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Corn and Soybean Conditions Deteriorate

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Cornhusker Economics

Cooperative Extension

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Market Report	Yr Ago	4 Wks Ago	8/22/03
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$83.00	$77.95	$81.46
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	63.90	97.00	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	88.98	103.94	106.60
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	101.28	119.45	126.84
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	26.75	43.00	*
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	11.53	*	25.57
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	93.85	96.69	105.20
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	73.13	*	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	161.91	182.26	180.12
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	4.01	3.34	3.69
Corn, No. 2, Yellow Omaha, bu	2.57	1.97	2.19
Soybeans, No. 1, Yellow Omaha, bu	5.40	5.44	5.99
Grain Sorghum, No. 2, Yellow Kansas City, cwt	4.63	3.70	4.11
Oats, No. 2, Heavy Minneapolis, MN , bu	2.04	1.49	1.57
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	130.00	117.50	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	90.00	57.50	63.75
Prairie, Sm. Square, Good Northeast Nebraska, ton	117.50	*	*

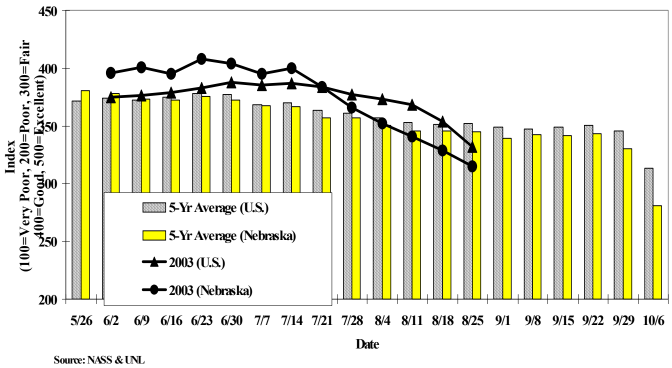
* No market.

What started out as a relatively good crop year for Nebraska rapidly changed during mid-summer. With the drought of 2002 fresh on producers' minds this spring, many were relieved to receive enough precipitation and good planting weather to get the corn and soybean crop off to an above average start. A return to hot and dry conditions across much of Nebraska and other Corn Belt states in 2003, however, has resulted in a deterioration of crop conditions and lower yield expectations.

The reduction in the U.S. and Nebraska corn crop condition using an index created from weekly condition ratings reported by the National Agricultural Statistics Service, is shown in Figure 1. An index value of 100 is equivalent to a very poor crop, whereas 500 indicates excellent crop conditions. During June and July the U.S. corn crop is, on average, rated fair to good with an index value of 360-370. The Nebraska corn crop typically is rated slightly lower based on the 1998-2002 average. In 2003 the Nebraska corn crop was rated in good condition (index = 400) until late July, well above that for the total U.S. crop. However, from July 21 to August 25 the index fell 85 points for the Nebraska crop (52 points for the U.S. crop). Corn condition ratings declined as a result of high temperatures and inadequate rainfall in many areas. This also caused USDA to lower its projection of U.S. yield by 2.8 bu/acre from July to August, putting the 2003 yield at 139.9 bu/acre. This is still slightly above trend-line yield estimates for 2003.

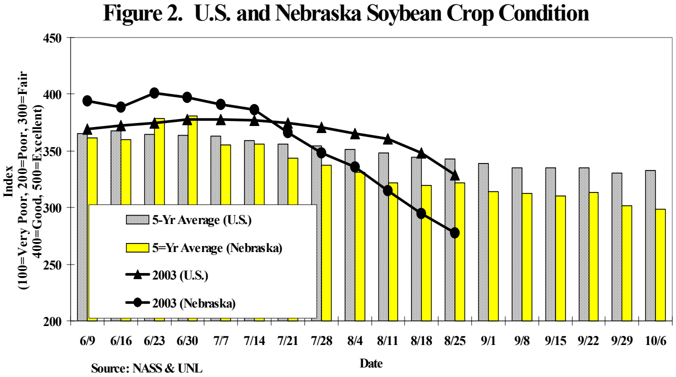
Soybean conditions have also worsened during July and August (Figure 2). At the beginning of June the Nebraska soybean crop was rated as good, well above average and above the U.S. crop. From July 14 to

Figure 1. U.S. and Nebraska Corn Crop Condition



August 25 the Nebraska and U.S. soybean condition index declined 108 and 48 points, respectively. This put the Nebraska soybeans at less than a fair rating by the end of August, a critical stage for pod filling. USDA also lowered 2003 national soybean yields from 39.7 bu/acre in July to 39.4 bu/acre in August.

Figure 2. U.S. and Nebraska Soybean Crop Condition



The good news in the midst of poorer crop conditions and expected lower yields is the potential for higher prices. New crop corn and soybean futures prices rallied at 11 percent and 13 percent respectively, from late July to late August. Further, basis levels have been relatively strong. Thus, this late-summer rally may offer producers the opportunity to forward price some of their fall grain crop. In the last months USDA raised its U.S. average farm price for corn $0.10/bu to $2.00-2.40/bu for the 2003/04 marketing year. Soybean prices for the 2003/04 marketing year are pegged at $4.55-5.55/bu, up $0.20/bu from USDA's July projection.

For livestock producers buying feed, the lower crop condition ratings and lower yield projections signal potentially higher purchase prices. Livestock feeders may want to closely monitor cash prices and consider protecting against higher prices through forward contracting or purchasing call options.

Although the decrease in crop conditions and expected 2003 yields have been dramatic and have been met with a price increase, USDA still projects a 10.1 and 2.9 billion bushel corn and soybean crop, respectively. This would be a record large corn crop and near record soybean crop. Therefore, substantial price gains may be limited and modest price rallies may offer good selling points. The variability in weather and crop conditions in localized areas suggests basis variability across locations may be higher this year. Thus, producers should closely track basis for their usual selling locations as well as other nearby areas.

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Come meet and visit with the authors of the *Cornhusker Economics* newsletter! Stop by the Department of Agricultural Economics booth at Husker Harvest Days in Grand Island, September 9, 10 and 11. We'll be located in the University of Nebraska's IANR building. See you there!!