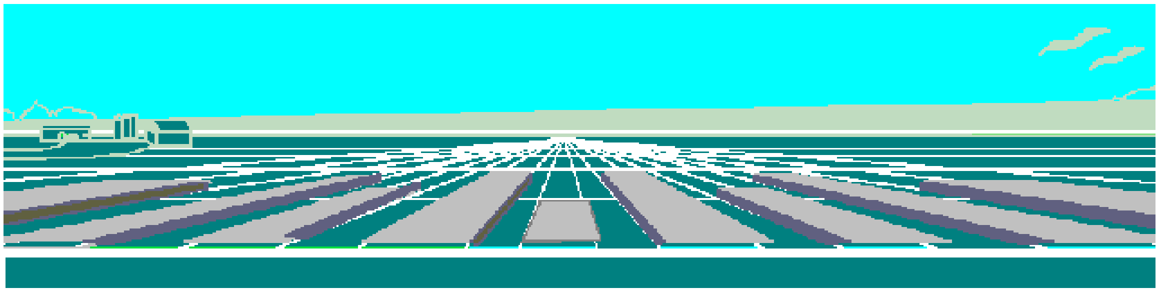

August 17, 1998 Ames, Iowa Econ. Info. 1748

LAWRENCE TO HEAD IOWA BEEF CENTER

AMES, Iowa--John Lawrence, Iowa State University Extension economist and associate professor in the Department of Economics has been named director of the Iowa Beef Center located at Iowa State University.

"This is a time of change and opportunity for the beef industry in Iowa," said Stan Johnson, vice provost for Iowa State University Extension. "The Beef Center will coordinate and energize the research, education and extension capacities of ISU for supporting enlightened and strategically successful decisions by the Iowa industry. John Lawrence, given his experience and understanding of the beef industry and its challenges and opportunities, is the right person at the right time for the Iowa beef industry and for ISU. We are pleased that he has accepted our offer to direct the beef center."

Lawrence will oversee the center, which began operation in 1996 with a legislative mandate to support the growth and vitality of Iowa's beef cattle industry. The Iowa Beef Center serves as the central access point for ISU programs related to cattle production and the beef industry with emphasis on value-added production and precision agriculture in management and marketing of Iowa cattle. The Center integrates ISU resources and programs with those of commodity, agricultural and government organizations to maximize opportunities for the beef industry.

"We're pleased that John has accepted new responsibilities as director of the Iowa Beef Industry Center," said David Topel, dean of the College of Agriculture. "He is one of our most highly respected faculty members. He brings to the position a great deal of experience, including years of practical experience in production agriculture."

Lawrence has served as an extension economist for ISU since 1991. He will continue with this appointment as well as head up the Iowa Beef Center.

For more information on the Iowa Beef Center, call (515) 294-BEEF or check out the Center's website: http://www.ibc.iastate.edu/

LARGER-THAN-EXPECTED AUGUST CROP FORECASTS AND

WEAK DEMAND PUSH PRICES UNDER LOAN

USDA's August 12 crop forecasts showed slightly larger corn and soybean crop estimates than generally expected. That news, plus concern over Asian and Russian financial conditions and recent widespread Midwest rains pushed cash prices to or below local CCC loan rates in many western Corn Belt counties. Price pressure came from expectations of serious shortages of grain storage and transportation this fall, and expectations that carryover stocks on August 31, 1999 will be 40 to 50 percent or more above this year's level. A little further weakness in new-crop prices for both crops is possible in the next few weeks. Old-crop soybean prices have considerably more downward potential than new-crop prices as the old-crop to new-crop differential fades out between now and mid- to late September.

Loan Deficiency Payments to Become Important

With prices at current levels, producers are advised to check with their local Farm Service Agency (FSA) office and sign papers necessary to take advantage of the marketing loan and/or loan deficiency payments (LDPs). Forms are available that will allow farmers to sell grain at harvest, bring in the elevator scale tickets and receipts later, and receive LDPs. However, this paper work must be completed while the farmer still has a constructive interest in the grain. If grain is to be sold on contract, check with both the FSA office and the elevator to be sure that the contract is written in a way that will let it qualify for a LDP. When the county posted price (PCP) drops below the local loan rate, producers can place the grain under loan, and then pay it off at the posted county price, keeping the difference between the loan rate and the PCP. If prices are expected to rise enough after harvest to more than cover storage costs and if storage space is available, it would then make sense to store and sell the grain after harvest pressures have diminished. Alternatively, grain producers can streamline the process, obtaining the difference as an LDP and selling the grain at harvest if that looks more attractive than storage. When grain is placed under loan and stored, producers have some flexibility to wait for a larger potential advantage from the marketing loan that could occur if prices weaken further.

Early indications are that storage space will be quite tight in many areas this fall. With the lowest prices since the mid-1980s, incentives for storing should be greater than normal this fall and risks of additional weakness in prices after harvest should be quite low. For those who are comfortable with and knowledgeable about hedging, the futures market currently is offering an unusually large potential return for storing and hedging both corn and soybeans this fall.

Table 1. Corn Bal. Sheet (Mil.Bu.) 8/14/98

				Prelim.	Proj.
SUPPLIES:	1994-	1995-	1996-	1997-	1998-99

	95	96	97	98	
Harv.A.(mil.)	72.9	65.0	73.1	73.7	73.8
Bu./A.	138.6	113.5	127.1	127.0	130.0
Production	10,103	7,374	9,293	9,366	9,592
Carryover	850	1,558	426	883	1,439
Total (incl. imports)	10,962	8,948	9,732	10,259	11,041
UTILIZATION:					
Feed & resid.	5,535	4,711	5,362	5,550	5,850
Food, ind. & seed	1,693	1,583	1,692	1,785	1,850
Exports	2,177	2,228	1,795	1,485	1,625
Total	9,404	8,522	8,849	8,820	9,325
CARRYOVER:	1,558	426	883	1,434	1,716
U.S. Farm Price	$2.26	$3.95	$2.70	$2.45	$2.15
IOWA Avg. Price	$2.20	$3.85	$2.60	$2.35	$2.05
N. C. Ia. harv. price	$1.80	$2.90	$2.38	$2.40	$1.70
Dec. Futures @ Harv	$2.20	$3.35	$2.68	$2.80	$2.15
Free Carryover	1,318	396	883	1,439	1,716

Table 2. Soybean Bal. Sheet (Mil.Bu.) 8/14/98

				Prelim.	Proj.
SUPPLIES:	1994-95	1995-96	1996-97	1997-98	1998-99
Harv.A.(mil.)	60.9	61.6	63.4	69.9	71.6
Bu./A.	41.4	35.3	37.6	39.0	39.5
Production	2,517	2,177	2,383	2,727	2,825
Carryover	209	335	183	131	210

Total (incl. imports)	2,731	2,516	2,576	2,863	3,041
UTILIZATION:					
Crush	1,405	1,370	1,436	1,590	1,615
Exports	838	851	882	870	890
Other Domestic	153	111	126	193	150
Total	2,396	2,333	2,444	2,653	2,655
CARRYOVER	335	183	131	210	386
U.S. Avg. Price	$5.48	$6.77	$7.35	$6.40	$5.30
IA. Avg. Price	$5.38	$6.67	$7.25	$6.30	$5.20
N.C. Ia. Price	$4.90	$6.75	$6.50	$6.05	$4.75
Meal Price, Decatur	$163	$198	$271	$186	$160
Nov. Futures @ Harv	$5.28	$7.15	$6.85	$6.50	$5.20

Crop Estimates

The nation’s corn crop is forecast at 9.59 billion bushels, up three percent or 300 million bushels from last year’s production. If this forecast materializes, the crop would be about 6% or 600 million bushels below the 1994 record, but would be 782 million bushels or 9% more than is currently being used. Yields are indicated to be sharply above those of last year in Illinois, Indiana, Kentucky, and Ohio. Modest yield increases from 1997 are forecast for Iowa, Minnesota, Missouri, Nebraska, and South Dakota. Wisconsin and Michigan yields are indicated to be modestly below those of last year, along with sharp declines in Georgia, Alabama, the Carolinas, Mississippi, and Texas. These latter areas have suffered from severe drought, but are much smaller corn producers than Midwestern states. The mid-point of USDA 1998-99 price projections shows a season average U.S. farm level corn price of $2.15 per bushel, 30¢ below the current season. The equivalent Iowa average price would be about $2.05.

U.S. soybean production is forecast at a record 2.82 billion bushels, up 3.6% from last year. Production at the indicated level would be about 6.5% above utilization in the marketing year just ending. USDA’s projected U.S. average price is $5.35 per bushel. The Iowa equivalent price would be about $5.25.

A review of August crop estimates since the 1980s shows that, historically, moderate to large declines in later corn and soybean crop estimates have come only in years when the crop was already under serious weather stress in early August. Conversely, several, but not all, large crops showed sizable increases in the September to January crop estimates. Current soil moisture supplies in most areas and more advanced maturity of the crops than is usual for mid-August suggest that little change should be expected in later corn crop estimates. A slight increase in the soybean crop estimate cannot be ruled out because of recent widespread rains.

Seasonal Price Prospects

Both cash prices and the basis (cash-futures price differential) are likely to remain weak through harvest. Based on other years of relatively large crops, prices appear likely to bottom during harvest, increasing slowly into mid-winter. Modest strength appears likely during the spring planting season as the grain trade begins to worry about 1999 weather. Significant further price strength into the summer of 1999 likely would require actual or expected widespread weather problems in a large part of the U.S. Corn Belt. (See Tables 1 and 2).

Indicators to Watch

Key influences on price trends in the next several weeks will include USDA’s Monday crop condition reports, export sales reports on Thursdays, and information about China’s economy and corn production. There is some possibility that China will be forced to devalue its currency to keep its industrial products competitive with those of its neighbors. If so, that would tend to increase the competitiveness of its corn exports and reduce its imports of grain, soybeans, and soybean products. These developments, in turn, would tend to be negative to grain prices.

Foreign Crops

USDA's August 12 projections show a reduction of about 26 million bushels in total foreign production for the 1998-99 marketing year. Several countries and regions are indicated to have smaller feed grain crops than last year, but these crop problems are slightly more than offset by a projected 700 million bushel increase in China’s 1998 feed grain production from last year’s drought-reduced level. Regions and countries expecting lower production include Argentina (next spring), Australia, the EU, Eastern Europe, and the former Soviet Union. Despite severe drought in some areas, USDA projects Mexico’s feed grain production to be about 32 million bushels above that of 1997.

Early and very tentative USDA projections show a 190 million bushel decline in foreign soybean production for the 1998-99 marketing year. Nearly the entire decline is indicated to be in Brazil and Argentina, which harvested record crops this spring. Their peak planting season is from the last half of November through December, and soybean acreage will depend heavily on relative prices of corn, soybeans, and wheat. Weather seems likely to be less favorable than last year’s nearly ideal conditions, especially in

Argentina. USDA projects China's soybean crop to be down about 26 million bushels from last year. Its cotton crop, which also provides meal and oil through the cotton seed, is indicated to be about eight percent below that of 1997. Recent flooding on Yangtze River affected important cotton producing areas.

World wheat production is indicated to be five percent below that of last year, with decreases in China, the former Soviet Union, Eastern Europe, and India. The European Union's crop is forecast to be seven percent above that of

1997. Despite the indicated drop in world wheat production, global carryover stocks are expected to decline only slightly, and feed wheat competition with corn is likely to remain quite significant in world markets. Over the last 17 years, world feed grain production estimates have increased 70 percent of the time from August to the final estimates. The comparable figures for wheat and soybeans are 53 percent.

…Robert Wisner

OTHER THOUGHTS ON THE OUTLOOK

Two events each summer bring together outlook economists to share their perspectives on the upcoming marketing year. One is the annual American Agricultural Economic Association Outlook Survey. The second is the annual Midwest Extension Outlook Conference. While neither of these forecasts could be considered "rosy" for cattle and hogs, they do provide a different and broader perspective on production and prices for the coming year. This is the 21st year for the AAEA Outlook Survey. Each July, AAEA members involved in market analysis are surveyed and their forecast for production and prices of leading commodities are summarized (Tables 1 and 2). There were 12 people forecasting production and prices of cattle and hogs, nine of which said that forecasting these two commodities was a major responsibility for them. Nine forecast milk production and five have milk forecasting as a major responsibility.

Table 1. Average Percentage Change in Production from the Previous Year by Quarter.

Commodity	III 98	IV 98	1998	I 99	II 99	III 99	IV 99	1999
Beef	+1.3	+0.3	+1.0	-0.5	-1.8	-2.0	-2.2	-1.6
Pork	+8.5	+5.5	+8.5	+3.6	+3.2	+1.4	+0.5	+2.2
Milk	+0.6	+1.0	+0.7	+1.1	+1.2	+1.0	+0.9	+1.1

Table 2. Average Price Forecast by Quarter ($/cwt).

Commodity	III 98	IV 98	1998	I 99	II 99	III 99	IV 99	1999

Choice Steers Nebr.	61.81	64.06	62.93	64.81	66.75	65.81	68.62	66.46
750-800# Steers OkC	73.06	74.81	74.57	77.04	78.08	78.77	80.08	78.61
Barrow&Gilts IA SMN	36.50	34.80	36.21	34.66	36.60	39.23	37.50	37.08
Milk 3.5% BF	13.61	13.17	13.00	12.90	12.19	12.83	12.96	12.68

Beef production is expected to decrease beginning in the first quarter of 1999 and show modest year over year declines in supplies through the year. Prices for Choice steers in Nebraska are expected to average below $70 in every quarter, but with more strength toward the end of the year. Yearling steers in Oklahoma City are expected to move from the low-mid $70s in the second half of 1998 to the mid-upper $70 for the first three quarters of 1999.

Pork production is forecast to remain above year-earlier levels through the end of next year. Iowa – Southern Minnesota barrow and gilt prices are forecast to average in the mid $30s through the end of 1999 except for the third quarter of 1999 when the upper $30 are forecast.

Slow milk production increases and relatively stable prices near $13/cwt are forecast for milk prices.

In general, the "experts," those who have a responsibility to follow the respective markets, are slightly more optimistic on prices for cattle and hogs, but less so on milk than the average of all forecasters. There were no major differences between the average of the experts and the average of all completing the survey. However, there are differences of opinion on forecast prices. The high and low forecast for 1999 annual average prices ranged from $62.50 to $70.50 for Choice steers, $72.75 to $85.25 for feeders, $33.00 to $40.00 for barrows and gilts, and $11.72 to 13.94 for milk.

This year, the Midwest and Great Plains and Western Outlook were held together in Kansas City. The discussion was generally upbeat, but not optimistic for substantial price recovery in the near future.

The one bright spot was milk prices, which are expected to remain strong into the fall. Late 1998 could see significant increases in milk production due to increasing cow numbers, cooler weather in the southern states, and lower grain prices encouraging increased concentrate feeding.

Cattle prices are expected to rebound some time in 1999, but no one was comfortable with when that may occur. The smaller calf crops since 1995 have reduced cattle numbers, and once cow herds begin retaining additional heifers for the breeding herd rather than sending them to the feedlot, supplies will tighten very quickly. Feeder calf and yearling prices will also move higher at that time. What appears to be a sound strategy for this year’s calf crop is to hold inventory; then sell calves later, possibly as backgrounded calves or next summer’s grass cattle, or own them through the feedlot. This strategy of retaining ownership post weaning takes advantage of cheap corn this fall, and the cow herd still owns the calves when the market turns. Having said that, cow herds should also have a reservation price in mind and the flexibility to let them go when the price is right.

Feedlots may want to look for lightweight calves that have a longer feeding period and that work better on cheap corn. Continue to be aware of typical seasonal price patterns, and consider locking in harvest time grain prices to avoid potential weather-related corn price rallies next summer. The fed cattle price forecast presented by Dr. Ernie Davis of Texas A&M University was similar to that in Table 2.

Dr. Chris Hurt of Purdue University presented the hog outlook. He is more optimistic about the remainder of 1998, but more pessimistic about the first two quarters of 1999 than the survey. His forecast is for prices to average in the mid- $30s for the fourth quarter and the low to mid- $30s for the first and second quarters of 1999. One wild card that was discussed at the conference and in the Iowa Farm Outlook newsletter earlier is that of packer capacity. The group was split on whether the packer capacity will be limiting this fall, but if it is, prices will likely decline $6/cwt or more from the forecast. That would likely put prices in the upper $20s.

On a related note, sow slaughter for the first week of August was up sharply for year earlier levels and is the first, but potentially brief, indicator that liquidation is beginning. For the week ending August 1, 1998, Federally Inspected (FI) sow slaughter was 73,975 head (4 percent of slaughter). For that week, FI sow slaughter was 5,500 head above a week earlier and 15,800 head above a year earlier, but 2,500 to 3,000 below the previous 5-year average (1992-96). Still, if sow slaughter maintains this level given the size of the breeding herd, some liquidation would appear to be starting and any further increase in the next two weeks would clarify the situation.

In previous cycles, it has taken 3-4 quarters of losses before the USDA Hogs & Pigs report shows a year over year decline in the breeding herd. Losses for average producers began in November of last year. Thus, the earliest we would expect a decline in sow numbers would be the upcoming September report. Given the increased productivity of producers' breeding herds, the pig crop may not decline until the breeding herd is further below the previous year’s level.

…John Lawrence

ProAg on ICN

The ProAg series is a long-standing agricultural management program that has been personally delivered by Extension grain and livestock economists at selected sites throughout the state of Iowa. This year, in addition to traditional meetings, we will make greater use of available technology in order to provide more timely information to more extension clients on a regularly scheduled basis. This fall, the Department Of Economics at Iowa State University will begin presenting monthly ProAg meetings on the ICN. The current low prices for grain and livestock and the resulting financial stress on producers and rural businesses make this program particularly timely and relevant to your clients.

In addition to commodity market outlook, ProAg on ICN will enable a wider array of Economics faculty to address a broader list of important topics to farmers, other agricultural businesses, and rural Iowans in general. The first program will provide a traditional pre-harvest market situation, outlook, and marketing strategies for grain and livestock. Upcoming programs will focus on additional topics that are equally as important. The reserved dates, suggested topics, and featured speakers are listed in the table on the following page. The meetings will be held from 7:00 p.m. to 9:00 p.m. The dates and potential topics for January-May will be forthcoming.

ProAg on ICN

1998 Schedule

Date Topic Featured Speakers

Sep 15, 1998 Pre harvest outlook Wisner and Lawrence

Oct 13, 1998 Farm financial stress Harl, Duffy

Nov 17, 1998 Exports, Asian economy Hayes, Miranowski

Dec 15, 1998 Post harvest outlook Wisner and Lawrence

If you are interested in attending any or all of the ProAg meetings on ICN, please contact your county extension education director for information on which sites are nearest to you and how to register to attend the program(s).