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Federal Reserve Bank of Chicago . . .

Agricultural Letter

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CROP PRODUCTION ESTIMATES were revised upward by the U.S. Department of Agriculture earlier this week, portending even larger carryover stocks a year from now. The 1977 corn harvest, based on conditions as of September 1, is expected to exceed 6.2 billion bushels, up more than 2 percent from last month's estimate and nominally above last year's record. The forecast of total feed grain production was boosted 3 percent above both the August projections and the year-earlier level. The soybean production estimate was raised to a record 1.64 billion bushels, 3 percent above last month's forecast and 30 percent above last year's output.

The larger corn and soybean production prospects reflect higher per acre yield estimates which were only partially offset by slight downward adjustments in the harvested acreage estimates. Nationally, corn yields are expected to average 89.7 bushels per acre this year, up from 87.4 bushels in 1976. Soybean yields are forecast at 28.3 bushels per acre, compared to 25.6 bushels last year. Despite this year's widespread drought problems, the corn and soybean yield estimates represent the third and second highest, respectively, on record.

Record corn and soybean crops expected in 1977

	Ill.	Ind.	Iowa	Mich.	Wis.	U.S.
Corn						
Yield/acre (bu.)	111	100	86	80	96	89.7
Change (bu.)	4	-10	-4	11	28	2.3
Production (mil. bu.)	1,210	620	1,049	164	240	6,229
Change (percent)	-3	-11	-9	16	62	0
Soybeans						
Yield/acre (bu.)	37	33	34	25	25	28.3
Change (bu.)	5	0	3	5	3	2.7
Production (mil. bu.)	327	128	245	18	5	1,644
Change (percent)	35	18	20	55	42	30

Carryover stocks next fall will rise substantially based on the large harvest prospects. Lower corn prices will no doubt trigger substantial increases in livestock production which, in turn, will boost domestic utilization. However, corn exports are expected to decline sharply because of prospects for the second consecutive year of bumper grain production in other areas of the world. Hence, this year's corn harvest could exceed total utilization for the 1977/78 marketing year by 300 to 500 million bushels. Such a margin would expand corn carryover stocks in October 1978 to around 1.2 or 1.4 billion bushels, the highest since 1964.

Soybean supplies for 1977/78 are expected to equal the 1975/76 record of 1.73 billion bushels, up from 1.51 billion last year. Despite prospects of record utilization, the USDA projects next year's carryover of soybeans to rise to 200 million bushels, up from this year's carryover of 85 million bushels and approaching the 1976 record of 245 million bushels.

The pricing implications of the larger-than-anticipated buildup in stocks have been largely muted by recent Administrative actions in propping up grain prices. In late August the Administration announced:

- intentions of implementing a voluntary 20 percent set-aside for 1978 wheat plantings, assuming the pending legislation is enacted.
- an immediate boost in the 1977 corn loan support rate from $1.75 to $2 per bushel, the same as contained in the pending legislation.
- the establishment of a 17 to 19 million metric ton feed grain reserve program—equivalent to 670 to 750 million bushels of corn—similar to that implemented last April for food grains.

The $2 loan rate for corn, in light of the currently low market prices, will no doubt result in heavy participation in the loan program by farmers this fall. Moreover, the existence of the feed grain reserve program next fall—when it would first become operational and would presumably be implemented by reseal loans and storage payments to farmers—provides a vehicle for extending the isolation of large corn stocks from free market supplies. Hence, the general trend in corn prices will no doubt be upward, with market prices eventually stabilizing at about the loan rate.

The rapidity with which corn prices reach that level, however, will hinge on several factors. The availability of adequate storage facilities will no doubt remain a problem until after the harvest season glut. Moreover, the pressures of adequate storage could be heightened by an unusually rapid harvest season—such as that experienced last fall—or by temporary disruptions in normal market distribution channels. With the exception of one elevator, grain handlers in Chicago have been on strike since the first of September. Furthermore, recent problems in contract negotiations involving East coast and Gulf port facilities have heightened concern about an October 1 Longshoremen's strike. Thus, while market prices are eventually expected to approximate the higher support level, near-term developments may hold prices well below the support level for the next few months.

Gary L. Benjamin
Agricultural Economist