

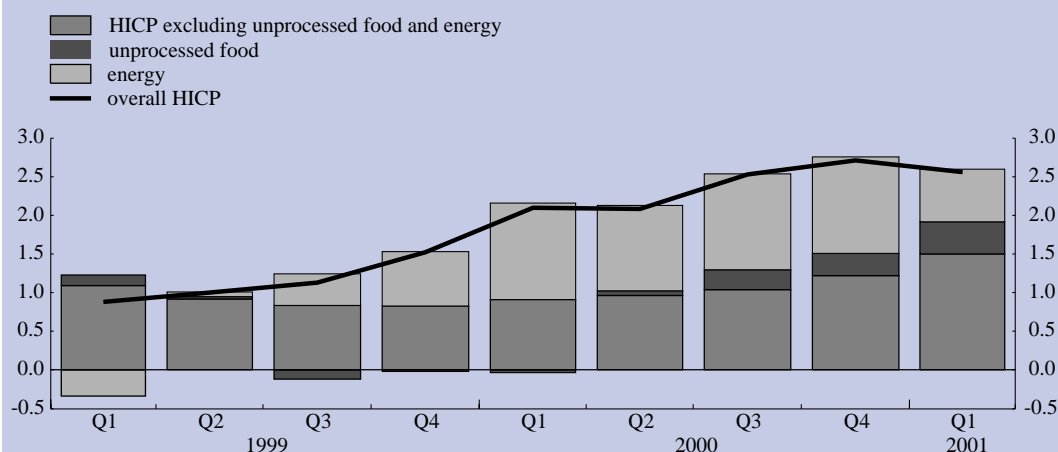
### Box 3

## Recent unprocessed food price developments: the impact of BSE and foot-and-mouth disease

Over recent years, developments in the euro area HICP have been significantly influenced by movements in its more volatile components, in particular energy and unprocessed food prices. While the contribution of energy prices to the overall HICP rate of inflation has recently declined, the steady rise in the contribution of unprocessed food prices to overall inflation observed over the last year has intensified in recent months (see the chart below). This larger contribution from unprocessed food prices is one of the reasons why overall inflation has remained quite high, even though the annual percentage change in energy prices fell substantially from 15.5% in November 2000 to 5.6% in March 2001.

### Contributions to euro area overall HICP inflation

(annual percentage point contributions; quarterly data)



Sources: Eurostat and ECB calculations.

While unprocessed food prices are often influenced by the weather and other seasonal factors, the latest rise in their contribution to overall inflation appears, in part, to be related to health concerns associated with BSE in some euro area countries. More recently, the outbreak of foot-and-mouth disease in several European countries, and the preventative measures taken in order to combat the spread of the disease, also appear to have played a role. Largely reflecting these factors, the year-on-year rate of increase in unprocessed food prices rose significantly to 6.5% in March 2001, up 2.0 percentage points on the previous month and well above the average increase of 1.7% recorded in 2000. Given that unprocessed food prices have a weight of 8.0% in the overall HICP, in March 2001 they accounted for approximately 0.5 percentage point of the 2.6% year-on-year increase in the overall HICP. In addition, while the sharp increase in food prices has largely taken place in the unprocessed food component, processed food price increases have also picked up in the first few months of 2001, thereby adding to the overall upward pressure on the HICP from the food sector. Most notably, there has been a rise in prices for milk, cheese and eggs.

### Higher meat prices provide some evidence of shifts in consumer demand

In order to examine these developments more closely, the table below provides a breakdown of unprocessed food price developments into its four sub-components: meat, fish, fruit and vegetable prices. These components have weights of 51.5%, 14.6%, 14.3% and 19.6% respectively in the overall unprocessed food component. Given their large weight, meat prices have been the main driving factor behind developments in the first three months of 2001. While a detailed breakdown of meat prices is not available for the euro area HICP, there is

some evidence at the national level that this partly reflects higher prices for beef substitutes such as pork and poultry. This suggests that consumers may have moved from beef to other alternatives. Such a view is also supported by the pick-up in fish prices. Fruit and vegetable prices also increased in March 2001, but it is more likely that this development reflects adverse weather conditions. In addition, apart from rising prices for substitutes, there is also some evidence that beef prices themselves have risen, perhaps reflecting a switch in consumer demand to more expensive organically farmed or imported beef.

### Developments in euro area unprocessed food prices

(annual percentage changes, unless otherwise indicated)

	Weights <sup>1), 2), 3)</sup>		1999	2000	2000	2000	2000	2001	2000	2000	2001	2001	2001
					Q2	Q3	Q4	Q1	Nov.	Dec.	Jan.	Feb.	Mar.
Unprocessed food <i>of which:</i>	100.0	8.0	0.1	1.7	0.7	3.1	3.5	5.2	3.4	3.7	4.5	4.5	6.5
Meat	51.5	4.1	-1.3	2.1	1.9	2.5	3.3	6.3	3.1	3.7	4.8	6.3	7.7
Fish	14.6	1.2	2.5	3.2	2.8	3.4	4.3	5.2	4.6	4.3	4.6	5.2	5.8
Fruit	14.3	1.1	-0.2	0.1	-1.6	1.9	2.0	3.9	1.9	3.1	3.5	3.0	5.2
Vegetables	19.6	1.6	2.6	0.7	-1.9	5.4	4.4	3.2	4.7	3.8	4.2	0.7	4.9

Sources: Eurostat and ECB calculations.

1) 2001 consumer spending weights.

2) First column: weight in unprocessed food.

3) Second column: weight in the overall HICP.

### The potential impact on HICP inflation is not expected to be long-lasting

It is still too early to make a final assessment of these recent developments in unprocessed food prices. The most recent developments can in part be considered as a change in the relative price level of some foodstuffs in response to changing patterns in consumer demand. In this regard, there is significant uncertainty as to whether or not such a demand shift will be permanent. Should it prove to be only temporary, some of the recent price increases may be reversed, either fully or in part. Nevertheless, even if recent shifts in consumer demand were to prove to be more persistent, once market supply has adjusted to these changes, price increases should also subside. Thus, these relative price changes should not in themselves exert a lasting effect on euro area inflation. In addition, there are supply-side effects. In particular, the measures taken to eradicate BSE and to prevent the spread of foot-and-mouth disease may be associated with a reduction in the available livestock and, hence, may be adding to the upward pressure on prices stemming from shifts in consumer demand. Moreover, these supply-related measures may impose higher costs on the agricultural sector and, hence, may potentially have a “cost-push” effect on prices.

With regard to possible future effects on the euro area HICP, these can be expected – as in recent months – to be most clearly observed in unprocessed food prices. However, both the demand and supply factors mentioned above may have further effects on other components, such as processed food (e.g. milk, cheese and eggs), and on some sub-components of services prices for which foodstuffs are an important input (e.g. catering services, restaurants, cafés and the like). Overall, therefore, there is a need to closely monitor food and related price developments in the months ahead.