

Food: Fat People, Skinny Returns

We Baby Boomers were blessed to grow up with “duck-and-cover” as a defense against thermonuclear attack, cars with huge tailfins and dire warnings of something called “the population explosion.” One day, and soon, we were told that box of macaroni and cheese would have to feed multitudes. No wonder we turned to movies starring the late Dennis Hopper.

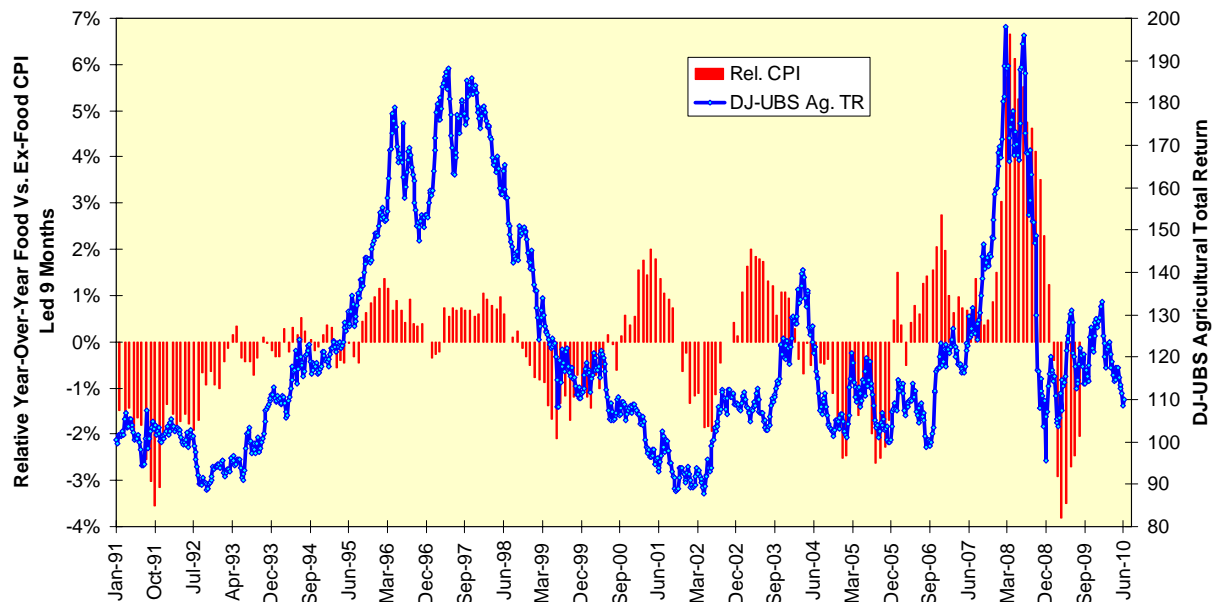
Now we are told that box of macaroni and cheese is as dangerous as the nukes of yore, and while the President is out there looking for backsides to kick, the First Lady is out there looking for backsides to shrink. Whatever happened to global food shortages, skyrocketing food prices, the use of food as a retaliatory weapon against those who dared withhold petroleum exports to us and the like?

The answer is, as it has been since the first Neolithic farmer planted a barleycorn, the Malthusians were wrong. Constant-dollar food prices have been declining steadily throughout human history; indeed, we can summarize that same history as in the sentence, “People leave the land and never return.” The constant-dollar price of wheat has declined by almost 77% since the end of World War II while the world’s population has increased more than 3.5 times; what else do you need to know?

Declining Relative Food Price Inflation

Thanks to the Bureau of Labor Statistics – and who doesn’t give thanks to them constantly? – we can compare the relative paths of the CPI sub-index for food to the CPI ex-food. This shot higher briefly and sharply in 2008 as various assorted geniuses in the federal government thought it would be a great idea to feed 30% of the American corn crop to yeast to produce low-grade motor fuel, but that measure has returned to underperforming over the past year. Moreover, the Dow Jones-UBS Agricultural sub-index (I don’t know about you, but for me, it is full index or nothing; none of this sub-index stuff), which leads the relative food CPI measure by nine months on average has been pointing lower for all of 2010. This promises relative downward pressure on the relative CPI measure.

Agricultural Futures Pointing Toward Relatively Lower Food CPI



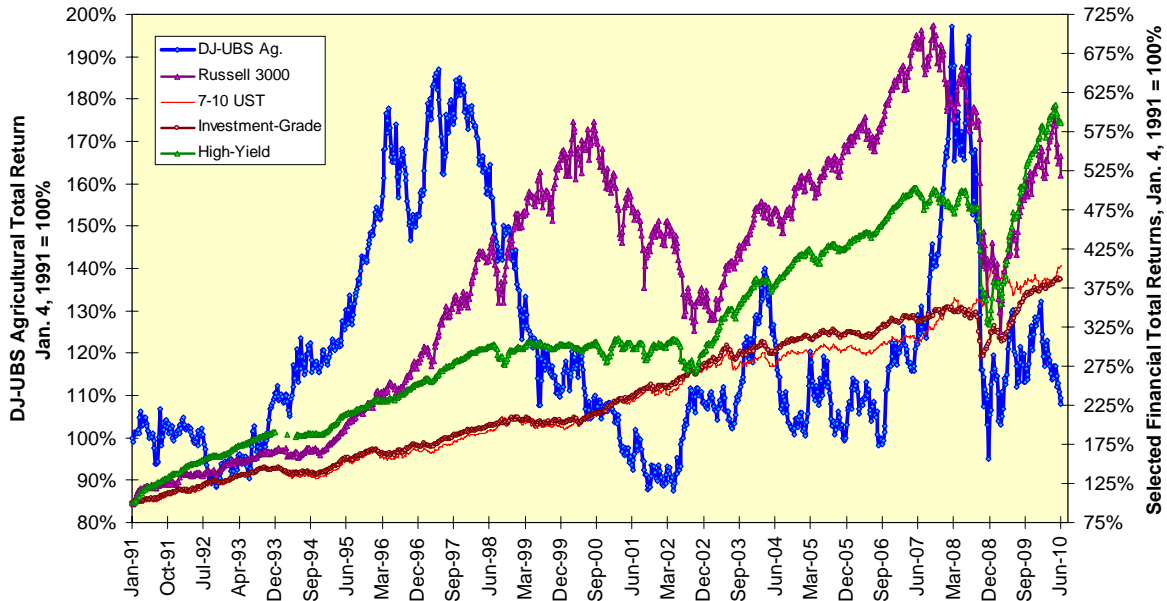
As an aside, food prices are part of that “non-core” fiction employed by policymakers to argue food and energy prices do not count when they are rising, nor do they count when they are falling and the Federal Reserve wants to keep interest rates near zero for unrelated reasons. I really cannot put into words how much I love being an economist.

Bad Investment

How has that DJ-UBS, formerly DJ-AIG, index compared as an investment relative to various financial indices. Badly: If we take it back to its January 1991 start, we see it has gained at an average annual rate of 0.5%, and this is before whatever fees might be involved in accessing this index as an investment. Comparable average annual

returns for the Russell 3000 index, 7-10 year Treasuries and both investment-grade and high-yield bonds are 8.5%, 7.2%, 6.9% and 9.1%.

Agricultural Returns Trail Financial Returns Badly



The moral of the story is you want to invest in scarce assets. A world full of obese people with falling relative food price inflation and twenty years of underperforming agricultural futures tells you food is a consumption good, not an investment good.