UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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## LACK OF CONFIDENCE IN DEMAND FOR CORN AND SOYBEANS

Corn and soybean prices have dropped sharply over the past two weeks, continuing the slide from the early summer peaks. The decline in December 2008 corn futures now exceeds $3.60 and the drop in November 2008 soybean futures is nearly $7.00.

Some of the recent decline reflects the larger supplies revealed in the USDA's September *Grain Stocks* report. That report revealed September 1, 2008 inventories of soybeans of 205 million bushels. That is about 55 million more than expected after the release of the Census Bureau estimate showing August 2008 crush about 15 million bushels lower than expected. The large year ending inventory resulted in a 91 million bushel increase in the estimated size of the 2007 crop. The increase reflected more acres and higher yields than earlier estimated. It has been clear since January 2008 that the size of the crop had been underestimated as "residual" use of soybeans revealed in the quarterly stocks estimate has been extremely small. It was generally believed that the crop estimate would be increased enough to bring residual use up to a normal level. The large year ending stocks were a definite surprise. September 1 inventories of corn were estimated at 1.624 billion bushels, 48 million bushels larger than projected in USDA's September supply and demand report. Summer corn feeding may have been less than expected due to feeding of low-priced wheat. In addition to larger year-ending stocks, larger corn and soybean production estimates by some private forecasters and an accelerating pace of harvest have added supply-side pressure to prices. The USDA will release new production forecasts on October 10.

While supply issues are at play, much of the recent decline in prices reflects concerns about the current and future demand for corn and soybeans. The current pace of exports and export sales of corn, for example, is especially slow. The USDA projects a 17.5 percent year-over-year decline in exports, but current export commitments are 37 percent less than those of a year ago. The pace of soybean export commitments exceeds that of a year ago by 4 percent, even though USDA projects a 13.4 percent decline for the year. The pace of new sales, however, has declined relative to that of a year ago every week since the middle of August. The smaller than expected domestic soybean crush in August also suggests that demand for soybean meal is softening.

In the longer term, there is substantial concern about the implications of the current meltdown in U.S. credit markets on the potential for economic growth in the U.S. and the rest of the world. That concern is reinforced by the sharp decline in stock prices and underlying economic indicators such as unemployment rates and housing starts. Prospects of an economic slow down threatens the robust domestic and export demand for U.S. agricultural commodities enjoyed over the past two years. A widespread economic slow down could result in weaker demand for meat and for livestock feed. In addition, an economic slow down might contribute to a weaker demand for crude oil and further declines in prices of unleaded gasoline. Lower gasoline prices imply lower ethanol prices which imply lower breakeven corn prices for ethanol producers.

Even with the legitimate concerns about demand, prices may well get over done on the low side as traders adjust to the new developments. Just as prices went to a level that could not be sustained with fears of crop loss this spring and summer, prices may now go too low. The problem, of course, is that the extent and magnitude of any economic slow down and demand weakness for agricultural commodities is not known. The over reaction of prices to the high side this spring was confirmed when weather patterns changed and the extent of crop losses became clearer. That happened in a relatively short period of time. The U.S. and world economic situation may take much longer to sort out.

Current corn and soybean prices project to very tight margins for producers for the 2009 crop, particularly for those with high land costs. Prices are not likely high enough to generate any increase in acreage in 2009, but if demand weakens sufficiently, an increase may not be needed. For the 2008 crop, the lower prices now being experienced may be partially offset by insurance payments, particularly for soybeans, for those who have revenue insurance products. For those who decide to hold inventory in anticipation of an eventual price recovery, the Commodity Credit Corporation loan program can be a source of some cash flow.

Issued by Darrel Good
Extension Economist
University of Illinois