

**GRAINS AND OILSEEDS OUTLOOK FOR 2005**

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 2005/06 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 2005 is shaped by large domestic supplies, lower prices, and strong world competition. Production projections assume normal weather conditions for spring planting and summer crop development. With normal weather and trend yields, 2005 corn production is expected to fall from last year's record level. Following successive record crops in 2003 and 2004, growth in supply has outpaced demand growth, boosting ending stocks to 2 billion bushels. At trend, soybean yields are expected to fall below last year's record, but with heavy carryin supplies from last year's record crop, supplies will be up. With competition from a record 2004 South American crop, demand gains will not be sufficient to reduce 2005/06 ending stocks substantially. Despite sharply lower winter wheat seedings, particularly in the Soft Red Winter wheat growing areas, trend yields are expected to keep 2005 wheat production just below 2004. With lower wheat feed use and weaker export prospects, 2005/06 ending stocks are expected to remain almost unchanged from 2004/05. Maintaining large carryover stocks through 2005/06 will hold down prices for corn, soybeans, and wheat, and add to farm program payments.

**Planted Acreage Outlook for 2005** (Table 1)

The 2005 acreage outlook is driven by the usual economics of expected prices and returns and rotational considerations, along with weather and disease issues unique to 2005. Prices, particularly for corn and soybeans, are down substantially from last year. With current soybean and corn prices close to loan rates, producer returns are being protected by marketing loans and loan deficiency payments. In addition, record farm income in 2004 will support large 2005 plantings. Nonetheless, total area is likely to be trimmed this year. Combined wheat, corn, and soybean plantings in 2005 are projected to fall below last year's 215.8 million acres. Last year's 3-crop acreage was boosted by prices that were at the highest levels since the mid-1990s. Also, exceptionally favorable spring weather allowed for a record corn planting pace and added to total 2004 acreage. Further, disease concerns could affect the level and mix of crop planting this year.

Unique to the coming year's outlook, and already known, is the sharp drop in winter wheat area. Heavy precipitation last fall dropped winter wheat seedings 1.8 million acres from 2004. At 41.6 million acres, planted area is the lowest since 2001. Seeded area in the Soft Red Winter wheat producing states that border the lower Mississippi and the Ohio Rivers is down 1.5 million acres for 2005. Wheat acreage in these states is the lowest in the 97 years reported on the National Agricultural Statistics Service online Agricultural Statistics Data Base.

Unique to the 2005 outlook, but still uncertain, is the potential for Asian soybean rust following its discovery in 9 southern states late last year. With Asian rust confirmed for the first time in North America, many questions exist as to how producers will respond to this new disease threat. There are questions yet to be resolved about the specific management practices that will be necessary to mitigate its potentially devastating effects.

Wheat acreage, which has been trending downward gradually, is expected to drop 1.7 million acres in 2005. At 58.0 million acres, U.S. wheat area would be its lowest since 1972. The large decline is explained by the lower winter wheat area seeded last fall. Spring wheat acreage is expected to remain almost unchanged year-to-year at 16.4 million acres. Despite prices that are expected to stay above the \$2.75-per-bushel national average loan rate, spring wheat seedings are not expected to increase because of competition from other crops. In the Northern Plains, increases in acreage of other oilseeds, especially sunflower seed, and dry peas are expected to curb spring wheat area.

Corn acreage for 2005 is expected to increase 1.1 million acres from 2004. At 82.0 million acres, corn plantings would be the highest since 1985. Strong yield gains have bolstered corn returns in recent years, supporting larger corn area. Despite expectations for prices to be below the loan rate in 2005, other factors will provide incentives to plant corn, including lower Soft Red Winter wheat seedings and the potential for Asian soybean rust. Land that could not be seeded to Soft Red Winter wheat last fall is likely to go into corn, provided spring weather permits additional corn planting. Most of this acreage was in soybeans last year and second-year soybeans can experience a significant yield reduction. Corn is also expected to gain acres marginally on soybeans due to more corn-on-corn planting in the Corn Belt and on concerns about higher soybean production costs and greater yield risk given the potential for Asian soybean rust. Partly offsetting these advantages for corn are high fertilizer costs driven by continued strong natural gas prices.

Farm program incentives for corn have strengthened relative to soybeans under the 2002 Farm Act. With corn and soybean prices expected at or below loan rates, loan rates will have the most impact on acreage since 2001. The 2002 Farm Act sets the 2005 national average corn loan rate at \$1.95 per bushel compared with the maximum of \$1.89 per bushel under the 1996 Farm Act (crop years 1996-2001). The soybean national average loan rate, however, is lower under the 2002 Farm Act at \$5.00 per bushel as compared with \$5.26 per bushel under the 1996 Farm Act.

Soybean acreage for 2005 is projected at 73.0 million acres, down 2.2 million acres from last year's record. The potential for sharp increases in production costs and more intensive crop management requirements as a result of Asian soybean rust is expected to reduce plantings in the southern growing areas where the disease potential is the highest. Southern acreage expanded 1.4 million acres in 2004 because producers could deliver new crop soybeans in August for more than \$8.00-per-bushel. With prices expected to fall well-below loan rates next fall, these acres are expected to go back into feed grains and cotton. Also constraining 2005 soybean acreage is the sharp drop in winter wheat seedings in the traditional Soft Red Winter wheat states. With less winter wheat area available for double cropping and much of the non-seeded area likely to shift to corn for rotational considerations, double crop acreage could drop more than 0.5 million acres in 2005. Higher prices a year ago led to an increase of about 0.5 million acres in 2004 double crop soybeans.

### **Wheat Supply, Demand, and Price Outlook for 2005/06** (Table 2)

Wheat Supplies: Wheat production is expected to fall 3 percent to 2,085 million bushels in 2005, driven

by lower harvested area and yield. Lower harvested area reflects a decline in planted area, which is only partly offset by an assumed increase in the harvested-to-planted ratio (based on a 10-year average). Trend yield is 42.3 bushels per acre, down 0.9 bushels from 2004 when excellent weather pushed up spring yields. Current conditions are generally favorable for Hard Red Winter wheat areas, in contrast to sub-par conditions for Midwestern Soft Red Winter wheat. With beginning stocks nearly unchanged, wheat supplies are forecast down 2 percent in 2005/06.

Wheat Domestic Use: Domestic wheat use is expected to decline. Feed and residual use, at 175 million bushels, is down from 2004/05, as a smaller crop and lower corn prices limit wheat feeding. Little change is expected in food use. Recent mill grind data indicate flour production in 2004 was the lowest since 1995.

Wheat Exports: With the smaller U.S. wheat crop and smaller overall U.S. wheat supplies, exports are expected to decline 5 percent to 975 million bushels as strong export competition continues. World supplies will be near year-earlier levels in 2005/06 as larger carry-in stocks offset a decline in production from the 2004 record. Stocks are building in Europe, and a return to export subsidies ahead of another large crop signals that the European Union (EU) will again be a major exporter in the highly competitive Mediterranean market. With good crop prospects, the Black Sea region could also pressure U.S. shipments. Canada is expected to see a rebound in the quality of its wheat, which could cut into U.S. spring wheat sales. In 2004/05, poor harvest weather reduced Canada's production of high quality wheat and has pushed U.S hard red spring exports to an 8-year high.

Wheat Ending Stocks and Market Prices: Ending stocks for 2005/06 are forecast at 571 million bushels, up 13 million bushels from 2004/05. The projected ending stocks-to-use ratio of 26.7 percent is above the 25.2 percent forecast for 2004/05. With the higher stocks-to-use ratio, the season-average farm price is projected to decline. Prices received by producers are projected at \$3.20, down 18 cents from the midpoint of the price range for 2004/05.

### **Corn Supply, Demand, and Price Outlook for 2005/06** (Table 3)

Corn Supplies: Corn planted acreage for 2005 is projected at 82.0 million acres, up 1.1 million acres from 2004. Favorable returns for corn in recent years are expected to support large corn acreage again in 2005. Despite lower market prices, revenue is strong in part because of large government payments. Loan deficiency payments averaging 28 cents per bushel have already been made on 9 billion bushels of 2004 crop corn.

Despite increased plantings, corn production is expected to slip as yields return to trend levels. However, with the national average yield forecast at 145.6 bushels per acre, 2005 corn production is still expected to be the second-highest ever at 10,860 million bushels. The record 2004 yield reflects exceptional weather, as was the case when the previous yield record was set in 1994.

Corn supply is projected to grow in 2005/06 even with lower production. Carryin stocks are forecast at 2 billion bushels, the largest since 1992/93. Although total disappearance in 2004/05 is on its way to a record, last year's enormous crop boosted supplies, leaving ending stocks more than double the 2003/04 level. This will boost supplies to a record 12,885 million bushels for 2005/06.

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 2005 point to a similar picture, with only modest gains for exports and further increases for ethanol, although the rate of

increase for ethanol appears to be slowing. 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 2005/06 from the record forecast for 2004/05. The large increase in 2004/05 was driven by the record crop and a sharp drop in prices. Grain consuming animal units (GCAU's) are expected to increase slightly in 2005/06. In spite of a large corn crop and continued low prices, pork producers are not expected to increase the number of sows farrowing and only very slightly increase pork production for 2005. Increases in milk, broiler, and beef production are not expected to be sufficient to boost overall feed demand. Therefore, growth in feed use is forecast to remain largely flat year-to-year. The increase in beef production, however, does suggest that beef sector feed needs may be increasing from cyclical lows.

In addition to developments in the poultry and livestock sectors, corn feed and residual use will also be tempered by the availability of competing feedstuffs. Increased corn dry milling for ethanol will add by-products such as distillers' grains to feed supplies. Availability of corn gluten feed, a by-product of corn wet milling, is also increasing as a result of reduced exports to Europe.

Corn Food, Seed, and Industrial Use: Food, seed, and industrial (FSI) use of corn is forecast to increase again in 2005/06, but at a slower pace than the 10 percent forecast for 2004/05. Most of the growth is projected in ethanol, as other food and industrial use shows very modest increases. Corn used to make high fructose corn syrup (HFCS) is projected to rebound slightly in 2005/06 following a slight decrease in 2004/05. Combined use of 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: There are indications that the massive gains in corn used for ethanol in the last few years will be smaller in 2005 as supplies begin to outstrip gains in demand. Currently, ethanol supplies appear to be in balance with demand, and ethanol prices are declining—this is in contrast to continuing strong gasoline prices. Forecast corn use for ethanol in 2005/06 is up only 5 percent, even though production capacity is expected to grow at a faster pace. Without additional states banning MTBE use, ethanol prices may continue to soften, limiting production increases as existing plants run at lower rates of capacity.

Corn Exports: U.S. corn exports are projected up 50 million bushels in 2005/06 to 1,950 million bushels. Global import demand is expected to be largely unchanged in 2005/06. World imports of corn are forecast to decline substantially in 2004/05, as a result of competition with feed wheat, a recovery from drought in Europe, and sluggish demand in Asian markets, reflecting in part the impact of avian influenza. No quick turnaround is expected in 2005/06.

The small increase in U.S. exports suggests that U.S. market share may increase slightly, but competition will remain strong, especially from Argentina. Argentina has had a bumper 2004 crop, boosting exportable supplies and exports. Even if production slips in 2005, Argentina is expected to remain a formidable competitor. Rising corn stocks in the EU-25 could present a problem for the EU that might lead to an increase in corn exports to outside countries.

China remains the chief source of uncertainty ahead. Its long-awaited switch from net corn exporter to net importer does not appear likely to occur in 2005, following a very large 2004 crop. However, continued gains in domestic use and falling stocks mean that China's exports will decline in 2005/06.

### Corn Ending Stocks and Market Prices:

Ending stocks for corn are projected to rise slightly to 2.1 billion bushels in 2005/06. The stocks-to-use ratio is projected at 19.5 percent, also up slightly from 2004/05. This will keep pressure on prices, with the average price received by farmers projected at \$1.90, down a nickel from the mid-point of the 2004/05 forecast.

### **Soybean Supply, Demand, and Price Outlook for 2005/06** (Table 4)

**Soybean Supplies:** Soybean production is projected at 2,870 million bushels, down 271 million bushels from last year's record crop. Planted acreage is projected at 73.0 million acres, also down from last year's record of 75.2 million acres. The 2004 crop benefited from cooler than normal summer weather, adequate moisture through August, and a warmer than normal September, all of which contributed to a record yield of 42.5 bushels per acre. The record 2004 yield is up 1.1 bushels from the previous record in 1994. With more normal weather conditions, the 2005 yield is expected to return to trend. The 2005 yield is projected at 40.0 bushels per acre based on regional yield trends for 1978-2004. With the exception of last year's record, yield growth has slowed in the past decade. Part of this decline reflects acreage expansion outside the Corn Belt, especially in the Northern Plains, where yields are below that national average. It also reflects somewhat less favorable weather overall in more recent years as compared to the late 1980s and early 1990s. Soybean supplies for 2005 are projected at a record 3,313 million bushels. Despite lower production, large carryover stocks are expected to boost supplies by 55 million bushels as compared with 2004/05.

**Soybean Domestic Use:** Soybean domestic use is projected at 1,843 million bushels, up 2 percent from 2004/05. Lower prices and increased supplies are expected to push domestic use to near the record set in 2001/02. Soybean crush is projected at 1,695 million bushels, up 2 percent from 2004/05. Domestic soybean meal use is projected to increase just over 1 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 \$150 per ton, down 5 percent from the midpoint of the projected range for 2004/05. Domestic soybean oil use is projected to increase 2 percent, slightly below the rate for 2004/05. Although soybean oil stocks remain relatively tight, soybean oil prices are projected to average 19.5 cents per pound, the lowest since 2001/02.

**Soybean Export Demand:** With lower prices and negligible appreciation of the dollar, the outlook for U.S. exports throughout the soybean complex looks better than in recent years. U.S. soybean exports are projected to expand by 5 percent to 1,060 million bushels in 2005/06. This increase would interrupt a long-term decline in the U.S. market share of world soybean exports, stabilizing it around this season's level. Unlike last fall, there should be few reasons for producers to delay marketing so the 2005/06 export pace is expected to strengthen quickly.

South American producers are expected to view the falling price trend and rising production costs as a signal to suspend their decade-long area expansion. Despite slowing production growth, record-large South American soybean stocks this year will boost 2005/06 supplies, but at a reduced rate. Oilseed producers in other countries (such as Canada, Australia, and India) are expected to scale back sown area from 2004 due to lower oilseed prices. With world output growth slowing, U.S. supplies are expected to be more competitive in world markets.

Lower world prices will 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. Growth in protein demand in other Asian markets is limited by the continuing effect of avian influenza. In addition, 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.

Abundant U.S. soybean supplies will make domestic processors more competitive in foreign markets. Domestic requirements for soybean meal are growing moderately, so there will be a greater quantity available for export. U.S. soybean meal exports are projected to increase by 12 percent in 2005/06 to 6.4 million short tons. At this level, U.S. share of global soybean meal exports would register a slight improvement from 2004/05.

U.S. exports of soybean oil are also anticipated to increase in 2005/06, rising 15 percent to 1.5 billion pounds. China's growth in vegetable oil consumption will continue to surpass its needs for protein meal, driving world soybean oil trade. Domestic oilseed production in India is not expected reach the 2004/05 level, prompting larger soybean oil imports. China and India account for over one third of global soybean oil trade. Pressuring stronger expansion of soybean oil imports will be the steady increase in world palm oil output.

Soybean Ending Stocks and Market Prices: Soybean ending stocks for 2005/06 are forecast at 410 million bushels, down 30 million from the level projected for 2004/05. At this level, stocks would be the second highest since 1985/86. Market prices are projected to average \$4.50 per bushel in 2005/06, down from the \$5.10 per bushel midpoint of the projected 2004/05 range. Despite limited South American area expansion, record global soybean stocks projected for the beginning of the 2005/06 marketing year will keep supplies large. With 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 1. Wheat, Corn, and Soybean Planted Acreage, 1998-2005**

	1998	1999	2000	2001	2002	2003	2004	2005 1/
	- Million Acres -							
Wheat	65.8	62.7	62.5	59.4	60.3	62.1	59.7	58.0
Corn	80.2	77.4	79.6	75.7	78.9	78.6	80.9	82.0
Soybeans	72.0	73.7	74.3	74.1	74.0	73.4	75.2	73.0
Total	218.0	213.8	216.4	209.2	213.2	214.1	215.8	213.0

1/ Projection

Note: Totals may not add due to rounding.

Source: 1998-2004 National Agricultural Statistics Service

**Table 2. Wheat Supply, Demand, and Price, 2002/03-2005/06**

	2002/03	2003/04	2004/05 1/	2005/06 2/
Area planted (mil. ac.)	60.3	62.1	59.7	58.0
Area harvested	45.8	53.1	50.0	49.3
Yield (bu./ac.)	35.0	44.2	43.2	42.3
Production (mil. bu.)	1,606	2,345	2,158	2,085
Beginning stocks	777	491	546	558
Imports	77	63	65	65
Supply	2,460	2,899	2,770	2,708
Feed & residual	116	207	200	175
Food, seed & industrial	1,003	987	987	987
Total Domestic Use	1,119	1,193	1,187	1,162
Exports	850	1,159	1,025	975
Total use	1,969	2,353	2,212	2,137
Ending stocks	491	546	558	571
Stocks/use (percent)	24.9	23.2	25.2	26.7
Season avg. farm price (\$/bu.)	3.56	3.40	3.38	3.20

1/ 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, 2005. The season average price is the mid-point of the projected range from the same report.

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

Note: Totals may not add due to rounding.

**Table 3. Corn Supply, Demand, and Price, 2002/03-2005/06**

	2002/03	2003/04	2004/05 1/	2005/06 2/
Area planted (mil. ac.)	78.9	78.6	80.9	82.0
Area harvested	69.3	70.9	73.6	74.6
Yield (bu./ac.)	129.3	142.2	160.4	145.6
Production (mil. bu.)	8,967	10,089	11,807	10,860
Beginning stocks	1,596	1,087	958	2,010
Imports	14	14	15	15
Supply	10,578	11,190	12,780	12,885
Feed & residual	5,563	5,798	6,075	5,950
Ethanol fuel	996	1,168	1,425	1,500
Food, seed & other industrial	1,344	1,369	1,370	1,380
Total food, seed & industrial	2,340	2,537	2,795	2,880
Total Domestic Use	7,903	8,335	8,870	8,830
Exports	1,588	1,897	1,900	1,950
Total use	9,491	10,232	10,770	10,780
Ending stocks	1,087	958	2,010	2,105
Stocks/use (percent)	11.4	9.4	18.7	19.5
Season avg. farm price (\$/bu.)	2.32	2.42	1.95	1.90

1/ 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, 2005. The season average price is the mid-point of the projected range from the same report.

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

Note: Totals may not add due to rounding.

**Table 4. Soybeans Supply, Demand, and Price, 2002/03-2005/06**

	2002/03	2003/04	2004/05 1/	2005/06 2/
Area planted (mil. ac.)	74.0	73.4	75.2	73.0
Area harvested	72.5	72.5	74.0	71.7
Yield (bu./ac.)	38.0	33.9	42.5	40.0
Production (mil. bu.)	2,756	2,454	3,141	2,870
Beginning stocks	208	178	112	440
Imports	5	6	5	3
Supply	2,969	2,638	3,258	3,313
Crush	1,615	1,530	1,655	1,695
Seed & residual	131	110	153	148
Total Domestic Use	1,746	1,640	1,808	1,843
Exports	1,044	885	1,010	1,060
Total use	2,791	2,525	2,818	2,903
Ending stocks	178	112	440	410
Stocks/use (percent)	6.4	4.4	15.6	14.1
Season avg. farm price (\$/bu.)	5.53	7.34	5.10	4.50

1/ 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, 2005. The season average price is the mid-point of the projected range from the same report.

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

Note: Totals may not add due to rounding.

**Table 5. Soybean Meal Supply, Demand, and Price, 2002/03-2005/06**

	2002/03	2003/04	2004/05 1/	2005/06 2/
Production (thou. short tons) 3/	38,194	36,324	39,274	40,335
Beginning stocks	240	220	211	250
Imports	166	270	165	165
Supply	38,600	36,815	39,650	40,750
Domestic Use	32,361	32,260	33,700	34,100
Exports	6,019	4,344	5,700	6,400
Total use	38,380	36,604	39,400	40,500
Ending stocks	220	211	250	250
Avg. price (\$/short ton) 4/	181.57	256.05	157.50	150.00

1/ 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, 2005. The average price is the mid-point of the projected range from the same report.

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

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

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

Note: Totals may not add due to rounding.

**Table 6. Soybean Oil Supply, Demand, and Price, 2002/03-2005/06**

	2002/03	2003/04	2004/05 1/	2005/06 2/
Production (mil. lbs.) 3/	18,430	17,080	18,770	19,070
Beginning stocks	2,358	1,491	1,076	1,351
Imports	46	306	105	110
Supply	20,835	18,877	19,951	20,531
Domestic Use	17,081	16,866	17,300	17,650
Exports	2,263	935	1,300	1,500
Total use	19,344	17,801	18,600	19,150
Ending stocks	1,491	1,076	1,351	1,381
Avg. price (cents/lb.) 4/	22.04	29.97	21.50	19.50

1/ 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, 2005. The average price is the mid-point of the projected range from the same report.

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

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

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

Note: Totals may not add due to rounding.