



WEEKLY OUTLOOK



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CORN AND SOYBEAN SUPPLIES TO REMAIN TIGHT FOR ANOTHER YEAR?

The USDA projects that corn stocks at the end of the 2010-11 marketing year will total only 745 million bushels. That projection represents 5.5 percent of projected marketing year consumption. Stocks as a percent of consumption would be the smallest since the record low 5 percent of 1995-96. Five percent is considered to be a minimal pipeline supply.

Marketing year ending stocks of soybeans are projected at 140 million bushels, or 4.2 percent of projected consumption. That ratio is slightly smaller than the previous low of 4.4 percent in 2003-04. The low level of inventories projected for this year reflects different market conditions than those that existed in either 1995-96 or 2003-04. Both of those years were characterized by small crops that required a sharp reduction in the level of consumption just to maintain minimum year ending stocks. Year-over-year consumption of corn declined by 8.5 percent in 1995-96 and soybean consumption declined by 9.5 percent in 2003-04.

In contrast, corn consumption during the current marketing year is expected to be 2.8 percent larger than the record of last year. Soybean consumption is expected to be about equal to last year's record. The low level of expected year ending corn stocks are the result of a 2010 corn crop that was 5 percent smaller than the record crop of 2009 and a rapid acceleration in the use of corn for ethanol production. The 2010 soybean crop was only 0.8 percent smaller than the record crop of 2009. Stocks at the beginning of the year, however, were small and exports are expected to be record large. Exports are increasing primarily as a result of strong Chinese demand.

Strong U.S. and world crop demand, scattered production problems in 2010 and early 2011, and prospects for generally tight stocks have pushed corn and soybean prices high enough to raise concerns about more rapid food price inflation. The question now is whether the year ahead will bring some change in the tight supply/high price scenario. Much of the attention will be on the prospective size of the 2011 U.S. corn and soybean crops and the level of demand for those crops.

First a look at corn demand prospects for the 2011-12 marketing year. There is likely to be some further weakness in domestic feed demand resulting from current high feed costs and further liquidation of livestock numbers. Export demand is more difficult to anticipate due to the uncertainty of world grain production, the pace of economic growth, and trade policy. Demand at the same level as this year may be the best forecast. The level of use of corn for ethanol production may be the most important factor. Use during the current marketing year is expected to be well above the level required to meet renewable fuel mandates. The mandates for 2011 and 2012 would require about 4.7 billion bushels of corn to be used for ethanol production during the 2011-12 marketing year, or 200 million less than expected to be used this year. Use could exceed the mandate again next year if blending economics remain favorable. Corn consumption in 2011-12 could decline by 100 to 300 million bushels from the projected level for this year.

A 200 million bushel decline would put total corn consumption at 13.23 billion bushels in 2011-12. With a trend yield of 159 bushels in 2011, harvested acreage would need to total 83.2 million acres to produce 12.23 billion bushels of corn. Planted acreage would need to be near 90.3 million, 2.1 million more than planted in 2010. If demand is stronger than expected and/or stock rebuilding is to begin and if there needs to be some allowance for yield risk, planted acreage may need to be in the range of 92 to 93 million acres.

Demand for U.S. soybeans in 2011-12 is likely to remain strong due to a modest production shortfall in Argentina this year and continued strong Chinese demand. If consumption remains near 3.35 billion bushels and the 2011 U.S. average yield is near the trend value of 43.2 bushels, harvested acreage will need to total about 77.5 million acres to maintain pipeline supplies at the end of the 2011-12 marketing year. Planted acreage would need to be near 78.5 million, 1.1 million more than planted in 2010. To allow some modest rebuilding of stocks and to allow for yield risk, planted acreage may need to be near 79.5 million. Additional double cropping will help meet the need.

It appears that combined acreage of corn and soybeans needs to increase about 6.5 million acres in 2011 to allow for some modest rebuilding of U.S. inventories. A smaller increase would require above trend yields to avoid another year of very tight supplies.

Issued by Darrel Good
Agricultural Economist
University of Illinois