



# 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.

**AUGUST 22, 2005**

## **DEBATE ABOUT CROP SIZE AND USE CONTINUES**

The USDA's August forecasts for the 2005-06 marketing year for corn and soybeans point to declining, but adequate, supplies of both crops. Market participants, however, continue to debate possible changes in forecasts of production and use.

For corn, producers reported that they planted 81.592 million acres and intend to harvest 74.368 million acres for grain. A forecast of harvested acreage for silage was not reported. Harvested acreage for silage over the past three years ranged from 6.1 million (2004) to 7.1 million (2002). The difference between planted acreage and acreage intended to be harvested for grain in 2005 is 7.224 million. Some argue that poor crop ratings in a number of areas point to more acreage harvested for silage or abandoned than reported this month. The September *Crop Production* report may contain additional information on prospective acreage harvested for grain.

The USDA's August forecast of the U.S. average corn yield potential was 139.2 bushels per acre. That forecast is based on information from a survey of a large number of farmers and objective yield surveys in pre-determined locations in 10 states. The objective yield surveys collect data relative to plant population, ear numbers, and kernel row length and ear diameter as maturity permits. For the August yield forecast, incomplete data are available on row length and ear diameter and little or no data are available on critical factors such as ear weight and weight of shelled grain. As a result, yield forecasts tend to become more accurate in later reports as those factors can be measured. The same is likely true for the yields forecast by producers. In the meantime, debate about yield potential continues, centered around the likely impact of high temperatures in late July and early August.

In addition to debate about the size of the 2005 corn crop, there are also differences of opinion about the likely level of corn consumption during the 2005-06 marketing year. The USDA's World Agricultural Outlook Board projects domestic feed and residual use at 5.75 billion bushels, 400 million below projected use for the current year and about 50 million below use during the 2003-04 marketing year. Large use during the current year may be the result of an over-estimate of The 2004 crop, but the projection of use for the upcoming year still appears to be conservative. Domestic processing use of corn is projected at 2.87 billion bushels, 180 million more than expected use this year. Almost all of the increase is projected in the ethanol category. Given the high prices of petroleum-based fuels, some argue that ethanol production could exceed the early projections. Opinions about the projected 125 million bushel increase in exports is more divided, with the level of Chinese corn exports as the critical unknown.

For soybeans, producers reported that they planted 73.103 million acres and intend to harvest 72.184 million. The difference of 919,000 acres is at the low end of the experience of the last 5 years, when unharvested acreage ranged from 928,000 to 1.858 million acres. There is some expectation that harvested acreage will be a bit smaller than the current forecast.

The National Agricultural Statistics Service of the USDA uses the same procedure to forecast soybean yields as to forecast corn yields. The forecast is based on information from producer surveys and objective yield surveys in pre-determined locations in selected states. The objective yield surveys collect data on number of plants, stem nodes, lateral branches, dried flowers and pods, and pods with beans. Data on critical factors such as seed size and weight are not available for the August survey. Yield forecasts from producers and from the objective yield surveys generally become more accurate in later reports as more data are available. The immaturity of the crop for the August forecast leaves considerable room for debate about actual yield potential. Stressful weather in late July and early August in many areas was replaced by more widespread rainfall in mid-August. Expectations appear to be on both sides of the USDA August yield forecast.

The World Agricultural Outlook Board projects a modest reduction in use of U.S. soybeans during the 2005-06 marketing year, primarily as the result of increased export competition for U.S. soybeans and soybean meal from South America. There is little disagreement with the outlook for reduction in consumption of U.S. soybeans if the South American crop is near the projected level, but there are differences of opinion about the magnitude of reduction. In addition, there are contrasting reports coming from Brazil about the likely planted area of soybeans this year. Early reports suggested no change, while more recent reports suggest a 5 percent reduction.

U.S. corn stocks at the end of the 2005-06 marketing year are projected at 1.9 billion bushels. Stocks at or above 1.2 billion are considered adequate. The combination of smaller production or larger use would have to be about 700 million bushels (6.7 percent of current projection) to result in a tight supply of corn. U.S. soybean inventories at the end of the 2005-06 marketing year are projected at 180 million bushels. Minimum year ending stocks are thought to be about 120 million bushels. The combination of smaller production or larger use would have to be about 60 million bushels (2 percent of current projection) to result in a tight supply of U.S. soybeans.

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