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Jamaica & Dep

Agricultural Situation

Surge in Domestic Food Prices

2007

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Report Highlights:

Jamaica's domestic food prices leapt above projections under the influence of adverse international commodity market conditions, supply disruptions in domestic and source markets, and sliding Jamaican currency. Price increases of major staples, fruits and vegetables and animal protein are expected to round out the year above 25%.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Kingston [JM1]
[JM]

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Flour and Bakery Products

Increasing international demand for grains and oilseeds, hurricane-related domestic food supply shocks and a weakening Jamaica dollar have collectively spiraled Jamaica's retail food prices well above projected levels. Despite the political and social sensitivity to flour price increases in Jamaica, the country's sole flourmill seems to have lost the battle in holding down domestic prices amidst adverse international commodity market conditions. Earlier projection of a 15% annual increase in the price of flour during 2007 has been dwarfed by a 30% ex-factory price hike in the product during mid-October. Retailers' adjustment to that increase to reflect cost of capital and other inventory-related expenses should further deflate consumers' pockets and confidence. With waning capacity to absorb further price increases, bakeries are expected to pass the adjustment directly to consumers. As a major staple in the Jamaica diet, the overall domestic inflationary effect of this jump in wheat flour and bakery product prices is expected to be significant. During August 2007, year-to-date and point-to-point inflation (Kingston Metropolitan Area -KMA) for bread and cereals were running in the neighborhood of 8.5% and 12.9%, slightly ahead of corresponding indices for overall inflation of 7.5% and 8.3%, respectively. However, the October jump will push annual increase in flour and bakery products prices well above overall inflation.

Poultry and Pork

Similarly, the almost monthly increases in animal feed prices have fuelled a corresponding progression in the prices of animal protein, especially poultry and pork which depends heavily on corn and oilseeds. Under the existing trend, prices of poultry and pork are expected to eclipse the projected 15% annual increase for 2007, to reach about 28-30%. During August 2007, Government of Jamaica official statistics showed year-to-day inflation rate (KMA) for meat products at 17.2% and point-to-point of 21.3% (corresponding indices for overall inflation above). Poultry prices have since increased twice at rates compounded to approximately eight percent. Despite a lower rate of increase in the price of fisheries products (11.1% year-to-date during August), the actual price difference between fisheries and other animal protein (poultry, pork, beef, etc) limits product substitution, especially in the lower income groups. Culturally, plant protein (legume) is not consumed in Jamaica as an alternative to animal products, beyond health and religious purposes. However, as commodity prices are sustained over the medium to long-term under existing international commodity market forces, public education campaign and household economic conditions could alter this consumption pattern in specific socio-economic groups.

Domestic Food Crops

While domestic prices of animal protein are partly exogenously determined, the spike in prices of vegetables, fruits and starchy roots and tubers results from hurricane-related supply shocks. Despite tracing a track about 60 miles off Jamaica's southern shorelines, Hurricane Dean (August 19, 2007) unleashed winds as high as 100 miles per hour inland along southern parishes. With about 52% of total domestic food crop production located along the south-central belt, the damage to agricultural crops, and consequential disruption in domestic food supply was extensive. In fact, extension officers and farmers corroborated on the view that Hurricane Dean surpassed all other hurricanes in recent history {Gilbert (1988), Ivan (2004) and Emily (2005)} in terms of wind strength and agricultural losses. Following the passage of Hurricane Dean, prices of vegetables (such as lettuce, cabbage, carrots, tomatoes, peppers) and fruits (such as watermelon and cantaloupe) skyrocketed to almost twice pre-hurricane levels. Official government data showed the highest price increases of all consumption categories among fruits and vegetables during August 2007. During that month, the percent change in the consumer price index for fruits, vegetables and starchy roots ranged between 2.2% and 2.9% compared to 0.6% change in the overall price index. However, on the account of inventory-related lagged effect of retail price adjustment, the August indices would not have reflected to full effects of the hurricane. September prices are expected to be a better reflection. Poor weather conditions during October will further

suppress recovery in the domestic food supply to the first quarter of 2008, and sustain prices at relatively high levels. Seasonal Christmas demand could also drive fruit and vegetable prices even higher.

Products Substitution

The domestic food crop shortage has generated a growing demand for imported staples such as wheat flour and rice, which has exacerbated the price movement for those products. As reported in the Jamaican media, the increased demand for rice, and speculation of a poor rice crop in Guyana (Jamaica largest supplier) have created supply uncertainties in the domestic market. According to local media reports, the rice supply shortages in Guyana have pushed up price of the commodity in that country by about 135%. In an attempt to avert a shortage of the staple in Jamaica and to mitigate the potential domestic market effects from price increases in Guyana, the Jamaican Government has signaled an intention to waive the 25% import duty levied on U.S. bulk rice. This policy amendment is viewed by the Guyanese Government as an unnecessary departure from the principles of the CARICOM Agreement.

Exchange Rate

With reduced foreign exchange earnings from tourism, the recent strong broker and end-user demand for major currencies (particularly U.S. and Canadian dollars) have added pressure on the Jamaica dollar. Many analysts chalked up the current wave of demand for the U.S. dollar to the influence of increased investor interest in U.S. dollar-denominated instrument, reduced investor confidence in light of a looming deterioration in the fiscal balance, and seasonal currency demand for merchandise purchases. The recent increase in the benchmark rate by 234 basis points to 14.34% achieved little, if any, success in abating the slide in the local currency. However, the Net International Reserve of US\$1.9 billion affords the central bank reasonable market intervention capacity. Bank of Jamaica data shows that the Jamaican dollar, which started the year at J\$67.02 to US\$1.00, closed trading on October 19, 2007 in the proximity of J\$71.13 to US\$1.00. As a net importer of consumer goods (including food and beverages), adverse movements in the exchange rate are strongly reflected in retail food prices and the visible trade balance. Further, Jamaica's high international debt stock is very sensitive to exchange rate movements.

Links

A related report is available at:

<http://www.fas.usda.gov/gainfiles/200706/146291574.pdf>