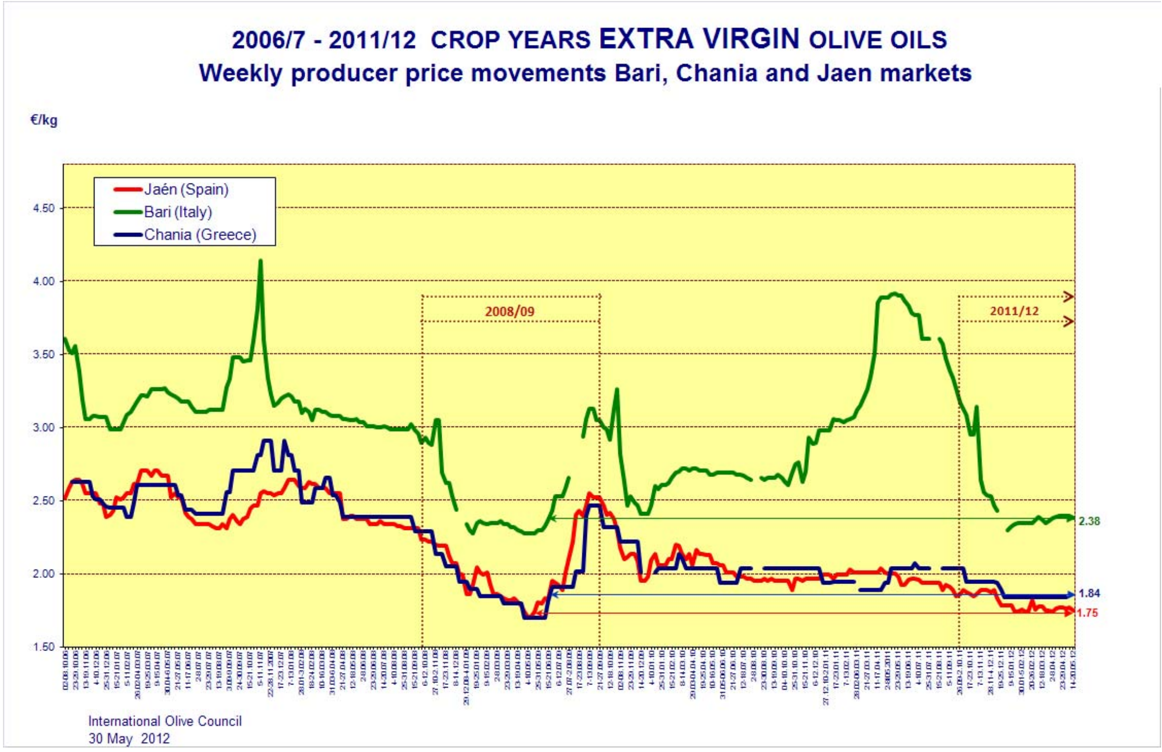
Some thoughts on current olive oil prices (31 May 2012)

The available facts

Producers in Spain, Greece and Italy, the only three countries for which the IOC has reliable price data, are getting a low price – €1.75, €2.38 and €1.84/kg respectively – for the extra virgin olive oil they produce. One has to go back to May–June 2009 in the 2008/09 crop year to find comparable price levels (see chart).



According to the data in the possession of the IOC, production in 2011/12 looks poised to be 302 000 t higher than in the preceding crop year (+10%). By the end of the crop year, this is expected to lead to stocks of approximately 1 million tonnes, translating into a season-on-season increase of 34%.

Consumption in the European Union, the world's leading consumer of olive oil, is expected to inch up by 16 000 t (+0.9 %), driven chiefly by higher consumption in Spain, but to hold steady in Italy and to dip by 6.6% in Greece. In the rest of the world the outlook is for 7% growth in consumption, equating with 83 000 t more than in 2010/11.

A word of warning

The data entered in the IOC balances are based on estimates supplied by the governments of the IOC member countries. At this point in time, only the figures for production are almost definite; the others will probably change.

The IOC Council of Members will update and discuss these figures at its upcoming session on 2–6 July.

Commentary

The market prices paid for olive oil in a producing country depend firstly on its level of domestic production, stocks, consumption and other variables.

Prices on the world market, where countries with no or insufficient olive oil production shop for the supplies they need to cover domestic requirements, are influenced by the prices paid in Spain. Why? Because, on average, Spain alone produces 40% of the world's olive oil (47.8% in 2011/12) and accounts for around 28% of world exports (outside the EU). On top of that, Italy, the other lead player on the world market, has a shortfall in olive oil and therefore buys in from Spain. So, the domestic market in Spain clearly has an impact on world olive oil prices. Spain's position as a country with surplus output, combined with the fact that demand is concentrated in the distribution sector whereas supply is fragmented, means that any changes in its variables tend to have repercussions on both national and international prices.

The global ending stocks-to-consumption ratio for 2011/12 is expected to be approximately 34%. This figure is certainly mounting (it was 26% last season) but is still comparable to the figures found on other agricultural markets (see FAO Food Outlook, May 2012).

Olive oil accounts for approximately 2% of world consumption of vegetable oils, which is rising. As the middle and upper classes expand in numerous developing countries and become increasingly diet and health conscious, it is reasonable to think that the current price crisis is not structural and will eased by action to promote olive oil to consumers who are not familiar with it or use it only occasionally.