

# Food inflation

## Divergent trends across regions

Free to View  
Economics - Global

- ◆ Currently soaring food inflation is keeping headline inflation high, offsetting the decline in energy prices...
- ◆ ...particularly in Europe where food inflation has yet to peak for a number of reasons...
- ◆ ...but there are more promising signs in Asia and Latam

**Maitreyi Das**

Economist

HSBC Securities and Capital Markets (India) Private Limited

### Food fight

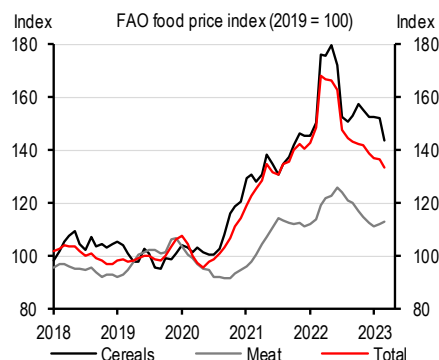
Global inflation may have peaked but is still far too high. And now, in many places, as energy inflation has fallen back, food price inflation has become the pressing concern for households.

There have been some improvements in wholesale food prices. The benchmark index for international food commodity prices – which includes cereals, vegetable oils, sugar, meat and dairy prices – hit its highest in March 2022 (Chart 1 and 2) in the aftermath of Russia invading Ukraine. It then fell for the twelfth straight month in March 2023 but that still leaves the wholesale price level some 30% higher than pre-pandemic levels. So many regions are still seeing extremely high food price inflation.

This is partly because there is a substantial lag between the prices farmers receive and the prices households pay. End prices include processing, packaging, transportation and distribution and so all of these factors feed into food inflation rates.

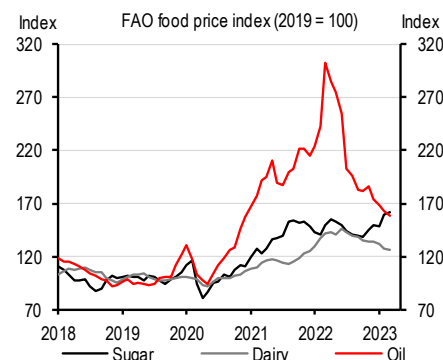
Food inflation is seemingly yet to peak in Europe, MENA and some African countries, but there are signs of a turn in some Asian economies and Latin America. Given that the weight of food in CPI baskets is usually larger in EM economies, the impact on household incomes and inflation is greater.

#### 1. Global food prices have likely peaked, but remain elevated



Source: Refinitiv Datastream, HSBC

#### 2. Sugar prices are still on the rise due to limits on Indian exports



Source: Refinitiv Datastream, HSBC

*This is a redacted Free to View version of a report with the same title published on 24-Apr-23. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

### Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

**Issuer of report:** HSBC Securities and Capital Markets (India) Private Limited

**View HSBC Global Research at:**  
<https://www.research.hsbc.com>

## A mixed bag

The food inflation story varies from region to region. For some economies it is still rising, as in most of Europe, while in others it has started to moderate, as in Asia. On the other hand, some economies have very specific stories relating to food inflation which are worth noting.

In the US, food inflation has eased for the last six months, with March's print at 8.5% y-o-y showing a broad based slowdown in almost all food components. That said, while inflation for food at home is coming down, restaurant food inflation is showing no sign of turning. On top of raw food prices, rentals and wages are keeping cost pressures high. Average hourly earnings growth for leisure and hospitality services, although moderating, is higher than other sectors, adding to inflationary pressures in restaurants.

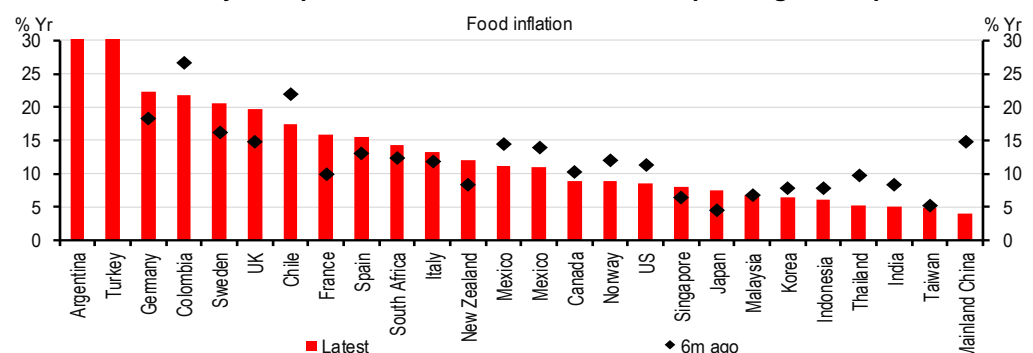
Meanwhile, there are a few food items such as eggs, bread, dairy products and pork which remain at a high level. In particular, egg prices, although moderating, are still expensive in the US due to the recent avian flu. The deceleration in food price inflation over recent months will be important to monitor going forward, as it may be indicative of a broader reduction in inflation pressures. We expect food prices to rise further over the remainder of this year, but not as quickly as in 2022.

In Europe, especially in the eurozone countries, food inflation continues to rise. In March, prices of food, alcohol and tobacco rose 15.4% y-o-y in the eurozone. While the rapid drop in energy inflation as global oil and gas prices eased may have provided some comfort to headline inflation, higher food prices are now contributing more to headline numbers. Policymakers are especially focusing on how to control food inflation. Already facing protests against pension overhauls, French President, Emmanuel Macron, last month sealed an agreement with leading retailers to limit the rise in food prices. That said, higher energy prices earlier in Europe have also lifted costs of production for farmers which are being passed along the supply chain.

The story is less daunting in Asia. In most economies, food inflation has already peaked. However, some anomalies are worth noting. For example, in mainland China and Taiwan, higher pork prices due to swine flu have put some upward pressure on food inflation. In India, rice and processed wheat prices are quite high. Interestingly, raw wheat prices are falling sharply. Meanwhile in ASEAN, the Philippines is reporting relatively high inflation. The government's recent move to support import substitution has led to a supply-demand imbalance, resulting in higher prices of certain food items, in particular onions, sugar and mackerel scad.

Likewise, in LatAm, food inflation has already peaked, with the exception of Argentina. In fact, Brazil's March inflation came in below market expectations with food driving the downward surprise. Elsewhere, the World Bank predicts double-digit food inflation in MENA economies in 2023, after above 25% food inflation in 2022. This is putting an intense squeeze on incomes in many African economies, where the weight of food is higher in the CPI basket. Hence, food security and lower growth are the major concerns for these economies currently.

### 3. Food inflation may have peaked in some economies, but keeps rising in Europe



Source: Refinitiv Datastream, HSBC. Note: Latest and 6m ago inflation in Argentina is 106.6% and 88.6% respectively, while that in Turkey is 67.1% and 92.4% respectively

### Why is there a divergence?

Let us delve a bit deeper into why are we seeing such different food inflation shocks in different economies. In particular, why is Europe, in particular, still seeing such high food inflation?

**Higher energy and fertiliser costs:** In Europe, a key contributor to higher food inflation has been rising energy costs. Higher energy and fertiliser costs deterred farmers from producing as much crop or raising as many animals in 2022 as well as seeing higher production costs for foodstuffs that leave the farm. That said, authorities are now focusing on consolidating food stocks and with wholesale prices dropping, we hopefully should see the impact on prices soon.

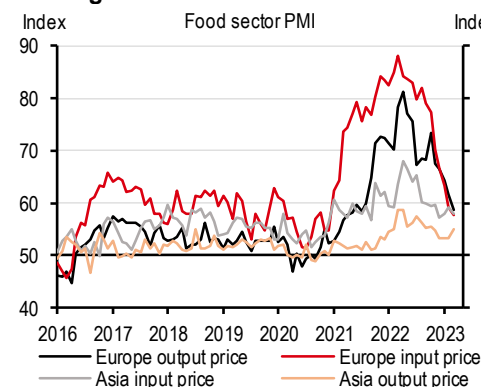
**Supply chain disruption:** On top of higher energy prices, the Russia-Ukraine war resulted in more disruption to food supplies in Europe rather than in Asia. For the European livestock sector, Ukraine exported 15% of all maize (11mn tonnes annually to the EU) and 61% of sunflower cake, which are important inputs in animal feed. Russia had targeted agricultural production facilities in Ukraine, and Moscow's blockade of Black Sea routes virtually halted Ukraine's agricultural exports (about 80% were seaborne) until the UN-brokered Black Sea Grain initiative and EU solidarity lanes which allowed safe transport. The UN extended the Black grain initiative again on 18 March. However, there is still uncertainty around how long the Black Sea Grain Initiative will be extended.

**Trade restrictions:** Another reason for the sudden spikes in food is because of a growing number of food trade restrictions put in place by different countries to maintain their domestic supply. For example, in February multiple countries imposed export restrictions on onions, tomatoes, potatoes and carrots to stabilise their domestic prices. In January, Mexico announced a temporary 50% tax on white corn exports. Last October, mainland China put in a ban on corn starch exports and Bolivia banned exports of soybean, soybean meal, soybean flour, sugar, oil and beef. Even the global rise in sugar prices was due to the ban on sugar exports from India implemented last June and has been extended until October this year. These bans, while helping domestic prices, raise food prices for importing countries.

**Margin squeeze by food producers:** While this is an unsurprising result of the cost pressures described above, EU food suppliers saw a huge run up in input costs and as they come down, they seem to be trying to restore margins, keeping prices of final products high. There were some reports of "greedflation" in the UK where businesses are fuelling inflation by lifting prices more than warranted by their costs (The Guardian, 19 April, 2023). On the contrary, Asian economies didn't see this impact and, even though input costs rose, it was by less than in Europe – and so prices may be less sticky on the way down (Chart 4).

**Adverse weather events:** The other reason for higher food prices is unforeseen weather events. In India, unseasonal rains and hail storms have damaged ripening, winter-planted crops such as wheat (Reuters, 21 March). Additionally, a depletion in cereal stocks could push cereal prices higher in the coming months. Similarly, the extreme hot weather in Europe in August 2022 resulted in drastic falls in harvests of multiple crops including potatoes, onions, sugar beet, apples, maize, soybeans and sunflowers. Fortunately, the World Meteorological Organisation

### 4. Input costs for food producers in Europe rose higher than that in Asia



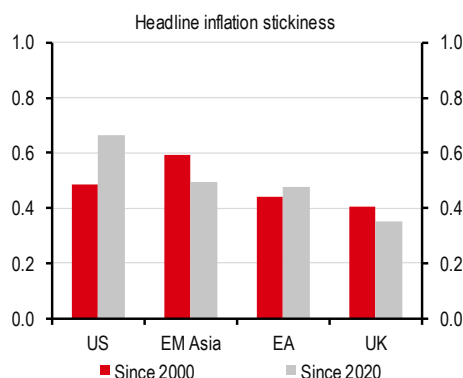
Source: S&P Global, HSBC

### 5. Ukraine accounts for a high share of EU imports for cereals and edible fats



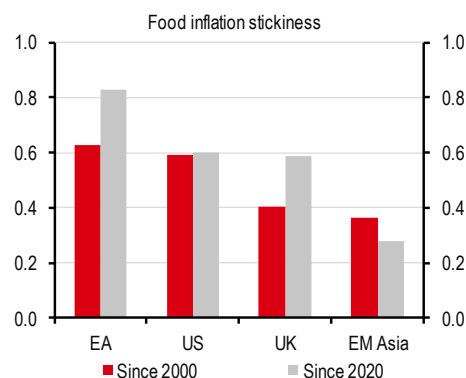
Source: Eurostat, HSBC

## 6. Headline inflation turned stickier in the last three years in the eurozone...



Source: Refinitiv Datastream, CEIC, HSBC. Note: EA denotes Euro Area. Note: Based on how previous month's inflation affects this month's inflation. Uses non-linear least square technique (ARMA) to look at how one month's inflation print drives the next – data shown are impact on inflation in period t from inflation in period t-1.

## 7. ...as food inflation has become stickier



Source: Refinitiv Datastream, CEIC, HSBC. Note: EA denotes Euro Area. Note: Based on how previous month's inflation affects this month's inflation. Uses non-linear least square technique (ARMA) to look at how one month's inflation print drives the next – data shown are impact on inflation in period t from inflation in period t-1.

predicts a 90% chance for a transition to ENSO-neutral (which means Neither El Niño or La Niña) during March-May 2023, which could help reduce food price volatility. There is a small chance (of about 10%) for La Niña to continue further.

**How persistent is food inflation?** We have analysed how sticky inflation is across the US, Europe and Asia. Our results show two things: firstly, food inflation is stickier than headline inflation. Secondly, prices in the eurozone have become stickier in the last few years than prices in EM Asia and the US (Chart 6 & 7). We have used seasonally adjusted sequential changes in headline and food inflation for the analysis and have used oil prices as a control variable, too. For this particular analysis, we have taken two time periods: one since 2000 and second since 2020. The analysis suggests that prices in EM Asia are more persistent than prices in the West for the longer time period, but that has changed in recent years. Prices in the eurozone seem to be stickier than other regions for the last three years. Typically, a lot of food and fuel prices in Asia are subsidised or controlled, which in general makes inflation more persistent. But in recent years, the spike in energy prices might have reversed the trend, i.e. food inflation in the eurozone has become stickier than in the US and Asia.

According to the model, a one percentage point rise in food inflation in the current period in the eurozone implies an increase in food inflation by 0.83ppt in the next period, assuming everything else remains constant. This suggests that Europe may see stickier food price pressures in the months to come. That said, a recent report from the European Commission shows that selling price expectations for food and beverage services had declined for the last two months. Usually HICP tends to follow the same trend, but with a lag and we might see some easing pressures in a few months' time.

That said, in Asia some countries prioritise the need to maintain a stable supply of foodstuffs to keep prices at bay. For example, in Indonesia, the government ensures sufficient imports of food items such as rice to maintain the domestic supply. On the other hand, the Philippines' government is trying to use import substitution as a mechanism to control food inflation in the country. While inflation of food items such as onions and fish are very high in the Philippines, the government believes that this strategy would bring down food inflation sooner.

Overall, the task for central bankers remains challenging. Food inflation is typically hard to tackle with monetary policy, but given how high it is in Europe in particular, it is playing a key role in keeping overall inflation well above central banks' targets. Unless lower wholesale prices start feeding into CPI prints soon, food inflation may be a concern for a while longer. That said, we believe higher food prices are transitional and should ease with time. But the second round impact due to inflation persistence makes it difficult for central bankers to look through it. Hence, we still expect more rate hikes from the US Fed, BoE and ECB.

This is a redacted Free to View version of a report with the same title published on 24-Apr-23. The full note contains a further look at the developments of food inflation across the world. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.

# Disclosure appendix

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Maitreyi Das

This document has been issued by the Research Department of HSBC.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at [www.hsbcnet.com/research](http://www.hsbcnet.com/research).

## Additional disclosures

- 1 This report is dated as at 24 April 2023.
- 2 All market data included in this report are dated as at close 20 April 2023, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

# Disclaimer

**Issuer of report**  
**HSBC Securities and Capital Markets (India) Private Limited**

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited, which has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. Neither HSBC Securities and Capital Markets (India) Private Limited nor any member of its group companies ("HSBC") make any guarantee, representation or warranty nor accept any responsibility or liability as to the accuracy or completeness of this document and is not responsible for errors of transmission of factual or analytical data, nor is HSBC liable for damages arising out of any person's reliance on this information. The information and opinions contained within the report are based upon publicly available information at the time of publication, represent the present judgment of HSBC and are subject to change without notice.

This document is not and should not be construed as an offer to sell or solicitation of an offer to purchase or subscribe for any investment or other investment products mentioned in it and/or to participate in any trading strategy. It does not constitute a prospectus or other offering document. Information in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on it, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

The decision and responsibility on whether or not to purchase, subscribe or sell (as applicable) must be taken by the investor. In no event will any member of the HSBC group be liable to the recipient for any direct or indirect or any other damages of any kind arising from or in connection with reliance on any information and materials herein.

Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors.

This document is for information purposes only and may not be redistributed or passed on, directly or indirectly, to any other person, in whole or in part, for any purpose. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. By accepting this report, you agree to be bound by the foregoing instructions. If this report is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. The document is intended to be distributed in its entirety. Unless governing law permits otherwise, you must contact a HSBC Group member in your home jurisdiction if you wish to use HSBC Group services in effecting a transaction in any investment mentioned in this document.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document.

HSBC and/or its officers, directors and employees may have positions in any securities in companies mentioned in this document. HSBC may act as market maker or may have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell or buy securities and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented on the supervisory board or any other committee of those companies.

From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

HSBC Securities and Capital Markets (India) Private Limited is registered as "Research Analyst" (Reg No. INH000001287), Merchant Banker (Reg No. INM000010353) and Stock Broker (Uniform Reg. No. INZ000234533) and regulated by the Securities and Exchange Board of India.

© Copyright 2023, HSBC Securities and Capital Markets (India) Private Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of insert issuing entity name. MCI (P) 017/01/2023, MCI (P) 027/10/2022

[1212481]