



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

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PROSPECTS FOR CORN PRICES

DURING THE LAST TWO WEEKS OF FEBRUARY, the March corn futures declined by almost 10 cents per bushel. The July and December futures declined by about 8-1/2 cents as the carrying charge increased. Much of the decline in futures prices was offset by a narrowing of the basis in many sections of Illinois. By the end of the month, the basis on the northern Illinois River had narrowed to 7 or 8 cents. Bids by central Illinois processors were 10 to 12 cents under the March futures and the East-Central Illinois rail price was about 13 cents under March.

Buyers indicated that for the most part, the narrowing of the basis was the result of farmers holding onto their corn. Forward bids reflected a wider basis for delivery in the late spring and summer. Farmers should be making decisions now about how much corn they will move this winter and spring. The current narrow basis may be offering a good selling opportunity.

The direction of corn prices now hinges primarily on the new-crop prospects. Agriculture Secretary Bergland has announced that there will be no paid diversion program for feed grains in 1980. That announcement removed one potentially bullish factor from the market.

The 1980 corn supply will consist of two components: the carryover from the 1979 crop and the 1980 harvest. The carryover supplies will be large. The USDA projects the carryover at 1.8 billion bushels. However, given the high rate of corn feeding to date, total corn use may exceed the 7.24 billion bushels projected for the 1979-80 crop year. If total use reaches 7.3 billion bushels, the ending stocks will be about 1.75 billion bushels.

Based on the planting-intentions report for January 1, the corn acreage planted this spring will total 83.1 million acres. If these intentions materialize, about 73 million acres will be harvested for grain this fall.

Average yields are difficult to predict, but we can examine the effects of alternate yields and the probabilities. At last year's U.S. yield average of 109.4 bushels of corn per acre, the 1980 crop would be almost 8 billion bushels. At the current use rate, that level of production would result in an additional 700 million bushels in carryover stocks by the end of the 1980-81 crop year.

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At the 5-year average yield of 95 bushels per acre, the U.S. corn crop would total slightly more than 6.9 billion bushels in 1980. At the present use rate, that level of production would result in carryover stocks totaling about 1.4 billion bushels at the end of the 1980-81 marketing year.

What average yield would be required to produce a tight supply situation in 1980-81? The 1980 crop will have to be about 1 billion bushels less than consumption to reduce carryover stocks to around 750 million bushels. At the current rate of use, that implies a crop of 6.3 billion bushels—or a national average yield of about 86 bushels per acre.

In summary, a 1980 yield average of more than 100 bushels per acre for the United States may result in additional carryover stocks. However, a yield of less than 90 bushels per acre would be required to produce a tight supply situation. Chances favor an ample corn supply in 1980. Because of the large carrying charge in the market, however, new-crop prices are 20 percent higher than old-crop prices. Based on current fundamentals, this price looks attractive. Forward-pricing a portion of next year's production now would seem to be prudent.

D. L. Good

D.L. Good, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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