



# **The Role of Commodity Prices in Food Inflation in the United States**

**Presented to The USDA Agricultural Outlook Forum  
February 26, 2009**

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# 2007-2008 US Food Inflation Metrics

		1982-2006	2007	2008	2009F
USDA ERS	CPI-Food, Yr over Yr	1.3 - 5.3%	4.0%	5.5%	3.0 - 4.0%
AES	CPI-Food, Dec vs. Dec	1.3 - 5.3%	4.8%	5.9%	4.5 - 5.5%
AES	PPI-Food, Dec vs. Dec	<b>(-1.5)</b> - 7.7%	7.6%	3.9%	3.0 - 7.0%
AFBF	Q4 vs. Q4	-	4.8%	15.8%	-

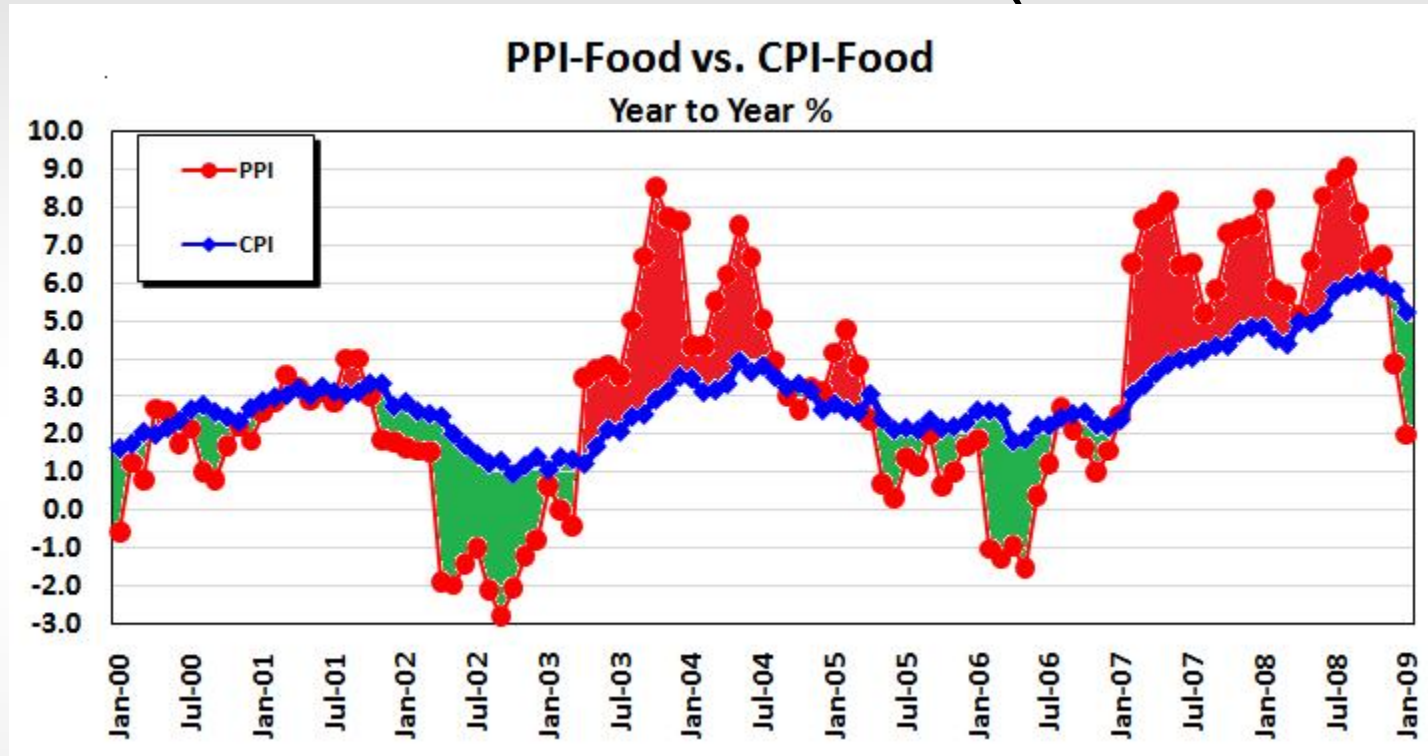
## Key Points:

- Food inflation was benign during 1982-2006, but accelerated in 2007 & 2008
- Food inflation results differ depending upon how it is measured
- Expect some moderation in food inflation during 2009

# 2008 Consumer Food Inflation Detail

CPI-Food Detail:		December-08	
	% Change YA		% Change YA
<b>Total CPI - Food</b>	<b>5.9%</b>		
Cereals/ Bakery	11.8%	Fats and Oils	17.4%
Bread	12.5%	Sugars/Sweets	8.1%
Breakfast Cereal	4.9%	Salad Dressing	10.5%
Rice	39.4%	Soups	8.8%
Beef	6.2%	Dairy	2.7%
Pork	5.1%	Eggs	-9.1%
Bacon	0.3%	Fruits/Vegetables	3.7%
Chicken	5.4%	Beer	4.0%
Fish	7.7%	Coffee	6.2%

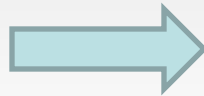
# Wholesale Food Costs (PPI-Food) vs. Consumer Food Prices (CPI-Food)



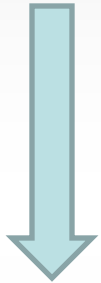
## Key Points:

- Over time the CPI-Food exceeds the PPI-Food by roughly 1%
- During most of the past two years, the PPI has exceeded the CPI
- Retailers respond to higher food costs only after an extended period of cost pressures

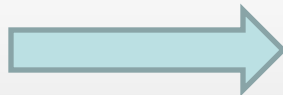
Rising Corn Prices



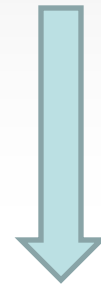
Acreage Allocation Between Crops  
(US and World-Wide)



Livestock Prices  
Dairy Prices  
Egg Prices



Consumer Meat, Dairy  
and Egg Prices

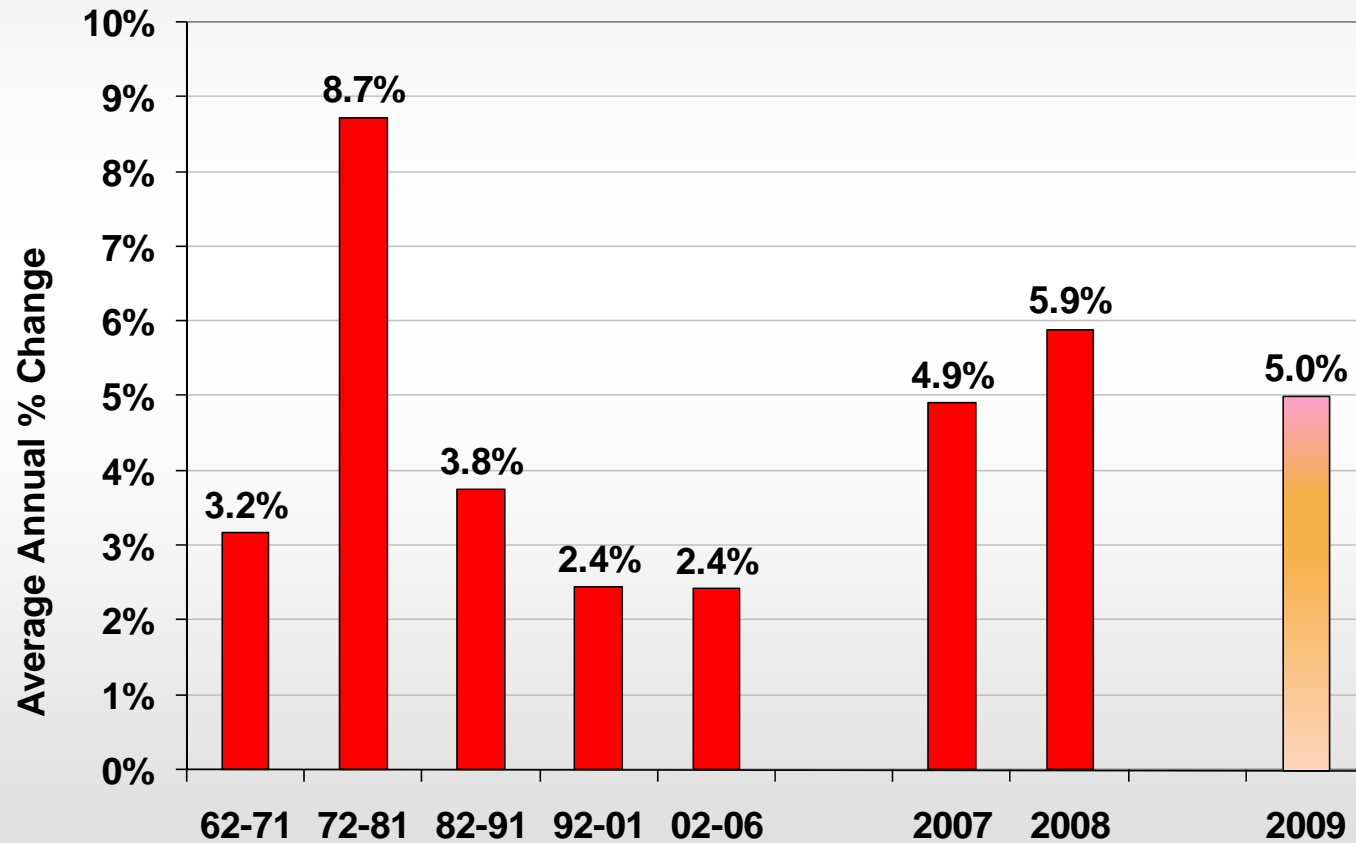


Declining Acreage & Higher  
Prices For Other Crops

# 2009 Food Inflation Prospects

- Grain & vegoil based items have less pressure
  - Weather & biofuel policy loom as upside risks
- Smaller supplies mean higher meat & dairy costs
  - Producer margins negative across the board!
  - US meat output declining for 1<sup>st</sup> time since 1982
  - Dairy cow slaughter up sharply thus far in 2009
- Non-food cost pressures will recede
  - Most notably transportation costs
- Wildcard: Fruit & Vegetable prices
- Overall consumer food inflation expected to be near 5%
  - Easing prices pressures in grains offset by higher rates of gain in protein and dairy prices

## US Consumer Food Inflation (2009 Forecast)



# “Further Research Is Warranted”

## Key Food Inflation Questions That Deserve Answers

- What is the true relationship between food input costs and retail prices?
  - In total and for individual items
  - Existing relationships that analysts use are out of date
- What are the natural lags between rising input prices and increases in consumer prices?
  - Immediate consumer impact or only after a sustained rise
  - How does this vary by product



# Role of Biofuels in Food Inflation

- Not an issue that has passed or is minimal
  - “3% Analysis” is not sound science; politically motivated
- Economics for biofuels will not be the catalyst for increased corn/veg oil usage – mandates will
  - Usage will rise without regard for impact upon crop prices, livestock margins and rate of food inflation
- To meet EPA mandates, corn area will need to rise to over 95 mm acres in coming years
  - This implies an on-going acreage battle in the coming years, and ultimately higher rates of food inflation

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