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August 19, 1977

Agricultural Letter

Number 1444

CROP FORECASTS recently released by the U.S. Department of Agriculture portend the third consecutive year of record crop production in the United States and large grain harvests in other areas of the world. The index of all U.S. crop production for 1977 is currently forecast at 124 (1967=100), up from 122 last year. Both feed grain and oil crop—primarily soybean—production are expected to set new highs. Cotton and food grain production forecasts are at bumper levels, albeit somewhat below previous peaks. The large harvests will probably exceed utilization, resulting in depressed crop prices and a further buildup in the already large stocks of grain.

Corn production is now forecast at 6.1 billion bushels, down 4 percent from the initial projection made last month, but second only to last year's record of 6.2 billion bushels. The downward revision from the July forecast reflected a drop of 1 percent in the estimate of harvested acreage and a 2.1 bushel decline in the estimate of per acre yields. The first official forecast of this year's soybean crop was pegged at a record 1.6 billion bushels, up 27 percent from last year and 4 percent above the previous high in 1973. Wheat production is expected to total 2.0 billion bushels, nominally below the July forecast and about 5 percent short of last year's record.

Large corn and soybean crops expected in 1977

	<u>Ill.</u>	<u>Ind.</u>	<u>Iowa</u>	<u>Mich.</u>	<u>Wis.</u>	<u>U.S.</u>
Corn						
Yield/acre (bu.)	110	98	85	75	93	87.3
Change (bu.)	3	-12	-5	6	25	-0.1
Production (mil. bu.)	1,199	608	1,037	154	223	6,092
Change (percent)	-4	-12	-10	9	51	-2
Soybeans						
Yield/acre (bu.)	35	33	33	24	25	27.5
Change (bu.)	3	0	2	4	3	1.9
Production (mil. bu.)	310	128	238	17	8	1,602
Change (percent)	28	18	16	49	42	27

August crop production forecasts frequently depart from final estimates by a considerable margin, reflecting both forecasting errors as well as unforeseeable changes in weather conditions. Over the past 10 years, for example, the August production forecast for corn has exceeded the final estimate five times by an average of 200 million bushels, while falling short of the final estimate by an average of 300 million bushels in the other five years. Although the faster-than-normal development of this year's crops may have enhanced the reliability of the recent forecasts, final estimates could still entail substantial revisions.

The latest crop forecasts imply grain stocks will be increased above the already large levels, while the

tight supply situation for soybeans will be eased considerably. Corn exports for the 1977/78 crop marketing year are likely to decline substantially in light of the large grain harvests anticipated in other areas of the world. Earlier this week the USDA estimated 1977/78 production of wheat and coarse grains outside the United States would be down less than 2 percent from last year's record and nearly 5 percent above the previous high in 1973/74. Although increased domestic utilization of corn will likely offset the slack in exports, total utilization during the 1977/78 corn marketing year may not exceed 5.9 billion bushels. Each bushel of corn harvested this fall in excess of such a level would boost next year's carryover by a like amount above the 900 million bushels expected at the end of the current marketing year.

A similar situation exists for soybeans. Although both crushings and exports of soybeans are expected to increase in 1977/78, total utilization might only reach 1.5 billion bushels. Hence carryover stocks of soybeans a year from now may approximately double the 75 million bushels currently estimated for this year.

Corn and soybean prices have fallen sharply as the large crop forecasts have offset earlier weather concerns. Cash corn prices at Chicago have averaged \$1.85 per bushel since the end of July, down from \$2.50 in April, \$2.90 a year ago, and the lowest in over five years. Soybean prices have recently fallen below \$5.50 per bushel at Chicago, down from around \$9.75 in April and over \$6.00 a year ago. The depressed prices have persisted despite recent reports of Soviet grain purchases and—for grains—prospects that legislation will mandate substantially higher support prices. Although weather will continue to be a price factor in the months ahead, its importance is somewhat diminished since the ahead-of-normal crop development minimizes the risk of an early-season frost.

Major pricing factors in the near term will be world production prospects and the availability of storage to handle this fall's large harvests. Although the pending \$2 per bushel loan rate for corn may stem any further prolonged declines in corn prices, harvest-time lows may well dip below current levels because of competition for storage.

Gary L. Benjamin
Agricultural Economist