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## REPEAT:Reality Check:US Food Prices Steady on Competition.Econ

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-But Beef, Poultry Rise on Drought-Related Feed Costs -Some Supermarket Chains Freeze Prices

PHILADELPHIA (MNI) - Most U.S. retail food prices are showing little upward pressure thanks to seasonal price freezes by supermarket chains and strong competition among retailers but beef and poultry prices are rising in response to last year's U.S. drought which drove up the cost of corn and soybean feeds, food industry participants said.

Supermarkets in some areas have frozen prices for dozens of food items at the turn of the year in an attempt to secure market share as relatively high unemployment continues to strain consumer budgets in the wake of the holiday season.

And a fourth-quarter survey of 16 popular food items found the average prices of 10 declined compared with the previous quarter, while six increased.

"Throughout 2012, food prices were relatively stable thanks to very slow but steady growth in the general economy coupled with fairly stable energy prices," said John Anderson, deputy chief economist for the American Farm Bureau Federation, which conducts the quarterly Marketbasket Survey of food prices, based this time on responses from 107 shoppers in 31 states.

Expectations that final 2012 data would show broadly stable food prices were underlined by the U.S. Department of Agriculture which said Dec. 21 that it expects 2012-13 inflation for the all-food and food-at-home categories of the Consumer Price Index to register 2.5% to 3.5% increases, unchanged from its previous forecast.

But the USDA warned inflation for animal-based foods will "remain strong" because of higher feed prices resulting from last year's drought. Because of a lag of several months between commodity price changes and those at the retail level, most of the impact of the drought is likely to be seen in 2013, the agency said.

"The drought has affected prices for corn and soybeans as well as other field crops which should, in turn, drive up retail food prices," the USDA said.

The outlook for higher beef and poultry prices is shared by the Food Institute, a New Jersey-based nonprofit information service for food manufacturers and retailers. The group also projects increases in retail prices of poultry, butter, and milk between December and February, based on its extrapolation from official Producer Price Index data. Prices of pork and coffee are expected to decline.

Beef prices are likely to rise by 4-5% in 2013 because of last year's drought and a reduction in supply after farmers slaughtered more cattle in response to the higher feed costs, Food Institute President Brian Todd predicted, as a temporary increase in beef supply briefly drove down prices last year but has now worked its way through the system and prices are climbing again.

"We are projecting that the overall CPI for food-at-home will be increasing slightly through February," Todd said. Beef will account for a "good portion" of that increase while milk will also exert some upward pressure.

Although there may be some increase in the number of cattle that are grass fed as a result of the higher corn prices, farmers are largely dependent on corn and soybeans to feed cows and poultry, with the resulting upward effect on meat prices.

Todd questioned an industry report suggesting farmers are combating the higher corn prices by using different feed sources such as imported corn and barley, while slaughtering animals at a lighter weight.

"We don't think the alternatives are readily available," he said.

Andy Harig, director of government relations for the Food Marketing Institute, a trade association representing about 2,000 food retailers and wholesalers, or about 75% of the U.S. market, agreed high beef prices are likely to persist, and may increase further unless there is sustained rainfall this year and next to revive the corn and soybean crops.

"We need a couple of years of good weather to get back on track," Harig said. "There's a lot of ground to make up."

Offsetting the higher livestock-related food prices, fruit and vegetable inflation has been very low or even negative because of good domestic crops and plentiful supply from overseas, Harig said.

In the long-term, he predicted the era of declining U.S. food prices as a percentage of consumer income is coming to an end. Although the U.S. is not likely to see a repeat of the 2008's energy-related surge in food prices any time soon, the security of U.S. food supply is being eroded by growing demand for a western-style diet in emerging economies, as well as the demand for crop-based biofuels, and the growing reality of climate change.

At the retail level, some supermarkets are seeking to secure customer loyalty through new prices freezes. Wegmans, a Rochester, New York-based chain of 81 stores in six northeastern states, said Jan. 2 it is holding prices steady on 53 products through April 6, including boneless chicken breast, pork tenderloin, red grapes, and own-brand peanut butter. The company said it would not raise prices during the period even if its own costs increase.

At Weiss Markets, a Sunbury, Pennsylvania-based chain of 163 stores in five states, more than 2,000 food products have been reduced in price and will stay at the new levels for 90 days, the company said Jan. 3.

The price freeze includes grocery, frozen foods, dairy and meat products covering name-brand and private brand, the company said.

Local evidence of steady or falling prices was mirrored by the latest report on global food prices from the United Nations Food and Agriculture Organization released Jan. 10 showing its Food Price Index dropped in December to the lowest level for six months.

The index fell to 209 in December, down 1.1% from November, driven largely by declines in major cereals, oils and fats. For 2012 as a whole, the index fell 7%, led by declines in sugar, dairy and oils, while cereals and meat registered much smaller drops, the FAO said. A sub-index for meat showed a marginal decline from last year's record high.

In the U.S., the total cost of 16 food items surveyed by the American Farm Bureau Federation was \$50.54 in the fourth-quarter survey, or about 3% lower than in the third quarter.

Still, the basket price was 3% higher than a year earlier, exceeding the 1.3% annual increase in the food-at-home component of the November CPI. Declining items included russet potatoes, bagged salad and deli ham, while price increases were seen for whole milk, orange juice, ground chuck, and shredded cheddar cheese, the AFBF said.

AFBF economist John Anderson said he expects food prices to rise between 3% and 4% in 2013, slightly faster than the average food-price inflation over the last 10 years.

The U.S. Labor Department is scheduled to release December CPI data at 8:30 a.m. Jan. 16.

Editor's Note: Reality Check stories survey sentiment among business people and their trade associations. They are intended to complement and anticipate economic data and to provide a view into specific sectors of the U.S. economy.

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