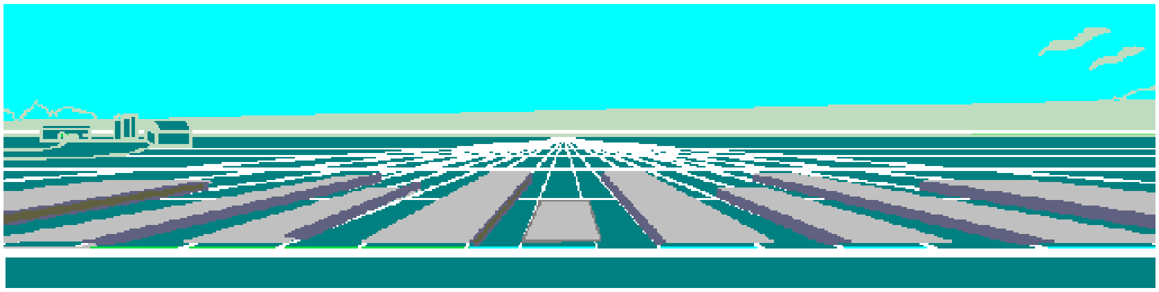

October 1, 1998 Ames, Iowa Econ. Info. 1751

ATTENTION Ag Lenders and Agribusinesses:

The second segment of ***ProAg on ICN*** will air on Tuesday, October 13 at 7:00 p.m. In addition to the most recent market outlook information, Neil Harl and Robert Jolly will discuss how the current low market price situation may have implications beyond the farm and how current legislation will impact the situation. Call your county extension education director for more information.

SEPTEMBER HOG & PIGS SUMMARY

The USDA released its September 1 inventory estimate on the 25th. It showed an inventory of 62.9 million total hogs and pigs on US farms with a 6.94 million breeding herd inventory and 56.0 million market hogs (Table 1). The market hog inventory was 3% higher than in September 1997. The breeding herd inventory was unchanged from the year before, suggesting that the expansion phase of this hog cycle is slowing. The report numbers were near pre-report trade expectations, and should be neutral to slightly bullish to first quarter futures, but bearish to second quarter and beyond futures.

Although sow slaughter has been noticeably higher during August and early September, the increased productivity of the breeding herd means that the pig crop will not likely decrease until the breeding herd is 1-2% lower than that of the previous year. The September breeding herd was unchanged from a year ago, but Dec-Feb farrowing intentions were up nearly 3%. Given the forecast for prices in late 1998 and early 1999, the actual farrowings at this point in the cycle may decline. The Dec-Feb pig crop will determine slaughter in May-Aug 1999.

Pork producers have been unprofitable since November 1997 and the current forecast is that losses will likely continue through the first half of 1999. The lower grain prices will reduce total cost of production in the month ahead to less than $40/cwt for average producers. Based on this latest report, prices may not reach $40 until midyear 1999 depending largely on the Dec-Feb pig crop.

While Iowa's breeding herd is decreasing, the number of market hogs increased 7.4 percent, reflecting the greater imports of feeder pigs, a reduction in farrow-to-finish, and greater specialization in finishing pigs.

The 17 largest hog states hold 90% of the U.S. breeding herd. Eleven of those 17 states reduced their September inventory from the year before by 225,000 head. Five of the 17 states increased their breeding herd inventory as did the "other 33" states. Interestingly, the

two states reporting the largest absolute increase, North Carolina (+50,000 sows) and Oklahoma (+75,000 sows), are states with moratoriums on hog buildings.

Table 1. Summary of September Hogs and Pigs Report.

Category	**United States**		**Iowa**	
	1,000	% Chg	1,000	% Chg
All Hogs	62,900	2.84	15,200	6.29
Breeding Herd	6,936	-0.12	1,290	-4.44
Market Hogs	55,964	3.22	13,910	7.41
Under 60	21,210	1.60	4,650	5.68
60-119	13,531	1.57	3,850	2.67
120-179	11,511	6.24	3,010	13.58
180+	9,500	5.84	2,400	11.63
Pig Crop				
Mar-May	26,849	5.4	4,698	5.1
Jun-Aug	26,277	1.9	4,550	-6.0
Farrowing Intentions				
Sep-Nov	2,992	2.2	500	-2.0
Dec-Feb	2,997	2.7	520	2.0

Near Term Trouble

The 6-7% increase in two heaviest inventories will push average fourth quarter slaughter to 2.01 million head a week. At its peak, these levels will test or surpass plant capacity for a period of time during the fourth quarter. Cash prices will likely trade in the mid- to upper $20s. The average weekly slaughter in the fourth quarter of 1994 was 1.954 million head a week with a peak of 2.087 million head. Fourth quarter 1997 average slaughter was 1.870 million head. Since July 4th this year, slaughter has averaged 1.878 million head a week.

The bright spot is that once the pork chain (packers, processors, and retailers) are geared up for 2 million hogs a week, it will create a strong demand for pork products that will continue after the supply of hogs declines. As a result, cash prices could move to the low $30s rather quickly after the first of the year. After the first of the year, supplies will decline to only two percent larger than in the first quarter of 1997 based on the inventory of hogs weighing under 120 pounds. This would put weekly slaughter at approximately 1.95 million head.

Other Factors

In addition to pork supplies, other factors will impact hog prices. Beef supplies are down slightly from a year ago on 2.5 percent less slaughter but heavier weights. Cattle slaughter is expected to continue to decline in the year ahead and weights should begin to decline by spring 1999. Poultry supplies have not grown as fast in 1998 as they have in the past. However, given the profits made and the low feed prices, poultry production is expected to increase again in the year ahead.

Demand for pork remains relatively strong. As was discussed in the last Iowa Farm Outlook, retail pork prices have not declined in proportion with cash hog prices. The product has moved relatively well in spite of retail prices near record levels. Cold storage has not grown dramatically and exports continue ahead of a year ago on a year to date basis. While the official data is slow to be released, packers indicated that orders to Japan have been better than expected through the summer.

Price Forecast

Fourth quarter 1998 cash hog prices are forecast to average in the mid- to upper $20s and bring the annual average price for Iowa Southern Minnesota hogs to $35-36. This is the lowest annual price since 1972. If fall supplies exceed packer capacity as expected, slaughter weights will begin to increase due to the delayed marketings and low-cost, new crop corn. This added weight and increased gilt and sow slaughter will also pressure prices.

First quarter supplies may only exceed year earlier levels by 3 percent depending on weights. Prices are forecast to average in the low $30s, comparable to prices the year before. Second and third quarter supplies will be determined largely by Sep-Nov and Dec-Feb pig crop, respectively. Farrowing intentions indicated that supplies could be at least 3 percent larger than in the year before. Increased breeding herd productivity will increase the number of pigs in spite of the lower breeding herd inventory. Prices are forecast to average in the mid-$30s in the second quarter 1999 and the upper $30s in the third quarter. Summer high prices could reach the low $40s. This forecast assumes that the farm-to-retail margin will narrow somewhat over the next 3-9 months making pork a better value to consumers. It also assumes that exports are stable to stronger and that pig crops are based on producers' farrowing intentions or smaller as we move toward liquidation.

Strategies

There are no easy solutions for surviving during low hog prices for producers who were not prepared, but there are management questions that should be considered.

- Think about the long-term goals and objectives of your farm, not just the reaction to short-term prices.
- Stay in touch with your packer. Packers may need additional hogs to fill out a Saturday or even a Sunday kill on short notice and be willing to pay a premium for the hogs.
- Discuss with your lender restructuring short-term debt or a line of credit into intermediate term debt. After a good 1996 and 1997, many pork producers invested in their operations by paying a large portion in cash and leaving the remainder of the capital item (equipment, building, etc) on the line of credit. Now is the time to restructure that debt into something more workable.
- Lock-in or pre-purchase feedstuffs for the coming year at harvest. Storage will pay a premium this year and the low feed prices will keep your cost of production at lower levels when higher hog prices return.
- Consider upgrading your genetics or at least purchasing replacement gilts. Breeding stock suppliers may be easier to negotiate with than they were a year ago.

…John Lawrence

GRAIN PRICES FIND SUPPORT WITH SLIGHTLY IMPROVED EXPORTS, LIMITED FARMER MARKETINGS

Current central Iowa cash grain prices (corn: $1.67 and soybeans $4.87) are a few cents above late August and early September lows, but sharply below those of a year earlier. The slightly higher prices have been accompanied by a similar decrease in potential Loan Deficiency Payments. Stability in prices has occurred despite deepening concerns about the Asian, Russian, and Brazilian economies, reports that China’s livestock production may decline slightly in the year ahead, and a slight increase in rated condition of the U.S. corn and soybean crops in the last two weeks. Support under prices and weakness in the U.S. dollar since early September appear to reflect reluctance of farmers to sell at current low prices. Price trends in the next month will be directed by harvest weather and progress, weekly export sales reports, and USDA’s October 9 crop report. Current indications still point to a significant shortage of storage space in many areas as the last 15-18% of the corn crop is harvested. Current indications suggest that as much as 6-9% of the Midwest crop might have to be stored under less-than-ideal circumstances. That conclusion is based on comparisons with 1994-95, the last year of a major Corn Belt-wide shortage of storage space.

Export Sales Lag Year Ago

Table 1 shows shipments to date plus outstanding unshipped export sales of U.S. corn and soybeans, and comparisons with a year ago. Latin America is the bright spot in U.S. corn export demand so far this season. The total to Mexico is up 136% from a year ago, reflecting serious drought this year and reduced domestic production. Exports to other Latin American Destinations are up an impressive 73%. Despite strong demand from these areas, the total for corn is down 4% from last year's disappointing level. China has been a small buyer of U.S. corn, most likely for processing. Its purchases are marginally below last year's low level, and so far are almost insignificant from a price impact standpoint.

Table 1. Cumulative U.S. Corn & Soybean Exports since 9/1 and Outstanding Unshipped Sales 9/17/98 vs. Year Earlier (mil. bu.)

	Corn			Soybeans		
Destination	**1997-98**	**Yr Ago**	**% Chng**	**1997-98**	**Yr Ago**	**% Chng**
European Union	0	7	N.A.	75	37	-51
Eastern Europe	1	0	N.A.	0.7	0	N.A.
FSU	0.5	0	N.A.	0	0	0
Japan	176	124	-30	19	26	+37
Taiwan	35	33	-6	20	24	+20
S. Korea	20	26	+30	8	5	-38
Mexico	14	33	+136	14	24	+71
Brazil	0	1	N.A.	7	0	N.A.
China	2.1	1.97	-6	N.A.	N.A.	N.A.
Canada	4	3	-25	N.A.	N.A.	N.A.
Other L. Am.	60	104	+73	24	19	-21
Other	56	73	+30	166	107	-36
Total	388	373	-4	334	242	-28

Soybean exports have been weaker than corn exports but also show some bright spots in Latin America. Also, sales to Japan and Taiwan so far exceed year-ago levels. While soybeans are off to a slow start, caution should be used in interpreting the results since they represent sales and shipments only 2.5 weeks into the new marketing year. However, competition from South America is expected to be quite strong for the next several months.

Along with declines in corn and soybeans, new-crop soybean oil and meal sales have been well below those of a year earlier. Large declines have occurred in sales to the EU and Japan. So far, China has purchased meal from 3.4 million bushels of U.S. soybeans, a very small quantity. It had purchased no new-crop U.S. soybean oil through September 17. Strength in soybean product export sales will be needed to maintain a high U.S. domestic crushing rate this fall and winter. As with beans, South American competition in product markets is expected to be considerably stronger than a year earlier through mid-winter.

Balance Sheets

The current U.S. corn supply-utilization balance is shown in Table 2. These projections reflect the September 30 USDA grain stocks report, and will be updated again after the October 9 crop report.

Table 1. Corn Bal. Sheet (Mil.Bu.) 9/30/98

				Prelim.	Proj.
SUPPLIES:	1994-95	1995-96	1996-97	1997-98	1998-99
Harv.A.(mil.)	72.9	65.0	73.1	73.7	73.8
Bu./A.	138.6	113.5	127.1	127.0	132.0
Production	10,103	7,374	9,293	9,366	9,738
Carryover	850	1,558	426	883	1,308
Total (incl. imports)	10,962	8,948	9,732	10,259	11,056
UTILIZATION:					
Feed & resid.	5,535	4,711	5,362	5,641	5,850
Food, ind. & seed	1,693	1,583	1,692	1,785	1,875
Exports	2,177	2,228	1,795	1,525	1,650
Total	9,404	8,522	8,849	8,950	9,375
CARRYOVER:	1,558	426	883	1,308	1,681
U.S. Farm Price	$2.26	$3.95	$2.70	$2.45	$2.00
IOWA Avg. Price	$2.20	$3.85	$2.60	$2.35	$1.90

N. C. Ia. harv. price	$1.80	$2.90	$2.38	$2.40	$1.60
Dec. Futures @ Harv	$2.20	$3.35	$2.68	$2.80	$1.95

What's Ahead?

Downward pressure on prices reflects (1) serious Asian demand problems, (2) limited storage space, (3) crops that modestly exceed expected utilization, and (4) lack of a mechanism for isolating excess supplies from the market, as was done by the Farmer-Owned Grain Reserve and CCC inventories in past years Both corn and soybean carryover stocks are expected to increase moderately in 1999, although corn stocks will be far below previous records. Soybean carryover stocks are projected at a new high because of strong South American competition, 11 million added U.S. acres of soybeans since 1994, and weak Asian demand. U.S. corn exports are expected to increase modestly in the year ahead, but almost certainly will be much lower than two to three years ago. Strong domestic demand stemming from large livestock numbers and increased processing capacity will partially offset sluggish exports.

Storage limitations may push corn prices a little lower as harvest accelerates. Prices for both corn and soybeans will likely remain well below local loan rates until at least late fall. A slow uptrend in prices into the spring planting season appears likely as the grain industry responds to strong market signals to store as much grain as possible. It would not be surprising to see corn prices rise modestly above local loan rates at times during the planting season. Soybean prices should at least come up to the loan rate at times, and could move significantly higher on major 1999 weather concerns. Careful use of marketing loans and LDPs will be important for both crops.

…Robert Wisner