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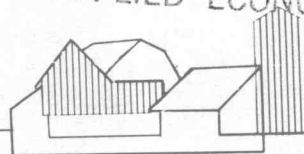
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FRB CHICAGO



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Crop reports bearish for corn and soybean prices

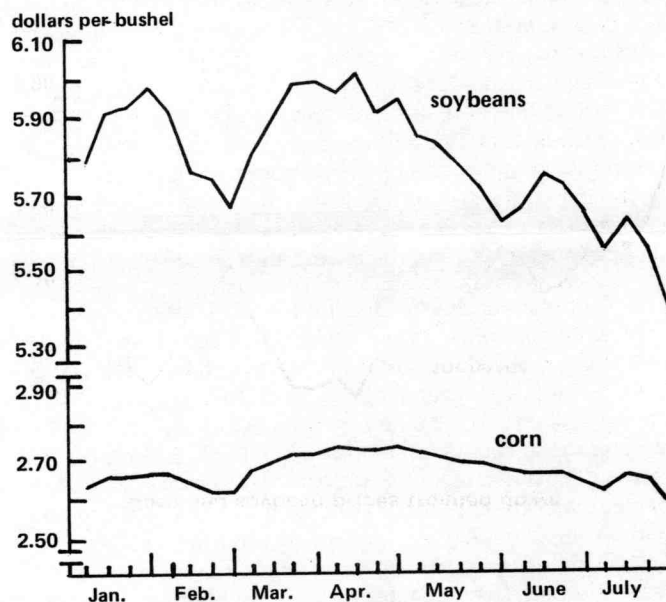
Three recently released USDA reports suggest a somewhat bearish view on corn and soybean prices. Indicators of utilization and remaining old crop supplies were provided in the *Grain Stocks* report. In addition, the July *Crop Production* report contained estimates of acres planted and expected to be harvested for major crops. The July *World Agricultural Supply and Demand Estimates* report contained projections of supplies and utilization for the months ahead. In general, all three reports point to lower corn and soybean prices this fall.

The nation's corn stocks on June 1 were estimated at slightly more than 2.8 billion bushels, up 32 percent from the very low level of a year ago. Despite the substantial jump, corn stocks were well below the burdensome 4.9 billion bushels held in 1983. Subtracting the June 1 stocks from available supplies following the 1984 harvest implies that total utilization of corn during the first eight months of the marketing year exceeded 5.5 billion bushels, an increase of almost 8 percent from the same period last year. The bulk of the increase in utilization, however, occurred in the first half of the marketing year. From October through March, corn utilization was up more than 9 percent from the first half of the 1984/85 marketing year, while April/May utilization recorded a year-to-year gain of about 2 percent.

The pattern of increase in corn utilization is attributable to a higher rate of domestic use throughout the eight-month period, along with year-to-year gains in exports during the first half of the marketing year. Corn exports from October through March outpaced the previous year's rate by 11.4 percent before registering a 9.5 percent year-to-year decline during April and May. For the entire eight-month period, corn exports were up more than 6 percent from the previous year. Domestic use, on the other hand, appears to have held above the year-ago pace throughout the period, rising 8.3 percent from last year. Much of the increase in domestic use, however, is attributable to a sharp 17 percent year-to-year gain during the first three months of 1985.

The June 1 stocks report, along with the projection for carryover stocks at the end of the marketing year, suggests that corn utilization for the remaining four months of the year will exceed the year-earlier pace by 12.5 percent. The export projection of 1.95 billion bushels for the entire marketing year implies that exports for the June/September period will about equal the year-earlier pace. The increase in total utilization during the fourth-month period, therefore, will be in domestic markets. The figures imply that domestic utilization of corn will be up 19 percent from last year's low level, but still slightly below historical use levels for the final four months of a marketing year.

Corn and soybean prices trended down



Soybean stocks on June 1 totaled 609 million bushels, up 29 percent from last year's very low level. Despite the large increase, soybean stocks remained below the levels that prevailed earlier in the 1980s. The latest stock estimate, when compared with the April 1 figure, implies a historically low level of soybean use during April and May. At 289.2 million bushels, soybean utilization during the two-month period was down 9 percent from the previous year and at its lowest level since 1977. For the first nine months of the current marketing year that began in September, soybean utilization was off the year-ago pace by 5.4 percent. Most of the decline in soybean utilization during the first nine months of the marketing year is accounted for by an 11 percent year-to-year drop in exports. Domestic crushings of soybeans exceeded the year-ago pace by about 2 percent through May, with virtually all of the increase occurring in April and May. In order to meet the current carryout projections for the marketing year, given the June 1 level of stocks, soybean utilization must register a year-to-year gain of almost 10 percent during the June/August period. The estimates imply that soybean exports from June through August will be down 24 percent, while soybean crushings will be up 11 percent from the year ago pace. These projections virtually assure that June/August soybean exports will be at a seven-year low, but imply domestic crushing activity will be roughly comparable with historical norms.

The increase in domestic utilization of corn and soybeans this year is attributable to the lower prices of these commodities and increased livestock feeding. The number of cattle on

feed has been up from the year-earlier level and hog inventories have declined only slightly. Moreover, lower feed costs and anticipation of improving livestock prices encouraged feeding animals to heavier weights during the first half of this year. At the same time, a sharp increase in poultry production has contributed to greater feed use, while milk production has surged following the end of the paid diversion program.

The acreage planted to principal crops this year was reported to total 343.7 million acres, down slightly from a year ago. The decline from a year ago is attributable to the cut in winter wheat acreage seeded last fall, with spring plantings up from a year ago. Feed grains were planted on 127.3 million acres this year, an increase of more than 4 percent from last year. Corn plantings, at 83.2 million acres, were up slightly from the February intentions and up 3.5 percent from last year. Soybean plantings, at 63.3 million acres, were down 6.5 percent from last year, slightly lower than the February intentions suggested, and the lowest level since 1977.

The planted acreage estimates for District states showed a somewhat smaller shift from soybeans to corn than did the national figures. Corn acreage in the five state region was up 2.9 percent from a year ago, ranging from a 3.6 percent increase in Illinois to a 1.6 percent gain in Indiana. The five-state group accounts for almost half of the U.S. acres planted to corn. Soybean plantings in District states registered a 2.6 percent year-to-year decline, substantially less than the drop nationwide. Soybean acreage was down from last year in all District states except Indiana, where a 2.3 percent increase was reported. District states account for about 37 percent of the U.S. soybean acreage. Total acreage planted to principal crops in the five District states this year, at 79.2 million, was down slightly from 1984.

The USDA planted acreage estimates are based on surveys conducted near June 1. They represent a composite of information from personal on-farm interviews and mail surveys of producers regarding actual and intended plantings. Generally favorable weather and field conditions this spring allowed planting to progress well ahead of normal schedules, with corn and soybean seedings 98 percent and 74 percent complete, respectively, by June 1. In comparison, corn plantings were 86 percent completed last year at that time, which is close to the five-year average completion rate for corn. Similarly, the proportion of soybean acreage planted by June 1 last year was only 44 percent and has averaged about 50 percent since 1980.

The large corn plantings this year point to the highest level of acreage harvested for grain since 1949. At almost 74.8 million acres, the estimate of corn acres that will be harvested for grain this year is slightly above the previous high recorded in 1981. That level of acreage combined with a yield of about 108 bushels per acre or more, which would be consistent with the historical yield trend, would result in a bumper corn crop in excess of 8 billion bushels this year.

The soybean harvest acreage is estimated at about 62.3 million acres, down 5.7 percent from last year. That foreshadows the lowest harvested acreage for soybeans since 1977. However, a return to the almost 30 bushel per acre

average yield that prevailed in the late 1970s and early 1980s would hold soybean production near the 1.86 billion bushel crop of a year ago.

Corn and soybean prices have been trending down since April and have been well below the high levels associated with tight supplies that prevailed from late 1983 through much of 1984. Central Illinois cash corn prices averaged about \$2.64 per bushel in June and have held there in July, down from \$2.72 in April and about \$3.35 a year ago. Similarly, soybean prices in central Illinois have averaged less than \$5.60 per bushel through the first three weeks of July compared with about \$5.95 three months ago and \$6.86 last year.

With corn and soybean plantings having proceeded well ahead of historical norms this spring and with generally good weather conditions through July, despite dryness in some areas, this year's crops should prove to be quite large. With continued favorable weather and with no substantial increase expected in utilization for the months ahead, the prospective large crops could pressure corn and soybean prices to still lower levels this fall.

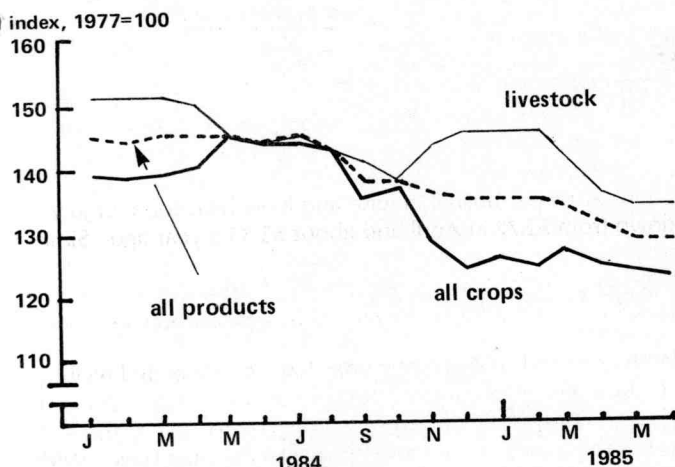
Declining farm prices to lower income in 1985

Prices received by farmers have trended steadily downward since April of last year. In June the index of prices received for all farm products, at 129 percent of the 1977 base, was unchanged from May, but down about 11 percent from the previous high recorded in July 1984. Moreover, for the first six months of 1985, the index averaged almost 9 percent below the record high for the period recorded last year. The index of prices paid by farmers in June, at 164 percent of the 1977 base, was down one percentage point from both May and a year ago. As a result, the ratio of the index of prices received to prices paid edged up to 79 percent, but remained well below the year-ago level of 87 percent.

Both crop and livestock prices have contributed to the downward drift this year in the overall index of prices received. The index of prices received for crops, after trending down in the second half of 1984 and the early months of this year, moved up 2 percentage points in March before resuming its downward trend during the subsequent three months. Compared with a year ago, the crop index averaged more than 11 percent lower during the first half of 1985. In June, the index of crop prices stood at 123 and was almost 15 percent below the previous year. Declines from the previous month in prices of food grains, feed grains and hay, oilseeds and vegetables were partially offset by higher prices for cotton and fruit.

Producers of livestock and livestock products have experienced a somewhat smaller price decline this year than crop producers have. After holding steady early in 1985, the index of livestock and livestock product prices dropped this spring and then leveled off in June. For the six-month period, the index averaged about 6.4 percent less than it did during the comparable period last year. The June index of livestock and product prices held at 134 percent of the 1977 base, unchanged from May, but down almost 7 percent from a year ago. Prices of meat animals held steady at the month-earlier level as gains in hog prices offset lower cattle and calve prices. The index of poultry and egg prices climbed almost 7

Prices received by farmers have trended down



SOURCE: USDA

percent in June, while the dairy product price index dropped more than 5 percent to its lowest level in almost six years.

The index of prices paid by farmers for commodities and services, interest, taxes, and farm wage rates has been quite stable over the last eighteen months, holding within 1 percentage point of the current level. Prices paid for farm production items, although unchanged from May, were down 2.6 percent from the previous year. Feed prices in June, down slightly from a month earlier, had dropped 17 percent from the high level of a year ago. The index of tractor and self propelled machinery prices in June was almost 3 percent lower than the 1984 level. The year-to-year declines in these production items were partially offset by increased prices paid for feeder livestock, fuel, and other machinery. Farm wage rates and taxes registered year-to-year gains of 5.3 and 2.3 percent, respectively, while interest costs eased slightly. The family living cost component of the overall index of prices paid by farmers, up slightly from a month earlier, registered a year-to-year increase of 3.5 percent.

Prices paid by farmers for all of this year are expected to average at, or slightly below, the 1984 level. If prices paid for all inputs drop in 1985, it will mark the first annual decline in the index in thirty years. Feed prices are forecast to continue below year-earlier levels in the second half but by a smaller margin than in the first-half. However, lower feed prices will be partially offset by feeder livestock prices continuing to hold above year-earlier levels. Prices for fertilizers and pesticides this spring were below a year earlier. Fuel and energy prices are expected to hold at year-ago levels in 1985. Prices for seeds, machinery, and farm services, on the other hand, are forecast to show a slight rise for the year.

With input prices moderating, acreage planted down slightly from a year ago, and livestock production mixed, farm expenses are projected to register a small decline in 1985. Total expenses are expected to range from \$136 to \$140 billion, with cash expenses of between \$111 and \$115 billion. Current estimates suggest that cash expenses in 1984 totaled somewhere between \$113 and \$115 billion. Feed expenses are forecast to be down 2 to 6 percent this year, while feeder livestock outlays rise 1 to 5 percent. Expenses for manufac-

tured inputs such as fertilizer, pesticides, and fuel are expected to drop 1 to 4 percent, following the sharp rise of a year ago. A similar decline in interest expenses is expected, reflecting lower interest rates and perhaps another decline in outstanding farm debt. Continued year-to-year declines in capital expenditures are expected to contribute to a third consecutive annual decline in depreciation expenses.

Cash receipts from farm marketings are projected to slip in 1985 as crop receipts hold near last year's level while livestock receipts fall. Cash government payments are expected to rise substantially this year, largely offsetting the ending of PIK disbursements. Overall, gross cash farm income this year is expected to decline from a year earlier. The drop in farm revenues is expected to outstrip the decline in expenses, pressuring net income lower. Net cash income—gross cash income less cash expenses—is expected to range from \$34 to \$39 billion this year down from the \$37 to \$40 billion forecast for 1984. Net farm income, a measure of the income from a given year's production that includes depreciation expenses and an adjustment to income for the value of the change in inventories, is projected to total \$20 to \$25 billion in 1985. Such a level would represent a substantial decline in net farm income from the high \$33 to \$36 billion estimate for 1984, but would be above the 1983 level of \$16.1 billion.

The substantial year-to-year drop forecast for net farm income in 1985 is due primarily to a large swing in the value of inventory changes between this year and 1984. Last year, the value of the change in inventories was between \$7 and \$9 billion, accounting for a large share of total net farm income. This year, the value of the change in inventories is expected to be very small and may even be negative.

Peter J. Heffernan

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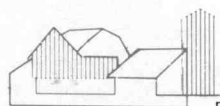
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops	N/A*				
Livestock	N/A*				
Government payments	N/A*				
Real estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	10.3	1.4 [†]	7	22
Federal Land Banks	March 31	49.0	-0.3 [†]	0	2
Life insurance companies	April 30	12.1	-0.6 [†]	-4	-5
Farmers Home Administration	March 31	10.5	1.9 [†]	6	11
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	38.4	-3.4 [†]	-2	5
Production Credit Associations	March 31	16.6	-7.4 [†]	-12	-17
Farmers Home Administration	March 31	16.7	1.7 [†]	8	9
Commodity Credit Corporation	March 31	10.2	14.7 [†]	16	-47
Farm loans made (\$ millions)					
Production Credit Associations	December	2,535	34.7	-13	-22
Federal Land Banks	December	201	1.7	-24	-37
Life insurance companies	April	43	2.0	-65	-58
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	April 1	13.47	-1.2 [†]	-3	-2
Real estate loans	April 1	13.22	-1.0 [†]	-2	-2
Commodity Credit Corporation	July	7.88	-10.0	-34	-17
Agricultural exports (\$ millions)					
Corn (mil. bu.)	May	2,111	-21.9	-34	-21
Soybeans (mil. bu.)	May	138	-18.4	-16	-8
Wheat (mil. bu.)	May	33	-49.3	-42	-43
	May	63	-17.8	-48	-40
Farm machinery sales^P (units)					
Tractors, over 40 HP	June	6,976	21.1	3	-13
40 to 139 HP	June	5,858	26.4	11	-9
140 HP or more	June	1,118	-0.6	-25	-28
Combines	June	477	0.8	-4	-16

*Monthly data no longer available.

[†]Prior period is three months earlier.

^pPreliminary



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