



# WEEKLY OUTLOOK

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**JULY 6, 1998**

## **CORN PRICES TO FOCUS ON CROP PROSPECTS**

The USDA's June *Grain Stocks* and *Acreage* reports provided some useful information to the market, but the focus in the corn market for the next several weeks will be almost entirely on weather and crop conditions. As is normally the case, there is less than complete agreement about summer weather prospects.

The June reports reflected a more abundant old crop supply of corn than anticipated by the market and confirmed a slight increase in corn acreage for 1998. June 1 stocks of corn were estimated at 3.039 billion bushels, 542 million bushels larger than stocks on the same date a year ago. The larger than expected June inventory implies a significant slow down in feed and residual use of corn during the third quarter of the marketing year. The 2.5 percent decline in use this year compared to the third quarter use last year does not appear logical. More animals were being fed this year than was the case last year.

A more logical explanation is that the 1997 corn crop was overestimated, resulting in an overestimate of first quarter feed and residual use of corn -- up 12.4 percent from the use during the same quarter last year. This argument is bolstered by the apparent overestimate of the 1997 soybean crop. The 1997 corn crop was likely 1.5 to 2 percent (140 to 190 million bushels) smaller than the official estimate of 9.366 billion bushels. In any case, errors in the estimate have been compensated for in the feed and residual use category. The bottom line is that year ending stocks will likely be 75 to 100 million bushels larger than projected by the USDA in the June supply and demand estimates. Those estimates will be updated on July 10.

If the 1997 corn crop was overestimated, it is interesting to speculate if the error was in yield or acreage. What little evidence that is available, suggests that an error in estimating acreage is possible. The June 30 *Acreage* report indicates that planted acreage of all crops in 1998 (including harvested acreage of hay) is down nearly 5.8 million acres (1.7 percent) from acreage planted in 1997. The decline occurred with a 3 million acre net reduction in land in the Conservation Reserve Program. The 8.8 million missing acres of crop land may imply an overestimate of crop acres in 1997. In retrospect, the 1997 estimate appears large in relation to the 1996 estimate.

Planted acreage of corn in 1998 is now estimated at 80.798 million acres, virtually unchanged from the March intentions and about 571,000 more than planted last year. Acreage exceed March intentions in Iowa, South Dakota, and Texas. Acreage fell short of intentions in Illinois, Michigan,

and Missouri. Compared to last year, acreage is larger in Iowa, Kansas, Minnesota, South Dakota, and Texas. Acreage is down in Illinois, Indiana, Michigan, Missouri, Nebraska, North Carolina, Ohio, and Wisconsin.

The USDA projects corn acreage harvested for grain at 74.284 million acres. The difference between acreage planted and acreage harvested for grain is similar to last year's difference of 6.5 million acres. Allowing for more widespread weather problems this year, harvested acreage may be slightly less than projected.

Once again, we can put crop size in perspective. If 1997-98 marketing year carryover stocks total 1.35 billion bushels and if there is a market for only 8.9 billion bushels of corn in the year ahead, the 1998 corn crop needs to be 8.35 billion bushels to hold 1998-99 year ending stocks at 800 million bushels. If 74 million acres are harvested, the U.S. average yield needs to be 112.8 bushels per acre to produce a crop of 8.35 billion bushels. If there is a market for 9.3 billion bushels of corn, the average yield would need to be 119.6 bushels per acre.

The National Weather Service forecast through mid-month shows warm moist conditions for much of the corn belt. Some private forecasters are once again suggesting a period of hot, dry weather after mid-month. Early planted corn in much of the corn belt is already in the reproductive stage. The late planted crops would obviously be affected most by adverse weather in the last half of the month. Those conditions will have to be widespread and long lasting to reduce the U.S. average yield below 115 bushels per acre.

Weather related price volatility is expected to continue for the next 6 to 10 weeks. It now appears that the price range will not be extreme. Enough crop damage may have occurred to prevent sharply lower prices near term, but weak demand and lack of severe weather may also prevent much of a recovery.

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