



WEEKLY OUTLOOK

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

August, 1984

CORN PRICES--HOW LOW?

AT THIS TIME LAST YEAR, corn prices were rising rapidly because of poor growing conditions. The questions asked then were how high will prices go and when will prices peak? This year, new-crop corn prices are in a downtrend. December corn futures traded as high as \$3.17 on June 20, but closed at \$2.76 1/2 per bushel on July 27, a drop of almost 13 percent.

Several factors have contributed to the decline. The most important are improved production prospects and projections of continued weakness in demand, particularly in the export market. The questions asked now are how low will prices go, and when and by how much will prices rebound? These questions cannot be answered with certainty, but history provides some insight.

On the supply side, the 1984-85 marketing year is shaping up much like 1981-82. In 1981-82, production rebounded sharply from the drought-reduced crop of 1980. Carryover stocks were larger in 1981 than in 1984. Planted acreage in 1981 exceeded this year's acreage by about 2 million, but if growing conditions continue to be favorable, the 1984 yield may exceed the 1981 level.

The U.S. average corn price was \$2.50 in the 1981-82 marketing year, 4 percent above the loan rate. Corn prices for the 1981 crop were highest at planting time, about \$3.50 per bushel for harvest delivery. Prices declined steadily to a harvest low of about \$2.30 (10 cents under the loan rate), rebounded to about \$2.65 in the spring after harvest, and remained fairly stable into the summer.

The year ahead is different from 1981-82 in two important ways. First, a higher percentage of this year's crop is eligible for the CCC loan program. Second, corn exports are expected to be at least as large as this year's, unlike the sharp decline in 1981-82.

In other recent large crop years (1978, 1979, and 1982), prices followed a pattern similar to that of 1981-82 from harvest forward. The cash price tended to be lowest at harvest. The timing and magnitude of the cash price recovery, however, was somewhat different in each of the years.

In 1978-79, prices bottomed at harvest, about 20 cents under the \$2 loan rate. Cash prices rebounded to the \$2.50 level by May and then jumped to over \$3 in

the summer on the basis of large exports and weather concerns. The season's average price was \$2.25, 12.5 percent above the loan rate.

In 1979-80, cash prices held up well during harvest, remaining above the \$2.10 loan level. Both domestic and export demand were extremely strong during the first quarter of the marketing year. Prices were generally in the \$2.35 to \$2.50 range from December through June. Weather concerns pushed prices over \$3 in July and August. The season's average price was \$2.52, 20 percent above the loan rate.

In 1982-83, cash prices dropped to about \$1.90 at harvest, \$0.65 under the loan rate, and then increased to about \$2.30 by December. The PIK program and drought conditions eventually pushed prices over \$3.50 in the summer. The season's average price was \$2.68, 5 percent above the loan rate.

The price of corn for the year ahead is expected to be lowest around harvest. On the basis of the ample supply of storage space and the high level of eligibility for the program, prices are not expected to go significantly below the \$2.55 loan rate for any extended period. If substantial amounts of corn go into the loan program, cash prices would be expected to rebound to the \$2.80 to \$2.85 level by next summer in order to bring that corn back on the market. The season's average price is expected to be about 5 percent above the loan rate, or about \$2.70 per bushel. Higher prices would have to come from unexpected strength in demand or weather problems next spring and summer.

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

Official Business
Penalty for private use, \$300

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF
AGRICULTURE
AGR 101



FIRST CLASS