



ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE DEPARTMENT OF AGRICULTURAL ECONOMICS

Urbana, Illinois 61801

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PRICING THE 1975 CORN CROP

WHEN AND HOW TO PRICE THIS YEAR'S CORN CROP are not easy decisions. During the third week in August when the Chicago December futures contract was at \$3.25 and elevator bids for No.2 corn for harvest-time delivery were \$2.90 and better, there was much evidence that the market was overreacting to Russian buying and that new corn should be priced. Now, after the sharp break in corn prices, a further cut in the Soviet's 1975 grain production to 175 million metric tons, and the USDA's estimate that world carryover stocks of grains will not recover appreciably in 1975-76, a reappraisal is in order.

RUSSIA'S NEEDS AND EXPORTS. Russia's purchases of all grains as of August 17 were reported to be 15 million metric tons, about 9 million of wheat and 6 million of feed grains. Another 10 to 15 million metric tons--the equivalent of 370 to 550 million bushels of corn--would be needed to fill their reported crop shortfall (from 205 to 175 million metric tons). Although Russia may not attempt to fill this gap with imports, its existence will partially offset our own weak demand for live-stock feed.

U.S. FEED DEMAND FOR GRAINS WEAK. The weakness in the corn market arises from the low level of livestock demand for feed grains in the United States. This market normally uses about 3-1/2 bushels of corn for every one exported. However, in 1974-75 the use of corn in feed was only 3.3 billion bushels as compared with 4.2 billion in 1973-74, a reduction of 23 percent. Unprofitable returns started cuts in hog production in 1971 and in cattle feeding in 1973, but the small 1974 crops and high grain prices reduced both the number of livestock being fed and feeding rates to the lowest level in years.

How quickly and how much livestock feeding recovers will be the important factor in prices of corn and other feed grains in the spring and summer of 1976. The USDA is projecting the use of corn for feed at 3.5 to 3.8 billion bushels, compared to 3.3 billion in 1974-75. This 300-million bushel increase is an important variable in the price for corn.

CARRYOVER STOCKS TO INCREASE. Another restraining force is the prospective buildup of carryover stocks during 1975-76. Even with exports of 1.5 billion bushels

and a moderate increase in feed use to 3.6 billion bushels, carryover stocks of corn on October 1, 1976, would be nearly 600 million bushels--almost double this year's figure. Also, the carryover stocks of other feed grains and wheat are expected to increase. Wheat stocks are expected to increase from 319 to about 500 million bushels (8.7 to 13.6 million metric tons) and stocks of all feed grains from 14.5 to 24 million metric tons.

Although these stocks will constitute much of the world reserves, their existence in the U.S. will moderate grain prices. Corn prices may drop below \$2.50 during harvest, but could recover moderately with large export sales and restrained selling by farmers.

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