



# Ethiopia Market Watch

## 10 JUNE 2009

### Highlights

- The country level general inflation based on 12 months moving average has been on the decrease and stood at 41.6% compared to 45% last month, of which food inflation was 52.6% down from 59% last month, and non-food was 24.5% in May 2009.
- Local and import parity price of grain show a slight decrease for all commodities across selected major urban markets and the trend is likely to continue as the government is distributing wheat for urban consumers at price of Birr 350 and for traders and millers on tender base from Birr 400 to 450 per quintal.
- In most large urban market the price of grain appears to be decreasing following the decline in demand coupled with restriction the government put on bulk purchase of cereals from local markets.
- The supply rates of cereals have also increased during the month due to release of stocks by farmers anticipating price of grain to decline further as the green maize harvest started to get on the market. On the other hand, effective demand declined partly due to traders' inability to secure credit from banks as a result of the recent Government regulation, that restricted trader access to credit
- In pastoralist areas of most Somali, Afar as well as in pocket areas of Oromiya and Amhara regions prices of grain were either stable or show slight decrease, whilst livestock price were showing slight decline as these areas move into the dry season. If the weather situation does not improved, the terms of trade for pastoralists may deteriorate further during the year.
- The forecasted price based on monthly factor indicated, that the price of grain in most urban and rural markets is expected to be either stable or show a decline ranging from 5% to 10% for in the coming three months.

### 1. Inflation rate

In May 2009, general inflation based on the monthly moving average stood at 41.6%; food inflation at 52.6%; and non-food inflation at 24.5%. Compared to May 2008, general inflation has increased by 19.8%, which is attributed to the increase in food consumer price index (CPI) of 11.6%, of which cereals increased by 13.6% and non-food by 18.7%. Across the regions in May 2009, the highest increase in the food index was recorded in Gambela at 43.9% compared to 537% in April 2009; followed by Somali at 34.5% compared to 42.3% in April 2009 and followed by Harar at 29% compared to 48.9% in April 2009. During the month the lowest food CPI increase was in Oromiya 9.3%, followed by Benishangul-Gumuz at 9.8%, and Amhara at 10%.

### 2. Import Parity Price and Local Price of Cereals

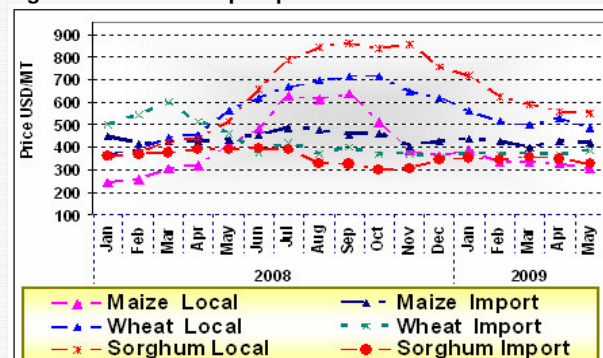
Local price of major staple food continued to decrease with the continued market stabilization program by government and continued food aid interventions. Local price show a decrease of 5-10% for Maize; 5-20% for wheat; and 5-20% for sorghum compared to April 2009 (see Table 1). The domestic price of

wheat and sorghum still remained above import parity price across the markets; whilst import parity price of maize is above local price. During May 2009, the local prices were above the import parity price by 25.5% for wheat; and 67% for sorghum, whilst below by 27% for maize (see figure 1).

### 3. Large Urban Cities

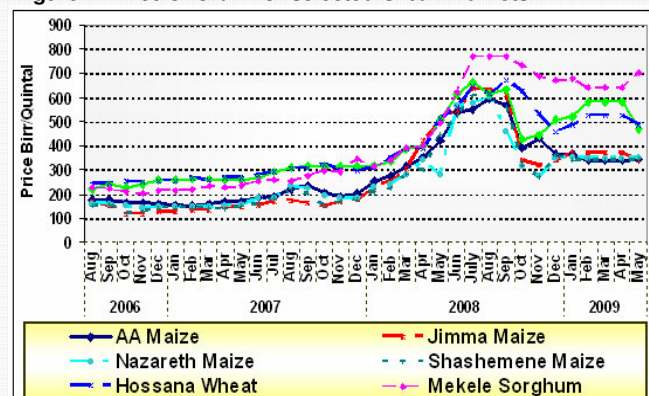
The unusual downward trend in grain prices appears to be continuing due to lack of adequate demand that coupled with a ban for bulk local purchase, trader restriction on credit access and less quality of cereals due to untimely rain that occurred during harvest of last Meher season. The average prices of grains in most large urban markets have shown decline by 1% for maize; by 18% for wheat; and by 1% for sorghum within one month (Apr-May 2009) and still decreased significantly compared to last six month (Nov 2008). For instance, compared to last year the same period (May 2008), the price of grain decreased on average by 15% for maize and by 8% for wheat. (see Figure 2).

Figure 1: Local and Import price of Grain



Source: WFP Procurement

Figure 2: Price of Grain for selected Urban Markets

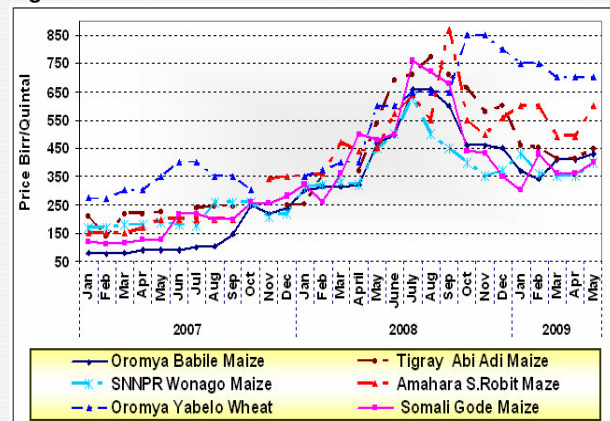


Source: Ethiopian Grain Trade Enterprise

#### 4. Prices of Cereals across the Country

In rural markets, prices of grain have continued to decline compared to previous one, six and twelve months respectively. For instance, compared to last month (April 2009), the average price of maize decreased by 2.2%; wheat by 2.7% and sorghum by 8.5% across different rural markets. On the other hand, compared to the same period last year (May 2008), the price of grain is lower by 15% for maize and by 14% for sorghum, except SNNPR and Amhara (see Figure 3).

Figure 3: Price of Grain for selected Markets

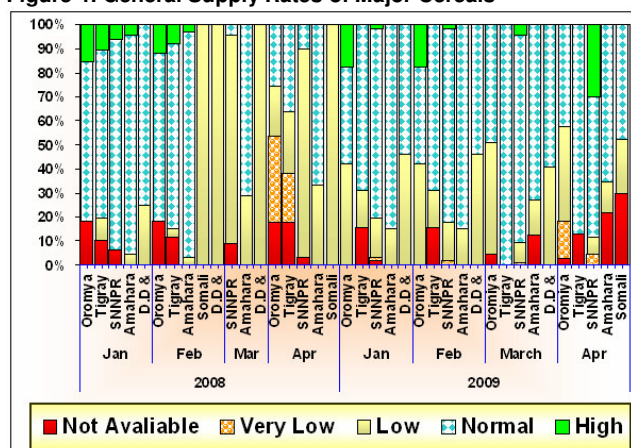


Source: WFP sub office

#### 5. Market Performance

The supply rates of cereals to markets improved in most areas and this is attributed to increase in supply of grain from stocks, decline in demand, urban market stabilization program and the various food aid programmes. During April 2009, staple food supply rate was normal in most markets of the regions including Somali, Afar and most pocket areas of Oromiya and Amhara. In most pastoral area of the country, high supplies of livestock coupled with slight decrease in effective demand caused the price of shoat to decline. For instance, the price of shoat declined by 10% in Gode; 2% in Dire-Dawa; and by 8% in Jijiga markets between March-April 2009 (See Figure 4).

Figure 4: General Supply Rates of Major Cereals



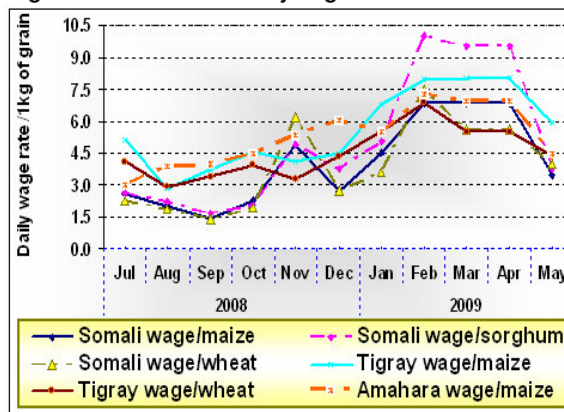
Source: WFP Sub offices

#### 6. Terms of trade between casual labor and grain

Most households in the regional areas generate income mainly from casual labor, petty trade or business/commerce. During

May 2009, average casual daily wage rate stood at Birr 15 in Somali, birr 26 in Tigray and birr 25 in Amhara regions. Compared to last month (April 2009) average wage rate were declined by 3.8% for Amhara; by 40% for Somali and by 37% for Tigray region. During May 2009, terms of trade for daily wage stood at 3.5kgs/day for Somali; at 4.5kgs/day for Amhara; and at 4.3kgs/day for Tigray region. Compared to last month (April 2009), terms of trade decline by 44% for Somali and by 11% in for Amhara and by 30% for Tigray. The main cause for the decline in casual wage rate was due to decline in demand which is linked to ending of harvest 2009 (See figure 5).

Figure 5: ToT between daily wage rate and Grain



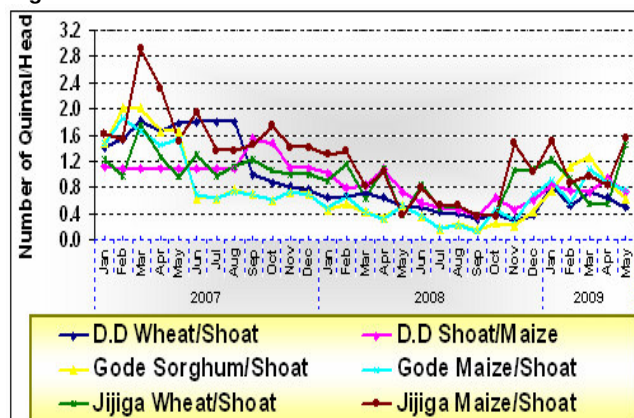
Source: WFP Sub offices

#### 7. Terms of Trade between a shoat and grain

The terms of trade between a shoat and grain show decline in most pastoral area. For instance, compared to last month (April 2009), terms of trade between a shoat and 100kg of grain decline on average by 13% in Gode and by 21% in Dire Dewa. Whilst in some area like Jijiga terms of trade show an improvement by 85%. However, still the terms of trade remain very low compared to the normal.

Compared to last six month (Nov 2008 to May 2009), the terms of trade (ToT) between a shoat and one quintal of grain has improved in Gode market from 28kgs to 76kgs of maize per shoat, a 168% increase or sell one shoats to buy 28kgs of maize in Nov. 2008 compared to selling of one shoat in May 2009 to buy 76kgs; In Dire Dawa market terms of trade improved from 46kg to 72kg, a 57% increase; and in Jijiga from 105kgs to 144kgs, a 37.6% increase (See Figure 6).

Figure 6: ToT between a Head of Shoat and Grain

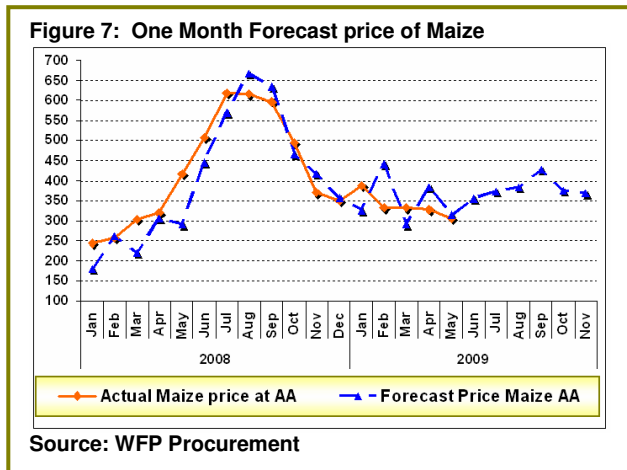


Source: WFP Sub offices

## 8. Rationale of the Price Forecast

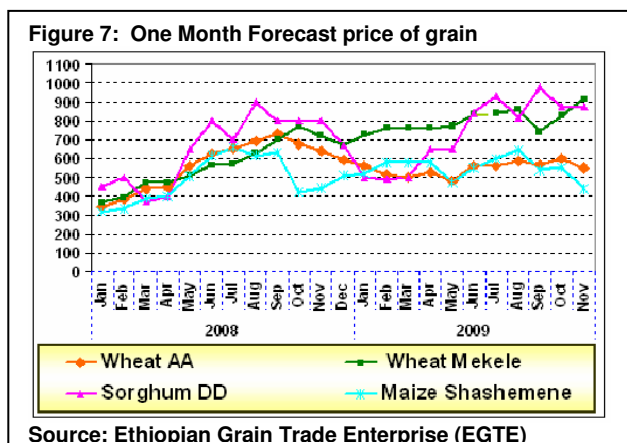
Information regarding forecasted price is critical to assess impacts of domestic and international events upon household and make decisions to mitigate risks that associated price hikes. Future prices are determined by the interaction of expected supply and demand which intern affected by many factors including socioeconomic, environmental, financial and political condition.

Therefore, forecast of price were made based on the assumption of supply rate, seasonality condition, rainfall condition, and aid intervention. Tables 7 illustrate the traceability of the forecasted price to the actual price of maize at Addis Ababa. The monthly factor forecasted price indicate that the price of maize at Addis Ababa either show slight increase 5% to 15% for the next three month and a decline starting from October 2009 onwards (see figure 7). *Based on the same method and principle attempts will be made to forecast price of grain and ToT across different markets.*



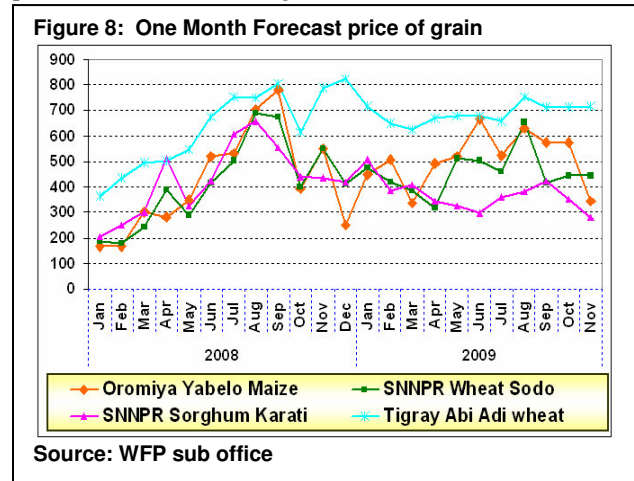
## 9. Urban Market Price Forecast

In most large urban towns price of grain expected to show slight increase or stable for the coming there month if the current ban on bulk purchase, restriction on credit and urban food stabilization program continued. For instance, as of June 2009, the future price forecast for wheat is Birr 625/100kg at Addis Ababa and Birr 835/100kg at Mekele markets. The price of sorghum estimated to be at Birr 841/100kg at Dire Dawa market and maize price at Birr 547/100 kg at Shashemene markets (see figure 7).



## 10. Rural Market Price Forecast

In regards of rural market, the forecasted price for grain show a slight increase that range 10-25% across different markets. According to the estimate, as of June 2009 price of maize is estimated at Birr 550 per quintal at Yabelo market; and at Birr 502 at Bati market of Amhara region. Similarly, price of sorghum is estimated Birr 670 at Abi-Adi market of Tigray region. Generally, in the coming month, price of grain expected to increase in some market if the Meher rain fails and decline further if the rain condition improves, effective demand from urban household increased and the ban on local purchase is relaxed (See figure 8).



## 11. Pastoralist Area Markets

In most pastoral areas terms of trade between grain and a shoat expected to decline if the poor performance of current rain continues. Additionally, consumers in these area are highly depend on imports from other regions.

Accordingly as of June 2009, the forecasted terms of trade at Gode market is expected to decline from 0.61 to 0.58 or a sell of one shoat to buy 61kgs of maize in May to 58kgs in June 2009 and; in Jijiga expected to improve from 0.78 in May to 1.20 (see table 9).

