

USDA's Projections for 2018

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US AGRICULTURE continues on an amazing productivity run. The last five corn crops are the five largest ever produced. The last four soybean crops are the four largest ever. Meat production exceeded the \$100 billion mark for the first time. The question going forward for the markets is, "Will this streak continue next year?" USDA has provided its outlook for 2018 and the answer seems to be "Yes."

Of course, at this point, we do not know what weather patterns will appear or how agricultural demands might adjust over the next 18 months. Thus, the USDA outlook is based on current trends in production and usage. However, those current trends suggest the run of large crops and growing meat production is not over yet and crop price recovery may be still a ways off. Crop acreage is concentrating in corn and soybean production, as other crops still are not offering significant enough returns to pull farmland back to those other crops. As has been the case for the last few years, projected corn and soybean returns are not very attractive, but they are better than those offered by other crops.

The early estimate for corn acreage shows a slight increase in 2018, moving up to 91 million acres, as shown in Table 1. With the national trendline yield set at 173.5 bushels per acre, that translates to corn production remaining above 14.5 billion bushels. In fact, the projected 2018 corn crop would be the third-largest ever and total corn supply would exceed 17 billion bushels for the first time ever.

Corn usage is projected to remain strong as well, but it is still just below expected production. Feed and residual use is expected to decline slightly,

which, as livestock production is increasing, is probably more about residual usage than feed demand. Corn usage for ethanol is set to reach another record next year. Domestic use of E-15 is rising and ethanol exports have been robust. Food, seed, and other uses continue to rise. The weakest demand sector is export. With global supplies of not only corn, but also other feed grains, at extremely high levels, US corn is facing a lot of competition in the international marketplace. With total usage projected at nearly 14.5 billion bushels, corn demand is doing what it can to lift prices. However, ending stocks are expected to rise slightly, reaching 2.6 billion bushels, and corn prices are projected to stay lower. The initial estimate for the 2018/19 season-average prices is \$3.30 per bushel.

The projections for soybeans show that this year's run to beans was no one-year phenomenon. As shown in Table 2, USDA projects 91 million acres will be planted to soybeans in 2018, essentially tying with corn for the most acreage. The 2018 trend yield is 48.4 bushels

per acre, which would result in 4.36 billion bushels of soybeans. That would be the second-largest crop, behind this year. Paralleling corn, with the increase production of the last few years, ending stocks have grown and that will push total soybean supplies to 4.85 billion bushels, the highest total ever.

Soybean use has been trending higher the last several years, with records being set each succeeding year. The estimates for 2018 continue that run. Domestic crush is set at 1.97 billion bushels, up 20 million from this year. This is being driven by soybean meal demand by livestock and soybean oil use in the biodiesel industry. The increase in acreage implies additional seed use, so seed and residual usage is raised slightly. However, the big story remains exports—while exports for the 2017 crop are down slightly, USDA shows a rebound back to record exports in 2018.

Current corn futures would normally translate to a 2018/19 season-average price around \$3.80 per bushel. Current soybean futures point

Table 1. Corn Supply and Use

		2014	2015	2016	2017	2018
Area Planted	(mil. acres)	90.6	88.0	94.0	90.2	91.0
Yield	(bu./acre)	171.0	168.4	174.6	176.6	173.5
Production	(mil. bu.)	14,216	13,602	15,148	14,604	14,520
Beg. Stocks	(mil. bu.)	1,232	1,731	1,737	2,293	2,477
Imports	(mil. bu.)	32	67	57	50	50
Total Supply	(mil. bu.)	15,479	15,401	16,942	16,947	17,047
Feed & Residual	(mil. bu.)	5,280	5,120	5,467	5,550	5,550
Ethanol	(mil. bu.)	5,200	5,224	5,439	5,525	5,525
Food, Seed, & Other	(mil. bu.)	1,401	1,422	1,450	1,470	1,475
Exports	(mil. bu.)	1,867	1,898	2,293	1,925	1,900
Total Use	(mil. bu.)	13,748	13,664	14,649	14,470	14,450
Ending Stocks	(mil. bu.)	1,731	1,737	2,293	2,477	2,597
Season-Average Price	(\$/bu.)	3.70	3.61	3.36	3.25	3.30

Source: USDA

Table 2. Soybean Supply and Use

		2014	2015	2016	2017	2018
Area Planted	(mil. acres)	83.3	82.7	83.4	90.1	91.0
Yield	(bu./acre)	47.5	48.0	52.0	49.1	48.4
Production	(mil. bu.)	3,927	3,926	4,296	4,392	4,360
Beg. Stocks	(mil. bu.)	92	191	197	302	470
Imports	(mil. bu.)	33	24	22	25	25
Total Supply	(mil. bu.)	4,052	4,140	4,515	4,718	4,855
Crush	(mil. bu.)	1,873	1,886	1,899	1,950	1,970
Seed & Residual	(mil. bu.)	146	122	141	138	140
Exports	(mil. bu.)	1,842	1,936	2,174	2,160	2,325
Total Use	(mil. bu.)	3,862	3,944	4,213	4,248	4,435
Ending Stocks	(mil. bu.)	191	197	302	470	421
Season-Average Price	(\$/bu.)	10.10	8.95	9.47	9.30	9.40

Source: USDA

Table 3. Meat Production and Livestock Prices

	2017 forecast	2017 Change from December 12	2018 forecast	2018 Change from December 12	Change from 2017
<i>Billion pounds</i>					
Production					
Beef	26.17	-0.13	27.76	0.17	1.59
Pork	25.59	0.03	26.96	0.05	1.38
Broilers	41.59	0.05	42.45	0.18	0.86
Turkey	5.99	-0.01	6.00	-0.03	0.01
Total meat	100.09	-0.06	103.94	0.37	3.85
<i>Dollars/cwt</i>					
Prices					
Steers	121.52	0.09	118.25	1.00	-3.27
Hogs	50.48	0.10	47.75	0.25	-2.73
<i>Cents/lb</i>					
Broilers	93.5	0.1	90.5	2.0	-3.0
Turkey	96.1	0.4	91.0	-5.3	-5.1

Source: USDA

Table 4. Meat Exports

	2017 forecast	2017 Change from December 12	2018 forecast	2018 Change from December 12	Change from 2017
<i>Exports</i>					
Beef	2,875	--	2,985	--	110
Pork	5,623	35	5,900	--	277
Broilers	6,783	70	6,910	--	127
Turkey	623	--	655	--	32
Mature Chickens	133	--	145	--	12
Total meat	16,044	105	16,603	--	559
<i>Imports</i>					
Beef	2,976	10	3,030	--	54

-- No change

Source: USDA

to season-average prices in \$9.70-\$9.80 range. Those projections are, however, likely misleading as the cash markets will maintain wide-than-normal basis levels. The larger stock levels are hampering basis improvement, which will not occur until some of the supplies are cleared from the market. Given current basis levels, projections for the 2018/19 crop margins would be slightly below breakeven for both crops, continuing another streak that is not as pleasant as the record production run. It is often said that the cure for low prices is low prices. However, that cure has not taken affect yet and the USDA projections indicate that will at least be another year before it kicks in.

For the livestock sector, expansion is projected in all of the major product groups, as shown in Table 3. Beef production is set to be six percent higher and pork production will grow by five percent. Broiler production will climb to nearly 42.5 billion pounds and turkey production will reach six billion pounds. For the livestock industry, 2017 turned out to be a good year with record production, but also solid returns as prices held up despite the surge in production. The price projections for 2018 show lower prices, but the drops in prices are being offset by the gains in production.

Moving forward, concerns will center on the pace of expansion. For example, the latest Hogs & Pigs report from USDA highlighted the steady pace of growth in both the number of farrowings and the number of pigs per litter. A slight uptick in either of those trends would accelerate pork production, potentially beyond the current pace of pork consumption.

Much of what is driving this expansion originates from the international marketplace—meat exports were robust in 2017 and the early

continued on page 12