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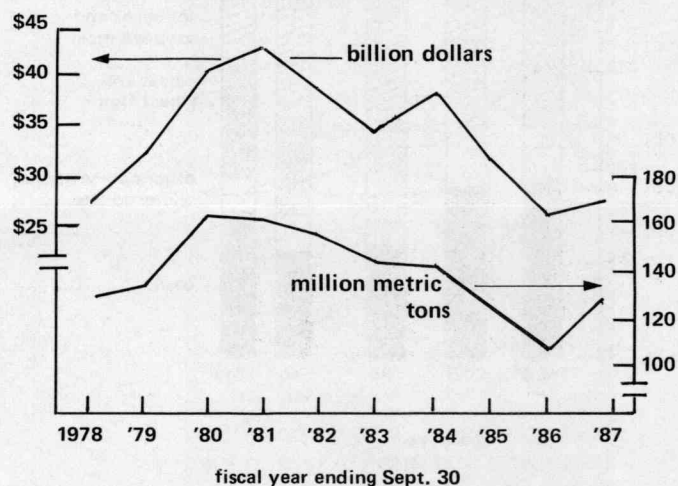
Agricultural export prospects have improved

Prospects for U.S. agricultural exports have strengthened considerably following a surge in grain sales to several countries during the winter and spring. The latest USDA estimates suggest that nearly 128 million metric tons of agricultural commodities, valued at \$27.5 billion, will be exported during fiscal 1987. Compared to the cyclical lows of fiscal 1986, these estimates imply a 16 percent upturn in tonnage of export shipments and a 5 percent rise in the value of shipments. Moreover, initial projections suggest that the upturn will continue well into 1988.

The improved export picture provides the first solid evidence that the pronounced slide of the past several years, which has been a major factor in the financial distress among farmers, has ended. In fiscal 1986, U.S. agricultural exports were valued at \$26.3 billion, down 40 percent from the fiscal 1981 peak and the lowest in 9 years. The 110 million metric tons of all agricultural commodities exported in fiscal 1986 was down a third from the fiscal 1980 peak and the lowest in 11 years. The downturn was particularly troublesome for Midwest farmers as reflected in the fall-off in corn, soybean, and soybean meal exports. In fiscal 1986, combined export shipments of those three key commodities dropped to 57 million metric tons, down 38 percent from the 1980 peak and also the lowest in 11 years. Several interrelated factors contributed to the cyclical downturn through the mid-1980s, including slow economic growth abroad, the high value of the U.S. dollar, heavy foreign debt problems elsewhere, expanded production among other importing and exporting countries, and, at times, uncompetitively high U.S. prices due to our farm price support programs.

Indicative of the recent strengthening in export prospects, the USDA's latest estimates entail considerable upward revisions since February. The current tonnage estimate is up 12 percent from the February estimate and the value estimate is up 6 percent from February. The revisions stem from a surge in grain sales to several countries (including Taiwan, Korea, Mexico, Japan, and China) during the winter months. That coupled with the rekindled Soviet interest in U.S. grains will sustain a much stronger export shipment pace this spring and summer. After lagging the slow year-earlier pace during the first half of fiscal 1987, the tonnage of all U.S. agricultural exports during the six-months

U.S. agricultural exports expected to turn up on fiscal 1987

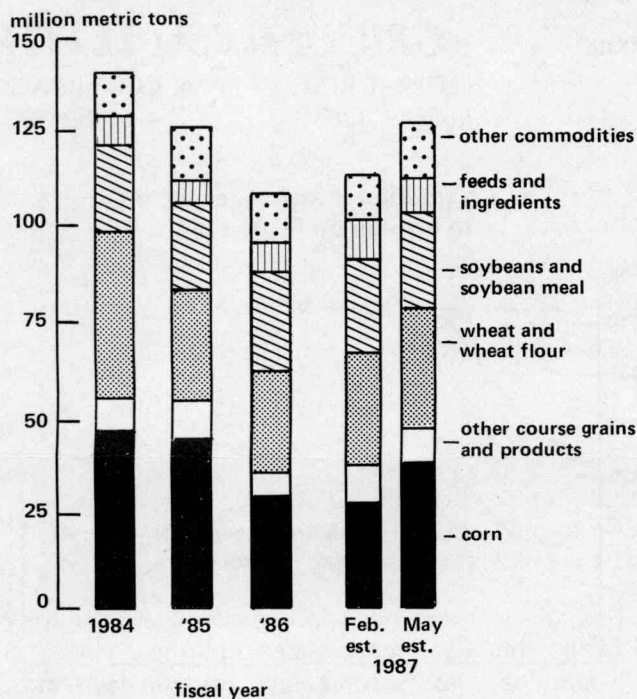


ending with September is expected to be up more than 40 percent from the same months a year ago and the highest for that period since fiscal 1984.

Corn and wheat account for the bulk of improved export prospects. Corn exports in fiscal 1987 are now expected to reach 38.1 million metric tons (equivalent to 1.5 billion bushels) up from the February estimate of 28.6 and the fiscal 1986 outcome of 31.1 million tons. Exports of wheat and wheat flour are expected to reach 31.3 million metric tons (equivalent to 1.2 billion bushels of wheat) up from the February estimate of 28.2 million tons and 26.6 million tons in fiscal 1986. For both corn and wheat, all of the projected gains for 1987 are expected to occur during the last half of the fiscal year.

While grain export prospects have improved, prospects for soybeans remain disappointing because of a recent bumper harvest in Brazil that has increased exportable supplies in that country. The latest projections for soybean exports in fiscal 1987 point to a decline of about 5 percent to 19.1 million metric ton (700 million bushels). Such a level would still be considerably above the cyclical low reached in fiscal 1985, but otherwise the lowest since 1977. Countering the drop for soybeans, however, soybean meal exports continue on a sharp uptrend. Revisions through early June suggest that soybean meal exports this year will be up a sixth from last year and the third highest on

Corn and wheat account for most of the higher export tonnage estimate



record. As a result, the soybean equivalent of all soybean and soybean meal exports in fiscal 1987 will be virtually the same as in fiscal 1986 and up more than 20 percent from the cyclical low of fiscal 1985.

According to USDA analysts, the upturn in grain exports will likely extend well into calendar 1988. For the upcoming marketing year that will end in August of 1988, corn exports are expected to rise another 10 percent. And the USDA's projection for the 1987/88 wheat marketing year, adjusted for the overlap with the fiscal 1987 estimate, suggests that wheat exports from October through May of 1988 will exceed the year-earlier pace by 6 percent. Somewhat countering these trends, however, it appears that soybean exports may decline further. For the soybean marketing year ending in August of 1988, soybean exports are projected to decline by an additional 7 percent. Moreover, soybean meal exports in the 1987/88 marketing year may turn downward, with initial USDA projections suggesting a decline of 7 percent.

Several factors have contributed to the improved short-term grain export prospects. The combination of the lower value of the U.S. dollar and changes in U.S. commodity price support programs that became affective a year ago have substantially improved the price-competitiveness of U.S. grains in world markets. In addition, the stronger export picture also reflects a greater reliance on export subsidies that has helped the U.S. regain market share in some countries and

significantly rejuvenated U.S. grain sales to the USSR. Since its inception two years ago, the Export Enhancement Program has subsidized some 18 million metric tons of grain sales to foreign countries. The bulk (over 80 percent) of the sales have been for wheat and wheat flour and nearly half of the sales have occurred since mid-January of this year. By far the largest sale under the program was the 4 million tons of wheat sold to the USSR this spring, accounting for much of the improved wheat export prospects.

In addition to the above factors, production setbacks elsewhere in the world have contributed significantly to the stronger U.S. grain export prospects. The just-completed coarse grain harvest (mostly corn and sorghum) in Argentina was off 25 percent from the average of the three preceding years. Coupled with growing domestic needs, the smaller harvest may cut Argentina's corn and sorghum exports for the year ending in early 1988 to the lowest level in this decade and nearly 40 percent below the average of the three preceding years. Among other feed grain exporting countries, declines into 1988 are projected for exports from Thailand and South Africa. And China, which became a net exporter of feed grains in 1984, is faced with growing internal needs. As a result, China's imports of wheat are expected to continue to grow and its net exports of feed grains are expected to shrink further into mid-1988.

Because of cuts in exportable supplies elsewhere, the U.S. is recapturing a greater share of the import demand from several areas of the world, particularly in feed grain exports to Korea, Japan and South America. And U.S. grain exports to the USSR have been buoyed in recent months by weather-related crop problems in that country during the winter and spring months.

Corn export shipments and orders are up for most destinations except Europe and USSR

Destination	Export shipments, Sept. 1 thru June 4		Outstanding orders as of June 4	
	1985/86	1986/87	1986	1987
(------million bushels-----)				
Western Europe	141	67	2	5
Eastern Europe	37	24	2	6
USSR	247	160	20	2
Japan	311	362	35	152
China	0	37	0	5
Taiwan	89	97	27	44
Other Asia and Oceania	70	157	20	47
Korea	44	106	4	27
Africa	79	87	5	12
Egypt	56	52	5	6
Western Hemisphere	122	179	10	24
Brazil	46	47	0	1
Mexico	53	84	4	14
Unknown destinations	0	0	18	27
Totals	1,096	1,171	139	323

Imports of agricultural commodities, which had been growing steadily for several years, are projected to decline in fiscal 1987. Through March of this fiscal year, some \$10.6 billion in agricultural commodities were imported into the U.S., up nominally from the year-earlier pace. But for all of fiscal 1987, the USDA projects agricultural imports will approximate \$20.0 billion, down 4 percent from last year's peak.

All of the projected decline is attributable to coffee and sugar. Sharply lower prices and declines in the quantity imported are expected to lower the value of coffee imports by more than a fourth this year. Sugar imports, governed by tightening U.S. import quotas, are projected to decline a tenth in value this year. The quantity of lower-priced foreign sugar imported into the U.S. this year is expected to be off more than 20 percent from fiscal 1986 and down nearly 50 percent from fiscal 1984.

Imports of animals and products and horticultural products are projected to rise further in fiscal 1987, partially countering the anticipated declines in coffee and sugar. Higher vegetable prices and further gains in the tonnage of fruit imports are projected to boost the combined value of fruit and vegetable imports to \$4.0 billion, up 4 percent from fiscal 1986 and up 18 percent from fiscal 1984. And higher beef prices, coupled with somewhat more pork tonnage, are expected to boost the value of beef and pork imports more than a tenth higher than in fiscal 1986 and nearly 30 percent above fiscal 1984.

The combination of higher exports and lower imports will lead to a somewhat higher agricultural trade surplus in fiscal 1987. Yet at the projected \$7.5 billion, the agricultural trade surplus would still be far below the fiscal 1981 peak of \$25.6 billion and, except for fiscal 1986, the lowest since 1973.

The decline in the agricultural trade balance has been evident in U.S. trade patterns throughout much of the world. Among less developed countries, the U.S. agricultural trade balance fell from an average annual surplus of nearly \$4.6 billion from fiscal 1982 through 1984 to a deficit of about \$1.6 billion in fiscal 1986. Although substantial, the \$6.1 billion swing reflected declines in exports to, and increases in imports from LDCs that were roughly proportional to the changes in overall U.S. agricultural trade during that period. Moreover, the swing is not surprising, given the concentration of foreign debt problems among LDCs and their need to expand net exports to repay those debts.

The U.S. agricultural trade balance with centrally planned countries (comprising China, the USSR, and Eastern Europe) fell from an average surplus of \$3.3 billion during the 3 years ending with fiscal 1984 to a

U.S. agricultural imports expected to decline in fiscal 1987

	1984	1985	1986	1987
	(-----billion dollars-----)			
Animals and products	3.92	4.15	4.28	4.6
Beef, veal, and pork	1.87	2.14	2.14	2.4
Horticultural products	5.22	5.78	6.02	6.2
Fruits and juices	2.07	2.54	2.29	2.3
Vegetables	1.31	1.35	1.56	1.7
Wines and malt beverages	1.51	1.55	1.78	1.8
Coffee and tea	3.49	3.43	4.54	3.3
Sugar	1.46	1.28	1.00	.9
Cocoa	1.06	1.28	1.19	1.2
Grains, feeds, oilseeds, and seeds	1.43	1.48	1.42	1.4
Tobacco, unmanufactured	.56	.56	.61	.6
Rubber and gums	.85	.68	.62	.6
Other	.92	1.10	1.21	1.2
Total	18.92	19.74	20.88	20.0

surplus of \$1.1 billion in fiscal 1986. Most of the downturn was due to a disproportionately large decline in U.S. exports to those countries.

A more disheartening development has been the steep decline in our agricultural trade surplus with developed countries (comprising Japan, Canada, Western Europe, and Oceania). From an average annual surplus of \$12.7 billion in fiscal 1982 through 1984, the U.S. agricultural trade surplus with developed countries fell to \$5.9 billion in fiscal 1986. Much of the decline stemmed from disproportionately large changes in U.S. trading patterns with the 12 countries that now makeup the EEC. U.S. agricultural exports to the EEC in fiscal 1986 were off more than 50 percent from the 1982-1984 average while agricultural imports from the EEC were up more than a third. These changes contrasted with the 29 percent decline in overall U.S. agricultural exports and a 23 percent rise in imports and lowered the U.S. agricultural trade surplus with the EEC from an average of \$6.7 billion in fiscal 1982-1984 to \$2.3 billion in fiscal 1986.

Gary L. Benjamin

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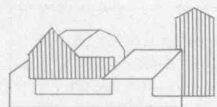
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (1977=100)	May	129	3.2	5	-1
Crops (1977=100)	May	108	5.9	-6	-14
Corn (\$ per bu.)	May	1.70	11.8	-29	-37
Oats (\$ per bu.)	May	1.50	0.7	24	-6
Soybeans (\$ per bu.)	May	5.33	8.8	2	-6
Wheat (\$ per bu.)	May	2.70	3.1	-10	-18
Livestock and products (1977=100)	May	150	2.0	14	12
Barrows and gilts (\$ per cwt.)	May	55.10	7.4	19	32
Steers and heifers (\$ per cwt.)	May	69.20	3.9	28	18
Milk (\$ per cwt.)	May	12.00	-2.4	0	-4
Eggs (¢ per doz.)	May	50.1	-9.9	-12	-1
Prices paid by farmers (1977=100)	April	162	1.9 [†]	2	-1
Production items	April	147	2.8 [†]	1	-4
Feed	April	100	1.0 [†]	-12	-17
Feeder livestock	April	179	9.1 [†]	22	10
Fuels and energy	April	164	3.8 [†]	4	-18
Producer Prices (1967=100)	May	-296	0.4	3	1
Agricultural machinery and equipment	May	341	0.0	1	1
Fertilizer materials	May	210	-1.2	-3	-9
Agricultural chemicals	May	474	0.3	0	4
Consumer prices (1967=100)	May	339	0.3	4	5
Food	May	333	0.5	5	8
Production or stocks					
Corn stocks (mil. bu.)	March 1	8,247	N.A.	25	78
Soybean stocks (mil. bu.)	March 1	1,384	N.A.	1	30
Beef production (bil. lbs.)	May	1.85	-4.0	-12	-11
Pork production (bil. lbs.)	May	1.07	-8.5	-12	-19
Milk production (bil. lbs.) ^{††}	May	11.0	5.6	-2	1

[†]N.A. Not applicable

^{††}Prior period is three months earlier.

^{†††}21 selected states.



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