IOWA STATE UNIVERSITY
University Extension

# Iowa Farm Outlook

Department of Economics
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## June Hog and Pig Report Summary
### Swine Industry Continues to Retract

A year ago it appeared that things could be turning around for the swine industry. Hog prices were up, domestic demand was strong and exports were growing at an unprecedented pace. There was optimism that despite extremely expensive feed producers would once again regain see some profitability. But after hog prices tumbled from record highs last fall there has been a very apparent need for more reduction in pork supply to even up with weaker demand. From the June Hog and Pig report it is apparent that the retraction continues and hog supplies are starting to decline. The US hog industry has reduced June sow inventories to their second lowest level on record, the lowest being in 2005. While year over year sow numbers have been declining for the past 15 months, market hog numbers have only declined in the past 9.

The US swine breeding herd now numbers 5.97 million head, down 2.7 percent from last year. Market hog numbers are down 1.9 percent to 60.1 million head. Total hog numbers are down 2 percent from a year ago at just over 66 million head. Farrowing intentions for the next quarter are down more than 3 percent, showing producer plans of continued thinning the sow inventories. Forth quarter farrowing are also expected to be down more than 2 percent. While the hogs from the first quarter pig crop are currently in the slaughter supply, fall hog slaughter will be similar to the levels of a year ago. Pig supplies have not declined as rapidly as the number of sows in part due to ever improving litter sizes which are 2.5 percent larger than a year ago. This improvement in efficiency decreases costs per pig and is a tribute to improved animal management, it has offset much of the needed reduction in production capacity. Table 1 summarizes the recent swine report for national and Iowa inventories.

**Table 1. June Hog and Pig Report Summary**

| | US | | Iowa | |
|---|---|---|---|---|
| | **Million Hd.** | **% chg.** | **Million Hd.** | **% chg.** |
| **All Hogs** | 66.08 | -2.0% | 19.60 | 1.0% |
| **Breeding Herd** | 5.97 | -2.7% | 1.02 | -5.6% |
| **Market Hogs** | 60.11 | -1.9% | 18.58 | 1.4% |
| Under 60 | 21.67 | -2.4% | 5.38 | -0.9% |
| 60 - 119 | 15.01 | -2.0% | 5.25 | 3.8% |
| 120 - 179 | 12.58 | -2.4% | 4.53 | 1.8% |
| 180 & over | 10.85 | -0.1% | 3.42 | 1.2% |
| **Sows farrowing** | | | | |
| Jun - Aug | 2.97 | -3.3% | 0.48 | -5.9% |
| Sep - Nov | 2.96 | -2.2% | 0.48 | -5.9% |
| **Pig Crop** | | | | |
| Dec - Feb | 28.39 | -3.8% | 4.70 | 0.3% |
| Mar - May | 28.55 | -0.3% | 4.68 | -3.7% |
| **Pigs per litter** | 9.61 | 2.5% | 9.65 | 3.2% |

In Iowa the reduction in sow numbers has been much more pronounced, with a 5.6 percent reduction in sow numbers from a year ago. There are now slightly more than a million breeding swine in the state. Iowa farrowing intentions are down nearly 6 percent for the next two quarters. The total number of market hogs in the state has increased 1.4 percent from a year ago as the state continues to import feeder pigs. However the number of light weight pigs (<60lbs.) is down nearly a percent. This is an early and albeit weak signal that the number of market hogs being fed may be starting to decline. With the production cost advantage that the state has, Iowa will be one of the last states to see a reduction in the number of hogs finished.

The hog market has been very slowly improving, slowly stepping producers up from the record large losses seen at the beginning of the year. Still losses are in the double digits and the badly needed improvement in hog prices does not appear to be in the near future. Usually during June there is a strong bull market for hogs, but any upturn in prices was much weaker than hoped or anticipated a few months ago. The appearance of the H1N1 virus with its misnomer “swine flu”, weaker than expected exports and a continuing global recession have dampened not only the upturn in prices but also hopes of any improvements for the rest of the year. Eight months ago, there were opportunities to hedge a hog-to-corn margin that would have put a hog producer in the black, but such opportunities do not appear to be available in the near future.

Table 2 contains the ISU and futures market forecast for live hog prices in the next four quarters, along with a forecast for domestic pork supplies. While the number of market hogs available is declining, remember that domestic supply is impacted by the amount of product being exported. Pork exports are down more than 11 percent this year compared to last. When previously 20 percent of last year’s supply was exported and now more than a tenth of that will remain in the domestic supply, a 2 percent reduction in market hogs is quickly mitigated. Hog slaughter weights are also up (an average 3-4 lbs) from a year ago. This is due partially due to the more temperate weather of the last spring and producers holding their hogs just a little bit longer in hopes that the expected summer price rally would come.

**Table 2. ISU and Futures Live Hog Price Forecast, Adjusted for Iowa Basis**

| | % chg in Supply | ISU Forecast $/cwt live | Futures Forecast 6-26-09 $/cwt live |
|---|---|---|---|
| Jul-Sep ‘09 | -0.5 | 42-45 | 41.33 |
| Oct-Dec ‘09 | -2 | 40-43 | 39.65 |
| Jan-Mar ‘10 | -2 | 44-47 | 45.00 |
| Apr-May ‘10 | -2 | 48-51 | 51.57 |

*Shane Ellis*

## Stocks, Acreage, and Surprises

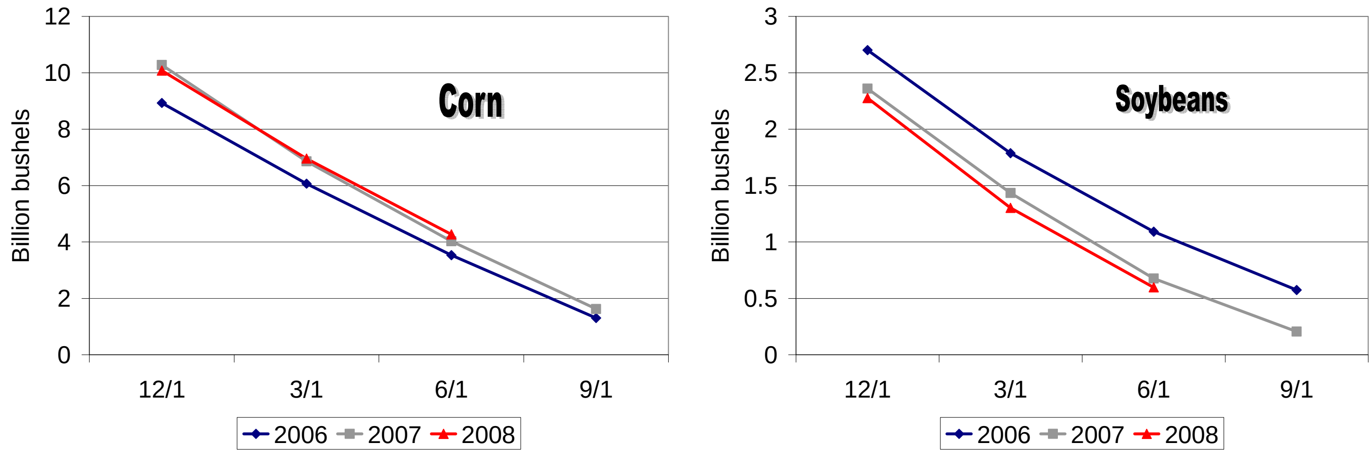
At the end of June, USDA released its Grain Stocks and Acreage reports. The stocks report fit somewhat within trade expectations, but the acreage report held some surprises in comparison to trade expectations. In the March 2009 plantings report, principal crop area in the U.S. was shown over 7.5 million acres lower than in 2008. By the June report, nearly half of that area had returned to crop production. Corn, soybean, and wheat planted area are all estimated higher than in March. For corn and wheat, the upward revisions were not expected and for soybeans the upward revision was not as high as expected.

**Grain Stocks**

National corn stocks on June 1, 2009 were computed at 4.27 billion bushels. This is up six percent from last year and slightly above trade expectations. On-farm corn stocks continue to lead the stock holding, up 12 percent from last year, while off-farm corn stocks are up slightly. Corn disappearance during the quarter was 2.69 billion bushels, down 5 percent from last year. The drop in disappearance is not surprising given the adjustments in the livestock industry and feed demand. For Iowa, corn stocks stand at 906 million bushels, up 3 percent from last year.

National soybean stocks on June 1, 2009 were estimated at 597 million bushels, down 12 percent from last year and in line with trade expectations. In the March report, soybean producers had been holding more soybeans on the farm this year than they did last year. With the June report, on-farm storage is roughly the same this year and last year. Off-farm stocks are down 12 percent. Quarterly soybean usage is estimated at 705 million bushels, down 7 percent from last year. Iowa’s soybean stocks are given at 134 million bushels, down 22 percent from a year ago. Both on-farm and off-farm storage is down significantly. Given these numbers and the recent slowdown in export pace for soybeans, USDA’s projection of 2008/09 soybean ending stocks of 110 million bushels may be a bit too low.

**Figure 1. Corn and Soybean Stock Levels for the 2006-2008 Crop Years**




Wheat stocks are estimated at 667 million bushels, up over 100 percent from last year. Wheat disappearance for the quarter is down 7 percent year over year, at 373 million bushels. Barley and oat stocks are also up from last year, while sorghum stocks are off slightly.

**Acreage**

The Acreage report held the biggest surprises of the day. The trade was expecting a significant increase in soybean area given the wet spring and delayed planting, with corn and wheat area slipping slightly. Instead, the USDA report shows corn, soybean, and wheat area are all up from the March projections. Corn gained over 2 million acres, soybeans is up nearly 1.5 million, and wheat is up over 1 million. If the numbers hold, this would be the 2nd largest corn plantings since World War II and another record year in soybean plantings. The soybean increase was roughly 800,000 acres below trade estimates, but was within the range of estimates. The corn and wheat areas exceeded the ranges of estimates by 1 million acres each. The March report showed principal crop area in the U.S. falling by 7.76 million acres from 2008. The June report has half of that reduction coming back into play. So despite the flooding and planting problems this spring across the U.S., planted area actually exceeded expectations.

For corn, acreage was increased in 23 states, held steady in 15, and was lowered in 10. The biggest gainers are Nebraska with 600,000 more corn acres and Iowa with 500,000 more. While the wet weather delayed planting, especially in the eastern Corn Belt, conditions in the western Corn Belt allowed expanded corn plantings. Illinois, Minnesota, and Missouri also had increases in corn area. The largest shortfall is in North Dakota as 400,000 acres intended for corn were not planted. For soybeans, 18 states saw increases from the March expectations, 8 states held steady, and 5 states planted fewer acres than expected. The biggest shortfall is in Nebraska as 500,000 acres intended for soybeans likely went to corn instead. South Dakota and Missouri had the largest increases. Illinois held steady; Indiana gained 100,000 soybean acres; and Iowa dropped 50,000.

Figure 2 shows the corn acreage shift since last year. The top number for each state is the estimated acreage for 2009 and the bottom number is the change from 2008. States in blue increased corn area, states in red decreased area, and those in white held steady. As the map shows, much of the increase in corn area came from the western and southern Corn Belt.

**Figure 2. Estimated 2009 Corn Acreage (Source: USDA-NASS)**

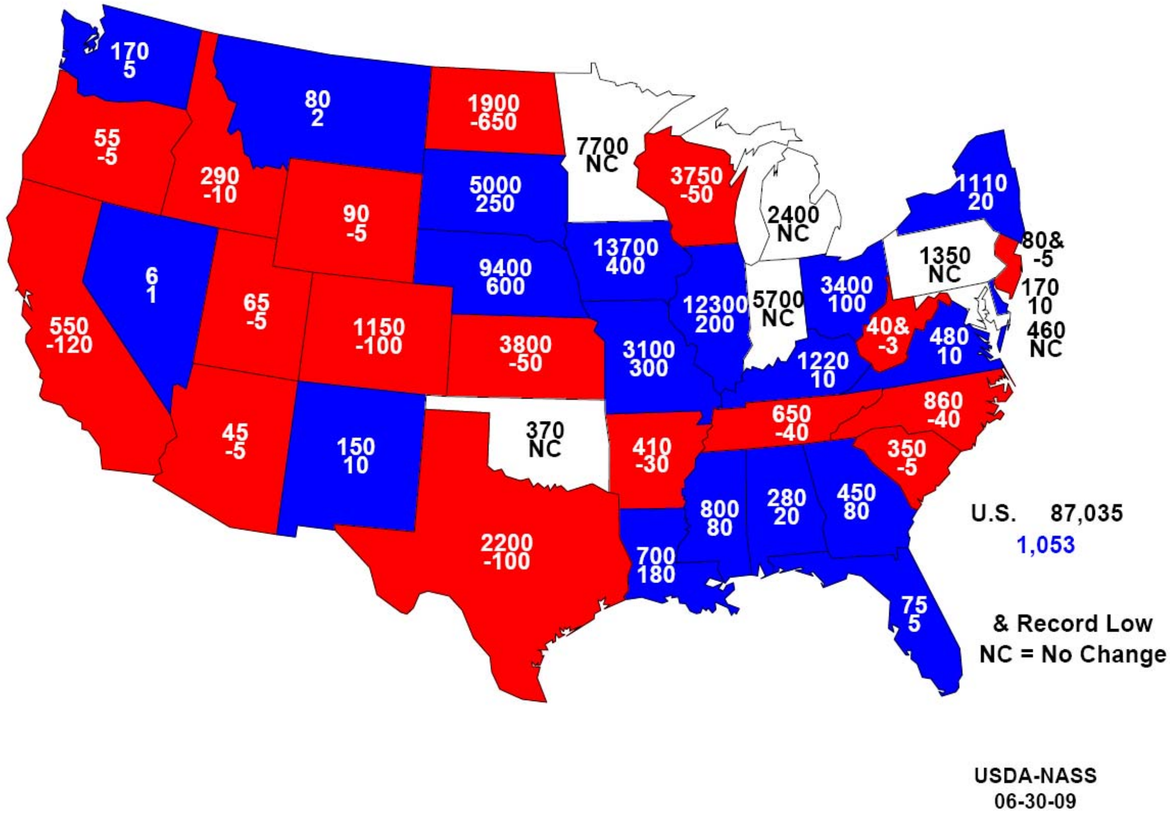
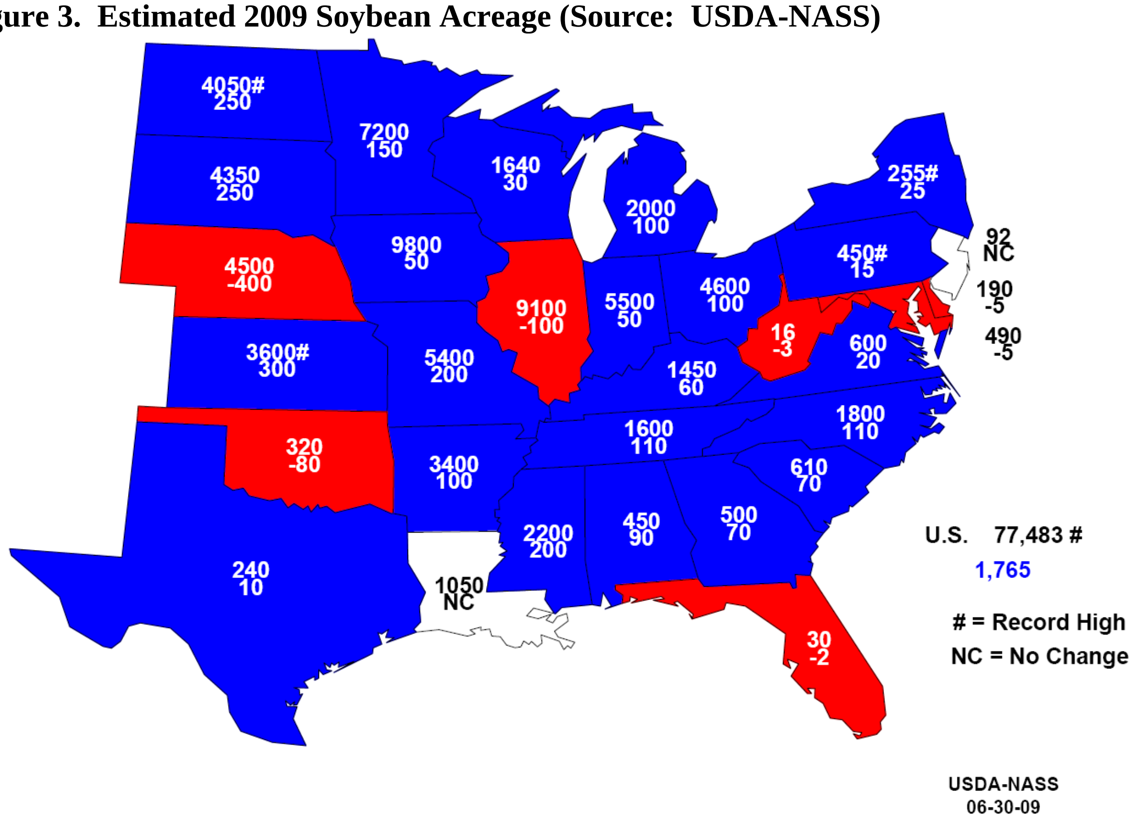



Figure 3 shows the 2009 estimated soybean acreage. If the estimates hold, not only would it be a national record for soybean plantings, Kansas, North Dakota, and New York would set state records as well. As with corn, the biggest movers are on the western side of the major production region.

**Figure 3. Estimated 2009 Soybean Acreage (Source: USDA-NASS)**



**Market Reaction**

The combination of slightly higher corn stocks, significantly higher corn area, and improving weather conditions will have a strong impact on corn prices, providing additional momentum for price drops in the market. The corn market has already shed 20 cents per bushel over the last couple of weeks and as I write this on the morning of June 30th, the corn market looks to be limit down (30 cents per bushel) today. With the substantial increase in corn acreage, it will be interesting to see if USDA continues to adjust its yield estimate downward. If USDA holds national corn yields at the current estimate, 153.4 bushels per acre, the acreage shift will imply 350 million more bushels of corn than previously estimated.

And while the soybean area was less than expected, we are still talking about record acreage. And given USDA's current yield estimate for 2009, 42.6 bushels per acre, the additional acreage adds 65 million bushels to the projected crop. At 3.26 billion bushels, that would be record production, eclipsing 2006. But as with corn, USDA may adjust its yield in upcoming reports to reflect the planting and crop development delays. USDA could shave nearly a bushel per acre off of the 2009 yield estimate and we would still be looking at record production.

Weather will continue to play a major role in the markets going forward. Producers in the eastern Corn Belt are looking for a repeat of last year when the second half of the growing season was nearly ideal. However, given the delays in crop development, any weather stress will translate into crop stress quickly and a rebound in crop prices. Most long-term forecast I have seen lean toward good growing conditions for the year and downward pressure on crop prices, but some have pointed out the similarities to 1983 and the potential for a recovery of La Nina, raising the possibility of a late summer drought. Other factors to watch are livestock prices, as higher livestock prices and lower feed costs could help stem the loss of feed demand; fuel prices, as oil prices have doubled over the last 9 months; and export sales, as USDA projections have higher corn and soybean exports for 2009.

*Chad Hart*

## June Dairy Month Not So Hot, May Production Up 0.2%

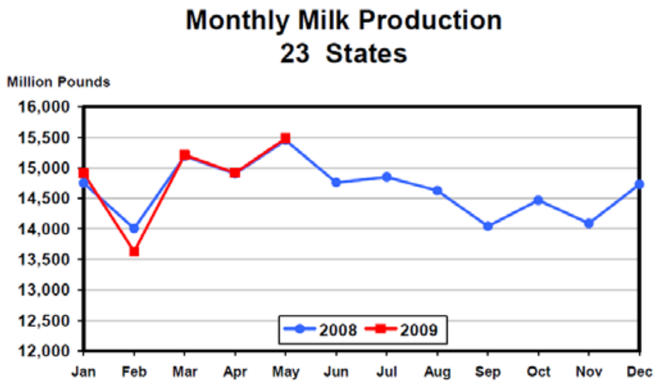
May 2009 23 major dairy states milk production increased 0.2%. Production per cow was up by 7 pounds from one year ago. Milk cow numbers were 25,000 less than May 08 and 10,000 less than April 09. April 09 milk production was revised up 0.1% point, an increase of 10 million pounds.

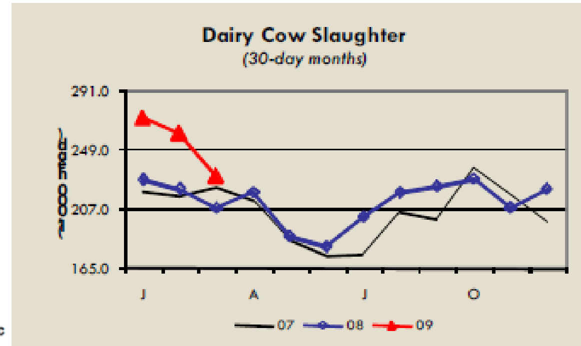
Iowa March 09 milk production was 2.13% higher than one year ago. Cow numbers were down by 1000 compared to one year ago and milk production per cow 45 pounds higher than one year ago. April 09 Iowa cheese production was up by 5.303 million pounds, 38.8% higher than one year ago and 2.266 million pounds, 13.6% more than March 09.

**Milk Production:** Selected Dairy States, May 2009

| State | thousands 2008 cow numbers | thousands 2009 cow numbers | % change cow numbers | pounds 2008 milk per cow | pounds 2009 milk per cow | % change milk/cow | million pounds 2008 total milk production | million pounds 2009 total milk production | % change total milk |
|---|---|---|---|---|---|---|---|---|---|
| Iowa | 216 | 215 | -0.46% | 1740 | 1785 | 2.59% | 376 | 384 | 2.13% |
| MN | 463 | 468 | 1.08% | 1645 | 1675 | 1.82% | 762 | 784 | 2.89% |
| WI | 1251 | 1256 | 0.40% | 1710 | 1735 | 1.46% | 2139 | 2179 | 1.87% |
| IL | 102 | 102 | 0.00% | 1665 | 1670 | 0.30% | 170 | 170 | 0.00% |
| CA | 1847 | 1816 | -1.68% | 1940 | 1935 | -0.26% | 3583 | 3514 | -1.93% |
| CO | 127 | 128 | 0.79% | 1990 | 2020 | 1.51% | 253 | 259 | 2.37% |
| KS | 115 | 120 | 4.35% | 1790 | 1835 | 2.51% | 206 | 220 | 6.80% |
| ID | 550 | 551 | 0.18% | 1930 | 1900 | -1.55% | 1062 | 1047 | -1.41% |
| NM | 342 | 332 | -2.92% | 2040 | 2145 | 5.15% | 698 | 712 | 2.01% |
| PA | 548 | 547 | -0.18% | 1720 | 1710 | -0.58% | 943 | 935 | -0.85% |
| NY | 626 | 621 | -0.80% | 1770 | 1770 | 0.00% | 1108 | 1099 | -0.81% |
| TX | 412 | 430 | 4.37% | 1800 | 1835 | 1.94% | 742 | 789 | 6.33% |
| 23-State | 8496 | 8471 | -0.29% | 1819 | 1828 | 0.49% | 15451 | 15483 | 0.21% |
| US 1st quartr | 9286 | 9297 | 0.12% | 0 | 0 | #DIV/0! | 47610 | 47304 | -0.64% |

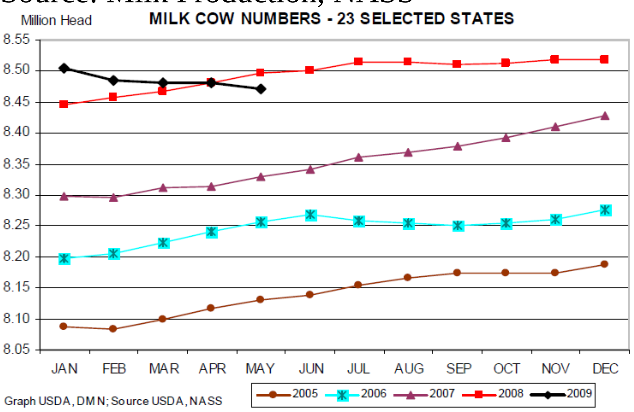
Recent heat has begun to reduce milk production per cow in both the Midwest and CA. but CA is off its seasonal high and would have begun a decline anyway. Long term heat could reduce milk per cow further and reduce reproductive rates. That would reduce milk production next year.

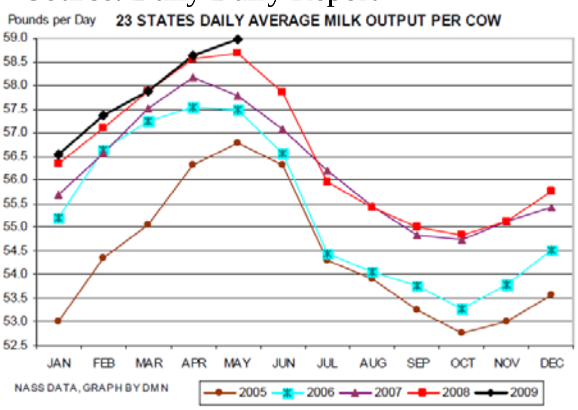



Source: Milk Production, NASS

Source: Daily Dairy Report



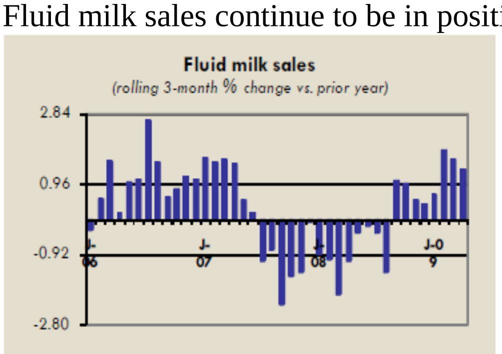

Source: Dairy Market News

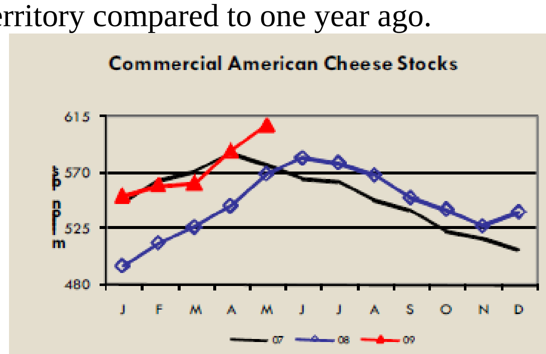
Source: Dairy Market News

**Demand or Disappearance**

April total cheese output was 846 million pounds, up 3.2% from one year ago and 2.8% less than March 09. CA cheese production was -2.1%, ID -2.3% compared to one year ago. WI cheese production was +4.1% from one year ago but -3.6% from March 09. Total Italian style cheese production rose 0.3% compared to one year ago. Butter production was 144 million pounds, -3.9% from one year ago and -2.1% from March 09.

Fluid milk sales continue to be in positive territory compared to one year ago.




Source: Daily Dairy Report

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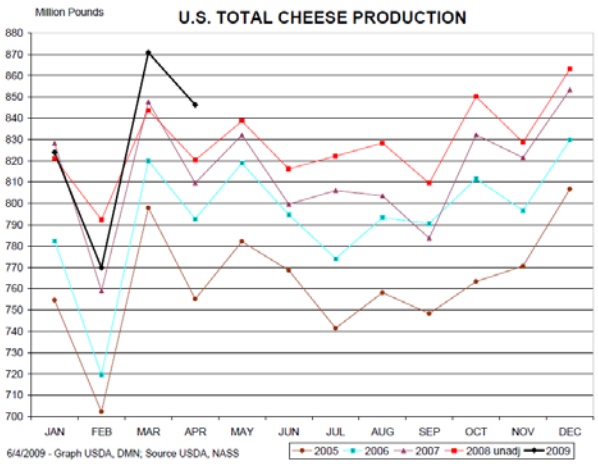
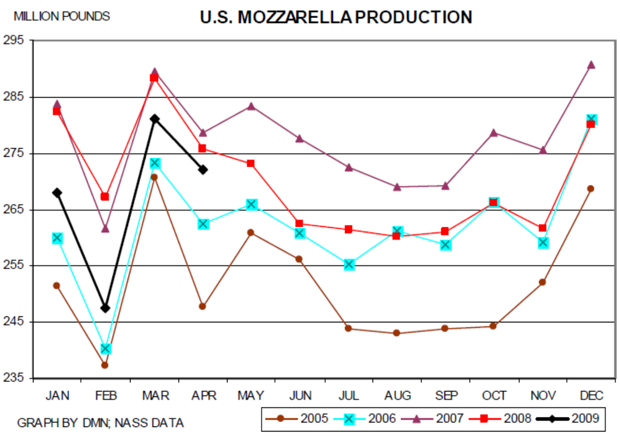
However recent cheese production has been very high. And that level of production has shown up in cold storage. Total cheese stocks are the highest since August 1985. Total dairy products in cold storage for May 09 are 5% higher than April and 9% more than one year ago.




Source: Dairy Market News

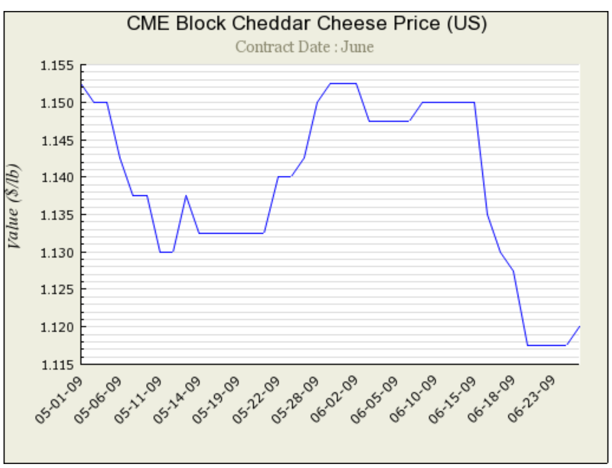


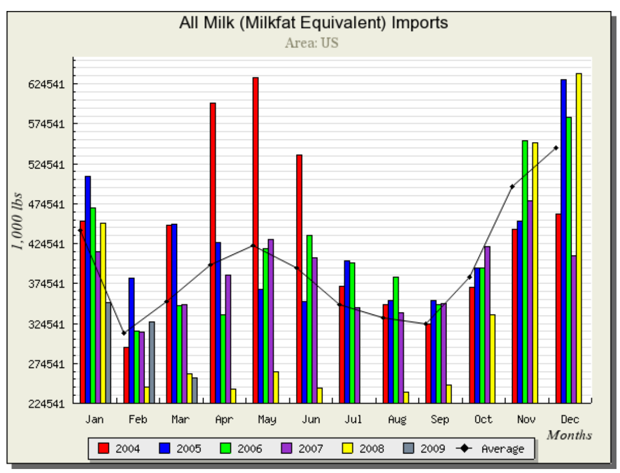

Source: Dairy Market News

The Consumer Confidence Index reported for May rose to 54.9, a 14.1 point rise. This is the highest CCI since September 08 which was 61.4. Other parts of the May CCI report also indicated that consumer sentiment about employment has improved slightly as well. Businesses are tending to become more positive in their outlook also.

**Analysis**

Since the beginning of the year imports of dairy products are below the 5-year average. Concern has been expressed that if no dairy imports were entering the US milk prices would not be so low. Those comments do have validity but the real pressure on milk prices is the large supply of dairy products now in storage. Without the large supply in cold storage, the current dairy product import amounts would not influence milk price much. However, "the EU increased export subsidies for butter by 18%, SMP by 11% and WMP by 7%. Using current exchange rates, these subsidies are 41¢/lb. for butter, 13¢/lb. for SMP, 20¢/lb. for WMP and 14¢/lb. for cheese. The Cheese subsidy was not changed." according to the Daily Dairy Report.

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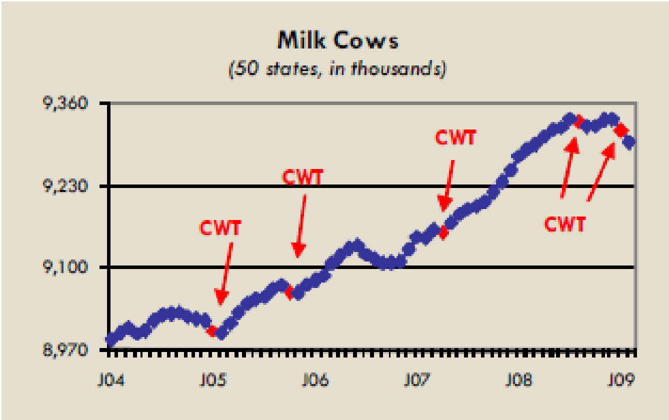
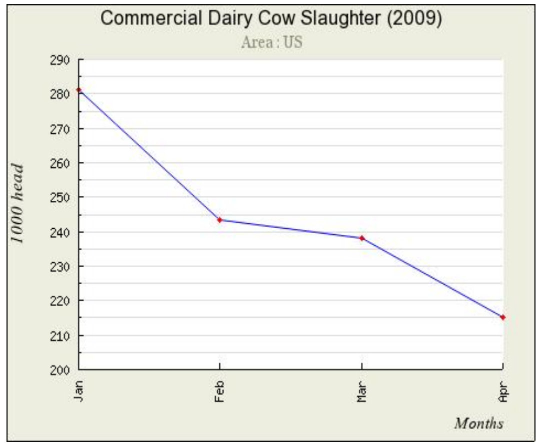
Source: UWEX: Understanding Dairy Markets web site

I have included the following two sentences again because we have not yet seen a CWT effect yet on cow slaughter. A seventh round of herd retirements was announced by Cooperatives Working Together (CWT). However the chart below shows that effect of these retirements has been short-lived. May 09 dairy cow slaughter was reported to be 211,000 cows which continues the downward slope of the year to date dairy slaughter.




Source: Daily Dairy Report




Source: Understanding Dairy Markets,

Looking at current milk prices still offers little relief to stressed dairy operations. And the recent decline in CME cheese prices tends to lend concern for a longer period of weak milk prices than I had anticipated earlier this year. NMPF has recognized this situation and requested that Secretary Vilsack raise the purchase price for dairy products under the price support program. NMPF says that USDA has authority to increase the purchase prices and has requested they do so for the July-September period.

One dairy economist has commented that it appears higher milk prices are a couple of months away based on the futures prices. But also said it has been that way for several months. Rabobank recently commented that the global dairy market "continues to underwhelm." The comment is due to low milk prices and high costs globally. The report also indicated that Chinese imports, US government and EU intervention buying of milk powder accounted for 25% of normal first quarter 2009 international trade. Rabobank appears to believe milk prices globally will not rise until late 2009. Their belief seems to square with other dairy economists at a recent Downes-O'Neill/FC Stone Dairy Market Outlook meeting. One recent comment by a dairy economist suggested that milk prices may not rise enough for breakeven until the second half of 2010. If that is correct many dairy producers will be out of business well before that time. MILC is keeping some afloat now, but may not last long enough to get to 2010.

*Robert Tigner*
*University of Nebraska*

## Economic Growth, Household Wealth and Consumption

It is only when the economy isn't growing that close attention is paid to gross domestic product statistics, and for good reason. Consider that if the U.S. growth rate had been 1% lower than its actual rate of 1.75% between 1870 and 1990, our per capita share of GDP would have been a meager $5519 instead of its actual level of $18,258. This would have put the U.S. on par with Hungary and Mexico in terms of per capita GDP with tremendous implications for household wealth and the quality of life in this country. Without question, economic growth matters to the consumer over the long run. But in the short run the decision making calculus of the consumer depends on other factors.

Per capita GDP provides a good proxy as to the standard of living in a country but because individual consumers cannot tangibly experience their per capita share of GDP it remains just a number, not a predictor of individual consumer behavior. At the individual level, consumers make decisions based on their pocketbook and outlook rather than aggregate notions of growth and wealth. With consumer spending accounting for two-thirds of economic activity in this country the decision making of the consumer is of the utmost consequence. Over time, we see that household wealth and consumption fluctuate together. Household wealth represents the difference for households between their assets and liabilities and its level dictates how much households can spend and consume. The tremendous growth in housing prices led to greater levels of household wealth despite greater levels of mortgage debt but proved unsustainable as homes were leveraged beyond their sustainable values. Further compounding the problem is the erosion of wages, or the fact that incomes were growing more slowly than the prices of basic goods and services. As we have witnessed, this led to a rapid destabilization in both household well being and the economy as a whole.

Consider that the ratio of household debt in relation to GDP reached an all time peak in 2006 while household wealth and hence spending reached its peak between 2004 and 2005. The consumer spending between 2004 and 2006 then marked the beginning of the downfall for the economy as households borrowed from future consumption by spending borrowed funds in disproportionate amounts to their actual wealth. The implications are staggering when viewed in historical perspective. The previous record for a decline in inflation adjusted wealth was a 12% decline March 1973 and September 1974, during the oil crisis. Between June 2007 and December 2008, inflation adjusted wealth fell a record 22.8% with impacts felt around the world.

Given that consumption must increase for certain sectors of the economy to prosper it is of prime concern when this pattern will right itself. Industry analysts and optimistic economists predict that consumers pent up demand will pull the economy out of the doldrums quickly, perhaps as early as the 3rd and 4th quarters of this year. Pent up demand is the notion that because consumers have been spending less and not able to consume at the levels they have grown accustomed to, there will be a burst of economic activity when people can spend again. The problem with the notion that this could save us this year is that people must have employment, stable incomes, and the desire to spend money. Unemployment in Iowa reached 5.8% in Iowa in May, a 22 year high. Without jobs there will be no pent up demand but even when the economy starts adding rather than losing jobs, will Joe Consumer open his wallet like he did before?

The question of how consumers respond when the economy rights itself is more complex this time, not only because of the magnitude of this downturn but because of changes in consumer attitudes as well as their previous trends. After the record consumer spending expansion, isn't it possible that consumers have excess stock of household goods that don't require rapid replacement? Outside of basic needs like household supplies, gasoline, and food it is likely that consumers stocked up on disposable income purchases like lawn equipment, kitchen appliances, and other durable goods during the expansion. This would certainly limit the impact of perceived pent up demand.

Consumers are also due for a correction due to the decimation of cash reserves or buffer funds for emergency. After this recent economic emergency for many households, the first priority once the economy is better and their personal balance sheet is stronger will be to save money and replenish their reserves rather than their consumption. Empirical evidence suggests this is happening now, as the savings rate has increased in the U.S. in the last year after precipitous declines over the last few decades. As consumers have reduced consumption many are returning to a simpler life with less material possessions, and are reporting that they are just as happy with fewer things. This could be bad news for retailers and manufacturers. If the Easterlin paradox holds, which suggests that reported happiness does not vary significantly with national income per person, then consumers may discover during this recession that spending money doesn't buy happiness and return to previous spending patterns more slowly than experts predict.

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