Food Price Increases: Causes and Consequences

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Source: FAO
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

Source: DECPG

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
Implications for inflation
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

As of 07/14/08

@ Barchart.com
Corn futures
Soybean futures

As of 07/14/08

@ Barchart.com
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?