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# Crop Production and Outlook - the Demand side

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**Abstract**
The latest round of USDA updates to its World Agricultural Supply and Demand Estimates and Crop Production reports were released on Oct. 10. On the demand side, corn feed demand was projected at 5.35 billion bushels, up 150 million from last month, reversing the move from last month. Lower corn prices are seen as the major reason for this shift. Corn demand from ethanol was reduced by 100 million bushels to 4 billion bushels. While lower corn prices should be attractive to the ethanol industry, reduced transportation fuel consumption is a significant drag to the industry. Combined with general economic concerns, ethanol blending growth is expected to slow.

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# Crop Production and Outlook - the Demand side

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Corn exports are held steady at 2 billion bushels. These changes result in projected ending stock for the 2008-09 crop of 1.154 billion bushels, up 136 million from last month and slightly above trade estimates. This puts the projected stocks-to-use ratio for 2008 at 9.1 percent, well down from 12.7 percent in 2007.

For soybeans, ending stocks for 2008/09 were revised upward 85 million bushels to 220 million. Much of that increase was due to the increases in 2007 ending stocks and 2008 production. Crush demand was lowered by 25 million bushels, but export demand was increased by 50 million. In the mid-September USDA reports, soybean stocks-to-use ratios for 2007 and 2008 were below 5 percent. In these latest reports, those ratios were raised to 6.7 percent for 2007 and 7.4 percent for 2008. So the soybean stock situation remains tight, but not nearly as tight as it previously looked.

The corn and soybean markets, like many commodity and stock markets, have taken a pounding. Concerns about the general economy both here in the U.S. and worldwide have weighed heavily on market trading and have been a significant factor to the slide in crop prices, especially over the past two weeks.

USDA significantly updated its season-average prices for corn and soybeans to $4.70 per bushel for corn and $10.35 per bushel for soybeans. The corn price is off 80 cents per bushel, while the soybean price is down $2 per bushel from last month’s estimates. While these are sizable drops in price, they look relatively optimistic compared to futures prices. Based on Oct. 9 settlement prices, the futures markets were projecting 2008 season-average prices of $4.27 for corn and $9.79 for soybeans.

Factors outside of agriculture will continue to strongly influence agricultural prices. The financial market turmoil is the dominant factor across many markets. Crop agriculture over the past couple of years has enjoyed strong demand for food, feed, and fuel use. But the concerns about the general economy lead to concerns about future crop demands both here and abroad.

As Figure 1 shows, the outlook for overall fuel demand has dropped significantly over the past few months. Credit markets have tightened and, in some cases, ceased to function. Much of the funding for agricultural production and trade worldwide depends on liquid credit markets.

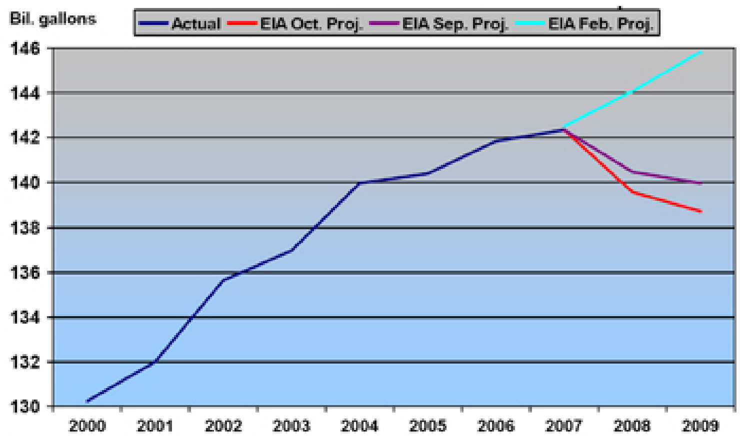
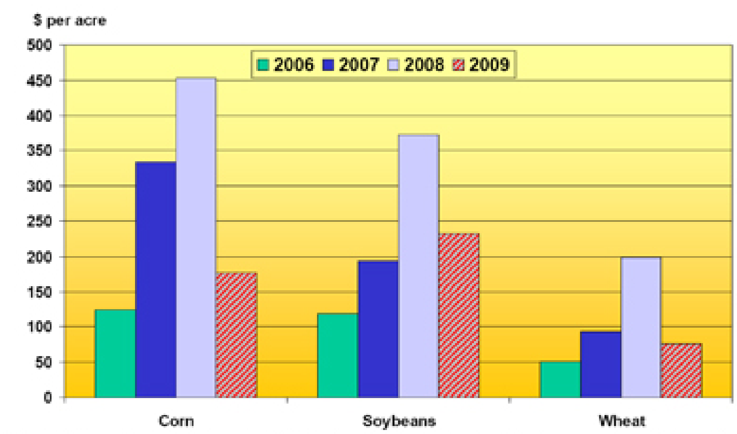



Figure 1. Blended Motor Gasoline Consumption in the U.S.
Source: U.S. Department of Energy, Energy Information Administration

The 2009 crop year was already looking to be a tighter year for crop producers, as input costs have ratcheted up. And just as it took a while for costs to catch up on the upside, costs will also lag prices going down. Based on USDA current estimates of relative net returns, soybeans may be the most attractive play in 2009 given its lower production costs.




Note: 2009-crop outlook reflects current estimated costs and cash market prices. Net returns are above variable costs.

Figure 2. Historical and Projected Net Returns
Source: USDA, World Agricultural Outlook Board

*Chad Hart is a grain markets specialist and an assistant professor of economics with research and outreach responsibilities in grain and bioenergy crop marketing.*

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