



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

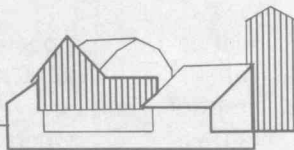
This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*



U.S. agricultural exports

Near-term prospects for U.S. agricultural exports have tuned lackluster following four years of substantial growth. The waning optimism for continued growth began to emerge this summer as U.S. export sales and shipments of wheat remained sluggish despite a bountiful harvest and sharply lower prices. Recent developments in the Persian Gulf and forecasts pointing to a large harvest in several other major grain exporting and importing countries have added to the deteriorating growth prospects. The implications of these developments were partially reflected in a recent USDA report that contained a slight downward revision in the forecasted tonnage of all U.S. agricultural exports in fiscal 1990. Other analysts are now suggesting that both the value and tonnage of agricultural exports will decline in fiscal 1991.

In the USDA's latest report, the forecasted value of all U.S. agricultural exports for the fiscal year ending with September was left unchanged at \$40 billion. Such a level would mark a slight rise from the \$39.6 billion of fiscal 1989 and a rise of more than 50 percent from the cyclical low in fiscal 1986. It would also be the highest for any year since fiscal 1981 and the third highest on record. While the projected value was left unchanged, the export tonnage forecast in the latest report was lowered slightly. The new forecast, at 148.5 million metric tons, portends a 1.5 percent rise from fiscal 1989 and a rise of more than a third from the low of four years ago.

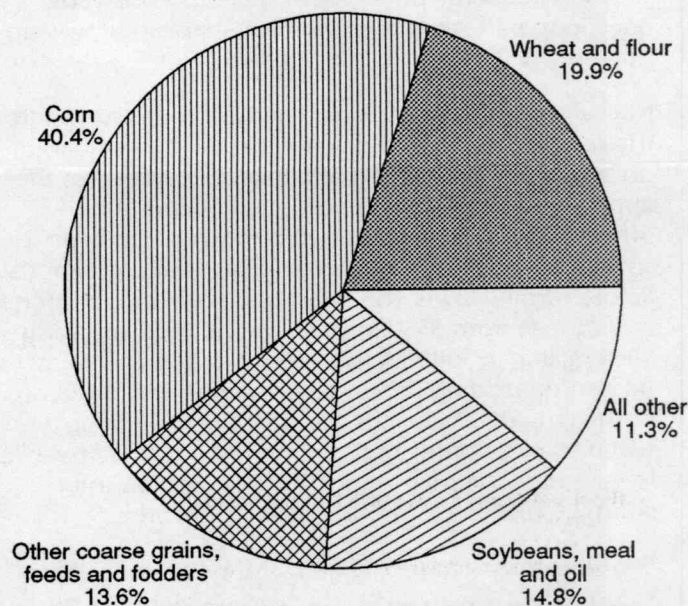
Wheat accounted for all of the downward revision in the latest tonnage forecast. The quantity of U.S. wheat and flour exports has retreated the past two years due to weather-related developments that sharply lowered both the 1988 and the 1989 harvest. But with the estimated one-third upturn in this summer's harvest, the hoped for rebound in wheat export sales and shipments has been slow to materialize. During the first three months of the 1990/91 wheat marketing year that started in June, the quantity of U.S. wheat inspected for export shipment was down about 30 percent from the level reached during the same period in each of the past two years. Moreover, the amount of U.S. wheat sold to foreign countries and still awaiting shipment as of late August was off 20 percent from the same date a year ago.

The sluggishness in U.S. wheat exports is largely attributable to gains in production elsewhere in the world. In addition to a much larger domestic harvest, the latest USDA forecasts imply that wheat production among all foreign countries this year will be up 6 percent from last year's record and up 13 percent from two years ago. The gains are widespread, encompassing other exporting countries as well as importing countries. In short, the increased supplies of U.S. wheat available for export are competing with larger supplies in other exporting countries for a world market characterized by somewhat lower import needs. Although world wheat consumption in 1990/91 may register the largest rise in several years, world trade in wheat may be little changed from the reduced level of the past two years.

The increased world supplies of wheat, and the accompanying sharp decline in wheat prices, is having spillover effects on domestic and export markets for U.S. corn and other feed grains. The lower wheat/corn

Distribution of U.S. agricultural export tonnage

(148.5 million metric tons)



SOURCE: USDA forecast for fiscal 1990

WAITE MEMORIAL BOOK COLLECTION
DEPT. OF AG. AND APPLIED ECONOMICS
1994 BUFORD AVE. - 232 COB
UNIVERSITY OF MINNESOTA
ST. PAUL, MN 55108 U.S.A.

price ratio is encouraging expanded use of wheat as a livestock feed. Reflecting this, the latest USDA forecasts point to a 16 percent rise in world consumption of wheat as feed versus a 3 percent rise for all other uses of wheat. The sharp rise in wheat used as feed may translate into little, or no, growth in world consumption of coarse grains in the year ahead. Moreover, the increased use of wheat as feed, combined with a large projected rise of 8 percent in coarse grain production in the USSR, may result in a downturn in both U.S. corn exports and in total world trade in coarse grains in the year ahead. The USSR has surpassed Japan in each of the past two years as the world's largest importer of corn and other coarse grains, accounting for about 30 percent of U.S. corn exports and well over a fifth of world trade in all coarse grains. Shipments to the Soviet Union were a major factor behind the two-fold increase in U.S. corn exports since the cyclical low in 1985/86.

In contrast to grains, the prospects for further recovery in U.S. exports of soybeans and products in the year ahead are more encouraging. The tonnage of U.S. exports of soybeans and soybean meal plunged 30 percent in fiscal 1989, reflecting both the curtailed domestic supplies following the drought-reduced U.S. harvest in 1988 and several years of growth in exports from Southern Hemisphere countries. This year, soybean and meal exports recovered about 15 percent and current USDA projections point to a further modest rise in fiscal 1991. But much will depend on the near-term plantings in the Southern Hemisphere, especially in Brazil where the unsettled conditions from new governmental policies and the recent strength in energy prices leave several unanswered questions with respect to the next soybean harvest in that country.

Numerous other unanswered questions still surround the recent Persian Gulf developments. The embargo on shipments to Iraq and occupied Kuwait, given the apparent widespread support and cooperation of other countries, will lead to cuts in what had been a small, but growing market for U.S. agricultural exports. Before turning lower this year, U.S. agricultural exports to Iraq rose from \$530 million in fiscal 1987 to nearly \$800 million in 1989. A large chunk of this market may be lost, depending on how the strength and duration of the embargo balances out with the reshuffling in world trade patterns that might arise and the possibility of a humanitarian response if widespread food shortages develop in that part of the world.

In terms of the indirect effects of the Persian Gulf developments, the impact of higher energy prices on consumer budgets will likely be favorable for potential food shipments to oil exporting countries. But on balance, world demand for food may be somewhat softer,

especially in countries heavily dependent on imported oil. On a more positive note, however, some analysts believe that the increased spirit of cooperation between the U.S. and other countries (especially the USSR and cooperating Arab countries) could lead to various trade concessions that might help strengthen U.S. agricultural exports to those areas.

FmHA's problem farm loans

The U.S. General Accounting Office (GAO) released a report in June that updated the extent of the Farmers Home Administration's long-standing problem of delinquent farm loans. The report noted that delinquent farm borrowers owed the FmHA about \$17.3 billion as of June 30, 1989. The obligations of the delinquent borrowers accounted for more than 60 percent of the FmHA's total portfolio of outstanding farm loans. About half, or \$8.7 billion, of the amount owed by delinquent borrowers represented past-due principal and interest payments. Since those mid-1989 benchmarks, however, the FmHA has written off a large portion of its problem loan, while complying with an expanded agenda of borrowers rights. Reflecting this, the GAO report also indicated that the FmHA, through February of this year, had written off about \$1.9 billion in delinquent farm loans under the mandated debt restructuring provisions included in the Agricultural Credit Act of 1987.

The FmHA is a federal government agency with a long history in providing loans to eligible farmers. For dec-

Status of FmHA farm loans, June 30, 1989

	Total outstanding	Amount owed by delinquent borrowers	
		That is past-due	Total
(-----million dollars-----)			
Farm ownership loans			
District states	1,417	119	544
United States	7,725	699	2,976
Farm operating loans			
District states	1,171	199	477
United States	5,847	1,518	2,876
Emergency disaster loans			
District states	898	267	576
United States	10,505	4,949	8,347
Economic emergency loans			
District states	854	268	611
United States	4,142	1,466	3,009
Total*			
District states	4,368	857	2,221
United States	28,518	8,690	17,363

*The totals include a small amount of soil and water loans not listed separately.

Source: U.S. General Account Office.

ades, the FmHA's major thrust was in programs that provided loans and supervisory management to young farmers and others unable to obtain loans from commercial lenders. In the last two decades, the thrust of FmHA farm lending was substantially enlarged through new and expanded programs granted by Congress that permitted farmers suffering from both natural disasters and economic setbacks to qualify for large amounts of FmHA financing, often at highly subsidized rates. In addition, relaxed lending standards and regulations, slow loan repayments, and limitations restricting its ability to deal with problem loans also added to the rapid growth in the FmHA's portfolio of outstanding loans. In line with these developments, the amount of farm sector debt owed to the FmHA rose from \$5 billion at the end of 1975 to \$23 billion in 1981 and eventually peaked at \$27 billion by the end of 1985. Since then, the amount of farm debt owed to the FmHA has retreated; dropping to \$24 billion at the end of 1988 and—following heavy write-offs—\$21 billion at the end of last year. The FmHA's share of all farm debt at the end of 1989 still stood at 14.5 percent, up from 5.5 percent in 1975 but down from the peak of 17 percent at the end of 1987.

The bulk of the past-due amounts in the FmHA's portfolio of delinquent farm loans were accumulated during the financial squeeze that gripped the farm sector from the early 1980s through the mid 1980s. The GAO report notes that the amount of outstanding principal owed by delinquent borrowers rose from less than \$2 billion in mid 1979 to a peak of \$13.4 billion in mid 1985. Since then, the outstanding principal of delinquent borrowers has edged down to \$12.6 billion. But because of lags in addressing the problem loans, accumulated interest charges added an additional \$4.7 billion to both the total obligations and the past-due amounts owed by delinquent borrowers as of mid 1989. Reflecting the lag in addressing the problem loans, nearly 90 percent of the \$8.7 billion in past-due amounts owed the FmHA as of mid 1989 was on loans delinquent for 3 years or more.

The lags in dealing with the problem farm loans partially stemmed from a temporary court-ordered moratorium on FmHA foreclosures. The lags also reflected Congressional and Administrative actions to be forbearing with delinquent borrowers during the farm sector's downturn in the first half of the 1980s. Among other things, delinquent borrowers were offered lower interest rates, extended loans maturities, restructured loan payments, and suspended interest charges. In the Agricultural Credit Act of 1987, Congress stipulated further restructuring options that incorporated expanded rights for FmHA borrowers while simultane-

FmHA farm loan servicing actions under the Agricultural Credit Act of 1987*

	Number of borrowers served	Total debt owed to FmHA	Amount of past-due debt	Amount of debt write-off
	(-----million dollars-----)			
Through net-recovery buy-out options				
District states	792	167	57	140
United States	5,156	1,284	593	1,094
Through loan restructuring with write-down				
District states	986	272	64	137
United States	4,879	1,502	446	778
Through loan restructuring without write-down				
District states	3,038	408	55	n.a.
United States	17,090	2,387	408	n.a.

*Based on actions taken through February, 1990.

n.a. Not applicable

Source: U.S. General Accounting Office.

ously opening the gates to write-off the hopelessly uncollectible problem loans. In November of 1988, the FmHA began to implement the provisions of that Act by notifying some 66,000 delinquent borrowers of their expanded debt restructuring options.

Among other things, the Act permitted a delinquent borrower to make a payment equal to the net recovery value of the collateral securing his delinquent loan as a final settlement (or "buy-out") on the borrower's entire obligation to the FmHA. In general, the net recovery value was to equal the market value of the collateral, less the estimated cost to the FmHA of foreclosing, holding, and disposing of the collateral. The recent GAO report noted that through February of this year, the FmHA had accepted about \$190 million in net recovery buy-out payments from some 5,200 delinquent borrowers as final settlement on their combined FmHA debt obligations of nearly \$1.3 billion. The remaining \$1.1 billion of FmHA debt obligations for these borrowers was written-off. On average, the write-off per borrower under the net recovery buy-out option was more than \$212,000.

In addition, the 1987 Act permitted expanded loan restructuring options with, in some cases, substantial loan write-downs. Through February, some 4,900 delinquent borrowers had been granted loan restructuring with write-downs. For these borrowers, loan write-downs that averaged nearly \$160,000 per borrower cut their combined \$1.5 billion in FmHA debt obligations by more than half. Another 17,000 delinquent borrowers with total FmHA indebtedness of \$2.4 billion received loan restructuring without write-downs.

Gary L. Benjamin

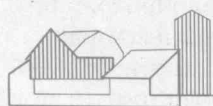
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	April	12,878	-12.9	4	6
Livestock	April	4,740	-6.7	-1	16
Government payments	April	6,963	-5.7	7	13
	April	1,176	-49.5	11	-37
Real estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	15.5	0.7 [†]	6	15
Farm Credit System	March 31	26.1	-1.1 [†]	-4	-11
Life insurance companies	March 31	8.74	-2.2 [†]	0	-3
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	27.9	-4.6 [†]	3	5
Farm Credit System	March 31	9.19	-3.2 [†]	4	2
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	July 1	11.94	0.1 [†]	-4	6
Real estate loans	July 1	11.09	0.2 [†]	-4	4
Commodity Credit Corporation	September	7.75	-3.1	-3	-3
Agricultural exports (\$ millions)					
Corn (mil. bu.)	June	3,234	1.0	6	21
Soybeans (mil. bu.)	June	201	-6.1	-10	51
Wheat (mil. bu.)	June	35	53.9	13	20
	June	89	19.3	-2	-31
Farm machinery sales^P (units)					
Tractors, over 40 HP	July	4,293	-32.0	5	18
40 to 100 HP	July	3,101	-31.9	5	13
100 HP or more	July	1,192	-32.3	6	35
Combines	July	980	3.0	13	164

*Includes net CCC loans.

[†]Prior period is three months earlier.

^PPreliminary



AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
Public Information Center
P.O. Box 834
Chicago, Illinois 60690
(312) 322-5111



LOUISE LETNES LIBRARIAN
DEPT OF AGRIC & APPLIED ECON
231 CLASSROOM OFFICE BUILDING
1994 BUFORD AVENUE
ST PAUL MN 55108-1012

