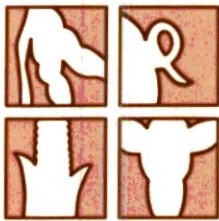




Cooperative  
Extension Service  
University of Illinois  
at Urbana-Champaign



# WEEKLY OUTLOOK

Department of Agricultural Economics  
College of Agriculture  
University of Illinois at Urbana-Champaign

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## EXPORTS GROWING SLOWLY SINCE 1985

**U.S. exports of corn, soybeans, and soybean meal all increased in the 1986-87 marketing year, compared to U.S. exports in the 1985-86 marketing year. Lower commodity prices following the 1985 farm bill and the fall of the dollar made our agricultural products cheaper. Demand expanded overseas, and our exports rose. The modest increases in exports raised hopes that there would be a gradual recovery of export demand. Currently the USDA projects modest increases in corn exports in the 1987-88 marketing year, a slight decline in soybean exports, and no change in soybean meal exports. Why is the export recovery moving so slowly?**

In order to understand what is happening in world corn and soybean markets, it is useful to look in more detail at how price changes and policies have affected our customers and competitors. Since the dollar reached its peak in March 1985, it has fallen more than 40 percent against European currencies and the Japanese yen. These countries are also major agricultural importers. Lower loan rates and the fall in the dollar make our products cheaper to buy with their currencies. Japan's imports of corn increased 10 percent in the 1986-87 marketing year and are projected to increase slightly in the 1987-88 marketing year. Lower prices boosted demand in that market. But demand for feed is not growing as rapidly as it did in the 1970s because high meat prices and slower growth of income have slowed the expansion of meat demand.

The world price is not the only determinant of import demand, however. Many countries have trade policies that limit imports to protect their own farmers. The European Economic Community (EEC) used to be the most important customer for corn and soybeans, but in recent years, exports to the EEC have dwindled. In spite of lower prices, corn imports into the EEC dropped 30 percent in the 1986-87 marketing year and are projected to remain at one-third the level of the early 1980s in the 1987-88 marketing year. The reason that EEC import demand has not responded to the lower prices is that EEC grain markets are completely insulated from changes in world corn prices. Corn prices within the EEC are set at a level roughly twice that of the world price. The difference between the import price and the price within the EEC is collected by the Community. Corn buyers within the EEC do not see any fall in price when the U.S. export price falls, so they do not buy more. Soybeans are not subject to the same import policy, and soybean imports into the EEC increased in the 1986-87 marketing year. But soybeans do compete with subsidized European production of rapeseed; and because rapeseed supply is growing, soybean exports to the EEC are projected to decline in the 1987-88 marketing year.

Some of our competitors have not seen any decline in world corn and soybean prices because their currencies have increased in value against the dollar. The dollar has risen more than 400 percent against the currencies of Brazil and Argentina. Producers in these countries still receive competitive prices in their own currencies. Production of corn and soybeans continues to grow in these countries although their soybean product exports are projected to decline in the 1987-88 marketing year because of increased domestic demand.

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In general, the lower world prices that resulted from the 1985 farm bill and the concurrent devaluation of the dollar have increased world consumption of corn, soybeans, and soybean products. However, while U.S. production declined, production of corn and soybeans increased in other countries. Therefore, the increase in world consumption has not led to as large an increase in world imports. The major growth markets of the 1970s are either saturated, as in the case of Japan, or disappearing, as in the case of the EEC.

The emerging markets of East Asia and Latin America have the greatest potential for growth in the 1990s. It is heartening to note that these newer markets have shown the largest gains in imports during the last two years. Corn imports in East Asian countries other than Japan grew 39 percent in the 1986-87 marketing year and are projected to grow 19 percent this year. Corn imports into Mexico nearly doubled in the 1986-87 marketing year and are projected to increase slightly in the current one. Soybean imports into the East Asian and Latin American regions are also steadily growing at a modest rate. It will take time for these markets to develop and replace the declining demand in the EEC.

*Laurian J. 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

Darrel Good  
421 Mumford Hall  
1301 West Gregory Drive  
CAMPUS MAIL

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