IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

Department of Economics
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USDA's Initial Thoughts on 2012/13

Late last month USDA hosted its annual Ag Outlook Forum. One of the highlights of the Forum is the release of USDA's initial projections for the upcoming crop year. These projections are based on USDA's statistical models and, for the most part, incorporate historical trends in yields, production, trade, and usage. The acreage and demand projections also reflect the current market situation and expert opinion from USDA's analysts. The yield projection is typically the 20-year trend yield based on national yield data. These projections provide a marker to compare against as we enter the planting season. As we proceed through the year, USDA will update these numbers based on survey information from farmers, trade data, and weather events.

Table 1 shows the numbers for corn, along with the supply and use data for the past four years. As can be seen, USDA expects corn acreage to increase to 94 million acres. This is on the low side for most market analysts. But conversely, USDA's projected yield is higher than many market analysts (including myself) expect. Much of the debate about the trend corn yield is centered on where the expansion in corn area is occurring. The Great Plains has become the hotbed for corn's growth. Both corn and soybeans have been pushing further west in what has traditionally been wheat country. And while corn yields are good in the Great Plains, they tend to fall below the national average. Thus, if more corn is being grown in the Great Plains, we might expect a slightly lower trend going forward. Depending on the acreage expansion in the Great Plains, a weighted average of state-level corn trend yields would point to a 2012/13 national trend yield closer, if not below, 160 bushels per acre.

Table 1. U.S. Corn Supply and Use, Projections for 2011/12 and 2012/13 (Source: USDA)

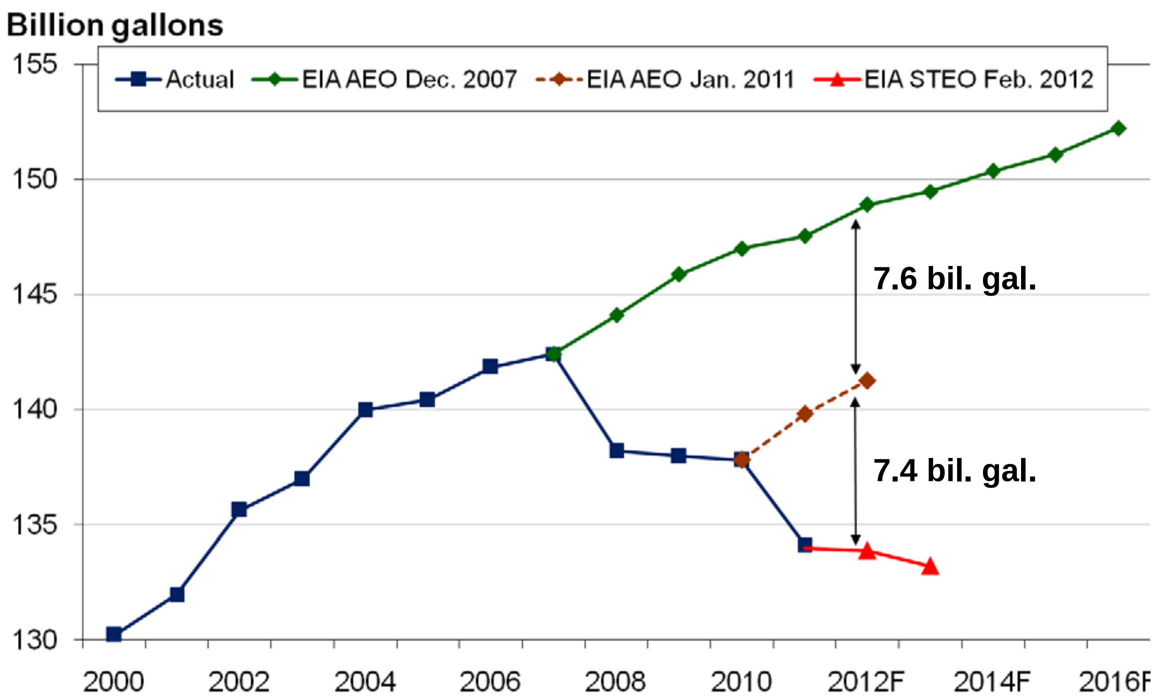
		2008	2009	2010	2011	2012
Area Planted	(mil. acres)	86.0	86.4	88.2	91.9	94.0
Yield	(bu./acre)	153.9	164.7	152.8	147.2	164.0
Production	(mil. bu.)	12,092	13,092	12,447	12,358	14,270
Beg. Stocks	(mil. bu.)	1,624	1,673	1,708	1,128	801
Imports	(mil. bu.)	14	8	28	20	15
Total Supply	(mil. bu.)	13,729	14,774	14,182	13,506	15,086
Feed & Residual	(mil. bu.)	5,182	5,125	4,793	4,600	5,200
Ethanol	(mil. bu.)	3,709	4,591	5,021	5,000	4,950
Food, Seed, & Other	(mil. bu.)	1,316	1,370	1,407	1,405	1,420
Exports	(mil. bu.)	1,849	1,980	1,835	1,700	1,900
Total Use	(mil. bu.)	12,056	13,066	13,055	12,705	13,470
Ending Stocks	(mil. bu.)	1,673	1,708	1,128	801	1,616
Season-Average Price	($/bu.)	4.06	3.55	5.18	6.20	5.00

With traders expecting more acres with lower yields, the end result is roughly the same with expected production in the 14 billion bushel range. That would be a record corn crop. Again, this is assuming yields close to trend, which has not been the case for the past couple of years. And the dry conditions in the upper

Midwest and Great Plains do not provide a favorable start to the crop year. But we will have to wait and see what Mother Nature has in store for us.

While expected supplies are higher, so are expected demands. USDA projects feed and export demand to rebound for the 2012 crop year. Food and seed demand is expected to grow slightly, while ethanol demand is projected to fall slightly. The feed and export demand increases are related to corn reestablishing itself as a less expensive feed grain, a projected increases in the pork and poultry industries, and greater residual use or loss. Figure 1 helps explain the expected drop in corn usage via ethanol. The most recent recession and the continued pressure of higher oil and gas prices have taken a significant bite out of U.S. liquid fuel consumption. As the graph shows, before the recession it was projected that the U.S. would be using nearly 150 billion gallons of blended gasoline, regular gasoline and ethanol blends, in 2012. Last year, that projection was revised downward by 7.6 billion gallons. And the update this year removed another 7.4 billion gallons. That puts blended gasoline demand below 135 billion gallons. Given that E-10, a blend of 10% ethanol and 90% gasoline, is the dominant ethanol blend, the changes in projections meant the potential ethanol market in the U.S. shrank from 15 billion gallons to 13.5 billion (ignoring E-85 and blender pumps for the moment).

Figure 1. U.S. Blended Gasoline Consumption (Source: DOE, via USDA-ERS)



These projections have supplies increasing faster than demands. That translates into larger stocks and lower prices. Given this outlook, USDA put their season-average price projection at $5.00 per bushel. That would be over a dollar lower than our current year's projection and slightly below the average price received for the 2010 corn crop.

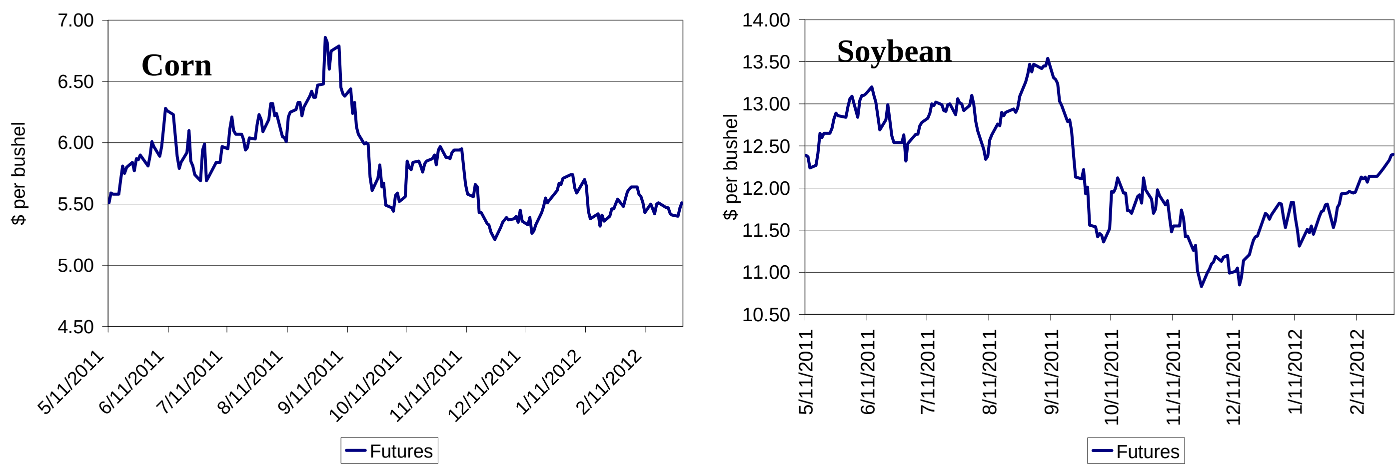
On the soybean side, the USDA projections show acreage holding steady at 75 million acres. The trend yield is at 43.9 bushels per acre, which is 2.4 bushels above what we had in 2011. That combination would result in production of 3.25 billion bushels, not quite as large as the 2009 and 2010 soybean crop, but there was more soybean area back then. While expected production is up roughly 200 million bushels, expected demand is also up 200 million. Crush demand is expected to rebound with slightly higher feed demand for soybean meal, stronger soybean oil demand via biodiesel, and increased export demand for soybean meal and oil. Soybean export demand is also projected to rebound, with China leading the way. Unlike corn, soybean ending stocks are projected to tighten again. This leads to relatively stronger soybean prices for the 2012 crop. USDA projects the 2012/13 season-average price at $11.50 per bushel, down 20 cents from this crop year, but 20 cents above the 2010 average.

Table 2. U.S. Soybean Supply and Use, Projections for 2011/12 and 2012/13 (Source: USDA)

		2008	2009	2010	2011	2012
Area Planted	(mil. acres)	75.7	77.5	77.4	75.0	75.0
Yield	(bu./acre)	39.7	44.0	43.5	41.5	43.9
Production	(mil. bu.)	2,967	3,359	3,329	3,056	3,250
Beg. Stocks	(mil. bu.)	205	138	151	215	275
Imports	(mil. bu.)	13	15	14	15	15
Total Supply	(mil. bu.)	3,185	3,512	3,495	3,286	3,540
Crush	(mil. bu.)	1,662	1,752	1,648	1,615	1,660
Seed & Residual	(mil. bu.)	106	110	130	120	126
Exports	(mil. bu.)	1,279	1,499	1,501	1,275	1,550
Total Use	(mil. bu.)	3,047	3,361	3,280	3,011	3,335
Ending Stocks	(mil. bu.)	138	151	215	275	205
Season-Average Price	($/bu.)	9.97	9.59	11.30	11.70	11.50

Thus far, the futures markets have been a little more optimistic for the 2012 crops. Figure 2 shows projected 2012/13 season-average prices for corn and soybeans based on futures prices. Last fall the markets were offering prices that translated into season-average prices above $6.50 per bushel for corn and nearly $13.50 per bushel for soybeans. Worries about the global economy and a slowdown in crop demand have pulled back on those price projections. But the markets are still showing higher prices than USDA's projections. Currently, the corn futures market is bouncing around the $5.50 range for a 2012/13 season-average price, 50 cents more than USDA's estimate. China's recent soybean purchases and the damage to the South American soybean crop have pushed soybean futures higher and moved the futures-based projection of the 2012/13 soybean season-average price to $12.40 per bushel, 90 cents above USDA's projection. Some of this price strength will fade as farmers hit the fields, but this outlook from USDA still shows profitable corn and soybean crops in 2012.

Figure 2. Projected 2012/13 Season-average Prices



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