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LIVESTOCK FEEDING ENTERPRISES PROFITABLE IN 1996

In spite of record high corn prices, 1996 will go into the books as a profitable year for livestock feeding enterprises. Based on the Iowa State University Estimated Livestock Returns' farrow to finish operations, feeder pig finishing and cattle feeding operations were profitableCon average. In the Estimated Livestock Return analysis, market price for feed is paid when it is fed, thus incorporating the higher corn prices of last summer.

While it was a generally profitable year, it was also a volatile year for livestock producer returns depending on the month the animals were sold (Table 1); for example, yearling feeding returns ranged from a -$98.26 to $130.29 per head. Feeder pig producing returns ranged from -$20.89 to $9.00, approximately 70 percent of the value of a feeder pig.

Breeding herd operations selling feeder pigs and feeder calves were less fortunate in 1996. Part of the reason feeding operations were profitable is that they bought feeder animals at lower prices. Feeder pig producing enterprises were generally unprofitable in 1996. Although not shown here, beef cow herds also sold calves at a loss in 1996.

Looking Ahead to 1997...

The year ahead is expected to be profitable for both hog and cattle producers. Corn prices are forecast to be well below 1996 levels, thus reducing feed costs; and hog and cattle prices are expected to average the same or higher in 1997 than they did in 1996.

Farrow to finish enterprises could generate average profits in excess of $20/head. Feeder pig producers and finishers will split approximately that amount between them. Calf and yearling feeders' breakeven projections for marketings in the first half of 1997 are in the upper $50s to low $60s and should be profitable. Fed cattle prices in the second half of the year are expected to be stronger than in the first six months, leaving profit potential for feeders.

Table 1. Summary of Estimated Livestock Returns, 1996 ($/Head).

Enterprise	Minimum	Average	Maximum
Farrow to Finish	-7.72	6.18	17.87
Sell Feeder Pigs	-20.89	-5.32	9.00
Finish Fdr Pigs	-12.15	8.41	25.66
Yearling Steers	-98.26	7.26	130.29
Steer Calves	-68.65	6.01	91.49

...John Lawrence

USDA REPORTS SHOW UNEXPECTED TIGHTENING OF GRAIN SUPPLIES

Bean Carryover Nears Minimum Pipeline Level..

On January 10, USDA released its semi-final estimates for 1996 crops, as well as grain stocks, and U.S. and world supply-demand reports. The result was a considerable tightening of U.S. corn and soybean supplies from last month's indications and from trade expectations. U.S. September 1 soybean carryover stocks are now projected at a relatively low 155 million bushels. ***At that level, stocks would be equivalent to about 3.3 weeks' utilization. While that's not as tight as last summer's corn carryover (which was 2.6 weeks' supply), it is near the minimum pipeline supplies for day-to-day trade operations.***

These projections assume current favorable South American soybean crop prospects will continue through the spring harvest season. Any widespread deterioration in the South American crop could push the soybean supply-demand in the direction of last year's extremely tight corn supplies. ***Projected soybean carryover stocks were down 25 million bushels from last month, reflecting continued good demand and a 21 million bushel drop in the 1996 U.S. soybean crop estimate.***

Table 1. Corn Balance Sheet (Mil. B.) 1/13/97

		USDA	1997-98 Proj.		
	'95-96	'96-97	A	B	C
Supplies: Pl. A. (mil)	71.2	79.6	80	81	81.5
Harv. A. (mil)	65	73.1	73	74.2	74.7
Bu./A.	113.5	127.1	105	128.5	135

Production	7374	9293	7665	9535	10,085
Imports	16	10	12	6	4
Carryover	1558	426	959	959	959
Total	8948	9729	8636	10,500	11,048
Util: Feed, Resid.	4711	5200	4500	5400	5500
Other Domestic	1583	1670	1600	1700	1720
Exports	2228	1900	2000	2150	2180
Total	8522	8770	8100	9250	9400
Carryover	426	959	536	1250	1648
Free Carryover	396	929	516	1230	1628
U.S. Farm Price	$3.95	$2.70	$3.45	$2.40	$2.20
Hrv. Pr. C. Ia.	$2.90	$2.40	$3.25	$2.15	$1.95
Iowa Avg. Price	$3.85	$2.60	$3.35	$2.30	$2.10

Table 2. Soybean Balance Sheet (Mil. B.) 1/13/96

		USDA	1997-98 Proj.		
	'95-96	'96-97	A	B	C
Supplies: Pl. A. (mil)	62.6	64.3	63.4	63.7	64.1
Harv. A. (mil)	61.6	63.4	62.1	62.8	63.3
Bu./A.	34.9	37.6	33.5	38.5	39.5
Production	2177	2382	2080	2418	2500
Imports	4	5	3	3	2
Carryover	335	183	155	155	155
Total	2516	2570	2238	2575	2657
Util: Crush	1370	1400	1315	1395	1405
Other Domestic	113	115	120	120	120
Exports	851	900	710	885	885
Total	2334	2415	2145	2400	2410
Carryover	183	155	93	175	247
U.S. Avg. Price	$7.55	$6.85	$8.50	$6.60	$5.95
Iowa Avg. Price	$7.45	$6.75	$8.40	$6.50	$5.85
Hrv. Pr. N.C. Ia.	$6.75	$6.50	$7.90	$6.10	$5.45
Soyoil, 4/lb.	25	24.5	26.5	23.5	22.8
Hrv. Nov. Fut.	$7.15	$6.85	$8.50	$6.65	$5.95

USDA now projects September 1 corn carryover stocks at 959 million bushels. That is up 125 percent from last year's extremely low level and should be fully adequate if 1997 crop conditions are favorable. ***However, the corn carryover provides only a very small reserve to draw upon in case of serious U.S. or foreign weather problems.*** Serious 1997 U.S. weather problems could push the corn supply-demand balance back toward a 1995-96 situation. The decline from last month in projected corn carryover stocks reflects a stronger-than-expected recovery in corn feed use during the fall quarter. The net result of these reports is that corn and soybean prices will become increasingly volatile when the planting and growing season begins.

Soybeans...

The U.S. soybean supply-demand balance sheet is shown in the accompanying table, with USDA projections for 1996-97 and our projections for 1997-98 with alternative yields.

USDA projects soybean exports for the current marketing year to be up 6% from last season, along with a 2% increase in the domestic crush. Crushings and exports have been up stronger than that for the first third of the marketing year, and will likely remain well above a year earlier through April. Utilization from May through August is projected to drop moderately below that of a year earlier, assuming continued favorable crop prospects in South America. Combined exports of U.S. soybeans since September 1 and outstanding unshipped sales through January 2 were 13% above a year earlier. Comparable figures for soybean oil and meal were up 151% and 84% respectively. Product sales are helping to maintain strong crushing operations.

A better perspective on the current tight soybean supply can be obtained by looking at next year's potential supply-demand balance with varying yields. Soybean planting prospects for 1997 obviously are still uncertain, and will depend on price trends, spring weather, decisions about the CRP, and other factors. Our tentative projections reflect expectations that some of last year's eastern Corn Belt soybean acreage will shift back to corn. Extreme late corn plantings boosted that area's bean acreage in 1996. In Iowa and Minnesota, the new flexible farm program may encourage some growers of continuous corn to shift to a corn-soybean rotation, thus increasing bean acreage. Another significant influence on plantings will be land released by a reduction in winter wheat plantings in the eastern Corn Belt and the South. That land likely will be split between corn and soybeans. U.S. winter wheat planted acreage is estimated to be 3.8 million acres below last year. Our projections show a 1% decline in U.S. soybean plantings in 1997 with average to below-average weather. A U.S. trend yield would be expected to bring a small increase in ending carryover stocks next season. However, projected stocks would still leave little reserve supply to offset future weather problems. A U.S. average yield only slightly above that of 1993 would be expected to produce a critically tight supply next season, with a further increase in prices. An average yield almost two bushels above 1996 would be expected to increase carryover stocks modestly.

The most important information from the 1997-98 projections is the price sensitivity. A yield 13% below trend would likely create very high prices, while one 3% above trend could push average prices down near the $6 level. Thus, extreme price volatility is quite likely this spring and early summer as the grain trade watches changing crop prospects. Options purchases or minimum price contracts are marketing alternatives that may help manage price risk under these conditions. Farmers who forward price either corn or soybeans before harvest may want to consider crop insurance that provides upward flexibility in coverage if prices should rise by next fall. Alternatives include Crop Revenue Coverage (available in Iowa and Nebraska), and Multi-Peril (APH) with a replacement coverage add-on. These alternatives are designed to provide protection that will help buy back forward contracts if you should get into an over-sold position.

South American Soybean Crop...

Currently, crop prospects continue to look quite good in Brazil and Argentina, although some areas are getting a bit dry. Brazil's crop was planted much earlier than last year and earlier than normal. Argentina's plantings were about normal. USDA's January 10 world crop report left projections for both countries unchanged from last month. Argentina's crop is expected to be up 3% from last year, while Brazil's is projected to be up 11% or 96 million bushels from its spring 1996 harvest.

Corn Feeding Up Sharply...

Information from the stocks report allows us to calculate the approximate amount of corn fed during the fall quarter. The numbers indicate corn feeding was up about 11% from a year earlier despite slightly fewer hogs and cattle being fed. Broiler numbers were up modestly. The larger than expected corn feeding may reflect corn used in the South (including parts of Kansas, Missouri, and southern Illinois) during August, but recorded as being used in the fall quarter. Also, lower test weights than a year earlier may have boosted corn feeding a little. In the balance sheet, USDA raised its projected marketing year 1996-97 total domestic corn feeding by about million bushels. That modestly tightened the supply-demand prospects for old-crop corn. USDA's projected corn processing and export levels remain the same as they were last month.

...Robert Wisner

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