



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.

MARCH 27, 2006

STRONG CORN CONSUMPTION PROSPECTS

The current corn market is characterized by surplus stocks, but corn consumption is increasing rapidly. Corn demand is expected to remain strong into the 2006-07 marketing year and beyond.

Most of the focus in the corn market has been on the growing ethanol market and the implications for future price and production. That focus has been justified by the rapid growth of ethanol production. For the current marketing year, however, recent surprising developments center around feed and residual use and exports of corn.

In September 2005, the USDA projected domestic feed and residual use of corn during the current marketing year at 5.825 billion bushels. That projection appeared low in relation to the level of consumption during the 2004-05 marketing year and the projected level of livestock and poultry production. Part of the issue was the exceptionally high level of apparent consumption during the 2004-05 marketing year. At 6.162 billion bushels, use last year was nearly 300 million bushels larger than the previous record level of consumption during the 2001-02 marketing year. In particular, use was very high during the last half of the 2004-05 marketing year. Calculated feed and residual use of corn per grain consuming animal unit was extremely high, suggesting the calculated use may have been inflated by an overestimate of the size of the 2004 crop.

The USDA now projects feed and residual use of corn during the current year at 6 billion bushels. The March 1 *Grain Stocks* report, to be released on March 31, will allow the calculation of use during the second quarter of the year. That report is expected to confirm a continuation of the high rate of consumption experienced during the first quarter of the year. In addition, the rapid increase in the number of cattle in feed lots is expected to support feed grain consumption at a high level during the last half of the year. The USDA's estimate of the March 1, 2006 inventory of cattle in feed lots with capacity of 1,000 head or more was 8 percent above the March 1, 2005 inventory and at the highest level for that date since that inventory report began in 1996. Many analysts now believe that feed and residual use of corn this year will exceed 6 billion bushels.

Corn exports during the first four months of the 2005-06 marketing year totaled a modest

645.8 million bushels, 30 million less than during the first four months last year when shipments for the year were a disappointing 1.814 billion bushels. Export shipments, however, accelerated beginning in January 2006. Weekly reports from the USDA indicate that shipments since January 1 have exceeded those of a year ago by about 80 million bushels. Unshipped export sales as of March 16 stood at 360 million bushels, 73 million more than on the same date last year.

Since January, Japan, the largest buyer of U.S. corn, has accelerated its purchases of U.S. corn. Commitments to Japan as of March 16 were 5 percent larger than commitments of a year ago. Sales to other Asian destinations have also accelerated as a result of the shortfall in Argentine corn production this year. In addition, China has at least temporarily eliminated its corn export subsidies, making U.S. corn much more competitive in Asian markets. With 23 weeks left in the 2005-06 marketing year, it appears that U.S. corn exports will exceed the current 1.9 billion bushels projection. Stocks of U.S. corn at the end of the current marketing year will likely be smaller than the current projection of 2.35 billion bushels, but will be large by historical standards.

The increase in corn consumption is occurring at a time when U.S. producers are expected to reduce planted acreage of corn. The USDA will release the results of the planting intentions survey in the March 31 *Prospective Plantings* report. As reported earlier, those intentions are expected to be 1.5 to 1.7 million less than planted acreage in 2005.

Reduced plantings and rapidly increasing consumption will magnify the importance of the 2006 growing season. With consumption having the potential to balloon to 11.5 billion bushels in 2006-07, a crop of at least 10.4 billion bushels is needed to maintain an ending stocks-to-use ratio of 10 percent. A U.S. average yield near 142 bushels per acre would be required under the scenario of reduced acreage and increased consumption. That yield appears modest in context of the average yields of the past two years, but is only about 5 percent below trend yield for 2006. The market currently reflects a substantial increase in the average price of corn for the 2006-07 marketing year, so that a significant reduction in stocks is already in the market. Still, prices could be quite volatile during the growing season if periods of adverse weather surface.

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