

Food to Inflate

A new report from Rabobank analysts predicts record global food prices in 2013, but not food riots as in 2008.

Analysts with global agricultural lender Rabobank are predicting record nominal food prices next year due to tight supplies of feed grains and oilseeds.

Their report, "Reentering Agflation," contrasts with predictions last summer by U.S. Secretary of Agriculture Tom Vilsack that domestic food price inflations could jump from a normal 3% to as much as 4%. That's because in the U.S., farmers get only 14¢ of every food dollar spent in the grocery store. The costs of fuel, labor, and packaging can have a bigger effect on inflation.

The Rabobank report ties its forecast to the Food and Agriculture Organization (FAO) Food Price Index. FAO is an agency of the United Nations.

Rabobank's modeling suggests that the FAO Food Price Index will rally another 15% from August 31, 2012, levels to 243 points by June 30, 2013. That would push the index above the record nominal highs set in February 2011.

LIVESTOCK TAKES THE HIT

Meat and dairy prices make up 52% of the FAO Food Price Index. An expected rise in those prices is the main reason for the report's forecast. It expects the effects of higher feed costs to show up first in dairy products as dairy cows are liquidated. After a temporary glut of meat from herd liquidation, meat prices will also rise.

"The social impact should be different [compared] to 2008 as this time around, crop shortages are affecting feed-intensive crops such as corn and soybeans, rather than core food staples such as wheat and rice," the report says.

"This time around, the most affected commodities are largely used in animal

feed and are not core food staples of the world's developing economies," the report says. "This is a very different scenario from that in 2008, when declining wheat stocks

and several national bans on rice exports limited the amount of grains available for direct human consumption."

Rabobank's analysts expect corn stocks to fall to only a 51-day supply by next summer, with soybeans hitting a 73-day supply. Wheat and rice stocks are expected to improve. They look for grain and oilseed prices "to remain at elevated levels for at least the next 12 months." •



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