

KEY MESSAGES

+0.7%

Euro area real GDP growth in 2023 in the ECB baseline

+5.6%

Euro area inflation in 2023 in the ECB baseline

-0.4%

Monthly change of EU food consumer prices in August 2023

MARKET FUNDAMENTALS

HIGHLIGHTS

Compared to the summer 2023 macroeconomic forecast, the combination of tightened monetary policy and sluggish economic growth has led to a downward revision in economic growth that would affect 2024 as well. Energy inflation continues its decline, but the reduction of supply by OPEC+ countries is bringing an upward price effect on crude oil prices from 2024.

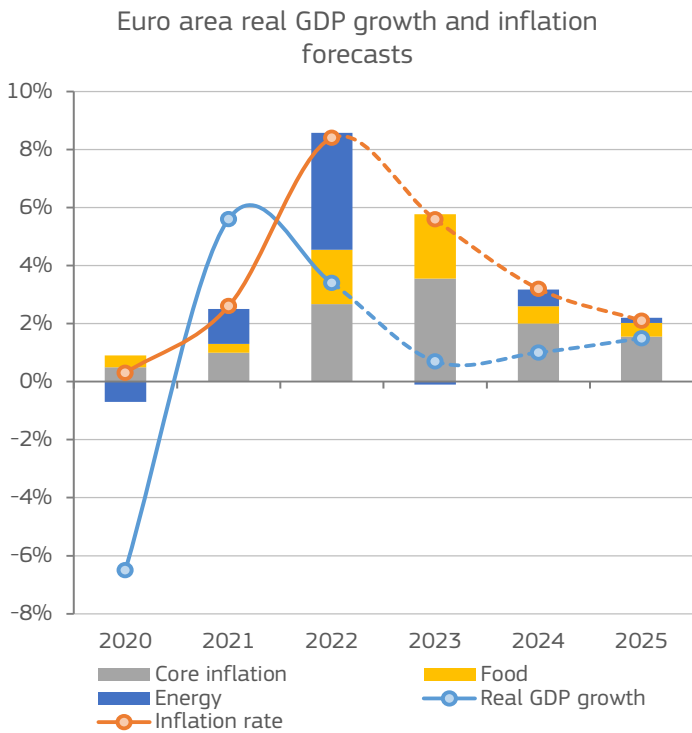
Natural gas prices are increasing towards winter months despite the 90% storage capacity reached in September. Nevertheless, the development of natural gas prices so far improved the affordability of nitrogen fertilisers. Encouraging signs for fertiliser affordability but also availability, and some reduction of other input costs continue strengthening farmer margins while EU commodity prices continue declining.

EU processor and consumer price indices started to decline. While the EU food inflation stopped increasing, it remained above general inflation level and at a historically high level. However, monthly food inflation in the EU started to decline since July but prices still remain a big concern for consumers, as the cost of living remain elevated and prices might further evolve in light of the new harvest and uncertain developments in Ukraine.

Lower EU prices of certain commodities observed in past months supported some recovery of EU exports, for example milk powders. In some other cases, they continue suffering from high global food inflation and lower EU availability, which further pushes prices up for some products (e.g. olive oil, fruit).

MACROECONOMIC OUTLOOK

WEAKER GROWTH ALSO EXPECTED FOR 2024



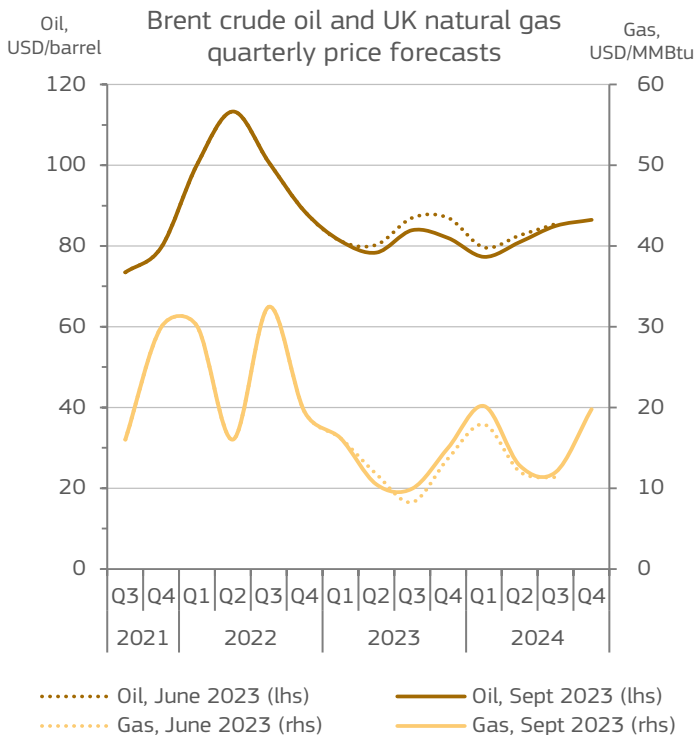
Note: Baseline includes tighter financing conditions than in June 2023, higher oil and natural gas prices, lower wholesale electricity prices and an appreciation of the euro. "Core inflation" refers to HICP inflation except food and energy. Source: European Central Bank.

More than 570 days after Russia's unprovoked invasion of Ukraine, the EU macroeconomic situation has been slightly revised downwards compared to the Summer 2023 outlook, with the EU economy subdued in the first half of 2023 and a tighter monetary policy to fight inflation.

The weaker growth is expected to extend to 2024. According to the latest ECB forecast, annual real GDP growth is expected at 0.7% in 2023 (-0.2pp) and 1% in 2024 (-0.5pp), dampened by the ECB's monetary policy tightening, adverse credit supply conditions and gradual withdrawal of fiscal support.

Inflation in the Euro area is expected to reach 5.6% in 2023, with food inflation accounting for almost 40% of price increases at consumer level. The ECB expectations for food prices point towards a declining trend in 2024 and 2025, although dynamic labour cost developments and upward pressures from adverse weather effects could still fuel food inflation.

¹ ECB projections based on information up to 22 August 2023.



Note: 1 MMBtu is 1 million British thermal units, approximately 293.1 kilowatt hours. Source: S&P Global.

GAS STORAGE TARGET LEVELS REACHED BUT UNCERTAINTIES FOR OIL SUPPLY

S&P Global slightly revised its projections for Brent crude oil prices, reducing them from a peak of USD 113/bbl in Q2 2022 to around USD 80/bbl and projecting them to reach USD 86/bbl in Q4 2024. While concerns about oil demand due to sluggish global economic growth are a downward driver, the recent OPEC+ supply cuts seem to prevail, raising uncertainties about oil supply and prices for the near future, as Brent crude oil price have been already above USD 90/bbl since September 2023.

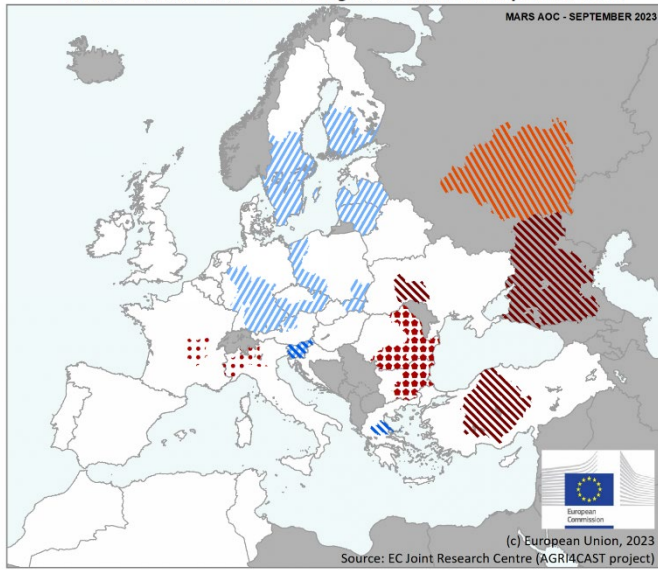
Regarding natural gas, S&P Global September projections depict an increase in prices with the winter season approaching to USD 15/MMBtu in Q4 2023 (around 50 EUR/mWh) and to USD 20.18/MMBtu (around 65 EUR/mWh) in Q1 2024, despite EU storage capacity reaching 94% in September and achieving the target of 90% way ahead the deadline of 1 November.



SUPPLY

AREAS OF CONCERN - EXTREME WEATHER EVENTS

Based on weather data from 1 August 2023 until 10 September 2023



Source: JRC MARS Bulletin Vol. 31 No 9.

SUMMER WEATHER BROUGHT FURTHER CHALLENGES

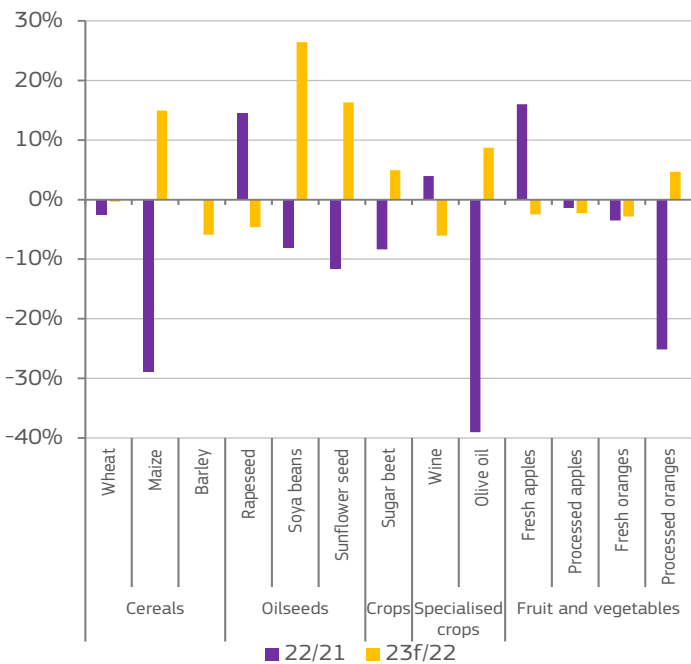
Following overall negative spring weather developments, the summer was characterised by warmer-than-usual conditions in most of the EU, with heatwaves occurring in many places, which had negative impacts on summer crops. Particularly, more distinct positive temperature anomalies (up to 4 degrees above average) were observed in parts of the Iberian Peninsula, Southern FR, the Alps and locally in the Balkan Peninsula. As a result, dry conditions worsened, and compromised yield formation potential in particular in RO and BG.

On the other hand, wetter-than-usual conditions were observed in some other regions. In Northern IT, Southern AT, SI and HR, these occurred as torrential rains, followed by heatwaves. Further flooding occurred in SI while unprecedented floods were also reported in EL.

Rainfall surplus has continuously been reported in last weeks of the observation period in Central Europe (and caused delays in harvest and rapeseed sowing), and Scandinavia, resulting there in wet soil conditions.

While crops were negatively impacted, it helped grassland to recover from earlier rainfall deficits. On the other hand, regions with hot and dry conditions have decreased their grassland productivity.

Annual* EU production change of selected arable and specialised crops



*Marketing years are used.

Source: DG Agriculture and Rural Development, based on Eurostat and MS notifications.

WEATHER DEVELOPMENTS CONTINUE COMPROMISING QUALITY OF SEVERAL PRODUCTS

Besides reduced yields expectations across different sectors as a result of adverse weather conditions (e.g. cereals, grapes, olives for oil, fruit), there are also reports of lower quality of harvested products. Especially humid conditions (persistent, or because of heatwaves which followed strong rains) increased occurrence of pests and diseases.

For example, wet conditions triggered fungal diseases due to delayed harvest of grains. As a result, some crops might have lost their quality to be used for food. In addition, they might have a lower protein content. Therefore, if not used for food, and if certain quality requirements are confirmed, they could still be partially used for feed instead in 2023/24.

The expected lower quality of oranges is likely to result in more products to be channelled again into processing (around 5% above last marketing year).

On the other hand, sugar beet yields are expected to be higher (1.4% above last marketing year), as well as sugar content is likely to improve.



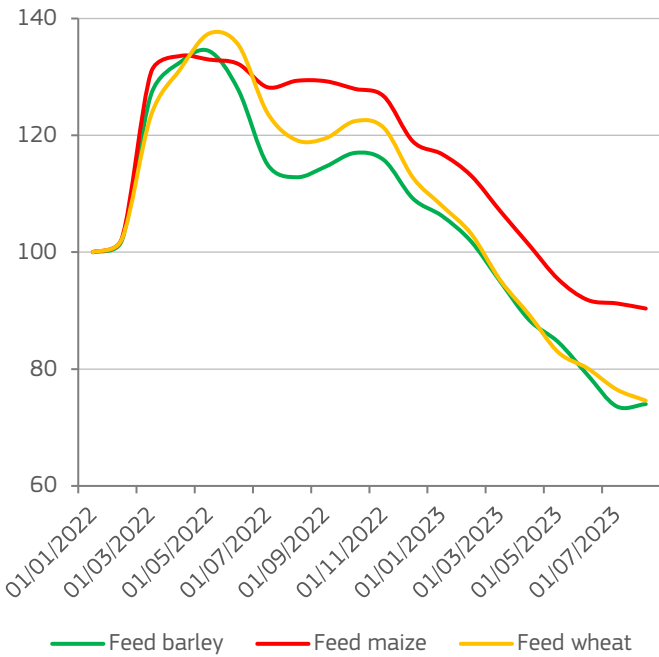
SUPPLY

EU FEED COSTS AND WORLD COMMODITY PRICES ON A DOWNWARD PATH

Improved grassland conditions provided some relief to livestock producers. At the same time, EU feed costs continued declining until August 2023. Compared to the same month last year, the EU prices of feed wheat showed the highest decline (-37%), followed by barley (-34%) and maize (-30%). As a result, EU milk deliveries continued growing, and are expected to remain positive in 2023 (+0.3%). In the case of meats, lower feed costs, and relatively high meat prices could help EU meats production to improve in the second half of 2023, as carcass weights could grow. However, this will still not prevent drops in EU pigmeat, beef and sheep and goat meat production while the EU poultry production could grow. In 2024, this trend is expected to persist except for pigmeat, where a recovery of production is foreseen.

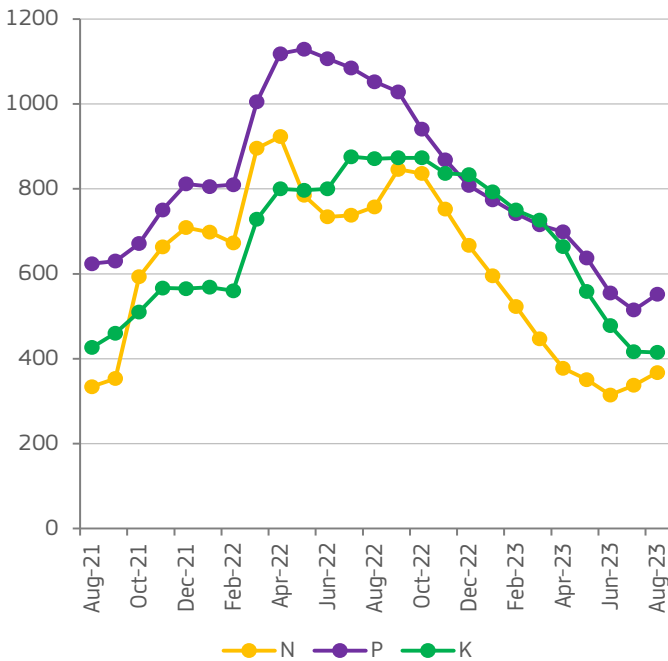
Globally, prices for most commodities declined until August according to the latest World Bank Commodity Markets data, although there are some increasing price signals for energy and fertilisers over summer (see below). The downward trend is also observed for freight transport rates, both container and dry bulk, however tensions in the Black Sea, impacts of sanctions and rising fuel prices could lead to uncertainties about transport supply for the future.

Monthly indices of EU prices per selected feed crops (Jan 2022 = 100)



Sources: DG Agriculture and Rural Development, based on MS notifications.

EU monthly prices of fertilizers by type (EUR/t)



Source: DG Agriculture and Rural Development, based on S&P Global.

ENCOURAGING SIGNS FOR FERTILISERS AVAILABILITY AND AFFORDABILITY

The 2021 energy crisis, aggravated by Russia's aggression against Ukraine, resulted in a major reduction of production and soaring EU prices of nitrogen fertilisers. The EU imports of nitrogenous fertilisers increased steeply, followed by a progressive price decrease since autumn 2022. Signs of recovering of EU production were observed in the first half of 2023, encouraged by declining natural gas prices.

Even though some fertilisers purchases of farmers for the 2023 harvest were made at a high price, on balance, this resulted in large availability of nitrogen products on the EU markets. Although with different pace among EU countries, the improved affordability lowered the risk of generalised nitrogen under-fertilisation rates in 2022 and provides encouraging developments for farmers fertilisers' purchases in the next season.

The EU market of P and K fertilisers was far less impacted by the energy prices, but product prices increased considerably because of EU dependencies on indispensable intermediates. EU imports decreased in 2022 and in the first half of 2023, reflecting a strong decrease in the use of P and K fertilisers in the EU in 2022 and 2023. On average, affordability of phosphatic, potassic and mixed fertilisers now clearly improved. This could encourage farmers to resume purchases to restore at least partially application rates for the next harvest.



DEMAND

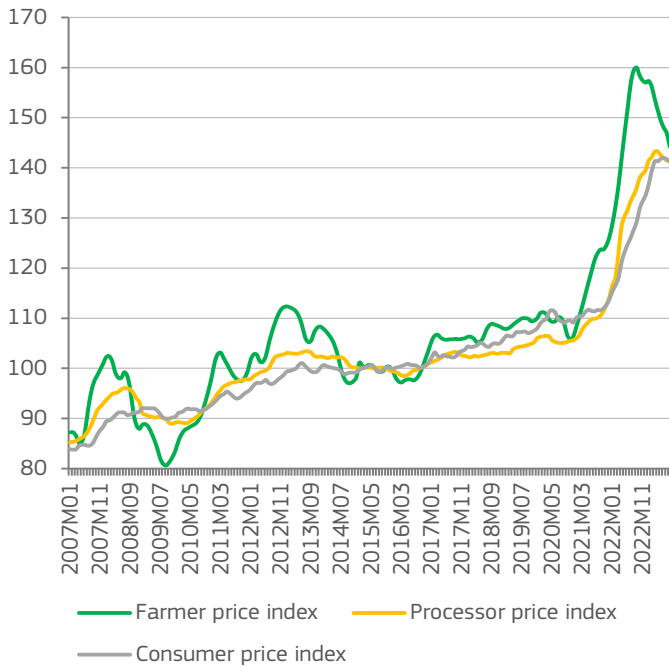
EU PROCESSOR AND CONSUMER PRICE INDICES STOPPED INCREASING

The decline in global commodity prices and EU prices of some arable crops (e.g. wheat, barley and maize), raw milk and beef observed for several months, contributed to a downward trend of the EU farmer's price index observed since October 2022. In the case of some other EU agricultural prices (e.g. pigmeat and poultry meat,) their upward trends were also reversed over the summer. In the case of animal products, these moves seem to reflect anticipated drops linked to reduced feed costs.

On the other hand, some other prices continued increasing (e.g. fresh apples, sugar). Despite some downward trends, some EU prices were in August 2023 still above 5-year average for the same month last year. These ranged from 5- 8% in case of soft wheat and maize, around 15-30% for raw milk, beef, poultry and apples to more than 112% for sugar.

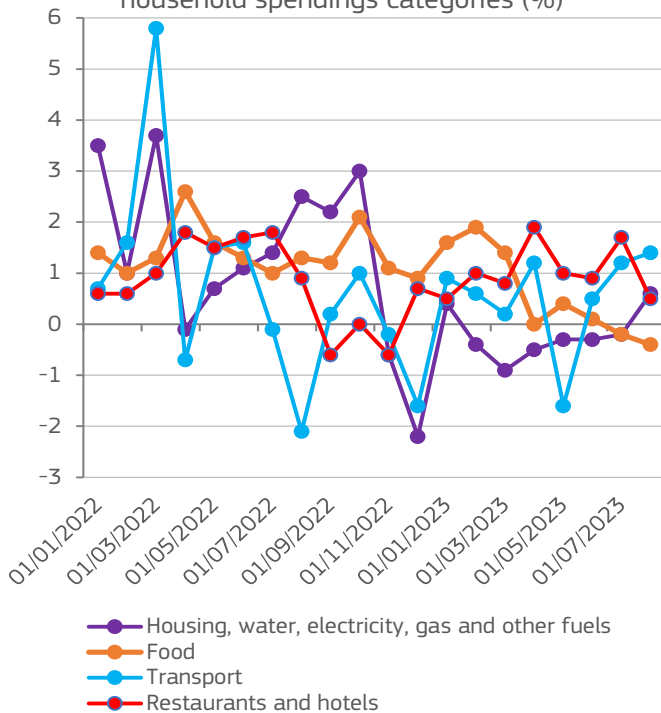
While processor and consumer price indices showed some resistance to declining agricultural prices for some time, it seems that both have reached their peak. In the case of processor's price index, it stopped increasing in May, while consumer's price index resisted until July (see below). However, the pace of their reduction is slower than in the case of agricultural prices.

Price transmission along the food chain (2015=100)



Source: DG Agriculture and Rural Development, based on MS notifications and Eurostat

Monthly changes of EU prices of selected household spendings categories (%)



Source: DG Agriculture and Rural Development, based on Eurostat

FOOD PRICES START TO SHOW SOME DECLINE

While EU food price index stopped increasing, it stabilised at a relatively high level (around 141 compared to 2015 index, 15 points below the same month last year). However, monthly changes in consumer prices of food are now negative since July, showing a start of food deflation in the EU. In several EU countries, this deflation has been continuous since spring: DE and HU, SI to a great extent. In other cases, the decline only started as from June (PL, CZ, RO, LT, LV).

Nevertheless, price considerations are still important for consumers when making shopping decisions. While monthly prices of food have showed a small decline for the EU in July and August (-0.2% and -0.4% respectively), other household expenditures still recorded an increase. Among different components, food retail purchases represented only around 14% in 2021 of the overall household expenditure. The highest share (around 25%) was taken by housing, water, electricity, gas and other fuels. These costs also showed some decline since February but increased again in August. Other expenses like transport (around 12%), recreation and culture (8%), restaurants and hotels (7%) and health (5%) have not shown almost any decline since the beginning of the year. Therefore, while the food prices might start to decline, the extent to which this will influence the total consumption would depend on the overall spending capacity of consumers.



DEMAND

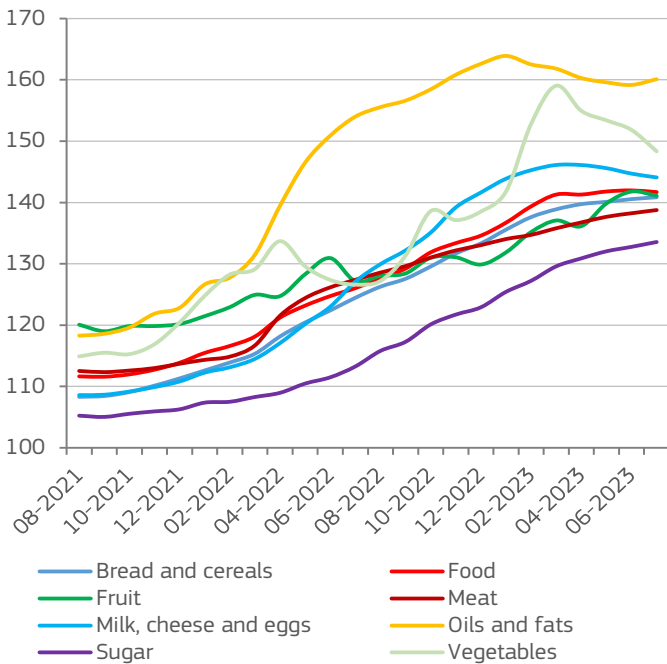
EU CONSUMPTION IS NOT RECOVERING YET

While the overall EU food inflation showed some stability, the evolution differed for individual products. For example, vegetables declined the most (but from a higher peak), followed by milk, cheese and eggs. On the other hand, consumer prices of oils and fats, which had been declining since the beginning of the year, started to increase again in July. In other food categories, the indices have been growing, the most steeply in the case of sugar, followed by fruit.

Regarding animal products, EU meat consumption is expected to be around 66 kg per capita in 2023, with some slight recovery to be linked to pigmeat in 2024. In the case of dairy products, and despite initial expectations, consumption of fresh dairy products (driven by increasing production) could grow, as well as some recovery could be expected in the use of butter in processing.

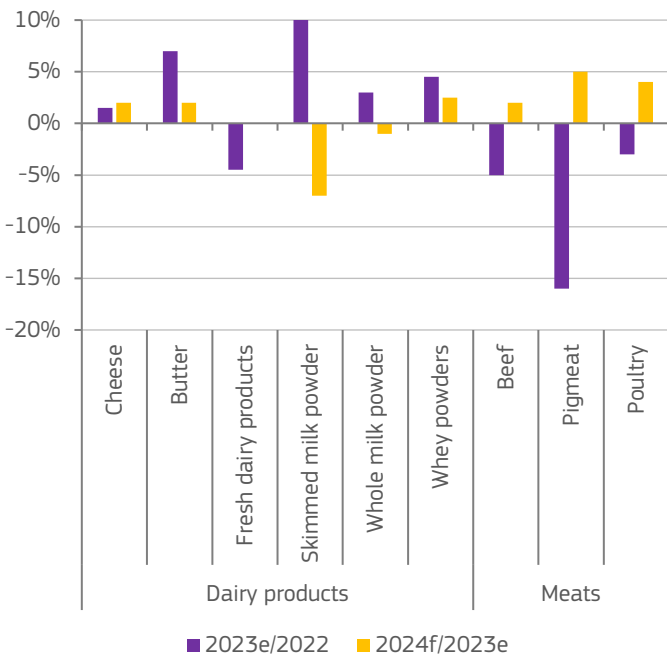
On the other hand, lower EU availability of fresh apples and oranges, and higher prices, could lead to lower fresh per capita consumption in 2023/24. Similarly, some further decline in EU olive oil consumption is likely (-6% in 2023/24), which could add to drops recorded last marketing year. Besides higher prices, an ongoing downward trend is likely to remain for EU wine consumption, except for an increase in domestic use mainly driven by the crisis distillation.

EU consumer price inflation of selected food products (2015=100)



Source: DG Agriculture and Rural Development, based on Eurostat.

Annual EU export change of selected dairy products and meat types



Source: DG Agriculture and Rural Development, based on Eurostat.

HIGH EU PRICES AND LOWER AVAILABILITY HAMPER EU EXPORTS FOR SEVERAL PRODUCTS

According to data gathered by the World Bank, global food price inflation continues impacting global demand. This continues negatively affecting some EU exports. For example, this is the case of meats. In addition, EU exports of animal products are suffering from reduced import demand from China, as China is improving its production capacity for pigmeat, and dairy products, and is facing slower than expected economic recovery. Besides lower demand due to high inflation, export growth is also dampened by persisting high EU prices for instance in the case of sugar and olive oil. Some recovery is expected for sugar in 2023/24 while the lower availability is expected to keep EU prices high for olive oil leading to lower exports in the next marketing year as well. Concerning EU cereal exports, these could remain stable in 2023/24 while EU exports of milk powders are expected to grow in 2023 and beyond. EU exports are and will remain an important source to ensure global food security. On the other hand, the EU market remains attractive for imports. However, some categories of products (e.g. premium cheese) are imported less as the domestic demand is lower due to the less strong purchasing power.

