

# U.S. Agricultural Trade Update – March 2009

Department of Economic Analysis



## Global Economic Situation Affects US Agricultural Exports

The U.S. agricultural export situation is rapidly being overshadowed by the international economic situation. Global commodity supply and demand fundamentals continue to favor U.S. exports, as reflected in the pace so far and prospects for the total to be the second highest. However, prospects were considerably less bullish than 9 to 12 months ago when exports moved at a \$135-billion annual pace for the first half of 2008. Last year's export total ultimately was a record-breaking \$115.5 billion, even with the slow down in the second half of the year. The agricultural export forecast for 2009 is \$95.5 billion, generally thought unreachable as recently as 2007. How is the current world economic crisis working its way through the U.S. agricultural export market? At least four factors are at work.

First, for the first time since the end of World War II, the World Bank is reporting *a reversal in global economic growth*. After more than a half century with global growth averaging 3 to 5 percent per year and no year reported with less than 0.5 percent growth, the Bank reports a DROP of 0.5 percent. And the drop is wide-spread. Adding inflation to this -0.5 percent indicates that global economic activity in real, inflation-adjusted terms is off by 2 to 3 percent. While some developing countries are fairing better than this global average, they also tend to have higher inflation and population growth relates that translate into the same basic phenomenon – decreased per capita buying power. Hence, while there are more people to feed around the world, they typically have less money to spend on farm products.

Second, *the international credit situation is depressing export sales*. While only a small share of world trade moves with long-term financing, many transactions depend on short-term transaction credit. Disruptions in this credit market are reflected, not so much in higher interest rates, but in the reduced credit available from traditional lenders and in the waning buyer interest in credit-backed purchases in an uncertain economic situation.

Third, *the value of the dollar has moved up* after a 12 to 18 month period of erosion. In March 2007, the value of the U.S. dollar pegged to the value of the currencies of our major agricultural customers stood at an index value of 99 (where 2005=100). By March 2008, the dollar had fallen to 89. That means that our customers essentially got a 10 percent discount on U.S. products bought with their more valuable local currencies. By March 2009, the value of the dollar had rebounded to 99, meaning that “buying American” meant paying an extra 10 percent, even before considering the commodity price.

The last factor to consider suggests that long-term damage to our export interests could also be at work. More than two dozen countries, faced with economic problems, have *moved to raise tariffs to minimize imports*. Countries used to have a small margin between their bound tariffs (legally enforceable maximums) and their applied tariffs (rates actually charged on imports) and had little room to raise tariffs to offset an “import problem” in a period of economic uncertainty. However, the Uruguay Round allowed countries to “tariffy” all of their trade barriers in the mid 1990s and many “translated” their trade restrictions into high bound tariffs, while continuing to do business at their lower applied rates. This provided them with more flexibility; flexibility that many are now using as part of their crisis management programs. This reduces U.S. exports in the short term as tariffs charged on U.S. farm products jump from, say, 25 to 30 percent to 50 to 60 percent. But since applied tariffs generally move down slowly over time, it will be important to see if the countries in question move their actual tariffs back down as fast as they raised them in 2008 and so far in 2009.

Keeping all of these factors in mind, the \$95.5 billion export forecast for 2009 is surprisingly robust!

## **2009 Outlook for U.S. Agricultural Exports**

U.S. agricultural exports are forecasted to be lower in 2009 than originally expected. The drop in forecasted exports is due to a decrease in demand for nearly all agricultural products, as the outlook for the global economy has weakened further since the last quarter.

### **Forecasted Export Performance by Commodity Group**

U.S. agricultural exports are forecasted to fall by just over 17 percent from last year's record. The biggest reduction in exports will come in the grains and feeds sector and the oilseed sector. Strong production and intense competition from Brazil, Ukraine, and the European Union, coupled with economic uncertainty, have reduced the forecast for grain and feed exports. Soybean exports are forecasted to be up slightly due to strong demand from China and reduced supplies from South America. However, meal and oil exports

are forecasted to be down due to competition from substitute products. However, while U.S. exports are forecasted to drop \$3 billion from last quarter's predictions to \$95.5 billion in fiscal year 2009, this will still mark the second highest agricultural export value on record. Only last year's unprecedented \$115.4 billion in agricultural exports will top FY 2009's forecast.

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High-valued exports, such as livestock, poultry, dairy, and horticultural products, are will likely not experience the same drop seen in the grain and feed sectors. Animal product exports are forecasted to be down slightly, again due to weaker demand tied to the global economic situation. Horticultural exports are forecasted to be up slightly, due mostly to reduced competition.

### **Forecasted Agricultural Exports**

#### **By Commodity Group**

	FY 2008	FY 2009F	% Change
Grains and Feeds	\$38.4	\$26.1	-32.0%
Oilseeds and Products	\$22.9	\$18.4	-19.7%
Livestock, Poultry, and Dairy	\$22.2	\$19.0	-14.4%
Horticultural Products	\$20.8	\$21.5	3.4%
Other	\$11.2	\$10.5	-6.3%
Total Exports	\$115.5	\$95.5	-17.3%

### **Forecasted Export Performance by Region**

Regional export market performance illustrates the impact of the current global economic situation. More advanced economies, such as those in Europe and parts of Asia, are able to withstand the economic downturn and continue

to import products. Developing countries, particularly in Latin America and Africa, are being harder hit and have reduced agricultural imports more substantially.

### **Forecasted Agricultural Exports**

#### **By Region**

	FY 2008	FY 2009F	% Change
East Asia	\$35.0	\$28.4	-18.9%
Southeast Asia	\$7.1	\$4.9	-31.0%
North America	\$31.8	\$30.6	-3.8%
Latin America	\$12.0	\$9.1	-24.0%
Europe/Eurasia	\$13.5	\$11.2	-17.0%
Africa	\$6.4	\$4.1	-35.9%
Total Exports	\$115.5	\$95.5	-17.3%

## **2009 Outlook for U.S. Agricultural Imports**

U.S. agricultural imports are still forecasted to be up slightly in FY 2009. However, weak consumer spending and contracting domestic demand have combined to reduce the import

growth rate to its slowest rate in nearly a decade. Imports are forecasted to grow at just 4 percent next year to \$82.5 billion, which will set another record import.

### **Forecasted Import Performance by Commodity Group**

Almost 90 percent of U.S. agricultural imports are food products. Beverages, comprised largely of wine and beer but excluding liquors, comprise the largest agricultural import item. Fruits are the next largest import category.

vegetable oils, in particular palm and olive oils, have boosted oilseed and product imports slightly. Sugar and tropical product imports are also up slightly, mostly due to reduced prices for sugar, cocoa, coffee, and rubber; these lower prices are increasing import demand.

Several sectors are forecasted to experience an increase in agricultural imports in FY 2009 over FY 2008's levels. Increased imports of wheat from Canada, due to their huge wheat crop in 2008, is the main driver in the increase in grain imports. Lower prices for processed

Livestock, poultry, and dairy imports are forecasted to be down in FY 2009, due mainly to fewer shipments of live cattle from Canada due to country of origin labeling (COOL) implementation.

#### **Forecasted Agricultural Imports**

##### **By Commodity Group**

	<b>FY 2008</b>	<b>FY 2009F</b>	<b>% Change</b>
Grains and Feeds	\$7.9	\$8.5	7.6%
Oilseeds and Products	\$6.6	\$7.8	18.2%
Livestock, Poultry, and Dairy	\$12.2	\$11.3	-7.4%
Horticultural Products	\$34.7	\$35.3	1.7%
Sugar and Tropical Products	\$16.4	\$17.9	9.1%
<b>Total Imports</b>	<b>\$79.3</b>	<b>\$82.5</b>	<b>4.0%</b>

### **Forecasted Import Performance by Region**

The top agricultural suppliers for the United States are Canada, the European Union (27), Mexico, China, and Brazil. The European Union is the only region forecasted to export fewer agricultural products to the United States in FY 2009. Most of the agricultural products

imported from the EU are high-valued products, including wine, beer, and expensive cheeses. Decreased demand in the United States for these luxury products are the main driver of the drop in imports from the EU.

#### **Forecasted Agricultural Imports**

##### **By Region**

	<b>FY 2008</b>	<b>FY 2009F</b>	<b>% Change</b>
East Asia	\$4.5	\$4.6	2.2%
Southeast Asia	\$8.0	\$9.3	16.3%
North America	\$28.7	\$29.3	2.1%
Latin America	\$13.2	\$14.5	9.8%
Europe/Eurasia	\$16.6	\$15.8	-4.8%
Africa	\$1.7	\$1.7	0.0%
<b>Total Imports</b>	<b>\$79.3</b>	<b>\$82.5</b>	<b>4.0%</b>

## **Happenings Around the Globe**

Lots of things have been happening around the world over the last few months, too. Highlighted below are some of the top headlines affecting American agriculture.

### **Trade Protectionism on the Rise**

Both the Organization for Economic Cooperation and Development (OECD) and the World Bank released reports in March discussing the rise in global protectionism. Both reports point out that, with the global economy in its current situation, protectionism tendencies are surfacing around the world. But, both reports also point out that these tendencies will only compound the current forces at work. Both reports are available on their respective website: [www.oecd.org](http://www.oecd.org) (*Agricultural Policies in Emerging Economies* available for purchase) and [www.worldbank.org](http://www.worldbank.org) (“Trade Protectionism: Incipient but Worrisome Trends” available for free download).

### **Mexico Retaliates for U.S. Non-Compliance with NAFTA**

On March 19, the Mexican government placed tariffs on 90 U.S. products worth \$2.4 billion in 2007 as retaliation for a U.S. ban on a cross-border Mexican trucking pilot program. The tariffs range from 10 to 45 percent and all of the tariffs had been eliminated under NAFTA. The agricultural products include onions, potatoes, strawberries, cherries, apricots, fruit juices, and wines. Mexican Economy Secretary Ruiz Mateos said that goods were selected to hit a broad range of U.S. producers while not hurting poor Mexican consumers.

### **Free Trade Agreement News**

The *Peru Trade Promotion Agreement* entered into force on February 1, 2009. Originally, the Andean Free Trade Agreement, which was supposed to include Peru, Colombia, and Ecuador, an agreement was reached with Peru first and that agreement became a stand-alone FTA. Negotiations first started in May 2004 and were concluded with Peru in December 2007. Under the agreement, two-thirds of U.S. agricultural exports to Peru received immediate, duty-free access. The remainder of agricultural tariffs will be phased out within 10 years.

Negotiations on the *Trans-Pacific Partnership* (TPP), originally scheduled for the end of March, were postponed. Originally, the agreement was known as the P-4 and included only four countries, Brunei, Chile, New Zealand, and Singapore. The TPP will now include seven countries, Australia, Brunei, Chile, New Zealand, Peru, Singapore, and Vietnam. A public hearing was held on March 4, even though the negotiations were delayed.

### **New USTR Confirmed**

On March 18, the Senate approved the nomination of Ron Kirk as the 16<sup>th</sup> U.S. Trade Representative. Kirk draws upon more than 25 years of legislative and legal experience on local, state, and federal levels. As the mayor of Dallas from 1995 – 2001, he earned a reputation for bringing together diverse coalitions to achieve results and expanded Dallas’ reach to the world through a range of trade programs, including numerous trade missions. Ambassador Kirk also served as a City of Dallas assistant city attorney.

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