Inflation and Consumer Price Index

The cost of living measured by the general inflation rate and food inflation has increased by 20% compared a year ago as reported by Central Statistics Agency. The cereal inflation, major driving force of food inflation has increased by 25% compared to last year the same month. The average monthly cereal inflation rate increases was 2.12% for the last one year whilst overall, food and non-food increase was almost by about 1.70%. The year-to-year food inflation components increased by; 56.5% for meat, 49.2% for vegetables and fruits, 44.2% for potatoes, other tubers and stems, 30.4% for milk, cheese and egg, 25% for cereal, 21.5% for bread and other prepared food.

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Compared to July 2012, the import parity price at Addis Ababa increased by; 11% for maize (Durban), 7% for wheat (Black Sea) and 5% for sorghum (Argentina). The prices increase was mainly factored to drought in the United States and bad weather in Russia.

The current wholesale price level of cereals stood below a year ago, but invariably higher than long term average by about more than a third. With four months ahead to the new harvest, the existing prices of cereal may increase or continue to remain at elevated level.

Considering increases in price of shooat, terms of trade at Jijiga market improved while remained the same at Gode and Dire Dawa markets.

Major Cereal Import Parity and Local Prices

The import parity price (IPP) of cereals (maize, wheat and sorghum) in the reference international markets showed increases over the last two months. The increase of these prices was mainly factored to drought in the United States and bad weather in Russia, one of the main wheat exporters. Compared to July 2012, the import parity price at Addis Ababa increased by; 11% of maize (Durban), 7% for wheat (Black Sea) and 5% for sorghum (Argentina). The IPP stood at US$ 636/mt for maize, at US$ 514/mt for wheat (Black Sea) and at US$ 469/mt for sorghum (Argentina). The continual rise of prices in the international market has budgetary implication for Ethiopia where
Government is procuring wheat grain for distribution at subsidized price to stabilize grain market. The Ethiopian Government purchases wheat grain from the international markets and distribute at subsidized price to households and flour factories to keep white bread prices affordable to the poor and very poor households. The increase in import price may impact the level of subsidy and hence the purchasing power of the urban households who are largely benefiting from the markets stabilization programme.

Cereal Wholesale Prices in Large Urban Markets

In most of monitored markets, the nominal wholesale price of maize, wheat and sorghum showed mixed trend with changes of not exceeding 5% compared to July 2012. In meher season dependent areas, the prices were rising continually in the last two to three months. Teff, widely consumed cereal dominantly by the medium and higher income groups, has kept on rising immediately after the harvest season. The demand for teff and other food commodities (vegetables, fruits, animal and animal products etc) has shown increases following EID festivity and in preparation of Ethiopian New Year and hence higher prices. The current price level stood below a year ago, but invariably higher than long term average by about more than a third. With four months ahead to the new harvest, the existing prices of cereal may increase or continue to remain at elevated level. The wholesale nominal prices of cereals stood in ranges of; ETB 5.00 – 6.10/kg for maize, ETB 6.30 – 9.00/kg for wheat and ETB 10 – 15/kg for teff. The price trends of selected markets are depicted on below figure 1 and figure 2.

Cereal Retail Prices in District Markets

The nominal retail prices of staple cereals in monitored markets stood at peak level for the season and almost remained the same level of July. However, at Jijiga markets the prices of maize, wheat and sorghum have shown high increment (see Figure 3). The availability of green harvest and roots and tubers coupled with pocket areas Belg harvest in the highland and mid land parts of the country
may have contributed to the stability of prices at the elevated level. Furthermore, in areas where humanitarian food distribution is ongoing prices stability were observed due to reduced demand on markets.

**Supply to Markets**

The markets are supplied for major cereals from traders stock and from Ethiopian Grain Trade Enterprise that imported wheat grain for markets stabilization programme. The supply of cereals from producer shrinks as moved far from the main harvesting season of the year. Furthermore, the distribution of food commodities through humanitarian agencies keeps the additional demand that would have come from targeted beneficiaries on markets. The availability of green harvest coupled with roots and tubers crop for consumption in parts of the country have significant contribution to the improvements of markets supply. In most cases, poor and very poor households at this time of the year largely depend on consumption of roots and tubers (particularly potatoes). In areas where green maize and root are ready for consumption, supply to markets was found in a better position.

**Terms of Trade (TOT)**

**TOT for shoat to cereal:** As a result of *EID* holyday the demand for livestock has increased and price of shoat at Jijiga market has shown increment of 19%. This increase in shoat price at Jijiga was not fully translated to improved terms of trade as prices of cereals also increased almost at high level (see Figure 4). In other monitored markets of Gode and Dire Dawa shoat prices remained the same to the previous month and hence no terms of trade improvements.

**TOT for wage labour to cereal:** The daily average wage in Amhara region showed increases of 12% while no change in Somali region monitored markets. The average unskilled daily wage in monitored markets of Amhara stood at ETB 32/day and skilled at ETB 80/day. Considering the stability of price at previous month level, the terms of trade between average daily wage and wheat showed improvements (see Figure 5).
Figure 4: Trends of TOT (100kgs of maize/shoat)

Source: WFP

Figure 5: Trends of TOT (kg of maize/daily wage)

Source: WFP