Dec. 24, 1998

Fiscal 1999 U.S. Agricultural Trade

Export Forecast Set at $50.5 Billion, Down $3.1 Billion from 1998; Trade Surplus Shrinks

Summary

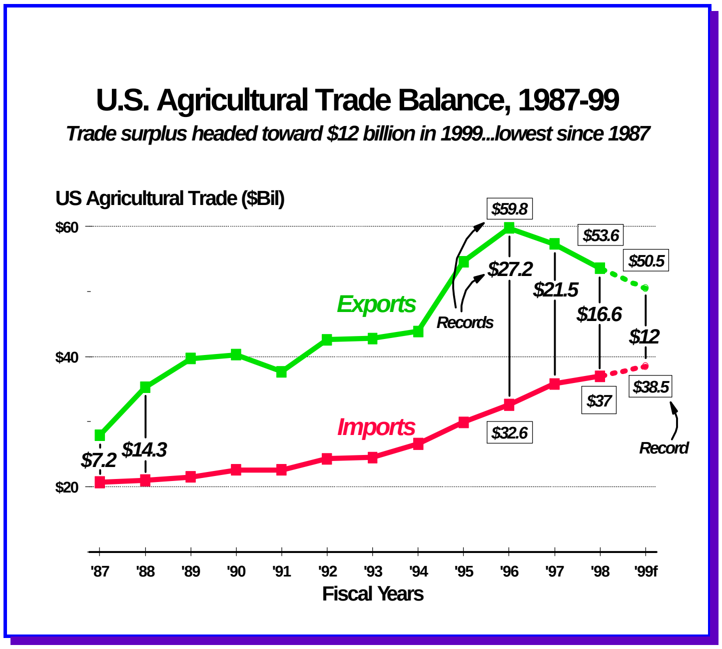
The Department revised its fiscal 1999 agricultural trade forecasts on November 30th, 1998. This report examines the major developments forecast for fiscal 1999 and compares them to the previous year. In summary the major highlights are:

Fiscal 1999 U.S. agricultural exports are now projected at $50.5 billion, down $3.1 billion from 1998 and $9.3 billion below the 1996 record of $59.8 billion. Why?

- ✰ Large global supplies and weak global demand continue to pressure grain and oilseed prices lower as they did the previous year. At the same time, a stronger U.S. dollar has made U.S. products less price competitive.

- ✰ Cotton shipments should fall sharply given the drastic reduction in the size of the domestic crop, and horticultural product shipments should drop slightly.

- ✰ Despite some gains for red meat exports, poultry meat exports will fall sharply with the collapse of sales to Russia.



Agricultural export volume is projected to reach 149.8 million tons in fiscal 1999, up 7.8 million tons from 1988 but about 20 million tons shy of the 1995 record. Rising wheat and corn shipments account for the increase this year.

Agricultural exports to most of our top 10 markets should fall in 1999. Last year, sharply declining sales to Asia were partly offset by solid sales growth to Canada and Mexico, our two NAFTA partners. This is unlikely to be repeated in 1999. Agricultural exports to Asia are forecast to fall $1.7

billion to $18 billion, while exports to our NAFTA partners are expected to fall $700 million to $12.3 billion. Declining sales are also expected to other Western Hemisphere countries, the European Union, and the Middle East. The value of total exports to Russia is forecast to remain roughly buoyed by donations and concessional sales.

U.S. agricultural imports are expected to rise $1.5 billion to a record $38.5 billion in fiscal 1999, largely due to growing U.S. consumer demand for fruits, vegetables, and wine and beer, higher coffee shipments and prices, and exchange rates favorable to foreign suppliers. This increase represents a slower growth rate than the previous few years, in part due to lower prices for foreign goods.

The projected decline in exports and rising imports will narrow the U.S. agricultural trade surplus to $12 billion, the lowest since 1987. This figure is $4.6 billion lower than the previous year, and $15.2 billion below the record set in 1996. Nevertheless, agriculture remains one of the largest positive contributors to the U.S. merchandise trade balance.

Commodity Export Highlights

Despite the rising volume of wheat and corn exports, fiscal 1999 *bulk commodity sales* are expected to fall $1.9 billion to $19 billion. This is mainly due to lower grain and soybean prices and lower cotton export volume. Compared to the previous year, the 1999 highlights are:

- ✰ U.S. *wheat* exports are forecast to rise 5.7 million tons to 31.5 million tons, but value should rise only $300 million to $4 billion due to lower prices. The average export unit value for wheat is $130/ton, 11 percent below the 1998 figure. U.S. export volume should rise supported by a larger domestic crop and reduced competition from major foreign suppliers. Wheat prices have remained under considerable pressure because the EU harvested a larger crop and many importing countries began the year with larger stocks having harvested larger crops in 1998.

- ✰ *Coarse grain* exports are forecast to rise 4.2 million tons to 48.2 million tons, but further price declines should reduce export value $300 million to $4.7 billion. This forecast reflects an export unit value estimate of $98/ton for corn, 13 percent lower than the average figure in 1998. Corn volume is forecast to rise 4.8 million tons to 42.5 million tons due to a larger U.S. crop and reduced competition from Argentina, China, and Eastern Europe. However, the large 1998 U.S. corn crop and weak Asian import demand continue to pressure prices lower.

- ✰ The *rice* export forecast, which assumes a return to normal growing conditions throughout Central and South America, is down 300,000 tons and $100 million to 3 million tons valued at $1 billion. Concessional sales to Indonesia and Russia of 100,000 tons each and strong rough rice shipments to Brazil should keep U.S. rice sales higher than they otherwise would have been.

- ✰ U.S. *soybean* export volume is forecast to remain largely unchanged at 23.1 million tons, however lower export prices could shave $1 billion from the total export value reducing sales to $5.1 billion. This forecast reflects an average export unit value of $222/ton for soybeans, 16 percent lower than the average figure for 1998. With another record U.S. soybean crop expected in 1999, the United States is also faced with larger South American soybean carry-in stocks. Thus, lower soybean prices are expected as domestic supplies and stocks rise.

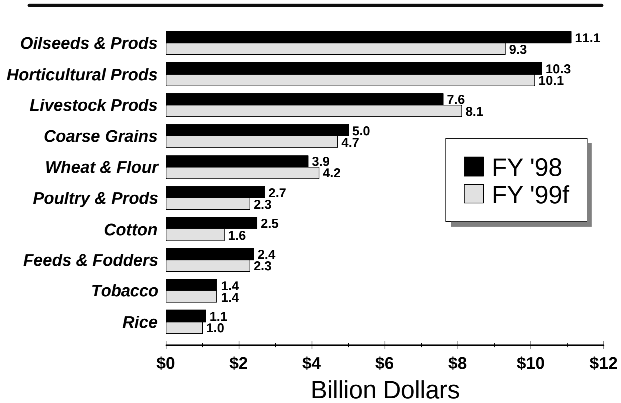
✰ U.S. *cotton* exports are forecast to drop 600,000 tons and $900 million to 1 million tons valued at $1.6 billion. This reduced outlook is largely due to a sharp drop in domestic production and reduced availability of exportable supplies. As a result of severe drought, U.S. 1998 cotton production is expected to hit a 9-year low falling 30 percent below the previous season's production level.

High-value product exports are expected to fall $1.2 billion to $31.5 billion in fiscal 1999. *High-value, intermediate product* exports are expected to fall $600 million to $11.5 billion, largely due to declines in soybean meal unit prices and export volume. *High-value, consumer food* exports are expected to fall $600 million to $20 billion. Gains forecast for red meats should be more than offset by declines in poultry meat and horticultural product exports. Compared to the previous year, the 1999 highlights are:

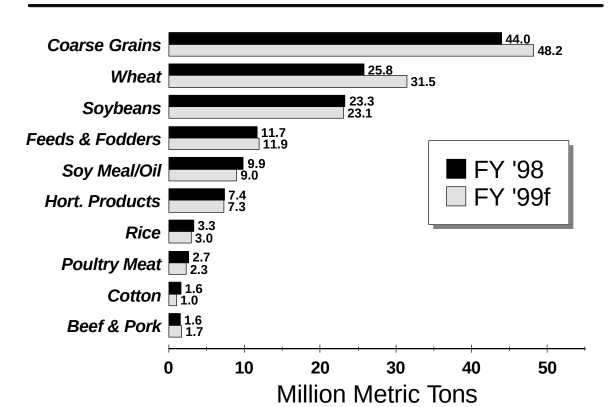
✰ *Soybean Meal and Oil* Soybean meal export volume is expected to fall 620,000 tons and $540 million to 7.8 million tons valued at $1.4 billion. Larger South American soybean carry-in stocks, increased competition from Argentina and India, and slower growth in global demand for meal will cut U.S. export volume. At the same time, soybean meal prices should remain weak with the expectation of a record domestic soybean crop and larger ending stocks.

In contrast, U.S. soybean oil exports and prices remain high and foreign demand for vegetable oils remains strong due to continued slow growth in Malaysian palm oil output and lower global oil stocks. With above-average prices and some reduction in shipments expected, export value should remain largely unchanged at about $800 million.

Export Outlook (Values) for Top 10 U.S. Agricultural Product Groups



Export Outlook (Volumes) for Top 10 U.S. Agricultural Product Groups



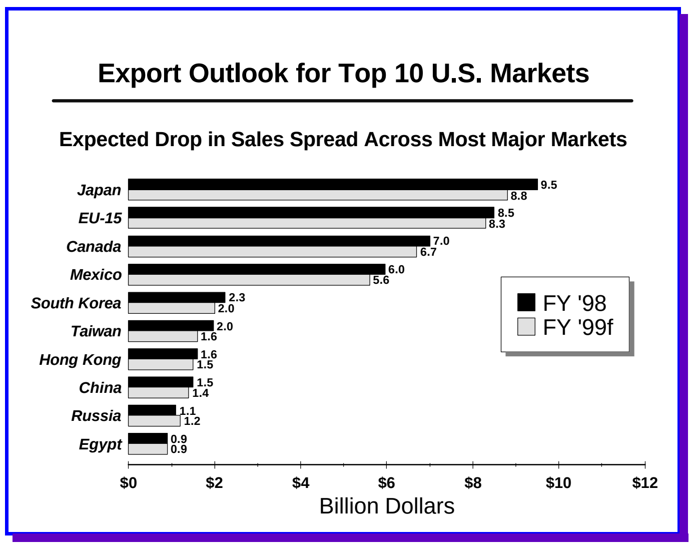
✰ *Livestock, poultry, and dairy product* exports are forecast to remain largely unchanged at $11.3 billion. Some recovery in beef prices and rising red meat shipments should offset a sharp drop in poultry meat sales to Russia. With little change expected in red meat shipments to Japan and Korea, most of the gain for red meats is expected to come from concessional sales to Russia. Since August, U.S. poultry meat exports were decreased 500,000 tons and $600 million to 2.3 million tons valued at $1.8 billion in expectation of sharply reduced sales to Russia. U.S. poultry meat exports to Russia have dropped sharply, and prices have weakened since the eruption of Russia's financial crisis and the ruble devaluation. U.S. hides and skins exports are increased $100 million to $1.5 billion largely on the expectation of higher prices.

✰ U.S. *horticultural product* exports are forecast to fall $200 million to $10.1 billion largely on the basis of reduced export volumes. This outlook assumes continued strong sales to Mexico, but reflects the threat of a slowdown in the rapid growth of sales to Canada since the U.S. dollar has appreciated against the Canadian dollar. Furthermore, Japan's economic recession and continued weakness in other Asian economies will continue to hamper exports to Asia. On the positive side, horticultural exports continue benefitting from Uruguay Round and North American Free Trade Agreement (NAFTA) tariff reductions.

Top Export Markets

In fiscal 1999, an expected $1.7 billion drop in U.S. agricultural exports to Asia is accompanied by an expected $700 million drop in sales to Canada and Mexico. Small declines are forecast for U.S. exports to Europe, the Middle East, and the rest of Latin America. Exports to Russia should hold their own or even achieve a slight increase. Compared to the previous year, the 1999 highlights are:

✰ Agricultural exports to *Asia* are forecast to fall $1.7 billion (8 percent) to $18 billion. About 40% of this decline is due to an expected fall in sales to Japan alone. Taiwan and Korea should account for most of the remaining decline. The overall drop in U.S. exports to the region is due to lower commodity prices, stronger regional competition, and weak Asian demand. Accounting for a record 44 percent of total U.S. agricultural exports only a few years ago, Asia now accounts for 36 percent.



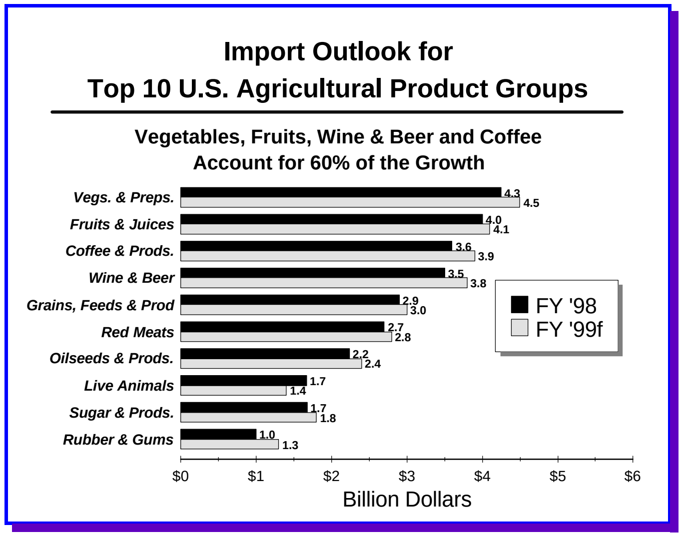
✰ The forecast for agricultural exports to *Mexico* and *Canada* calls for losses in 1999. Sales to Mexico are expected to fall $400 million to $5.6 billion. Lower commodity prices, a significant depreciation of the peso against the U.S. dollar, and a slowdown for Mexico's growing economy are key factors. Sales to Canada are expected to fall $300 million to $6.7 billion, largely due to a weaker Canadian dollar and a slower economy.

✰ The export forecast for *Brazil, Venezuela, and Other Latin American Countries* calls for slight reductions in 1999. With Brazil expected to slide into a recession, the economic growth rate for the entire region will slow. U.S. agricultural exports to *Russia* are forecast to rise $100 million to $1.2 billion, as sharply reduced poultry meat exports are offset by concessional sales of red meats.

Import Highlights and Top Suppliers

U.S. agricultural imports are forecast at $38.5 billion in fiscal 1999, up $1.5 billion (4 percent) from 1998 and a new record high. Over 60 percent of this growth is due to rising purchases of horticultural and tropical products, especially fruits, vegetables, wine and malt beverages, and coffee. Compared to the previous year, the 1999 highlights are:

✰ *Horticultural product* imports are forecast to rise $600 million to a record $14.5 billion, with most of the growth spread across vegetables and beer and wine. Imports of fruits and juices are forecast to rise $100 million to $4.1 billion, vegetables and preparations should rise $250 million to $4.5 billion, and wine and beer should rise $300 million to $3.8 billion. Mexico and Canada lead the way as major suppliers of fruits and vegetables, while Europe and Canada are the major suppliers of wine and beer.



✰ Forecast at $6.8 billion, no change is expected for *animals and animal product* imports. With beef prices expected to strengthen, the value of red meat imports (mainly from Canada, Australia, and New Zealand) is expected to rise $100 million to $2.8 billion while quantity remains unchanged at 1.2 million tons. More than offsetting the rise in meats, the value of live animal imports is forecast to decline $300 million to $1.4 billion. Both Canada and Mexico are rebuilding cattle herds and Canadian packer capacity is expanding.

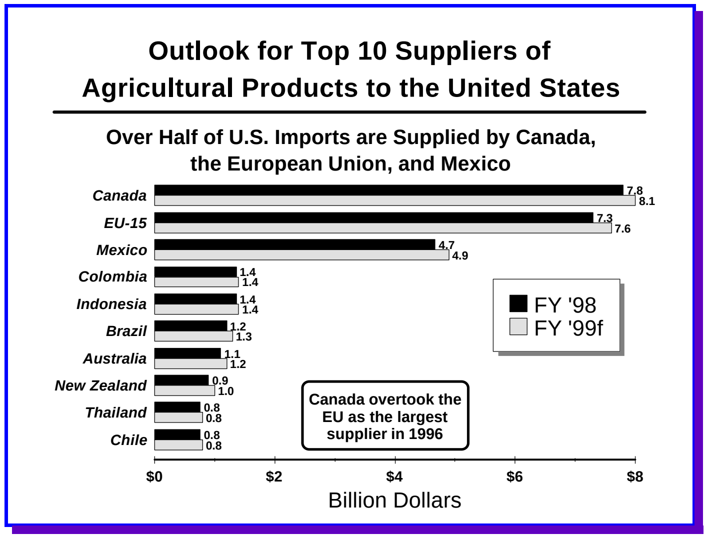
✰ Imports of *grains, feeds, and grain products* are forecast to rise $100 million to $3 billion, largely due to rising purchases of further-processed grain products from Europe and Canada such as pastas, noodles, and bakery products. Grain import volume is expected to remain unchanged at about 5.1 million tons.

✰ *Oilseed and product* imports are expected to rise $150 million to $2.4 billion, but import volume should remain unchanged at 4.3 million tons. Increased vegetable oil prices is an important factor.

✰ *Coffee* imports are forecast to rise $300 million to $3.9 billion on higher prices and volumes. U.S. buyers are expected to rebuild U.S. coffee stocks and this should pressure on prices.

Rising agricultural imports from Canada, the EU-15, and Mexico are expected to account for most of the gain in fiscal 1999. Compared to the previous year, the 1999 highlights are:

✰ Imports from *Canada* (21 percent of total) are forecast to rise $300 million to $8.1 billion. The major imports are live animals, red meats, processed grain products, and vegetable oil.



- ✰ Imports from the *EU-15* (20 percent of total) are forecast to rise $300 million to $7.6 billion. The major suppliers are Italy, France, and the Netherlands. They ship olive oil, pastas, wine and beer, confectioneries, and many other consumer foods.

- ✰ Imports from *Mexico and Other Latin American Countries* (33 percent of total) are forecast to rise $600 million to $12.8 billion. With Mexico accounting for 40 percent of the growth for this entire region, imports from Mexico are expected to rise about $200 million to $4.9 billion. Other major suppliers are Brazil, Columbia, and Chile. The major imports from this region are raw coffee, fruits, vegetables, and juices.

In Retrospect Agricultural imports have risen steadily every year since the mid-80s and a new record in 1999 is expected. The average annual growth rate rose to a high of 9-12 percent during the mid-90s, and is currently about 4-6 percent. The major factors behind import growth since the mid-1980s are:

- since 1985, the U.S. population increased 12 percent (30 million) to 272 million, and is now growing by 2.2 million people per year;
- rising per capita consumption of fruits and vegetables, in part due to increased demand for fresh products during winter months;
- rising consumer demand for imported, luxury foods and beverages (e.g. Italian olive oil, European wines, beers and chocolates);
- rising consumer demand for non-European "ethnic" products (e.g. Basmati rice, Chinese cookies); and,
- rising industry demand for ingredients used in processed foods and non-food items (e.g. tropical spices, ginseng), which are consumed in the United States or exported.

Attachments

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