



WEEKLY OUTLOOK



A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

SEPTEMBER 15, 2008

CORN AND SOYBEAN PRODUCTION FORECASTS ARE CUT

As generally expected, the USDA's September forecasts of the prospective size of the 2008 U.S. corn and soybean crops were smaller than the August forecasts. The declines, however were larger than anticipated. Outside of the U.S. both wheat and soybean production prospects increased, while prospects for corn deteriorated slightly.

The 2008 U.S. corn crop is now forecast at 12.072 billion bushels, 216 million smaller than the August forecast. The national average yield is forecast at 152.7 bushels, compared to 155 bushels forecast last month. The decline reflected a dry August in many areas and was well reflected in the weekly crop condition ratings. The largest declines in average yield prospects occurred in Michigan and Ohio (8 bushels). Average yield forecasts were lowered 3 bushels for Iowa and 2 bushels for Indiana, but was unchanged for Illinois.

On the consumption side, the USDA's World Agricultural Outlook Board lowered the projection of feed and residual use of corn during the current year by 100 million bushels, to 5.2 billion bushels. That would be the smallest since 1995-96. The year-over-year decline of 850 million bushels (14 percent) appears large. The small forecast reflects a combination of reduced livestock output, more feeding of distiller grain, reduced feeding rates per animal due to higher prices, and smaller residual use due to a smaller crop. Residual use during the 2007-08 marketing year appears to have been quite large, perhaps indicating the 2007 crop was overestimated.

U.S. corn exports are still expected to decline by 17.5 percent (to 2 billion bushels) from the recent level of 2007-08 in spite of prospects for a smaller crop and smaller exports for Argentina. World trade of corn is expected to decline by 425 million bushels (11 percent) due almost entirely to smaller imports by the European Union. Feed use of wheat in the European Union is expected to increase by 485 million bushels from the extremely low level of last year as production there is up by 1.02 billion bushels.

Even with the sharp drop in feeding and exports of U.S. corn, stocks at the end of the year are expected to be 558 million bushels smaller than stocks at the beginning of the year. Ethanol use of corn is expected to increase by 1.1 billion bushels (37 percent). Current

ethanol crush margins are under pressure as ethanol prices remain low relative to unleaded gasoline prices. The 2008-09 marketing year average farm price of corn is projected in a range of \$5.00 to \$6.00 compared to \$4.20 for the year just ended. The average price reflected by futures prices over the next year is very close to the midpoint of that range.

The 2008 U.S. soybean crop is now estimated at 2.939 billion bushels, 39 million smaller than the August forecast as the U.S. average yield forecast dropped from 40.5 to 40 bushels per acre. In the 11 objective yield states, the USDA found a relatively low number of pods per 18 square feet compared to the September count in recent years in Illinois and Minnesota. For the 29 states for which yield forecasts are made, the forecast dropped in 14 states, increased in 7 states, and were unchanged in 8 states. The largest decline, 4 bushels, came in Wisconsin. The yield forecast was unchanged for Illinois and Iowa and was reduced 3 bushels for Indiana and Ohio.

On the consumption side, the USDA increased the estimate of exports during the current year by 10 million bushels, but lowered the estimate of the domestic crush by 15 million. For the current year, the domestic crush is expected to decline by 30 million bushels and exports are expected to decline by 155 million bushels. Exports of soybean oil and both domestic and exports of soybean meal are expected to decline. The decline in use reflects the extremely tight supplies of U.S. soybeans and will be accommodated by larger exports from both Brazil and Argentina and by a small reduction in Chinese imports. The 2009 Argentine crop is now forecast at 1.856 billion bushels, nearly 9 percent larger than the 2008 harvest. Production is expected to grow by about 2.5 percent in Brazil.

Stocks of U.S. soybeans at the end of the current marketing year are projected at a very tight 135 million bushels. The marketing year average price is forecast in a range of \$11.60 to \$13.10, down from \$10.15 for the 2007-08 marketing year. Like corn, futures market prices currently reflect a price very near the midpoint of that range.

Even with the new information provided by the USDA, price prospects are far from settled. Changes in U.S. and world production prospects, energy prices, and world economic conditions will continue to influence prices.

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