An unintended consequence of Trump's trade war is coming for one of the industries that will be hit hardest, and it could give him a big win

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- **US soybean farmers are expected to be a major loser in President Donald Trump's trade war with China.**
- **US soybean exports surged over the past two months because of distortions from Trump's trade battles with China.**
- **This is likely to boost US second-quarter gross domestic product, helping to give Trump a big public-relations win on the economy.**

US soybean farmers are expected to get whacked by President Donald Trump's trade war with China, but not before helping hand the president a potentially significant economic victory.

While many farmers and experts expect the industry to take a significant hit because of the trade war, dramatic changes in soybean shipments ahead of the tariffs could help lift upcoming US gross-domestic-product numbers, giving Trump a big economic talking point.

Soybeans were hit with a new tariff by the Chinese government last week as part of the retaliation for Trump's tariffs on $34 billion worth of Chinese goods. The decision to apply duties to soybeans was a big one - the crop is the largest US agricultural export, and China was the destination for $14.2 billion worth of US soybeans in 2016.

But the move was a long time coming. China threatened to impose restrictions on soybeans as far back as March. This gave US soybean farmers an opportunity to rush the product out of the country before the trade war kicked off in earnest, but it also seriously shifted trade patterns for the crop.

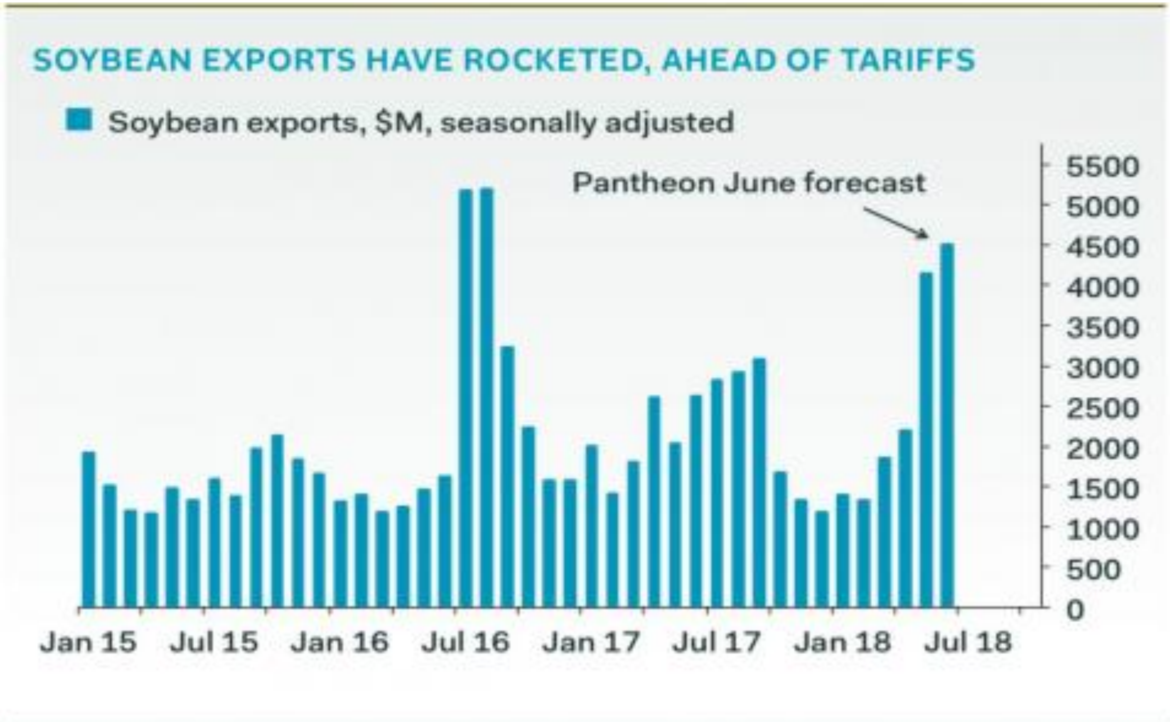
According to The Wall Street Journal, China began to shift its purchases away from US farmers and toward Brazilian soybeans in the spring. With China soaking up much of the Brazilian supply, other countries like Egypt, Thailand, and the Netherlands increased their purchases of US soybeans. This led to a surge in US exports, but also a steep drop in shipments to China that increased longer-term concerns.

But for 2018's second quarter, the outlook for soybean farmers is solid. Based on data from Ian Shepherdson, the chief economist at Pantheon Macroeconomics, soybean exports will clock their two best months since mid-2016 in May and June.

In turn, the soybean mad dash is likely to provide a huge boost to second-quarter US GDP, Shepherdson said.

"Weekly data show that soybean exports rose again in June, but we're then expecting to see a steep fall in July," Shepherdson wrote in a note to clients. "In the second quarter, though, we estimate that soybean exports will contribute some 0.6 percentage points to GDP growth, at an annualized rate."

The Atlanta Federal Reserve Bank's GDP Now, a tracker used to predict quarterly GDP, predicts second-quarter GDP will hit 3.8% annualized growth.



Pantheon Macroeconomics

The sudden uptick in soybean exports mirrors the surge during the summer of 2016, when crop yields from South America - the typical soybean suppliers over those months - fell well short of expectations and allowed US farmers to step in. That quarter, the boosted trade component, mostly due to the soybean surge, added 0.83 percentage points to GDP.

Trump has long set a target of 3% to 4% annual GDP growth for his administration. The soybean exports should provide a boost for one quarter, but the Trump administration hasn't been shy about pointing to single-quarter data to show that the country is meeting Trump's goals.

A boost would come amid significant price pressure for soybean farmers. Soybean futures contracts have fallen to their lowest level since 2009, leaving many farmers scrambling.

And the soybean support in second-quarter GDP data may not last long, according to Shepherdson, who said the economic boost from soybean exports "probably will reverse in full in the third quarter."

The first estimate for third-quarter GDP is scheduled for release on October 26, 11 days before the 2018 midterm elections.