

## Executive Summary

The *FAPRI 2008 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.

Although recent market turbulence and high crude-oil prices have clouded prospects, the 10-year outlook for the global economy continues to be strong, with a 3.3% average annual rate of real GDP growth. Real income growth in the emerging markets of China and India average 8.1% and 7.8% per year, respectively. 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 Asian currencies appreciate in real terms against the U.S. dollar, with China experiencing especially large real appreciations. The refiner acquisition cost of crude oil rises first to nearly U.S. \$81 per barrel in 2008 and ends at U.S. \$67 per barrel in 2017.

Growth in demand for biofuels, livestock, and dairy, on the one hand, and weather-related supply shocks, on the other, strengthen nominal market prices, and they reach historic highs across all commodities over the next decade.

In ethanol markets, in the short run, even with high crude-oil prices, a strong supply response weakens the world price of ethanol by 12.6% in 2007 and by 15.8% in 2008. The price continues to soften until 2012. Thereafter, the price of ethanol gains strength from the impact of the U.S. 2007 energy act. World net trade increases by 235% over the next decade, approaching 3.6 billion gallons. Mandates drive demand for biodiesel in the EU and the Americas and raise net trade to 602 million gallons as well as pushing the world price to \$6.00 per gallon.

In the outlook for sugar, the price of sugar increases in 2007/08 and remains strong over the rest of the decade, as Brazil uses more sugar for ethanol and as the EU becomes a major importer following its sugar Common Market Organization reforms.

World grain prices rose sharply in 2007/08 because of weather-related supply shortages and demand increases from biofuels. The projected recovery in wheat production stabilizes the price of wheat from the recent high of \$313.55 per mt.

The price of corn continues to increase in 2007/08; it reaches \$198.17 per mt because of higher demand from the ethanol sector and the continuing growth of the livestock sector. The price of corn, sorghum, and barley decrease in 2008/09 as supply recovers and strengthens over the rest of the decade with stronger demand.

World prices of oilseeds and vegetable oil reach historic highs in 2007/08 because of strong growth in demand. World trade of soybeans, soy meal, and soy oil grows by 28%, 32%, and 17%, respectively, over the next decade. Argentina, Brazil, Paraguay, and the U.S. together account for 84% of the 297 mmt of world production in 2017/18. China continues to dominate world soybean imports and expands its net trade to 52 mmt by 2017/18. Palm oil remains the cheapest and most widely used edible oil despite a price increase of 26%.

Turning to the livestock and meat outlook, SPS and food safety concerns continued in 2007, but world meat trade recovered from a 1.1% decline in 2006. Sustained income and population growth raises per capita meat consumption and fuels expansion in world trade. Over the next decade, world meat trade rises 28.7% and reaches 20.9 mmt in 2017. A recovery in demand, coupled with strong grain prices, pushes all meat prices to historic high levels. Brazil and the U.S. gain significant shares in world meat markets.

In dairy markets, stronger growth in demand and relatively weaker supplies pushed world dairy prices to record-breaking levels in 2007. In the long run, growth in population and incomes continues to put upward pressure on dairy prices. Australia, New Zealand, and the EU remain the big exporters. But as excess supply from the EU stagnates, Argentina and Brazil expand their dairy exports.