

Guide 7: Market Integration

Market integration is a measure of the trading behaviour, information, and price differential between markets. It is important for HEA studies because it helps us understand and predict the likelihood of deficit markets being supplied with commodities they require. Market integration is summarized clearly by researchers from Michigan State University (Donovan et al 2005) below.

What is Market Integration?

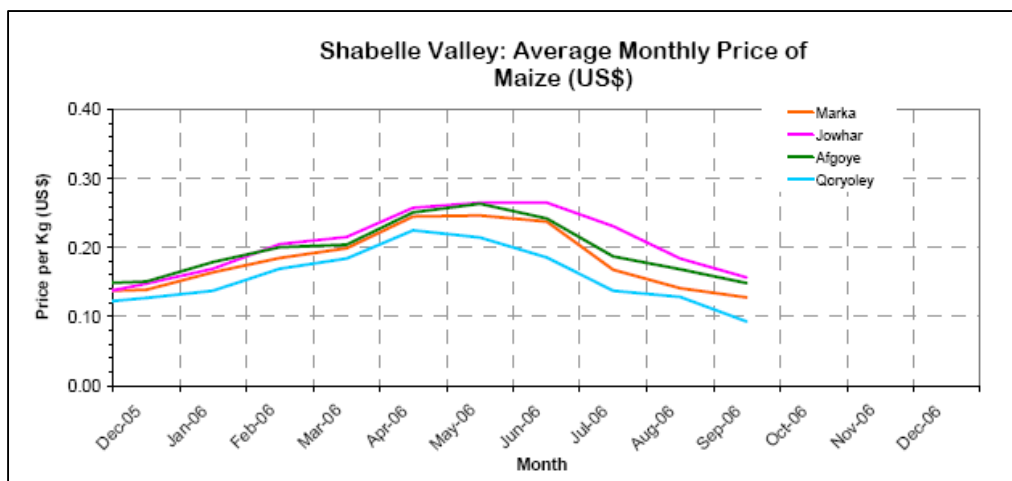
Just as increases in the supply of one commodity can affect the demand for other (substitute) commodities, so too can changes in the supply or demand for a good in one market spill over onto other markets. The notion of market integration measures the degree to which changes in market conditions in one market affect those in other markets (separated by time or space).

Market integration analysis may include simple evaluation of whether or not there is physical trade between markets, evaluation of whether the difference in prices between two markets is about equal to the cost of transporting goods between the markets, or whether the prices in the markets tend to move together over time.

Market integration typically is the result of traders moving product across markets when the price differential between those markets exceeds the costs of moving the product. When traders behave in this way, markets are often said to be “functioning well.”

Understanding market integration is important particularly in needs assessments as interventions need to avoid over-estimating or under-estimating the ability of markets to respond. Figure 1 below illustrates market trends in a set of markets which are relatively well integrated (the reader will not be surprised to learn that these markets are relatively close to Mogadishu, the capital of Somalia).

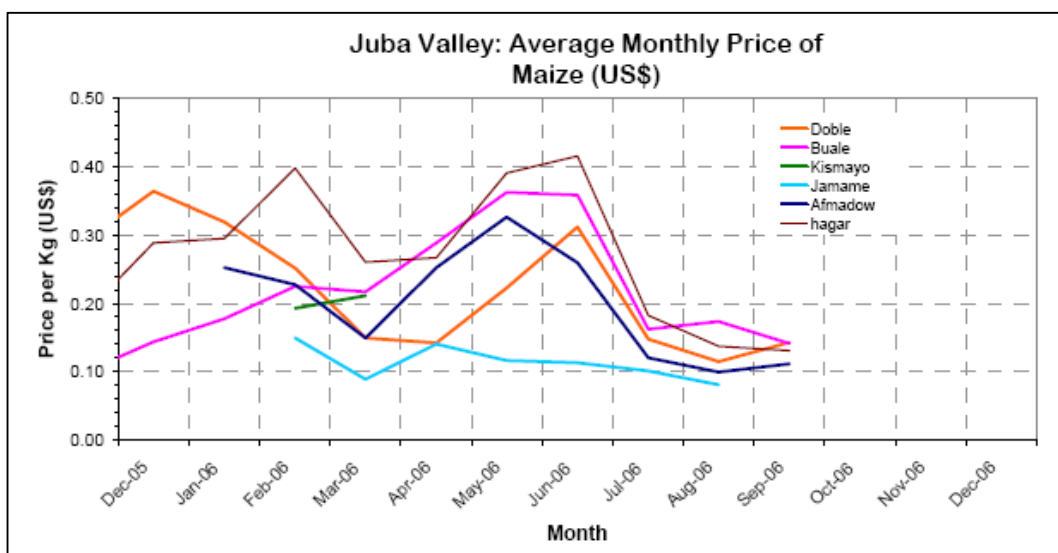
Figure 1: Graph suggesting high degree of integration



Market integration is indicated by the degree of conformity in terms of the price trends over time, and by the difference between markets in the price of the good in each month – the maximum difference between all markets is \$0.10 per kg, and a minimum of about \$0.3 per kg. We can be reasonably sure that if the price is good for traders in Afgoye (See Figure 1), a trader from one of these other markets may well supply the demand.

In the second graph (Figure 2) - which features markets in a highly insecure area farther away from the capital, there is a high diversity in price trends between the markets (Jamame stands out in particular) and there is a large difference in price between the markets (e.g. the price in Hagar is often 3-4 times the price in Jamame). In fact, it is possible that Jamame is better linked to the Shabelle group of markets as its price pattern seems to fit better with the trends for these, rather than the second cluster of markets.

Figure 2: Graph showing lower degree of market integration



Related resources:

- Market mapping (including supply channels) – Guide 6
- Market chain analysis – Guide 1
- File 2F – excel file for inputting raw secondary market data (time-series data) with a pre-prepared graphing facility.