Executive Summary

The FAPRI 2007 U.S. and World Agricultural Outlook presents projections of world agricultural production, consumption, and trade under average weather patterns, existing farm policy, and policy commitments under current trade agreements and custom unions. The outlook uses a macroeconomic forecast developed by Global Insight.

The 10-year outlook for the global economy continues to be strong, with a 3.3% average annual rate of real GDP growth, and despite crude-oil prices remaining above $50 per barrel. Real income growth in China and India is projected to be respectively 7.8% and 6.9% per year on average. East Asia’s income is also expected to grow strongly.

In the coming decade, the U.S. dollar resumes its real depreciation against currencies of Australia, the EU, Japan, New Zealand, and Argentina. Most other Latin American currencies depreciate in real terms and most Asian currencies appreciate in real terms against the U.S. dollar. China’s currency experiences especially large real appreciations.

World grain markets are characterized by higher prices in 2006/07 because of supply shortages and an increase in demand from the emerging biofuels sector. The increase in the world wheat price to $208.35 per mt was caused by a decrease in production from adverse weather conditions. The projected recovery in production in 2007/08 decreases the price and meets the growing demand. The world corn price increases dramatically, to $159.44 per mt, in 2006/07 because of higher demand from the emerging ethanol sector and the continuing growth of the livestock sector. This increase in demand and therefore price is expected to continue until 2009/10, after which production growth catches up with consumption growth.

After increasing by 22.5% in 2006, the world ethanol price falls by 16.2%, to $1.50 per gallon in 2007, with declining U.S. ethanol net imports. The world ethanol price continues to fall, dropping to $1.35 per gallon by 2016 as production grows outpaces growth in consumption. World net trade increases by 26.4% over the decade, approaching 1.3 billion gallons by 2016. The projected growth in U.S. biofuel production induces higher price paths for grains and oilseeds than those in previous FAPRI baselines. Planted acreage increases for corn at the expense of other crops, and higher feed costs reduce the rate of growth in meat and milk production. The cost of marketing loan and countercyclical payment programs is reduced while government spending on the crop insurance program increases.

Strong demand for protein feed and oil encourages world trade growth of 33% for soybeans, 29% for soy meal, and 43% for soy oil over the next decade. World soybean production reaches 280 mmt by 2016/17. Argentina, Brazil, and the U.S. remain the dominant soybean trio, accounting for 83% of world production. China, the world’s largest importer of soybeans, expands its import share to 55% of total world imports by 2016/17. Palm oil remains the most widely used edible oil; world consumption increases by 46% over the next 10 years.

SPS issues continued to affect the world meat market, depressing trade by 2% in 2006. Although recovery is assumed, opening of some markets has been interrupted by suspected violations of new strict export standards. In the longer run, however, with sustained income and population growth, per capita meat consumption rises and consequently fuels growth in both production and trade, which reach 251.8 mmt and 22.8 mmt, respectively, by the end of the decade. Demand recovery coupled with strong grain prices pushes all meat prices to high levels. The U.S. and Brazil gain significant market share.

Because of ample world supplies, world butter and cheese prices decreased in 2006. In contrast, world powder prices remained high, with strong demand in Asia and low exports from Australia and the EU-25. Steady growth in import demand, along with gradual growth in global supplies, pushes world dairy prices higher initially. Dairy production expands in many countries in response to high world prices. World dairy prices taper in the midterm, but long-term income and population growth put upward pressure on dairy prices. Australia, New Zealand, and the EU-25 remain the big players in export markets. As CAP reforms affect EU-25 exports, Argentina and Brazil expand their dairy exports.