Factors contributing to higher food commodity prices

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National Food Policy Conference
Oct. 4, 2011
Food commodity prices since January 1980: Reversal of a 22-year downward trend

Index: January 2002 = 100

Source: International Monetary Fund: International Financial Statistics
Food-commodity prices since January 2002: an upward trend, plus two spikes

Index: January 2002 = 100

Source: International Monetary Fund, International Financial Statistics
Factors contributing to higher food commodity prices

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Shifts in global supply and demand pushed up prices

Long-term trends & short-term shocks contributed in different ways:

- Long-term trends in supply and demand led to gradually tightening world markets over the last 2 decades –
- and to upward trending prices since 2002.

The resulting reductions in global stocks and stocks-to-use ratios set the stage for:

- Short-term shocks & disruptions further restricted world food commodity supplies and raised short term demand –
- and led to price spikes in 2007/08 and 2010/11.
Evolution of long-term trends contributing to higher prices

- Developing country economic and population growth led to increased food demand
  - Growing middle class, increased urbanization, diet diversification
- Slower growth in ag productivity
- Depreciating U.S. dollar
- Higher crude oil prices
- Biofuel production: USA, EU, BRA, ARG, CAN, et.al.
- Increased demand for biofuel feedstocks

Above factors led to rising food commodity prices, but did not directly cause the price spikes
Evolution of short term shocks that resulted in the price spikes (2007/08 & 2010/11)

- Adverse weather reduced world crop production – and further reduced world stocks and stocks-to-use ratios.
- Sharp changes in macroeconomic factors:
  - Dollar dropped quickly – then recovered quickly.
  - Sharp spike in crude oil prices (up, then down).
- Some exporting countries restricted shipments (export quotas and export bans), further reducing importer’s access to food commodities.
- Anxious importers facilitated consumption (lowered tariffs, raised food subsidies), and increased forward contracting of their import needs. These actions increased short-term demand.
Primary factors affecting crop prices

Index: January 2002 = 100

- Crude oil price, $ depreciation
- Biofuels
- Economic & population growth, percap meat consumption
- Weather
- Large production; world recession
- Resurgent Econ Growth
- Policies

 Declining global stocks:use ratio

Increasing Stock:use ratio

Declining S:U ratio & policies

14-crop monthly price index: Wheat, rice, corn, & soybean prices, weighted by trade shares.

Source: USDA/ERS calculations based on IMF: International Financial Statistics
Corn, wheat, rice, and soybean prices projected to remain historically high

Corn, wheat, rice, and soybean prices projected to remain historically high

Source: USDA Agricultural Baseline Projections to 2020, February 2011.
Livestock Prices

$ per metric ton, Nominal, U.S. markets

Beef cattle: Choice steers, Nebraska

Broilers: 12-city market price

Hogs: National base

Projections made November 2010

Source: USDA Agricultural Baseline Projections to 2020, February 2011.
Near-term factors that may influence future ag prices

- Weather
- Global ag production
- Stock levels (Supply & demand balances; stocks policies; self-sufficiency policies)
- Policy changes by food commodity exporters & importers
- Exchange rates (Esp. for commodities denominated in dollars)
- Energy & other non ag prices / Ag production costs
- Economic growth
- Import demand: Who will be the importers? (Role of foreign exchange reserves)
Related reports and contacts

Why Have Food Commodity Prices Risen Again?

USDA Agricultural Projections to 2020
http://www.ers.usda.gov/publications/oce111/

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