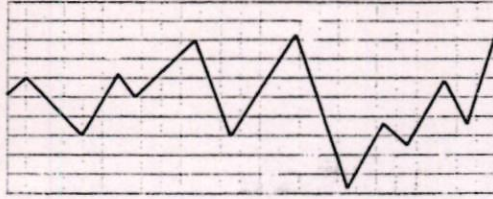




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WEEKLY OUTLOOK

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PROSPECTS FOR CORN AND SOYBEAN ACREAGE

The USDA's January 12 reports provided little friendly information for corn and soybean prices. While the 1998 corn production estimate was reduced by 75 million bushels, the projection of feed and residual use of corn during the current marketing year was reduced by 150 million bushels and the projection of processing use was reduced by 10 million bushels. As a result, the projection of year ending stocks was increased by 85 million bushels, to a total of 1.809 billion bushels.

Feed and residual use of corn during the first quarter of the 1998-99 marketing year was 4.5 percent larger than during the first quarter of last year. The USDA still projects a 3.5 percent increase for the entire year. However, based on a revised 1997 production estimate, last year's feed and residual use was 150 million bushels less than earlier projected.

For soybeans, the USDA lowered the 1998 production estimate by 6 million bushels; revised the projection of use during the current marketing year down by 20 million bushels; and raised the projection of year ending stocks by 15 million, to a total of 390 million bushels. The estimated size of the 1999 South American harvest was increased by 37 million bushels, to a total of 1.84 billion bushels, only 4.6 percent smaller than last year's crop. Devaluation of the Brazilian currency will make South American soybeans and products very competitive with U.S. products in the world market.

Without significant problems with the South American corn and soybean crops over the next 5 to 6 weeks, the market will continue to focus on prospects for U.S. corn and soybean acreage in 1999. The estimate of winter wheat seedings, released on January 12, showed a 3.1 million acre reduction for 1999. The reduction was about 1 million larger than expected and generated expectations about acreage of corn and soybeans for the year ahead.

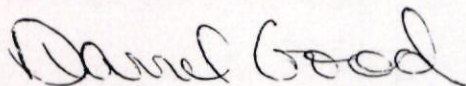
The elimination of base acres and set-aside programs beginning with the 1996 crop makes it more difficult to anticipate acreage of individual crops. In addition to shifts among crops, low prices have generated some expectations that producers will voluntarily leave some acreage idle in 1999. In addition, wheat producers may fallow more acres. In general, however, the magnitude of acreage that will be voluntarily idled should be relatively low. As long as the Commodity Credit Corporation loan rate exceeds the cash cost of growing a crop most acres will likely be planted. Some idling of high risk acres and increased enrollment in conservation

programs, however, could reduce total planted acreage marginally. Planted acreage figures for 1998 suggest that western wheat producers have already put a fair amount of fallow back in the crop rotation. Additional fallow in 1999 will likely be small.

Winter wheat seedings in the southeast declined by an estimated 265,000 acres. Seedings are down 935,000 acres in the corn belt, 800,000 acres in the southern plains, 210,000 acres in the Dakotas, 600,000 acres in the far west, and 400,000 acres in the northwest. The declines will likely be offset by cotton and soybeans in the southeast; corn and soybeans in the corn belt; cotton and feedgrains in the southern plains; and oilseeds in the Dakotas. Higher wheat prices later might attract some additional spring wheat acres in the Dakotas. Increased fallow is possible for the far west. A shift away from corn to cotton and soybeans is also expected in the southeast. Corn acreage there totaled 3.655 million acres in 1998, up 365,000 from 1997. Corn acreage may also be reduced in Texas.

The implication is that corn acreage could shift from the southeast to the midwest, with perhaps a slight decline in total acreage. Soybean acreage might increase as much as 1.5 million acres, while total planted acreage might decline as much as 1 million acres. A slight decline in corn acreage in 1999 and a modest 2 to 3 percent increase in consumption, suggests that the average corn yield in 1999 would have to equal trend or slightly higher for the fourth consecutive year to generate another increase in year ending stocks. With a 1.5 million acre increase in soybeans, the U.S. average yield would have to decline under 36.5 bushels per acre to prevent a further buildup in year ending stocks, even with a 3 percent increase in consumption.

Acreage changes as outlined here would be a bit friendly to new crop corn prices and negative for soybean prices, all else remaining unchanged. The USDA will release a *Prospective Plantings* report on March 31.



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