



Prospering in Rural America

Grains & Oilseeds Outlook

February 17, 2006



Speeches and PowerPoints are being posted on USDA's Forum Web site.

www.usda.gov/oce/forum/

GRAINS AND OILSEEDS OUTLOOK FOR 2006

Prepared by Members of the Wheat, Feed Grains, and Oilseeds
Interagency Commodity Estimates Committees
U.S. Department of Agriculture

Introduction

This paper provides supply, use, and price projections for 2006/07 for wheat, corn, and soybeans and products. The first official USDA supply and use projections will be published May 12, which will include the first forecast of winter wheat production published by the National Agricultural Statistics Service (NASS). Projections presented in this paper are based on the Winter Wheat Seeding report and analyses by members of the Interagency Commodity Estimates Committees for Wheat, Feed Grains, and Oilseeds.

The early outlook for the three major field crops in 2006 is shaped by large supplies of oilseeds, a strong expansion in corn use, and relatively tight U.S. wheat supplies. Corn supplies are expected to remain large enough to limit price increases.

Production projections assume normal weather conditions for spring planting and summer crop development. With normal weather and trend yields, 2006 corn production is expected to fall from last year's near-record level. Following successive record crops in 2003 and 2004, growth in supply outpaced demand, boosting 2006/07 beginning stocks to 2.4 billion bushels. At trend, soybean yields are expected to fall below last year's record, but with increased area and large carryin stocks, supplies will be up. With a record 2005 South American crop, competition for exports will remain strong, and U.S. exports will increase only as prices decline. Even with lower prices boosting demand, 2006/07 soybean ending stocks are expected to remain record large. Despite a small increase in winter wheat seedings, trend abandonment and yields are expected to keep 2006 wheat production about the same as in 2004.

Although prices received by farmers are expected to be down for soybeans, flat for wheat, and up modestly for corn, projected 2006/07 prices for all three commodities reflect expected gains from forward pricing. Strong investment in commodity futures by index and other types of fund traders are expected to continue to provide producers with opportunities to lock in returns above loan rate levels and projected local cash market prices at harvest.

Acreage Outlook for 2006 (Table 1)

The 2006 acreage outlook is driven by the usual economics of expected prices and returns and rotational considerations. Planting conditions for corn were exceptionally good in 2005, so a return to average planting conditions is likely to contribute to reduced corn acreage. Even with higher prices for corn and lower prices for soybeans, higher energy costs will contribute to lower corn area. Corn production costs are expected to rise with higher fuel, fertilizer, and drying costs, but these expenses are less important for soybeans. Wheat plantings are expected to increase year-to-year as last fall's weather allowed for a

sharp rebound in Soft Red Winter (SRW) wheat seedings. Combined wheat, corn, and soybean plantings in 2006 are projected slightly above 2005, but below the previous 3 years.

While planted area is expected to increase slightly in 2006, harvested area for the three crops is expected to decline. The harvested-to-planted ratio was higher than normal for all three crops in 2005, so a return to a normal abandonment reduces acres.

Table 1. Wheat, Corn, and Soybean Acreage, 2001-2006

	2001	2002	2003	2004	2005	2006p	Change
	- Million Acres -						
Wheat Planted	59.4	60.3	62.1	59.7	57.2	58.0	+0.8
Wheat Harvested	48.5	45.8	53.1	50.0	50.1	48.7	-1.4
Corn Planted	75.7	78.9	78.6	80.9	81.8	80.5	-1.3
Corn Harvested	68.8	69.3	70.9	73.6	75.1	73.2	-1.9
Soybeans Planted	74.1	74.0	73.4	75.2	72.1	74.0	+1.9
Soybeans Harvested	73.0	72.5	72.5	74.0	71.4	72.9	+1.0
Total Planted	209.2	213.2	214.1	215.8	211.1	212.5	+1.4
Total Harvested	190.3	187.6	196.5	197.6	196.6	194.8	-1.8

p = Projection

Note: Totals may not add due to rounding.

Source: 1998-2004 National Agricultural Statistics Service

Winter wheat seeding was reported up 2 percent by NASS in a January report. Improved planting conditions for Soft Red Winter wheat boosted area for that class 19 percent, but Hard Red Winter and White Winter wheat areas each declined 1 percent. Except for the weather-related rebound in SRW, wheat area continues the long-term stagnant-to-declining trend. Wheat harvested acreage is expected to decline 1.4 million acres in 2006. This reflects a return to normal abandonment rates for most states and an additional modest downward adjustment for Texas and Oklahoma to account for ongoing drought. At 48.7 million acres, U.S. wheat harvested area would be its lowest since 2002, when drought devastated the Southern Plains. Recently, poor crop conditions were reported for Texas and Oklahoma. The Texas crop conditions were lower than reported at any time since the current system was instituted in 1986. Without timely rains, these states will have significantly higher-than-average abandonment and below-trend yields.

Spring wheat acreage is expected to decline slightly to 16.6 million acres, unless U.S. winter wheat production problems or other events cause a significant rally in wheat prices before spring wheat planting (mostly in May). Relatively attractive returns for soybeans, corn, sunflower seed, dry peas, and lentils are expected to limit spring wheat area in the northern Plains.

Concerns remain about Asian soybean rust in 2006, but the potential for a widespread outbreak in the Midwest seems largely abated after the disease failed to present a serious threat in 2005. Although the

potential for crop losses remains, particularly in southern growing areas, producers gained substantial experience in scouting for the disease last year and the early detection network of sentinel plots and crop scouting will be in place again this year. Soybean production costs are expected to increase less than for other crops, especially corn, because of lower fertilizer usage. While planted soybean acres are expected to increase more, a return to normal abandonment is expected to limit the increase in harvested area to 1.5 million acres.

Corn planted acreage for 2006 is expected to remain relatively high, but decline due to a return to normal planting conditions and increased production costs. However, corn producers' returns are being protected by marketing loan program benefits and by higher crop insurance coverage as yield gains and strong futures prices boost crop insurance yield and revenue protection. A return to a normal harvested-to-planted ratio implies a nearly 2 million acre drop in corn harvested area.

Wheat Supply, Demand, and Price Outlook for 2006/07 (Table 2)

Table 2. Wheat Supply, Demand, and Price, 2002/03-2006/07

	2002/03	2003/04	2004/05	2005/06f	2006/07p
Area planted (mil. ac.)	60.3	62.1	59.7	57.2	58.0
Area harvested	45.8	53.1	50.0	50.1	48.7
Yield (bu./ac.)	35.0	44.2	43.2	42.0	42.6
Production (mil. bu.)	1,606	2,345	2,158	2,105	2,075
Beginning stocks	777	491	546	540	542
Imports	77	63	71	85	95
Supply	2,460	2,899	2,775	2,730	2,712
Feed & residual	116	203	189	200	200
Food, seed & ind.	1,003	992	984	988	994
Total Domestic Use	1,119	1,194	1,172	1,188	1,194
Exports	850	1,158	1,063	1,000	975
Total use	1,969	2,353	2,235	2,188	2,169
Ending stocks	491	546	540	542	543
Stocks/use (percent)	25.0	23.2	24.1	24.8	25.0
Season average farm price (\$/bu.)	3.56	3.40	3.40	3.40	3.40

f/ Acreage, yield, production, and beginning stocks are estimates from the National Agricultural Statistics Service. Imports, use, ending stocks, and season average farm price are projections from the *World Agricultural Supply and Demand Estimates*, February 9, 2006. The season average price is the mid-point of the projected range from the same report.

p/ Projections based on analysis by the Wheat Interagency Commodity Estimates Committee.

Note: Totals may not add due to rounding.

Wheat Supplies: Wheat production in 2006 is expected to be down slightly from the previous year, but still round to 2.1 billion bushels. A modest decline in harvested area is expected to be partly offset by a

small increase in yield, returning to trend levels for all states except Texas and Oklahoma where a small adjustment was made. Although current crop conditions are exceptionally poor for Texas and Oklahoma, there is only a weak correlation between early crop conditions and yields, as rains in late winter and spring are crucial. The national average wheat yield in 2005 was slightly below-trend, so a return to trend for most states increases the national average.

Forecast beginning stocks for 2006/07 are nearly unchanged from the previous year, but imports are expected to increase with no anti-dumping duties on spring wheat from Canada. Increased imports are expected to partly offset reduced production, leaving U.S. wheat supplies down less than 1 percent in 2006/07.

Wheat Domestic Use: Domestic wheat use is expected to increase slowly in 2006/07. Flour production and use are expected to increase slightly, but at a growth rate less than population, so per capita flour use is expected to continue to decline. Feed and residual use is also expected to remain unchanged, leaving total domestic use up slightly.

Wheat Exports: U.S. wheat exports are expected to decline 2.5 percent to 975 million bushels as export competition is expected to be intense. Improved quality in Canada is expected after 2 years of large but poor-quality crops. U.S. good-quality hard wheats are expected to face much stiffer competition in 2006/07. Also increased competition from Australia is expected, especially in Iraq. Soft wheats will continue to face tough competition from the EU-25 and Australia, but area in Russia and Ukraine is reported down, so SRW may move into export channels with a smaller discount in 2006/07. The developing countries are expected to provide a growing demand base for world wheat trade.

Wheat Ending Stocks and Market Prices: Ending stocks for 2006/07 are forecast at 543 million bushels, nearly the same as forecast for 2005/06. The projected ending stocks-to-use ratio of 25.0 percent is similar to 24.8 percent forecast for 2005/06. With the relatively stable stocks-to-use ratio, the season-average farm price is projected unchanged at \$3.40 per bushel (the midpoint of the price range for 2005/06).

Corn Supply, Demand, and Price Outlook for 2006/07 (Table 3)

Corn Supplies: Corn planted acreage for 2006 is projected at 80.5 million acres, down 1.3 million acres from 2005. In recent years large government payments have boosted corn returns, providing incentives to plant corn. Loan Deficiency Payments (LDP) are record large in 2005, but are expected to decline in 2006 with a smaller crop and increased market price. Harvested area is expected to decline nearly 2 million acres due to lower plantings and a return to a normal harvested-to-planted ratio. Trend-based 2006 corn yields are slightly below actual 2005. Production is projected down 0.3 billion bushels to 10.8 billion. However, 2006 corn production is still expected to be the third-highest ever. Corn supply is projected to be nearly unchanged in 2006/07 even with lower production. Carryin stocks are forecast up 0.3 billion bushels to 2.4 billion, the largest since 1988/89. This will nearly offset reduced production, leaving 2006/07 corn supplies nearly unchanged at 13.2 billion bushels.

Corn Use: Corn use over the last several years has been dominated by gains in domestic use, led by sharp gains in ethanol, while exports have been relatively flat. Early indicators for 2006/07 point to

notable gains for exports and ethanol. Feed and residual use will remain the largest single component of corn disappearance.

Corn Feed and Residual Use: Feed and residual use is expected to fall slightly in 2006/07. Grain consuming animal units (GCAU's) are expected to increase in 2006/07. In spite of a large corn supplies and continued low prices, pork producers are only slowly increasing the number of sows farrowing and only slightly increasing pork production for 2006. Increases in milk, and broiler production are expected to be sufficient to stabilize overall feed demand. However, increased ethanol production is expected to result in larger supplies of by-product feeds competing with corn. Therefore, growth in corn feed and residual use is forecast to decline slightly year-to-year.

Table 3. Corn Supply, Demand, and Price, 2002/03-2006/07

	2002/03	2003/04	2004/05	2005/06f	2006/07p
Area planted (mil. ac.)	78.9	78.6	80.9	81.8	80.5
Area harvested	69.3	70.9	73.6	75.1	73.2
Yield (bu./ac.)	129.3	142.2	160.4	147.9	147.7
Production (mil. bu.)	8,967	10,089	11,807	11,112	10,810
Beginning stocks	1,596	1,087	958	2,114	2,401
Imports	14	14	11	10	10
Supply	10,578	11,190	12,776	13,236	13,221
Feed & residual	5,563	5,795	6,162	6,000	5,950
Ethanol fuel	996	1,168	1,323	1,600	2,150
Food, seed & other industrial	1,344	1,369	1,363	1,385	1,395
Total food, seed & industrial	2,340	2,537	2,686	2,985	3,545
Total Domestic Use	7,903	8,332	8,848	8,985	9,495
Exports	1,588	1,900	1,814	1,850	2,000
Total use	9,491	10,232	10,662	10,835	11,495
Ending stocks	1,087	958	2,114	2,401	1,726
Stocks/use (percent)	11.4	9.4	19.8	22.2	15.0
Season avg. farm price (\$/bu.)	2.32	2.42	2.06	1.90	2.15

f/ Acreage, yield, production, and beginning stocks are estimates from the National Agricultural Statistics Service. Imports, use, ending stocks, and season average farm price are projections from the *World Agricultural Supply and Demand Estimates*, February 9, 2006. The season average price is the mid-point of the projected range from the same report.

p/ Projections based on analysis by the Feed Grains Interagency Commodity Estimates Committee.

Note: Totals may not add due to rounding.

Corn Food, Seed, and Industrial Use: Food, seed, and industrial (FSI) use of corn is forecast to increase again in 2006/07. Most of the growth is projected in ethanol, as other food and industrial use shows a slight increase. Corn used to make high fructose corn syrup (HFCS) and corn for other products, such as

glucose and dextrose, starch, beverage and manufacturing alcohol, and cereals is projected up about one percent, in line with the population increase.

Corn Ethanol Use: Projected corn use for ethanol in 2006/07 is up 550 million bushels or 34 percent, even though some distribution infrastructure problems will need to be overcome. There are indications that the massive gains in corn used for ethanol in the last few years will be even larger in 2006 as more plants are built and the high price of ethanol keeps operating margins positive. Many refineries and fuel blenders are planning to completely end the use of MTBE, a major alternative octane enhancer to ethanol by the end of 2006, due to liability issues.

Corn Exports: U.S. corn exports are projected up 150 million bushels in 2006/07 to 2.0 billion bushels. Global import demand is expected to increase slowly in 2006/07 with most of the growth in developing countries. Reduced competition, especially from Argentina, is expected to boost U.S. market share. Argentina has planted much less corn for the current corn crop, and conditions during reproduction were too hot and dry in some regions, so a dramatic drop in production is expected. U.S. corn exports in the latter half of 2005/06 and the first half of 2006/07 will face much less competition than a year earlier when Argentina was marketing a record corn crop. South Africa's corn production is also down because of sharply reduced area, limiting future exports. Brazil's corn exports are expected to increase from the low levels of 2004/05 and 2005/06, but remain much lower than in 2002/03 and 2003/04. China remains a source of uncertainty, as a small decline in corn exports is projected, but continued large subsidized exports are expected. Its long-awaited switch from net corn exporter to net importer does not appear likely to occur in 2006, following two very large corn crops. However, continued gains in domestic use and falling stocks mean that China's exports will eventually decline. The experience with Avian Influenza in most of Asia has been that flocks can be repopulated quickly limiting the effect on corn demand.

Corn Ending Stocks and Market Prices: Ending stocks for corn are projected to drop significantly to 1.7 billion bushels in 2006/07. The stocks-to-use ratio is projected at 15.0 percent, down from 22.2 forecast for 2005/06. The large beginning stocks and production will keep pressure on prices, especially early in the marketing year. The average price received by farmers is projected at \$2.15 per bushel, up 25 cents from the mid-point of the 2005/06 forecast.

Soybean Supply, Demand, and Price Outlook for 2006/07 (Table 4)

Soybean Supplies: Planted acreage is projected at 74.0 million acres, up from last year's 72.1 million acres. The 2005 crop benefited from very timely rains in August which contributed to a record yield of 43.3 bushels per acre. The record 2005 yield is up 1.1 bushels from the previous record set in 2004. With normal weather conditions, the 2006 yield is expected to return to trend. The 2006 yield is projected at 40.7 bushels per acre based on regional yield trends for 1978-2005. Soybean production is projected at 2,965 million bushels, down 121 million bushels from the previous year's near-record crop. Soybean supplies for 2006/07 are projected at a record 3,524 million bushels. Despite lower production, record carryover stocks are expected to boost supplies by 178 million bushels compared with a year earlier.

Soybean Domestic Use: Soybean domestic use in 2006/07 is projected at 1,889 million bushels, up slightly from the current year's projection. Lower prices and increased supplies are expected to

encourage domestic use. Soybean crush is projected at 1,730 million bushels, up 10 million bushels from the forecast for 2005/06 forecast crush. Domestic soybean meal use is projected to increase 2 percent. Despite lower soybean meal prices, increased feeding of corn by-products and only moderate growth in poultry and hog production will limit growth in domestic disappearance of soybean meal. Soybean meal prices are projected at \$165 per ton, down 4 percent from the midpoint of the 2005/06 forecast range. Domestic soybean oil use is projected to increase 2 percent, slightly below the rate for the previous year. Growth is limited by trans-fat labeling requirements which are shifting some food industry users to alternative vegetable oils. Some of the projected growth is the result of biodiesel production, but soybean oil use for biodiesel is still increasing from a very small base. Soybean oil stocks are expected to remain just below this year's projected record, declining only slightly in 2006/07. Soybean oil prices are projected at 20.0 cents per pound, down 7 percent from the midpoint of the 2005/06 forecast range.

Table 4. Soybeans Supply, Demand, and Price, 2002/03-2006/07

	2002/03	2003/04	2004/05	2005/06f	2006/07p
Area planted (mil. ac.)	74.0	73.4	75.2	72.1	74.0
Area harvested	72.5	72.5	74.0	71.4	72.9
Yield (bu./ac.)	38.0	33.9	42.2	43.3	40.7
Production (mil. bu.)	2,756	2,454	3,124	3,086	2,965
Beginning stocks	208	178	112	256	555
Imports	5	6	6	4	4
Supply	2,969	2,638	3,242	3,346	3,524
Crush	1,615	1,530	1,696	1,720	1,730
Seed & residual	131	110	187	162	159
Total Domestic Use	1,745	1,639	1,883	1,882	1,889
Exports	1,044	887	1,103	910	1,075
Total use	2,791	2,525	2,986	2,792	2,964
Ending stocks	178	112	256	555	560
Stocks/use (percent)	6.4	4.5	8.6	19.9	18.9
Season avg. farm price (\$/bu.)	5.53	7.34	5.74	5.50	5.15

f/ Acreage, yield, production, and beginning stocks are estimates from the National Agricultural Statistics Service. Imports, use, ending stocks, and season average farm price are projections from the *World Agricultural Supply and Demand Estimates*, February 9, 2006. The season average price is the mid-point of the projected range from the same report.

p/ Projections based on analysis by the Oilseeds Interagency Commodity Estimates Committee.

Note: Totals may not add due to rounding.

Soybean Export Demand: U.S. soybean exports in 2006/07 are projected to reach 1,075 million bushels up 18 percent from the 2005/06 forecast. With lower prices, record supplies, and a more competitive dollar compared with currencies in exporting and importing countries, U.S. supplies are expected to be more competitive in world markets in 2006/07. Despite slowing area expansion, record-large South American soybean production in 2005/06 will keep export competition strong during the first part of

2006/07. Lower prices, however, should lead oilseed producers in other countries to scale back sown area.

Lower world prices are expected to stimulate consumption and trade in soybeans and soybean meal. China will continue to dominate the growth of global soybean imports with its ample crush capacity and robust consumption of protein meal and vegetable oil. Only modest consumption gains are seen for the European Union, a market that still accounts for nearly half of world soybean meal trade and one-fourth of world soybean trade.

Table 5. Soybean Meal Supply, Demand, and Price, 2002/03-2006/07

	2002/03y	2003/04	2004/05	2005/06f	2006/07p
Production (thou. short tons)	38,194	36,325	40,717	40,613	41,135
Beginning stocks	240	220	211	172	250
Imports	173	285	147	165	165
Supply	38,608	36,830	41,075	40,950	41,550
Domestic Use	32,074	31,449	33,563	34,100	34,700
Exports	6,314	5,170	7,340	6,600	6,600
Total use	38,388	36,619	40,903	40,700	41,300
Ending stocks	220	211	172	250	250
Avg. price (\$/short ton) z/	182	256	183	173	165

f/ Beginning stocks are estimates from the U.S. Bureau of the Census. Production, imports, use, ending stocks, and average price are projections from the *World Agricultural Supply and Demand Estimates*, February 9, 2006. The average price is the mid-point of the projected range from the same report.

p/ Projections based on analysis by the Oilseeds Interagency Commodity Estimates Committee.

y/ The soybean meal marketing year is October through September.

z/ The average price is for 48-percent protein meal at Decatur, Illinois.

Note: Totals may not add due to rounding.

Abundant U.S. soybean supplies in 2006/07 will help keep domestic processors competitive in some foreign markets, but increasing meal exports from Argentina, where export taxes favor the export of meal over whole soybeans, are expected to flatten demand for U.S. soybean meal exports overall. U.S. soybean meal exports are projected at 6.5 million short tons, unchanged from the 2005/06 forecast. At this level, the U.S. share of global soybean meal exports would continue to erode.

U.S. exports of soybean oil are expected to decline slightly in 2006/07, falling 2 percent to 1.325 billion pounds. China's will continue to drive world soybean oil trade as its growth in vegetable oil consumption continues to surpass its need for protein meal. India is expected to import more vegetable oil, as domestic oilseed production is not expected reach the 2005/06 level. China and India account for over one third of global soybean oil trade. The steady increase in world palm oil output will limit stronger expansion of global soybean oil trade.

Soybean Ending Stocks and Market Prices: Soybean ending stocks for 2006/07 are forecast at a record 560 million bushels, up 5 million from the record level projected for 2005/06. Prices received by farmers during 2006/07 are projected to average \$5.15 per bushel, down 6 percent from the midpoint of the projected 2005/06 range. With record large supplies and only moderate growth in global protein demand, the U.S. season average soybean price is projected to be the lowest since 2001/02.

Table 6. Soybean Oil Supply, Demand, and Price, 2002/03-2006/07

	2002/03 ^y	2003/04	2004/05	2005/06 ^f	2006/07 ^p
Production (mil. lbs.)	18,430	17,081	19,360	20,040	19,550
Beginning stocks	2,359	1,489	1,076	1,699	2,454
Imports	46	306	26	65	70
Supply	20,835	18,875	20,462	21,804	22,074
Domestic Use	17,083	16,864	17,439	18,000	18,350
Exports	2,263	936	1,324	1,350	1,325
Total use	19,346	17,800	18,762	19,350	19,675
Ending stocks	1,489	1,076	1,700	2,454	2,399
Avg. price (cents/lb.) ^z /	22.0	30.0	23.0	21.5	20.0

f/ Beginning stocks are estimates from the U.S. Bureau of the Census. Production, imports, use, ending stocks, and average price are projections from the *World Agricultural Supply and Demand Estimates*, February 9, 2006. The average price is the mid-point of the projected range from the same report.

p/ Projections based on analysis by the Oilseeds Interagency Commodity Estimates Committee.

y/ The soybean oil marketing year is October through September.

z/ The average price is for crude soybean oil at Decatur, Illinois.

Note: Totals may not add due to rounding.