

# Cost of eating going up because of supply, demand

June 28 2011, By Sean Fox

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Food prices are high worldwide and many factors are causing the increase, according to a Kansas State University agricultural economist.

"Prices are at high levels compared to what they have been in the past decade," said Sean Fox, professor of [agricultural economics](#).

Prices of [food](#) commodities are 30 to 35 percent higher than in 2010, according to the World Bank's food pricing index. A similar price spike occurred in 2008, but the levels are not fully equivalent.

The increased prices can be attributed to several factors based on supply and demand, Fox said.

"What has happened is that incomes have increased very dramatically in places like India and China, contributing to a very dramatic overall increase in demand for food commodities," Fox said. "That is a major driver on the demand side."

The world's population also has increased by 10 to 12 percent during the last 10 years, increasing the demand for food. But [wheat production](#) worldwide has been increasing by a greater percentage.

So why are [food prices](#) not staying the same or lower?

Biofuel production has facilitated higher prices through greater demand for corn. Fox predicts 40 percent of the United States' corn output will

likely be used for ethanol in 2011.

The greater emphasis on corn has caused decreases in wheat acreage, Fox said. Wheat also has suffered because of extenuating circumstances. Wheat stocks were lower worldwide and caused greater volatility in prices. Production concerns have been raised in the U.S. because of drought in the southern Plains and too much moisture in the northern Plains. Production concerns also are occurring worldwide because of equally unpredictable weather in China, France and Germany.

As with the food price hikes in 2008, [oil prices](#) are also playing a role, according to Fox.

"Higher oil prices contribute to increased demand for [ethanol](#), which drives up the price of corn. This, in turn, brings up cereal prices as well," he said.

[Policy decisions](#) by exporting countries can also significantly alter the price of certain commodities. The Russian drought of 2010 caused a 30 percent decrease in domestic wheat production, Fox said. As a result, the Russian government enacted export controls.

"That increases the price for everyone else," Fox said.

The effects of higher-priced food commodities are far from universal. In Europe and the U.S., people spend a relatively small proportion of their incomes on food -- around 10 percent, Fox said. People in lower-income countries, such as in the Middle East and sub-Saharan Africa, spend a greater proportion of their income on food.

"If they are spending 70-plus percent of their income on food, a 15 percent increase in wheat prices or corn prices is a major issue for them," Fox said. "Higher grain [prices](#) contribute to an increase in global

poverty. It's a major issue in some countries."

Provided by Kansas State University

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