

Food price rally will spur agriculture investments, says Nestlé

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RISING agricultural prices may spur investment in research and infrastructure, helping lift farm yields and output to feed a larger and richer global population, according to Nestlé.

"Prices are getting to a level that may (be) positive for food production," Nestlé chief executive Paul Bulcke said yesterday. "People are motivated again to

be in agriculture."

Global food prices rose for a second month in February on higher costs for cereals, cooking oils and sugar, according to a 55-item gauge tracked by the UN's Food and Agriculture Organisation (FAO).

Costs might remain near current levels this year as demand absorbed increased supply, FAO economist Abdolreza Abbassian said on March 8.

Food price volatility had

increased as production failed to keep pace with demand, cutting stockpiles, Bulcke said.

Raw material costs for Switzerland-based Nestlé, such as coffee and sugar, were expected to continue to climb this year, although at a slower pace than 2011, he added.

The FAO's World Food Price index rallied 20 percent in 2009 and a further 26 percent in 2010 as the global economy recovered from recession. The gauge,

at 215.27 points last month, hit a record 237.92 a year ago. A decade ago, it was at 88.3.

Prices were "going up from a low base, so whatever that goes up, it looks like it's doubling", Bulcke said yesterday. "We're going to have a world (that has) up to 3 billion more people in the next few years."

Global food output must rise 70 percent by 2050 as the world population grows to 9.3 billion from 7 billion, and wealthier

consumers eat more meat, according to the FAO. The global trade in agriculture may climb 43 percent to more than \$1 trillion (R7.5 trillion) by 2020 on rising demand in emerging markets, according to the US Department of Agriculture.

Asian demand would grow as the middle class expanded, making it a key market for products such as Milo and Maggi noodles, Bulcke said.

Raw-material inflation would

probably be less than 5 percent this year, Bulcke said, reiterating a forecast made by Nestlé chief financial officer Jim Singh on February 16. Bulcke said costs were being cut by operating more efficiently.

Nestlé's shares have rallied 11 percent in the past year and stood at Sf56.75 (R465) yesterday, valuing the company at Sf187.4bn. Of the 40 analysts' calls tracked by Bloomberg, 17 are buy recommendations,

with 20 holds and three sells.

Nestlé and Danone made first-round bids for Pfizer's baby formula unit, which might fetch as much as \$10.5bn (R79bn), people with knowledge of the process said in January.

While Bulcke declined to comment on Pfizer, he said that Nestlé was open to "bolt-on" acquisitions that complemented existing operations. — Bloomberg