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AgLetter

A BANNER YEAR FOR AGRICULTURAL EXPORTS

U.S. agricultural exports experienced a phenomenal resurgence in the fiscal year ending last September (fiscal 1995) after being flat for most of the current decade. The gains were characterized by a sharp increase in exports of bulk commodities as well as continued growth in foreign sales of higher valued products. In particular, Midwest farmers benefited from strong export gains for corn, soybeans, and red meats. The value of U.S. agricultural exports is projected to again rise in the current year, albeit at a lesser pace.

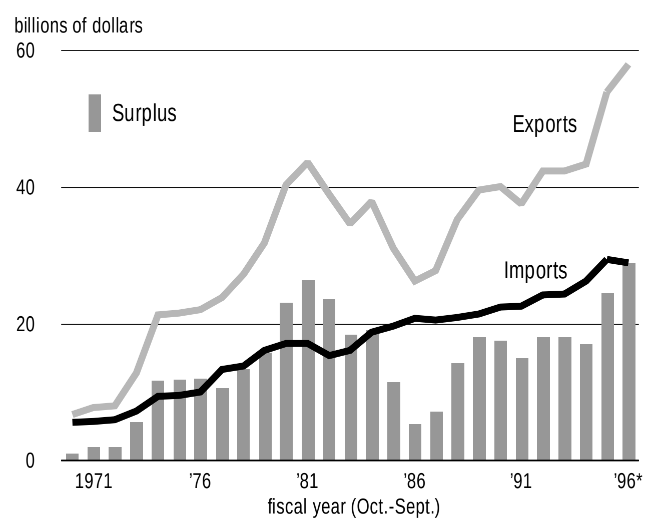
Agricultural exports in fiscal 1995 posted a new record of $54.1 billion, easily surpassing the previous high of $43.8 billion achieved in 1981. Fed by gains in most major commodities, the value of agricultural exports posted an annual increase of over a fourth, while tonnage rose by a third. The surge came on the heels of several years of generally lackluster performance. After making a partial recovery from the decline of the early 1980s (see chart), agricultural exports registered very little growth from 1990 through 1994, averaging about $41.1 billion annually.

In comparison, the value of agricultural imports continued to trend steadily higher during the first half of the 1990s. At $29.5 billion, purchases of foreign agricultural products were up a tenth in fiscal 1995. The value of coffee imports rose by two thirds, due to sharply higher prices. Higher prices also pushed up the value of oilseed imports. Purchases of horticultural products—which account for a third of the value of agricultural imports—rose by a tenth. In contrast, the value of red meat imports declined from the previous year, as did purchases of grains and feeds. But despite the increase in the overall value of imports, the trade surplus generated by the agricultural sector rose by over 40 percent last year to $24.6 billion. This was second only to the 1981 high of $26.6 billion.

The export value of most major commodity groups registered solid gains during the past fiscal year. Grain and feed exports rose by a third, while oilseed exports rose by a similar amount. Export sales of livestock and poultry products also expanded, continuing an existing trend. Foreign sales of poultry products jumped nearly 30 percent, while the value of red meat exports was up by more than a fifth. Aided by a retreat in global production, the value of U.S. cotton exports jumped more than 50 percent from the previous year, and foreign sales of horticultural products continued to exhibit steady growth. In contrast, the value of dairy exports was little changed from the previous year.

The export gains were also widespread geographically, as most regions of the world increased their purchases of U.S. agricultural products. Three distinct regional classifications surfaced last year based on the size of the year-over-year change in their purchases of U.S agricultural products. The first group includes Asia, Africa, and Western Europe. Together, these regions composed the engine driving most of the recent growth. The value of U.S. agricultural exports to Asian nations registered an annual increase of over a third in the past year. Sales to China nearly tripled, while exports to Turkey and Bangladesh more than doubled. Exports to African nations also rose by a third, led by Egypt and South Africa. In comparison, the value of agricultural exports to Western European nations (primarily the European Union) increased by a fourth.

U.S. agricultural trade



*Projection
Source: U.S. Department of Agriculture.

More moderate gains were seen in U.S. export sales to the regions in the second group. This contingent includes Oceania (Australia and neighboring nations) and our closer neighbors—Canada and Latin America. The value of agricultural exports to Latin American nations rose 12 percent, despite a drop in sales to Mexico that stemmed from the recent economic problems in that country. Export sales to Canada rose during the past fiscal year after being flat the prior year. Sales to Oceania also rose, but these nations constitute a minor share of overall U.S. agricultural exports.

A third grouping consists of Eastern and Central Europe, and the nations that comprise the former Soviet Union (FSU). These nations have struggled to achieve economic growth since moving toward a market-based economic system in recent years. U.S. agricultural export sales to the FSU registered a year-over-year decline of over a fifth in fiscal 1995, mostly due to a contraction in sales to Russia. In comparison, export sales to Eastern and Central Europe held near the prior year's level.

From the standpoint of Midwest farmers, trade developments over the past year were quite favorable. After suffering through a four-year decline, corn exports surged to 58 million metric tons (MMT) in fiscal 1995, an increase of over 75 percent from the previous year. This reversal in the fortune of U.S. corn exports was closely tied to China's switch from a net corn exporter to net importer. This not only allowed the U.S. to regain market share lost to China in recent years, but enabled the U.S. to secure a sizeable amount of sales to China itself. Japan remained the largest foreign market for U.S. corn, while purchases by South Korea generated the most dramatic gain (rising sixteenfold) from the previous year.

Exports of soybeans and related products also made substantial year-over-year gains in fiscal 1995, though less dramatic than that for corn. Soybean export tonnage rose about 45 percent from the prior year, boosted by ample U.S. supplies and favorable prices. At 23.6 MMT, soybean exports were at the highest level since 1983. Over half the gain was accounted for by the nations that comprise the European Union. In addition, soybean meal exports rose a fourth, while the export tonnage of soybean oil surged 75 percent. Nearly all the gain in oil sales was attributed to increased purchases by China.

The volume of pork exports registered an annual gain of over 50 percent in fiscal 1995, while beef shipments rose a more modest 17 percent. A decline in exports of both beef and pork to Western European nations and Mexico was more than offset by gains to other nations, particularly those in Asia. Japan remained the single largest market for U.S. red meat exports, accounting for well over 60 percent of the tonnage. Russia and South Korea were also important markets for pork and beef, respectively.

Recent trends in the export of dairy products have been mixed, at best. The overall value of dairy exports in fiscal 1995 was about the same as a year earlier. Sales of nonfat dry milk, cheese, and whey registered substantial gains, but were offset by declines in condensed milk and butter. The three largest markets for U.S. dairy products—Mexico, Algeria, and Japan—accounted for nearly half the export value of dairy products. However, Mexican purchases dropped a fourth from the prior year.

Recent USDA projections suggest the overall value of agricultural exports will rise 7 percent to $58 billion in fiscal 1996. The gain is expected in spite of a significant year-over-year projected decline in the export quantities of bulk commodities. Tighter global market conditions—characterized by year-over-year declines in production and ending stocks—are expected to prevail for coarse grains, oilseeds, and wheat. The associated gain in prices will offset the decline in volume and raise the export value for these commodities over the 1995 levels. In contrast, global cotton production and ending stocks are projected to increase, reducing the demand for U.S. cotton in export markets.

Higher value products are also expected to do well in fiscal year 1996. Exports of beef, pork, and poultry are projected to rise in terms of both tonnage and value, fueled by more domestic production, moderate prices, and firm overseas demand. The value of horticultural exports is also projected to register a solid gain during the current fiscal year, while overall dairy products sales are expected to shake off recent sluggishness and rise by about a tenth. If the value of agricultural imports show little growth during the current fiscal year as expected, the agricultural sector's trade surplus may well reach a new high in fiscal 1996.

Mike A. Singer

CAPITAL EXPENDITURES BY FARMERS

The developments that unfolded during 1995 probably have translated into a stronger year for capital expenditures by farmers than had been originally expected. They have also improved prospects for the year ahead. A marked tightening in the world suppy/demand balance has pushed grain prices to the highest levels in years, buoying recent and prospective crop farmer earnings. Livestock producers have experienced mixed trends, with many, especially cattlemen, experiencing operating losses. At the same time, however, prices for hogs and poultry have tracked at higher-than-expected levels, offering some expansion incentives for the more efficient producers.

The latest USDA estimates indicate that gross capital expenditures (excluding operator dwellings) in the farm sector approximated $14 billion in 1994. By historical standards, the 1994 tally was modest. It stood less than 4 percent above the 1989-93 average and languished more than a fifth below the peak five-year average that characterized the 1977-1981 period. On an inflation-adjusted basis, it was one of the lowest levels in years. The largest component of the 1994 expenditures was for tractors ($2.9 billion) and other farm machinery and equipment ($5.2 billion), which accounted for 58 percent of the total. Farm buildings ($1.9 billion) and land improvements ($1.4 billion) accounted for another 23 percent. The remaining 18 percent represented the $2.6 billion in expenditures on trucks and autos acquired for farm use.

Reports from the Equipment Manufacturer's Institute (EMI) provide the strongest evidence that capital expenditures by farmers in 1995 exceeded expectations. Those reports suggest that expenditures on farm machinery and equipment increased in 1995, countering the initial expectations of a modest decline. The EMI reports focus strictly on unit retail sales of farm tractors and self-propelled combines, which encompass a sizable chunk of the total expenditures for machinery and equipment. Those reports show the year-over-year rise in tractor and combine unit sales widened noticeably this fall following modest first-half gains and a leveling-off in the third quarter. For October and November combined, the total number of tractors (over 40 horsepower) and combines sold was up 7.3 percent from the same period a year ago. The improved performance pulled the year-to-date rise for tractor and combine sales through November up to 3 percent. In dollar terms the rise in sales was no doubt even larger since it was led by the more costly units. For example, unit sales of four-wheel drive tractors through November were up 13 percent while self-propelled combine sales were up 9 percent.

Recent developments increase the likelihood that the uptrend in farm equipment sales will extend into 1996. The combination of lower supplies and strong demand propelled average corn and wheat prices in November to the highest levels in 11 and 21 years, respectively. For many farmers, the higher prices will offset both a smaller harvest and a cut in government payments and sustain earnings on the 1995 crop at a high level. Strong futures markets are also offering farmers an opportunity to lock in high prices on a portion of the expected harvests for the next year or two. The demand to acquire farm machinery and equipment in the months ahead is also likely to be bolstered by a sizable increase in crop plantings. Many analysts are expecting a rise of 12 to 15 million acres in plantings of major crops in 1996. In addition, the declines in interest rates over the past few months will probably lower the costs of financing farm machinery and equipment purchases in 1996. Alternatively, the continuing uptrend in farm machinery and equipment prices may counter some of the positive factors in prospective sales. USDA surveys of prices paid by farmers show farm machinery prices in October were up more than 9 percent from a year ago. The increase for all of 1995 averaged nearly 6 percent, the steepest rise in several years and nearly double the average annual rise of the previous five years.

While there is good evidence of a continuing uptrend in farm expenditures for machinery and equipment, the evidence for other types of capital expenditures is much more circumstantial. Truck sales have been strong nationwide, but the trend for trucks purchased by farmers is unknown. Nevertheless, the surge in grain exports over the past year has strained the transportation system and may well have augmented more farmer-purchases of trucks. Current evidence on farmer expenditures for buildings and structures and for land improvements is also very limited. Both components have recorded comparatively strong growth over the last few years, perhaps reflecting the restructuring and the expansion in livestock and poultry production and the various soil conservation plans put in place by crop farmers in recent years. A portion of the demand for new buildings and structures may have eased recently with the weather-related cuts in the 1995 crop harvest and the sharp drawdown in carryover stocks of grains and soybeans expected in the months ahead. Lower returns to livestock producers may have also taken a toll. At the same time, however, total livestock and poultry production continues on the upswing. Moreover, the restructuring process that is consolidating an increasing share of U.S. hog production in newer, and very large facilities probably continues.

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SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1990–92=100)*	November	105	1.0	11	3
Crops *(index, 1990–92=100)*	November	116	2.7	16	9
Corn *($ per bu.)*	November	2.90	4.3	46	18
Hay *($ per ton)*	November	81.00	–2.4	–6	–2
Soybeans *($ per bu.)*	November	6.43	4.6	20	2
Wheat *($ per bu.)*	November	4.82	1.9	29	39
Livestock and products *(index, 1990–92=100)*	November	94	2.2	4	–4
Barrows and gilts *($ per cwt.)*	November	40.50	–12.1	42	–6
Steers and heifers *($ per cwt.)*	November	65.10	4.5	–5	–11
Milk *($ per cwt.)*	November	13.70	2.2	5	1
Eggs *(¢ per doz.)*	November	76.4	14.9	24	21
Consumer prices *(index, 1982–84=100)*	November	154	–0.1	3	5
Food	November	149	0.0	3	5
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	1,558	N.A.	83	–26
Soybean stocks *(mil. bu.)*	September 1	335	N.A.	60	15
Wheat stocks *(mil. bu.)*	September 1	1,881	N.A.	–9	–12
Beef production *(bil. lb.)*	October	2.17	–1.9	3	10
Pork production *(bil. lb.)*	October	1.57	9.5	–3	7
Milk production* *(bil. lb.)*	November	10.6	–3.4	0	N.A.
Receipts from farm marketings *(mil. dol.)*	August	15,076	6.2	8	8
Crops**	August	7,169	–3.5	17	20
Livestock	August	7,884	17.5	1	1
Government payments	August	23	–64.1	–69	–74
Agricultural exports *(mil. dol.)*	September	4,728	7.8	33	47
Corn *(mil. bu.)*	September	250	19.3	117	80
Soybeans *(mil. bu.)*	August	47	13.2	15	90
Wheat *(mil. bu.)*	September	134	5.0	11	23
Farm machinery sales *(units)*					
Tractors, over 40 HP	November	5,457	–10.7	6	1
40 to 100 HP	November	3,091	–16.8	2	1
100 HP or more	November	2,366	–1.4	11	1
Combines	November	1,151	17.0	27	–2

N.A. Not applicable
*22 selected states.
**Includes net CCC loans.

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