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AGRICULTURAL LETTER

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U.S. agricultural exports

A recent report from the USDA indicates that the value of U.S. agricultural exports during fiscal year 1994 will show little change from the previous year as higher prices offset a sharp decrease in overall tonnage. A decline in corn and soybean shipments—due to a combination of the short U.S. harvest last fall, weakening foreign demand, and stiff competition from other nations—is expected to pull the total export volume down by 13 percent for the year ending September 30. However, higher grain prices along with larger shipments of meat and horticultural products will offset the impact of fewer corn and soybean shipments on total export value. Furthermore, the Export Enhancement Program and the GSM credit guarantee programs continue to play an important role in U.S. agricultural exports. For all of fiscal 1994, the value of agricultural exports is projected at $42.5 billion dollars, about the same as registered the past two years.

The unfavorable trend in corn exports has been sparked by the sharp decline in U.S. production and stiffer competition from foreign nations. The U.S. is expected to account for slightly over a third of world corn production during the current marketing year, compared to 45 percent the previous year. This has squeezed both domestic and world supplies, boosting prices and creating more openings for other corn-exporting countries. From September through February, corn prices averaged about 30 percent higher than the previous year. That sent prospective buyers looking elsewhere and competitors were eager to respond. Consequently, corn export commitments (shipments plus outstanding sales still awaiting shipment) fell off sharply during the first half of the current marketing year. As of early March, commitments were down one-quarter from the level of the previous year as gains to the European Union were more than offset by a decline in exports to South Africa, Japan, South Korea, and the former Soviet Union (FSU). Shipments of U.S. corn to the FSU are down primarily due to a continuing decline in livestock inventories as well as debt repayment problems. In particular, Russia has had problems meeting its repayment obligations on loans under the U.S. export credit guarantee program, and any further requests for guaranteed financing would require a new evaluation of its creditworthiness. In addition, greater competition from South Africa and China have helped trim U.S. corn shipments.

South Africa has influenced U.S. corn exports from both sides of the ledger. At this time a year ago, South Africa had imported over 2 million metric tons of U.S. corn due to the lingering effects of a drought that left its domestic stocks sharply reduced. But with a rebound in production, that nation is expected to return to its more traditional role as a corn exporter this year by shipping over 3 million metric tons. The South African corn crop—which will be harvested this spring—is expected to be 40 percent larger than a year ago and over 300 percent larger than the drought-reduced crop of two years ago. Furthermore, China's corn exports have grown dramatically in recent years as production reached record levels. China's corn exports rose 75 percent over the past two years and are expected to increase another 5 percent this year. As a result, China's share of the world market is expected to exceed 20 percent, up from 11 percent three years ago and second only to the U.S. Most of China's corn exports are to other Asian nations. It is the primary supplier of corn to South Korea—having supplanted the U.S. three years ago—and has also made inroads against the U.S. in the Japanese market.

Value of U.S. agricultural exports by region
(fiscal year)

	1991	1992	1993	1994*
	(billion dollars)			
Western Europe	7.297	7.721	7.474	7.3
Central and Eastern Europe	0.305	0.221	0.467	0.4
Former USSR	1.755	2.685	1.556	1.3
Asia	14.634	15.974	15.860	16.4
Japan	7.720	8.362	8.434	9.1
China	0.667	.689	0.321	0.3
Taiwan	1.735	1.911	1.993	2.1
South Korea	2.154	2.195	2.034	1.9
Middle East	1.427	1.765	1.916	2.0
Africa	1.878	2.298	2.662	2.4
Latin America	5.488	6.422	6.861	6.9
Mexico	2.879	3.667	3.648	3.9
Canada	4.400	4.800	5.203	5.4
Oceania	0.348	0.427	0.455	0.4
Total	37.533	42.316	42.454	42.5

*Forecast.
SOURCE: U.S. Department of Agriculture.

Reflecting the inroads made by foreign competitors, rising corn prices, and softer demand from some regions, the projection for U.S. corn exports was lowered by the USDA in March by nearly 2 percent from the prior month. The current forecast signals a year-over-year decline of a fifth during the current marketing year, pushing corn exports to their lowest level since 1986 and the second lowest in nearly 20 years. In addition, the U.S. share of world corn trade is forecast to slide about 10 percentage points to just under 60 percent.

Soybean exports have also suffered in recent months as prices have averaged about a dollar higher during the current marketing year. Export commitments were down 30 percent as of early March. In particular, export commitments were off sharply to the European Union (EU). The EU is the largest U.S. customer as well as the single largest importer of soybeans, taking in about half the soybeans traded in world markets and an even greater share of the world soybean meal trade. But soybean usage in the EU this year is expected to be pressured by higher prices and the recent reform of the European Common Agricultural Policy (CAP). The CAP change is expected to spur a decline of grain prices relative to oilseeds and encourage a shift towards using a larger proportion of grain in livestock rations.

In addition, U.S. soybean exports are expected to be curtailed by the second consecutive year of large production gains outside the U.S. While domestic production last fall was off sharply from the previous year, production outside the U.S. is projected to jump 13 percent during the current marketing year to reach a record level. If recent USDA projections pan out, about half this gain will come from Brazil and Argentina. These two nations are also expected to boost exports this year and raise their share of the world market from 20 percent to 30 percent, largely at the expense of U.S. sales. Consequently, U.S. soybean exports are projected to decline by a fifth for the current marketing year. In addition, soybean meal exports are expected to drop by a fifth, while soyoil exports are projected to decline a more modest 7 percent.

With about three-fourths of the marketing year completed, export commitments of wheat were down 13 percent in early March as compared to a year earlier, mostly due to a drop in sales to Russia. Among the various classes of wheat, export commitments of white and durum wheat are up about a third from a year ago, while the spring and winter wheat classes have registered declines. For the year ending May 31, total U.S. wheat exports are projected to drop by about a tenth. Part of the decline is due to a larger overall decline in world wheat trade. Imports by the FSU are projected to be down a third, while East Europe and China are also expected to reduce wheat imports. In addition, Australia has stepped up its competition in world markets on the basis of increased production, and is expected to increase its wheat exports this year by over 25 percent.

The U.S. was again a net exporter (exports less imports) meat during the fiscal year ending October, 1993 as exports rose 45 percent and imports were steady. The improvement was paced by a sharp 25 percent gain in poultry exports. Remarkably, poultry exports have averaged annual increases of almost 25 percent over the past four years and are expected to post solid gains again this year. Pork exports rose about 4 percent in fiscal year 1993 as a sharp decline in shipments to Mexico was more than offset by gains to Japan and Canada. In contrast to the growth achieved by the pork and poultry sectors, beef exports dropped slightly as gains in sales to Japan failed to offset declines in exports to Mexico and South Korea. However, trade agreements with these two nations have brightened the outlook for beef exports during the current fiscal year. The tariffs on imported beef imposed by Mexico in late 1992 were lifted in January by the implementation of the North American Free Trade Agreement and an agreement is in place with South Korea that will improve market access. For the first quarter (October-December) of the current fiscal year, exports of red meat were up 4 percent, and the gain is expected to widen over the remainder of the year.

The value of U.S. agricultural exports has also been supported by trade in horticultural products, which consist of fruits, vegetables, nuts, and related products. Though these products represent only 5 percent of the volume of U.S. agricultural exports, they make a significant contribution to overall value. In the past fiscal year, exports of horticultural products were valued at \$7.3 billion, and are projected to rise by another \$400 million this year.

Three U.S. government programs are of special importance to commercial exporters of agricultural commodities. The Export Enhancement Program (EEP) provides subsidies that allow exporters to sell at below-market prices, while the GSM-102 and GSM-103 credit programs provide federal guarantees on loans to finance U.S. agricultural exports. The EEP was initiated in 1985 to assist in developing and maintaining foreign markets for U.S. agricultural products. Specifically, it was developed as a countermeasure to subsidized grain exports from the European Community (now called the European Union). Once a country is accepted into the credit program, it may make an offer to purchase a specific commodity. Exporters then bid for the sale contingent upon receiving an EEP subsidy, called a "bonus". In this fashion, exporters compete against each other both in price and in the amount of bonus they are willing to accept. In the past, bonuses have been paid in cash or as CCC commodity certificates. Commodities currently covered by the EEP include wheat and wheat products, vegetable oils, barley, eggs, poultry, and pork.

Through February 10, EEP assistance for the current fiscal year totaled nearly $545 million, up 6 percent from the prior year. As in the past, wheat exports received the bulk of the assistance, accounting for three-quarters of bonus payments. The average bonus paid to wheat exporters was up 40 percent from the previous year at $52 per ton (about $1.43 per bushel). But reflecting the overall decline in U.S. wheat exports this year, the volume of EEP-supported wheat sales as of early February was well off the pace of the previous year.

The degree to which the EEP holds sway over U.S. wheat exports will be altered over time by the General Agreement on Tariffs and Trade (GATT), if accepted by the governing bodies of the participating nations. While over 21 million metric tons of U.S. wheat were exported under the EEP last year, the GATT calls for a reduction to 14.5 million tons by the year 2000. In comparison, the EU is required to reduce its subsidized wheat exports to 13.4 metric tons by 2000.

Of relatively greater importance to Midwest farmers are the EEP allocations that aid exports of vegetable oils and meat. Vegetable oil exports supported by EEP—typically consisting of soyoil—are down about a fifth and account for only 4 percent of the overall EEP assistance so far this year. As of early February, the pork allocations remained unused, though some poultry exports received EEP assistance this year.

Two other important government programs that affect U.S. agricultural exports are the GSM-102 and GSM-103 export credit guarantee programs. The GSM-102 program was established in 1981 to guarantee short-term loans—of up to three years—used to finance foreign purchases of U.S. agricultural commodities. The GSM-103 program was developed four years later to guarantee intermediate-term loans of up to ten years. These programs have the effect of lowering interest rates charged to foreign buyers of U.S. agricultural products since the risk of nonpayment is ultimately borne by the U.S. taxpayers. Eligible countries are approved for guarantee allocations for the purchase of specific commodities. Foreign buyers may then use their guarantees throughout the year as commodities are purchased and financing is arranged.

Like the EEP, the export credit guarantee programs are widely used. At present, 33 countries have been approved to use the guarantees for a variety of agricultural products. Mexico presently stands out as the single largest user of the GSM programs, mostly for feedgrains, oilseeds, and wheat. Algeria, South Korea, and Pakistan also make substantial use of the credit guarantees. However, overall use of the guarantee programs this year is running behind the pace of a year ago. From October through early February, the announced allocations totaled $3.4 billion dollars, down a fifth from the previous year. Furthermore, the value of exports registered under the guarantee programs this year—considered a measure of current activity—declined by an even greater degree. Much of the slide stemmed from Russia's absence from the program. Russia's allocations last year totaled $525 million, mostly for feedgrains and wheat.

Through early February, the year-to-date activity surrounding use of the credit guarantee programs was somewhat mixed for several commodities and products that are important to Midwest farmers. Compared to a year ago, the value of exports registered under the program for feed grains and protein meal declined 50 percent and 20 percent, respectively. Combined meat and poultry products dropped by nearly a third. In contrast, export registrations under the program for dairy products and soybeans each rose about 15 percent.

Mike A. Singer

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Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834
Tel. no. (312) 322-5111

Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1977=100)*	February	147	0.0	5	3
Crops *(index, 1977=100)*	February	134	–0.7	14	4
Corn *($ per bu.)*	February	2.73	1.1	37	11
Hay *($ per ton)*	February	86.90	1.4	12	22
Soybeans *($ per bu.)*	February	6.64	–1.2	19	19
Wheat *($ per bu.)*	February	3.52	–1.4	6	–7
Livestock and products *(index, 1977=100)*	February	160	0.6	–1	3
Barrows and gilts *($ per cwt.)*	February	48.00	8.8	7	18
Steers and heifers *($ per cwt.)*	February	72.00	–1.5	–9	–6
Milk *($ per cwt.)*	February	13.50	–1.5	10	5
Eggs *(¢ per doz.)*	February	63.7	2.9	4	15
Consumer prices *(index, 1982-84=100)*	February	147	0.3	3	6
Food	February	143	–0.6	2	4
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	5,936	N.A.	–25	–9
Soybean stocks *(mil. bu.)*	December 1	1,554	N.A.	–15	–13
Wheat stocks *(mil. bu.)*	December 1	1,586	N.A.	0	10
Beef production *(bil. lb.)*	January	1.94	–0.3	7	–5
Pork production *(bil. lb.)*	January	1.38	–11.4	–4	–10
Milk production* *(bil. lb.)*	February	9.79	–8.0	–1	–5
Receipts from farm marketings *(mil. dol.)*	November	18,676	–12.2	8	9
Crops**	November	9,408	–20.7	0	1
Livestock	November	7,601	–11.3	1	2
Government payments	November	1,667	101.3	433	413
Agricultural exports *(mil. dol.)*	December	4,083	4.6	8	5
Corn *(mil. bu.)*	December	142	–2.2	–18	11
Soybeans *(mil. bu.)*	December	74	2.1	0	–23
Wheat *(mil. bu.)*	December	125	7.7	8	8
Farm machinery sales *(units)*					
Tractors, over 40 HP	February	3,944	–5.3	14	40
40 to 100 HP	February	2,174	–9.0	16	25
100 HP or more	February	1,770	–0.3	10	63
Combines	February	373	–11.4	0	14

N.A. Not applicable
*21 selected states.
**Includes net CCC loans.

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Public Information Center
P.O. Box 834
Chicago, Illinois 60690-0834
(312) 322-5111