

PRISMA

Australia-Indonesia Partnership for
Promoting Rural Incomes through
Support for Markets in Agriculture



**Australian
Aid** 

What's for Breakfast?

Food price inflation survey



A PRISMA report produced
in collaboration with MDF

May 2022

Introduction



Food prices worldwide are still under constant pressure despite the gradual economic recovery from the COVID-19 pandemic. The increased demand for raw materials and staple goods, supply chain disruptions, and the post-lockdown hangover continues to impact food prices. Russia's invasion of Ukraine has put fresh pressure on food prices in Indonesia and across the world. In March 2022, the UN Food and Agriculture Organisation (FAO) recorded its highest price index levels in three decades (Wood, 2022). Grains and vegetable oils are worst affected. In April 2022, while vegetable oil prices dropped slightly (FAO, 2022), the global prices for staple goods and other daily commodities continues to grow.

Food price fluctuation was a common occurrence globally during the COVID-19 pandemic. With several waves of COVID-19 in Indonesia, the demand and supply of many essential commodities fluctuated, and prices were volatile. With eased social restrictions in 2022, public consumption increased, economic activities grew, and the demand for raw materials rose. These factors contributed to an upward trend of essential commodity prices.

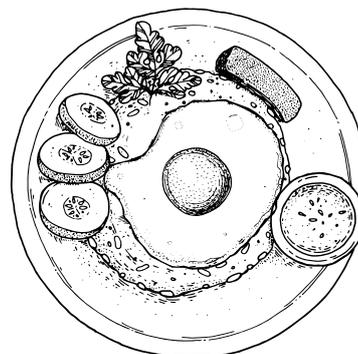
Grappling with surging global commodity prices, food prices in Indonesia began to rise in 2021. In March 2022, the monthly inflation rate reached its highest since the start of the COVID-19 pandemic in 2020 (WFP, 2022). The rise in inflation was primarily driven by increases in chillies, cooking oil, and eggs.

The inflation in staple commodities increases the poverty headcount ratio (Faharuddin Faharuddin, 2022), particularly in rural areas. When farmers spend more on daily necessities, their ability to invest in farming activities decreases. As a result of decreased investment, adopting new products and services slows down, resulting in low productivity and less income. In this context, PRISMA wanted to find out if the price increase from COVID-19 has been compounded by global supply chain disruptions due to the conflict between Russia and Ukraine and the consequent rise in fuel prices (by 39 percent).

PRISMA is a bilateral program supported by the government of Australia through DFAT and the government of Indonesia through Bappenas. The program aims to

alleviate poverty and increase the income of 1 million smallholder farming households by at least 30 percent. PRISMA does this by encouraging the private sector to adopt business models that enable poor women and men farmers access to agricultural supplies and services. Significant impacts on food prices may impact the uptake of innovation from the private sector.

To assess the impact of food price increases on consumers, PRISMA conducted an online survey of its staff and their families living across the Indonesian archipelago. The study focused on the post-pandemic breakfast table and included respondents from 14 provinces across Indonesia. Results of the online survey were triangulated and complemented with field observations and desk research. Respondents were also asked a few screening questions to ensure that they represented ordinary Indonesian households.





References

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Indonesia

WHAT DO THINGS LOOK LIKE ON THE BREAKFAST TABLE?



Tea
(+3.9%)



Rice or other rice-derived carbohydrates
(e.g. nasi uduk, nasi kuning, ketupat or lontong)
(+6.7%)



Coffee
(+8.5%)



Eggs
(+9.5%)



Cooking oil
(+14%)



Fish
(+7.5%)



Fruits
(+12.6%)



Milk
(+9.2%)



Bread
(+7.6%)



Tempeh
(+8.9%)



Tofu
(+7.6%)



Chicken
(+9.4%)



Vegetables
(Leafy greens, carrots and beans)
(+6.9%)

This survey was undertaken by PRISMA, a market systems development program aimed at improving the incomes of smallholder farming households in Indonesia. The survey was done to see if the recent conflict between Russia and Ukraine has impacted food prices.



Key trends across Indonesia



The cost of living is increasing

Around 91 per cent of the respondents surveyed reported a rise in their living costs. The participants identified household consumables (81 per cent of respondents), electricity costs (66 per cent of respondents), and kitchen energy (66 per cent of respondents) as the main contributors to their increased living costs. Around 50 per cent of respondents also reported a rise in transportation costs due to a recent 39% increase in gasoline prices.¹ Potable water also made the top five list of cost items, with 44 per cent of respondents reporting a rise in drinking water costs.



Food prices are up

The breakfast menu that we assessed showed an average price increase of 7.63 per cent. Among the three most consumed breakfast items (eggs, rice, and chicken), eggs have the highest price increase of 9.5 per cent. The prices for rice, chicken, and vegetables are up between six and nine per cent. All everyday cooking items saw an average of 10 per cent price increase, with palm oil having the highest rise by 14 per cent. Although only 28 percent of respondents reported consuming fruit regularly, the prices of fruit saw a sharp increase of 13 percent in the last three months. The prices for some wheat-based products have not yet seen significant inflation as expected. Instant noodles and bread, for instance, only rose by around seven to eight per cent.



The pandemic contributes the most to price increases, but the impact of the Russia – the Ukraine conflict on costs is looming

Seventy-five per cent of respondents impacted by price increases stated they have been experiencing the inflation for more than three months. The rise in food prices is therefore primarily attributed to the pandemic-led supply chain disruptions. The surging global food prices had a ripple effect on Indonesia's most common food items. The export ban on staple commodities by several ASEAN countries and rising shipping costs pushed the prices up for imported goods and influenced the prices for staple foods. Although the imported products may not necessarily make their way directly to the typical Indonesian breakfast table, they still affect the prices of locally produced food crops.

Indonesia imports nearly 3 million tons of wheat from Ukraine, and these imports have been hampered by the conflict between Russia and Ukraine. As a result, the prices of noodles are expected to rise further. However, the higher inflation on imported goods and raw materials is yet to be observed since most firms maintain stocks for a few months.

¹ Pertamina's RON 92 gasoline Pertamina[™] used for benchmark



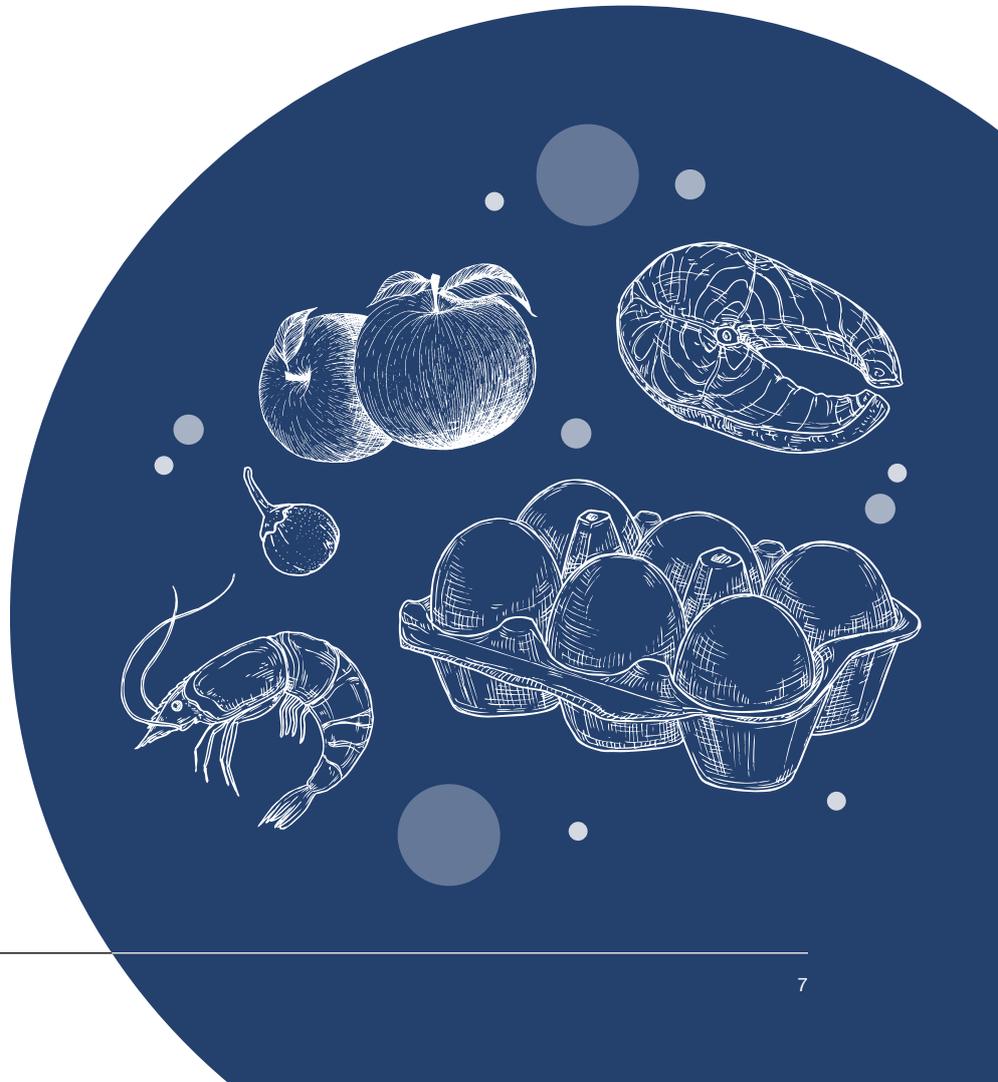
Local problems put a fresh push on the food prices

In March, the food price inflation climbed to a 22-month high due to the increased economic activities amid eased Covid-19 restrictions and ahead of the sacred religious month where food prices normally increase. Although the government tightly regulates some vital commodities, government interventions still have limits. For example, despite the palm oil industry being well regulated, the palm oil scarcity experienced in the past weeks is due to the oil being smuggled overseas where prices are much higher, and this pushed the price up in Indonesia. The government's response to provide direct cash assistance to around 20.5 million households for cooking oil will only further push up inflation.



The coping mechanisms may impact food security in the long run

The survey found three key coping mechanisms that most respondents followed to deal with the increasing food prices. More than 40 per cent of respondents reported that they had reduced non-essential expenses, switched to more affordable alternative goods and services, and restructured household financial and investment planning. This implies that rural families will spend more on food items and curtail their investments in agriculture, resulting in low food production in the future.



Outlook



The impact of the pandemic will continue

The impact of Covid-19 will continue pushing the food prices higher throughout 2022. Economic activities will gradually increase, and the demand for products and services will rise amid the eased pandemic restrictions.



The prolonged conflict between Russia and Ukraine will put a fresh upward push on the food prices

The conflict between Russia and Ukraine seems to be prolonged and will disrupt international trade. The international trade restrictions on Russia will push shipping costs up and affect the availability of raw materials, fuel, and cooking oil in Indonesia.

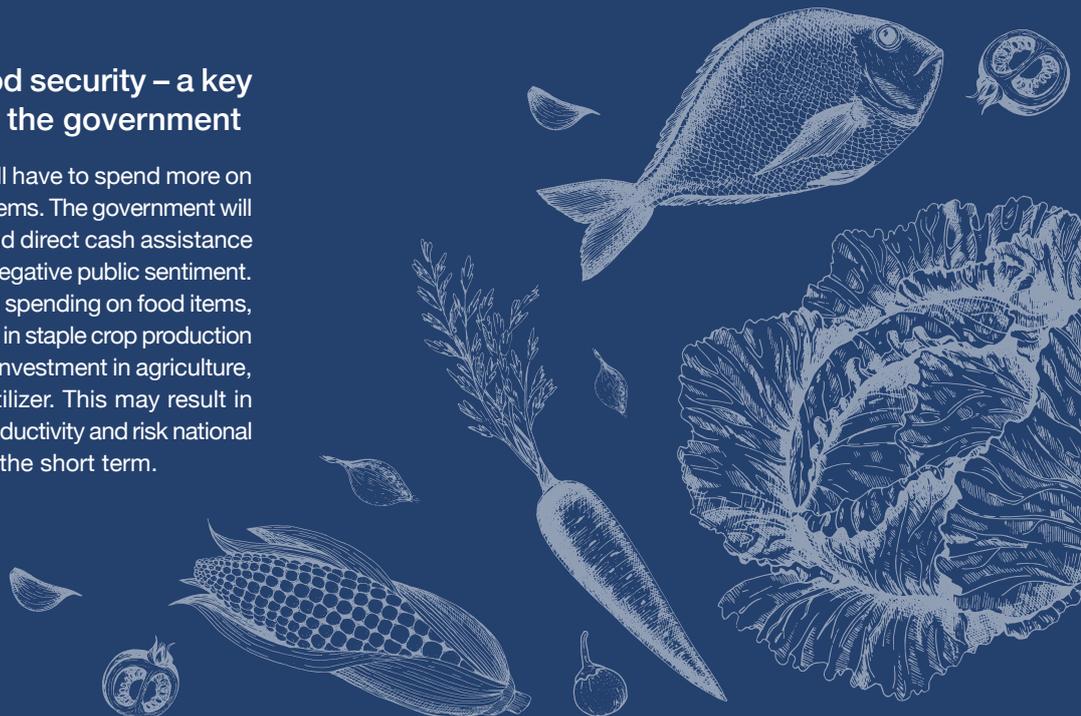
Due to Indonesia's reliance on Ukraine for wheat import, Instant noodles and other wheat-based products will see surging prices going forward.

Fertilizer availability will be a priority for national food security since Russia accounts for around 16% of Indonesia's fertilizer imports. The trade restrictions on Russia will lead to a further increase in fertilizer prices in the first half of the year. With an expected increase in raw materials supply from non-traditional exporters, prices are likely to stabilize towards the second half of 2022.



National food security – a key concern for the government

Rural families will have to spend more on traditional food items. The government will use subsidies and direct cash assistance to minimize the negative public sentiment. Due to increased spending on food items, farmers engaged in staple crop production will reduce their investment in agriculture, especially in fertilizer. This may result in reduced crop productivity and risk national food security in the short term.







Australian Government

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This publication has been funded by the Australian Government through the Department of Foreign Affairs and Trade. The views expressed in this publication are the author's alone and are not necessarily the views of the Australian Government.

PRISMA is supported by the Governments of Australia and Indonesia and implemented by Palladium, with Technical Assistance from Swisscontact, Zurich.

