



Economic Report

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Summary

U.S. agricultural exports for the first 10 months of fiscal year 2015 were running below the pace for the same period a year earlier. The outlook is for the slower pace to continue through fiscal 2016. This pattern coincides with the strengthening value of the U.S. dollar against many key currencies, the Russian import embargo on U.S. agricultural products over the Ukraine dispute, and import restriction on U.S. poultry due to the outbreak of avian flu last winter and into the spring. In contrast, imports are forecast to reach another record in both fiscal 2015 and 2016 based on expected labor market gains in the U.S. (more jobs and higher incomes) and the strong value of the dollar. While the U.S. agricultural trade surplus (exports less imports) is projected to drop from a record \$43.3 billion in fiscal 2014 to just \$16 billion in fiscal 2016 (the lowest level since 2007), its positive balance will continue to make a positive contribution to our overall trade balance by partially offsetting the significant trade deficit in nonagricultural goods exports.

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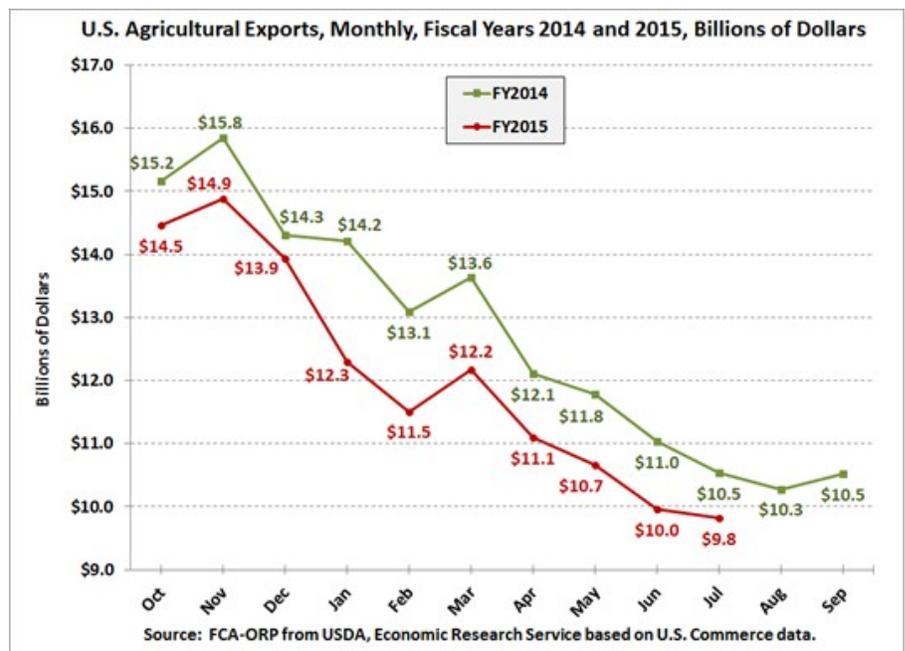
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U.S. Agricultural Trade: Recent Developments and Outlook¹

This is the fourth in a series of articles on the strong dollar and its implication for U.S. agriculture and the Farm Credit System. In this report we look at recent trends in U.S. agricultural trade, the outlook for the next two years, and agriculture's role in making a positive contribution to our overall trade balance.

U.S. Agricultural Exports in 2015 are off Recent Record Pace

For recent developments in agricultural trade, we turn to monthly agricultural trade data from the U.S. Department of Commerce. The following chart illustrates monthly agricultural exports, expressed in billions of dollars, for fiscal year 2014 (FY2014 = Oct. 2013 to Sep. 2014) and fiscal year 2015 (FY2015 = Oct. 2014 to Sep. 2015). Data for FY2015 was only available through July 2015 at the time of this writing. Monthly exports for FY2014 are indicated by the green line, and exports for 10 of the 12 months of FY2015 (Oct 2014 – July 2015) by the red line. Agricultural exports follow somewhat of a cyclical pattern throughout the year, starting at a high level in mid-autumn (Oct-Nov.) following the harvest for most major crops, then trail off through the winter, spring and summer.



The chart clearly shows the slower pace of monthly U.S. agricultural exports for FY2015 compared with FY2014. This declining export pace coincides with the strengthening value of the U.S. dollar against many key currencies, but also the Russian import embargo on agricultural products from the U.S. and the European Union in retaliation for economic sanctions placed on Russia for its meddling in Ukraine. Other contributing factors include the West Coast labor dispute that lasted about eight months from

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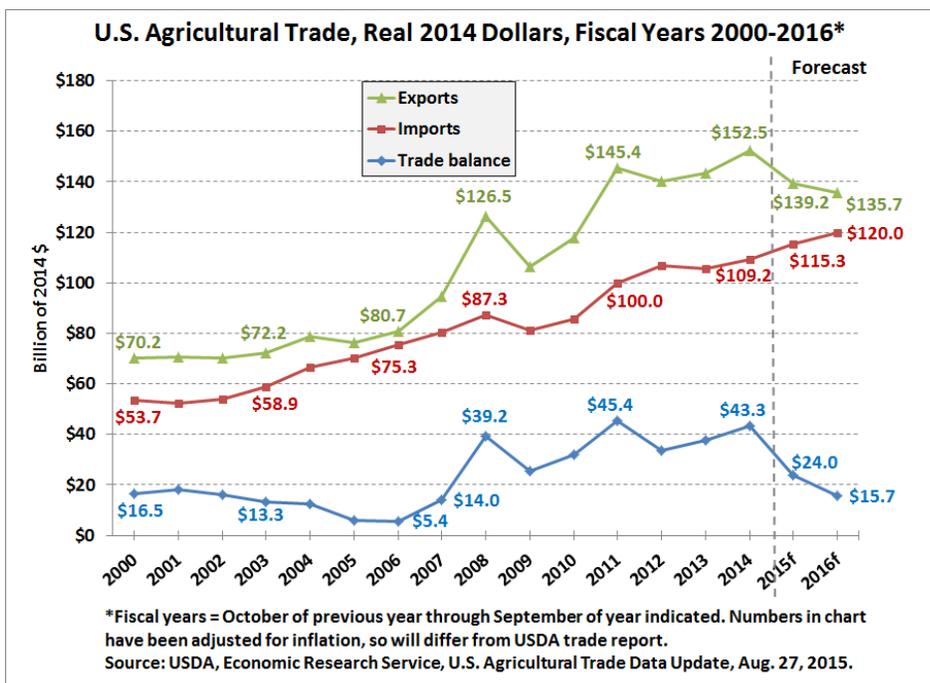
July 2014 through most of February 2015; and the import bans on U.S. poultry starting in early 2015 in response to the highly pathogenic avian influenza (HPAI) H5 infections that began in December 2014 and continued through mid-June 2015 (CDC). During that time H5 bird flu virus detections were reported in 15 states with outbreaks in domestic poultry or captive birds and 6 states with H5 detections in wild birds only.² It is possible that H5 outbreaks in birds and poultry in the U.S. could reoccur in the fall of 2015 and winter of 2016. The concern this time is if bird flu should find its way along the Atlantic Coast flyway, broiler and other poultry operations in East Coast states could become infected, resulting in lost income and possible credit issues on outstanding loans. Surveillance for the flu is ongoing.

U.S. Agricultural Exports Projected to drop on Strong Dollar and Trade Disputes, Imports to Rise

So what's the outlook for U.S. agricultural trade for 2015 and beyond? The chart below illustrates trends in U.S. agricultural trade for the historical period fiscal year 2000 to fiscal 2014 with projections by USDA's Economic Research Service for fiscal 2015 and 2016 as of August 27, 2015. The trade data has been adjusted for inflation and is expressed in 2014 dollars. Exports are represented by the green line, imports by the red line, and the difference between exports and imports, or the trade balance, by the blue line.

U.S. agricultural exports are projected to decline \$13.3 billion, or 8.7 percent, in fiscal 2015 to \$139.2 billion from the record high of \$152.5 billion in fiscal 2014, largely reflecting lower exports of high-value products and low prices for bulk commodities. Agricultural exports are projected to decline an additional 2.5 percent to \$135.7 billion in fiscal 2016. Factors attributed to the drop in agricultural exports include:

- The continued strengthening of the U.S. dollar against the currencies of key trading countries, making U.S. goods more expensive to foreign customers.
- Weak foreign demand due to sluggish economic growth in key importing countries, particularly China, Canada, Japan and the European Union.
- Various trade restrictions mentioned above, particularly the Russian trade embargo, and bans on U.S. poultry from certain importing countries, especially if more bird flu outbreaks are detected later this year.



On the import side, the U.S. is projected to take in a record \$115.3 billion of agricultural products from abroad in fiscal 2015, up \$6.1 billion or nearly 6 percent higher than in fiscal 2014. Increases are expected for most products, with the largest gains in horticultural, and sugar and tropical products. U.S. imports of agricultural products are projected to hit another record in fiscal 2016, reaching a high of \$120.0 billion, up \$4.7 billion or about 4 percent from fiscal 2015. These increases are based on expected labor market gains in the U.S. (more jobs and higher incomes) and the strong value of the dollar, which makes imported goods cheaper compared with just a year ago. Strong growth in horticultural imports is assumed to continue at least for the near term, contributing about half of the overall increase in agricultural imports during the projection period.

² Arkansas, California, Idaho, Indiana, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, North Dakota, Oregon, South Dakota, Washington, and Wisconsin (USDA, APHIS).

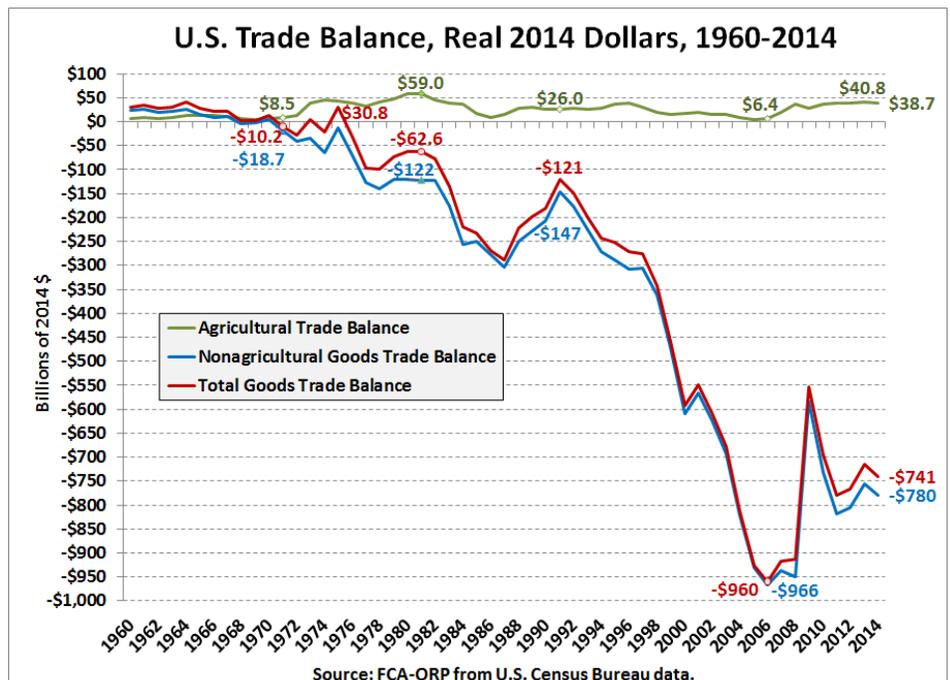
The U.S. agricultural trade balance (exports less imports) is projected to fall from a record high trade surplus of \$43.3 billion for fiscal 2014 to \$24.0 billion in fiscal 2015, a decline of \$19.3 billion, or nearly 45 percent. The trade surplus is projected to continue to slide in fiscal 2016 to just \$15.7 billion as exports are expected to remain stagnant while imports continue to set new highs. The trade surplus for fiscal 2016, if it materializes as projected, would be the smallest surplus since fiscal 2007.

Agriculture and the Overall U.S. Trade Balance

The trade balance is a component of gross domestic product (GDP). A trade surplus (when exports exceed imports) increases GDP, since the value of the goods we produce and sell abroad exceed the value of the goods we purchase that are produced elsewhere. A trade deficit reduces GDP for the opposite reason. The following chart illustrates the history of our total goods trade balance (red line) and its two components: agricultural trade balance (green line) and nonagricultural goods trade balance (blue line). The data is expressed in real 2014 dollars to account for inflation and is on a calendar year (Jan.-Dec.) basis.

The U.S. was running a surplus in its overall goods trade balance along with both of its components until 1971, when nonagricultural goods recorded a trade deficit of \$18.7 billion, that is, imports exceeded exports by that amount. The agricultural trade balance that year was an \$8.5 billion surplus, resulting in a total goods trade balance of -\$10.2 billion, or a trade deficit. Thus, the positive balance in agricultural trade helped partially offset the trade deficit in nonagricultural goods.

This has been the case up to the present as the U.S. agricultural sector has continued to sell



products abroad at a higher level than agricultural imports, resulting in a positive contribution to our overall trade balance, which is a testament to the competitiveness of our agricultural sector. In contrast, U.S. imports of nonagricultural products have increasingly surpassed our sales of nonagricultural goods abroad, resulting in a sharp downward trend in the trade deficit for nonagricultural goods, reaching a record \$966 billion in 2006. The agricultural trade balance that year was quite small at just \$6.4 billion surplus, but nonetheless helped partially offset the nonagricultural goods trade deficit, resulting in an overall trade deficit of -\$960 billion in 2006, also a record. Since then, the agricultural trade surplus has rebounded and has been fairly stable at around \$40 billion in recent years, making positive contributions to our trade balance and GDP. The nonagricultural trade balance and total trade balance have improved somewhat in recent years but are still mired in significant deficit territory of around \$740 billion and \$780 billion, respectively. The strong value of the dollar is expected to worsen our overall trade deficit in 2015 and 2016 as U.S. goods become more expensive to importers and while foreign goods become more price competitive.

What's Next?

The next report in this series on the effects of the strong dollar on agricultural trade, we look at the key destinations for U.S. agricultural exports and how these countries have changed over time. We then look at the degree of concentration of U.S. agricultural exports in specific countries and groups of countries as a measure of country concentration risk. Finally the economic outlook of these key trading partners is discussed as it relates to the future performance of agricultural trade.

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