ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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CORN PRICE PROSPECTS

THE PRICE DROP. From the beginning of the moratorium on grain sales to Russia in mid-August and until late October, Illinois farmers have watched corn prices drop from about $3 to around $2.25 a bushel. At the same time, estimates of this year's U.S. corn production went down by about 100 million bushels, and Russia's grain production estimate dropped from 180 million metric tons to a critical low of 160 million. Moreover, economic indicators in the U.S. were showing definite signs of a business recovery for 1976. Based on these facts, many farmers expect corn prices to recover to the $3 level when the harvest glut is over.

THE PRICE RECOVERY. Corn prices will recover after the harvest surplus finds a home, but possibly not to the August highs. The first recovery will come in a narrowing of the 50- to 60-cents a bushel basis between the Chicago-March futures contract and bids to farmers. This gain will be 20 to 30 cents a bushel, and could come soon. The timing of further gains in the basis is less certain, but they will come.

If corn futures stay at current levels, that is, the March contract at $2.85 to $2.90 and the May at $2.90 to $2.95, elevator bids to farmers for No. 2 corn in central Illinois will gain another 20 cents a bushel by May. In effect, the farmer who forward-contracts his stored corn at current prices will get 40 to 50 cents a bushel for storage by planting time.

THE UNCERTAINTIES. One uncertainty is this: "Will the storer realize the storage return if he does not forward-price?" The answer is, "He will if futures prices stay at this level--an unlikely event." If futures go up, he will have his storage return plus a speculative return. If futures go down, he will lose a part of his potential storage return.

Trends in futures prices will be influenced by technical factors in the market, growing conditions for corn crops in Argentina and South Africa and for winter wheat in the U.S. and Russia, and finally by the rates of U.S. exports and feed usage. The question here is not whether we run out of corn, but how much will be added to carryover stocks.

CORN SUPPLY. The use of corn for feed in the U.S. is at the lowest level since 1964-65. Therefore, the 1975-76 corn supply and the total feed-grain supply will be adequate to meet the maximum export demand, and add sizeable amounts to end-of-year carryover stocks.

Our 1975-76 corn supply will be 6.1 to 6.2 billion bushels, and our use within the U.S. is not likely to exceed 4 billion. This leaves 2.1 to 2.2 billion for exports and carryover. The USDA expects exports to be 1.4 to 1.5 billion bushels. Hence, the carryover stocks of corn from the 1975 crop are likely to be 600 to 800 million bushels, compared to 359 million this year.

Prospects for all U.S. feed grains indicate that if the highest potential of feed usage and exports are attained, next year's carryover stocks of 20 to 25 million tons will be 30 to 50 percent larger than this year's small carryover.

The prospects of a sizeable addition to carryover stocks of feed grains will temper the "bullish" influence of export pricing; and except for temporary runups, the likely result in corn prices will be in the $2.50 to $2.75 range, provided production prospects for the 1976 corn and wheat crops are normal.

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