



Food Outlook

Global Market Analysis

FOCUS

The previous (June 2008) issue of Food Outlook foresaw world prices of major agricultural commodities declining from the record levels they had just reached, amidst favourable prospects for global supplies. Since then, prices have indeed fallen, but farther and faster than can be explained through production gains alone. Underlying the price slide, in excess of 50 percent from their recent peaks, are other important factors, including the financial crisis, the halving of world crude oil prices and the appreciation of the US dollar. And uncertainty is emerging as a dominant feature of world agricultural markets, as many of them are entering or about to enter a new season.

In particular, the financial crisis may deepen the current economic slowdown, which would jeopardise prosperity in many countries. Agricultural sectors will be affected negatively, and those in developing countries will not be spared. Declining purchasing power could lower demand and increase the risk of a drop in food intake, particularly of the poor, thereby offsetting part or all of the positive impacts of falling prices on consumption. As a result, more people are likely to fall below the hunger threshold in 2008. This is of particular concern, as the number of undernourished was estimated to have risen by 75 million people in 2007, already, bringing the world total to 923 million.

From a supply perspective, the global response to the high prices recently witnessed was uneven. This was evidenced in this year's cereal production recovery, nearly all of which was concentrated in the developed countries, whereas the response was much weaker in the developing countries. Under the current gloomy prospects for agricultural prices, high input costs, and more difficult access to credit, farmers may cut their plantings, which might again result in a tightening of world food supplies. If, indeed, production falls sharply next year, episodes of riots and instability could again capture the headlines.

Lower food prices are good news for consumers but cannot be sustained if they only are an indication of market oversupply. Unless they reflect consolidated cost efficiency gains, low prices would only deter much-needed investment in the agricultural sector. In tandem with the ongoing retrenchment of bank lending, they could well undermine developing countries' agricultural productivity growth and its commercialisation over the longer term. Other long-term concerns such as resource constraints also remain critically important, as discussed in the Special Feature later in this report.

During the FAO Rome Food Summit in June, several billions of dollars were pledged by world leaders towards agricultural development. But in the last few weeks, the world has witnessed trillions of dollars being lost in financial markets, forcing governments to spend even more trillions on propping them up. Overcoming the financial crisis is critical, but continuing the fight against hunger by realising those pledged billions is no less important.

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