Federal Reserve Bank of Chicago - -

Agricultural Letter

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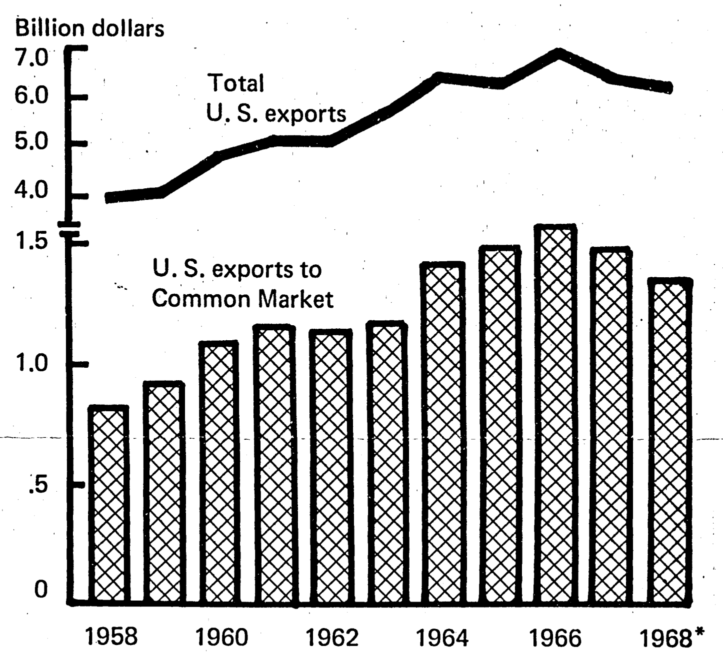
AGRICULTURAL EXPORTS totaled $6.2 billion last year—3 percent less than the 1967 tally and 9 percent less than the record set in 1966.

Feed grains and wheat, which together account for more than a third of farm exports, led the decline. Both slipped as a result of lower prices and smaller shipments. Exports of feed grain dropped $128 million from the year before. The average price per ton was 9 percent lower, and total tonnage was down about 4 percent. Corn, the major feed grain, gained in volume but not enough to offset a 13-cent decline in the average price per bushel and smaller shipments of the other feed grains. Exports of wheat declined $104 million. The average export price was 7 cents less than a year before and the number of bushels exported about 5 percent less. Reflecting the generally weak market for fats and oils, exports of soybean and cottonseed oils and animal fats and oils were down 31 percent and 17 percent, respectively.

Agricultural Exports Lower



*Estimated.

Several factors contributed to the decline in agricultural exports. Favorable weather in many countries combined with increased use of the latest agricultural technology in both developed and underdeveloped countries to produce record yields and burgeoning world supplies of such important commodities as wheat, feed grains, and oilseeds. With production up in both exporting and importing countries, competition is keen.

Economic crises, such as the devaluation of the British pound in late 1967 and the French strikes in mid-1968, also tended to decrease trade. The value of U. S. farm exports to the United Kingdom fell about 11 percent last year and exports to France declined 3 percent.

Trade policies of other countries directly affected U. S. exports. Japan, in an effort to correct its imbalance of trade, has adopted a policy of diversifying its sources of supply. Unification of internal prices within the European Common Market had a significant impact on agricultural trade. With high internal prices stimulating production in common-market countries and import levies restricting competition from lower-priced imports, U. S. exports to that area dropped 6 percent last year.

The outlook for agricultural exports is not bright for this year either. First, with the dock strike that started in December still not completely settled, foreign customers are being forced to turn elsewhere for supplies. And it is uncertain whether these losses can be recouped once the strike is settled.

Second, the huge world supplies from the bumper 1968 harvest will continue to depress prices and shrink export markets. Wheat exports may be down as much as a fifth this year. The lower support price for soybeans from the 1969 harvest may encourage buyers to delay purchases as much as possible until the new beans become available at lower prices. Exports of feed grains are expected to be less again this year, but mainly because of the dock strike.

And finally, rising protectionism poses a real threat to farm exports. Trade barriers erected to protect artificially high domestic prices not only curtail exports to protecting countries, but high prices there also stimulate production while reducing consumer demand. The protecting countries then often try to export their surpluses to other countries through use of subsidies and in direct competition with U. S. farm products. The most recent example of this was the supplanting of U. S. lard in the United Kingdom by heavily subsidized lard from European Common Market countries. Another recent proposal in the common market—the single largest outlet for U. S. agricultural exports—would impose a tax on soybean oil and meal, probably reducing U. S. exports to this trade block by $500 million.

Invariably, a restriction or subsidy by one country sets off a chain reaction of countervailing measures by the countries they affect. With protectionism rising abroad, bills have been introduced in the Congress to restrict imports into the United States. But if trade barriers are allowed to proliferate, American farmers may see further shrinkage in their export markets.

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FARM BUSINESS CONDITIONS

December 1968 with Comparisons

ITEMS	1968 December	1968 November	1967 December
PRICES:			
Received by farmers (1957-59=100)	108	108	105
Paid by farmers (1957-59=100)	123	123	118
Parity price ratio (1910-14=100)	73	73	73
Wholesale, all commodities (1957-59=100)	109.8	109.5	107.0
Paid by consumers (1957-59=100)	123.7	123.4	118.0
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.33	1.32	1.46
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.16	1.15	1.14
Oats, No. 2 white, Chicago (dol. per bu.)	.72	.68	.78
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.59	2.53	2.64
Hogs, barrows and gilts, Chicago (dol. per cwt.)	19.12	18.35	17.82
Beef steers, choice grade, Chicago (dol. per cwt.)	28.88	28.46	26.68
Milk, wholesale, U. S. (dol. per cwt.)	5.62	5.68	5.33
Butterfat, local markets, U. S. (dol. per lb.)	.67	.67	.67
Chickens, local markets, U. S. (dol. per lb.)	.13	.13	.11
Eggs, local markets, U. S. (dol. per doz.)	.42	.39	.32
Milk cows, U. S. (dol. per head)	283	282	262
Farm labor, U. S. (dol. per week without board)	--	--	--
Factory labor, U. S. (dol. earned per week)	127.41	125.97	119.60
PRODUCTION:			
Industrial, physical volume (1957-59=100)	168.9	167.4	162.0
Farm marketings, physical volume (1957-59=100)	144	174	140
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	713.5	707.0	649.3
Cash farm income, U. S.[1] (annual rate, bil. of dol.)	44.6	45.4	41.4
EMPLOYMENT:			
Farm (millions)	3.2	3.6	3.5
Nonagricultural (millions)	73.4	73.0	71.8
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	137.0	138.8	125.7
Nonagricultural banks (1957-59=100)	145.7	128.9	132.2
Time deposits:			
Agricultural banks (1957-59=100)	312.0	309.5	274.3
Nonagricultural banks (1957-59=100)	325.8	324.9	294.1

[1] Based on estimated monthly income.

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.