WEEKLY OUTLOOK
Department of Agricultural Economics
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CORN PRICES SUPPORTED BY TIGHT FREE MARKET SUPPLIES

CORN PRICES ADVANCED SHARPLY during the past four weeks. March corn futures are up 25 cents while cash corn prices have advanced nearly 30 cents. As of February 4, March futures were only 6 cents lower than those a year ago. Cash corn prices were actually about 2 cents higher than they were last year, which reflects a stronger basis than that of last year.

The price strength has come in the face of very large corn inventories and sagging demand. January 1 corn inventories exceeded 8.4 billion bushels, up 21 percent from last year. During the first quarter of the 1982-83 marketing year, feed use of corn was up 1 percent from a year ago, but exports were still trailing behind last year's.

Part of the strength in corn prices is probably due to the USDA's efforts to reduce corn production in 1983. Both the acreage reduction program and the payment in kind program are expected to attract high levels of participation. The USDA expects that harvested acreage of corn in 1983 will be about 60 million acres, down 18 percent from 1982. New crop corn futures, however, have advanced only about 15 cents, 10 cents less than old crop prices.

The price strength stems primarily from the expectation that free market supplies of corn could become extremely tight before the 1983 harvest. At the beginning of the 1982-83 marketing year, 1.31 billion bushels of corn were held in the farmer-owned reserve. Another 302 million bushels were owned by the Commodity Credit Corporation (CCC). In total, 1.612 billion bushels of corn were isolated from the market.

Those producers who participated in the 1982 reduced acreage program are eligible to put their production under CCC loan and into the farmer-owned reserve. About 29 percent of the corn base-acreage was enrolled in the program. Although the exact percentage of the crop eligible for such programs is not known, it is thought to be considerably less than 29 percent. Perhaps only 20 percent of the 8.4 billion bushel crop is eligible.

If all the eligible crop goes into the loan or reserve, a total of 3.3 billion bushels of corn will be isolated from the market. Currently, about 2.4 billion bushels of corn are in the farmer-owned reserve, 372 million bushels are owned by the CCC, and about 320 million are in the regular 9-month loan. About 3.1 billion bushels are isolated from the market to some degree. The USDA estimates that inventories at the end of the marketing year will be 3.384 billion bushels. Theoretically, free market supplies could be reduced to less than 100 million bushels, forcing prices high enough to bring government corn back on the market.

Some questions still remain. How much more corn will go into government programs? How large of a free market supply is enough? If prices go too high, will buyers postpone purchases until new crop corn is available? The answers to these questions may determine how high prices will eventually go. However, it does appear likely that some of the corn in the regular 9-month loan will have to be redeemed rather than forfeited to the CCC, at least in the eastern Corn Belt. The breakeven price for loan redemption is about $2.75 per bushel (loan price of $2.55 plus interest). Cash corn at $2.75 per bushel at the farm in the eastern Corn Belt is equivalent to a futures price of about $2.95 per bushel.

Under the circumstances outlined here, July futures might be expected to go to $2.95. Unless the farmer-owned reserve exceeds 2.7 billion bushels, higher prices would not be needed. July futures closed at $2.18 1/2 on February 4.

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