The U.S. government stunned commodity markets by estimating record corn and soybean crops for 2009, sending prices tumbling and prompting analysts to reassess their forecasts for the rest of the year.

The U.S. Department of Agriculture on Tuesday increased its production estimates for both commodities. Analysts and traders on the Chicago Board of Trade expected the USDA's field surveys to detect smaller crops after a harvest season that was so slow that millions of Midwest acres remain unpicked.

The March corn futures contract, the most actively traded, dropped by the exchange's daily trading limit of 30 cents, or 7.1%, to $3.925 a bushel. The most-active March soybean contract dropped 3.2%, settling at $9.78 a bushel.

The department said U.S. farmers last year produced a record 13.2 billion bushels of corn, up 8.8% from 2008, and a record 3.36 billion bushels of soybeans, up 13% from last year.

The corn estimate, in particular, was "an astoundingly huge number," said Jack Scoville, vice president of Price Futures Group in Chicago. The forecast was higher than any of the 22 analysts surveyed by Dow Jones anticipated.

In addition to the big domestic crop, the soybean market also faces a record or near-record South American harvest. The USDA on Tuesday hiked the projected size of the Brazilian crop to a record 65 million tons.

The prospect of ample supplies will have a long-term, bearish effect on the corn and soybean markets, analysts said.

The report brought about "a sea change" for markets that had been rising recently, said Don Roose, president of U.S. Commodities in Des Moines, Iowa. "To change things back to a more-positive outlook, you're going to need weather problems in South America, and you're going to need weather problems here," Mr. Roose said.

However, rising demand may be helping underpin prices.

The government increased its estimates of crop consumption. Amid record U.S. soybean exports to China, the USDA raised its month-old forecast of the season-average price of the recently harvested soybean crop by 1.6% to $9.65 a bushel, give or take 75 cents a bushel. Likewise, the USDA raised its price forecast for the fresh corn crop by 4.2% to $3.70 a bushel, give or take 30 cents a bushel.

"A few years ago, a corn crop of this size would have meant $2-a-bushel corn," said Larry Salathe, the USDA's senior economist. The USDA also raised its outlook for sorghum and barley prices.

If the recession has had any silver lining for consumers, it is that it popped the commodity-price bubble of 2008, when U.S. retail food prices jumped 5.5%—the largest annual increase
since 1990. The food inflation rate slowed to a crawl in 2009 but some of the forces that swirled around the 2008 price spike are rematerializing.

The ethanol-fuel industry, which was blamed by food executives for helping to inflate grocery bills, is emerging from an industry-wide shakeout with an even bigger appetite for corn. The rebounding price of gasoline has lifted the price of the alternative fuel to profitable levels again. Ethanol industry officials say there is sufficient corn for both fuel and food.

The USDA said Tuesday it expects the ethanol industry to consume one-third of the 2009 corn crop, or 14% more corn than from the 2008 harvest.

Economists are divided over much U.S. food prices will climb this year. Wells Fargo & Co. economist Michael Swanson said 2009's stagnant food-price inflation rate was an "illusion." He expects food prices to climb between 3.5% and 4% this year, yet adds it is possible for retail food prices to jump as dramatically as they did in 2008 if the economy strengthens significantly.

Others figure that a high U.S. jobless rate and adequate grain supplies, among other things, will help keep a lid on food prices. John Urbanchuk, an economist at LECG LLC who advises the ethanol industry, said he expects the government's food CPI in 2010 to climb between 2.5% and 3%.