

Iowa's Agricultural Situation

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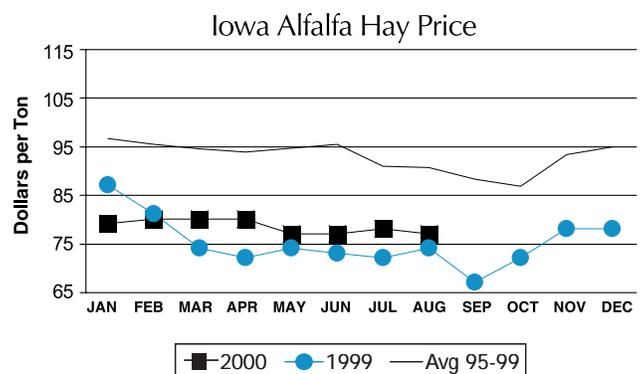
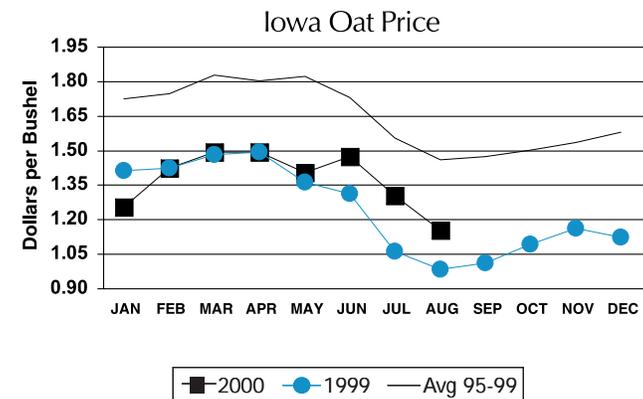
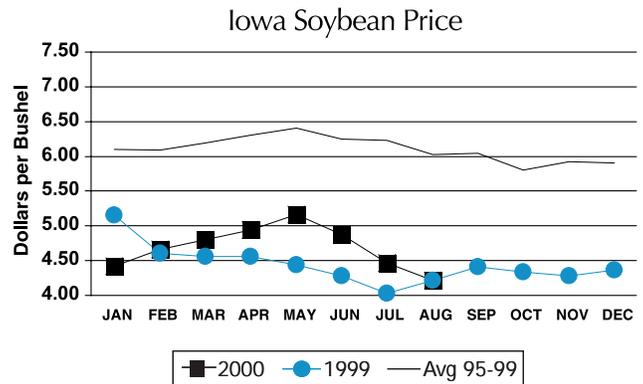
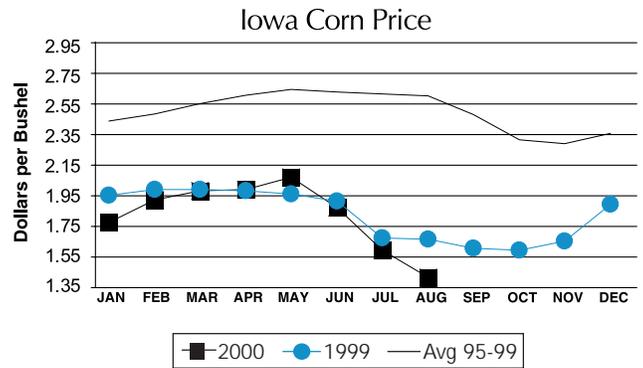
A warm and dry August, especially in the western Corn Belt, has lowered production estimates for this year's crops. These lowered estimates have resulted in a preharvest price rally that has moved prices for Iowa corn and soybeans off their mid-August lows (see charts). Excellent planting weather in the spring as well as the warm, dry August has helped crops mature weeks ahead of normal and points to an early harvest. In the livestock sector, large production streaming out of feedlots and finishing barns coupled with slipping demand has resulted in larger-than-normal seasonal price drops and, in some cases contra-seasonal price declines.

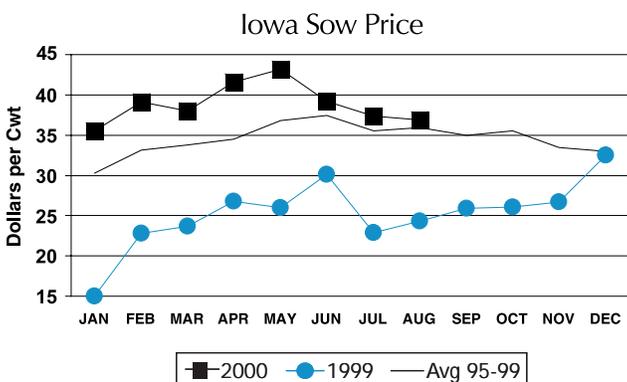
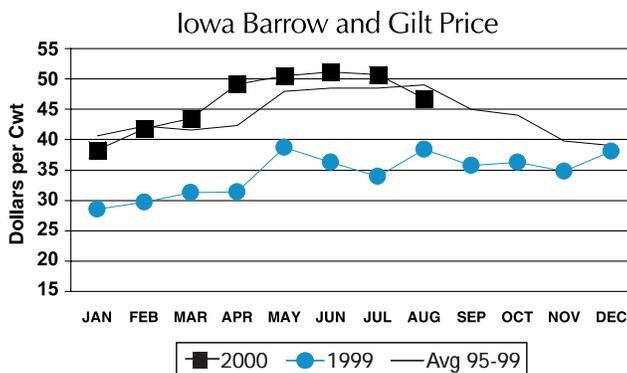
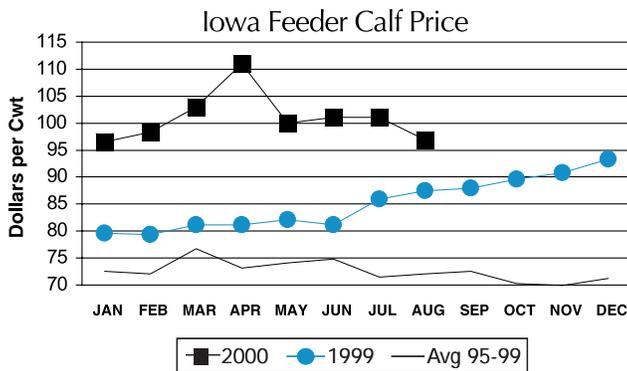
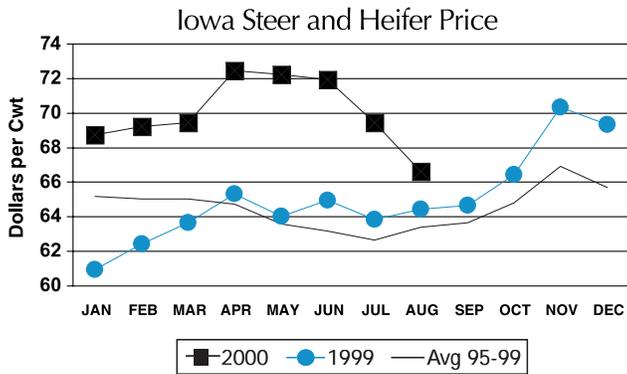
Early planting this past spring in conjunction with warm and dry August weather has speeded maturation of field crops in Iowa and the rest of the western Corn Belt. The U.S. Department of Agriculture's (USDA) September 12, 2000 *Crop Progress Report* suggested that 46 percent of the U.S. crop was mature, approximately 20 percentage points above the five-year average. The crop condition indicated that 62 percent of the crop was in good-to-excellent condition well below the July 24 report that pegged 75 percent of the crop in good to excellent condition. However, the September 12, 2000 *Crop Production Report* estimates only lowered the expected corn crop 7 million bushels, much less than the 160 million-bushel reduction many industry analysts were expecting. The same report had corn yields in Iowa estimated to average 155 bu/ac, well above trend, suggesting prices will decline seasonally as we head into a bountiful harvest. A small year-over-year decline in the world stocks-to-use ratio (see table) does not lend optimism for a large upward price move.

August weather prompted the USDA to reduce their estimate of the size of this year's soybean crop by 89 million bushels, to 2.90 billion bushels. The drop in production results from reducing the national yield 1.2 bu/ac to 39.5 bu/ac. Here in Iowa, the state average yield is predicted to be 47 bu/ac, a reduction of 2 bu/ac from August's estimate, based on the decline in the crop condition reports through August from 74 percent rated good to excellent to 56 percent. Although the news is price friendly, there is still a very large crop in the fields and a year-over-year increase in the projected world stocks-to-use ratio (see table) will dampen any price rallies as we look out over the next six months.

In the beef sector, the demand that carried the industry for the past 15 months appears to have waned in the August heat. The increase in demand helped support prices amid record production in 1999 that continued through the first half of 2000. Year-over-year larger placements of feeder cattle into feedlots returned in August, resulting in large cattle-on-feed numbers. The question that needs to be answered is, "Since

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Iowa Cash Receipts Jan. – May 2000

	2000	1999	1998
<i>(Million Dollars)</i>			
Crops	1,943	1,921	2,599
Livestock	2,520	1,855	2,093
Total	4,463	3,776	4,693

World Stocks-to-Use Ratios

	Crop Year		
	(Sept. Projection) 2000/01	(Estimate) 1999/00	1998/99
<i>(Percent)</i>			
Corn	21.02	21.30	21.22
Soybeans	15.35	14.60	17.02
Wheat	19.04	21.34	23.19

Average Farm Prices

Received by Iowa Farmers

	Aug* 2000	July 2000	Aug 1999
<i>(\$/Bushel)</i>			
Corn	1.40	1.58	1.65
Soybeans	4.22	4.47	4.22
Oats	1.15	1.30	0.98
<i>(\$/Ton)</i>			
Alfalfa	77.00	78.00	74.00
All Hay	75.00	77.00	74.00
<i>(\$/Cwt.)</i>			
Steers & Heifers	66.70	69.50	64.50
Feeder Calves	96.85	101.00	87.40
Cows	38.80	41.80	38.30
Barrows & Gilts	46.90	50.90	38.60
Sows	36.90	37.40	24.30
Sheep†	31.00	31.00	30.30
Lambs†	85.10	84.90	80.00
<i>(\$/Dozen)</i>			
Eggs	0.40	0.46	0.33
<i>(\$/Cwt.)</i>			
All Milk	12.00	12.20	12.90

*Mid-month

†Estimate

TABLE 2. AVERAGE ANNUAL GRAIN TONNAGE BY MODE, U.S.

Grains/Years	Motor	Rail	Barge	Total
(thousand tons)				
Corn	41,634.0	48,677.2	31,980.0	122,291.2
Wheat	8,760.2	48,186.6	14,574.8	71,521.6
Soybeans	28,054.0	11,295.4	16,973.8	56,323.2
Other grains	10,724.4	13,700.0	2,681.6	27,106.0
Total, 1981-85	89,172.6	121,859.2	66,210.2	277,242.0
Corn	66,132.4	62,601.4	31,997.4	160,731.2
Wheat	11,034.4	44,048.2	12,231.6	67,314.2
Soybeans	25,326.4	14,995.4	15,722.4	56,044.2
Other grains	15,543.2	15,314.6	3,318.4	34,176.2
Total, 1986-90	118,036.4	136,959.6	63,269.8	318,265.8
Corn	84,779.4	63,351.6	36,673.6	184,804.6
Wheat	13,965.8	42,872.2	13,188.2	70,026.2
Soybeans	29,789.0	15,356.2	17,632.2	62,777.4
Other grains	13,516.2	13,053.0	3,223.2	29,792.4
Total, 1991-95	142,050.4	134,633.0	70,717.2	347,400.6

STORAGE

The United States enjoys far greater grain storage capacity than Argentina. In fact, storage capacity on South American farms is virtually nonexistent. Rather than building storage facilities on the farm, most Argentine farmers prefer to invest in improved production. The current thinking among South American farmers seems to be to produce at maximum levels and rely on quicker access to market rather than storage. As a result, farmers continue to invest in technologies that improve

yield, accelerate harvesting, and facilitate delivery to the elevator.

Given this rush to deliver grains upon harvest, the worst bottleneck in commodity movement and storage throughout Argentina is that which occurs at the country elevators during peak harvest. Literally hundreds of trucks can linger for several days awaiting an opportunity to unload at the elevator. The transportation vehicles themselves serve as an important form of temporary storage. Commodities that cannot be immediately transported must often

sit exposed to the elements until a truck is available.

SUMMARY

A review of the comparative transportation and logistics systems demonstrates that U.S. agricultural shippers maintain a significant advantage over their peers in Argentina. This advantage in movement and storage capacity is substantial enough to create an overall comparative advantage in the serving of common export markets. There is evidence, however, that the gap is closing. While the U.S. has benefited from several decades of substantial public and private investment, yielding perhaps the world's most advanced logistical infrastructure, Argentina has languished from minimal development of its own infrastructure. An influx of investment from domestic and foreign sources is largely responsible for Argentina's diminishing disadvantage in movement and storage. The privatization movement has achieved great progress in a very short time. The rate of change in the Argentine logistics environment is anticipated to remain high, well into the foreseeable future. As Argentina's infrastructure develops, time-to-market and costs will be reduced simultaneously, enhancing the country's already considerable competitive position in common export markets. ♦

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we have been in the reduction phase of the cattle cycle for the past four years, with a smaller cow herd, where are all of the feeder cattle coming from?" The front-end supplies (cattle on feed more than 120 days) continue to grow along with the average carcass weights of slaughter steer, which reached 851 pounds for the first week of September. It will take

well into the fourth quarter to work through the current backlog; after that feeder calf supplies, and ultimately fed-cattle supplies, are expected to tighten as producers start to retain heifers to rebuild the cow herd. Fed-cattle prices should recover as we move toward 2001 and remain strong as rebuilding takes hold.

The pork sector is facing some of the same problems as the beef sector: slipping demand and heavy slaughter weights (brought on partially by low

feed costs), as well as the seasonal increase in slaughter that is expected to top 2 million head a week later in November and December. Although slaughter numbers are expected to stay below last year's levels, heavy weights will offset decreased volume, resulting in a production level similar to that in 1999. Live prices are expected to continue to slip through the fourth quarter before seasonally climbing toward the upper \$40/cwt. late next spring. ♦