

Food Price Increases: Causes and Consequences

Alan Matthews

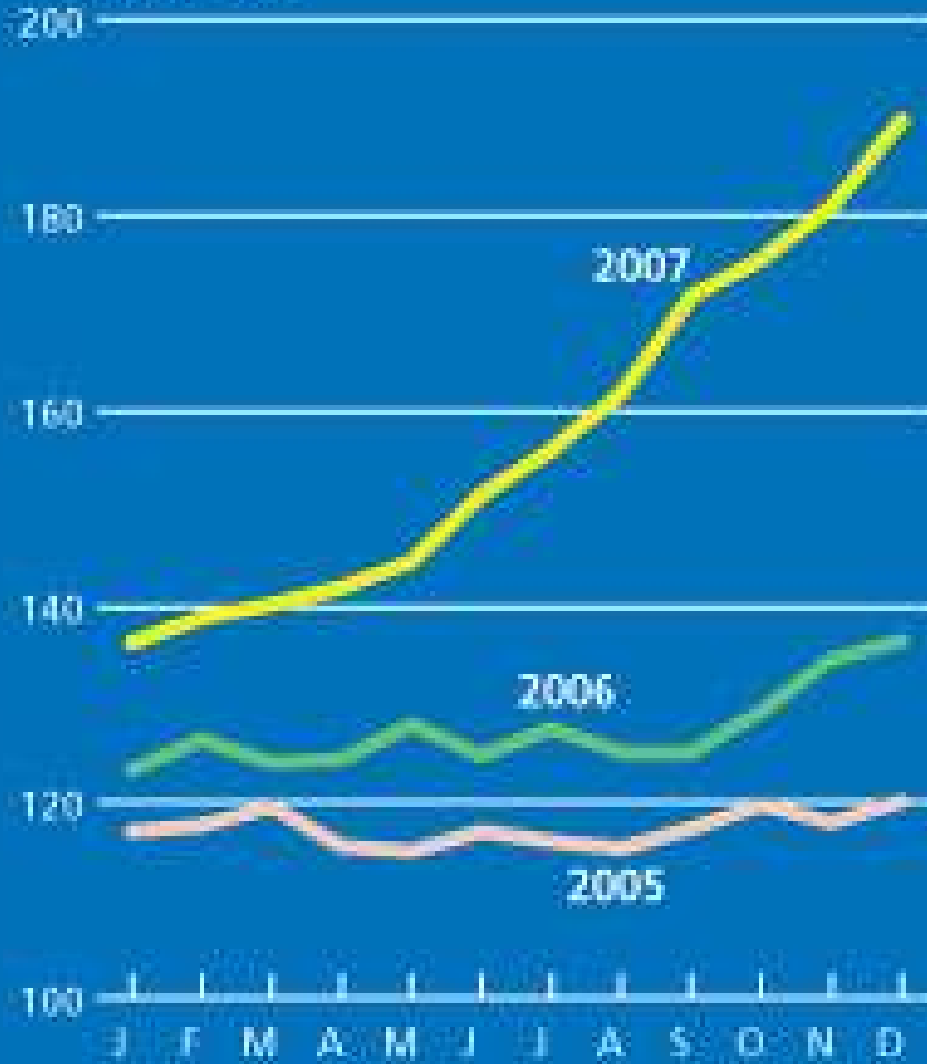
Trinity College Dublin

Presentation to the IIEA Economists' Group

15 July 2008

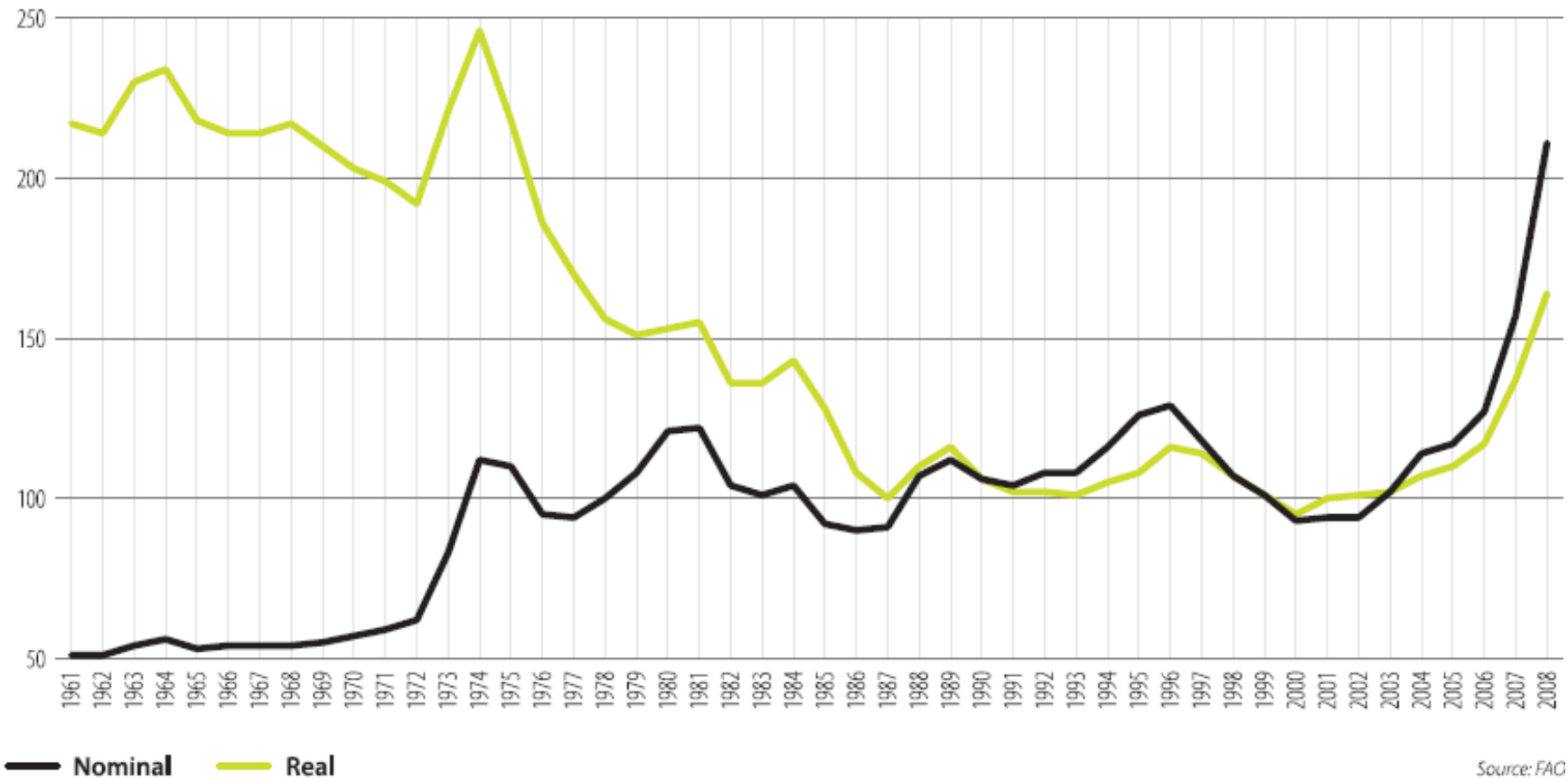
FAO Food Price Index

1998-2000=100

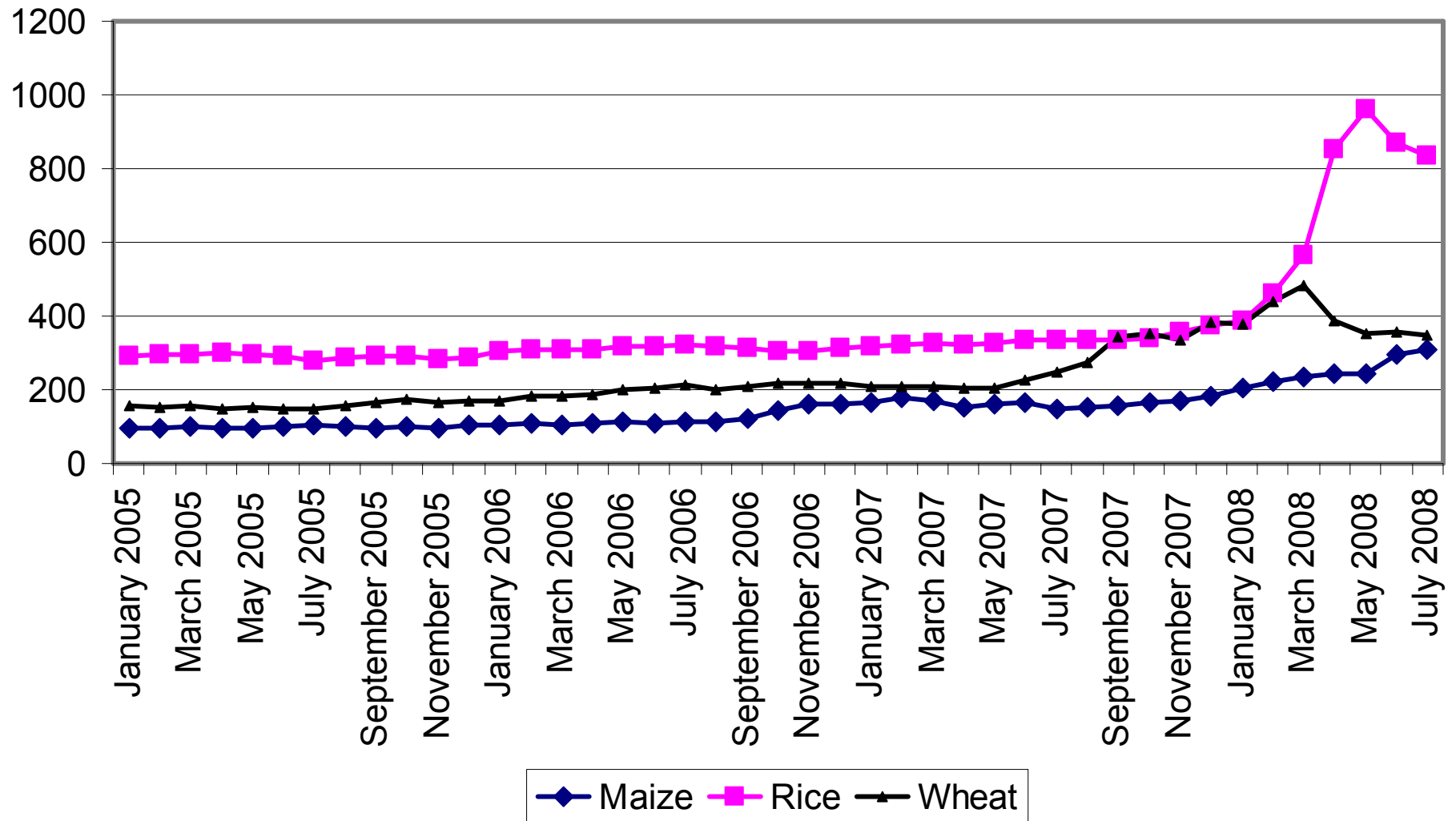


Source:
FAO

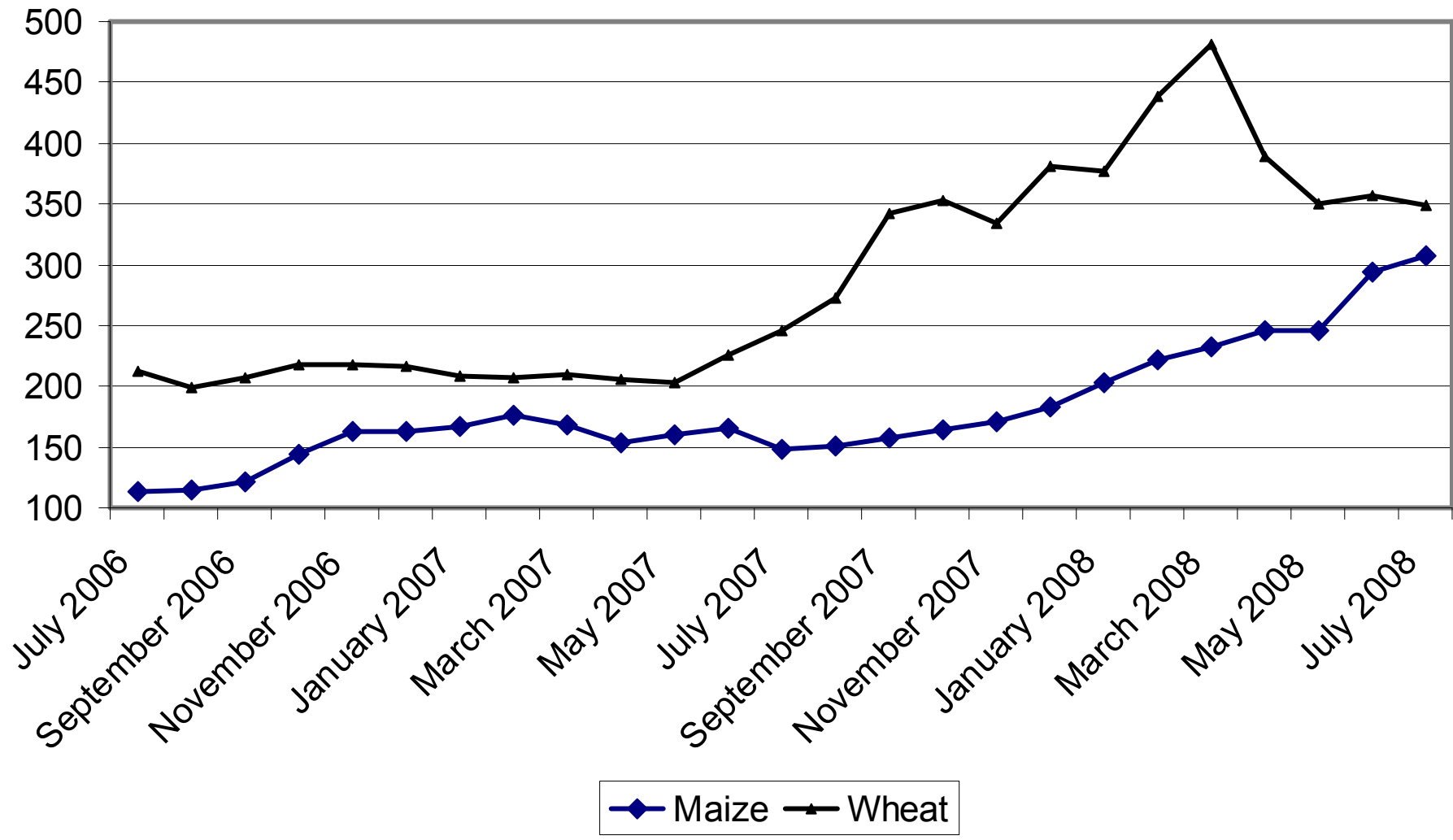
Figure 2 Extended Annual FAO Food Price Index 1998-2000=100



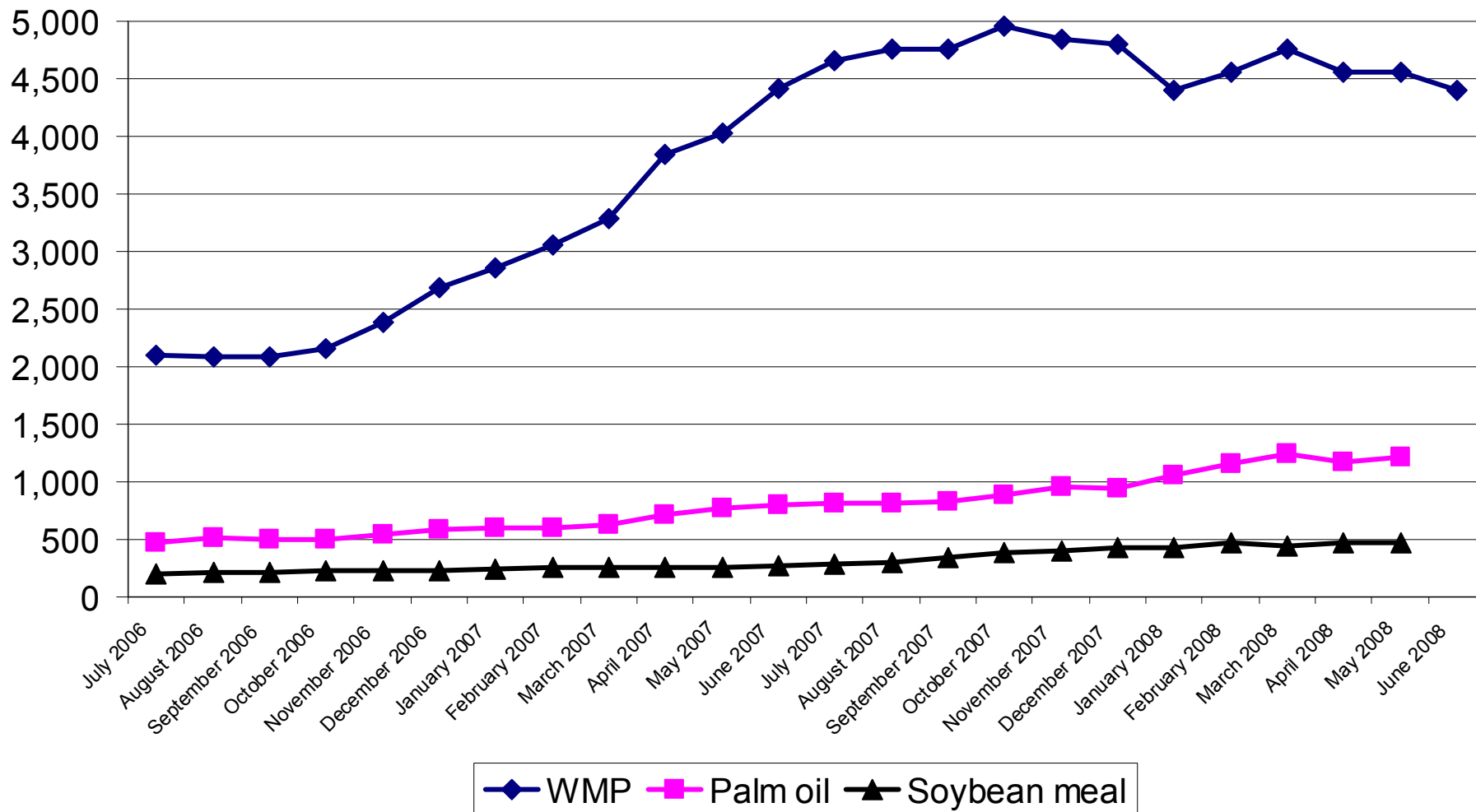
Source: FAO 2008



Source: FAO Commodity Prices online



Source: FAO Commodity Prices online

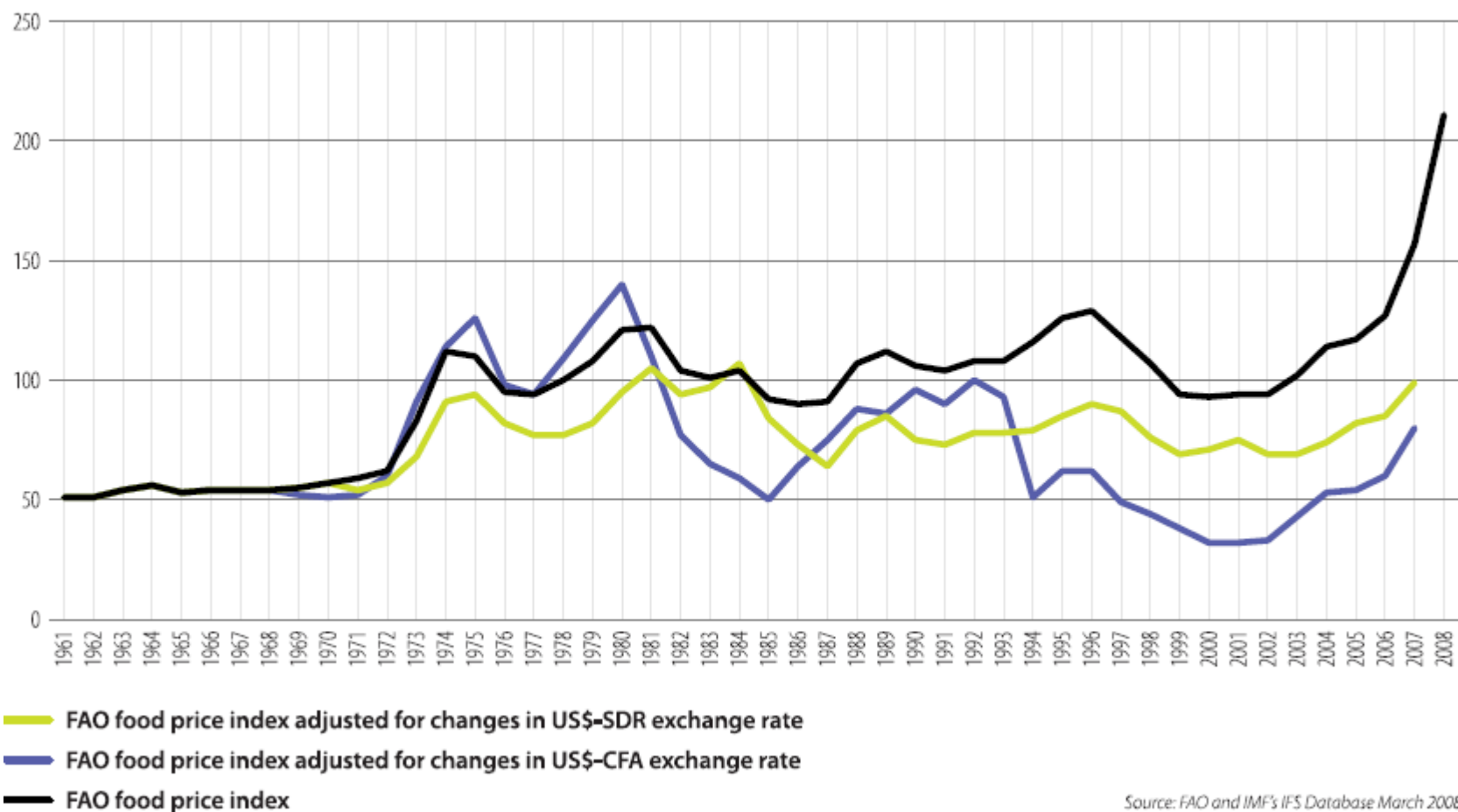


Source: FAO Commodity Prices online

Causes of high food prices

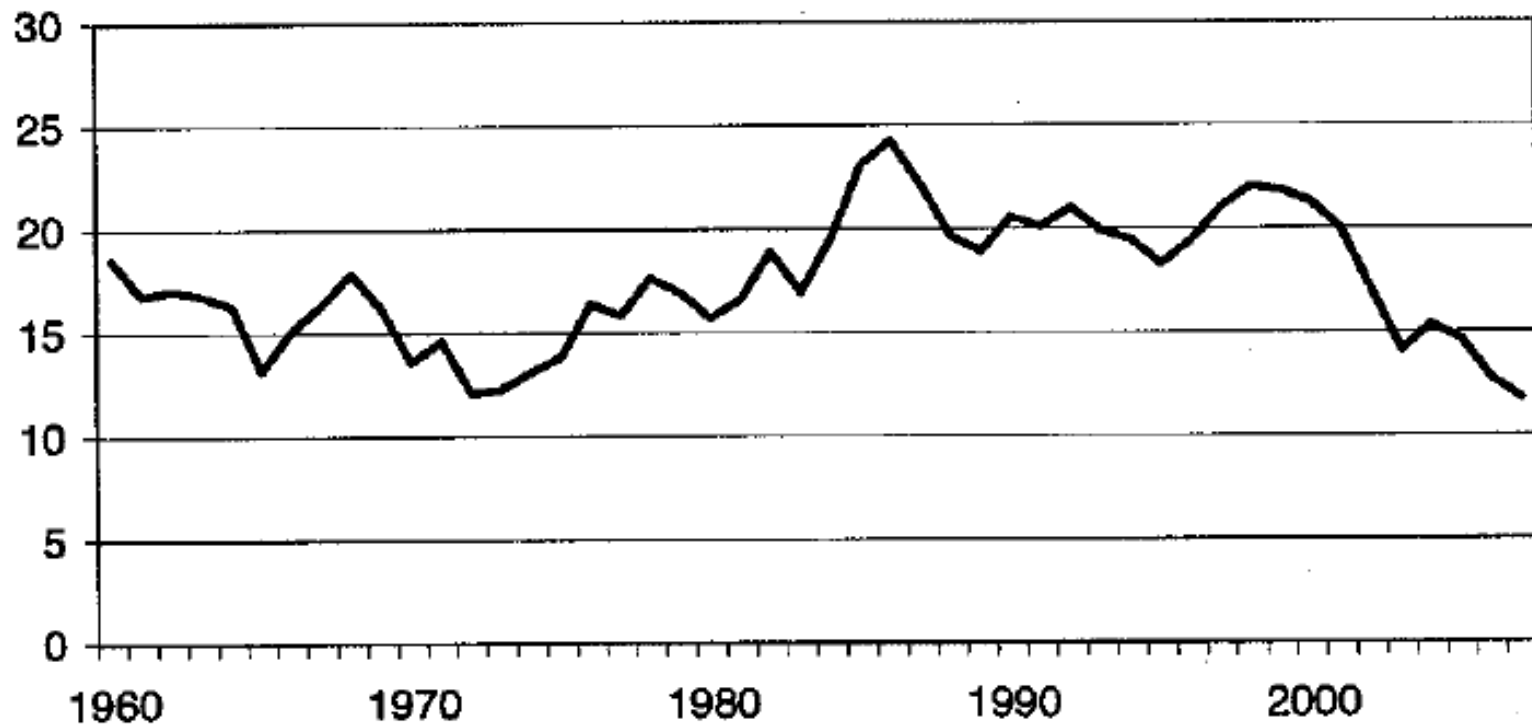
- **General**
 - US dollar depreciation
 - Financial speculation
- **Structural**
 - Tight global supply and demand balance
 - Very low reserve stocks
 - Inelastic supply and demand
 - Thin world markets
- **Short-term**
 - High energy prices
 - Poor harvests
 - Trade bans
 - Biofuel demand

Figure 5 FAO Food Price Index adjusted for changes in the exchange rates between US dollar and SDR and CFA



Source: FAO 2008

Figure 11. World Grain Stocks-to-Use
(percent)



Source: DECPCG

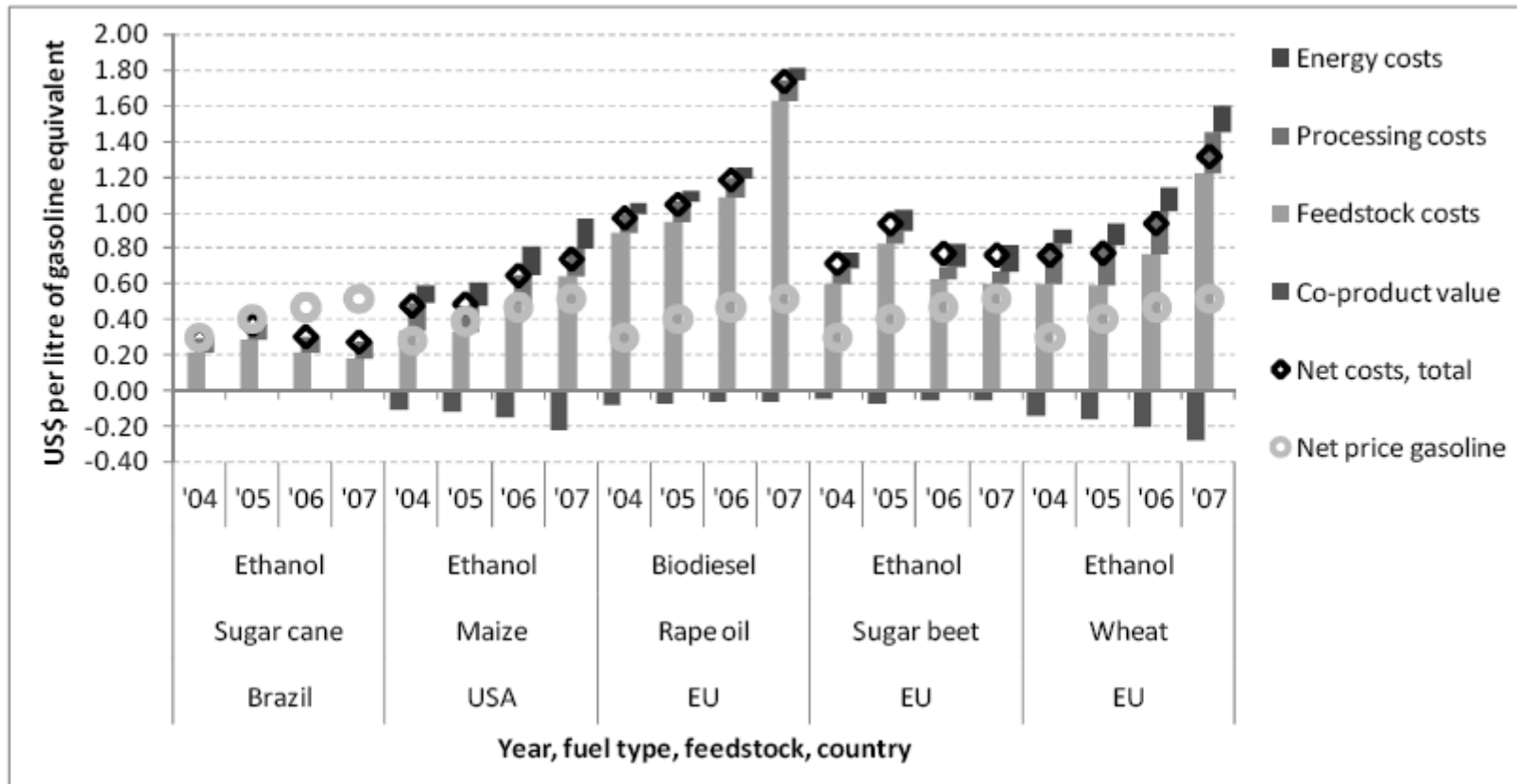
Source: Mitchell 2008

Causes of high food prices

- World Bank food price index
 - 140% increase Jan 2002 to Feb 2008
- Energy costs +15%
- Dollar depreciation +20%
- Biofuel demand +105%
 - Distinguish between market-driven and subsidy-driven demand

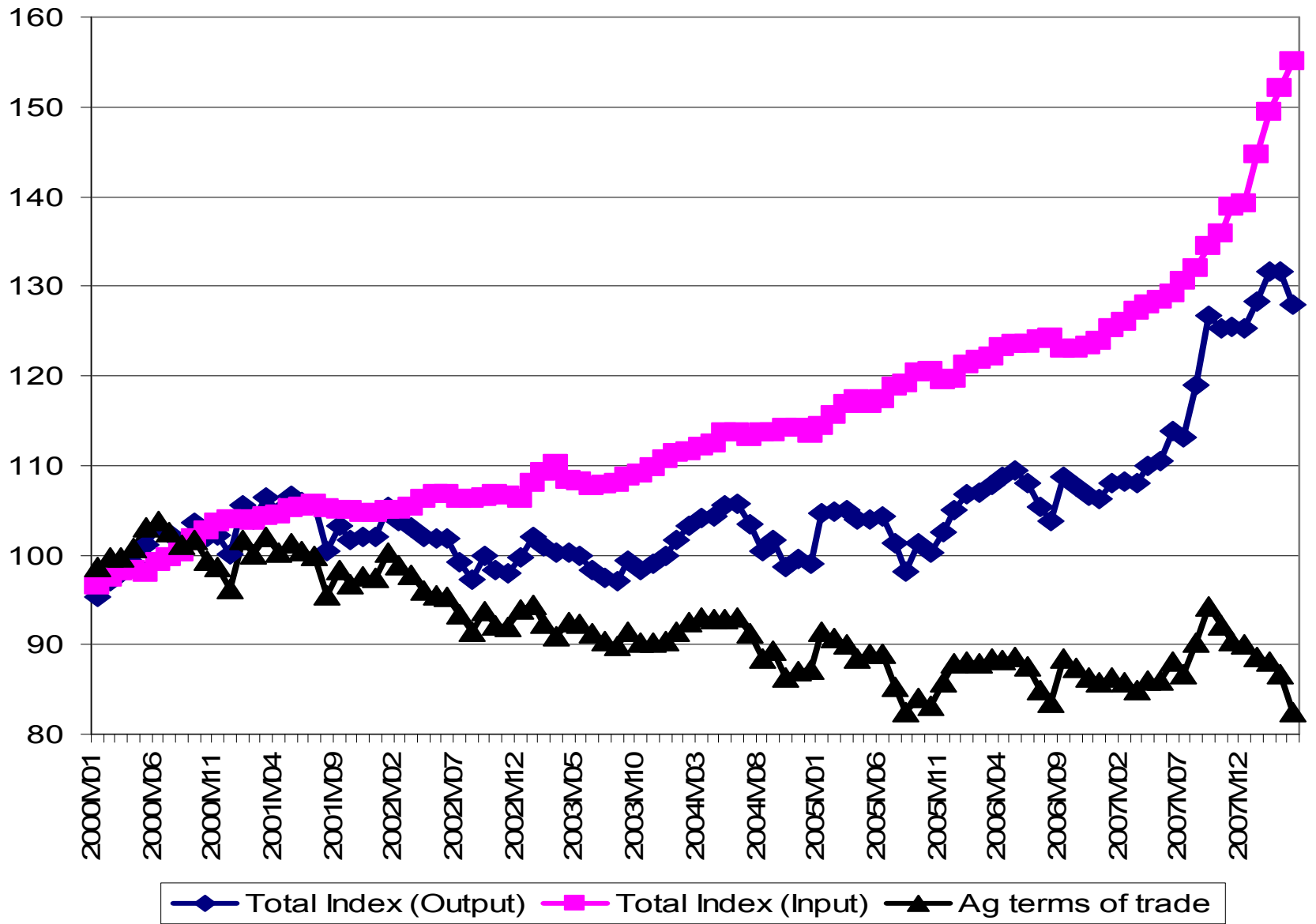
Source: Mitchell 2008

Figure 4.1. Production costs of major biofuel chains

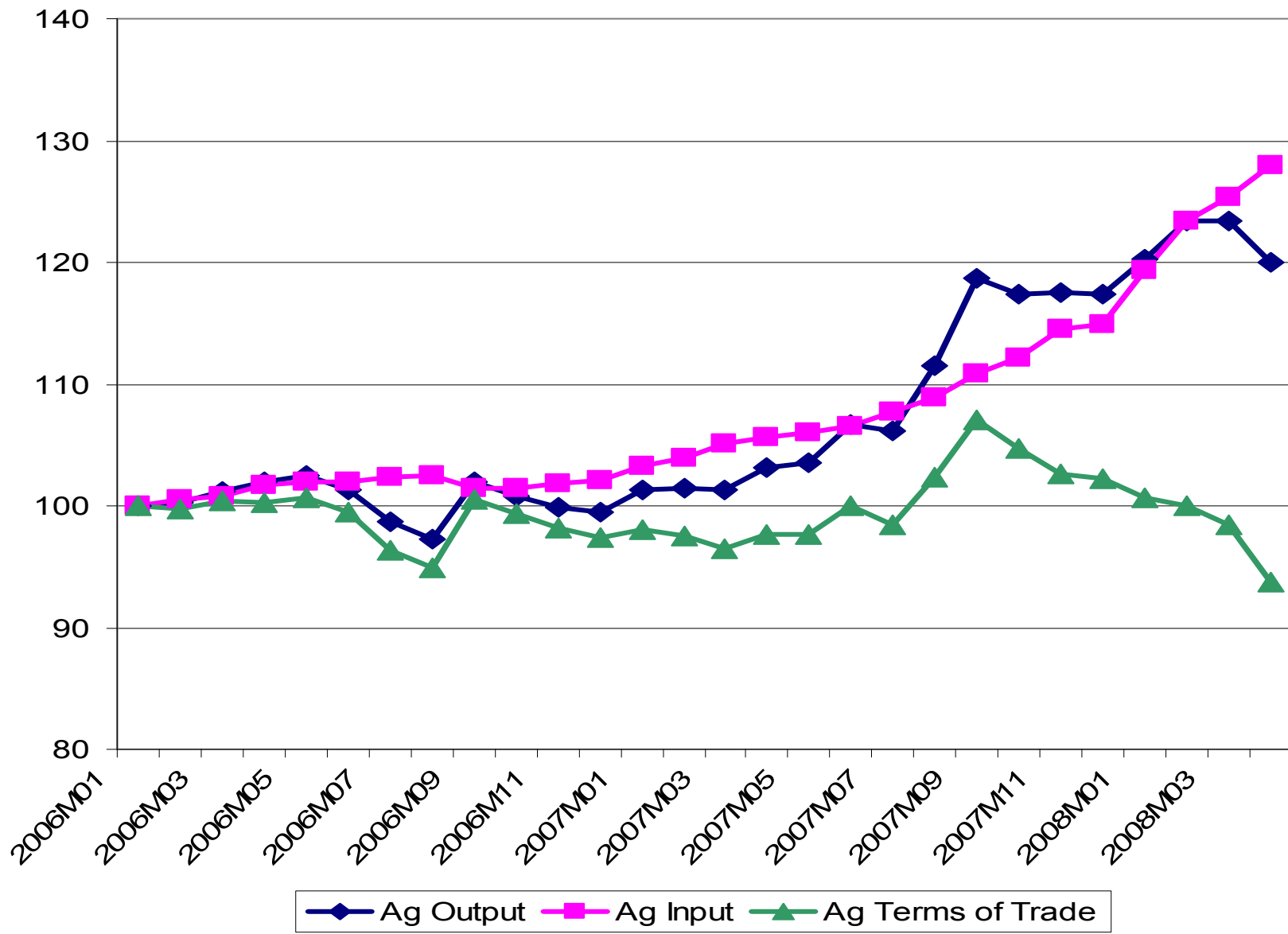


Source: OECD-FAO Agricultural Outlook 2008-2017

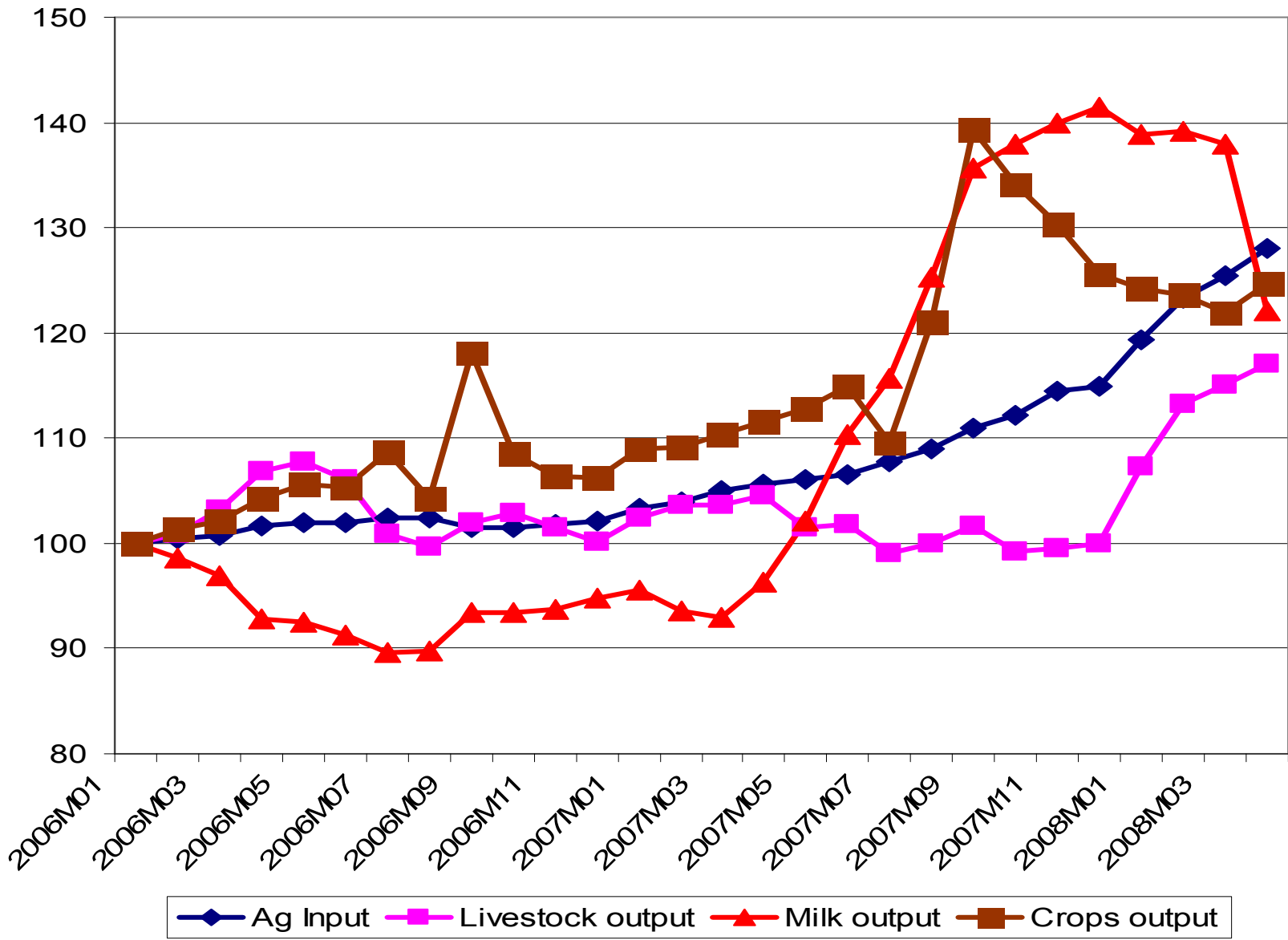
Implications for Irish agriculture



Source: CSO Database Direct

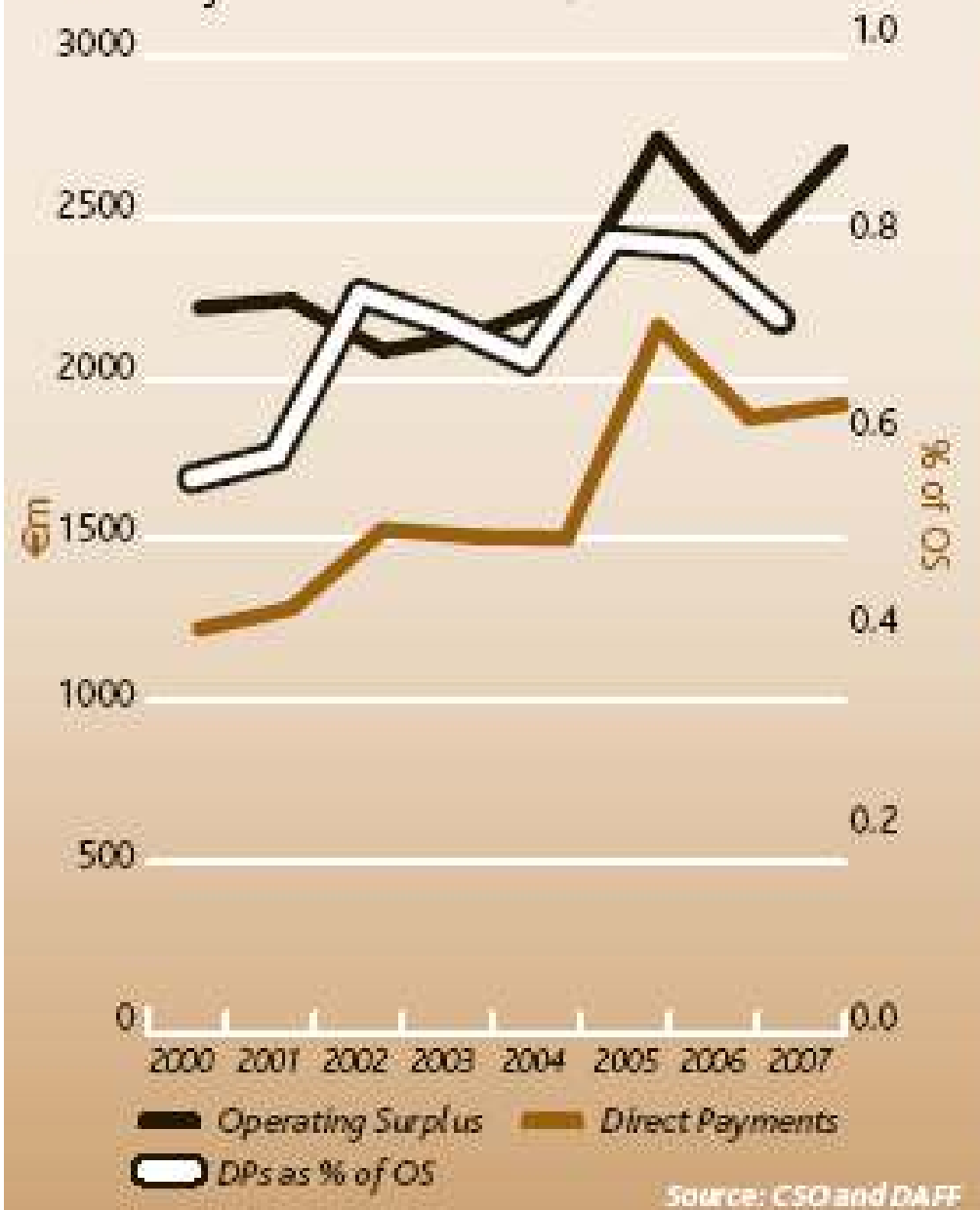


Source: CSO Database Direct



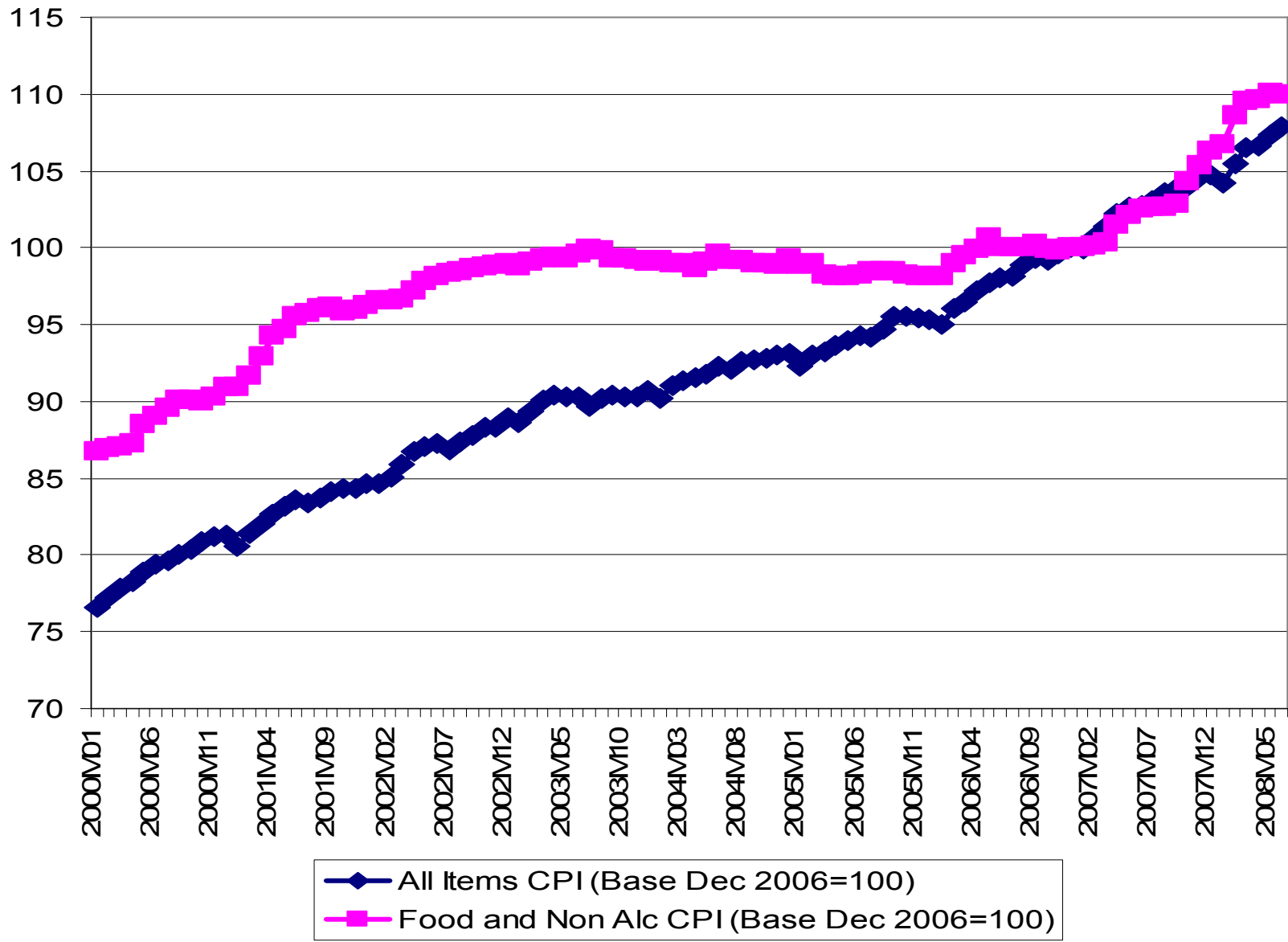
Source: CSO Database Direct

Figure 2.1: Operating Surplus, Direct Payments and Direct Payments as a % of OS, 2000-2007

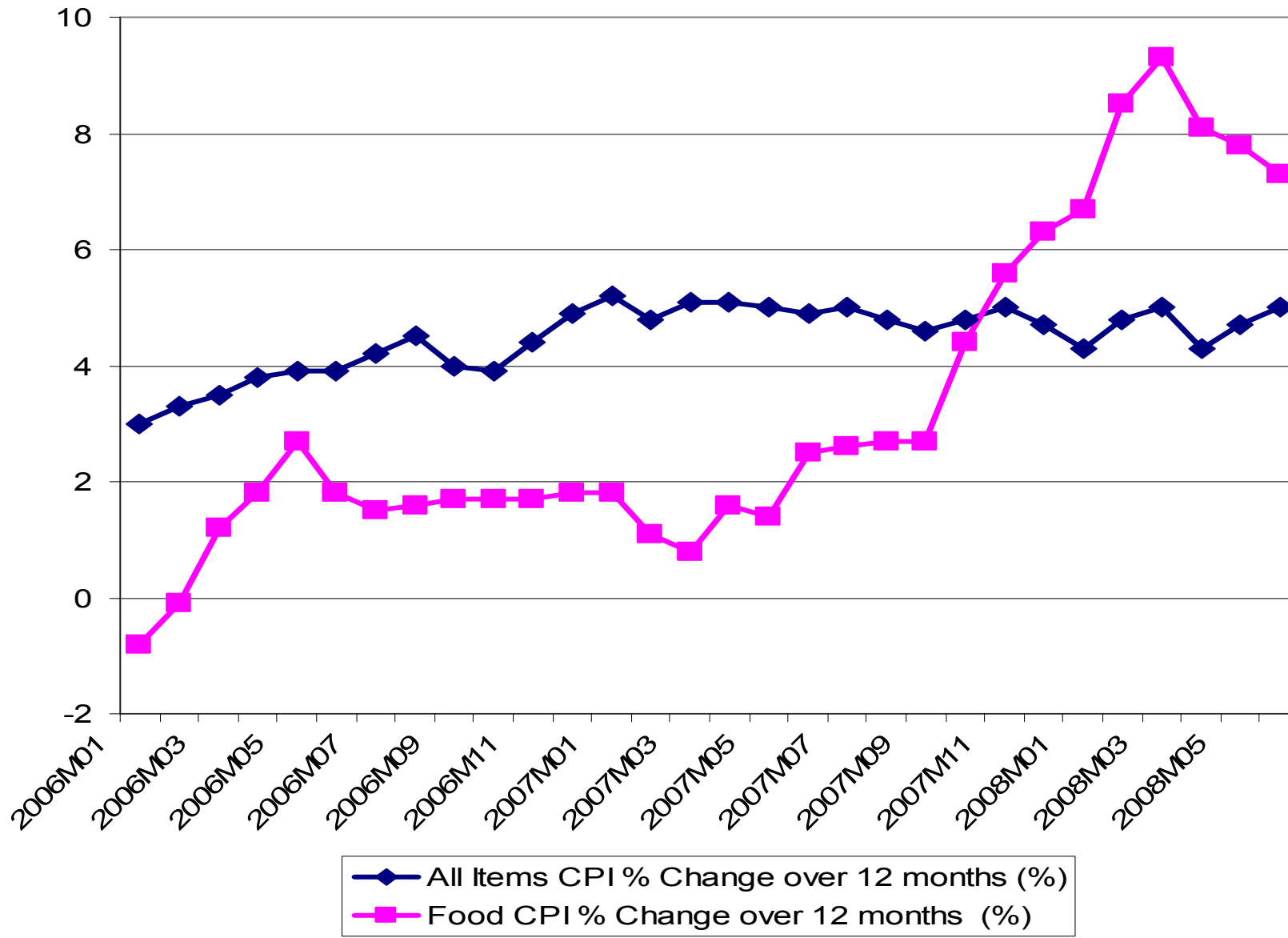


Source: DAFF Annual Review and Outlook 2007/2008

Implications for inflation

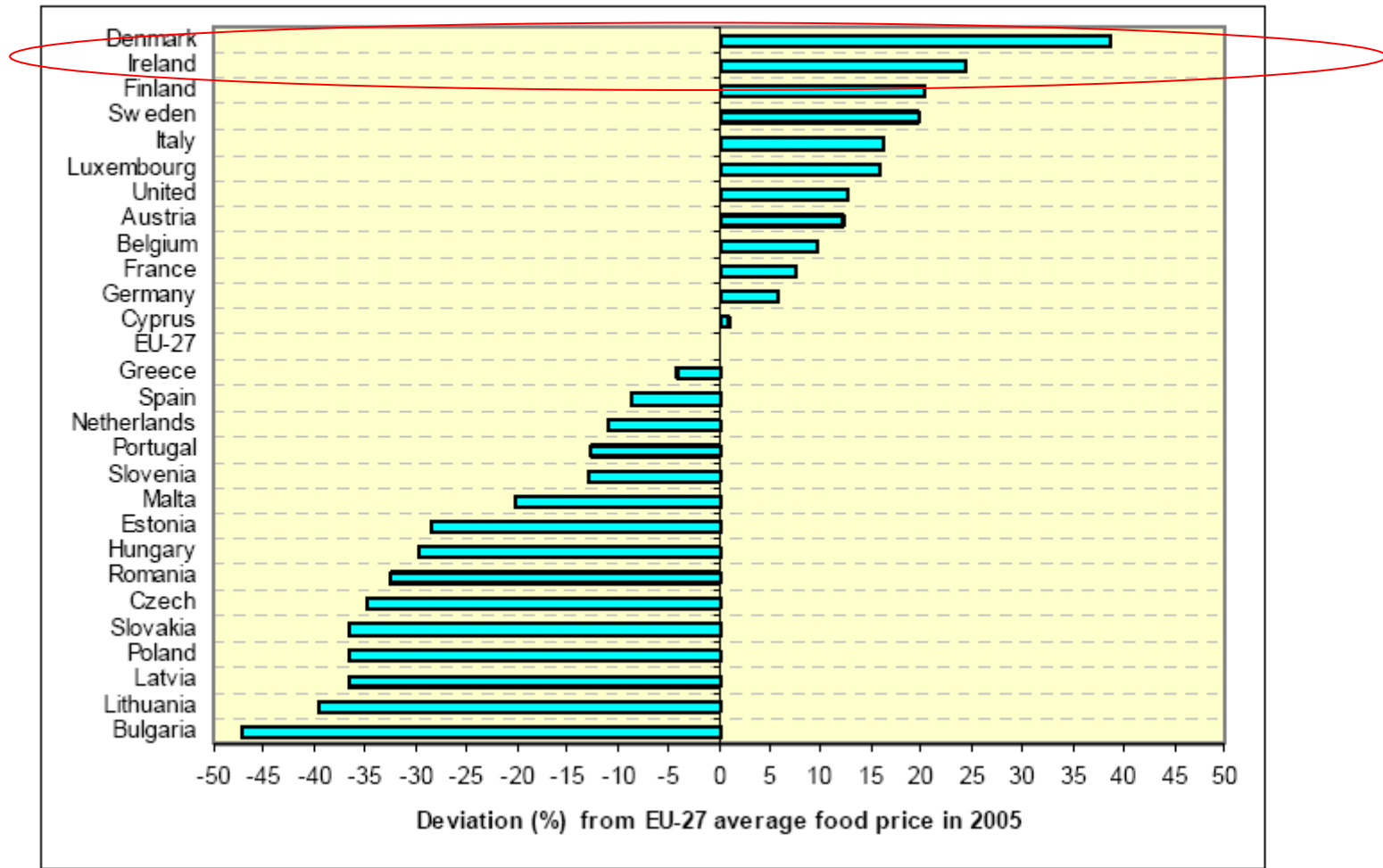


Source: CSO Database Direct



Source: CSO Database Direct

Graph 14: Spatial food price comparison across EU-27 Member States in 2005

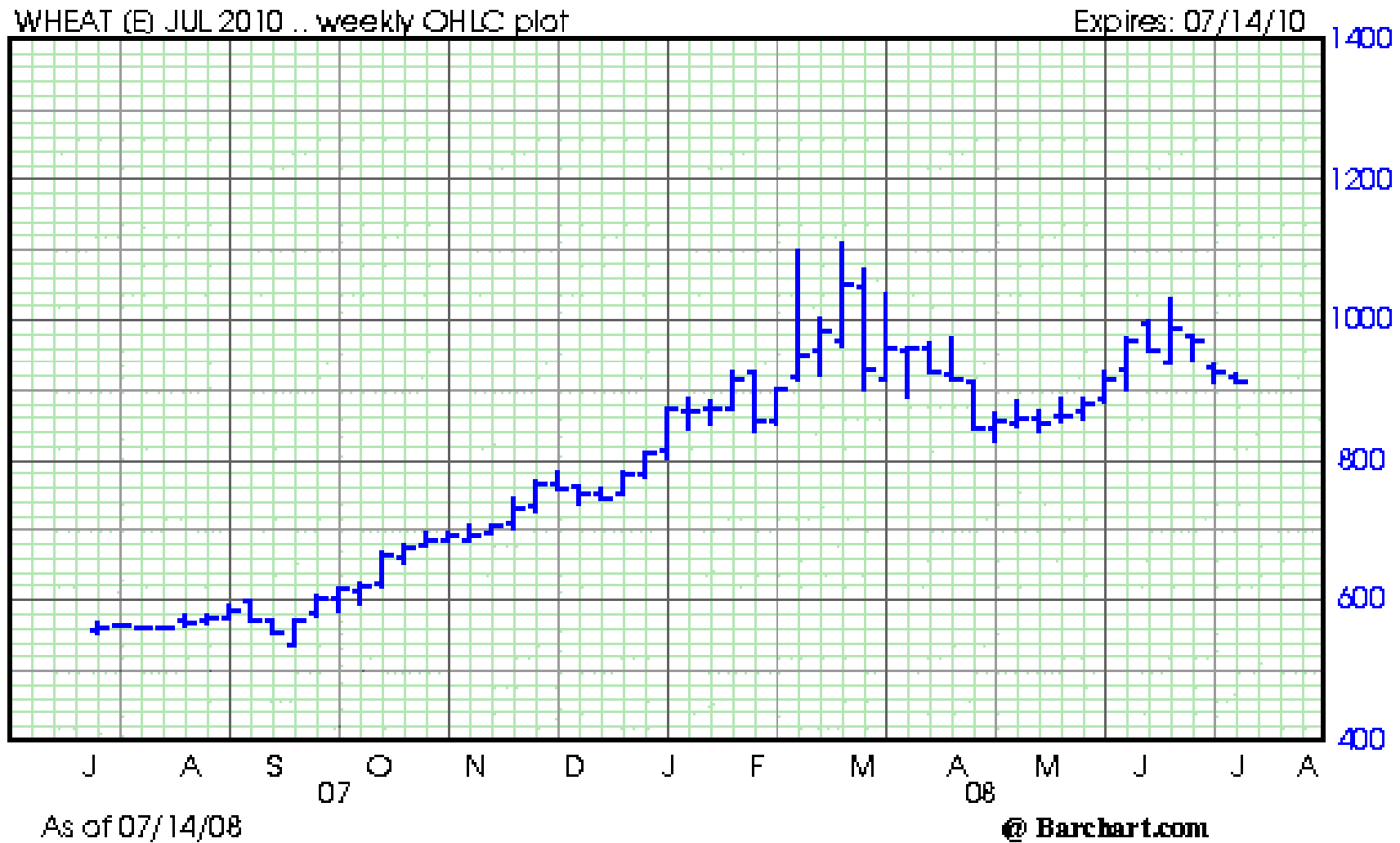


Source: DAFF Annual Review and Outlook 2007/2008

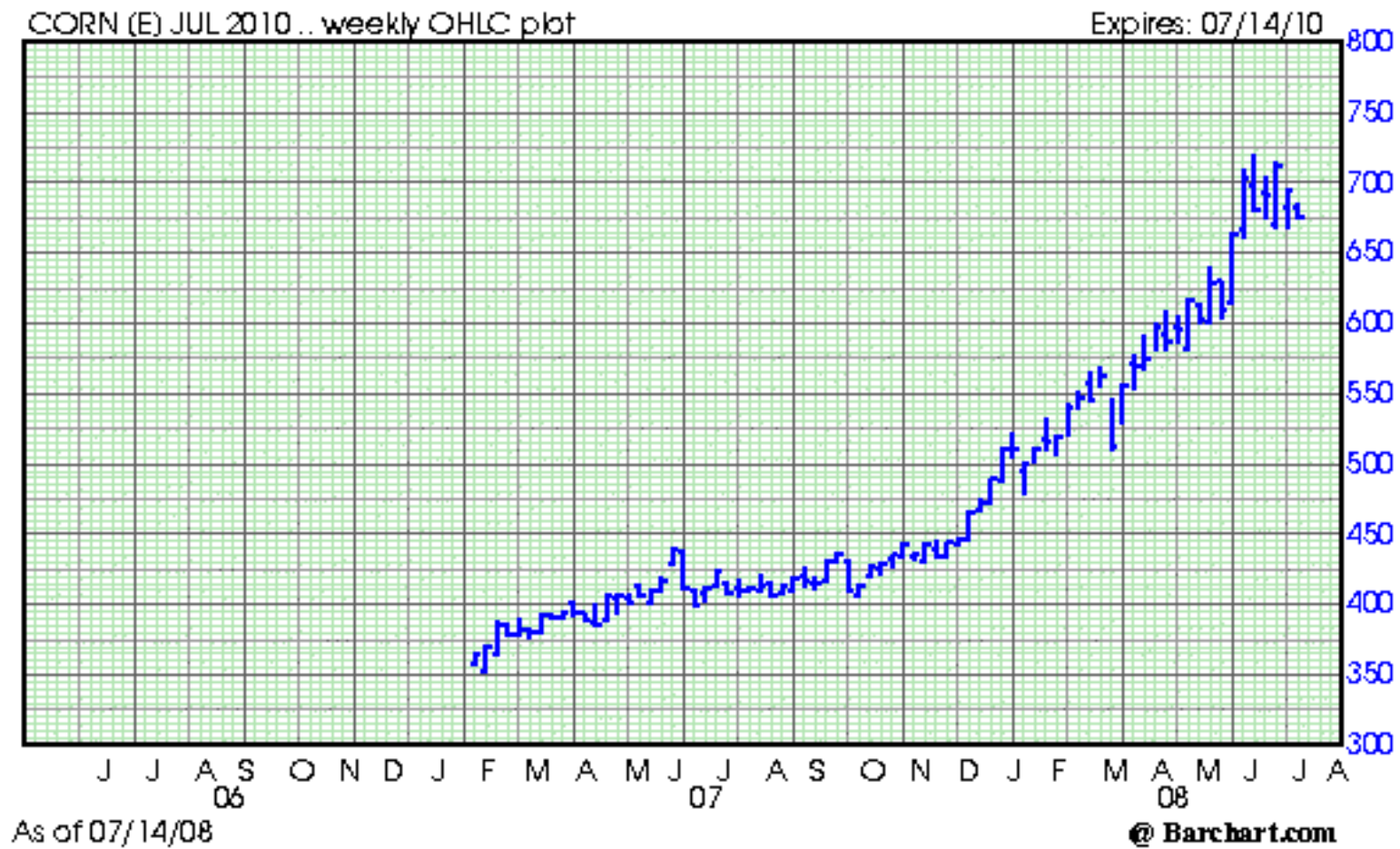
Are food price increases justified?

- Share of agricultural raw product value in final product value around 25%
- Share of food in household expenditure around 10%
- Increase food commodity price index +35% since 2005
- 'Theoretical' contribution to CPI increase less than 1 percentage point
- 'Actual' contribution to CPI change is 10% of 8% increase 2005.1 to 2008.1 or 0.8%

Wheat futures



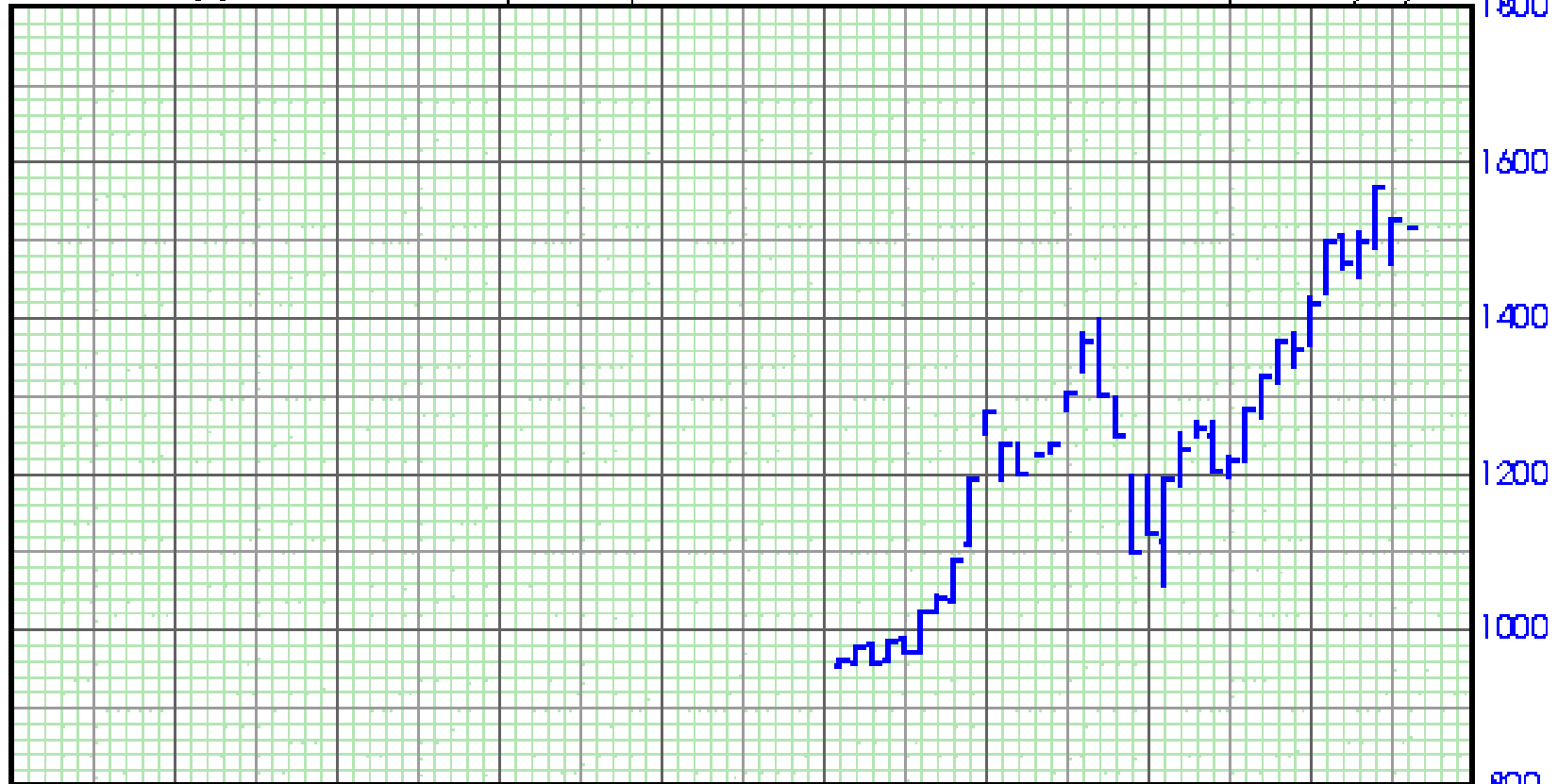
Corn futures



Soybean futures

SOYBEANS (E) JUL 2010 .. weekly OHLC plot

Expires: 07/14/10



As of 07/14/08

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Future outlook

- Views of forecasting agencies
 - Nominal food prices to remain constant over the next decade
- Future of oil prices?
- Impact of economic growth slowdown?
- Future of biofuel mandates in EU and US?
- Future supply response?