

# WEEKLY OUTLOOK

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## **SMALLER CORN AND SOYBEAN CROPS; LESS WHEAT ACREAGE THAN EXPECTED**

On January 11, the USDA released the final estimates of the size of the 1989 corn and soybean crops, an estimate of grain stocks as of December 1, 1989, and an estimate of winter wheat seedings. Revised supply and demand estimates also were released for all major crops. A summary of those reports and the price implications for corn, soybeans, and wheat follows.

**Corn.** The 1989 corn crop is now estimated at 7.53 billion bushels, nearly 63 million bushels less than estimated in November. Based on historical patterns, the market had expected to see a 75-million-bushel increase in the crop estimate. Compared with the November estimate, both the figures for yield and harvested average were lower in the January reports. Most of the reduction in crop size came in Iowa and South Dakota.

Stocks of corn on December 1 totaled 7.08 billion bushels, about unchanged from the level of a year ago. Even with the smaller production estimate, the market was anticipating a larger inventory than that of last year. The low stocks figure implies a very high level of feed and residual use of corn during the first quarter of the marketing year. At 1.5 billion bushels, feed and residual use was the second largest on record. First quarter use, however, has not been a good predictor of use for the entire marketing year. Based on the small stocks figure, the USDA increased its feed and residual forecast for the year by 200 million bushels, to 4.4 billion. In the 1987-88 marketing year, feed and residual use reached 1.55 billion bushels during the first quarter of the year and nearly 4.8 billion bushels for the year.

The USDA also increased the forecast of the amount of corn to be processed by 30 million bushels, to a total of 1.31 billion bushels. The export projection was unchanged at 2.15 billion bushels as the estimate of the coarse grain crop in the rest of the world was unchanged. The net effect of the change in production and demand estimates was a 292-million-bushel reduction in the forecast of stocks at the end of the marketing year.

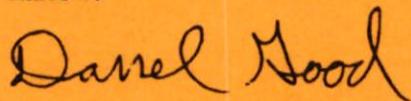
The reports should support corn prices at a slightly higher level, but prices will probably remain in a narrow range. Prospects for an increase in corn acreage in 1990, the prospects of a little more precipitation, and increased farm sales will moderate the price impact of the reports. March futures may remain in the \$2.40 to \$2.50 range.

**Soybeans.** The 1989 soybean crop totaled 1.93 billion bushels, 10 million bushels less than estimated in November. The market had anticipated a 10-million-bushel increase in the size of the crop. December 1 soybean stocks stood at 1.61 billion bushels, an increase of 244 million bushels from the stocks of a year ago.

The smaller production estimate was offset by a smaller projection of the size of the domestic crush. Exports are still projected at a dismal 580 million bushels as weather conditions in South America still point to a record harvest there this spring. Stocks of soybeans at the end of the 1989-90 marketing year are expected to be burdensome at 335 million bushels. Soybean prices will remain on the defensive, with March futures trading between \$5.70 and \$5.90 for the near term. Some price improvement might be expected in the spring if acreage is reduced and the dry weather persists.

**Wheat.** The estimate of the 1989 wheat crop was virtually unchanged at 2.04 billion bushels. Stocks on hand on December 1 were down 300 million bushels from last year, but slightly above market expectations, resulting in a 25-million-bushel increase in the forecast of stocks on June 1. The big surprise for wheat was the relatively small increase in winter wheat acreage. At 56.97 million acres, seedings were up 1.88 million acres from seedings of a year ago, but the market had anticipated a 4-million-acre increase. Acreage was unchanged in Kansas, the largest wheat-producing state, and up only 100,000 acres (0.5 percent) in Colorado, Oklahoma, and Texas. Much of the increase in seedings came in the soft red winter wheat areas of the Midwest and the Southeast. Combined acreage in Illinois, Indiana, Missouri, and Ohio increased by nearly 12 percent.

Weather conditions will continue to be the most important price factor for wheat. The improved near-term outlook for precipitation will keep pressure on the market, particularly in Chicago. The old crop-new crop price spread should continue to narrow.



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