



WEEKLY OUTLOOK

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

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UNEXPECTED INCREASE IN CORN SURPLUS

THE USDA'S OCTOBER 1 GRAIN STOCKS REPORT revealed a surprisingly large inventory of old crop corn on hand at the beginning of the 1982-83 marketing year. Stocks in all positions were estimated at 2.366 billion bushels, 2.3 times as large as those a year ago. On-farm stocks were nearly 3 times as large as last year's, while off-farm inventories were 1.7 times as large. Forty-five percent of the inventory was held in the two states of Iowa and Nebraska, compared with 36 percent a year ago.

Before the release of the report, October 1 stocks of corn had been projected at 2.171 billion bushels. The difference of 195 million bushels is especially large. If we assume that the estimated size of the 1981 crop is correct, then the stocks figure implies that the feeding of corn during the 1981-82 marketing year was 1.5 percent less than it was a year ago and at its lowest level in four years. Before the report, a 4 percent increase over last year had been projected.

If previous quarterly stocks reports were correct, corn feeding during the last quarter of the 1981-82 marketing year was 27 percent less than that a year ago--the lowest in modern history.

Many attempts have been made to explain the discrepancy between the expected and actual level of corn inventories. The inventory report could have been inaccurate if it included reserve corn that had been moved out but not yet replaced with new crop corn. This factor alone, however, would not account for the total difference. Another explanation is that feed use was actually larger than implied and that the 1981 crop must have exceeded estimates. If the crop was actually larger than estimated, however, the three previous quarterly stocks reports were all in error.

Some have tried to look for an explanation in the low level of corn feeding. They point to reduced hog numbers, better range and pasture conditions, increased feeding of other grains, and increased feeding of new crop corn. While this explanation is plausible, it does not explain the dramatic decline in corn feeding during the last quarter of the year. On the basis of October 1

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stocks estimates, the feeding of barley, sorghum, and wheat during the last quarter exceeded year-ago levels, but the feeding of oats was down. In total, about 15 percent less grain was fed. Soybean meal feeding during the same quarter was down 9 percent from last year. The extent to which feed use has declined is not consistent with animal numbers or with the anticipated high rate of feeding associated with attractive livestock prices.

The large level of carryover stocks as well as the reduced feeding estimate alters the supply-demand balance for the 1982-83 crop year. The supply of corn for the year is now estimated at nearly 10.7 billion bushels, up 15.7 percent from last year. The projected level of corn feeding is 4.2 billion bushels, down from the previous estimate of 4.4 billion. Corn inventories for October 1, 1983, are projected at 3.33 billion bushels. Such inventories would represent 24 weeks' supply of corn at the projected rate of use--the highest level since 1961. This dramatic increase in corn surplus results in a relatively bleak outlook for corn prices. The USDA projects an average price of \$2.20 to \$2.40 per bushel for the marketing year. The upper range in price seems highly unlikely. Significant price improvement would not be expected until the surplus is reduced. With normal weather conditions next year, market prices during the 1983-84 marketing year are not expected to exceed government support levels.

Darrel Good

Issued by *Darrel 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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