

Iowa Farm Outlook

Department of Economics
Ames, Iowa

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Cattle Market Situation and Outlook

The USDA mid-year Cattle report estimated that there were 104.3 million cattle in the US on July 1, 2008. This figure is a half a million head fewer than July 2007 or about 0.5% smaller inventory. This smaller inventory coupled with fewer cows and heifers retained indicate that the herd liquidation is continuing.

The number of cows and heifers that have calved also decreased slightly, down 100,000 from the year before. Beef cow numbers were off 200,000 (-0.6%) while there were 100,000 (+1.1%) more dairy cows. The number of heifers kept as beef replacements decreased 100,000 head or 2.1%. Table 1 contains a summary of the cattle report.

Table 1. July Cattle Report Summary

	US Million Hd.	% chg.
All cattle	104.3	-0.5%
Cows	42.4	-0.2%
Beef Cows	33.15	-0.6%
Dairy Cows	9.25	1.1%
Heifers	16.5	-0.6%
Beef Replacement Heifers	4.6	-2.1%
Dairy Replacement Heifers	3.9	0.0%
Other heifers	8	0.0%
Steers	14.7	-1.3%
Calves under 500 lbs	28.6	-0.3%
2008 calf crop	37.25	-0.3%
Cattle on feed	11.7	-4.9%

The once predictable cattle cycle appears to have changed. July total cattle inventory reached a low of 103.4 million head in 2004 after a steady decline from its recent peak of 113.0 million in 1995. This nine year liquidation was followed by a two year expansion to 105.2 million head in 2006 before declining in 2007 and 2008. Higher beef cow slaughter and lower heifer retention points to a continued decline in cattle inventory for a least another year. Given the higher cost of gain pressuring calf prices and higher hay and grazing costs pushing cowherd costs higher, the liquidation will likely continue for several years.

Near term, then number of cattle on feed in all feed lots was down 5% from the year before. The decrease is due mostly to delayed placements. The number of feeder cattle weighing over 500 pounds that are outside feedlots was up 400,000 head or 3.8% from last July. This was the lowest July cattle on feed inventory since 1999 when

there were 11.5 million compared 11.7 million this year. The number of feeder cattle available for placement was identical to 1999 at 11 million head.

In 1999 prices averaged \$64 on July 1st, reached a fall high of \$71 (+11%) on December 1st and a spring high April 21st of \$74 (+16%). The first week of July, 2008 prices averaged over \$101. The same percentage change would have a fall high of \$112 and a spring high of \$117. December futures have traded as high as \$115 and returned to \$108 by late July. April 2009 futures were as high as \$118, but fell back to \$110.

Based on fundamental analysis, fed cattle prices are expected to average near \$100 in the 4th quarter, mid-\$90s in the 1st quarter, low \$100s in the 2nd and mid \$90s in the third. As noted, futures are currently trading higher than the fundamentals would indicate.

The trade appears to be anticipating lower carcass weights, lower imports and stronger exports, and less competing meats to push the market higher. Carcass weights that have been higher than a year ago have returned to the record high set in 2007 but are moving lower. Through the first 5 months of 2008, beef imports were down 18% and exports were up 30% and these trends are expected to continue through the second half of the year. Poultry supplies are expected to decrease, but only modestly as egg sets and chick placements were down 1-2%. Pork supplies are expected to remain larger than 2007 levels until late in the year. There is also an anticipation that the supply of market ready cattle will decline sharply. However, the July Cattle on Feed report indicated that the number of cattle on feed 120 days and 90 days is the same as last year.

Feeder cattle prices will depend largely on fed cattle and corn prices and there is expected to be considerable volatility in both through the remainder of the fall. Fed cattle prices issues were discussed earlier. Corn prices retreated from their peak in late June, but will be sensitive to weather for pollination and an early frost. The feeder cattle market will also be influenced by winter grazing conditions with higher prices resulting from better wheat grazing.

Fall marketing decisions for cowherd owners will depend largely on basis as the price spread between feeder and fed cattle has narrowed from earlier years. Each feeder cattle futures contract is trading within a \$1 range around \$114 from October through May 2009. Live cattle futures for June and August 2009 are currently \$108-110.

The three-year average basis for 550 pound steer calves November 1 has been a positive \$9-10/cwt. That basis would put steer calves this fall in the \$124 range based on current futures prices. Similarly, the three-year average March basis for 750 pound steers has been a positive \$2/cwt or a current forecast of \$116 for March 2009. This same calf finished in August would face a negative \$2 basis or a forecast price of \$108. Thus, there is currently an \$8 spread between calf and yearling and another \$8 between yearling and fed cattle.

The marketing decision of whether to sell a calf at weaning, a yearling in the spring, or finished steer in the summer depends in large part on cost of gain. The breakeven cost of gain needed to go from 550 in November to 750 in March at the prices above is \$94/cwt. To go from 750 in March to 1300 in August the breakeven cost of gain is \$97/cwt. Farmers should evaluate their marketing alternative carefully and use realistic values for cattle performance and opportunity cost of their inputs such as feed and labor. They should consider other marketing costs such as trucking, shrink and commissions, their ability to manage the cattle to achieve optimal return, and the risk associated with each marketing alternative.

*John Lawrence
Shane Ellis*

We are pleased to announce that Chad Hart is the new ISU Grain Marketing Specialist. Chad previously worked with the ISU Center for Agricultural and Rural Development, and was head of their division for Biorenewables Policy. We welcome Chad and his contributions to the IFO Newsletter.

Issues in the Grain Sector

The latest Crop Progress report gave the markets another indication that the corn and soybean crops are continuing to improve with fairly decent crop weather having prevailed since the flooding in June. Corn rated good to excellent in the 18 state region covered in the report increased for the sixth consecutive week, one of the longest such runs in recent history. The soybean crop has also improved since the floods. Tables 1 and 2 show the good to excellent crop percentage ratings for the period just after the flooding (June 23), last week, and this week. For corn, 9 of the 18 states and the overall average show improving crop conditions since June and since last week. 3 states, Colorado, Kentucky, and South Dakota, has experienced declines in the corn crop. A similar story holds for soybeans as 7 states and the overall average show improvement and 4 states (Arkansas, Kentucky, Michigan, and Tennessee) have seen declines.

Table 1. Corn Crop Rated Good to Excellent

State	June 23	July 21	July 28
	(percent)		
CO	59	51	48
IL	56	68	70
IN	59	63	71
IA	50	62	59
KS	49	53	56
KY	87	83	75
MI	75	83	78
MN	62	69	73
MO	43	48	48
NE	70	75	76
NC	25	21	26
ND	62	65	65
OH	58	64	63
PA	72	67	75
SD	75	78	83
TN	86	63	57
TX	31	35	33
WI	57	70	74
18 State	59	65	66

Table 2. Soybean Crop Rated Good to Excellent

State	June 23	July 21	July 28
	(percent)		
AR	54	52	49
IL	51	59	62
IN	54	58	65
IA	50	61	62
KS	48	65	62
KY	73	72	65
LA	57	46	47
MI	68	68	60
MN	62	69	74
MS	70	50	51
MO	34	42	40
NE	69	75	76
NC	51	37	51
ND	76	77	79
OH	57	53	57
SD	74	79	83
TN	83	60	52
WI	50	67	67
18 State	57	61	62

Corn at the silking stage is at 59%, 22% behind the 2003-2007 average. Corn at the dough stage is at 7%, 15% behind the average. Soybeans also lag behind the 2003-2007 averages. 62% of soybeans are at the blooming stage, 17% behind. 21% of soybeans are setting pods, also 17% behind average. Thus far, soybean rust has been confined to the Gulf Coast. Soybean aphids have been spotted in several Midwestern states, but have presented a significant problem as of yet

Figures 1 and 2 show the price paths for nearby corn and soybean futures during 2008. The improvements in the corn and soybean crops, along with the pullback in crude oil prices, have helped push prices back down to levels seen just before the spring flooding. However, the markets are still poised to head back to higher levels if weather conditions deteriorate, especially if hot and dry conditions are forecast for the upper Midwest.

Figure 1. Nearby Corn Futures

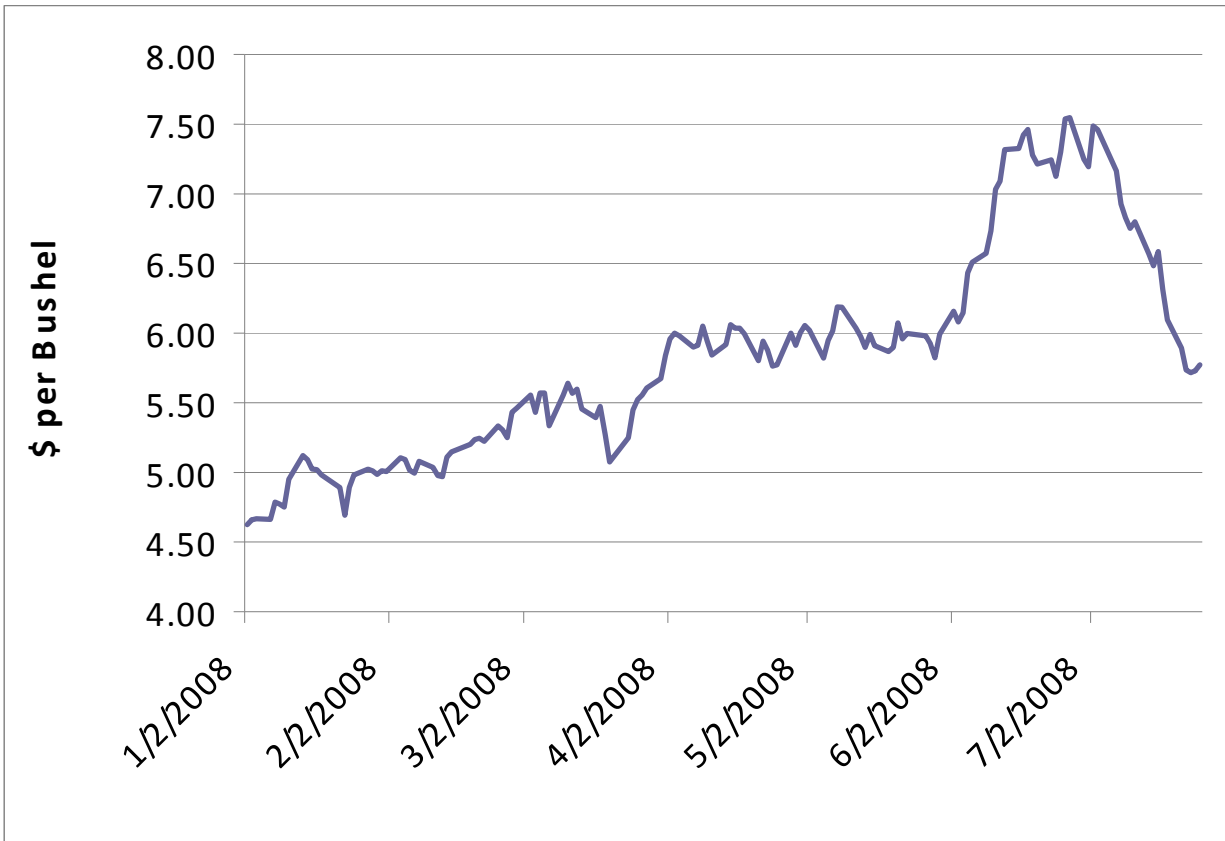
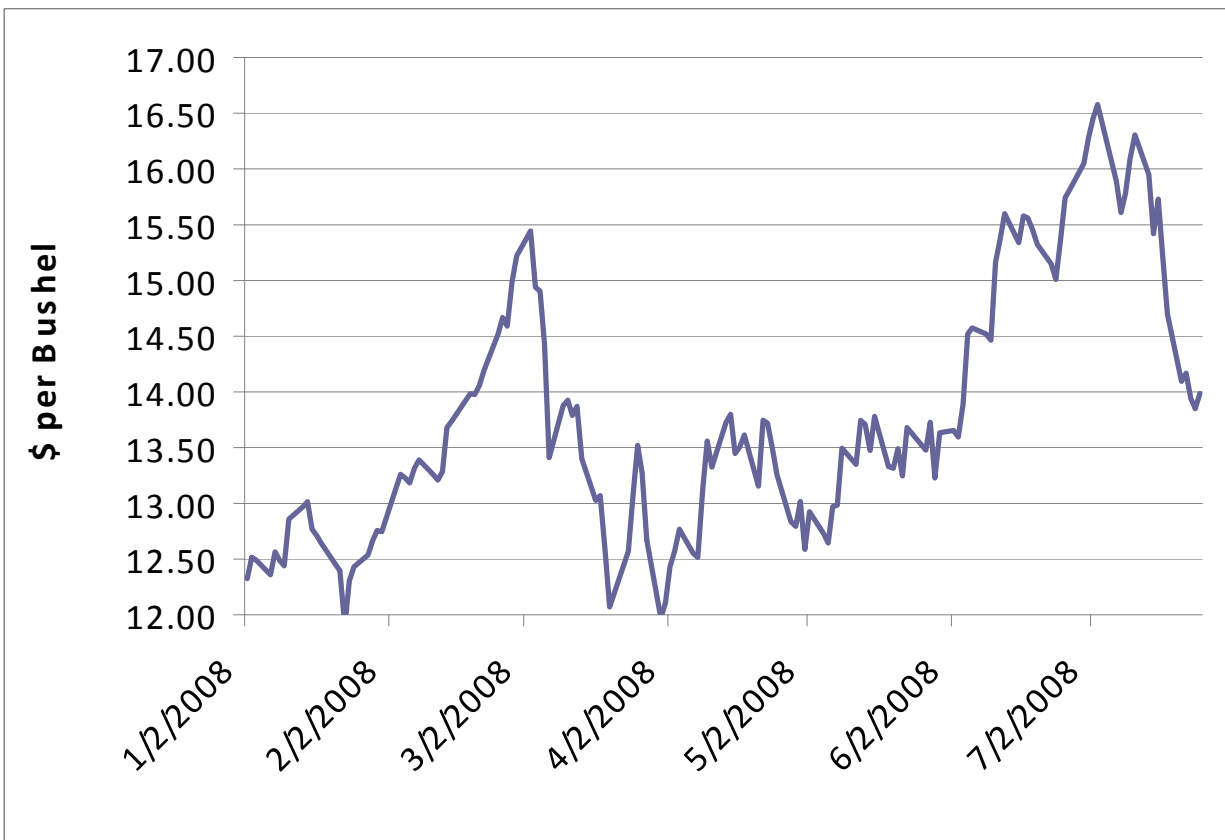


Figure 2. Nearby Soybean Futures



The next big set of crop reports comes out August 12. Both the World Agricultural Supply and Demand Estimates report and the Crop Production report will be released then. The combination of these reports will provide updates on projected crop yields, prices, and acreage. To account for the shifting acreage due to flooding and replanting, USDA is re-surveying roughly 9,000 farmers in flood-impacted areas to get a better sense on 2008 acreage. The August Crop Production report also contains yield estimates for the crop year based on field-level observations. Based on the August production estimates from 1987 to 2006, the August Crop Production report typically underestimates crop production for both corn (13 out of 20 years) and soybeans (12 out of 20 years). The average difference is roughly 400 million bushels for corn and 140 million bushels for soybeans. Based on previous years, USDA has indicated the 90 percent confidence intervals for both crops are approximately +/- 11% of estimated production.

Over the next few weeks, the markets will continue to monitor the weather and the USDA Crop Progress and Production reports for signs of weakness in crop development. The export picture will bear watching too, as Argentina has suspended its export tax hikes that had been put in place over the last few months. Another looming issue will be the competition for acres in 2009. With December 2009 corn prices remaining above \$6.00 per bushel and November 2009 soybean prices also above \$13.50 per bushel, both crops are set up to compete strongly for area in 2009.

Chat Hart

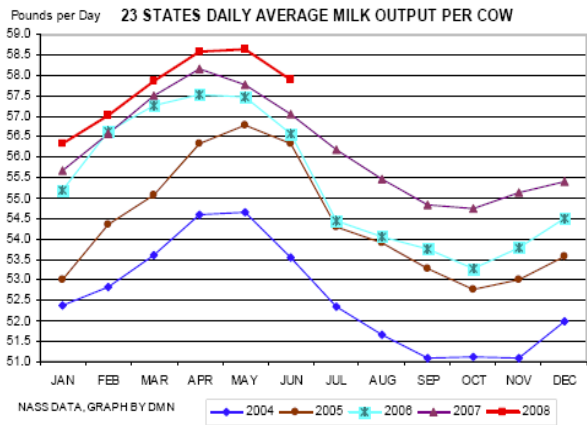
Milk Production up 3.4%, Cheese Hits Record Prices

June 2008 23 major dairy states milk production rose 3.4%. Production per cow was 25 pounds higher for June. Milk cow numbers were 158,000 more than June 07 but only 1000 more than May 08. March milk production was revised up by 14 million pounds or 0.1%. Second quarter 08 US milk production totaled 48.7 billion pounds, up 2.7% from the same period in 2007. Milk cow numbers averaged 136,000 more as well to 9.27 million head. Second quarter 08 milk production in NE was -3.6% with 2000 fewer cows, ND -7.8% with 3000 fewer cows and SD +6.5% with 4000 more cows. The most rapid drop in milk production occurred in HI - 50.5%.

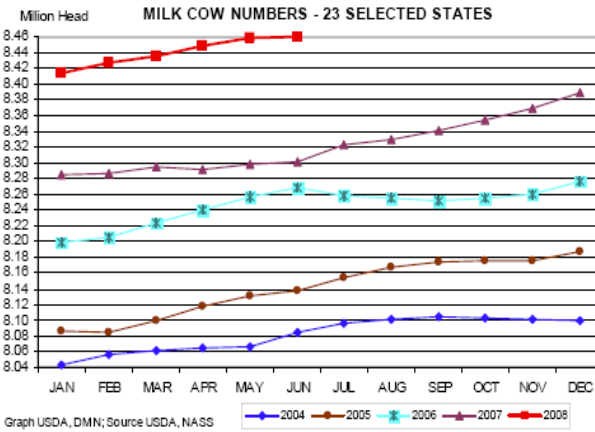
Iowa June 08 milk production was down by 0.6% compared to one year ago. Again cow numbers were higher than one year ago, 2000, but milk production per cow was 25 pounds lower. March 08 cheese production was 18.3% higher than one year ago and 7.4% more than Feb 08. Second quarter 08 milk production was 0.2% lower in Iowa than one year ago. Milk cow numbers were 4000 more which means cows productivity declined. Milk per cow was 5060 pounds for second quarter 08 versus 5165 for second quarter 07. May 08 total cheese output in Iowa was 16.7% higher than one year ago and 4.1% greater than the previous month.

Milk Production: Selected Dairy States, June 2008

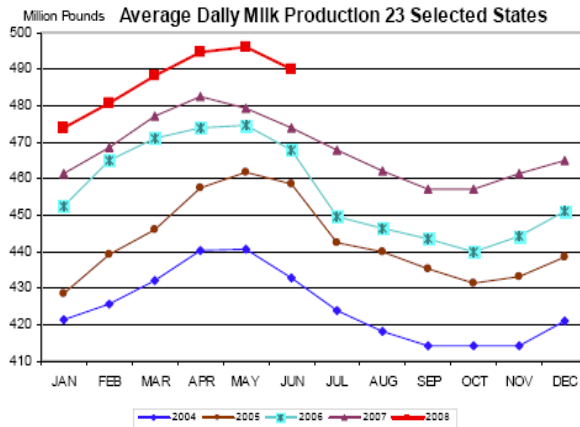
State	thousands			pounds			million pounds		
	2007 cow numbers	2008 cow numbers	% change cow numbers	2007 milk per cow	2008 milk per cow	% change milk/cow	2007 total milk production	2008 total milk production	% change total milk
Iowa	214	216	0.93%	1675	1650	-1.49%	358	356	-0.56%
MN	460	463	0.65%	1565	1590	1.60%	720	736	2.22%
WI	1247	1252	0.40%	1620	1640	1.23%	2020	2053	1.63%
IL	103	102	-0.97%	1550	1565	0.97%	160	160	0.00%
CA	1811	1848	2.04%	1845	1850	0.27%	3341	3419	2.33%
CO	118	128	8.47%	1960	1940	-1.02%	231	248	7.36%
ID	508	550	8.27%	1910	1910	0.00%	970	1051	8.35%
NM	335	340	1.49%	1815	1970	8.54%	608	670	10.20%
PA	549	546	-0.55%	1590	1630	2.52%	873	890	1.95%
NY	626	626	0.00%	1620	1680	3.70%	1014	1052	3.75%
TX	348	377	8.33%	1740	1870	7.47%	606	705	16.34%
23-State	8302	8460	1.90%	1712	1737	1.46%	14216	14697	3.38%



Source: Milk Production, NASS



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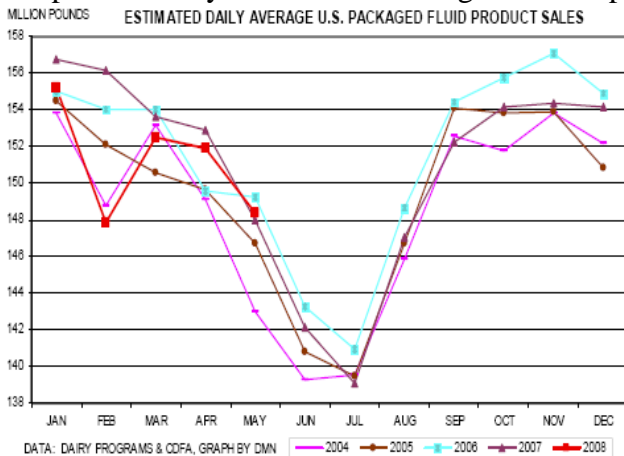


Source: Milk Production, NASS

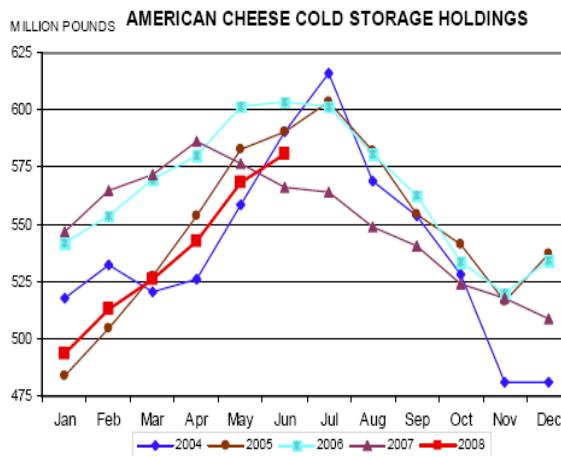
Demand or Disappearance

High fluid milk prices have hit retail milk sales. All food prices for May 08 rose 5.1%, but dairy product prices were 11% higher than one year ago. Beverage milk sales Jan-May 08 were down by 0.8% from one year ago when calendar adjusted. Cheese sales are weaker as well with Jan-April American cheese up only 1.4% and sales of other cheese styles down by 0.6%. Butter sales are a bright spot with Jan-April sales 21.8% higher than the same time last year. Butter stocks as of May 31 were 2.7% lower than one year ago while 10.9% above the 5-year average.

Dairy product production remains stronger than one year ago. Total cheese for May 08 was 828 million pounds, up 0.5% compared to May 07 and 2.3% more than the previous month. Italian style cheese was 1.7% below May 07 but up 0.6% compared to the previous month. American style cheese production for May rose 4.5% compared to May 07 and was 3% higher than April 08.

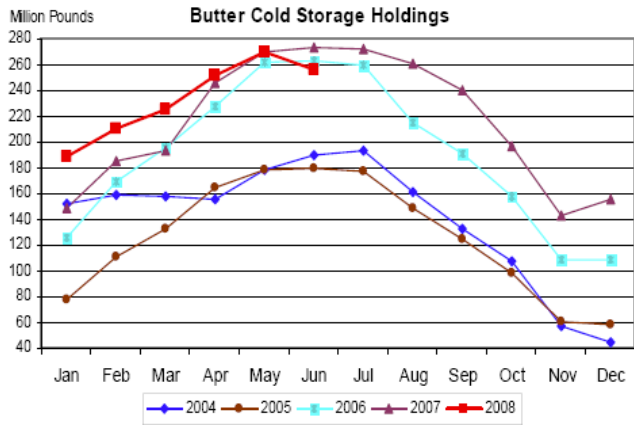


Source: Dairy Market News



Source: Dairy Market News

Butter production was 15.8% ahead of May 07 but 4.4% less than April 08. Butter churns are now competing for cream supplies that could go to ice cream manufacture as well. CA butter production rose by 27.6% from one year ago and was -1.4% from the previous month. WI butter though was off by 4.9% from May 08 while it was off by 1% from April 08. Even with higher butter production cold storage holdings dropped.



Source: Dairy Market News

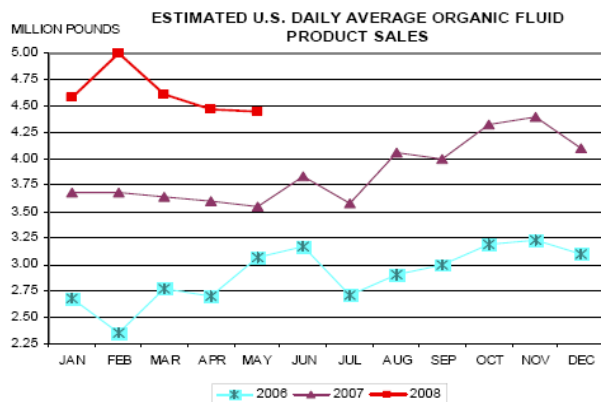
Dry milk product manufacture rose 11.8% from one year ago while it dropped 3% from April 08. Skim milk powder rose 250.4% from one year ago. Dry whey product production mostly dropped. Dry whey for human consumption -2.2%, for animal consumption -3.9% for a total dry whey manufacture -2.3% from one year ago

Analysis

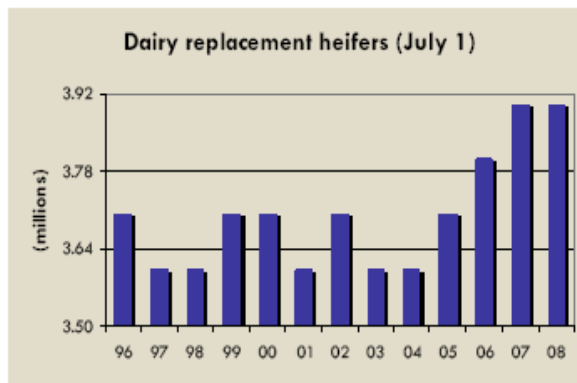
The US economy is showing continued weakness which may translate to reduced dairy product consumption. Fluid milk consumption has been weak for several months now and organic fluid milk consumption is showing weaker growth as well. The weak US dollar has been very helpful for dairy product exports. But the weak dollar has raised cost through higher energy costs. Higher oil prices also have helped increase feed cost through the use of corn for ethanol. Ethanol prices are now following oil prices.

Dairy replacement inventory is near a 10 year high. Even though dairy cow slaughter has been running at 6-9% above year ago levels in recent weeks, more than enough dairy heifers remain to continue dairy herd expansion. Also we now have the import of Canadian cows available which was not the case early in the year. This import amount however is likely to be more than the most recent CWT bid number of 25,474. Historically approximately 60,000 head of dairy animals were exported from Canada to the US prior to December 2003.

The June milk-feed price ratio continues to be extremely weak, 1.78, but its relevance is being debated. Dr Ken Bailey argues that income over feed cost (IOFC) is more useful for comparison. Bailey calculates a 2004-07 IOFC average of \$10.37. He calculates June 08 IOFC at \$8.50 and May 08 at \$8.35.



Source: Dairy market News



Source: Daily Dairy Report

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