



PRESENTATION BY STEFAN TANGERMANN

AT THE FORUM:

**"MARKET LEADERS AND SCENARIOS
FOR THE 21ST CENTURY"**

March 13, 14 and 15, 2009
"Villa d'Este" – Cernobbio (Como)

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Consumers and Food Inflation: Will Global Food Prices Continue to Rise?



Confcommercio Forum 2009, Villa d'Este, 13 March 2009

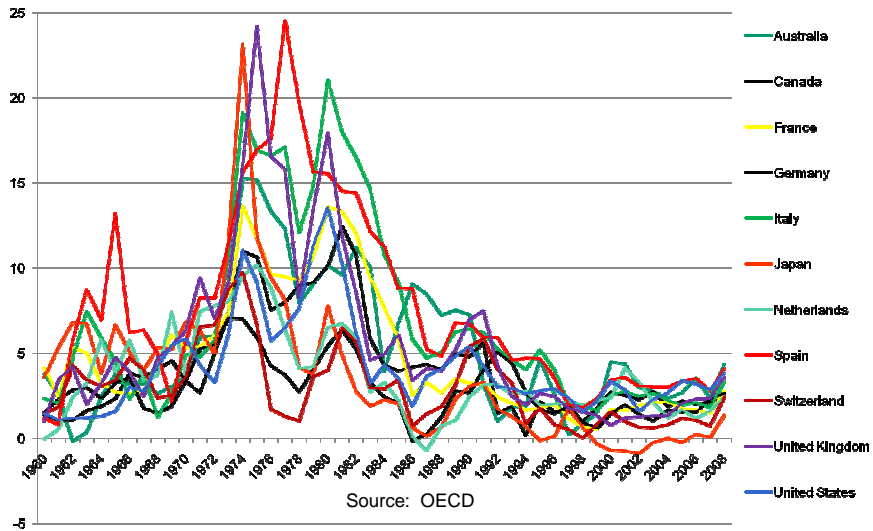
Food inflation: a new burden on consumers?



- What is the trend of consumer price inflation?
- The 2008 global food price explosion: what happened?
- Is world agriculture entering a new era?
- How will the financial crisis affect food inflation?

Inflation has declined, harmonized

Consumer price inflation, % per year

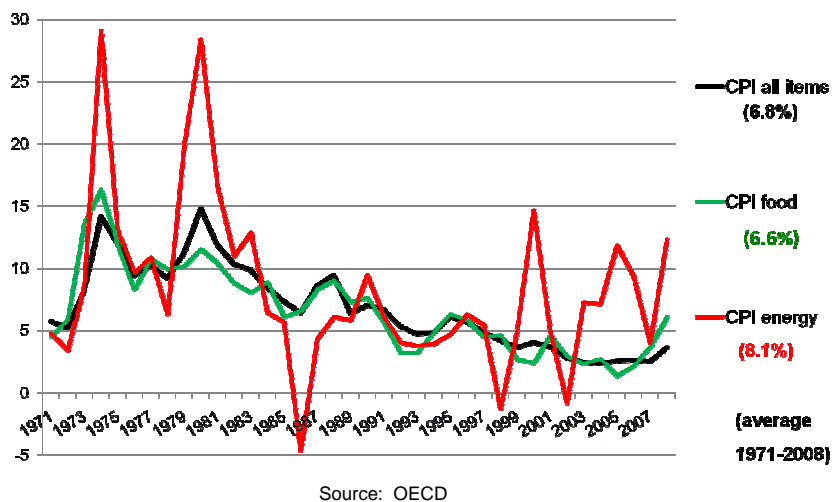


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Inflation rates in the OECD area

Consumer price inflation, % per year for aggregate of all OECD countries

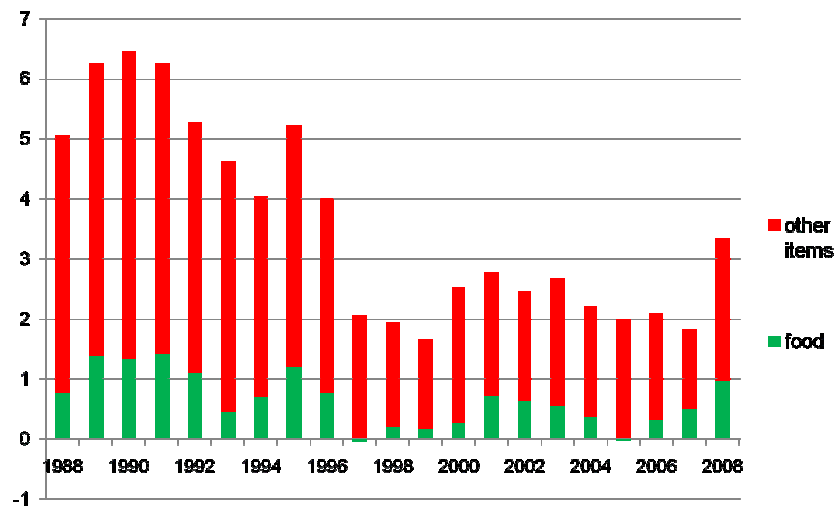


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Inflation rates in Italy: the contribution of food

Consumer price inflation, % per year

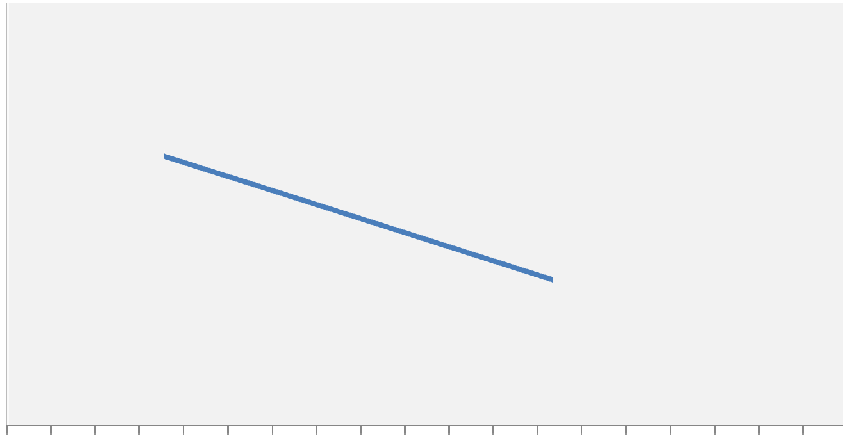


Source: OECD

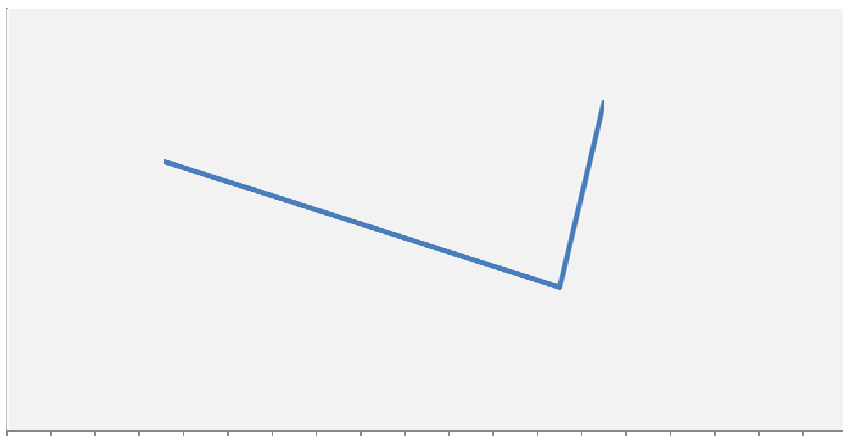
Interim conclusions (1)

- Inflation rates in OECD countries have declined
- Inflation rates have harmonized across OECD countries
- In the past, food prices have declined relativ to other prices
- More recently, food has added to inflationary pressures
- Some food prices have exploded in 2008

Cereal prices in real terms, schematic

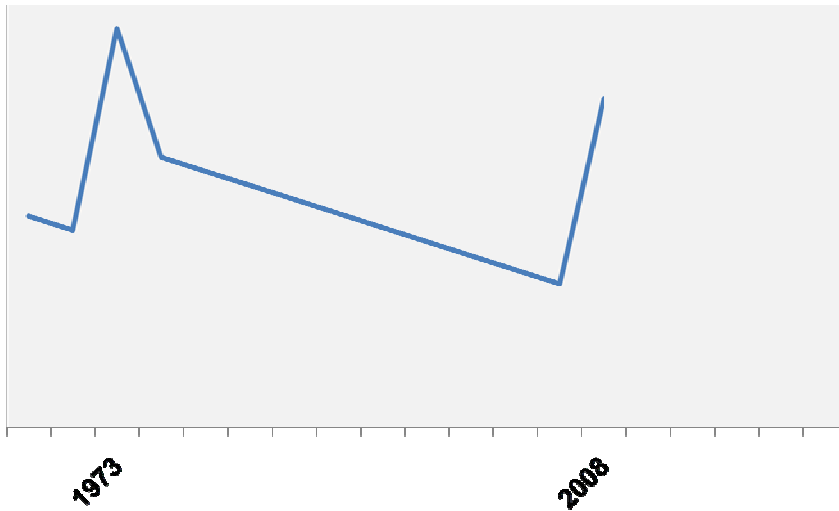


Cereal prices in real terms, schematic



2008

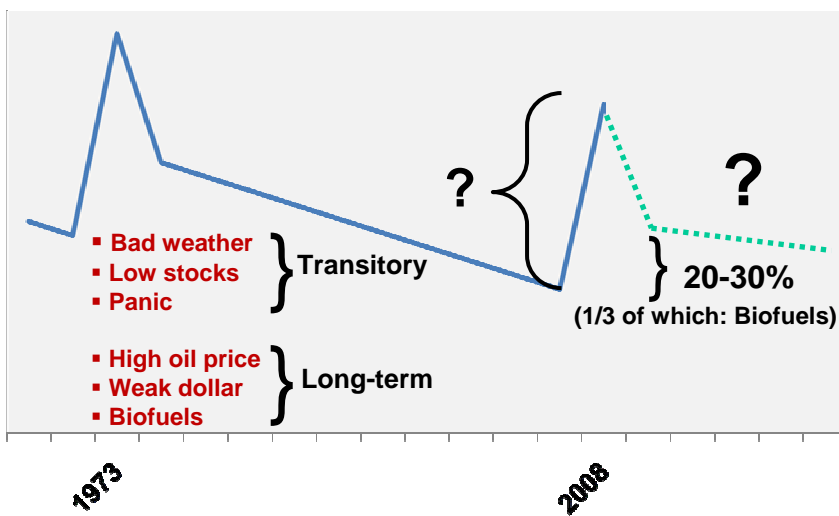
Cereal prices in real terms, schematic



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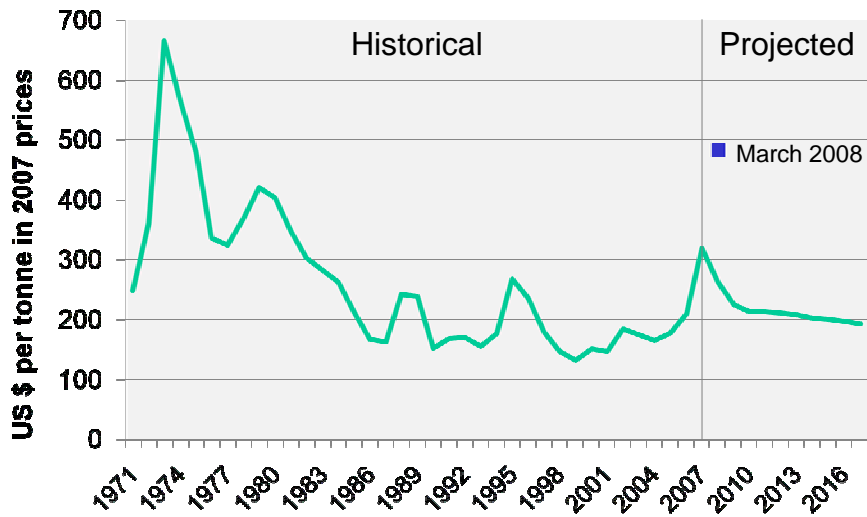
Cereal prices in real terms, schematic



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Wheat prices in real terms



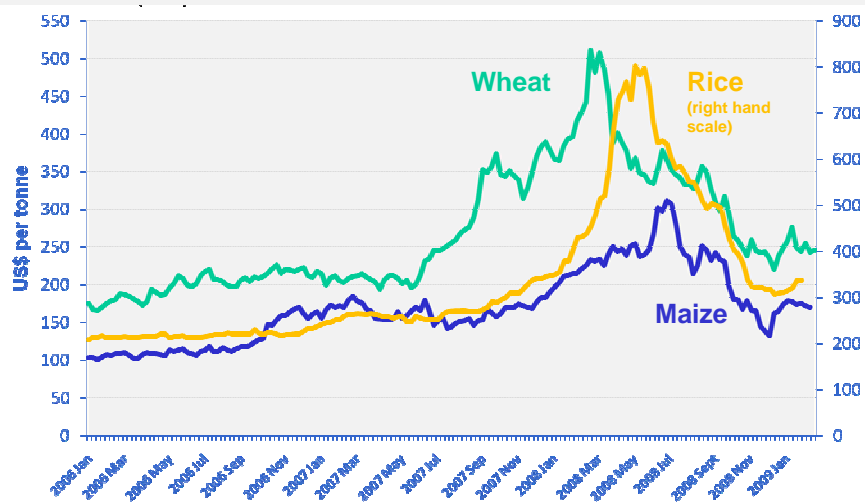
Source: OECD

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The bubble bursts

Weekly spot prices

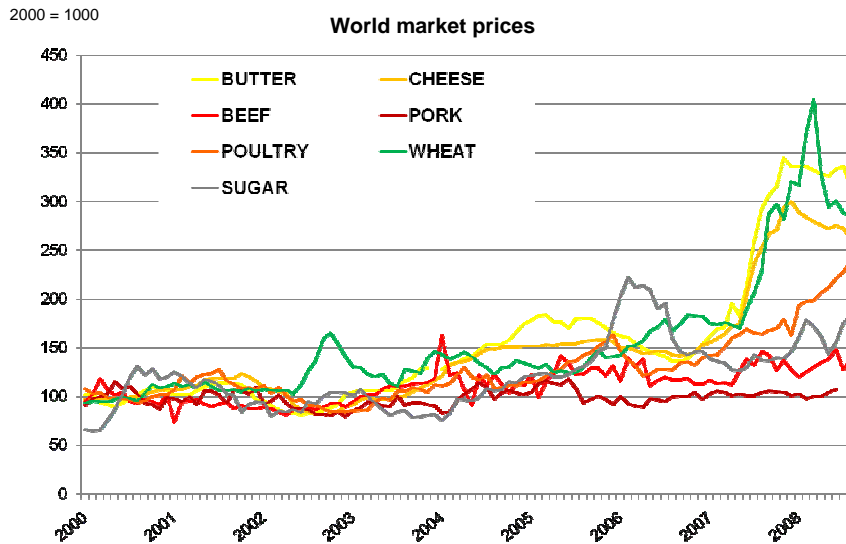


Source: FAO

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Not all food prices exploded

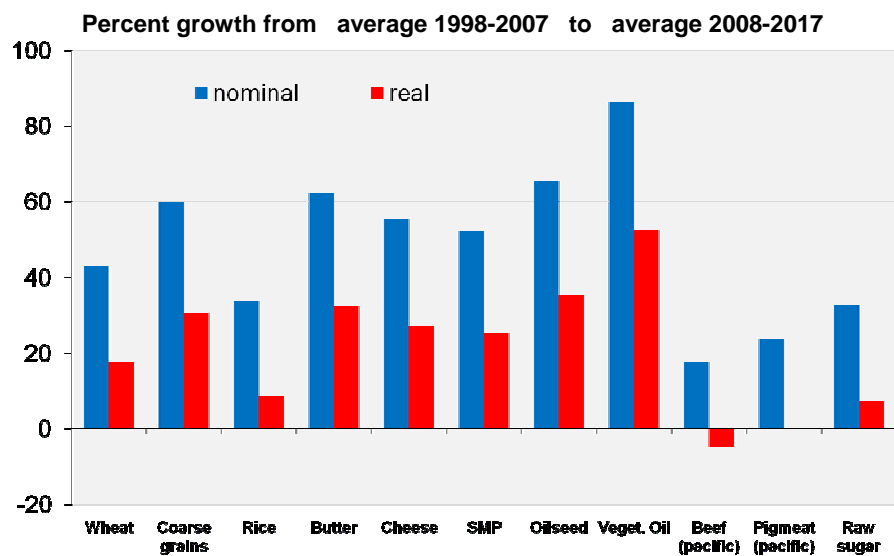


Source: USDA; A&O; NYBOT; IGC

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World commodity prices trend higher



Source: OECD

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Interim conclusions (2)

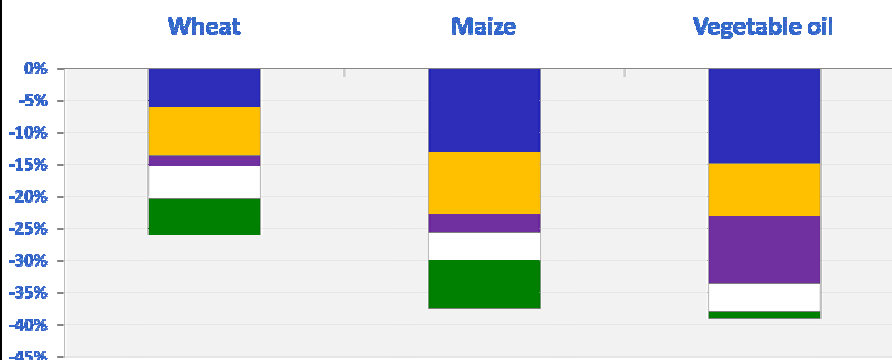


- Food price explosion 2007-08 was neither first nor most pronounced global 'food crisis'
- Prices have calmed down
- Price level will, though, remain 10% to 50% higher than in the past (in real terms)
- Price volatility is likely to remain high

What happens to world prices, if ...



Change in world prices expected for 2017, relative to baseline

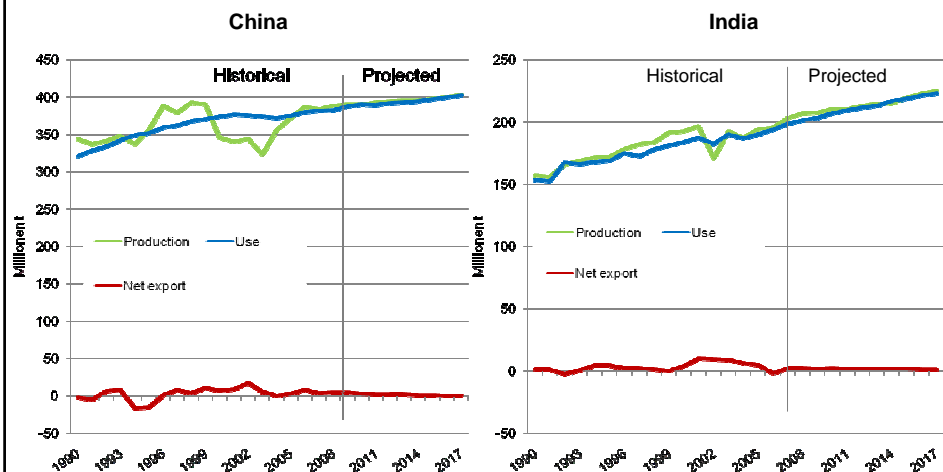


- Scenario 1: Biofuel production constant at 2007 level
- Scenario 2: Scenario 1 + Oil price constant at 2007 levels (72\$)
- Scenario 3: Scenario 2 + Lower income growth in EE5 countries (half annual growth rate)
- Scenario 4: Scenario 3 + Progressive appreciation of the USD exchange rates to reach 10% higher rates in 2017
- Scenario 5: Scenario 4 + Yields for wheat, oilseeds and coarse grains 5% higher than over the production period

Source: OECD

Are China and India pushing up prices?

Supply balance cereals (incl. rice)

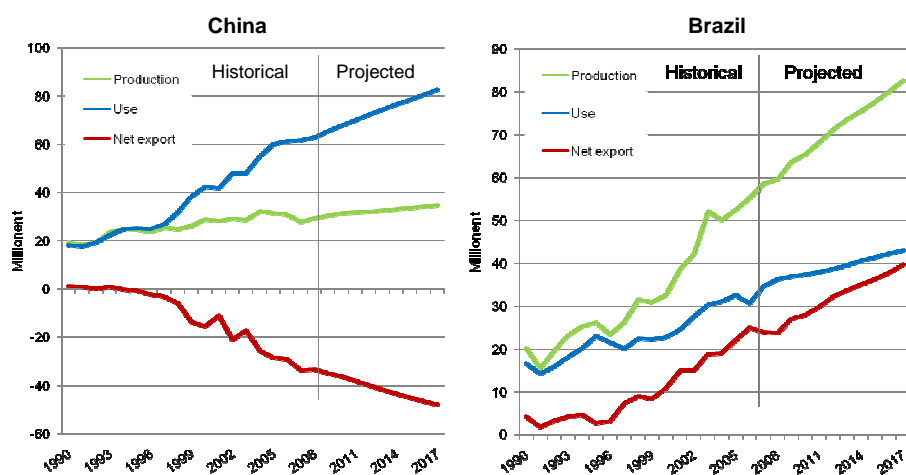


Source: OECD

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Oilseeds: Brazil mirrors China

Supply balance oilseeds



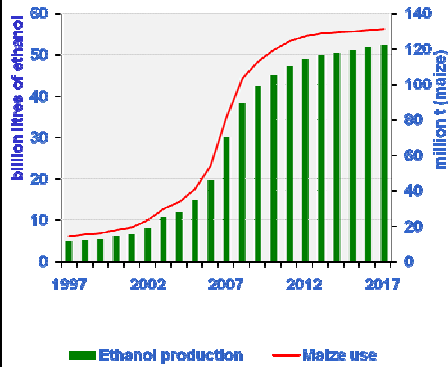
Source: OECD

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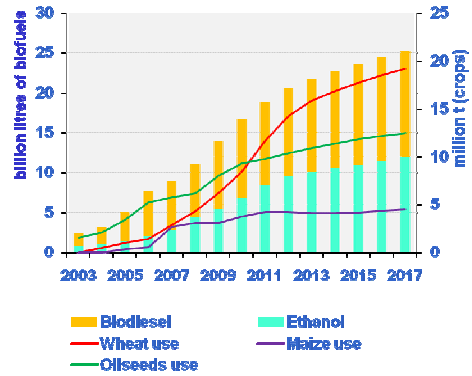
Growing importance of biofuel



USA: Ethanol production to double



EU: Growth in ethanol and biodiesel



Source: OECD

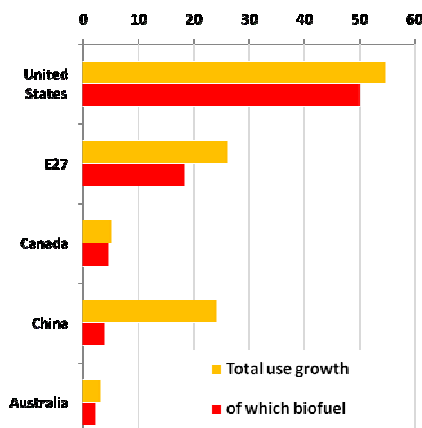
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Biofuel drives growth in use of crops



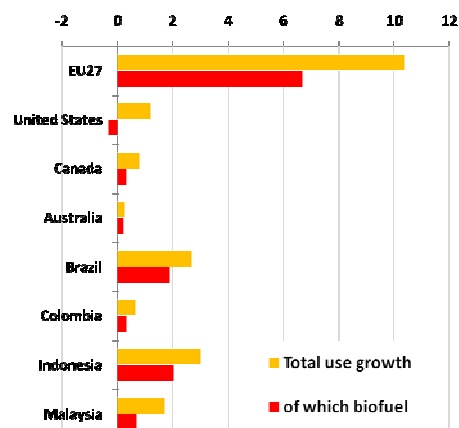
Growth in consumption, 2007 to 2017 (mill t)

Cereals



World total: 36% of use growth for biofuel

Vegetable oil



World total: 31% of use growth for biofuel

Source: OECD

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Interim conclusions (3)



- **Global food prices are underpinned by growing demand**
- **Impact of demand expansion in big emerging economies must not be overestimated**
- **Biofuels are significant driver of demand for crops – but depend crucially on government support**
- **High energy prices push costs and prices up**

Financial crisis hits agricultural markets



- **Commodity bubble bursts more rapidly**
- **Demand expansion is curtailed**
- **Credit crunch limits imports of poorest countries**
- **Credit crunch constrains agricultural investment in developing countries**
- **Financing international trade becomes a headache**

Interim conclusions (4)



- **Financial crisis curbs demand growth
... but also expansion of supply**
- **Commodity bubble bursts more rapidly**
- **Longer-term impact on agricultural commodity prices could be neutral**
- **Financing international trade requires more attention**

Final Conclusions



- **Consumer price inflation has declined in long run**
- **Food prices have small share in overall inflation**
- **2008 food price explosion was temporary**
- **World food prices calm down, but remain higher than before 2008 food price explosion**
- **Increasing market volatility requires**