



WEEKLY OUTLOOK

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WORLD GRAIN PRODUCTION INCREASING — OILSEEDS DOWN

In the September *Crop Production* report, the USDA increased the estimated size of the U.S. feedgrain crop. That crop is projected at 253.9 million tons, 1.5 percent larger than the August estimate and 21.4 percent larger than the 1995 harvest. The crop is expected to be 10.8 percent smaller than the record crop of 1994. The increase from last year is led by a 67 percent increase in sorghum production. At 764 million bushels, that crop is the largest since 1992 and the second largest since 1986. The U.S. corn crop is estimated at 8.8 billion bushels, 1.3 percent larger than the August estimate and 19.4 percent larger than the 1995 crop, but 12.9 percent smaller than the record crop of 1994.

The U.S. wheat crop is now estimated at 2.296 billion bushels, 2.1 percent larger than the August estimate and 5 percent larger than the 1995 harvest. The winter wheat crop was 3.4 percent smaller than the crop of last year, but the spring wheat crop is expected to be 14.1 percent larger.

While the larger crop estimates for the U.S. are significant, the increase in grain production in the rest of the world really caught the attention of the market. The 1996-97 feedgrain crop in the rest of the world is estimated at 611 million tons, 4 percent larger than the 1995-96 crop. That estimate exceeds the 1993-94 record by 8 million tons. The increase in production this year is led by Canada, where the crop is expected to be 19.8 percent larger than last year's crop. Production is estimated to be up 14.5 percent in the European Union, 12.5 percent in Argentina, and 1.4 percent in China. Production is expected to decline in Eastern Europe and the former Soviet Union.

Wheat production in the rest of the world is estimated at 517 million tons, 8.5 percent larger than the 1995-96 crop and slightly larger than the previous record crop of 1990-91. Compared to last year, production is expected to be up 92 percent in North Africa, 63 percent in Argentina, 17 percent in Canada, 16 percent in the former Soviet Union, 15 percent in Australia, 12 percent in the European Union, and 7 percent in China. Production is expected to decline in Eastern Europe (22 percent).

In sharp contrast to the increase in world grain production, the USDA estimates a decline in world oilseed production. The 1996-97 crop of the major oilseeds is estimated at 275 million tons, 2 percent smaller than the 1995-96 crop. The 1996 U.S. soybean crop is estimated at 2.27 billion bushels (61.8 million tons), down 30 million from the August estimate, but 118 million larger than the 1995 harvest. The 1997 South American crop (not yet planted) is projected at 1.54 billion bushels (42 million tons) 10 percent larger than the 1996 harvest. World soybean production, at 130.6 million tons, is expected to be nearly 6 percent larger than the 1995-96 harvest. Production of all other oilseeds, at 144.5 million tons, is expected to be 8 percent smaller than last year's crop. The decline is led by canola production in Canada and Europe. Production of sunflowers and cotton seed is also down.

The implications of the larger U.S. and world grain crops are straightforward. U.S. exports will likely decline, domestic supplies will be more abundant, year ending stocks will increase slightly, and prices will be on the defensive. The USDA projects a 6.5 percent reduction in feedgrain exports during the 1996-97 marketing year, led by a 7.5 percent reduction in corn exports. Wheat exports are expected to decline by 25 percent, to the lowest level since 1985-86. Domestic feedgrain use is expected to increase by 6 percent, while domestic wheat use is expected to be up 14.5 percent. At 506 million bushels, projected year end wheat stocks are 130 million large than beginning stocks. Year ending feedgrain stocks are projected at 22.2 million tons, up from beginning stocks of 14.5 million tons.

The smaller world oilseed crop also has significant, but opposite, implications for U.S. soybeans. Consumption of U.S. soybeans may decline, but only because of limited supplies. The USDA currently projects a 37 million bushel (1.6 percent) decline in soybean consumption and a 10 million bushel decline in year ending stocks. A further reduction in the estimated size of the U.S. soybean crop, would require further rationing.

If the 1996 corn crop beats the frost, further price declines will likely follow. Those declines should be modest, however, as expansion in domestic livestock production and corn processing is already underway. A \$3.00 average may still be possible for the 1996-97 marketing year. More significant declines in wheat prices are likely if winter wheat seeding goes well. Soybean prices are expected to be well supported, particularly if the production estimate declines again next month. Weekly estimates of use will be important in judging the strength of demand.



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