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LETTER

CROP PRODUCTION ESTIMATES released by the USDA last week reconfirmed the sharp rebound in crop production expected this year. Based on September 1 conditions, the index of all crop production suggests output will be up 26 percent from last year's level, with much of the gain accounted for by the expected feed grain and oil crops. However, dry weather across much of the Midwest during August resulted in slight downward revisions in the output projections for major crops in the region.

Corn production is now projected to be up more than 80 percent from last year's drought and PIK-reduced crop. At 7.55 billion bushels, the latest crop estimate is about 1.5 percent below the first objective yield estimate released in August, and is about 8 percent below the record crop of two years ago. Production estimates for sorghum and barley show year-to-year gains of about 70 and 20 percent, respectively, while production of oats is expected to be down slightly from year-ago levels. Total feed grain production, therefore, is expected to be up about 68 percent from a year ago but about 7 percent below the 1982 level.

Soybean production was pegged at 2.03 billion bushels on September 11, virtually unchanged from the previous month's estimate and up almost 30 percent from the year-ago level. Current projections point to an average per acre yield of 30.3 bushels, well above the 25.3 bushel per acre yield of a year ago. Projected lower output in the Corn Belt states due to dry August weather is expected to be largely offset by a good southern soybean crop.

In terms of worldwide prospects, increases in grain production are forecast for most northern hemisphere countries. The USDA expects coarse grain production in Canada and Europe to be about 3 and 7 percent higher, respectively, than a year ago, while production in the USSR is expected to register an 18 percent year-to-year decline. Wheat production among major northern hemisphere producing countries other than the United

1984 corn and soybean production estimates*

| | Yield per acre | | Production | |
|-----------------|----------------|------------------|-----------------|------------------|
| | Bushels | Percent change** | Million bushels | Percent change** |
| Corn | | | | |
| Illinois | 116 | 47 | 1,268 | 103 |
| Indiana | 114 | 56 | 684 | 101 |
| Iowa | 115 | 32 | 1,461 | 96 |
| Michigan | 90 | - 2 | 234 | 41 |
| Wisconsin | 106 | 9 | 360 | 62 |
| District states | 112 | 35 | 4,007 | 91 |
| United States | 106 | 31 | 7,552 | 81 |
| Soybeans | | | | |
| Illinois | 33 | 16 | 304 | 21 |
| Indiana | 36 | 18 | 157 | 30 |
| Iowa | 36 | 7 | 302 | 13 |
| Michigan | 32 | -13 | 32 | - 4 |
| Wisconsin | 34 | 3 | 16 | 22 |
| District states | 34 | 11 | 812 | 19 |
| United States | 30 | 20 | 2,028 | 29 |

*USDA estimates based on September 1 conditions.

**From year before.

States is expected to be up 4 percent from last year's level despite a projected 25 percent decline in Canada's wheat output. Soybean production among northern hemisphere countries other than the United States is forecast to exceed last year's level as well.

District states accounted for virtually all of the decline in U.S. corn and soybean production estimates from August levels. The September corn production estimate for the five District states was 3 percent below the August estimate. Iowa and Michigan production estimates received the largest downward revisions, almost 6 percent from August, while Indiana was the only state to note an increase. Similarly, soybean production in District states was revised downward by 3 percent from the August estimate. While soybean production estimates fell from August levels in most District states, the estimate for Indiana was raised almost 3 percent and Wisconsin's estimate was unchanged.

The sharp rebound from last year's production shortfalls is expected to contribute to increased corn and soybean utilization rates in the 1984/85 marketing year. The current corn production estimate, along with projected beginning stocks of 713 million bushels, implies a domestic corn supply totaling almost 8.3 billion bushels for the marketing year beginning in October. From this amount, the USDA estimates that total corn utilization will account for 7.25 billion bushels, up more than 10 percent from this year and near the 1982/83 marketing year level. Corn exports are expected to show the largest gain, totaling 2.1 billion bushels in the coming marketing year, which would be 14 percent above the current year's estimate. Feed use is expected to jump almost 9 percent from this year's level, totaling 4.1 billion bushels, as corn regains a relative price advantage over wheat.

Soybean supplies for the marketing year that began in September are expected to total 2.14 billion bushels, almost 12 percent above last year's level. Increases in crushings and exports of about 1 and 8 percent, respectively, are forecast for soybean utilization this year. As a result, the USDA expects total utilization of soybeans during the 1984/85 marketing year to total almost 1.9 billion bushels, 4 percent more than last year.

With utilization estimates for both corn and soybeans expected to fall below production, a rebuilding of carryover stocks from the substantially reduced levels of this fall appears likely. Carryover stocks of corn next fall are expected to exceed 1 billion bushels, up more than 42 percent from this year's level and near the 1.1 billion bushel threshold that requires a paid diversion program

RETAIL FOOD PRICES averaged almost 4 percent above year-ago levels through the first half of the year. Most of the rise was attributable to the severe weather last winter that resulted in sharp food price increases early in the year. After moderating this spring, food price increases resumed this summer and are expected to continue through the rest of the year. Current USDA estimates indicate that retail food prices by the end of this year will be 5 to 6 percent above year-ago levels.

The rise in prices this year has affected the cost of food purchased at grocery stores as well as food consumed away from home. The index of retail prices of food consumed at home, a measure of grocery store food prices, in July was 3.4 percent higher than in

U.S. production and utilization of corn and soybeans

| | 1982/83 | 1983/84 | 1984/85* |
|-------------------|-------------------|---------|----------|
| | (million bushels) | | |
| Corn | | | |
| Beginning stocks | 2,174 | 3,120 | 713 |
| Production | 8,235 | 4,166 | 7,552 |
| Total supply | 10,410 | 7,288 | 8,266 |
| Domestic use | 5,420 | 4,740 | 5,150 |
| Exports | 1,870 | 1,835 | 2,100 |
| Total utilization | 7,290 | 6,575 | 7,250 |
| Ending stocks | 3,120 | 713 | 1,016 |
| Soybeans | | | |
| Beginning stocks | 254 | 345 | 110 |
| Production | 2,190 | 1,567 | 2,028 |
| Total supply | 2,444 | 1,912 | 2,138 |
| Crushings | 1,108 | 983 | 990 |
| Exports | 905 | 740 | 800 |
| Seed and residual | 86 | 79 | 88 |
| Total utilization | 2,099 | 1,802 | 1,878 |
| Ending stocks | 345 | 110 | 260 |

*Projections.

for corn in 1985. Similarly, carryover stocks of soybeans are expected to climb to 260 million bushels, more than double the year-ago level.

Based on September 1 conditions, the USDA expects corn prices for the marketing year beginning in October to range from \$2.75 to \$3.05 per bushel. The projected range is virtually unchanged from the August estimate, but well below the 1984/85 marketing year average of \$3.25 per bushel. The September estimate placed soybean prices between \$5.75 and \$7.25 per bushel for this marketing year. The range was substantially narrowed from the August estimate of \$5.60 to \$7.60 per bushel and remains below last year's average of \$7.75 per bushel.

December but only 3 percent above the year-ago level. In comparison, the July index of prices of food consumed away from home was up 2.7 percent from December and 4.2 percent above last year.

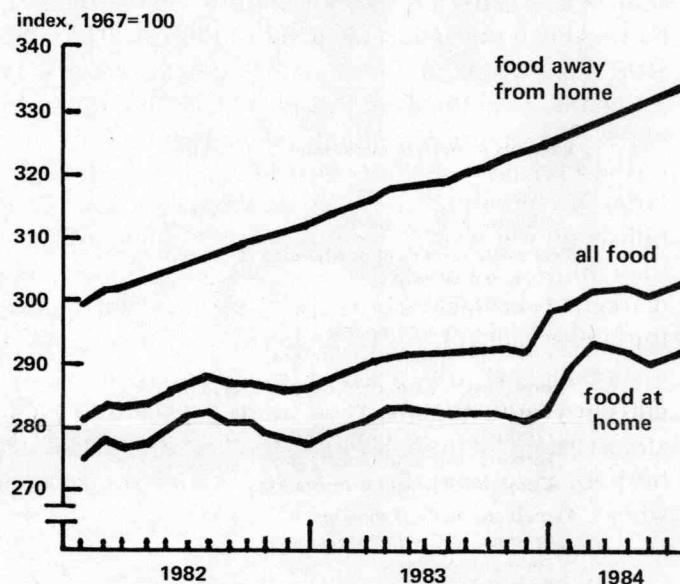
Fruits and vegetables, poultry, and fats and oils paced the rise in food prices through July. Fruit and vegetable prices in July remained 7 percent above their year-ago level. Poultry prices in July were almost 12 percent above the year-ago level, while fats and oils registered a 12.5 percent price increase. Fish and seafood, sugar and sweeteners, and cereals and bakery products all registered year-to-year gains of more than 4 percent in July.

Small increases in the prices of meats, eggs, and dairy products have tempered the overall rise in food prices so far this year. During the first half of 1984, year-to-year gains in both beef and pork production contributed to a 3.7 percent increase in red meat supplies. Beef production, up 4 percent from the previous year, registered the largest increase, while pork production rose by 2.7 percent. These ample supplies of meats limited pork prices to a 2 percent year-to-year gain in July and contributed to beef prices holding 1 percent below the year-ago level. Egg prices in July remained above last year's level by 2.7 percent, but were down sharply from the very high levels reached earlier in the year.

Retail food prices are expected to continue their moderate rise for the remainder of the year. Current USDA estimates suggest that retail food prices in grocery stores will be 5 to 6 percent above year-ago levels by the end of the year. The rise in prices is expected to be paced by substantial increases in meat prices. Current projections of second half meat production point to declines in beef and pork production of 3.7 and 10.3 percent, respectively, from the second half of 1983. These production declines imply pressure on meat supplies; however, the pressure will likely be moderated by a 5.4 percent increase in poultry production. Nevertheless, retail beef prices are expected to register year-to-year increases of 7 percent by the fourth quarter, while pork prices are expected to be up almost 20 percent. Poultry prices, however, are forecast to drift downward during the second half of 1984, falling about 2 percent below year-ago levels at year end.

Retail prices of most other food products during the rest of 1984 are expected to rise as well. Prices for fats and oils and sweeteners are projected to continue to rise through the second half of 1984, with fourth quarter prices more than 7 percent above last year's levels. Fruit and vegetable prices are expected to rise during the third quarter and, despite tapering off at the end of the year, are projected to show year-to-year gains of more than 7 percent during the fourth quarter. Prices for fish and seafood along with cereals and bakery products are expected to average more than 5 percent above last

Recent trends in retail food prices



year's level during the fourth quarter of 1984. Continued strong demand and further production declines are expected to hold dairy product prices at year end at about 3 percent above the year-ago level. Egg prices are expected to decline throughout the rest of the year and will likely average 18 percent below the very high levels registered at the end of 1983.

Consumer expenditures on food in 1984 are forecast to increase from the year-ago level due to the rise in retail prices. Current USDA estimates suggest that total expenditures for food by consumers will total \$385.4 billion this year, up 5.7 percent from last year. Despite the rise in total expenditures, the proportion of consumer income spent on food is expected to decline for the fifth consecutive year. With an 8 percent increase in personal disposable income expected to outstrip the rise in food expenditures, the proportion of disposable income spent on food is forecast to fall to a new low of 15.2 percent in 1984, down from 15.6 percent a year-ago and well below the 16.4 percent average of the previous ten years.

Peter J. Heffernan

Selected Agricultural Economic Indicators

| | Latest period | Value | Percent change from | | |
|---|------------------|--------|---------------------|-------------|------------------|
| | | | Prior period | Year ago | Two years ago |
| Receipts from farm marketings (\$ millions) | May | 10,312 | + 9.9 | + 3 | + 2 |
| Crops* | May | 3,620 | +12.8 | 0 | - 5 |
| Livestock | May | 6,566 | +13.9 | + 8 | + 5 |
| Government payments | May | 126 | -69.6 | -57 | +271 |
| Real estate farm debt outstanding (\$ billions) | | | | | |
| Commercial banks | June 30 | 10.0 | + 3.8† | +13 | +18 |
| Federal Land Banks | July 31 | 48.2 | + 0.1 | + 1 | + 3 |
| Life insurance companies | May 31 | 12.5 | - 0.4 | - 1 | - 4 |
| Farmers Home Administration | June 30 | 10.1 | + 2.2† | + 5 | +10 |
| Nonreal estate farm debt outstanding (\$ billions) | | | | | |
| Commercial banks | June 30 | 41.3 | + 5.4† | + 7 | +16 |
| Production Credit Associations | July 31 | 19.2 | + 1.3 | - 5 | -13 |
| Farmers Home Administration | June 30 | 16.7 | + 8.1† | + 5 | + 4 |
| Commodity Credit Corporation | June 30 | 6.53 | -25.9† | -59 | -34 |
| Farm loans made (\$ millions) | | | | | |
| Production Credit Associations | July | 2,065 | - 9.0 | + 7 | - 7 |
| Federal Land Banks | July | 255 | -16.0 | - 8 | -36 |
| Life insurance companies | May | 103 | -15.3 | +29 | -25 |
| Interest rates on farm loans (percent) | | | | | |
| 7th District agricultural banks | | | | | |
| Operating loans | July 1 | 14.34 | + 3.7† | + 6 | -17 |
| Real estate loans | July 1 | 13.89 | + 3.5† | + 5 | -17 |
| Commodity Credit Corporation | September | 11.88 | - 2.0 | +13 | - 1 |
| Agricultural exports (\$ millions) | July | 2,688 | + 4.9 | + 4 | +10 |
| Corn (mil. bu.) | July | 130 | +15.8 | + 4 | + 8 |
| Soybeans (mil. bu.) | July | 39 | - 4.7 | -24 | -27 |
| Wheat (mil. bu.) | July | 138 | +22.1 | +10 | +15 |
| Farm machinery sales^P (units) | | | | | |
| Tractors, over 40 HP | July | 4,072 | -40.0 | -27 | -39 |
| 40 to 139 HP | July | 3,394 | -35.8 | -19 | -36 |
| 140 HP or more | July | 678 | -54.6 | -51 | -49 |
| Combines | July | 815 | +64.0 | -19 | -43 |

*Includes net CCC loans.

†Prior period is three months earlier.

^PPreliminary

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