SHARPER DECLINE IN CORN FEEDING NEEDED FOR JUNE-AUGUST

USDA's June 28 Grain Stocks and Planted Acreage reports present a mixed picture of supply-demand prospects for corn and soybeans. Spring corn feeding was larger than expected and shows a need for an extremely sharp reduction in U.S. corn feeding this summer. At the same time, corn acreage figures were above trade expectations. The net effect may be to increase summer price volatility.

Reported stocks indicate corn feeding during the third quarter of the marketing year was down only 5.5 percent from a year earlier, after a 12 percent decline during the first half of the marketing year. Along with projected processing and exports, June 1 supplies indicate that June-August U.S. feeding of old-crop corn will need to drop at least 30 percent below that of 1995 (see Figure 1 for weekly exports). Several developments may encourage lower summer quarter corn feeding, but a 30 percent cut will be a major challenge for the livestock industry. U.S. soybean stocks at 623 million bushels were near trade expectations.

Corn Acreage Up...

In contrast to the stocks, U.S. planted corn acreage was reported to be 1.5 to 2 million acres above some private estimates. The acreage estimate may slightly temper the volatility of new-crop corn prices for the next several weeks. However, grain traders will be looking for possible downward revisions in corn acreage numbers in August to reflect planting delays that continued after the USDA survey was taken. In contrast to corn, soybean plantings at 63.9 million acres were one-fourth to one-half million acres less than some traders had expected, and may slightly strengthen new-crop soybean prices.

USDA estimated 1996 U.S. corn planted acreage at 80.4 million acres, up 13 percent from last year, with acreage to be harvested for grain at 74.1 million acres. With a 120 bushel per acre yield, this acreage would produce about 8.9 billion bushels of corn. Total U.S. corn utilization in the 1995-96 marketing year is expected to be about 8.6 billion bushels. With a 125 bushel yield, the indicated acreage would produce 9.26 billion bushels and could modestly increase 1997 corn carryover stocks. A U.S. average yield of approximately 116 bushels per acre and the indicated acreage would be required to produce as much corn as is being used this year.

A normal U.S. average yield would be around 127 bushels per acre. With nine percent of the corn acreage unplanted when the survey was taken, and with increased weather risks on late planted corn, weather and crop condition reports will be very important influences on new-crop corn this summer and early fall. U.S. sorghum acreage for grain was estimated to be up 3.1 million acres or 38 percent from last year, and will slightly temper corn price volatility. Some of the sorghum will be harvested in August and used to replace old-crop corn.

Corn Stocks Down...

U.S. corn stocks in all positions were reported at 1.72 billion bushels on June 1. That is down from 3.4 billion bushels
a year earlier and 2.4 billion two years earlier. June-August
exports and processing are expected to use at least 775 million
bushels of this supply. With a bare-minimum carryover of 350
million bushels, that leaves slightly less than 600 million
bushels of old-crop corn for feeding this summer. Feed use last
summer totaled 856 million bushels. In recent weeks wheat prices
in the eastern Corn Belt, Southeast and south central U.S. have
been running 40 to 80› below those of corn. That is beginning to
courage replacement of some corn in rations with wheat, and
will help reduce summer corn usage. In parts of the central and
southern plains this week, wheat prices were about equal to corn
prices. In addition, corn plantings in several southern states
are sharply above those of 1995 and will be harvested in late
summer. Examples of increased southern corn plantings include the
following percent increases by states: Louisiana, +142%;
Arkansas, 124%; Florida, 67%; Georgia, +54%; and Tennessee, +26%.
Corn acreage individually in these states is not large but the
crops will provide some supplies for use before Midwest harvest.

Oilseeds and Hay Acreage...

Acreage estimates indicate soybeans will face reduced
competition from other domestic oilseeds in the year ahead. U.S.
sunflower acreage was estimated to be 20 percent below that of
last year, along with a 15 percent decline in cotton plantings
that will produce less cottonseed products. Intended U.S. hay
acreage for harvest was up 1.3 percent.

Yield Patterns, Late-Planted Years...

Table 1 shows U.S. corn and soybean yields for other years of
extremely late plantings since 1973, and percent of the crop
planted by June 6. Note that last year, U.S. corn plantings were
the latest in 20 years, and that this year's plantings were not
quite as late on June 6. However, unlike last year, the wet
weather continued into the second and third weeks of June in some
areas. Yield performance in other years of late plantings suggest
USDA's projected 126 bushels per acre yield is optimistic,
although it may still be possible with very good summer weather.

Table 2 shows yield and production possibilities based on
percent deviations from trend yields in other years when
plantings were severely delayed. Using the largest upward
development from trend among the years shown in Table 1 would give
a U.S. average yield of 138.6 bushels per acre and U.S. corn
production of 10.27 billion bushels. That's based on a 1973-type
weather pattern. At the other extreme, a weather pattern and
trend deviation similar to 1974 (wet spring, summer drought,
early frosts) would produce about 103.7 bushels per acre, with a
crop of approximately 7.68 billion bushels. These projections
assume all of the indicated corn acreage actually was planted,
which is doubtful. An average percent deviation from trend line
yields in these years would produce 120.2 bushels per acre or
about 8.91 billion bushels.

The largest deviation below trend yields for soybeans in years
of extreme late plantings would be expected to produce a U.S.
average yield of about 30.7 bushels per acre and a crop of
approximately 1.94 billion bushels. The high extreme would give a
35.7 bushel average yield and 2.25 billion bushels of soybeans.
Current annual use of soybeans is around 2.3 billion bushels. An
average yield pattern for these years would produce about 34.9 bushels per acre or a total crop of 2.20 billion bushels. These projections are based on USDA acreage numbers. With extreme late corn plantings, some intended corn land is believed to have shifted to soybeans.

For both corn and soybeans, potential yields also are based on the assumption that current varieties, weed control, tillage and other production practices will produce yield responses to late plantings similar to those in previous years. It is not certain that this assumption holds true in 1996.

Table 1. Corn and soybean yields in late-planted years, and percent planted by June 6.

<table>
<thead>
<tr>
<th></th>
<th>Corn</th>
<th>Soybeans</th>
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<tbody>
<tr>
<td></td>
<td>Bu/Ac</td>
<td>% Planted</td>
</tr>
<tr>
<td>1973</td>
<td>91.3</td>
<td>84</td>
</tr>
<tr>
<td>1974</td>
<td>71.9</td>
<td>83</td>
</tr>
<tr>
<td>1983</td>
<td>na</td>
<td>na</td>
</tr>
<tr>
<td>1984</td>
<td>106.7</td>
<td>97</td>
</tr>
<tr>
<td>1986</td>
<td>119.3</td>
<td>98</td>
</tr>
<tr>
<td>1991</td>
<td>108.6</td>
<td>97</td>
</tr>
<tr>
<td>1993</td>
<td>100.7</td>
<td>93</td>
</tr>
<tr>
<td>1995</td>
<td>113.5</td>
<td>88</td>
</tr>
<tr>
<td>1996</td>
<td>??</td>
<td>91</td>
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Table 2. Alternative 1996 corn and soybean production.

<table>
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<tr>
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<tbody>
<tr>
<td></td>
<td>Bu/A</td>
<td>Bil Bu</td>
<td>Bu/A</td>
</tr>
<tr>
<td>Corn</td>
<td>103.7</td>
<td>7.68</td>
<td>138.6</td>
</tr>
<tr>
<td>Soybeans</td>
<td>30.7</td>
<td>1.94</td>
<td>35.7</td>
</tr>
</tbody>
</table>

Current use for corn is 8.60 billion bushels; current use for soybeans is 2.3 billion bushels.

Table 3. Percent of corn and soybean plantings by selected states on June 16.

<table>
<thead>
<tr>
<th></th>
<th>Corn</th>
<th>Soybeans</th>
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<tbody>
<tr>
<td></td>
<td>6/16</td>
<td>Avg</td>
</tr>
<tr>
<td></td>
<td>1996</td>
<td>91-95</td>
</tr>
<tr>
<td>IL</td>
<td>93</td>
<td>98</td>
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<tr>
<td>IN</td>
<td>78</td>
<td>99</td>
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<td>98</td>
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<tr>
<td>KY</td>
<td>94</td>
<td>98</td>
</tr>
<tr>
<td>MN</td>
<td>99</td>
<td>99</td>
</tr>
<tr>
<td>MI</td>
<td>96</td>
<td>100</td>
</tr>
<tr>
<td>OH</td>
<td>90</td>
<td>99</td>
</tr>
<tr>
<td>WI</td>
<td>92</td>
<td>98</td>
</tr>
</tbody>
</table>

...Robert Wisner

BULLISH HOGS & PIGS REPORT

The USDA June Hogs & Pigs Report indicated that producers are continuing to liquidate their herds in response to unprofitable
grain price levels. The report was considered bullish because it indicated smaller market and breeding herd inventories than analysts expected. Although barrow and gilt prices may average below $50 in the fourth quarter of this year, they are forecast to average in the low $50s for the remainder of the summer and during the first quarter of 1997. Early indications are that second quarter 1997 prices should average in the mid-$50s.

The U.S. inventory of all hogs totaled 58.0 million on June 1 with 6.9 million breeding animals and 51.1 million market hogs. These figures were 4, 5, and 3% lower than the same period a year ago (Table 1). March-May farrowings were 8% below year-earlier levels. The pig crop for the period was only 6% lower due to more pigs saved per litter. Farrowing intentions for June- August are off 5% and September-November farrowing intentions are down 1% from the same periods of the previous year. Iowa reduced its inventory much more than the U. S. as a whole.

Revisions...

The USDA did revise its previous Hogs & Pigs Reports. The Sept-Nov 1995 pig crop was revised down 1.026 million head (4.1%) and the Dec-Feb pig crop was reduced 584,000 head from earlier estimates. In total, the December and March inventories were reduced 1.7 and 2.4%, respectively. The breeding herd expansion indicated in the December 1995 report did not occur and the current liquidation that began in December 1994 is continuing. Although it is too early to call for additional revisions, there may be some discrepancies in this report. The inventory of hogs in the 180 pounds and over category was 3.1% below a year ago, but slaughter since the first of June has been down 8.7%.

Production and Price Forecast...

Third quarter pork supplies are expected to be 2-3% below a year earlier, and Iowa cash prices are forecast to average in low $50s. There is potential for weekly slaughter to reach levels of a year ago in July and August as the slaughter from sows that rebred at a later date following last summer's heat wave come to market. The 120-179# category supports this notion. The export demand that supported prices a year ago will be weaker because Japan bought ahead of the tariff that went on July 1 and the relatively higher pork prices will discourage other buyers.

Fourth quarter supplies could be 5% below year-earlier levels on a smaller March-May pig crop but heavier slaughter weights. Slaughter weights that have been below 1995 levels will likely continue so until harvest. The forecast hog prices and cheaper harvest-time corn prices will make feeding to heavier weights more profitable. Cash prices are forecast to average in the upper $40s this fall compared to $42.69 a year ago. Beef supplies should be relatively smaller early in the fall but could be quite large in December, impacting pork prices.

Table 1. June USDA Hogs & Pigs Summary

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Iowa</th>
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<tbody>
<tr>
<td></td>
<td>1,000</td>
<td>%Chg</td>
</tr>
<tr>
<td>Head</td>
<td></td>
<td>Yr ago</td>
</tr>
<tr>
<td>All hogs</td>
<td>58,000</td>
<td>-3.6</td>
</tr>
<tr>
<td>Brd. Herd</td>
<td>6,900</td>
<td>-4.8</td>
</tr>
<tr>
<td>Mkt Hogs</td>
<td>51,100</td>
<td>-3.4</td>
</tr>
</tbody>
</table>
First quarter 1997 supplies will depend largely on the June-August pig crop. Farrowing intentions for the period are to farrow nearly 5% fewer sows. Gains in the number of pigs saved should result in a pig crop that is approximately 4% below that of a year ago. Prices are forecast to average in the low $50s compared to less than $46 in the first quarter of 1996.

Second quarter supplies and prices will depend somewhat on how producers react to this report and the prospects for the 1996 corn crop. Farrowing intentions for September-November were only 1% lower than a year ago which should result in a steady pig crop. Prices are expected to average in the mid-$50s for the quarter. If producers react to this report by breeding more sows and gilts than they had planned to market, second quarter supplies will increase. A more likely scenario is that producers wanting to expand will wait and see how the 1996 corn crop develops before expanding. They may develop the expansion plan, but not implement it until the crop is tasseled and the threat of drought and early frost has passed. Under this scenario, prices should remain strong well into the third quarter of 1997.

Other Factors...

Beef supplies that were 8% higher than the same period of the previous year during January-May will begin to decline this summer. Because of sharply lower April and May feedlot placements, beef supplies are forecast to be less than those of the previous year in early fall, supporting pork prices. However, another potential glut of cattle could hit the market in December as large numbers of heavy feeders move off grass this fall. Large beef supplies are expected again in 1997; however, the total tonnage and the price impact may not be as much as we saw in the spring and early summer of 1996.

Exports to Japan have played a major role in the hog market since mid-1995. Our largest customer, Japan takes half or more of total pork exports. They are also major buyers of expensive cuts like the loins, and tend to move the market when they are in it. Because of trade restrictions, buyers for Japan are in the market only at certain times. A 24% tariff was imposed on November 1, 1995, was lifted April 1, 1996, and was reinstated July 1, 1996. It is not scheduled to be lifted again until April 1, 1997. It is to the buyers' advantage to buy large supplies ahead of the tariff, resulting in lumpy demand and volatile prices. Watch for possible trade negotiations that allow for more orderly marketing between Japan and the U.S.

Iowa and State Races...

Iowa pork producers appear to have responded to the higher
corn prices more than producers in other regions. Iowa's June market hog and total inventory was 8% below that of a year ago. Its breeding herd was 13% lower than a year ago, and March-May farrowings were off 130,000 litters, or 18%. Iowa farrowing intentions for Jun-Aug and Sep-Nov are 14 and 7% lower, respectively, than the same period of the previous year.

Second place North Carolina increased total inventory to 8.9 million head (+17%); its breeding herd increased 13% from 1995. Of the top 17 states, only N. Carolina, Oklahoma (+46%), and Kansas (7%) showed increases in total inventories. Missouri reported a 16% increase in breeding herd but a 1% decline in all hogs. Iowa's other neighbors also showed declines in the breeding herd compared to June 1995: IL -15%, IN -13%, MN -5%, NE -12%, SD -22%, and WI -15%. In total, the US decreased its breeding herd by 345,000 head. Four of the top 17 states increased breeding herd by 245,000; Iowa decreased its breeding herd by 200,000 head; and the remaining 45 states reduced their breeding herd a net of 390,000 head.

Iowa's breeding herd inventory peaked Sept. 1992 at 1.85 million head and total inventory reached 16.1 million head. Comparing June inventories removes the seasonal patterns. Since 1992, Iowa has reduced its breeding herd 500,000 head (28%) and total inventory 2.4 million head (15%). During the same period, North Carolina more than doubled both inventories; its breeding herd increased 485,000 head and total inventory increased 4.7 million head. Total U.S. breeding herd decreased 628,000 head (8.3%) and total inventory fell 1.165 million head (2%). N. Carolina's breeding herd gain is nearly identical to Iowa's decline. The rest of the nation collectively reduced its breeding herd 143,000 head with some states gaining while others lost. Iowa's loss of total inventory was twice that of the total U.S., suggesting that other states are growing to fill the void left by Iowa producers exiting the industry. Growth is occurring in regions where producers are rapidly adopting technology in newly-constructed, large-scale facilities. Inventory losses are occurring in traditionally strong hog regions where producers are choosing not to reinvest in their swine enterprise, but to shift resources into other enterprises.

...John Lawrence