



WEEKLY OUTLOOK

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ESTIMATES OF GRAIN SURPLUS ARE INCREASED

THE USDA HAS RELEASED A REVISED SET of supply and demand estimates for the 1982-83 grain marketing year. These revisions contained higher estimates of ending inventories of the major crops.

On the basis of the November Crop Production report, the 1982 corn crop is now estimated at 8.33 billion bushels, 15 million above last month's estimate. Corn supplies total 10.7 billion bushels, nearly 16 percent more than those a year ago. The projection for corn exports was lowered by 100 million bushels to 2.15 billion bushels. Total use of corn during the current marketing year is expected to reach 7.25 billion bushels, leaving a carryover of 3.447 billion. If these estimates materialize, ending stocks will total 47.5 percent of total use, the highest percentage since 1961.

The farmer-owned reserve is expected to grow to 2.15 billion bushels, and CCC inventories are projected at 475 million bushels. Free market supplies of 822 million bushels will be more than adequate. Secretary Block has indicated that entry of the 1983 crop into the farmer-held reserves may be restricted because these reserves are already excessive.

The wheat export estimate was lowered by 50 million bushels to 1.65 billion bushels. As a result, carryover stocks of wheat are expected to reach 1.461 billion bushels, 300 million bushels more than beginning inventories. These stocks would represent 58 percent of total annual use. Ending stocks of hard red spring and durum wheat are expected to exceed one year's use, but carryover stocks of soft winter wheat are projected to total only 10 percent of the annual use.

The November production estimate for soybeans was unchanged from last month at 2.3 billion bushels. The export estimate, however, was lowered by 20 million bushels to 940 million. Total use is projected at 2.118 billion bushels, and carryover stocks are estimated at 450 million, up 182 million bushels from the level of beginning stocks.

Implications. We need to recognize that demand estimates this early in the year are highly tentative. In the case of corn, both feed use and export demand have been difficult to predict in recent years. Use and carryover levels could vary

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significantly from current estimates. In addition, active use of the loan and reserve program by eligible producers could result in a tighter free market supply than currently projected. The prospective size of the 1983 crop will also be important during the last half of the marketing year. However, room for significant price increases seems limited for the next three or four months. Increased selling by farmers is expected to pressure the basis and nearby futures. The possibilities of free market supplies becoming tight enough to force loan redemption seem remote at this time.

Soybean use will depend partly on the size of the South American crop. Current prospects point to increased production in both Brazil and Argentina. These estimates could change substantially as the year develops. In the meantime, soybean oil prices must compete with low priced palm oil. Soybean meal prices must compete with corn prices and the general level of livestock prices. Those prices appear to be in equilibrium now, suggesting limited increases in the near future.

Unless winter wheat seedings decline significantly, wheat prices will continue to be dominated by the loan program. This situation suggests stable hard winter wheat prices and some further improvement in soft wheat prices.

The recent price strength in the grain markets is encouraging. Further strength will require an improvement in market fundamentals.

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