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LETTER

CROP PRODUCTION ESTIMATES by the USDA portend another bumper harvest this year. Based on August 1 conditions, the index of all crop production is expected to rise 5 percent above the high set last year. Total feed grain production may not quite match last year's record, but corn production may exceed the bountiful 1978 harvest. Projections show food grain production (wheat, rice, and rye) up 16 percent from last year to a level slightly above the peak in 1975. Production of oil crops—primarily soybeans—is expected to exceed last year's record by 15 percent. For grains, these prospects suggest the United States can capture a large share of the exceptionally strong world demand without seriously depleting carryover stocks. For soybeans, the large harvest portends a substantial buildup in carryover stocks.

Corn and soybean harvests are expected to reach new highs this year. The USDA expects corn production

Bumper corn and soybean yields expected in district states this year¹

	Yield per acre		Production	
	Bushels	Change ² (bushels)	Million bushels	Change ² (percent)
Corn				
Illinois	112	1	1,179	-1.0
Indiana	112	4	655	2.8
Iowa	114	-3	1,436	-1.8
Michigan	83	2	191	4.7
Wisconsin	98	-2	274	1.5
United States	102.1	0.9	7,109	0.4
Soybeans				
Illinois	35	2	341	12.5
Indiana	36	2	158	12.8
Iowa	37	-1	301	5.1
Michigan	26	2	25	31.4
Wisconsin	31	-1	10	39.7
United States	30.3	1.1	2,129	15.6

¹USDA estimates based on August 1 conditions.

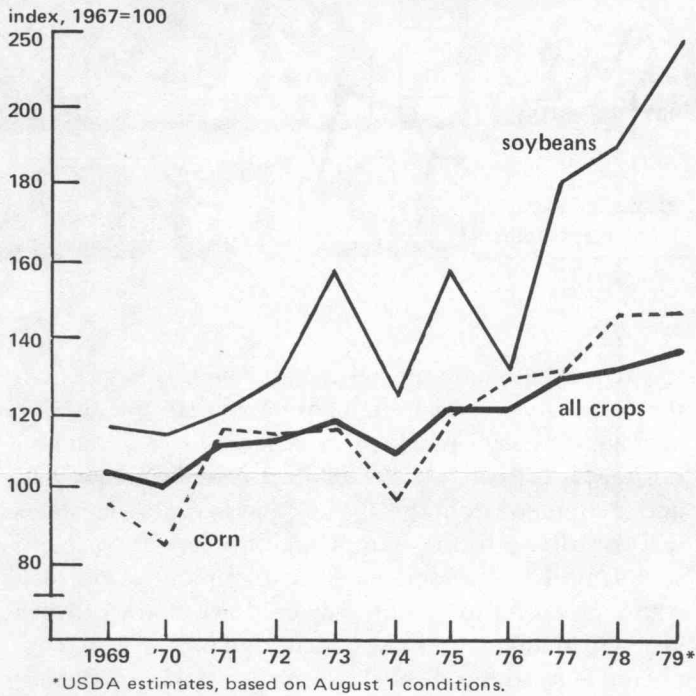
²From year earlier.

to exceed 7.1 billion bushels. That is slightly larger than the 1978 harvest and 15 percent more than the 1975-77 average. Soybean production, estimated at 2.1 billion bushels, is expected to be up 16 percent from last year and 39 percent from the 1975-77 average. District states will contribute to the bumper fall harvest of corn and soybeans if late-season crop development is normal. Although corn production may be down slightly from a year ago in Illinois and Iowa, increased production is expected in the other three district states. All five states are expected to harvest a larger crop of soybeans, with gains ranging from 5 percent in Iowa to nearly 40 percent in Wisconsin.

Although the weather so far this month has been favorable for crop development, final estimates could be changed by late-season weather patterns. This year's crops are still vulnerable to an early frost. The abundant moisture in recent weeks has stimulated plant growth and could delay the natural maturing process. Over the past ten years, August corn production estimates have deviated from the final estimate by an average of 314 million bushels. For soybeans, deviations between August and final estimates have averaged 64 million bushels. Final estimates for both corn and soybeans have exceeded the August estimate in seven of the past ten years. Barring an early frost, many observers feel that may be the case again this year.

Prospects for world production of wheat and coarse grains in 1979/80, although up from a month ago because of the brighter domestic crop conditions, still point to a 5 percent decline from last year's record. (As of now, 1979/80 production estimates for the Southern Hemisphere—which includes some major grain exporting countries—are especially tentative. Harvests in that part of the world will not be complete for eight or nine months.) Grain production in Canada is expected to be down more than a tenth from last year, possibly to the lowest level since 1974. Grain production in Western Europe—a major importer of coarse grains—is expected to be large again this year, but still 5 percent less than last year. In Eastern Europe, grain production will probably

Index of all crop production expected to reach a new high this year



be down about 6 percent from last year, with wheat accounting for most of the shortfall. The estimate of Soviet grain production remains unchanged from a month ago, down more than a fifth from last year. Current indications point to another record grain harvest in China. China's grain imports, however, are expected to remain comparatively large.

Despite the likely decline, world grain production is still expected to be the second largest on record. Nevertheless, the growing emphasis on livestock production, particularly in centrally planned economies, and the strong demand from developing countries and traditional trading partners, suggest that world utilization of grain will remain high in the year ahead. World grain trade will, therefore, increase substantially over the next several months. This, together with the likelihood of smaller crops in other exporting countries, highlights the trade advantage to the United States from a bumper domestic harvest.

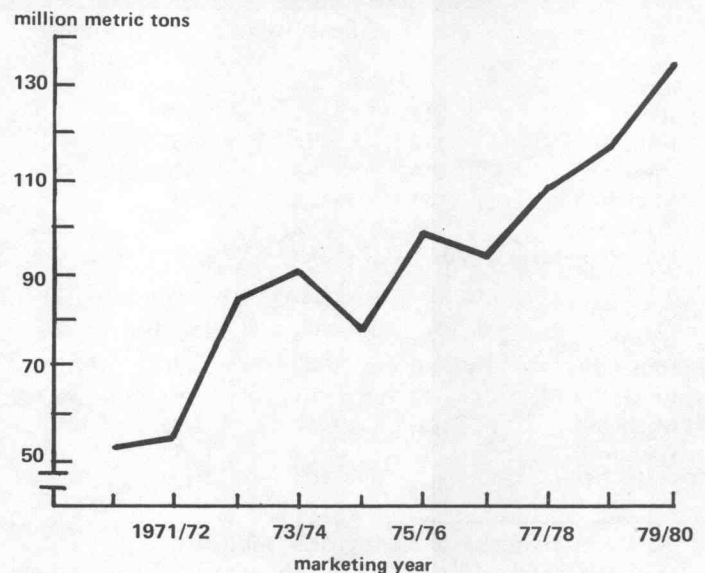
The USDA now expects world trade in wheat and coarse grains to rise from 162 million metric tons in the year that ended in June to 179 million tons in 1979/80. On the import side, the Soviet Union is expected to account for all of the projected 17 million metric ton increase in world trade. Soviet imports of wheat and coarse grains are now projected to reach 32 million metric tons in 1979/80, a fourth more than the 1975/76 peak in Soviet imports. On the export side, U.S. shipments of wheat and coarse grains are expected to rise 19 million metric tons in the year ending June 1980 and account for more than

three-fifths of world trade. In the past four years, the U.S. share of world grain trade has ranged from 53 to 56 percent.

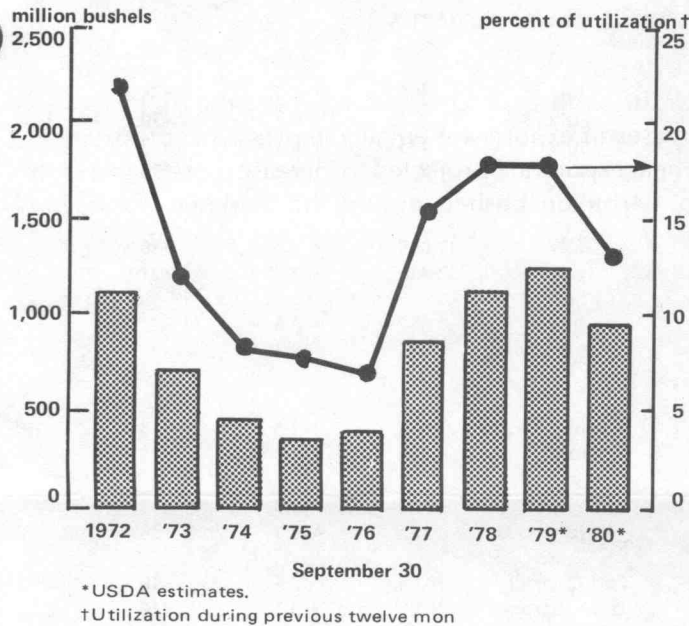
In terms of crop marketing years, the projected increases in exports are equally impressive. For instance, wheat exports are projected to increase more than a sixth to 1.4 billion bushels during the marketing year that began in June. Corn exports, now estimated at nearly 2.2 billion bushels for the year ending in September, are expected to jump to 2.5 billion in the coming marketing year. And soybean exports are expected to rise 8 percent to 825 million bushels during the marketing year that begins next month. These USDA projections, in the aggregate and including other minor crops, suggest 1979/80 export shipments of U.S. grains and soybeans might reach 136 million metric tons, up 15 percent from this year.

Some analysts question whether capacity constraints or other bottlenecks, here or abroad, might limit the increase in world grain trade, particularly, with all of the increase concentrated between the Soviet Union and the United States. Export shipments of grains and soybeans are currently moving at a very rapid pace. And some ports are gearing up for the boom by adding new facilities and extra shifts. Nevertheless, it would appear that the big increase in exports could be achieved only if disruptions are held to a minimum. Several factors could limit the increase, however. Constraints in the form of rail car shortages and lock capacities have been evident for months and may not ease sufficiently to permit the necessary increase in rail and barge shipments. Labor disputes at Duluth/Superior are slowing Great Lakes shipments. Although observers don't anticipate any

Another big increase in grain and soybean exports expected in 1979/80



Carryover stocks of corn may be lower next fall...

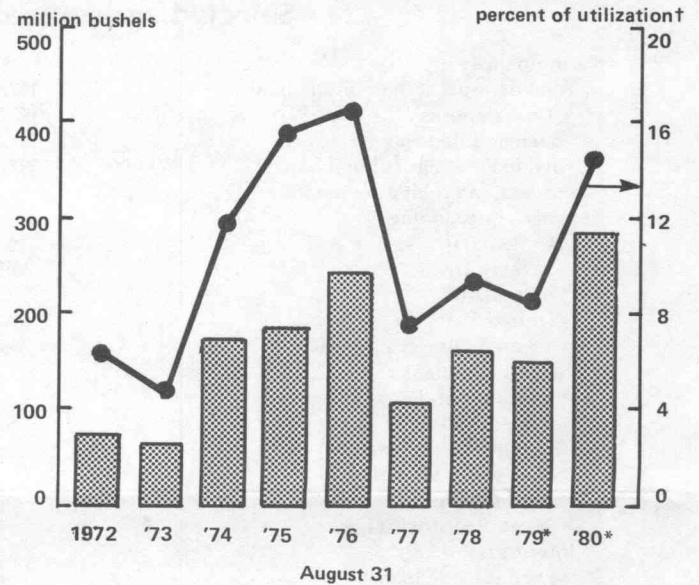


problems, disputes could surface at other ports. Problems in scheduling vessels and congestion at ports have occurred in past periods of rapid growth in exports and could appear again. Harsh winter weather like that of the past two or three years could disrupt all forms of internal grain and soybean movements. And the energy situation, particularly as it pertains to the availability of fuel for barges and trucks, poses some uncertainties about projected increases in grain and soybean exports.

Domestic utilization of grains and soybeans, which has trended sharply upward for the past several months, is expected to register much smaller gains in the coming year as the expansion in hog and poultry production slows. The USDA expects domestic utilization of corn will approach 4.9 billion bushels during the 1979/80 marketing year, only slightly more than the 4.8 billion estimated for the year that ends in September. And 1979/80 soybean crush may increase less than 6 percent, despite the pending large increase in soybean production.

The end result of these various projections on production, domestic utilization, and exports point to a substantial increase in carryover stocks of soybeans and a tightening in the comparatively large carryover stocks of grain. Carryover stocks of soybeans, now estimated at 155 million bushels for this year, are expected to be almost twice that large a year from now. On the other hand, carryover stocks of corn could decline to a three-year low of around 950 million bushels in the fall of 1980 if exports reach the level projected by the USDA. That compares with the roughly 1.25 billion bushels projected for this fall. Carryover stocks of all grains may be down a fifth to a three-year low.

...but soybean carryover may double



Crop prices have fluctuated widely the past three months as crop prospects were emerging worldwide. Initially, indications of a major shortfall in the Soviet Union caused a sharp rally in prices that triggered the release mechanism for all grains held in the three-year reserve program and nearly triggered the call mechanism for wheat and corn. But the combination of more recent evidence of record domestic production and redemption of loans on grains in the reserve has trimmed most of the earlier price gains, and terminated the release status for corn and sorghum. As of mid-August, farmers had redeemed loans on a fifth of the 732 million bushels of corn originally held in reserve and roughly a third of the wheat and sorghum.

For the near term, crop prices will remain sensitive to any new crop developments here or abroad. Additional price-making forces could arise from USDA announcements regarding the 1980 feed grain program and the permissible level of Soviet grain purchases during the upcoming year. These announcements are expected in late October or early November. In the meantime, it would appear that domestic crop prospects are every bit as good as recently estimated by the USDA. Moreover, it is doubtful that U.S. grain exports could be any greater than currently projected by the USDA. Barring an early frost, any changes in current supply/demand projections for 1979/80 are, therefore, likely to reflect an easing rather than a tightening.

Gary L. Benjamin
Agricultural Economist

Selected agricultural economic developments

Farm finance

Total deposits at agricultural bankst	1972-73=100	July	196	+ 0.5	+ 8
Time deposits	1972-73=100	July	233	+ 0.7	+10
Demand deposits	1972-73=100	July	133	+ 0.1	+ 3
Total loans at agricultural bankst	1972-73=100	July	249	+ 0.4	+13
Production credit associations					
Loans outstanding					
United States	mil. dol.	July	17,015	+ 2.0	+16
Seventh District states	mil. dol.	July	3,415	+ 1.7	+21
Loans made					
United States	mil. dol.	July	1,962	- 8.6	+27
Seventh District states	mil. dol.	July	416	- 9.3	+27
Federal land banks					
Loans outstanding					
United States	mil. dol.	July	27,658	+ 1.5	+18
Seventh District states	mil. dol.	July	6,194	+ 1.7	+25
New money loaned					
United States	mil. dol.	July	520	-12.9	+42
Seventh District states	mil. dol.	July	127	-19.1	+34
Interest rates					
Feeder cattle loanst†	percent	2nd Quarter	10.64	+ 3.5	+18
Farm real estate loanst†	percent	2nd Quarter	10.65	+ 3.1	+16
Three-month Treasury bills	percent	8/9-8/15	9.47	+ 1.9	+36
Federal funds rate	percent	8/9-8/15	10.80	+ 4.3	+37
Government bonds (long-term)	percent	8/13-8/17	8.95	- 0.2	+ 5

Agricultural trade

Agricultural exports	mil. dol.	June	2,761	+10.0	+ 5
Agricultural imports	mil. dol.	June	1,507	+ 9.6	+31

Farm machinery sales

Farm tractors	units	May	12,471	-38.2	- 5
Combines	units	May	945	-49.0	- 3
Balers	units	May	1,531	+82.3	- 7

†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.

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