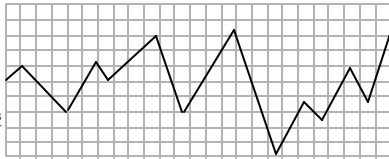




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WEEKLY OUTLOOK

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A NEGATIVE REACTION TO USDA CROP REPORTS

Prices of major crops dropped sharply following the USDA crop reports released on January 10. Prices moved generally higher in front of the reports, apparently expecting some supportive news in the reports. Instead, the reports generally showed a combination of larger supply estimates, smaller projections of consumption, and larger projections of year ending stocks.

For corn, the estimate of the 2002 U.S. crop came in at 9.008 billion bushels, essentially unchanged from the November projection. Planted acreage of corn in 2002, at 79.054 million, was 793,000 larger than projected in November. Acreage harvested for grain, however, was 1.228 million less than previously projected as abandoned acreage was larger than normal. The U.S. average yield was estimated at 130 bushels per acre, 2.4 bushels above the November projection.

At 7.633 billion bushels, stocks of corn on December 1, 2002 were 632 million less than on the same date last year and the smallest in five years. However, the implied level of feed and residual use of corn during the first quarter of the marketing year was 130 million bushels, or 5.9 percent, less than during the same quarter last year. As a result, the USDA lowered the projection of feed and residual use for the current marketing year by 75 million bushels, to a total of 5.6 billion. That projection is 4.7 percent less than feed and residual use of a year ago and implies that use will be down only 3.9 percent during the last three quarters of the year.

The projection of domestic processing use of corn was increased by 45 million bushels, to a total of 2.245 billion. The expected 9.3 percent increase over last year's use reflects increased ethanol production. U.S. corn exports during the current marketing year are now projected at only 1.85 billion bushels, 50 million less than projected last month and 39 million less than exported last year. Year ending stocks are projected at 924 million bushels, 81 million above last month's projection. The projection of world inventories of all coarse grains was also increased, reflecting smaller consumption projections for Japan, Mexico, South Korea, and China. The season's average price is projected in a range of \$2.15 to \$2.55, \$.05 below last month's projection.

For soybeans, the final estimate of the 2002 U.S. crop, at 2.73 billion bushels, was 40 million larger than the November projection. Planted acreage was 765,000 larger than previously estimated and harvested acreage was 361,000 larger. In addition, the January yield estimate of 37.8 bushels per acre was 0.3 bushels above the November projection. The larger U.S. crop estimate was matched with a 37 million bushel increase in the projected size of the Argentine crop. At 3.167 billion bushels, the 2003 South American crop is expected to be 12.5 percent larger than the 2002 crop, reflecting a 9.5 percent increase in acreage. Stocks of soybeans in the U.S. on December 1, 2002 were estimated at 2.115 billion bushels, 161 million less than on the same date last year.

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The projection of the U.S. soybean crush for the current year was reduced by 5 million bushels, but the projection of exports was increased by 30 million bushels. The net effect of the changes in production estimates and consumption projections was a 15 million bushel increase in the projected level of year ending stocks in the U.S. The mid point of the USDA's projection of marketing year average price remained at \$5.45.

Stocks of wheat in the U.S. on December 1, 2002 totaled 1.321 billion bushels, 302 million less than on the same date last year. Even so, stocks were larger than expected, forcing the USDA to lower the projection of feed and residual use of wheat for the current marketing year by 50 million bushels. The projection of marketing year exports was reduced by 25 million bushels and the projection of year ending stocks was increased by 70 million bushels. The projection of the marketing year average farm price is now in a range of \$3.50 to \$3.80, \$.15 less than projected last month.

The one positive piece of information in the USDA reports was the estimate of U.S. winter wheat seedings. At 44.246 million acres, the estimate is 2.511 million, or 6 percent, larger than seedings of a year ago, but less than anticipated by the market.

With the major USDA reports now reflected in the market, price direction will now be determined by the rate of consumption and prospects for 2003 crops. Reports from South America reflect generally favorable growing conditions for both corn and soybeans, although some concern about potential soybean diseases has been noted.. The projected size of the Brazilian corn crop was increased by nearly 40 million bushels and many private analysts believe the Argentine crop could be larger than currently projected.

In the U.S., dry conditions are still impacting the winter wheat crop in some areas, but the main focus will be on the intended acreage of spring planted crops. The first look at acreage will be available with the USDA's *Prospective Plantings* report released on March 31. The market currently expects an increase in corn acreage and a decrease in soybean acreage.

Corn and soybean prices will likely test the bottom of the trading range of the past two months. Until more is known about the 2003 crops, a significant rally in prices is not expected.

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