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January 11, 1974

# Agricultural Letter



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**WORLD GRAIN PROSPECTS** for the current fiscal year (July 1973-June 1974) continue to improve. Total coarse grain and wheat production in Australia, Canada, China, Russia, and the United States is up appreciably from year-earlier levels, leaving production just about balanced with anticipated consumption.

World coarse grain production (feedgrains plus rye) is projected to increase 8 percent in the current fiscal year, just slightly under anticipated consumption. Because a large part of the expected increase in exportable coarse grain supplies will come from countries in the southern hemisphere and will not be available until mid-1974, major exporting countries will likely continue to experience demand pressures that draw down existing stocks in the interim.

Worldwide demand for wheat continues strong because many countries are attempting to rebuild depleted reserve stocks, or are substituting wheat for rice, which is still in short supply. Wheat supplies may slightly exceed estimated world consumption due mainly to the dramatic increase in USSR production—expected to rise 22 percent this year, to 105 million tons.

The U. S. Department of Agriculture estimates that agricultural exports in fiscal 1974 will reach \$19 billion—up nearly 50 percent from the record fiscal 1973 level—with nearly all the increase coming from higher prices. However, the cutbacks in the Arab exports of crude oil could have a negative impact on fiscal 1974 exports.

**Crude oil shortages** and recent petroleum price increases may moderate the demand for U. S. agricultural products in several ways. The most obvious is the lack of sufficient fuel to transport commodities. A worldwide bunker fuel shortage has already delayed many cargo ships. Some observers estimate that fuel shortages could reduce the projected volume of U. S. farm exports by as much as one-twelfth by the end of this fiscal year.

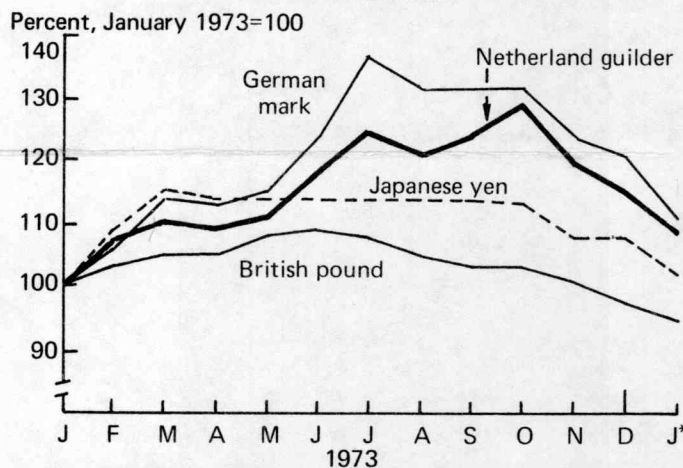
The energy shortage is having a negative effect on the economies of countries that are major purchasers of American farm commodities. Japan, the largest buyer of U. S. agricultural products, recently projected that real economic growth could fall to 2.5 percent in the months ahead, compared to an estimated growth rate of 6.3 percent in this fiscal year. Western European countries, also major customers for agricultural products, are experiencing similar problems in varying degrees.

Countries importing crude oil will have to allocate a larger portion of their foreign expenditures to higher-priced crude oil purchases, possibly at the expense of agricultural imports. While those countries selling crude oil could import more products, historically they have been low volume pur-

chasers of U. S. farm products. Crude oil price increases will have an inflationary effect on economies of countries that rely on foreign crude for most of their energy needs.

Declines in the projected economic growth rates of many countries, and the inflationary effects of higher crude prices, already have had a substantial impact on currency exchange rates. The U. S. dollar depreciated in value relative to other currencies throughout the first three quarters of 1973. This trend was abruptly reversed in October when the effects of the Arab oil action on national economies became apparent. Since U. S. oil imports make up a much smaller percentage of total energy needs than in most major countries, the Arab action will have much less effect on the U. S. economic growth rate. Depreciation of the dollar contributed to the increased sales of U. S. farm commodities and other goods in the past year because it made U. S. products relatively less expensive. However, the benefits that accrued in this area are rapidly diminishing as the value of the dollar appreciates relative to other currencies.

**Changes in Value of Foreign Currencies Relative to the Dollar**



\*Based on January 7, 1974, exchange rates.

If the Arab oil boycott continues much longer, the volume of U. S. agricultural exports will likely be cut back from projected levels. Additional declines in agricultural exports, both in volume and dollars, are likely in fiscal 1974-75 if the Arab boycott continues for an extended period.

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