



European Commission
Agriculture and Rural Development



What causes the commodity price boom?

AGRI-G1

Agricultural Policy Analysis and Perspectives

DG for Agriculture and Rural Development

European Commission

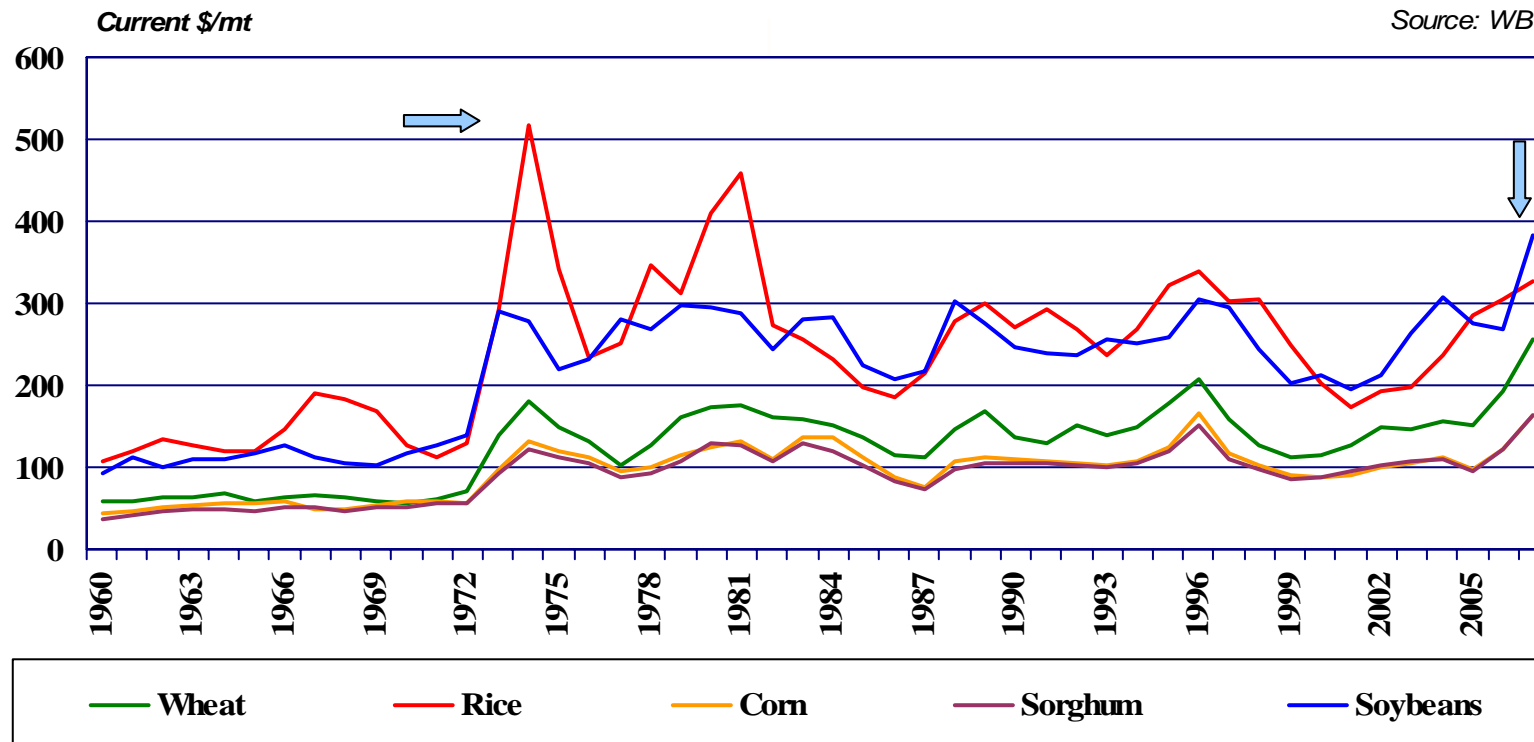


Is the commodity price boom a new phenomenon?

- ***Agricultural commodity price booms have happened in the past***
 - The post-1973 period is the most characteristic, caused by the oil shock
 - Grain markets have faced 4 other price surges post-1973
 - In all previous cases, supply adjustments subsequently lowered prices

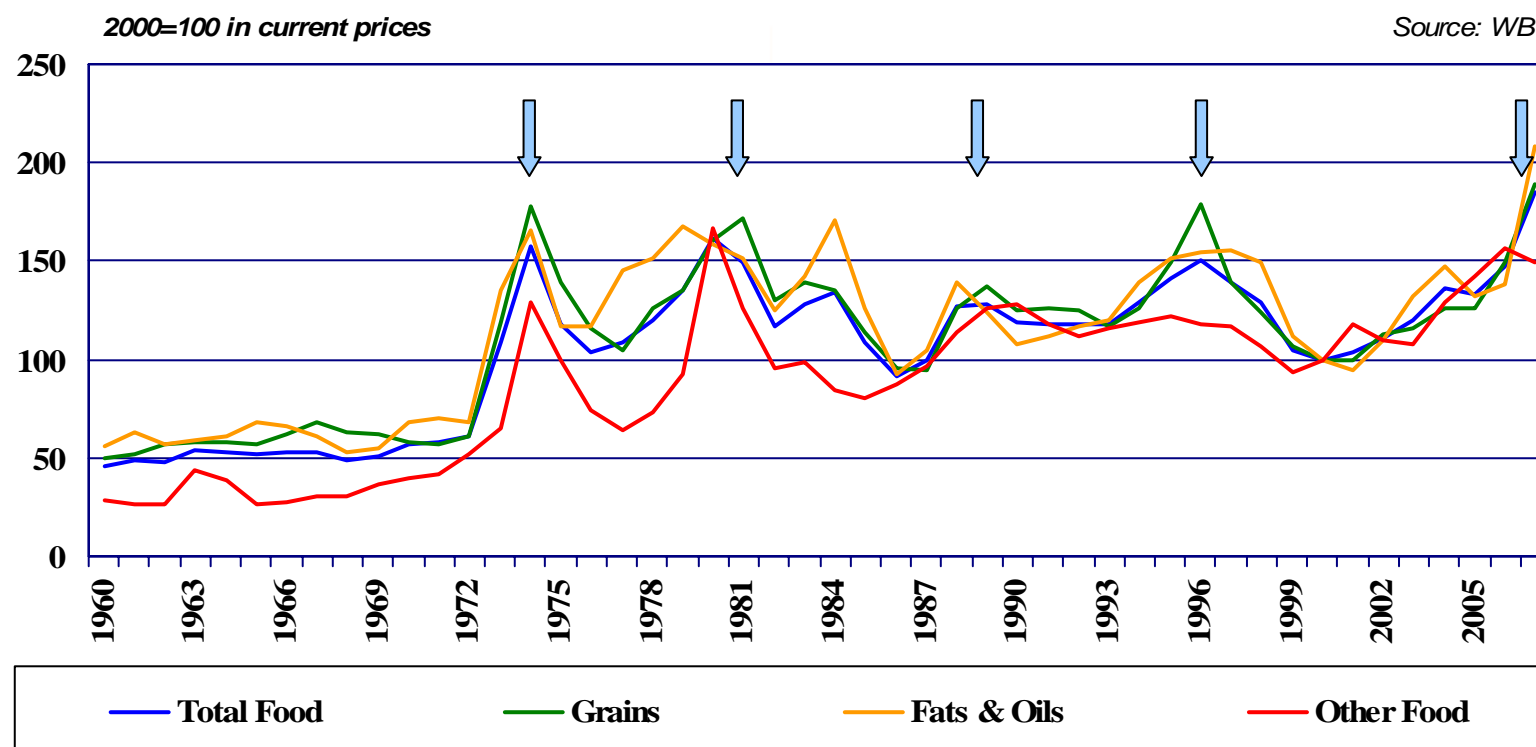


Nominal crop price evolution (1960-2007)





Nominal food price indexes (1960-2007)



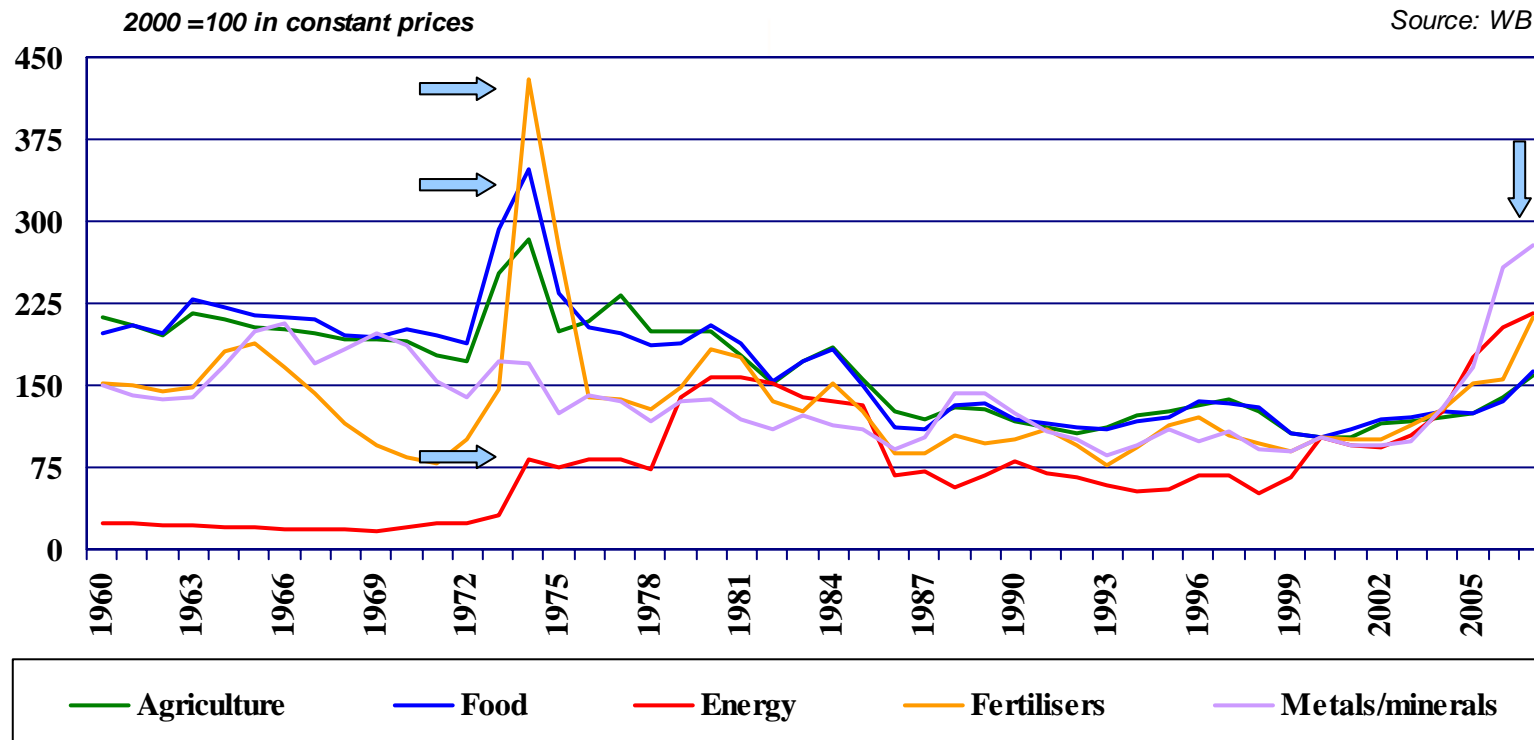


How do prices compare in real terms?

- ***In real terms, agricultural prices are below their previous peaks***
 - Energy, metals and minerals have long exceeded their post-1973 peaks
 - Food and agricultural commodities follow a downward trend in real terms
 - Different agricultural commodities reflect very different patterns

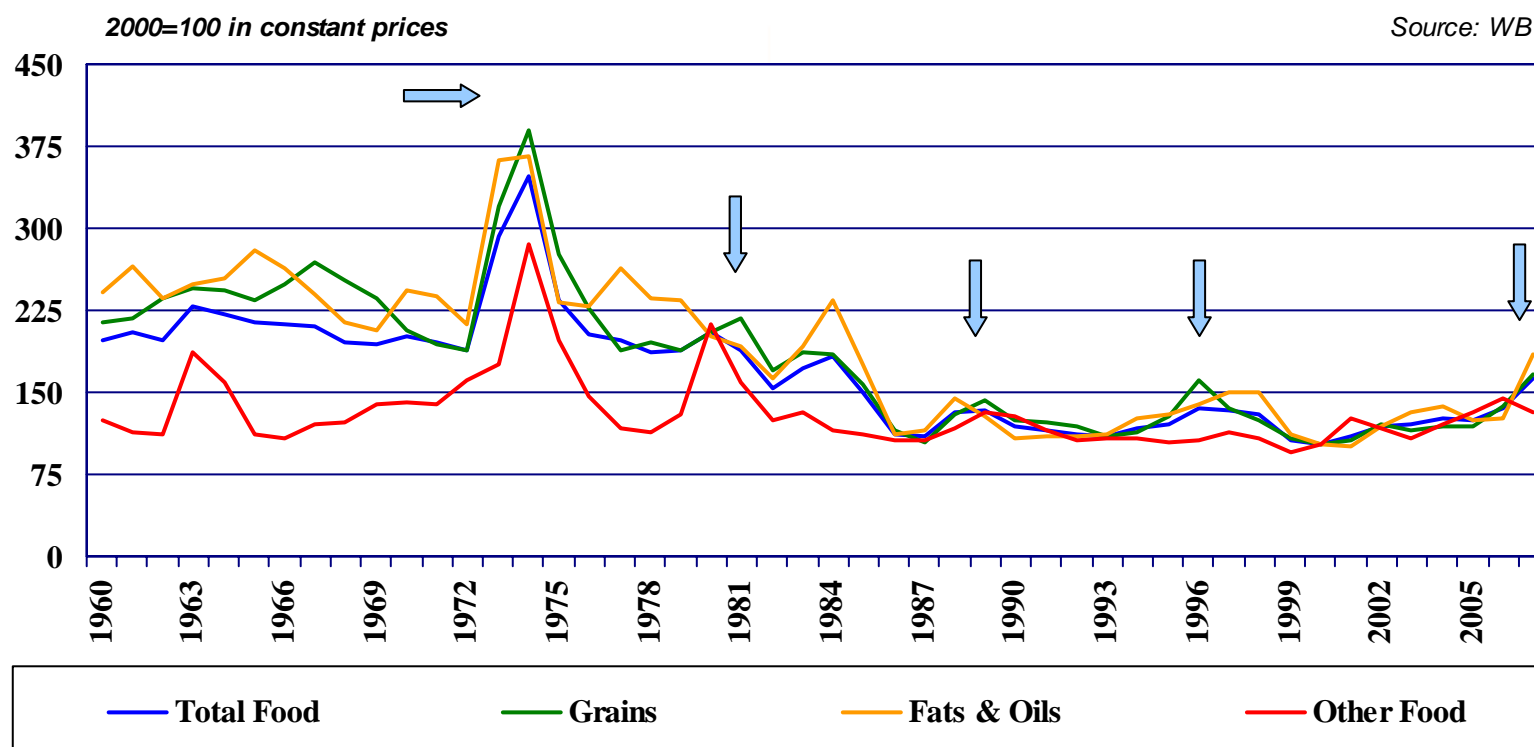


Real commodity price indexes (1960-2007)



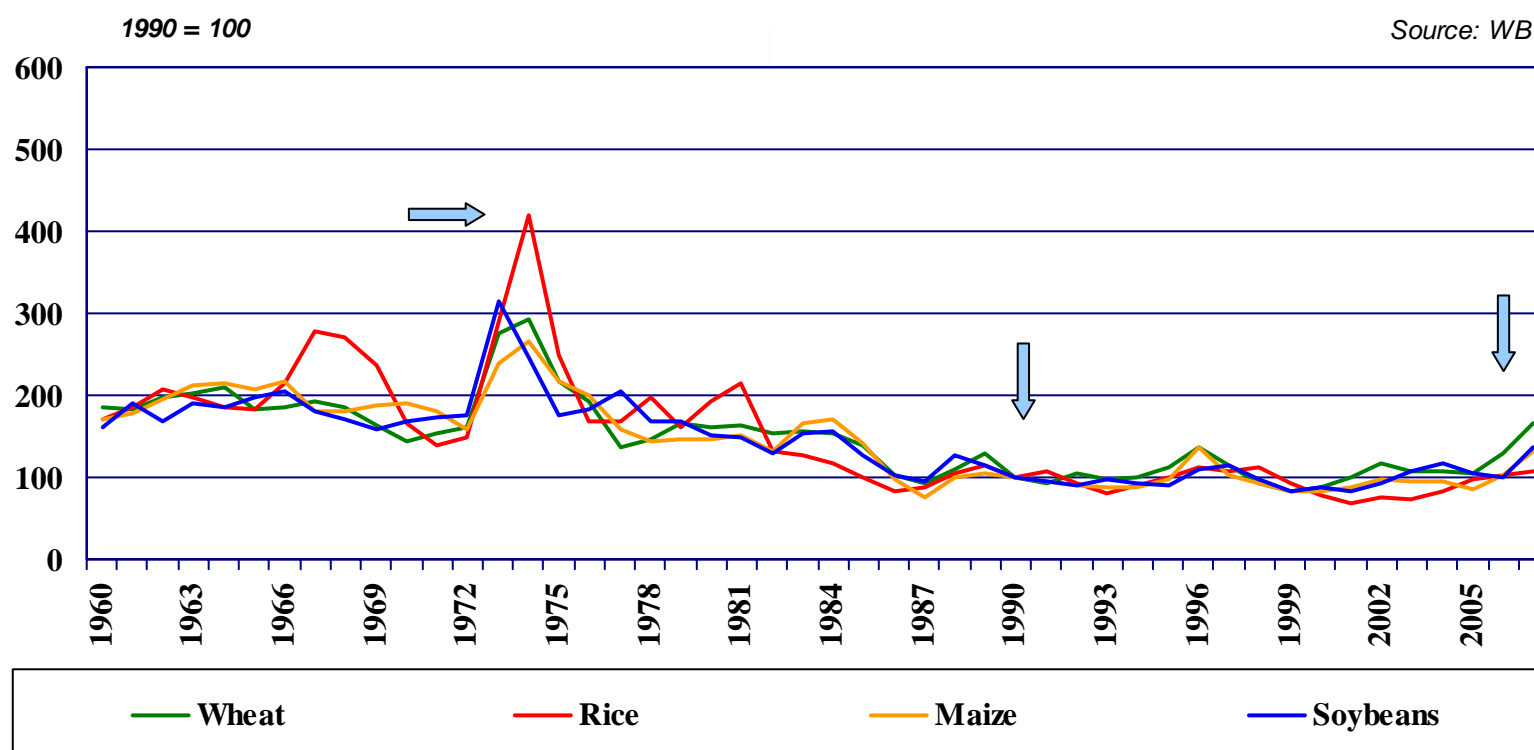


Real food price indexes (1960-2007)



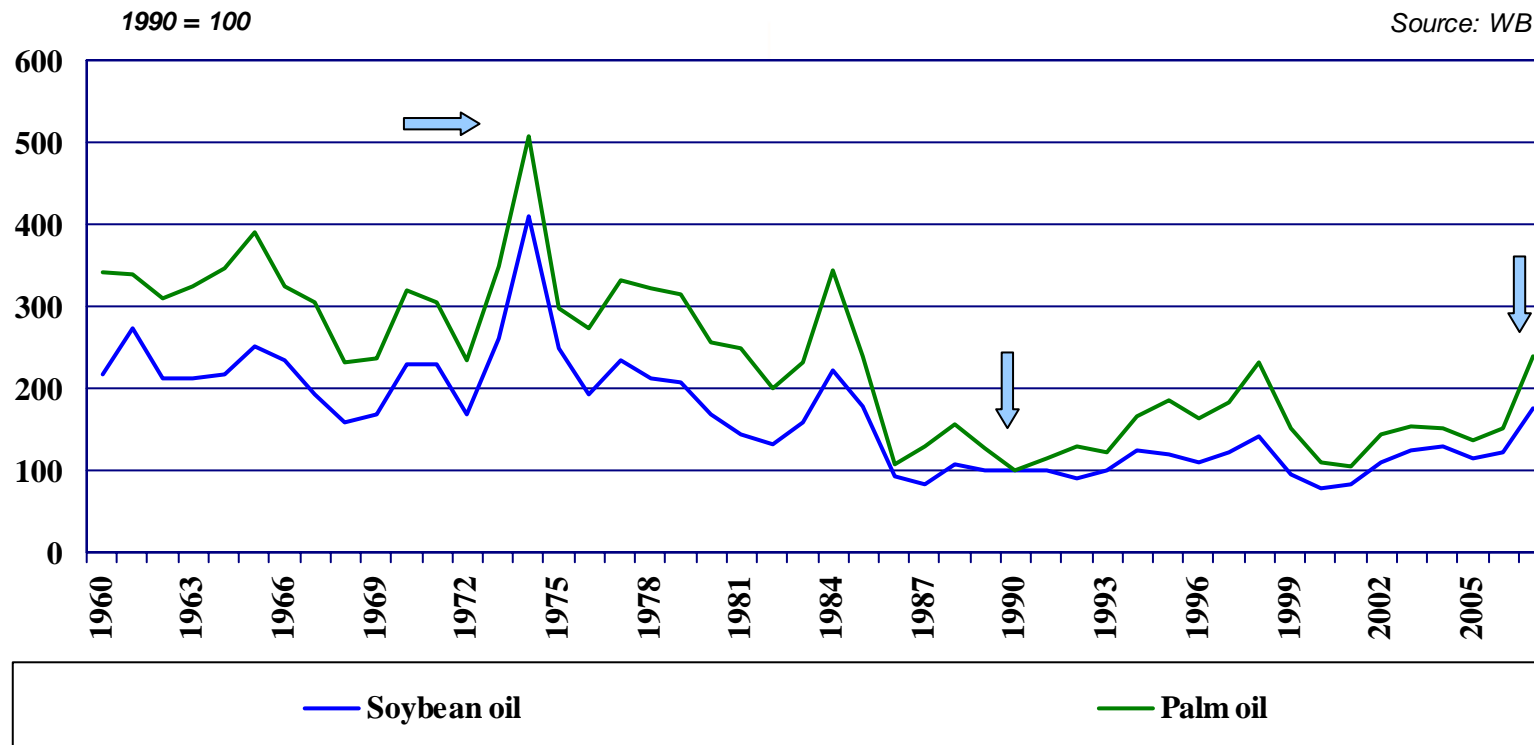


Real crop price indexes (1960-2007)



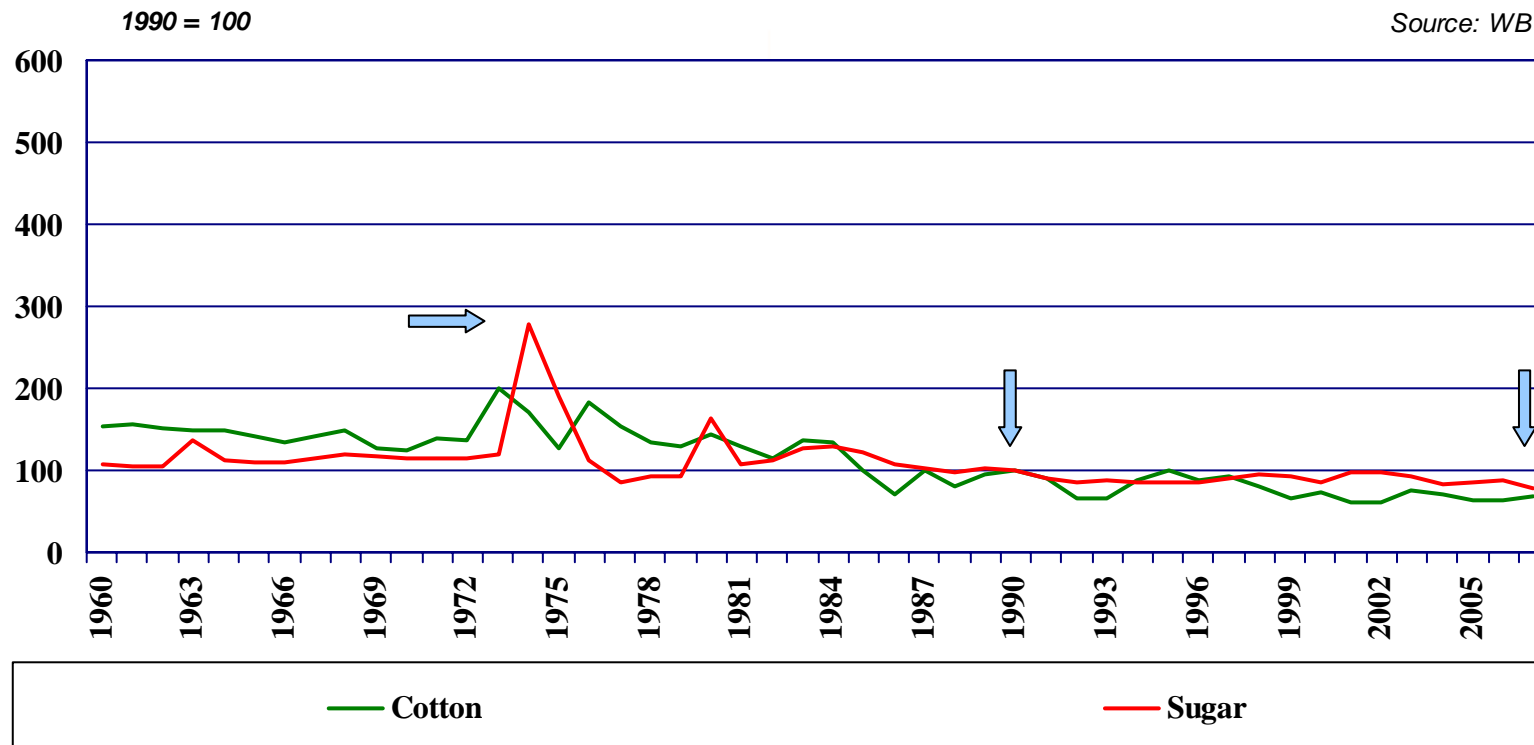


Real food oil price indexes (1960-2007)





Real cotton/sugar price indexes (1960-2007)



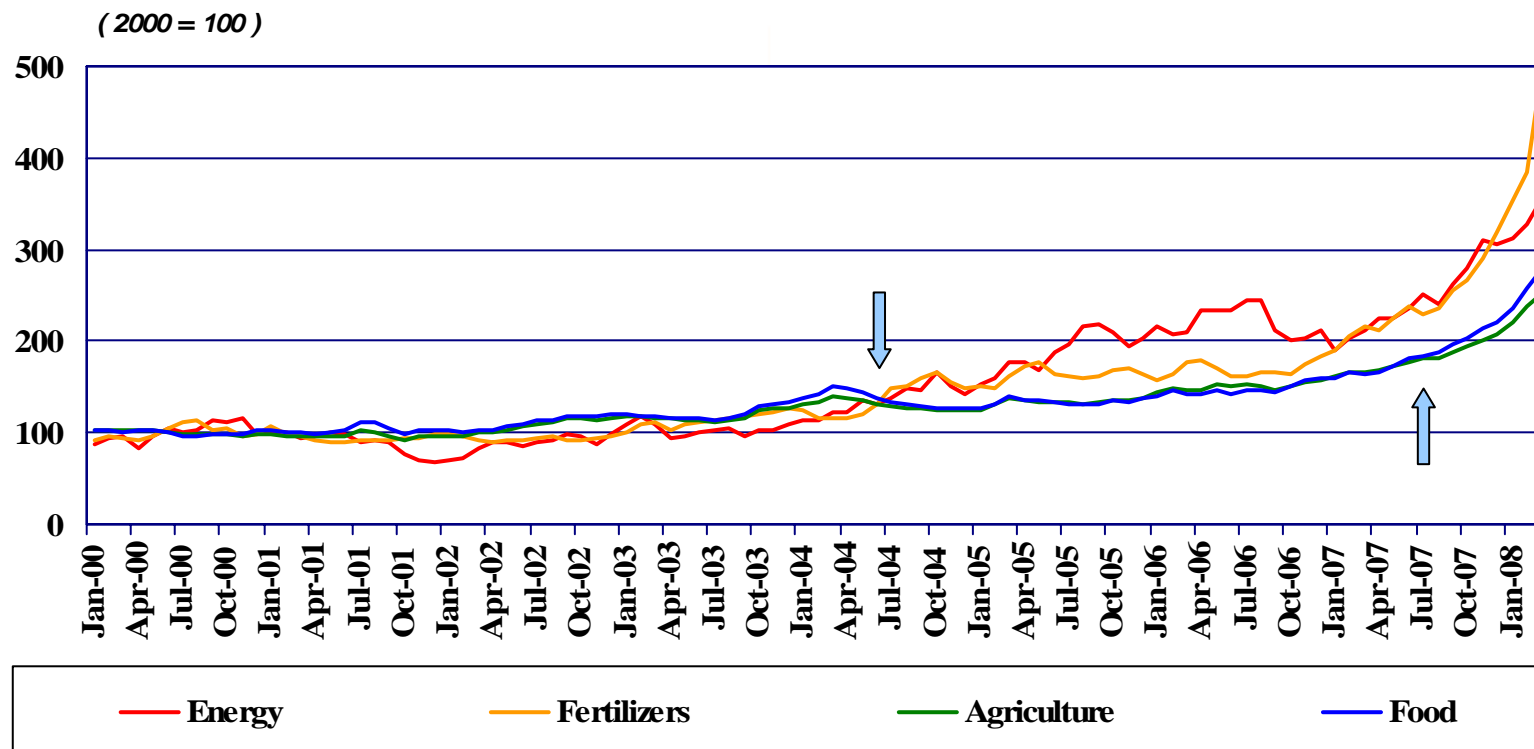


What is new in the recent price boom?

- ***Agriculture and food are following, not leading the "price boom"***
 - Since early 2004, agriculture and food indexes lag behind other indexes
 - The terms of trade for agriculture have deteriorated
 - Energy and fertiliser costs affect production costs
 - Evidence emerges that land value increases also impact on farm assets
 - The depreciation of the dollar distorts market signals

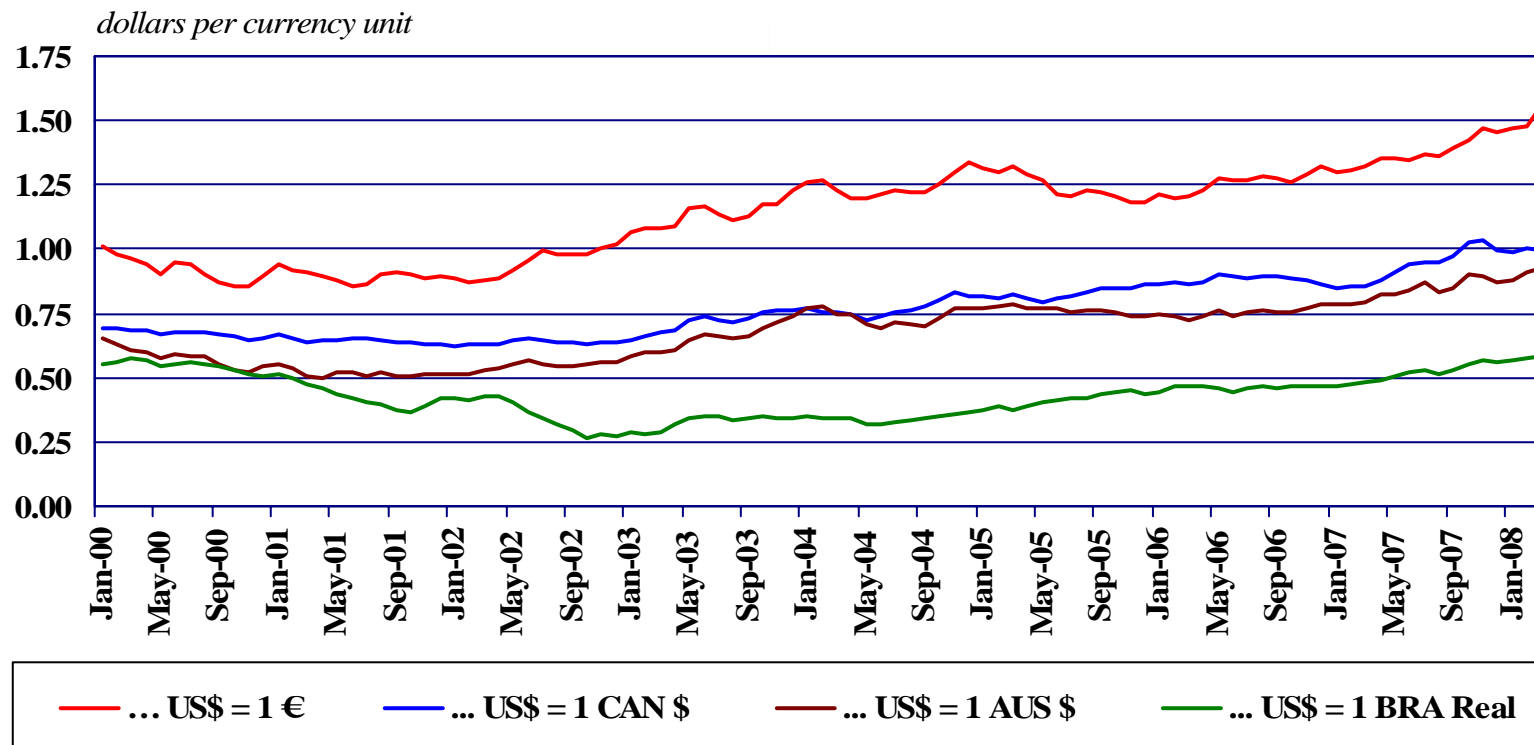


More recent trend of commodity prices (2000-2007)



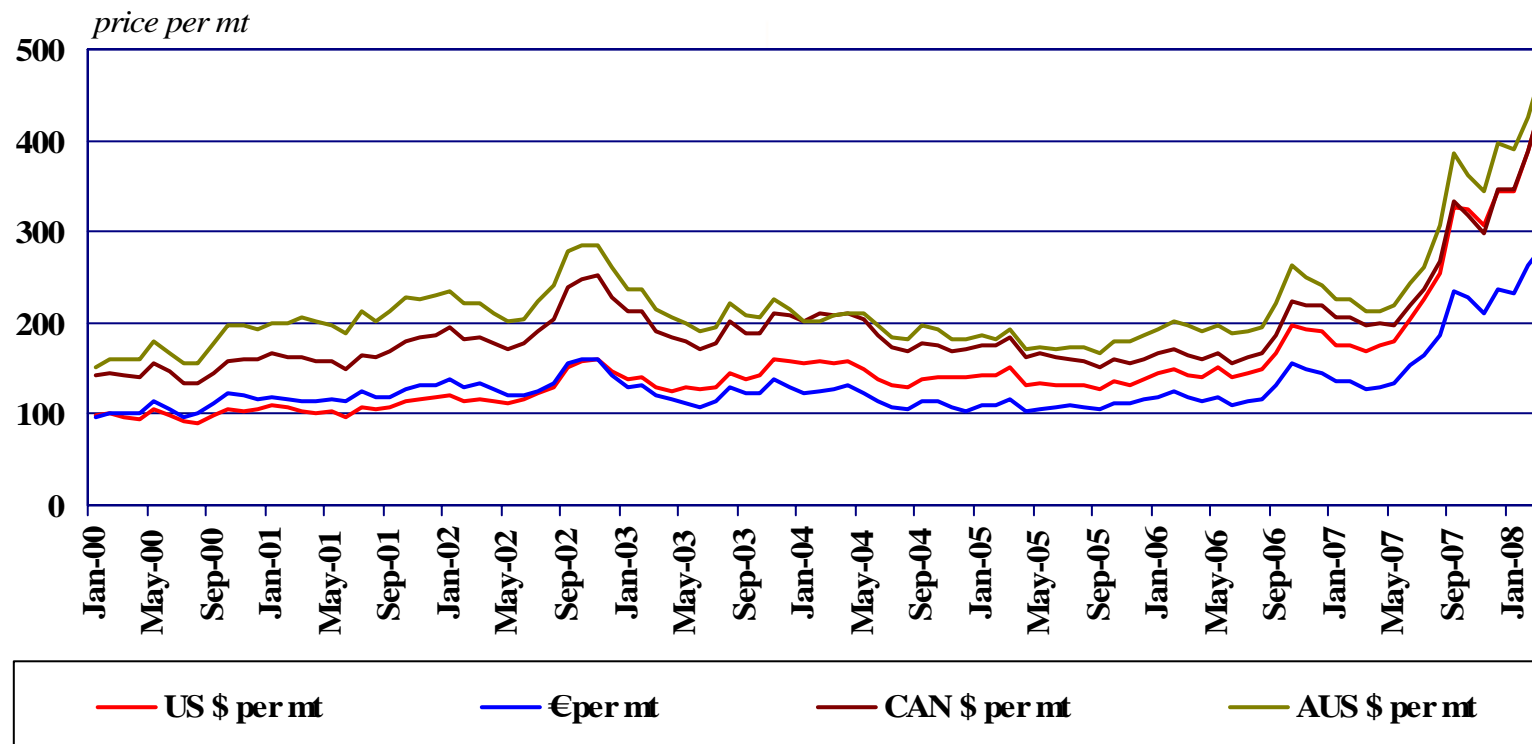


Monthly exchange rates (2000-2007)





Wheat price and exchange rates (2000-2007)





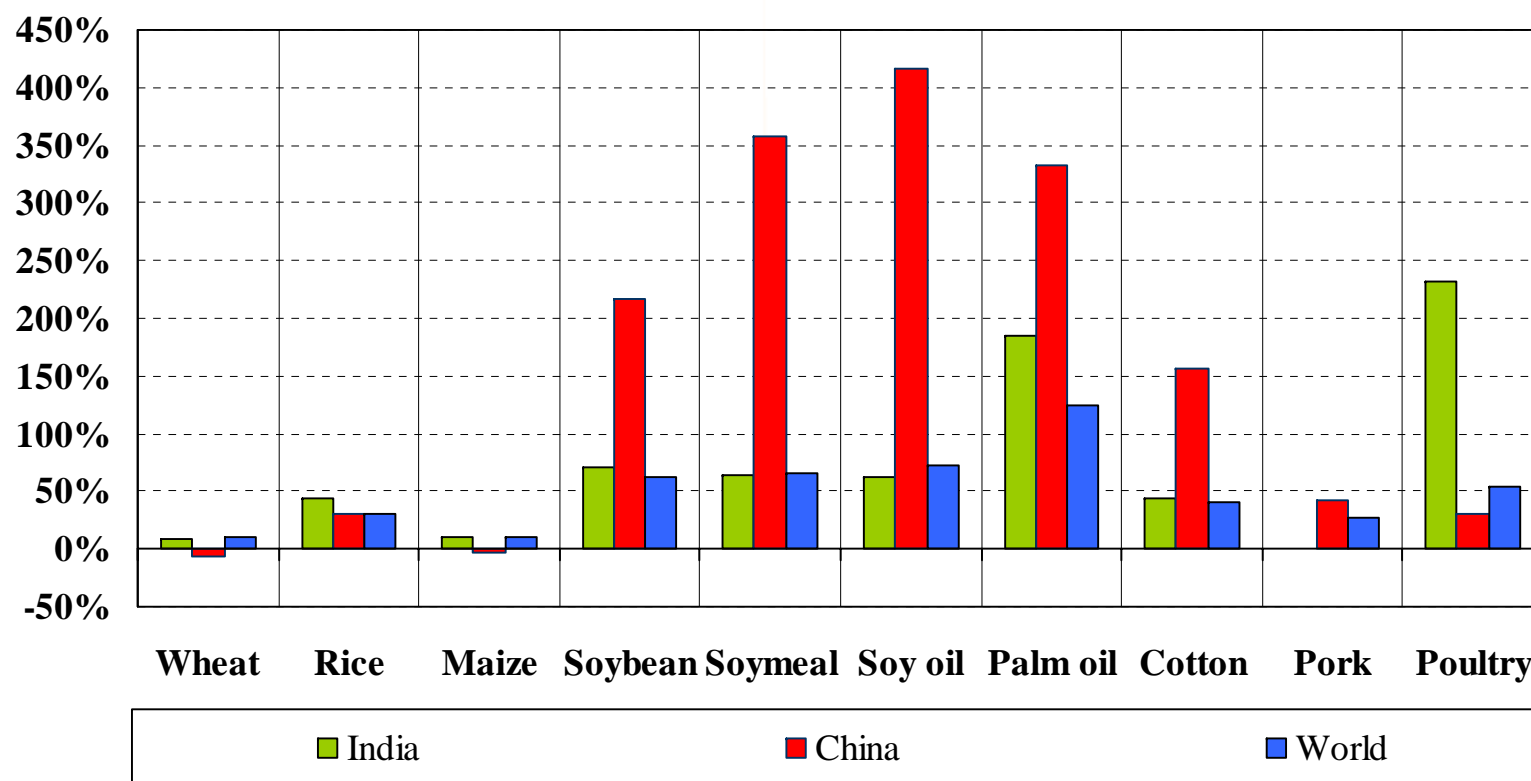
What is the role of demand factors?

- ***Food price boom is partially attributed to demand factors***
 - Role of strong economic growth in China/India has been ongoing for years
 - Clear impact in upward price pressure in certain markets
 - Yet highest price increases occur where global demand stagnates



Demand growth in China, India and the world

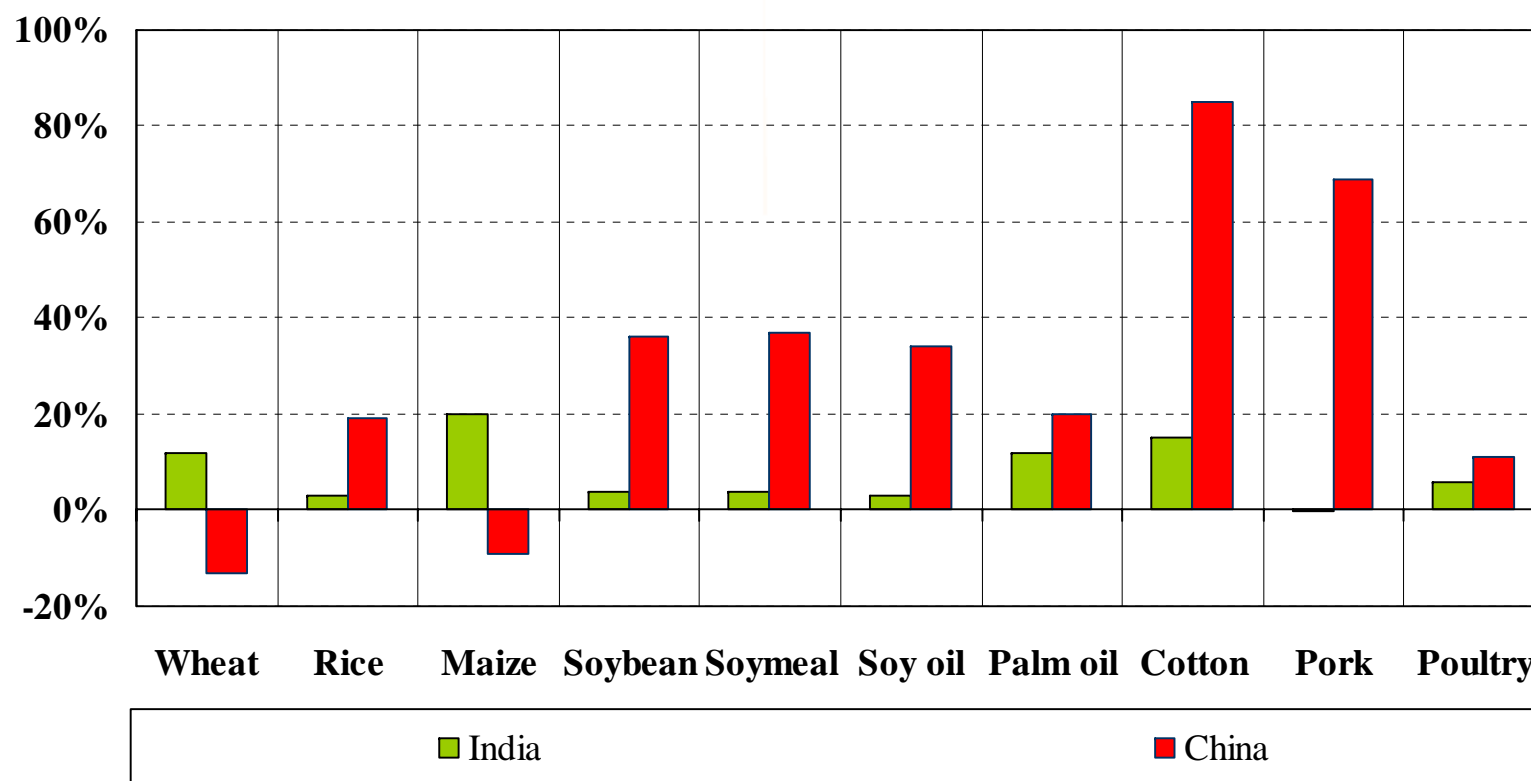
cumulative percentage change 1995-2007





Share of China and India in world demand growth

cumulative percentage change 1995-2007



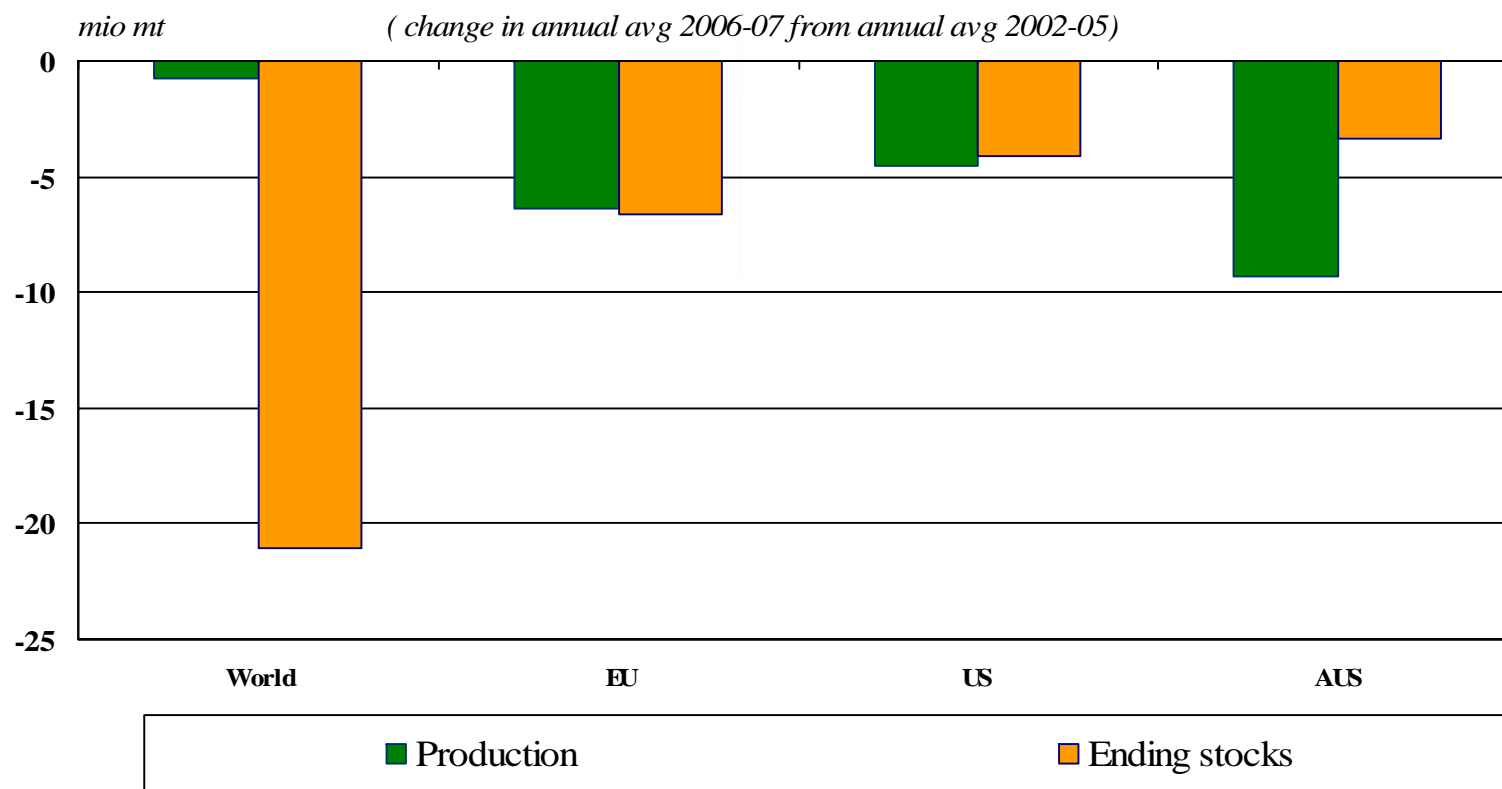


What supply factors behind the recent price hike?

- ***Supply factors seem to have played a major role in a few markets***
 - Adverse weather affects food grains and (partly) dairy...
 - ...but food grains and dairy already show signs of supply recovery
 - Supply in meat markets has been growing faster than demand

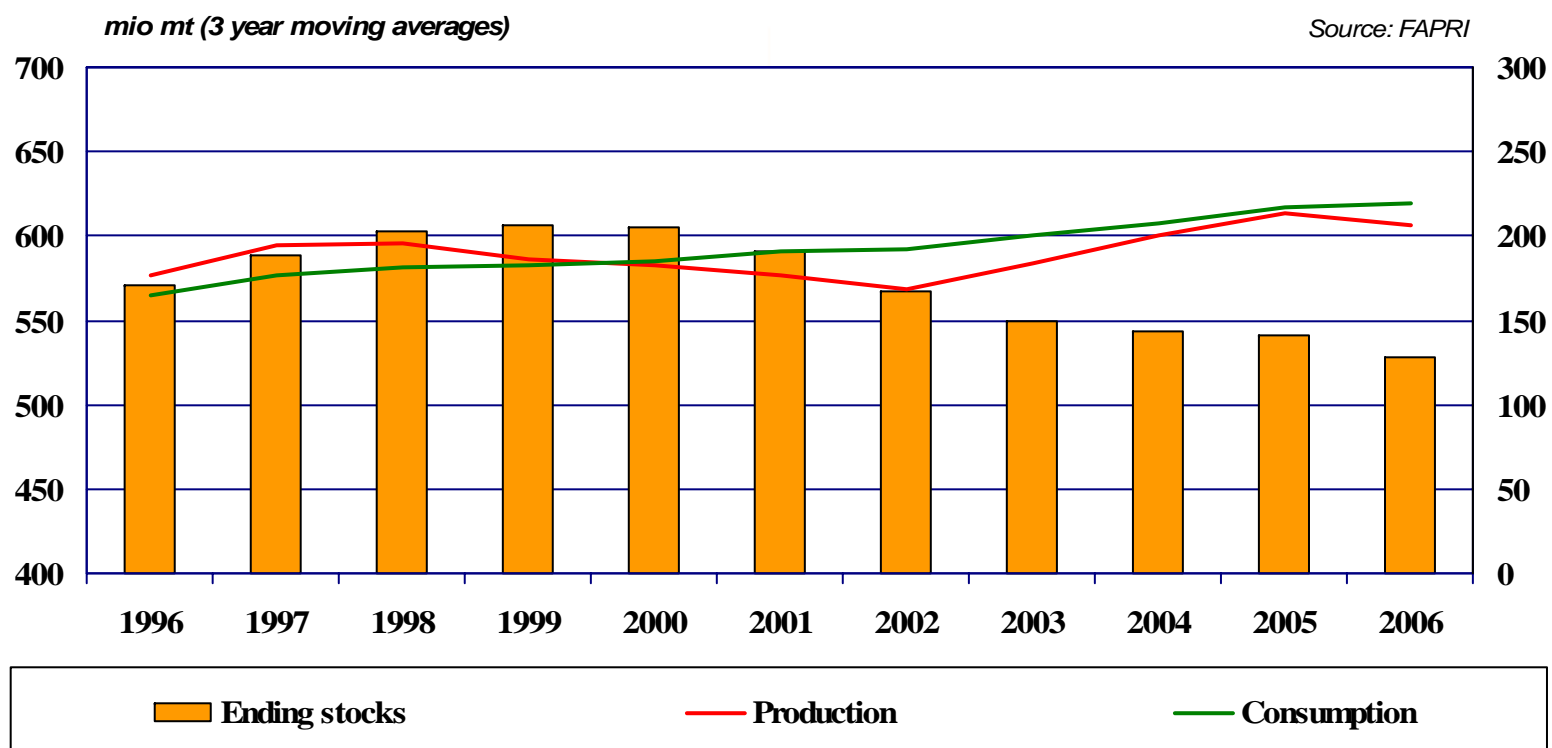


Decline in wheat production and ending stocks



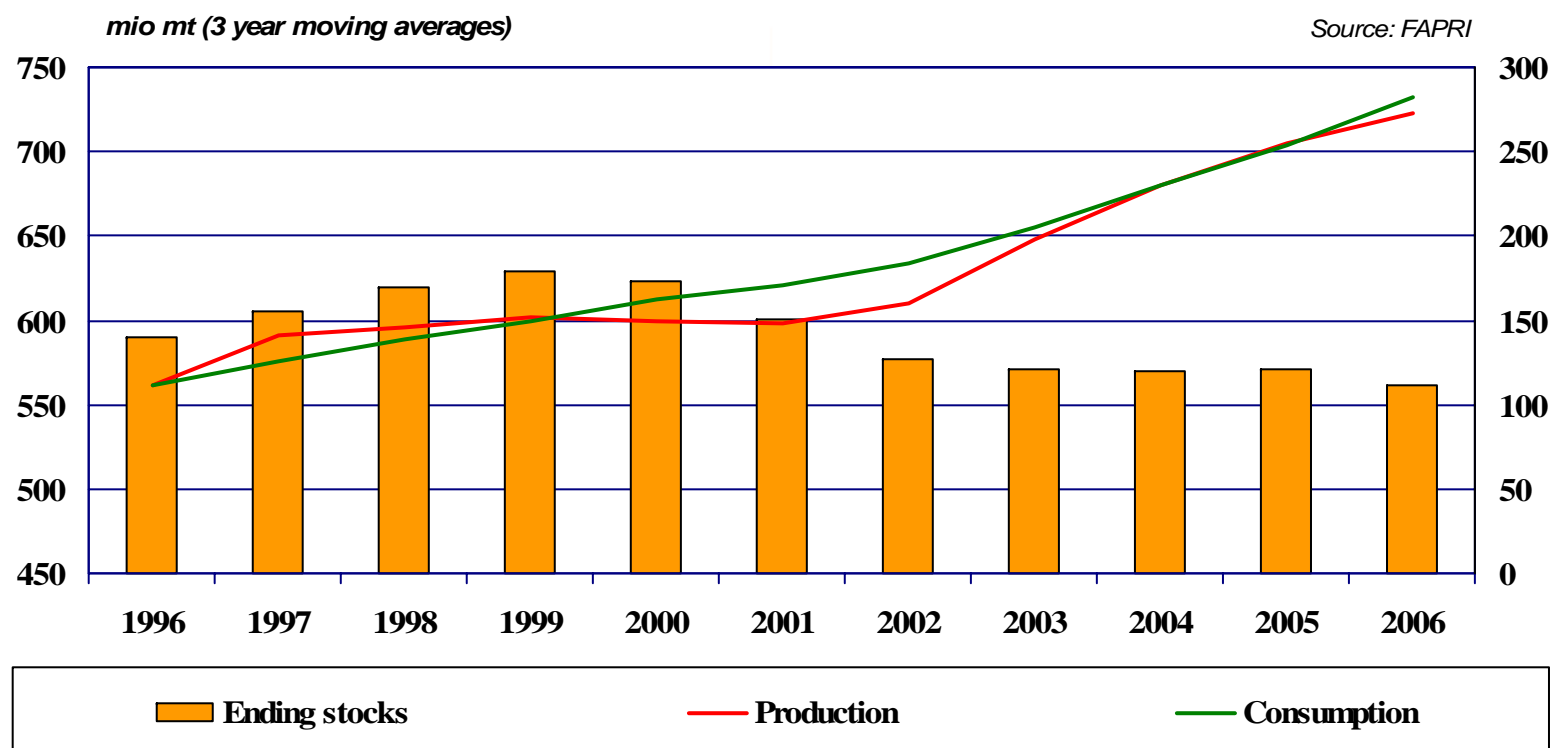


Is wheat production responding to demand?





Is world maize production responding to demand?



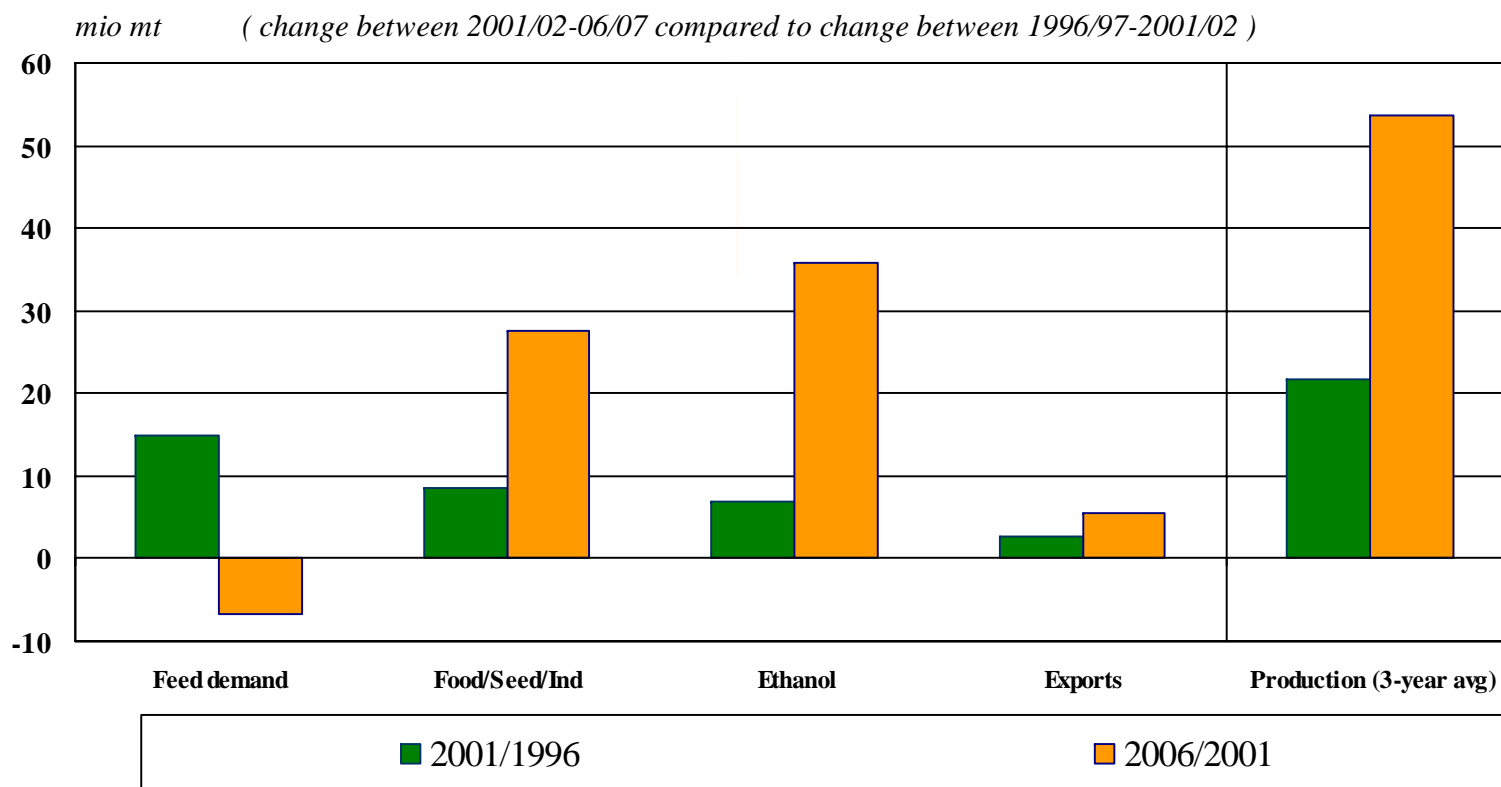


What policy factors behind the recent price hike?

- ***Policy factors have also played a role***
 - Growth in maize ethanol accelerated in recent years
 - Growth in biodiesel demand coincides with strong food oil growth
 - Export restrictions give the wrong signal when supply lags behind
 - US maize/oilseed area shifts crucial for future market price prospects

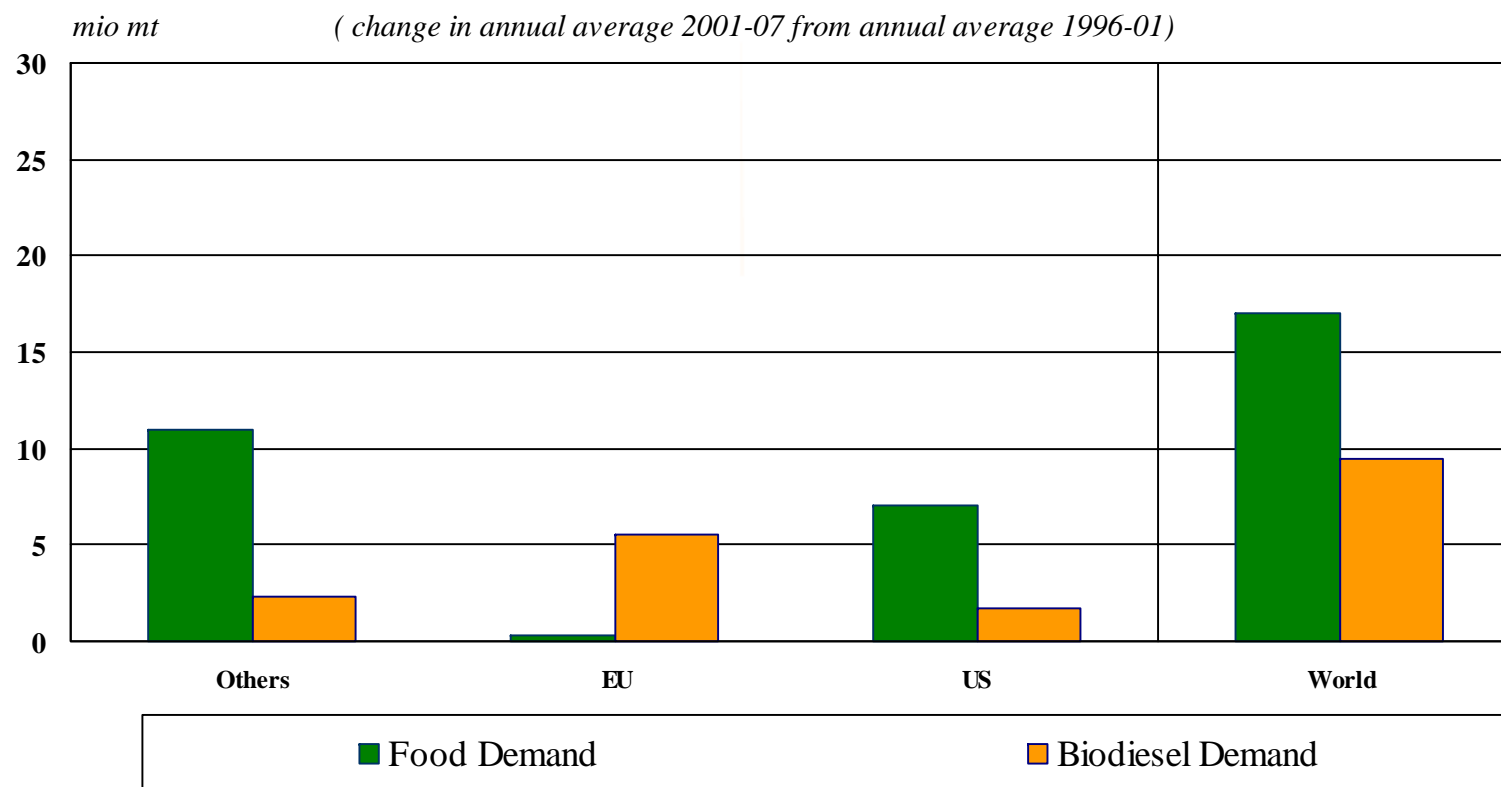


Changes in the US maize market



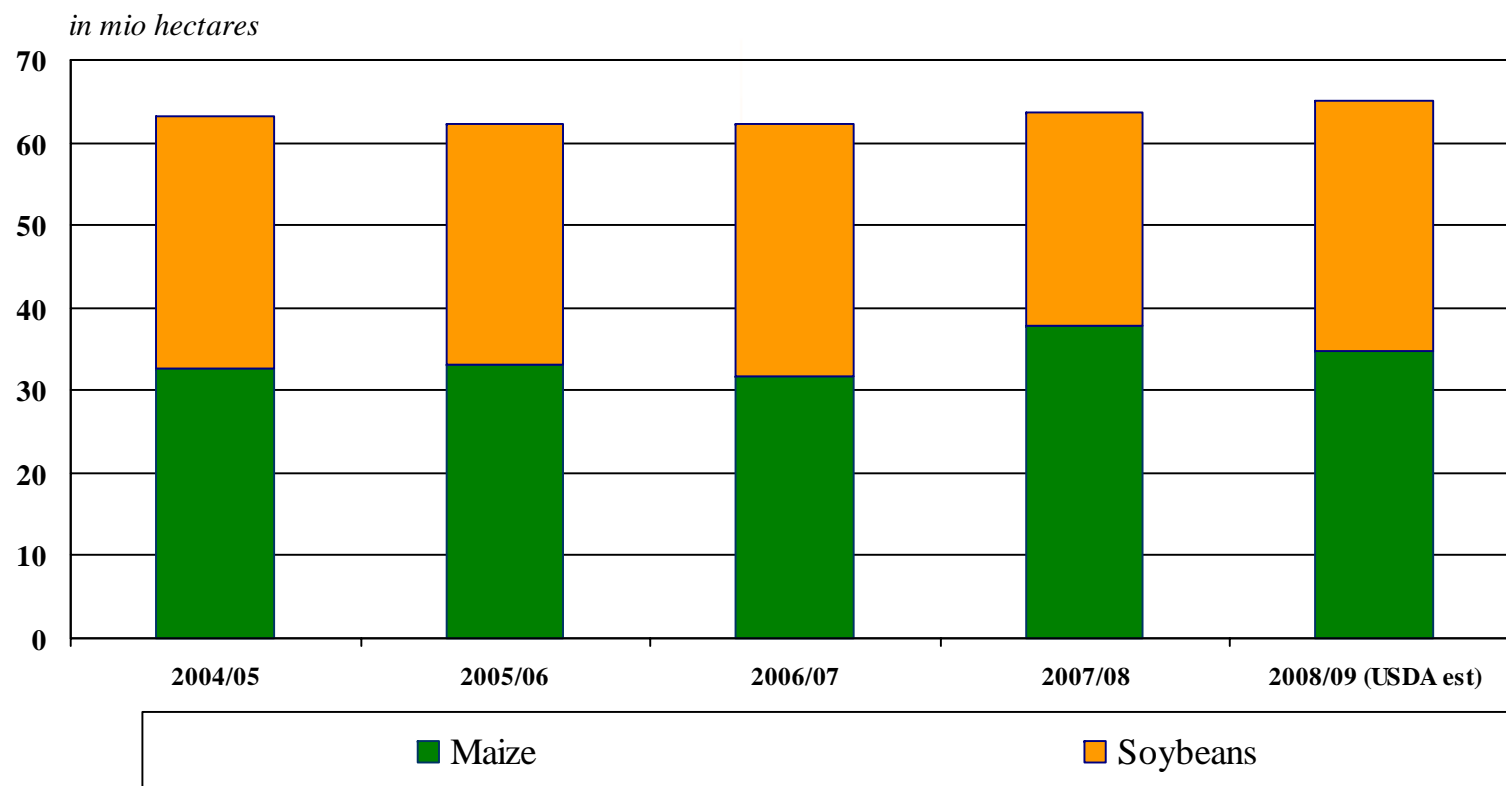


Bio-diesel and vegetable oils





US maize and soybean area



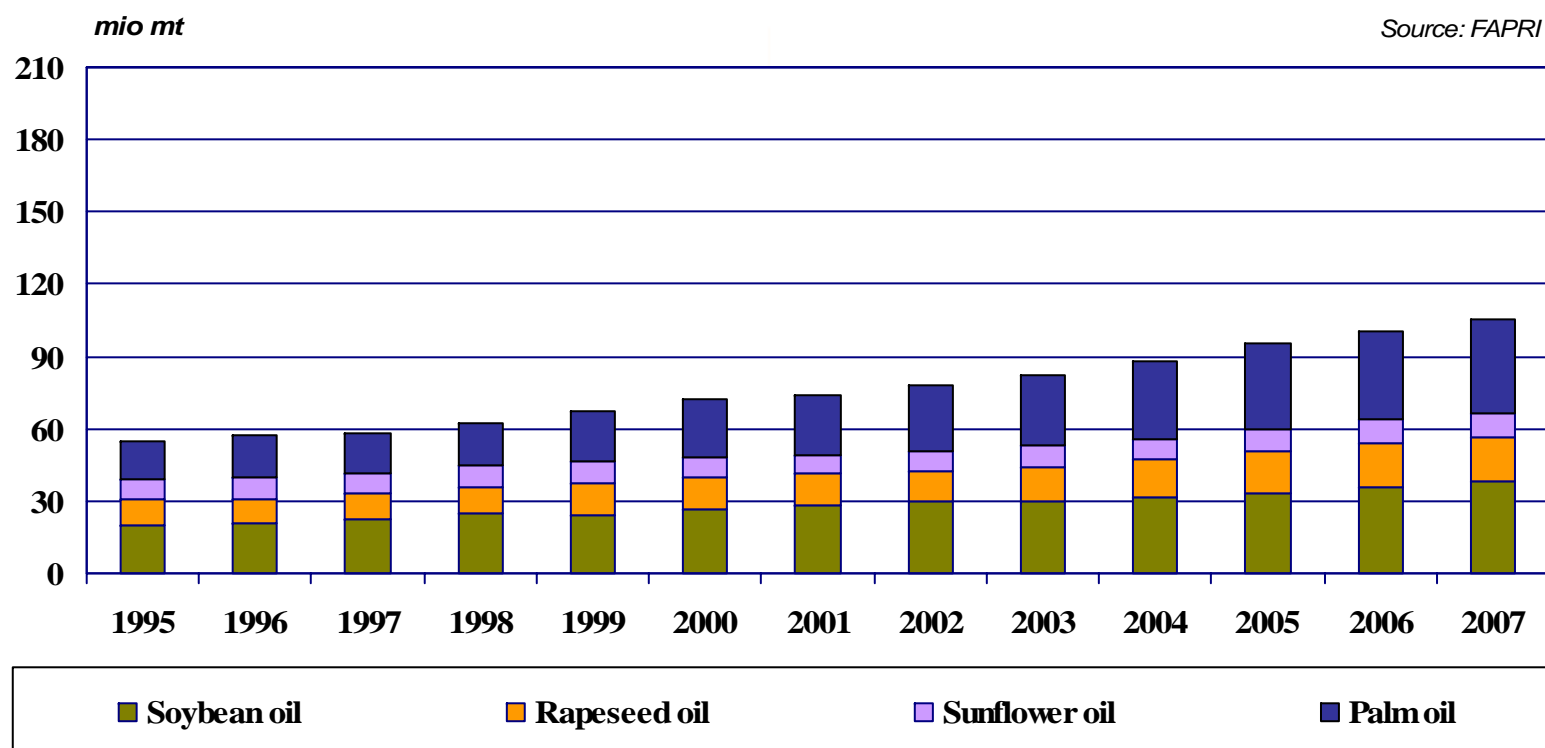


Do other demand factors play a role?

- ***What linkages between various factors?***
 - Vegetable oil demand grows, and shifts more to palm oil
 - Feed supply response to meat demand seems adequate



World demand in oilseed oils





What impact from additional meat production?

