CHAPTER 5

Metal Prices Signal Global Economic Shifts

Metal prices have been declining since 2011 after a long upward trend that began in the early 2000s (Figure 5.1). Some analysts consider this to be a signal that we are nearing the end of the so-called commodities supercycle. Although that is difficult to ascertain with confidence, the prolonged fall in metal prices is consistent with a more typical commodity boom-and-bust cycle. Indeed, after a period of high metal prices during the 2000s, investment and capacity in the sector increased substantially. At the same time, high prices led to downward adjustments in demand. Those adjustments contributed to a gradual decline in metal prices after 2011, which in turn lowered profit expectations and reduced investment in the sector, especially in high-cost mines. The decline in investment will eventually reduce capacity, and lower production should eventually lead to a rebound in metal prices and, in turn, an upturn in investment. In fact, prices did rebound to some degree in 2016.

Understanding the evolution of metal markets is important for at least two reasons. First, metals are at the heart of the world economy because they are key intermediate inputs to industrial production and construction. Metal markets are thus shaped by shifts in the volume and composition of global demand and supply, and transformations in metal markets also signal important changes in the world economy. Second, for some countries, metal exports are a large portion of total exports, and fluctuations in metal prices can have important macroeconomic consequences. This chapter addresses the following questions:

- What are metals?
- Where are the primary centers of metal production and consumption?
- How have metal markets evolved?
- What lies ahead?

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