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AGRICULTURAL LETTER

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Agricultural exports edging higher

Recent tabulations and projections from the U.S. Department of Agriculture indicate that the value of U.S. agricultural goods shipped abroad continues on a modest uptrend. During the fiscal year that ended with September, U.S. agricultural exports reached \$43.5 billion. The rise of 2.4 percent from the previous year was the result of comparatively large gains for cotton and for livestock, poultry, and horticultural products which more than offset declines for grains and oilseeds. The projections for fiscal 1995 point to more widespread gains, with grains and oilseeds augmenting further growth in meat and horticultural shipments. Recent developments with respect to China strongly bolster the likelihood of a recovery in grain shipments. The USDA's latest forecast points to a tally of \$45.0 billion for all agricultural exports this year, up 3.5 percent and surpassing the current record high that was set in fiscal 1981.

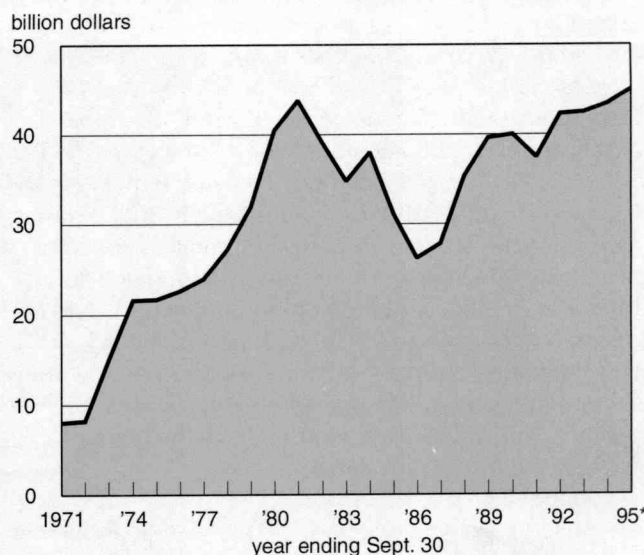
While U.S. agricultural exports remain on an uptrend, the agricultural trade balance is narrowing as imports are rising faster than exports. In fiscal 1994, U.S. agricultural imports rose some \$1.9 billion and approximated \$26.4 billion. For this year, imports are projected to reach \$28.0 billion. The implied agricultural trade balance (exports minus imports) of \$17.0 billion for fiscal 1995 would be \$1 billion less than two years ago and well below the peak of \$25.6 billion set in fiscal 1981. Last year's rise in imports was especially evident among some of the commodities that compete with domestically produced goods, such as grains, oilseed products, dairy products, and wines and malt beverages. In addition, a surge in prices caused coffee imports to rise sharply last year. For fiscal 1995, coffee alone accounts for all of the projected rise in the value of agricultural goods imported into the United States. Imports of grains and feeds in fiscal 1995 are projected to retreat to levels more comparable with two years ago while imports of dairy and oilseed products are expected to level off.

By destination, the recent and prospective gains in U.S. agricultural exports stem mostly from increased shipments to Asian and Latin American markets. Combined shipments to those two geographic regions of the world rose nearly a tenth in fiscal 1994 and—at \$24.9 billion—accounted for 57 percent of all agricultural exports from the United States. Japan continues to rank as our largest

foreign market, accounting for some \$9.2 billion of the agricultural goods shipped abroad in fiscal 1994. Agricultural exports to Mexico rose 13 percent last year to surpass the \$4.1 billion mark. Among other major regions of the world, U.S. agricultural exports to our neighbor to the north—Canada—edged slightly higher in fiscal 1994, and approached \$5.3 billion. However, the heavy inflow of Canadian grain into this country last year virtually eliminated the agricultural trade surplus the U.S. had with Canada in recent years. Agricultural shipments to most other regions of the world—including Western Europe, Central and Eastern Europe, the former Soviet Union, and Africa—declined in fiscal 1994.

From the perspective of Midwest agriculture, the trade developments of fiscal 1994 were very disappointing for grains and oilseeds but much more favorable in terms of livestock and meats. U.S. corn, soybean, and soybean meal exports in fiscal 1994 registered declines of roughly 20 percent in terms of the tonnage of shipments and declines of about 10 percent in terms of the value of shipments. On a crop-year basis—which ends in August as opposed to September for fiscal years—1993/94 marked the second lowest year for the volume of corn exports since 1974/75. Similarly, U.S. soybean exports last year were the third lowest since 1976/77. The declines were partly due to the extensive flood

A new high in U.S. agricultural exports is expected in fiscal 1995



*USDA projection.

damage to 1993 crops and the resulting cuts in corn and soybean supplies available for export. In addition, the amount of world trade in corn declined last year while trade in soybeans and meal leveled off. Moreover, other exporting countries garnered an increased volume of exports despite the smaller world trade. Of particular note, corn exports out of China in 1993/94 held at an unusually high level for the second consecutive year while shipments from South Africa rebounded as supplies recovered from the devastating drought conditions that gripped that country a couple of years ago. In a similar vein, successive record harvests in South America led to sizable increases in soybean and soybean meal exports from Brazil and Argentina.

In contrast to last year's decline in exports of commodities of major significance to Midwest crop farmers, the upswing in shipments of livestock and poultry-related products continued. Red meat exports in fiscal 1994 rose another 4.3 percent and reached a new all-time high of \$3.4 billion. Poultry meat exports surged 38 percent to a new high of \$1.4 billion. Exports of live animals, animal fats, hides and skins, and egg and dairy products added another \$3.5 billion to the fiscal 1994 total for all agricultural commodities. Interestingly, the value for all livestock and poultry and related commodities shipped abroad in fiscal 1994 approximated \$8.35 billion, up sharply from the annual average of just \$6.1 billion during the three years ending in fiscal 1990. Conversely, the combined value of \$9.4 billion for all exports of corn, soybeans, and soybean meal and oil in fiscal 1994 was well below the annual average of \$11.8 billion for those same commodities during the three years ending in fiscal 1990.

The prospects for improved grain and soybean exports in fiscal 1995 stem from this year's record harvest here at home and from recent developments related to China that enhance U.S. grain export prospects, especially for corn. In recent years China has swung from a net importer of corn to net exporter. In fiscal 1993 and 1994, corn exports out of China averaged about 475 million bushels annually and accounted for a fifth of world trade in corn. Those exports went mostly to other Asian countries—mainly South Korea and Japan—that would otherwise have been served mostly through shipments from the United States. The recent developments in China have included a ban on their corn exports and a surprise purchase of nearly 60 million bushels of U.S. corn. This suggests that the United States in fiscal 1995 will recoup most of its former shipments to other Asian countries and, at least temporarily, have the benefits of additional shipments to China.

Gary L. Benjamin

Farm equipment sales improve

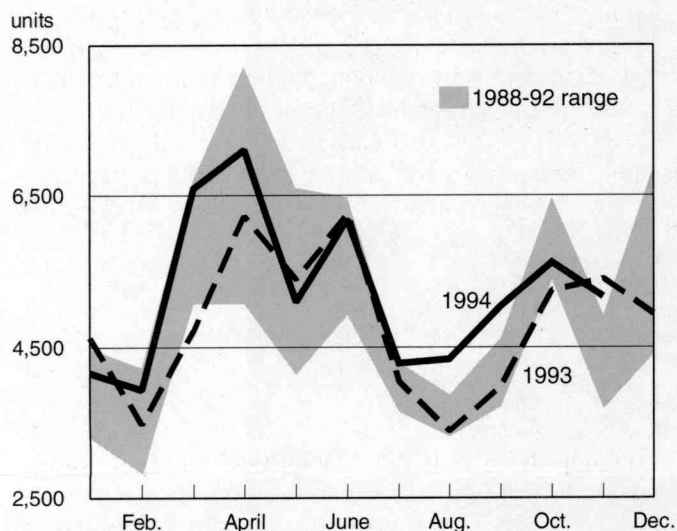
Unit sales of farm tractors with at least 40 horsepower are on track to post a gain for the second consecutive year and will likely reach the highest yearly total since 1990. Reports from the Equipment Manufacturer's Institute (EMI) indicate that farm tractor sales tallied 57,600 units from January through November, a 9 percent increase from the pace of the previous year. Furthermore, combine sales posted similar gains as a result of improved spring and summer sales. While the gains in farm equipment sales over the past year have been impressive, recent developments may dampen farmer enthusiasm towards the acquisition of new machinery and equipment in 1995.

The improvement in farm tractor sales was quite variable over the past year. Despite a poor showing in January, sales for the winter quarter were up 15 percent from the previous year. The year-over-year gain narrowed to 3 percent in the spring quarter, but then widened to 20 percent during the summer. Furthermore, the summer period marked the sixth consecutive quarter of year-over-year gains in unit sales. More recently, combined sales for October and November registered a gain of 1 percent from a year earlier. In particular, November sales were down nearly 5 percent. However, the November decline was primarily a phenomenon of the remarkably strong year-earlier reading.

Both large and small farm tractors registered solid sales gains during the first eleven months of 1994. Units sales of four-wheel-drive tractors rose for the second consecutive year. At 3,352 units, sales of four-wheel-drive tractors jumped 15 percent from last year and were up more than a third from two years ago. In addition, two-wheel-drive tractors posted year-over-year gains. Sales of those rated at over 99 horsepower rose 6 percent during the January through November period to 17,877 units. Furthermore, smaller tractors with 40 to 99 horsepower registered a sales increase of a tenth from the previous year to reach 36,375 units.

Compared to the pace of tractor sales, combine purchases got off to a much slower start in the early part of 1994. Unit sales for the winter quarter posted a modest decline of 2 percent when compared to a year earlier. However, sales posted sharp gains during the spring and summer quarters, rising a third and a tenth, respectively, from the previous year. Sales then turned sluggish late in the year. Combined purchases for October and November were down moderately from the year before, pulled lower by the smallest November sales figure since 1988. For the first eleven months of the year, combine sales totaled 7,499, nearly 8 percent above the

Unit sales of tractors with 40 or more horsepower



Source: Equipment Manufacturers Institute.

same period a year earlier. But despite the gain, the total was still a tenth below the average for 1990-92.

EMI figures show that the October inventory of tractors with at least 40 horsepower registered a marginal decline from a year earlier while the number of combines was down sharply. The inventory of farm tractors posted a modest decline of 1 percent from the previous year in reaching a seven-year low for the month of October. However, the reduction stemmed entirely from four-wheel-drive tractors, which were down nearly 30 percent in October when compared to a year earlier. Furthermore, the inventory of combines also posted a sharp year-over-year decline of 30 percent. In contrast, inventories were little changed from a year earlier for two-wheel-drive tractors with 40 to 99 horsepower or for those with over 99 horsepower.

Conditions were generally favorable for purchasing farm machinery in early 1994. Nominal equity of the farm sector had been trending upward since the farm recovery began in 1986. Total farm debt posted only modest gains since reaching a cyclical low in 1989 and interest rates were at relatively low levels. Furthermore, nominal net cash income for the farm sector reached a record level of over \$58 billion in 1993. Corn and soybean prices were up from the previous year, reflecting the flood-reduced harvest, while livestock and milk prices were at profitable levels. Farmers had further impetus to purchase machinery due to gains in planted acreage. Soybean acreage hit the highest level in nine years last spring while a zero percent set-aside helped push corn acreage to the second-highest level in nine years. Consequently, farm tractor and combine sales rose despite price increases. The USDA's index of prices paid by

farmers for tractors and other self-propelled machinery was up 6 percent in 1994, following three years of 4-percent annual gains. In comparison, the overall index of prices paid by farmers for production items rose a modest 2 percent in 1994.

However, recent developments will likely reduce farmers' desire to acquire new machinery. Hog prices suffered a sharp setback last September and fell to a twenty-year low in November. Beef cattle prices have been well below year-earlier levels for several months. Moreover, forecasts of additional gains in the production of red meat and poultry for the coming year indicate prices and income will remain under pressure. The decline in livestock prices has also prompted the USDA to reduce its forecast of net cash farm income for 1994. The December projection now stands at \$51 billion, \$4 billion less than last September. If realized, this would be the lowest net cash farm income recorded since 1986. The USDA also expects net cash income in 1995 to be unchanged from the current year.

A sharp rise in the import value of tractors and other self-propelled machinery pushed the U.S. farm machinery trade into a deficit position for the first nine months of 1994, according to data from the USDA. Overall, the value of farm machinery imports was up nearly a fifth this year—when compared to a year earlier—while exports rose a more modest 5 percent. Consequently, the farm machinery trade deficit stood at \$236 million dollars as of the end of September, compared to a positive balance of \$5 million at the same time a year earlier. In fact, the 1993 performance of the domestic farm machinery industry against foreign competitors was one of its strongest in recent years. The U.S. recorded a trade surplus of nearly \$53 million in farm machinery for 1993. In comparison, the trade balance for farm machinery during the previous three years was in the red by an average of \$300 million.

Mike A. Singer

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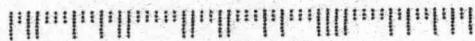
Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (index, 1977=100)	November	132	-0.8	-8	-3
Crops (index, 1977=100)	November	120	-2.4	-6	4
Corn (\$ per bu.)	November	1.97	-4.4	-20	-1
Hay (\$ per ton)	November	86.60	-0.2	3	22
Soybeans (\$ per bu.)	November	5.36	1.1	-15	0
Wheat (\$ per bu.)	November	3.77	0.0	9	15
Livestock and products (index, 1977=100)	November	143	0.0	-9	-8
Barrows and gilts (\$ per cwt.)	November	28.60	-11.7	-34	-31
Steers and heifers (\$ per cwt.)	November	68.30	3.3	-6	-10
Milk (\$ per cwt.)	November	13.10	0.0	-4	0
Eggs (¢ per doz.)	November	62.5	8.5	-1	-3
Consumer prices (index, 1982-84=100)	November	150	0.1	3	5
Food	November	145	0.2	2	5
Production or stocks					
Corn stocks (mil. bu.)	September 1	850	N.A.	-60	-23
Soybean stocks (mil. bu.)	September 1	209	N.A.	-28	-25
Wheat stocks (mil. bu.)	September 1	2,053	N.A.	-3	-3
Beef production (bil. lb.)	October	2.12	-0.9	7	5
Pork production (bil. lb.)	October	1.63	6.0	11	3
Milk production* (bil. lb.)	November	10.4	-3.0	4	2
Receipts from farm marketings (mil. dol.)	August	13,495	4.0	-3	-1
Crops**	August	6,010	-1.2	0	-1
Livestock	August	7,412	8.8	-5	-2
Government payments	August	73	-1.4	-16	16
Agricultural exports (mil. dol.)	September	3,559	1.3	11	5
Corn (mil. bu.)	September	116	1.8	-17	-25
Soybeans (mil. bu.)	September	42	3.9	41	-16
Wheat (mil. bu.)	September	121	10.3	12	27
Farm machinery sales (units)					
Tractors, over 40 HP	November	5,169	-8.1	-4	11
40 to 100 HP	November	3,028	-12.5	-1	9
100 HP or more	November	2,141	-1.2	-9	14
Combines	November	904	-15.9	-23	-25

N.A. Not applicable

*21 selected states.

**Includes net CCC loans.



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