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October 15, 1976

CROP PRODUCTION PROSPECTS stabilized during September, reflecting improved weather conditions throughout much of the Midwest. And for the first time in months there was no substantial downward revision in U.S. Department of Agriculture estimates of production for at least one of the major crops. The October 1 production estimates coupled with an improved outlook for worldwide crop production suggest prices of major crops will be subject to the usual pricing trends associated with harvest seasons.

Corn production is now estimated at 5.87 billion bushels, down about 0.5 percent from the September 1 estimate but still 2 percent above the record 1975 crop. Slightly over one-half of the cutback in estimated corn production reflects further reductions in harvested acreage, down another 200,000 acres from September 1, while the remainder is due to another reduction in average yield—now estimated at 82.7 bushels per acre versus 86.2 bushels in 1975. Within district states only Indiana is expected to produce more corn this year than last, up 20 percent. Production estimates in the other district states are down from 1 percent in Iowa to 23 percent in Wisconsin. Contrary to the U.S. estimate, total production in district states is expected to run 2 percent below the year-earlier level.

Soybean production estimates were pared to 1.25 billion bushels, down 2 percent from the previous month and 18 percent below last year. All of the reduction stems from a lower yield estimate, down 0.5 bushels per acre from last month and 3 bushels per acre below last year's average 28.4 bushel yield. The reduction was slightly larger than most industry observers had expected since early harvest reports, although somewhat varied, generally implied slightly better-than-expected yields. Among district states an increase in the Illinois estimated soybean production was more than sufficient to offset September declines in other states.

Wheat production estimates were also revised downward slightly in October—in contrast to the slight upward revisions of the previous two months. This pushed the 1976 estimate slightly below the 1975 record. Estimated hay production was also reduced slightly and currently stands at 120 million tons, down 10 percent from last year. However, a portion of the drop in hay production will be offset by increased corn silage production plus an increase in the utilization of corn residue, a growing trend in recent years.

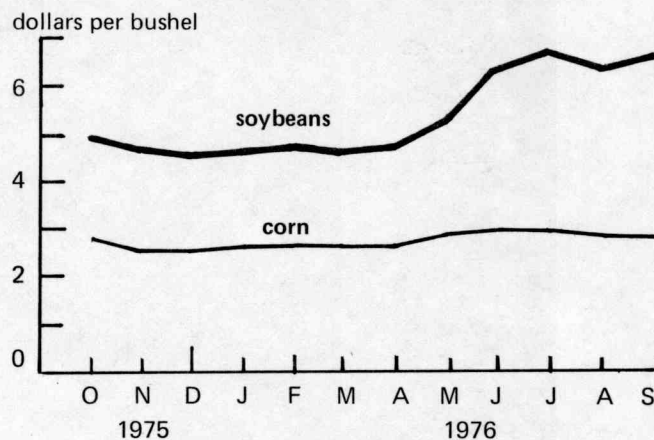
Estimates of world grain production have also stabilized recently. Rains in parts of Asia, Australia, and Europe have provided much needed moisture for the emergence of fall sown crops and have enhanced the outlook for the spring crops. The USDA estimate of

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grain production in Russia for the current crop year was boosted 10 million metric tons last week to 215 million metric tons. Furthermore, the Soviet Union has reportedly increased winter grain seedings by about 14 percent. The Brazilian government has projected that their next soybean crop—harvested in April—may be almost 17 percent larger than the previous crop. If these world trends continue they will likely temper any upward surge in grain prices later in 1977.

Crop prices have followed seasonal trends



Note: Monthly average prices at Chicago.

Crop prices have dropped sharply with the onset of the harvest season and may be nearing their harvesttime low. Central Iowa corn prices have declined to the \$2.30 level, an indication of the somewhat earlier-than-normal harvest season. Although feed consumption is expected to be up as a result of the increases in fed cattle, pork, and poultry production, the effects of wheat substitution for corn will likely prevent corn and other feed grain prices from rising significantly above year-earlier levels over the next six to nine months. Soybean prices should also be subject to the usual post-harvest recovery and will likely continue at about \$1.50 per bushel above the year-earlier level through the first few months of 1977. However, soybean prices may come under downward pressures before midyear if projected increases in the Brazilian soybean crop are achieved.

Terry Franci
Agricultural Economist