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Consumers pay more when producer prices rise, but benefit less when they drop: price transmission asymmetry in the maize and wheat markets

Thulani Ningi

Market competition plays a crucial role in ensuring fair pricing and economic efficiency within South Africa's food industry. However, persistent price transmission asymmetry in staple food markets impacts negatively on consumer welfare. Despite existing regulatory frameworks, enforcement gaps allow dominant firms to exploit market power and manipulate prices to their advantage. This undermines fair competition and deepens economic inequality, making it essential to address price transmission asymmetries to promote a more equitable and efficient food market.

Introduction

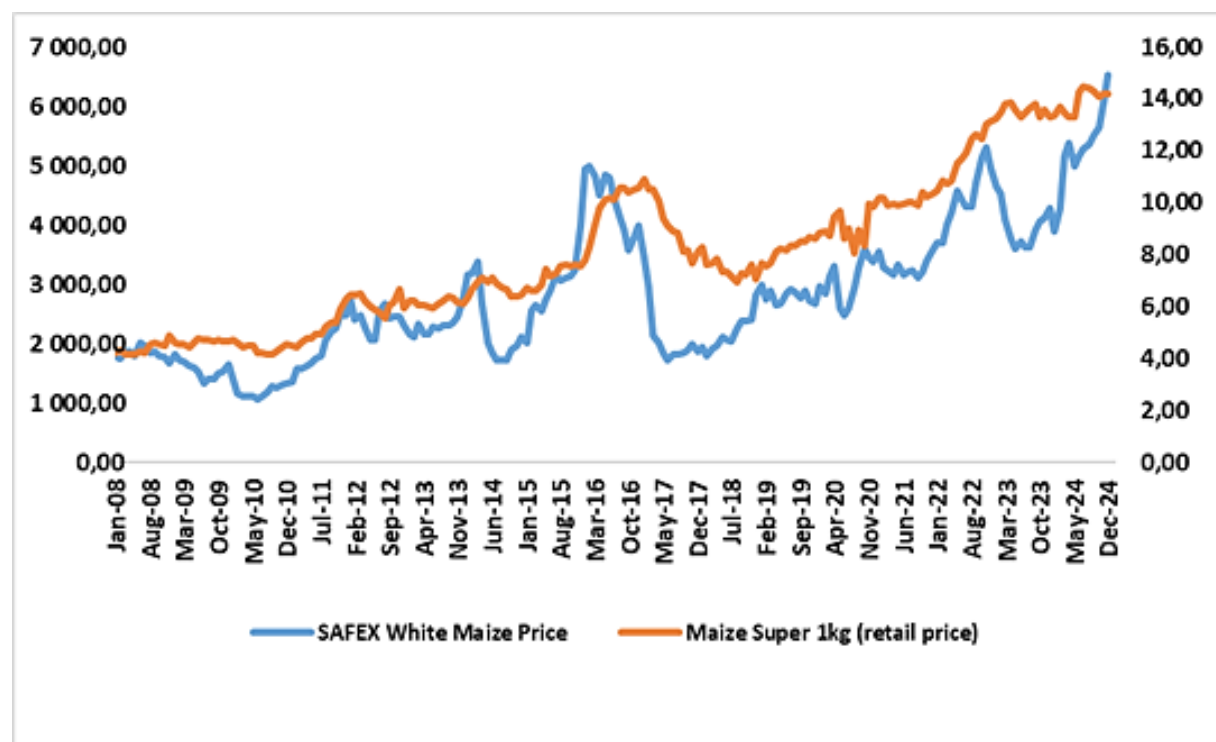
Rising food prices are a significant concern for South Africa's economic stability, particularly for low-income households, who are particularly vulnerable to food price volatility. As one of the most unequal countries in the world, South Africa grapples with deep-seated economic disparities. Market power, concentrated at the firm level, exacerbates income inequality by enabling large firms to set prices that maximize profits at the expense of lower-income consumers, who face higher food costs.

A critical consequence of market power is price transmission asymmetry, where changes in producer prices are not proportionally reflected in consumer prices. The maize and wheat sectors, essential to food security, illustrate this challenge. Evidence suggests that price adjustments in these markets tend to be skewed, disproportionately impacting low-income consumers. The issue is further exacerbated by high market concentration, where a few dominant firms control pricing and limit competition. Investigations by the South African Competition Commission have uncovered widespread collusion and price-fixing in key agricultural value chains, including bread, maize meal and others⁴. These practices keep retail prices elevated even when production costs decline, reducing consumer welfare and deepening economic inequality.

In the maize and wheat sectors, price transmission typically exhibits positive asymmetry. Producer price increases are quickly passed on to consumers, but price decreases are often delayed or only partially reflected in retail prices due to factors like supply chain

To address these challenges, a multi-faceted policy approach is needed, including stronger enforcement of competition laws, transparent pricing mechanisms, targeted consumer protection measures, and policies that encourage market entry and reduce vertical integration in the maize and wheat sectors. This article explores the dynamics of price transmission asymmetry in the maize and wheat sectors, its causes and consequences, and proposes strategies to create a more transparent, competitive, and consumer-friendly food market.

Between January 2008 and December 2024, price trends in the maize and wheat sectors in South Africa exhibited significant volatility. Figure 1 illustrates the fluctuations in producer and retail prices for key staple foods, based on data from Statistics South Africa (StatsSA) and South African Futures Exchange (SAFEX).



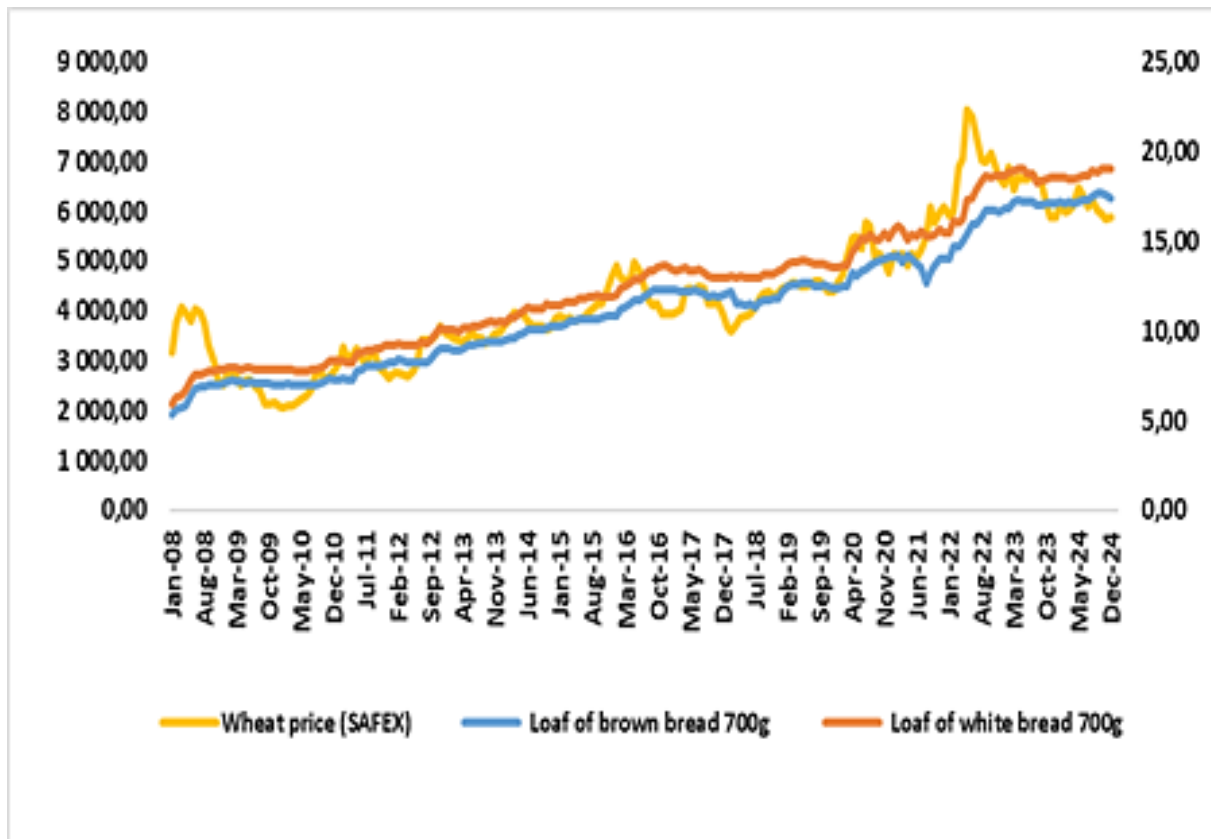


Figure 1: Trends in (a) average SAFEX white maize price (per ton) and retail maize meal price (per kg), and (b) average SAFEX wheat price (per ton) and retail prices for white and brown bread (per 700g loaf). Source: SAGIS, 2025 and Stats SA, 2025.

The SAFEX white maize price ranged from a minimum of R1 052 per ton to a peak of R6 530 per ton, with an average price of R2 818 per ton over this period. In comparison, retail maize meal prices fluctuated between R4.13 per kilogram and R14.50 per kilogram, averaging R8.10 per kilogram. Similarly, SAFEX wheat prices ranged from R2 073.65 per ton to R8 023.30 per ton, with an average of R4 303.00 per ton. Retail bread prices mirrored this volatility: white bread prices ranged from R5.35 to R19.10 per 700g loaf, averaging R12.40 per loaf, while brown bread prices ranged from R5.35 to R19.10, with an average of R11.30 per loaf.

Understanding Price Transmission Asymmetries

Price transmission refers to the degree and speed at which changes in producer prices affect retail prices. In a perfectly symmetric market, consumer prices would rise and fall proportionally with producer price changes. However, empirical evidence from South Africa's maize and wheat sectors shows significant price transmission asymmetry. This means that while increases in producer prices are swiftly passed on to consumers, decreases are not. Table 1 presents the statistical results of the applied model. The estimated long-run coefficient for the producer-retail price relationship is 0.657 for positive price changes, and -0.580 for negative price changes. This means that a 1% increase in the SAFEX white maize price results in a 0.657% increase in the retail price of maize meal, whereas a 1% decrease in producer price only leads to a 0.580% decrease at the retail level.

Similarly, for brown bread, a 1% increase in the producer price leads to a 0.707% increase in retail prices, while a 1% decrease results in only a 0.621% reduction. This imbalance highlights a downward rigidity in consumer prices, suggesting that retailers are more inclined to pass on price increases quickly and fully, while cost reductions are not reflected proportionally. Such asymmetry raises concerns about market power, particularly in the context of South Africa's food value chains, where a few dominant firms exert substantial pricing power. These firms can maintain high prices even when production costs fall, thus expanding their profit margins at the expense of consumers.

Table 1: Asymmetry Statistics long-term effect

Maize meal model		Brown bread model
Variable	Coefficient (p-value)	Coefficient (p-value)
Positive effect	0.657 (0.000) ***	0.707 (0.000) ***
Negative effect	-0.580 (0.000) ***	-0.621(0.000) ***

Causes and consequences of asymmetric price transmission

Several factors contribute to price transmission asymmetry in South Africa's maize and wheat sectors:

- **Market concentration:** A small number of dominant retailers control a large share of the food retail market, reducing competition and allowing firms to maintain price rigidity.
- **Pricing strategies and consumer behaviour:** Retailers may exploit consumer inelasticity by keeping prices high, knowing that consumers have limited alternatives for staple food products.
- **Supply chain costs and contracts:** Long-term supply agreements and logistical costs contribute to price stickiness, making it difficult for reductions in producer prices to immediately translate into lower retail prices.
- **Regulatory and competitive challenges:** Despite competition law enforcement efforts, evidence suggests that anti-competitive behaviour persists in the food sector, limiting the benefits of price reductions for consumers.

The consequences of asymmetric price transmission are significant:

- **Increased food costs for consumers:** Households, especially low-income consumers, bear the brunt of price rigidity, leading to reduced purchasing power and food insecurity.
- **Reduced price benefits for producers:** Farmers and millers may not fully benefit from market price adjustments due to intermediary control over pricing mechanisms.
- **Distorted market signals:** Inefficient price transmission disrupts investment decisions and market efficiency, ultimately affecting the stability of the food supply chain.

Conclusion and policy recommendations

The ongoing issue of price transmission asymmetry in South Africa's maize and wheat sectors points to deep-rooted market inefficiencies that hurt consumers, especially those with low incomes. Although the prices that producers receive for these crops may change, large retail companies tend to pass on price increases to consumers much faster than they lower prices when production costs drop. This leads to higher food prices and worsens economic inequality.

To address this problem and create a fairer food market system, several steps can be taken:

- Strengthen competition law enforcement: It's crucial for organizations such as the Competition Commission to closely monitor and penalize unfair practices such as price-fixing and the abuse of market dominance. This will help ensure that prices are set fairly across the food supply chain.
- Increase market transparency: Establishing a real-time system to track price changes, from producers to retailers, can ensure that when production costs go down, consumers benefit from lower prices. Major retailers should also be required to report their prices regularly to boost transparency and accountability.
- Support small retailers: Providing financial incentives and better market access for small retailers can help break up the dominance of large firms and improve competition. a more diverse retail market is key to offering fairer prices for consumers.
- Strengthen consumer protection: Policies that protect consumers from unfair price hikes should be strengthened, and public awareness campaigns should educate consumers about their rights and fair pricing.

By focusing on these measures, South Africa could create a food market system that is more competitive, transparent and fair to all role players, ultimately improving food security and promoting a more inclusive economy.

About the author

Thulani Ningi, Editor, National Agricultural Marketing Council and University of Fort Hare.
www.econ3x3.org/authors/thulani-ningi/