



WEEKLY OUTLOOK



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PRODUCTION UNCERTAINTY POINTS TO HIGH, BUT VOLATILE CROP PRICES

Corn, wheat, and soybean prices have been propelled to high levels by a number of fundamental factors. These include the small world wheat crop of 2003-04, the small 2004 U.S. soybean crop, large soybean imports by China, a poor end to the 2004 South American growing season, and expanding domestic consumption of corn. The net result is declining world inventories of grain. For the next several months, prospects for the size of the U.S. corn and soybean crops and world wheat production will be important price factors.

Last week's USDA *Prospective Plantings* report provided the first ingredients for anticipating U.S. crop production in 2004. The report indicated that producers intend to reduce acreage of wheat and feed grains and increase acreage of soybeans, rice, and cotton. Reductions are also intended for canola and sunflowers. The major surprises in these intentions include a large increase in soybean acreage, a very small increase in corn acreage, and a decline in total planted acres of reported crops. Intentions for all non-hay crops in this report were 832,000 acres below last year's plantings.

At 79.004 million acres, corn planting intentions are only 268,000 acres more than planted in 2003, well below the average expectation of an increase of 1.5 million acres. Most of the planned increase is in the western corn belt, although a modest decline is intended in Nebraska and a modest increase is expected in Ohio. This planned increase in corn is more than offset by the 820,000 acre reduction in sorghum planting intentions. In addition, reductions in combined intentions for barley and oats (for harvest) totaled 773,000 acres.

Soybean planting intentions were reported at a record 75.411 million acres, 2.007 million more than planted in 2003 and about 1 million more than the average pre-report guess. Half of the planned increase is in western growing areas, with the largest increase of 550,000 acres planned in North Dakota. Acreage in the eastern corn belt states is expected to be near that of last year, with the remaining half of the increase coming in southern and eastern areas of the U.S.

The *Prospective Plantings* report also revealed producer intentions to reduce durum wheat seedings by 158,000 acres and to reduce seedings of other spring wheat by 507,000 acres.

Combined with the 1.573 million acre reduction in winter wheat seedings, U.S. wheat area looks to be down by 2.238 million acres.

It is generally believed that the planned increase in corn acreage is not sufficient to accommodate the expected increases in consumption of U.S. corn in the 2004-05 marketing year. That increase is expected to be led by domestic use of corn for ethanol and by exports, as China reduces the level of exports. As a result, corn prices have moved sharply higher in a late effort to entice producers to plant more corn and to slow the rate of corn consumption. The market will have to wait for the USDA's June 30 *Acreage* report to see if producers responded to this effort. In recent history, June acreage figures were more than marginally above March intentions only in 2000. Since the change in farm programs in 1996, the final acreage estimate was also above March intentions only in 2000.

Corn yield prospects now become critically important for the corn market. It is not often that a new record corn yield is required just to keep pace with expected consumption. Prices could move sharply higher if a growing season problem develops. Even with a trend yield in 2004, the average 2004-05 marketing year price may well exceed that of 2003-04.

With a significant rebound in the U.S. average yield in 2004, the planned increase in soybean acreage is more than sufficient for a rebuilding of U.S. supplies. However, the market is not in a hurry to assume a high yield in 2004, given the experience of 2003. As a result, a bizarre sort of bidding war with corn appears to be taking place to insure that producers maintain plans to increase soybean acreage.

In addition to U.S. production prospects, the soybean market has several other factors to consider over the next few months, including the size of the South American crop and the pace of domestic soybean meal consumption. The potential for domestic soybean supplies to be effectively depleted before the new harvest still looms. Will the combination of reduced exports, South American imports, inventory depletion, and early harvest be sufficient to make supplies last, or will higher prices be required?

For wheat, the potential size of wheat crops outside the U.S. will be as important as prospects for the U.S. crop. In particular it will be important whether or not production rebounds from the very low levels of the past year in Europe, Russia, and the Ukraine, as it has in Australia.

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