

# OECD-FAO

## Agricultural Outlook 2013-2022:

# EXECUTIVE SUMMARY

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**Rising demand favours developing countries:** For decades, global agriculture was characterised by policy-induced production surpluses in industrialised countries and stagnating growth in developing countries. Policy reforms and economic growth across the globe have been changing demand and supply fundamentals, transforming agriculture into a more market-driven sector which provides investment opportunities. Developing countries are expected to increase their share of global production and capture most of the export growth.

**Slower production growth:** Global agricultural production for commodities covered in this Outlook is projected to grow at 1.5% annually, on average, compared to 2.1% in the previous decade. This slower growth is expected to be exhibited by all crop sectors and livestock production. These trends reflect rising costs, growing resource constraints, and increasing environmental pressures, which are anticipated to inhibit supply response in virtually all regions.

**Food price inflation has eased:** The link between commodity prices and what consumers actually pay for their food is usually not straightforward. So, even though commodity prices remain high, there is some evidence that consumer food price inflation is abating. Nevertheless, with food expenditures accounting for 20-50% or more of household budgets in many developing countries, food affordability remains a concern.

**Markets reflect split in global economy:** Although relatively resilient to economic downturns, agricultural markets continue to reflect the impact of a two-speed global economy with weak recovery in developed countries and vibrant growth in many developing countries. Rising oil prices are an important but unpredictable factor in price projections. A depreciating US dollar is expected to reduce the relative competitiveness of other exporters while increasing the purchasing power of many importers.

**Prices will rise over medium term:** Commodity prices are currently high by historical levels. In the near term, crop prices should fall as production rebounds, while low inventories keep meat prices high. Longer term prices for both crop and livestock products are set to rise with meat, fish and biofuel prices projected to rise more strongly.

**Inflation adjusted prices remain high:** Average real prices for the 2013-22 period are projected well above the 2003-12 average for most of the commodities covered in this Outlook. However, average real prices over the next decade should be lower than the peaks experienced in recent years.

**Consumption to grow:** Consumption of all products covered in this Outlook will increase in developing countries, albeit at a slower pace, driven by growing populations, higher incomes, urbanisation and changing diets. Per capita consumption is projected to expand most rapidly in Eastern Europe, and Central Asia followed by Latin America and other Asia.

**Agriculture trade continues to increase:** Emerging economies will capture much of the trade growth, accounting for the majority of exports of coarse grains, rice, oilseeds, vegetable oil, sugar, beef, poultry and fish. The OECD area share of trade will continue to decline while remaining the major exporters of wheat, cotton, pig and sheep meat and most dairy products.

**Outlook uncertainties:** Production shortfalls, price volatility and trade interruptions remain a threat to global food security, especially in light of low stocks. A widespread drought like that experienced in 2012 in the United States and CIS countries, on top of low stocks, could raise crop prices by 15-40%. Energy prices add another source of uncertainty, affecting both biofuel markets and input costs. World trade is even more sensitive than production to yield variability and macroeconomic drivers.

**Focus on China:** This edition of the Outlook takes a special look at China, which has a rapidly expanding agri-food sector. Faced with production constraints and rising demand, China is likely to import more of its food in future but, overall, is projected to remain self-sufficient in the main food crops.



It is projected that China's consumption growth will slightly outpace its production growth by some 0.3% per year, similar to the trend of the previous decade. As a result, a further but modest opening of China's agricultural sector is anticipated although these prospects vary by commodity.

China has made food security and self-sufficiency in rice and wheat a top policy priority. Agricultural output grew almost fivefold between 1978 and 2011. However, in recent years food prices have been rising, and output is set to slow under rising resource and labour constraints.

Increased availability of food and higher incomes have improved food security significantly with the number of undernourished falling by almost 100 million since 1990, despite adding 200 million people to its population. Reducing the number of persons undernourished remains a major challenge.

From 2001 to 2012, China's agricultural imports and exports increased from USD 27.9 billion to USD 155.7 billion. Import dependence doubled from 6.2% to 12.9% with China's net trade deficit in agriculture and food stood at USD 31 billion in 2012.

Key uncertainties for China include the ongoing sustainability of high levels of economic growth, increasing resource constraints on production and the potential for increased production variability amid rising climate unpredictability.

### **Global commodity projections to 2022**

- **Cereals:** Production is expected to increase 1.4% per year with 57% of total growth coming from developing countries. Thailand is projected to be the leading exporter of rice followed closely by Viet Nam while the United States is expected to remain the dominant exporter of wheat and coarse grains.
- **Oilseed:** Production is set to increase even faster than cereals. Palm oil should maintain a stable 34% share of total vegetable oil production.
- **Sugar:** Production is expected to increase by almost 2% a year with Brazil and India the leading producers. Developing countries will continue to dominate world sugar use.
- **Cotton:** Man-made fibres will take an ever-larger market share. India's cotton production is projected to rise 25%, making it the world's leading producer.
- **Ethanol:** Production is expected to increase almost 70%, with biodiesel increasing even faster but from a smaller base. By 2022, biofuel production is projected to consume 28% of total world production of sugar cane, 15% of vegetable oils and 12% of coarse grains.
- **Meat:** Developing countries are expected to account for 80% of the growth in global production. Per capita meat consumption growth will slow as major developing economies approach the levels of developed countries.
- **Dairy:** Developing countries are expected to generate 74% of global milk production gains. Still, consumption in developing countries is projected to grow faster than production, with higher exports from the United States, the European Union, New Zealand, Australia and Argentina.
- **Fisheries:** Capture output is projected to rise only 5% but aquaculture to increase by 35%. By 2015, aquaculture should surpass capture fisheries as main source of fish for human consumption.

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