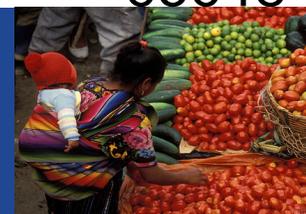


Food Price Watch



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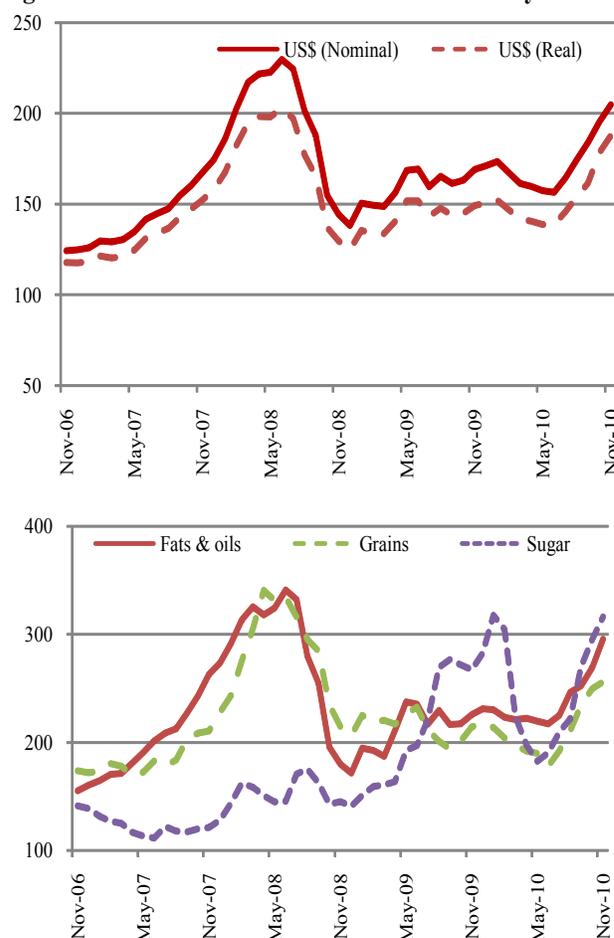
DECEMBER 2010

Summary: The World Bank food price index rose by 17% between August and November 2010 and is now 11% below its June 2008 peak in nominal terms and 8% below the peak in real terms. Adverse weather conditions in major cereal producing countries have contributed to price rises for wheat, maize and rice. The impact in specific countries has varied depending on local production conditions, the extent of price subsidies and other policies, though double-digit price increases of key staples, and other nutrient-rich food items, have occurred in recent months in countries with an existing high burden of poverty and malnutrition.

Global food prices have increased sharply in recent months. The US dollar based nominal World Bank food price index increased by 17 percent between August and November 2010 and is now 11 percent below what it was during the peak of the global food price crisis in June 2008. In real terms this food price index is only 8% below its June 2008 peak (figure 1) – the gap is likely even narrower due to a 3% appreciation of the dollar during this period against a broad basket of currencies. The increase in the aggregate index has been driven primarily by grains – which increased by 21 percent between August and November – although the prices of other commodities have also risen. In addition to maize, wheat and rice, prices also increased for soybean (15%), barley (11%), and sugar (42%) in the August-November period. Sugar prices are at a 30 year high due to poor harvests and the possibility of any easing in these prices will depend not just on yields, particularly in India and Brazil, but also on how much these countries supply to the international markets.

Maize and wheat prices rose by 36% and 11% between August and November primarily due to weather related production shortfalls in large exporting countries. These come on the heels of sharp price rises between June and August – overall the maize and wheat prices increased respectively by 56% and 74% between June and November. Wheat and coarse grain yields in the EU, Canada and the US were revised downwards, compounding concerns of further tightening in a market that was already struggling from lower than expected production and exports from Russia, Ukraine and Kazakhstan. Additionally, recent excessive rains have damaged wheat crops in Australia raising the possibility of a large fraction of the harvest being downgraded to feed quality. Overall, international

Figure 1: Food Price Index and Food Commodity Indices



Source: World Bank, DECPG

Note: January 2005 = 100 for the top chart and 2000 = 100 for the bottom one.

stocks that looked ample in the previous quarter are being drawn down. Prospects for an easing of grain prices in the coming year hinge critically on the production response.

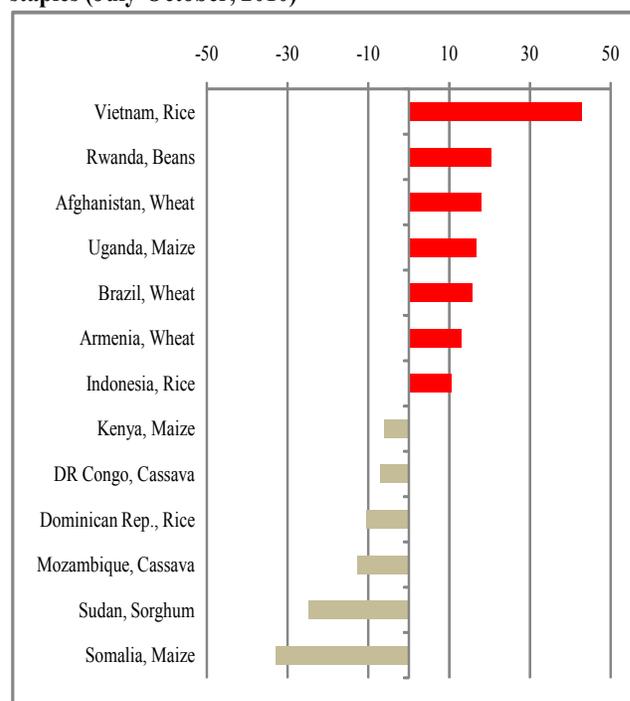
Higher global wheat prices were transmitted to domestic markets in several wheat-importing countries in the August-November period (figure 2). In Brazil, wheat products were up roughly 16 percent in the quarter between July and October. Given that 56 percent of wheat and wheat products consumed in Brazil is imported, the increase in domestic prices is likely to be driven largely by the lagged transmission of price increases in international markets. This is also true for a number of other wheat-importing countries. The price of wheat flour registered double digit growth during the July-October period in Kyrgyzstan (35%), Mauritania (21%), Afghanistan (18%), Sudan (17%), Armenia (13%), Azerbaijan (12%), Pakistan (11%), and Bolivia (11%).

In many countries in the Middle East and North Africa governments are bearing the brunt of the rise in global wheat prices as consumers are insulated by subsidies on the price of basic staples. Egypt, Jordan and Lebanon rely heavily on wheat imports and the grain harvests in Morocco and Tunisia are expected to be smaller this year compared to last year. Spending on food and fuel subsidies in Morocco is projected to double compared to the previous fiscal year. Yemen is particularly vulnerable on the macro-economic front. It relies on wheat imports to meet 82 percent of its consumption, has physical wheat reserve stocks equivalent to less than a month of its average monthly wheat consumption and has limited fiscal space. A 50 percent increase in the wheat price would translate into an estimated increase in the import bill of nearly 1 percent of GDP or more than 20 percent of foreign reserves.

In other countries favorable harvests countered the impact of higher global prices. The domestic price of key staples in several countries largely reflected domestic production trends. For instance although maize prices increased in the international markets, prices in Somalia and Kenya declined by 33% and 6% due to a bumper harvest. Likewise, sorghum prices in Sudan moved in the opposite direction to the international trend as favorable outlook for the harvest currently being completed caused a decline in prices in local markets.

Rice export prices have increased steadily in the past quarter. The export price for Thai rice, the benchmark for Asia, has gained 17% (Thai 5%) and 22 percent (Thai 25%) from this year's low in June due to

Figure 2: Biggest movers: % change in the domestic price of staples (July-October, 2010)



Source: FAO, GIEWS. Largest change in LCU prices for 34 countries that had data available up to October, 2010 and the data is for national averages (whenever available) or capital cities.

strong demand and shortfalls in supply as flooding damaged crops in three major rice exporting countries - Pakistan, Thailand and Vietnam. The outlook for rice prices remains uncertain due to two countervailing factors. First, despite these shortfalls, aggregate output is still expected to reach record levels this season and remain sufficient to meet demand suggesting there could be some easing of prices in the next quarter. At the same time, the tightening of other grain markets pose a risk of further increases in rice prices.

Domestic rice prices have in turn risen in several countries. In Vietnam, the price of rice (20 percent broken, milled) increased by 41 percent between July and October and was largely due to (a) tighter supply in the domestic market caused by lower than expected production and prior commitments on exports; and, (b) an overall increase in inflation in the country largely due to the depreciating currency. Prices for the lowest grade rice consumed by the poor have increased by 10% in Indonesia since July, while the type consumed by the majority of the population has increased by 20%. Moreover the price increase for the year leading up to November 2010 is 26% and 36% respectively for these two types of rice. The Indonesian government is

currently considering temporarily lifting import duties on rice at least until the harvest season that starts in February. In Sri Lanka the government removed a price cap on rice and prices rose by 8% between July and November. In Mozambique rice prices increased by 19% over the same period due to higher international prices, a sharply reduced domestic harvest and depreciation of its currency. Rice prices in Madagascar have also increased by 12% between July and November due to higher transport costs and more expensive imported rice.

Domestic prices of main grain staples, as well as the prices of nutritious food items such as vegetables, eggs and meat, need to be closely monitored due to the recent rise in global commodity prices. The varying speed of international prices into domestic markets, and the importance of

local conditions, make it difficult to anticipate which countries will face a food price spike. There are risk factors and low income countries which import a sizeable share of their primary staple are particularly vulnerable. Moreover the rise in global soybean and corn prices is putting upward pressure on egg and meat prices (e.g., China) undermining dietary diversity objectives. Afghanistan is a case in point - due to low domestic milling capacity, Afghanistan imports wheat flour from Kazakhstan and Pakistan. Higher global prices together with increase in fuel prices have contributed to the recent increase in wheat flour prices in the country (figure 2). Given the high dependence of the Afghan diet on wheat and related products, price increases of this magnitude have serious welfare consequences. Estimates indicate that price increases in 2008 reduced per capita food consumption by 20 percent, per capita calories by 7 percent and the dietary diversity score by 10 percent (Box 1).

Box 1: Impact of food price increases in Afghanistan

During the 2007/08 global food crisis, the world average price of staples more than doubled; perhaps one of the most serious consequences of the crisis was its disproportionate effect on the world's most vulnerable populations. Recent research investigates the impact of the crisis on multiple dimensions of food security in Afghanistan. The analysis is based on data from the National Risk and Vulnerability Assessment (NRVA) 2007/08, a sample of over 20,000 households from all 34 provinces of Afghanistan, conducted prior to and after the large increase in prices. It is the first nationally-representative household survey in Afghanistan stratified to account for seasonal variations in consumption and other measures of wellbeing. The data allow for the econometric identification of price elasticities of various measures of food security while controlling for province and household-level characteristics.

The estimates indicate that a doubling of the price of wheat flour leads to a 20 percent reduction in the real value of per capita food consumption, but only a 7 percent decline in caloric intake. Households buffer the shock to their food budget by changing the composition of their diets. In particular, households reduce the diversity in their diet (10 percent decline) and move away from nutrient-rich foods like meat, fruits and vegetables towards staples like wheat. The quality-quantity trade-off observed at the national level is also observed at the sub-national level. Rural households experience small declines in calorie intake, whereas urban households are able to buffer the shock to calories by reducing the diversity of their diets in larger measures.

Measuring how households respond to food price increases, through reductions in quality and diversity of their diets, is important to better understand the implications to overall wellbeing. Low levels of dietary diversity have been linked to inadequate nutrient intake. Micronutrient deficiencies have been linked to multiple negative outcomes for children, including impaired cognitive development, physical and mental disabilities, and lower productivity. Additionally, young children, lactating and pregnant women, and the chronically ill are particularly susceptible to decreases in nutrient intakes due to their high nutrient requirements.

Higher food prices and household wellbeing, price elasticities

Log Wheat Flour Price	Log real per capita food consumption	Log daily per capita calorie intake	Log food consumption score
National	-0.20***	-0.07***	-0.10***
Urban	-0.36***	-0.02***	-0.20***
Rural	-0.19***	-0.07***	-0.09***

For more details, see D'Souza, Anna and Jolliffe, Dean. "Rising Food Prices and Coping Strategies: Household-level Evidence from Afghanistan." World Bank Policy Research Working Paper Series, WPS5466.