PolicyPennings by Dr. Daryll E. Ray

Agricultural balance of trade

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The prospect of increasing agricultural exports has been one of the arguments used to garner support for the inclusion of agriculture within the current trade negotiation regimen. A couple of months ago we reported that the USDA had announced that for the 2005 fiscal year it expected agricultural exports and imports to balance out at $56 billion.

Given this failure of the agricultural sector to maintain a positive trade balance, we thought the balance of trade issue might be worth a closer look, especially if the data would give us a clue as to what to expect in the coming years.

For several decades the annual value of US agricultural exports has shown an upward trend that varies quite a bit from year to year. The peaks coincide with either a short-term spurt in export volume for bulk commodities like grains and seeds and/or price spikes for the same bulk commodities.

While bulk commodities have created the variation, they have not been responsible for the upward trend. For the last quarter century, total export tonnage of farm program crops has been flat; that is, there has been no discernable upward or downward trend in total tons exported, just variation. With flat export volume but prices drifting lower over time, the total value of exports of farm program crops has actually dropped.

The value of agricultural imports shows much less year-to-year variation than the value of agricultural exports. The trendline is smooth and upward. Since 1980, the value of agricultural imports has been increasing at a faster rate than the value of agricultural exports. Thus, it is no surprise that sooner or later the value of agricultural imports would equal or exceed the value of agricultural exports. It was only a question of when.

What does this mean for the future? Given its high variability, the value of exports will likely exceed imports during some years. But if historical rates of growth are any indication of what we can expect in the future, agriculture seems destined to become primarily a net contributor to the negative side of the US trade balance sheet.

So what agricultural products have we, in the US, imported more and more of over time? Fruits and vegetables top the list. In 1985, fruits, vegetables, and nuts accounted for $3.5 billion or 18% of the value of US agricultural imports. By 2003, those figures stood at $11.9 billion and a 25% share. Imports of animal and animal product increased from $4.2 billion in 1985 to $8.9 billion in 2003.

A large "other" category, which does not include coffee and cocoa but does include floriculture and forestry related products, accounts for the rest of growth. Coffee and cocoa import values have not been part of the growth story. Their shares of agricultural import value have declined markedly between 1985 and 2003. In the case of coffee, the drop was from 17 percent in 1985 to 4 percent in 2003. The value of coffee imports dropped by 40% over the 1985-2003 period while the volume increased by 15%. The price of coffee in 2003 is half or less of its 1985 level.

The composition of agricultural exports has also changed over time. As mentioned earlier, bulk commodities have not been a growth engine for agricultural exports. Some bulk commodities, such as feed and food grains and tobacco, have experienced substantial drops in their relative standing when compared to other agricultural exports. In 1985, feed and food grains were responsible for 36% of the value of US exports, while in 2003 they were only responsible for 17%. Tobacco's share of export value also declined, dropping from 5% to 2% over the 1985 to 2003 period.

On the other hand, the export value of oilseeds and products grew sufficiently between 1985 and 2003 to maintain its 20% share of agricultural exports. Cotton, too, held its own at 6% in both years.

The big gainer in the value of agricultural exports has been the category of animals and animal products which has grown from 14% to 21% in share of exports with the change in value increasing from 1985's $4.1 billion to $12.4 billion in 2003. In 1985, other agricultural exports accounted for 19% of the value of agricultural exports and by 2003 that share had risen to 34%. In addition to poultry, the other category is dominated by value-added products such as wine, prepared and frozen vegetables, chocolate and preparations, sugar products, frozen non-citrus fruits, essential oils, and other oils and waxes.

When it comes to relative importance as a US exporter and importer, agriculture is losing ground on both counts. In 1985, agriculture accounted for nearly 15% of the value of all US exports. By 2003, that share had declined to 7%. For imports, the decline in share is from 6% to 4%.

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