



WEEKLY OUTLOOK



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USDA CROP FORECASTS FOR 2007-08

The USDA's monthly report of U.S. and world supply and consumption prospects released on May 11 contained the first forecasts for the 2007-08 marketing year for most crops. The market interpreted the forecasts as supportive for corn, soybeans, and wheat price prospects.

For the 2007 corn crop, the USDA projected the U.S. average yield potential at 150.3 bushels based on "an econometric model fit over 1990-2006 using a trend variable, July rainfall and temperature, and planting progress as of mid May". The methodology differs from that of last year that based the yield calculation on a "linear trend fit over 1960-2005 (1988 omitted), adjusted for 2006 planting progress". The projection this year is about two bushels less than expected by the market, but is about 1.5 bushels above a projection based on the simple linear trend from 1960 through 2006. It is likely that the trend yield for 2007 is overstated using the USDA methodology based on a relative short history. Growing conditions have been unusually good, on average, for the past 11 years so that a trend calculation for 2007 based on a longer history is probably more accurate. Regardless of the trend calculation, however, July and August weather will dominate yield prospects for 2007. Based on March planting intentions, a forecast of acreage harvested for grain, and the trend yield calculation, the 2007 crop is projected at 12.46 billion bushels, 1.93 billion larger than the 2006 crop. That is about 170 million bushels above our forecast of most likely production.

On the consumption side, the projection of exports during the current marketing year was reduced by 50 million bushels, while the forecast of processing use of corn was reduced by 10 million bushels. As a result, the projection of year ending stocks was increased by 60 million bushels, to a total of 937 million. For the 2007-08 marketing year, the USDA projects a 150 million bushel (2.6 percent) decline in feed and residual use of corn, a 225 million bushel (10.2 percent) decline in exports, and a 1.265 billion bushel (35.9 percent) increase in processing use of corn. Most of the increase in processing use is from a 1.25 billion bushels (58.1 percent) increase in the projection of corn used for ethanol production. Consumption of corn for all purposes during the year ahead is projected at 12.465 billion bushels, 890 million (7.7 percent) more than expected to be used this year. Year ending stocks are projected at 947 million bushels, or 7.6 percent of expected consumption.

For the 2007 soybean crop, the USDA projected the U.S. average yield potential at 41.5 bushels “based on 1989-2006 regional trend analysis”. Last year, the regional trend analysis was for the period 1978-2005. Based on March planting intentions, the 5-year average planted to harvested acreage ratios by state, and the trend yield calculation, the 2007 crop is projected at 2.745 billion bushels, 443 million smaller than the record large 2006 crop. Exports during the year ahead are forecast at 1.08 billion, the same as expected for the current year. The domestic crush is forecast at 1.79 billion bushels, 20 million more than the forecast for the current year which was increased by 5 million bushels in the May export. A modest (1.8 percent) increase in domestic meal consumption and a large (5.6 percent) increase in domestic soybean oil consumption is expected. Meal and oil exports during the year ahead are expected to be near the level of this year’s exports. Year-ending stocks of soybeans for the 2007-08 marketing year are projected at 320 million bushels, 290 million less than the projection for the current year.

The USDA’s first forecast of the size of the 2007 U.S. winter wheat crop came in at 1.616 billion bushels, 317.5 million larger than the 2006 crop. The hard red winter crop is forecast at 1.028 billion bushels, 346 million larger than the 2006 harvest, while soft red winter wheat production is forecast at 347 million bushels, 43.5 million smaller than the 2006 harvest. An official forecast of the size of the spring wheat crops was not made, but the USDA’s World Agricultural Outlook Board calculated production potential at 558 million bushels, compared to 514 million bushels in 2006. Production of all classes of wheat is projected at 2.174 billion bushels, 362 million larger than the 2006 harvest.

The forecast of marketing year wheat exports was increased by 10 million bushels for the current year, to a total of 910 million. Exports are projected at 975 million bushels for the 2007-08 marketing year. In addition, feed and residual use of wheat is projected to increase from 170 million bushels this year to 230 million in the upcoming year (starting June 1, 2007) due to high corn prices. Even with a large increase in production, stocks of U.S. wheat at the end of the 2007-08 marketing year are expected to remain relatively small at 469 million bushels, only 57 million larger than stocks at the end of the current year.

The USDA forecasts the 2007-08 marketing year average farm prices in a range of \$4.35 to \$4.95 for wheat, \$3.10 to \$3.70 for corn, and \$ 6.50 to \$7.50 for soybeans. At the close of trade on May 11, futures markets reflected average farm prices for the upcoming year at or above the high end of these ranges. Futures reflected 2007-08 average farm prices near \$3.75 for corn and \$7.90 for soybeans.

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