



Forecast: Food price increases 2013

With the drought in the U.S. during the past year there has been considerable discussion about the looming price increases. Beef products have been part of this, especially in the U.S. with the increasing cost of feed corn. USDA has indicated that generally food prices will increase by 2.5 to 3.5 percent for 2012 with an additional 3 to 4 percent for 2013.

Beef prices could increase by 10 or 12 percent. And restaurant food prices are even going beyond this. Historically, food price inflation has been about one to 5.5 percent.

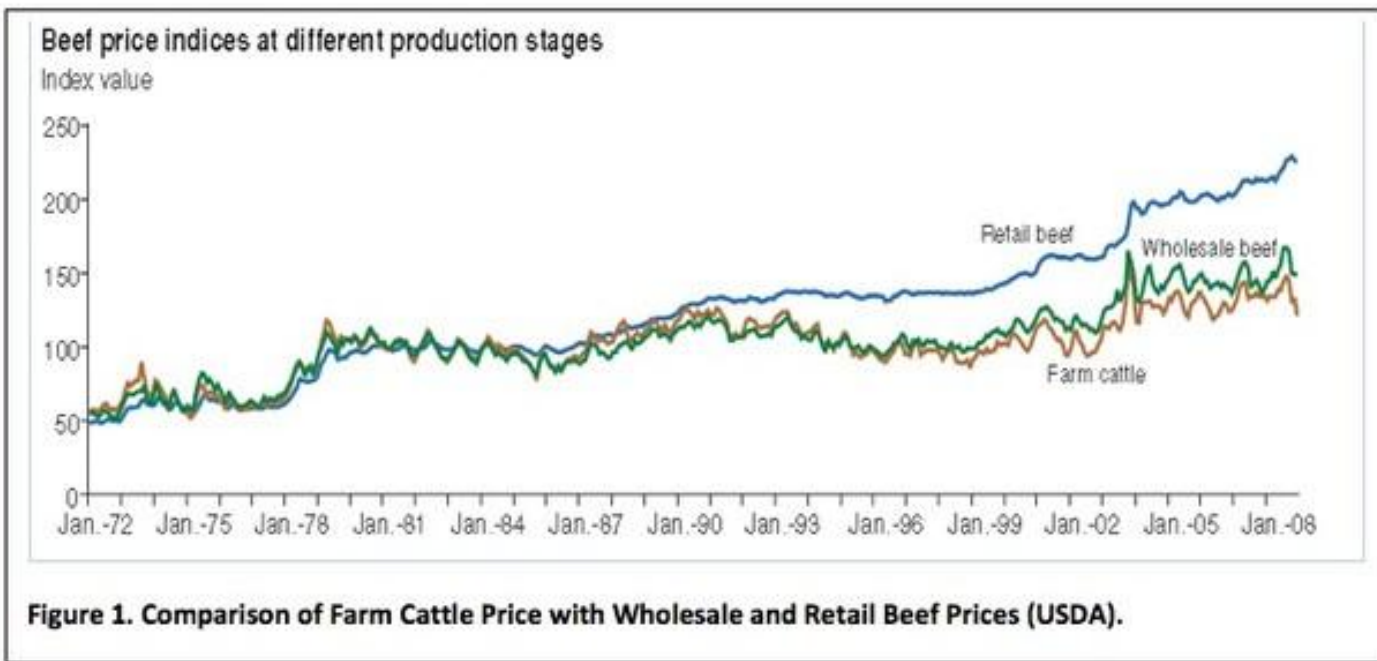
Beef prices in the U.S. and Canada are expected to increase because of increased costs of production in the feedlots due to increased feed costs. There are other costs as well that add up to help push the total package up.

A comparison of average farm beef cattle price index with wholesale and retail beef prices from 1972 to 2008 in the U.S. is shown in Figure 1. The index is a computation to base changes in prices; this is used to project prices in the future.

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For 1972 the index for each level is set at 50 units. Prices for each are related back to this moving forward. Farm cattle and wholesale price indices go fairly parallel during this time period; the retail price begins to move away from this in about 1990.

In 1990 the index for each was about 125 units (compared back to 1972). In 2008 farm cattle index was 130, wholesale was 150 and retail was 230 units. As the farm cattle price increase there is a less affect on retail prices compared with those in 1972. But the relationship of the cost of processing (wholesale) compared with farm cattle prices is only slightly greater in 2008 verses 1972.

Retail beef prices has in it the cost of wholesale beef purchases, transportation costs, refrigeration costs, product breakdown costs, store salaries, financing, other cost inputs and retail profit margins.

In Canada for retail beef this breaks out to about 22 percent for the commodity or fed cattle price (as an input) with 78 percent for everything else including the cost to get it to a wholesale value. Most of this is in at the retail level.

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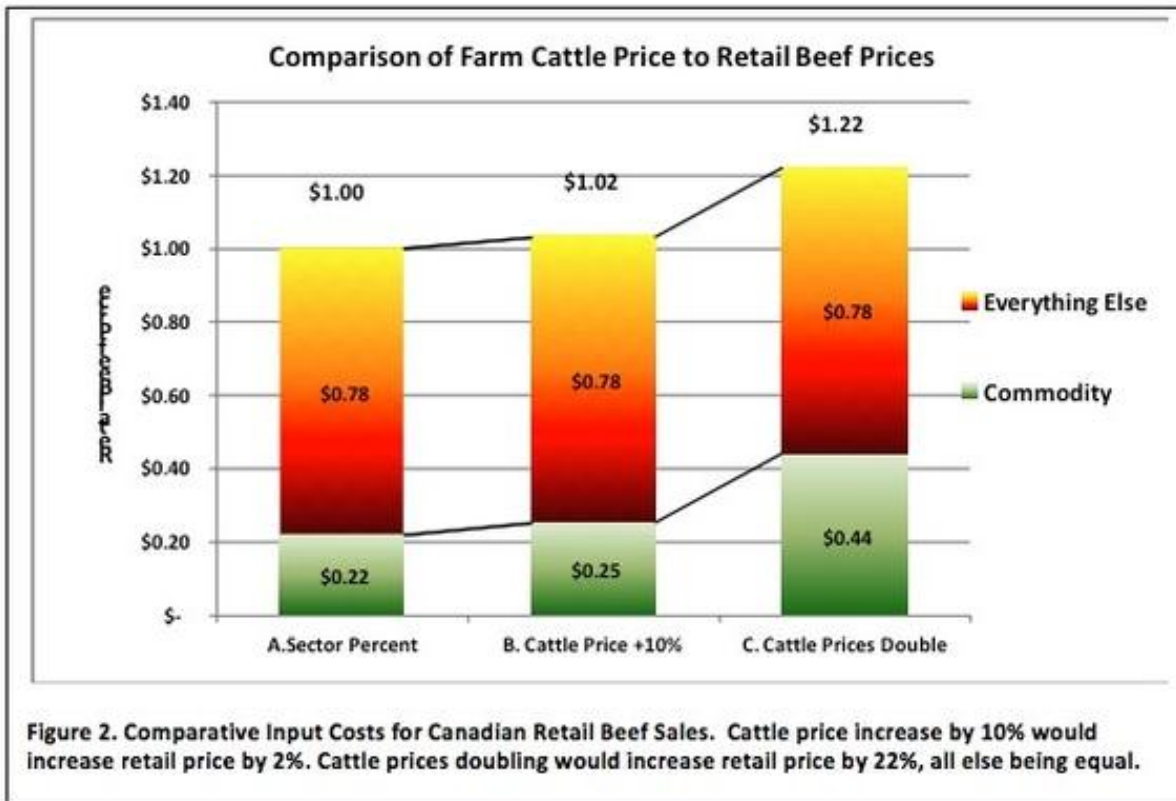
With an input beef commodity price increasing by 10 percent (that is something like \$112 to \$123 per cwt) the retail price would increase for our product from \$1.00 to \$1.02 or 2 percentage points based on this only (Figure 2,B).

For a doubling of the cattle commodity price (\$112 to \$224 per cwt) the retail food price would go up an extra 22 cents or 22 percent, all other things being equal (Figure 2,C). Any other price increases would be coming primarily from the retail sector with slight adjustments for the wholesale side.

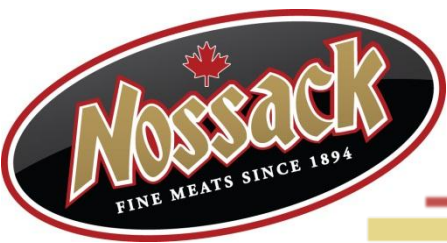
If retail beef prices are to increase by 12 percent next year where is this increase coming from? Fed steers in Alberta for June 2013 are project to move from present \$112 to \$128 per cwt (Canfax) or a 14 percent increase. This would add 3 cents to the product¹. Everything else would go up by 9 cents to give this a 12 cent increase (or 12 percent)² (Figure 3).



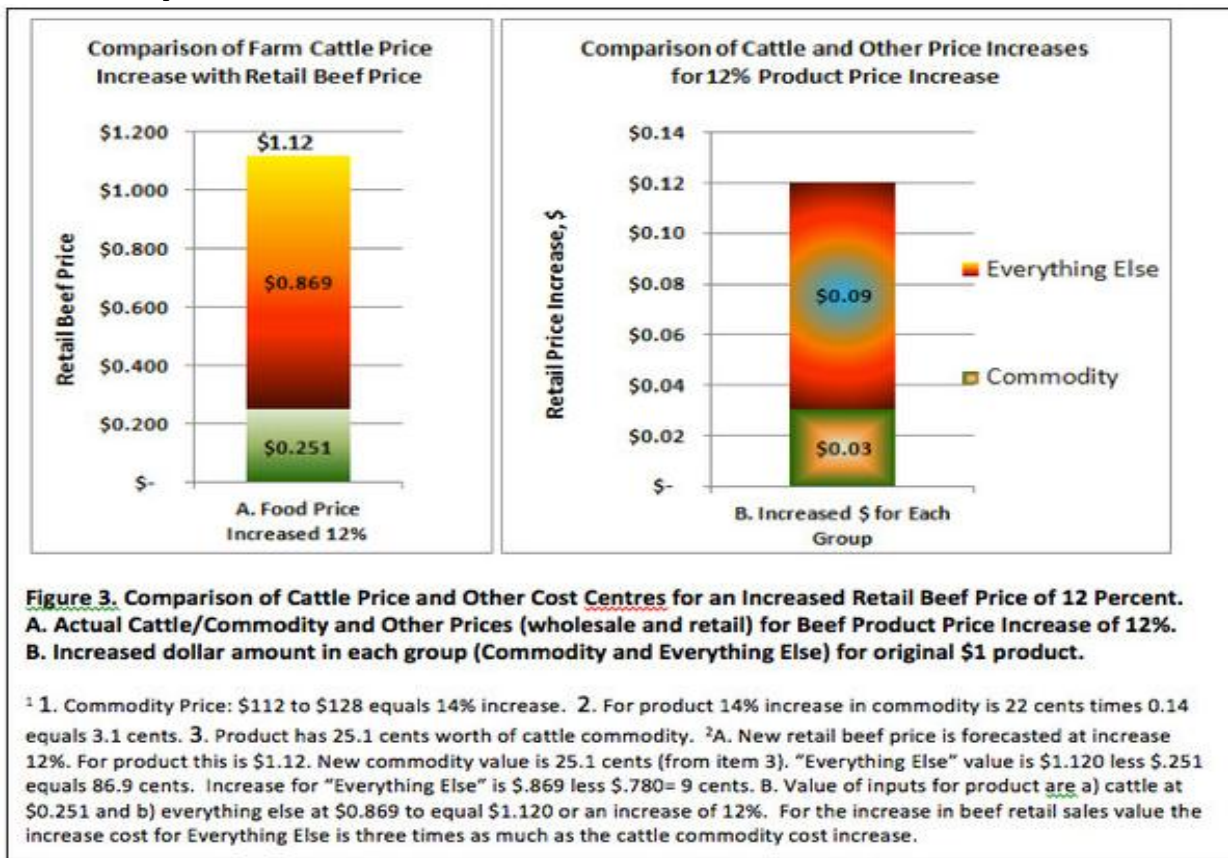
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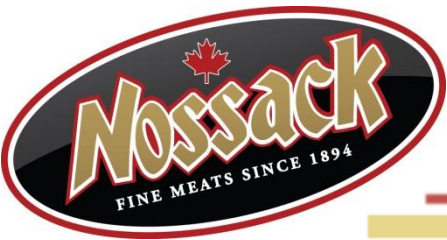


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Will the drought have an effect on cattle and retail beef prices?

Yes. But projected increases in cattle prices have a relatively small affect on retail beef price. For the 12 percent increase projected three times as much will be coming from the “Everything Else” sector, most of it from retail.

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Nossack's new product line.

Available in a variety of fillings: The Maui (with ham and pineapples), Mexican Garden (with corn, red and green peppers), Santa Fe Chicken (with chicken, kidney beans, red pepper), Mediterranean Vegetables (*with broccoli, mushrooms, edamame, zucchini) and Ole South Pulled Pork (*with pork, onion, BBQ sauce).

Stuffed with all sorts of great fillings, we hardly need to mention that the pastry contains 24g of whole grain!

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*Mediterranean Vegetable



*Ole South Pulled Pork

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