

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

The full force of corn's production shortfall to be felt by corn demanders

Judging by the response of the corn futures market, August tenth's WASDE (World Agricultural Supply and Demand Estimates) report contained few surprises. Reflecting weeks of worsening crop condition reports, the United States Department of Agriculture (USDA) reduced its projection of US corn yields to 123.4 bu./ac., down from the July estimate of 146.0 bu./ac.—the June pre-drought estimate was 166 bu./ac.

In addition, the USDA reduced harvested acres by 1.5 million acres resulting in a reduction in the August projection of the 2012 fall corn harvest by 2.2 billion bushels from the July projection and the July projections had already taken 1.8 billion bushels off the June projections. Between the June and August WASDE reports the 2012 corn crop was reduced from a comfortable 14.8 billion bushels to a very austere 10.8 billion bushels.

With a decline in production of that magnitude, the USDA had to use a combination of increased corn imports, greater beginning stocks, reduced levels of domestic utilization, decreased exports, and lower ending stocks just to make the numbers add up. They used all of the above.

On the positive side of the ledger, the USDA increased their projections of beginning stocks by 218 million bushels and imports by 45 million bushels. Even with those additions, over 2 billion bushels of reductions had to be found.

Livestock took the biggest hit with a reduction of 725 million bushels from July's projected 2012 crop year use of 4.8 billion bushels—in June the projected feed use was 5.5 billion bushels. The use of corn by the ethanol industry was reduced by 400 million bushels to 4.5 billion bushels.

Food, seed and non-ethanol industrial corn utilization was reduced by 70 million bushels.

In the August WASDE report, corn exports were reduced from the 1.6 billion bushels in the July report to 1.3 billion bushels. Ironically, one has to go back to 1993, when the problem in the corn belt was too much water (and poor corn quality), to find exports that low. By way of contrast, the June WASDE report projected corn exports for the 2012 crop year to be 1.9 billion bushels.

Overall, the August corn projection foresees a 10.1 percent reduction in utilization on a 12.8 percent reduction in production.

In addition, the projection of year-ending stocks

was reduced to 650 million bushels, the lowest level since the 1995 crop year.

All of these numbers sent us looking back into the records to see how other years with a production decline greater than 10 percent fared.

The corn harvest in 1980 was 16.3 percent lower than a year earlier. Despite that decline, utilization fell by 4.2 percent with reductions coming from both exports and feed.

The big daddy of them all was 1983 when a combination of reduced acreage and drought resulted in a corn harvest that was 49 percent below the prior-year level. Even with half a crop, corn utilization declined by a mere 7.7 percent and corn exports matched the 1982 level. The use of corn for feed fell by 700 million bushels and it took three years for feed use to return to the 1982 level.

Five years later, 1988 corn production was 30.9 percent lower than it was in 1987 while corn utilization dropped by 6.4 percent. Exports increased by 300 million bushels and feed utilization fell by 850 million bushels. Again, it took three years for feed utilization recover.

The second largest decline in corn production from the previous year was 1993 which saw a corn harvest reduction of 33.1 percent, while corn utilization fell by 10.0 percent of which 350 million bushels came from exports and 550 million bushels came from feed.

What do 1980, 1983, 1988, and 1993 have in common? In each of those years, the US came into the crop year with a combination of private and government stocks in excess of 2 billion bushels. In 1983 for example, over two thirds of that beginning-year stock was in government sponsored programs (2.3 billion bushels out of a total of 3.5). By drawing those stocks down, corn users were protected from more severe reductions in meeting their needs.

A drought in 1995 resulted in a drop in corn production of 26.4 percent and a decline in utilization of 8.6 percent. Exports increased by 50 million bushels. Food, seed, and industrial increased by 100 million bushels. And, feed fell by 750 million bushels. To cover the fall in production, 1.0 billion bushels came out of beginning-year commercial stocks and the remaining 0.1 billion bushels cleaned out the remaining reserves as we ended all stock-holding programs, resulting in year ending corn stocks of 426 million

Originally published in *MidAmerica Farmer Grower*, Vol. 33, No. 33, August 17, 2012
 2) Copy of reproduction sent to Information Specialist, Agricultural Policy Analysis Center, 309 Morgan Hall, Knoxville, TN 37996-4519

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bushels.

But now with the Farmers-Owned-Reserve dismantled and a policy of "under no circumstances is there to be accumulation of stocks by the USDA's Commodity Credit Corporation," the ability of stocks to cushion large production dips is more problematic at best, and impossible at worst. We are about to go into the 2012/13 marketing year with relatively low commercial stocks and no reserve stocks. Unlike 1983 and 1988, corn demanders will feel the full force of the coming production shortfall in terms of availability as well as price.

As we look forward to this fall's corn harvest, we hope that the USDA was overly pessimistic about what farmers are going to find in their corn fields when they roll their combines out of their machinery sheds.

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