WEEKLY OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

March 10, 1982

# ANY HOPE FOR GRAIN PRICES?

GRAIN AND SOYBEAN PRICES CONTINUE to be under severe pressure. On March 5, March corn futures closed at $2.58 1/2, only 5 cents above the contract low. December corn futures closed at $2.87 1/2, 16 1/2 cents above the contract low reached last December.

March soybean futures closed at $6.06 per bushel, 6 cents above the contract low reached earlier in the week. November futures at $6.42 were 12 cents above contract lows. March wheat (at Chicago) closed at $3.55 1/4, 8 cents above the contract low. July futures closed only 1/4 cent above the previous low of $3.72 1/2. December wheat futures reached a new low, closing at $4.07 1/4.

Compared with prices a year ago, corn futures are 75 to 90 cents lower; wheat is down 60 to 75 cents; and soybeans are $1.00 to $1.50 lower. Corn prices are down about 25 percent, while wheat and soybean prices have declined 15 to 20 percent. If one allows for inflation, the decline this year has been even more severe.

The reasons for the decline have been well documented. The 1981 harvest was record large for corn and wheat and near record large for soybeans. In the preceding year, drought conditions had caused low corn and soybean production in many areas. In addition, domestic and international recessionary pressures have curtailed the demand for feed grains, and the strengthening dollar has increased the cost of U.S. commodities exported to most countries. Eventual recovery in grain prices will require an increase in the current rate of use or a reduction in available supplies of grain.

The prospects of higher livestock prices suggest some improvement in the demand for corn and soybean meal. However, the strength of livestock prices will be limited unless overall economic conditions improve significantly. This improvement does not appear likely in the near future. Under these circumstances, corn and soybean use can be increased only if prices are made attractive to the buyer.

The loan and reserve program for corn and wheat establishes a floor under the price for these two commodities. While such an action may be desirable in the short run, it may slow down the rate of use if the floor is above the "market" price. This situation appears to prevail at present. As a result, carryover stocks of corn and wheat may be extremely large, and this carryover, in turn, will limit future price increases.

For soybeans, the support price appears to be well below the "market" price, suggesting that prices can be adjusted to encourage greater use. Carryover stocks of soybeans will be less burdensome than those of corn and wheat. For all three commodities, it is imperative that producers follow an orderly marketing program in order to encourage rapid use.

In addition to the rate of use, prices will also reflect the expected size of the 1982 crops, which will be affected by the Acreage Reduction Program for corn and wheat. However, the most important factor in determining the size of the crop will be weather. "Normal" weather will produce crops that exceed the amount required for the current annual rate of use. Large crop prospects underscore the need to increase the current rate of use and to minimize carryover stocks.

In conclusion, the short-term outlook does not favor grain price increases. However, if the supply-demand balance improves in 1982-83, price recovery could be significant because of the current depressed price level. The prospects are more favorable for soybeans than for either corn or wheat.

Darrel Good

Issued by *Darrel Good*, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801