

**Box 6.1**

**Recent trends of food prices in the international markets**

As a service-oriented economy, the food supplies in Hong Kong rely heavily on imported foodstuffs from elsewhere in the world. Due to the fact that Hong Kong economy is small as compared to the global economy, the prices of foodstuffs being sold in Hong Kong hinge much on the prices of these food commodities in the international markets.

According to the Food Price Index compiled by the Food and Agriculture Organisation (FAO) of the United Nations, worldwide food prices started to pick up more distinctly in 2007, and remained at an elevated level in 2008. Over the past few months, worldwide food prices tended to stabilise in overall terms, but were still over 40% higher in June than a year earlier.

**Table 1 Price indices for basic foodstuffs in the international markets**

		<b>Food Price Index</b>	<b>Meat</b>	<b>Dairy</b>	<b>Cereals</b>	<b>Oils and Fats</b>
2000		92	100	106	85	72
2001		94	100	117	87	72
2002		93	96	86	95	91
2003		102	105	105	99	105
2004		114	118	130	108	117
2005		117	121	145	105	109
2006		127	115	138	123	117
2007		156	121	247	169	174
2007	Jun	150	120	252	156	170
	Jul	155	120	277	157	175
	Aug	161	123	287	168	181
	Sep	170	124	290	192	190
	Oct	174	122	297	198	202
	Nov	180	126	302	200	221
	Dec	186	123	295	220	226
2008	Jan	196	126	281	236	250
	Feb	215	128	278	279	273
	Mar	218	132	276	278	285
	Apr	215	132	266	279	276
	May	216	141	265	271	280
	Jun	216	135	263	274	292

**Box 6.1 (Cont'd)**

Summarising the views of international organizations like the IMF and the FAO, there are several factors behind the current round of surge in global food prices:

- *Growing demand for commodities from emerging and developing economies*

Over the past couple of years, there has been a strong growth in emerging and developing economies. This has catalysed demand for various commodities. Economic growth in these economies is relatively more commodity-intensive in nature than that of advanced economies, given industrialization take-off and strong per capita income growth from a low base. These are reflected in rising consumption in food with higher protein content (e.g. meats, milk, etc.).

- *Unfavourable weather conditions*

The demand-supply situation of various cereals had been tight in recent years. Against this backdrop, the unfavourable weather conditions led to reduced harvest yields in both 2007 and 2008 in an unusually large number of countries. For example, there was a bad wheat harvest in 2007 for the second consecutive year, followed by a sharp bidding-up of wheat prices, with spillovers into other crops through substitution effects. Environmental factors such as the severe winter weather in Northern Vietnam and Southern China also dented the supply of rice in 2008, thus driving the prices of rice markedly higher.

- *The surge in oil prices*

The impact from the surge in oil prices on food prices is two-folded. First, it boosted production costs of food commodities, through the impact on transportation fuels and fertilizer prices. Second, the continued surge in oil prices prompted rising biofuels production in advanced economies in the backdrop of increasingly generous policy support. This has boosted food demand. In particular, rising corn-based ethanol production has accounted for about 75% of the increase in global corn consumption in 2006-07, according to the IMF. This has not only pushed up corn prices, but also prices of other food crops through substitution effect, and to a lesser extent, edible oils through consumption and acreage substitution effects, and poultry and meats through feedstock costs.

- *Restrictive trade policies*

Following the surge in food prices and worries of the food-producing countries, many of which are still developing economies, on their ability to feed their own population, there has been a growing use of export restrictions by food exporters, attempting to raise domestic food supplies and lower domestic food prices. In the case of rice, there have been a growing number of countries having imposed restrictions on exports, through initiation of export taxes, minimum export prices, export ceilings or outright export bans.

**Box 6.1 (Cont'd)**

While food prices stayed high in recent months, they showed some signs of leveling off. With the prospect being driven by the above-mentioned factors and the relatively “thin” nature of many of these food commodity markets (according to the estimates of the FAO, only less than 10% of the global production in rice, meat and meat products, and dairy products, are being traded in the international markets), global food prices are expected to be volatile in the period ahead. Yet the higher prices of foodstuff should also serve as a stimulus for more production. Meanwhile, the FAO projected food production to increase in 2008/09 across most of the commodities. If materialized, this will help to provide some alleviation to the tight demand-supply situation in the international food markets.