



NACIONES UNIDAS

CEPAL

High Level Thematic Debate “Addressing Excessive Price Volatility in Food and Related Financial and Commodity Markets”

United Nations, 11 April 2012

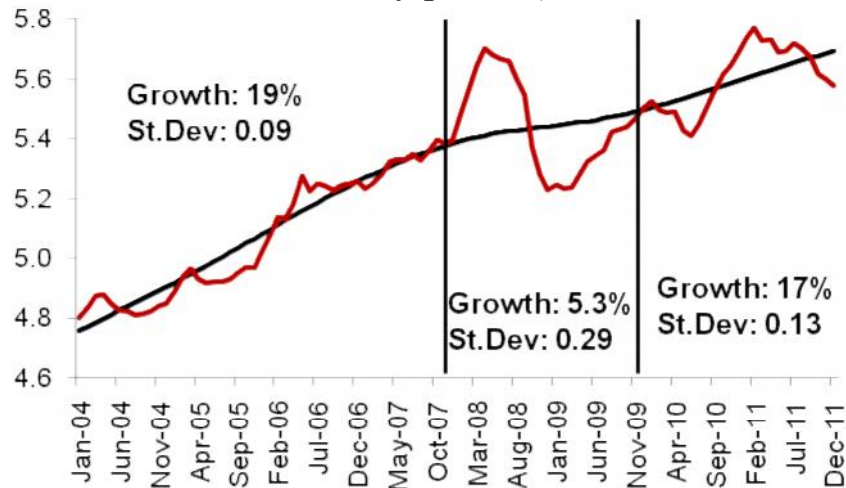
Daniel Titelman

Director

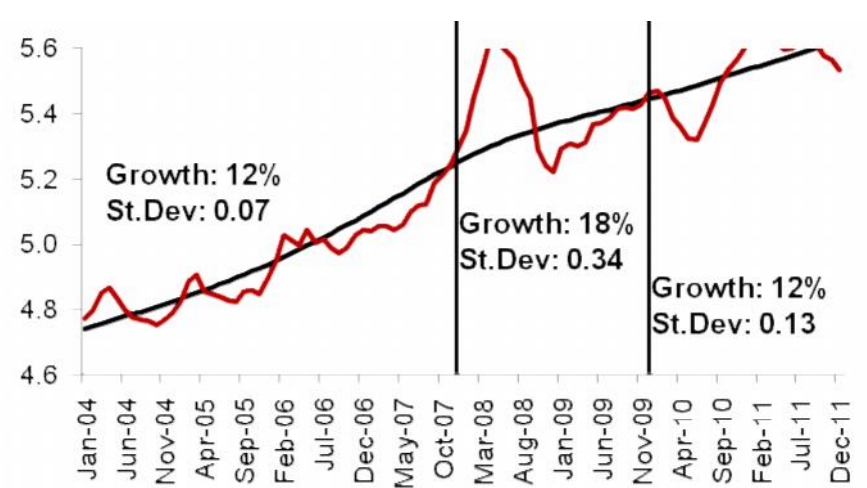
Financing for Development Division

The prices of commodities show a rising growth trend and high volatility

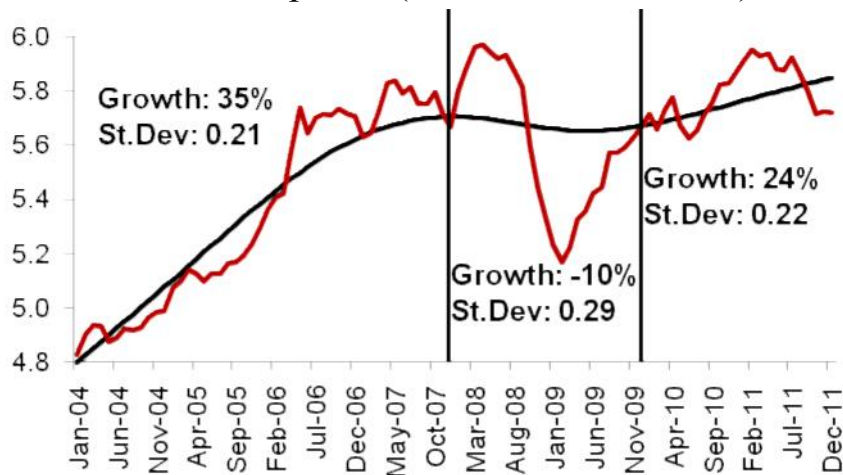
Index of commodity prices (Jan. 2004- Dec. 2011)



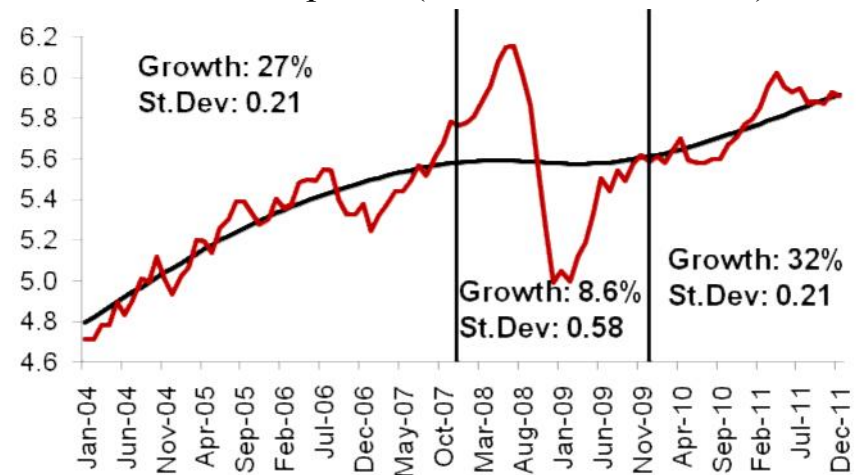
Index of agricultural prices (Jan. 2004- Dec. 2011)



Index of metal prices (Jan. 2004- Dec. 2011)



Index of oil prices (Jan. 2004- Dec. 2011)



The evolution of commodity prices is explained by structural and financial factors³

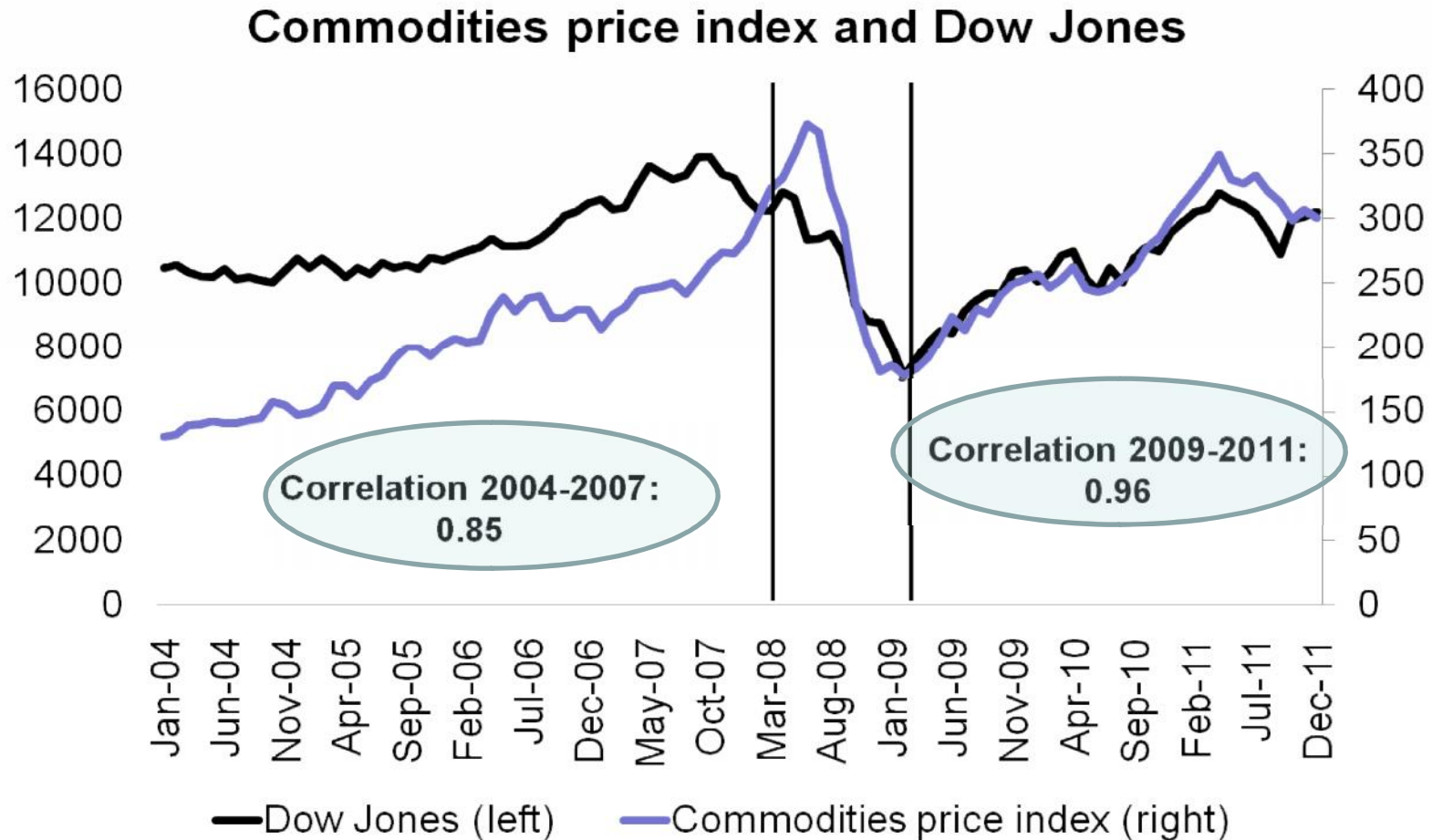
- High growth in emerging market economies has resulted in greater demand for raw materials and energy.

- China has increased its share of world consumption in several commodities:

	1990	2010 (China's Share of World Consumption in %)
Soy	11.1	26.3
Aluminium	4.5	39.8
Refined Copper	4.7	38.8
Zinc	5.6	42.9
Iron	19.6	92.5

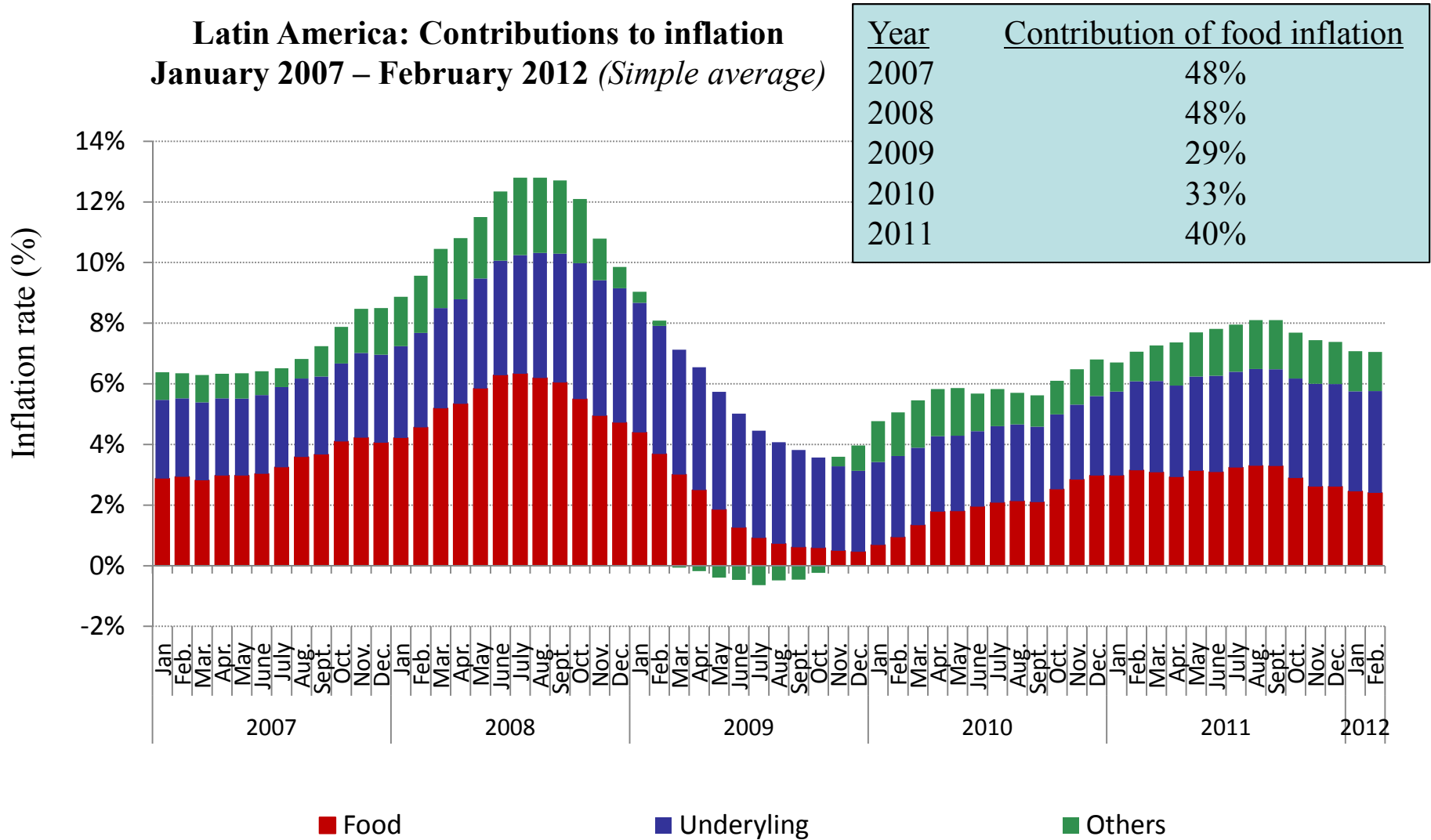
- Demand pressures were exacerbated by supply factors including:
 - Low productivity and output growth in agriculture
 - ✓ Combination of declining rates of growth on world agricultural yields with large productivity gaps .
 - Higher energy prices have fed into the costs of fertilizers and transportation.
 - Climatic factors.

The evolution of commodity prices has also been determined by commodities becoming a financial asset



Source: Bloomberg (2012)

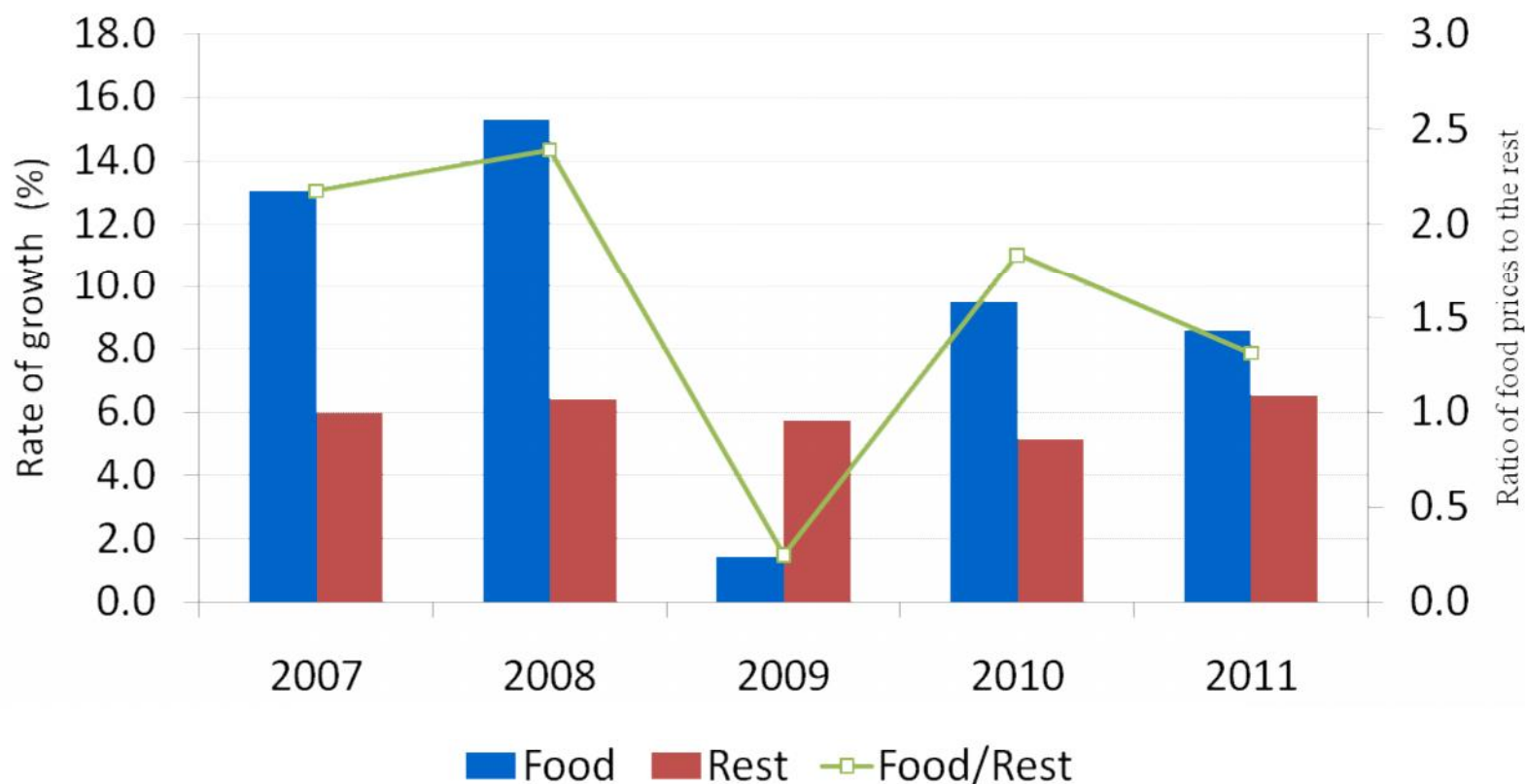
The rise in the price of commodities has contributed substantially to the generation of inflationary pressures...as illustrated by the case of Latin America



Source: ECLAC (2012) on the basis of official data.

In addition, the rise in some commodity prices such as food has been more pronounced than that of other goods...as illustrated by the case of Latin America 6

Latin America: Evolution of food prices relative to the rest 2007-2011



Note: On the basis of a simple price averages for 18 countries of Latin America
Source: ECLAC (2010)

The rise in food prices has had a direct impact on the poverty rate in low and middle income countries ⁷

- A World Bank exercise estimates that the rise in food prices for the period June-December 2010 may have put 44 million people into poverty in low and middle income countries

Quantification of the poverty impact of the rise in food prices for the period June-December 2010

Country type	Share of population covered by sample	Increase in poverty (in percentage)	Increase in poverty (in millions)
Low-income countries	34.5%	1.1%	9.5
Middle-income countries	41.8%	0.7%	34.1
Total	40.7%	0.8%	44.0

Note: The estimates were undertaken on the basis of 28 household surveys drawn from low and middle-income countries. The poverty threshold is established at \$1.25 per day per person.

Source: World Bank (2011)

This has also been the case of Latin America where the increase in food prices has had a regressive impact on poverty

- This is explained by the fact that the lower a family's income, the larger the share of that income is used to purchase basic foodstuff.

Effects of a 15% increase in food prices on poverty and indigence levels, with respect to a 2007 base scenario

	Base Scenario 2007		Scenario with a 15% increase in food prices	
	%	Million of people	%	Million of people
Indigence	12.7	68.5	15.6	84.2
			$\Delta = 2.9$	$\Delta = 15.7$
Poverty	35.1	189.5	37.9	204.5
			$\Delta = 2.8$	$\Delta = 15.0$

Source: Economic Survey of Latin America and the Caribbean, 2007-2008. ECLAC.

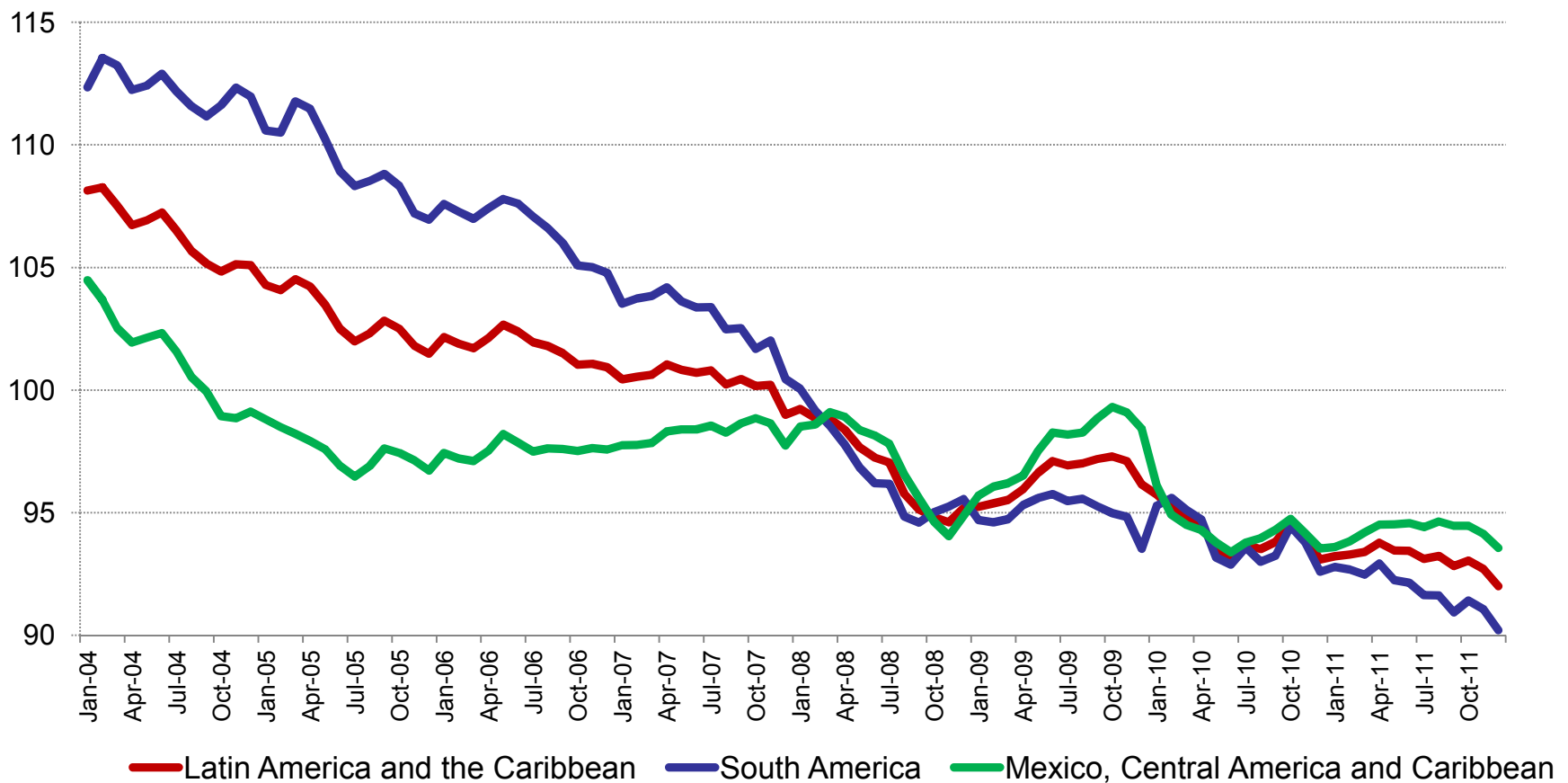
The rise in prices affects the most vulnerable groups of countries and sectors ⁹

- At the country level the burden of the rise in commodity prices has fallen mainly on the group of countries that are net commodity importers.
 - In the case of Latin America this group (62% of the total) comprises the smaller and/or low middle income countries.
 - ✓ Their net imports of food, metals and energy represent on average 1.8%, 2.2% and 7.4% of their GDP respectively.
- Within countries the rise in commodity prices affects the poorer segments of society.
 - The poor spend a disproportionately large share of their income on food, and food staples.
 - ✓ Estimates show that the rise in prices has led to a decline in the calorie intake. For example it has been estimated that as a result of the increase in prices in 2007-2008, the poorest 20% of the populations of Guatemala and Peru reduced their consumption of calories by 8.7% and 18.7% respectively (ECLAC/FAO/IICA, 2011).

The rise in commodity prices is also associated in some cases with an appreciating trend of the real exchange rate undermining countries competitiveness...

Latin America and the Caribbean: Real Effective Exchange Rate Index

(Average 1990-2009 = 100)



Source: ECLAC (2012)

The appreciation of the real exchange rate also limits the possibilities to improve social conditions...

- An appreciating exchange rate negatively affects the development of small and medium sized firms (SME) affecting negatively the generation and growth of employment.
 - SMEs are the biggest contributors to employment across countries.
 - SMEs contribute more to employment in low-income countries than higher income countries.
 - ✓ In high middle income countries the share of SME employment accounts for more than 60% of the total.
 - ✓ The proportion is much higher in low middle income and low income countries reaching in some cases over 90% of total employment.
 - SMEs also generate the most new jobs across country income groups (more than 80% of the total according to the World Bank, 2011).

An effective and efficient response to the trend of rising prices and high volatility requires a long-term and coordinated strategy at the national and global levels 12

- At the national level countries have implemented measures aimed at:
 - Lowering the price of food imports through reductions of import duties, establishment of price controls, and production subsidies
 - Stabilizing the domestic supply of agricultural products through government intervention in markets among other measures.
 - Risk reduction through minimum price practices.
- At the global level:
 - Global institutions need to strengthen and make more effective regulations in order to reduce speculative activity but at the same time allow risk management practices for consumers and producers.