

Box 1.2:**Sticky Food Prices Spice Up ASEAN+3 Inflation Outlook**

Elevated food prices remain a key concern in the ASEAN+3. While regional food inflation declined notably in 2023, it continued to outpace headline inflation in most of the region's economies.

The stickiness of retail food prices following commodity price shocks is a common historical phenomenon, as reviewed in Ferrucci, Jimenez-Rodriguez, and Onorante (2012). In an empirical study, del Rosario and Wynn (2023) show that global food price shocks exhibit a delayed and persistent impact on headline inflation in the ASEAN+3—typically materializing 1–5 months after the shock and the spillovers extending over 14–22 months (Figure 1.2.1). By comparison, the effects of global oil price shocks to domestic headline inflation manifest and dissipate more quickly—either contemporaneously or 1 month after the shock, with a duration of 2–14 months, which is roughly half the span of the spillover duration of global food prices on ASEAN+3 inflation.

The global food price index of the United Nations Food and Agriculture Organization (FAO) fell by 14 percent in 2023, suggesting a potential easing in food price pressures on ASEAN+3 headline inflation in 2024. That said, global food prices have remained above historical norms, hovering just below the levels observed during the food price shocks in 2008 and 2011 (Figure 1.2.2). This situation raises concerns about food affordability for low-income economies, including Lao PDR, and Myanmar in the ASEAN+3, and could dampen discretionary spending among cash-strapped households across the region. Currency depreciations exacerbate the cost pressures for most ASEAN+3 economies that are net importers of food commodities (Tan, Choo, and Chong 2022).

At the same time, various factors could reverse the recent declines in global food prices. First, an escalation of the conflict in the Middle East could trigger a spike in oil prices, raising the cost of food production and transportation. While oil prices have been relatively stable to date, attacks on cargo vessels in the Red Sea since mid-November 2023 pushed up ocean freight rates by 40–80 percent by the first week of January 2024 (Figure 1.2.3).¹

Second, extreme weather events arising from the interaction of El Niño and global warming could reduce agricultural yields and push up food prices, which in turn could be exacerbated by export restrictions imposed by major commodity producers.² For example, rice prices rose by 21 percent in 2023 following India's ban on exports of non-basmati rice in July 2023, and tighter global rice supply due to El Niño-related dry weather conditions (Figure 1.2.2). Sugar prices also surged by 27 percent in 2023 owing to similar concerns over the impact of El Niño and the likelihood of export restrictions (World Bank 2023a). The US Climate Prediction Center expects ongoing El Niño conditions to persist through April, leading to 2024 potentially surpassing 2023 as the hottest year on record (Hirji and others 2024).

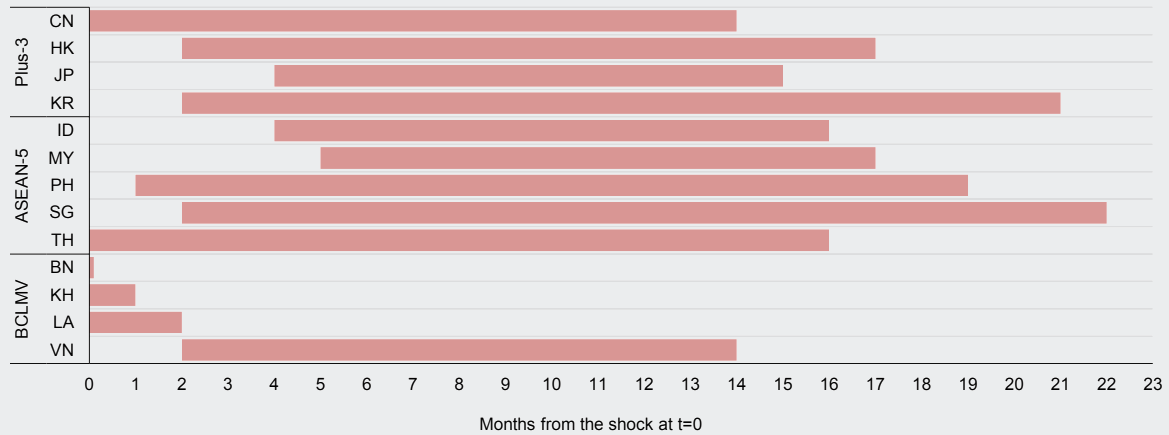
In addition, a worsening of geopolitical tensions in major food producing economies could unsettle global food markets once again. Russia's withdrawal from the Black Sea Grain Initiative in July 2023 caused an uptick in the FAO food price index, although this was subsequently abated by ample harvests in major food-producing nations and declines in input costs, particularly, from energy, shipping, and fertilizers (Vos and others 2023).

This box was written by Diana del Rosario.

¹ The Red Sea connects to the Suez Canal, which handles 12 percent of global trade and as much as 30 percent of global container traffic (Cooban and North 2024; Partington 2024).

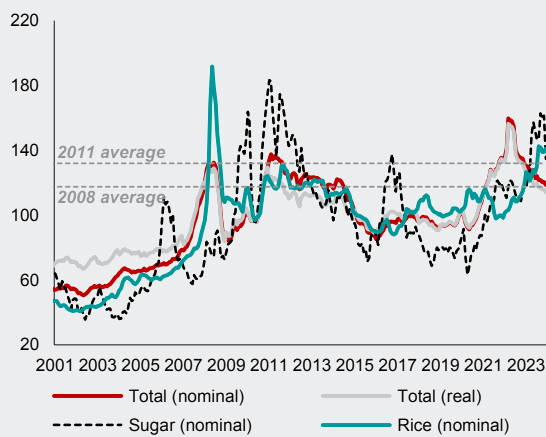
² Recent studies show that human-induced global warming has led to more frequent and extreme El Niño and La Niña events since the 1960s. Wilcox and others (2023) find a shift in the factors influencing the formation of El Niño—or more generally, the El Niño-Southern Oscillation (ENSO)—since the 1970s, attributing it to human-induced global warming rather than changes in solar output as observed in the prior 3,500 years. Cai and others (2023) show that the increased frequency and severity of El Niño and La Niña events—the warm and cold phases of ENSO—post-1960 is associated with human-induced global warming.

Figure 1.2.1. ASEAN+3: Transmission Period of Global Commodity Price Shocks to Headline Inflation
(Months after shock)



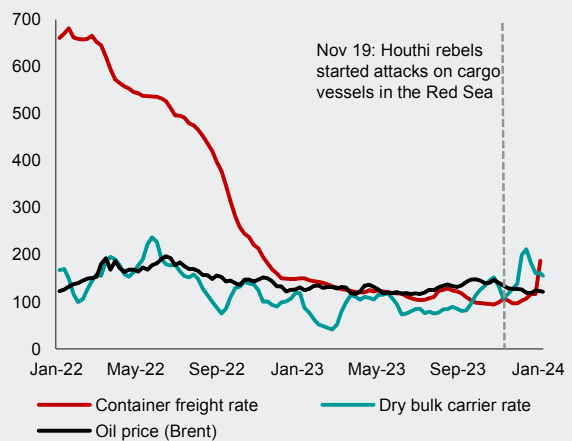
Source: Bank for International Settlements, FAO, and national authorities, all via Haver statistics; AMRO staff calculations.
Note: CN=China; HK = Hong Kong, China; JP = Japan; KR = Korea; ID = Indonesia; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; BN = Brunei; KH = Cambodia; LA = Lao PDR; VN = Vietnam. See del Rosario and Wynn (2023) for information about the modelling specifications.

Figure 1.2.2. World: Aggregate and Selected Food Price Indices
(Index, 2014–2016 = 100)



Source: FAO via Haver Analytics.
Note: The FAO Food Price Index is the average of the price indexes of meat, dairy, cereals, vegetable oils, and sugar, weighted by the respective average export share of each of the said commodity groups in 2014–2016.

Figure 1.2.3. World: Ocean Freight Rates
(Index, 2019 = 100)



Source: Bloomberg Finance L.P.; AMRO staff calculations.
Note: Container freight rate is represented by the Drewry World Container Index, a composite of spot container freight rates for major East-West trade routes; dry bulk carrier rate by the Baltic Dry Index, a composite of prices paid for shipping dry bulk materials across more than 20 routes.