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LETTER

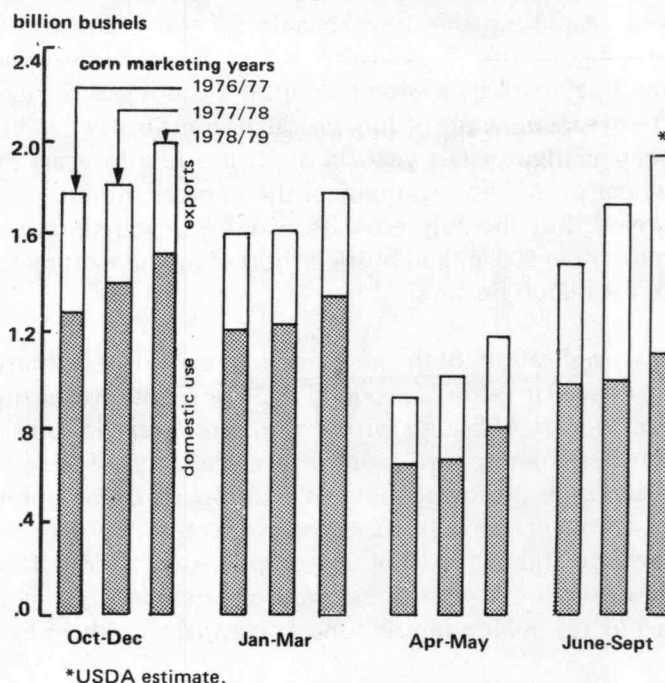
GRAIN AND SOYBEAN PRICES have risen to much higher levels in recent weeks. Chicago cash prices for corn have averaged over \$3 a bushel since late June, up from \$2.65 in early June and around \$2.45 a year ago. Soybean prices have been quite volatile, rising from \$7.20 a bushel in early June to over \$8 before declining to \$7.60 a bushel more recently. The higher prices reflect continuing evidence of record disappearance from the large crops harvested last year and indications that world grain production will be down this year. Increasing prospects for another bumper U.S. crop, however, may temper some of the recent increases in grain and soybean prices.

Disappearance of wheat set a new record in the marketing year that ended May 31 and disappearance of corn and soybeans is well on the way to establishing similar marks. A virtual repeat of the 1973/74 record of 1.2 billion bushels in exports boosted total disappearance of wheat in the 1978/79 marketing year 4 percent to nearly 2.1 billion. That exceeded last year's harvest of 1.8 billion bushels and lowered carryover stocks of wheat to 920 million bushels.

Disappearance of corn in the first eight months of the marketing year that ends September 30 was a tenth greater than in the same period last year, paced by a 14 percent increase this spring. Because of the expansion in domestic hog and poultry production and continuing strong export demand, the USDA expects corn disappearance to approach 6.9 billion bushels for the entire marketing year. Of that, domestic utilization is expected to account for 4.8 billion bushels, 12 percent more than in 1977/78 and nearly 1 percent more than the record set in 1972/73. Corn exports are projected at 2.1 billion bushels, 8 percent more than the record last marketing year.

The faster disappearance portends a smaller buildup in carryover stocks of corn this fall than had been expected. The USDA now projects that carryover stocks of corn will approximate 1.3 billion bushels this fall. Although up from last year's carryover of 1.1 billion bushels, that would still be well below the nearly 1.6 billion bushels that was projected in late April.

Large gain in exports and domestic use expected to boost corn disappearance this summer



Disappearance of soybeans during the first nine months of the current marketing year was up 10 percent from the same months a year earlier. Although export movements have sputtered the past couple of months, the USDA expects the same margin will prevail this summer. Hence, total disappearance for the marketing year that ends August 31 is expected to approach 1.9 billion bushels. That would leave carryover stocks of soybeans at 140 million bushels, down from 160 million last year.

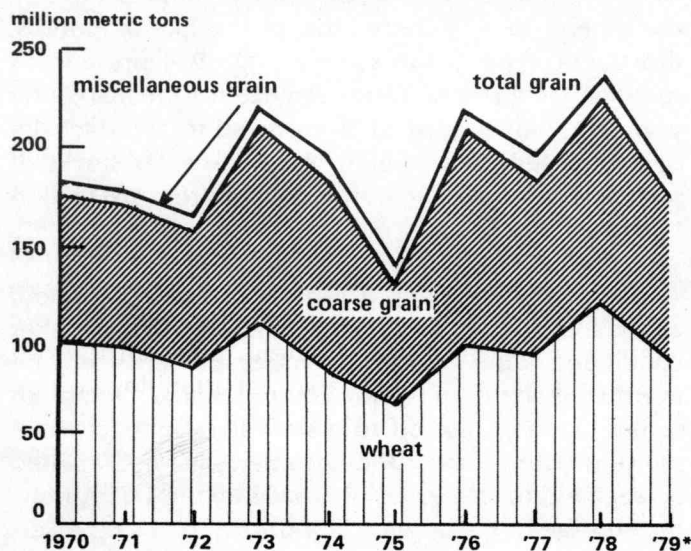
Domestic new-crop prospects appear quite good, although it is early in the growing season and weather conditions could still have a major influence on the eventual harvest of spring-planted grains. Although spring plantings got off to a slow start, farmers made rapid progress once the weather cleared. Planted acreage estimates recently released by the USDA show the acreage of major grain and oilseed crops up 4 percent from last year and 1 percent higher than indicated in earlier reports. Among major crops, soybean acreage is

up 12 percent and wheat acreage is up 8 percent. Although corn acreage is virtually unchanged from last year, total feed grain acreage is down 4 percent due to substantial cuts in sorghum, oat, and barley plantings.

Crop production estimates issued by the USDA this week offered the first objective yield estimates of spring grains and raised the winter wheat estimate by 9 percent from that projected a month earlier. (The first estimate of this year's soybean harvest will be issued next month.) Based on conditions around July 1, the combined harvest of winter and spring wheat is now forecast at 2.1 billion bushels, up 17 percent from last year. The corn production estimate was pegged at 6.7 billion bushels, the second-highest on record but down 6 percent from last year. Although the most reliable for this point in the growing season, early-season forecasts sometimes miss the final mark by a wide margin. Indications of the extremes in accuracy of July production estimates can be seen in figures last year. In 1978, the July forecast of wheat production was almost the same as the final estimate. But the July estimate of corn production was more than 900 million bushels short of the final estimate of 7.4 billion bushels.

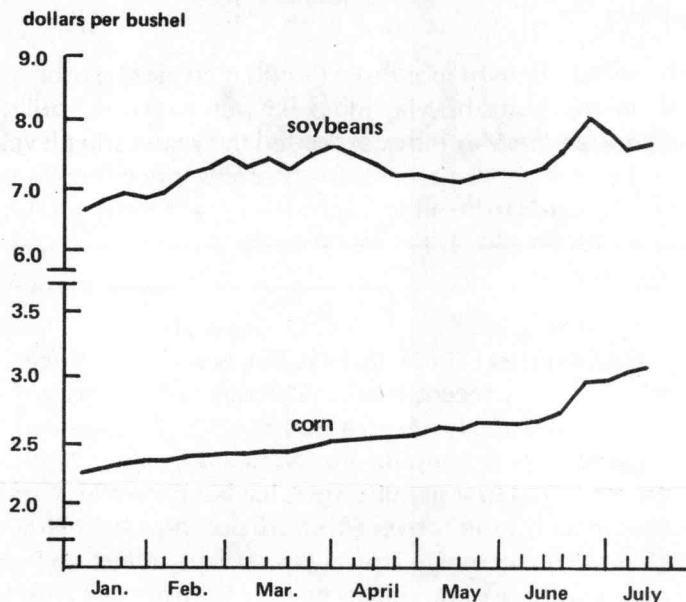
Implications of the new crop harvest prospects must be viewed in terms of production prospects elsewhere in the world. Although production prospects in other northern hemisphere countries are probably less certain than domestic prospects, signs in the Soviet Union point to a smaller world harvest. This week, the USDA again lowered the estimate of Soviet grain production. The new estimate pegs Soviet grain production in a range of 165 to 195 million metric tons, as compared with an es-

Soviet grain production expected to decline by more than a fifth this year



*USDA estimate.

Corn and soybean prices at Chicago rose sharply in June



time of 170 to 210 million tons last month. A point estimate of 185 million tons was considered the most likely outcome for this year. Last year, the Soviets harvested 237 million tons of grain.

The implications of that much falloff in Soviet grain production are tempered somewhat by the stockpiling of grain in the USSR over the past year. Because the Soviets have been importing large amounts of grain, despite surplus production last year, carryover stocks in the USSR are apparently up nearly 20 million metric tons. Even so, the long-term goals to expand livestock production suggest the Soviets will import record quantities of grain in 1979/80. And since current signs indicate production in other major northern hemisphere countries will increase little, if any, this year, most of the Soviet imports will likely come from U.S. supplies.

On balance, the year ahead will probably see a drawdown in grain stocks and a buildup in soybean stocks. Although world demand for oilseeds and products will likely remain very strong, the large domestic plantings appear adequate to accommodate larger carryover stocks of soybeans next fall. However, disappearance of wheat in 1979/80 may slightly exceed the current harvest prospects of 2.1 billion bushels. And disappearance of corn could exceed the current production estimate of 6.7 billion bushels by around 300 million bushels. These prospects, however, have probably already been reflected in the recent price levels for grains and soybeans. Hence, some decline in prices is possible as long as domestic and worldwide production prospects do not deteriorate.

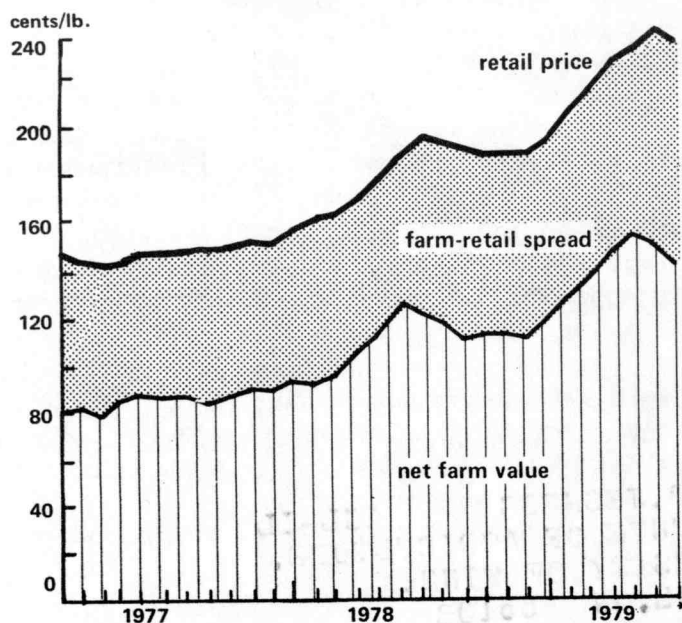
Gary L. Benjamin
Agricultural Economist

RETAIL FOOD PRICES have risen sharply this year, but the rate of increase has been trending downward and a further easing is expected. The January index of retail food prices rose 2.1 percent above the December level. Subsequent month-to-month increases have been shrinking, with the May index 0.9 percent over April's. Although the May index exceeded the year-earlier level by more than 11 percent, forthcoming price increases are expected to be more moderate. Retail food prices for all of 1979 are likely to average more than a tenth higher than last year.

The primary factor behind the sharp rise in food prices in the December-May period was a 25 percent increase in retail beef prices. Beef production estimates for the first half of this year showed a drop in supplies of more than 11 percent from a year earlier. The surprising development to many observers has been the continued strength in consumer demand for beef, despite the sharp price increases and the availability of larger competing supplies of pork and poultry. Prices of competing meats have risen much less than beef. In May, retail pork prices were roughly equal their level six months earlier, while fish prices were up 4 percent and poultry prices were up 6 percent.

According to the USDA, part of the rise in beef prices this year was attributed to increases in marketing margins that exceeded the amount expected in light of cost increases. The spread between farm prices and retail prices for beef has widened since year end, accentuating the rise in beef prices this year. Yet some widening of the margin was expected because of higher labor costs and the sharp rise in energy costs. Moreover, the number of

Spread between the farm and retail prices for beef has widened in recent months

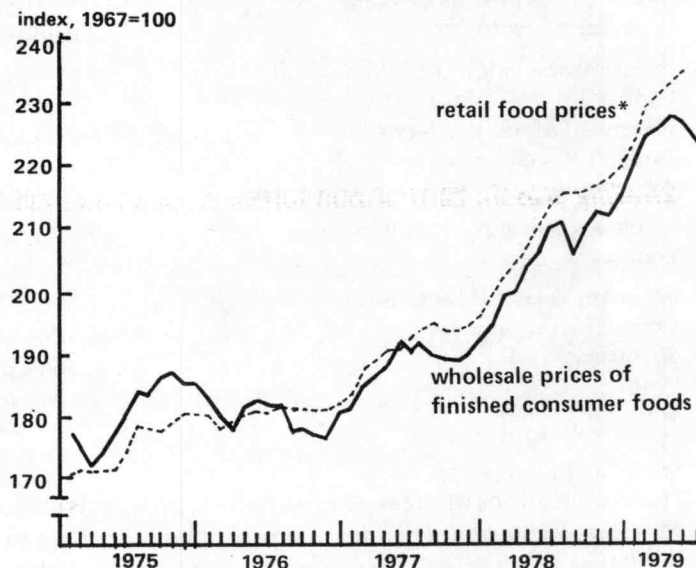


*Preliminary.

cattle slaughtered this year is down 16 percent from a year ago, which has raised per unit costs substantially.

Several developments point to a near-term easing in food price pressures. On a seasonally adjusted basis, the index of wholesale prices of finished consumer foods dropped 1.2 percent in June, the third consecutive monthly decline. Pork production in the second half, ex-

Dip in wholesale food prices suggests pressures at retail level will ease



*After 1977, the index is for all urban consumers.

pected to average nearly 18 percent higher than a year before, should temper further increases in meat prices. Adequate supplies of produce are expected, which also suggests a moderating of pressures on food prices. Consumer demand was unusually strong in recent months because of employment gains and increases in disposable income. Some of this strength could dissipate in the second half if the economy slows, as many expect. Much of the strength in second-half food prices will likely stem from higher labor and energy costs rather than prices of raw materials.

Marketing patterns of some food products were disrupted in recent weeks as striking independent truckers protested the sharp increase in fuel costs, load limits in some states, and speed limits. The inconvenience to consumers nationwide was apparently only minor as retailers were largely successful in using inventories to restock shelves. Reports of ruined crops for some producers of perishable commodities were one of the more visible effects of the strike. Some of the consequences of the disrupted transportation flows probably have not yet been fully reflected in the available data. A rapid escalation in transportation charges was reported during the strike and it is unlikely that rates will return to former levels.

Don A. Langford
Agricultural Economist

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers	1967=100	June	243	- 1.2	+12
Crops	1967=100	June	231	+ 5.0	+ 7
Livestock	1967=100	June	255	- 5.2	+16
Index of prices paid by farmers	1967=100	June	249	+ 0.4	+13
Production items	1967=100	June	248	+ 0.4	+14
Producer price index* (finished goods)	1967=100	June	213	+ 0.5	+10
Foods	1967=100	June	224	- 1.2	+ 7
Processed foods and feeds	1967=100	June	221	- 0.6	+ 8
Agricultural chemicals	1967=100	June	209	- 0.2	+ 3
Agricultural machinery and equipment	1967=100	June	228	+ 0.6	+ 8
Consumer price index** (all items)	1967=100	May	214	+ 1.2	+11
Food at home	1967=100	May	233	+ 0.7	+11
Cash prices received by farmers					
Corn	dol. per bu.	June	2.47	+ 5.1	+ 8
Soybeans	dol. per bu.	June	7.38	+ 4.5	+10
Wheat	dol. per bu.	June	3.73	+16.6	+33
Sorghum	dol. per cwt.	June	3.91	+ 6.8	+ 7
Oats	dol. per bu.	June	1.38	+ 7.0	+19
Steers and heifers	dol. per cwt.	June	70.80	- 6.1	+29
Hogs	dol. per cwt.	June	39.70	- 8.9	-17
Milk, all sold to plants	dol. per cwt.	June	11.50	0	+15
Broilers	cents per lb.	June	26.4	- 9.0	-13
Eggs	cents per doz.	June	55.6	- 1.9	+27
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	1st Quarter	125	+ 6.5	+20
Net realized farm income	bil. dol.	1st Quarter	34	+ 5.7	+30
Nonagricultural personal income	bil. dol.	May	1,828	+ 0.7	+11

*Formerly called wholesale price index.

**For all urban consumers.

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Public Information Center
P. O. Box 834
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Tel. no. (312) 322-5112



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MR. O. B. JESNESS
INSTITUTE OF AGRICULTURE,
UNIVERSITY OF MINN.
ST. PAUL, MN 55108