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USDA POLICIES TO HELP SUPPORT CORN AND SOYBEAN PRICES?

The U.S. average farm level corn price has been less than $2.50 per bushel in six of the past seven years. Even in the severe drought year of 1988-89, prices averaged only $2.54 per bushel. The national average soybean price has been less than $6.00 per bushel in eight of the past 10 years, averaging higher only in the extreme short crop years of 1983-84 and 1988-89. Low corn prices have persisted in spite of a significant reduction in annual production. Excluding the short crop year of 1983, annual corn production from 1981 to 1986 averaged 8.225 billion bushels. Production from 1987 through 1991 (excluding the drought year of 1988) averaged 7.5 billion bushels. Planted acreage of corn was reduced by nearly 18 million acres (21 percent) from 1981 to 1987. Since 1987, acreage has increased by about 13 million acres.

Planted acreage of soybeans declined by 13 million acres (18 percent) from 1982 to 1990. Acreage has increased only 1.2 million since 1990. Average annual soybean production was remarkably stable from 1986 through 1991. Excluding the drought year of 1988, annual production ranged from 1.924 billion to 1.986 billion bushels. Annual production has remained high in spite of reduced acreage, as average yields increased. Part of the increase in yield is associated with the geographic distribution of acreage. The reduction in acreage has occurred in the relatively lower yielding areas of the country.

The large corn and soybean crops of 1992 suggest that prices will remain at low levels during the majority of the 1992-93 marketing year. Pressure is mounting for government measures to help support prices and/or ease the financial burden of low prices. Most of the options currently available to USDA relate to feed grains. It was announced last week that the advanced deficiency payment for 1992 crops would be increased by 10 percent. Those payments will reportedly be sent directly to producers who applied for advance payments. The additional payment for corn will total 4.8 cents per bushel for eligible production.

The Secretary of Agriculture is to announce the tentative set-aside requirement for the 1993 feed grain crops this week. For corn, the current ratio of projected carryover stocks to projected use of 22.7 percent means that the set-aside will be between 0 and 12.5 percent of the base acreage. In general, commodity groups have been lobbying for a 10 percent set-aside.

The current projected stocks to use ratio would allow the Secretary to open the Farmer Owned Reserve (FOR) for the 1992 corn crop. If the FOR is opened, current rules specify that corn would first have to be held in the 9-month loan program. There is some effort underway to allow direct entry into the FOR so producers could earn storage payments beginning at harvest.

Separately, the USDA announced last week that marketing loans will be offered for the 1993 crops of wheat and feed grain. The offer of marketing loans is based on the so called "GATT trigger" in the 1990 Budget Act. That Act specifies that if the United States has not entered into an agreement in the Uruguay Round of negotiations of the General Agreement on Trade and Tariffs (GATT) by June 30, 1992 the Secretary must establish marketing loan programs for the 1993, 1994, and 1995 wheat and feed grain crops. Under the marketing loan, producers must repay CCC loans at either the loan rate or at the market price. Forfeiture of loans would no longer be an option. The program would presumably be similar to the marketing loan programs already in place for other crops, including soybeans.

In the soybean complex, there are persistent rumors that the USDA will put together an aggressive export subsidy program for soybean oil. Such an effort is complicated by the need not to jeopardize the North American Free Trade Agreement as well as relationships with other exporting countries.

The policy tools available to the USDA could help stop the decline in corn and soybean prices, but are not likely to generate a rally in the near term. The market will continue to focus on large crop prospects.

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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