

Food Inflation Finishes 2009 Benign, But Evidence Suggests an Uptrend in Prices is Set To Begin

Consumer food prices (CPI-Food) declined during December for a fourth consecutive month (-0.5%). However, wholesale food prices, as measured by the Producer Price Index (PPI), rose by 1.1% (vs. year ago) during December.

The price of nearly all underlying commodities has been on the rise for much of the past year. As of early January, the AES index of 19 commodity prices is now 19% higher than six months ago. The higher price of commodities is a lead indicator for trends in wholesale costs and ultimately consumer food inflation – this strongly suggests accelerating rates of food inflation over the course of 2010.

PPI –Food: *The government’s report on wholesale prices is released around the middle of the following month, and reports on the change in a broad range of prices. For December, the index of wholesale food costs rose 1.6% from a month ago and was 1.1% above a year ago.*

Pork and chicken prices increased sharply from a month ago and are now 3-4% above year ago levels. Dairy prices remain below year ago levels (-1.1%), but rose during December by 3.7% from a month ago. Beef prices remain weak, declining 1.5% from last month and 9.0% below a year ago. While protein and dairy demand remains soft due to high unemployment rates, reductions in supply and larger exports will create a tighter supply and rising price environment during 2010.

The largest gains in wholesale prices (vs. year ago) were found in fresh fruits (+19%), vegetables (+17%), and refined sugar (+13%). The sharpest declines were in milled rice (-24%) and vegoil (-11%).

PPI-Food Detail:			December-09		
	% Change From Last Month	% Change From Year Ago		% Change From Last Month	% Change From Year Ago
Total PPI - Food	1.6%	1.1%			
Beef	-1.5%	-9.0%	Bakery Goods	0.2%	0.1%
Pork	7.6%	3.4%	Vegoil	0.9%	-11.3%
Chicken	3.3%	4.1%	Milled Rice	0.1%	-24.0%
Turkey	0.2%	-0.1%	French Fries	0.0%	5.5%
Packaged Fish	0.3%	-0.6%	Pasta	0.3%	-6.7%
Dairy	3.7%	-1.1%	Corn Sweeteners	0.0%	3.2%
Eggs	5.5%	6.5%	Refined Sugar	6.8%	12.7%
Fresh Vegetables	2.8%	16.9%	Coffee	-0.2%	2.2%
Fresh Fruits	14.0%	18.5%	Barley Malt	-0.1%	3.1%
Processed Fruit/Veg	0.0%	1.0%	Confectionay Items	0.2%	0.8%

Commodity Price Trends -- The table below provides commodity price information as of January 4, 2010, along with historic comparisons. This gives an indication of commodity price trends, both short-term and longer-term. The AES index, listed at the top, represents an average of the items listed below, index to 2000=100.

The AES Food Input Cost Index has been rising steadily and is now 15% above a year. The gain has been led by sharp increases in soft commodities, including sugar (+29%), cocoa (+27%) and coffee (+30%). Dairy product prices have rebounded as well in tandem with the rise in milk prices, with cheese gaining 33% from a year ago. Non-food costs are mixed, with a sharp increase in crude oil prices (+67%) offset by steady to slightly lower costs for natgas, resin and linerboard.

Commodity prices have generally weakened over the past month, in tandem with the recent rebound in the value of the US dollar. The individual supply/demand factors for each commodity remains important as price drivers, but the changes in the value of the US dollar and crude oil prices will continue to play an important (if not dominant role) in price direction over the next year.

AES Food Input Cost Index				
	This Week	6 Months Ago	Year Ago	2 Years Ago
	1/4/10	7/6/09	1/5/09	1/7/08
Total Index	177.0	149.1	154.4	181.0
Corn	419	335	411	466
Soymeal	308	371	298	345
KC Wheat	551	551	642	916
Soyoil	41.3	34.4	35.2	50.8
Chicken Breast	125.2	156.4	121.0	131.0
Beef 50s	79.1	68.6	70.9	53.0
Beef 90s	149.1	142.8	141.4	144.9
Pork Bellies	83.2	70.4	72.8	74.0
Turkey Breast	166.0	138.0	140.0	176.0
Coffee	141.9	118.1	107.7	131.4
Cocoa	3256	2474	2555	2131
Refined Sugar	45.0	37.0	35.0	24.0
Large Eggs (MW)	1.21	0.78	1.30	1.60
Block Cheese	1.42	1.11	1.07	1.97
Crude Oil	81.5	64.1	48.8	95.1
Natgas	5.88	3.49	6.07	7.88
Resin Index	167	164	170	189
Diesel Fuel	280	260	229	338
Linerboard	580	590	640	605

CPI-Food – The government reported consumer food prices (CPI-Food) declined by 0.5% during December (vs. YA), following a 0.7% decline last month. The moderation in consumer food inflation (down from the rates over 6% during the last half of 2008) is largely a reflection of previous declines in commodity prices and the PPI, observed between June 2008 and March 2009.

The tailwind of lower commodity prices is behind us, and rising rates of food inflation should be anticipated over the course of 2010. Food inflation is expected to reach 4-5% (year over year) by December 2010. As discussed above, most of the underlying commodity prices are on the rise. Most notable are dairy product prices, potentially rising by 15-20% during 2010. The primary driver of higher prices will be the underlying commodity prices, but the rise in crude oil prices will drive higher costs for packaging, freight and energy costs.

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CPI-Food Detail:		December-09	
	% Change YA		% Change YA
Total CPI - Food	-0.5%		
Cereals/ Bakery	-0.8%	Fats and Oils	-4.5%
Bread	-3.5%	Sugars/Sweets	2.8%
Breakfast Cereal	0.1%	Salad Dressing	0.6%
Rice	-8.8%	Soups	-2.2%
Beef	-4.7%	Dairy	-7.6%
Pork	-7.8%	Eggs	-6.6%
Bacon	-3.7%	Fruits/Vegetables	-3.0%
Chicken	-2.1%	Beer	2.8%
Fish	0.0%	Coffee	-2.8%

