



September 09, 2008

HUNGRY FOR CHANGE?

Rising prices are gnawing away at consumer food spend, reports Mediastow.

FOOD INFLATION remains a big challenge for suppliers and consumers alike.

Commodity forecasts by the FAO, OECD, USDA and World Bank suggest that crop prices will remain high. According to the World Bank, prices are likely to remain above the 2004 level through 2015. Global agricultural prices rose sharply in 2006 and 2007 and, so far, have increased by around 30 per cent in 2008.

Poultry and meat contribute much more to overall inflation than other foods. Fruit and vegetables lie between the weightings of rice and meat products, but their tendency to upward price fluctuations can impact the overall inflation figure significantly. Rice has the least weighting relative to poultry, and fruit and vegetables, even though it is a staple for half the world's population.

Food exporters such as India will prioritise domestic demand over exports, leading to shortages in food-importing countries and creating even more price-pressure. Global developments that have directly impacted on

poultry and meat are the worldwide demand for corn to feed livestock and to make biofuel. The US is the world's largest yellow corn producer – and the US ethanol industry uses only yellow corn for biofuel synthesis.

Globally, the cost of poultry production is estimated to have risen 27 per cent in 2007, partly due to the impact of ethanol production on the price of feed. American corn production in 2008, according to the US Department of Agriculture, is expected to drop 8 per cent, sending prices even higher. This will in turn lead to higher prices for meat and poultry.

The cost of Saudi Arabia's importation of lamb from Australia and New Zealand increased by an average of 14 per cent during the same period. This was not simply due to the cost of animal feed, but to the drought in Australia and the gradual shift away from meat to dairy production in New Zealand.

The price of plastic packaging increased 15 per cent over the past year. Between November and January, the price of concentrates increased 20 per

cent globally. Skimmed milk powder has been in short supply globally and its price increased 75 per cent between December 2005 and December 2007.

UAE

The UAE Ministry of Economy (MoE) has signed agreements with a number of supermarket chains to keep prices of several basic food items at 2007 levels after inflation hit a 20-year peak of 11.1 per cent. Soaring food prices are thought to be a main driver of inflation across the world's biggest oil-exporting region, due to the dollar peg which raises import costs. The MoE said it would unveil other measures to protect consumers from rising prices, but would continue with its no-subsidy policy.

Saudi Arabia

The Saudi cabinet has reduced customs duty on 180 major foodstuffs, a shift from its strategy of high agricultural tariffs to a policy of protecting consumers from rising prices. This year alone, the Kingdom will spend more than \$3.2 bil-

SECTOR ANALYSIS



How are you coping with food inflation?

Saudi results*



UAE results*



Are you buying fewer products (less quantity) or more non-branded products (less quality). Both less quantity and less quality or neither less quantity nor less quality?
Source: Mediastow 2008

lion in food subsidies. A greater portion of income per head is now allocated to food, the category which carries the biggest single weighting in the inflation basket, accounting for 26 per cent in the cost of living index.

However, this still represents a smaller component than in neighbouring markets, such as the UAE (14.3 per cent) and Qatar (18 per cent).

Media coverage

A total of 15 articles from newspapers in the UAE and Saudi Arabia were analysed. The messages revealed the consumer's belief that food inflation will remain and that global prices of goods are rising at alarming rates. The messages also cited that food costs, housing and energy prices are the main inflation drivers. Rising food costs in Saudi Arabia were frequently repeated.

Survey findings

UAE respondents seemed less affected than in Saudi Arabia. Some 25 per cent would not compromise on quality or quantity compared to 16 per cent of Saudis – despite higher inflation.

Age played a significant role. The greater the age, the greater the quantity compromise, the less the quality compromise and the less the indifference

level. This is unsurprising, as older respondents have more responsibilities.

18-25-year-olds in the UAE would compromise more on quality than quantity relative to their Saudi counterparts. 26-35-year-olds in the UAE would compromise less on quality than quantity relative to their Saudi counterparts. 36-45-year-olds in Saudi Arabia and the UAE were comparable. However, respondents in Saudi Arabia of the same ages would slightly compromise more on quantity.

Finally, Saudis over 45 years significantly compromise on quality and quantity more than their UAE counterparts, of whom 22 per cent over 45 years are seemingly unaffected.

UAE females were the least affected compared to UAE males, Saudi males and females. They would also compro-

mise quality the least. This is because there are more independent females in the UAE and they are able to support this lifestyle. Culture may also be a factor.

Expatriates in the UAE compromise on quality as well as quantity more than UAE nationals, who seem less affected.

In Saudi Arabia expatriates and nationals seem to have the same coping reaction to quantity, both groups being willing to compromise a lot, and equally so.

Saudis, however, compromise a bit more on quality than expatriates. Overall, nationality does not seem to be the major factor it is in the UAE.

Conclusion

UAE nationals seem to be least affected, though by a narrow margin, and probably due to increased wages in the public sector, where most nationals work.

Despite the efforts by the Saudi government to offset the effects of inflation, from increasing subsidies to boosting local production, or the UAE government's measures – agreements with supermarket chains and increasing wages – inflation's impact continues to intensify.

Some will go hungry. ■

h.elzubeir@mediastow.com
www.mediastow.com

ABOUT THE SURVEY

Sample sizes of 534 and 515 in Saudi Arabia and the UAE, respectively. Respondents were broken down by age and gender. They were asked how they coped with inflation and whether they were prepared to compromise on quality, quantity, both or neither. The survey was conducted by phone by Mediastow June 2008.