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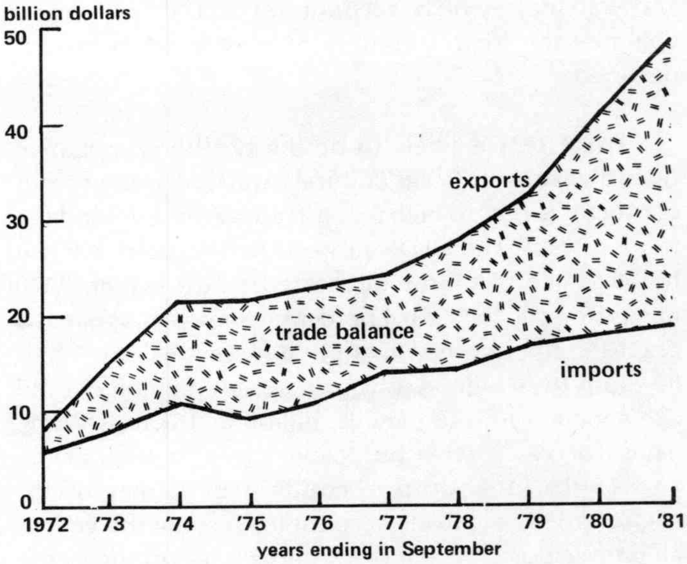
U.S. FARM EXPORTS climbed 27 percent to a record $40.5 billion in fiscal 1980. The large increase, coupled with a rise of only 7 percent in imports, boosted the agricultural trade surplus from $15.8 billion in fiscal 1979 to $23.2 billion last year. Projections for fiscal 1981, which began in October, point to another large increase in exports and only a modest rise in imports. The agricultural trade surplus may reach $30 billion in fiscal 1981.

Last year's performance capped a fivefold increase in the value of farm exports and nearly a threefold increase in volume as the world has grown more dependent on U.S. agriculture. In 1970 the United States accounted for 36 percent of the world's wheat trade and today it supplies 46 percent. The U.S. share of coarse grain trade now stands at 73 percent, rising from 43 percent in 1970. In the process the agricultural trade surplus has grown much more dramatically since imports increased less rapidly over the 10 years.

Increased tonnage and higher prices contributed to last year's rise in the value of exports. Throughout the first half of the fiscal year, volume gains accounted for about four-fifths of the increase. In the second half the gain in volume slowed, but rising commodity prices this summer picked up the slack. Substantial gains in value were recorded for grains, cotton, fruit, nuts and vegetables, and dairy and poultry products. Grain exports increased 37 percent over fiscal 1979 as volume and price both rose. Cotton jumped almost 60 percent owing mainly to a sharp increase in volume. Fruits and nuts and vegetables rose a third due largely to price changes. Only livestock products—which account for nearly a tenth of export value—declined from a year ago.

The volume of agricultural exports in fiscal 1980 rose to 164 million metric tons, up 19 percent from the year before. This record high volume was achieved without serious delay within the export distribution network. Rail car and barge loadings were higher throughout the year because of a milder winter, less flooding of rivers last spring, and the addition of more covered hopper cars to the transportation fleet. However, the surge in sales to

Another record year is likely for U.S. farm exports



*USDA forecast

Mexico has delayed rail car turnaround somewhat. New locking procedures were also instituted at Locks and Dam 26 to overcome some of the persistent delay, but more grain this year did enter the Mississippi River below the lock than in the past. In addition, improvements to existing port facilities and more new facilities began operation in 1980. But the recent increase in coal exports may reduce the pool of shipping capacity available for grain hauling as well as deter the free movement of ships from coal to grain carriage due to cleaning costs.

Exports to all areas except the USSR and West Asia exceeded year-earlier levels. Exports to the USSR were down a third to $1.5 billion, reflecting the partial embargo imposed in January. The value of shipments to West Asia—which includes Turkey, Saudia Arabia, and neighboring countries—was off 8 percent to $1.4 billion. Exports to China rose to $2 billion, double the year before, as sharply higher shipments of wheat, soybeans, and cotton offset a decline in feed grains. Exports to Eastern Europe, at $2.4 billion, and to Latin American countries, at $5.5 billion, were up three-fifths from the year before. Exports to Western Europe and Japan—at

$12.6 billion and $5.8 billion, respectively, showed comparatively modest gains, but together accounted for 45 percent of the value of all export shipments. Less-developed countries increased their share of total U.S. farm exports relative to developed and centrally planned countries.

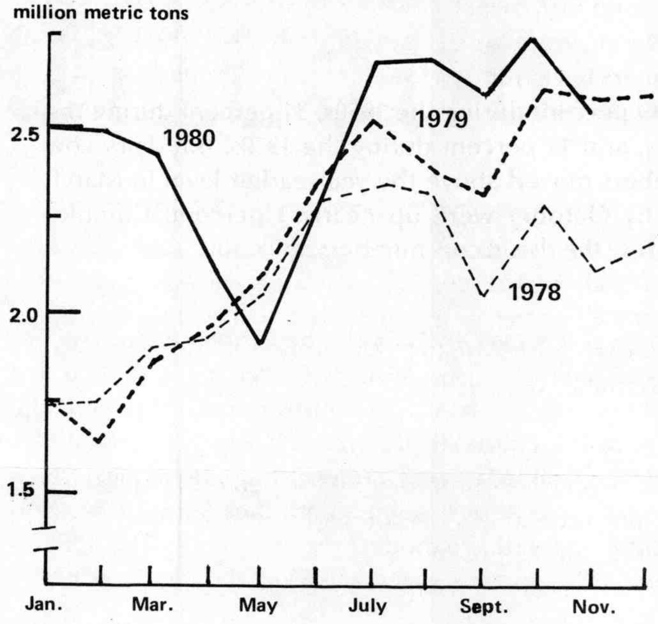
Agricultural imports rose moderately to $17.3 billion in fiscal 1980. The increase was concentrated in higher prices for sugar and coffee and a larger volume of imported wine and beverages. The total volume of agricultural imports, at 10.7 million metric tons, was down 7 percent from a year ago. Except for wines and beverages and bananas—which account for a fifth of import volume—the import volume of most product groups declined.

Fiscal 1981 is likely to be the twelfth consecutive record year for U.S. agricultural exports and the fourth consecutive record high for agricultural imports and the trade surplus. The USDA projects farm exports will rise to $48.5 billion. Volume is expected to be in excess of 170 million metric tons, up 4 percent from a year ago. Feed grain shipments are estimated to increase about 3 million tons to 74 million tons, and wheat shipments could rise 4 million tons to over 41 million metric tons. Some gain is forecast for rice, but soybean volume may decline and a substantial drop in cotton exports may occur. Higher prices will likely account for most of the gain in all farm exports. Wheat export prices, according to the USDA, may be 5 percent to 10 percent higher than in fiscal 1980 while corn sorghum, and soybean export prices may improve by a third.

Agricultural imports may increase $1 billion to $18.5 billion in fiscal 1981. Sharply higher sugar prices and some volume gain is expected to account for most of the increase in import value. Coffee, the major import commodity, is estimated to be down substantially in price and nominally up in volume. Current export and import forecasts, in turn, imply the agricultural trade surplus could reach $30 billion in fiscal 1981.

The longer-term outlook for exports may be affected by recent developments. A grain accord has been signed with China, which will make that country our largest wheat market. The agreement allows exports of 6 million to 9 million tons of wheat and corn—with wheat accounting for 80 percent to 85 percent of the total. Purchases above those quantities are possible but subject to formal negotiation between the two governments. In fiscal 1980 over 5 million tons of wheat and corn were exported to China.

Average weekly carloadings of all grains



SOURCE: USDA

The final year of the U.S.-USSR grain agreement started in October. Under the partial embargo imposed in January, U.S. sales of corn and wheat to the USSR are presently limited to 8 million metric tons. Initial speculation that the new Administration might soon lift the embargo has been dashed recently by the buildup in tensions in Eastern Europe. A Soviet invasion of Poland could have a very chilling impact on our long-term trade prospects with the USSR. Moreover, there is some speculation that the current embargo could be broadened to include the unshipped portion of the 8 million metric tons of grain currently permitted for fiscal 1981 or even possibly extended to other Eastern European countries.

Jeffrey Miller

MILK PRODUCTION will hit a new high this year and may edge higher in 1981. During the first 10 months of this year, milk production was up about 3.5 percent from the same period a year ago. It now appears that milk production for all of this year will approach 128 billion pounds, surpassing the 1964 record of 127 billion pounds. The increase in production and higher milk prices have maintained favorable earnings among dairymen this year, particularly in comparison to most other types of farming. But rising feed costs began eroding dairymen's earnings this summer, a trend that will be evident for the next several months.

This year's expansion in milk production reflects increased output per cow and—for the first time in 27 years—an increase in dairy cow numbers. Dairy cow numbers have trended lower since the Depression: falling 19 percent during the 1950s, 31 percent during the 1960s, and 12 percent during the 1970s. But dairy cow numbers moved above the year-earlier level in March and by October were up nearly 1 percent. Complementing the rise in cow numbers, milk output per cow is running about 3 percent above year-ago levels. Milk per cow for all of this year will likely reach 11,800 pounds, more than a fifth higher than a decade ago and two-thirds higher than in 1960.

Milk production is up in all District states. In Wisconsin, which accounts for about 18 percent of total U.S. milk production, milk production is up 2.5 percent. Increases for the other four District states range from 1.5 percent in Indiana to more than 5 percent in Illinois. Except for Illinois, where output per cow has registered a large increase, dairy cow numbers in all District states are equal to or above year-ago levels.

Increased production and higher prices for milk have boosted gross earnings of dairymen considerably this year. Through November, milk prices received by dairy farmers averaged 8.5 percent higher than the year before. For the year milk prices are likely to average a little over $13 per hundredweight compared with $12 in 1979. Cash receipts for all of 1980 are expected to approximate $16.5 billion versus $14 billion in 1979. Although rising costs started to erode net earnings this summer, net incomes of most dairymen this year will probably match the relatively high levels of the past few years.

The rise in milk prices, in the face of increased production and sluggish commercial disappearance, reflects the impact of upward adjustments in the support price of milk. The support price for manufacturing grade milk was boosted to 80 percent of parity, or $13.10 per hundredweight, on October 1. The new level is 6 percent higher than the level that prevailed following the semiannual adjustment made in April and 14 percent above the support price set in October 1979. To maintain the support price, government purchases of manufactured dairy products have escalated sharply this year. From January to November, government purchases of dairy products rose to 8.2 billion pounds (milk equivalent basis), up from 1.8 billion in the same period the year before. When figures for December are included, it is expected that government purchases for all of this year will be second only to the record 10.7 billion pounds purchased in 1962. The high cost of dairy support purchases—which netted out at $1.3 billion in fiscal 1980—and the apparently changing views regarding government expenditures may result in significant changes next year in the legislation governing the dairy support program.

The outlook for dairy farmers in 1981 points to another increase in production and a continued uptrend in milk prices. Even if commercial disappearance remains sluggish, the current support mechanism will hold milk prices well above year-earlier levels through the first quarter of 1981. Existing legislation mandates another boost in the support price on April 1 to reflect changes in the index of prices paid by farmers between September and March. In light of these developments, the USDA projects milk prices for all of next year may average close to a tenth higher than in 1980.

Despite prospects for rising milk prices, operating returns to dairy farmers may be undermined by proportionately larger increases in production costs. Reflecting the recent runup in feed costs, the milk-feed price ratio has declined from a second-quarter average of 153 to 141 in recent months and in November was 12 percent less than the year before. For the year ahead the ratio is likely to remain below the favorable levels of the past two or three years.

Milk per cow is expected to continue its long-term uptrend in 1981. Less favorable milk-feed price ratios, however, may preclude a large increase in productivity per cow. Perhaps the biggest uncertainty is whether dairy cow numbers will rise again next year or revert to the long-term decline. The inventory of replacement dairy heifers is apparently still quite large, despite a significant inflow of heifers into the dairy herd over the past year. This would suggest the uptrend in dairy cow numbers may continue next year. However, prospects for smaller meat supplies and higher cull cow prices next year and rising feed costs may result in heavier culling rates from the dairy herd. The USDA currently projects cow numbers will hold above year-earlier levels, at least through the early part of 1981. If that is the case, year-to-year gains in milk production will likely remain in the 3 percent to 4 percent range during the early months of 1981. But the gains may taper off as the year progresses.

Gary L. Benjamin

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	October	221	+ 3.1	+ 9
Time deposits	1972-73=100	October	272	+ 2.4	+12
Demand deposits	1972-73=100	October	136	+ 5.7	+ 1
Total loans at agricultural banks†	1972-73=100	October	254	+ 0.5	– 1
Production credit associations					
Loans outstanding					
United States	mil. dol.	October	19,400	– 2.6	+11
Seventh District states	mil. dol.	October	4,015	– 2.5	+12
Loans made					
United States	mil. dol.	October	2,395	+14.7	– 2
Seventh District states	mil. dol.	October	464	+ 9.2	– 2
Federal land banks					
Loans outstanding					
United States	mil. dol.	October	35,235	+ 1.1	+22
Seventh District states	mil. dol.	October	8,273	+ 1.1	+27
New money loaned					
United States	mil. dol.	October	502	+10.9	– 8
Seventh Distict states	mil. dol.	October	114	+18.2	–20
Interest rates					
Feeder cattle loans††	percent	3rd Quarter	14.12	– 9.2	+26
Farm real estate loans††	percent	3rd Quarter	13.59	– 8.3	+22
Three-month Treasury bills	percent	11/27-12/3	14.67	+13.3	+21
Federal funds rate	percent	11/27-12/3	17.72	+26.7	+29
Government bonds *(long-term)*	percent	11/20-11/26	12.33	+ 3.4	+22
Agricultural trade					
Agricultural exports	mil. dol.	October	3,673	+13.5	+ 5
Agricultural imports	mil. dol.	October	1,242	0	– 2
Farm machinery salesP					
Farm tractors	units	October	15,465	+40.6	–12
Combines	units	October	5,855	+42.3	–33
Balers	units	October	1,138	– 3.9	–34

*Formerly called wholesale price index.

**For all urban consumers.

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

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