

Box 8

RECENT DEVELOPMENTS IN UNPROCESSED FOOD PRICES

Of the main components of the HICP, unprocessed food prices have recently recorded the strongest growth rates. However, next to energy prices, unprocessed food prices are the most volatile component of the HICP and upward pressures that have accumulated over a stretch of months often tend to unwind quickly over subsequent months. This box examines the nature of the recent upward pressures and assesses the implications for the inflation outlook.

Putting the recent developments into perspective

Unprocessed food prices rose at an annual rate of around 5% in the months from May to July 2013 and despite their relatively low weight (7.3%) in the total HICP basket thus made a significant contribution to overall HICP inflation. Looking back over the period since 1999 the annual rate of change of this component has only been higher on one occasion, namely in 2001 and early 2002, when health concerns associated with animal diseases led to upward pressure on beef prices and – via substitution – the prices of other meat items.¹ The recent high rates of unprocessed food price inflation have instead been due mainly to rising contributions from vegetable and fruit prices (see Chart A).

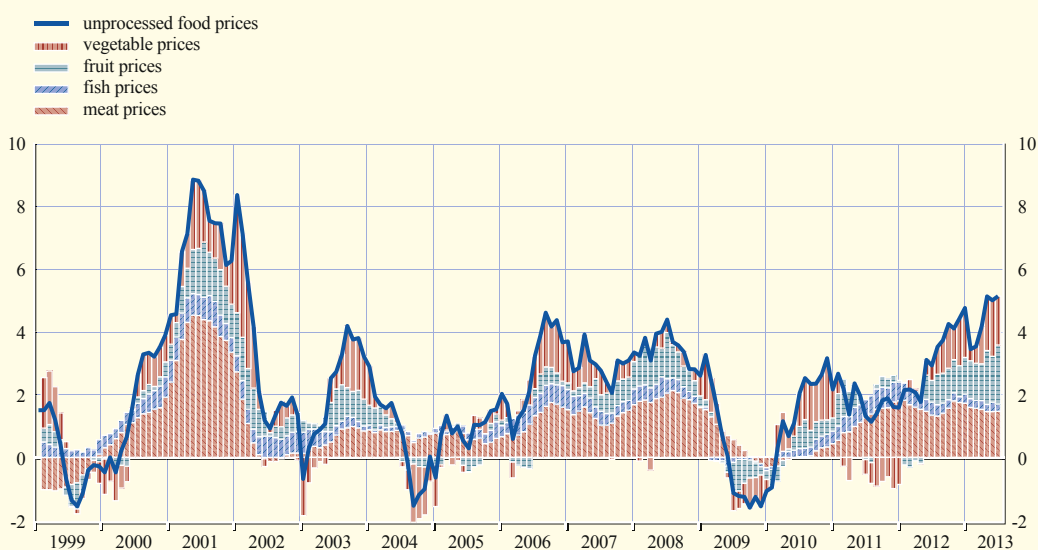
Vegetable and fruit prices account for most of the volatility in unprocessed food price inflation, largely reflecting shifts in the intra-annual pattern of the month-on-month changes. Such shifts are often due to supply disruptions related to the effects of the weather on agricultural production. As a result of changes in the methodology for the treatment of seasonal products in the HICP,² the volatility in month-on-month changes has increased at the euro area level and comparisons with historical intra-annual patterns are surrounded by greater uncertainty. Looking beyond this uncertainty, the cumulative change in vegetable and fruit prices since August 2012 has been greater than that observed in earlier corresponding periods. More specifically, it has been greater than the 1999-2012 average of the cumulative change observed from the August of the previous year and has moved above the range of one standard deviation either side of this

1 See the box entitled “Recent unprocessed food price developments: the impact of BSE and foot-and-mouth disease”, *Monthly Bulletin*, ECB, May 2001.

2 See the box entitled “Methodological changes in the compilation of the HICP and their impact on recent data”, *Monthly Bulletin*, ECB, April 2011.

Chart A Unprocessed food price inflation and contributions from its sub-components

(annual percentage changes; percentage points)

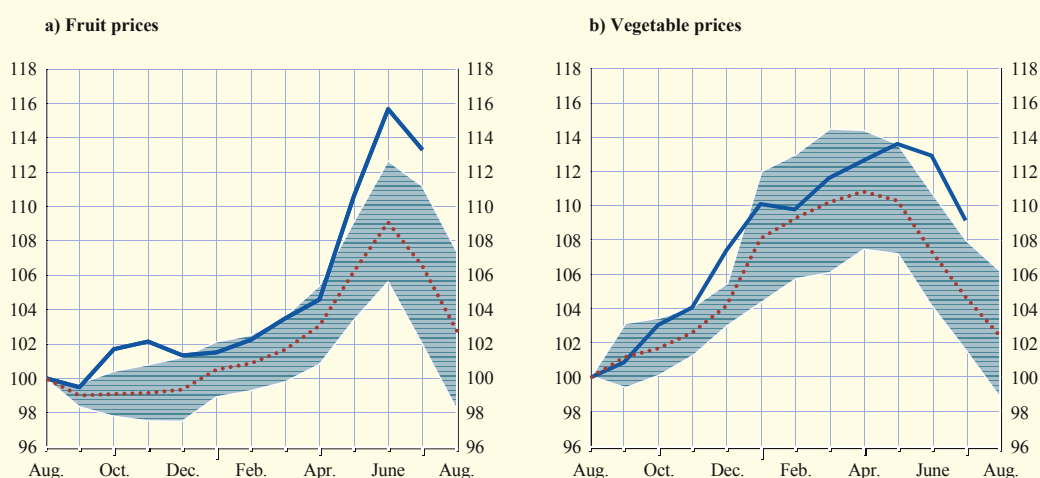


Sources: Eurostat and ECB calculations.

Chart B Intra-annual pattern of euro area fruit and vegetable prices

(index: August of the previous year = 100)

- developments since August 2012
- average developments since August of the previous year (1999-2012)
- +/- one standard deviation



Sources: Eurostat and ECB calculations.

Note: The shaded areas indicate +/- one standard deviation in the index levels for each month relative to their level in the August of the previous year over the period from 1999 to 2012.

historical average (see Chart B). This greater change has been due mainly to developments in May and June 2013. By contrast, data for July 2013 show some easing in both vegetable and fruit prices, which is broadly in line with their normal seasonal patterns. In the case of vegetable prices, the recent increase in the annual growth rates is also due to base effects, as the seasonal summer decline set in somewhat later than usual in 2013, while in 2012 it had set in somewhat earlier.

Assessing the nature of the recent upward pressures

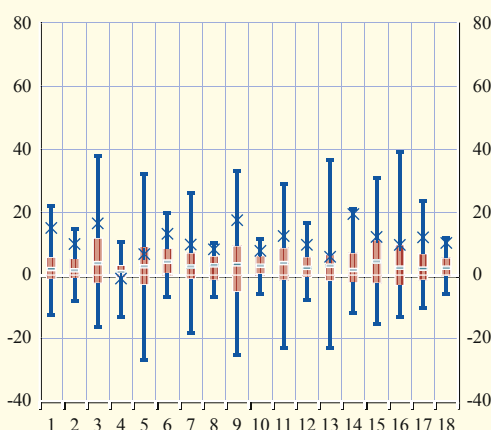
The strong upward movement in fruit and vegetable prices in spring 2013 is likely to be due to supply shortages as a result of bad weather conditions. Owing to the longer winter and excessive rainfall, countries in both northern and southern Europe experienced poor or delayed harvests for some seasonal fruit and vegetable items. As the production and consumption of vegetables and fruit have a relatively high regional dimension, this is likely to have resulted in higher prices in the countries concerned. Upward pressures from vegetable and fruit prices have been observed in nearly all euro area countries, albeit to different extents. The annual rates of change for these two sub-components over the period from May to July 2013 have been above the third quartile of the historical distribution of annual rates of change since 1999 in 13 out of the 17 euro area countries in the case of fruit prices and 11 countries in the case of vegetable prices (see Chart C). Differences in the size of the increase across countries and between fruit and vegetable prices lends support to the interpretation that regional weather conditions are the main reason for the recent surge in these prices. Other factors such as different shares of imported vegetables and fruits, or differences in the transmission of the weather-related supply shock to final consumer prices may also have played a role.

Chart C Box plots summarising the distribution of the annual rates of change in fruit and vegetable prices since 1999 and the average annual rate of change from May to July 2013 in the euro area and individual euro area countries

(annual percentage changes)

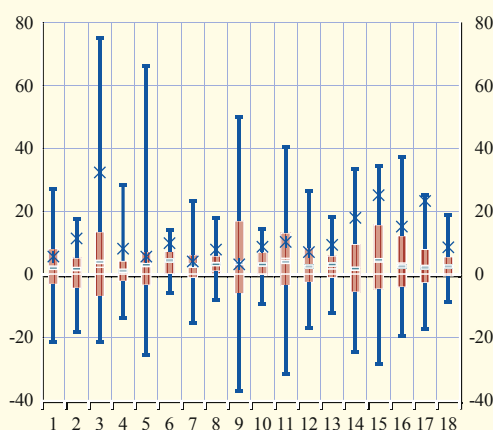
- ✕ average annual percentage change from May to July 2013
- ▬ interquartile range of the distribution
- median of the distribution

a) Fruit prices



- | | | |
|------|-------|--------------|
| 1 BE | 7 FR | 13 AT |
| 2 DE | 8 IT | 14 PT |
| 3 EE | 9 CY | 15 SI |
| 4 IE | 10 LU | 16 SK |
| 5 GR | 11 MT | 17 FI |
| 6 ES | 12 NL | 18 euro area |

b) Vegetable prices



- | | | |
|------|-------|--------------|
| 1 BE | 7 FR | 13 AT |
| 2 DE | 8 IT | 14 PT |
| 3 EE | 9 CY | 15 SI |
| 4 IE | 10 LU | 16 SK |
| 5 GR | 11 MT | 17 FI |
| 6 ES | 12 NL | 18 euro area |

Sources: Eurostat and ECB calculations.

Notes: The vertical lines indicate the minimum and maximum values since 1999. Data are adjusted for distortions in the annual rates of change as a result of the regulation on the treatment of seasonal products in the HICP (see footnote 2).

Overall, the recent high rates of unprocessed food inflation are likely to be temporary in nature and to reflect the inherent volatility of developments in fruit and vegetable prices rather than medium-term trends. In the absence of further supply shocks, vegetable and fruit prices should follow their usual seasonal patterns. Indeed, the available preliminary consumer price data for August already indicate a decline in the annual rate of change of unprocessed food prices. The recent developments, therefore, do not comprise the current outlook for subdued underlying price pressures in the euro area.