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Impact of the economic crisis on agriculture

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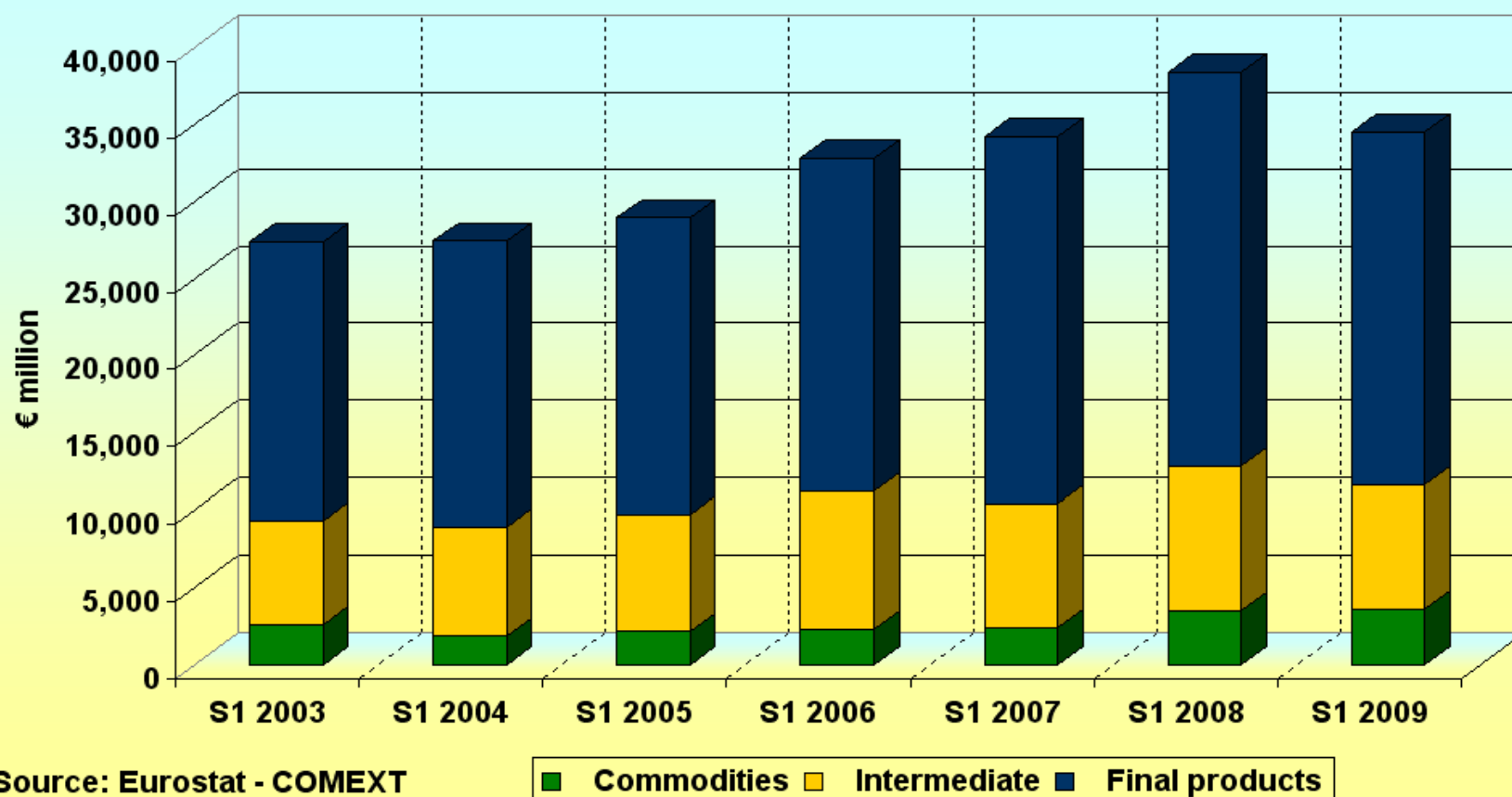
What has been the effect of the economic crisis?

- 1. Trade**
- 2. Product mix**
- 3. Medium term baselines**
- 4. Medium term perspectives**
- 5. Conclusions**



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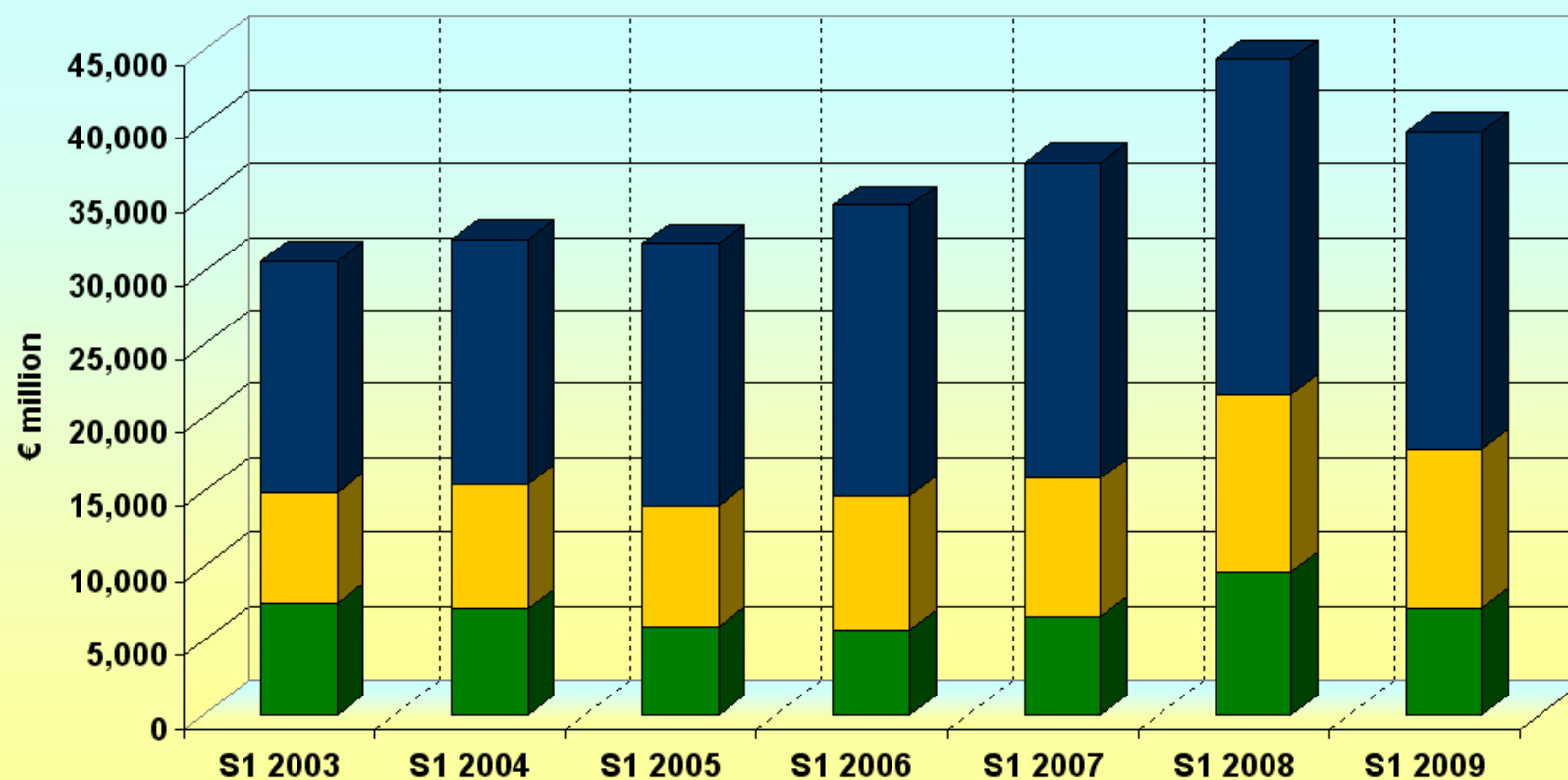
Total EU27 agro-food exports by aggregate - values in S1 2003-2009





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Total EU27 agro-food imports by aggregate - values in S1 2003-2009



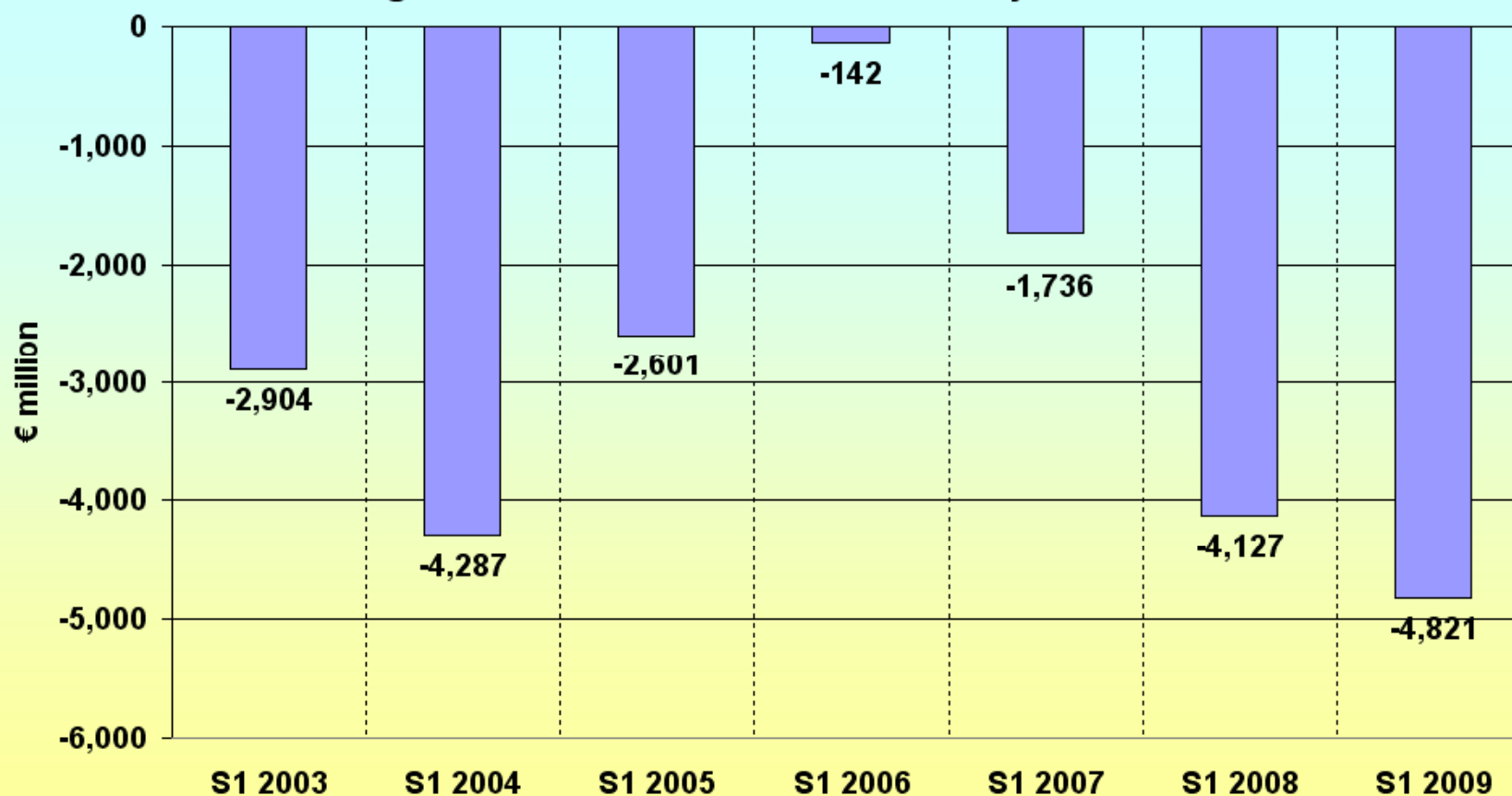
Source: Eurostat - COMEXT

■ Commodities
 ■ Intermediate
 ■ Final products



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EU27 agro-food trade balance in the first half year 2003-2009

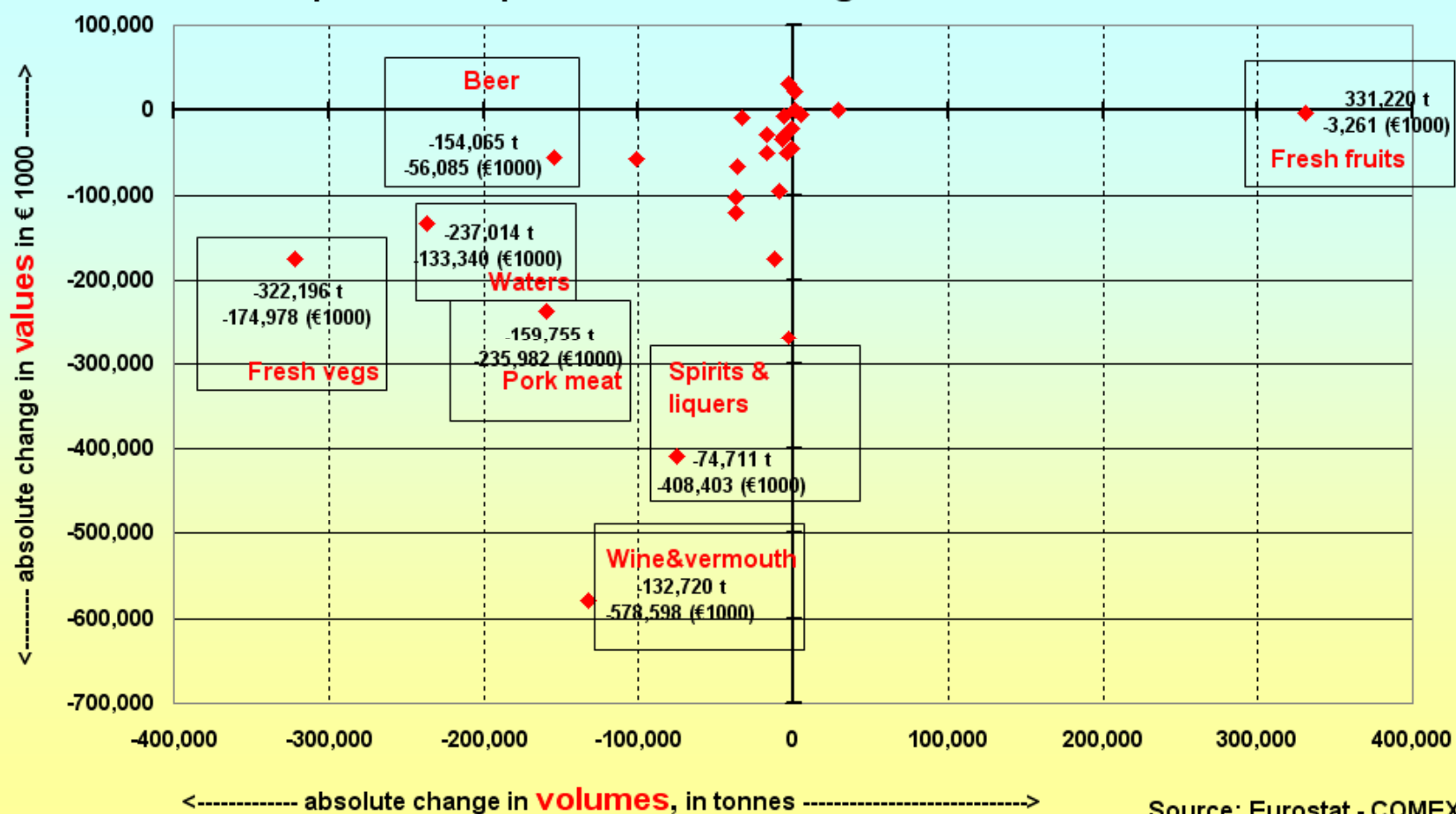


Source: Eurostat - COMEXT



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EU27 Final products exports - absolute changes from S1-2009 over S1-2008

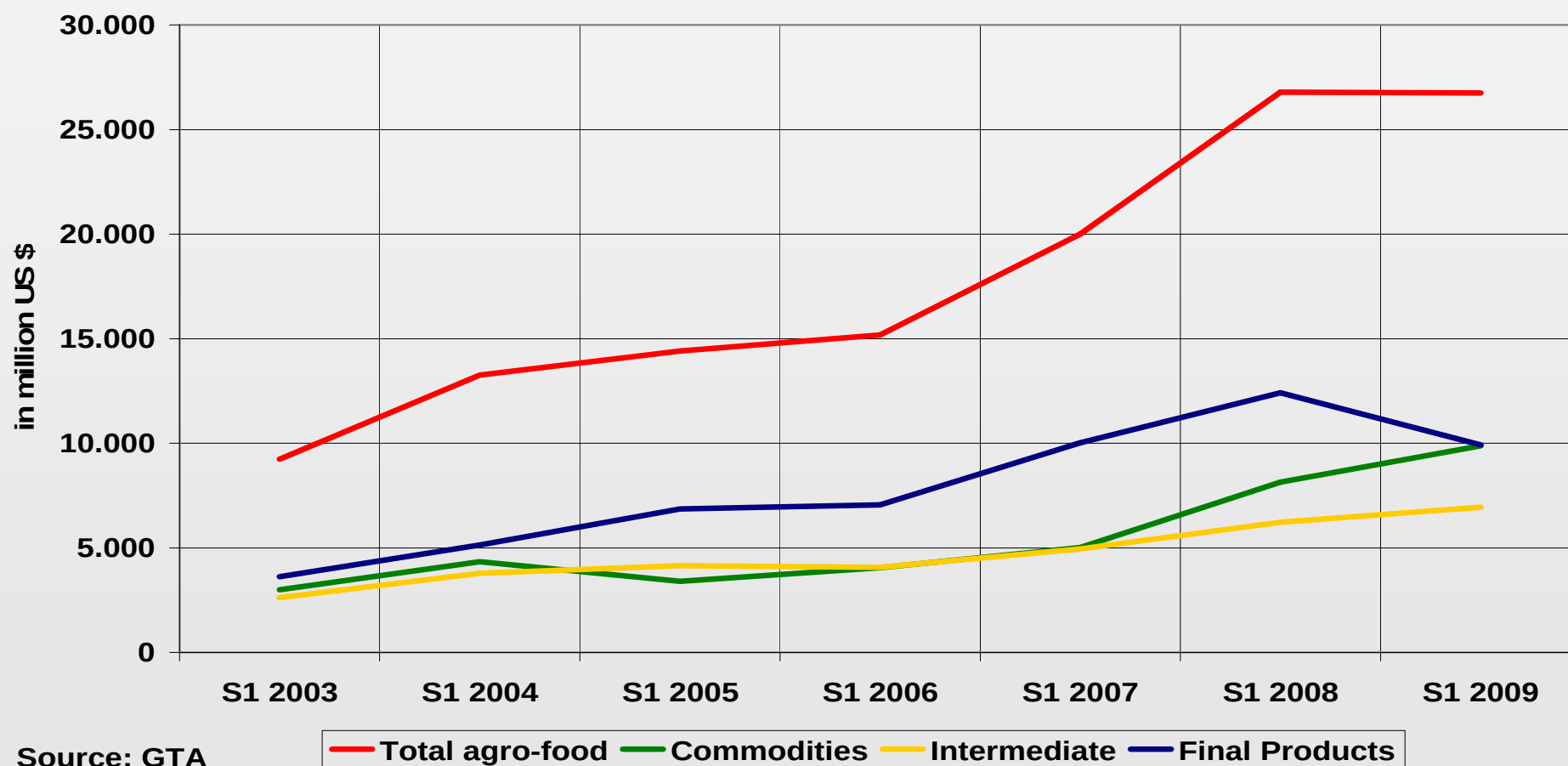


Source: Eurostat - COMEXT



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Brazil agro-food exports in value first half year 2003-2009





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What has been the effect of the economic crisis?

1.

2. Product mix

3.

4.

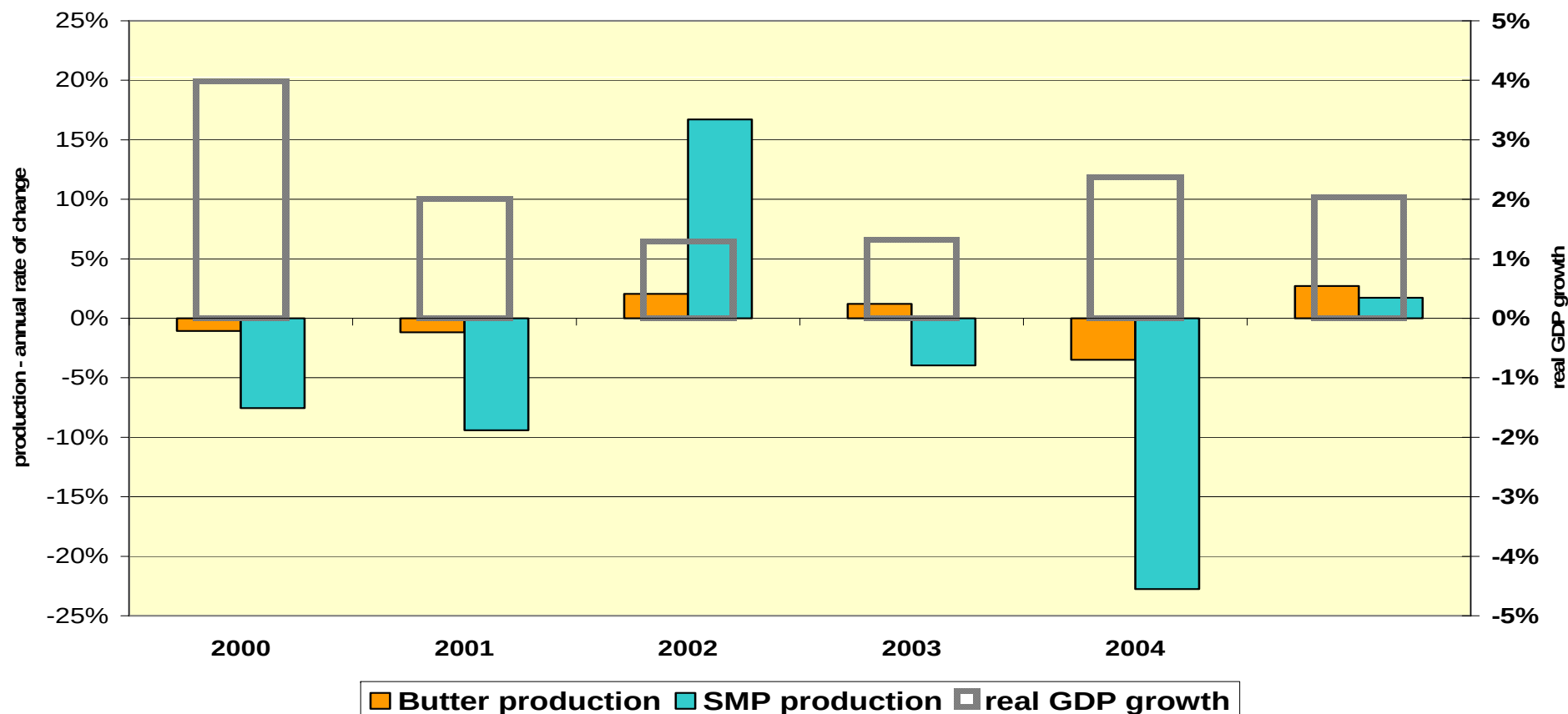
5.



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Lessons from the past: the 2002-03 slowdown and the EU dairy market

GDP growth and production of bulk products

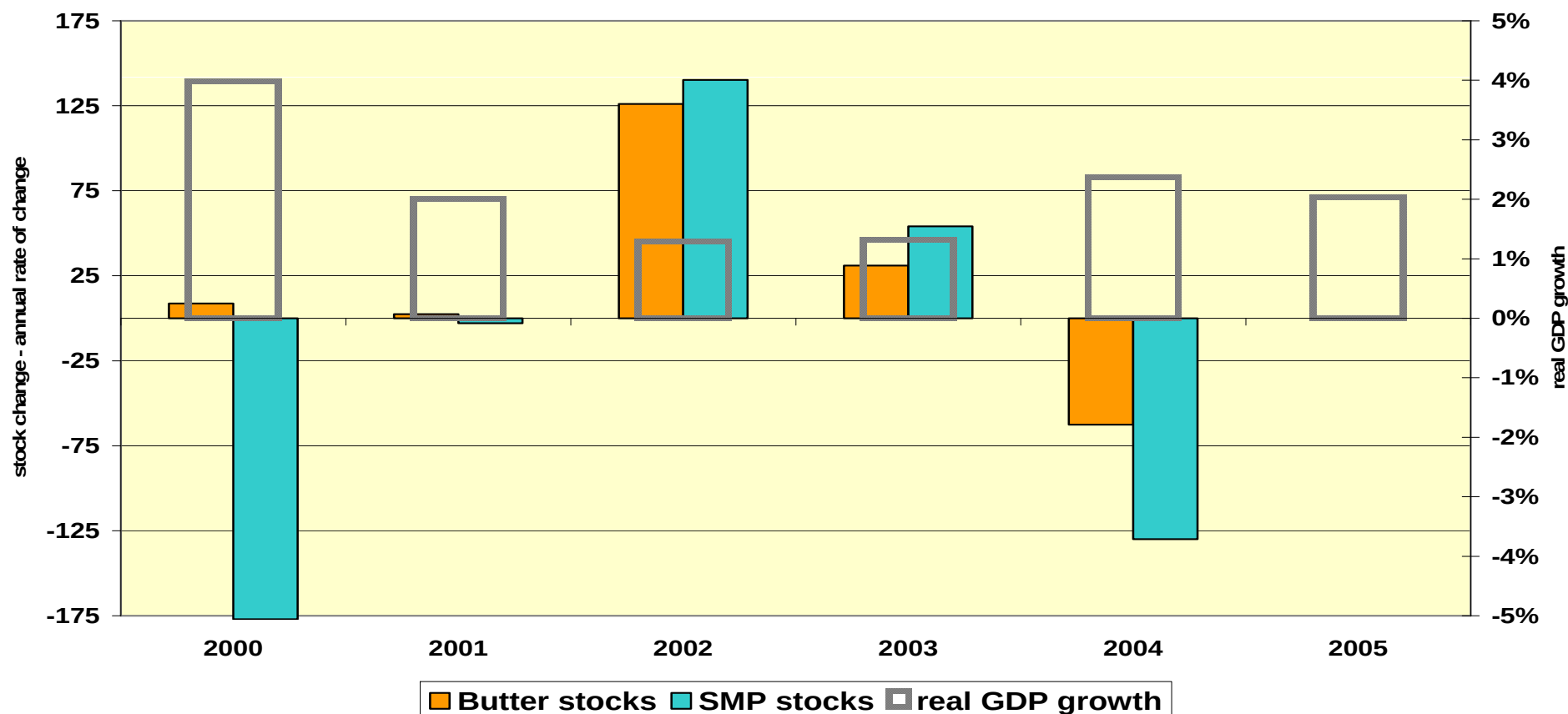




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Lessons from the past: the 2002-03 slowdown and the EU dairy market

GDP growth and intervention





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What has been the effect of the economic crisis?

1.

2.

3. *Medium term baselines*

4.

5.



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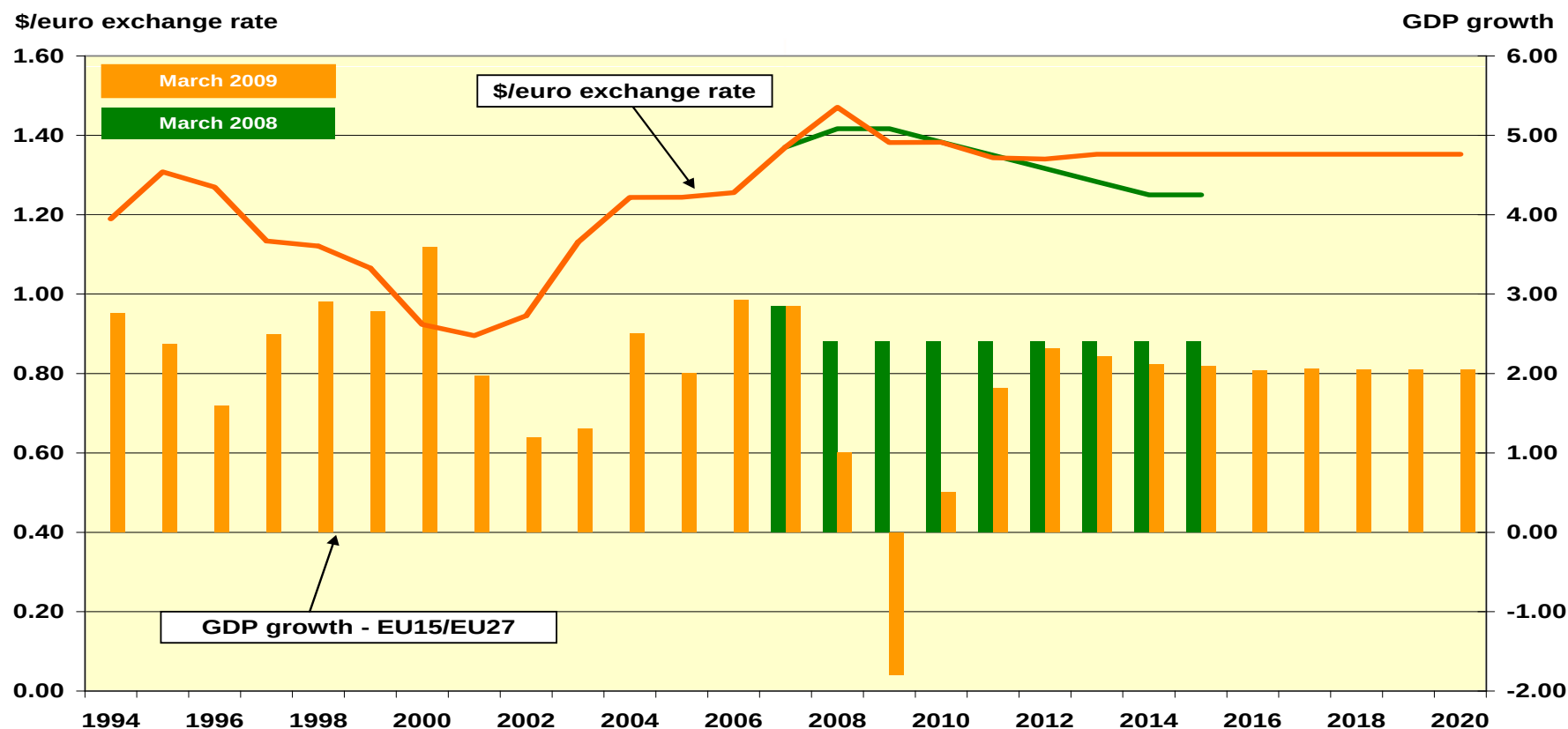
Macro-economic assumptions

- *Economic crisis makes the short-term outlook uncertain*
- *Medium-term prospects remain favourable*
 - EU GDP growth around +2.1% per year
 - USD/EUR exchange rate to stabilise around 1.35
 - EU inflation around 1.9% per year
 - EU population growth would slow to 0.3% per year
 - Crude oil price fluctuates between 78-85 USD/barrel
 - World GDP growth above 3.6% per year
- *High degree of uncertainty as the economic outlook remains subject to a number of (mainly downside) risks*



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Assumptions for USD/EUR exchange rate and GDP growth (compared to assumptions in March 2008)





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What has been the effect of the economic crisis?

1.

2.

3.

4. *Medium term perspectives*

5.



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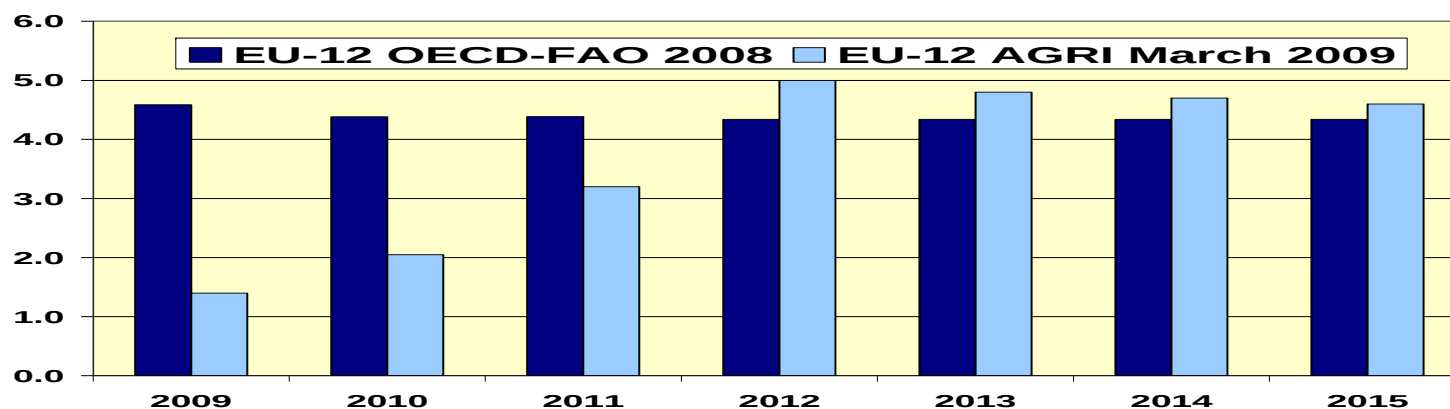
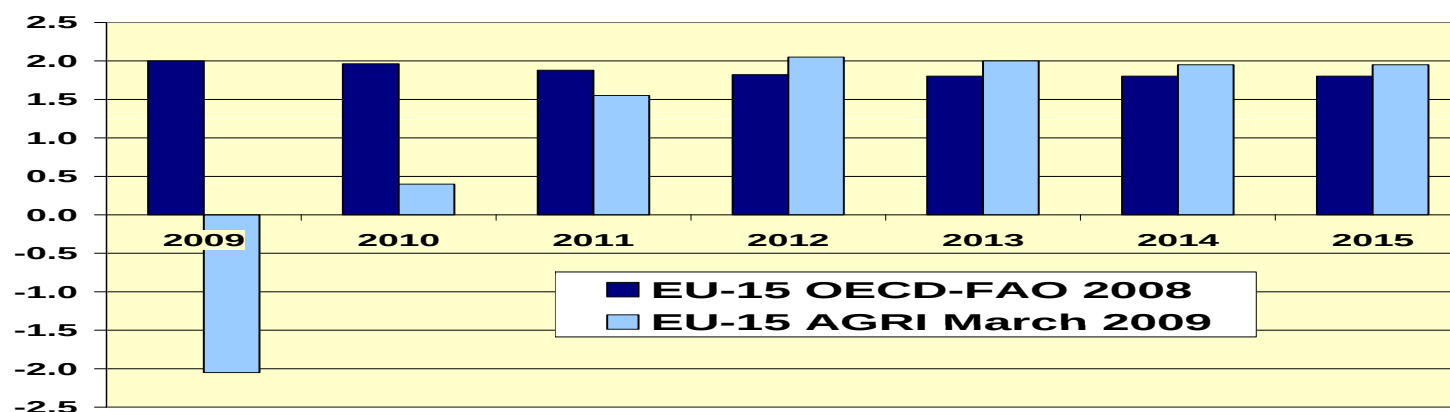
Impact of the global economic downturn on medium-term perspectives

1. Demand side impact => **lower agricultural prices**
 - *Lower demand for food and shift in food demand composition (away from higher value added products such as meat, dairy, processed products)*
 - Domestic EU market: consumption patterns revised downwards in the EU for 2008 and 2009 for meat and dairy products
 - External markets (e.g. Russia) with risks of shift in trade flows
2. Supply side impact => **higher production costs**
 - *Access to and cost of credit (capital intensive sector, low margins)*
 - *Lower asset (land) prices may worsen farmers equity and debt/equity ratio*
 - *Risk of price squeeze (deterioration of the terms-of-trade with speed of adjustment of output and input prices critical for profitability of farm sector)*
 - ***Link with energy markets crucial: it affects farm sector directly (production costs) and indirectly (biofuel)***



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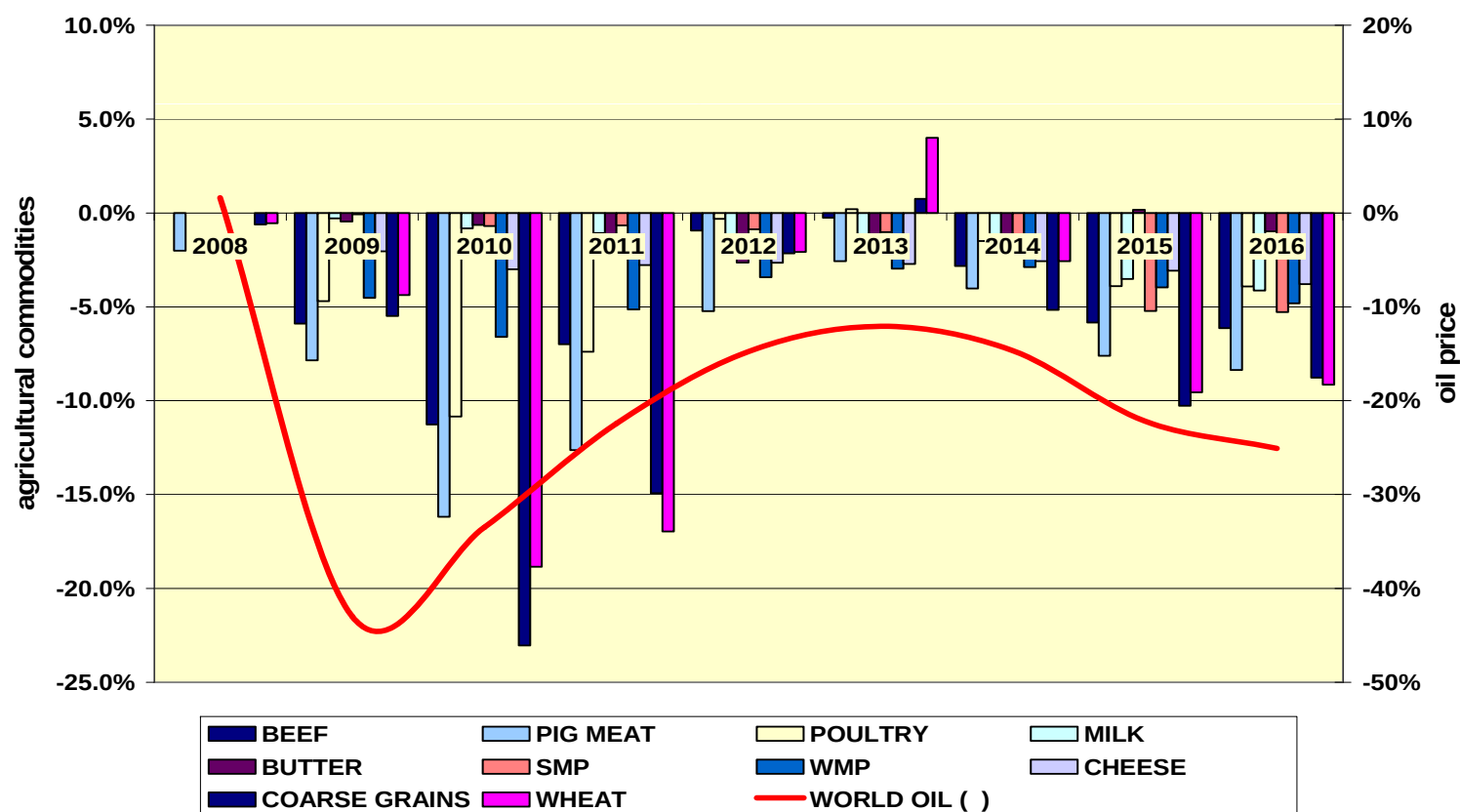
Sensitivity: Annual GDP growth





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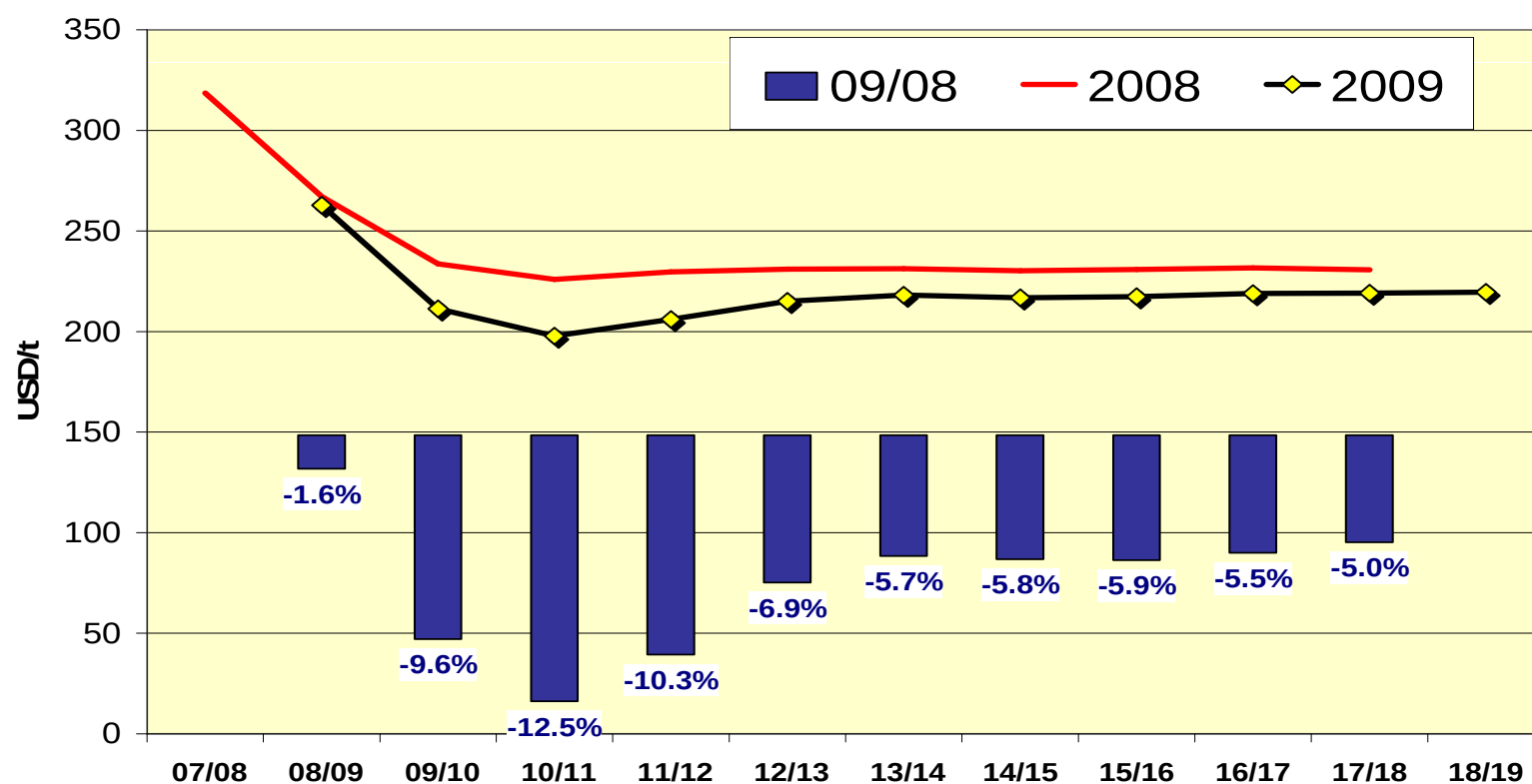
Impact on EU commodity prices





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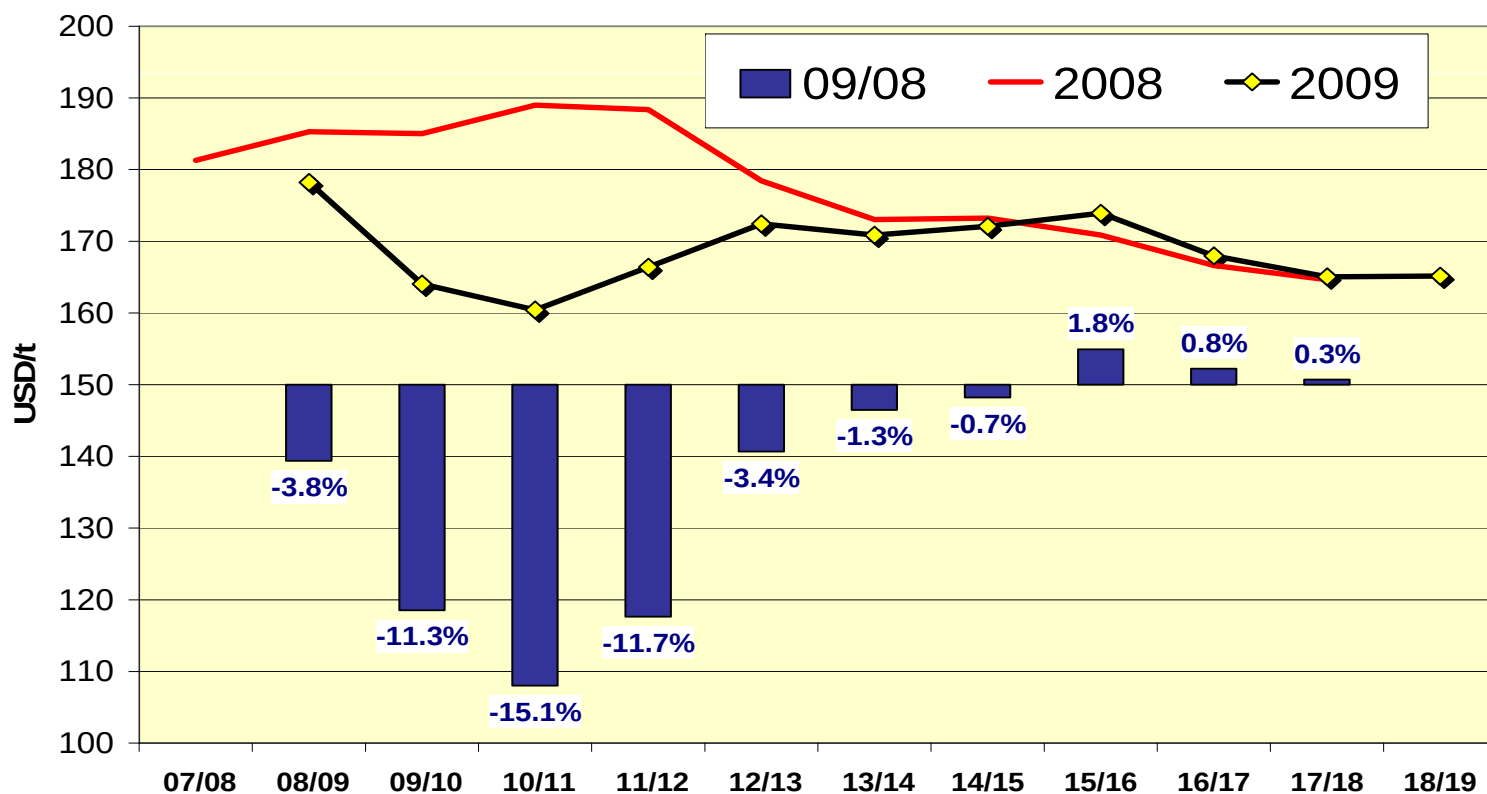
Wheat: comparison of OECD baseline price projections 2008 and 2009





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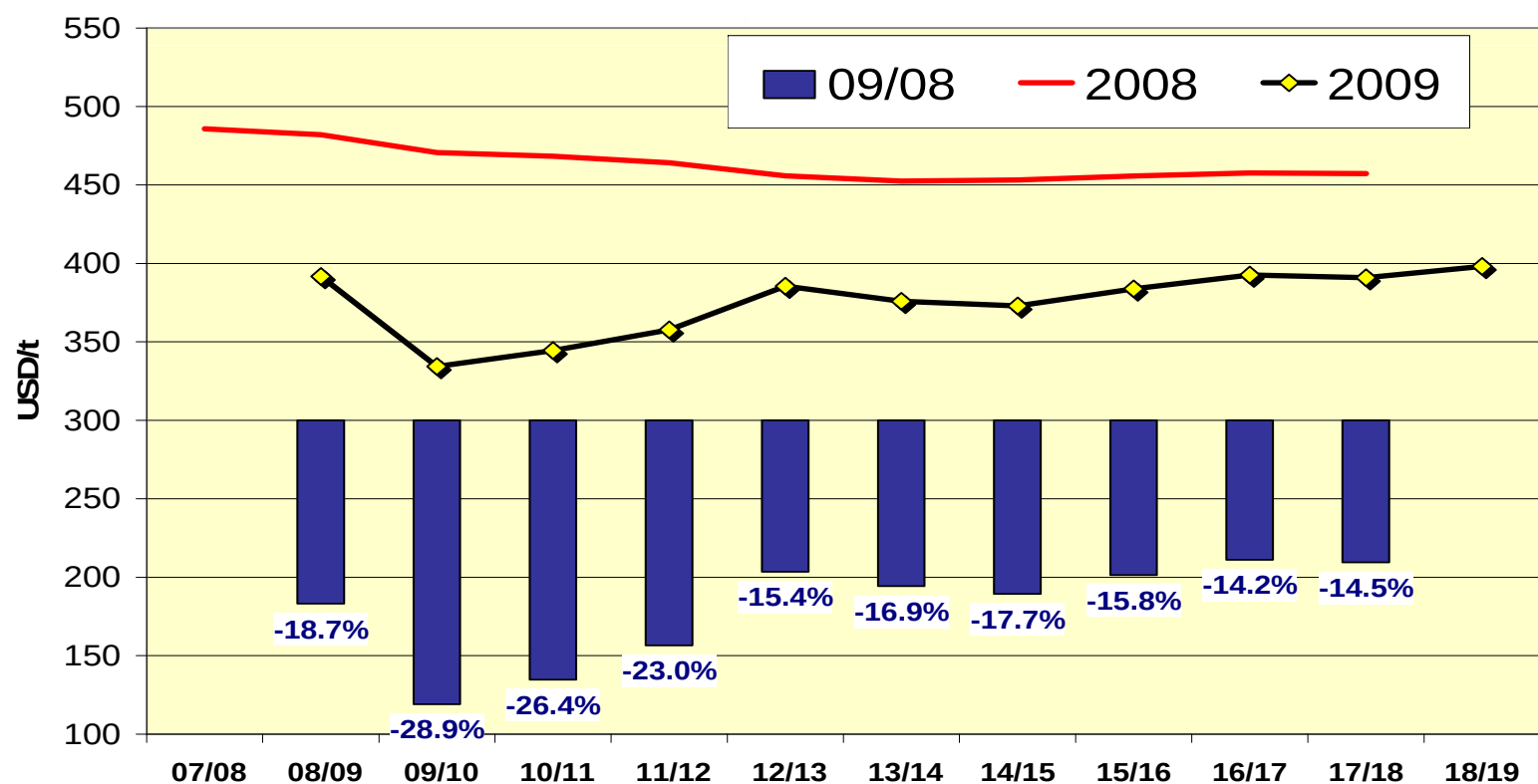
Coarse grains: comparison of OECD baseline price projections 2008 and 2009





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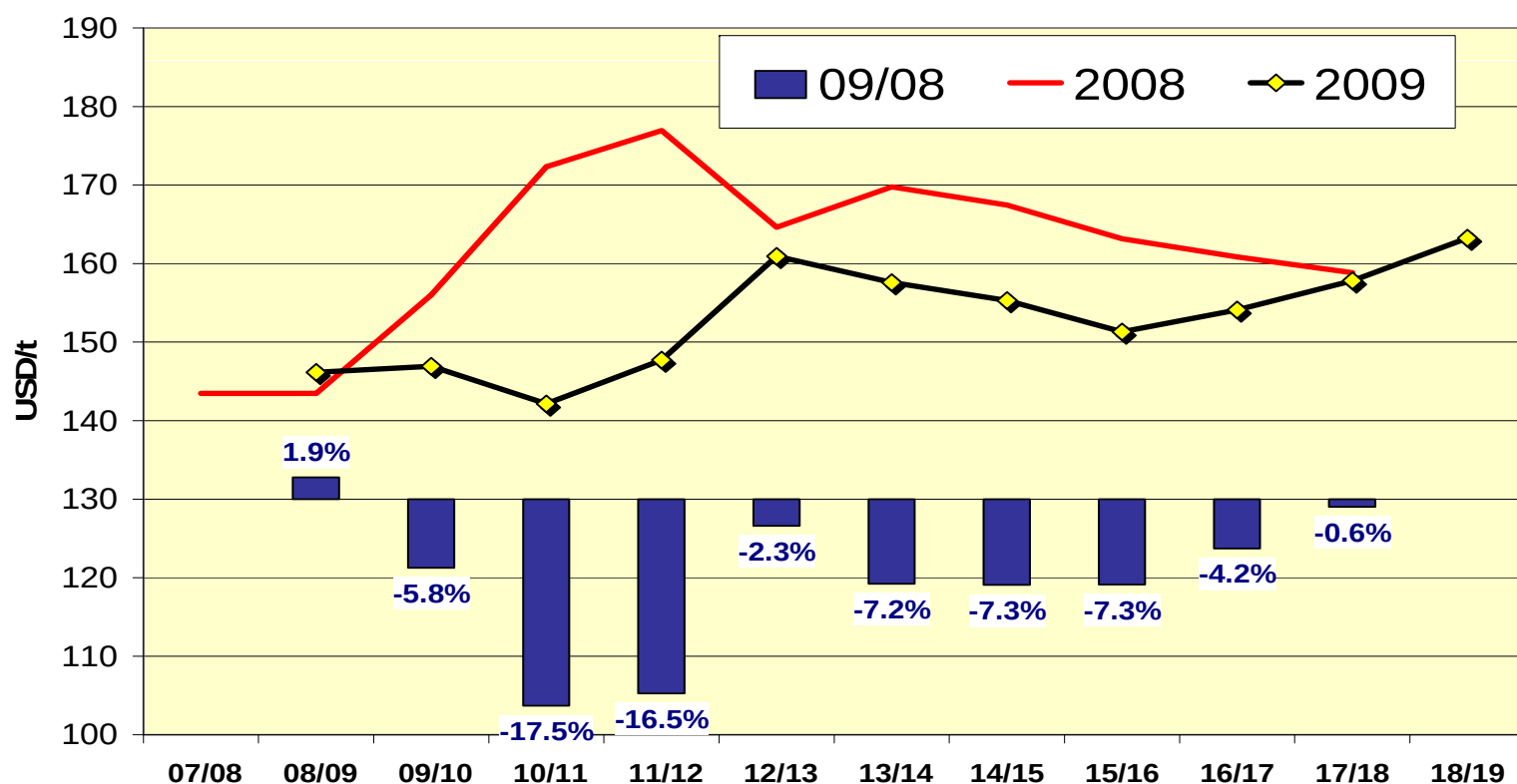
Oilseeds: comparison of OECD baseline price projections 2008 and 2009





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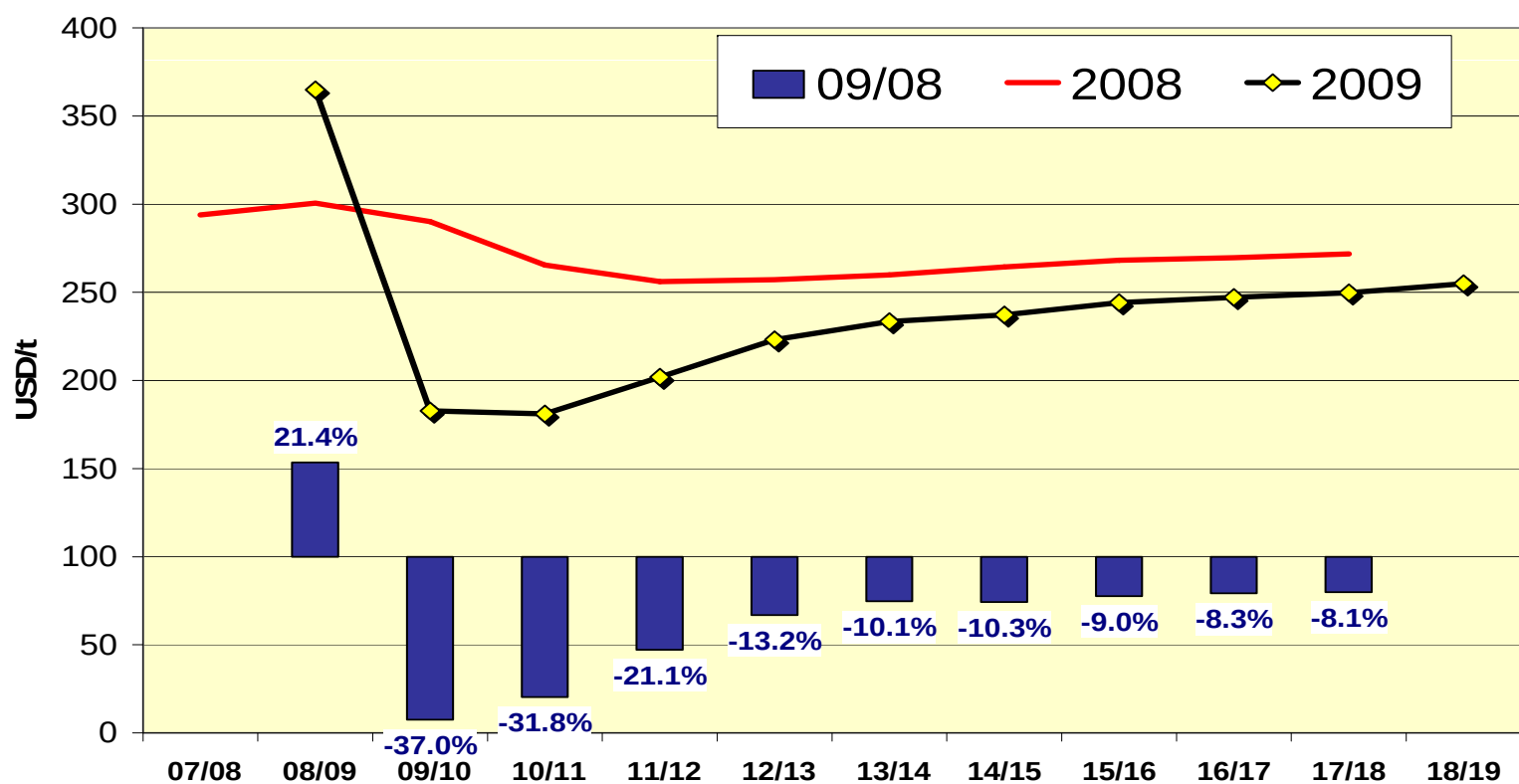
Pig meat: comparison of OECD baseline price projections 2008 and 2009





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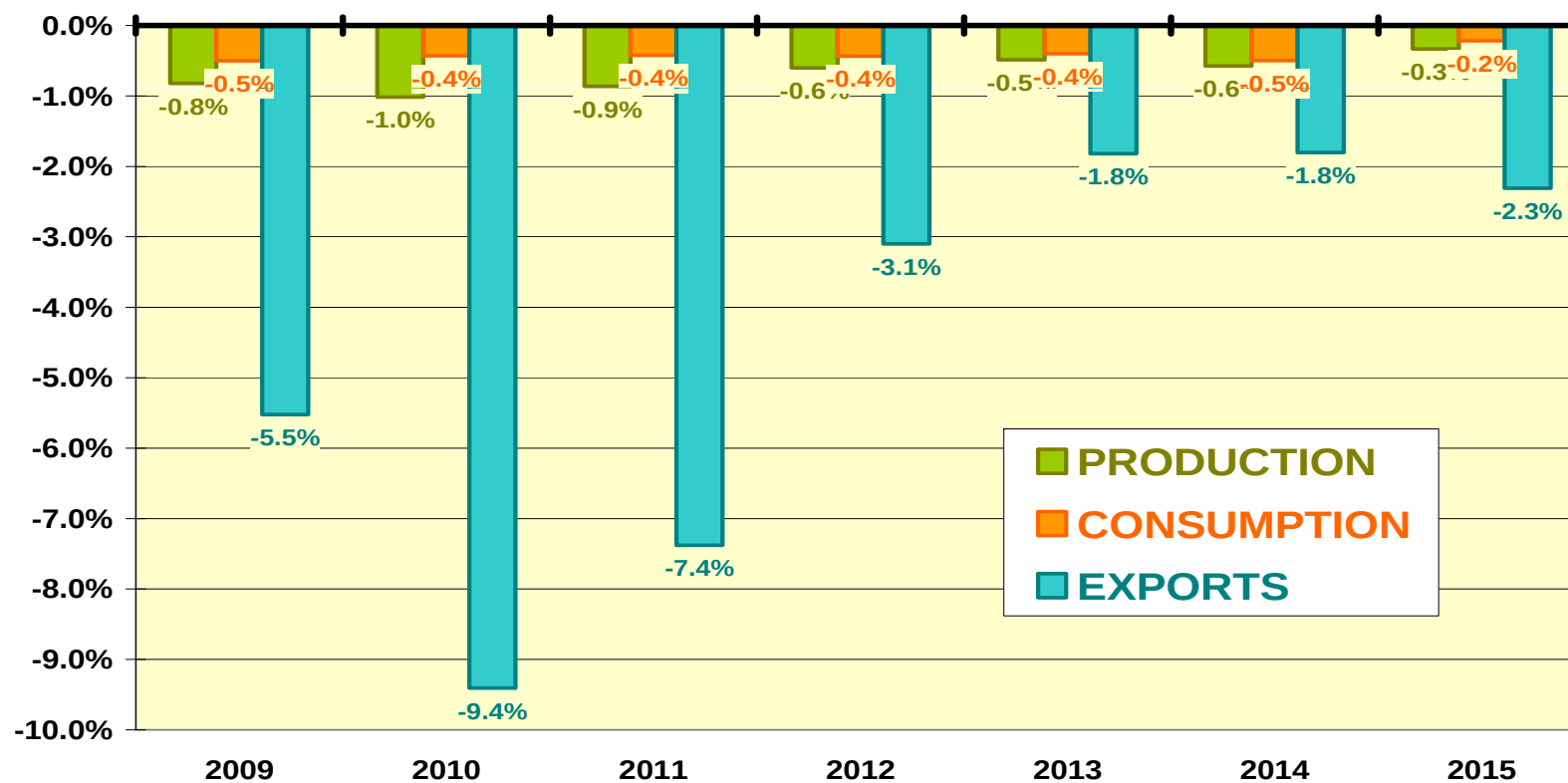
Butter: comparison of OECD baseline price projections 2008 and 2009





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Impact on EU-27 cheese balance





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Conclusions

- ***Effects of the economic downturn on prices and trade are evident. The same can be expected for the product mix.***
- ***Substantial effects on medium term perspectives: prices, costs, quantities***
- ***Final note of optimism: Medium term outlook nonetheless modestly favourable***