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Corn and soybean prospects

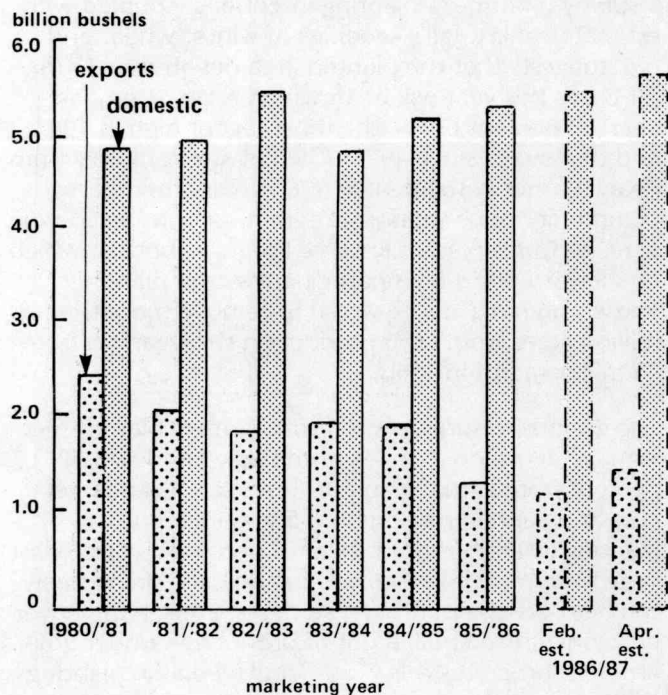
Recent USDA reports have added to hopes for reducing the burdensome surpluses in grains and soybeans. The *Grain Stocks* report showed that domestic usage of grains held at a high level this winter. Prospects for a continuation of this trend were strengthened by the *Hog and Pig* report which suggested that hog numbers have now turned above year-earlier levels and that hog production is expanding faster than previously indicated. And the *Prospective Plantings* report foreshadowed a larger cut in 1987 crop plantings than many analysts had expected. These reports, coupled with improving corn export prospects, have buoyed crop prices from recent low levels.

The *Grain Stocks* report noted that corn stored in all positions on March 1 approximated 8.2 billion bushels. Although up a fourth from the year-earlier level and at a record high for that date, the figure was smaller than analysts had expected. The implications are that domestic usage of corn during the December-February period continued at an unexpectedly high

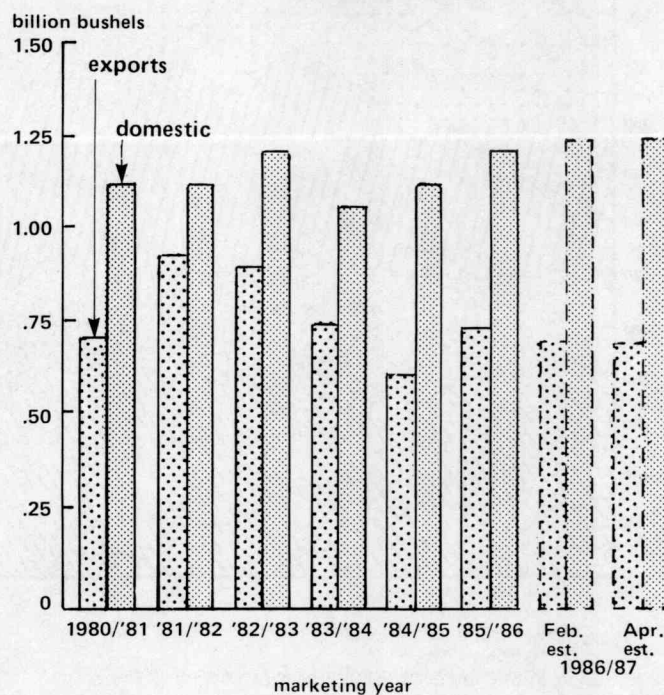
level. Because of a change this year in the months included in the corn marketing year, comparisons of recent usage rates with like periods in earlier years are less precise than in the past. But it appears that domestic usage of corn in the first six months of the 1986/87 marketing year exceeded the short-lived record pace of a year earlier by about a tenth.

Because of the unexpected magnitude of the gain so far, and recent indications that hog numbers have moved above year-ago levels, the USDA subsequently raised its estimate of domestic usage of corn for the entire marketing year by 4 percent to 5.7 billion bushels. Moreover, for the second time in as many months, the corn export estimate for the 1986/87 marketing year was raised by 125 million bushels. As a result, corn exports this year are now expected to approach 1.4 billion bushels, up 22 percent from the estimate two months ago and up 11 percent from the 1985/86 marketing year. With the stronger picture for both exports and domestic usage that is now becoming apparent, the estimate for carryover stocks of corn this fall has been lowered to 5.24 billion bushels. While

Corn usage



Soybean usage



still a record high, the estimate is nevertheless down from the 5.72 billion bushels projected two months ago.

The improved corn export prospects largely stem from a recent surge in purchases by Japan, Korea, Taiwan, and the USSR, and, following a long absence, an earlier resumption of purchases by Mexico and China. Although exports to the USSR will likely lag well below earlier years, the recent Soviet purchases have been a pleasant surprise since many analysts had assumed the USSR might completely bypass the U.S. market this year. The recent surge in U.S. corn sales presumably reflects a cut in exportable supplies elsewhere. This is particularly true in Argentina where, according to latest USDA estimates, the just completed coarse grain harvest was down 18 percent from a year ago and down more than a fourth from two years ago. As a result, the USDA believes that Argentine coarse grain exports in the year ending February 1988 will be down 30 percent from the year before and the lowest since 1980/81.

1987 planting intentions point to cuts in District corn and soybean acreage

					1987*	
	1983	1984	1985	1986	Area	Change
	(-----million acres-----)					(percent)
Corn plantings						
Illinois	8.2	11.2	11.6	10.6	9.3	-12
Indiana	4.9	6.2	6.3	5.8	5.2	-11
Iowa	9.1	13.4	13.9	12.3	10.5	-15
Michigan	2.2	3.0	3.1	2.8	2.3	-18
Wisconsin	3.2	4.2	4.3	3.9	3.5	-10
District states	27.6	38.0	39.2	35.4	30.8	-13
United States	60.2	80.5	83.4	76.7	67.6	-12
Soybean plantings						
Illinois	9.1	9.2	9.1	9.2	8.9	-3
Indiana	4.0	4.4	4.5	4.3	4.2	-2
Iowa	8.0	8.5	8.2	8.8	8.1	-8
Michigan	1.0	1.2	1.1	1.0	1.0	0
Wisconsin	.4	.5	.4	.3	.4	6
District states	22.6	23.8	23.2	23.6	22.6	-5
United States	63.8	67.8	63.1	61.5	56.9	-7

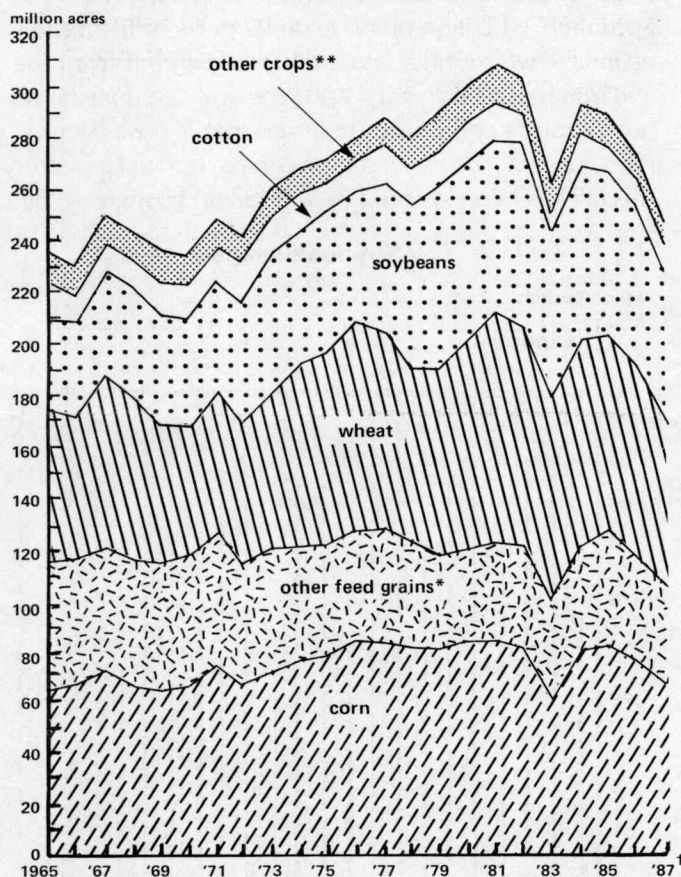
*Based on USDA survey of farmers planting intentions.

Recent changes in soybean usage estimates have been comparatively small. The soybean export estimate was lowered slightly in March, but the estimate of soybean crush and other domestic uses has been raised over the past two months by an offsetting amount. Consequently, carryover stocks of soybeans this fall are still expected to approximate a record 610 million bushels, only nominally lower than the February estimate.

Crop planting intentions for this year strengthen hopes that the burdensome surpluses in grains and soybeans may be reduced more in the months ahead. A March 1 survey of farmer's planting intentions, coupled with estimates of last fall's seedings of winter wheat and rye, suggests that the planted area devoted to 13 major crops this year will be down 9 percent from last year, 19 percent below the most recent high in 1981, and the lowest since 1972. The cut stems mostly from heavy farmer enrollment in 1987 government farm commodity price support programs and in the 10-year acreage Conservation Reserve Program, both of which entail restrictions on a participant's crop plantings. These programs are expected to remove more than 70 million acres from crop production this year, up from 45 million acres in 1986.

The intentions survey noted that farmers plan to seed some 67.6 million acres to corn this year, down 12 percent from actual plantings last year. Even larger cuts are planned for sorghum and barley but oat planting intentions point to a 6.5 percent rise from last year. Much of the increased oat acreage presumably will be used as a non-harvested, soil-conserving cover crop on acreage pulled out of production under government programs this year. Total feedgrain plantings,

Planting intentions for 13 major crops point to lowest acreage in 15 years



† Based on farmers planting intentions on Mar. 1.

* Barley, oats, and sorghum.

** Dry edible beans, flaxseed, peanuts, rice, rye, and sunflowers.

based on these intentions, would decline to 106.1 million acres, down 11 percent from last year and, except for the 103 million acres planted in the 1983 PIK year, the smallest feedgrain acreage in decades. For soybeans, the survey indicated that farmers intend to plant 56.9 million acres, down 7 percent from last year and the smallest area devoted to soybeans since 1976.

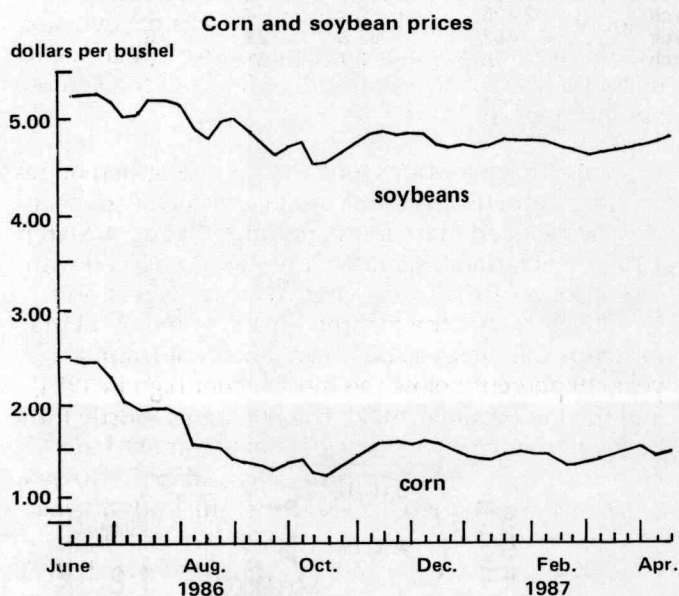
For various reasons, planting intentions do not always provide a reliable measure of crop production possibilities. Actual plantings can vary from initial intentions. Moreover, the relationship between planted and harvested acreage can vary, sometimes significantly, from one year to the next, in part because of weather and changes in government price support programs. And perhaps more importantly, sizeable swings in per acre yields on the harvested acreage can occur because of such factors as weather and the amount of acreage (especially lower-yielding acreage) pulled out of production by government programs. Yet the planting intentions figures for corn and soybeans considerably strengthen the chances that this year's harvest, coupled with further growth in exports and domestic utilization, will result in at least a modest drawdown in the burdensome surpluses now facing corn and soybean markets. Considering the

past three year averages of the harvested-to-planted acreage ratio and the yields per harvested acre, the planting intentions point to a 1987 corn and soybean harvest of 7.0 billion bushels and 1.8 billion bushels, respectively. Such levels would be slightly below the estimated usage rates for the current corn and soybean marketing years.

In recognition of the recent upturn in usage rates for corn and the scaling-back of 1987 corn and soybean plantings, prices have edged higher in recent weeks. As of mid-April, Central Illinois prices for corn and soybeans were averaging above \$1.50 and \$4.90 a bushel, respectively. For both corn and soybeans, recent prices have been 20 cents per bushel above the recent February lows and about the highest since last August.

While near term price trends are uncertain, some analysts believe that the recent increases offer good selling opportunities, especially for soybeans. However, major swings from recent price levels are not generally anticipated. As always, prices in the months ahead will be heavily influenced by new developments affecting exports, domestic usage rates, and 1987 harvest prospects. In addition, prices will continue to be influenced by the relative tightness in storage expected for this fall and the incentives for using PIK certificates to redeem CCC loans and/or acquire government-owned grain stocks.

Gary L. Benjamin



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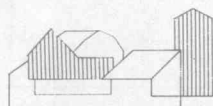
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)	November	15,314	4.2	-10	-7
Crops*	November	8,403	10.9	-21	-15
Livestock	November	6,800	-1.1	6	9
Government payments	November	111	-54.1	178	-67
Real estate farm debt outstanding (\$ billions)					
Commercial banks	September 30	12.4	2.7 [†]	13	22
Federal Land Banks	September 30	39.6	-4.3 [†]	-15	-20
Life insurance companies	December 31	11.0	-2.0 [†]	-7	-12
Farmers Home Administration	September 30	10.9	-0.1 [†]	1	7
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	September 30	33.6	-1.5 [†]	-14	-19
Production Credit Associations	September 30	12.1	-4.4 [†]	-24	-38
Farmers Home Administration	September 30	18.7	-0.3 [†]	0	11
Commodity Credit Corporation	September 30	15.4	-14.3 [†]	57	138
Farm loans made (\$ millions)					
Life insurance companies	December	150	141.9	4	128
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	January 1	11.11	-2.0 [†]	-13	-18
Real estate loans	January 1	10.49	-2.5 [†]	-15	-21
Commodity Credit Corporation	April	6.00	2.1	-17	-38
Agricultural exports (\$ millions)					
Corn (mil. bu.)	February	2,221	-0.7	-9	-24
Soybeans (mil. bu.)	January	104	-6.4	-38	-50
Wheat (mil. bu.)	February	74	3.6	-20	2
	February	76	-1.0	-2	-18
Farm machinery sales^p (units)					
Tractors, over 40 HP	March	2,907	68.1	-2	-47
40 to 139 HP	March	2,425	69.2	4	-43
140 HP or more	March	482	62.8	-23	-61
Combines	March	76	2.7	-51	-67

*Includes net CCC loans.

[†]Prior period is three months earlier.

^pPreliminary



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