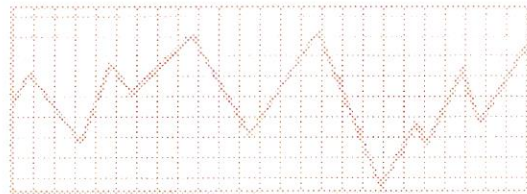




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WEEKLY OUTLOOK

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OLD CROP — NEW CROP PRICE SPREADS WIDEN FOR CORN AND SOYBEANS

Prices for the 1994 crops of corn and soybeans have not rallied as sharply as old crop prices over the past 10 weeks. December 1993 corn futures have advanced \$.50, while December 1994 prices are up \$.20. Similarly, January 1994 soybean futures are up \$.73, while November 1994 prices have advanced \$.26. Old crop prices have risen in an attempt to ration the small crops, while new crop prices reflect the potential for much larger crops in 1994. Larger crop potential lies partly with the likelihood of a significant increase in harvested acreage next year.

In 1993, an estimated 6.6 million acres of corn base were idled under the annual Acreage Reduction Program (ARP), an increase of 3.5 million acres from the previous year. In addition, 3.7 million acres were idled under the 0/92 and 50/92 programs, an increase of 1.7 million acres from 1992. Finally, about 3 million acres of corn went unharvested due to flood and drought damage. For soybeans, approximately 4.2 million acres did not get planted or were not harvested due to extensive flood damage.

In 1994, the ARP requirement for corn is 0 percent, compared to 10 percent last year. That change should allow an additional 6.6 million acres to be planted. It is difficult to anticipate participation in the 0/92 program, but if participation declines to the 1992 level, an additional 1.7 million acres could be planted. Similar changes could bring an additional 1.2 million acres of other feed grain acreage back into production. Add in the 2 million acres of soybeans that did not get planted in 1993, and planted acreage of feed grains and oilseeds could increase by 11.5 million acres in 1994. That total could be reduced by .5 to 1.0 million acres that will not recover from the 1993 flood. Harvested acreage could increase by 16 million acres, or 11.5 percent.

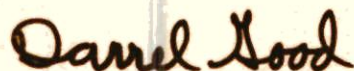
Because of the "flex" provisions in the current commodity programs, it is difficult to predict acreage of corn and soybeans. Currently, 1994 crop prices favor corn over soybeans. Corn acreage could jump by 7.3 million, to 81 million in 1994. Soybean acreage could be near 61.5 million, up 2 million from acreage planted in 1993. With trend yields, the 1994 corn crop would approach 9 billion bushels and the soybean crop 2.1 billion bushels. Crops of that size would allow some rebuilding of inventories during the 1994-95 marketing year.

While the likelihood of larger crops will keep 1994 crop prices at a discount to old crop prices, the general price level will be determined by old crop demand for the next 3 months. On January 12,

the USDA will release its final production estimates for the 1993 corn and soybean crops. Those estimates will indicate exactly how much rationing must occur during the current marketing year. Equally important for corn prices, will be the December 1 stock estimate, also to be released on January 12. That estimate will allow the calculation of feed and residual use of corn during the first quarter of the 1993-94 marketing year. That level of use will be closely watched to evaluate whether or not the necessary reduction in consumption is being made.

If the corn production estimate is unchanged, and export and processing uses of corn are as currently projected, feed and residual use of corn needs to decline by 8.5 percent during the 1993-94 marketing year. If feed and residual use during the first quarter was down 8.5 percent from use last year, use would have been near 1.67 billion bushels. In that case, December 1 stocks of corn should have been near 6.17 billion bushels. Given the lateness of the price rally this year, significant reductions in feed consumption probably did not get instituted in the first quarter of the year. If that is the case, and/or the production estimate is reduced, corn prices will likely move higher to ensure that the rationing process continues. After March, prices will begin to take direction from 1994 weather conditions. Even with a significant increase in acreage, the market will react to any indications of a threat to average yields.

This is the last issue of Weekly Outlook for 1993. The next issue will be released on January 3, 1994.



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