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**Agricultural Price Trends in the EC**  
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*Note:* This Report is available in English only, but with summaries in French and German

The main objective of this study is an analysis of agricultural price trends in the European Community over the past two decades utilising the agricultural prices stored in Eurostat's data bases. The emphasis is on economic, rather than on statistical or econometric, issues. The first chapter contains a description of some longer-term price trends, while chapter 2 focusses on an analysis of the shorter-term variability of producer prices. The study also looks into the price links across Member States (chapter 3) and into the relationships between producer prices and institutional prices under EC agricultural market regimes (chapter 4).

One recurring theme that emerges from the study is the persistence of differences among Member States in the behaviour of agricultural prices, in spite of a Common Agricultural Policy and a common market for agricultural products in the European Community.

### Longer-term price developments

The study notes that the nominal level of agricultural producer prices in the European Community (EUR 10) roughly doubled between 1973 and 1990 when measured in ECU's at market exchange

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\* The contents of this study do not necessarily reflect the official opinions of the Commission of the European Communities

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rates. Furthermore it is noted that nominal levels of producer prices in individual Member States increased at rather different rates when expressed in national currencies, but at much more similar rates when expressed in ECU's. This reflects the fact that exchange rate movements fairly closely reflected differences in macroeconomic inflation.

Commenting on agricultural producer prices in real terms (deflated by the implicit GDP price index) the study notes that these declined at an average annual rate of 2.7% from 1973 to 1990 for EUR 10, and that rates of real price decline in most member countries were fairly close to the average rate. Real prices of crop products declined slightly less, and real prices of animal products slightly more, than the aggregate level of real producer prices.

Purchase prices of inputs currently consumed in agriculture also fell in real terms, and hence sectoral terms of trade in agriculture, i.e. producer prices relative to prices of current inputs, declined by only 0.6% per year over the 1973 to 1990 period. The rate of decline in sectoral terms of trade in the EC was not much different from that in selected third countries (USA, Australia, Sweden) over the same period.

Commenting on real prices of major field crops (cereals, root crops, oilseeds) the study highlights that for the EC these declined significantly more (by around 4% per year) than those of other crops. Real milk prices declined by only 1.6% per year, around half the rate of decline of real cattle prices. Real prices of grain-fed livestock fell by around 4% per year, very much in line with real prices of cereals.

#### **Shorter-term price movements**

Irregular price fluctuations were analysed by looking at the deviations of annual producer prices from their trend. The study concludes that on average across all product groups and Member States, prices in nominal terms deviated from their trend in any year by some ten per cent. Prices of crops were generally more unstable than those of animals and animal products. Moreover, there were fairly significant differences in price instability across Member States, with Ireland, the United Kingdom and Italy exhibiting price fluctuations well above the EC average

A particularly surprising result to emerge from the study was the relatively high degree of price instability displayed in cereals, where prices in an average year were 14 per cent off their trend on average in EUR 10. However, even with this high variability, it is noted that EC cereal prices fluctuate only around half as much as world market prices.

Another economically important dimension of price instability, that of the variability over time of ratios among different agricultural products was analysed in the study. It was found that on average across years and Member States, price ratios among the major product groups included in this part of the analysis fluctuated by eight per cent each year, again a surprisingly high rate. This variability of relative prices means that the whole structure of agricultural prices is in permanent movement.

## **Price relationships across Member States**

In order to examine the functioning of agricultural markets in the EC, price relationships across Member States were analysed. For this part of the study, producer prices in national currencies were adjusted for monetary compensatory amounts and converted into ECU's. This was only done for selected products (wheat, barley, pigs, butter) and selected Member States because of data constraints. However, a rather unexpected result, given the assumption that markets were increasingly integrated in the EC, emerged indicating that in most cases the changes were in the "wrong" direction: differences among prices for the same product in different Member States grew rather than declined.

Regression analysis, was used as another approach, within the study, for analysing price relationships across Member States. The results show that the longer-term price trends were fairly uniform across Member States. However, the study highlights the fact that there was surprisingly little relationship between shorter-term price movements across countries. In general, this part of the study concludes that integration of agricultural markets across Member States in the EC may not still be perfect, and might have possibly deteriorated rather than improved.

## **Relationships between institutional prices and producer prices**

In the last part of the study, the functioning of agricultural market policy is examined by looking at the relationship between institutional prices in CAP market regimes on the one hand, and producer prices on the other. The analytical approach chosen for this part of the study was to assess the ratio between producer and institutional prices, and to regress producer prices on institutional prices. This was done only for selected products (wheat, barley, maize, milk, cattle) and selected Member States because of data constraints. The study shows that for cereals, one of the central results is that producer prices have recently declined significantly relative to institutional prices. Moreover, there are again notable differences among Member States, some of which are not easily explained. Furthermore it concludes that for milk, the results of the regression analysis suggest that the relationship between the target price and the producer price is a good deal closer than relationships between institutional and producer prices of cereals. Also, that no major change of the relationship between institutional and producer prices can be detected in recent years. In the cattle sector, on the other hand, the expected result is confirmed that the link between the institutional price and the producer price is much weaker than for both cereals and milk. Moreover, in nearly all cases a one per cent change in the institutional price has resulted in a significantly less than one per cent change in cattle producer prices.

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