



# WEEKLY OUTLOOK



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## **USDA CROP REPORTS PROVIDE MANY SURPRISES**

The USDA's January 12 production, stocks, wheat seedings, and supply and demand reports provided a large number of surprises that should push corn, soybeans, and wheat prices at higher levels.

In the case of corn, the 2003 U.S. production estimate is at 10.114 billion bushels, 164 million below the November forecast. The market was expecting an increase. The lower production figure reflected a 330,000 acre reduction in the estimate of planted acreage, a 626,000 acreage reduction in the estimate of acreage harvested for grain, and a one bushel reduction in the estimate of U.S. average yield.

For the 2002-03 marketing year, the USDA shifted nearly 50 million bushels from the feed and residual category to the food, seed, and industrial category of use. For the current marketing year, feed use is now projected at 5.775 billion bushels, 75 million larger than last month's projection and 182 million larger than last year's use. First quarter disappearance this year was much larger than expected. Seed and processing use of corn is projected at 2.48 billion bushels, 30 million above the December projection and 134 million above last year's use. Finally, exports are projected at 1.975 billion bushels, 50 million above last month's projection and 383 million above last year's exports. Year ending stocks are projected at a meager 981 million bushels, 106 million below the level of stocks at the start of the year. The U.S. average farm price is projected in a range of \$2.15 to \$2.45, up from \$2.00 to \$2.40 projected last month.

Corn production forecasts were also lowered for Argentina, South Africa, and Eastern Europe. However, those declines were more than offset by a larger forecast for Brazil. The projection of Russia's feed grain crop was increased and the projection of Chinese corn exports were lowered by about 20 million bushels.

For soybeans, 2003 U.S. production is estimated at 2.418 billion bushels, 34 million below the November forecast and 33 million below the average trade guess. The estimate of harvested acreage was reduced by 217,000 acres and the U.S. average yield estimate was reduced by 0.4 bushel. For the 2002-03 marketing year, the estimate of seed and residual use was reduced by 9 million bushels and the estimate of September 1, 2003 stocks was increased by the same amount.

For the current year, the projection of U.S. exports was increased by 10 million bushels and the projection of the domestic crush was cut another 30 million bushels. These lower projections reflect the small supply of soybeans and the assessment that year ending stocks cannot be reduced below about 125 million bushels. The USDA now projects U.S. soybean oil imports at 235 million pounds compared to 85 million projected last month and 46 million pounds imported last year. Soybean meal imports are projected at 475,000 tons, up from last month's projection of 340,000 and last year's imports of 166,000 tons.

For the rest of the world, the USDA made no major changes in production forecasts. However, the forecast of Chinese soybean imports was increased by 37 million bushels and the projection of Brazilian exports was increased by 15 million bushels. For the year, the USDA projects the U.S. average farm price in a range of \$6.90 to \$7.60, essentially unchanged from last month's projection of \$6.85 to \$7.65.

For wheat, the USDA increased the projection of U.S. exports for the current year by 25 million bushels and lowered the projection of year ending stocks of a similar amount. At 559 million bushels, June 1, 2004 stocks are expected to be only 68 million larger than stocks of a year earlier. The USDA increased the projected size of the Indian wheat crop by about 85 million bushels. For China, this year's import projection was doubled to 73 million bushels, but the projection of exports was also increased to 62 million bushels.

The biggest surprise for wheat was the estimate that U.S. winter wheat seedings are nearly 1.5 million acres, or 3 percent, below seedings of a year ago. The market had expected an increase in acreage. The largest decline, on a percentage basis (7 percent) was for white wheat. Hard red acreage is down about 4 percent, while soft red wheat acreage is up slightly. For the current marketing year, the USDA projects the U.S. average farm price in a range of \$3.25 to \$3.45, \$.05 higher than the December projection.

The new USDA forecasts and estimates should provide significant support for corn, soybean, and wheat prices. Wheat prices may receive additional support from ongoing concerns about the condition of the hard red winter wheat crop. Prices for the 2003 corn and soybean crops and prices for the 2004 crop of all three commodities moved to new marketing year highs following the reports. Expect prices to remain well supported as long as the rate of use remains high.

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