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Dollar, trade, nuts!

By S. Aaron Hegde, PhD

Executive Summary: Since the COVID-19 pandemic, the U.S. agricultural trade balance has shifted from a long-standing surplus to persistent deficits. This reversal reflects a combination of pandemic-driven supply chain disruptions, reduced Chinese imports, global competition, and rising U.S. imports of high-value foods. Overproduction and falling prices for staple crops like corn and wheat further weakened export revenues. In 2025, the deficit has begun to narrow slightly, aided by a weaker dollar and evolving trade negotiations. Looking ahead, the trade balance will depend on exchange rates, global demand, and the success of U.S. trade diplomacy. Diversification into new markets, strengthening supply chains, and maintaining competitiveness will be key for stabilizing farm incomes and restoring balance.

Dollar, Trade, and Agriculture: The U.S. Dollar Index (DXY) measures the strength of the dollar against six major currencies (Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona, and Swiss Franc). When the index rises, the dollar strengthens; when it falls, the dollar weakens. A strong dollar makes U.S. exports more expensive abroad and imports cheaper at home, while a weak dollar has the opposite effect. As shown in Figure 1, the dollar has trended downward in recent years. This trend has implications for the trade balance, since a weaker dollar tends to reduce the deficit by boosting exports and raising the cost of imports.

Figure 1 Nominal Broad US$ Index

US Trade Balance Trends: Figure 2 illustrates the U.S. trade balance over the last five years. As the dollar weakened, the trade deficit narrowed, reflecting the currency's influence on trade flows. Historically, agriculture has been unique as the only sector that consistently maintained a trade surplus. However, since the COVID-19 pandemic, agriculture has shifted into deficit territory (Figure 3). This marks a major reversal of long-standing trends.

When the dollar fluctuates, it impacts prices of US goods sold abroad (exports) and the cost of foreign goods sold within the US$ (imports). A declining dollar makes US exports cheaper in the rest of the world, while it makes imports from rest of the world more expensive. This implies that the difference between exports and imports, also known as the trade balance, would change with a declining dollar i.e. trade deficit decreases. Conversely, the trade balance would decrease with an increasing dollar. Figure 2 displays the US trade balance over the last five years. The red dotted line is the trend over this time. Since the trade balance is the difference between exports and imports, when the latter is greater the trade balance is in a deficit. If exports are higher than imports, then there is said to be a trade surplus.

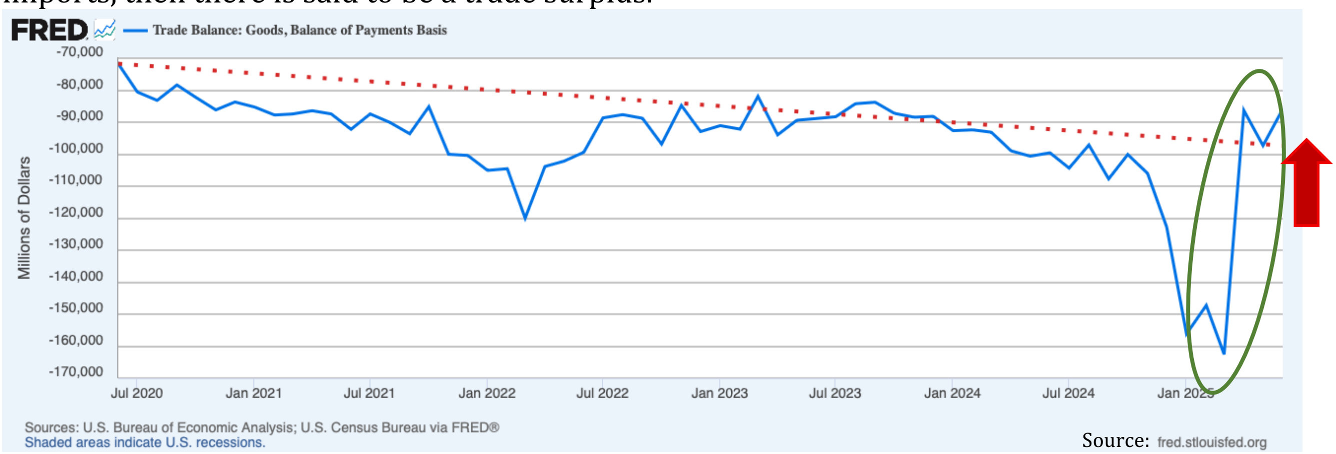

Figure 2 US Trade Balance

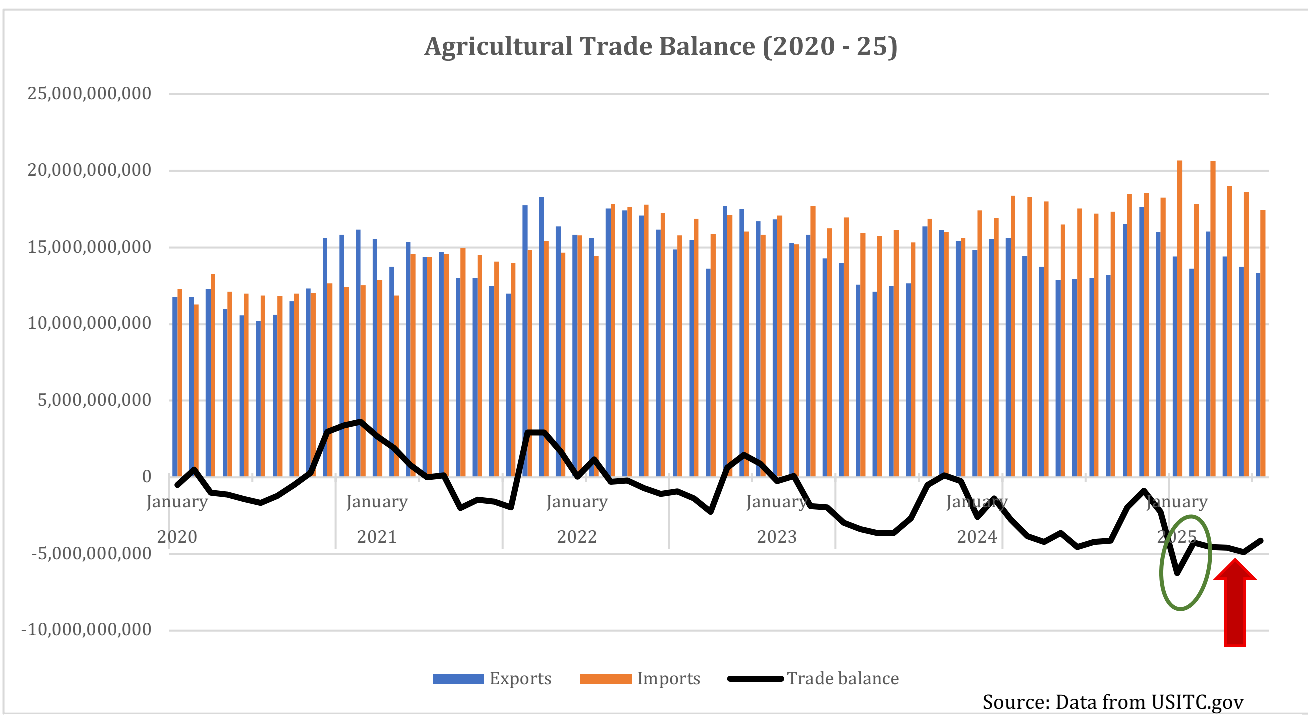

Figure 3 Agricultural Trade Balance

As seen in Figure 2 above there has been a decrease in the trade deficit (upward arrow) as the dollar has weakened (downward arrow in Figure 1). A similar pattern can be found with the agricultural trade balance (Figure 3).

Reasons for deficit trade balances in agriculture: During the pandemic, production slowed due to supply chain breakdowns, while imports rose to fill gaps, resulting in increasing trade deficits. At the same time, due to trade tensions China reduced its imports of many agricultural commodities from the US, including soybeans. Reduction of exports and increase in imports led to increasing trade deficits. Also, during this time, due to over production, many major commodities such as corn and wheat saw declining commodity prices, leading to lower values of exports. U.S. demand for high-value foods (fruits, vegetables, specialty products) continued to climb, increasing the import bill.

The year 2025 so far: To date, the year 2025 has seen reversing of this trend with a decrease in the agricultural trade deficit. This improvement can be attributed in part to a weaker dollar, which has boosted exports. However, much of the shift reflects ongoing trade negotiations. As the Trump administration renegotiates agreements, global partners are adjusting their trade relationships with the U.S., creating uncertainty but also opportunities.

Looking ahead: Looking forward, several factors will shape the agricultural trade balance:

- Continued currency movements: A weaker dollar could provide relief for exporters.
- Trade diplomacy: Resolution of tensions with China and other partners will be crucial.
- Diversification: Expanding into new export markets could reduce reliance on a few large buyers.
- Domestic competitiveness: Addressing supply chain resilience and avoiding oversupply may help stabilize farm incomes.

Agriculture's move from surplus to deficit is more than a temporary swing—it signals structural challenges that require strategic responses from policymakers, producers, and exporters alike.