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CORN AND SOYBEAN PRICE PROSPECTS were dampened last week by USDA reports that foreshadow a bumper 1981 harvest and lower utilization of the crops harvested in 1980. The 1981 corn production estimate was raised to 7.73 billion bushels, up 9 percent from the initial forecast made one month ago and up 16 percent from the drought-reduced outturn of last year. In its initial forecast for soybeans, the USDA projected a harvest of 2.02 billion bushels, up 11 percent from last year. These harvest prospects, coupled with lagging optimism about a significant recovery in utilization in the 1981/82 marketing year heighten the likelihood of a substantial buildup in carryover stocks a year from now.

Although bumper harvests are expected, the current estimates suggest corn and soybean production this year will fall short of the records set in 1979 by 2.5 percent and 11 percent, respectively. However, the forecasts imply corn and soybean production this year will be the second largest on record. Moreover, the current estimates point to a 1981 all-crop harvest that is comparable to the 1979 record, 11 percent larger than last year, and a third larger than a decade ago. Wheat production, for instance, is expected to exceed last year's record by 16 percent. Production of feed grains other than corn—barley, oats, and sorghum—is projected to be a third larger than last year.

Production prospects for other Northern Hemisphere countries are mixed. But overall, the likelihood of huge crops in North America and the large crops harvested earlier this year in the Southern Hemisphere, particularly for coarse grains and oilseeds, portend plentiful world supplies for the next several months. Grain production in Canada is forecast to break a five-year record and exceed last year's level by 23 percent. Grain production in Western Europe is expected to be down 5 percent from last year's record, while production in Eastern Europe may only match that of a year ago. Tentative projections for grain production in the Peoples Republic of China point to a slight recovery from the curtailed outturn of a year ago but still less than harvested in 1979. Grain production in the Soviet Union is now expected to fall below that of last year, marking the third consecutive year that the Soviet harvest has fallen far short of their needs and their targeted goals.

1981 corn and soybean production estimates for District states*

	Yield per acre		Production	
	Bushels	Change**	Million bushels	Change**
		(bushels)		(percent)
Corn				
Illinois	120	27	1,356	27
Indiana	94	– 2	564	– 6
Iowa	125	15	1,688	15
Michigan	95	0	266	8
Wisconsin	103	– 1	360	3
District states	114	13	4,234	14
United States	104	13	7,735	16
Soybeans				
Illinois	36	2	338	9
Indiana	32	– 4	147	7
Iowa	40	1	326	1
Michigan	30	– 2	28	– 7
Wisconsin	34	1	13	16
District states	36	0	852	2
United States	30	3	2,017	11

*Based on conditions as of August 1.

**From year before.

Utilization estimates for the 1980/81 corn and soybean marketing years were lowered again last week, a trend that has become repetitive in recent months as domestic use and export shipments have waned far short of expectations last fall and winter. The lower utilization estimates reflect a scaling back in livestock production which has lowered domestic feed use. In addition, export activity has tapered off, in part because of abundant supplies in exporting countries of the Southern Hemisphere. The soft export picture also reflects slower economic growth in major importing countries, the sharply higher value of the U.S. dollar, high interest rates, and a downward trend in corn and soybean prices. These developments have tended to undermine U.S. exports and encourage "hand-to-mouth" buying patterns in major importing countries.

Current estimates of production and utilization point to large carryover stocks next fall

	1978/79	1979/80	1980/81	1981/82
		(million bushels)		
Corn				
Beginning stocks	1,111	1,304	1,617	1,016
Production	7,268	7,939	6,648	7,735
Total supply	8,380	9,244	8,266	8,752
Domestic use	4,944	5,194	4,900	5,025
Exports	2,133	2,433	2,350	2,450
Total utilization	7,077	7,627	7,250	7,475
Ending stocks	1,304	1,617	1,016	1,277
Soybeans				
Beginning stocks	161	174	359	345
Production	1,869	2,268	1,817	2,017
Total supply	2,030	2,442	2,176	2,362
Crush	1,018	1,123	1,020	1,060
Exports	739	875	720	800
Seed and residual	99	85	91	92
Total utilization	1,856	2,083	1,831	1,952
Ending stocks	174	359	345	410

SOURCE: USDA.

With the dwindling estimates of utilization, carryover stocks of corn this fall are now expected to exceed 1 billion bushels, equivalent to about 14 percent of utilization. As recently as last February, corn carryover had been expected to fall to 560 million bushels, equivalent to only 7 percent of the higher utilization estimates that prevailed at that time. Carryover stocks of soybeans are now projected at nearly 350 million bushels, equivalent to a burdensome 19 percent of utilization over the past year. This diverges sharply from the February projections that indicated carryover stocks of soybeans, at 220 million bushels, would be equivalent to 11 percent of the utilization forecast at that time.

Preliminary forecasts for the 1981/82 marketing year point to only a modest recovery in utilization compared with the enhanced supplies that will follow this year's harvest. As a result, the USDA projects carryover stocks of corn next fall could reach 1.3 billion bushels, equivalent to 17 percent of the utilization now expected for the year ahead. Soybean carryover is expected to swell to over 400 million bushels, equivalent to well over a fifth of the utilization forecast for the next 12 months.

The price outlook as gauged by current estimates of production and utilization point to lower season average prices for corn and soybeans in the 1981/82 marketing year. The midpoints of the USDA price forecasts signal a 1981/82 season average farm price of $2.90 a bushel for corn and $6.75 a bushel for soybeans. In comparison, preliminary estimates peg the 1980/81 season average prices at $3.15 a bushel for corn and $7.50 for soybeans.

The prospects for lower prices, however, should be tempered by the high level of uncertainty that still exists. Production estimates may yet be altered by subsequent weather developments. In particular, domestic corn and soybeans are still vulnerable to an early frost because of the unusually late planting season last spring. Estimates of utilization may also be altered. Domestic utilization could be enhanced if near-term softness in corn and soybean meal prices encourage higher levels of livestock production than presently foreseen. Exports could prove to be stronger than now forecast, particularly if the Soviet Union is permitted to purchase as much U.S. grain as many analysts project they will need. In the wake of the USSR's third consecutive poor harvest and the likely supplies available in other countries, many analysts believe the USSR, if permitted, will purchase at least 15 million tons of grain from the United States over the next year. Such a level would equal the earlier peak in U.S. grain sales to the Soviet Union. The one-year extension of the U.S./USSR grain agreement permits purchases of up to 8 million tons, with larger amounts, if desired, subject to authorization by the Administration. A return to larger Soviet sales might strenghten what appears to be lackluster price prospects for the near term.

Gary L. Benjamin

RETAIL FOOD PRICE INCREASES have been more moderate in recent months than was previously expected. The index of consumer food prices in June was only 0.4 percent higher than the month before and 2.7 percent higher than in December. Larger month-to-month gains are likely in the second half as the farm value of meats and other products increase and food marketing costs continue to rise. But it now appears that the average rise in retail food prices for all of 1981 may not exceed last year's 8.6 percent.

The slower rise in food prices has been most apparent for foods purchased in grocery stores. The index of retail prices of food consumed at home—a measure of grocery store food prices—in June was only 1.8 percent higher than in December and 8.3 percent above a year ago. In comparison, the index of food consumed away from home was 4.6 percent higher than in December and 9.2 percent higher than a year ago. Despite the faster price rise, the volume of food consumed away from home has turned upward this year. The upturn resumes a long-term trend that was interrupted the past couple of years by high fuel prices and reduced vacation travel.

Sharp increases in labor and energy costs—major cost components for eating establishments—in the first quarter fostered the faster rise in prices of food consumed away from home. Fuel costs rose rapidly following price deregulation early in the year. Labor costs accelerated as a result of changes in social security taxes and minimum wages.

Abundant supplies and lower prices for livestock and poultry products, eggs, and sugar accounted for the slower first-half rise in grocery store food prices. Retail prices of meats—which make up a fifth of the retail food price index—in June were down 2.2 percent from December. Retail pork prices in June were 3.4 percent below the December level. Beef prices were down 1.5 percent from December. Poultry and egg prices in June were down 2.9 percent and 16.7 percent, respectively, from December. Sugar prices, which rose sharply in 1980, fell 6.5 percent from December to June of this year. Although declines in these food categories this year helped trim the rise in food prices overall, all these items were, nevertheless, above year-ago levels in June.

Fruits and vegetables, fats and oils, and cereals and bakery items paced the other grocery store food items that rose in price during the first half of 1981. Fruit and vegetable prices rose sharply in the first quarter as reduced supplies of fresh vegetables and oranges followed the mid-January freeze in Florida. Fresh fruit and vegetable prices were up 8.9 percent from December to June, while processed fruit and vegetable prices were up 8.7 percent. Fats and oils prices increased 7.0 percent from December to June, largely reflecting the sharp increase in the price of peanut-derived products. Cereal and bakery products in June were up 5.0 percent from December and up 10.4 percent from a year ago.

Increases in processing and distribution costs—which account for two-thirds of consumer food expenditures—also impacted adversely on food prices, particularly during the first quarter. Food marketing costs increased 4.2 percent from December to March but slowed to a 2.3 percent rise in the second quarter. At midyear, food marketing costs were up 12 percent from the year before. Transportation and energy and fuel costs led the rise in all marketing costs and in June exceeded year-earlier levels by 17 percent and 20 percent, respectively. Labor costs, which represent a half of the food marketing costs, were up 11 percent in June from a year ago.

Retail food prices are expected to rise more rapidly in the second half as the farm value of some foods rises and marketing costs continue to increase. Declining meat supplies in the third quarter, resulting primarily from reduced pork production, will trigger an upturn in retail pork and beef prices. The pressures on meat prices, however, may abate in the fourth quarter. Retail meat prices were expected to fuel food price inflation throughout most of the year. But it now seems that even with the third-quarter climb, retail meat prices for all of 1981 may only show an average increase of 5 to 6 percent over last year, well below earlier estimates which bordered 20 percent.

Fruit and vegetable prices are expected to average 13 percent higher this year. But in the months ahead, prices could rise even higher if the "Medfly infestations" in California and Florida spread further. The infestations, which began in noncommercial areas more than a year ago, have recently spread into a small portion of the commercial growing areas of California. Though little impact on supplies or prices has resulted so far, it is possible that further outbreaks could significantly reduce shipments of produce and trigger a sharp rise in prices. Aerial spraying of malathion is in progress and has been used effectively in the past. Also, fumigation and cold storage treatment are remedies used for fresh fruit and vegetables in quarantined areas. But these treatments add to the cost of produce and can measurably slow down the flow of supplies from production areas since few fumigation chambers exist and cold storage is limited.

Some relief is expected during the second half of 1981 from fats and oils prices, sugar prices and dairy products. Except for peanuts, large supplies of fats and oils may exert downward pressure on fats and oils prices. Sugar prices have continued to decline and as a result will also dampen price gains for bakery items and nonalcholic beverages. Retail dairy product price increases may be tempered by the Administration's efforts to curtail the dairy support program and hold back the upward racheting of dairy prices.

Upward pressure from food marketing costs will continue in the second half. Increases in food marketing costs in the third and fourth quarters are likely to parallel the 2 percent increase of the second quarter. For the year food marketing costs are expected to increase 10 to 12 percent over last year.

Taking all components into account, it now appears that the average annual increase in retail food prices will hold very close to last year's rise of 8.6 percent. Earlier in the year most analysts had expected food prices to rise 12 percent or more above a year ago.

Jeffrey Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	July	233	+ 0.7	+12
Total loans at agricultural banks†	1972-73=100	July	267	+ 1.5	+ 6
Production credit associations					
Loans outstanding					
United States	mil. dol.	July	22,449	+ 1.5	+11
Seventh District states	mil. dol.	July	4,609	+ 1.4	+11
Loans made					
United States	mil. dol.	July	2,560	– 6.5	+18
Seventh District states	mil. dol.	July	555	–10.3	+20
Federal land banks					
Loans outstanding					
United States	mil. dol.	July	40,970	+ 1.7	+20
Seventh District states	mil. dol.	July	9,785	+ 1.6	+22
New money loaned					
United States	mil. dol.	July	803	– 2.5	+33
Seventh District states	mil. dol.	July	182	–16.6	+23
Interest rates					
Feeder cattle loans††	percent	2nd Quarter	17.14	+ 1.2	+10
Farm real estate loans††	percent	2nd Quarter	15.89	+ 2.1	+ 7
Three-month Treasury bills	percent	8/13-8/19	15.61	+ 2.9	+82
Federal funds rate	percent	8/13-8/19	18.19	– 4.5	+106
Government bonds *(long-term)*	percent	8/6-8/12	13.89	+ 3.8	+29
Agricultural trade					
Agricultural exports	mil. dol.	June	3,191	–10.5	+ 6
Agricultural imports	mil. dol.	June	1,310	–14.3	–11
Farm machinery sales[P]					
Farm tractors	units	July	11,636	+43.5	+14
Combines	units	July	2,942	+63.5	+23
Balers	units	July	3,095	+18.7	0

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

[P]Preliminary.

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