FRB CHICAGO AGRICULTURAL LETTER
FEDERAL RESERVE BANK OF CHICAGO
February 28, 1986 Number 1676

Large stocks hold corn and soybean prices down

Final production estimates for 1985 crops were recently released by the USDA, along with January 1 readings of grain and soybean stocks. The production estimates showed a slightly larger corn crop than was earlier projected and a somewhat lower, but still high, level of soybean output. The stocks report indicated that corn inventories were higher than analysts had expected, implying a sizable year-to-year drop in utilization during the final three months of 1985. Soybean stocks were up substantially as well, but apparent utilization during the September through December period was above the year-earlier level. With huge supplies, weak demand, and new support program provisions exerting downward pressures, marketing-year average prices for corn and soybeans are projected to range well below year-ago levels.

The 1985 corn crop estimate was pegged at 8.87 billion bushels, 148 million bushels more than the previous estimate and almost 16 percent higher than the 1984 crop. The record output was harvested from 75.1 million acres, 4.5 percent more than a year earlier, which yielded an all-time high 118 bushels per acre. For other feed grain crops, the final production figures for sorghum and oats show year-to-year gains of 28.5 and 9.5 percent, respectively, while barley output dropped slightly less than 2 percent.

The final soybean production estimate placed the 1985 crop at almost 2.1 billion bushels, slightly below the previous projection but almost 13 percent larger than the 1984 crop. The slight drop from the earlier forecast is attributable to poor weather last fall that reduced harvested acreage from what had been expected. With the number of acres harvested down almost 7 percent, the increase in soybean output is accounted for by the record 34.1 bushel per acre yield, up 21 percent from the previous year.

The latest *Grain Stocks* report contains estimates of the amount of various grains and soybeans being held in all positions as of the first of the year. The stocks estimates, when compared to beginning supply figures, provide an indication of the level of utilization during the last few months of 1985. For soybeans the usage rate implied by the stocks figure complements other, more timely, measures of crushings and exports, the principal uses of soybeans. Those measures show that soybean exports during the last four months of 1985 were more than 8 percent ahead of the year-earlier pace, while crushings were up more than 5 percent. The measures, allowing for residual usage, are reasonably consistent with the 6 percent increase in total soybean usage implied by the stocks estimate.

In the case of corn, the usage rate implied by the stocks estimate is the best available measure of domestic utilization. The 7.9 billion bushels of corn held both on and off farms on January 1, when subtracted from the total supplies of corn available at the beginning of the 1985/86 marketing year, suggests that total utilization of corn was about 2.37 billion bushels during the final three months of 1985. That level of utilization represents a 6.5 percent drop from the record pace of a year earlier. With corn exports for that period down 15 percent from the previous year to about 515 million bushels, the implied domestic utilization total is 1.86 billion bushels, almost 4 percent less than the previous year.

The utilization rates of corn and soybeans apparent in the early months of the 1985/86 marketing years, for the most part, foreshadow trends that are expected for the remaining months. For the last nine months of the

Final 1985 corn and soybean production estimates

	Yield per acre		Production	
	Bushels	Percent change*	Million bushels	Percent change*
Corn				
Illinois	135	18	1,535	23
Indiana	123	5	756	7
Iowa	126	13	1,707	18
Michigan	105	25	287	30
Wisconsin	107	1	358	4
District states	125	13	4,644	17
United States	118	11	8,865	16
Soybeans				
Illinois	43	35	382	35
Indiana	42	20	185	23
Iowa	38	21	310	17
Michigan	32	19	35	8
Wisconsin	32	3	10	-31
District states	40	26	921	24
United States	34	21	2,099	13

*Percent change from previous year.
SOURCE: USDA

marketing year, corn exports are expected to hold about 10 percent below the year-earlier level as continued high feed grain production in both importing and exporting countries lowers world trade in these commodities and intensifies competition. The sharp drop in corn exports, however, is expected to be almost offset by a 3.5 percent year-to-year gain in domestic utilization. The upturn in domestic utilization of corn will be lead by the comparatively small component that is used for food, seed, and industrial purposes. Overall, total utilization of corn in the nine months ending in September is expected to hold just below the year-earlier level for the period.

Increases in soybean utilization during the last eight months of the marketing year are expected to outpace earlier gains. With soybean exports projected to be up about 25 percent for the entire marketing year, exports during the last eight months of the marketing year will have to exceed the year-earlier pace by more than a third to reach the projection. The expected surge in U.S. soybean exports reflects both a sharp drop in Southern Hemisphere production, which will reduce that region's exports from the high level of a year ago, and an expected 5 percent increase in the volume of world soybean trade. Soybean crushings, after running well ahead of year ago through December, are expected to register a 2.5 percent gain from last year's level for the remainder of the marketing year.

Corn and soybean prices will continue to be pressured by huge supplies and, for the most part, lackluster domestic demand. In addition, the staggered transition to sharply lower CCC price support loan rates over the next few months will strongly influence corn and soybean prices. With livestock inventories down and meat production projected to fall below year-earlier levels this spring, the demand for corn and soybeans for feed use is expected to remain fairly soft. Moreover, burdensome wheat supplies are expected to compete very effectively with corn for feed use this summer, particularly since the pending 27 percent decline in the loan rate for wheat will become effective three months prior to the scheduled 25 percent cut in the corn loan rate.

Another source of downward pressure on prices in the months ahead will stem from the "in-kind" portion of the advance deficiency payments that will become available to farmers who enroll in the 1986 price support programs for grains. As announced by the USDA, 40 percent of the estimated 1986 corn deficiency payment will be available upon enrollment, with a fourth of the advance payment to be "in-kind" rather than cash. The in-kind payments will allow some grain previously isolated from free-market supplies—through CCC loans and/or CCC ownership—to become available for unrestricted use beginning in late April. Analysts believe that approximately 350 million bushels of corn might become available to the market this summer because of the in-kind advance payments. The combination of in-kind payments and the likelihood of a squeeze on storage this fall could undermine cash prices of corn and soybeans well in advance of the cut in the CCC loan rate scheduled for this fall. Market reaction to these developments, however, will also depend on 1986 crop prospects and the amount of 1985 corn and soybeans that are put under loan and ultimately defaulted to the CCC.

Corn and soybean price projections for the months ahead are confronted with the usual uncertainties about emerging trends in utilization and new crop prospects. For this year, there are major additional uncertainties that relate to the complex issues of how markets will adjust to the substantially different provisions in the 1986 price support programs. USDA projections of average corn and soybean prices for their current marketing years show substantial declines from the previous year. At the same time, however, those projections suggest that prices for the remainder of the marketing year will average at, or slightly above, recent levels. The latest USDA estimate pegs the 1985/86 market year average price of corn in a range from $2.30 to $2.50 per bushel, down 5 cents from the projected range of a month ago, and well below the $2.65 per bushel average price of the last marketing year. So far this marketing year, corn prices have averaged about $2.20 a bushel and in recent weeks have averaged about $2.30. Soybean prices for the 1985/86 marketing year are currently projected to fall in the $5.05 to $5.35 per bushel range, unchanged from last month's projection, but down from $5.85 per bushel last year. This latest projection for soybean prices for all of 1985/86 compares with prices that have averaged just under $5.00 a bushel so far this marketing year and about $5.20 in recent weeks.

Cattle numbers down for fourth year

The inventory of all cattle in the United States recorded a fourth consecutive annual decline in 1985. According to the USDA, the January 1 inventory of all cattle and calves was down 4 percent from last year and down more than 20 percent from the record level established in 1975. At 105.5 million head, the inventory was also at a 23-year low. Particularly large declines were reported for beef cows and for heifers held for beef cow replacements. Dairy cow numbers, however, were up more than 3 percent from a year ago, while heifers held for dairy herd replacement were unchanged. The smaller beef breeding herd and the pending buy-out program of entire dairy herds foreshadow a smaller calf crop and a further decline ir the inventory of all cattle again this year.

Last year's decline in the inventory of all cattle stems from a continuing liquidation process on the part of cattlemen because of squeezed profit margins. The liquidation is reflected in relatively high levels of slaughter, particularly of cows and heifers, which depletes the breeding herd and results in smaller calf crops. Cattle and calf slaughter in 1985, although down 3 percent from the previous year, remained at a relatively high level of 40 million head. That raised the slaughter-to-beginning cattle inventory ratio for 1985 to the highest level since 1978, when the nation's cattlemen were completing a massive three-year liquidation of an over-built cattle herd. Moreover, data for federally inspected slaughter plants indicate that cows and heifers accounted for 51.4 percent of all cattle slaughtered in such plants in 1985. That proportion matched the 1984 performance—when the milk diversion program temporarily swelled dairy cow slaughter—in marking the highest proportion of cow and heifer slaughter since 1977.

Because of the stepped-up cow and heifer slaughter of recent years, the annual calf crop in 1985 dropped to the lowest level since 1961. At 41 million head, last year's calf crop was down 3.5 percent from the 1984 outcome. Except for a one-year up-tick in 1980, the nation's annual calf crop has trended steadily lower since peaking at 50.9 million head in 1974.

There is a high probability that the nation's cattle herd will decline again this year. The January 1 inventory of all cows, at 44.8 million head, was down nearly 3 percent from a year ago. Beef cows, which account for three-fourths of the inventory of all cows, paced the decline with a drop of 5 percent. Unless the annual calf crop-to-cow inventory ratio rises to a level experienced only once since the early 1970s, the reduced cow inventory foreshadows a smaller calf crop again in 1986. Since inventories of both the dairy and the beef component of the cattle breeding herd seem headed for reduction in 1986, it is doubtful the ratio will rise much this year.

Although the dairy portion of the cattle herd was on the upswing in 1985, the 18-month whole-herd dairy buy-out program scheduled to begin in April will at least slow the rise in the dairy herd and may turn it around. Participants who submit acceptable bids for entering the program must either export, or sell for slaughter, their entire dairy herds. Thus, liquidation of the dairy herd could resume in 1986.

The liquidation process in the beef breeding herd also seems likely to continue in 1986. The inventory of heifers weighing 500 pounds or more and being held for beef cow replacements is down 7 percent from a year ago and at an abnormally low level relative to the inventory of beef cows. This, coupled with lackluster profit prospects, suggests that cattlemen are not likely to expand their beef cow herds during the current year. Similarly, the inventory of heifers not held for either beef or dairy cow replacements is up nominally from a year ago and at a new high, both in absolute number and relative to the total inventory of all heifers over 500 pounds. Within the current economic environment, the bulk of these heifers will be slaughtered, with many moving through commercial feedlots. The available evidence suggests that the inventory of heifers in feedlots, although down from a year ago, is at a new high relative to the inventory of all cattle on feed.

Linking the inventory estimate of all cattle to future slaughter trends lacks precision because of the time required to raise cattle to slaughter weight and the alternative flows—through feedlot, breeding herd, and range-fed growing practices—by which cattle ultimately reach slaughter plants. In many respects, the liquidation phase of cattle breeding herds in recent years, judged by historical standards, would appear to be reaching a turning point. However, with consumer demand for beef still waning, profit prospects still lackluster, and the pending start up of a whole-herd dairy buy-out program, 1986 is likely to be another year in which liquidation of breeding herds adds to total beef supplies. But the liquidation is expected to be moderate enough that, coupled with reduced feedlot inventories, total cattle slaughter and beef production this year will likely decline. Estimates of the annual decline in beef production mostly range from 2 percent to 5 percent, with relatively larger declines expected in the second half of the year.

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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)*	September	12,425	21.8	1	-4
Crops	September	6,471	37.2	4	3
Livestock	September	5,851	7.3	-2	2
Government payments	September	103	243.3	-10	-88
Real estate farm debt outstanding *($ billions)*					
Commercial banks	September 30	11.0	4.1†	8	21
Federal Land Banks	September 30	46.4	-3.5†	-6	-5
Life insurance companies	November 30	12.0	-0.4†	-5	-6
Farmers Home Administration	September 30	10.7	0.6†	6	11
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	September 30	39.3	-1.6†	-6	1
Production Credit Associations	September 30	16.0	-4.0†	-19	-22
Farmers Home Administration	September 30	18.8	1.3†	12	18
Commodity Credit Corporation	September 30	10.0	14.9†	54	-18
Farm loans made *($ millions)*					
Life insurance companies	November	111	-28.5	336	23
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	January 1	12.72	-0.7†	-7	-7
Real estate loans	January 1	12.28	-1.6†	-8	-8
Commodity Credit Corporation	February	7.75	0.0	-15	-23
Agricultural exports *($ millions)*	December	2,642	-5.2	-26	-25
Corn *(mil. bu.)*	December	179	-15.5	-14	1
Soybeans *(mil. bu.)*	December	94	18.1	8	26
Wheat *(mil. bu.)*	December	72	-17.1	-46	-45
Farm machinery sales[p] *(units)*					
Tractors, over 40 HP	January	4,349	-0.3	-13	-19
40 to 139 HP	January	2,853	-7.4	-21	-25
140 HP or more	January	1,496	16.7	10	-3
Combines	January	621	-32.7	-16	-43

† Prior period is three months earlier

[p] Preliminary

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