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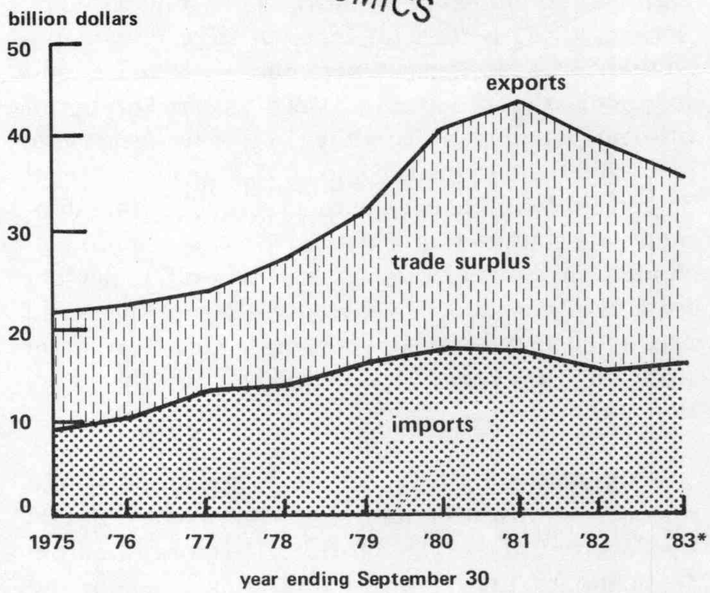
U.S. AGRICULTURAL EXPORTS continue on a disappointing trend. Reflecting this, the USDA recently lowered again its estimates of the value and the tonnage of U.S. agricultural exports for the fiscal year ending in September. The latest tonnage estimate was 149 million metric tons, down nearly 4 percent from the February estimate and down 6 percent from last year. This tonnage, if it materializes, would represent a 9 percent decline from the fiscal 1980 peak. In terms of value, USDA analysts now expect U.S. agricultural exports to drop to $35.5 billion this fiscal year. This latest estimate is down $500 million from the February forecast, down $3.6 billion from the disappointing outturn in fiscal 1982, and down $8.3 billion (19 percent) from the peak in fiscal 1981. The discouraging trends in exports reflect a number of factors and present a major challenge in the formulation of agricultural policy programs in the months ahead.

Declines in agricultural exports trim the agricultural trade surplus



*USDA forecast.

U.S. agricultural export trends largely mirror the developments in exports of grains and soybeans. These items (including such derivative products as flour, oil, and meal) accounted for roughly 70 percent of the value, and 85 percent of the measurable tonnage, of U.S. agricultural exports in fiscal 1982. The lackluster performance in overall grain and soybean shipments has dominated the weakening export picture for the past two or three years. But the weakness in exports this fiscal year encompasses most agricultural commodities. For example, the combined exports of livestock, poultry, and dairy (including their derivative products) are expected to decline 5 percent in value this fiscal year. Moreover, declines of 10 to 15 percent are expected for horticultural products, cotton, and sugar and tropical products.

Export weakness first became evident for feed grains in mid-1981 and has since spread to wheat and recently to soybeans. The tonnage of corn exports in the first seven months of fiscal 1983 (October 1982 through April 1983) was off 4 percent from the slow pace of last year, off 24 percent from the peak level for those seven months in 1980-1981, and was the lowest for that seven-month period since 1978-1979. Similarly, export shipments of wheat and the grain-equivalent of wheat products in the seven months ending with April were off 16 percent from the record pace in the same months a year ago and the smallest for that period since 1979-1980. Exports of soybeans (not including meal and oil), although holding at record levels through March, weakened considerably in April. As a result, the cummulative total for soybean exports in the first seven months of this fiscal year was off 1 percent.

Preliminary evidence suggests that export shipments were especially weak in May. For instance, the combined export inspections of corn, soybeans, and wheat in the five weeks ending June 2 were off 30 percent from the same period a year ago. The comparison with a year ago is somewhat distorted since shipments temporarily surged in May of last year. Nevertheless, the inspections data indicate that the combined export shipments for the three commodities in May of this year was the lowest for that month since 1978. The departures from the norm of recent years were most apparent for corn and soybeans.

The disturbing trends in grain and soybean exports are also reflected in the relatively low level of outstanding orders for future export shipments. As of late May, the outstanding export orders for corn, soybeans, and wheat approximated 780 million bushels. Although up 5 percent from the low levels of that date in the past two years, the level was nevertheless considerably below the lofty orders on the books in May of the late 1970s.

Several major areas of the world account for the fall-off in U.S. grain exports. So far this fiscal year, corn export tonnage is off 24 percent from the record pace of two years ago. But exports to the EEC and other Western European countries are off nearly 40 percent, paced by declines of 80 percent or more in shipments to the Netherlands, the Federal Republic of Germany, and Italy. Similarly, corn exports to all of Eastern Europe are off nearly 80 percent from the pace of two years ago. Corn shipments to the USSR so far this fiscal year are off 36 percent from the pace of two years ago, while shipments to countries of the Western Hemisphere—although up sharply from last year—are off 32 percent from two years ago. These four regions of the world accounted for over 60 percent of the U.S. corn exports in fiscal 1981. They also account for much of this year's downturn in wheat exports.

The downturn in agricultural exports represents a major departure from the trends of the 1970s. In that decade, the value of U.S. agricultural exports rose from \$6 billion to \$32 billion, representing a compound annual rate of growth of nearly 20 percent. The growth stemmed from the higher grain and oilseed prices that occurred in the 1970s as well as the growing tonnage of exports. World trade in grains and oilseeds, in tonnage terms, rose rapidly and the United States was fortunate to capture a proportionately large share of the growth. The tonnage of U.S. exports of grains and soybeans rose at a compound annual rate of 10 percent in the decade of the 1970s.

The rapid increase prompted a substantial increase in domestic acreage devoted to the crops that enjoyed the growing world demand. At the end of the 1960s harvested corn, soybean, and wheat acreage in this country approximated 150 million acres annually. By the end of the 1970s, the harvested area of these three crops had risen a third to roughly 200 million acres. While exports turned sour in subsequent years, harvested acreage of the three principal export crops continued to rise, surpassing the 220 million acre mark last year. The divergent trends have led to the huge overhang in grain stocks in this country and vividly portray the dependency of U.S. grain farmers on world markets.

U.S. agricultural exports to most areas of the world are expected to decline again in fiscal 1983

	1980	1981	1982	1983*
	(billion dollars)			
Western Europe	12.5	11.8	12.2	10.7
EEC	9.6	8.9	8.9	8.1
Eastern Europe	2.4	2.1	.9	.8
USSR	1.5	1.7	2.3	1.2
Asia	14.2	16.1	14.1	13.8
Japan	5.8	6.7	5.7	5.6
China	2.0	2.2	1.8	.8
Africa	2.3	2.8	2.4	2.6
Latin America	5.5	6.9	4.9	4.5
Mexico	2.0	2.7	1.5	1.6
South America	2.4	3.0	2.3	1.8
Canada	1.8	2.1	1.9	1.7
Oceania	.2	.2	.3	.2
Total	40.5	43.8	39.1	35.5

*USDA forecast.

Other grain exporting countries have had mixed results in sustaining their exports in recent months. Most countries that export coarse grains have recorded declines in exports of those commodities in recent months while most wheat-exporting countries have enjoyed advancing wheat exports. Since last September, Argentina's export shipments of corn and sorghum, on a tonnage basis, have been off a fourth from the year-before pace. Corn export shipments from Thailand have recorded an even larger decline. Moreover, a devastating drought in South Africa has crippled that country's ability to export in significant quantities. Indeed, South Africa will be importing corn this year and chances are that the United States will capture a large share of this unusual development.

Except for Australia where a drought sharply lowered exportable supplies, other exporting countries have captured a growing share of the world wheat trade in recent months. Since last July, Canada has achieved a 15 percent year-over-year gain in wheat export tonnage, while Argentina has enjoyed a 38 percent gain. France also has garnered growing exports of wheat in recent months. With the mounting evidence of larger new crop acreages in other countries, especially Australia and Canada, the United States is likely to face stiff competition in wheat exports for several more months. Latest

USDA projections, for instance, suggest that United States wheat exports in the next 12 months will decline to 1.4 billion bushels from the curtailed level of 1.5 billion in the last 12 months.

Numerous factors have contributed to the contrasting trends in U.S. agricultural exports between the 1970s and the 1980s. The importance of any single factor, however, is difficult to judge. Unlike the downtrend that prevailed in the 1970s, the value of the U.S. dollar with respect to foreign currencies has risen to sharply higher levels since the 1970s. For many foreign buyers of U.S. grains, the increase in the value of the dollar has offset much, if not all, of the decline in domestic prices for grains. Consequently, many foreign buyers are paying roughly the equivalent of the high late-1970s grain prices.

Also unlike the 1970s, the availability of new credit to finance other countries' purchases of U.S. grains has shrunk with the recent tensions in international credit markets. This has been clearly a factor in the drop-off in U.S. grain exports to Eastern Europe. Moreover, countries faced with the most acute problems in repaying foreign debt must increasingly adopt policies that generate more foreign exchange earnings to repay those debts. For food importing countries faced with such problems, the need for foreign exchange earnings discourages imports. This may partially account for the 30 percent decline in U.S. wheat exports to Brazil the past year. For food exporting countries facing large foreign debt problems, the need for larger foreign exchange earnings encourages stronger export promotions. In this vein, Argentina has steadily lowered its wheat export prices since December to levels now $10 to $20 a ton below the cheapest export prices for U.S. wheat.

Other factors have also played a major role in the downturn in U.S. agricultural exports in recent years. Overall economic growth in most industrialized countries the past couple of years has fallen well below the "norm" of the 1970s, pulling down import demand in those countries as well. In addition U.S. trade relations with a number of communist countries—which had accounted for much of the growth in exports in the 1970s—have deteriorated in recent years. Relations with the Soviet Union have been buffeted repeatedly since the events that culminated in the 1980 embargo on grain sales to the USSR. Overall trade with China, which looked so promising only a few short years ago, has suffered with the growing tensions regarding U.S. import limits on textiles and U.S. relations with Taiwan. These developments have led to questions in some countries about the desirability of trading with the United States and concerns about the reliability of the United States as a supplier of grains and oilseeds. Legitimate or not, these issues have culminated in the signing of several bilateral trade agreements between importing countries and other grain exporting countries.

Agricultural policy issues cannot ignore the disturbing trends in exports. With the value of the dollar continuing to hold at high levels, with the delays in clearing up the tensions in international financial markets, and with other grain exporting countries attempting to carve still larger shares of the world grain trade, the United States must be aware of the implications for its own exports.

An agricultural export policy encompasses a number of elements. The United States has long advocated a free trade policy, although its actions in some cases—such as dairy and sugar—depart significantly from its advocacy. But the goal of free trade remains encumbered by the restraints imposed by many importing countries and by the heavy subsidies offered by other exporting countries. Efforts to promote long-run commercial export markets through concessional sales—such as P.L. 480 programs—to under-developed countries have had considerably success in past years and more can be done for the future. In recent years, the negotiation of bilateral trade agreements has become a part of U.S. agricultural export policy. While the long-run merits of such agreements are still subject to debate, the agreements do provide quantity assurances to both parties.

One of the more obvious areas affecting export policy is the domestic price support programs for U.S. grains and oilseeds. Efforts to raise target and loan support prices seemingly have merit as one means of alleviating the income and financial stress facing American agriculture. But in the current environment, in which the United States must be on guard against losing its price competitiveness in world grain and oilseed trade, increases in loan and target prices could further jeopardize exports. As a case in point, the uptrend in grain prices that has followed farmers' heavy use of the CCC loan and reserve programs and the introduction of the PIK program, while buoying short-run income prospects for grain farmers, has been a hindrance to expanding exports. U.S. grain prices cast an umbrella on world markets. The higher the umbrella, the less likely importing countries are to buy and the more likely other exporting countries are to take advantage of those prices by expanding production and/or by undercutting our markets.

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	May	137	+ 0.7	− 1
Crops	1977=100	May	129	+ 1.6	+ 2
Livestock	1977=100	May	144	− 0.7	− 5
Index of prices paid by farmers	1977=100	May	160	+ 0.6	+ 3
Production items	1977=100	May	154	+ 0.7	+ 3
Producer price index* *(finished goods)*	1967=100	May	284	+ 0.5	+ 2
Foods	1967=100	May	263	− 0.1	0
Processed foods and feeds	1967=100	May	256	0	+ 1
Agricultural chemicals	1967=100	May	283	− 0.3	− 4
Agricultural machinery and equipment	1967=100	May	326	+ 0.4	+ 6
Consumer price index** *(all items)*	1967=100	April	296	+ 0.7	+ 4
Food at home	1967=100	April	283	+ 0.5	+ 2
Cash prices received by farmers					
Corn	dol. per bu.	May	3.00	+ 2.0	+15
Soybeans	dol. per bu.	May	6.03	− 0.8	− 4
Wheat	dol. per bu.	May	3.69	− 2.1	+ 1
Sorghum	dol. per cwt.	May	5.09	+ 3.5	+17
Oats	dol. per bu.	May	1.53	− 0.7	−23
Steers and heifers	dol. per cwt.	May	63.50	− 2.0	− 6
Hogs	dol. per cwt.	May	46.70	− 0.4	−18
Milk, all sold to plants	dol. per cwt.	May	13.30	− 1.5	+ 1
Broilers	cents per lb.	May	26.1	+ 5.7	− 7
Eggs	cents per doz.	May	61.2	+ 7.2	+12
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	1st Quarter	140	− 2.7	− 3
Net farm income	bil. dol.	1st Quarter	19	−23.2	− 7
Nonagricultural personal income	bil. dol.	April	2,626	+ 0.7	+ 6

*Formerly called wholesale price index.

**For all urban consumers.

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

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