



Food prices to keep rising

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Further food prices rises are likely if the trend in soft commodities on the international futures market continues, NZ Funds Management principal Dave Wilson says.

“Soft commodities future prices declined dramatically a few years ago when measured in New Zealand dollars and are now again starting to show some signs of life,” he says. “If the relationship holds and this recovery continues, food prices will continue to rise and place upward pressure on inflation.”

Statistics New Zealand’s Consumer Price Index for the March

quarter, released last week, showed prices had increased slightly over the quarter, rising 0.4% and taking the annual increase to 2.0%.

Food, and in particular higher grocery prices, was a major contributors to the March increase, rising 1.0% over the quarter. Over the past two years food prices have risen 10.1%.

Economists use futures prices on soft commodities as a leading indicator for food prices, as soft commodities (commodities that are grown rather than mined) are either used directly or as an input in processed foods.

There is a lag in the impact of futures prices on soft commodities for a number of reasons, including hedging by food producers that locks in old pricing for a period of time, and a reluctance by producers to change prices due to risk of losing market share.

The growth in food prices has out-paced the general price level by a significant margin over the past three years. Food prices have risen 5.0% annually while general inflation has been 2.7% a year.

This escalation has been a major contributor to consumer price inflation in New Zealand.