



# WEEKLY OUTLOOK



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## **CORN AND SOYBEAN YIELDS STILL IN QUESTION**

With all the talk about excellent demand for corn and soybeans, the current situation is still very much a supply driven market. At what level would corn prices be if planted acreage was at last year's level of 79 million acres instead of 72 million and crop conditions pointed to an 130 bushel average yield instead of 120 bushels or less? The strong demand base would clearly prevent prices from going to the low levels of last fall, but \$3.00 would not be in the picture. For the next several weeks, the focus will be on weather and crop prospects. A continuation of a high rate of consumption will magnify the importance of crop size, while a slowdown might moderate the impact of any further crop problems.

The USDA will release its first objective production estimates for corn and soybeans on August 11. Those estimates will reflect the results of a special acreage survey in nine major producing states and a yield estimate based on crop conditions around the first of August. The lateness of the crop may make yield estimates subject to significant change in later reports.

In its July *Supply and Demand* report, the USDA's World Agricultural Outlook Board used a corn yield figure of 119.7 bushels per acre. That figure is based on trend yield over the period 1960 through 1994 with an adjustment to reflect the late planting of the 1995 crop. Based on the June Acreage estimate, a yield at that level would produce a crop between 7.785 and 7.9 billion bushels.

Assuming that year ending stocks cannot realistically be reduced below 700 million bushels, a crop of 7.785 billion bushels, beginning stocks of 1.5 billion, and imports of 10 million bushels would allow consumption of about 8.6 billion bushels during the 1995-96 marketing year. That is a 9 percent reduction from the projected level of consumption during the current year. Given the inelastic demand in the processing and export markets, most of the reduction will have to come in the domestic feed market, as it has in past short crop years. Under this scenario, feed use would have to decline 725 million bushels, or about 13 percent. The first 200 to 300 million bushels would come easily as feed use this year has probably been overestimated by that amount. The additional 400 to 500 million bushels would have to be priced out of use.

What are the chances of the 1995 corn yield reaching or exceeding 120 bushels per acre? The corn crop will begin pollinating in earnest this week and pollination will extend well into August due to the wide range of planting dates. Temperatures will apparently be below those of last week, but moisture remains a concern in many areas. The odds of the average yield falling below 120 bushels seems relatively high. Each bushel is equal to 65 to 66 million bushels of production.

In its July report, the World Outlook Board projected a 1995 soybean crop of 2.24 billion bushels. That projection is based on the June planted acreage figure of 63.1 million, and a harvested acreage of 62.2 million, and an average yield of 36 bushels per acre. The 36 bushel figure is based on the 1974 through 1994 weighted regional trend yield, adjusted for a late planting in 1995. A crop of 2.24 billion bushels, along with normal production in South America in 1996, would require no reduction in soybean use during the 1995-96 marketing year. In fact, there would be room for increased use and still leave year ending stocks above 200 million bushels.

The relative abundance, and expected abundance, of soybeans has resulted in only small price gains for soybeans in comparison to corn. At the close of trading on July 14, the ratio of November soybean futures to December corn futures was only 2.19 to 1. Such a low ratio can persist for a long period of time, to encourage an increase in consumption and decrease in production of soybeans relative to corn. However, many observers believe that the average soybean yield is more vulnerable to falling below the current projection than is the corn yield. Weekend rainfall brought relief to the crop in some areas and the lower temperatures this week will be welcome, but lack of moisture remains a concern in many areas. The Illinois crop is probably the most vulnerable at this time.

A 36 bushel average soybean yield looks high, especially given the likelihood that both the 1992 and 1994 yields were overestimated, perhaps by a full bushel per acre in 1994. Each 1 bushel reduction in yield represents 62 million bushels of production. It is clearly too early to push the yield estimate significantly lower, but a yield of 32 to 33 bushels may be more realistic. The 1995 weather market may persist longer than a typical weather market, if there is such a thing. Both corn and soybean prices will likely remain well supported into August, providing a number of opportunities for pricing.

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