

What's for breakfast?

The COVID-19 crisis and
rising food prices, a year on
(Timor-Leste)

Market Development Facility
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Market Development Facility (MDF)

Market Development Facility is an Australian Government funded multi-country initiative which promotes sustainable economic development, through higher incomes for women and men in our partner countries.

We connect individuals, businesses, governments and NGOs with each other, and with markets at home and abroad. This enhances investment and coordination and allows partnerships to flourish, strengthening inclusive economic growth.

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What's for breakfast?



Introduction



Food prices are rising across the world. What was initially perceived to be a sharp but temporary spike as supply chains shut down in the early days of the COVID-19 pandemic now appears to be here to stay. The FAO's Food Price Index showed a 39.7 per cent increase in May 2021 compared to a year before and the index hit its highest value since September 2011.¹ This reflects surging prices for oils, sugar and cereals, along with more stable, but high, prices for meat and dairy produce. In June, the index fell for the first time in 12 months, but it is still up 33.9 per cent on the same time last year.

The protracted nature of these price rises is due to a combination of factors. Supply chains continue to be disrupted. The prices of commodities and raw materials are escalating as governments stockpile grains and some major exporting countries experience droughts. Processing costs are rising due to lockdown-caused labour shortages and other inflationary pressure (e.g. increasing utility costs). Shipping costs are high due to container shortages and delays (*see MDF's previous research on shipping*).

Meanwhile, demand is ballooning and outstripping supply in many sectors. For example, skyrocketing demand in China for soybean oil, which is used to make biodiesel, has knock-on effects on food prices: as demand and prices for soybeans go up people look to buy corn or wheat instead, driving up prices. Soybean oil is also a common ingredient in stockfeed in many countries, meaning that higher prices of soybeans and other grains push up meat prices. For other products, demand is merely returning to pre-COVID levels, but after a year of supply shortages due to supply chain disruptions and continued inventory stockpiling, many sectors are still struggling to meet this 'normal' demand.

As long as the gap between supply and demand persists, inflation will keep rising. Some observers reckon it will take 18-24 months for supply to catch up with demand and for prices to stabilise.² In developed economies, price rises have been relatively contained to date, with firms initially assuming they could weather the temporary shock of the pandemic. But as inflationary pressures have continued to mount many food conglomerates, such as Coca-Cola, are signalling that they will pass on higher costs to consumers.³

In import-dependent developing economies, the price rises have been starker and more immediate. Compared to a global rise of 6.3 per cent, in South America, food inflation has reached 21 per cent since the start of the pandemic; in South Asia and Africa it has been 12 per cent.⁴ In Oceania, it is 8 per cent, down from a 12 per cent increase in the initial shock of the pandemic.⁵ Because of the nature of these price rises, driven by increasing competition for limited supply and soaring freight costs, the increases will be most severe for smaller countries that rely on imported staples, such as Pacific Island Countries.

¹ Food & Agricultural Organisation. (2021). Food Price Index. <http://www.fao.org/worldfoodsituation/foodpricesindex/en/>

² Bhattaria, A. & Fowers, A. (2021). Rising prices: What meat, clothing and five other everyday items tell us about inflation, in Washington Post. <https://www.washingtonpost.com/business/2021/06/12/inflation-products-cars-gas-meat/> Retrieved 14/06/2021.

³ Lucas, A. (2021). Coca-Cola CEO says company will raise prices to offset higher commodity costs. CNBC. <https://www.cnbc.com/2021/04/19/coca-cola-will-raise-prices-to-offset-higher-commodity-costs.html> Retrieved 14/06/2021

⁴ Bruce-Lockhart, C & Terazono, E. (2021). What the soaring cost of breakfast may signal for global food price inflation. Financial Times. <https://www.ft.com/content/007bd0a0-f149-427d-937c-ec5b0ef4374d?shareType=nongift> Retrieved 18/06/2021.

⁵ Sherzad, S. (2020). Impacts of COVID-19 on the food systems of Pacific Small Island Developing States (PSIDS) and responses. FAO. <http://www.fao.org/in-action/food-for-cities-programme/news/detail/en/c/1278570/> Retrieved 10/06/2021.



Key trends across the Facility

This Market View presents information on price changes for the staple items that make up a typical breakfast or lunch in each MDF country since the start of the pandemic. It is based on research undertaken by MDF, which included a survey of MDF staff, interviews with

food retailers and consumers, and reviews of secondary data on price changes. While the magnitude and timing of price changes have varied considerably from country to country, common trends have emerged from our research.



Prices are up

Based on the basic breakfast or lunch we have assessed in each country, prices are up between 24 and 44 per cent. The highest rises have been in Sri Lanka and Pakistan, both over 40 per cent. For every staple item measured in our research, at least 20 per cent of respondents observed that prices had increased. Only 11 per cent of respondents reported that none of their staple items had increased in price. Over 66 per cent of respondents stated that prices of local fruit and vegetables had increased.



The urban and rural poor are both being affected, for different reasons

In urban centres the prices of non-perishables and imported goods are rising, compounded by the added cost of needing to order groceries online in some countries. But the sharpest increases have been in local fruit and vegetables. Many respondents reported that their typical shopping outlay now only buys half the amount of produce that it would have bought before the pandemic. Many stated that they have had no choice but to dip into their savings to buy items they feel are essential for their families. These price rises are the result of shortages of produce in urban centres, caused by movement restrictions that prevent farmers and traders from transporting produce to urban markets.

This means that at the same time urban consumers are unable to buy their usual quantities of fruit and vegetables and other locally produced items, farmers have been unable to sell their produce in normal quantities. This has occurred in waves as countries move in and out of lockdowns but the overall effect has been to reduce farmers' incomes over the course of the year and make farming households more reliant than usual on subsistence production.



Some impact on imports, but a local problem first

Global factors, like rising commodity prices and shipping costs, have resulted in price hikes of imported goods, but these are only partially responsible for overall food price inflation. The most dramatic increases have been caused by local factors, be that the increases in fruit and vegetable prices described above or government-imposed import restrictions in Sri Lanka. Large retailers report not passing on to consumers the full cost increases they have experienced since the start of the pandemic, so it is possible that consumers are just more directly exposed to the price fluctuations of fresh produce purchased in local markets. But retailers won't be able to absorb these extra costs indefinitely (and the underlying causes haven't been resolved) so further price increases in supermarket goods are likely over the rest of the year.



Time spent shopping is up

Many respondents report needing to now buy items from multiple outlets, in order to find the cheapest options and keep their overall grocery bill down or simply to find the items they need. This means that time being spent shopping has increased, as has time devoted to decision making about what to buy, where to shop and how to budget. It is likely that this impact is being disproportionately felt by women.



A shift towards online shopping, but this isn't accessible to all

In some countries there has been a move to online shopping and delivery services, particularly in countries with strict lockdowns like Sri Lanka, but these services come at a cost and are not available to all consumers. Shopping online also influences the nature of the food items urban consumers buy and the frequency with which they buy them.



Outlook

Some of the factors causing food price inflation in MDF countries are common, such as shipping disruption, with varying severity depending on reliance on imports. Domestic movement restrictions to control the spread of COVID-19 have caused price spikes in all countries, affecting the purchasing power of urban populations and farmers' ability to generate income and buy staple items. But each country also faces unique challenges, be that import bans in Sri Lanka or poor growing conditions for wheat in Pakistan.

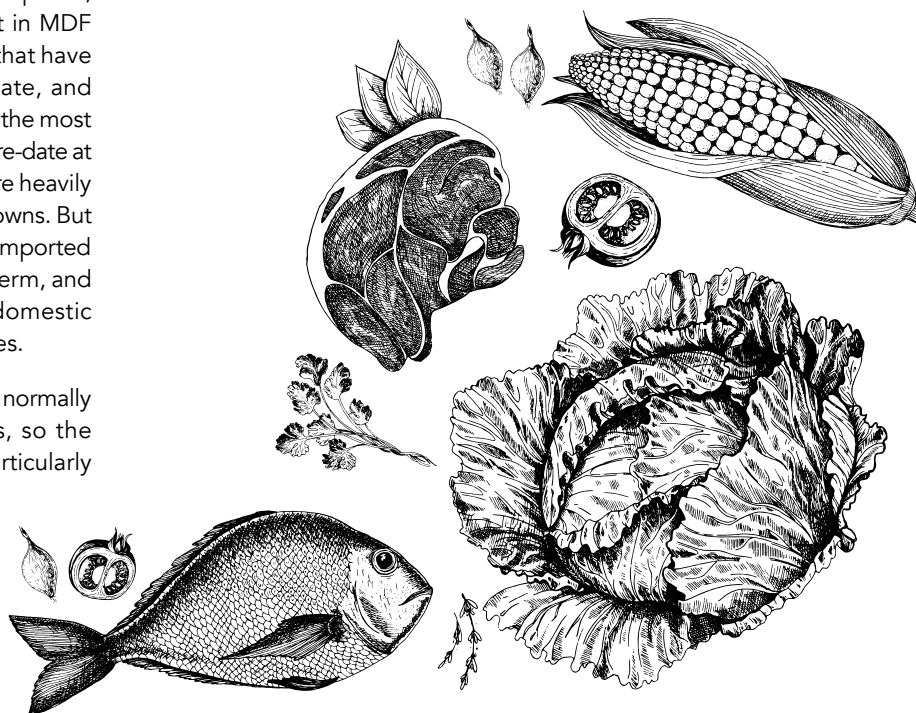
The trend is clear across all the countries, however: food prices are rising and this is influencing how people shop, what they can afford and what they eat. MDF's data confirms this trend, but we have not captured the effect that food price inflation is having on nutritional intake. Millions of people in the Indo-Pacific region have been driven back into subsistence livelihoods by the pandemic: for some this might mean less reliance on processed foods and a healthier diet; for many it will just mean less to eat.

There is a clear international trend of rising food prices, and the impacts of this are starting to be felt in MDF countries. However, it is domestic conditions that have had the biggest impact on food prices to date, and locally transported domestic produce has seen the most dramatic increases. These domestic conditions pre-date at least some of the international pressures and are heavily linked with the severity of each country's lockdowns. But the international trends affecting the prices of imported food are more likely to persist in the medium term, and in some countries will be exacerbated by domestic conditions and ongoing government measures.

International food commodity price rises do not normally filter into consumer prices for 6-12 months, so the worst for consumers may still be to come⁶, particularly

in developing economies that are reliant on import foodstuffs. Although MDF countries have not all seen sustained price increases for imported staples, it is highly likely that they will over the remainder of 2021 and into 2022. For countries still struggling to cope with the pandemic and its economic fallout the effects of inflation on food security could be significant.

In the longer term, demand and supply will rebalance. But in the meantime, and with further price increases potentially still to come, ensuring food security and access to affordable staples should be a concern for governments and development partners. It will be vital to work with the private sector to promote the availability of quality, affordable agricultural inputs to maintain agricultural production; to monitor and address disruptions in key supply chains, for essential imports and to ensure that farmers' produce can continue to be harvested, processed and transported to urban centres.



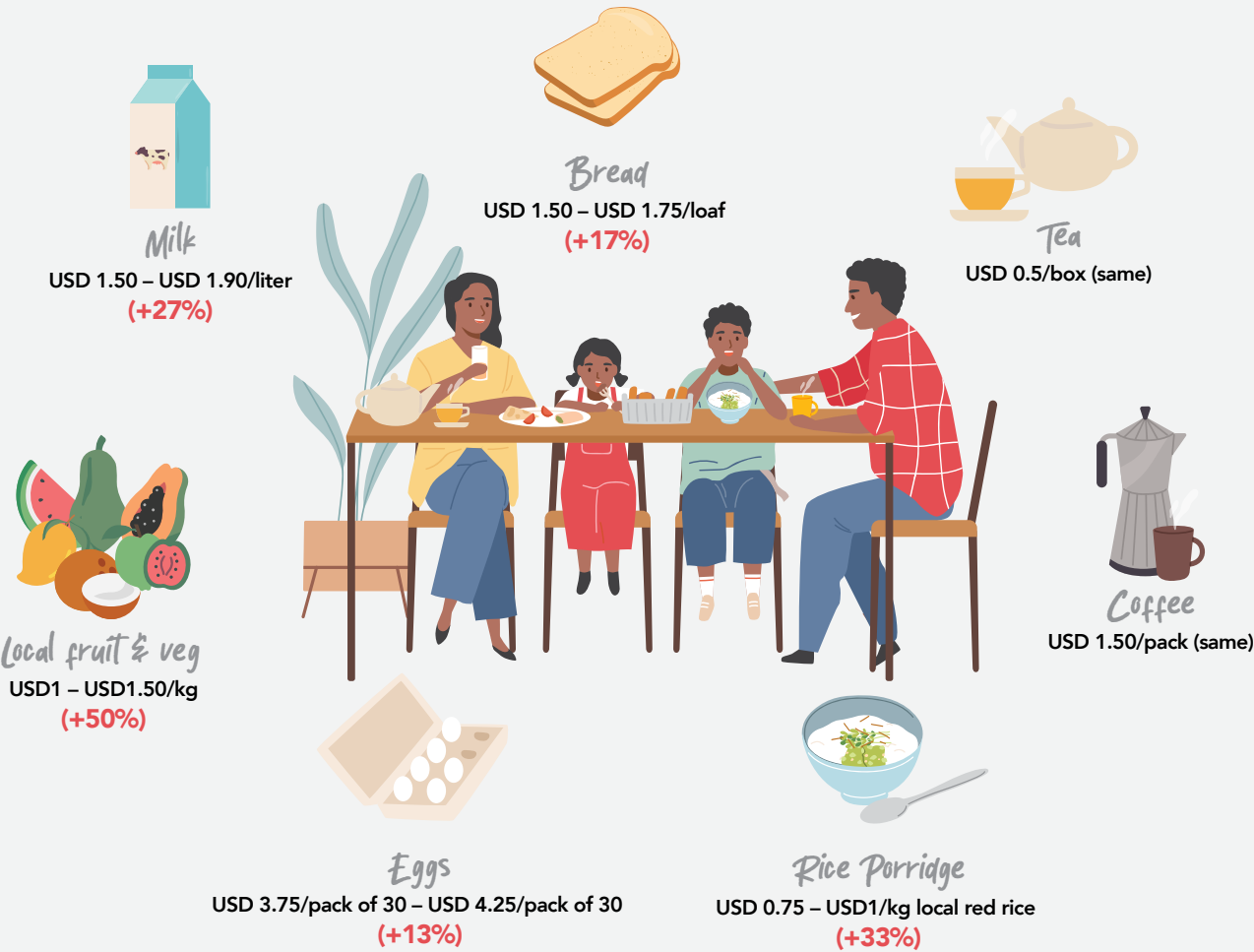
⁶ Bogmans, C, Pescatori, A & Prifti, E. (2021). Four facts about soaring consumer food prices. IMFBlog. <https://blogs.imf.org/2021/06/24/four-facts-about-soaring-consumer-food-prices/#:~:text=From%20their%20trough%20in%20April,86%20and%2011%20percent%2C%20respectively>. Retrieved 21/07/2021.

The situation on
the ground in
Timor-Leste

Timor-Leste

Prices are up, but fluctuating prices are a fact of life

WHAT DO THINGS LOOK LIKE ON THE **MDF TIMOR-LESTE** TABLE?



The average cost of breakfast for a family of four has increased by 25% based on a table including eggs, bread, fruit and rice porridge.

Timor-Leste's food prices have been primarily affected by the waves of domestic lockdowns, with movement restrictions severely impacting the ability of farmers to transport goods into Dili and other urban centres. This has caused price hikes that coincide with lockdowns, although many respondents noted that price fluctuations are a normal feature of the Timorese market. World Food Programme data shows that year-on-year to May 2021, potatoes, eggs, tomatoes and oil are all up 10 per cent, whereas sweet potatoes, beans and chilli have decreased by 10 per cent. This indicates that even within domestic produce there are a range of factors at play, including the severity of lockdowns in certain growing districts, as well as normal seasonal and harvest-related fluctuations.⁷

Interviewed consumers report that rice and corn have become more expensive, doubling in price during some periods. Imported rice prices have been declining since March (although still up 14 per cent year on year); local rice prices are likely to ease as the harvest picks up, although output will be adversely affected by the floods in April.⁸ Most respondents stated that the prices of flour, sugar and oil have not changed. Of proteins, the price of fish increased the most (from USD3/kg to USD5), with beef also increasing. Pork and chicken prices have remained more stable.

The biggest food price increases have been driven by two factors. First, domestic movement restrictions (particularly the cordon sanitaire around Dili) made transporting produce difficult, causing shortages and severe price increases. Fresh fruit and vegetables have been most affected: 40 per cent of respondents reported that the cost of fruit had increased, from approximately from USD 1-2/heap to up to USD 5/heap, and that the quantity in a heap is also often smaller than in the past.

Second, a government program called Cesta Basica (Basic Basket), launched in late 2020, which aimed to distribute basic goods to all Timorese households. This triggered huge demand from farmers and retailers, as planned, but resulted in shortages and pronounced

spikes in prices, as retailers tried to meet the additional demand on top of their normal requirements. As one respondent observed "it affected the price because most big suppliers ran out of stock... but now all the prices (are) already back to normal."

Overall, there have been few sustained increases in price since the start of the pandemic. Very few people reported encountering import shortages. Where a preferred, cheaper imported brand hasn't been available, respondents have been able to buy a more expensive alternative (e.g. when Indonesian milk is not available consumers switched to a more expensive Australian brand instead).

A compounding factor for Timor has been the impact of the April floods on harvests. What had been predicted to be a bumper rice year has now seen rice harvest predictions revised downwards by up to 25 per cent.⁹ Imported rice already makes up 70 per cent of Timor's national consumption, so a downturn in local rice production may not influence prices significantly, but it is likely to affect poorer and farming households. At the same time, international rice prices appear to be slowing after a peak in February 2021, hopefully easing pressure on Timorese consumers.

⁷ World Food Programme. (2021). Market Monitor Report. <https://docs.wfp.org/api/documents/WFP-0000127755/download/?ga=2.137113584.1527862871.1626074060-1246670198.1622690924> Retrieved 10/06/2021.

⁸ World Food Programme. (2021). WFP Timor-Leste Food Security Bulletin January-March 2021. <https://www.wfp.org/publications/wfp-timor-leste-food-security-bulletin-january-march-2021> Retrieved 12/07/2021.

⁹ World Food Programme. WFP Timor-Leste Food Security Bulletin January-March 2021. <https://www.wfp.org/publications/wfp-timor-leste-food-security-bulletin-january-march-2021> Retrieved 12/07/2021.





**Australian
Aid** 

- Fiji: Garden City Business Park, Grantham Road, Suva, Fiji
- Timor-Leste: 2nd Street, Palm Business & Trade Centre, Surik Mas, Dili
- Pakistan: 22-N, Block N, Phase 2, Johar Town, Lahore, Punjab, Pakistan
- Sri Lanka: No. 349, 6/1, Lee Hedges Tower, Galle Road, Colombo 03, Sri Lanka
- Papua New Guinea: Level 10, MRDC Haus, Musgrave St, Port Moresby, Papua New Guinea

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