

Food Inflation and the Cumulative Effects of Commodity Price Shocks

The drought in the US this summer coupled with a heatwave in Russia and extremely wet weather in the UK has raised concerns of another bout of rising food price inflation over the next few months. The UK media has run various features this week predicting higher food prices in the retail sector, including lead stories in the evening main news bulletins. This would prove to be the third price spike in the last few years from the commodity price spike in 2007-2008, to even higher prices in 2011, and now followed by possible further rises feeding through the food sector in the year ahead. The circumstances surrounding each of these commodity price spikes differ but they do serve to highlight the volatility that is now a common feature of world commodity markets.

Country	Food Price Index: 2011 compared with 2005
Austria	118.4
Belgium	117.8
Czech Republic	116.5
Denmark	120.3
Estonia	142.3
Finland	117.7
France	111.4
Germany	115.7
Greece	118.7
Hungary	153.1
Ireland	103.5
Italy	115.3
Netherlands	112.1
Poland	125.8
Portugal	107.3
Slovak Republic	118.4
Slovenia	128.6
Spain	114.5
Sweden	116.2
United Kingdom	134.3

Source: OECD

The volatility on world markets is, to varying degrees, fed through to food prices consumers have to pay. Given the recent events in world commodity markets over the last 5 or so years, what has been the cumulative effect of these events across the EU? The table above shows a remarkably varied experience. The data is benchmarked in 2005 and then we compare what the cumulative effect of food inflation has been by the end of 2011. For some EU countries, this has been fairly modest: in Ireland for example, food prices in 2011 were only 3 per cent higher than they were in 2005. For the UK, however, food prices had risen by 34 per cent over the last 6 years. Other EU countries show even more pronounced effects: food prices in Estonia have risen by 42 per cent while in Hungary they have risen by around 53 per cent over the last few years.

The experience for even those EU countries that have faced high levels of food inflation are moderate compared with some other countries, especially emerging economies. In Brazil, food prices have risen by around 50 per cent over the last six years, though in China they had risen by 60 per cent and in Russia close to 90 per cent.

Of course, not all of the rise in food prices may be related to what happens on world commodity markets (exchange rates, energy prices and labour costs may also matter) but they clearly are likely to be a dominant influence. The important challenge for research is to address why the apparently common shocks on world markets have a different cumulative impact-even in a closely-integrated economic environment such as the EU.

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