



WEEKLY OUTLOOK

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CORN STOCKS SMALLER THAN EXPECTED

THE USDA'S OCTOBER 1 GRAIN STOCKS REPORT attempts to measure the quantity of old-crop corn on hand at the beginning of the new marketing year. Last week we pointed out the possibility that the report would reveal smaller stocks of corn than anticipated. Those stocks have been estimated at 3.14 billion bushels this year, 37 percent more than last year, but about 9 percent less than projected by the USDA.

The latest supply and demand estimates made by the USDA had projected carryover stocks at 3.434 billion bushels. The difference of 294 million bushels suggests that the supply of corn for the 1982-83 marketing year was overestimated. Based on the current supply estimate, the level of corn feeding during the 1982-83 marketing year had to exceed 4.8 billion bushels, almost 7 percent more than during any previous year. It is unlikely that feed use of corn was actually that large; the 1982 corn crop was probably overestimated. The very low rate of corn feeding during the summer of 1982 also implies that the October 1, 1982, stocks of corn may have been overestimated.

Regardless of the reason, the smaller-than-expected stocks of corn result in smaller supplies for the 1983-84 marketing year. The shortfall in stocks has the same implication as a 7 percent reduction in the estimated size of the 1983 harvest. With carryover stocks of 3.14 billion bushels and a harvest of 4.26 billion, corn supplies for the 1983-84 marketing year total only 7.4 billion bushels. This is the smallest supply of corn since the 1977-78 marketing year.

The lowest level of ending stocks in recent history, measured as a percentage of total use, was at the end of the 1975-76 marketing year. Ending stocks that year totaled only 7 percent of total use. Assuming that 7 percent of use is a minimum level of carryover, ending stocks this year could be reduced to about 500 million bushels. If stocks are reduced to the minimum level, about 6.9 billion bushels of corn will be available.

The use of corn for seed, food, and industrial purposes is expected to increase to about 945 million bushels. The usual uncertainty surrounds export demand, but a modest increase to about 1.9 billion bushels is projected. If these estimates are correct, 4.055 billion bushels of corn will be available for feed use

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during the year ahead. That level of feeding would be about 500 to 600 million bushels less than was fed last year and would be the lowest level of feeding since 1977-78.

At the present time, livestock numbers are larger than a year ago. The need to cut feed use of corn implies that livestock numbers will have to be reduced, or the rate of feeding per animal will have to decline, or both. The need to reduce feed use of corn by 10 to 11 percent from last year suggests that corn prices will probably remain high relative to livestock prices. In addition, corn prices will have to remain high enough to ensure that all supplies are available to the market.

The tight supply situation establishes the reserve trigger price of \$3.25 as a very firm floor under the market. Higher prices for the next few months may be required to ensure that the necessary reductions in use are made.

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