

Federal Reserve Bank of Chicago - -

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CROP PRODUCERS have planted essentially the same number of acres to corn and feed grains in 1975 as in 1974 but have increased soybean plantings. Approximately 77.5 million acres have been planted to corn, just slightly under 1974 corn plantings and over 2 million acres more than farmers indicated they would plant last March, according to the Department of Agriculture. Soybean acreage has been expanded to 54.6 million acres, up almost 2 percent from 1974 but down over 2 million acres from March planting intentions. The indicated acreage coupled with recent favorable growing conditions suggest that the relatively tight supply/demand conditions for crops that has existed during the past two years may ease substantially with this year's harvests.

Feed grain acreage—a combination of corn, sorghum, oats, and barley—is nearly identical to that planted a year earlier. However, there have been some shifts in the number of acres allocated to the various crops. Sorghum and barley acreage are up 4 percent and 5 percent, respectively, while oats plantings are down nearly 4 percent.

Farmers in Seventh District states followed a slightly different planting pattern than that established at the national level. Corn plantings are up slightly over 2 percent, while soybean acreage was cut by 5 percent from 1974 levels. According to the March planting intentions report, district farmers intended to plant 34.4 million acres to corn—nearly 1.2 million fewer acres than finally planted. At the same time, planted soybean acreage was 19.6 million acres—725,000 less than indicated in March.

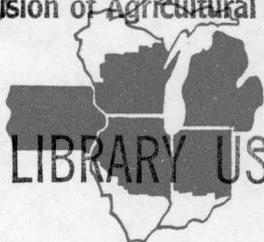
The switch from soybeans to corn stems from two factors. One is the price ratio of corn and soybeans. Soybeans have been priced slightly less than 2.0 times the price of corn for the last several months. Given the net returns that can be generated from raising corn versus soybeans, the breakeven point is somewhere around 2.5. When the price ratio is around 3.0 there is usually a shift toward more soybeans and when the price ratio is near 2.0 Midwest farmers begin to substitute corn. This may seem somewhat contrary to the change in acreage that occurred at the national level. However, nearly all the gain in soybean acreage took place in the southern and southwestern states where soybeans were substituted for cotton. Planted cotton acreage was reduced by nearly 3.8 million acres this year, reflecting substantially lower cotton prices.

Very favorable weather conditions at corn planting time had a major influence on farmers this past spring. Approximately three weeks of almost ideal weather allowed farmers to plant corn on a very timely

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basis. Oftentimes less desirable weather will delay corn planting to a degree that yields may be substantially reduced. Under such circumstances, soybeans—with a shorter growing season—are often planted on the intended corn acreage.

Yield estimates for the various crops will not be forthcoming from the USDA until next week. Nevertheless, the stage has been set for possible record corn and feed grain production in 1975. Harvested corn acreage will likely total about 67 million acres. The 20-year yield trendline average—including both the disease and weather affected harvests of 1970 and 1974—suggests a 1975 yield of 93 bushels per acre. This would indicate a potential corn crop of slightly over 6.2 billion bushels. The average annual yield deviation from trend has been slightly over five bushels per acre on the low side and four bushels per acre on the high side during the 20-year period. (Actual yields have fallen below the trendline eight times and exceeded the trendline 12 times.) The acreage harvested may vary by approximately 500,000 acres. Thus a corn harvest in the range of 5.8 to 6.6 billion bushels can likely be expected in 1975. Even the low figure exceeds the 1973 record of 5.6 billion bushels.

Soybean production, however, will likely fall short of the 1973 record due to the fact that planted acreage is 2 million acres below the 1973 level. Utilizing a 20-year trendline yield suggests the 1975 yield would be between 27 and 28 bushels per acre, producing slightly less than 1.5 billion bushels of soybeans.

Continued favorable weather conditions are likely to exert downward pressures on crop prices over the next several months. Furthermore, reduced livestock feeding activity and continued weak export markets may preclude any upsurge in grain demand, especially feed grains, until well into 1976. Under these circumstances many farmers may have difficulty recovering their production and associated land costs for crops such as corn, estimated at \$2 per bushel or more in many instances.

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