Graphically speaking

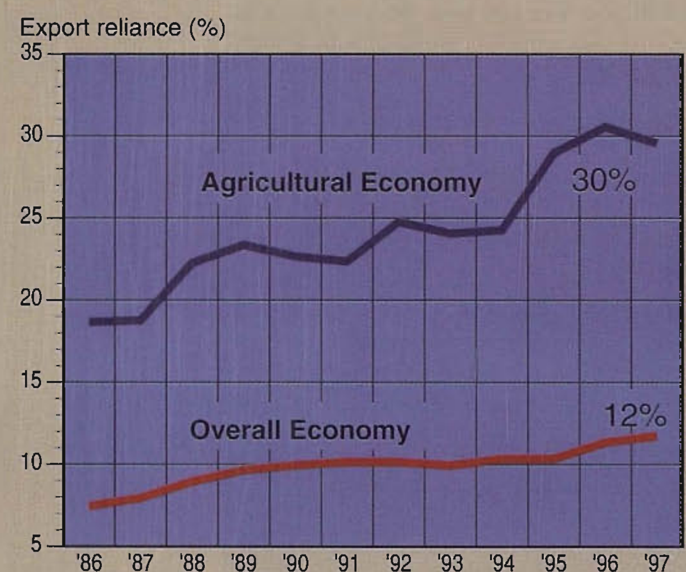
The Importance of Exports to U.S. Agricultu

by Michael J. Dwyer

Exports now account for roughly 30 percent of producers' gross cash receipts (less government payments), up from 18 percent in the mid 1980s (see figure 1). Since the farm crisis of the mid 1980s, the export market has come roaring back, more than doubling since 1986 and finishing 1997 at $57.3 billion, second only to 1996 in terms of value. This growth far eclipses the modest growth in the domestic market. In fact, with domestic sales growth failing to keep pace with the productivity growth of American producers, it is clear that exports have been the sector's engine of growth in terms of farm income and equity. New farm legislation also adds to the importance of agricultural exports. The new farm bill (FAIR Act) ends forty years of federal policy that focused on commodity payments and support prices. Now, USDA will support the agricultural sector by focusing on boosting U.S. global competitiveness and export expansion.

While many in agriculture are aware of the importance of exports to America's grain and oilseed producers, exports are important to a wide range of agricultural products—both in the bulk commodity and high-value product categories (see figure 2). The portion of domestic production that is typically exported falls within the 35–55 percent range for bulk commodities such as soybeans, rice, cotton, and tobacco. It is a bit higher for wheat at 55–65 percent and a bit lower for corn at 20–30 percent. For high-value products like fruit, nuts, and some vegetables, exports sales are also important, accounting for 25–70 percent of production for almonds, walnuts, prunes, grapefruit, raisins, lemons, grapes, broccoli, pears, oranges, and canned corn. For these consumer-oriented, high-value products, as well as for meats, beverages, and processed foods (which collectively now account for 36 percent of total agricultural exports), the past fifteen years have seen export growth outpace domestic sales by a 3-to-1 margin. These figures confirm that exports have been "where the action is" for a wide range of agricultural producers over the past decade.

Exports are important to agricultural producers. They are also important to the larger economy, especially the rural economy. Agricultural exports support jobs and economic activity, both on the farm and off and in urban, suburban, and rural areas. According to the Economic Research Service, each export dollar generates another $1.40 in supporting economic activities—in processing, distribution, and financing. This means that agricultural exports generated $133 billion in total economic activity throughout the United States in 1997, supporting almost one million American jobs (see figure 3). These jobs pay higher-than-average wages and are distributed among a wide range of communities and professions. Roughly one-third of these jobs are in rural areas, many of which rely on agriculture and related industries as their primary employer and as a major source of economic growth. In contrast, only 17 percent of the jobs associated with other industries are in rural areas. No other industry generates a greater share of its export benefits to rural America than does agriculture. Urban/suburban communities benefit, too. In 1997, agricultural exports supported over 635,000



Agricultural export reliance = ag exports/(cash receipts – govt. payments). Overall economy export reliance = total exports/gross domestic product. Projections based on USDA forecasts and the National Export Strategy goal.

Figure 1. Exports are vital to American farmers

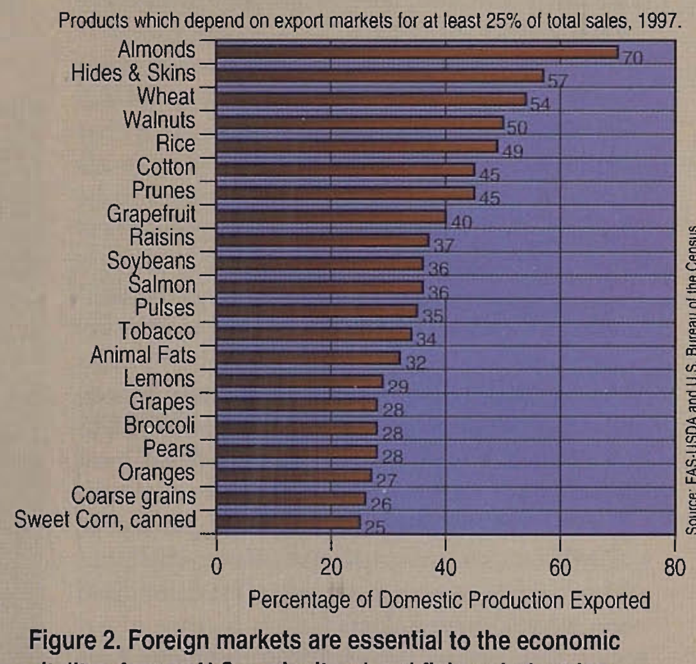


Figure 2. Foreign markets are essential to the economic vitality of many U.S. agricultural and fishery industries

Michael J. Dwyer is a senior economist
with the Foreign Agricultural Service of the
U.S. Department of Agriculture.

jobs in these areas, mostly off the farm, representing two-thirds of exports' overall employment impact.

While export markets have grown in importance, the countries generating this new demand have changed significantly (see figure 4). The biggest change has been the ascension of Asia and the decline of Europe as American agriculture's premier market. In the early to mid 1970s, the European Union (EU) (as currently defined) was our biggest customer. However, using stimulative policies that featured generous production and export subsidies, the EU was well on its way to going from our largest grain customer to our largest grain competitor. By the early 1980s, the Asian Pacific Rim and the EU were roughly equal, each accounting for around 30 percent of U.S. agricultural exports. By 1997, strong economic growth and partial trade liberalization in Asia had resulted in a surge in U.S. exports to that region. Now, the region accounts for 37 percent of U.S. exports (worth $24 billion). Meanwhile, U.S. exports to the EU stagnated at around $9 billion, and that region now accounts for just 16 percent of U.S. exports. In fact, at $10.7 billion, Japan alone purchases more U.S. agricultural goods than the entire EU. However, it is this reliance on Asia that causes concern regarding that region's financial crisis. With exports being so important to our producers and with Asia so important to our exports, any decline in that region's import prospects is magnified in terms of its impact on U.S. producers. Hopefully, financial and economic stability is taking hold and, once needed structural reforms are in place, the region will begin its recovery. The Asian crisis is expected to reduce U.S. exports by 3–6 percent during 1998 and 1999 before beginning to recover in 2000.

Asia is not the only market that has grown in importance over the years, a development that is proving to be a blessing in the aftermath of the crisis. NAFTA, represented by our two partners, Canada and Mexico, is living up to expectations and has become a premier market for U.S. producers. Aided by strong economies and reduced barriers to trade resulting from NAFTA and the U.S.-Canadian Free Trade Agreement, U.S. exports to these markets have grown sharply and are projected to reach a record $13 billion in 1998, representing 24 percent of total U.S. exports. Export gains to these markets, as well as strong gains to the rest of the western hemisphere, are expected to largely offset export losses to Asia this year. Exports to Mexico alone should total a record $6 billion, showing that it has bounced back from the decline suffered in the wake of the 1995 peso crisis.

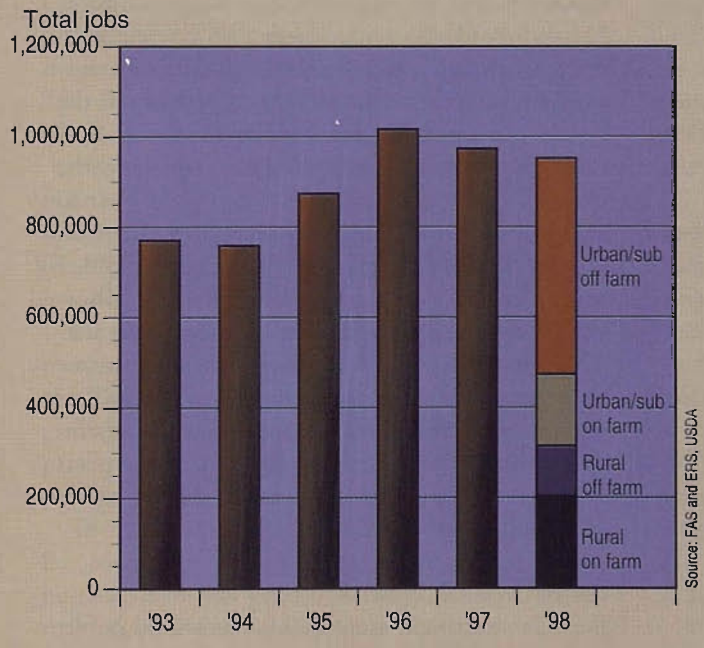


Figure 3. U.S. jobs supported by ag exports

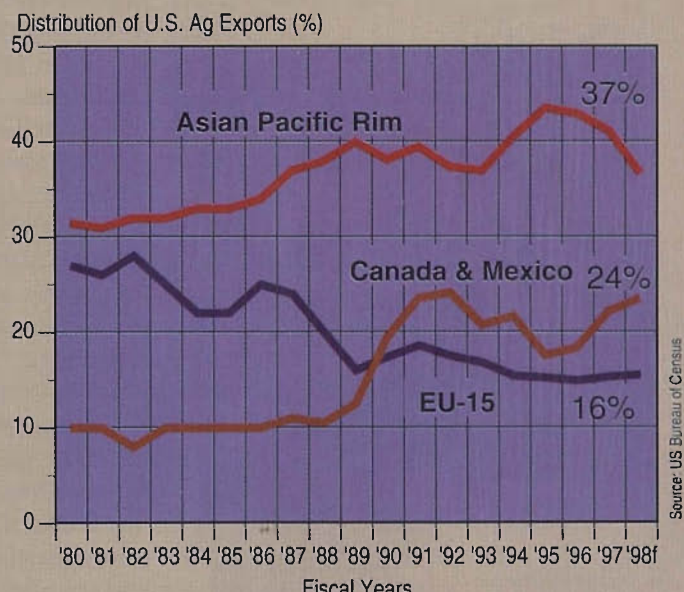


Figure 4. Roles of Asian Pacific Rim nations and NAFTA Partners have grown in U.S. ag export picture