



# 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.

**JULY 6, 2010**

## **CORN SUPPLY ISSUES**

December 2010 corn futures declined about \$.40 per bushel during the last half of June as the market focused on favorable crop condition ratings and prospects for a large 2010 harvest. The price pattern was reversed following the June 30 USDA reports, with December 2010 corn futures gaining about \$.45 in five trading sessions.

The USDA's *Grain Stocks* and *Acreage* reports both contained surprises that were supportive to the market and put renewed importance on the size of the 2010 crop. At 4.31 billion bushels, the USDA's estimate of the June 1 inventory of corn was 245 million bushels smaller than our calculation of likely stocks if domestic consumption during the March-May quarter was in line with USDA projections for the year. The inventory estimate implies that 3.386 billion bushels of corn were consumed during the previous quarter. Exports were likely near 540 million bushels. If domestic processing use of corn was at the pace projected by the USDA, consumption in that category was near 1.5 billion bushels. The remaining 1.346 billion bushels would have been in the feed and residual category, a record for the quarter. Use during the final quarter of the year would need to total only 576 million bushels to reach the USDA projection of 5.35 billion bushels for the year. Use at that level would be the smallest in 14 years.

Such a large feed and residual use during the March-May quarter this year is not believable due to the smaller number of livestock being fed and the large increase in feeding of distillers grain. So, where did all the corn go? Explanations tend to fall in three categories. One is that the poor quality, low test weight crop of 2009 has required much higher feeding rates, which was finally reflected in the June stocks report. The problem with this explanation is that production, consumption, and stocks are not measured in volume, but in 56 pound units. Test weight should not affect feeding rates. A second explanation is that low test weights resulted in producers overestimating on-farm stocks in both December and March because those estimates were based on volume, but the effect of lower test weights was reflected in their June 1 estimates. A

third explanation is that the 2009 crop was over estimated, resulting in an over estimate of feed and residual use that was finally reflected in the June 1 inventory.

Whatever the reason for the small June 1 stocks estimate, it is now expected that USDA will lower the forecast of September 1, 2010 inventories in the July 9 update of supply and consumption projections. That forecast, however, may be lowered by less than the amount implied by the June 1 inventory in recognition that the September 1 inventory report could find some of the missing bushels in the same way that the large March 1, 2010 soybean stocks estimate “corrected” the small December 1, 2009 stocks estimate.

The estimate that the area planted to corn in 2010 totaled 87.872 million acres rather than 88.798 reported in the March *Perspective Plantings* report was also a surprise to the market. Most analysts expected acreage to exceed March inventions. Acreage harvested for grain in 2010 is expected to be 1.415 million acres more than harvested in 2009. The impact of that increase will be partially offset by an expected decline of 975,000 acres in harvested acreage of other feed grains.

Smaller than expected June 1 stocks and less corn acreage than expected puts a little more pressure on the yield of the 2010 crop. Based on the 2010 trend of actual yields from 1990 through 2009 (160.8 bushels) and the expected benefits of an early planted crop (2.7 bushels), the USDA has forecast the 2010 yield potential at 163.5 bushels, only 1.2 bushels below the record of 2009. During early June, there was widespread talk of yield potential of 165 to 170 bushels. The potential for an above trend yield in 2010 is still quite high, but yield expectations may need to be trimmed a bit from those lofty early season projections. The USDA’s trend yield calculation is 3 bushels higher than our long term, weather-adjusted trend calculation. Some yield potential may also have been lost due to excessive June precipitation in a large part of the Corn Belt. In addition, July weather is not expected to be as favorably cool as in 2008 and 2009. A bit of a shortfall in the average yield might be enough to push prices back to the late winter highs, if strong demand prospects hold up. The USDA will release the first yield forecast based on farmer surveys and objective crop measurements on August 12.

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