

The Facts Behind Food Prices

SUPPLY SIDE FACTORS

WEATHER

Drought, flooding and freezing reduce supply, which can negatively impact the production of key grains like corn and soybeans and cause dramatic price increases in essential crops.

DISEASE

Diseases and infestations can cause shortages in grains and livestock, which reduce food supply; on average, roughly 20 to 40 percent of global crop production falls prey to diseases and pests on an annual basis.

DOMESTIC OLD-CROP AVAILABILITY

Grain inventories are decreasing globally as more grains are used to meet rising demand. A limited supply in store translates to higher prices.

PLANTED & HARVESTED ACREAGE

Farmland is being lost at an alarming rate due to development and other factors. Additionally, farmers need to allocate their limited acres to a variety of crops, meaning pricing relationships between grains will change over time.

TRANSPORTATION

High oil prices can drive up the costs of bringing food to market and these costs are passed along to consumers. Transportation shortages can also raise food prices.

GLOBAL SUPPLY

As more countries emerge as large producers of crops, global supply has an impact on food prices. Regardless of domestic supply, diminished soybean production in Brazil or increased wheat harvests in the Black Sea will drive global food prices. Also, international political unrest can disrupt productivity, impacting supply and commodity pricing.



DEMAND SIDE FACTORS

BIOFUELS POLICY

Due to U.S. mandates, approximately 40 percent of the U.S. corn crop is used for ethanol, and about 8 billion pounds of soybean oil is used for biofuel production, diminishing supply for other uses.

ANIMAL PROTEIN DEMAND

Domestically, per capita consumption of meats like beef, which are grain-intensive to produce, have decreased over the past several decades, while consumption of meats like chicken and plant-based proteins, have increased. Any significant downturn in animal consumption trends will mean less demand for feed grain inputs, leading to lower prices all other things the same.

EXPORT DEMAND

The U.N. estimates 50 percent more food will need to be produced by 2030 to meet growing global demand with world population expected to reach 9 billion by 2050. A growing middle class in populous countries like China and India means diets will change, with increased demand for meat and grains.

DISEASE

Diseases that negatively impact livestock can result in lower demand for feed grain and also increase prices for animal protein.

INTERNATIONAL FACTORS

CURRENCY FLUCTUATIONS

The strength of the U.S. dollar, relative to other currencies, has an impact on all commodity prices. Raw materials are almost always priced in U.S. dollars, so a producer often needs to adjust prices based on production costs in local currency.

INTERNATIONAL TRADE RELATIONSHIPS

Government policies, such as tariffs to support domestic production, can reduce competition, limit supplies available for international trade and impact prices.