While oil prices dominate the headlines, the prices of many other commodities—most notably metals—have been rocketing upward. The International Monetary Fund’s recent *World Economic Outlook* investigates trends and suggests where commodity prices might be headed.

Metals prices have risen 180% in real terms since 2002, the beginning of a global business cycle expansion. The increase reflects strong demand emanating primarily from developing countries, especially China. According to the IMF, China has accounted for at least 48% of global consumption of key metals since 2002. Supply has been relatively unresponsive to recent price increases, partly because producers cut back on investment spending in the late 1990s and early 2000s following declines in metals prices. Current investments, particularly in greenfield projects, have long gestation times. Once these projects get underway, metals’ relative prices are likely to reverse. The IMF anticipates a decline in the relative price of metals through 2010. Of course, price forecasts are themselves risky, highly perishable commodities.

Similar business cycle pressures have hit agricultural commodities, but their price response has been more muted. Demand for agricultural goods is less sensitive to business cycle fluctuations than demand for metals, and agricultural suppliers respond faster than metals producers to price incentives. Unlike metals, recent price increases in agricultural goods mostly represent compensation for higher input costs and the dollar’s recent depreciation.