

Brian Sserunjogi

Why have the prices for laundry soap and cooking oil in Uganda not responded to the declining global cost of inputs: An update

Executive Summary

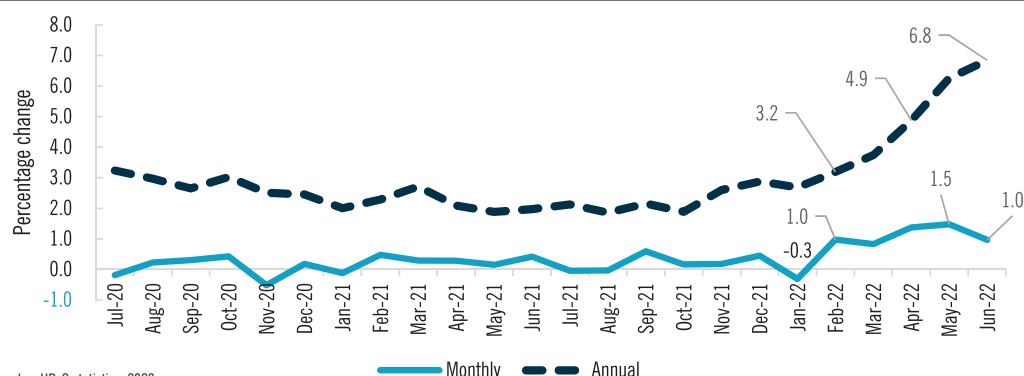
During May-July 2022, the global price for crude palm oil (CPO)—the primary input for laundry soap and cooking oil production — declined by 38%; however, the domestic price of soap and cooking oil only marginally changed. This policy note provides an update on the domestic and global dynamics regarding laundry soap and cooking oil prices since February 2022. Based on an in-depth literature review and secondary data analysis, this policy note shows the following: first, the rapid domestic escalation of both laundry soap and cooking oil prices that started in January 2022 had stabilised between April and July 2022. However, both prices remained greater than their pre-January 2022 level. Second, the global price of CPO and its derivatives has gradually declined since March 2022, driven by Indonesia's reversal of a restrictive export policy on CPO. However, the global price decline is yet to rebound to its pre-June 2021 level. Third, local soap and cooking oil manufacturers have not quickly responded to the declining global CPO prices between March and July 2022 by rapidly increasing CPO imports to the pre-June 2021 levels. Instead, local soap manufacturers drastically but temporarily increased imports of CPO derivatives (Palm Oil Olein and Stearin), inputs that yield content of low-fat for soap and cooking oil manufacture. Lastly, global dynamics, namely, continued escalation of the Ukraine-Russia conflict, measures to contain inflation in advanced economies, high energy prices and escalating shipping costs, continue to have a direct bearing on the domestic retail prices of both soap and cooking oil.

Background

With the opening of the global economy, following a slowdown in the COVID-19 pandemic, inflation has become a global problem (Carmen and Clemen 2022). Specifically, global inflationary pressure has persisted and become widespread, driven by supply-side shocks in agricultural commodities, energy, and non-energy industrial goods (BoU 2022). For instance, prices of fertiliser were 110 percent higher in May 2022 compared to the same period in 2021, energy were 86.7 percent higher, while crude palm oil (CPO) and wheat prices increased by 12.8 and 33.7 percent between February and May 2022. More recently, COVID-19 supply shocks have been amplified by prolonged geopolitical tension, particularly the Russia-Ukraine war, which has caused global commodity markets to face unprecedented pressure, lifting global commodity prices to all-time highs (ibid).

In Uganda, the price of several commodities and services has increased over the last seven (7) months, pushing the country's annual inflation rate to 7.9 percent in July 2022 from 3.2 percent in February 2022 (UBoS 2022). Before this rise, Uganda registered a price spike in the retail prices of laundry soap and cooking oil between January and February 2022. During this short period, the national average retail price for the laundry soap bar rose by 18 percent, from UGX 4,920 in January to UGX 5,826 in February 2022. The price of refined cooking oil (per litre) rose by 7 percent from UGX 9,290 to UGX 9,907 during the same period (UBoS 2022).

Given the importance of both laundry soap and cooking oil in the daily consumption basket of Ugandan households, this brief examines how global dynamics have affected domestic trends of both laundry soap and cooking oil prices since February 2022. It provides an update to Policy Note 10 titled "[What explains Uganda's surge in laundry soap and cooking oil prices in 2021/22?](#)" published in March 2022.

Figure 1 Changes in the consumer price index, % (June 2022 – June 2022)

Source: Author's computation based on UBOS statistics, 2022.

How have domestic consumer prices evolved since February 2022?

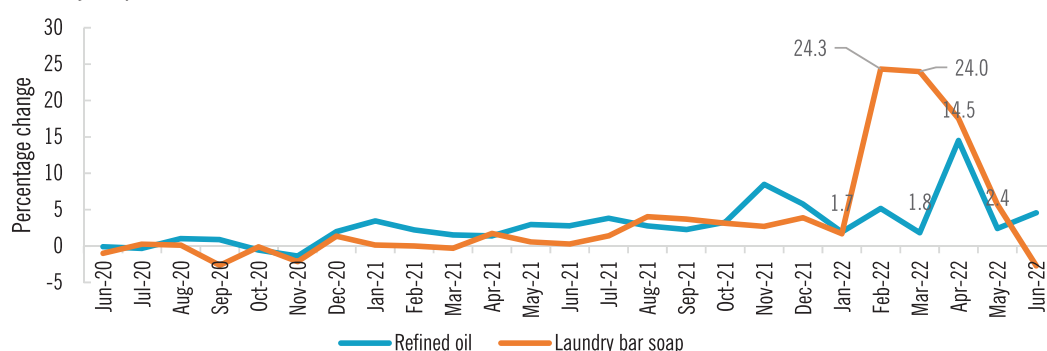
The cost of living in Uganda has further increased between February and July 2022. This is evidenced by the continued rise in the general price of basic commodities over the last six months. Specifically, annual headline inflation rapidly increased within this short period from 3.2 percent in February to 7.9 percent in July 2022 (Figure 1). According to BoU (2022), the rapid escalation of the general prices expanded across the basket of consumer goods and services. In this regard, the prices of cooking oil, laundry soap, fuel, transport, and food have all sharply risen. BoU (2022) reported that much of the domestic price changes had resulted from global price transmissions. For instance, considering a year-on-year basis, in June 2022, cooking oil prices rose by 43 percent, representing a price transmission of 85 percent from the global palm oil prices (BoU 2022). Similarly, fuel prices rose by 44.7 percent, representing a pass-through of 52 percent from international crude oil prices. These trends confirm the continued influence of global dynamics on domestic retail prices. It thus remains prudent to establish the factors behind the observed continued rapid increase in domestic prices.

How has the domestic price of soap and cooking oil progressed since February 2022?

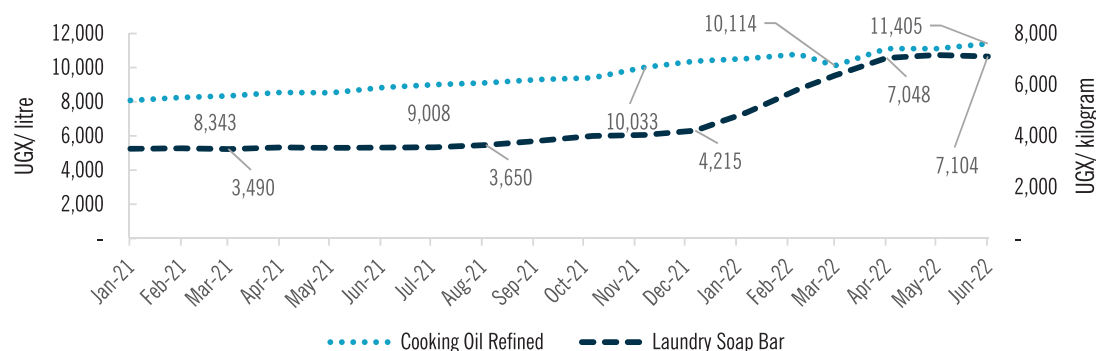
The month-on-month general price changes (Figure 2a) reveals that the price spike in the retail price of laundry soap registered between January and February 2022 has gradually subsided, probably, causing retail prices of soap to stabilise in the March to June 2022 period. Indeed, unlike the December 2021 – April 2022 period, when the retail price of laundry soap drastically spiked by 67.2 percent from UGX 4,215 per kilogramme in December 2021 to UGX 7,084 per kilogramme in April 2022, soap prices between April 2022 and June 2022 were more stable and averaged at UGX 7,105 per kilogramme. Similarly, the retail price of cooking oil remained stable, changing by a meagre 2.7 percent from UGX 11,110 per litre in April 2022 March to UGX 11,405 per litre by June 2022 (Figure 2b). Moreover, Figure 2b reveals that although the price of cooking oil has remained greater than laundry soap during the entire study period, the price gap between both commodities has continued to narrow. More recently, the price gap between both commodities declined from UGX 5,611 in January 2022 to UGX 3,748 in March 2022 due to a faster increase in the retail price of laundry soap since February 2022.

Figure 2 (a&b) Monthly change in CPI (%), June 2020–June 2022

(a) Refined oil and laundry soap



(b) Average price for laundry soap and cooking oil



Source: Author's computation based on UBOS statistics, 2022

Overall, the evidence presented so far reveals that even though much more stable now, the retail prices of both laundry soap and cooking oil between the February to June 2022 period have not yet subsided to their pre-December 2021 level. It remains greater than the January to February 2022 period, when the two commodities first registered price spikes. This lends credibility to an investigation into the factors that are responsible for the continued escalation of two commodity prices. The subsequent sections provide insights into the factors responsible for the continued rise of domestic retail prices after February 2022.

What explains the domestic trend in laundry soap and cooking oil prices since February 2022?

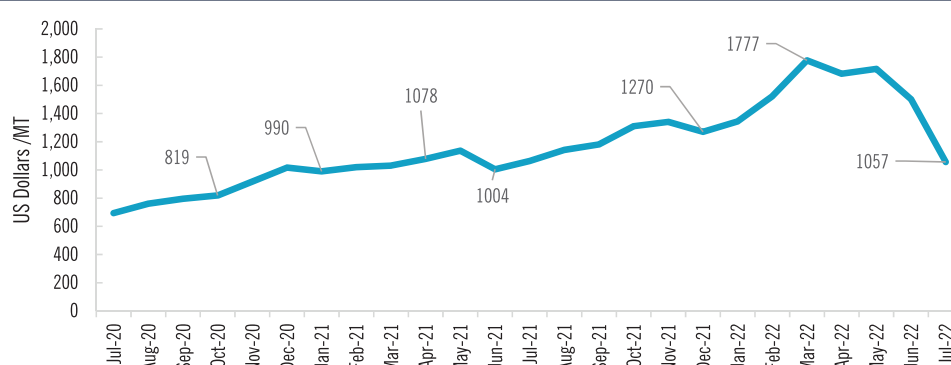
Changes in the global price of Crude Palm oil

As noted earlier, CPO is the primary raw material for manufacturing both cooking oil and laundry soap. Uganda imports CPO and its derivatives from Malaysia and Indonesia. Figure 3 shows that during the first quarter of 2022 (January and March 2022), CPO prices spiked by 39.9 percent, from USD 1,270/MT in January to USD 1,777/MT by March 2022. However, after March 2022, CPO prices drastically declined, falling by almost the same magnitude

(38.4 percent) as they rose during January-March 2022. CPO prices dropped from USD 1,717/MT in May to USD 1,057/MT by July 2022. Several reasons explain the drastic drop in CPO prices; First, increased global supply of CPO and its derivatives from Indonesia, following a reversal of its restrictive export policy that banned the export of CPO and its derivative between April 28 and May 23, 2022 (Bernadette and Heru 2022). Second, in June 2022, Indonesia's further relaxation of CPO export restrictions came with a reduction of the maximum export tax and levy from USD 575/MT to USD 488/MT (Stefanno 2022). Furthermore, the country launched an initiative to ensure that one million metric tonnes of CPO and its derivatives were exported by the end of July 2022. This aimed to speed up CPO shipments following the export ban (Bernadetta and Fransiska 2022).

It seems plausible that the observed short-term fall in the global price of CPO and its derivatives could be responsible for the observed high but stable retail prices for laundry soap and cooking oil in Uganda between April and July 2022 (See Figure 2b, Section 3). The brief further examines whether this reduction in global CPO prices resulted in increased import demand for CPO by local soap and cooking oil manufacturers in Uganda.

Figure 3 Monthly global price trends for crude palm oil, July 2020-July 2022

Source: Author's computation based on World Bank Commodity Markets database (2022). Accessed at <https://www.worldbank.org/en/research/commodity-markets>

Changes in the importation of CPO and its derivatives

Overall, the decline in the global CPO prices in the short term has not yet been effectively transmitted into increased CPO importation by local laundry soap and cooking oil manufacturers (Figure 4a) on a sustainable basis. More succinctly, although global CPO prices dropped by 40.5 percent from USD 1,777 in March 2022 to USD 1,057 in July 2022, CPO import volumes dropped by 63.1 percent from 2.2 million metric tonnes to 0.8 million metric tonnes during the same period (Figure 4a). In addition, the current CPO prices had remained higher than June 2021 prices—a period when global CPO prices first registered a consistent rise. As such, Figure 4a reveals that local soap and cooking oil manufacturers have not quickly responded to the declining CPO prices by rapidly increasing CPO imports to the pre-June 2021 levels when the global CPO price was less than USD 1000/MT. Instead, to respond to the current decline in global CPO prices, local soap manufacturers only temporarily increased CPO imports for two (2) months (March and April 2022), after which imports declined (Figure 4b).

With global CPO prices remaining sticky upwards than their pre-June 2021 levels, albeit showing a declining trend, local soap manufacturers compensated and increased the importation of the CPO derivatives - Palm oil Olein and Stearin - between April and May 2022. During this period, Uganda's palm oil Olein imports drastically spiked by 76.5 percent, from 4.4 in April 2022 to 18.7 million metric

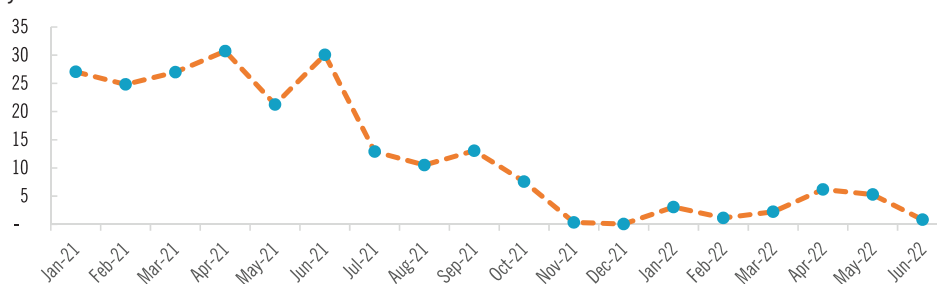
tonnes by May 2022. However, this drastic increase was short-lived, and the import of CPO derivatives drastically dropped shortly after May 2022. The observed trend could partly be that because of a drop in global CPO prices between April and May 2022, the price of its derivatives (Olein and Stearin) became even lower than that of CPO. As such local manufacturers increased the importation of Palm Oil Olein and Stearin during this period to stock less expensive raw materials. However, since both products yield less soap fat than CPO, imports dropped past May 2022, with a persistent high but declining global CPO price (See Figure 4a below).

Increasing costs of international shipping

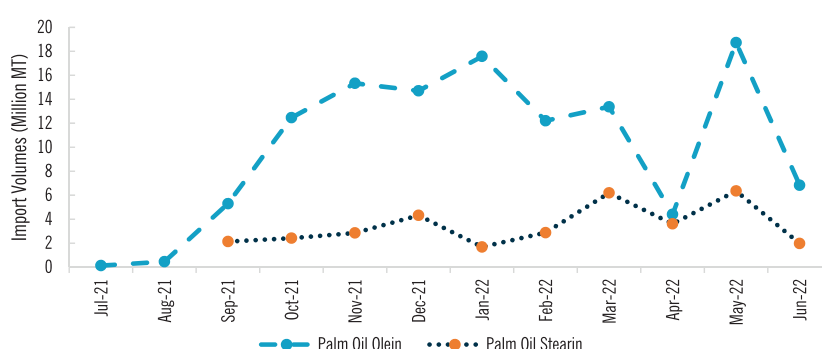
The outbreak of the COVID-19 pandemic was associated with supply chain disruptions, delays in delivering raw materials, increasing demand for ocean freight for transporting CPO and related products and reduced capacity to meet growing demand in the freight markets. Besides the cost of raw materials, the cost of production for soap and cooking oil has also been affected by a continued escalation of the ocean shipping cost (Figure 5). More recently (March 2022), further escalation of ocean transport costs was brought about by a six-day blockage of the Suez Canal, which caused backlogs worldwide (Sujata and Jonathan 2021). In addition, the uncertainty in global supply chains caused by the escalation of the Russia-Ukraine conflict has also amplified high freight costs (BoU 2022). UNCTAD (2021) reported that high freight costs were derailing global

Figure 4 (a&b) Monthly import volumes, January 2021 – June 2022

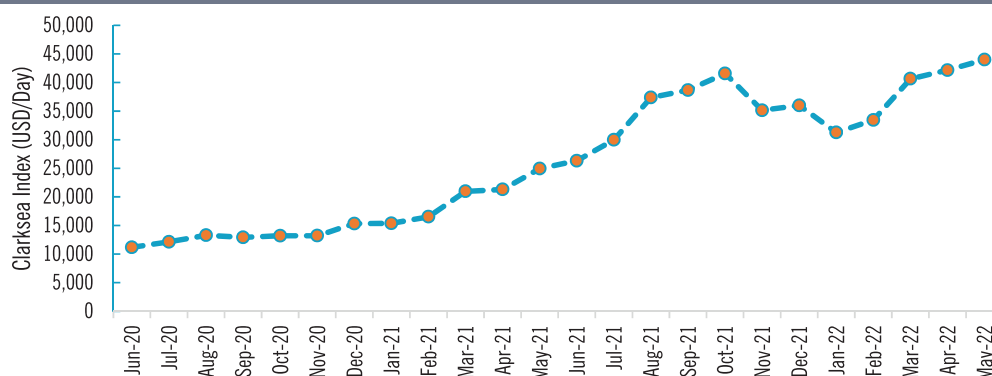
(a) Crude Palm Oil, January 2021- June 2022



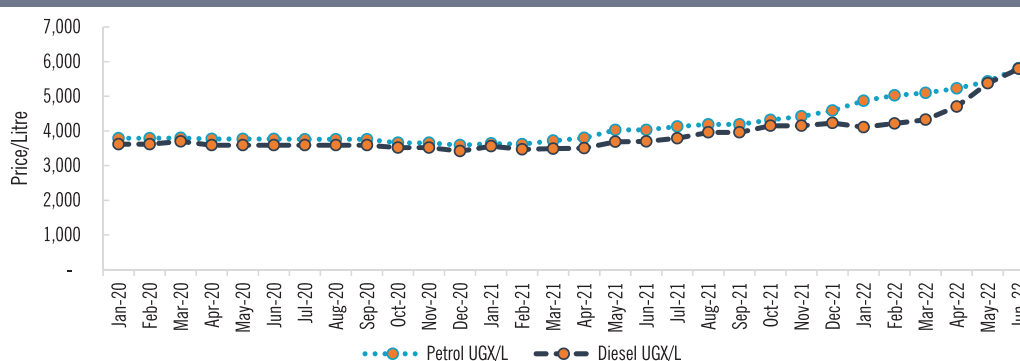
(b) Palm Olein and Stearin, July 2021- June 2022



Source: Authors' construct using data from Uganda Revenue Authority (2022).

Figure 5 Container shipping costs, June 2020 – May 2022

Source: Authors' construct using Clarksea database (2022). Accessed from <https://unctad.org/news/war-ukraine-raises-global-shipping-costs-stifles-trade>.

Figure 6 Trends in domestic fuel (petrol and diesel) prices, January 2020-June 2022

Source: EPRC's computation using fuel tax data from Uganda Revenue Authority (URA) – 2022.

recovery and could inflate global import prices by 10 percent and consumer prices by 1.5 percent between now and 2023. In this regard, small economies that heavily depend on imported goods by sea are expected to be hardest hit by a spike in import prices (*ibid*).

Persisted increase in the domestic fuel prices

Since June 2021, Uganda has registered a persistent increase in fuel prices (Figure 6). Specifically, the rise in domestic fuel prices that commenced in the first quarter of 2021, with the opening up of the global economy, has been amplified by recent sanctions on fuel exports from Russia (Figure 6). In February 2022, following the invasion of Ukraine by Russia, domestic pump prices for both diesel and petrol escalated. Notably, the pump price for diesel increased rapidly by 40.9 percent, from an average of UGX 4,110 in February to UGX 5,792 by June 2022. On the other hand, pump prices for petrol also increased, albeit at a slower rate (19.3 percent) compared to diesel prices. Specifically, petrol prices per litre increased from an average of UGX 4,872 per litre in February 2022 to UGX 5,811 per litre in June 2022. Domestic manufacturers factor the increase in fuel costs into the final price. Given that most soap manufacturers use road transport (diesel trucks) to move raw material (CPO) from

the Mombasa port to Kampala, the rapid increase in diesel prices is likely to be transmitted into the final retail price. In addition, most of these manufacturers have installed refineries which are powered by diesel, in case of power cuts.

Persisted weakening of the Uganda Shillings against the US dollar

Besides the above factors, the recent shilling dollar exchange rate volatility has impacted the cost of CPO and its derivatives for soap and cooking oil manufacturing. Figure 7 reveals that while the shilling had previously gained some ground against the dollar up to February 2022, starting April 2022, the shilling dollar exchange rate was more volatile on a depreciation path with heightened depreciation in June 2022. According to BoU (2022), the Uganda Shilling lost 3.1 percent of its value to the US dollar month-on-month and 5.8 percent year-on-year in June 2022. The losses were greatly due to tightening of monetary policy by advanced economies (US central bank) to control inflation, intensifying foreign exchange outflows from Uganda, thereby further weakening the Uganda shilling. In addition, Uganda's deteriorating terms of trade have caused a stronger demand for US dollars amongst the energy companies and other importers.

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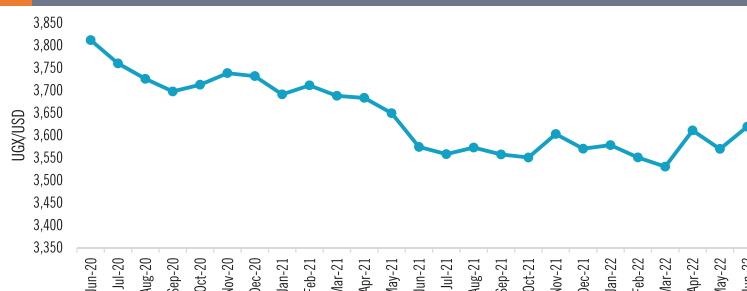
Brian Sserunjogi is a Research Fellow at the Economic Policy Research Centre, Kampala, Uganda.

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Figure 7 The Shilling Dollar exchange rate (June 2020-June 2022)



Source: Author's construction based on URA import exchange rate data.

Conclusion

This brief is an update on the trends in the domestic retail prices of both laundry soap and cooking oil since February 2022, when the prices of both commodities spiked. It further highlights global dynamics that could influence the observed changes in domestic retail prices of soap and cooking oil. The emerging observations on the domestic and global dynamics influencing laundry soap and cooking oil prices include:

- Between April and July 2022, domestic retail prices of both laundry soap and cooking stabilised. However, both prices remain greater than their pre-January 2022 level, when price spikes for both commodities were first registered. Locally, the rapid escalation of both laundry soap and cooking oil prices that started in January 2022 subsided by April 2022. Like the pre-February 2022 period, cooking oil prices remain greater than those of laundry soap; however, the price gap between the two commodity prices continues to narrow because of faster growth in laundry soap prices after February 2022.
- The global price of CPO and its derivatives has gradually declined since March 2022. However, the price drop has been sluggish and has not yet rebounded to its pre-June 2021 level, when the first persistent rise in CPO prices was registered. In the short term (March 2022-July 2022), the CPO price fall was affected by the reversal of restrictive export policy in Indonesia, the world's largest global exporter of CPO.
- Local soap and cooking oil manufacturers have not quickly responded to the declining global CPO prices between March and July 2022 by rapidly increasing CPO imports to the pre-June 2021 levels. This signals that the current global CPO price fall has been sluggish, and CPO price has remained higher than their pre-June 2021 level. Instead, to respond to the current decline in global CPO prices, local soap manufacturers drastically but temporarily increased imports of CPO derivatives (Palm Oil Olein and Stearin); these inputs yield low-fat content for soap and cooking oil manufacturers.
- Overall, global dynamics, namely, continued escalation of the Ukraine-Russia conflict, measures to contain inflation in advanced economies, high energy prices and escalating shipping costs, continue to have a direct bearing on the domestic retail prices of both soap and cooking oil.

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Address:

Economic Policy Research Centre
51, Pool Road, Makerere University Campus,
P.O. Box 7841 Kampala, Uganda
Tel: +256414541023/4 Fax: +256414541022
Email: eprc@eprcug.org