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HIGHER BEEF AND DAIRY PRICES ON THE HORIZON

Looking ahead in 2014, **USDA'S ECONOMIC RESEARCH SERVICE** (ERS) forecasts food price inflation will return to a range closer to the historical norm. The food-at-home CPI has already increased more in the first two months of 2014 than it did in all of 2013, but given its current trajectory it is on track for normal annual inflation.

Since 1990, grocery store prices have risen by an average of 2.8% per year. Inflationary pressures are expected to be moderate, given the outlook for commodity prices, animal inventories and ongoing export trends. Retailer margins, having contracted since the drought, may expand in 2014 if input prices rise, which should contribute to inflation.

The food, food-at-home and food-away-from-home CPIs are expected to increase 2.5% to 3.5% over 2013 levels. This forecast is based on an assumption of normal weather conditions; however, severe weather events could potentially drive up food prices beyond the current forecasts. In particular, the ongoing drought in California could potentially have large and lasting effects on fruit, vegetable, dairy and egg prices.

Eggs continued their recent surge, increasing 0.7% from January to February. The CPI for eggs is now 5.7% above the February 2013 level. ERS has revised the forecast for egg prices upward to 3.0% to 4.0% in anticipation of increased exports as well as strong domestic demand (due in part to high meat prices) in 2014.

2014 Retail Food Price Changes

(Source: USDA)

Item	Annual 2012	Annual 2013	Forecast 2014
Consumer Price Indexes			
All food	2.6	1.4	2.5 to 3.5
Food away from home	2.8	2.1	2.5 to 3.5
Food at home	2.5	0.9	2.5 to 3.5
Meats, poultry, and fish	3.6	2.1	2.5 to 3.5
Meats	3.4	1.2	2.5 to 3.5
Beef and Veal	6.4	2.0	3.0 to 4.0
Pork	0.3	0.9	2.0 to 3.0
Other meats	1.7	-0.1	2.0 to 3.0
Poultry	5.5	4.7	3.0 to 4.0
Fish and seafood	2.4	2.5	2.5 to 3.5
Eggs	3.2	3.3	**3.0 to 4.0**
Dairy products	2.1	0.1	2.5 to 3.5
Fats and oils	6.1	-1.4	1.5 to 2.5
Fruits and vegetables	-0.6	2.5	2.5 to 3.5
Fresh fruits & vegetables	-2.0	3.3	2.5 to 3.5
Fresh fruits	1.0	2.0	2.5 to 3.5
Fresh vegetables	-5.1	4.7	2.0 to 3.0
Processed fruits & vegetables	3.8	0.3	2.5 to 3.5
Sugar and sweets	3.3	-1.7	2.0 to 3.0
Cereals and bakery products	2.8	1.0	1.5 to 2.5
Nonalcoholic beverages	1.1	-1.0	2.5 to 3.5
Other foods	3.5	0.5	2.0 to 3.0

Bold marks change from prior month.

Milk prices, which have been rising since the end of 2013, increased 0.5% in February and are up 2.5% since last year. The Dairy CPI, while still up 0.6% from this time last year, is expected to experience accelerated inflation in the coming months.

The other foods category, which include many processed, shelf-stable foods and accounts for 12.0% of consumer food expenditures, rose 0.7% in February and is up 0.9% since last February. Prices for this category were flat in 2013 but are expected to increase 2.0% to 3.0% in 2014 as retailers recover their profit margins, which had contracted in 2012 and 2013.

Due to ongoing drought conditions in California, produce prices have recently come under a great deal of scrutiny. Fresh vegetable prices, however, fell 0.8% from January to February and are down 3.0% from this time last year. Fresh fruit prices increased 0.8% in February and are down 1.6% from February 2013.

The increase in fruit prices was led by a 4.4% increase in apple prices. California is not a major apple-growing state; hence, the California drought has not yet had a discernible impact on national prices for fruit or vegetables.

At the wholesale level, farm egg prices increased 19.6% in February, after falling 28.1% in January, underscoring the high volatility of this food category. Farm eggs prices are up 23.5% from February 2013.

Farm milk prices increased 6.5% in February, extending their recent upward trend, most likely due to contraction in the U.S. dairy herd. Wholesale dairy prices also rose 4.1% from January to February.

These increases can be expected to register in the Dairy CPI as soon as next month, but retail prices for cheese, ice cream, and other processed foods may take months to show any effect from dairy herd contraction.

Both farm cattle and wholesale beef prices rose, with cattle increasing by 1.1% and beef increasing by 2.4%. While not unusually large, these changes indicate that the record-high supermarket beef prices across the country are here to stay for the coming months.

2014 Wholesale Food Price Changes

(Source: USDA)

Item	Annual 2012	Annual 2013	Forecast 2014
Crude foodstuffs and feedstuffs	4.2	1.9	NA
Intermediate foods and feeds	4.8	1.3	NA
Finished consumer foods	2.6	2.2	NA
Farm level cattle	8.6	1.4	**8.0 to 9.0**
Wholesale beef	10	-0.4	**4.0 to 5.0**
Wholesale pork	-4.1	3.6	5.5 to 6.5
Wholesale poultry	11.2	3.8	2.0 to 3.0
Farm level eggs	1.4	9.4	4.0 to 5.0
Farm level milk	-8.1	7.6	**5.0 to 6.0**
Wholesale dairy	-1.6	3.5	**4.0 to 5.0**
Farm level soybeans	13.2	-1.8	-8.0 to -7.0
Wholesale fats and oils	-2	-6.7	-5.0 to -4.0
Farm level fruits	1.1	1.8	1.5 to 2.5
Farm level vegetables	-19.8	26.4	-4.0 to -3.0
Farm level wheat	-2.6	-3	-8.0 to -7.0
Wholesale wheat flour	2	0	**-4.0 to -3.0**

Bold marks change from prior months