

Food Inflation Across Rich Nations Drops to Pre-Ukraine War Levels

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Annual change in prices across 38 industrialised countries eased to 5.3% in February, says OECD data

Food inflation across rich nations has dropped to its lowest level since before Russia's full-scale invasion of Ukraine, with a slowdown in price growth easing pressure on millions of households hit by the two-year surge in food costs.

The annual change in consumer food prices across 38 industrialised countries eased to 5.3 per cent in February, down from 6.2 per cent in the previous month and well below a peak of 16.2 per cent in November 2022, according to the latest OECD data.

Food prices surged in 2022 due to rising energy costs and lower trade caused by the war in Ukraine, while larger than expected droughts and Covid-related supply chain disruptions also took a toll. Higher prices contributed to a record 333mn people experiencing acute food insecurity in 2023, according to the World Food Programme.

"We have seen the worst of high food inflation," said Carlos Mera, head of agricultural commodities at Rabobank.

"Agricultural commodity prices have dropped significantly in the last two years, since the peak in prices that followed the invasion of Ukraine, and this is acting as a disinflationary force even at [the] retail level."

Food inflation has fallen sharply across OECD countries

Average annual % change of consumer prices for food and non-alcoholic beverages



Sources: OECD, LSEG
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“Supply chains have fully normalised, gas prices have come down to levels which are historically considered more normal and Ukraine grain exports have resumed via the Black Sea corridor,” said Tomasz Wieladek, economist at investment company T Rowe Price.

“The unwinding of these factors suggests that global food disinflation will probably continue.”

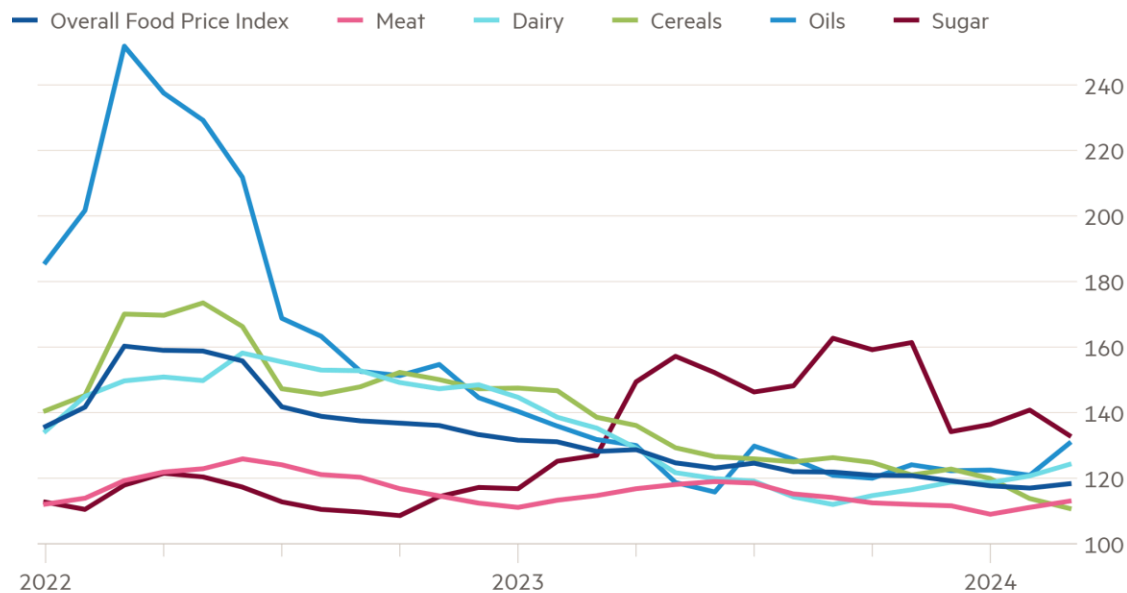
The OECD is expected to comment on the food price figure, which is the lowest since October 2021, in its broader inflation update on Monday.

Separate figures published on Friday by the UN Food and Agriculture Organization (FAO) showed that the prices of foodstuffs including cereal, sugar, and meat had generally come down from their record peaks in 2022.

The FAO food commodity price index increased marginally to 118.3 in March, following a seven-month decline. But the figure was still down 9.9 points from last March.

Commodity prices have declined from 2022 peaks

FAO Food Price Index



Source: FAO
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The easing in food price inflation was widespread across industrialised countries in February, with the latest OECD reading halved or almost halved from recent peaks.

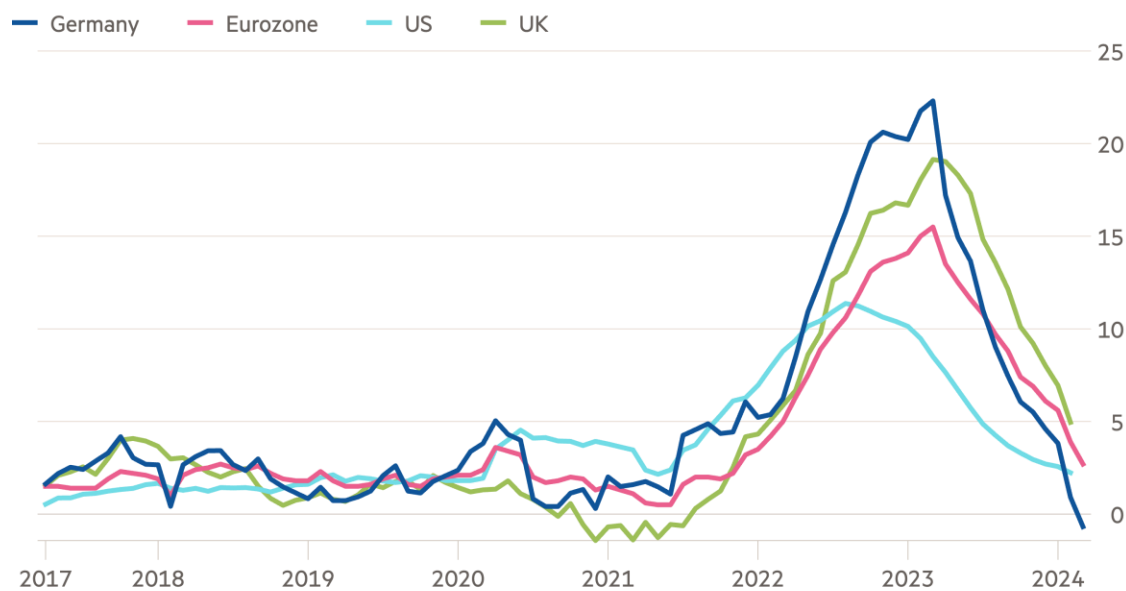
In the US, annual food price inflation dropped to 2.2 per cent in February, down from a peak of 11.4 per cent in August 2022 and the lowest since May 2021.

In the UK, prices for food and non-alcoholic beverages rose 5 per cent in the year to February, the lowest since the start of 2022 and well below the 45-year high of 19.2 per cent in March 2023.

Across the eurozone, the annual rate of food and non-alcoholic beverage prices eased to 2.7 per cent in March, the first reading below 3 per cent since November 2021, according to flash Eurostat estimates.

Annual food inflation is easing in many western countries

Annual % change of consumer price index



Eurozone=food, alcohol and tobacco; UK=food and non-alcoholic beverages
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Some countries continue to struggle with higher-than-normal food prices. The March uptick in the FAO index was driven by a surge in prices for vegetable oils such as soy, sunflower and rapeseed, due to a seasonal decrease in output and an unexpected rise in demand from south-east Asia.

“Generally, food price inflation is coming down in the developed world and emerging markets, but we are seeing pockets where things are still difficult, most notably, countries with exchange rate pressures that rely on imports,” said Kiran Ahmed, lead economist at Oxford Economics.

Turkey, an OECD country, registered annual food inflation of 70.4 per cent in March as the lira has continued to weaken against the dollar. Similarly, food inflation accelerated to an annual rate of 37.9 per cent in February in Nigeria, which relies on foodstuffs imports and recently devalued its currency.

There has also been a sustained increase in food prices in many countries where rice is a dietary staple, after an Indian ban on rice exports affected supply. Standard rice prices were up 25 per cent annually in February, according to the IMF, and food price inflation has continued to rise in countries that rely on imports of Indian rice, such as the Philippines and Bangladesh, at 3.4 per cent and 9.44 per cent in the same month.

However, the fall in wholesale agricultural prices, especially for cereal, points to disinflation continuing in most countries in the months ahead.

“In past price spikes, after a delay, [agricultural] producers have shifted to meeting demand,” said Steve Wiggins, principal research fellow at ODI, a global affairs think-tank. “I expect to see that prices will continue to fall.”

The fall in the prices of agricultural commodities has not stopped food consumer prices from rising overall because commodities account for a relatively small proportion of the retail costs.

The price of bread, for example, also depends on the cost of work, marketing, packaging, energy, distribution, profit margins and promotion. Mera at Rabobank estimates the price of wheat makes up 10 per cent of the total bread cost at most.

Commodities prices are also passed to consumers with a time lag, meaning that recent agricultural price declines will be reflected on grocery shelves in the coming year.

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