



Weekly Outlook: A Mixed Rate of Corn Consumption, But Does It Matter?

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May 6, 2013

farmdoc daily (3):85

Recommended citation format: Good, D. "A Mixed Rate of Corn Consumption, But Does It Matter?" *farmdoc daily* (3):85, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, May 6, 2013.

Permalink: <http://farmdocdaily.illinois.edu/2013/05/mixed-corn-consumption-does-it-matter.html>

Most of the discussion in the corn market has centered on U.S. planting progress, the likely magnitude of planted acreage, and the U.S. average yield potential. The pace of planting as revealed by the USDA's weekly *Crop Progress* report will continue to be monitored closely for clues about production potential.

The checkered history of acreage response and yield outcomes in years of late planting has been well documented so that considerable production uncertainty will persist well into the growing season. In the meantime, the pace of consumption will reveal the strength of corn demand, provide some clues about the likely level of stocks at the end of the current marketing year, and provide some insight into potential market size in the upcoming marketing year. Two story lines have unfolded for the corn export market. The magnitude of new sales has generally been larger than required to sell the 800 million bushels that USDA expects to be exported this year. Sales for the three weeks ended, April 25, for example, averaged 13.7 million bushels per week. Sales of about 7.9 million bushels per week are needed for total sales to reach 800 million bushels by year end. On the other hand, the pace of export shipments has been less than needed in order to reach 800 million bushels. Inspections for the five weeks ended May 2nd averaged 11.2 million bushels per week. With just over 17 weeks left in the year, shipments need to average 17.2 million bushels per week in order to reach 800 million bushels (calculations include census export estimates through March). Exports may fall slightly below the current projection.

The USDA projects corn used for ethanol and by-products will total 4.55 billion bushels for the current marketing year, 461 million bushels less than used last year. Use during the first half of the marketing year was estimated at 2.27 billion bushels, 302 million bushels (11.7 percent) less than during the first half of the previous marketing year. To reach the USDA projection for the year, use during the last half needs to total, 2.28 billion bushels. That is 159.5 million bushels, or 6.5 percent, less than used during the same period last year. Based on weekly estimates from the U.S. Energy Information Administration, total U.S. ethanol production in March and April will likely be about 6.8 percent less than in March and April of 2012. Ethanol production during the last four months of the 2012-13 corn marketing year, then, needs to be 6.2 percent less than during the same four months last year for corn use to reach 4.55 billion bushels. Ethanol production during the two weeks ended April 26, 2013 was only about three percent less than during the same two weeks last year.

Domestic ethanol consumption in the 2012-13 marketing year should be near that of the past two years,

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suggesting that corn used for ethanol production could exceed the current projection of 4.55 billion bushels. The magnitude of ethanol trade and the change in ethanol inventories will determine how much ethanol actually gets produced and how much corn is consumed. Ethanol exports during the first half of the current corn marketing year were nearly 400 million gallons less than exports of a year earlier. Imports during the first eight months of the year were 240 million gallons larger and domestic inventories were reduced by 70 million gallons. The net impact of those differences is equivalent to a decline of about 260 million bushels in corn consumption. Unfolding ethanol production, trade, and inventory numbers will indicate where corn consumption might end up relative to the current projection, but use slightly above 4.55 billion bushels might be expected.

Feed and residual use of corn continues to be the wild card. Due to the early harvest of the 2012 crop some of new crop was consumed before the start of the marketing year but was counted as consumption in the new year. As a result, apparent feed and residual use was quite large in the first quarter of the 2012-13 marketing year. However, the USDA's March 1 Grain Stocks report indicated very small consumption during the second quarter of the year. Given the recent history of USDA quarterly corn stocks estimates, there is some chance that the surprisingly low rate of use in the second quarter will be followed by a surprisingly high rate of use in the third quarter. In addition, the likelihood that quantities of early harvested corn this year will be substantially less than that of a year ago suggests that fourth quarter use will be large as well. Feed and residual use for the year could well exceed the current projection of 4.4 billion bushels, resulting in smaller year ending stocks than the current projection of 757 million bushels.

While year-ending stocks may be less than currently projected, smaller stocks only matter if the size of the 2013 crop is seriously threatened. With improving weather conditions, current expectations are for a crop that will be large enough to meet consumption needs and lead to some build-up of stocks next year.