



PRICE VOLATILITY FROM A GLOBAL PERSPECTIVE

David Hallam

United Nations Food and Agriculture Organization



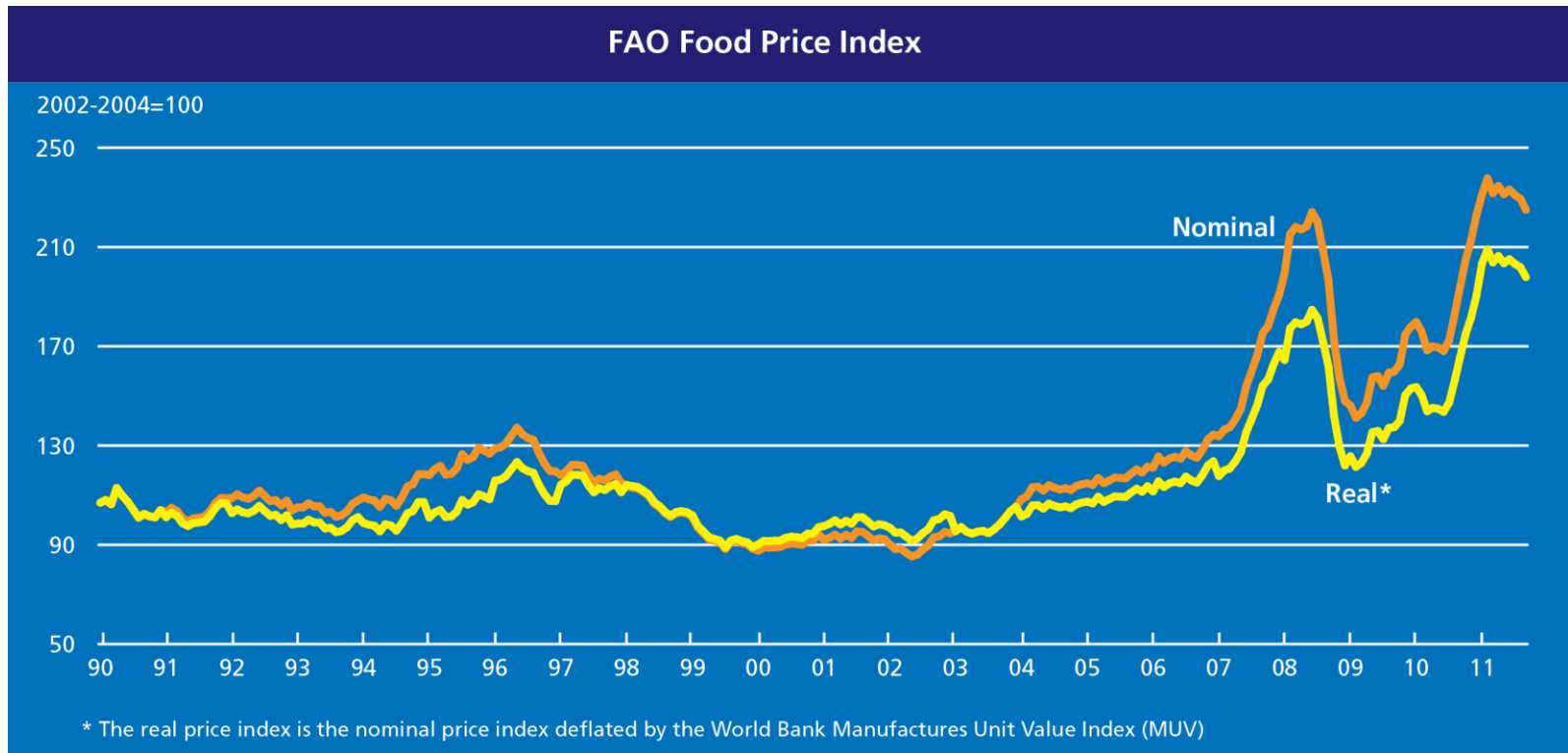
Price volatility from an international perspective

- 1. Food prices – higher and more volatile**
- 2. Why are prices high and volatile?**
- 3. Why volatility matters**



FAO Food Price Index

Nominal & Real

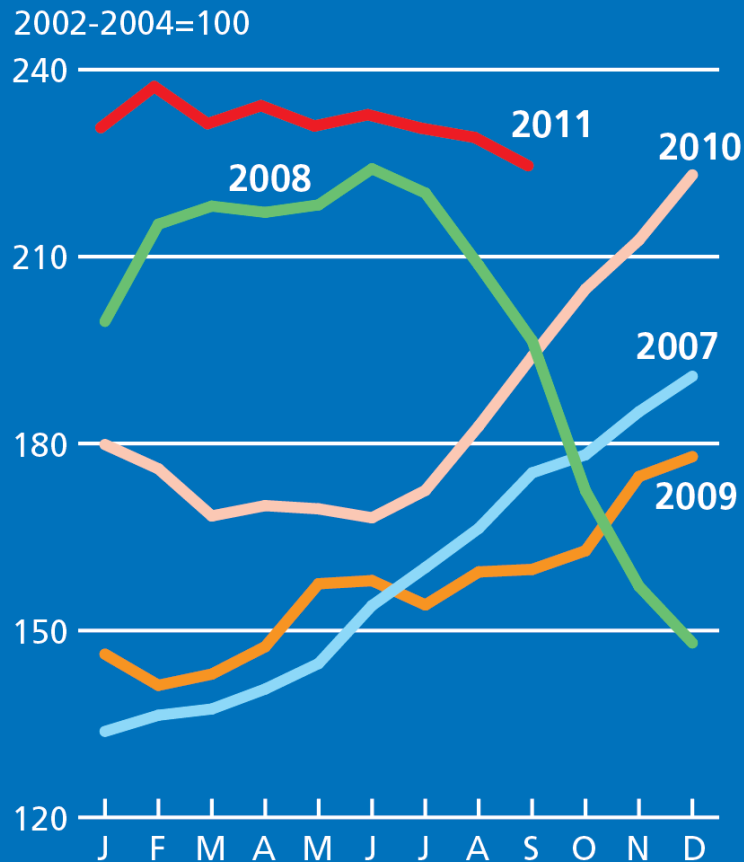


<http://www.fao.org/worldfoodsituation/wfs-home/en/>

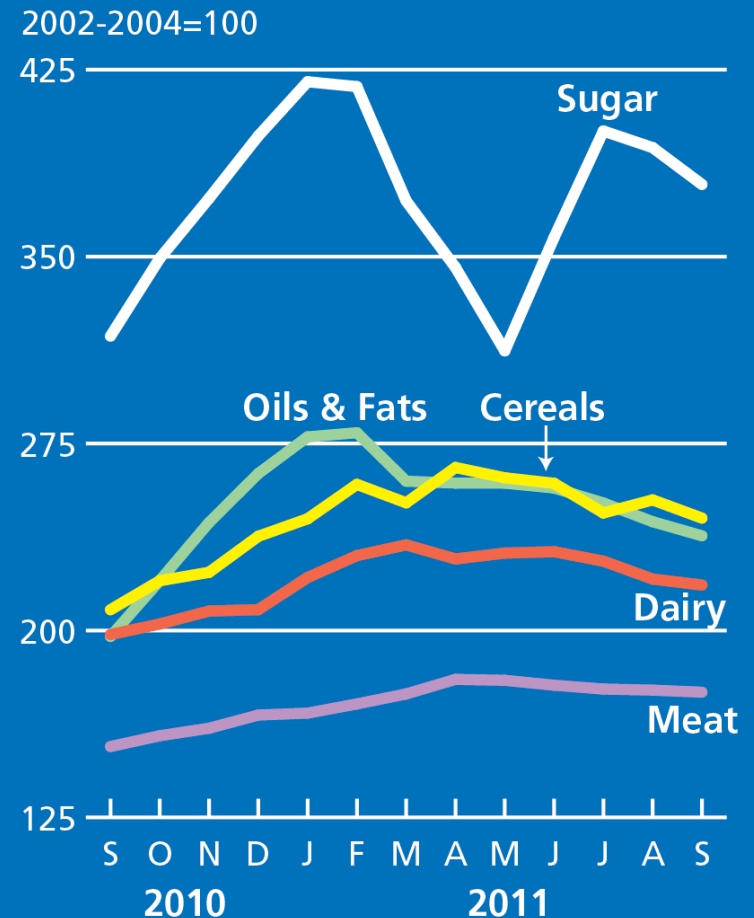


World Price Trends

FAO Food Price Index



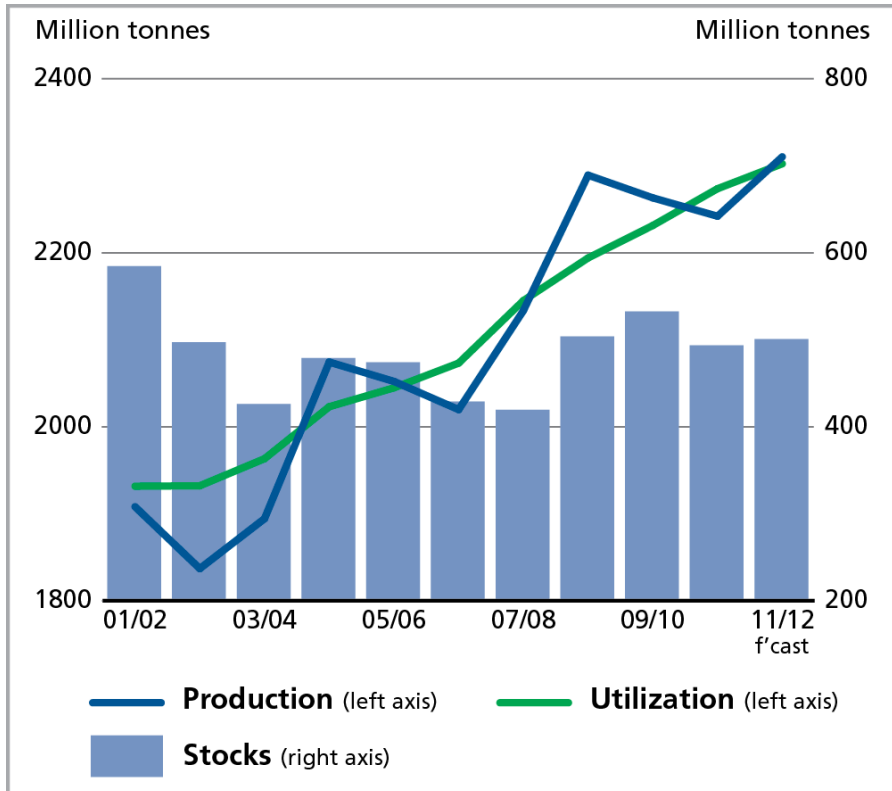
Food Commodity Price Indices



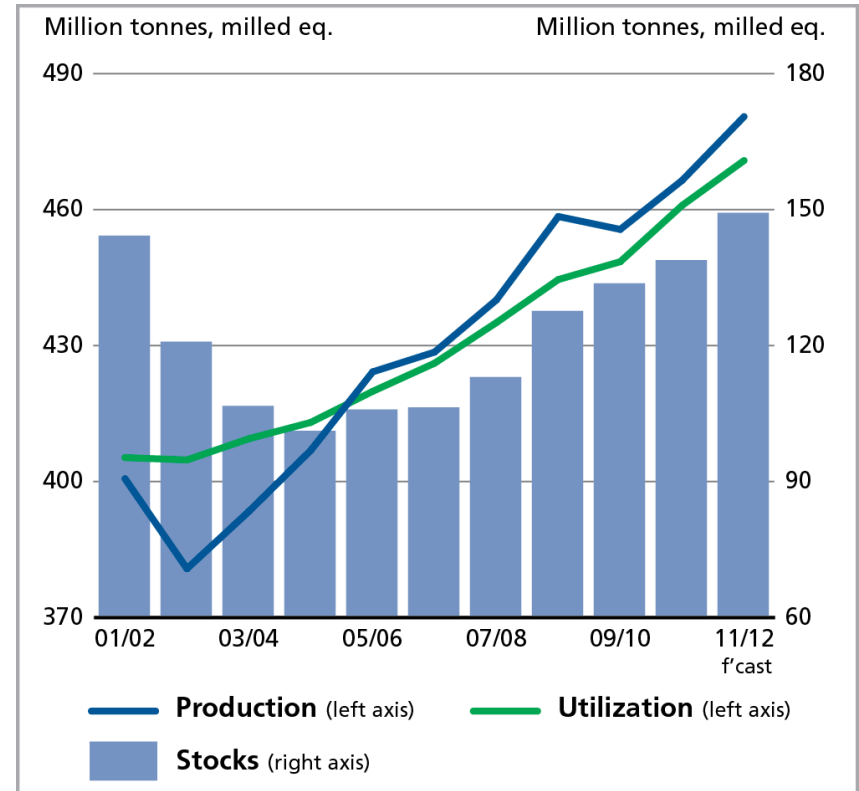


World Production, Utilization and Stocks

Cereals



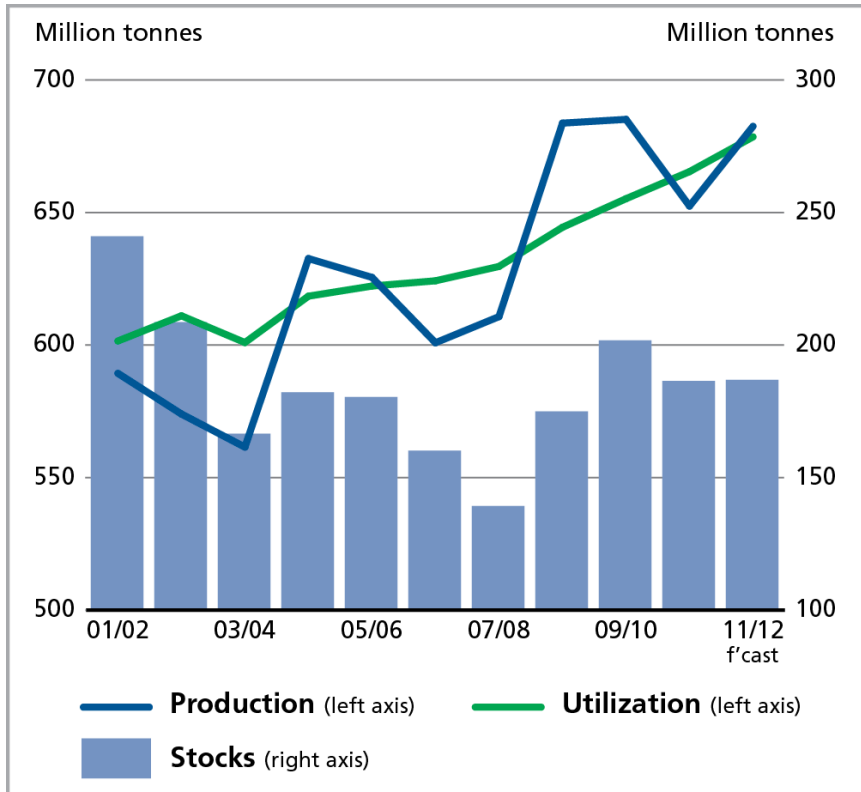
Rice



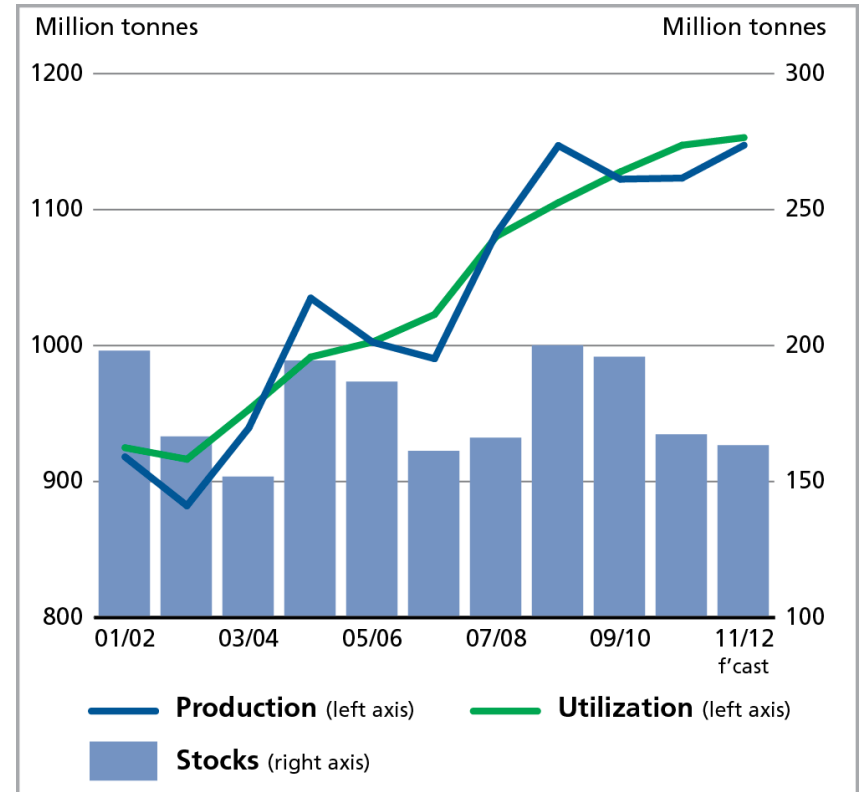


World Production, Utilization and Stocks

Wheat



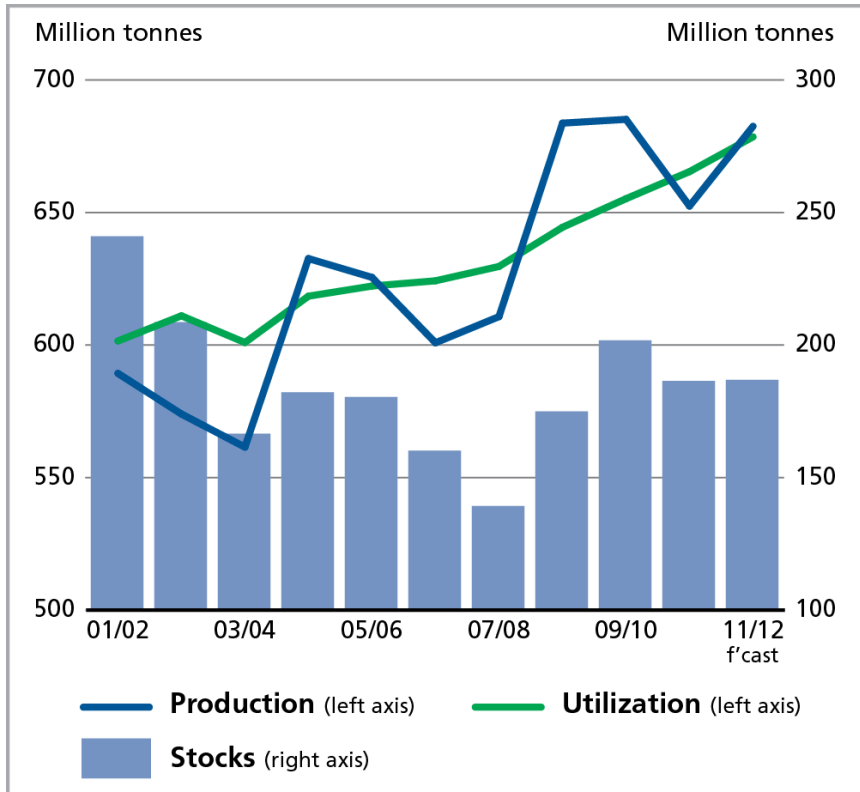
Coarse Grains



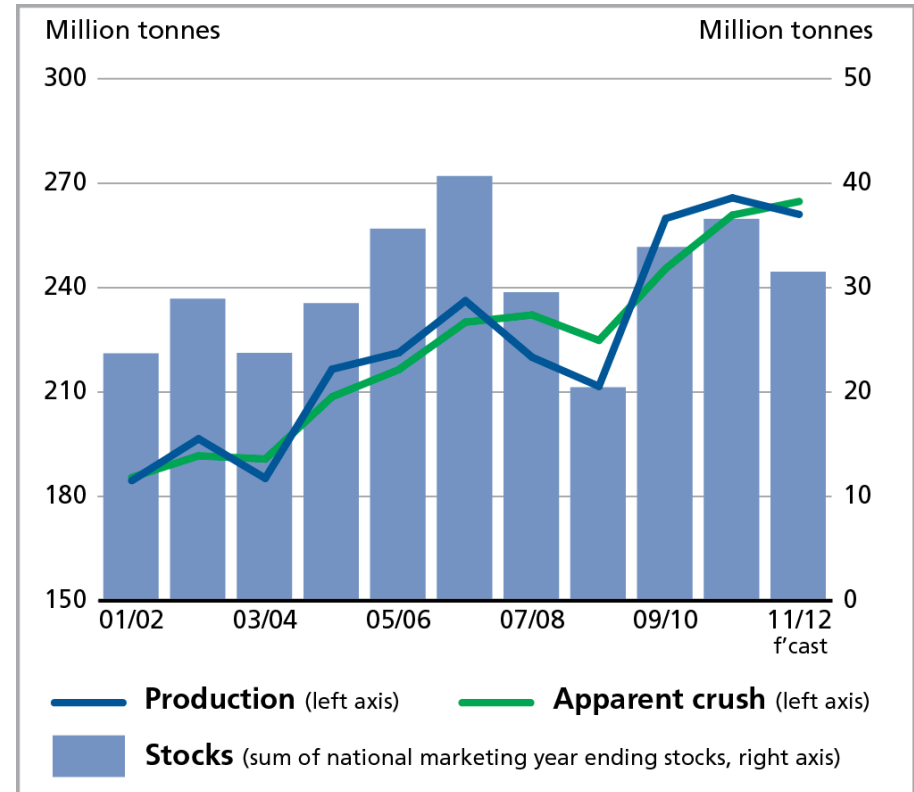


World Production, Utilization and Stocks

Maize

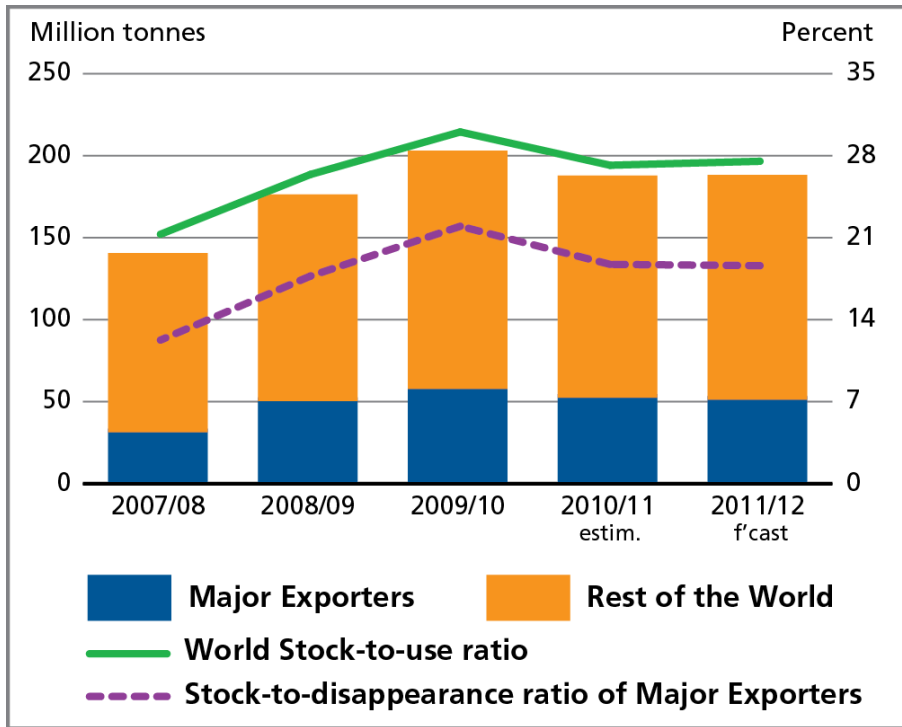


Soybeans

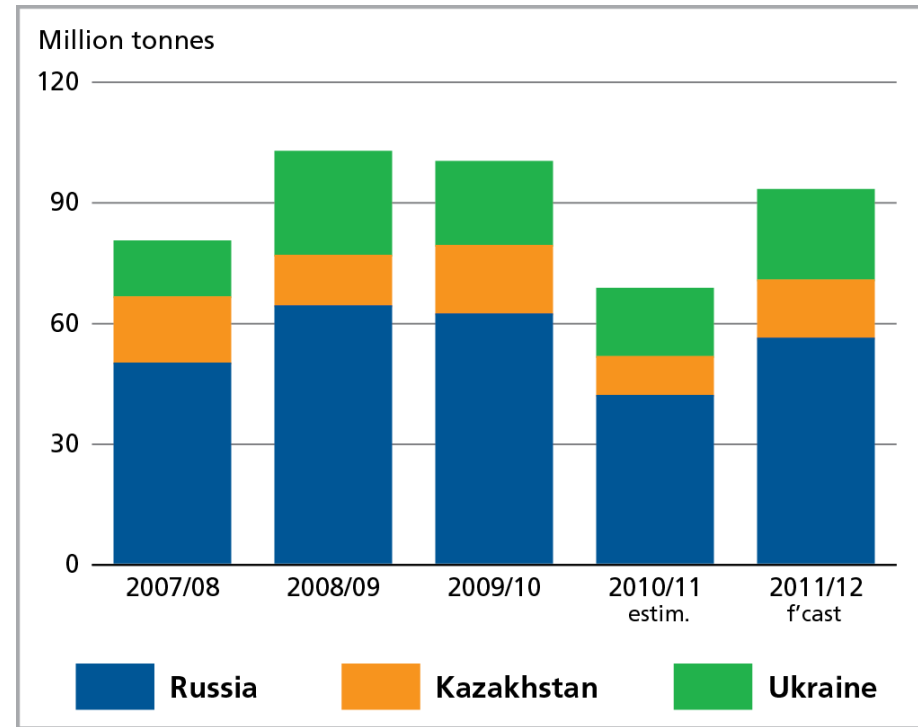


Little change in wheat stocks-to-use ratio despite recovery in CIS production

Wheat stocks



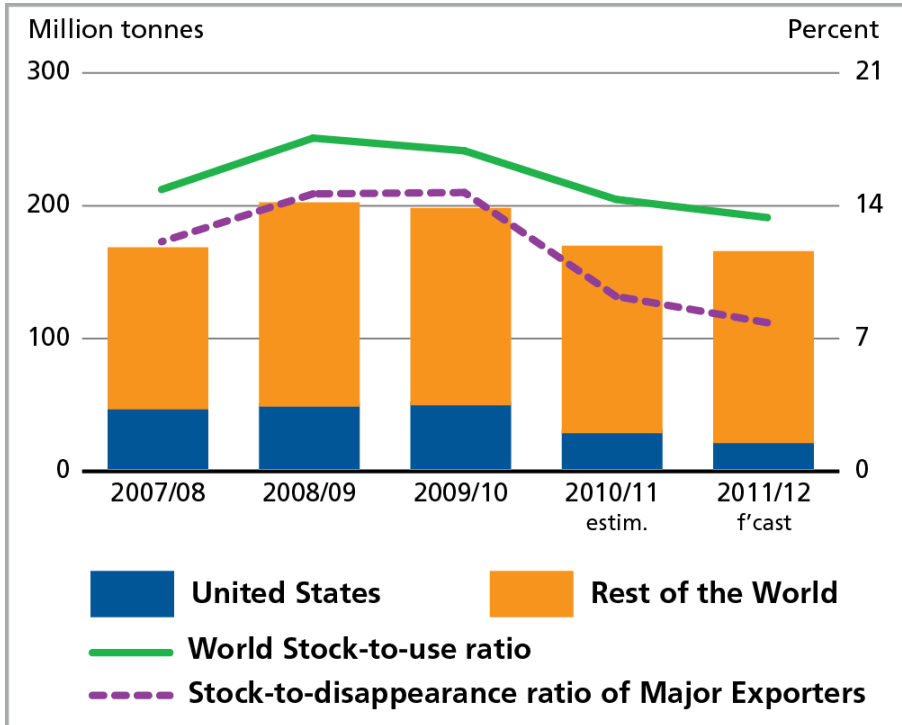
Wheat production



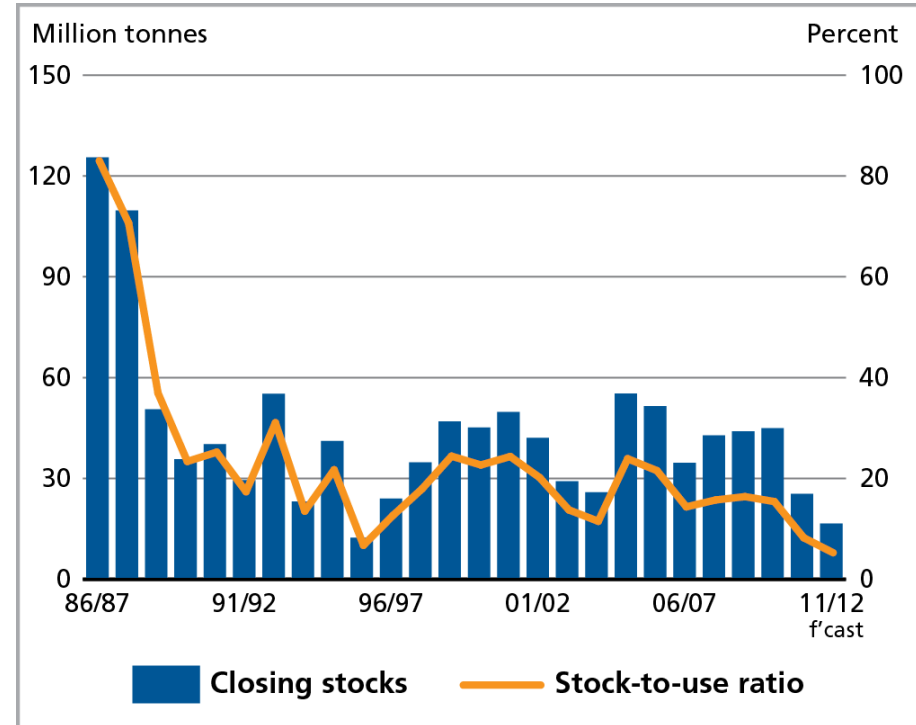


Coarse grain inventories down sharply with all stock-to-use ratios pointing to historical lows

Coarse grain stocks



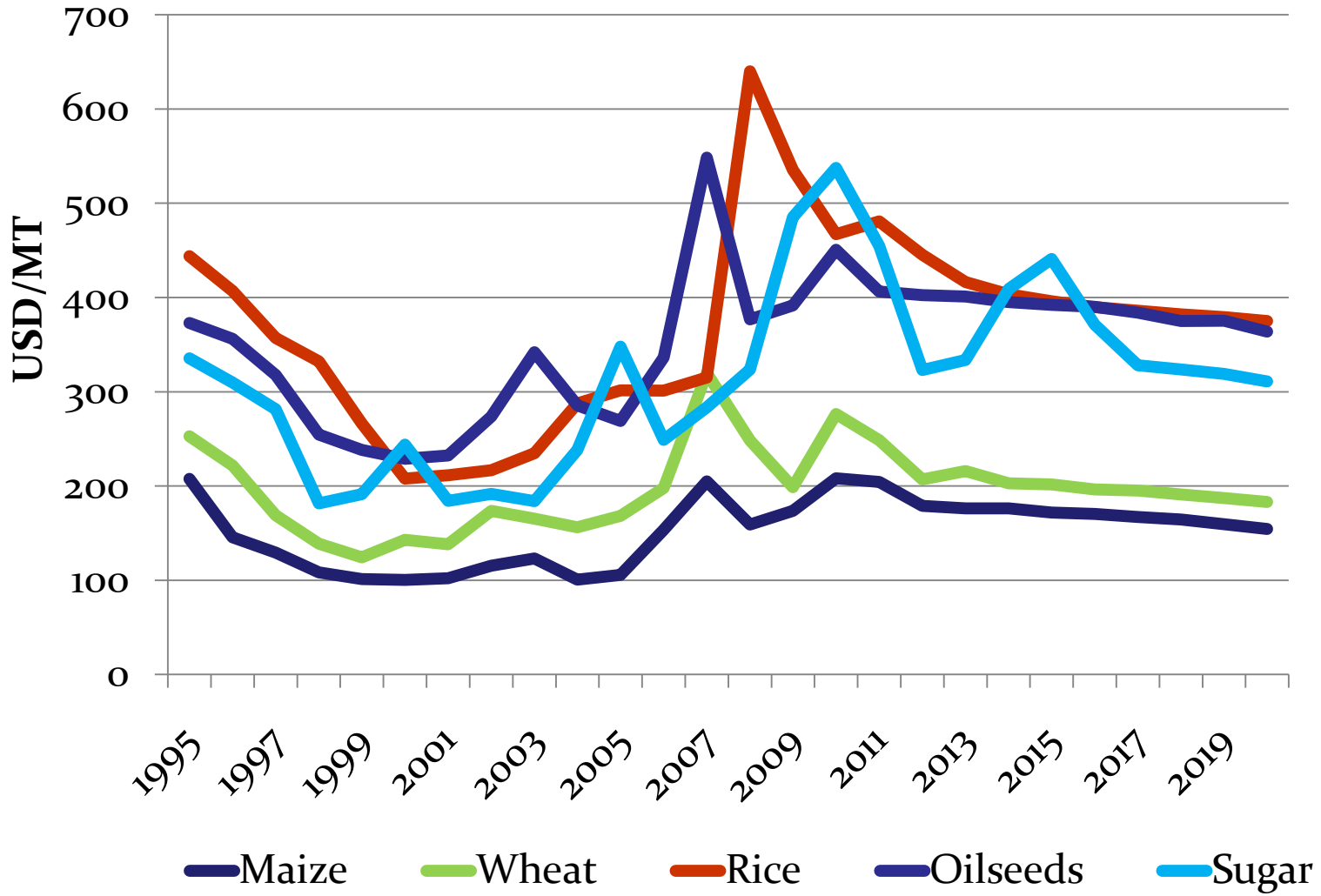
US maize stocks



Stocks as a percentage of total Disappearance of Major Exporters also fall to historical low of 7.8% in 2011/12. This compares to 9.2% in 2010/11 and 12% in 2007/08.



FAO-OECD Medium-Term Outlook





Why are prices high and volatile?

Why are prices high?

Importance of market fundamentals

Strong growth in consumption – emerging economy growth, biofuel demand, population growth

Weak growth in production - slowdown in yield growth, scarce natural resources,

Why are prices (“excessively”) volatile?

Low stocks

Links to energy markets - volatile oil prices

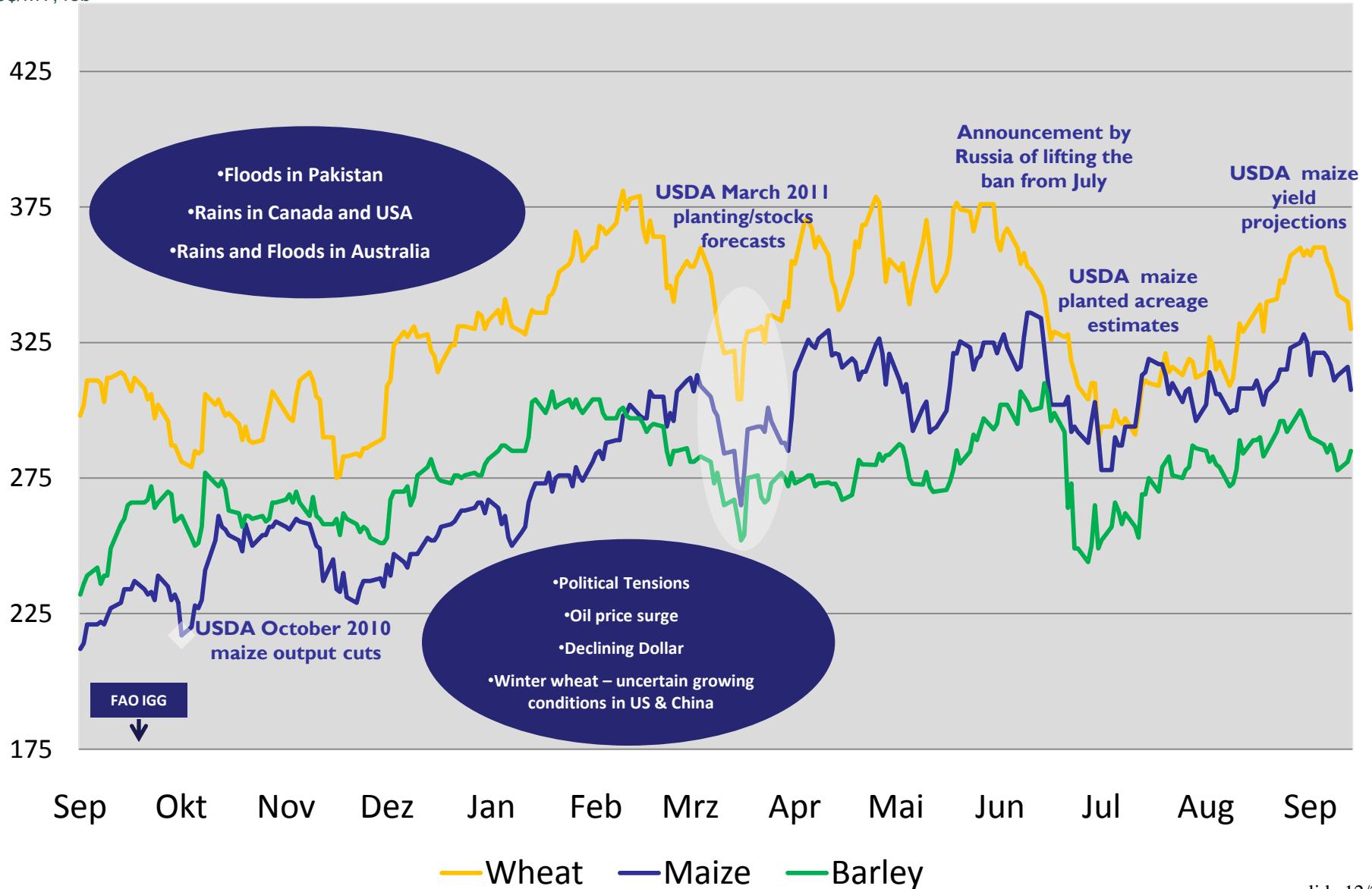
Financialization and “speculation”

Policy impacts – export restrictions

Increasing frequency of weather shocks

Volatile prices in 2010/11

US\$/MT, fob





Why does volatility matter? The burden on the poor

- Impact especially on urban poor, landless and women
- On average 70% of income of poorest 20% on food
- Diets lack diversity
- Reduced quantity and quality of food consumed
- Food insecurity, malnutrition and poverty worsened - estimated additional 80 million hungry in 2007-8
- Reduced and variable real income reinforces poverty traps as physical and human capital is eroded and spending on education is cut
- Not all countries can cushion impact



Why does volatility matter? Good for producers?

- Incentive and finance for increased investment and positive supply response
- Many poor rural households are net buyers
- Input prices, especially for oil-based fertilizers, can increase faster than output prices
- Supply-side constraints such as transport and storage limitations or lack of access to inputs and credit
- Volatility means uncertainty and increased risk that deter investments
- Governments need to create an enabling environment but significant budgetary cost and other policy priorities



Why does volatility matter? Macro policy problems.

- Increasing food prices fuel inflation
- Increasing and volatile food import bills threaten exchange reserves, disrupt development budgets and slow growth and development
- For commodity exporters, international market volatility can transmit to government revenues and the rest of the economy.
- Exchange rate impacts
- Some commodity exporters (especially LDCs) are net food importers
- Increased budgetary outlays on protecting poor consumers



PRICE VOLATILITY FROM A GLOBAL PERSPECTIVE

Thank you