



As Usual, USDA Reports Contain Some Surprises

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Today, the USDA released the May *WASDE* report and the May *Crop Production* report. The *WASDE* report, which included the first forecasts for the 2012-13 marketing year, contained some very bearish projections for corn, but the soybean and wheat forecasts have mixed implications. Following is a brief summary of the new forecasts.

Corn

For the current marketing year, the projection of U.S. feed and residual use of corn was reduced by 50 million bushels to a total of only 4.55 billion bushels. Analysts expect more wheat feeding this summer and an early harvest of the 2012 corn crop to reduce summer feed demand for corn. Year ending stocks are projected at 851 million bushels. The projected size of the current Argentine corn harvest was unchanged from the forecast of last month, while the projected size of the Brazilian crop was increased by almost 200 million bushels (8 percent). The projection of world marketing year ending stocks was increased by 190 million bushels.

For the 2012-13 marketing year, the USDA forecast a record high U.S. average yield of 166 bushels. That forecast is based on the linear trend of yields from 1990 through 2010 adjusted up by 2 bushels due to the expected positive impact of early planting. Production is forecast at 14.79 billion bushels, 2.432 billion larger than the 2011 crop. Feed and residual use of corn is projected to increase by 900 million bushels during the year ahead due to lower prices and a jump in residual use due to the size of the crop. Exports are expected to increase by 200 million bushels, to 1.9 billion, while ethanol use is expected to be unchanged at 5 billion bushels. Year-ending stocks are projected at 1.881 billion bushels and the 2012-13 marketing-year average price is expected to be in a range of \$4.20 to \$5.00, compared to \$6.10 for the current year.

The USDA also sees an increase in corn production next year in Argentina, South Africa, Mexico, Canada, China, and the Ukraine. World stocks at the end of next year are expected to be 975 million bushels (19 percent) larger than stocks at the beginning of the year.

Soybeans

For the current marketing year, the projection of the domestic crush was increased by 15 million bushels

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and the projection of exports was increased by 25 million bushels, leaving the projection of ending stocks at 210 million bushels. The projected size of the current Argentine harvest was reduced by 92 million bushels and the Brazilian estimate dropped by 37 million bushels, further tightening the projection of year-ending world stocks.

For the 2012-13 marketing year, the U.S. crop is projected at 3.205 billion bushels, 149 million larger than the 2011 crop, reflecting a near record yield of 43.9 bushels. The domestic crush next year is expected to be 10 million bushels larger than that of the current year, while exports are expected to jump by 190 million bushels. Year-ending stocks are projected at 145 million bushels, reflecting a record low stocks-to-use ratio of 4.4 percent. The 2012-13 marketing year average farm price is projected in a range of \$12 to \$14, compared to \$12.35 for the current year. Under normal growing conditions, the USDA sees a sharp rebound in South American soybean production and world stocks in 2012-13.

Wheat

For the current marketing year that ends this month, the USDA raised the projection of U.S. exports by 25 million bushels and lowered the projection of ending stocks by the same amount. Very small adjustments were made in foreign wheat production estimates.

For the 2012-13 marketing year, the USDA projects the U.S. crop at 2.245 billion bushels, 246 million larger than the 2011 crop and the largest in 4 years. The projection reflects the NASS winter wheat production estimate of 1.694 billion bushels (up 200 million from the 2011 crop). Spring wheat production forecasts are based on the March report of planting intentions, historic ratios of harvested-to-planted acreage, and trend yields. Consumption is expected to increase by 184 million bushels, mostly in feed and residual (50 million) and exports (125 million). Year ending stocks are projected at 735 million bushels, 33 million less than stocks at the beginning of the year. The marketing year average price is projected in a range of \$5.50 to \$6.70, compared to \$7.25 for the current year.

Production of wheat in the rest of the world is expected to decline by 875 million bushels, 3.7 percent, from the large production of the past year. The bulk of the expected decline is in Kazakhstan and the Ukraine.

Implications

The projections for corn consumption during the current and upcoming marketing year continue to appear inconsistent. Feed and residual use appears under-stated for the current year and over-stated for next year. Prospective exports also appear under-stated for next year. On the production side, the USDA has started with very aggressive yield and production forecasts. It is not clear why 2011 was not included in the trend analysis of yields. Still a build-up in stocks appears likely next year and suggests prices will continue to moderate back to the levels of 2007-08 through 2009-10. Soybean forecasts are pretty much in line with expectations and support prospects for continued historic high prices. Wheat forecasts point to a return to a more normal balance of U.S. and foreign wheat production.

Forecasts for the 2012-13 marketing year are subject to substantial change over time. The next check points for judging current forecasts will be the June 12 *Crop Production* and June 30 *Acreage and Grain Stocks* reports. Expect more surprises!