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BLEAK CROP PROSPECTS were confirmed in the U.S. Department of Agriculture's latest production estimates released earlier this week. Based on conditions as of August 1, this year's feedgrain harvest was estimated at 175 million tons, down nearly 15 percent from last year and 34 million tons below earlier projections. The estimate of the 1974 wheat crop was also trimmed by 85 million bushels to 1.8 billion bushels. Although this still represents a record wheat harvest, the 8 percent rise from last year is disappointingly small compared with the 19 percent rise in harvested wheat acreage.

Corn production is currently estimated at less than 5 billion bushels, down from 5.6 billion in each of the past three years and the smallest crop since the 1970 blight-reduced harvest. The sharply lower production plus the depleted fall carryover portends total corn supplies for the 1974-75 marketing year of around 5.4 billion bushels, nearly 1 billion bushels less than in the current marketing year and, with the exception of the 1970-71 blight year, the smallest since 1966-67.

The reduced corn production reflects the rain-delayed plantings and the subsequent drought that held down the increase in harvested acreage and slashed per-acre yields. Although planted corn acreage rose 8 percent this year, harvested acreage is expected to be up only 3 percent. Moreover, corn yields are now expected to average 77.8 bushels per acre, down from 91.4 last year and the 1972 record of 97.1 bushels.

Soybean production was estimated at just over 1.3 billion bushels, down 16 percent. The reduced production is due to a near-3 bushels decline in average soybean yields per acre and a probable 7 percent decline in harvested soybean acreage. Although the larger carryover stocks of soybeans will partially offset this fall's smaller harvest, it now appears that total supplies for the 1974-75 crop marketing year will be down nearly 9 percent.

Projections of utilization made prior to the latest production forecasts are no longer valid. In short, it appears that the supply/demand balance for wheat will be just as tight in the 1974-75 marketing year as it was in the year-ended June 30, 1974, despite a substantial reduction in demand. For soybeans, the supply/demand balance for the year starting September 1 will be substantially tighter than that experienced during the current marketing year, and may even exceed the tightness of the 1972-73 marketing year.

The most critical situation is feedgrains. If current estimates accurately portray the situation, feedgrain supplies in the 1974-75 marketing year will be around 196 million tons, the lowest since 1957-58. This plus indications that the 1974 hay harvest will fall to the lowest level in ten years raises the question of how much of our livestock inventory can be supported by the available feed supplies.

Assuming it is possible to shave another 5 to 10 million tons off this year's low feedgrain carryover of 21 million tons, feedgrain utilization might squeeze out 180 to 185 million tons from the available supply. While such a level would be 15 to 17 percent below utilization in the 1973-74 marketing year, it would still exceed the levels of utilization in all years prior to 1971-72. Attempts to break down the projection of total utilization between domestic use and exports are highly speculative at this time, particularly since pressures for export controls may be overbearing. But if feedgrain exports are cut to 30 million tons in the 1974-75 marketing year—versus 44 this year and 21 million tons in the early Seventies—155 million tons would be available for domestic use, equivalent to the levels of the late Sixties and early Seventies. In those years, the domestic inventory of cattle fluctuated from 110 to 116 million head—versus 127 million at the start of this year. During the same period, hog inventories fluctuated from 57 to a record 67 million head—versus around 61 million head at the start of this year.

The above represents a very crude measure of the possible liquidation of livestock inventories that might occur over the next several months. Obviously, changes from the assumed levels of production or export demand would alter the impact. Regardless, crop prices will be exceptionally high and fluctuate markedly in an effort to adjust utilization to the lower supplies. In the meantime, there will be a growing debate over export controls. This debate will ultimately have to center on the question of whether the consequences of a possible 5 to 10 percent reduction in livestock inventories justify the negative impacts of export controls.

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