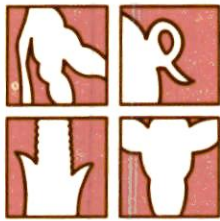




Cooperative
Extension Service
University of Illinois
at Urbana-Champaign



WEEKLY OUTLOOK

Department of Agricultural Economics
College of Agriculture
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1989 IS NOT A TYPICAL POSTDROUGHT YEAR FOR CORN

Dry growing conditions in 1980 reduced the U.S. corn crop by 16 percent from the size of the 1979 crop. Stocks of corn at the end of the 1980-81 marketing year totaled 1.4 billion bushels, down from 2.03 billion bushels at the beginning of the year. A crop in excess of 8 billion bushels was harvested in 1981, resulting in a 10 percent larger supply of corn. Exports declined and ending stocks grew to 2.5 billion bushels. The 1982 crop was in excess of 8.2 billion bushels, exports declined further, and stocks at the end of the 1982-83 marketing year stood at 3.5 billion bushels.

A substantial reduction in corn acreage due to government programs and hot, dry growing conditions reduced the 1983 crop to 4.17 billion bushels. Stocks at the end of the 1983-84 marketing year were reduced to 1 billion bushels. Once again, production rebounded in 1984 and 1985 and exports declined. The 1985 crop produced a record 8.877 billion bushels. By the end of the 1985-86 marketing year, corn stocks totaled a staggering 4.88 billion bushels.

The pattern following the small crops of 1983 and 1984 was similar. The corn surplus returned within one year and was at a record level within two years. That pattern apparently will not be repeated in the first year following the 1988 drought. While the 1989 crop will be nearly 50 percent larger than the 1988 crop, the total supply of corn (production plus carryover stocks) will be no larger than the supply of a year ago. In both 1981 and 1984, the supply of corn was nearly 1 billion bushels larger than the previous year's supply. The use of corn is expected to increase slightly, with increases in domestic use partially offset by a small decline in exports. Stocks of corn at the end of the 1989-90 marketing year are expected to be smaller than stocks at the beginning of the year. A decline in inventories in the year following a weather-reduced crop would be unprecedented.

One reason that corn exports are expected to remain relatively large for the current marketing year is the lack of increase in coarse grain production in the rest of the world. The coarse grain crop outside the U.S. is expected to total 581.7 million tons, an increase of only 0.3 percent from last year's crop. That crop would be only 0.9 percent larger than the average-sized crop of the past 5 years.

World coarse grain stocks are expected to decline again during the 1989-90 marketing year. Year-ending stocks are projected at 127.8 million tons, down from 142.5 million at the beginning of the year. Stocks will be 106 million tons less than the peak of two years ago. At the projected level, ending stocks will account for 16 percent

of the world's annual use. Two years ago, those stocks accounted for 29 percent of this use. World wheat stocks are also expected to decline during the current marketing year. Those ending stocks are projected at 106.8 million tons, about 20 percent of annual use. Two years ago, stocks accounted for 34 percent of this use.

The continuation of relatively small U.S. and world grain stocks will prevent corn prices from declining as rapidly as in previous postdrought years. The stocks situation also means that good crops will be required again in 1990. Corn acreage in the U.S. will likely increase in 1990 even though the setaside requirement will probably stay at 10 percent. Acreage this year was reduced by wet weather in the eastern Corn Belt. Crop size will once again depend on the nature of the growing season. Weather problems could result in a sharp increase in prices next spring or summer.

One way to participate in an unexpected price rally without incurring the cost of storage and the risk of lower prices is with call options. Producers might consider selling corn early at prices that appear to be reasonable and buying call options on some portion of the crop.



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