Highlights

• Based on 12 months moving average in April 2012, the country level general inflation stood at 12.6% and food inflation at 11.72%.

• Between January and May 2012, the average wholesale price of 50kg of wheat flour has generally been around 5,000YR while that of wheat stayed at the level of 4,000YR.

• Retail prices for wheat during May 2012 were lowest in Aden (YR110/kg) and highest in Amran (YR165/kg). The retail prices for wheat flour were lowest in Aden and Sa’ada (YR 130/kg) and highest in Amran (YR 170/kg) during the reporting month.

• The supply of staple food commodities in most monitored markets has continued to be normal in May 2012. Only in southern and northern Governorates with recently deteriorated security situation had lower supply than normal.

• Improvements on the TOT was recorded at Sa’ada and Sana’a markets with 8.3% and 3.4% increases, respectively, in May compared to that of April 2012, due mainly to better wage rates in Sa’ada and lower prices of wheat in Sana’a during the comparison period.

• The terms of trade for livestock producers have improved between April and May 2012 in Sana’a by about 15% and in Sa’ada by 11.7% due to higher prices of sheep.

• Global food prices dropped sharply in May due to generally favourable supplies, growing global economic uncertainties and a strengthening of the US dollar.

• The FAO Food Price Index, measuring the monthly change in international prices of a basket of food commodities, fell by 4% in May 2012. It averaged 204 points and was 9 points down from April. This was the lowest level since September 2011 and about 14% below its peak in February 2011.

• The international downturn of prices for the most essential commodities is expected to create favourable conditions on the supply as well as affordability of the staple food items at local markets of Yemen.

A. Consumer Price Index (CPI)

In April 2012, the country level general inflation was 12.6% and food inflation stood at 11.72%, based on 12 months moving average. The general consumer price index during the month was recorded to be 147 while the food CPI was 140.09 and that of cereals stood at 120.94, all increased by 12.6%, 11.7% and 4.3%, respectively, compared to the levels in April 2011.

Most of the components of the of the food index have shown an increase compared with April 2011. The lowest increase was seen on sugar (1.36%) followed by bread and cereals (4.32%), oil (8.88%), and fruit (12.68%). The highest increases of the food index were on vegetables (19.6%) followed by dairy products (18.67%), meat (15.26%), spices and other food products (14.11%) and fish (12.96%).

Compared to March 2012, however, the CPI has generally remained unchanged or a slight decline was observed for all components of the CPI (Figure 1).
B. Wholesale Prices of Wheat and Wheat Flour

The wholesale prices of wheat and wheat flour have consistently stayed stable since January 2012. Between January and May 2012, the average wholesale price of 50kg of wheat flour has generally been around 5,000YR while that of wheat stayed at the level of 4,000YR (Figure 2 and 3). However, a slight increase (4.1%) on prices of the wheat flour has been observed in May compared to that in April 2012, according to the wholesale prices that are collected from the main urban trading centres that serve as distribution hubs for the various districts and governorates located at their proximity.

While the wholesale prices of other food commodities has generally continued unchanged during May 2012, minor increment in prices of rice and sugar has been noticed – higher by 1.6% and 1.14%, respectively, compared to April.

C. Retail Prices of Wheat and Wheat Flour

Since February 2012, the average nominal retail prices of wheat and wheat flour across the monitored markets have generally been stabilizing at around 130YR/kg and 140YR/kg, respectively (Figure 4 and 5).

Retail prices for wheat during May 2012 were lowest in Aden (YR110/kg) and highest in Amran (YR165/kg). The retail prices for wheat flour were lowest in Aden and Sa'ada (YR 130/kg) and highest in Amran (YR 170/kg) during the reporting month. The price variations between different markets depend mainly on variations in quality, their relative distance from port and on transportation costs.

D. Supply to Markets

Except in few areas in the southern and northern parts of the country where the security situation has deteriorated in recent weeks, the general supply of staple food commodities within most of the monitored markets was normal during May 2012. As a result of smooth operation of public transport due to better availability and relatively cheaper prices of fuel compared to last quarter of 2011 and first quarter of 2012,
many traders in main markets have further enhanced their stocks of food commodities during the month under review.

E. Terms of Trade (TOT) ¹

The terms of trade (TOT) are proxy indicators of the purchasing power of households relying on livestock and/or casual labour as main income to purchase cereals from the market. Terms of trade are important components of food security analysis, more importantly for countries like Yemen where over 90% of the food is imported and the majority of the population is market dependent. Hence, analyzing terms of trade across different markets between wage labour and commodities is indicative of the trends in purchasing power of cash wages and of income from livestock sales as well as impact on food security.

TOT for wage labour to wheat flour

During the month under reporting, the nominal average daily wage rates in the monitored markets have followed similar pattern like recorded in April 2012. The wage rates have ranged between 2000YR (in Aden, Amran and Hodieda markets) and 2400YR observed in Hajja market.

In May 2012, the average terms of trade between cash wage and wheat flour stood at 14.8kg/day. Although there was a general decline of the TOT during this month compared to April 2012 (by an average of 2.8% down), mixed pattern has been noted from the different markets. Improvements on the TOT was recorded at Sa’ada and Sana’a markets with 8.3% and 3.4% increases, respectively, in May compared to that of April 2012, due mainly to better wage rates in Sa’ada and lower prices of wheat in Sana’a during the comparison period. Amran and Aden markets, on the other hand, have seen deterioration of the TOT by 11.8% and 7.6%, respectively, because of higher wheat prices (Figure 6).

TOT for sheep to wheat flour

The average price of a two-year old male sheep was found to vary from a minimum of 27,000YR in Hodieda to as high as 44,700 in Sa’ada market in May 2012. Compared to April 2012, prices of sheep have declined in Hodieda (by 19%) and Aden (by 8.6%), while price increases were seen in Sana’a and Sa’ada by 11.1% and 11.7%, respectively. Sheep prices remained unchanged in Hajja and Amran markets.

The terms of trade for livestock producers have improved between April and May 2012 in Sana’a by about 15% and in Sa’ada by 11.7% due to higher prices of sheep. On the other hand, during the same period, deterioration of the TOT has been observed in Hodieda (-24.8%), Aden (-15.4) and Amran (-11.8%). The highest TOT of the month was recorded at Sa’ada market and the lowest was observed at Hodieda market (Figure 7).

¹ The terms of trade (TOT) is a measure of the relative value of one commodity to another (or the inverse of their relative prices) and thus a measure of the exchange value of the good or service to be traded. Wage to cereal terms of trade is a standard indicator for purchasing power. The livestock to cereal ratio gives an indication of the purchasing power of households selling livestock and purchasing staple foods. Purchasing power is a measurement of the relative value of money in terms of the quality and quantity of goods and services it can buy. It represents the ability of a household to acquire goods and services based on its access to money or other forms of wealth.
F. Global Food Prices

Global food prices dropped sharply in May due to generally favourable supplies, growing global economic uncertainties and a strengthening of the US dollar, according to information released by the Food and Agriculture Organisation (FAO). The FAO Food Price Index, measuring the monthly change in international prices of a basket of food commodities, fell by 4% in May 2012. It averaged 204 points and was 9 points down from April. This was the lowest level since September 2011 and about 14% below its peak in February 2011.

FAO at the same time raised the forecast for world cereal production by 48.5 million tonnes since May. Its latest forecast for world cereal production in 2012 stands at a record level of 2419 million tonnes, 3.2% up from the 2011 record. The bulk of the increase is expected to originate mainly from maize in the US amid an early start of the planting season and prevailing favourable growing conditions. As a result, the global coarse grain production is forecast at 1248 million tonnes, a huge 85 million tonnes increase from the previous year.

The forecast of global wheat points to a contraction of about 3% in production in 2012, to 680 million tonnes. For rice, latest indications point to a 2.2% increase from 2011, to some 490 million tonnes. The global cereal utilisation is also forecasted to expand by at least 2% in 2012/13, to 2376 million tonnes. Crop prices have come down sharply from their peak level but they remain still high and vulnerable due to risks related to weather conditions in the critical growing months ahead.

The Cereal Price Index averaged 221 points in May, down 1% from April. Wheat prices fell most following improved weather conditions and influenced by maize prices, which plunged following the release of the USDA report projecting a record maize crop in the United States. By contrast, international rice prices rose slightly, mainly on increased purchases ahead of the Ramadan period.

All these indications on the international downturn of prices for the most essential commodities is expected to create favourable conditions on the supply as well as affordability of the staple food items at local markets of Yemen. As the rate of transmission of international market prices into Yemen’s domestic prices is very high, any changes – positive or negative – will have similar impact on the food security situation of the population in the country (as the country is over 90% dependent on imports). The effects of high global food prices in the past few months have still been felt by local markets to the extent that they have not adjusted so quickly with the declining international food market price trends in May 2012, due to the time lag between the global and domestic level market movements.
## YEMEN MONTHLY MARKET WATCH

### MAY 2012

For further inquiries contact Ahmadshah.Shahi@wfp.org

### Important Remark:
The market price data contained in the report should be interpreted with caution as they do not capture the impacts of long term trends in food prices. This approach does not measure or indicate the severity of the likely impact that changes may have on different households due to different income and food basket variations by wealth, by livelihood groups and households’ capacities to cope with changes.