

Agricultural Exports Impacted by World Economy

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U.S. agricultural exports are forecast by USDA to fall by 17.8 billion dollars from fiscal 2008 to fiscal 2009, to 97.5 billion dollars, and are projected to remain at about that same level (\$97 billion) in 2010. This reflects a slight upward revision from the May forecast due to stronger than expected foreign demand for corn and soybeans. The decline in export value between 2008 and 2009 reflects both a reduction in grain trade volume (grain tonnage exported is down 25% but soybean volume is up 12%) and in prices (grain unit values are down 21% while soybean unit values have fallen 16%).

Agricultural imports are expected to decline 3.3 billion dollars in 2009 to 76 billion dollars, and are expected to resume their upward trend in 2010 and equal 82 billion dollars. The August WASDE forecast for 2009 imports was \$5 billion lower than the May forecast, reflecting weak U.S. and world economic conditions and the dramatic reductions in trade worldwide in early 2009. This reduction in imports means the agricultural trade balance is expected to fall from \$36 billion in 2008 to \$21.5 billion in 2009, a significantly smaller decline that was expected in May.

Global recession and the financial crisis are important factors influencing these outcomes. U.S. GDP only rose 1.1% in 2008 and is expected to fall 2.5-3.0% in 2009. Unexpectedly, economic performance in the rest of the world has been worse than in the U.S., and USDA's projections are now based on slower recovery in Europe and Asia. As late as last October, world GDP was expected to grow at 3.9% in 2008 and 3.0% in 2009, but the most recent IMF projections suggest world GDP will fall 1.4% in 2009 and grow at only 2.5% in 2010. In the Europe GDP is expected to fall 4.8% in 2009, in China expected growth in GDP for 2009 has been reduced from 9.3% to 7.5%, and in newly industrialized Asia GDP is expected to fall 5.2% in 2009. Recession has led to reduced consumer spending, hence lower imports, and to lower prices worldwide.

The effects of the global recession and financial crisis on trade have been even more dramatic. The OECD, IMF and World Bank have all predicted that overall world trade may fall by over 10% in 2009, and USDA's forecast expects that overall U.S. trade could contract 10% in volume and 20% in value this year. This first contraction of world trade since the early 1980s began in late 2008 and has been most severe in the first quarter of 2009, with some recovery in trade expected to accompany economic recovery in the second half of 2009. U.S. overall exports declined 21% from that quarter a year earlier, while imports fell 30%. U.S. agricultural exports in the first quarter of 2009 were 19.5% lower than a year earlier, while quarterly agricultural imports fell 5.3%. This short run contraction of trade accounts for the reduction in USDA's import forecast between May and August, though the export reduction was anticipated. It is likely that limitations on short run trade financing due to the financial crisis were as important as reductions in income and spending by consumers in explaining downturns in world trade. Agricultural was somewhat more resilient than other sectors as economies declined worldwide and as trade contracted, but it was not immune to these effects.

The global recession and financial crisis have led to calls for countries to avoid increased protectionism, a factor that exacerbated the economic decline of the Great Depression. Countries have mostly abided by their WTO commitments and there are only a few instances of increased protectionism, according to the WTO. The G8 has recently called for renewed efforts to complete the Doha round of WTO negotiations

as well, and a ministerial meeting has been called for December, 2009. There is little evidence, however, that positions that stalled negotiations have been changed, so real progress toward a new agreement in December is unlikely. Moreover, lack of interest in trade issues has meant bilateral and regional trade agreement negotiations are stalled, as well, and ratification of bilateral agreements between the U.S. and Korea, Peru, Panama, and Colombia have not progressed since those agreements were signed in 2007.

The WTO and GATT agreements remain in force, and so disputes are likely to influence any agricultural policy reform in the near future. A number of irritants, that could lead to disputes, particularly for meat trade, persist or have arisen in the last year. These include limitations on pork imports due to the possible H1N1 pandemic, continuing limits to beef trade to Korea and Japan, a U.S.-EU meat agreement, regulations under the COOL program, and reintroduction of U.S. dairy export subsidies. The U.S. also lost yet again its dispute over cotton policy with Brazil, and sanctions will now be imposed. Similar complaints against broader U.S. agricultural commodity programs brought by both Brazil and Canada remain under investigation.

Economic growth here and abroad, recovery of financial markets, and the evolution of exchange rates will determine agricultural trade outcomes over the next couple of years. Slow economic recovery is expected, and recent news suggests economic performance is better abroad than USDA or IMF projections suggest, which could lead to a weaker dollar but improved agricultural exports. There is huge uncertainty over both economic forecasts and exchange rate expectations, and institutional factors like trade financing limitations were probably more important in shaping the extraordinary recent events.