



WEEKLY OUTLOOK



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CROP ACREAGE DECLINES, STOCKS SMALLER THAN EXPECTED

The USDA's June *Acreage* report indicated that crop acreage is down again in 2005. Acreage of all principal crops is reported at 320.2 million, down from 322.3 million in 2004, and 325.7 million in 2003.

Compared to area of a year ago, acreage declines totaled 111,000 for feed grains, 204,500 for oilseeds, 1.6 million for wheat, and 193,000 for hay. Planted area of cotton is up 367,000 acres.

Compared to March planting intentions, area of principal crops is down nearly 1.2 million acres. The largest declines are for soybeans (607,000), wheat (512,000), and sorghum (387,000). Planted acreage of corn is 179,000 larger than March intentions and planted acreage of cotton is 211,000 larger than March intentions. The increase in corn acreage was less than expected, as fewer acres were switched from soybeans to corn. The larger decline in soybean acreage reflects unplanted area.

While planted acreage of soybeans is 1.905 million less than planted in 2004, the USDA projects that harvested acreage, at 72.384 million, will be only 1.574 million less than harvested last year.

Unharvested area is projected at only 919,000 acres, well below the 5-year average of 1.32 million, but about equal to that of 2003. Planted acreage of corn, at 81,592 million, is 662,000 more than planted last year and the most area planted to corn since 1985. Acreage exceeded 84 million in 1976, 1977, 1980, and 1981. Acreage of corn harvested for grain in 2005 is projected at 74.368 million, 736,000 more than harvested in 2004 and only 156,000 less than the record acreage of 1981.

The June 1, 2005 inventory of soybeans was estimated at 699.6 million bushels, slightly less than the average pre-report estimate. The stocks estimate implies that residual use of soybeans remained large in the third quarter of the year. Based on the Census Bureau estimate of crush and an estimate of exports based on USDA reports, seed and residual use of soybeans during the March-May quarter totaled 37.4 million bushels. The total use in that category to date is 241.3 million bushels. Estimated use is typically negative for the final quarter of the year. Use will have to be -88.3 million bushels during the final quarter if use for the year is to match the USDA projection for the year of 153 million bushels. Use during the final quarter last year was estimated at -74 million, a record large negative use for the quarter. The average for the prior

four years was -55.4 million bushels. The June 1 stocks estimate suggests that the 2004 U.S. soybean crop may have been overestimated by 15 to 30 million bushels.

The June 1, 2005 inventory of corn was estimated at a 17 year high of 4.32 million bushels. However, the estimate was 50 to 100 million bushels less than expected, implying a higher than projected rate of domestic use of corn during the March-May quarter. That use will likely be assigned to the feed and residual category, but it is not known whether the large use reflects a higher rate of feeding or an over-estimate of the 2004 crop. Whether the increase was actually fed or was residual use will impact the forecast of use during the 2005-06 marketing year.

At the close of trade on July 1, 2005, the soybean futures market reflected a 2005–06 marketing year average farm price of about \$6.60. Using the USDA's projections of harvested acreage and consumption during the 2005-06 marketing year, we calculate that the market was trading a 2005 average soybean yield of about 39.6 bushels per acre. That is slightly below the 39.9 bushel trend calculated by the USDA and implies that by the end of the growing season only 51 percent of the crop will be rated in good or excellent condition. For the week ended June 26, the USDA reported 59 percent of the crop in good or excellent condition.

On July 1, the corn futures market reflected a 2005-06 marketing year average price of about \$2.25 per bushel. Again, using the USDA's projections of harvested acreage and consumption during the 2005-06 marketing year, the market appears to be trading a 2005 average corn yield of 143 bushels per acre. That yield is about two bushels below trend and 5 bushels below the USDA projection made earlier this year. A yield of 143 bushels per acre implies that about 57 percent of the crop will be rated in good or excellent condition by the end of the growing season.

Fro the week ended June 26, the USDA estimated that 65 percent of the crop was rated in good or excellent condition.

Based on the forecast of a continuation of stressful weather conditions in portions of the growing areas, corn and soybean prices are expected to recover much of the recent price decline. Corn prices made that recovery early on July 5. Crop condition ratings may have to decline significantly to justify prices above recent highs.

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