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Slower Growth for U.S. Economy in 2001

U.S. economic growth slowed markedly in the second half of 2000. From a break-neck rate of 6 percent in the first half of 2000, forecast growth in Gross Domestic Product (GDP) decreased significantly in the second half of 2000, resulting in an average annual growth rate expected at 5.2 percent. In 2001, GDP growth is expected to drop further, averaging 3 percent, owing to continued tightness in labor markets, a slowing of consumer income growth, and tightening credit that will slow business investment. Despite these trends, the U.S. economy will probably not experience a recession, because of overall increases in productivity and investment, a reduced trade deficit, and continued gains in consumer income and jobs. Inflation rose moderately in 2000 to 2.3 percent and will increase slightly in 2001 to around 2.5 percent due to higher labor and energy costs.

Surging Demand Pulls Dairy Industry in New Directions

Growth in milk output is expected to ease slightly in 2001, which may allow prices for milk and dairy products to recover in calendar 2001. Since late 1999, very large supplies have put prices under pressure, even as the strong economy generated the strongest demand in many decades. With the economy projected to expand in 2001, although more slowly, consumer income and spending should continue to gain. Thus, demand for dairy products—especially those used by restaurants or as ingredients in prepared foods—is expected to stay strong.

WTO Negotiations: Potential Gains From Ag Policy Reform

The World Trade Organization (WTO) opened global trade negotiations on agriculture in Geneva in March 2000. The negotiations are expected to address national agricultural policies related to market access limitations (tariffs, tariff-rate quotas, and other trade barriers), domestic support to agricultural producers, and export subsidies. These policies cause world agricultural prices to be about 12 percent below the level they would otherwise be, according to recent analysis by USDA's Economic Research Service.

Nearly 80 percent of world agricultural price distortions are accounted for by developed economies. Reform commitments implemented by developed-country WTO members during 1995-2000 include: reducing tariffs by 36 percent, on average, and converting most nontariff barriers to tariffs or to tariff-rate quotas; reducing aggregate levels of domestic support by 20 percent; and placing declining ceilings on the value and volume of subsidized exports. Over the long term (about 15 years), full elimination of agricultural price distortions would lead to an increase in world welfare, or consumer purchasing power, of $56 billion annually, with nearly one-fourth accruing to the U.S.

EU Enlargement: Negotiations Give Rise to New Issues

The European Union (EU) continues active negotiations with 10 countries of Central and Eastern Europe (CEE) for membership in the EU. Negotiations that began in March 1998 with five CEE's (Poland, Hungary, Czech Republic, Slovenia, and Estonia) expanded to five others in October 1999—Latvia, Lithuania, Slovakia, Bulgaria, and Romania. Cyprus and Malta—two non-CEE states—are also candidates for membership.

Several recent developments could dramatically alter the impact of accession on agriculture in Europe. Accession will most likely be delayed from earlier expectations and will probably include a transition period. EU negotiators have also expressed reluctance to grant CEE farmers the full range of Common Agricultural Policy support immediately on accession. In addition, depreciation of the euro since 1999 means that the gap between CEE and the generally higher EU prices has narrowed considerably, and that higher prices anticipated by CEE producers upon accession may not materialize.

Hired Farm Labor in the U.S. & Mexico

U.S. farmers are holding their own in competing for workers and providing wage increases that generally keep pace with the cost of living. However, foreign-born workers—mostly from Mexico—make up an increasing share of U.S. hired farm labor. The movement of Mexican workers to U.S. farms largely reflects wage differentials between the U.S. and Mexico, as well as differences in employment prospects. Taking into account seasonal fluctuations, U.S. agriculture employed an average of 890,300 hired farmworkers in 2000, with an average wage of $8.29 per hour compared with $13.69 for nonfarm jobs. In contrast, Mexican agriculture employed about 2.3 million hired laborers over 12 years old in 1998, with an average 8-hour wage of about $3.60, although the wage differential is somewhat overstated because the cost of living is lower in Mexico. Availability of hired farm labor in both countries is likely to influence production and trade of labor-intensive commodities such as greenhouse and nursery products and fruit and vegetables.