

# Iowa Farm Outlook

Department of Economics  
Ames, Iowa

June, 2009

Econ. Info. 1990

## Summer Season Outlook

As the summer season starts into full swing it is a good time to examine the current condition and outlook of the meat markets. Both pork and beef production have declined from a year ago. Lack of profitability and high feed costs have encouraged both industries to tail back production. While pork production is lower this year there has also been weaker demand. All food commodities have been affected by the change in consumer spending in the down economy. Pork exports are down almost 7 percent so far this year. A year ago robust exports and strong domestic demand utilized a mountain of pork in cold storage. While this year's volume of pork in cold storage has been less than a year ago, volumes have started to trend higher at the time that last year's volumes started to decline.

**Table 1. Meat Supply Summary**

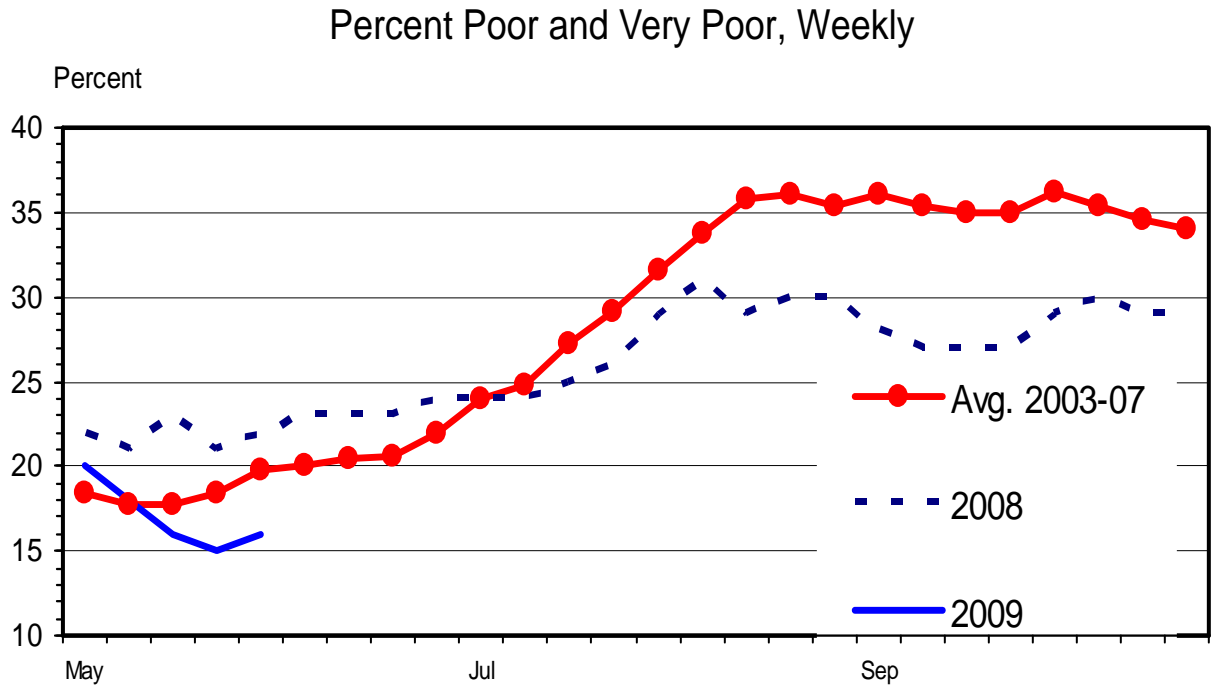
	Volume	% chg from last year
May Cattle on Feed	10.82 Million Hd.	-2.81%
April Steers Carcass Weights	829 lbs.	+1.47%
April Cow Slaughter	0.47 Million Hd.	-6.04%
YTD Cow Slaughter	2.02 Million Hd.	+1.56%
YTD Beef Cow Slaughter	1.04 Million Hd.	-5.63%
YTD Beef Production	8,380 Million lbs.	-2.85%
YTD Beef Exports	384 Million lbs.	+6.55%
YTD Beef Imports	704 Million lbs.	+10.37%
April Beef Cold Storage	411 Million lbs.	-1.31%
YTD Pork Production	7,735 Million lbs.	-3.78%
YTD Pork Exports	1,033 Million Hd.	-6.56%
April Pork Cold Storage	615 Million lbs.	-7.35%
April Red Meat Cold Storage	1,053 Million lbs.	-4.60%

Cattle on feed numbers although lower than a year ago are slowly closing the margin of difference. Carcass weights are up from a year ago as feeders hold cattle longer to heavier weights. The tighter supplies of fed cattle will continue through the end of the year. From the latest range condition report it is unlikely that a drought occurrence will incur a mass placement of early wean calves.

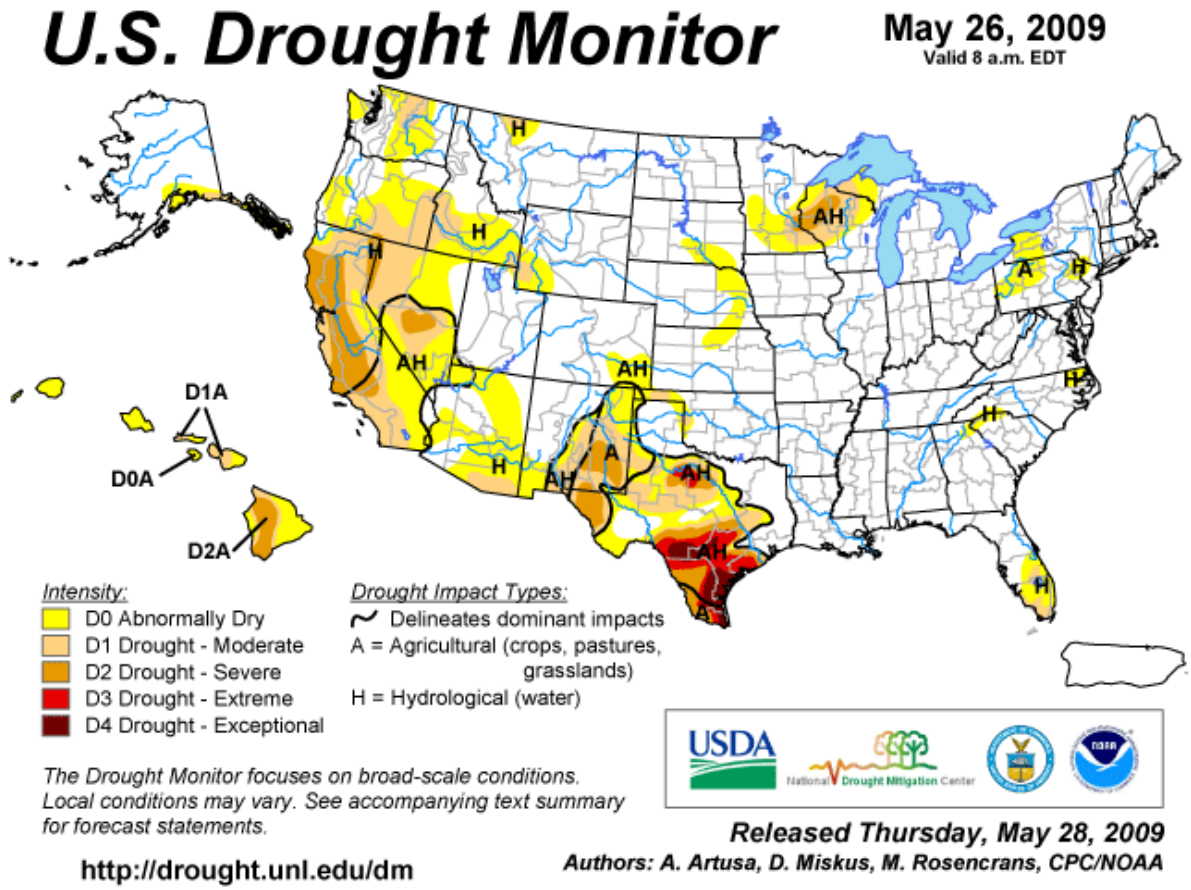
### Pasture Conditions

The nation's range and pasture conditions are starting out the year in good condition. Sufficient precipitation earlier this spring in the grazing states kicked off the growing season. Only about 16% of grazing land is in poor condition, a much better start than last year and the previous historic average. Figure 1 tracks the percent of range and pasture that are in less than fair condition. Figure 2 maps the locations in the US where drought conditions exist in the US. The availability of the forage will impact the industry in several ways. First, there will be plenty of feed for stockers, lightening the supply of feeder cattle available for feedlot placement. Last year feedlot placements were lighter when corn prices were reaching record highs. Second, with added grazing resources available there will be less pressure to cull cow herds. Although the number of beef cows will be lower, the number of dairy cows entering the slaughter supply is increasing as the dairy industry continues to retract.

**Figure 1. US Range and Pasture Condition**



**Figure 2**

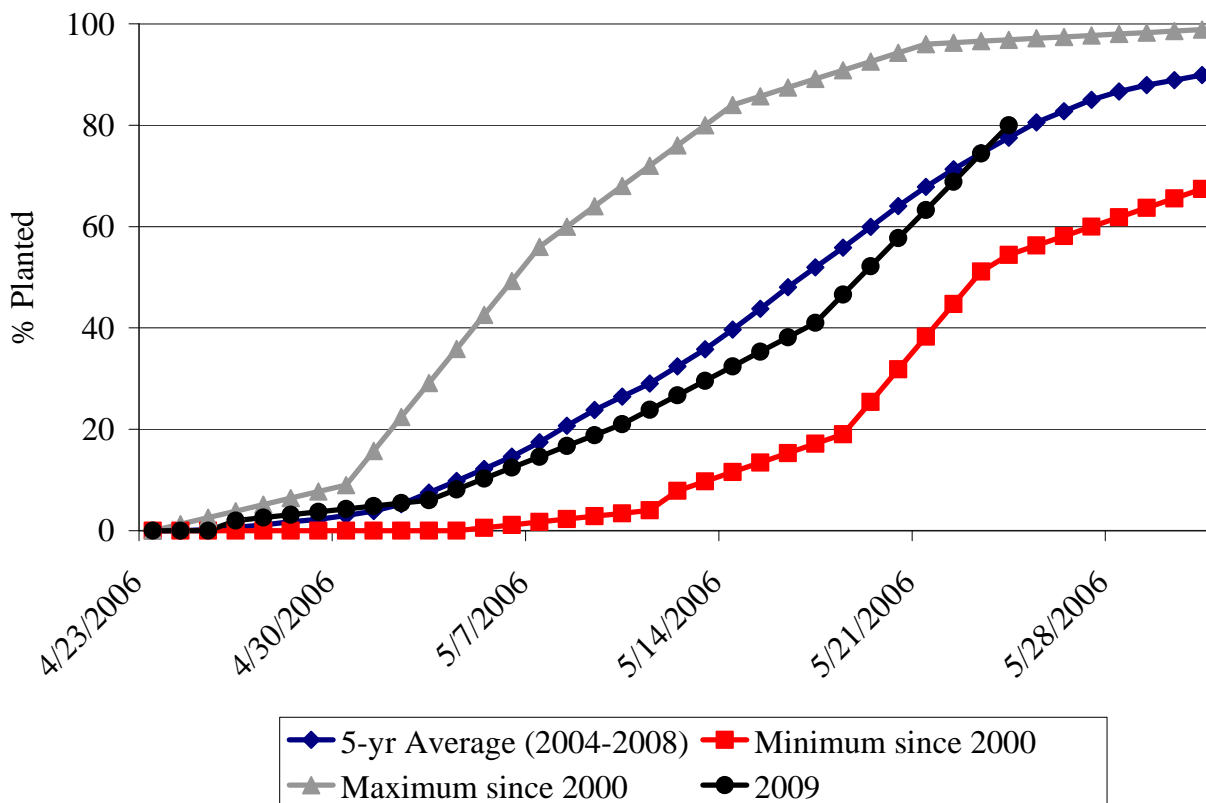


## Planting Delays and Higher Prices

The pace of planting and crop emergence are still the major topics of discussion for the 2009 crops. The weather over the last couple of weeks has allowed the eastern Corn Belt to pass the halfway point on corn plantings, but planting progress is still way behind the 5-year average. As of the Memorial Day weekend, corn planting in Illinois was at 62% and Indiana was at 55%. The 5-year averages are 96% for Illinois and 89% for Indiana. Iowa was right on the 5-year average, with 97% of the corn crop planted. Nationwide, 82% of the acreage intended for corn was planted, 11% behind the 5-year average. The delays in planting are also reflected in the corn emergence data. Just over 20% of the Illinois and Indiana corn crops have emerged thus far. Typically, 85% of Illinois' corn and 72% of Indiana's corn has emerged. For Iowa, corn emergence is slightly ahead of the 5-year average (78% vs. 76%). For the nation, 52% of the corn has emerged, 19% behind the 5-year average.

The delays on the corn side have also filtered back on soybean plantings. The patterns are roughly the same as for corn. The eastern Corn Belt is significantly behind schedule, while the western Corn Belt is slightly ahead of schedule. Figure 1 shows the soybean planting progress for Iowa. While we had been slightly behind the 5-year average earlier in May, the week leading up to Memorial Day allowed us to catch up. By June 1, Iowa producers have typically planted 90% of their soybeans. But while Iowa has planted over 80% of its soybeans, Illinois was at 12% and Indiana was at 25%. This puts Illinois 57% behind the 5-year average and Indiana 39% behind. Nationally, soybean plantings stood at 48% with the 5-year average at 65%.

**Figure 1. Soybean Planting Progress**



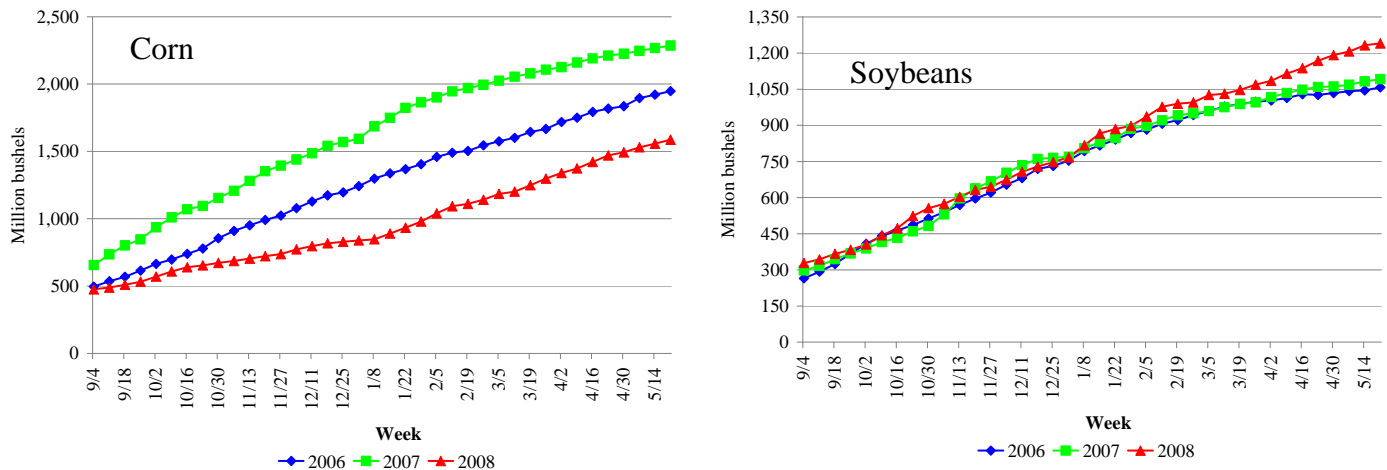
The delays in planting and emergence in the eastern Corn Belt are likely to have an impact of crop yields and crop mix. As we get deeper into the planting season, more farmers will shift area intended for corn to soybeans. The yield impacts of delayed planting and emergence have been outlined by many researchers in the crop sciences. Long-term research at Iowa State points to an optimal corn planting window between April 20 and May 5 for Iowa, with the soybean optimal planting window roughly a week later (see Elmore and Abendroth, ICM Newsletter, April 2009, and Pedersen, ICM Newsletter, April 2009). As yields decline, so do revenues. And with corn suffering larger yield declines due to crop delays, the economics eventually point to a shift to

soybeans. While Iowa producers have been able to plant their intended crops, farmers in the eastern Corn Belt are reanalyzing their planting decisions. Weather throughout the growing season will ultimately determine the crop yields for 2009 and late planting does not always lead to lower yields, it just significantly increases the odds. Producers in Illinois and Indiana could be holding out hope for a year like Iowa producers faced in 2008, early season woes were offset by nearly ideal conditions in the later half of the growing season, resulting in the 4<sup>th</sup> highest corn yield and the 8<sup>th</sup> highest soybean yield in the state.

## Exports and Biofuels

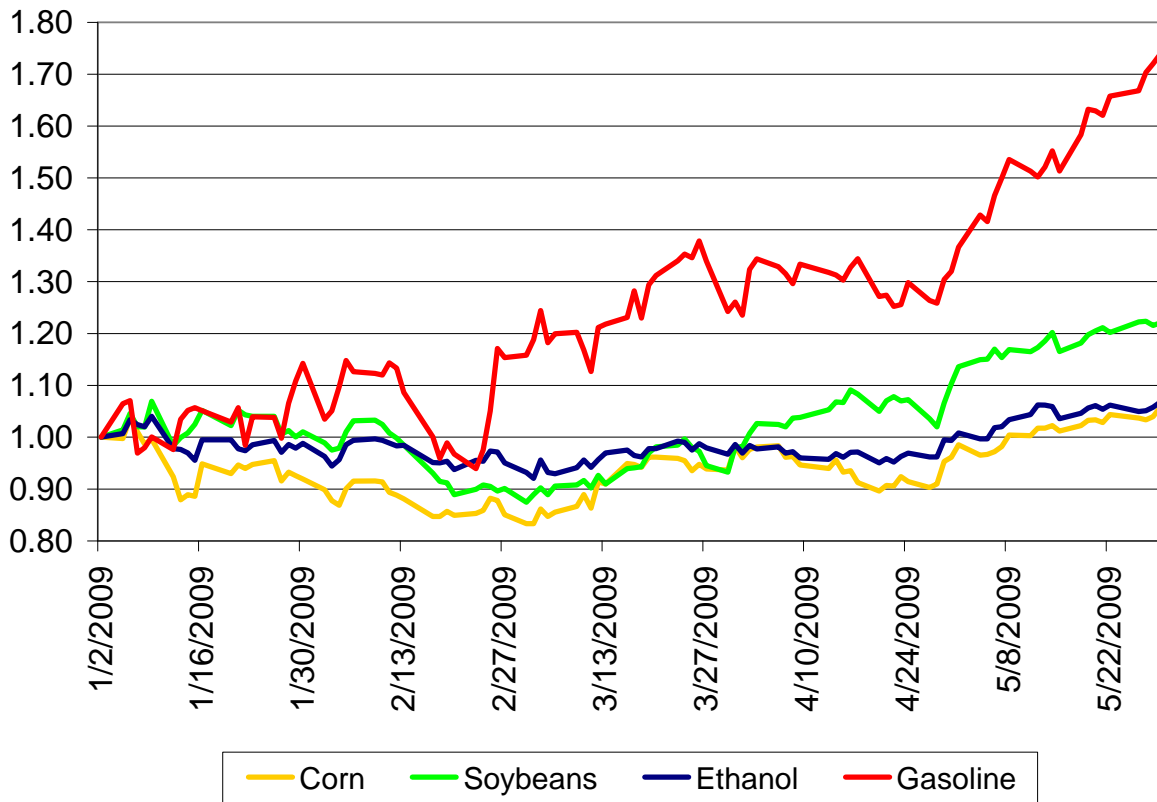
While the weather conditions and planting delays have helped boost new crop prices, exports and recent energy price moves have provided support for old crop prices. Figure 2 shows the amounts of corn and soybeans sold for exports during the last three crop years. As the corn graph displays, corn exports were off dramatically last fall, but have regained steam since the first of the year. On the other hand, soybean exports for the 2008 crop kept pace with 2006 and 2007 and carried that strength over through this spring. The decline in South American soybean production, in combination with the continued strength of Chinese soybean demand, allowed U.S. soybeans to maintain a very strong export pace. For 2009, corn and soybean export demand is projected to increase. On the corn side, international feed demand is expected to recover with the limited availability of feed wheat. Soybean exports are expected to continue at record pace, with China again leading the way.

**Figure 2. Corn and Soybean Exports**

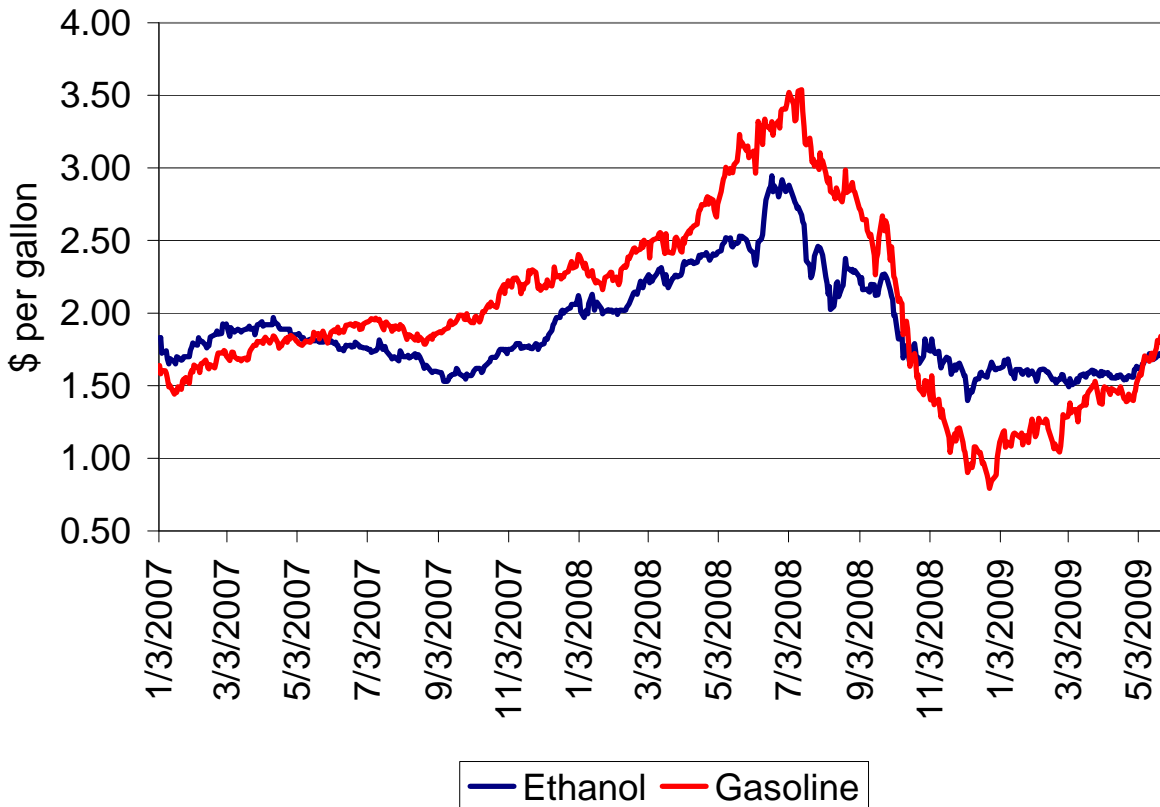


Biofuel demand has also started to rebound with higher fuel prices. Figure 3 displays the relative futures price movements of corn, soybeans, ethanol, and gasoline since the first of the year. While corn and ethanol prices are up roughly 5 percent, soybean prices are up just over 20 percent and gasoline prices are up over 70 percent. Most of the run-up in gasoline prices has occurred in May and the buildup to the summer driving season. Figure 4 shows ethanol and gasoline prices since 2007. As the graph shows, gasoline prices exceeded ethanol prices for most of 2007 and 2008, but with the crash in oil and gas prices though the later half of 2008 ethanol became the higher priced fuel. As ethanol was more expensive than gasoline, discretionary ethanol blending slowed, limiting demand. But within the last couple of weeks, gasoline prices have increased enough to overtake ethanol prices and the economics of blending again favor ethanol. Crude oil prices are trending higher, so gasoline prices will likely provide more breathing room for ethanol prices, and possibly margins, to increase. While the ethanol industry continues to face tough financial times, some of the plants that were shuttered by bankruptcies have returned to operation. Valero has five of the seven ethanol plants it purchased via the VeraSun bankruptcy operating and the final two plants are expected to be brought online in the next couple of months. Green Plains Energy has purchased two former VeraSun plants and Sunoco is rumored to have bought the Northeast Biofuels ethanol plant in upstate New York.

**Figure 3. Relative Price Movements (Jan. 2, 2009 Price = 1)**



**Figure 4. Fuel Prices**



The consolidation phase continues for the biofuel industry. With the number of bankruptcies we have seen in ethanol, more plants will likely be on the auction block. The moves by Valero and Sunoco show that oil and fuel blending companies are willing and able to jump into the industry. Biodiesel is also going through a round

of consolidation. Renewable Energy Group has agreed to purchase three additional biodiesel plants, bringing their production capacity up to 150 million gallons per year.

### **Bottom Line**

The planting delays, exports, and biofuel shifts have provided support for corn and soybean prices throughout the month of May. Based on the futures prices at the end of May, 2008 season-average price estimates were \$4.21 for corn and \$10.04 for soybeans. This corn price is right in line with USDA's estimate, and the soybean price is 15 cents above USDA. For 2009, the season-average price estimates are \$4.35 for corn and \$10.00 for soybeans. These estimates are well above the USDA estimates released in mid-May, \$4.10 for corn and \$9.45 for soybeans. Further delays in planting and emergence will support new crop prices, while tight stocks, especially for soybeans, will continue to support old crop prices. The latest USDA supply and demand report put 2008 soybean ending stocks at 130 million bushels, implying a 4.3% stocks-to-use ratio. If realized, that would be the smallest stocks-to-use ratio on record for soybeans. Thus, market prices have headed up to ration the limited remaining supply of soybeans.

Looking forward over the month of June, USDA will release 5 updates on crop progress with the first one possibly out before this article is printed. New supply and demand estimates for the 2008 and 2009 crops will be released June 10. And finally, USDA will publish its Acreage report at the end of the month. This report updates the USDA estimates for planted and harvested crop acreage based on surveys of producers during the first two weeks of June. Typically, by this time, most fields are planted and the numbers from the Acreage report form the new official USDA acreage estimates. Over the past 20 years, the acreage estimates for both corn and soybeans have been fairly close to the mark, within 600,000 acres on average, but do tend to overestimate the final acreage numbers.

*Chad Hart*

## **Current Indicators for the U.S. and Iowa Manufacturing Sector**

Manufacturing is a very important part of the Iowa economy. In 2007, 20 percent of the state's Gross Domestic Product was generated in that sector. Furthermore, once we take into account that sector's relationship to all of its suppliers, like the agriculture sector as well as other manufacturers, it is easy to see that even minor distress in this sector can have repercussions throughout the entire economy.

The well-being of manufacturing has special importance to Iowa's non-metropolitan communities, as they contain, relative to all other employment, a disproportionate share of jobs. As non-metro areas have less overall industrial diversity, the brunt of manufacturing sector stress often falls more heavily upon them. In all, an honest evaluation of the state's economy during this downturn as well as its prospects must consider the vibrancy of Iowa's manufacturers.

Below is a summary of four different sources of national and Iowa data that describe recent activity in the manufacturing sector. These sources also provide some indication of expected levels of manufacturing activity in the near future. The first three are national indicators, and the last one is Iowa-specific. The indicators are giving us mixed signals about the manufacturing sector as a whole and in Iowa.

The Federal Reserve tracks industrial production and capacity utilization on a monthly basis. The production index measures real output and is expressed as a percentage of real output in a base year, currently 2002. Data released in May 2009 for the month of April indicate that total industrial production decreased 0.5 percent in April after having fallen 1.7 percent in March. Production in the manufacturing sector declined 0.3 percent in April after falling 2.1 percent in March. April manufacturing production was 16.0 percent below its recent peak in December 2007. The decreases in manufacturing in April were broadly based across industries:

- The production index for durable goods decreased 0.3 percent. Most categories declined, but those declines were partially offset by gains in the production of wood products, nonmetallic mineral products, motor vehicles and parts, and miscellaneous manufacturing.

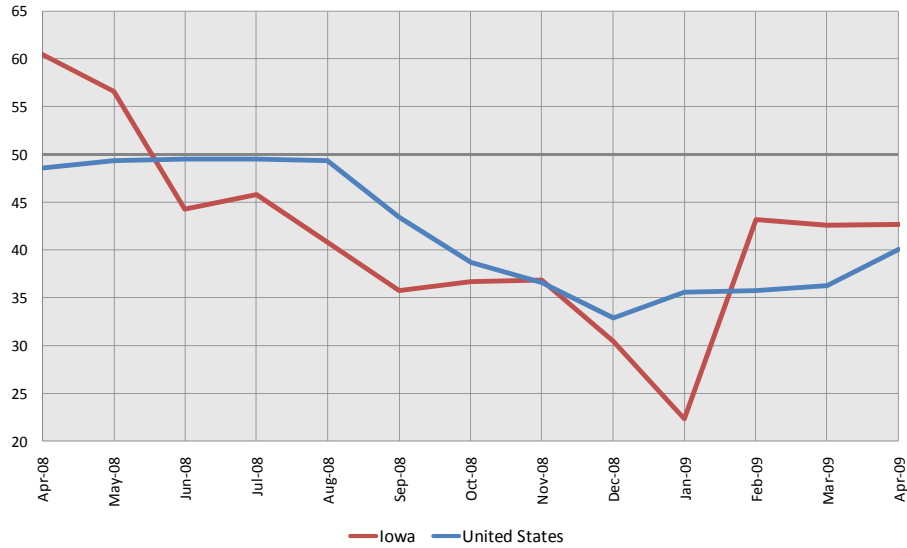
- The production of nondurable goods edged down 0.1 percent. The production indexes for paper products and for petroleum and coal products increased. The indexes for printing and support and for apparel and leather fell substantially. The output indexes for other nondurables industries were either unchanged or fell slightly.

On a monthly basis, the U.S. Census Bureau publishes the U.S. Manufacturers' Shipments, Inventories, and Orders (M3) survey. This survey of manufacturing activity is based on information obtained from most domestic manufacturing companies with \$500 million or more in annual shipments and selected smaller companies. The April advance report for the M3 survey shows that new orders of durable manufactured goods were up 1.9 percent in April. That gain, while higher than expected, came at the expense of downward revision of the previous month's orders. Other than new orders, the remaining indicators for durable manufactured goods showed declines. Shipments were down 0.2 percent for April, marking the ninth consecutive monthly decline. Unfilled orders decreased 1.2 percent, for the seventh consecutive month of decline. Finally, April was the fourth consecutive month of decline for durable goods inventories, with a decline of 0.8 percent. The Institute for Supply Management (ISM) provides yet another source for current information about the manufacturing sector with its monthly publication of the Manufacturing Report on Business. The composite index from this report, known as the Purchasing Managers' Index (PMI), is a closely-watched indicator of the health of the manufacturing sector. The PMI is based on data compiled from a monthly survey of purchasing executives in more than 400 industrial companies in twenty different industries and all 50 states. An index value greater than 50 suggests future expansion in the manufacturing sector. An index value below 50 suggests contraction.

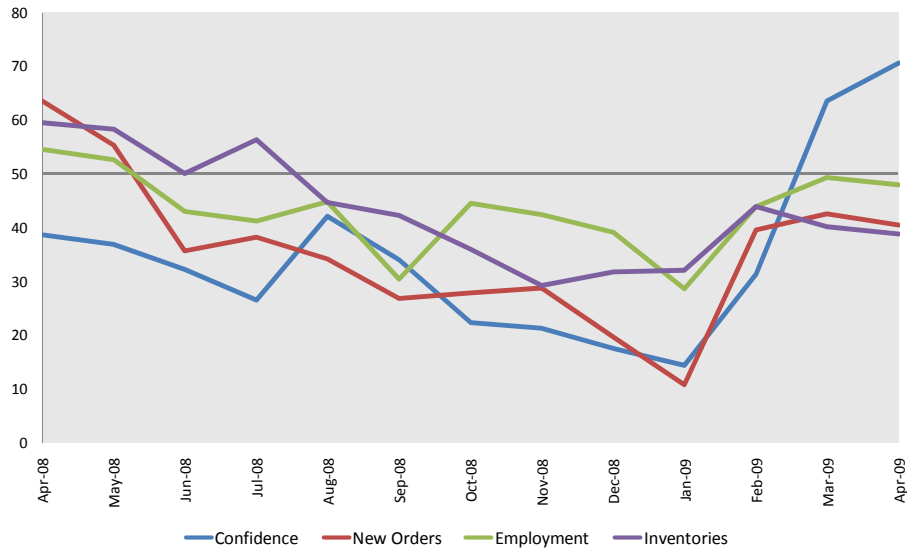
According to the ISM, May 2009 was the 16<sup>th</sup> consecutive month of decline for the manufacturing sector. The May PMI value was 42.8, which signals continued contraction in the overall manufacturing sector. Five of 18 manufacturing industries reported growth in May. They included: Nonmetallic Mineral Products; Plastics & Rubber Products; Machinery; Food, Beverage & Tobacco Products; and Printing & Related Support Activities. Among the contracting industries were Electrical Equipment, Appliances & Components; Fabricated Metal Products; Primary Metals; Transportation Equipment; Chemical Products; and Petroleum & Coal Products. For Iowa-specific manufacturing information, we turn to the Mid-American Purchasing Manager's Survey, published monthly by Creighton University. This index is similar in construction to the national PMI that is published by the ISM, but it focuses on Iowa and other Midwestern states. According to the most recent data available, Iowa's manufacturing sector was still signaling contraction in April 2009. Iowa's PMI for April was 42.7, substantially improved from the low of 22.3 in January of 2009.

The two figures below illustrate recent PMI data for the United States and Iowa. The first chart shows the monthly PMI values for the United States and Iowa during the last 13 months. The second chart illustrates four components of the overall Iowa PMI: confidence, new orders, employment, and inventories. Of the four, only the confidence measure is suggesting expansion.

**Manufacturing Conditions:  
Purchasing Managers Survey Index for the U.S. and Iowa**  
(Index values below 50 suggest contraction)



**Manufacturing Conditions:  
Components of the Iowa Purchasing Managers Survey Index**  
(Index values below 50 suggest contraction)



Evidence from these indicators suggests that it is too soon to make predictions about recovery in the manufacturing sector. Nationally, the pace of decline in the manufacturing sector appears to be easing, although overall production levels are still falling. By type of manufacturing activity, the indicators are mixed. Iowa's indicators suggest improved confidence within the state's manufacturing sector, but continued expectations for near-term contraction.

*Liesl Eathington  
Dave Swenson*



---

Dr. John D. Lawrence, Professor  
Extension Livestock Economist  
Iowa Beef Center, Director  
468 Heady Hall  
Phone: (515) 294-6290  
Fax: (515) 294-1700  
[jdlaw@iastate.edu](mailto:jdlaw@iastate.edu)  
[www.econ.iastate.edu/faculty/lawrence](http://www.econ.iastate.edu/faculty/lawrence)

Shane Ellis  
Extension Livestock Economist  
475 Heady Hall  
Phone: (515) 294-8030  
Fax: (515) 294-1700  
[shanee@iastate.edu](mailto:shanee@iastate.edu)  
[www.econ.iastate.edu/prosci/ellis](http://www.econ.iastate.edu/prosci/ellis)

Dr. Chad Hart, Asst. Professor  
Grain Marketing Specialist  
468 Heady Hall  
Phone: (515)294-9911  
Fax: (515) 294-1700  
[chart@iastate.edu](mailto:chart@iastate.edu)  
[www.econ.iastate.edu/faculty/hart](http://www.econ.iastate.edu/faculty/hart)

---

Robert Tigner  
Farm Management Specialist  
New Hampton, IA  
Phone: (641) 394-2174  
Fax: (641) 394-5415  
[rtigner@iastate.edu](mailto:rtigner@iastate.edu)  
[www.extension.iastate.edu/  
ag/fsfm/farmmg3.html](http://www.extension.iastate.edu/ag/fsfm/farmmg3.html)

David Swenson  
Economist  
177 Heady Hall  
Phone: (515) 294-7458  
Fax: (515) 294-4545  
[dswenson@iastate.edu](mailto:dswenson@iastate.edu)  
[www.econ.iastate.edu/prosci/  
swenson/swensonpage.htm](http://www.econ.iastate.edu/prosci/swenson/swensonpage.htm)

Liesl Eathington  
Economist  
175 Heady Hall  
Phone: (515) 294-2954  
[leathing@iastate.edu](mailto:leathing@iastate.edu)

---

Meghan O'Brien  
Extension Program Specialist  
171 Heady Hall  
Phone: (515) 294-4095  
[mcobrien@iastate.edu](mailto:mcobrien@iastate.edu)  
[www.econ.iastate.edu/prosci/obrien/](http://www.econ.iastate.edu/prosci/obrien/)

---

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write USDA, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.