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Article

The economics of diamond price movements

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Abstract

Diamonds are traditionally classified into three different market segments —industrial, jewellery and investment. The empirical findings support the argument that diamond prices of these three group types respond differently to business cycles. Industrial diamond prices, especially those of natural stones, have been found to be influenced by the level of economic activity in general and the volume of manufacturing production in partiular. However, the price of synthetic diamonds, especially in grit form, have declined irrespective of the business cycle as a result of technological developments and the expansion of the market which enabled producers to gait scale advantages. Prices of jewellery diamonds have been found to be most highly correlated with disposable income. As could be expected, these price have also been found to be positively correlated with inflation rates and negatively correlated with real interest rates. Prices of investment diamonds have been found to be particularly sensitive to real interest rates, to the value of the exchange rates of the US dollar and, like other gems, to disposable income. The paper also describes and discusses the activity in various diamond markets and the business policy of De Beers, the 'king' of the rough diamonds.