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4-27-1978

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Recommended Citation

Sogn, Arthur B., "1978 U.S. Grain Price and Foreign Trade Outlook" (1978). *Economics Commentator*. Paper 121.
http://openprairie.sdstate.edu/econ_comm/121

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Economics Newsletter

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No. 123

April 27, 1978

1978 U.S. GRAIN PRICE AND FOREIGN TRADE OUTLOOK

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Fundamentals seem to indicate very little chance for substantial price improvement in any of our U.S. grains for 1978. The projected carryover supplies of wheat are about 60 percent of one year's production, corn 18 percent, barley 43 percent, sorghum 26 percent, oats 42 percent, and soybeans 13 percent. This implies that in spite of reduced plantings indicated for many 1978 grains supplies for 1978 will be as great as in 1977 because of the large carryover. For this time of year, projections must be made on the assumption of a normal crop. There are, however, some reasons why we believe grain prices for wheat and feed grains may be somewhat higher by the fall of 1978. First, weather conditions make a world crop comparable to those of 1975, 1976 and 1977 very improbable. Second, export demand for U.S. grains is currently very good, and three, it appears that U.S. ag policy must support grain prices at a higher level than it is currently doing.

Grain exports have a direct relationship to U.S. carryover supplies as 54 percent of wheat, 25 percent of feed grains and 60 percent of soybeans raised in 1977 went for export. The demand for U.S. grains for export is currently very good. There are more ships in the Gulf of Mexico than have been seen there since the bonanza export year of 1972. Projections at this time are for a record export year of agricultural products in volume, but not in value. Agriculture exports are projected below last year's record of \$24 billion, to somewhere around \$22.5 billion. Volume is expected to raise from around 102 million metric tons last year to about 111 million metric tons this year.

Projected exports of major U.S. grains during the respective crop years are:

Corn	1,750 million bushels
Wheat	1,100 million bushels
Barley	60 million bushels
Oats	10 million bushels
Sorghum	225 million bushels
Soybeans	625 million bushels
Total	3,770 million bushels

Agriculture exports have helped save the U.S. economy from possible disaster the past few years with its contribution to the balance of trade. Ag exports contributed \$12.4 billion to the balance of trade in 1975, \$12.3 billion in 1976, \$10.6 billion in 1977, and it is projected to contribute around \$9.0 billion in 1978. The contribution to the balance of trade is that balance that ag exports exceed ag imports.

	<u>1976</u>	<u>1977</u>	<u>*1978</u>
	billions of \$		
Ag Exports	22.8	24.0	22.5
Ag Imports	10.5	13.4	13.5
Ag Contributions	12.3	10.6	9.0
* Projected			

The total deficit in our export trade, which includes agricultural and industrial, was nearly \$27 billion last year (1977). Oil imports are the largest contributor to the deficits; currently cost about \$40 billion a year.

It is interesting to speculate at this time that if current agricultural policy could raise the price of the major U.S. grains by 50 cents a bushel, the contribution to the balance of trade could increase by nearly \$2 billion a year.

There are possible problems in reaching the grain export projections for 1978, in spite of the excellent demand. (1) The explosions that racked the export elevators on the Mississippi River and on the Gulf of Mexico reduced our loading capacity by 10 percent. (2) The weather has slowed shipments. Excessive snow, water and a delayed opening of some of the main rivers for navigation are the main weather-related deterrents to shipping grain. (3) Threatened farmer holding of grain and (4) a current shortage of railroad equipment for loading grain in the country could also delay grain shipments for export.

1977 Economic Issues

Very likely the most discussed economic issue in 1977, and so far in 1978 is the decline in the value of the dollar. The value of the dollar affects nearly every person in the U.S. in one way or another. A lower-value dollar will make the coffee, cocoa, Toyotas, Volkswagons, cameras and anything made in foreign countries, more expensive comparatively. Conversely, it will make our items for export a better buy. Before those of us closely related to agriculture take joy in what a declining dollar may do to the demand for our grains and other products, we must also remember it also makes our farms, processing plants, export elevators, etc., better buys for foreigners.

Since the summer of 1977, the U.S. dollar has declined as much as 10 to 15 percent in relationship with the Swiss Franc, the Deutsche Mark, the Japanese Yen, and yes, also the British Pound. We have about kept pace with the Canadian dollar because it too has declined in value. The dollar has declined 5 percent already in 1978 in relationship to the yen.

The main causes of the decline in the value of the dollar are the billions of dollars we are spending abroad for oil and the lack of confidence in our currency because of the large deficit in our balance of trade. The slowing economies of Europe and Japan have also contributed to our problems by encouraging them to push their exports, but slow down their imports.

The dollar will adjust upward again sometime; when it does we can expect an inverse of the situations noted above. In the meantime, we should attempt to sell as much grain for export as we can to rid ourselves of the price-depressing carryover supplies of many of our grains.

To avoid any misunderstanding, a declining dollar does not always promise a more competitive price situation for our grains. Some countries use import restrictions and levies to offset this advantage.

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Cooperative Extension Service
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