



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.

JANUARY 17, 2006

USDA REPORTS CONFIRM SURPLUS OF CORN AND SOYBEANS

On January 12, the USDA released a number of reports relative to the current and prospective supplies of corn and soybeans. Those reports confirmed large supplies and were generally negative for price prospects.

The 2005 US corn crop is now estimated at 11.112 billion bushels, 80 million larger than the November forecast. At 147.9 bushels, the US average yield estimate is 0.5 bushels below the November forecast, but the estimate of harvested acreage is 774,000 above the November forecast. Stocks of corn on December 1, 2005 were estimated at 9.813 billion bushels, 361 million larger than stocks of a year earlier. December 1 stocks were second in size to the 10.3 billion of 1986. Consumption of corn during the first quarter of the 2005-06 marketing year was a record 3.417 billion bushels, 105 million more than consumption of a year ago. Exports during the quarter were off 15 million from the previous year, but domestic processing use of corn was up about 65 million and feed and residual use was up by 55 million bushels.

The calculation of first quarter feed and residual use of 2.227 billion bushels exceeded expectations and prompted the USDA to raise the forecast of use for the year by 125 million bushels, to a total of 6 billion. The slow start to the export program this year resulted in a 50 million bushel reduction in the projection of exports for the year. At 1.85 billion bushels, the projected level of exports is only 36 million above the disappointing exports of last year. The estimated size of the 2005 Chinese corn crop was increased by nearly 160 million bushels (3 percent), but the larger crop is expected to lead to larger year ending stocks, not larger exports than projected last month. Year ending stocks of US corn are now projected at 2.426 billion bushels, only 7 million above the December projection, but still the largest in 18 years.

The 2005 US soybean crop is estimated at 3.086 billion bushels, 43 million larger than the November forecast and only 38 million less than the record crop of 2004. The US average yield is estimated at a record 43.3 bushels, 0.6 bushels above the November forecast and 1.1 bushels above the previous record established last year. Stocks of soybeans on December 1, 2005 were estimated at a record 2.5 billion bushels, nearly 200 million above the inventory of a year ago. Consumption of US soybeans during the first quarter of the 2005-06 marketing year totaled only 840 million bushels, 92 million less than consumption during the same quarter last year. Compared to last year's use, the domestic crush during the quarter was up 15 million and feed and residual use was down 17 million bushels. Exports during the quarter totaled only 316 million bushels, 90 million less than shipments of a year ago.

Based on the poor performance during the first quarter and the modest level of current unshipped sales, the USDA reduced the projection of marketing year soybean exports by 70 million bushels. At 950 million, the export projection is 153 million bushels below last year's record shipments. The projection of the domestic crush during the current marketing year was increased by 10 million bushels. At 1.73 billion, the projection is 34 million bushels larger than the crush of a year ago. The larger crush is being driven by an increase in domestic meal consumption and a lower yield of meal per bushel of soybeans. The oil yield from the 2005 crop is record large, resulting in a forecast of a sharp increase in domestic soybean oil stocks by year end. Year end stocks of soybeans are also expected to be much larger than in recent history. At 505 million bushels, the projection of year ending stocks is 100 million above the December projection and the second largest on record. Stocks were record large in 1986, totaling 536 million bushels at year end.

The USDA increased the estimates of soybean production and stocks in Brazil for the 2004 and 2005 crops, resulting in a larger projection of year ending stocks in 2006 even though the 2006 production estimate was not changed. World stocks of soybeans are expected to increase to a record 1.95 billion bushels, about 300 million larger than the inventory at the start of the year.

The increase in prices in late December and early January, particularly for soybeans, did not seem warranted based on known fundamental factors. Fundamental factors are even more negative now. While soybean prices have declined about \$.60 since January 4, additional declines might be expected unless the South American crop comes under significant stress. However, prices of both corn and soybeans are expected to become more volatile in the spring, offering another pricing opportunity.

Issued by Darrel Good
Extension Economist
University of Illinois