

Rising Food Prices and Household Welfare: Evidence from Brazil in 2008

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Food price inflation in Brazil in the twelve months to June 2008 was 18 percent, while overall inflation was 5.3 percent. Such a shock on the relative price of a vital group of commodities may have substantial effects on the distribution of well-being over time. This paper uses spatially disaggregated monthly data on consumer prices and two different household surveys to estimate the welfare consequences of these food price increases, and their distribution across households. Because Brazil is a large food producer, with a predominantly wage-earning agricultural labor force, our estimates include general equilibrium effects on market and transfer incomes, as well as the standard estimates of changes in consumer surplus. While the expenditure (or consumer surplus) effects were large, negative and markedly regressive everywhere, the market income effect was positive and progressive, particularly in rural areas. Because of this effect on the rural poor, and of the partial protection afforded by increases in two large social assistance benefits, the overall impact of higher food prices in Brazil was U-shaped, with the middle-income groups suffering larger proportional losses than the very poor. Nevertheless, since Brazil is 80 percent urban, higher food prices still led to a greater incidence and depth of poverty at the national level.