
# Expenditure Shares for Nontraditional Food Stores Continue to Rise



Source: ERS Calculations of ACNielsen Homescan Data

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# Expenditure Shares for Nontraditional Formats 1998-2005



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# Expenditure Shares for Nontraditional Formats 1998-2005

	Warehouse Clubs	Supercenters	Mass Merchandisers	Other
<b>1998</b>	5.7%	3.2%	2.8%	5.2%
<b>1999</b>	5.8%	4.3%	3.0%	5.9%
<b>2000</b>	6.8%	5.6%	3.1%	6.5%
<b>2001</b>	6.7%	7.2%	3.3%	7.0%
<b>2002</b>	6.9%	8.1%	3.9%	8.0%
<b>2003</b>	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%

Source: ERS Calculations using Nielsen Homescan Data

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# Percent Change in Food CPI 2004-2007 (a)

Items	2004	2005	2006	Forecast 2007
All Food	3.4	2.4	2.3	2.0 to 3.0
FAFH	3.0	3.1	3.1	2.5 to 3.5
Food at Home	3.8	1.9	1.7	1.5 to 2.5
<b>Beef</b>	<b>11.6</b>	<b>2.6</b>	<b>0.8</b>	<b>0.0 to 1.0</b>
<b>Pork</b>	<b>5.6</b>	<b>2.0</b>	<b>-0.2</b>	<b>-1.0 to 0.0</b>
<b>Other Meats</b>	<b>4.5</b>	<b>2.4</b>	<b>1.8</b>	<b>0.0 to 1.0</b>
<b>Poultry</b>	<b>7.5</b>	<b>2.0</b>	<b>-1.8</b>	<b>1.0 to 2.0</b>

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# Percent Change in Food CPI 2004-2007 (b)

Items	2004	2005	2006 (P)	Forecast 2007
All Food	3.4	2.4	2.3	2.0 to 3.0
Food at Home	3.8	1.9	1.7	1.5 to 2.5
Fish and Seafood	2.3	3.0	4.7	3.5 to 4.5
Dairy	7.3	1.2	-0.6	0.0 to 1.0
Fats and Oils	6.6	-0.1	0.2	1.5 to 2.5
Sugar + Sweets	0.7	1.2	3.8	2.5 to 3.5
Eggs	6.2	-13.7	4.9	11.0 to 12.0

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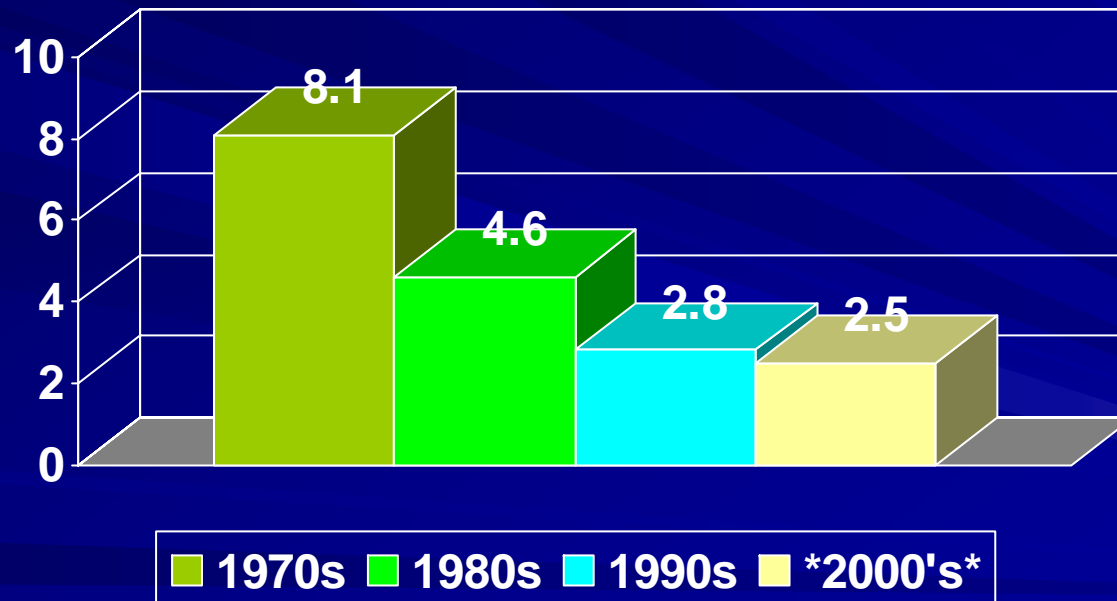
# Percent Change in Food CPI 2004-2007 (c)

Items	2004	2005	2006	Forecast 2007
All Food	3.4	2.4	2.3	2.0 to 3.0
Food at Home	3.8	1.9	1.7	1.5 to 2.5
Fresh Fruits	2.8	3.7	6.0	3.5 to 4.5
Fresh Vegetables	4.3	4.0	4.6	3.0 to 4.0
Processed F + V	1.3	3.3	2.9	2.5 to 3.5
Cereals + Bakery	1.6	1.5	1.8	2.5 to 3.5
Nonalcoholic Bev.	0.4	2.9	2.0	2.0 to 3.0

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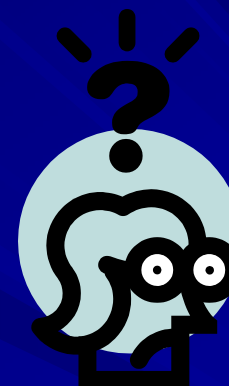
# Food Price Inflation Stabilizing

Average Annual Percent Change in  
Food Price Inflation by Decade



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# Questions



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# Contact Information

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For more information, see

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

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