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AGRICULTURAL LETTER

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Agricultural export estimates cut again

Estimates of U.S. agricultural exports for fiscal 1985 were again revised downward by the USDA. The estimated value of farm commodity exports was lowered by 4.5 percent from three months earlier and now stands at $32 billion. The current projection points to a 16 percent drop from the year-ago level. While depressed prices account for much of the slide in value, export tonnage has fallen substantially as well. The current projection of shipments, at 129 million metric tons, was lowered 6 percent from the May estimate of 137 million metric tons, and suggests a year-to-year drop in export tonnage of more than 10 percent.

The expected drop in shipments for fiscal 1985 will mark the fifth consecutive annual decline in agricultural export tonnage. This downtrend has pushed export shipments more than 21 percent below the fiscal 1980 peak and eroded the U.S. share of world grain trade. Declines in grain and soybean exports account for much of the drop in agricultural export tonnage. U.S. wheat exports, which absorbed the brunt of the latest export revision, are projected to total 30.5 million metric tons in fiscal 1985, down 4.5 million metric tons from the May estimate. That level of wheat exports would represent a 27 percent decline from a year ago and a drop of almost 32 percent from the 1982 high. In conjunction with the decline, the U.S. share of world wheat trade, based on an aggregate of different local marketing years among exporting countries, has been whittled to a third, down from a 50 percent share in fiscal 1982. USDA's latest projection for the 1985/86 marketing year portends a continued decline in U.S. wheat exports and further erosion of world market share.

U.S. coarse grain exports, which include corn, oats, barley, sorghum, and rye, have followed a trend similar to that of wheat during the 1980s. Although expected to be up almost 3 percent from last year, the estimated shipments of 57.2 million metric tons of coarse grains in fiscal 1985 will still be 20 percent lower than the peak recorded five years ago. Virtually all of the decline over this period is attributable to a 21 percent drop in corn shipments, which account for the bulk of U.S. coarse grain exports. The sharp drop in exports has eroded much of the very large 72 percent world market share enjoyed by U.S. coarse grain exports in 1980. Current estimates of U.S. and world coarse grain trade point to a 51 percent market share for U.S. exports in 1984/85. Moreover, the latest USDA projections for 1985/86 show a 10 percent drop in U.S. coarse grain shipments which would push the U.S. market share below 50 percent.

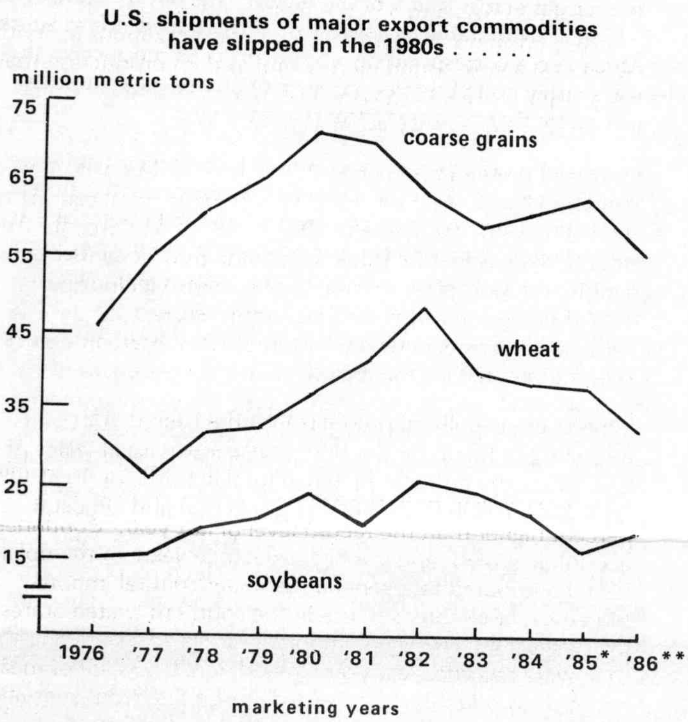
Exports of soybeans and related products have also recorded substantial declines during the 1980s. The current estimate for the fiscal year ending in September is for 16.6 million metric tons of soybean exports, down 2 million metric tons from the May estimate. While most of the decline reflects changes in export prospects since May, it also includes a 705,000 metric ton downward revision to correct for overreporting errors between December and April of the fiscal year. The current 16.6 million metric ton estimate of soybean shipments is 14 percent below the year-ago level and 35 percent below the fiscal 1982 peak. Estimates of soybean cake and meal exports, at 4.3 million metric tons, are down almost 12 percent from last year and about 40 percent from the fiscal 1980 peak. U.S. soybean exports are expected to account for about two-thirds of world soybean trade in 1984/85, down sharply from the 1981/82 high of 87 percent. Prospects for soybean trade in 1985/86, however, differ from those of wheat and coarse grains with USDA projections pointing to 12.5 percent gain in soybean shipments from this year's depressed level. While still well below the levels of the early 1980s, U.S. soybean exports at that tonnage would hold a 72 percent market share of projected world trade.

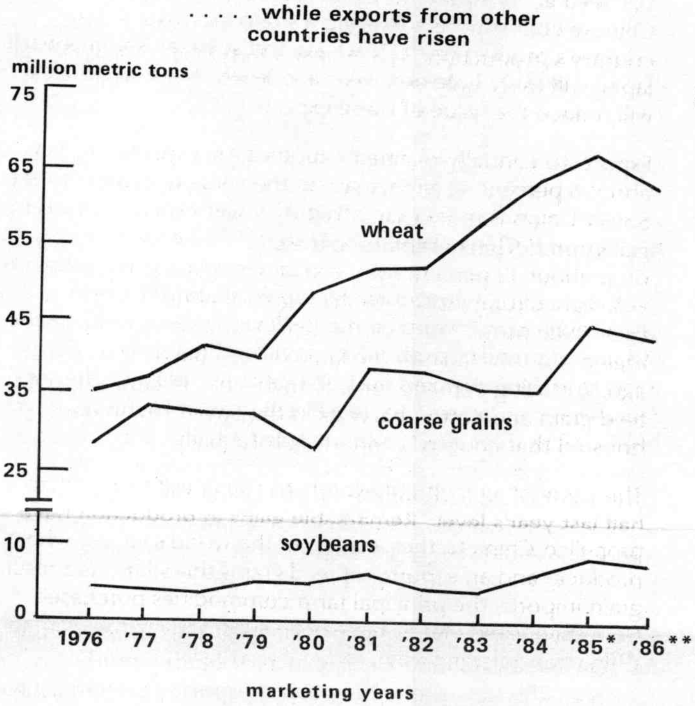
As U.S. exports of major agricultural commodities have declined in the 1980s, shipments from other exporting nations have risen substantially. Coarse grain exports from nations other than the United States, although quite variable, have averaged almost 37 million metric tons per year during this decade, recording a 17 percent gain from the average of the last half of the 1970s. Wheat exports by other nations have exhibited an even more remarkable trend of uninterrupted growth through the 1980s and have averaged more than 50 percent higher than during the previous five-year period. Soybean exports other than those from the United States, al-

U.S. agricultural exports decline in value this year

	Fiscal year ending September 30			
	1982	1983	1984	1985*
	(-----billion dollars -----)			
Western Europe	12.2	10.1	9.3	6.9
European Community	8.9	7.6	6.7	5.2
Easten Europe	.9	.8	.7	.6
Soviet Union	2.3	1.0	2.5	2.8
Asia	14.1	13.6	15.2	12.4
Middle East	1.5	1.5	1.9	1.6
South Asia	.7	1.2	.9	.9
Japan	5.7	5.9	6.9	5.8
China	1.8	.5	.7	.3
Other East and Southeast Asia	4.4	4.5	4.8	4.1
Canada	1.9	1.9	1.9	1.8
Africa	2.4	2.3	2.9	2.6
Latin America	4.9	4.9	5.3	4.7
Oceania	.3	.2	.2	.2
Total	39.1	34.8	38.0	32.0

*Estimated.
Source: USDA.





*Estimated.
**Projection.
SOURCE: USDA.

though above 1970s levels, remained fairly stable through the early 1980s before surging in the last two years.

The success other exporting nations have had in competing with U.S. agricultural exports is attributable to a number of factors. Among these factors are production and export subsidy policies of many exporting nations that frequently exceed those of the United States. In addition, U.S. domestic policies have inadvertently enhanced the export opportunities of other nations and have limited the cost of their subsidy programs.

Nonrecourse price-support loans from the Commodity Credit Corporation, which are the cornerstone of U.S. agricultural price stabilizing policies, have had a major effect on trade patterns. Under this program, producers can pledge commodities as collateral for a specified amount of loan per bushel, referred to as the loan rate. Farmers then have the option of repaying the loan in cash or by forfeiting ownership of the commodities pledged as collateral. The latter option is typically used when the loan rate exceeds market prices. Therefore, the loan rate can act as a floor under the market price of the supported commodity.

When the loan rate is above the world market clearing price, as has been the case in recent years, it can have serious consequences for U.S. agricultural exports. Rather than being directed into export channels to satisfy demand at the prevailing world price, U.S. commodities move into government stockpiles. The void this movement creates can then be filled by competing exporters. Moreover, the mix of domestic fiscal and monetary policies that contributed to the rising exchange value of the dollar during the 1980s has compounded the situation by making U.S. commodities more expensive in terms of the currencies of other nations.

Because of the dominant role played by the U.S. in world agricultural trade, the U.S. policy of removing commodities from market channels to maintain high support prices forms an umbrella over world markets that allows prices elsewhere in the world to rise. This has encouraged additional production abroad and can discourage consumption. Moreover, the generally higher level of world prices fostered by U.S. policy reduces the amount of subsidy that must be paid by countries disposing of their own surplus production in world markets.

Lower shipments and continued downward pressure on prices have combined to drop the value of U.S. agricultural exports by about 16 percent this fiscal year. The value of U.S. agricultural exports to most regions of the world will be down this year, particularly for exports to the developed countries. The largest decline is in the value of exports to Western Europe, expected to be off almost 26 percent from last year. At $6.9 billion, it would be the lowest level of U.S. agricultural exports to the area in seven years and about 45 percent below the fiscal 1980 peak. Much of the decline is attributable to continued slow economic recovery along with last year's record grain harvest in the region, which enabled the European Community to become a net exporter of feed grains for the first time. In addition, the European Community's dairy reduction program has limited feed demand, particularly for soybeans.

The value of U.S. agricultural exports to Japan in fiscal 1985 is estimated to be down more than 16 percent from last year.

U.S. feed grain exports to Japan met stiff competition from Chinese corn exports following a sharp increase in that country's production. U.S. wheat and soybean shipments to Japan will likely hold near year-ago levels, but lower prices will reduce the value of these exports.

Exports to centrally planned countries are expected to fall about 6 percent as an increase in the value of exports to the Soviet Union is more than offset by lower exports to Eastern Europe and China. Exports to Eastern Europe are expected to drop about 19 percent from a year ago, placing the value of U.S. agricultural exports to the region at about a fourth of the fiscal 1980 peak. Much of the decline in export value to the region is attributable to the large oilseed harvests of a year ago, curtailing demand for U.S. soybeans. In contrast, poor feed grain and cotton harvests in the Soviet Union have boosted that country's imports substantially.

The value of agricultural exports to China will be less than half last year's level. Remarkable gains in production have propelled China to the position of the world's largest wheat producer and an exporter of feed grains this year. As a result, grain imports, the principal farm commodities purchased from the United States, have been substantially reduced and China has emerged as a competitor in Asian markets.

Agricultural exports to developing nations, an important market for U.S. commodities, are expected to be off almost 14 percent from the year-ago level. The estimated $13.6 billion in U.S. agricultural exports to developing countries in fiscal 1985 is almost 20 percent below the fiscal 1981 peak. However, these countries are still expected to account for more than 40 percent of the value of U.S. agricultural exports this fiscal year.

Exports to Asian countries other than Japan and China are expected to register the largest year-to-year drop within the less developed country group. At about $6.3 billion, exports to these countries will be off 17 percent from the fiscal 1984 level. Increased production throughout much of Asia along with greater competition from China and other exporters and lower prices account for the drop in export values. A second consecutive bumper wheat crop in India this year has curtailed imports and allowed that country to compete in world grain markets. Moreover, large oilseed crops in the region have cut into U.S. exports of soybeans and increased competition. China has become an effective competitor in Asian markets this year, exporting cotton heavily to Hong Kong and replacing the United States as the dominant supplier of coarse grains to Korea. Despite efforts to maintain market share in the Middle East by extending export credit guarantees, U.S. agricultural exports to the region are expected to drop 14 percent from a year ago.

The value of U.S. agricultural exports to Africa is estimated to fall about 9 percent from a year ago. Although countries in North Africa have been targeted by the U.S. Export Enhancement Program, it has had little effect in maintaining sales to the region. U.S. grain shipments to the region are expected to fall to a five-year low in fiscal 1985 as competition for these markets has intensified. Exports to Sub-Saharan Africa are expected to fall despite continued production shortfalls due to drought across much of the region. The decline, however, is largely attributable to improved rainfall conditions in South Africa and a corresponding rebound in corn production that will sharply curtail the record level of coarse grain imports posted by that country in the last fiscal year.

Increased production in Latin America combined with lower world prices will drop the value of U.S. agricultural exports to the region from the year-ago level by about 11 percent. At $4.7 billion it would be the lowest value of shipments to the area during the 1980s. A drop in U.S. coarse grain exports from the unusually high level of a year ago, due to improved crops in Mexico, accounts for most of the decline in export values estimated for the region.

Imports of agricultural products into the United States are estimated to be up for the third consecutive fiscal year. At $20 billion, the estimate of agricultural imports for fiscal 1985 is up $500 million from the May projection and almost 6 percent higher than the record level of last year. Continued economic growth and the high exchange value of the dollar have contributed to a general rise in agricultural imports. Moreover, last winter's freeze in the southern United States led to substantially higher imports of fruits and vegetables than were recorded last year. In addition, the value of meat and meat product imports is up almost a fifth from year-ago levels.

The expected large drop in the value of exports combined with the rise in imports will squeeze the agricultural trade surplus in fiscal 1985. At $12 billion, the surplus will be more than a third lower than last year. Moreover, an agricultural trade balance of that magnitude will mark a seven-year low and will be less than half the fiscal 1981 peak of $26.6 billion.

The shrinking U.S. agricultural trade surplus prevalent in the 1980s is largely the result of domestic policies that have limited the competitiveness of U.S. agricultural exports and encouraged imports. Before the deterioration in agricultural trade can be reversed, the incongruity of current U.S. policies affecting agriculture and the general economy must be addressed. Maintaining the direction of current policies will lead to further declines in agricultural exports and mounting costs for the federal government.

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Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(1977=100)*	August	122	-3.2	-15	-10
Crops *(1977=100)*	August	115	-5.0	-20	-14
Corn *($per bu.)*	August	2.39	-8.1	-24	-29
Oats *($per bu.)*	August	1.13	-13.7	-32	-22
Soybeans *($per bu.)*	August	5.05	-6.8	-22	-33
Wheat *($per bu.)*	August	2.86	-2.4	-17	-21
Livestock and products *(1977=100)*	August	130	0	-9	-7
Barrows and gilts *($per cwt.)*	August	44.30	-5.7	-15	-9
Steers and heifers *($per cwt.)*	August	53.40	0.4	-13	-8
Milk *($per cwt.)*	August	12.10	0	-8	-9
Eggs *(¢per doz.)*	August	57.8	9.5	-2	-8
Prices paid by farmers *(1977=100)*	August	163	0	-1	1
Production items	August	149	-0.7	-3	-3
Feed	August	112	-2.6	-16	-19
Feeder livestock	August	146	-0.7	-4	-3
Fuels and energy	August	203	-0.5	2	-2
Producer Prices *(1967=100)*	July	295	0.3	1	3
Agricultural machinery and equipment	July	339	-0.1	0	4
Fertilizer materials	July	230	-0.2	-3	3
Agricultural chemicals	July	457	-0.4	2	0
Consumer prices *(1967=100)*	July	323	0.2	4	8
Food	July	310	0.1	2	6
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	2,832	N.A.	32	-43
Soybean stocks *(mil. bu.)*	June 1	609	N.A.	29	-23
Beef production *(bil. lbs.)*	July	2.06	8.7	6	14
Pork production *(bil. lbs.)*	July	1.15	1.9	10	1
Milk production *(bil. lbs.)*	July	12.4	-0.2	8	3

N.A. Not applicable

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