



WEEKLY OUTLOOK



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CORN CONSUMPTION

The USDA's updated projections of consumption of U.S. corn during the current marketing year serve as a reminder of the central role that market size will play over the next several months. The level of corn consumption this year will determine the magnitude of year ending stocks, influence expectations for use next year, and influence the amount of corn acreage needed in 2009.

In the March 11 update, the USDA lowered the projection of U.S. corn exports for the current marketing year by 50 million bushels, to 1.7 billion bushels. That projection is 300 million bushels less than the projection of last fall, 736 million less than the record exports of 2007-08, and represent the smallest exports in 6 years. USDA weekly reports show cumulative export shipments through the first 27.6 weeks of the marketing year at 851 million bushels. Assuming that Census Bureau estimates exceed USDA estimates by 50 million bushels (as they did in the first 5 months of the marketing year), cumulative exports are at 901 million bushels. To reach 1.7 billion, exports during the last 24.6 weeks of the year will need to average 32.5 million bushels per week, almost identical to the average so far this year.

As of March 5, the USDA reported that 373 million bushels of U.S. corn had been sold for export but not yet shipped. New sales, then, need to average only 16.7 million bushels per week in order for sales to reach 1.7 billion bushels. Weekly sales since mid-January averaged 42.2 million bushels per week. It now appears that exports could exceed the latest USDA forecast, particularly since Census Bureau estimates through January remain well above cumulative USDA estimates.

The USDA increased the forecast of the amount of corn to be used for ethanol production during the current marketing year by 100 million bushels, to a total of 3.7 billion. The forecast

is 674 million bushels more than used in that category last year. The USDA cited record ethanol use in December, continuing recovery in the production of gasoline blends with ethanol, and more favorable blender margins as reasons for the increase. The projection implies that ethanol production and use will proceed at a rate that exceeds the minimum required by the Renewable Fuels Standards (RFS). The projection appears a little optimistic. Spot market margins for ethanol producers have dropped to the lowest level since USDA began exporting plant level prices in January 2007. Ethanol prices, then, may have to continue to exceed energy value plus the \$.45 per gallon blender tax credit in order to ensure sufficient ethanol production to meet the mandated level of consumption. The necessity for ethanol prices to exceed value suggests that blenders will blend only the minimum amount of ethanol required. An increase in the maximum blend level would not overcome the lack of economic incentives to blend more ethanol. The outlook for ethanol production to be driven by the RFS appears to be supported by the positive values being paid for previous excess production to meet the current year mandate.

For the 2009-10 marketing year, the RFS implies that even more corn will be used for ethanol production. The minimum level of use of renewable biofuels is 10.5 billion gallons in 2009 and 12 billion gallons in 2010. The 1.5 billion gallon increase represents about 500 million bushels of corn. We suspect that U.S. corn exports will also recover during the 2009-10 marketing year on the basis of smaller grain crops in the rest of the world and perhaps some economic recovery in 2010. Domestic feed and residual use of corn during the upcoming marketing year will likely continue to decline under the weight of increased production of distillers grain. Some rebuilding of livestock production, however, may occur in 2010.

Consumption during the 2009-10 marketing year could reach 12.5 billion bushels. The 2009 crop would need to be near 12.2 billion bushels to support consumption at that level. Assuming a trend yield of 152.8 bushels, 79.8 million acres of corn would need to be harvested to produce 12.2 billion bushels. About 87 million acres of corn would need to be planted in 2009, then, to meet expected consumption. The market likely believes that less than 87 million acres of corn will be needed in 2009 since a trend yield above 152.8 bushels is generally assumed. Each bushel above 152.8 reduces the needed acreage by about 500,000. In its preliminary analysis, the USDA expects 2009 corn acreage to be near the 2008 level of 86 million. Private estimates for the March 31 *Prospective Plantings* report are as low as 81 million acres.

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