COFFEE MARKET OUTLOOK

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Summary

- Long-term trends 1990-2008
- Short-term trends and current economic crisis
- Conclusions
World production
Crop years 1990/91 to 2008/09

World production by region
Crop year 1990/91
World consumption
Calendar years 1970 to 2008

[Bar graph showing world coffee consumption from 1970 to 2008]

World consumption by region
Calendar year 1990

[Pie chart showing percentage distribution of coffee consumption by region: Europe 43%, North America 24%, South & Central America 15%, Asia & Oceania 13%, and Africa 5%]
World consumption by region
Calendar year 2008

- Europe 38%
- Asia & Oceania 14%
- Africa 9%
- South & Central America 23%
- North America 22%

World: shift in consumption by area:
2000-2007

* Estimated
World: shift in exports by type of coffee


[Bar chart showing import changes by origin, with bars for Vietnam, Brazil, Peru, Honduras, Mexico, Nicaragua, Papua New Guinea, Kenya, and Costa Rica.]

Italy: shift in imports of green coffee by group: 2000-2007

[Bar chart showing imports by coffee group with bars for Washed Arabicas, Natural Arabicas, Robustas, and Unspecified.]

ICO composite indicator price
Annual averages 1990 to 2008
ICO group indicator prices
Annual averages 1990 to 2008

Value of exports of coffee
Coffee years 1990/91 to 2007/08

* Estimated
Impact of the financial crisis

- Coffee prices
- Supply
- Demand

ICO composite indicator price
Monthly averages: Jan-05 to Mar-09
Impact on supply 1

- Production costs
  - Steadily rising in recent years
  - Prices of key inputs (fertilizers + oil) now declining
  - Price of labour not affected

Impact on supply 2

- Influence of exchange rates:
  - In countries with exchange rate linked to the US$, coffee prices have fallen in local currency and production has become less attractive
  - In countries with flexible exchange rates, coffee prices almost unchanged in local currency
Impact on supply 3

- Some production costs may fall in line with cheaper inputs.
- Sacrcity of credit to farmers may reduce care of plantations
- Exchange rate movements will play an important role in determining attractiveness of investments in new plantings.
- Response will not be uniform, but vary from country to country.

Impact on supply 4

- Overall volume of supply tight in short-term
  - Short-term fall in production in Colombia and Central America
  - Off-year of biennial cycle in Brazil
- In long-term, current price levels do not stimulate new plantings, especially of Arabica coffee
In recent years, consumption has increased steadily at a rate of 2.5% p.a., from 104.6 million bags in 2000 to 128 million bags in 2008.

This growth rate is not evenly distributed. Growth rates are more vigorous in emerging markets and in producing countries.

Current crisis may decrease growth rate, but no significant adverse effect on overall level of demand is expected.

Impact on demand 1

- developed country markets
  - 58% of world consumption
  - Shift in types of coffee consumed ("downtrading"):  
    - Out-of-home to in-home
    - Higher price to lower price, with possible impact on market for specialty coffee
  - Overall volume of consumption not expected to be adversely affected
Impact on demand 3
Producing country markets

- 26% of world consumption
- Influence of exchange rates:
  - In countries with exchange rate linked to the US$, coffee prices have fallen in local currency and internal consumption may be stimulated
  - In countries with flexible exchange rates, prices almost unchanged in local currency
- Overall volume of consumption unlikely to be adversely affected

Impact on demand 4
Emerging markets

- 18% of world consumption
- Vulnerabilities:
  - Coffee still a “luxury” good
  - Possible devaluations of local currencies vs. US$ may increase coffee prices to consumers
  - Macroeconomic dislocations (unemployment, lack of credit) may reduce demand
- Effect on consumption still uncertain
Impact on prices

- Coffee prices have recovered from the low levels recorded during the coffee crisis (2000-2004).
- After beginning of crisis in September/08, prices fell in line with other commodities and appreciation of US$.
- Since January/09, prices have recovered in line with firm coffee fundamentals.