

RECENT MOVEMENTS OF NATURAL RUBBER PRICES IN SRI LANKA

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Rubber prices have been declining for almost a decade and this has severely affected rubber cultivation. Some smallholders have abandoned their cultivations while the estates have diversified to other crops such as oil palm, sometimes believed to be damaging to the environment of the country. However, very recently, the rubber sector has seen a revival. Prices have started to go up especially from the latter part of 2002 (and the early part of 2003). The revival of larger economies like the United States and the expectations of a cut down of supply by three major natural rubber producing countries forming a tripartite agreement have caused the rubber prices to go up. Most economists believe that this surge in prices are demand driven and is to stay. It has been predicted that by the year 2005 world natural rubber prices will increase to levels of around US\$ 1.50 (Smit & Burger, 2002).

With the world prices having a bright future it is expected that the rubber prices in Sri Lanka would also follow suit. Therefore, it is prudent to study price movements in the recent past. Such an analysis of prices will mostly be beneficial to the entrepreneurs. This paper examines price movements of Ribbed Smoked Sheets, Latex Crepe and Scrap Crepe from 1996 to date.

The nominal prices

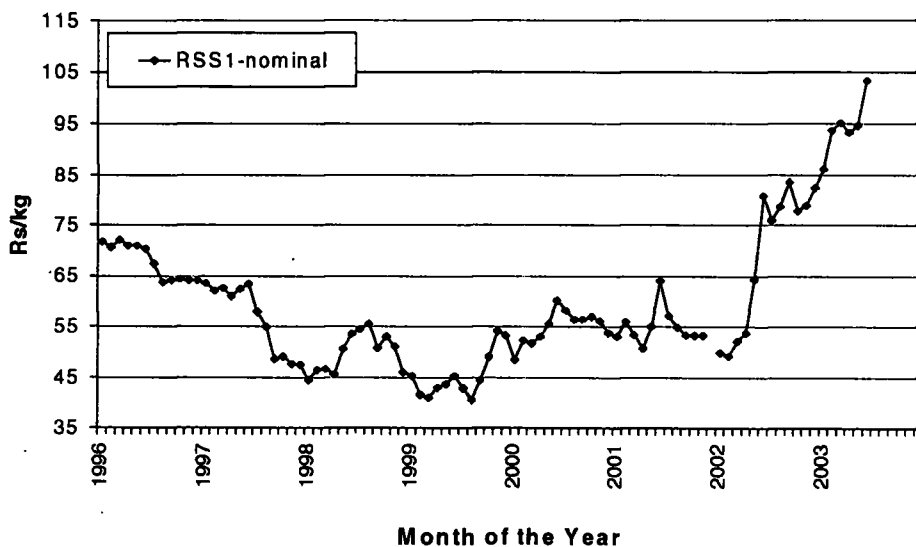


Fig. 1. Nominal price of Ribbed Smoked Sheets (No. 1) from January 1996 to June 2003

From the graph above it can be seen that the nominal prices have gone up sharply in the year 2003. It had started to move upward in the latter part of 2001 and continued through 2002 to come to the levels in 2003. Also it is evident that there is a price variation within the year indicating seasonality. However, the important to note here is the continuing trend of price increment.

A similar pattern was evident in other grades of rubber viz., latex crepe and scrap crepe. Figure 2 summarizes the movement.

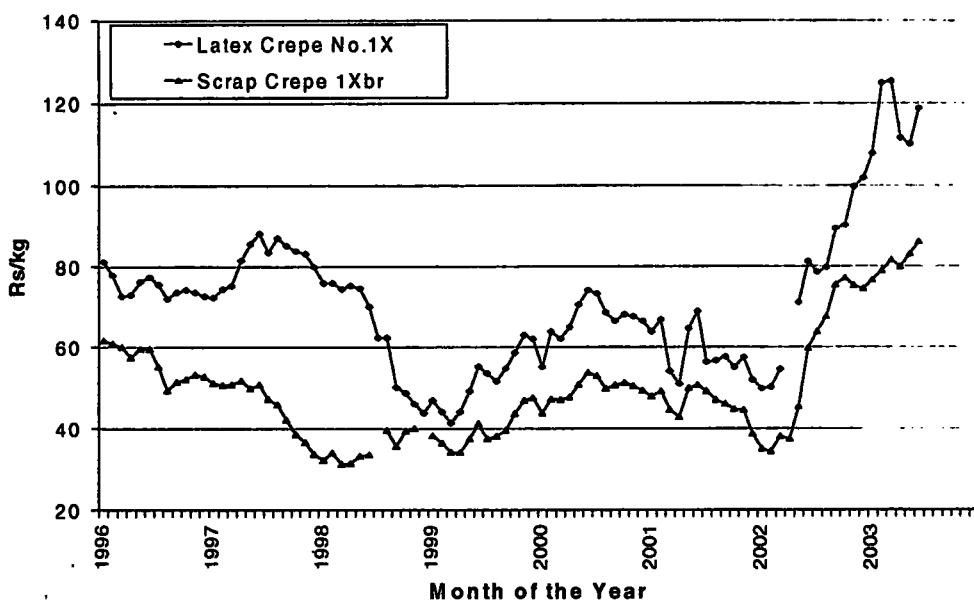


Fig. 2. Movement of nominal prices of Latex Crepe 1X and Scrap Crepe 1Xbr from 1996 to 2003

The real prices

Although an increase in nominal prices were evident from 1996 to 2003, it is important to look at these changes in terms of real prices. While nominal prices are prices that are measured in rupees, the real prices or the relative prices are the prices measured relative to the prices of other goods. The real price of rubber is measured by adjusting the nominal price by the price index. Thus, it eliminates the inflation included in the price series and gives a measure that whether the price has increased in actual (real) terms.

The change in prices in real terms is depicted in figure 03 for RSS1, Latex Crepe 1X and Scrap Crepe 1Xbr from January 1996 to December 2002.

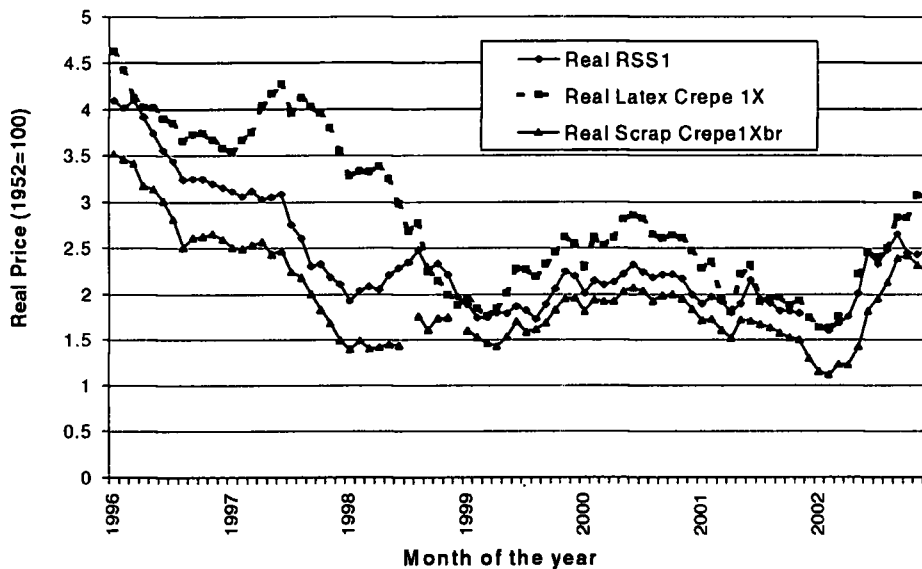


Fig.3. Changes of real prices of RSS, Latex Crepe 1X and Scrap Crepe 1Xhr. From January 1996 to December 2002

Careful examination of the figure 03 shows that although the prices have started to go up at the end of the year 2002, it has not reached values in 1966/1997 periods. For instance, by selling 1kg of RSS1 in 2002 cannot buy as much as goods bought by selling a kilogram of RSS1 in 1996. This scenario is explained better in the Table 1.

Figures in table 01 are shown relative to the prices in 1952 (The price index has used 1952 as the base). That is for instance, the price in September for RSS1 in 2002 (Rs.83.52/kg) is equivalent to Rs.2.65 (Column 2 of below table) in 1952. Similarly the price of RSS1 in September 1996 (Rs.64.1/kg) is equivalent to Rs.3.25 in 1952. Thus it is evident that Rs.83.52/kg in 2002 is less than that of Rs.64.1/kg received in 1996.

In conclusion, though the nominal prices have started to increase in recent past it was obvious that at the end of the year 2002 they are still under the prices that was received in the year 1996 in real terms. However, the close examination of figure 03 shows that the real prices have also started an upward trend from 2002. Thus we can expect the price to rise in the short term from the year 2002. However, to predict prices in the long term a comprehensive econometric or time series analysis of prices is needed. Such an analysis is beyond the scope of this paper. However, as indicated in the preceding sections, international economists studying the rubber sector have forecast an increase in world rubber prices until year 2010.

Table 1. Comparison of real prices between the years 1996 and 2002

Month	RSS1		LC1X		SC1Xbr	
	1996	2002	1996	2002	1996	2002
Jan	4.10	1.64	4.63	1.64	3.52	1.15
Feb	4.02	1.59	4.43	1.63	3.47	1.11
Mar	4.10	1.68	4.13	1.76	3.42	1.23
Apr	3.92	1.75	4.03	n.a	3.17	1.22
May	3.74	2.01	4.02	2.22	3.14	1.42
Jun	3.55	2.45	3.90	2.46	3.01	1.81
Jul	3.44	2.33	3.85	2.40	2.82	1.95
Aug	3.24	2.48	3.66	2.51	2.51	2.13
Sep	3.25	2.65	3.73	2.83	2.61	2.39
Oct	3.25	2.45	3.74	2.83	2.63	2.43
Nov	3.20	2.43	3.67	3.07	2.65	2.32
Dec	3.16	2.48	3.57	3.06	2.59	2.24

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