



WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

MARCH 18, 1996

1996 CORN ACREAGE

Historically, the USDA's March 1 *Prospective Plantings* report has provided a fairly accurate estimate of actual planted acres of corn. The major exceptions were the wet planting seasons of 1993 and 1995. In those years, planted acreage of corn fell short of March intentions by 3.25 million and 4.08 million acres, respectively. In the other 8 years of the past 10, acreage differed from March intentions by as little as 167,000 acres and as much as 1.5 million. The average difference was 775,000 acres. Acreage exceeded the March figure in 4 of the 8 years and fell short of intentions 4 years. The greatest differences between March intentions and actual acreage over the past 10 years (excluding 1993 and 1995) occurred in 1986 and 1987.

With a "normal" spring, history suggests that the USDA's *Prospective Plantings* report to be released on March 29 will be a good indicator of planted acreage of corn in 1996. However, there are some significant differences this year that could result in planted acreage differing from the March 1 intentions figure. For example, the continued strength in corn prices over the past three weeks may encourage some additional acreage out of the Conservation Reserve Program (CRP) this spring. The USDA has just announced the rules for early release as well as provisions for extending maturing CRP contracts one more year. Sign up for the early release continues through April 26. A second result of high corn prices may be to encourage planting of some acreage that was idled in the 0/85 program last year. Producers may or may not have made those decisions by the time the March survey was conducted.

A third factor which may influence corn acreage in 1996 is the condition of the winter wheat crop. To the extent that there are failed wheat acres, some replanting to other crops will likely occur. In the midwest, these acres may be planted to corn, particularly if Nitrogen fertilizer has been applied and adequate moisture is available. In the hard red winter areas, replanting may be to other feed grains, or may not occur at all if moisture is not sufficient. Current estimates of the magnitude of failed wheat acres are not available.

When the final figures are in, corn acreage will likely be the largest at least since 1985, when 83.4 million acres were planted. Acreage was largest in 1976, at 84.6 million, but exceeded 84 million in 1977, 1980, and 1981. Our own estimate of planted acreage in 1996 has increased over the past few weeks. The increase reflects the factors outlined earlier, but also reflects reports of substantial

increase in corn acreage in the South and indications that acreage that has previously been in pasture or hay in parts of the midwest will be planted to corn in 1996. Acreage may exceed 81 million acres.

Most analysts believe that acreage over 80 million and a trend yield in 1996 would produce a large enough crop that prices during the 1996-97 marketing year will average less than currently being offered by the futures market. The market is currently offering the eastern corn belt producer an average price of about \$3.05 per bushel for the 1996 crop delivered during the 1996-97 marketing year. Work done by the USDA and others suggest an average price 30 to 35 cents below that level for the year ahead, with trend yields.

All of this suggests that forward pricing a portion of the 1996 crop this spring and/or summer should be strongly considered. With all of the uncertainty of the growing season ahead, however, it is difficult to decide when to price and how much to price. In this newsletter, we have encouraged producers to consider the options market, particularly if they are interested in pricing more than 25 percent of expected production early in the growing season. Either put or call options could be considered, although put options offer a better way to manage production risk. A \$3.20 December put option, with a 28 cent premium would offer a minimum price of \$2.92, minus basis, for corn delivered at harvest. A \$3.20 call option, to offset new crop sales, can be purchased for about 20 cents. Such a transaction would offer similar price protection as the \$3.20 put option.

With the change in farm policy, that will likely be implemented this year, corn acreage will likely remain quite large in 1997. Some consideration should be given to starting a 1997 crop marketing program yet this spring or summer. December 1997 corn futures are currently trading around \$2.90.



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