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Agricultural Letter

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AGRICULTURAL EXPORTS may set a new record in fiscal 1976. A recent U.S. Department of Agriculture report suggests that the value of agricultural exports could reach $22.7 billion in the fiscal year July 1975-June 1976, an increase of about $1.1 billion from fiscal 1975—also a record year. The largest increases are expected for the grain and feed categories; total sales could approach $13 billion, a rise of nearly $1.5 billion over fiscal 1975. After falling 11 percent during the past fiscal year, the volume of grain shipments is expected to increase about 30 percent, and exceed the previous record (1974) by approximately 15 percent.

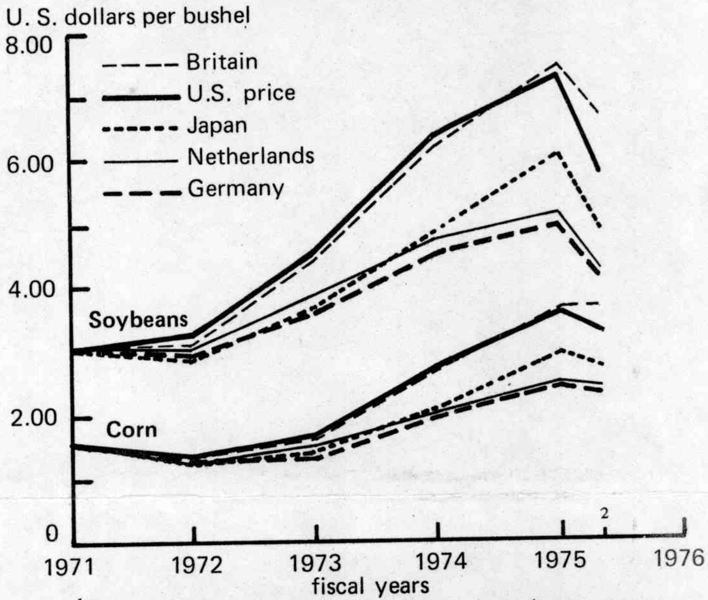
But several factors could limit the prospective increase in grain exports. While total world grain production fell short of the long-term trend most of the shortfall occurred in Russia. If Russia is excluded, it appears that world grain production will exceed the long-term trend in the 1975/76 crop year. This is especially important in view of Russia's planned level of grain imports—between 25 and 30 million metric tons—which is only about one-third of the Russian crop deficit as measured by the difference between planned production and the latest estimate of output. While some of the grain export business that Russia normally handles may be available to other countries, it appears that the bulk of the Russian deficit will not be reflected in a higher world demand for grain. Reductions in Russian poultry, goat, sheep and hog inventories since mid-year tend to confirm this view.

A second factor that may affect the level of U.S. exports is slow economic recovery from worldwide recession. A recent report by the Organization for Economic Cooperation and Development (OECD) suggests that the 24 major industrial member countries may experience only about 4 percent average annual increases in their gross national products over the next 18 months. This is substantially under the long-term average annual rate of 5.5 percent experienced by OECD members over the past decade. These countries account for a substantial proportion of U.S. agricultural export sales.

Another factor that may moderate export demand is the recent shift in currency exchange rates. From 1970 to 1974 the value of the U.S. dollar was declining relative to other currencies. While the price of U.S. crops rose during most of this period a portion of the price increase was offset by depreciation of the U.S. dollar. (See the accompanying graph.) However, since early 1975 the U.S. dollar has appreciated in value. Although no precise measure of the effects of changes in currency values on foreign import demand can be made, periods when the dollar depreciates in value (1970-74) will stimulate demand for U.S. goods and periods in which the dollar appreciates (1975) will tend to moderate demand for U.S. goods.

Another impediment to rising export demand for U.S. crops is governmental actions. For example, the European Economic Community (EC) imposes variable import levies to hold EC corn prices at a predetermined minimum. As a result of the current import levy—slightly more than $1 per bushel—EC corn prices are down only about 6 cents per bushel from a year ago while U.S. prices have declined nearly 90 cents per bushel in the same period. EC countries typically purchase about one-third of U.S. corn exports.

Effective prices paid by foreign countries[1]



[1] Foreign prices adjusted to reflect changes in exchange rates.
[2] Average of July-October 1975.

Overall it is unclear how much influence the above factors will have on U.S. agricultural exports in fiscal 1976. Some observers now suggest that wheat exports may fall between the mid- to low-end of the USDA projection. While the recent level of weekly corn and soybean exports would easily reach the high side of the USDA projections if maintained, foreign buyers have been reluctant to make additional commitments for 1976. Current commitments—including shipments contracted for optional origin—plus exports made during the current crop year total only about two-thirds of the USDA estimated levels.

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