



Global and Regional Food Consumer Price Inflation Monitoring

October 2014 – Issue 6

Global Overview

As forecasted in the previous release¹, global food consumer inflation has evolved in the range of 5-5.5% year-over-year in the period from May to July 2014. After a year-over-year increase of 5.1% in April and 5.4% in May 2014 (+5.4%, food price increases slowed down to 4.9% in July, the last month for which data were collected. We forecast year-over-year inflation of 3.2% in October 2014, in line with the steady reduction in the reference prices of major agricultural commodities (Chart 1 and Table 1).

This trend is foreseen to be common to all regions. Asia is forecasted to experience a 3.0% year-over-year food price increase in October 2014, half its May 2014 level. In South-America and in Africa, the slowdown is expected to be less marked. In Europe and in North America, consumer food inflation should remain low in the range of 1-2% and 2-2.5%, respectively, during our forecast period.

At the sub-regional level, only South-Eastern Asia is expected to experience increases in food inflation, with an increase of 7.2% in October 2014, following a 4.4% increase in July. At the other extreme, food inflation in Eastern Africa is expected to decline at a faster pace than in other sub-regions, falling to a 1.1% increase in October 2014, following a 4.4% increase in July. The food price dynamics in Eastern Africa is known to follow more closely changes in the price of major agricultural commodities², reflecting lower processing and marketing margins than typical for other regions.

With the exception of Eastern European countries, food prices in Europe will barely increase at all. From August to October 2014, Southern Europe expects to see a continuing decline.

¹Global and Regional Food Consumer Price Inflation Monitoring, July 2014, Issue 5

² See for example *Cachia, Regional Food Price Inflation Transmission, FAO ESS Working Paper No. 14-01, April 2014*

Chart 1 Food consumer price inflation – Global and regions (y-o-y)

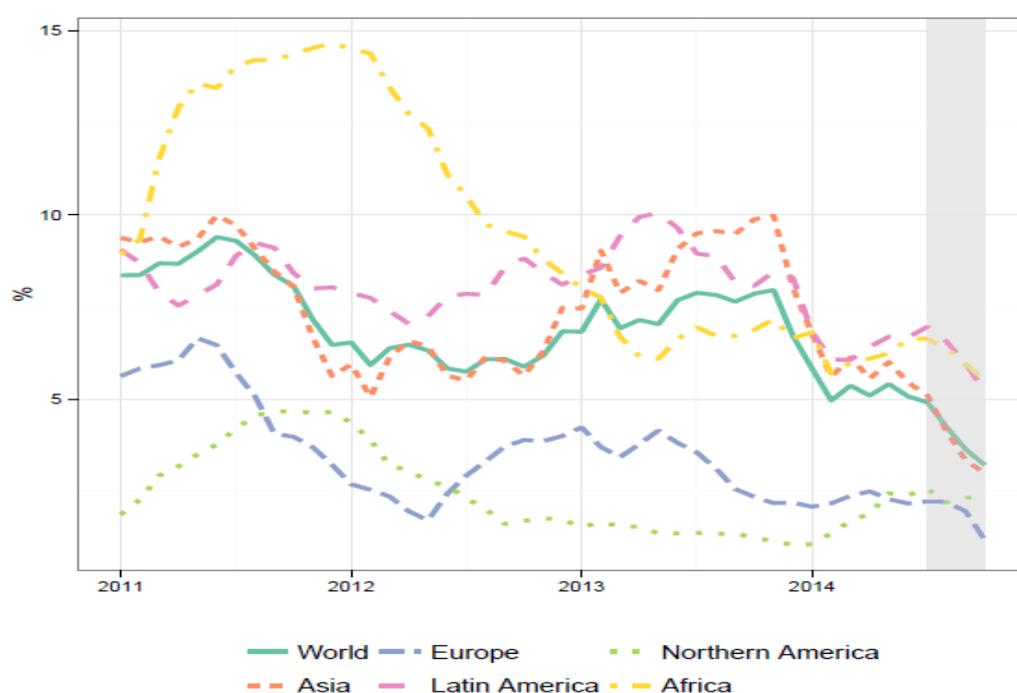


Table 1 Trends in global and regional consumer food price inflation

Growth rates in percent	2011	2012	2013	2014			
				Jul	Aug*	Sept*	Oct*
World	8.4	6.2	7.4	4.9	4.2	3.6	3.2
<i>Africa</i>	<i>13.0</i>	<i>11.2</i>	<i>6.9</i>	<i>6.6</i>	<i>6.4</i>	<i>5.9</i>	<i>5.5</i>
Southern Africa	7.0	7.3	5.7	8.6	8.4	7.5	6.1
Western Africa	9.3	8.6	6.9	8.5	8.8	8.9	8.7
Northern Africa	9.4	8.4	7.7	6.2	5.4	5.8	5.5
Central Africa	6.3	8.5	4.4	7.0	8.5	10.3	9.9
Eastern Africa	23.3	17.6	7.1	4.4	3.6	1.5	1.1
<i>Latin America and the Caribbean</i>	<i>8.4</i>	<i>7.9</i>	<i>8.9</i>	<i>7.0</i>	<i>6.6</i>	<i>6.0</i>	<i>5.2</i>
South America	9.5	8.4	10.5	7.7	7.3	6.8	5.6
Central America	5.9	6.9	5.5	5.7	5.2	4.3	4.4
Caribbean	7.2	6.3	5.6	3.6	3.6	3.9	4.3
<i>Northern America</i>	<i>3.7</i>	<i>2.6</i>	<i>1.4</i>	<i>2.6</i>	<i>2.2</i>	<i>2.3</i>	<i>2.4</i>
<i>Asia</i>	<i>8.6</i>	<i>6.1</i>	<i>8.8</i>	<i>5.1</i>	<i>4.1</i>	<i>3.3</i>	<i>3.0</i>
Eastern Asia	10.6	4.4	4.1	3.6	2.5	0.6	0.9
South-Eastern Asia	2.6	4.1	7.7	4.4	4.2	6.2	7.2
Western Asia	6.2	10.2	16.4	4.4	3.9	5.2	3.7
Southern Asia	8.8	8.1	13.5	6.9	5.8	5.1	3.8
<i>Europe</i>	<i>5.2</i>	<i>3.0</i>	<i>3.3</i>	<i>2.2</i>	<i>2.2</i>	<i>2.0</i>	<i>1.2</i>
Southern Europe	3.2	2.7	2.7	-1.5	-1.6	-0.8	-0.2
Eastern Europe	8.0	3.1	3.9	6.4	6.3	5.2	2.9
Northern Europe	5.1	3.0	3.1	-0.2	-0.2	0.1	0.4
Western Europe	2.3	2.9	2.8	-0.2	0.1	0.0	-0.1

Note: monthly inflation rates are year-on-year growth rates (month m / month m-12) * Forecasts

Table 2 Intra-regional variability in food price inflation

Standard deviations in percent	2011	2012	2013	2014*
Africa				
Southern Africa	3.7	1.5	0.7	2.0
Western Africa	8.0	5.5	5.1	7.4
Northern Africa	6.6	4.6	5.0	6.6
Central Africa	6.6	10.2	6.0	9.9
Eastern Africa	13.3	10.4	6.6	4.5
Americas				
South America	4.6	3.8	4.5	5.5
Central America	3.6	3.5	2.4	2.2
Caribbean	3.9	5.0	4.2	3.5
Northern America	0.9	0.2	1.0	0.5
Asia				
Eastern Asia	4.9	3.2	3.1	2.3
South-Eastern Asia	8.6	2.9	4.9	2.4
Western Asia	4.1	11.5	33.5	10.4
Southern Asia	7.0	11.3	12.2	6.6
Europe				
Southern Europe	3.6	2.4	3.0	2.0
Eastern Europe	10.8	2.9	3.6	5.3
Northern Europe	3.6	2.0	2.2	2.3
Western Europe	2.4	1.6	1.3	1.1

* Up to July 2014

Regional focus: Asia

Food inflation in Asian countries fell almost continuously since the end of 2013 after reaching a two and a half year peak of 10% in November 2013. The Asian region expects to see food price inflation to fall to 3% in October, compared to a 5.1% increase observed in July 2014. Declining food price inflation extends to all Asian sub-regions except to South-Eastern Asia, where food inflation is expected to remain persistently high.

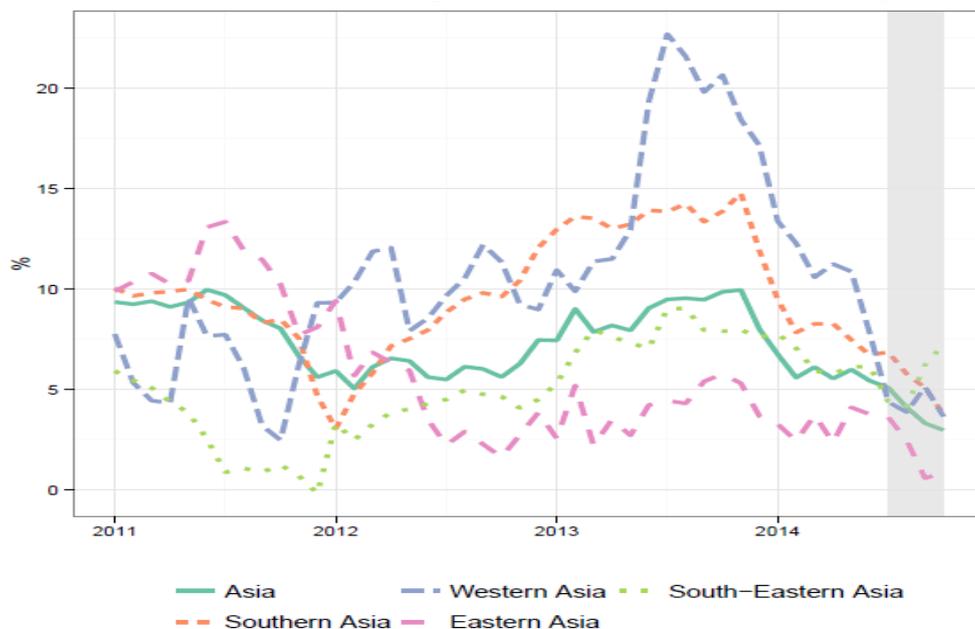
Part of this decline in food inflation is due to the fall in agricultural commodity prices, as measured, for example, by the FAO Food Price Index,³ which fell for the sixth consecutive month in September 2014. However, this factor is insufficient in explaining food inflation dynamics: transmission of price changes from international commodity markets to food consumer markets is slow and incomplete. On the basis of transmission elasticities for Southern Asia published in a recent study⁴, the decrease in agricultural commodity prices observed since April 2014 has resulted into a reduction of only 0.9% in food inflation in this region, an amount insufficient to explain the extent of the slowdown.

³ <http://www.fao.org/worldfoodsituation/foodpricesindex/en/>

⁴ such as Cachia (2014), already cited above.

Region and country-specific factors are, therefore, essential in explaining food inflation trends. Consumer inflation in China was particularly tame in the past few months, due to a slowdown in economic growth and persistent overcapacity in the industrial sector. Figures released recently by the National Bureau of Statistics indicate that inflation in China reached a four-year low of 1.6% in September. Food inflation followed the same trend as general inflation: in the eight months up to August 2014, food prices rose at an average pace of 3.4% year-over-year, compared to 4.2% for the same period of 2013. In August, pork prices, a big component of the food index, declined by 3.1%, while vegetable prices dipped 6.9%, dragging down food inflation.

Chart 3: Food consumer price inflation – Asia and sub-regions (y-o-y)



In India, food inflation in the first eight months of 2014 almost halved to 7.5%, compared to 13.4% in the same period in 2013. Recent data released by the Central Bank of India shows that food inflation reached a multi-year low in September 2014, dragged down by lower vegetable prices. It is too early to say if this is the result of supply-side measures recently taken by the government to curb food inflation, which consistently evolved at two-digit rates, or if the slowdown in inflation was due to a combination of a number of factors.

Food inflation was considerably lower in Western Asian countries, with a year-over-year inflation rate that dropped from high double-digit rates in 2013 to less than 5% in July 2014. Our forecasts for the three months to October 2014 indicate a further slowdown in food inflation. This regional trend masks divergent country dynamics: food inflation in Turkey, the most important country of the region in terms of population, remains at high levels of over 10%; while food inflation in Saudi Arabia started to slowdown in May 2014 and remained at nil or even negative for Jordan and Israel, respectively.

In contrast to almost all other regions, our forecast for South-Eastern Asia indicates a pick-up in food inflation from 4.4% in July 2014 to 7.2% in October. Recent trends in some of the major countries of this region confirm the persistence of food inflation: in Indonesia, chicken and soybean prices are rising and retail rice prices, which evolved at relatively high levels in the first half of 2014; they are expected to rise again in October⁵. In the Philippines, the price of commercial rice rose steadily over the past year

⁵ Asia Pacific Food Price and Policy Monitor, October 2014, Issue 15, FAO

due to a reduction in supply caused by lower-than-normal precipitation. In addition, seasonal supply shortages have led to persistently high inflation in the price of fruits and vegetables⁶.

Box 1 Data revisions

- Chad has been added to the computation of food inflation estimates for Central Africa
- Argentina has revised upwards its food inflation figures for the first months of 2014

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