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CORN AND SOYBEAN ACREAGE PROSPECTS

During the last half of the 1994-95 marketing year, prospective size of the 1995 crops will begin to dominate corn and soybean prices. In the case of corn, the prospect of record consumption during the current marketing year points to only a modest level of ending stocks. A continuation of that record pace of consumption means that another large crop is needed in 1995. A threat of a smaller crop will result in a weather premium being built into the price structure. An actual shortfall in production would require higher prices to reduce the rate of consumption. It should be remembered, that apparent domestic feed consumption of corn can fluctuate significantly with only small changes in animal numbers. The wide fluctuations of the past three years are an example. That means that the current rate of feed consumption of 5.65 billion bushels per year has a fair amount of "fluff" in it.

In the case of soybeans, the level of year ending stocks is expected to be exceptionally large. In addition, the South American crop is in generally very good condition. Another record harvest is possible this spring. If so, another large U.S. crop would keep prices under significant pressure for another year.

The USDA has announced a 7.5 percent Acreage Reduction Program (ARP) for the 1995 corn crop. The USDA has authority to offer modified ARP contracts if carryover stock prospects change after November 15. While prospects have changed this year, the USDA has not indicated that modified contracts will be offered even though some have urged a change. However, under a modification instituted in 1994, producers enrolled in the ARP are allowed to plant up to half of their Acreage Conservation Reserve (set aside) acres to selected oilseed crops, including soybeans. If producers elect to plant eligible crops on set-aside acres, they must forego the deficiency payment on an equal number of corn payment acres. To evaluate the profitability of this alternative, the producer must compare the expected returns above cash costs for producing soybeans to the expected deficiency payment per acre of corn (payment yield times deficiency payment). The USDA has forecast the 1995-96 deficiency payment at $.40 per bushel.

The alternative of planting soybeans on some set-aside acres gives individual producers a tremendous amount of flexibility in managing set-aside and flex acres. That flexibility makes it difficult to anticipate planting decisions. Projecting planted acreage of soybeans is further complicated by the current very high price of cotton, which may reduce soybean acreage in favor of cotton in some areas. Finally, the high cost of anhydrous ammonia changes the equation for evaluating the relative profitability of corn and soybeans.

At the close of trade on January 27, November soybean futures settled at $5.805 per bushel, while December corn futures settled at $2.5325 per bushel. This is a price ratio of 2.29 to 1, favoring the planting of corn. At this juncture it appears that both corn and soybean acreage will decline in 1995. The relative decline will depend on price relationships nearer planting time and spring weather conditions. The few private estimates that have been released suggest an expectation for a 3 million acre decline in corn plantings, to a total of 76.2 million acres. Soybean plantings are expected to drop by 1 million, to a total of about 61 million acres. The USDA will release a Prospective Plantings report on March 31. Historically, however, actual acreage has deviated significantly from the March figures, especially for soybeans.

Even if planted acreage figures could be projected with some degree of accuracy, the size of the 1995 crops could vary substantially depending on average yields. Yields are always subject to much uncertainty right up to the end of the growing season because of variable weather conditions. That uncertainty may be even greater this year due to the significant increase in yields that occurred in 1992 and again in 1994. That experience makes if difficult to evaluate what is a "normal" or average yield. A repeat of 1994 yields would produce abundant crops even with reduced acreage, while a decline to pre-1992 yield levels could result in short crops, particularly of corn.

For now it appears that corn and soybean prices will remain in a flat, sideways pattern that is typical of January and February. Higher prices may be deferred until weather becomes a dominant factor. In recent history, weather jitters have pushed July corn future to the$2.60 to $2.65 level and December futures to $2.75. Similarly, soybean futures have managed a weather rally at least into the low $6.00 range.

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