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BUSINESS

Food Price Deflation Cheers Consumers, Hurts Farmers, Grocers and Restaurants

Farm Belt cutbacks hit more businesses even as consumers save big at the grocery store



Food price deflation has consumers enjoying big savings at the supermarket, leading more to eat out less often. Farmers, suppliers and grocery chains also are feeling the pinch. Above, shoppers lined up at a 365 by Whole Foods Market store in Los Angeles earlier this year. PHOTO: PATRICK T. FALLON/BLOOMBERG NEWS

By **HEATHER HADDON** and **JULIE JARGON**

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The U.S. is on track this year to post the longest stretch of falling food prices in

more than 50 years, a streak that is cheering shoppers at the checkout line but putting a financial strain on farmers and grocery stores.

The trend is being fueled by an excess supply of dairy products, meat, grains and other staples and less demand for many of those same products from China and elsewhere due to the strong dollar. Lower energy costs for transportation and refrigeration also are contributing to sagging food prices, say economists.

“Deflation is a godsend for consumers,” said Bob Goldin, vice chairman of food consultancy Technomic Inc.

Nationwide, the price of a gallon of whole milk on average was down 11% to \$3.06 in July over a year ago; the price of a dozen large eggs fell 40% to \$1.55 in the same period.

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Those great bargains at the grocery store are spreading pain across the Farm Belt. Farmers and ranchers are getting less

money for raw milk, cheese and cattle, forcing them to slash spending. Tractor suppliers like Deere & Co. are cutting production due to the farming slump.

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Economists and food analysts say the supermarket price declines could last at least through year-end. The drop comes as weaker demand from China is resetting commodities prices in everything from cheese to iron ore. The current food-price slump soon could beat the nine months of year-to-year declines experienced in 2009 and 2010—the longest stretch since 1960, according to the Bureau of Labor Statistics.

The price of food at home is down 1.6% on a seasonally unadjusted basis in the 12 months through July, says the BLS.

Stephanie Hegre, a 46-year-old nanny in Thousand Oaks, Calif., has noticed a drop of about 10% in her weekly food shopping bill. Her 16-year-old twin daughters go through a lot of milk, meat and bread, adding up to an average weekly grocery bill of about \$200.

“I feel it has dropped by \$20 a week which, when you’re on a budget, is noticeable,” said Ms. Hegre, who has been stockpiling staples in case prices increase. “We freeze bread and buy two weeks’ worth of bacon at a time,” she said.

‘We cannot withstand \$4 a bushel corn.’

—Ben Moore, U.S. corn farmer

The glut is so severe in some places that dairy farmers have been dumping millions of pounds of excess milk onto fields. The U.S. Department of Agriculture just bought \$20 million

worth of cheese in response to hard-hit dairy farmers’ requests. The cheese was given to food banks and others through USDA nutrition-assistance programs.

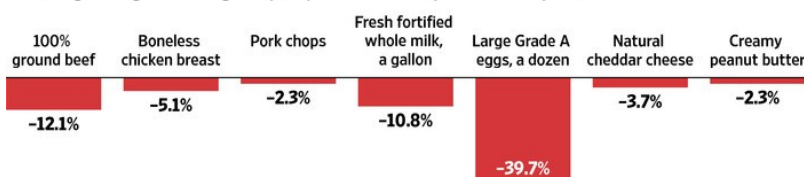
Ben Moore, a sixth-generation farmer who grows corn and soybeans on some 5,000 acres in Indiana and Ohio, said 2016 is shaping up to be his least profitable year in 20 years. Facing weak crop prices, he is making do with his current tractors and combines rather than upgrading his equipment, and is pushing for lower prices on pesticides, seeds and fertilizer.

On Monday, corn futures, which peaked in 2012 at more than \$8 a bushel, closed at \$3.11 ¾ a bushel, a seven-year low, on the Chicago Board of Trade.

“We cannot withstand \$4 a bushel corn,” Mr. Moore said.

Supermarket Savings

Percentage change in select grocery staples between July 2015 and July 2016



Note: All items are measured by the pound unless otherwise indicated. Source: Bureau of Labor Statistics. THE WALL STREET JOURNAL.

Farmers who had built a nest egg after a robust period earlier this decade now have exhausted those reserves, said Karl Setzer, a market

analyst for MaxYield Cooperative, a West Bend, Iowa, grain marketer. “The guys that are heavily leveraged and those who don’t have a plan of action will suffer for a while.”

Falling costs are taking a toll on many food retailers. Grocery stores already have thin profit margins and deflation tends to reduce the value of their inventory. To stay competitive, they must cut prices on existing goods before lower-priced staples land on the loading dock, and have fewer opportunities to raise prices.

At least six national food retailers, including Costco Wholesale Corp. and Whole Foods Market Inc., and four of the five largest publicly traded food distributors, including Sysco Corp. and US Foods Holding Corp., have reported that their margins suffered in the last quarter because of food deflation, the first time analysts can recall so many grocers singling out deflation as a big problem.

“Deflation is kind of the elephant in the room,” Dennis Eidson, chief executive of SpartanNash Co., which operates 160 grocery stores from Colorado to Ohio and distributes food to 1,900 retailers across the country, told investors this month.

Grocers such as Supervalu Inc. and Smart & Final Stores Inc. have been hit particularly hard. Even when the volume of products increased, profits have decreased in some categories because the price declines were so steep. Smart & Final’s division catering to restaurants sold 42% more packages of eggs during its most recent quarter but recorded a 34% drop in egg revenue because of the lower prices, Chief Executive David Hirz told investors.

‘Deflation is kind of the elephant in the room.’

—Dennis Eidson, SpartanNash CEO

Not all food has gotten cheaper. Total fruit and vegetable prices were up 1.4% in July from a year earlier in part due to the drought in California.

Wal-Mart Stores Inc., the nation’s largest food retailer, has been one of the few to benefit from the falling prices, partly because it attracted more customers after slashing prices earlier this year. It reported strong second-quarter results this month despite “ongoing deflationary impacts in food.”

—Kelsey Gee and Jesse Newman contributed to this article.

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