



**Office of the Chief Economist
Office of Energy Policy and New Uses**

Food and Fuel

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Office of Energy Policy and New Uses

Governors' Ethanol Coalition

Governors' Renewable Fuels Security Roundtable

J.W. Marriott Hotel

Washington, D.C.

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“When it makes the comics, it might be important”





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OBSERVATIONS

- BIOFRENZY
- Food and Fuel Issue is Complex
- High Energy – High Food Prices
- CURE for High Prices is ???



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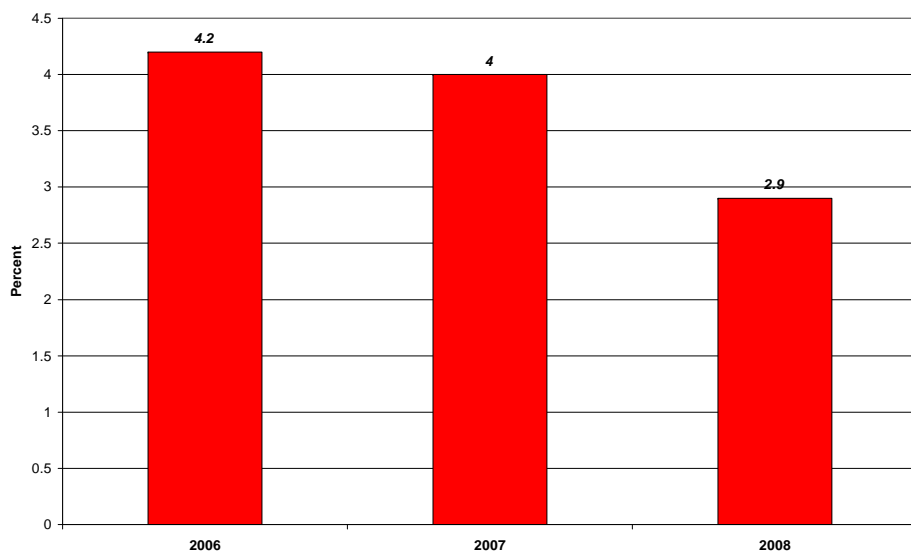
Factors influencing Commodity & Food Prices

- Global Economic Growth
- Weather
- Export Restrictions
- Food Production and Marketing Costs
- Value of the US Dollar
- Biofuels Production

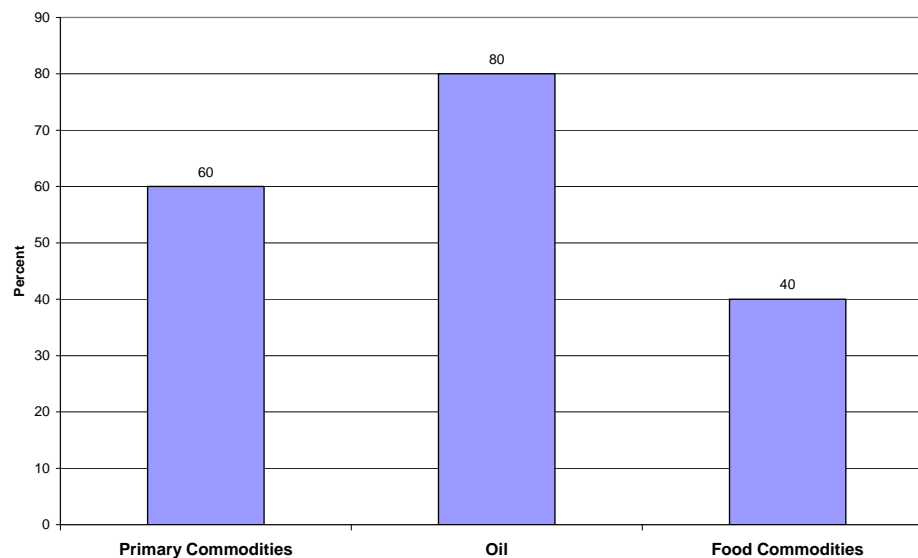


Global Economic Growth & Prices

Real Global Economic Growth



Change in Global Prices July '07 to July '08



Source: IMF



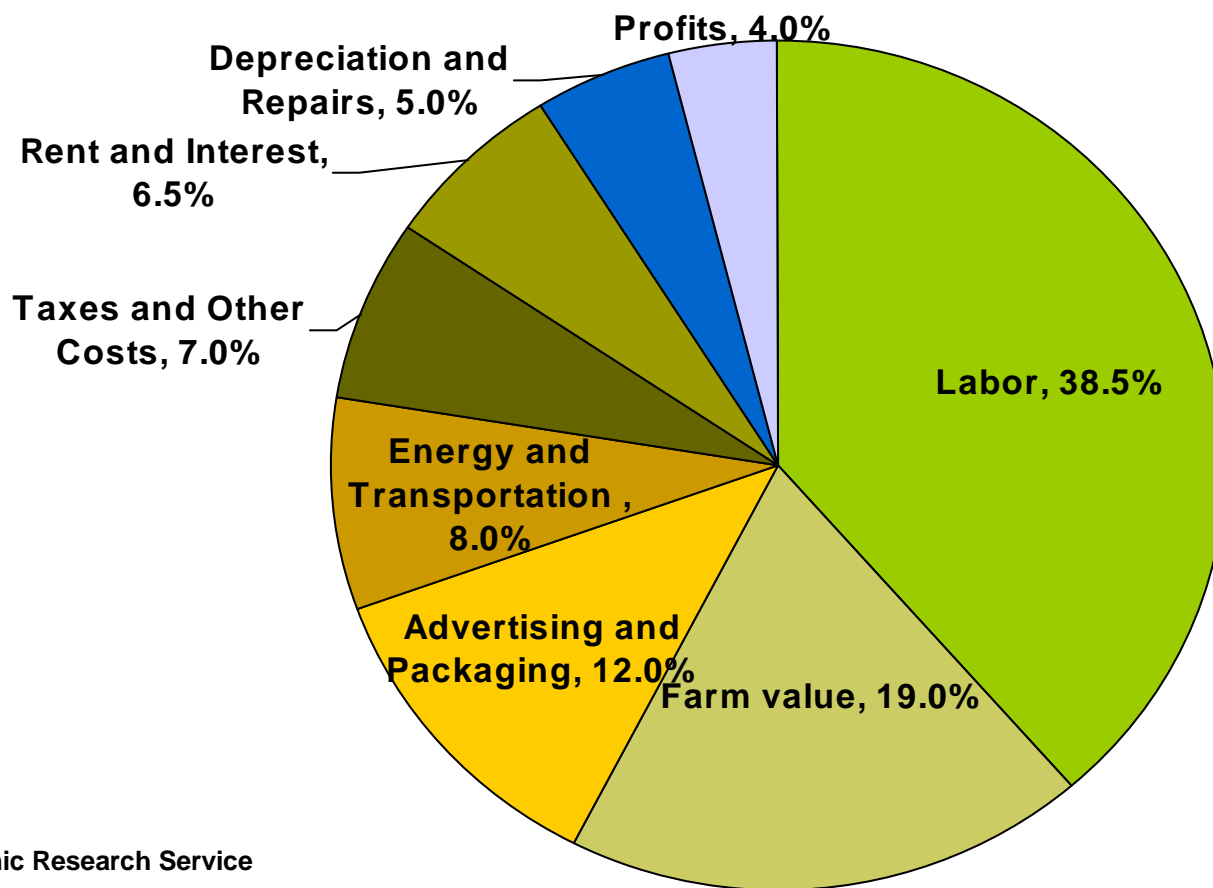
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Weather and Export Restrictions

- Multi- year drought in Australia – reduced wheat and milk production
- Drought & dry weather in Canada, Ukraine, European Union, and U.S. in recent years reducing grain production
- '08 Flooding in the midwest – push corn and soybean prices
- Exporting countries place taxes or restrictions on exports of grains, rice, oilseeds and other products



Food Production and Marketing Costs



Source: Economic Research Service

Ephraim Liebtag, Calculations using 2006 Data, August 7, 2008



Change in Food Price Indices

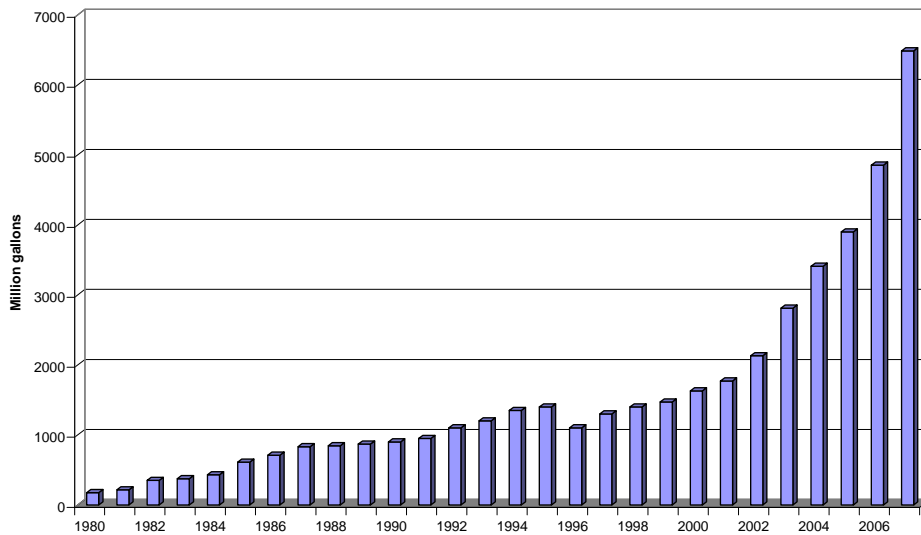
Item	Relative importance ¹	Final 2005	Final 2006	Final 2007	Forecast 2008 ²	Forecast 2009 ²
Consumer price indexes	<i>Percent</i>				<i>Percent change</i>	
All food	100.0	2.4	2.4	4.0	4.5 to 5.5	4.0 to 5.0
Food away from home	44.6	3.1	3.1	3.6	3.5 to 4.5	4.0 to 5.0
Food at home	55.4	1.9	1.7	4.2	5.0 to 6.0	4.0 to 5.0
Meats, poultry, and fish	12.2	2.4	0.8	3.8	2.0 to 3.0	5.0 to 6.0
Meats	7.9	2.3	0.7	3.3	1.5 to 2.5	5.5 to 6.5
Poultry	2.3	2.0	-1.8	5.2	3.5 to 4.5	5.0 to 6.0
Fish and seafood	2.0	3.0	4.7	4.6	3.5 to 4.5	4.0 to 5.0
Eggs	0.9	-13.7	4.9	29.2	13.5 to 14.5	2.5 to 3.5
Dairy products	6.4	1.2	-0.6	7.4	7.0 to 8.0	4.0 to 5.0
Fats and oils	1.5	-0.1	0.2	2.9	11.5 to 12.5	3.0 to 4.0
Fruits and vegetables	8.4	3.7	4.8	3.8	4.5 to 5.5	3.5 to 4.5
Sugar and sweets	2.0	1.2	3.8	3.1	4.5 to 5.5	3.0 to 4.0
Cereals and bakery products	7.4	1.5	1.8	4.4	9.0 to 10.0	3.5 to 4.5
Nonalcoholic beverages	6.7	2.9	2.0	4.1	3.5 to 4.5	3.0 to 4.0
Other foods	9.9	1.6	1.4	1.8	3.5 to 4.5	3.0 to 4.0

Source: USDA, Economic Research Service, July 21, 2008

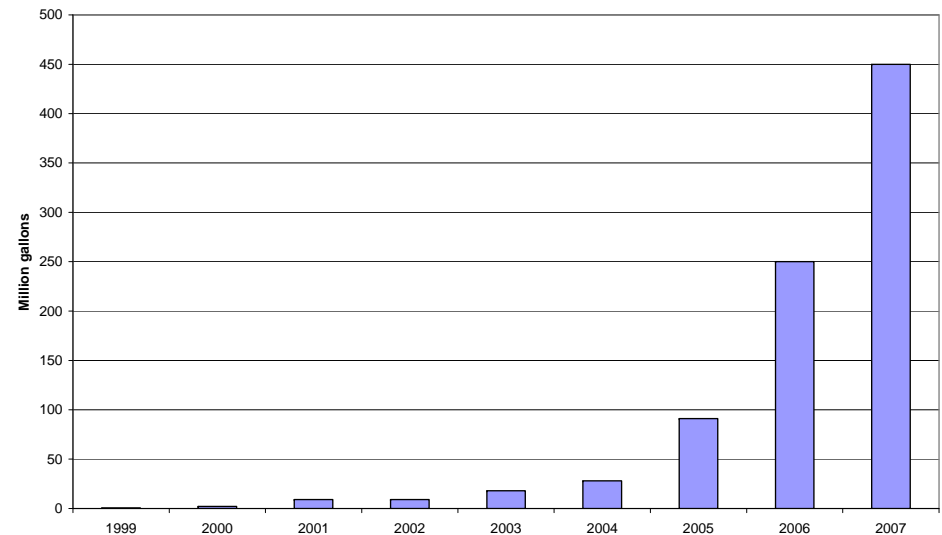


Biofuels Production

U.S. Ethanol Production, 1980-2007



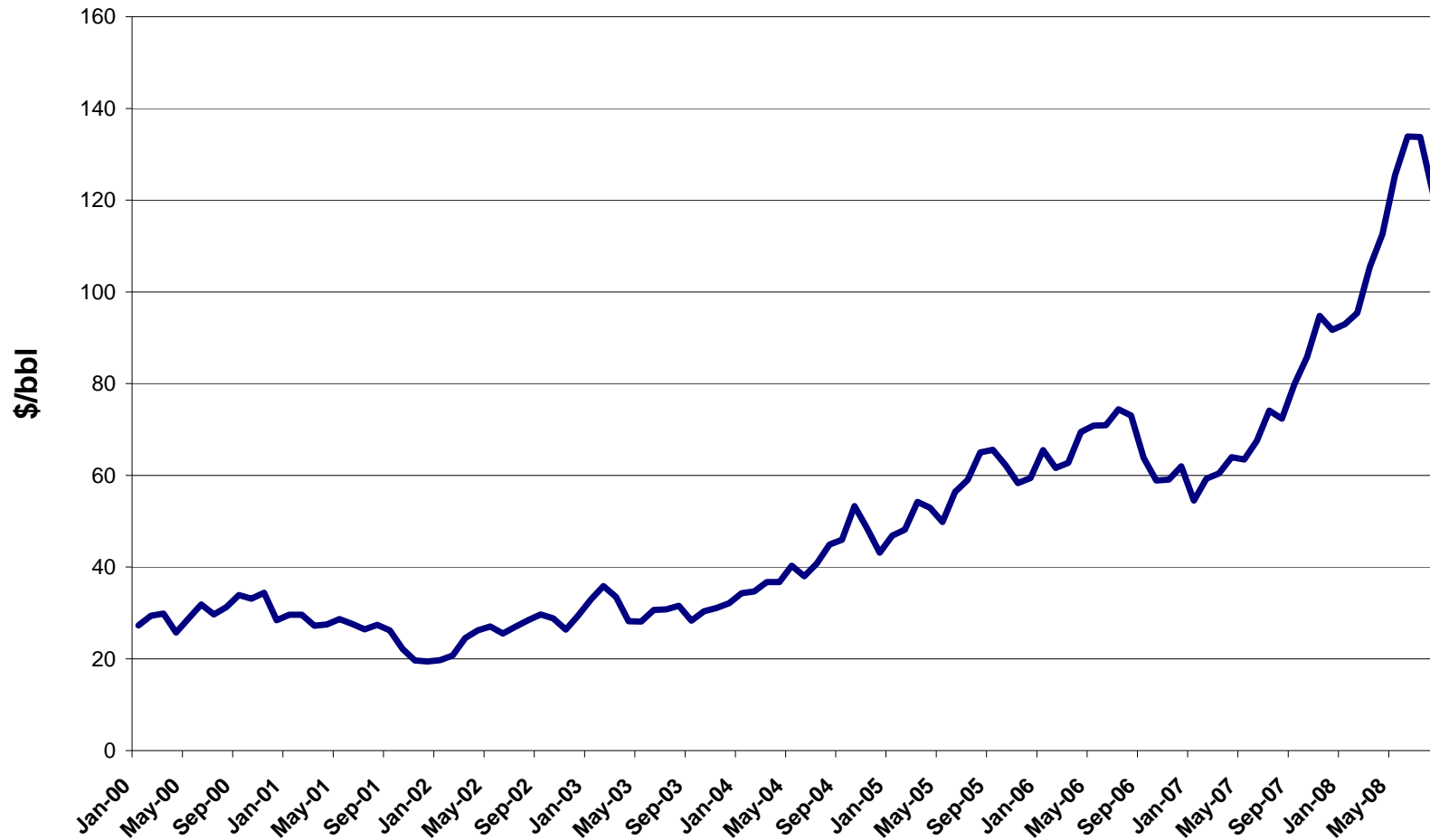
U.S. Biodiesel Production, 1999-2007



2007/08 marketing year, corn use in ethanol accounted for 23% of crop, soybean oil use for biodiesel accounted for 14% of soyoil production and 10% of soybean production

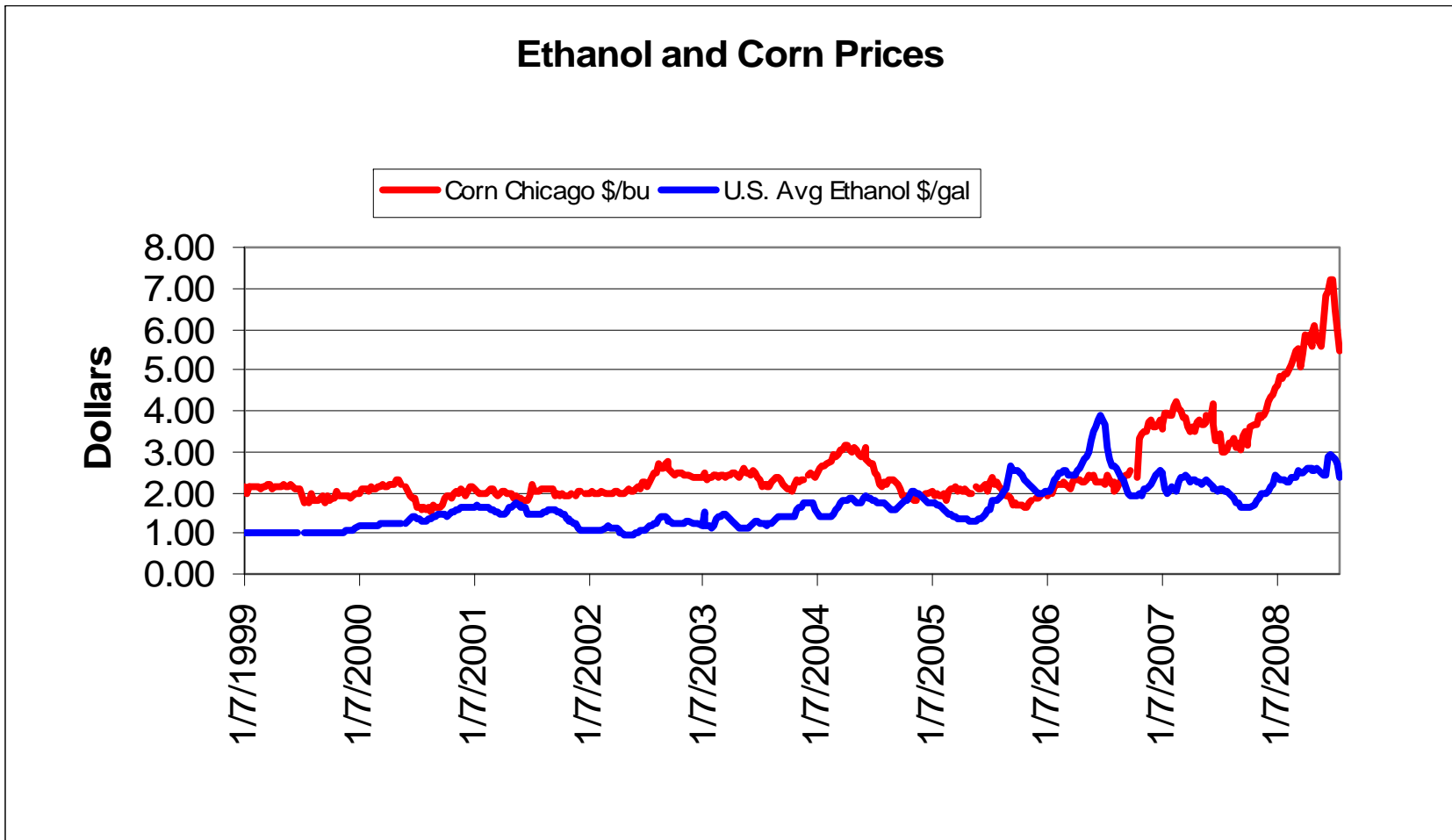


West Texas Intermediate



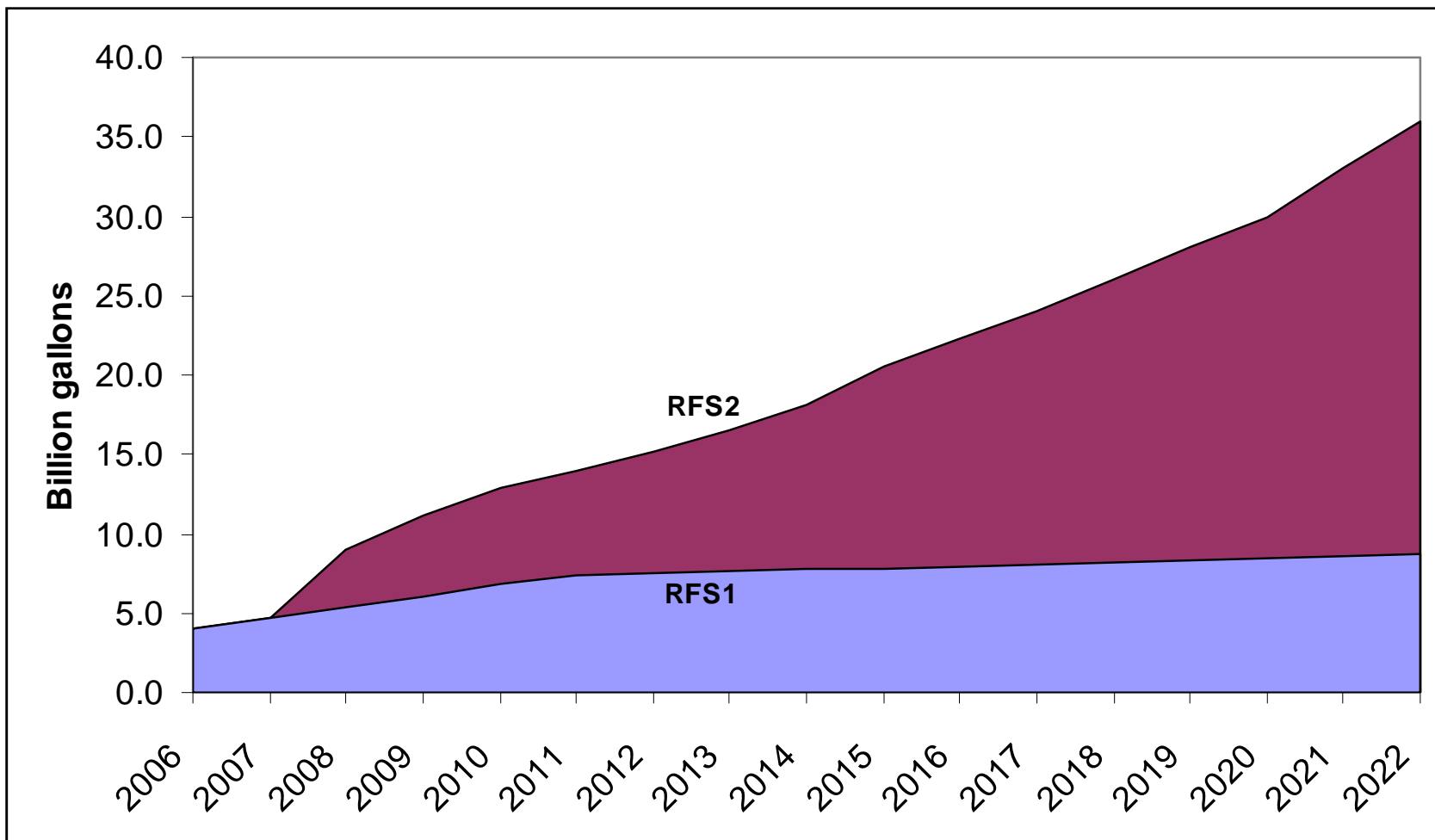


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EISA – EPACT Renewable Fuels Standard





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Factors influencing Commodity & Food Prices

- Global Economic Growth – **slowing**
- Weather – **improving crop conditions**
- Export Restrictions – **easing with new crop production**
- Food Production and Marketing Cost – **farm value relatively low**
- Value of the US Dollar – **strengthen recently**
- Biofuels Production – **continues to expand rfs – higher corn & soybean prices projected 2008/09**



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Increased Biofuels Production

- **Growing demand source for corn and soybean oil**
- **Has been a contributing factor to the rise in corn and soybean prices. Over the past 2 years biofuels production has accounted for**
 - **30% of the increase for corn**
 - **40% of the increase for soybeans**
- **In 2007, food CPI increased by 4%**
 - **increase in biofuels production added estimated 0.10 – 0.15 percentage point**
- **After market adjustments, increase in biofuels production could add 0.6 to 0.7 percentage point to the food CPI**
- **USDA looking at lower food price inflation in 2009**

Source: Office of the Chief Economist



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**THANK
YOU!**

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