

Grain Market Glut: Asia a Minor Player

—By William H. Meyers and Darnell B. Smith

There is no doubt that we are in a grain market glut of global proportions, and it is fair to ask how we got here. It seems only a short time ago the big concern was low stocks and the possibility of market disruptions arising from yet another shortfall somewhere in the world. Since this market glut coincides with the Asian financial crisis, it has been easy to blame low prices on the collapse of Asian economic growth. However, Asia is a relatively small part of the story.

GLOBAL PRODUCTION RESPONSE

In fact, the high prices and low stocks of the 1995/96 crop year are the main explanation for the current glut. Growers in the United States and around the world responded to those attractive incentives, and expanded their plantings. Governments responded by reducing set-asides (European Union) or eliminating them

altogether (United States). From 1995 to 1997 world wheat production increased by 13 percent, corn production by 13 percent, and soybean production by 25 percent. Clearly, these increases in supply exceeded the increases in demand, so prices naturally had to fall.

These production increases and consequent price declines were mostly anticipated by market projections, including those of the Food and Agricultural Policy Research Institute (Figures 1-3). These comparisons show the FAPRI price projections of January 1996, January 1997, and January 1998 compared with a September 1998 FAPRI baseline update.

The actual price declines from 1995/96 to 1997/98 were very similar to what FAPRI baselines have projected since January 1996. Although no one knows what the final outcomes will be for the current crop year, it is already apparent that prices will decline more than projected in the January 1998 FAPRI baseline.

The global economic slowdown, while not a major cause of low prices, is a major factor that has caused the grain market glut to be more severe this year than was previously expected. This situation began developing in mid 1997 with the Asian financial crisis and continues with the

Russian collapse, and the secondary impacts on Latin American and other economies. A secondary surprise, especially for corn, is that carryover stocks in 1997/98 were larger than anticipated.

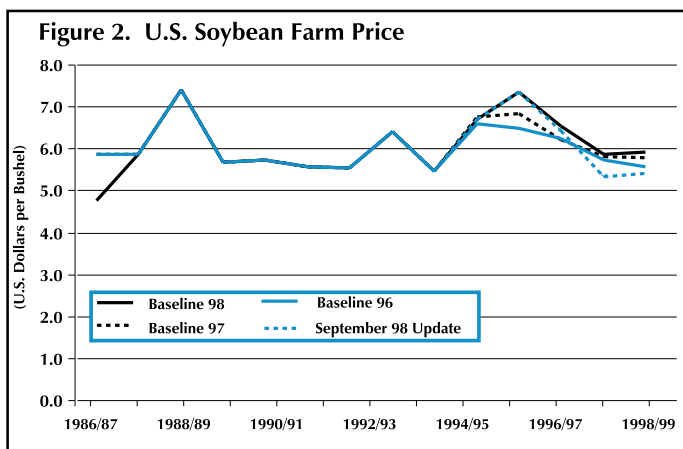
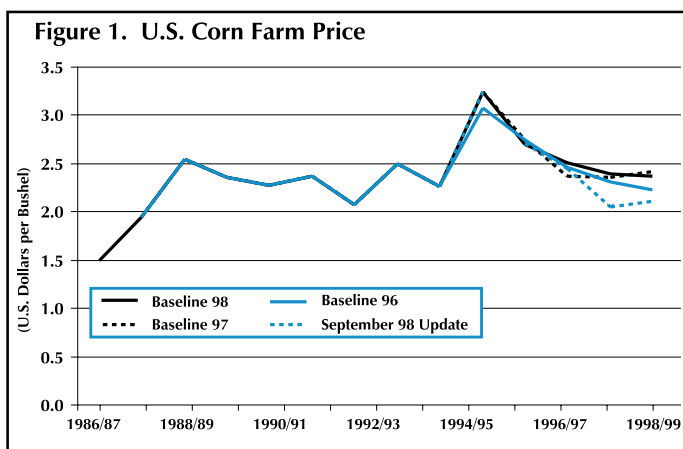
A similar development in hog markets is that production in 1998 increased more than anticipated, so hog prices are also declining more than was projected (figure 4). This, too, was exacerbated by the global financial troubles that reduced demand for meat. Weak demand for meat, of course, translates into weaker feed demand, as animal numbers are reduced. This factor will slow the recovery of grain markets.

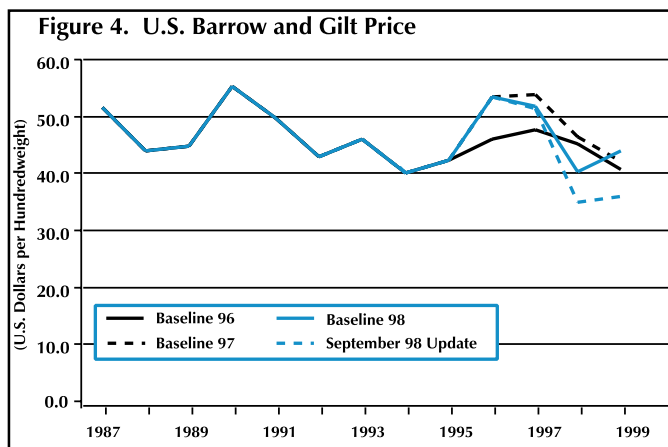
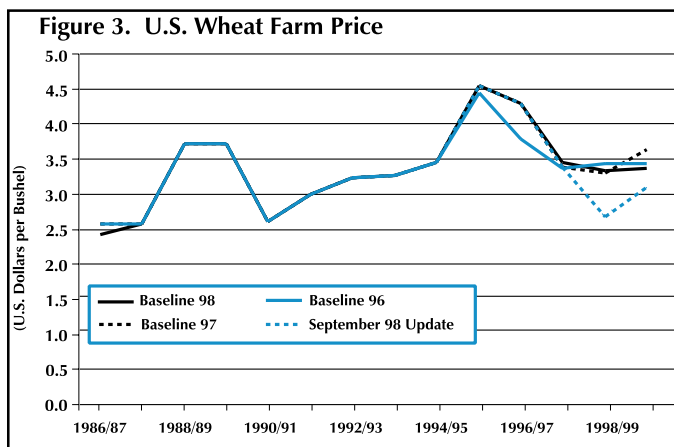
“The global economic slowdown . . . is a major factor that has caused the grain market glut to be more severe this year than previously expected.”

TRADE CONFLICT DANGERS

Low prices tend to stimulate policy reactions. There is a danger that short-term responses to this market glut could create longer-term problems in trade relations. A prime example is what has happened in the Central and Eastern Europe Free Trade Area (CEFTA) that was moving toward freer trade among its members. First Poland raised the import tariff on Hungarian maize from zero to 20 percent and put a minimum import price on wheat imports. Hungary then retaliated with a doubling of tariffs on Polish starch. Slovenia increased tariffs on wheat imports from 15 to 22.5 percent, Romania increased tariffs from about 15 percent to 25 percent (45 percent for flour), and Croatia banned wheat imports altogether. All of these countries, except Croatia, are members of CEFTA and have been in a process of reducing tariffs and promoting interregional trade. Thus, the efforts to protect domestic markets may sacrifice future trade growth.

Some may suggest that the answer





to our domestic price slump is to export more or to be more protectionist. Actually, since this is a global rather than a domestic market problem, there is no export solution. Starting trade conflicts by dumping surpluses or further restricting imports would only slow or setback the progress in opening markets for U. S. farm and food products. Any short-run benefits would reap larger long-term costs in terms of lost market access.

While the Asian economic troubles and the spread of these financial woes to Russia and Latin America were a minor factor in the price decline we have seen, they will certainly prolong the recovery of grain and meat prices. Therefore, measures that speed the recovery of these troubled economies will also contribute to the recovery of commodity market prices.



FUTURE PROSPECTS

Meet the Staff

Chad Barrett is a research assistant at the Food and Agricultural Policy Research Institute (FAPRI), working specifically with international livestock modeling. “I like being involved in agriculture, and I find the modeling to be challenging. Developing econometric livestock models for FAPRI has shown me useful applications of economic theory and econometrics,” he says.

Chad has also worked with Iowa AgSTATE (Agricultural Strategic Thinkers Acting Together Effectively). AgSTATE is a group of people representing farm and commodity organizations, agribusinesses, state government and Iowa State University who came together to develop a proactive, futuristic vision for Iowa agriculture and an action plan to help make that vision a reality. “Involvement in AgSTATE gave me the opportunity to observe the policy making process and learn more about the opportunities

and challenges affecting Iowa’s agricultural industry,” he says.

Chad has been able to acquire a diverse range of career skills while working at FAPRI. “The quantitative skills that I have learned are applicable to many subjects other than just livestock modeling,” he says.

Originally from a Dallas Center, Iowa, farm producing corn, soybeans, and cattle, Chad received his undergraduate degree from ISU in ag business/ag economics. He is currently working on his Ph.D. in agricultural marketing. In his free time, Chad enjoys participating in sports and other activities including river rafting, hiking, and motorcycling. ♦



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