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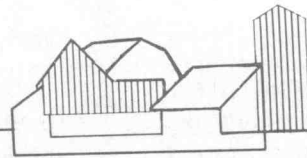
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Export prospects down for grain, brighter for beans

Estimates of U.S. agricultural exports for the 1985/86 fiscal year, first forecast in December, are revised continuously by USDA analysts as export prospects change. Over the last few months substantial revisions have been made to early estimates, with deteriorating wheat and corn export prospects and enhanced soybean export projections accounting for the bulk of the recent changes. In addition to world supply and demand considerations, these export estimates are being influenced by recent changes in U.S. agricultural policy that have disrupted the typical seasonal patterns of U.S. agricultural trade. Recognizing these adjustments, U.S. agricultural exports are likely to total less than \$28 billion this fiscal year, well below the depressed \$31.2 billion in exports recorded a year ago. Although lower prices for commodities account for most of the slide in value, another drop in export tonnage this year will also contribute to the decline. Considering the latest projections for grain and soybean exports, total shipments of U.S. agricultural products in fiscal 1986 may exceed 120 million metric tons by only a small margin, compared to the fiscal 1980 peak of about 164 million metric tons.

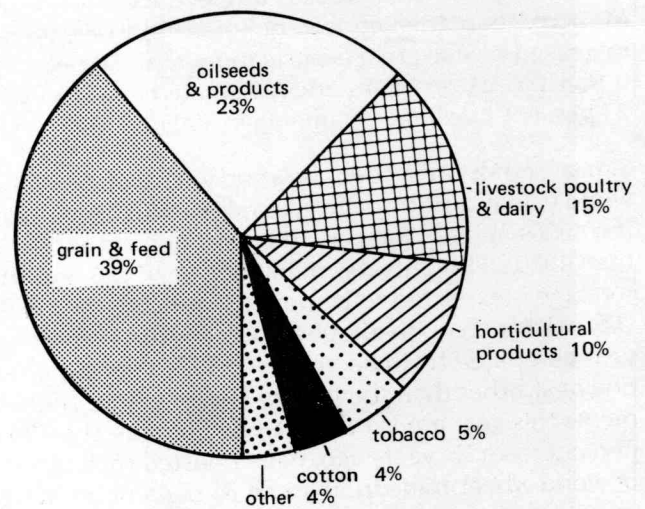
Declines in U.S. wheat and corn exports during their current marketing years, although depressed because of greater competition and slack demand, are also being affected by the announcement of sharply lower loan rates for their next marketing years. Wheat exports, from the beginning of the marketing year in June through mid-March, have lagged the year-ago pace by more than 40 percent. The sharp downturn in U.S. wheat exports is attributable to large foreign stocks and production as well as increased competition from other exporters. In addition, expectations of lower prices, associated with the transition to a lower wheat price support level in the United States, has prompted some importers to put off sales until lower priced new crop wheat is available this summer.

Corn exports have also been affected by the price support level changes included in the new farm bill. For the corn marketing year that began in October, exports through the middle of March were more than 19 percent below last year's pace. Again, increased competition from other exporters and reduced import demand, notably by the Soviet Union, have dimmed

U.S. corn export prospects, but U.S. price support changes will likely have an increasingly important effect on shipments. The drop in the corn loan rate is expected to lower the prices of new crop corn, encouraging importers to delay purchases until next fall. In addition, the drop in the wheat loan rate that takes effect in June to coincide with the beginning of the new wheat marketing year will likely provide a substantial price advantage to wheat over corn until the corn loan rate is lowered in October. This change in relative prices will likely encourage greater wheat feeding both in the United States and abroad during the summer months.

In contrast to the sharp declines expected in wheat and corn exports in their current marketing years, soybean shipments during the marketing year that began in September are forecast to rise almost 29 percent from the year-earlier level. With more than half of the marketing year past, soybean export tonnage is about 10 percent ahead of last year's pace, implying that soybean exports during the second half of the marketing year will far outstrip last year's depressed level. Drought damage to Brazil's soybean crop and larger than expected Soviet purchases will boost U.S. soybean shipments during the last half of the marketing year substantially.

Agricultural exports in fiscal 1986*



* USDA forecast.
SOURCE: USDA

The overall drop in agricultural export shipments expected in fiscal 1986 will mark the sixth consecutive year of decline. The cumulative effect of these declines has been a 25 percent drop in export shipments from the fiscal 1980 peak and substantial erosion of the share of world trade held by U.S. exports. The erosion in market share over the period is attributable to a variety of factors, such as export subsidies from competitors, increased production and trade barriers in major U.S. markets, and the combined effect of an appreciating dollar and a rigid price support mechanism that put U.S. grain prices at a competitive disadvantage. Moreover, by removing grain from commercial channels to maintain prices, U.S. agricultural policy inadvertently created a void in the world market that was readily filled by competitors exports.

The declines of the last few years are most striking when trends in U.S. grain exports are contrasted with trends in world trade and in exports of other countries. Coarse grain shipments from the United States this marketing year are projected to be down 36 percent from the 1980 level. Although world coarse grain trade, based on an aggregate of different local marketing years, has fluctuated widely over the period, this year's total is expected to be only about 2 percent lower than in 1980. As a result of these trends, the U.S. share of world coarse grain trade will likely drop to 43 percent during the current marketing year, compared to the 66 percent share held six years earlier. The decline in the U.S. share of coarse grain trade has been absorbed by increased shipments from both major exporting and importing countries. Major exporters have increased shipments over the period by almost 47 percent, and are projected to capture a market share of almost 28 percent. Countries that are major markets for coarse grains, although still net importers, have boost shipments substantially as well. This group of countries, which includes Europe, the Soviet Union, Mexico, Japan, the Republic of Korea, and Taiwan, has increased coarse grain exports more than 50 percent during the last six years, and is expected to account for 23 percent of export shipments in 1985/86.

Similar trends are evident in world wheat trade. While world wheat exports have generally trending up during the 1980s and are forecast to total 5 percent more than 1980 shipments this marketing year, U.S. export tonnage is expected to be down 35 percent, dropping U.S. market share to about 25 percent this marketing year compared to 40 percent in 1980. Major exporters of wheat other than the United States, whose shipments this year are expected to be up more than 30 percent from six years ago, have boosted their share of world wheat trade from about 55 percent in 1980 to more than two-thirds this year. Major importing countries are expected to export 75 percent more

wheat this year than they did in 1980, but will account for only 4 percent of all export shipments.

World soybean trade this year, after trending down for several years, is expected to total almost 9 percent less than in 1979/80. U.S. soybean shipments, which had trended down sharply through the 1980s, are expected to recover somewhat this year because of poor southern hemisphere harvests, but remain almost 9 percent below the level of six years ago. The expected recovery this marketing year offsets much of the erosion of market share, which had dropped to 65 percent last year compared to 84 percent in 1980. If current export projections hold, the U.S. share of world soybean trade this year will approach 81 percent.

Lower tonnage and continued downward pressure on world prices have combined to lower the value of U.S. agricultural exports in fiscal 1986 another 10 percent from the depressed level of a year ago. The drop in export values is expected to be distributed across most regions of the world. At \$6.9 billion, exports to Western Europe this year are projected to be off 4 percent from last year and at the lowest level in 8 years. Continued slack demand and large supplies of grains will limit U.S. coarse grain exports to the region. While the value of U.S. agricultural exports to Eastern Europe are expected to be largely unchanged, substantial declines in imports by the Soviet Union this year will likely cut the value of U.S. agricultural exports to that country by 40 percent.

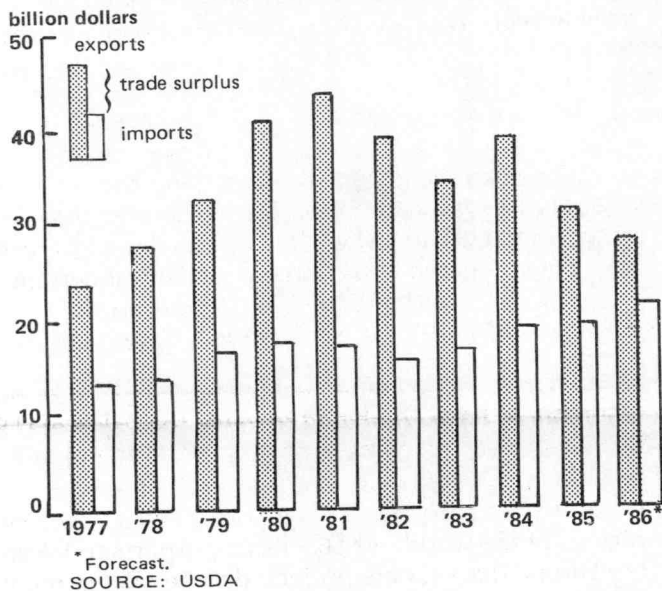
U.S. agricultural exports to Asian countries are expected to total \$10.5 billion in fiscal 1986, down about 12 percent from a year ago. Despite increased coarse

U.S. agricultural exports to most regions of the world will decrease in value this year

| | 1983 | 1984 | 1985 | 1986 ^f |
|--------------------|-----------------------|------|------|-------------------|
| | (- billion dollars -) | | | |
| Western Europe | 10.1 | 9.3 | 7.2 | 6.9 |
| European Community | 7.6 | 6.7 | 5.3 | 5.3 |
| Eastern Europe | .8 | .7 | .5 | .5 |
| Soviet Union | 1.0 | 2.5 | 2.5 | 1.5 |
| Asia | 13.6 | 15.2 | 11.9 | 10.5 |
| Middle East | 1.5 | 1.9 | 1.4 | 1.3 |
| South Asia | 1.2 | .9 | .6 | .6 |
| Japan | 5.9 | 6.9 | 5.7 | 5.1 |
| China | .5 | .7 | .2 | .1 |
| Other | 4.5 | 4.8 | 4.0 | 3.4 |
| Canada | 1.9 | 1.9 | 1.7 | 1.5 |
| Africa | 2.3 | 2.9 | 2.5 | 2.3 |
| Latin America | 4.9 | 5.3 | 4.6 | 4.6 |
| Oceania | .2 | .2 | .2 | .2 |
| Total | 34.8 | 38.0 | 31.2 | 28.0 |

^f Forecast.
SOURCE: USDA

The agricultural trade surplus continues to shrink



grain, soybean, and meat shipments, lower prices and expected declines in wheat, tobacco, and cotton shipments will drop the value of U.S. agricultural exports to Japan by about 10 percent. The value of exports to China are expected to record a year-to-year decline of more than 40 percent. Although down from a year ago, China's recent grain harvest was the third largest on record, assuring that large supplies will again limit U.S. export opportunities there and provide continued Chinese competition in Asian markets.

Exports to Middle East countries are expected to show some decline from a year ago. Lower coarse grain exports are expected because of larger harvests in the region. However, poor wheat production in Israel, U.S. credit guarantees to Iraq, and sales to Turkey under the export enhancement program, a policy that targets subsidies toward markets where U.S. exports were thought to be lost over the last few years because of other countries' subsidized sales, will boost wheat sales in the area. Larger soybean sales than a year ago will further offset the drop in coarse grain shipments.

The value of U.S. agricultural exports to Africa is estimated to drop almost 9 percent from last year. However, wheat exports to North Africa are expected to be benefited by the U.S. export enhancement pro-

gram. Overall, increased wheat exports and gains in coarse grains sales, as livestock feeding continues to increase, are expected to boost the value of agricultural exports to North Africa about 16 percent from a year ago. In sharp contrast, export values to Sub-Saharan Africa will likely drop by a third in fiscal 1986. Better weather and improved harvests have greatly trimmed import demand in the region.

The value of U.S. agricultural exports to Latin America are forecast to hold near last year's level. Although wheat exports to the region will likely drop due to a large crop, drought in Brazil has cut corn output considerably. As a result, U.S. coarse grain exports to the region are expected to be up this year, offsetting the drop in wheat sales.

Imports of agricultural commodities into the United States are projected to record a fourth consecutive annual increase. At \$21 billion, the estimated value of these imports is up more than 6 percent from the record level of a year ago. Both increased prices and tonnage have contributed to the rise. The higher imports combined with the drop in export value has squeezed the forecast U.S. agricultural trade balance to \$7 billion, its lowest level since 1972. Recent declines in the exchange value of the dollar and cuts in domestic price support levels will improve the price competitiveness of U.S. agricultural commodities and begin to reverse the slide in the U.S. agricultural trade balance of the last several years. However, with world grain stocks currently at burdensome levels and the productive capacity of both exporting and importing countries at high levels, the turnaround in U.S. agricultural exports is likely to be a gradual process.

Peter J. Heffernan

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Selected Agricultural Economic Indicators

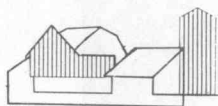
| | Latest period | Value | Percent change from | | |
|---|---------------|--------|---------------------|----------|---------------|
| | | | Prior period | Year ago | Two years ago |
| Receipts from farm marketings (\$ millions) | | | | | |
| Crops* | November | 17,060 | 4.1 | 4 | 11 |
| Livestock | November | 11,015 | 6.7 | 11 | 36 |
| Government payments | November | 6,048 | 1.4 | -3 | 5 |
| | November | N.A. | N.A. | N.A. | N.A. |
| Real estate farm debt outstanding (\$ billions) | | | | | |
| Commercial banks | December 31 | 11.4 | 3.5 [†] | 12 | 22 |
| Federal Land Banks | December 31 | 44.7 | -3.5 [†] | -9 | -9 |
| Life insurance companies | November 30 | 12.0 | -0.4 [†] | -5 | -6 |
| Farmers Home Administration | December 31 | 10.9 | 1.9 [†] | 6 | 12 |
| Nonreal estate farm debt outstanding (\$ billions) | | | | | |
| Commercial banks | December 31 | 35.7 | -9.2 [†] | -10 | -9 |
| Production Credit Associations | December 31 | 14.0 | -12.5 [†] | -22 | -27 |
| Farmers Home Administration | December 31 | 18.4 | -2.1 [†] | 12 | 19 |
| Commodity Credit Corporation | December 31 | 17.6 | 76.0 [†] | 102 | 63 |
| Farm loans made (\$ millions) | | | | | |
| Life insurance companies | November | 111 | -28.5 | 336 | 23 |
| Interest rates on farm loans (percent) | | | | | |
| 7th District agricultural banks | | | | | |
| Operating loans | January 1 | 12.72 | -0.7 [†] | -7 | -7 |
| Real estate loans | January 1 | 12.28 | -1.6 [†] | -8 | -8 |
| Commodity Credit Corporation | March | 7.63 | -1.6 | -16 | -23 |
| Agricultural exports (\$ millions) | | | | | |
| Corn (mil. bu.) | January | 2,536 | -4.0 | -19 | -29 |
| Soybeans (mil. bu.) | January | 166 | -7.0 | -21 | -4 |
| Wheat (mil. bu.) | January | 85 | -9.9 | 21 | 5 |
| | January | 75 | 4.1 | -30 | -38 |
| Farm machinery sales^p (units) | | | | | |
| Tractors, over 40 HP | February | 3,185 | -26.4 | 17 | -32 |
| 40 to 139 HP | February | 2,368 | -17.3 | 15 | -28 |
| 140 HP or more | February | 817 | -44.1 | 22 | -40 |
| Combines | February | 191 | -69.3 | 12 | -69 |

N.A. not applicable

*Includes net CCC loans.

[†]Prior period is three months earlier.

^pPreliminary



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