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INFLATION AND THE PRICE OF AGRICULTURAL PRODUCTS

INFLAȚIA ŞI PREȚUL PRODUSELOR AGRICOLE

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Abstract: *The evolution of agricultural products' price generates major preoccupations in the most states of the world, especially in the poor states, where the increase of food prices exerts a significantly negative effect. We may properly consider that the increase of agri-food prices from the last period, during 2010 and during the first months of 2011, represents a real reason for concernment; this process' effects are much serious than the increase of oil price.*

Key words: *inflation, price, production, consumption*

INTRODUCTION

Although we have not spoken about a real global food crisis yet, because the real causes of these evolutions are not judiciously clarified, and also the short-, medium- or long-term perspectives, the preoccupation for analysis and diagnosis of this situation, whose seriousness is univocally recognized, is obvious.

A special preoccupation for the evolution of production, commerce, consumption and price of agricultural products comes from FAO (Food and Agriculture Organization), in order to prevent food crisis. On the same coordinates, especially aiming at the inhibition of inflation as a result of the increase of agri-food prices, we may find the monitoring activities performed by international financial institutions – World Bank and International Monetary Fund – and also the state monetary authorities, including the National Bank of Romania.

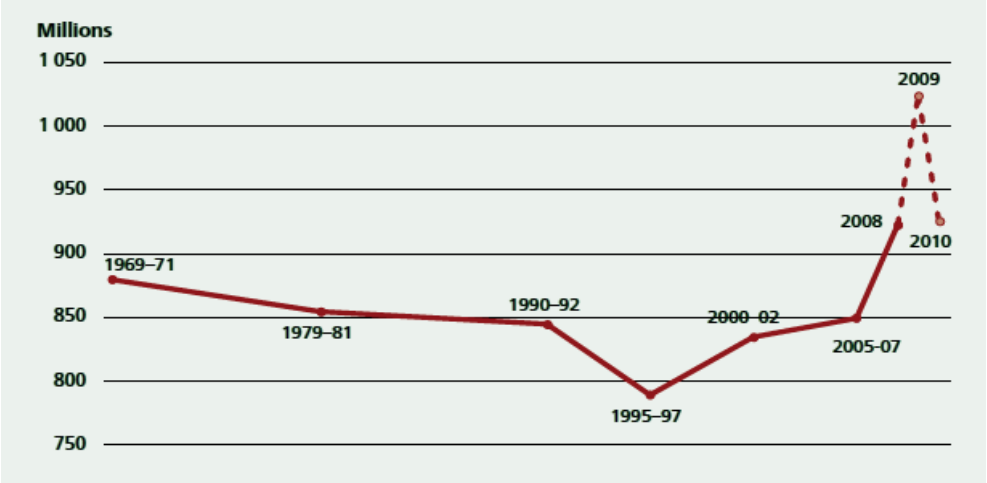
MATERIALS AND METHODS

In order to analyse the evolution of agri-food products price, we used data taken from the statistics made by FAO, World Bank, National Institute for Statistics, NBR's reports on inflation and also from various national and international publications; relied on these, we carried out calculations and interpretations.

The methods applied were represented by analysis, synthesis and the method of comparison, deduction and induction.

RESULTS AND DISCUSSIONS

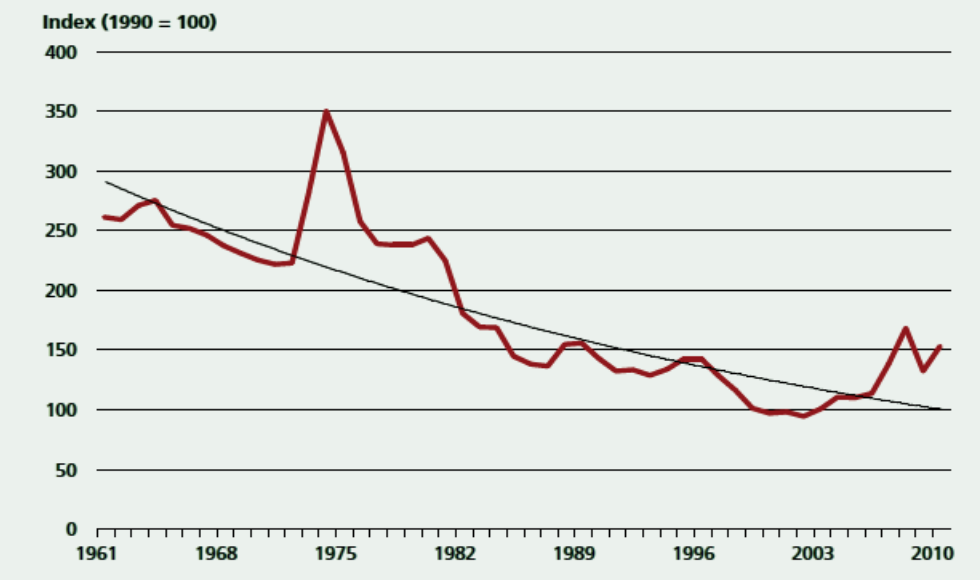
The events during the last years have determined an increasing vulnerability of food safety, generating major reactions that may be harder and harder accepted by millions of people. The increase of underfed at global level, a phenomenon proved by FAO's statistics and analyses (figure 1), is generated by food price evolution.



Source: FAO, World food and agriculture in review, part II, 2010

Figure 1. Number of underfed population in the world

The increase of food products prices creates major crisis phenomena, comparable with the ones occurred during the food crisis from 1972- 1975 (figure 2).



Source: FAO, World food and agriculture in review, part II, 2010

Figure 2. Index of food prices in real terms (1961-2010)

The Food and Agriculture Organization of the United Nations considers that the prices of food products, in the entire world, have reached a new record, in February 2011, by increasing with 2.2% compared with January; FAO index has reached the value of 236 points, the highest level since 1990, when FAO started to elaborate the food price index. The biggest advance was observed in the case of dairy products and cereals.

The global food prices are bigger with 36% than one year ago and remain volatile – as presented in the „Food price index", the instrument monitoring the prices, elaborated by World Bank, published in Washington at the conference that preceded the inauguration of IMF and WB. According to this index, the prices of maize increased with 74% compared with the same period of the last year, the prices of wheat with 69%, of soybean with 36%, and sugar price increased with 21%.

According to the data published by IMF, during 2009-2010, including January 2011, the prices of the two basic products (wheat and maize) increased, on the American market, from 239.36 dollars per tonne in January 2009, to 326.54 dollars per tonne in January 2011, and in maize

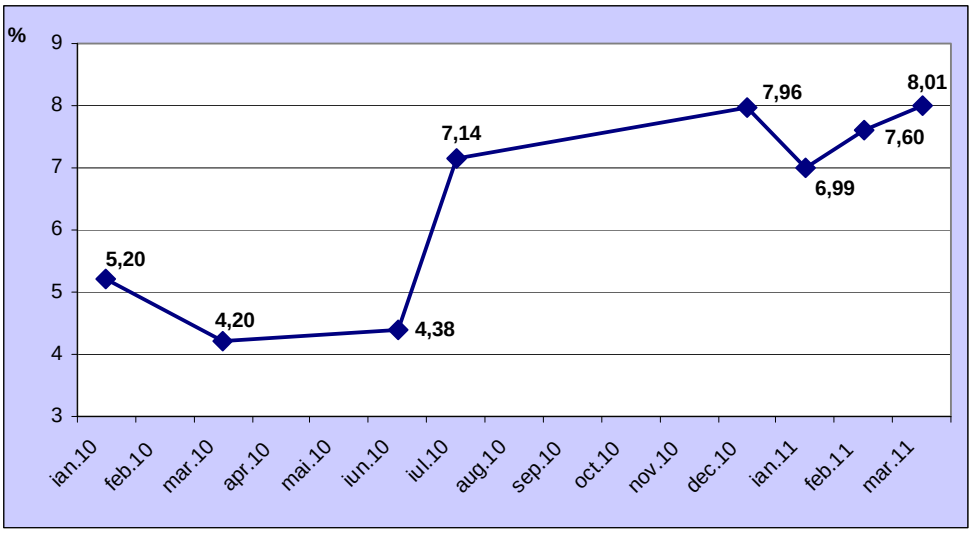
from 173.24 dollars per tonne in January 2009 to 265.29 dollars per tonne in January 2011 (table 1).

Table 1

Evolution of wheat and maize price on the American market ($/tonne)

Period	Wheat			Maize		
	2009	**2010**	**2011**	**2009**	**2010**	**2011**
January	239.36	201.51	326.54	173.24	167.21	265.29
February	224.69	194.54		163.13	161.63	
March	230.98	191.07		164.52	159.01	
April	233.47	192.82		168.72	157.66	
May	236.70	181.88		180.31	163.77	
June	253.41	157.67		178.83	152.87	
July	224.95	195.82		151.76	163.92	
August	210.37	246.25		152.01	175.60	
September	191.09	271.69		150.57	205.84	
October	198.85	270.29		167.22	235.70	
November	211.04	274.37		171.61	236.44	
December	206.25	306.99		164.58	251.02	

Source: International Monetary Fund, quoted by the Financial Magazine, 23rd Feb. 2011



Source: The National Institute for Statistics, processed data

Figure 3. Dynamics of inflation annualized rate

In our country, according to the release of the National Institute for Statistics (NIS), the annual inflation reached, in March, the value of 8.01%, the highest level since July-August 2008 (figure 3), as a result of the endearment of some food products, especially of potatoes, fresh fruit and sugar, and also fuel (tables 2 and 3).

Table 2

Consumption price index (CPI) in March, per total and per groups of goods and services, and monthly inflation rate

	March 2011 compared with:			**Mean monthly inflation rate**	
	Febr. 2011	**Dec. 2010**	**March 2010**	**2011**	**2010**
Total	100.60	102.16	108.01	0.7	0.7
Food	101.17	104.12	109.92	1.4	0.3
Non-food	100.51	101.62	107.41	0.5	1.3
Services	99.66	99.58	105.70	-0.1	0.1

Source: The National Institute for Statistics, Press release no. 81/2011

Table 3

Consumption price index in March 2011, for the main goods and services

Name of goods/services	**March 2011 in % compared with:**	
	Febr. 2011	**Dec. 2010**
Total	**100.60**	**102.16**
Total food, of which:	**101.17**	**104.12**
• Potatoes	106.59	124.70
• Sugar	106.05	111.98
• Other vegetables and bottled vegetables	104.29	119.37
• Fresh fruit	105.26	112.56
• Flour	102.29	106.28
• Bread	101.13	104.06
• Oil	101.04	105.24
Total non-food, of which:	**100.51**	**101.62**
• Fuel	102.25	104.57
• Tobacco, cigarettes	100.12	102.43
• Books, newspapers, magazines	100.27	105.18
Total services	**99.66**	**99.58**

Source: National Institute for Statistics, Press release no. 81/2011

The biggest endearments were recorded for potatoes 6.59%, sugar 6.05%, fresh fruit 5.26%, flour 2.29%, bread 1.13%, other vegetables and bottled vegetables 4.29%, oil 1.04%, honey 1.22%. Fuel price got increased with 2.25% in March.

The main causes that generated these endearments of food products at global level are:

- extreme weather events in the countries that are big cereal exporters;
- restrictions in food exports, instituted by some of the countries with high agricultural potential;
- increase of biofuel production and occupation of supplementary arable land to the detriment of other crops;
- reduction of world food stocks;
- increase of fuel price generated by the increase of oil price with 21% in the first trimester of 2011, caused by the events from North Africa and Middle Orient;
- increase of population and implicitly of food consumption in some emergent countries, especially in China.

Romania is in an unfavourable situation because it cannot use its production potential and benefit by a favourable conjunction generated by the increase of global food demand.

The bad results of the Romanian agriculture, with large uncultivated areas and reduced efficiencies, in the vegetal sector and in the animal-breeding sector as well, make Romania remain a net importer of agricultural products.

The structure of external commerce with agri-food products reveals an inadequate situation of the primary agricultural products processing capacity, in order to increase the value added and implicitly the efficiency of agriculture. In this viewpoint, in 2010, the first position in the classification of imported agri-food products is occupied by pork (304 million Euros), and the first position in the classification of exported agri-food products is occupied by unprocessed maize (388 million Euros), which actually represents the basic raw matter used in the achievement of pork.

The comparative situation of the first 10 imported products and 10 exported products is presented in table 4.

Table 4

Import and export of main agri-food products

Import – main agri-food products	**Value (mil. €)**	**Export – main agri-food products**	**Value (mil. €)**
Pork	304	Unprocessed maize	388
Sugar	216	Tobacco and cigarettes	383
Tobacco and cigarettes	153	Wheat	379
Processed food	142	Rapeseed	334
Soybean grit	132	Sunflower seeds	214
Chicken	114	Live animals	186
Feed for animals	114	Sunflower oil	112
Wheat	112	Barley	95
Sunflower seeds	109	Sugar	90
Coffee	108	Chicken	81

Source: Ministry of Agriculture and Rural Development

CONCLUSIONS

The increase of agri-food prices, the main source that enhances inflation, generates difficult **macroeconomic policies** meant to calm down the inflationist pressure.

NBR is expected to maintain or even increase the monetary policy interest rate, frozen from May 2010, with consequences on the economy financing capacity. At the same time, the supplementary appreciation of leu compared with euro seems more and more possible to calm down the prices of the imported goods, with a negative effect on the exporting companies.

This new, but expectable evolution of the production, consumption and price of agri-food products will exert major effects on the agricultural policies belonging to different countries able to influence the agricultural products supply.

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