

In The Cattle Markets

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USDA Projects Tight Feed Grain Carryover in 2007/2008

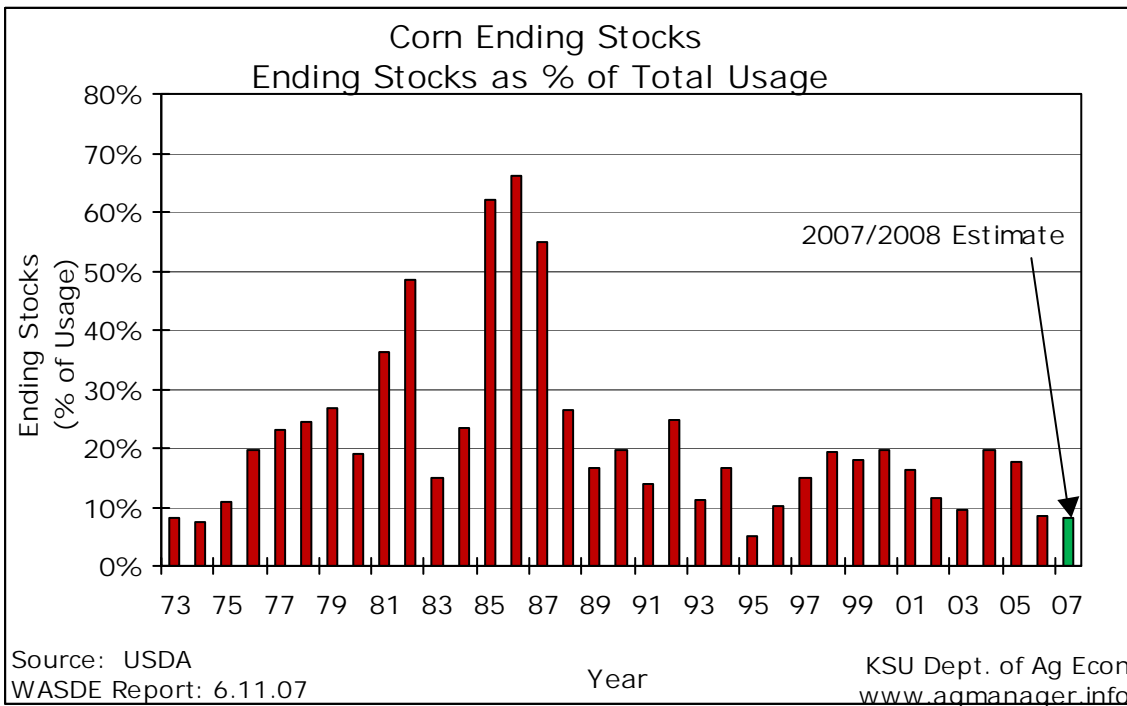
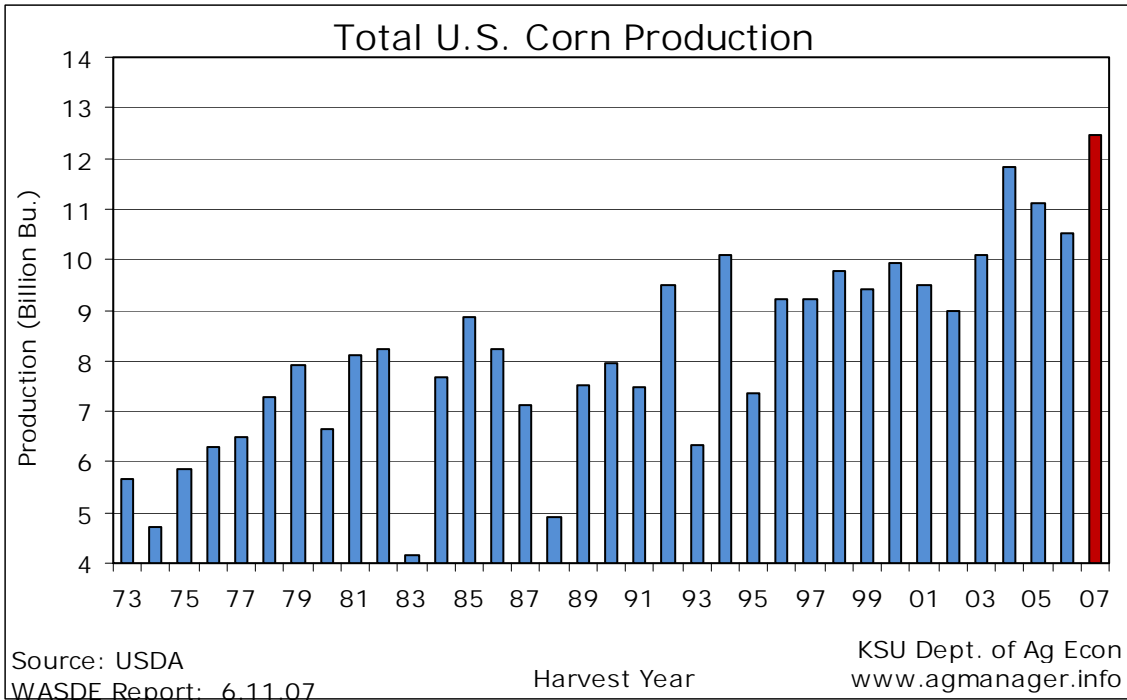
USDA released updated world agricultural supply and demand estimates on Monday, June 11th. With respect to corn, most of USDA's estimates were unchanged from a month earlier. However, USDA did issue a lower corn export forecast for the current marketing year. USDA now expects corn exports for the 2006/2007 marketing year to total 2.15 billion bushels, which is 50 million bushels less than last month's forecast. As a result, USDA now projects the U.S. corn carryover at the end of the current marketing year to total 987 million bushels, which is 50 million bushels more than the May forecast. But the big news in the USDA supply/demand report is the fact that, despite a huge increase in corn planted acreage this year, USDA still expects corn carryover supplies at the end of the 2007/2008 marketing year to be very tight by historical standards.

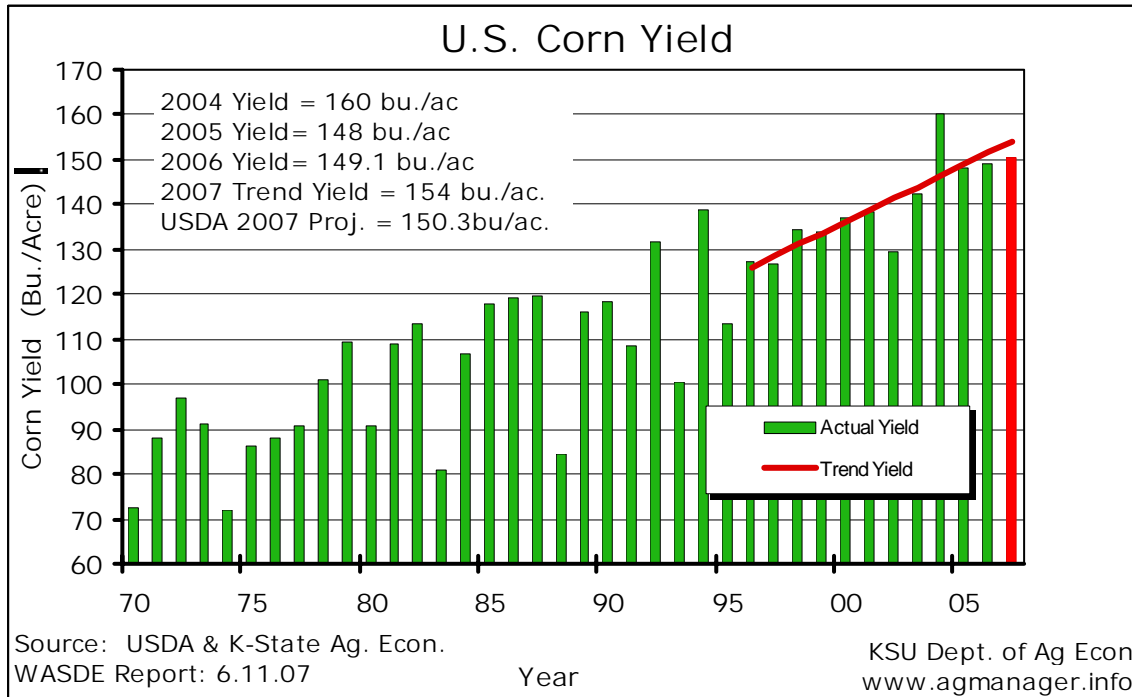
USDA's current forecast for corn production in 2007/2008 is 12.46 billion bushels, based upon planted acreage of 90.5 million acres and an average yield of 150.3 bushels per acre. Combined with an expected carryover of nearly 1 billion bushels, this means total corn supplies this upcoming year will be about 13.5 billion bushels. Although USDA expects feed usage to decline about 150 million bushels and exports to fall about 175 million bushels, both compared to 2006/2007, corn used to produce ethanol is projected to increase to 3.4 billion bushels, a 58% increase compared to the current marketing year. As a result, USDA anticipates that corn carryover supplies at the end of the 2007/2008 marketing year will once again be about 1 billion bushels. But a one billion bushel carryover at the end of 2007/2008 is actually a smaller carryover, relative to total usage, than this year.

To help put corn carryover supplies into perspective over a long period of time, it's useful to measure carryover supplies as a percentage of total corn usage in each marketing year. Examined in this context, USDA anticipates corn carryover supplies at the end of the 2007/2008 marketing year to equal about 8% of total usage, down slightly from this year when carryover supplies are projected to equal about 9% of total corn usage. So, despite a big increase in corn acreage, USDA expects the corn carryover to actually tighten a bit, relative to total corn usage, in the upcoming year.

Carryover estimates are obviously very sensitive to yields in 2007 and USDA's current projection of 150.3 bushels per acre is only slightly higher than last year's yield of 149.1 bushels per acre. What happens to the carryover if yields are higher than currently forecast by USDA? One scenario that might be worth considering is a yield of about 154 bushels per acre. This is a "trend" yield from the last decade, which some observers have argued might better capture the effect of new technology in corn production than the more conservative yield estimate used by USDA. If this yield materializes in 2007, and holding harvested acreage and usage at the levels projected by USDA in their June report, the corn carryover as a percentage of total usage will climb modestly to about 10%, which is still relatively tight by

historical standards. For corn carryover stocks relative to total usage to increase appreciably in 2007/2008, an above trend national average corn yield will be required.





The Markets

Slaughter cattle prices last week in Kansas declined nearly \$2/cwt. compared to the prior week and were \$6 to \$7 lower than a month earlier. Choice boxed beef prices averaged \$152.72 last week, down 2% compared to the prior week and about 1% lower than a year earlier. The Choice-Select spread weakened to average \$8.12/cwt. last week, a decline of \$1.16/cwt. compared to a week earlier. Feeder cattle trade volume was light at most auctions last week. Prices for feeder weight steers in Kansas declined nearly \$3/cwt. compared to a week earlier and were about \$3/cwt. lower than last year. Prices for 500-600 pound steers averaged about \$120/cwt., which was \$2/cwt. lower than two weeks ago. Corn prices on Thursday were flat compared to the prior week, whereas DDG prices in Iowa declined modestly.

	Last Week 6/8/07	Previous Week 06/01/07	Last Year 06/09/06
Kansas Fed Steer Price, live weight	\$91.01	\$92.98	\$81.10
Neb. Fed Steer Price, dressed weight	\$144.38	\$147.36	\$127.86
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$109.12	\$111.79	\$112.14
500-600 lb. Feeder Steer Price, Kansas 4 market average	\$119.90	--	\$121.70
700-800 lb. Feeder Steer Price, Neb. 7 market average	--	--	\$114.85
500-600 lb. Feeder Steer Price, Neb. 7 market average	--	--	\$134.10
Choice Boxed Beef Price, 600-900 lb. carcass	\$152.72	\$156.07	\$154.27
Choice-Select Spread, 600-900 lb. carcass	\$8.12	\$9.28	\$23.08
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.81	\$3.81	\$2.09
DDG Wholesale Price, Iowa, \$/ton	\$97.50	\$100.50	\$78.50