ANTICIPATING THE USDA’S MAY PROJECTIONS OF SUPPLY AND USE

On May 11, the USDA’s World Agricultural Outlook Board (WAOB) will release its monthly update of U.S. and world supply and consumption projections for a number of commodities. The first projections for the 2007-08 marketing year will be included. In addition, the National Agricultural Statistics Service (NASS) will release a forecast of the size of the 2007 U.S. winter wheat crop.

For corn, the persistent high rate of exports, along with large unshipped sales as of April 19, has led to ideas that exports for the current year could exceed the April projection of 2.25 billion bushels. Based on the USDA’s weekly Export Sales report, cumulative exports through April 19 totaled 1.386 billion bushels. Shipments averaged 42 million bushels per week through the first 33 weeks of the year and need to average 45 million per week for the last 19 weeks of the year to reach the current projection. Inspections for the week ended April 26 totaled 41.6 million bushels. It is unlikely that the WAOB will raise the export projection in the May report. Projected feed and residual use of corn could be influenced by the forecast size of the 2007 winter wheat harvest. Most wheat feeding occurs during the summer months, so a small wheat crop could boost feed use of corn.

Most interest will be in the projections for the 2007-08 marketing year. Based on previous May projections, the projection of 2007 crop size will be based on the March 30 NASS report of planting intentions, the relationship between planted and harvested acreage for 2001 through 2006 (omitting 2002), and a projected yield based on the linear trend from 1960 through 2006 (omitting 1988) adjusted for 2007 planting progress. Harvested acreage will likely be projected at 83.2 million, but more uncertainty centers around the yield projection due to the uncertainty about the likely planting progress adjustment or any possible change in the methodology for calculating the trend. A projection near 150 bushels would result in a production forecast of 12.48 billion bushels.

The market will also be very interested in the judgement of the WAOB about likely consumption, by category, of U.S. corn during the 2007-08 marketing year. Some decline in exports may be anticipated due to larger crops in the rest of the world. In addition, some decline in feed use may also be expected due to reduced livestock feeding margins and increased consumption of byproduct feed from ethanol processing. Any such declines,
however, will be more than offset by larger projections of corn used for ethanol production, resulting in a projection of relatively small year-ending stocks and a continuation of relatively high prices.

For soybeans, changes in projections of use for the current marketing year will likely be small, if any changes are made at all. The current pace of exports of U.S. soybeans, along with large unshipped sales, suggest that exports for the year might exceed the current projection of 1.08 billion bushels. However, the large South American harvest just being completed should result in a sharp decline in the pace of U.S. soybean shipments through September. Similarly, the larger than expected domestic crush in March could prompt a small increase in the projection of marketing year crush. However, the large domestic inventory of soybean oil and meal along with the large South American harvest should temper expectations for the remainder of the marketing year. The outlook for a record level of year ending stocks of soybeans has not changed.

The projection of the 2007 U.S. soybean crop will likely be based on the NASS report of planting intentions, the 5-year average planted to harvested acreage ratio by states, and a yield based on the 1978 to 2006 regional trend yield. The projection of harvested acreage should be near 66.1 million. The methodology for forecasting yield potential is a little less transparent, but resulted in a projection of 40.7 bushels in May 2006. A projection near 41 bushels might be expected this year, resulting in a production forecast of 2.71 billion bushels. Even with record large stocks of U.S. soybeans on September 1, 2007, a crop of 2.71 billion bushels would result in a substantial decline in stocks by September 1, 2008. However, consumption during the 2007-08 marketing year would have to be more than 50 million bushels larger than during the current year to reduce year ending stocks to less than 250 million bushels.

The USDA’s first projections of 2007 U.S. corn and soybean production and consumption during the 2007-08 marketing year will be important benchmarks, but considerable uncertainty will persist for several months. Futures prices for the 2007-08 marketing year have declined substantially from contract highs reached in late February, but still point to very high average farm prices for the upcoming marketing year. At the close of trade on April 27, futures prices translated into 2007-08 average farm prices of about $3.60 for corn and $7.60 for soybeans.

Issued by Darrel Good
Extension Economist
University of Illinois