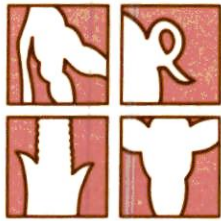




Cooperative
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WEEKLY OUTLOOK

Department of Agricultural Economics
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HOW LARGE WILL THE 1989 CORN CROP BE?

The 1988-1989 corn marketing year reaches the halfway mark at the end of February. It is the time of year when the market begins to make the transition from old-crop to new-crop considerations. The market will continue to react to export sales, stock reports, and projections of use of the 1988 crop, but the focus increasingly will turn to prospects for the size of the 1989 corn crop.

What can be said about the potential size of the 1989 crop? The most certain statement is that corn plantings will increase in 1989. In 1988, farmers idled 20.9 million acres of corn base under the three annual programs--the acreage-reduction program (14.6 million), paid land diversion (3.2 million), and the 0/92 program (3.1 million). Nearly 87 percent of the national corn base of 83.4 million acres was enrolled in these programs. Planted acreage of corn totaled 67.56 million acres in 1988. Of that total, 62.5 million acres were planted on farms participating in acreage-limitation programs, and 5.1 million acres were planted on nonparticipating farms.

For the 1989 crop, farmers who participate in the annual acreage-reduction program to qualify for price supports will be required to idle only 10 percent of the farm's corn-base acreage. In 1988, 20 percent of the base was idled to qualify for the price-support program. The paid-land-diversion program is not offered for the 1989 crop; the 0/92 program is still available but is less attractive than it was last year. Farmers participating in the 0/92 program can idle additional acres for a guaranteed price of \$0.82 per bushel of program yield. Last year the guarantee exceeded \$1.00 per bushel.

If participation in the acreage-reduction program remains the same as last year, 7.3 million acres of corn base will be idled. The 0/92 program might idle another 1.5 million acres. If so, 12.1 million acres of corn base that were idled last year will be brought back into production this year. Some of that acreage may be planted to soybeans, sunflowers, or oats under provisions of the 1988 Disaster Act. Planted acreage of corn could increase by 8 to 10 million acres in 1989. A 9-million-acre increase would put planted acreage at 76.6 million and acreage harvested for grain near 69.6 million. The USDA will release a Prospective Plantings report on March 31.

It is more difficult to speculate about average corn yields in 1989. The dry year of 1980 was followed by a good growing season, and the U.S. average yield in 1981 was near the previous record established in 1979. Lingering effects of the 1983 drought prevented yields from rebounding to predrought levels in 1984. The U.S. average yield in 1984 was 106.7 bushels per acre, compared with 113.2 bushels in 1982. It would be somewhat surprising if 1989 yields recovered to the 119-bushel level of 1986 and 1987. The 1984 experience would point to a yield of 112 bushels per acre.

The most likely acreage and yield scenario for 1989 points to a crop near 7.8 billion bushels. Corn use during the current marketing year is expected to total 7.525 billion bushels. Use next year may be near that level, as domestic feed-use increases and exports decline. If so, stocks of corn will increase by about 300 million bushels during the 1989-1990 marketing year. Year-ending stocks near 2 billion bushels would not be especially burdensome, but would result in a season's average price below the \$2.55 level expected for the 1988-1989 marketing year.

Currently, prices for the 1989 corn crop exceed those for the 1988 crop, suggesting that some weather and production concerns already are reflected in the market. If the recent pattern of increased precipitation continues, new-crop corn prices will likely begin to decline. Forward pricing some new-crop corn at current price levels should be strongly considered. Buying put options instead, or replacing sales with call options, would provide the flexibility to benefit from a weather rally later in the season.

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