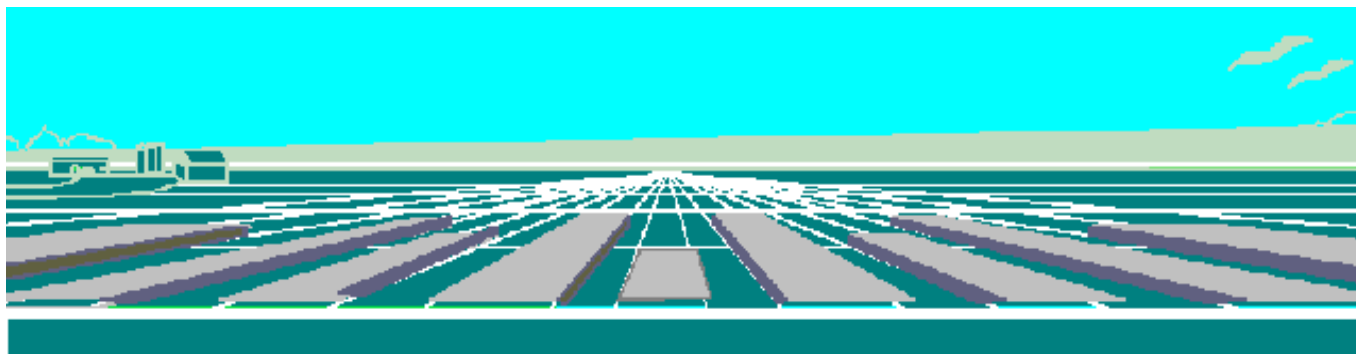


# Iowa Farm Outlook



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Ames, Iowa

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## Recent Grain Developments

March corn futures prices have trended almost steadily downtrend since mid-September, lead by disappointing export demand and slightly increased crop estimates. March 2003 futures contracts at the market close on 12/30/02 were 25 cents per bushel below mid-October. During the same period, North Central Iowa cash corn prices fall by about \$0.21 per bushel. In contrast, March soybean futures have trended irregularly higher since harvest time, but with some weakness in December. At the close on December 30, they were up 9 cents per bushel from mid-October, although January futures were up 13 cents. Over the same period, North Central Iowa cash soybean prices have risen approximately \$0.11 per bushel. ***Technical indicators suggest old-crop corn futures have found support that may provide a base for small rallies this winter and spring. March soybean futures appear to be in a trading range of about \$5.55 to \$5.77, with periods of strength depending on South American crop developments. Major strength in corn prices would likely require (1) a sustained increase in weekly export sales into the mid-forty million bushel per week range and/or (2) serious concern about 2003 U.S. crop prospects. At this writing, most reports indicate South American soybean crop prospects look favorable.***

Other developments include Japan's discovery of StarLink® corn in a shipment arriving in late December, a sharp drop in end of year corn export inspections (from a marketing year high of 47 million bushels the previous week to 18.8 million bushels), and a continued lag in corn export sales. Total shipments and sales through late December were 7% below a year earlier. This season's supplies should be large enough to sustain corn exports at or above last season's level. The total shipments and sales for soybeans were down 2.5%, although short supplies indicate the marketing year total will need to be down about 15%. The StarLink® discovery is expected to generate more stringent testing of corn at U.S. ports to prevent its reoccurrence. Barring problems with contaminated 2002 seed supplies, not much StarLink corn should be left in the marketing system. This problem, however, highlights the importance of moving corn into appropriate marketing channels if it does not have governmental approval in all markets.

## Why the disappointingly low corn prices?

Farmers and others have been puzzled at the decline in corn prices in recent months despite the sharp year-over-year decline in U.S. production and projections for a sharp decline in August 31, 2003 carryover stocks. Reasons for the disappointing prices lie partly in current farm policies. In past years of short U.S. corn crops, much of the carryover was locked in the Farmer Owned Reserve and CCC inventories. Release

prices on these stocks varied over time, but often were in the \$2.80 range for the FOR and about 20 cents higher for CCC stocks. With short crops, the grain trade knew prices would have to at least reach these release levels to bring needed old-crop grain into the market. Now, however, there are no FOR or CCC corn stocks. All supplies are available to move into the market at whatever prices farmers decide to sell at. The grain trade's view is that most of the crop will be sold by the end of summer because any long-term storage would require private financing, and economics usually have not favored such storage. Another reason for sharply higher prices with a short crop would be if rationing of use is necessary to keep from running out of corn before the new crop is harvested—as happened in 1995-96. ***Demand indicators so far, with one-third of the marketing year behind us, indicate no additional rationing of corn use will be needed beyond what is already occurring.*** Exports are lagging significantly behind the level needed to meet official projections. Sharply lower numbers of cattle on feed and slightly lower hog numbers than a year ago also point to a slowing of feed demand. So far this winter, weather conditions suggest a repeat of last year's unusually mild north central states winter is quite possible. The mild 2001-02 winter cut December-February corn feeding modestly from normal levels.

### Why the failure of the soybean rally?

For soybeans, the explanation is more related to South America. Current supplies indicate significant additional rationing of demand for U.S. soybeans will be needed to balance total use with available supplies. However, the trade expectations at this time are that good South American crop prospects, an estimated 10% increase in Brazilian soybean plantings, and a 7% increase in Argentine acreage will generate the necessary rationing from late March onward. Also, some rationing is already occurring in domestic soybean processing. Gross crushing margins in late December at Central Illinois locations were approximately 57 cents per bushel vs. 78 cents a year earlier. Weak margins have led to recent crushing plant shut-downs.

The U.S. soybean industry has operated with relatively low carryover stocks for the last few years. Respective carryover-to-use ratios were as follows, beginning with the 1999-00 marketing year and ending with current USDA projections: 10.7%, 8.8%, 7.1%, and 6.4% for 2002-03. Grain traders anticipate the projected carryover/use ratio will decline further in the January 10 supply-demand report, perhaps to around 6.0%. Any further decline in projected U.S. soybean carryover stocks would be supportive to prices and might bring short-term market strength. But with projected South American soybean stocks of around 700 million bushels on September 1, the world processing industry has not been worried about running out of supplies. As long as these competing stocks are available, low U.S. stocks could be met by a sharp decline in late August and September U.S. exports, and a temporary drop in U.S. soybean crushings. If reduced crushings bring tight domestic meal and soy oil supplies, look for pressure to temporarily boost supplies through imports from Brazil.

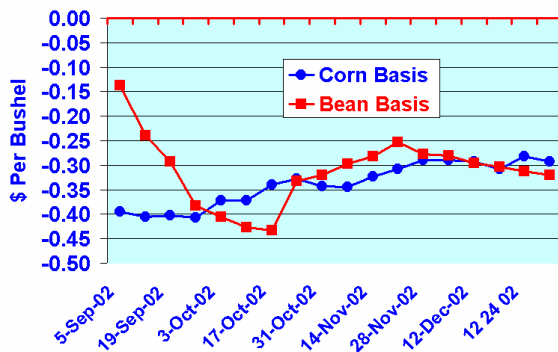
In short, the focus for potential sources of further strength in cash soybean prices probably should be more on (1) prospects for South America's spring 2003 harvest and (2) U.S. soybean acreage prospects for 2003 than on low stocks. Serious threats to production in either region would offer the potential for sharply higher soybean prices. Our latest balance sheets for corn, soybeans, and wheat are shown on our web site, <http://www.econ.iastate.edu/faculty/wisner/> they are located near the top of the right-hand column. Note that I am projecting ***a 1.3 million-acre decline*** in U.S. soybean plantings for 2003, with normal weather. Early indicators plus changes in loan rates suggest some bean acres will shift into corn and have already shifted into winter wheat. These shifts may be partially offset by a continued movement from wheat to soybeans in spring wheat areas, and by less prevented plantings in the eastern Corn Belt than last year. With a trend-line U.S. yield and this acreage (Column B), supplies would still not allow crushings and exports to recover to the 2001-02 level. Accordingly, a decline in bean prices to the low \$4.00 level or below seems unlikely for next fall. Prospects for reduced U.S. soybean plantings should temper the downward pressure on soybean prices in the spring and summer, but a good South American crop would limit upward potential.

## Counter-Cyclical Payments?

Check our web site shown above for comparisons of U.S. average corn and soybean prices so far this marketing year vs. prices needed to trigger Counter-Cyclical Payments (CCPs) in the farm program. The analysis is near the top of the left-hand column. Our analysis shows average corn prices so far this marketing year slightly above the CCP threshold price. Marketing year average prices below the CCP threshold price would generate CCPs. With the down-trending market, preliminary December corn prices were slightly below the threshold. Just the opposite was true for soybeans. December prices were modestly above the threshold price, below which CCPs would be triggered. However, the average for the marketing year was low enough that if it continued through August there would be a small soybean CCP. This analysis will be updated monthly. At this time there isn't a strong reason for expecting CCPs to be paid on 2002 corn & beans.

## Basis Developments

N.C. Iowa Corn & Soybean Basis Under March 2003 Futures



The chart below shows the North Central Iowa corn and soybean basis patterns so far this marketing year, using closing Thursday prices (or the next earlier day if the market was closed on Thursday). Note the impact of the tight carryover stocks on the soybean basis in September. As new-crop supplies became available, the basis quickly weakened. A similar pattern appears likely late next summer and fall. From harvest time to late November of 2002, the Iowa soybean basis gradually strengthened. Since then, it has weakened by about a nickel, with most of the weakness due to March futures declining relative to the January contract.

The corn basis under March futures strengthened about 15 cents from harvest time until early December, before losing about four cents by the end of the year with increased farmer marketings. Although Iowa corn supplies are large, further strength in both the corn and soybean basis appears likely into late May and summer months as out-of-state users turn more heavily than usual to Iowa supplies.

Robert Wisner

## Higher Hog Prices in 2003

The USDA released its estimates of December 1, 2002 hog inventories. The estimates were near trade expectations and indicated that herd liquidation is continuing. Weekly pork production is expected to show a year-over-year decrease in early January and stay below 2002 levels through the year. Iowa Southern

Minnesota hog prices are forecast to trend steady to higher into the summer and should exceed breakeven levels by late spring.

USDA estimated there were 58.9 million hogs and pigs on US farms December first, 1 percent less than the year before (Table 1). The market hog inventory was 52.9 million head, also down 1 percent. The breeding herd was 6.0 million head, down 3 percent and lowest December level in recent history. One quick check of the report compares slaughter since the 1<sup>st</sup> of December to the 180 pound and up category. Slaughter for the first 4 weeks of December was down 0.6 percent compared to the inventory decrease of 2 percent indicating that USDA is reporting slightly fewer hogs than we have slaughtered.

The number of sows farrowing during Sep-Nov was 2.817 million, 2.5 percent lower than the same period in 2001 and nearly identical to the estimate in the September *Hogs and Pigs* report. The Sep-Nov pig crop was also down 2.4 percent. Farrowing intentions for Dec-Feb and Mar-May were 1 and 3 percent lower than 2002 actual, respectively.

Table 1. Summary USDA December Hogs and Pigs Report  
December 2002 US and Iowa Inventories and Changes from 2001

	US 1000 Hd	% Chg 2001	Iowa 1000 Hd	% Chg 2001
All Hogs	58.94	-1.4	15.3	-0.6
Breeding Herd	6.01	-3.2	1.05	-7.1
Market Hogs	52.93	-1.2	14.25	-0.1
Under 60	19.46	-2.2	4.4	-2.4
60 - 119	12.92	0.0	3.9	0.0
120 - 179	10.74	-0.1	3.1	1.3
180 & over	9.82	-2.0	2.85	1.8
Pig Crop				
Jun - Aug	25.11	-1.1	3.654	-3.4
Sep - Nov	24.89	-3.0	3.665	-8.4
Farrowing Intentions				
Dec - Feb	2.81	-1.0	0.43	2.4
Mar - May	2.85	-3.0	0.45	-4.3

*The year of 2002 will set a new record for Federally Inspected pork production, approximately 19.45 billion pounds compared to 19.28 in 1999 and we will be close to a record slaughter number. However, 4<sup>th</sup> quarter slaughter was only slightly higher than that of 2001 and less than forecast based on the September report.*

### **Production and price forecast...**

Table 2 summarizes the forecast production and prices by quarter for 2003. In addition to the reported changes in pig crops and farrowing intentions, carcass weight, which had been lighter earlier in the fall are now heavier than the year before and are expected to continue heavier through 2003.

	Production, (% chg 2002)	Live price (\$/cwt)
Jan-Mar	-0.5	36-39
Apr-Jun	-1.5	41-44
Jul-Sep	-1.0	42-45
Oct-Dec	-2.0	35-38
2003	-1 to -2	39-42

Production is expected to be steady to 2 percent lower in each of the quarters. Prices are typically forecast based on changes from the year before. However, the Russian poultry ban and FMD scare in the spring and the panic selling in late summer resulted in lower 2002 prices than were expected. Second and third quarter prices in 2003 are forecast to be significantly higher than they were in 2002 on only modest changes in supplies.

Projected breakeven for rank and file pork producers is estimated to be in the low \$40s for the first half of 2003. Given the current forecast for prices producers are expected to see black ink in June and possibly as soon as May. Based on current information producers are expected to move back into the red next fall.

### Other factors....

Pork exports through October grew 2.9 percent compared to 2001 (exports were accelerated in 2001 due to FMD). However, pork imports also increased, up 10.1 percent from 2001. Exports to Japan, our largest market, (49 percent of US pork exports) increased 5.7 percent while our second largest market, Mexico (20 percent of pork exports) decreased 2.3 percent. South Korea posted a 73 percent growth, but accounts for only 4 percent of US pork exports.

Growth in cold storage stocks has slowed from late summer. October 31 inventories of pork were 14 percent higher than the year before and remain at a record level for October. Stocks had been 30 percent higher than the same month in 2001 earlier in the year.

Competing meat supplies, both beef and poultry, set record production levels in 2002. In addition, poultry exports dropped dramatically due to the Russian ban on US poultry March through August. The year ahead will have less beef production and increased poultry exports. As a result pork should see less competition at the retail counter.

Through the first week of December 3.68 million Canadian feeder pigs had come into the US, a 25 percent increase from the same period in 2001. The flow of pigs appears to have leveled off, at least temporarily at about 81,000-82,000 head per week. The number peaked in the first week of September at over 91,000 when weaned pigs and feeder pigs prices were very low. Given the forecast for summer slaughter hog prices and the current pig prices the southward flow of Canadian pigs is likely to continue.

### Industry Structure...

Table 3 shows the number of operations by size category for Iowa and the United States. Consistent with recent trends, the number of small producers continued to decline while the number of large producers increased. Overall, there were 6.8 and 4.8 fewer producers in the United States and Iowa, respectively.

Table 3. Number of hog operations by inventory size group on December 1, 2002 for the United State and Iowa

Size Category (Head)	United States		Iowa	
1-99	42,725	-6.7%	1,300	-13.3%
100-499	13,479	-12.5%	3,000	-6.3%
500-999	6,489	-9.9%	2,000	-13.0%
1,000-1,999	5,435	-0.6%	1,850	2.8%
2,000-4,999	4,964	3.5%	1,350	12.5%

5,000+	2,258	2.7%	500	0.0%
Total	75,350	-6.8%	10,000	-4.8%

There was widespread concern that equity losses during 2002 would drive producers from the industry. According to the report, however, the rate of exit was slower during 2002 than the previous three years. Table 4 shows a comparison of 2002 industry exit to the three previous years. In spite of a difficult year for producers, all size categories showed fewer exits in 2002 than the previous three years. In Iowa, the operations exiting the industry were entirely from operations smaller than 1000 head, as the 1,000-2,999 category gained 50 operations and the 2,000-4,999 category gained 150 operations. While some of the changes may be accounted for by operations moving from a smaller to a larger category, overall, Iowa suffered a net loss of 500 producers.

Table 4 Reduction in number of hog operations from December 1 of the previous year

	1999	2000	2001	2002	1999	2000	2001	2002
	United States				Iowa			
1-99	-14.3%	-10.1%	-3.7%	-6.7%	-17.2%	-20.8%	-21.1%	-13.3%
100-499	-16.5%	-22.4%	-12.9%	-12.5%	-22.2%	-18.4%	-20.0%	-6.3%
500-999	-18.5%	-16.3%	-7.0%	-9.9%	-31.7%	-10.7%	-8.0%	-13.0%
1000-1999	-4.8%	-9.7%	-6.8%	-0.6%	-2.0%	-8.3%	-18.2%	2.8%
2000-4999	7.2%	-6.2%	0.0%	3.5%	11.9%	-18.8%	-7.7%	12.5%
5000+	7.9%	1.9%	5.0%	3.9%	25.0%	0.0%	25.0%	0.0%
Total	-13.4%	-13.0%	-5.7%	-6.8%	-17.1%	-15.2%	-14.6%	-4.8%

**John Lawrence and Gary May**