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October 2008 Crop Production and Outlook

The latest USDA update to the World Agricultural Supply and Demand Estimates and Crop Production reports was released on Oct. 10th. On the production side, pre-trade estimates had indicated little movement was expected. The October estimates from USDA showed increased corn and soybean production of 1 to 2 percent. The corn increase was driven by an increase in yields, up 1.7 bushels to 154 bushels per acre national average. The soybean increase was driven by a jump in acreage, with harvested area increasing by 2.15 million acres. The national soybean yield estimate was lowered to 39.5 bushels per acre, but the increase in area was more than enough to offset the yield drop. For corn, the 2008 crop is shaping up to be the 2nd largest crop in terms of yield and production. The soybean crop is still on target to be the 4th largest on record.

For Iowa, the estimated corn harvested area was reduced by 100 thousand acres, but the yield was increased to 172 bushels per acre. The combination points to slightly higher corn production. Overall, corn yields were increased in 12 states, lowered in 14 states, and held steady in 7 states. But most of the major corn producing states saw their projected yields go up. Illinois was bumped up 5 bushels per acre, while Minnesota and Nebraska yields were increased by 4 bushels per acre. Looking at the number of ears per acre, record ear counts were seen across most of the upper Midwest. In fact, Kansas and Nebraska were the only states that were not at record ear counts.

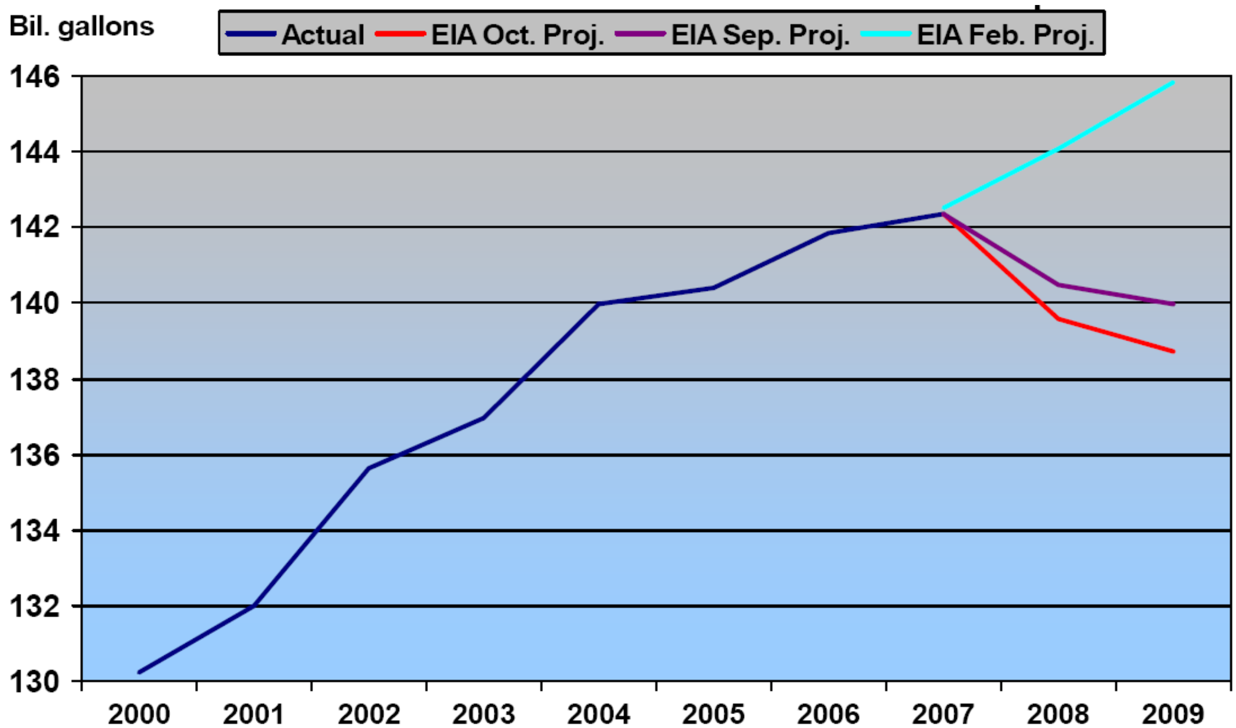
Iowa soybean production was raised nearly 14 million bushels as the acreage increase, 500 thousand acres, more than offset the yield decline, off 1 bushel per acre to 46. Several other states also saw significant adjustments to soybean area. At least 100 thousand soybean acres were added to Arkansas, Illinois, Kansas, Minnesota, and Nebraska. North Dakota had the largest increase with 530 thousand acres. On the yield side, Illinois was up 3 bushels per acre to 45, while Indiana and Nebraska were down and Minnesota was unchanged.

At the end of last month, USDA updated the grain stocks situation. In that update, both corn and soybean stocks were increased for the 2007 crop year. Corn stocks for 2007 were upped 48 million bushels, based on lower feed, food, and seed use. Soybean stocks for 2007 were increased 65 million bushels, based on higher production and lower crushing use. The increased production, combined with the higher stock levels coming out of the 2007 crop year, will likely add to the downward pressure on both the corn and soybean markets.

On the demand side, corn feed demand was projected at 5.35 billion bushels, up 150 million from last month, reversing the move from last month. Lower corn prices are seen as the major reason for this shift. Corn demand from ethanol was reduced by 100 million bushels to 4 billion bushels. While lower corn prices should be attractive to the ethanol industry, reduced transportation fuel consumption is a significant drag to the industry. Combined with general economic concerns, ethanol blending growth is expected to slow. Corn exports are held steady at 2 billion bushels. These changes result in projected ending stock for the 2008-09 crop of 1.154 billion bushels, up 136 million from last month and slightly above trade estimates. This puts the projected stocks-to-use ratio for 2008 at 9.1 percent, well down from 12.7 percent in 2007. For soybeans, ending stocks for 2008/09 were revised upward 85 million bushels to 220 million. Much of that increase was due to the increases in 2007 ending stocks and 2008 production. Crush demand was lowered by 25 million bushels, but export demand was increased by 50 million. In the mid-September USDA reports, soybean stocks-to-use ratios for 2007 and 2008 were below 5 percent. In these latest reports, those ratios were raised to 6.7 percent for 2007 and 7.4 percent for 2008. So the soybean stock situation remains tight, but not nearly as tight as it previously looked.

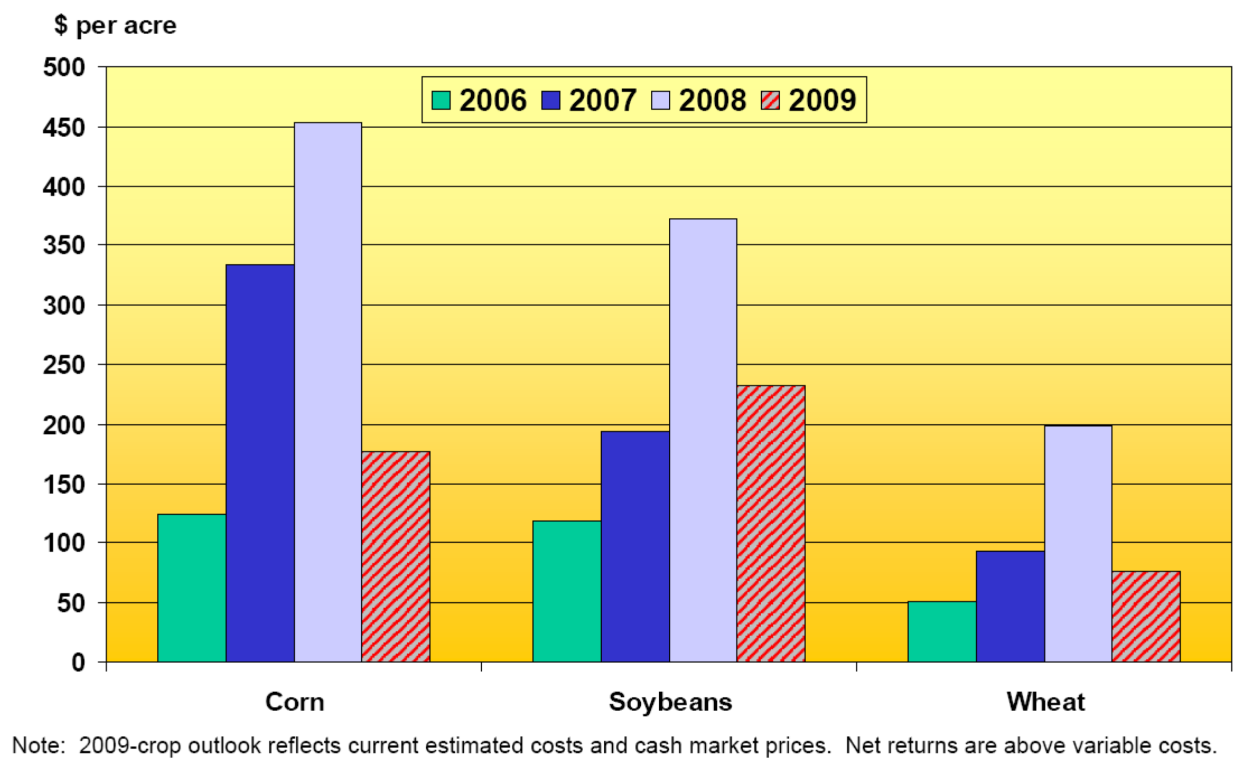
The corn and soybean markets, like many commodity and stock markets, have taken a pounding. Concerns about the general economy both here in the U.S. and worldwide have weighed heavily on market trading and have been a significant factor to the slide in crop prices, especially over the past two weeks. USDA significantly updated its season-average prices for corn and soybeans to $4.70 per bushel for corn and $10.35 per bushel for soybeans. The corn price is off 80 cents per bushel, while the soybean price is down $2 per bushel from last month's estimates. While these are sizable drops in price, they look relatively optimistic compared to futures prices. Based on Oct. 9th settlement prices, the futures markets were projecting 2008 season-average prices of $4.27 for corn and $9.79 for soybeans.

Figure 1. Blended Motor Gasoline Consumption in the U.S.



Source: U.S. Department of Energy, Energy Information Administration

Figure 2. Historical and Projected Net Returns



Source: USDA, World Agricultural Outlook Board

Factors outside of agriculture will continue to strongly influence agricultural prices. The financial market turmoil is the dominant factor across many markets. Crop agriculture over the past couple of years has enjoyed strong demand for food, feed, and fuel use. But the concerns about the general economy lead to concerns about future crop demands both here and abroad. As Figure 1 shows, the outlook for overall fuel demand has dropped significantly over the past few months. Credit markets have tightened and, in some cases, ceased to function. Much of the funding for agricultural production and trade worldwide depends on liquid credit markets.

The 2009 crop year was already looking to be a tighter year for crop producers, as input costs have ratcheted up. And just as it took a while for costs catch up on the upside, costs will also lag prices going down. Based on USDA current estimates of relative net returns, soybeans may be the most attractive play in 2009 given its lower production costs.

Chad Hart