Global food prices n

2008 peak, says Wo

Global food prices remain high, partly due to increasing fuel prices, and the World Bank's Food Price Index is around its 2008 peak. Since June 2010, an additional 44 million people fell below the $1.25 poverty line as a result of higher food prices. Simulations show that a further 10% increase in the Food Price Index could lead to 10 million people falling into poverty, and a 30% increase could increase poverty by 34 million people. Low-income and lower-middle-income countries are experiencing on average 5% points higher food price inflation compared to better-off countries.

A special focus on the Middle East and North Africa region in this issue shows double-digit food price inflation in Iran, Egypt and Syria, with more moderate levels in other parts of the region. Global maize prices are 17% higher in the first quarter of 2011 compared to the last quarter of 2010, due to increasing demand for industrial uses and low stocks. Several countries in Sub-Saharan Africa have faced double-digit increases in maize prices during the first quarter of 2011.

A comparison of price changes within countries shows that price spikes, and therefore poverty impacts, can be highly localized. Immediate actions include targeting social assistance and nutritional programs to the poorest in areas where food prices have spiked. Macro-policy measures need to be informed by the extent that commodity price increases are feeding into inflationary expectations; net commodity importers need to monitor external sector vulnerability.

Policy actions that will reduce the pressures on tight global food markets include relaxing biofuel mandates when food prices exceed a threshold level and removing export restrictions on grains. Investments in increasing agricultural yields in an environmentally sustainable manner, efficiency gains in food import supply chains, and greater use of risk-management tools such as hedging products are examples of medium-term policy goals to improve food security.

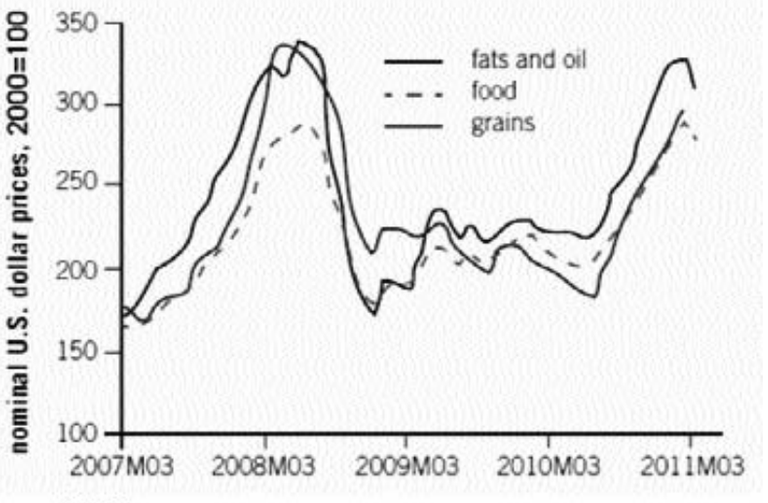
The World Bank's global Food Price Index remains close to its 2008 peak. In March 2011, the food index remained 36% above its level a year earlier, despite a small recent drop (figure 1). Key staples that remain significantly higher than what they were at this point last year include maize (74%), wheat (69%), soybeans (36%) and sugar (21%); importantly, rice prices have been stable. A comparison of average prices for the first quarter of 2011 with the last quarter of 2010 (table 1) shows that prices have risen for a broad spectrum of food commodities.

Global food prices remain volatile following recent events in the Middle East and Japan. Following events in the Middle East, crude oil prices have increased 21% in the first quarter of 2011. The tragic events in Japan on March 11 contributed to a slide in corn, soybeans and wheat futures' prices, reflecting prospects of lower import demand, which have since bounced back (figure 2).

The recent food price volatility is in the context of several other factors that have driven prices higher over the past year. These drivers include: (i) severe weather events in key grain exporters such as the Russian Federation, Kazakhstan, Canada, Australia, and Argentina in the second half of 2010; (ii) the broadbased increase in agricultural commodity prices in 2010, which increased the competition for land and other inputs; and (iii) the link between higher oil prices and biofuels (see below). These factors have taken place amidst a medium-term context of: (i) food demand growth outstripping output growth over the past decade (figure 3); (ii) the consequent draw-down of grain stocks to historically low levels; (iii) the impact of climate change on weather variability and yields; (iv) increased use of grain export restrictions since the 2008 food price spike; and (v) a higher share of grain exports originating from the Black Sea and Latin America, where yields are more variable than for traditional OECD exporters.

Food price increases are linked to energy price increases. Crude oil prices surged by 10.3% in March and are 36% higher than a year earlier. These oil price increases impact the price of food—a 10% increase in crude oil prices is associated with a 2.7% increase1 in the World Bank Food Price Index—through multiple channels (figure 4). First, higher crude oil prices encourage greater use of food products such as corn, vegetable oil, and sugar in the production of biofuels. In an April 2011 assessment, the U.S. Department of Agriculture (USDA) reports that the use of corn for biofuels in the United States has increased from 31% of total corn output in 2008/9 to a projected 40% in 2010/11. The 2010/11 estimate in April is slightly higher—an additional 50 million bushels—than projected in March due to strong blender incentives and higher margins, according to USDA.2 A second channel of impact is that higher energy prices feed into the cost of food production through higher fertilizer prices, the cost of irrigation, and other farm inputs. The extent of energy price impact varies significantly depending on the type of crop and level of mechanization. A third channel of energy price impact is through increases in the costs of crop transportation to destination markets, which leads to larger price variations within countries and increases costs for importing countries. For example, maize prices in western Guatemala have increased significantly more than the rest of the country due to higher transport costs. Similarly, sharp increases in wheat-related products in Tajikistan, Azerbaijan, and the Kyrgyz Republic over the past year partly reflect increased transport costs from Kazakhstan.

Figure 1: World Bank Global Price Indices (nominal U.S. dollar prices, 2000 = 100)



Source: DECPG.

Table 1. Specific Food Commodity Price Changes

Commodity	Change in average price: 1st quarter 2011/ 1st quarter 2010 (%)	Change in average price: 1st quarter 2011/ 4th quarter 2010 (%)
Wheat (US, HRW)	69.1	16.5
Maize (No. 2, yellow)	73.8	17.1
Rice (25%, Thai)	-2.4	-1.3
Soybeans (U.S., cif, Rotterdam)	35.6	8.3
Soybean meal (cif Rotterdam)	18.3	3.1
Palm oil (Malaysia, 5% bulk)	54.9	12.9
Sugar (World)	21.0	8.1
Bananas (Central/South American)	23.4	21.1
Beef (Australia/New Zealand)	30.3	16.0

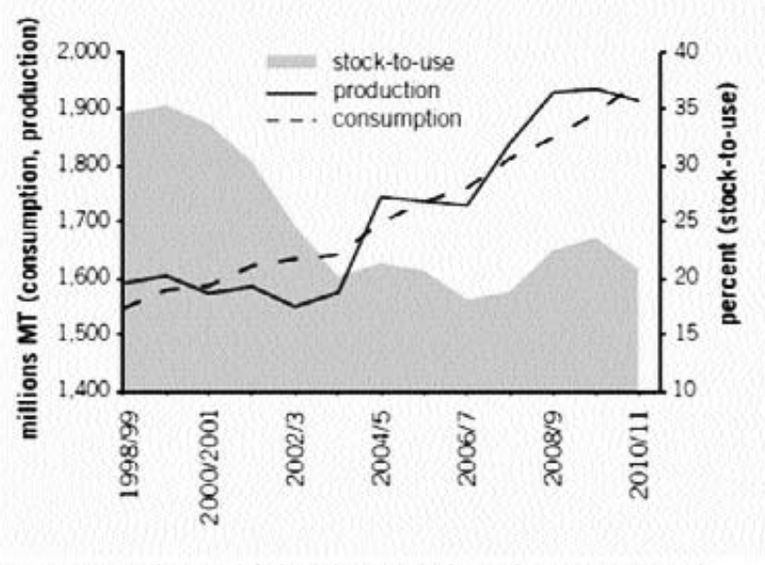
Source: DECPG. The price changes are for average prices of the reported commodities over the relevant quarters. For example, the first column reports the change in average prices in the January - March period in 2011 compared to average prices in January–March of 2010.

Food price inflation has increased over the past year in many countries. Figure 5a shows changes in food price inflation rates in select East Asian countries over the past two years. In February 2011, food price inflation in Vietnam, Indonesia, and China was 17%, 15%, and 11%, respectively, and in single digits in the Philippines, Thailand, and Malaysia. Higher vegetable prices resulting from poor weather and supply bottlenecks have contributed to food inflation in China, as have higher meat prices, which in turn are affected by the increasing cost of animal feed. In Vietnam, the 18% devaluation of the currency against the U.S. dollar since November 2009 has increased the costs of imported food items and animal feed. In Central American countries, food price inflation has steadily increased over the past year (figure 5b). In the Europe and Central Asia region, food price inflation in most countries was higher in 2010, with the Kyrgyz Republic and Georgia experiencing food price inflation in excess of 20% (figure 5c).

The macro impacts of these increases in food prices need to be monitored. the extent to which these commodity price changes feed into inflationary expectations, along with the overall state of the economy, will determine the appropriate use of monetary policy. In East Asia, higher food price inflation is taking place in the context of higher than average credit growth in most countries, which has contributed to overall inflationary pressures—monetary tightening may be a feasible policy choice given the signs of overheating.3 In Eastern Europe and Central Asia, several countries are making a gradual recovery from the financial crisis and any monetary tightening will need to take the state of the financial sector and growth into account.4 On the external front, net importers of food, fuel, and other commodities are the most vulnerable, especially those with large current account deficits and/or low reserve cover.

Low- and low-middle-income countries have experienced higher food inflation rates, especially when commodity prices spike. Data from 46 countries for 2007–10 suggest that low- and low-middle-income countries have experienced higher levels of food price inflation compared to upper-middle- and high-income countries, particularly when international prices spike. The gap between the two sets of countries in average food price inflation was around 5 percentage points in 2008 and 2010 (figure 6). One explanation is that food marketing channels in poorer countries are unable to absorb large fluctuations in commodity prices, whereas larger retailers in wealthier countries have larger margins partly because food commodity prices constitute a small share of the price of processed foods. Another explanation is that governments in poorer countries have a limited ability to cushion domestic consumers from price increases in international markets.

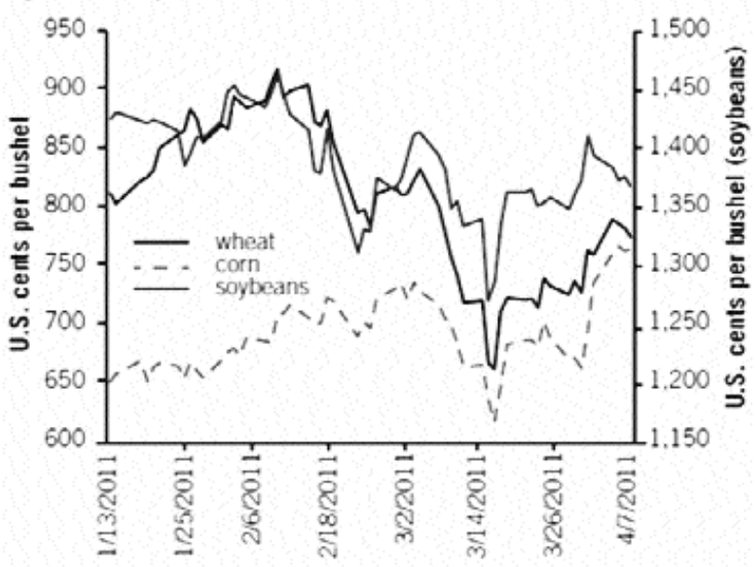
Figure 3: Production, Consumption and Stocks-to-Use Ratio



Source: "Responding to Global Food Price Volatility and Its Impact on Food Security," Development Committee Paper (2011).

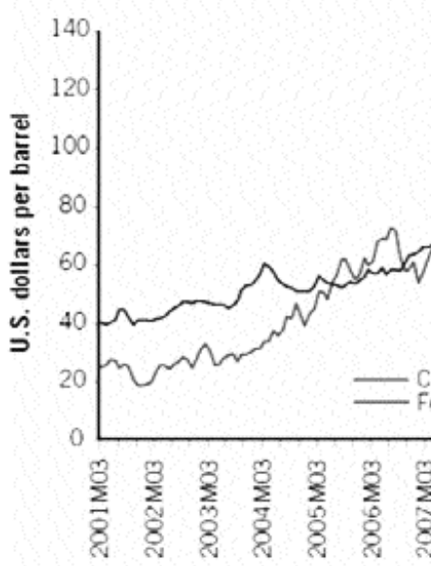
The continuing upward trend in global maize prices reflects a combination of factors. First, global stocks are low by historical standards, exacerbated by drought-related production shortfalls in Argentina and the United States. Stocks in the United States, the world's number one exporter, are at their lowest levels in 30 years. Second, price pressures also remain due to uncertainties about the levels of Chinese imports in 2011 and the outlook for the new corn crop in the United States. Third, higher crude oil prices increase the demand for corn-based biofuel production, and higher sugar prices have increased the demand

Figure 2: Soybean, Wheat, and Corn Futures



Source: Chicago Board of Trade. The plotted prices are closing prices for each day of trade and correspond to May 11 delivery.

Figure 4: Food and Fuel Price Tren



Source: Adapted from DECPG data.