



# WEEKLY OUTLOOK

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## **USDA REPORTS GIVE CROP PRICES A BOOST**

On January 10, the USDA released a number of reports important to the crop markets. These included the final production estimates for 1996 U.S. crops, revised foreign crop estimates, December 1 grain stocks estimates, revised consumption and carryover projections, and a winter wheat seedings estimate. The changes in foreign production estimates from December were small, consisting of lower grain production estimates for the former Soviet Union, a slight increase in the European Union wheat production estimate, and a slight increase in the coarse grain estimate for eastern Europe. The reports, however, contained a number of revisions in the domestic supply and demand estimates and a surprise in the winter wheat seedings estimate. Following is a summary of the changes and the implications for crop prices.

**CORN.** The 1996 corn crop is now estimated at 9.293 billion bushels, 28 million larger than the November estimate. The national average corn yield was 127.1 bushels per acre, 0.6 above the previous estimate. December 1 corn stocks totaled only 6.906 billion bushels. While that figure is 800 million above stocks of a year earlier, it implies a first quarter feed and residual use of 1.96 billion bushels, 200 million above first quarter use of last year. As a result, the USDA increased its projection of feed and residual use for the entire year by 225 million bushels, to a total of 5.2 billion bushels. Year ending (September 1) stocks are now projected at only 959 million bushels. The revised production estimates and new consumption and carryover projections are expected to add about \$.05 to the season's average price of corn. That price is projected in a range of \$2.55 to \$2.85 per bushel.

The price reaction to the revised estimates may be somewhat limited by the sluggish pace of exports and export sales. At 1.9 billion bushels, exports are projected to be down 15 percent from exports of the 1995-96 marketing year. As of January 2, cumulative sales were running 34 percent behind the level of a year ago.

**SOYBEANS.** The 1996 soybean crop is now estimated at 2.382 billion bushels, 20 million below the November estimate. At 37.6 bushels, the national average yield was reduced 0.3 bushel from the previous estimate. The USDA also increased the domestic crush projection by 10 million bushels, but reduced the feed and residual projection by 5 million bushels. The net effect was a 25 million bushel reduction in the projection of year ending stocks. At 155 million bushels, projected stocks represent only a 3.3 week supply. The USDA also lowered the expected soybean oil content of the 1996 crop by 0.1 pound per bushel. As a result, oil stocks will be a little tighter, although still abundant. In addition the estimate of the 1996 U.S. sunflower crop was increased by 9 percent, suggesting more abundant sun oil supplies. A larger soybean meal export projection also reduced the projection of year ending meal stocks. The USDA expects the changes in the production estimate and consumption and carryover projections to add about \$.20 to the seasons average price of soybeans. That average is projected in a range of \$6.60 to \$7.10 per bushel.

The tighter supply-demand balance now being projected makes the size of the South American crop even more important. Any shortfall there suggests an increase in new crop soybean prices relative to corn prices in an attempt to attract more acreage in the U.S. this spring.

**WHEAT.** For the current marketing year, the USDA lowered the projection of feed and residual use of wheat by 25 million bushels, to a total of 300 million bushels. The reduction reflected larger than expected December 1 stocks. The projection of seed use was reduced by 4 million and the import projection was increased by 5 million bushels. The net result was a 34 million bushel increase in the projection of year ending (June 1) stocks.

The big surprise for the wheat market was the estimate of winter wheat seedings at only 48.2 million acres. Those seedings are 3.76 million below the actual seedings of a year ago, with large cuts coming in soft red and hard red winter wheat areas. Seedings are down 400,000 acres in Kansas, 200,000 in Oklahoma, 500,000 in Montana, 350,000 in South Dakota, and 300,000 in Nebraska. In the soft wheat areas, acreage is down 500,000 in both Illinois and Missouri.

With normal abandonment, harvested acreage of winter wheat in 1997 will be about 800,000 acres larger than in 1996 even with reduced plantings. A return to a 40 bushel average yield would produce a 1997 winter wheat crop of 1.62 billion bushels, 140 million larger than the 1996 crop. In the meantime, new crop wheat prices are likely to become more volatile and will be quick to reflect sustained crop concerns.

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**Special Note:** Bill Uhrig retired from Purdue University at the end of 1996. We congratulate him on a very distinguished career and express our appreciation for his many contributions, including issues of this newsletter. Thanks Bill!

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