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## Weekly Outlook: Monitoring Corn Consumption

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The price of corn, like the price of other commodities, is influenced by a wide array of factors that reflect a combination of current and expected supply and consumption. The market continually judges whether the price of corn is adequate to ration the available supply. While expectations about demand over the course of the marketing year influence that judgment, the on-going pace of consumption reveals the adjustments that are being made to accommodate the available supply. A pace of consumption that cannot be supported implies the need for higher prices, while a slower pace than required implies the need for lower prices.

In the current marketing year, the small U.S. crop requires a substantial reduction from the level of consumption in the 2011-12 marketing year. Based on the current forecast of the crop size, imports of 75 million bushels, and the assumption that year-ending stocks cannot be reduced below about five percent of consumption, corn consumption during the current marketing year will be limited to about 11.2 billion bushels. That is 1.326 billion bushels (10.6 percent) less than consumed in the previous marketing year. The USDA has forecast a decline in consumption of 1.376 billion bushels and year-ending stocks slightly above five percent of consumption. By category, the USDA has forecast that exports will decline by 393 million bushels (25.5 percent), corn for ethanol and by-products will decline by 500 million bushels (10 percent), other processing uses will decline by 71 million bushels (5 percent), and feed and residual use will decline by 412 million bushels (9 percent).

To date, the pace of corn exports has been much slower than needed to reach the USDA projection for the year. Based on the weekly Export Sales report, exports during the first seven weeks of the marketing year averaged 19.1 million bushels per week. To reach the USDA projection, weekly exports for the remainder of the year need to average 22.6 million bushels. As of October 18, 292 million bushels of corn had been sold for export, but not yet shipped. Those outstanding sales are 52 percent less than outstanding sales of a year earlier. Every major buyer has purchased substantially less U.S. corn than purchased last year. There may be some opportunity for exports to accelerate as the year progresses as competition from wheat and South American corn moderates.

Weekly estimates of ethanol production from the U.S. Energy Information Administration reveal that ethanol production during the first seven weeks of the marketing year was eight percent less than during the same period last year. For the two weeks ended, October 19, production was down 12 percent from that of last year. The year-over-year reductions are likely to continue to be large, at least through the end

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of the calendar year. Last year, ethanol production accelerated in November and December in anticipation of the expiration of the blender's tax credit on December 31, 2011. However, the current weekly pace is sufficient for corn consumption for ethanol and by-product consumption to reach 4.5 billion bushels for the year. The upcoming decision by the EPA in regards a partial waiver of the Renewable Fuels Standards is not expected to have a substantial impact on ethanol production in the near future (see our analysis [here](#)).

The estimate of December 1, 2012 stocks, to be released on January 11, 2013, will allow for the calculation of feed and residual use during the first quarter of the 2012-13 marketing year. Until then, expectations about the likely pace of feed consumption are based on anecdotal information such as livestock inventories, slaughter numbers, and slaughter weights. In the case of cattle, feedlot inventories are declining, down three percent on October 1, and are expected to continue to decline as the result of the smaller supply of feeder cattle. The number of cattle slaughtered in September was 12 percent smaller than in September 2011, although average weights were up three percent. The inventory of market hogs on September 1 was about equal that of a year earlier. Sow farrowings were down about three percent in the fall quarter, but intentions for the winter quarter were off only one percent. Slaughter numbers in September were down about two percent. The number of dairy cattle is declining; with the inventory on September 1 about equal that of a year ago. Numbers are expected to decline below last year's inventory as the year progresses. Placements of broiler-type chicks continues at or slightly above last year's pace, although broiler-type egg sets declined sharply during the week ended October 20. Year-over-year chicken slaughter was down about eight percent in September. Taken together, current livestock data suggest that the pace of feed and residual consumption of corn has slowed and will continue to slow even though the pace of wheat feeding has likely slowed substantially and supplies of distillers' grains are smaller than those of a year earlier.

Corn consumption is clearly slowing, but the pace may not yet be sufficiently slow to ration the available supplies. This suggests that, while higher prices are not likely needed, current price levels will be maintained a while longer.