Tariffs Weaken Farm Income Prospects

The agricultural economy has been under downward pressure since 2014 as world grain production exceeded world usage. In early 2018, prospects were improving with optimism for recovery in grain prices and farm incomes.

However, tariffs on agriculture products depressed prices again. The Trump administration has chosen to use U.S. tariffs on things we import as a strategy to try to get our trading partners to reduce their trade barriers. As the administration raised tariffs on U.S. imports, those countries retaliated by raising tariffs on the U.S. goods we sell to them. Agriculture is a major exporting industry so is a natural target for tariffs by our large trading partners like Mexico, Canada, the EU, and China.

China is the biggest single customer of U.S. agricultural products. China purchased $26 billion of Ag products from the U.S. in 2017. By far the biggest of these was soybeans which accounted for over $12 billion of the total. China put 25% tariffs on a range of U.S. farm products, soybeans being the largest. A Chinese tariff is simply a tax on U.S. origin products.

The strategy of the Trump administration is to use U.S. tariffs to inflict economic pain on trading partners with the idea that this pain will cause them to reduce their trade restrictions and give the U.S. a “better deal.” For now, tariffs have weakened farm prices and farm income prospects. The hope of this strategy is that a negotiated deal will provide better export opportunities for farmers in the future. The Trump administration has initialed direct payments to farmers of seven commodities to assist them with financial losses due to the tariffs.

Time will tell if this is a successful strategy, or if it alienates some of our good customers and leaves U.S. agriculture with long-term reductions in export sales opportunities.

August 31, 2018

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