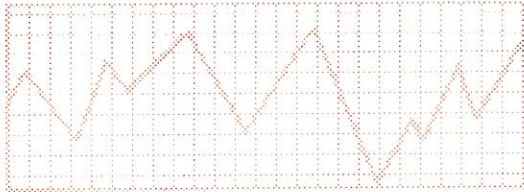




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WEEKLY OUTLOOK



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HOW WILL THE AUGUST CROP PRODUCTION REPORT BE INTERPRETED?

Record or near record rainfall and moderate temperatures throughout the Midwest in July suggest that record corn and soybean yields are possible this year. The USDA will release its first estimate of the potential size of the 1992 corn and soybean crops on August 12. Yield estimates will be based on farmer surveys and objective yield surveys conducted by the National Agricultural Statistics Service. Any changes in acreage reported in these sample surveys will also be figured into the production estimates.

The production estimates will obviously be important to price prospects for corn and soybeans. These estimates, however, will be subject to a fair amount of "second guessing" by the trade. The estimates will not necessarily be taken at face value for two primary reasons. First, the crops in many areas are maturing later this year, making it more difficult to assess yield potential in early August. Second, final production estimates have often varied significantly from the August estimate.

In the case of soybeans, the final production estimate was larger than the August estimate in each of the past 4 years. The difference ranged from only 19 million bushels in 1989 to 117 million bushels in 1991. The average was 75 million bushels, or about 4.2 percent of the August estimate. The large increases in production estimates in 1988, 1990, and 1991 were the result of increased yield estimates. The estimate of yield increased by 1 bushel per acre in 1988, 1.6 bushels in 1990, and 2.5 bushels in 1991.

Prior to 1988, the changes in soybean production estimates from August through the final estimates were much more variable. In the eight years from 1980 through 1987, the final production estimate exceeded the August estimate only once (1985). In the five years from 1975 through 1980 the final estimate exceeded the August figure four times. The only consistent pattern prior to 1988 was that production estimates declined in dry years (1976, 1980, 1983, and 1984). Estimates during years of high yields changed in both directions.

The pattern of corn production estimates has been similar to that for soybeans. The final estimate was larger than the August estimate in each of the last four years. The difference varied from 56 million to 450 million bushels. The average was 192 million bushels, or about 2.8 percent of the August estimate. Over the past three years, however, the final figure differed from the August estimate by an average of only 106 million bushels, or 1.4 percent.

In the 13 years from 1975 through 1987, the final production estimate for corn exceeded the August estimate six times, was smaller four times, and was unchanged three times. There was no apparent patterns of difference for dry years as compared to large crop years.

Based on the recent history of production estimates, the market is more likely to take the August 1992 corn production estimate at face value. The soybean figure will be examined more carefully, with the bias likely to be toward a larger crop than estimated in August.

Prospects for large crops in 1992 have been reflected in the futures market. December corn futures have declined about 40 cents per bushel or 15 percent since July 1. November soybean futures have dropped 65 cents, or nearly 11 percent, since July 1. Confirmation of large crop potential and a favorable end to the growing season could put additional downside pressure on both markets.

On average, over the past eight years (excluding the drought year of 1988), the low in the December corn futures has been \$.72 below the high for that contract. The range was from \$.54 to \$.84. The high for the December 1992 contract to date is \$2.75³/₄. Assuming a typical situation, the low should be established around the \$2.00 mark.

Over the same time period, the low in the November soybean contract ranged from \$.91 to \$2.53 below the high of the contract (excluding 1988). The average difference was \$1.65 per bushel. The "typical" difference was about \$1.50 per bushel. The high for the November 1992 contract to date is \$6.51 per bushel. Assuming a typical situation, the low might be established around the \$5.00 level.

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