



informa economics

FOOD vs. FUEL: “FIGHTING YESTERDAY’S WAR”

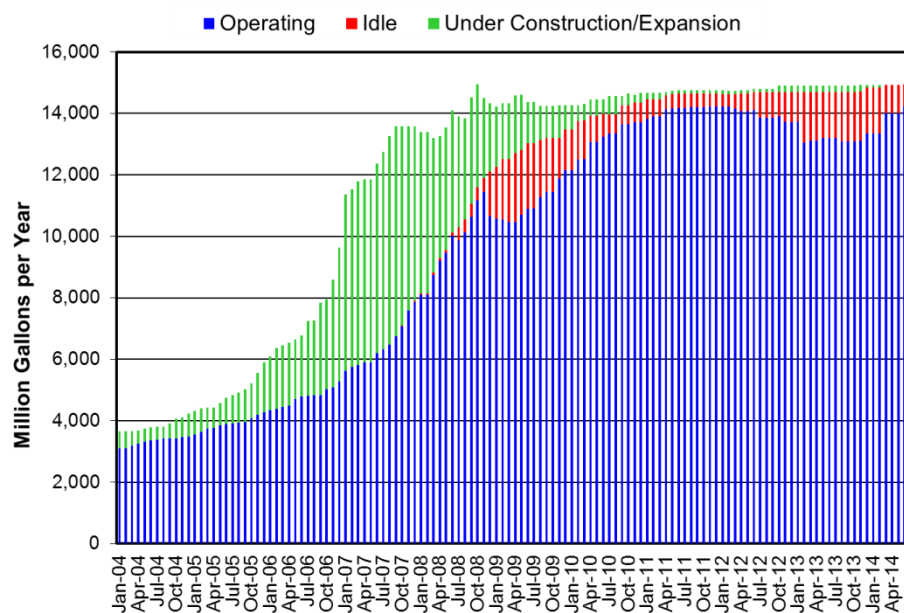
Presented to:
The Congressional Black Caucus

Scott Richman
Senior Vice President

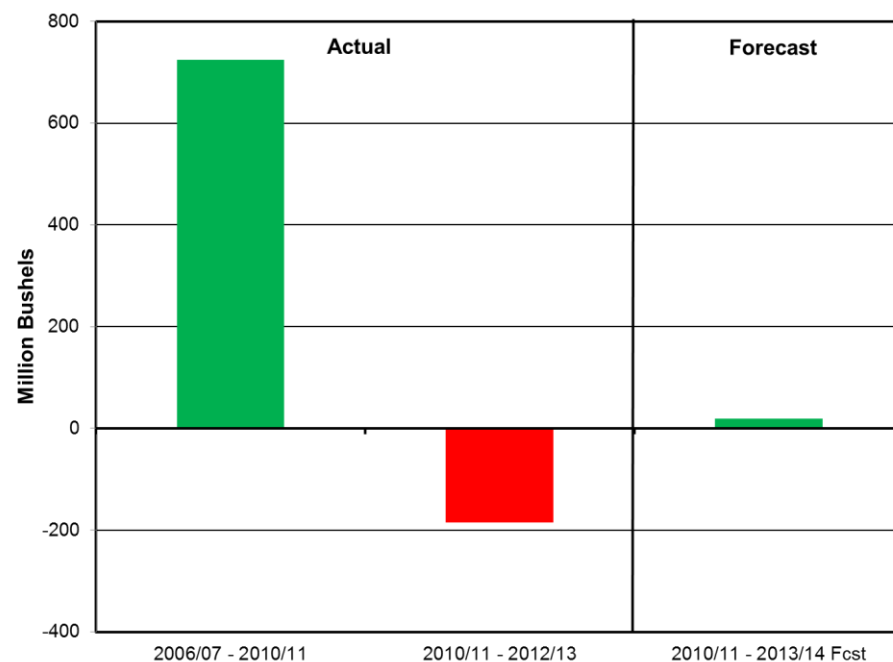
June 20, 2014

Debating the Effect of Ethanol on Food Prices Is *“Fighting Yesterday’s War”*

**Ethanol Production Capacity:
The Construction Boom Ended a Few Years Ago**



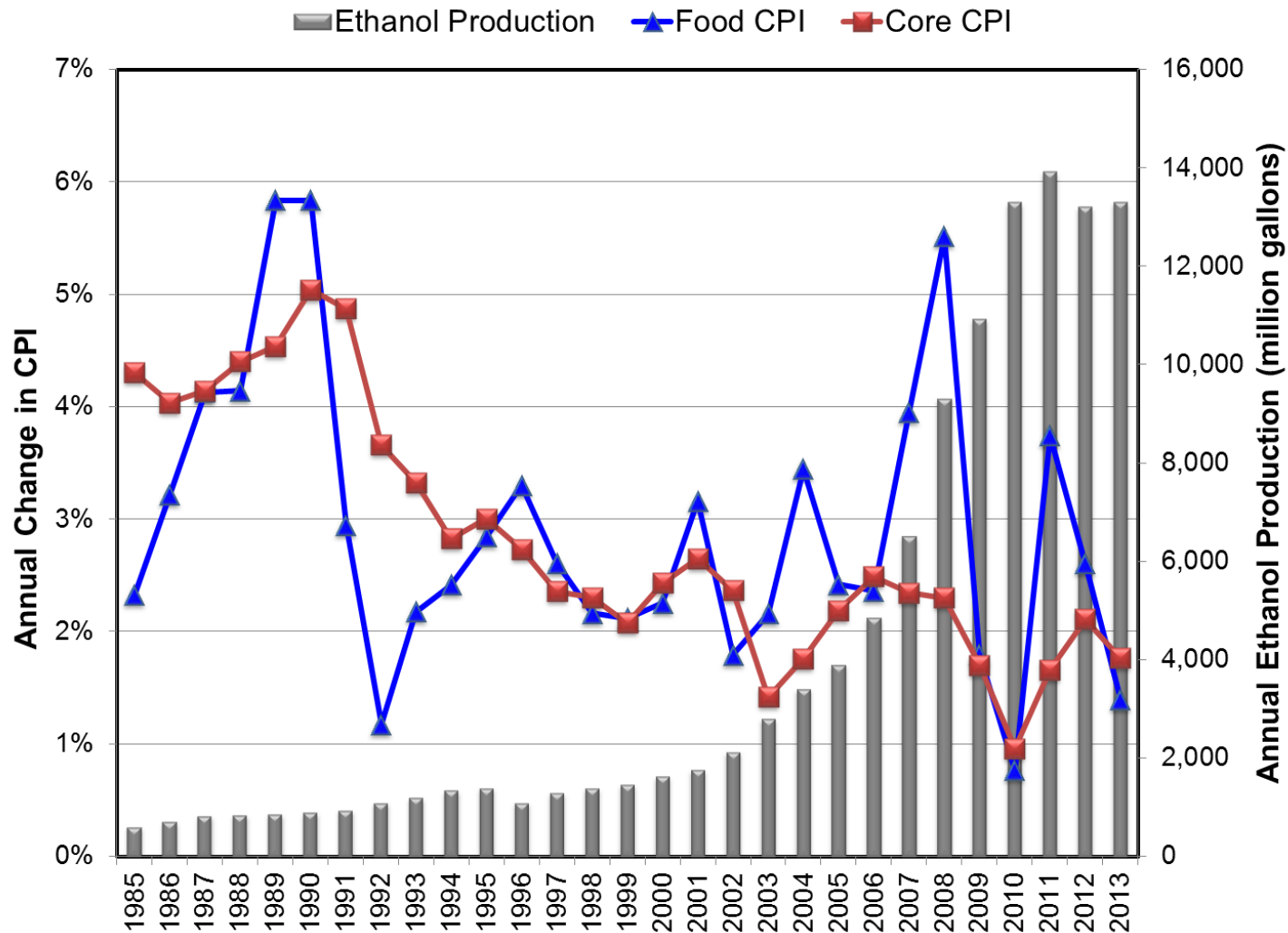
**Average Annual Change in
Corn Usage for Ethanol**



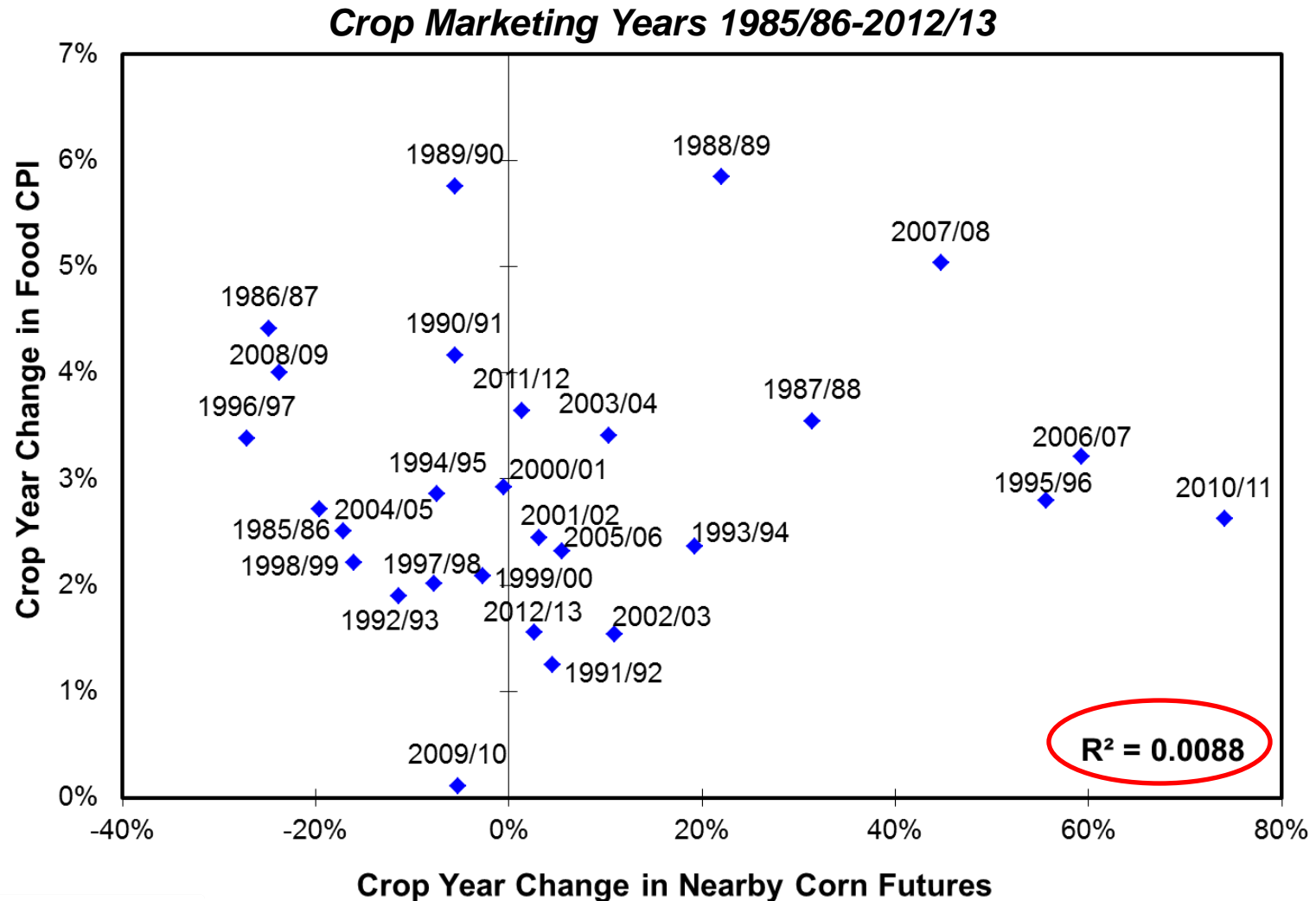
THE REARVIEW MIRROR:

What Caused Increases in Food Prices?

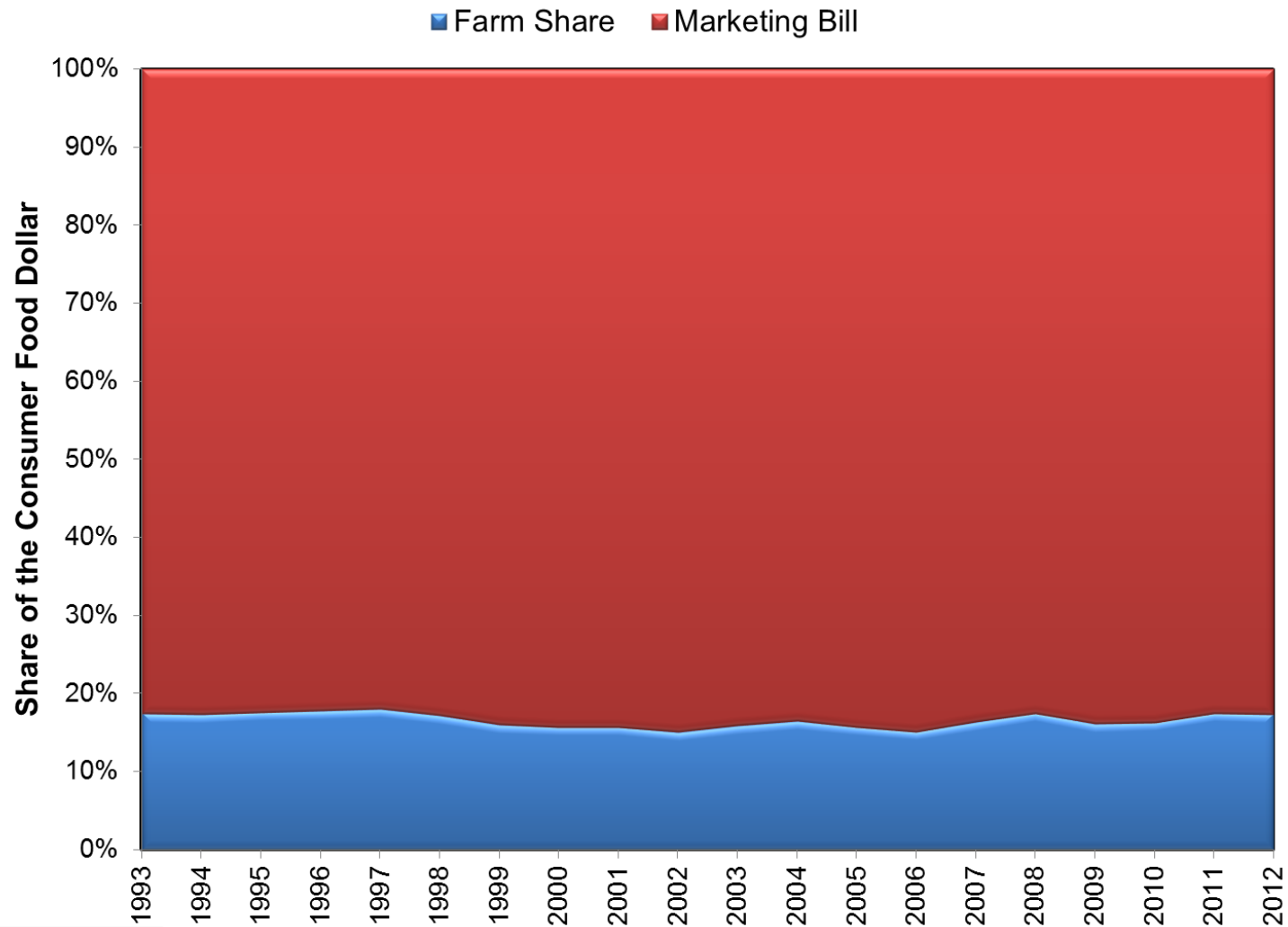
Quick Perspective: Year-to-Year Change in the Food CPI Compared to the Core CPI



Little Long-Term Relationship Between Corn Prices and Consumer Food Prices

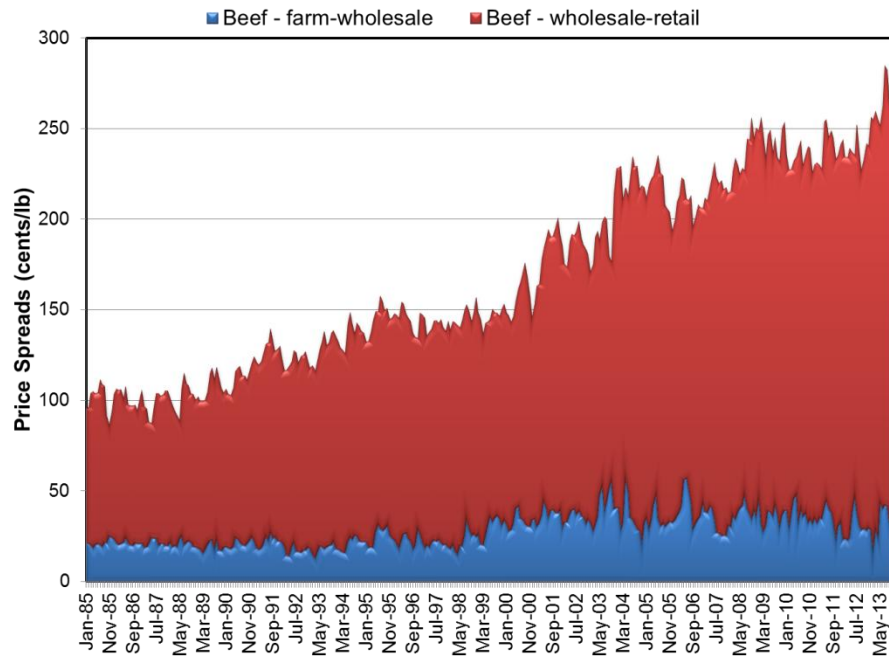


Components of the Consumer Food Dollar: Farm Share vs. “Marketing Bill”

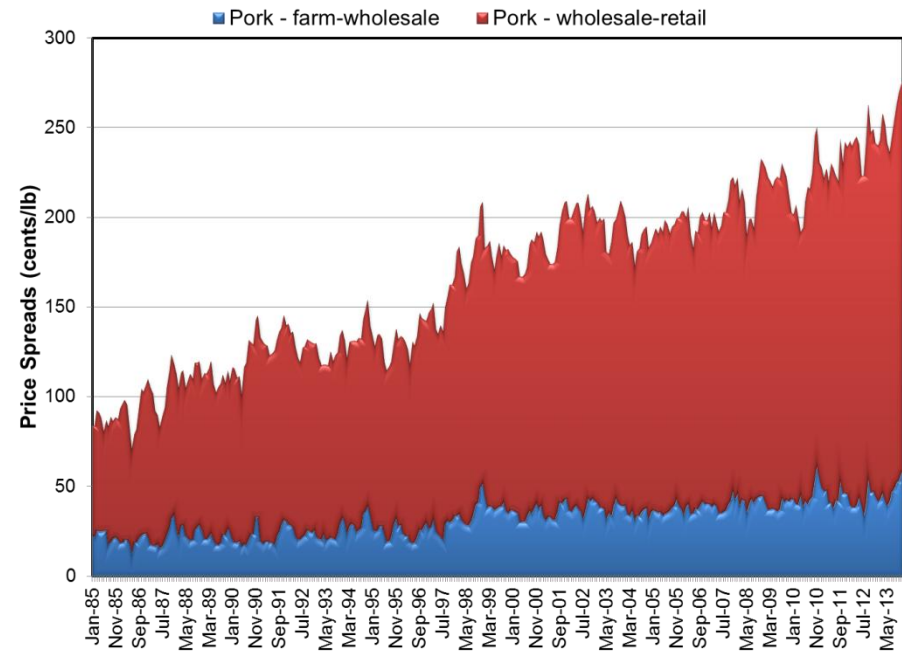


Meat Price Spreads Have Expanded Significantly Over Time

Beef Price Spreads

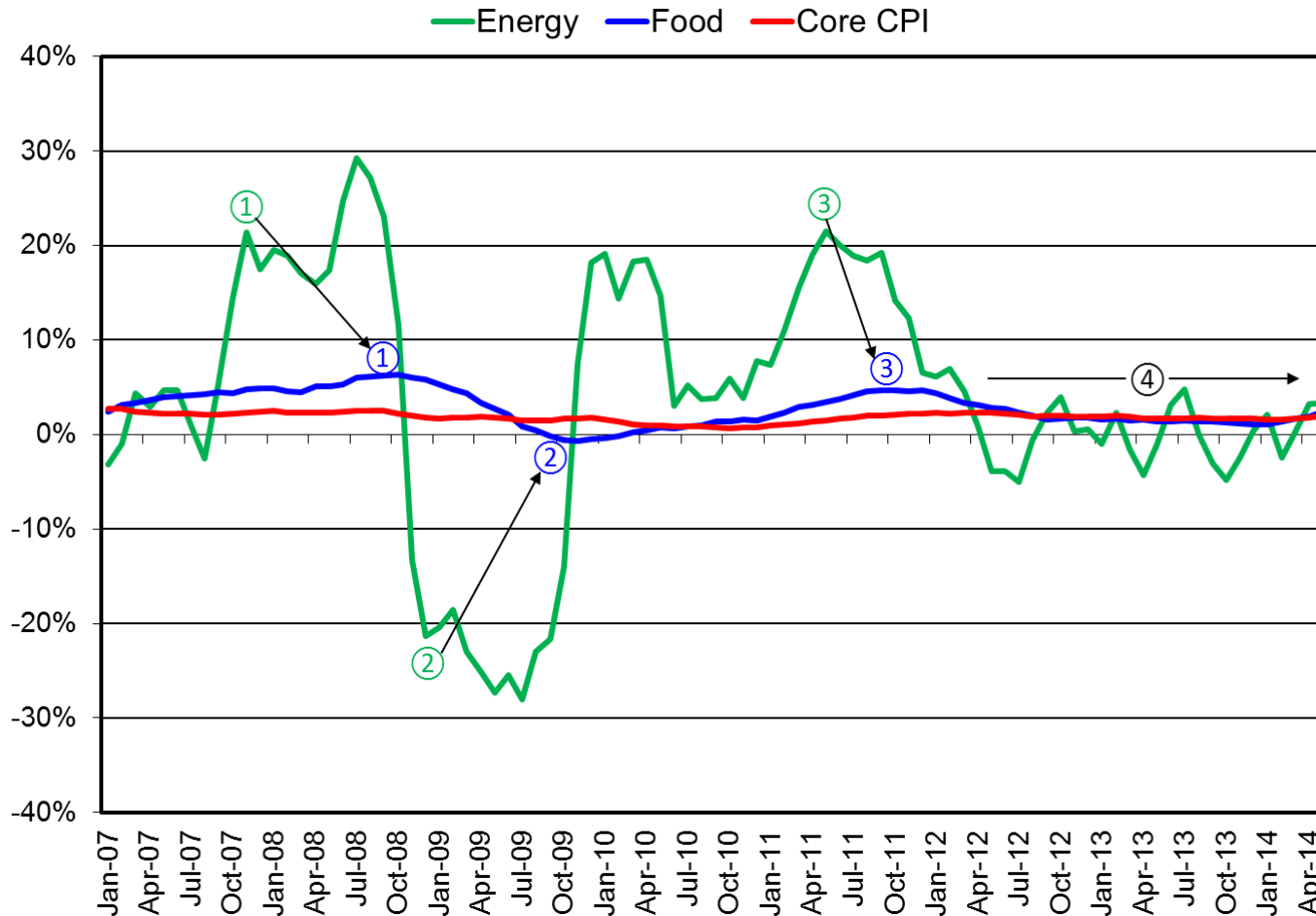


Pork Price Spreads



Margin compression within the livestock/poultry/meat value chain – including at the producer level – has limited the impact on consumer food prices from higher feed costs and drought-reduced cattle inventories.

Do Changes in Energy Prices “Lead” Changes in Food Prices?

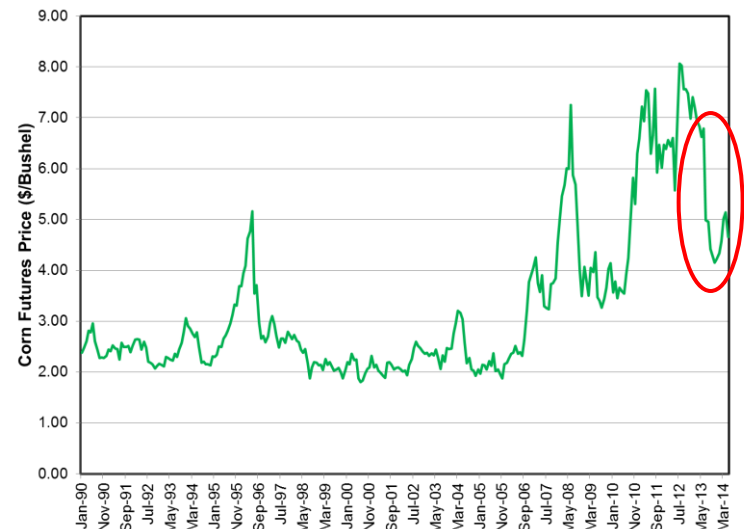
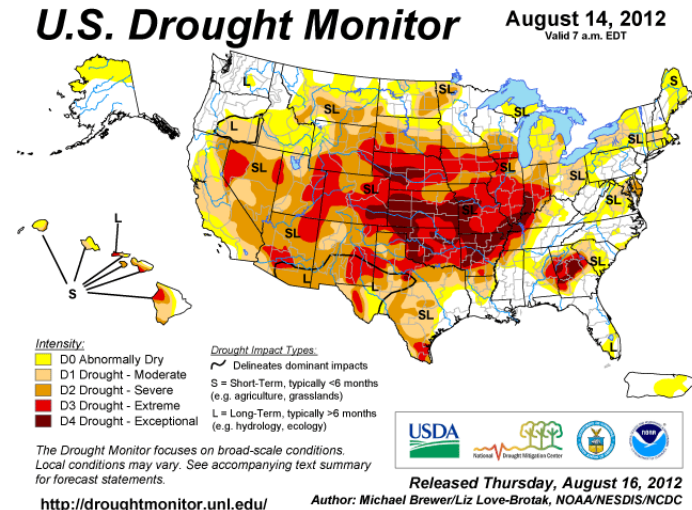


Energy costs affect all levels of the food supply chain, including inputs, farming, processing and transportation and distribution.

Ethanol Has Not Even Been the Sole Driver Of Corn Prices, Much Less Food Prices

■ Drivers of corn prices at various times since 2006:

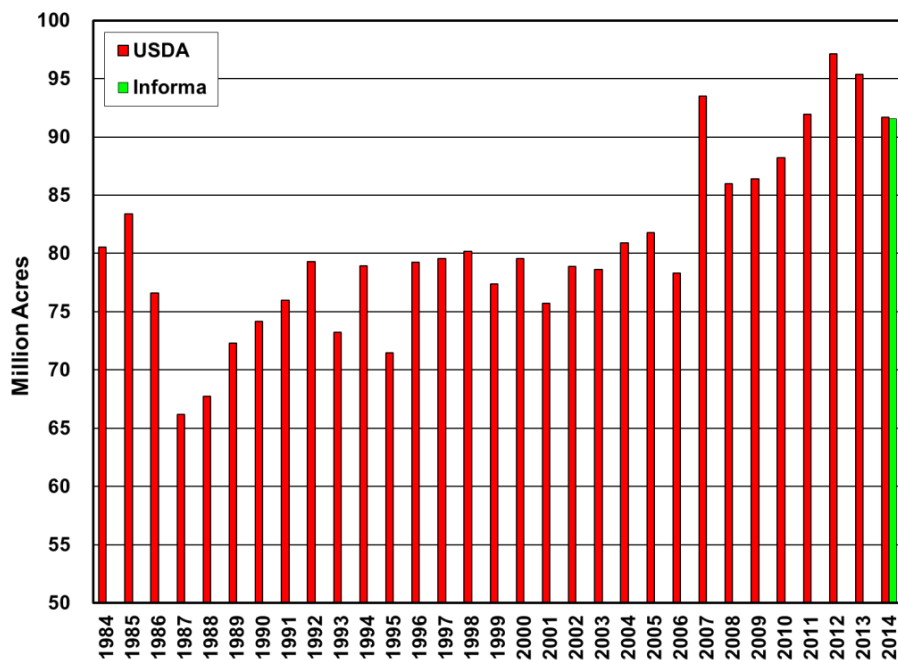
- ◇ Ethanol production growth;
- ◇ Reduced corn acreage (2006);
- ◇ Below-trend yields;
- ◇ Severe domestic drought;
- ◇ Foreign drought (record U.S. exports);
- ◇ Delayed planting;
- ◇ Record corn crop;
- ◇ Skyrocketing crude oil prices;
- ◇ Falling crude oil prices; and
- ◇ Livestock/poultry developments (tend to occur more slowly).



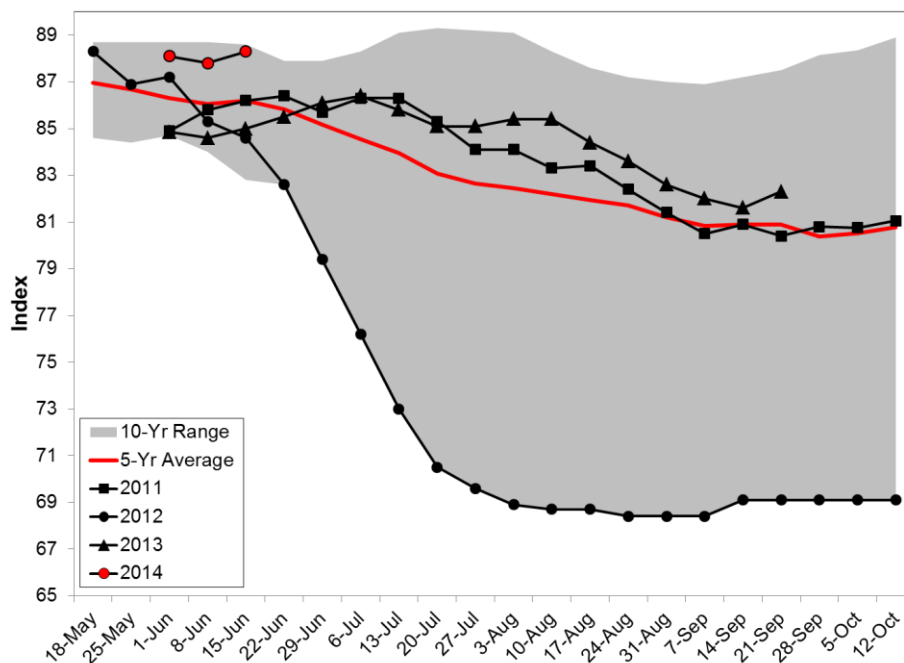
THE ROAD AHEAD

Good Start to the 2014 Corn Crop Provides Further Downside Potential for Corn Prices

Corn Planted Acreage

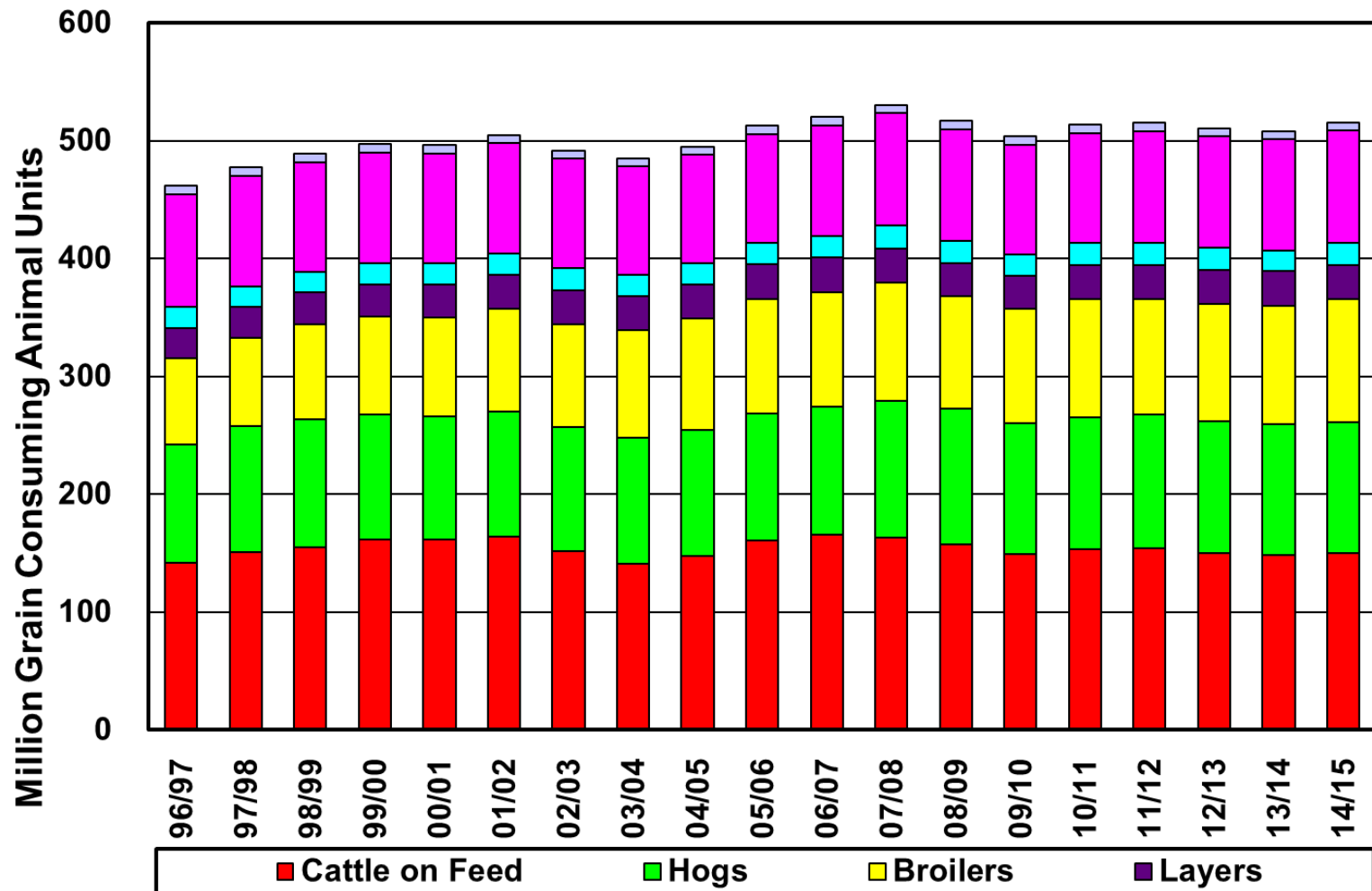


Corn Crop Condition Index



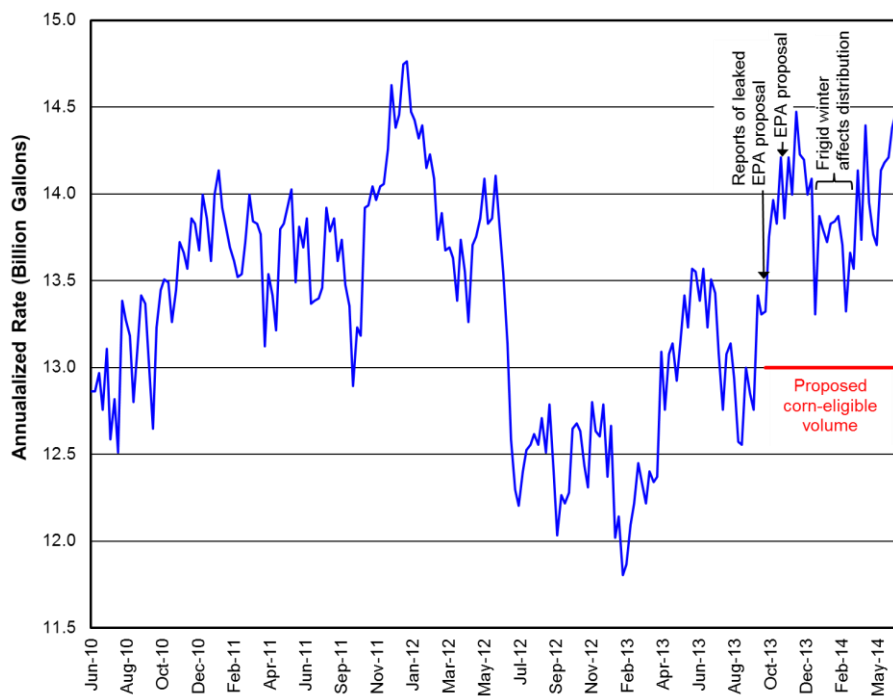
Livestock and Poultry Numbers, Expressed as Grain Consuming Animal Units

The PED virus remains a risk to the hog sector.



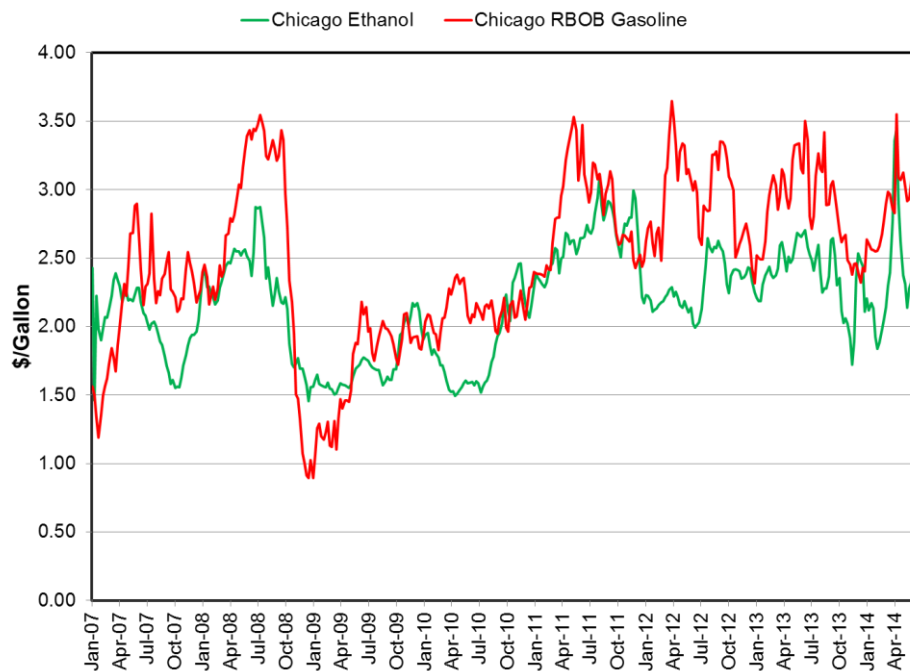
Despite EPA Proposal, Ethanol Production Strong. Low Prices vs. Gasoline Save Consumers Money.

Weekly Ethanol Production



Source: EIA

Ethanol Price vs. Gasoline



Source: OPIS

CONCLUSIONS

Conclusions

- **Ethanol** is a convenient target but **has not been the sole driver** of:
 - ◇ Corn price changes;
 - ◇ Recent livestock sector difficulties; or
 - ◇ Especially consumer food price increases.
- Not saying that ethanol has had absolutely zero impact.
- Corn inventories have been replenished.
- Meat prices will take time to subside:
 - ◇ Beef:
 - Cattle inventories already reduced due to high feed prices and Southern Plains drought.
 - Biological lag – will take time for cattle numbers to recover and beef prices to subside.
 - ◇ Pork: Rebound in hog production affected by PED virus. Uncertain future impact.
- It's time for the ag, livestock/poultry, food and energy sectors to **look ahead**.
 - ◇ Build-out of corn-based ethanol production capacity is essentially done.
 - ◇ The portion of RFS2 for which corn-based ethanol is eligible is capped after next year.
 - ◇ Good prospects for a large 2014 corn crop.