



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.

JANUARY 26, 2004

A NEW ERA FOR CORN AND SOYBEAN PRICES?

The annual U.S. average farm price of corn in the 1960's ranged from \$1.00 to \$1.24. The average prices of soybeans ranged from \$2.13 to \$2.75 per bushel. The world changed beginning in the early 1970's, as there were significant crop problems around the world and the former Soviet Union began importing commodities. The average price of corn jumped to \$1.57 in 1972, \$2.55 in 1973, and \$3.02 in 1974. The average price of soybeans jumped to \$4.37, \$5.68, and \$6.64 in each of those years, respectively. It was the beginning of a new era for prices.

The current market situation for these crops is characterized by a small U.S. soybean crop in 2003, a high rate of soybean consumption by China, declining competition from China in the corn export market, a weak U.S. dollar, rapid expansion in consumption of corn for ethanol, small U.S. and world grain inventories, and relatively high prices. Are these markets embarking on another new era of higher prices?

The inability of corn and soybean prices to remain at consistently high levels historically makes us initially skeptical of such prospects. The high corn prices of the early 1970's quickly faded by the late 1970's. Prices were at relatively high levels from 1979-80 through 1984-85, fueled in part by small U.S. crops in 1980 and 1983. Since 1983-84, however, the annual average farm price of corn has averaged above \$3.00 only in 1995-96 and averaged under \$2.00 from 1997-98 through 2001-02. The annual average price has been above \$2.50 only 11 times in the past 30 years, most recently in 1996-97. The price pattern for soybeans has run a similar course. The annual average price was above \$6.00 only 12 times in the past 30 years, most recently in 1997-98. The average was under \$5.00 from 1998-99 through 2001-02. The highest average price occurred 20 years ago.

The last extended period of relatively high corn and soybean prices was from 1995-96 through 1997-98. The so called "freedom to farm" program of 1996 was enacted during a period of dwindling world inventories and relatively high prices. Many suggested that we were on the brink of a new era of strong demand and consistently high prices, and it appeared that was the case. Consistently large crops in the late 1990's, along with a significant economic slowdown in Asia, proved those expectations wrong.

What is different now? There have been at least two important changes on the demand side in recent years. First, demand for agricultural commodities in Asia, particularly in China, has grown rapidly and China is now a major importer of soybeans. Second, the demand for corn for ethanol production has increased and is now institutionalized by federal and state subsidies. On the supply side, the world has not been able to maintain grain production at consistently high levels. Record world production of both wheat and feed grains occurred in 1996-97 and has been highly variable since. Wheat production has been especially small for two consecutive years. In addition, average soybean yields in the U.S. seem to have reached a plateau, with the record yield now 10 years old. In contrast, world soybean production continues to expand rapidly, due to growth in area devoted to soybean production in South America.

For the near term, it appears that the combination of small inventories, a rapid rate of consumption, and the uncertainties of the 2004 growing season will support corn and soybean prices at relatively high levels. However, it is unlikely that soybean prices can be maintained for long periods at the current level. For the 2004-05 crop year, prospects for continued tight world supplies should also be price supportive. The most uncertainty, as always, surrounds the prospects for U.S. and world production in 2004 and beyond. That is, what sort of weather patterns will be experienced?

The 2004 U.S. corn and soybean growing season will be extremely important, starting with indications of planted acreage on March 31. All available acres will be planted, so that prices do not have to move higher in order to “buy” acreage. Relative prices may be important in determining acreage of individual crops, but many planting decisions have already been made. It is not possible to determine whether prices have entered a new era, like that which occurred in 1972, or are just experiencing a blip similar to those that have occurred over the past 30 years. However, the result of the current high prices is that the market is now offering relatively high prices for the 2004 crops and above average prices for the 2005 crops of corn and soybeans.

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