

The Asian Crisis and soybean markets

We have been writing about the effect of the Asian Crisis on U.S. agriculture. So far, we have looked at cotton, wheat and rice.

Of course, it is impossible to say that the Asian Crisis had absolutely no effect on world and U.S. crop trade, but what is clear from the production, consumption and trade data for these three crops is the following: The Asian Crisis did not play the "lead" in the price and income drama that farmers have been enduring. In general, it was not even in a supporting role. More like an extra—barely seen in the background.

The overwhelming reason why U.S. crop prices fell during the time of the Asian Crisis was not decreased export demand, but large and persistent increases in domestic production. Acreages, unconstrained by government set-aside programs, played a role, but above-average yields, especially in the case of wheat, were responsible for a significant portion of this country's increased crop production.

The major negative export effect occurred prior to the Asian Crisis as U.S. exports for the cotton, wheat and rice declined from extraordinarily strong exports in the 1994 or 1995 crops years.

For the most part, crop imports by the Asian countries were on the up-tick during the 1997 and 1998 crop years, the years most associated with the Asian Crisis. One can always say that prices for these crops would have been higher had Asian exports grown faster during 1997 and 1998; but, speaking for myself, that it is not what comes to mind when folks say the Asian Crisis is to blame for our farm price and income woes.

This time, we take a look at soybeans. As we have seen before, soybeans often show some of the same patterns as other crops but at exaggerated levels. And some of soybean's market behavior typically falls outside of what is observed for other crops.

The mammoth increase in acreage and production is of course the major soybean story. Hence, as in the cases of wheat, rice and cotton, it is increased production that must take most of the blame for the low soybean prices and market receipts. Planting flexibility allowed this increase in soybean production to occur. As we have noted before, the lion's share of the increase (about 10 million acres) came before anyone was seriously talking about loan rate levels and loan deficiency payments. The acreage increase happened because soybeans are an alternative crop for farmers in many diverse areas of the country; and, especially in the Midwest, farmers could

go to a preferred 50/50 corn and soybean rotation. Since the 1999 crop year, soybean's higher loan rate compared to competing crops has also encouraged farmers to plant additional soybeans.

What about changes in export demand? Well, overall soybean export demand has done much better in comparison to other crops. Soybean exports increased in crop years 1994, 1995 and 1996 whereas exports for most other crops dropped significantly in 1996.

But U.S. soybean export demand did soften in 1997 (down 12 million bushels from a 1996 level of 886 million bushels) and soybean imports by the Asian Crisis countries were down that year by 23.7 million bushels. So soybeans were likely impacted some by weak Asian demand for soybeans in crop year 1997. However, we are talking about a 12 million bushel decline in U.S. soybean export demand compared with a 300 million bushel increase in U.S. soybean production that year. That is, the increase in soybean production was nearly 30 times greater than the reduction in soybean export demand.

In the 1998 crop year, U.S. soybean exports declined by an additional 70 million bushels and world exports decreased by about 90 million bushels. However, the reduced exports were not due to declines in imports from the Asian Crisis countries. The Asian Crisis countries imported 16.5 million bushels more soybeans than in 1997. U.S. soybean production was up in crop year 1998 about as much as the 70 million bushel decline in soybean exports. So both a moderate reduction in exports and a moderate increase in production plus the unsold soybean inventory brought in from the previous year forced prices lower. But the moderate export decline was not due to the Asian Crisis countries or the Asian region.

As has been generally true, all the trade numbers are higher in crop year 1999. Soybean imports by the Asian Crisis countries, the whole Asian region, and the world are all up significantly. U.S. exports also jump upward but supply also increases, albeit slightly, and soybean prices are again pressured downward.

So, in the case of soybeans, the Asian Crisis may have had some impact on export demand in crop year 1997; but very little compared to the mammoth increase in U.S. soybean production during that year. Since then, including the year in which the crisis was said to be the worst, soybean imports by the Asian Crisis countries have increased.