Commodities Economics Comment

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‘Finer foods’ get ‘super-squeezed’

Economics

- So you like chocolate? Drink coffee, or orange juice with breakfast? Cook with olive oil? Have a sweet treat in the afternoon? Get ready for price hikes. Climate change and geopolitical factors have been squeezing supply, which has lifted the prices of these 'finer foods' and beverages. The El Niño weather pattern has played a role, delivering wet weather in West Africa, affecting cocoa. Inclement weather in India and Thailand have affected sugar, while weather and the Red Sea disruptions have impacted Robusta coffee supply. Oranges have been hit by bad weather and disease, and dry conditions in Europe have affected olive supply. Sorry to say, but some of the finer things in life are getting more expensive. For the macro scene, this is just one more factor (albeit a small one) to keep in mind when thinking about whether inflation will prove to be 'sticky'.

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Easter is just around the corner and chocolate eggs are a perennial favourite. But severely wet weather in West Africa, which accounts for three quarters of world cocoa production, has driven significant supply shortages of this key ingredient. Côte d’Ivoire accounts for 40% of global cocoa exports, while Ghana is 15%, and cocoa crops in both economies have suffered heavy rains, flooding, and disease in 2023. As of February 2024, cocoa prices are up 123% y-o-y, spiking to a new record high. More recently, the El Niño weather pattern has seen a shift to hotter and drier weather in the region, posing additional risks for the 2024 outlook.

How about coffee (Robusta) and orange juice? Prices for these products have also spiked recently. In February 2024, orange juice prices were up 50% y-o-y, over 160% above pre-pandemic levels, having reached a record high in November 2023. Likewise, Robusta coffee was up 55% y-o-y, to a new record high, 178% above pre-pandemic levels.

A common theme across these commodities is the impact that inclement weather has had on production. The risks that climate change poses for coffee have been evident for some time. For orange juice, cases of ‘citrus greening disease’ also spiked in 2023.

Olive oil, too, has been affected by adverse weather. In this case, dry conditions in Italy, Greece, and Spain curtailed supply. Olive oil prices have risen by 70% over the past year to a new record high.

Finally, sugar prices also reached their highest level since 2011 in late 2023. Although sugar prices have fallen back a bit since then, they are still up 63% above pre-pandemic (2015-2020) levels. Supply-side developments have been in focus here, too, with El Niño impacting crops from India and Thailand. India endured its driest August in over a century in 2023, stunting sugarcane crops in the growth phase, while Thailand’s quality and quantity of the sugar harvest also suffered.

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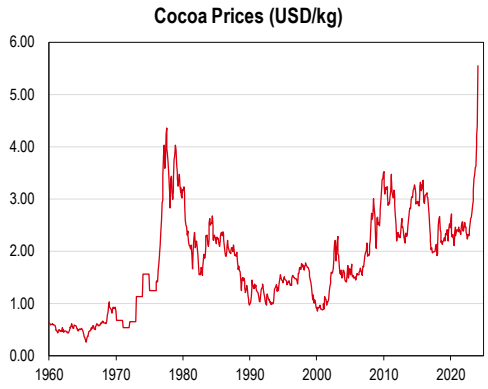
Global reliance on a small number of geographically concentrated producers is also part of the problem, as geographically idiosyncratic weather events can disrupt large shares of production. For orange juice, for instance, Brazil, Mexico, and the US account for over 60% of orange juice production, meaning weather events in the region can have implications for global prices. This may give consumers around the world few options to avoid higher orange juice prices.

However, it is not all bad news. For coffee lovers, in contrast to orange juice, there is some ability to substitute between fresh (or ground) beans and instant coffee. The latter is typically Robusta, while the prior is typically Arabica, accounting for nearly 60% of global production. Arabica growing regions are not exposed to the same supply-side challenges as Robusta, and therefore not seeing the same sort of price pressure. Sugar exports, too, are also spread across Asia and the Americas, mitigating some of the risk compared to cocoa beans.

The finer foods and beverages are all just small parts of a typical consumer basket, so tend not to attract the same sort of attention as many other commodities. But add them together, and get a large enough spike in their prices, and the effect on inflation could be more noticeable.

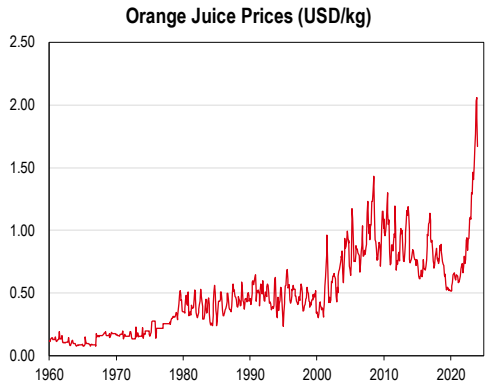
For example, in the US CPI 'snacks' are 0.4% of the basket, 'sugar and sweets' are 0.3%, while 'coffee' is 0.2%, 'juices and non-carbonated drinks' (albeit not all made of orange juice) are 0.7%. Altogether, only around 1.6% of the consumer basket. But, double or triple digit price gains in these products could start to add up.

1. Cocoa prices reached a new record high in February 2024 …



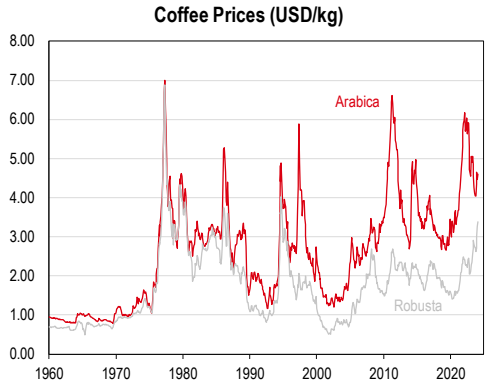
Source: World Bank; HSBC

2. … while orange juice prices remained just off their recent record high



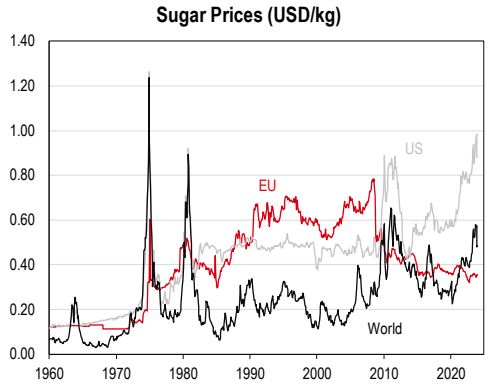
Source: World Bank; HSBC

3. Robusta coffee prices have increased sharply even as Arabica prices fell



Source: World Bank; HSBC

4. World sugar prices have risen sharply above pre-pandemic levels



Source: World Bank; HSBC

Disclosure appendix

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