Cooperative
Extension Service
University of Illinois
at Urbana-Champaign

WEEKLY OUTLOOK
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College of Agriculture
University of Illinois at Urbana-Champaign

August 13, 1986

GOVERNMENT ACTIONS TO DOMINATE GRAIN MARKETS

THE SUPPLY AND DEMAND PROSPECTS for feed grains, wheat, and soybeans for the year ahead are fairly clear: production exceeds prospective market size. Carryover stocks are expected to increase. The increase for corn will be particularly large. For the next few months and perhaps longer, government actions could be the dominant factor in the grain markets.

The role of the government in the grain market is already extensive and is expanding almost daily. The major provisions of the 1987 wheat program have been announced. The parameters for the 1987 feed grain program are outlined in the Food Security Act of 1985. A relatively large set-aside requirement and a lower loan rate are generally expected. The conservation reserve program is in place, and another round of bids is now being accepted. The export bonus program has recently been expanded to include wheat sales to the Soviet Union.

Commodity certificates are being used for part of the advance deficiency payments on 1986 program crops. The advance deficiency payment has just been increased by 10 percent, all of which will be in the form of commodity certificates.

Changes have also been made in specific provisions of the farmer-owned-reserve and Commodity Credit Corporation (CCC) loan programs. The roll-over period for farmer-owned-reserve grain was extended from 15 days to 30 days. Producers with expiring 1985 CCC loans have been given the option of a one-year extension, with storage costs to be paid by the CCC. On August 1, the CCC also announced the sale of 3 million bushels of CCC corn.

USDA has not yet announced the specifics of the CCC loan program for the 1986 soybean crop. In the Food Security Act of 1985, the CCC loan rate was set at $5.02, but the Secretary of Agriculture has the authority to lower that rate by 5 percent. The Act also authorizes a marketing loan program for soybeans. Specific provisions are expected to be announced very shortly.

Government activity in commodity markets to date reflects the philosophy that (1) growth in exports is the long-term solution to the grain surplus situation, and (2) in the short run, production should be reduced with acreage controls, and farm incomes should be supported with deficiency payments. Some specific provisions are also a response to the immediate prospects of a shortage of storage space.

It seems likely that new government programs will be announced over the next several weeks and perhaps months. Additional export subsidy programs, especially for corn, are anticipated. Expanded use of commodity certificates or use of the marketing loan for additional commodities is expected. In the short run, these programs will keep pressure on prices and will tend to put government grain inventories back in the marketplace. Producers will be partly protected from the low prices with large deficiency payments.

In the longer run, the direction of commodity programs is less clear. Current programs are extremely expensive and may receive more criticism in the post-election period. Efforts to expand exports and reduce domestic production will most likely be only partly successful. If so, relatively low prices will continue for some time. Reductions in the level of government subsidies would mean that producers will have to make decisions based on market prices. A major question is still unanswered: What is the equilibrium price of corn in a free market?

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