Our "Special Feature" for this issue is the 1996 Iowa Farm Custom rate Survey prepared by Dr. William Edwards and Alan Vontalge. Dr. Edwards is an extension economist specializing in farm management, ag finance, and international ag development. In 1992 he received ISU's Mid-career Extension Award, and in 1984 and 1986, he was awarded the ASAE Blue ribbon Award in Educational Aids. For more information on the enclosed survey, contact Dr. Edwards at (515) 294-6161. Alan Vontalge is an ISU graduate in ag economics and is an extension associate under Dr. Edwards, Dr. Robert Jolly, and Dr. Mike Duffy.

CORN PRICES SET ALL-TIME HIGH!

On April 2, nearby corn futures moved to an all-time record high, slightly above the old record of $4.1925 set in 1981. CORN CLOSED AT $4.2425 ON APRIL 3RD! USDA's March 29 Grain Stocks and Planting Intentions Report along with weather concerns are likely to push old- and new-crop corn prices somewhat higher in the next several weeks. Price volatility likely will also increase as the planting season approaches and traders worry about extremely low carryover stocks. Low stocks mean there will be no reserve supply of wheat or feed grains to draw on next year in case of serious 1996 weather problems.

Soybean stocks and planting intentions were neutral-to-slightly-negative for bean prices; however, strength in corn prices should support and perhaps increase old- and new-crop soybean prices modestly in the next several weeks. Meal and oil export sales are lagging well behind those of a year ago; domestic crushings have been below 1994-95 numbers for the past four months. Competition from South America's oilseed harvest will increase from late May onward. Thus, upward potential in soybean prices appears to be more limited than for corn.

Summary of Planting Intentions...

Intended plantings of major crops and comparisons with 1995 plantings are shown in Table 1. Planting intentions were based on a USDA survey of farmers taken about March 1st. At that time, the House and Senate were still working on the farm bill. Key details of the Conservation Reserve Program (CRP) "early out" were not yet available. Thus, actual plantings may be influenced by farm program details as well as spring weather and prices. With good planting weather, actual 1996 U.S. corn plantings may be a bit above the intentions. New-crop corn prices appear likely to strengthen relative to soybeans to encourage adequate corn plantings.

Other significant details of the Planting Intentions Report include: (1) a 12% increase in intended sorghum plantings, (2) a 7% increase in barley intentions, and (3) a 10% cut in cotton intentions. Sorghum and barley compete with corn for feed in the southern and northern plains, respectively. Part of both crops will be harvested in August and will help extend tight old-crop feed supplies. In the South, some farmers are shifting part of their cotton land into corn to be harvested in late summer to take advantage of the 754 or more premium of old-crop corn over new-crop corn. Intended soybean plantings were unchanged from 1995.

Table 1. U.S. Crop Planting Intentions (mil. ac.).

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1996</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
March 1 U.S. corn stocks were about 100 million bushels below trade expectations. While the stocks indicate corn feeding is well below that of last year, the 11% decrease from a year earlier in December-February corn feeding is not enough to do the required rationing job. To maintain carryover stocks on Sept. 1, corn feeding the rest of the marketing year will need to be at least 20% below a year earlier. Recent cuts in intended broiler production and rain in parts of the southern plains' cow-calf area will help somewhat in restraining corn feeding. Without these cuts, stocks indicate we will run out of corn sometime in July or early August. March 1 soybean stocks were slightly larger than expected.

Table 1. Corn Balance Sheet (Mil. B.) 4/2/96

<table>
<thead>
<tr>
<th></th>
<th>Proj. '95-96</th>
<th>ISU Proj. 1996-97</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Supplies: Pl. A. (mil)</td>
<td>71.2</td>
<td>79.4</td>
</tr>
<tr>
<td>Harv. A. (mil)</td>
<td>64.9</td>
<td>72.4</td>
</tr>
<tr>
<td>Bu./A.</td>
<td>113.5</td>
<td>105.0</td>
</tr>
<tr>
<td>Production</td>
<td>7,374</td>
<td>7605</td>
</tr>
<tr>
<td>Imports</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Carryover</td>
<td>1558</td>
<td>367</td>
</tr>
<tr>
<td>Total</td>
<td>8947</td>
<td>7997</td>
</tr>
<tr>
<td>Util: Feed, Resid.</td>
<td>4700</td>
<td>3850</td>
</tr>
<tr>
<td>Other Domestic</td>
<td>1680</td>
<td>1660</td>
</tr>
<tr>
<td>Exports</td>
<td>2200</td>
<td>2050</td>
</tr>
<tr>
<td>Total</td>
<td>8580</td>
<td>7560</td>
</tr>
<tr>
<td>Carryover</td>
<td>367</td>
<td>437</td>
</tr>
<tr>
<td>U.S. Farm Price</td>
<td>$3.75</td>
<td>$4.30</td>
</tr>
<tr>
<td>Ia. Avg. Price</td>
<td>$3.65</td>
<td>$4.20</td>
</tr>
<tr>
<td>Hrv. Pr. C. Ia.</td>
<td>$2.90</td>
<td>$4.30</td>
</tr>
<tr>
<td>Hrv. Dec. Fut.</td>
<td>$3.35</td>
<td>$4.75</td>
</tr>
</tbody>
</table>

Table 2. Soybean Balance Sheet (Mil.B.) 4/2/96

<table>
<thead>
<tr>
<th></th>
<th>Proj. '95-96</th>
<th>ISU Proj. 1996-97</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Supplies: Pl. A. (mil)</td>
<td>62.6</td>
<td>62.8</td>
</tr>
<tr>
<td>Harv. A. (mil)</td>
<td>61.6</td>
<td>61.8</td>
</tr>
<tr>
<td>Bu./A.</td>
<td>34.9</td>
<td>32.0</td>
</tr>
<tr>
<td>Production</td>
<td>2152</td>
<td>1977</td>
</tr>
<tr>
<td>Imports</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Carryover</td>
<td>335</td>
<td>180</td>
</tr>
<tr>
<td>Total</td>
<td>2495</td>
<td>2166</td>
</tr>
<tr>
<td>Util: Crush</td>
<td>1385</td>
<td>1320</td>
</tr>
</tbody>
</table>
## Can Spring, Summer Corn Feeding Be Reduced?

Indicated corn feeding for the first half of the marketing year was down approximately 12 percent from very high year-ago levels. Early indications are that cattle on feed may drop a little below a year earlier, with the exact amount depending on pasture and range conditions. Poultry numbers may be down slightly from recent months. However, hog numbers (the biggest users of corn) appear likely to remain about steady. Thus, a significant further drop in corn feeding would require additional reductions in feeding rates per animal. Broiler weights reportedly have dropped below a year ago, cutting feed requirements per bird modestly. Hog and fed cattle marketing weights have remained above last year, but have declined slightly in the last few weeks.

USDA numbers indicate about 209 million bushels of wheat were fed in the summer quarter last year. Prospects for wheat feeding are quite limited this summer, except for low quality wheat. The wheat crop in the southern plains remains in mostly poor-to-fair condition, and there are pockets of winter-kill and disease in parts of the soft red wheat crop in the eastern Corn Belt. Other developments that will impact summer corn feeding include: (1) the amount of sorghum planted in the southern plains, where harvesting begins in August, (2) the size of the northern plains barley crop, and (3) the size of the corn crop in the southern U.S. At a conference in Oklahoma, participants indicated a significant amount of failed wheat acres there and in neighboring states will be replanted to sorghum or oats if rainfall permits. Reports from the southeast indicate some cotton land will be shifted to corn to avoid high insecticide costs, and to take advantage of the expected tight supplies and high prices for corn this summer. Corn in the southeastern U.S. is harvested in August.

No one knows whether these adjustments will be enough to allow minimal U.S. corn carryover stocks on September 1. However, the March 1 stocks report indicates corn prices will have to remain strong to restrain usage. Weather and pasture conditions will be a more important influence on corn prices than usual this spring and summer. Any major weather threat to the 1996 crop would bring explosive old and new-crop prices.

## Influences on Corn Plantings...

Government program details were limited when the planting intentions survey was made. A zero set-aside was widely expected, but full details on planting flexibility were missing. Also, details on the CRP "early out" had not been announced. Most analysts expect only about 1.0 to 1.5 million acres of CRP land to be returned to crop production in 1996. Substantially more CRP land than this is available for "early out", but will not be eligible because of erodibility or other environmental concerns. Contracts may be extended for one year in order to retain eligibility for extension for another 10 years at a reduced payment rate.

### Table: Crop Feeding and Prices

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Domestic</td>
<td>120</td>
<td>98</td>
<td>98</td>
<td>98</td>
</tr>
<tr>
<td>Exports</td>
<td>810</td>
<td>610</td>
<td>825</td>
<td>855</td>
</tr>
<tr>
<td>Total</td>
<td>2315</td>
<td>2028</td>
<td>2343</td>
<td>2398</td>
</tr>
<tr>
<td>Carryover</td>
<td>180</td>
<td>138</td>
<td>210</td>
<td>340</td>
</tr>
<tr>
<td>U.S. Avg. Price</td>
<td>$6.90</td>
<td>$8.10</td>
<td>$6.00</td>
<td>$5.85</td>
</tr>
<tr>
<td>Ia. Avg. Price</td>
<td>$6.80</td>
<td>$8.00</td>
<td>$5.90</td>
<td>$5.75</td>
</tr>
<tr>
<td>Hrv. Pr. N.C. Ia.</td>
<td>$6.75</td>
<td>$8.40</td>
<td>$6.65</td>
<td>$5.55</td>
</tr>
<tr>
<td>Meal Dectr/T 48%</td>
<td>$231</td>
<td>$262</td>
<td>$193</td>
<td>$188</td>
</tr>
<tr>
<td>Soyoil, 4/lb.</td>
<td>24.50</td>
<td>29.00</td>
<td>24.00</td>
<td>23.75</td>
</tr>
<tr>
<td>Hrv. Nov. Fut.</td>
<td>$7.15</td>
<td>$8.90</td>
<td>$7.10</td>
<td>$6.00</td>
</tr>
</tbody>
</table>

### Notes:
- Carryover data is as of October 1.
- U.S. Avg. Price is for the seven principal feeding states.
- Ia. Avg. Price is for Iowa.
- Hrv. Pr. N.C. Ia. is the average price for the North Central states.
- Meal Dectr/T 48% is the meal content of the grain.
- Soyoil, 4/lb. is the average for soybean oil.
- Hrv. Nov. Fut. is the average price for the November delivery futures contract.

The data reflects the crop feeding and prices during the first half of the marketing year.
The USDA March Hogs & Pigs Report indicated that producers may have begun breeding herd liquidation that has been expected as a result of the record-high corn prices. Near term however, the number of market hogs is unchanged from a year ago. The market inventory was near trade expectations, but the breeding herd number was 2.5% below trade estimates. In general, the report was considered bullish for hog prices. Even given corn prices approaching $4/bu in some regions of the state, hog prices should remain at or above breakeven through early summer. Lower hog prices and larger losses are expected in the second half of 1996.

There were 58.56 million total hogs on farms March 1—about even with the same period a year ago (Table 1). USDA made slight downward revisions to its December report that impacted current inventories. The Sep-Nov pig crop which will make up the bulk of second quarter slaughter was revised downward 427,000 head, or about 1.7%. It also reported farmers farrowing 2% fewer sows in Dec-Feb than their December farrowing intentions. At least part of this decline can be attributed to the hot summer breeding problems in 1995. A record number of pigs weaned per litter (8.42), however, increased the Dec-Feb pig crop nearly 1%.

Sow slaughter since the Dec. report has been at its lowest level since 1988, making it somewhat surprising that the breeding herd declined nearly 1% from March 1995. USDA did revise the Dec. breeding herd down approximately half a percent, and changes in gilt retention can greatly impact breeding herd inventories.

Table 1: USDA March Hogs & Pigs Summary.

<table>
<thead>
<tr>
<th>Category</th>
<th>United States</th>
<th>Iowa</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Category</td>
<td>% Chg</td>
<td>% Chg</td>
</tr>
<tr>
<td>All Hogs</td>
<td>58,560</td>
<td>13,500</td>
</tr>
<tr>
<td>Breeding Herd</td>
<td>6,950</td>
<td>1,450</td>
</tr>
<tr>
<td>Market Hogs</td>
<td>51,610</td>
<td>12,050</td>
</tr>
<tr>
<td>Under 60</td>
<td>19,400</td>
<td>4,000</td>
</tr>
<tr>
<td>60-119</td>
<td>12,470</td>
<td>3,050</td>
</tr>
<tr>
<td>120-179</td>
<td>10,705</td>
<td>2,740</td>
</tr>
<tr>
<td>180 &amp; up</td>
<td>9,035</td>
<td>2,260</td>
</tr>
<tr>
<td>Pig Crop Sep-Nov</td>
<td>24,480</td>
<td>5,280</td>
</tr>
<tr>
<td>Pig Crop Dec-Feb</td>
<td>24,063</td>
<td>4,868</td>
</tr>
<tr>
<td>Farrowing Intentions Mar-May</td>
<td>3,212</td>
<td>720</td>
</tr>
<tr>
<td></td>
<td>+0.9</td>
<td>-3.8</td>
</tr>
</tbody>
</table>

Supply and Demand Factors...

Several factors will influence production and price over the coming months. The largest influence will come from pork supplies determined by slaughter and slaughter weights. Higher corn prices since March 1 when the inventory was taken could change producers' decisions regarding the breeding herd and farrowing intentions. In particular, the Grain Stocks and Prospective Plantings reports released the same day as the Hogs & Pigs Report pushed corn prices sharply higher. If producers accelerate sow herd...
liquidation and reduce gilt retention the additional tonnage will pressure hog prices. However, offsetting these larger supplies will be reduced slaughter weights due to higher cost of gain.

Supplies of competing meats will be plentiful this summer and fall. Some poultry processors have announced production reductions due to higher feed costs, but this may only slow poultry's growth from its historic 5% annual growth rate. Beef supplies are expected to exceed last year's levels by 3 to 4%.

Demand for pork remains strong; pork production for January and February was 4% larger than the same period a year ago, yet Iowa cash hog prices averaged $6/cwt higher in 1996. Exports continue to be important. The tariff placed on U.S. pork imports to Japan November 1, 1995 comes off April 1. Active buying of product for that market appears to have started in March as buyers try to fill orders before the tariff is reinstated, which could occur July 1 and possibly sooner. A likely strategy will be to buy ahead and fill Japanese cold storage before the price increases again.

Production and Price Forecast...

Second quarter pork production is expected to be steady to 1% below year-earlier levels. The fall pig crop was unchanged from the previous year and sow and gilt slaughter are expected to be higher. However, lighter slaughter weights and the fact that slaughter has been below the USDA estimate since March 1 suggest that supplies could be tighter than the report indicates. Prices are forecast to average $49-52/cwt in the April-June period with possible weakness in April due to increased liquidation. June prices could average in the low to mid-$50s and will likely be the high for the year.

Japanese buyers are expected to lump their purchases in second quarter ahead of the reinstated tariff, and step out of the market in midsummer about the time the larger Dec-Feb pig crop comes to market in the third quarter. July – Sept supplies are expected to be slightly higher than year earlier levels on larger slaughter, continued liquidation, but lighter slaughter weights. Prices are forecast to average in the $46-49 range for the third quarter with prices declining over the period.

Fourth quarter supplies will depend on the Mar-May pig crop. Farrowing intentions were down 1.5%, but as we saw in Dec-Feb, higher pigs per litter will moderate this decline to something less than 1%. Farrowings may decline further if producers choose to sell early gestation bred sows and gilts in response to higher corn prices as they did in late 1994 during low hog prices. We have not, as yet, seen this panic behavior and given that most producers are still profitable at current hog prices we may not see the panic. Fourth quarter prices are expected to average in the low $40s similar to year earlier levels. If harvest corn prices are a dollar or more below current levels slaughter weights will likely show year to year increases in the fourth quarter.

Factors to Watch...

Although this report is the newest best estimate of hog inventories, some questions will remain in traders minds. The number of hogs 180 pounds and over was down 1%, but commercial slaughter has averaged 4.7% below a year ago for the past 5 weeks suggesting that there may be fewer hogs than the report indicated. How traders reconcile these numbers may provide a brief post report rally and forward pricing opportunities.
Export growth will likely slow from 1995's torrid pace, due to hog prices being $10/cwt higher than a year ago. Monitor the export situation closely especially with Japan. Larger export orders during short supplies in the second quarter could provide pricing opportunities through the end of the year.

Strategies to Consider...

Feed prices and feed availability will be increasingly important between now and harvest. Read the Grain section of this newsletter very carefully for further insight to feed prices. There are concerns about potential spot shortages as counties that have been corn surplus for more than a decade are projected to be corn deficit this year. Talk to suppliers about the availability of feed through summer. Do not assume that elevators will hold grain inventories, chancing that livestock feeders may run short before harvest. Consider setting price ceilings with call options on feed needs for the remainder of this crop year. Evaluate the odds of a short crop in 1996 and whether the livestock enterprise can withstand that level of risk of another year of higher grain prices.

Consider forward pricing hog sales for the second half of 1996 and possibly early 1997 on the expected summer rally. Oct. and Dec. futures after adjusting for basis were at the high end of my forecast range before the report. A post-report rally or strength tied to the summer peak prices expected in early summer may move these contract prices higher.

State Races...

Iowa's market hog numbers were off from a year ago, but the breeding herd remained stable. North Carolina (#2) reported 17% growth (135,000 head) in its breeding herd from 1995 and 45,000 more than in December. Reporting year-to-year breeding herd decreases were: IL (-70,000), NE (-40,000), SD (-35,000), MO (-25,000), WI (-20,000), KY (-10,000), GA (-5,000), and the Other States group was 88,000 head lower. Combined, these states total 293,000 fewer breeding animals than 1995. Leading states reporting a year-to-year increase in breeding herd inventory include: NC (135,000), OK and OH each up 40,000, MN (20,000), KS (15,000), and PA and AR each up 5,000. This group of states added 260,000 head from a year ago. Iowa, Indiana, and Michigan were unchanged for the year.

...John Lawrence

... and justice for all

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