Who Can Afford Corn? Almost No One, Purdue Economist Says

WEST LAFAYETTE, IND.

Inexpensive and abundant corn helped move the ethanol industry onto the alternative fuels fast lane. With corn prices now at record highs, demand outpacing supply and crop losses inevitable with the Midwest floods, ethanol production could soon be stalled, a Purdue University Extension agricultural economist said.

As corn prices continue climbing, fewer ethanol producers can afford the feedstock, said Chris Hurt. In turn, domestic livestock producers and foreign buyers are finding it more difficult either to pay the high prices or obtain the grain they need, he said.

"The ethanol industry is struggling to pay for corn that has reached the $7 a bushel level," Hurt said. "So the ethanol industry may also experience losses and might not be able to bid the price. That will depend on what oil prices and, therefore, ethanol prices, are.

"Everybody is trying to evaluate how many bushels of corn we have lost because of weather-related damage, what the implications are for prices and who can pay these high prices. The answer today is that hardly anyone can pay these kinds of prices and still have positive margins."

Before planting even started this spring, prospects dimmed for a corn crop approaching the 2007 record of 13.1 billion bushels. In March the U.S. Department of Agriculture projected farmers would plant 86 million acres of corn nationwide – an 8 percent decrease from this past year. Following a wet early spring that delayed planting in some states and then this month's devastating floods, the USDA adjusted its harvest estimate to 76 million acres and production to 11.7 billion bushels.

Using a similar 1993 Midwest flood as a model, Hurt estimated U.S. corn production could drop below 11 billion bushels this year. That's not nearly enough corn to go around, he said.

For starters, the U.S. ethanol industry needs 4 billion bushels of corn this year – or 1 billion bushels more than 2007 – to meet anticipated production, Hurt said. Also, livestock producers used 6.15 billion bushels and foreign buyers 2.45 billion bushels of U.S. corn in 2007, and both could buy at least that much corn this year if it were available and more favorably priced, Hurt said.

Usage will have to come down, likely in the livestock and foreign sectors, Hurt said.

"The USDA has said that if the ethanol industry gets 1 billion more bushels of corn it means that the domestic livestock industry will have to cut back 16 percent in feeding corn," he said. "And then our foreign buyers will have to cut back 18 percent."

Adding to the supply shortage and, ultimately, higher corn prices is the ongoing devaluation of the U.S. dollar.

"Another important part in who is going to be able to pay the price for corn is the exchange rate of the dollar," Hurt said. "When their currencies are strong, the foreign sector's currency goes a long way in the United States. If we should see our dollar weaken more, the foreign buyer is going to be able to stay in and pay these prices. That says that the domestic livestock feeder might have to bear even more of the consequences."

Corn growers came into the 2008 crop year needing to produce a bumper crop to satisfy the burgeoning grain demand. Those plans likely were drowned out by floods in much of the Corn Belt.

In four of the hardest hit corn-producing states - Illinois, Indiana, Iowa and Missouri – nearly 50 percent of the corn crop was rated fair to very poor as of Sunday (June 22), according to the USDA's National Agricultural Statistics Service.

With millions of farm acres damaged by high water, the losses to Midwest farmers stand to reach into the hundreds of millions of dollars, Hurt said.

"This crop in particular for our farm producers is the most valuable crop they have ever raised," he said. "Not only is it a valuable crop, they have the most invested in this crop of any crop they have ever raised. So if they are losing that crop, it is going to be the biggest dollar loss that we have ever experienced on a per-acre basis. Δ