PRICE TRANSMISSION ON THE HUNGARIAN AGRI-FOOD MARKETS

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There is a wealth of literature on farm-retail price spread for different commodities and countries. However, with few exceptions none have studied price transmission and marketing margins in the transition economies. Because of the inherited pre-1989 distorted markets, low developed price-discovery mechanisms and often ad-hoc policy interventions, transitional economies could be expected to have generally larger marketing margins and more pronounced price transmission asymmetries.

Within this project, the authors studied the dynamics of marketing margins and the nature of price transmission on two Hungarian markets: beef and pork.

For both markets post 1990 producer and consumer price series data was used for the analysis. All price series proved to be non-stationary therefore cointegration methodology was used for the empirical analysis. Due to the structural breaks in the series occurring at various time points, classical Johansen or Engle and Granger cointegration tests could not be applied. Therefore the authors applied the Gregory and Hansen cointegration tests in the presence of structural breaks.

The main findings of the research are:

- producer and retail prices on pork market are cointegrated with a structural break occurring in April 1996
- producer and retail prices on beef market are cointegrated with a structural break occurring in August 1997
- on both markets the market structure is a non-competitive one, where processors and retailers charge a mark-up to the retail price plus a constant absolute margin
- causality (i.e. market information) is running from producer to retail levels on both markets
- price transmission on the Hungarian beef meat market is symmetric on both long and short run

- price transmission on the Hungarian pork meat market is symmetric on the long, but asymmetric on the short-run, i.e. processors, wholesalers or retailers might take temporary advantage should price changes occur.

The authors conclude that despite of the inherent instabilities of the transition period, the analysed agri-food markets seem to perform relatively well. Some of the results contradict the findings of the studies set in developed markets that usually establish asymmetrical price transmission on livestock markets and a farm to wholesale to retail price information flow.

Keywords: marketing margins, asymmetric price transmission, cointegration in the presence of structural breaks, error correction, beef market, pork market