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Price Volatility in the Midst of COVID-19

Market shocks are common events in all sectors. In the protein commodity arena, historical shocks to markets have ranged from weather events such as droughts, snowstorms, floods, etc. to diseases, fires, or political unrest, among many others. While one can adjust for some of these events, they are hardly easy to predict. This is one of the many reasons why price forecasting is quite a challenging task. Yet, some indicators can help us try to anticipate potential future price movements, such as volatility indicators.

As predicted last week, we are currently experiencing high price volatility on many items with data observed through the 3rd week of the COVID-19 pandemic-related shock to the market. Lower priced items like eggs and ground beef have shown historical volatility surpass the highest threshold limit.

The measure of volatility we analyzed looks at weekly price changes on batches of two-week periods—since the panic buys began in early March. As shown in the figure below, we can see that egg prices surpassed the highest volatility threshold last week, in addition to moving at the fastest two-week pace since at least 2000. Regarding the volatility threshold, we have only crossed this limit a handful of times over the past 20 years, only for prices to return to “normal” historical levels. So, while prices are still poised to continue rising in the near-term, the rate at which prices for these items increase week-by-week, is likely to fall.

Ground beef prices have experienced a similar spike over the last two weeks while also surpassing their historical volatility threshold. However, ground beef prices are lagging one week behind eggs. For this measure, we took the average price for the current week as of March 24th, 2020. Again, this could signal that the rate at which prices move could slow down even if we keep reaching back-to-back record highs.

This is one of the many tools we can analyze week over week in an attempt at anticipating future movements. Our view is that as these increases in prices slow down, demand will divert into substitute items. We will continue to monitor this situation to see if this holds true.

The situation is developing. Subscribers should log in to COMTELL for continuous updates and analysis. For more exclusive insights like this from UB Consulting, please call 732-240-5330 or email consulting@urnerbarry.com.

