



# WEEKLY OUTLOOK



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## **FOCUS ON ACREAGE**

The USDA will release the annual *Acreage* report on June 30. This year's report has more than the normal amount of importance for the crop markets.

Producer planting intentions, as revealed in the USDA's March 31 *Prospective Plantings* report, surprised the markets. Producers reported intentions to increase soybean acreage by 6.6 percent from the level of plantings in 2005. Intentions for corn were down 4.6 percent and intentions for all spring wheat acreage were down 6.4 percent. The large shift in intentions away from corn to soybeans was likely driven by the large increases in costs of producing corn and the relatively high price of soybeans in the face of historically large surpluses. The decline in intentions for spring wheat came as a surprise since wheat prices had moved sharply higher from December 2005 through February 2006.

The market apparently gave corn and soybean producers the wrong signal in early 2006. While soybean stocks were accumulating to record levels, corn demand was increasing sharply, suggesting that current surpluses could disappear quickly without an increase in production. More corn and fewer soybean acres appeared justified, but market incentives favored soybeans. Demand prospects for corn have continued to improve. The current projection of consumption of U.S. corn during the 2005-06 marketing year is 225 million bushels larger than the February projection. At 2.176 billion bushels, year ending stocks are still expected to be ample, but the surplus could dwindle next year. Based on March planting intentions and a trend yield, the USDA projects stocks of U.S. corn at the end of the 2006-07 marketing year at 1.091 billion bushels, only 9.4 percent of projected consumption. In contrast, the prospective surplus of soybeans has increased. Year ending stocks of soybeans are now projected at 570 million bushels, up from 555 projected in February. Stocks at the end of the 2006-07 marketing year are projected at 655 million bushels.

The general expectation is that producers altered their planting decisions following the release of the *Prospective Plantings* report. The corn and soybean markets did in fact briefly encourage producers to plant more corn and fewer soybean acres. For example, the November 2006 soybean futures price was 2.35 times higher than the December 2006 corn futures price on March 1, about the time the planting intentions survey was

conducted. That ratio was 2.37 to 1 the day before the report was released. A week after the report was released, that ratio had declined to 2.14 to 1. However, two weeks after the report, the ratio had recovered to 2.22 to 1 and four weeks after the report the ratio had increased to 2.3 to 1. At that time, the USDA reported that producers had planted about half the corn acreage and only 10 percent of the soybean acreage.

Was the brief period of higher corn prices relative to soybean prices enough to encourage a change in planting intentions and/or did producers respond to the improving corn demand situation independently of price signals? Did spring wheat producers respond to the sharp rally in prices that occurred in the planting season? Private forecasts suggest that producers responded in a big way, with expectations that the June *Acreage* report could show as much as 2.5 million more acres of corn and 2 million fewer acres of soybeans than reported in March. The market seems to agree. At the close of trade on June 16, the November soybean futures price was 2.4 times the December 2006 corn futures price. Such a shift would be large by historic standards. Since 1996, the largest increase in corn acreage from March to June was 1.964 million in 2004. The largest decline in soybean acreage from March to June during that time frame was 1.241 million in 2001. Private sources also suggest that spring wheat acreage will exceed intentions.

Forming expectations about planted acreage of spring crops is further complicated by the hard red winter wheat situation. USDA estimates of harvested acreage indicate large acreage abandonment due to drought conditions. Last year, the difference between planted and harvested acreage of all winter wheat was 6.639 million. The difference this year is estimated at 10.227 million. Producers may report intentions to plant some of that abandoned acreage to spring planted crops if moisture levels are sufficient.

Beyond the acreage report, the crop markets will be mostly influenced by weather and yield prospects. The current weather pattern and short term forecasts are not ideal, but generally support prospects for at least trend yields in 2006.

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