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On this one-week anniversary of the disastrous events in New York, Washington, D.C., and Pennsylvania, ISU extension marketing extends its deepest sympathy to the victims, their families and friends, and to all those affected by the tragedy. Our hearts and prayers are with you and with those heroic volunteers working to save the lives of others. We pray for wisdom and strength for America's leaders and armed forces as they face the challenges presented by those who would threaten our country or its people.

## IMPACT OF SEPTEMBER 11 TRAGEDY ON LIVESTOCK PRICES

As I write this column in mid-September, it is unclear what the long-term impact on meat and livestock prices will be from the September 11 terrorist attack on the U.S. The initial reaction of the markets essentially caused no effect. Cash markets continued to function as did futures markets once they reopened. To date the fundamental supply and demand conditions for beef, pork, and other meats have not changed and the markets reflect this result.

Although we will know more as time passes, it appears that the greatest impact on cattle and hog prices may be felt through consumer spending. The rise in demand that both sectors have enjoyed since mid-1999 is, at least in part, attributed to increased disposable income. Reports on the economy in general have credited consumer spending for being the recent fuel in the economic engine as other sectors of the economy slowed. If this tragedy pushes the US economy into a recession or causes consumers to be more conservative, spending on beef and pork may slow as well.

How fast and how far the price impact might be is an open question. The recent economic growth began in the early 1990s, but meat demand wasn't measurably impacted until mid-1999. A downturn in the economy would negatively impact meat demand more quickly, but it could still be delayed. The size of the price impact is also uncertain. Our forecasting models use an income elasticity of 0.2, meaning that for each one percent change in disposable income, prices are expected to change two-tenths of a percent in the same direction. Thus, on average, we would expect a relatively small price impact. The shock of the event and the uncertainty that has been created in consumers and the economy in general may cause a bigger impact.

### Short-term Market Fundamentals

Hog prices in the near term are expected to follow their usual seasonal price pattern. Demand has shifted from loins and grilling to more emphasis on hams. Exports are sorting out the effect of triggering the Japanese pork safeguard that raised the tariff at their port. Supplies are building seasonally with larger weekly slaughter and heavier carcass weights until Thanksgiving. Cash prices declined into the mid \$40s in early September and are expected to move lower later in the year before trending higher into February.

During the 1990-1999 period, prices declined 9 of 10 years from the 35th to the 37th week (week ending September 15), an average of 6.3 percent. This year was no exception. But for the next two 2-week periods (37 to 39 and 39 to 41), prices have been mixed with 5 of the years higher and 5 years lower for both periods. However, for weeks 41 to 43 and 43 to 45, prices fell in 9 of 10 years by 6.5 and 9.0 percent, respectively. If these average trends occur, barrow and gilt prices could average near \$39 for the weekly average low of the fall.

The next quarterly Hogs and Pigs report is due out September 28 and will provide more information on possible herd expansion. The USDA initially reported the start of a breeding herd expansion in the December 2000 report. Since that time however, the expansion has not grown and in fact, breeding herd inventories have been lower than the previous year in spite of some of the largest profits in a decade. To date, pork producer have been cautious about additional growth, and the events of September 11 will add more uncertainty about the future and possibly postpone expansion plans even further.

Fed cattle prices typically put in a seasonal low near Labor Day and begin to increase seasonally in October and beyond. This year large supplies of market ready cattle and record heavy carcass weight have pushed the low price of the year later into the fall. Live prices averaged below \$70 for the week ending September 15 for the first time since November 2000 and they could move lower yet.

Dressed weights for steers that spent the first half of 2001 lower than the year before were 5 pounds over the same week of a year ago on September 1. Seasonally fed cattle dressed weights tend to plateau at their highest levels of the year from mid-September through mid-October. Thus slightly heavier weights are possible and will likely remain for a few weeks. The average slaughter weigh may reflect more cows in the slaughter mix in the coming weeks, but fed weights will be more of a function of how current feedlot marketings are.

Unless there is a substantial revision of USDA Cattle on Feed inventories, there remains a large supply of market ready cattle. Weekly slaughter topped 700,000 head for 7 weeks in May and June and for 3 weeks prior to Labor Day. There were fewer cattle harvested in 14 of the 16 weeks from early June until mid-September. While the decrease was only 189,000 head or 1.7 percent, it was at time of higher feedlot inventories.

Most analysts believe that additional weeks over 700,000 are needed to clean up marketings. Based on placement patterns and weight, the months of August and September should have had lower marketings than the year before, allowing feedlots to catch on the lower than expected marketings that occurred in June and July. This will be important as placements for October marketings predicted larger supplies than there were in 2000.

Over the 1990-99 period, Choice steer prices increased an average of 3 percent from September to December. If September averages near \$70, that would be a \$2.10/cwt price increase for the average in December. Prices in 2000 rallied over \$9, with the monthly average price increasing from \$64.38 in September to \$73.95 by December. Given the uncertainty on the demand side and the surplus on the supply side, it is unlikely that this year's market will gain as much by year-end.

**John Lawrence**

## **FOLLOWING TERRORIST ATTACK: CROP ESTIMATES, VOLATILE ECONOMY, UNCERTAIN METALS & ENERGY MARKET INFLUENCE GRAIN MARKET PROSPECTS**

News from USDA's September U.S. and World Crop Estimates was negative for grain prices for the short term. Worries about future prospects for the U.S., Japanese, and Asian economies, and disruption of a number of important New York futures markets reinforced the negative market psychology. ***Longer-term prospects for corn and wheat prices are more positive since current crop estimates point to at least a 550 to 650 million bushel (33%) decline in U.S. corn carryover stocks by August 31, 2002 and a 28% drop in U.S. wheat carryover stocks.*** At the world level, supplies of both feed grains and wheat are expected to tighten modestly in the year ahead. If the U.S. soybean crop is near the current estimate, soybean supplies also may tighten modestly in the coming year.

The September 14 crop report estimated this year's U.S. corn crop at 9.238 billion bushels. That would be down 7% or 730 million bushels from last year's harvest, ***and would be about half a billion bushels below last season's annual usage.*** However, the crop estimate was approximately 200 million bushels more than the average of pre-report grain trade estimates. Our usual forecasting methods indicate the increase from trade expectations would tend to lower the marketing year (Sept. 1, 2001-August 31, 2002) average price by about eight cents per bushel vs. pre-report expectations. The soybean crop estimate was about 2% or 64 million bushels above the 2000 harvest because of increased acreage, and a very slight 14 million bushels above utilization in the year ended August 31, 2001. The estimate also was approximately 1.4 percent or 40 million bushels above average pre-report trade estimates. That difference would be expected to push

marketing year prices down about 15 cents per bushel vs. pre-report expected production. Currently, most of the impact appears to be in the market.

U.S. corn acreage for harvest as grain is estimated to be 5% below that of last year. The U.S. average yield is now placed at 133.5 bushels per acre, down from 137.1 bushels per acre last year. Indicated yields are well above 2000 in several smaller corn producing states in the South. In the Midwest, only Indiana, Nebraska, and South Dakota have higher estimated yields than last year's semi-final estimates. States with lower indicated corn yields than last year were as follows:

	Bu./A. change vs. 2000
Iowa	-07
Illinois	-05
Minnesota	-17
Michigan	-32
Missouri	-07
Ohio	-08
Wisconsin	-10
Kansas	-03

Three states, Iowa, Minnesota, and Wisconsin, show the potential for somewhat greater than normal frost damage in case of early frosts, with the greatest risk in Wisconsin. Recent weather has accelerated the maturing process for corn in Iowa and Minnesota. Estimated percentages of the corn crop dented in these states as of September 17 and comparisons with normal were as shown below. Corn maturity in most other Midwest states was well ahead of normal.

	% dented 9/17/01	Normal % dented
Iowa	86	91
Minnesota	90	90
Wisconsin	48	74
Missouri	95	99

### Accuracy of September Crop Estimates

Over the last 20 years, the September corn crop forecast has been below the final estimate 55% of the time and above it 45% of the years. Comparable percentages for soybeans were 45 and 55, respectively. In short, the corn estimate has had a slight tendency to be slightly conservative, while the soybean crop estimate has tended to be slightly overly optimistic.

### Supply-Demand Projections

Our latest corn and soybean balance sheets, along with the latest USDA wheat balance sheet are shown at this web site: <http://www.econ.iastate.edu/faculty/wisner/index.html>. Our export and feed demand projections are slightly more optimistic than those of the USDA. With a large decline in U.S. corn carryover stocks indicated, our usual forecasting methods indicate the season average corn price for 2001-02 should be about \$0.30 higher than in the marketing year just ended. Accordingly, LDPs may be quite small or non-existent. When LDPs are available, corn growers may want to consider using FSA's 60-day lock-in procedure for at least part of the crop. Also keep in mind that on a rally in the market, the grain can be sold at the current day's price and the LDP taken at the previous day's level until afternoon the next day. Soybean LDPs appear likely to be sizeable during harvest, although not as large as in the last two years. Current supply-demand prospects indicate LDPs may decline (possibly to near zero at times) later in the year.

## Other Areas of Uncertainty

The terrorist attacks add potential volatility to grain prices in two ways: (1) possible slowing of the U.S. economic recovery and (2) through uncertainty about price behavior of commodities affected by destruction of some New York futures markets. Rebuilding the destroyed buildings and infrastructure will divert billions of dollars from other uses, and possible major changes in air travel appear likely to result in a substantial number of job closings. Calling up military reservists may cause loss of productivity in certain industries, along with reduced productivity in travel-related sectors and businesses directly affected by the World Trade Center collapse. Among other businesses, a number of large brokerage firms were headquartered there, and important records may have been lost. It is not clear how these developments will affect the grain markets, but the short-term psychological impact looks negative. A slower than expected U.S. economy would tend to delay the economic recovery in Asia, as would the lack of economic recovery in Japan. A few days before the disaster, a Japanese government report showed a decline in that nation's output of goods and services during the last quarter for which data were available. These developments, in turn, affect currency exchange rates and the competitiveness of U.S. grain, oilseeds, and other products in world markets.

## International Developments

Reports currently indicate the terrorist attack may delay China's admission to WTO, as well as passage of new U.S. farm legislation, because of the need to focus on other issues. China's soon to be implemented GMO labeling program is a serious concern to the grain trade because it has become a large import market for soybeans. There is concern that the labeling requirements may cause China to favor non-GMO soybean and meal imports from Brazil. Grain trade sources indicate Chinese importers may have built up soybean inventories during the late spring and summer to insure against problems when the labeling requirements are implemented. In other developments, India (usually an exporter of soybean meal) has had dry weather in its Soybean Belt, and its production is expected to be 15 to 18 million bushels below mid-summer estimates. Its planted soybean area is estimated to be about 3.5% above that of last year.

USDA estimates show a sharp recovery in grain production in Eastern Europe, where severe drought took a heavy toll on last year's crops. Accordingly, Hungary and Slovakia are expected to export grain in the year ahead. Better crops in the former Soviet Union also are expected to allow some republics to export modest volumes of grain. In contrast, grain production looks almost certain to be below last year in Canada and Western Europe because of weather problems. At the global level, USDA's World Agricultural Outlook Board projects a 15% decline from last year in wheat carryover stocks along with an 18% decline for feed grains. However, despite a three-year decline in global wheat stocks, the projected wheat carryover/use ratio stands at 22.6%, moderately above the 1995-96 low of 18.3%. Comparable figures for feed grains are 17.6% this year vs. 11.4% in 1995-96, along with 16.8% and 13.3% respectively, for soybeans.

## Robert Wisner