



# Bureau of Business Research Presentation | August 2018

Open Markets: Will Trade Frictions Delay the Recovery  
in Midwest Agriculture?

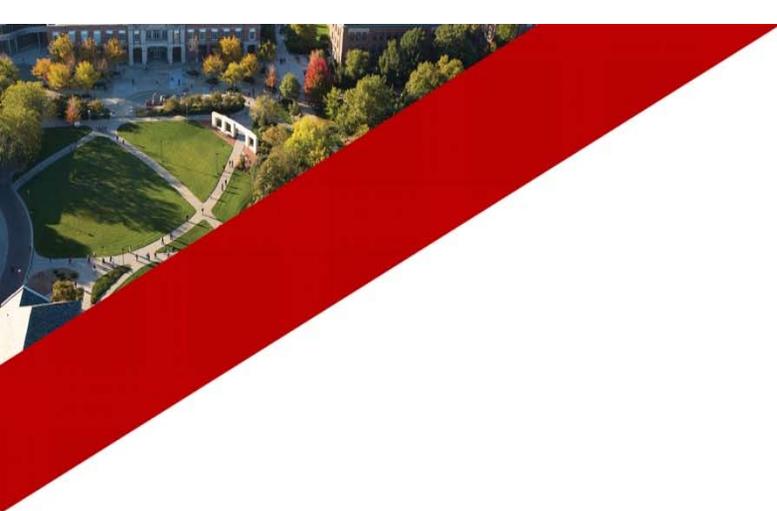
*Presented by*

**Eric Thompson**

Professor of Economics

Director, Bureau of Business Research





# Outline

- Negotiation by Tariff
- Trends in Midwest Agriculture
- Implications for Midwest Economies



## Negotiation by Tariff - Examples

- Approach: A large home market and the threat or temporary implementation of tariffs can lead to greater free trade in the medium and long-term
- Primary goal: Freer trade rather than permanent tariffs
- Exceptions in U.S. policy: Autos, steel, aluminum: these are select, politically important, industries where there does seem to be an effort create permanent tariffs and barriers to protect domestic producers



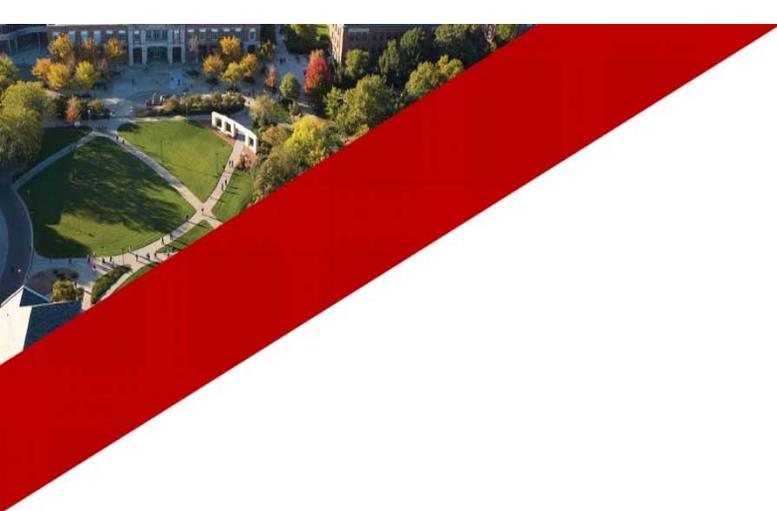
## Negotiation by Tariff - Examples

- China: An attempt to reduce Chinese tariffs, restrictions on investment and theft of intellectual property
- Europe: An attempt to lower tariff rates on both sides
- Renegotiation of NAFTA: An attempt by the United States to permanently restrict trade



# Negotiation by Tariff

- Implications
  - Short-Term:
    - Price Impacts/Input Costs
    - Uncertainty
  - Medium and Long-Term:
    - Potential for more open markets
    - Permanent uncertainty



## Negotiations by Tariff – Midwest Impact

- The Midwest is a broad region which includes industrial states such as Ohio, Michigan, Illinois and Wisconsin.
- It is probably easiest to see the influence of agriculture in the “farm” Midwest states, which include Nebraska, Iowa, Kansas, Minnesota and North and South Dakota



## Negotiations by Tariff – Midwest Impact

- Retaliatory tariffs currently in place have a “modest” impact of exports even in the farm Midwest
  - These figures include tariffs on metals and other items as well as agricultural production
- The impact obviously could grow with the magnitude and scope of retaliatory tariffs.



# Current Impact of Retaliatory Tariffs

(from U.S. Chamber of Commerce)

State	Exports (Billions \$)		
	“Threatened”	Total	Percent
Iowa	\$0.98	\$22.7	4.3%
Nebraska	\$0.33	\$13.1	2.5%
South Dakota	\$0.13	\$5.3	2.5%
Kansas	\$0.36	\$16.7	2.2%
Minnesota	\$0.50	\$34.3	1.5%
North Dakota	\$0.06	\$9.2	0.7%



# Influence on Agriculture

- The “threatened” exports included agricultural products
  - Meat products
  - Grains
  - Pesticides and fertilizers (Canada)



## Influence on Agriculture

- The “negotiation by tariff” has not been introduced at a good time for agriculture
- The industry is just beginning to enter the “stable” phase of a lower price regime



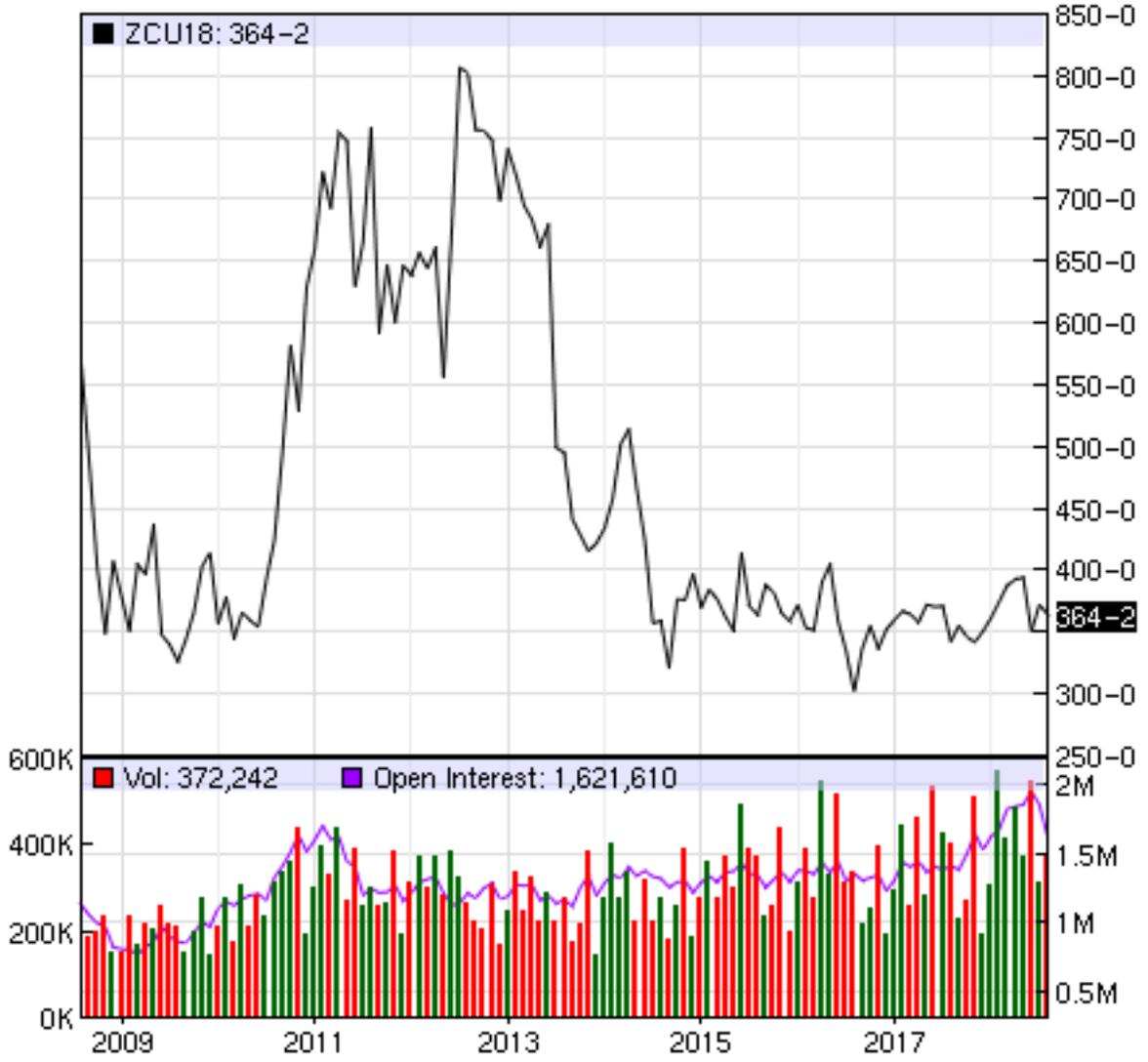
## Influence on Agriculture

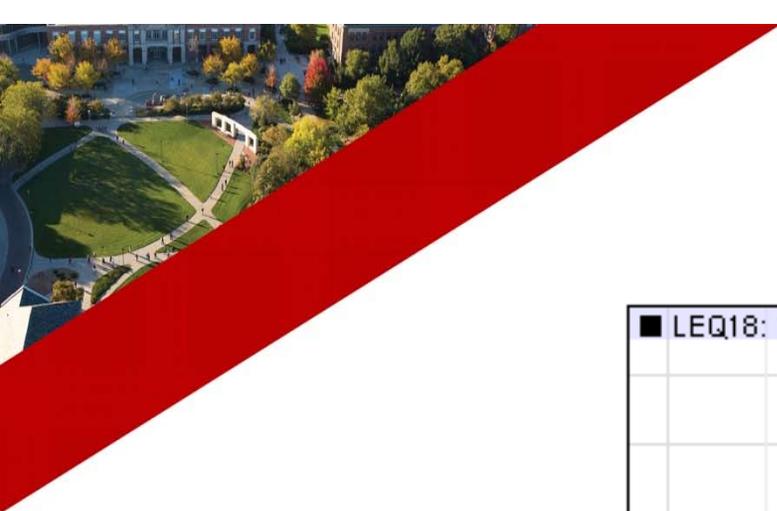
- Farm incomes followed the pattern of commodity prices
- The result has been falling land prices and financial pressure on individual farmers but no systemic risk



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10yr Corn Commodity Future Prices from NASDAQ.com





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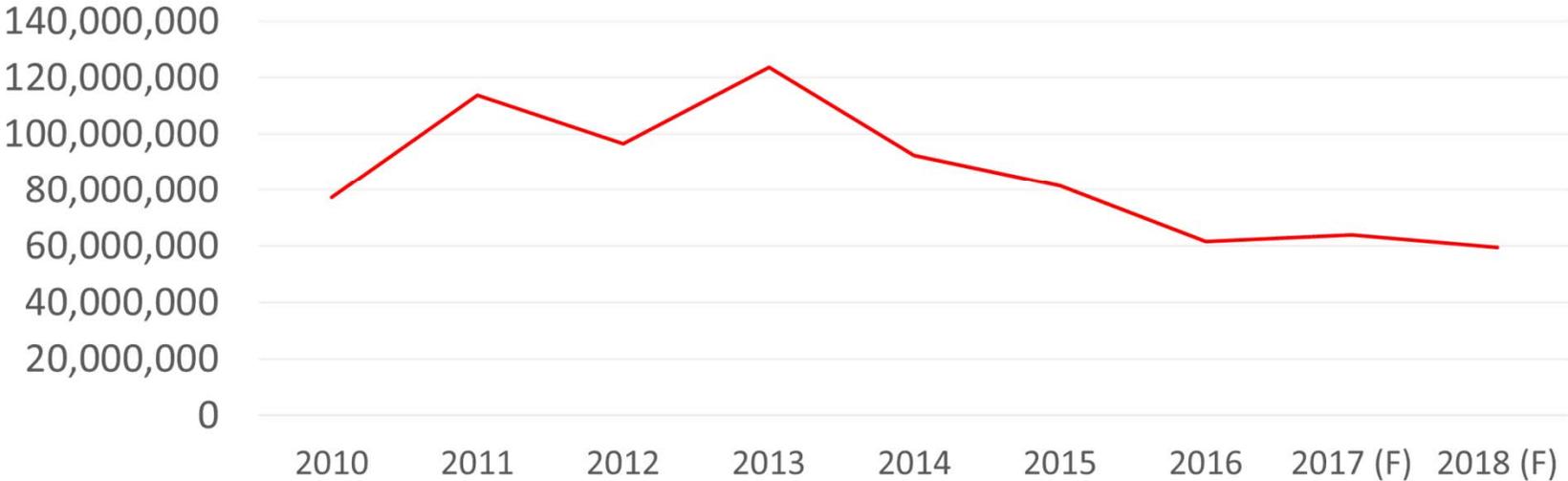
10yr Corn Commodity Future Prices from NASDAQ.com





# Influence on Agriculture

Net Farm Income 2010-2018  
United States

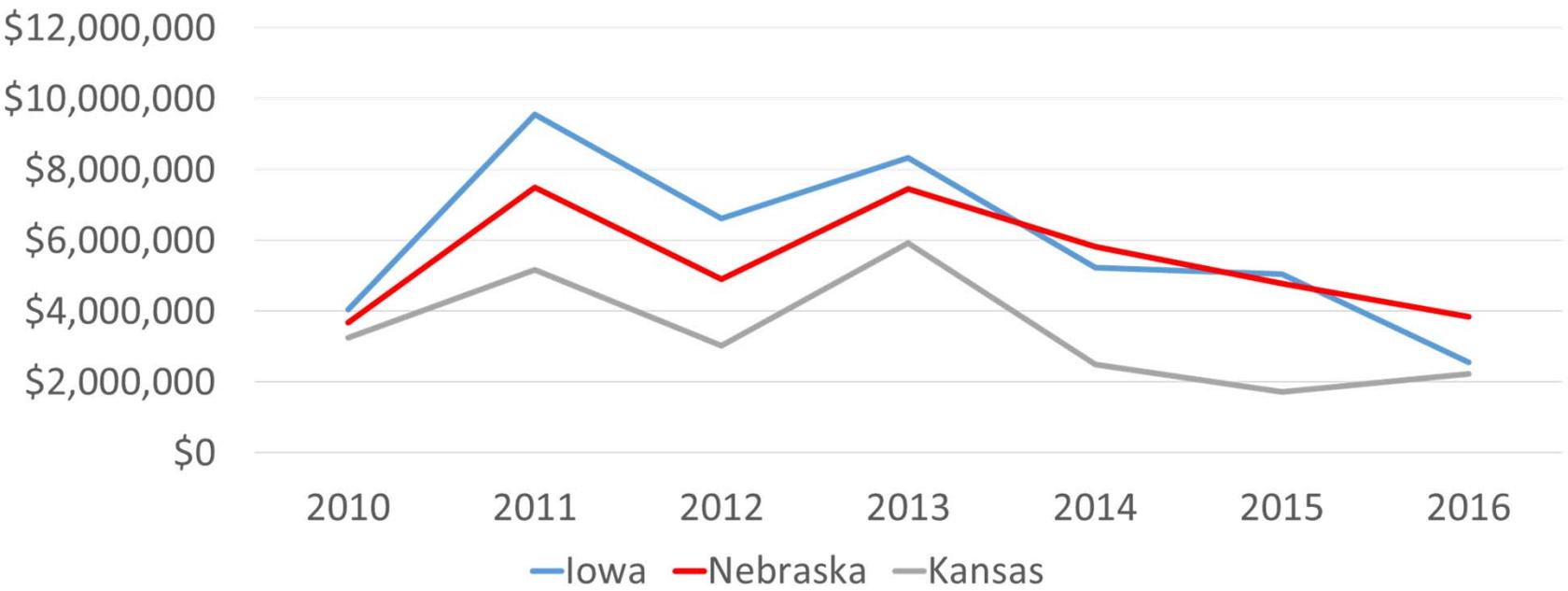


(F) Denotes forecast; Source: USDA



# Influence on Agriculture

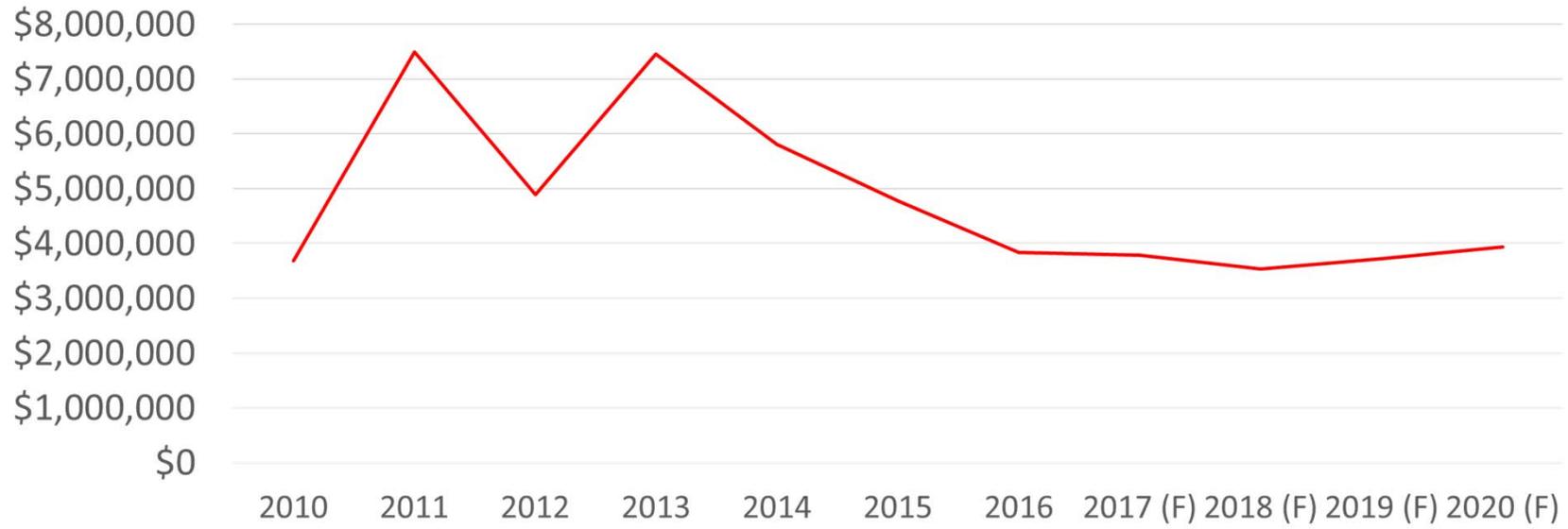
Net Farm Income 2010-2016  
Iowa, Nebraska and Kansas





# Influence on Agriculture

Net Farm Income 2010-2020 Nebraska



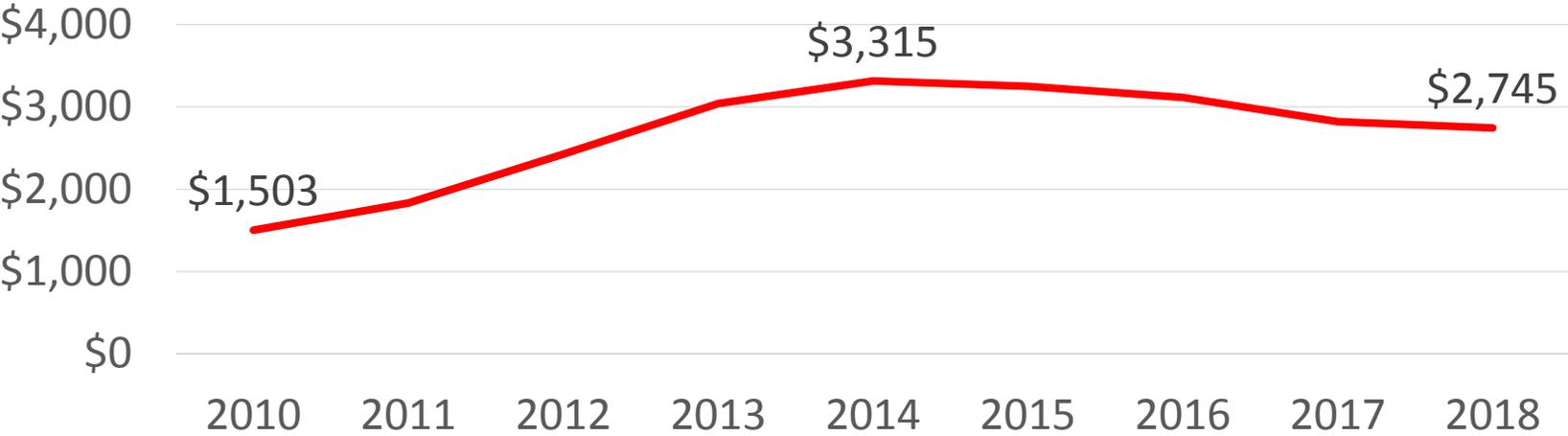
(F) Denotes forecast. 2017 (F) - 2020 (F) from the USDA and UNL



# Influence on Agriculture – NE Farmland

(Source: Department of Agricultural Economics, UNL)

Nebraska Average Farmland Value/Acre  
2010-2018 (February)





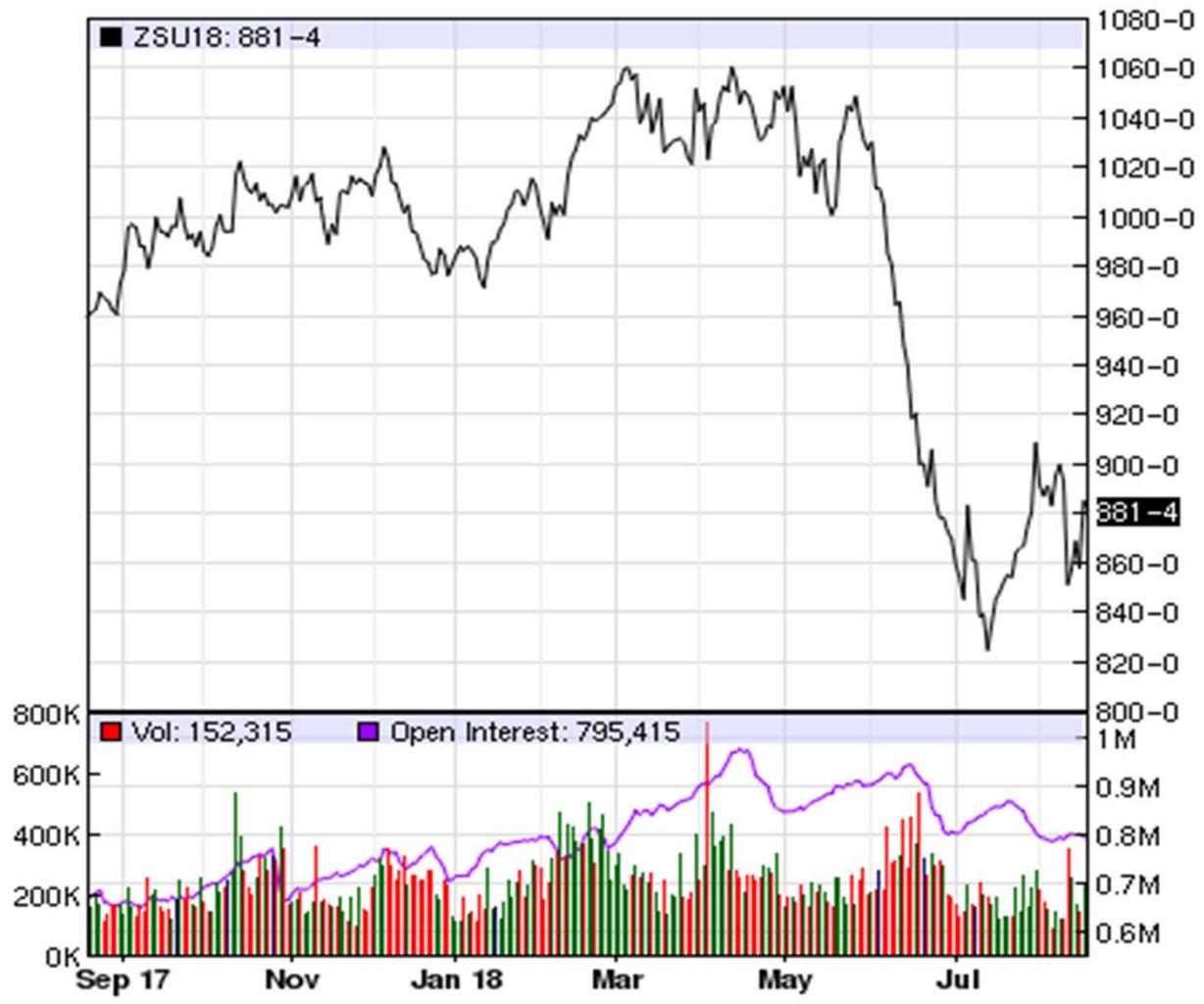
## Influence on Agriculture

- The proceeding forecasts were developed before the recent uptick in disputes between the U.S. and its trading partners.
- There is evidence that a further drop in crop prices coincided with this uptick.



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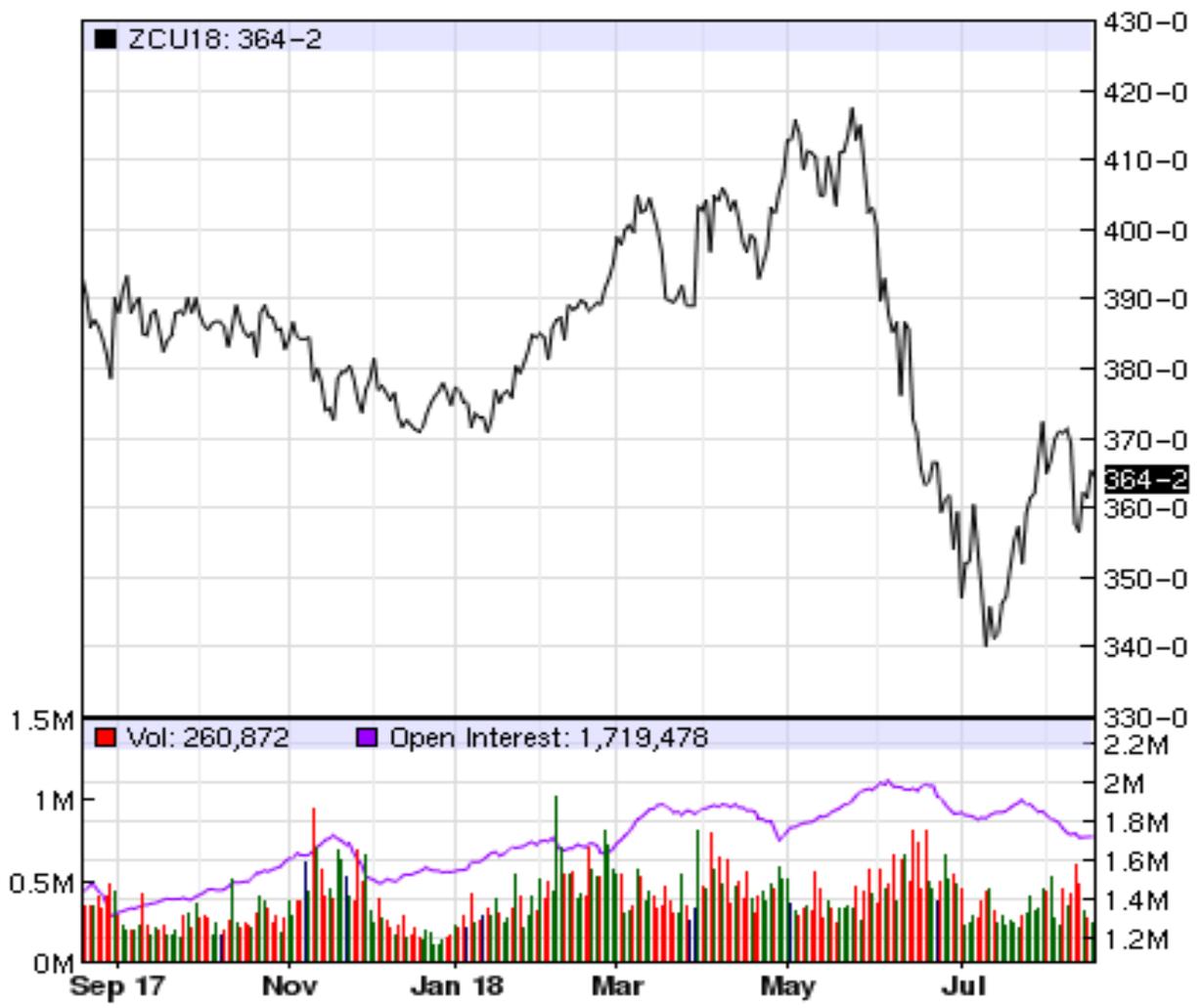
1yr Soybean Commodity Future Prices from NASDAQ.com





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1yr Soybean Commodity Future Prices from NASDAQ.com



# Influence of Tariffs on Prices and Market Share

- In the case of soybean tariffs, physical limits on production in Brazil and Argentina (and China) limit loss of U.S. market share.
- Prices will fall at the margin in the U.S. due to:
  - A decline in U.S. exports
  - An increase in the value of the U.S. dollar (due to trade tensions)

# Influence of Tariffs on Prices and Market Share

- The price impacts are modest. According to the Univ. of Tennessee, a 25% Chinese tariff on U.S. soybeans would yield
  - \$4.5 billion decline (out of \$14.2B) in soybean exports TO CHINA
  - Purdue University finds an even larger decline 71% drop in exports TO CHINA (and 40% in total soybean exports) under a 30% tariff
    - 5% decline in producer prices

• Sources: Muhammed and Smith (2018). "Evaluation the Impact of Retaliatory Tariffs on U.S. Soybeans in China," Department of Agricultural and Resource Economics, University of Tennessee (Report W 532). Wally Tyner and Farzod Taheripour, Purdue University, 2018.



# Influence on Tariffs on Market Share and Prices

- The proceeding analysis pertained to soybeans. Other agricultural commodities which can be impacted by retaliatory tariffs from other countries include:
  - Pork
  - Poultry
  - Corn
  - Specialty Crops



# Impact on Midwest Economies

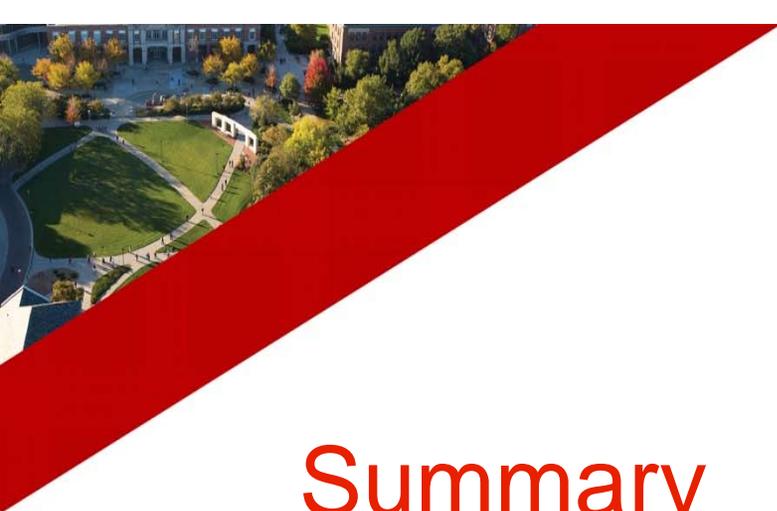
Year	NE Net Farm Income (Billions \$)	NE Real GDP (Percent Growth)
2010	\$3.68	
2011	\$7.49	4.3%
2012	\$4.90	0.7%
2013	\$7.46	2.5%
2014	\$5.81	3.7%
2015	\$4.78	2.5%
2016	\$3.84	1.9%
2017	\$3.78	0.6%



# The Agricultural Production Complex Impact on Nebraska (2010)

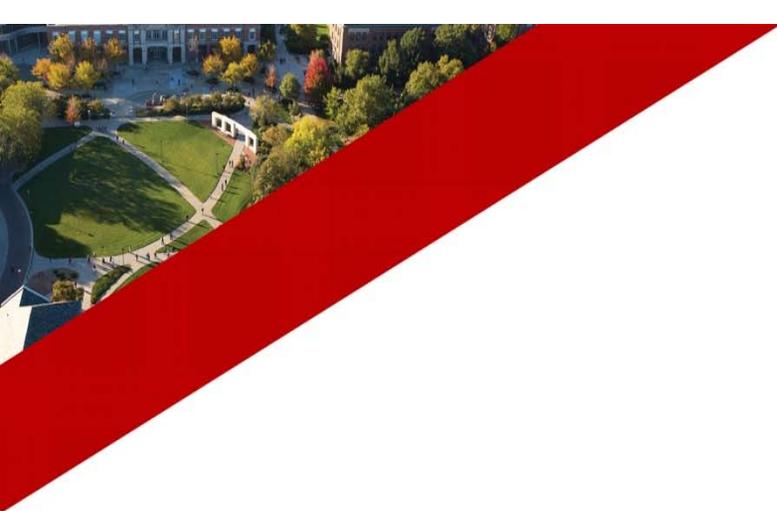
Measure	Share of Economy (with Multiplier)
Value-Added	26.9%
Labor/Proprietor Income	25.4%
Employment	23.7%

Source: Department of Agricultural Economics, UNL



## Summary

- While the timing is bad, a stable, low price environment likely to continue absent a full scale trade war (perhaps even with it)
- The big question: Will “negotiation by tariff” yield anything that is worth the cost?
- In addition, with the focus on tariffs what is the cost of failing to pursue the market reforms which agriculture needs the most?



# What are agriculture's real problems?

- Federal (and state) policies which distort land use
- Federal policies which slow the reallocation of land to the most efficient producers
- NIMBY (state and local)
- Improved market access



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**THANK YOU!**

**Any Questions?**



Keep in touch!

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