Mid-summer corn supply, demand and price estimates

The July 12, 2017, World Agricultural Supply and Demand Estimates (WASDE) provided commodity markets with a shock when it changed its estimates of corn planted acres from the 90.0 million acres it had used in recent reports to 90.9 million acres. The report also increased projected harvested acres by 1.1 million acres from 82.4 million acres to 83.5 million acres.

While the yield was left unchanged at 170.7 bushels per acre, the expected 2017 harvest of 14,255 million bushels is second only to the record 15,148-million-bushel harvest in 2016 and virtually tied with the 14.215-million-bushel harvest in 2014. As a result, ending stocks for the 2017-2018 crop year were increased by 215 million bushels to 2,325 million bushels—the highest ending stock level (in bushels) since the 1987-88 crop year. The futures market reacted quickly, falling by 30.5 cents in 2 days.

Higher ending stocks provided a new base upon which traders would base their price expectations. As is true this time of year, farmers, corn demanders, and traders follow daily weather reports and reports from crop tours to establish their own price expectations. Reported signs of drought damage sends prices upward while timely rains in key areas can send prices the other way.

The average farm price range contained in the report fell by 10 cents on both ends, resulting in an expected price range of $2.90 to $3.70 with a midpoint of $3.30. This is 5 cents less than the midrange expected price for the 2016-2017 crop of $3.35.

An average farm gate price of $3.30 for the current crop would leave farmers with an estimated loss of $0.75 per bushel and an estimated accumulated loss of $1.95 per bushel over the last 4 years. These numbers are national averages. There would be a number of farmers with losses less that that; some might even show a slight profit. Likewise, there would be some with losses greater than those we have calculated.

The present farm programs, Agricultural Risk Coverage (ARC), Price Loss Coverage, and revenue insurance are not adequate to cover such losses.

A low-price year like 2017 provides a better context in which to write a farm bill and design farm programs that will enable farmers to stay in production during long periods of low prices instead of guaranteeing them payments when prices are well above the full cost of production, as was the case when the 2014 farm bill was being debated.

Given the cuts that the President and committees of Congress are suggesting for agricultural and nutrition programs—anywhere from $1 billion to $25 billion per year—it is incumbent on all parties to take into consideration the nature of agriculture and economic characteristics that result on long periods of low prices punctuated by short and infrequent periods of high prices.

Policy Pennings Column 882

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