



WEEKLY OUTLOOK



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CROP REPORT SHOWS LARGE REDUCTIONS IN CORN AND SOYBEANS

The reduction in the October estimate of the U.S. corn crop was the largest ever made, for this month, by the USDA. Late planted crops are not yielding as well as the earlier planted crops, especially for corn. The estimate of 7.54 billion bushels was within the range of pre-release estimates made by industry analysts, but below the average of the range of estimates. The reduction of 291 million bushels was about 4 percent below the September estimate. The U.S. average yield is 116.6 bushels per acre compared to 121.1 bushels in the September report.

Four states — Illinois, Indiana, Iowa, and Nebraska — accounted for nearly three-fourths of the reduction. The Illinois corn crop declined 90 million bushels and Indiana's corn crop declined 31 million bushels. The state average yield for Illinois is 117 bushels and Indiana's state average yield is 119 per acre, down 9 and 6 bushels respectively, from the September estimates.

The U.S. soybean crop was estimated to be 2.19 billion bushels, down 94 million bushels from the September estimate. The U.S. average yield declined 1.5 bushels to 35.5 bushels per acre. The reduction in production is the result of smaller crops in 15 soybean producing states. Indiana experienced the largest decline of nearly 21 million bushels, while Illinois soybean production declined slightly under 10 million bushels. The state average yield declined 4 bushels in Indiana to 40 bushels per acre, while the Illinois state average soybean yield declined 1 bushel to 40 bushels per acre.

The USDA's World Agricultural Outlook Board updated the supply and demand estimates after the release of the crop report. Feed use for the 1994-95 marketing year was reduced 88 million bushels, based on the September *Grain Stocks* report. With slightly lower industrial use, ending stocks for the 1994-95 marketing year were increased to 1.56 billion bushels. With the lower production estimate, total corn supplies for the current year are 1.85 billion bushels, or 17 percent, smaller than last year's supplies. The projection of feed use was reduced 125 million bushels and industrial use was reduced 25 million bushels. Ending stocks, at 685 million bushels, are the lowest in more than 20 years. The U.S. projected average price range of \$2.75- \$3.15 is 20 cents higher than projected in September.

Changes in the soybean supply and demand balance reflect mainly the changes in the production estimates. The estimate of the 1994 soybean crop was reduced 41 million bushels, based on the

September 1 *Grain Stocks* report. With continued strong demand forecast, ending stocks are projected to decline to 220 million bushels by September 1, 1996. This is 110 million bushels low than the September estimates. The range of the U.S. average farm price is put at \$6.75- \$7.25, up 75 cents from the September estimate.

There is a big difference between the U.S. average prices and the peak futures prices. A lot of additional changes are expected during the next 3 months. I expect modest reductions in the November and/or final crop reports. It is clear that corn use must be rationed by at least 800 million bushels. Most of the rationing is expected to come in feed use. This is done through higher prices. The September *Grain Stocks* report indicated that the higher grain prices and warm weather had slowed the increase in feed use. An increase of 20 to 25 cents per bushels is expected — to \$3.40-\$3.50 March futures. If later reports show further reductions, corn exports continue to increase, or if the December *Grain Stocks* reports do not indicate a major decline in feed use, higher prices will occur.

The soybean situation is currently not as tight as corn. Prices are expected to reflect harvest pressure but work higher after harvest. Any further reduction in the production estimate, increases in demand projections, or production problems with the 1996 South American soybean crop could send soybean prices sharply higher.

Producers are encouraged to continue short term storage, or to use deferred pricing arrangements. Futures prices traditionally do not remain at high levels very long. The highest prices since the 1988 drought provides great opportunities for pricing both 1995 crops and 1996 expected production. The next decision point will be November 9 with release of the USDA November crop estimates.



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