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WEEKLY OUTLOOK

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WEATHER, CROP SIZE, AND POLICY

It's that time of year when weather and planting progress tends to dominate the corn and soybean markets. Analysts have a chance to examine and interpret the history of the relationship between planting progress and average U.S. yield. As with most things, analysts tend to reach different conclusions. In some cases, the conclusions do not appear to be warranted by the "facts". Our spin on the historical relationship is that planting progress is not the most important determinant of average U.S. corn and soybean yields. Summer weather and the length of the growing season appear to be much more important. That is, an early planting followed by favorable weather typically results in above trend yields (1985, 1986, 1987, and 1992). However, a year of relatively slow planting progress followed by favorable summer weather and an extended growing season can also result in high yields (1996 and 1998 - if replanting is accounted for). Conversely, an early planting followed by poor weather results in low yields (1980, 1988).

While prices will continue to reflect planting progress, yields will be determined by summer weather and the length of the growing season. Once again, expectations about summer weather are not consistent. The apparent strengthening of the La Nina weather pattern in April suggests that the La Nina will persist through the summer. Historically, La Nina has tended to result in more severe summer heat waves, but the correlation with precipitation is not as strong. More price volatility can be expected this summer.

Corn prices are more likely to respond to periods of adverse weather than are soybean prices. Corn acreage in the U.S. is expected to be down from that of last year, the southern hemisphere crop is smaller, exports are expanding, and corn yields are very responsive to adverse weather. Soybean acreage is expected to increase, the southern hemisphere crop is large, the rate of use of the U.S. crop is declining, and soybeans are a bit more tolerant of periods of adverse summer weather. Without a late season weather problem or government intervention, soybean prices are expected to remain below the Commodity Credit Corporation (CCC) loan rate and could decline to extremely low levels later this year if a trend yield is experienced.

Prospects for large crops in 1999 and the continuation of low prices will continue to generate discussion about commodity policy changes for the year 2000. The most recent entry into the debate is a proposal to resurrect the farmer-owned-reserve program for corn and wheat. Such a program would pay producers an annual fee to keep crops in long term storage. The old program was a three-year program, with a trigger price at which the crops could be marketed

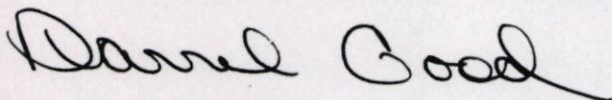
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before the end of the three year period. The theory of the farmer-owned-reserve is that periods of high production (U.S. and world) will ultimately be followed by at least one year of low production. At that time, the reserves could be released back into the market place. The objective of the program is to support prices during periods of surplus and to release supplies at profitable prices. The expected result is more stable prices at profitable levels for producers.

A continuation of surpluses will also likely be met with government export assistance programs -- credits, credit guarantees, and giveaways. In a break from tradition, soybean groups are also requesting significant assistance in distribution of surplus inventories. The debate about some sort of limited acreage reduction program will also continue. In addition, a lot of attention is being focused on developing crop and/or revenue insurance programs that will allow producers to manage risk. A satisfactory insurance scheme remains elusive.

While large crops and low prices are not certain for the year ahead, it is important to get the policy issues on the table now. It would be very useful to have a game plan in place that could be announced and implemented, if needed, prior to the seeding of the winter wheat crop.



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