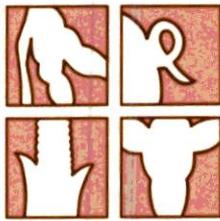




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

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CORN PRICES: HOW LOW?

With favorable growing conditions, corn prices should continue to trend lower into the fall of the year. How much of a decline should be expected? Some insight can be gained from price patterns in other years following a drought. In 1981, corn prices in Illinois averaged about \$3.30 per bushel during the month of April. By November of the same year the average price declined to about \$2.40. Prices in April 1984 averaged \$3.45 per bushel, but declined to an average of about \$2.60 in November. The average price for the 1981-82 marketing year was \$.61 per bushel below the average of the 1980-81 marketing year. The average for the 1984-85 marketing year was \$.63 below the average of the previous year.

The reasons for the price declines in 1981-82 and 1984-85 were basically the same--increased production and accumulating inventories. The 1981 crop was 1.5 billion bushels larger than the 1980 crop, and the total supply of corn (production plus carryover stocks) was 1.3 billion bushels larger. Corn exports declined by 400 million bushels during the 1981-82 marketing year, so that the inventory of corn at the end of the year was 1.1 billion bushels larger than the inventory at the beginning of the year.

The 1984 crop was 3.5 billion bushels larger than the 1983 crop, and the total supply was about 1 billion bushels larger than supplies of the previous year. Corn use increased by 340 million bushels during the year, so that inventories increased by only 640 million bushels by the end of the year.

The average price of corn in April 1989 was near \$2.55. The expected average price for the 1988-89 marketing year is also near \$2.55. Price declines similar to those experienced in 1981-82 and 1984-85 would project to prices in the fall of 1989 near \$1.70 per bushel and a 1989-90 season's average price of about \$1.90 per bushel. Because current prices are much lower than those of either 1981 or 1984, such a large decline may be too pessimistic. In percentage terms, the declines of 1981 and 1984 would project to a fall 1989 average price of about \$1.90 per bushel and a 1989-90 season's average price near \$2.10 per bushel. The latter price projection might be reasonable, *if* the inventory of corn increases by 500 million to 1 billion bushels during the 1989-90 marketing year.

Based on current projections by the USDA, corn use during the 1988-89 marketing year will total 7.355 billion bushels, leaving 1.83 billion bushels in inventory on September 1, 1989. If these projections are correct and corn use remains stable during the year ahead, the 1989 crop would have to total 8.105 billion bushels to lead to a 750 million bushel increase in the corn inventory. Based on March planting intentions, the 1989 average corn yield would have to be near 121 bushels per acre to produce a crop of 7.855 billion bushels. The record U.S. average corn yield was 119.4 bushels, in 1987.

With the recent increase in corn sales to the Soviet Union and prospects that additional sales will be made, it is possible that corn exports during the 1988-89 marketing year will exceed the projection of 2.1 billion bushels. Based on the number of livestock being fed, it is likely that domestic feed and residual use of corn will exceed the USDA's projection of 4 billion bushels. Corn used for all purposes during the current marketing year could reach 7.5 billion bushels. If that figure is correct and if use stabilizes next year, a crop of 8.25 billion bushels would be required to increase corn inventories by 750 million bushels. The U.S. average yield would have to be 123 bushels per acre to produce a crop of 8.25 billion bushels if acreage is near the March intentions figure.

It is likely that the inventory of corn will begin to grow during the 1989-90 marketing year. Unless the U.S. average yield is record-large or planted acreage is significantly above intentions, the growth in the inventory will be modest. An average yield near 115 bushels per acre and stable use suggest a 1989-90 season's average price near \$2.30 per bushel.



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Prices and Outlook

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