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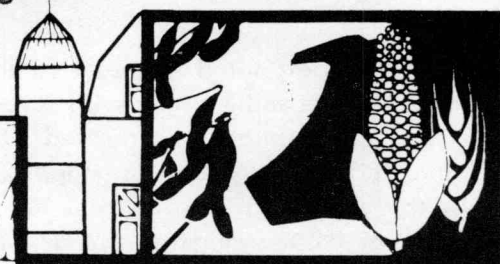
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LETTER

CORN AND SOYBEAN MARKET CONDITIONS

were further clarified by two recent USDA reports. The *Grain Stocks* report provided estimates of the June 1 inventory of major grains and oilseeds. A comparison of the latest estimates with earlier reports provides an updated benchmark of utilization. An important indication from the latest report was that domestic utilization of corn continued at a high level this spring, portending less burdensome carryover stocks of corn this fall. The *Acreage* report provided preliminary estimates of this year's planted and harvested acreage of major crops. It suggested that this year's crop acreage will be substantial, increasing the likelihood of another bumper harvest.

The *Grain Stocks* report indicated that corn stocks on June 1 were up 39 percent from last year. Soybean stocks, however, were down 3 percent from last year and 15 percent below the June 1 record set two years ago. Compared to the previous (April 1) stocks report, the latest estimates imply that utilization of corn in April and May slightly exceeded the year-earlier pace. This marked the first year-to-year increase in corn utilization since the same two months a year ago. A sudden upturn in export shipments accounted for the rise. After lagging sharply behind year-earlier levels since last spring, corn exports in April and May rose 3 percent to a new record high for those two months. Domestic utilization of corn, which had exceeded year-earlier levels by 7 percent in the fall and winter months, held close to year-earlier levels this spring despite cuts in livestock production.

As a result of the latest stocks estimates, the USDA revised upward by 50 million bushels its estimate of domestic utilization of corn for the marketing year that ends in September. The estimate of ending carryover stocks was lowered by a like amount to just over 1.9 billion bushels. The marketing-year estimates of soybean utilization were not altered by the latest stocks report. However, the latest report supports earlier indications that the 1981 soybean harvest was overestimated by roughly 25 million bushels. If that is the case, carryover stocks of soybeans this fall will be somewhat

Planted corn and soybean acreage

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982*</u>
	<i>(thousand acres)</i>			
<u>Corn</u>				
Illinois	11,300	11,700	11,500	11,600
Indiana	6,250	6,450	6,250	6,500
Iowa	13,750	14,000	14,300	13,700
Michigan	2,900	2,950	3,200	3,150
Wisconsin	<u>4,050</u>	<u>4,200</u>	<u>4,450</u>	<u>4,300</u>
District states	38,250	39,300	39,700	39,250
United States	81,393	84,047	84,153	82,129
<u>Soybeans</u>				
Illinois	9,800	9,300	9,400	9,500
Indiana	4,500	4,400	4,650	4,600
Iowa	8,200	8,300	8,200	8,600
Michigan	1,020	960	980	1,050
Wisconsin	<u>300</u>	<u>335</u>	<u>380</u>	<u>460</u>
District states	23,820	23,295	23,610	24,210
United States	71,632	70,037	68,000	72,157

*Preliminary.

smaller than the 305 million bushels now projected by the USDA. The price implications of a possibly smaller soybean carryover, however, seem to have been muted by this year's large soybean acreage.

The *Acreage* report provides estimates of the area planted, or to be planted, to spring crops as of June 1. It also provides a tentative estimate of the acreage to be harvested. The report suggests that the 1982 acreage of 21 principal crops is down less than 1 percent from last year and up 5 to 6 percent from the 1976-1980 average. If per acre yields this year are average or better, and if utilization in the year ahead does not pick up significantly, this large acreage base will produce another surplus harvest.

The report noted an unexpectedly small decline in corn acreage and a large rise in soybean acreage. This year's corn plantings are estimated to be down about 2.5 percent from last year. More importantly, the estimate of this year's corn acreage to be harvested for grain is down only 1.5 percent from the 31-year high established in 1981. For all feed grains (corn, sorghum, barley, and oats) the decline was even smaller, with the estimate of the feed grain acreage to be harvested for grain down only 0.5 percent from last year. The estimates of planted and harvested soybean acreage show an increase of more than 6 percent from last year and a nominal increase from the previous record in 1979.

Farmers in all District states apparently planted more soybeans this year, but the 2.5 percent increase for the five-state area is considerably less than in other states. Corn acreage is up this year in Illinois and Indiana, but down in the other District states. For the five-state area, this year's harvested corn acreage is estimated to be down less than 1 percent. District states account for half of the nation's corn acreage, a third of the soybean acreage, and a fifth of the acreage devoted to 21 principal crops. Because of higher per acre yields, however, the District states' share of annual corn and soybean production is considerably higher than their share of the acreage.

The June Acreage report usually provides reliable estimates of crop acreage. Last year, for instance, the deviations between the final and the June estimates of corn and soybeans acreage were less than 1 percent, despite a very late planting season that rendered the June estimates suspect by many analysts. This year, delayed plantings in the western Corn Belt or adverse weather conditions during the growing and harvesting

season could result in some minor revisions in the acreage estimates. In addition, farmers' final decisions regarding compliance with the reduced acreage program (RAP) could lead to revisions in the acreage estimates, particularly in the estimates of harvested acreage. Feed grain farmers who signed up for the RAP program must decide in the next few weeks if they will comply with the program's requirement that they reduce their feed grain acreage by 10 percent and convert that acreage to nonproducing, soil conserving practices. Compliance will be necessary in order to maintain their eligibility for CCC price-support loans and deficiency payments on their 1982 crops. While sign-up for the program was quite high—covering 75 percent of the feed grain acreage—the June acreage report suggests final compliance will fall short of the 30 to 35 percent that many analysts had expected. If that is the case, and even if per acre yields this year only match the averages of the past five years (100 bushels for corn and 30 bushels for soybeans), the 1982 harvest of both corn and soybeans will likely exceed the utilization that occurred in the 12 months following the 1981 harvests. With current crop conditions generally regarded as better than average, the possibility of diminishing the burdensome carryover stocks a year from now are waning.

These prospects have contributed to the recent slide that has carried corn and soybean prices to the lowest levels since late March. In the past month, corn prices in Central Illinois have declined from \$2.62 a bushel to \$2.50 a bushel. Soybean prices have declined from \$6.17 a bushel to \$5.95. The markets are obviously concerned that the 1982 corn and soybean harvest may again be burdensome with respect to projected levels of utilization.

Gary L. Benjamin

MONTHLY RETAIL FOOD PRICES INCREASES have varied considerably this year. Nevertheless, the index of consumer food prices in May was 2.7 percent higher than in December (1.5 percent higher on a seasonally adjusted basis) and only 4.8 percent higher than a year ago. Compared to the year before, the rise in food prices was considerably less than the 6.7 percent increase in the overall index of consumer prices.

Prices of foods purchased in grocery stores have led the rise in overall food prices so far this year. The index of retail prices of food consumed at home—the measure of grocery store food prices which makes up over two-thirds of all food prices—in May was 3 percent higher

than in December and 4.5 percent above a year ago. In comparison, the price index of food consumed away from home was 2.4 percent higher than in December and 5.3 percent above a year ago.

Prices of all major categories of food consumed at home except fats and oils and eggs increased from December to May. The uptrend, however, was paced by meats and fresh fruits and vegetables. Retail prices of meats in May were 4.3 percent above December and up 6.9 percent from a year ago. Most of that increase was due to higher retail pork prices, which in May were 6.7 percent above the December level. Retail beef prices were 4 percent higher than in December. Meat supplies

Spread between the farm and retail prices for pork narrowed in recent months



in the first half of 1982 lagged the year-ago level by over 3 percent as pork production declined sharply from the year before. The run up in retail meat prices, however, was not as sharp as that for farm-level livestock prices. Consequently the farm-to-retail spread in meat prices narrowed appreciably.

Retail prices of fresh fruits and vegetables in May were 13.4 percent higher than in December (6.7 percent higher on a seasonally adjusted basis). In comparison, processed fruit and vegetable prices were only 1.7 percent higher. The sharp rise in fresh produce prices reflects supply disruptions caused by weather, insects, and diseases. Produce in southern states, especially Florida, was hurt by a winter freeze. In California, excessive rains and hail delayed plantings and damaged several crops. Lettuce supplies, in particular, were disrupted by insect damage very early in the year.

Retail prices of several food items rose nominally or declined during the period. Prices of dairy products, which represent about a tenth of the index of retail food prices, in May were less than 1 percent above December's level. Egg prices were down 13 percent from December to May, while prices of fats and oils were down nominally.

Aside from reduced supplies of some food items, the relentless—but slowing—rise in the costs of processing and distributing food contributed to the recent uptrend in retail food prices. These costs, which represent about two-thirds of the retail expenditures on domestically produced foods, increased 3 percent from December to May. Labor, the major component of those

costs, increased by a larger amount in the period while fuel and power costs declined 2.7 percent. Though transportation costs were unchanged in the last three months, they still rose 4 percent from December to May.

Several developments point to near term pressures on food prices. On a seasonally adjusted basis, the index of wholesale prices of finished consumer foods rose 0.7 percent in May. Although livestock prices have likely peaked for the year, retail meat prices may continue to climb as margins between farm and retail prices widen. Pork production in the second half is expected to average a sixth below the year earlier. While beef supplies in the second half are expected to slightly exceed the year-earlier level, total meat supplies may be down 4 to 5 percent. Fruit supplies this summer are expected to be much smaller than last year. Because of adverse spring weather, for example, peach production in southern states is now expected to fall to half the year-earlier level. The canned vegetable pack is estimated to be down this year so that stocks of canned vegetables will remain below a year ago.

While reduced supplies of some foods will affect prices in nearby months, second half food prices will also be affected by higher marketing and distribution costs. After declining over several months, fuel costs recently rose substantially, impacting on power and transportation costs. Mid-year increases in payrolls will put additional pressure on labor costs. For all of this year, food marketing costs are expected to average 6 to 7 percent above a year ago, down significantly from their average rise of 11 percent last year.

Some relief is expected during the second half of 1982 in the retail prices of fats and oils, sugars and sweeteners, dairy products, and frozen vegetables. Peanut supplies, which have an impact on fats and oils prices, have increased substantially. With world sugar production expected to reach record levels, world prices for raw sugar in mid-May fell to the lowest level in 3 years. Only a small increase in the dairy support price is set for this fall. Also, vegetable processors indicated that contracted acreage for frozen vegetables is up a tenth or more and that stocks of potatoes in April were above a year earlier—the first gain since mid-1980.

Consensus forecasts point to a 4.5 to 5.5 percent average increase in retail food prices this year, the lowest since 1976. As a result, the rise in food prices will likely undercut the rise in all consumer prices for the fourth consecutive year.

Jeffrey L. Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers	1977=100	June	138	- 0.7	- 3
Crops	1977=100	June	125	0	- 9
Livestock	1977=100	June	151	0	+ 3
Index of prices paid by farmers	1977=100	June	156	+ 0.6	+ 4
Production items	1977=100	June	151	+ 0.7	+ 1
Producer price index* (finished goods)	1967=100	May	278	+ 0.3	+ 3
Foods	1967=100	May	262	+ 1.0	+ 4
Processed foods and feeds	1967=100	May	254	+ 1.4	+ 2
Agricultural chemicals	1967=100	May	295	- 0.5	+ 6
Agricultural machinery and equipment	1967=100	May	307	+ 0.3	+ 7
Consumer price index** (all items)	1967=100	May	287	+ 1.0	+ 7
Food at home	1967=100	May	280	+ 0.7	+ 5
Cash prices received by farmers					
Corn	dol. per bu.	June	2.56	- 1.5	-19
Soybeans	dol. per bu.	June	6.07	- 3.2	-14
Wheat	dol. per bu.	June	3.41	- 6.3	- 8
Sorghum	dol. per cwt.	June	4.36	+ 0.2	-13
Oats	dol. per bu.	June	1.92	- 3.5	- 4
Steers and heifers	dol. per cwt.	June	66.50	- 1.2	+ 3
Hogs	dol. per cwt.	June	57.40	+ 1.1	+21
Milk, all sold to plants	dol. per cwt.	June	13.10	- 0.8	- 2
Broilers	cents per lb.	June	28.6	+ 2.1	- 4
Eggs	cents per doz.	June	51.6	- 5.8	- 9
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	4th Quarter	141	- 2.0	0
Net farm income	bil. dol.	4th Quarter	25	0	+26
Nonagricultural personal income	bil. dol.	May	2,500	+ 0.7	+ 8

*Formerly called wholesale price index.

**For all urban consumers.

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