The Agricultural Newsletter
from the Federal Reserve Bank of Chicago
Number 1884 *January 1997*

AgLetter

AGRICULTURAL EXPORTS SUPPORT FARM AND NONFARM SECTORS

The value of agricultural exports rose to a record level in the fiscal year that ended in September 1996. At $59.8 billion, exports were a tenth higher than the previous year and over a third larger than two years earlier. Sales of bulk commodities registered extraordinary gains, but high-value (HV) products also contributed to the expansion. The increase in agricultural exports more than offset rising imports, and the net trade surplus for agriculture moved up to a record high. For the current fiscal year, a decline in exports of bulk commodities is expected to offset continued gains for HV products and pull the value of agricultural exports lower.

Classifying agricultural exports along bulk or HV lines is a useful way to gain a better understanding—in a broad sense—of what types of domestic farm products are sold overseas and their relative impact on agriculture and the economy. Bulk items include such traditional farm outputs as grains, soybeans, cotton, and tobacco. These items do not undergo any immediate transformation, but retain their identity from farm to foreign port. It is unlikely these commodities are sold to final consumers, but rather to processors that utilize them as inputs in food or fiber manufacturing or livestock production. In comparison, HV products include semi-processed products that are typically used as inputs in further production processes; fully processed products that are consumer ready; and fruits and vegetables. Examples of semi-processed goods would be soybean oil and hides/skins, while fully processed products are of the type found on grocery shelves. Relative to bulk commodities, HV products tend to require special packaging or a more controlled environment when shipped.

Most of the fiscal 1996 improvement in agricultural exports came from a major increase in sales of bulk commodities. The export value of this group was pushed higher by sharp price gains that stemmed from a decline in domestic grain supplies and robust world demand. Wheat, corn, and soybeans all registered big jumps in export value, offsetting declines in rice and cotton. Overall, bulk exports rose 18 percent to nearly $28.8 billion. In general, Midwest crop farmers benefited from these developments, as foreign sales of U.S. corn and soybeans rose 26 percent and 20 percent, respectively, from the prior year, despite a decline in the number of bushels shipped. In comparison, wheat sales posted a year-over-year gain of 40 percent on the strength of both higher prices and larger quantities. Much of the improvement in corn sales stemmed from heavier buying by Latin American and Asian nations. Especially strong gains were made in sales to Mexico, Turkey, and Malaysia. In addition, purchases by Russia and Poland were significantly larger than in the prior year. In comparison, soybean exports made relatively strong inroads in Asian markets, especially Thailand and Indonesia.

Compared to bulk agricultural exports, foreign sales of HV products posted a more modest year-over-year increase in fiscal 1996. The HV agricultural exports were up 3 percent and totaled just over $31 billion. Midwest farmers and food manufacturers shared in the benefits from the continued rising tide of HV agricultural product exports. Sales of pork products jumped by over a fifth in fiscal 1996, as did poultry exports. In comparison, beef exports rose by a marginal 2 percent. Furthermore, exports of feedgrain products and soybean meal posted sharp year-over-year gains. However, export sales of soybean oil dropped off as China reduced its purchases from the prior year. Foreign sales of dairy products showed little change from the year before, as solid gains in cheese sales were offset by a decline in exports of butter and nonfat dry milk. But several other categories of HV products—notably eggs and products, tree nuts, and breakfast cereals/pancake mix—registered strong growth from the previous year.

Despite the stronger growth of bulk exports last year, HV products paced the growth in agricultural exports

during the 1990s. Exports of HV agricultural products have registered steady annual increases for several years, unlike the ups and downs that characterize bulk sales. From fiscal 1990 through 1996, the value of HV agricultural exports grew at an annual compound rate of over 9 percent, nearly double the growth rate registered by bulk commodities. Several of the product groups within the HV category averaged double-digit growth rates this decade. Poultry was the best performer by far, averaging a 25 percent rise in export value each year since 1990. Sales of pet food also made solid gains, rising by about a fifth each year. Wine and beer, snack foods, and breakfast cereal exports rose over 15 percent annually. Rounding out the list of HV products that averaged double-digit annual gains in recent years are eggs and products, dairy products, red meats, fruit and vegetable juices, and tree nuts.

Several factors sustained the steady growth in HV agricultural exports. Certainly the ongoing implementation of trade-liberalization agreements made an important contribution to the growth in exports, despite the well-publicized disagreement with Canada over sales of U.S. poultry, eggs, and dairy products to that country, and the dispute with the European Union regarding the use of livestock growth hormones. But more important was the income growth that occurred overseas, particularly among developing nations in Asia and Latin America, boosting the purchasing power of consumers in those nations. In addition, consumers typically desire more convenience in food preparation as incomes rise, raising the export prospects for processed foods. Finally, improvements in transportation technology improved the cost effectiveness of shipping products over long distances and also raised the feasibility of exporting perishable items.

Turning to the other side of agricultural trade, the value of agricultural imports was also up in fiscal 1996, registering an annual gain for the ninth consecutive year. At $32.4 billion, purchases of foreign agricultural products were up by a tenth from the previous year. Imports of feed products and grains rose by a tenth, while imports of oilseeds and their products jumped by nearly a fifth. In comparison, imports of meat products and live animals were unchanged from the prior year as an increase in purchases of dairy products was offset by another year-over-year decline in red meat imports. Furthermore, imports of most types of horticultural products remained strong. Fruits and juices, vegetables, nuts, and nursery and flower products all registered solid gains.

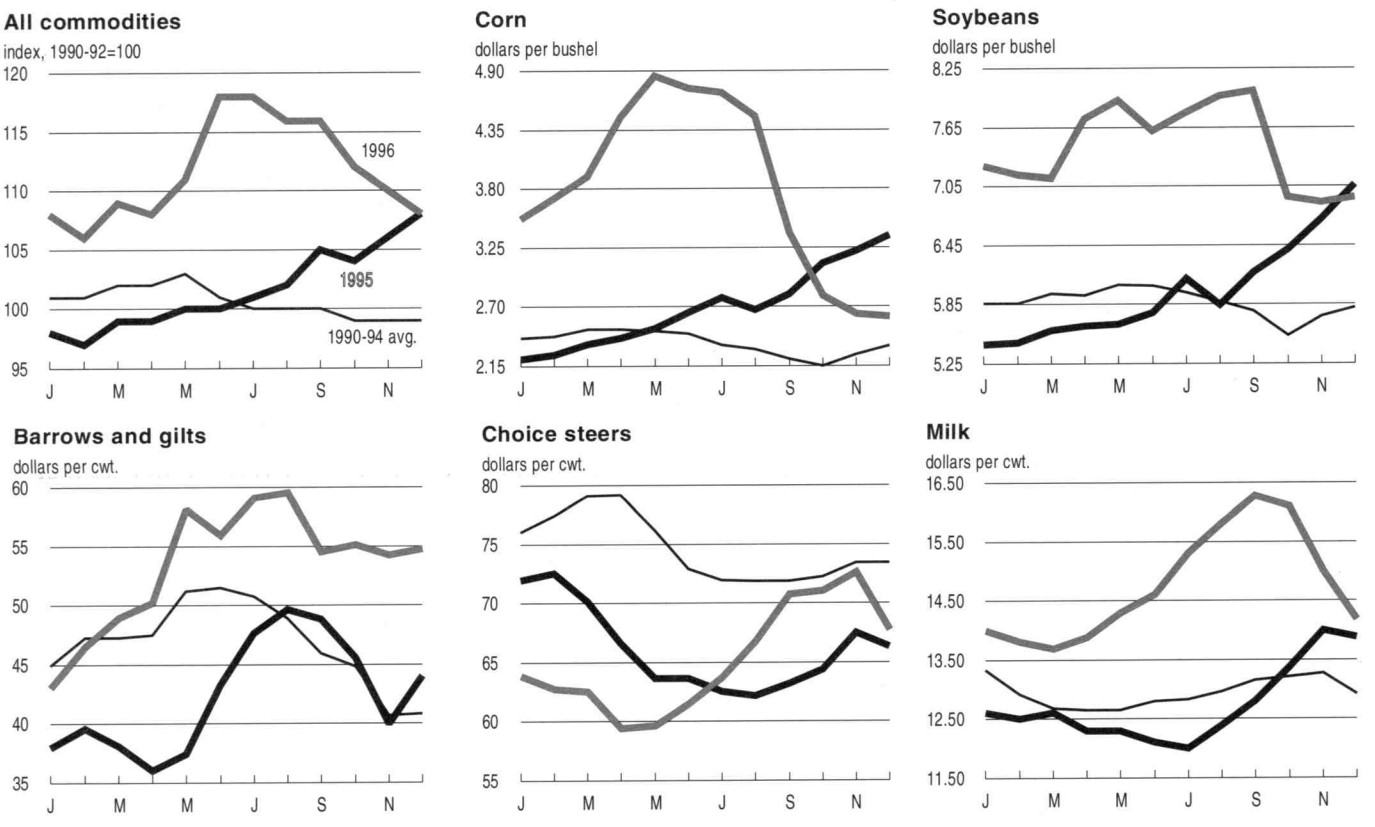
Despite the rise in imports, the net trade surplus for the agricultural sector increased by about a tenth from the year before to $27.4 billion. The sector's trade surplus ranked first in 1995 among eleven major industry groups tracked by the U.S. Department of Agriculture (USDA), moving up from the number two spot held the prior year. The outstanding export performance last year suggests that agriculture maintained the top position in 1996, further underscoring the important contribution made by agriculture to the nation's trade balance.

But the benefits of agricultural exports extend well beyond their contribution to the trade balance. Exports of U.S. agricultural products account for a significant share of farm sector income. The USDA estimates that approximately 17 percent of U.S. farm production is sold to consumers in other nations. This has been fed by long-term gains in agricultural productivity which have long outpaced domestic population growth. Therefore, foreign markets provide an important source of demand to absorb excess farm production.

Furthermore, agricultural exports provide income and employment opportunities for many outside the farm sector, primarily through the steady growth of HV agricultural products. Exports of HV items not only benefit U.S. farmers by boosting the demand for farm commodities, but also have a positive impact on the food processing, nonfood manufacturing, and transportation industries. Analysts from the USDA conducted a study last year that generated estimates of the number of jobs in the U.S. and Seventh District states that are supported by agricultural exports. The study was released last September at a conference hosted by the Federal Reserve Bank of Chicago that examined the linkages between the world economy and the midwestern United States. The study indicated that approximately 895,000 full-time jobs were supported by agricultural exports in 1995, an increase of about 100,000 jobs from the prior year. Nearly two-thirds of these jobs were attributed to HV exports.

The USDA analysis also indicated that nearly 16 percent of the agricultural export-related jobs are located in District states. Among the individual District states (Illinois, Indiana, Iowa, Michigan, and Wisconsin), the largest number of jobs supported by agricultural exports is in Illinois. However, employment in Iowa is relatively more dependent on trade. In other words, the ratio of export-supported jobs to total employment is higher in Iowa than in other District states. In addition, the

1996 farm prices in perspective



relatively greater growth rate of HV exports in recent years has led to a shift in the composition of agricultural exports towards HV products. Though the District has a solid food manufacturing base, its strength relative to other regions lies in the production of bulk grains, pork, and cereals. To the extent that future export growth lies with other types of HV products, it is possible that other regions may reap the greater reward in employment and income growth in food manufacturing when compared to District states.

Recent projections from the USDA indicate that agricultural exports will experience a setback in fiscal 1997. Foreign sales are expected to register a fairly significant decline of about 7 percent to $55.5 billion. Much of the decrease will come from sharply lower sales of bulk commodities, especially wheat, corn, and cotton. The decline in corn sales stems from lower prices and abundant foreign supplies of feedgrains and feed-quality wheat. Conversely, the outlook for soybeans is more favorable to U.S. farmers, as soybean sales are expected to hold steady when compared to last year. In contrast to bulk commodities, export sales of HV products are projected to register a moderate year-over-year gain in fiscal 1997. Sales of red meat, poultry, and horticultural products are expected to continue their expansion. In addition, exports of soybean oil are projected to recover somewhat from last year's decline, while meal sales hold steady.

Mike A. Singer

AgLetter (ISSN 1080-8639) is published monthly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice president, Mike A. Singer, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

To subscribe, please write or telephone:

Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834
Tel. no. 312-322-5111
Fax no. 312-322-5515

Ag Letter is also available on the World Wide Web at http://www.frbchi.org.

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)*	December	108	–1.8	0	9
Crops *(index, 1990–92=100)*	December	112	–3.4	–5	6
Corn *($ per bu.)*	December	2.56	–3.8	–17	20
Hay *($ per ton)*	December	96.00	0.6	18	10
Soybeans *($ per bu.)*	December	6.92	0.3	2	28
Wheat *($ per bu.)*	December	4.02	–2.9	–18	7
Livestock and products *(index, 1990–92=100)*	December	103	1.0	7	14
Barrows and gilts *($ per cwt.)*	December	54.70	0.2	23	73
Steers and heifers *($ per cwt.)*	December	65.50	–4.7	1	–4
Milk *($ per cwt.)*	December	14.20	–5.3	2	11
Eggs *(¢ per doz.)*	December	87.7	6.0	8	39
Consumer prices *(index, 1982–84=100)*	December	158.6	0.0	3	6
Food	December	156.3	0.3	4	6
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	6,906	N.A.	13	–15
Soybean stocks *(mil. bu.)*	December 1	1,823	N.A.	–1	–13
Wheat stocks *(mil. bu.)*	December 1	1,219	N.A.	–9	–18
Beef production *(bil. lb.)*	November	1.96	–10.3	–7	–1
Pork production *(bil. lb.)*	November	1.43	–10.2	–11	–13
Milk production* *(bil. lb.)*	December	11.1	3.8	0	0
Receipts from farm marketings *(mil. dol.)*	August	16,254	–5.8	9	16
Crops**	August	8,295	–3.8	6	35
Livestock	August	7,600	–1.7	7	–2
Government payments	August	359	–59.8	1,336	379
Agricultural exports *(mil. dol.)*	October	5,230	19.5	2	20
Corn *(mil. bu.)*	October	145	44.3	–31	3
Soybeans *(mil. bu.)*	October	96	130.2	24	–4
Wheat *(mil. bu.)*	October	101	–21.8	–16	–4
Farm machinery sales *(units)*					
Tractors, over 40 HP	December	5,096	–5.2	–13	–9
40 to 100 HP	December	3,148	3.1	9	17
100 HP or more	December	1,948	–16.1	–34	–33
Combines	December	1,259	–12.3	22	27

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

AgLetter *is printed on recycled paper using soy-based inks*

AgLetter

Federal Reserve Bank of Chicago
Public Information Center
P.O. Box 834
Chicago, Illinois 60690-0834
312-322-5111