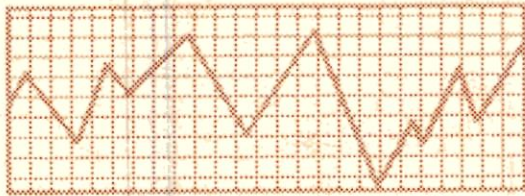




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WEEKLY OUTLOOK

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UNSETTLED WEATHER KEEPS PRICES CHOPPY

Weather in the United States continues to dominate the corn and soybean markets. Hot, dry weather in much of the eastern corn belt pushed December corn futures to a contract high of \$2.77 last Friday, while November soybeans put in a new high of \$6.99. Those highs are \$.37 and \$.89, respectively, above the lows established in the second week of May. Prices, however, are still well below the extreme highs experience in the dry years of 1980, 1983, and 1988.

The current situation differs from those three years in at least three significant ways. First, stocks of old crop corn and soybeans are much smaller this year. Stocks of old crop corn on September 1, 1994 are projected at 832 million bushels. September 1 stocks totaled 2.034 billion bushels in 1980, 3.523 billion in 1983, and 4.259 in 1988. Similarly, September 1, 1994 stocks of soybeans are projected at 160 million bushels. September 1 stocks totaled 359 million in 1980, 345 million in 1983, and 436 million in 1988. The current low level of stocks magnifies the importance of the size of the 1994 crops. The supplies available for consumption during the 1994-95 marketing year will consist of production and imports. There is not much room to pull inventory levels lower.

The second difference is the strength of the export market. Corn exports during the 1979-80 and 1980-81 marketing years were record large at about 2.4 billion bushels. Exports in 1982-83 and 1983-84 were smaller, but remained above 1.8 billion bushels. Exports were small in 1987-88 at 1.7 billion, but rebounded to over 2 billion bushels in 1988-89. Soybean exports in those same years were as follows: 1979-80 — 875 million, 1980-81 — 725 million, 1982-83 — 905 million, 1983-84 — 743 million, 1987-88 — 802 million, 1988-89 — 527 million. Soybean exports were very small following the 1988 drought, partially due to reduced supplies, but were extremely large going into that drought. For the current marketing year, corn exports are projected at a 20 year low of 1.225 billion bushels and soybean exports are projected at only 580 million bushels. Exports of both crops are expected to increase slightly next year, but remain at relatively low levels. The weak export demand means that there is not aggressive commercial buying when the crops are threatened. A similar situation existed last summer when crops were threatened by widespread flooding. The lack of commercial buying tends to offset part of the positive impact of low stock levels.

A third difference, at least so far, this year is the extent of the weather problem. Compared to 1988, in particular, the current situation is not as extensive or intensive. Iowa, for example, was dry early, but got the crop planted very early and has received timely rains, if not excessive rain, in June. Northern Illinois was also dry early, but the southern half to two-thirds of the state had a very wet April. Parts of northern Illinois have received rainfall in recent weeks. Similarly, parts of the southeast flirted with dry weather problems, but recent thunderstorm activity has brought relief to most areas. The recent dry weather problems have been concentrated in Ohio and Indiana. While those states represent a significant portion of the crops (12 percent of the corn acreage and 15 percent of the soybean acreage), the area with significant dry weather problems is much smaller than in 1988. Even in the dry areas, thunderstorm activity has been more widespread than in 1988. Additionally, the high pressure system responsible for that dryness does not appear to be as deeply entrenched.

The implications of the size of the 1994 crop goes much beyond the 1994-95 marketing year. The size of those crops and the resulting prices could be very important for setting the tone for the 1995 farm bill. The implications of tight supplies and high prices are much different than the implications of large supplies and low prices. If the public is not concerned about food supplies and prices, non-traditional issues will continue to move to the forefront. On the other hand, short supplies could refocus attention on traditional commodity issues.

With the critical part of the growing season still to come, it is difficult to reach conclusions about crop size and prices. For now, the extremely high prices of 1980, 1983 and 1988 do not appear warranted.



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