FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

December 24, 1982 Number 1593

U.S. FARM EXPORTS in fiscal 1982 declined on both a tonnage and a value basis. Tonnage was down 2 percent from a year ago to 158 million metric tons, while the value of agricultural exports was down 11 percent to $39.1 billion. These declines marked the second consecutive year of shrinking tonnage and the first downturn in the value of shipments since fiscal 1969. Projections for fiscal 1983 point to a modest increase in the volume of export shipments. But the value of farm exports is expected to decline to $37.5 billion. In short, the export picture still lacks the strength that would be desired with the large supplies available.

The rapid growth in U.S. farm exports appears to have ended, at least temporarily. From fiscal 1972 to fiscal 1980, farm export tonnage increased from 61 million metric tons to 164 million metric tons, marking a 12 percent compounded annual rate of growth. Over the same period, the value of farm exports increased from $8.2 billion to $40.5 billion, a four-fold increase. Since imports of agricultural commodities increased less rapidly over the period, the agricultural trade surplus grew dramatically. In fiscal 1981, export tonnage declined 1 percent, while the value of farm exports increased by 8 percent to a record $43.8 billion. In fiscal 1982, however, both the tonnage and value were down from year-earlier levels. And the agricultural trade surplus dropped to $23.7 billion from the fiscal 1981 record of $26.6 billion.

Both lower prices and less tonnage contributed to last year's downturn in the value of agricultural exports, but lower prices accounted for most of the decline. Although most categories of agricultural exports declined in value, gains in value were recorded for oilseeds and products, livestock and dairy products, and tobacco. Corn exports, in particular, declined one-third in value from the year-earlier level, reflecting sharply lower prices and lower volume. Wheat exports were down in value as lower prices more than offset the 5 percent rise in the volume of wheat export shipments. Soybean exports were up 8 percent from the year earlier because of a 28 percent increase in volume that overshadowed the one-fifth decline in soybean prices.

Exports to major customers, except the USSR and Western Europe, in fiscal 1982 were below year-earlier levels. Exports to Eastern Europe were down to $900 million, less than half the year earlier level. The value of shipments to Latin America, at $4.9 billion, was down over a fourth, stemming from sharply reduced shipments to Mexico. Exports to Asia were off 12 percent, in part because exports to Japan were $1 billion less than in fiscal 1981. Export shipments to Canada, at $1.9 billion, and Africa, at $2.4 billion, were a seventh below the year-earlier level. On the other hand, exports to the USSR were up a third to $2.3 billion because of increased grain shipments. Shipments to Western Europe, which accounts for about three-tenths of U.S. farm exports, were up by 3 percent to $12.2 billion. This past year, developed countries increased their share of total U.S. farm exports relative to less developed and centrally planned countries.

Several factors contributed to the lags in both the volume and value of exports. Economic activity, in a number of countries, was down appreciably. High interest rates increased the debt service requirements for most countries, and several countries, especially in Easten Europe, found it more difficult to obtain the financing needed to sustain the volume of imports at earlier levels. The U.S. dollar, relative to currencies of other industrialized countries, was strong, making U.S. farm commodities more expensive to foreign customers despite lower market prices domestically. Also, because of larger production this past year, some countries were able to reduce imports from the United States.

Fiscal 1983 is likely to mark the second consecutive year of decline in the value of U.S. agricultural exports. USDA projections suggest that the volume of U.S. agricultural exports will rise 3 percent to 162 million metric tons in fiscal 1983. But, due to lower prices, the value of the export shipments may decline another 4 percent to $37.5 billion. Most of the increase in volume is expected to result from higher feed grain exports, especially corn. Feed grain exports are expected to increase about 5 million metric tons to 63 million metric tons. Wheat and flour shipments are expected to increase modestly to

43.5 million metric tons. Soybean volume is projected to rise nominally above last year's record pace. Despite these projected increases in volume, exports in fiscal 1983 have gotten off to a slow start. In October and November, shipments of corn, soybeans, and wheat were all lagging the year-earlier levels.

The value of U.S. agricultural exports to most areas of the world in fiscal 1983 is expected to be down. However, exports to Mexico are projected to rise by a third because of reduced supplies of commodities produced there. But the recent foreign exchange crisis in Mexico may have an adverse impact. Shortfalls in crops in South Asian countries—such as India—may result in record exports to these countries. The Soviet Union, a major customer, is expected to import about 35 million metric tons of grain from all sources, down from last year's 46 million metric tons.

The overall export projection depends on worldwide economic developments, trends in the value of the dollar, credit difficulties of importing countries, trade policies, and crop developments in the Southern Hemisphere. Credit difficulties experienced by an increasing number of countries—in particular, Poland, Mexico, Romania, Brazil, Peru and Boliva—may hamper U.S. exports. To overcome some of these problems, lenders in the U.S. and other countries have rescheduled debt payments or offered new short-term credit to make funds available for imports. In addition, the U.S. recently announced a three-year, $1.5 billion export credit program. Of the $1.5 billion, a third will be available in fiscal 1983 to foreign countries, except those without most favored nation status, to stimulate U.S. farm exports. For fiscal 1983, the credit will consist of $100 million in interest-free direct credit from the CCC and $400 million from private lenders at market rates of interest, guaranteed by the CCC. The effect is to reduce the cost of funds borrowed to finance purchases of U.S. commodities. The USDA may use another $75 million to promote agricultural exports and legislative efforts may result in additional funding for the same purpose.

Jeffrey Miller

THE CYCLICAL DOWNTURN IN HOG PRODUCTION may extend through the spring of 1983, but the rate of decline slowed to a surprising extent this fall. According to the USDA's latest *Hogs and Pigs* report, the year-over-year decline in the nation's September-November pig crop was only a third as large as had been expected based on earlier reports. The December 1 inventory of hogs held for breeding purposes, at 7.3 million head, was down 7 percent from the year before. But producers' farrowing intentions for the December-May period portend year-to-year declines in the pig crop for those months of less than 3 percent. Although producers may alter their plans, the report suggests that the cyclical downturn in hog production, which has already lasted 2½ years, will extend through May of 1983.

Although down 3 percent from a year ago, the September-November pig crop was considerably larger than had been expected. A June report, for instance, suggested that producers planned to hold sow farrowings in both the June-August and the September-November quarters a tenth below year-earlier levels. Another report in September, covering farmers in the 10 major hog producing states that account for about 80 percent of the nation's inventory of hogs, suggested that actual June-August farrowings were below the June intentions and that farrowing intentions for the September to November period had been revised still lower. Moreover, the inventory of hogs held for breeding purposes as of September 1 numbered 12 percent less than the year before. But the latest report shows that actual September-November sow farrowings were off less than 4 percent from the year before. In addition, the number of pigs saved per farrowing litter rose to a new high, some 3 percent above the September-November average for the previous five years.

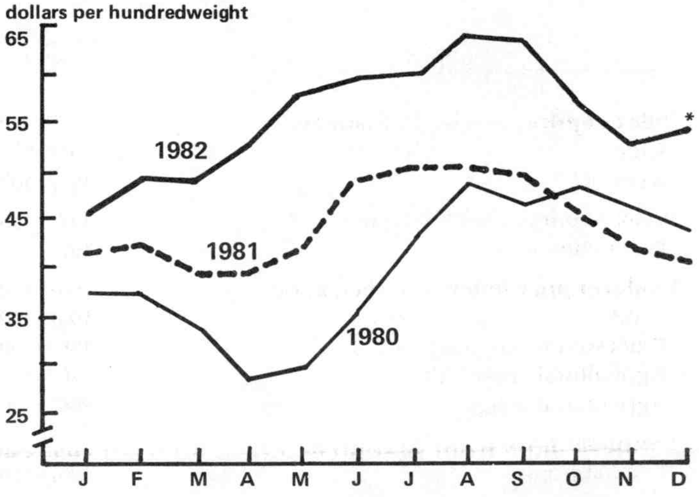
Future trends in hog production are mostly gauged in terms of the current inventory of breeding stock and producers' farrowing intentions for the six months ending May 1983. As of December 1, hogs held for breeding purposes numbered 7.3 million head, down 7 percent from a year ago, down nearly 25 percent from the 1979 peak, and the lowest for that date since at least the early 1960s. Producers' farrowing intentions for the December-May period portend a year-over-year decline of 2.6 percent, with a fairly uniform downturn in both halves of that six-month period. If producers carry out their intentions, the farrowings-to-breeding stock ratio would be considerably higher than the low levels of the previous two years, but not out of line with the average of the five years preceding 1981.

Hog slaughter, though generally exceeding expectations this year, nevertheless has remained in the downturn that began in the fourth quarter of 1980. In 1981, commercial hog slaughter declined nearly 5 percent from the year before. Through the first three quarters of 1982, the year-over-year decline widened to 9 percent. The movement of hogs through federally inspected plants since early October portends a fourth-quarter decline in commercial slaughter of 13 percent.

Prospects for 1983 foreshadow further declines in slaughter. Hogs slaughtered in the first half will come mostly from the June-November 1982 pig crop and now in the inventory of hogs intended for market. Current estimates indicate that the June-November 1982 pig crop was off 7 percent from the year before, while the December 1 inventory of market hogs was down 10 percent from a year ago. Based on past relationships, commercial hog slaughter in the first half of 1983 is expected to be down 6 to 9 percent from the year before with the largest relative decline in the first quarter. Slaughter prospects for the second half of 1983 are very tentative, resting largely on producers' farrowing intentions for the six months ending in May. If producers carry out their current intentions, if the number of pigs saved per litter holds at the higher level of recent years, and if the slaughter-pig crop ratio is in line with recent years, hog slaughter in the second half of 1983 may be down 2 to 5 percent from the levels currently indicated for the second half of this year.

Hog prices will likely remain at profitable levels in light of the prospective decline in slaughter and the prospects for continued low feed prices. Although beef production and poultry production are expected to exceed year-earlier levels, total meat supplies, on a per capita basis, will likely be no higher than the year before and possibly down slightly. Consumer demand for

Barrow and gilt prices, 7 major markets



*Preliminary.

meats, weakened in the past couple of years by the recession, high unemployment, and modest growth in real disposable income, is not expected to rebound in the near term. Nevertheless, hog prices are likely to fluctuate in the mid $50 per hundredweight range for the next several months. Prices could weaken in the latter part of next year, particularly if subsequent reports suggest that hog production is starting to pull out of the prolonged cyclical downturn of the past two and a half years. Although hog producers still exhibit a degree of caution, sizeable profits over the past 12 months and prospects for favorable returns in 1983 will eventually trigger a cyclical upswing in production.

Gary L. Benjamin

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from: Prior period	Percent change from: Year ago
Index of prices received by farmers	1977=100	November	129	+ 0.8	– 1
Crops	1977=100	November	118	+ 3.5	– 2
Livestock	1977=100	November	139	– 2.1	+ 1
Index of prices paid by farmers	1977=100	November	156	+ 0.6	+ 4
Production items	1977=100	November	149	0	+ 1
Producer price index* *(finished goods)*	1967=100	November	285	+ 0.3	+ 4
Foods	1967=100	November	258	– 0.1	+ 2
Processed foods and feeds	1967=100	November	250	– 0.2	+ 2
Agricultural chemicals	1967=100	November	287	– 0.7	– 3
Agricultural machinery and equipment	1967=100	November	318	+ 0.3	+ 6
Consumer price index** *(all items)*	1967=100	November	294	– 0.2	+ 5
Food at home	1967=100	November	278	– 0.4	+ 3
Cash prices received by farmers					
Corn	dol. per bu.	November	2.20	+11.1	– 6
Soybeans	dol. per bu.	November	5.39	+ 6.3	–11
Wheat	dol. per bu.	November	3.46	+ 0.9	–10
Sorghum	dol. per cwt.	November	3.92	+ 5.9	+ 1
Oats	dol. per bu.	November	1.44	+ 9.1	–23
Steers and heifers	dol. per cwt.	November	57.80	– 0.3	– 2
Hogs	dol. per cwt.	November	52.20	– 6.6	+26
Milk, all sold to plants	dol. per cwt.	November	13.90	+ 0.7	– 1
Broilers	cents per lb.	November	24.5	– 2.4	– 4
Eggs	cents per doz.	November	57.0	– 1.9	–19
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	143	– 0.8	– 2
Net farm income	bil. dol.	3rd Quarter	17	– 8.4	–39
Nonagricultural personal income	bil. dol.	November	2,569	+ 0.3	+ 5

*Formerly called wholesale price index.

**For all urban consumers.

AGRICULTURAL LETTER
FEDERAL RESERVE BANK OF CHICAGO
Public Information Center
P.O. Box 834
Chicago, Illinois 60690
Tel. no. (312) 322-5112

FEDERAL RESERVE BANK OF CHICAGO
AGRICULTURAL LETTER

FIRST-CLASS MAIL
U.S. POSTAGE
PAID
Chicago, Il.
Permit No. 1942

AG001
HEAD-DEPT.OF AGRIC.ECON.
INSTITUTE OF AGRICULTURE
UNIVESITY OF MINNESOTA
ST.PAUL,MN 55101