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**Goods versus Commodities:
International and Local
Perspectives**



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PRIVATE EQUITY & INVESTMENT BANKING

Introduction

Q1 What is the difference between goods and commodities?

Q2 How are both types assessed by different nations based on their indices?

- Annual Income per Capita
- Purchasing Power Parity (PPP)
- Cost of living index

Q3 Egypt Case: Reform dynamics on goods versus commodities

Conclusion



For a correct economic comparison, one should consider several factors when comparing prices of a country to another. First of all, a distinction must be made between **goods** that are non-tradable and **commodities** that are tradable. Not every good is transacted on an international basis, which makes the prices of non-tradable goods only relative to their corresponding countries.

The second factor includes countries' indices that assess how expensive a country is; such factors reflect the quality of life and put prices into perspective of the wealth of the economy. The indices mainly include: **Income per Capita, Purchasing Power Parity (PPP) and the Cost of Living Index.**



What is the difference between goods and commodities?

It is vital to differentiate between goods and commodities as to know which products' prices are comparable on an international basis

Goods (Non-Tradable)

- Cargo that is produced, traded, bought/sold, then finally consumed by the consumer.
- Goods are usually **locally produced** and their prices are **volatile** given that they depend on the inflation rate of the relevant country.

Examples:

- Sugar
- Bread
- Milk
- Eggs



Commodities (Tradable Goods)

- Commodities are supplied by the production system just before they are sold for manufacturing.
- Commodities are **raw materials** that are sold in the commodities exchange in their unrefined form.
- They are also any **homogenous** products traded in bulk.
- Price of commodities is **not so volatile** and depends on the **international market**.

Examples:




- Grain
- Precious metals
- Cotton
- Crude Oil



Question 1

What is the difference between goods and commodities?

Prices of goods are not comparable on an international basis since they vary from a country to another and from time to time



Non-Tradable Goods	Egypt	Tunisia	Jordan	Zimbabwe
Milk (1 Liter)	0.67	0.46	1.51	1.37
12 Regular Sized Eggs	0.92	0.81	1.99	1.93
Fresh White Bread (500g)	0.41	0.13	1.93	0.95

***July 2017 Prices in USD**

Question 1

What is the difference between goods and commodities?

International prices of tradable commodities are stable to a great extent, move within worldwide benchmarks and are comparable on an international basis

***2016 Price in USD**

***2017 Price in USD**



Wheat
(\$/mt)

177 → 189.6



Raw Cocoa
(\$/kg)

3.1 → 2



Cotton (\$/kg)

1.57 → 1.87



Gold (\$/toz)

1,260 → 1,260



Silver (\$/toz)

17 → 16.9



Platinum (\$/toz)

1,005 → 931



Crude Oil,
Brent (\$/bbl)

46 → 46.9



Question 2

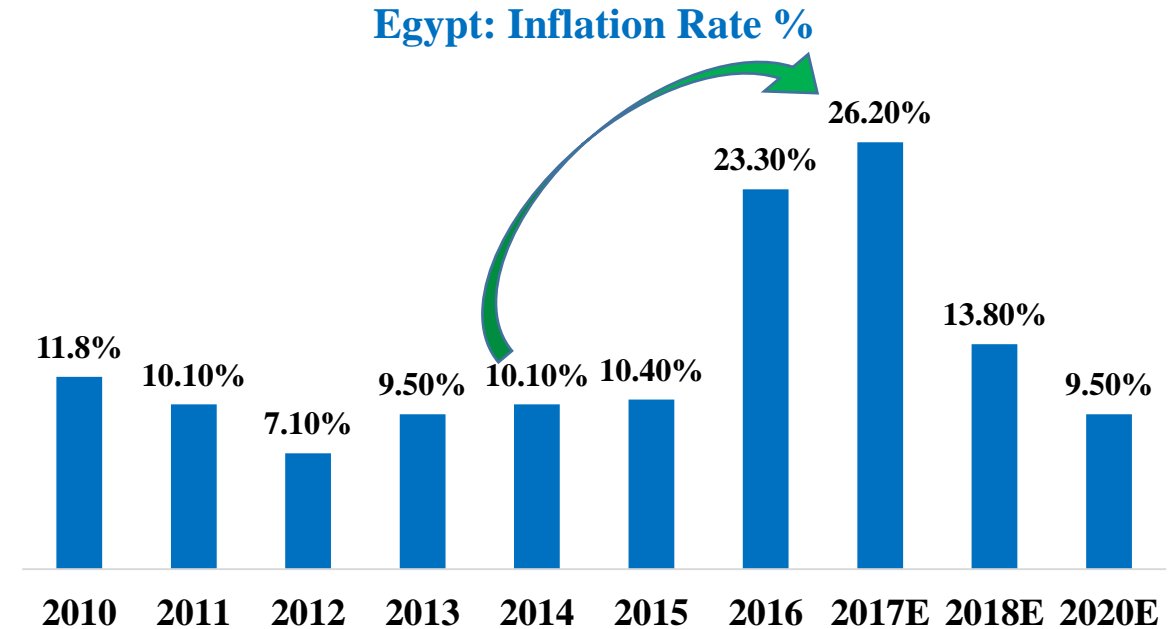
How are both types assessed by different nations based on their indices? Indices based on countries' development classification

	Developed Economies			Economies in Transition		Developing Economies			
	USA	France	UK	Albania	Ukraine	India	Tunisia	Egypt	Jordan
Annual Income per Capita	60,154	42,992	42,835	5,987	3,409	1,608	958	860	637
PPP	114.73	89.37	92.5	30.22	25.2	67.15	34.17	23.24	38.21
Cost of Living Index	77.23	81.16	76.02	36.84	29.21	27.48	28.3	25.39	58.76

*Annual Income per Capita 2017 (USD)

*PPP H1-2017 and Cost of Living Index H1-2017 and relative to American benchmarks

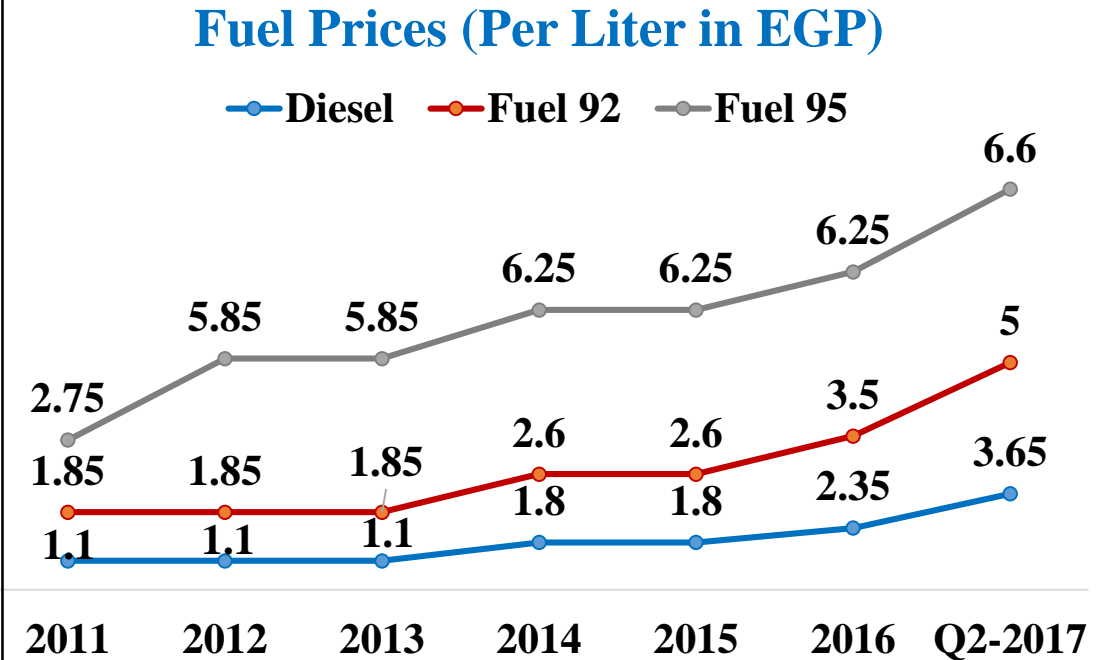
Indicator	2016-Mid Year Value	2017-Mid Year Value
Annual Income per Capita	1,920 USD	↓ 860 USD
PPP	37.14	↓ 23.24
Cost of Living Index	32.62	↓ 25.39

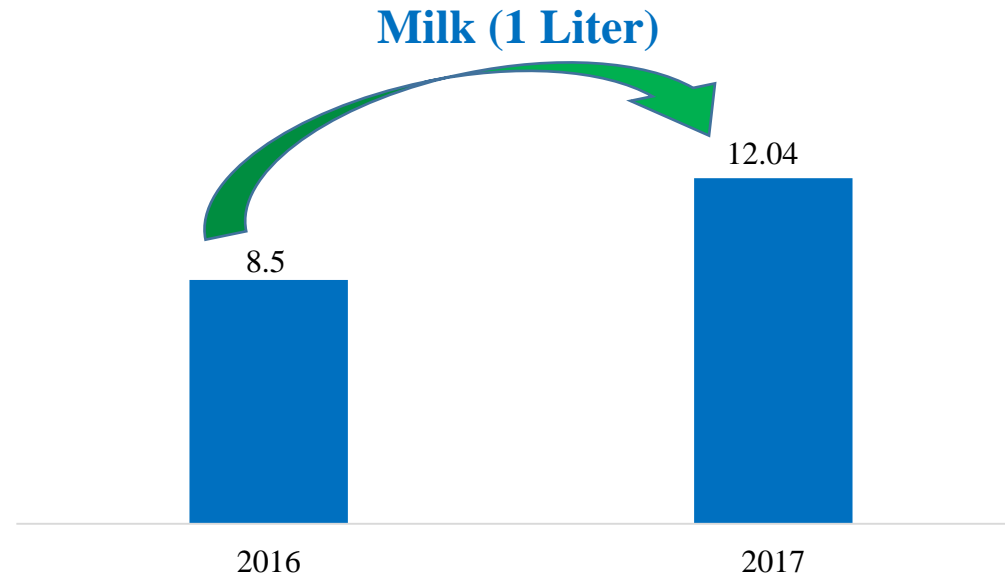


Being relative to the **American benchmark** and given the impact of the **floatation** and **other economic reforms**, the indices have decreased. It is vital to note that the declines were driven by the floatation of the Egyptian pound causing: a decline in **Cost of Living Index** relative to American prices, a drastic increase in the **inflation rate** from 10.4% in 2015 to 29.8% in Q2-2017 and is expected to reach 26.2% by the end of 2017, and an **erosion of the purchase power**.



- Removing the fuel subsidies as one of the **economic reform program** conditions, fuel prices have surged as portrayed by the graph.
- Although fuel is a **commodity**, cutting energy subsidies has contributed to the rise in inflation, which in turn reflected on the prices of Egyptian **non-tradable goods**. Thus raising the cost of living from a **local perspective**.
- Moreover, the **Egyptian purchase power** has **eroded**, which in the long run will affect the percentage of people below the **poverty line**. The percentage is expected to exceed 35% by the end of 2017 compared to 27.8% in 2016.
- The **Middle class** constitutes about 40-50% of the Egyptian population and has been the most affected segment by the increase in fuel prices. Its cost of living drastically increased and their **income level** remained as is, which forced them to change their **spending patterns**.





- Price of milk, a **non-tradable good**, has increased from 2016 to 2017 given that it is affected by the **Egyptian inflation rate**.
- Even though the **Egyptian Cost of Living Index** compared to other countries is cheaper, to Egyptians it is not, given that the **Income per Capita** remained constant and cost of living increased.
- The rate of increase in the cost of living has exceeded the rate of increase in **Income per Capita** and **PPP**. Hence, the **financial burden** on the Egyptian citizen has risen tremendously.



The Egyptian case has portrayed the following:

- **Cutting subsidies** as part of the **economic reform program** has resulted in an **increase in inflation**, which **increased the cost of living**.
- Rate of increase in cost of living exceeded the rate of increase in income and the **erosion of purchase power**, which meant that the **financial burden** on the Egyptians increased.
- Egypt has become **relatively cheaper to other countries** that earn a higher Income per Capita level such as Ukraine, Albania and UK thanks to a **cheap Egyptian pound** because of the **devaluation**.
- It is not economically correct to compare between the price of Egyptian milk and American milk given that:
 - Milk is a non-tradable good.
 - The average American earns way more than the average Egyptian.
 - The cost of living to the American living in America is far different from the cost of living to the Egyptian living in Egypt.



Since prices of non-tradable goods are **volatile** and differ from one country to another, their prices are **not** comparable on an **international basis**. On the other hand, tradable commodities have somewhat **stable prices** making them **comparable** and exchanged in the **global market**. That is why the price of milk, the non-tradable good, cannot be compared internationally while fuel, the tradable good can be.

It is worth mentioning that countries with **lower** Income per Capita **consume less** of tradable goods than countries with **high** Income per Capita, which is why the Annual Income per Capita, PPP and Cost of Living Index need to be put into consideration when comparing countries.



**THANK YOU
THE END**

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