

Retail Margins, Price Transmission and Price Asymmetry in Selected Agricultural Commodities in Trinidad and Tobago: Investigating the Causes of Increasing Food Prices

ABSTRACT

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Large structural shifts in the global economy have been causing a dramatic rise in the price of food. From March 2006 to 2007, the food component of the retail price index increased by 19% whilst the overall price index increased by 8%. Sizable and fluctuating price differences have been recorded between wholesale and retail prices. This study looks at the development of retail food prices, the reasons it has been increasing, the potential impact in terms of food security and makes a number of policy recommendations.

Through time series analysis, price margins and time lags were examined to determine the nature and lag of the response in municipal and retail price changes to wholesale prices. Non-linear hedonic models were estimated using auction price and quality data for specific commodities and markets to examine whether buyers have systematic preferences for specific attributes (volume, market location and timing of sale) and whether they pay significantly different prices for these attributes consistent with their preferences.

The results show that the price transmission between wholesale and retail happens in the same week and that price asymmetry, i.e., the different transmission of price increases compared with price decreases, is present for most products. Products characterized by relatively more standardization and homogeneity are shown to have lower retail margins and to behave symmetrically. The results also indicate that buyers have systematic preferences for specific product attributes and that these preferences are implicitly reflected in prices offered in traditional auction markets. The results underscore the need for increased producer supply response to capitalize on the opportunity offered by higher commodity prices by targeting specific attributes and by better timing production and marketing undertakings.

Keywords: Food prices, food security, price lags, price margins, price transmission, hedonic price analysis