

# WEEKLY OUTLOOK

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

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## CORN: PRODUCTION, PROGRAMS, AND PRICES

THE MOST-IMPORTANT FACTOR IN DETERMINING the future direction of corn prices is the size of the 1980 crop. The USDA's latest crop-production estimate, to be released on September 11, will be the single most-important price factor during the harvest period. The crop is generally thought to be somewhat smaller than the 6.65 billion bushels estimated a month ago. Early harvest results in central and southern Illinois tend to confirm those expectations.

Because of the large carryover stocks of 1979-crop corn (about 1.7 billion bushels), a high utilization rate can be supported during the year ahead even if the 1980 crop is relatively small. Exports of U.S. corn are not particularly sensitive to the price level, depending instead on the size of the world feed-grain crop. Early projections place 1980-81 exports at 2.5 billion bushels. The use of corn in the domestic processing industry is also expected to increase in the year ahead. High sugar prices are likely to increase the demand for corn sweeteners. More corn is expected to be used for fuel alcohol, too. So, the use of corn for all food and industrial uses could reach 700 million bushels.

Corn feeding will be supported by a shortage of other feed grains. However, the expected reduction in hog production along with the current high corn prices will tend to reduce the demand for corn for use as feed. The net result is likely to be a reduction in corn feeding to about 4.25 billion bushels. Based on these early projections, 7.45 billion bushels of U.S. corn could be consumed next year if the supply is available. Assuming that 1979 carryover stocks are 1.7 billion bushels and that a minimum carryover a year from now is 600 million bushels, the 1980 crop would have to be 6.35 billion bushels or larger to support the expected demand.

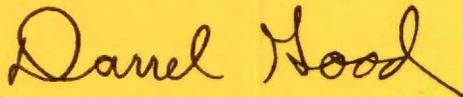
A majority of the 1979 carryover stock is likely to be in the farmer-held reserve or owned by the government. If the new crop is as small as currently projected, prices will have to go high enough to bring much of the corn out of the reserve. Reserves are placed in release status at a national average price of \$2.81 per bushel. Loans on corn placed in the reserve before January 4, 1980, would be called at a national average price of \$3.15. The remaining loans would be called if the national average price reached \$3.26. With a crop of 6.35 to 6.7 billion

bushels, corn prices would be likely to remain above the release price. However, the \$3.26 call price should serve as an effective ceiling.

Two series of prices are used to establish reserve status. The daily national average price is the simple average of prices at Kansas City, Omaha, Chicago, St. Louis, and Minneapolis—adjusted to reflect producer prices. The adjustment factor is the difference between the five-market average and the ESCS average of farm prices issued at mid-month.

During July, the Chicago cash price averaged 33 cents higher than the national average price. Prices in Illinois averaged about 13 cents higher. During the first three weeks of August, those differences increased to 41 cents and 23 cents, respectively. This suggests that if the \$3.26 call price is an effective ceiling on price increases, Chicago prices would be limited to about \$3.70, while the average prices in Illinois would peak at about \$3.50. If the 1980 crop is smaller than 6.3 billion bushels, however, prices probably would exceed the call level.

Regardless of the general price level, geographical differences will again be great. Large carryover stocks and potentially high production, for example, are likely to produce a wide basis situation in some parts of Iowa. In central and southern Illinois, small carryover supplies coupled with extremely low production could result in a very narrow basis and proportionally higher cash prices.



*Darrel Good*, Extension Economist, Prices and Outlook

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

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