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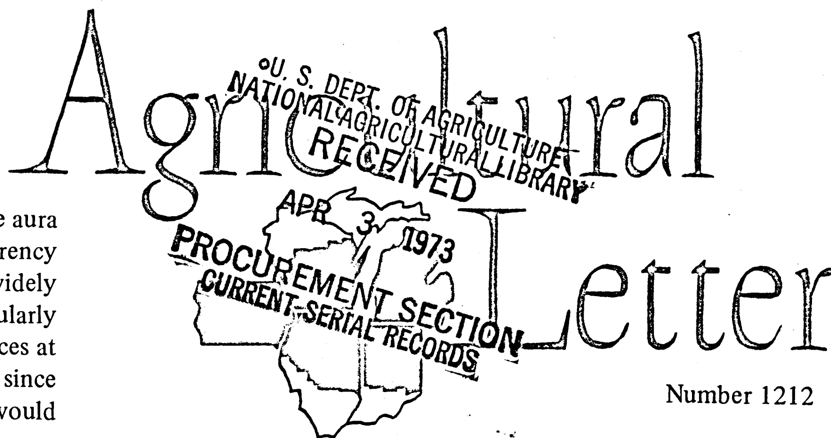
Federal Reserve Bank of Chicago - -
March 9, 1973



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THE RECENT DOLLAR DEVALUATION and the aura of speculation over the possibility of still further currency realignments have added an additional dimension to the widely fluctuating prices of several farm commodities, particularly those which rely heavily on export markets. Soybean prices at Chicago, for example, have risen around $1.35 per bushel since the February 12 announcement that the United States would devalue the dollar by 10 percent. Wheat prices have risen over 30 cents per bushel over the same period, reversing the downtrend prevailing prior to the announcement.

Any realignment of exchange rates that lowers the value of the U.S. dollar relative to foreign currencies tends to strengthen the demand for U.S. farm exports since it effectively lowers the price of our exports in importing countries and enhances our competitive position in the world market with respect to other exporting countries. Several factors, however, can limit the actual gains from devaluation. Moreover, the short-run impact of the most recent devaluation may be limited by other considerations which are somewhat unique.

Near-term prospects for U.S. agricultural exports have been extremely optimistic for several months, reflecting an unusually strong world demand and short competitive supplies. Ironically, the major uncertainty over the projected $11.1 billion in agricultural exports in fiscal 1973—up 37 percent from a year earlier—appears to be the ability of the transportation system to move the unprecedented volume rather than the actual level of foreign demand. Thus, despite the devaluation, the presently strained transportation system is not likely to permit a significant further increase in exports during the current fiscal year.

A second factor that may limit the near-term impact of devaluation concerns the likelihood that foreign countries had already negotiated contracts covering a large majority of their import needs from available 1972 U.S. crop supplies. Indeed, this year's tight world supplies and the strained transportation facilities encouraged some importing countries to nail down their needs by signing contracts earlier than would have been the case in a more normal year.

Other factors that represent more permanent considerations of the potential gains from dollar devaluations include concurrent devaluations by other countries, nontariff trade barriers, responsiveness of import demand to lower prices, and the extent of price reduction pass-throughs to consumers in importing countries.

Devaluation of the U.S. dollar typically results in concurrent, and often equal, currency devaluations by many other countries. If the other countries are importers of U.S. goods, the simultaneous devaluation leaves the prices of imported U.S. goods essentially the same. In contrast, if the other devaluing countries are exporters of agricultural goods, the concurrent devaluation offsets the competitive edge that the United States would have received, in the world market, had it been the only country to devalue.

Nontariff trade barriers—such as variable import levies and member-country trading preferences in the European Community (EC)—can also restrict the impact of dollar devaluations, even among countries that permit their currencies to appreciate relative to the dollar. Countries which establish such barriers effectively block imports of U.S. goods in order to protect domestic producers from lower world prices or to give preference to imported goods from member countries. These nontariff barriers particularly restrict U.S. grain exports, as opposed to soybeans which are not extensively grown in other countries.

Aside from the above considerations, the extent to which lower effective import prices are passed through to ultimate consumers in importing countries and the responsiveness of imports to lower prices can also limit devaluation gains. To the extent that the lower effective prices are absorbed in wider profit margins by importers, wholesalers, or retailers in the importing country, rather than passed on to ultimate consumers, the lower prices are less apt to result in expanded imports. Moreover, even if the lower prices are passed on to consumers, food consumption in many developed countries is only marginally responsive to changes in food prices. Thus, a dollar devaluation rendering imports of U.S. agricultural commodities cheaper may only result in a comparatively small increase in the quantity of imports demanded in developed countries.

On balance, a dollar devaluation enhances the potential for agricultural exports. But the gains in many cases are offset by other considerations. As an example, a recent U.S. Department of Agriculture study found that only about 43 percent of U.S. agricultural exports stood to benefit from the December 1971 currency realignments. This surprisingly small percentage is indicative of the importance of the current trade negotiations with the EC and the upcoming round of General Agreement on Tariffs and Trade negotiations scheduled to start this fall.

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