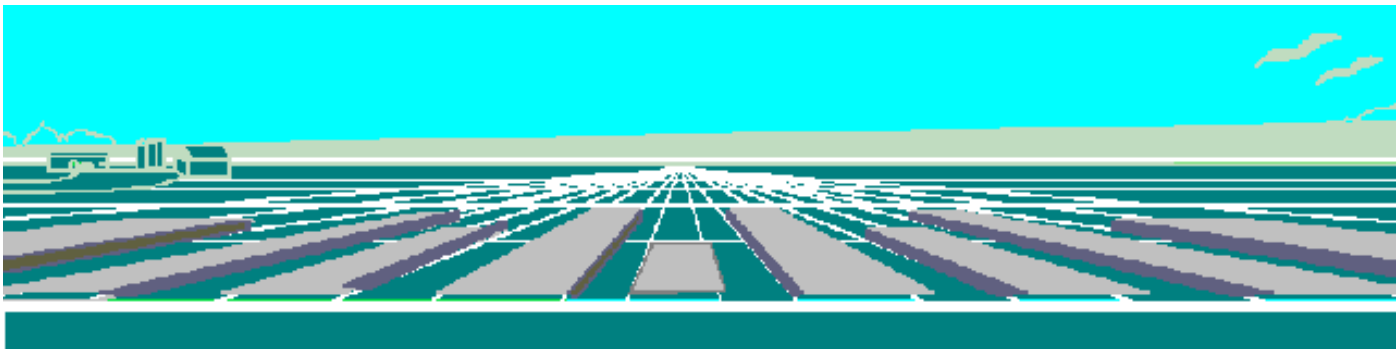

August 15, 2001 Ames, Iowa Econ. Info. 1820

CONSENSUS FORECAST

Each July for the past 13 years, Ron Plain, University of Missouri, and David Miller, Iowa Farm Bureau, have surveyed agricultural economists who do price forecasting and market analysis to obtain their opinions about the future direction of commodity markets. This year's survey included 25 members of the American Agricultural Economics Association and the results were presented at the AAEA annual meeting in Chicago August 6th. There were 11 analysts who indicated that beef and pork outlook was a major part of their responsibility. Their expert opinion is summarized in the following tables.

Beef Forecast

Beef production is expected to remain lower than the previous year through the end of 2002 (Table 1). There is some difference of opinion as the range in some quarters is quite wide, but on average, supplies are expected to decline 2.8 percent in 2001 compared with 2000, and drop another 2 percent in 2002. Fed cattle prices are forecast to average in the mid to upper $70s for the fourth quarter 2001 through 2002 (Table 2). Yearling steers (750-800 lbs at OKC) are expected to average near $90 over the same period (Table 3). The range from high to low, however, was quite wide.

Table 1. BEEF PRODUCTION

	2001			2002				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
% chg from yr earlier:								
Average	-0.9	-0.4	-2.8	-0.1	-1.3	-1.9	-2.8	-2.0
Minimum	-2.5	-5.5	-4.6	-3.3	-4.0	-4.0	-6.0	-6.0
Maximum	2.0	4.0	-1.0	2.3	2.2	1.1	0.9	2.0

Table 2. CHOICE SLAUGHTER STEER PRICE, Omaha

	2001			2002				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
$/cwt.:								
Average	71.88	74.73	75.38	78.36	78.61	74.78	77.76	77.54
Minimum	70.00	71.00	74.31	75.50	76.00	72.00	74.00	75.25
Maximum	76.00	80.00	77.00	81.00	84.00	78.00	82.00	80.00

Table 3. FEEDER STEER PRICE, Med. Frame, #1, Oklahoma City

	2001			2002				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
$/cwt.:								
Average	89.06	89.01	89.05	89.03	90.56	89.78	89.85	90.36
Minimum	84.00	85.00	87.10	85.00	87.50	85.00	83.00	85.25
Maximum	92.00	94.00	92.00	93.00	95.00	93.00	95.00	95.00

Pork Forecast

Pork production is expected to post year-over-year increases in the second half of 2001 and all of 2002 (Table 4). The expansion is expected to exceed 3 percent after the first quarter of 2002. The range in production changes were relatively close in 2002 with all analysts expecting an increase in production. In spite of larger production, the average forecast for barrow and gilt prices is still at profitable levels through 2002 (Table 5). While lower than the same quarter of the previous year, even the low forecast price is at or above breakeven for most producers, with the exception of fourth quarter 2002.

Table 4. PORK PRODUCTION

	2001			2002				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
% chg from yr earlier:								
Average	0.3	0.9	-0.1	1.9	3.1	3.6	3.2	3.1
Minimum	-3.0	-3.5	-3.0	-1.0	1.0	2.0	1.9	1.8
Maximum	2.2	3.0	1.0	3.0	4.7	5.1	5.5	4.2

Table 5. BARROW AND GILT PRICE, Iowa-Southern Minnesota

	2001			2002				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
$/cwt.:								
Average	48.75	42.45	46.57	42.20	47.76	43.68	38.41	42.95
Minimum	45.60	39.90	44.73	39.00	46.00	40.00	34.50	40.00
Maximum	52.00	46.00	48.20	49.50	51.00	51.00	45.00	49.10

John Lawrence

CROP FORECASTS: BELOW NORMAL YIELDS, TIGHTENING CORN SUPPLIES

As expected, USDA's August 10 U.S. crop forecasts placed the potential 2001 U.S corn yield moderately below a long-run trend yield. The soybean yield was slightly below a normal trend yield. With reduced corn acreage, the below-normal yield potential points to a moderate deduction in 2002 carryover stocks and a season average U.S. corn price about 16% or $0.30 per bushel above the marketing year just ending. While the U.S. average soybean yield is forecast to be slightly below the long-term trend, it is indicated to be 1.6% above that of last year. If it materializes, the 1.9% increase in estimated acreage for harvest vs. last year would have the potential to increase 2001 U.S. soybean carryover stocks slightly. Under those conditions, prices would be expected to be slightly higher than in the season just ended as the market attempts to prevent a major change in the corn/soybean price relationship. Our latest projections of corn supplies,

demands, and prices based on this information, and updated world crop estimates are shown at: http://www.econ.iastate.edu/faculty/wisner/ (Click on Balance Sheets).

Short-term price objectives for 2001 December corn and November soybean futures contracts may be the mid-July highs of $2.47 and $5.38, respectively. These prices would push new-crop fall delivery corn prices modestly above the loan rate in the Corn Belt, although cash soybean prices would remain below the loan rate in most areas. Further price strength beyond these levels might require additional deterioration in crops. ***USDA's crop condition reports from the Weekly Weather and Crop Bulletin indicate both crops have deteriorated somewhat since the survey was taken. See*** http://www.usda.gov/nass/pubs/pubs.htm (Click on Crop Weather). The August 13 report showed 57% of the corn crop in good-to-excellent condition in major states, down from 71% last year and 60% the previous week. For soybeans, the numbers were 54%, 65%, and 57%.

Historical Accuracy of August Crop Forecasts

The August corn crop forecast has had some historical tendency to understate actual yield potential. Over the last 50 years, based on an analysis by Dr. William Tierney, extension grain marketing specialist at Kansas State University, the semi-final (December-January) production estimate has been above the August corn forecast 65% of the time, and above the forecast for soybeans 60% of the time.

Over the last 20 years, however, the corn track record has been 50/50 above and below the final estimates. ***For soybeans over the last 20 years, the August production forecast has been too high 60% of the time and too low 40% of the time.*** Average differences of August crop forecasts from the final estimates over this period were 389 million bushels for corn and 108 million bushels for soybeans. Based on the performance record over the last 20 years, the chances are 2 out of 3 that the current corn production forecast would not be above or below the final estimate by more than 8.3 percent (769 million bushels). For soybeans, the chances are 2 out of 3 that the final estimate will not differ by more than 5.9% or 169 million bushels from the current forecast. ***In short, history says there is still much uncertainty about the final size of the 2000 corn and soybean crops.***

The latest crop forecasts are the first field-based forecasts for this growing season. They are based on a large sample of farmers and on USDA, NASS objective yield surveys from scientifically selected plots in actual farm fields in major producing states. The objective yield surveys are based on plant populations, plant sizes, and other yield-indicating measurements. The USDA report is based on much more extensive information than private sources, and will be the benchmark from which the grain trade adjusts production numbers from week to week in response to changing weather conditions. ***The U.S. corn harvested acreage estimate was reduced by a very slight 0.1 million acres from the June 30 estimate, along with a 0.2 million acre reduction for soybeans.*** August 10 crop forecasts were based on surveys taken the last day of July and the first day or two of August and assuming normal growing conditions the rest of the season.

Yields by State

Indicated yields for selected major producing states are shown below. Note that among these states, ***only Nebraska and South Dakota have a higher indicated corn yield than last year.*** Indiana's yield is indicated to be unchanged, while all the rest are indicated to be below 2000 yields.

Soybean yields in the mid-South are not shown here, but are indicated to be moderately above that of last year. Southeastern states are minor producers of soybeans, except for North Carolina, which is anticipating lower yields than in 2000. In the last five years, North Dakota has become a substantial producer of soybeans. Its predicted state average yield of 35 bushels per acre on its 2.27 million acres is two bushels per acre above the 2000 average yield. ***Predicted soybean yields in the table are up from 2000 in only three states: Kansas, Nebraska, and South Dakota.*** They are unchanged in Illinois, Indiana, Ohio, and Michigan, but down in the remaining states.

Table 1. August 10 USDA corn and soybean yield forecasts and comparisons with 2000 yields, in bu/acre, selected states.

	Corn		Soybeans	
	2000	2001	2000	2001
Iowa	145	141	43	42
Illinois	151	146	44	44
Nebraska	126	136	38	41
Minnesota	145	131	41	39
Indiana	147	147	46	46
Ohio	147	138	42	42
Wisconsin	132	122	40	39
Kansas	130	127	20	31
S. Dakota	112	120	35	37
Michigan	124	111	36	36
Missouri	143	132	35	32
Kentucky	130	126	39	37
Texas	124	105	27	24
U.S.	**137.1**	**133.9**	**38.1**	**38.7**

Domestic Demand Prospects

Domestic feed demand, both for corn and for soybean meal, should remain relatively strong in the year ahead, with large livestock and poultry numbers. Grain sorghum production is projected to be up 74 million bushels from last year, and will only slightly temper feed demand for corn. About half of the increase will be offset by reduced barley production. Corn processing volume is expected to increase more rapidly than the long-term growth rate due to replacement of the gasoline oxygen-enhancing additive, MTBE, with ethanol-derived ETBE. California is phasing out the use of MTBE because of its carcinogenic properties, and at this time ETBE is the only available alternative. Trade sources place California's potential increase in demand for ETBE at about 575 million gallons, equivalent to the production from approximately 210 million bushels of corn. Other states and major cities also are turning to ETBE, which will further increase the demand for corn by the processing industry.

About one-third of the volume of corn processed will be returned to feed use through by-product feeds, thus replacing unprocessed corn, as well as soybean meal. Major processors are investing in facilities for shipment of by-product feeds to major livestock feeding areas, and planned new farmer-owned ethanol plants also intend to locate where the by-product feed can be fed locally. Use of by-product feeds will have some tempering impact on the total demand for corn and soybean meal as new and expanded ethanol facilities come into production. But the net impact on corn demand should be moderately positive. Trade reports indicate the two largest ethanol processors are planning to add capacity that would translate into about 68 to 70 million bushels of additional demand for corn.

In assessing future ethanol demand, there is one caution. The state of California has begun a lawsuit with EPA, asking that the mandated use of ETBE be eliminated, thus allowing further refining of gasoline as an alternative. California has set a deadline of 2003 for phasing out the use of ETBE. If California is successful in its efforts, the lawsuit could be quite negative toward the demand for ethanol not only in California, but in other states as well. California indicates it is concerned that properties of ETBE may contribute to increased production of smog in the summer months.

Foreign Developments

USDA's world crop report lowered China's indicated feed grain production about 450 million bushels (corn equivalent) from last month, along with a 20 million bushel reduction in Argentina. Eastern Europe's indicated feed grain production was increased approximately 120 million bushels from last month, pushing potential production 580 million bushels above last year's drought-reduced level. China's 2001 feed grain crop is indicated to be about 30 million bushels below last year's drought-reduced crop. However, weather reports continue to show that rainfall has been relatively good

this summer in a large part of the major corn/soybean area. Check web site http://www.econ.iastate.edu/faculty/wisner/ for the Global Weather Service link, then go to Agriculture and to China. The site also shows vegetative condition vs. last year is much improved in a substantial part of the Chinese Grain Belt, although problems remain in some sections of the provinces bordering North Korea and around Beijing. These conditions indicate there is still much uncertainty about the exact size of Chinese corn and soybean production for this year, with some hint that the reduced crop estimates might overstate crop losses. The final crop size, of course, can still be influenced considerably by weather from now through harvest. China is offering a moderate amount of corn for export through early 2002, according to Far East grain trade sources.

Robert Wisner