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

Presented to: The Congressional Black Caucus

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June 20, 2014
Debating the Effect of Ethanol on Food Prices Is “Fighting Yesterday’s War”
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

Crop Marketing Years 1985/86-2012/13

Crop Year Change in Nearby Corn Futures

Crop Year Change in Food CPI

R² = 0.0088
Components of the Consumer Food Dollar: Farm Share vs. “Marketing Bill”

![Chart showing the share of the consumer food dollar between 1993 and 2012, with Farm Share and Marketing Bill categories. The chart indicates that Farm Share is a smaller proportion compared to Marketing Bill, with Farm Share remaining relatively stable around 15% while Marketing Bill remains almost constant at 85%.](chart.png)
Meat Price Spreads Have Expanded Significantly Over Time

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.
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
Livestock and Poultry Numbers, Expressed as Grain Consuming Animal Units

The PED virus remains a risk to the hog sector.

Weekly Ethanol Production

Ethanol Price vs. Gasoline

Source: EIA

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.