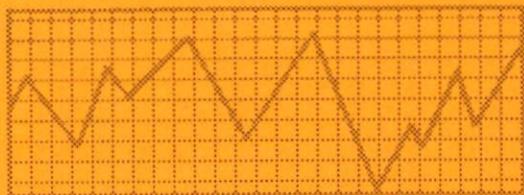




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WEEKLY OUTLOOK

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

NOVEMBER 11, 1991

DOMESTIC FEEDING OF CORN AND SOYBEAN MEAL

The attention of the corn and soybean markets continues to be focused on export prospects, particularly the status of export credits for the Soviet Union. That attention is warranted, given the uncertainty of export demand this year. Longer term, however, domestic feed demand will be important in determining the magnitude of carryover stocks at the end of the 1991-92 marketing year.

The USDA has projected feed and residual use of corn during the current marketing year at 4.8 billion bushels, slightly above use of last year and near the record level established during the 1987-88 marketing year. Feed use of soybean meal has been projected at a record 23.25 million tons. That projection will likely be increased in this week's *Supply and Demand* report since feed use during the 1990-91 marketing year exceeded the USDA's latest projection by nearly 400,000 tons. Domestic meal consumption may be projected at 23.5 million tons.

There are a number of factors which support prospects for a high level of domestic feed consumption. Hog producers have expanded numbers and have indicated that the expansion will continue in 1992. Pork production during the 1991-92 corn and soybean marketing year is expected to be 8 percent larger than production during the same period last year. Poultry production in 1992 is projected to be 4 percent larger than during the 1991 calendar year.

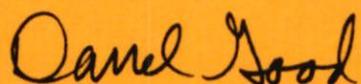
In addition to increased livestock production, corn feeding in particular should be supported by reduced feeding of other grains. During previous years of high levels of corn feeding (1986-87, 1987-88, and 1990-91), the feed and residual use of other grains (sorghum, barley, oats and wheat) ranged from 1.25 to 1.55 billion bushels. For the 1991-92 corn marketing year, feed and residual use of other grains may total only about 1.1 billion bushels.

There is at least one negative aspect of prospective feed demand during the current corn and soybean marketing year -- low livestock prices. The profitability of livestock production has a significant impact on the rate of feed use per animal. During the 1986-87 and 1987-

88 marketing years, for example, grain consumption per animal unit totaled 2.35 and 2.22 tons, respectively. Consumption during the past year was probably close to 2.1 tons. During years of low profitability of livestock production such as 1983-84 and 1988-89, grain consumption per animal unit is in the 1.8 to 1.9 ton range. Feeding rates for protein meal tend to show as much variation as grain feeding.

During the 3 recent years of high levels of corn feeding, the hog/corn price ratios were 36.4, 23.6, and 23.2, respectively. The steer/corn ratios were 42.6, 35.9, and 34.1, respectively. For the 1991-92 marketing year, the futures markets currently reflect a corn/hog price ratio of 18.1 and a steer/corn ratio of 30.2. We should expect that feeding rates will decline somewhat this year.

The projection of relatively small carryover stocks of corn has left some market participants frustrated by relatively low prices. The small carryover, however, reflects an extremely high level of corn feeding. That level of feeding can be attained only if corn prices are attractive to livestock producers. The same is true for domestic soybean meal consumption. Higher prices for feed will be required only if there is a need to slow the rate of domestic consumption. That rate will need to be curtailed only if export sales are significantly larger than projected or if the 1992 growing season is unfavorable. At the margin, exports of corn and soybean meal will continue to be managed by the U.S. government. Next year's weather, however, cannot be managed. Prices of corn and soybeans may well remain in a very narrow trading range all winter. Volatility could increase significantly in the spring.



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