



WEEKLY OUTLOOK



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WILL THE CORN CROP GET BIGGER?

The USDA now forecasts the 2007 U.S. corn crop at 13.308 billion bushels, 254 million (1.9 percent) larger than the August forecast and 2.773 billion (26.3 percent) larger than the 2006 crop. The larger crop forecast reflects the expectation of a U.S. average yield of 155.8 bushels. That forecast is three bushels above the August forecast and 6.7 bushels above the 2006 average, but 4.6 bushels below the record yield of 2004.

While the U.S. average yield is not expected to be record large, new records are expected in a number of states where the growing season was generally favorable, including: Iowa, Louisiana, Nebraska, and Texas. The Illinois average yield is expected to equal the 2004 record of 180 bushels. Relatively low yields are expected in areas that experienced poor growing conditions. These include the states of Delaware, Maryland, Michigan, North Carolina, Tennessee, and Virginia.

The large U.S. corn crop is expected to be met with generally strong demand. Even with prices near historically high levels, consumption during the current marketing year is expected to reach 12.79 billion bushels, 1.42 billion above the record consumption estimated for the year just ended. The increase is expected to be led by an increase in corn used in ethanol production, although the USDA's forecast for such use is 100 million bushels below the August forecast. At 3.3 billion bushels, use is expected to exceed that of the 2006-07 marketing year by 1.175 billion bushels. Consumption will be influenced by the pace of completion of new ethanol plants and the processing margins of ethanol producers.

Exports of U.S. corn during the current marketing year are now projected at 2.25 billion bushels, 130 million larger than exports during the 2006-07 marketing year and the largest in 18 years. The expectation of large U.S. corn exports is driven by prospects for tightening world grain supplies; robust world feed grain consumption; and less export competition from Brazil and China. In addition, early sales of U.S. corn for export during the current marketing year are very large. The USDA reported that as of September 6, sales of corn for delivery in the 2007-08 marketing year (which include undelivered sales for the year just ended) at 656 million bushels. Total sales at the same time last year were only 496 million

bushels. The largest year-over-year increase in sales is to Mexico.

Finally, the USDA forecasts a 100 million bushel (1.7 percent) increase in feed use of corn during the 2007-08 marketing year, reflecting an expected 2 percent increase in production of livestock and livestock products. Still the projection appears a little aggressive given the expectation of an increase of 90 million bushels in feed use of other coarse grains and a 53 percent increase in production of co-product feed from ethanol production. Stocks at the end of the 2007-08 marketing year are projected at 1.675 billion bushels, 533 million bushels more than were thought to be in store at the beginning of the year.

The USDA will release new production forecasts in October and November and a final production estimate in January 2008. The production forecasts are based partly on a survey of producers who report actual and/or expected yields. The October forecast will capture a large sample of actual yield results. In addition, the October report will incorporate "administrative" information (primarily from the Farm Service Agency) on actual planted acreage. Based on historical patterns of changes in the monthly production forecasts, it would not be surprising if the October and/or November corn production forecasts exceed the September forecast, particularly if northern crops avoid significant freeze damage.

The actual size of the 2007 crop and the magnitude of year ending stocks are not only important for the price of the 2007 corn crop, but have significant implications for the magnitude of corn acres that may be needed in the U.S. in 2008. If ethanol production proceeds as expected, an additional one billion bushels of corn may be required during the 2008-09 marketing year. Much of that may be supplied out of carryover stocks of the 2007 crop, limiting the need for increased corn acreage in 2008. The magnitude of the needed increase in corn acreage will have significant implications for corn and soybean prices if U.S. winter wheat acreage is increased and if South American producers make only a modest increase in soybean acreage. More corn acres will likely be needed in 2009.

For now, marketing and storage decisions of corn producers will continue to be influenced by the price level and the magnitude of the local basis. Basis remains generally weak in many areas, with cash and futures prices failing to converge in the delivery markets at the expiration of the September contract. The weak basis generally favors storage of the crop. In addition, the large carry in the market makes forward pricing a portion of the stored crop attractive as well. At Illinois locations where harvest is already active, for example, bids for January 2008 delivery exceed spot cash bids by \$.25 to \$.35 per bushel. If basis recovers to a more normal level in 2008, hedging the stored crop could result in a large gross return on corn stored to the spring 2008, \$.60 to \$.70 in central Illinois.

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