

# What is the world price?

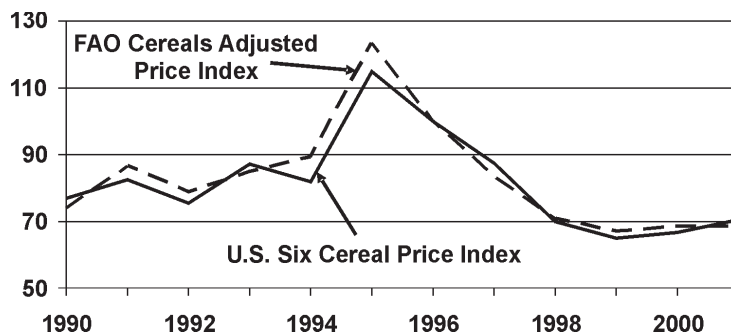
People talk about the “world price” for wheat and other commodities. I usually don’t know what most people mean when they refer to world price and from their response to my inquiry, I often am convinced that they don’t know either.

So how and where is the “world price” determined? The geographical reference probably varies by major commodity group. Coconuts and bananas are priced from different shipping points than grains and cereals.

One of the few that have tried to statistically tackle the what-is-the-world-price issue is the United Nations Food and Agricultural Organization (FAO). FAO computes a Cereal Price Index which measures world prices for all cereals. This Cereal Price Index provides monthly data and measures the price of cereals in international trade, not local domestic prices. For comparison purposes we converted the monthly prices to annual prices based on an August-July marketing year and re-indexed it so 1996=100.

For the U.S., we constructed a price index of the six major cereal export crops weighted by value of production and indexed to 1996=100.

Figure 1 shows a comparison of the two measures. In viewing how closely these two lines follow each other it must be remembered that nearly two-thirds of the FAO Cereals Price Index reflects non-U.S. international trade. It certainly can be said that the U.S. price and the world price are highly correlated. While the direction of causation



**Figure 1.** A comparison of the FAO Cereals Price Index, converted to annual prices based on a July-August marketing year, and an index of U.S. prices received by farmers for six major cereals (barley, corn, grain sorghum, oats, rice, and wheat), 1990-2002, 1996=100. Data source: UNFAO and USDA, adjustments and computations made by APAC.

cannot be ascertained from the line graphs, it is none-the-less clear that U.S. prices suspiciously reflect the weather shortened U.S. crop in the middle 1990s and the effects of the elimination of supply management mechanisms beginning with the 1996 crop year.

And, it seems apparent as well that year-after-year, world prices stepped in the U.S. price footprints. If it is true that the U.S. is the dominant player in cereal markets, it is no wonder that U.S. policies which lower farm prices mean lower prices for all.

It also explains why we are currently getting so much flack internationally, especially from producers in less developed countries. They believe that the change in U.S. policy has driven down their prices as well as U.S. prices. As devastating as the low prices have been in the U.S., farmers in less developed countries do not receive “mailbox” revenue to help compensate for low prices.

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