

Paul Bingham
binghamph@cdmsmith.com



The New Trade Balance

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Agriculture and Forest Products Trade Reflects Changes in Economic Conditions Varying by Country

Faster Growing World Economy Accelerates Shifts in Trade Patterns

- World 2014 economic growth up 3.2%, vs. 2.5% last year
- World 2014 trade growth forecast 4.1%, vs. 2.6% last year
- Emerging market weakness in 2013 is lingering, with moderate 2014 growth projected, yet still at a faster pace than developed countries
- Commodity price increases modest – inflation isn't yet a problem in U.S. or rest of the developed world, yet oil price shock risk remains
- Eurozone recovery, despite Russia, helps world GDP and trade growth
- Developed world monetary policy in 2014 still providing stimulus

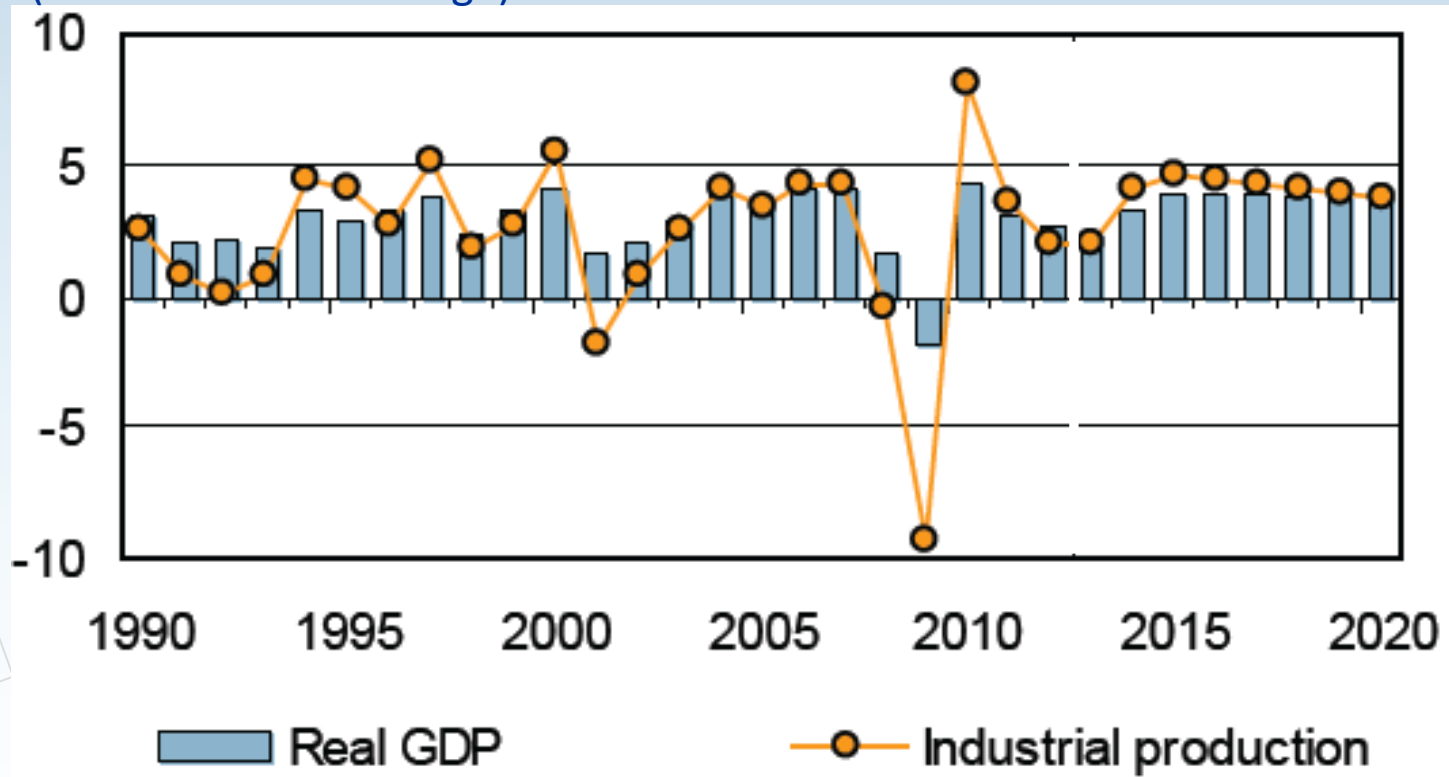
U.S. Economy Rebounding from Weak 1st Quarter 2014, With Improved Fundamentals and Low Interest Rates

- U.S. economy saw GDP fall 2.9% in Q1 2014, reversing 2.6% growth pace of Q4 2013
- Weakest quarter since Great Recession
- Causes: Drops in inventories, exports and business investment, plus a fall in housing construction due to the bad winter weather
- The big slowdown was temporary; Q2 2014 has seen a rebound
- Full year U.S. GDP growth forecast now for 2.5% growth
- Dollar exchange rate strength during uncertainty temporarily stopped long-term trend of decline in the dollar. Dampens U.S. export competitiveness.

Pace of World GDP Growth Increasing After 2011-2013 Post-Recession Weakness

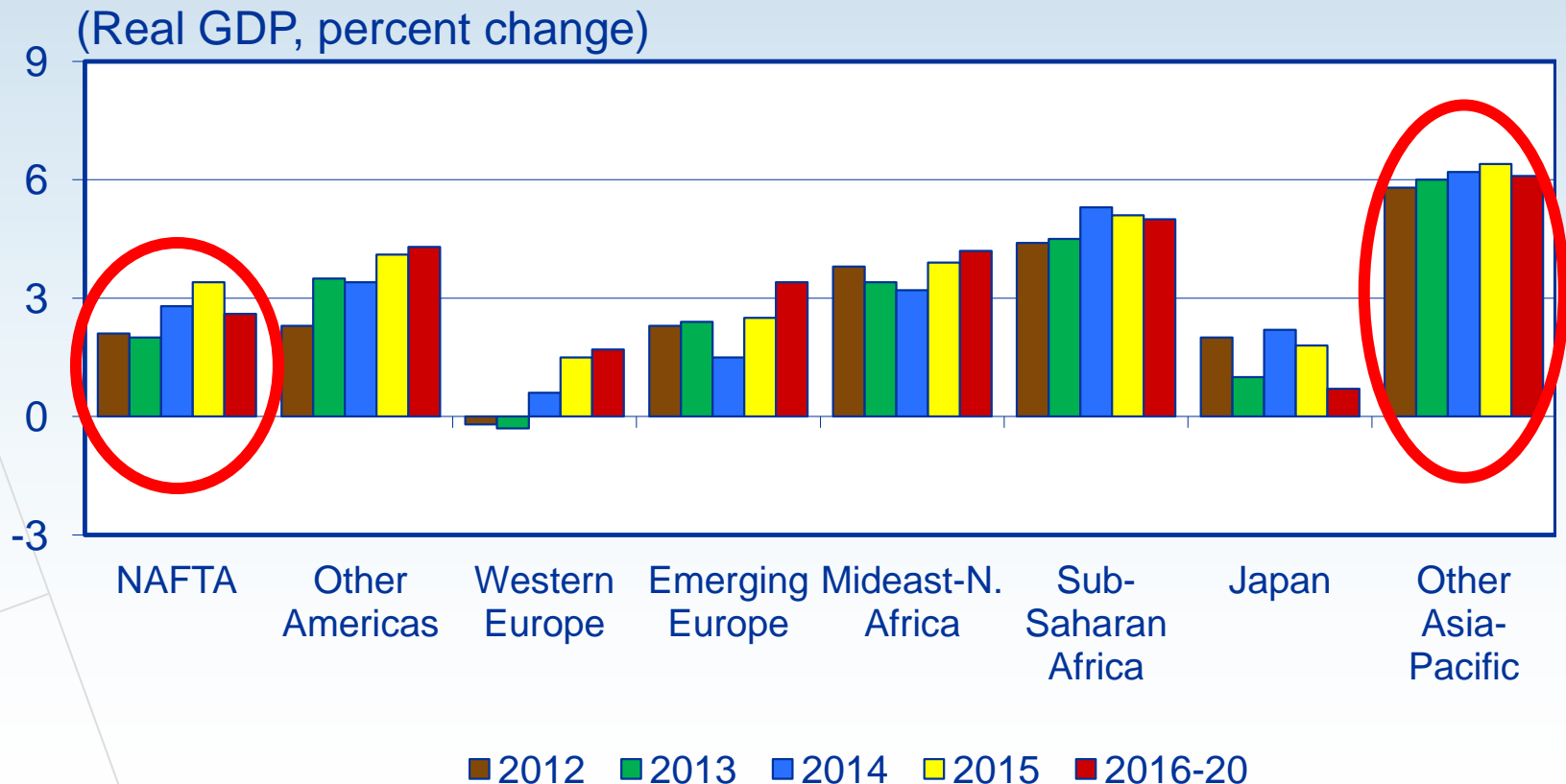
More volatile industrial production improving in 2014 as manufacturing recovers in Europe and sees faster growth in North America

(Annual Percent Change)



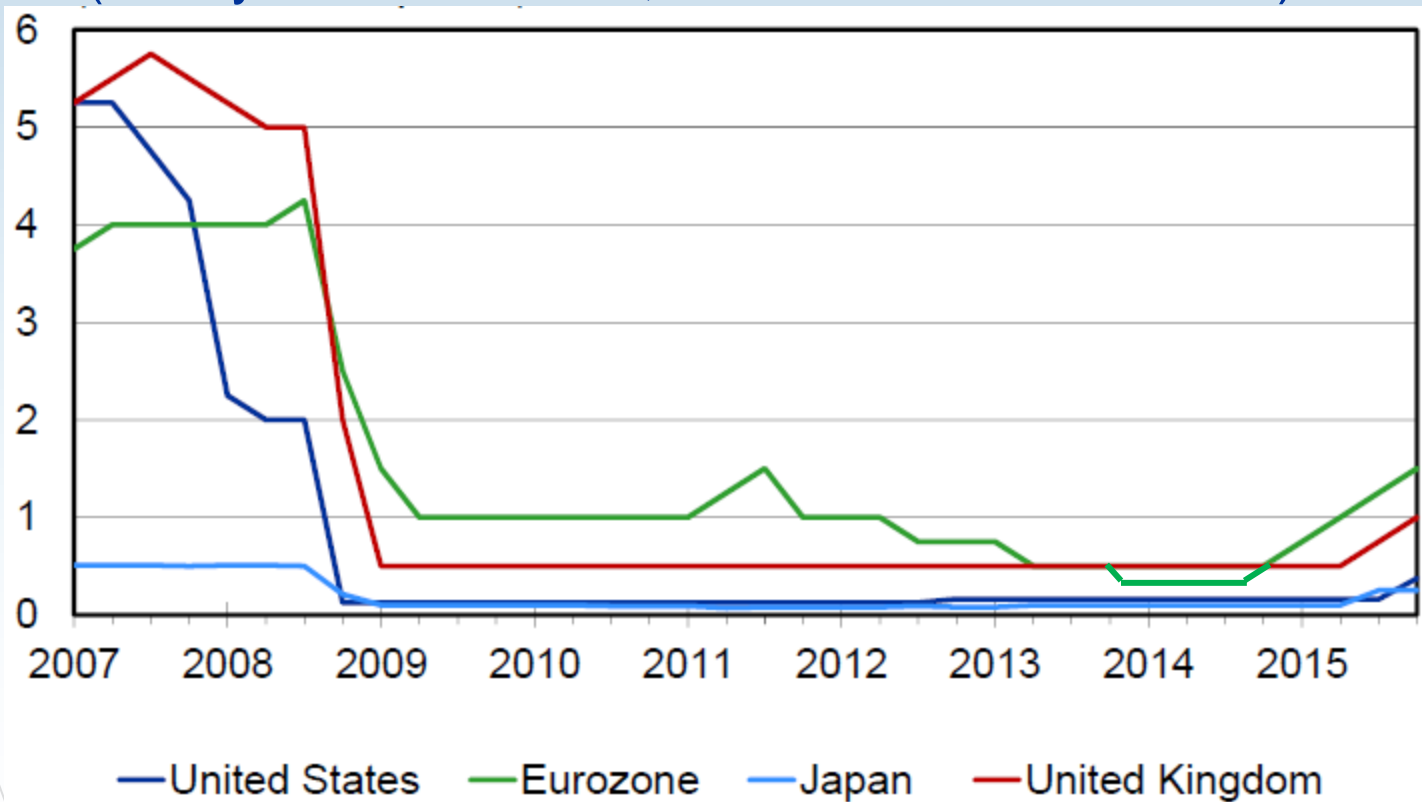
GDP Growth Rate Differences Affect Pace of Trade Growth, Trade Volumes and Investment Potential

Geography of production / consumption is shifting: Emerging markets grow **5%** on average through 2020 vs. **2%** for advanced countries.



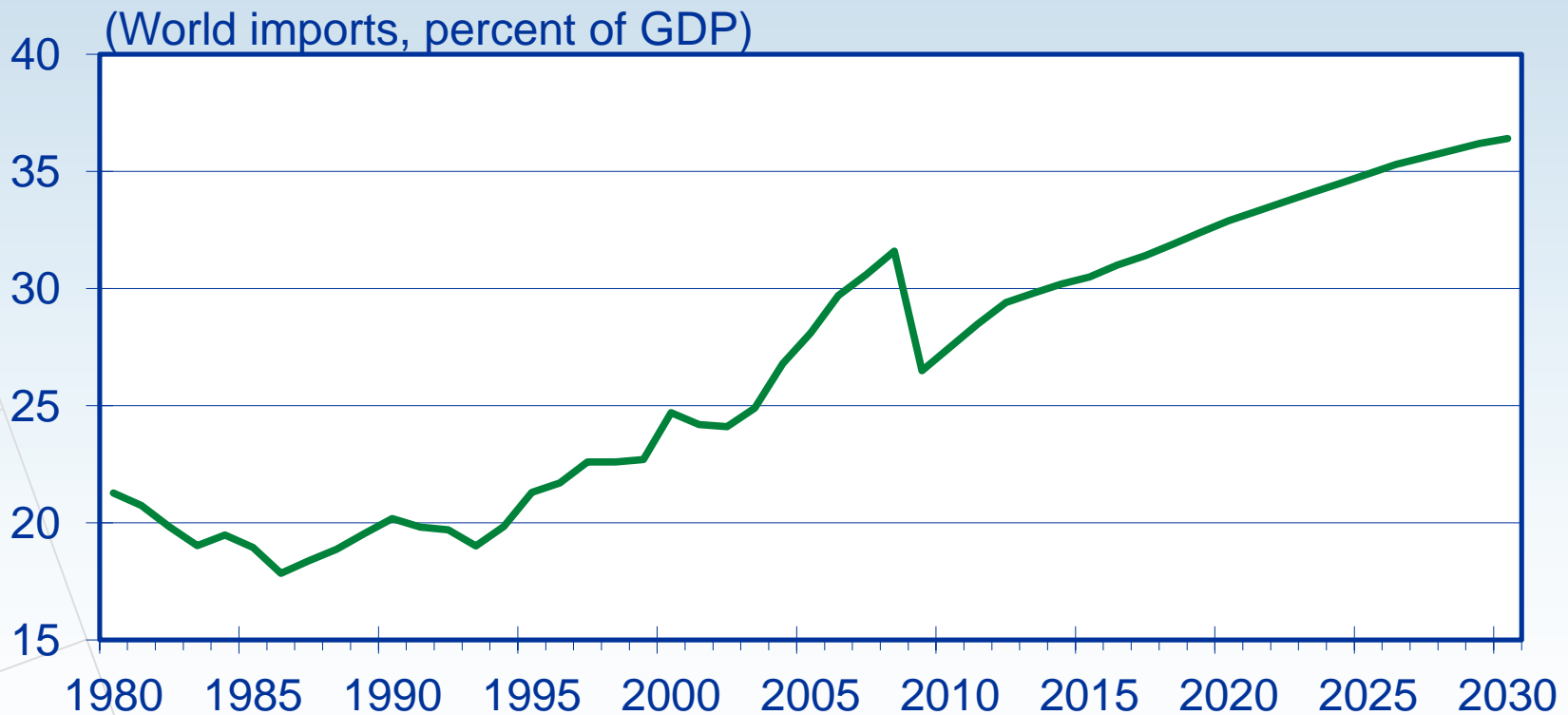
Monetary Policy Remains Loose Throughout the Developed World

U.S. FRB tapering bond buying before interest rates increase
(Policy Interest Rates, Percent End of Quarter)



Underlying World Trade Share of the Economy Grows Again After Decline During Recession

Trends in Globalization are *shifting*, not reversing, long-term



Remember ‘Double U.S. Exports in Five Years’? Good Stretch Goal But Won’t Be Achieved

President Obama’s National Export Initiative is four years old:

“So tonight, we set a new goal: We will double our exports over the next five years”

President Obama, State of the Union Address, January 27, 2010

Improve trade advocacy and trade promotion efforts on behalf of U.S exporters.

Increase access to export financing to ensure good opportunities do not fall through the cracks.

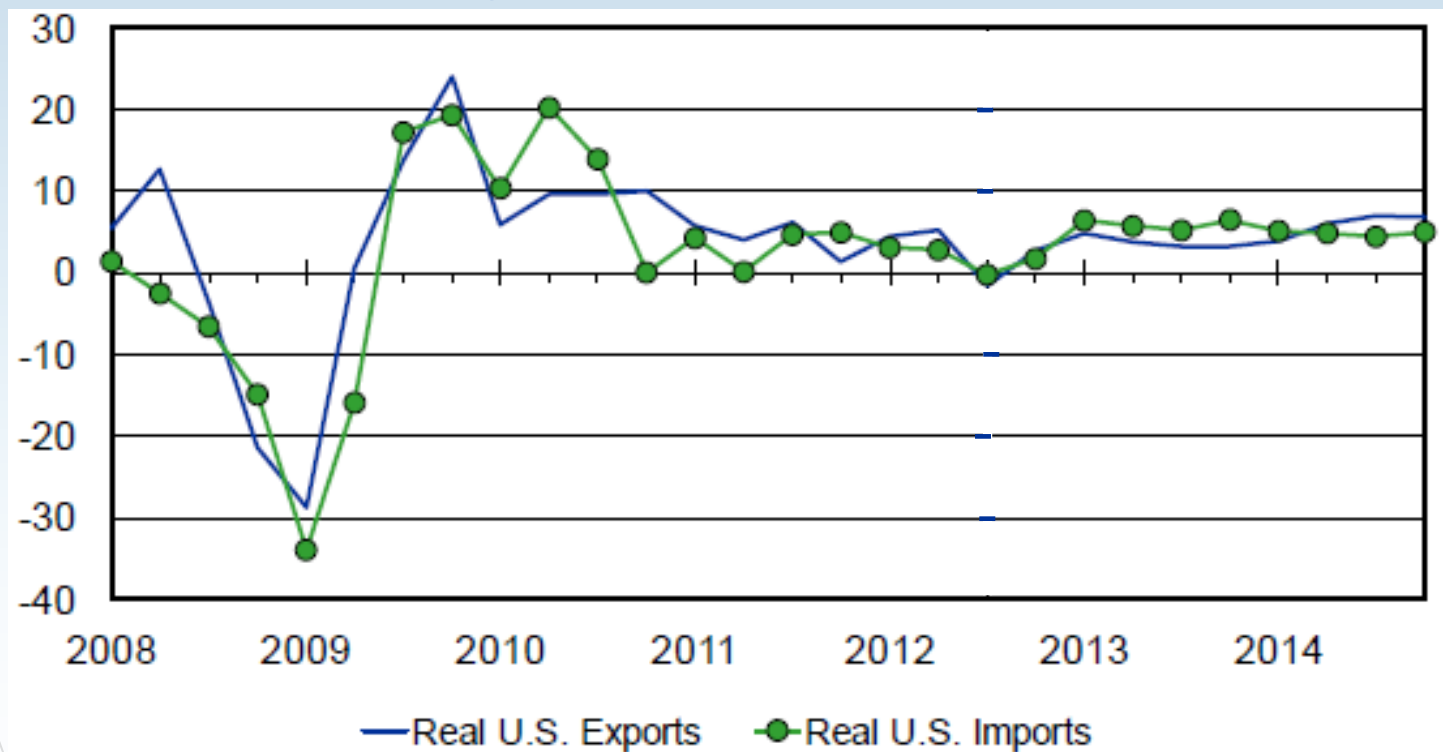
Reduce trade barriers in order to open as many new markets as possible.

Robustly enforce trade rules to ensure our trading partners live up to their obligations.

Promote policies that lead to strong, sustainable and balanced economic growth.

U.S. 2014 Export Growth Recovering From Slow Trade Partner Demand 2011-2013

(Percent Change, Annual Rate)



U.S. Export Growth Forecast to Overtake Import Growth By End of 2014

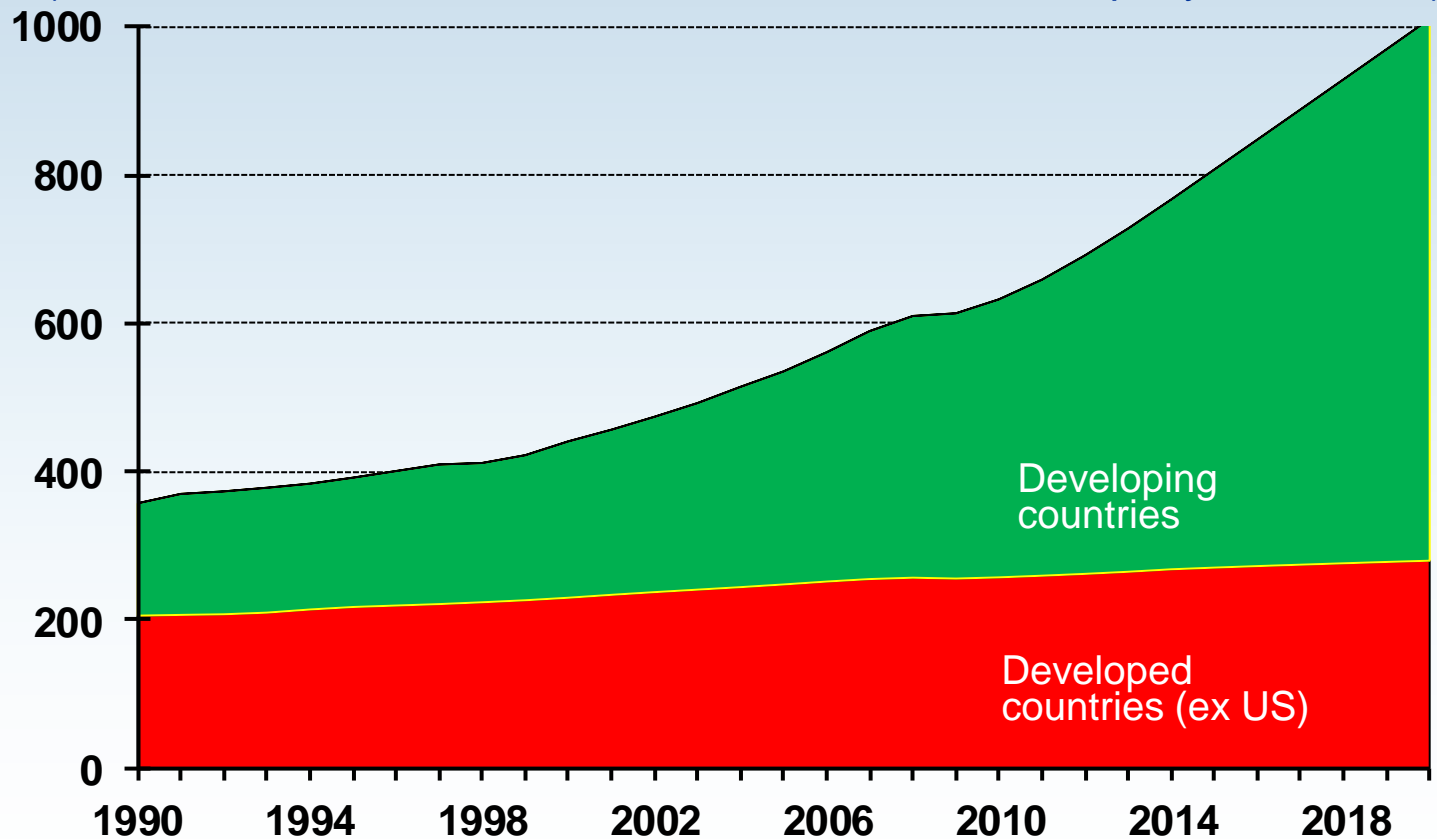
Changing Conditions for U.S. Agriculture Exports

- **Foreign-country markets are ever-more important for U.S. agriculture producers**
- **Most of world agriculture consumers (population) and faster average rates of growth are outside the U.S.**
- **Competitors and consumption patterns are shifting**
- **Agriculture transportation supply changing domestically and internationally**
- **Forest products exporters benefit from Asian growth**

Export Market Growth: 'Middle Class' Outside the U.S. Reaches a Billion Households by 2020

Population with income to afford imported agricultural goods growing fast

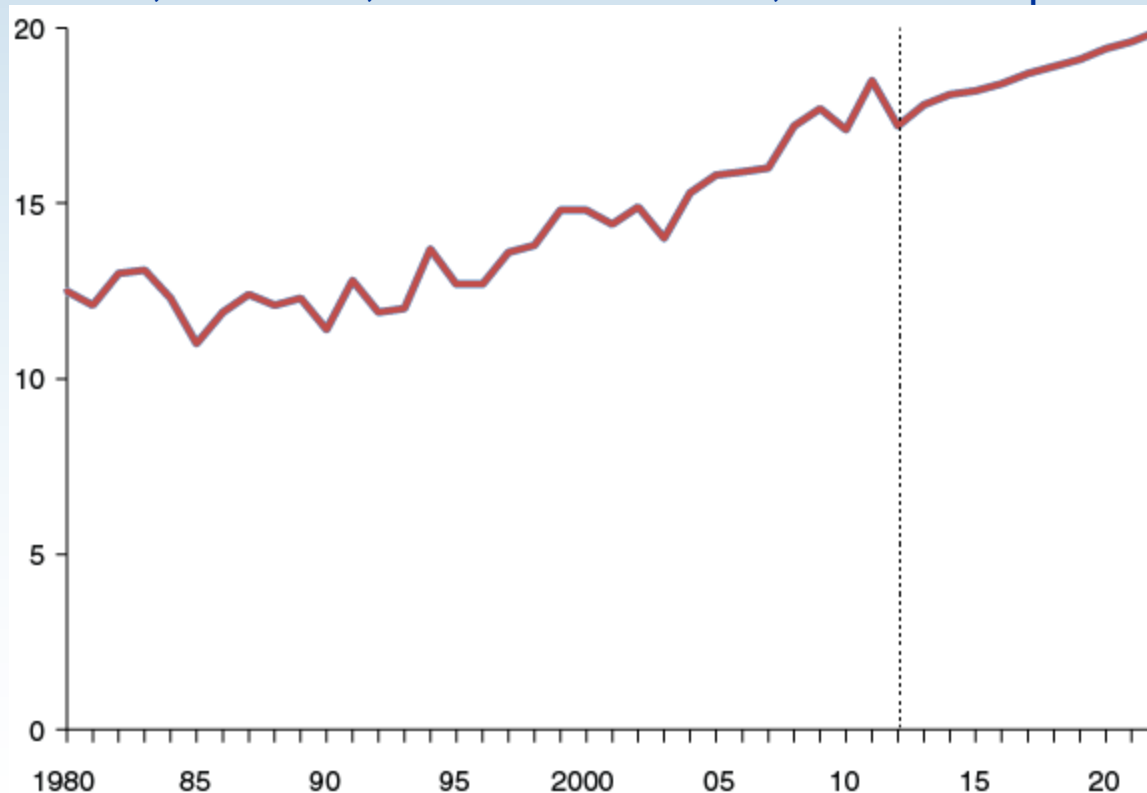
(Non-U.S. households with Real PPP income > \$20,000 per year, millions)



U.S. Ag Export Potential Benefits from Developing Countries Importing a Greater Share of Consumption

Developing country consumption share of total grains, oilseeds, cotton, and meats comprised of imports, USDA forecasts grows to **20%** by 2022.

Grains, Oilseeds, Cotton and Meats, Percent Imported

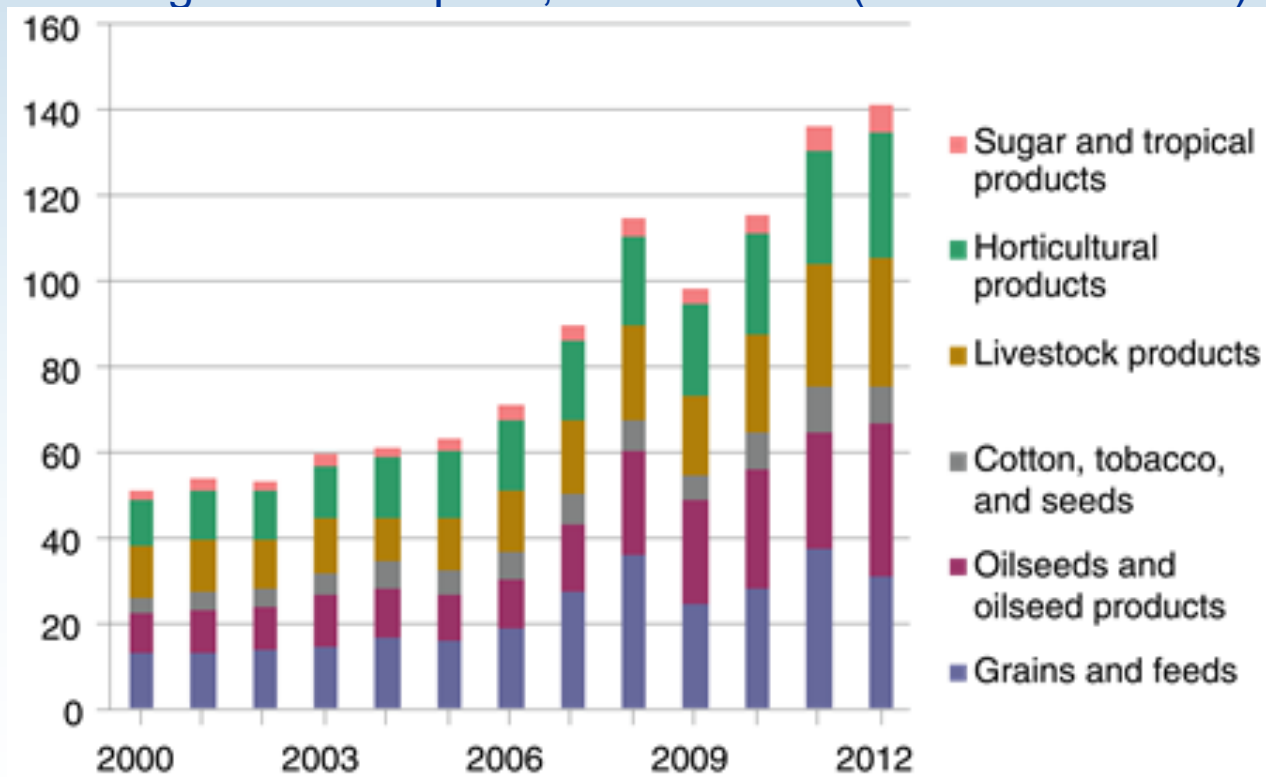


Source: USDA, ERS

U.S. Ag Exports Have Almost Tripled Since 2000

Growth in U.S. exports of all major agricultural product categories. Higher average prices have boosted value as well as volume growth

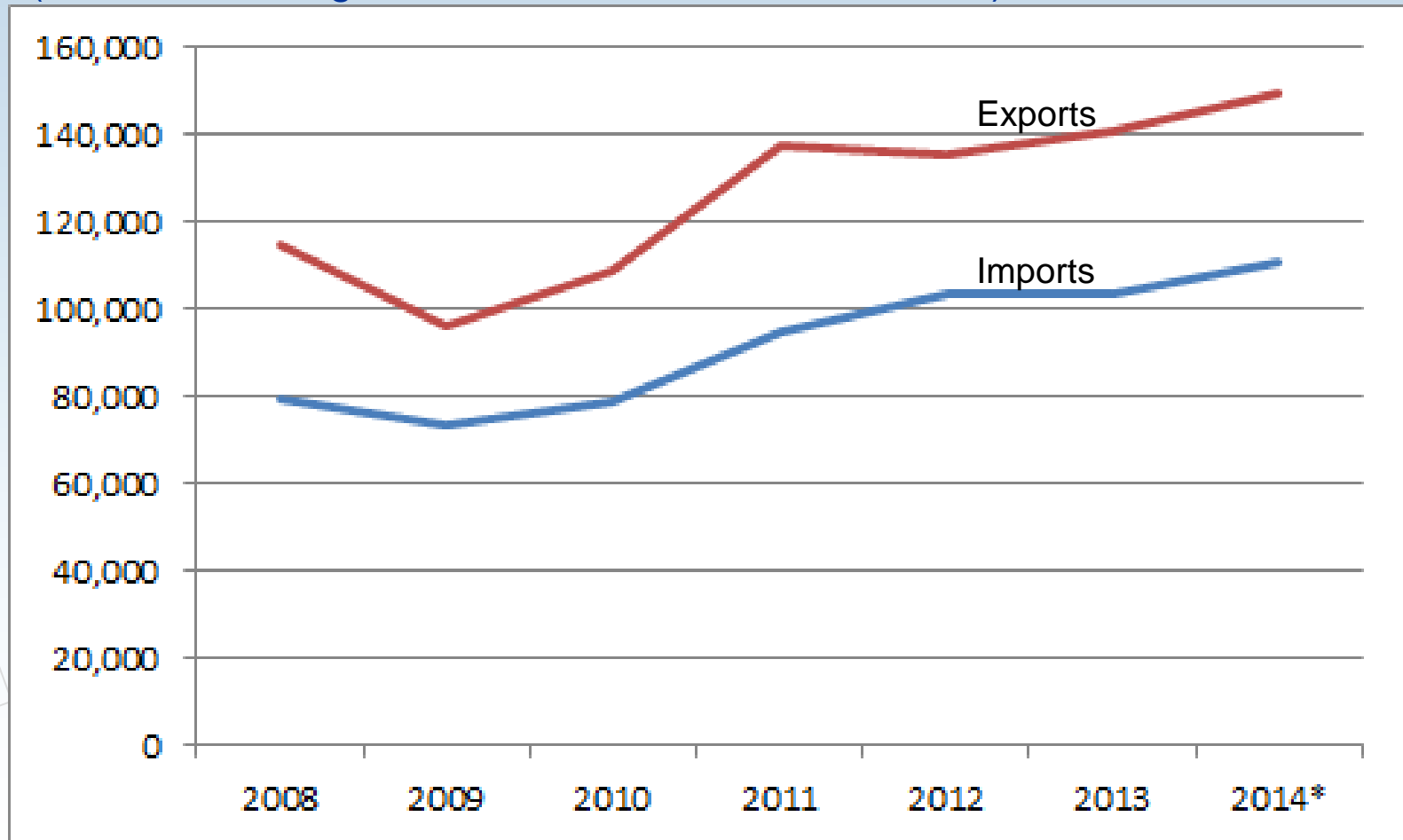
U.S. Agriculture Exports, 2000- 2012 (Billions of Dollars)



U.S. Agricultural Exports and Imports

Export Surplus Growing Again as Two-Way Trade Climbs

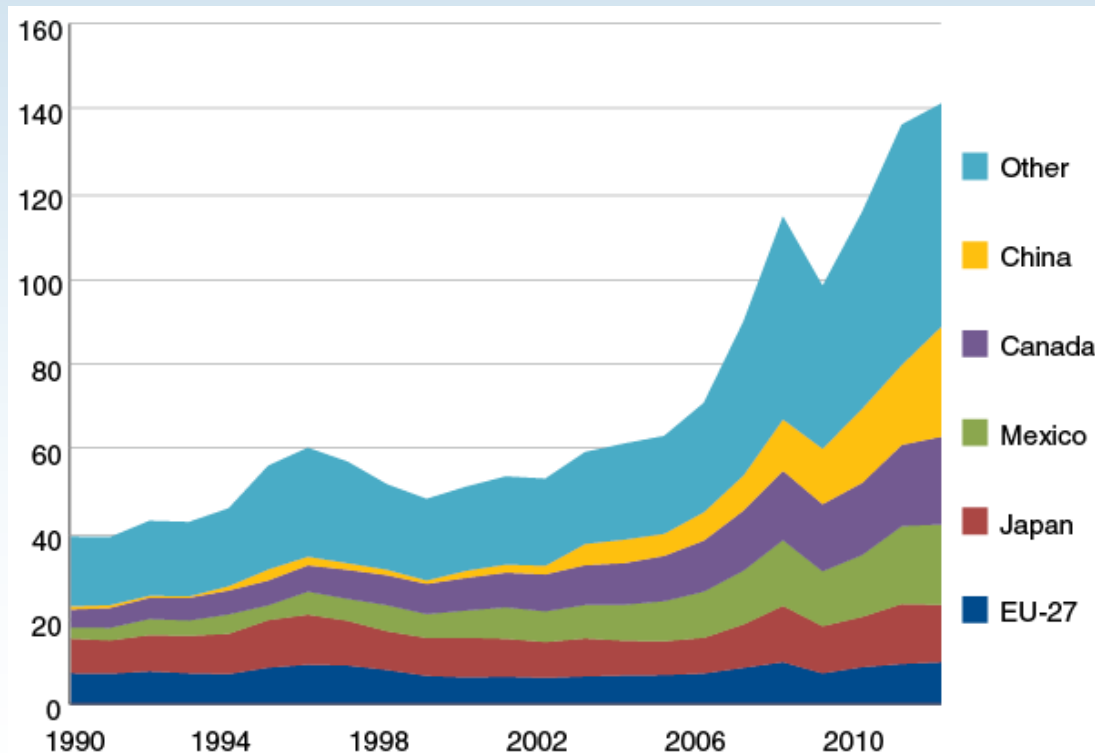
(Value of U.S. Agricultural Trade, Millions of Dollars)



U.S. Agriculture Exports are Mostly Overseas: China #1; then #2 Canada and #3 Mexico Overland

Developing country share total of U.S. agriculture exports now more than double that of the developed country trade partners.

Top U.S. Agriculture Export Markets, (Billions of Dollars)

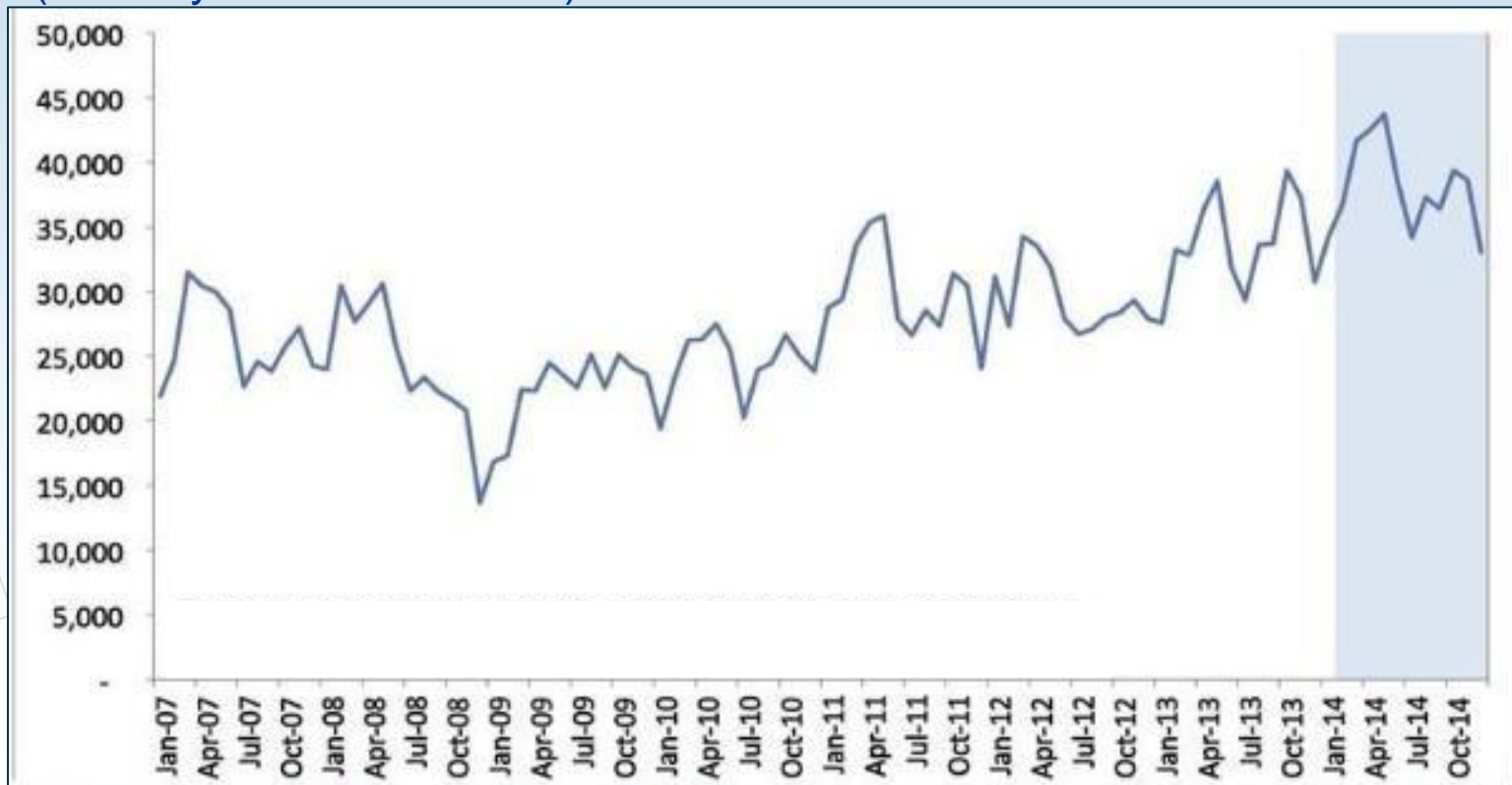


U.S. Logs & Lumber Exports Growing due to Asia

Export Shipments Increasing With Seasonal Patterns Intact

U.S. Containerized Log & Lumber Ocean Exports

(Monthly Volume in TEUs)



Risks to the Forecasts Mostly on the Downside

- **China's Slower Pace of Growth**
 - Domestic issues have international ramifications for trade
- **Middle East Turmoil**
 - Iraq, Syria, Libya, Iran all still threaten oil market price shocks
- **Russia and Ukraine**
 - If Russia grows its borders more, it will further shrink its economy, already hurting Europe
- **Weather**
 - Recurring risks to markets with super-storms, floods, drought

Thank you!

Paul Bingham

CDM Smith Inc.

binghamph@cdmsmith.com

+1.202.641.4071



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