



# ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE  
DEPARTMENT OF AGRICULTURAL ECONOMICS

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## SEASONAL CORN PRICES

A LARGE CARRYOVER FROM THE 1976 CROP and a record 1977 crop suggest a stable price level for corn and a large payment for storage from harvest time this year to next summer.

Changes in the cash prices for corn during the marketing year reflect changes in the basis and in the price level. "Basis" means the difference between the cash price and the futures price. Normally, this difference is greatest at harvest, narrowing during the marketing year. That pattern usually occurs regardless of price-level changes. The narrowing of the basis is the market's payment for storage. In the absence of price-level changes, the result is higher cash prices during the marketing year.

The price level, as reflected in the futures price, often shifts, however. This shows the market's reassessment of the value of corn. Unlike basis behavior, there is no typical pattern of price-level changes. The changes in cash prices depend on how much the basis narrows and on the magnitude and direction of price-level changes. They can go in the same or in opposite directions.

**BASIS PATTERNS.** Substantial costs are involved in storing and holding corn, but minimal costs in owning futures. Therefore, cash prices are expected to gain on futures prices during the storage season. Even so, the pattern of basis gain is not exactly the same each year.

A review of the last five years reveals a wide range of basis patterns in east-central Illinois. From October to January 1, the basis narrowed an average of 17 cents per bushel, ranging from 12 cents in 1973-74 to 20 cents in 1972-73. The basis gain from harvest time to March 1 averaged 18 cents, with a low of 3 cents in 1973-74 and a high of 26 cents in 1975-76. The basis gain to June 1 averaged 29 cents, varying from 22 cents in 1972-73 to 36 cents in 1974-75.

Using example figures, the commercial storage charge is 14 cents per bushel to January, plus 1.5 cents per month beyond January. The interest cost is 8 percent of the value of the corn at harvest. Thus, the total storage cost becomes 31 cents per bushel to June 1. For the last five years, the average basis gain from October to June 1 has been 29 cents, which is less than the cost of storage. The basis gain over the past three seasons, however, has equalled or exceeded the cost of storage.

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With on-farm storage costs of 8 cents per bushel for overhead, handling, and insurance and an interest cost of 8 percent, the storage cost becomes 17 cents to June 1. The narrowing of the basis to June 1 has exceeded average on-farm storage costs in each of the last five years.

*PRICE LEVEL.* During the past five years, the price level of corn has declined an average of 14 cents from October to January 1, 16 cents to March 1, and 15 cents to June 1. On the average, the basis gain has exceeded the decline in price levels. However, these averages mean little because of large year-to-year variations.

In 1972, the price level rose steadily throughout the year, increasing by 75 cents from October to June 1 and by \$1.50 to August 15. In 1973, prices had increased 59 cents by March 1, then declined 42 cents by June 1. The price of corn peaked at harvest time in 1974, dropping \$1.22 a bushel by June 1. The price level was relatively stable in 1975, declining 10 cents by June 1. In 1976, the price level went down 36 cents by June 1.

*IMPLICATIONS.* Because of substantial year-to-year variations in basis patterns and price-level changes, no one pricing strategy will produce the highest net return every year. Each crop year must be analyzed individually. For corn, the 1977-78 crop year apparently is going to be one of abundant supplies, suggesting a stable price level during the year. The basis is now quite wide in east-central Illinois. The basis gain through next year may well exceed storage costs.

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