IOWA FARM OUTLOOK

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HOG PRICE DECLINE CONTINUES

Hog prices continue to decline to unheard of levels. Prices fell $3.00 to a weekly average of $14.50 for the week ending December 11th, after increasing slightly the week following Thanksgiving. These price levels are causing serious financial troubles for pork producers. Weekly average prices in the Iowa-Southern Minnesota market for 1997, 1998, and the 10-year average can be seen in Figure 1. Price levels this low fail to even cover feed costs with current corn and soybean meal prices putting feed costs at around $20/cwt. Total costs of production above $35/cwt are putting per pig losses at $50 or even higher.

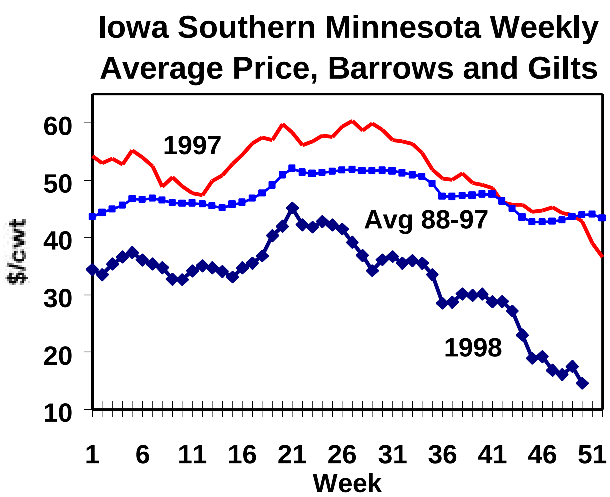


Figure 1.

The average price for 1998 is currently just under $33, with 2 more weeks to go before the end of the year. These are the lowest annual prices since 1972 when the average Iowa price was around $27. Since 1972, our production efficiencies have increased greatly and our costs of production are much lower, but not enough to offset the low prices of today. Daily prices below $15 are at the lowest levels in over 30 years. The average annual Iowa price since 1940 and the deflated hog price can be seen in Figure 2. The prices were deflated using Consumer Price Index (1982-84 = 100.) The deflated annual hog price for 1998 is around $20. ***This is the lowest deflated price in history.***

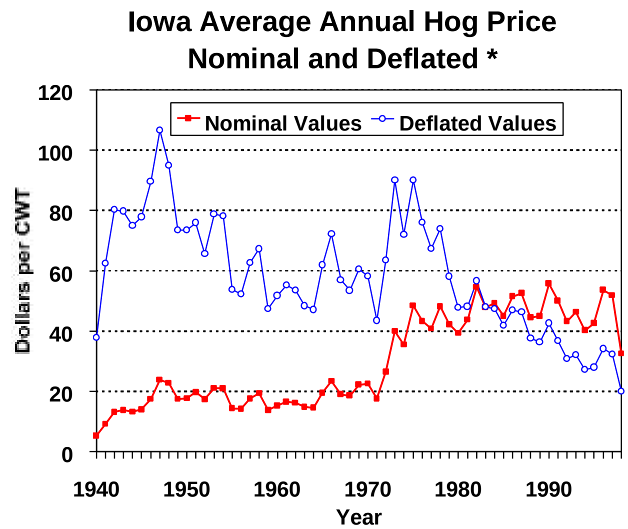


Figure 2.

Recovery…

The real bottleneck in the system right now is the slaughter capacity. Last week another record was set with an estimated 2.213 million hogs slaughtered under Federal Inspection. This continues the trend of previous weeks. We have slaughtered over 2 million head 11 of the previous 13 weeks. During those 13 weeks, hog prices have been cut in half, from around $30/cwt to last week's $14.55/cwt. The inverse relationship between weekly slaughter and weekly prices for 1997 and 1998 can be seen in Figure 3.

There is a growing concern as to when prices will start to recover. Traditionally the peak in slaughter number occurs 1 or 2 weeks after Thanksgiving. The increase in market weights of 3 to 5 pounds over a year earlier and reports from the country suggest that the supply of market-ready hogs is starting to back up. A milder November and early December have also helped

➡ ***The Iowa Farm Outlook can be viewed on WWW at:*** **http://www.econ.iastate.edu/outreach/agriculture/periodicals/ifo/** ***and on "Local Pages" of DTN and "Iowa News" on FarmDayta.***

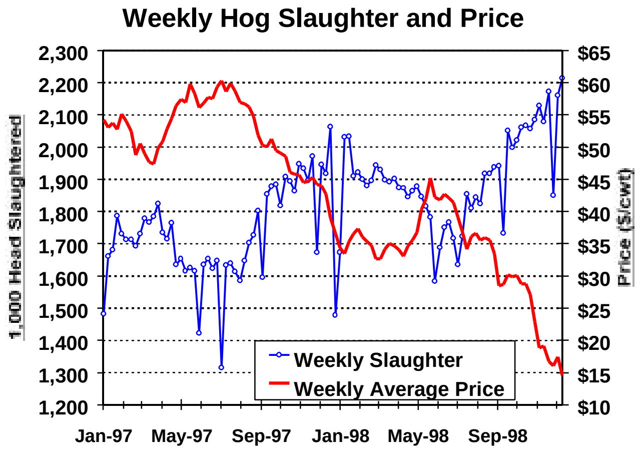
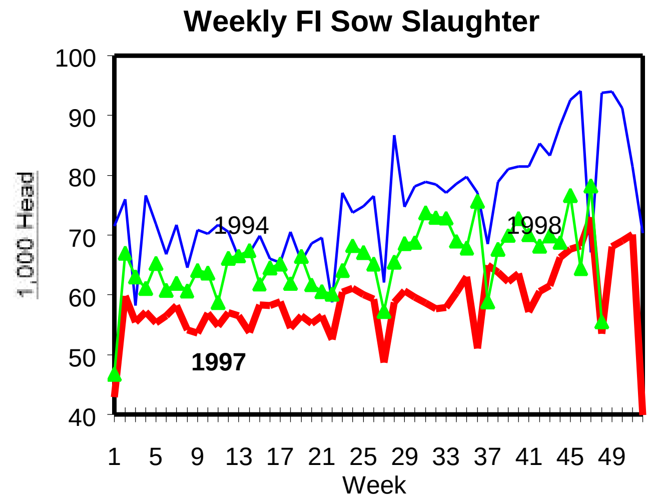


Figure 3.

to increase those market weights. Hog numbers coming to market should start their seasonal decline soon, but the current market suggests that slaughter could remain above 2 million per week well into January. Figure 3 shows that the 2 million weekly slaughter is at a critical level. In December 1997 and January 1998 when slaughter was above 2 million for 3 weeks, prices fell from $45 to $35. Similarly in September 1998 when slaughter rose above 2 million, prices started to fall from $30 to where they are today. Reducing slaughter levels to 2 million should bring a quick recovery to prices in the upper $20's. Figure 3 suggests that a further reduction in slaughter to 1.90 - 1.95 should produce prices in the low $30's. It is still uncertain how long it will take for slaughter to reduce to those levels.

Sow Slaughter…

The record low prices and large losses per hog sold would normally lead to liquidation in the hog industry. Sow slaughter has been increasing, but not to the levels



that would be expected. Current sow prices below $10/cwt may be causing a delay in sow slaughter. Figure 4 shows sow slaughter for 1994, 1997, and 1998.

Figure 4.

Slaughter has been running above 1997 levels throughout the year, but 1997 was a time of expansion with record low sow slaughter. 1994 sow slaughter numbers were much higher, especially in the fall when market hogs fell below $30. There have been reports that gilt slaughter has increased greatly over year earlier levels. There are also reports that operations are running at less than 100% of capacity in order to minimize production costs and losses. This information combined with the increase in sow slaughter suggests that the industry is starting to liquidate. Liquidation in this cycle seems slower coming compared to previous cycles.

…Alan Vontalge

UPSIDE POTENTIAL FOR WINTER & SPRING CORN AND SOYBEAN PRICES?

The answer to this question depends heavily on rainfall in the South American Soybean Belt during the next 10 to 12 weeks. Both Brazil and Argentina have been quite dry for the last two to three months, until the weekend of December 12. When the rains started, soybean planting was two-thirds to three-fourths completed, about the same as last year. Weather reports and forecasts through December 16 showed continued moderate rains this week, with geographic coverage gradually increasing to include most major producing areas. The forecast through Dec. 25 shows above normal rainfall across previously dry southern Brazil, and just slightly below normal in the Argentine Corn/Soybean Belt. Timing of the rains was quite good. However, additional rains will be needed throughout the growing season, because of limited subsoil moisture.

Until recently, soybean futures prices were building in a risk premium reflecting expectations of drought in that region, as well as an expected small decline in planted acreage. Acreage prospects as well as yields are uncertain. ***Technical indicators suggest modest short-term weakness in soybean prices is likely if the rains continue. Corn prices also are slightly vulnerable in the short-term. However, exports and export sales (up 13% from a year earlier in early December) reinforce our expectations for as much as 15 to 21 cents per bushel rise in Iowa cash corn prices from current levels into***

the peak of the spring planting season. The first few days of January and late February-early March are potential times of weaker prices because of expected increases in farmer marketings.

Argentine planting intentions show a potential 6% rise in soybean acreage this year, along with a 13% rise in sunflower seed plantings (which compete in soybean product markets), and a 13% decline for corn. For Brazil, projections show a 1 to 3% decline in expected soybean plantings, along with an 11 to 12% increase in its corn area. However, recent rains and price ratios to other crops could boost final soybean acreage somewhat. Brazil's National Commodity Corporation projects Brazil's corn imports to drop by about 40 million bushels in the marketing year starting March 1, 1999 because of increased corn prodution.

Argentine Corn Exports…

With a bumper corn harvest last spring (up approximately 65% from the five-year average production and up 25% from the previous year), Argentina will export about 530 million bushels of corn in the marketing year ending in March 1999—up from 430 million the year before. Its increased exports were an important factor depressing U.S. corn exports in late spring and summer, along with the weak Asian economy. For the next marketing year, USDA's World Agricultural Outlook Board projects Argentina's corn crop to be down 23% or 170 million bushels from last spring. The decrease reflects expectations of weather-reduced yields and a decline in area planted. If this projection materializes, Argentine corn exports from April 1999 through March 2000 would decline by approximately 140 million bushels, with declining carryover stocks slightly cushioning the impact of smaller production on exports. ***This reduced Argentine production is already reflected in U.S. corn export projections for the last one-third of the current marketing year, and likely would help to support U.S. exports in the next marketing year as well.*** A drop in Argentine yields of more than 13 to 15% from last year would be needed to create a more bullish corn price situation than reflected in the current U.S. balance sheet.

While favorable weather was a factor in Argentina's exceptionally large crop last spring, improved production management, new varieties, and increased use of fertilizer and other technologies were factors as well. Argentina's corn yields have trended strongly upward in the last few years in response to these developments.

South American Soybean Production…

Soybean crops in Brazil and Argentina last spring were 1,140 and 690 million bushels, respectively, using USDA World Board estimates. Brazil's crop was up 16% or 155 million bushels from the previous year, along with an increase of 67% and 276 million bushels in Argentina. Combined production in these two countries last spring rose by 431 million bushels from a year earlier, along with a 67 million bushel increase in the U.S. Larger South American production has been a factor in the weak export demand for U.S. soybeans and meal this fall and winter. Season-to-date U.S. exports and outstanding unshipped export sales in early December were down 25 and 29% respectively from a year earlier.

USDA projects 1999 production in these two countries to be down 155 million bushels or 8% from the spring 1998 harvest. With combined acreage likely to be slightly above that of last spring, reduced production depends solely on reduced 1999 yields. It is doubtful that dry weather this early in the growing season has done major damage to soybean yield potential. However, some weather analysts indicate a La Niña condition increases drought risk in Argentina.

Asian Economy Still Weak…

Japanese government reports this month show that its gross domestic product declined again for four out of the previous five quarters. Bank failures in the last three weeks in China and Japan also are a caution that serious economic problems remain in the region. While some Asian currencies have moved irregularly higher this fall (especially the yen), most remain sharply below the pre-crisis level as shown below.

Currencies, % Chg. 12/8/98 vs. 2 Yrs./Ago

S. Korea	-32	Hong Kong	-0.2
Japan	-05	Malaysia	-34
Indonesia	-69	India	-16
Russia	-74	China	+0.3
Taiwan	-15	Philippines	-32
Brazil	-14	Thailand	-29

Weak currencies relative to the U.S. dollar raise the cost of buying U.S. farm products. Also note that Brazil's currency is weak relative to the dollar, thus increasing the competitiveness of its agricultural exports. Weak Asian currencies are one of several factors putting pressure on commodity prices. ***The New York based Commodity Research Bureau (CRB) index of all commodity prices***

(industrial, energy, precious metals, tropical, U.S. agricultural, etc.) set a 21-year low the first week of December. The broad-based commodity deflation casts a negative psychological tone on corn and soybean prices.

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