

Box 5

DEVELOPMENTS IN CONSUMER GOODS PRODUCER PRICES

This box considers the pass-through of commodity prices to producer price developments at the later stages of the production chain and the implications for consumer price developments. The impact of the increases in (both oil and non-energy) commodity prices since late 2003 is clearly evident in the earlier stages of the production chain but less so in the later stages. The annual rate of change in producer prices for intermediate goods increased from below 1% at the end of 2003 to above 5% at the beginning of 2005, and for energy goods it has risen to above 10%. By contrast, the annual rate of change in consumer goods producer prices has remained at around 1%. This relatively subdued profile, however, conceals differences between price developments in the food and tobacco industry and developments in other consumer goods producer prices.

Thus, to analyse producer prices at the later stages of the production chain, a new measure of producer prices for consumer goods excluding food and tobacco has been constructed.¹ These excluded items have a large weight in consumer goods producer prices, accounting for approximately 50% of the total. Besides durable consumer goods, the new aggregate also includes the prices of some non-durable items, e.g. apparel and leather goods, publishing and printing as well as pharmaceutical and medicinal chemical goods. It may provide a new perspective when analysing the impact of producer prices on consumer price inflation. While overall consumer goods producer prices can be loosely associated with developments in HICP inflation excluding energy, producer prices for consumer goods excluding food and tobacco may better capture producer prices impacting on developments in the HICP non-energy industrial goods index. Nevertheless, any analysis should also take account of the statistical differences between the producer price index and the HICP.²

As may be seen in Chart A, producer prices for tobacco and food have evolved in a very different manner from producer prices for other consumer goods. Producer prices for tobacco products have been heavily affected by increases in tobacco taxation, particularly since 2002. Unlike VAT, these excise duties are reflected in producer price statistics. Producer prices for food products and beverages also rose significantly in 2000 and 2001, largely due to BSE and foot-and-mouth disease in livestock, and between 2002 and 2004, due mainly to adverse weather conditions. This latter increase, however, has been partly reversed since the second half of 2004, bringing the annual rate of change in producer prices for food products and beverages to its current low rate.

1 All EU countries provide data on producer prices for domestic sales at the broad Main Industrial Grouping level – i.e. energy, intermediate, capital and durable and non-durable consumer goods. On the basis of durable consumer goods and specific detailed sub-indices of non-durable consumer goods available for most countries, Eurostat has started to compile a measure of producer prices for consumer goods excluding food and tobacco for the euro area. Some countries have provided data beyond their legal requirements, which has ensured high country coverage for this new aggregate.

2 In particular, consumer goods producer prices do not cover some important goods that are covered by the HICP (e.g. cars, televisions and computers, as well as imported goods). Moreover, the HICP prices also include value added tax (VAT).

With regard to producer prices for consumer goods excluding food and tobacco, the development has been quite different. The annual rate of increase gradually eased from above 2% at the beginning of 2001 to close to 0% at the beginning of 2004 but has started to edge up somewhat since then. The easing observed between 2001 and early 2004 reflects two main developments. First, there was the unwinding of the indirect effects of commodity price increases and the exchange rate depreciation prior to 2001. Second, the euro's appreciation and weak demand since 2001 have exerted downward pressures.

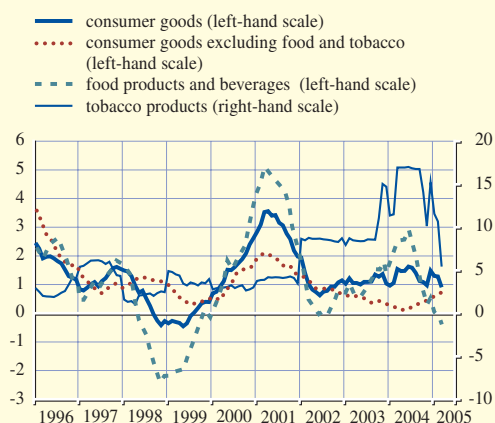
The recent upswing in producer prices for consumer goods excluding food and tobacco, which is broadly based, suggests that past increases in oil and non-energy commodity prices are feeding through further along the production chain to producer prices for consumer goods. However, weak consumer demand, the past appreciation of the euro and external competition have moderated these pressures. As noted before, despite the increase, the annual rate of change in producer prices for consumer goods has remained relatively moderate at slightly below 1%. Looking ahead, some further upward pressures are expected given the persistence of high commodity prices and the lags involved in the pass-through.

Turning to the implications for consumer price developments in the HICP, the upswing in producer prices for consumer goods excluding food and tobacco has not yet materialised in the HICP non-energy industrial goods index. Chart B shows that the annual rate of change in this component of the HICP has continued to edge down and is currently at around 0.3%.

Looking ahead, some upward pressure may therefore come from the upswing observed in producer prices. Indeed, there has been a strong lagged co-movement between the two series in the past, even though it has not always been one for one. In this respect, factors such as weak consumer demand, moderate wage growth and the potential impact on clothing and footwear prices of the removal of import quotas may serve to dampen the upward pressure coming from the indirect effects of past commodity price increases.

Chart A Producer prices for consumer goods and sub-components

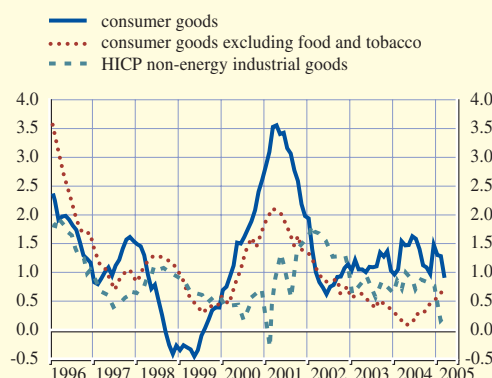
(annual percentage changes)



Sources: Eurostat and ECB calculations.

Chart B Producer prices for consumer goods and HICP non-energy industrial goods

(annual percentage changes)



Sources: Eurostat and ECB calculations.

In summary, the stripping-out of industry-specific factors from producer prices for consumer goods provides additional insights into producer price developments at the later stages of the production chain. These indicate that although there are some signs of indirect effects from commodity price increases, they have thus far been relatively subdued and have not yet been passed through to consumer prices.