



WEEKLY OUTLOOK



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MARKETS SURPRISED BY ACREAGE REPORT

The USDA's June 29 report of planted acreage provided some significant surprises. The report showed more acres of feed grains and fewer acres of soybeans, cotton, and spring wheat than had been anticipated.

Planted acreage of corn is estimated at 92.888 million acres, 2.434 million more than indicated in the March *Prospective Plantings* report and 14.561 million more than planted in 2006. Acreage exceeded intentions by 300,000 to 400,000 acres in Illinois, Indiana, Iowa, Minnesota, and Ohio. Planted acreage of sorghum, at 7.765 million is 656,000 above March intentions and 1.243 million more than planted in 2006.

The *Acreage* report projected corn area harvested for grain in 2007 at 85.418 million acres, 14.77 million more than harvested in 2006. If the U.S. average yield is near the USDA's calculated trend value of 150 bushels, the 2007 harvested could total 12.8 billion bushels. A yield of only 152.2 bushels would be required to produce a crop of 13 billion bushels. On June 11, the USDA projected that corn consumption during the 2007-08 marketing year would total 12.465 billion bushels. If the remainder of the 2007 growing season is favorable, the crop will be large enough to result in some build-up in inventories during the year ahead.

The June 1, 2007 inventory of corn was estimated at 3.534 billion bushels, about 80 million larger than expected. The larger estimate suggests that feed and residual use of corn slowed substantially during the third quarter of the marketing year. Year ending stocks may be above the 987 million bushels previously projected by the USDA. Those stocks may be near 1.05 billion and could grow to near 1.4 billion bushels by September 1, 2008 if the USDA's projection of use is correct. Lower than expected corn prices, however, may lead to more consumption than previously forecast. It is significant that the corn market has moved from worrying about declining crop conditions to anticipating a surplus in a period of just two weeks. December 2007 corn futures declined from a contract high of \$4.35 on June 18 to a settlement of \$3.51 on June 29, trading to the lowest level since mid-November 2006.

Planted acreage of soybeans is estimated at 64.081 million, 3.059 million less than indicated in March, 11.441 million less than the record acreage of 2006, and the fewest since 1995. Compared to March intentions, acreage declines were widespread, led by declines of 400,000 acres in Indiana, Iowa, and Minnesota. The USDA projects harvested acreage at 63.285 million. If the 2007 U.S. average yield is near the USDA's calculated trend value of 41.5 bushels, the 2007 crop would total 2.626 billion bushels, 562 million less than the record crop of 2006.

Soybean inventories as of June 1, 2007 were estimated at 1.091 billion bushels suggesting that use during the current year is proceeding near the rate projected by the USDA. In its report of June 11, the USDA projected use of soybeans during the 2007-08 marketing year at 3.039 billion bushels. With a crop of 2.626 billion bushels, use at that level would result in the level of stocks declining from a projected 610 million bushels on September 1, 2007 to 200 million bushels on September 1, 2008.

Area planted to cotton is estimated at 11.058 million acres, 1.089 million below March intentions and 4.216 less than planted in 2006. Acreage of spring wheat including durum, is estimated at 15.369 million, 429,000 less than indicated in March and 1.4 million less than seeded in 2006. Winter wheat acreage totaled 45.136 million, 4.561 million more than seeded for harvest in 2006. However, harvested acreage is expected to be 6.471 million more than harvested last year when drought conditions resulted in significant abandonment of hard red winter acreage.

While U.S. soybean inventories will be reduced dramatically during the year ahead, rationing of use will not be required if the average yield is near trend value or higher. The most important segment of the U.S. growing season is just beginning so that periods of crop concerns will likely occur, with the focus now turning to a drier western corn belt. The market will likely continue to offer producers very favorable pricing opportunities for old and new crop soybeans during the next several weeks. However, a continuation of futures prices above \$9.00 will motivate a large increase in soybean acreage in South America, opening the door for a very large crop in 2008.

The large corn acreage and generally good crop conditions will keep corn prices on the defensive, although weather spikes are likely. Longer term, corn prices will likely recover, particularly in relation to soybean prices, to ensure large acreage in the U.S. again in 2008.

Issued by Darrel Good
Extension Economist
University of Illinois