Food Price Outlook, 2016

This page provides the following information for **December 2015**:

- Consumer Price Index (CPI) for Food (not seasonally adjusted)
- Producer Price Index (PPI) for Food (not seasonally adjusted)

Consumer Price Index (CPI) for Food (not seasonally adjusted) The all-items Consumer Price Index (CPI), a measure of economy-wide inflation, fell 0.3 percent from November to December but is 0.7 percent above the December 2014 level. The CPI for all food also declined from November to December—a decline of 0.2 percent. However, food prices are 0.8 percent above the December 2014 level. The degree of food price inflation varies depending on whether the food was purchased for consumption away from home or at home.

- The food-away-from-home (restaurant purchases) CPI was up 0.1 percent in December and is 2.6 percent higher than December 2014; and
- The food-at-home (grocery store or supermarket food items) CPI declined 0.4 percent in December and is 0.4 percent lower than last December.

ERS revises its food price forecasts if the conditions (such as the feed grain crop outlook or weather-related crop conditions) on which they are based change significantly. Despite the effects of the drought in the Southwest and California and the Highly Pathogenic Avian Influenza (HPAI), supermarket (food-at-home) prices rose 1.2 percent in 2015. Food price inflation varied across food categories. Beef and veal prices continued to experience the effects of the Texas/Oklahoma drought. Farmers' decisions on calving and herd sizes were felt down the line due to the 16- to 18-month production process. Egg prices also saw larger-than-average increases, rising 17.8 percent due to the effect of HPAI on table-egg-laying flocks. In contrast, the effects of Porcine Epidemic Diarrhea virus (PEDv) on the hog industry are subsiding, and the hog industry started to expand in 2015, resulting in a 3.9-percent decrease in retail pork prices.

Looking ahead to 2016, ERS predicts food-at-home (supermarket) prices to

rise **2.0 to 3.0** percent—a rate of inflation that remains in line with the 20year historical average of 2.5 percent. These forecasts are based on an assumption of normal weather conditions; however, severe weather or other unforeseen events could potentially drive up food prices beyond the current forecasts. In particular, the drought in California could have large and lasting effects on fruit, vegetable, dairy, and egg prices. Conversely, if oil prices continue to remain low throughout 2016, subsequent decreases in production and transportation costs may be passed on to the retail level. Also, higher key interest rates could further increase the strength of the U.S. dollar, making the sale of domestic food products overseas more difficult. This would increase the supply of foods on the domestic market, potentially placing downward pressure on retail food prices.

Changes to Food Category CPI Forecasts

The food-at-home CPI is an average of individual food CPIs, weighted by their relative importance or share of consumer expenditures.

Beef and veal prices decreased an additional 2.4 percent from November to December and are 4.3 percent lower than this time last year. December price changes were affected by declining U.S. beef exports, helping to place downward pressure on retail beef prices by increasing the supply of beef on the U.S. market. Additionally, favorable pasture conditions in some areas in 2015 and lower feed prices have allowed cattle producers to feed cattle longer and to hold cattle for herd expansion. ERS predicts beef and veal prices will increase **0.0 to 1.0** percent in 2016.

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Key Month-Over-Month Changes in the Food CPI

In December, **pork** prices fell 2.3 percent from the previous month and are now 7.1 percent lower year-over-year. In 2014, retail pork inflation was largely due to the effects of PEDv, which had reduced the autumn number of hogs ready for production. In 2015, however, hog prices continue to fall below 2014 figures, as there are signs of industry expansion and a lower volume of pork exports due to the strength of the U.S. dollar. ERS predicts pork prices to rise **1.5 to 2.5** percent in 2016.

Prices for **poultry** decreased by 1.4 percent from November to December and are now 2.2 percent lower than last year. Retail chicken price inflation has remained relatively low in 2015 partly due to an increase in broiler production. While broilers have largely been unaffected by HPAI, broiler prices have been affected due to some countries instituting bans or partial bans on U.S. poultry exports. This has resulted in more chicken broilers remaining on the U.S. market which, in turn, places downward pressure on retail chicken prices. Chicken prices fell 1.7 percent from November to December and are 3.1 percent lower than they were at this time last year. Prices for other poultry, including turkey, were down 0.3 percent from November to December. ERS forecasts poultry prices to increase **2.0 to 3.0** percent in 2016.

Egg prices decreased 0.1 percent from November to December but are still 14.8 percent above December 2014 levels. Retail egg prices are among the most volatile retail food prices, as they can be affected by seasonal demand. The recent upswing is primarily due to the HPAI outbreak, which has decreased the table-egg-laying flocks in the Midwest and Pacific Northwest by 11 percent (33 million egg layers). ERS now forecasts egg prices to increase **0.0 to 1.0** percent in 2016.

Prices for **dairy** products increased in December, rising 0.1 percent from the previous month but remaining 3.9 percent lower than they were in December 2014. Milk prices have declined year-over-year—down 7.9 percent since December 2014. ERS predicts dairy product prices to rise **2.0 to 3.0** percent in 2016.

Prices for **fats and oils** increased 0.7 percent from November to December but are 0.6 percent lower than last December. The relatively low level of price inflation for fats and oils is primarily due to record-level oilseed production as well as increased import volume. ERS predicts fats and oils prices to increase **0.0 to 1.0** percent in 2016.

Prices for **fresh fruits** fell 0.1 percent from November to December but are 1.1 percent higher than in December 2014. Despite being higher year-overyear, fresh fruit prices still deflated 2.2 percent in 2015. ERS expects fresh fruit prices to increase **2.5 to 3.5** percent in 2016. **Fresh vegetable** prices increased in December, rising 1.3 percent over November levels. Fresh vegetable prices are up 0.4 percent since December 2014. This does not mean that the drought had no impact on fresh produce prices—other factors, such as the strength of the U.S. dollar and low oil prices, have placed downward pressure on retail fruit and vegetable prices. ERS expects fresh vegetable prices to increase between 2.0 and 3.0 percent in 2016.

Producer Price Index (PPI) for Food (not seasonally adjusted)

The Producer Price Index (PPI) is similar to the CPI in that it measures price changes over time. However, instead of measuring changes in retail prices, the PPI measures the average change in prices paid to domestic producers for their output. The PPI collects data for nearly every industry in the goods-producing sector of the economy. Of particular interest to food markets are three major PPI commodity groups—*crude foodstuffs and feedstuffs, intermediate foods and feeds,* and *finished consumer foods.* These groups give a general sense of price movements across the various stages of production in the U.S. food supply chain.

The stage-of-processing PPIs—measures of changes in farm and wholesale prices—are typically far more volatile than their counterparts in the CPI. Price volatility decreases as products move from the farm to the wholesale sector to the retail sector. Due to multiple stages of processing in U.S. food systems, the CPI typically lags movements in the PPI. Examining the PPI is thus a useful tool in understanding what may happen to the CPI in the near future.

ERS does not currently forecast industry-level PPIs for crude, intermediate, and finished foods and feeds, but these have historically shown a strong correlation with the all-food and food-at-home CPIs. Crude foods and feeds posted a monthly decrease of 3.1 percent from November to December. Prices for intermediate foods and feeds as well as finished consumer foods also fell in December, with intermediate foods and feeds decreasing 3.0 percent and finished consumer foods decreasing 1.5 percent. The recent price decreases for commodities and foods at earlier stages of the food supply chain suggest that food prices at the retail level could face downward pressure in the coming months.

Inflation rates for farm-level **cattle** and wholesale **beef** prices were high in 2014, as U.S. cattle herd sizes remained near historically low levels. Inflationary pressures have lessened, however, and farm-level cattle prices started to deflate in the second half of 2015. In December, cattle prices decreased an additional 9.0 percent and are down 27.7 percent since this time last year. Alternatively, wholesale beef prices decreased by 13.2 percent on the month and are down 22.0 percent from the previous year. In previous months, the price decline was due to larger inventories of heavy cattle that were "over-finished." However, these inventories seem to be declining, and prices have started to increase. In 2016, ERS predicts farm-level cattle prices to fall between **5.0 to 4.0** percent and wholesale beef prices to increase by **0.0 to 1.0** percent.

Wholesale **pork** prices decreased 4.1 percent from November to December; prices are now down 19.5 percent since this time last year, as the effects of PEDv are subsiding. Overall, pork production is higher, as litter sizes and hog inventories have recovered. Despite decreasing 23.4 percent in 2015, ERS predicts that wholesale pork prices will rise **2.5 to 3.5** percent in 2016.

Prices for farm-level **eggs** decreased 39.5 percent from November to December, and prices are now 38.8 percent lower than December 2014 levels. Egg prices are among the most volatile of food prices, typically peaking in the fourth quarter of the year and then falling in the first quarter of the new year. Prices have also been affected by HPAI, which has reduced the count of table-egg-laying birds in many Midwestern and Pacific Northwestern States. ERS forecasts farm-level egg prices to increase **5.0 to 6.0** percent in 2016.

Farm-level **soybean** prices increased 1.3 percent from November to December and are now 17.4 percent below the December 2014 price level. Wholesale **fats and oils** prices decreased on the month, falling 0.4 percent in December, and are now 4.5 percent lower than December 2014 price levels. ERS predicts farm-level soybean prices to rise **0.0 to 1.0** percent in 2016. Prices for wholesale fats and oils are expected to increase **1.0 to 2.0** percent in 2016.

The drought in California has raised concerns about rising produce prices at supermarkets or grocery stores. Farm-level **fruit** prices decreased 5.2 percent in December, while farm-level **vegetable** prices increased 17.3 percent. ERS predicts farm-level fruit prices to increase between **1.0 and 2.0** percent and vegetable prices to decrease between **1.0 to 0.0** percent in 2016.

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