Focus Remains On Corn Demand

grain outlook

DR. DARREL GOOD
Extension Economist University of Illinois

The USDA's March 1 Grain Stocks report revealed a surprisingly small inventory of corn. The smaller than expected inventory implies that consumption during the second quarter of the 2010-11 marketing year was larger than expected. It appears that consumption is progressing at a rate that cannot be sustained by available supplies.

At 6.523 billion bushels, the estimate of March 1 inventories was 1.171 billion bushels smaller than stocks of a year earlier and 165 to 170 million bushels smaller than the average trade guess. The ease of originating grain from producers at generally normal basis levels had led some to believe that March 1 stocks would be much larger. The report revealed that on-farm stocks were 1.164 billion bushels smaller than those of a year earlier. Off-farm stocks were only 7 million bushels smaller. Producers have moved larger quantities of corn to market than was the case last year in response to higher prices, not a stronger basis. It should be pointed out that the estimate of off-farm stocks is based on a near census of commercial facilities while the on-farm stocks estimate reflects a sample of producers and is therefore subject to sampling error.

Where did the corn go? Total consumption of corn during the second quarter of the year totaled 3.538 billion bushels, 328 million more than consumed a year ago. The USDA has not yet released estimates of use by category during the second quarter of the year. Based on our preliminary calculations, exports during the quarter were 18 million bushels less than during the second quarter last year. Processing uses were up 167 million bushels, and by calculation, feed and residual use was up 179 million bushels. It appears that feed and residual use of corn during the first half of the marketing year totaled 3.606 billion bushels, nearly 7 percent more than during the first half of the previous year. For the year, the USDA has projected a year-over-year increase of only 1.2 percent.

The amount of corn available for consumption during the last half of the year depends on the magnitude of the minimum level of year ending stocks. The USDA currently forecasts those stocks at 675 million bushels, or 5 percent of expected consumption. Historically, stocks have not been lower than 5 percent of use. If stocks can be reduced to 4.5 percent of use, then the minimum carryover level is 610 million. A 4 percent stocks-to-use ratio would allow year ending stocks to be reduced to 550 million bushels. It appears that use during the last half of the year will be limited to about 5.95 billion bushels. That is, following an 8 percent year-over-year increase in the first half of the year, use during the last half of the year needs to be about 1 percent less than use of a year earlier.

During March, the first month of the last half of the marketing year, ethanol production was 6 percent larger than in March of 2010. Current ethanol blending margins and ethanol production margins point to a continued high rate of ethanol production. Corn exports during March were about 10 million bushels less than exports a year earlier, but new export sales during March were 70 million larger than in March 2010. The number of cattle in feed lots on March 1 was 5 percent larger than inventories of a year ago. The number of milk cows on farms in February was 1 percent larger than a year earlier and the March 1 inventory of market hogs was 1 percent larger than the inventory of a year earlier. A slowdown in feed use does not appear imminent.

While the rate of corn use does not appear to be slowing, a slowdown is required. The upcoming wheat harvest may provide an opportunity for livestock producers to substitute more wheat for corn in the livestock ration. The degree of substitution will depend on the size and quality of the 2011 wheat harvest and the resulting relative prices of corn and wheat. Currently, corn and wheat prices in southern Illinois are about equal, but new crop wheat prices are about $.15 higher. Importers may also look to the newly harvested South American corn crop for a larger share of imports over the next 5 months.

Corn prices have increased about $.90 per bushel since the release of the March 1 corn stocks estimate. Prices are at the highest level of the year and spot cash prices have exceeded the previous high reached in June 2008. Further price increases may be forthcoming unless there is some evidence that the rate of consumption has slowed. Δ

DR. DARREL GOOD: Extension Economist, University of Illinois