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OUTLOOK FOR U.S. AGRICULTURAL TRADE

[By Brice K. Meeker, Assistant Administrator, Foreign Commodity Analysis, Foreign Agricultural Service, USDA]

The past few years have been kind to those who speak on agricultural trade at this annual Outlook Conference. Every year since 1970, when U.S. agricultural exports turned upward after two years of decline, your speakers have been able to cite export gains and point to an even better year ahead.

For five straight years, through corn blight, bumper crops, short crops, oil shortages and world recession, U.S. farm exports have set new records. The once "magic" goal of $10 billion in exports was left behind in fiscal year 1973. We crossed the $20 billion mark in 1974, and increased the margin in 1975.

This year, I am pleased to report, should be no exception. We are forecasting that exports in fiscal 1976 will be about $1 billion more than the record level of $21.6 billion in 1975, reaching perhaps as high as $22.7 billion.

Along with this export record, we expect another record surplus in U.S. agricultural trade. We look for a slight gain in agricultural imports, to $10 billion, which will result in an agricultural trade surplus of $12.7 billion compared with $12 billion in fiscal 1975. This will be the third consecutive year in which agricultural trade has made a positive contribution of more than $10 billion to this country's balance of trade.

The forecast of continued growth in agricultural exports is based in part on signs that the recession is beginning to bottom out in most developed countries, led by the United States, where overall economic performance in fiscal year 1976 should see a significant recovery in the real growth rate.

Prospects, and opinions, are mixed elsewhere. The consensus is that the direction is up; the question is how soon and how fast. The European Community, for example, is confident that recovery in the 9 already has begun, but the Organization for Economic Cooperation and Development is not optomistic. Japan appears to be bottoming out from its worst economic situation since World War II, but there are those who see no genuine rebound until after midyear 1976.

At the same time, a decline in imports has improved the trade and current account balances of the developed countries, which should provide an added stimulus to trade as economic conditions improve.

In contrast to last year, when higher prices resulted in increased value of total U.S. exports despite a rather significant reduction in volume, volume will carry the load this year, offsetting generally lower unit prices.

Shipments of the principal commodities—grains, oilseeds and products, cotton and tobacco—could go over 103 million metric tons. This would exceed last year's volume by about 19 million tons and be slightly above the record set in fiscal 1974.

In terms of destination, the big gain will be in sales to Eastern Europe and the Soviet Union, reflecting the effects of the very poor Soviet harvest and weather-reduced production in Eastern Europe itself.

Shipments to the Soviet Union, largely grain, are estimated at $2.1 billion and to Eastern Europe at $1.1 billion. This would be a combined gain of a little more than $2 billion, more than enough to offset anticipated declines in value to Western Europe, Latin America and some other markets, including the People's Republic of China. With a probable record harvest and a tight situation in foreign exchange, the PRC will be negligible as a U.S. market this year. Smaller export increases are expected to North Africa, South, and Southeast and East Asia, and Japan.

Export volume to both Western Europe and Latin America is expected to hold up, with the value decline coming from lower prices.

Japan continues as the largest national market for U.S. agricultural exports, and we expect shipments this year to be slightly above last year's level of $3.3 billion.

Before turning to the export picture by commodity, I feel I should mention the long-term U.S. grain sale agreement with the Soviet Union. It won't take effect until next October 1, but it is an important new development in U.S. agricultural trade, and one that seems to be quite widely misunderstood.

The agreement, you will recall, is for five years and commits the Soviet Union to buy a minimum of 6 million metric tons yearly of U.S. wheat and corn, and up to two million tons more without consultations between governments. There is an escape clause for the United States on the minimum commitment should total U.S. grain supplies fall below 225 million metric tons.

This agreement was not designed to set the pattern for trading U.S. grain with other countries, including those of Eastern Europe. Rather it was intended to meet the unique situation of a single nation—Russia—which has the capacity to violently disrupt world trade in grains.

The agreement does not limit the sale of U.S. corn and wheat to the Soviets, nor does it give them preference over other customers. It was put in place as a vehicle to permit a better U.S. assessment of minimum world import demand each year, and to try to avoid the wild market fluctuations that have been triggered by sudden Soviet buying in the past.

The agreement does not cover soybeans, grain sorghum, barley, oats or rye. It does not restrict trade in wheat and corn, requiring merely consultations between governments before the Soviets buy more than 8 million tons of U.S. wheat and corn in a given year.

Rather the agreement provides a framework for expanding trade in a growing market that consumes more grain in a year than any other market except the People's Republic of China.

Now, let's turn to the export outlook for the major commodities.

Wheat.—A record year for wheat trade is in prospect, with U.S. wheat exports for 1975/76 projected at the record level of 36.5 million metric tons, or 1.35 billion bushels. This would be about 15 percent more than the previous record of 31.8 million tons set in 1972/73, and would represent 52 percent of the world's wheat imports (excluding intra-EC trade).

World trade in wheat, from a crop that fell far short of early expectations, particularly in Europe and the Soviet Union, is projected at an all time high of 70 million tons. The principal factor in this is the projected increase in imports by the Soviet Union to 14 million tons from only 2.4 million tons last year. This far more than offsets reduced import needs in the People's Republic of China, which has had improved crops in 1975, and is expected to need only about 3 million tons of wheat imports compared with 5.7 million tons last year. Most of this wheat to the PRC will be supplied by Canada and Australia under existing agreements. The remainder, about 500,000 tons, will come from Argentina.

Feed Grains.—U.S. feed grain exports are projected to recover sharply in the current year, reflecting larger supplies from this year's record U.S. crop and increased world demand, once again largely from the Soviet Union. Total Soviet feed grain imports are expected to be about 13 million tons compared with 2.5 million tons last year. At the same time, little change is expected in the imports of Japan and Western Europe, the other two major markets.

We look for U.S. feed grain exports of about 43 million metric tons, one-fourth greater than last year, and just about the same as the record level reached in 1973/74. The U.S. share of the total market is expected to rise to about 63 percent from 57 percent last year.

Oilseeds and Products.—U.S. exports of soybeans and meal are expected to show gains in volume this year, but lower prices may trim combined export value of oilseeds and products to about $4.3 billion. This would be 11 percent below last year's record level of $4.9 billion. A key factor in this anticipated drop in value is the price influence of larger U.S. soybean supplies, which are up by 300 million bushels over last year, totaling 1.7 billion bushels.

On the plus side in the export picture are improved livestock/feed profitability ratios and prospects of improved economic conditions, which presage at least modest rates of recovery in foreign demand. In addition, reduced grain and oilseed crops in the European Community and the Soviet Union will add to demand.

On the negative side, we face keen competition from other producers in traditional U.S. markets for oilseeds and products. Sharp gains are expected in available supplies of soybeans from Brazil, palm oil from Malaysia, and coconut oil from the Philippines.

What it comes down to, is that despite the expected upturn in demand—domestic as well as foreign—and some increase in export volume, U.S. soybean stocks at the end of this season are likely to increase substantially from the 186 million bushels of September 1 this year.

Cotton.—Cotton remains a long way from full recovery from the 1974/75 world textile recession, according to current indications, and a sharp decline in world cotton production this season will do no more than offset a near-record carry-in.

However, demand for cotton *has* increased, as indicated by the improvement in world cotton prices by about 20 percent from the depressed lows of last December to March, and we expect a moderate upturn in world trade this season. Even so, significant demand recovery in many importing countries remains in the future.

As for U.S. cotton, a sustained rise in U.S. prices throughout the summer and early fall while foreign prices held steady, widened the gap between U.S. and foreign growths to as much as 10 cents per pound by early October. A weakening in U.S. spot and New York futures prices during the first half of October narrowed the gap somewhat, but U.S. quotations, though nominal, remain several cents above prices of foreign cottons.

In this situation, U.S. exports face strong competition. However, with a moderate rise in foreign demand and some reduction in world supplies, U.S. fiscal year 1976 exports are forecast at about 3.6 million bales. This is down from last year's level of 3.8 million bales, and the value of cotton exports could drop below the $1 billion level of fiscal 1975.

Looking beyond the current year, there are reasonably good prospects for the volume and value of U.S. cotton exports to rise in fiscal 1977.

Livestock and Livestock Products.—Continued global difficulties in the livestock industry are expected to cause a reduction in U.S. exports in fiscal 1976 to around $1.2 billion. This would be the third highest year on a value basis, but down 17 percent from last year's exports of $1.44 billion.

The reduction will come mainly from lower volume and prices for tallow exports, lower volume for lard, lower prices for hides and skins, and fewer live animals shipped to foreign markets. Good demand for dairy breeding cattle will ease the decline in live animal exports somewhat.

On the brighter side, we expect a large increase in both volume and prices for pork shipments and a smaller, but notable, increase in exports of beef. Much of the pork and beef increase will go to Japan.

Variety meats are holding near last year's value level as lower volume is being offset by higher prices.

Dairy and Poultry.—Exports of poultry and poultry products are recovering well after last year's decline, and we look for a total of about $165 million in fiscal 1976, compared with $135 million in FY 1975.

The increase is being led by gains in the export of eggs and egg products, which were up 37 percent in the first three months of the fiscal year over the same period last year, and in poultry meat, which was up 31 percent during the period.

Exports of the wide range of other poultry items, such as chicken livers, soups and specialties, have lagged behind the rates for poultry meat and eggs.

The export gains are well distributed. The European Community and Singapore show large increases in imports of both poultry meat and eggs and Japan shows a very strong increase in processed eggs.

While exports of dairy products increased by 47 percent in the first quarter of fiscal 1976, we don't expect this to continue, and are forecasting total shipments to decline for the year—from $141 million last year to about $125 million this fiscal year.

This is based on the expectation of reduced exports of nonfat dry milk, which usually represent about half of the total dairy exports under concessional programs. If concessional exports of NFDM hold at last year's level, total exports could show an increase.

Shipments of some other items, such as processed milk products, particularly dietary supplements for infants, have been up substantially and this is likely to continue.

Fruits, Vegetables and Tree Nuts.—The value of U.S. exports of fruits, vegetables and tree nuts is expected to reach about $1.3 billion, about 10 percent more than last year's level.

Prospects are good for increases in a wide range of commodities, but the major increases are likely to be in tree nuts. Almonds, a leading factor in horticultural exports, are expected to sustain the favorable level of the past few years, and, with a large California crop in the offing, walnuts should continue their upward export trend.

Although some temporary problems are anticipated in various markets, exports of fresh citrus, particularly grapefruit, should at least maintain last year's level of dollar earnings. Canned and dried fruits, and citrus juices are expected to show gains over a year earlier.

Tobacco.—We look for exports of U.S. unmanufactured tobacco to be down somewhat in volume in this fiscal year, but higher unit prices should push value to a record high. Volume is forecast to decline to 580 million pounds, export weight, from 604 million pounds last year. We expect value to rise from $861 million last year to about $900 million for the current year.

Stimulated by strong demand and firm prices, production and supplies of tobacco have been increasing worldwide. World flue-cured production is estimated to be up 8 percent in 1975 after an 11 percent gain in 1974. The United States has provided most of this gain, but substantial increases have come from other areas—most notably Brazil, South Korea and Thailand. Production of burley also has increased substantially—at the rate of about 5 percent a year since the early 1960s.

This stepped up production in other countries, and their improved export performance, together with rising U.S. prices and a more favorable balance in supply requirement levels in major world markets, indicate problems for the United States in maintaining the favorable tobacco export levels of recent years.

In summary, then, we have the prospect of another outstanding year in the export of U.S. agricultural products—another record. Whether we can continue to set new records in each succeeding year is beyond my crystal ball. However, I think the performance of the years just past indicates that under the stimulus of market demand we have reached a new plateau from which, if we can keep the markets open to a relatively free movement of trade, we can go on to new records in the years ahead.