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Alan May

South Dakota State University

Gene Murra

South Dakota State University

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ECONOMICS COMMENTATOR

SOUTH DAKOTA STATE UNIVERSITY

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CROP CONDITION INDEX, CROP PROGRESS REPORTS

by

*Alan May
Acting Extension Grain
Marketing Specialist*

Whenever grain futures contracts and price forecasts are discussed, two things usually mentioned are the crop condition index and the crop progress report for the current week. These two reports released each week by the USDA can influence the market. The crop condition index exerts its influence through the change in the index from the previous week. The impact of the crop progress report is based on whether the crop is ahead or behind the typical 5-year average.

The crop condition and crop progress reports both are gathered by the USDA on a weekly basis during the growing season. These reports are a compilation of weekly surveys of Extension Agents, farmers, and others with first hand knowledge of the crop condition and crop progress in their respective areas in the states that are major producers of particular crops.

In the case of the crop condition report, those surveyed rate the crop in five categories: very poor, poor, fair, good, and excellent. This part of the survey is intended to rate the overall condition of the crop in terms of crop emergence, growth characteristics, impact of drought or excessive moisture, insect and/or disease pressure, etc. Data within each state are combined into a state report indicating the percent of responses in each category. The state reports then are combined into a national report that includes those states that are the major producers of a particular crop. From this national

(Continued on p.2)



LIVESTOCK SITUATION AND OUTLOOK

by

*Gene Murra
Extension Livestock
Marketing Specialist*

Some sectors of the livestock sector are receiving higher prices than a year ago, others are receiving lower prices. In this issue of the Commentator, some of the major factors for the changes are discussed. The issue concludes with a brief discussion about prices expected over the next several months.

Current Situation

Fed Cattle: As can be noted in Table 1, fed cattle prices during the mid-Summer of 1996 are a few dollars above prices received a year ago. Most of that increase can be attributed to supply, or more specifically, reduced supplies. Earlier in 1996, beef supplies were 5-6% above 1995 levels. That means a lot of beef was produced as last year was a record year with production at 25.1 billion pounds. Higher production in early 1996 contributed to lower prices then. More recently, however, fed beef supplies have dropped off, due mainly to sharply lower placements of cattle on feed. And, that is the result of higher breakevens in the feedlot caused by high corn prices.

Table 1. Livestock Prices, Mid-Summer

	1995	1996	Change
Fed Steers	Low \$60's	Mid-\$60's	+\$4
Feeder Steers (6-700 lb)	Around \$70	Low \$60's	-\$10
Slaughter Hogs	Upper \$40's	Low \$60's	+\$15
Feeder Pigs (40-50 lb)	\$30-40	\$30-40	0
Slaughter Lambs	Around \$90	Around \$100	+\$10

(Continued on p.2)

report, a very simple formula is applied to the five categories to arrive at a single number that becomes the crop condition index.

At the beginning of the growing season, the individual respondents send in the first weekly survey and continue to do so each week until the growing season is over. During that time, the trade watches the national crop index number very closely to see where it begins and which direction it goes (up, indicating improved crop condition; down, indicating deteriorating crop condition). This movement, or lack of movement, can be very influential on the grain market.

The crop progress report, on the other hand, is a simple measure of how the crop is progressing during the season. Examples would include the percent of corn silking, percent of wheat heading, percent of soybeans blooming, etc. Each week respondents to the survey indicate these percentages and the data then are combined into individual state reports and a national report. Each week this percent is reported and usually compared to the previous five year average. This will indicate whether the crop in question is progressing at a normal rate and whether it will mature at the expected time. For example, as of July 29, the progress of this summer's corn crop is approximately 15% behind the five year average. This has created some concern in the market that there may be frost damage if there is an early frost. There also are concerns about potential yield if the crop does not receive enough heat in the upcoming weeks to accelerate crop development.

Perhaps one of the more interesting aspects of the crop condition report is the comparison that is made each year with previous years' condition index performance. Past history can be a good barometer in telling us the potential yield of a crop based on the movement of past years' indices and the actual national average yield for that year. This year's corn index line would indicate we are well below the index line of 1994 (see Figure 1). Then, the final national index was around 410 with a reported national average yield of 138.6 bu/acre. This year's index is related more closely to the 1995 yield line. Then, the final index settled in at about 342 with a national average yield of 108.6. Since July 7, the 1996 corn index has stayed consistently at 360-362 with most in the trade expecting a downward movement over the rest of the growing season.

Much of this situation is true for soybeans (see Figure 2). We currently are below the final 1994 index of approximately 398 with a reported national average yield of 41.9 bu/acre. The soybean condition index

Figure 1. CROP CONDITION INDEX
CORN - US

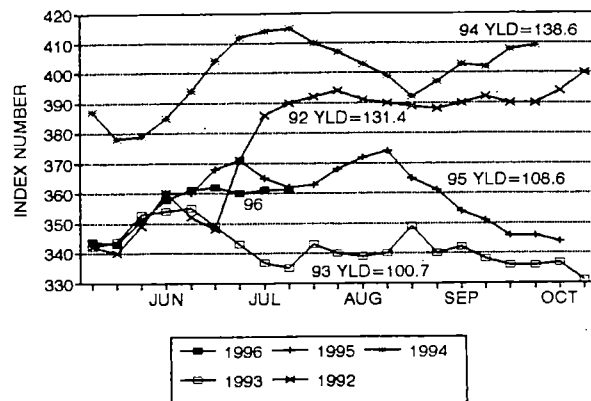
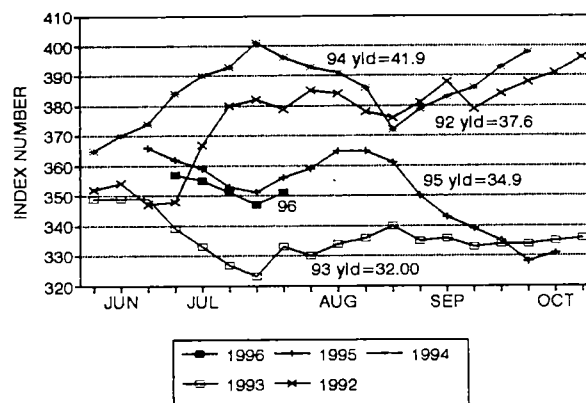


Figure 2. CROP CONDITION INDEX
SOYBEANS - US



calculated on July 29, 1996 is at 351. This would put the 1996 crop estimate closer to the low to mid 30 bushel range.

As crop condition and progress changes from week to week, the trade will pay attention to the information contained in these reports. These reports provide an indication of how a particular crop is progressing and can play a major role in the pricing of that particular commodity.

(Livestock ... cont'd from p.1)

Higher cull cow slaughter thus far in 1996 somewhat offsets lower fed cattle slaughter but not entirely. Also, continued competition from beef substitutes (pork, poultry and "grain meats") keeps pressure on cattle prices.

Feeder Cattle: Feeder cattle prices continue to run well below 1995 levels. Currently, that difference is close to \$10/cwt. Earlier in 1996, the difference was as much as \$20/cwt.

The main reason for lower feeder cattle prices in 1996 versus 1995 is the high price of corn. Feedlots have two major expenses--feed and feeder cattle. When the price of feed (corn) is high, they pay less for feeders. That has been the case for almost a year.

Feeder cattle prices would have been pressured even more this year if feeder cattle imports from Mexico had kept pace with 1995 levels. Thus far in 1996, about 500,000 fewer feeder cattle have been imported from Mexico compared to 1995. Drought forced many cattle out of Mexico last year. This year there are fewer cattle available in Mexico (sharp cull down last year). Also, lower U.S. prices have discouraged Mexican exporters.

Slaughter Hogs: Slaughter hog prices have ranged from \$10-15 above year-earlier prices for the past few months. For the first half of 1996, hog prices averaged \$52 per cwt. Last year the average was only \$40. Currently, prices are about \$15 above last year. There are two major reasons for this year's higher price--fewer hogs and excellent foreign trade. Pork exports through May were up by over 50% compared to 1995 and were double levels noted in 1994. Also, pork imports in 1996 (Jan-May) are down 14%. The result is a 220 million pound trade surplus.

Year-to-date pork production is almost 5 percent below record 1995 levels. Until last month, sow slaughter also was below last year. Some blame the heat during last Summer for lower conception rates and smaller litters. Others say that high corn prices discouraged expansion. Many small-scale producers decided it was better to sell corn than feed it. Some large-scale producers put expansion on hold as they waited for lower corn prices.

Feeder Pigs: The impact on feeder pigs from high corn prices is much the same as for feeder cattle. However, in spite of the negative price impact from corn, feeder pig prices have stayed close to that noted in 1995 mainly because slaughter hog prices and live hog futures are well above year ago levels.

Sheep: If there is a price success story for livestock in 1996, it is sheep. Sheep and lamb prices this Summer have been at record levels, close to \$120 per cwt earlier this Summer. Currently prices are closer to the mid-\$80s. The major factor is supply. Lamb production has

dropped from about 347 million pounds in 1990 to only 278 million pounds in 1995. The production pace for 1996 is somewhere in the 250 million pounds area.

Outlook

Fed Cattle: Lower supplies for late Summer and early Fall are almost guaranteed given the very low placements of cattle on feed during the late Spring and early Summer. That situation should support fed cattle prices at or above current levels (mid \$60's). While \$70 is possible, if that level is achieved it should be short lived. Futures markets currently would suggest a top this Fall in the upper \$60's.

Increased supplies (mainly from calves carried over from the 1995 calf crop) could pressure prices late in 1996 and early 1997. If cull cow marketings also increase, fed cattle prices in the lower \$60's seem probable. Prices below \$60, while possible, seem unlikely given current knowledge.

Feeder Cattle: While feeder cattle should get more help from fed cattle prices than last year, the major factor still carrying the big stick is grain. An average corn crop could allow Fall calves to be in the \$70's, not a lot different from last year. A big corn crop might allow \$80 calves while a small corn crop could mean \$60 calves. The cow-calf producer probably should not count on a lot of price improvement until late 1997 or maybe even 1998. By then, beef supplies could be cut back enough to support higher fed cattle prices and that would help feeders.

Hogs: Fall prices around \$60 and then the mid-\$50's for early 1997 still seem most likely. There has been some evidence recently that hog slaughter is lagging behind last year by enough to suggest a turn around in numbers. That would be the main reason to look for lower prices early next year compared to this Fall.

Feeder pig prices will be affected by both slaughter hog prices (now expected to be a positive effect) and corn prices (now an unknown).

Sheep and Lambs: The success story of 1996 may be tough to duplicate. Yet, there is no real reason to expect a big increase in supply. Those producers already raising sheep probably won't expand that much and there doesn't appear to be a big rush to get into sheep/lamb production. It should be remembered, however, that even relatively small increases in supply could have much bigger negative impacts on price.



SOUTH DAKOTA STATE UNIVERSITY
 Economics Department
 Box 504A
 Brookings, SD 57007

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Thank You!

Good-bye!

Best of Luck!

This is the last issue of the *Economics Commentator* that will be edited by Dr. Don Taylor. After years of loyal and skillful service to this publication, specifically, and South Dakota State University, in general, Dr. Taylor is leaving the University in order to undertake new, exciting challenges in Malaysia. We are happy for his new opportunities and wish him well in these new endeavors.

We wish to take this opportunity to sincerely thank Dr. Taylor for his excellent work and for producing a consistently informative newsletter. His dedication to this task has been appreciated very much. We will miss both his guidance of this newsletter and the friendship he has provided. The entire faculty and staff of the Economics Department wish the best for Dr. Taylor and his wife, Sally.

Also, we wish to assure our readers that the *Economics Commentator* will continue to be published. We will strive to continue to provide accurate, timely, useful information to the people of South Dakota and the surrounding region.

Again, a big ***"THANK YOU!"*** and ***"BEST OF LUCK"*** to Dr. Taylor.

ECONOMICS COMMENTATOR

EDITOR: Donald C. Taylor

ECONOMICS DEPARTMENT

South Dakota State University
 Box 504A
 Brookings, SD 57007-0895

Phone: (605) 688-4141

Fax: (605) 688-6386

E-Mail: StoverP@mg.sdstate.edu

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