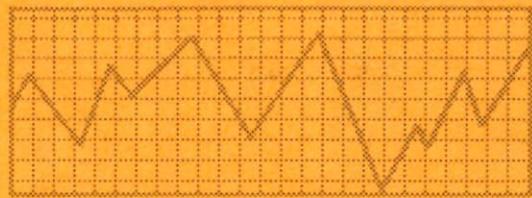




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WEEKLY OUTLOOK

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STOCKS REPORT CONFIRMS HIGH RATE OF GRAIN FEEDING

The USDA's September *Grain Stocks* report was released on September 27. That report indicated the amount of grain on hand as of September 1, the end of the 1989-90 corn and soybean marketing years and the end of the first quarter of the 1990-91 wheat marketing year. For corn and wheat, the report allows a calculation of summer feeding rates. For soybeans, the report allows a check of the accuracy of the 1989 production estimate.

The inventory of old-crop corn on hand on September 1, 1990 was estimated at 1.344 billion bushels, the smallest inventory in six years and 30 percent less than the inventory of a year ago. The inventory figure implies that 1.5 billion bushels of corn were used during the summer quarter, about the same amount as a year ago. Both exports and processing uses of corn were higher than a year ago while feed and residual use was slightly lower. Feed and residual use apparently totaled 673 million bushels, down about 3 percent from a year ago. The decline reflected a sharp increase in wheat feeding. Feed and residual use of all grains during the summer quarter was extremely large, however.

For the entire 1989-90 marketing year, feed and residual use of corn is estimated at 4.481 billion bushels, slightly above the average of non-drought years since 1978. Use during the fourth quarter accounted for 15 percent of the annual total. Corn feeding remained large during that quarter in spite of a record level of wheat feeding.

Old-crop soybean stocks totaled 239 million bushels on September 1. That figure is 31 percent larger than stocks of a year ago, but slightly smaller than anticipated. Stocks are at the lowest level for a non-drought year since 1978. Based on known levels of exports and domestic crush during the 1989-90 marketing year, the stocks figure implies that the 1989 harvest was overestimated by 10 to 15 million bushels. September 1 stocks represent about 13 percent of total use during the 1989-90 marketing year. That is the lowest ratio of stocks to use for a non-drought year since the 1981-82 marketing year.

September 1 wheat stocks were estimated at 2.402 billion bushels, a 25 percent increase from stocks of a year ago, but nearly 70 million bushels less than expected. The stocks figure implies that feed and residual use of wheat during the summer months totaled nearly 450 million bushels. The previous record was 364 million bushels in 1987. There is, however, a large residual component in that figure, so that feed and residual use for the entire marketing year

cannot be forecast with accuracy. For the past 3 years, for example, feed and residual use for the entire marketing year was substantially less than estimated used during the first quarter. In the 5 years prior to that, annual use exceeded the first quarter estimate. In addition, the low September stocks figure may indicate an overestimate of the size of the 1990 harvest. That estimate could be changed in upcoming *Crop Production* reports.

In general, the stocks report can be termed slightly supportive for grain prices. Corn and soybean inventories are quite low by historic standards. Even wheat inventories are modest by the standards of the 1980's. September 1 stocks of wheat for the previous decade averaged 2.89 billion bushels and were below the current level only in the past 2 years. Domestic feeding rates for grain and soybean meal are very high and should be supported by positive livestock feeding margins and expanding poultry and hog production. Domestic soybean oil use is projected to remain record large.

Grain and soybean prices are expected to move higher following the fall harvest period. The magnitude of the rally will depend on two major factors -- export demand and the health of the general economy. The market is not optimistic about either factor. The USDA expects wheat exports to be down 9 percent this year, but sales to date are down 21 percent from the level of a year ago. Soybean exports are expected to stabilize this year, but at this early juncture, sales are down 24 percent from last year. Corn exports are expected to decline by 12 percent this year. While sales are running ahead of last year's pace at this time, that is expected to change. About this time last year, the USSR entered the U.S. corn market for a total of nearly 300 million bushels. Such large purchases by the USSR are not expected this fall.

The slow pace of exports and the slowdown in the economy suggest that the recovery in grain and soybean prices will not come quickly. Eventual price increases, however, are expected to more than cover the cost of storage of corn and soybeans.

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