Box 4. An overview of forecasts of global food prices

Higher food prices were recently the major contributor to the inflation in Lithuania but their impact has weakened because of the decelerating growth of global food prices. Based on Food Price Index by the Food and Agriculture Organisation of the United Nations (FAO), global food prices for February 2011 were record high (exceeding the mid-2008 heights) with their annual growth rate fluctuating around 35 per cent. The rise in food prices was driven by short-term factors such as lower supply, more expensive energy resources, increased financial investment in food commodities, as well as long-term trends such as rising demand for biofuels and the demand for food products in emerging economies.

Afterwards, global food prices declined driven by improving supply and growing concerns about the expansion of global economy. Given the high level of uncertainty present regarding the growth of global economy, the development of food prices in nearest future remains quite unclear; therefore, it would be useful to overview the forecasts published by international organisations lately.

The table below contains forecasts for the development of prices of selected food commodities in 2012 compared to 2011, published by Bloomberg, Economist Intelligence Unit (EIU) and the World Bank. According to these forecasts, major commodity prices are expected to decline year on year substantially. EIU and the World Bank publish forecasts not only for specific commodities but also for commodity groups. According to EIU, prices for food products, feed, and beverages are expected to go down in 2012 by 12.5 per cent (15.1% for beverages, 12.8% for grains, 12.6% for sugar, and 9.8% for oils). The World Bank forecasts prices for food products to drop by 13.7 per cent (18.1% for oils, 11.3% for grains, and 8.8% for other food products), and for beverages by 13.2 per cent.

Table A. Forecasts for changes in food commodity prices (in US dollars) in 2012 compared to 2011

	The median forecast by experts surveyed by Bloomberg	EIU forecast	World Bank forecast
	Data available at: 21st December 2011	Date of the forecast: 14th December 2011	Date of the forecast: November 2011
Cocoa	2.3	–16,3	–11.5
Coffee	–19.1	–14.8	–16.7
Maize	–3.5	–8.5	–15.3
Soybean oil	9.6	–9.8	–23.7
Sugar	–14.0	–12.6	–17.2
Wheat	–3.4	–15.7	–12.5

Sources: Bloomberg, EIU, World Bank and Bank of Lithuania calculations.

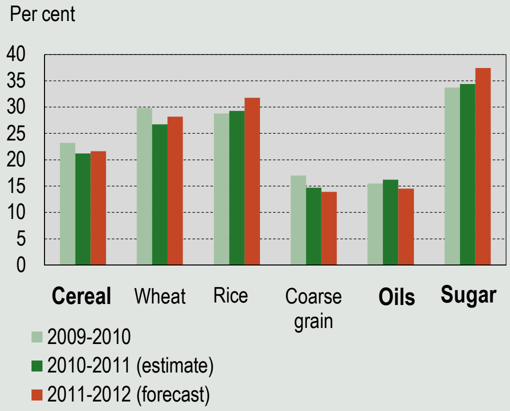
On average, the drop of food commodity prices in 2012 should not cause surprise as this is an average annual change calculated as the ratio of average price levels in 2012 and 2011. As indicated above, global food prices were record high in February 2011. Although afterwards they decreased, an average price level in 2011 was very high. Even with food prices staying stable, the average annual change would be negative in 2012. If we make an assumption that food prices remain unchanged, i.e. for the entire 2012 they stay at the level observed in December 2011, and calculate average annual changes in prices of food and its groups based on FAO Food Price Index, food index goes down about 7 per cent (a slight increase may be observed only in meat prices, while prices for other groups such as dairy, fats, sugar, cereals may go down by 9 to 12%). Nonetheless, such a decline in prices seems less pronounced compared to the forecast by EIU and the World Bank. Consequently, a certain decrease in prices (rather than stability) is expected in 2012.

According to the November Food Price Watch by World Bank, improved supply is expected to dampen the surge in global food prices. The forecasts of United States Department of Agriculture (December 2011) show global wheat stocks to reach a 10-year high in 2011/2012 season following a rebound in production in major producing countries such as Kazakhstan, Australia and Canada, and in the euro area. Similarly for other cereals: maize production is forecasted to increase because of higher production in China, Ukraine, Russia, and other countries, and rice output is also forecasted to increase on account of good harvest in India. Also, macroeconomic factors bode well for lower global food prices: concerns about the world economy, particularly in the euro area and US, have generally dampened demand, which is likely to lead to a decrease in global prices. Coupled with the decline in energy prices, declining global demand is also likely to lower the demand for ethanol, which grew fast in recent years. This may lead to lower use of maize and vegetable oils in the production of ethanol and biofuels. In addition, record high crops of maize in China and of rice in India, as well as Ukraine’s decision to end duties on grain exports will also contribute to dampening global price increase.

The stock-to-use ratio is an important measure in the food commodities market. It indicates a relative supply and demand balance of a given commodity, and change in that market if compared to previous year. When this ratio fells down to a critical level, a commodity price jump can be expected. The chart contains this ratio for selected commodity groups, taken from the Food Outlook for November 2011, a publication of FAO.

The stock-to-use ratio for wheat and coarse grains (cereals, excluding wheat and rice) contracted, but the same indicator for other product groups such as rice, fats, and sugar went up. FAO forecasts the stock-to-use ratio for wheat, rice, and sugar to increase in 2011/2012 (respectively by 1.5, 2.5, and 3.0 p.p.) but to decline in the groups of coarse grains and oils.

Chart A. Global stock-to-use ratio for selected products



Source: Food and Agriculture Organization of the United Nations.

Consequently, the supply and demand balance in case of rice and sugar is to be positive and the upward price pressure is unlikely. Record high wheat output in 2011 (global output is likely to grow by 6% in 2011/2012) will lead to higher stocks, thus stock-to-use ratio in 2011/2012 will be significantly higher than the 2007/2008 lows and five-year average level. Very good rice harvest in major producing countries will allow not only satisfying consumer demand but also boosting the stocks notably. For the second consecutive year, global sugar production is expected to surpass its consumption. Higher sugar output, attributed to significant expansion in crop area prompted by increasing prices in recent years, may weaken global sugar prices although demand for stock rebuilding is likely to provide some price support.

Regarding the groups of coarse grains and oils, the stock-to-use ratio is expected to go down. The share of coarse grains used for food is small. Although the demand for coarse grains is forecast to grow at a slower pace than predicted earlier because of its dependence on macroeconomic environment (especially in case of maize which is used for feed and fuel production), this will not help to restore the stocks.

Regarding the group of oils and fats, where soybeans and rapeseed are the major commodities, the growing demand (especially in Asian market, mainly in China) is likely to prompt a tightening in the supply and demand balance. Unlike in the previous two years, production is to be lower than consumption. As a result of decreasing stocks and growing consumption, the ratio of these two indicators is likely to lower below 15 per cent and come close to an especially low level observed during the food price jump in 2008.

The forecasts indicate that food prices are not likely to go up. However, they remain quite high at present time. Prices for some fertilisers remain much higher than a year ago, and uncertainties prevail in energy markets which are tightly related to food commodity markets (the growth of global economy is likely to decelerate, but potential oil supply disorders support concerns). According to the World Bank forecasts (November 2011), prices for energy and fertilisers, which are critical inputs for agricultural production, are likely to decline significantly in 2012 compared to 2011 (by 8 and 15% respectively). The previously discussed stock-to-use ratio is another potential factor for price volatility. Although for cereals a slight growth of this indicator is forecasted, it will not be large, and thus even small shocks can have significant effect on prices.