



USDA Reports a Jumble of Surprises

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The much anticipated USDA *Prospective Plantings* and *Grain Stocks* reports were released this morning and contained an interesting mix of surprises. For a review of the USDA methodology for the *Prospective Plantings* report, see this [Marketing and Outlook Brief](#).

For the crops included in the report of planting intentions, total planted acreage is expected to increase by 8.6 million acres from that of 2011. The overall increase in total planted acreage is consistent with strong market incentives for most crops this year. The increase was led by grains, up 6.9 million acres, hay (harvested), up 1.7 million acres, and dry beans, peas and lentils, up 1.4 million acres. Cotton and tobacco were exceptions to the across-the-board increases, with total planted acreage for these two crops down 1.6 million acres.

Even with expectations for a substantial jump in corn planted acres, the size of the reported corn planting intentions, 95.864 million acres, surprised even the most optimistic. The average trade guess before the report was near 94.5 million and the highest was around 95.7 million. If realized, the prospective corn plantings will be the largest since 1937. The largest increases are expected in North Dakota (+1.7 million), Minnesota (+600,000), Iowa (+500,000), and Nebraska (+450,000). Texas (-100,000) was the only significant producing state with fewer acres than last year.

The implication of the planted acreage estimate for the size of the 2012 crop hinges on yield expectations. Three factors are keys with regard to corn yield expectations. First, trend-yield estimates hinge on the use of long-term versus short-term data samples. Short-term samples are justified based on the view that transgenic traits have recently increased the rate of growth in corn trend yields. While there is some emerging evidence this may be the case, our view is that the effect, if true, was relatively modest and that a long-term trend yield of about 159-160 bushels for the U.S. is still the best estimate. Second, the recent record warmth makes it likely that corn will be planted much faster than normal in 2012. The yield advantage of early planting is largely the avoidance of late planting. Our [recent estimate](#) is that early planting may add up to 2 bushels per acre to the U.S. average corn yield. Third, it has turned dry over much of the Corn Belt during the last 90 days. This has a relatively modest yield impact but the unusual recent weather conditions (85 degrees in March!) only increase the uncertainty about summer growing conditions. On balance, a yield expectation of 160 bushels for 2012 seems reasonable at the present time.

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Planting intentions for soybeans surprised in the opposite direction. Soybean prospective plantings were reported at 73.9 million, down over a million acres from the area planted in 2011. The average trade guess before the report was near 75.5 million acres, with the lowest around 74.5 million. So, just the reverse of corn, soybean planting intentions were even smaller than the most pessimistic prediction. The largest declines were in Iowa (-550,000), Missouri (-250,000), Nebraska (-200,000), Minnesota (-200,000), and Kansas (-100,000).

The other big surprise in today's report was the estimate of March 1 stocks of corn. At 6.01 billion bushels, March 1 inventories of corn were 514 million bushels smaller than last year's stocks and 150 million less than the average trade guess before the report. This March 1 inventory estimate implies that corn consumption during the more recent winter quarter was very large or that earlier stock estimates for the current marketing year were too high. Our view is that the latter explanation is more likely to be true given livestock inventories, the depressing effect of warm winter temperatures on feed use, ethanol production to date, and strong basis levels. In either case, the corn market must now seek a price that rations usage so that stocks at the end of the current marketing year at least exceed minimum pipeline levels by some reasonable amount. The market apparently had assumed that prices up to this point were sufficient to do the job.

March 1 stocks of soybeans were reported at 1.37 billion bushels, 78 million bushels larger than stocks of a year ago, but 9 million bushels smaller than the average trade guess. In view of the soybean production declines in South America this winter, the estimate of soybean stocks implies that more rationing of the 2011 crop may be required.

The overall picture that one gets from today's reports is a further tightening of the old crop supply/demand situation, and even with the sizable increase in overall planted acres in 2012, a glaring need for good U.S. yields in 2012 in order to rebuild stocks back to more adequate levels. Growing season weather will once again be crucial in 2012.