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### ***Anticipating South American Soybean Production***

***Darrel Good***

***Department of Agricultural and Consumer Economics***

***University of Illinois at Urbana-Champaign***

Entering the final two months of the 2005 growing season there is still considerable uncertainty about the size of the US soybean crop. Declining crop ratings and forecasts for additional stressful weather, along with insect and disease pressure, suggests that the crop will be small enough to result in a significant decline in US stocks by the end of the 2005-06 marketing year. The important question is whether the crop will be small enough to also require a reduction in the rate of use of US soybeans during the year ahead. The price implications of adequate supplies but small year-ending stocks are much different than a short supply situation that requires rationing of use. For example, stocks were reduced to very low levels at the end of the 1996-97 marketing year, but supplies were large enough to allow a record level of consumption that year. In contrast, stocks were reduced to a very low level by the end of the 2003-04 marketing year, but use was also restricted to the lowest level in 7 years due to the small 2003 crop. The average farm price of soybeans was almost identical in those two years, at \$7.35 per bushel, and cash prices peaked in the spring following harvest in both years. The difference, however, was that the cash price peak in the spring of 2004 was \$1.60 higher than the peak in 1997. Not only did US soybean consumption have to be reduced in 2003-04, but the 2004 South American crop was well below expectations, compounding the short supply situation in the US. While the outcome of the 2005 growing season and the price implications of the US crop size are not yet known, South American production prospects will become increasingly important as that planting season approaches.

Soybean area in Brazil increased by nearly 65% from 2000 to 2004, totaling about 56.4 million acres in 2004. The USDA projects a modest 400,000 acre (0.7%) increase in soybean area this year. Similarly, soybean area in Argentina grew by 68 percent from 1999 to 2004, but is expected to increase only 2% this year, to a total of 36.3 million acres. No expansion is expected in the rest of South America, where soybean area currently totals about 8 million acres.

The bigger question for the year ahead, is the likely average yield in 2006. The average yield in both Brazil and Argentina was a record 42 bushels per acre in 2003. The average in Brazil declined to 36.4 bushels in 2004 and 35.3 bushels in 2005 due to drought in southern growing areas. The average in Argentina declined to 35.1 bushels in 2004, but rebounded to 40.3 bushels in 2005. For 2006, the USDA has penciled in an average yield of 40.1 bushels for Brazil and 39.4 bushels for Argentina, resulting in a projection of a record South American crop near 4 billion bushels. A crop of that size would more than offset the shortfall in the 2005 US crop. Large South American

production has been forecast each of the past two years, but did not materialize. Will 2006 be different?