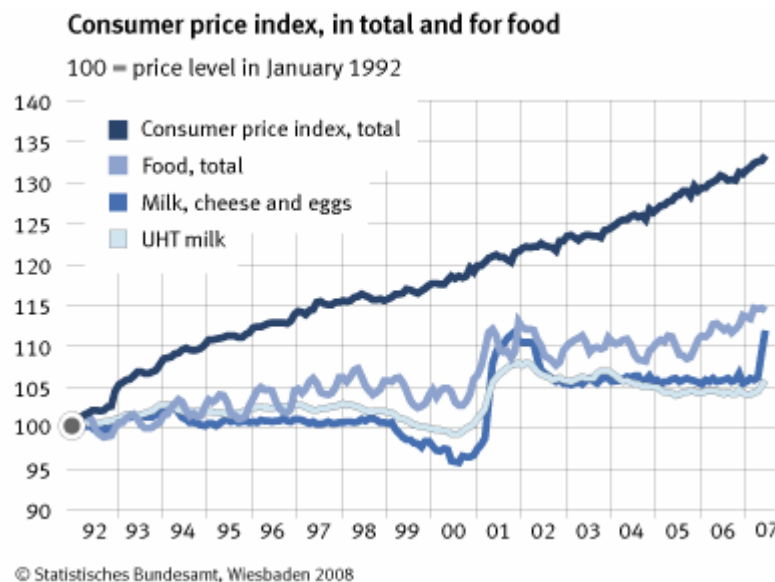


## Milk prices in summer 2007

Destatis, 14 September 2007

### Price trends over the past 15 years

The announcement of the Central Market and Price Reporting Office for Agricultural, Forest and Food Industry Products (ZMP) that, in particular, milk and dairy product prices were expected to rise considerably in August 2007 brought food prices back into the public focus in Germany. Generally, however, food prices have risen very moderately in the recent past. Over the past 15 years, the average increase in food prices has been considerably below the increase recorded in the consumer price index as a whole.



The last time food prices saw a marked rise was in 2001 when, among other diseases, BSE and FMD occurred more frequently in animals. Between January 2001 and January 2002, food prices climbed more than six percent.

Afterwards, that is between 2002 and 2006, food prices tended to remain largely unchanged. The prices of dairy products declined even slightly between January 2002 and December 2006.

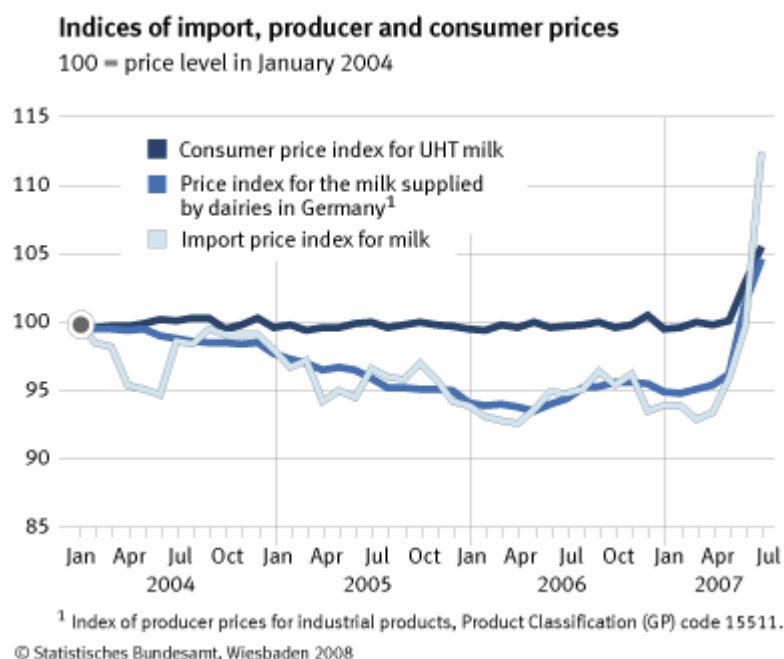
### International comparison of food prices

A comparatively low level of food prices has been observed in other European countries, too. The table shows the extent (in percent) to which both the prices recorded in the neighbouring countries and the EU average deviate from the German prices of milk, cheese and eggs and of food as a whole.

Price differences in relation to Germany in 2006 Comparison of price levels		
Country	Milk, cheese and eggs	Food, total
Poland	-23%	-39%
Czech Republic	-8%	-36%
Netherlands	-10%	-16%
Austria	+13%	+5%
EU-27	+15%	-6%
France	+15%	+1%
Belgium	+25%	+5%
Luxembourg	+29%	+9%
Denmark	+33%	+31%
Switzerland	+45%	+38%
Source: Eurostat, own calculation		

The average EU prices of food as a whole were about six percent below the prices recorded in Germany. However, the average prices of milk, cheese and eggs were 15 percent higher in the EU than in Germany. Compared, for instance, with the French prices, the German dairy product and egg prices were much cheaper, while the level of food prices as a whole was almost the same in the two countries.

### Prices of dairy products starting to rise



Since the beginning of 2007, however, the prices of dairy products have gone up markedly in Germany. Both the German import prices for milk and the milk selling prices of dairies in Germany have seen significant increases over that period. The wave of price rises has recently reached the German consumers, too.

### Reasons for rising prices

The reasons for the relevant price increases are manifold. On the one hand, the worldwide demand for dairy products has grown. Western eating habits have become increasingly popular in the newly industrialising countries, and the world population is growing continuously.<sup>1)</sup>

In the other hand, raw milk is hardly available on a flexible scale. The areas characterised by favourable production conditions are limited in the world. In addition, the EU milk quota system does not leave much room for several countries to expand their production. This is the reason why, despite pressure caused by increasing demand, the amount of milk products exported by the EU rises on a relatively small scale. And since 2004, the milk product intervention stocks of the EU (butter mountains and milk lakes) have been continuously reduced and used to satisfy global market demands. As long as the amount offered could be maintained by reducing the stocks in place, prices hardly changed. Since the time the amounts of overproduction of skim milk powder and butter were completely used up, however, there has been a gap between supply and demand, and prices have risen most strongly.

In part, speculative movements in milk product spot markets have certainly played a role, too. In July 2007, the German producer prices of milk powder recorded an increase of more than 60% on the same month a year earlier.

Consumers have been affected by the price rise wave with a slight delay as dairies and retail sellers usually conclude long-term contracts which ensure price stability for a certain period of time. When the contracts expire, the prices are adjusted as it was recently the case with milk and most recently with butter.

<sup>1)</sup> Compare, in this context, OECD - FAO: Agricultural Outlook 2007-2016, Paris, OECD, 2007, p. 114 et seq.