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# WEEKLY OUTLOOK

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## **LARGE CROPS AND GOOD DEMAND PROVIDE OPPORTUNITIES FOR PRODUCERS**

With a large U.S. wheat crop and prospects for record or near record large corn and soybean crops, market attention will soon focus on demand for the 2003 crops. The USDA's July update of world supply and demand estimates suggests that the large crops will be met with larger consumption, although at lower average prices than for the 2002-03 marketing years.

In the case of wheat, the USDA now estimates the 2003 crop at 2.311 billion bushels, 135 million larger than the June estimate and 695 million larger than the 2002 crop. Most of the year-over-year increase in production is coming in winter wheat, reflecting a large increase in harvested acreage and a 8.5 bushel increase in the U.S. average yield. The final crop estimate may well be larger than the current estimate.

Feed and residual use of wheat during the 2003-04 marketing year is expected to rebound to a normal level of 175 million bushels. The larger than expected June 1 inventory of wheat results in a very small estimate (102 million bushels) of feed and residual use during the 2002-03 marketing year. U.S. wheat exports declined to the lowest level in 30 years in 2002-03, but are expected to increase by 115 million bushels in 2003-04. The projected increase reflects a much smaller crop and the expectation of a sharp reduction in exports from Russia.

U.S. stocks of wheat are expected to increase from 492 million bushels on June 1, 2003 to 738 million by June 1, 2004. Stocks outside of the U.S. are expected to drop sharply for the second consecutive year. Most of that decline is occurring in China. For the year, the USDA projects the average farm price of wheat in a range of \$2.80 to \$3.40. An average at the mid-point of \$3.10 would result in a \$.24 per bushel counter cyclical payment for the 2003 crop.

For corn, the USDA has not yet made the first objective yield and production estimates for the 2003 crop. Based on the June 30 *Acreage* report and crop conditions in early July, the World Outlook Board projects the average yield at a record 142.7 bushels per acre, 4.1 bushels above the current record yield of 1994. Production is forecast at 10.27 billion bushels, 11.4 percent larger than the 2002 crop and 2.1 percent larger than the June projection. Production of other feed grains (sorghum, oats, and barley) is expected to be nearly 28 percent larger than in 2002.

At modest price levels, consumption of U.S. corn during the 2003-04 marketing year is expected to be 340 million bushels more than during the current year. Exports are expected to jump by 250 million bushels as Chinese shipments decline. Food, seed, and industrial use is expected to increase by 190 million bushels as ethanol production expands. Feed and residual use, however, is expected to decline by 100 million bushels due to fewer hogs, increased feeding of sorghum, and increased use of feed by-products from ethanol production.

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September 1, 2004 corn stocks are projected at 1.339 billion bushels, 330 million more than projected for September 1, 2003. The marketing year average price is projected in a range of \$1.90 to \$2.30, compared to \$2.30 projected for the current year. An average at the mid-point of \$2.10, would result in a counter-cyclical payment of \$.22 for the 2003 crop. If the large crop does materialize, cash prices for the new crop may remain below the loan rate into harvest, resulting in some loan deficiency payments.

For soybeans, the World Outlook Board projects an average 2003 yield of 39.7 bushels, the same as projected last month, and a crop of 2.885 billion bushels, 30 million larger than the June projection. The increase reflects the larger acreage reported on June 30. The USDA projects a 40 million bushel drop in U.S. soybean exports during the 2003-04 marketing year as South America continues to increase market share. The 2004 South American crop (not yet planted) is projected at 3.57 billion bushels, nearly 6 percent larger than the record 2003 crop. Area is expected to increase by 9 percent in Brazil and 5 percent in Argentina.

The domestic soybean crush is projected to increase by a modest 15 million bushels during the year ahead, reflecting weak export demand for oil and meal. With feed, seed, and residual use at a normal level, close to 170 million bushels, total consumption of U.S. soybeans during the year ahead is projected at 2.784 billion bushels, resulting in a projected 105 million bushel increase in inventory. The 2003-04 marketing year average price is projected in a range of \$4.35 to \$5.35, compared to \$5.50 for the current year. An average at the mid-point of \$4.85, would result in a \$.36 counter cyclical payment for the 2003 crop.

The negative impact on producers from lower average prices projected for the 2003-04 marketing year for wheat, corn, and soybeans will likely be more than offset by higher average yields and counter cyclical payments. In addition, stocks in the U.S. are not expected to build to burdensome levels, providing opportunity for higher prices in the last half of the marketing year.

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