Recent Food Price Trends

Jomo Kwame Sundaram
Coordinator for Economic and Social Development
Food and Agricultural Organization

International Conference on
Food Price Volatility: Causes and Challenges
Rabat, Morocco
25-26 February 2014

Poverty still mainly rural

- 70~75% of developing country poor rural (1/2 popn)
- Most poor still rural in years to come
- Poverty eradication needs reducing rural poverty
- Decline in rural poverty has slowed in recent decades
- Addressing rural poverty cuts urban poverty by reducing migration
- Reducing rural poverty mainly involves raising incomes, productivity -- unlike urban poverty which involves more social (welfare) protection

Agriculture key to poverty eradication

- Agricultural growth reduces poverty 5 times more than non-agricultural growth
- Role of agricultural growth in reducing poverty greater than in driving economic growth
- More productive agriculture limits food price increases, improves purchasing power of all
- Rural growth reduces both rural, urban poverty, while urban growth does little to reduce rural poverty
- No other sector has such a strong correlation between productivity growth and poverty reduction

Agricultural development → poverty reduction

Through:

- higher rural incomes
- cheaper food
- non-farm economic opportunities
- sustaining economic transformation

Policy space to end hunger

- To increase support for family farms while keeping food prices affordable to poor, revision of WTO rules on agricultural price support necessary

Revising WTO provisions

The following should be considered:

- Account for food price inflation
- Reduce disparities in allowable agricultural support levels between North and South
- Exempt restrictions for procurement on grounds of: (1) food security, (2) support for poor producers
- Ensure procured food stocks only used to mitigate domestic market volatility, not international markets

Speedy, pragmatic, equitable resolution of problem → enhance food security, support family farms → expedite acceptable Doha Round conclusion

Trade liberalization effects

International terms of trade moving against developing countries

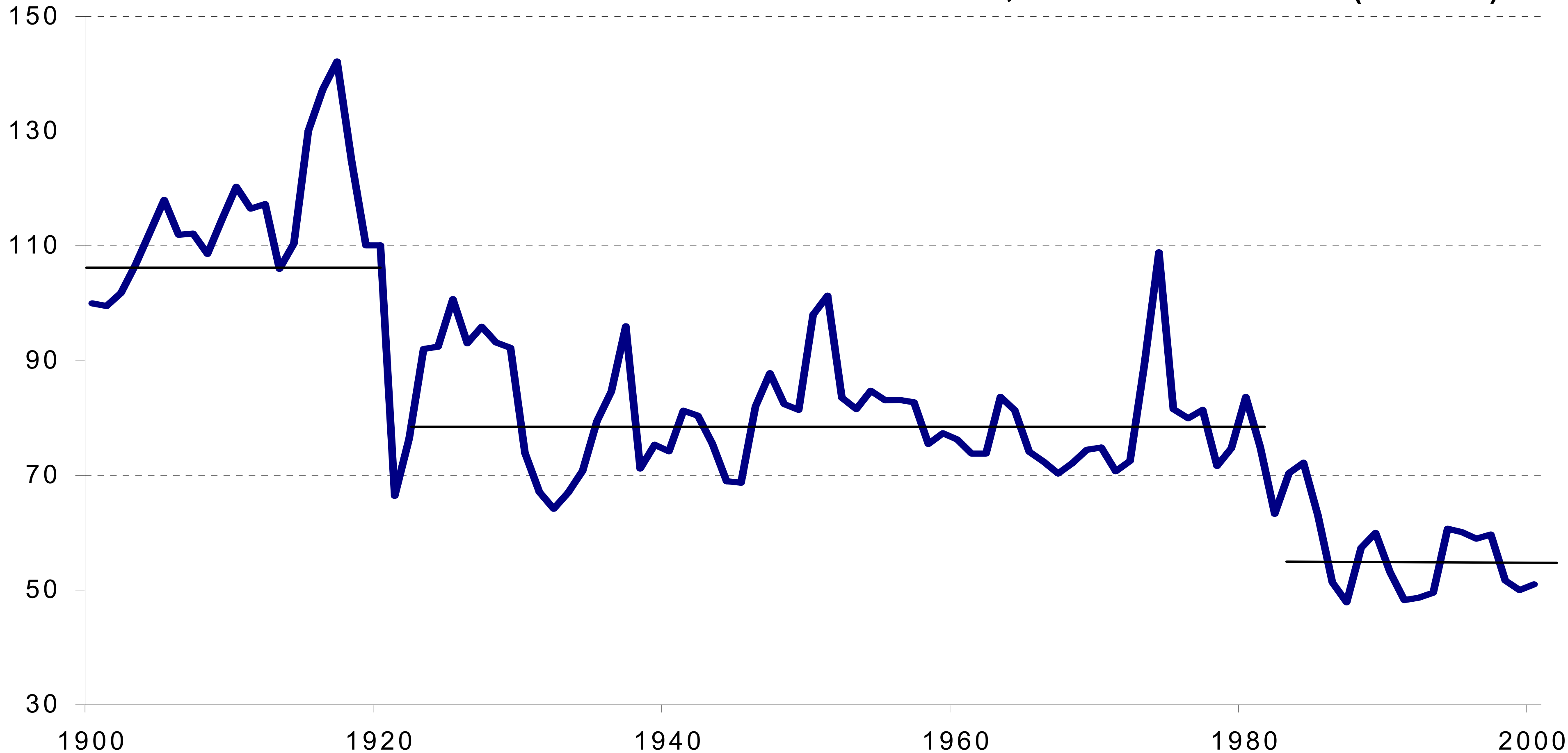
- Primary commodities vs. manufactures
- Tropical vs. temperate agriculture
- South vs North manufactures

  Generic manufactures vs monopolistic manufactures protected by intellectual property rights?

- Immiserizing growth?

Commodity prices decline

Figure 1
AGGREGATE REAL COMMODITY PRICE INDEX, EXCLUDING OIL (GYCPI)

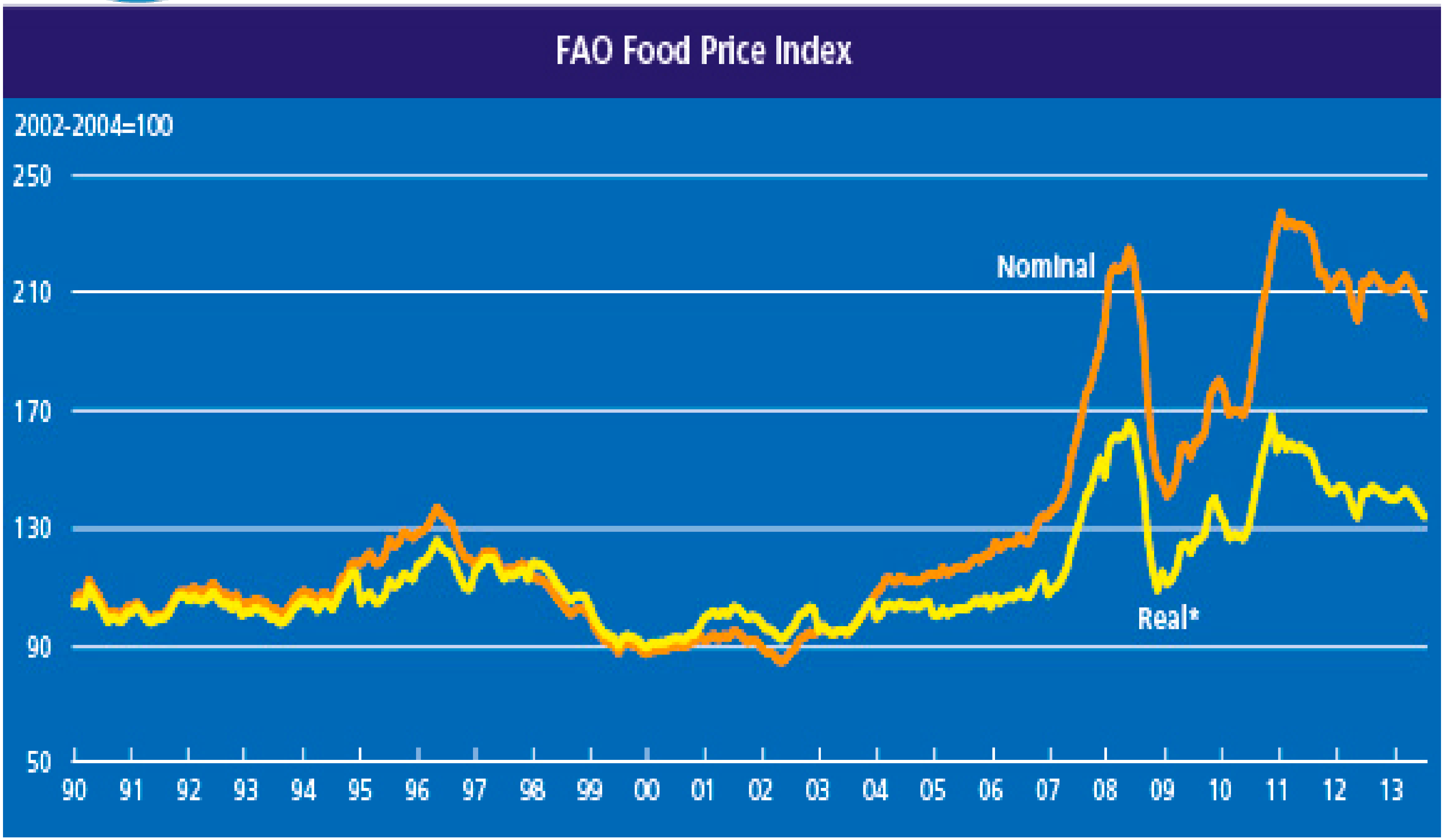


Grilli and Yang (1988); Ocampo and Parra (2003).

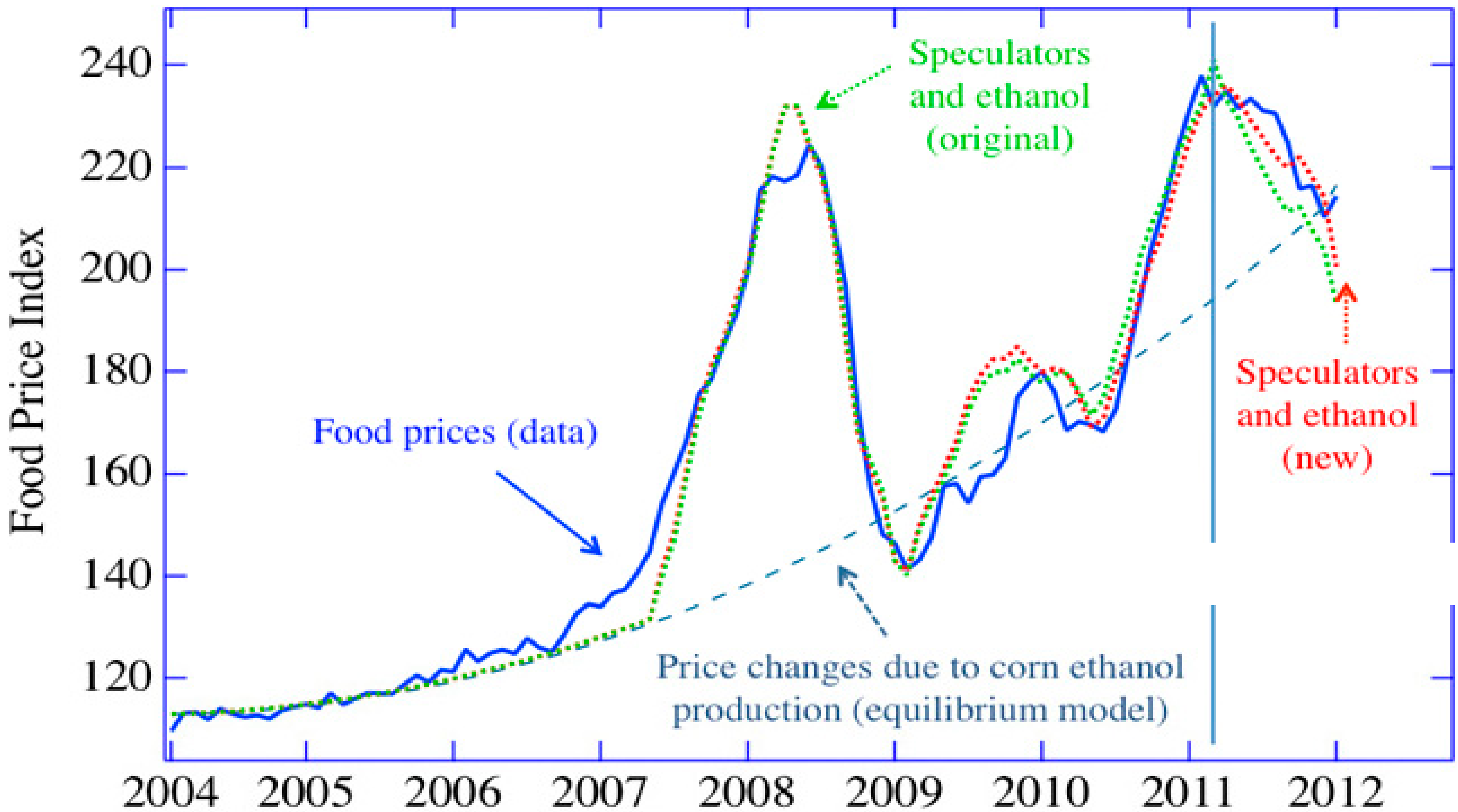
Higher recent food prices

- Last decade: rare opportunity for many developing countries – including SSA, LDCs – to generate substantial financial resources from higher primary commodity exports for investments and growth
- More minerals than agriculture
- Recent food price increases due to:
- slower supply growth
- growing, changing demand
- biofuel mandates, subsidies
- much more financial speculation

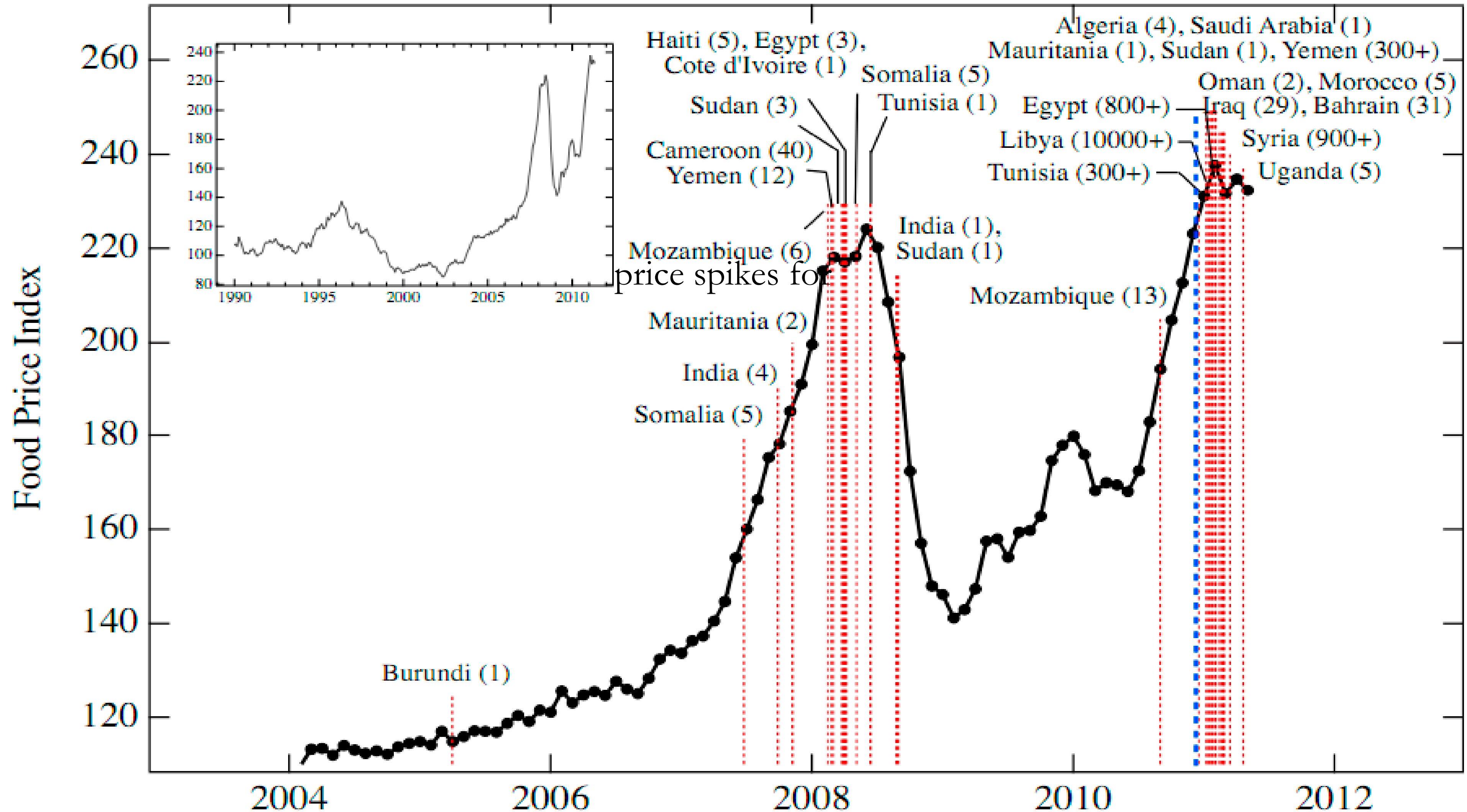
Food prices rise, more volatile after 2006



Biofuels, speculation

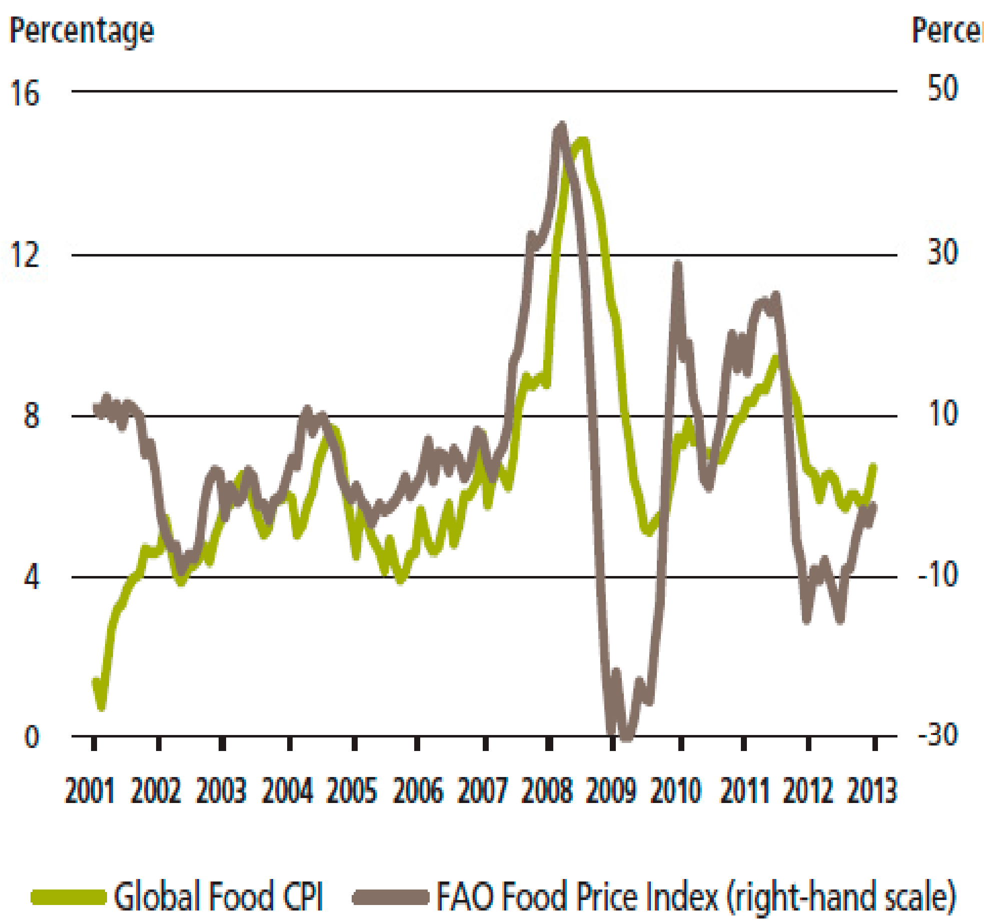


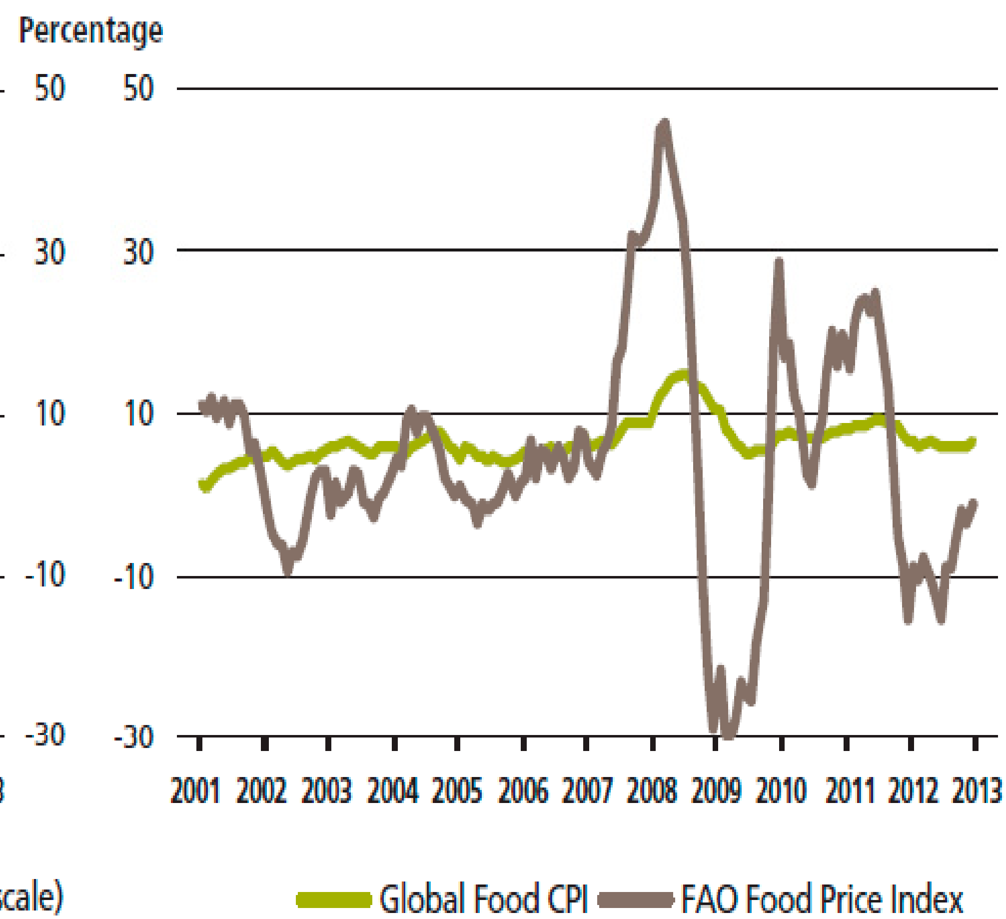
Higher prices → unrest



International price volatility not fully transmitted

Changes in consumer prices of food much smaller than changes in international and producer prices, and significantly delayed





Recent food price trends

Cereal prices declined during 20CH2
Food prices rose from 2006, especially 2007-2008
Food prices rose again during 2010-11, then in 2012
Greater price volatility not well captured by trend data, but affects farm investment decisionmaking

Major immediate causes

<u>Of higher cereal prices:</u>

- Bio-fuels
- Oil price spikes

<u>Of greater cereal price volatility:</u>

- Oil price volatility
- Financialization → New financial assets → More investments, speculation
- Financial crisis → Asset diversification

Reduced government role

- Less govt invt in agriculture
- Less support for agriculture (WTO)
- Less govt agricultural research
- Less govt agricultural extension
- Economic deregulation
- Less food price controls

Supply constraints

- Environmental degradation
- Climate change: ecological, other impacts
- Farmland, soil fertility, land use changes
- Desertification, water loss
- Deforestation
- Over-fishing

→ slower food supply growth

Demand growth

- Food waste, losses
- Food security → more stocks
- Population increase
- Income increase
- Changing consumption
- Excessive consumption
- Aquaculture: more demand for fish food
- Growing demand for meat
  → more food for animal feed

Higher prices → hunger

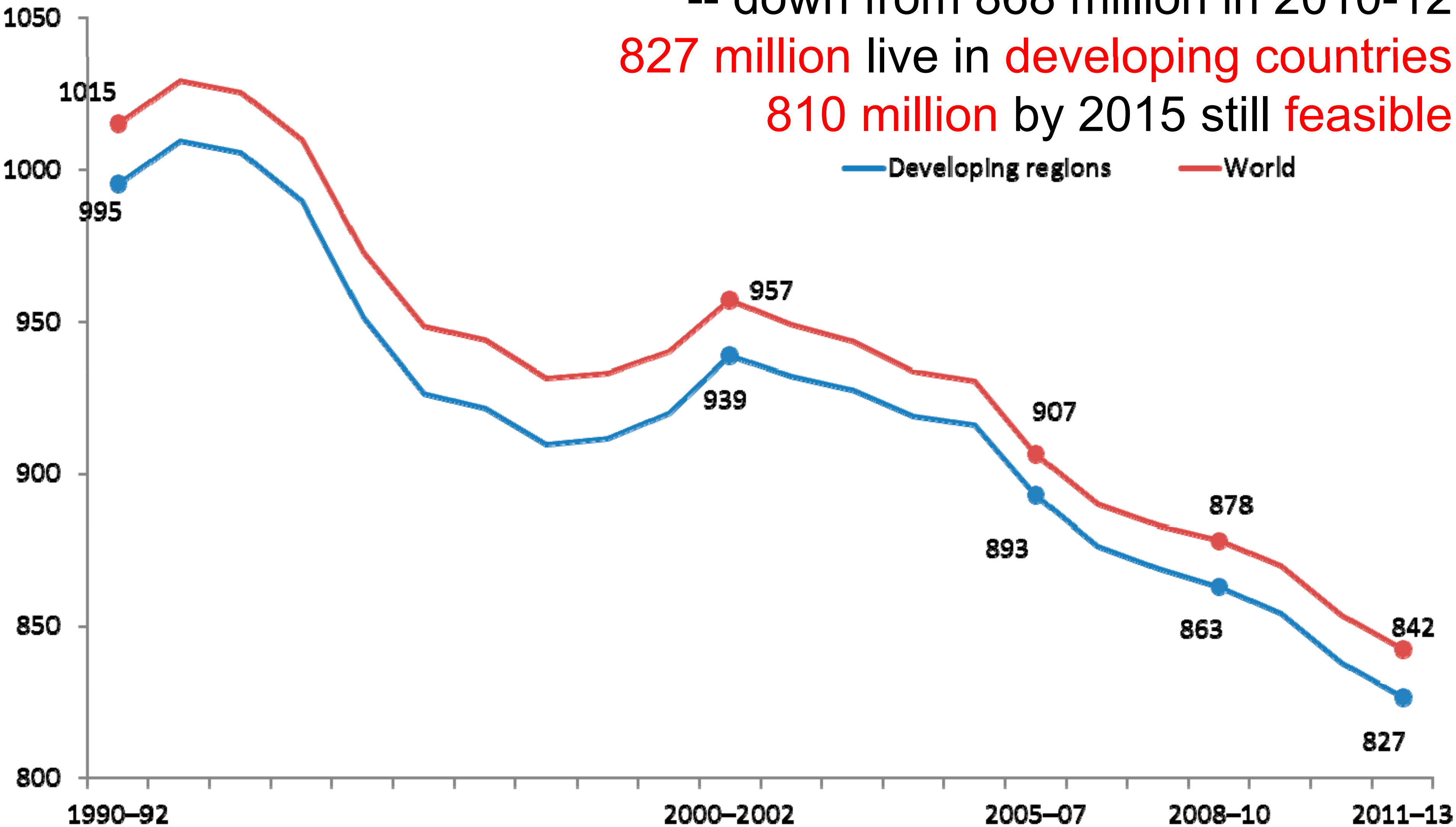
- Lack of food rarely reason people go hungry
- Price levels much higher than before 2006
- Poverty MDG1a achieved in 2010, hunger MDG1c not yet

Poverty and Hunger

- Poverty line supposed to be defined by income level to avoid being hungry
- But poverty rate has declined much faster than hunger rate since 1990
- WB: MDG1 for poverty achieved by 2010
- Hunger declined until @ 2006
- FAO: hunger MDG1 only achievable with much greater international cooperation

Hunger declining slowly

At least 842 million people in chronic hunger in 2011-13
-- down from 868 million in 2010-12
827 million live in developing countries
810 million by 2015 still feasible



Slower progress since 2006

Long-term cereal price decline ends

- Bio-fuel mandates, subsidies
- Economic growth in South → greater demand
- Easier credit → more financial speculation
- Food commodities → financial asset class
- Economic slowdown after 2008
- Climate change, weather → food production
- Resource and environmental constraints

Uneven trends

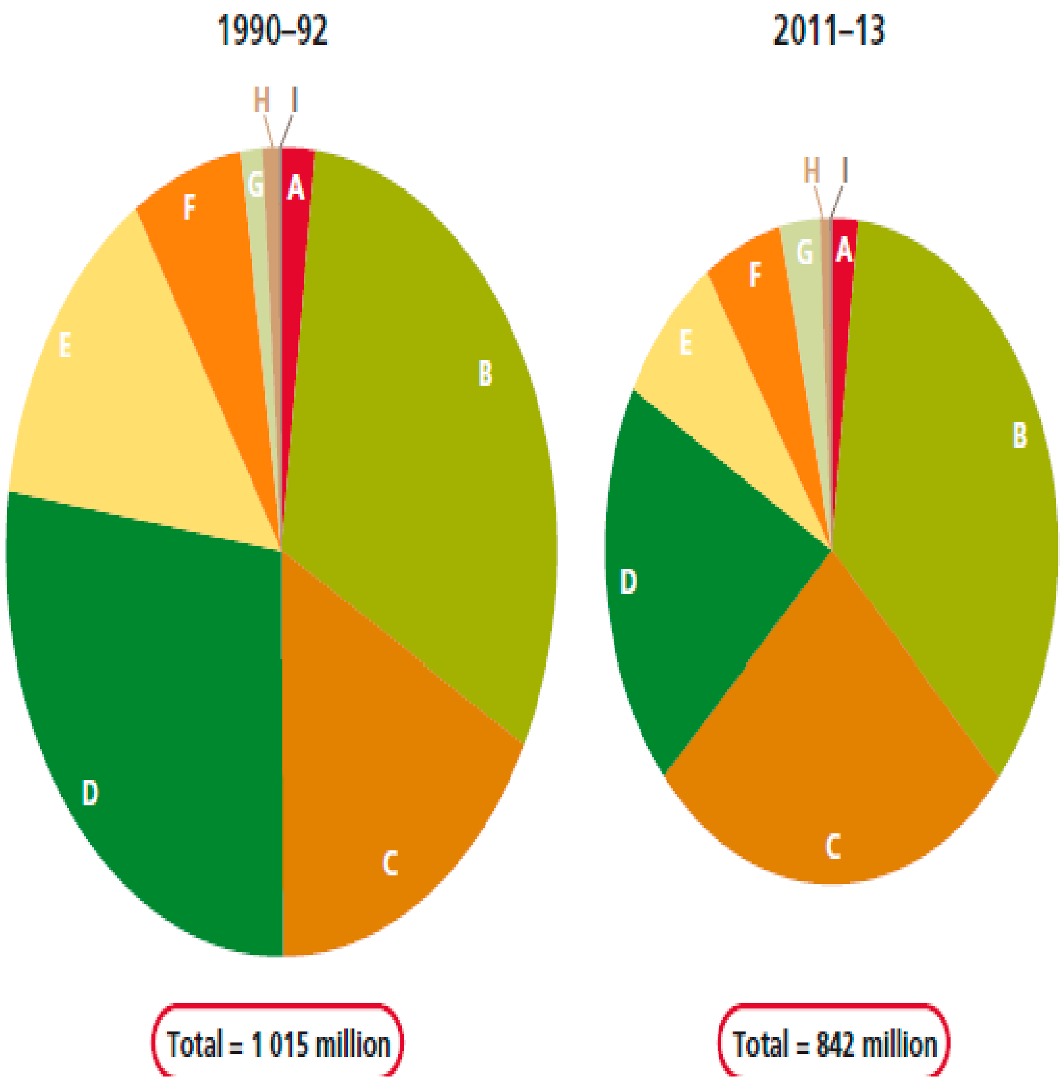
Over time

- Progress in 1990s with lower food prices
- Progress since due to economic growth

By region

- Progress mainly in East and SE Asia
- Also Latin America & Caribbean
- # of hungry increased in SS Africa
- Poor progress in Arab region, South Asia

Hunger by region, 1990-2013



	Number (millions) 1990–92	Number (millions) 2011–13	Regional share (%) 1990–92	Regional share (%) 2011–13
A Developed regions	20	16	2	2
B Southern Asia	314	295	31	35
C Sub-Saharan Africa	173	223	17	26
D Eastern Asia	279	167	27	20
E South-Eastern Asia	140	65	14	8
F Latin America and the Caribbean	66	47	6	6
G Western Asia and Northern Africa	13	24	1	3
H Caucasus and Central Asia	10	6	1	1
I Oceania	1	1	0	0
Total	1 015	842	100	100