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WEEKLY OUTLOOK
Department of Agricultural Economics
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# FALLING PRICES AND EXPORT PROSPECTS

A MAJOR JUSTIFICATION FOR THE REDUCTION in the corn loan rate and the expected reduction in the soybean loan rate is the push to regain export markets. The change in the loan rate has already put downward pressure on grain prices and prices are likely to decline further by the 1986 harvest. This newsletter examines the impact of the dollar exchange rate on export prices and the implications for export volume.

After a period of decline in the 1970s, the value of the U.S. dollar increased from 1980 to 1985. Other countries had to pay more of their own currency to buy a dollar which also increased the price they paid for U.S. products. For example, even though U.S. corn export prices at Gulf ports increased only 4 percent between 1981 and 1984, the U.S. corn price converted to Japanese yen increased 12 percent and converted to German marks (DM) increased 31 percent.

As prices paid by importers increased with the dollar's increased strength in the early 1980s, U.S. exports of both corn and soybeans declined. Corn exports in 1984-85 were 25 percent less than their peaks in 1979-80. Soybean exports in 1984-85 were 35 percent less than their peak in 1981-82. This decline is due both to loss of market share and to lack of growth in the size of total world trade during the last five years. While the decline in our market share is probably because of increased prices, the stagnant market size reflects long-term trends in production growth outside the United States. Growth in agricultural production elsewhere has reduced total demand for feed grain imports.

The U.S. dollar has declined in value by 30 percent against the major currencies since this time last year. The March 1986 price of corn at the Gulf is 13 percent less than the March 1985 price. When it is converted to yen or DM, it is 40 percent lower than last year's price. Domestic soybean prices have fallen 8 percent but in foreign currencies soybean prices have fallen 36 percent. Our feed grains have become much cheaper as a result of the fall in the dollar. If domestic prices decline to loan rate levels later in 1986, prices that importers pay will be about 50 percent less than last year.

Not all of this price decline is reflected in European Economic Community (EEC) markets because the EEC adds a tax to corn imports in order to protect their domestic grain production. This price protection has increased production within the EEC and so their import demand has dropped. The EEC bought only 7 percent of our corn exports in 1984, compared to 20 percent in 1978. The March 1986 price of U.S. corn delivered in Europe (including tax) coverted to DM has declined only 20 percent from March 1985, while Gulf prices converted to DM declined 40 percent.

In many countries total import demand is determined by both government policy and price, so reduced prices will not increase the total size of world trade immediately. The recent decline in prices should help us to maintain or increase market share. It is unlikely that such marginal increases in import demand will be big enough to absorb current large carryover stocks, however. In the long run, lower prices will encourage countries with growing demand to rely more heavily on imports, but this growth will be slow and will take several years.

Laurian Unnevehr

Issued by *Laurian J. Unnevehr*, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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