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Ames, Iowa

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## CONTINUED LIVESTOCK LOSSES

Cattle and hog producers continue to experience red ink as prices sink lower. Iowa fed cattle prices averaged \$59.50/cwt for the week ending July 24, the lowest prices since June 7, 1996. Feedlot losses were estimated to be nearly \$75 per head for yearling steers finished in June. June was the eighth month in a row of feeding losses and the current forecast provides little good news.

Hog prices hit their lowest summer prices since 1980 in mid-July. The week ending July 17 saw average prices for Iowa barrows and gilts at \$34.20/cwt. Estimated farrow-to-finish returns have also been negative for 8 months. As with cattle prices, there are few prospects for stronger prices in the near future. In fact, hog prices may move into the \$20s this fall if supplies exceed packer capacity.

### Cattle Inventory

The USDA July Cattle report released on the 17<sup>th</sup> confirmed that herd liquidation continues (Table 1). In general, beef numbers were down two percent from July 1997. The one exception is that the number of heifers kept for beef replacements is down six percent from the year before. ***This is the fourth year in a row of lower heifer retention numbers, and beef cow numbers have declined three straight years from their cyclical peak in 1995.***

The smaller breeding herd is reflected in the 1998 calf crop, which is also down two percent from 1997. It is down 1.7 million head from its peak in 1995. The supply of available feeder cattle is smaller than a year ago as well. If cow herds begin retaining heifers to rebuild their breeding herd, the supply of feeders and, eventually, beef supplies will decline significantly.

The beef breeding herd liquidation that started in 1995 is showing up in current slaughter numbers, but the reduced supply has been largely offset by heavier slaughter weights. ***Year-to-date slaughter through July 24 showed 2.9 percent fewer cattle processed than in the same period in 1997. However, beef production was down only 0.9 percent from the previous year.*** Dressed weights have averaged 13.8 pounds per head heavier than in the previous year. This added weight is equivalent to more than 13,000 additional cattle a week.

**Table 1. July 1, 1998 Cattle Inventory.**

	1,000 Head	1998/1997
Cattle and Calves	107,000	98
Cows and Heifers	43,300	98
Beef Cows	34,100	98
Milk Cows	9,200	99
Heifers 500+ lbs	16,700	98
Beef replacements	5,000	94
Milk replacements	3,600	100
Other Heifers	8,100	99
Steers 500 Pounds and Over	14,500	98
Bulls 500 Pounds and Over	2,200	96
Calves Under 500 Pounds	30,300	98
Calf Crop	37,900	98
Cattle on Feed	11,000	101
Feeders outside feedlots	41,900	98

The heavy weights are not likely to be cured soon. Seasonally, slaughter weights increase into late fall before leveling off. The current low corn prices also encourage feeding to heavier weights. In addition, feedlots continue to place heavy cattle that will likely finish at heavier weights. Twenty-eight percent of the June placements weighted over 800 pounds. This compares with 23 percent and 20 percent of the June placements in 1997 and 1996, respectively.

With continued heavy slaughter weights and very large total meat supplies, fed cattle prices are expected to struggle in the low \$60s for the remainder of the third quarter. Stronger fourth quarter prices are possible, but heavy weights will likely be compounded by increased marketings based on larger second quarter placements.

### **Meat Exports Higher**

*In spite of concerns over the Asian financial problems and weak currencies, beef, pork, and broiler exports were all higher through May than in the same period in 1997* (Table 2). Beef exports to Japan, our largest beef customer, increased nearly 10 percent while exports to Mexico grew 50 percent. Pork exports to Japan increased 21 percent.

While Japan is the largest pork buyer, "other countries" is the second largest category at 98 percent of the volume of Japan. This category showed a 68 percent increase from a year ago.

Broiler exports grew 18 percent over 1997 levels. Russia purchased 41 percent of U.S. broiler exports, followed by Hong Kong with 16 percent of the total. Turkey exports have declined thus far in 1998. Mexico is the largest turkey customer, but Russia showed the largest growth with a 53 percent increase.

**Table 2. U.S. Meat Exports, Jan-May 1998**

(Million lbs).

	1998	% Chg 1997
Beef	860.9	+7.6
Pork	535.8	+41.2
Broilers	2,112.7	+17.9
Turkeys	168.4	-24.1

### **Pork Processing Capacity**

Thorn Apple Valley in Detroit slaughtered its last hog in mid-July, but will continue to process pork carcasses into value-added branded products. The closing of this plant and others during 1996 and 1997 (Table 3) was not completely offset by new construction or expanded plants. As a result, daily packer capacity may not be very different from the 1994 levels. During the 4<sup>th</sup> quarter of 1994, packer capacity limits were hit at 2.083 million hogs a week as nearly all plants were double shifted and a few ran on Sundays. Hog prices traded below \$30 for several weeks.

Although hog prices are set in a national market, the Iowa market is directly affected by the Council Bluffs, Iowa and Huron, South Dakota plants. Also important to Iowa producers is the ability of the Columbus Junction, and Ottumwa, Iowa plants to add a second shift. Labor availability in the southeast Iowa region during the fall harvest period will be an important limiting factor.

**Table 3. Pork Slaughter Plants and Estimated Capacity Closed in 1996-97.**

Plant	Capacity/day
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Detroit, MI (TVA)	14,000
Council Bluffs, IA (IBP)	7,300
Huron, SD (Dakota Pork)	7,600
Moultrie, GA (Premium Pork)	4,700

Hog marketings this fall are forecast to be five percent larger than a year ago and essentially equal to 1994 levels. There is a good chance that hog supplies will exceed packer capacity and if they do, hog prices will very likely fall below \$30/cwt as they did in 1994.

***My earlier forecast of 4<sup>th</sup> quarter prices in the upper \$30s was based on narrower farm-to-retail margins, continued strong exports, and a modest increase in pork supplies. If slaughter capacity limits are exceeded, prices will be considerably lower.***

*...John Lawrence*

## GRAIN MARKETS AND WORLD COMPETITION

Prices will take direction from the August 12 Crop Production report, August weather, and export sales. Through mid-July, new-crop export sales of corn were lagging about one-fifth below those of a year earlier, and soybean export sales were down more than eighty percent. Weak export demand reflects continued economic problems in Asia, strong South American competition, and relatively good crop conditions in a number of important foreign producing areas. Exceptions so far have been Mexico, Canada, and parts of the former Soviet Union and China. Reduced grain production in these areas should help at least slightly to increase U.S. corn exports in the spring and summer of 1999.

For the next several weeks, key foreign areas to watch for changing crop prospects include Russia, India, and China. Recent severe flooding in China may have affected some corn/soybean areas, although much of the production is farther north.

Competition in world soybean markets is likely to remain strong through the fall due to a record large soybean harvest this past spring in South America. World vegetable oil supplies remain relatively tight, and soybean oil prices will remain sensitive to weather in Malaysia and Indonesia for the next several months.

### U.S. Crop Conditions

Weekly U.S. corn and soybean crop condition ratings (see Tables 1 and 2) from the National Agricultural Statistics Service (NASS) have shown a slight improvement in condition since mid-July. Ratings for both crops are similar to those of last year. In most

of the Corn Belt, the corn crop was pollinated 10 days ahead of normal in most areas, and official weather forecast look favorable for the rest of the growing season. A U.S. average corn yield in the 127 to 128.5 bushel range looks like a good possibility for this year, based on these conditions, weather forecasts, and computer models that have performed well in previous years. A USDA NASS corn yield forecast one or two bushels below the low end of this range would likely bring a short-term rally in prices. A USDA yield of 129.5 bushels per acre or higher would likely weaken prices a little further in the next few weeks. A yield at that level would point to more tightness in the fall storage space situation than previously expected.

A U.S. average yield of 127.5 bushels per acre would produce a crop of approximately 9.4 billion bushels, well below the record 10.1 billion bushels in 1994. However, it also would be moderately above the current annual utilization of about 8.9 billion bushels. The record U.S. average corn yield was an estimated 138.6 bushels in 1994.

### Soybeans

Since August is the most critical month for the soybean crop, soybean yield prospects may be a little less clear than those for corn. Current indicators suggest the U.S. average yield may be near last year's 39 bushels per acre. If so, production would be about 2.8 billion bushels, compared with current annual utilization of 2.64 billion bushels. The record U.S. average yield was placed at 41.4 bushels per acre in 1994. Over 11 million more acres are expected to be harvested this year than four years ago. A 39 bushel per acre yield in the August 12 crop report would probably be neutral in its impact on new-crop prices. However, *farmers should expect the substantial premium of old-crop soybean prices over new-crop to narrow rapidly in the next few weeks unless weather abruptly turns severely hot and dry in the Midwest.*

**Table 1. Percent of corn and soybean plantings by selected states on August 2, 1998, according to USDA's weekly weather and crop report:**

State	Corn			Soybeans		
	% Silking		% G-Ex	% Blooming		% G-Ex
	8/2/98	'93-97 Avg.	8/3/98	8/2/98	'93-97 Avg.	8/3/98
AR	NA	NA	NA	70	52	28
IL	92	85	62	83	75	62
IN	84	75	65	77	75	66
IA	94	71	68	95	83	71

KY	92	83	77	46	50	65
LA	NA	NA	NA	95	82	23
MI	82	54	36	89	63	43
MN	99	76	78	99	82	76
MS	NA	NA	NA	98	74	63
MO	94	77	57	73	58	55
NE	94	76	81	90	77	81
NC	87	97	25	45	38	49
OH	84	65	72	90	80	71
SD	78	46	88	86	64	87
TX	96	94	26	NA	NA	NA
WI	90	52	69	NA	NA	NA
Maj. St.	91	73	68	84	72	65
Pr. Wk.	NA	NA	68	NA	NA	64
* G-Ex = Good-to-Excellent						

*...Robert Wisner*