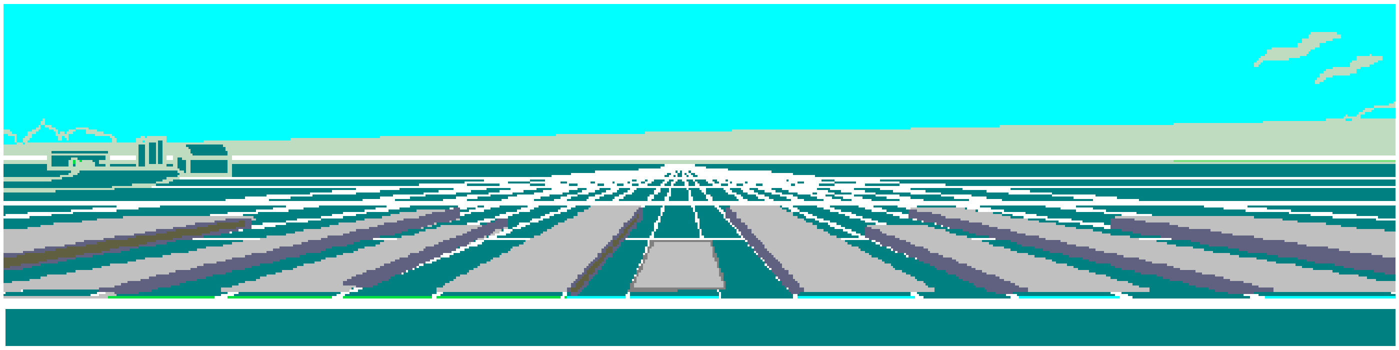
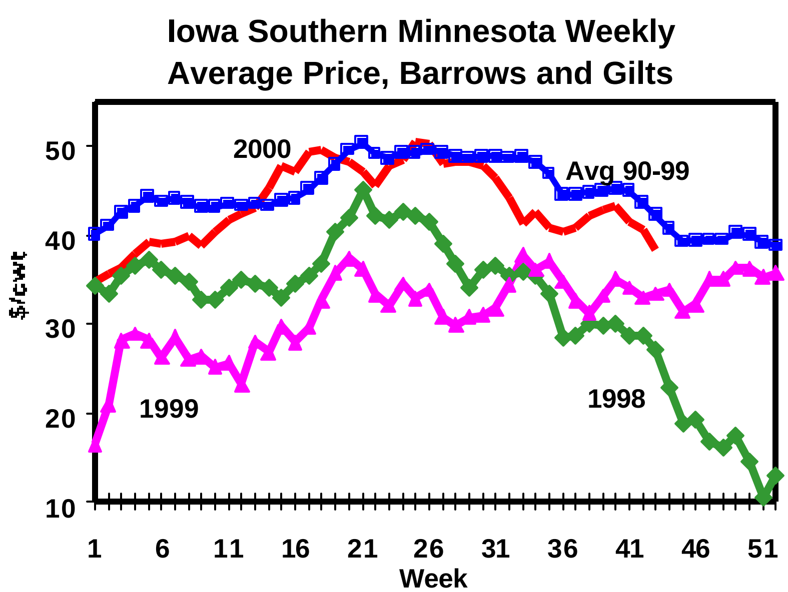


November 1, 2000 **Ames, Iowa** **Econ. Info. 1800**

HOG PRICES SLIP; SLAUGHTER TOPS TWO MILLION HEAD

Iowa-Southern Minnesota live hog prices fell over $5/cwt in the past 3 weeks. Prices for the week ending October 7th averaged $43.36 and dropped to only $38.30 for the week ending October 28th. This price weakness stems from several factors: ample cold storage supplies, increasing slaughter levels, and weakness in wholesale and retail pork prices. Figure 1 shows the weekly average Iowa-Southern Minnesota live hog prices for 1998, 1999, 2000, and the 1990-1999 five-year average.

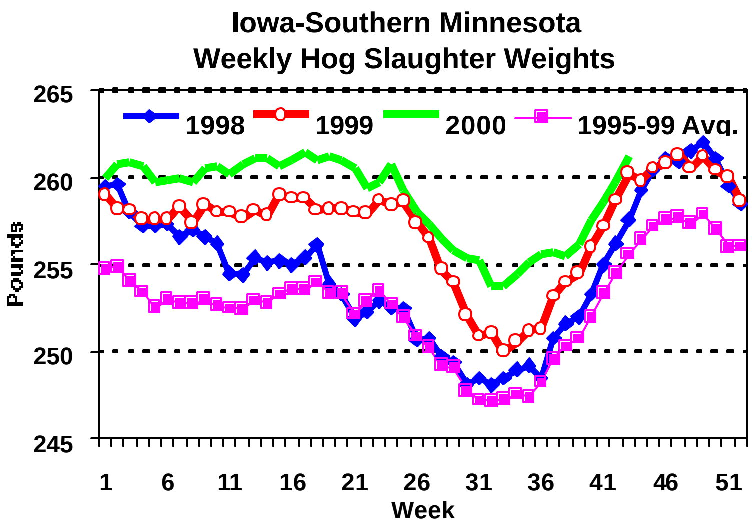
Figure 1.



Weekly hog slaughter totaled 2.045 million head for the week ending October 28th***, surpassing 2 million head for the first time in 2000***. Prior to this, the week ending December 18, 1999 was the last time slaughter was above 2 million head. Slaughter for the past 8 weeks since the first of September has totaled 15.6 million head compared with 16.1 million head during the same 8 weeks in 1999, a 3.0 percent decline. The September USDA Hogs and Pigs report estimated the 180-pound and over market hogs down 1.4 percent and the 120-179 pound market hogs only 0.7 percent lower. Slaughter levels since September 1 have been nearly 2 percent below expectations based on the report. If slaughter levels during the previous 8 weeks were down only 1 percent as expected, total slaughter during this period would have been over 325,000 thousand head larger than it actually was. While slaughter weights, which have climbed to near record levels, may suggest that some marketings are being held back, a more logical explanation is that the USDA report overestimated market hog inventories or the weight breakdown of the total inventory.

Weekly slaughter levels throughout the rest of the fourth quarter are expected to remain above 2 million head for nearly every week except holiday weeks. In addition to higher slaughter levels, weights continue their seasonal upward climb as noted above. Iowa-Southern Minnesota hog slaughter weights averaged 261.2 pounds for the week ending October 21st; an increase of 1.5 pounds above the week earlier, 1.0 pounds above year earlier levels, and 5.6 pounds above the five-year average. Increasing slaughter levels and heavy slaughter weights will push pork production to near year earlier levels and continue to pressure prices throughout the rest of 2000. Figure 2 shows weekly Iowa-Southern Minnesota slaughter weights for 1998, 1999, 2000, and the 1995-1999 five-year average. Current slaughter weights are less than 1 pound below the record 262.0 pounds set in mid-December 1998. Continued inexpensive feedstuffs could push weights above that level yet this fall.

Figure 2.



Pork in cold storage totaled 439 million pounds on September 30th, a decrease of 2.2 percent from August but 2.0 percent above year ago levels. This marks the second month with stocks above year earlier levels. Prior to this, cold storage stocks had been below year earlier levels for 9 months. Belly stocks fell 35 percent from August to September, but were still above year earlier levels. Hams were nearly 9 percent higher than in 1999 and at record levels for this time of year. Cold storage stocks are expected to begin their seasonal increase in the coming months. While stocks are only modestly above year ago levels, this information will weigh heavily on the market in the coming months as pork supplies will continue to increase as the industry remains in an expansion mode. Prior to the record pork production in 1998, cold storage stocks in September 1997 totaled only 347 million pounds, or over 25 percent below today's levels. Figure 3 shows monthly cold storage stocks for 1998, 1999, 2000, and the 1995-1999 five-year average.

Another factor greatly influencing slaughter numbers and market hog prices is Canadian live hog imports. Late last year, Maple Leaf Foods opened a new hog slaughtering facility in Brandon, Manitoba. This state-of-the-art slaughtering plant has been running near capacity on a single shift since spring and has the capability to be double shifted in the future. The plant can process approximately 9,000 hogs per day in one shift. It was believed that this would reduce the number of Canadian animals being imported into the U.S. and increase pork imports. Imports of pork from Canada are up 25.1 percent for 2000 through the end of August and live animal imports are also up 5.1 percent.

U.S. pork exports to Canada for Jan–Aug totaled 85.7 million pounds, up 6.5 percent over 1999. Pork imports from Canada into the U.S. for the same time period have been 481.7 million pounds, up 25.1 percent. Net pork imports from Canada are at 396.0 million pounds, up 30.0 percent from year earlier levels. These net pork imports represent the equivalent of approximately 2.08 million hogs. Pork imports from Canada will likely increase in the future as their industry grows.

Monthly live hog imports from Canada through August have been above 1999 levels for all but 2 months during 2000. 2.81 million hogs have been imported into the U.S. since the first of the year. Slaughter animal imports total 1.30 million, down 2.0 percent; and pig imports total 1.51 million head, up 12.2 percent. While hogs imported into the U.S. directly for slaughter are down slightly, total monthly Canadian slaughter in the U.S. is up due to the increasing number of pig imports. The less than 110-pound pig imports comprise 53.7 percent of the total for 2000, up from 50.4 percent in 1999 and 35.6 percent in 1998.

Total hog slaughter in Canada through the week ending September 2nd totaled 12.15 million head, up 4.4 percent over 1999. Through the end of August the Canadian hog industry had slaughtered an additional 515 thousand head and shipped an additional 137 thousand animals into the U.S. Net pork exports into the U.S. from Canada represent over 2 million head.

After leveling off for the past 2-3 years, Canadian live animal imports jumped to 437,294 head in August, consisting of 240,951 under-110 pound pigs and 196,343 slaughter animals. ***This is the largest number of pig imports ever in one month.*** The previous record was 199,227 in September 1999. As the Canadians continue to expand their pork industry, and if feedstuffs continue to be relatively inexpensive, we can expect pig imports from Canada to continue to increase. Slaughter hog imports should stay at their current levels or decline further as the Canadians continue to utilize their existing slaughtering capacity and further increase pork shipments into the U.S. Figure 4 shows the growth that has occurred in hog imports from Canada since 1993.

Figure 3.

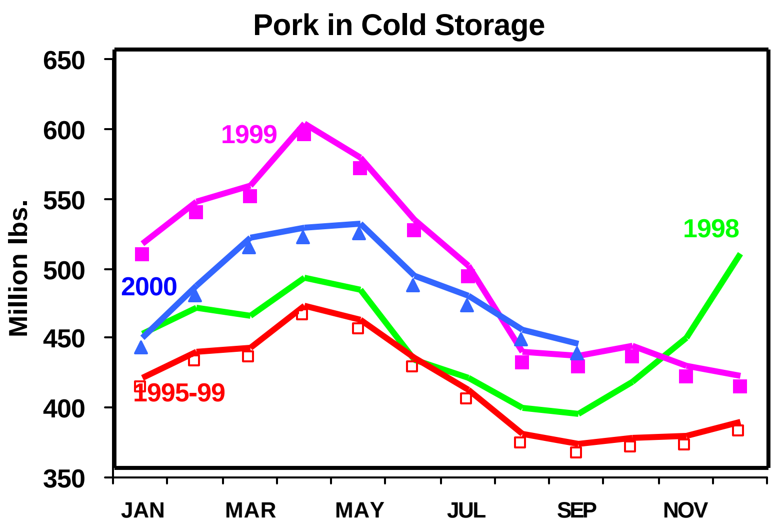
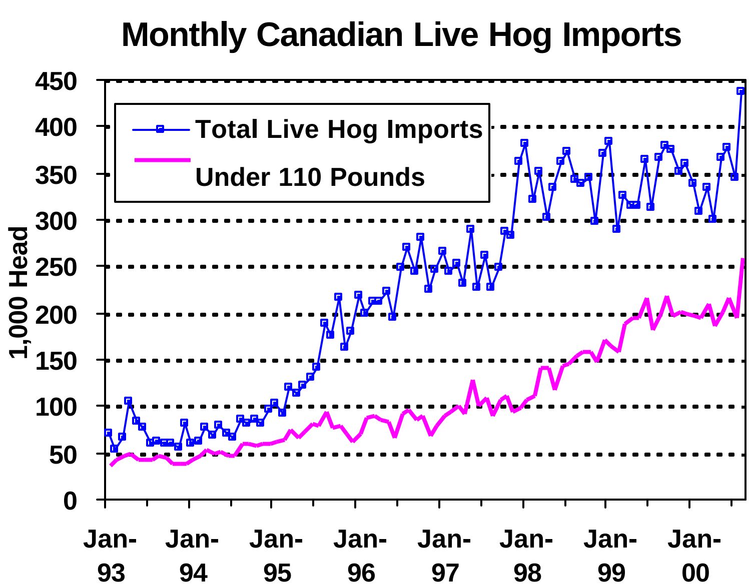


Figure 4.



For analysis of the October 20 Cattle on Feed report, go to:
http://www.econ.iastate.edu/faculty/lawrence

Alan Vontalge

POTENTIAL GRAIN MARKET INFLUENCES THIS WINTER

Overview

Iowa cash corn prices increased about 17 per bushel from September 27 to October 30 as harvest pressures diminished and crop yield estimates declined. Soybean prices declined by 11 cents during the same time period, as the market reacted to prospects for increased South American production and less incentive to store as reflected in basis and futures price spread signals.

Prices from now into mid-winter will depend on: (1) export sales trends, (2) USDA's updated November 9 U.S. and world crop estimates, (3) U.S. winter wheat crop conditions, and (4) South American weather and crop prospects. A strong recovery in U.S. corn exports is anticipated this marketing year, driven primarily by a sharp decline in China's 2000 corn production. However, the expected recovery has not yet emerged. A small decline in U.S. corn and soybean crop estimates seems likely in November, but probably not enough to cause major changes in recent price trends. The winter wheat crop from Nebraska south to Texas was "dusted" in but has had a little rain recently. Currently, more rain is expected in the next few days, which should help stimulate some growth before the crop goes dormant. Heaviest rains are expected in Oklahoma and Texas, with less in Kansas—the usual No.1 wheat producing state. The world wheat stocks/use ratio is expected to reach a record low at the end of this marketing year, even lower than in 1995-96 when wheat prices exceeded $7 per bushel. Recent reports indicate Australian and Pakistan crop prospects may be less favorable than indicated earlier.

The low stocks do not insure a strong rise in wheat prices, but do indicate that that would be possible with adverse weather over a sizable producing area. For that reason, it will be important to monitor the condition of the U.S. hard winter wheat crop in the months ahead, as well as conditions in major foreign wheat areas. Wheat is a very hardy crop, but inadequate growth before winter can greatly increase the risk of wind damage and winterkill in the U.S. central and southern Great Plains. Brazil's wheat crop is expected to be unusually small this year because of earlier weather problems, and its import needs are expected to be well above normal.

South American Soybeans

October rains in Argentina were generally well above normal. In Brazil, September rains were well above normal in most soybean areas, although a part of its Soybean Belt had below normal rainfall in October. The main soybean-planting season there is the last half of November through mid-December. Some double crop plantings after the wheat harvest also take place into early January. Argentina has large plantings of wheat this year and is expected to have an above average increase in soybean plantings as a result. Expectations for the increase in Brazil's soybean plantings from last year are now in a range of one to five percent, with a larger increase expected for Argentina. Contrary to widespread beliefs, Argentina has contributed more than Brazil to the U.S. loss of soybean export market share in the last few years. Current market conditions suggests that cash corn and soybean prices are likely to increase modestly into late January, with prices being sensitive to South American weather.

Export Sales Update

Through October 19, combined U.S. corn exports since September 1 and outstanding unshipped sales were five percent less than a year earlier. Sales lagged behind a year earlier in major Pacific Rim markets, particularly South Korea, Japan, and Taiwan. The lag is a bit troublesome since these markets were expected to cover a major part of their import needs during the peak harvest season. Weak currencies may be a limitation, with foreign buyers waiting for currency strength before making heavy forward commitments. The Starlink problem also is a problem, at least in Japan. Japanese regulations prohibit use of Starlink for food ***and feed*** use, and the tolerance level is zero. Starlink was found in at least one food product in Japan. There are stiff fines and jail sentences for violators of these regulations.

USDA is working with Japanese officials, hoping to persuade its regulatory agency to approve the use of Starlink corn for feed. Current reports from Japan indicate its regulatory agency is unlikely to give such approval. Meanwhile, Japanese buyers reportedly have been checking with Argentina, South Africa, and China for non-Starlink corn (Argentina did not allow plantings of Starlink). Exportable supplies from these countries are not large enough to meet all of Japan's import requirements, but could supply its food processing needs.

Starlink and Prices

There is a substantial chance that Japanese importers will seek non-Starlink supplies from the eastern Corn Belt states of Ohio, Michigan, and Indiana. These states planted much less Starlink than states to the west. Their estimated total 2000 crop is 1.6 billion bushels. Tyson, the world's largest producer of chicken meat, has indicated that it will not feed Starlink corn to chickens, and may also aggressively seek corn supplies from this region. That combination could result in an abnormally high price premium of eastern Corn Belt corn versus corn in Iowa and neighboring states. Additionally, it may produce some abnormal grain shipping patterns. Recent reports have shown some Starlink-co-mingled corn being sold at substantial discounts to non-Starlink corn.

Export Sales

Cumulative U.S. corn exports from September 1 through October 19, 2000 and outstanding unshipped export sales were down 5% from the same period a year earlier, with much of the decline being in the Pacific Rim. Weak currencies in the region also may be a factor, as buyers delay purchases in hopes their currencies will strengthen. The total for soybeans was down one percent from last year, while meal was down 48% and soybean oil was down 88%. Weakness in oil reflects large palm oil production in southeastern Asia. In the last two years, the U.S. has essentially lost the once-large European Union (EU) market for soybean meal. GMO concerns may have been a factor behind that development. Trends in USDA's Thursday morning export sales reports will important price influences in the months ahead.

China's 2000 corn harvest currently is estimated to be about 900 million bushels below last year due to June-July drought, corn borers, and other problems, along with a shift of acreage to soybeans. Its crop estimate should be viewed as much less accurate than the U.S. numbers. But it no doubt gives an accurate indication of the direction of change in production that has occurred there. If the current estimate is accurate, China's corn exports are virtually certain to drop sharply in the months ahead. That should bring a sharp increase in U.S. corn exports, probably to a level exceeding 1995-96, when U.S. corn prices reached record highs. That year, U.S. corn production was 7.37 billion bushels vs. nearly 10.19 billion estimated for this year. The record high in U.S. corn exports was 1979-80, the year of the export embargo to USSR.

Other Starlink Developments

The EPA recently approved Starlink corn for export, provided it is segregated and used only for feed. While that does not totally solve the problem, it does somewhat broaden the potential market for Starlink-comingled corn. U.S. corn processors have been rejecting Starlink, as has Tyson in its chicken feeding operations. Corn products containing or believed to contain Starlink were withdrawn from supermarket shelves by 35 retail food chains. Kellogg, Mission Foods, and ConAgra shut down processing plants to check for and/or clean out Starlink corn, and major newspapers including the Washington Post, a Los Angeles paper, and the Wall Street Journal publicized the problem.

While much of the Starlink corn apparently has been purchased through the Aventis/USDA purchasing program, a substantial, but unknown amount is believed to be co-mingled with other grain across a large section of the Corn Belt. Geographic intensity of the problem varies, with the greatest problems being in west central and northwest Iowa, parts of Nebraska and adjoining states. In Iowa, south central and northeastern counties plus a few in central Iowa have considerably less than in other parts of the state. For farmers who still have Starlink corn, it is important to feed it or arrange to put this corn in the buy-out program, to isolate supplies from the market. At stake is consumer confidence both in the U.S. and in foreign markets.

Robert Wisner