

WEEKLY OUTLOOK

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USDA REPORTS IMPORTANT FOR CORN AND SOYBEAN PRICES

The USDA will release the October *Crop Production* report on October 9. The estimated size of the corn and soybean crops may determine whether or not a seasonal low has been established in those markets.

For corn, the September estimate was for a crop of 9.738 billion bushels, 146 million more than estimated in August. Since 1972, the September corn production estimate has exceeded the August estimate on 11 other occasions. In 8 of those 11 years, the October estimate was larger than the September estimate. The October estimate was unchanged in 1973 and smaller in 1974 and 1990. In all 8 years of a larger estimate in October, the final crop estimate was even larger. Based on historical patterns and unofficial yield reports for the 1998 harvest, there is little reason to expect a smaller corn crop estimate this week. An October estimate below 9.8 billion bushels may be required to support corn prices at current levels.

For soybeans, the September estimate was for a crop of 2.909 billion bushels, 182 million larger than the August estimate. The history of soybean production estimates since 1972 is more complicated than that of corn. There have been six years when the September estimate increased from the August estimate by less than 10 million bushels. There have been 9 years when the increase exceeded 10 million bushels. In those 9 years, the October estimate was above the September estimate 5 times, unchanged twice, and lower twice. In 3 of the 5 years with a larger estimate in October, the final estimate was actually smaller than the October estimate. Like corn, a smaller October estimate this year is not expected. However, acknowledgment that the 1997 crop was overestimated (and probably still is) does suggest that the yield estimating methodology may be too generous for soybeans.

The USDA will also release new projections for corn and soybean consumption and ending stocks for the 1998-99 marketing year. For corn, there is a case to be made that domestic feed and residual use could exceed the September projection of 5.75 billion bushels. The September 1 stocks estimate for old crop corn was surprisingly low, at 1.308 billion bushels. On the surface, this report suggests that feed and residual use of corn during the summer quarter totaled 867 million bushels, 53 million more than used last year and only 25 million less than the record summer use of 1993. For the 1997-98 marketing year, feed and residual use apparently totaled a record 5.662 billion bushels, an increase of 300

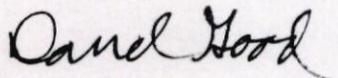
million from use in 1996-97. With an expansion in hog production on the way; feeding of cattle to heavy weights; and a decline in sorghum production, feed and residual use could be closer to 5.8 billion bushels this year. Another explanation for the apparent high rate of feed and residual use last year is that the 1997 crop was overestimated, resulting in an inflated residual use. If so, an argument for higher use this year loses some credibility.

Corn export sales were quite large for the two weeks ended September 24, averaging 35.6 million bushels per week. To reach the current projection of 1.625 billion bushels of exports this year, weekly sales need to average about 25 million bushels per week. It is unlikely the USDA will adjust the export projection this month.

For soybeans, the USDA currently projects the domestic crush for the year at 1.625 billion bushels, 30 million (1.9 percent) more than were crushed last year. Crush during September (the first month of the marketing year) was nearly 9 percent larger than the crush during September 1997.

The USDA projects soybean exports for the year at 860 million bushels, 15 million (1.7 percent) less than exported in 1997-98. While export sales were large during the two weeks ended on September 24 – averaging 39 million bushels – cumulative sales are nearly 29 percent less than sales of a year ago. Year to year comparisons can be misleading, however. Sales started very quickly last year and declined earlier than normal due to the large South American harvest.

For both corn and soybeans, use during the current marketing year may exceed current projections. Crop size, however, will determine if year ending stocks are smaller than currently projected. With a slow down in the harvest pace, the odds of a typical harvest low in prices appears high.



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