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Inflation and the supply chain

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THE FAO Food Price Index (FFPI), which measures changes in international prices of a basket of food commodities, averaged 135.7 points in November 2022, down from an all-time high of 159.7 index points in March 2022.

Although the food commodity prices are declining, food price inflation remains high worldwide.

Domestically, food and non-alcoholic beverages have significantly caused high inflation rates. For the January to October 2022 period, inflation increased by 4%, driven mainly by food inflation, which rose by 7.1%. The hike was mainly due to the increase in the subgroup of milk, cheese and eggs at 8.8%, followed by rice, bread and other cereals at 7.3%, and meat at 7.3%. Fruits and vegetables also increased by 5.5% and 4.8%, respectively.

What is the reason for the asymmetric and price stickiness at the retail level? It is actually the food

supply chain.

Food production is currently highly fragmented. Producers do not deliver directly to retailers; they sell their produce to centralised wholesalers and distribution networks who warehouse and ship the goods to retailers.

Labour costs have also contributed significantly. Even though the unemployment rate has dropped sharply, there are still fewer people working than before the CovidD-19 pandemic when entry of foreign workers into the country was restricted.

Businesses throughout the food supply chain, whether production, processing or distribution, are now struggling to recruit workers. This drives up wages and can lead to higher prices for their products.

Oil and gas prices, which fell at the start of the pandemic, have surged over the past year with the ongoing war in Ukraine. But demand for energy continues. For

example, the agriculture and food industries use energy for irrigation, farm machinery, packaging and distribution, among others.

There has also been a steady increase in the cost of moving goods from one place to another.

A decentralised and direct supply chain model, one where producers sell straight to retailers located near them, would be the ideal system for managing costs.

But this model may be difficult to implement because wholesalers do an important job of quality control and shipping. We need to find a way to replicate the functions of wholesalers if supply chains are decentralised.

Technology is offering this option. The potential of the new generation of software-start-ups to handle the traditional roles of wholesalers while allowing local producers to connect with local retailers represents a huge opportunity for food security, the planet

and our wallets.

Another approach is through sustainable food distribution. It is about reducing food waste and lowering the effects of the food supply chain on the natural environment as products move from farm to table. Sustainability benefits more than just the environment. By limiting water and energy consumption, reducing food waste, and creating more sustainable business models, businesses can become more profitable.

To improve our food security, the biggest risk is not only with food availability but also access to food. Thus, an effective and efficient food supply chain must also be the focus of our food security agenda besides social safety nets and food assistance programmes.

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