WEEKLY OUTLOOK
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# FEED IS EXPENSIVE FOR LIVESTOCK PRODUCERS

THE PRICES OF CORN AND SOYBEANS have been disappointing to producers during the 1980-81 crop year. Relatively high prices were needed to mitigate the effects on farm income of the small crop in 1980, but current prices are actually below the level of a year ago. The forecasted shortage of corn and soybeans has turned into an abundance of these crops.

Part of the weakness in prices was caused by a decrease in export demand. General weakness in European economies, a strong dollar, and a large soybean crop in South America have contributed to low prices, but the primary responsibility rests with livestock feeders in the United States. Most of the adjustments to the abundance or shortage of feedstuffs is made by livestock producers. They increase the numbers and the feeding rates when production is profitable and cut back when it is unprofitable.

During the past five years there has been a tendency for livestock prices and feed costs to return to about the same relationships as in the 1960's. A weighted average price of livestock is divided by a weighted average cost of feed to obtain a profitability ratio. When feed supplies were ample in 1978-79, the profitability ratio was 101 percent of the level of the decade 1960-69. From October, 1979, through June, 1980, the ratio was 97.3, slightly unfavorable to livestock producers, but generally in balance. As crops deteriorated during the summer and prices rose, the ratio fell to 87.5 percent even though livestock prices rose 17 percent from spring to summer. For the past 12 months the ratio has averaged 81.4 percent, causing serious losses for livestock producers.

When livestock producers decide to cut the size of the herds, production in process must still be completed, resulting in a time lag. The most recent USDA estimate of grain-consuming animals for 1980-81 is down one percent from 1979-80. The estimate of high-protein-consuming animals is unchanged from the year before. However, the use of corn for feed from October, 1980, through May, 1981, was down 6 percent and the domestic use of soybean meal during the same period was down 10 percent. Feeding rates, particularly for soybean meal, were reduced.

Current crop conditions indicate an ample supply of feed during 1981-82. A moderate reduction in the output of livestock products, stronger consumer demand, and inflation should result in livestock prices being about 10 percent higher next year. If livestock prices are 10 percent higher and feeding profitability returns to 100 percent of the decade 1960-69, corn will be worth $2.90 per bushel and soybean meal will be $207 per ton. If meal is $207 per ton and oil is 28 cents per pound, soybeans will be worth $7.50 per bushel. These figures are benchmarks for evaluating corn and soybean prices.

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