

## **Energy In & Out = Energy Within**

The major tenets of the First Law of Thermodynamics, or The Conservation of Energy as it is often called, are that Energy: can be stored; can be moved from one piece of matter to another; can be transformed from one type to another; and most importantly - during all this moving and transforming - the total amount of energy never changes. Where to find the energy within the inflated fuel component of increased food prices?

## **US: Off-shore for Value-added**

US consumers are showing signs of trading down while richer foreign consumers trade up, according to MetLife Agricultural Investment (MLAI - see links). Surveys indicate that US consumer top concerns of June '08 were high gas prices and food prices. The US retail food sector is countercyclical to the economic cycle – rising as the economy falls, during which the food service sector drops as well. Premium priced brands and in-store prepared meals replace restaurant visits. Meanwhile, the fast and steady GDP growth of populous and emerging countries like India and China create and support off-shore demand for higher-value food products. According to MLAI “foreign demand for US agricultural goods has been a powerful positive force amid weak domestic demand”. Quoting the Food and Agriculture Organization, MLAI illustrates a fading distinction between the cereal-based diets of developing nations and the meat-based diets of developed nations. The increased amount of dietary protein consumption in developing countries forms the basis of these powerful, and very important trade transactions. But not forever economists point out. Foreigners’ export markets depend upon strong and sustained customers, such as that provided by the US in more lucrative years of the recent past. A major US economic downturn can directly and negatively impact foreigners’ exports and internal economies. Hence, the Sep 19, '08 US-government \$700 B bail out of the US financial sector can be expected to support the world economy.

## **Cushioned in Canada (..Still)**

While US food prices have posted the fastest annual gain in two decades at 5.9%, and the EU is racing along at 7.1%, Cdn food prices have inched upward. Statistics Canada reports food prices in July up 4.3% year-over-year, against an inflation rate at 2.1% and whopping gas pump prices at 29%.

There is a lot of finger-pointing going on. Agri-Week newsletter (see links) reports: “*The food industry is trying to deflect possible blame for food price inflation fears by contending that these increases are traceable to higher prices for corn, wheat and soybeans, which in turn are being raised by biofuel use.[...] Recent credible economic research showed that ethanol accounts for no more than 2 to 3% of the increase in food prices over the past year.*” Agri-Week was most likely using US, EU or global food price increases as a comparison.

## **Transportation Cost of Food**

Stats Can estimates that transportation costs occupy 5-6% of value-added food prices; the cost to import food into Canada has fallen 7% since 2002. However, percentages may vary, as shown below. **FF**

## **Some Web sites**

<http://www.metlife.com/Applications/Corporate/WPS/CDA/PageGenerator/0,4773,P10020,00.html>

<http://www.agriweek.com/ourpubs.htm>

<http://www.statcan.ca/Daily/English/080612/d080612a.htm>

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