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AgLetter

AGRICULTURAL EXPORTS CLOSE IN ON ANOTHER RECORD YEAR

Recent USDA reports indicate that the value of U.S. agricultural exports will reach a new high in the fiscal year ending this September (fiscal 1996). The projected gain reflects rising bulk commodity sales, especially for wheat, corn, and soybeans. Red meat and poultry exports are also doing well. Agricultural exports to Mexico have rebounded from the dismal showing of the prior year that was sparked by the devaluation of the Mexican peso, and shipments to Russia have also recovered. In addition, the Federal Agricultural Improvement and Reform Act of 1996 contains several modifications that will influence agricultural exports in the future.

The USDA's May forecast for U.S. agricultural exports in fiscal 1996 remains at $60 billion, unchanged from the projection released three months earlier, and up from $54.1 billion last year. While the overall estimate was unchanged, revisions were made for several individual commodities. A stronger price outlook led to upward revisions for rice, corn, and cotton, while the pace of poultry shipments has exceeded prior expectations. In turn, these gains were offset by downward revisions for soybean meal and oil, hides, dairy products, sugar and sweeteners, and fruits and vegetables.

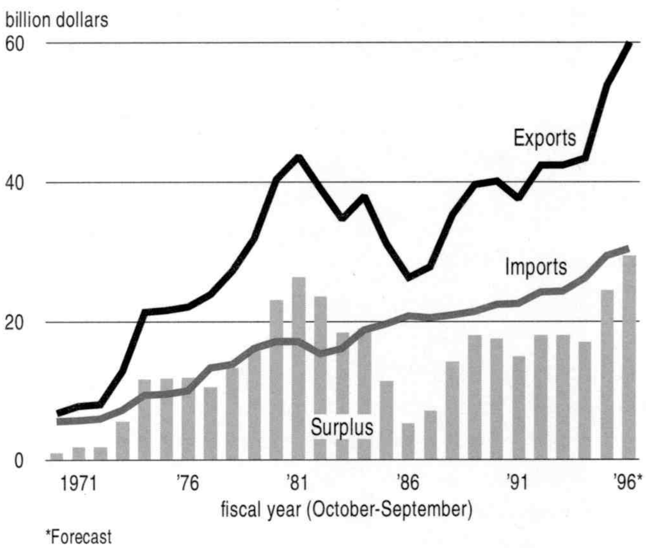
The projected value of agricultural exports in the current fiscal year is about a tenth larger than last year and nearly 40 percent greater than two years earlier. Much of the current gain stems from a year-over-year rise of nearly 20 percent in the value of bulk commodity sales, particularly for wheat, corn, and soybeans. In comparison, sales of processed products are expected to rise a more modest 5 percent, pushed higher by larger exports of red meat and poultry. The gain in export sales mostly stems from higher prices—particularly for corn and wheat—as the export volume of both bulk and processed items will register moderate year-over-year declines.

Unlike the total for exports, the projected value of agricultural imports was raised from the February forecast by $1 billion. The increase narrowed the anticipated agricultural trade surplus to $29.5 billion, which—if achieved—would still be the largest ever. Overall imports of agricultural products are projected to register a modest year-over-year rise of 3 percent. The increase is fairly broad-based, with most categories expected to register gains. The exceptions are live animals, red meat, dairy products, and vegetables. In terms of value, the largest import category is fruits and juices, followed by coffee, vegetables and preparations, and wine and malt beverages. These groups account for nearly 40 percent of the value of agricultural imports.

Most regions of the world are expected to increase their purchases of U.S. agricultural products in fiscal 1996. The strongest gains are projected for the former Soviet Union, Latin America, and Asia. In particular, a recovery in exports to Mexico and Russia will provide a strong boost in sales to their respective regions. And the ongoing growth in Asian economies and their shift towards Western-style diets will help exports of U.S. agricultural products to this region post another solid gain.

The U.S. agricultural sector can well appreciate the projected 20 percent gain in exports to Mexico, our third-largest export market behind Japan and Canada. Sales of agricultural products to Mexico fell about a tenth in fiscal 1995 due to the peso devaluation and declining income. That setback consisted mostly of a drop in sales of processed products as bulk commodity sales held fairly steady.

U.S. agricultural trade



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

Sales of both corn and wheat were up sharply last year, boosted by rising consumption trends as well as a decline in Mexican corn production. In the first half of the current fiscal year, the value of bulk commodity sales to Mexico posted a large gain over the same period from a year earlier. However, sales of processed products continued to slip, dropping about 7 percent.

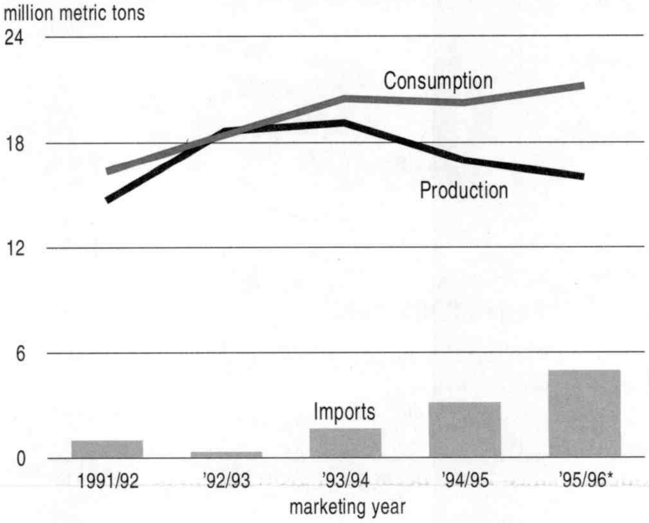
In comparison, the value of Mexican agricultural products imported into the U.S. during fiscal 1995 registered a year-over-year gain of about a third. Each of the four major import categories—raw coffee, live animals, fresh fruits, and fresh vegetables—registered large gains. Together, these four product groups account for about two thirds of the value of agricultural products imported from Mexico. But through the first half of fiscal year 1996, the import value of each—except fresh fruit—was down significantly when compared to the same period a year earlier.

Midwest farmers have benefited considerably from rising exports. The USDA's current forecast indicates that corn exports will reach 2.3 billion bushels in the marketing year ending this August. This represents a 6 percent gain from the prior year and is the largest level in six years. But because of sharply higher prices, the gain in value will be substantially higher. The growing worldwide demand for coarse grains and limited competition from other exporting nations are the primary factors contributing to the improvement in corn exports. Exports out of South Africa were down sharply over the past year due to dry weather that reduced the previous harvest. However, South Africa's corn harvest recovered this spring and will provide greater competition to U.S. corn producers in the year ahead.

Much of the gain in corn export sales came from Latin America and Asia. As of May 30, export commitments (shipments plus outstanding sales) to Mexico were more than double that of a year earlier. Furthermore, commitments to Asian nations were up by about a tenth, led by sharp gains in sales to Malaysia, the Philippines, and Thailand. Our largest Asian customers—Japan, South Korea, and Taiwan—also registered significant, albeit lesser, gains. China is expected to remain a net importer of corn this year, but recent reports indicate it is considering lifting its ban on corn exports and may sell some corn in world markets yet this summer.

Soybean export commitments were up marginally from a year ago as of May 30. However, exports for the marketing year ending this August are expected to register a decline of about 2 percent. Sales are expected to soften during the remainder of the summer as South American soybeans move into export channels. In sum, gains in the sale of soybeans to Asia and Africa have been offset by smaller exports to Europe.

Corn production in Mexico not keeping pace with use



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

In comparison, U.S. soybean meal and soybean oil exports are headed for much steeper declines. Exports of soybean oil are expected to register a decline of 50 percent for the marketing year ending this September, while meal volume is projected to drop by a fifth. The decline in soybean oil exports is consistent with a world-wide decline in consumption and trade. Moreover, China sharply reduced its purchases of soybean oil from the U.S. This alone was enough to make a significant impact because China accounts for over 50 percent of U.S. soybean oil exports. Meal exports fell due to continued stiff competition from South America as well as India. India's soybean harvest made a strong recovery last fall and its processing industry was able to boost meal exports by two thirds from the previous year.

Looking ahead to the next marketing year (1996/97), early USDA projections indicate that exports of soybeans, oil, and meal will post year-over-year gains, while corn exports will experience a decline. The USDA's June revisions to its 1996/97 projections moved soybean exports from a moderate annual decline to a small gain. This change was in response to the belief that cool, wet weather and the late planting season will cause farmers to shift intended acreage from corn to soybeans. This will boost soybean supplies and weaken prices from what had previously been projected. In contrast, corn exports may drop by nearly a tenth. Important factors are the outcome of this fall's domestic harvest as well as feed grain production in the rest of the world. Other factors include the rate of economic growth and meat demand in Asia and our trade relationship with China. Production and consumption trends in Latin America will also continue to play an important role. Reflecting the numerous uncertainties in these factors, the 1996/97 outlook for corn and soybean exports is highly tentative and may change considerably as supply and demand conditions develop.

Exports of red meat and poultry got off to a strong start in early 1996 and are expected to do quite well this year. First-quarter pork exports were up nearly a fifth from the prior year, with especially sharp increases in shipments to Japan and Canada. Continued strong gains are expected throughout 1996, leaving the annual level of exports over four times larger than in 1990. Because of the steady gains over this decade, the U.S. became a net pork exporter (in terms of volume) in 1995, and the margin is expected to widen this year and the next. Beef exports were boosted in early 1996 by ample supplies and attractive prices, with sales to Japan and Mexico posting sharp gains. Exports of beef have also made strong gains throughout this decade, doubling since 1990. Because of growing exports and declining imports, the U.S. will likely become a net beef exporter this year.

Poultry exports are expected to show a year-over-year gain of about a tenth this year. Remarkably, this would be the smallest annual gain posted in this decade. Similar to pork, poultry exports have increased nearly fourfold since 1990. First-quarter exports ballooned from a year earlier on the strength of greater sales to Canada, Mexico, and Singapore. In addition, exports to Russia increased as exporters attempted to beat a threatened ban on poultry purchases by the Russian government over health issues. The situation was resolved, however, and Russia will likely continue as our foremost market for poultry meat.

The U.S. trade balance in live cattle and hogs moved in different directions early this year. Despite an improved export picture for hogs, net imports (imports less exports) during the first quarter were nearly double that of a year earlier. This came about due to a large increase in imports from Canada. In contrast, net imports of cattle dropped by about a third during the first quarter, primarily as a result of an improved trade balance with Mexico.

The Federal Agricultural Improvement and Reform Act (FAIR) of 1996 specified changes to two of the best-known agricultural export programs, the Export Enhancement Program (EEP) and the export credit guarantee program. The EEP was modified in terms of the products it supports and the approach to funding. The USDA may allocate up to $100 million of EEP funding annually in the future to subsidize greater exports of processed—rather than bulk—products. Furthermore, the previous farm bill set minimum spending levels which the USDA was charged with attaining, and which in practice were always exceeded. In contrast, the FAIR Act sets upper limits on spending. The maximums for 1997 through 2002 range from $250 million to $579 million and average about $472 million. This is considerably less than recent EEP payments, which averaged $775 million from 1989 through 1994. Given that the EEP has not been used in recent months to support commodity exports—thanks to strong U.S. sales and the European Union's recent decision to discourage its own wheat exports—the 1996 funding level of $350 million will not be fully utilized.

The credit guarantee program was also revised to provide a greater level of support for exports of processed agricultural products. A minimum share of the credit guarantees are now to be set aside for processed products. The proportion is to be 25 percent for 1996, and is to be raised to 35 percent over the next three years. In comparison, processed products accounted for between 20 to 25 percent of the credit guarantees used from 1989 through 1994. However, these minimums may be suspended if their use results in a reduction of bulk commodity sales. Furthermore, credit guarantees may now be fully utilized for processed products with up to 10 percent (by weight) foreign content. In the past, the guarantees could not be use to finance any foreign content of a product exported under this program. Furthermore, the program funding level was kept at $5.5 billion annually. This seems adequate since actual usage so far this decade has consistently fallen short of that amount.

Other changes to export programs are contained in the FAIR Act. The Cottonseed Oil Assistance Program and The Sunflowerseed Oil Assistance Program were not reauthorized. (However, the Dairy Export Incentive Program was continued.) The Food Security Wheat Reserve—created to meet humanitarian food needs in developing nations—was renamed the Food Security Commodity Reserve and broadened to include corn, sorghum, and rice as well as wheat. In addition, the USDA is charged with developing a trade strategy for agricultural products that reflects the opportunities offered by recent trade agreements and the expected continued economic growth among Pacific Rim nations.

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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, 1990–92=100)*	May	112	3.7	12	11
Crops *(index, 1990–92=100)*	May	132	3.1	13	23
Corn *($ per bu.)*	May	4.26	10.6	76	64
Hay *($ per ton)*	May	97.10	7.5	6	–2
Soybeans *($ per bu.)*	May	7.67	3.2	38	13
Wheat *($ per bu.)*	May	5.81	9.2	58	69
Livestock and products *(index, 1990–92=100)*	May	96	3.2	9	–1
Barrows and gilts *($ per cwt.)*	May	58.30	15.2	55	35
Steers and heifers *($ per cwt.)*	May	58.60	0.9	–8	–16
Milk *($ per cwt.)*	May	14.00	0.7	14	9
Eggs *(¢ per doz.)*	May	69.7	–9.5	23	19
Consumer prices *(index, 1982–84=100)*	May	157	0.2	3	6
Food	May	152	–0.2	2	6
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	3,799	N.A.	–32	–5
Soybean stocks *(mil. bu.)*	March 1	1,190	N.A.	–13	16
Wheat stocks *(mil. bu.)*	March 1	826	N.A.	–15	–20
Beef production *(bil. lb.)*	April	2.15	5.8	16	13
Pork production *(bil. lb.)*	April	1.48	4.4	6	4
Milk production* *(bil. lb.)*	May	11.5	–1.6	0	2
Receipts from farm marketings *(mil. dol.)*	February	13,448	–22.7	1	1
Crops**	February	6,213	–36.3	13	30
Livestock	February	7,052	–7.5	–1	–5
Government payments	February	183	N.A.	–75	–85
Agricultural exports *(mil. dol.)*	March	5,470	3.3	9	40
Corn *(mil. bu.)*	March	214	31.0	9	92
Soybeans *(mil. bu.)*	March	94	12.8	13	74
Wheat *(mil. bu.)*	March	110	16.5	3	7
Farm machinery sales *(units)*					
Tractors, over 40 HP	May	5,980	–26.7	3	17
40 to 100 HP	May	3,899	–8.7	–1	10
100 HP or more	May	2,081	–46.4	12	35
Combines	May	494	–26.0	–20	–7

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

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