

Special Report: Record Global Food Prices Impact Business And Consumers

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The world is facing the challenge of a new food crisis as global food prices have been rising significantly since late 2010.

This is due to tight supply caused by strong demand and bad weather conditions in major agricultural producing countries.

While high food prices will benefit agricultural exporting countries, they will burden consumers, especially in low-income households. Rising food prices would also harm global economic growth and undermine social and political stability.

Key points

* After an ease in 2009 as result of weaker demand and lower fuel prices, global food prices have increased sharply again since late 2010. The United Nations Food and Agriculture Organisation (FAO)'s Food Price Index – a benchmark basket tracking the wholesale cost of 55 agricultural commodities – rose to 231 points in January 2011, the highest level since 1990, from 180 points in January 2010;

* The main reason behind the new price hike has been an unexpected shortage of food supply. Bad weather conditions have destroyed major crops in the world's key food producing countries including Australia, Russia and the USA. In January 2011, the price of wheat stood at US\$327 per metric ton, significantly up from US\$158 in June 2010;

* Rising oil prices, currency fluctuations and countries' policy responses are contributing to push global food prices higher. In addition, rapid population growth, a shortage of water and farmed land as well as changes in diet brought by wealth and urbanisation will continue putting an upward pressure on food prices;

* Rising food prices are reducing consumer disposable income, with poor consumers being hit hardest as they spend most of their income on essentials including food. Consumers in emerging and developing countries spent 20.1% of their total expenditure on food in 2010, compared to only 10.5% of consumers' expenditure in the developed world;

* While food-exporting countries such as Thailand, New Zealand and Argentina will benefit from higher food prices, net food-importing countries such as Egypt will suffer from higher import bills and rising trade deficit, thus affecting the countries' macroeconomic condition. Rising food prices will also result in higher inflation, more poverty and social unrest.

Prospects

The global economy is forecast to grow by 4.4% in 2011, slightly down from 4.8% in 2010. Rising food prices, however, will continue posing a major challenge to global food security and thus economic development:

* Global food prices are estimated to stay high at least in the short term until the next harvests in mid-2011, whereby the size of the crops will be critical to stabilise the international agricultural markets. Further supply shocks could result in higher food price volatility;

* Generally, the global food system is becoming more vulnerable to extreme price movements. This is due to soaring food demand, a rising dependence on international trade to meet food needs and a growing demand for food commodities from other sectors such as energy. In addition, climate change will lead to more frequent extreme weather conditions, affecting agricultural production;

* Rising food prices will continue to have negative impacts on consumers, especially on poor households in developing countries. A long period of high food prices could affect economic growth, even in the world's fast-growing economies such as China and India. Real GDP growth in China and India is forecast to decline to 9.6% and 8.4% in 2011 respectively, down from 10.3% and 9.7% in 2010;

* The new surge in international food prices has raised the global community's concern on a new food crisis and triggered policy responses to stabilise the markets. The EU planned in February 2011 to cut import duties on important agricultural commodities including wheat and barley as well as to allow additional sugar imports.

Thailand, the world's largest rice exporter, affirmed that it would maintain the country's 2011 rice exports to the same level as in 2010. In Egypt, about 85.0% of the country's bread is subsidised by the government.

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3 March 2011