



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

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WEATHER, POLITICS, AND GRAIN PRICES

UNCERTAINTY CONTINUES TO SURROUND THE PRICE SITUATION FOR CORN AND SOYBEANS. The uncertainty has added 25 cents per bushel to the price of corn and \$1 per bushel to the price of soybeans over the past three weeks.

CORN. The recent price strength in corn stems from two factors which will affect the size of the 1978 crop. First, below-normal temperatures and abundant moisture conditions throughout the Corn Belt have created speculation that the planting season will be late. Delayed planting could result in a significant reduction in the corn acreage and possible yield reductions for late-planted corn.

With a smaller 1978 crop and an increased demand for corn, the relatively large stocks of corn accumulated this year could dwindle significantly next year. However, it is still too early to predict a 1978 corn crop of less than 6 billion bushels. On May 5, 1975, only 10 percent of the Illinois corn crop had been planted. Yet, the state average yield turned out to be a record of 116 bushels per acre.

Second, changes in the set-aside program for feed grains appear likely, although the exact nature of these changes is not clear. The Senate Agricultural Committee had passed two bills for the Senate's consideration. One would require government payment for land diversion beyond the existing set-aside program. The other would establish a \$2.40 loan rate on corn and target prices for individual farmers based on the percentage of the crop acreage that is set aside. The target prices would range from \$2.10 for a set-aside of 10 percent to \$3.45 for a set-aside of 50 percent. Any action, either legislative or executive, to further reduce the planted acreage will add strength to corn prices.

SOYBEANS. Unlike the situation with corn, the recent price strength in soybeans stems from the old crop situation. The rate of use for the 1977 U.S. soybean crop remains large and well above earlier expectations. The USDA has lowered the carryover estimate to 215 million bushels. Some private analysts project a carryover of only 165 to 170 million bushels.

Further price strength in soybeans is coming from the apparently small Brazilian crop. The USDA has lowered its estimate of the 1978 Brazilian crop from the original estimate of 12.8 million metric tons to 10.5 to 11 million metric tons. Some sources place the crop below 10 million metric tons.

IMPLICATIONS. With December corn at \$2.54 and November soybeans at \$6.30, the market is offering relatively good pricing opportunities for the 1978 crops. Farmers should be formulating decisions on forward pricing.

For corn, a considerable concern about the weather is already bid into new-crop prices. An improvement in planting prospects could be expected to bring some price weakness. However, any significant change in the 1978 set-aside program for feed grains will have overriding price implications, particularly if the loan rates and target prices are raised.

For soybeans, the short crop in Brazil is likely to result in a price peak this spring with declining prices to harvest time. The extent of the price decline will be determined by the size of soybean acreage and the prospective crop. A clue to when the price peak is near may be the old crop-new crop price spread. The August-November price spread has widened about 80 cents per bushel over the past four weeks. A narrowing of this spread may indicate price weakness.

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