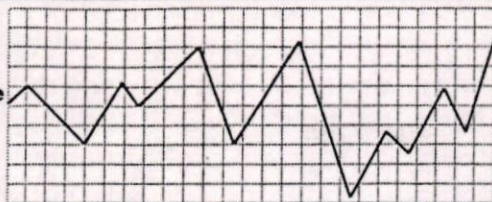




Cooperative
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WEEKLY OUTLOOK

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AUGUST 31, 1998

IMPORTANCE OF EXPORT DEMAND

Spring wheat harvest is about completed. Production of all classes of wheat in 1998 is estimated at 2.549 billion bushels, slightly larger than the 1997 crop even though harvested acreage declined by 4.4 million acres (7 percent). Corn harvest has begun and should advance rapidly due to the early maturity of the crop in many areas. Soybean harvest will also be on the early side in many areas. The final size of the corn and soybean crops are still uncertain. The USDA's September *Crop Production* report should provide an accurate estimate of crop size due to the early maturity of the crop. Both the corn and soybean crops will be larger than the level of consumption during the year just ending.

Domestic consumption of wheat, corn, and soybean products are expected to increase during the 1998-99 marketing year. Much of the expected increase is related to expansion in livestock production, especially hogs. To a lesser degree, the 19 percent smaller sorghum crop will also support corn feeding. In its August report, the USDA's World Agricultural Outlook Board projected a 116 million bushel (9 percent) increase in domestic wheat consumption during the current marketing year. For corn, domestic use during the 1998-99 marketing year is expected to increase by 265 million bushels (3.6 percent). Domestic soybean meal and oil consumption are projected to increase by 3.3 percent and 1 percent, respectively. Domestic use of wheat, corn, soybeans, and soybean products is expected to be record large.

Exports of wheat and corn are expected to increase by about 8 percent. At 1.125 billion bushels, wheat exports would be low by historic standards; one of the sixth lowest of the past 22 years. At 1.6 billion bushels, corn exports would be one of the fifth lowest in 25 years. Soybean exports are expected to decline about 20 million bushels (2 percent) during the 1998-99 marketing year.

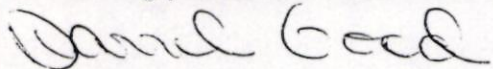
Poor export prospects reflect large crops in the rest of the world and economic slow down in several areas of the world. Production of coarse grains in the rest of the world in 1998-99 is projected at nearly 626 million tons, representing the third consecutive year of very large production. Foreign wheat production is projected at 528 million tons, also the third consecutive large crop. Foreign soybean production is expected to be only 5 percent smaller than the huge crop of 1997-98.

Economic problems that started in southeast Asia have spread to China, Russia, and Latin America. Those economic problems result in declining demand for agricultural commodities. Export demand from Asia is further weakened by the resulting decline in currency values.

Wheat exports have started slowly during the current marketing year. Export inspections through the first 12.6 weeks of the marketing year were nearly 16 percent below inspections of a year ago. Outstanding export sales as of August 20 were 23 percent smaller than on the same date last year. Of the significant importers, only Mexico had purchased more wheat than was purchased last year. Sales of U.S. corn for delivery during the 1998-99 marketing year total only 210 bushels, 7 percent behind the very slow pace of a year ago. Soybean sales as of August 20 totaled only 116 million bushels, 50 percent less than had been sold on the same date last year. The largest decline is in sales to the European Union.

For corn, wheat, and soybean prices to make significant recovery any time soon, export demand will need to exceed current projections. Crop losses in China and U.S. export assistance programs may result in slightly larger exports than currently projected. Without recovery in the ailing economies, meaningful increases in exports might only be generated by a shortfall in production in the southern hemisphere. With the Australian wheat crop making excellent progress, attention will focus on the upcoming growing season for Argentina and Brazil. Production of corn and soybeans in South America will likely decline in 1999 as average yields retreat from the record levels of 1998. A modest decline, however, would do little to generate larger U.S. exports any time soon, as inventories of the 1998 harvest are still relatively large. Failing an increase in exports, price recovery may hinge on the potential for smaller northern hemisphere crops in 1999.

If prices and price prospects are still in the doldrums following the fall harvest, there will likely be increasing pressure to raise the "safety net" of the current federal commodity programs.



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