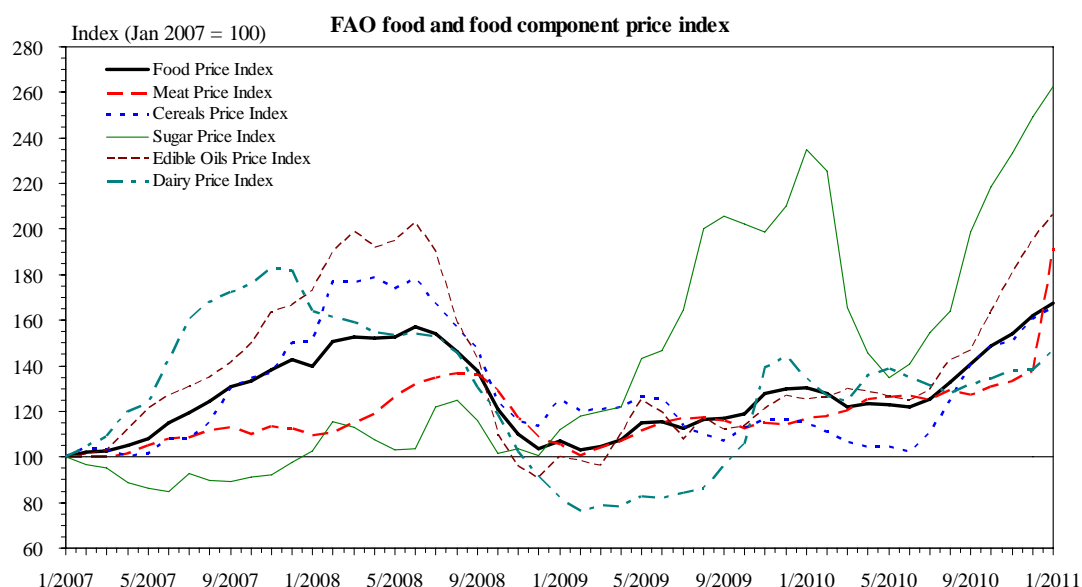


## Box 7.1

## Recent movements of global food prices

According to the Food Price Index compiled by the Food and Agriculture Organization (FAO) of the United Nations (**Chart 1**), global food prices were on a general uptrend since mid-2009 amid the sustained recovery of the global economy. After a steady phase in the first half of 2010, global food prices embarked on an upsurge since mid-2010. Among the various food groups in the FAO price index, edible oil and cereals saw the biggest jump in prices, up more than 30% year-on-year in late 2010, and prices of meat and sugar also showed double-digit increases. Price of dairy products recouped much of the lost ground in 2010 from the plunge in the latter part of 2008 and early 2009. The latest FAO food price index registered a new monthly high in January 2011 with price increases for most food commodities, surpassing the previous peak in mid-2008. The elevated global food prices are likely to persist in the coming months.

**Chart 1: Prices of various food components have surged since mid-2010**



Based on the analyses by the IMF and the FAO, the upsurge in food prices since mid-2010 can be attributed mainly to the unexpected supply shocks and robust demand from emerging market economies. The ultra-loose monetary environment, the weak US dollar and rebound in fuel prices have also contributed.

Specifically, the global balance of supply and demand in a number of food items tightened in the second half of 2010 due to disruptions to supply. For instance, the severe drought in Russia and Ukraine, the two major wheat producing countries, destroyed a sizable amount of wheat crop in 2010. The restricted trade policy that followed, notably the ban on wheat export from Russia, intensified the price pressures. Rising cereal prices also raised the feeding cost of livestock, thereby spreading the upward pressures on prices of meat and other dairy products.

**Box 7.1 (Cont'd)**

The dimmer price prospects in the aftermath of the 2008-2009 global economic crisis, though short-lived with hindsight, also impacted on international food supply. Aquaculture producers, for example, reduced the inventory levels in late 2008 and throughout 2009, in view of the slack in demand for fishery products back then. The subsequent strong pick-up in global demand, especially from Asia and South America, for those farmed fishery products in 2010 thus led to a surge in the prices concerned.

Backed by the robust growth of emerging market economies in 2010, the demand for foodstuffs, in particular meat and dairy products, grew markedly. For example, according to the FAO, consumption of milk and milk products in developing countries was estimated to have increased by about 1 kg per capita in 2010 to 67.5 kg per capita. Likewise, the international meat prices ascended steadily due to growing import demand from Asian countries.

On top of tighter supply-demand balances for many food commodities, the ultra-loose monetary environment and the rebound in fuel prices also added to the impetus of food price increases in the international markets in 2010. The weaker US dollar, in particular in the second half of 2010, also gave upward pressures to global commodity prices.

Lastly, the upward pressures on food prices are also related to the rebound in fuel prices in 2010. Higher fuel prices increase the incentives for producing biofuel, thereby boosting demand and prices for corn, oilseeds and sugar. They also bolster the costs along the production chain of foodstuffs, from the costs of fertilizers and packaging to transportation.

Rising global food prices have been one of the key factors contributing to higher inflation in economies with robust growth, including the Mainland and many other Asian economies. Hong Kong likewise faces a similar challenge. Given the importance of the prices of foodstuffs to the livelihood of the lower-income households in Hong Kong, where most of the foodstuffs have to be imported from the rest of the world, the development in global food prices warrants a close monitoring.