



Global Growth

As the global economy rebounds — and world food demand grows, this economist believes American ag is poised for more prosperity.

by *Kindra Gordon*

In my 30 years, I've never seen a brighter future for the U.S. ag industry," says Michael Dwyer, as he talks about the outlook for global agriculture and commodity prices over the next 10 years.

Dwyer is director of global policy analysis for USDA's Foreign Agriculture Service. In that role, he explains that he keeps a pulse on what trends are occurring with global supply and demand, as well as policy changes and how that all affects commodity prices.

Dwyer says based on the current strong global demand and the fairly weak U.S. dollar, the current prosperity in American agriculture is not a "flash in the pan."

He explains, "We see Chinese demand, along with growth in Southeast Asia and Latin America, growing so quickly that USDA is projecting that prices for many ag commodities will remain strong for the next 10 years and significantly higher than the past 10 years."

Dwyer believes this prosperity will be seen across the board for commodities from grains to meats. He says, "A rising tide of income-based demand lifts all boats, so most major ag commodities should benefit from these developments."

Driven by demand

Dwyer explains the optimistic outlook is being driven by robust global demand. He says, "Strong demand growth, especially from emerging markets, will be the central megatrend over the next decade, boosting commodity prices and profitability for producers, not only in this country but in

other countries whose agricultural economies are integrated into the global economy."

He continues, "The global economy is returning to growth, after the worst recession in decades. And, developing countries are performing better and growing faster than developed countries — a trend that is expected to continue through 2020."

Specifically, the middle class in developing countries is projected to increase 104% during 2009-2020, compared to just 9% in developed countries. Dwyer explains this will have a big impact on food demand.

"When society sees its middle class growing rapidly, it means incomes are adequate and rising so that its demand for food — particularly protein and processed foods — grows," he says. This anticipated growth in the middle class is especially noteworthy in Asia, with China, India and the nations in Southeast Asia leading the pack.

Other influencers

In addition to demand, Dwyer acknowledges that several other factors could influence future price trends. Among his list of factors to watch are:

► **The value of the U.S. dollar.** "The trade weighted value of the U.S. dollar has been trending downward since 2002, which increases the purchasing power of foreign consumers of a wide variety of dollar-denominated commodities," Dwyer says. In its projections, USDA expects the value of the dollar to decline 14% during the next 10 years, which will put more price pressure on many of these commodities.

► Worldwide biofuels production.

"Energy security is not just in America," Dwyer says. He notes that expansion of global biofuels production is boosting demand for feedstocks, such as grain, sugar and vegetable oils. Until cellulosic ethanol and other advanced biofuels derived from nonfood feedstocks become commercially viable from a cost perspective, he expects that to continue.

► The role of trade and trade

liberalization. Trade will increase between nations as food demand increases and trade liberalization continues, Dwyer says. He explains this is brought about in part by dozens of FTAs signed between countries, which has the net effect of partially lowering barriers to trade expansion. He calls the U.S. export markets "on fire," with U.S. agricultural exports projected to reach a record \$137 billion in 2011. Likewise, the exports of other countries have expanded significantly during the past five years — including those from the EU, Canada, Southeast Asia and Latin America. He singled out Brazil as one of our competitors whose exports are particularly well-positioned to grow in the future.

► **Policy errors by government.** Dwyer explains that when countries put bans on exports — as occurred in 2008 out of fear of food shortages — the markets are distorted and price volatility increases. He says there is a concern this could happen again with grave consequences for price volatility.

► **Energy prices.** Quite simply, over the long haul, the price of food is strongly influenced by the price of fuel, Dwyer points out. "Agriculture is one of the most

energy-intensive sectors and, as the price of petroleum increases, the cost of producing ag commodities rises, as well. As the global economy continues to grow, so too does its demand for energy. As a result, energy prices will be pressured higher, and that has implications for food prices.” With recent global food prices widely reported to be above the 2008 high, a lot of people are nervous, he notes.

► **Biotech developments.** Dwyer believes the role of biotechnology around the world will grow over the next decade. As producers respond to higher commodity prices with a desire to boost production, the promise of yield-enhancing and cost-reducing biotechnology will lead to greater acceptance of this technology as a means to improve global food security, Dwyer says. He adds, “In an effort to respond to growing food

demand, producers around the world will need to boost production significantly. To what degree will they do that by tilling up more land — and release the sequestered carbon that takes decades of growing green matter to replace — or embrace and use new technologies, including biotechnology, to boost production will be the question, he says.

► **Additional cropland.** Until yield growth accelerates to match the growth in demand, Dwyer says planted acreage will increase. He says the most likely places we’ll see land expansion are in South America, specifically Brazil, and possibly in the former Soviet Union. Africa has significant room to increase acreage, but poor marketing infrastructure and high transport costs will act as a deterrent to any significant improvement there, he adds.

The bottom line

Despite all those contributing supply factors, Dwyer comes back to demand and notes that will be the big driver for food demand and ag prices. Specifically, he says, “Much depends on China. Much of the world’s growth in commodity demand emanates out of China.”

He remains optimistic, and notes that total U.S. farm income is at an all-time high of \$95 billion, which is \$20 billion higher than the last 10-year average.

“This is at a time when the rest of the country’s economy is struggling,” he says, “but ag has done very well and is well-positioned for the next 10 years.”

He concludes, “Keep in mind, USDA’s projections are done using some conservative assumptions. The outlook for the next 10 years could be even better than we predict.”

