

Iowa Farm Outlook

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June Hog and Pig Report Summary

USDA released the June Hog and Report on June 27, and inventories indicate a change of direction in swine production. The national swine herd is up 6 percent to a total of 67.7 million swine. Market hog numbers are up 7 percent at 61.6 million head. The indication that the industry is beginning to curtail production is seen in the reduction of breeding swine, down 1 percent to 6.1 million head. With the considerably higher sow slaughter in recent months, a liquidation of the national sow herd was not unexpected.

The supply of market hogs will continue to run higher than a year ago. There will be additional hog supplies through the end of the year, resulting in pork supplies above those of last year, despite declining slaughter weights. The 2008 pig crop has been higher so far this year, but farrowing intentions for the remainder of the year was lower. In addition, the number of pigs produced per litter is nearly 9.4 pigs per litter, which has also expanded supplies. Table 1 summarizes the year over year change in swine inventories both nationally and in Iowa.

Table 1. June Hog and Pig Report Summary

	US		Iowa	
	Million Hd.	% change	Million Hd.	% change
All Hogs	67.66	5.8%	19.40	6.6%
Breeding Herd	6.07	-0.8%	1.09	0.9%
Market Hogs	61.59	6.5%	18.31	7.0%
Under 60	22.59	3.7%	5.50	0.9%
60 - 119	15.17	5.8%	4.91	2.9%
120 - 179	12.91	9.5%	4.45	15.6%
180 & over	10.93	10.2%	3.45	13.1%
Sows farrowing				
Dec - Feb	3.07	5.6%	0.51	12.1%
Mar - May	3.09	1.9%	0.53	10.4%
Jun - Aug*	3.07	-2.0%	0.52	8.3%
Sep - Nov*	3.05	-4.0%	0.52	-3.7%
Pig Crop				
Dec - Feb	28.35	7.4%	4.69	14.6%
Mar-May	29.00	4.0%	4.96	12.2%
Pigs per Litter				
Mar-May	9.38	2.0%	9.35	1.6%

*farrowing intentions

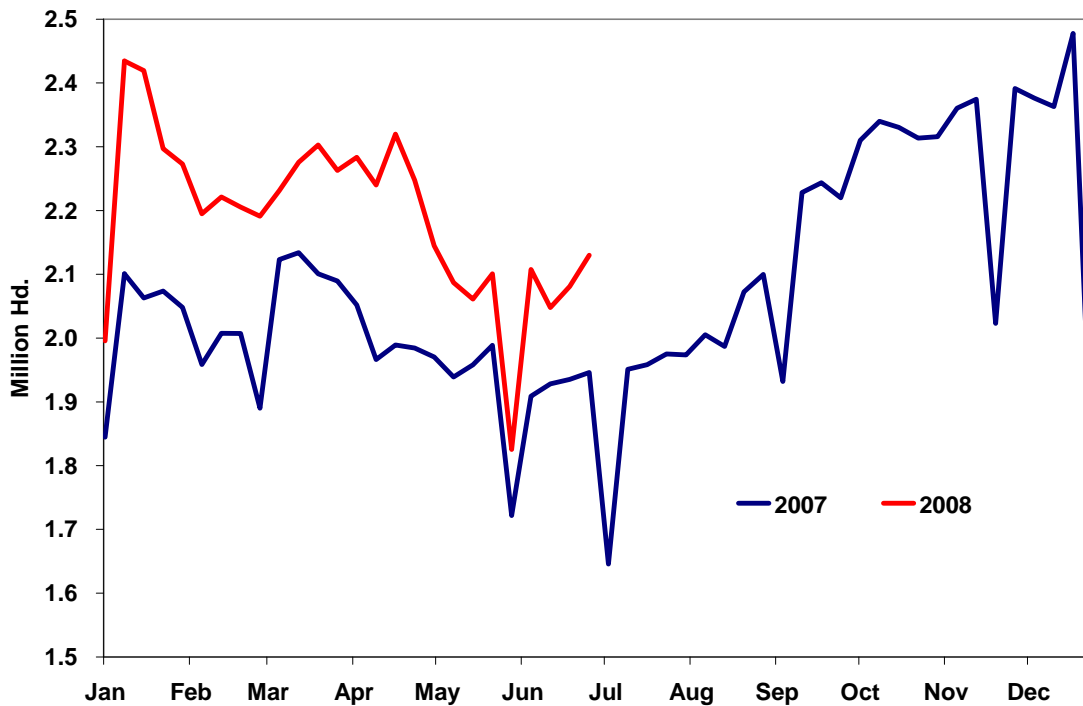
Iowa has increased its sow numbers by almost 1 percent and market hog inventories by 7 percent. Through the end of the summer, pork supplies will remain well above those of last year. Table 2 contains the ISU forecasts of changes in production and market hog prices for the next four quarters. It also contains the June 27 lean hog future price adjusted for a Cornbelt basis and converted to a live hog price.

Table 2. Forecast Hog Production and Prices

	% Change in Production	ISU Forecast Live \$/cwt	June 27 Futures Live \$/cwt adjusted for basis
Jul-Sep	7	48-51	52.02
Oct-Dec	3	45-48	52.13
Jan-Mar	0	55-58	63.72
Apr-Jun	-4	62-65	66.20

Hog slaughter has continued to run well above the volumes of last year. This trend is shown in Figure 1. Slaughter volume will continue to run above those of last year until December. Despite the higher supplies, the market is not likely to take the same dive that it did the fourth quarter of 2007. Supplies in 2009 will begin near those of 2008 but then trend lower as the cost of corn and other feeds erode profitability enough to dampen production.

Figure 1. Weekly Hog Slaughter



Meat Production Outlook

With pork production looking to be higher for at least the next two quarter (and possibly three), what is the outlook on total meat supplies. The supply of US raised feeder cattle is declining as cow-calf operations are cutting back the national beef cow herd. Feedlot inventories started out the year above those of a year ago, but in the past two months those inventories have trended below those of last year. Figure 2 illustrates the relationship between cattle on feed inventories and cattle slaughter numbers for the past six months. Cattle slaughter was nearly 5 percent higher from mid-April to mid-May, but levels then trended lower in June. Feedlot inventories are lower but not only because of tighter feeder cattle supplies, but more young cattle are being grazed as stockers as an alternative source of gain. Heavy feeder cattle supplies should be higher later in the summer and fall. If feedlot inventories are an indication of future slaughter levels there will be a reduction in finished beef for the rest of the summer and into the early fall.

Figure 2. Cattle on Feed, Cattle Slaughter

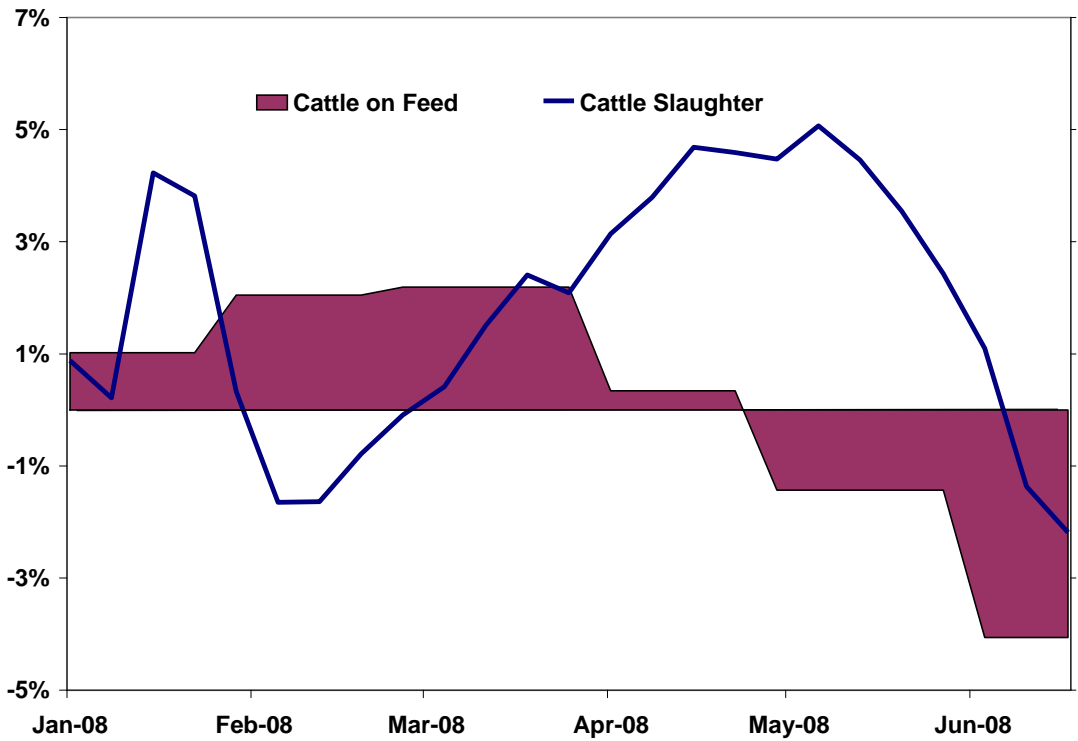
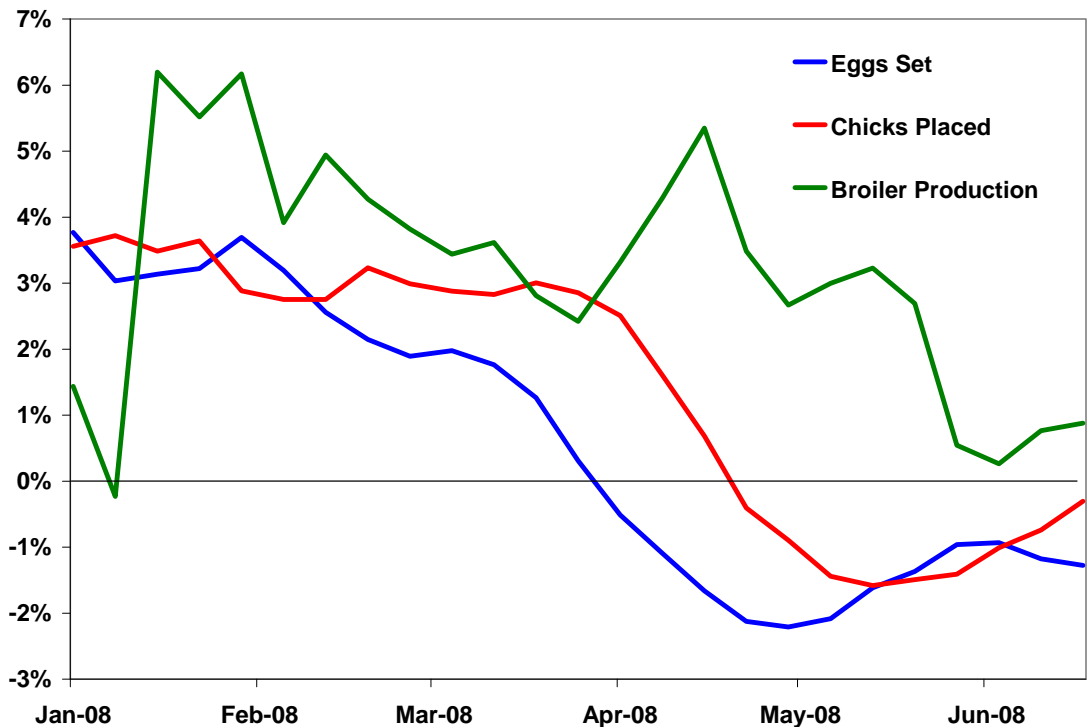


Figure 3 illustrates how poultry production has changed from last year. This graph tracks the rolling 3 week average percent change in production, eggs sets and chick placements. Both egg sets and chick placements have been lower since spring and broiler production has followed the trend. Poultry is usually the lower cost meat available at retail. As with pork, demand for poultry has been growing in both domestic and foreign markets. Despite higher prices, poultry production entered a plateau as corn prices entered the range of \$5/bu.

Figure 3. Percent Change in Broiler Production, Eggs Sets, and Chick Placement



Chad Hart, an economist with the Center for Agricultural and Rural Development (CARD), provides the crops outlook in this issue.

Sorting Through the Crop Reports

As we finish up the month of June, USDA provided us three reports to summarize the remaining stocks from the 2007 crops and the outlook for the 2008 crops. The *Acreage*, *Grain Stocks*, and *Crop Progress* reports were all released on June 30th. The markets had a lot of information to digest this Monday.

Grain Stocks

The 2007 crop year had record high corn production and is projected to have record high corn exports and corn utilized for ethanol. But despite the increased corn use, corn stocks as of June 1, 2008 were up 14 percent from a year ago. On-farm storage of corn increased 8 percent from a year earlier, while off-farm holdings increased 21 percent. Just over 4 billion bushels of corn remained in stocks by June 1, as over 2.8 billion bushels were utilized between March and May. In Iowa, corn stocks were up 54,000 bushels from last year to nearly 879,000 bushels. The increases in year-to-year stocks have put some downward pressure on nearby corn futures as the stock levels were above trade estimates. The recent run-up in corn prices over the past month has likely rationed some corn usage as corn processors, livestock feeders, and the ethanol industry adjust to higher corn prices.

For soybeans, the stocks report confirmed a tight crop situation. Soybean stocks are down 38 percent from last year, with on-farm storage dropping 55 percent and off-farm dropping 24 percent. Usage during the March-May period was up 9 percent from last year to 758 million bushels. Iowa's soybean stocks have been drawn down to 171,100 bushels, over 80,000 bushels less than in 2007. Nearby soybean futures rose on the news, bucking the trend shown by the corn and wheat markets. The July 2008 soybean futures contract set a new all-time high going into its settlement month. The continued tightness in the soybean market will help maintain stronger soybean futures prices in the near term and could provide support for narrower basis going into the fall.

Acreage

The June 2008 *Acreage* report provided the first official USDA estimates accounting for the Midwestern floods. Normally, USDA surveys producers in the first two weeks of June to access the acreage allocation for the coming crop year. However, given the timing of the floods, USDA re-surveyed flood-affected states near the end of June to capture the impacts of the flooding and the efforts to replant. The second round of surveys led USDA to adjust their harvested acreage percentages for corn and soybeans down 2 percent. Based on the early June surveys, farmers indicated they would harvest 92.4 percent of their corn planted area and 98.7 percent of their soybean planted area. These percentages fell to 90.4 percent for corn and 96.8 percent for soybean after the re-survey. USDA plans to conduct additional acreage surveys during July to continue to refine the acreage estimates for the upcoming August *Crop Production* report.

Corn planted area was estimated at 87.3 million acres, down 6.3 million from last year, but up 1.3 million from March. Even with the drop in area from last year, this is the second largest corn area since 1944. Cool, wet weather hampered planting progress in many states, but producers managed to exceed the March corn planting intentions in several states. 19 states reported higher corn area in comparison to March intentions, led by Iowa (+ 500,000 acres), Kansas, Minnesota, Nebraska, and Texas (each at + 200,000 acres). 16 states fell short of March corn planting intentions, with the biggest declines in Illinois (- 300,000 acres) and Missouri (- 200,000 acres). With the adjustment to the harvesting percentage, nationwide corn harvested area is estimated at 78.9 million acres, up 100,000 acres from previous estimates. The increase in harvested area was a bearish signal to the market, as traders had expected lower harvested area due to the flooding. In essence, the flooding was more than offset by corn farmers' ability to expand planted acreage above intentions this spring. For Iowa, planted area is down 500,000 acres from 2007 to 13.7 million acres, but harvested area is expected to be down by over 1 million acres given the floods.

Soybean planted area was estimated at 74.5 million acres, up 17 percent from 2007, but down slightly from the March intentions. Compared to last year, all states that report soybean area will have more acres devoted to soybeans, with increases of over 800,000 acres in most major producing states. Compared to the March intentions, soybean area is up in 10 states (led by Illinois, + 300,000 acres, and Mississippi, + 160,000 acres) and down in 10 others (led by Iowa, - 400,000 acres, and Nebraska, - 250,000 acres). Overall, the 2008 soybean area looks to be the 3rd largest in U.S. history. Nationwide, soybean harvested area is estimated at 72.1 million acres, 1.7 million acres less previous estimates. Again, the flooding had a sizable impact on these estimates. The drop in harvested area provided additional support for new crop soybean futures. For Iowa, soybean planted area is estimated at 9.4 million acres, up 850,000 acres from last year. Estimated harvested area in Iowa is up 430,000 acres, to 8.95 million acres.

Corn and rice were the major gainers in area, compared to March intentions, while wheat and soybeans lost ground. Upland cotton, sorghum, and hay acreage also backed off from March estimates. Overall, USDA is showing a 4 million acre increase in crop area from 2007.

Crop Progress

The final report of the day was the *Crop Progress* report. The delays in planting both corn and soybeans this year are still highly apparent in the crop progress statistics. Early numbers on corn silking put the 2008 crop behind last year's crop and the 5-year average. Only in North Carolina has the corn kept pace with the 5-year average. Nationally, 90 percent of soybeans have emerged, 7 percent lower than last year's pace and 6 percent below the 5-year average. Soybean blooming is also behind schedule. The continued lag in crop progress numbers was partially offset by improvements in the corn and soybean crop conditions. 61 percent of the corn crop was rated good to excellent this week, up two percent from last week. 58 percent of the soybean crop was rated good to excellent, up one percent.

For Iowa, crop conditions improved at a faster pace. Iowa corn was rated at 53 percent good to excellent, 3 percent above last week. Iowa soybeans were rated at 56 percent good to excellent, up 6 percent. But the crops still have some catching up to do. For example, the average estimated height of Iowa corn currently is 24 inches, up 8 inches from last week, but well below the normal height of 40 inches at this time of year. The continuation of drier weather in the upper Midwest is allowing the corn and soybean crops to begin to catch back up to normal. And as the crops catch up, the outlook for yield potential improves. The improving conditions added to the downward pressure on the corn market and were the one downward price signal to the soybean market.

Looking Ahead

The next big report is the update of the World Agricultural Supply and Demand Estimates on July 11. This will be the first report with national yield estimates after the flooding. USDA had already lowered national corn yield estimates to 149 bushels per acre in the June report based on the slower than average crop progress. No adjustments have been made to national soybean yields yet. The yield and production estimates from the July report will figure prominently in the market moves over the next few weeks. Another yield adjustment in corn could push estimated production below 11.5 billion bushels, well below last year's record production. This would tighten the outlook for corn as projected usage was already above estimated production. A similar situation could develop for soybeans. Even at trend yields, if demand holds as projected, 2008 ending stocks could approach 100 million bushels, below the carryout projected for 2007. Any sort of downward yield adjustment would continue to tighten an already tight market.

Chad Hart

Production up 3.37%, Cheese Inventory Grows

May 2008 23 major dairy states milk production rose nearly 3.4%. Production per cow was only 25 pounds higher for May, double the April rate. Milk cow numbers were 162,000 more than May 07 and 10000 more than April 08. March milk production was revised up by 6 million pounds.

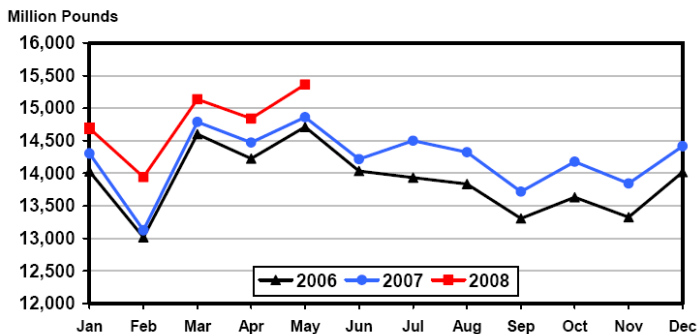
Iowa May 08 milk production was down over 1% compared to one year ago. Again cow numbers were higher than one year ago, 4000, but milk production per cow was 55 pounds lower. April 08 cheese production was 18.9% higher than one year ago and -3.8% more than March 08.

Milk Production: Selected Dairy States, May 2008

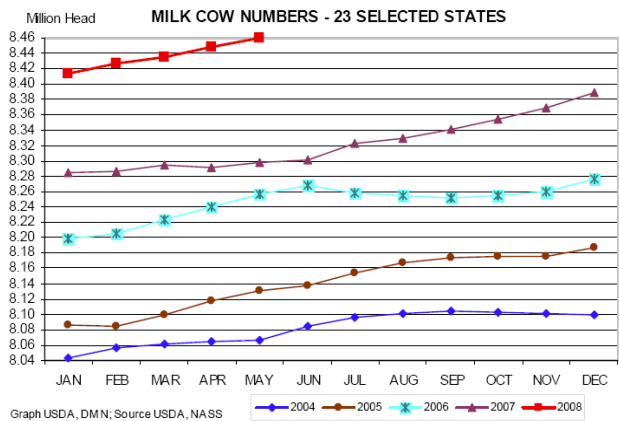
State	thousands			pounds			million pounds		% change total milk
	2007 cow numbers	2008 cow numbers	% change cow numbers	2007 milk per cow	2008 milk per cow	% change milk/cow	2007 total milk production	2008 total milk production	
Iowa	212	216	1.89%	1775	1720	-3.10%	376	372	-1.06%
MN	458	463	1.09%	1660	1635	-1.51%	760	757	-0.39%
WI	1247	1251	0.32%	1685	1710	1.48%	2101	2139	1.81%
IL	103	102	-0.97%	1670	1665	-0.30%	172	170	-1.16%
CA	1806	1848	2.33%	1925	1935	0.52%	3477	3576	2.85%
CO	116	127	9.48%	1990	1990	0.00%	231	253	9.52%
ID	506	550	8.70%	1930	1940	0.52%	977	1067	9.21%
NM	341	343	0.59%	1870	2040	9.09%	638	700	9.72%
PA	549	548	-0.18%	1720	1720	0.00%	944	943	-0.11%
NY	626	626	0.00%	1690	1770	4.73%	1058	1108	4.73%
TX	347	372	7.20%	1870	1995	6.68%	649	742	14.33%
23-State	8298	8460	1.95%	1791	1816	1.40%	14860	15361	3.37%
US total	9138	9281	1.56%	1771	1796	1.41%	16180	16667	3.01%

USDA estimated that 194,700 dairy cows were slaughtered in May. This is down 24,400 from April 2008 and 3400 more than one year ago. Cooperatives Working Together (CWT) announced a fifth herd reduction. This will include bred dairy heifers for the first time. US dairy herd numbers have been increasing in the face of higher slaughter numbers due to large numbers of herd replacements available.

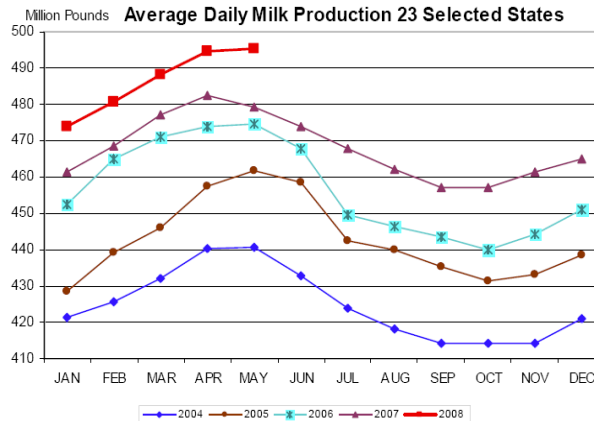
Monthly Milk Production 23 States



Source: Milk Production, NASS



Source: Dairy Market News



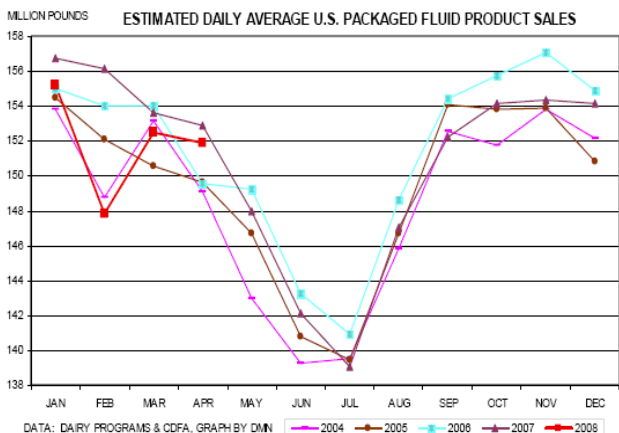
Source: Dairy Market News

Demand or Disappearance

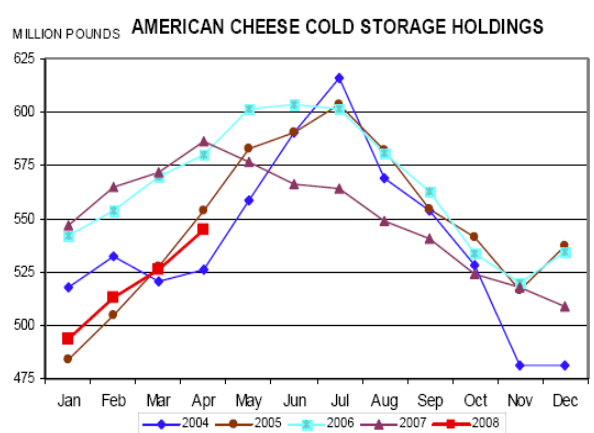
Exports for dairy products continue to be strong due to European demand and low Oceania product availability. April 08 US dairy exports totaled \$362 million, up 3% from March but 232% more than one year ago.

USDA forecasts domestic commercial disappearance to be up 1.2% for 2008 and + 2.1% for 2009. Total first quarter milk use is up 3.7% for 2008 which is 0.4 percentage points higher than one year ago. Fluid milk products were off 2% during first quarter 2008. Of the dairy components for the dairy CPI, fluid products are increasing at faster rate than butter or cheese. American style cheese use for first quarter 08 increased 1.7% while other cheese use increased 1.1%.

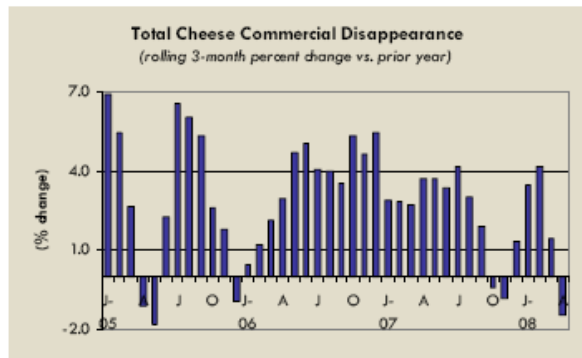
Production figures for April 08 show total cheese production up 1.4% from one year ago and year to date up 0.8%. American style cheese increased 3.4% and all Italian style cheese was down 0.1%.



Source: Dairy Market News

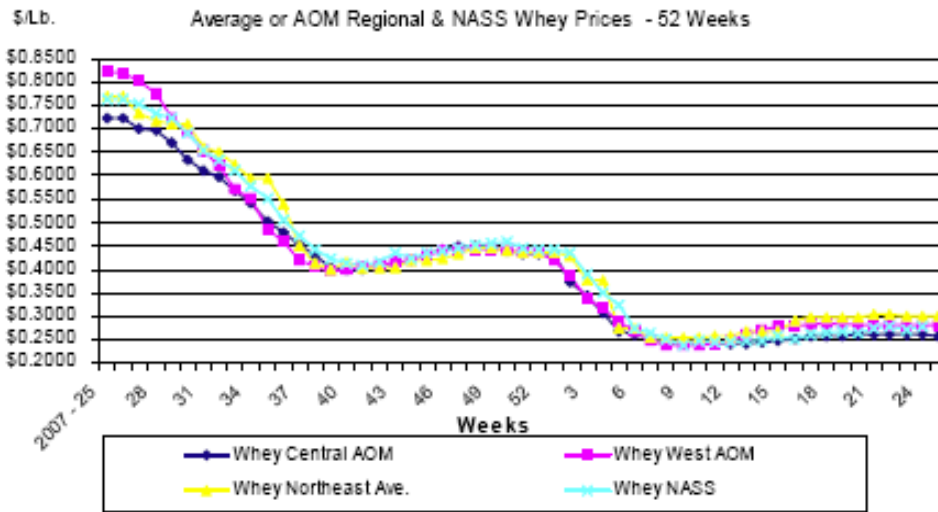


Source: Dairy Market News



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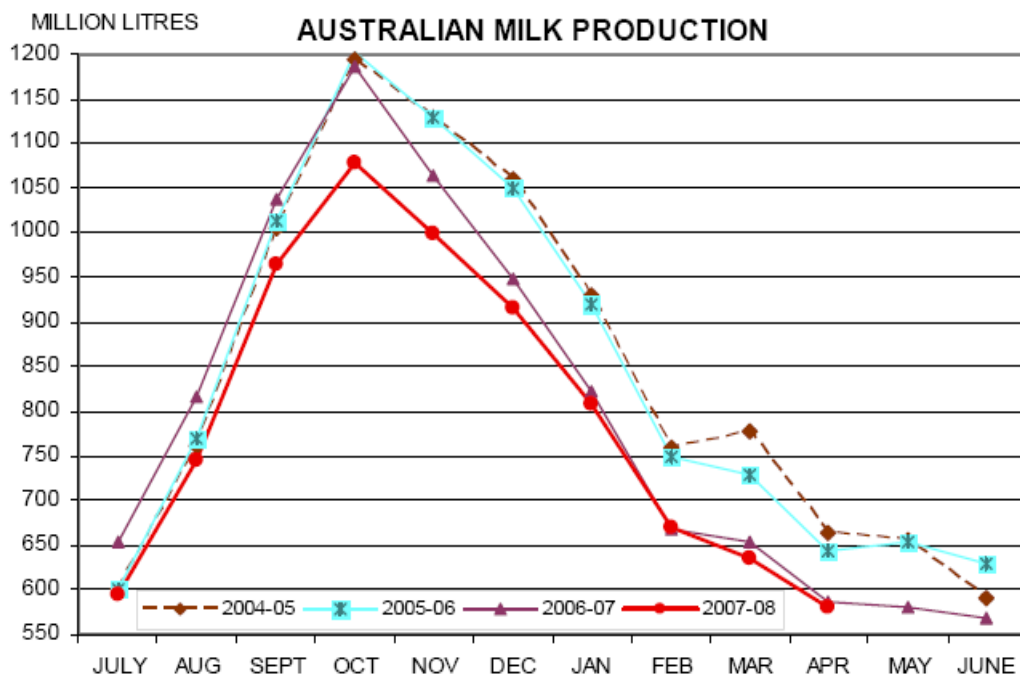


Source: Dairy Market News

Analysis

USDA reported April dairy cow slaughter was 5700 higher than one year ago. Some of these were part of the last CWT herd reduction. For the last 9 years, April slaughter has averaged 10,600 less than went during April 08. The 23 major dairy states are still increasing dairy cow numbers. The question is why. Recall that the dairy heifer inventory was very large on January 1. In fact since 2000 the replacement inventory is 12.8% higher now.

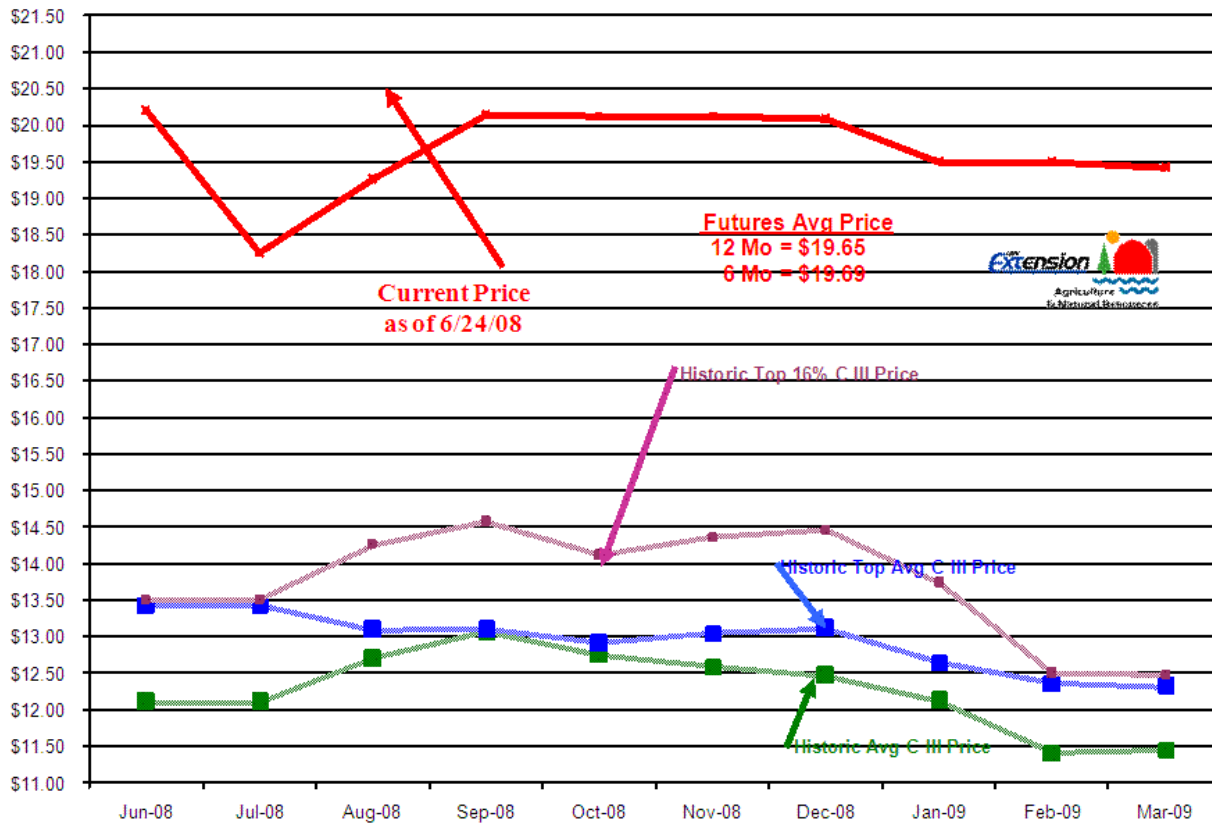
New Zealand and Australia continue to have milk production difficulties due to drought. The chart below shows the weakness in Australian milk production. Reports of some dairy processors in Oceania indicate they are discontinuing some products due to a lack of milk supply. A Russian company has become more involved in the full ownership of a New Zealand dairy processor, this first there. Dutch dairy farmers took over nine dairy plants to protest low milk prices. A milk with-holding action took place in Germany recently. At least some milk was dumped. The European dairy industry is coming under pressure from milk prices lower than the US and increased milk production costs.



DATA COURTESY OF DAIRY AUSTRALIA LTD.

Source: Dairy Market News

Milk pricing opportunities continue to be available for dairy farm operators, although CME cash cheese prices have declined from their peak. The image below presents Class III closing prices as of June 24, 2008 and their relationship to historic prices. These prices have begun at least a short-term decline with the recent fall off in cash cheese prices at the CME. The most recent milk-feed ratio was calculated at 1.83. The US dairy industry should begin to reduce its dairy herd soon. Milk cow and replacement heifer prices have not shown weakness however.



Source: Hedging Opportunity web site, UWEX

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