

USDA expects food prices to rise 2% to 3% this year

The agency attributes the possible increase to rising commodity prices, shrinking supplies of key ingredients and growing demand for corn-based ethanol for vehicle fuel.

Get ready for higher grocery store bills and restaurant checks.

The U.S. Department of Agriculture's Economic Research Service released its 2011 Consumer Price Index analysis for projections on food prices this week, and reported that overall food prices are expected to increase 2% to 3% this year.

The projected rise comes after a stretch of relative price stability in recent years. The agency's all-food index showed a modest 0.8% increase from 2009 to 2010, and a rise of just 0.3% in prices for food consumed at home, the lowest food inflation rates seen in the U.S. since 1962 and 1967, respectively.

However, food prices are expected to rise even more this year, agency researchers said. The causes include rising commodity prices, shrinking supplies of key ingredients and increasing demand for corn-based ethanol for vehicle fuel.

Just how much commodity prices rise will depend on "whether we can provide all the grain and soybeans and cotton we need, and how low the inventories will get, before we get a chance to replenish them," said Daryll Ray, director of the Agricultural Policy Analysis Center at the University of Tennessee. "You would expect the prices to be high. But whether they should be this high, that's another thing."

All that is expected to translate to higher prices for all consumers.

They will probably see it soon at the meat counter, in part because feed prices surged last year. According to the USDA's index report, beef and pork prices were actually down slightly in December from November. However, beef prices were up 6.1% in December compared with a year earlier, while pork prices jumped 11.2% last month compared with December 2009.

On Monday, McDonald's Corp. warned that it is increasing the price of some of its menu items to offset the rising cost of beef. Company representatives have reportedly said that the average price the fast-food chain pays for its most-used ingredients — such as chicken, wheat and cheese — could increase as much as 2.5% in 2011. And other leading packaged-food companies, including Kraft Foods Inc. and Sara Lee Corp., have warned consumers that higher prices are coming this year.