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Recent CARD Publications

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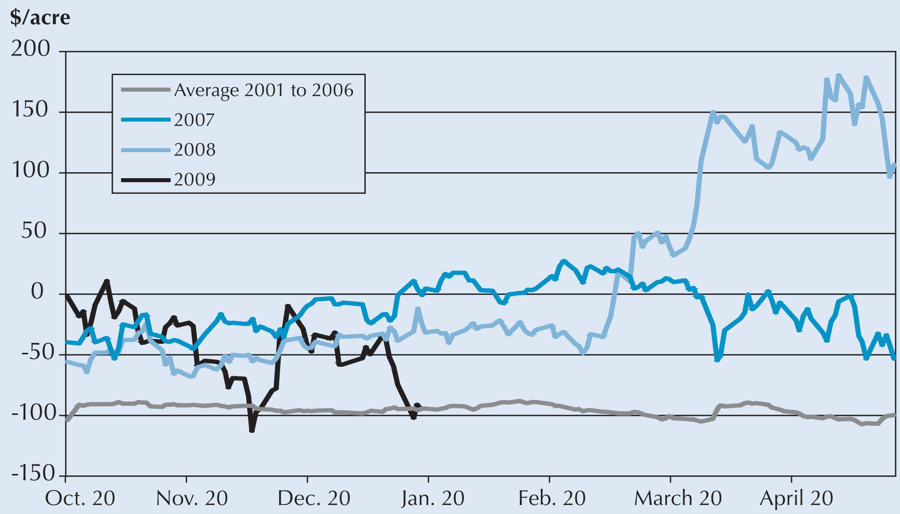

Figure 3. Daily value of incentive to plant corn after corn

after October 20 in the fall before planting are shown. May 20 is about the last day that farmers can choose to plant corn instead of soybeans. Daily values for new crop futures (December for corn and November for soybeans) adjusted for average midwestern basis are used in the calculations.

Figure 3 shows that there was no incentive to plant corn after corn from 2001 to 2006. Consequently, corn acreage averaged 79 million acres, varying from 75.7 in 2001 to 81.8 in 2005. There was no day during this period when the expected return to planting corn after corn exceeded the expected return from planting soybeans after corn. Of course, some farmers chose to plant corn after corn. These farmers must have had some advantage not captured by the measure graphed in Figure 3. For example, access to abundant hog manure induces some farmers to plant continuous corn.

Recent Incentives and Outcomes

Early in January of 2007, the market created a positive incentive to plant corn after corn. This incentive lasted until the beginning of April before it disappeared. Notice also that for most of the period after the 2006 harvest, the disincentive for planting corn after corn was much less than it had been in previous years. This pattern of incentives in 2007 was evidently quite strong given the large movement of soybean acres to corn acres shown in Figure 1.

The incentives to plant corn after corn were negative and lower in 2008 than in 2007 until the second week in March. By that time many farmers who might have considered planting corn after corn had already decided to plant soybeans instead. The market likely responded to a fear of inadequate corn acreage and created a large incentive for farmers to switch their plans toward corn. The lateness of the signal probably prevented many farmers from responding.

The incentives for the 2009 crop started higher than in either 2007 or 2008 but they quickly fell in mid-December to become quite negative. After rebounding somewhat, the latest use data from USDA released on January 12 drove corn prices sharply down. Currently the disincentive to plant corn after corn is about the same as the average disincentive during 2001 to 2006. This suggests that corn acreage will have trouble exceeding 80 million acres in 2009. But projected demand for corn exceeds what can be grown on 80 million acres. Consequently, we should expect significant strengthening in corn prices relative to soybean prices before planting. ◆

Recent CARD Publications

Working Papers

Buying Ecological Services: Nature's Harmonies, Fragmented Reserves and the Agricultural Extensification Debate. David A. Hennessy and Harvey Lapan. November 2008. 08-WP 482.

Determinants of World Demand for U.S. Corn Seeds: The Role of Trade Costs. Sampath Jayasinghe, John C. Beghin, and GianCarlo Moschini. January 2009. 09-WP 484.

Not All DDGS Are Created Equal: Nutrient-Profile-Based Pricing to Incentivize Quality. Jacinto F. Fabiosa. November 2008. 08-WP 481.

A Welfare Analysis of the U.S. Ethanol Subsidy. Xiaodong Du, Dermot J. Hayes, and Mindy Baker. November 2008 (Revised). 08-WP 480.

Welfare Changes from the U.S. Ethanol Tax Credit: The Role of Uncertainty and Interlinked Commodity Markets. Mindy Baker. December 2008. 08-WP 483.

Books and Miscellaneous

Using Distillers Grains in the U.S. And International Livestock and Poultry Industries. Bruce A. Babcock, Dermot J. Hayes, John D. Lawrence, Editors. Midwest Agribusiness Trade Research and Information Center, Iowa State University. 2008. (Available online only: http://www.matric.iastate.edu/DGbook/).