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U.S. Processed Foods Trade Surplus Over \$4.5 Billion in 1995

J. Michael Harris and Margaret Malanoski
(202) 219-2311 (202) 219-0041

The U.S. processed food industry reached a net trade surplus of \$4.6 billion in 1995—an 87-percent increase from 1994 (table 1). In 1995, the United States exported \$29.4 billion and imported \$24.8 billion worth of processed foods, continuing a processed foods trade surplus begun in 1992.

Four food processing industries—meatpacking, poultry processing, soybean oil milling, and wet corn milling—generated \$1 billion trade surpluses in 1995. Together, these industries reflect the strength of U.S. competitiveness in field crops and meat and poultry production.

But despite overall growth in the processed food categories, 18 industries experienced a decline in export sales between 1994 and 1995, and 12 other industries grew more slowly than their average annual growth rate between 1990 and 1994.

This article covers exports and imports of Standard Industrial Classification code 20 (known as SIC-20)—processed foods, beverages, and related products. SIC-20 is comprised of 49 food processing industries (see box). By aggregating trade data into SIC-20 industries, researchers are able to summarize the data and evaluate trends in trade within each processed food industry.

Meatpacking and Poultry Processing Head the List of Trade Surpluses

The two industries most responsible for the surplus in food products trade were meatpacking and poultry processing, with \$3.6 billion and \$2.1 billion trade surpluses during 1995. Animal and marine fats posted a trade surplus of \$925 million, and rice milling had a \$773 million sur-

plus in 1995. Salted and roasted nuts followed with a \$573 million trade surplus.

All four food processing industries with billion-dollar trade surpluses were among the top-10 exporters. Meatpacking, at \$6.1 billion in export sales, accounted for nearly 21 percent of the exports for all U.S. food processing industries (table 2). Poultry processing, soybean oil milling, and prepared and frozen

The “Processed” Foods Industries

Researchers with USDA’s Economic Research Service (ERS) have classified import and export data collected by the U.S. Customs Service into industries according to the U.S. Standard Industrial Classification (SIC). The SIC assigns U.S. establishments or plants to an industry category based on their principal activity.

Processed foods, beverages, and related products are assigned to SIC-20. The industries within SIC-20 are further defined by four-digit SIC codes. For example, 2011 identifies meatpacking. The first two digits of this code place the industry within SIC-20, the third digit indicates the industry is a part of meat products, and the fourth specifies meatpacking. Forty-nine food processing industries within SIC-20 are identified at the four-digit level.

Many of the products from the 49 SIC-20 industries can be referred to as “value-added”—meaning that some combination of labor, technology, and materials has been applied to a raw commodity input, such as wheat, in order to transform it into a product like pasta. The processing may be minor, as in the case of canned or cured fish, or it may be quite extensive, as in the conversion of flour, tomato sauce, pepperoni, and spices into a frozen pizza.

Many processed foods are brand-name products from well-known companies, such as Pillsbury or Hershey. However, a number of processed food products reflect very little product differentiation between various suppliers, such as milk, soybean oil, or animal feed.

The authors are economists with the Food and Consumer Economics Division, Economic Research Service, USDA.

fish had export sales of \$2 billion or more. Together with wet corn milling and animal and marine fats and oils, these six industries accounted for more than half of total U.S. processed food exports during 1995. Sixteen industries were responsible for nearly 80 percent of U.S. processed food exports.

In three of the industries with high exports—prepared and frozen fish, canned fruits and vegetables, and the miscellaneous category—imports were also high. In fact, even though the prepared and frozen fish industry is the second-largest U.S. export industry, the category showed a trade deficit.

Prepared and Frozen Fish More Than One-Fifth of U.S. Imports

Imports of nine food processing industries exceeded \$1 billion in 1995: prepared and frozen fish; meatpacking; distilled and blended spirits; canned fruits and vegetables; wines, brandy, and brandy spirits; vegetable oil; beer; chocolate and cocoa products; and canned and cured seafoods (table 2). These industries represented almost 70 percent of total U.S. processed food imports; prepared and frozen fish alone accounted for 22 percent of the U.S. processed food imports.

Table 1

U.S. Processed Food Trade Surplus Grows

Item	1990	1991	1992	1993	1994	1995
<i>Million dollars</i>						
Exports	18,922	20,277	22,805	23,412	26,249	29,390
Imports	20,578	20,560	21,751	21,815	23,801	24,821
Trade balance	-1,656	-283	1,054	1,597	2,448	4,569

Table 2

Leading U.S. Export and Import Industries by Trade Value

Industry	1995 trade	Share of SIC-20 shipments	Cumulative share of SIC-20 shipments
	<i>Million dollars</i>	<i>Percent</i>	<i>Percent</i>
U.S. exports:			
Meatpacking	6,100	20.8	20.8
Prepared and frozen fish	2,719	9.3	30.1
Poultry processing	2,097	7.1	37.2
Soybean oil milling	2,000	6.8	44.0
Wet corn milling	1,418	4.8	48.8
Animal/marine fats and oils	1,039	3.5	52.3
Canned fruits and vegetables	1,012	3.4	55.7
Other food preparations	989	3.4	59.1
Salted/roasted nuts and seeds	984	3.4	62.5
Rice milling	908	3.1	65.6
U.S. imports:			
Prepared and frozen fish	5,616	22.6	22.6
Meatpacking	2,494	10.0	32.6
Distilled and blended spirits	1,550	6.2	38.8
Canned fruits and vegetables	1,503	6.1	44.9
Wines, brandy, brandy spirits	1,402	5.7	50.6
Vegetable oil	1,241	5.0	55.6
Beer	1,192	4.8	60.4
Chocolate and cocoa products	1,106	4.5	64.9
Canned or cured fish and seafoods	1,075	4.3	69.2
Other food preparations	978	3.9	73.1

Processed Food Exports Showed Strong Overall Growth...

Export growth surged to 12 percent from 1994 to 1995, while imports grew at a rate of 4.3 percent. Export growth in 1995 surpassed the average annual growth rate of 8.8 percent during the previous 5-year period (1990-94), while imports grew only slightly faster than the average annual growth rate of 4.1 percent.

The largest jump in export growth was in the vegetable oils industry, up nearly 70 percent from 1994 to 1995. The malt industry followed with 40 percent growth; animal and marine fats and oils showed 39 percent growth; the beer industry grew by 35 percent; and the poultry processing industry increased by 28 percent (table 3).

... But Export Growth Rates Fell in Many Industries

In 1995, export growth rates fell below the previous 5-year average annual growth rate (1990-94) for 30 processed food industries. Five of these industries—prepared or frozen fish, wet corn milling, salted and roasted nuts, rice milling, and mis-

cellaneous food preparations—were among the top 10 export industries. Rice milling and miscellaneous food preparations experienced a drop in export volume from 1994 to 1995 as did 16 other processed food industries.

The Mexican peso crisis partly explains the slower than average export growth rates among the 30 industries. The dollar's higher value relative to the peso made U.S. goods more expensive for Mexican citizens. Between the beginning and end of 1995, the value of the peso relative to the U.S. dollar declined by 28 percent. As a result, processed food exports to Mexico, the third largest U.S. export market in 1994, declined by almost a third in 1995. U.S. exports to Mexico declined in the 30 industries that had slower export growth. However, in 22 of these industries, U.S. exports to countries other than Mexico grew.

The impact of the decline in the value of the peso on U.S. exports to Mexico has been substantial for several industries. For example, canned and bottled soft drink exports from U.S. companies to Mexico were down 80 percent in 1995, while U.S. soft drink exports to the rest of the world were up 33 percent. Because Mexico represents a substantial

share of the U.S. export market for canned and bottled soft drinks (a 28-percent share in 1994), total U.S. exports of canned and bottled soft drinks declined by 4.6 percent.

Over Half of U.S. Processed Foods Exports Go to Five Countries

The United States exports processed foods and beverages to nearly every country in the world. A small number of countries, however, constitute the bulk of the business. During 1995, the United States exported over \$29 billion worth of processed foods to 208 countries. Ten countries accounted for more than 68 percent of total U.S. processed food exports.

More than half of those foods traveled to just five countries. Japan, Canada, South Korea, Mexico, and Hong Kong each imported over \$1 billion worth of U.S. processed food products in 1995 (table 4). Japan imported \$7.6 billion worth of processed food from the United States during 1995 and accounted for 26 percent of U.S. processed food exports. Almost two-thirds of Japan's 1995 imports of U.S. processed foods were from two industries—\$3 billion worth of meatpacking and \$1.8 billion worth of prepared and frozen fish. Japan also imported large amounts of U.S. frozen fruits and vegetables, canned fruits and vegetables, and poultry.

Canada was the second-largest destination for U.S. goods, spending \$4.2 billion on processed food imports from the United States in 1995. Meatpacking, canned fruits and vegetables, frozen fish, and the miscellaneous category were the leading U.S. industries exporting to Canadian markets. Each of these industries generated over \$250 million worth of U.S. exports to Canada. But these four industries constituted only 34

Table 3
Annual Export Growth Rates

Industry	Average annual growth, 1990-94	Growth, 1994-95
Percent		
Vegetable oil	12.5	69.8
Malt	-1.3	40.1
Animal/marine fats and oils	5.3	39.2
Beer	19.6	34.5
Poultry processing	25.0	28.5
Roasted coffee	11.9	28.2
Beet sugar	.3	28.2
Margarine	13.3	24.7
Cheese	25.5	24.5
Distilled and blended spirits	20.7	22.5

percent of U.S. processed food exports to Canada. The remainder was a large and diverse mix of products, with an additional 10 industries shipping at least \$100 million in processed food exports to Canada during 1995.

U.S. Imports Come From Many Countries

U.S. imports of processed foods are more widely sourced. The top 10 suppliers of processed foods to the U.S. market accounted for only 57 percent of total U.S. imports of processed foods (table 4). Three of these 10 suppliers are developing countries—Thailand, Mexico, and Brazil. Five countries—Canada, Thailand, Mexico, France, and Italy—exported more than \$1 billion

worth of processed foods to the United States during 1995.

Canada was the leading exporter of processed foods to the United States, commanding a 19-percent share of U.S. processed food imports during 1995. The two dominant U.S. imports from Canada—meatpacking and prepared and frozen fish—were the same two industries that led U.S. exports to Canada. For example, in 1995 the United States imported \$903 million worth of prepared and frozen fish from Canada, while at the same time exporting \$322 million worth of prepared and frozen fish to Canada. Salmon and lobster are the principal imports and exports. The United States imports both Atlantic and West Coast salmon, but exports only West Coast salmon. U.S. lobster imports consist

of both American and spiny lobster, but exports are principally American lobster.

For Thailand, Mexico, France, and Italy, exports to the United States were concentrated in one or two industries. Processed fish products, from the prepared and frozen fish industry and the canned and cured fish industry, made up 75 percent of U.S. processed food imports from Thailand. Over half of U.S. imports of Mexican processed food products were prepared and frozen fish, frozen fruits and vegetables, and malt beverages. Wines, brandy, and brandy spirits constituted 62 percent of U.S. imports from France. More than half of Italy's exports to the United States were the vegetable oils and the wines, brandy, and brandy spirits industries.

Table 4

Japan and Canada Are the Largest Export Markets for U.S. Processed Foods

Country	1995 trade	Share of SIC-20 shipments	Cumulative share of SIC-20 shipments
	<i>Million dollars</i>	<i>Percent</i>	<i>Percent</i>
U.S. exports:			
Japan	7,558	25.7	25.7
Canada	4,202	14.3	40.0
South Korea	1,664	5.7	45.7
Mexico	1,649	5.6	51.3
Hong Kong	1,003	3.5	54.8
Russia	968	3.3	58.1
The Netherlands	919	3.1	61.2
Taiwan	781	2.7	63.9
United Kingdom	742	2.7	66.6
China	653	2.2	68.8
U.S. imports:			
Canada	4,866	19.6	19.6
Thailand	1,630	6.6	26.2
Mexico	1,603	6.5	32.7
France	1,219	4.9	37.6
Italy	1,073	4.3	41.9
United Kingdom	811	3.3	45.2
The Netherlands	774	3.1	48.3
New Zealand	747	3.0	51.3
Australia	734	3.0	54.3
Brazil	677	2.7	57.0

Rapid Growth in Developing Countries Continues

Many of the fastest growing destinations for U.S. processed food exports are small, developing countries. U.S. export data for these countries may include some U.S. food aid in addition to commercial sales. However, food aid accounts for less than 2 percent of processed food exports. Among those nations importing at least \$1 million worth of U.S. processed foods in 1994, 14 more than doubled their purchases in 1995. Countries with the largest percentage increases were: Estonia, Pakistan, Vietnam, Burkina Faso, Moldova, Syria, Mozambique, Bulgaria, Papua New Guinea, China, The Gambia, Ivory Coast, Haiti, and Tajikistan.

The fastest growing market for U.S. exports from 1994 to 1995 was the former Soviet Union (table 5). U.S. processed food exports grew by more than 50 percent for six countries in the former Soviet Union. Export growth was particularly strong in Estonia, Russia, Moldova, Georgia, and Tajikistan. The growth was mainly due to an increase in poultry meat exports, particularly in Estonia, Ukraine, and Georgia. The United States has become a primary supplier of poultry for countries of the former Soviet Union.

Outlook for U.S. Processed Food Exports

Trade in value-added products is generally more sensitive to changes in income levels, changes in demographics, and westernization of diets in importing countries than is trade in raw commodities. Increasing in-

Table 5

Former Soviet Union Was the Fastest Growing U.S. Export Market in 1995

Region	Growth in 1995 U.S. export sales
	Percent
Former Soviet Union	57.5
Asia, excluding Japan	33.2
Latin America and Caribbean, excluding Mexico	24.3
Western Europe	9.7
Eastern Europe	.9
Africa	.4
Oceania	-8.8

comes in the newly industrialized countries of East Asia make them among the fastest growing destinations for U.S. processed food exports. This income growth is crucial for the United States to increase processed food exports to the more highly populated, lower income countries like China, Vietnam, Indonesia, and India.

Despite a slowing of the growth rate for many processed food industries in 1995, the outlook for processed food continues to be good. Growth in export sales of poultry and meats should remain strong, especially in the former Soviet Union. U.S. and Russian officials reached an agreement in March 1996 to settle a dispute over the ability of U.S. poultry producers to meet Russian sanitary standards. Ongoing discussions are addressing whether Russia will join the World Trade Organization

(WTO). If Russia becomes a member of the WTO, current Russian tariff and nontariff barriers that affect U.S. exports of poultry and meats could be reduced or eliminated.

The negative impact of the peso devaluation on U.S. exports to Mexico is likely to be temporary. Improvements in the Mexican economy in 1996 should increase U.S. exports. Preliminary indications suggest strong growth in U.S. processed foods exports to Mexico.

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