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# WEEKLY OUTLOOK

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## **CROP CONCERNS OVERSHADOW USDA REPORTS**

On May 10, the USDA released its monthly *World Supply and Demand* report. That report contained updates of projections for the current marketing year and the first projections for the 1996-97 marketing year. For soybeans and wheat, there were no changes in the domestic projections for the current marketing year. For the rest of the world, the projection of year ending wheat stocks was increased slightly. For soybeans, the South American production estimate was increased by 22 million bushels (1.6 percent) and the projection of year ending stocks was increased modestly.

For corn, the USDA increased the projection of exports for the current marketing year by 50 million bushels, to a six year high of 2.3 billion bushels. The projection of carryover stocks was reduced by an equal amount to 317 million bushels. At the projected rate of use, those stocks represent less than 2 weeks of supply. Most doubt that stocks can be reduced to such a low level given that much of the corn is located away from end users and what now appears to be a late 1996 harvest. The projection is a not so subtle reminder of the rationing job left to be done.

For the 1996-97 marketing year, the USDA made a first estimate of the winter wheat crop based on field surveys. The estimate of the spring wheat crop, as well as the corn and soybean crops, were based on acreage estimates and trend yield analysis. The winter wheat crop was estimated at 1.364 billion bushels, 12 percent less than the small crop of 1995 and the smallest crop in 18 years. Only 73 percent of the planted acreage is expected to be harvested as grain. The average of the past three years was about 84 percent.

Based on acreage intentions and trend yield analysis, the spring wheat harvest is projected at 710 million bushels, 11 percent larger than last year's crop. At 2.074 billion bushels, production of all wheat would be at the lowest level since 1991 and would allow virtually no increase in the level of U.S. stocks by the end of the 1996-97 marketing year. The marketing year average price is projected to be between \$4.70 and \$5.30.

In the case of soybeans, the USDA projects a 1996 U.S. crop of 2.275 billion bushels, 123 million larger than the 1995 harvest. That projection is based on March planting intentions of 62.5 million acres (61.5 million harvested) and an average yield of 37 bushels per acre. A crop of that size is not expected to allow any rebuilding of soybean stocks by the end of the 1996-97 marketing year. The marketing year average price is projected to be between \$5.75 and \$8.00.



For corn, the USDA sees the potential for a 9.375 billion bushel U.S. harvest in 1996, 2 billion bushels larger than the 1995 harvest. The production estimate is based on planted acreage of 81 million (compared to March intentions of 79.92 million), harvested acreage of 74.4 million, and an average yield of 126 bushels per acre. A crop of that size would allow only a very modest recovery of U.S. corn stocks by the end of the 1996-97 marketing year. At 762 million bushels, projected year-ending stocks would represent only a 4.5 week supply at the projected rate of use. The marketing year average price is projected in a range of \$2.70 to \$3.10 per bushel.

The initial market reaction to the USDA reports was a little negative, based on the expectations of some recovery in world crop production in 1996-97. However, the extreme tightness of old crop stocks and less than favorable weather conditions in parts of the U.S. and Canada quickly offset the impact of the reports. In particular, the market is concerned about delays in planting corn and soybeans in the eastern corn belt, flooding of winter wheat in the midwest, and delays in seeding spring wheat in the U.S. and Canada. A continuation of planting delays in the east, which looks likely based on the latest National Weather Service 6 to 10 day outlook, raises concerns about reduced corn yields and expectations that some acreage will be shifted from corn to soybeans. The extreme delays in Indiana and Ohio will likely result in some switching to soybeans. Replanting of failed wheat acres in the midwest, however, will result in an overall increase in corn acres from the March intentions. On the other hand, failed wheat will reduce the opportunity for double cropping of soybeans. Acreage will still likely increase from March intentions.

New crop prices, particularly corn, appear poised for another move higher. Initial resistance will be at contract highs, of \$3.54 for December corn and \$8.10 for November soybean futures.

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