FEW CHANGES IN SUPPLY AND CONSUMPTION PROJECTIONS

For the last several weeks, the corn, soybean, and wheat markets have been following some important developments and anticipating how the USDA might alter its projections of U.S. and world supply and consumption in the monthly report released on February 8. For corn, the three fundamental factors being followed include: the relatively slow pace of U.S. exports, the rapid increase in ethanol production, and the development of the southern hemisphere crops. For soybeans, the factors include: the rapid pace of both domestic crush and exports of U.S. soybeans, the development of crops in South America, and the uncertainty created by China’s policy on imports of GMO soybeans. For wheat the factors include: condition of the U.S. winter wheat crop, a relatively slow pace of U.S. exports, and development of crops in the southern hemisphere.

As it turns out, the USDA made relatively few changes in projections in the February 8 report. There were no changes in the projections of use of U.S. corn during the 2001-02 marketing year. Year ending stocks are still projected at 1.546 billion bushels and the marketing year average price is expected to be in the range of $1.85 to $2.15 per bushel. The market will continue to follow consumption trends to determine if subsequent revisions will be necessary. For the rest of the world, the USDA reduced the anticipated size of the South African crop by about 20 million bushels (5.6 percent). The change had essentially no impact on the projections of world trade and ending stocks.

For soybeans, the projection of the domestic crush for the current marketing year was increased by 5 million bushels and the projection of exports was increased by 10 million bushels. Total consumption is expected to be nearly 70 million bushels larger than that of the 2000-01 marketing year. However, year ending stocks of soybeans are expected to grow from 248 million bushels on September 1, 2001 to 270 million on September 1, 2002. The impact of the change in Chinese import policy for GMO products to be implemented next month will be watched closely for U.S. export implications.

For soybean oil, the larger crush projection means larger supplies. The projection of domestic use was increased by 50 million pounds, but the projection of exports was reduced by 100 million pounds. Year ending (October 1, 2002) stocks are projected at 2.535 billion pounds, 105 million larger than stocks at the beginning of the year.
Changes in soybean projections for the rest of the world included a small increase in the size of the Chinese crop, an 18 million bushel reduction in Chinese imports, and a 29 million bushel reduction in South American exports. These changes did not alter the overall picture of ample supplies.

In the case of wheat, the USDA made no changes in the projections for consumption of U.S. wheat during the current marketing year. Some had expected a larger export projection for soft red winter wheat and a smaller projection for other classes, but that change did not occur. For the rest of the world, smaller production estimates for Argentina, the European Union, and the former Soviet Union were offset by a larger estimate for Australia. The projection of world consumption was increased slightly, while the projection of ending stocks was reduced slightly. The changes did not alter the overall fundamental picture.

The USDA’s February update of U.S. and world supply and consumption prospects contained no changes that significantly altered price prospects. In addition to the rate of consumption, the market will now begin to turn its attention to prospects for 2002 crops in the northern hemisphere. Prospects for U.S. corn and soybean acreage and early season weather conditions will soon move to the forefront. The USDA will release a *Prospective Plantings* report at the end of March. The market expects an increase in U.S. corn acreage in 2002, but does not appear to have settled on an expectation for soybean acreage. The relatively large area of prevented plantings in 2001 means that a more normal spring could bring more acreage of soybeans as well. There is also still some possibility that changes in farm policy could impact the 2002 crops, although time is growing short. Prices for corn, soybeans, and wheat may well continue in the recent narrow trading range for several more weeks.

Issued by Darrel Good
Extension Economist
University of Illinois