



WEEKLY OUTLOOK



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ACREAGE AND YIELD TO THE RESCUE?

On February 22, members of the USDA's Wheat, Feed Grains, Rice, and Oilseeds Interagency Commodity Estimates Committees released a grains and oilseeds outlook for 2008. Among other things, the outlook contains forecasts for large year-over-year increases in U.S. crop land acreage in 2008 and a sizeable year-over-year increase in the U.S. average corn yield.

Even with the expectation of a large supply response in 2008, forecasts show prospects of declining U.S. corn inventories and a continuation of very small U.S. soybean inventories by the end of the 2008-09 marketing year. Domestic wheat inventories are expected to nearly double from the end of the current marketing year (June 1, 2008) to the end of the 2008-09 marketing year. The average price received by producers for each of these crops in the 2008-09 marketing year is expected to be significantly higher than the average projected for the current year, but well below the price implied by current 2008-09 futures prices.

Combined planted acreage of corn, soybeans, and wheat in 2008 is projected at 225 million acres, 7.4 million more than planted in 2007. Acreage of the eight major crops (including sorghum, oats, barley, rice, and upland cotton) is expected to increase by 6.8 million acres. Increased acreage of corn, soybeans, and wheat is expected to come from a combination of reduced cotton acreage (1.1 million), increased double cropping of soybeans (perhaps 2 million acres by our calculations), and land not renewed for the Conservation Reserve Program (maximum of 2.5 million). That total of 5.6 million acres still leaves 1.8 million acres of the projected increase not accounted for. Perhaps that increase will come from forage and grassland as cow numbers are reduced and from other grains and oilseeds.

The projections for the 2008-09 marketing year supply and demand balance for corn are especially interesting. Planted acreage is expected to decline by 3.6 million acres while acreage harvested for grain is expected to decline by 3.8 million. The U.S. average yield is projected at a four year high of 154.9 bushels, 3.8 bushels above the 2007 average. On the consumption side, the USDA sees corn use for ethanol production increasing by 900 million bushels (28 percent), feed use declining by 550 million (9 percent), and exports declining by 300 million bushels (12 percent). Year ending stocks are projected at a

meager 1.243 billion bushels, or 9.5 percent of projected use.

If the 2008 U.S. corn yield is closer to the long term trend of 152.5 bushels, with all other forecasts unchanged, year ending stocks would decline to 1.045 billion bushels, or 8 percent of use. If combined feed use and exports decline by less than 850 million bushels, year ending stocks would be even tighter. The conclusion is that planted acreage of corn in 2008 needs to be larger than 90 million acres in order to reduce the risk of a shortage in supply and much higher prices.

For soybeans, the USDA projects U.S. planted acreage at 71 million, 7.4 million more than planted in 2007. Harvested acreage, at 70.1 million would be 7.3 million more than harvested in 2007. A U.S. average yield of 42.1 bushels and a crop of 2.95 billion bushels are projected for 2008. Domestic use of soybeans is expected to increase by 33 million bushels and exports are expected to decline by 95 million bushels, leaving year ending stocks of 169 million bushels, or 5.7 percent of projected use. That compares to projections for the current year of 160 million and 5.3 percent, respectively.

Is such a large increase in U.S. soybean acreage really needed in 2008? The alternative is for South America to increase acreage more aggressively and to meet a larger percentage of export market demand for soybeans in 2008-09 and beyond. That scenario would allow the U.S. to plant more corn than currently forecast. The current (February 22, 2008) level of prices for the 2008 crops appear to favor corn production over soybean production in the midwest. Consider Illinois as an example. Using the long term (1960 through 2007) trend corn and soybean yields for the nine crop reporting districts to forecast expected yield for 2008 along with current harvest bids for each crop, the expected gross revenue for corn exceeds that of soybeans from about \$135 per acre (west) to \$222 per acre (west southwest). Crop budgets suggest that expected yields and current prices favor corn production over soybean production in most of the state.

The corn and soybean markets need to offer the right incentives for corn and soybean acreage in 2008. That means prices should generally favor corn over soybeans for the U.S. spring planting and then soybean prices should be high enough from about August forward to encourage more soybean acres in South America. The market appears to be giving the correct signals for now, but must avoid the mistake of 2006 when prices encouraged too large a shift from corn to soybeans.

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