Near-record crop prospects moderate prices

WASHINGTON, D.C. — With U.S. feed grain supplies next season likely to be around 7 percent larger than this year, prices will probably be somewhat lower. Here's a breakdown of prospective average farm prices in 1981/82:

- Corn may average $2.70 to $3.15 a bushel, compared with this season's estimated $3.15;
- Sorghum, $2.50 to $2.90, compared with $3 estimated for this year;
- Barley, $2.35 to $2.60, down from $2.91;
- Oats, $1.65 to $1.85, versus $1.82.

According to USDA's Economic Research Service, these are national averages—you can expect prices to vary considerably during the year with changes in demand, in the volume of marketings, and in prospects for 1982 crops here and abroad. So, the prices you get will depend to some extent on when you sell.

Also, local prices may be higher or lower than the national averages depending on how far you are from major markets, and other special circumstances.

Larger feed grain crops expected

This year's corn crop may be the second largest on record. The August forecast is for about 7.73 billion bushels, up 16 percent from last year and exceeded only by the 1979 harvest.

Weather, of course, could still alter this outlook. But based on past events, chances are 2 out of 3 that the corn crop will not be more than 525 million bushels above or below the August forecast.

A corn crop of 7.73 billion bushels and a carryover of just over a billion bushels this fall would make a supply of 8.75 billion bushels for the year ahead, 6 percent more than this year's supply but 5 percent less than the record 1979/80 supply.

Following are prospects for other feed grain crops as of August 1. Chances are 2 out of 3 the harvest will fall within the ranges shown.

Sorghum—forecast at 833 million bushels, up 42 percent from last year. Range: 780 to 890 million bushels.

Barley—483 million bushels, up 35 percent. Range: 460 to 510 million bushels.

Oats—522 million bushels, 14 percent more. Range: 495 to 545 million bushels.

Combined production of the four feed grains is forecast at about 236 million metric tons, almost a fifth larger than last year and smaller only than the 1979 harvest.

Larger U.S. feed grain crops will account for most of the expected 5-percent increase in world production of coarse grains, which will provide for both an increase in world consumption and a modest buildup in stocks during 1981/82.

World coarse grain trade may be up 5 million tons from this season to a record 110 million metric tons. For U.S. farmers, who always supply the lion's share of world coarse grain trade, this points to record exports in 1981/82—probably around 73 million metric tons, nearly 6 percent more than this season.

U.S. carryover stocks of each of the four feed grains will likely be larger next season, with total feed grain stocks around 41 million metric tons at the end of the marketing year, up from 32.5 million estimated for this year. The corn carryover may be about 1.3 billion bushels, versus just over a billion expected on October 1, 1981.

Expanded use to help shore up prices

Domestic use of feed grains next season may total around 155 million metric tons, almost 4 percent more than the current level.

Roughly 129 million metric tons will be fed to U.S. livestock and poultry, versus an estimated 125 million this year. This estimate assumes higher feeding rates this winter under more typical weather conditions than last year's unusually mild winter.

More will be fed to cattle, broilers, and turkeys, but less to hogs. Pork output will continue to decline well into 1982. An expected increase in wheat feeding, due to the record large crop this year, will moderate feeding of feed grains in some areas, especially in the grain-deficit Southeast.

Food, seed, and industrial uses are likely to take a record 26 million metric tons, up 2 million tons from the alltime high projected for this year. Biggest gainer—corn going to make fuel alcohol and high fructose corn syrup.

What to watch now:

Check out forward contract opportunities. Now's a good time to find out what kind of arrangements are available in your area.

Watch storage availability and costs. Estimates of U.S. crop production and movement of grain through marketing channels this summer suggest the crunch on storage facilities during harvest will be no greater than usual.

Consider CCC price support loans. Grain must be in approved storage facilities to be eligible for 9-month price support loans or for the farmer-owned reserve.

In states where sizable amounts of grain must be stored temporarily on the ground, State ASCS Committees are authorized to provide 90-day distress loans to farmers. The interest rate is 14-½ percent, the same as for regular 9-month loans and for the first year of reserve loans. With distress loans, however, borrowers cannot forfeit grain in lieu of repaying principal and interest. Check with your county ASCS office for details.

Figure the cost of handling grain for later sale

Compare the interest you are paying for loans, any off-farm storage charges on the grain you are holding, and the returns you could earn from investing cash obtained by selling grain now. Next, estimate how long you expect to hold the grain and the price you could sell it for then. This will give you some idea whether it will pay you to hold grain and for how long.

For example, suppose you could sell your corn for $3 a bushel at harvest but think you probably could get a higher price about 4 months later. If you put it under price support loan to get some ready cash, how much would prices have to rise in 4 months to make storage pay off?

The CCC interest rate is 14½ percent now, but will be adjusted on October 1 and April 1 to reflect the cost of borrowing money from the U.S. Treasury. The national average loan rate on regular 9-month loans for 1981 corn is $2.40 per bushel; the rate in your county may differ by a few cents. For illustration, let's use the 14-½-percent rate and the $2.40 loan rate.

Also, let's assume that if you sold corn for cash at harvest rather than putting it under loan, you put the receipts in the money market where you earn, say, 16 percent interest.

Figure the amount of interest per month per bushel that you are forfeiting by putting corn under loan at $2.40 instead of selling it for $3.

$$\frac{0.16x(\$3-\$2.40)}{12\text{ mos.}}=0.8^{\text{¢}}\text{ per bu.}$$

Figure the monthly interest you pay on the CCC loan:

$$\frac{0.145x\$2.40}{12\text{ mos.}}=2.9^{\text{¢}}\text{ per bu.}$$

Your total monthly cost per bushel for keeping corn under CCC loan—and assuming you store it in your own facilities—works out to 3.7 cents a bushel (0.8 cents + 2.9 cents = 3.7 cents).

In this example, prices would have to rise by 3.7 cents a month to make returns from holding corn under loan equal to returns from selling it at harvest for $3. Therefore, to come out even, you would have to expect corn prices to

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Planting doubts

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the first year in the reserve has been rescinded.

Also, only 700 million bushels of wheat can be in the reserve at one time. As of August 1, the reserve totaled 360 million bushels. A review of the current features that apply to the loan and reserve programs may help you firm part of your marketing strategy.

You can place 1981 wheat under the regular loan at $3.20 per bushel. The interest rate is 14.5 percent (subject to a semiannual review) and you may repay any time during the 9-month term.

You can place the wheat into the recently opened reserve at $3.50 per bushel. The interest rate is 14.5 percent — for the first year only. Thereafter, no interest is charged, as long as the national average farm price remains below the $4.65 trigger price.

You will also receive a prepaid annual storage payment of 26.5 cents a bushel. Any time the trigger price is reached, the loan may be redeemed without penalty. If prices continue above the trigger price through the end of the month plus an additional 30 days, storage payments will end and the current interest charges will resume.

Unearned storage payments must be refunded when the reserve loan is repaid.

If you hold any outstanding 1980-crop wheat loans, you may convert these into the reserve program until December 31. You will receive an additional 30 cents per bushel above the $3 loan, a prepaid 26.5 cents storage payment, and the loan will be interest-free. However, you can't sell that wheat without penalty until the $4.48-per-bushel release price is reached.

The penalty for early redemption is now calculated a bit differently. The penalty is based upon the time that has lapsed since the reserve was in the release status. For wheat, release status ended 9 months ago. For wheat placed in the reserve after December, the penalty is based on the date of entry.

For example, as of September, total repayment of older reserve loans (those secured before last December) would require 1) the principal plus 9 months' interest, 2) all prepaid storage payments plus 9 months' interest, and 3) and interest surcharge on the principal equal to one-half of the loan rate at the time of repayment (7.25 percent) for 9 months.