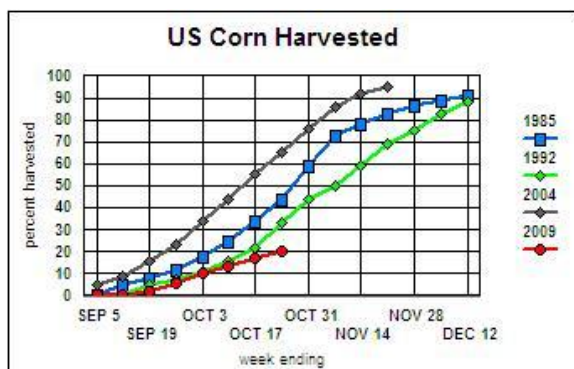


Late Corn Harvest Challenges

After a review of USDA NASS harvest progress data for late October going back to 1972, it looks like 2009 is the slowest over that 38 year period. Freeze damaged corn is also a concern, since small, light-weight kernels may result that reduce the harvested yield. Damage from freezing temperatures in October may be worse than for the other slow maturing corn crops in 1985, 1992 and 2004 featured on the graph below. All 3 years featured cool summers in the Corn Belt that generated very high corn yields, averaging 8% to 10% above trend.



Source: www.nass.usda.gov

Yield Prospects

Two factors contribute to corn yield, the number and size of the kernels. When July temperatures are exceptionally cool, it enhances pollination, maximizing the number of kernels being set. August coolness keeps moisture stress low while kernels are forming on the ear. It is not surprising that the years with the slowest harvest progress are often the highest yielding ones after a cool summer. The hazard is that late-maturing corn is susceptible to freeze damage.

The excellent yield results in the 3 analog years from the graph above suggest that freezing temperatures were not much of a problem. The lowest yield in 1992 was still 8% above trend. In 2004 and 1985, the US corn yield finished 9% to 10% above

trend. Moisture levels on corn are much higher this year than in recent years.

Agronomists explain why yields are diminished when a freeze cuts the growing season short. Corn that has not finished filling kernels will have less dense kernels at harvest. The average test weight for corn is 56 pounds per bushel, but it takes more kernels to fill up a bushel basket when they are small and light weight. Corn test weights may vary widely in 2009 and 45 to 55 pounds per bushel in freeze damaged corn could be common.

Many farmers are harvesting corn with moisture levels in the high 20% range. These high moisture levels will result in shrink and drying charges for grain delivered to elevators, terminals and processors. Higher drying charges will further increase input costs for a year in which total costs were record large.

USDA will issue monthly crop production reports on November 10th and December 10th. However, the size of the 2009 corn crop will not likely be known until the final crop production report is released on January 12th, 2010.

Corn Quality Channeling

Much of the lower quality corn will likely be channeled toward livestock feed. This may make corn more competitive with wheat for feed usage, especially near cattle feedlots. The longer term effect on cash price, either bullish or bearish is still in question. Low-quality corn does not store well, and thus finds its way into the cash corn market more quickly than high-quality corn. Through the winter and especially early spring, these quality issues could prove bearish to cash prices.

Before deciding where to deliver corn, you should think about the ultimate destination for the product. Processor markets where

the corn germ is extracted are going to be tough graders on heat and overall damage in general. Much of the damage is likely confined to the area where corn oil is located.

Cash Flow Concerns

Additional handling and drying charges were not likely included in most farm cash flows. Higher moisture content in corn, along with lighter than normal test weights may add to the potential loss in revenue. Some corn has already been rejected by processors this fall.

While corn yields still appear large for many areas of the Corn Belt, these hefty discounts for moisture and test weight serve as a deterrent to harvesting the crop in less than ideal field conditions. The grain handling capacity for these higher moisture content crops will likely challenge off-farm and on-farm harvesting and drying systems.

Expect corn quality to be resolved in the cash market via basis. There will be discounts applied to the underlying futures prices used to calculate these local cash bids. Additional concerns for molds in corn will likely add to more oversight of grain being delivered to elevators, terminals and processors. This will mean higher standards when sampling of trucks and wagons.

Conclusion

The challenges of the 2009 harvest will impact farm decision-making. The increased harvest costs and quality discounts will impact many farm cash flows. Handling, drying and storage of grain will prove challenging. Long lines at elevators, terminals and processors are likely across much of the Corn Belt.

With concern for damaged kernels, producers should be operating on the expectation that discount schedules will get progressively worse. This will be very noticeable later in the marketing year as the amount of higher quality corn declines.

Farmers are encouraged to communicate with their lenders, input suppliers and grain merchandisers this fall. Everyone will need a high degree of patience as the 2009 harvest will likely be one of the most challenging in recent memory.

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