Food Price Inflation

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Consumer Prices: Historical Perspective
1970 to 2008

Source: U.S. Department of Agriculture. 2008 is a forecast.
Food price increase over previous 20 months
### Consumer Price Index for Food

<table>
<thead>
<tr>
<th>Item</th>
<th>Relative Importance</th>
<th>2007 Forecast</th>
<th>2008 Forecast</th>
<th>2009 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Price Indexes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Food</td>
<td>100.0</td>
<td>4.0</td>
<td>5.0 to 6.0</td>
<td>4.0 to 5.0</td>
</tr>
<tr>
<td>Food Away from home</td>
<td>44.6</td>
<td>3.6</td>
<td>3.5 to 4.5</td>
<td>4.0 to 5.0</td>
</tr>
<tr>
<td>Food at Home</td>
<td>55.4</td>
<td>4.2</td>
<td>5.5 to 6.5</td>
<td>4.0 to 5.0</td>
</tr>
<tr>
<td>Meat, poultry, fish</td>
<td>12.2</td>
<td>3.8</td>
<td>3.0 to 4.0</td>
<td>5.0 to 6.0</td>
</tr>
<tr>
<td>Eggs</td>
<td>0.9</td>
<td>29.2</td>
<td>13.5 to 14.5</td>
<td>2.5 to 3.5</td>
</tr>
<tr>
<td>Dairy products</td>
<td>6.4</td>
<td>7.4</td>
<td>8.0 to 9.0</td>
<td>4.0 to 5.0</td>
</tr>
<tr>
<td>Fats and oils</td>
<td>1.5</td>
<td>2.9</td>
<td>13.0 to 14.0</td>
<td>3.0 to 4.0</td>
</tr>
<tr>
<td>Fruits and vegetables</td>
<td>8.4</td>
<td>3.8</td>
<td>6.0 to 7.0</td>
<td>3.5 to 4.5</td>
</tr>
<tr>
<td>Sugar and sweets</td>
<td>2.0</td>
<td>3.1</td>
<td>4.5 to 5.5</td>
<td>3.0 to 4.0</td>
</tr>
<tr>
<td>Cereals and bakery products</td>
<td>7.4</td>
<td>4.4</td>
<td>9.0 to 10.0</td>
<td>3.5 to 4.5</td>
</tr>
<tr>
<td>Nonalcoholic beverages</td>
<td>6.7</td>
<td>4.1</td>
<td>3.5 to 4.5</td>
<td>3.0 to 4.0</td>
</tr>
<tr>
<td>Other foods</td>
<td>9.9</td>
<td>1.8</td>
<td>4.0 to 5.0</td>
<td>3.0 to 4.0</td>
</tr>
</tbody>
</table>

Source: U.S. Department of Agriculture
Factors

- Energy prices
- Macroeconomic factors (GDP, exchange rates)
- Weather
- Trade restrictions
- Biofuel policies
- Speculative activity
Domestic Ethanol Industry

tremendous growth in the last 3 years

billion gallons
U.S. Corn Use, 1990 - 2008

Feed & residual  Exports  FSI less ethanol 1/  Ethanol

1/ Food, seed, and industrial less ethanol.

P/ 2008/09 is a projection.
Impacts of Biofuels

• Impacts on corn and soybeans large
  – Corn: +30%
  – Soybeans: +40%

• Impacts on food prices vary:
  – Direct: HFCS, vegetable oil
  – Indirect: processed foods, livestock, dairy and poultry

• Food CPI:
  – ~10% of increase over past year due to increased biofuel production
Corn Use for Ethanol

![Bar chart showing corn use for ethanol from 2006/07 to 2011/12. The chart shows a steady increase in billion bushels.](chart.png)
Conclusions

• Food price inflation likely to remain high (at least relative to last 10 years) over the next few years
• Depend greatly on energy prices and corn/soybean supply
• Long run, yield growth will result in stock rebuilding => moderate prices
• Tight and volatile markets in near term