

Food & Marketing



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Food Price Inflation To Moderate in 2002 & 2003

The U.S. Consumer Price Index (CPI) for all food is forecast to increase 2.1 percent in 2002 and 2 to 2.5 percent in 2003, compared with a 3.1-percent increase in 2001. With 8 months of CPI data already collected in 2002, the annual average food CPI is 2.3 percent above the first 8 months of 2001. The inflation rate for the all-items CPI, which was 2.8 percent in 2001, is forecast to be 1.6 percent in 2002 and 2 percent in 2003.

In 2002, record beef, pork, and poultry supplies, along with dampened consumer demand, are holding down meat prices. Higher feed costs and eroding pasture conditions from widespread drought mean more animals moving to slaughter in the short term. This, along with slumping poultry exports and a lackluster domestic economy, are pressuring livestock and meat prices down this year. Smaller potato supplies should push the fresh vegetable CPI up over 7 percent in 2002, but adequate supplies of fresh fruits, dairy products, nonalcoholic beverages, and other processed foods will likely keep the food-at-home price increase below 2 percent.

Total food purchased by consumers is expected to increase 3.6 percent in 2002 to an estimated \$832 billion, up from

\$803 billion in 2001. In 2002, at-home-food sales are forecast to increase 1.2 percent, while food-away-from-home sales (in restaurants and fast-food establishments) are expected to increase 5.5 percent. Consumer spending on food away from home continues to increase faster than food-at-home sales, although slow economic growth has encouraged people to eat more at fast-food establishments and less at expensive restaurants. Retail prices for meals eaten away from home are expected to increase less in 2002 than in 2001.

The CPI, which measures changes in prices only, is forecast to increase 2.5 percent for full-service meals and snacks (restaurants) in 2002, while the CPI for limited-service meals and snacks (fast-food establishments) is expected to increase 3 percent. In 2001, the increases were higher, with restaurants increasing 3.2 percent and fast-food establishments increasing 3.1 percent. Restaurants and fast-food establishments continue to compete vigorously with the take-home meals offered by supermarkets. The three main sources of takeout food are fast-food (33 percent), restaurants (23 percent), and supermarkets (20 percent).

Total food expenditures (sales plus home production, donations, and supplied foods) are forecast to increase to \$875 billion dollars, up 3.6 percent from \$844 billion in 2001. Food price changes are key determinants of the proportion of income consumers spend for food. In 2001, 10 percent of household disposable personal income went for all food, with consumers expected to spend the same or smaller share of their income on food in 2002 and 2003. The proportion of household disposable personal income spent on food generally has trended downward, from 11.6 percent in 1990 and 13.2 percent in 1980.

Beef and veal. Widespread drought is pushing up feed costs and eroding pasture conditions, which means more beef production in the short term as more heifers and cows are slaughtered. However, this will lower beef production over the next 2-3 years as a greater proportion of females are held for breeding. Declining 2002 crop yield prospects will likely result in higher grain prices. Although the mid-year cattle inventory report indicated a slightly larger calf crop in 2002, drought and worsening forage conditions and rising grain prices are likely to end any prospects for herd expansion this year. Beef supplies over the next few years partially depend on when producers begin to retain heifers for expanding the breeding herd. Once retention begins, beef production will decline. Output should rise a few years later as the number of calves increases, but from a relatively low level as inventories are already down. During this transition, market prices could move sharply higher before cattle supplies for slaughter rebound.

Beef supplies are forecast to reach record levels in 2002, but are expected to tighten later this fall and into 2003. Retail prices are expected to average \$3.31 per pound in 2002, before rising to record levels in late 2003, as supplies decrease. Smaller beef supplies and rising U.S. beef prices make the U.S. beef market more attractive for world beef exporters. Although the economy continues to expand, the rate of expansion has slowed and expectations for future growth are uncertain. Dampened consumer demand and record supplies of pork and poultry expected in late 2002 and into 2003 will temper beef retail

Fruits and Vegetables Likely to Have Highest Price Increases

Item	Relative weights*	2001	Expected 2002	Forecast 2003
Consumer price indexes	<i>Percent</i>		<i>Percent change</i>	
All items		2.8	1.6	2.2
All food	100.0	3.1	2.1	2 to 2.5
Food away from home	42.3	2.9	2.6	2 to 2.5
Food at home	57.7	3.3	1.7	2 to 2.5
Meats, poultry, and fish	14.8	4.5	0.7	1 to 2
Meats	9.9	5.7	0.8	1 to 2
Beef and Veal	4.7	8.4	0.5	1 to 2
Pork	3.2	3.8	-0.6	-1 to -2
Other meats	2.0	2.9	3.4	2 to 3
Poultry	2.8	3.2	1.7	1 to 2
Fish and seafood	2.1	0.5	-1.7	1 to 2
Eggs	0.6	3.4	1.1	0 to -1
Dairy products	6.2	4.0	1.0	1 to 2
Fats and oils	1.8	5.6	-0.4	1 to 2
Fruits and vegetables	8.2	3.7	4.2	3 to 4
Fresh fruits and vegetables	6.3	3.8	4.4	3 to 4
Fresh fruits	3.2	2.6	1.7	1 to 2
Fresh vegetables	3.1	5.1	7.1	4 to 6
Processed fruits and vegetables	1.9	3.2	4.0	3 to 4
Sugar and sweets	2.1	1.2	2.2	2 to 3
Cereals and bakery products	8.8	3.0	2.1	2 to 3
Nonalcoholic beverages	6.6	1.0	-0.7	0 to -1
Other foods	8.4	2.2	0.5	1 to 2
Food expenditures			<i>\$ billion</i>	
All food		844.2	875.0	926.0
Food at home		443.9	453.0	484.0
Food away from home		400.3	422.0	442.0

*Bureau of Labor Statistics estimated weights as share of all food, December 2001.

Sources: Historical data, Bureau of Labor Statistics; forecasts, Economic Research Service.

For CPI revisions and statistics, see:

www.ers.usda.gov/briefing/CPIFoodAndExpenditures/Data/cpiforecasts.html

Economic Research Service, USDA

price increases. The CPI for beef is expected to be up about 0.5 percent in 2002, increasing 1-2 percent in 2003. With continued heavy cattle weights, per capita consumption is expected to average 67.9 pounds in 2002 before declining to 63.8 pounds in 2003.

Pork. Pork production is forecast to reach record levels of 19.8 billion pounds in 2002 and remain at about this level in 2003. Producers are expected to respond to higher feed costs by reducing the number of sows that farrow in 2003, but pigs per litter are expected to increase slightly as less productive sows are culled from the breeding herd. U.S. pork imports are expected to top 1 billion pounds in 2002 and 2003, as pork products from Canada increased more than 17 percent in the first 6 months of 2002. The U.S. and Canadian pork industries are becoming more integrated. American appetites for pork ribs

also support Danish exports to the U.S. Lower export demand for U.S. pork products can be attributed to slower-than-anticipated economic growth in important foreign markets. Exports to Japan and Mexico, the 2 largest markets for U.S. pork, have been down slightly in 2002. U.S. pork exports in the first half of 2002 were down 5 percent from last year, and are expected to be down 2 percent for the entire year.

U.S. retail demand for pork remains strong. Retail pork prices are expected to average \$2.67 per pound in 2002, with the CPI for pork forecast to decline less than 1 percent from 2001. With large supplies continuing in 2003, the CPI for pork will likely be below 2002. Per capita consumption is expected to average 51.8 pounds in 2002, up from 50.2 pounds in 2001. With pork production down slightly in 2003 and the export market forecast to

increase to 1.6 billion pounds, domestic per capita consumption is expected to average 51.1 pounds next year.

Poultry. The CPI for poultry is forecast to increase 1.7 percent in 2002, with a further increase of 1-2 percent expected in 2003. Competing supplies of red meat and an uncertain broiler export market led to large supplies of poultry in the U.S. market. Broiler meat production in 2002 is expected to be 32.3 billion pounds and to increase 1 percent in 2003 to 33 billion pounds. Turkey production, expected to be 5.66 billion pounds in 2002, is forecast to increase slightly in 2003.

While domestic broiler production was up 3.8 percent the first half of 2002, production is expected to slow somewhat in the second half of 2002 due to large supplies of competing meats, uncertainty of the broiler export market, and expected higher feed costs. In the first 6 months of 2002, broiler meat shipments were down 18 percent from the same period in 2001.

Exports to Russia were 30 percent lower, while exports to Hong Kong (the second largest market) were 12 percent lower and shipments to Japan were down 59 percent. Partially offsetting these declines were higher exports to Mexico (up 8 percent) and to Korea (up 57 percent). Overall poultry exports during the first half of 2002 fell 15 percent over a year ago.

Fish and seafood. The CPI for fish and seafood is expected to be down 1.7 percent in 2002, but up 1-2 percent in 2003. A strong domestic economy boosted seafood sales in the restaurant and food-service sectors in 2000 and 2001. With a weaker economy in 2002 and fewer people eating in restaurants, the demand for seafood was down, and competition from beef and pork was stronger than the previous 2 years. A large percentage of total seafood sales are in the away-from-home market. More than 50 percent of the fish and seafood consumed in the U.S. is imported, with another 20 to 25 percent from U.S. farm-raised production.

Eggs. The CPI for eggs is forecast to increase 1.1 percent in 2002 and to hold steady or decrease slightly in 2003. Egg production is forecast to increase 1 percent in 2002 and is expected to remain steady in 2003. While egg production has

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changed little, eggs used in the breaking egg market (by restaurants and food manufacturers) continue to expand. Exports to the four largest traditional markets were mixed during the first half of 2002. Shipments to Canada, Mexico, and Japan were down while shipments to Hong Kong and the European Union were up. U.S. per capita consumption is expected to average 252 eggs in 2002 and 249 eggs in 2003, down from 253 eggs in 2001.

Dairy products. Retail prices and the CPI for dairy products are forecast to increase 1 percent in 2002, with an increase of 1-2 percent projected for 2003. Milk production is expected to grow almost 1 percent, from 169.8 billion pounds in 2002 to 171.4 billion pounds in 2003, due to partial recovery in milk per cow and a small increase in milk cow numbers. Demand for cheese and other dairy products should gradually resume growth following a stagnant first half of 2002.

Fats and oils. The fats and oils CPI is forecast to fall 0.4 percent in 2002, but to increase 1-2 percent in 2003. Lower retail prices for butter, which accounts for 31 percent of the fats and oils index, led to the index forecast to be unchanged in 2002. 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 and U.S. and world vegetable oil supplies.

Fresh fruits. The major fresh fruits consumed in the U.S. continue to be bananas (19 percent of the fresh fruit index), apples (18 percent), citrus (17 percent), and other fresh fruits including grapes, peaches, pears, and strawberries (46 percent). For 2002, higher retail price expectations for apples (up 7.2 percent) and citrus fruits (up 2.1 percent) are partially offset by lower prices for bananas (down 0.3 percent), peaches, strawberries, Thompson seedless grapes, and selected fall fruits. A CPI increase of 1.7 percent is expected for 2002 and a 1-2 percent increase for 2003.

In the first half of 2002, adequate supplies of California stone fruit (peaches, nectarines, and plums) held retail prices down. Import volume of bananas and papayas were lower in 2002 compared

with 2001, while imports of pineapples and mangoes were higher. Domestic consumption of fresh apples is expected to average 17 pounds per person, pear consumption averages 3 pounds per person, and grape consumption averages 7 pounds per person. Imports provide most of the tropical fruit supplies in the U.S., with bananas, mangoes, pineapples, and papayas the most popular. Demand for fresh tropical fruit in the U.S. has been on the rise, a trend influenced by the nation's growing immigrant population. Bananas are the most popular imported tropical fruit, accounting for over 85 percent of total import volume.

Fresh vegetables. The major fresh vegetables consumed in the U.S. continue to be potatoes (17 percent of the total fresh vegetable index), lettuce (13 percent), tomatoes (20 percent), and other fresh vegetables (50 percent). In 2002, the CPI for fresh vegetables is expected to increase 7.1 percent, with a projected growth of 4-6 percent for 2003. Reduced potato acreage (down 9 percent) and lower production (down 15.5 percent) in 2001 contributed to an expected 23-percent increase in retail prices in 2002. Lettuce prices are forecast to be 11 percent higher in 2002, largely due to cool, damp weather in California, which delayed harvesting of lettuce in March. Tomato prices are expected unchanged from 2001 to 2002, with shipments to the retail market up 9 percent in 2002, providing adequate supplies of fresh market tomatoes. Retail prices for other fresh-market vegetables (including snap beans, broccoli, cabbage, carrots, cauliflower, celery, sweet corn, cucumbers, peppers, and squash) are expected to increase an average of 4 percent in 2002.

The Farm Security and Rural Investment Act of 2002, which governs Federal farm programs for the next 6 years, features programs that will have a direct bearing on the fruit and vegetable industry. Two specific programs that may affect future retail pricing of fresh fruits and vegetables include: (1) Country of origin labeling for perishable agricultural commodities, including fruits and vegetables after a 2-year voluntary program; and (2) Government purchase of fresh fruits and vegetables for distribution to schools and service institutions. Additional funds will be used

to increase fruit and vegetable consumption and publicize related health promotion messages.

Processed fruits and vegetables. Contract production of the five major processing vegetables (tomatoes, sweet corn, snap beans, cucumbers, and green peas) was down 10 percent in 2001 but is forecast to be up 3 percent in 2002 to 1.26 million acres. Responding to burdensome inventories and weak wholesale prices, processors contracted for fewer acres of the five leading processing vegetables in 2001, but contract area was greater in 2002 for tomatoes (up 10 percent), green peas (up 3 percent), cucumbers for pickles (up 22 percent), and snap beans (up 2 percent). Although production area was up in 2002, the drought situation may lower yields of some of the vegetables for processing.

With reduced supplies of fruits and vegetables for processing in 2000 and 2001, the CPI for canned fruits and vegetables is forecast up 3.9 percent in 2002 and the CPI for frozen fruits and vegetables is expected to be 3.8 percent higher. The CPI for all processed fruits and vegetables is expected to increase 4 percent in 2002 and an additional 3-4 percent in 2003. Since frozen fruit and vegetable demand has been shown to be price and income sensitive, retailers will be reluctant to raise prices more than a modest amount in the coming year.

Sugar and sweets. Domestic sugar production for 2002/03 is projected at 8.75 million tons, with cane sugar estimated at 4.25 million tons and beet sugar estimated at 4.5 million tons. Total production was estimated to be 8.017 million tons in 2001/02. The area planted to sugar beets in 2002 was up 3 percent, while sugarcane acreage harvested during the 2002 crop year was down slightly from the year before. Most of the sugar beet acreage increase occurred in North Dakota and Idaho, while harvested sugarcane acreage was up in Hawaii and Texas.

The CPI for sugar and sweets is forecast to increase 2.2 percent in 2002 and another 2-3 percent in 2003. The sugar and sweets index has 3 sub-categories: sugar and artificial sweeteners (17.8 percent of the index), candy and chewing gum (63.5

percent), and other sweets (jellies, jams, preserves, and syrups, 18.7 percent). The sugar and artificial sweeteners category is forecast to increase 1.8 percent in both 2002 and 2003, candy and chewing gum, 2.2 percent and 2.9 percent, and other sweets, 3.4 percent and 3.3 percent.

Cereal and bakery products account for over 15 percent of the at-home food CPI. Breakfast cereals and bread are the two largest components, each accounting for 19 percent of the index. Breakfast cereal prices are expected to increase 2 percent in 2002, and bread, 2.2 percent. With lower grain prices earlier this year and modest inflation-related processing cost increases, the CPI for cereals and bakery products is forecast to increase 2.1 percent in 2002 and another 2-3 percent in 2003. Most of the costs required to produce cereal and bread products are for processing and marketing (more than 90 percent in most cases), leaving the farm-grown ingredients a minor cost consideration.

Nonalcoholic beverages. The CPI for nonalcoholic beverages is forecast to fall 0.7 percent in 2002 and an additional 1 percent in 2003. Prices of carbonated drinks, nonfrozen noncarbonated juices and drinks, and coffee are the three major components, accounting for 38, 32, and 10 percent of the nonalcoholic beverage index, respectively. In 2002, retail prices are forecast lower for carbonated drinks (down 0.1 percent), and significantly lower for coffee (down 3 percent). World production of coffee in 2001/02 and 2000/01 set records of almost 110 million 60-kilogram bags. Near-record production in Brazil, which is the largest producer of *arabica* beans, and other Central and South American countries contributed to lower consumer coffee prices in 2002. In the U.S., the leading coffee consuming country, consumers prefer the smoother, premium, *arabica* beans produced in South America. More recently, coffee production has increased in Asia, making world coffee supplies more plentiful. For carbonated drinks, competition among

leading manufacturers has held down retail prices. In 2003, the CPI for carbonated drinks is forecast to fall slightly.

Other foods. The CPI for other foods is forecast up 0.5 percent in 2002, and 1-2 percent in 2003. Products in this category and their expected price changes for 2002 include soups (up 2.4 percent); frozen and freeze-dried prepared foods (up 0.4 percent); snacks (down 0.7 percent); spices and seasonings (up 2 percent); olives, pickles, and relishes (up 0.1 percent); sauces and gravies (up 0.7 percent); and baby foods (up 2 percent). These highly processed foods are heavily affected by changes in the all-items CPI. Competition among these products and from the away-from-home market should continue to dampen retail price increases for items in this category in 2003. **AO**

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