IOWA STATE UNIVERSITY
University Extension

Iowa Farm Outlook

Department of Economics
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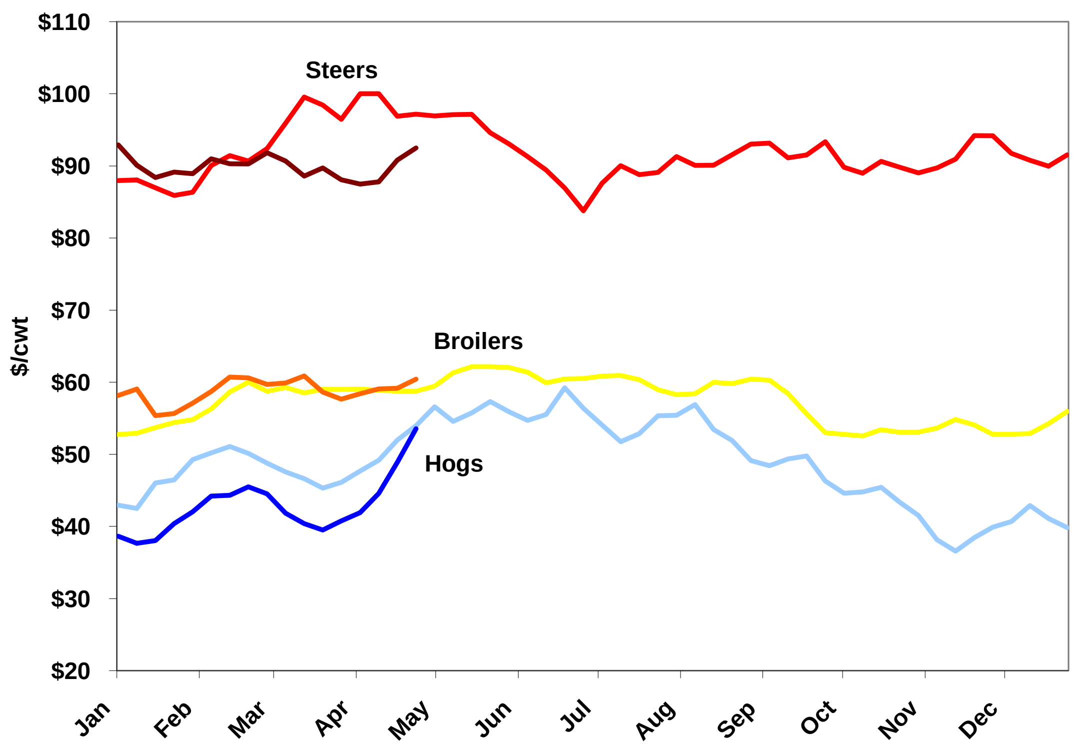
Spring Prices Trend Higher: Hogs Start strong, Cattle Start Late

The month of April brought on the spring run up in hog and cattle prices in anticipation of grilling season. Live hog prices increased by $9/cwt, or 20% in the last two weeks of April. Although this increase in price was dramatic it is not uncommon, hog prices increased 22% during the same period in 2006 and 10% in 2007. Producers are grateful for any price improvement, but with breakevens near $60 for live hogs it will not be enough to end the tide of red ink high feed costs have caused. With record high volumes of both cold storage pork and market hogs, prices will not increase at that same pace in May.

Cattle prices are slowly starting to climb despite weaker demand. Last year the market reached $100/cwt, but this spring prices are going to come up shy of that benchmark. Figure 1 graphs these live animal price trends in 2007 and 2008. Broiler prices have been tracking nearly equal with the prices of last year, while only recently have hog prices "caught up" with the prices of a year ago.

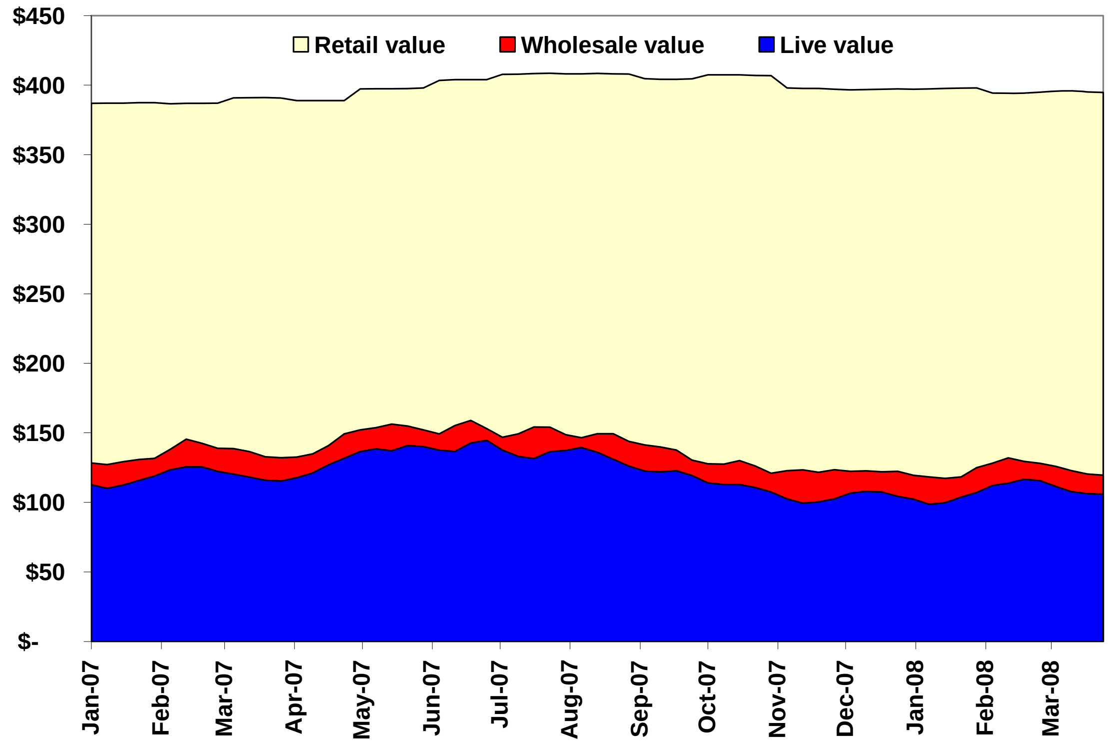
Figure 1. Live Price of Steers, Hogs, and Broilers. 2007 & 2008



Consumer demand for beef has been dampened, primarily by the increasing cost of living. Retail food prices are up an estimated 12% from a year ago, with some items more than double the cost of last year. Consumers are adjusting their buying habits to stay in budget and are turning to pork and poultry for their meat sources. Live animal prices tend to respond much more quickly to the influences of supply and demand than do the retail prices consumers pay. Retail meat prices tend to be steadier than live animal prices for a couple of reasons, but primary retailers and grocers avoid rapid price fluctuations that might turn off consumers at the meat counter. Offering a temporary sale price is commonly used as a means to initiate more purchases without divulging that the product is becoming cheaper, thus protecting the retailer's ability to return to a higher price. Figures 2 and 3 graph pork and beef values at the different levels of the industry and allow us to view some of the variation in price spreads.

Since the early fall of last year hog prices have been lower due to a record number of market hogs. Retail prices nearly flat lined leaving the price spread to fluctuate with hog prices.

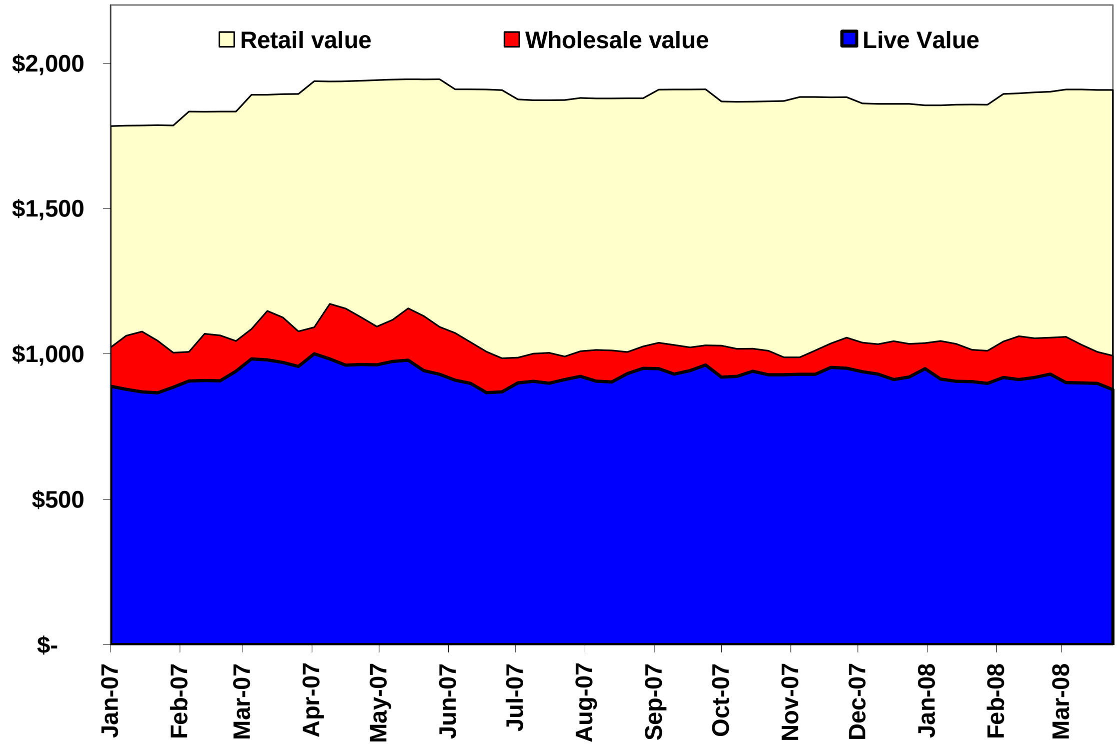
Figure 1. Pork Price Spreads, $/Head



Data source: LMIC

Comparing first quarter beef prices of this year and last, there is much less variation. During the spring of 2007 there were noticeable waves in the live and wholesale value of a steer. Consumer demand which pushed prices higher as demand exceeded supplies at that critical period. This year is a different story as live animal prices have been lower and retail prices are higher. March retail prices actually went up and wholesale prices declined. Cattle on feed during this same time grew to record inventories and the average choice-select price spread was $7-8 narrower in April than it was last year.

Figure 2. Beef Price Spread, $/Head



Data source: LMIC

In general, consumers are looking for cheaper products as the cost of food and fuel escalates. This means lower demand for higher priced well finished beef and sustained strong demand for pork. For producers even the best forecasted prices of the spring and summer will still not be enough offset the impact feed costs have made to the bottom line.

Shane Ellis

ISU is still in the process of filling the grain marketing specialist position which has been vacant since the retirement of Dr. Bob Wisner. For the time being we have included market analysis from other grain marketing experts within and around Iowa. For this edition of the IFO Newsletter, we bring attention to a recent article by
Darrel Good, Grain Marketing Specialist at University of Illinois Extension.
We appreciate his willingness to let us reprint this article from the University of Illinois Weekly Outlook

CORN: FUNDAMENTALS STILL LOOK STRONG
By Darrel Good

Corn prices dipped in the third week of March, but recovered following the USDA reports of March 31. The uptrend that began in early October 2007 is still in place. Last week, December 2008 futures traded to a high of $6.285.
On the demand side, the pace of exports and export sales remain strong. The USDA's revised export projection for the year of 2.5 billion bushels is 17.6 percent larger than shipments during the 2006-07 marketing year. The USDA's weekly report of export inspection showed 2007-08 cumulative inspection of 1.568 billion bushels as of April 10,

19.9 percent larger than the total of a year ago. The weekly *Export Sales* report showed shipments through April 3 running 16.5 percent ahead of last year's total. Census Bureau export estimates for the period September 2007 through February 2008 exceeded USDA estimates by 40 to 50 million bushels. All of that difference occurred in the first quarter of the year. The Census Bureau estimate of exports during the first half of the 2007-08 marketing year exceeds the year-ago total by 20.3 percent. As of April 3, the USDA reported unshipped corn export sales of 594 million bushels, compared to 403 million on the same date last year. The majority of that increase is to South Korea, reflecting the lack of export supply from China. Cumulative shipments plus outstanding sales of U.S. corn to South Korea stood at 324 million bushels on April 3, compared to 99 million last year. It appears that exports of U.S. corn during the current marketing year will exceed the current projection of 2.5 billion bushels.

The USDA lowered the projection of corn used for ethanol production during the current marketing year by 100 million bushels, to a total of 3.1 billion bushels, due to a slower than expected pace of new plant startups. As of April 2, the Renewable Fuels Association reported 147 ethanol plants in operation and 55 plants under construction. Operating margins of existing plants appear to be solidly in the black as higher prices for ethanol have offset the higher prices of corn over the past two months. The average price of ethanol at Iowa plants was reported by the USDA at $2.45 per gallon on April 11, $1.02 above the low established in late September 2007. High crude oil and gasoline prices should support ethanol prices and the continued expansion of ethanol production.

The magnitude of feed and residual use of corn has been a little confusing over the past 18 months. Use was estimated at 6.157 billion bushels in 2004-05 (68.4 bushels per animal unit) and 6.155 billion in 2005-06 (67.6 bushels per animal unit), but declined to an estimated 5.598 billion bushels last year (60.7 bushels per animal unit). In November 2007, USDA projected use during the current year at 5.65 billion bushels. Following much smaller than expected corn stocks estimate for December 1, 2007 and March 1, 2008, that projection has now been increased to 6.15 billion bushels. The estimated decline in use last year was attributed to increased wheat feeding and increased feeding of distiller grains. The large apparent increase this year, however, suggests that the 2006 U.S. corn crop may have been underestimated and the 2007 crop overestimated. The bottom line is that stocks of U.S. corn at the end of the current marketing year will be much smaller than projected earlier. The USDA's forecast of ending stocks has declined from 1.997 billion bushels in October 2007 to 1.283 billion in April 2008.

On the supply side, there is now some concern about the size of the 2008 corn crop. While prices never gave producers a signal to switch acreage from corn to soybeans in 2008, they apparently reacted to high soybean prices and high fertilizer prices. Planting intentions reflect plans to reduce corn acreage by nearly 7.6 million and increase soybean acreage by nearly 11.2 million. Recent changes in price relationships reportedly have some producers rethinking those intentions, with some now planning to plant more corn. The issue may be whether lingering cold, wet conditions will limit corn acreage. In the past, producers have been willing to plant corn "late" in the face of high prices. In 1995 and 1996, for example, 90 and 75 percent of the crop, respectively, was planted after May 1. Sixty and 45 percent of the crop, respectively, was planted after May 15. With relatively high soybean prices, producers may not be willing to plant corn as late in 2008. Without an increase in acreage, the U.S. average corn yield will have to be well above the trend to allow consumption to continue at the current rate.

March Milk Up, Feb Revised Up Also

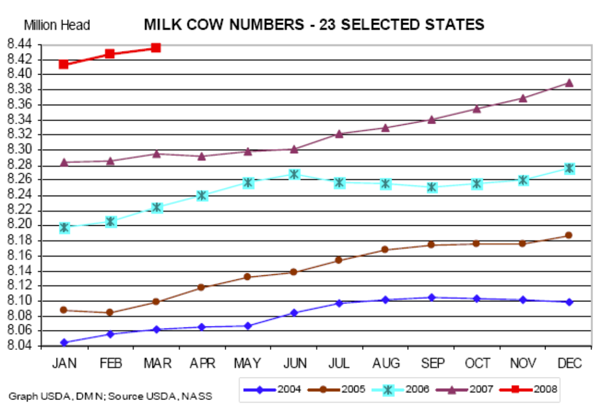
The April 18 Milk Production Report from USDA showed March 08 23-state milk production up by 2.4%. The report also revised Feb 08 milk production by 0.2 percentage points, upwards. March 08 dairy cow numbers were 141,000 more than March 07 and 9000 more than 08. Milk production per cow was only 12 pounds more than March 07, about 2/3's a typical increase.

Iowa milk production rose only 1.4% due only to increased cow numbers, up 5000 from one year ago. Milk per cow for last march dropped by 20 pounds compared to one year ago. First quarter 08 milk production for Iowa was only 0.8% higher than one year ago, but Iowa cow numbers were 5000 higher.

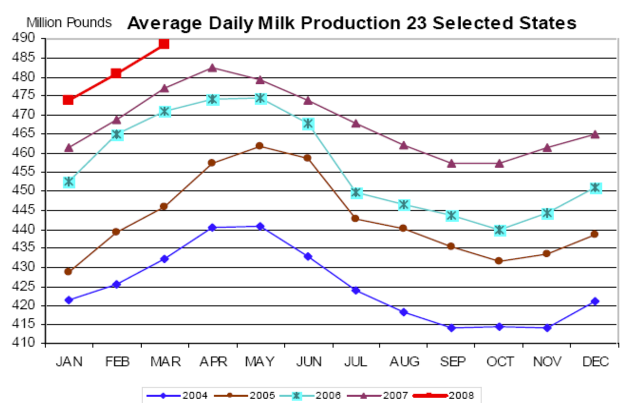
Milk Production: Selected Dairy States, March 2008

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%	1750	1730	-1.14%	369	374	1.36%
MN	455	463	1.76%	1650	1625	-1.52%	751	752	0.13%
WI	1246	1251	0.40%	1640	1660	1.22%	2043	2077	1.66%
IL	103	102	-0.97%	1655	1640	-0.91%	170	167	-1.76%
CA	1799	1846	2.61%	1975	1970	-0.25%	3553	3637	2.36%
CO	115	126	9.57%	1910	1945	1.83%	220	245	11.36%
ID	504	540	7.14%	1880	1900	1.06%	948	1026	8.23%
NM	349	340	-2.58%	1790	1790	0.00%	625	677	8.32%
PA	550	549	-0.18%	1710	1680	-1.75%	941	922	-2.02%
NY	628	626	-0.32%	1630	1680	3.07%	1024	1052	2.73%
TX	347	370	6.63%	1920	1980	3.13%	666	733	10.06%
23-State	8295	8436	1.70%	1783	1795	0.67%	14787	15144	2.41%

First quarter US milk production was 3.2% higher and average cow numbers were higher than one year earlier. Some regional states had large drops in milk, ND-5.3%, NE -3.6% while others gained, SD +6.2%. SD added 3000 cows while ND lost 3000 and NE lost 2000 during the quarter.



Source: Dairy Market News

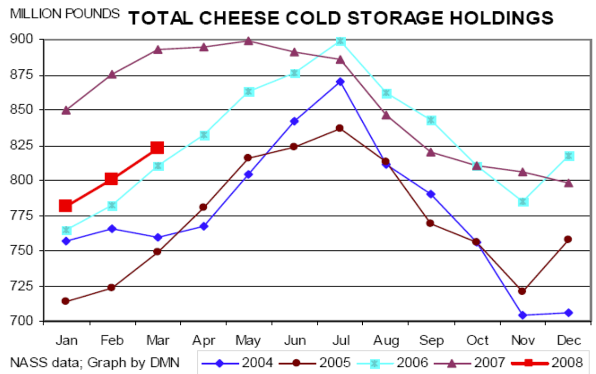


Source: Dairy Market News

Demand or Disappearance

During Feb 08 total cheese production was 4.8% higher than one year ago but -3.5% from Jan 08. Nonfat dry milk during Feb was 21.9% higher than one year earlier. WPC or whey protein concentrate production was 12.8% higher during Feb 08. Butter production rose 9.4% from one year ago and was 13.1% above Jan 08.

April 08 USDA projected 2008 commercial disappearance to increase by 5 billion pounds from 2007 but has dropped the projection by 700 million pounds from the March expectation. The most recent commercial disappearance numbers, reported in the last issue of this newsletter, continue to be positive except for fluid milk which was off by 0.9%. That is likely a reflection of price for bottled milk and weakening consumer confidence.



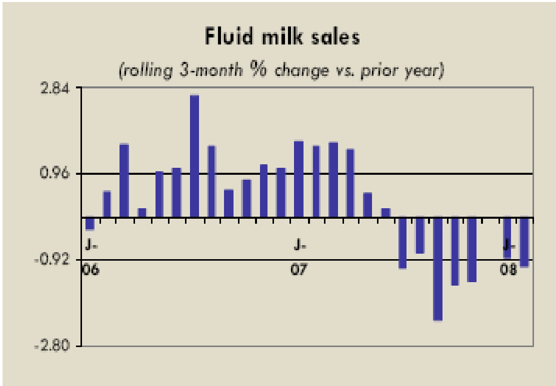
Source: Daily Dairy Report

Source: Dairy Market News

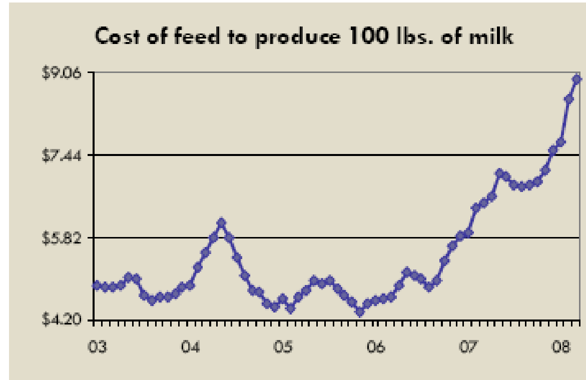
Analysis

According to the USDA's latest Livestock, Dairy and Poultry Outlook report feed prices are expected to rise again during 2008 by about 33% following a 34% rise in 2007. The chart below shows a near doubling of feed costs for milk production since 2003. What the chart does not show are the other costs which have risen as well. Electricity, fuels and labor costs. March milk prices are only $4 higher than Oct 2003 while breakeven prices were over $5 higher in March 2008, approximately $17.07. Anyone that has expanded or built new dairy facilities in the last 2 years or so will have even higher costs. The current USDA 2008 all milk price forecast is $17.65 to $18.15 per cwt.

Anecdotes from the country continue to arrive indicating a slow process of dairy bottlers deciding that milk from BST treated cows will not be used for bottled milk. More farms deciding not to use BST, to preserve their market or gain a premium, will continue the weak milk per cow pattern that high feed costs started. It should also accelerate slaughter cow rates.



Source: Daily Dairy Report



Source: Daily Dairy Report

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