SHORT-TERM OUTLOOK

for EU agricultural markets in 2022





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HIGHLIGHTS

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While all efforts are made to provide sound market and income projections, uncertainties remain.

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OVERVIEW

This short-term market outlook is driven by the negative impact of the hot and dry weather that affected large parts of the EU, by the impact of the Russian invasion of Ukraine on energy prices, leading to concerns about inputs costs and their supply and future crop conditions, and by food price inflation, likely to also impact EU consumer decisions. This outlook is subject to a high degree of uncertainty linked to developments in Ukraine, including Ukraine's capacity to produce, store and export its commodities. Overall, it is assumed that there will be no further worsening of an already very challenging situation.

Weather conditions in the EU deteriorated exceptionally in summer 2022, one of the hottest summers in recorded history, with record hot and/or dry conditions. According to the JRC's Combined Drought Indicator, at the beginning of September 2022, 33% of the European territory was in warning conditions and 26% in alert conditions. Several countries restricted water use for irrigation and in some regions very low water reservoir levels made field irrigation impossible. Summer crop yields have been significantly affected, in particular grain maize, soybeans and sunflower.

Droughts were observed in most parts of the EU, especially in Spain, France, central and northern Italy, central Germany, and Hungary, affecting the growth of summer crops and flower fertility, resulting in lower yields. Pastures were also under stress in most European regions, linked to dry conditions, particularly in western and central Europe. In addition, heat stress to animals also contributed to lower productivity in the livestock sector.

At the same time, a combination of animal disease outbreaks (African Swine Fever, Avian flu) and high input prices weigh on the EU meat production, while meat prices are increasing as well. The EU pigmeat production notably is expected to decrease by 5% in 2022.

The Russian invasion of Ukraine makes uncertainties and economic impacts in the EU (and Ukraine, an important agri-food producer and exporter) even more visible and of bigger concern. At the moment, the most noticeable impact of the conflict is on energy markets, in particular natural gas. The price of natural gas in the EU has reached new record levels in summer, leading to additional input costs for the EU food supply chain and further fuelling inflation.

Linked to the energy price surge, another major concern for agriculture is the availability and cost of fertilisers for the upcoming season, as fertiliser industries need natural gas to produce ammonia and other nitrogen products, reducing or halting production when prices are too high. The reduced nitrogen fertiliser production capacity not only affects crop production, but other agri-food sectors as well, as by-products of the process include CO2 used by the beverage and food processing sectors.

The signature of the 'Black Sea Grain Initiative' by the United Nations, Turkey, Ukraine, and the Russian Federation on 27 July, together with the functioning of the EU Solidarity Lanes eased the pressure on international commodity prices. These allowed the resumption of Ukrainian grain exports amid the ongoing war. Trade via Solidarity Lanes remains significant, although without further infrastructure investments the limits in terms of volume are close to be reached. From May until the end of September, about 12.5 million t of grains, oilseeds and related products were transported via Solidarity Lanes. The Black Sea Grain initiative expires after 120 days but would automatically be prolonged unless any of the parties objects. There is still uncertainty surrounding the extension of the Black Sea ports agreement, which, contrary to the Solidarity Lanes, only allows for exporting grains and no imports of any kind whatsoever.

Beyond agricultural production, the war in Ukraine continues putting a break on the EU economic growth forecasts, with uncertainties about the possibilities of real GDP growth in 2023. Inflation in the euro area is also expected to remain high in 2022, at +8.1%, and continuing in 2023. Food inflation in particular reached the level of 14% in August, becoming the second contributor to inflation after energy and affecting particularly prices of essential food items such as bread, milk, eggs and cheese as well as oils and fats.

The upward pressure on producer prices is not expected to relax in the short term mainly due to ongoing uncertainties on how the war in Ukraine will unfold in the future and the ongoing impact on the price and availability of energy. These are inevitably rising production costs, along the whole food supply chain (e.g. electricity, processing, packaging, transport, cooling and heating), posing difficulties for all-size enterprises but for small and medium ones in particular.

Producer prices of agricultural commodities are expected to continue weighing on consumer prices, remaining historically high despite a decline observed in summer following the reduction of commodity prices. Farmers are under the double pressure of processors and distributors who want to preserve their operating margins, and further down the food chain by consumers who are facing increasing costs of living that may result in reduced food demand. Such a demand reduction is already expected in several sectors for the coming months, and further changes in consumer preferences could be expected to preserve disposable income, i.e. more retail shopping and less foodservice, or purchasing more 'private labels' than branded products. At global level, another visible consequence of the fight against inflation is the increase in interest rates by central banks. The strengthening of the US dollar at global level has caused a record depreciation of the euro, with an exchange rate below parity for the first time in 20 years. While this depreciation could have positive effects on trade competitiveness, as exports become cheaper, a weaker euro also implies more costly imports, not only for energy products such as oil and natural gas, but also for agricultural inputs such as feed and fertilisers. Fears of a global recession, as well as the stronger US dollar, are currently driving oil prices downwards, however OPEC+ countries have planned to cut oil production to bring prices again towards USD 100/bbl.

Looking at specific EU agricultural markets, a combination of the drought and high fertiliser prices resulting in lower application rates of P and K in particular, also contributed to lower yields for the 2022/23 harvest. As a result, total EU cereal production is now forecast to be 7.8% lower year-on-year, with maize showing the largest reduction in production: -23.7%. However, thanks to higher ending stocks in 2021/22, EU cereal exports could still grow (+6.5%), and therefore continue to contribute to global food security. For oilseeds, given high prices and the temporary derogation to allow the cultivation of certain crops on set-aside land, the area under oilseed crops is expected to reach an all-time high, however with lower yields for sunflower and soya beans, returning an increase of total oilseed production to +7.5% year-on-year. EU sugar prices reached record levels since the start of the post-quota era in October 2017, but sugar production is expected to decline by 6.9% due to hot and dry summer. EU protein crops production is estimated to increase by +1.4% year-on-year, thanks to higher yields.

Regarding specialized crops, EU olive oil production is expected to decline in 2022/23 by 25%, with a drop observed in almost all main EU producing countries, except Greece. To some extent, the lower availability is likely to be covered by increased imports while EU exports could decline, especially to some more price-sensitive markets. In addition, lower availability in main EU producing countries and ongoing pressure on consumer prices might lead to an EU consumption decline (-9%). EU wine consumption could resume its historically decreasing trend from 23 L to 22.6 L per capita. EU consumption of fresh apples is expected to go slightly down to 12 kg per capita, mainly due to a rising inflation pressure and a general reduction in fresh fruit consumption, but higher storage costs due to higher electricity price, the high production in Poland and the expected lower quality should increase the share of usable apple production used in processing. EU orange production is expected to decline to one of the lowest levels since 2015/16, due to adverse weather conditions particularly in Spain. Even though this is expected to result in higher prices, the quantities destined for fresh consumption could decrease less than that for processing.

Regarding dairy products, the drought worsened grass availability and quality, in addition to lower yields of main crops used for feed. These factors could contribute to a decline in EU milk production (-0.5%), driven by lower yield growth as well as further dairy herd reduction. The milk content (both fat and protein) could also be impacted negatively, thus reducing availability for milk processing even more. Among dairy products, only EU cream production is expected to grow, absorbing a large part of fat availability. Anticipation of even higher processing cost for drying milk powders over the winter could likely result in some tensions in the supply of butter in upcoming months, and the annual production is expected to drop. Overall, a drop of EU exports is expected, in particular driven by lower shipments of EU milk powders while domestic use of dairy products could remain stable in 2022.

EU beef production is expected to decrease by 0.6% in 2022, due mainly to a structural adjustment in the beef and dairy sector, despite high beef prices. EU exports could decrease by 1%, due to record-high domestic prices and despite good export prospects to

some existing high-value markets. EU imports from the UK and Brazil are on the rise.

Sustained high feed costs as well as African Swine Fever (ASF) continue to discourage EU pigmeat production growth, which is expected to decrease by 5% in 2022. While China is returning to its pre-ASF import levels, some EU pigmeat exports find their way to the UK and to other overseas destinations, despite high EU pigmeat prices.

EU poultry production growth continues to be limited by high input prices – especially feed and energy – and Highly Pathogenic Avian Influenza. In addition, very high EU poultry prices means less competitive exports. On the other hand, the suspension of duties on products coming from Ukraine favours poultry imports.

Despite the historically low EU sheep and goat flock, slaughterings are not expected to go down in 2022, despite differences among EU countries. EU imports should resume in 2022 and 2023 but still below pre-COVID levels, leading to sustained high domestic prices.

KEY MESSAGES

+3.1%

expected euro area real GDP growth in 2022 in the ECB baseline

-0.9%

expected euro area real GDP growth in 2023 in the ECB “downside” scenario (vs +0.9% in the baseline)

+8.1%

expected euro area inflation in 2022 in the ECB baseline

+14.3%

EU consumer prices for food in August 2022, year-on-year

MACROECONOMIC OUTLOOK

Sustained adverse risks call for a further reduction of euro area’s real GDP growth projection, especially if the war continues in 2023 and/or gas supplies need to be rationed.

Fossil fuel markets are due to remain very tight and prices are expected to stay high and volatile. Marginal crude oil production increases become harder and harder while, with post-COVID-19, the demand has recovered. EU natural gas prices will also remain high and volatile especially due to uncertainties in Russian supplies, pending implementation of the RePowerEU strategy to reduce dependency on fossil fuels. This could also create further price pressure on electricity prices, being an important input for farmers and the food supply chain as a whole.

High energy prices and agri-food trade disruptions caused by Russia’s invasion of Ukraine exacerbate inflationary pressures throughout the supply chains, although in some sectors and some EU countries effects might be witnessed with time-lag.

KEY MESSAGES

270.9 million t

Usable production of EU cereals in 2022/23 (-5.1%/5-year average)

+23%

EU wheat exports in 2022/23

32.2 million t

EU oilseeds production in 2022/23 (+8.5%/5-year average)

+30%

Year-on-year increase in beginning stocks of sugar at the start of 2022/23 season

ARABLE CROPS

The 2022/23 EU usable cereals production is projected at 270.9 million t, a 5.1% decrease over the 5-year average (and a 7.8% decrease year-on-year), not least due to the drought conditions that affected maize in particular (-19.3%/5-year average).

The poor harvest combined with high cereals prices and anticipated decrease in meat production is expected to reduce the use of cereals for feed by 2.3% year-on-year, while food use is expected to increase slightly (+0.7% year-on-year). However, trade of cereals could further grow, by 12.3% compared to the previous marketing year (including +6.5% of exports and +24.7% of imports). The good EU oilseed production (especially of rapeseed) is expected in 2022/23 (32.2 million t, +8.5% above 5-year average).

2022/23 EU sugar production is forecast at 15.5 million t, -5.8% below 5-year average as both beet planting area and yields were reduced. Sugar consumption is also expected to decrease due to increasing prices.

KEY MESSAGES

Olive oil: -25%

EU olive oil production in 2022/23

Wine: +1.5%

EU wine production in 2022/23

Apples: +18%

EU apples destined for processing

Oranges: +20%

EU fresh oranges imports

SPECIALISED CROPS

EU olive oil production is expected to decline in 2022/23 by 25%, with a drop observed in almost all main EU producing countries, except EL. To some extent, the lower availability is likely to be covered by increased imports while EU exports could decline, especially into some more price-sensitive markets. In addition, lower availability in main EU producing countries and ongoing pressure on consumer prices might lead to the EU consumption decline (-9%).

Contrarily to the olive oil, 2022/23 EU wine production is forecast to increase (+1.5% year-on-year). The final production figures will be determined by water and thermal stress, impacting both quantity and quality of grapes, and potentially leading to an early harvest. EU consumption could resume its historically decreasing trend from 23 L to 22.6 L per capita after two years of perturbations due to the COVID-19.

2022/23 EU consumption of fresh apples is expected to go slightly down to 12 kg per capita, mainly due to a rising inflation pressure and a general reduction in fresh fruit consumption. The higher electricity price, the high production in PL and the expected lower quality should increase the share of usable apple production used in processing. EU orange production is expected to decline in 2022/23 to one of the lowest levels since 2015/16, due to adverse weather conditions particularly in ES. Despite the low orange production and expected higher prices, the amount for fresh consumption could decrease less than that for processing.

KEY MESSAGES

Reduced milk solids

constraining milk processing

-0.5%

EU milk collection in 2022

-7%

EU exports drop driven by losses in milk powders (in milk equivalent)

Stable domestic use

despite rising prices

MILK AND DAIRY PRODUCTS

Hot and dry weather over the summer worsened grass availability and quality, in addition to lower yields of main crops used for feed. Many farmers already used part of their winter feed in summer, leading to lower yield growth (0.4%) as well as further herd reduction (-0.9%). The milk content (both fat and protein) could be impacted also negatively, thus worsening the milk processing outlook even more. Among all dairy products, only EU cream production could grow, absorbing a large part of the fat availability. Anticipation of even higher processing costs of drying milk powders could likely cover for some current shortages for butter, but the production is expected to drop. EU cheese production could again become a preferred option, driven by a high price, while both exports and domestic use remain stable. The competitiveness of EU milk powders is suffering from prevailing high prices, hampering exports and therefore preventing production growth despite a positive growth of whey and SMP domestic use.

In 2023, the start of the year could remain challenging for farmers when coping with high input costs, and a likely weaker demand. Assuming normal weather conditions, it is expected that the yield growth could be slightly higher (0.6%) and could compensate for further dairy herd reduction (-0.8%). As a result, EU milk collection could drop modestly by 0.2%.

KEY MESSAGES

-0.6%

EU beef production in 2022

-5%

EU pigmeat production in 2022

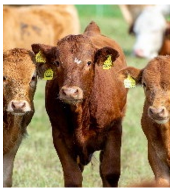
+27%

poultry price Jan-mid-Sep 2022 year-on-year

+10%

EU sheep imports on the rise

MEAT PRODUCTS



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Sustained high feed costs as well as African Swine Fever (ASF) continue preventing EU pigmeat production growth. While China is resuming pre-ASF import levels, some EU pigmeat exports find their way to the UK and other overseas destinations, despite high EU pigmeat prices.

EU poultry production growth continues to be limited by high input prices – especially feed and energy – and Highly Pathogenic Avian Influenza. In addition, very high EU poultry prices means relatively less competitive exports. On the other hand, the suspension of duties on products coming from Ukraine favours poultry imports.

Despite the historical low EU sheep and goat flock, slaughterings are not expected to go down in 2022 but large differences among EU countries exist. EU imports should resume in 2022 by 10% and another 4% next year, still below pre-COVID levels, leading to sustained high domestic prices. Trade should further resume in 2023.

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