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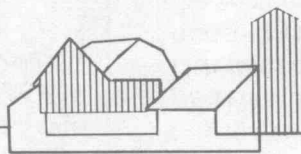
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Rebound in agricultural exports continues

U.S. agricultural exports, after registering the first increase since the early 1980s last year, are projected to show additional improvement in fiscal 1988. The continued strength in exports of agricultural commodities is largely attributable to greater price competitiveness brought about by lower loan rates, generic certificates, the Export Enhancement Program (EEP), and the lower exchange value of the dollar. For the fiscal year that began on October 1, the value of U.S. agricultural exports is forecast to rise about 16 percent from the previous year, while export tonnage is expected to increase about 10 percent. With export volume up more than 30 percent from the fiscal 1986 low, the U.S. share of world agricultural trade markets has risen significantly.

U.S. wheat and flour exports this fiscal year have continued to be greatly influenced by the EEP. The most recent USDA forecast shows wheat and flour exports registering a year-to-year gain of almost a third, considerably higher than earlier forecasts. The upward revisions stem largely from new offers under the EEP to the Soviet Union and China. The value of U.S. wheat and flour exports is forecast to be up more than 40 percent from a year earlier in fiscal 1988.

U.S. exports of coarse grains, primarily corn, are forecast to rise about 10 percent from a year ago in fiscal 1988. Continued price competitiveness along with tight supplies among several competing export countries have strengthened demand for U.S. corn. The value of these shipments is expected to increase by more than a fifth this year. In addition, an expected increase in exports of sorghum will more than offset an expected drop in exports of barley, further boosting overall coarse grain exports from the United States this fiscal year.

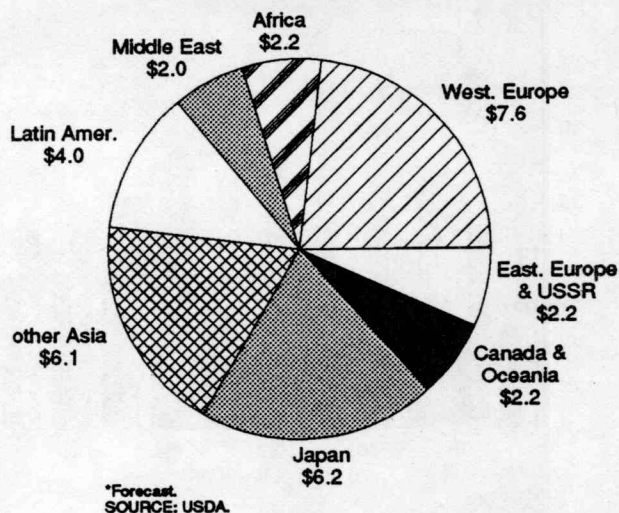
In contrast to the sharp gains expected in wheat and corn exports this fiscal year, soybean shipments are forecast to be down from a year ago. Estimates of soybean exports point to a year-to-year decline of almost 6 percent in tonnage because of expected competition from a large Southern Hemisphere crop. However, stronger prices this year are expected to boost the overall value of U.S. soybean exports by about 9.5 percent compared to the previous fiscal year. Soybean meal exports are expected to be off by

more than 8 percent compared to last fiscal year's high tonnage, while shipments of soybean oil, at 1 million metric tons, are almost double the low year-ago level.

The overall increase in U.S. agricultural exports is expected to be distributed across the major regions of the world. At about \$7.6 billion, exports to Western Europe this year are expected to be up 5.5 percent from a year ago. USDA analysts attribute the gain to continued growth in the region along with price competitiveness due to the lower value dollar. In addition, poor weather in some areas during harvest reduced the quality of the grain crop. While the value of U.S. agricultural exports to East European countries is expected to show little change from the low level of last fiscal year, exports to the Soviet Union are forecast to rebound sharply. Higher wheat exports and expected near record oilseed exports will likely boost the value of U.S. agricultural exports to the Soviet Union by about 150 percent.

U.S. agricultural exports to Asian countries are expected to total \$12.3 billion in fiscal 1988, up almost a fifth from a year earlier. Exports to Japan account for much of the projected gain. The increased value of the yen has contributed to increased coarse grain sales and continued strong exports of livestock products to

Regional distribution of U.S. agricultural exports in fiscal 1988
(\$325 billion)



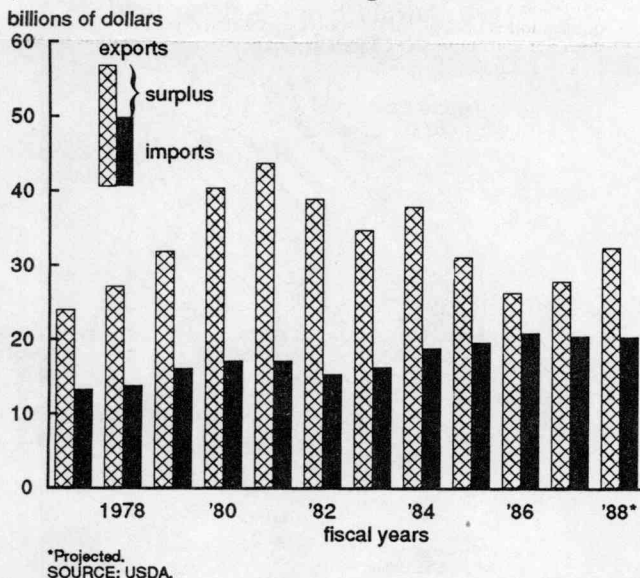
Japan. The value of agricultural exports to China are expected to approach \$500 million, double the low level of last year. The projected increase is due largely to increased sales of wheat to China.

The value of U.S. agricultural exports to Africa in fiscal 1988 is estimated to increase more than 23 percent from a year earlier, while the value of exports to Middle Eastern countries is forecast to rise 20 percent. Exports to Latin American countries, in contrast, are expected to rise only 6.5 percent in value compared to fiscal 1987, limited by continued slow economic growth and debt servicing constraints.

Imports of agricultural commodities into the United States are forecast to drop slightly from last year's level, but remain only 2 percent below the fiscal 1986 peak. Decreases in the value of sugar, tobacco, and coffee imports will outweigh increased animal product, horticultural product, and rubber imports. The distribution of U.S. agricultural imports from various regions of the world will remain largely unchanged from a year ago, with almost 60 percent coming from Latin America and Western Europe.

The expected increase in U.S. agricultural exports, combined with stable imports, will boost the U.S. agricultural trade surplus by more than 64 percent in fiscal 1988. Projected to reach \$12 billion this fiscal year, the surplus will be at its highest level since fiscal 1984. Nevertheless, the U.S. agricultural trade surplus will still be less than half the fiscal 1981 peak of \$25.6 billion.

U.S. agricultural trade surplus is rising



Much of the resurgence is attributable to an improved agricultural trade balance with less developed countries. After recording a trade deficit with these countries in fiscal 1986 and a virtual balance last year, U.S. agricultural trade with less developed countries is projected to record a \$2.3 billion surplus in fiscal 1988. However, a trade surplus of that magnitude would still be only half the level that typically prevailed in the early 1980s. Similarly, trade surpluses with centrally planned countries fell to less than \$1 billion during the last three fiscal years, but is expected to rebound to more than \$2 billion in fiscal 1988. The U.S. agricultural trade surplus with developed countries is projected to rise almost a fourth from the year-ago level to \$7.7 billion. Although large in comparison with the trade surpluses with other groups, it is still down considerably from the levels that prevailed earlier in the decade.

Slower expansion in hog production

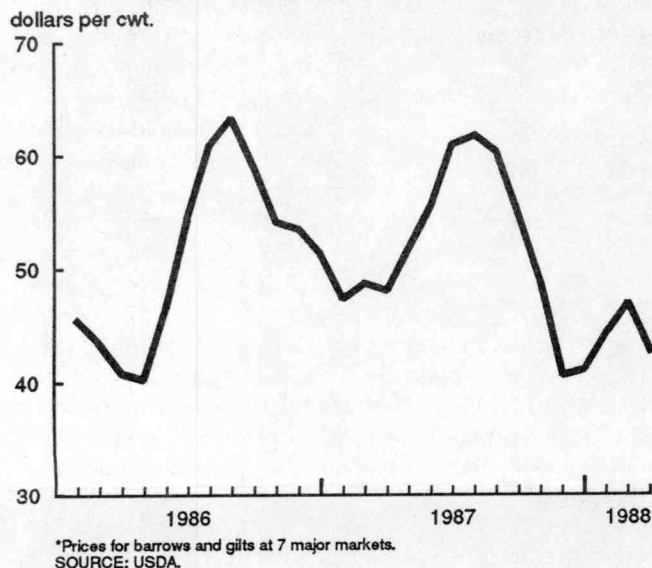
Hog production continued to expand during the first quarter of 1988. However, recent USDA estimates of March 1 hog numbers in the ten largest producing states indicated a somewhat slower rate of expansion in the industry than earlier reports had suggested. The revised outlook points to continued year-to-year gains in hog slaughter during the second and third quarters, but not of the magnitude foreshadowed by the December *Hogs and Pigs* report. Moreover, moderate increases in farrowings during the spring and summer months may further slow the rate of expansion in production, and lend some additional support to hog prices.

The March 1 breeding inventory in the ten major producing states was up almost 4 percent from a year earlier and almost 10 percent higher than the record low for March that was registered two years ago. However, the recent increases only partially offset the cumulative drop of the last several years. Over the period since 1973 when this information was first collected, the March 1 breeding inventories remain lower than in any year prior to 1985 with the exception of 1975.

Market hog inventories on farms in the major producing states stood at more than 35 million head on March 1, registering a year-to-year increase of almost 6 percent. The overall rise in market hog inventories was attributable to a 7 percent increase in the number of market hogs weighing less than 60 pounds and a 9 percent rise in the comparatively small number of market hogs weighing 180 pounds or more.

The ten-state inventory of market hogs weighing between 60 and 179 pounds, along with the size of last fall's pig crop, provide an indication of hog slaughter

Hog prices* trending down



during the second quarter. Last fall's pig crop recorded a 5 percent increase from a year earlier, consistent with the indicated 4 percent increase in the inventory of 60 to 179 pound hogs. Thus, it appears likely that hog slaughter during the spring months will register a similar gain.

The March 1 inventory of pigs weighing less than 60 pounds, which came primarily from the winter pig crop, provide an early indication of third quarter slaughter. The indicated 7 percent increase in the number of these lighter-weight market pigs is consistent with the reported winter farrowings and pig crop. Farrowings between December and February increased 6 percent from a year earlier. In addition, the number of pigs per litter maintained its high level and contributed to a 6 percent year-to-year increase in the winter pig crop. These measures suggest that third-quarter hog slaughter will likely rise between 6 and 7 percent from the year-ago level, a somewhat smaller gain than the 10 percent increase suggested by farrowing intentions of producers in the ten major producing states last December.

The March report also suggests that hog production will continue to expand during the final months of

1988 and into early 1989, but at a much slower rate. Hog farmers in the ten major producing states intend to increase farrowings 2 percent from a year earlier during the spring months. If these intentions are carried through and the number of pigs per litter holds steady, hog slaughter during the final three months of 1988 could show a similarly small year-to-year gain. Summer quarter farrowing intentions, a very preliminary indicator of the season's pig crop and first quarter 1989 slaughter supplies, points to a similar year-to-year increase of 2 percent. If the pig crop during this six month period is limited to a 2 percent year-to-year increase, it would tend to support prices above the levels that had been expected.

After dropping well below year-ago levels during the second half of 1987, hog prices at the seven major markets began to approach year-earlier levels at the end of January and into February. In recent weeks, however, hog prices have retreated to the low \$40 per hundredweight range, well below the \$50 per hundredweight prices of last year. Although hog slaughter is expected to run ahead of the year ago pace during the spring and summer months, cuts in cattle slaughter and beef production will temper the year-to-year decline in hog prices. Many analysts expect hog prices to recover to the \$50 per hundredweight range during the spring and summer, providing good returns to producers. Compared to a year ago, however, prices will be down from the high \$50 to low \$60 per hundredweight range.

Peter J. Heffernan

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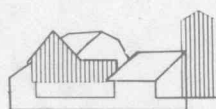
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	November	15,795	-7.4	-1	-8
Livestock	November	8,995	7.9	-1	-15
Government payments	November	6,716	-5.8	2	4
	November	84	-94.7	-72	110
Real estate farm debt outstanding (\$ billions)					
Commercial banks	September 30	14.1	2.1 [†]	14	28
Federal Land Banks	September 30	35.1	1.7 [†]	-12	-24
Life insurance companies	November 30	9.98	-0.4 [†]	-11	-17
Farmers Home Administration	September 30	10.1	-1.2 [†]	-3	-3
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	September 30	30.6	0.7 [†]	-9	-22
Production Credit Associations	September 30	10.0	1.3 [†]	-17	-37
Farmers Home Administration	September 30	16.2	-2.2 [†]	-8	-10
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	January 1	11.29	0.0 [†]	2	-11
Real estate loans	January 1	10.70	0.1 [†]	2	-13
Commodity Credit Corporation	April	6.62	-1.9	10	-9
Agricultural exports (\$ millions)					
Corn (mil. bu.)	January	2,877	-2.8	33	14
Soybeans (mil. bu.)	January	134	-10.0	28	-19
Wheat (mil. bu.)	January	77	0.4	8	-9
	January	148	24.6	103	99
Farm machinery sales^p (units)					
Tractors, over 40 HP	February	3,167	-26.6	83	-3
40 to 139 HP	February	2,441	-15.4	70	1
140 HP or more	February	726	-49.1	145	-15
Combines	February	220	-63.5	206	-5

*Includes net CCC loans.

[†]Prior period is three months earlier.

^pPreliminary



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