

1st Quarter
2017



SPRING INFLATION REPORT

Pricing Forecast



Prices for shell eggs remain **soft** on stronger inventories.



Beef prices have remained **high**, but could stay flat in April.



Prices for boneless chicken breast meat are seasonally **strong**.



Price **declines** for fluid dairy expected in April and May.



Overall Food Index Remains Unchanged For Last 12 Months

Supermarket prices are expected to rise by up to 1.0% in 2017. Despite declining prices in 2016, poultry, fish and seafood, and dairy prices are expected to increase. These forecasts are based on an assumption of normal weather conditions throughout the remainder of the year; however, severe weather or other unforeseen events could potentially drive up food prices beyond the current forecasts. Also, a stronger U.S. dollar could continue to make the sale of domestic food products overseas more difficult. This would increase the supply of foods on the domestic market, placing downward pressure on retail food prices.

Prices for poultry are expected to rise between 1.5 and 2.5% in 2017. Domestic demand for dairy is expected to be high, and exports are expected to strengthen for products with high skim-milk content (*such as nonfat dry milk and whey products*). With that, dairy product prices are expected to rise between 2.0% and 3.0% in 2017. Fresh fruit prices are expected to increase minimally this year, around 1.0%

to 2.0% percent in 2017. Prices for fresh vegetables are expected to decrease between 1.5% and 0.5 % in 2017. A stronger U.S. dollar and low oil prices have mitigated the effect of the drought on retail fresh produce prices.

The food index rose 0.2% in February following a 0.1% increase in January. The food at home index rose 0.2% in February, its largest advance since June 2015. The index for food away from home rose 0.2% in February after a 0.4% increase in January. Over the last 12 months, the index for food at home fell 1.7%, while the food away from home index increased 2.4%, leaving the overall food index unchanged.



Poultry

Boneless Chicken Breast Meat Seasonally Strong

Performance of the front half of the bird has been remarkable during the first quarter of 2017. Some foodservice outlets indicated they were willing to pay a premium for breast meat coming from smaller birds to combat the meat quality issues attributed to Woody Breast Syndrome that showed up last year. Additional support will come from consumers willing to pay a premium for quality breast meat in the coming months; however, unseasonably warmer temperatures in the Northern Hemisphere prompting an early wave of backyard grilling has also likely contributed to firmer values over the last month.

Fresh Tom Breast Meat Still Troublesome for Producers

Turkey white meat prices have been generally soft during the first couple of months of 2017. Throughout much of March, market indicators lead to the conclusion that the white meat category is not set to settle. USDA quotations of fresh tom breast meat showed trades falling below 150 cents per pound through mid month. Despite evidence of large inventories of breast meat, seasonal upswings are fast approaching and there is inherent risk associated with the comfort level of current price levels in the wholesale channels.



Fresh tom breast meat trades are falling **150 cents** per pound.



Pork

Late Easter Will Allow Two Additional Weeks for Pork to Market

Pork product values are beginning to move up in price based on stronger than anticipated product demand. The 23–27# hams, bone-in, are a major target from Mexico, continuing last fall, this winter, and into the buying season going into Easter. The last time to purchase the 20–23# ham for the Easter holiday is two weeks before the holiday. Being two weeks further out this year allows two additional weeks of slaughter to help with any supply shortages. In looking at the monthly average chart, it would appear that March's price is much higher than last year; however, last year experienced deflation of prices starting in the middle of March since ham buying was completed two weeks before the start of April. Hams are expected to break lower in price, but simply two weeks later this year starting after the first of April. This will be deceptive in monthly price deflations in comparing April of this year versus April of last year.





Beef

Beef Prices Reached Highest Levels Since Last June, Remain Below Year-Ago Levels

Cattle and beef prices have continued to increase into March, reaching the highest levels since last June, but still running below year-ago levels. Forward sales by packers have been much larger so far this year. November through January feedlot placements were 14% larger than previous year, pointing to a larger than average increase in fed cattle harvest from the first quarter into the second quarter. Cattle and beef prices are expected to peak shortly and show some setback in April. Seasonally good beef demand could boost the market on middle meats once again into the Memorial Day period, but the larger production levels are expected to pressure cattle and beef prices lower from June on into late summer.



Wheat

U.S. Wheat Planted Area Set to be 100-Year Low

Attention is switching to the 2017/18 crop year as the Northern Hemisphere crop enters its development phase. For the US, planted winter wheat area is near a 100-year low with anticipation that spring wheat area and durum area will be down, year over year, as well. While other countries have not reduced planted area and while U.S. and global supplies are hefty, a significant weather event could result in a historically low production total. Moisture will be key for the Southern Plains during April. Generally, it has been dry there this winter, adding more risk to a production problem should rains not fall in the coming month.



Corn

Expanded Corn Crops to Keep Prices from Rising

Following USDA's March reports and a six-million-ton increase to USDA's South American corn crop forecast to 129 million, corn futures traded lower. With forecasts for the South American corn crop growing, and the window for a weather issue to arise decreasing, corn prices have been kept in check. USDA's March 31 Prospective Plantings report is expected to take center stage. USDA forecast 2017 US corn planted acres at 90 million at its outlook forum, which was unchanged from its baseline forecast. The realization of 90 million acres or something larger likely would further reduce support to corn prices.



Biofuel

Biofuel Policy Could Largely Impact Soybean Oil Prices

Soybean oil futures may come under pressure in the months ahead from increased competition following record soybean production in South America and slowing domestic soybean oil usage, especially non-biodiesel soybean oil usage. However, last year's large increase in EPA's advanced biofuel mandate for 2017 could drive US cash soybean oil prices sharply higher if the biodiesel tax credit is not renewed or is renewed, but switched to a credit for the producer. The resulting decrease in US biodiesel imports from Argentina would likely require a significant increase in soybean oil usage in US biodiesel production and an increase in US cash soybean oil prices to ensure sufficient supplies to meet production needs.



Sugar

Sugar Trade Row With Mexico May Impact Corn Syrup Prices

At the beginning of March the Mexican sugar chamber said it would attempt to block US exports of high-fructose corn syrup to Mexico should the US impose tariffs on sugar imports, although no specifics were provided. With both countries saying they will restart negotiations on sugar trade, the threats against high-fructose corn syrup may be diminished somewhat and the market calmed. Mexico is a major US export market for high-fructose corn syrup and should those exports stop or drop dramatically, US corn refiners likely would have to reduce production capacity.



Eggs

Prices for Shell Eggs Remain Soft On Higher Inventories

Due to increased productivity (up 3% year over year) and rapid expansion of the layer flock, total table egg production during January was up 10% from a year prior at 659 million dozen eggs. With a growing surplus of production capacity and continuance of lackluster demand, values of both the shell eggs and egg products continue to suffer. The outlook is for values to continue to remain depressed through much of 2017.

Egg production in January was up 10% from last year at 659 million dozen eggs.





Dairy

Cheese Prices Dropped, But May See Slight Increases into Summer

Cheese prices have declined sharply over the past month, falling into the \$1.30s for the first time since June. The market is facing pressure from nearly every angle. Cheddar production growth was solid in Nov/Dec/Jan; American cheese disappearance was weak in January and inventories remain heavy. New Zealand milk production was stronger than expected in January, and the production outlook for New Zealand has increased. Meanwhile, global demand has softened which pressured international dairy prices lower. With all those bearish developments, it's not surprising that cheese prices have declined, but CME cheese prices in the \$1.30s should stimulate some stronger orders and support moderate price increases into early summer.

Price Declines for Fluid Dairy Expected in April and May

Fluid milk prices increased 1% in March with the rising barrel cheese and dry whey prices offering support. Steep declines are expected for the fluid milk price in April and May as falling commercial dairy product prices in March flow through to the bottled milk price.

Global demand has softened, pushing international dairy prices down for now.

Cheese prices fell into the **\$1.30's** in March, the first time since June.



PET Bottles

Market for Disposables Plastic Set to Explode

Polyethylene terephthalate (PET) is a petrochemical product which has replaced the conventional glass packaging in the food and beverages sector due to its light weight, resilience to high impact forces, easy handling, and low cost. It is also 100%

recyclable. The global PET market is expected to expand significantly, from \$23 billion during the past couple of years to nearly \$40 billion by 2024. However, rising health concerns regarding reusability of PET bottles and threat of replacement by bio-based PET bottle is anticipated to hamper the market of PET globally.

Market sentiment is bearish due to a 20 – 25% expansion of nearly four and a half tons of new capacity slated for start-up in 2017. However, market players expect oversupply to eventually bring prices down.



1Q17 INFLATION REPORT SOURCES: American Restaurant Association - Chicago Mercantile Exchange (CME) - Informa Economics - Urner Barry - U.S. Bureau of Labor Statistics - U.S. Department of Agriculture (USDA)