

Exceptionally high pressure to raise the price of food in Finland

July 5 2022



Credit: Unsplash/CC0 Public Domain

According to a recent agri-food sector outlook by the Natural Resources

Institute Finland (Luke), there is an exceptionally high pressure to raise the price of food this year, as the prices of inputs required in the food chain, such as energy and fertilizers, have experienced a significant increase. Producer prices for cereals and oil crops have already risen to record highs both globally and in Finland. Prices for livestock production, which has been hit by the higher feed costs, will continue to be under a strong upward pressure towards the end of 2022.

Luke predicts that food prices will increase by up to 10% this year compared to the average price level last year. Meanwhile, [food prices](#) are rising faster than the general rate of inflation, which means that the share of food expenditure from total consumption is increasing. Last year, food expenditure accounted for 12.5% of total consumption.

"The rising prices also affect consumers' purchasing behavior, leading them to buy cheaper alternatives in a product group or replace products with something else," says Hanna Karikallio, a Senior Scientist at Luke.

Cereal prices soaring

The prices of cereals and oil crops have soared globally and in Finland since Russia invaded Ukraine. Furthermore, the poor harvest in 2021 has led to a much greater use of stocks than in previous years. The last time production in Finland remained so far below domestic demand was before the turn of the millennium.

Self-sufficiency in the production of almost all cereals in Finland during the 2021/22 market period was close to or even slightly below 100%, which means that stocks are now exceptionally low. The 2022 cereal harvest will be of extreme importance for the Finnish cereal supply and market.

Unlike for cereals, the demand for oil and protein crops has long

exceeded the supply in Finland, and the country has been dependent on imports especially in terms of supplementary protein feed. In 2021, more than a third of total soybean-, rapeseed- and sunflower meal came from Russia, and imports from Russia ceased completely at the beginning of March 2022. This import volume must now be replaced with domestic alternatives and imports from other countries, explains Jyrki Niemi, research professor at Luke.

Poultry overtakes pork in terms of consumption

This year, total meat production and consumption in Finland are expected to remain at the previous year's level, but the trends between meat types will vary. The production and consumption of beef and pork are decreasing, while the strong growth in the consumption of poultry continues. This year, more poultry than pork will be consumed, for the first time ever, says Terhi Latvala, senior scientist at Luke.

However, the rising costs affecting meat production, combined with rising consumer prices towards the end of 2022, may slightly reduce the level of both production and consumption from the current estimates. The meat production is facing a serious cost crisis due to the rising input prices in the whole of Europe, and producer prices and consumer prices of meat are on the rise in all EU member states. Sufficient increases of the producer prices will help to maintain production.

Milk production decreases

The dramatic increase in the prices of purchased feed and other production inputs is also shaking the dairy sector. Last year, 4% less milk was produced in Finland than the year before, and production is expected to continue to fall this year. The number of producers has decreased quickly: last year, there were almost 8% fewer milk producers

than in the previous year. Fewer than 5,000 [dairy farms](#) produced milk at the end of 2021.

"To compensate for the increase in costs, milk production would require an additional income flow of more than EUR 200 million from the 2021 level. Changes in domestic consumer prices and their transfer to producer prices are the key means of increasing the flow of income. Rising unit prices in dairy exports will also bring much-needed additional revenue to the industry," says Olli Niskanen, a senior scientist at Luke.

There have been no major changes in the total consumption of dairy products. Of the total consumption of milk in Finland, a significantly larger share is consumed by eating than drinking. However, the long period of a rapid decline in the consumption of liquid dairy products slowed down, with the production of liquid dairy products in Finland falling by less than 1% last year.

High costs reduce the profitability of agriculture

Finnish farms are facing a highly uncertain market this year. The rapid rise of costs is decreasing the profitability of livestock farms, in particular. The profitability of livestock farms is projected to weaken significantly with the current producer-price level and this hinders recovering from the acute liquidity crisis. On the other hand, the average profitability of growing cereals, oil crops and protein crops could improve this year compared to last year if the harvest for the growing season is ordinary.

This year, the average profitability of Finnish farms will remain at the level of 2021, which was a year of crop failure. The cost pressures will continue in 2023, further weakening the prerequisites for profitable production.

More information: Natural resources and bioeconomy studies 55/202,
urn.fi/URN:ISBN:978-952-380-462-3

Provided by Natural Resources Institute Finland (Luke)

Citation: Exceptionally high pressure to raise the price of food in Finland (2022, July 5) retrieved 27 June 2024 from <https://phys.org/news/2022-07-exceptionally-high-pressure-price-food.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.