

Executive Summary

The *FAPRI 2009 U.S. and World Agricultural Outlook* presents projections of world agricultural production, consumption, and trade under average weather patterns, existing farm policy, and policy commitments under current trade agreements and custom unions. The outlook uses a macroeconomic forecast developed by IHS Global Insight.

Recent market turbulence originating in the advanced economies spreads and slows down world economic expansion in 2009 at a rate of -0.7% world gross domestic product (GDP) growth. However, significant recovery is projected the following year, with a long-term real GDP growth rate of 3.5% reached by 2011. After recovery, the emerging markets of China and India still post solid growth, averaging 8.6% and 7.5% per year, respectively. The U.S. dollar makes significant gains in 2009 but resumes its real depreciation over the rest of the decade against the currencies of Australia, the European Union, Japan, New Zealand, and Argentina. Many Asian currencies appreciate in real terms against the U.S. dollar, with China experiencing especially large real appreciations. The energy price also drops in 2009 and recovers in the next two years, reaching a peak of \$86 per barrel in 2013.

Growing demand for biofuels, livestock, and dairy strengthens prices and sustains them at their historic highs across all commodities over the next decade.

In the world ethanol market, the dramatic drop in crude oil prices in 2009 as well as the significant reduction in U.S. ethanol imports results in a 16% decline in the price of ethanol. The ethanol price is projected to fall further in 2010 and 2011 before starting to recover in 2012. The price of ethanol increases over the rest of the projection period as a result of increased demand brought about by the biofuel mandates in the U.S. energy act of 2007. U.S. ethanol imports are expected to come mainly from Brazil, which continues to increase the share of sugarcane production going into ethanol. World net trade increases by 302.5% over the decade, approaching 4.9 billion gallons. Mandates also drive demand for biodiesel in the European Union and the Americas and raise net trade to 769 million gallons as well as pushing the world price to \$5.56 per gallon.

In the outlook for sugar, despite a production shortfall in 2008/09, the world price of sugar declines by 5%, aided by a 10% reduction in stocks. The price increases by 15% over the projection period, as more

sugarcane is used for ethanol in Brazil, and sugar imports of the European Union, China, and India remain strong.

Shortages in many exporting and producing countries and strong import demand drove grain prices to rise sharply in 2007/08. An adequate supply response softened prices in 2008/09. The world wheat price is projected to decrease further in 2009/10, to \$224.9 per mt, because of high carryover stocks. It reaches \$253.4 per mt in 2018/19. The world corn price decreased to \$193.7 per mt in 2008/09 with the lower import demand in world markets. It is projected to decrease further in 2009/10, at \$184.8 per mt, and reach \$201.5 per mt in 2018/19. In the long run, grain prices remain strong because of growing demand for food, feed, and fuel purposes.

World prices of oilseeds and vegetable oil retreat from the historic highs of 2007/08 because of weaker demand. World trade of soybeans, soy meal, and soy oil grows by 33%, 31%, and 37%, respectively, over the next decade. Argentina, Brazil, Paraguay, and the U.S. account for 85% of the 296 mmt of world production in 2018/19. China continues to dominate world soybean imports and expands its net trade to 56 mmt by 2018/19. Palm oil remains the cheapest and most widely traded edible oil.

Sanitary/phytosanitary and food safety concerns stemming from disease outbreaks and from traceability issues continued to affect the world meat market. Sustained income and population growth raises per capita meat consumption and fuels expansion in world trade. Meat trade is projected to increase by 24.3%, reaching 21.1 mmt in 2018. A recovery in demand, coupled with strong grain prices, pushes all meat prices to historically high levels. Brazil and the United States gain significant shares in the world meat market.

World dairy prices are retreating from the record-breaking levels posted in mid-2007. With uncertainty about economic conditions as well as increasing supplies, world dairy prices continue to decline over the next couple of years. In the long run, growth in population and incomes continues to put upward pressure on dairy prices. Australia, New Zealand, and the European Union remain the big exporters. But as excess supply from the European Union stagnates, Argentina and Brazil expand their dairy exports.