WEEKLY OUTLOOK
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November 30, 1983

CORN PRICES--WHAT NEXT?

CORN PRICES HAVE BEEN EXTREMELY VOLATILE IN 1983. December 1983 corn futures increased from about $2.75 during the first week of January to about $3.10 in late March. The increase reflects the announcement of and sign-up for the reduced acreage and payment-in-kind programs.

Good spring weather and larger-than-expected planting intentions pushed December futures back to about $2.73 during mid-June. However, the widespread drought during July and August carried December futures about one dollar higher to a high of $3.76 just before harvest. Those same futures closed at $3.35 1/2 per bushel on November 23.

The recent price pattern has followed the same general pattern as the short-crop years of 1974 and 1980, except that December futures reached higher levels in those two years--about $3.90. In both 1974 and 1980, the early high price resulted in the necessary adjustments in demand, and prices declined seasonally. In 1980, deteriorating economic conditions, high and rising interest rates, and a strengthening dollar contributed to reduced demand. Carryover supplies turned out to be well above minimum requirements. In both years the greatest cuts in use occurred in the domestic market. In 1974-75, feed use was cut 23.3 percent, and in 1980-81 use was down 7.6 percent. Exports were reduced 7.6 and 3.2 percent, respectively.

The recent decline in corn prices apparently reflects concerns about demand. Slow economic recovery in many importing countries and continued strength in the U.S. dollar has led the USDA to forecast no increase in U.S. corn exports from the 1.87 billion bushels of last year. Through the first seven weeks of the marketing year, however, export inspection exceeded year-ago levels by about 20 million bushels. Outstanding sales of corn also remain at a very high level.

Domestically, available supplies will allow corn feeding to total only about 3.925 billion bushels compared with the current estimate of 4.771 billion bushels fed last year. Feed use must be cut almost 18 percent. Even if last year's feed use of corn was overestimated, the necessary cut is large.

Have livestock producers made the necessary changes to reduce feed use of corn to only 3.925 billion bushels? The available evidence does not permit an adequate answer to that question. The rate of corn feeding will not be revealed until the January 1, 1984, corn stocks estimates are released in late January. Those who believe that the necessary cuts have been made point to the increased rate of wheat feeding and a 6 percent cut in the number of cattle on feed in the seven major cattle-feeding states. In addition, the high price of corn relative to hog prices is expected to lead to a larger reduction in winter farrowings than the 1 percent indicated in September.

Those who doubt that the necessary cuts have been made point to the lower-than-expected wheat feeding estimate in the latest USDA supply and demand estimates. Reports of large quantities of poor quality corn also suggest that feed efficiency may be lower than that a year ago. Finally, the fact that summer hog futures have consistently been above $50.00 per hundredweight lead some to doubt that hog producers have made significant cuts in their production plans.

Some of the uncertainty about domestic demand will be cleared up by the USDA's December Hogs and Pigs report. In the meantime, the decline in corn prices seems to be excessive. The national average price declined under the Reserve V trigger price of $3.25. The adjustment factor in calculating that price is likely to be increased again on December 1, suggesting that futures prices will have to move higher to keep that corn in release status.

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