University of Illinois Extension

# WEEKLY OUTLOOK

Purdue University

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## USDA ADJUSTS SUPPLY AND USE PROJECTIONS – MORE CHANGES TO COME?

The USDA's February *World Agricultural Supply and Demand Estimates* report contained a number of revisions from the previous report. Most changes were well anticipated, but further adjustments in the projections are expected.

For the current corn marketing year, the USDA increased its forecast of corn exports by 25 million bushels, to a total of 1.725 billion. That projection is 14.7 percent larger than exports of a year ago. Through February 4 (43 percent of the marketing year) export shipments were nearly 18 percent larger than on the same date last year. Total export commitments (which include unshipped sales) were 22 percent larger than commitments of a year ago. It seems likely that exports will exceed the USDA projection, resulting in smaller carryover stocks than the current projection of 1.786 billion bushels. An additional 25 million bushels of exports would result in a year ending stocks to use ratio of 18.9 percent (assuming use in other categories is correctly forecast).

For soybeans, the USDA reduced the projection of use for the current marketing year by 20 million bushels. Exports are now projected at 810 million bushels, 7 percent less than exported last year. As of February 4, shipments were running 24 percent behind the pace of a year ago. That comparison is biased, however, since shipments were "front loaded" last year. Still, total export commitments are 19 percent less than commitments of a year ago. With the 1999 South American crop now expected to be only 2.6 percent smaller than last year's record crop, U.S. exports may have difficulty reaching the projection of 810 million bushels.

The projection of the domestic soybean crush was lowered by 5 million bushels, to a total of 1.59 billion bushels. That projection is only 0.4 percent below last year's record crush. Census figures for the first four months of the marketing year (through December 1998) show the cumulative crush 1.7 percent larger than the crush of a year ago. Almost all of that increase, however, was in September 1998. Crush in December 1998 was 5.5 percent smaller than in December 1997. Figures from the National Oilseed Processors Association indicate that the crush in January and the first two weeks of February 1999 was 9.4 percent less than during the same period last year. It appears very unlikely that crush for the year will reach the USDA projection.

The 25 million bushel reduction in the projection of crush and exports was partly offset by a 5 million bushel increase in the projection of seed and residual use. The projection of year ending stocks now stands at 410 million bushels, 20 million above last month's projection. In fact, year ending stocks may be significantly larger than the current projection.

For wheat, the projection of exports for the current marketing year was reduced by 75 million bushels, to a total of 1.025 billion, and the projection of year ending stocks was increased by 80 million bushels. At 980 million bushels, year ending stocks represent 41 percent of projected use. Unless the export pace accelerates rapidly over the next three months, year ending stocks could exceed 1 billion bushels. Such a large carryover will make it difficult for reduced seedings to push prices very high.

The debate about likely planting of corn and soybeans in 1999 continues. The expected magnitude of switch from corn to soybeans seems to be growing. The expectation is based on the argument that the soybean loan rate provides a higher rate of return (smaller loss) than the corn loan rate in many areas. In addition, it takes less cash to plant soybeans. The arguments, however, seem to ignore the fact that current new crop corn prices are well above the loan rate in many areas.

Based on average cost and yield figures for central Illinois, a cash price of corn of $2.09 per bushel would be required for corn to be competitive with the soybean loan rate. The current new crop corn bid in that same area is $2.20 per bushel. Under average yield conditions, the market is offering a $17 per acre advantage for corn. The advantage would be larger if there is a yield drag for soybeans following soybeans. Costs and yields obviously vary by region, as well as from farm to farm. However, any further increases in corn prices would make corn competitive with soybean production in many areas of the corn belt. For those who respond to that incentive and plant more corn, forward pricing the expected increase in corn production is recommended.

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