Situation and Outlook for Corn, Soybeans, and Hogs

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CORN

Supply: The 2009/10 U.S. corn market outlook reflects both increased supplies from higher planted area and stronger demand as a result of rising ethanol mandates and improved prospects for exports with lower prices and increased world trade.

U.S. domestic corn supplies are expected to rebound in 2009/10 with higher planted and harvested area. Supplies are projected at 14.1 billion bushels, up 335 million from 2008/09, but down 286 million from the record level of 2007/08. The National Agricultural Statistics Service (NASS) June 30 *Acreage* report forecast 2009 planted area at 87.0 million acres, up 1.0 million from 2008, and 2.0 million higher than indicated by producers in the March 30 *Prospective Plantings* report. This year's planted area, while the second largest since 1946, remains 6.5 million acres below 2007 when planted area increased year-to-year by 15.2 million acres in response to sharply higher prices starting in late 2006 spurred by rapidly rising demand for corn to produce ethanol.

Corn prices rallied this past May as heavy, persistent rains in the eastern Corn Belt delayed planting and raised concerns about acreage and yields. The situation in the western Corn Belt, however, was much different. By early May, 80 percent of the corn in Iowa, Minnesota, and Nebraska was planted raising the likelihood for higher area, which was confirmed by the *Acreage* report, and the potential for record yields in these important corn states. Very high crop condition ratings and a continuation of frequent rains across the Corn Belt during June contributed to a sharp retreat in prices leading up to the June 30 release of the *Acreage* report. The NASS report, which indicated corn plantings as much as 1 million bushels higher than the highest pre-report trade expectations, further fueled declines in cash and futures prices through early July. From early June through mid-July, corn prices have lost more than $1 per bushel in the futures market and in most locations.

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Presented to the Top Farmer Crop Workshop, Purdue University, West Lafayette, Indiana, July 22, 2009.

Demand: Rising demand for ethanol as mandated by the Federal Renewable Fuels Standard continues to be a major driver of corn demand, underpinning prices for corn and other major field crops which compete with corn for cropland. Corn use for ethanol, which has more than tripled over the past 5 years, is expected to increase 12 percent in 2009/10 as higher biofuel mandates boost ethanol use. Corn use for ethanol is projected at 4.1 billion bushels, up 450 million from the current year. Ethanol use is projected to account for 33 percent of total corn use in 2009/10, up from 11 percent in 2003/04.

With every bushel of corn used for ethanol resulting in the equivalent of 17 pounds of dry distillers' grains, the rising availability of feed co-products has contributed to an overall reduction in corn feeding since 2007/08. Corn feed and residual use in 2009/10 is projected at 5.2 billion bushels, down 50 million from 2008/09. Higher prices for corn and other feeds during the past year have pressured margins for livestock and poultry feeders reducing animal numbers, further limiting prospects for domestic corn feeding. Despite lower expected feed and residual use and a 35-million-bushel year-to-year reduction in corn used for sweeteners and starch because of the recession, total domestic corn use for 2009/10 is expected to rise 405 million bushels to a record 10.6 billion.

Exports: Larger domestic corn supplies, lower prices, and a gradual recovery in world corn feeding demand are expected to boost U.S. exports in 2009/10. U.S. corn exports are projected at 1.95 billion bushels for 2009/10, up 8 percent from the current year, but below the record 2.44 billion in 2007/08. Although, growth in global livestock feeding is expected to remain limited by a slow and gradual recovery in the world economy, gains in corn feeding are expected as world supplies of low-quality wheat are sharply reduced from 2008/09. With record 2008/09 world wheat production, global wheat feeding reached an 18-year high. Global wheat feeding is expected to decline in 2009/10.

Ending Stocks: U.S. corn ending stocks for 2009/10 are projected at 1.55 billion bushels, down 12 percent from 2008/09. Despite a year-to-year increase in carryin of 146 million bushels and an increase in projected production of 189 million bushels, ending stocks are expected to decline in 2009/10 as total corn use exceeds production. Lower-than-expected 2008/09 use and higher-than-expected 2009/10 plantings, as indicated by the NASS June 30 *Grain Stocks* and *Acreage* reports, have recently boosted supply and ending stocks prospects. In addition, good growing season weather, especially in the western Corn Belt, also is pressuring prices lower.

Prices: Given current supply and use prospects, the marketing-year average farm price for 2009/10 is projected at $3.35 to $4.15 per bushel, below the record $4.20 per bushel in 2007/08 and down from $3.95 to $4.15 per bushel projected for 2008/09.

SOYBEANS

Supply: U.S. soybean production for 2009/10 is projected up 10 percent from 2008/09, led by record soybean area and a return to trend yields. The NASS June 30 *Acreage* report forecast 2009 planted area at a record 77.5 million acres, up 1.8 million from 2008, and 1.5 million higher than indicated by producers in the March 30 *Prospective Plantings* report. Based on 76.5 million harvested acres and a trend yield of 42.6 bushels per acre, production is projected to rise to a record 3.26 billion bushels. However, with sharply lower beginning stocks, supplies are projected to rise by only 6 percent.

Demand: Although global protein demand for livestock feed has been relatively weak due the global recession, soybean purchases by China and reduced South American production have provided significant price support for soybeans and soybean meal. In addition, strong petroleum prices and growing biodiesel demand in many countries continue to support vegetable oil prices.

Crush: Soybean crush is projected to rise for the first time in 3 years, led by the export market. Domestic soybean meal demand growth has been limited due to weak growth in meat production and the availability of alternative protein sources including canola meal and distillers' grains. Domestic meal consumption will be supplemented by strong export demand as importers turn to the United States to replace lost South American supplies. The resulting increase in soybean oil production will allow for growth in soybean oil exports and in biodiesel production.

The U.S. biodiesel market has changed dramatically in the past year in part because of trade policy changes and in part because of feedstock prices. Until last fall, U.S. tax credits for biodiesel blending were extended to foreign-produced biodiesel that was "blended" in the United States for shipment to other markets, principally the EU-27. This was the so-called "splash and dash" trade practice which resulted in additional foreign competition for U.S.-produced biodiesel. Legislation ended this practice in late 2008.

A second major change for the U.S. biodiesel market was the imposition of biodiesel import duties by the EU-27 on U.S.-produced biodiesel. These duties were imposed to offset the blending credits offered to biodiesel manufacturers in the United States. Prior to enactment of these duties in March 2009, net exports accounted for almost half of U.S. biodiesel production and the EU-27 accounted for almost all of the exports. Since enactment, exports to the EU-27 and the world have declined dramatically, almost eliminating a major source of demand for U.S. biodiesel.

Finally, amid relatively high soybean oil prices, animal fats are rapidly becoming the most economical biodiesel feedstock source. The combined effect of these changes has been a dramatic decline in soybean oil-based biodiesel production. USDA currently projects 2008/09 soybean oil used for biodiesel production at 1.65 billion pounds compared with 3.25 billion in 2007/08. Despite rising mandates for biodiesel use in 2010, soybean oil-based production is projected to rise only modestly as use of alternative feed stocks continues to grow.

Exports: Soybean exports for 2009/10 are projected to rise to a record level as importers, including China, look for alternatives to South American supplies, especially in the first half of the marketing year.

Current soybean prices are below the record prices set during summer 2008, but remain above the long-term average, supported by strong demand for soybeans by China, the world's leading soybean importer, and a sharply drought-reduced soybean crop in Argentina, the world's third largest soybean producer. China, which accounts for over half of global soybean imports and all of the growth in world soybean trade in the past 5 years, is setting a new record for imports this year as China builds soybean stocks. Meanwhile, over one-third of the Argentina soybean crop was lost to drought this past spring. As the world's leading exporter of soybean meal and oil, this deficit will continue to affect prices for soybeans and products in the year ahead.

Ending Stocks: Despite increased crush and exports, soybean stocks are expected to rebound in 2009/10 as supplies are projected to increase more than use.

Prices: The season-average soybean price is projected at $8.30 to $10.30 for the 2009/10 marketing year. Soybean meal prices, supported by the Argentina crop shortfall, are projected at $255 to $315. Soybean oil prices are projected at 31 to 35 cents per pound. Soybean, meal, and oil prices are all projected above the 5-year averages.

HOGS

Supply: The most recent *Quarterly Hogs and Pigs* report estimated that hog inventories on June 1 were about 2 percent less than last year. During June-August and September-November, producers intend to farrow 3 and 2 percent fewer sows, respectively. However, some of the decline in farrowings is expected to be offset by continued growth in pigs per litter while the decline in grain prices may encourage feeding hogs to heavier weights.

In 2008, a record 23.3 billion pounds of pork was produced. Pork production is forecast to decline 2.5 percent in 2009. If producers continue to reduce farrowings modestly into the first part of 2010, pork production in 2010 could decline slightly more than the 1 percent decline currently forecast.

Demand: Pork demand is weak. Wholesale prices which normally increase seasonally during the summer grilling season remain below last year despite reduced production. The decline reflects a combination of reduced exports and weak domestic demand. Demand in the hotel and restaurant sectors is weak reflecting the recession. Anecdotal evidence points toward consumers shifting to lower-priced meats.

The hog sector is experiencing an extended period of poor returns. After generally positive returns since early 2004, high grain and energy prices pushed producer returns negative for hogs marketed in October 2007. Through June 2009, returns have remained mostly negative. In response, producers have been reducing the size of the herds.

Prices: USDA is forecasting hog prices in the third quarter to average about 21 percent lower than 2008 with 4-5 percent lower prices in the fourth quarter. As supplies tighten further in 2010 and with a recovery in demand, live hog prices in 2010 are expected to average in the upper $40's per cwt, 12-13 percent higher than 2009.

NOTE: The PowerPoints used in this presentation are available at:
www.usda.gov/oce/speeches/