

Trend Watch: Key predictions on food commodity prices over 2009



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The sharp increase in food commodity prices experienced since late summer 2007 has been followed by a sustained decline since late summer 2008. This, along with lower energy prices, has contributed to a moderate drop in food production costs.

In turn, this has partially alleviated the plight of consumers faced with “agflation”, a phenomenon that has driven up retail prices of bakery products, dairy products, meat and other food categories. That said, even though commodity prices are still falling, Euromonitor International predicts that prices of major food commodities like rice, cereals, dairy products and cocoa may either stabilise or increase slightly over the course of 2009.

Rice

International commodity prices of rice have fallen by 50% since April 2008, according to the International Rice Research Institute (IRRI). However, most analysts agree that rice prices are bound to rise over 2009, largely driven by higher demand in Asia-Pacific. Lower economic growth in countries such as China and India is set to depress sales of more expensive processed food. As a result, middle and lower-income consumers in these countries are likely to turn back to rice as a more affordable but still nutritious staple of their daily diet.

Wheat

While global commodity prices of wheat have fallen by 30% since January 2008, international wheat stocks remain at their third lowest level in 35 years, according to the US Department of Agriculture. Most analysts predict growth in demand for grain of around 3% in 2009, which may result in wheat commodity prices either stabilising or even increasing slightly during the course of the year. In turn, this may lead to a return to rising retail prices of bakery products, specifically bread, in the longer term. Moreover, this trend could push up retail prices of meat and dairy products in the longer term, given the importance of grain prices to the cost of cattle feed.

Milk, cheese and butter

World milk prices have fallen by 54% since 2008. During the same period, globally traded cheese and butter prices have dropped by between 45% and 55% respectively, according to United Nations FAO (Food and Agriculture Organisation) statistics. There is global consensus in the industry that dairy commodity prices are at the end of their declining price cycle. Farmers are putting increasing pressure on global milk and cheese manufacturers, particularly in Western Europe. This will make further price reductions, either on commodity or retail markets, difficult, in turn causing milk, cheese and butter commodity prices to stabilise or pick up slightly over 2009. A slight to moderate increase in demand for staple food items like dairy products - due to the current economic climate and consumers curtailing away-from-home food expenditure to save money - may also drive up both commodity and retail prices in the longer term.

Cocoa

International commodity prices of cocoa have fallen by 40% since June 2008, according to ICCO (International Cocoa Organisation). However, the poor harvest predicted by adverse weather conditions in the Ivory Coast will likely prompt a moderate increase in prices in the short term. Despite dwindling cocoa stock levels there is consensus that declining consumer demand for cocoa-intensive products such as premium chocolate confectionery will result in international prices being relatively stable over 2009.

No immediate effect on retail prices

Having said all that, the moderate increase forecast for 2009 in global commodity prices is unlikely to have an immediate effect on retail food prices, according to Euromonitor International estimates. This is due to the fact that most food manufacturers hold medium-term contracts with commodity suppliers and are rarely affected by spot price fluctuations.

Furthermore, commodity costs only account for a small portion of overall processed food retail prices, which also factor in processing, distribution and advertising costs. Even a moderate increase in commodity prices, therefore, might have only a minor short-term impact on the retail price of the product in question.

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