

SHRINKING APPETITE

Growers, investors nervous as China reduces its imports of U.S. crops

By MATEUSZ PERKOWSKI
Capital Press

China's appetite for U.S. farm products once seemed limitless.

The nation of 1.3 billion people, with its wealthy emerging middle class, demanded shiploads of American crops ranging from almonds and apples to raw materials such as cotton. Overall, the annual value of food exported to China surged in value roughly 15 times over since the dawn of the 21st century, peaking at nearly \$26 billion in 2012.

No longer. Since then, demand has ebbed. Imports of farm goods leveled off in 2013, receded a bit in 2014 and fell in value by 17 percent in 2015.

However, experts say the slowdown in imports from the U.S. isn't necessarily cause for alarm, especially in light of the white-hot growth seen over the past decade.

'No miracle markets'

But they add that the anxieties are amplified by the uncertainty about the true state of China's economy — as well as investments made by U.S. farmers and food companies that assumed the growth would continue unabated.

While it's still possible to make headway in the Chinese export market, people were fooling themselves if they thought the nation's demand was boundless, said Nick Kukulian, CEO of Paramount Export, an Oakland, California, company that ships fresh fruits and vegetables to China.

"There are no miracle markets," he said. "It's all just global competition."

Cotton provides a harsh example of the vicissitudes of the Chinese market.

When China was a top buyer of cotton around 2011, the crop was fetching more than \$2 per pound for U.S. farmers.

Now, the country isn't even in the top five of global cotton buyers and prices are hovering around 60 cents per pound.

"It's one of the key factors keeping cotton prices low. China's policies had a large impact on the world's market," said Jody Campiche, vice president of economics and policy for the National Cotton Council.

To some extent, the reduced value of overall U.S. farm exports to China can be attributed to the global price decline for major commodities, particularly soybeans, said Michael Swanson, chief agricultural economist for Wells Fargo Bank.

Soybeans that topped \$14 a bushel in 2013 are now selling for about \$8.70 a bushel.

China's economy is also growing at a slower clip, but it must be remembered that its underlying economic base is now a lot bigger, Swanson said.

'Poor visibility'

Investors are also nervous because of the "poor visibility" into the Chinese economy offered by its government, he said.

While China's official economic growth rate was about



Dockworkers unload containers in January from the OOCL Rotterdam, a Hong Kong-registered vessel.

Don Jenkins/Capital Press

China vs. U.S. — agricultural production and trade statistics

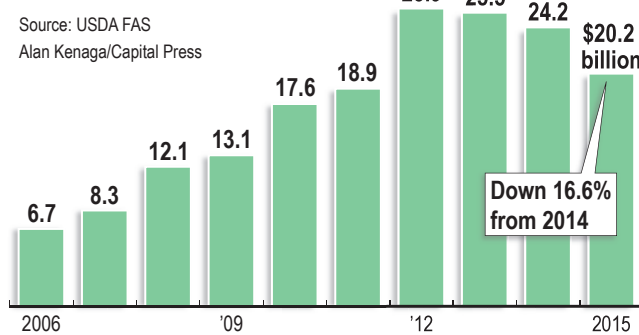


Statistic	China	United States
Population (2015 est.)	1.37 billion	321.4 million
Labor force in ag (2012 est.)	270.1 million	10.9 million
Total land area (sq. mi.)	3.7 million	3.8 million
Ag land as percent of total (2011 est.)	54.7%	44.5%
Irrigated land (sq. mi., 2012)	266,440	87,200
Ag as percent of GDP (2015 est.)	8.9%	1.6%
Total value of ag imports	\$140.4 billion (2013)	\$111.7 billion (2014)
Total value of ag exports	\$79.8 billion (2013)	\$150 billion (2014)

Source: USDA ERS, FAS; www.cia.gov

Alan Kenaga/Capital Press

U.S. agricultural exports to China, 10 years
(Billions of dollars)



profits and dividends, he said.

If that story begins to appear too optimistic, people fear they've overpaid even if nothing catastrophic has occurred.

"Any change in that growth projection suddenly panics that investor," Swanson said.

The analogy is pertinent to agricultural sectors such as the almond industry, whose fortunes were propelled to new heights by China's explosive economic growth.

China "came out of nowhere" to become a major almond buyer, which caused the value of California almond orchards to triple in the past five years, Swanson said.

Farmers who planted or bought orchards at peak prices may face financial problems if their investment was based on unrealistic assumptions about continued rapid growth in Chinese consumption, he said.

"You could be devastated by even a softening in demand," he said.

Massive spending

Until now, China's momentous economic rise was supported by massive government investment in bridges, highways, ports and housing, which was accompanied by a mass migration of people from rural areas to the cities.

That cannot go on forever, so China must now shift from an economy that depends primarily on exporting goods and

building infrastructure to one that's oriented toward domestic consumers, said Lindsey Piegza, chief economist with the Stifel investment firm.

"That's not a transition that occurs overnight," she said.

With China's extensive, and perhaps excessive, building boom winding down, there's bound to be a negative impact on the price of raw materials.

"You're talking about a decline in aggregate demand," Piegza said.

The effect is already apparent in the U.S. log market.

U.S. log shipments to China plummeted 40 percent in 2015 largely because builders have bought fewer hemlock logs, which are used for concrete formwork, said Gordon Culbertson, international business director for the Forest2Market consulting firm.

"Their housing construction is down a great deal. It has reduced the competition for forest products," Culbertson said.

Meanwhile, U.S. goods are more expensive in China because the dollar has gained in value against the yuan by more than 8 percent in two years, from roughly 6 yuan in 2014 to 6.5 yuan today.

As the U.S. dollar has strengthened against the Chinese currency, it has prompted China to buy logs from other countries such as New Zealand, he said. "It's magnified by the exchange rate."



Konnie Kong, right, speaks with Henry Chen of Guangzhou Yangcheng Food Co. and interpreter Willow Zheng during a recent meeting in Portland, that was part of an inbound trade mission by Chinese food buyers.

Capital Press

7 percent in 2015, some U.S. analysts believe it was actually as low as 4 percent based on factors such as steel output and coal use.

"People still doubt the data that comes out of China," said Dan Kowalski, director of industry research for CoBank, a major agricultural lender. "Are they telling us it is as bad as it is, or is it worse?"

Estimates may vary on the

exact growth rate, but experts generally agree China is not in a recession and its economic expansion is still faster than that of the U.S.

Even so, the slackening in China is seen as having a destabilizing effect.

'Tesla of the world'

With an annual growth rate that once topped 15 percent, China's economy was viewed

as being similar to a hot Internet company or technology startup.

"China is the Tesla of the world," Swanson said, referring to the electric luxury car company whose shares have quintupled in value in recent years despite posting net losses in the hundreds of millions of dollars.

Surging stock prices for such companies are based on their "growth story" of future earnings, rather than current

Coast River BUSINESS JOURNAL
Chronicling the Joy of Business in the Columbia-Pacific Region
Volume 10 • Issue 1
January 2015

FREE SUBSCRIBED THE FIRST TIME!
\$14.95/ANNUAL (\$1.25/MONTH)

Inside: Industry spotlight: **Shellfish farm copes with challenges**
Taylor remains optimistic despite changing ocean conditions

NEWS
Pacific County makes a splash in the Pacific: page 10

NEWS
Tessie Muller and Ollie read with us: page 21

BOAT OF THE MONTH
The new boat of the month: page 24

Now inserted into
The Daily Astorian and
Chinook Observer

For more information call 503-325-3211

Coast River BUSINESS JOURNAL
crobizjournal.com