



Corn and Wheat Stocks Exceed Expectations

Darrel Good

Department of Agricultural and Consumer Economics
University of Illinois

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The pattern of surprises in USDA quarterly *Grain Stocks* reports that began in June 2010 continued today. The September *Grain Stocks* report estimated September 1, 2011 inventories of old crop corn at 1.128 billion bushels. Stocks were 580 million bushels smaller than those of a year earlier, but 166 million larger than the reported average pre-report expectation and 208 million larger than forecast in the USDA WASDE report released earlier this month. The stocks estimate implies that feed and residual use of corn during the last quarter of the marketing year was extremely small and that feed and residual use for the year totaled only about 4.8 billion bushels, about 200 million bushels less than USDA had forecast.

Summer corn feeding was expected to be negatively impacted by increased wheat feeding. September 1 stocks of wheat, however, exceeded the average pre-report expectation. At 2.15 billion bushels, wheat stocks were 300 million bushels smaller than those of a year ago, but about 105 million larger than expected. The larger-than-expected stocks are even more surprising given that USDA reduced the estimated size of the 2011 U.S. wheat harvest by 68.5 million bushels. The lower production estimate reflects a small reduction in the estimate of harvested acreage and a 1.3 bushel reduction in the estimate of the U.S. average yield. The smaller yield and production estimates were for spring wheat.

September 1 stocks of soybeans totaled 215 million bushels, 64 million larger than stocks of a year earlier, but 10 million bushels smaller than the projection in the USDA WASDE report released earlier this month. The estimated size of the 2010 soybean crop was reduced fractionally.

The large stocks estimates will likely result in a continuation of the downtrend in corn and wheat prices. For corn, the large stocks estimate comes on top of reports showing potentially substantial declines in broiler production and prospects for declining numbers of cattle feedlot inventories in 2012. While hog numbers are about equal those of a year ago and dairy cow numbers are slightly larger, the outlook is for weak feed demand for corn. In addition, corn prices have been driven lower by reports of better-than-expected yields, a slow start to the 2011-12 marketing year exports, and stagnating ethanol production. Weakening demand and large old crop stocks suggest that there may be less need to increase corn acreage in 2012.

In addition to larger-than-expected inventories, wheat prices will be influenced by a continuation of export competition from large supplies in other parts of the world. On-going dryness in some hard red winter wheat production areas may provide modest price support. The September stocks estimate for soybeans

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was not a market-mover.

The next major report to influence corn and soybean prices will be the USDA's October 12 *Crop Production* report.