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Coffee Prices and Outlook

Robert L. Vertrees
South Dakota State University

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Editor:
Robert J. Antonides
Extension Economist

Economics Department | South Dakota State University | Brookings 57006 | (605) 688-4141

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Coffee drinkers have been aware for some time that the price of their favorite cup of brew has been rising sporadically at their coffee-break counter. More significantly, however, the grocery shopper has been dismayed as the price of a can of coffee skyrocketed during the past year.

It is likely that the price would have risen more rapidly except for the time it takes for the assessment of changes in production, the ability and willingness of producers to supply more in response to higher prices, and the time required for higher raw-bean prices to work through the procurement, processing and wholesale channels down to the retailer and the consumer.

Normally, higher prices call for increased production. With a product such as coffee, the responses are likely to be much slower than for some other crops. Coffee trees take a minimum of three years to begin producing and from 15 to 20 years to come into full production. A frost that merely kills the buds will be detrimental for a year; a freeze that kills the trees will cause the reduced production to be extended for a much longer period. Thus anything that reduces normal supplies will also likely result in higher prices.

Brazil, the largest coffee producing country in the world, experienced two years of frost which lowered output. These were followed in July of 1975 by a widespread destructive freeze that killed a large proportion of that country's trees, thereby reducing its future supply.

Other coffee producing countries of Africa and Asia have not been willing or able to make up the deficits in the world markets. Neither are they likely to in the near future because of marketing systems and pricing policies of the governments and quasi-governmental marketing agencies. These tend to restrict the incentives of the producers to be efficient or to respond to higher prices in the world markets.

Governments and producers in some countries have taken the attitude that prices will not remain at the current high levels and any expansion of production would result in increased costs. Generally, these governments have not been responding enthusiastically to the opportunities.

Much of the superior type of coffee comes from Colombia, the second largest coffee producer. Here production has remained high. The price rise on the world market for Colombian beans this past year has been sensational. On June 30, 1975, the New York price was 72 cents per pound. One year later, on June 30, 1976, the quote was 143 percent higher - about $1.75 per pound! And, it is possible that the price will continue to rise some.

In Colombia, like in many of the smaller, but still important, producing countries, the high prices have met with mixed reactions. Both the Colombian Government and the National Coffee Federation are concerned that the sudden rise might cause declines in coffee consumption, lead to increased plantings and overproduction, and have an impact on that country's inflationary spiral. Thus a tendency to discourage expansion.

Ivory Coast, in Africa, is now the world's third largest coffee producer. Small farmers are the main production unit. The goal of the country appears to be to maintain present levels of coffee output, upgrading coffee types and yields without expansion of areas. The results of the replacement programs to upgrade the quality, however, are 15 years or so down the road.

In Indonesia there are some positive factors that might encourage more production, but they are hampered by the fact that about 90 percent of the coffee is grown by small farmers who do not benefit much from the higher prices. Indonesian coffee is generally of a quality that sells for less. The lack of roads, primitive technology in production and marketing, and a general lack of good organization are severe handicaps in increasing production.

India has taken some positive steps with increased yields as well as increased areas. A significant increase in production could still be made, but it is limited by plant disease and reticence on the part of the plantation owners.

Kenya has good yields, even among the smallholders, but there are indications that the small producers do not share in the higher prices, and their incentives to improve and expand production are curbed.

Political instability in the Republic of Zaire, coupled with low prices to small producers there and in Cameroon, have stifled incentives in both countries. Production will increase but at a moderate rate.

Many other countries, of course, contribute to the world supply of coffee. A significant portion of U.S. imports come from Mexico. These will likely remain much the same in the near future.

The coffee "shortage" occurred at a time when world demand was at a peak, thereby intensifying the price rises. U.S. imports have remained relatively constant over the past 15 years, but with per capita consumption gradually falling from 11.6 pounds (retail weight) in 1960 to about 9 pounds in 1975.

Robert J. Antonides, Extension Economist

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U. S. Department of Agriculture
South Dakota State University
Brookings, South Dakota 57006

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