

## **In The Cattle Markets**

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### **USDA Acreage Report Surprises Trade**

USDA surprised the trade last week with significantly larger estimated corn planted acreage, and significantly smaller soybean planted acreage, than expected. Before the report's release most analysts expected planted corn acreage to be near, or increase slightly, from USDA's estimate released in late March. Instead, USDA's planted acreage was 2.7% larger than the planting intentions published in March. U.S. producers indicated they planted 92.888 million acres of corn, the largest corn planted acreage since 1944, nearly 19% more acres than in 2006. Importantly, USDA's preliminary estimate of harvested corn acreage increased even more, in percentage terms, than the planted acreage estimate. USDA projected that harvested acreage this fall will total 85.4 million acres, 21% more than in 2006, presumably because higher prices in 2007 will encourage corn farmers to harvest a higher percentage of this year's crop than in recent years. What do the surprisingly large planted and harvested acreage estimates mean?

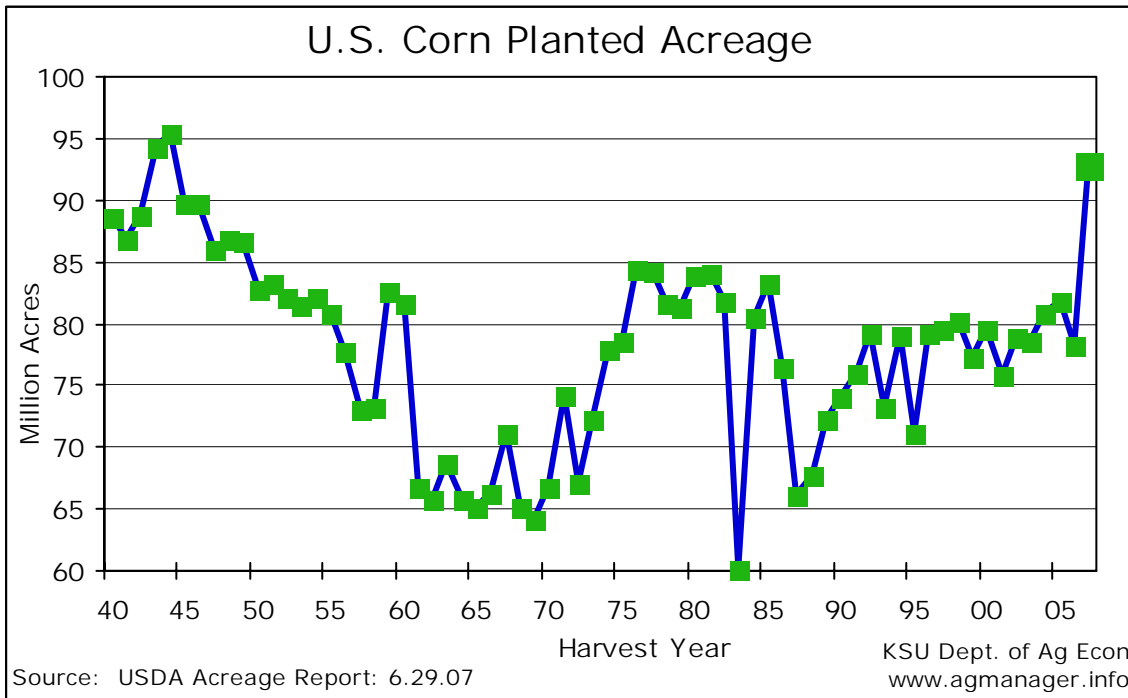
USDA did not release updated supply and demand estimates based upon last Friday's planted acreage estimate, instead USDA will release updated supply and demand estimates on July 12<sup>th</sup>. Still, it's possible to infer what the July supply and demand estimates will look like by falling back on the June demand assumptions, updated with new supply projections based on the harvested acreage estimate published on Friday and an updated yield estimate.

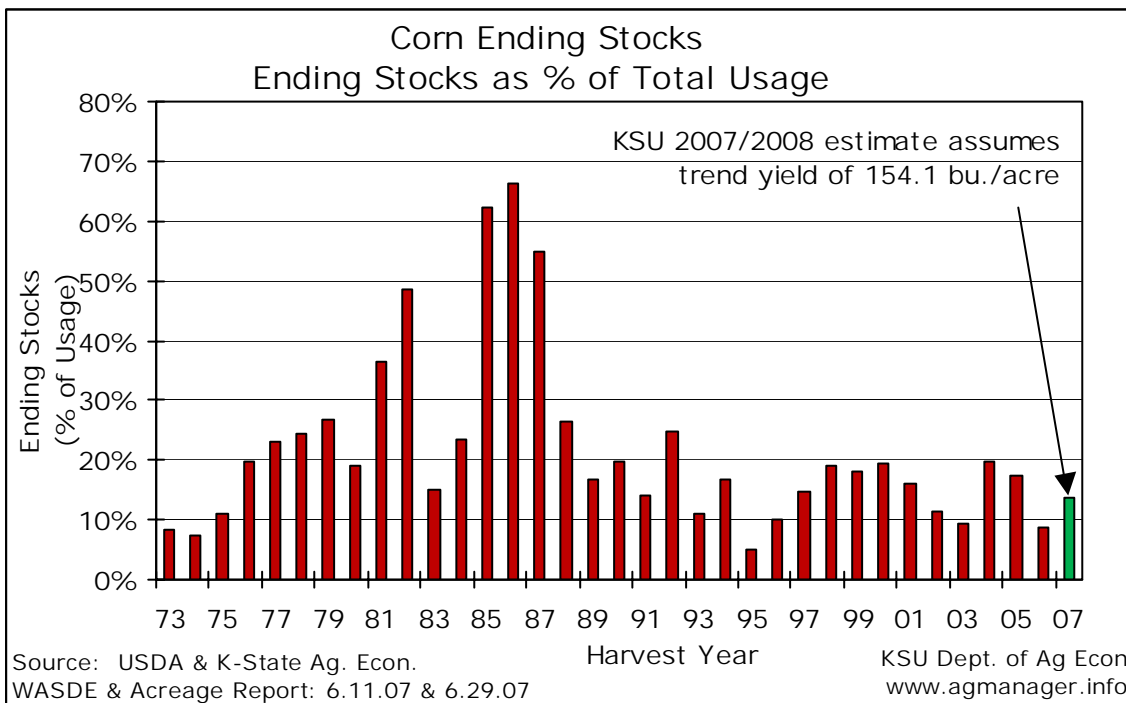
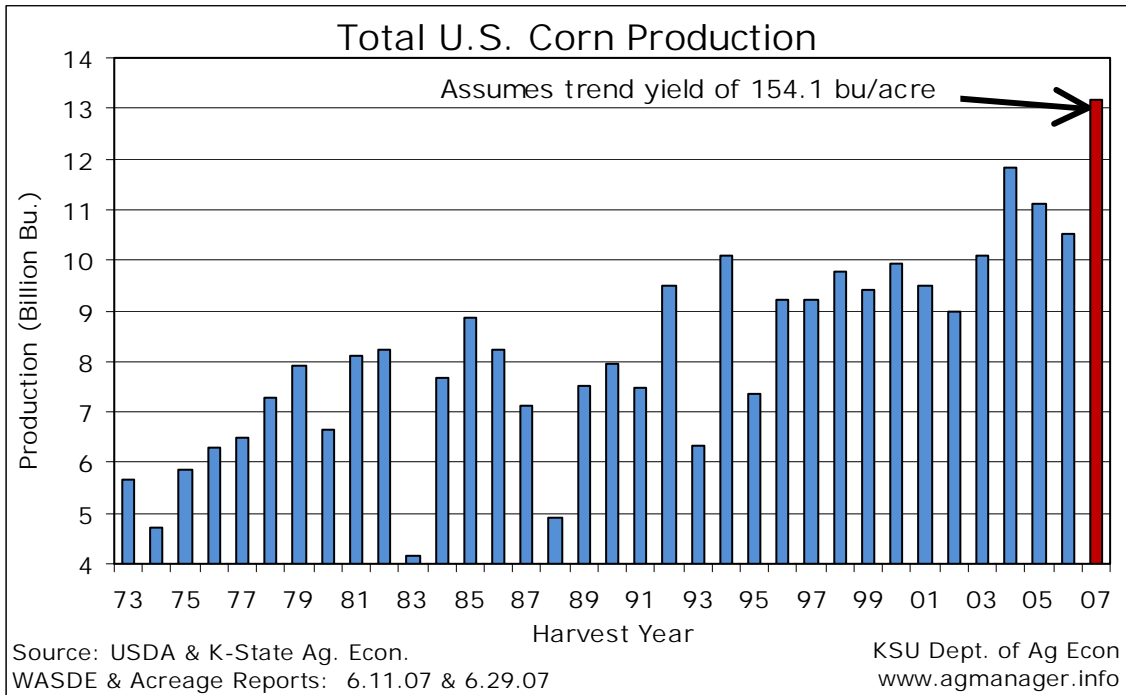
Based on USDA's estimate of 85.4 million harvested acres and a trend yield of 154.1 bushels per acre (up from USDA's June estimate of 150.3 bushels per acre), corn production in 2007 could total 13.7 billion bushels. The trend yield seems more appropriate, given recent crop condition ratings, than USDA's somewhat pessimistic estimate published last month. Combined with an expected carryover of 987 million bushels, total corn supplies in 2007/2008 could reach 14.7 billion bushels. Holding corn demand constant at the levels projected by USDA back in June implies that ending stocks at the end of the 2007/2008 marketing year will be near 1.7 billion bushels, about 72% larger than at the end of the 2006/2007 marketing year.

Since corn usage is growing rapidly, it's helpful to put carryover estimates into perspective by expressing the projected ending stocks figure as a percentage of usage and comparing the result to similar computations for previous years. Doing so reveals that ending stocks at the conclusion of the 2007/2008 marketing year, expressed as a percentage of usage, could wind up near 14%. This is up sharply from the 9% ending stocks as a percentage of usage projected by USDA in June for the current marketing year. A review of the chart of corn ending stocks as a percentage of usage reveals that the big increase in corn acreage, combined with trend yields, goes a long way toward alleviating the tight U.S. corn ending stocks situation. Truly tight carryover stock situations existed primarily in years when ending stocks as a percentage of usage fell below 10%.

What happens if yields are either higher or lower than projected? Following the same approach as outlined above and just changing the yield projections provides a reasonable starting point for assessing the impact of higher and lower yields. Yields equal to last year's level (149.1 bushels per acre) implies ending stocks in summer 2008 could decline to about 10% of total usage. If good weather conditions prevail during the rest of the growing season and yields hit the record level of 2004 (160.4 bushels per acre), ending stocks a year from now could wind up at about 18% of total usage, which is near the 2005/2006 carryover level.

What are the implications of all this for livestock producers? Nearby corn futures declined significantly the last two weeks as it appeared that 2007 corn production would be larger than seemed likely earlier in June. Since June 25<sup>th</sup>, July 2007 corn futures have declined about 25%. New crop 2007 futures have also fallen sharply, declining about 22% over the same time span. But looking further ahead, the decline in new crop 2008 futures has been smaller, totaling just 11%. Deferred futures contracts did not decline as much as nearby contracts in part because of the need to keep corn prices high enough to encourage large corn acreage again in 2008. If 2007 crop yield potential continues to improve, the projected 2007/2008 ending stocks-to-use ratio suggests there is still downside price risk. But for livestock producers, strong consideration should be given to using additional corn price weakness to accumulate long-term feed requirements.





## The Markets

Slaughter cattle prices last week in Kansas were steady compared to the prior week, but prices in Nebraska declined over \$4/cwt. (dressed weight). Kansas trade occurred primarily late on Friday afternoon, whereas Nebraska trade took place mid-week. Choice boxed beef prices averaged \$139.32 last week, down 2% compared to the prior week and about 9% lower than a year earlier. The Choice-Select spread strengthened and averaged \$7.07/cwt. last week, an increase of \$0.92/cwt. compared to a week earlier. Feeder cattle trade volume was still light at

most auctions last week. Sharp declines in corn prices the last two weeks provided strong support to feeders. Average prices for feeder weight steers in Kansas increased \$3.73/cwt. compared to a week earlier, but were about \$3/cwt. lower than last year. Corn prices on Thursday were \$0.44/bu. (12%) lower, whereas DDG prices in Iowa only declined about 2%, both compared to the prior week.

	<b>Last Week</b>	<b>Previous Week</b>	<b>Last Year</b>
Kansas Fed Steer Price, live weight	\$86.93	\$86.64	\$84.03
Neb. Fed Steer Price, dressed weight	\$132.73	\$136.82	\$131.58
700-800 lb. Feeder Steer Price, Kansas 4 market average	\$113.74	\$110.01	\$117.82
500-600 lb. Feeder Steer Price, Kansas 4 market average	--	\$118.13	\$129.79
700-800 lb. Feeder Steer Price, Neb. 7 market average	\$114.18	--	\$121.26
500-600 lb. Feeder Steer Price, Neb. 7 market average	\$135.87	--	\$139.85
Choice Boxed Beef Price, 600-900 lb. carcass	\$139.32	\$142.70	\$153.71
Choice-Select Spread, 600-900 lb. carcass	\$7.07	\$6.15	\$22.85
Corn Price, Omaha Nebraska, \$/bu (Thursday quote)	\$3.36	\$3.80	\$2.05
DDG Wholesale Price, Iowa, \$/ton	\$96.00	\$97.50	\$76.50