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EXTENSION



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 12, 2002

CROP REPORT POINTS TO RATIONING

The USDA's August *Crop Production* report contained surprisingly small forecasts of the 2002 U.S. corn and soybean crops and a much lower estimate of the wheat crop. If final production estimates are near the August forecast, the consumption of U.S. corn and soybeans will have to decline during the 2002-03 marketing year. This will be the first year of "rationing" since 1995-96.

The 2002 U.S. corn crop is forecast at 8.886 billion bushels, nearly 200 million less than the average trade guess. The small production figure reflects a forecast of harvested acreage of only 71 million acres and a national average yield of 125.2 bushels per acre. The forecast yield is 13 bushels below last year's yield and would be the lowest in 7 years. Compared to yields of a year ago, the largest declines are expected in the northeast, southeast, the far western corn belt, and the eastern corn belt. The average yield in Iowa (146 bushels) is expected to be the same as last year's yield, while the average yield in Minnesota (140 bushels) is expected to be 10 bushels above last year's average. Forecast yield declines are 12 bushels for Illinois, 32 bushels for Indiana, and 26 bushels for Ohio.

For the 2002-03 marketing year, the USDA sees a 115 million bushel increase in domestic processing use of corn and a 100 million bushel increase in exports. In order to keep year ending stocks above a pipeline level, domestic feed and residual use is expected to be reduced by 225 million bushels. The needed cut in feed use of corn is compounded by expectations of a small sorghum crop. That crop is forecast at 380 million bushels, 135 million smaller than the 2001 crop.

The small U.S. feed grain crop is not expected to be offset by larger production in the rest of the world. At 621 million tons, the foreign crop is expected to be the same size as last year's crop, with smaller crops in Argentina and the former Soviet offset by larger crops in China. World coarse grain consumption is expected to exceed production by 36 million tons, or 4.2 percent. The USDA projects the 2002-03 marketing year average price of corn in a range of \$2.30 to \$2.70 per bushel, compared to \$1.93 for the year just ending.

The 2002 U.S. soybean crop is projected at 2.628 billion bushels, 262 million smaller than the 2001 crop and the smallest crop since 1996. The projection reflects harvested acreage of just over 72 million acres and a national average yield of 36.5 bushels per acre. The yield forecast is 3.1 bushels below last year's average and would be the lowest yield since 1995. Compared to last year's yields, significant declines are expected in the eastern corn

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belt (except for Michigan and Wisconsin), the southeast, and the far western corn belt. Higher yields are expected in Iowa, Michigan, Minnesota, and Wisconsin.

For the 2002-03 marketing year, consumption of U.S. soybeans will have to decline in order to maintain carryover stocks at a pipeline level of about 150 million bushels. The USDA projects a 25 million bushel reduction in the domestic crush and a 240 million bushel (22.6 percent) reduction in exports. The small U.S. soybean crop is expected to be partially offset by a larger South American harvest in 2003. That crop is projected at 3 billion bushels. The forecast suggests that the South American crop will exceed the U.S. crop for the first time. South American exports are expected to jump by 40 percent during the 2002-03 marketing year. World inventories of soybeans are expected to be reduced to the lowest level in 5 years. The USDA projects the season's average price of soybeans in a range of \$5.15 to \$6.05, compared to the \$4.35 average price for the year just ending.

The U.S. wheat crop is estimated at 1.686 billion bushels, 63 million smaller than the July forecast and 272 million less than the 2001 harvest. As a result, inventories of U.S. wheat are expected to be reduced to 467 million bushels by the end of the marketing year (June 1, 2003). That would be the smallest year ending inventory in 6 years. Like coarse grains, foreign wheat production is not expected to offset the smaller U.S. crop. Foreign production is forecast at 526 million tons, almost identical to the size of the 2001-02 harvest. Smaller crops in Argentina, Australia, Canada, Eastern Europe, and the former Soviet Union are expected to be offset by larger crops in the European Union and India. World wheat stocks are expected to decline for the fourth consecutive year. The USDA projects a season's average price in a range of \$3.20 to \$3.80, compared to last year's average of \$2.78.

The information in the USDA August reports, pushed 2002 marketing year futures prices to new contract highs. The market will now try to decide how subsequent crop forecasts will differ from the August forecast. In addition, the market will try to evaluate the strength of demand. Together, these factors will determine how much rationing has to be accomplished and how high prices will have to go to ensure the rationing job will take place. For now, we still anticipate an early season high in both corn and soybean prices.

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