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Food Inflation at Home May Have Peaked

By Tony C. Dreibus - Jan 4, 2012

U.S. inflation for food at home may have peaked after crop prices fell for the first time in three years, the U.S. Department of Agriculture's top economist said.

The Standard & Poor's GSCI Agriculture [Total Return \(SPGCAGTR\)](#) Index of eight commodities dropped 16 percent last year, the biggest decline since 2008. Cocoa and sugar led the retreat for food items. Coffee, soybeans and wheat also declined.

World food prices tracked by the [United Nations](#) dropped for a fifth month in November, the longest decline in more than two years. Farmers will reap a record corn crop in 2012, and global inventories of wheat, corn and soybeans will be 3.2 percent more than projected in November, the U.S. government said Dec. 9.

"What I've seen from the data is that food inflation is slowing," Joseph W. Glauber, chief economist at the USDA in [Washington](#), said in an interview today at the Oxford Farming Conference in Oxford, [England](#). "We know that most major commodity prices have fallen and it takes a while for those to make their way through the system."

The increase of about 6 percent for food prices at home last year was probably the peak and will return to more "normal" gains of 3 percent to 4 percent this year, Glauber said. Globally price inflation will slow "similarly" to the U.S., he said.

[South America](#)

Slowing food inflation may be jeopardized should weather damage crops in South America, which typically plants corn this quarter for harvests that begin in March. Growers are focusing on the La Nina phenomenon which brings heavier rainfall in [Asia](#) and drier weather in South America.

"If we were to see devastating yields out of South America that would definitely have an impact on grain markets and oilseed markets and have an impact, at least in [developing countries](#)," Glauber said.

Overall food prices will rise 2.5 percent to 3.5 percent this year after climbing 3.25 percent to 3.75 percent last year, the USDA said last month. In November, food prices at home climbed 5.9 percent from a year earlier, led by fats and oils and eggs, according to USDA data.

Cattle, Hogs

Cattle and hog producers in the U.S. may expand their herds as the price of [animal feed](#) falls, adding to the available supply of meat and bringing down [beef \(BOXBBC9V\)](#), pork and poultry prices, Glauber said. Wheat prices dropped 18 percent last year.

“Livestock is one of the big drivers in the overall food budget,” Glauber said.

Slower gains in commodity costs, accounting for 40 percent of the [consumer price index](#), would give the U.S. Federal Reserve more flexibility to shore up growth. The benchmark measure for prices will climb 2.1 percent this year after an increase of 3.2 percent last year, according to the median estimate of 63 economists surveyed by Bloomberg News. Food costs account for about 14 percent of the CPI.

The USDA forecasts prices for food away from home will increase 2 percent to 3 percent this year, after rising an estimated 2 percent to 2.5 percent last year. [Starbucks Corp. \(SBUX\)](#), the world’s biggest coffee shop operator, raised prices on some coffee in the U.S. Northeast, South and Southwest to recoup higher costs.

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