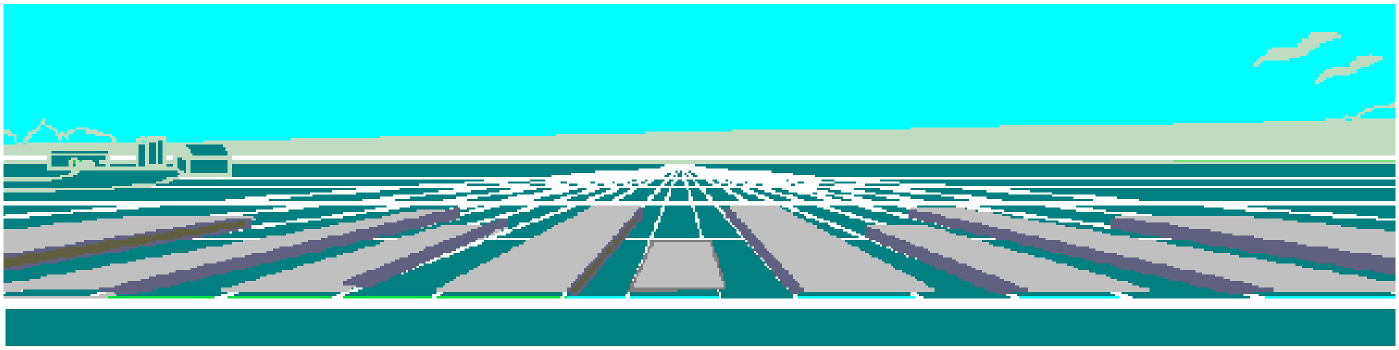


May 19, 2000 Ames, Iowa Econ. Info. 1789

USDA PROJECTS LARGE CORN AND RECORD SOYBEAN CROPS FOR 2000

Corn and soybean prices will remain very sensitive to weather developments, at least until good general rains are received across the Corn Belt states west of the Mississippi River. Official projections show potential large crops and increased corn and soybean carryover stocks, but these projections are based on normal weather. The National Weather Service 30-day forecast continues to show above normal temperatures and below normal rainfall for the western and central Corn Belt, extending to almost the entire Corn Belt in the 90-day forecast. Producers may want to consider the potential role for options purchases to provide price protection while retaining upward price flexibility.

U.S. Crops…

In its monthly world supply and demand reports for corn and soybeans, USDA's World Agricultural Outlook Board projected potential 2000 U.S. corn and soybean production at 9.74 and 2.96 billion bushels, respectively. Corn production at the projected level would be up 3.2 percent from last year, and soybeans would be up 11.8 percent. The increases reflect small expansions in plantings and assumed better yields than last year. Last year's U.S. average soybean yield was about 4 percent below trend due to drought in the eastern Corn Belt and lack of rain in August in the western Corn Belt. The U.S. average corn yield in 1999 was approximately at the trend level. Intended U.S. corn and soybean plantings both are up one percent from last year. Tables 1 and 2 show the USDA projections of 2000-01 supply, utilization, and prices, and comparisons with the past two years.

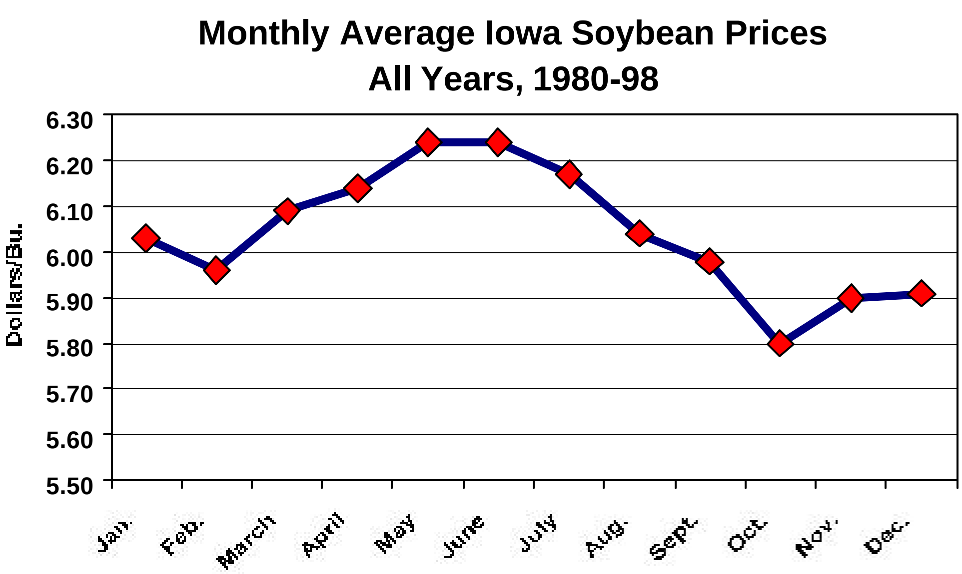


Table 1. USDA Soybean Balance Sheet (Mil. Bu.)

5/12/00					Proj.	Proj.
Supplies	1994-95	1995-96	1997-98	1998-99	1999-00	2000-01
Harv. A.	60.9	61.6	69.1	70.4	72.5	73.9
Bu./A.	41.4	35.3	38.9	38.9	36.5	40.0
Production	2,517	2,174	2,689	2,741	2,643	2,995
Imports	5	4	5	3	3	3
Carryover	209	335	132	200	348	300
Total	2,729	2,514	2,826	2,944	2,994	3,258
Utilization:						
Crush	1405	1370	1597	1590	1585	1620
Exports	838	851	870	801	940	970
Other Domestic	151	109	158	204	169	173
Total	2,395	2,330	2,626	2,595	2,659	2,763
Carryover	335	183	200	348	335	495
U.S. Avg. Price, $/Bu.	$5.48	$6.72	$6.47	$4.93	$4.65	$4.50
Meal Decatur, $/T 48%	163.02	236.00	185.50	138.50	165.00	157.50
Soy Oil, Decatur	27.5	24.7	25.8	19.9	16.25	16.5
Carryover/Use %	0.14	0.08	0.08	0.13	0.13	0.18

Table 2. USDA Corn Balance Sheet (Mil. Bu.)

					Proj.	Proj.
5/12/00	1994-95	1995-96	1997-98	1998-99	1999-00	2000-01
Plant. A(mil.)	79.2	71.2	79.5	80.2	77.4	77.9
Harv.A.(mil)	72.9	65.0	72.7	72.7	70.5	71.1
Bu./A.	138.6	113.5	126.7	134.4	133.8	137.0
Production	10,103	7,374	9,207	9,759	9,437	9,740
IMPORTS	7	16	9	19	15	10
Carryover	850	1,558	883	1,308	1,787	1,784
Total	10,960	8,948	10,099	11,086	11,239	11,534
Utilization						
Feed & resid.	5,533	4,711	5,505	5,472	5,650	5,675
Food, ind. & seed	1,693	1,583	1,782	1,846	1,930	1,975
Exports	2,177	2,228	1,504	1,981	1,875	1,900
Total	9,402	8,522	8,791	9,298	9,455	9,550
Carryover	1,558	426	1,308	1,787	1,784	1,984
U.S. Farm Price	$2.26	$3.95	$2.43	$1.94	$1.85	$1.80

At this early point in the season, the projections must be viewed with a great deal of caution because of dry weather over a major part of the western Corn Belt. Extremely early plantings increase the chances for above-average yields, but only if rainfall returns to normal. Precipitation from January through April was about 4.4 inches or 53 percent below normal in Des Moines, and about 4.23 inches or 41 percent below normal in Sioux City. Precipitation in Minneapolis from January through April was 32 percent below normal. Precipitation in Lincoln, Nebraska was 34 percent below normal for the same period. Rainfall has been variable in Illinois, with some areas receiving moderately below normal precipitation. In Indiana and Ohio, rains in the last three months appear to have recharged the soil moisture in many areas. The National Weather Service 30-day forecast calls for below normal rainfall over all of Iowa, Illinois, Missouri, Wisconsin, about 85 percent of Indiana, and much of Minnesota, South Dakota, Kansas, and Nebraska. The 90-day forecast calls for an expansion in the below-normal precipitation area to include almost the entire Corn Belt. Above normal temperatures are forecast for the entire Corn, Wheat, and Soybean Belts.

Planting Progress…

The dry soils allowed farmers to plant both corn and soybean crops extremely early this year, as shown by the individual state reports below. Planting progress through May 14 boosted the major-state totals for corn and soybeans to 91 and 57 percent, respectively. While we do not have access to all other years, this likely is by far the earliest planting season on record for the western Corn Belt. Planting progress by early May far exceeded that of 1994, the year of the last record U.S. average corn and soybean yields. Early plantings should tend to allow corn tasselling and silking to occur a bit earlier than usual, before the normally hottest period of the summer.

Table 3. Corn and Soybean Planting Progress Through May 7, 2000 and Comparisons With Normal.

	Corn		Soybeans	
	May 7, 2000	Normal	May 7, 2000	Normal
Iowa	95	49	56	6
Illinois	91	45	36	7
Indiana	66	29	29	10
Ohio	44	34	19	15
Michigan	35	25	10	4
Wisconsin	62	27	22	4
Nebraska	79	41	26	3
Minnesota	93	58	54	13
Missouri	96	49	41	3
South Dakota	63	19	18	2
Kansas	86	60	26	5
Major States Total	78	44	34	8

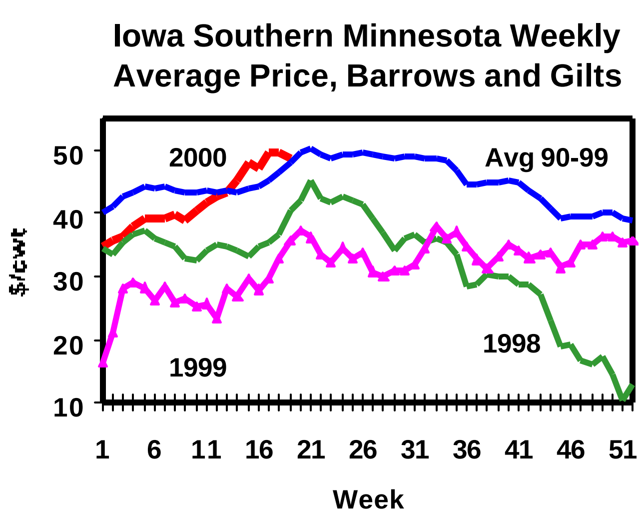
World Crop Estimates…

USDA's projections of 2000-01 world crops showed a 2.3 percent decline in world wheat output from last year, and a 1.5 percent increase in world coarse grain (feed grain) production. World wheat stocks are projected to decline from a year earlier by 7.3% by the end of the 2000-01 marketing year. Global coarse grain stocks are projected to rise by 3.4%. Ending world soybean stocks for 1999-00 are projected to decline 16.6% from a year earlier, but USDA has not yet projected 2000-00 world soybean stocks. Over the past 19 years, the final world wheat production estimate has been above the May estimate 58% of the time, along with 42% of the time for feed grains. Dry weather and the uncertain U.S. crop outlook make these projections more tentative than in most years.

Robert Wisner

HOG PRICES CONTINUE TO CLIMB

Hog prices continue to rally in the year 2000, increasing over 40 percent since the first of January. Iowa-Southern Minnesota 49-51 percent lean hog carcasses averaged $65.88/cwt for the week ending May 12th. Prices were down slightly from the week before but still 30 percent higher than year earlier levels. Live hog prices, currently near $50/cwt, are expected to average in the upper $40s to low $50s during the summer months before declining in the fall. Figure 1 shows the Iowa-Southern Minnesota live hog prices for 1998, 1999, 2000, and the 10-year average.



The strength in hog prices has led to the return of profitable conditions for producers. The Iowa State University monthly Estimated Returns for Farrowing and Finishing pigs returned to black ink in February after 27 months of losses. The estimated profit per pig marketed in April was over $22. The estimated livestock returns can be found at: http://www.econ.iastate.edu/faculty/lawrence/EstRet/Index.html

Traditionally, it has taken 12 months of losses in the estimated return series before the US breeding herd begins to decline. Losses began in November 1997 and we had the first year-over-year decline in the breeding herd show up in the December 1998 Hogs and Pigs report. It has also traditionally taken 12 months of profits before the breeding herd begins to rebuild. The return to profitability for the estimated returns series in February suggests that we could see a year-over-year increase in the breeding herd as early as January 2001. The June Hogs and Pigs report will be one of the next big indicators in helping determine when there will be an increase in hog numbers.

Hog prices have increased faster and to higher levels than predicted following the March Hogs and Pigs report. Much of the stronger-than-expected price increase has been driven by the strong demand for pork and reduced slaughter levels. Live hog demand is driven in part by wholesale pork demand. Prices on fresh pork cuts continue to run above year earlier levels. For the week ended May 6th compared with May 8, 1999, ¼ in trim, 13-19# loins were up 13 percent; 17-20# bone-in hams up 17 percent; 11-13# seedless, skin-on trimmed bellies up 82 percent; and 42 percent fresh pork trimmings were up 71 percent. The exceptional strength in belly prices appears to be driven by the restaurant trade which features bacon on many sandwiches.

In addition to the strong demand for pork, slaughter levels are also strengthening hog prices. Commercial hog slaughter for the month of March totaled 8.81 million head, compared with 9.12 million in 1999, a 3.4 percent reduction. This compares very closely to the March Hogs and Pigs report, which estimated the March 1, 2000 inventory of 180 pound and heavier hogs at 3.4 percent below 1999 levels.

Since March, slaughter numbers have declined more than had been projected, based on the USDA report. Hog slaughter for the six-week period from April 3rd to May 13th totaled 10.630 million head, compared with 11.317 million during the same time period in 1999. The March Hogs and Pigs report estimated the 180-pound and over pigs down 3.4 percent and the 120-179 pound pigs down 3.2 percent. Actual slaughter for the past 6 weeks has been 6.1 percent below year earlier levels. Slaughter levels during the last two weeks in April were both substantially below year earlier levels. Total slaughter for 2000 through May 13th has been 4.8 percent below that of 1999. If slaughter levels continue to run over 5 percent below year earlier levels, prices could climb higher, or prices may level off near current levels if slaughter numbers come in nearer to projections in the future.

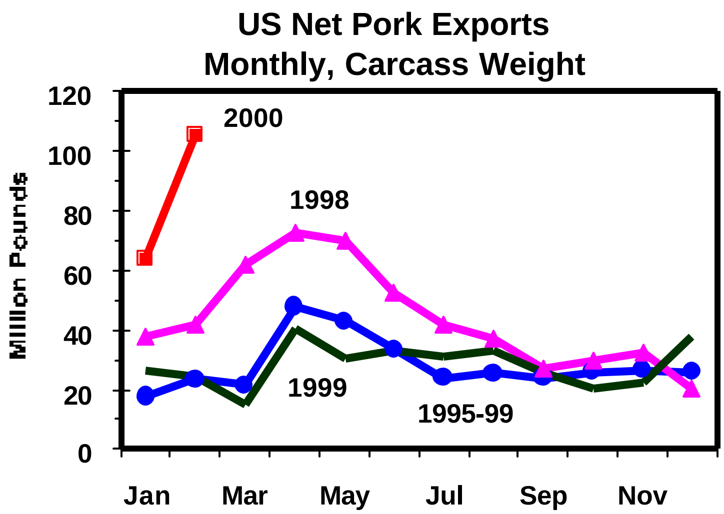
Another factor adding strength to the hog market is exports. Total pork exports for January and February are up over 85 percent compared with 1999. Exports to Russia totaled over 118 million pounds compared with only 2 million in 1999, an increase of over 5000 percent. There are some unanswered questions regarding the accuracy of the Russian export numbers. Excluding Russia, exports are still up over 18 percent. Table 1 shows US pork exports for January – February 2000 and 1999.

Table 1. US Pork Exports, Carcass Weight, Thousand Pounds.

	Jan – Feb 2000	Jan – Feb 1999	Percent Change
Japan	94,838	79,688	19.0
Canada	21,301	17,055	24.9
Mexico	45,149	22,039	104.9
Russia	118,553	2,098	5,550.8
Korea	8,230	7,631	7.8
Hong Kong	5,412	11,707	-53.8
Caribbean	3,011	3,869	-22.2
Others	25,788	29,702	-13.2
Total	322,280	173,790	85.4

Total w/o Russia	203,729	171,691	18.7

Pork imports for January and February also showed considerable growth. Pork imports during 2000 were 152.8 million pounds compared with 123.3 million pounds in 1999, a 23.9 percent increase. Over 70 percent of our pork imports come from Canada. The resulting net exports are up over 235 percent for January and February. Figure 2 shows the US monthly net pork exports for 1998, 1999, 2000, and a five-year average.



With continued strong demand, live hog prices should hover around $50/cwt during most of the summer, with weekly highs in the mid $50s. Profits of over $20 per head and higher for the better producers will encourage quick expansion. Even without building new facilities, there is the incentive to use current facilities to the fullest extent. Pork production is only down 3.5 percent for 2000. If demand would weaken and production would return to year earlier levels, prices could quickly come under pressure and return to less profitable levels.

Alan Vontalge