



# WEEKLY OUTLOOK



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## WEATHER DOMINANTS CROP MARKETS

At this time of year, weather conditions and weather forecasts dominate the crop markets. A number of price determining factors are at work in these markets, but the prospective size of the U.S. harvest is most important. In the case of wheat, a recent tour of the major hard red winter wheat growing areas revealed less freeze damage than generally anticipated. Recent cool, wet conditions have been beneficial for the winter wheat crop in general. Major concerns now center on seeding of the spring wheat crop.

For corn, significant planting progress was likely made in the eastern corn belt this past weekend, but overall planting progress is slow. Additional rainfall this week is expected to be followed by dry, but cool weather. A significant decline in corn acreage from March intentions is not expected if planting is completed in May. The concern centers on yield potential.

It is useful to put yield prospects in context of prospective market size. Currently, the USDA projects total corn consumption during the 1994-95 marketing year at 9.375 billion bushels. Based on current export sales figures, it can be argued that exports will exceed the projection of 2.025 billion bushels, bringing total use to 9.4 billion bushels. As outlined in previous newsletters, we believe that this figure contains at least a 300 million bushel overestimate of domestic feed and residual use due to an overestimate of the 1994 crop. Allowing for some increase in domestic processing use, a decline in feed and residual use and stable exports, the market for corn next year may be near 9 billion bushels, if supplies are ample.

At about 1.56 billion bushels, stocks at the beginning of the 1995-96 marketing year represent a surplus of 500 to 600 million bushels. In order to have adequate supplies for the upcoming marketing year, the 1995 crop needs to be near 8.5 billion bushels. Based on the March planting intentions figure of 75.3 million acres, harvested acreage for grain should be near 69 million acres. If so, the 1995 average corn yield would need to be near 123 bushels per acre to produce a crop of 8.5 billion bushels. Lower yields and a smaller crop, then, would require prices to be high enough to reduce consumption. Current new crop prices are probably already high enough to accomplish some further reduction in domestic feed consumption.

The national average corn yield has exceeded 123 bushels only twice, in 1992 and 1994. Prior to 1992 the highest average yield was 119.8 bushels in 1987. The extremely high yields of 1992 and 1994, 131.5 bushels and 138.6 bushels, respectively, make it difficult to calculate a "normal" yield. That is, it is not clear if 123 is a high yield or a mediocre yield. Any reduction in corn acreage would obviously increase the yield requirement.

For soybeans, the current market size is estimated at 2.27 billion bushels. Planting intentions of 61.45 million acres projects to harvested acreage of about 60.5 million acres. Allowing for a 200 million bushel reduction in ending stocks, the 1995 crop needs to be near 2.07 billion bushels if the market size remains about unchanged. The 1995 soybean yield would need to average 34.2 bushels per acre to produce such a crop. The largest U.S. average soybean yield prior to 1992 was 34.2 bushels per acre in 1991. As in the case of corn, the large soybean yields of 1992 (37.6 bushels) and 1994 (41.9 bushels) make it difficult to assess a "normal" yield. Any increase in soybean acreage, which now seems likely in the spring wheat areas, will reduce the average yield requirement to produce a 2.07 billion bushel soybean crop in 1995.

Current weather conditions suggest the potential for higher corn and wheat prices over the next few weeks. Weather is not fundamentally supportive for soybean prices, but those prices will likely move with corn and wheat prices. Prices over the next three months will continue to be dominated by weather and crop conditions, making it difficult to project price patterns and price levels. Good pricing opportunities will be offered. As long as the trend is up, patience is the key.

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