



# WEEKLY OUTLOOK

A joint publication of the Department of Agricultural Economics, College of Agriculture, Purdue University, West Lafayette, Indiana, and the Department of Agricultural and Consumer Economics, College of Agricultural, Consumer and Environmental Sciences, University of Illinois at Urbana-Champaign.

**JUNE 3, 1996**

## **WHAT WILL BECOME OF THE 1996 CORN CROP?**

The 1996 growing season for corn has started very slowly in many areas, particularly in the eastern corn belt. While crop conditions vary widely, the crop in many locations can only be described as ugly. Excessive rain has caused planting delays, but that is only part of the story. Crop emergence and growth have been slowed by low temperatures and widespread ponding has and will require substantial replanting. In general, the crop lacks the early growth and vigor that produced the record yields of the mid-1980s and again in 1992 and 1994.

History does contain examples of high average yields being produced by a late planted crop. The years 1978, 1979, and 1990 might be in that category. Other years, including 1973, 1974, 1983, 1993, and 1995, had early problems complicated by late season problems and yields were reduced significantly. A very favorable summer and extended growing season are required for the crop to recover from the early season set-backs. Is this a year when the ugly duckling will turn into an attractive swan? Or will it remain a duck?

In addition to the yield uncertainty, there continues to be some uncertainty about the magnitude of corn acres this year. The USDA's March *Prospective Plantings* report showed intentions to plant 79.9 million acres. The World Outlook Board increased that estimate to 81 million acres last month on the basis of intentions to replant failed wheat acres to corn. Other analysts have projected planted acreage in the range of 82 to 84 million acres. The extended wet spring now brings those estimates into question. In some cases, intentions to destroy a poor wheat crop and replant to a spring crop have been thwarted by the wet weather. Some switching of acres intended for corn to soybeans may also occur. Estimates of the magnitude of this switching are currently in the 1 to 1.5 million acre range and are expected to occur mostly in the eastern corn belt. Even if those estimates are correct, it is not clear from what level of intentions the switch will occur. It makes a great deal of difference if 1 million acres are switched from intentions of 83 million or if the switch comes from a base of 80 million. The USDA is currently surveying producers for the *Acreage* report to be released on June 28. That report will provide a better handle on planted acreage, but will still reflect intentions for some producers.

While uncertainty and speculation about crop size will continue through the summer, the market has to address another question — What is the demand base for the 1996-97 marketing year? That is, what size crop is needed to satisfy demand at current price levels? The domestic demand base may have been reduced by liquidation of livestock, particularly cattle. In addition, end users, including livestock producers as well as industrial processors, will be quicker to respond to a short



crop then was the case last year. Hog prices appear to have peaked and broiler producers have now had some experience with downsizing.

Export demand is more difficult to gauge. Demand for U.S. corn will depend partly on the size of the feed grain crops in the rest of the world. Larger crops are expected in Argentina, Canada, Western Europe, and China. This follows a larger crop in South Africa and China this past year. Export demand will also depend on the rate of economic growth and meat demand in Asia and on trade relationships with China.

It appears that corn prices have peaked for the near term. The market is generally satisfied that the necessary rationing of old crop supplies is taking place. The midwest weather pattern may become a little more favorable following the widespread rainfall of this past weekend. A substantial decline in corn prices is not expected at this time, however.

Rationing of the old crop must be completed and prices are expected to remain high at least until the June 1 *Grain Stocks* report is available on June 28. In addition, new crop prices will have to carry a weather premium well into the growing season. Summer weather problems would fuel another rally in prices. Such a price increase would most likely be a more typical weather rally than the pattern of price increase that has been experienced over the past 15 months. That is, a spike in prices this summer would probably be sufficient to set in motion the necessary rationing of the 1996 crop. If so, prices would follow a more typical pattern of declining through the 1996-97 marketing year.

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