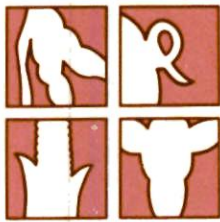




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
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WILL GRAIN SURPLUSES RETURN?

The small crops of 1988 will result in a significant reduction in grain stocks at the end of the 1988-89 marketing year. The inventory of wheat on June 1, 1989, is forecast at 528 million bushels, the smallest inventory since 1975. Those stocks will represent a 2.5-month supply at the projected level of use. Stocks at the end of the year have not been less than a six-month supply since 1982. In the six years since then, stocks have averaged an eight-month supply.

The inventory of corn on September 1, 1989, is expected to be 1.446 billion bushels, the lowest level since 1984. At the level of use projected for the current marketing year, those stocks represent a 2.3-month supply. For the past three years, stocks at the end of the year averaged a 7.3-month supply. Soybean stocks on September 1, 1989, are expected to be only 125 million bushels, the smallest year-end inventory since 1977. Those stocks will represent less than a one-month supply, compared to the average of a 2.5-month supply for the past four years.

In the two previous dry years, 1980 and 1983, wheat production escaped the effect of the dry weather. Production of corn and soybeans, however, was significantly reduced in both those years. Corn inventories were reduced to a low level in both those years, but soybean stocks remained large at the end of the 1980-81 marketing year. Soybean stocks were relatively low at the end of the 1983-84 marketing year.

In each of these instances of a significant reduction in corn and soybean inventories, stocks quickly rebounded to a level of surplus. The inventory of corn was 1.392 billion bushels on September 1, 1981, 2.537 billion bushels a year later, and 3.523 billion bushels two years later. A similar pattern followed the short crop of 1983. Stocks were 1.006 billion bushels on September 1, 1984, and 4.04 billion bushels two years later. In both instances, the small crops were followed by large crops and declining exports.

Soybean stocks were 176 million bushels at the end of the 1983-84 marketing year and a record 536 million bushels two years later. Surpluses accumulated as production increased by 28 percent. Exports were small during the 1984-85 marketing year but rebounded the following year.

Corn production is likely to increase significantly in 1989 as both planted acreage and average yields increase. Planted acreage is expected to increase due to smaller acreage reduction requirements and the elimination of the paid diversion program. Annual programs idled 21 million acres of corn base in 1988. Those programs will likely idle less than 8 million acres of corn base in 1989. Some of the acreage coming back into production may be planted to soybeans or oats under provisions of the 1988 Disaster Act. At current prices for soybeans and oats, only a small increase in acreage of those crops would be expected. Corn plantings could increase

by 10 million acres. Acreage harvested for grain could increase by 13 million acres--to 70 million. With 70 million acres of corn harvested, the U.S. average yield would have to be only 114 bushels per acre to produce a crop of 8 billion bushels. The average yield from 1985 to 1987 was 118.7 bushels.

Corn exports during the 1989-90 marketing year are obviously difficult to forecast. However, if the Soviet grain crop rebounds, U.S. corn exports might remain stable or decline modestly next year. Stocks of corn at the end of the 1989-90 marketing year could easily exceed 2 billion bushels.

Winter wheat seedings in 1988 have not been estimated, but they are probably much larger than a year ago. The acreage reduction program has been reduced from 27.5 percent to only 10 percent of the base acreage. In addition, more producers have probably chosen not to participate in the program and have seeded 100 percent of their base acreage. Spring wheat acreage will depend on weather and price conditions. In total, wheat acreage could increase by 14 million acres, resulting in a 500-million-bushel increase in production and a similar increase in stocks at the end of the 1989-90 marketing year.

Soybean plantings in 1989 are more difficult to forecast. Increased acreage would have to come at the expense of program crops--feed grains, wheat, or cotton. The price of soybeans for the fall of 1989 is about \$6.50 per bushel. That price is not high enough for soybean acreage to increase at the expense of program crops. Double-cropped acreage might increase as a result of the increase in soft red winter wheat acreage. A 2-million-acre increase in soybean plantings and a rebound to a normal yield of 32 bushels per acre would produce a crop of 1.9 billion bushels and result in only a modest increase in stocks at the end of the 1989-90 marketing year.

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