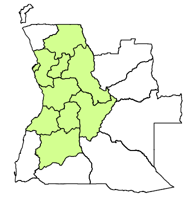
A USAID Funded Activity

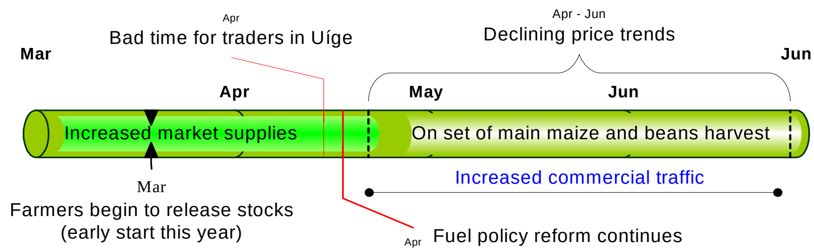
ANGOLA
Prices and Market Situation Report
March, 2005



Decline in maize prices reflects optimistic harvest prospects and a good marketing year ahead in Huambo

The overall food supply situation in the areas covered by this survey (Huambo and Luanda) continues to improve, particularly in Huambo province, despite below normal maize and bean production in the 2004/05 agricultural season. In Huambo, FEWS NET monitoring indicates that regional trade, particularly with Huíla, Kuana Sul, and Bié, continues to play a fundamental role in ensuring adequate food supply in major demand centers. Prices have been fairly stable for a province recovering from a bad year. Between January and March 2005, Huambo has seen an encouraging resurgence of small-scale farmers bringing and selling their produce in the markets, raising the hope of a good marketing year ahead and affordable prices for food insecure consumers. On a negative note, the northern province of Uíge has been facing an outbreak of Marburg hemorrhagic fever since October 2004, with an escalating death toll only in the last four weeks. Failure to contain the epidemic will have serious implications to food trade and threatens local livelihoods. Food prices in Uíge are beginning to rise, an unusual trend at this time of year, which parallels shrinking household incomes in the coming months. Finally, the government continues to implement its fuel policy reform but the impact on staple food prices has been minimal.

Prices and trade timeline

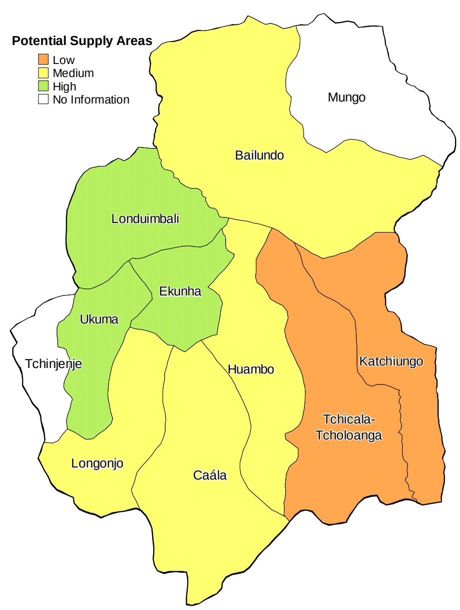


Trade Flow and Food Prices

Increased intra-provincial trade flow in Huambo

Market monitoring in Huambo reveals that small-scale farmers within Huambo supplied a large part of the maize grain sold in the province between January and March 2005. The re-emergence of direct farmer supply at this time of the year is a clear indication that farmers are recovering from 2003/04 crop losses. Additional observations outside the market areas show robust maize crops along the roads heading south, west and northeast, to areas that experienced below normal crop production in the previous year. This suggests good harvest prospects in May/June and an optimistic maize supply situation throughout the dry season. The sources of local maize and beans that reached markets in Huambo were the municipalities of Ukuma, Longonjo, Londuimbali, and Catchiungo. These municipalities are highlighted in the provincial map in Figure 1, which also shows the areas where the maize and bean trade is potentially high. This picture will change as the main harvest in May/June 2005 approaches.

Figure 1. Potential maize and beans supply areas in Huambo



Address :
101 Ave. 4 de Fevereiro, Marginal
Luanda, Angola
FEWS NET Angola
FEWS NET is funded by the US Agency for International Development
www.fews.net
Tel: +244(2) 330213
+244(2) 336813
Email: pfilipe@fews.net

Trade Flow and Food Prices *(continued)*

Maize and bean prices begun to decline well before harvest

By January 2005, market vendors where already expecting a decline in the price of maize grain, maize flour (see Figure 2) and beans. In fact, the supply of these commodities to the main markets in Huambo has been fairly stable despite the heavy rains that tended to slow down commercial traffic. The availability of maize grain and flour has steadily increased since January 2005 after a minor shortfall in December 2004. Traders reported that heavy rains in December and January prevented the normal flow of commercial traffic from Kuanza Sul, Bie, and Huila, resulting in delays in supplies and a subsequent price raise. However, a turnaround in price trends was observed during the second week of January when farmers from Ukuma, Londuimbali, and Longonjo started selling the *naca* crop. Given that farmers are expecting an exceptionally good harvest in May 2005, prices will continue to decline throughout the dry season.

Figure 2. Maize flour prices

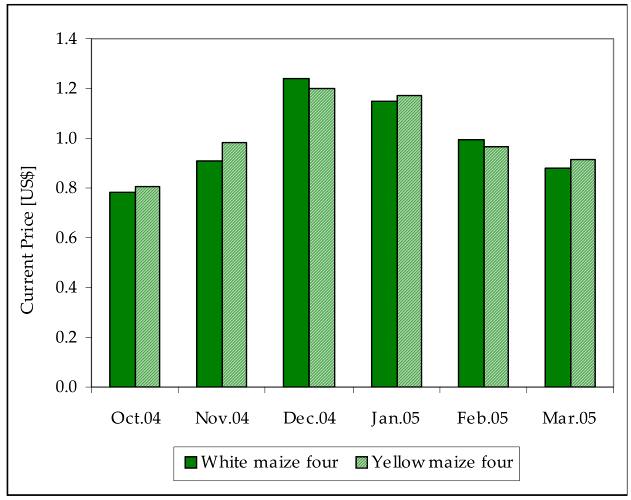
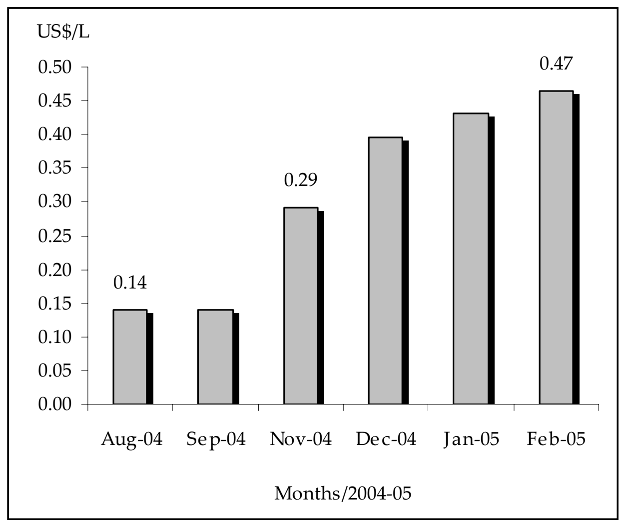


Figure 3. Fuel price trends



Source: Sonangol, Mach 2005

Road Transportation

Fuel costs continue to increase

The Government of Angola continues to implement its fuel consumption policy reform. The first price increase (which is in fact a cut on subsidies) was announced in May 2004. On November 18, 2004, the Government removed fuel subsidies for the second time in a period of seven months. The third fuel price increase of eight percent was announced in February 2005, and further increases are expected in the course of this year. Previous FEWS NET reports discussed the likely implications of drastic increases in the cost of fuel on food prices and food security. Fuel prices increased from US$0.14 per litter to US$0.47 in a period of six months. It should be noted that the increases in fuel prices are not only taking place too fast (as shown in Figure 3), but in a period that coincides with low food stocks at household level.

Analysts feared that increased fuel costs would lead to a general rise in consumer goods prices. However, more recent data shows that maize and cassava price behavior in Huambo and Luanda in both wholesale and retail markets is not consistent with fuel prices, suggesting weak direct effect.

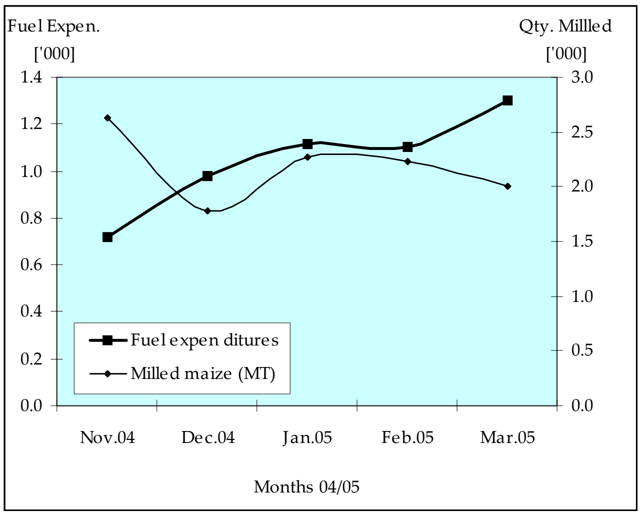
On the other hand, the prices of key imported foodstuffs such as sugar, rice and vegetable oil show an upward trend over the same period. The simple fact that imported goods have to be moved over long distances explains the likely fuel price effect.

In an attempt to further understand the impact of the fuel price increase on food prices during the month of February, FEWS NET monitored the performance of 10 small scale grain millers located within 500 meters to 1 km from the main food markets in Huambo. Millers that mill the bulk of the maize flour sold to the markets were selected.

The objective was to observe how grain millers would adjust to the changes in fuel prices, and whether such adjustment would result in increased retail maize flour prices. Figure 4 below shows changes in the average quantities of maize milled during a five-month period and the average fuel expenditures, whereas Figure 2 above shows behavior of maize flour prices over the same period.

Although the 10 millers represent only five percent of the millers in Huambo, the analysis helps to understand the implications of high fuel prices. The results indicate that millers experienced a 10 to 15 percent decline in profit margins in December 2004 and compensated by proportionally increasing milling costs. Expenditures on fuel increased by an average of 16 percent during the five month period whereas the amount of total maize milled declined by 32 percent from November to December 2004 and 10 percent from February to March 2005 – periods that correspond to official announcements of fuel price raise. One would logically expect a decline in the availability of local maize flour in the markets, but this has not been the case. Market vendors reported an increase in the availability of home-pounded maize flour in February and March 2005, which might have offset the impact of increased milling costs. On the other hand, maize flour from commercial imports and food aid sources has also been in adequate supply.

Figure 4. Fuel consumption and maize milling in Huambo



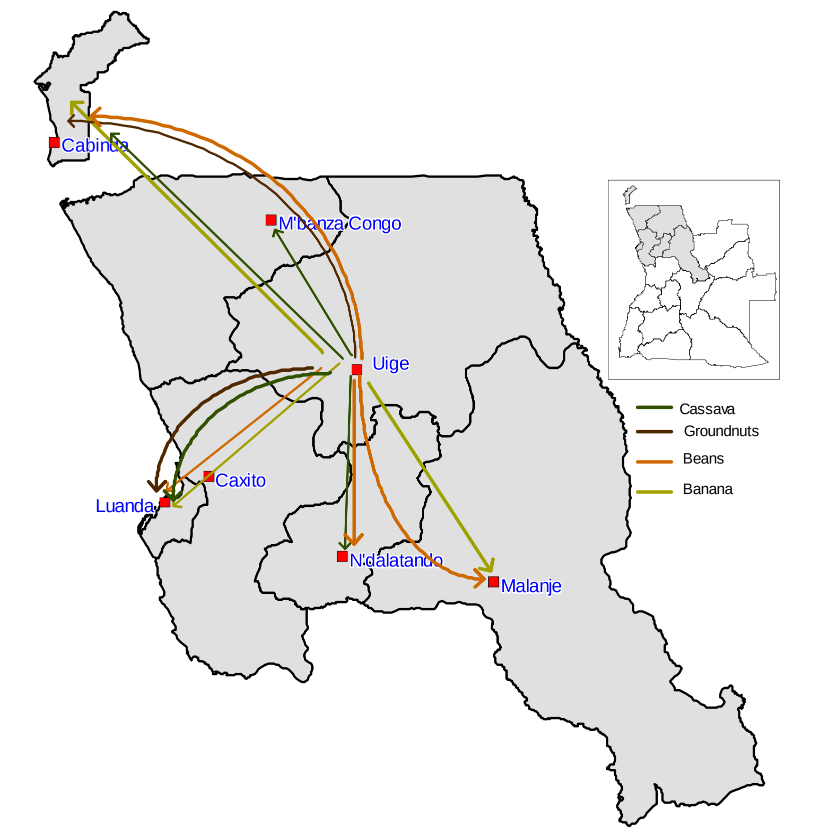
Unlike Huambo, interviews conducted in Luanda revealed that the new fuel price policy has had virtually no effect on milling costs. This lack of response to fuel price raises is due to the fact that all maize in Luanda is milled on electric powered engines; and although cassava is milled on fuel powered millers, there is a considerably high number of these millers around the markets and milling prices are set by consensus. These observations would lead to the conclusion that the impact of changes in fuel price policy on food prices is not universal and that similar assessments need to be conducted in other marketing systems.

According to government sources, adjustment in the cost of fuel will continue in the course of the year. While food policy reforms are necessary, its impact on national food security would be minimal if the implementation is properly timed. Results of the assessments in Huambo suggest that an increase in the cost of fuel in the order of 10 percent within the next five months will have only a limited impact on maize flour price. However, the period from October 2005 to January 2006 appears to be bad time to increase fuel prices for both farmers and traders.

Special Focus: Marburg virus epidemic threatens trade flows

The province of Uíge has been hit by Marburg hemorrhagic fever, which has already claimed the lives of more than 180 people. The Ministry of Health has imposed quarantine in Uíge province to contain the spread of the virus that was first recorded in October 2004. Should the authorities impose further restrictions on the movement of persons and goods in or out of Uíge, there will be serious implications on food trade and food security in the coming months for two reasons. First, Uíge farmers are among the key suppliers of cassava, beans, groundnuts and bananas to major markets in Luanda and other western provinces; and second, trade is a key component of the livelihood systems in Uíge.

Figure 5. Major trade routes from Uíge Province



While prices in Luanda have remained stable since the Marburg outbreak in February, all 20 traders interviewed between March 25 and 30 reported that inflows to Luanda, Kuanza Nort, and Cabinda would be drastically reduced should public fear of the spread of the virus continue. It has been reported that food traders in Malanje Province refused to buy beans and bananas from a truck that originated from Uíge. The movement of food within Uíge markets has also been reduced as cassava prices in the main market increased by 32 percent from February to March, a period normally associated with high availability and lower prices. Imported foodstuffs like vegetable oil and salt have increased by 23 and 25 percent, respectively, implying that traders from Luanda are not reaching Uíge province. Figure 5 shows the major trading routes from Uíge. A major food supply and access problem is imminent if the public health authorities fail to bring the epidemic under control and educate the public.