

## The relative price of food

The accompanying graph depicts the relative price of food, calculated as the ratio of consumer prices of food to the headline consumer price index. Not surprisingly, this ratio displays an upward trend over the longer term. However, the focus in this box is on the duration of shorter-term cycles in food prices. Periods of cyclically rising relative food prices have been identified, using as a guideline that the relative price of food should rise cumulatively by 10 per cent or more in a broadly continuous fashion, followed by a significant decline in the relative price series. In reviewing the period since 1981, five episodes of cyclically rising food prices were identified:

Trough	Peak	Duration
September 1985	April 1988	31 months
September 1989	October 1992	37 months
August 1993	October 1994	14 months
June 2001	January 2004	31 months
August 2005	June 2008 or later	34 months plus

The current rising phase, which started in August 2005, has so far continued for 34 months. Three of the preceding upward phases had a broadly similar duration. The longest of them – and therefore the most protracted episode of rising relative food prices in the past quarter of a century – had a duration of 37 months.

Numerous factors may play a role in generating food price cycles. However, conventional supply and demand responses tend to limit the amplitude of food price swings. For instance, rising relative prices of food prompt producers to raise food output. While fairly long lags are involved, this eventually moderates food price increases.

Ratio of food prices to total headline consumer prices

