Impacts of the Increased Dependence on Trade on the Farm Economy

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As agricultural producers experience higher input costs and lower revenues, along with declining US government support to agriculture, understanding the impacts of international trade and how markets and competition are affected will take on added importance for farmers, agribusinesses, policy makers, and agricultural leaders. International markets are important for many US farm products. Trade liberalization has provided additional markets for some US products, which in turn lead to higher prices and greater return to producers. Trade is also a major source of import competition for some producers, leading to declining market prices and lower returns. Greater reliance on trade has led increased sources of market instability. Overall, US agriculture has much to gain from freer trade, but these benefits come with added risks because trade is influenced by many factors. Changes in trade policies and economic growth rates among countries, exchange rate fluctuations, and the emergence of new competition all influence trade and make the international market risky for US producers.

The United States is the largest exporter of farm products and those exports account for about 35% of farm income, up from 28% in 1996; hence the importance of agricultural trade for US farm income. In addition, agricultural exports help support rural communities across the United States, with each dollar of exports stimulating another $1.27 in business activity.

The importance of export markets to US agriculture is illustrated in Table 1. In 2015, over 70% of US cotton was exported, followed by more than one-half of all US sorghum and rice production. Soybeans and wheat exports accounted for 49.4% and 37.8%, respectively. Pork, poultry and corn producers also depend on exports for a significant portion of their markets, while beef exports account for about 9.5% of production.

Agricultural imports are also important, as US consumers are more dependent on them for certain commodities, as well as, for year round supply. Not surprisingly, these include tropical products not produced, or only sparingly produced, in the United States such as limes, coffee and bananas. Orange juice and tomato imports have increased over the years as production, mainly in Florida, has decreased significantly. Other products such as beef and pork account for a smaller share of US imports.

After reaching a record in 2014, the value of agricultural exports dropped in 2015 and have continued

Table 1. US Agricultural Exports as a Share of Production for Selected Commodities, 2015.

Commodity	Percentage of Production Exported
Cotton	71.0
Sorghum	57.0
Rice	56.0
Soybeans	49.4
Wheat	37.8
Pork	20.2
Poultry	16.0
Corn	14.1
Beef	9.5

Source: USDA/Foreign Agricultural Service, “Production, Supply and Distribution (PSD)” online database (https://apps.fas.usda.gov/psdonline/).

Table 2. US Agricultural Imports as a Share of Domestic Consumption for Selected Commodities, 2015.

Commodity	Percentage of Domestic Consumption
Coffee	100.0
Limes	100.0
Banana	99.8
Tomatoes	51.0
Orange Juice	44.8
Beef	13.6
Pork	5.4

Source: USDA/Foreign Agricultural Service, "Production, Supply and Distribution (PSD)" online database (https://apps.fas.usda.gov/psdonline/).

its downward trend in 2016 (Figure 1). On the other hand the value of agricultural imports are expected to reach an all-time high (ERS, 2016). USDA forecasts exports to be lower than 2015 ($139.7 billion), reaching $125.5 billion in 2016 and down from a peak of $152.3 billion in 2014. Agricultural imports will be up from $114 billion in 2015's record to a new record high of $114.8 billion in 2016.

What is Causing the Reduction in Agricultural Export Values?

The decline in the value of agricultural exports over the last couple of years is related to lower than expected commodity prices and also, for the most part, reduced export volumes as global demand slowed down. Although, in the case of beef, record high prices amid tight supplies, have curtailed exports. World per capita GDP grew 1.4% in 2015 and is expected to be about the same in 2016. Per capita income growth in the key emerging markets of Brazil, Russia, India, Indonesia, and China was 3.2% in 2015, and is expected to increase to 3.4% in 2016. This is normally a robust growth, but it is roughly half of the 6.3% average annual rate of income growth these countries achieved over the previous decade. Moreover, Brazil has been in a recession with a shrinking GDP and income.

The United States economy is expecting slow, but steady growth. After a weak first quarter of US GDP growth in 2016, the economy is expected to strengthen in the second half of the year as continued improvements in labor markets and rising wages support consumer

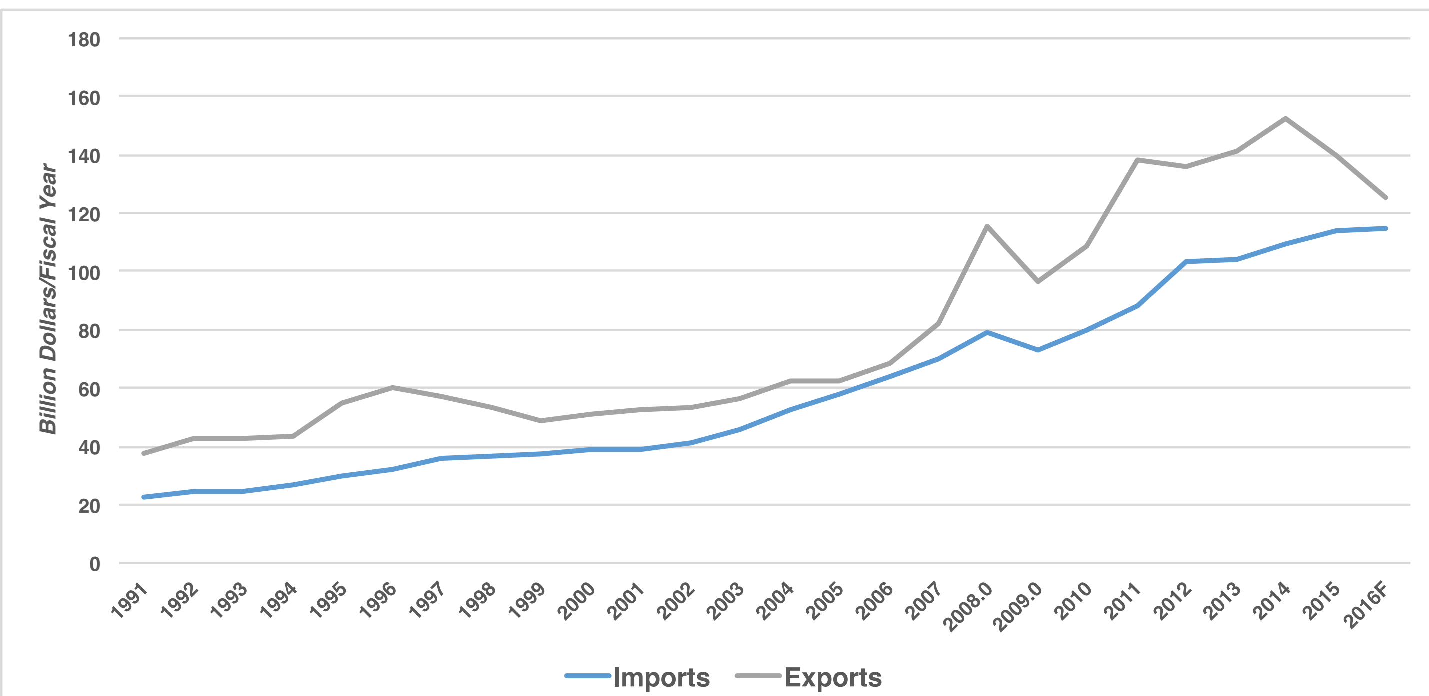

Figure 1. US Agricultural Trade, 1991-2016F.
Source: USDA/Foreign Agricultural Service, "Global Agricultural Trade System (GATS) online database (https://apps.fas.usda.gov/gats/).

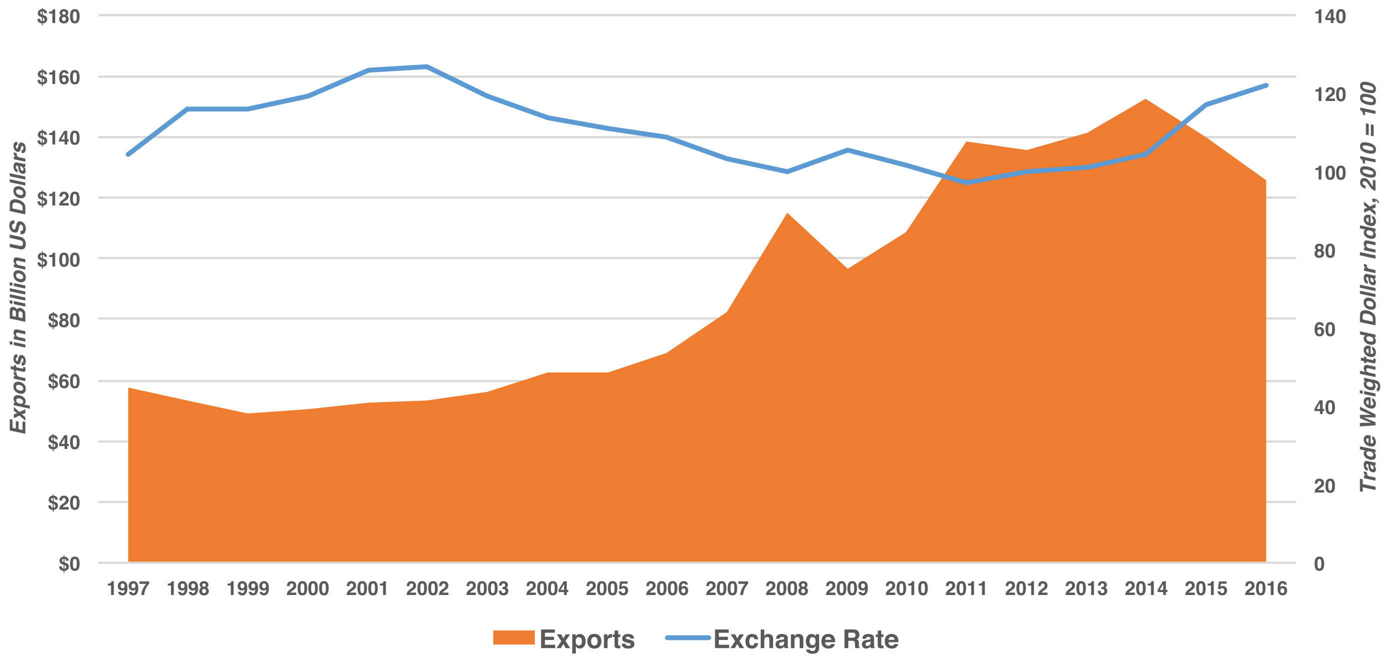

Figure 2. Exchange Value of the US Dollar and US Agricultural Exports.
Source: USDA, Economic Research Service.

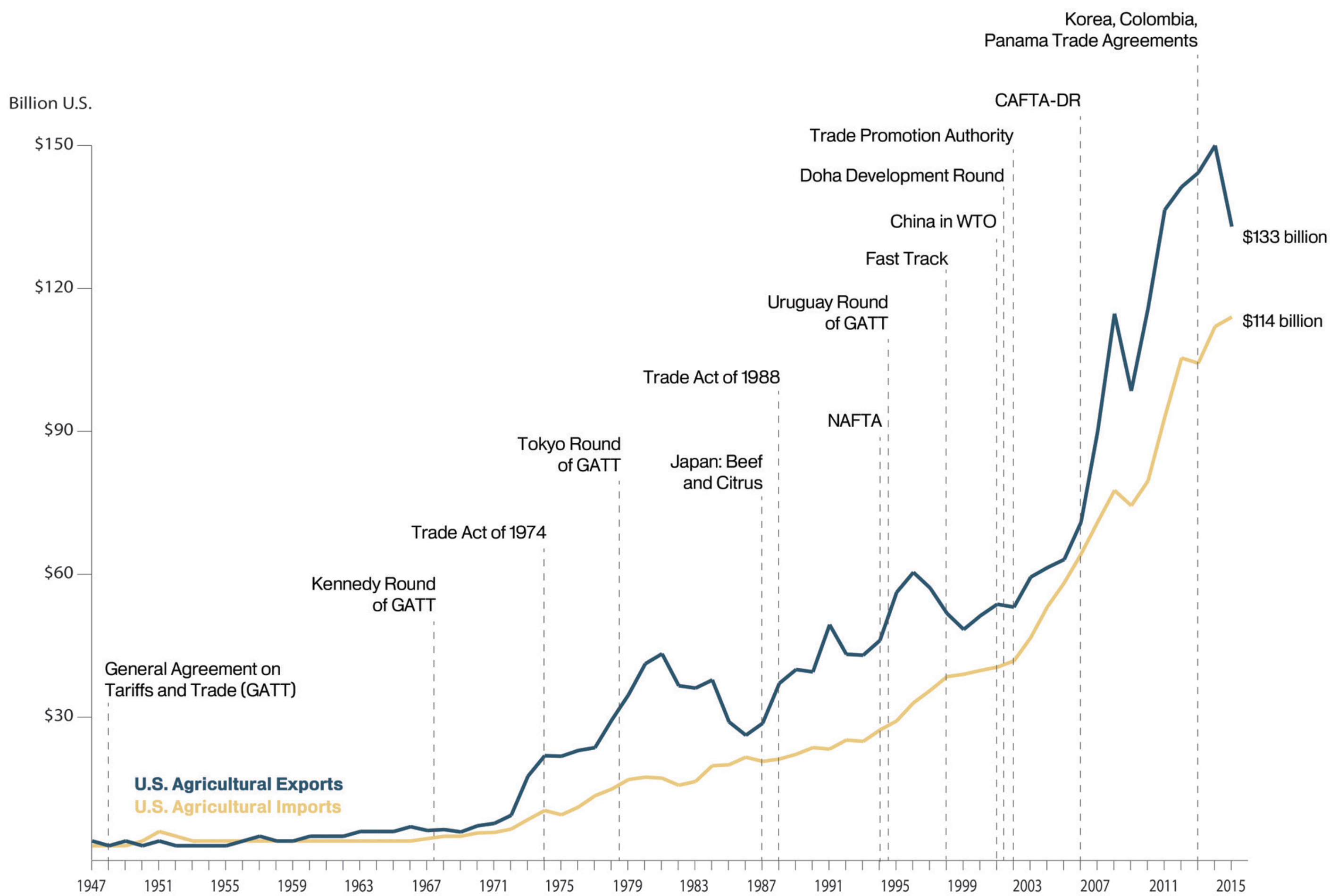

Figure 3. US Trade Agreements, 1947-2015.
Source: USDA, Foreign Agricultural Service (https://www.fas.usda.gov/sites/default/files/2016-06/trade-agreements-create-opportunities.jpg).

spending. Nevertheless, per capita GDP growth is expected to be 1.3% in 2016, falling short of the 1.7% growth in 2015. One key factor that can affect the US economic growth is the oil price. Low oil prices have mixed outcomes in the US economy, providing a boost to consumers and businesses, but reducing employment, especially in oil and gas producing states creating sluggish local economies.

An important reason for fluctuations in exports is changes in the value of the dollar relative to foreign currencies. Steady US economic growth and economic challenges abroad have led to the appreciation, or strengthening, of the dollar. A strong dollar causes US products to become more expensive for importing countries, therefore, decreasing sales to those countries. Figure 2, contains the value of agricultural exports and the value of the dollar relative to foreign currencies. In the early 1980s, late 1990s and early 2000s, the dollar was strong making US agricultural products more expensive in importing countries, therefore decreasing sales. After reaching a peak in 2002, the dollar started to weaken until 2013 and overall export sales increased. Recently, China and other emerging countries such as Brazil and Argentina devalued their currencies making it harder for US exports to be competitive.

Changes in exchange rate and economic growth are not the only reasons for these export fluctuations. For some commodities there was also increased competition from other countries. For example, over the years Brazil increased their production of soybeans, cotton and more recently corn, products that compete directly with US exports. Other examples are wheat exports from Canada, rice from Vietnam and poultry from Brazil. The increase in production from other countries increases the supply of those products, increasing competition and reducing prices. On the other hand, opening new markets causes fluctuations in exports, increasing demand for US products, which usually leads to increasing prices. For example, reestablishing trade relations with Cuba could open a new market for US products such as rice, wheat, and cotton.

Trade agreements impact exports and imports (Figure 3). Trade Promotion Authority (often termed fast track) was passed by Congress in 2015 and the Obama Administration has moved foreword with regional trade agreements. While negotiations were completed for the Trans-Pacific Partnership (TPP), the Trump Administration formally removed the Untied States from the agreement. Transatlantic Trade and Investment Partnership (TTIP) negotiations are likely dead. Brexit has also added some additional instability in the European zone.

Trade is an important part of agricultural markets. As US agriculture has become more dependent on trade, world events carry more risk for prices. Growing export markets will continue to be important goal for US agriculture in coming years.

References

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