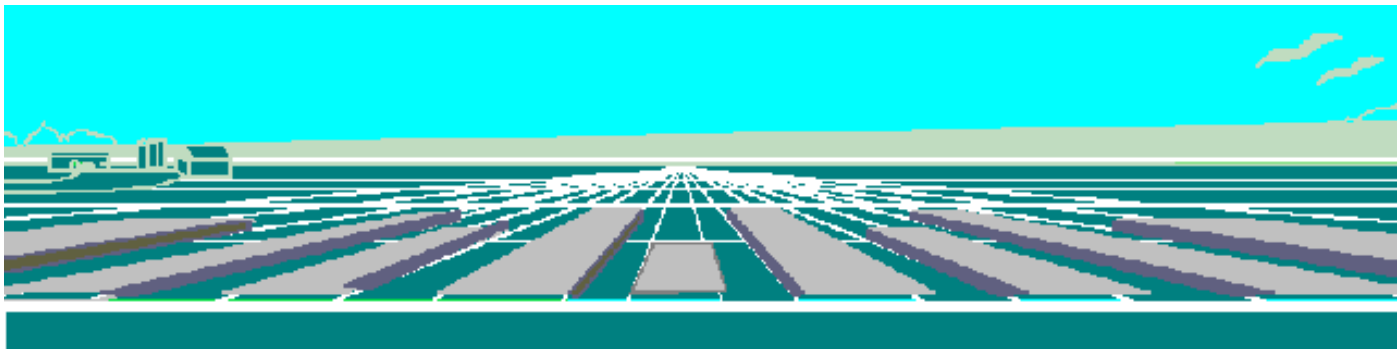
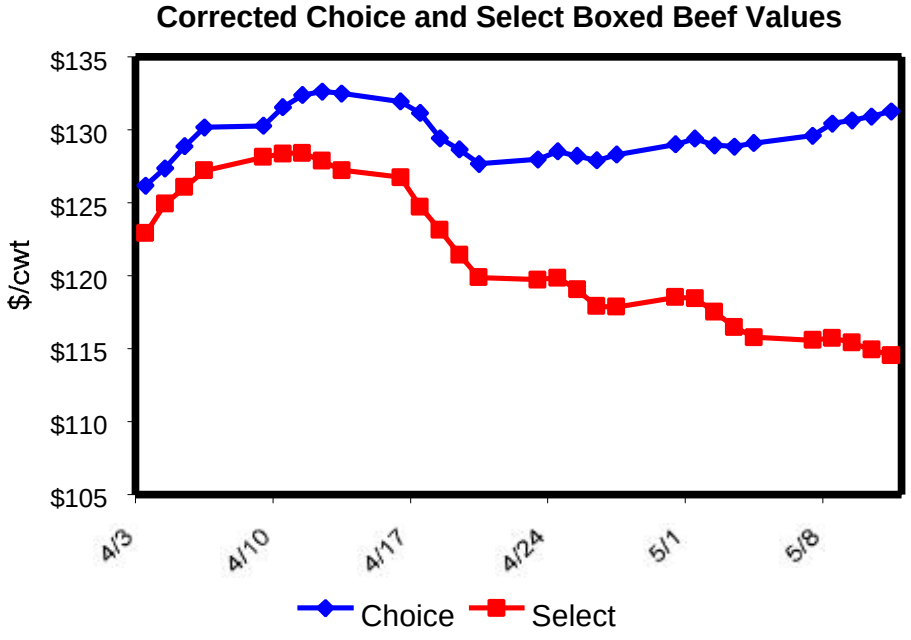


June 1, 2001 Ames, Iowa Econ. Info. 1815

BOXED BEEF PRICE REPORTING ERROR

In mid-May, USDA admitted that they had reported boxed beef prices incorrectly since April 3 when Mandatory Price Reporting took effect. The errors were caused by a mistake in a computer program calculating the boxed beef prices based on prices reported on primal and sub-primal cut data. The prices were reported correctly to the USDA, but in the haste to implement MPR and the concerns about other aspects of the new reporting system, the errors were undetected for six weeks. The USDA has since released the corrected prices and we are now able to compare the first report with the corrected prices.

The calculation error occurred due to including prices for ungraded (no-rolls) in the calculation of both Choice and Select prices. In general, no-roll prices are $2/cwt or more below the Select price. At the start of the period, early April, there was relatively little difference in the price of Choice and Select (and thus no-roll) cuts, and they followed similar trends (Figure 1). However, as the demand for Choice cuts increased with featuring for Memorial Day and the percent of cattle grading Choice decreased as we started on the spring 2000 calf crop, the Choice – Select price spread widened as it typically does, but the reported prices did not reflect this change. More specifically, prices for Choice middle meats (ribs and loins) increased relate to those of Select (Figure 2) but the calculated composite boxed beef price did not increase and the problem was recognized.



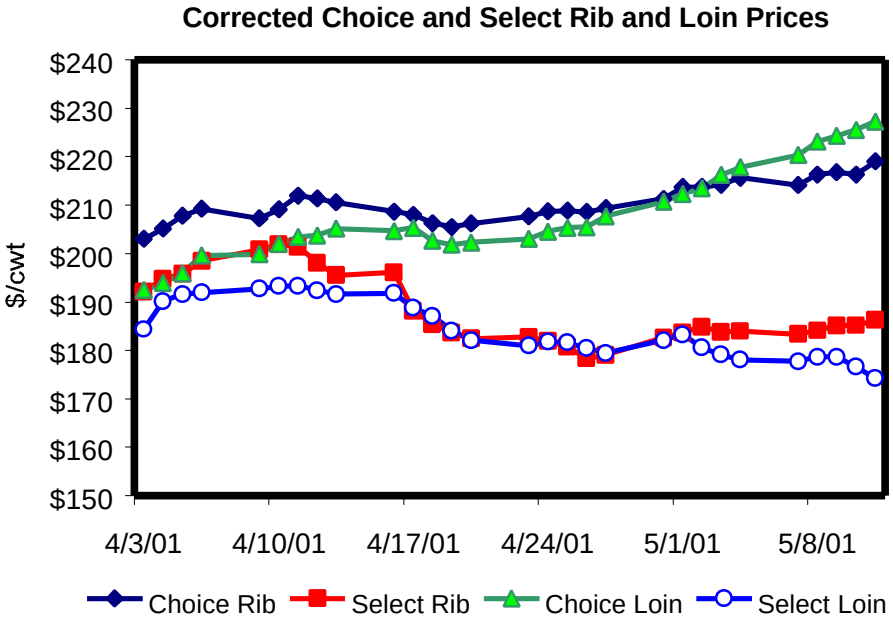


Table 1 also suggests that the error misrepresented the middle meats the most. Notice that the error on Choice rib sections and loins was much larger than on the Select grade of the same cuts. Also, the errors on the chuck and round were smaller.

Table 1. Average Corrected Boxed Beef and Selected Primal Cut Price Reporting Error, Corrected - First Report.

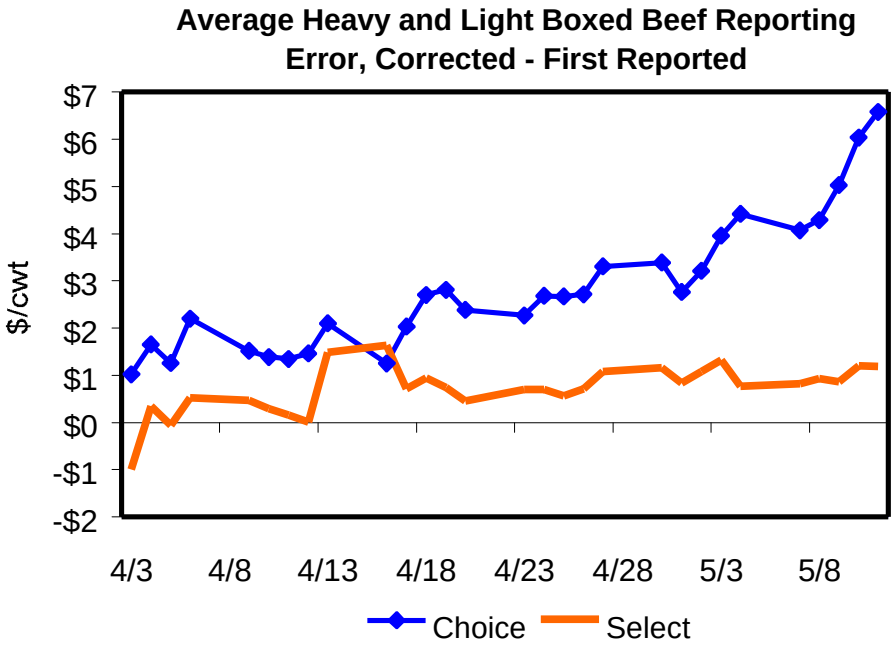
	Choice Light	Choice Heavy	Choice Average	Select Light	Select Heavy	Select Average
Boxed Beef	2.80	2.90	2.85	0.83	0.60	0.71
Rib Section	9.10	5.86	7.48	2.15	0.51	1.33
Chuck	0.38	0.11	0.24	0.36	0.06	0.21
Round	1.61	1.34	1.47	0.84	0.68	0.76
Loin	5.94	8.77	7.36	1.47	1.84	1.65

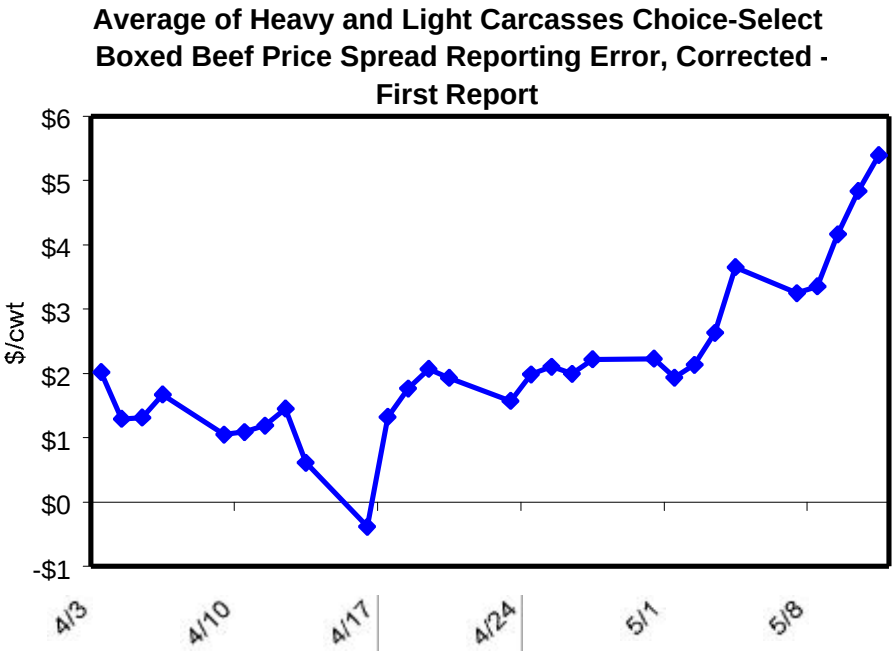
Light = 600-750# carcasses, Heavy = 750-900# carcasses

The magnitude of the error and the impact on producers depend on when the cattle were sold. Cattle sold in early April probably experienced relatively little impact whereas cattle sold in mid-May were impacted more because the Choice price was underreported (Figure 3). However, producers selling cattle that graded a lower percent Choice may have been impacted less because the Choice-Select spread was also underreported. Therefore, the discount on Select grading cattle was smaller than what the corrected values would indicate it would have been.

What's Next???

Using other agencies (World Board, NASS, ERS, etc), USDA is conducting an internal review of the reporting procedures and the impacts of the error. The National Cattlemen's Beef Association is also evaluating the implications of the reporting error. It is unclear at this time if, or to whom any compensation will be paid. It is difficult to determine the potential recipients of compensation. Will they include only feedlots that sold cattle during the time in question, or only those that sold on a grid using the Choice Select spread? Does it also include producers selling feeder cattle into a market with underreported fed cattle prices, and futures traders that liquidated a long position at lower than necessary prices?





John D. Lawrence

WILL U.S. CORN PLANTINGS BE ONE MILLION ACRES BELOW INTENTIONS?

A private forecasting firm has predicted that actual 2001 U.S. corn plantings will be about one million acres less than the March 1 planting intentions survey indicated. If correct, that would reduce potential U.S. corn supplies by around 100 to 130 million bushels from current indications, and would modestly tighten supplies for the year ahead. The 100 to 130 million bushel calculation reflects an assumption that unplanted corn acres will be well below average in productivity.

Reasons for such a shift could include: (1) additional farmer reactions to high fertilizer prices after the March intentions survey was taken, (2) reactions to high irrigation costs in some western areas, (3) delayed plantings, (4) a

substantial drop in new-crop corn prices in recent weeks, and (5) flooding out of some corn after optimum replanting dates. All of these factors are valid reasons behind possible lower corn plantings than previously indicated. But other key questions are: (1) was all of the potential planted acreage accounted for in the planting intentions survey, (2) did extremely early plantings in about 60 percent of the Corn Belt encourage farmers in those areas to plant more corn than previously intended, (3) are the areas of seriously delayed plantings large enough to cause such a shift, and (4) is a potential shift of some abandoned wheat acreage to corn taken into account? ***From a U.S. perspective, the one million acre decline in U.S. corn plantings from March and 3.9 million acres or 5% decline from last year seem a bit large.***

Corn Planting Progress, May 27

A starting point in analyzing the potential reduction in corn plantings is the May 29 Weekly Weather and Crops Bulletin from USDA and NOAA, showing planting progress by states, and comparisons with last year and normal. This information is available at: http://usda.mannlib.cornell.edu/reports/nassr/field/pcr-bb/2001/2001/crop/prog2201.txt.

By May 27, only three of the 18 major corn-producing states were behind the 5-year average in planting progress. These states were Iowa, Minnesota, and Wisconsin. Iowa was three percentage points behind normal, along with four percent for Minnesota and 11 percent for Wisconsin. Minnesota and Wisconsin both are major dairy producing states, with more flexibility to use late planted corn for silage than in other areas. Assuming that two-thirds of the Iowa corn planting deviation from normal gets shifted to soybeans, along with half in Minnesota and about 40% in Wisconsin**,** ***approximately half a million acres might shift out of corn.*** The Iowa figure allows for some drowned out areas not being replanted to corn. These numbers may represent something close to an upper limit on potential shifts out of corn. The other factor to consider is that seven major corn states reported even earlier corn plantings this year than a year ago. Some extra corn acres may have been planted in those states. Also, Dr. William Tierney at Kansas State University recently estimated that about 140,000 acres of abandoned winter wheat in his state would be shifted to corn. The USDA's June 29 planted acreage report will remove some of the uncertainty surrounding the 2000 actual planted acreage of corn and other crops. For now, we continue to use USDA's March Planting Intentions Report for acreage shown in our "most likely" B column in the corn balance sheet. Our corn and soybean balance sheets are at: http://www.econ.iastate.edu/faculty/wisner/GrainBalance/BALSheet2001.pdf.

Soil Moisture Improves Across the Corn Belt

Three to four months ago, a concern of many western Corn Belt farmers was the low subsoil moisture. Then two months ago, dry-weather concerns moved into Illinois, Indiana, Ohio, and Kentucky. However, general rains since then have raised soil moisture levels to the point where concerns are minimal. In fact, in parts of Iowa and Minnesota, the concern is with excessive moisture and delayed soybean plantings. Longer-range NOAA forecasts for the growing season point to potentially favorable crop weather for most of the Midwest, although Ohio may be drier than normal.

Soybean Planting Update

In contrast to corn, soybean-planting delays are more widespread. So far, they have not become a significant market concern because soybeans are less sensitive to planting delays than corn, and can be planted later than corn. In Iowa, if bean plantings are delayed beyond the first few days of June, there is concern that yield potential may start to decline substantially. Soybean planting progress through May 27 is shown at: http://usda.mannlib.cornell.edu/reports/nassr/field/pcr-bb/2001/2001/crop/prog2201.txt

Twelve of the 18 major soybean producing states showed planting progress to be ahead of to well ahead of normal on May 27. Exceptions were Iowa, the Dakotas, Minnesota, and Wisconsin. This week's rains suggest that progress likely will continue to lag well behind normal for this Upper Midwest region in the June 4 report. If rapid planting progress is not made next week, significant negative yield effect on soybeans would seem likely for this region for the last 35 to 45% of plantings. Planting delays in this area make total U.S. soybean planted acreage a bit more uncertain than earlier. Current indications are that plantings will at least equal the March intentions, and could be 0.5 to 0.8 million acres above the intentions. If so, that would push potential 2000-01 soybean supplies a little above those indicated in our balance sheet.

Export Inspections

Cumulative corn export inspections through May 24 totaled 1,317 million bushels, down 8 % or 108 million bushels from a year earlier. **To reach USDA projections, corn exports from now through August 31 will need to average 16 percent above a year earlier**. China continues to be a competitor in world corn markets, although not as aggressively as

earlier. Its exports and Far East buyer reactions to StarLink problems will be major influences on whether exports reach current USDA projections. Export performance so far this marketing year suggests the current projection may be a bit optimistic.

Soybean export inspections through May 24 totaled 883 million bushels, up 7 % or 57 million bushels from a year earlier. **To reach USDA projections, soybean exports from now through August 31 will need to average 24 percent below a year earlier**. Large exports from South America will contribute to the expected decline, but with strong demand for soybeans in China, and with the EU ban on use of animal proteins in feed, actual exports may be above current USDA projections.

Perspective on U.S. & South American Production

New-crop Iowa soybean forward contracting bids a few weeks ago dropped to levels not seen since late 1972; in other words, they were at the lowest level in nearly 29 years, without adjustment for inflation. A major part of the decline in prices must be credited to a large increase in production in the U.S. and South America. ***Since the mid-1990s and the start of "Freedom to Farm", U.S. soybean acreage has increased by about 14 million acres or 23%. Much of the increase has come from shifts out of wheat and small grains to soybeans, and from planting of former CRP and set-aside land to soybeans.*** Over this period, Brazil has increased its soybean plantings about 6.8 million acres, along with a 9.6 million acre increase in Argentina. These add up to a 30.4 million acre increase, equivalent to nearly half of all U.S. acres planted to soybeans in 1995. ***Additionally, Brazil's average soybean yield increased by about 10% and Argentina's by about 27% over the same period, also adding to supplies.*** The large increase in Argentina's average soybean yield may be due partly to extensive use of "RoundUp Ready" soybeans, which facilitate no-till plantings and help conserve limited soil moisture that is typical in substantial parts of its Soybean Belt. This technology also may have allowed soybean production to expand into areas where production previously was not feasible.

Because of laws against planting of GMO crops, use of "RoundUp Ready" soybeans in Brazil appears to be limited mainly to the three southern-most provinces, where some seed is bootlegged in from Argentina. Some additional growth in soybean production also has occurred in Bolivia, Uruguay, and Paraguay, although production in these three countries is much less than in Brazil and Argentina. ***In Brazil, the weak currency has allowed farmers to remain competitive in world markets with very low U.S. dollar prices, despite the fact that Brazilian farmers do not receive government payments for growing soybeans, as in the U.S.*** Argentina also does not provide government payments to farmers, and its currency has been stable. Technological change appears to be a significant factor that has helped Argentina to increase its competitiveness on world markets, despite very low soybean prices.

Robert Wisner