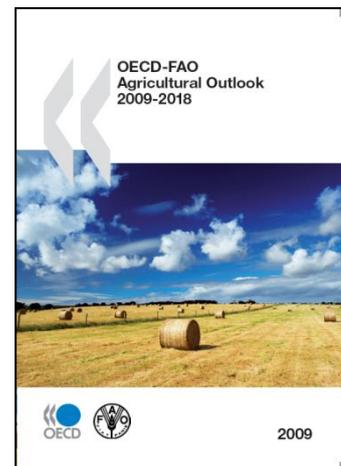


OECD-FAO Agricultural Outlook 2009

Summary in English



The Outlook in brief

- The macroeconomic environment underlying this medium-term outlook, based on the OECD's and World Bank's medium term economic projections from December 2008, continues to evolve rapidly due to the ongoing financial and economic crisis. Because of the turmoil in the economic environment the baseline projections must be interpreted with caution. The possible impacts of this deteriorating economic crisis on the baseline projections have been analyzed both qualitatively and quantitatively within the present report, although an assessment of the full impact of the current global credit crunch and economic contraction on agricultural markets goes beyond the scope of this Outlook.

- A stronger than expected agricultural commodity supply response last year, particularly in developed countries, and much lower oil prices has resulted in significantly lower commodity prices from 2007-08 highs. Continued weakness in the general economy will further dampen commodity prices over the next 2-3 years, which should then strengthen with economic recovery.

- The situation varies by commodity but average prices in real terms (adjusted for inflation) for the next 10 years are still projected at or above the levels of the decade prior to the 2007-08 peaks. Average crop prices are projected to be 10-20% higher in real terms relative to 1997-2006, while for vegetable oils real prices are expected to be more

than 30% higher.

- Meat prices in real terms are not expected to surpass the 1997-2006 average, while reduced consumer incomes in the beginning of the projection period will tend to encourage substitution to cheaper meats, favouring poultry over beef. Average dairy prices in real terms are likely to be slightly higher in 2009-18 relative to 1997-2006, driven up by rising energy and vegetable oil prices, with a 12% increase in average butter prices being the most notable.

- Despite the significant impact of the global financial crisis and economic downturn on all sectors of the economy, agriculture is expected to be relatively better off, as a result of the recent period of relatively high incomes and a relatively income-inelastic demand for food.

- Global economic prospects are now more pessimistic than earlier in the year when this outlook was prepared. In response, the outlook includes a special focus on the resiliency of agriculture to economic recession. The analysis suggests that the reduction in agricultural prices, production and consumption, associated with lower incomes is likely to be moderate, as long as economic recovery begins within 2-3 years.

- This special focus provides an assessment of an even deeper and more prolonged recession with lower GDP and incomes than in the outlook baseline. Demand for higher cost livestock products, such as beef, pork and dairy, would be the most seriously affected. Beef prices would be about 9% below those projected in the baseline. The reductions in crop and biofuel prices associated with the lower GDP scenarios were only about one-half those for livestock products. Among cereals, maize prices were the most responsive to lower GDP, reflecting its use primarily as a feed ingredient rather than a biofuel feedstock.

- The special focus also includes a survey of the impact of the financial market turmoil and economic crisis on agri-businesses, from input suppliers to retail. The sector seems to be weathering the recession fairly well to date. However, downstream sectors are experiencing difficulties in access to credit. Trade finance constraints are having significant impacts on firms and should these tight credit markets persist, firm viability could be in peril. Access to credit was viewed as the key issue, particularly by smaller agri-food firms in both OECD and non-OECD countries surveyed.

- The special focus also examines the sensitivity of agricultural prices to crude oil prices. Energy and agricultural prices have become much more interdependent with industrialised farming, more processing and increased transport, as well as the emergence of the biofuels industry (particularly for maize, oilseeds and sugar feedstocks). Crude oil prices are highly volatile and some projections are well above those used in this outlook.

- The crude oil price over the medium-term assumed for the baseline is about 60% higher than the 1997-2006 average in real terms, moderately increasing to USD 70 per barrel by the end of projection period. If crude oil prices increased to the USD 90 to 100+ per barrel level used in last year's Outlook, agricultural prices would be significantly higher; with the largest impact on crops, driven mainly by reduced crop production with higher input costs, but also increased feedstock demand for biofuels.

- Biofuel markets increasingly depend on government mandated use, but prospects remain uncertain, due to such unpredictable factors as the future trend in crude oil prices, changes in policy interventions and developments in second-generation technology. Biofuels will struggle to compete with relatively low fossil fuel prices as long as crude oil prices remain in the USD 60-70 range assumed for most of this Outlook, although biofuel support policies underpin ethanol and biodiesel prices and production. A projected rapid expansion of biofuel production to meet mandated use will continue to have inflating price impacts for such feedstocks as wheat, maize, oilseeds and sugar.

- Once economic recovery begins most of the growth in agricultural production and consumption will continue to come from developing countries. This is particularly evident for livestock products where the primary drivers are income and population growth, with a trend towards higher animal protein diets and continuing urbanisation.

- For almost all commodities, projected growth in imports and exports of developing countries exceeds that of the OECD area. Continued expanding South-South trade is a key feature of the Outlook. Nevertheless, OECD countries will continue to dominate exports of wheat, coarse grains and all dairy products.

- A key focus of last year's *Outlook* was the large hike in food prices associated with rising commodity prices. While commodity prices have since declined, food prices have remained high in many countries. Still, food inflation has come down. Over the 3 and 6 month periods ending February 2009, the decline in food price indices in many countries has been accelerating.

- According to recent FAO work using longer term population and income projections, global food production needs to increase more than 40% by 2030 and 70% by 2050, compared to average 2005-07 levels. There is substantial additional land available for use in agriculture. Some 1560 million ha could be added to the current 1.4 billion ha of cropland. Over half of the additionally available land is found in Africa and in Latin America. These regions account for most of the available land that has the highest suitability class for rain-fed crop production. But historical expansion of arable land has been slow, and bringing more marginal land into production can involve considerable investment and lower average yields, while possibly incurring social and environmental costs.

- Crop and livestock productivity continues to rise at long term trend rates, at least in the most productive areas, and there is considerable potential for further increases over the next 10-20 years. To capitalize on this potential requires development and adaptation of new technologies but growth in public agricultural research expenditures is slowing. In many regions like Central and Eastern Europe and Sub-Saharan Africa, productivity can be significantly increased using existing technologies with better access to inputs, infrastructure development and extension services.

- Agriculture accounts for over 40% of water use in OECD countries and use has been growing. Irrigation accounts for 99% of this use and major developing countries like China and India have large areas under irrigation. The FAO projects a substantial slowdown in expansion of area under irrigation, and future agricultural production will be increasingly conditioned by water availability.

- Climate change is an important variable in future production possibilities as well. It will clearly add to the risks of water stress as well as the incidence and severity of floods, and likely shift production frontiers.

- Behind this fairly positive outlook for agricultural commodity markets lies a more disturbing story about hunger and food insecurity for some 1 billion people. Food security is not only about solving the urgency in the short-term; it is also about addressing the longer term issues of poverty alleviation and economic growth. Greater investment in agriculture, more effective development aid and reforms to trade and domestic policies are all part of the solution.

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