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Then in June, markets began to turn around. Dry, hot weather in an area stretching from the Delta and Texas up through the central and western Corn Belt and up into the Dakotas began to affect yield prospects. These conditions continued through July and dramatically changed the complexion of the grain market.

Wheat prices rode up on the strength of corn and soybean prices. Later news that wheat crops in the USSR, Australia and the Peoples Republic of China had deteriorated added support to all grains. Then the announcement in October that a 4 year grains agreement had been negotiated with PRC confirmed that China would be a more consistent buyer on world markets.

Livestock prices moved up as well, although for reasons mostly unrelated to the drought and hot weather. Pork production dropped off and prices on barrows and gilts moved up sharply from \$30 in June to \$45-\$50 in August. Cattle prices also recovered and would have been even stronger but poor pasture conditions forced some early movement to market and cow slaughter increased.

Politics and weather will continue to inject uncertainty into commodity markets in 1981. A new farm program will be forged. Except for some major surgery on the dairy program to provide some flexibility for pricing, no major changes are contemplated. This is the case regardless of the outcome of the election. The weather, however, may play a more central role because supplies are more dependent on the out-turn of 1981 crops. At the end of the 1980-81 crop year, world grain stocks will amount to about 10 percent of total annual utilization. This will be the lowest level since the end of the 1974-75 crop year.

Tables 1, 2 and 3 are balance sheets for U.S. corn, wheat and soybeans. The projections for 1980-81 are those of the USDA. We might be inclined to

shave the projections for corn fed and exported somewhat but would arrive at the same conclusion that the corn supply-utilization balance will be relatively tight and most of the grain in the farmer-held reserve will be drawn out. Prices will tend to average near the call price for most of the grain in the reserve--\$3.26 per bushel. (See Table 4. Note that some corn has a call price of \$3.15.) Prices could go higher if concern mounts about 1981 harvests.

The wheat supply should be adequate and little if any draw-down of U.S. stocks is contemplated. Farm prices should hold near the \$4.00-\$4.25 per bushel level on the 1980 crop. The release prices for wheat in the reserves is \$4.20 and \$4.50 depending on when the wheat was placed in the reserves (Table 4).

Soybean supplies will be particularly tight. Prices will have to move up to ration out the amounts available and protect a pipeline carryover. Prices could easily average in the \$8-\$9 range at the farm.

Because of the low carryover of corn and soybeans and modest carryover of wheat forecast for next year, there will be no set asides for crops in 1981. This was recently stated by Secretary Bergland.

Cattle producers reacted to improved returns in 1979 by beginning to rebuild herds in early 1980. July 1 inventories of beef cows were sharply higher than the year before reversing a liquidation which had been underway since 1975. Disappointing prices on feeder cattle plus the drought has triggered heavy selling of cows since mid year. This will slow the expansion but will not likely keep beef cow numbers from increasing this year.

Slim feeding margins may also keep placements of cattle on feed from increasing very much this coming season. Fed cattle prices are expected to move up into the mid \$70s in 1981, which is not highly encouraging considering current prices on feed and feeders.

Hog prices at \$45-\$50 would normally cause hog producers to think about expansion but considering their recent experience with red ink and the assurance of corn prices near or above \$3, the incentive is not strong. We look for continued liquidation in 1981 with prices in the \$50-\$60 range.

Milk prices will continue to rise and will be tied into the support rate which in turn is based on the parity index. Another rise is mandated for April 1981.

Again this fall we have some reason for optimism. Gross farm incomes in Michigan will be rising not only because of higher prices but also because of increased production. The corn crop may top last year's record according to the Michigan Agricultural Reporting Service. The soybean crop will be near the 1979 record. The wheat and dry bean crops were the largest in 15 years, though extensive sprouting caused problems in wheat.

Milk production is increasing in Michigan, a trend likely to continue into 1981. The decline in cattle feeding in Michigan in recent years has apparently come to a halt as we noted that 16 percent more were on feed October 1 than a year ago. Counter to national trends, Michigan hog producers appear to be expanding or at least holding recent production levels.

Obviously production costs will be increasing. Costs on purchased feed will be up sharply considering that corn prices will be up about 30 percent from this past season and that soybean meal prices will be up 50 percent. Most other costs will be up at least 10 percent. In the net, however, Michigan farm income should gain from the combination of higher prices and increased production in the coming year--at least until the beginning of the 1981 crop year.

LAST REVISION 10/27/80

TABLE 1
BALANCE SHEET FOR CORN

	1975-76	1976-77	1977-78	1978-79	1979-80	PROJ. 1980-81	PROJ. 1981-82	
	(MILLION ACRES)							
ACRES PLANTED	78.2	84.4	83.6	80.1	80.0	83.5		
ACRES HARVESTED	67.2	71.3	70.9	70.3	71.0	71.2		
PERCENT*	85.9	84.5	84.6	87.8	88.8	85.3		
BU/HARVESTED ACRE	86.2	87.9	90.7	100.3	109.4	90.8		
	(MILLION BUSHELS)							
BEGINNING STOCKS	361	399	884	1104	1286	1597	600	
PRODUCTION	5829	6266	6425	7087	7764	6467		
IMPORTS	<u>2</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u></u>	
TOTAL SUPPLY	6192	6668	7312	8192	9051	8065		
USE:								
FEED	3592	3587	3709	4198	4429	4200		
FOOD, SEED & IND. USES	<u>40</u>	<u>513</u>	<u>551</u>	<u>575</u>	<u>625</u>	<u>715</u>	<u></u>	
TOTAL DOMESTIC	4032	4100	4260	4773	5045	4915		
EXPORTS	<u>1711</u>	<u>1684</u>	<u>1943</u>	<u>2133</u>	<u>2400</u>	<u>2550</u>	<u></u>	
TOTAL USE	5743	5784	6208	6906	7445	7465		
TOTAL ENDING STOCKS	399	884	1104	1286	1597	600		
TOTAL, % OF USE	6.9	15.3	17.7	18.6	21.4	8.0		
FARMER OWNED RESERVE	<u>0</u>	<u>0</u>	315	539	620			
CCC INVENTORY	<u>0</u>	<u>0</u>	<u>12</u>	<u>99</u>	<u>260</u>			
TOTAL	<u>0</u>	<u>0</u>	327	638	880			
FREE (EXCEPT UNDER LOAN)								
BUSHELS	399	884	777	648	717			
% OF USE	6.9	15.3	12.5	9.4	9.6			
UNDER GOVERNMENT LOAN SEPT. 30	23	143	416	113				
U.S. SEASON AVERAGE FARM PRICE, \$/BU.	\$2.54	\$2.15	\$2.02	\$2.25	\$2.50	\$3.30 - \$3.75 ^{1/}		

^{1/}USDA FORECAST

LAST REVISION 10/27/80

TABLE 2
BALANCE SHEET FOR WHEAT

	1975-76	1976-77	1977-78	1978-79	1979-80	PROJ. 1980-81	PROJ. 1981-82
	(MILLION ACRES)						
ACRES PLANTED	71.5	80.2	75.1	66.3	71.6	80.9	
ACRES HARVESTED	69.6	70.8	66.5	56.9	62.6	71.6	
PERCENT*	92.7	88.3	88.5	85.8	87.4		
BU/HARVESTED ACRE	30.7	30.3	30.6	31.6	34.2	33.0	
	(MILLION BUSHELLS)						
BEGINNING STOCKS	435	665	1112	1177	925	903	907
PRODUCTION	2122	2142	2036	1798	2142	2362	
IMPORTS	<u>2</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u> </u>
TOTAL SUPPLY	2560	2810	3150	2976	3069	3267	<u> </u>
USE:							
FOOD	589	588	586	591	596	605	
SEED	99	92	80	87	101	105	
FEED	<u>34</u>	<u>68</u>	<u>183</u>	<u>179</u>	<u>94</u>	<u>125</u>	<u> </u>
TOTAL DOMESTIC	722	748	849	857	791	835	
EXPORTS	<u>1173</u>	<u>950</u>	<u>1124</u>	<u>1194</u>	<u>1375</u>	<u>1525</u>	<u> </u>
TOTAL USE	1895	1698	1973	2051	2166	2360	
TOTAL ENDING STOCKS	665	1112	1177	925	903	907	
TOTAL, % OF USE	35.1	65.5	59.7	45.1	41.7	38.4	
LESS RESERVE, CCC INVENTORY							
FARMER OWNED RESERVE	<u>0</u>	<u>0</u>	342	393	250		
CCC INVENTORY	<u>0</u>	<u>0</u>	<u>48</u>	<u>51</u>	<u>198</u>		
TOTAL	<u>0</u>	<u>0</u>	390	444	448		
FREE							
BUSHELLS	665	<u>1112</u>	787	481	453		
% OF USE	35.1	65.5	39.9	23.5	20.9		
UNDER GOVERNMENT LOAN MAY 31	21	378	267	122	92		
U.S. SEASON AVERAGE FARM PRICE, \$/BU	\$3.55	\$2.73	\$2.33	\$2.98	\$3.82	\$3.95 - \$4.25 ^{1/}	

^{1/}USDA FORECAST

TABLE 3
BALANCE SHEET FOR SOYBEANS

	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	PROJ. <u>1980-81</u>	PROJ. <u>1981-82</u>	
	(MILLION ACRES)							
ACRES PLANTED	54.7	50.2	58.8	64.0	71.6			
ACRES HARVESTED	53.8	49.4	57.6	63.3	70.5	67.3		
PERCENT*	98.4	98.4	98.0	98.4	98.5			
BU/HARVESTED ACRE	28.8	26.1	30.6	29.5	32.2	26.1		
	(MILLION BUSHELS)							
BEGINNING STOCKS	185	245	103	161	174	359	165	
PRODUCTION	<u>1546</u>	<u>1288</u>	<u>1762</u>	<u>1870</u>	<u>2268</u>	<u>1757</u>	<u> </u>	
TOTAL SUPPLY	1731	1533	1865	2031	2442	2116		
USE:								
CRUSHINGS	865	790	927	1018	1123	1040		
EXPORTS	555	564	700	753	875	825		
SEED, FEED & RESIDUAL	<u>66</u>	<u>76</u>	<u>77</u>	<u>88</u>	<u>85</u>	<u>86</u>	<u> </u>	
TOTAL USE	1486	1430	1704	1857	2083	1951		
ENDING STOCKS								
BUSHELS	245	103	161	174	359	165		
% OF USE	16.5	7.2	9.4	9.4	19.4	8.5		
U.S. SEASON AVERAGE FARM PRICE, \$/BU.	\$4.92	\$6.81	\$5.88	\$6.66	\$6.25	\$8.60 (\pm 1.25) ^{1/}		

^{1/}USDA FORECAST

TABLE 4. FARMER OWNED RESERVE LOAN, RELEASE AND CALL PRICES,
EXCEPT SORGHUM WHICH IS \$/CWT

	Recent 5-Day Average	Loan Rate	Contract	Release Price	Call Price	Status
Wheat	4.37	3.00	I, III II	4.20 4.50	5.25 5.55	Release
Corn	3.18	2.25	I II, III	2.81 2.81	3.15 3.26	Release Release
Oats	1.76	1.16	III	1.45	1.68	Call
Barley	2.67	1.83	II, III	2.29	2.65	Release
Sorghum	5.52	3.82	III	4.28	5.54	Release

I - Denotes grain placed in reserves before January 7, 1980, formerly referred to as the "old" contract.

II - Denotes grain placed in reserves after January 7, 1980, but before August 25, 1980, formerly referred to as the "new" contract.

III - Denotes grain placed in reserves after August 25, 1980.