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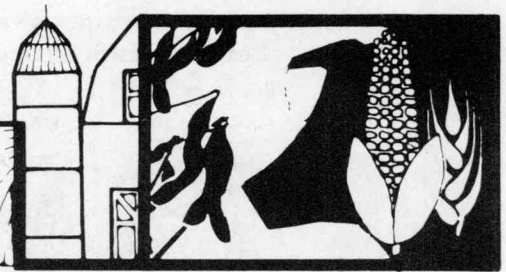
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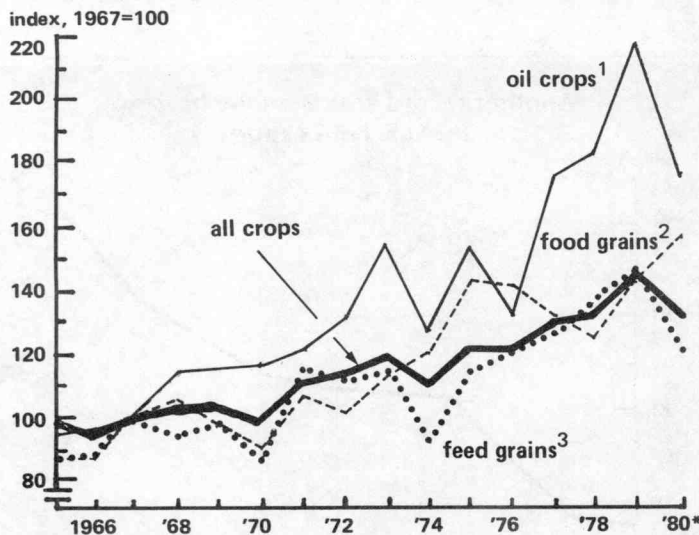
September 19, 1980

Number 1534

LETTER

CROP PRODUCTION ESTIMATES released by the USDA last week point to the largest year-to-year decline in overall crop production in several decades. Based on September 1 conditions, the index of all crop production is expected to fall 9 percent this year to 131 (1967 = 100). Despite the decline this year's crop harvest is expected to be one of the largest on record. Projected declines of around a fifth for oil crops and cotton, a sixth for feed grains, and 8 percent for hay and forage account for the cutback in overall crop production. Among other major crops, production of food grains (wheat, rice, and rye, is expected to be up 9 percent from last year's record. Tobacco production is expected to be up 15 percent, and production of sugar crops is projected to be nominally larger than last year.

Feed grains and oil crops account for most of the expected decline in total crop production



1 Soybeans, peanuts, cottonseed, flaxseed, and tung nuts.
 2 Wheat, rice, and rye.
 3 Corn, sorghum, barley, and oats.
 *USDA estimates based on conditions as of September 1.

Corn and soybean production estimates were revised downward 2 and 3 percent, respectively, from the projections made one month earlier. In both cases the lower estimates reflect a cut in the expected acreage to be harvested and a decline in prospective yields per harvested acre. The revised estimate pegged this year's corn crop at 6.53 billion bushels, down 16 percent from last year. Soybean production was estimated at 1.83 billion bushels, 19 percent below last year's harvest. Despite the large declines this year's corn and soybean crops are expected to be the third largest on record.

September production estimates are usually more accurate than August estimates. Nevertheless, the historical record suggests that final estimates may differ by a considerable amount from the current estimates. Since 1968 deviations between the September and the final estimate of corn production have averaged nearly 5.5 percent. For soybeans, deviations between the September and the final estimate have averaged a little over 4 percent. On balance, September projections have tended to be somewhat below the final estimates, particularly for corn. At the same time, however, September projections have tended to overestimate the final size of the harvest in years of significant production declines.

In other areas of the world, grain production prospects improved on balance last month. The most dramatic improvement was in Canada. In contrast to last month's projected decline of 13 percent, Canadian wheat production is now expected to slightly exceed last year's reduced output. The estimate of Canada's coarse grain production was also increased substantially and is now expected to exceed the 1979 crop by 13 percent. The estimate of grain production in Western Europe was revised upward slightly to a level of nearly 7 percent higher than last year. Eastern Europe is expected to harvest a 5 percent larger grain crop this year, down slightly from the increase that had been forecast last month. The

Corn and soybean prospects vary widely between district states

	Per acre yields		Production		
	1979	1980*	1979	1980*	Change
	(bushels)		(million bushels)		(percent)
Corn					
Illinois	128	100	1,358	1,105	-19
Indiana	112	96	664	595	-10
Iowa	127	108	1,626	1,426	-12
Michigan	95	97	238	238	0
Wisconsin	103	105	307	337	9
District states	120.4	102.5	4,192	3,699	-12
United States	109.4	91.8	7,764	6,534	-16
Soybeans					
Illinois	38	35	374	324	-13
Indiana	36	34	159	148	-7
Iowa	38	37	310	305	-2
Michigan	30	30	29	29	0
Wisconsin	34	34	10	11	12
District states	37.4	35.3	882	817	-7
United States	32.2	27.0	2,268	1,831	-19

*USDA estimates based on September 1 conditions.

estimate of total grain production in the Soviet Union was left unchanged at 210 million metric tons, although many observers believe recent rains have reduced the quality of the Soviet crop. The projected Soviet grain harvest is about a sixth larger than the poor crop of last year but still well below the planned output for this year.

The latest estimates of world crop prospects point to higher prices than had been forecast last month and a larger drawdown in domestic carryover stocks of corn and soybeans. The USDA expects corn exports in the

1980/81 marketing year will be slightly higher than the record 2.4 billion bushels shipped in 1979/80. However, a decline in corn used domestically for livestock feeding may hold total utilization of corn close to the 7.35 billion bushels projected for the current year that ends this month. Compared to this year's projected corn harvest, that level of utilization implies carryover stocks of corn will decline from 1.7 billion bushels this year to 870 million bushels next year. Relative to utilization, that would be the smallest carryover since the end of the 1975/76 marketing year. The bulk of the corn in the three-year reserve program will have to be withdrawn in the year ahead in order to provide adequate "free-market" carryover stocks next fall. The midpoint of the USDA's projected season-average corn price for 1980/81 is \$3.25 per bushel, up from around \$2.50 in 1979/80 and virtually identical to the upper "call" price associated with the corn reserve program.

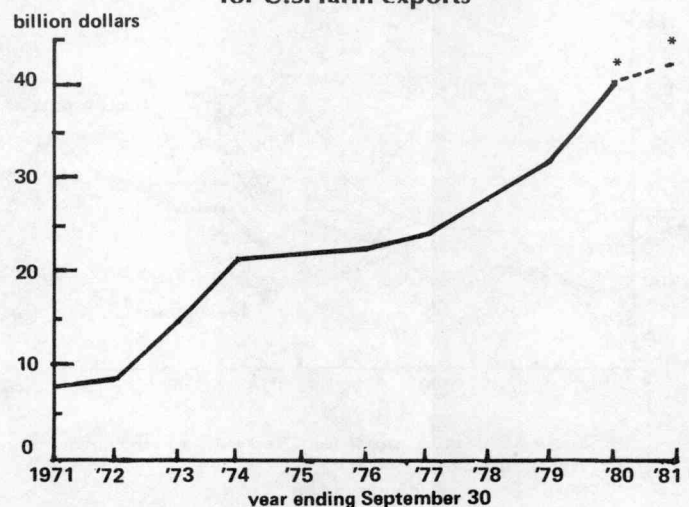
For soybeans, the USDA is projecting total utilization during the 1980/81 marketing year may be down about 5 percent from 2.09 billion bushels apparently used during the past year. Proportionate declines are expected for exports, which totaled 870 million bushels in 1979/80, and crushings. Carryover stocks of soybeans are expected to decline from 370 million bushels this year to 220 million next year. The smaller carryover would be equivalent to about 11 percent of projected utilization, equal to the average carryover/utilization ratio of the past ten years. Farm level prices for soybeans during the 1980/81 marketing year are expected to average about \$8.25 per bushel, up from \$6.25 in 1979/80.

Gary L. Benjamin

U.S. AGRICULTURAL EXPORTS continue at a record pace. The value of agricultural exports for the first three quarters of fiscal 1980 reached \$31 billion, only \$1 billion short of the entire fiscal 1979 results. The USDA now expects agricultural exports for all of fiscal 1980 to reach \$40 billion. The preliminary estimate for fiscal 1981 beginning in October pegs exports to be even higher. Imports, on the other hand, are growing at a slower pace, permitting the agricultural trade surplus to reach new highs.

Agricultural exports in the first three quarters of fiscal 1980 were up 30 percent from the same period the year before. Both volume of shipments and higher prices contributed to the increased value of exports. Volume of shipments, at 124 million metric tons, was up 23 percent from a year ago.

Another record year is on the horizon for U.S. farm exports



*USDA estimates.

Grains, oilseeds and products, cotton, and fruits, nuts, and vegetables accounted for most of the rise in exports during the first three quarters of fiscal 1980. Grain exports increased 48 percent over a year ago and oilseeds were up 14 percent. The higher value of grain exports included a 20 percent increase in volume of shipments as well as higher prices. The increase for soybeans reflected increased tonnage which more than offset the lower prices. The strength in major export commodities caused the USDA to revise their fiscal year export estimate upward \$2 billion from an earlier report.

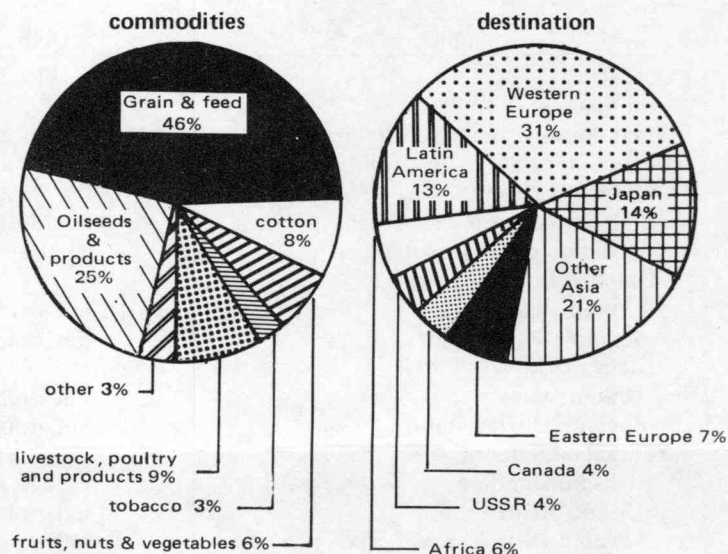
For all of fiscal 1980, the volume of agricultural exports is expected to reach 162 million metric tons, up 18 percent from the year before. This would represent a remarkable performance, particularly in light of earlier concern about the capacity of the export distribution network to handle larger volumes of agricultural commodities. A mild winter in the Midwest and relatively few bottlenecks in transporting commodities permitted the high export volume. There is a continuing interest, however, in relieving the persistent delay in movement of grains down the Mississippi River and assuring adequate supplies of railcars in grain production areas.

Exports through June were above year-earlier levels to all areas except West Asia—which includes Turkey, Iraq, and Iran. Exports to eastern European countries and China increased 85 percent over last year. Exports to Latin American countries were up 64 percent, reflecting large corn and sorghum purchases by Mexico and Brazil. Exports to Japan and Western Europe increased 12 percent and 29 percent, respectively.

Exports during the last quarter of fiscal 1980 (July-September) will have to exceed the year-earlier level by 10 percent to meet the USDA's estimate of \$40 billion for the current year. That would be a much smaller rate of increase than experienced during the previous three quarters. The volume of export shipments this summer—although high—has dipped below year-earlier levels. But the higher prices should be sufficient to meet the export projection for all of fiscal 1980.

Agricultural imports rose to \$13.3 billion during the first nine months of fiscal 1980, 8 percent higher than the year before. The increase was concentrated in dairy and

Agricultural exports fiscal 1980 \$40 billion*



*USDA estimate.

poultry products, sugar, and coffee. The quantity of sugar and coffee imports declined, but prices were sharply higher. For the fourth quarter, imports may not be above the previous year's level of \$3.8 billion. The volume of imports is likely to remain below year-earlier levels, but prices will be up. For all of fiscal 1980, agricultural imports are forecast at \$17.5 billion. Compared to exports, this suggests a record agricultural trade surplus of \$22.5 billion, 40 percent higher than a year ago.

The outlook for exports and the trade balance in fiscal 1981 is favorable. Preliminary estimates place export value at \$42.5 billion, moderately above this year. Increased prices for U.S. agricultural commodities may account for the greater share of export value change. Reduced supplies in other exporting countries and expanding livestock production could augment export demand. However, slow economic growth worldwide and a shortfall in U.S. production may leave export volume only marginally changed from the 162 million tons projected for this year. Wheat is expected to show an increase in volume, but feed grain and soybeans are not. Import forecasts indicate minimal change from fiscal 1980, implying the agricultural trade surplus could reach \$25 billion in fiscal 1981.

Jeff Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	August	210	+ 1.2	+ 7
Time deposits	1972-73=100	August	263	+ 1.2	+12
Demand deposits	1972-73=100	August	122	+ 1.1	- 6
Total loans at agricultural banks†	1972-73=100	August	252	- 0.2	+ 1
Production credit associations					
Loans outstanding					
United States	mil. dol.	July	20,230	+ 0.2	+19
Seventh District states	mil. dol.	July	4,155	- 0.2	+22
Loans made					
United States	mil. dol.	July	2,161	-11.1	+10
Seventh District states	mil. dol.	July	463	-12.9	+11
Federal land banks					
Loans outstanding					
United States	mil. dol.	July	34,167	+ 1.4	+24
Seventh District states	mil. dol.	July	8,029	+ 1.6	+30
New money loaned					
United States	mil. dol.	July	603	- 3.9	+16
Seventh District states	mil. dol.	July	148	-12.0	+17
Interest rates					
Feeder cattle loans††	percent	2nd Quarter	15.55	+ 1.5	+46
Farm real estate loans††	percent	2nd Quarter	14.82	+ 1.5	+39
Three-month Treasury bills	percent	9/4-9/10	9.92	+15.3	- 5
Federal funds rate	percent	9/4-9/10	10.22	+15.5	-10
Government bonds (<i>long-term</i>)	percent	9/4-9/10	11.06	+ 1.4	+21
Agricultural trade					
Agricultural exports	mil. dol.	July	3,020	+11.2	0
Agricultural imports	mil. dol.	July	1,427	+ 3.3	+11
Farm machinery sales^P					
Farm tractors	units	August	7,561	-25.4	- 6
Combines	units	August	2,101	-12.3	-33
Balers	units	August	1,748	-42.5	-26

†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.

^PPreliminary.

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