Food and Agriculture Organization of the United Nations

Global and Regional Food Consumer Price Inflation Monitoring

July 2014 – Issue 5

Global Overview

Global food consumer inflation in March and April 2014 has stabilized in the range of 5.0-5.5% (year-over-year), after a marked slowdown in the previous 3 months (from 8.0% in November 2013 to 5.0% in February 2014). Food price inflation in developing regions of Africa, Asia and Latin America tends to be significantly higher and more volatile than in the developed regions of North America and Europe (Chart 1 and Table 1). These differences are particularly acute when comparing inflation trends in Least Developed Countries (LDC) and the developed economies of the OECD (Chart 2 and Table 2).

For this release, country-level data were collated up to April 2014 to estimate regional and global indices, while these indices were forecasted for May through July. These forecasts indicate a slight recovery in annual food inflation in May, common to all regions except Europe, where food prices remain stable. In Europe and North America, where food inflation has remained unchanged or declined, food prices are expected to rise steadily in June and July, compared to the same months of 2013.

Latin America is one of the regions expected to see food inflation bounce back in May-July, given consistently high inflation in the past few years, exacerbated by high inflation rates in certain countries (Argentina and Venezuela, among others)[1]. Recent data releases by Mexico, where a jump in food costs drove overall inflation in May, indicate that tensions on food markets remain high in 2014.

Eastern Asia, and especially China, is a key driver of global food inflation, with prices in East Asia bouncing back in May (+4.1% from a year earlier). The slowdown observed in June (+3.7%) will most likely continue in July, given the sluggish demand projected in China for 2014, the continued decrease in the producer price index, and the absence of any major event on agricultural markets. This trend, combined with the projected slowdown of food prices in South-Eastern Asia in July, may drive global inflation down to 5.6% in June and 5.0% in July, after the slight pick-up anticipated for May.

[1] For more details, see Global and Regional Food Consumer Price Inflation Monitoring, April 2014, Issue 4

Chart 1 Food consumer price inflation – Global and regions (y-o-y)

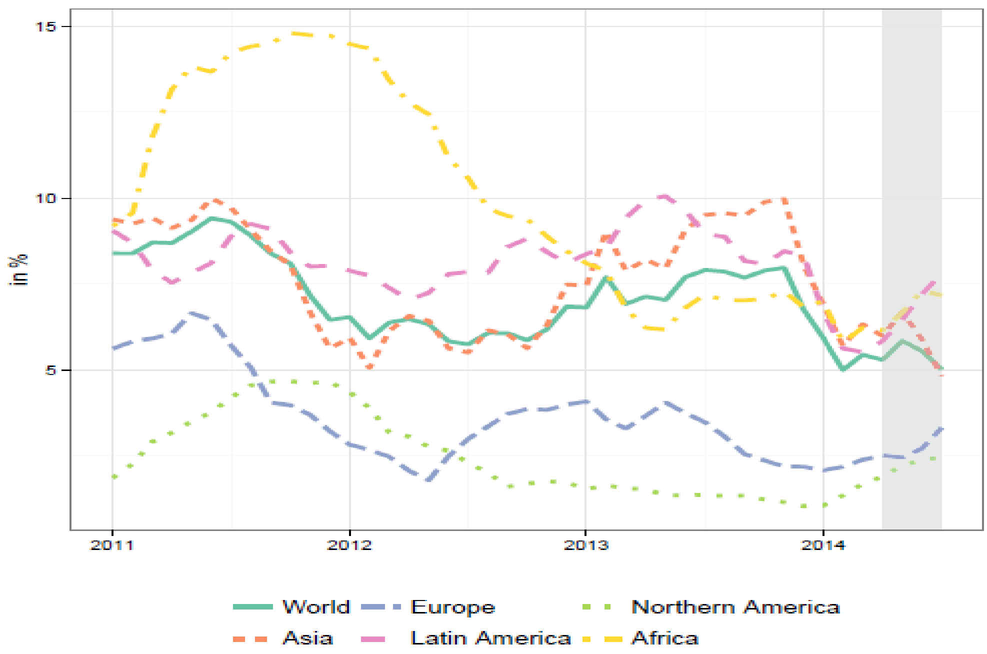


Table 1 Trends in global and regional consumer food price inflation

Growth rates in percent	2011	2012	2013	2014			
				Apr	May*	June*	Jul*
World	**8.4**	**6.2**	**7.5**	**5.3**	**5.9**	**5.6**	**5.0**
Africa	***13.3***	***11.2***	***7.0***	***6.2***	***6.7***	***7.3***	***7.2***
Southern Africa	7.0	7.3	5.7	7.6	8.9	9.7	10.0
Western Africa	9.3	8.6	6.9	5.2	4.9	4.3	4.0
Northern Africa	9.4	8.4	7.7	7.0	8.3	7.9	7.6
Central Africa	8.3	7.9	6.6	7.9	6.7	6.1	6.2
Eastern Africa	23.3	17.6	7.1	6.0	7.0	10.0	10.0
Latin America and the Caribbean	***8.4***	***7.9***	***8.9***	***5.8***	***6.5***	***7.2***	***7.8***
South America	9.5	8.4	10.5	7.2	7.9	8.5	9.0
Central America	5.9	6.9	5.5	3.0	3.3	4.3	5.3
Caribbean	7.2	6.3	5.6	2.5	3.4	4.6	5.6
Northern America	***3.7***	***2.6***	***1.4***	***1.9***	***2.2***	***2.4***	***2.5***
Asia	***8.6***	***6.1***	***8.8***	***6.0***	***6.7***	***5.9***	***4.8***
Eastern Asia	10.6	4.4	4.1	2.4	4.0	3.8	3.8
South-Eastern Asia	2.6	4.1	7.7	6.8	7.3	7.1	4.3
Western Asia	6.2	10.2	16.4	15.1	16.6	14.5	11.4
Southern Asia	8.8	8.1	13.5	8.8	8.4	7.0	5.5
Europe	***5.2***	***3.0***	***3.2***	***2.5***	***2.5***	***2.7***	***3.3***
Southern Europe	3.2	3.0	2.4	-0.1	-0.6	-0.8	0.1
Eastern Europe	8.0	3.1	3.9	5.7	6.1	6.7	7.3
Northern Europe	5.1	3.0	3.1	0.5	0.5	1.2	1.6
Western Europe	2.3	2.9	2.8	0.7	0.2	0.0	0.6

Note: monthly inflation rates are year-on-year growth rates (month m / month m-12)

* Forecasts

Chart 2 Food consumer price inflation – LDCs and developed economies (y-o-y)

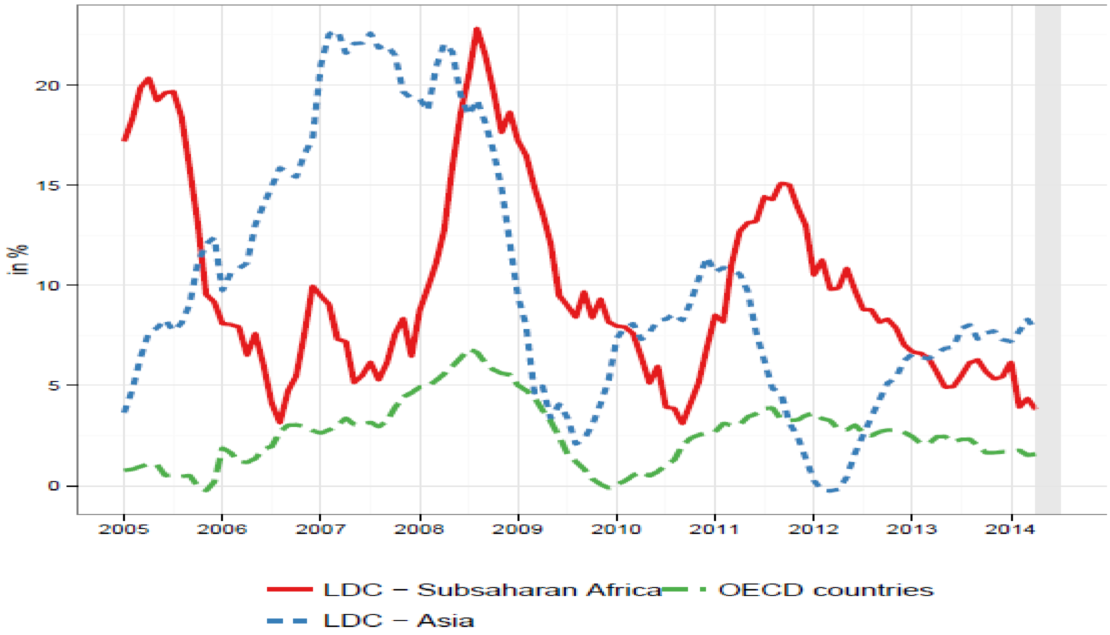


Table 2 Trends in consumer food price inflation - LDCs and OECD countries

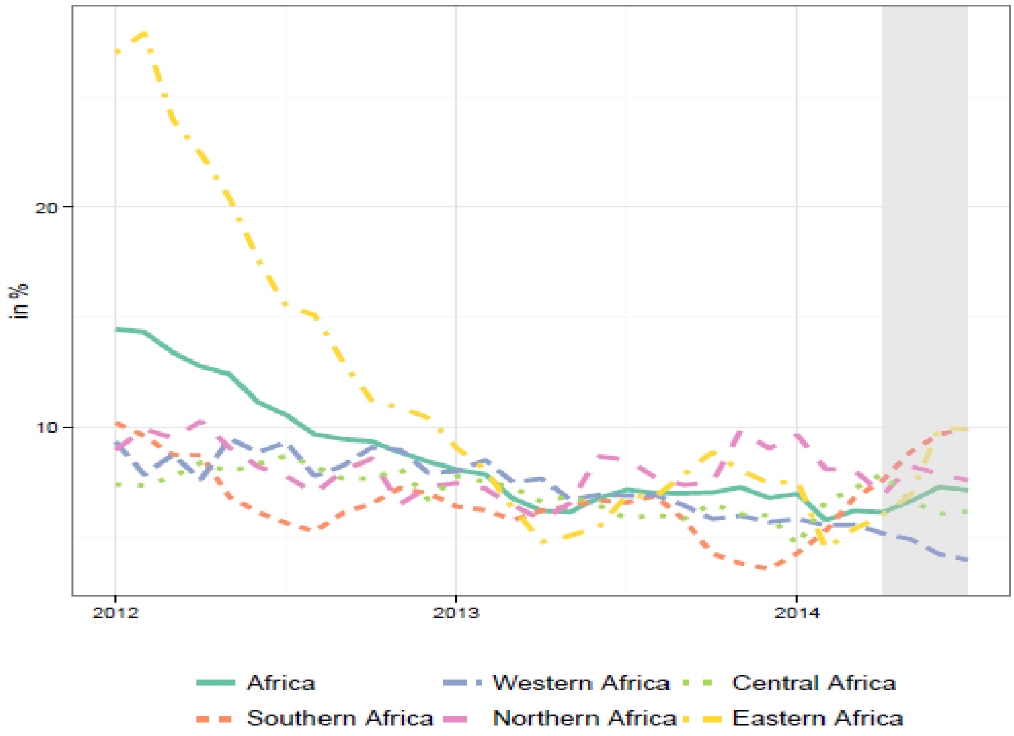
Growth rates in percent	2010	2011	2012	2013
LDC – Sub-Saharan Africa	5.6	12.7	9.2	5.8
LDC Asia	8.6	6.8	2.4	7.1
OECD	2.1	2.9	3.3	1.2

Regional focus: Africa

Annual food inflation in Africa has declined since reaching a peak of 14.8% in October 2011. During the second part of 2013, inflation started to stabilize around 7.0% before a new phase of easing began in late 2013 (Chart 3). These trends echo, with a lag, variations in the prices of the major agricultural commodities traded on international markets, tracked each month by the FAO Food Price Index[2] (Chart 4). The correlation between these two measures of food inflation is particularly high for Eastern Africa, where food prices have historically reacted quickly and strongly to the conditions prevailing in the international markets for agricultural commodities[3].

The significant reduction in food inflation in African countries from 2012 to the first quarter of 2013 is mainly driven by changing trends in Eastern Africa, particularly Ethiopia, Tanzania and Rwanda. In these three countries, food inflation fell to 6%-9% in 2013[4], down from 15%-30% in 2012 due to a stabilization of food prices in Ethiopia and a continued decline in Rwanda and Tanzania. Food inflation trends differed in other countries in the region, with Malawi, for example, seeing food prices accelerate in 2013 to 23.3% from18.8% in 2012, due mainly to the effects of a 50% devaluation in 2012 of the local currency, the kwacha, fuelling an imported inflation. As these effects phased out, food price inflation in Malawi eased significantly in the first half of 2014.

Chart 3 Food consumer price inflation – Africa and sub-regions (y-o-y)

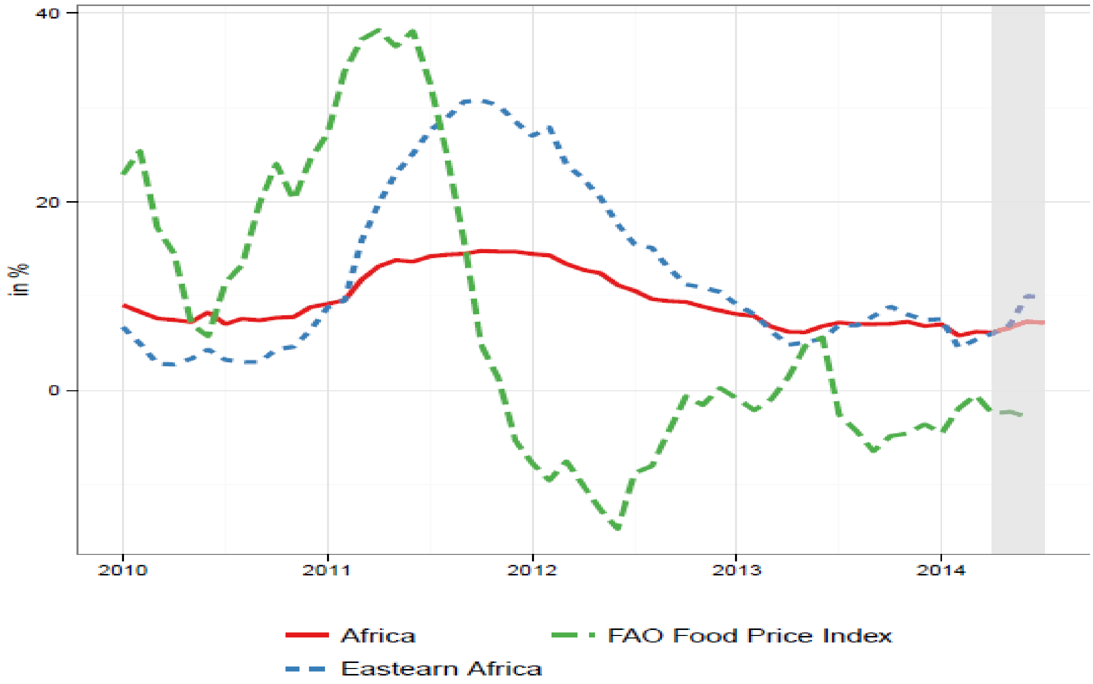


Food inflation in other African regions followed mixed trends since mid-2013. While all regions, excluding North Africa, have seen a decline in inflation rates in 2013, the pace was more moderate and variations less volatile in Western and Central Africa than in Southern Africa. Contrary to Western Africa, Central Africa experienced a slight pick-up in food prices in the first four months of 2014, but our forecasts for May-July 2014 indicate a return to a downward trend. Developments are expected to be different in Southern Africa, and especially in South Africa, the largest economic actor in the region, where food prices have increased at a high pace since the end of 2013, reaching close to 8% year-on-year in April 2014. The continuing decline of the Rand, at a 12-year low, combined with unfavorable

[2] http://www.fao.org/worldfoodsituation/foodpricesindex/en/
[3] See http://www.fao.org/docrep/019/i3718e/i3718e.pdf for more details on transmission estimates
[4] Ethiopia (28.1% in 2012, 5.8% in 2013); Rwanda (16.5% in 2012, 6.7% in 2013); Tanzania (20.6% in 2012, 8.5% in 2013).

weather conditions during the past two years, led to an increase in the price of maize and has likely kept food inflation pressures high in May-July 2014, our forecasted period. This contributes to concerns about food security in a country where food represents, on average, around 20% of household expenses[5].

Chart 4 Food inflation in Africa vs. FAO Food Price Index (y-o-y)



In Northern Africa, food inflation since mid-2013 has been higher and more volatile than in other African regions. These developments are the result of a continued rise in demand, supply shortages and subsidy cuts. Food inflation in these countries reached year-on-year rates above 10% at the end of 2013 and stabilized since then in the range of 7-9%. Forecasts for May to July indicate that food inflation will stabilize at these relatively high levels. However food inflation remains a particular concern in Egypt, where a large majority of poor Egyptian households cannot meet their food consumption needs[6].

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[5] https://www.statssa.gov.za/cpi/documents/Weights%20presentationv3a.pdf
[6] Egyptian Food Observatory

Definitions and Acknowledgements

FAO's Global and Regional Food Consumer Price Indices (CPI) measure food inflation for a group of countries at different geographical scales: sub-regional (e.g. South America), regional (e.g. Americas) and global (world, all countries). The Global Food CPI covers approximately 150 countries worldwide, representing more than 90% of the world population.

The aggregation procedure is based on the use of population weights. Population weights may better reflect regional food inflation and its impacts on households, while using the Gross Domestic Product (GDP) or any other measure of national income may better reflect the impact on the economy as a whole. Using GDP would also mean giving a higher weight to countries less exposed to food insecurity, because households in countries with higher GDP tend to be richer, spend a lower proportion of their income on food and benefit from an economic environment characterized by lower and less volatile consumer price inflation.

The source of data for the country CPIs is the International Labour Organization (ILO), the UN Statistics Division and websites of national statistical offices or central banks. We gratefully acknowledge the Statistics Division of the ILO for their methodological and technical guidance on the compilation of global and regional food inflation indices. Please also note that the ILO publishes twice a year world aggregates of food and all items CPI, based on GDP weights, as part of the Global Trends in the Labour Market (http://laborsta.ilo.org/sti/).

Because of significant conceptual and methodological differences involved in the compilation of national CPIs by countries around the world, global and regional CPI aggregates should be interpreted with caution.

Next release

Country Consumer Food Price Indices are updated every month on FAOSTAT. Regional and Global indices are updated every quarter. The next release presenting global and regional trends will be on October 17th 2014.

Contact information

For more information, or to enquire about the concepts, methods or data quality of the CPIs, contact the Price Statistics Team of FAO's Statistics Division (Price-Statistics@fao.org / +00 39 0657052553).