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Corn and soybean prospects

Recent USDA reports foreshadow continued strength in soybean prices, but little upward pressure on corn prices. The USDA's planting intentions survey showed a smaller than expected year-to-year increase in soybean acreage, while the stocks report showed a sharp year-to-year decline in estimated soybean stocks as of March 1. Regarding corn, the two reports were somewhat less supportive. USDA's *Prospective Plantings* report indicated that farmers intended to increase corn acreage by almost two percent from last year, while March 1 corn stocks, although down from last year's level, remain large.

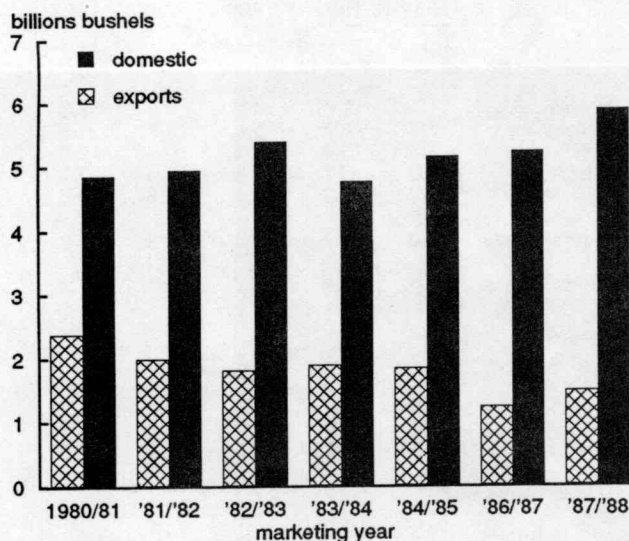
The *Grain Stocks* report noted that corn stocks both on and off farms were estimated to total 7.63 billion bushels. Although the March 1 stocks were down almost 7.5 percent from the year-earlier record level, the reported stocks figure was higher than some analysts had expected. The latest stocks measure suggests that utilization of corn during the December to February period, while up nearly 4 percent from the same period a year earlier, was considerably smaller than the gain recorded during the first three months of the marketing year. When combined with the 10 percent year-to-year increase in corn use recorded during first

quarter of the marketing year, first half disappearance is well ahead of the year-earlier pace.

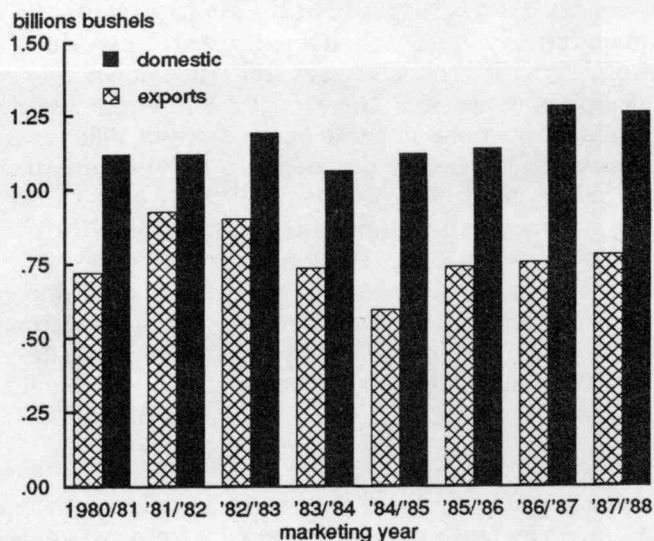
For the marketing year as a whole, USDA estimates point to a 5.6 percent increase in total utilization of corn. Much of that gain is attributable to further increases in exports. After jumping more than a fifth last year, corn exports for the 1987/88 marketing year are projected to increase another 13 percent. Most of the gain for the current marketing year occurred during the first half of the year when corn exports were up more than a fourth compared to the low level in the comparable period of the previous marketing year. The sharp increase in exports is attributable to continued price competitiveness of U.S. corn along with tight supplies among several other exporting countries.

For soybeans, the *Grain Stocks* report indicated that March 1 inventories of soybeans, at almost 1.15 billion bushels, were down more than 14 percent from the year-earlier level. Soybean crushings and exports, the two activities that dominate soybean usage, were up 2 percent from a year earlier during the December-to-February period. However, this followed a 7 percent year-to-year gain in soybean crushings and exports during the first three months of the marketing year. As a result, soybean utilization for the first half of the year is up more than 4 percent from a year earlier.

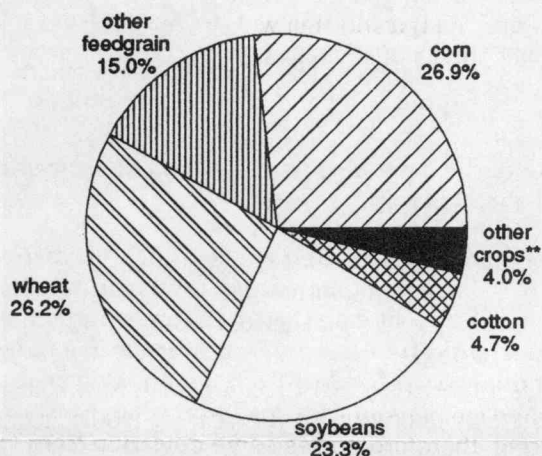
Corn utilization



Soybean utilization



Distribution of crop acreage in 1988*
(248.9 million acres)



* Includes winter wheat, excludes hay acreage.

** Rice, flaxseed, peanuts, sunflowers, dry edible beans.

SOURCE: USDA

Much of that early gain is due to the rapid pace of exports during the first half of the marketing year, up 12 percent from the year-earlier level. Soybean exports from the U.S., however, are expected to encounter greater competition from a large Southern Hemisphere crop during the latter part of the marketing year. Nevertheless, U.S. exports of soybeans are projected to register a year-to-year increase of almost 4 percent during the current marketing year.

Crop planting intentions for this year point to a slight decline in acreage devoted to the production of major crops. The March 1 survey of farmer's planting intentions, along with estimates of winter wheat seedings last fall, suggest that the acreage planted to major crops in 1988 will be down about .5 percent from last year's reduced level. Although down only slightly from last year, the almost 249 million acres of intended plantings to these major crops in 1988 represents a cumulative decline since 1981 of more than 59 million acres. The decline is indicative of the growing influence of government farm programs in the 1980s. Acreage idling requirements (although down this year) and participation in government price and income support programs have trended higher during the decade, and more recently the Conservation Reserve Program, a ten-year acreage retirement program, has removed large amounts of land from production.

The survey of farmers planting intentions suggest that acreage planted to corn this year will total 66.9 million acres, an increase of almost 2 percent from last year's plantings. Among other feed grains, however, the intentions point to substantial year-to-year declines of

9 percent for oat and sorghum plantings and 7 percent for barley acreage. With declines in these other feed grain plantings outweighing the gain in corn acreage, the planting intentions would suggest that total feed grain acreage this year will be down 2 percent from last year's level.

Acreage devoted to oilseed crops is expected to rise by 2 percent in 1988. However, intended soybean plantings, which account for more than three-fourths of oilseed acreage, are up 1 percent from a year ago. Nevertheless, at just under 58 million acres, soybean plantings would be the second-lowest for any year since 1976.

Among the District states, which typically account for about 46 percent of the corn acreage and about 39 percent of soybean acreage, producers' intentions point to somewhat larger increases in plantings of corn and soybeans than the nationwide trend. Intended corn acreage increases of 6 and 5 percent in Illinois and Iowa, respectively, along with a 2 percent increase in Indiana will more than offset the 3 to 4 percent declines suggested by planting intentions of producers in Michigan and Wisconsin. As a result, the year-to-year increase in corn acreage intentions in District states exceeds 3 percent. Farmers across the District plan to increase soybean acreage by nearly 2 percent from the year-ago level. Wisconsin and Michigan producers who account for a relatively small proportion of the District total, intend to increase plantings by 21 and 14 percent, respectively. Iowa farmers intended to increase soybean plantings by 3 percent from a year ago. Producers in Illinois noted intentions to cut soybean plantings by 1 percent this year, while Indiana

Corn and soybean plantings

	1984	1985	1986	1987	1988*
	(-----million acres-----)				
Corn					
Illinois	11.2	11.6	10.6	9.3	9.8
Indiana	6.2	6.3	5.8	4.8	4.9
Iowa	13.4	13.9	12.3	10.3	10.8
Michigan	3.0	3.1	2.8	2.3	2.2
Wisconsin	4.2	4.3	3.9	3.6	3.5
District states	38.0	39.2	35.4	30.3	31.2
United States	80.5	83.4	76.7	65.7	66.9
Soybeans					
Illinois	9.2	9.1	9.1	8.6	8.5
Indiana	4.4	4.5	4.3	4.3	4.3
Iowa	8.5	8.2	8.5	8.0	8.2
Michigan	1.2	1.1	1.0	1.1	1.3
Wisconsin	.5	.4	.3	.3	.4
District states	23.8	23.2	23.2	22.3	22.7
United States	67.8	63.1	60.4	57.4	58.0

*Intentions.

SOURCE: USDA

farmers' intentions point to no change from a year ago.

The initial indication of 1988 production provided by the planting intentions report points to further reductions in corn and soybean stocks. If corn planting intentions are carried out and the acreage harvested approximates the usual 90 percent of plantings, about 60.3 million acres of corn will be harvested this fall. If yields hold at last year's record of 119.4 bushels per acre, the 1988 corn crop will approach 7.2 billion bushels. That would be below the current year's utilization estimate of over 7.8 billion bushels and would allow continued cuts in carryover stocks. However, the large carryout of more than 4.1 billion bushels projected for the current marketing year would be trimmed only slightly in 1989, and would still represent more than 5 months supply at this year's corn utilization level. This continued burdensome level of stocks will prevent any significant increase in corn prices in the coming months, barring any severe weather problems.

Soybean markets, on the other hand, could come under much greater pressure since carryover stocks have already been trimmed considerably. Based on the planting intentions report and assuming that about 98 percent of planted acreage is harvested, about 57 million acres of soybeans will be harvested this fall. A near record yield like last year's 33.7 bushels per acre

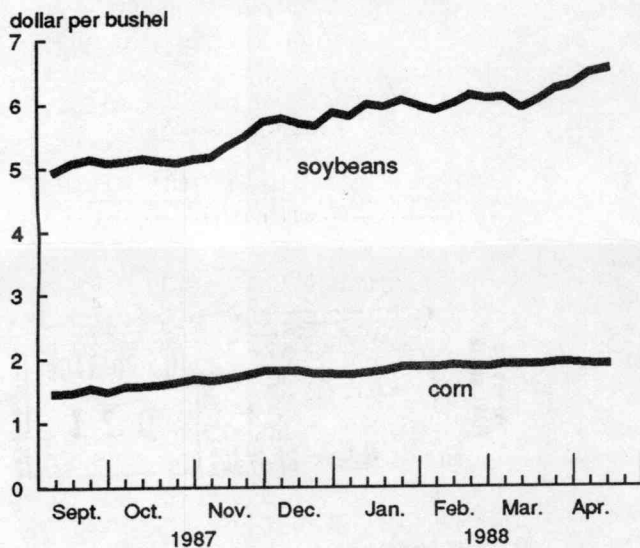
would result in a soybean harvest of about 1.9 billion bushels this fall. That level of production would be about 130 million bushels below this year's projected utilization. Such a shortfall would cut next year's carryover stocks of soybeans to less than a month's supplies at current use rates. With the potential for stocks to fall even lower if yields do not hold near record levels, the soybean market is going to be much more sensitive than the corn market to weather during the growing season.

These projections are of course tentative. Any departure from the planting intentions or significant changes in per acre yields will have a major impact on the 1988 harvests. Moreover, the *Planting Intentions* report is intended to assist producers in formulating their acreage decisions for the year. It would not be surprising, therefore, to see some deviation from intended soybean plantings, particularly given the recent strength in prices. Nevertheless, continued declines in soybean stocks toward minimum pipeline levels is likely to occur.

While corn prices have remained relatively flat in recent weeks, soybean prices have risen sharply. Through March and April corn prices in Central Illinois have hovered around \$1.92 per bushel, considerably higher than the \$1.50 per bushel average price for the same weeks last year. Soybean prices, in contrast, have risen sharply in recent weeks. After holding near \$6.00 per bushel from January to early March, soybean prices in Central Illinois rose to \$6.50 to \$6.60 per bushel range in April. That compares to soybean prices below \$5.00 last year.

Peter J. Heffernan

Corn and soybean prices



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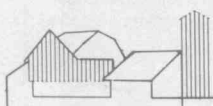
Selected Agricultural Economic Indicators

			Percent change from		
	Latest period	Value	Prior period	Year ago	Two years ago
Prices received by farmers (1977=100)					
Crops (1977=100)	March	130	0.0	7	7
Corn (\$per bu.)	March	110	0.9	10	-1
Oats (\$per bu.)	March	1.84	0.5	25	-20
Soybeans (\$per bu.)	March	1.73	-6.5	19	52
Wheat (\$per bu.)	March	5.93	-0.7	25	13
	March	2.64	-5.4	3	-20
Livestock and products (1977=100)					
Barrows and gilts (\$per cwt.)	March	148	-0.7	4	12
Steers and heifers (\$per cwt.)	March	42.70	-8.6	-11	5
Milk (\$per cwt.)	March	72.70	1.8	16	31
Eggs (¢per doz.)	March	12.00	-2.4	-4	-2
	March	50.8	8.3	-7	-26
Prices paid by farmers (1977=100)					
Production items	January	165	0.0 [†]	4	4
Feed	January	152	1.3 [†]	7	2
Feeder livestock	January	112	6.7 [†]	13	-2
Fuels and energy	January	193	1.6 [†]	18	31
	January	161	-4.2 [†]	5	-19
Producer Prices (1982=100)					
Agricultural machinery and equipment	March	106	0.3	2	4
Fertilizer materials	March	111	0.5	1	1
Agricultural chemicals	March	98	2.5	14	9
	March	107	0.5	5	4
Consumer prices (1982-84=100)					
Food	March	117	0.4	4	9
	March	116	0.2	3	8
Production or stocks					
Corn stocks (mil. bu.)	March 1	7,631	N.A.	-7	16
Soybean stocks (mil. bu.)	March 1	1,146	N.A.	-14	-42
Beef production (bil. lbs.)	March	1.93	5.3	1	3
Pork production (bil. lbs.)	March	1.36	15.0	11	14
Milk production (bil. lbs.)††	March	10.6	9.3	3	0

N.A. Not applicable

† Prior period is three months earlier.

†† 21 selected states.



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