Cooperative Extension Service

WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

AUGUST 10, 1992

HOW WILL WASHINGTON REACT TO LARGE CROPS, LOW PRICES?

Prospects for large corn and soybean crops and the resulting low prices will likely increase the pressure on Washington for measures to support grain prices. Measures to increase consumption and to reduce market supplies are available to policy makers and will be examined closely over the next several weeks.

On the supply side, there will likely be efforts to alter the rules of the Farmer Owned Reserve (FOR) spelled out in the Food, Agriculture, Conservation and Trade Act of 1990. That Act specifies that for corn, the Secretary may permit the 1992 crop to enter the FOR if the price of corn between mid-December 1992 and mid-March 1993 is 80 percent or less of the loan rate or the projected stocks to use ratio is more than 22.5 percent. If both conditions are met, the Secretary must permit corn in the FOR. If entry is allowed, however, producers must first secure a 9-month Commodity Credit Corporation (CCC) loan. Entry then would be allowed when the loan matured. The Act also specifies that if entry into the FOR is allowed, the Secretary must determine the maximum quantity allowed into the FOR. For corn, that maximum must be between 600 and 900 million bushels.

If the FOR is opened for the 1992 crop corn, it will likely be on the basis of the projected stocks-to-use ratio. If the USDA continues to project use during the 1992-93 marketing year near 8 billion bushels, projected stocks on September 1, 1993 of 1.8 billion bushels or more would allow entry into the FOR. A 1992 crop of 8.75 billion bushels or more would likely result in a stocks projection near the requirement of 22.5 percent use. The pressure for rule changes, then, would be for direct entry into the FOR and perhaps for larger quantitites than the current maximum.

The Secretary of Agriculture will also have some discretion in establishing the level of the Acreage Reduction Program (ARP) for the 1993 corn crop. The 1990 Act specifies that the magnitude of acreage reduction is to be determined by the stocks-to-use ratio. If stocks at the end of the marketing year are projected to be greater than 25 percent of annual use, the ARP is to be between 10 and 20 percent of base acreage. A projected stocks-to-use ratio of 25 percent or less would require the ARP to be between 0 and 12.5 percent. Again, if projected use remains near 8 billion bushels, a September 1, 1993 stocks projection of more than 2 billion bushels would allow a 1993 ARP as high as 20 percent. The announcement of the 1993 program is to be made no later than September 30, 1992.

On the demand side, there will be intense pressure for Washington to remain aggressive with export subsidy programs, especially the Export Enhancement Program (EEP). Policy makers will be encouraged to spend all allocated funds for the EEP and to increase funding for export subsidies. In addition, there will be support for a broader range of commodities to receive export subsidies. If soybean oil stocks continue large, there will be special efforts to increase subsidies for that commodity.

Also on the demand side, export credits for the former Soviet Union will be of special interest. Farm and commodity groups will be anxious that credit lines remain open and that surplus commodities be included in the credit packages. In general, policy makers will be asked to more aggressively address real or perceived world trade barriers.

In the domestic market, efforts to expand industrial uses will continue. The focus will likely be on the use of corn for ethanol production.

Which policy lever, if any, Washington chooses to pull could have significant short term and long term price implications. Efforts to expand consumption would have beneficial short term and long term implications. Measures to control stocks or significantly reduce planted acreage in 1993 would have beneficial short term impacts, but could have negative longer term implications. Isolating stocks from the market in the FOR would support prices near term, but could result in accumulation of stocks that would restrict longer term price prospects. A large ARP requirement would also be price supportive, but might also encourage expansion in production in other parts of the world.

Efforts to expand consumption will likely be widely supported in the agricultural community. Stocks and supply control alternatives should be closely evaluated. In the longer term, allowing prices to move to very low levels now and generating a high level of consumption may be more beneficial than the short term impact of reducing market supplies with the FOR.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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