Box 3. Consumer food price indices and weights in the basket of goods in the EU and the Baltic States

In 2017, the overall food price level in Lithuania amounted to 80% of the EU average and was about 12% lower than in Latvia and Estonia. The price levels for all main groups of food in Lithuania are lower than those recorded in neighbouring Latvia and Estonia (see Chart A). Prices of oils and fats, however, have been above the EU average since 2011. The price level for milk, cheese and eggs is only roughly 4% lower than the EU average. This food group is the second largest in the consumer food basket, comprising nearly 4% of an average basket of goods. Historically, prices of milk and dairy products rose significantly when a number of dairy farms had left the milk market, following a fall in farm-gate milk prices caused by excessive supply. This happened when the EU removed milk production quotas and Russia, which used to be a significant Lithuania’s partner in trading dairy products, imposed trade restrictions.\(^1\) Farm-gate milk prices later recovered, but since the second half of 2017 they have once again followed a downward trajectory. Such dairy market developments and a poor harvest brought about by higher feed prices led to the fact that recently not only small- but also medium-sized dairy farms have been leaving Lithuania’s market. The decreasing number of dairy farms entails diminishing competition which may, in turn, raise dairy prices. The current poor harvest may put upward pressure on prices of bread and cereals, which would subsequently increase prices of meat. The latter accounts for the highest share of the total consumer basket in Lithuania (4.6%). These are only some of the major factors that have a considerable impact on food price increases and, in turn, on the overall price level.

Lithuania may reach the EU food price average within less than 10 years. Assuming that the level of food prices will be catching up with its EU counterpart at a rate that prevailed in 2004-2017 (since Lithuania’s accession to the EU), the level of food prices in Lithuania will reach the EU average in 2027. However, it should be taken into account that this assumption is valid only if economic development remains similar to that in the period under review and if there are no significant structural changes in the Baltic States and other EU countries that could accelerate or slow down food price convergence. Compared to Lithuania, current food prices in Latvia and Estonia are closer to the EU level: Latvia, where food prices have been converging at a quicker pace than in Lithuania during the period under review, may reach the EU food price average in two years, while Estonia – in three years (see Chart B). After reaching the EU average, however, changes in prices usually become more gradual, thus further projections should indicate price levels close to the EU average.

In 20 years, weights of food products and services in an average Lithuanian consumer’s basket of goods have changed more significantly than in Latvia or Estonia. Looking back, around 20 years ago, food expenditure accounted for more than half of the average Lithuanian consumer’s basket. At the same time, food expenditure in Latvia accounted for roughly 40%, in Estonia – 35% of their consumer baskets. Recently Lithuanians and Estonians have spent less than a fifth of their total income on food, while Latvians – slightly more than a fifth. Such a decline in food expenditure may be linked to the improving quality of life: with wages increasing rapidly (the average wage in Lithuania grew more than 4 times over the same period), expenditure on non-essential goods and services has been growing as well. Hence, due to rapidly rising income, the share of food expenditure has been proportionally declining. For example, in the first half of 2018, average wage growth reached 10%, while food prices rose by less than 3%. With income growing, services usually account for an increasingly larger share of the consumer basket. In this regard, Lithuania is rapidly catching up with the EU average, which should stand at 43% in 2018 (16 percentage points higher than in Lithuania). Compared to the neighbouring countries, the average share of expenditure on services in Lithuania is 5 percentage points smaller than that in Latvia and Estonia. At the same time, the EU share of food expenditure makes up 14%, which is nearly 5 percentage points lower than in Lithuania and Estonia and 6.5 percentage points lower than in Latvia.

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