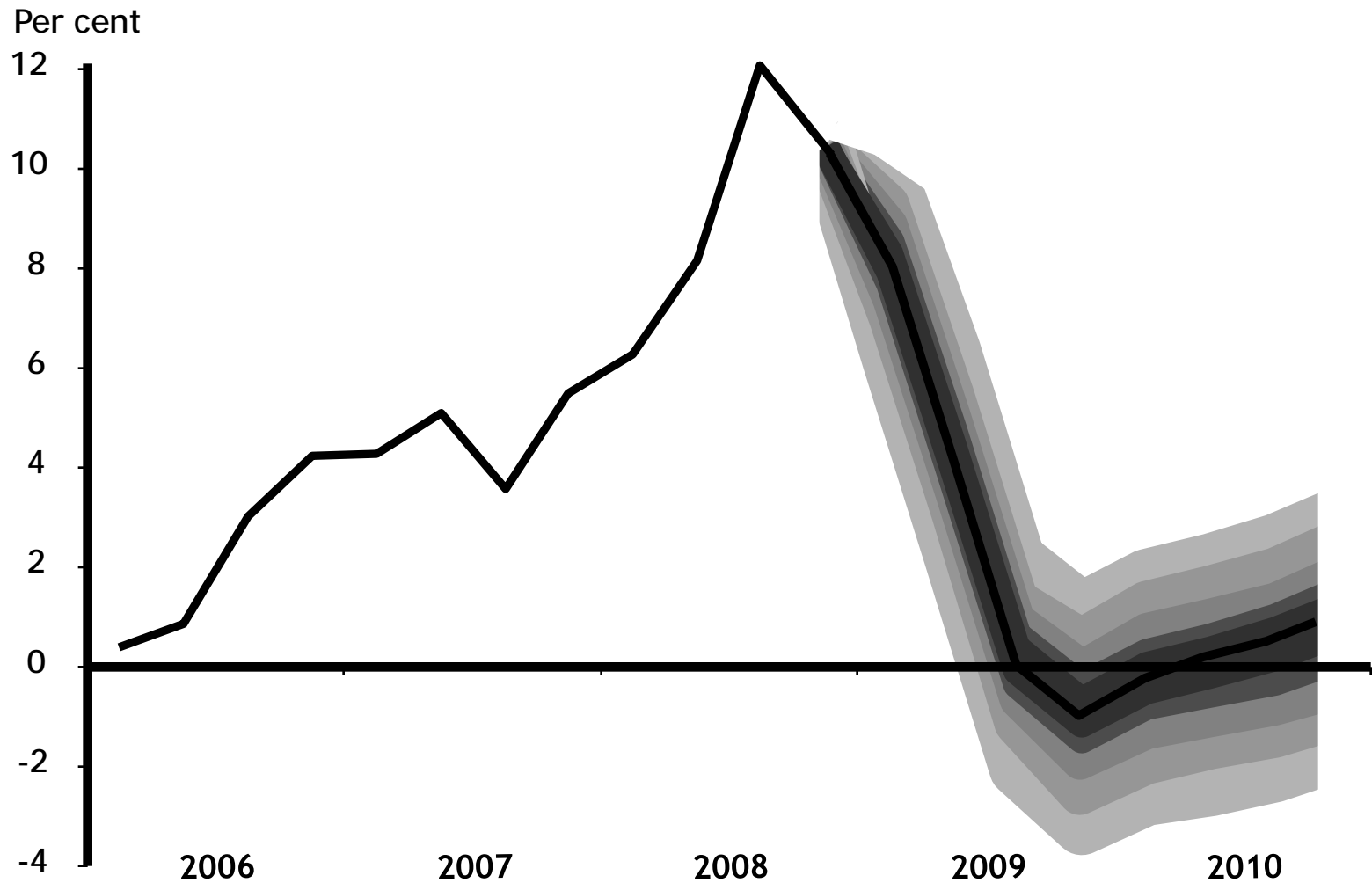


# What is driving food prices?

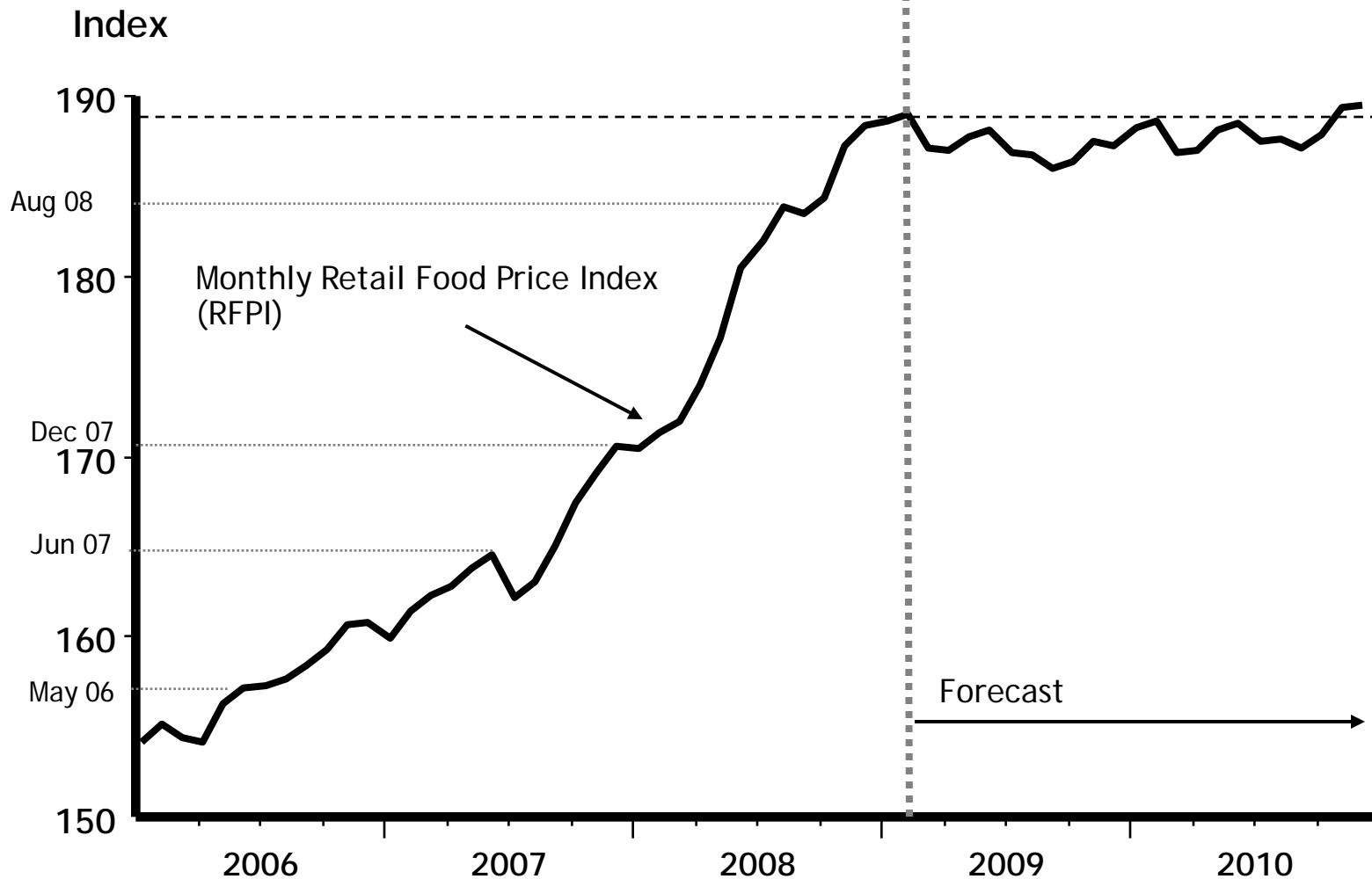


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# EFFP's Retail Food Price Inflation Forecast



# The Level of Food Prices



Source: Office for National Statistics & EFFP Calculations

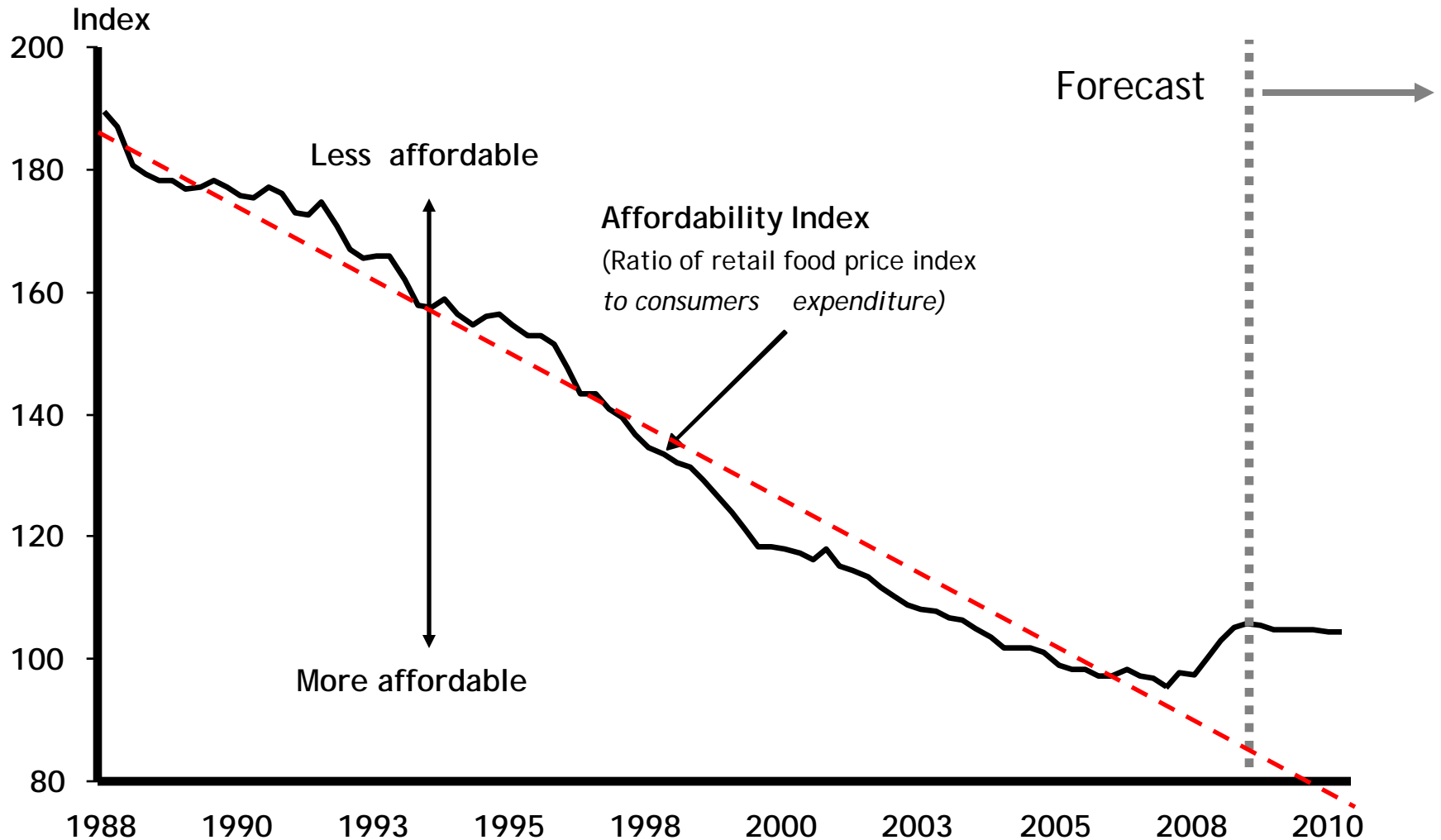
# UK economy - outlook

- Fall of 6% or more in GDP, peak to trough
- Much higher unemployment
- Lower growth in consumers' expenditure
- Near zero retail inflation
- Increased tax rates to reduce public debt

# Impact on food sector

- Slower growth in the value of food expenditure:
  - Consequence: more intense competition for market share
  - But impact very mixed e.g. eating in/eating out
  - And volumes less affected?
- Food less affordable:
  - Consequence: more consumer interest in value and less on socially responsible agenda e.g. environment

# Food Affordability



Source: Office for National Statistics & EFP Calculations

# What is driving food prices?

## Downward pressure on food prices

- Consumer expenditure falling
- People trading down
- Demand for value for money

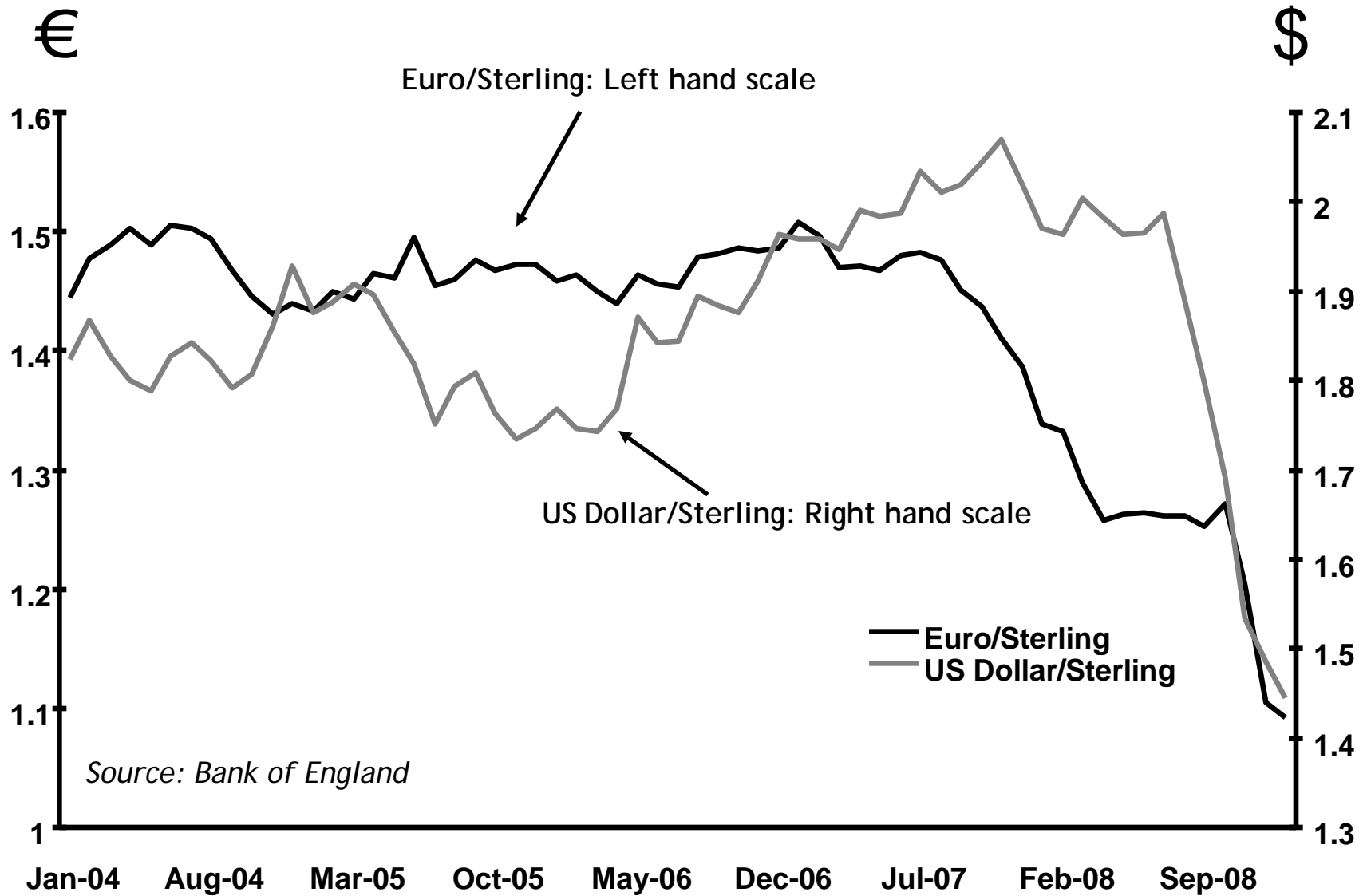
## Existing upward pressure on raw materials

- Lag in feed through of last year's price rises
- Hedges coming to an end

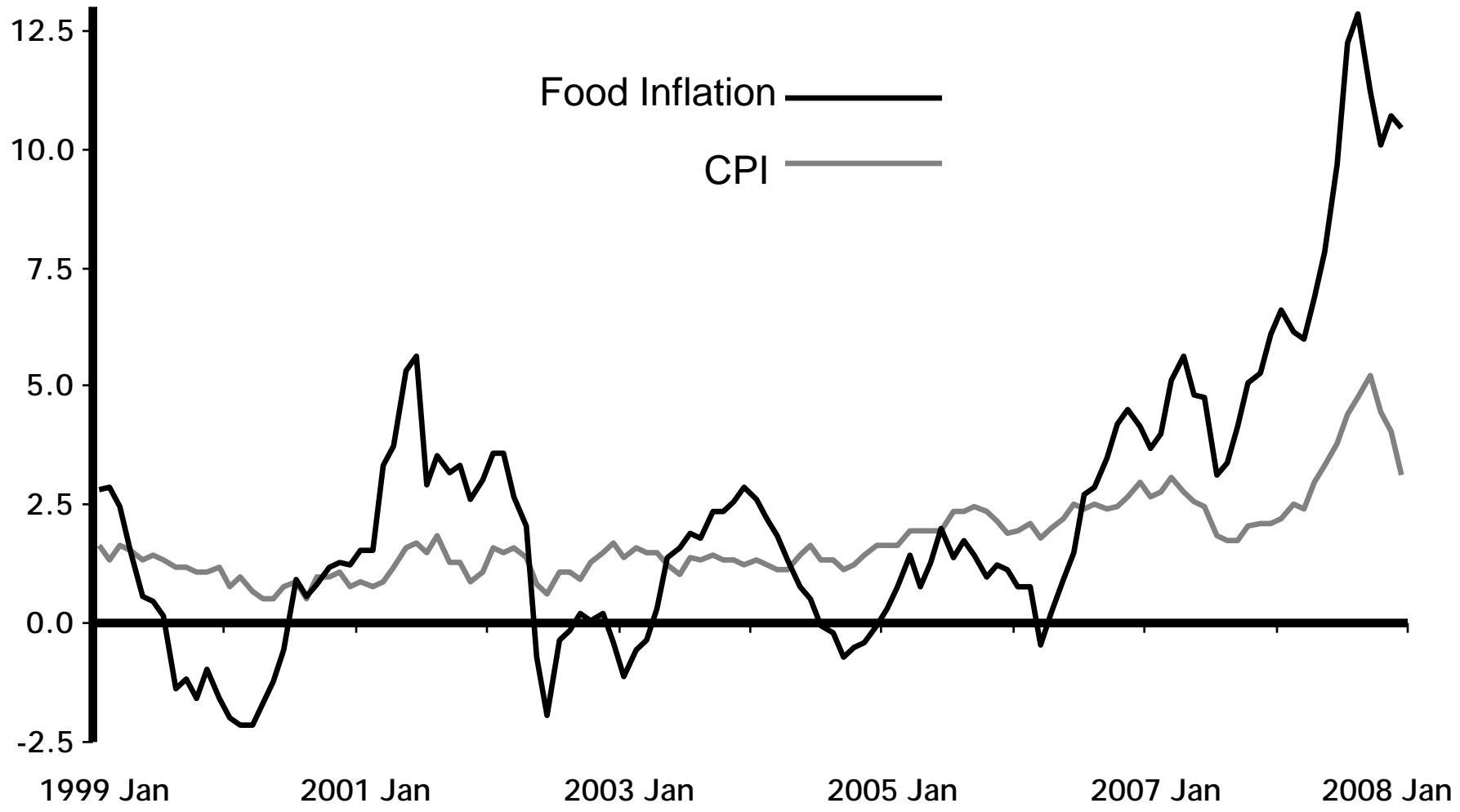
## Additional upward pressure on raw materials

- Sterling much weaker
- Imported raw materials more expensive
- CPI still rising

# Sterling (direct exchange rate)



# CPI & food inflation



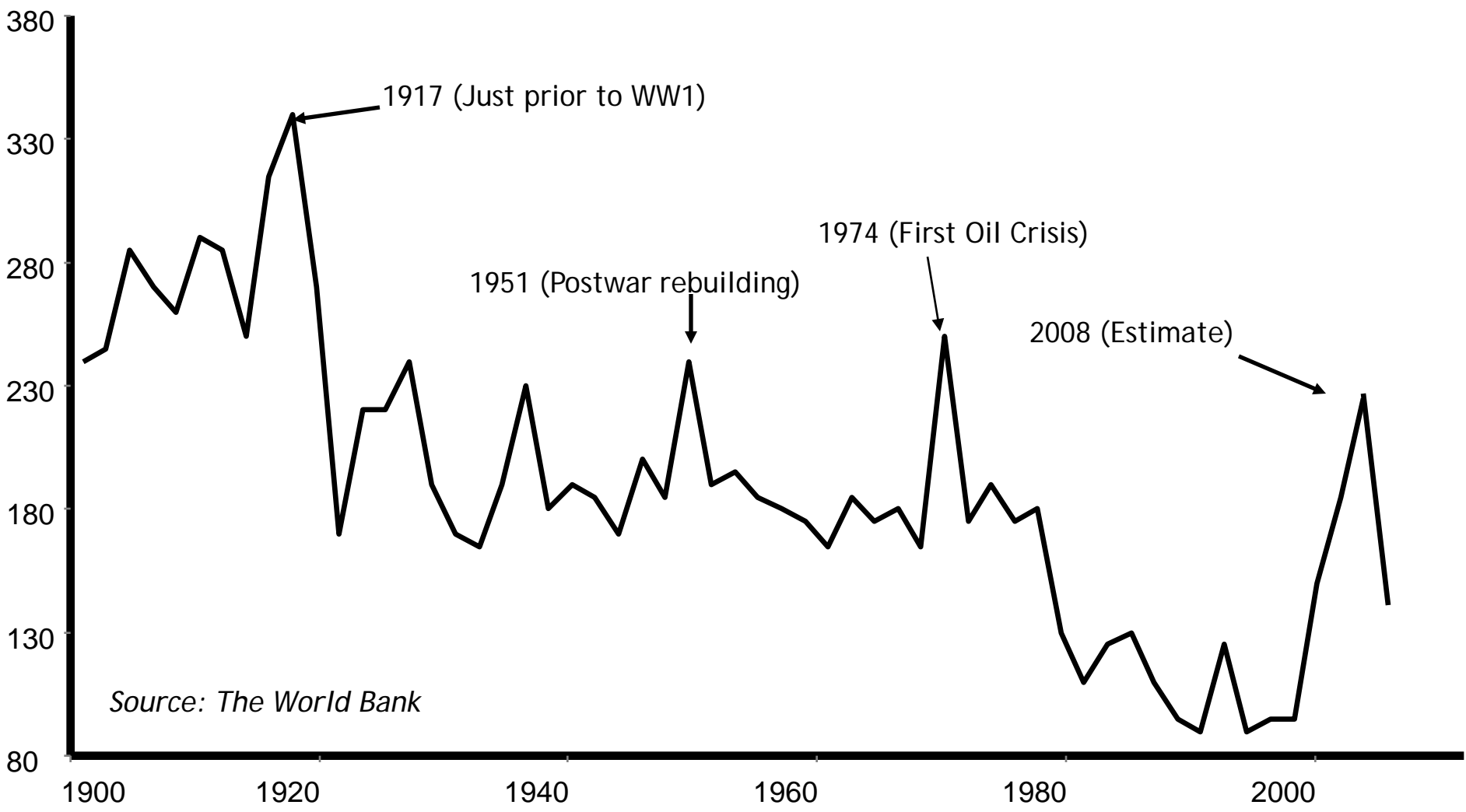
# What is driving food prices?



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# Historic Cycle of Commodity Boom and Bust

Real non-energy commodities index



Source: The World Bank

# Bucking the trend: *why agricultural commodities may react differently*

Demand from emerging markets



Bio-fuels market

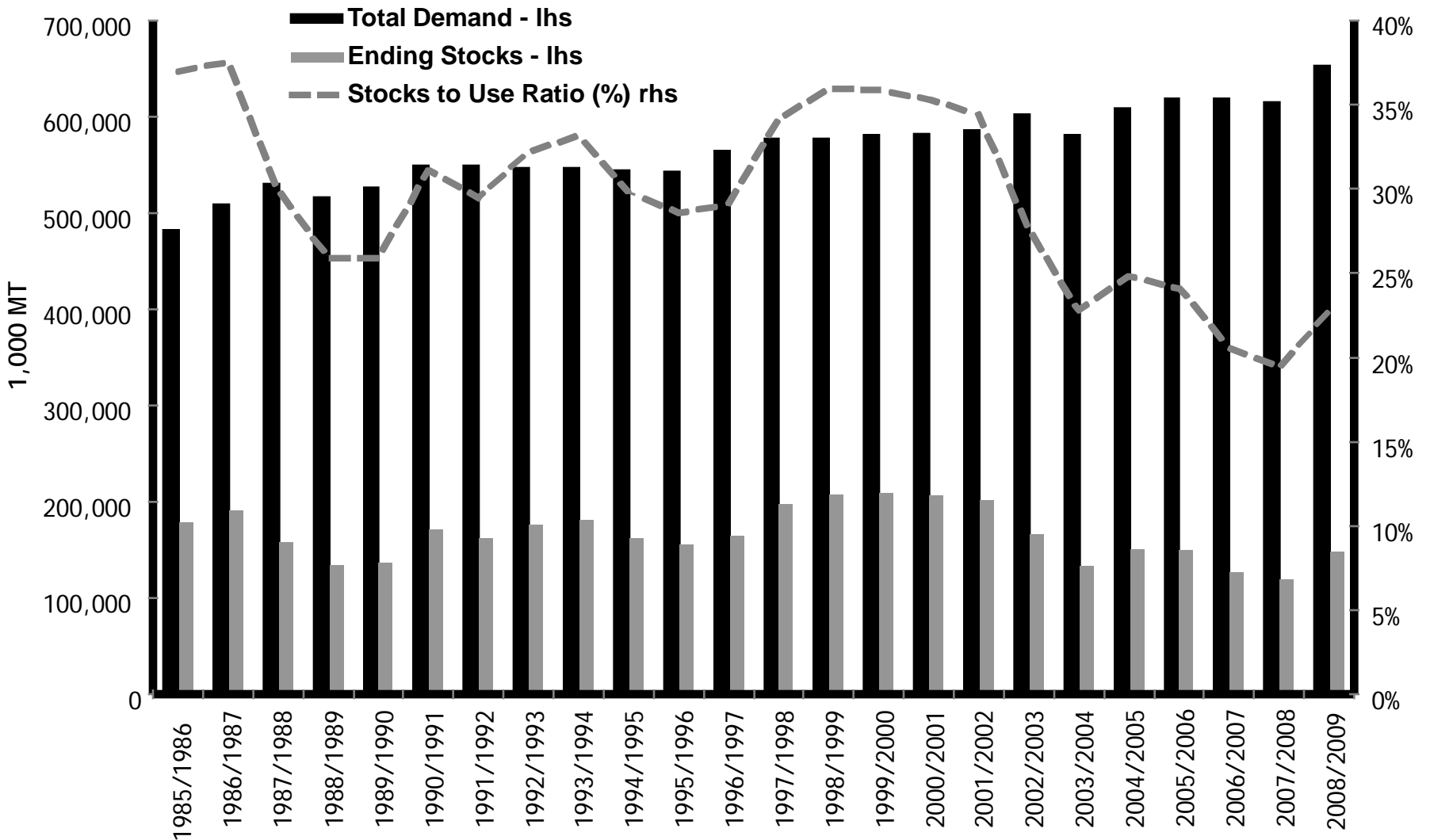


High costs of agricultural production



# World Wheat Stocks-to-Use 1985/1986 to 2008/2009

Source: HGCA



# What is driving food prices?



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