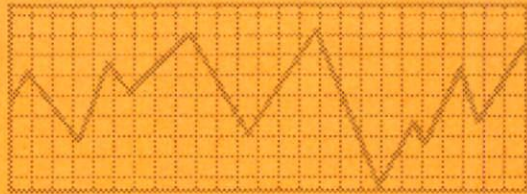




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WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

March 7, 1990

CORN: FOCUS ON FEED DEMAND

Much of the recent attention in the corn market has focused on export demand. The recovery in U.S. corn exports, in fact, has been dramatic. After declining to 1.24 billion bushels in the 1985-86 marketing year, exports recovered to 2.04 billion bushels last year and are projected at 2.275 billion bushels for the current marketing year. The rebound in exports has been one of the factors contributing to the decline in the surplus of corn over the past two years. The relatively low level of corn stocks and the large level of corn feeding during the first quarter of the current marketing year has created renewed interest in domestic corn demand.

After soaring to record levels in the 1986-87 and 1987-88 marketing years, domestic feed and residual use of corn was disappointing during the 1988-89 marketing year. Use totaled 4.69 billion bushels in 1986-87 and 4.795 billion in 1987-88. Such high levels were never satisfactorily explained, but they were accepted because use was high in two consecutive years. The low level of feed use in the 1988-89 marketing year was a source of disappointment throughout the year. Even though livestock feeding profitability dropped sharply that year, corn feeding was expected to be supported by an increase in livestock numbers and lower feeding rates for other grains and protein meal. Final figures show feed and residual use for that year of only 3.979 billion bushels, although figures during the year showed that use was 50 million bushels less than that amount.

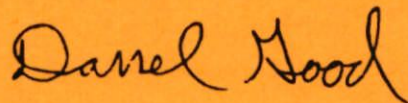
During the marketing year, estimates of feed and residual use of corn are derived from the USDA's quarterly *Grain Stocks* reports. Those reports show the amount of corn in storage on December 1, March 1, June 1, and September 1. From those figures, the amount of corn used for all purposes during the previous quarter can be calculated. Feed and residual use is estimated by subtracting from the total the amount of corn exported and processed during the quarter.

For the first quarter of the 1989-90 marketing year, feed and residual use of corn totaled 1.483 billion bushels. That figure is nearly 11 percent larger than use during the first quarter of last year and second in size only to use during the first quarter of the 1987-88 marketing year. The USDA's stock reports, however, do not account for grain in transit. Some analysts argue that an unusually large amount of corn was in transit during the time of the last stocks survey (approximately December 1) and, as a result, feed use was overestimated. Furthermore, it is argued that the unusually warm weather in January and February resulted in a slowdown in

feed use during the second quarter of the marketing year. These arguments would suggest that the USDA's current forecast of feed and residual use of 4.4 billion bushels for the entire marketing year is too high.

Factors suggesting that the USDA's forecast is correct--or even too low--include the surprisingly large number of cattle placed in feedlots this winter, larger-than-expected hog production, and very favorable livestock feeding margins. In addition, the near-record level of soybean meal feeding so far this year suggests that corn feeding has been high as well. The ratio of soybean meal feeding to corn feeding varies from year to year, depending primarily on the ratio of the price of those two commodities. During the first six months of the marketing year, the average price of soybean meal at Decatur, Illinois, was 2.25 times the price of corn paid to farmers in central Illinois. That price ratio has been declining during the year, and stood at 1.86 on March 1. For the year, the ratio of soybean meal to corn prices will likely be near 2.1 to 1. The ratio has averaged near that level in two of the last five years. In those years, corn feeding averaged six times larger than soybean meal feeding. Through the first five months of the 1989-90 marketing year, soybean meal was fed at a rate that projects to 21.4 million tons for the year. If corn feeding is six times as large, the total for the year will be 4.59 billion bushels.

The USDA's March 1 *Grain Stocks* report will be released on March 31 and will allow the determination of the level of feed and residual use of corn during the first half of the marketing year. Use during the first half of the year has ranged from 60 to 62 percent of the annual total for the past six years. The March 1 stocks figure will have to be near 4.8 billion bushels if corn feeding is on track to reach 4.6 billion bushels. Such a low stocks figure would be very supportive for corn prices.



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