

How Much does Commodity Price Volatility Matter for Economic Well-Being in Rich Countries?

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Paper Abstract: This paper examines the impacts of commodity price volatility and changing terms of trade on economic well-being using the Index of Economic Well-Being and available data on fourteen OECD nations over the period 1980 to 2014. It notes that the huge swings of commodity prices have had very uneven impacts. Norway, Australia and Canada's three oil producing provinces – Alberta, Saskatchewan and Newfoundland – have seen huge swings in their terms of trade, largely driven by energy price changes. The terms of trade of the other countries examined (Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Spain, Sweden, U.K. and U.S.A.) and of Canada's seven other provinces are largely unrelated to resource price movements and have changed remarkably little over time – hence there has been little impact on economic well-being. However, since estimates of natural resource wealth capitalize the net rent to be expected from future output, expectations of future resource prices matter enormously to the per capita natural resource wealth of the people who live in producing jurisdictions. Resource price uncertainty therefore poses major problems for measurement of their current economic well-being – but is not very important for the vast majority of people who live elsewhere.