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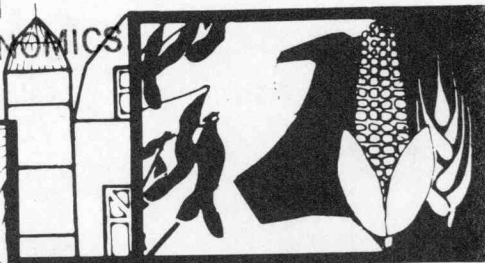
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LETTER

THE U.S. AGRICULTURAL TRADE SURPLUS in fiscal 1983 dipped to a four-year low. Both a decrease in export values and a rise in imports contributed to the declining balance. Although the volume of exports fell only 8 percent in the fiscal year that ended September 30, lower prices pulled the value of agricultural exports down 11 percent from the previous fiscal year. The quantity of U.S. farm exports is expected to continue its slide in fiscal 1984, but their value may rise about 10 percent due to substantially higher grain and soybean prices this year. Nevertheless, U.S. farm exports will continue to be hampered by the high value of the dollar, foreign exchange shortages in many importing nations, and stiff competition from other exporters.

Agricultural exports are a vitally important industry in the U.S. The national economy receives a significant boost, in terms of employment and income generation, from the large proportion of farm output directed to export channels. In recent years U.S. export sales have equaled about a third of the total grain crop and almost half the soybean crop. While the direct benefits of this production to the farm sector and the nation's trade balance are large, there are significant peripheral effects not evident in the trade statistics.

For example, the USDA estimates that each dollar of agricultural exports in 1982 generated an additional \$1.23 of activity in the overall economy. That is, the dollar value of agricultural exports is more than matched by increased output in the manufacturing and service sectors to support the production and distribution of agricultural exports. In addition, the export of farm products contributes significantly to the U.S. balance of trade. The large nonagricultural trade deficit of the U.S. is sharply reduced by the substantial trade surplus generated in farm exports each year.

After a sustained increase through the 1970s, the value of U.S. farm exports has declined for two consecutive years. The value of all agricultural exports for fiscal 1983, at \$34.8 billion, was 11 percent below the previous year and 20 percent below the fiscal 1981 peak. The drop was felt across virtually all commodity groups.

Grain and feed exports, the largest commodity group, registered a 14 percent decline in value from the previous year's level. Among these commodities, wheat and flour experienced a decline of 10 percent in value as stiff competition curtailed U.S. exports. Coarse grain exports fell 8 percent despite a late-year rally in the volume of exports. The total volume of corn exports in fiscal 1983 fell 5 percent from the previous year's depressed level. At 47.1 million metric tons, corn exports in fiscal 1983 registered their lowest level in six years and were down a fourth from the 1981 peak.

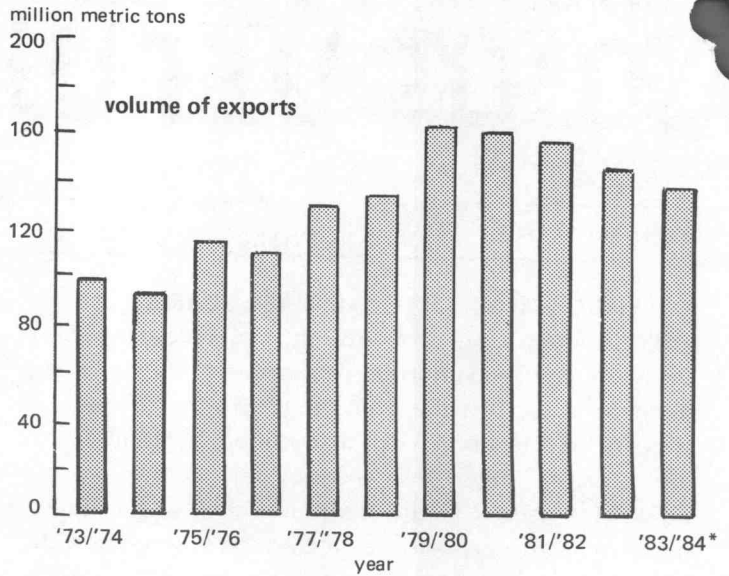
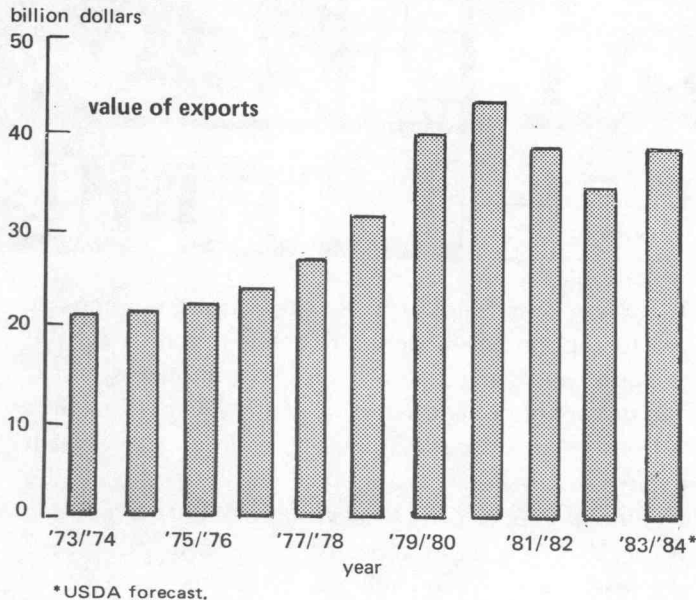
The value of soybean and soybean product exports fell 8 percent in fiscal 1983. In terms of tonnage, soybean exports were off 4 percent, but a marked drop in average prices resulted in a 9 percent decline in the value. Similarly, a marginal increase in volume over fiscal 1982 in soybean cake and meal exports was offset by a price decline.

The value of livestock, poultry, and dairy product exports declined 8 percent in fiscal 1983. The largest drop occurred in poultry products, which were off a fifth from the previous year in both volume and value. Livestock and dairy product exports fell 5 percent in value from the year-earlier level.

In contrast to the declining trend in exports, U.S. imports of agricultural commodities rose in 1983. Following the previous year's sharp decline, the value of agricultural imports increased almost 6 percent for the fiscal year. However, the level of imports—at \$16.2 billion—was in line with the average value for the preceding four years. The rise in imports coupled with the large decline in the value of exports left the U.S. agricultural trade balance at its lowest level of the 1980s.

While there was some variation among individual countries, sales of U.S. farm products to all major world regions trended down during the past year. Record levels of grain production in Western Europe along with a persistently strong dollar vis-à-vis most currencies contributed to a 17-percent decline in exports to that region. Exports to the USSR in fiscal 1983 were less than

Both the value and volume of U.S. agricultural exports have been declining in the 1980s



half the previous year's level. Significant increases in agricultural exports to most Asian countries, including Japan, were more than offset by a 70 percent year-to-year decline in the value of exports to China. In contrast, U.S. farm sales to Mexico jumped 19 percent from fiscal 1982. However, a one-sixth decline in the value of exports to South American countries pulled down total U.S. agricultural sales to the Latin American region by almost 2 percent.

Prospects for fiscal 1984 suggest U.S. agricultural exports will remain sluggish. World economic conditions, although improving, do not exhibit signs of dramatic growth. In addition, continued strength of the dollar will further dampen demand. Moreover, foreign exchange constraints in many developing countries and Eastern Europe will curtail the ability of these countries to import U.S. agricultural products. The level and distribution of U.S. export credit, still uncertain at this time, will be an important consideration in this regard. Agricultural production in Southern Hemisphere countries will also affect U.S. export prospects later in the fiscal year.

USDA forecasts suggest that the value of U.S. agricultural exports in fiscal 1984 will rise to \$39 billion. At that level the value of agricultural exports would be comparable to the fiscal 1982 outturn, but would still fall far short of the 1981 peak. Moreover, the rise in value will stem from higher prices that are expected to more than offset the fourth consecutive decline in volume of shipments. USDA estimates point to a 3-percent decline in the quantity of agricultural exports from the fiscal 1983 level of 144.8 million metric tons.

Much of the decline in export volume projected for this fiscal year will be accounted for by sharp reductions in oilseeds and oilseed products. Soybean and meal exports are forecast to drop a fifth from last year's level, while soybean oil exports could fall 24 percent from fiscal 1983. However, with much of the expected curtailment in export volume attributable to drought-reduced supplies and sharply higher prices, the export value of oilseed products is forecast to jump 13 percent above the last fiscal year.

The volume of U.S. grain exports this year is expected to increase marginally over fiscal 1983. Wheat and flour sales, projected to rise to nearly 39 million metric tons (wheat equivalent) in fiscal 1984, will be pressured by large Southern Hemisphere crops in the months ahead. As a result, the value of U.S. wheat exports in fiscal 1984 is expected to be held to a slight increase of about 4 percent.

The outlook for U.S. coarse grain exports is more favorable. Although an increase of only 3 percent in volume is forecast for the fiscal year, tight world supplies could increase the value of these exports by more than 25 percent over the last fiscal year's level. The favorable price situation, however, has stimulated Southern Hemisphere production. With growing conditions much improved, coarse grain production by Argentina, South Africa, and Australia is expected to rebound 41 percent from last year's drought stricken crops. If conditions there remain favorable, the current tight world supply situation could be significantly altered this spring when Southern Hemisphere production begins to enter the market.

Livestock and poultry product exports could see some improvement this year as continued economic recovery picks up demand. USDA projections of dairy, livestock, and poultry product exports point to an increase of 10 percent in value over last year. Much of the increase is expected to come from beef and dairy products.

U.S. agricultural exports are expected to increase in value in all major regions of the world in fiscal 1984. Agricultural exports to Western Europe are expected to rebound significantly from last year's low level, but will remain below the level attained in the early 1980s. However, the European community's budget difficulties have increased pressure to revise the Common Agricultural Policy that governs the group's agricultural trade practices. The proposed vegetable oils tax and corn gluten feed levy could sharply curtail U.S. agricultural exports. European Community imports of U.S. oilseed products, corn gluten, and citrus pellets, which would be affected by these proposals, amount to \$4.7 billion annually.

Exports to Eastern Europe are expected to show a slight increase in value this year, but will continue to be limited by foreign exchange constraints. In contrast, the value of exports to the Soviet Union are forecast to increase dramatically from the depressed level of a year ago. Tight wheat supplies in the Soviet Union, and the stipulations of the US-USSR grain agreement calling for imports of between 9 and 12 million metric tons of wheat and corn annually foreshadow a large increase in U.S. grain sales over 1983 levels.

The value of agricultural exports to Latin America, on the other hand, are expected to hold at the fiscal 1983 level as economic recovery in the region continues to lag most other areas. In contrast, farm exports to Africa are expected to jump 17 percent in value from the low fiscal 1983 level. The value of agricultural exports to Asian countries is expected to rise 11 percent from a year

ago. Much of this boost is accounted for by Japan and China. Increased prices and a higher volume of grain imports are expected to push the value of China's purchases of U.S. farm products 65 percent above last year's level, but still well short of the fiscal 1981 record. However, China recently announced that it would fulfill its trade agreement to purchase 6 million metric tons of grain from the U.S. in the 1983 calendar year. The additional 2 million metric tons of grain to be purchased may well boost China's imports of U.S. farm products above the projected level for this fiscal year.

Sales of U.S. coarse grains and soybeans through the early part of the fiscal year have exhibited strong trends. Outstanding export sales of feed grains through late November were well ahead of the low levels of a year ago, with only grain sorghum trailing fiscal 1983 levels. Outstanding export orders for soybeans in late November were considerably above the level of a year ago. Wheat exports will pick up during the next few weeks as well with most of China's purchases concentrated in that commodity.

Despite these encouraging trends, expansion of U.S. agricultural exports will continue to be hampered by a number of factors in fiscal 1984. The strength of the U.S. dollar with respect to other currencies continues to make U.S. agricultural products more expensive relative to competing exporters' products. Further, the heavy debt burdens of many developing countries limits the amount of foreign exchange available to purchase U.S. farm products and hence, the opportunity to develop these markets. In addition, the tight supply situation in the U.S., brought about by acreage reductions and drought, has pushed prices upward. Although higher prices will likely increase the value of U.S. agricultural exports in fiscal 1984, it appears these factors will also contribute to a fourth consecutive yearly decline in the volume of exports.

Peter J. Heffernan

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	November	288	- 0.3	+10
Total loans at agricultural banks†	1972-73=100	November	299	- 0.1	+ 6
Production credit associations					
Loans outstanding					
United States	mil. dol.	October	19,290	- 3.0	-10
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Loans made					
United States	mil. dol.	October	1,969	+ 7.7	- 3
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Federal land banks					
Loans outstanding					
United States	mil. dol.	October	48,075	0	+ 2
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
New money loaned					
United States	mil. dol.	October	210	-12.7	-24
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Interest rates					
Feeder cattle loans††	percent	3rd Quarter	13.60	+ 0.1	-17
Farm real estate loans††	percent	3rd Quarter	13.28	- 0.4	-18
Three-month Treasury bills	percent	12/1-12/7	8.92	+ 1.9	+12
Federal funds rate	percent	12/1-12/7	9.49	+ 1.4	+ 7
Government bonds (<i>long-term</i>)	percent	12/1-12/7	11.78	- 0.8	+12
Agricultural trade					
Agricultural exports	mil. dol.	September	2,973	+13.8	+24
Agricultural imports	mil. dol.	September	1,319	- 5.3	+ 2
Farm machinery sales^P					
Farm tractors	units	October	12,270	+40.8	+17
Combines	units	October	2,025	+36.3	-33
Balers	units	October	330	-38.5	-38

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

^PPreliminary.

N.A. - Not available.

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