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Prospects for agricultural markets and income 2008-2015

This publication provides an **outlook for agricultural commodities** (cereals, oilseeds, meat and dairy products) **in the EU-27 over the 2008-2015 period**, based on specific assumptions on agricultural and trade policies and the macro-economic environment. They do not consider the potential outcome of the multilateral trade negotiations within the framework of the Doha Development Round. Therefore the Uruguay Round Agreement on Agriculture and other existing trade commitments are assumed to remain unchanged and to be met over the period 2008-2015. The report is **based on the information available at the end of January 2009**.

The macroeconomic environment is projected to be shaped over the short term by the consequences of the financial and economic crisis, which is expected to put severe pressure on the real economy that has entered into the deepest crisis for more than 60 years. While GDP growth is assumed to recover gradually over the medium-term, **the economic outlook is subject to a number of uncertainties** that could significantly alter the current commodity market projections.

The economic and financial crisis is expected to weigh heavily over the short-term perspectives of most agricultural sectors in the EU and at global level, even though the agricultural sector is generally more resilient to economic crises than other sectors. Whereas food demand will be directly negatively affected in the higher value-added sectors, the economic crisis would also be felt indirectly in other parts of the agricultural economy: in the arable crop sector through feed demand, in the energy crop sector in the wake of lower oil prices, as well as in the upstream and downstream industries. The **short-term perspectives in the dairy sector appear to be particularly difficult**, as the pronounced decline in the prices of dairy products over 2008 would induce a substantial fall in the producer price of milk in 2009. Milk prices would remain at depressed levels over the short term leading to a slight contraction in EU milk production and a further increase in the aggregate EU milk quota underutilisation. Market measures would be necessary to support bulk commodity markets leading to accumulating intervention stocks of butter and skimmed milk powder as well as the renewed use of export refunds.

The **medium-term outlook for agricultural commodity markets** display a gradual recovery **supported by structural factors** like the growth in global food demand, the development of the biofuel sector and the long-term decline in food crop productivity growth.

World and EU **cereals** prices are projected to recover over the medium term to somewhat higher levels than seen in the last decade but subject to greater fluctuations. Medium-term perspectives for the EU **oilseed sector** are foreseen to be supported by the increasing demand for biodiesel in the EU and the outlook for world markets (driven by the rising demand for oilseed meal and vegetable oil).

The medium-term prospects for the EU **meat sector** appear moderately positive with increased production and consumption of poultry and pig meat, while production of beef and sheep/goat meat are projected to decline further. As demand growth would outpace the increase in total meat production, the net exporting position of the EU would show continued weakening.

Prospects for EU **milk production** display a gradual growth during the 'milk quota phasing-out period' following the Health Check decisions, but remain below the aggregate EU quota level throughout the outlook period. Therefore the abolition of milk quotas in 2015 is not projected to have a significant impact on the aggregate EU milk production and milk price as compared to 2014. Projections for bulk commodity markets depict a steady decline in production due to increasing output of value added dairy commodities and depressed price levels throughout the 'intervention de-stocking period'.

Despite the significant short-term setback in the wake of the economic recession, the medium-term prospects for **EU agricultural income** remain positive with the aggregate income in real terms and per labour unit exceeding the very favourable 2007 year by 7.5% in 2015. While agricultural income in the EU-15 would show a very moderate development, it is foreseen to display a more pronounced picture in the EU-12 supported by the continuous increase in CAP payments.

The outlook for EU agricultural markets remains subject to **important uncertainties** related to future economic, market and policy developments, the path of technological change and future climatic conditions that could significantly alter the projections presented in the current publication.

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