

Iowa Farm Outlook

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Milk Production Weakens A Little More *Added March 5, 2008*

The 23 major dairy states produced 14.6 billion pounds of milk for Jan 08, an increase of 2.4% year over year. Dec 07 milk production was unrevised. Jan 08 milk per cow was 1743, 17 more than Jan 07. Milk cow numbers totaled 8.4 million. This was 120,000 more than Jan 07 and 15,000 more than the previous month.

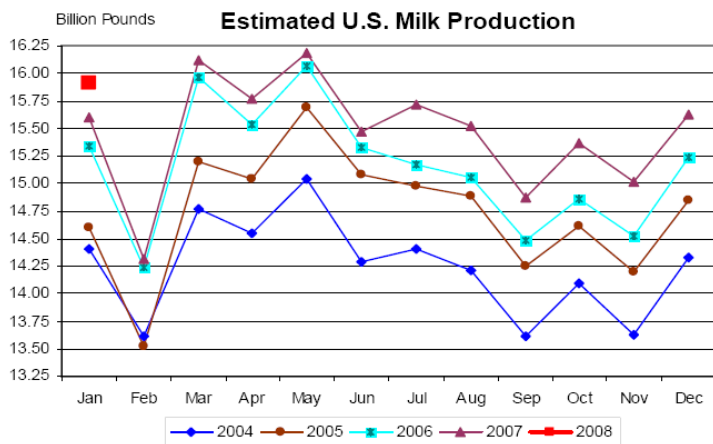
2007 US milk production totaled 186 billion pounds, 2.15% above 2006. Milk per cow for 2007 was 20,267 pounds, up 316 pounds from 2006. Milk per cow has increased 17.9% since 1998. Milk cow numbers averaged 9.16 million, 0.5% more than 2006.

Iowa milk production was flat for Jan 08 compared to Jan 07. Cow numbers increased by 6,000 year over year and 1000 from Dec 07. Total Iowa milk production was flat in the face of increased cow number because milk per cow was 50 pounds lower for Jan 08 compared to Jan 07.

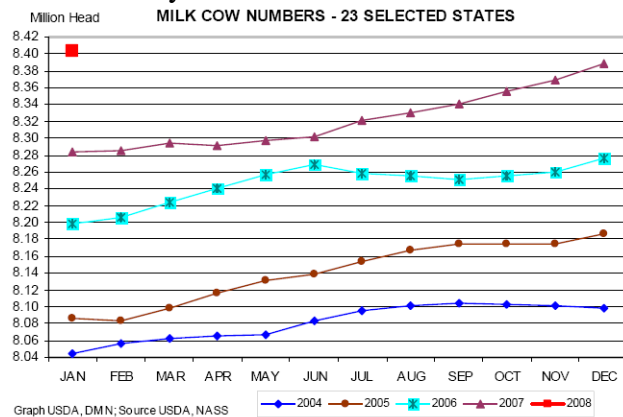
Milk Production: Selected Dairy States, January 2008

State	thousands		% change	pounds		% change	million pounds	million pounds	% change
	2007 cow numbers	2008 cow numbers		2007 milk per cow	2008 milk per cow		2007 total milk production	2008 total milk production	
Iowa	210	216	2.86%	1730	1680	-2.89%	363	363	0.00%
MN	455	463	1.76%	1635	1610	-1.53%	744	745	0.13%
WI	1245	1250	0.40%	1630	1640	0.61%	2029	2050	1.03%
IL	103	103	0.00%	1645	1615	-1.82%	169	166	-1.78%
CA	1792	1837	2.51%	1880	1900	1.06%	3369	3490	3.59%
CO	115	120	4.35%	1855	1940	4.58%	213	233	9.39%
ID	502	533	6.18%	1850	1870	1.08%	929	997	7.32%
NM	357	340	-4.76%	1690	1880	11.24%	603	639	5.97%
PA	549	552	0.55%	1640	1630	-0.61%	900	900	0.00%
NY	628	626	-0.32%	1610	1650	2.48%	1011	1033	2.18%
TX	347	360	3.75%	1780	1825	2.53%	618	657	6.31%
23-State	8284	8404	1.45%	1726	1743	0.98%	14302	14648	2.42%

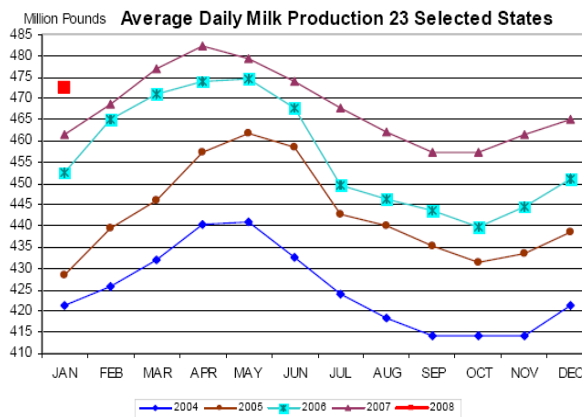
Milk cow numbers have been increasing month-to-month since April 07. Strong milk prices, even in the face of much higher feed costs, have encouraged dairy producers to keep cows and build herd numbers. Dairy cow slaughter in January was down 35,000 from December and 8000 more than January 07. Dairy cow culling is expected to increase as the all-milk price drops.



Source: Dairy Market News



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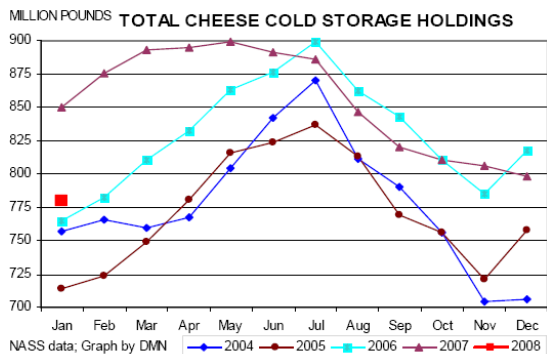
Source: Dairy Market News

Dairy Product Demand

Commercial Disappearance of dairy products for 2007 totaled 188.3 billion pounds, 2.2% year over year. This number includes about 4.64 billion pounds that were imported and about 17.7 billion exported on a milk solids basis. This was about 9.5% of US milk production. Butter consumption was +5.6%, other style cheese +3.5% and NDM +2.3%. Fourth Quarter 07 disappearance rose 2.3% year over year. Butter disappearance was +5.6%, NDM +19.1% but fluid milk consumption was flat for fourth quarter.

The January 08 CPI for food was up 4.9% year over year. Dairy foods prices increased 14% for cheese, 1.4% for butter and fresh whole milk is up 20%.

Cold storage holdings of butter on Jan 31, 20008 were + 21% from the previous month and +26% year over year. Natural cheese holdings were smaller though, 3% and 10%, compared to previous month and year.



Source: Dairy Market News

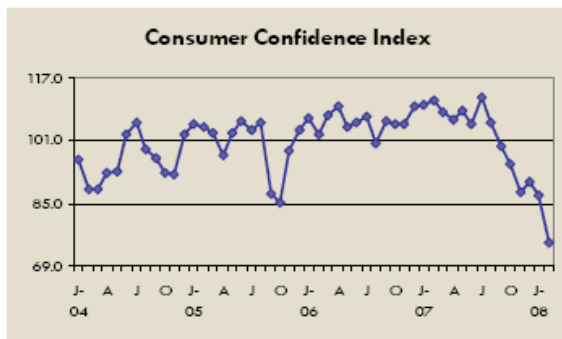
Analysis

Dairy Market News most recent comments on US milk production relates seasonally strong production. Cheese production is seasonally higher to steady also. Milk production for both Australia and New Zealand has weakened due to increased drought problems. The Australian milk production season will end sooner than usual. This leaves increased export opportunities for US dry products at the same time the US dollar is showing more weakness. Lower NDM and whey prices compared to their peaks in summer 07 will help as well.

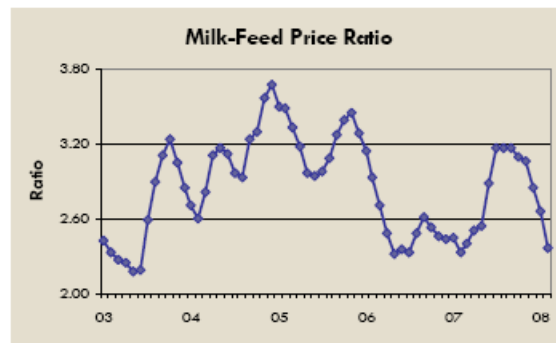
These lower prices also lead to some operating problems for cheese plants. Cheese buyers are anticipating lower future prices and with high prices, as they see them, many are only buying cheese on a “just in time” basis. During Mid-January spot cheese prices, \$1.65, were not enough to pay for the milk, over \$19, used to make it. We have seen cheese prices move up since. Export markets have helped move some cheese that US buyers were not ready to own.

The most recent milk-feed price ratio has declined further, 2.36 for February. This ratio indicates future reductions in milk production. Along with the consumer confidence index decline, Class III milk prices will probably slide further. USDA’s current 2008 all-milk price is lower than last time, \$16.85-17.55 per hundredweight. This price range is about \$1 less than the last USDA price projection.

Feed prices continue to be difficult to deal with, or maybe the uncertainty of future margins is more accurate. Milk production continues to increase but is now at rates closer to the increases in commercial disappearance. USDA’s current All-Milk price projection for 2008 is probably going to mean the same margins dairy farmers had when milk prices were \$12.



Source: Daily Dairy Report



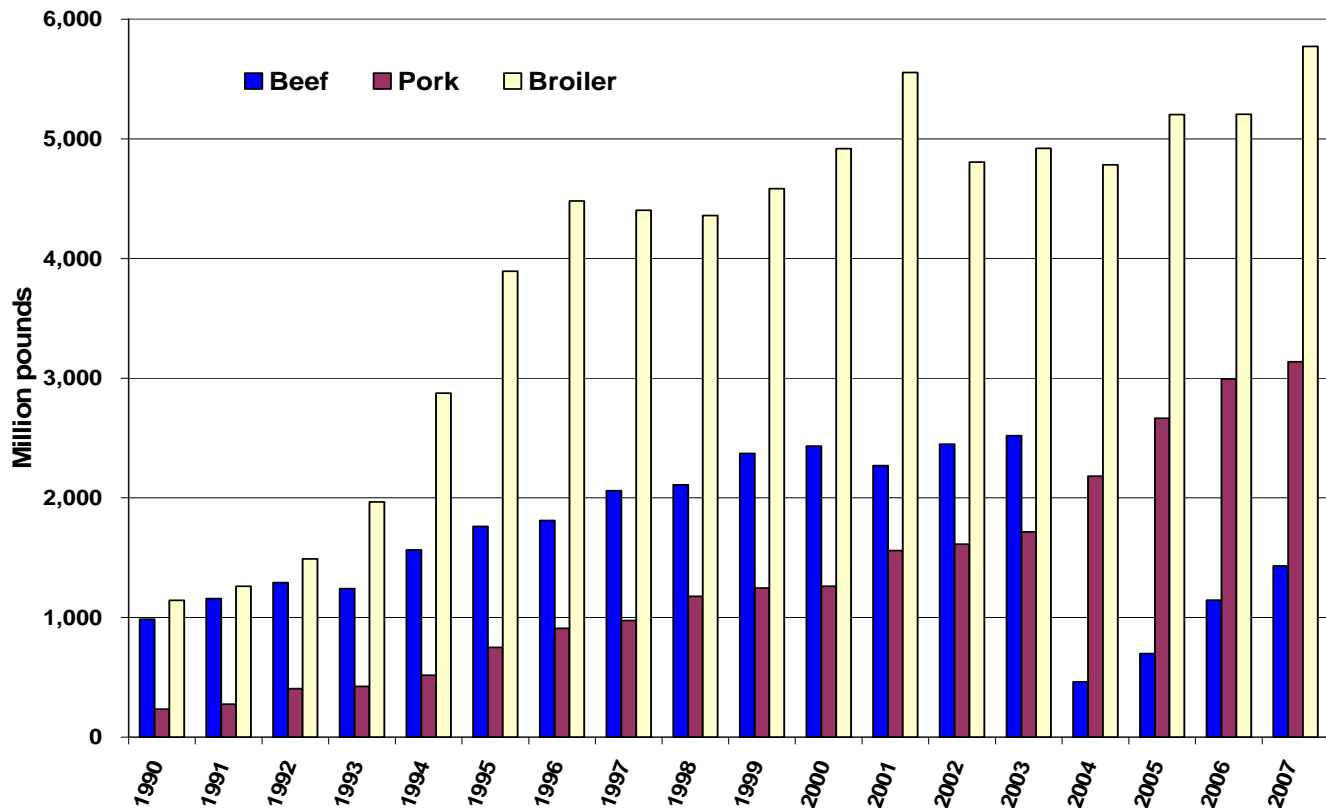
Source: Daily Dairy Report

Robert Tigner

US Meat Exports in 2007

Trade data for all of 2007 has recently become available, so it is an appropriate time to look at the current US meat trade situation. Last year was a record year for both pork and poultry exports, with 3.14 billion pounds of pork and 5.77 billion pounds of broiler meat going to foreign markets. Beef is also expanding, but even at 1.43 billion pounds it is at less than half the volume of the record high seen in 2003. Poultry exports up 10.9% compared to 2006 levels, while pork was up a modest 4.8%. Poultry exports will likely set another record in 2008. Although the trend in broiler exports has seen more up and down volatility the market conditions suggest a steady to increased demand for US poultry in foreign markets. Bird flu and other fowl diseases continue to be a concern in Asian countries. Poultry is universally popular through out the world and with a greater amount of production and consumption than any other meat. The economies and wealth of many foreign counties are also expanding, and with a weakening US dollar, there is now more money available to purchase the “cheap” US meats. Figure 1 graphs how the volume of meat exports has changed since 1990. Compared to eighteen years ago beef exports are up 42%, pork is up 1242%, and poultry is up 405%.

Figure 1. US Meat Exports, 1990-2007



In recent history pork exports have been increasing consistently, year over year. On a percentage basis, pork exports have exceeded growth in both poultry and beef. However, the growth in pork exports appears to be tapering off. Foreign demand for US pork is more likely to hit a “ceiling” than is poultry, because of cultural customs and tastes and preferences seen in foreign markets. Pork is more limited in the markets it can enter than is poultry. Although 2008 will again be a year of high pork exports, the increase may only be 3 or 4%.

Figure 2. Pork Exports 1990 and 2007

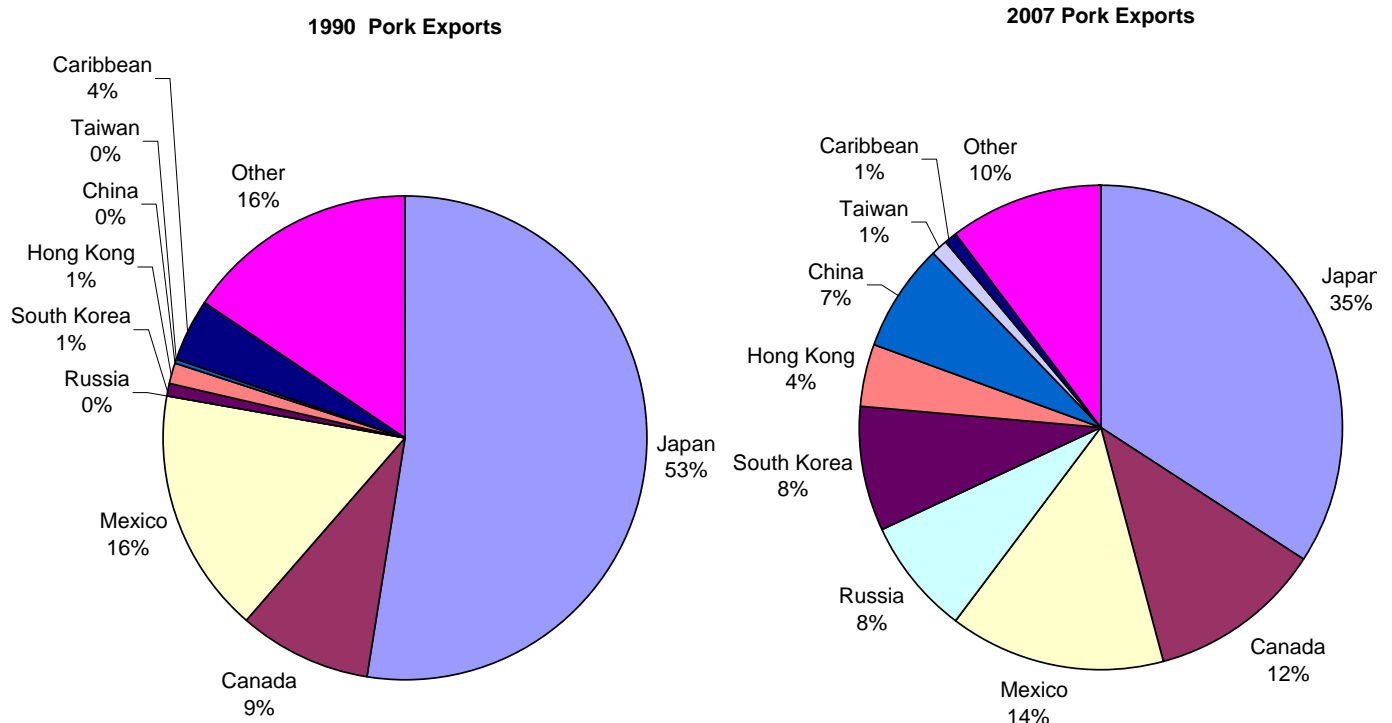


Figure 3. Poultry Exports 1990 and 2007

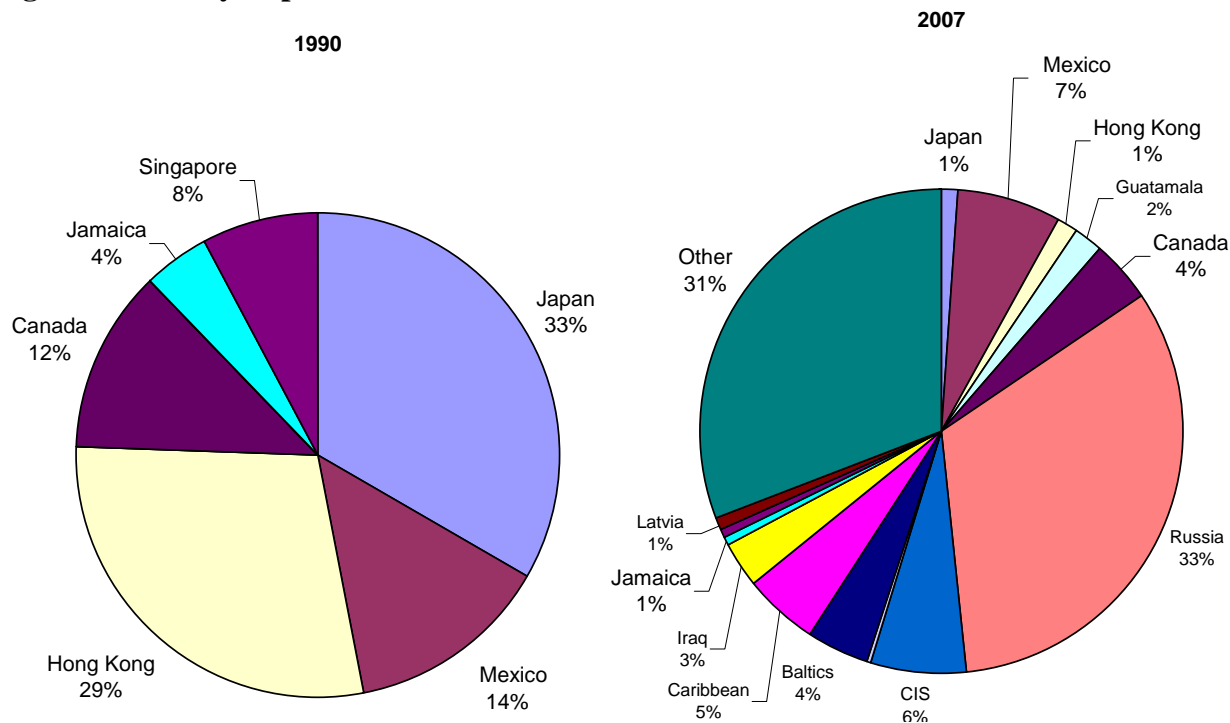


Figure 2 compares the distribution of US pork exports in 1990 and 2007. The distribution of pork exports has evolved in the past two decades. The major markets for pork are still Japan and our North American neighbors. Other Asian markets are now playing a much larger part with growing markets in China, Russia and South Korea. Growth in pork exports is most likely to come from expansion in these newer yet still maturing markets. At this point we are still working on consumer loyalty in some of these markets. Within several years we will have a better idea of how these markets will impact long term demand.

Figure 3 demonstrates how the percentages of broiler meat exports are distributed among foreign markets. Countries that once took a large percentage of the exports are now smaller markets in comparison to gross quantities. The majority of the growth in poultry export volumes has come from an increased number of customer markets in addition to growth in individual markets. Japan's import volumes of US poultry has decreased by almost two thirds in the past eighteen years, but their position as the largest foreign market has been reduced to one of the smallest.

Shane Ellis

We are asking colleagues from around the country to help us fill the grain void in the Iowa Farm Outlook Newsletter. This month, Dr. Dan O'Brien, Kansas State University Grain Marketing Specialists from Northwest Kansas has provided a situation and outlook for wheat. Wheat is currently a volatile market that has had significant crop problems in several major producing countries. The corn market has been impacted by the wheat market since last summer and it looks to continue in the coming weeks. Some of you may remember Dan as a contributor to the Iowa Farm Outlook in the early 1990s when he was working on his PhD at Iowa State University Department of Economics.

Wheat Market Outlook

Daniel M. O'Brien – Extension Agricultural Economist
Kansas State University Research and Extension

An extremely tight supply-demand situation has been the primary underlying cause record high U.S. wheat prices in the June 1, 2007 through May 31, 2008 wheat marketing year to date. In its February 8, 2008 release of the World Agricultural Supply and Demand Estimates, the USDA projected 2007/08 marketing year ending

stocks for wheat in the United States to be 272 million bushels, i.e., the lowest U.S. wheat ending stocks figure since 1947/48. The ratio of U.S. wheat ending stocks-to-use was projected at 12%, the lowest since 1946/47.

Record tight U.S. supply-demand balances have contributed to a record tight World wheat market supply-demand situation (Table 1). Global wheat ending stocks for 2007/08 were projected at 109.7 million tons, i.e. the lowest level in 30 years. World wheat supplies are projected to decline 6% (43.4 mmt) to 728.7 mmt from the 2005/06 through the 2007/08 marketing years. During this same three year period, World wheat export trade is projected to decline 9% (9.8 mmt) to 106.4 mmt. Similarly, World wheat ending stocks projected to decline 26% (38 mmt) to 106.4 mmt. The declines in World wheat ending stocks have been precipitous; to the point of causing World humanitarian organizations to be concerned about the availability for wheat for food use in poorer countries should production problems threaten World wheat production in the 2008/09 marketing year.

Table 1. World & United States Supply and Use for Wheat

Source: USDA-WAOB Report on February 8, 2008 (Million Metric Tons)

	Wheat Production	Total Wheat Supply	Wheat Export Trade	Total Domestic Wheat Usage	Ending Wheat Stocks
World					
2005/06	621.5	772.1	116.2	624.4	147.7
2006/07 (Estimated)	593.2	740.9	110.7	615.8	125.1
2007/08 (Projected)	603.6	728.7	106.4	619.0	109.7
United States					
2005/06	57.3	74.2	27.3	31.4	15.6
2006/07 (Estimated)	49.3	68.2	24.7	31.0	12.4
2007/08 (Projected)	56.3	71.1	32.7	31.1	7.4
Non U.S. (Foreign)					Cont.
2005/06	564.2	697.9	88.9	593.1	132.1
2006/07 (Estimated)	543.9	672.7	86.0	584.7	112.7
2007/08 (Projected)	547.4	657.6	73.7	587.9	102.3

Foreign (non-United States) wheat supplies, exports, and ending stocks are projected to decline 40.3 mmt (-6%), 15.2 mmt (-17%), and 29.8 mmt (-23%), respectively, between the 2005/06 and 2007/08 marketing years (Table 2). Decreasing foreign supplies have provided a major impetus for strong U.S. wheat exports in the 2007/08 marketing year.

The supply-demand situation for U.S. wheat has also become extremely tight during the last three marketing years (Table 2). Although planted area for wheat in the U.S. increased to 60.4 million acres in 2007 from the previous two years, a combination of tightening beginning stocks (456 mln. bu.), moderately higher wheat production (2,067 mln. bu.), and strong demand for wheat for food use (945 mln. bu.) and exports (1,200 mln. bu.) have caused the USDA to project that U.S. wheat ending stocks will reach historically low levels at the end of the 2007/08 marketing year (i.e., 272 mln. bu., and 11.6% ending stocks-to-use). While non-U.S. wheat exports are projected to decline 15.2 mmt (-17%) during the 2005/06 through 2007/08 period, U.S. wheat exports are projected to have increased 197 mln. bu. since 2005/06, and 291 mln. bu. since 2006/07 (i.e., up 20% and 32% respectively). This reinforces the idea that the United States has been the primary source of available wheat for World wheat exports during the 2007/08 marketing year – a fact that exacerbated the recent increases in U.S. wheat prices.

Table 2. United States Wheat Supply, Use & Prices

Source: USDA-WAOB Report on February 8, 2008 (million bushels)

	2005/06 Marketing Year	2006/07 Marketing Year (Estimate)	2007/08 Marketing Year (Projected)
Planted Area (million acres)	57.2	57.3	60.4
Harvested Area (million acres)	50.1	46.8	51.0
Yield / Harvested Acre	42.0	38.7	40.5
Beginning Stocks	540	571	456
Production	2,105	1,812	2,067
Imports	81	122	90
Total Supply	2,726	2,505	2,613
Food	915	933	945
Seed	78	81	86
Feed & Residual	160	125	110
Total Domestic Use	1,152	1,140	1,141
Exports	1,003	909	1,200
Total Use	2,155	2,049	2,341
Ending Stocks	571	456	272
Ending Stocks-to-Use (%)	26.5%	22.3%	11.6%
CCC Inventory	43	41	35
Free Stocks	528	415	237
Outstanding Loans	42	14	5
Average Farm Price (\$/bu)	\$3.42	\$4.26	\$6.45-\$6.85

The average farm price for U.S. wheat is projected in the \$6.45 to \$6.85 per bushel range for the 2007/08 marketing year. This compares to averages of \$3.42 and \$4.26 per bu. for the 2005/06 and 2006/07 wheat marketing years, etc., and is reflective of the tightening of wheat ending stocks-to-use relationships during the most recent 3 year period in the U.S. wheat market.

U.S. Hard Red Spring (HRS) wheat futures market prices have been extremely volatile in recent months, reflecting a lack of milling quality wheat in the World market (Table 3). United States HRS wheat ending stocks-to-use is projected to decline from 23.5% to 16.6% from 2006/07 to 2007/08. Exports of U.S. Hard Red Winter (HRW) Wheat are projected to increase from 281 mln. bu. in 2006/07 to 510 mln. bu. in 2007/08, causing HRW ending stocks to decline from 165 to 121 mln. bu. over the same period. Ending stocks-to-use for U.S. HRW wheat is projected to decline from 22.5% to 12% over the same period. Ending stocks of U.S. Soft Red Winter (SRW) wheat is project to decline dramatically from 26.8% to 8.3% from 2006/07 to 2007/08, dropping from 109 to 37 million bushels. Overall, ending stocks-to-use is projected to decline for all major types of U.S. wheat between the 2006/07 and 2007/08 marketing years.

Table 3. United States Wheat Supply & Use by Class

Source: USDA-WAOB Report on February 8, 2008 (million bushels)

Marketing Year beginning June 1 st	Hard Red Winter Wheat	Hard Red Spring Wheat	Soft Red Winter Wheat	White Wheat	Durum Wheat	All United States Wheat
2006/07 (estimated)						
Beginning Stocks	215	132	106	78	40	571
Production	<u>682</u>	<u>432</u>	<u>390</u>	<u>254</u>	<u>53</u>	<u>1,812</u>
Total Supply	898	614	516	342	135	2,505

Domestic Use	452	247	261	101	79	1,140
Exports	<u>281</u>	<u>250</u>	<u>146</u>	<u>197</u>	<u>35</u>	<u>909</u>
Total Use	733	497	407	298	114	2,049
Ending Stocks	165	117	109	44	22	456
End Stocks/Use (%)	22.5%	23.5%	26.8%	14.8%	19.3%	22.3%
2007/08 (projected)						
Beginning Stocks	165	117	109	44	22	456
Production	<u>962</u>	<u>449</u>	<u>358</u>	<u>227</u>	<u>72</u>	<u>2,067</u>
Total Supply	1,127	603	477	278	128	2,613
Domestic Use	496	235	245	91	74	1,141
Exports	<u>510</u>	<u>295</u>	<u>200</u>	<u>160</u>	<u>35</u>	<u>1,200</u>
Total Use	1,006	530	445	251	109	2,341
Ending Stocks	121	88	37	27	19	292
End Stocks/Use (%)	12.0%	16.6%	8.3%	10.8%	17.4%	12.5%

World and U.S. Wheat Market Prospects for 2008/09

At the USDA Outlook Conference in Washington, D.C. on February 21-22, 2008, the USDA made public its preliminary projections for wheat, feedgrain and oilseed markets in 2008. (<http://www.usda.gov/oce/forum/>). Increases in World and United States wheat acreage and production are forecast in response to record high wheat prices and profit prospects for the coming year. Total U.S. wheat planted area is projected to increase by 3.6 million acres (6%) in 2008 over the previous year. United States winter wheat area is projected to increase 1.6 million acres, while spring wheat (including durum) is expected to gain 2.0 million acres. Soft Red Winter wheat acreage is projected to be at a 12 year high, although Hard Red Winter acres declined slightly in the Fall of 2007. Spring wheat acres in the Northern Plains are expected to compete with other crops for acreage this Spring, but are projected by USDA to increase 13% to 17.4 million acres.

World production is projected to increase in Europe, the Former Soviet Union, Australia, and likely other World wheat production areas. With increased World wheat acreage, USDA projects record World wheat production in 2008/09 if trend yields are achieved.

Given normal, trendline yields, and increases in wheat production outside of the United States, U.S. wheat exports would be expected to decrease in the coming year, with ending stocks increasing from 272 million bu. in 2007/08 to 538 million bu. in 2008/09. However, 2008/09 U.S. wheat prices are projected to remain near or slightly higher than the range of U.S. wheat prices in 2007/08, i.e., \$7.00 per bushel compared to \$6.45-\$6.85 per bushel in the current marketing year. It is thought that even with increased wheat acreage, uncertainty regarding wheat production prospects in the U.S. and abroad will provide support for prices throughout a large part of the 2008/09 marketing year.

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