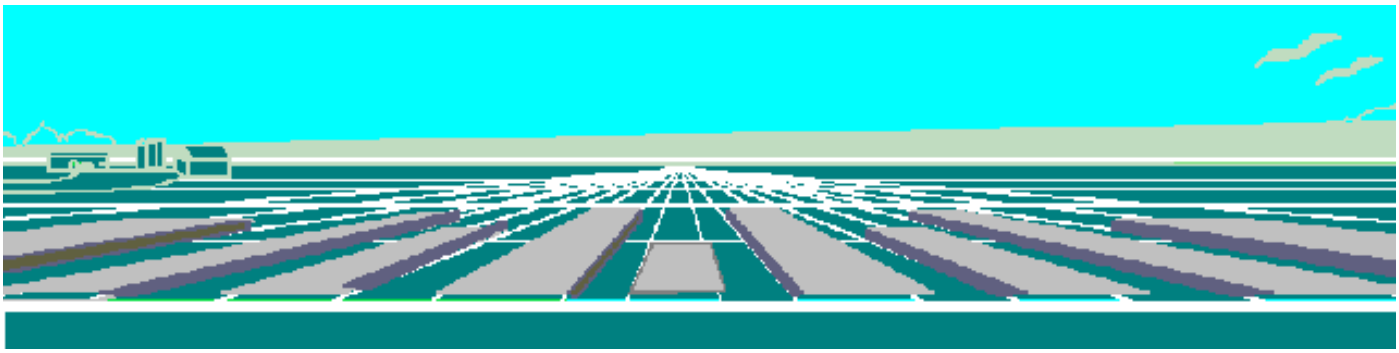


May 1, 2001 Ames, Iowa Econ. Info. 1813

FMD UPDATE AND IMPLICATIONS

The foot and mouth disease outbreak that swept the United Kingdom appears to be subsiding. By late April the number of new cases reported had dropped to 3 on April 26 compared with more than 40 per day at its peak in early April. As of April 26, there had been 1482 confirmed cases of FMD in the UK and 2,287,000 animals had been slaughtered or were identified for slaughter.

There is little doubt that FMD is a crisis and the individual farms and communities impacted will suffer a significant loss. Yet at the same time the number of animals destroyed is less than many perceive based on the news coverage (Table 1). Farms whose herds were destroyed will be compensated, but the market place and livestock economy were greatly disrupted.

Table 1. FMD related disposal and January 1, 2001 inventory for United Kingdom

	Disposed	Inventory 1/1/01	Percent
Sheep and goats	1,647,000	30,800,000	5.3
Cattle	384,000	11,268,000	3.4
Pigs	106,000	6.950,000	1.5

France, the Netherlands, and other European countries have had confirmed cases, but appear to have contained the spread. Japan, who initially blocked imports from the EU because of FMD, lifted the ban on selected countries, particularly Denmark, and the U.S. hog futures market dropped sharply on the news, because Denmark is a major pork export competitor.

What if FMD hits the U.S.?

The U.S. has been FMD free since 1929 in spite of outbreaks in Mexico and Canada in the 1950s. Certainly flare-ups in the UK, Argentina, and now Uruguay have put the U.S. on alert. Federal and several state governments have developed emergency action plans in case FMD does hit in the U.S. The exact action plans are complex and will differ with possible scenarios, but we can speculate on what the market and institutional reaction might be to a FMD outbreak.

If FMD is confirmed anywhere in the U.S., beef and pork exports would stop overnight as trading partners would move to protect their industries. The U.S. exports approximately 7-8 percent of its pork and 11-12 percent of its beef. This supply would have to be absorbed into the domestic market at a time that U.S. consumers will be watching news coverage of burning or burying piles of animals destroyed to stop the spread of the disease. Even though FMD is not harmful to humans, consumers would likely reduce meat consumption and prices would fall.

Domestic cattle and hog prices are expected to decline 20-40 percent, with the largest drop occurring the most quickly. Countries that import beef would likely reduce imports because of the lower prices and Canada and Mexico would reduce imports of live animals. While some might argue that the reduced imports would offset the increased supply, keep in mind that we import primarily low-value grinding meat and export high-value middle meats. Likewise, hide exports might also be curtailed, and we export approximately 60 percent of U.S. cattle hides.

When a degree of containment can be determined after a few days or weeks, it may be possible for FMD-free regions of the U.S. to re-establish exports with some countries if the status of that region can be confirmed and protected.

Movement of animals within the U.S. will be restricted and stopped completely in an infected region. If FMD is confirmed in one region, other states may close their borders to prevent the movement of animals into their state. This

initial action may be only for a few days until the extent of the FMD spread is determined. States may partially close their borders, i.e., prevent livestock coming from the direction of the outbreak, but not for livestock coming from the other direction. Trucks hauling livestock may be detoured around some states or regions. Travel of any kind in an affected region may be restricted also.

These restrictions could make it difficult to move feeder or slaughter animals into Iowa. Packers may choose to (or be asked to) close plants for a few days so as not to move more animals than needed. Packers may have to bid aggressively in unaffected regions for livestock that can move to plants. Once marketings resume, livestock will be heavier, adding to the supply. Feedlots and finishing houses may not be able to get replacements as quickly as planned, and may not want them if the market is uncertain.

While there would be a surplus of both pork and beef on the market, and some consumers might avoid meat, there could be spot shortages in the short run as plants temporarily close and are unable to service restaurants and grocers in some regions.

If the outbreak occurs in a sparse livestock region, it may be contained relatively quickly, and the domestic market disruptions could be over in a manner of a few days. Exports could resume, at least on a limited basis, in a matter of a few weeks. However, the impacts of an outbreak in a major livestock region such as the High Plains, Corn Belt, or North Carolina could be extremely large and very long. Losses to producers would be staggering and the cost to tax payers for containment and restitution to producers with infected herds would be overwhelming.

Some believe that enough animals will be destroyed to reduce the supply and actually improve prices. Look again at Table 1. Relatively few animals will actually be destroyed, but exports will end and domestic consumers will be hesitant buyers. There could be an aftershock if prices are low enough long enough that additional producers liquidate their herds for economic reasons. If consumers, export and domestic, regain their appetite during a meat shortage, prices could rebound months if not 2-3 years later.

What can producers do to protect their operation? First, practice sound biosecurity. Make sure you know that visitors to your farm have not been in the UK or other infected regions recently. Protect against a price decline by buying a put option for your production. The put protects the producer from falling prices, but allow for higher prices if they occur. Bottom line is to pray that FMD doesn't reach North America.

John D. Lawrence

SUBSTANTIAL RISK FOR SUMMER, EARLY FALL CASH CORN & BEAN PRICES

As grain producers plant this year's corn and soybean crops, it is important not to lose sight of marketing considerations. Risk exposure in cash corn and soybean markets in Iowa and much of the Midwest increases substantially when inventories are stored into summer and early fall. Occasionally, storage into summer pays off big, but historically the years of big storage profits have occurred when much of the Midwest was affected by severe drought or flooding. In the last 26 years, those years have occurred less than 20 percent of the time. A more typical pattern has been for prices of both crops to decline from May through September. Figures 1 and 2 show the percentages of the time that Iowa monthly average corn and soybean prices have declined from one month to the next over the 1979-80 through 1999-00 September-August marketing years. Over this time period for corn, prices have declined over 70% of the time for each succeeding month from May through September. For soybeans, the percentages of time prices have declined have been equal to or greater than 70% for all months of this period except June to July.

Will this year's prices follow the historical average pattern? Key determinants for corn will be: (1) the planting progress in the next two weeks, (2) summer weather, and (3) Chinese corn exports and imports. U.S. corn plantings are indicated to be 2.9 million acres below that of last year, setting the stage for some reduction in the U.S. corn crop unless corn yields are above average. China has been a net exporter of corn in all but two years since1983. In most years, it was the world's third largest (and sometimes second largest) exporter, behind the U.S. and Argentina, if intra-EC exports are excluded. China is continuing to export corn this year, despite an estimated 943 million-bushel decline in its 2000 feed grain crop. Far East grain trade sources expect China's corn plantings to rise 4 to 6% this year. That would partially offset last year's estimated 7% decline in plantings. With improved weather, Chinese production is likely to be up sharply.

Will China's position shift to that of a net importer of corn in the upcoming marketing year? A number of analysts including those in USDA's World Agricultural Outlook Board think so. Their conclusions are based on the U.S.-China grain agreement worked out last year. It requires China to phase out corn export subsidies, and is intended to remove government control of corn imports. However, the agreement does not require China to import corn. Keys to China's net

import or export position will include: (1) the size of its 2001 corn crop, (2) whether China finds an alternative subsidy mechanism that shifts export subsidies directly to farmers, and (3) whether China has alternative uses for crop land currently devoted to grain in its northern plains. Production cost estimates from China show its corn production costs per bushel almost identical with those of the U.S., while its soybean costs are higher. ***If China does shift from a 250 to 300 million bushel exporter this year to a net importer of 160 million bushels of corn, as recent USDA projection indicate, corn prices would have the potential for moderate strength this summer and fall.*** For the last several years, analysts have predicted that China would soon become a continuous major corn importer. So far, however, the projections have failed to materialize.

Figure 1. Monthly Iowa Corn Price Declines, 1979-80 Through 1999-00 Marketing years

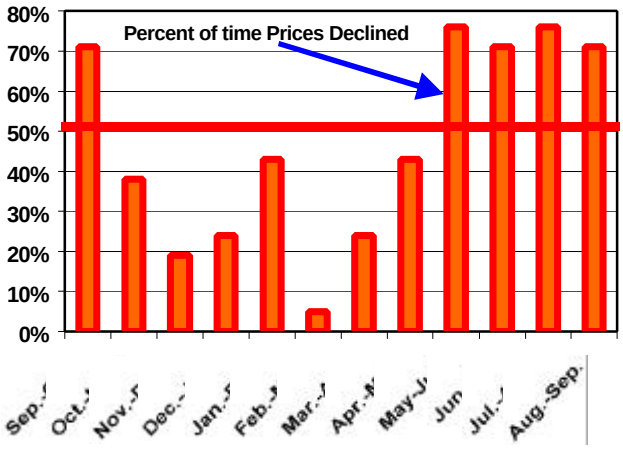
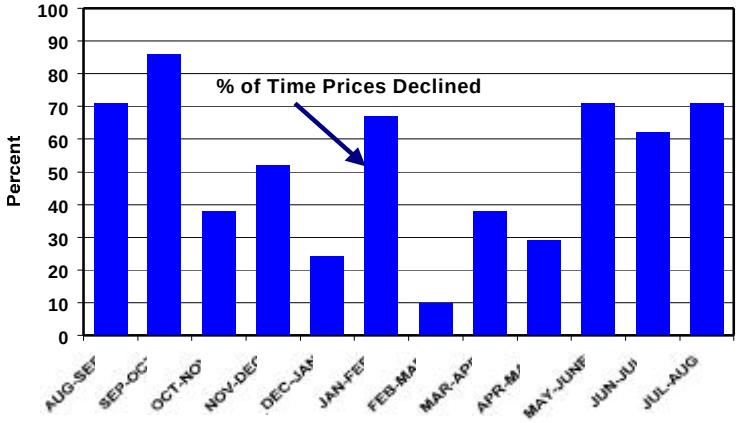


Figure 2. Changes in Iowa Monthly Average Soybean Prices, 1978-79 through 1999-2000 Marketing Years



For soybeans, South America's newly harvested crop is estimated to be up about 260 million bushels from last year. In the U.S., farmers have indicated they intend to plant 2.2 million more acres of soybeans than in 2000. Historical deviations of planting intentions from actual plantings and the substantial amount of winter wheat being abandoned in the central and southern plains suggest that actual plantings may be as much as a million acres larger than the intentions. If so, normal weather this summer would push potential U.S. soybean production about 200 million bushels above that of the 2000 crop. The increased production would reflect both increased plantings and better yields than last year, when late summer dry weather cut the yield potential. This combination would push Western Hemisphere soybean production about 460 million bushels above that of the 2000 crop. An increase of this size would be approximately double the 10-year average annual increase in global soybean utilization. Increases of this size strongly suggest that cash soybean prices have downward risk into early fall.

Planting Progress

Through April 29, corn planting delays were concentrated in the northwest part of the Midwest, primarily in Minnesota, Iowa, and the Dakotas. The table below shows progress by state and comparisons with last year and the long-term average.

Corn, Percent of Intended Acreage Planted.

	4/29/01	Average	Year Ago
Minnesota	0	33	63
Iowa	16	26	57
North Dakota	1	12	17
South Dakota	3	9	21
Nebraska	22	23	36
Ohio	13	17	7
Illinois	51	18	54
Indiana	40	32	18
Missouri	56	50	89
Michigan	8	6	5

Kentucky	75	42	55
Kansas	54	49	68
18 major states	28	28	45

While planting delays are quite serious in Minnesota (the No. 4 corn state), the Dakotas and parts of Iowa, there has been little or no concern in the grain trade. The reasons are that (1) most people are comparing this spring's planting progress with the record early plantings last year and (2) recognition that today's technology and equipment allow extremely rapid plantings when weather permits. If planting delays persist for another week or two in the northwestern Midwest, some corn price reaction would seem likely. Soybean planting progress data are not yet available.

Wheat Crop Conditions

Winter wheat conditions are well below average from Kansas southward, along with some trouble spots in the Pacific Northwest (PNW). For the major states as a group, only 41% of the crop was rated good-to-excellent. A year ago, the percentage was 61%. Areas with the most serious problems are Kansas, Oklahoma, and Texas, where the percentages rated good to excellent this week were 28, 25,and 26 percent, respectively. Oregon wheat is in the poorest condition in the Pacific Northwest, at 44% good to excellent. Despite serious soil moisture shortages in the area, the wheat there is rated much better than in the southern plains. The PNW produces white wheat, much of which is exported to the Far East. Soft red wheat crop conditions in the eastern Corn Belt and South are generally much better than in the Southern Plains. Wheat has the potential to affect both corn and soybean prices if crop conditions do not improve. Because of relatively low world carryover stocks, the wheat market appears to have more potential strength than either corn or soybeans. Major strength in wheat prices would likely strengthen the corn market, and perhaps the soybean market to a small extent. But for soybeans, a major market concern would be the potential to replant failed wheat acres to soybeans. Florida is in a serious drought situation, but is only a very minor producer of corn, soybeans, and wheat.

International Conditions

Northern China has turned somewhat dry, and the developing wheat crop will need rain soon. Planting progress for corn, soybeans, and spring wheat is being favored by dry weather. In Europe, weather was abnormally dry in April in Spain and Portugal, but excessively wet in the UK, northern France, Netherlands, Belgium, and parts of Romania and the former Yugoslavia. Conditions were variable in the former Soviet Union, but several important grain-producing areas were a bit dry.

Corn Exports Still a Major Concern

USDA's April 25 Export Sales Report indicates sales to the Far East continue to lag well below those of last year, in the wake of StarLink problems. Exports since September 1 and outstanding unshipped corn sales showed the following percentage changes from a year earlier.

Japan	-19%
S. Korea	-27%
Taiwan	-15%
All Destinations	–12%

Japan, South Korea, and Taiwan normally account for slightly over half of all U.S. corn exports. Japan's yen has gained about 5% against the U.S. dollar in the last two months. That, and declining corn prices, in dollars, should have encouraged increased Japanese corn purchases.

For soybeans, export sales show a more optimistic picture. Season-to-date U.S. soybean exports to all destinations and outstanding unshipped sales were up 8.5% from a year earlier. However, U.S. soybean and soybean product exports likely will weaken in the next several months as the large South American crop is moved aggressively into world markets. South American farmers are well aware of the expected increase in U.S. plantings and the need to move as much of their crops as possible before the U.S. harvest. For meal and oil, the totals were up 3% and down 9% respectively.

Robert Wisner