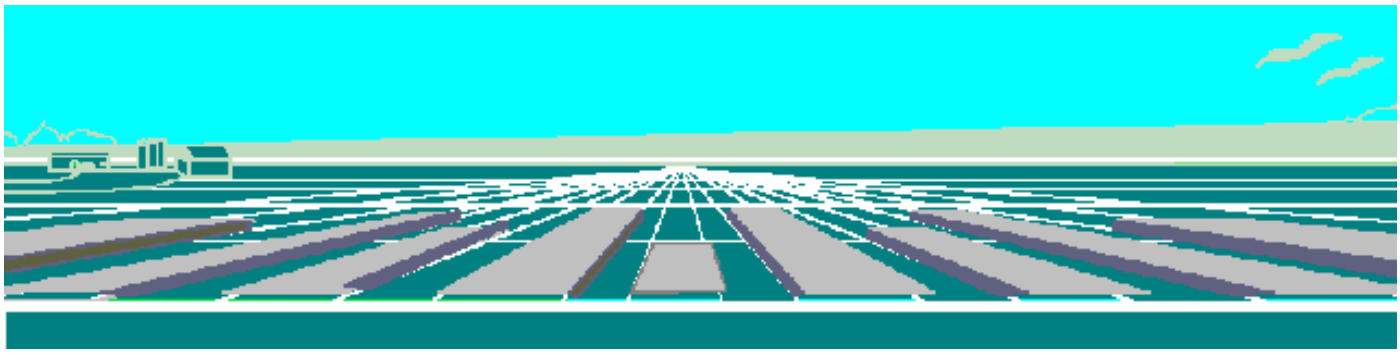

August 1, 2001 **Ames, Iowa** **Econ. Info. 1819**

CATTLE INVENTORY CONTINUES DECLINE

USDA estimates there were 105.8 million head of cattle on farms and ranches July 1 (Table 1). This figure is one percent less than the year before and the smallest mid-year count since 1990. Total cow inventory was unchanged and beef cow numbers were off nearly one percent from a year before. The number of beef replacement heifers was two percent lower than July 2000 and the lowest value since at least 1973 and likely beyond; thus, herd rebuilding is not on the near horizon. The U.S. cattle and cowherd will most likely post another year-to-year decline in the January 2002 report extending the current cattle cycle to 13 years long and counting.

Table 1. USDA July Cattle Inventory and % change from July 2000.

	Million Head	% Chg.
Cattle and Calves	105.8	-0.7
Cows, Heifers Calved	43.0	-0.2
Calved Beef Cows	33.8	-0.6
Calved Milk Cows	9.2	1.1
Heifers 500+ Lbs	16.4	-0.6
Beef Replacement	4.6	-2.1
Milk Replacement	3.6	0.0
Other hfrs	7.0	0.0
Steers 500+	14.3	-0.7
Bulls 500+	2.1	-4.5
Calves <500	29.7	-1.0
Feeder cattle	51.9	-0.8
Cattle on feed	9.8	7.0
Cattle outside lots	39.4	-2.9
Calf Crop	38.4	-0.6

The calf crop is estimated at 38.4 million head, one percent below last year and the lowest since 1952. The cattle on feed inventory in all sizes of feedlots was 13.1 million head, up 7 percent from 2000 and the largest July number since 1973 or before. As a result of the shrinking calf crop and large feedlot inventory, the number of cattle outside feedlots and not kept for breeding is down 3 percent from a year ago and the smallest in recent history. Part of the increase in feedlot inventories and decrease in beef replacement is that feedlots are bidding heifers away from cowherds. There were an additional 310,000 heifers (7 percent more) on feed July 1 compared with July 2000.

The continued reduction in cow numbers suggests that feeder cattle and, ultimately, beef supplies will decline over the next year. Coupled with continued good demand for beef, fed and feeder cattle prices are expected to trend cyclically higher over the next 2-3 years.

Near Term

The July Cattle on Feed report estimated 6 percent more cattle in U.S. feedlots with 1000+ head capacity than at the same time last year. Placements were up 18 percent and marketings were down 2 percent compared with June 2000. The 7-State numbers showed a similar pattern with a 2 percent larger inventory, 20 percent larger placements, and 1 percent smaller marketings.

A portion of the larger feedlot inventory at a time of smaller calf crops is due to feeder cattle imports. January - May live cattle imports were up 18 percent or 180,000 head, but not enough to explain the 900,000 head increase in cattle on feed. Approximately 55 percent of imports were from Mexico and the remainder from Canada. Only 2-3 percent of the Canadian cattle weighed under 700 pounds at the time they crossed the boarder. The over 700 pound cattle would include heavier feeder cattle and slaughter cattle.

The lower marketings may be a leftover of the harsh feeding conditions of the winter and remain a nagging concern that feedlots may not be as current as they should be. However, cattle were grading 1 percentage point fewer Choice or better in June, and mid-July steer and heifer carcass weights were 1 pound lighter than the same week the year before. The percent of cattle Yield Grade 1 and 2 was nearly identical to that of the year before. Thus, at least in early July, the backlog was not apparent.

Figure 1 is a simple estimate of projected feedlot marketings based on placement weight. Notice that June actual feedlot marketings lagged projections, fueling the speculation of a backlog. Also note that July 2001 projections are greater than actual marketings in July 2000, enforcing the need to pick up marketings to clear the pipeline. Commercial slaughter for July 2001 was approximately 1% lower than the year before, suggesting that the industry was treading water during July. There are projected to be fewer feedlot marketings in August and September than the year before allowing feedlots an opportunity to catch up on marketings.

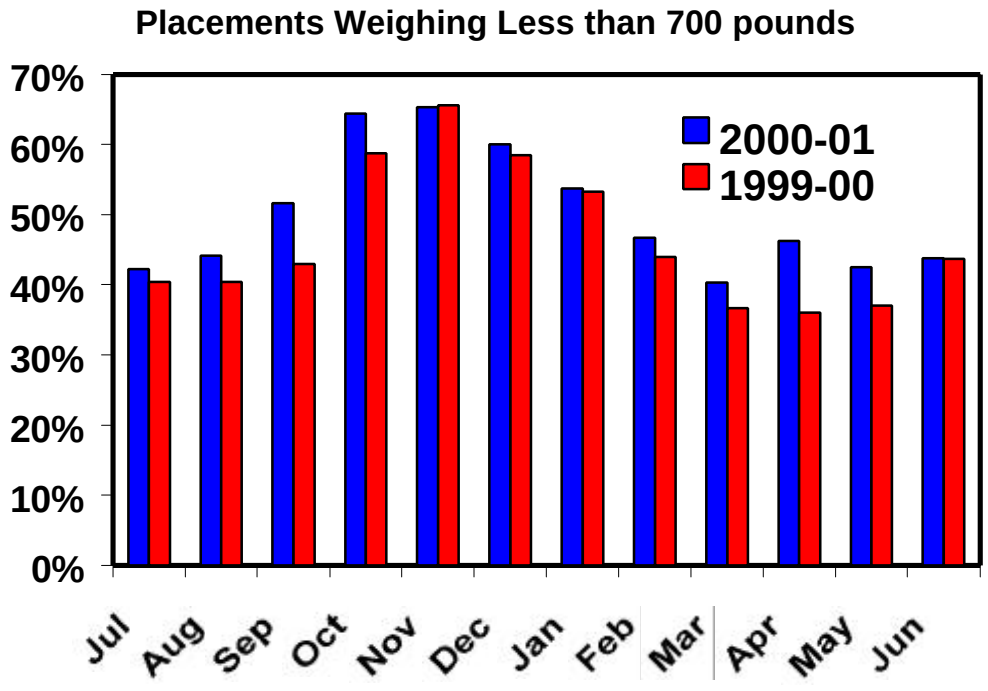

Figure 1

However, placements for marketing later in the fall appear to be building. Table 2 shows an increase in under 700 pound placements in May and June of this year and an increase in all weight classes in June. Thus the outlook for fall highs that rival the spring high may not materialize.

Table 2. Feedlot Placement by Weight Class May and June 2000 and 2001

Pounds	<600	600-699	700-799	800+	Total
May-00	382	471	794	658	2305
May-01	499	509	799	565	2372
Jun-00	347	380	498	439	1664
Jun-01	419	442	631	475	1967

During the 1991-2000 period, fed cattle prices averaged near the low through July and August with the low occurring near Labor Day. Thus, the summer low could occur in the next 45 days, and could move $2/cwt or more lower than current levels. If a backlog of cattle occurs, prices could move even lower.

Longer Term

The continued decline in U.S. cow inventories is encouraging for cattle prices long term. In particular, there is little evidence that herd rebuilding has started. Beef cow slaughter through mid-July was 9 percent higher than the same period of 2000. Heifer slaughter through mid-July was 1.6 percent lower than the year before. However, the inventory of heifers in feedlots July 1, 2001 was 310,000 (7.5 percent) higher than a year ago and near one of the highest percentage of heifers in feedlots this cycle (Figure 2).

Cowherds have not placed as high a value on the heifers as have the feedlots, and they will face a similar decision this fall. Feedlots have been placing lighter cattle than a year ago and as a result, have already placed cattle that normally would be yearlings this fall. The percent of cattle placed weighing less than 700 pounds was higher in July-October 2000 and again in April and May of 2001 compared to the previous year (Figure 3). The July Cattle report indicates approximately 3 percent fewer cattle available for placement than a year ago. As a result feedlots will aggressively bid on heifers as well as steers this fall.

Feeder cattle prices will be impacted by corn prices and feedlot profitability but still look to be higher than a year ago. Steer calves (500-600 pounds) this fall are forecast to average in the $100-110/cwt range. Similar weight heifers are expected to average within $5-7/cwt of the steers and perhaps closer given the demand from cowherds as well as feedlots. Yearlings this fall should be in the upper $80s to low $90s. Continued strength in corn prices will limit upside potential of these prices. Likewise, prolonged losses in the feedlot, if they are to occur, would also hamper feeder cattle prices.

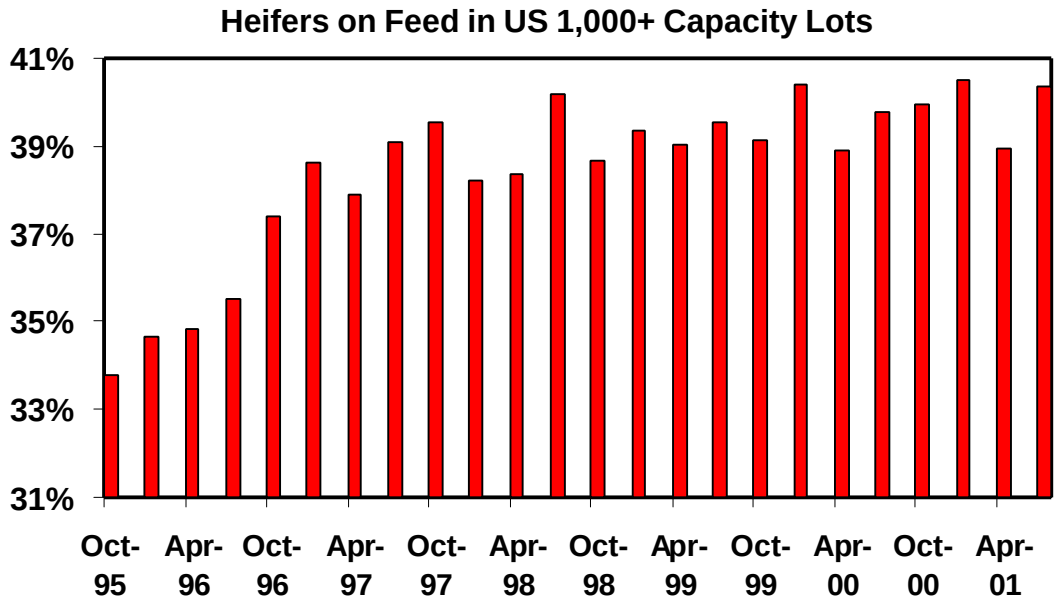

Figure 2

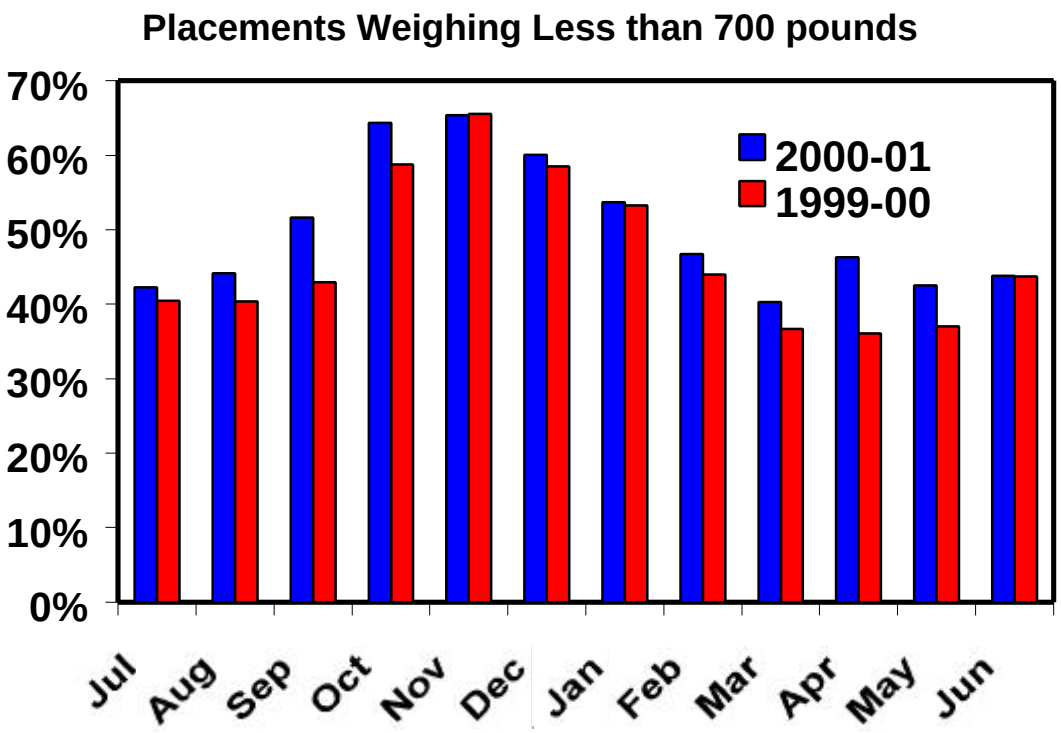

Figure 3

John Lawrence

GRAIN PRICES FOCUS ON WEATHER, IMPROVING CORN EXPORTS

Grain prices have been quite volatile in recent weeks. One writer described them as a "bungie market." Continued volatility can be expected for the next few weeks as grain traders attempt to determine the potential size of the corn, soybean, and spring wheat crops. Dominant influences on corn and soybean prices will include U.S. and Chinese weather, weekly export shipments and sales, private crop forecasts to be released in early August, and the August 10 Crop Report. Corn and soybean crops have responded positively to rains in the last half of July, but the yield potential is generally believed to be below last year's U.S. average. Current trade expectations for the U.S. average corn and soybean yields appeared to be centered around 136 and 38 bushels per acre, respectively. USDA corn yield forecasts two to three bushels either side of these yields would likely cause immediate price reaction, as would soybean yield deviations of 0.8 to 1.2 bushels per acre.

These yields indicate that a moderate decline in both corn and soybean carryover stocks is likely by August 31, 2002. That, in turn, points toward moderately increased season average corn and soybean prices vs. the 2000-01 marketing year average. However, higher prices will be at least partially offset by reduced LDPs. Our updated balance sheets, which contain supply, demand and price projections with alternative U.S. average yields, are shown at the following web site: http://www.econ.iastate.edu/faculty/wisner/

Table 1 below provides a perspective on the condition of the 2001 corn crop by major producing states, along with comparisons with other recent years of significant weather stress, and 1994 which was the last year of record yields. Numbers in the table are percentages of the corn crop rated good plus excellent by those who report to USDA's weekly survey for its Weekly Weather and Crops Bulletin. The 2001 numbers are from the July 30 issue of that report.

Table 1. Corn Crop, Percent Good to Excellent in Early August, Selected Years & States.

State	Mil. Harv. A.	% of U.S.	2001	1999	1998	1995	1994	1993
Illinois	10.8	15.5	71	56	62	49	74	86
Indiana	5.8	8.3	79	38	65	59	75	75
Iowa	11.6	16.7	64	70	68	70	98	24
Kansas	3.1	4.5	57	73	80	60	85	84
Michigan	2.0	2.8	39	68	36	79	70	70
Minnesota	6.2	8.9	42	69	78	73	84	6
Missouri	2.6	3.7	60	27	57	40	68	38
Nebraska	7.9	11.4	71	69	81	50	92	65
Ohio	3.2	4.5	61	49	72	64	72	73
Pennsylvania	1.0	1.5	52	17	68	83	78	58
S. Dakota	3.4	4.9	76	79	88	55	89	40
Texas	1.4	2.0	43	82	26	66	78	77
Wisconsin	2.6	3.8	53	77	71	74	98	46
Major States	65.7	94.8	64	63	68	61	85	53
U.S. Avg. Yield	71	100.0	?	133.8	134.4	113.5	138.6	100.7
Severely affected states:								
Percent of U.S. Harv. Acreage			32.0%	32.8%	5.1%	38.6%	0.0%	38.3%

International Developments Affecting Corn

Weekly corn exports increased in July as Japanese concern over use of StarLink corn for feed diminished somewhat and Chinese exportable supplies were reduced. Concern over Midwest crop prospects also encouraged foreign buyers to book ahead. The recent improved tone of export markets means the season total U.S. corn exports may be slightly above earlier expectations, but probably will be below that of last year (see balance sheet). China is a potential major swing factor in corn exports for 2001-02, with its exports for 2001-02 depending on the size of its crop. Although China purchased about 6.5 *million bushels* of U.S. corn last month for import this fall, it also has been selling its own corn for export in the fall quarter. In the past, China often has imported corn into its southern region, while exporting from the north. Domestic transportation limitations encourage this pattern.

Late June and July rains in major corn growing areas of North China have improved its crop prospects somewhat. Recent weather information as well as extended weather forecasts are available from the Global Weather Service link in our web site. (Go to Agriculture, then China). Also at the Global Weather Service link, the vegetation index shows comparisons of crop conditions vs. last year, based on satellite imagery. This index indicates the crops are in considerably better condition than last year, although not in ideal condition. The grain markets will be potentially sensitive to USDA World Agricultural Outlook Board projections of Chinese corn, wheat, and soybean crops in its mid-August World Agricultural Supply Demand report. The report is available through a link to our web site under "USDA World Crop Report."

USDA August 10 Crop Forecast

The August crop report will contain the first official forecast of 2001 U.S. corn and soybean production. It is based on a scientifically selected sample of actual farm fields in major producing states, along with a farmer survey of expected yields***. Because of unusually late plantings, this year's August report also will contain updated estimates of acreage planted and intended for harvest this year. Some analysts expect acreage of both crops to be slightly below the June 30 estimates.*** Over the last 20 years, the August corn production forecast has been above the final estimate 50% of the time and below it 50% of the time. Comparable figures for soybeans are 60% and 40%. ***Thus, the August forecast has tended to be a bit optimistic when compared to the final estimates.***

The drought monitor map from the National Weather Service is one of several indicators used to show the geographic extent of drought in the U.S. The latest map also is available on our web site, http://www.econ.iastate.edu/faculty/wisner/ under weather assessment/drought. It indicates some dryness has developed in northwestern and extreme southern Illinois, as well as in parts of Iowa, eastern Michigan, northeastern Ohio, Wisconsin, Kansas, southeastern Minnesota, and parts of

the South. Along with this information, weekly crop condition reports are available by clicking on the *mannlib* link under USDA World Crop Projections. Then go to WAOB and click on Weekly Weather and Crop Bulletin. The July 30 issue of this report placed 60% of the soybean crop in major producing states in the good-excellent categories, down from 66% a year ago but up from 55% a week earlier. Last year's U.S. average soybean yield is estimated at 38.1 bushels per acre, but large residual usage hints that the final number may be a little lower. Additionally, a considerable part of this year's soybean crop was planted later than normal, and much later than last year. By May 27, 70% of the soybean crop in major states had been planted, vs. 83% the previous year by that date. The greatest delays were in Iowa, Minnesota, and Wisconsin, where the growing season is shorter than in much of the Corn Belt.

Robert Wisner