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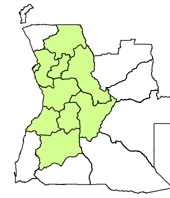
ANGOLA: Price and Market Situation Report

December 2004

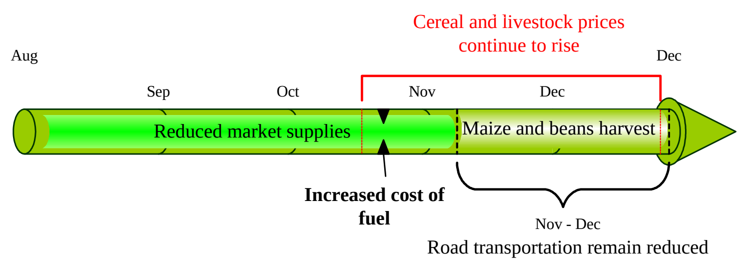


Increased cost of fuel will affect food prices in the coming months. However, the volume of trade to Luanda remains high.

There is little doubt that trade activity has been playing a fundamental role in ensuring adequate food supply (cereals in particular) in the period following the main harvest (May 2004). Prices have been fairly stable when compared with the last four years and have helped to decelerate inflation. Previous reports indicated that this positive trend would prevail at least until November 2004, confirming the optimistic views expressed by most traders and market vendors in the main urban and rural markets. However, while both qualitative and quantitative data indicated normal price behavior during the lean season, a new macroeconomic policy development – the removal of fuel subsidies - suggests that the seasonal price projections need to be revised. On November 18, the Government removed fuel subsidies for the second time in a period of seven months. While this may be a rational economic policy reform, the timing and magnitude of the reform will certainly affect trade and market activity and subsequently food security. Therefore, increased fuel costs are likely to drive up the nominal price of food beyond normal levels.

Trade Flow and Food Prices

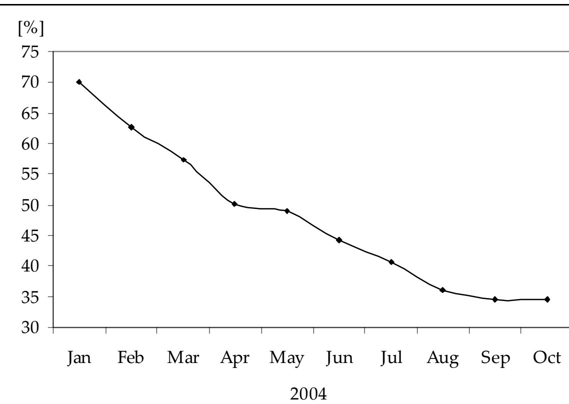
Prices and Trade Timeline



Economic analysts suspect that the increase in the cost of fuel (70 percent for gasoline and 108 percent for diesel) will lead to a general rise in prices of all consumer goods within a few weeks. This will hamper economic efforts to decelerate inflation rates, which have reached the lowest marks in 10 years (see Figure 1). However, it is too early to affirm with certainty that the increase in food prices observed during the last week of November was due to higher fuel costs or whether the increase was following normal seasonal price behavior. Typically, food prices tend to rise period between October and February. Until October, all indications were that the market was following a fairly normal seasonal price pattern.

Market vendors fear that informal food traders, who move the bulk of staple foods in the country, would raise the unit cost of transportation in equal proportions to the current cost of fuel, in which case food prices will double in the coming weeks. In an attempt to verify this assumption, FEWS NET interviewed 50 informal food traders along the main food supply route to Luanda (Luanda-Kuanza Sul) in late November. The results reveal that the average unit cost of transportation increased by 36.3 percent in from November 19 - 28. It is worth noting the time lag between the dates the policy changed and the trader's response was only 10 days. Nearly 65 percent of the interviewed transporters reported that there is potential for further increases in the cost of transport during the month of December, a period historically associated with high food prices.

Figure 1. Inflation rates before fuel rise



Source: National Bank of Angola

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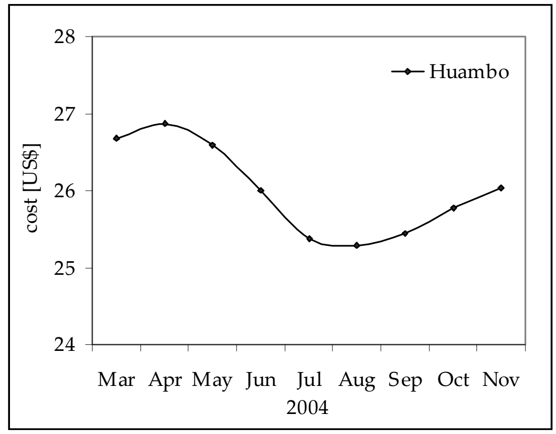
The average cost of food – measured by the cost of the least expensive food basket - has increased by 18 percent in Luanda and 15 percent in Huambo. In Luanda, the price of beans alone increased by about 25 percent (from US $1.3/kg in the last week of October to US $1.7/kg in the fourth week of November), whereas the price of cassava and maize flour increased by 18 percent in the same period. Figure 2 shows the cost of the food basket in Huambo, after seasonal adjustment. It is interesting to note from Figures 1 and 2 that food prices and the inflation rates declined after the main crop harvest in May. As mentioned above, the extent to which the higher cost of fuel is driving increases in the nominal price of food is not known, and it is very hard to determine in an informal setting. Nonetheless, households will face difficulty in the months ahead. This applies to both urban and rural households who acquire the bulk of their food in the market during the lean season.

Figure 2. Cost of the food basket in Huambo (moving average)



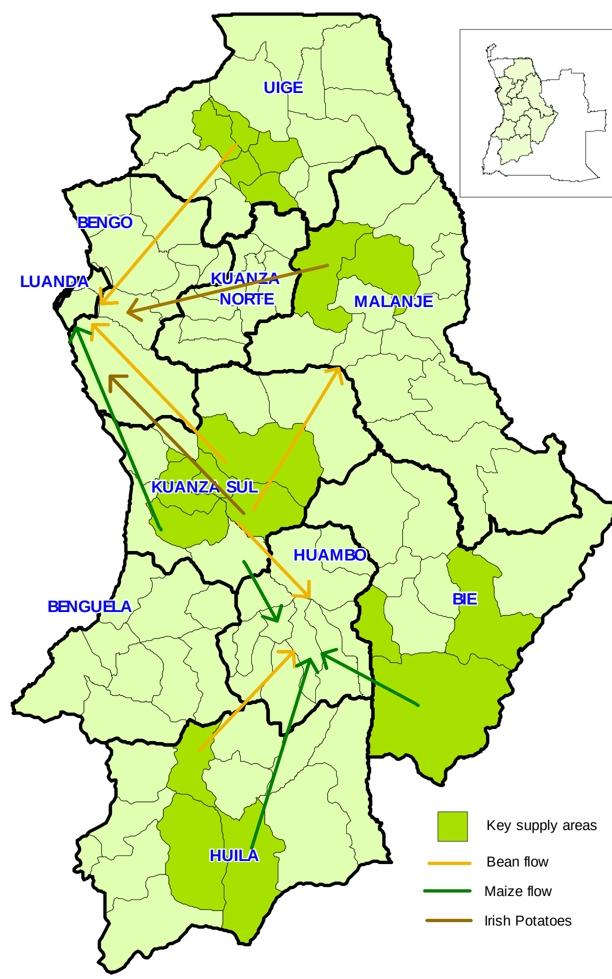
Source: WFP VAM

Regional Trade Flows

The increase in the cost of fuel appears not to have had a significant impact on trade flows. Qualitative market information from Huambo and Huila reveal that shifts in trade routes are not expected in the coming months. Food transporters interviewed along the Luanda-Kuanza Sul road reported that conditions for trade remain favorable. The number of heavy trucks bringing farm produce (mainly cassava, beans, and Irish potatoes) into Luanda is estimated at 20 per day – about the same number reported in September.

In Huila, the availability of beans and cereals is reportedly normal despite the slight decline in supply from September to October. Traders continue to supply both urban and rural markets within Huila and other provincial markets like Huambo and Benguela.

Figure 3. Regional trade flows



Unlike in previous months, the supply of produce from Bie to Huambo is no longer limited to maize and beans. Increases in supply of cassava flour were reported, which is somewhat surprising given historical dietary preferences. Huambo is traditionally a maize growing area and there are no historical records of cassava markets. Therefore, the increase in cassava supply at this period of the year could reflect a further decline in cereal stocks at farm level and a potential failure of the market to meet the current cereal demand. While there is increasing qualitative evidence suggesting growing consumption of cassava flour in Huambo, the current cassava price data does not provide a clear price pattern, an indication of effective demand, or that it is the primary substitute for maize for the near future. Nonetheless, the sale and consumption of cassava flour makes a good proxy indicator for food security in Huambo, hence the need to continue monitoring.