IOWA STATE UNIVERSITY
University Extension

Iowa Farm Outlook

Department of Economics
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March Hog and Pig Report
Increased supplies, producers losses continue

The March Hog and Pig Report was released March 28 and reports a national inventory of just less than 66 million hogs, up 6.5% from this time last year. Expectations of a larger marketing hog inventories was more than realized with an increase of 7.2% to a quantity of 59.8 million head. Breeding hogs now number 6.1 million head, about 0.5% above a year ago. This report indicates that the rate of expansion has slowed, but not stopped as of March first.

The Sep-Nov pig crop was 6.8% larger than the year before and the Dec-Feb pig crop was up 6.4%. These are estimates of the change in hog slaughter for second and third quarters compared to the year before. Fourth quarter 2008 slaughter will be based on Mar-May farrowings which are expected to be only slightly higher than the year before. First quarter 2009 slaughter is expected to post a year over year decline as farrowing intentions for Jun-Aug are 2.5% lower than one year earlier.

Table 1. March Hog and Pig Report Summary

	US		**Iowa**	
	Million Hd.	**% change**	**Million Hd.**	**% change**
All Hogs	65.91	6.5%	18.7	10.7%
Breeding Herd	6.14	0.5%	1.1	0.9%
Market Hogs	59.77	7.2%	17.6	11.3%
Under 60	21.90	7.4%	5.42	16.6%
60 - 119	14.29	7.0%	4.6	9.3%
120 - 179	12.44	6.5%	4.13	9.3%
180 & over	11.14	7.8%	3.45	8.8%
Sows farrowing				
Sep - Nov	3.10	6.4%	0.51	6.3%
Dec - Feb	3.05	5.0%	0.5	9.9%
Mar - May	3.05	0.5%	0.49	2.1%
Jun - Aug	3.04	-2.5%	0.49	2.1%
Pig Crop				
Sep - Nov	28.69	6.8%	4.743	9.2%
Dec - Feb	28.09	6.4%	4.575	11.7%
Pigs per Litter				
Dec - Feb	9.21	1.3%	9.15	1.7%

Given this estimate of inventory, live hog prices are expected to average $42-44 in each of the next four quarters. Comparable lean hog carcass prices would be $55-59. The typical seasonal rally may be muted this year due to the large supplies, with less increase in supplies in the fourth quarter reducing the seasonal decline in prices there. First quarter 2009 prices are forecast to be higher than those just experienced in early 2008 and should move higher in summer 2009 if the liquidation continues.

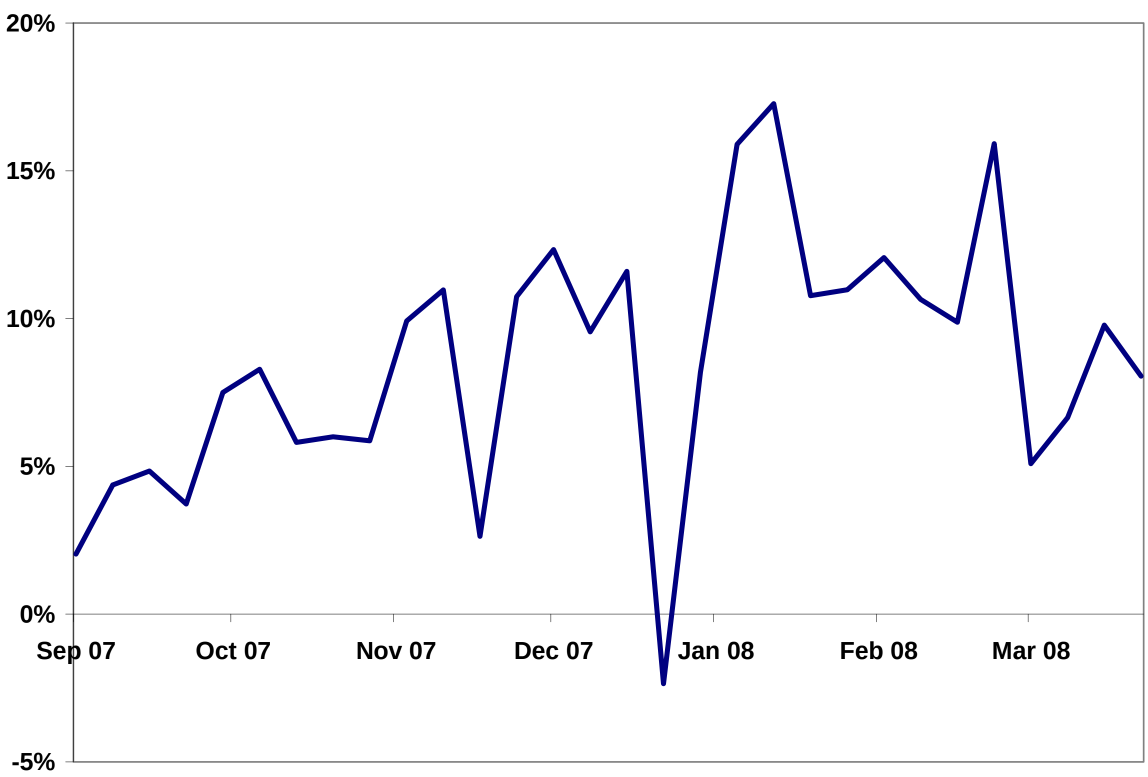
Pork producers are experiencing significant losses with today's feed costs and the current hog prices. This forecast indicates that losses will continue through early 2009 unless something (costs or prices) changes significantly. For producers buying feed inputs at current prices and paying contract growers to raise the hogs total cost of production is approaching $58/cwt live ($77/cwt carcass) resulting is losses near $40/head. Producers raising their own corn (estimated to be $3/bu cost to raise corn in 2007) and who have facilities paid for are estimated to have direct costs of approximately $45/cwt live ($60/cwt carcass). Thus, even these producers may not have a positive cash flow in 2008.

Table 2. Forecast Hog Production and Prices

	% change in production	ISU forecast Live $/cwt	March 28 Futures, live	07 Cornbelt Basis	Basis Adjusted, live
Apr-Jun	+7.0	43-45	50.42	-1.75	48.67
Jul-Sep	+7.0	42-44	52.52	-1.53	51.00
Oct-Dec	+1.0	40-45	52.81	-2.67	50.14
Jan-Mar	unchanged	40-45	56.44	-2.69	53.76

First quarter hog slaughter was up significantly from a year ago. Figure 1 graphs the percentage change in weekly hog slaughter from the year previous. Hog supplies will be 7% greater in the next two quarters, and similar to last years levels in the fourth quarter. Unless there is a serious turn around in profitability 2009 might be the year production will level off and even decrease.

Figure 1. Percentage Change in Weekly Hog Slaughter



Other factors to watch…

The Canadian pork industry is also under financial stress. The stronger Canadian dollar compared to the US has made their hog and pork exports more expensive in the US and elsewhere. During the first 12 weeks of 2008 feeder pig imports from Canada to the US were up 27% and slaughter hog imports increased 32% compared to the same period in 2007. The Canadian government will release its inventory report in the coming weeks to indicate if liquidation is continuing there. If the Canadian sow herd is declining we may see the number of imports to the US decline as well. Likewise, country of origin labeling is slated to begin September

30, 2008. US producers buying Canadian pigs need to check with packers about who is buying Canadian pigs and at which plants.

The slow down of the US economy may pressure pork demand as consumers look to stretch their household budget. Pork is less vulnerable than beef because it is less expensive, particularly now given the large supplies, and is on fewer restaurant menus. However, broilers may gain on pork as a cheaper alternative at the retail counter.

The weaker US dollar should help pork exports in the months ahead. China has been a big buyer of pork in recent months and should continue to be so in 2008. Pork exports to China exceeded those to Mexico, our second largest market behind Japan, in November and January.

John Lawrence
Shane Ellis

As ISU progresses to filling the shoes of the retired Dr. Bob Wisner we have asked other individuals who work closely to follow the grain markets to contribute their perspective on the grain outlook. This month we thank Steve Johnson, ISU Farm Management Field Specialist, for his article on the grain situation.

Corn vs. Soybean Battle Heats Up

The Prospective Planting Report was released by the USDA National Ag Statistics Service (NASS) on Monday, March 31st. The report found that U.S. farm operators intend to plant 86.014 million acres of corn in 2008, down more than 7 ½ million acres from last year's crop of 93.6 million acres. Soybean intended acres were at 74.793 million acres, an increase of more than 11 million acres over last year's 63.63 million acres.

The data used in this report was collected from approximately 86,000 farm operators nationwide the first half of March. The survey data was collected using mail, phone, internet and personal interview methods. The report's margin of error for corn at the 90% confidence level is 3.6% and for soybeans 4%, respectively.

A review of the annual reports over the past 4 years, the March acreage number for corn was less than the final planted acreage estimate each year. For soybeans since 2004, the March acreage number was greater than the final soybean planted acreage estimate. Thus, farmers respond to the March Report by planting more corn acres and fewer soybean acres.

The June 30th Planted Acreage Report will provide the next opportunity for these acreage numbers to be updated by the USDA. Data will be collected in June most all of the spring crops have been planted.

Iowa's Prospective Planted Acres

The state with the largest shift in corn planting prospects in 2008 was Iowa. According to the report, Iowa would reduce corn acreage 1 million acres, from 14.2 to 13.2 million planted acres. This is an extremely large decline in the face of increasing demands for livestock feeding, exports and especially ethanol production. If realized, expect extreme basis variability among corn merchandisers across the state. This would be especially true in areas threatened by production concerns during the growing season.

Iowa soybean acreage would increase 1.25 million acres in 2008, to 9.8 million acres. The additional soybean acres in 2008 would primarily come with a more traditional corn-soybean acreage rotation. The balance of the additional soybean acres are from tillable pasture and expiring Conservation Reserve Program (CRP) contracts.

Iowa's Acreage Comparison (in million acres)

Crop	2007 Actual	2008 Prospective
Corn	14.2	13.2
Soybeans	8.55	9.8

Weather will likely be the biggest factor affecting Iowa farmers planting intentions. A shift to warmer, dryer spring planting would likely increase the number of corn acres that get planted. However, rising input costs, especially that of commercial fertilizer, has increased since last fall and may limit the number of acres that may still be shifted to corn in 2008.

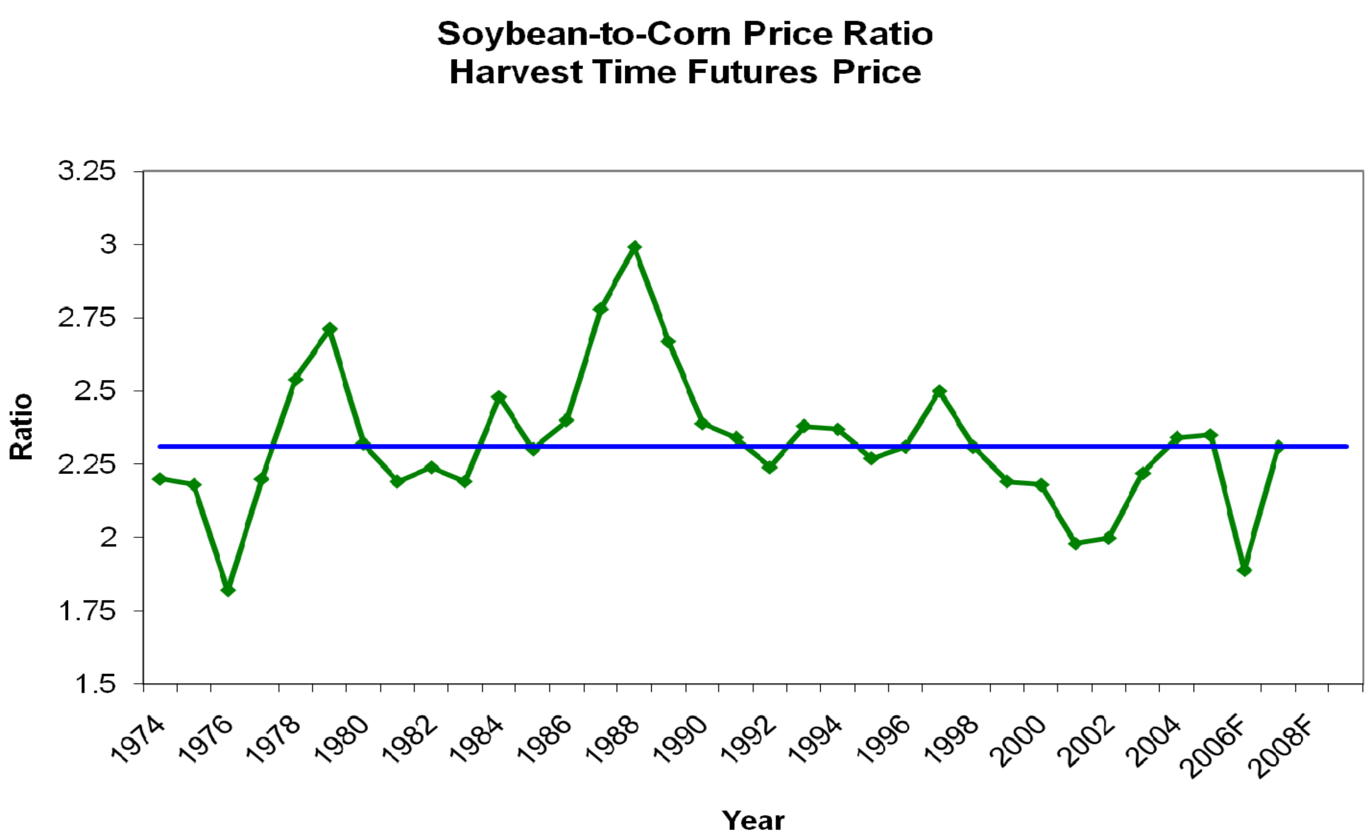
The soybean-to-corn price ratio has averaged 2.31 over the past 34 years. The 2007 ratio declined to 1.95 to buy additional corn acres. The 2008 ratio climbed above 2.31 in order to buy soybean acres. Following the March 31st Report, this ratio is below 1.9 in an attempt to buy more planted corn acres nationwide. Expect the report to trigger an increase in corn acres, especially on well-drained productive land that was tilled last fall.

High Futures Prices Bring Scrutiny

Corn and soybean futures prices in March traded at their highest price levels in history. However, such price extremes has drawn additional oversight to ensure that the futures exchanges are functioning properly as a price discovery tool.

Effective March 28th, the Commodity Futures Trading Commission (CFTC) expanded the daily trading limit for both corn and soybean futures. Corn futures price movement increases from 20 to 30 cents per bushel, while soybean limits increase from 50 to 70 cents per bushel, respectively. These price limit changes also have the ability to expand by an additional 50% if two contracts close at limit moves, similar to the changes made to wheat futures price earlier this winter. The daily trading limit for wheat is now at 60 cents per bushel after being expanded in February.

Margins requirements for commodity traders were also increased in late March. For those trading corn futures contracts, the margin required for speculators was increased from $1,350 to $2,025 per contract and for hedge traders from $1,000 to $1,500 per contract, respectively. In soybeans, speculators must now post $4,388 per contact, up from $3,375 and hedge traders most post $3,250 up from $2,500 per contact.



According to a CFTC Report it is estimated that the commodity index funds placed over $70 billion into the 12 U.S. commodity markets in recent months. The fund positions were a record with nearly 40% of those positions being “long futures” contracts. Extrapolating for the non-reported markets which are included in popular commodity indexes used as benchmarks, the total investment in U.S. commodity markets by index funds is upwards of $225 billion in 2008.

The CFTC announced it will convene a public meeting to discuss recent events affecting the agriculture markets – including the lack of convergence between the futures and cash prices, higher margin requirements and the impact on market participants, and the role of speculators and commodity index traders.

This forum is scheduled for April 22, 2008 in Washington, DC. Representatives from the USDA and a broad set of stakeholders in the agricultural markets, exchanges, traders, merchandisers and producers will be present.

Steve Johnson

Leap Year Milk Rises 6%

Feb 2008 milk production for the 23 major dairy states was up 6% from one year ago. But adjusting for the leap day in February, milk was up 2.4%. Milk production increased due to 136,000 more milk cows compared to one year ago and there were 9,000 more than the previous month. Milk per cow was up only 10 pounds when leap day was considered. Weak per cow milk production will probably continue and is likely due to high feed costs.

Iowa milk cow numbers were 5,000 higher than one year ago, but milk per cow was 20 pounds lower leading to 1.2% more milk. However adjusting for the leap day, Feb 08 milk per cow was down by 75 pounds and total milk off by 8 million pounds or -0.02%. Cheese production in Iowa has been rising, up 17.9% in Jan 08 compared to year ago and +6.7% from Dec 07.

Milk Production: Selected Dairy States, February 2008

State	thousands 2007 cow numbers	thousands 2008 cow numbers	% change cow numbers	pounds 2007 milk per cow	pounds 2008 milk per cow	% change milk/cow	million pounds 2007 total milk production	million pounds 2008 total milk production	% change total milk
Iowa	211	216	2.37%	1620	1600	-1.23%	342	346	1.17%
MN	455	463	1.76%	1485	1525	2.69%	676	706	4.44%
WI	1246	1250	0.32%	1470	1530	4.08%	1832	1913	4.42%
IL	103	102	-0.97%	1460	1515	3.77%	150	155	3.33%
CA	1795	1841	2.56%	1755	1805	2.85%	3150	3323	5.49%
CO	115	125	8.70%	1670	1815	8.68%	192	227	18.23%
ID	504	534	5.95%	1680	1760	4.76%	847	940	10.98%
NM	353	339	-3.97%	1535	1790	16.61%	542	607	11.99%
PA	548	551	0.55%	1500	1530	2.00%	822	843	2.55%
NY	628	626	-0.32%	1480	1590	7.43%	929	995	7.10%
TX	347	370	6.63%	1640	1785	8.84%	569	660	15.99%
23-State	8286	8422	1.64%	1584	1653	4.36%	13125	13919	6.05%

Source: Dairy Market News

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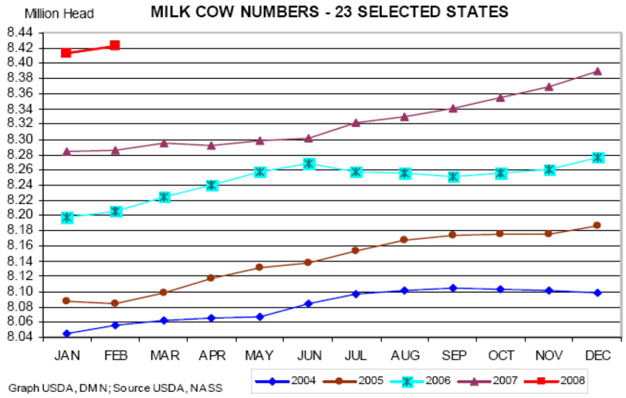
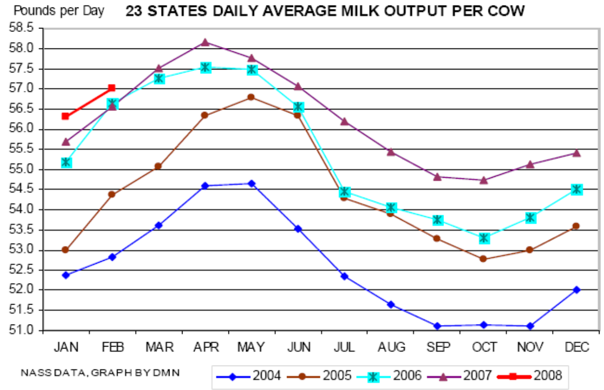
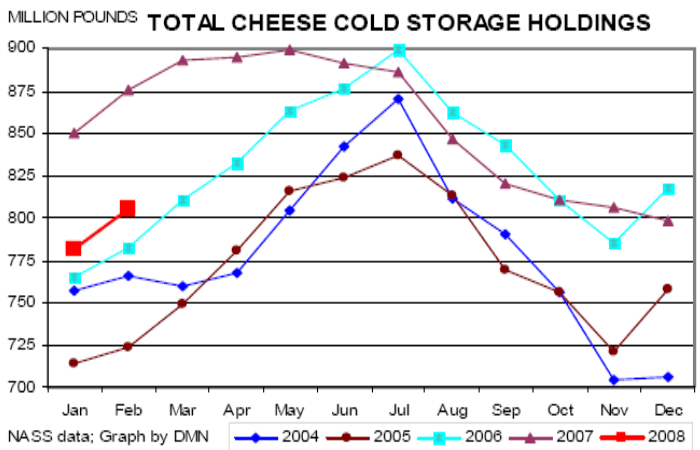




Demand or Disappearance

Butter stocks on Jan 31 were 26.4% higher than 1 year ago. But an earlier Easter probably used much of that increased stock. On March 17, CME butter prices were about 5 cents higher than one year earlier. Butter production during Jan 08 was 12.7% above year ago and 20.9% more than the previous month.

Cheese output was 1.9% below Jan 07 compared to Jan 08 and 4% less than Dec 07. At the same time total cheese inventory was 3% higher during Feb 08 compared to Jan 08 and 8% less than 1 year ago.



Source: Dairy Market News

Exports have been exceptionally strong during 2007. The value of US dairy exports was up 114.4% from 2006 to $323.3 million. On a milk solids basis, exports were 9.3% of total US milk production. This strength is likely to continue due to the weak US dollar and drought problems in Australia and New Zealand. These two countries are major exporters of dry dairy protein, but have had difficulty with drought the past two growing seasons. US prices for NDM and dry whey will probably rise this summer but not as high as 2007.

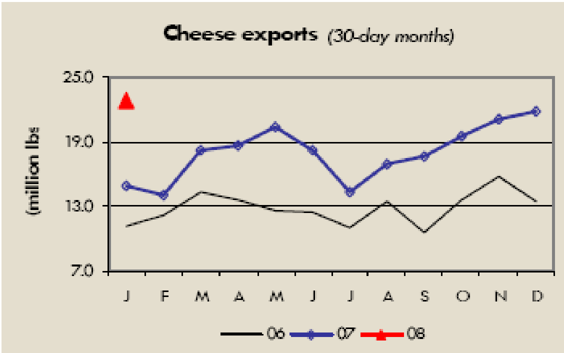
USDA's commercial disappearance report showed continued strong demand. For Nov 07-Jan 08, total disappearance was +3.6%. Most categories rose except fluid milk products which were down by 0.9%.

Analysis

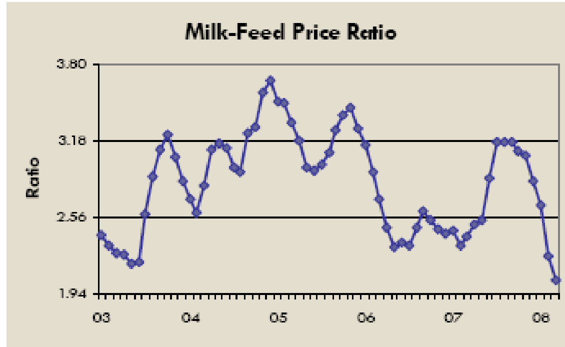
The Spring Flush has begun and has presented a problem with some milk finding a plant. The US has closed some plants that would have been processing fluid or making cheese. One report is that California is under some processing pressure, but a very large cheese plant was closed there last year.

The most recent milk-feed price ratio has declined further, 2.08 for March. This ratio indicates future reductions in milk production. Recently, corn prices have had some decline due to sell off by speculative hedge funds. This morning's planting intentions report will likely put a stop to the drop and add some strength. The July contract hit $6 per bushel March 31. But soybean price dropped.

Along with the consumer confidence index decline, down nearly 12 points from the previous month, Class III milk prices will probably slide further. USDA's current 2008 all-milk price is the same as the last projection, $16.85-17.55 per hundredweight.



Source: Daily Dairy Report



Source: Daily Dairy Report

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