

Dairy Inflation Tame by Contrast

Over the past couple of decades it has become clear that spikes in dairy product prices result in a demand pullback, particularly in global markets.

Price spikes, at least in the United States, appear to be common in all of the animal proteins—dairy, beef, pork, poultry, eggs—but dairy prices are not rising as quickly as most of the other protein categories.



Compared to energy prices, food prices over the past 10 years have been relatively tame.

The consumer price index (CPI), measured by the Bureau of Labor Statistics, tracks monthly changes in the prices of roughly 80,000 goods and services purchased by urban consumer households over time.

This basket of goods and services includes items from a variety of categories, including food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and “other.”

These categories of goods and services are then weighted to reflect their share of the total expenditures made by U.S. urban households.

The U.S. government uses the CPI to measure inflation, an indicator of the long-run trend in price increases. When the government releases its CPI report, it notes both total and core inflation. To measure core inflation, the government excludes volatile food and energy prices. To illustrate just how volatile these categories can be, over the past 10 years unleaded, regular gasoline prices have increased as much as 26.4% and dropped as much as 27.3% on an annual basis.

Compared to energy prices, food prices over the past 10 years have been relatively tame. And that holds true for both food purchased from groceries, discount stores, and other retailers to be consumed at home and food purchased and consumed away from home in restaurants and food service establishments. Unlike gasoline prices,

though, prices for food consumed both at home and away from home have increased every year since 2003.

Since 2003, annual inflation for food eaten away from home has ranged between a low of 0.3% in 2010 to 6.4% in 2008. So far this year, food inflation has been running at about a 0.8% increase. Inflation for food eaten away from

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Ken's Corner



*by Ken Meyers
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Economists and dairy analysts have long debated whether milk and other dairy products are demand elastic. That is, do changes in the price of milk and other dairy products impact demand for these products?

As the U.S. dairy market becomes more global, it becomes clearer that as milk and dairy product prices increase, demand for these products declines globally. This is particularly true in developing countries as the global financial crisis clearly demonstrated.

For decades, the U.S. government supported the price of milk and dairy products, and milk prices did not fluctuate wildly due to mounting government stocks of surplus product. The supply and demand balance is vastly different today. Government warehouses are virtually devoid of dairy products, and milk and dairy product prices are well above levels needed to trigger buying by the Commodity Credit Corp.

What happens in South Korea, Egypt, and other countries can have a major impact on U.S. dairy prices. The old adage that the cure for high prices is high prices holds true. When prices soar, world demand softens, U.S. exports weaken, and the price of milk drops. The industry would be best served by steady, slow inflation in milk and dairy product prices to ensure they remain competitive with other proteins. **MCT**

Markets tightening ...

The Chicago Mercantile Exchange block Cheddar cheese price has oscillated between \$1.6375/lb. at the

end of June to \$1.77 by the end of July before returning to \$1.6475 on Aug. 22. Since then the cheese market has moved modestly higher. American cheese stocks of 704.5 million pounds as of July 31 were down 0.9% vs. the prior month. American cheese stocks typically do not retreat until August. Since May, American cheese stocks have fallen by 10 million pounds but are still 5% greater than last year. Movement of milk into fluid plants and late-summer heat and humidity have left less milk for manufacturing, **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Aug	1.7425	1.7300	17.90	1.3950	19.05	0.5765	1.7700
Sep	1.8150	1.7900	17.85	1.5100	19.30	0.5725	1.7900
Oct	1.8250	1.8000	18.80	1.6350	19.75	0.5800	1.7700
Nov	1.7400	1.7150	18.25	1.6500	19.30	0.5800	1.6900
Dec	1.6200	1.5850	17.50	1.5000	18.00	0.5800	1.6000
Jan	1.5600	1.5250	16.50	1.4500	17.35	0.5800	1.5000

* CME prices.

**NASS prices.

Only pork lower...

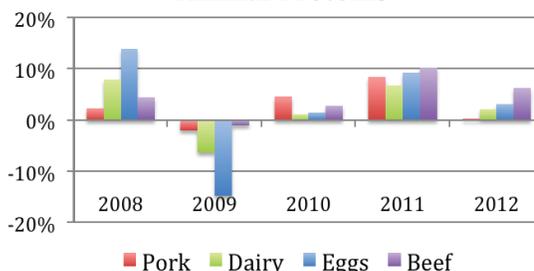
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home has been less volatile, but on average has been running slightly higher than for food consumed at home.

For instance, inflation for food purchased and eaten outside the home has ranged between 1.3% in 2010 and 4.4% in 2008. This year, inflation for the away from home category is running near 1.7%, about twice that of the at home category. Over the past 10 years, though, inflation has grown at an average annual rate of 3% for the away from home category and 2.9% for the at home category.

The Bureau of Labor Statistics also tracks the rise in prices for food eaten at home in the categories of beef and veal, pork, poultry, eggs, and dairy products. Over the past 10 years, the CPI for beef and veal has increased 60% followed by eggs at 53% and poultry at 37%. The CPI for dairy over the same period has increased 31%, the second to the lowest rate for the competing animal proteins. Only pork inflation was lower at 27%. Comparing dairy to

Annual Inflation for Competing Animal Proteins



beef shows that beef prices have increased at double the rate of dairy over the past 10 years.

Looking forward, the Bureau of Labor Statistics projects that dairy product prices purchased by consumers to eat at home will rise 1.5% to 2.5% this year and between 2.5% and 3.5% in 2014. Only pork prices are expected to rise at a slower rate than dairy, keeping dairy competitively priced to the other animal proteins. **MCT**



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