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WEEKLY OUTLOOK

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WILL CROP FORECASTS INCREASE IN NOVEMBER?

The USDA's October *Crop Production* report contained small surprises for both corn and soybeans. At 8.97 billion bushels, the corn production forecast was 121 million bushels larger than the September forecast and generally larger than expected. At 2.654 billion bushels, the soybean production forecast was unchanged form the September forecast and generally smaller than expected.

The larger corn forecast reflects a 1.8 bushel increase in the projection of the U.S. average yield. At 127.2 bushels per acre, the forecast is 11 bushels below the 2001 average yield. The month-to-month increase resulted from a 10 bushel per acre increase in the projection of the Iowa average yield and a 7 bushel per acre increase in the Minnesota projection. Projections for Illinois and Indiana declined by 2 bushels, while the projection for Ohio dropped by 6 bushels. The U.S. average soybean yield is projected at 37 bushels per acre, 2.6 bushels below the 2001 average.

To date, the pattern of corn production forecasts has followed the same pattern as that of last year – lower in September and higher in October. There have been six years in recent history that have seen the same pattern. In five of those years, the production forecast was larger again in November. In one year, the forecast was unchanged in November. The pattern of soybean production forecasts, higher in September and unchanged in October, has been rare. It occurred in 1977 and in both 1973 and 1982 changes in the forecast in October were small. In those three years, the November forecast was higher once, unchanged once, and lower once.

While the history of changes in production forecasts has some interest, it does not have much predictive capability. Each year is unique. Based on harvest reports to date, there is some expectation that both the corn and soybean production forecasts will show modest increases in November.

The markets for corn and soybeans should now turn more attention to the rate of consumption. With year ending stocks of both crops expected to be near minimum levels, the rate of consumption will have important price implications. A consumption rate above that needed to reach the projected level of use for the year would imply that higher prices are needed to slow the rate of use. A slow rate of use would imply a continuation of somewhat lower prices.

For corn, there is general agreement that domestic uses for seed, food, and industrial purposes will increase again this year. There is less consensus about domestic feed and residual use and exports. The USDA projects a decline of 212 million bushels (3.6 percent) in feed and residual use during the current year. Indications of only a modest reduction in animal numbers and a projected 22 percent reduction in feed and residual use of other feed grains suggests that consumption of corn could be larger than projected. In either case, the reduction in use would not be expected until the last half of the current marketing year. The first indication of the rate of domestic feed and residual use will come with the December *Grain Stocks* report to be released on January 10.

For exports, the USDA projects a 100 million bushel (5 percent) increase during the current year. Through the first five weeks of the year, shipments are running 37 percent below those of last year. In part, the decline reflects interruptions in shipments at the Gulf and on the West Coast. Still, total export commitments (shipments plus outstanding sales) are running about 12 percent below the total of a year ago.

In the case of soybeans, the domestic crush is expected to decline only 25 million bushels (1.5 bushels) from the record crush of the past year. The major adjustment to the smaller supply is expected to come in exports. At 850 million bushels, the USDA expects exports this year to be 21 percent smaller than shipments of a year ago. The continued increase in South American production is expected to fill the gap. To date, export shipments of soybeans are down about 20 percent from the total of a year ago, while total commitments are down about 7 percent.

The average cash price of corn in central Illinois has declined to the lowest level since late July, even though the basis has remained very strong. It is typically a weak basis at harvest and a quick recovery in that basis that produces a post-harvest recovery in cash prices. The post-harvest recovery could be small this year. If current production and consumption forecasts are accurate, prices could languish in a relatively narrow range through the winter and then become more volatile in the spring. Cash soybean prices in central Illinois recovered slightly following the October *Crop Production* report, but are at the lowest level since late June and are below the CCC loan rate. In addition to the rate of use, the soybean market will increasingly reflect the development of the 2003 South American crop. A larger crop is already factored into the price structure, so that any threat to the crops there would be expected to push prices higher.

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