



European
Commission



Drivers and uncertainties: their relevance for the 2025 Outlook

EU Agricultural Outlook Conference

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European Commission*

Agriculture
and Rural
Development

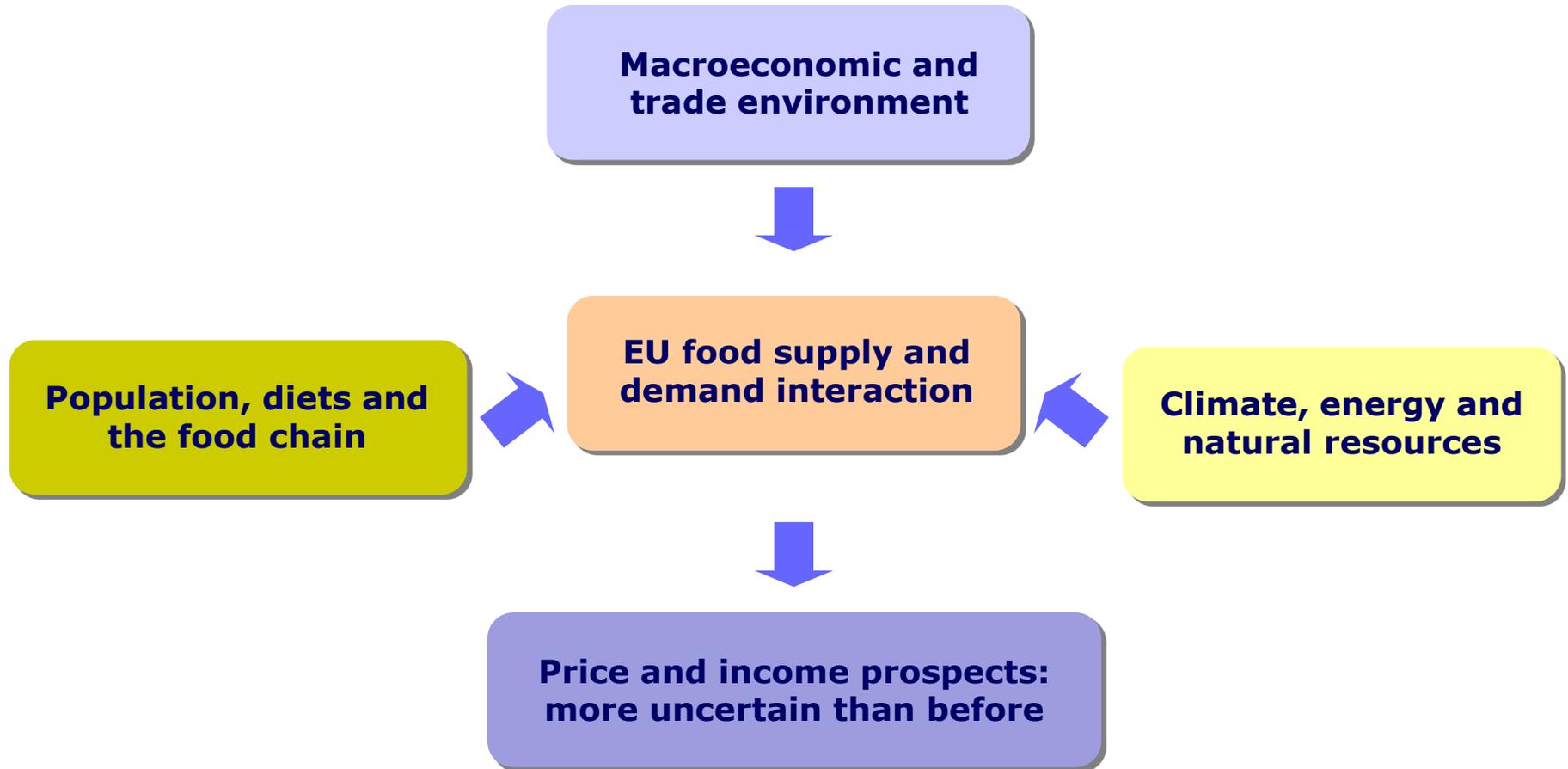
A necessary reminder

This outlook exercise is not about forecasting the future...

...but it is about identifying the most likely assumptions...

...thus determining the most plausible baseline

Drivers of the agricultural outlook



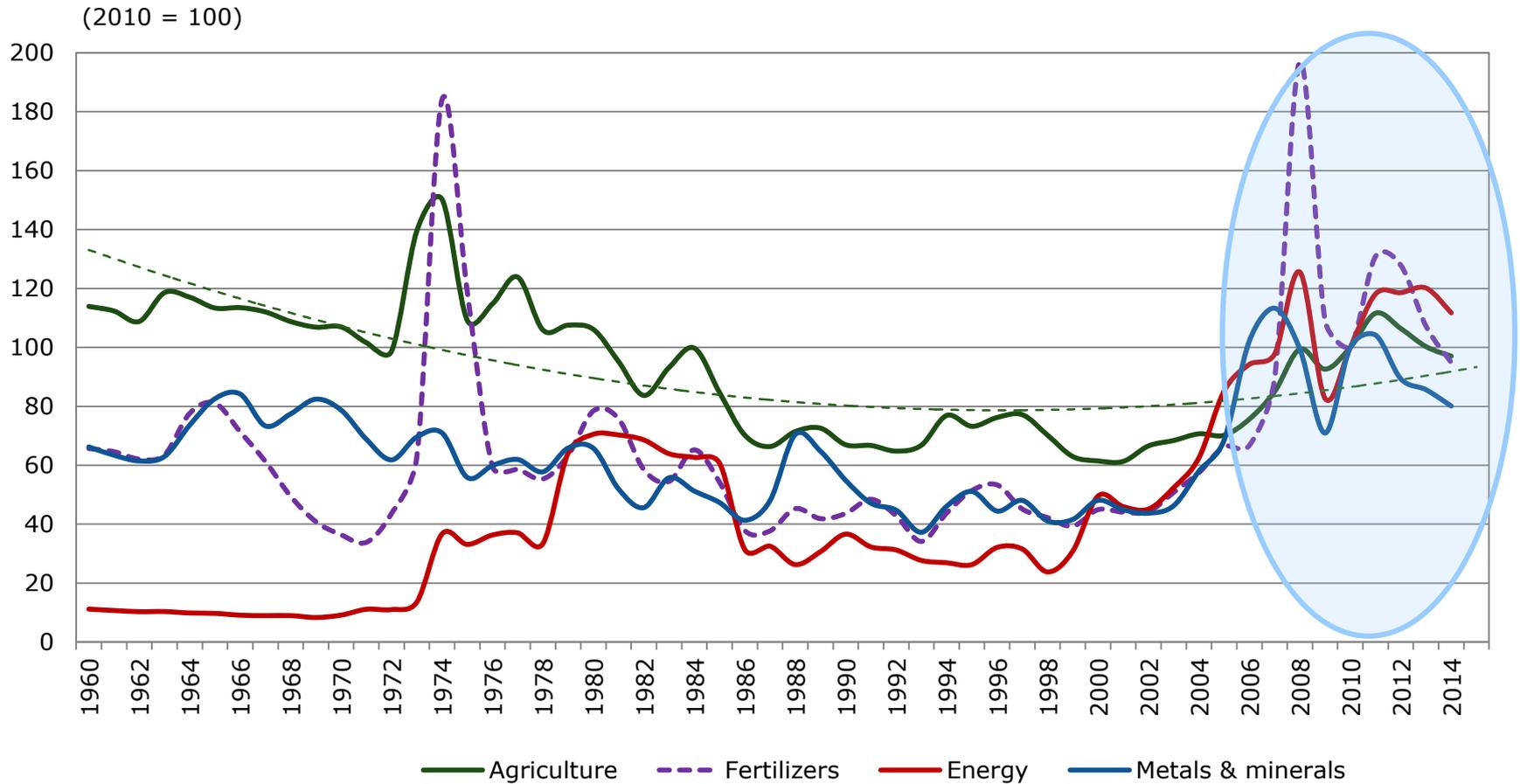
What a difference a year makes...

GDP slowdown (especially in emerging economies) and oversupply...

...lead to a generalised decline in commodity prices...

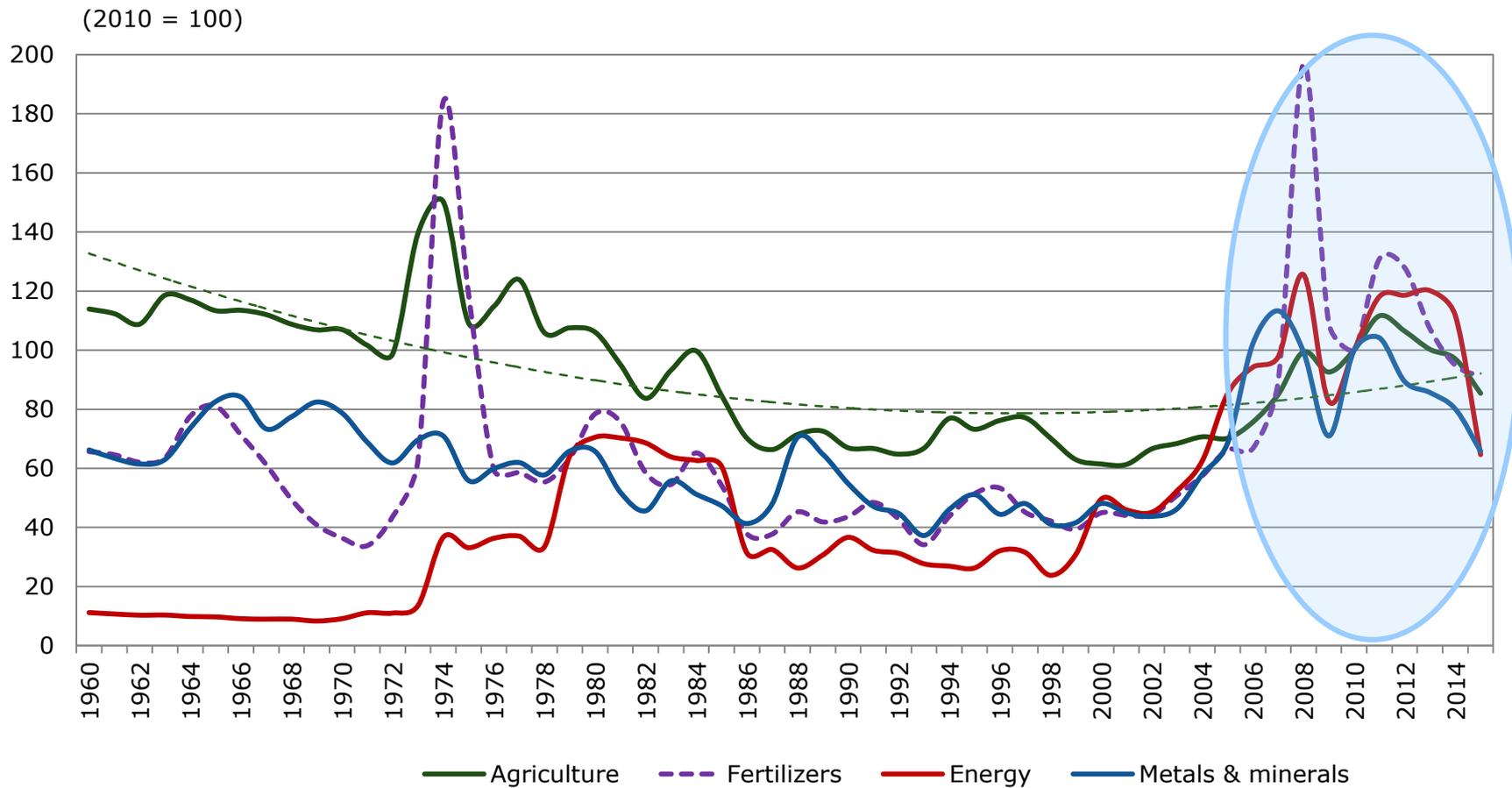
...including in prices of all major agricultural markets

Trends in real commodity prices - 2014



Source: World Bank

Trends in real commodity prices - 2015

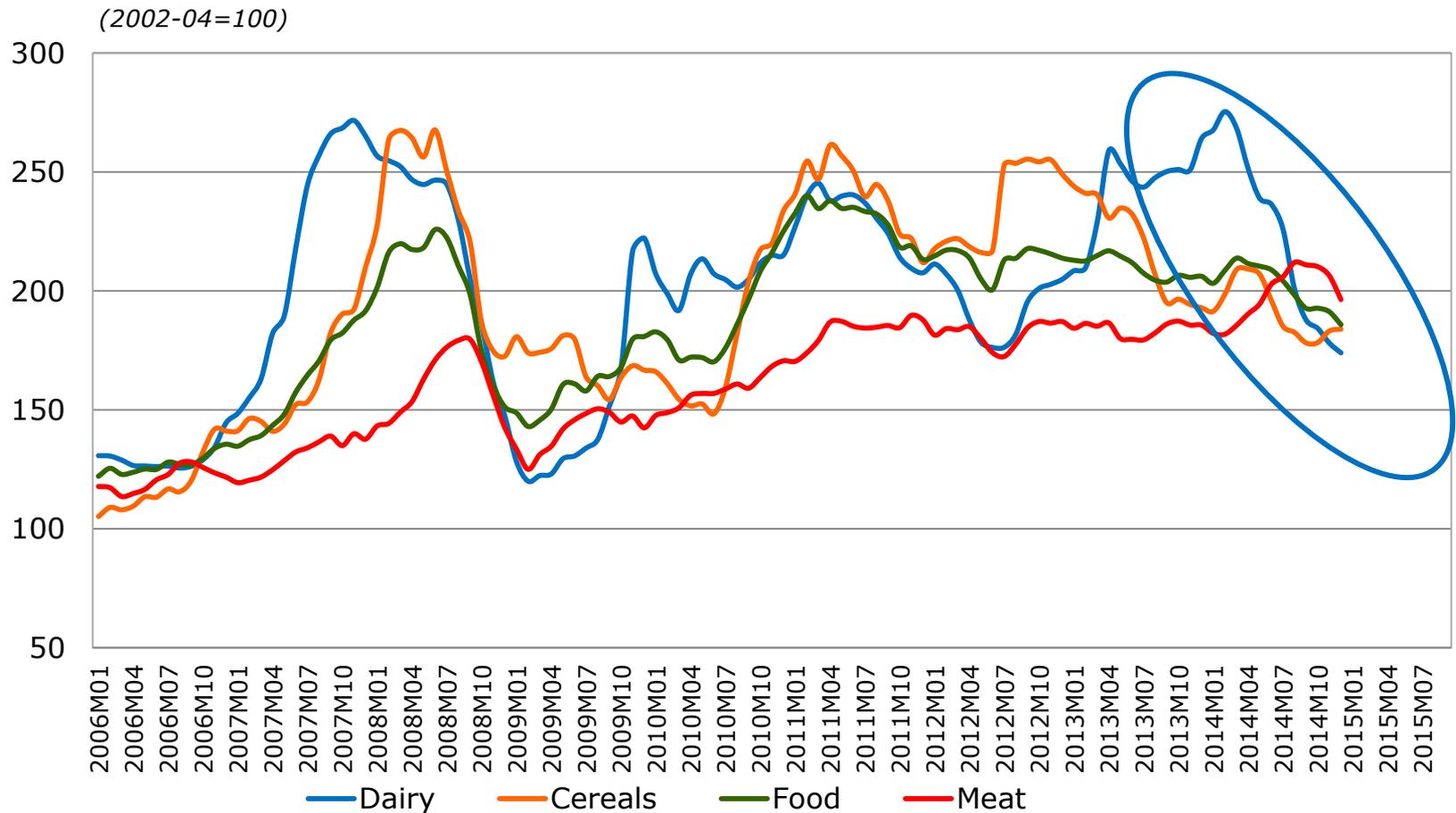


Source: World Bank

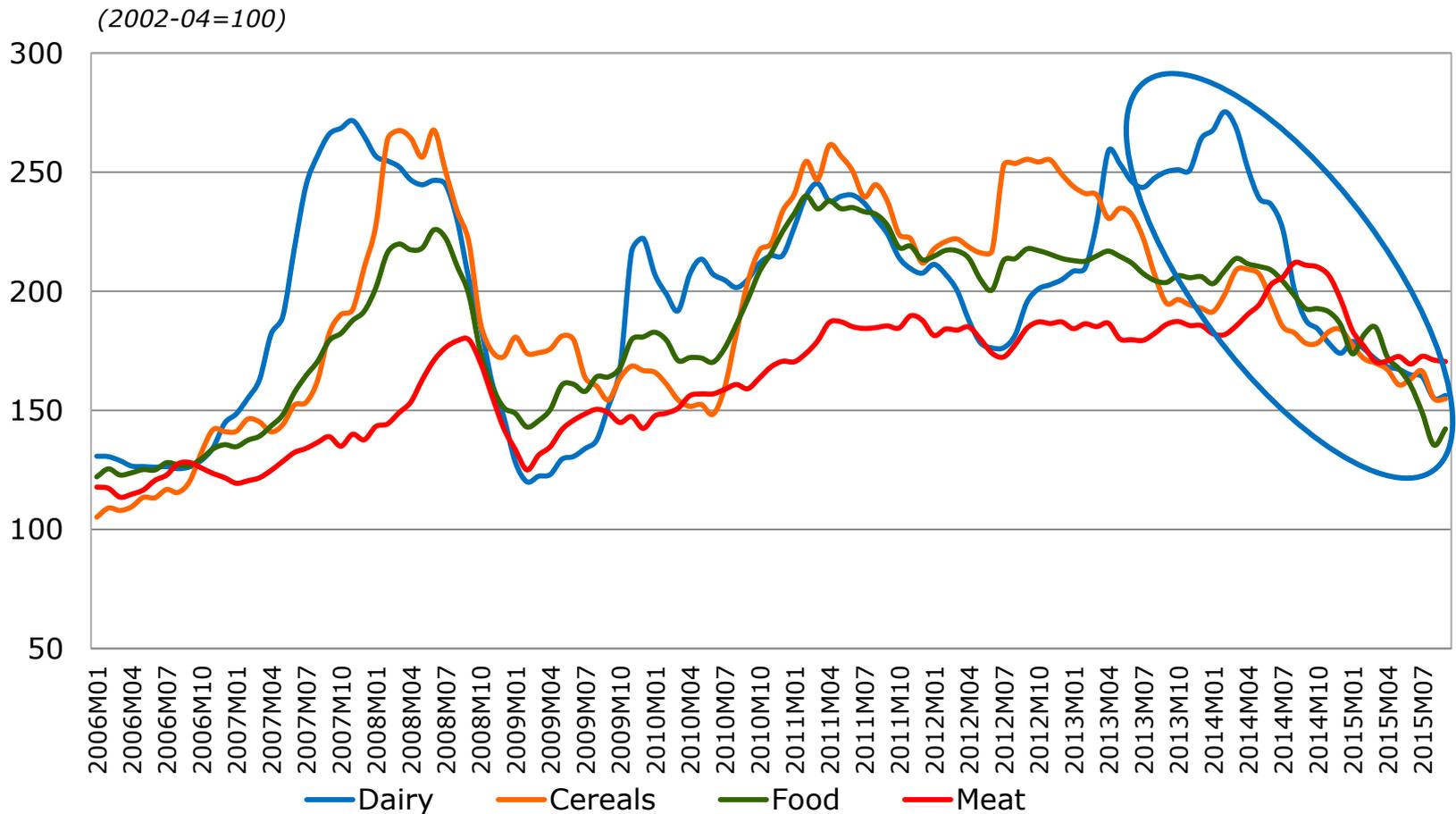
Commodity price changes during specific periods

<i>Period</i>	Agriculture	Fertilisers	Energy	Metals & Minerals
<i>2008/1997</i>	29%	336%	298%	107%
<i>2009/2008</i>	-7%	-45%	-34%	-29%
<i>2011/2009</i>	12%	-34%	-6%	5%
<i>2015/2011</i>	-23%	-30%	-45%	-37%
<i>2015/1997</i>	11%	102%	105%	37%
<i>2015/2005</i>	22%	37%	-24%	-4%

FAO real food price indices - 2014



FAO real food price indices - 2015



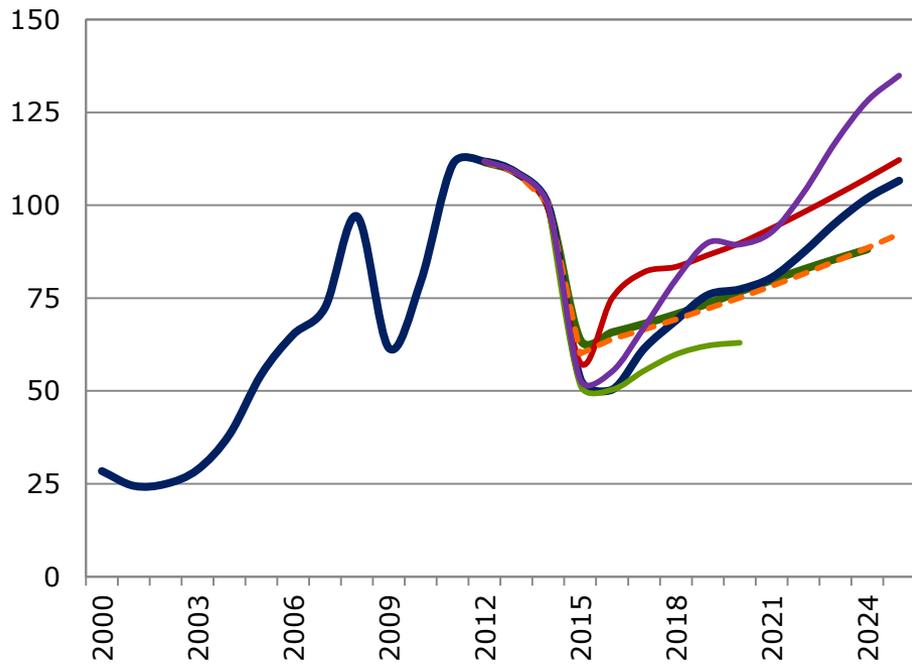
Main uncertainties

The macroeconomic picture

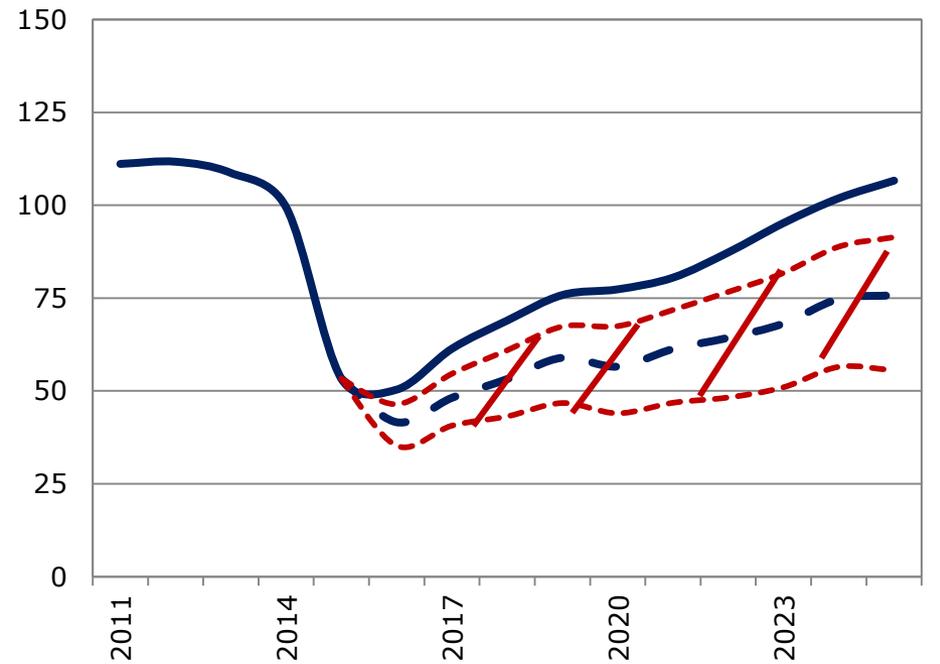
- *The long-term level of the crude oil price - will disinvestment hit supply post-2020?*
- *The exchange rate volatility – when a price decline for some is increase for others*
- *The persistence of sluggish GDP growth – now expanding also to emerging economies*

The uncertain world of crude oil prices

Diverging crude oil assumptions...



...and alternative scenarios

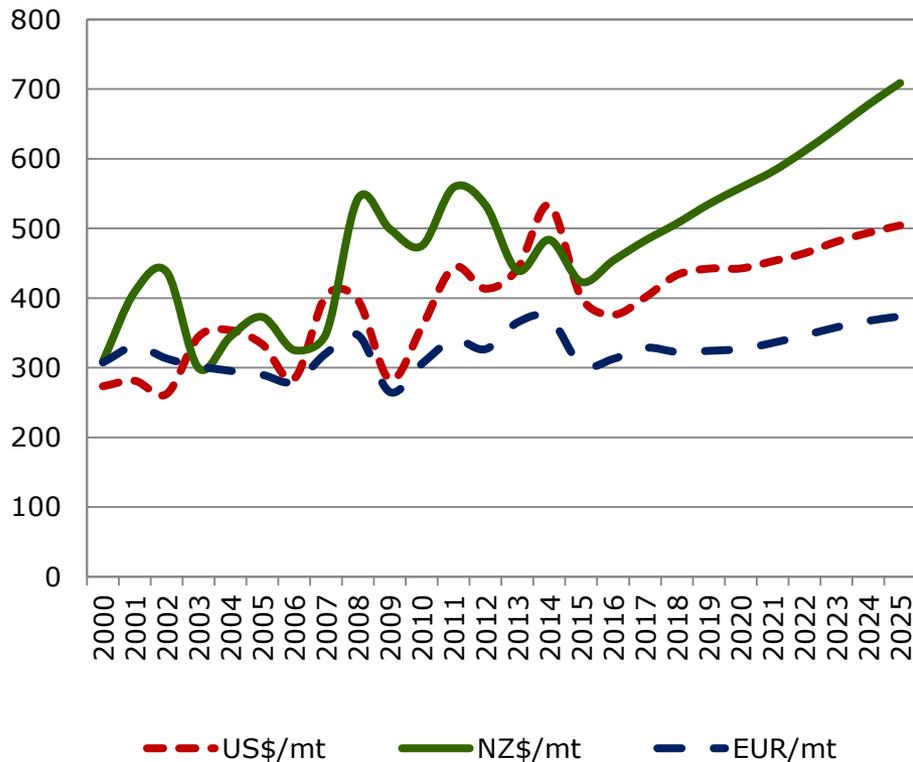


- OECD-FAO, 2015
- IMF, Aug 2015
- - - World Bank, July 2015
- AGRI 2015
- EIA, Ref Scen., Apr 2015
- IHS, Oct 2015

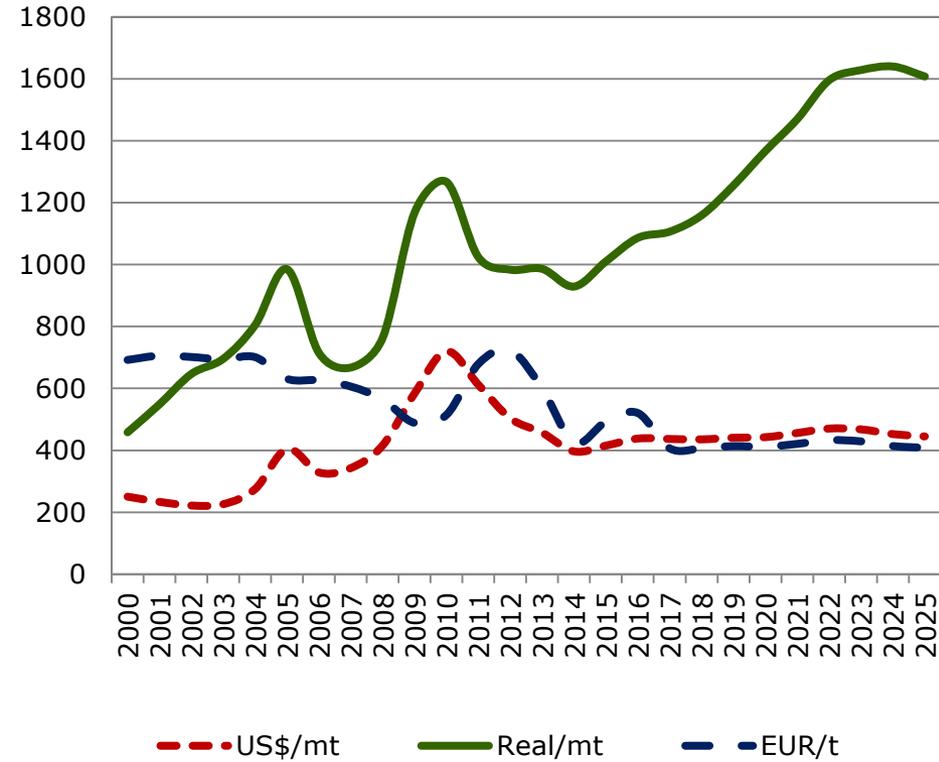
- Outlook assumption
- - - Lower Oil Price assumption
- - - 5th percentile
- - - 35th percentile

Exchange rate shifts determine the *effective* price

The milk price in local currency

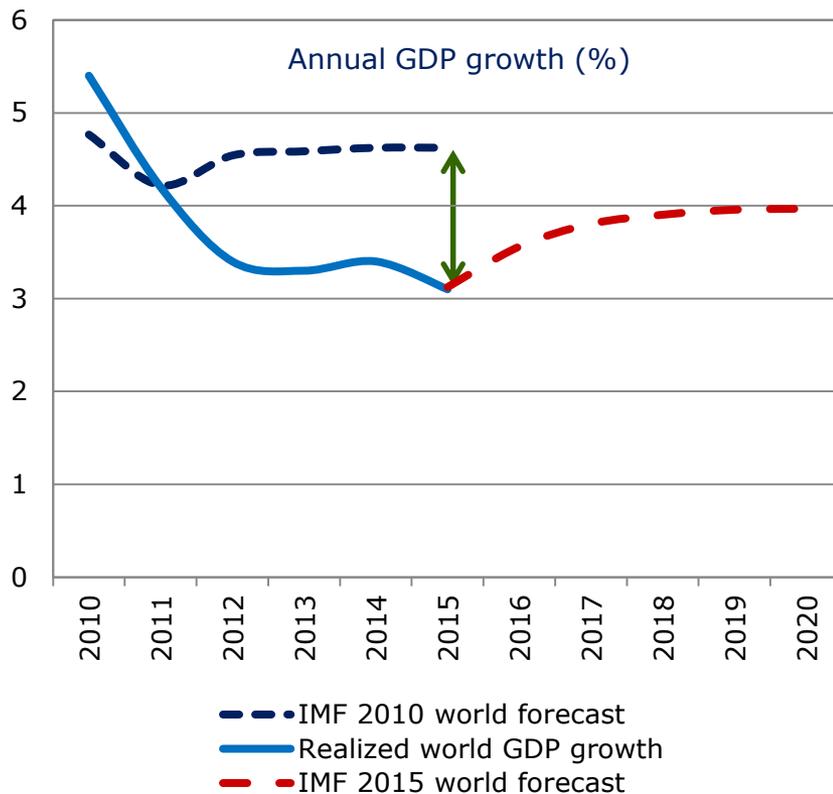


The sugar price in local currency

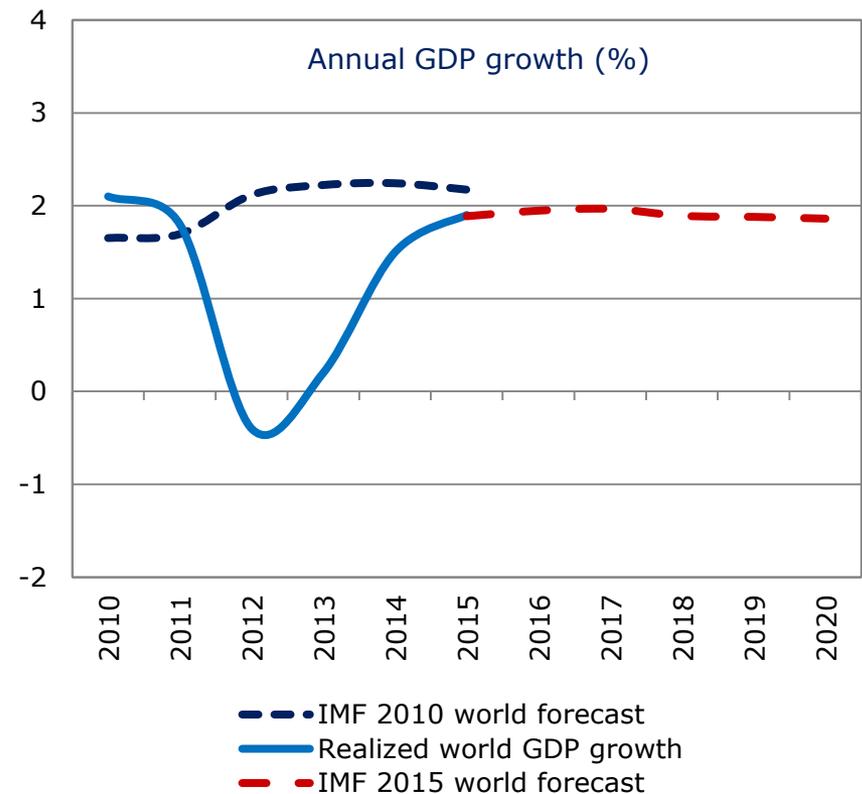


Macroeconomic realities lag behind expectations

The world economic growth path



The EU economic growth path



Main uncertainties

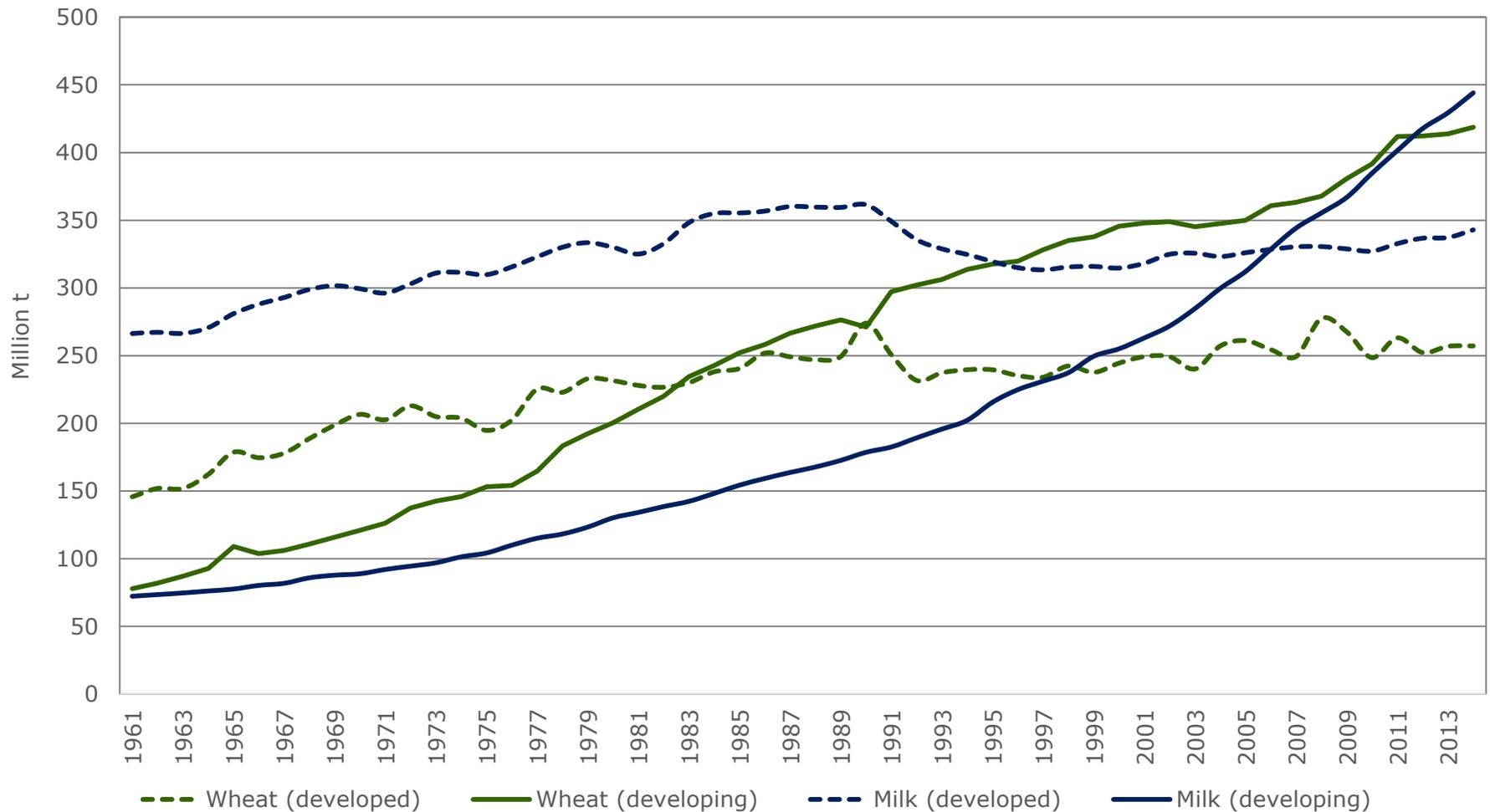
The macroeconomic picture

- *The long-term level of the crude oil price - will disinvestment hit supply post-2020?*
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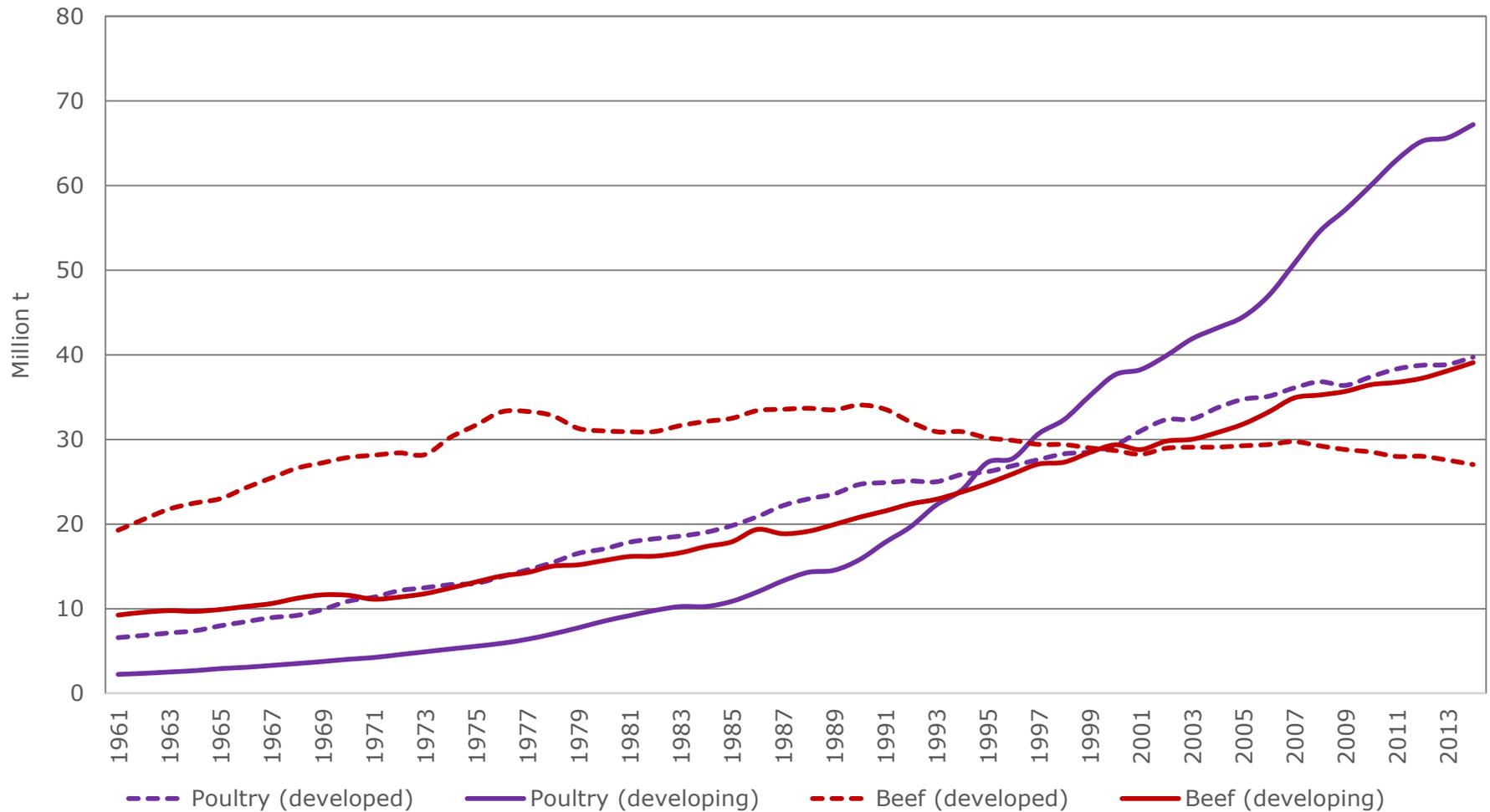
The demand side picture

- *Same population dynamics, but significant asymmetries in consumption trends*
- *Dietary patterns reflect different, and sometimes counter-intuitive developments*
- *Diverging trends and cross-cutting effects exist within same group of commodities*

Milk and wheat consumption

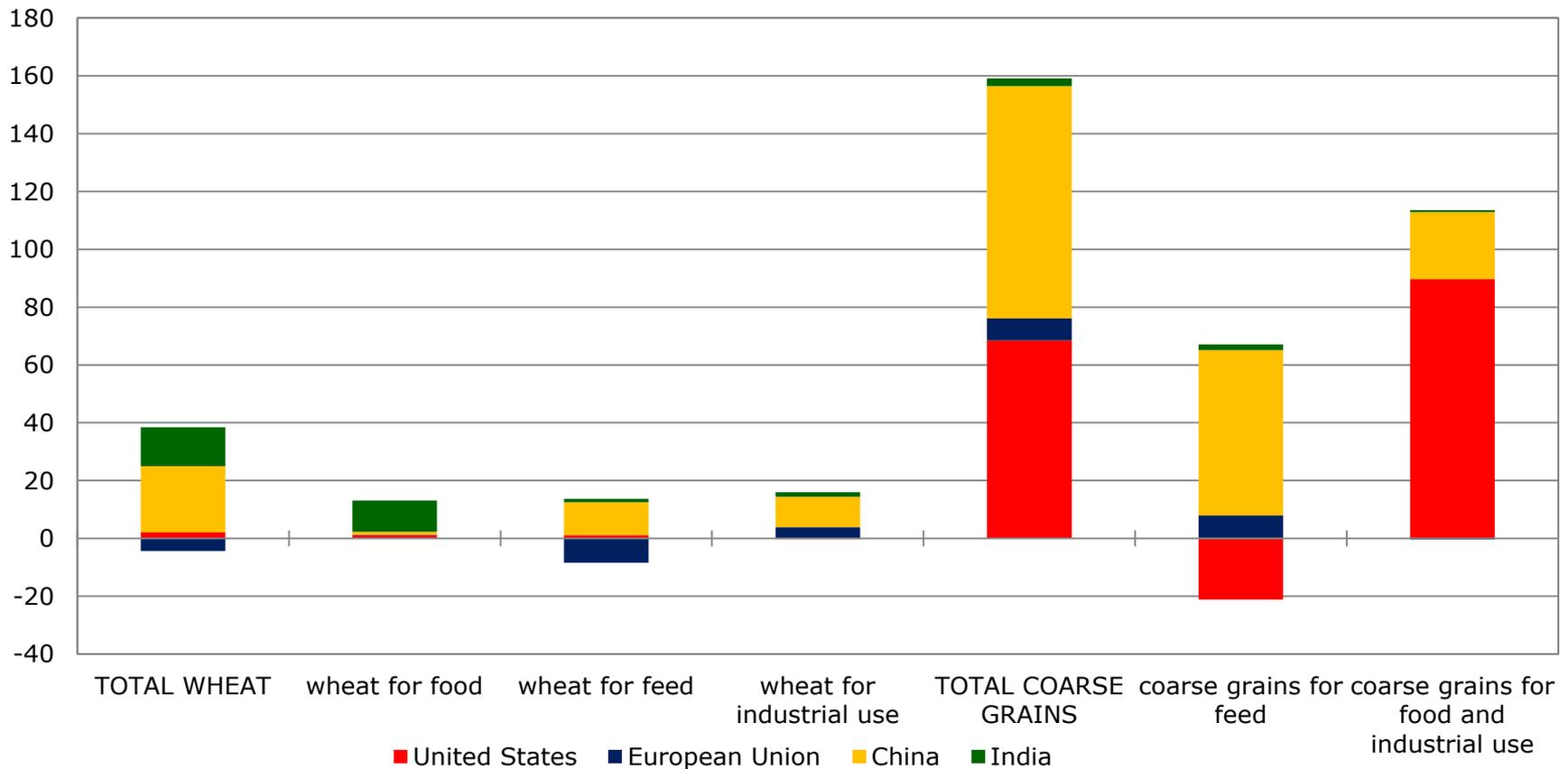


Beef and poultry consumption



Changes in cereal demand, 2005 to 2014

In million metric tonnes



Source: DG Agriculture and Rural Development Outlook based on OECD-FAO Agricultural Outlook 2015-2024.
 Note: 2005 = 3-year average of (2004-2006) and 2014 = 3-year average of (2013-2015)

Main uncertainties

The macroeconomic picture

- *The long-term level of the crude oil price - will disinvestment hit supply post-2020?*
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- *The persistence of sluggish GDP growth – now expanding also to emerging economies*

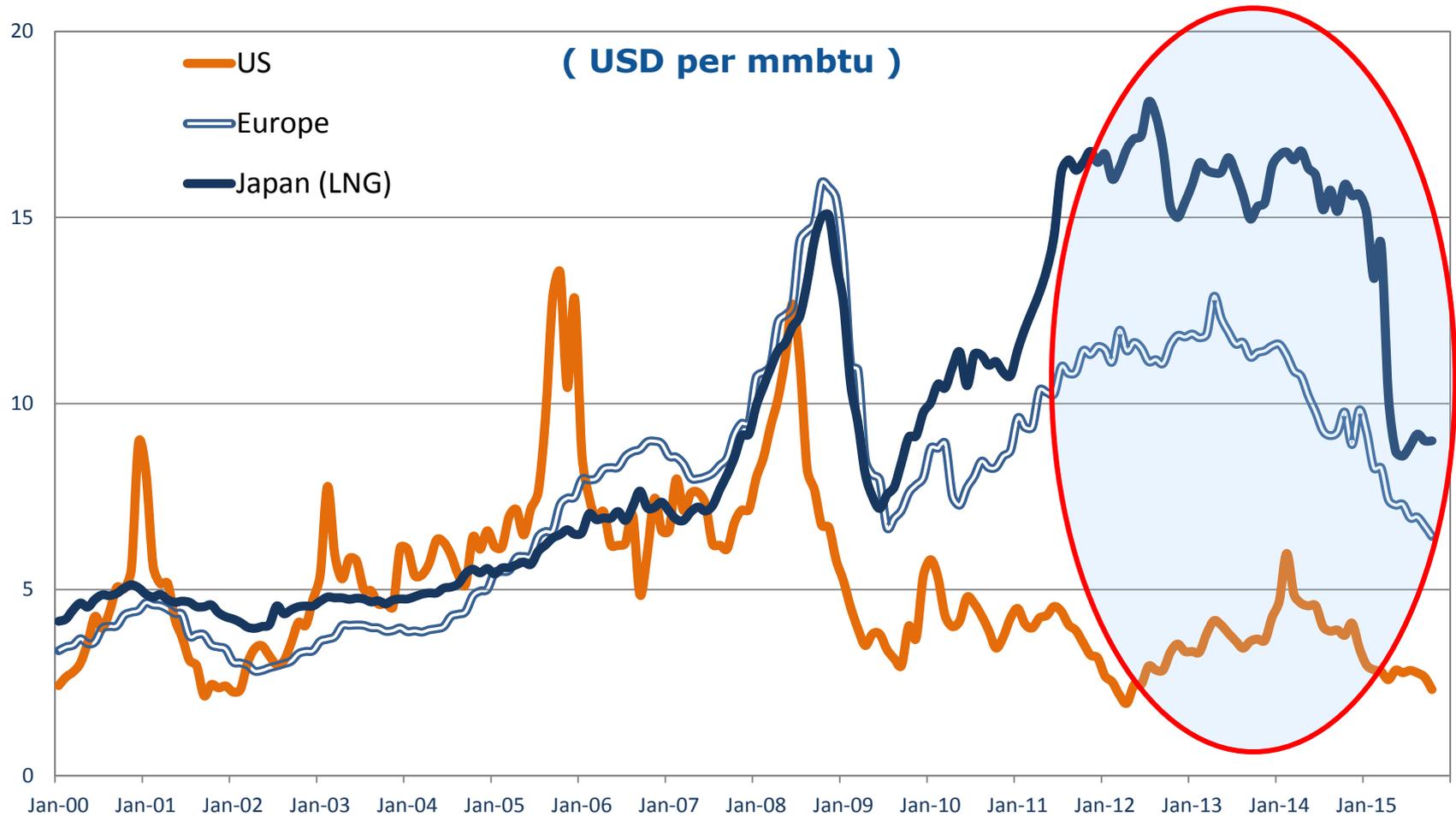
The demand side picture

- *Despite population dynamics, there are asymmetries in trends*
- *Dietary patterns also reflect different, often counter-intuitive developments*
- *Diverging trends and cross-cutting effects within same group of commodities*

The supply side picture

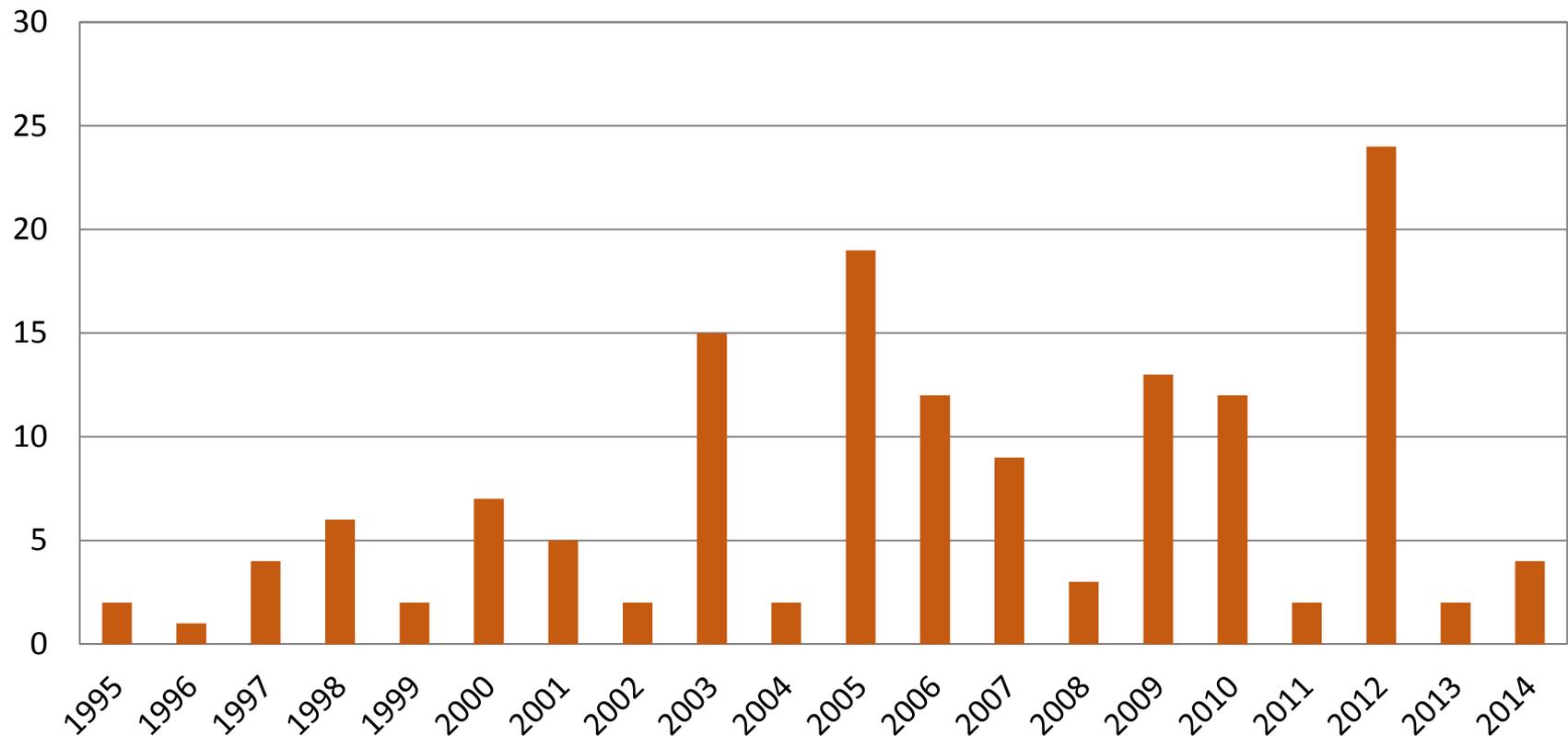
- *The wider energy picture – not just crude oil but also impacts from natural gas etc.*
- *Short-term and long-term impacts of climatic events, including from climate change*
- *Diverging productivity patterns (and not just for yields..., e.g. RTD, innovation, etc.)*

Diverging world natural gas prices



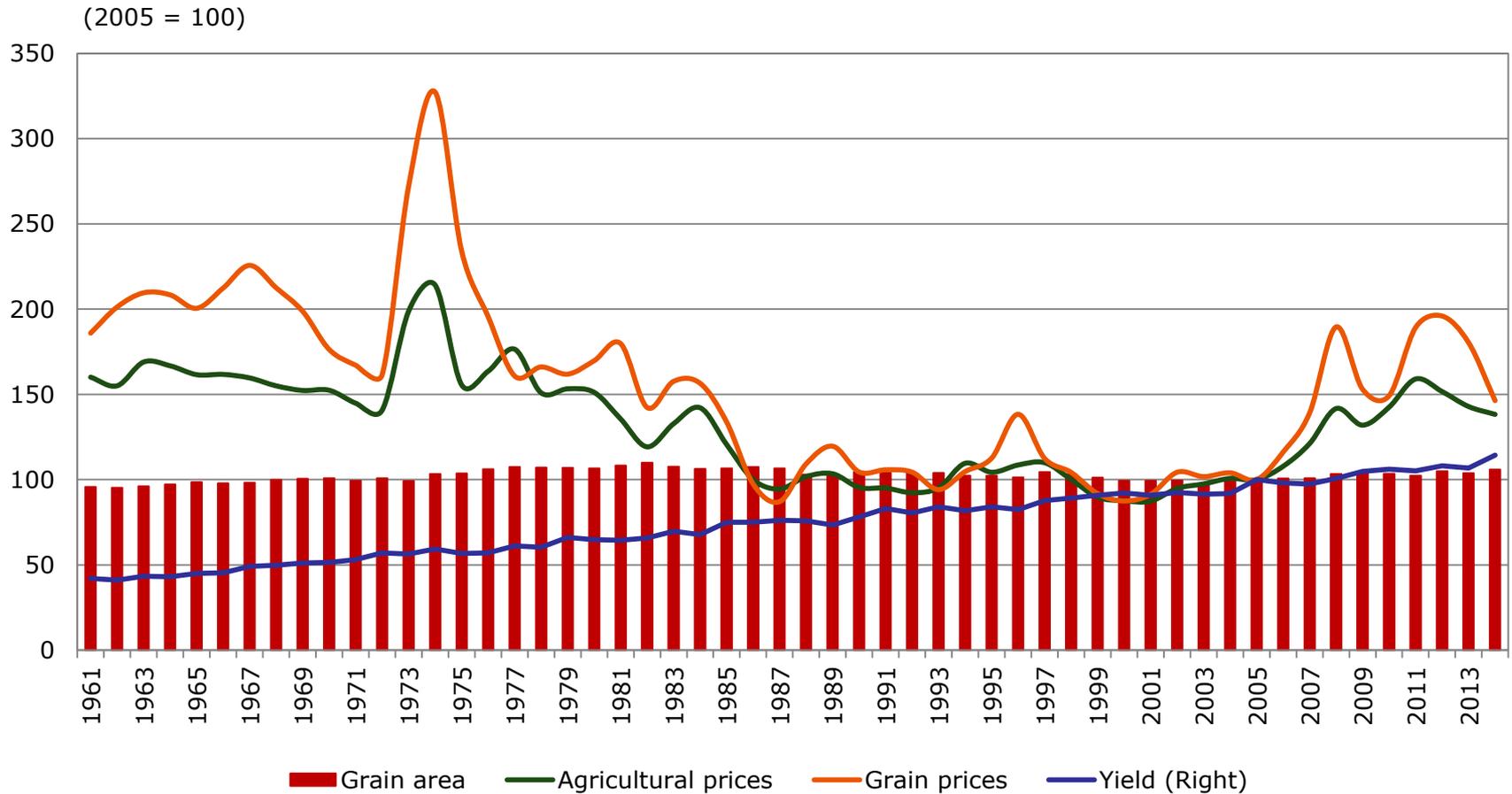
Frequency of extreme weather events

extreme temperatures, droughts, storms and floods in the EU



Data from EM-DAT The international Disaster Database

Annual real farm prices, area and yield



Source: World Bank, USDA, OECD-FAO

Main conclusions

The new market environment

- *Commodity markets seem to have returned to more "fundamental" drivers*
- *The commodity "super-cycle" effect of China seems to be over*
- *The impact on the price level is more clear than on co-movement or on volatility*

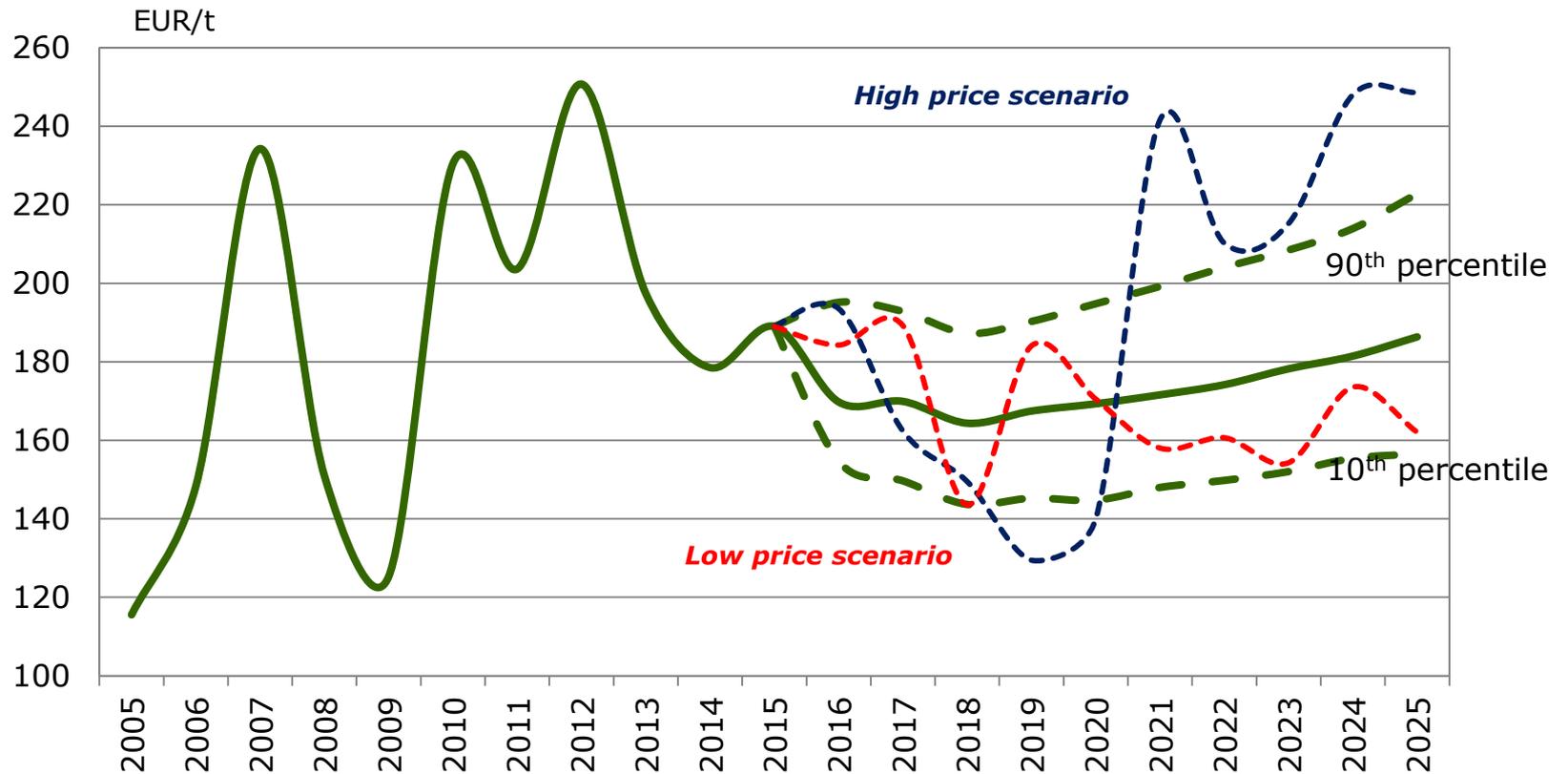
The new trade environment

- *Trade in both food commodities and food products remains strong*
- *Demand in most emerging economies will grow faster than their domestic production*
- *Yet, as always, in agricultural markets the surprise is around the corner...*

The new price environment

- *Despite significant declines, prices are still higher than pre-financial crisis levels*
- *The terms of trade for agriculture may improve some if energy prices stay low*
- *The likely price path lies between the highs and lows of the post-2008 situation*

The likely wheat price path



Reports and data available at:

http://ec.europa.eu/agriculture/index_en.htm

http://ec.europa.eu/agriculture/markets-and-prices/index_en.htm

http://ec.europa.eu/agriculture/policy-perspectives/index_en.htm

http://ec.europa.eu/agriculture/trade-analysis/index_en.htm

Thank you for your attention!