



## IFES 2014: Can One Monster Crop End the New Era of Grain Prices?

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*This is a presentation summary from the 2014 Illinois Farm Economics Summit (IFES) which occurred December 15-19, 2014 at locations across Illinois. A complete collection of presentations including PowerPoint Slides (PPT), printable summaries (PDF) and interviews are available [here](#).*

Corn, soybean, and wheat prices this fall dropped to some of the lowest levels since 2006. The decline in corn prices was particularly sharp, with lows in many areas of the country below \$3. The low level of prices has prompted some observers to declare that the "new era" in grain prices that began late in 2006 has come to an end. Whether this is true or not has important implications for farm incomes, land prices, crop input prices, land rental rates, and marketing strategies. The answer to the question is also uniquely important at the present time because long-term price expectations play a crucial role in deciding between program options available under the new farm bill.

It is helpful to first review what we mean by the new era of grain prices. We argued in 2008 and 2009 that corn, soybean, and wheat prices had moved to a new, higher nominal price level beginning in about December 2006. We suggested that the new price level would persist for an extended period of time and we projected the likely average Illinois monthly price and range in monthly prices for those commodities in the first five years of new era. Despite some differences between projections and actuals, the new era projections for the price of corn (\$4.60) soybeans (\$11.04), and wheat (\$5.80) that we made over six years ago have held up remarkably well. While our approach certainly was not very sophisticated, it has provided robust expectations for the level of average crop prices.

So, how does one determine whether the low prices of recent months signal an end to the new era of higher average crop prices? One approach is to ask whether recent price levels are more likely to have been generated by the previous era price distribution or the new era distribution. In corn, the answer is ambiguous because recent prices in the low \$3 range are consistent with both the upper tail of prices in the old era distribution as well as the lower tail of the new era distribution. This is not the case, however, for soybeans and wheat, as recent prices are highly unlikely to have been generated by the old era distribution. If the new era was really over one would think that the answer would be ambiguous for all three commodities.

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A second approach is to simply ask whether the fundamental arguments used to support the new era price levels still hold. Our original argument was that the new era was primarily driven by the rise of ethanol production. There has been a plateauing in U.S. corn use for ethanol production since 2010, but the plateau is at a very high level, around 5 billion bushels. A second important fundamental driver is China's demand for soybeans, which has continued to grow at an impressive pace in recent years. China is projected to import over 2.7 billion bushels in 2014-15. This represents over 60 million acres of soybean production around the world. In our view, the combination of these two demand factors continues to provide strong support for the new era projections going forward.

So, if the evidence supports our new era averages, then what explains the recent low prices? For corn, the best explanation is a leveling demand in the face of a very good U.S. yield in 2014. Soybeans are particularly interesting because the yield in 2014 actually outranks corn in terms of positive deviation from trend. The difference is that export demand continues to rise. Wheat ends up somewhere between the situations for corn and soybeans.

Finally, it is important to emphasize that even in the new era there may be relatively long runs of below-average prices. For example, in the previous era from January 1973 through November 2006 there were two runs below average for corn that spanned more than 30 months. It is also noteworthy that both corn and soybean prices recently completed very long runs above the new era averages. History suggests that it is quite unlikely that corn or soybean prices will soon experience another long run of above average prices. However, history also shows that it is unusual for a long run of above average prices to be followed by a long run of below average prices. The more likely outcome is a series of positive and negative runs of varying but shorter lengths.

### **Additional Resources**

The slides for this presentation can be found at:

[http://www.farmdoc.illinois.edu/presentations/IFES\\_2014](http://www.farmdoc.illinois.edu/presentations/IFES_2014)

For related analysis, see the following *farmdoc daily* articles:

Irwin, S, and D. Good. "[How Long Should We Expect Corn and Soybean Prices to Remain Above or Below Average?](#)" *farmdoc daily* (3):213, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, November 7, 2013.

Irwin, S, and D. Good. "[The New Era of Crop Prices—A Five-Year Review.](#)" *farmdoc daily* (3):38, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, February 27, 2013.