



# WEEKLY OUTLOOK



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## **MARKETS REACT TO USDA REPORTS AND CROP CONCERNS**

The USDA's June *Acreage* and *Grain Stocks* reports provided a few surprises for the crop markets. In addition, crop concerns are on the increase as areas of heat and dryness persist.

The June 1, 2006 inventory of U.S. corn was reported at 4.363 billion bushels, about 40 million larger than the inventory of a year ago, but about as expected. The stocks figure implies that feed and residual use of corn during the first three quarters of the 2005-06 marketing year totaled about 5.155 billion bushels, or 85.9 percent of the USDA's projected total for the year. Typically, use during the first three quarters accounts for 84.2 percent of the total, suggesting that use for the year will be 120 to 125 million bushels larger than the current USDA projection. Combined with a strong pace of exports, large domestic use suggests that year end stocks could be 150 million bushels below the current projection of 2.176 billion bushels.

Planted acreage of corn in 2006 was reported at 79.366 million acres, 1.347 million more than March intentions, but generally less than expected by the market. Planted acreage is 2.393 million less than planted in 2005 and acreage expected to be harvested for grain is down 3.016 million. The large year-over-year decline in corn acreage occurred in Illinois, Indiana, Kansas, Missouri, Nebraska, Ohio, and Texas. Acreage increased sharply in North Dakota. Harvested acreage of other feed grains (sorghum, oats and barley), is expected to be down 614,000 acres (6 percent) from that of a year ago.

With a trend yield of 149 bushels per acre, the 2006 corn crop would total 10.74 billion bushels, 191 million larger than projected from March planting intentions. Much of that increase, however, may be offset by a smaller level of stocks at the beginning of the 2006-07 marketing year. In addition, the projection of feed and residual use of corn during the year ahead may have to be increased. Stocks at the end of the 2006-07 marketing year may be projected near 1.03 billion bushels, only 8.8 percent of annual consumption, suggesting a 2006-07 marketing year average farm price near \$2.50. The market is trading near \$2.60.

The June 1 inventory of soybeans was estimated at 990.1 million bushels. While that is a

record inventory for the date and about 290 million larger than stocks of a year ago, the estimate is about 25 million less than expected. The smaller inventory means that “residual” use of soybeans during the past quarter was at the upper end of recent experience. Either the 2005 crop was slightly overestimated or the missing inventory will be found in September. Both scenarios have been experienced in the past.

Planted acreage of soybeans in 2006 is estimated at 74.93 million, 2.788 million more than planted last year, but 1.965 million fewer than indicated in March. Significant year-over-year increases in acreage occurred in most major producing states except Iowa, Ohio, and South Dakota. Harvested acreage is projected at 73.935 million, 2.575 million more than harvested last year. Harvested acreage of other oilseeds, excluding cotton, is projected at 5 million acres, 1.5 million less than harvested last year. Planted acreage of cotton is up 1.13 million acres.

With a trend yield of 40.7 bushels, the 2006 soybean crop would total 3.009 billion bushels, about 70 million less than projected from March planting intentions. Even if stocks at the beginning of the year are smaller than the 570 million currently projected, the 2006 average yield would have to be well below trend to threaten the current situation of surplus. A trend yield points to a 2006-07 marketing year average price very near the \$5.70 average expected for the current year. The market is trading near \$6.20

June 1 marked the beginning of the 2006-07 marketing year for wheat. Stocks on that date were estimated at 568 million bushels, 21 million more than projected in the USDA’s monthly supply and demand report of June 9. The larger estimate suggests a smaller feed and residual use during the 2005-06 marketing year. Planted acreage of wheat was estimated at 57.873 million acres, 644,000 more than planted in the previous year and 745,000 more than indicated in March. Durum acreage, at 1.885 million, is 60,000 above March intentions, but 875,000 less than planted in 2005. Acreage of other spring wheat was estimated at 14.595 million, 559,000 more than planted in 2005 and 606,000 above March intentions. Importantly, harvested acreage of all wheat in 2006 is projected at 47.084 million, 3.035 million less than harvested last year.

The larger inventory of wheat at the beginning of the year and increased spring wheat acreage means that stocks of wheat at the end of the current marketing year could be about 60 million bushels larger than projected by USDA in June 1. Conversely, the U.S. average yield could be as much as 1.2 bushels less than projected to maintain year ending stocks at the 416 million bushels projected earlier.

Corn and soybean prices moved higher following the reports. The focus in the crop markets will now be almost entirely on weather and crop conditions. Some deterioration in conditions is expected, likely beginning this week.

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