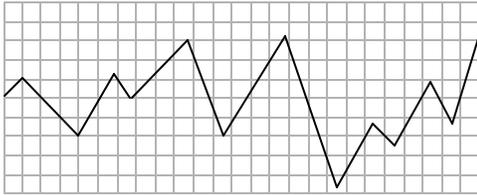




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# WEEKLY OUTLOOK

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## **WILL USDA PROJECT DECLINING STOCKS FOR 2002-03?**

The USDA's monthly update of U.S. and world supply and consumption prospects to be released on May 10 will contain the first projections for the 2002-03 marketing year. For the U.S. corn and soybean markets, 2002 production prospects will reflect March planting intentions and trend yields. As a result, the market will generally anticipate the supply side of these "new crop" projections fairly accurately. For corn, March planting intentions of 79.047 million acres suggests that acreage harvested for grain will be near 72.15 million acres. The calculation of the U.S. trend line yield for 2002 depends on the base period for calculating the trend, as well as the method used for calculating the trend (linear or non-linear). The trend yield for 2002 is generally projected between 139 and 140 bushels per acre, resulting in a likely 2002 production forecast between 10 and 10.1 billion bushels, 500 to 600 million larger than the 2001 crop.

For soybeans, March planting intentions of 72.966 million acres suggests that harvested acreage will be near 71.86 million acres. Again, the calculations of trend yield for soybeans for 2002 depends on the base period and methodology used, but a figure near 40 bushels is anticipated. At that level of yield, March planting intentions point to a crop of 2.874 billion bushels, 22 million smaller than the 2001 crop.

In the case of wheat, the May 10 production projection will reflect the first estimate of the size of the 2002 winter wheat crop and a forecast of durum and other spring wheat production. The potential size of the winter wheat crop is very uncertain due to generally dry conditions in important growing areas. Both the estimate of harvested acreage and average yield could be subject to significant revision. One prominent private forecaster has estimated the potential size of the winter wheat crop at 1.352 billion bushels, about 10 million bushels smaller than the 2001 crop. The 2001 crop was 275 million bushels smaller than the 2000 crop.

The forecast of durum and spring wheat production will be based on the same methodology as that for corn and soybeans – planting intentions and trend yields. In March, producers reported intentions to plant 2.842 million acres of durum wheat, 68,000 less than seeded last year. Intention for other spring wheat were at 15.086 million, 543,000 less than seeded in 2001. In 2001, harvested acreage as a percent of planted acreage was relatively high for durum wheat (about 96 percent) and a little low for other spring wheat (about 93 percent). Planted acreage and trend yields for 2002 project to spring wheat production of about 580 million bushels, 16 million less than produced in 2001. Current information, then, suggests the potential for a 2002 U.S. wheat crop of 1.932 billion bushels, 26 million smaller than the 2001 harvest.

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With the market having a good handle on the likely production forecasts, attention will focus on the projections of consumption. For corn, some increase in domestic use is expected, so the focus will be on the export projection. The projection for the 2002-03 marketing year may be higher than the export projection of 1.925 billion bushels for the current year due to prospects for less competition from other exporters and a more favorable exchange rate. It may be that the projection of use for all purposes during the upcoming marketing year will exceed the projection of a very large crop.

For both soybeans and wheat, projections for smaller crops than harvested in 2001 should lead to projections of declining stocks during the 2002-03 marketing year. Depending on the perceived strength in domestic and export demand, the projections of the marketing year average price of soybeans and wheat are likely to exceed the projection for the current year.

The market will begin to "second guess" the May projections fairly quickly. For wheat, the second guessing will center around acreage and yield prospects, particularly for the winter wheat crop. For corn and soybeans, second guessing may center around final planted acreage estimates. Another week of wet weather and slow corn planting progress in the eastern cornbelt will likely fuel expectations of some switch in corn intentions to soybeans.

If corn planting delays extend into late May, corn prices would likely be supported at the expense of soybean prices, as both acreage and yield expectations for corn would begin to erode. Average new crop corn prices in central Illinois (harvest delivery) are currently about \$.10 under the expected loan rate for that crop. Opportunities for pricing a portion of the crop above loan rate values may develop yet this spring.

Issued by Darrel Good  
Extension Economist  
University of Illinois