

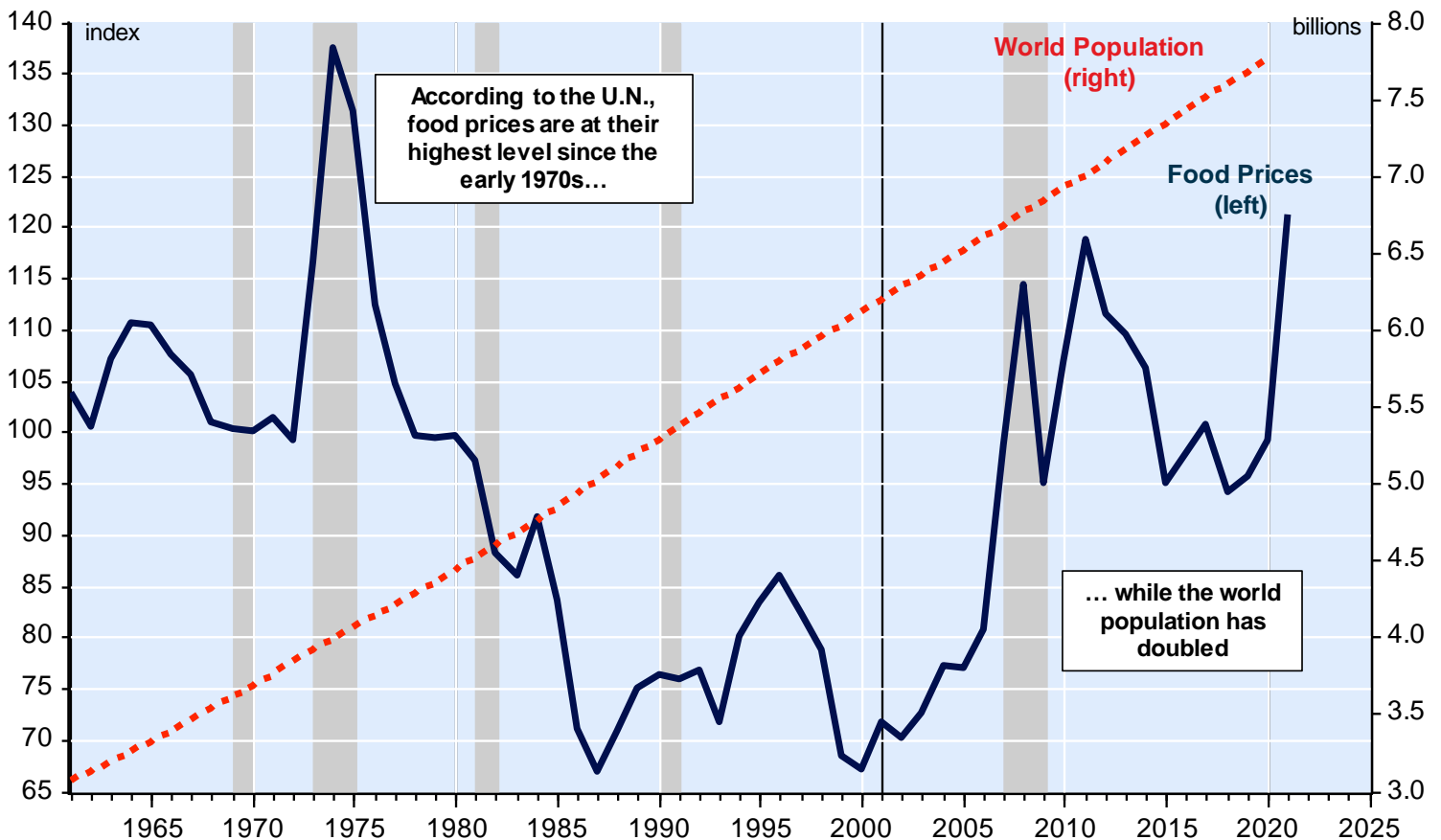
World Watch

By Stéfane Marion

The risks of a stagflation scenario are increasing. Global supply chain constraints are currently being exacerbated by an energy shortage and the soaring cost of carbon emission permits in many OECD economies. And this at a time when China is recalibrating its industrial policies. This confluence of factors is looking more and more like a supply shock reminiscent of the early 1970s, when soaring production costs idled industrial capacity and lowered potential GDP for many quarters. As if this were not already bad news for inflation, we now have to contend with soaring food costs. Earlier this week, the United Nations reported that its Food Price Index (FFPI), which tracks the international price of a basket of food items, is already up 30% in 2021 from its 2020 annual average, the largest increase in 47 years. As today's Hot Chart shows, the FFPI adjusted for inflation is currently at its highest level since the early 1970s. This is a particularly troubling development for emerging markets where food accounts for a large share of the consumption basket. Remember that EMs now account for about 60% of global GDP. Clouds are forming over global economic growth forecasts for 2022.

World: Food prices fuel stagflation scenario

FAO food price index in real terms vs. global population



NBF Economics and Strategy (data from [UN](#) and Fred)

Economics and Strategy

Montreal Office

514-879-2529

Stéfane Marion

Chief Economist and Strategist
stefane.marion@nbc.ca

Kyle Dahms

Economist
kyle.dahms@nbc.ca

Alexandra Ducharme

Economist
alexandra.ducharme@nbc.ca

Matthieu Arseneau

Deputy Chief Economist
matthieu.arseneau@nbc.ca

Daren King

Economist
daren.king@nbc.ca

Angelo Katsoras

Geopolitical Analyst
angelo.katsoras@nbc.ca

Paul-André Pinsonnault

Senior Economist
paulandre.pinsonnault@nbc.ca

Jocelyn Paquet

Economist
jocelyn.paquet@nbc.ca

Toronto Office

416-869-8598

Warren Lovely

Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist
taylor.schleich@nbc.ca

Alpa Atha

Fixed Income Economist
alpa.atha@nbc.ca

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