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ASIA AND THE WORLD — ITS IMPACT ON SMALL FARMS IN COLORADO

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Sometimes it is hard to understand how events thousands of miles away could possibly have an impact on a small farm in say, northwest Colorado or on any small farm for that matter. The fact is that these distant events do have an impact as evidenced by the Asian crisis. When these events are also coupled with the U.S. bumper crops and already existing full worldwide grain bins, we find that the Asian situation has only managed to aggravate an already difficult situation.

How then does the crisis in Asia affect Colorado's corn prices; after all most of Colorado's corn is sold domestically? It is important to understand, however, that the local price is determined by the laws of supply and demand and this demand now includes the rest of the world, not just Colorado. This means that when overall demand is down in the world markets, all else equal, the price of corn has to drop. Thus even though Colorado's corn may only be going to the next county, its price has been determined by the interaction of supply and demand forces worldwide.

Currently the tenth district exports 43% of its bulk grains to Asia with 41% of the 43% going to Japan, a country in its own economic recession. See Figure 1.

When foreign markets account for a significant portion of the U.S. bulk exports and then these foreign markets become sick, it is natural that their demand for goods would go down and so then does the price of the commodity which they normally purchase (if in fact their demand is a significant portion of world demand). Thus the farmer on a small ranch in Colorado suddenly faces not only a large supply due to a great bumper crop but also diminished demand for this large surplus.

Fortunately the crisis in Asia has probably reached its peak, but it will probably take these economies another year to get back on track. This will mean another year of dampened demand. In addition, farmers are faced with a bumper crop that has grain bins here full and the situation doesn't look too promising for next year either. On the bright side, however, the U.S. should be able to avoid a recession or at the least have a soft landing. Inflation remains low. GDP should come in at around 2% next year, interest rates are still low and should remain so with the Fed possibly lowering the fed funds rate one more time. There have been major productivity improvements in large corporations, with economies of scale existing for many firms. Debt levels are much lower for banks, corporations, and individuals than they were in the 80's during the last

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farming crisis. The economy overall is in a healthier position and should be able to withstand the effects of the current financial situation hitting all markets worldwide.

All of this portends to a better and healthier situation for banks and their customers enabling both groups to make it through this particular crisis. Granted, the situation will not be good for everyone but those individuals who learned from the events of the 80's and now have sound management plans in place should find themselves in a position to weather through this tough time.

Figure 1. (Economic Review, Federal Reserve Bank of Kansas City, Volume 83, No. 2, Second Quarter, 1998)