



WEEKLY OUTLOOK



A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

AUGUST 13, 2001

USDA CONFIRMS SMALLER CORN AND SOYBEAN CROP PROSPECTS

The USDA's August *Crop Production* report confirmed prospects for the U.S. average corn and soybean yields to be below trend value in 2001. The U.S. average corn yield, based on early August conditions, is forecast at 133.9 bushels per acre, compared to a trend value near 137 bushels. With harvested acreage at 69.191 million, the prospective crop size is forecast at 9.266 billion bushels, 702 million bushels smaller than the 2000 crop and the smallest crop since 1997. Compared to last year's yield, significant declines are forecast for Michigan, Minnesota, Missouri, Texas, and Wisconsin. Higher average yields are expected in many southern states, including Alabama, Georgia, Louisiana, and North Carolina. Yields in Illinois and Iowa are expected to be down five and four bushels, respectively, while the average in Indiana is forecast as the same as last year's yield.

A smaller crop is expected to be met with good demand. The USDA's World Outlook Board projects a 135 million bushel increase in consumption of U.S. corn during the year ahead. While feed and residual use is expected to decline by 75 million bushels, domestic processing use is projected to increase by 85 million and exports are expected to jump by 125 million bushels. Increased ethanol production will drive the domestic increase while a second consecutive small corn crop in China will contribute to larger exports.

Stocks at the end of the 2001-02 marketing year are projected at 1.459 billion bushels, down from the projection of 2.003 billion for September 1, 2001. That projection represents 14.8 percent of projected use, the lowest ratio in five years. The tighter supply situation will result in somewhat higher prices in the upcoming marketing year. The USDA projects a marketing year average farm price of \$1.90 to \$2.30 per bushel.

Most observers expect that the 2001 corn yield estimate will decline in subsequent reports, citing hot, dry conditions in early August that pushed crop ratings down. While the August objective yield forecast reflected ear population and ear length, kernel depth and test weight may be less than average due to the hot weather in July and early August. A decline in yield of the magnitude of 1983 (18.8 bushels) or 1995 (12.1 bushels) is not expected. The final yield estimate, however, may be two to five bushels below the August forecast, similar to the pattern of 1980 and 2000. If so, the crop may be near 9.05 billion bushels. Based on historical patterns of yield forecasts, the decline is not likely to be fully reflected in the September report.

The 2001 soybean yield forecast stands at 38.7 bushels per acre, 0.6 bushels above the 2000 average, but about 0.4 below trend value. Yields near those of last year are expected in the eastern corn belt, while higher yields are expected in some southern states, Nebraska, the Dakotas, and Tennessee. Lower yields are expected in east coast states, Missouri, and the upper midwest. The USDA's August

Crop Production report also contained a smaller acreage estimate. At 74.137 million, harvested acreage is expected to be “only” 1.419 million larger than acreage of a year ago. That is about 1.3 million less than projected from March planting intentions. Based on early August conditions, the USDA projects a 2001 soybean harvest of 2.867 billion bushels, nearly 100 million larger than last year’s record crop.

The World Outlook Board sees some slowdown in the rate of increase in consumption of U.S. soybeans. Use for all purposes during the 2001-02 marketing year is projected at 2.821 billion, only 8 million more than the projection for the current year. The increase is expected in domestic crush, with exports expected to be unchanged. While world soybean consumption is expected to continue to expand (lead by China) a larger South American crop will continue to provide competition for U.S. soybeans. The one bright spot on the consumption side is the projection of a one billion pound (67 percent) increase in U.S. soybean oil exports.

Year ending stocks of U.S. soybeans are projected to grow from 250 million bushels this year to 300 million by September 1, 2002. The marketing year average price is projected in a range of \$4.35 to \$5.35, compared to \$4.55 for the current year.

As with corn, most observers believe that yield potential is now below the August forecast of 38.7 bushels per acre. Since 1979, the January average yield estimate was below the August forecast 11 times (50 percent of the time). The difference between the August forecast and January estimate ranged from 0.1 bushels (1982) to 4 bushels (1983), and averaged 1.6 bushels. The difference in 1999 and 2000 was 2.7 and 2.6 bushels, respectively. Based on that pattern of yield estimates, and the less-than-average growing conditions the past month, the 2001 crop may be as small as 2.75 billion bushels. Based on the projected level of use, a crop that small would result in year ending stocks near 180 million bushels.

Corn and soybean prices will continue to reflect weekly crop condition reports and monthly USDA projection forecasts. Prices should be well supported in anticipation of smaller crop forecasts and smaller U.S. and world stocks. December corn futures and November soybean futures will likely find resistance near recent highs of \$2.47 and \$5.38, respectively.

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