FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
June 16, 1989 Number 1762

U.S. agricultural trade

Prospects for agricultural exports from the United States remain bright following recent upward revisions of USDA estimates. The latest forecast suggests that the value of agricultural exports shipped from the United States will total $39 billion in fiscal 1989, up $1 billion from the February forecast and about $3.7 billion above last year's total. At that level the value of U.S. agricultural exports will be at a seven year high. USDA analysts raised the forecast of export tonnage 1.5 million tons as well, boosting the expected total for the year to 146.5 million metric tons. Although that forecast points to a slight decline from last year, the total volume of shipments will be a third higher than the low recorded in fiscal 1986. With U.S. agricultural imports expected to hold at year-ago levels, the U.S. agricultural trade surplus is expected to climb to $18 million.

Much of the recent upward revision in export estimates is based on expected larger sales of coarse grain to the Soviet Union. Total coarse grain exports are now expected to reach 62.6 million metric tons this fiscal year, more than 17 percent above last year. Corn exports, about 85 percent of total coarse grain shipments, are forecast to rise more than 20 percent from fiscal 1988. These estimates have climbed throughout the year as demand has strengthened and supplies among competing exporters have proved tighter than earlier expected. Relatively tight export supplies have supported coarse grain prices, resulting in an even larger increases in the value of coarse grain exports. At $7.5 billion in fiscal 1989, the value of U.S. coarse grain exports is expected to be up 44 percent from last year, with the value of corn exports rising more than 47 percent.

The value of U.S. wheat and flour exports is forecast to rise sharply as well, despite a substantial decline in tonnage. After a downward revision in May, wheat and flour shipments are forecast to total 38.3 million metric tons, about 8 percent lower than the fiscal 1988 volume. However, limited supplies have maintained pressure on prices, boosting the value of wheat and flour exports by a third compared to last year.

After a slight downward revision in May, the forecast for oilseed exports points to year-to-year declines in both value and tonnage. The sharp drop in output and reduction of stocks in this country combined with stiff competition from Southern Hemisphere producers curtailed U.S. exports. Soybean shipments are forecast to drop 28 percent from the fiscal 1988 level, while higher prices will limit the decline in export value to about 14 percent. Soybean meal exports are expected to be down almost a fourth in terms of tonnage and about 12 percent in value compared to last year's relatively high levels, while soybean oil exports are expected to drop about 30 percent in value and tonnage.

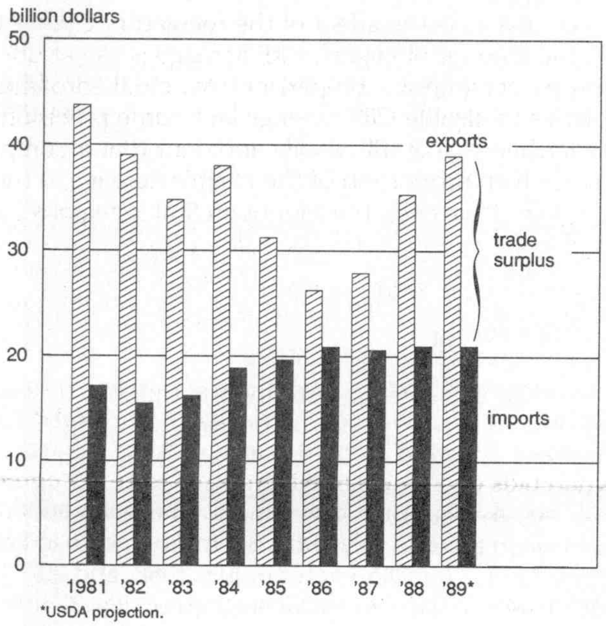
Export prospects for this year are mostly favorable for other agricultural products. The value of livestock products and poultry products exported from the U.S. are forecast to show a year-to-year gain of about 5 percent during this fiscal year. Exports of horticultural products are forecast to be up about 4 percent in tonnage and more than 7 percent in value from last year, establishing record levels. Cotton exports, despite a 17 percent upward revision in the May forecast, are expected to hold below last year's level. Although shipments of cotton and linters are likely to drop only slightly, weaker prices due to competition from other producing nations will likely trim the value of these exports by about 6 percent compared to last year.

U.S. agricultural exports

	1986	1987	1988	1989*
	(- - - - - - billion dollars - - - - - -)			
Grains and feed	9.7	9.3	12.7	16.7
Wheat and flour	3.5	3.1	4.6	6.2
Rice	.6	.6	.7	.8
Coarse grain	3.8	3.8	5.2	7.5
Corn	3.3	3.0	4.3	6.4
Oilseeds and products	6.5	6.5	7.8	6.8
Soybeans	4.2	4.2	5.0	4.3
Soybean meal	1.1	1.3	1.5	1.3
Soybean oil	.3	.2	.4	.3
Livestock products	3.5	4.0	4.9	5.2
Poultry products	.5	.6	.6	.7
Dairy products	.4	.5	.5	.5
Horticultural products	2.7	3.2	3.8	4.1
Tobacco	1.3	1.2	1.3	1.3
Cotton and linters	.7	1.4	2.1	2.0
Seeds	.4	.4	.5	.4
Sugar and tropical products	.8	.9	1.0	1.3
Total	26.3	27.9	35.3	39.0

*Forecast.
SOURCE: USDA.

Agricultural trade surplus expected to recover to $18 billion in fiscal 1989



*USDA projection.

U.S. agricultural exports to most regions of the world are forecast to increase this year. An exception is exports to countries in the European Economic Community. Following large grain and oilseed crops last year, exports to these countries are expected to register an 8 percent drop in value. In contrast, agricultural exports to the Soviet Union are expected to rise 79 percent from a year ago, largely due to reduced grain production and efforts to upgrade meat supplies.

Exports to Asia are forecast to rise 15 percent from last year, with most major U.S. customers registering year-to-year increases. U.S. agricultural exports to China are expected to more than double last year's total. The value of U.S. agricultural exports to the Middle East and Latin America are expected to register gains of about a tenth, while the value of exports to Africa will likely rise 6 percent from the year-ago level.

Imports of agricultural products into the United States are forecast to equal last year's record of $21 billion. Imports of livestock and livestock products are forecast to be down about 8 percent in value from the fiscal 1988 level, while imports of horticultural products, particularly fruits and juices increase about 3 percent in value from last year. Higher prices will likely boost the value of coffee imports by 11.5 percent, despite a 5 percent year-to-year drop in volume. Similarly, a decline in oilseed and product import tonnage will be more than offset by stronger prices, boosting the value of these imports about 7 percent above last year.

The continued increase in the value of agricultural exports from the United States, combined with a stable level of imports, will lift the U.S. agricultural trade surplus by more than a fourth from last year's level. At $18 billion, the surplus would be more than three times larger than the recent low of $5.4 billion registered in 1986. Although the value of exports is beginning to approach the levels that prevailed in the early 1980s, continued high imports are holding the projected agricultural trade surplus about 26 percent below the very high average recorded during the first three years of the decade.

Peter J. Heffernan

CRP enrollment surpasses the old Soil Bank Program

The U.S. Department of Agriculture recently accepted bids that will add another 2.5 million acres to the 10-year Conservation Reserve Program (CRP). The latest enrollment, from bids submitted during the eighth sign-up period held in February, boosts the total acreage in the CRP to 30.6 million acres. As such, the CRP became the largest long-term cropland retirement program in U.S. history, surpassing the 28.7 million acres of peak enrollment in the Soil Bank Program in 1960. The legislated goal is to have some 40 to 45 million acres in the CRP by 1990. The next CRP sign-up period will be held in July.

The CRP was authorized by the Food Security Act of 1985. The primary intent of the program is to reduce soil erosion from wind and water by converting highly-erodible cropland into permanent vegetative cover (mostly grass and trees). Until recently, some 70 million acres, one-sixth of all U.S. cropland, were considered eligible for the program. But in an effort to incorporate water quality goals and to increase the modest share (about 6 percent) of the CRP acreage planted to trees, the amount of eligible acreage has been expanded somewhat by recent regulatory changes.

To enter the program, landowners submit bids that specify the annual rental payment they would accept from the federal government in exchange for placing their eligible land in the 10-year CRP. If accepted, the landowner receives the annual rental payment as well as technical assistance and federal cost-share payments of up to 50 percent of the cost of establishing a soil-conserving cover on the retired cropland. The average bid accepted for the most recent acreage enrolled in the CRP was $51.04 per acre, up from the $49.71 average bid accepted the previous sign-up period. For the entire 30.6 million acres enrolled since the program started in 1986, the rental rates have averaged $48.71 per acre. Rental rates on CRP acreage in District states through the first eight sign-up periods have averaged $79.55 in Iowa, $73.55 in Illinois, $70.55

Acreage enrolled in the CRP

	Feb. 1989 sign-up		All eight sign-up periods		
	Thousand acres	% of U.S. total	Thousand acres	% of U.S. total	% of area's cropland
Lake States	153	6.2	2,415	7.9	5.5
Michigan	17	0.7	170	0.6	1.8
Wisconsin	52	2.1	516	1.7	4.5
Corn Belt	373	15.2	4,295	14.0	4.6
Illinois	82	3.3	546	1.8	2.2
Indiana	53	2.2	313	1.0	2.3
Iowa	154	6.2	1,789	5.8	6.8
Northeast	18	0.7	179	0.6	1.0
Appalachian	57	2.3	995	3.3	4.4
Southeast	106	4.3	1,478	4.8	8.1
Delta States	100	4.0	945	3.1	4.3
Southern Plains	278	11.3	4,753	15.5	10.6
Northern Plains	1,014	41.2	7,957	26.0	8.5
Mountain	318	12.9	5,966	19.5	13.8
Pacific	46	1.9	1,584	5.2	7.0
United States	2,462	100	30,593	100	7.3

in Indiana, $67.42 in Wisconsin, and $58.06 in Michigan.

A proportionately large share of the acreage that has entered the CRP in the last two sign-up periods has come from the Northern Plains region. That 4-state area accounted for 35 percent of the CRP acreage added from the July 1988 sign-up and 41 percent of the acreage added from the February 1989 sign-up. Overall, the Northern Plains region now accounts for 26 percent of all cropland enrolled in the CRP. Other large regional shares include the 8-state Mountain region (19.5 percent) and the two-state Southern Plains region (15.5 percent). The five-state Corn Belt region accounts for 14 percent of all CRP acreage, while the three Lake States account for 8 percent.

The nearly 30.6 million acres of cropland so far enrolled in the CRP represents about 7.3 percent of the nation's cropland. Within geographical regions, the share of cropland that has entered the CRP is proportionately high in the Mountain States (13.8 percent), the Southern Plains (10.6 percent), and the Northern Plains (8.5 percent). In both the Corn Belt and the Lake States, CRP acreage represents about 5 percent of all cropland.

Recent regulatory changes that were applicable the last two sign-up periods have expanded the amount of cropland that is eligible for CRP enrollment somewhat above the USDA's last estimate of 70 million acres. Because the affect of the regulatory changes on the amount of eligible CRP acreage is as yet unknown, geographic comparisons of actual enrollment relative to eligible CRP acreage lack some precision. Nevertheless, it is still readily apparent that a comparatively high proportion of the eligible acreage in the Northern Plains and the Mountain States regions has already been enrolled in the CRP. Conversely, CRP enrollment in the Corn Belt has been particularly low relative to the acreage in that area that qualifies for CRP enrollment.

The additional acreage entering the CRP has trended downward in recent sign-up periods. The largest enrollment occurred with the February 1987 sign-up when bids for some 9.5 million acres were accepted. Subsequent sign-ups have generated enrollments of 4.4 million acres in July 1987, 3.4 million acres in February 1988, 2.6 million acres in July 1988, and 2.5 million acres in the most recent sign-up (February 1989). With only a year and a half left, and with land values trending upward, it increasingly appears that the legislative goal of reaching a minimum of 40 million acres in the CRP will only be achieved through a combination of accepting higher bids and/or permitting further relaxations in the definition of cropland that is eligible for the CRP.

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AGRICULTURAL LETTER (ISSN 0002-1512) is published bi-weekly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice-president, Peter J. Heffernan, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

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Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Receipts from farm marketings *($ millions)*	February	13,503	-5.0	25	19
Crops*	February	4,713	-30.5	13	37
Livestock	February	6,583	-7.4	4	20
Government payments	February	2,207	568.8	672	-10
Real estate farm debt outstanding *($ billions)*					
Commercial banks	December 31	14.2	0.4†	7	22
Farm Credit System	December 31	28.0	-2.6†	-6	-20
Life insurance companies	December 31	9.01	2.8†	-2	-12
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	December 31	28.3	-3.1†	3	-5
Farm Credit System	December 31	8.64	-5.7†	-7	-18
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	April 1	12.53	4.7†	13	15
Real estate loans	April 1	11.70	3.8†	12	14
Commodity Credit Corporation	June	9.12	-3.9	26	33
Agricultural exports *($ millions)*	March	4,095	18.0	23	69
Corn *(mil. bu.)*	March	207	30.6	25	42
Soybeans *(mil. bu.)*	March	68	19.6	-13	0
Wheat *(mil. bu.)*	March	149	11.2	-1	106
Farm machinery salesP *(units)*					
Tractors, over 40 HP	May	5,366	-21.1	26	52
40 to 139 HP	May	3,922	-11.6	16	34
140 HP or more	May	1,444	-38.8	65	143
Combines	May	441	20.5	114	301

*Includes net CCC loans.
†Prior period is three months earlier.
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