FarmJournal

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders • Vol. 95, No. 5

Dear Client: Washington, March 1, 2024

Food price inflation is back in the outlook for all food, food at home (grocery) and food away from home (restaurant) prices in 2024, according to the latest update from USDA.

FOOD PRICES

The Consumer Price Index (CPI) for all food is expected to increase 2.9% in 2024, a significant jump from the previous outlook of just 1.3%.

Grocery prices are forecast to rise 1.6% in 2024, returning to an upward trend after briefly being forecast to fall.

Restaurant prices are also expected to accelerate, with an increase of 5% in 2024, the highest level forecast so far.

While price increases continue to ease versus prior years, consumers can still expect higher costs for food. That is "sticky inflation" and confronts those saying food inflation is lower... the rate of increase is declining, not actual food prices.

Prices increased for most food categories in January compared to December 2023, USDA said. The forecast for 2024 suggests price increases for 11 food-at-home categories and decreases for four categories, although uncertainty remains.

Where prices may decline: USDA anticipates prices to fall for pork, fish and seafood, eggs and cereals and bakery products in 2024... but at smaller rates than earlier forecasts.

Conversely, the largest increases are expected for fats and oils, sugar and sweets, and nonalcoholic beverages.

Food prices will rise less than the 20-year averages, but dining out will rise more than the five-year average. The increases, while significant, remain below those seen in 2022 and 2023, the former notching the highest rises in over 40 years.

MORE ON FOOD COSTS

***WSJ*: Food costs hit 30-year high.** USDA data reveals that in 2022, consumers spent 11.3% of disposable income on food, nearing the 1991 peak of 11.4%, the *Wall Street Journal* notes. Rising restaurant prices, up 5.1% from last year, and a 1.2% increase in grocery prices contribute to this trend. Food companies face challenges with elevated costs for commodities like sugar, cocoa, beef and french fries. Mondelez plans to raise prices due to cocoa price hikes, while staffing costs rise after 22 states increased the minimum wage. However, food companies anticipate smaller price hikes this year, offering potential relief. Recent data shows a slowdown in grocery inflation, attributed to consumer resistance and stable input costs. As noted on this page, USDA issued updated food price forecasts, focusing on restaurant price increases and the outlook for grocery prices in 2024.

Food companies are forecasting smaller price hikes this year, signaling potential relief for consumers and policymakers grappling with rising food costs. Data shows a notable slowdown in grocery inflation, with companies attributing the shift to various factors, including consumer pushback against steep price hikes and more stable input costs.

Source: Ag Letter editors, WSJ, NYT

Higher costs for dining out are also attributed to rising food component prices, alongside increased labor and other expenses for restaurants. Overall, food price inflation continues to be a significant economic factor, even as overall inflation rates ease.

The expectation of grocery prices falling in 2024 has diminished, with USDA's forecast indicating a range from a 1.8% decrease to a 5.3% increase.

Of note: Grocery prices have only declined twice in data going back to the 1970s, highlighting the uncertainty surrounding USDA's previous forecast for a drop in 2024.

Meanwhile, Walmart is rethinking food, other costs. Walmart said late last year that it may soon see deflation in certain items, but has walked back that sentiment. Many companies are still contending with rising prices... or downplaying areas where prices are falling because it could signal weakness about their businesses or the economy.

Bottom line: While deflation may hit some segments like food later this year, it remains to be seen how it could affect the prices shoppers pay.

The Agriculture Letter is published biweekly for $139/one year, $264/two years, $396/three years (U.S.) by Farm Journal Media, Ag Letter Editor Jim Wiesemeyer, 402 1/2 Main St., Cedar Falls, Iowa, 50613-9985. ISSN 2181-4217 (print), ISSN 2381-4225. POSTMASTER: Send address changes to The Agriculture Letter, 8725 Rosehill Rd, Suite 200, Lenexa, KS 66215.

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'SHRINK-FLATION' President Biden is planning to address the issue of food 'shrinkflation' along with broader concerns regarding corporate greed, in his March 7 State of the Union address. This focus comes amid Biden's economic approval facing challenges, particularly due to the persistent rise in food prices, which has been a significant concern for voters. Sources note Biden and his team are deliberating on the extent to which they will address the issue of high grocery prices and corporate responsibility in the upcoming address.

But some advisors are cautious about placing too much emphasis on food inflation, recognizing the limited ability of the president to directly influence prices. Large food companies and grocers have been caught off guard by the White House's renewed focus on this issue and are working to avoid being targeted as scapegoats in the lead-up to the Nov. 5 elections.

WTO' WTO chief urges reform amid global trade weakness. The head of the World Trade Organization... WTO... Ngozi Okonjo-Iweala, said global commerce, despite its resilience during the pandemic, is performing weaker than forecast due to various economic challenges and a trend towards protectionism. She emphasized the need to repair and reform the multilateral trading system, highlighting that demand is sluggish across major economies except for the U.S. and India.

Additionally, Okonjo-Iweala mentioned geopolitical tensions between the U.S. and China, which have affected WTO's functioning.

WTO is updating its predictions for merchandise trade volumes, acknowledging the risks of a less optimistic outlook for 2024. Despite these challenges, Okonja-Iweala expressed optimism about developments at the WTO conference, including progress towards ratification of anti-subsidy fisheries agreements.

WTO held its 13th biennial ministerial meeting in Abu Dhabi this week. East Timor and Comoros became the latest nations to join, bringing the Geneva-based institution to 166 members.

CHINA TRADE China's trade strategy: Building an alternative architecture. Amid escalating trade tensions with the West, China is accelerating efforts to construct its own trade ecosystem, focusing on developing nations and bolstering bilateral and regional free trade agreements (FTAs), according to the *Financial Times*.

Key points:

• China's trade strategy shifts focus towards the "global south," leveraging the Belt and Road Initiative (BRI) to foster ties with over 140 countries.

• The country aims to establish a China-centric network of FTAs to counterbalance the faltering WTO and reduce dependence on traditional markets like the U.S. and EU.

• Despite geopolitical challenges, China's trade expansion shows significant progress, with FTAs covering a substantial (40%) portion of its exports.

• China's investments in regions like ASEAN and Africa signal a shift in global trade dynamics, with emerging markets increasingly aligning with China.

• However, uncertainties loom as trade friction with the U.S. and EU persists, posing risks to China's trade growth despite its alternative architecture efforts.

Bottom line: Chinese companies are mulling strategies like transshipment and nearshoring to navigate trade challenges, yet face uncertainties amid evolving trade policies in major markets.

CHINA BIOTECH Biden administration criticizes China's slow biotech approval, impacting U.S. farms. The U.S. Trade Representative's annual review highlights China's failure to expedite the approval process for agricultural biotechnology products, despite a pledge made in 2020. The lengthy and opaque review process, lasting more than two years on average, disrupts U.S. farm exports and the introduction of new crop strains. China's inconsistent enforcement of regulations and lack of adherence to science-based international standards further complicate agricultural trade. Despite being the world's largest importer of certain agricultural products, including cotton and soybeans, China's approach to biotechnology remains a significant obstacle, with approval times exceeding the agreed-upon target of 24 months.

China maintains restrictions on imports of U.S. pork, beef and poultry due to concerns about growth stimulants and disease outbreaks. U.S. Trade Representative Katherine Tai emphasizes China's departure from WTO norms, posing a challenge to the international trading system.

ECONOMY Economists are upping their predictions for U.S. economic growth and lowering their expectations for a recession this year on stronger household demand and government spending. A *Bloomberg* monthly survey of economists forecast a 2.1% annualized rate of expansion this year, up from 1.5% expected in January.

Malanga: Recent data reports suggest a challenge reaching the Fed’s 2% inflation target and achieving a soft economic landing. Dr. Vince Malanga, President of LaSalle Economics, says January’s performance highlighted evidence of slowing growth and persistent inflation, painting a concerning picture. However, he notes seasonal adjustments may be clouding the data, as this January experienced wintry conditions compared to the more spring-like weather of January 2023. Despite this, real GDP, hours worked, industrial production, housing starts and retail sales all declined in January. Government spending continued to expand, with an additional $1.5 bil. allocated from the Chips Act. The possibility of stagflation looms, Malanga adds, raising concerns about political interference and prolonged inflation beyond 2024. Despite this, optimism remains about rising productivity positively impacting profits.

MARKETS Corn: March corn fell below the psychological $4 mark the last full week of February, putting prices for some growers into negative territory relative to profitability. The price situation suggests that farmers will see more profit potential in soybeans versus corn and that has fed into expectations corn will lose acres to soybeans in 2024. Demand has been slow to build for U.S. corn as global end-users appear only mildly concerned about South American supplies.

Soybeans: Futures continue to struggle with demand having tailed off for U.S.-origin soybeans. But current price levels are still making soybeans an attractive option potentially for farmers in 2024. However, the weather situation as planting time arrives in the Midwest will potentially have a bigger say in plantings than flat prices for some growers.

Wheat: Winter wheat crop conditions have improved during winter due to mild weather, though timely spring rains will be needed. The initial crop ratings on a nationwide basis are still about a month away and there are moisture concerns in some growing areas. With cheap Black Sea wheat readily available, demand for U.S.-origin wheat has been far from impressive.

Rice: Rough rice futures continued to move higher as February was winding down and the rise has come despite U.S. rice export sales slowing. Weekly data for the middle of February saw sales hit a fresh marketing-year low with Latin American buyers hitting the pause button. There remain considerable concerns about the global rice supply, particularly in Asia. But that will not translate into extra demand for U.S. rice at this stage.

Cotton: Futures have seen a pause from the recent rise in prices… markets do not go straight up or down without some kind of price correction along the way. But U.S. cotton remains at relatively lofty prices and that has started to potentially limit some global buying interest. The 2024 acreage picture is coming more into focus with weather conditions a key for eventual plantings.

Dairy: Milk production to open 2024 was slightly lower as cow numbers were down but also somewhat surprisingly the milk per cow numbers also eased. But both trends are likely to reverse in coming months as feed costs have continued to come down and cow slaughter remains low.

Cattle/Beef: U.S. cattle feedlot entries during January were down sharply from year-ago levels but did not fall as much as had been expected. Combined with marketings being a little lighter, that put total feedlot numbers above year-ago marks. While supplies are not burdensome, they are likely to remain higher as premiums in deferred futures encourage feedlot placements.

Hogs/Pork: Hog supplies to close out the first quarter of 2024 are expected to remain above year-ago marks. A decline into the second quarter is expected compared with first quarter numbers, but supplies are still seen being above comparagel 2023 levels. The risk is that the inventory data has been understated and that could mean the eventual totals could be even larger.

Poultry: Highly pathogenic avian influenza (HPAI) infections scattered around the U.S. have eased and most of the affected facilities have been removed from quarantine. But the impacts of bird flu continue to show with turkey slaughter levels reflecting depopulations that trimmed the flock. Egg layer impacts have also been seen as the price decline in egg prices this year at the store is not seen as great as it was expected to be.

FARM BILL

The fiscal year (FY) 2024 appropriations logjam is holding up the new farm bill, House Speaker Mike Johnson (R-La.) conveyed to his colleagues during a conference call. While he had initially aimed to complete the farm bill by this March, the ongoing funding issues have forced a delay in this timeline. This delay has been widely expected among lawmakers, with Johnson's acknowledgment making it clear that a farm bill won't progress in the coming weeks, possibly not until early April, if then. Johnson emphasized that the completion of appropriations bills is a prerequisite for advancing the farm bill, underscoring the interconnectedness of legislative priorities.

Farm bill watchers know that the appropriations snags are just one of the hurdles stopping farm bill development as major differences linger over additional funding and policy issues, with differences also evident among the House and Senate approaches.

Bottom line: It is unlikely a new farm bill will advance by the end of March.

DMC PROGRAM

Dairy producers can now enroll in the 2024 Dairy Margin Coverage (DMC) program. This program aims to assist producers by offering price support to offset disparities between milk and feed prices. The enrollment period for the 2024 DMC coverage will run until April 29, 2024, with payments potentially commencing as early as March 4, 2024, for any eligible payments triggered in January 2024.

The Farm Service Agency (FSA) has revised the DMC regulations, allowing eligible dairy operations to make a one-time adjustment to their established production history. This adjustment involves combining previously established supplemental production history with DMC production history for dairy operations that participated in the Supplemental Dairy Margin Coverage in prior coverage years. Additionally, the authorization for DMC has been extended through calendar year 2024, following a 2018 Farm Bill extension that mandated regulatory changes to the program.

The program, proven by the issuance of over $1.2 bil. in payments to producers in 2023, offers a relatively affordable risk management tool, with coverage available for as low as $0.15 per cwt. for $9.50 coverage.

Details: DMC functions as a voluntary risk management program, providing protection to dairy producers when the margin between the all-milk price and average feed price falls below a certain dollar amount chosen by the producer. In 2023, DMC payments were triggered in 11 months, including two months where the margin fell below the catastrophic level of $4.00 per cwt., marking a significant development for the program.

For the 2024 DMC coverage, adjustments have been made to extend coverage retroactively to Jan. 1, 2024, and to offer adjustments to production history for smaller dairy operations with less than 5 mil. pounds of production. Furthermore, dairy producers can establish one adjusted base production history through DMC for each participating dairy operation.

Various coverage levels are available under the DMC program, including a free option, with only a $100 administrative fee. This fee is waived for dairy producers who are considered limited resource, beginning, socially disadvantaged, or military veterans. Producers can use an online dairy decision tool to determine the appropriate level of DMC coverage for their operations.

DMC payments are calculated using updated feed and premium hay costs, reflecting actual dairy producer expenses. Moreover, USDA offers other risk management tools for dairy producers, such as the Dairy Revenue Protection (DRP) plan and the Livestock Gross Margin (LGM) plan, both offered through the Risk Management Agency.

MINNESOTA

Minnesota Ag official denies discrimination allegations by white male farmer. Minnesota's top agricultural official, Thom Petersen, has denied allegations of discrimination against a white male farmer, Lance Nistler, in response to a lawsuit filed. Nistler, a resident of Kelliher, Minnesota, claimed that the state's grant program for "emerging" farmers unfairly prioritized applicants from protected status groups over his application.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

March 1, 2024