



Food Prices and Poverty in Latin America

LCSP/PP/PREM/LAC
Carlos Sobrado
Gabriel Demombynes
Eliana Rubiano
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1. Food Prices Impact in
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Using the Poor Person's
Price Index (PPPI)



The official Consumer Price Index does not represent the poor

- Most LAC CPIs correspond to inflation rate faced by the wealthy:
(80th-90th percentile)
- Inflation experienced by wealthy vs. poor may differ

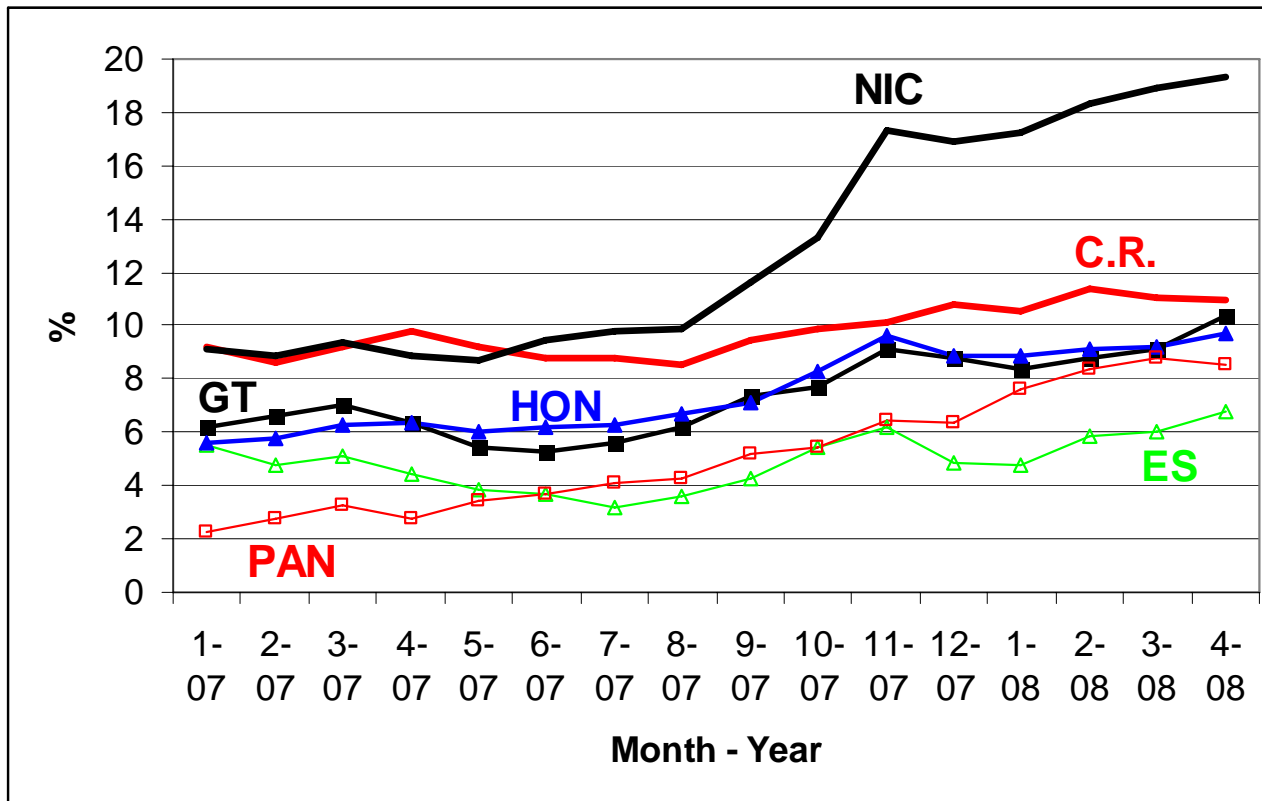


Key difference in consumption of poor and non-poor:

- Food is larger share of consumption for poor: 50-65% vs. 30-45% for non-poor
- If food and non-food inflation rates are similar, no effect on differential inflation

Inflation is increasing in Central America since June-July 2007

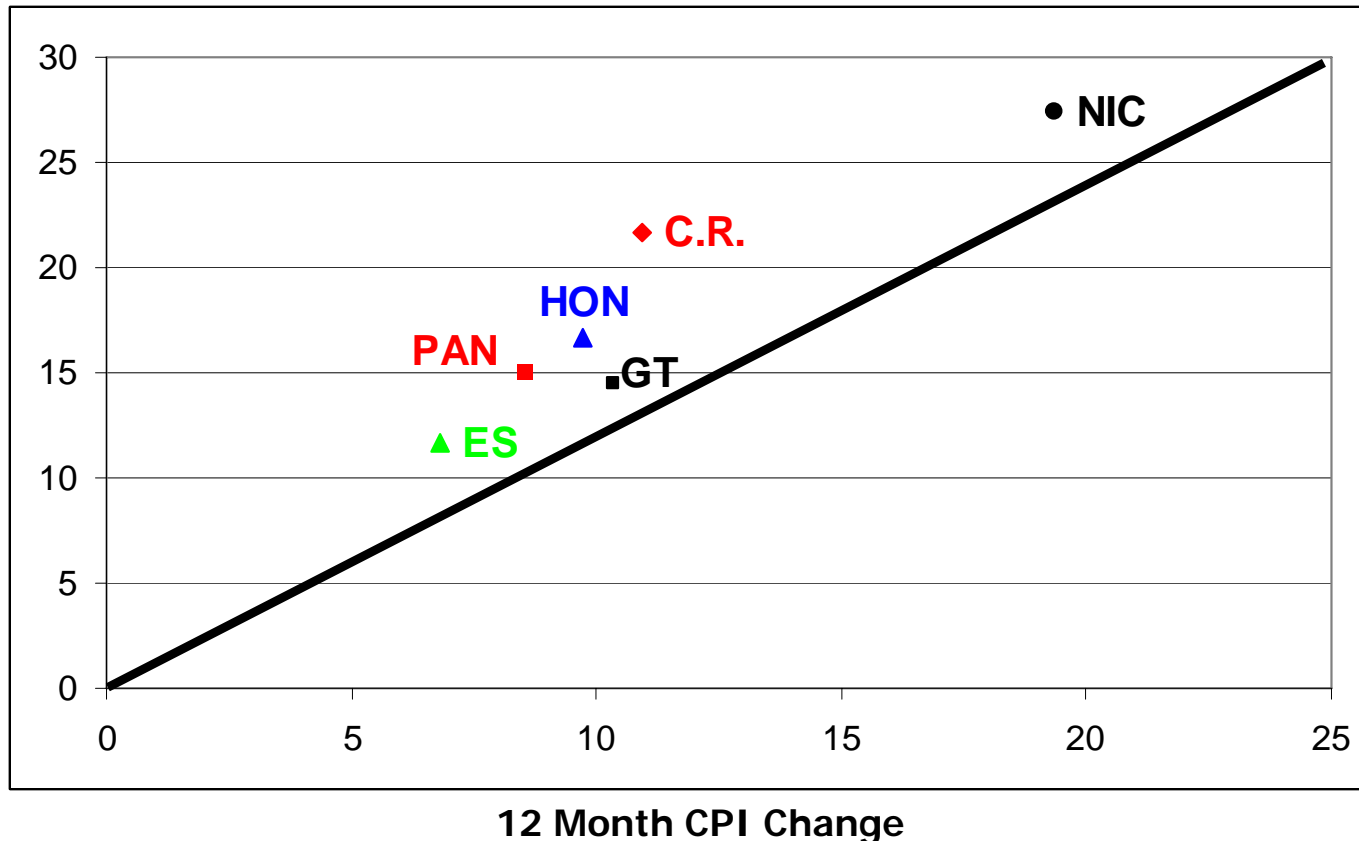
12 Month CPI Evolution in Central America



Source: National Authorities overall and CPI inflation

Food inflation rates has been higher than non-food inflation

12 Month CPI and Food Inflation Evolution, April 2008



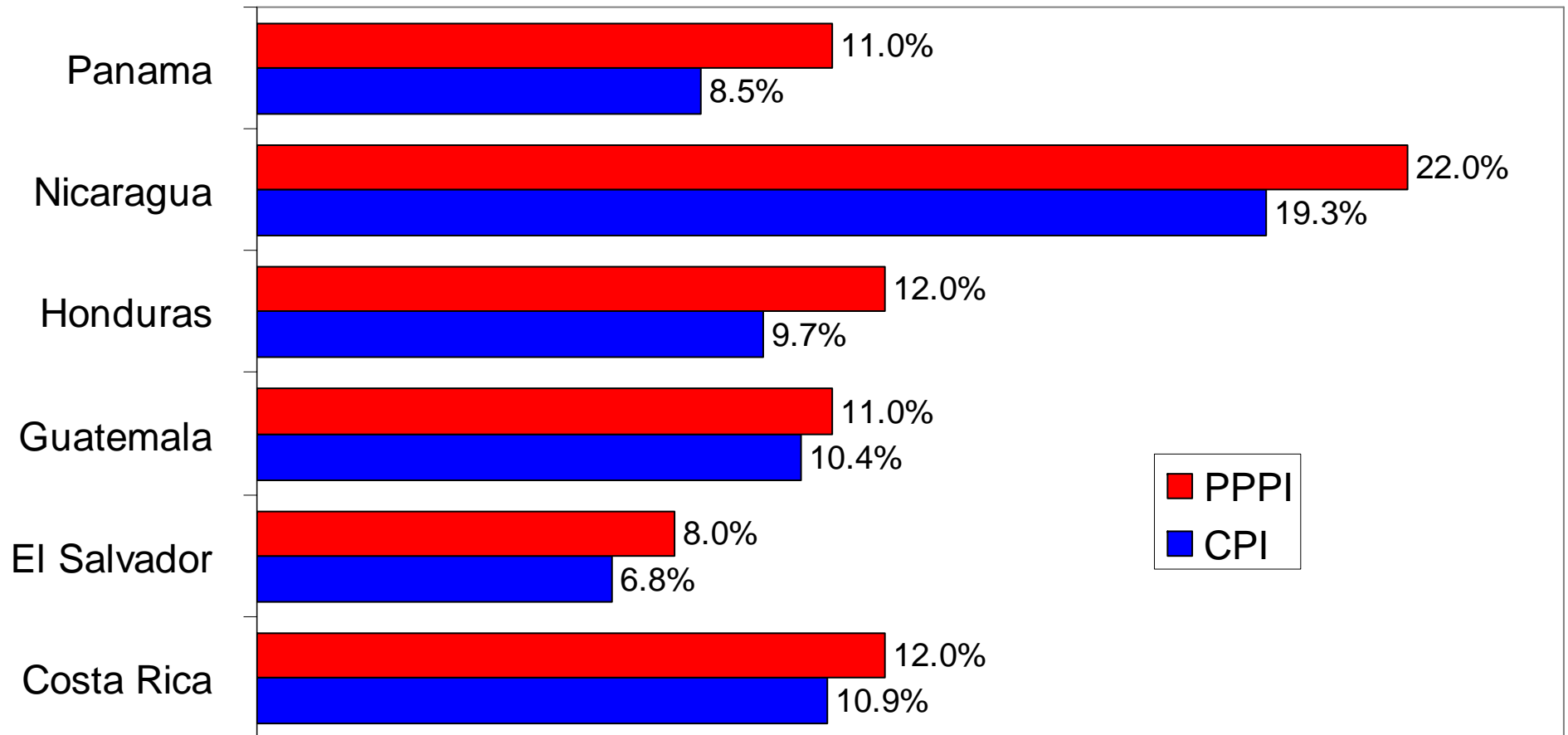
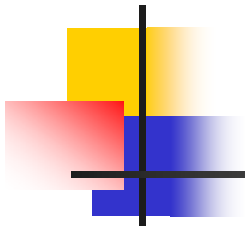
Source: National Authorities overall and CPI inflation



The Poor Person's Price Index

- PPPI calculated using same data as official CPI but reweighted with food share specific to poor
- Food shares estimated with LSMS type surveys and Income and Expenditure surveys

PPPI is 1.2% to 2.6% higher than CPI:

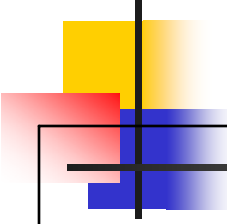




Extremely rough poverty impact estimate based on PPPI

- Assume incomes increase at rate of overall CPI
- Then PPPI-CPI difference = decline of purchasing power of poor
- Apply estimates of income-headcount elasticity to get headcount impact

Extremely rough poverty impact estimate based on PPPI



Country	Initial Headcount	Increase in Headcount
Costa Rica	23.9%	0.6%
El Salvador	37.2%	0.7%
Guatemala	51.0%	0.5%
Honduras	50.7%	1.1%
Nicaragua	46.2%	1.2%
Panama	36.8%	1.4%
Central America	44.0%	0.8%

336,000 new poor out of C.A. population of 41 million



2. Integrated Impact of Local Food Prices on Poverty: the Honduras Case



Basic Approach

- Simulate impact on consumption using past survey (2004) microdata
- Consider changes in consumer prices, producer prices, wages

The three way price impact in poverty



- I. Consumer: higher prices reduce purchasing power
- II. Producer: higher prices increase producers income
- III. Wages: higher wages for agricultural workers



Assumptions

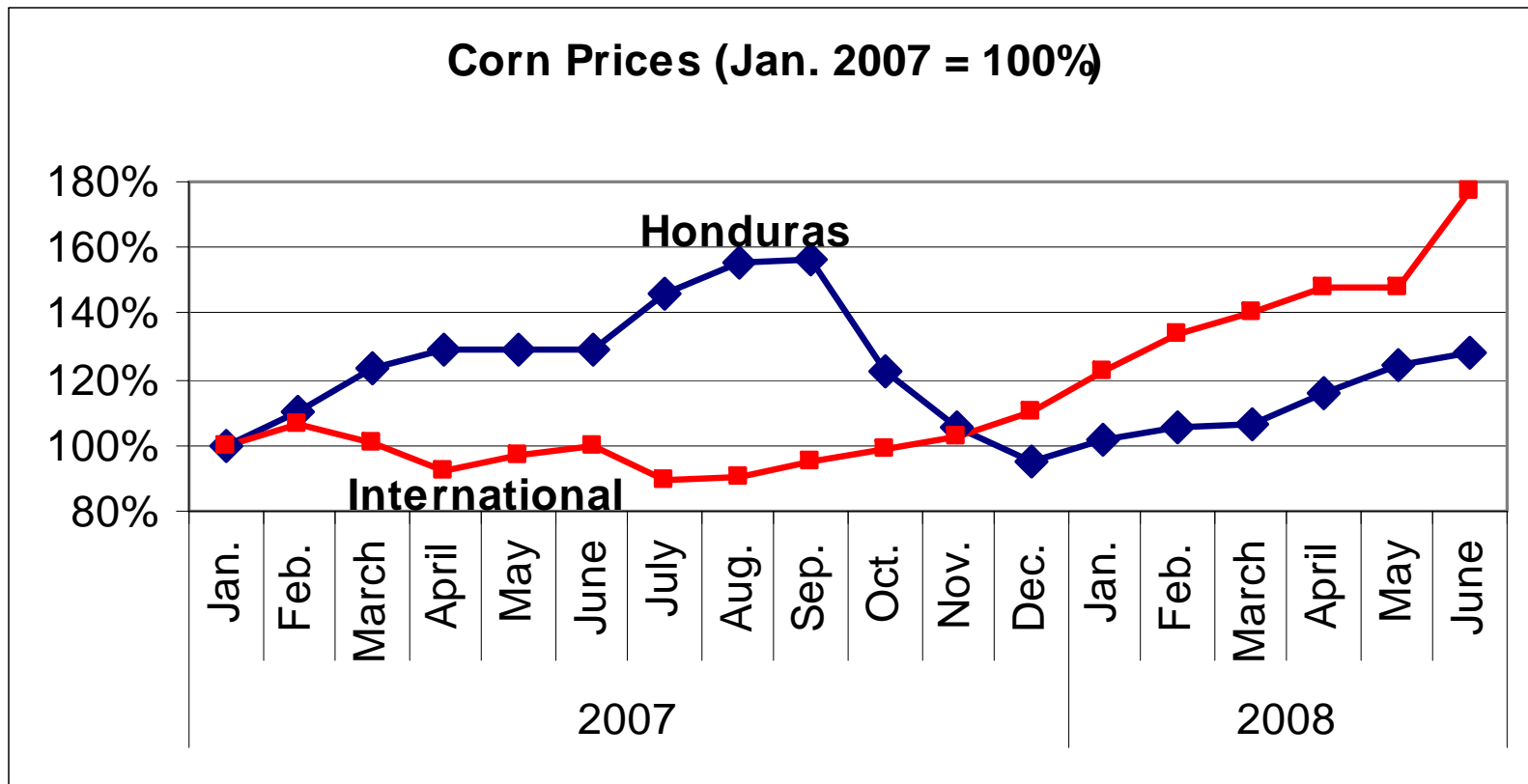
- Income changes are pass-through consumption (one to one)
- No shifts in consumption
- No shifts in production
- Average income level increase with the non-food inflation rate
- Price changes from May 2007 to May 2008



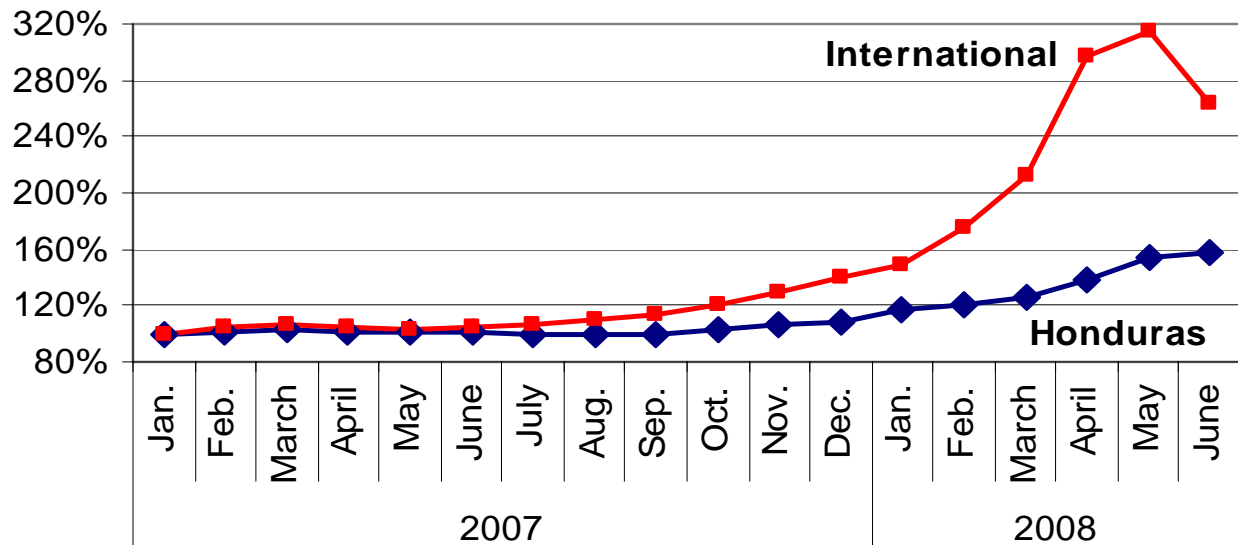
Differences with other work

- Similar to Ivanic and Martin (2008), but
 - 1) Uses detailed national price data (separate producer & consumer)
 - 2) Uses complete food basket
- With available data, we can analyze effects due to ...
 - Items that are $\frac{3}{4}$ of producer sales
 - Items that are $\frac{3}{4}$ of consumption

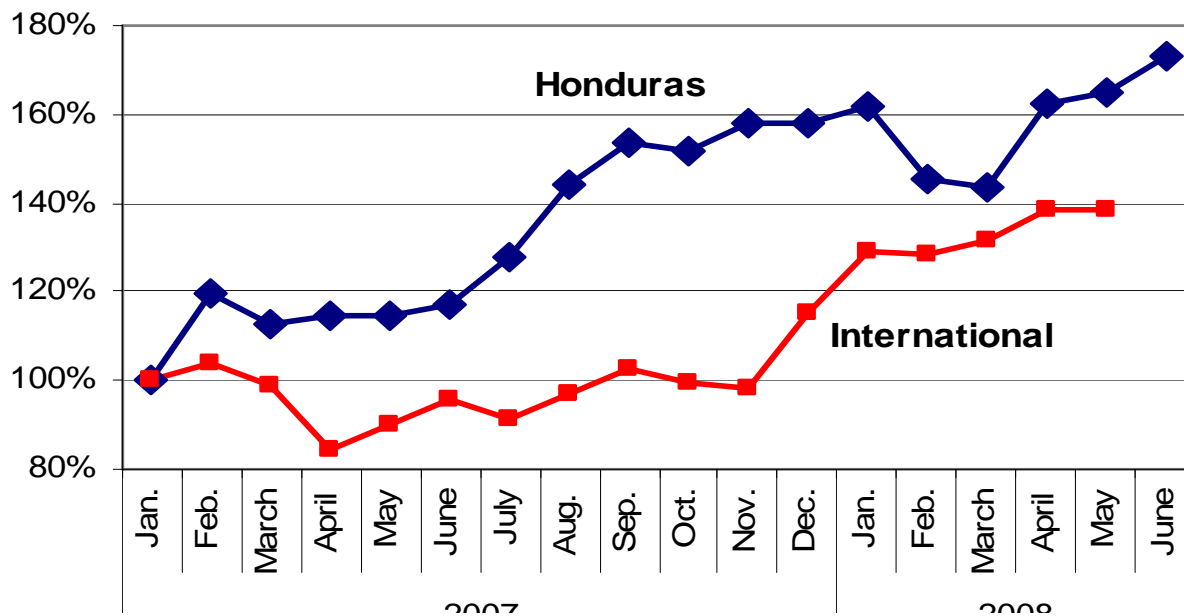
Why national prices and not international commodity prices?



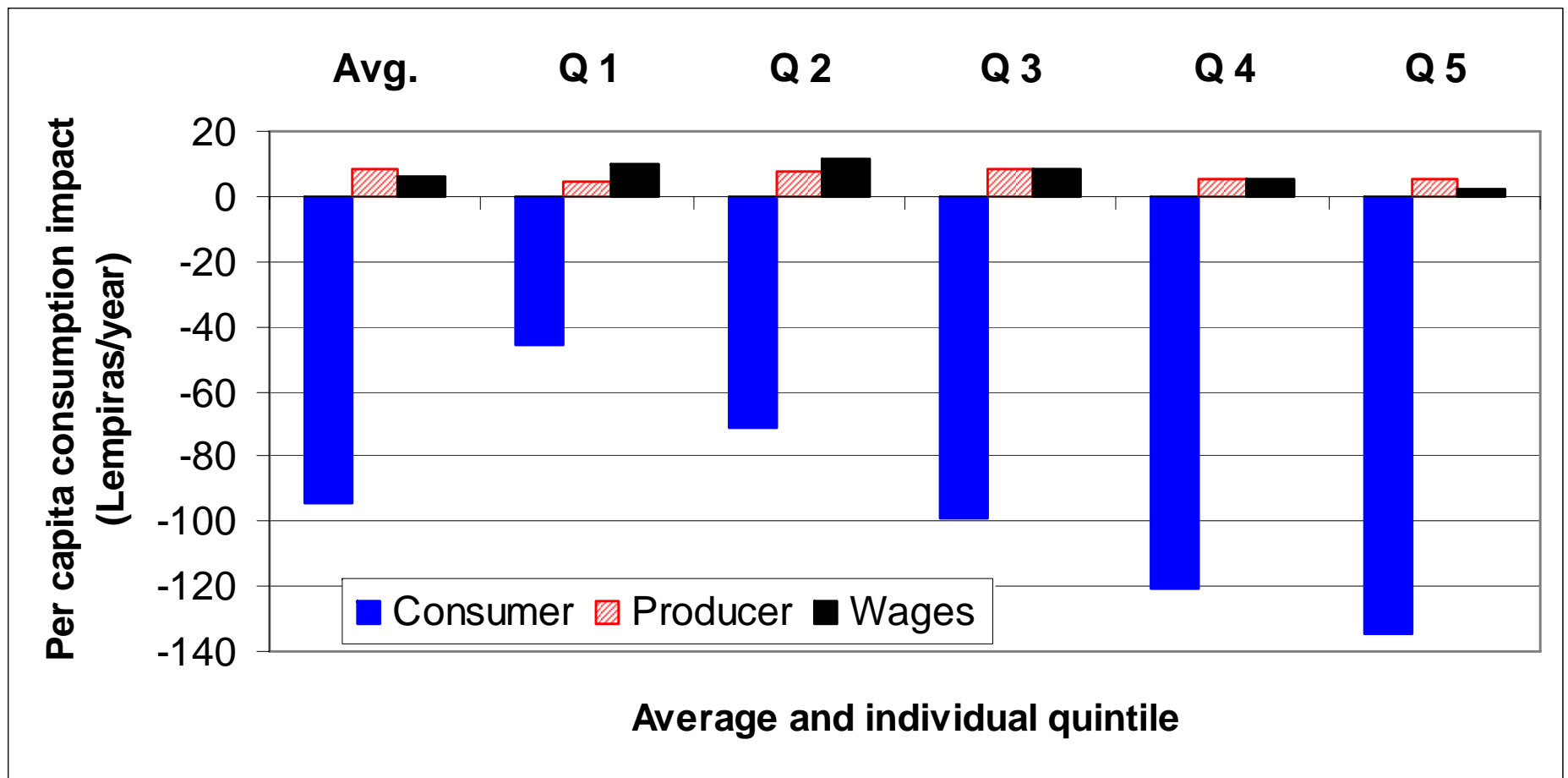
Rice Prices (Jan. 2007 = 100%)



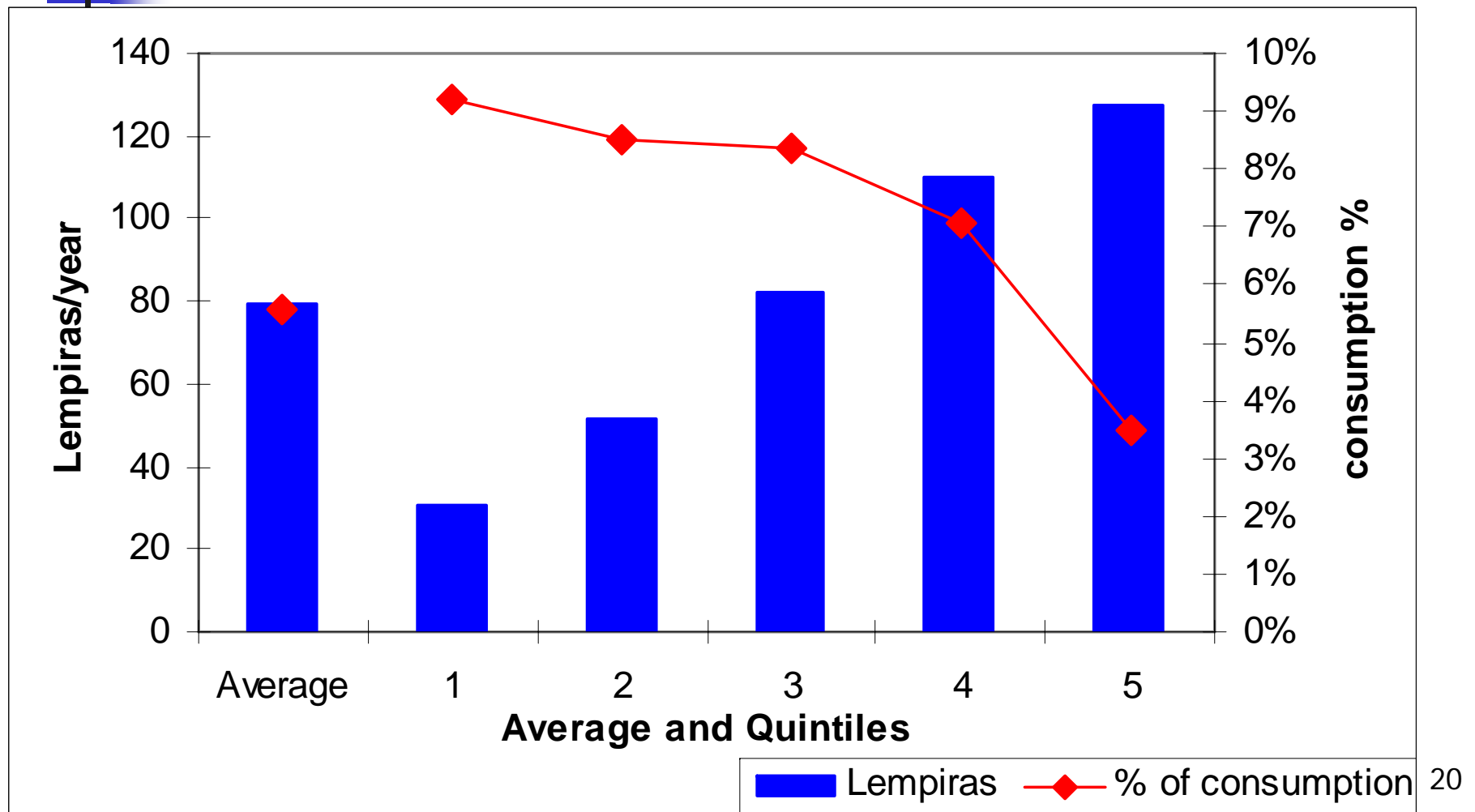
Sorghum Prices (Jan. 2007 = 100%)



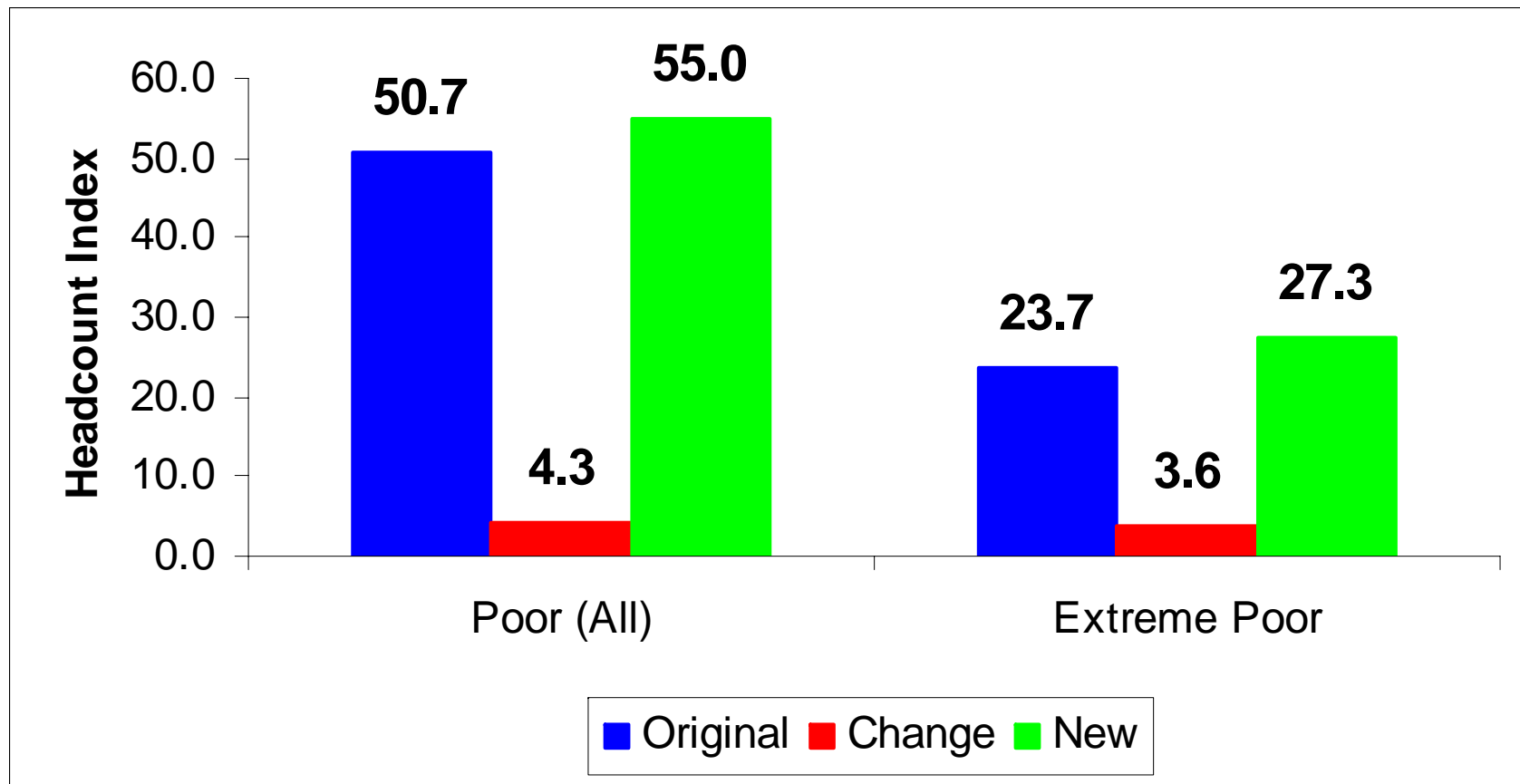
Impact on consumption by quintile: consumer, producer, wages



Net impact on consumption (negative)



Net impact on poverty rates





Summary

- Detailed analysis shows substantial impact on consumption/poverty in Honduras
- Increase on producers/wages only slight boost to consumption

Questions?



1. Time period?
2. Correct estimates of “background” changes in income?
3. Shifts in consumption?
4. Shifts in production?