UNIVERSITY OF ILLINOIS
EXTENSION

WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

FEBRUARY 22, 1999

IMPLICATIONS OF 1999 CORN AND SOYBEAN PRODUCTION

Increasingly, the price of corn and soybeans will take direction from 1999 crop prospects. It appears that a reduction in yield will be required to turn prices higher, particularly for soybeans. The list of negative market factors for soybeans is extensive. As outlined last week, the current pace of consumption of the 1998 crop is below the level needed to reach the USDA projection for the year., The current strength in the value of the U.S. dollar suggests that importers will aggressively turn to South American soybeans and soybean meal later this spring. Year ending stocks will likely be well above the current projection of 410 million bushels.

Harvest of the South American crop has begun and another large harvest is almost assured. There is some chance that production will exceed the record 1998 harvest of 1.95 billion bushels. Unless Brazil implements a soybean export tax or the Brazilian currency makes a quick recovery, that crop is expected to move to market rapidly.

Increased plantings of soybeans in the U.S. in 1999 seems very likely. The major debate centers around how large of an increase. Relative commodity prices and spring weather conditions will have some impact on that decision.

Market fundamentals for corn are generally less negative than for soybeans, but fundamentals cannot really be termed as friendly. Placement of cattle into feedlots in January were larger than expected, but February feed lot inventories are still 5 percent smaller than inventories of a year ago. Increased feeding of soft red winter wheat and continued liquidation of the hog breeding herd suggest some potential softness in feed demand for corn. A continuation of the strength in the value of the U.S. dollar would also be a bit negative for corn export prospects. Still, year ending stocks are expected to be modest and at least a small decline in acreage is expected in 1999.

In general, spring weather is not as important in determining yield as is summer weather, particularly for soybeans. Soybeans have a later and longer window of planting than does corn. Current indications from the National Weather Service and others suggest that spring weather could be a little drier than normal, especially in western growing areas. Such a pattern would suggest a rapid planting season and no weather induced change in planting intentions. If this pattern materializes, summer weather will once again dominate yield and production prospects. Potential for a weather based price rally may be several months away. Another year of trend yields would likely result in further price weakness.

The nature of the 1999 growing season and the size of the fall harvest not only has implications for the price of corn and soybeans, but also for potential change in farm policy. A second consecutive year of low prices would likely bring some modification in existing policy. The most contentious issue may be set-aside programs. Supply control through annual set-aside programs was a cornerstone of policy prior to 1996. With the changes in planted acreage since 1996, any set-aside program instituted now would likely have to be on a whole from basis, rather than commodity by commodity. The method of determining payment, if any, for set-aside could be complicated. To a lesser extent, there may be some interest in returning to government owned or controlled crop storage to manage short term surplus problems.

If supply control measures are not embraced, then the debate may center around income support policies. Those would include an evaluation of the level of Commodity Credit Corporation loan prices and the current schedule of production contract payments.

Independent of these broader policy issues, there may also be some pressure to change the method of determining loan deficiency payments (or marketing loan payments). The inequities of the current method of payment determination were revealed with the 1998 crops.

Darrel Good

Issued by Darrel Good
Extension Economist
University of Illinois

U of I Extension Newsletter Service
University of Illinois
at Urbana-Champaign
1917 S. Wright St.
Champaign IL 61820

Return Service Requested

First Class
U.S. Postage Paid
Permit #75
Champaign, IL