

AgLetter



CROP REPORTS SIGNAL CONTRASTING PRICE PRESSURES

Two recent reports from the U.S. Department of Agriculture contained divergent short- and long-term price signals for corn and soybeans. The *Grain Stocks* report provided an indication of the amount of corn and soybeans remaining from last fall's harvest as of March 1. It also provided a benchmark for gauging how much of the available supplies were used during the first-half of the marketing year and, for soybeans, it provided a means of judging the accuracy of last fall's harvest estimate. For both corn and soybeans, the report tended to firm near term price prospects by signaling faster-than-expected use so far this marketing year. Conversely, the *Planting Intentions* report foreshadows bigger-than-expected increases in 1997 corn and soybean seedings. The indicated acreage, if supplemented by conducive weather conditions, could signal ample supplies for both consumption and a rebuilding of carryover stocks during the 1997/98 marketing year.

The March 1 grain stocks estimates provide a measure of consumption for the first half of the crop marketing year for corn and soybeans and the amount available for either second-half consumption or for year-end stocks that will be carried into the next marketing year. The estimate of corn stocks was placed at 4.49 billion bushels. That marked a large (18 percent) increase from the extremely low stocks of a year ago but is still 9 percent below the prior five-year average. For soybeans, the March 1 stocks estimate was placed at 1.06 billion bushels, down more than a tenth from both last year and from the prior five-year average. Supplies remain relatively tight in both the corn and the soybean market.

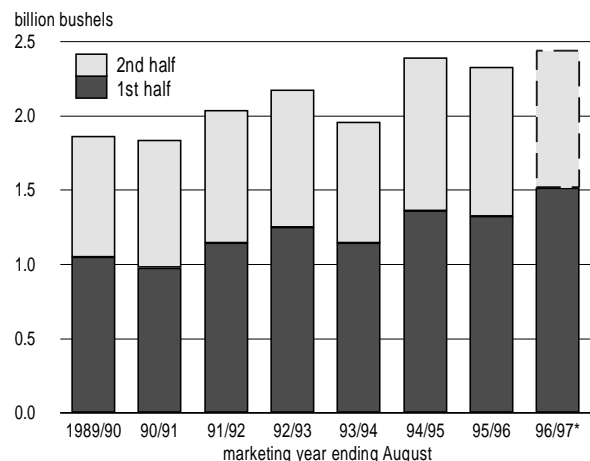
The March 1 estimate of corn stocks, when compared to available supplies at the beginning of the marketing year and the modest imports since then, implies that total use of corn during the first half of the marketing year was up 2 percent from a year ago and second only to the record pace of two years ago. By residual calculation, all of the rise was in domestic consumption. Trade figures show corn exports during the six months ending with February were down 17 percent from the strong year-earlier pace. That implies domestic consumption of corn during

the same period was up 8 percent and, at 4.2 billion bushels, close to the record pace of 4.3 billion bushels consumed domestically during the first half of the 1994/95 marketing year.

Like corn, the March 1 estimate of soybean stocks was lower than expected. But unlike for corn, regular reporting channels track the bulk of domestic consumption, or usage, for soybeans. Consequently, the lower-than-expected estimate of soybean stocks may imply that the supplies available at the beginning of the marketing year were overstated because of a slightly inflated estimate of the 1996 soybean harvest. At any rate, the available reports show that usage of soybeans during the first half of the marketing year was at a record-setting pace. Soybean exports were up more than a fifth from the year before while the amount of soybeans crushed into meal and oil domestically was up 7 percent.

The strong first-half consumption patterns and the lower-than-expected stocks prompt a reassessment of likely developments during the remainder of the 1996/97 crop marketing year. Updated projections from the U.S. Department of Agriculture raised the estimates of total use of corn and soybeans and lowered the estimates of ending stocks. Corn usage during the second half of

Tight supplies will slow soybean usage during last half of the 1996/97 marketing year



*Preliminary for first half; projected for second half.

the marketing year is expected to hold well above last year's curtailed level while lagging further behind the record pace of two years ago. Export prospects have been trimmed because updated tallies show China's return to a net-exporter position in corn this year will be more profound than had been forecast earlier. Moreover, Taiwan's import needs for livestock feed have been reduced because of the disease that recently has riddled its pork sector. The estimate of corn exports for the entire marketing year was cut from 1.90 billion bushels to 1.82 billion bushels. This implies shipments during the March-August period will be down nearly a fifth from last year and no better than the average of the five prior years. Domestic use during the second half of the marketing year will remain high and well above the levels of a year ago when usage was trimmed by low supplies and record-high corn prices. Compared to the prior five-year average, however, the second-half gain in domestic use will narrow considerably from the first-half performance. These projections assume carryover stocks of corn at the end of the 1996/97 marketing year will approximate 900 million bushels. Such a level is about 50 million below the previous forecast and very low by most historical comparisons. However, it is more than double the precariously low carryover stocks of a year ago.

Prospects for soybeans in the months ahead are clouded by the contrasting trends of very tight domestic supplies and an apparent bumper harvest now underway in the Southern Hemisphere. Despite some late-season drought damage, the combined soybean harvest now coming out of Brazil, Argentina, and Paraguay is still projected to be a record high and some 8 to 11 percent larger than last year. Rumors continue that some of those soybeans could be shipped to the U.S., a development that has helped to blend the relatively high prices here to lower prices there in the face of strong world demand. Regardless of the import developments, carryover stocks of soybeans at the end of the current marketing year will be pulled to a minimal level. The USDA now projects soybean carryover stocks will fall to a 20-year low of 125 million bushels, down from the previous estimate of 140 million bushels. Relative to annual usage, the ending stocks would be as tight as was the case for corn last year and the tightest for soybeans in 25 years.

The projected ending stocks figure for soybeans implies second-half usage will retreat 8 percent below last year's pace, abruptly reversing the first-half gain of 14 percent. The Southern Hemisphere harvest now becoming available to world markets implies all the cut will be in soybean exports. The turnaround in exports seems underway as weekly shipments since late February

and export orders on the books as of April 10 both show declines with respect to a year ago. Domestic crushing activity during the second half of the year is projected to hold at last year's somewhat curtailed pace as larger inventories of poultry and cattle in feedlots help sustain domestic meal demand.

MORE CORN AND SOYBEAN ACREAGE

While tight old-crop supplies will help buoy corn and soybean prices in the short-run, larger plantings may undercut prices later this year. A survey of farmers' planting intentions points to another increase in corn and soybean seedings this year but little change in the total acreage of major crops. At 81.4 million acres, the intended corn plantings would mark an increase of nearly 2.5 percent from last year and a 14 percent rise from two years ago. Soybean seedings are expected to cover 68.8 million acres, up a surprisingly large 7 percent from last year and 10 percent more than two years ago. These intentions, if realized, would translate into the largest corn acreage since 1985 and the largest soybean acreage since 1982.

The planting intentions survey was conducted in late February and early March, prior to when most of the recent price gains for grains and oilseeds were posted. Various factors through the planting season—including crop price relationships, input supplies, and weather patterns—could cause actual plantings this year to depart from the reported intentions. Reflecting this, actual corn plantings have fallen short of intended plantings in seven of the last ten years. The average shortfall in those seven years was 2.1 percentage points. The biggest shortfalls occurred with the flood conditions in 1993 (4.3 percent) and the late planting season in 1995 (5.4 percent). The deviations from intended corn plantings in the other eight years—both plus and minus—averaged less than 1 percent and never exceeded 2 percent. For soybeans, actual seedings have exceeded intended plantings in eight of the last ten years, including the last six in a row. The deviations of the past ten years—both plus and minus—for soybeans have ranged from a low of 0.9 percent to a high of 3.6 percent and averaged 2.1 percent. In general, the acreage indications for corn and soybeans have been the most reliable of the major crops covered by the planting intentions survey.

Some 16 crops are covered in the survey of farmers' planting intentions. The survey found that the total area devoted to those crops this year is expected to approximate 330 million acres, down only nominally from the high level of last year. However, because of heavy acreage abandonment last year, especially in the winter wheat areas

Farmers' planting intentions point to more corn and soybean acreage, less wheat

	1994	1995	1996	1997	Change
	(----- million acres-----)				(%)
Feed grains ^a	100.2	90.4	102.5	102.5	0.0
Corn	79.2	71.2	79.5	81.4	2.4
Wheat	70.3	69.1	75.6	69.2	-8.5
Spring	21.2	20.4	23.7	21.0	-11.4
Soybeans	61.7	62.6	64.2	68.8	7.2
Sunflower	3.6	3.5	2.6	3.1	19.8
Hay ^b	58.7	59.6	61.0	61.5	0.8
Dry beans	2.0	2.1	1.8	1.9	5.6
Sugar beets	1.5	1.4	1.4	1.5	6.4
Cotton	13.7	16.9	14.7	14.5	-1.2
Rice	3.4	3.1	2.8	2.9	2.2
Peanuts	1.6	1.5	1.4	1.4	-1.2
Other ^c	0.9	0.9	0.9	1.1	18.8
Total	317.6	311.2	329.0	328.3	-0.2

^aUses harvested acreage for oats.

^bHarvested acreage.

^cCombines tobacco (800 thousand acres), flaxseed (200 thousand acres), and sweet potatoes (90 thousand acres) for 1997.

Source: U.S. Department of Agriculture.

hard-hit by drought, the intended seedings this year could translate into a slightly larger harvested acreage.

Despite prospects for more corn, total feed grain acreage this year may be unchanged from the four-year high set in 1996. Sorghum acreage, which jumped nearly 40 percent last year as many farmers with drought-withered winter wheat tried a second crop, will decline nearly a fifth this year if the planting intentions survey proves to be reliable. Intended barley seedings also point to a modest decline from last year, but the area seeded to oats (and intended for harvest) could rebound considerably. Total wheat seedings for this year's harvest are now indicated to be down 8.5 percent to 69.2 million acres. The 11-percent cut for spring wheat seedings indicated in the most recent survey was larger than most analysts expected and larger than the 8.5 percent cut reported earlier for the winter wheat acreage that was seeded last fall. Cotton and peanut acreage may also edge lower this year, based on the planting intentions reported. Conversely, gains of 1 to 2 percent are indicated for rice and for hay. Somewhat larger gains, 6 to 10 percent, are suggested for dry edible beans, sugarbeets, and tobacco. Planting intentions for sunflowers point to a 20 percent rise while those for flaxseed foreshadow a doubling.

Among the states comprising the Seventh Federal Reserve District, four crops—corn, soybeans, hay, and wheat—account for virtually all the acreage covered by

the survey. Based on the reported planting intentions, the acreage devoted to those four crops in District states will be up 1 percent from last year and 6 percent larger than two years ago. A sizable cut (23 percent) in wheat acreage this year will nearly offset modest gains for the other three crops. Intended corn seedings for the five-state region point to a 1 percent rise as gains for Illinois, Indiana, and Wisconsin exceed the slight cuts indicated for Iowa and Michigan. Soybean planting intentions point to larger seedings in all District states except Indiana, with a 3 percent rise indicated for the five-state region. Hay acreage is indicated to be up 1 percent, with all the rise occurring in Illinois and Indiana.

While the indicated planting intentions provide added information about the potential 1997 crop harvest, weather patterns during the planting and growing season will remain a key variable as to the final outcome. The indicated acreages for corn and soybeans are large and add to the potential that this year's harvest will lead to a rebuilding of carryover stocks for both crops. The indicated corn plantings, based on a normal relationship between planted and harvested acreage and a trend-yield per acre would produce a harvest of about 9.6 billion bushels. But the harvest could range from 8.7 billion bushels to nearly 10.4 billion bushels, depending on whether this year's per-acre yield more closely approximates the ten-year average or the record high. This wide range of the potential harvest must be weighed against likely trends in consumption or usage. The all-time high in corn usage was 9.4 billion bushels which occurred during the 1994/95 marketing year of relatively low corn prices. Usage during this year of relatively high corn prices is projected to reach 8.8 billion bushels, the second highest on record.

For soybeans, the planting intentions foreshadow a harvest ranging between 2.35 billion bushels and 2.81 billion bushels, depending on whether yields approximate the 10-year average or the all-time high. So far, the all-time high in annual usage of soybeans was 2.40 billion bushels during the 1994/95 marketing year. A new record high of around 2.45 billion bushels will likely be posted when final results of the current marketing year (ending in August) are calculated.

For both corn and soybeans, tight old-crop supplies will keep the market closely attuned to this year's harvest prospects. Any major weather threats to this year's harvest could sustain the recent buoyancy in crop prices. Alternatively, prices this summer could erode sharply if crops seem to be developing up to their potential.

Gary L. Benjamin

SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (<i>index, 1990-92=100</i>)	March	108	2.9	-1	9
Crops (<i>index, 1990-92=100</i>)	March	119	5.3	-8	11
Corn (\$ per bu.)	March	2.78	4.9	-21	21
Hay (\$ per ton)	March	108.00	2.9	35	29
Soybeans (\$ per bu.)	March	7.95	7.7	14	44
Wheat (\$ per bu.)	March	3.96	2.1	-22	12
Livestock and products (<i>index, 1990-92=100</i>)	March	98	0.0	5	5
Barrows and gilts (\$ per cwt.)	March	49.20	-7.2	-1	29
Steers and heifers (\$ per cwt.)	March	67.70	3.8	12	-4
Milk (\$ per cwt.)	March	13.60	0.7	-1	8
Eggs (¢ per doz.)	March	71.8	-5.2	-11	17
Consumer prices (<i>index, 1982-84=100</i>)	March	160	0.3	3	6
Food	March	157	0.1	3	6
Production or stocks					
Corn stocks (<i>mil. bu.</i>)	March 1	4,494	N.A.	18	-20
Soybean stocks (<i>mil. bu.</i>)	March 1	1,056	N.A.	-11	-23
Wheat stocks (<i>mil. bu.</i>)	March 1	822	N.A.	0	-15
Beef production (<i>bil. lb.</i>)	February	1.92	-13.6	-6	6
Pork production (<i>bil. lb.</i>)	February	1.31	-10.4	-8	-3
Milk production* (<i>bil. lb.</i>)	March	11.5	11.8	0	0
Receipts from farm marketings (<i>mil. dol.</i>)	December	18,856	-8.3	6	7
Crops**	December	10,485	-16.3	3	-1
Livestock	December	7,849	-1.7	3	21
Government payments	December	522	832.1	561	12
Agricultural exports (<i>mil. dol.</i>)	January	4,997	-4.8	-10	12
Corn (<i>mil. bu.</i>)	January	183	-2.8	-15	-4
Soybeans (<i>mil. bu.</i>)	January	106	-12.9	0	19
Wheat (<i>mil. bu.</i>)	January	65	21.7	-33	-33
Farm machinery sales (<i>units</i>)					
Tractors, over 40 HP	March	6,786	23.5	14	7
40 to 100 HP	March	3,720	23.1	10	13
100 HP or more	March	3,066	24.1	18	0
Combines	March	400	25.4	-13	-24

N.A. Not applicable

**20 selected states.

**Includes net CCC loans.



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