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covid-19 Brief

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Maize grain price movements in markets of Blantyre and Nsanje districts in Malawi during the Covid-19 pandemic.

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This brief examines the relationship between the maize grain price trends and the restrictions related to the COVID-19 Pandemic in the Nsanje and Blantyre districts of Malawi. An understanding of the maize grain price movement is pivotal in guiding policy interventions that would ease and stabilise the operation of the maize markets in these two districts under major shocks such as the COVID-19 pandemic. In March 2020, the president of Malawi declared a state of disaster due to COVID-19. The declaration came with strict precautionary measures which inadvertently contributed to economic slowdown both locally and internationally. Households lost income due to the restrictions imposed by the government and this means that household's access to food was also constrained by both resources and travel restrictions. The present brief analyses the behavior of maize prices in Nsanje and Blantyre before and during the pandemic in order to isolate the possible effects of the pandemic and efforts to counter them and provide recommendations for dealing with future crises.

Maize price trends in local markets

Figure 1 shows maize price trends in the two districts from January 2019 to May 2020, covering the period before and after the onset of COVID-19. Maize is the preferred staple in Malawi and lack of maize is associated with reduced food availability. Maize is generally cultivated by most households at small-scale. From Figure 1, maize prices in Blantyre are generally higher than maize prices in Nsanje. This is understandable because Blantyre is an urban province with less agricultural activities while in Nsanje most households engage in agricultural activities.

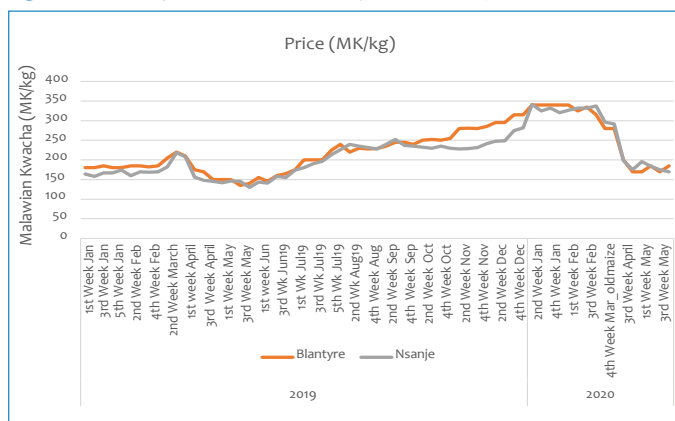
The harvest season in the Southern region runs from March/April to July, and with the new harvest entering the market, the prices are expected to usually decline due to an increase in the supply of maize. For instance, as depicted in Figure 1, prices of maize show a decline in both districts from the beginning of the harvest season in April 2019 until June 2019. In June 2019, maize prices started to increase in Blantyre and continued to rise until January 2020, when they began to stabilise before a sharp decline in February. In Nsanje, the prices increased from June and stabilised from September to November before rising again in the festive season (November & December). In March 2020, both districts experienced a sharp decline in maize prices. On average, maize grain prices decreased by 84% and 75% for Blantyre and Nsanje, respectively, from February to April. It is worth mentioning that two relevant key events took place in March of 2020 in Malawi as follows: Firstly, the significant decline in maize prices begun in March 2020, and secondly, the first Covid-19 cases were reported in the same period and this was followed by imposition of restrictions in movements in order to slow down Covid-19 spread. It is hence, highly likely that the drastic decline in maize prices was related to the travel restrictions following the onset of the pandemic. One would expect the restrictions to constrain trading activities in local maize markets and thus affect local prices, with the direction of change depending on the final impact on the demand for and supply of maize.

Covid-19 and changes in local maize prices

In order to investigate the possibility that the maize prices dynamics observed were influenced by the Covid-19

restrictions, we applied the Difference-in-Differences methodology. The insight for its application is that differences across the same periods within the year under comparison (the non-Covid-19 year of 2019 vs the Covid-19

Figure 1 : Maize price trends in Blantyre and Nsanje districts

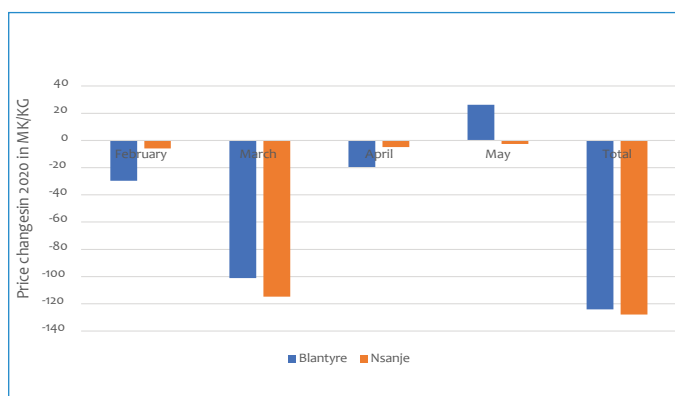


Source: Authors Computation from WFP 2020 –Malawi

year of 2020) should not deviate further from zero, unless one of the years had some unique event that necessitated that price changes in that year be substantively different from the other year. Thus, a finding of significant differences between the price changes in 2019 and in 2020 would strengthen the conclusion that Covid-19 restrictions had an impact on maize prices.

Figure 2 compares changes in maize grain prices from January to May 2019 and January to May 2020 to investigate further whether the prices in 2020 changed more than in 2019 over the same period, which would then confirm a possible impact of the COVID-19 related disruptions of maize prices in 2020. Both districts recorded negative changes in maize grain prices during the COVID-19 Pandemic period compared to the same period in 2019, except for the month of May in which prices in Blantyre recorded positive changes.

Figure 2 : Difference-in-Difference Analysis of the Maize Grain Price Trends



Source: Authors Computation from WFP 2020 –Malawi

The implication of the decline in maize prices can be attributed to the effects of the COVID-19 Pandemic. It is likely that prices declined in both cities between March and April as well as May for Nsanje because the Covid-19 restrictions suppressed the demand for maize both from within and outside Malawi. . The effect of those restrictions on demand in local and cross-border markets, coupled with the fact that March and April are also harvesting seasons in Malawi, led to a situation where the increase in maize supplies was not matched by demand, leading to declining prices. This was particularly persistent for Nsanje, which, unlike Blantyre where urbanization is high, is predominantly rural and a main production area. The overall relative changes over the period point to a clear decline in 2020 compared to 2019. Prices in Nsanje declined by at least MK128 /Kg over the entire period of 2020 compared to the 2019 period and by about MK120/Kg in Nsanje. The seeming rise in prices for maize in May in Blantyre, may be due to the fact that later the restrictions were relaxed as further information on handwashing became widespread, leading to possible increase in demand for maize.

Key Observations and Policy Recommendations

Maize prices declined in the first part of 2020 in Malawi in between March and May..

It appears that the closure of borders, as well as the social distance restrictions led to low demand for maize leading to low prices in both districts. Restrictions in movement limited access to local markets, while the border closures caused cross-border trade to slow down. This must have led to excess supply in the markets under study leading to declining prices.

The fact that prices declined over the period, may immediately suggest that there was a gain by consumers. It is also likely that this has had negative effects on producers and those who are engaged in grain aggregation and trade. The producers and aggregators earned less than they should have earned because prices declined, which has the potential to undermine production and trading activities in the coming season.

The effects of the pandemic and related responses on maize markets call for a more careful approach to dealing with future crises. In particular, it may be better to sequence response measures in such a way as to minimize possible market disruptions and thus avoid potentially serious consequences for food markets and prices. For example, messaging and interventions that do not interfere significantly with food markets and trade during times of crises may not only save lives, but sources of livelihood as well.

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