

# The Agricultural Trade Environment Facing The New Administration

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# Is Trade Still Important To U.S. Agriculture?

*Yes, but trade will share the stage with growing biofuels production as the main sources of growth for the U.S. ag sector*

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- Historically, expanding foreign demand has made exports the major growth driver for American agriculture.
- However, exports are now sharing that stage with booming domestic biofuels production, which is expected to continue.
- The “perfect storm” arrived in 2008: Growth in U.S. and foreign demand and a weakening dollar combined to drive ag prices higher between 2002-2008. Also reduced competitor supplies and low ending stocks for grains & oilseeds in 2008, contributed to the price surge in 2008. All these factors are unwinding in 2009 driving prices down.
- Impact on U.S. agricultural sector in 2008? Unprecedented prosperity -- *record export value, record production value (rising crop and livestock values), record net farm income*, and record farm equity (from rising land values) ... while government farm payments have eased. In 2009, farm income and exports are off 15-20% due to falling prices but the sector is still strong.

# Current Trade Situation and Outlook

*Continued expansion in global ag demand and falling dollar has pushed the value of U.S. ag exports to new record highs for five consecutive years*

*However, the next year or two will be a major challenge as the market environment faces significant headwinds*

# Booming Agricultural Exports Have Been A Major Growth Factor For Producers Since 2000

*Rising foreign demand, falling dollar, higher prices fuelled expansion. Global economic slowdown is a major threat to current prosperity*

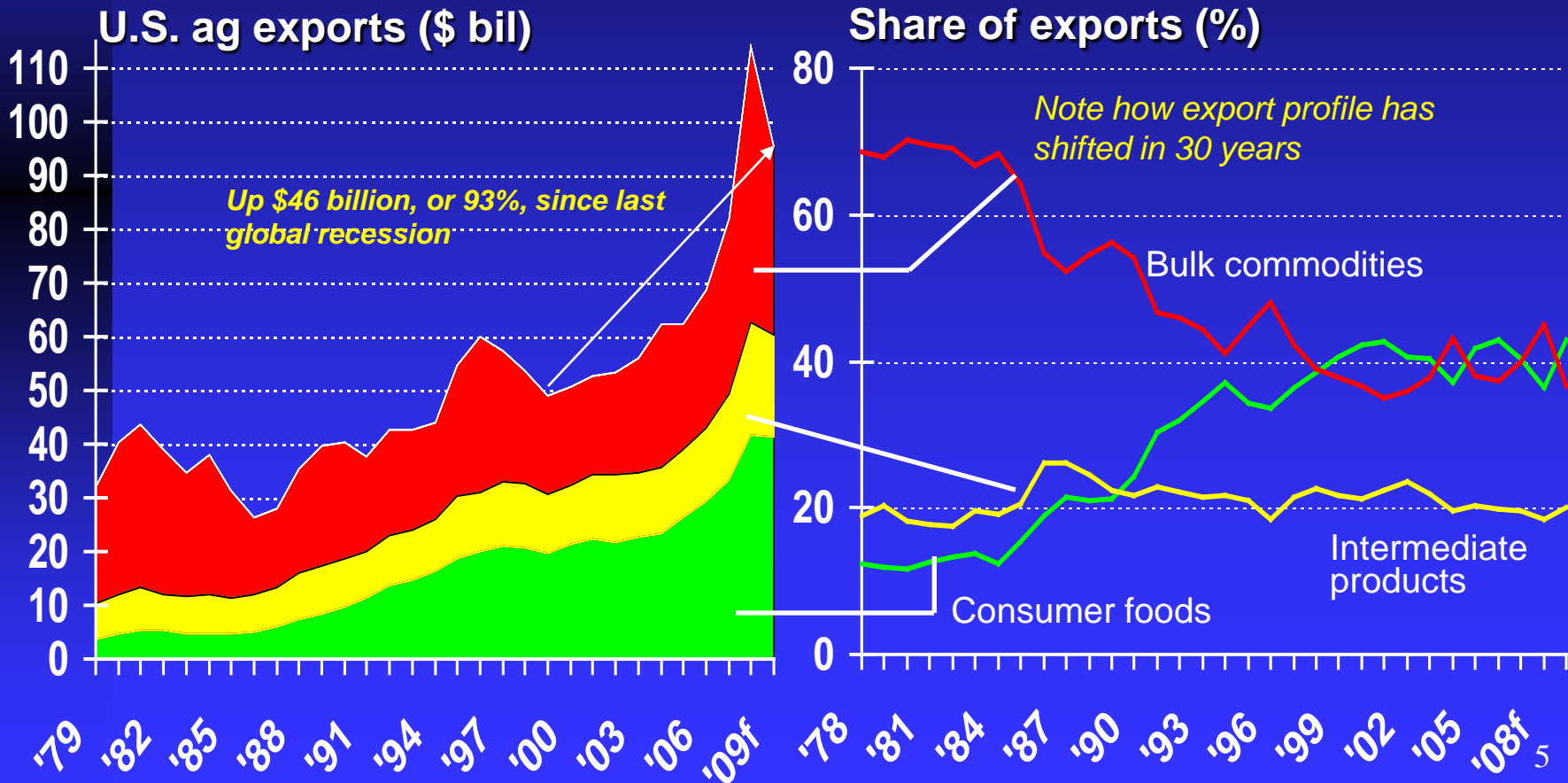
*Trade surplus to fall from a record \$36 billion in 2008 to \$13 billion in 2009*



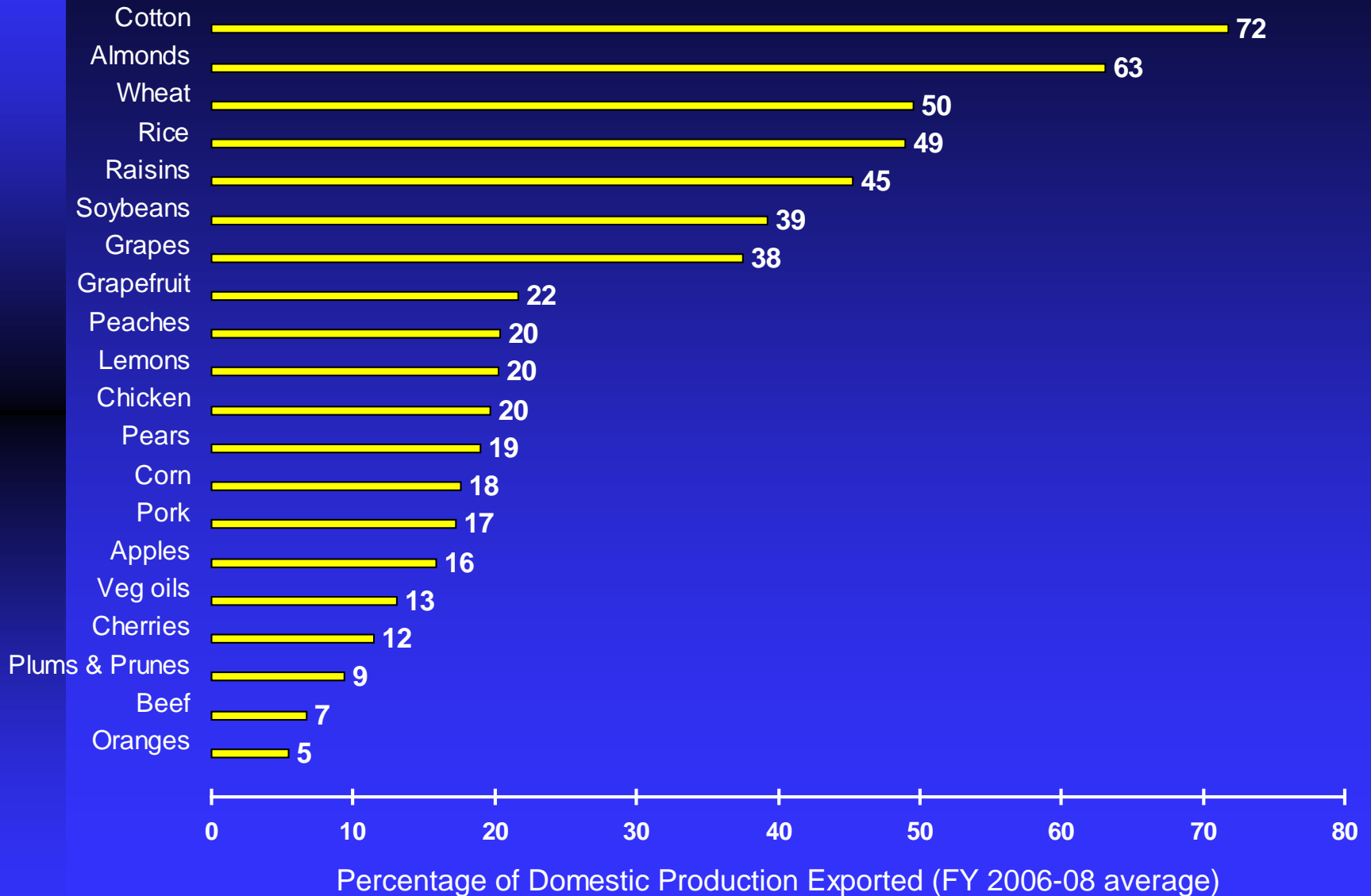
# Agricultural Exports Forecast at \$95.5 Billion in 2009, Down \$20 Billion From 2008

Exports still up \$27 billion since 2006 and up \$46 billion since 1999

2009 exports of grains and oilseeds down sharply; consumer-oriented HVPs roughly unchanged due to strong F&V exports



# Many Products Depend on Overseas Markets



# Factors Reducing Exports and Ag Prices in 2009

*Factors that caused the “perfect storm” in 2008 are now moving in the opposite direction*

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- **Global economic recession** – *previously strong but quickly weakened into recession. Impact on the middle class?*
- **Value of the U.S. dollar** – *previously weak but now volatile*
- **Energy, freight rates, and ag input prices** – *previously strong; quickly weakened*
- **Supply situation** – *bad weather reduced exportable supplies by foreign competitors in 2008, particularly wheat. Supply to rebound in 2009*
- **Export restrictions** – *problematic in early 2008 but now eased*
- **Global biofuels market** – *still strong in US, EU, Brazil which is providing price support*
- **Role of market speculators?**

# Factors Influencing U.S. Ag Trade Over the Next Decade

*U.S. Farm Bill provisions not expected to play a significant role*

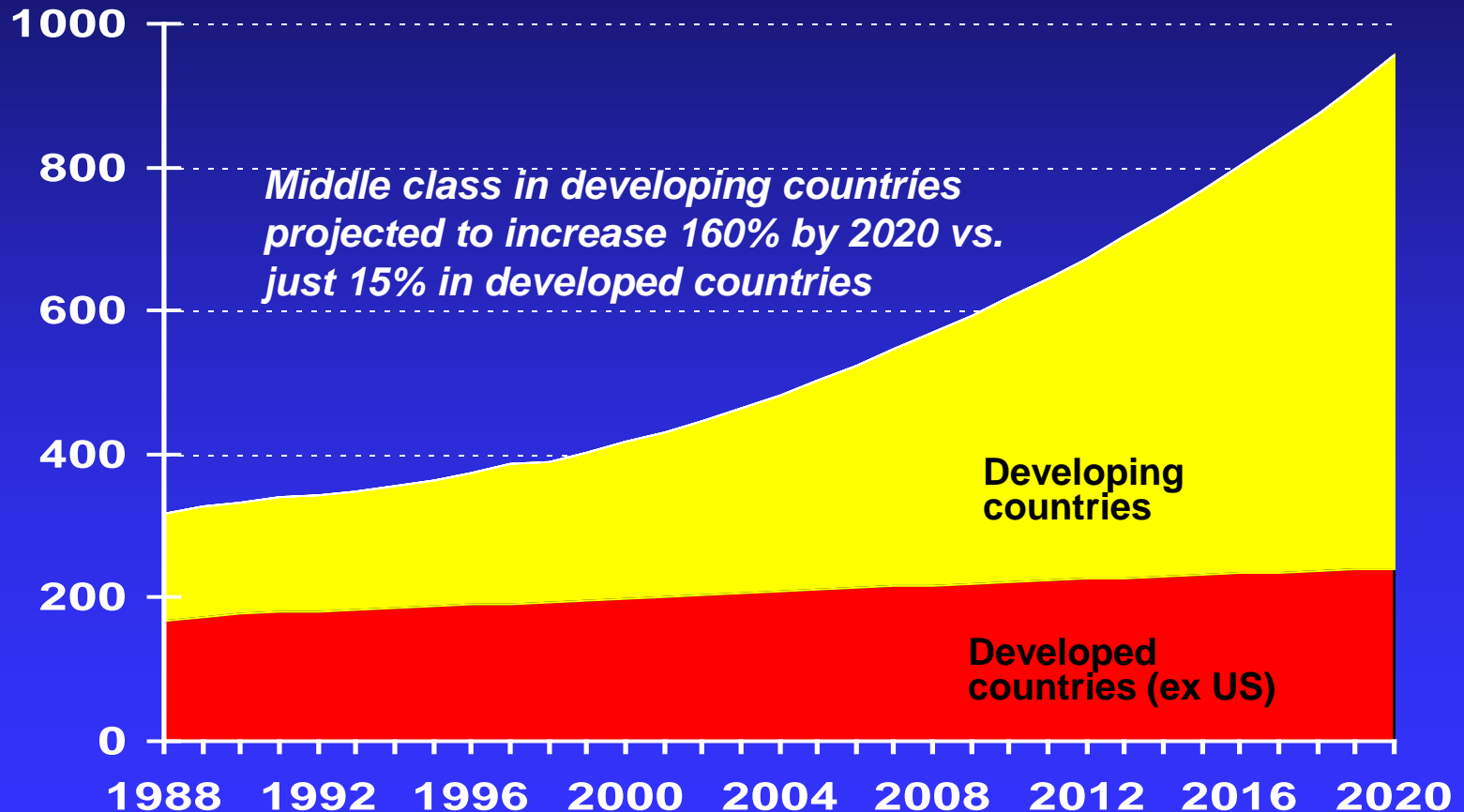
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- **Global economic growth** – *global recession to effect trade for next year or two – impact of recession on middle class in emerging markets is key to recovery*
- **Value of the U.S. dollar** – *next major move (up or down) could have big effect on commodity prices*
- **Energy prices** – *production and transportation costs could be effected, which will impact profit growth, and thus global farm sector's supply response*
- **Biofuels production** – *growing production in US, EU, and Brazil boost demand (and prices) for grains, oilseeds and sugar. Other countries just starting their biofuels industry*
- **Additional trade agreements?** – *What will happen to WTO negotiations as well as FTAs*
- **Biotech developments** – *pipeline of new products plus wider adoption could significantly boost productivity worldwide thus keeping prices from rising too high as demand for ag increases*
- **Outbreaks of Diseases**
- **Additional crop land** – *how will producers around the world react, especially in Brazil?*
- **Water shortages** – *what impact will this have on Chinese crop production?*

# “Middle Class” Outside the U.S. Expected to Double By 2020 – Approaching 1 Billion Households

*Impact on worldwide food consumption will be HUGE !*

*Foreign households w/real PPP incomes greater than \$20,000 a year  
(in millions of households)*



# “Middle Class” in Developing Countries Could Reach 715 Million Households By 2020, Up 160% From 2004 Levels

24% of households in these countries are middle class. By 2020, this could exceed 50% and the impact on food consumption will be huge

## Developing countries with fastest growing “middle class”

