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LETTER

CROP PRODUCTION ESTIMATES released by the USDA last week point to record corn and soybean harvests this year. Based on August 1 conditions, total feed grain production is expected to be a record 252 million metric tons, up 1 percent from a year ago. Production of oil crops—primarily soybeans—is expected to be up nearly 10 percent from last year, but still short of the 1979 record because of lower cotton and peanut production. Food grain production (wheat, rye, and rice) may be down 2 percent from 1981's record level to 83 million metric tons. The large feed grain and soybean harvests portend a substantial buildup in carryover stocks, which will likely hold crop prices well below year-earlier levels for several months.

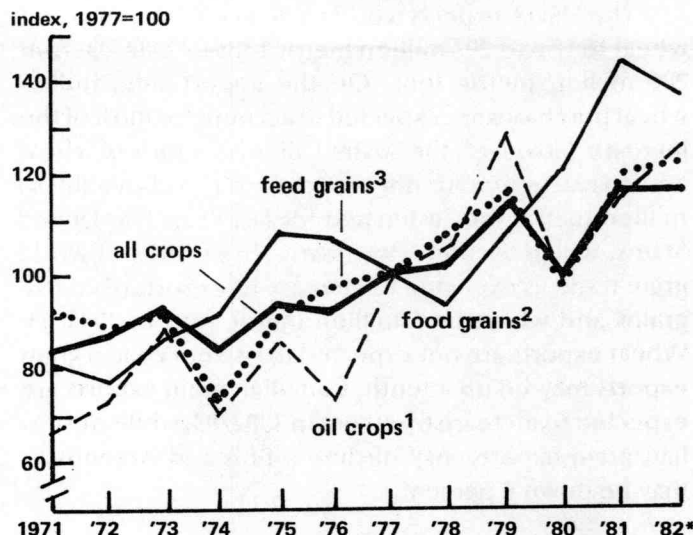
Corn production is forecast to exceed 8.3 billion bushels, 1 percent higher than last year's record and a fifth higher than the 1976-80 average. Soybean production, estimated at 2.3 billion bushels, is expected to be up 13 percent from last year and 1 percent above the 1979 record. Record corn and soybean harvests are forecast for Illinois, Indiana, and Michigan, and a near-record is expected in Wisconsin. These District states expect increases in corn production this year, ranging from 6 percent in Illinois to 20 percent in Indiana, where last year's production was lowered by adverse weather conditions. Corn production in Iowa is expected to fall 7 percent below last year's level. Four of the District states are expected to harvest a larger crop of soybeans, with gains ranging from 9 percent in Illinois to 23 percent in Indiana. Soybean production in Iowa is expected to be down 2 percent from last year. Nationwide, the per acre corn yield is expected to average 114 bushels. Illinois's estimated 136 bushels per acre would be the highest in the U.S. and a record for that state. The per acre soybean yield for the U.S. is estimated to be 32 bushels, while both Illinois and Indiana are expected to have the highest average yield of 41 bushels per acre.

The first estimates of corn and soybean production for this year surprised most analysts. Trade estimates for corn production, in particular, were considerably below the USDA's estimate. However, weather conditions have been unusually favorable for growing crops in most

areas. In addition, in the case of feed grains, participation in the reduced acreage program was not as high as anticipated. Preliminary estimates indicate that about one-fourth of the corn acreage base is in compliance with the program, substantially below the 40 percent level that was sought. As a result, harvested acreage of corn this year is expected to be down only 2 percent from last year's level. Also, soybean acreage was up an estimated 6 percent this year.

Despite the generally favorable weather pattern in recent months, final crop estimates could be changed by late-season weather patterns such as an early frost. Over the past ten years, August corn production estimates have deviated from the final estimate by an average of 350 million bushels. For soybeans, the deviation between the August and final estimates averaged 75 million bushels. In seven of the past ten years, final estimates have exceeded the August estimate. If that is the case this year, corn and soybean production levels would be even more burdensome.

Record U.S. feed grain production is expected this year



¹Soybeans, peanuts, cottonseed, flaxseed, and tung nuts.

²Wheat, rice, and rye.

³Corn, sorghum, barley, and oats.

*USDA estimates based on conditions as of August 1.

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World production of wheat, coarse grains, and oilseeds in the 1982/83 crop marketing year may increase from last year's levels. (World production estimates are very tentative, however, since harvest of crops in the Southern Hemisphere will not be completed for some time). Prospects for large U.S. crops were largely responsible for the increase in world production estimates from a month ago. However, coarse grain and wheat production is expected to be up in several countries. In Western Europe—a major importer of U.S. grain—production is expected to increase about 2 percent from last year's level. Production in Eastern Europe also may be up nominally from last year, and Canada's production is expected to be about 3 percent higher. Coarse grain and wheat production in the USSR is expected to be down for the fourth consecutive year, declining below last year's estimated 165 million metric tons. Coarse grain and wheat production in Australia—a major competing exporter—is expected to trail last year's level by a third while production in Argentina—another competing exporter—is tentatively estimated to be up nearly a tenth.

World oilseed production in 1982/83 is projected to be a record, up about 7 percent from 1981/82. The larger U.S. soybean crop and larger Canadian flaxseed and rapeseed crops account for most of the increase. World soybean production is forecast at a record 99 million metric tons, reflecting the larger U.S. crop and prospects for larger crops in Brazil—a competing exporter—and mainland China. Ending stocks may be up significantly since world utilization of grains and oilseeds is not expected to increase as much as production.

The USDA expects world trade in coarse grains and wheat to rise to 207 million metric tons in 1982/83 from 203 million metric tons. On the import side, India's wheat purchases are expected to account for most of the increase. However, the Soviet Union's imports of wheat and coarse grains are not expected to rise above the 45 million metric tons estimated for last year. The United States, which accounts for nearly three-fifths of world grain trade, is expected to increase its exports of coarse grains and wheat by 6 million metric tons in 1982/83. Wheat exports are not expected to rise but coarse grain exports may be up a tenth. Canadian grain exports are expected to increase 6 percent in 1982/83, while Australian grain exports may decline a fifth and Argentina's may be down 6 percent.

World trade in soybeans is expected to rise to 31 million metric tons in 1982/83, up from 29 million metric tons in 1981/82. Imports to the European community are

**Bumper corn and soybean crops expected
in most District states this year***

	Yield per acre		Production	
	Bushels	Change** (bushels)	Million bushels	Change** (percent)
Corn				
Illinois	136	7	1,537	6
Indiana	125	6	787	20
Iowa	122	- 5	1,610	- 7
Michigan	105	9	294	7
Wisconsin	108	0	373	- 1
District states	119	5	4,601	2
United States	114	4	8,315	1
Soybeans				
Illinois	41	3	386	9
Indiana	41	8	187	23
Iowa	38	- 3	325	- 2
Michigan	33	3	34	18
Wisconsin	33	0	15	20
District states	37	2	947	8
United States	32	2	2,293	13

*Based on conditions as of August 1.

**From year-earlier.

expected to account for most of the increase. All exporters are expected to share in the increase in world trade. The U.S. accounts for more than four-fifths of world soybean exports, although its share of world trade in soybean oil and meal is considerably less.

In view of the record crops, the projected increases in U.S. grain exports are not encouraging. For the 1982/83 crop marketing year (which began in June), wheat exports are projected at 1.8 billion bushels, unchanged from the year-earlier level. Corn exports in 1982/83 are expected to rise to 2.4 billion bushels, up over a tenth from the 2.1 billion bushels estimated for the 1981/82 crop marketing year (which ends in September) but still below the record level of 1979/80. Soybean exports may increase 3 percent from the record 920 million bushels estimated for the current marketing year. In the year ahead, considerable interest in increasing U.S. farm exports will exist. Already, the U.S. has offered to extend for another year, beginning in October, the grain agreement between the U.S. and the USSR. The Soviets have bought about 14 million metric tons of U.S. corn and wheat this year (October-September) but have not made any major purchases since spring.

Domestic utilization of grains and soybeans may be higher in 1982/83. Because of increased livestock feeding and industrial use, the USDA expects domestic utilization of corn to approach 5.2 billion bushels during the 1982/83 marketing year, up from 5.1 billion in the current year. Soybean crush is projected to increase about 6 percent in 1982/83, while domestic utilization of wheat may be down 2 percent.

The bottom line of these projections for production, domestic utilization, and exports is a large increase in carryover stocks of corn and soybeans. Carryover stocks of corn, estimated at 2.1 billion bushels for this year, could rise to 2.8 billion bushels, or the equivalent of 37 percent of utilization. Carryover stocks of soybeans could increase from 270 million bushels this year to 420 million bushels—about one-fifth of total utilization.

Current estimates of production and utilization imply lower season average prices for corn and soybeans in the 1982/83 marketing year. The midpoints of the USDA price forecasts signal a 1982/83 season average farm price of \$2.45 per bushel for corn—below the CCC loan rate—and \$5.75 per bushel for soybeans. In comparison, preliminary estimates of 1981/82 season average prices are \$2.50 per bushel for corn and \$6.05 per bushel for soybeans.

Crop prices have deteriorated substantially since mid-July. Recent corn and soybean prices in central Illinois averaged \$2.15 per bushel and \$5.35 per bushel, respectively, down from \$2.57 and \$6.15 a month ago. By harvest, prices could be significantly below these levels. The low level of participation in the reduced acreage program leaves many corn farmers vulnerable to low market prices. Corn farmers who complied with the RAP program are eligible for price support loans of \$2.55 per bushel, deficiency payments of up to 15 cents per bushel, and three-year reserve loans of \$2.90 per bushel.

With average prices dropping below the year-earlier levels in the new marketing year, farm profits will be squeezed even more. The USDA estimates that non-land production costs for corn and soybeans in the Midwest averaged \$2.02 and \$4.00 per bushel, respectively, in 1981. Even if costs remained stable in 1982, comparing the total of land and nonland costs with pro-

Current estimates of U.S. production and utilization point to large carryover stocks next fall

	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>
	<i>(million bushels)</i>			
Corn				
Beginning stocks	1,304	1,617	1,034	2,076
Production	<u>7,939</u>	<u>6,645</u>	<u>8,201</u>	<u>8,315</u>
Total supply	9,244	8,263	9,236	10,391
Domestic use	5,194	4,874	5,085	5,250
Exports	<u>2,433</u>	<u>2,355</u>	<u>2,075</u>	<u>2,350</u>
Total utilization	7,627	7,229	7,160	7,600
Ending stocks	1,617	1,034	2,076	2,791
Soybeans				
Beginning stocks	174	359	318	270
Production	<u>2,268</u>	<u>1,792</u>	<u>2,030</u>	<u>2,155</u>
Total supply	2,442	2,151	2,348	2,425
Crush	1,123	1,020	1,040	1,075
Exports	875	724	920	915
Seed and residual	<u>85</u>	<u>89</u>	<u>118</u>	<u>96</u>
Total utilization	2,083	1,833	2,078	2,080
Ending stocks	359	318	270	345

jected 1982/83 season average farm prices paints a fairly bleak picture.

The dismal prospects for prices and crop earnings, however, should be tempered by the uncertainty that still exists. Production estimates may be altered by subsequent weather developments. Estimates of domestic utilization could be altered if low corn and soybean meal prices encourage higher levels of livestock production than currently foreseen. Exports could prove to be stronger than expected now if the Soviet Union, in particular, buys more heavily from the U.S. than currently expected in order to meet its needs in 1982/83. Upward pressures on prices could result from USDA announcements regarding a 1983 feed grain program. This could include both an acreage reduction program (similar to this year's) and a paid diversion program. Moreover, the USDA could provide for advance deficiency and diversion payments which would help boost crop earnings. Barring such developments, the large harvest expected this year is likely to prolong and intensify the distress of U.S. crop farmers.

Jeffrey L. Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	July	253	- 0.3	+ 9
Total loans at agricultural banks†	1972-73=100	July	278	+ 1.9	+ 4
Production credit associations					
Loans outstanding					
United States	mil. dol.	June	21,898	+ 2.7	- 1
Seventh District states	mil. dol.	June	4,429	+ 3.5	- 3
Loans made					
United States	mil. dol.	June	2,861	+ 3.5	+ 5
Seventh District states	mil. dol.	June	650	+ 1.1	+ 5
Federal land banks					
Loans outstanding					
United States	mil. dol.	June	46,316	+ 0.9	+15
Seventh District states	mil. dol.	June	11,072	+ 0.7	+15
New money loaned					
United States	mil. dol.	June	552	+ 7.0	-33
Seventh District states	mil. dol.	June	114	- 6.3	-48
Interest rates					
Feeder cattle loans††	percent	2nd Quarter	17.25	+ 0.8	+ 1
Farm real estate loans††	percent	2nd Quarter	16.74	+ 0.5	+ 5
Three-month Treasury bills	percent	8/12-8/18	10.11	-16.7	-44
Federal funds rate	percent	8/12-8-18	8.68	-21.5	-44
Government bonds (<i>long-term</i>)	percent	8/12-8/18	12.73	- 4.7	- 9
Agricultural trade					
Agricultural exports	mil. dol.	June	3,129	- 8.1	- 2
Agricultural imports	mil. dol.	June	1,363	+ 2.6	+ 4
Farm machinery sales^P					
Farm tractors	units	July	6,698	- 0.9	-42
Combines	units	July	1,433	+31.3	-51
Balers	units	July	2,388	+31.4	-25

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

^PPreliminary.

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