

Soaring food prices raise the risk of political instability

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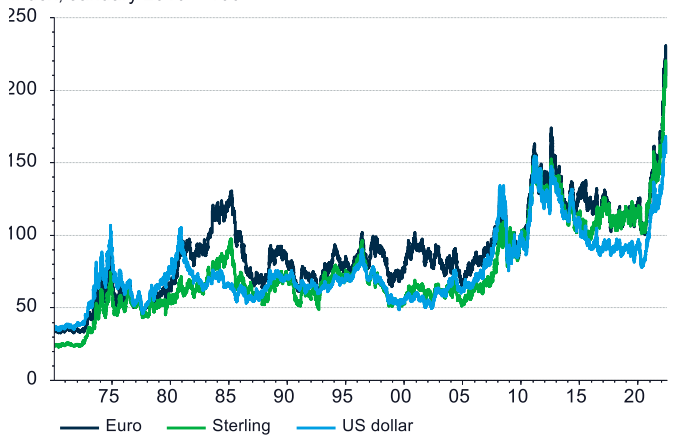


Rising energy prices have pushed up inflation and hit household incomes, attracting comparisons with the oil price shocks of the 1970s. Gasoline prices in the US have hit new highs, up by over 100% since the beginning of 2021. In the euro area and the UK, energy prices have helped to push inflation to its highest in decades; and the possibility of an energy blockade remains a major risk for Europe's economy. And part of the inflation story has been a sharp rise in the price of food.

Since a trough in April 2020, global agricultural and livestock prices have increased by over 100%. Surging demand caused by the strong global economic recovery from the pandemic has been one of the key drivers of this increase. Higher energy prices have added relentlessly to the production and transportation costs of food. Extreme weather events in food producing areas¹ have also played a role, while the war in Ukraine has further pushed up food prices in 2022.

Global agricultural and livestock prices

Index, January 2010 = 100



Source: Refinitiv Datastream / Fathom Consulting

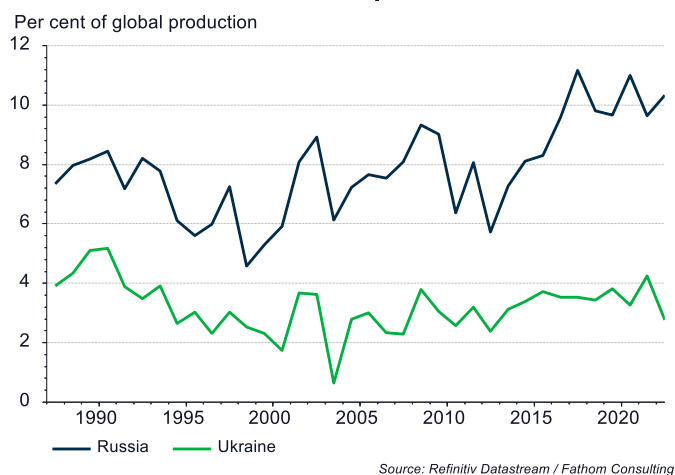
Both Russia and Ukraine are major producers not just of agricultural commodities, including wheat, corn, barley and sunflower oil, but also of the fertilizers used in global agricultural production. The two countries account for around 10% and 3% of global wheat production respectively, and together around a quarter of global wheat exports, according to the US Department of Agriculture. The price of wheat is currently up 34% since the middle of February and almost 70% since the start of the year, after having reached a new record around mid-May. Ukrainian wheat and corn production is estimated to be 23% and 42%

¹ [Food prices remain high into 2022 on shortages due to extreme weather | Financial Times \(ft.com\)](https://www.ft.com/content/2022-06-06/food-prices-remain-high-into-2022-on-shortages-due-to-extreme-weather)



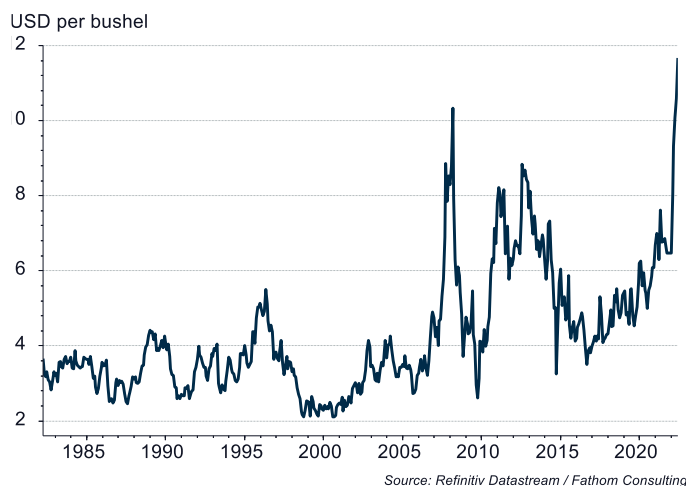
below its five-year average², and Russia's blockade of Ukrainian Black Sea ports reduced grain exports to 300,000 tonnes and 1.09 million tonnes in March and April compared with up to 6 million tonnes per month before the Russian invasion.³

Russia and Ukraine wheat production



A sizeable share of household income is spent on food. Before prices began to rise, food already accounted for over 15% of the inflation basket in advanced economies, and this proportion will be higher for lower income individuals. That percentage jumps to around 20-25% of the inflation basket in the Latin America, emerging Asia and 'Central & Eastern Europe, Middle East, North Africa' regions, and a massive 40% in Sub-Saharan Africa.⁴

Global wheat price



² Microsoft Word - WAPMay2022_V10_Bob_Ukraine_Image_Edit (usda.gov)

³ Ukrainian grain exports this month much lower than in May 2021 - ministry | Reuters

⁴ see War-Fueled Surge in Food Prices to Hit Poorer Nations Hardest – IMF Blog



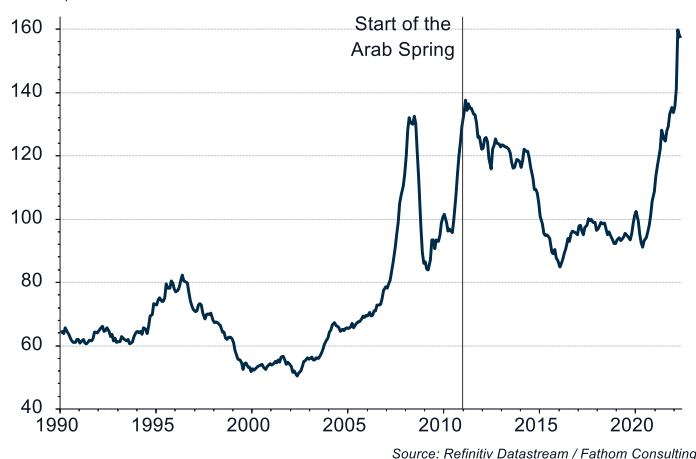


Hence, higher food prices are having a disproportionate impact on inflation and incomes in the emerging world. Many of these commodities are priced in US dollars on global markets, and the strength of the dollar has further exacerbated the inflationary impact.

Rising food prices have historically been associated with political instability in developing countries. Surging prices of wheat in 2010 were said to have been a key driver behind the Arab Spring, while anger at record food prices contributed to recent protests against the government in Sri Lanka. Amid concerns about potential food shortages and rising prices, a number of countries have placed restrictions on the export of certain foods to other countries. According to the International Food Policy Research Institute, around 10% of global trade in food by calories is currently affected by active restrictions (actual bans and export licensing requirements).⁵ Export restrictions only add to global food price risks, and increase the likelihood of further beggar-thy-neighbour policies.

FAO world food price index

Index, 2014-2016 = 100



As inflation soars across the globe, the surge in food prices is exacerbating current economic and social problems in the developing world. Against this ominous backdrop, the risk of political instability is likely to be on the rise. According to Fathom's Financial Vulnerability indicator, Western Asia and the Middle East & North Africa look especially at risk of a sovereign crisis. This is, however, a global story with the risk over the coming year now at its highest since 2012.

Related reading:

[Back to the 1970s](#)

[Monthly round-up: Inflation, inflation, inflation](#)

⁵ [Food & Fertilizer Export Restrictions Tracker | Tableau Public](#)



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