

Why the World Can't Afford Food

And why higher prices are here to stay

BY JACKSON DYKMAN

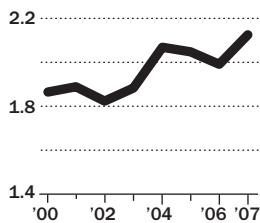


Poor harvests and restrictive trade policies

Worldwide production of cereals has not kept pace with demand as droughts and bad weather have hit key exporting regions. As stocks dwindled, some countries placed export restrictions on food to protect their own supplies. This in turn drove up prices, punishing countries—especially poor ones—that depend on imports for much of their food.

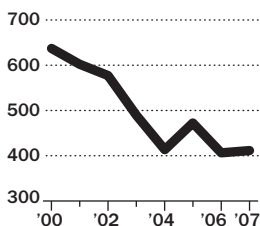
WORLDWIDE CEREAL PRODUCTION

Edible grains such as wheat, rice, corn, barley and sorghum, in billions of tons



WORLDWIDE CEREAL STOCKS

In millions of tons

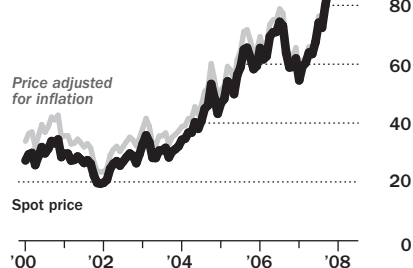


Increasing price of oil

Food costs closely track energy costs. As the price of oil spikes, the cost of running a farm jumps too. Petroleum is a key ingredient in the making of some types of fertilizer, which is increasingly essential to agriculture in the developing world. Then there's the added cost of gas to run equipment and higher transportation expenses to get food to market.

PRICE PER BBL. OF OIL

West Texas Intermediate Crude, a widely used benchmark

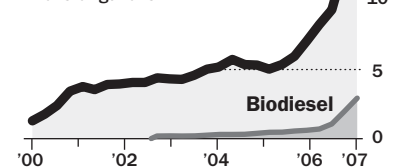


Diversion of crops for biofuels

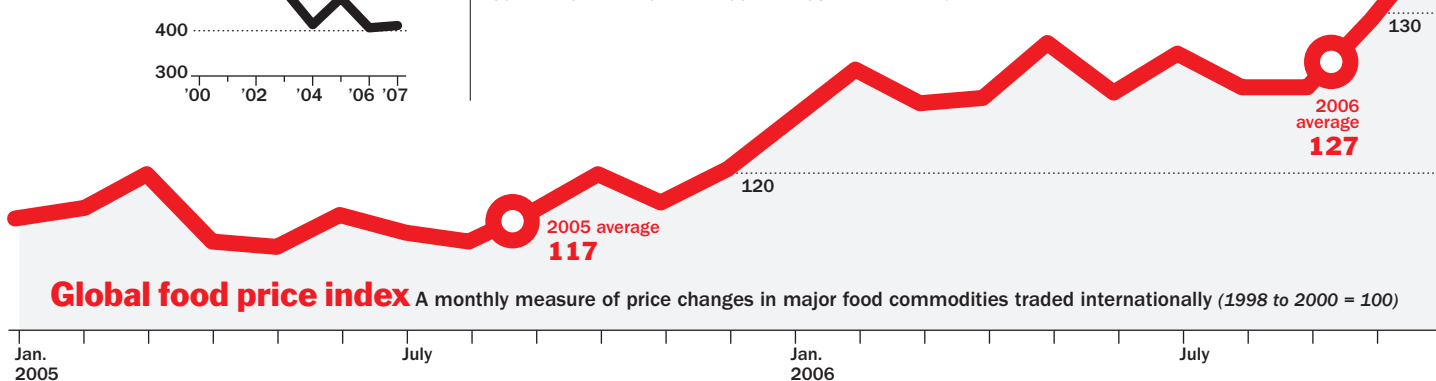
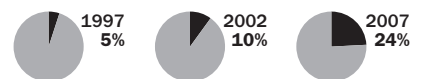
Expensive oil creates more demand for alternatives, like biofuels made from corn or other plants. Driven by government subsidies, U.S. farmers are devoting more land to corn at the expense of other crops and turning more of the corn they grow into ethanol. It's a double whammy: both corn and grain for food become scarcer, further driving up prices.

WORLDWIDE BIOFUEL PRODUCTION

Billions of gallons



U.S. CORN PRODUCTION USED FOR ETHANOL



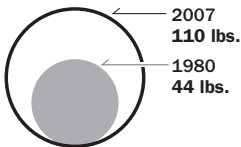
Global food price index A monthly measure of price changes in major food commodities traded internationally (1998 to 2000 = 100)



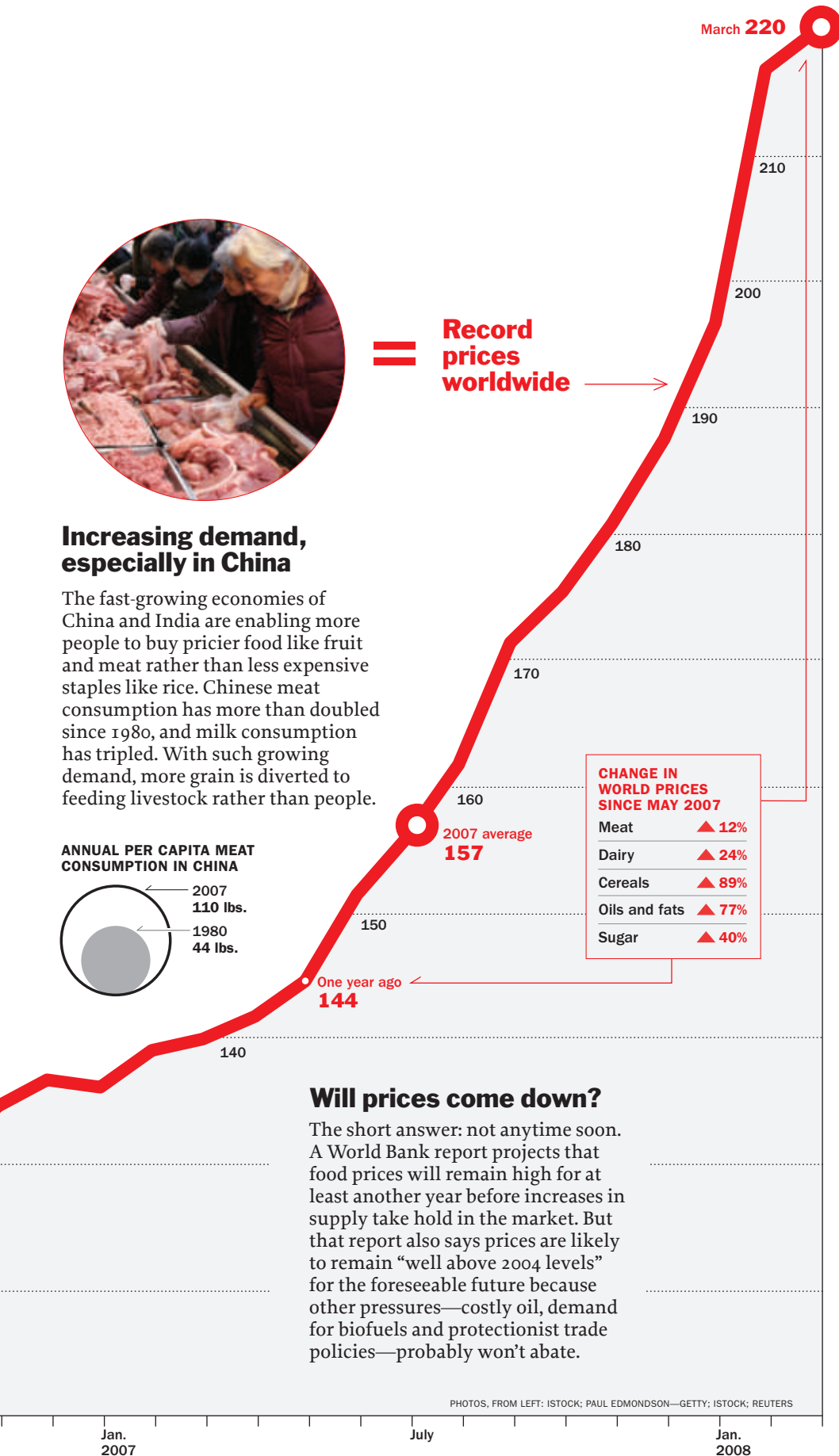
Increasing demand, especially in China

The fast-growing economies of China and India are enabling more people to buy pricier food like fruit and meat rather than less expensive staples like rice. Chinese meat consumption has more than doubled since 1980, and milk consumption has tripled. With such growing demand, more grain is diverted to feeding livestock rather than people.

ANNUAL PER CAPITA MEAT CONSUMPTION IN CHINA



Record prices worldwide



CHANGE IN WORLD PRICES SINCE MAY 2007

Meat	▲ 12%
Dairy	▲ 24%
Cereals	▲ 89%
Oils and fats	▲ 77%
Sugar	▲ 40%

Will prices come down?

The short answer: not anytime soon. A World Bank report projects that food prices will remain high for at least another year before increases in supply take hold in the market. But that report also says prices are likely to remain “well above 2004 levels” for the foreseeable future because other pressures—costly oil, demand for biofuels and protectionist trade policies—probably won’t abate.

PHOTOS, FROM LEFT: ISTOCK; PAUL EDMONDSON—GETTY; ISTOCK; REUTERS

How those prices hit home in the U.S.

Food prices are a key factor pumping inflation in the U.S., and wages aren’t keeping pace. Here’s how some prices have risen in supermarkets:

CHANGE IN PRICE SINCE 2003

Wonder bread
▲ 74%

Boneless center-cut pork chop
▲ 124%

Farmland Skim Plus milk
▲ 38%

Arnold stone-ground wheat bread
▲ 36%

Rib-eye steak
▲ 64%

Carr’s water crackers
▲ 39%

Birds Eye frozen sweet corn
▲ 28%

Bananas
▲ 41%

Birds Eye frozen baby peas
▲ 21%

Diet Coke
▲ 10%



Sources: United Nations Food and Agricultural Organization; Agriculture Department; Energy Information Administration; International Fertilizer Industry Association; World Bank; International Food Policy Research Institute; Bureau of Labor Statistics