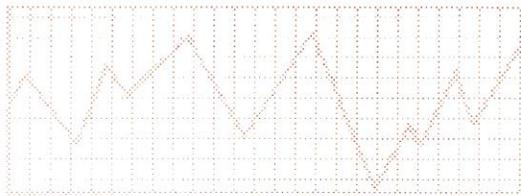




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WEEKLY OUTLOOK

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WEATHER IMPACT ON SUPPLY, DEMAND, AND PRICE OF CORN AND SOYBEANS

Erratic weather in May and June has raised concern about the yield and production prospects for the 1995 corn and soybean crops. The ongoing high rate of consumption of both crops and the recent forecasts by some private weather watchers for a hot, dry July have added to the volatility in prices.

In years of reduced production, there is a tendency to use the current rate of use and project a supply shortage by the end of the marketing year. The market, however, will not allow supplies to be exhausted as prices rise to ration the short supply. In fact, the market typically recognizes the potential shortage early and prices tend to over react so that ending stocks are larger than forecast early in the marketing year. A review of previous years when weather has significantly reduced production provides some perspective for 1995, if a small crop does materialize.

For corn, production was reduced significantly in 1970, 1974, 1980, 1983, 1988, and 1993. In those years, corn yields declined by an average of 22 percent from the previous year (in a range of 16 to 29 percent). Corn production was reduced by an average of 26 percent (in a range of 11 to 49 percent), but total supplies were reduced only by an average of 18 percent, due to large inventories at the beginning of the year. The smaller supplies required a reduction in use in each of those years. Feed use typically declined the most, ranging from 6 to 25 percent. Exports actually increased in some short crop years. Ending stocks were reduced from 25 to 60 percent and prices increased an average of 23 percent from the previous year's average (in a range of 15 to 30 percent).

While it is too early to make a satisfactory forecast of the size of the 1995 corn crop, history provides some insight if summer weather is unfavorable. A 26 percent reduction in production would result in a crop of just under 7.5 billion bushels and a total supply of about 9 billion bushels. If 700 million bushels is the minimum carryover, such a reduction would require a larger than average cut in feed use of about 25 percent. A 23 percent increase in the average farm price would put the 1995-96 average near \$2.75.

For soybeans, previous short crop years include: 1974, 1980, 1983, and 1988. The U.S. yield averaged 26 bushels for those 4 years. On average, production declined 22 percent and supplies declined 17 percent in those years. The domestic crush was reduced by an average of 11 percent and exports fell by an average of 23 percent from the previous year. On average, total use declined

12 percent, stocks were reduced by 24 percent, and the average price increased by 25 percent (in a range of 17 to 38 percent).

Due to the prospects of large stocks at the beginning of the 1995-96 marketing year and the likelihood that soybean acreage has increased from March intentions, soybean yields would have to be reduced significantly to require a sharp reduction in use during the upcoming marketing year. A 25 percent increase in the farm price would put next year's average near \$6.80. That appears high for an average, but may be reached for a short time.

During past short crop years, the peak in corn prices has been \$.75 to more than \$1.00 higher than the annual average price. For soybeans, the peak has been \$2 to \$3 above the annual average. Those peak prices have not persisted for very long. The high prices set a number of factors in action that generally result in declining prices for the following year.

It is difficult to make marketing decision in a weather market. While no two years are the same, years of summer weather problems typically see prices move irregularly higher into August. A successful strategy of past years involved making scale-up sales after prices reached a "satisfactory" level. If the market situation changes abruptly and you have crop yet to sell, make new sales aggressively. If you have priced all of the 1995 crop you care to and prices continue higher, consider pricing some of the 1996 crops.

The next USDA estimate of planted acreage will be released on June 30. Due to the lateness of planting, it is expected that this report will still reflect intentions, not actual plantings, for significant acreage. The first objective yield and production estimates will be released on August 12.



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