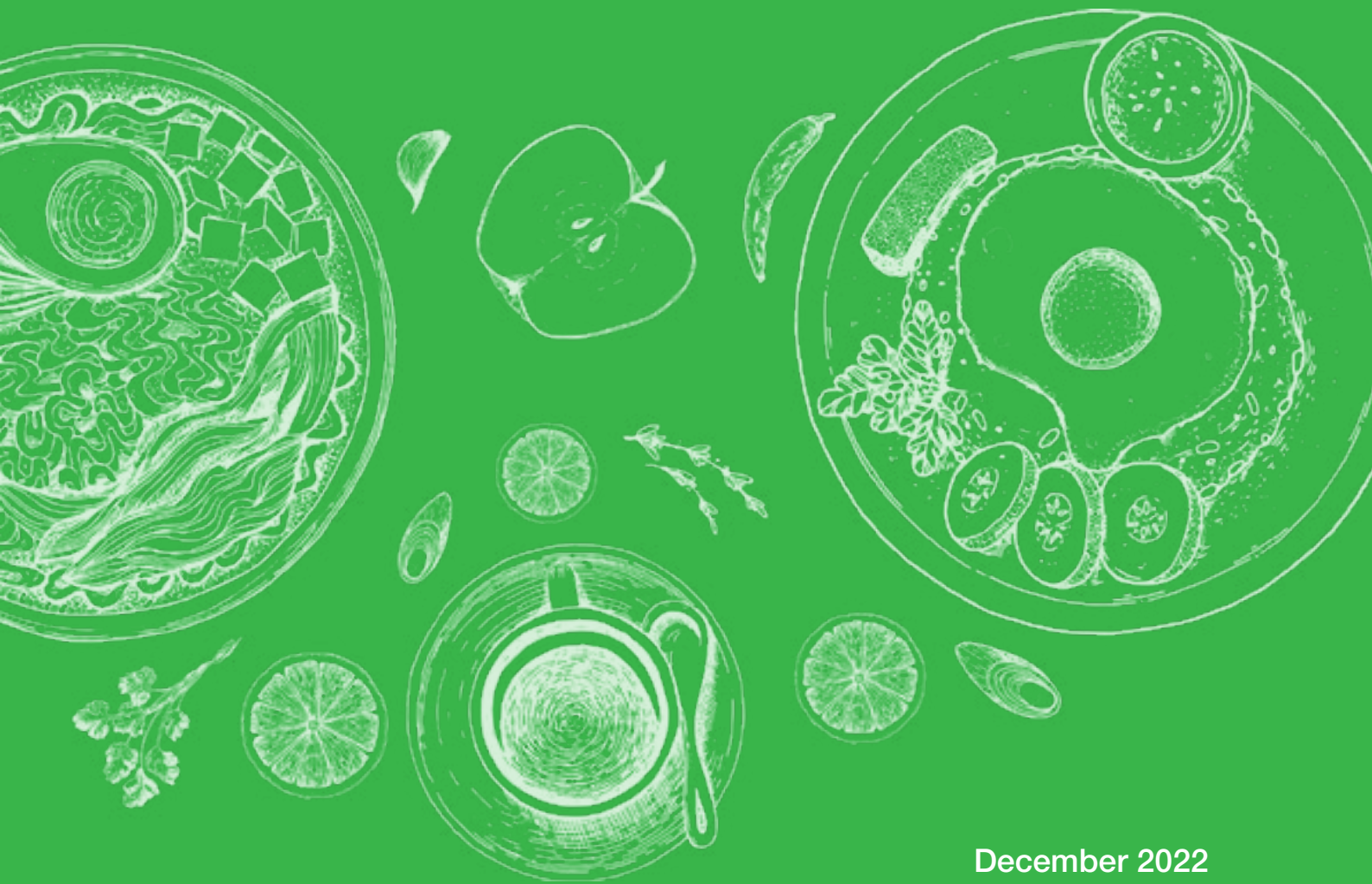


PRISMA

What's for Breakfast?

Food price inflation survey (2nd Edition)



December 2022

Introduction



This document is the second edition of the “What’s for Breakfast” food price inflation survey undertaken by PRISMA, a bilateral program supported by the Government of Australia and the Government of Indonesia. Since the first survey in May 2022, food prices have consistently declined. The FAO (Emsden, 2022) reported that the food price index went down by 14.9 percent in October from its all-time high in March 2022. The partial revival of the trade from the Black Sea Ports helped reduce the pressure on global food prices. However, all low and middle-income countries experienced high food inflation from May to August 2022 (WFP, 2022), leaving millions of people food insecure. The increased food insecurity in countries such as Indonesia results from the compounding and overlapping effects of the war in Ukraine, COVID-19, and climate shocks.

In response to increased food insecurity, at least 18 countries are implementing 25 active export bans for certain commodities, including wheat and vegetable oil (Laborde, 2022). As seen in the past, export restrictions worsen food insecurity and contribute to inflation. Rising fertiliser prices have also become a significant concern in low- and middle-income countries, such as Indonesia. Increased agriculture input prices may decrease food availability, which in turn will put renewed pressure on global food prices.

Grappling with surging global commodity prices, food prices in Indonesia began to rise in 2021 and reached their highest in March 2022. Since then, the demand and supply of essential commodities have fluctuated, and prices have been volatile. The 7-year record high annual inflation in September (5.95 percent) was mainly driven by the Government’s 30 percent fuel price increase.

The food price started to decline in late September. However, a few commodities, such as eggs and wheat, continued to record high prices. The prices of food, beverages, and tobacco declined by 0.3 percent from August, restraining the inflation resulting from fuel price hikes. Shallots, chili, and vegetable oil significantly contributed to deflation (BPS, 2022). The supply of these commodities has increased due to the current harvest season. As such, the price deflation may be temporary, and food prices will likely increase again during the off-season.

Despite the decline in prices of a few commodities, inflation remains above the upper limit of the central bank’s target for the sixth straight month. In response, the Government of Indonesia has been implementing a few social safety net programs, including fertiliser subsidies for targeted

smallholders, selling low-price packaged vegetable oil, and unconditional cash transfer for vegetable oil and fuel.

To assess the impact of food price increases on consumers, PRISMA surveyed its staff and their families in May 2022. After 6 months, PRISMA conducted a follow-up survey to assess the impact of food price inflation on consumers. The survey focused on the breakfast table and included respondents from across Indonesia. The survey results 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.





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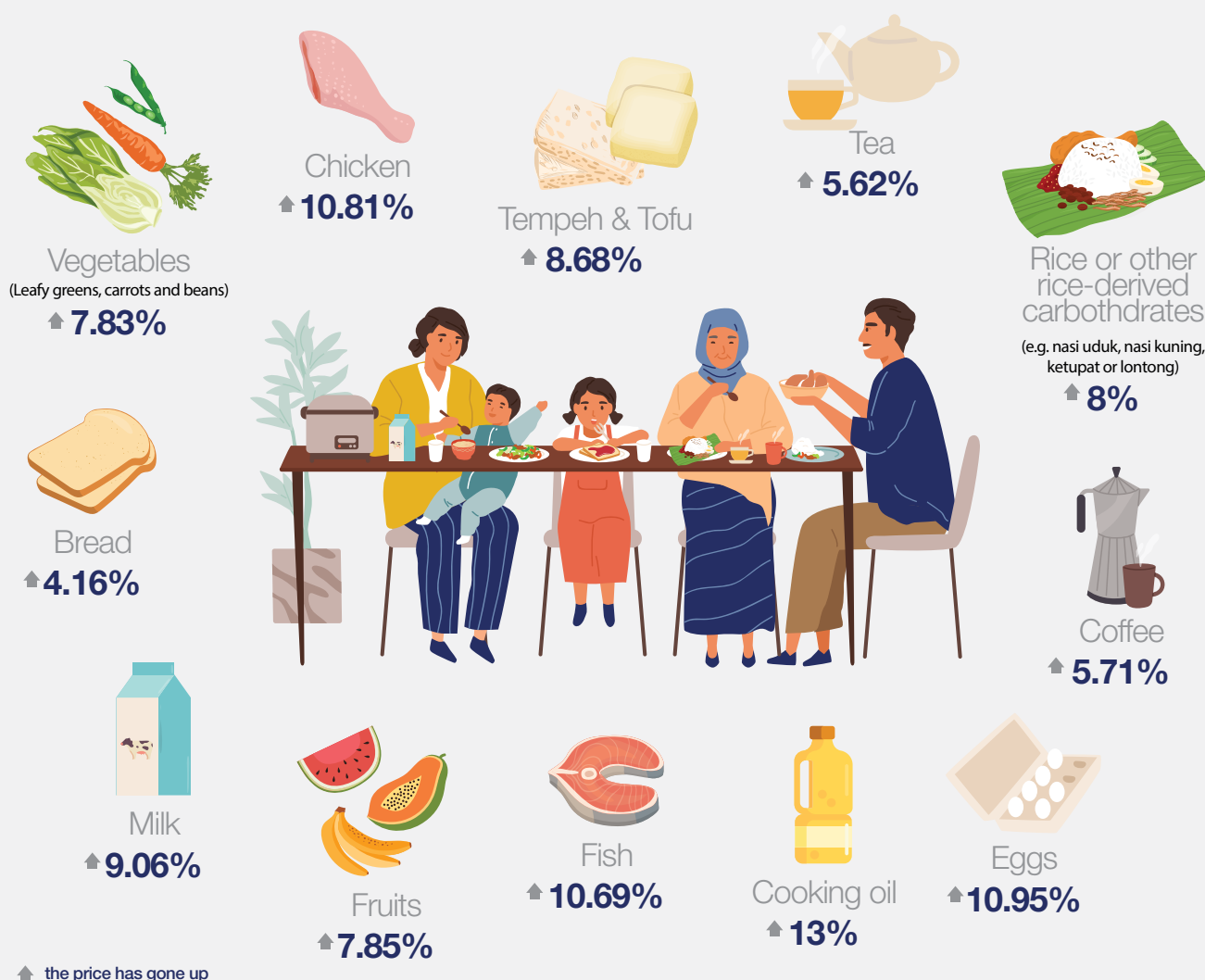
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Indonesia

What do things look like
on the **breakfast** table?



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 continues to increase

Around 92 percent of the respondents surveyed reported a rise in their living costs in the last 6 months. The respondents identified public transportation, food, and fuel as the main contributors to the increased living costs. From the main contributing factors, 43 percent of respondents reported an increase in fuel price by 9 percent in the last 6 months. Forty-two percent of respondents said household food consumption has increased by at least 10.85 percent over the previous 6 months. A further 40 percent of respondents stated that public transport was the next contributor to increased cost of living by 12.5 percent.



Breakfast has become costlier

The breakfast menu has had an average price increase of 8 percent compared to 6 months ago (7.6 percent). There has also been a change in menu choice. People mainly ate rice, eggs, and chicken for breakfast 6 months ago. Now, most people eat rice, local fruits, and snacks (e.g., banana fritters). There has been an increase in the cost of eggs (10.95 percent) and chicken (10.81 percent) compared to 6 months ago, which has driven a change in menu choice. Breakfast items, such as processed cereals, pasta, and canned foods, have seen the highest price increase (13.6 percent) during the last 6 months.



The conflict between Russia and Ukraine continues to impact the cost of breakfast

Wheat flour and its derivatives are important ingredients on the breakfast table.. The war between Russia and Ukraine disrupted Indonesia's wheat import from Ukraine. This disruption increased the cost of instant noodles and wheat flour prices by around 8 percent. The war has also continued to disrupt the global supply chain, further pushing up the price of all imported food items. It is anticipated that an ongoing conflict in Ukraine will continue to impact commodity prices long-term.



Households are currently coping with food price inflation, but ongoing inflation will impact health and education in poorer households

Households are coping with the increased food prices, although the coping strategy varies across income groups. Four common coping strategies were reported, including: reducing the consumption of non-essential items (35 percent of respondents); seeking new opportunities to increase incomes (23 percent of respondents); switching to alternative goods (20 percent of respondents); and changing investment planning (20 percent of respondents). Poorer households are experiencing a trickle-down effect of food price inflation on their health and education spending. Around 30 percent of respondents experienced increased health and education costs, and struggling households may need to make decisions regarding investment prioritisation.



Outlook



The war will continue to disrupt the global supply chain and increase price volatility

Russia will continue using food shortage fears as a weapon in its conflict with Ukraine, and the global supply chain will remain vulnerable for the foreseeable future. Most imported goods will remain expensive for the foreseeable future. Fertiliser prices have already gone up and show no signs of plateauing. With increased spending on essential household goods and the increased cost of living, smallholder farmers may reduce their agricultural budgets for the next season (April – June 2023). It is unlikely that farmers will reduce main agricultural inputs at this stage.



The ongoing La Nina will positively and negatively impact food prices

Indonesia is experiencing its third consecutive La Nina weather phenomenon, resulting in more than usual rains. The increased rainfall will result in the increased production of staple crops (such as rice and maize). For example, the Government of Indonesia reported a 2.3 percent increase in rice production this last harvest season. However, the changed weather pattern also causes crop failure in horticulture and legume crops. For example, the previous mung bean planting season failed due to waterlogging plants. While the increase in rice production will reduce pressure on rice prices, there will be negative impacts on vegetable and legume prices.



Inflation will likely stabilise by the end of 2023

The central bank of Indonesia estimated a below 4 percent inflation rate by the third quarter of 2023. The central bank will raise its key interest rate to stabilise inflation. Although international financial institutions predict a global recession in 2023, the Indonesian Government is optimistic that a recession will not hit Indonesia. The Government expects the economy to continue to grow by 5 percent annually.

At this stage, there are no indications that farmers will significantly change their investment pattern for the next agricultural season, ensuring that there is no immediate threat to local food production



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