

## The Asian Crisis was a non-event for the world's wheat markets

Ask almost anyone in agriculture why crop prices have plunged in recent years and you are likely hear: Asian Crisis.

But, as we have learned, perceptions and “what the data reveal” are not always the same. Take, for instance, perceptions that exports have been the driving force behind crop demand the last twenty years . . . whoops. . . you know not to get me started on that one.

Yet, there are similarities. Just as exports were said to be the source of growth in crop demand, the declaration that the Asian Crisis was the major source of agriculture's recent price and income problems has been repeated so often, by so many, it has become an accepted fact.

We know the export-growth perception does not withstand scrutiny; all anyone has to do is simply look up the crop-specific data.

So, do the data confirm or reject the assertion that the Asian Crisis was the source of recent crop price and income problems?

We began our quest to find an answer to this question in an earlier column when our focus was on cotton. Although statistics may not be sufficiently robust to indisputably answer such questions, the data did not reveal any obvious connection between changes in the U.S. cotton export demand and the Asian Crisis. In this column, wheat is the center of our attention.

It is true that much of the drop in crop prices in general, and wheat prices in particular, tended to coincide with the timing of the Asian Crisis.

The Asian Crisis is said to have begun July 1, 1997 with the Bank of Thailand announcement that it was floating the bhat currency, which subsequently collapsed. Following this, currency attacks occurred in Malaysia, the Philippines, South Korea and Taiwan. And from there it spread to Hong Kong, Japan and was felt in Brazil and Argentina.

Analyzing one crop-year at a time, what do wheat trade data show about the relationship between U.S. wheat exports and the Asian Crisis?

### 1997 Wheat Crop Year

During the 1997 wheat standard trade year, which coincides with the first year of the Asian Crisis, the combined imports of the countries most affected by the Asian Crisis (Japan, Indonesia, South Korea, Thailand, Taiwan, Malaysia, Philippines and Hong Kong) declined by 15 million bushels.

But both worldwide wheat imports and U.S. wheat exports increased during the 1997 crop year. World imports increased by 55 million bushels and U.S. exports increased by 39 million bushels.

The 92 cents per bushel decline in wheat prices that crop year coincided with an increased 1997 wheat supply, a combination of good yields and increased carryin

from the 1996 crop year.

### 1998 Wheat Crop Year

During the 1998 wheat standard trade year, as a group, the countries affected by the Asian Crisis did not reduce their imports of wheat. Wheat imports by these countries increased 21 million bushels over 1997.

U.S. exports also increased—by very little—but they did increase (1.8 million bushels). World imports on the other hand were down by 84 million bushels. Wheat 1998 exports by our major competitors were down by 245 million bushels with the Canadians taking the greatest hit with a drop of nearly 200 million bushels.

By the 1998 crop year, ending U.S. stocks were building quickly, having increased by nearly 25 percent over 1997. Much of this stock buildup was due to increased U.S. wheat production during 1997 and 1998, not reduced exports.

### 1999 Wheat Crop Year

As was the case for cotton, Asian country imports were up (slightly, at 26 million bushels), world imports were up (significantly, at 361 million bushels), and U.S. exports were up (by 47 million bushels). U.S. supply growth continued to bear down on prices but, here again, there was no evidence of an abrupt drop in exports because of the Asian Crisis.

### So What Really Happened?

- **World consumption shows a steady increase between 1996 and 1999**

Between 1996 and 1999 world consumption of wheat increased by one percent per year and following the long term trend. Looking at world wheat consumption it is clear that the Asian Crisis did not dampen world wheat consumption.

- **Domestic production in consuming counties is a major factor**

The world wheat market cannot be explained simply by looking at the activities of the major exporting countries, the United States, Canada, the European Union, Argentina and Australia. While, together, these five control nearly 90 percent of the world export market, they provide less than 40 percent of the world wheat production. If in any year our customers have a good year in wheat production, their imports will drop no matter what happens in the five major wheat exporting countries. In 1996, the non major-wheat-exporting-countries (defined as all countries except the United States, Canada, the European Union, Argentina and Australia) increased their production by 370 million bushels and in 1997 their production increased by an additional whopping 1,334 million bushels.

• **Between 1996 and 1999 world production exceeded consumption**

During the five years of the 1990 farm bill (crop years 1991-1995) the world consumption of wheat exceeded production by a cumulative 1.361 billion bushels. For the two year period, 1996 and 1997, the reverse was true and world production exceeded world consumption by a cumulative 1.130 billion bushels. The 1.334 billion bushel increase in production in 1997 by the non major-wheat-exporting-countries was a far more significant factor in world wheat markets than a change in imports of a few million bushels by the countries involved in the Asian Crisis.

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