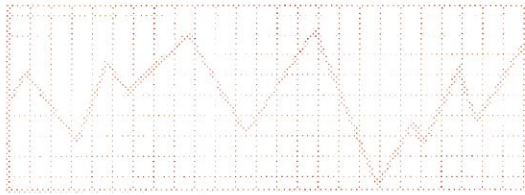




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WEEKLY OUTLOOK

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CORN: FOCUS ON FEED AND RESIDUAL USE

As generally expected, the USDA's November corn production estimate was smaller than the October estimate. At 7.374 billion bushels, the November figure is 167 million bushels smaller than the October estimate and 748 million bushels smaller than the first estimate released in August. The national average yield estimate has declined from 125.6 bushels to 113.7 bushels.

In addition to the smaller crop estimate in November, the USDA also increased the projection of corn exports by 50 million bushels, to a total of 2.05 billion. As of November 2, 457 million bushels of corn had already been shipped and an additional 676 million bushels had been sold for export during the current marketing year. Exports during the first quarter of the marketing year will challenge the records of 1979 and 1980.

The combination of a small crop and strong export demand implies a significant reduction in the amount of corn available for domestic livestock feeding during the current marketing year. Assuming that year ending stocks can be reduced to the extremely low level of 617 million bushels projected by the USDA, corn available for the feed and residual category is estimated at 4.575 billion bushels. That figure is 17.3 percent less than feed and residual use during the 1994-95 marketing year. If the corn production estimate gets smaller in January or exports exceed the current projection, feed and residual use will have to decline more than currently projected.

Comparing this year to the previous four short crop years (1980, 1983, 1988, and 1993) the magnitude of the required reduction in feed and residual use is similar to that of 1988-89. The quarterly pattern of the reduction in feed and residual use of corn varied considerably during the previous four short crop years. The total reduction in 1980-81 was relatively small, at 7.3 percent. A small decline was registered in the first quarter, with the largest declines in the second and fourth quarters. In 1983-84, the total reduction in feed and residual use was 15.2 percent. Use during the first quarter was 9 percent larger than during the same quarter the previous year. Declines for the second, third and fourth quarters were 18, 25, and 32 percent, respectively. In 1988-89, the reduction in use for the entire year was 17.9 percent. A significant reduction was registered in each quarter,

with the largest reductions again in the second and fourth quarters. For the 1993-94 marketing year, the reduction in feed and residual use was 11.2 percent. Quarterly declines ranged from 6.6 percent in the first quarter to 17.5 percent in the third quarter.

Part of the variation in the seasonal pattern of feed and residual use in those four years is "statistical". That is, some of the variation is residual and may reflect errors in the crop production estimate and/or the quarterly stocks estimate. However, part of the variation can be attributed to the variation in the seasonal pattern of prices in those four years. In 1983, for example, the extremely high corn prices did not materialize until late in the season, with the peak occurring in August and September. As a result, the adjustments in feed and residual use did not show up until the second quarter of the marketing year. In contrast, the peak in corn prices in 1988 occurred in June. As a result, the adjustments in feed use were registered in the first quarter of the marketing year.

For the current year, the extremely high prices have once again occurred late in the year. Peak prices have occurred late in the harvest season. This price pattern suggests that reductions in feed and residual use of corn may not be registered during the first quarter of the marketing year. There is no doubt that livestock feeders are making adjustments to the higher feed costs and that feed and residual use will eventually decline. The declines, however, may not be apparent until the release of the March 1996 *Grain Stocks* report. The USDA will release the December 1995 stocks estimate on January 11. Confirmation of a high rate of feed and residual use in that report may not push corn prices higher as the market anticipates a 1983-84 pattern of feed and residual use. In the mean time, corn prices are expected to be well supported by impressive export demand and prospects of extremely low year-ending stocks.



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