Cooperative Extension Service

WEEKLY OUTLOOK

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CROP PROSPECTS, PRICES, AND POLICY

With the corn and soybean growing season about to enter the final month, prospects for large crops remain in place. Crops have been adversely affected in some areas due to persistent high temperatures and/or sporadic rainfall. Based on the USDA's weekly crop condition report, the poorest production prospects are in Arkansas, Georgia, Louisiana, North Carolina, South Carolina, and Texas. Excess moisture early in the season, along with wind damage, hail damage, and recent flooding have resulted in very mixed crop conditions in Illinois, Indiana, Iowa, Missouri, and Ohio. Crop ratings have been highest in Kansas, Kentucky, Minnesota, Nebraska, South Dakota, Tennessee, and Wisconsin.

While there continue to be differences of opinion about the size of both the corn and soybean crops, there is little disagreement that crops are probably large enough to lead to some increase in the level of inventory by the end of the 1998-99 marketing year. The debate tends to center around how large the increase will be and how long a surplus will persist. The answers to these questions depend partly on the size of the 1998 harvest, but will also be influenced by production in the rest of the world and by strength/weakness in world demand.

World production is difficult to anticipate due to the obvious influence of weather. The market, however, will be particularly interested in corn and soybean acreage in South America and in the outcome of the Chinese harvest. South American production competes with U.S. crops in world markets while the size of the Chinese crops will determine the magnitude of soybean and soybean product imports and whether China is a net importer or exporter of corn. On the export demand side, economic conditions in southeast Asia will continue to be most important. Economic recovery is needed to stimulate total world demand. Export sales of 1998 crop corn and soybeans have started slowly. As of July 16, only 25.4 million bushels of new crop soybeans and 106.7 million bushels of new crop corn had been sold for export. Those sales are small by the standards of the past three years. Early sales are not a consistent forecaster of exports for the upcoming marketing year, but a slow start is always a concern. Corn sales did improve during the first half of July, but soybean sales remain very sluggish. South American soybean supplies remain large.

There appears to be a widespread expectation of lower corn and soybean prices going into harvest, and both December corn futures and November soybean futures continue to establish new contract lows. For those that have little or no new crop corn or soybeans priced, the current market presents a real dilemma. Even though prices are low, prospects of lower prices over the next month or two favors pricing some of the crop now. On the other hand, history does suggest that a respectable recovery in prices sometime during the post harvest period is highly likely. A recovery would favor waiting through the lower price period before pricing corn and soybeans. The latter scenario seems more prudent at this time. The large relative carry in the corn market favors storage of corn. While the soybean market does show a carry, it is small in relation to the cost of storage. With limited storage capacity, the current price structure favors storing corn over soybeans.

If corn and soybean prices do not recover fairly quickly in the post-harvest period, there will be increasing pressure for the Administration and Congress to address the issue of declining farm incomes. The problem of low prices and low incomes is being created by large world crops and weak demand. The U.S. government can do little about the large supply situation, but can address export demand at the margin. Finding ways to stimulate exports as a means to higher prices and income is the classic "trickle down" approach. The problem, of course, is that the process is expensive, inefficient, and has long time lags. In addition to addressing the cause of low prices and incomes, the symptom can also be addressed directly. That is, low incomes can be partially offset by increased government payments. Two possibilities that have been proposed in the current situation are accelerating "freedom to farm payments" and increasing Commodity Credit Corporation loan rates to levels above current market prices. The second alternative would expose the federal budget to the potential of a substantial increase in expenditures. It now appears that the sentiment is to wait at least until the post harvest period to see if low prices persist before making radical changes.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

CES Newsletter Service
University of Illinois
at Urbana-Champaign
69 Mumford Hall
1301 West Gregory Drive
Urbana IL 61801

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