Higher food prices here to stay: analysts

AFP

by Paul Handley
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WASHINGTON (AFP) – From McDonald's burgers in the United States to sugar in Bolivia and chilis in Indonesia, food prices across the globe are soaring.

But consumers and governments should brace themselves for even higher prices, experts warn, as demand in populous emerging economies will put pressure on supplies for years to come.

A "perfect storm" of bad weather, rapid growth in emerging economies -- with people eating more higher-value, resource-intense food -- and low interest rates has sent prices for a broad range of farm and non-farm commodities climbing often at double-digit rates: from wheat to corn, cotton to rubber, and oil to boot.

And while it resembles the sharp spike in food and oil prices of 2007-2008, analysts say the current trend is less speculative in nature and not likely to end with a price collapse, as it did two years ago.

"Things were quite different in 2008... You had price spikes, it was a couple of food grains," said Chris Delgado, an agriculture specialist at the World Bank.

"What is going on now is more broadbased... It's not led by grains."

And it's widespread, and feeding into political worries, not just in the Middle East.

In Indonesia, where even the price of chilis has soared, the government suspended import duties on key food items after inflation hit an annual rate of seven percent in January.

In Bolivia, sugar is being rationed despite a 64 percent price hike.

In the United States, much higher meat prices are forcing restaurants from fancy steak houses to McDonald's to hike their prices, even though the pocketbooks of consumers remain tight.

On Thursday, the UN Food and Agriculture Organization said food prices have reached their highest level since it began measuring them in 1990, and pointed to the political problems that can spark.

"Not only is there a risk, but there have already been riots in some parts of the world because of rising prices," FOA chief Jacques Diouf said.

There is little relief in sight, say experts.

"I think commodity prices are going to be trending higher," said Gerard Lyons, chief economist for Standard Chartered Bank.

"What's interesting is that even commodities that aren't heavily traded are rising in price. ... That suggests this is fundamental, not speculators," he told AFP.

The 2008 commodity spike was only a handful of food grains plus oil, and driven in large part by political decisions amounting to hoarding and heavy trader speculation.

This year the problem is more fundamental: prices are being driven by growing demand from huge emerging economies like China, India, Russia and Brazil that is unlikely to slacken until prices get much higher, say analysts.

The World Bank's Delgado said that supply shocks are exacerbating the price hikes: weather and policy moves that have cut grain supplies from Russia, Argentina and Australia, among others.

But the trend is rooted in the fundamentals of soaring demand, say economists.

"More and more people are moving up the scale of income, so they tend to have higher value food," said Nariman Behravesh, chief economist at IHS Global Insight.

Lyons said there is not much relief on the horizon because of the time it takes farmers to expand acreage and production.

"It takes a long time, two to three years, for new supply to come on stream," Lyons said.

"I think commodity prices are going to be trending higher."

Commodity traders are saying the same thing.

Last week Morgan Stanley commodities specialist Hussein Allidina said key items like corn, soybeans and wheat still face strong upward price pressure -- with corn possibly going up another 20 percent from the current level of $6.60 a bushel before demand weakens.

"We see record tightness across the agriculture complex and believe that higher prices will be necessary to ration demand and incentivize acreage," he said in a report.

Behravesh said he thinks the problem is mainly a short-term one, more like 2008, and have limited economic impact overall.

But policy-wise, he said governments don't have many tools to bring down the cost of food and other commodities, especially if they are import-dependent.

Aside from pushing up interest rates to slow growth, said Behravesh, "There's not much central bankers can do about food prices."
