



# What's the Rule on Food Versus Fuel?

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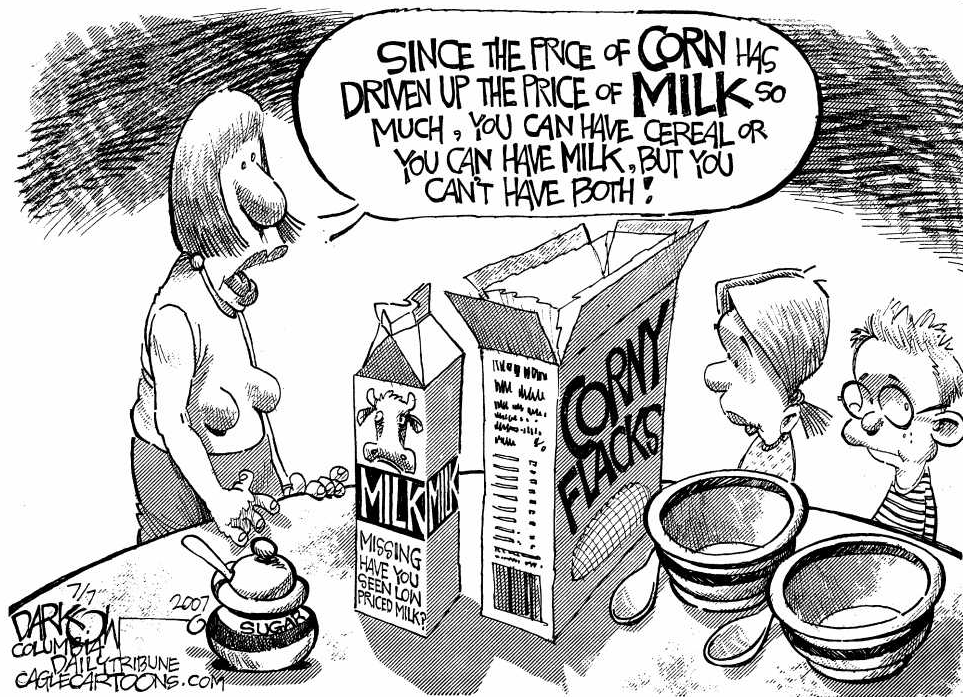
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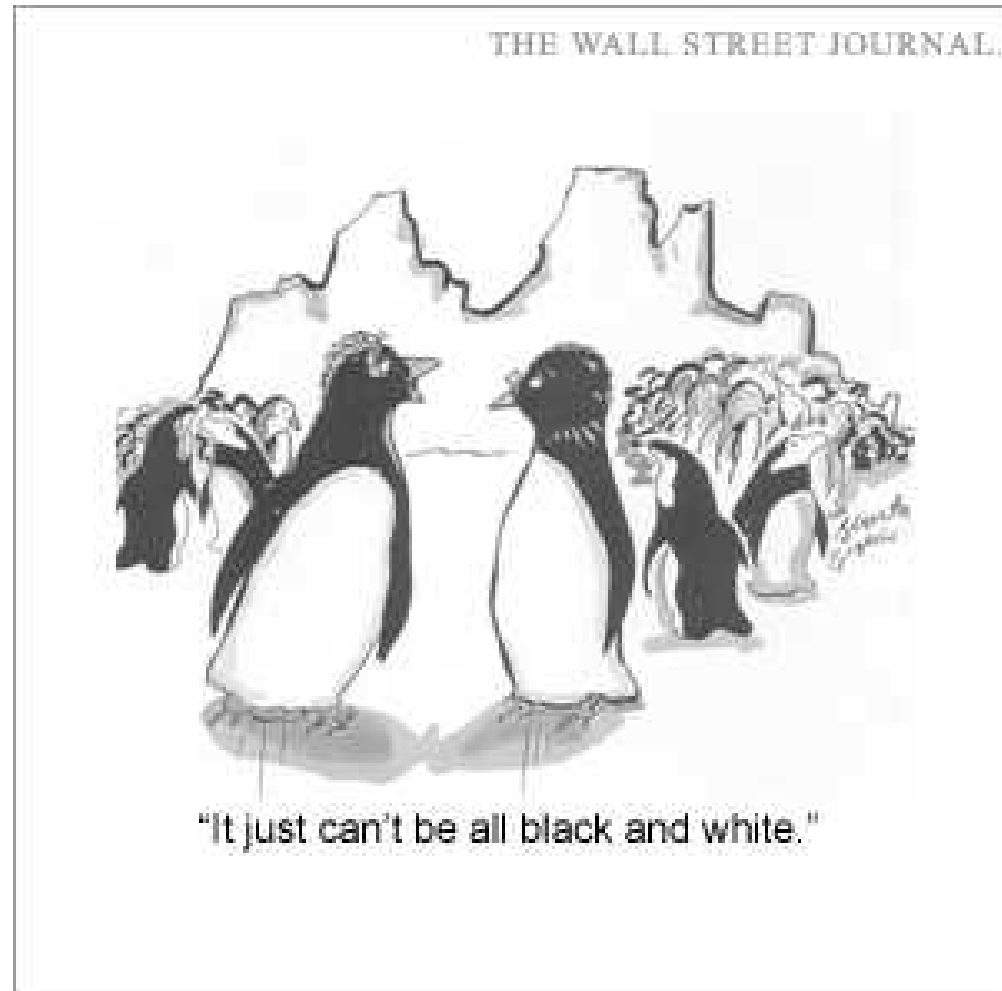


## Biofuel critics and the media have been having a field day ...

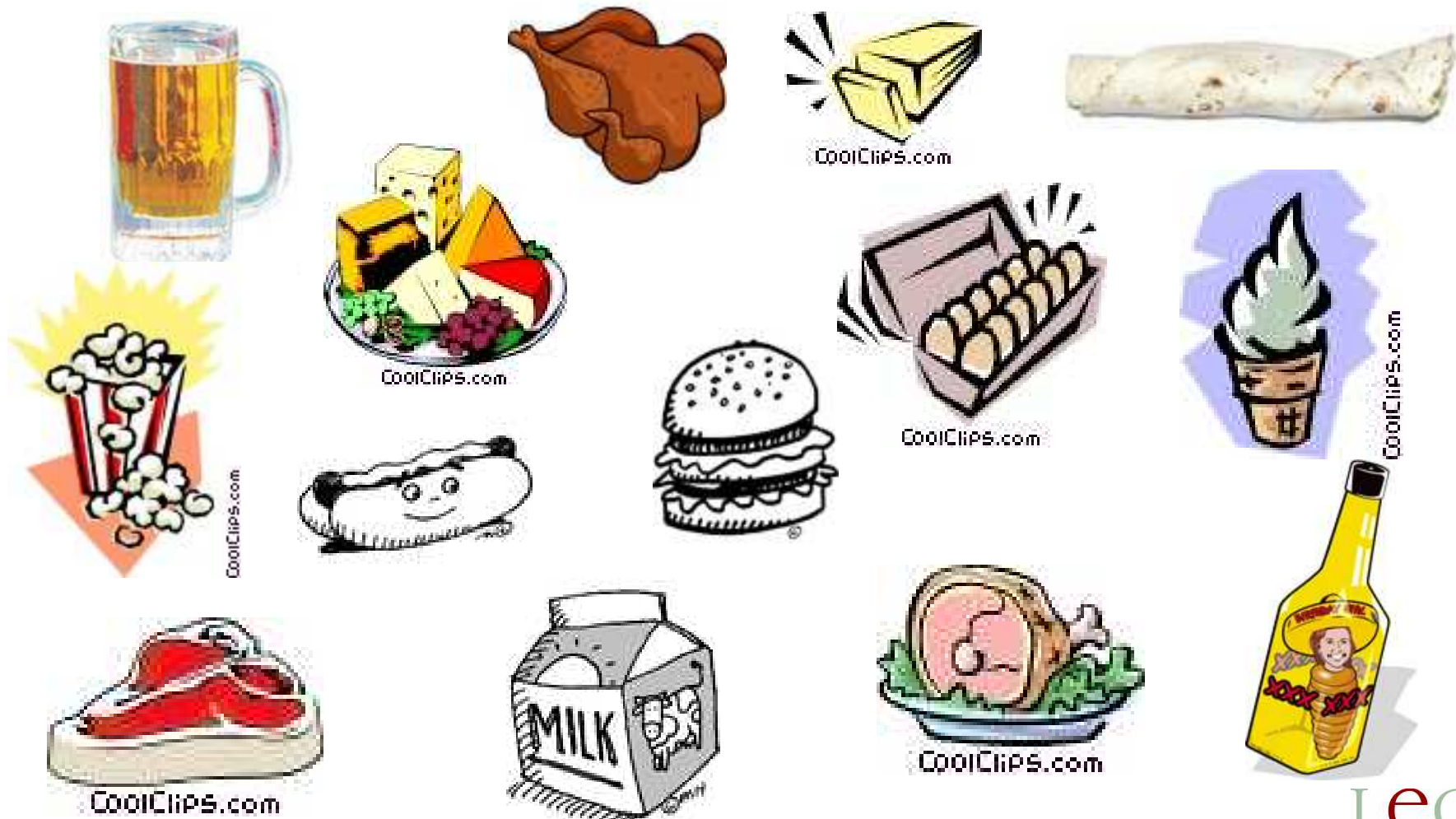




**But everything is not always what it seems ...**



**Our critics say that biofuels are the cause of higher prices for these foods.**





**Most recently ...”Forget oil, the new global crisis is food”** (*Financial Post* January 4, 2008)

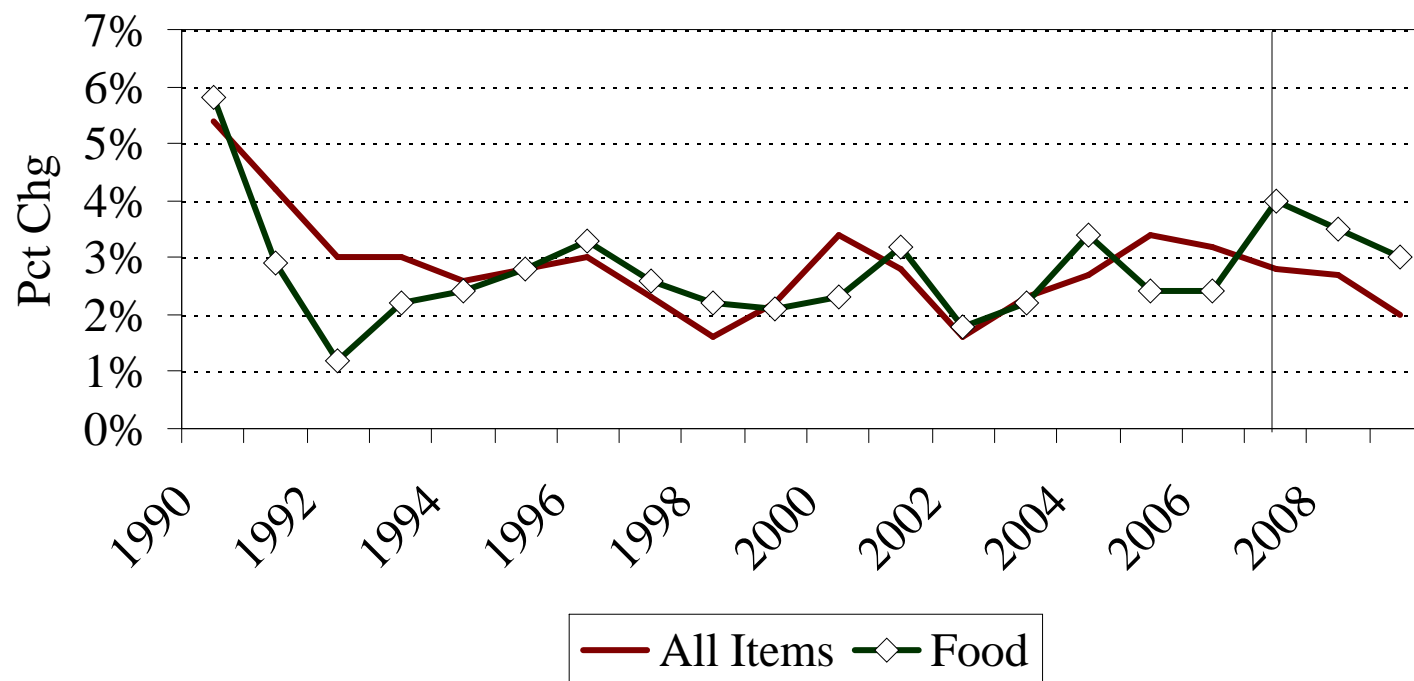
**“A new crisis is emerging, a global food catastrophe that will reach further and be more crippling than anything the world has ever seen. The credit crunch and the reverberations of soaring oil prices around the World will pale in comparison to what is about to transpire.”**

**Alia McMullen**



## Let's put consumer prices in context.

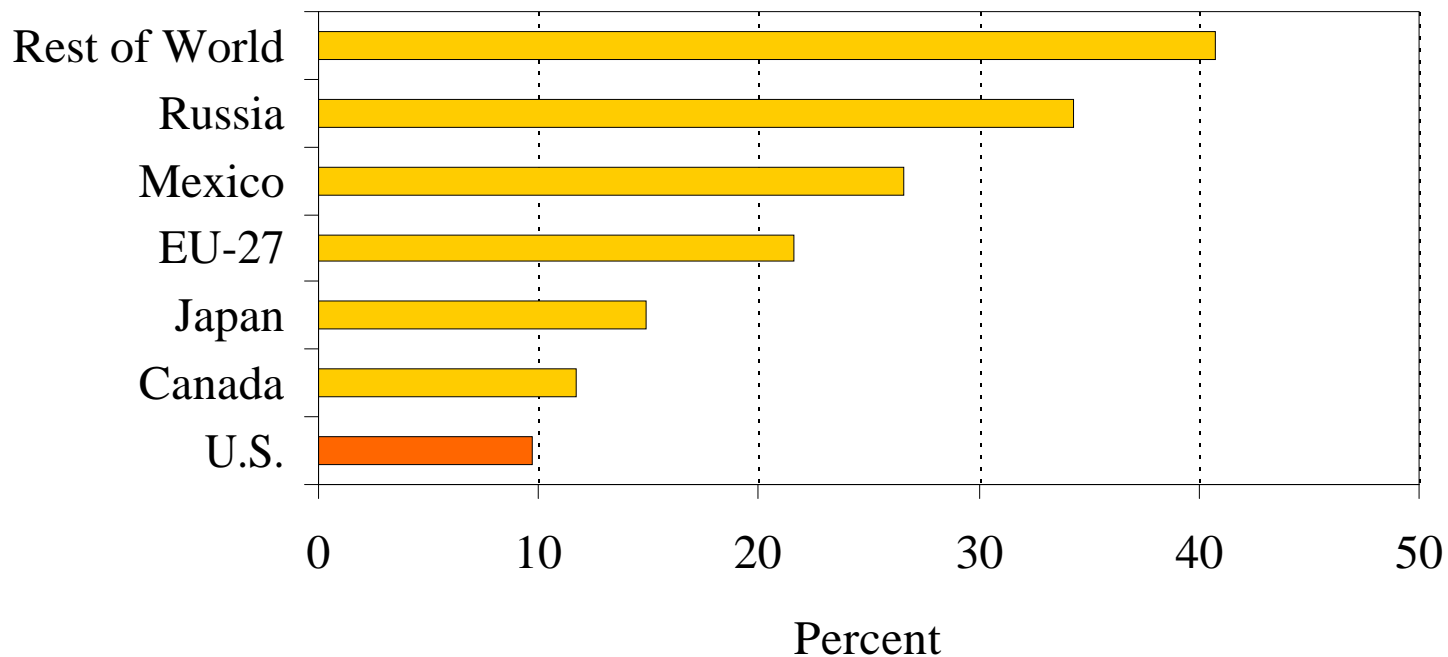
Consumer Price Index, All Urban



Source: BLS; LECG

## Let's not forget, Americans have the highest quality, lowest cost food supply in the world

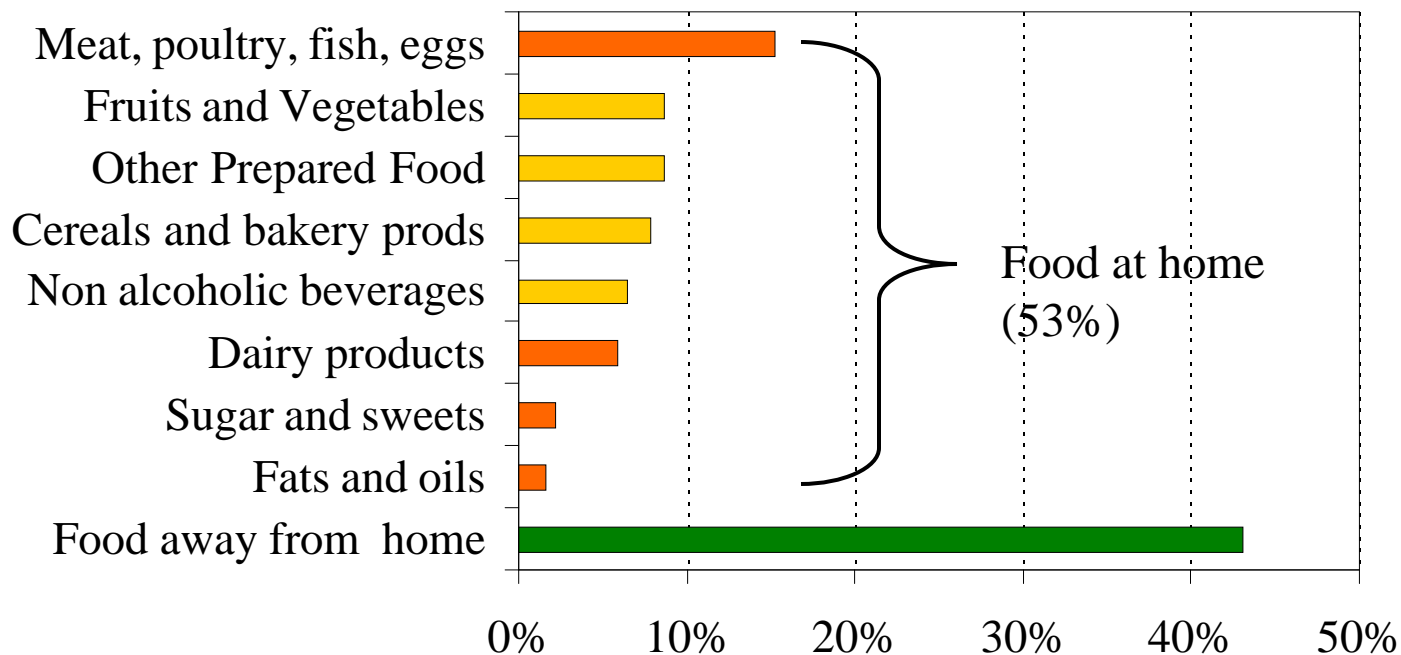
Food Share of Total Expenditures: 1996



Source: James Seale et al. *International Evidence on Food Consumption Patterns*.  
USDA/ERS TB 1904. October 2003

## The foods directly impacted by corn and soybeans account for about 25% of the CPI for food.

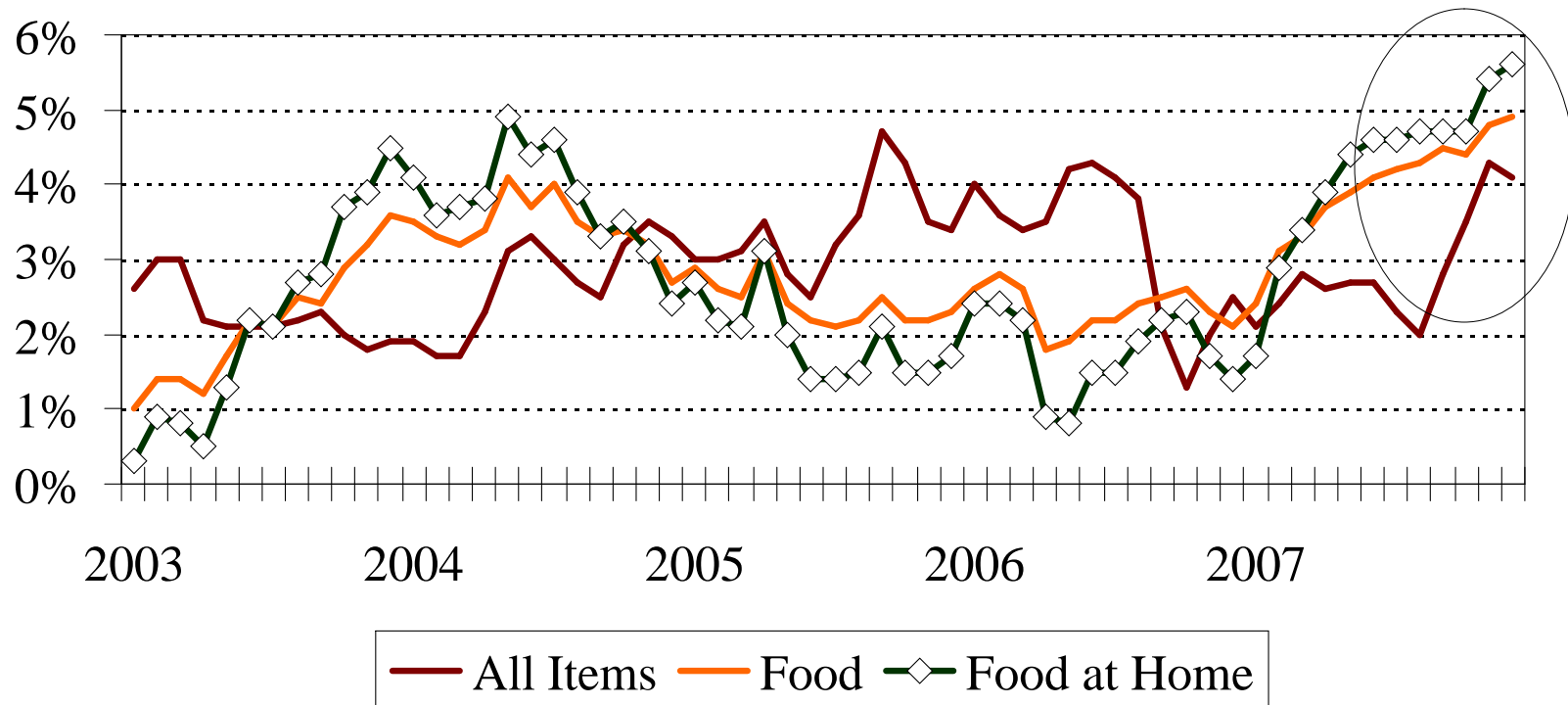
Relative Importance of Components of the CPI for Food



Source: *Relative importance of components in the Consumer Price Indexes: U.S. city average, December 2006.* Bureau of Labor Statistics

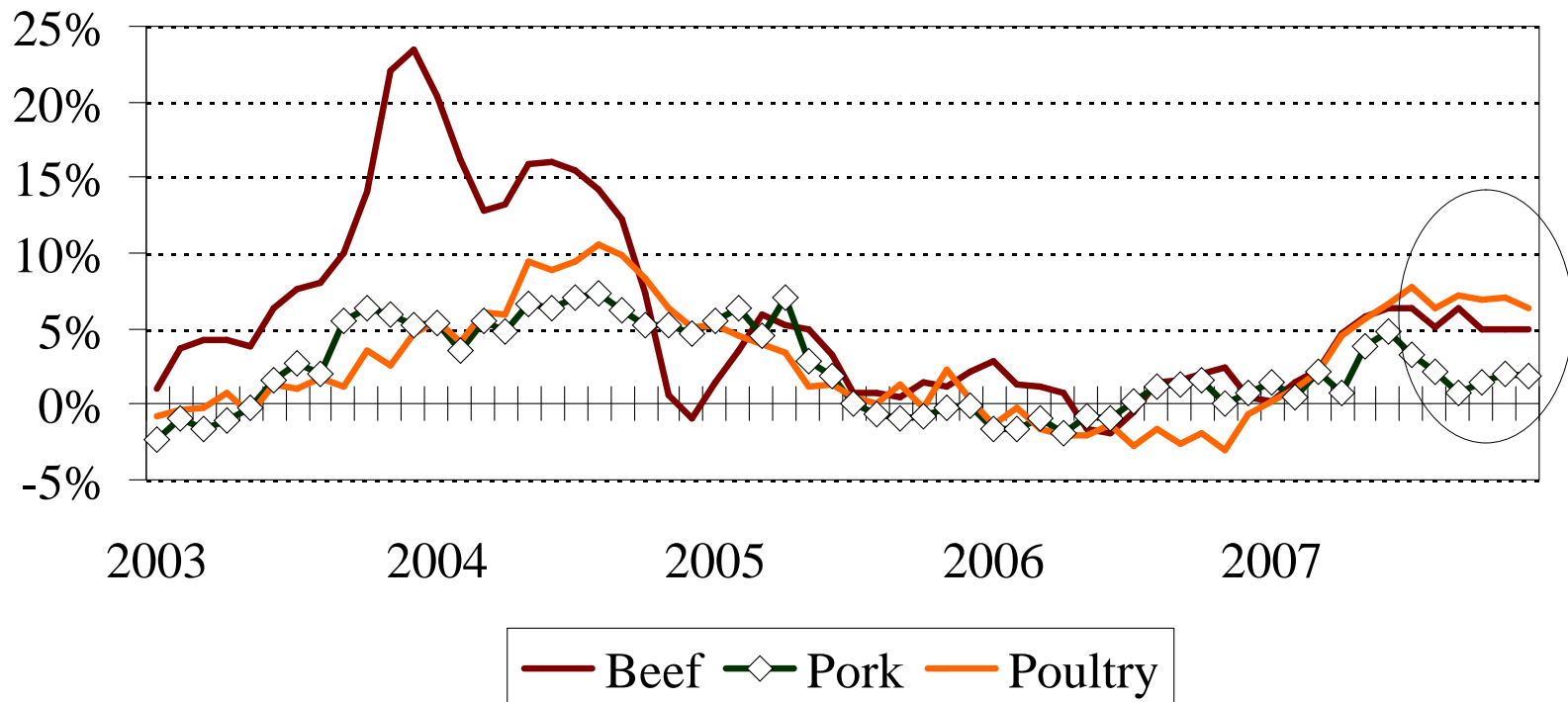
## Retail food prices are accelerating faster than the overall CPI.

CPI-U, Percent Change from Previous Year



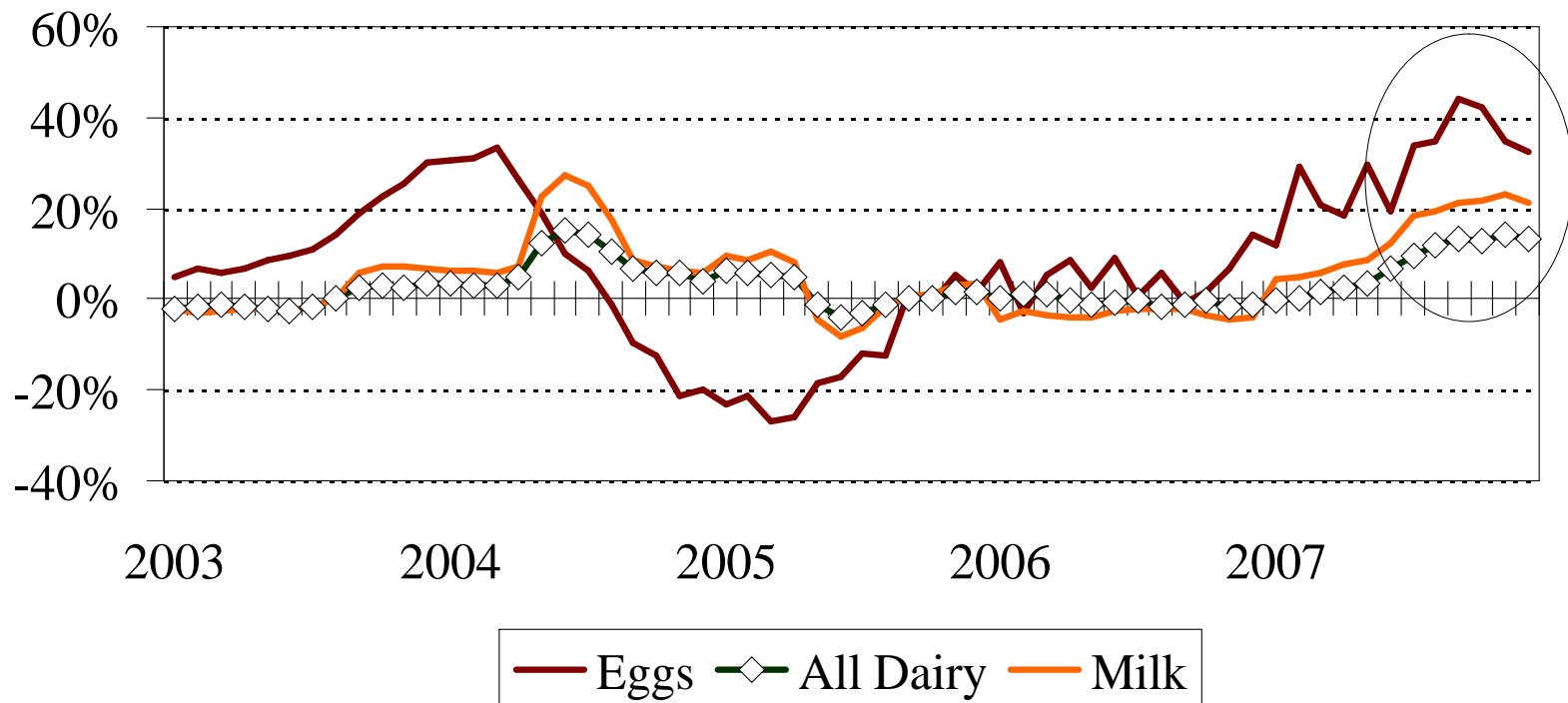
## Meat and poultry prices are increasing after two years of virtually no inflation.

CPI-U, Percent Change from Previous Year



## Egg and dairy prices reflect strong export demand more than the impact of higher feed prices.

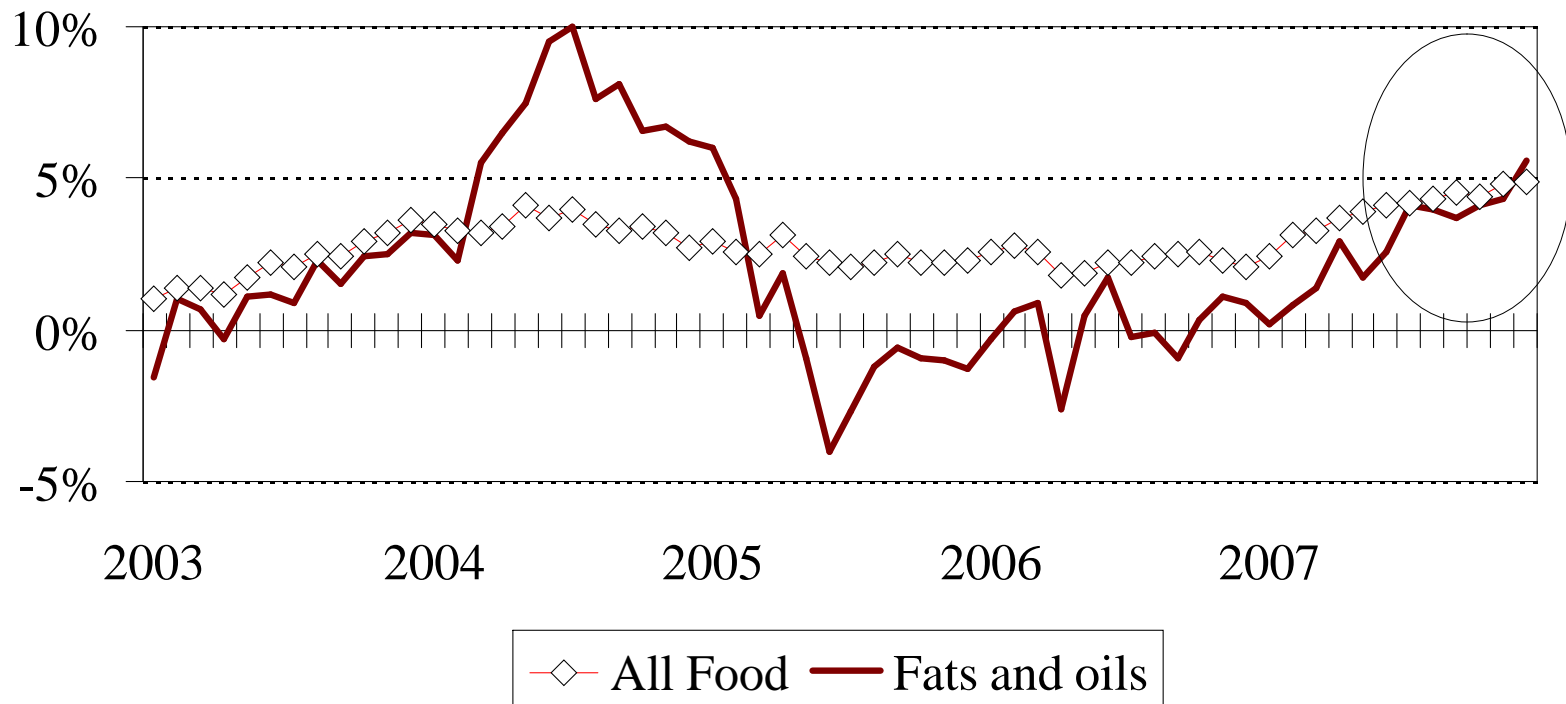
CPI-U, Percent Change from Previous Year





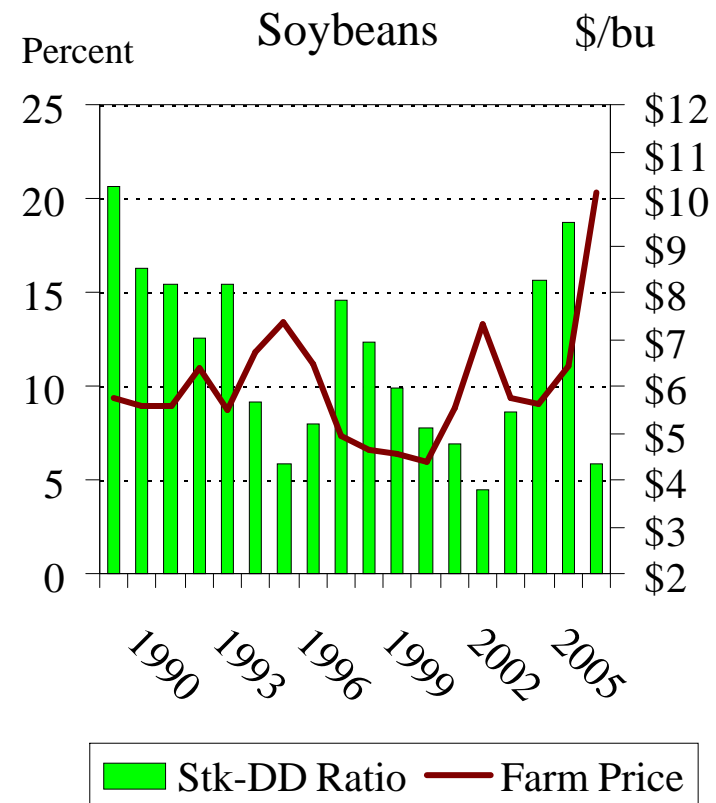
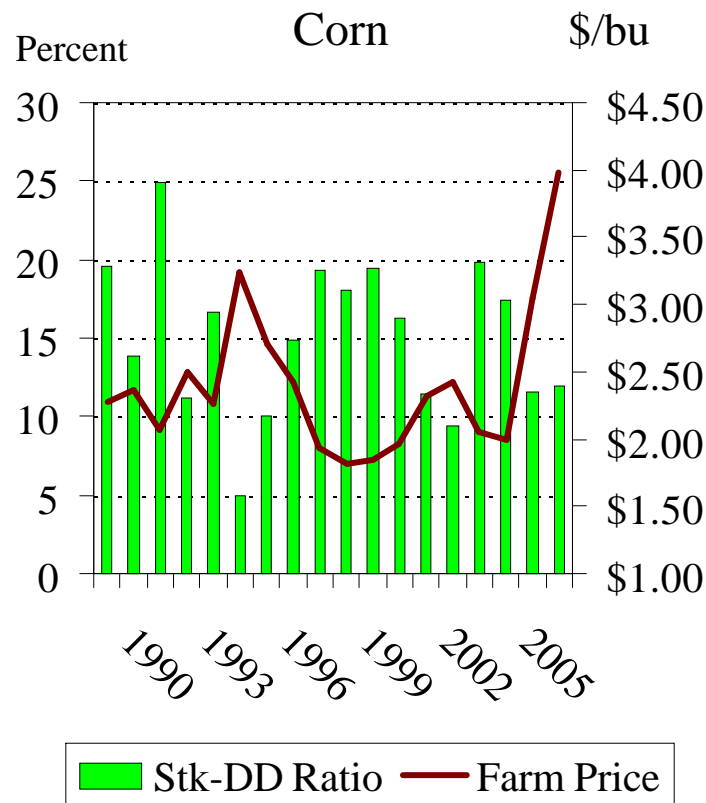
**Fats and oils prices also have been accelerating but remain below rates experienced in 2004.**

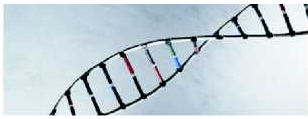
CPI-U, Percent Change from Previous Year





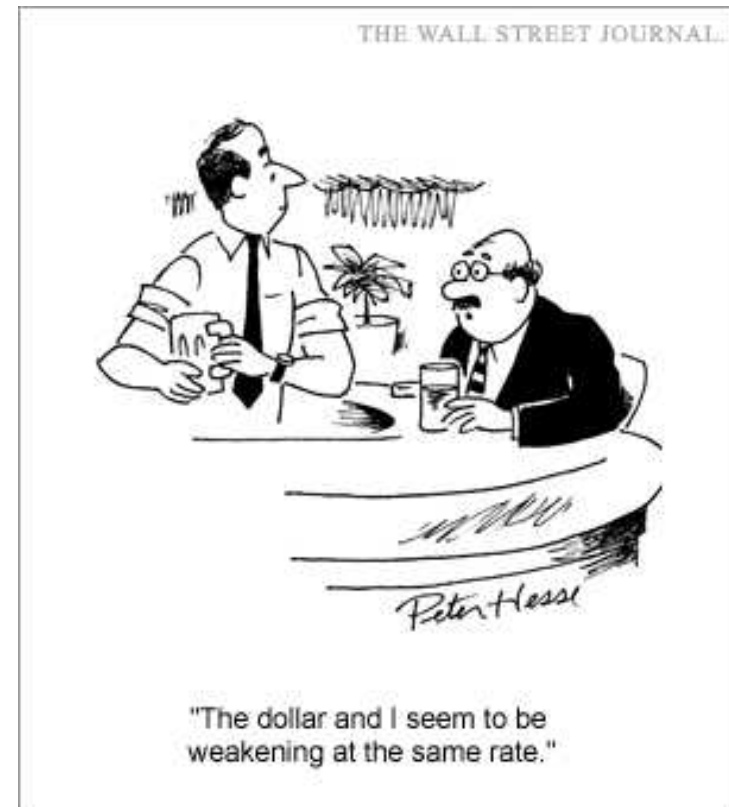
## Demand is drawing down corn and soybean stocks and pushing prices up.





## What is behind the increase in prices?

- ❖ Increased demand for ethanol and biodiesel.
- ❖ A global commodity price boom.
- ❖ Solid U.S. income growth that has stimulated demand for meat and poultry.
- ❖ Bad weather in other major producing regions has trimmed world production (drought in Australia).
- ❖ Strong economic growth in China and India coupled with a weak dollar has stimulated demand for food ... and U.S. exports.





## The major problem for food is not corn or soybeans but higher energy prices.

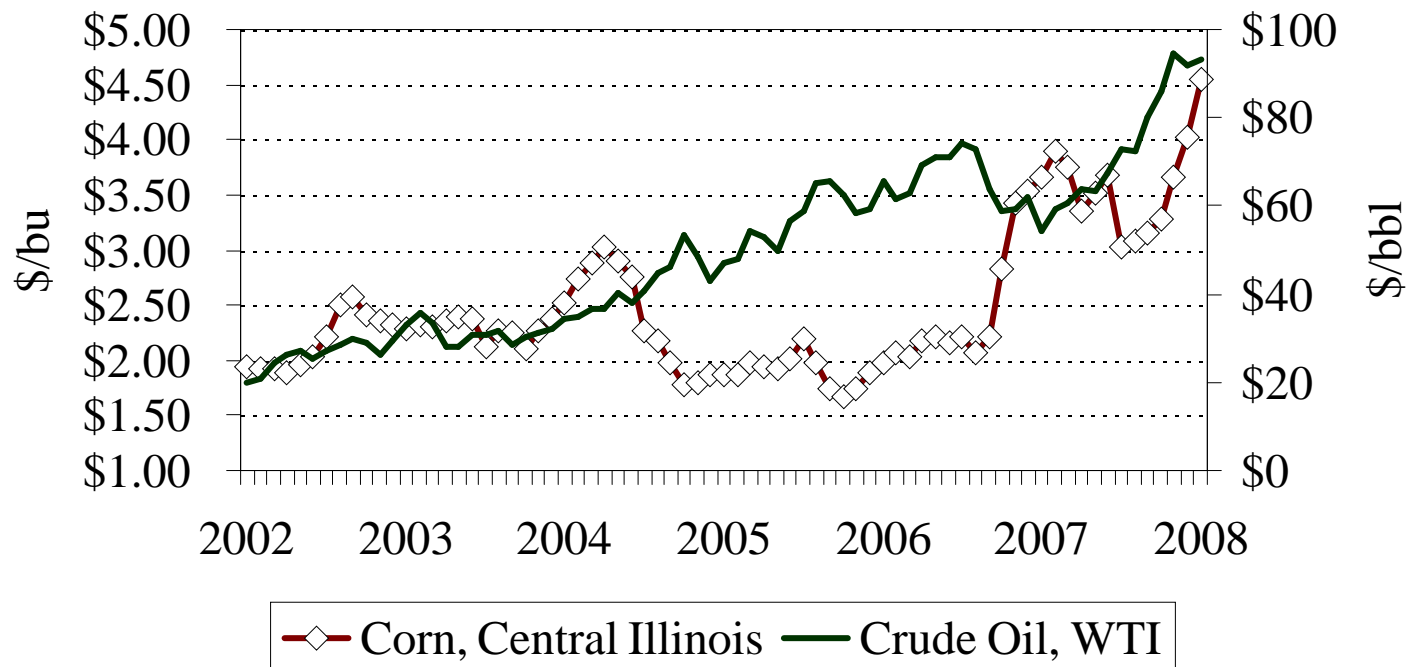
" Second quarter retail pork prices averaged \$2.87 per pound, almost 3% above the same period last year. *Increased retail pork prices likely reflect the higher cost of marketing meat products, with much of the cost increase probably accounted for by higher energy prices.*"

USDA/ERS. *Livestock, Dairy & Poultry Outlook/LDP-M-157/July 20, 2007*



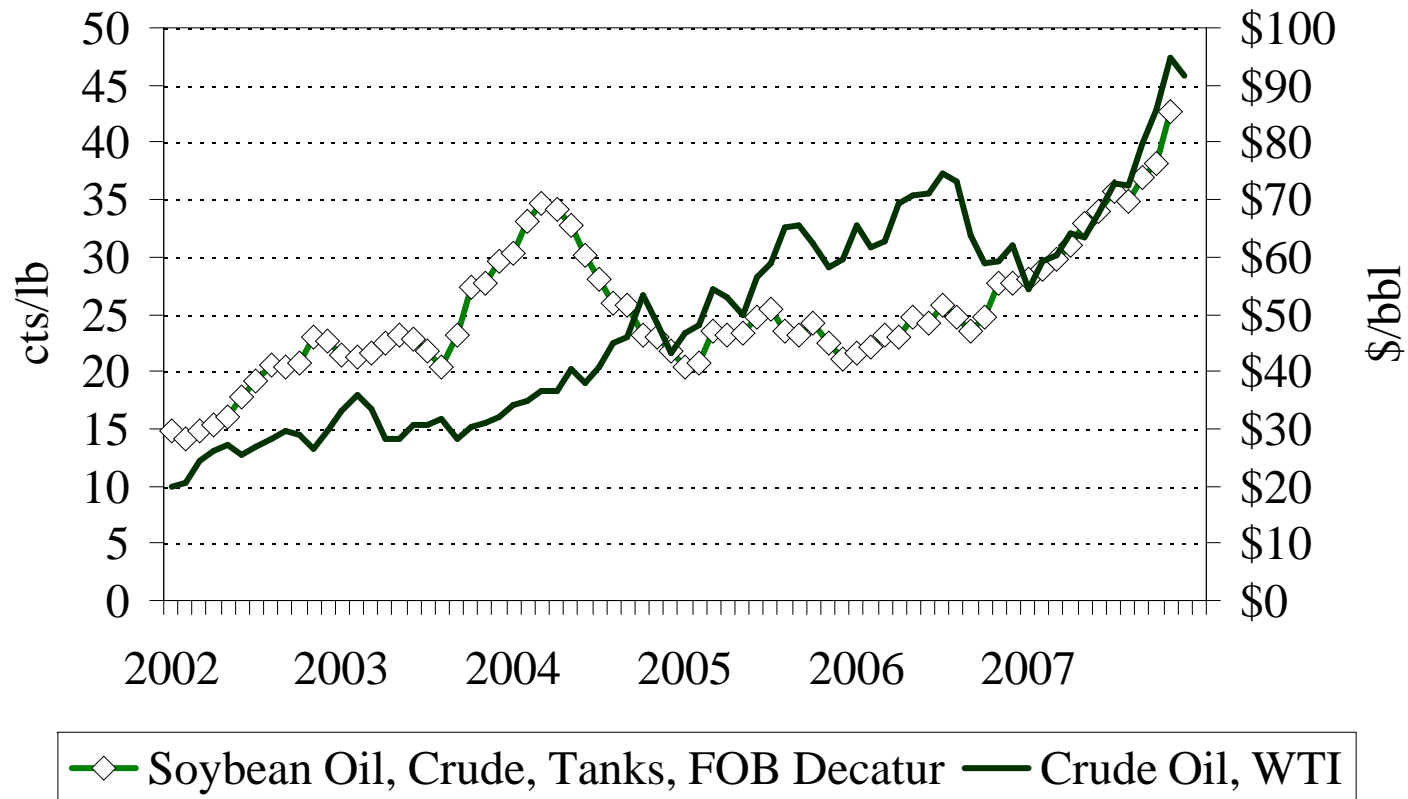
## Oil and corn prices continue to climb.

Spot Market Prices



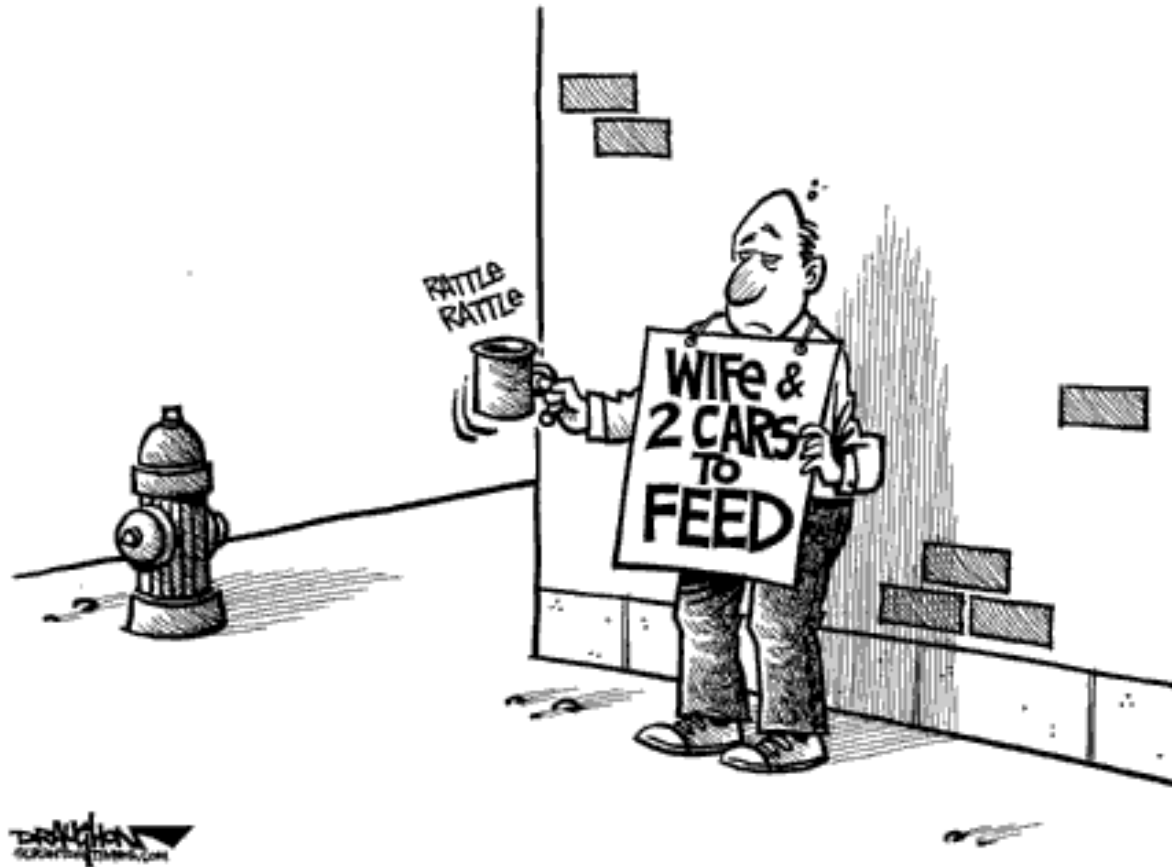


## Crude oil prices are pulling along other commodity prices.





## What has a bigger impact on food prices ... oil or corn?



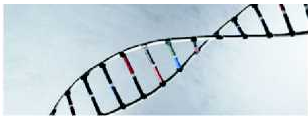
## Estimate the impact of energy and corn on food prices. How we did it ...

- ❖ Assume a 33% increase in the price of crude oil and equivalent increase in corn prices. Soybeans and soybean meal prices were affected by corn.
- ❖ Use elasticities from the literature to estimate the impact of energy prices on food.
- ❖ Impose the corn price increase on the LECG agricultural sector baseline forecast over a five year horizon.



## **A 33% increase in oil/energy prices increases retail food prices by 0.6% and 0.9%.**

- ❖ Reed indicates that a 100% increase in crude oil prices results in a short-term increase of 1.82% in consumer food prices.
- ❖ Lee reports that a 10% increase in energy prices provides a 0.27% increase in retail food prices.
- ❖ Assuming a 33% increase in energy prices these elasticities indicate a 0.6 to 0.9 percent increase in food prices.
  - $.33 \times .0182 = .006$
  - $.33 \times .0271 = .009$



**However, a 33% increase in corn prices raises the CPI for food only 0.3%.**

	Baseline	Scenario	% Chg
Corn Price, Ave Farm (\$/bu)	\$3.10	\$4.10	33.0%
Beef and Veal Prod (Mil lbs)	25,778	25,749	-0.1%
Pork Production (Mil lbs)	21,057	20,696	-1.7%
Broiler Production (Mil lbs)	35,530	33,740	-5.0%
Steer Price, NE Direct (\$/cwt)	\$98.41	\$98.59	0.2%
Barrows and Gilts, Market (\$/cwt)	\$49.95	\$50.99	2.1%
Broilers, 12 City Ave (cents/lb)	\$77.90	\$82.09	5.4%
CPI, Food	2.3%	2.6%	0.3%
CPI, Meats, Poultry, Eggs	1.4%	2.1%	0.7%



## Conclusion ...

- ❖ Commodity prices are increasing significantly but so are energy prices.
- ❖ Retail food prices increases are approaching 2004 rates, reversing several years of benign inflation.
- ❖ High corn and soybean prices have reduced profitability for livestock, poultry and dairy producers with little impact on production.
- ❖ Higher ag input costs have been overshadowed by energy.
- ❖ An increase in energy prices has twice the effect on food prices as an equivalent increase in corn.



## Thank you! Questions?

