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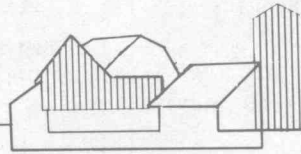
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Crop supply and demand conditions

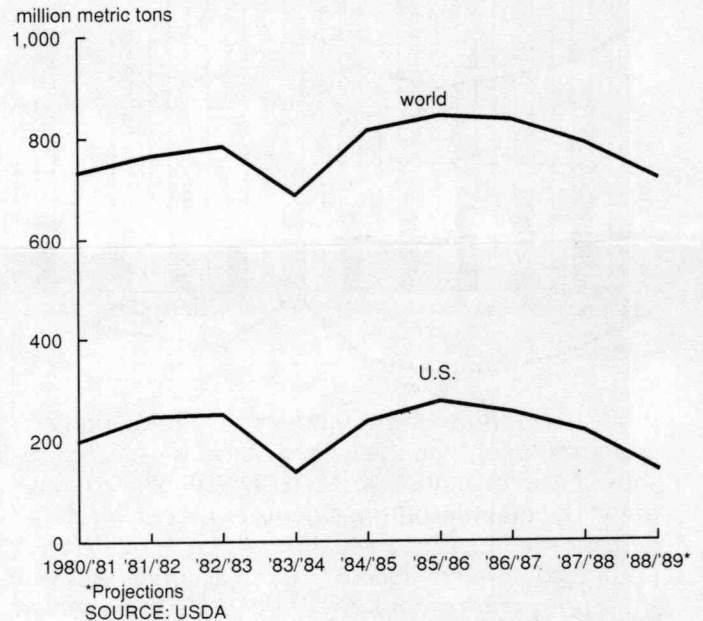
The first objective estimates of this year's crop output were released by the USDA in mid August and confirmed extensive drought losses. Based on observations of crop conditions as of August 1, the report suggests a year-to-year drop of more than a third in corn production and almost a fourth in soybean output. The resulting higher prices are expected to trim utilization from the levels of the last few years, but utilization will still far outstrip production resulting in a sharp reduction in stocks. However, total supplies will be sufficient to meet current demand, although ending stocks in the 1988/89 marketing year will be sharply lower than in recent years.

Corn production is now estimated to be down almost 37 percent from last year's harvest. The acreage likely to be harvested is down 3.5 percent from the 1987 level due to a greater than normal difference between planted and harvested acres. The drought has also cut the average yield per acre by 34 percent. At 78.5 bushels per acre, the projected corn yield for the nation is at its lowest level since 1974. The sharp decline in per acre yields and the larger than usual abandonment of planted acres due to the drought cut this year's corn crop to 4.48 billion bushels, the smallest crop since 1970 with the exception of the PIK and drought reduced crop of 1983. Output of other feed grains is expected to be down sharply as well. The production estimate for sorghum points to a year-to-year decline of more than 24 percent, while barley and oats production are projected to drop 45 percent from last year. Overall, total feed grain production in the United States is expected to be down more than 36 percent from the 1987 crop.

Drought conditions damaged this year's soybean crop as well. At 1.47 billion bushels, soybean production is projected to be down about 23 percent from the 1987 level and the lowest since 1976. Although the acreage harvested may be slightly larger than a year ago, per acre yields are projected to be down 23 percent from last year. At 26 bushels per acre, the effect of this year's drought on the nation's soybean yields is expected to be comparable to the 1983 drought.

The drought reduced crops in the United States largely account for an almost 9 percent decline in projected global output of coarse grains. Total foreign pro-

World coarse grain production

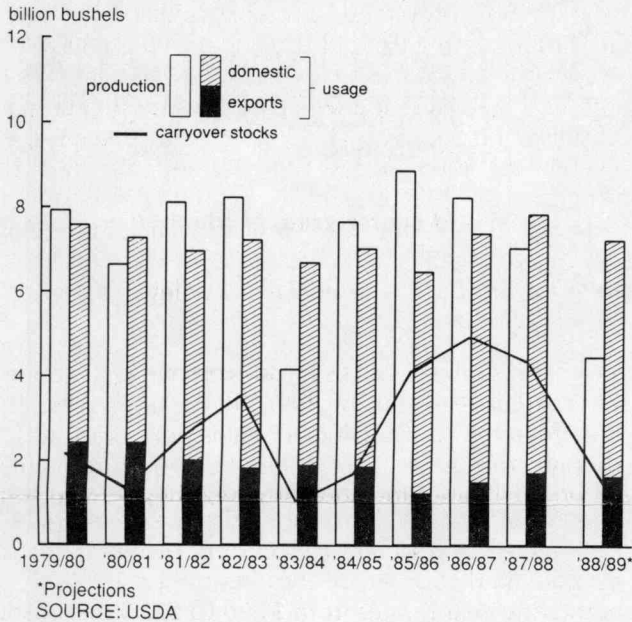


duction in 1988/89 is estimated to be up about 1 percent from a year earlier. Among major exporting countries, the USDA projects coarse grain production will rise slightly from the year-ago level, as large gains in Argentina and Thailand offset drought damaged crops in Canada. A 5 percent year-to-year gain in European coarse grain production is projected to largely offset a 7.6 percent decline in Soviet output, holding total production in major importing countries about unchanged from a year earlier.

World utilization of coarse grains is expected to drop slightly during 1988/89, due largely to curtailed consumption in the United States. Utilization in countries other than the United States is expected to show a year-to-year increase of almost 1 percent in 1988/89. However, major importing countries are expected to trim coarse grain use by about 1.5 percent. With the U.S. drought led drop in production outstripping the cuts in utilization, coarse grain stocks will be down by about 40 percent from a year ago, and for the first time in many years stocks in foreign countries at the end of the 1988/89 marketing year will exceed U.S. ending stocks.

The shortfall in U.S. production is largely responsible for a year-to-year drop of almost 4 percent in

U.S. corn production, use, and stocks

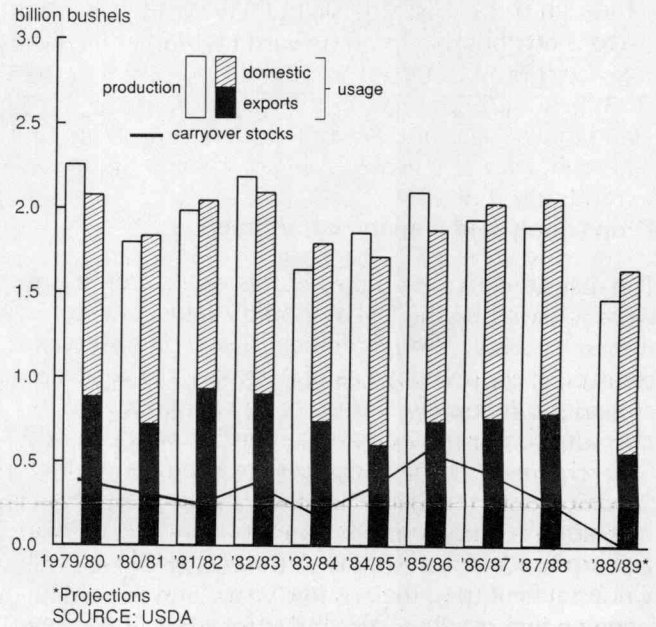


projected world soybean production. Production in countries other than the United States is expected to show a gain of almost 7 percent in 1988/89, with output in the major exporting countries rising almost 12 percent from a year earlier. Production in major importing countries in 1988/89, which account for a very small proportion of total soybean output, is projected to decline by 10.5 percent from the year-earlier level.

World utilization of soybeans is expected to drop about 3 percent from a year earlier in 1988/89. Although most of that drop is accounted for by lower consumption in the United States, major importing countries are expected to cut utilization by more than 10 percent as well. Major exporting countries, however, are projected to increase domestic use of soybeans by 16 percent from the previous year's level. World stocks of soybeans at the end of 1988/89, given the large drop in output and more moderate decline in consumption, will be down about a third from year-earlier levels.

Within the five District states, production estimates point to larger declines than for the nation as a whole. At 2.11 billion bushels, corn production in the District is projected to be down 42 percent from last year. With harvested acreage across the District about unchanged, the decline is due entirely to a drop in per acre yields. At 73.8 bushels per acre, the District average lagged the national average by almost 5 bushels. The year-to-year declines approached 50 percent in Illinois and Indiana where per acre yields averaged only 70 bushels. Iowa is projected average 80 bushels per acre, down 38 percent from last year, while yields in Wisconsin dropped 36 percent to an average of 75

U.S. soybean production, use, and stocks



bushels per acre. Per acre corn yields in Michigan are expected to average 65 bushels per acre, down about a third from last year.

The District soybean production estimate shows a 27 percent drop in output from a year ago. At 647 million bushels, the August estimate of District soybean production is based on harvested acreage of almost 22.4 million acres with an average yield of only 28.9 bushels per acre. Per acre yields were off from a year ago by 18 and 20 percent in Wisconsin and Michigan, while Illinois and Indiana registered declines of 26 and 28 percent. Per acre soybean yields in Iowa registered a 31 percent decline from last year.

Although partially offset by a large carryover stock from the 1987/88 marketing year, the cut in this year's corn crop will drop total supplies for the coming marketing year by a substantial amount. With higher prices limiting consumption this summer, the USDA estimate of ending stocks is currently 4.35 billion bushels. Combining the ending stocks estimate with the production estimate yields a total supply for the marketing year beginning in September of almost 8.84 billion bushels. At that level, beginning supplies would be down 26 percent from the year-earlier level of just under 12 billion bushels. Despite the large year-to-year decline, corn supplies are more than sufficient to meet the marketing year's projected utilization for both domestic and export markets.

Projected corn utilization for the marketing year beginning September 1 is up slightly from the July estimate, but at 7.26 billion bushels is 4.5 percent below last year. Nevertheless the projected corn utilization

rate would exceed the average level of use recorded through the 1980s. The slight increase from a month ago is attributable to an upward revision in feed use, which is now expected to total 5.4 percent less than last year. Domestic utilization of corn for food, seed, and industrial purposes is projected to drop about 1 percent from the year-ago level. Combining these trends, total domestic use of corn during the 1988/89 marketing year is projected to register a 4.5 percent year-to-year decline. Exports of corn in 1988/89 are expected to slip about 4.3 percent from the previous year's level.

Although down from last year, corn utilization will exceed production by a considerable amount, reducing inventories at the end of the 1988/89 marketing year. Carryover stocks of corn next fall are now projected to total only 1.58 billion bushels, a year-to-year decline of almost 64 percent. At that level stocks would equal about a 2.5 month supply at the relatively high utilization rates of the previous few years, and be well below the ending stocks-to-use ratios for most of the 1980s. Moreover, the projected stocks-to-use ratio of about 22 percent would be consistent with the levels that prevailed from the mid 1960s through 1981, before surpluses began to climb to burdensome levels.

Soybean supplies for the marketing year beginning September 1 will be down sharply from last year as well. Ending stocks for the 1987/88 marketing year are now estimated at 280 million bushels, down almost 36 percent from the previous year's level. When combined with this year's projected crop, total supply for the 1988/89 marketing year will be just over 1.75 billion bushels. That would represent a decline of a fourth from the previous year's level, and mark the smallest annual supply since the mid 1970s. The tight supply situation is expected to boost prices sharply, curtailing soybean utilization during the marketing year. At just over 1.65 billion bushels, the USDA's current projection of soybean use in 1988/89 is down 20 percent from a year earlier. Soybean crushings, the principle domestic use of the crop, are now expected to drop 15 percent from the previous year to 1 billion bushels. Exports of soybeans are projected to drop to only 560 million bushels, almost 29 percent less than a year earlier and the lowest level of soybean exports since the mid 1970s.

Soybean stocks at the end of the 1988/89 marketing year are now projected to total 100 million bushels, or little more than a third of the ending 1987/88 level. That would place stocks at about the same level as the end of the 1976/77 marketing year. As a percentage of utilization, however, 1988/89 ending stocks will be even lower, equalling less than a month supply at the projected 1988/89 rate of use. In comparison, soybean ending stocks during the first eight years of the 1980s averaged 332 million bushels, equivalent to a two month supply at the annual average level of use through the period.

Corn and soybean prices have averaged well above year-earlier levels for the 1987/88 marketing year and are projected to show further gains next year. Although corn prices have trended down from the highs recorded in late June and early July they remain well above year-ago levels, boosting the overall average for the marketing year. USDA's current estimate of the average market price for corn during the 1987/88 marketing year ranges from \$1.90 to \$2.00 per bushel compared to the \$1.58 average of the previous year. The current projection for 1988/89 points to an average price between \$2.30 and \$2.70 per bushel. Soybean prices, after peaking in June, have trended down as well, but still show large gains from a year earlier. For the marketing year ending August 31, USDA estimates that soybean prices will have averaged \$6.15 per bushel compared to the \$4.78 average of the previous year. For the 1988/89 marketing year, the current projection covers a wide range of \$7.25 to \$9.75 per bushel.

Peter J. Heffernan

AGRICULTURAL LETTER (ISSN 0002-1512) is published bi-weekly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice-president, Peter J. Heffernan, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

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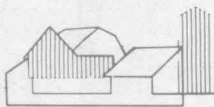
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	April	11,758	-1.1	1	-10
Livestock	April	4,284	1.3	19	6
Government payments	April	6,615	1.7	3	18
	April	859	-25.9	-48	-75
Real estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	14.5	2.6 [†]	14	27
Federal Land Banks	December 31	32.7	-6.9 [†]	-13	-27
Life insurance companies	March 31	9.66	-2.4 [†]	-7	-17
Farmers Home Administration	December 31	10.1	0.1 [†]	-3	-3
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	29.1	-5.0 [†]	-7	-18
Production Credit Associations	December 31	9.17	-6.1 [†]	-15	-35
Farmers Home Administration	December 31	16.0	-1.1 [†]	-2	-4
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	July 1	11.24	1.6 [†]	2	-5
Real estate loans	July 1	10.63	1.4 [†]	2	-6
Commodity Credit Corporation	September	8.00	4.9	16	31
Agricultural exports (\$ millions)					
Corn (mil. bu.)	June	2,676	-9.9	29	59
Soybeans (mil. bu.)	June	134	-25.7	11	136
Wheat (mil. bu.)	June	29	-26.2	-23	2
	June	129	-15.9	3	51
Farm machinery sales^P (units)					
Tractors, over 40 HP	July	3,635	-26.2	-6	22
40 to 139 HP	July	2,750	-30.4	-10	10
140 HP or more	July	885	-9.2	11	89
Combines	July	371	-25.7	-50	-52

*Includes net CCC loans.

[†]Prior period is three months earlier.

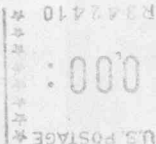
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