

Consumer Food Prices Remain High In 2009

Contributed by Euromonitor International
Thursday, 08 October 2009
Last Updated Thursday, 08 October 2009

International food prices fell sharply in 2009 from the peak reached during the 2007-2008 food price crisis.

However, consumer food prices have remained well above their 2007 levels.

High food prices hit poor households hardest, especially in developing countries where consumer expenditure on food accounts for a large proportion of total spending.

However, agriculture has proved more resilient amid the global recession than other sectors.

Key points

- After rising dramatically during the 2007-2008 food crisis, international prices of food have fallen sharply in 2009. The export price of wheat, for example, fell from US\$481 per tonne in March 2008 to US\$233 per tonne in July 2009.

Record harvests, weaker demand and lower fuel prices amid the global recession have helped to bring down prices of most agricultural commodities;

- Consumer food prices, however, remained higher in 2009 than in 2007, as price cuts have not been passed on to consumers. Currency volatility, low competitiveness in certain food markets, and the "ratchet effect", which makes prices adjust upwards more easily than downwards, contributed to keep food prices high;

- High food prices are a burden for consumers, especially in low-income households in emerging economies, who spend a large share of their income on necessities. As food remains costly, households spend less on discretionary items;

- While the 2009 global recession has led to the easing of food price inflation, it has also exacerbated the difficulties of food-importing countries;

- Sustained levels of high food prices could undermine political stability and threaten the business environment. The 2007-2008 food crisis led to riots and protests in numerous countries.

International food prices ease

- Agricultural commodity prices rose dramatically in 2007-2008 in what became a dangerous world food crisis.

Â

According to the United Nations Food and Agriculture Organisation (FAO), cereal prices rose by 95.8% between 2006 and 2008, and the oils price increased by 101.3% over the same period;

- The extreme rise was driven by several factors. Stocks of cereals fell because of prolonged droughts in food-exporting countries, and due to rising demand for meat in emerging economies as standards of living and incomes improved.

The diversion of food crops to biofuels also put upward pressure on cereals and oils, and affected the price of rice, meat and other food products. Some blamed the rise on speculative investments in commodity prices;

- In the second half of 2008 and early 2009 these trends reversed. Record harvests of agricultural products eased supply, while demand fell amid the global recession. The decline in oil prices lowered operational costs and the demand for biofuels;

- According to figures from FAO, by July 2009 the international export prices of meat and dairy products fell to their 2007 levels or below.

Yet some commodity prices remained higher: rice (white rice, Thai 100% B second grade) and sugar were 74.1% and 80.6% higher than their July 2007 price respectively, while soybeans were 36.8% more expensive;

- Agricultural exporters have suffered from falling prices. In New Zealand, where agricultural exports made up 11.4% of GDP in 2008, dairy farm sales dropped by an annual 27.0% in the year to June 2009.

Agricultural exports are also vital to the economies of Vietnam (11.6% of GDP in 2008), Costa Rica (9.6% of GDP), Ecuador (9.6% of GDP) and Argentina (7.3% of GDP).

Yet in certain aspects, the agricultural sector has proved more resilient to the economic downturn than other sectors:

- Most economic sectors suffer from difficulties in obtaining credit, as a result of the financial crisis. Yet according to a 2009 report by FAO/OECD, most farmers in USA, Western Europe, Chile and Argentina have not suffered a decline in credit availability.

In most developing countries credit is not an issue for farmers as the use of bank loans for agriculture is not common. Trade credit, however, was reported to have tightened;

- Consumer expenditure on food is less discretionary than other categories of spending and is likely to be least affected by the recession. During recessions, consumers change their food shopping habits, with a greater tendency to eat at home and for low-cost products. The demand for food continues even during recessionary periods.

Â

Consumers still pay high prices

However, consumer food prices remained high in most countries in 2009, especially in the developing world:

- According to a survey by the UN Food and Agriculture Organisation (FAO) in 58 developing countries, 77.0% of wholesale and retail cereals price quotations in July 2009 were more than 25.0% higher than July 2007 prices;

- Food prices did not fall in developed economies either. National statistics show that in May 2009, US consumer food prices were 2.7% higher than in May 2008. In the UK, food prices were 5.4% higher year-on-year in May 2009, while in the eurozone prices fell by merely 0.2% annually in May 2009;

- Consumer food prices remained high because of the "ratchet effect" of prices in the food market, with prices adjusting upwards more easily than downwards.

In some cases, domestic price cuts lag behind international prices due to transport delays. In other cases, lack of competitiveness makes it possible for wholesalers and retailers not to pass on price reductions to the consumer;

- Some of the rise in consumer food prices in 2009 is due to currency devaluation. Amid the global financial crisis of 2008-2009, many currencies depreciated, making food imports more expensive. Foreign exchange volatility affects mainly countries that import a large share of their food.

High food prices affect consumers:

- High food prices hit poor consumers hardest, who spend a large share of their income on necessities. This is especially true to consumers in developing countries.

In Brazil, Russia, India and China (BRIC), consumers spent on average 29.3% of their total expenditure on food in 2008, compared with 11.8% of consumers' expenditure in the EU.

Spending more on food leaves households with less to spend on discretionary items, such as durable goods;

- The fact that food prices remained high fuels fears of inflation. With the price spikes of 2008 still fresh in their memory, consumers are worried about the return of inflation and are more likely to save than to spend.

Social and political instability

- The 2007-2008 food crisis led to mass protests and riots over the prices of staple cereals and bread in many countries around the world, including Egypt, Mexico, Cameroon, Morocco, Yemen, Indonesia and Senegal.

As consumers felt the burden of higher prices they took to the streets, increasing the risk of doing business in those countries;

- Governments and international bodies reacted to the crisis by increasing aid and subsidies, and taking protectionist measures. The USA increased its humanitarian aid by 42.5% annually to US\$4.4 billion in 2008.

Governments in India and the Philippines introduced bans and taxes on rice exports, while Egypt and Morocco increased food subsidies and raised public sector wages.

While trade protectionism and subsidies can have distorting and harmful long term effects, these measures proved useful in the short term to prevent social crises;

- While the severity of the crisis has eased, global hunger is on the rise as food prices remain high. According to FAO's estimates, in June 2009 hunger reached an unprecedented scale with a record 1,020 million undernourished people around the world, 100 million more than in 2008.

The largest percentage increase annually in 2008 in the number of undernourished people occurred in the Middle East

and North Africa at 13.5%;

- Amid the global recession in 2009, governments have fewer policy options to mitigate high food prices. Emerging economies are less able to increase subsidies. International aid from the developed world is also expected to slow.

Prospects

- The IMF expects the global economy to contract by 1.4% in 2009 and resume growth in 2010. FAO and the OECD expect the agricultural sector to prove more resilient to the downturn than other sectors.

Between 2009 and 2018, most farm commodities' prices are expected to remain above their 2006 levels in real terms;

- Some economists fear that a global economic recovery could involve a resumed run-up in commodity prices. Oil prices have already rebounded from below US\$40 per barrel in December 2008 to above US\$70 per barrel in August 2009.

Episodes of extreme food price volatility similar to the 2008 crisis cannot be ruled out, as agricultural prices have become increasingly linked to energy costs and adverse climatic conditions;

- High food prices would benefit economies in which agricultural exports make up a large share of GDP, such as Vietnam, New Zealand, South American countries and Thailand;

- Yet increases in food prices would harm consumers, especially in low-income households. It could also harm the economic recovery and undermine political stability;

- The global community is aware of the challenge. In the July 2009 G8 summit, leaders pledged US\$20 billion to boost food aid to poorer nations, US\$5.0 billion more than expected.

For further related articles, please visit [Euromonitor International](#) .

11th Sep 2009