

## Revised Commodity Price Index

*The HWWI has revised its primary commodity price index, with updated weights based on 2012-2014 import values, and a new price base 2015=100. (as of: July 2016)*

1. The focus of the price index remains the same: it measures changes in the prices of raw materials imports invoiced to the industrialized countries<sup>1</sup> and is thus an indicator of developments in the cost of imported raw materials. As of January 2002 an additional index 'Euroland' is calculated for the euro area countries. The index figures are updated once a week on Monday and at the beginning of a month. All index figures – daily figures starting April 1996, monthly figures at the end of 1978 and partly 1960 – can be downloaded for further use in spreadsheets. The freely available selected monthly figures are published with some delay.

2. The weights for individual commodities in the index are drawn from their share in total raw materials<sup>2</sup> imports of the OECD countries, excluding intra-EU trade. For the index 'Euroland' the imports of the European Monetary Union members from third countries are used as weights. In order to soften the effects of annual fluctuations in raw materials imports, import data was taken from the three consecutive years 2012 to 2014. The selection of raw materials is drawn from the list of "non-manufactured goods" as defined in the Standard International Trade Classification (SITC, revision 3); this group covers the sections 0 to 4 and 68.

3. When selecting the basket of goods, efforts were made to include only unprocessed or little-processed goods. Products which include a high proportion of labor costs and other factors charges – as is the case with most semi-finished and finished goods – were largely omitted. With the exception of steel scrap, which is used in manufacturing in the same way as raw material, waste materials or secondary raw materials remain excluded. While the importance of recyclable waste materials in the manufacturing process is certainly increasing, worldwide quotations are not available.

4. In order to come as close as possible to its aim of providing a representative picture of commodity price developments, the index includes important raw materials which are traded internationally. Exceptions are necessary, however, when representative or current or world market prices are lacking. A number of food items which tend to resemble finished products rather than raw materials or are strongly influenced by the Common Agricultural Policy (CAP) of the EU are also omitted. Precious metals are excluded too, as their price movements are heavily influenced by speculative buying and selling, and they can only partially be regarded as raw materials in the sense of industrial inputs. Altogether, the index covers 31 commodities which, in the base period, accounted for about half of the imports of non-manufactured goods according to the SITC definition. For the 31 commodities, 36 price series have been selected i.e. some raw materials are represented by two or three price series in order to take different qualities into consideration (see current list of price quotations). The index is computed on the basis of what continues to be the most important currency in world trade, the US dollar, as well as on a Euro basis.

5. Newly included in the index is natural gas. This was necessary due to the loosening link between the natural gas prices and the crude oil price. The increasing distribution of liquid gas on the international markets strengthened the importance of spot markets and rigid

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<sup>1</sup> Without OECD-countries that are not classified by the IMF as advanced economies.

<sup>2</sup> Sum of the commodities included.

agreements in long term contracts keep losing their significance. The natural gas quotations start with the beginning of 2010. In order to represent the global market developments properly two natural gas prices were used to calculate the natural gas index. Representative for the North American market natural gas prices from Henry Hub were selected and for the European market natural gas from the United Kingdom were chosen. The Japanese natural gas market was not taken into consideration because of the very high percentage of liquid natural gas.

6. The comparison of weights without natural gas – import values 2005 to 2007 (old index) and 2012 to 2014 (new index) – shows an increased crude oil share in commodity imports. This is mainly a result of considerably higher oil prices in the later period. The weight of crude oil in the index increased from slightly below 75 % to around 81 %. In the later time period also the food commodities were significantly more expensive. The price increases ranged predominantly between 50 % and 100 %. Out of the range were only tea (+39 %) and soymeal (+110 %). In total the weight of the food commodities remained unchanged in the index. In contrast most of the industrial raw materials lost shares. Especially non-ferrous metals were cheaper in the second time period. The prices of nickel fell by 35 %, of aluminum by 19 % and of zinc by 24 %. In addition the industrialized countries also imported less ferrous metals: The trade volume of zinc decreased by 60 %, of aluminum by 31 % and of copper by 21 %. The lower prices and reduced import quantities were finally responsible for the diminished weight of the ferrous metals in the index. It fell from 7,91 % to 4,63 %.

The weight of iron ore remained unchanged with 2,24 %, whereas the weight of agricultural commodities decreased from 4,29 % to 2,32 %. Especially the shares of wood and wood pulp diminished. This drop can be explained by the exclusion of more main commodity trade flows in the industrialized countries. For example the exports from Scandinavia to the US were left out in the recent index revision. Lastly the high weight of fuels implies a decisive influence on movements of the total index. To illustrate price movements of other raw materials a partial index without energy commodities – with more sub-indices – is calculated.

7. The new index has been computed back to April 1996 for the daily figures and to September 1978 for the monthly figures. The same calculation was made for the quarterly and annual time series.