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CORN AND SOYBEAN PRODUCTION FORECASTS EXCEED EXPECTATIONS

The USDA's September *Crop Production* report reflected the season's second forecast of U.S. corn and soybean production. At 9.238 billion bushels, the corn production forecast is only 28 million bushels smaller than the August forecast. The soybean forecast stands at 2.833 billion, 34 million smaller than the August forecast. As pointed out last week, a small change in the production forecast from August to September is very typical. Larger changes often come in later reports.

Since 1979, a smaller corn crop forecast in September has been followed by a further reduction in October in 7 of 12 years. The final production estimate was also below the September forecast in 7 of those 12 years, although not always the same year in which the October forecast was lower. The old adage that smaller crop forecasts are followed by even smaller forecasts is not completely verified by recent history.

For soybeans, a smaller crop forecast in September has been followed by a further reduction in October in 6 of 11 years since 1979. The final production estimate was below the September forecast in only 5 of those 11 years. As with corn, the change in direction of the September forecast is not a good predictor of the direction of change in October or in the final estimate.

Forecasts of world supply, consumption, and stocks of corn for the 2001-02 marketing year contained some significant changes from August. Production is forecast at 571.2 million tons, about 0.3 percent smaller than the August forecast and 1.2 percent smaller than the 2000-01 crop. Consumption is expected to increase by 2.4 percent over consumption of last year, resulting in a further reduction in world inventories. Stocks at the end of the 2001-02 marketing year are forecast at 118.5 million tons, down from 155.5 million at the beginning of the year and 170.9 million a year ago. The reduction is occurring in the U.S. and China. Year ending stocks in the U.S. are projected at 1.361 billion bushels, compared to 1.938 billion at the start of the year (September 1). That projection represents 13.9 percent of projected consumption. Many analysts expect that year-end inventories will be smaller than the current USDA projection, resulting from a smaller crop and larger exports than currently projected. The USDA forecasts 2001-02 marketing year U.S. corn exports at 1.975 billion, 25 million less than projected last month and only 35 million more than exported in the 2000-01 marketing year. China's likely entry into the World Trade Organization, along with their second consecutive small crop, suggests that China could import some U.S. corn during the current marketing year.

For soybeans, forecasts of world production, consumption, and stocks were changed slightly from the August forecasts. The direction was the same as for corn– smaller crop, increased consumption, and smaller stocks, although the magnitude of changes was not quite as large. Record production is expected to be entirely consumed and stocks are expected to be reduced modestly during the 2001-02 marketing year. Domestically, consumption is expected to equal that of last year, resulting in a very small (15 million bushels) increase in year-ending stocks. Many analysts believe that a smaller crop forecast later in the season will result in a forecast of declining stock levels.

The average prices of both corn and soybeans during the 2001-02 marketing year are expected to be higher than during the past year. For corn, the mid-point of the forecast price range is $2.15, $.30 higher than the average price during the 2000-01 marketing year and the highest in four years. For soybeans, the midpoint of the forecast price range is $4.90, $.35 above the average for the 2000-01 year and the highest in three years. A higher price for soybeans is forecast even with some accumulation of inventory, due to expectations of reduced inventories and higher soybean oil prices.

While world and U.S. stocks of corn are expected to decline sharply and soybean stocks are expected to remain at modest levels, generally low prices are expected to persist. High prices will not be required if supplies (production plus inventory) are adequate to meet world consumption needs, even though stocks are being reduced. Higher prices will be required when supplies are not adequate and consumption has to be reduced. That scenario may or may not develop over the next year, depending on the final outcome of this year's production and prospects for production in 2002-03. The probability of more frequent price rallies, however, has been increased by the tightening of world stocks. The need for the market to encourage increased corn acreage in the U.S. in 2002 suggests more potential for corn price rallies than for soybeans.

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