

△ **Contact Dr. Daryll E. Ray** at the UT's Agricultural Policy Analysis Center by calling (865) 974-7407, faxing (865) 974-7298, or emailing dray@utk.edu. For more info, visit: www.agpolicy.org



DR. DARYLL E. RAY
Agricultural Economist
University of Tennessee

Corn Export Demand To Drop By 28 Percent Because Other Countries Growing On Their Own

The USDA released the new WASDE (World Agricultural Supply and Demand Estimates), <http://www.usda.gov/oce/commodity/wasde/latest.pdf>, which show a change in corn exports to 1.75 billion bushels, a decline of 250 million bushels from the 2.0 billion bushel exports that were expected last July and a 50 million bushel drop from last month's WASDE estimate. All told, the expected corn exports for the 2008 crop year – the crop year we are in – is expected to be 686 million bushels below the 2.436 billion bushels that were exported in the 2007 crop year. That right, 686 million bushels, which is a 28 percent decline last year.

So what is happening in US corn export markets? To listen to various news reports one could easily conclude that the low exports are the result of the exchange rate – during the early part of the financial crisis, the US dollar strengthened against other currencies like the Euro. The argument is that a stronger dollar makes US corn more expensive, reducing exports.

That argument may carry some weight, but probably not much. While the exchange rate is certainly of major importance in the export of many products, including meats and processed foods in the case of agriculture, it likely has little impact on the crop-year US export demand for grains in which we are the residual supplier and worldwide prices are based off the Chicago Board of Trade.

As the residual supplier, the most natural place to look to understand what is happening to US corn exports is to examine changes in non-US production of corn and its' major world substitute, wheat. Since 2006, crop prices have increased significantly, encouraging farmers worldwide to apply the latest technologies and to introduce additional acreage wherever possible.

Since 2006, corn acres outside the US have increased by 11 million acres with accompanying production increases of 1.4 billion

bushels.

Whether the corn is produced in net importing countries or by our competitors, the result is the same: reduced demand for US corn.

Similarly wheat acreage outside the US has increased by 18.5 million acres with production increasing by 2.6 billion bushels, almost all of that increase in the 2008 crop year. Bad weather in major wheat producing areas resulted in short crops for non-US producers in 2005 and to some extent in 2006.

In 2008 the combination of increased acreage and favorable weather which boosted non-US wheat yields from 41.7 bushels/acre to 45.5 bushels per acre brought about a production increase of 2.4 billion bushels. That 2.4 billion bushels is equivalent to "another" US in terms of wheat production – the US produced 2 billion bushels in 2007 and 2.5 billion bushels in 2008.

Some of the non-US wheat is feed-wheat quality and directly competes as a feed grain with US corn. In fact, the USDA is projecting the non-US wheat exports (world wheat exports less US exports) to increase by 637 million bushels between the 2007 and 2008 crop years, perilously close to the 686 million bushel decline in US corn exports over the same period.

What we see this year is not atypical. US grain exports are subject to the level of grain production in other countries – with higher production they import less and export more and vice versa with lower production.

While the exchange rate is the most talked about factor in bulk commodity exports, the corn data, at least, suggests otherwise. The production levels in other countries and thus the need to import or the ability to export may be far more important than exchange rates.

Since early in calendar 2007, we have been warning about the eventual worldwide production surge and the negative US export results of extremely high grain prices. It appears that the chickens have come home to roost. △