

U.S. Agriculture and the Value of the Dollar

Chad E. Hart

chart@iastate.edu

515-294-9911

Roughly 20 percent of U.S. agricultural production is exported to other countries. So our competitiveness in export markets is crucial to the stability and growth of U.S. agriculture. One of the fundamental factors in our competitiveness in export markets is the currency exchange rate. The currency exchange rate is the ratio of the value of a nation's currency to the value of another nation's currency. Many factors affect exchange rates, including the countries' macroeconomic policies, fiscal situation, and expected economic growth. Changes in the exchange rate affect our agricultural trade competitiveness because they indicate relative changes in the prices for traded goods in other countries. Nearly half of the change in the real value of U.S. agricultural exports can be attributed to changes in exchange rates.

DECLINING EXPORTS WITH DOLLAR APPRECIATION

Figure 1 shows indices for exchange rates with countries that purchase U.S. exports. The line called "Total Trade" represents the exchange rate index, in which individual exchange rates are weighted by the value of U.S. export trade to that country or region. Figure 2 shows similar indices for exchange rates with our export competitors. From 1996 to 2001, the U.S. dollar appreciated in value in comparison to most other currencies. Prices for our exported goods rise and fall with the dollar. So the years of late 1990 and early 2000 were, in general, rough for U.S. exports. Agricultural exports were no exception. U.S. wheat exports fell 22.6 percent between 1995/96 and 2001/02. U.S. corn exports declined by 15.2 percent over the same period.

As the figures show, the dollar was strong not only against the cur-

FIGURE 1. EXCHANGE RATE INDICES FOR U.S. EXPORT MARKETS (AVERAGE FOR 2000 = 100)

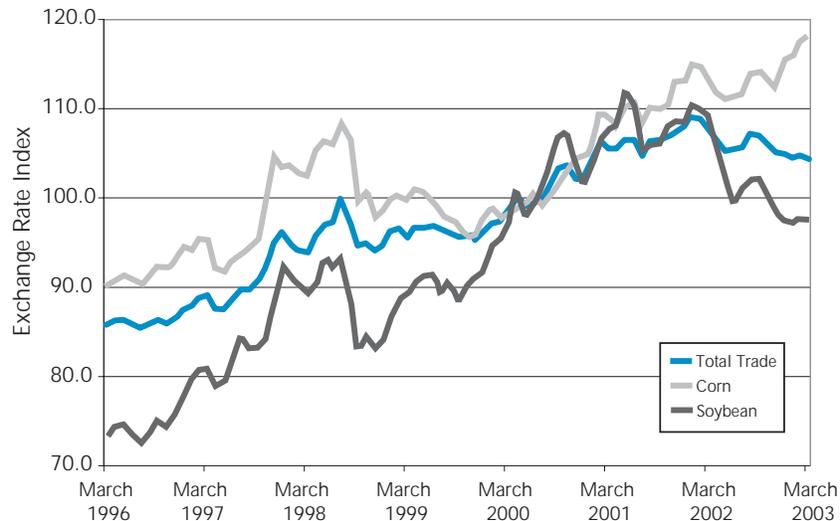
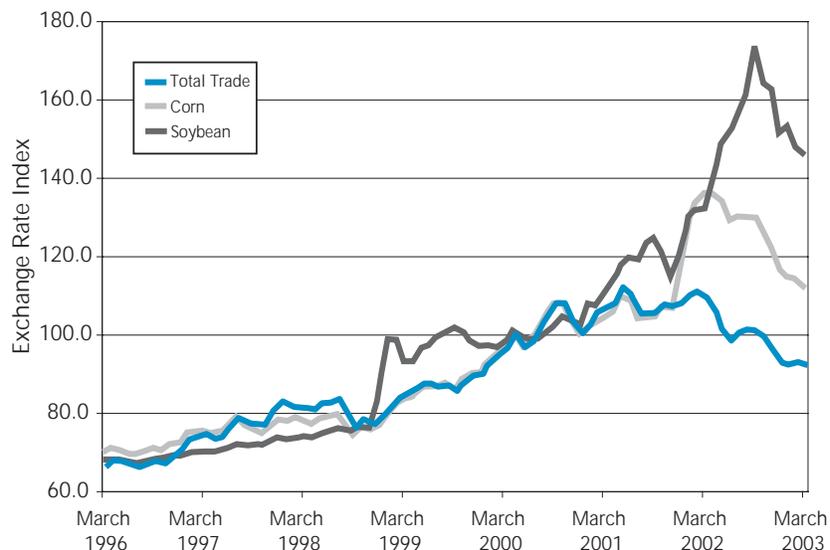


FIGURE 2. EXCHANGE RATE INDICES FOR U.S. EXPORT COMPETITORS (AVERAGE FOR 2000 = 100)



rencies of our export markets but also against the currencies of our export competitors. This was a one-two punch to U.S. exports, in that our export products were relatively more expensive to other countries (in comparison to past values) and the products of our export competitors were relatively inexpensive (in comparison to U.S. products).

WEAKENING DOLLAR POINTS TO SOME STRENGTHENING EXPORTS

Recently, changes in the exchange rate have favored U.S. exports. The total trade-weighted index has declined from the highs of early 2002 from both the export market and export competitor standpoints. An example of this is the change in U.S. pork exports. Over the first five

months of 2003, U.S. pork exports increased by 5 percent from last year's level. Much of this increase can be traced to Japan and South Korea, as these countries accept about half of all U.S. pork exports. Further, part of this increase can be explained by changes in exchange rates. During this five-month period, the dollar held steady versus the Japanese yen but depreciated versus the currencies of our other major pork exporters to East Asia, namely, Canada, Brazil, and Denmark.

However, not all commodities are necessarily benefiting from a weaker dollar. Figures 1 and 2 also display exchange rate indices weighted by corn and soybean export values. Figure 1 shows that

the dollar is still appreciating in many corn export markets while it is generally declining overall and in most soybean export markets. In fact, the depreciation in the soybean markets has exceeded the total trade-weighted average.

The indices in Figure 1 indicate the relative price of U.S. exports over time. The indices in Figure 2 indicate the price of U.S. exports relative to competing exports. Again, we can see the weakening of the dollar from a total trade perspective. But for both corn and soybeans, the dollar was relatively stronger versus the competing currency. This is especially true for soybeans, as the dollar significantly appreciated versus the

Brazilian real and the Argentine peso (the currencies of other major soybean exporters) throughout most of 2002. For 2003, the indices have dropped for both corn and soybeans, highlighting an improving export picture. If many of these exchange rate trends continue, U.S. agriculture will see a reversal of the export erosion from earlier periods and the possibility of record export growth in the future.

FOR MORE INFORMATION

More information about the way a trade-weighted exchange rate index is derived is available online at <<http://www.ers.usda.gov/data/exchangerates/derived.htm>>. ♦

And the Survey Said...

Sandra Clarke

sclarke@iastate.edu
515-294-6257

To everyone who took a moment to complete our readership survey in the last issue of the *Iowa Ag Review*, I extend my appreciation. Surveys are hardly a popular activity for most of us, but in the case of our newsletter, the results will help us to make more informed choices—and a better publication.

One of the issues we wanted to address in the survey is print versus electronic distribution. During tight budget periods, the costs of printing come under increased scrutiny. Fortunately, at CARD, the issue right now is one of reader choice, not of budget necessity. And the choice of a majority of those surveyed (77.57 percent) is to retain their printed copy of the *Iowa Ag Review*. We plan to continue offering free subscriptions to interested readers. We also will continue to offer the *Iowa Ag Review* online, as we have for some time (<http://www.card.iastate.edu/iowa_ag_review/home.html>), so the choice is yours. At some point, we hope to improve the online version of *Iowa Ag Review* so that electronic subscribers receive a notice when a new

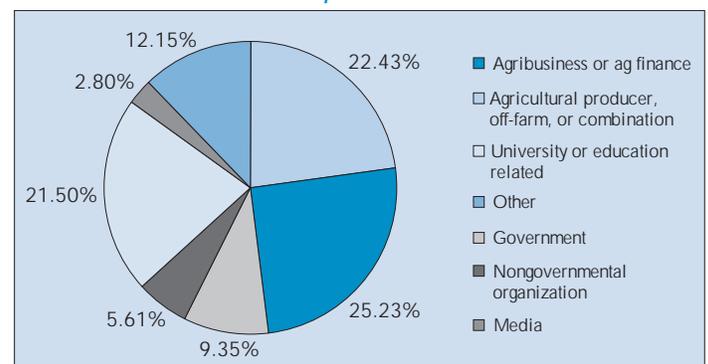
issue is available on our website. When that enhancement is ready, we will include a business reply in our mailing for readers to tell us whether they would like to opt out of the print subscription in favor of an electronic one.

We found that of those surveyed, 40.19 percent have read the *Iowa Ag Review* for more than five years. Almost a quarter of the group started reading because they received a pass-along copy from a friend or colleague. And the majority reads one-half to all of the content cover to cover. However, we found that interest in the staff profile was moderate, whereas other features received high interest ratings. Beginning with this issue, we've decided to drop the staff feature in favor of other content that is of higher relevance to our readers. Many in the survey group took the time to suggest ideas for features. From the abundance of CARD research and ideas for content, we will choose features that are timely and of pressing importance to our readers, especially in the areas of commodity policy, international

trade, and technology issues in agriculture, all hot topics according to the survey results.

The *Iowa Ag Review* was created in 1994 to serve as a conduit so that the results of the policy analysis and research coming out of the Center for Agricultural and Rural Development and its affiliates would reach "farmers, agribusinesses, legislators, and other persons interested in Iowa agriculture." The publication may change a little from year to year, but the mission remains the same. The opportunity to provide feedback about the newsletter does not end with this survey. Please send any general comments about the *Iowa Ag Review* to *sclarke@iastate.edu* or write to the *Iowa Ag Review* at the address in our masthead. ♦

IOWA AG REVIEW READERS, BY OCCUPATION



Source: Spring 2003 Readership Survey.