

PRICE WATCH: December Food Prices

January 25th, 2010

To more closely monitor the evolution and transmission of international and local food prices, FEWS NET is monitoring and reporting on staple food prices in key markets in urban and town centers in food insecure countries. A selection of these market centers, along with additional markets in non-presence (no FEWS NET office) countries are presented here. A longer list of commodities and markets is available at www.fews.net.

Key points:

- Prices increased for about 22 percent of all commodity-market pairs monitored last month, including significant increases in Qorioley and Baidoa (Somalia), Jibia (Nigeria), Kampala (Uganda), and Multan (Pakistan).
- Rice prices in Jalalabad (Afghanistan) decreased as the newly harvested rice entered the market. Prices were 43 percent lower than in November and 51 percent lower than a year ago.
- Of all commodities monitored in Somalia, only rice exhibited price declines last month.

This month's Price Watch includes 123 markets in 28 countries, now including international prices for wheat, maize and rice.

- Table 1 lists the five largest increases and decreases in prices of staple foods, from both the previous month and the previous year.
- Special Market Focus: "Are International Food Prices Transmitted to Southern Africa's Markets?"

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Table 1. Five largest price increases and decreases from November to December 2009

Largest increases in staple food commodity prices				Largest decreases in staple food commodity prices					
Center	Change 1 month	Observation	Center	Change 1 year	Center	Change 1 month	Observation	Center	Change 1 year
Qorioley Somalia (Wh. Maize)	49	Prices rose as demand increased following the suspension of WFP's food distribution and the shift of consumption from the high valued foods like rice to locally produced cereals.	Eldoret Kenya (Sorghum)	145	Jalalabad Afghanistan (Rice)	-43	Prices fell following normal seasonal trends, driven by enhanced supply from the recent harvest.	Harare Zimbabwe (Maize Gr.)	-68
Baidoa Somalia (Sorghum)	48	Prices rose as demand increased following the suspension of WFP's food distribution and the shift of consumption from the high valued foods like rice to locally produced cereals.	Kampala Uganda (Matoke)	137	Addis Ababa Ethiopia (Wh. Sorghum)	-28	Prices dropped as supply increased from the meher season harvest.	Manica Mozambique (Maize)	-61
Jibia Nigeria (Millet)	44	Prices increased as traders scaled down their marketing activity, in anticipation of higher selling prices later in the season.	Arta Djibouti (Sorghum Flr.)	70	Bouake Ivory Coast (Maize)	-23	Maize prices decreased as households purchased more tubers and banana plantains for the Christmas and New Year holidays.	Gorongosa Mozambique (Maize)	-53
Multan Pakistan (Rice)	43	N/A	Chokwe Mozambique (Rice)	60	Gharm Tajikistan (Wheat Gr.)	-21	N/A	Bangula Malawi (Maize)	-52
Kampala Uganda (Matoke)	36	Prices increased as households purchased more Matoke for the Christmas and New Year holidays.	Eldoret Kenya (Potatoes)	52	Sarh Chad (Sorghum)	-19	Sorghum prices decreased as supply increased from the recent harvest.	Jalalabad Afghanistan (Rice)	-51

SPECIAL MARKET FOCUS: Are International Food Prices Transmitted to Southern Africa's Markets?

Between 2007 and 2008, the price of maize, rice, and wheat in international markets soared to unprecedented levels. In sub-Saharan Africa, cereal prices seemingly followed that trend. They attained exceptional levels in southern Africa notably (except in South Africa due to above-average production), eastern Africa (especially in Ethiopia), and Western Africa to a lesser extent. The behavior of cereal prices during the food price crisis thus indicated that domestic markets in sub-Saharan Africa (which represent a small share of world trade) were highly integrated with international markets—that is, shocks to prices in the latter markets were to a large extent reflected in the prices of the former. However, price transmission from international markets to southern Africa's local markets (Malawi, Mozambique, South Africa, Tanzania, and Zambia) has been weaker in the long run, a recent study from the International Food Policy Research Institute¹ (IFPRI) found. This edition of the Special Market Focus highlights the implications for food security monitoring.

Using monthly price series of five years or more, the IFPRI study examined the relationship between international and domestic prices for maize and rice. For Malawi, which exports and imports maize, only in a few markets were maize prices found to closely follow the reference international price, the US No. 2 yellow maize price in the Gulf of Mexico. For instance, the maize price in Chipita, near the Tanzanian border, has been responsive to changes in the international price. In Mozambique, both a maize exporter and importer, maize prices do not appear to be linked to the international price, whereas in most rice markets prices exhibit a long-run relationship with the reference international price, the Thai Super A1 broken white rice price in Bangkok. For South Africa, there is no statistical evidence that the international maize price affect domestic prices. In Tanzania, only the maize market of Arusha, near the Kenyan border, has closely followed the international market trend, but price movements in several rice markets are found to be linked to changes in the international price. Zambian maize prices do not show any linkage with the international price. Furthermore, local maize prices in southern Africa countries are seldom linked to the South African white maize price, although South Africa is the major producer and exporter of white maize in the region.

The finding that domestic maize prices infrequently exhibit a long-run, statistical relationship with the international price may simply reflect the fact that southern Africa countries have low maize import requirements and maize exports from South Africa and other surplus countries are sufficient to satisfy the import needs of deficit countries within the region. In the case of a small importing country, when trade costs are relatively low, traders may profitably purchase a food commodity in the international market, where the price is low, and sell it in the domestic market, where the price is high. As a result, the domestic price falls until the price differential just equals trade costs. A subsequent change in the international price is reflected in the domestic price through adjustment in the quantity traded. But when trade costs are relatively high, trading is not profitable, price transmission is inoperative, and the local price mainly reflects local supply and demand conditions (note that two markets may exhibit similar price levels without being linked through trade). In southern Africa, import parity prices for maize from the international market may be too high to compete with regional maize, which would explain why there is little international maize price transmission. In contrast, domestic rice prices are more linked to the international price because these countries import large amounts of this commodity.

Shocks to international prices have an impact on food security and the welfare of poor households to the extent that they lead to price variations in local markets. A number of factors may prevent the spatial transmission of shocks. These include: lack of competition among traders, differentiation between the domestic and international commodities (white versus yellow maize for instance), transport costs and other transaction costs (market information search, delivery time, and financial transactions), trade capacity adjustment costs, policy-induced barriers to trade, etc. Quantitative limitations on imports and exports are strong impediments to price transmission. The monitoring of international markets with the objective of informing food availability in local markets must take these factors into account as well as their dynamics, that is, the market context. The degree of price transmission may vary over time with these variables, especially with variation in transport costs and shifts in trade policy. During the food price crisis, rising fuel costs probably caused the larger price increases observed in landlocked countries and resembling international trends. On the other hand, seasonal variations in supply leading to trade reversals or variations in transport costs may affect the results of statistical tests for price transmission.

¹ Minot, N. Transmission of World Food Price Changes to African Markets and its Effect on Household Welfare. IFPRI, November 2009.