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## Federal Reserve Bank of Chicago - -

November 24, 1967

EXPORTS of agricultural products have lagged behind year-earlier levels thus far in 1967. Only \$4.6 billion worth of farm products have been shipped abroad since the beginning of the year—6 percent less than in the same period a year ago. The total for the year is almost certain to fall short of the record \$6.9 billion exported during 1966. This lag comes after several years of steady increase in exports that brought foreign shipment of agricultural products up more than \$2 billion since the beginning of the decade.

Most of the decline can be accounted for by sharp drops in the exports of feed grains and wheat, although dairy products, hides, poultry and vegetables also declined. Declines have been partially offset by higher foreign sales of cotton, rice, soybeans and tobacco.

Exports of feed grains dropped sharply from record highs reached last year. During January through September exports were 29 percent less than a year before. Reduced demand for U. S. feed grains was due primarily to larger crops in West European countries that import feed grains and increased production for export in Argentina and South Africa. Higher U. S. prices in the early part of the year and less favorable livestock-feed price ratios in several countries also contributed to the decline.

By the end of the third quarter, wheat and flour exports had declined more than a fourth from the high 1966 level. The drop reflected increased competition in world markets arising from the record 1966 world crop of 10.3 billion bushels. Wheat shipments under Government programs were reduced sharply early in the year because of reduced supplies available for export after record shipments in 1966.

On the other hand, rice exports increased substantially in the first nine months—39 percent more than a year before. Most of the increase was in sales for foreign currency, principally to South Vietnam, and in long-term credit sales to Indonesia.

Soybean exports increased only slightly in the first half of 1967—less than 1 percent from the same period in 1966. This increase was far below that expected early in the marketing year. High U. S. prices in the first quarter of 1967 and large world supplies of other oil bearing crops limited soybean exports. Japan, the country's most important soybean customer, reduced its purchases, reflecting larger imports of sunflower seeds from Mexico and the Soviet Bloc.

But soybean sales abroad have increased substantially since midyear. From July through September, soybean exports were up more than a fourth from the level a year earlier. The increase reflected lower U. S. prices. Because of forecasts of the record billion-bushel crop now being harvested, soybean prices have averaged less than the high 1966 level. This



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has been the condition since mid-April. Also, the closing of the Suez Canal has restricted the movement of competing oil-bearing crops from east to west. Soybean sales in western Europe have increased as a result.

Exports for the rest of 1967 and the first half of 1968 may show little change from levels a year earlier. But lower commodity prices should improve the competitive positions of U. S. exports, especially for grains and soybeans. Corn prices, for example, were 20 to 25 cents a bushel lower this fall than last. As a result, Department of Agriculture estimates show corn exports for the current marketing year may increase 10 to 15 percent. Because of lower prices, soybean exports in 1967-68 may rise a similar amount. But with world wheat production continuing to run heavy, wheat exports will probably remain at about the same level as a year ago.

In the longer run, further expansion of agricultural exports appears likely. Continued growth of population and income in the industrialized countries, such as Europe and Japan, will continue to create increasing demands for meat and animal products. These countries will need to import greater amounts of feed grains to support expanding livestock industries. Furthermore, the recent tariff reductions of the Kennedy Round will probably contribute to expanded world trade. Japan and the United Kingdom, for example, have agreed to reduce import duties on soybeans, beginning in mid-1968.

Negotiations of the Kennedy Round did not include nontariff trade barriers, however. An increasing number of countries, including the United States, are protecting their domestic agriculture by subsidizing exports of surplus commodities. The net result of such protectionism is reduced world agricultural trade and inefficient, high-cost world agricultural production.

The nation's farmers face increased competition in world markets, especially grain markets. Production of wheat is expanding in Argentina and France. Exports of feed grains, especially to Japan, face increased competition from such countries as Australia, Indonesia and South Africa. Although exports of farm products from the United States will probably increase further, the gains probably will not be as rapid as those made in 1966.

David W. Maaske  
Economist