UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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WILL ACREAGE BE SHIFTED FROM CORN TO SOYBEANS?

Forecasts of additional precipitation in the first half of May threatened to delay corn planting again this spring. A delay in corn planting always raises the question of whether or not producers will abandon plans for some corn acres and plant those acres to soybeans. The decision for individual producers is based on a wide array of factors, including expected yield impact from delayed corn planting, fertilizer and herbicide applications already made, availability of seed, and expected price relationship for corn and soybeans.

For the past three years, corn planting has been a little on the slow side (particularly in comparison to the rapid planting progress in the mid to late 1980s). Additionally, corn plantings have not been influenced by annual set-aside programs since 1995. Comparison of final planted acreage to March intentions is made a little difficult due to recent acreage estimate revisions based on the 1997 Census. Based on figures available, corn plantings have fallen below March intentions in each of the past three years. The shortfall was 691,000 acres in 1996, 1.879 million in 1997, and 594,000 acres in 1998. Only in 1997 was the decline revealed in the June *Acreage* report.

Soybean acreage exceeded March intentions in 1996, 1997, and 1998. The increase totaled 1.717 million acres in 1996, 1.205 million in 1997, and 375,000 acres in 1998. In each of those years, the June *Acreage* report revealed that acreage was larger than March intentions. In both 1997 and 1998, however, actual acreage was less than June intentions.

What about this year? On one hand, it could be argued that it is still too early to worry about the impact of corn planting delays on potential yield. Those concerns will be more legitimate after mid-month. A couple of factors, however, suggest that producers may be a little quicker to shift acreage to soybeans this year. First, intended switching from corn to soybeans reported in March is concentrated in the western corn belt. That is also where planting delays will likely be most significant. It may be an easier decision to extend the already planned increase in soybean acreage. Second, the relatively low price of corn in relation to the soybean loan rate may make the switch more attractive. In many Iowa locations, for example, the ratio of the soybean loan rate to the harvest bid price for corn exceeds 2.7 to 1. The ratio of the soybean loan rate to the corn loan rate in those locations is 2.8 or 2.9 to 1. In general, a ratio over 2.5 to 1 is thought to favor soybean production, although the breakeven ratio varies widely from region to region and farm to farm.

Increased acreage of soybeans would add to the fundamental problems for soybean prices, assuming a 1999 yield near trend value. The other problems include a declining rate of domestic soybean crush and lagging export sales. A seasonal decline in domestic crush typically begins in early April and persists to mid or late October. The decline reflects the availability of South American soybeans. The decline started right on cue this year, but initially appears to be sharper than last year's decline.

Export sales typically start a seasonal decline in January, as the market anticipates South American supplies. That pattern is being followed this year, with total export sales through April 22 lagging last year's pace by 111 million bushels. The USDA projects that exports this year will be 100 million bushels below last year's shipments.

Both domestic crush and exports for the year may fall just a little short of the current USDA projection. There is also some risk that the September 1, 1999 *Grain Stocks* report may "find" some of the soybeans that appeared to be missing in the March report. That pattern has been followed a couple of times in recent history. In any event, year ending stocks will be quite large.

Even under the burden of increasingly poor fundamentals, soybean prices have been reluctant to trade lower, partly because prices are already so low and the entire growing season is yet to come. The stability in prices is also partly technical in nature, similar to the pattern of last spring. If the 1999 U.S. soybean yield is near trend value, further declines can be expected. The best chance for a rally will likely be during the latter part of the growing season, when yields are most vulnerable to adverse weather conditions. Only a rally above the loan rate, however, would require a pricing decision.

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