Canadian Dollar Reaches Parity With U.S. Dollar

In September 2007, the Canadian dollar reached parity with the U.S. dollar for the first time since 1976. In reaching this mark, the Canadian dollar had appreciated more than 33 percent against the U.S. dollar since February 2002, when the Canadian dollar reached a low of 1.6 to 1 U.S. dollar. While other major currencies have appreciated at a similar rate against the dollar over the same period, none is more important to U.S. trade than Canada's.

Canada, which accounts for about 20 percent of total U.S. trade, is the largest destination for U.S. exports and the leading source of U.S. imports of products and services. Canada's status as top trade partner is due to its long common border with the U.S., similar cultures and tastes in the two countries, and greatly increased trade liberalization resulting from the Canadian Free Trade and the North American Free Trade Agreements.

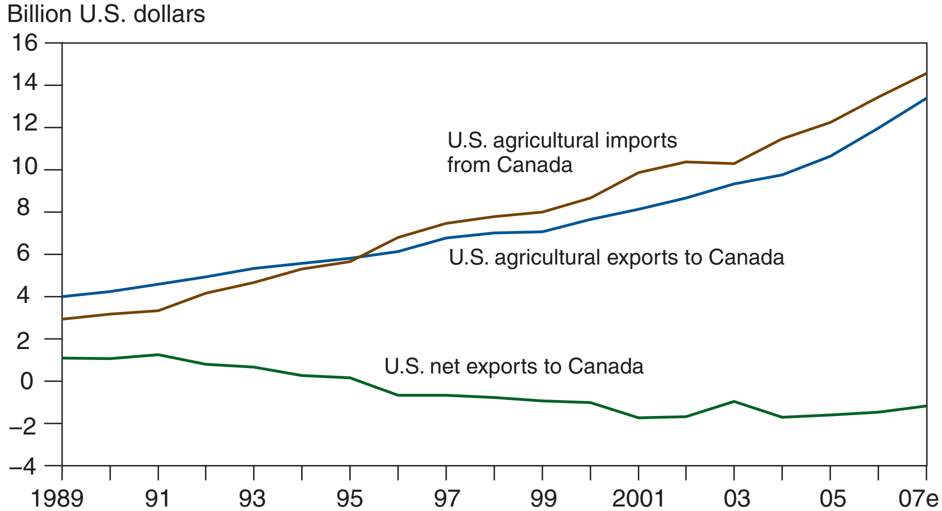
Canada is also the largest agricultural trading partner for the U.S. Factors boosting Canada's agricultural trade ranking include slowing growth in food and agricultural demand in Japan and Europe and greater integration of agricultural production between the United States and Canada. For instance, while Canada is the largest destination for U.S. horticultural products, the U.S. is also a major importer of Canadian hothouse tomatoes.

Changes in exchange rates are a powerful mechanism for encouraging and discouraging trade. When a foreign currency appreciates relative to the dollar, U.S. commodities and products become cheaper in the foreign currency—boosting demand for U.S. exports. The partner country's products become more expensive in the U.S—dampening demand for its imports.

Recent developments in U.S.-Canada trade illustrate this tendency. With the appreciation of the Canadian dollar, U.S. agricultural exports to Canada have been increasing much faster than agricultural imports from Canada. U.S. exports of fruit and nuts, fresh vegetables, and beef increased at an annual rate of 10.7 percent between 2002 and 2007, after an annual growth rate of only 3.5 percent during the previous 5 years.

Total agricultural imports from Canada grew 6.5 percent over this period, down from a previous rate of 7.1 percent. U.S. imports of Canadian meat and bakery products grew particularly slowly. Since adjustments to changing exchange rates take time, this pattern of increasing export growth and declining import growth is likely to become stronger over the next few years.

U.S. agricultural exports to Canada are catching up to imports



e = estimated.
Source: Foreign Agricultural Trade of the United States database, 2007.

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This finding is drawn from . . .

Canada: A Macroeconomic Study of the United States' Most Important Trade Partner, by Paul Sundell and Mathew Shane, WRS-06-02, USDA, Economic Research Service, September 2006, available at: www.ers.usda.gov/publications/wrs0602/

ERS Exchange Rate Data Set, www.ers.usda.gov/data/exchangerates/

Foreign Agricultural Trade of the United States (FATUS database), www.usda.gov/data/fatus/

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Stronger Canadian Dollar Puts Pressure on Canada's Pork Industry

The stronger Canadian dollar has led to a surge in U.S. exports to Canada and declining U.S. agricultural imports from Canada (see "Canadian Dollar Reaches Parity With U.S. Dollar" on previous page). One exception, however, has been U.S.-Canadian trade in live swine. In the first 8 months of 2007, U.S. imports of live swine from Canada increased 11 percent over the same period in 2006.

The stronger Canadian dollar has made Canadian pork less competitive on international markets against products priced in depreciating currencies, such as the U.S. dollar. Because the Canadian pork industry annually exports over half of its pork production and about a quarter of its live pig crop, the increasing value of the Canadian dollar has been squeezing margins of Canadian slaughter plants and operations that export live animals for finishing in the United States.

The inability of the Canadian processing industry to compete against products of the highly efficient U.S. pork processing industry contributed to closures of slaughter plants in Québec, Saskatchewan, and Manitoba in 2007. Lower hog prices offered by remaining Canadian processors reduced incentives to finish young swine in Canada. Consequently, the southward flow of young swine to specialized finishing operations in the United States has increased (see "Hog Operations Increasingly Large, More Specialized," page 8, in this issue). Growth in U.S. imports of slaughter hogs has been particularly strong, with imports in 2007 20 percent higher than in 2006.

Canadian swine prices are effectively set in the United States, and USDA forecasts lower hog prices into 2008. This trend will likely accelerate the downsizing already taking place in the Canadian pork industry. Statistics Canada has reported lower stocks of sows and bred gilts in every quarter since April 2005. Most breeding herd reductions, however, have occurred in Provinces with relatively low production. Larger, more efficient herds in Manitoba and Ontario have taken smaller cuts.

For 2008, USDA's Foreign Agricultural Service is forecasting a fourth consecutive year of slowly decreasing pork production in Canada and a third consecutive year of small decreases in pork meat exports. However, exports of live finishing animals, as well as slaughter-ready hogs, to the U.S. will likely stay high. Large Canadian swine production operations will face fewer marketing alternatives as the Canadian processing industry continues to draw down slaughter capacity. The U.S. imported an estimated 9.6 million head of Canadian swine in 2007—68 percent were animals fed to maturity in the U.S. and 32 percent hogs meant for immediate slaughter. In 2008, imports are expected to total 9.7 million head, with roughly the same proportions of finishing and slaughter hogs. AW

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This finding is drawn from . . .

Livestock, Dairy, and Poultry Outlook. LDP-M-158. USDA, Economic Research Service, August 20, 2007, available at: www.ers.usda.gov/publications/ldp/2007/08aug/ldpm158.pdf