Concerns about Corn Demand

Darrel Good
Department of Agricultural and Consumer Economics
University of Illinois

The USDA’s September Crop Production report forecast the 2011 U.S. corn crop at 12.497 billion bushels, marginally larger than the 2010 crop, but well below early season expectations. The October Crop Production report will likely contain a more accurate crop forecast as additional yield and acreage information will be available. In addition, the supply of U.S. corn available for the 2011-12 marketing year will be influenced by the size of old crop inventories at the start of the year. The USDA will release that estimate on September 30.

It is reasonably certain that 2011-12 marketing year corn supplies will be the smallest in 5 years and will require a significant reduction in the level of consumption from that of the past 2 years. Based on USDA’s September 12 forecast of supplies and assuming a maximum year ending inventory of 5 percent of consumption, only 12.79 billion bushels of U.S. corn will be available for consumption during the current marketing year. That is 475 million bushels (3.6 percent) less than the most recent estimate of use during the 2010-11 marketing year.

In its September WASDE report, the USDA forecast 2011-12 marketing year consumption at 12.76 billion bushels. Consumption is expected to decline in every major category—feed, ethanol, and exports. The market seemed to interpret the forecast of reduced consumption to mean that corn demand will be very weak, rather than acknowledging that limited supplies will force a reduction in consumption. Consumption is not the same as demand. The strength of demand is reflected in the combination of consumption and price. The USDA’s projections indicated that a record high average price of corn would be required to limit consumption to the level of available supply. The marketing year average farm price was projected in a range of $6.50 to $7.50, compared to the $5.20 average of 2010-11.

So the question remains, how much rationing of consumption will come as a result of weaker demand and how much rationing will have to come as a result of high prices? The answer will unfold over the next few months. Export demand weakness is coming from competition from much larger feed grain and wheat crops outside the U.S., from some reduction in U.S. livestock and poultry numbers, and perhaps from the expiration of the ethanol blender’s tax credit on December 31, 2011. Demand uncertainties center on livestock and energy prices, which will reflect general economic strength or weakness; size of the southern hemisphere crops; and Chinese feed grain demand. The marketing year started with a very slow pace of export shipments, but a more robust pace of sales. Domestic wheat feeding was expected to continue to replace some corn into the winter months. Weekly ethanol production numbers remained above those of a year ago, primarily due to much larger exports.

Once the September 1 corn stocks estimate and the October corn production forecasts are available, it will be extremely important to monitor the pace of consumption to determine if the necessary slowdown in consumption is occurring. Weekly export and ethanol production data,
along with USDA reports of livestock inventories and South American production prospects will provide much of the needed information. Confirmation that consumption has slowed sufficiently would allow prices to continue to decline modestly, while rapid consumption would point to higher prices.