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WEEKLY OUTLOOK



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USDA CONFIRMS LARGE CROP POTENTIAL

As expected, the USDA's August *Crop Production* report revealed potential for record large U.S. corn and soybean crops. The corn crop was estimated at 10.369 billion bushels, 932 million larger than the 1999 crop and 318 million larger than the previous record crop of 1994. The U.S. average yield potential was judged to be a record 141.9 bushels per acre, 8.1 bushels above last year's yield and 2.3 bushels above the previous record of 1994. The largest increases in yield compared to last year are in those areas that suffered dry conditions last year – eastern states and Missouri. Dry conditions are adversely affecting yields in some southeastern and delta states this year. Among the 10 largest corn producing states, the highest average yield, 158 bushels, is expected in Illinois.

The 2000 soybean crop was estimated at 2.989 billion bushels, 346 million larger than last year's crop and 248 million larger than the previous record of 1998. The U.S. average yield was estimated at 40.7 bushels, 4.2 bushels above last year's average, but 0.7 bushels below the record yield of 1994. Compared to last year, the largest yield increases are expected in the eastern U.S., Missouri, and Texas. The highest average yield, 49 bushels, is expected in Iowa, followed by Illinois with a 48 bushel average.

Market participants appear to be divided in their opinions about actual crop size. Some argue that "large crops get larger" while others believe a dry August in some major producing areas will result in a decline in the production estimates, particularly for soybeans. All agree, the final crop size will still be large.

While the large production estimates will dominate price action through harvest, some of the revisions in U.S. and world supply and consumption estimates were a little friendly. Most of the support will come from confirmation of smaller crop prospects in China. The corn crop there is now estimated at 4.53 billion bushels, 5.7 percent smaller than last month's estimate and 10.2 percent smaller than the 1999 crop. China is now expected to export 157 million bushels of corn during the upcoming marketing year, down from 354 million for the current year. Revisions in historical inventory data for China, however, results in a projection of a comfortable level of ending stocks, even with a 3.3 percent increase in feed use of corn.

For soybeans, the 2000 Chinese crop is now estimated at 551 million bushels, 5 percent smaller than last month's estimate, but still 5 percent larger than last year's crop. Chinese soybean imports are expected to remain historically large, at 266 million bushels, but below the 330 million imported this year.

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The smaller Chinese corn crop, along with increased corn consumption in Southeast Asia, South Korea, and Mexico, is expected to lead to larger U.S. exports during the 2000-01 marketing year. Those exports are projected at 2.125 billion bushels, 225 million larger than shipments for the current year. For soybeans, the USDA projects exports during the upcoming year at 1.01 billion bushels, 35 million above this year's record of 975 million. That increase is based partially on the projection of a 59 million bushel cut in South American exports. While South America is expected to have a 4 percent larger harvest in 2001, increased domestic demand is expected to limit availability of soybeans for export.

Late season dryness may reduce production estimates and consumption may even exceed the current USDA projections for both corn and soybeans. Even so, it appears that stocks of both commodities will grow by the end of the 2000-01 marketing year. Only significant crop problems in the southern hemisphere might change that outlook. Corn and soybean prices are expected to remain at low levels through harvest and beyond. The current period of extremely low prices is in the 25th month. The string of 23 consecutive months of low corn price from July 1985 through May 1987 has already been exceeded. The string of 29 months of low soybean prices from August 1985 through November 1987 is likely to be exceeded.

As outlined in previous newsletters, pricing strategies this fall will be centered around the marketing loan program and the large carry in the price structure, particularly for corn. For those facing limited storage capacity, the corn market is offering a large enough return for short term storage to encourage the use of temporary storage facilities.

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