

Kolbe, Heinz

Article — Digitized Version

## Raw materials price rise easing off

Intereconomics

*Suggested Citation:* Kolbe, Heinz (1989) : Raw materials price rise easing off, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 24, Iss. 2, pp. 96-98, <https://doi.org/10.1007/BF02928557>

This Version is available at:

<https://hdl.handle.net/10419/140180>

### Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

### Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

Heinz Kolbe\*

## Raw Materials Price Rise Easing Off

*Due to the slow-down in the worldwide increase in business activity, the growth of demand for raw materials is expected to decelerate. Production, on the other hand, will continue to increase rapidly.*

There was a further pronounced rise in world market prices for industrial raw materials and for foodstuffs and tropical beverages during 1988. The strong upturn in industrial production in the USA, Japan and indeed in most Western European countries which had already begun to show in the middle of 1987 created a marked increase in demand on the industrial raw materials markets. Market supply, by contrast, increased only modestly, due in no small measure to hesitancy in raising output on the part of raw materials producers, who had had to contend with years of oversupply and depressed prices and preferred to run down their own stocks. The strong increase in food prices in the summer of 1988, for its part, was chiefly a reflection of the effects of the North American drought in the cereal and oil-seed growing areas. The extensive harvesting losses mean that supplies can be expected to be shorter and exporting countries to substantially reduce their stocks during the 1988/89 season. Prices in the tropical beverages market, on the other hand, varied in their movements during 1988. Coffee was again marked higher, helped by the export quotas established by the International Coffee Organization, while cocoa became much cheaper as a large glut coincided with the end of market intervention under the terms of the International Cocoa Agreement.

During the autumn, demand both for industrial raw materials and for foodstuffs and tropical beverages cooled off somewhat in reaction to what at times had been an exaggerated bull market due to speculative pressures. As the year-end approached, however, there had already been a renewed increase in activity and prices were rising again.

When measured in terms of the HWWA Index of World Market Prices for Raw Materials, which is calculated on a dollar basis, the price level for industrial raw materials, foodstuffs and tropical beverages rose by 14 % during 1988 up to the month of December. The 1988 annual average was up almost 22 % on that of 1987.

Turning first to industrial raw materials, price movements were relatively volatile during 1988, partly

as a result of fluctuations in the dollar exchange rate. The first half year was characterized by an uninterrupted bull market. Apart from the continuing strong increase in industrial production – and hence raw material consumption – in the Western world, traders and manufacturers were also keen to build up their raw materials stocks as a precautionary measure. This generated substantial price increases, especially for non-ferrous metals, rubber and wool. After the middle of the year, there was some relaxation in the demand increases, one reason evidently being that supply was expected to increase more rapidly. Many producers did begin to expand their output more quickly once their own stocks and those of the commodity exchanges had been noticeably run down. The fall-back in prices, however, only lasted until the autumn. They then renewed their upward course, presumably not least because the prospects of a more abundant supply deteriorated again because of disruptions in the production of metals such as copper, zinc and lead, mainly due to strike action. The overall price level on the world industrial raw materials markets, measured on a dollar basis according to the HWWA sub-index, was up by 13 % in December 1988 on the previous year (the average annual increase throughout 1988 was 22 %). Commodities which became notably more expensive – again in dollar terms – were nickel (+105 %), zinc (+84 %), aluminium (+38 %), wool (+33 %) and copper (+23 %). Cotton and natural rubber, on the other hand, were slightly lower in price.

In 1989, overall consumption of industrial raw materials ought to increase rather more slowly than in 1988, as industrial output in the USA and most other Western countries is not expected to grow as much. Stock management by manufacturers should now also at least have ceased to generate more upward pressure. Raw materials output, on the other hand, will probably show a swift increase, especially as the combination of relatively high prices and low supplier stocks has encouraged the reopening of unused facilities. Non-ferrous metal production, in particular, can be expected to be appreciably expanded, but there are also signs of higher output of wool and rubber. In view of the

\* Hamburg Institute for Economic Research (HWWA), Hamburg, West Germany.

unusually low stocks held by the producers themselves and by the commodity exchanges, such expansion will in most cases only work through gradually to a greater market supply. Under these circumstances the markets can be expected to continue to be sensitive to any further losses of production, which are most likely among the non-ferrous metals in connection with labour disputes, for example in the US copper industry, but also in other mining regions. The underlying trend, however, will be for price levels on industrial raw materials markets to hardly rise any further, due to the combination of the expected slowdown in demand growth and what should in general be an appreciable increase in output; as the year goes on prices will, if anything, be subject to more downward pressure.

### **Rising Metal Production**

On the *copper* market, prices grew buoyant once again in the second half of 1988 as supplies were hampered by strikes and technical production problems in North and South America, Central Africa and Papua New Guinea. Copper consumption can be expected to increase rather less now as economic growth in the industrial countries slackens. For the next few months, though, demand will nevertheless remain lively because strikes can be expected in the USA in the middle of the year as new pay and conditions have to be negotiated. On the other hand, the current high prices and the low levels of the producers' own stocks provide an incentive to bring more idle capacity back into operation. Should the disruptions to production remain within bounds, this would be likely to produce a relative equilibrium in the copper market for the first time since 1983. Even so, because stocks are now so low prices could only be expected to decline to a limited extent.

*Aluminium* prices fell considerably after peaking in June 1988, but were still well above the previous year's levels in December. The recent easing of demand is a reflection of the growing expectation that the supply situation will improve in 1989. The high price level and the fact that capacity utilization has now been above average for quite some time have encouraged aluminium producers to expand their production facilities appreciably. Aluminium production in the Western world can again be expected to be well up in 1989, whereas there will be a cyclical slowdown in the growth of demand. Production and net imports from the socialist countries will probably significantly outstrip demand for the first time in several years, thus allowing producers to replenish their severely depleted stocks. During the current year, the most likely course is that aluminium prices will be under sustained downward pressure.

*Zinc* prices increased strongly in 1988. Encouragement was given to the bull market by growing demand from automobile manufacturers for galvanized sheet steel and by disruptions to zinc ore extraction as a result of long strikes in the mines of Peru. In 1989, however, consumption trends ought to be more modest as growth is expected to slow in the zinc-processing industries. Production will probably increase rather more strongly. An overall equilibrium can be expected in the Western world, yet this will not signify any fundamental improvement in the supply situation because of the low level of stocks held by the suppliers and the London Metal Exchange. All in all, therefore, the prospects are that there will only be a slight decline in zinc prices.

It was not until the final months of 1988 that the pressure on *lead* prices eased a little in the wake of the seasonal increase in demand from automotive battery manufacturers, which account for about 60 % of total lead consumption. A stronger expansion of lead production in the Western world can be expected in 1989. Consumption, on the other hand, will probably not rise much more due to a more moderate increase in automobile production, which would mean an approximate equilibrium in the market if net exports to the socialist countries were also to remain the same. Under these supply and demand conditions, there ought to be little change in lead prices.

In the case of *tin*, the persisting strong increase in demand for tinsplate manufacture in 1988 and the maintenance of the export quota system by the Association of Tin Producing Countries (ATPC) have brought higher prices and further reductions in the surplus stocks built up during the period prior to the collapse of the International Tin Agreement at the end of 1985. In 1989, the Western world can again be expected to be in a position of net shortage. Although demand ought to rise more moderately than in 1988 along with the generally slower increase in economic activity, supply too will probably only show a slight increase now that the quota system has been extended. This assumes that Brazil and China, neither of which is a member of the ATPC, will largely comply with the export quotas agreed, and that the owners of the remaining tin stocks outside the producing countries will continue to exercise discretion in disposing of them. Under these circumstances, the increase in tin prices ought to continue.

### **Agricultural Raw Materials**

The market in agricultural raw materials should be generally characterized by rising prices. Demand for *cotton* picked up well in the closing months of 1988 as

textile sales, and hence cotton consumption, turned out unexpectedly high. Even though world output and demand are in equilibrium in the 1988/89 season, exports from the USA can be expected to decline as other countries further reduce their stocks, leading to an appreciable increase in stocks held in the USA, but these will be largely kept out of the market by warehousing them under the government support programme. The US government can then be expected to promote a reduction in acreage for the 1989/90 season in order to avoid further stock-building. The world cotton harvest will probably therefore fall, and with rising demand this will create a shortfall for the coming season. Prices are therefore more likely to rise a little than to fall.

In the *wool* market, too, demand remained vigorous despite a marked increase in prices. Supply can be expected to remain short in the 1988/89 season. The Australian Wool Corporation has reduced its stocks to minimal levels, and these have also fallen in other exporting countries. Although there is likely to be a further increase in world wool production, aggregate supply will not be much higher in the 1988/89 season than it was a year previously, because of the limited stocks held as the season began. Wool consumption will probably again rise only slightly. As a result of the pronounced increase in price, textile manufacturers will turn increasingly to synthetic fibres. Wool prices will probably not show much change over the 1988/89 season.

The long decline in prices on the *natural rubber* market has recently come to a halt. As the rise in production in the automotive and tyre industries flattens out, 1989 is expected to bring slower growth in consumption. Though production will increase by an amount similar to last year, this would still leave a significant shortfall overall. These unfavourable supply prospects ought to lead manufacturers, especially in Western Europe and the socialist countries, to take the precaution of rebuilding what are regarded as very low stocks, especially as the buffer stocks currently held by the International Natural Rubber Organization are too low to create any significant reduction in the supply shortfall. An increase in demand on the rubber market is therefore imminent, and prices can be expected to rise again.

### Unstable Oil Markets

On the world *crude oil* market, the price decline which had gone on for more than a year finally came to an end in November. North Sea oil, which had come down to as little as \$11 per barrel, was recently again trading at \$17-18 per barrel. The price recovery is primarily attributable

to the OPEC countries' agreement to restrict their oil production; other oil-producing countries, too, followed this up by announcing cutbacks of their own. Since oil consumption rose more quickly than expected and some North Sea production was lost, the appreciable reserves which had been built up before the market upturn did not create any noticeable pressure on prices. Nevertheless, if past experience is anything to go by the supply quotas will soon be less strictly adhered to if prices go on rising. There is good reason to assume that the oil price will remain, subject to major deviations in either direction, centred around the \$15 per barrel mark.

### Little Change in Food Prices

The buoyancy of the foodstuff and tropical beverages markets around the world persisted until the summer of 1988. The abnormally dry conditions in the North American wheat, maize and soya bean-growing areas led to a pronounced rise in world cereal and oilseed prices. Sugar and coffee went up in price for different reasons, whereas cocoa prices fell. As the year went on, demand then slackened off again for most foodstuffs and tropical beverages. The only commodities which have since become appreciably cheaper, though, are maize and oilseed crops, whilst wheat and coffee prices have gone on rising. The overall price level on the foodstuff and tropical beverages markets, measured in dollar terms by the HWWA sub-index, was up 15 % in December 1988 compared with a year earlier; the average annual increase during 1988 as a whole was approximately 19 %.

The world production of *wheat, maize and soya beans* in the 1988/89 season will be substantially lower than in the previous season because of the drought in the USA, and also well short of prospective demand. Stocks in the major exporting countries will be greatly reduced. However, these developments can be regarded as having been anticipated by current market prices. Moreover, they provide a major incentive to expand the acreage sown with these crops in the 1989/90 season. However, any improvement in the supply situation is still dependent on there being no repeat of major crop damage due to bad weather. Because of the drought conditions in the Brazilian plantation areas, a sharp fall will occur in world *coffee* production, and although *sugar* output is rising, a shortfall can again be expected here. Coffee and sugar prices will both therefore tend to rise. By contrast, *cocoa* prices ought to remain under downward pressure due to growing production surpluses. Overall, the supply and demand prospects on the world foodstuff and tropical beverages markets suggest that there will be little change in price levels in 1989.