

Anatomy of a Global Food Price Spike

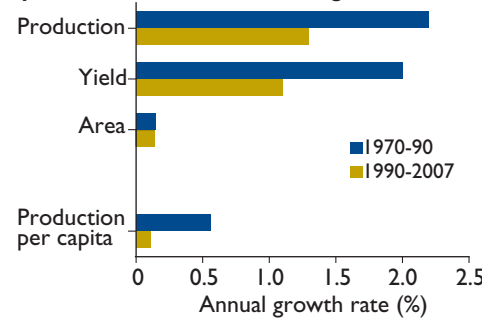
Both long- and short-term supply and demand factors played a role...

Slowing growth in global agricultural production

Key factors:

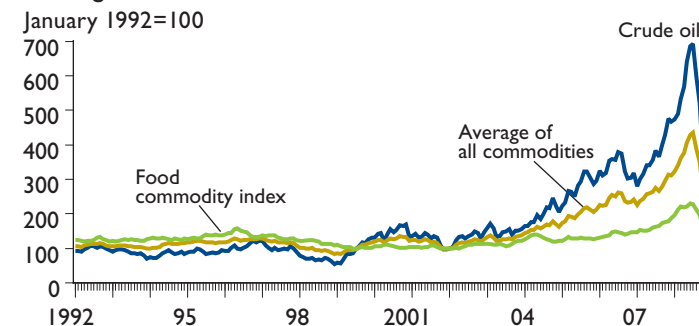
- Low food prices reduced producer incentives
- Land and water resource constraints
- Reduced investment in yield-enhancing technologies

Growth in global grain and oilseed production slowed during 1990-2007



Rising fuel prices and production costs

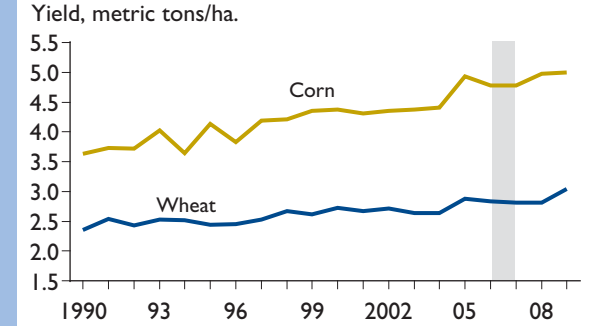
Fuel prices rose more sharply than food prices during 2000-08



Poor weather

Poor harvests in exporting regions added to supply concerns at a time of strong demand and low stocks.

Poor weather reduces 2006 and 2007 harvests



Exporter policies

In 2007-2008, as prices rose, some countries curbed their exports to ensure stable domestic supplies and prices:

- Argentina, Russia, Kazakhstan, China, Malaysia, and Indonesia raised export taxes.
- India, Argentina, Ukraine, Vietnam, and Kazakhstan banned or restricted exports.

Performance of Futures Markets

During 2007 and 2008, short and long hedging and speculative activity increased in futures markets for most agricultural commodities. How and to what degree futures trading activity may have influenced commodity markets during this period are topics of ongoing research.

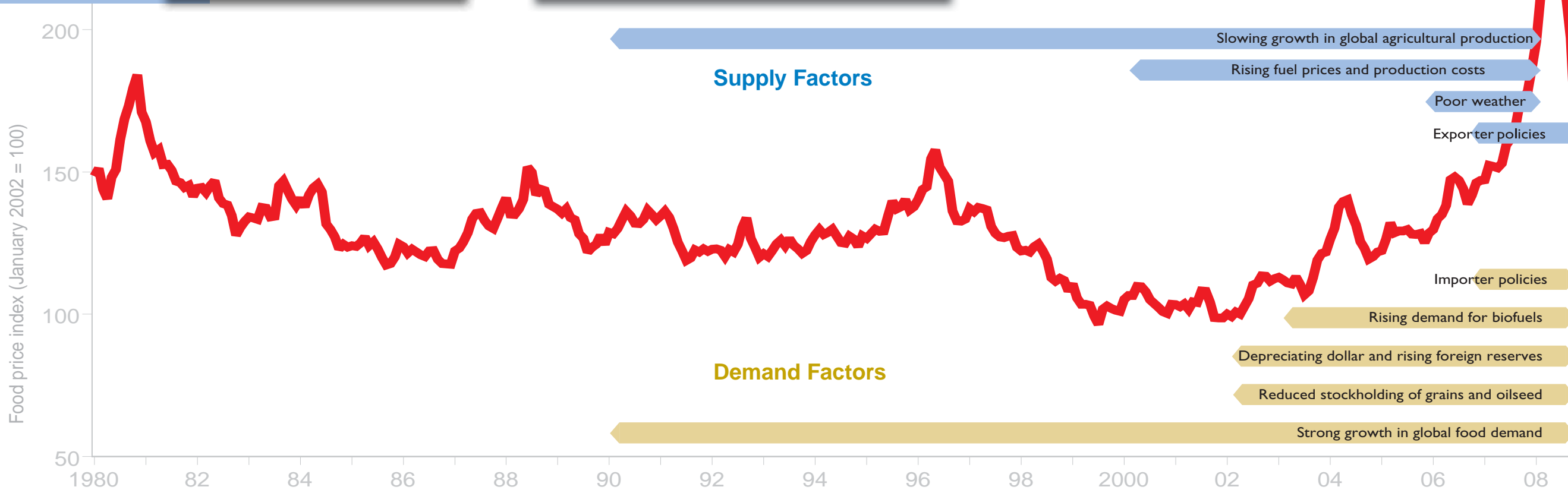
Importer policies

In 2007-2008, some countries adjusted policies to promote imports to help stabilize domestic supplies and prices:

- India, Indonesia, the EU, Thailand, and Korea reduced import tariffs.

Rising demand for biofuels

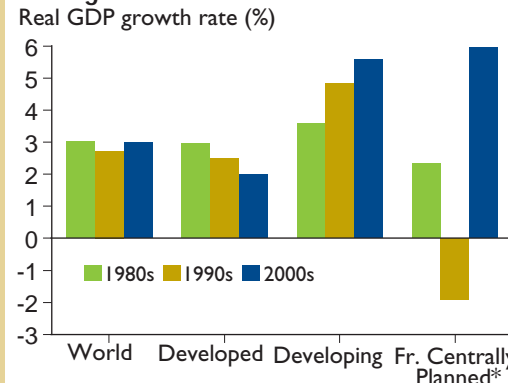
Use of grains, sugarcane, and vegetable oils to produce ethanol and biodiesel added to demand side pressures. While the share of cropland used to produce biofuel feed stocks remained small—about 3-4 percent of arable land in the major biofuel producing countries in 2007— biofuel uses accounted for important shares of growth in crop area during 2003-2008.



Strong growth in global food demand

In low income countries, relatively large shares of new income are spent on food, boosting food and feed demand.

Faster income growth in developing and former centrally planned countries during 1990-2007

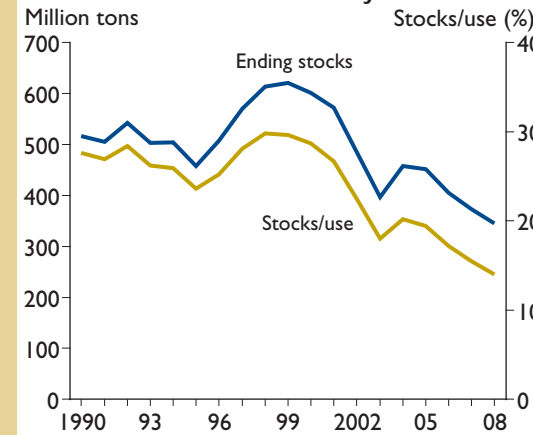


*Includes the Former Soviet Union & Eastern Europe.

Reduced stockholding of grains and oilseeds

Prices did not increase significantly until 2006, indicating that stockholders now preferred to hold smaller stocks. But, low stocks created an environment for price volatility when supply and demand shocks occurred during 2006-2008.

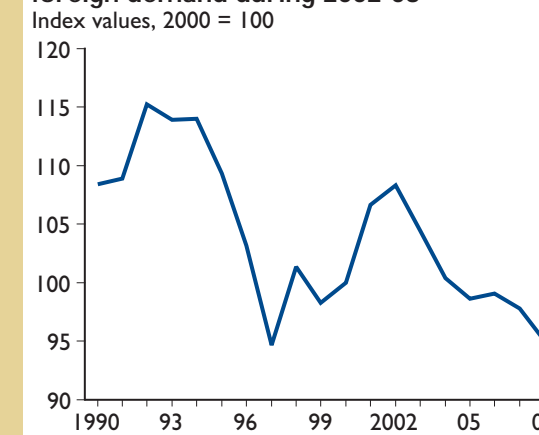
During 2002-2007, global grain and oilseed stocks declined to historically low levels



Depreciating dollar and rising foreign reserves

Prices of many food commodities remained relatively low in foreign currency terms because their prices are set in dollars. Also, large foreign currency reserves in many importing countries allowed them to continue to import despite rising dollar prices.

Depreciating U.S. dollar strengthens foreign demand during 2002-08



Rapid growth in global biofuel production during 2003-08

