



Prices

FOOD PRICES IN TIMES OF GLOBALISATION

Destatis, 8. June 2012

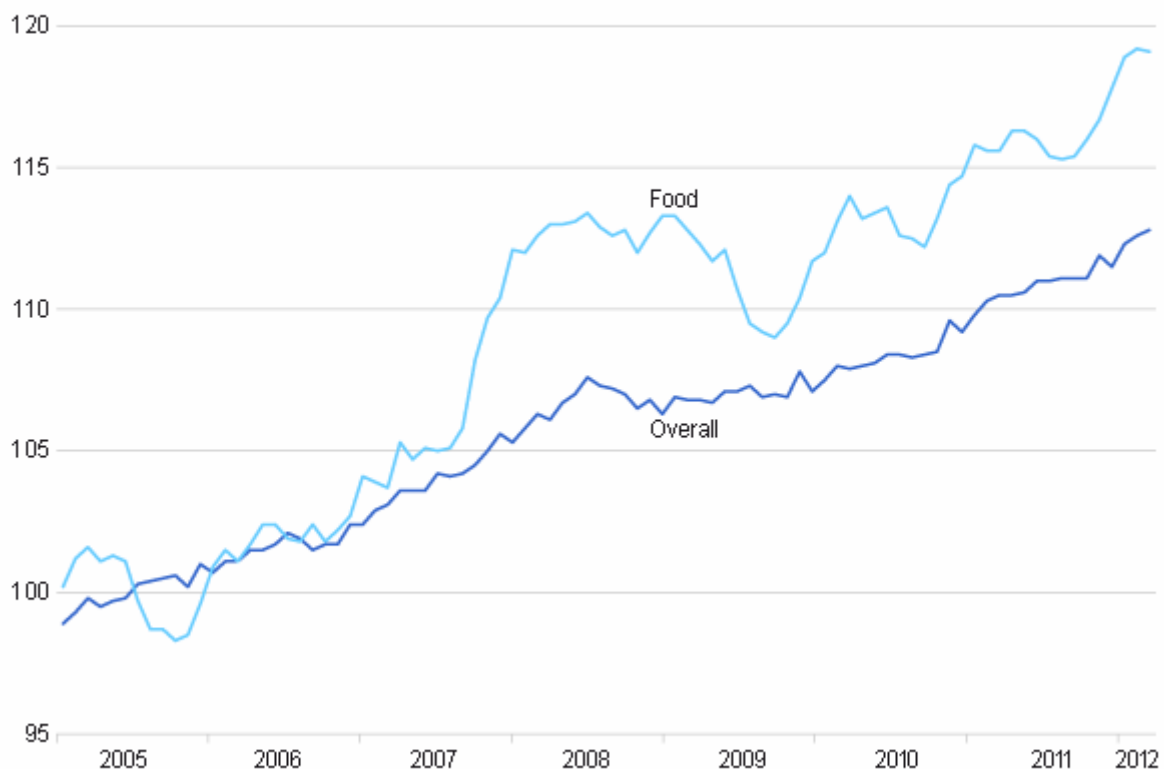
In 2011, food, beverages and tobacco accounted for 14.2% of the total expenditure of an average German household. Although this is a small proportion compared with developing countries, the following also applies to Germany: The smaller the income of a household, the larger usually the share that has to be spent for basic needs such as food. Therefore, consumers are sensitive to increases in the prices of food in this country, too.

Above-average increases in food consumer prices

Since 2005, the consumer prices for food in Germany have increased far more considerably than consumer prices as a whole. Above all, the prices of edible fats and oils and, in particular, butter and margarine were far higher on an annual average in 2011 compared to 2005. Although edible fats and oils account for only a very small proportion of the total expenditure of German households, the prices of nearly all other food products have seen above-average increases since 2005, too. Real price surges were observed for bread and cereals in 2007/2008 and also since the end of 2010. But how are the prices formed that we have to pay for food and what influence do international trends have in this respect?

Consumer price indices

100 = Price level on an annual average in 2005



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Nahrungsmittel ¹	Weight ¹	Change on the previous year			Price development from 2005 to 2011
	%	2009	2012	2011	%
Meat and meat products	2,2	+2,2	+0,4	+2,8	+12,3
Bread and cereals	1,6	+0,7	-0,3	+3,3	+16,2
Milk, cheese and eggs	1,4	-7,3	+0,4	+4,2	+17,1
Vegetables (incl. Potatoes and other tuber vegetables)	1,1	-4,2	+6,3	-3,9	+16,2
Fruit	0,9	-3,8	+5,2	+3,1	+19,3
Sugar, jam, marmalade, Honey, syrup, chocolate and confectionery	0,8	+2,0	-0,1	+1,0	+11,0
Fish and seafood	0,3	+2,7	+3,6	+4,1	+23,0
Edible fats and oil	0,3	-5,0	+8,7	+12,6	+39,3
Food products n.e.c.	0,4	+1,9	-0,4	+0,9	+7,8
Food, total	9,0	-1,3	+1,6	+2,5	+15,8
Consumer price index, total	100	+0,4	+1,1	+2,3	+10,7

¹ Expenditure proportion in the weighting pattern for base year 2005 of consumer price statistics.

Foreign trade relations have an impact on food prices

Germany both exports and imports huge amounts of food. In 2011, Germany exported [Products of the food industry](#) to the value of Euro 58.6 billion, while it imported such goods to the value of Euro 69.7 billion. The relevant products accounted for 5.6% of Germany's exports and nearly 8% of its imports. Germany's major partners regarding the trade in food are the Member States of the European Union (EU): 77% of the food exports were dispatched to EU Member States and 67% of the food imports came from within the European Union. Germany's main partner countries in exporting and importing food are the Netherlands, Italy and France. The major export goods of the German food industry include meat and meat products and also milk and other dairy products. The main goods imported are meat and meat products, too, and coffee and fish.

Due to international trade relations, the food prices in Germany are affected by price developments in the world markets. Price dependencies are caused not only by imports, but also by exports. As German suppliers can sell their products both at home and abroad, there is a competition between domestic and foreign demand. As a result, the prices of domestic products are influenced by world market prices, too.

World market prices are subject to significant fluctuations

Food prices in the world market depend on a wide range of factors. In the past few years, the growing world population and the increasing economic wealth and associated changes in the consumption patterns in newly industrialising countries like China and Brazil have led to a situation where the demand for food has increased more rapidly than its supply.

Another factor is the extension of bioenergy production. In this context, large agricultural areas are used for the cultivation of energy crops. Supply-limiting factors, such as fishing quotas or crop failures, too, lead to increasing prices of the food concerned. Particularly when stores are empty, fluctuating yields in the major countries of cultivation often cause significant price increases in the short run. Via the production costs, oil prices have an impact on agriculture and exchange rates affect food prices, too. However, the quantitative effects of food raw material speculation on the relevant prices have not yet been fully clarified.

Processing and trade reduce price fluctuations

Import prices for food as a whole respond far less sensitively and with a time delay to the development of food raw material prices in the world market because processed products are imported in addition to raw materials.

Before food raw materials that were either produced in Germany or imported reach the consumers, they are often processed by businesses of the food industry.

During the processing stage, more stable factors such as labour, operating or packaging costs become more important so that the prices of processed

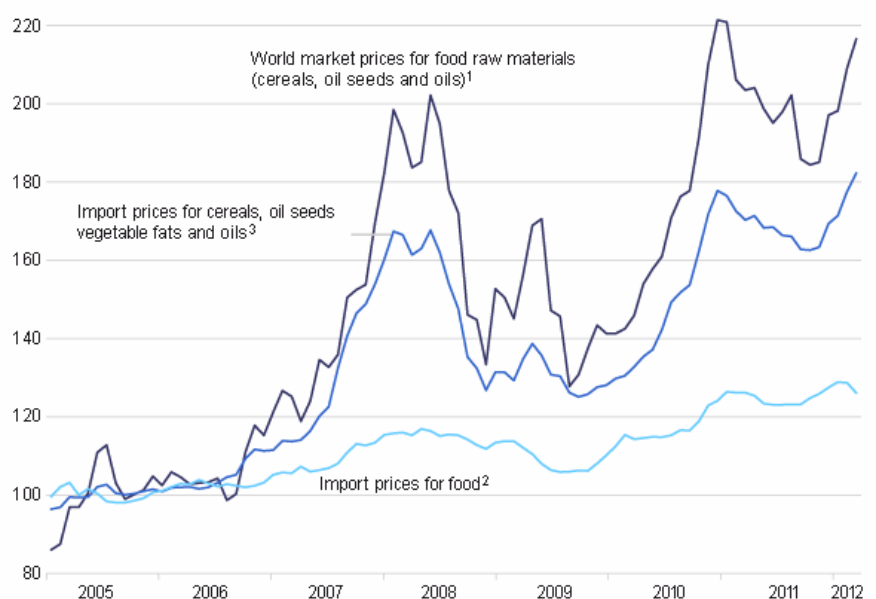
food fluctuate less dramatically than those of food raw materials. Moreover, businesses in the food industry are in a position to cushion strong rises in the prices of raw materials by increasing efficiency or changing the product composition.

After that, the food is usually either distributed - via wholesale traders - to German retailers or it is exported. The contracts concluded between businesses in the food industry and the food trade often run over longer periods. Therefore, the food trade is typically faced with the effects of changes in raw material prices only when the relevant contracts are renewed. Also, the share of raw material costs in the total costs of food declines further due to the costs caused by transport and resale. Via the stages of importation, production and trade, changing prices in the world markets thus are also passed on to consumers, although to a much lesser extent and with a time delay.

In the framework of the common organisation of agricultural markets, the European Union uses additional tools to stabilise the markets or at least reserves the right to use such tools. With few exceptions, however, the world market prices have been so high for most of the products since 2007/2008 that, for instance, EU export subsidies have been applied to an ever decreasing extent. Butter and grain interventions, which were made in view of low producer prices in the past, have become less important, too. Since the agricultural reform of 2003, they have been replaced by direct payments linked to the area. As the payments do not depend on the amounts produced of certain products, farmers have developed a greater orientation towards market prices which, eventually, are affected by the world market.

World market and import price indices for food

100 = Price level on an annual average in 2005



1 Index of World Market Prices "Euro area" for food raw materials of the Hamburg Institute of International Economics (HWWI) on a euro basis – 2 SITC 01-07; 09 – 3 Excl. rice, margarine and edible fats.

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Import and consumer price indices for food

100 = Price level on an annual average in 2005



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Agricultural sector and food industry continue to be important

According to the information provided by the Federal Ministry of Food, Agriculture and Consumer Protection, the domestic production of food would be sufficient to satisfy about 90% of the total food demand in Germany. In 2009, agriculture, forestry and fishing and the food industry as two closely interrelated economic branches together accounted for 2.6% of gross value added of all economic sectors in Germany.

In absolute terms, this was an amount of not less than Euro 54 billion. Although, compared to 1995, the shares of agriculture, forestry and fishing and the food industry in gross value added of all economic sectors are slightly smaller now, they have been rather steady over the past few years. Taking the number of people in employment as a measure, the importance of the primary sector has declined. Nonetheless, more than half of Germany's area is still used for agricultural purposes. The high level of domestic animal and crop production prevents an even greater dependence on the world markets.

Gross value added of agriculture and the food industry

Economic branch	1995	2000	2005	2007	2009	2010
bn Euro						
Agriculture, forestry and fishing	18,30	20,45	16,09	18,96	16,23	18,67
Manufacture of food and beverages and of tobacco products	34,54	36,43	37,32	37,98	37,77	-
All economic sectors	1671,95	1841,48	2006,36	2176,99	2117,21	2216,81
% of gross value added						
Agriculture, forestry and fishing	1,1	1,1	0,8	0,9	0,8	0,8
Manufacture of food and beverages and of tobacco products	2,1	2,0	1,9	1,7	1,8	-
All economic sectors	100	100	100	100	100	100

Persons in employment in agriculture and the food industry

Economic branch	1995	2000	2005	2007	2009	2010
Average in 1,000						
Agriculture, forestry and fishing	864	754	676	662	668	648
Manufacture of food and beverages and of tobacco products	808	864	864	842	852	-
All economic sectors	37 802	39 382	38 976	39 857	40 362	40 553
in % of all economic sectors						
Agriculture, forestry and fishing	2,3	1,9	1,7	1,7	1,7	1,6
Manufacture of food and beverages and of tobacco products	2,1	2,2	2,2	2,1	2,1	-
All economic sectors	100	100	100	100	100	100