

AgLetter



A LOOK AT THE FALL HARVEST

The U.S. Department of Agriculture (USDA) released in September updated projections for the fall grain harvest. While anticipated corn production was revised downward from the prior month's projection, the estimate for soybeans was upgraded on the basis of an improved outlook for yields. In addition, the USDA released projections on usage and ending stocks. These indicate that supplies and use for both corn and soybeans are expected to register year-over-year declines during the upcoming marketing year. However, it should be remembered that last year's stellar harvest provided a powerful spur to domestic use and exports. The current projections appear more positive when viewed from a broader historical perspective. It should also be noted that the corn and soybean projections, coming early in the marketing year, must be viewed as highly tentative.

In line with the expectations of several analysts, the USDA reduced both its yield and production estimates for corn. Most observers cited hot and dry weather during August, as well as disease problems, as reasons for the cutback. Corn production was forecast at 7.8 billion bushels, down a fifth from last year's record harvest. However, this prediction is only 3 percent less than the 1989-92 average (excluding 1993 due to the effects of excessive rainfall and flooding). The year-over-year decline in corn production stems from a drop in both yield per acre and the number of acres harvested. Nationally, corn yields are expected to average about 121 bushels per acre, 17.5 bushels less than the record high set a year ago. But despite this sharp decline, the predicted average yield—if achieved—would still rank as the third highest ever. In addition, adverse weather last spring induced farmers to shift some acres from corn to soybeans. The acreage reduction program (ARP) also lowered the number of acres seeded to corn, as price support program participants were required to set aside 7.5 percent of their corn base this year, compared to a zero set-aside last year. Consequently, the number of corn acres to be harvested this fall is forecast to be down by a tenth from last year, but only 5 percent below the 1989-92 average.

Many analysts also expected the USDA to reduce their average yield and production forecasts for soybeans. But to the surprise (and perhaps disbelief) of many observers, the September forecast for soybean production was raised from the previous month. The USDA's latest yield forecast for soybeans came in at 37 bushels per acre, five less than the record national average yield attained last fall, but still well above the 1989-92 average. The decrease in average yield is enough to pull soybean production down from last year despite a marginal gain in the number of acres farmers expect to harvest. Harvested soybean acreage is expected to hit the highest level since 1984, benefiting from some of the same factors that helped limit the number of acres planted to corn. The net effect of these yield and acreage shifts is an 11-percent anticipated decline in soybean production from last fall to about 2.3 billion bushels. But despite the decline, this production level—if achieved—would still rank as the second-largest on record.

The past summer marked the third consecutive decline in U.S. wheat production. At nearly 2.2 billion bushels,

Corn and soybean production estimates

	Yield		Production		
	1994	1995*	1993	1994	1995*
	<i>(bu. per acre)</i>		<i>(million bushels)</i>		
Corn					
Illinois	156	126	1,300	1,786	1,260
Indiana	144	125	713	858	650
Iowa	152	125	880	1,930	1,437
Michigan	117	120	226	261	252
Wisconsin	141	124	216	437	360
District states	148.8	124.9	3,335	5,272	3,959
United States	138.6	121.1	6,336	10,103	7,832
Soybeans					
Illinois	46	41	387	438	396
Indiana	47	44	223	220	228
Iowa	51	44	257	447	403
Michigan	38	39	55	59	58
Wisconsin	44	43	21	37	34
District states	47.4	42.6	943	1,201	1,119
United States	41.9	37.0	1,871	2,558	2,285

*USDA projection as of September 12.
 Source: U.S. Department of Agriculture.

this year's wheat crop fell 6 percent below the level of a year earlier, and was also below the 1989–92 average by a similar amount. The average yield came in at just under 36 bushels per acre, a 5 percent decline from last year. Harvested wheat acreage registered a small decrease, even though the ARP was left at zero for the third straight year. Among the different types of wheat, a strong year-over-year gain in durum wheat acreage and production was more than offset by a decline in the harvest of both winter wheat and other spring wheat.

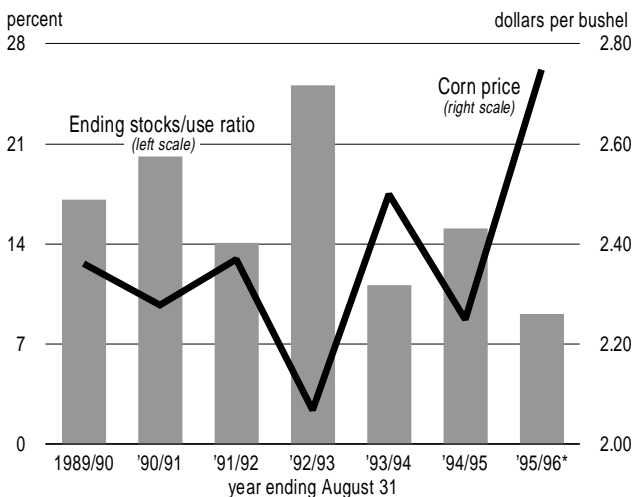
Reflecting national trends, both corn and soybean production within Seventh District states—Illinois, Indiana, Iowa, Michigan, and Wisconsin—are expected to register significant year-over-year declines this fall. The corn harvest in District states is projected to fall by a fourth from last year's record production. However, compared to the 1989–92 average, the decline is a more moderate 6 percent. The precipitous year-over-year decline will result from significant reductions in average yields across District corn fields as well as a drop in the number of acres harvested. Michigan is an exception to the year-over-year decline in corn yields as the current projection indicates a record high is within reach.

Soybean production in Seventh District states is also expected to register a decline, although not to the same extent as corn. While the soybean harvest is projected to drop by 7 percent from last year's record crop, it would still rank as the second largest for all District states combined. In fact, production in Indiana is expected to increase from a year ago. Reflecting the factors that discouraged corn planting, the number of soybean acres

harvested in District states is anticipated to be up 4 percent from last year to reach a new high. In contrast, USDA analysts see the average soybean yield across District states dropping by a tenth from last year.

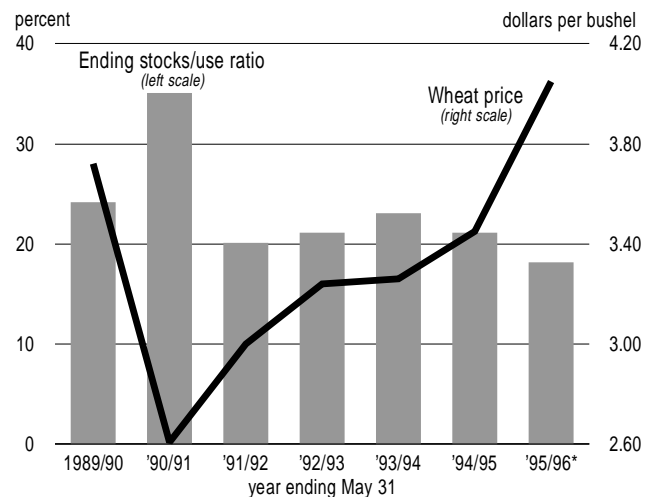
Although this year's harvest compares favorably to recent years, it doesn't size up very well relative to the record pace in usage over the last twelve months. The imbalance is especially apparent for grains. An increase in carryover stocks of corn from earlier harvests will provide only a partial buffer against the anticipated decline in production. Consequently, supplies of corn in the marketing year that started September 1 are expected to be down 15 percent from last year. With demand still holding strong, this will require relatively high prices to ration consumption down to a better balance with available supplies. The decline in usage is expected to come from fewer export shipments and a drop in the amount of corn fed to livestock and poultry. The amount of corn used for food, seed, and industrial purposes is expected to again reach a record level on the strength of continued gains in the production of high fructose corn syrup and ethanol. Overall, higher corn prices will likely trim total usage of corn at least a tenth this year from the record 9.5 billion bushels used over the past twelve months. The cut in corn exports, which surged some 65 percent in the 1994/95 marketing year, may be smaller than that for corn used in domestic feeding of livestock. But even with the decline in overall usage, carryover stocks of corn are expected to fall to about 730 million bushels by next September. If realized, this would be the lowest ending stocks level since 1976.

Corn and wheat stocks are expected to fall relative to use

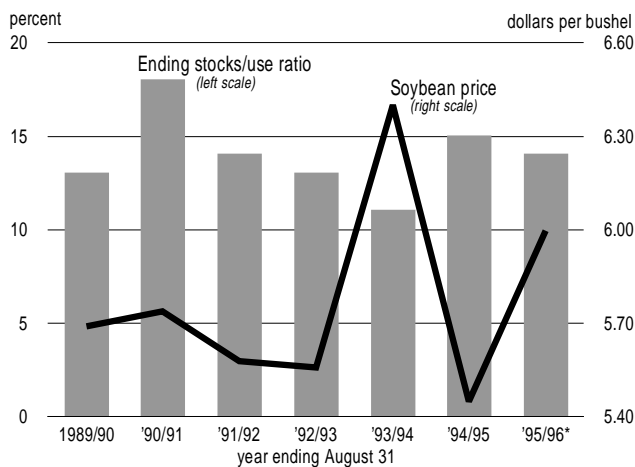


*Projected.

SOURCE: U.S. Department of Agriculture.



Soybean stocks/ use also projected to decline



*Projected.
SOURCE: U.S. Department of Agriculture.

The supply situation for soybeans is less constrained than that for corn. The predicted year-over-year decline in production will be cushioned by larger beginning soybean stocks, which are at the highest level since 1987 thanks to last year's banner harvest. Consequently, supplies for the upcoming marketing year (September-August) are projected to drop a moderate 5 percent from last year. Utilization is expected to register a similar decline, with most of the decrease coming in export sales. Like corn, soybean exports posted a large gain in the marketing year that ended with August. Soybean crushings (into oil and meal) are expected to level off during the 1995/96 marketing year after registering a 10 percent rise during the past year. Overall, it appears that usage of soybeans in the marketing year that just started in September will exceed production, resulting in a moderate year-over-year decline in ending stocks.

The decline in wheat production combined with relatively low initial stocks to pull total supplies down to the second lowest level since 1975. Utilization of wheat is also expected to post a year-over-year decline during the 1995/96 marketing year (June-May). Exports are expected to register a small decrease, while feed use—despite higher corn prices—is projected to contract by a third. In contrast, food and seed use will likely increase from the past year. Overall, the decline in utilization is expected to be less than the drop in supplies, so that ending stocks will fall to their lowest level in 22 years.

A relatively tight situation is shaping up outside the U.S. with respect to stocks of coarse grains and wheat. Beginning foreign stocks of coarse grains for the 1995/96 marketing year are 8 percent below the level of a year earlier and 13 percent below two years earlier. Since the U.S. typically accounts for over a fourth of world coarse grain production, the expected decline in the domestic corn harvest may well result in sharply tighter world stocks of coarse grains. An even tighter situation exists for wheat, as the ratio of world stocks to usage going into the 1995/96 marketing year was at the lowest level in at least 30 years. In contrast, the stocks of soybeans held outside the U.S. at the start of the 1995/96 marketing year are near the previous year's level, while that for all oilseeds is up a moderate amount.

The decline in U.S. corn production, strong domestic utilization, and the relatively tight levels of foreign stocks are expected to push corn prices higher during the 1995/96 marketing year. The midpoint of the USDA's price prediction for corn is \$2.75 per bushel, about 20 percent higher than the previous year's average. Wheat prices also stand to benefit from the tightening supply situation. The midpoint of the wheat price estimate is \$4.05 per bushel. If achieved, it would be the highest average in 21 years. Furthermore, soybean prices are expected to post year-over-year gains. The midpoint of the USDA soybean price forecast is \$6.00 per bushel, a tenth higher than the previous year.

Mike A. Singer

AgLetter (ISSN 1080-8639) is published monthly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice president, Mike A. Singer, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

To subscribe, please write or telephone:

Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834
Tel. no. 312-322-5111

SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (index, 1990–92=100)	August	101	0.0	4	-1
Crops (index, 1990–92=100)	August	112	-0.9	11	8
Corn (\$ per bu.)	August	2.59	-1.5	20	15
Hay (\$ per ton)	August	81.10	0.6	-2	0
Soybeans (\$ per bu.)	August	5.68	-3.7	2	-13
Wheat (\$ per bu.)	August	4.17	2.0	28	41
Livestock and products (index, 1990–92=100)	August	92	1.1	-2	-8
Barrows and gilts (\$ per cwt.)	August	49.30	4.0	15	2
Steers and heifers (\$ per cwt.)	August	61.30	-1.0	-10	-18
Milk (\$ per cwt.)	August	12.30	1.7	-1	-1
Eggs (¢ per doz.)	August	63.6	4.4	5	4
Consumer prices (index, 1982–84=100)	August	153	0.3	3	6
Food	August	148	0.2	3	5
Production or stocks					
Corn stocks (mil. bu.)	June 1	3,416	N.A.	45	-8
Soybean stocks (mil. bu.)	June 1	792	N.A.	43	16
Wheat stocks (mil. bu.)	June 1	510	N.A.	-10	-4
Beef production (bil. lb.)	July	2.08	-8.6	3	5
Pork production (bil. lb.)	July	1.30	-11.3	0	-1
Milk production* (bil. lb.)	August	11.1	-2.4	0	N.A.
Receipts from farm marketings (mil. dol.)	May	13,821	4.3	1	2
Crops**	May	5,945	-2.7	13	25
Livestock	May	7,308	16.0	-5	-7
Government payments	May	568	-32.2	-22	-41
Agricultural exports (mil. dol.)	June	3,966	-6.3	20	26
Corn (mil. bu.)	June	168	-18.9	94	51
Soybeans (mil. bu.)	June	36	-21.4	33	-10
Wheat (mil. bu.)	June	81	0.2	6	-10
Farm machinery sales (units)					
Tractors, over 40 HP	August	4,351	-4.1	0	28
40 to 100 HP	August	3,204	-7.4	1	27
100 HP or more	August	1,147	6.7	-3	33
Combines	August	753	-11.7	20	22

N.A. Not applicable

*22 selected states.

**Includes net CCC loans.



AgLetter is printed on recycled paper
using soy-based inks

Federal Reserve Bank of Chicago
Public Information Center
P.O. Box 834
Chicago, Illinois 60690-0834
312-322-5111

AgLetter

PRESORTED
FIRST-CLASS MAIL
ZIP + 4 BARCODED
U.S. POSTAGE PAID
CHICAGO, ILLINOIS
PERMIT NO. 1942