Chapter 2: Changes in Supply and Demand Cause Large Swings in Copper Prices

Copper is an important mineral with a large variety of industrial uses, ranging from electrical wires, electrical appliances, and computers, and it is used in the construction of automobiles, homes and offices. In terms of quantities consumed, copper is third among metals after iron and aluminum. It is its properties of high thermal and electrical conductivity, malleability, and resistance to corrosion that makes a readily available supply of copper crucial for modern industrial production, and its price is an important part of the cost of many products. There are, however, substitutes and a change in the price of copper in relation to the price of its substitutes can lead to the switching from one mineral to others in production of many products.

From fall 2000 until fall 2001 copper prices declined to $0.62 as a result of flat world consumption (because of the world economic slowdown) in the face of large increases in supply (rightward shift in the world supply curve) as several new large copper mines in South America (especially Chile – the largest copper producer in the world) and in Asia started production. Since then copper prices increased sharply and exceeded $3.50 per pound in fall 2006 as a result of production problems in various producing countries and sharply increased demand (especially from China, which has now the largest user, accounting for about 20% of world consumption).

Copper prices remained very high until June 2008, when the current financial crisis resulted in the deepest recession since the end of World War II in advanced nations and recession or sharp slow-down in growth in emerging market economies. This sharply cut the demand for copper and led to a sharp decline in its price until December 2008. Since then, with demand increasing (as a result of economy recovery) relative to supply the price copper increased and exceeded $4.00 per pound in July 2011 (see the figure).