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## Food versus Fuel – Redux

The 2010 Conference of the Food Distribution and Research Society  
Sandestin, FL October 19, 2010

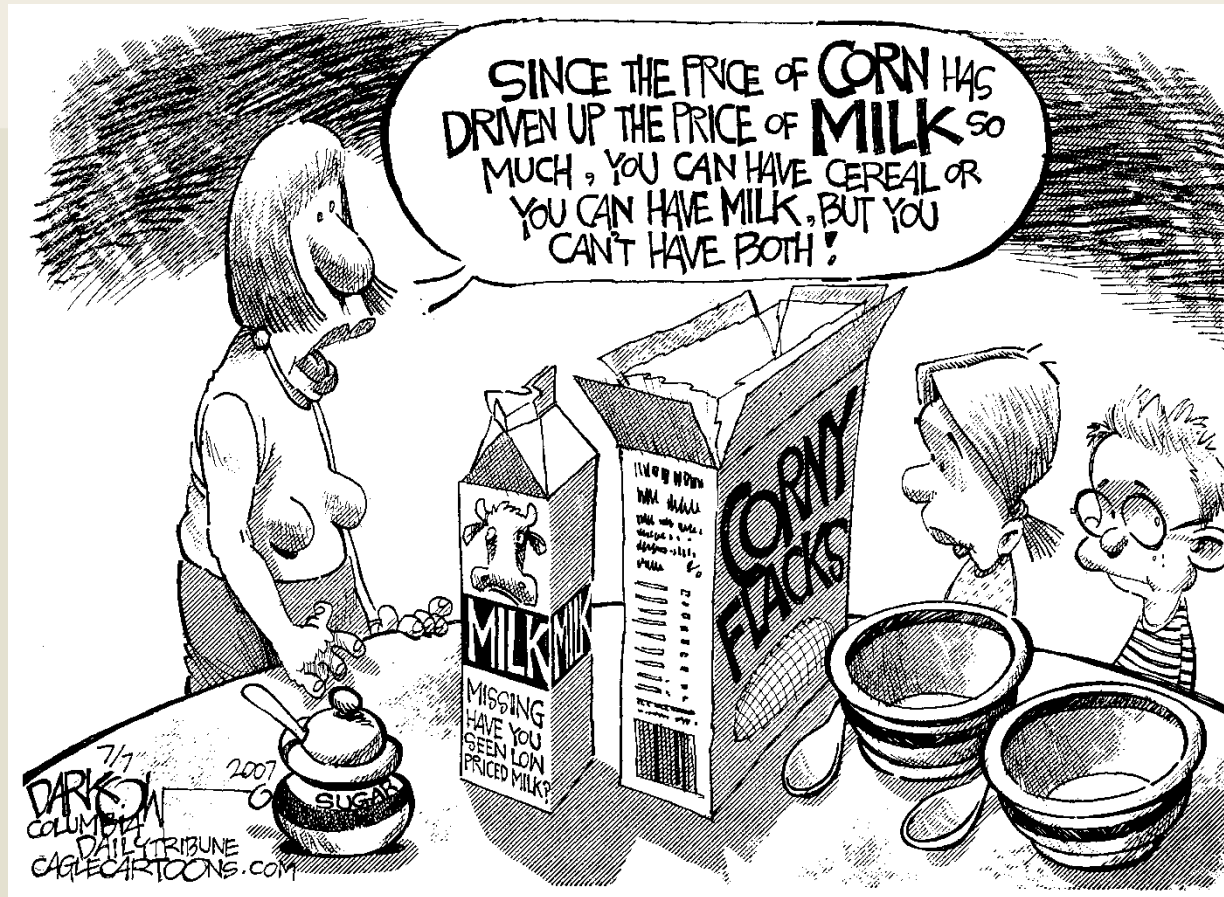
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*Cardno ENTRIX*

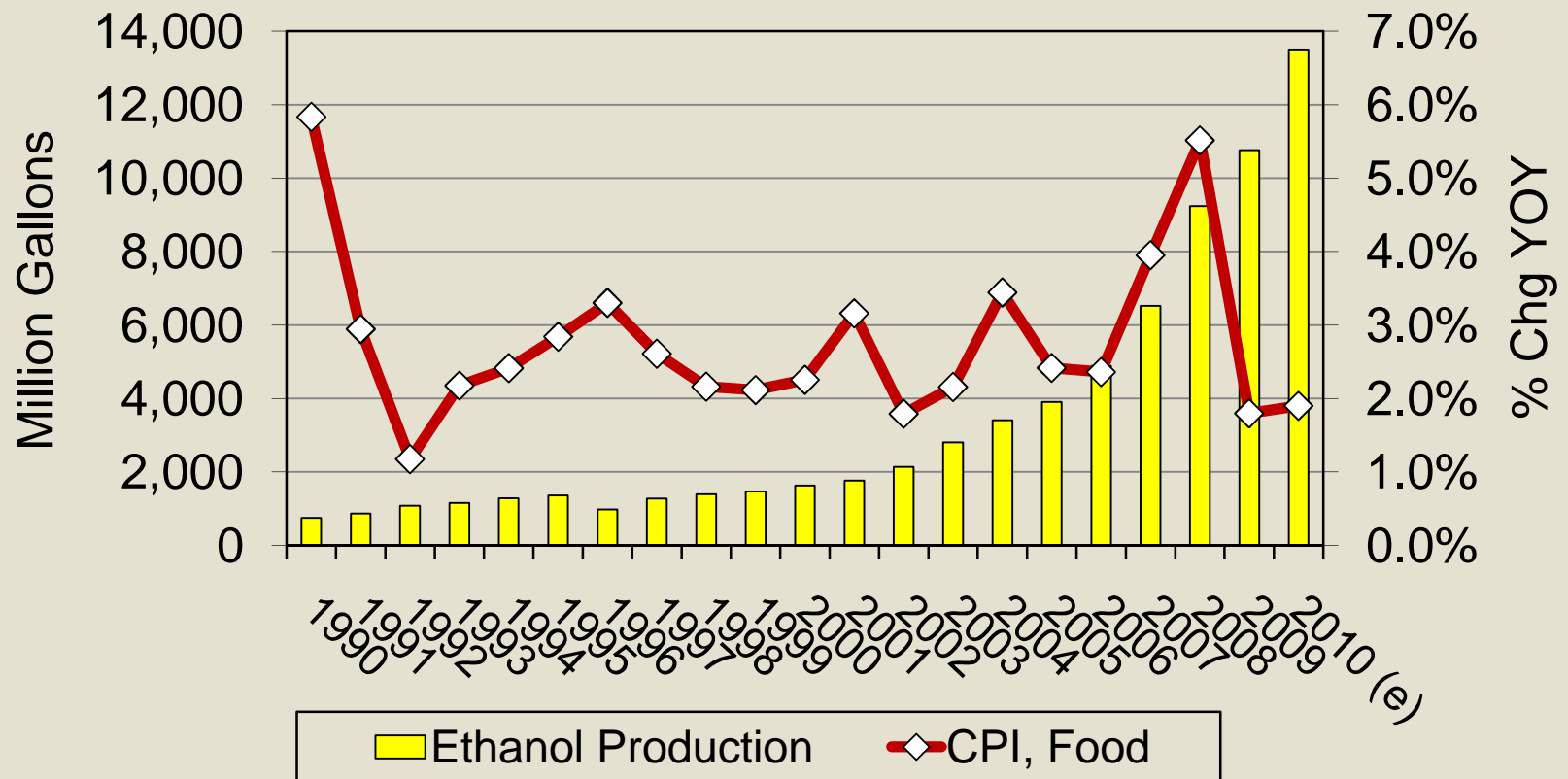
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# Remember the food vs fuel controversy?



# Turned out to be much ado about nothing

## Ethanol Production and Food Price Inflation

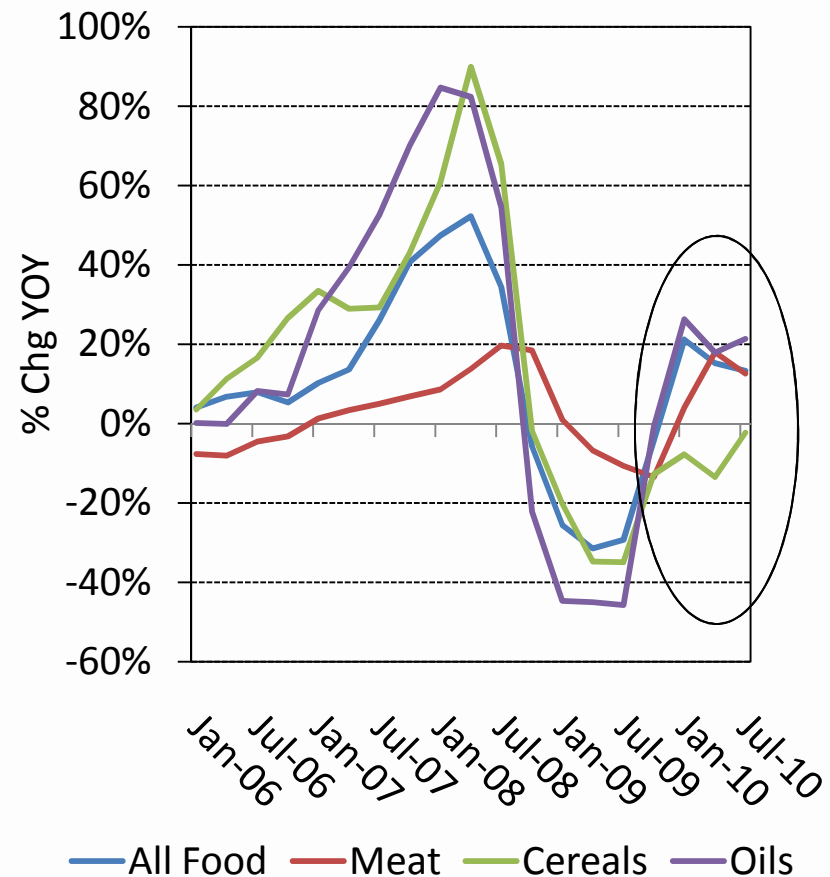


Source: BLS, RFA

# Is the same thing happening again?

- Increasing ethanol production and recent EPA approval of E15 are again stirring food inflation fears.
- Global food prices are recovering but to nowhere near 2008.
- Major reason for increases is “short” 2010 crops.
  - 31% decline in Russian wheat
  - 3.4% decline in U.S. corn
  - 5.3% drop in BZ & AR soybeans

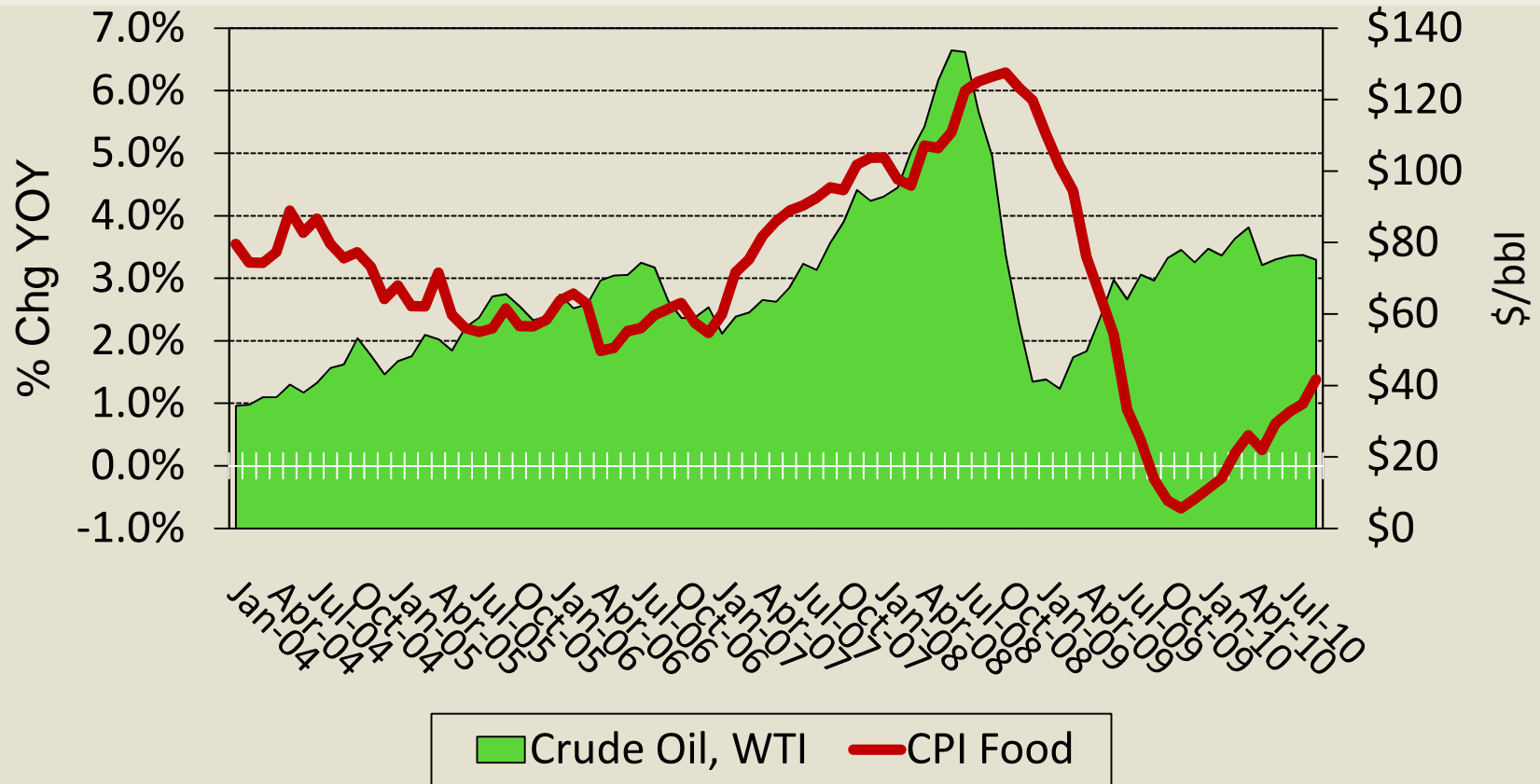
FAO World Food Price Index



Source: FAO/USDA WASDE

# Oil drove consumer food prices in 2008, current relationship is less clear.

## Food Price Inflation and Oil Prices

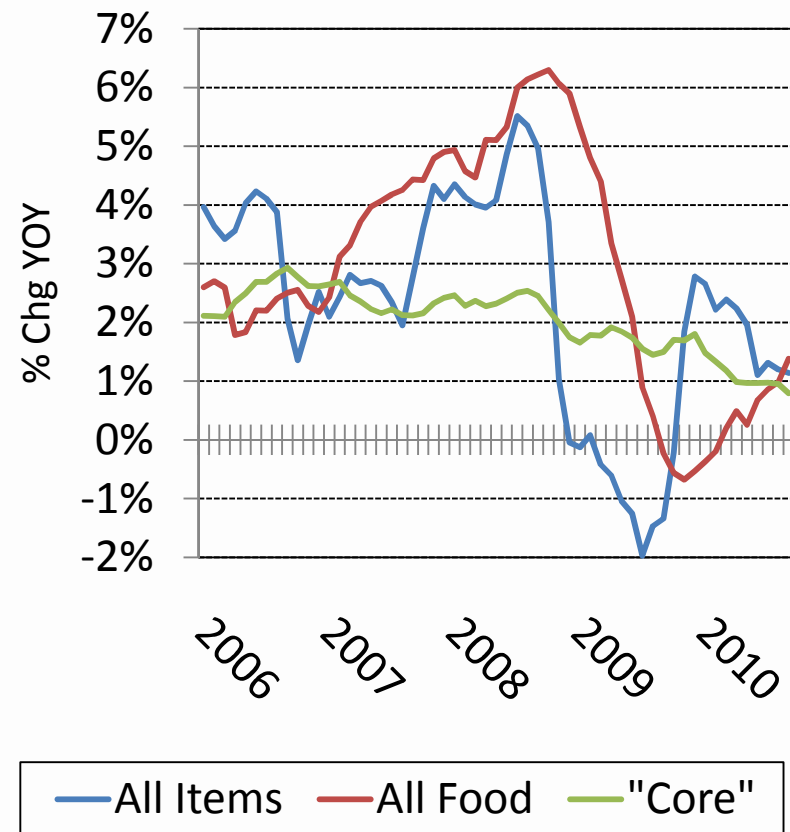


Source: BLS; EIA

# Inflation? We don't got no stinking inflation!

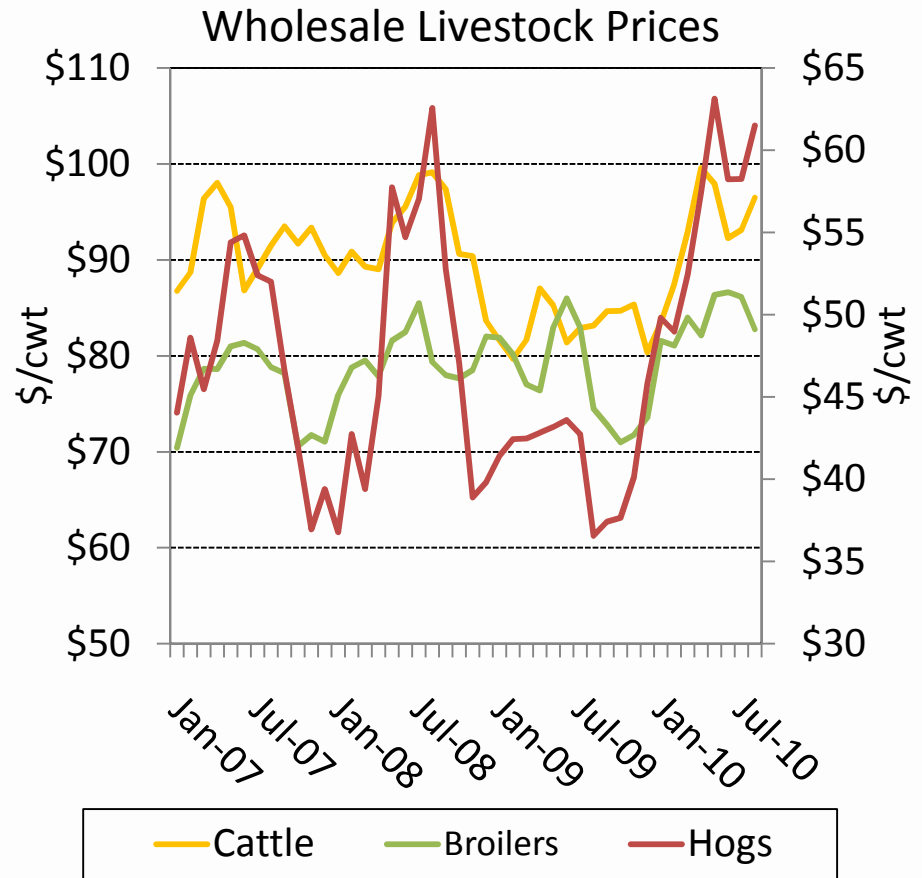
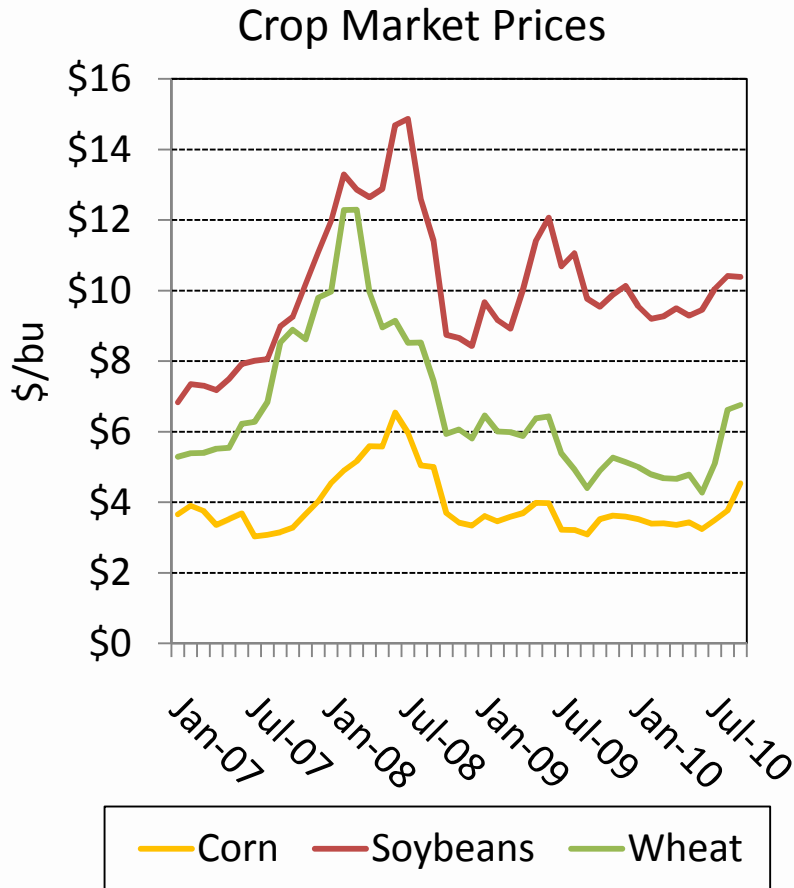
- There is little evidence of inflation in the U.S. economy.
- “Core” inflation continues to decline prompting fears of deflation.
- The Fed is considering inflation as a strategy to stimulate the economy!
- Consumer food prices are recovering from the sharp plunge following the 2008 commodity bubble and the trend is up.

CPI, Urban Workers



Source: BLS

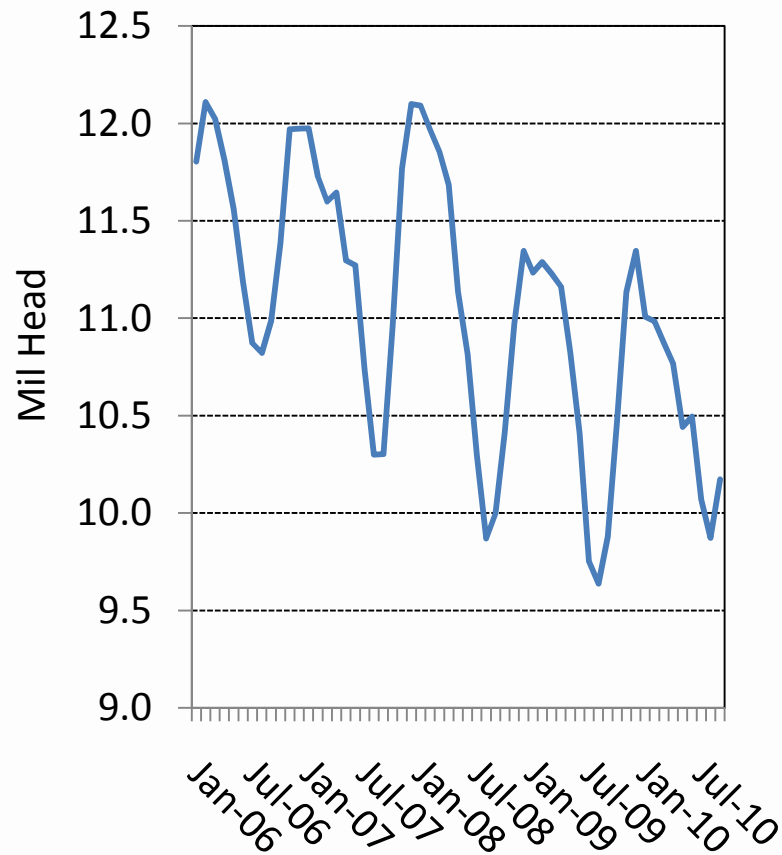
Why the fears? Crop prices have increased but not to near 2008 levels. Livestock prices have recovered.



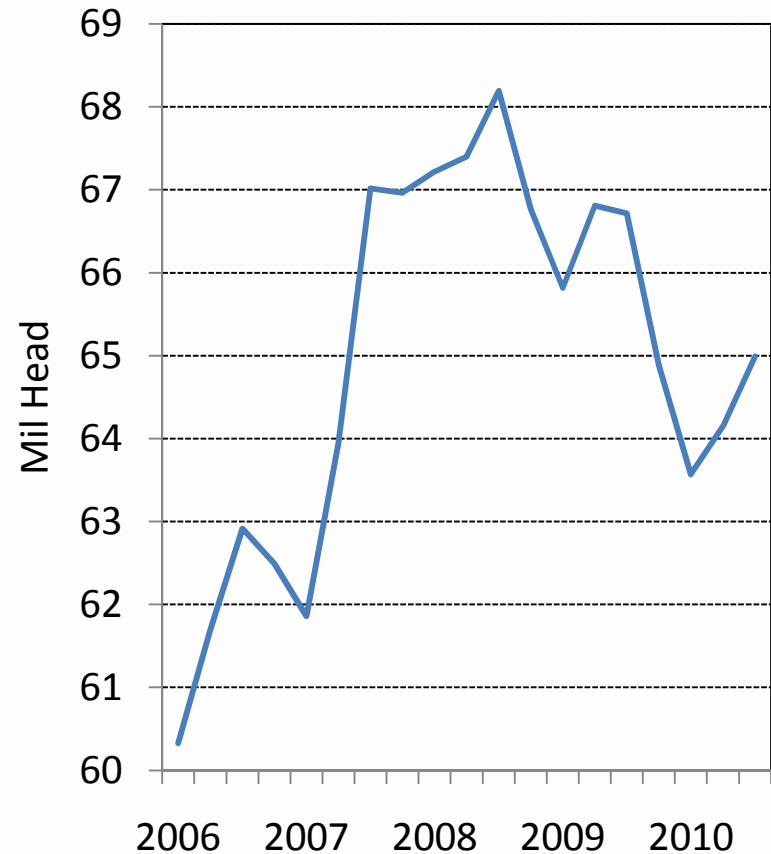
Source: USDA/ERS

# Current meat prices are the result of production decisions made over the past two years

### Cattle on Feed

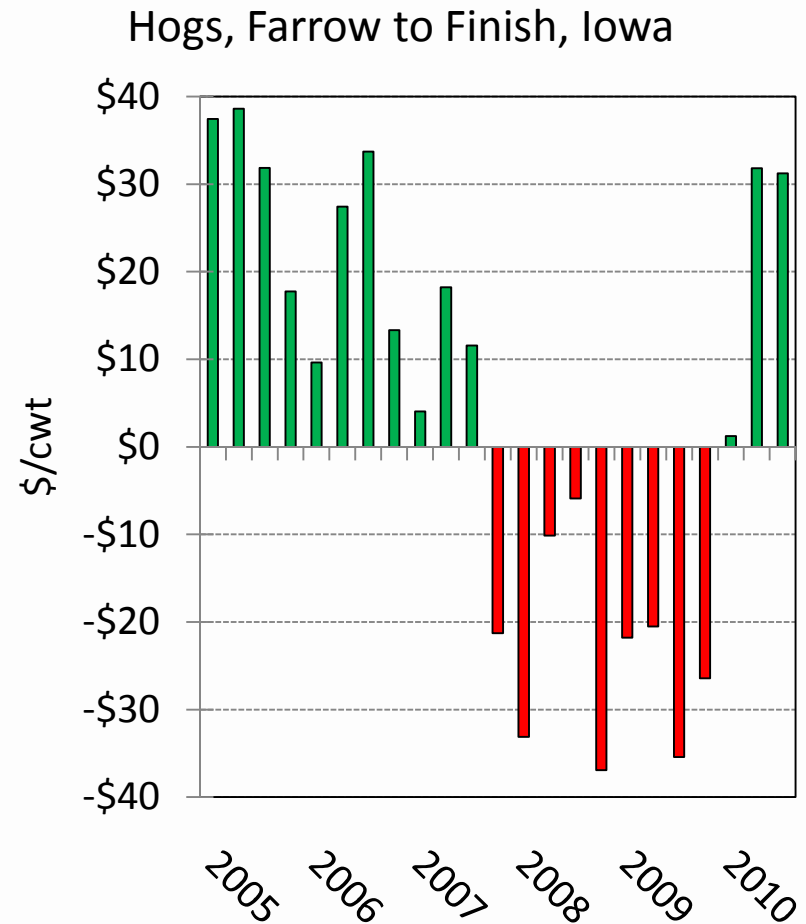
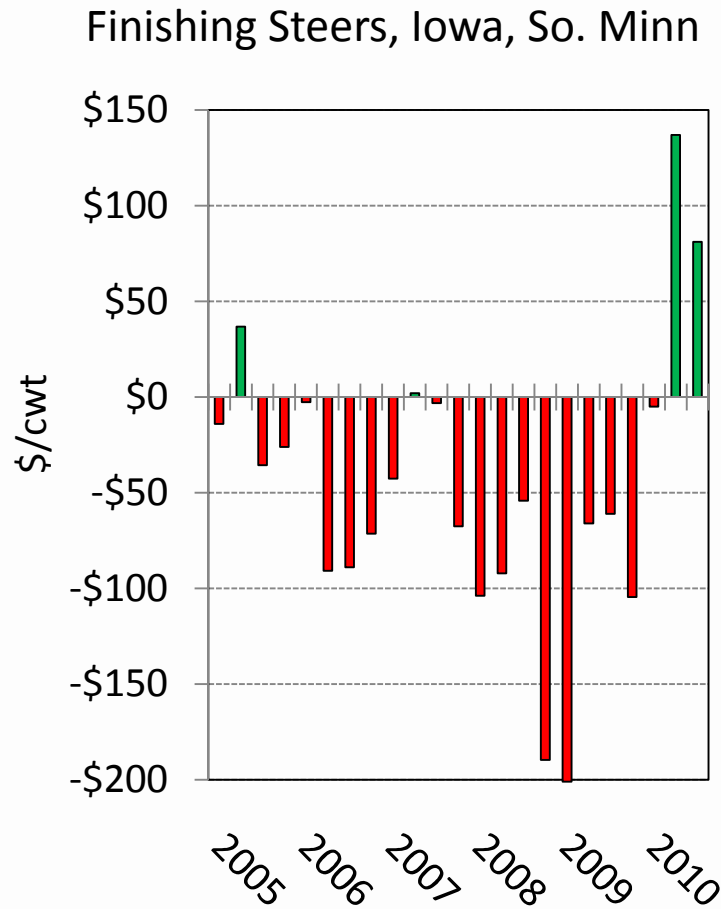


### All Hogs & Pigs



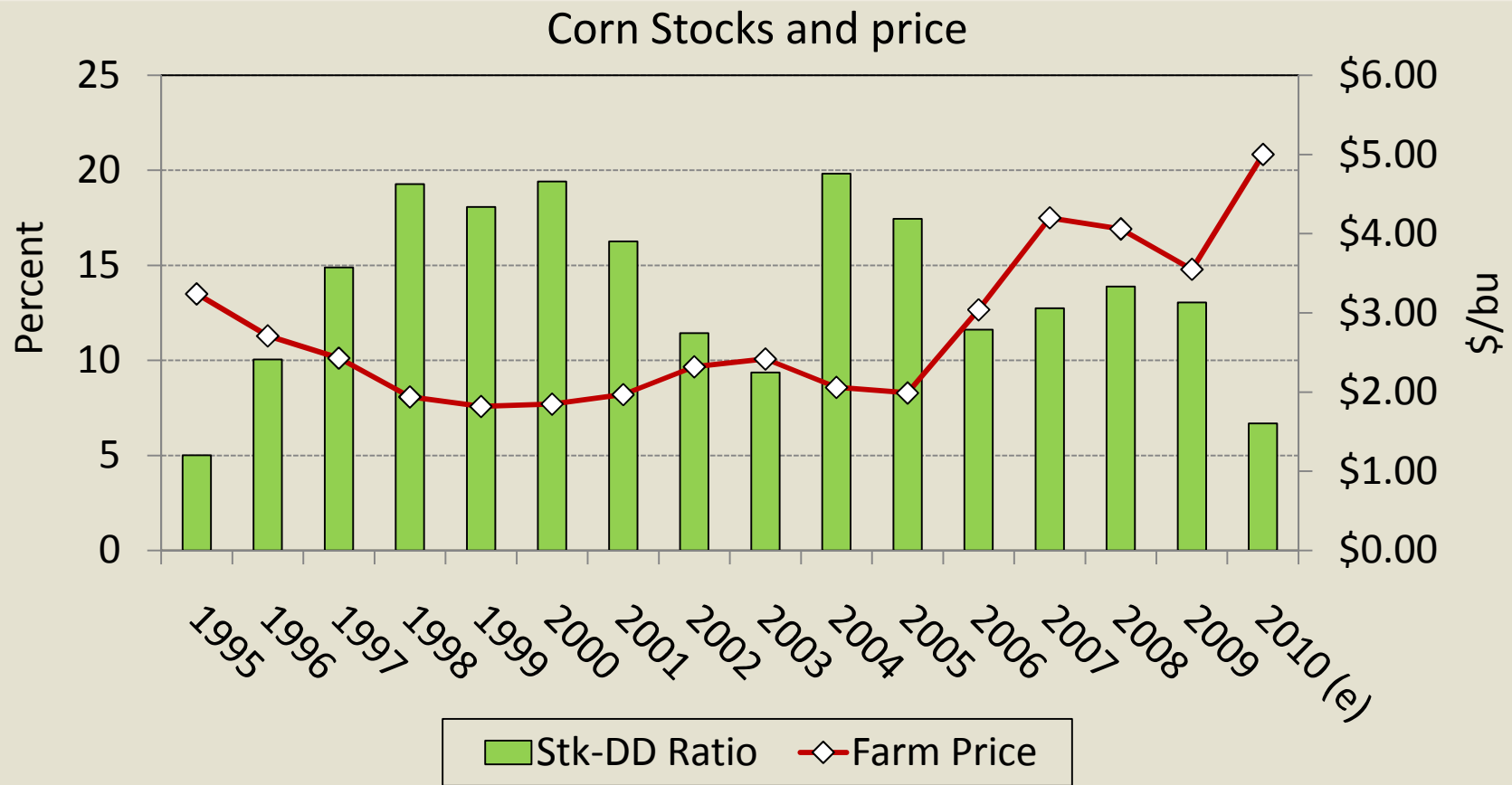


High livestock prices have restored profitability and stimulated a modest expansion that will increase production and reduce retail prices in late 2011.



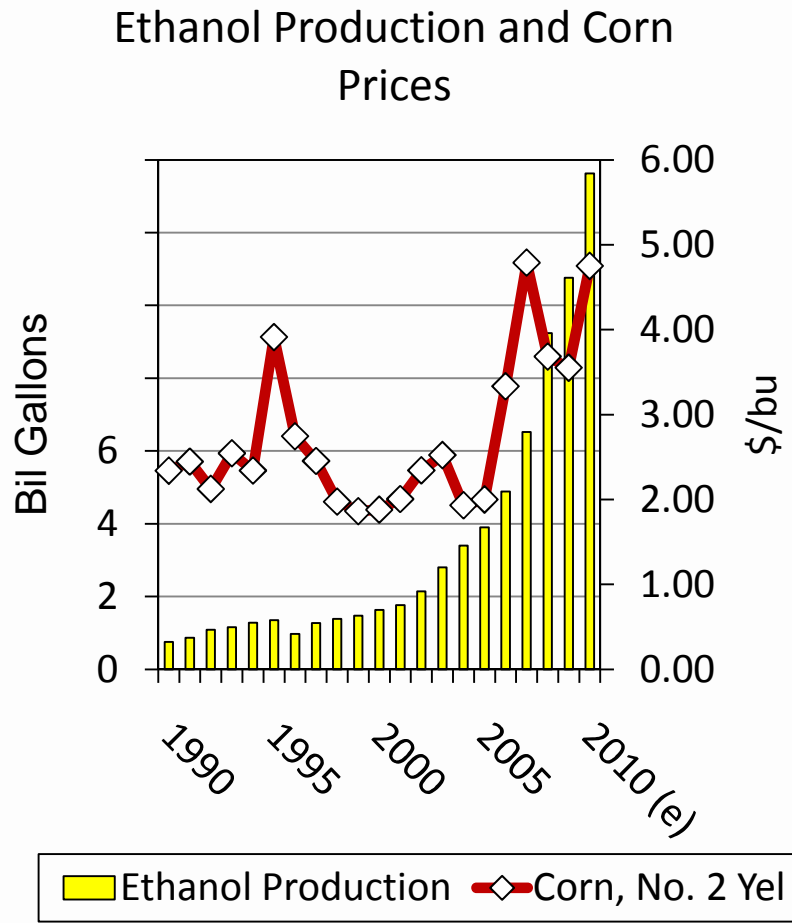
Source: Dr. John D. Lawrence, ISU

Rising corn prices reflect smaller supplies as well as higher demand for feed, exports and ethanol

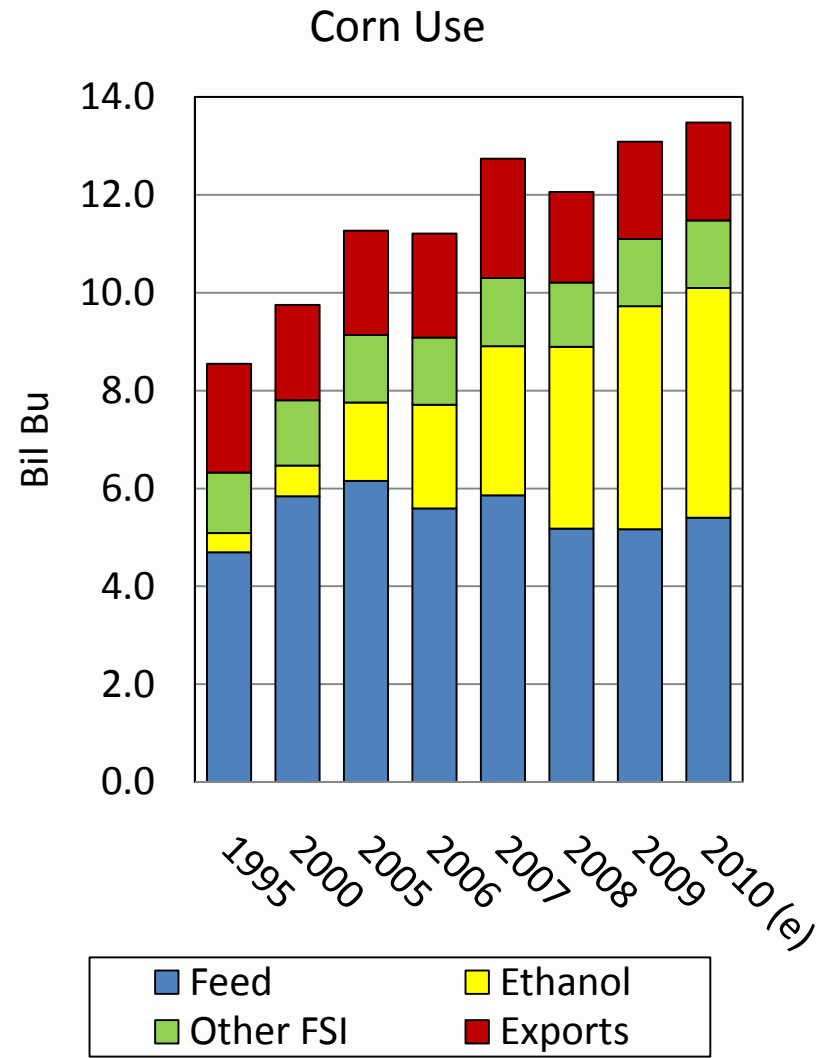


Source: USDA WASDE

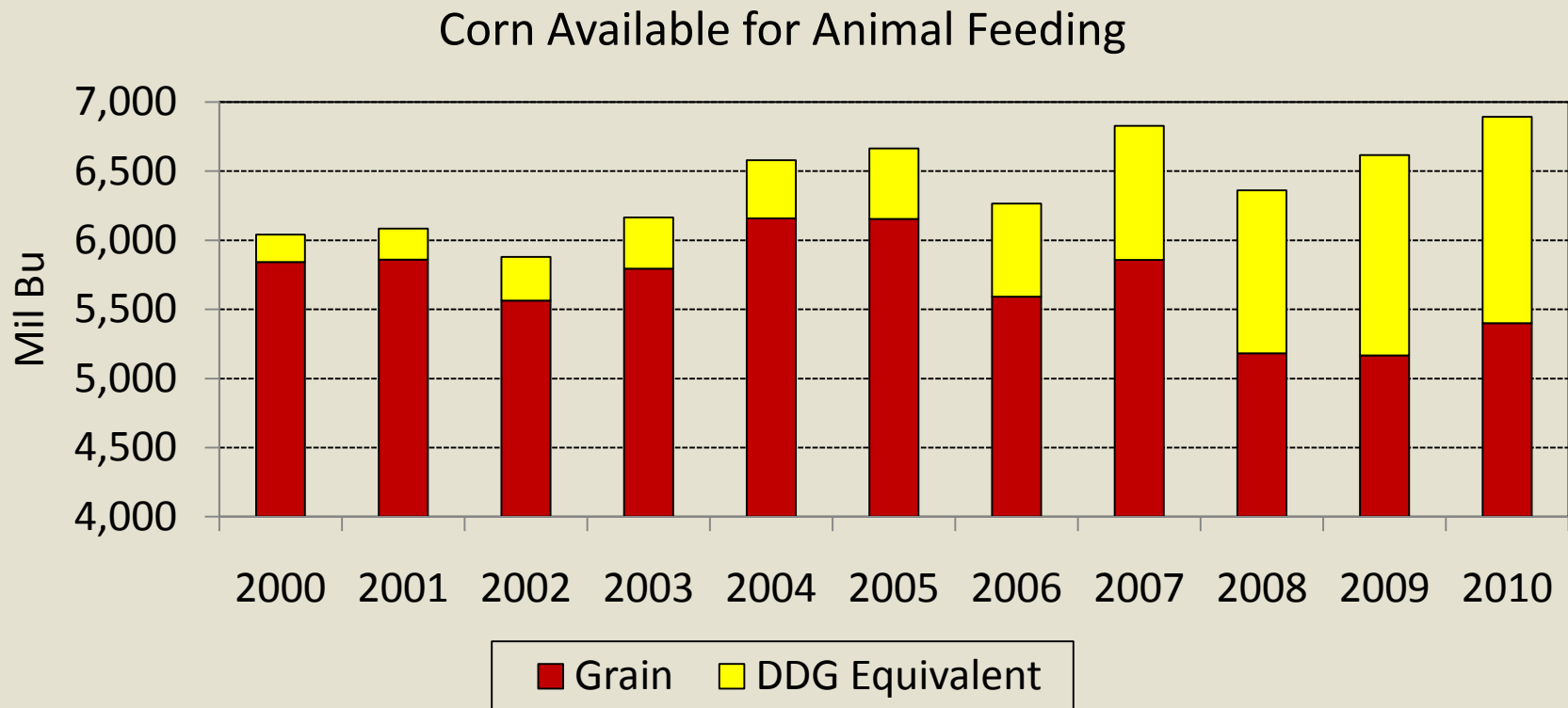
# Corn prices have shifted upward as ethanol expands.



Source: USDA/ERS; RFA



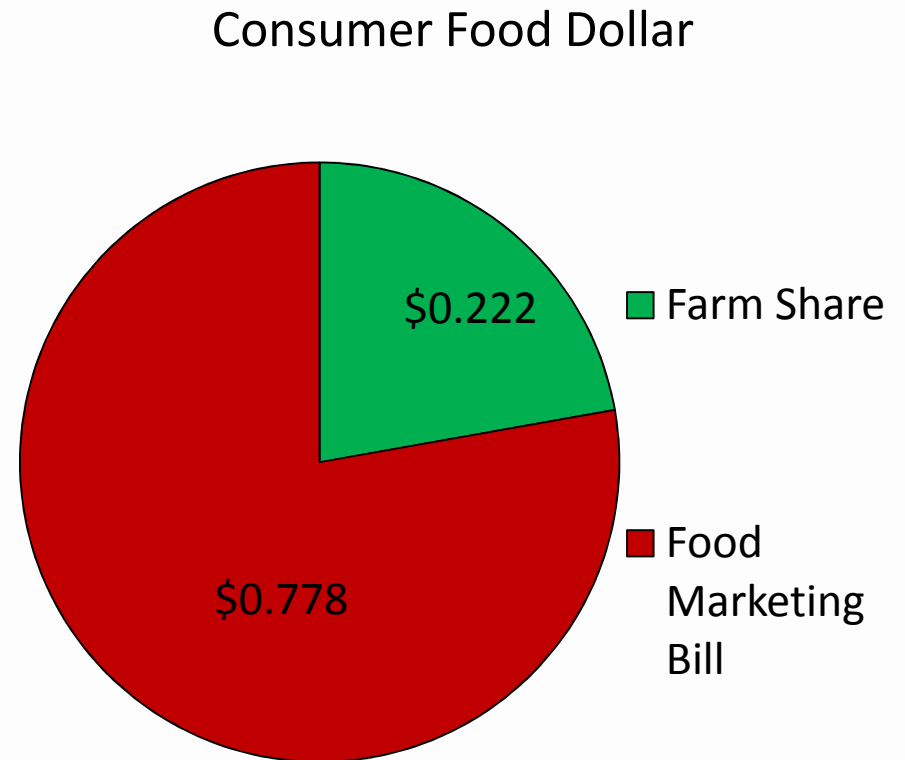
Impact of increased ethanol output is muted for livestock producers since Distillers grains production offsets corn used for ethanol.



Source: USDA/ERS; Cardno ENTRIX estimate

Commodities are an important component of consumer food products but account for only about 22% of the consumer food dollar.

- Corn and soybean meal are important feed ingredients for livestock, dairy and poultry producers.
- Wheat and other grains are the major inputs for cereals and bakery products.
- Oilseeds produce oil for food and meal for feed.
- Corn produces HFCS, a major sweetener.



# The Food Marketing Bill makes up the remaining 78 cents of the consumer food dollar.

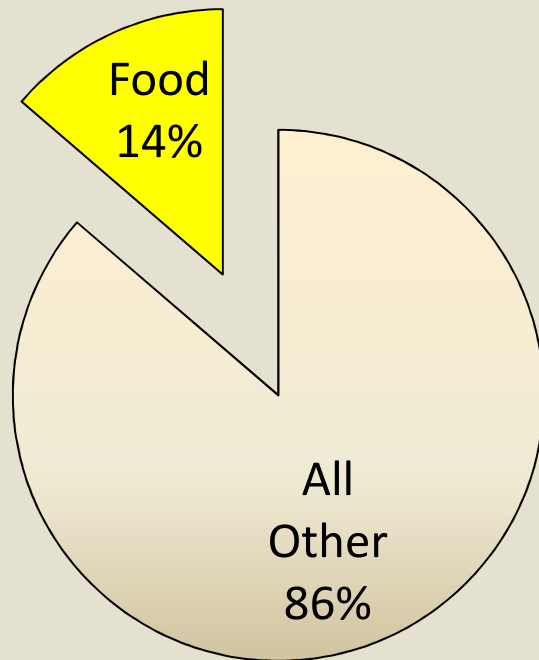
- Labor
- Packaging
- Transportation
- Energy
- Advertising
- Rent
- Repairs
- Business taxes

- With the exception of energy and some packaging materials these costs have been muted by a weak economy.
- This weakness has prevented processors and retailers from increasing prices.
- At some point inflation - and consumer expectations - will rear it's ugly head and may combine with higher commodity prices.

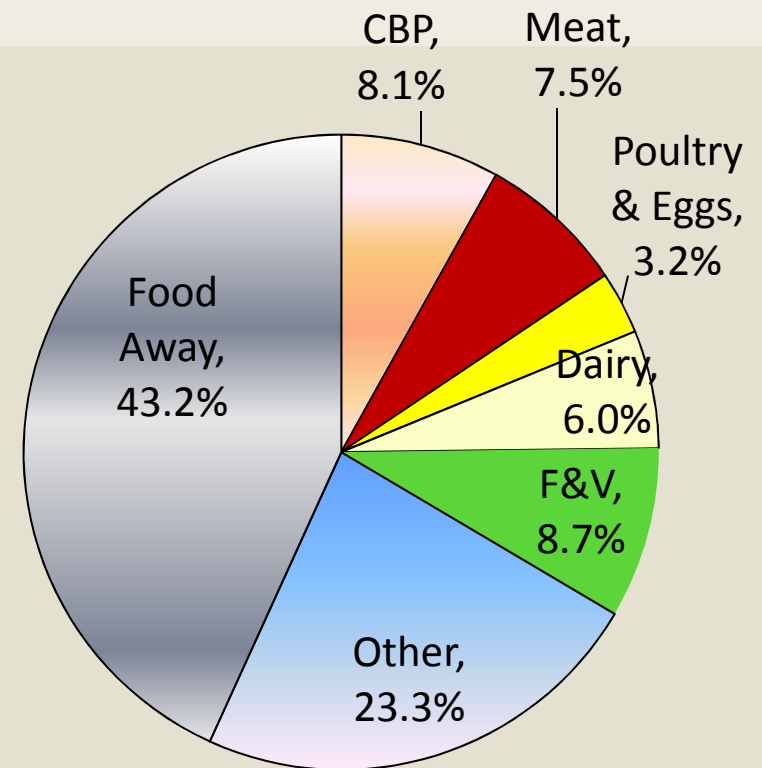
Source: USDA/ERS

# Food is a small share of consumer prices

CPI-U



CPI Food



Source: BLS Components of the CPI, December 2009

Agricultural commodities are the basis for food products but their impact on retail prices is overshadowed by other factors.

...

- Corn, wheat, and soybean prices will continue to be affected by area planted and yields, which determine production.
- The largest impact from grain and oilseed prices is through meat, dairy, poultry and eggs. Prices for these products will lag changes in crops due to a longer production cycle.
- Food distributors and marketers will remain vulnerable to changes in non-commodity prices, notably energy and fuel.
- Macroeconomic policy and consumer expectations regarding inflation also will affect the ability of marketers to pass along higher costs.



## In conclusion ...

- Ethanol production will continue to expand but ethanol from corn starch is capped at 15 billion gallons in 2015.
- New feedstocks needed to get to the 36 billion gallon RFS target will come from non-food sources and should have little or no impact on consumer food prices.
- Commodity prices will remain vulnerable to the influence of speculators as was the case in 2008. However high prices stimulates production and tend to be self-correcting.
- The “food versus fuel” issue is a straw man argument. We can have both.