



Food security: markets update

No. 10, October 2011

Food Price Index down slightly, but food prices remain well above 2010 levels

Key Points

- The Food and Agriculture Organization (FAO) Food Price Index for September 2011 fell 2 per cent since August.
- Cereal prices remain high even though global cereal production is expected to increase to 2,310 million tonnes in 2011-12, an increase of 3 per cent from 2010-11.
- In Eastern Africa, cereal prices declined but remain two to four times higher than one year ago.
- The annual *State of Food Insecurity in the World* report predicts persistent volatility of food prices.

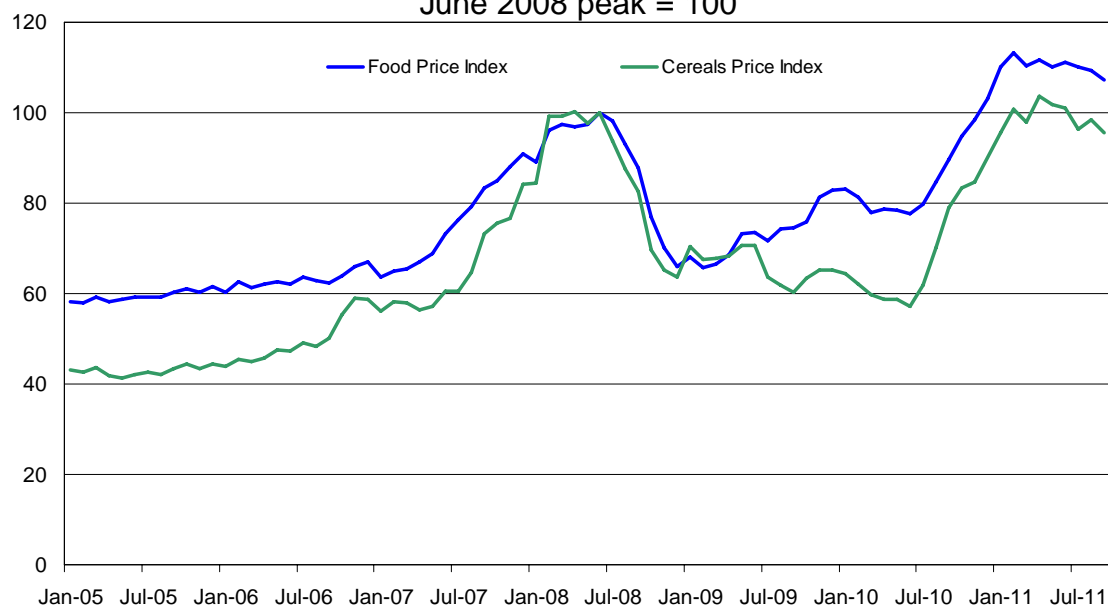
The FAO Food Price Index for September 2011 dropped 2 per cent from August 2011. Prices have fallen for the third consecutive month, but remain close to the peak of February 2011. International prices of all five major commodity groups (cereals, oils/fats, dairy, meat and sugar) declined slightly from August to September. The global economic slowdown is predicted to impact food prices.

International cereal prices fell 3 per cent in September 2011. Prices of wheat declined, reflecting seasonal increases in supply from the United States and the Black sea region, as well as India's decision to lift its four year old export ban. Rice prices increased by 6 per cent from last month, partly as a result of Thailand's recently announced rice procurement policy and despite India relaxing non-basmati rice export restrictions. Seasonal increases in supply from the United States and concerns about weakening demand due to the global economic slowdown are thought to have impacted maize prices which fell 4 per cent. The FAO expects global cereal production to reach 2,310 million tonnes in 2011-12, an increase of 3 per cent from 2010-11. The stock-to-use ratio for cereals is expected to remain low at around 21 per cent.

Eastern parts of the Horn of Africa are experiencing **the worst drought in several decades**. In Somalia, maize prices fell sharply in September with the arrival of seasonal harvests and international food aid, but are still four times higher than September 2010. High fuel costs are continuing to put upward pressure on prices.

Food prices remain high

June 2008 peak = 100





Oils and fats prices have been falling since March 2011 and are down 2.3 per cent from last month. However prices remain higher than long term averages. Strong production of palm oil in South East Asia and sunflower oil in the Black Sea region has helped lower prices.

Meat prices recorded a marginal drop in September, but are still 14 per cent higher than a year ago. Prices are expected to remain high because of rising production costs and low inventories. **Dairy prices dropped slightly in September**, but remain 10 per cent above prices in September 2010.

Sugar prices are down 3.8 per cent from August 2011, but just 5 per cent below the peak reached in July 2011. Better than expected production from Brazil the world's largest producer, as well as good production prospects in Europe, India and Thailand contributed to the easing of prices.

Crude oil prices fell in September. The West Texas Intermediate (WTI) crude oil price continues to be volatile, dropping below \$80 per barrel in early October before rebounding slightly in recent weeks. Prices have been trending down from a peak in April of \$112 per barrel. Prices are being influenced by lower expectations of global economic growth, supply disruptions because of ongoing unrest in oil-producing regions and contagion effects of the European debt crisis.¹

Sources unless otherwise stated: FAO (2011) *Food Price Index*, 6 October 2011 <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/>; FAO Crop Prospects and Food Situation, October 2011; FAO (2011) *Global Food Price Monitor*, 6 October 2011 <http://www.fao.org/gIEWS>

¹ US Energy Information Administration (2011) *Short-Term Energy Outlook*, October 2011

In Focus: The State of Food Insecurity in the World 2011

The State of Food Insecurity in the World is an annual report and this year published by the three Rome-based United Nations food agencies – the Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD) and the World Food Programme (WFP).

The report presents data on global food security, hunger and price trends. Each issue also selects a focus area for in-depth analysis. This year's report focuses on the effects of price volatility on food security and presents policy options to reduce and manage volatility. It also analyses the impacts that the world food crisis of 2006-08 had on different countries and the poor.

A key finding of the report is that price volatility is likely to persist due to many factors including increased demand from growing populations; climate change and increased frequency of adverse weather events; increased linkages between energy and agricultural markets due to growing demand for biofuels; and increased financialisation of food and agricultural commodities.

The report found that the world food crisis of 2006-08 affected the poorest the most. While some large countries were able to deal with the worst of the crisis, people in many small import-dependent countries experienced large price increases and volatility that, even when only temporary, had permanent effects on future earnings capacity and ability to escape poverty. Short-term price increases can lower nutrient consumption by young children which can have long-term, negative health and development impacts. Short periods of high prices for consumers or low prices for farmers can cause productive assets such as land and livestock to be sold at low prices, leading to potential poverty traps.

It argues that high food prices worsen food insecurity in the short term but can in the long-term provide an incentive for increased investment in agriculture. Restrictive trade policies implemented by some large developing countries during the crisis increased international food prices and price volatility.

The report recommends a number of measures to improve long-term food security:

- Increased private and public investment in agriculture to promote better farm management and improved use of irrigation, fertiliser and seeds to boost production and increase farmer profits
- Greater policy predictability and general openness to trade to reduce price volatility
- Safety nets to alleviate food insecurity in the short term, as well as for providing a foundation for long-term development.

Sources: FAO (2011) *The State of Food Insecurity in the World 2011: How does international price volatility affect domestic economies and food security?*