The records continue

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The records continue

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Here we are again. The markets have absorbed record projections for supply and demand, a good amount of crop moved just before harvest to clear out bin space, and harvest has been relatively smooth. That combination of factors took corn prices to new lows and cut the prospects for soybean prices. Whether these prices will be the lows for the harvest season depends on the movement of grain this fall and the willingness of international markets to dive into the crop markets this winter.

The record production numbers have held up through several updates. Figure 1 displays the October projections for corn. States shaded in blue have higher yield projections now than before. States shaded in red are projected to have lower yields. As the map shows for the most part, the core of the Corn Belt is expected to have higher yields, while the states surrounding the core are expected a few bushels less. Overall, the national corn yield estimate is 173.4 bushels per acre, which is 5 bushels higher than last year and 2.4 bushels higher than the record from 2014. With over 94 million acres planted to corn, that yield translates to 15 billion bushels of corn nationwide. That would top the previous record harvest by nearly 800 million bushels.

Figure 1. Corn yield projections (Source: USDA-NASS).

A very similar tale can be told for the soybean crop. October estimates show record yields and production. The core producing areas are set for higher yields, while more marginal areas are experiencing a slight pullback. With the national soybean yield projection at 51.4 bushels per acre, soybean production would exceed 4 billion bushels for the 1st time. And states from the Great Plains to the mid-Atlantic are setting yield records as well. The late season rains definitely filled the pods.
Luckily, the yields and production were not the records being projected. Crop usage continues to build to record levels as well. The growth across the livestock sector continues to spur feed demand. USDA’s projection for feed and residual usage is 458 million bushels higher for the 2016 crop. Corn exports are expected to continue their march higher as well, adding another 327 million bushels compared to last year. And the ethanol industry’s use of corn is expected to jump another 69 million bushels. As Figure 3 shows, corn usage for ethanol has been at or near record levels for much of 2016. A little strength in the oil market and the low corn prices have supported ethanol margins.
For soybeans, usage is up across the board as well. Domestic crush use is projected to be 64 million bushels higher with the growth in the livestock sector (and the associated need for soybean meal) and another solid year of biodiesel production. But the largest increase in usage is expected in the export market. Current projections have exports increasing another 89 million bushels, to a record 2.025 billion bushels. Advance soybean export sales are moving along at a fairly brisk pace, slightly behind the pace set in 2014, but ahead of last year.

So the record usage is limiting stock build-up, but stocks are projected to increase. And season-average prices for the 2016 crops remain well below estimated production costs for both crops. USDA’s current price estimates have corn prices in the $3.25 per bushel range, while soybean prices are set around $9.05 per bushel. Futures prices, at the end of October, indicated season-average prices slightly above those estimates. And looking forward to the 2017 crops, the margin picture will likely remain troublesome. Current futures point to 2017 season-average prices of $3.60 per bushel for corn and $9.40 per bushel for soybeans. And as figure 4 shows, those prices would put 2017 crop margins $50 per acre below production costs.

Figure 4. 2017-2018 projected crop margins.

So the challenge for farmers this fall is the same one they faced for the previous two falls, bringing in record crops, while searching for better prices. And like with the last two years, producers may have to wait until late in the spring for those better pricing opportunities. But with usage still growing, any cuts in production, whether in our harvest or from South America’s next crops, could spur some upward price movement.