Even more expensive coffee prices are brewing, but there are some good reasons why

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What's going on in the coffee industry? Roasters and cafe operators are faced with rising costs that, when passed onto consumers, threaten to bring to a shuddering halt almost 30 years of continuous, at times dizzying growth.

In the last few weeks Giuseppe Lavazza, head of the eponymous family-led Italian mega-roaster, has suggested that the price for his products in the UK might have to rise by 20%-25% over the coming year, in addition to the 15% hike that consumers have already experienced during the previous 12 months.

Coffee chains are pursuing store closure programs to the point that the number of branded outlets actually fell last year, while Club Pret—the subscription service offering up to five free barista made drinks daily for a £30 monthly fee—is being withdrawn in favor of one that offers five half price drinks for £10.

The price of a medium latte has risen by over 30% since 2021 bringing the once-unthinkable £5 flat white ever closer. Indeed Lavazza's flagship London store already charges £5.50.

The key driver behind these developments is the rising cost of raw green coffee. Two types of coffee are commonly bought by commodity roasters. Arabica is the original, more flavorsome but delicate plant. Robusta is a hardier but harsher tasting form, principally used in manufactured products such as instant coffee, and to bulk out cheaper blends, which now constitutes over 40% of world production.

The price for commodity Arabica coffee futures on the New York International Commodity Exchange, to which all commodity trades are pegged, was hovering at US$1 per lb, in early 2020. It rose to just over US$2.50 by Feb 2022 and despite then dropping back to around US$1.50 in September 2023, returned to over US$2.50 at the end of June this year.

The London-based index for Robusta coffee, meanwhile, has risen almost continuously from US$1.28 per kg in Feb 2020 (about US$0.58 per lb) to US$4.45 (US$2.02) per kg today. As the difference between the two prices decreases, so too the opportunity for roasters to reduce costs by adjusting the proportions used in blends has also diminished.

The principal cause of these price shifts is the decline in the size of coffee harvests and underlying stocks in the principal producer countries.

In Brazil, the world's largest coffee producer, accounting for just under 40% of total world production, heavy rainfalls in the Minas Gerais region resulted in high levels of pest and disease impacting on yields during the 2023 harvest.

In Vietnam, the world's leading producer of Robusta (Brazil grows both), prolonged periods of drought and higher temperatures have resulted in lower harvests for the last two years. Indonesia too experienced declining yields due to heavy rainfall preventing pollination in 2022/23, as did Columbia in 2021/22.

Climate events are not the only causes of rising prices. The war in Ukraine affected both production and roasting as growers were unable to secure supplies of fertilizer once prices skyrocketed following the Russian invasion.

Roasters meanwhile faced soaring energy costs that could hardly be avoided in a business whose fundamental process is that of the application of heat to the raw material. Shipping prices have escalated following the disruption of the Red Sea routes by the Houthi militia in Yemen, the original epicenter of the world coffee trade.

Global demand for coffee continues to grow, particularly in nontraditional markets leading to increased competition for supplies. It's cheaper and simpler to ship Vietnamese robusta into China, whose green coffee market has grown by over 50% in the last five years, than into the UK where the comparable figure is under 5%.

Producer countries are increasingly creating large internal markets to counterbalance international ones—in Indonesia, for example, over 40% of all outputs are now consumed in the domestic market.

The western coffee shop lifestlye

Emulation of the western coffee shop lifestyle is one of the key factors in growth in regions such as Asia and the Middle East, yet even as international chains expand their reach there, they are facing difficulties, not least in their original homes.

Starbucks global store sales dropped by 4% last year, with those in the US itself falling by 3%. In truth, these difficulties have little to do with green coffee prices given that coffee is a very small element in the price of each cup served.

Post-COVID changes in working practices, notably the rise of hybrid working, have diminished the value of the city center outlets paying prime rents and higher operating costs, while independent operators in residential districts have proved more agile at adjusting to meet their customers' wants and needs.

As coffee operators sought to drive down staffing and training costs by investing in online ordering systems, automized brewing equipment, drive-through locations, and low-cost furnishings, they lost sight of delivering the premium customer service that their high pricing models are supposed to support.

Earlier this year, Howard Schultz, the creator of the Starbucks brand, took to LinkedIn to accuse the current management of losing sight of the company's soul.

What are the implications of all this for coffee drinkers?

Most analysts believe that the next set of coffee harvests are on track to recover so that any spikes in price will be less severe. Nonetheless many of the underlying challenges beyond climate events remain. Climate change itself—understood as a lasting change in global temperatures—poses a much more existential threat in that half of the land currently used for coffee cultivation could, on current trends, become unusable by 2050.

That is not insuperable—other land can be bought into production and industry-funded organizations such as World Coffee Research are undertaking programs to develop new coffee varieties with greater resistance to both temperature and disease. Nestle recently announced it has developed its own new versions of Arabica and Robusta. The real danger is that existing coffee farmers will not be those who reap the benefits of these developments.

Your coffee won't run out any time soon—but this sudden spike in prices offers an opportunity for reflection on the underlying challenges for the industry.

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