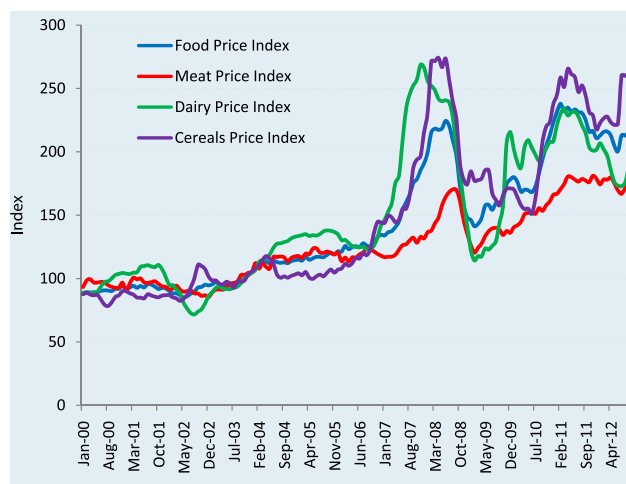


Swaibu Mbowe, Joseph Maweje and Ibrahim Kasirye

Global developments

The global food price crisis has worsened the food security situation for many developing countries especially those that are net food importers. In September 2012, the United Nations Food and Agriculture Organization (FAO) raised fears of a repeat of the 2007-2008 world food price crisis (as illustrated in Figure 1) that was characterized by sharp increases in the prices for cereals. High food prices are once again threatening to push millions of people into hunger around the world. The high costs of food imports exacerbated by the surging food prices, have put enormous strains on most developing countries, and have led to social unrest and political tensions.

Figure 1: World Food Prices Indices (2002-2004=100)



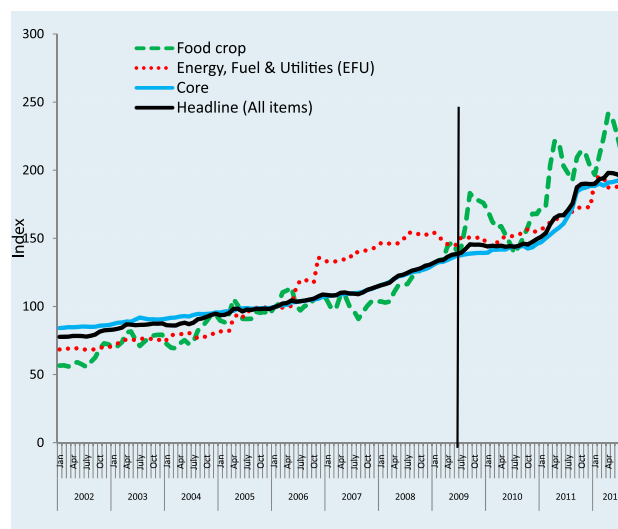
Source: Food and Agriculture Organization of the United Nations, 2012

National developments

Food prices have continued to rise since the global financial crisis in 2008. In Uganda, the first spell of food inflation occurred in June 2009 (Figure 2), the situation eased off in 2010. Subsequently, the country experienced high food prices since the beginning of 2011, with prices of some commodities like sugar, fish and milk rising by over 200 percent.

In 2011, the annual headline inflation rate shot up from 5.0 percent in January to 30.5 percent in October with food crops inflation (having risen from 1.5 percent to 35.3 percent in the same time period) being the main driver as illustrated in Figure 2. The cyclical movements in the general food price levels in Uganda tend to follow the production and food supply cycles into the markets. Therefore, it is worth noting that seasonality in the cropping calendar affects the supply of food commodities in the markets in Uganda which sizably affect the general food price levels in the country¹¹.

Figure 2: Uganda Food and Non-food price indices (2005/6=100)



Source: Bank of Uganda Statistics

Causes of rising food prices

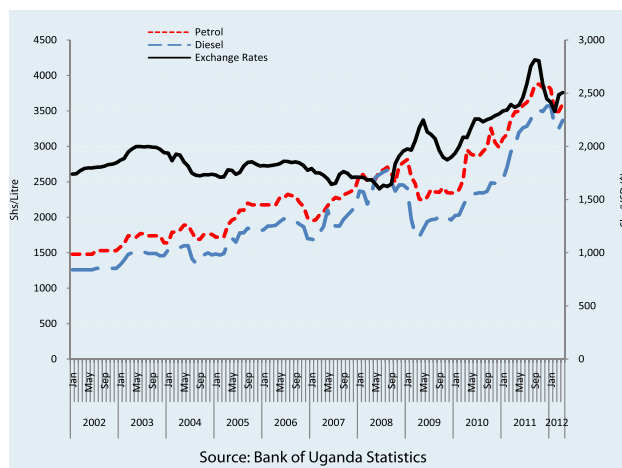
Worldwide, the causes of soaring food prices are due to a combination of factors, including droughts in key grain-producing regions, low stocks for cereals and oilseeds, increased feedstock use in the production of biofuels, rapidly rising oil prices and a continuing devaluation of the US dollar², the currency in which indicator prices for these commodities are typically quoted³⁴. Food prices have been rising on account

1 The bumper harvests in major cereals (maize, and rice) brought about the reduction in food prices in 2010 country.

of the expanding populations and under funding to agriculture (FAO, 2011). Bad government policy responses, particularly export restrictions that are widely viewed as temporary and generally inefficient in alleviating the food security situation were a major factor behind the food price surge and increased volatility in the world market⁵.

In Uganda, the causes of high food prices are complex and intertwined. The rise in food inflation has been linked to increases in prices of foodstuff due to low supplies to markets due to extreme changes in the weather pattern that has led to long dry spells in some regions of the country and floods in other regions⁶. Seasonality in the cropping calendar affects the supply of food commodities in the markets. Good crop harvests in major cereals (Maize, and rice) in 2010 brought down the high food prices faced in 2009. The high food prices in Uganda are also linked to the price transmission effects of rising food and fuel prices in the international markets. High fuel prices affect production and transportations cost of food items, and the onset of high food inflation in June 2009 coincides with the period when the shilling was weak against the US dollar, and fuel prices were on the increase (Figure 3).

Figure 3: General Trend of Fuel pump prices and the exchange rate (Jan 2002 – April 2012)



Source: Bank of Uganda Statistics

Price of major food commodities in Uganda

Table 1 shows monthly price variations of selected food commodities across selected retail food markets during the period January 2002- April 2012. Food prices vary across the food market partly

Table 1: Uganda: Nominal monthly retail food prices (Ushs/kg) in selected markets, January 2002 – April 2012

Food Commodity	Statistic	Commodity Markets						
		Owino	Mbarara	Kabale	Masindi	Arua	Soroti	Lira
Maize:								
	Minimum	300	149	151	85	120	141	70
	Maximum	1,600	1,500	1,450	1,299	1,462	1,450	1,701
	Average	602	586	517	415	527	467	453
	Standard deviation	245	271	267	245	252	254	254
Beans:								
	Minimum	500	320	350	400	391	450	400
	Maximum	2,500	2,524	2,401	2,651	2,651	2,651	2,527
	Average	1,081	1,024	990	1,048	1,037	1,088	1,025
	Standard deviation	468	533	494	494	562	492	480
Matoke:								
	Minimum	170	26	83	75	53	93	71
	Maximum	971	352	653	516	681	440	520
	Average	441	156	248	212	290	267	249
	Standard deviation	171	73	89	103	152	91	137
Cassava								
	Minimum	227	54	61	55	40	34	42
	Maximum	968	751	723	360	760	330	404
	Average	440	166	192	149	248	137	166
	Standard deviation	127	127	89	64	149	78	99
Fresh Milk:								
	Minimum price (litre)	486	250	214	400	349	467	476
	Maximum price (litre)	1,406	1,051	1,151	1,276	1,350	1,250	1,250
	Average price (litre)	850	573	496	692	688	720	740
	Standard deviation (litre)	198	226	250	188	245	175	231

Source: Author's computations based on the Farmgain/Foodnet dataset, 2002 – 2012.

reflecting the extent of food deficit/surplus of a given market. Food prices on average are lower in districts (regions) that are high producers of food commodities. For example, Masindi and Kabale, both high producers of maize and beans (Figure 4) recorded the lowest average prices respectively in period the country faced surging food prices. Over the 124 months period (from January 2002 to April 2012), food commodities peaked in all markets, with maximum prices recorded in each market way above the minimum prices.

Changes in nominal and real food prices

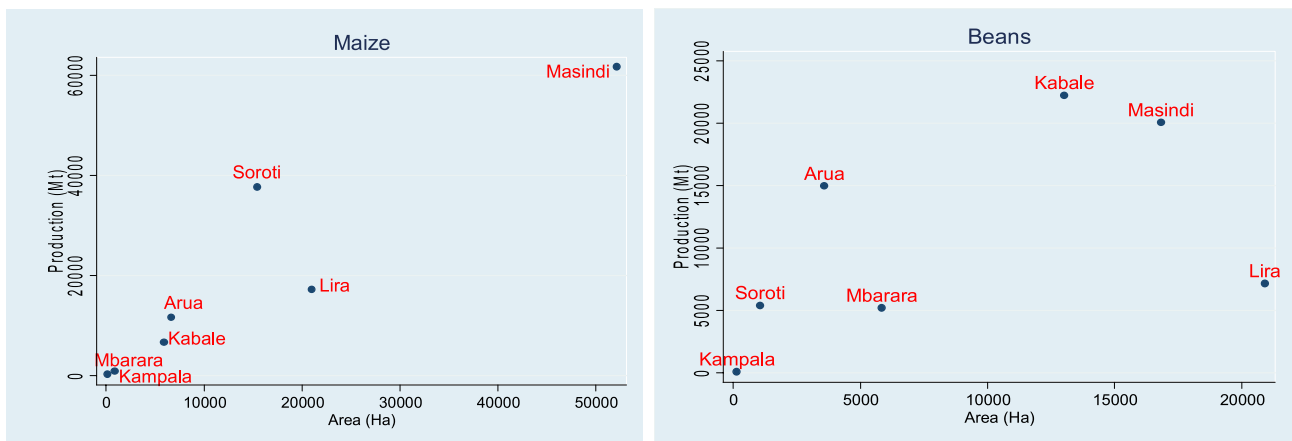
The prices of food crop commodities are volatile following an upward trend. The cyclical movements in prices (nominal and real) of crop commodities are reminiscent of the production and supply cycles to the markets. The surge in food commodity prices witnessed after 2008 that subsequently peaked in 2011 are certainly unusual when viewed from the

perspective of the entire period (between January 2002 and April 2012). The nominal price levels in the period starting from 2008 for all commodities greatly exceeded the monthly price levels recorded before 2008 (Figure 5).

Interregional market food price relationships

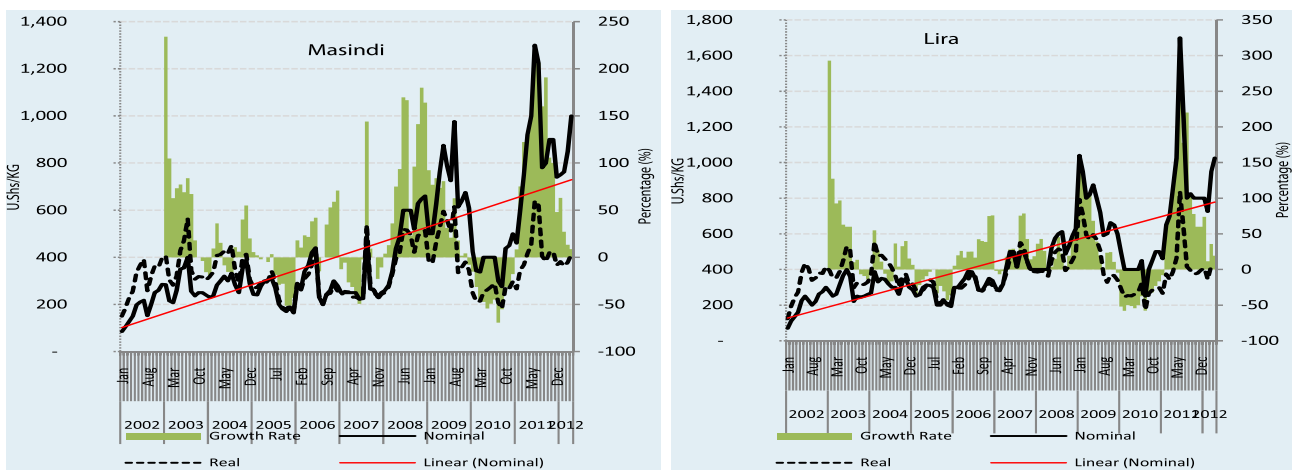
The price of maize in Masindi and Owino market are closely related (R^2 of 0.823)- implying that the low price causes surplus maize to flow from Masindi to Owino market in Kampala capital city. The uninhibited flow of maize from Masindi district is critical in ensuring food security in Kampala central, whereas the market for raw milk is weakly integrated (R^2 of 0.269). This demonstrates the presence of barriers (such as long distance, lack of appropriate technology and infrastructure) inhibiting the flow of raw milk from Mbarara district to Kampala.

Figure 4: Selected Districts that are High and Low Producers of Maize and Beans in Uganda



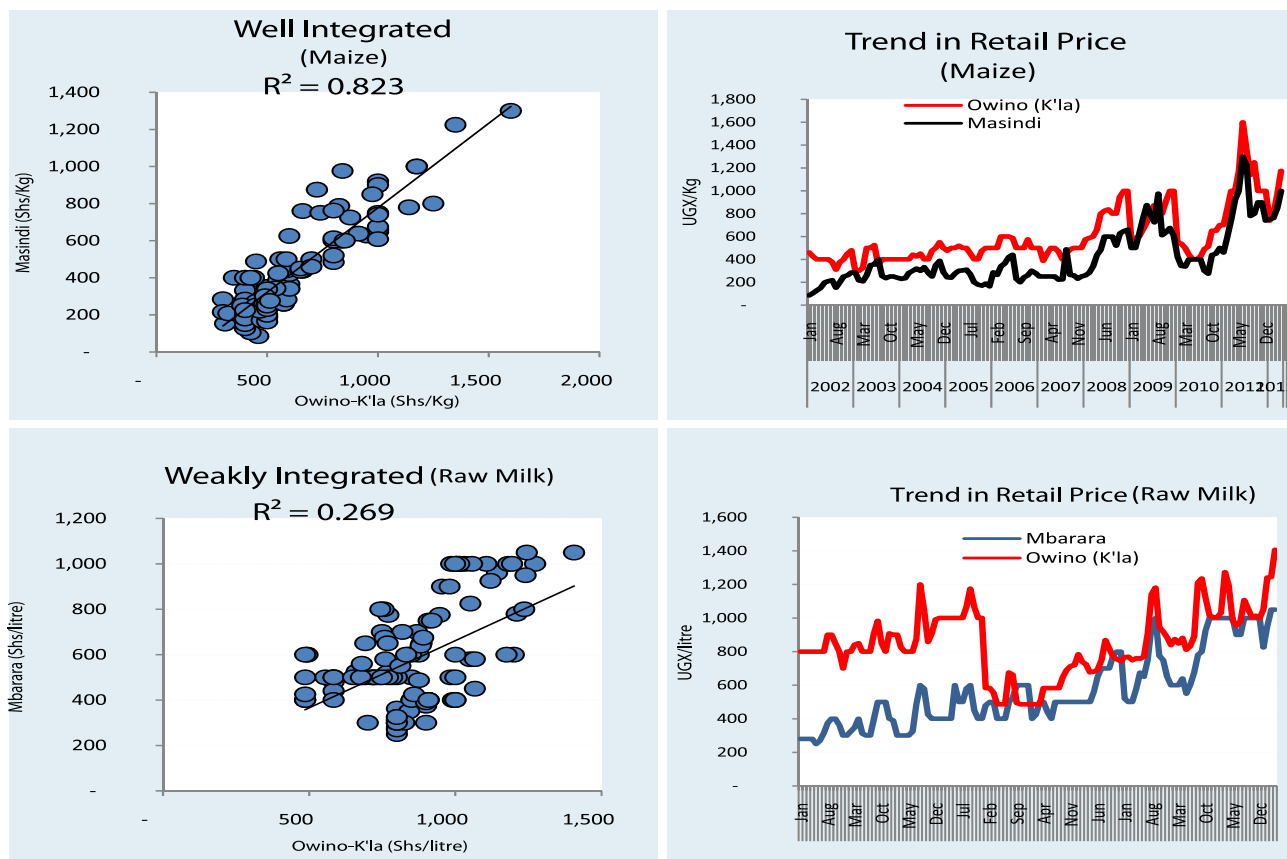
Source: 2008/09 Uganda Census of Agriculture (UCA) data set

Figure 5: Monthly maize real and nominal prices for Masindi and Lira Markets



Source: Author's computations based on the Farmgain/Foodnet dataset, 2002 – 2012.

Figure 6: Weak and Strong Food commodity price linkages between markets of maize and Milk



Source: Author's computations based on the Farmgain/Foodnet dataset, 2002 – 2012.

Conclusions

In Uganda, the pattern in food price evolution has changed since 2008, with extreme fluctuations carrying over throughout 2009, before falling sharply in 2010 and thereafter – reaching exceptional high levels around middle of 2011. The food commodity surge generated an increase in the food consumer prices, which raises serious food security concerns in Uganda and the entire East African region. The causes of the volatile food prices range from extreme weather conditions that bring about shortages of food supplies in markets – to international food and fuel price changes transmitted to the local markets through the exchange rate.

The Ugandan case has shown that high food production districts (regions) tend to have lower and relatively more stable prices as compared to the low producers. In addition, markets for storable food crops such as maize tend to be more integrated than those for perishable products such as milk- that are inhibited by barriers such as the bulky nature of agricultural products, long distances between markets and a lack of supportive transportation infrastructure. These findings imply that at the East African regional level, barriers to free movement of food commodities such as import restrictions, trade bans and poor intra-regional infrastructure could hinder the flow of food commodities between surplus and deficit countries. This grossly disrupts the efficient mechanism for offsetting food insecurity in the region.

Endnotes

- 1 Farmgain Africa Weekly Market Bulletins 2007-2012.
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