



WEEKLY OUTLOOK



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ALL EYES ON THE AUGUST CROP REPORT

The USDA will release the first forecast of the size of the 2005 U.S. corn and soybean crops on August 12. The final estimate of the crop size could be much different than the August forecast, but this report provides the starting point for guessing the final size.

Over the past 35 years, the average difference between the August forecast of corn and soybean production and the final estimate of production released in January after harvest has been near 5 percent. That average, however masks large variation that ranges from less than one percent to over 20 percent, underscoring the importance of August weather conditions.

The USDA's weekly report of crop conditions suggests that the August forecast of the U.S. average corn yield will be below trend value of about 145 bushels per acre. The percent of the corn crop rated in good or excellent condition peaked at 68 percent for the week ended June 19. The percentage had declined to 53 percent by July 24. It is not unusual for crop condition ratings to decline as the growing season progresses, but the decline has been large this year. Based on the best fit of the relationship between crop conditions and average yield over the past 19 years, a rating of 53 percent good or excellent at the end of the growing season would project to a yield of 140.5 bushels. For the current year, crop ratings are likely to continue to decline somewhat through the end of the season. In addition, crop ratings may not accurately reflect pollination problems, resulting in an overstatement of yield potential.

In addition to yield uncertainty, there is some uncertainty about the magnitude of harvested acreage of corn. In the extreme drought areas, some additional acreage may be abandoned. Based on the current level of futures prices for the 2005-06 marketing year, the market appears to be trading a crop of about 10 billion bushels, or a yield of 135 to 136 bushels. Prices have declined more than \$.20 from the recent highs.

For soybeans, the percentage of the crop rated good or excellent peaked at 64 percent for the week ended June 12 and declined to 54 percent by July 24. If the current ratings were maintained through the end of the season, an average yield near 40.3 bushels would be predicted by the historic relationship between crop ratings and average yield. There is

potential for the soybean crop ratings to change significantly during August. A hot, dry start to the month in many areas will likely result in a further decline in ratings. Based on current futures prices for the 2005-06 marketing year, the soybean market appears to be trading a crop of about 2.85 billion bushels, reflecting a national average yield near 39.5 bushels. Since there has been considerable variation in the relationship between year-ending stocks and price, the calculations made here should be interpreted with caution. Current prices are about \$.80 below the contract highs reached in June.

In addition to the forecast of the size of the U.S. crop, there will be considerable interest in the forecasts of production for individual states. For corn, the current crop condition ratings suggest that production will be on the small side in the eastern corn belt and more normal in the western crop belt and in the southeast. Large production in the west, along with current large stocks of old crop corn, suggests that basis levels will remain relatively weak, at least through the harvest period. Eastern regions might expect a stronger basis, although current bids for harvest delivery in Illinois do not reflect an unusually strong basis. For soybeans, current ratings suggest low average yields and production in Arkansas, Illinois, and Missouri. Production potential remains high in most of the western and southeastern states.

The recent wide trading range in corn and soybean prices is expected to continue as August weather unfolds. There is some chance that the market will view the August production forecasts as the highest of the forecast cycle that continues through November.

For December corn futures to move above the June high near \$2.70, the market will have to anticipate a crop below 9.6 billion bushels. To push November soybean futures above the June high near \$7.70, the market will have to anticipate a crop of less than 2.8 billion bushels.

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