Inflation and Consumer Price Index

According to Central Statistical Agency, the country level general inflation and food inflation rate increased by 36.3% and 47.4% respectively as compared to February 2011. Similarly, the cereal index of the month rose by 58.8% which contributed to the rise in the indices of food and general consumer price index. The non-food inflation increased by 21.4%. The month to month general and food inflation rates rose by 2.7% and 3.3% respectively. In February 2012, increases were observed in the indices of cereals (58.8%), pulses (61.6%), meat (78.3%), vegetables & fruits (35.6%) and spices (63.8%) against February 2011. The trends of inflation rate in the month of February 2012 shows up-ward move similar to February 2011 where the cereal inflation rate is the main driving force.

Major Cereal Import Parity and Local Prices

The increase in the global wheat production estimate for 2011/12, to 695 million tons boosts total availabilities to 892 million tons, their highest ever. Projected food and industrial consumption are both revised lower this month, but attractive prices, particularly compared with maize, lift the forecast of feed use by 2 million tons, the most since the early 1990s. Even
though, total consumption is growing at a faster than average pace, world stocks are projected to rise. Maize production in 2011/12 is expected to increase by 4%, to a record 864 million tons. A severe drought has reduced yield prospects in South America, especially in Argentina, but Brazil remains on track to produce a record crop. Improved supplies in some countries are boosting consumption, with overall use forecast at a record high. Feed use of maize is expected to increase at a faster than average pace but, with US ethanol production likely to decline slightly, the rise in industrial demand will be below trend. With demand outpacing the increase in supplies, ending stocks are forecast to tighten further, including in the US. Amid solid buying by a number of importers, world trade is forecast to rise to a four-year high (International Grain Council Report).

The import parity price of maize (Durban) at Addis Ababa stood at US$ 622/mt, at US$ 479/mt for wheat (Europe) and for sorghum (Argentina). Compared to January 2012, the import parity prices at Addis Ababa remained stable at elevated level for maize, wheat and sorghum with slight change of less than 5%. The local price of maize and wheat at Addis Ababa stood respectively 46% and 6% below the import parity whilst sorghum price is the same to import parity prices. With the expected further increases in local prices, the differences between import parity and local prices will converge particularly for maize.

Cereal Wholesale Prices in Large Urban Markets

With two months after the end of main harvest season, the wholesale prices of cereals (maize, wheat and sorghum) have seen an increase in February 2012 that ranges from 4% to 13% within one month time. Compared to last year the same month and long term average, the change varies from 40% to 83%. Though last Meher harvest was good, the supply to markets doesn’t brought the price down as expected for the season. The last agricultural season, farmers bought agricultural inputs on cash and no external pressure pushes them to rush for sale at the prevailing prices. The price of agricultural inputs (fertilizer) showed increases and as a response, farmers kept stock until the planting season approaches. There is wide suspicion that farmers kept their stock in looking better prices in the future and this situation is exacerbated by the forecast of La Niña effects in the upcoming Belg season. Furthermore, with the information of upcoming Belg season, traders are also expected to hoard their stock and it is less likely that prices in the coming months will decrease. All of monitored markets showed increases in their prices irrespective of proximity to main production areas. Traders in monitored market explain that prices of cereals are
increasing from the supplying markets not because of increased profit margin. The distribution of Government subsidized wheat at about 20% less of current market wheat price in urban centers will benefit the urban poor and very poor to meet their minimum requirements. In February 2012, the average wholesale prices of maize, wheat and sorghum stood at Birr 4.83/kg, Birr 7.03/kg and Birr 7.07/kg respectively (see Figure 2 and Figure 3).

Cereal Retail Prices in District Markets

Despite the availability of cereals from the new harvest in monitored markets, the prices across the board rose in February 2012. The current price levels stood far high as compared to the same month of last year and long term average. Though the prices are behaving an increases trend, variation in the level depends but not limited to markets proximity to major production areas, modality of on-going project/programme interventions, Government subsidized wheat distribution, farmers and traders behavior.

Given variation across markets, the average price of maize in monitored markets increased by; 16% in Oromiya and Amhara, 10% in Tigray and Somali; and 3% in Gambella and SNNPR. Similarly, wheat prices rose by; 21% in Somali, 16% in Amhara, 9% in Tigray and 4% in Oromiya. The highest percent change of maize price in February 2012 was observed at Yabelo, Abi Adi and Bedessa markets. However, the highest price of the month was recorded at Gode, Jijiga, Deder and Abi Adi (see Figure 4 and Figure 5). In the coming months, the upward price trend is becoming apparent with the below average Belg weather outlook.

Supply to Markets

The supply of cereals to the markets is good but not what is expected for the season and the on-going distribution of subsidized wheat to urban dwellers also contributes to the markets availability. Despite the normal supply, the high prices of cereals in the markets are unseasonal. Furthermore, the release of weather outlook for the upcoming Belg season has impacted for the unseasonal prices.

Terms of Trade (TOT)

TOT for shooat to cereal: The average price of shooat at Gode and Dire Dawa remained the same to last month level but at Jijiga rose by 9%. Despite increased price of shooat,
shoat_wheat and shoat_maize terms of trade deteriorated at Jijiga due to higher proportion of cereals price increases compared to shoat. Shoat_sorghum terms of trade at Gode improved following reduced price of sorghum. No change has been observed in terms of trade at Dire Dawa market. Compared to long term average and last year the same month, the terms of trade stood higher at Dire Dawa and Gode but not at Jijiga. The terms of trade between shoat to maize stood at 154kg/shoat, at 140/shoat and at 92kg/shoat respectively at Dire Dawa, Jijiga and Gode (see Figure 6).

**TOT for wage labour to cereal:** Compared to January, the monthly average wage rate (skilled and unskilled) remained stable in monitored markets of Somali and Tigray whilst declined in Amhara by 11%. With the increases in cereals price, the terms of trade of wage_maize, wage_wheat and wage_sorghum have deteriorated in monitored markets. The unskilled laborer wage is far from the average daily wage and these groups are the most hit by the deteriorated terms of trade. Compared to previous month, wage_maize terms of trade decreased by 11% at Somali, 15% at Tigray and 25% at Amhara. The average wage_maize terms of trade stood at 6.9kg/day at Somali, 7.10kg/day in Amhara and 9.76kg/wage at Tigray (see Figure 7).

**Figure 6: Trends of TOT (100kgs of maize/shoat)**

[Graph showing trends of TOT (100kgs of maize/shoat) from January to February 2011 and 2012.]

Source: WFP

**Figure 7: Trends of TOT (kg of maize/daily wage)**

[Graph showing trends of TOT (kg of maize/daily wage) from January to February 2011 and 2012.]

Source: WFP