

Iowa Farm Outlook

Department of Economics
Ames, Iowa

September, 2009

Econ. Info. 1993

Meat Supply and Demand Outlook

US meat supplies continue to be a mixed bag. Cattle slaughter is down due to lower supplies and much weaker demand. While we started out the year with slaughter numbers very near those of a year ago, it did not take long for the slaughter volumes to drop off as fewer cattle are being fed and the supply of cull beef cows has abated. Figure 1 illustrates the difference in cattle slaughter volume from last year. Beef cow, steer and heifer slaughter volumes have all been lower since spring. Dairy cow slaughter on the other hand has been significantly higher. Because the general demand among consumers has moved away from whole cuts and more toward ground beef product for the past year, the impact from the increased dairy cow slaughter has not had the same impact on cull cattle price that it would have had even a year ago. Figure 2 tracks swine slaughter compared to last year and the five year average. While there have been some periods when hog slaughter fell below last years levels, there has not been a significant change in hog slaughter volumes. From all indications hog supply will be very consistent with the volumes of the fourth quarter in 2008. That is not good news for producers, all of whom are in need of a considerable break in hog prices.

A significant impact on the balance between the demand and supply of pork has been exports. In 2008, one in five pounds of pork produced was exported. This of course boosted demand and improved prices to record levels, at least until August. While beef exports have been steady with those of a year ago, pork exports have down nearly 40 percent during the summer months. Figures 3 and 4 track pork and beef exports compared to last year.

Most price forecasts are suggesting that the painfully low hog prices will continue into the fourth quarter of 2009, with hog supplies very near those of last year. It will take considerable reductions in supply in order for prices to rebound back to levels of profitability for hog producers. Several economists, lenders and others have suggested that cutting a half a million sows from production is necessary to return the US pork industry to profitability. Ultimately, the US pork industry will need more demand, lower feed costs or lower supplies to be profitable. Two short articles, available at the IFO website, discuss the benefits of swine herd reduction.

Figure 1. Weekly US Cattle Slaughter

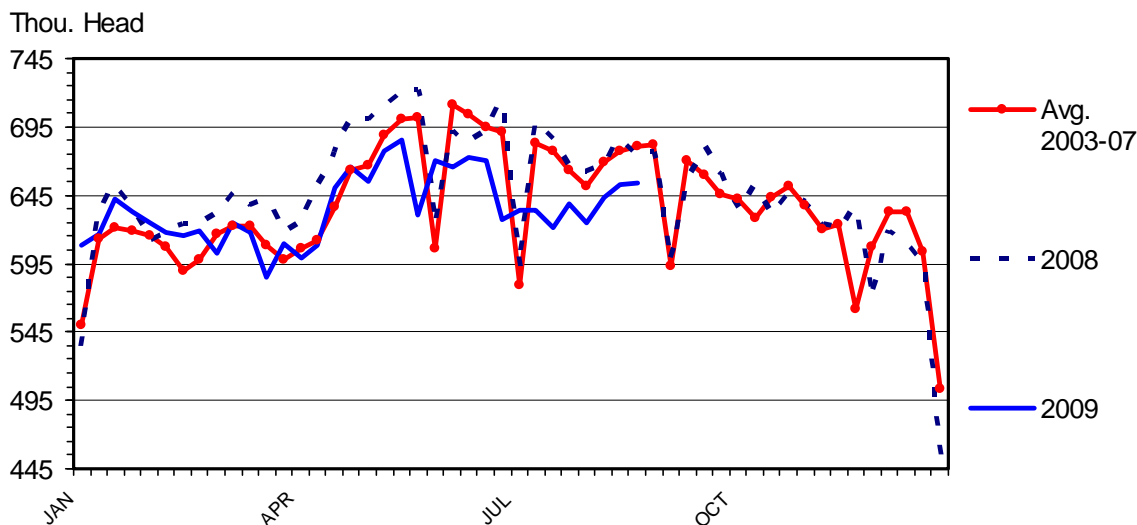


Figure 2. Weekly US Hog Slaughter

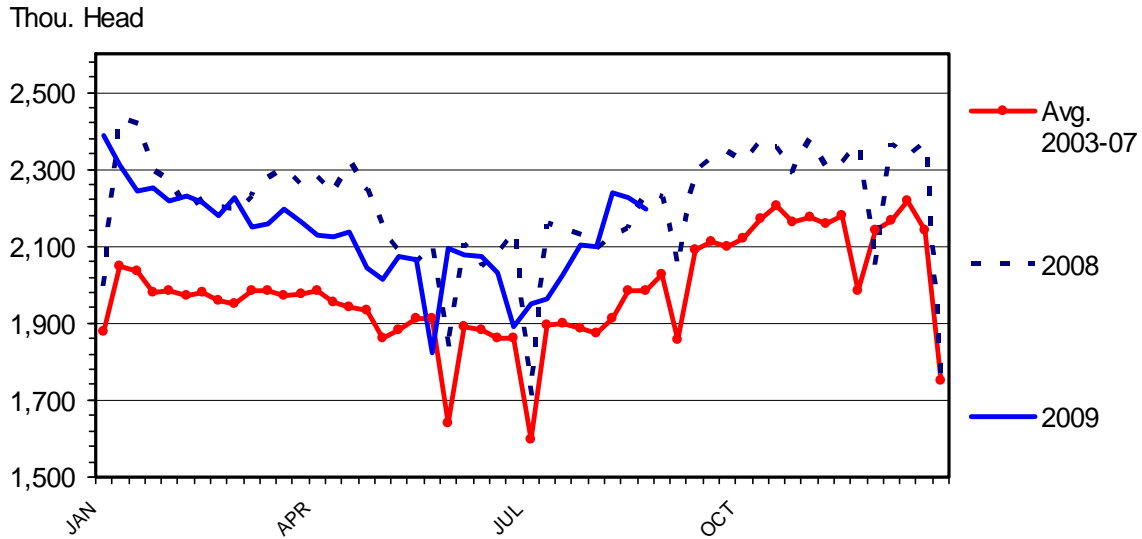


Figure 3. US Beef Exports Monthly

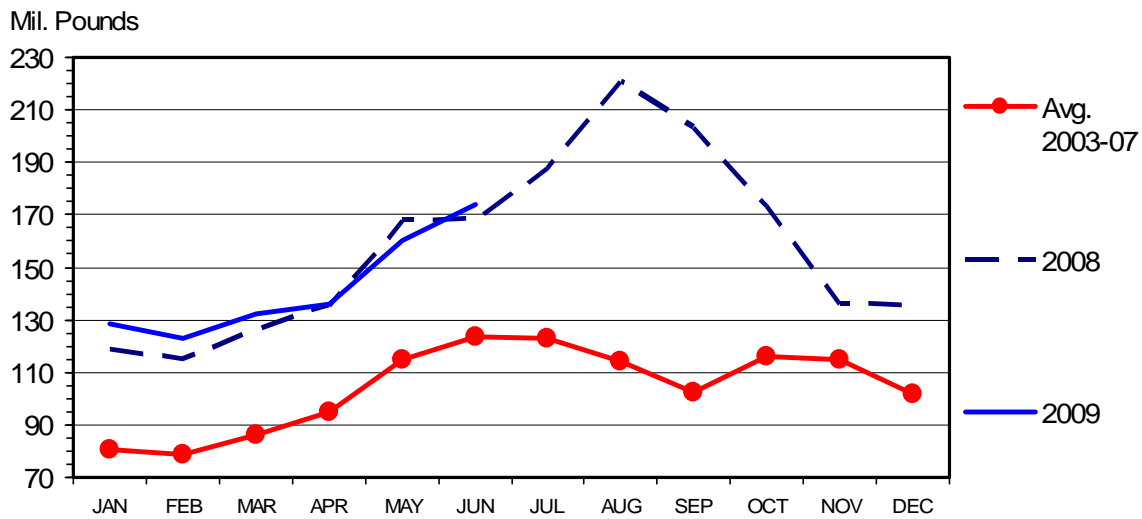
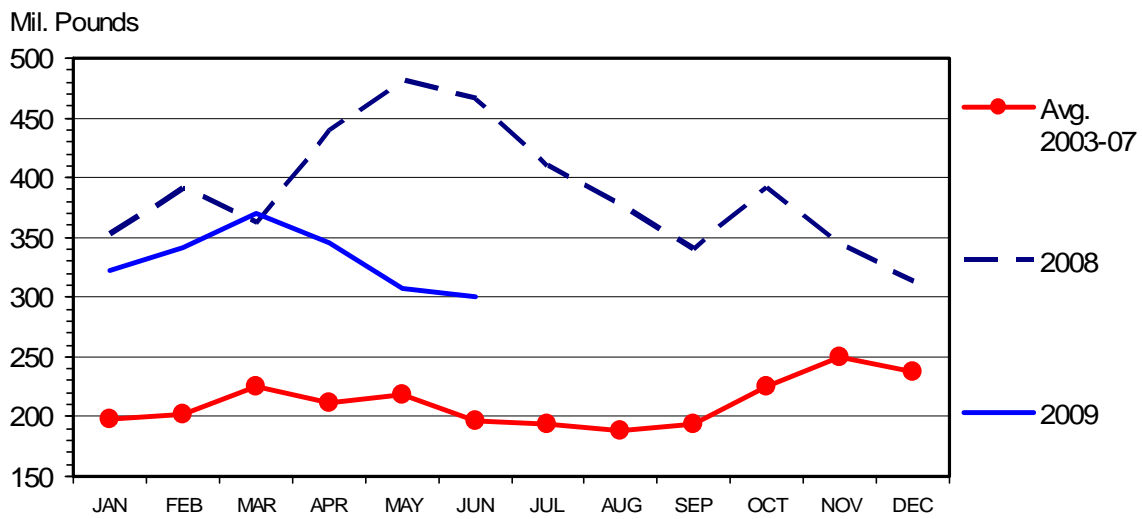


Figure 4. US Pork Exports Monthly



Frost Concerns and Demand Signals

The August USDA crop production report confirmed large corn and soybean crops are headed to market, if weather conditions hold. The report showed U.S. corn harvested area for 2009 at 80 million acres. The projection for the national average corn yield is up to 159.5 bushels per acre, up 6.1 bushels from last month and up 5.6 bushels from last year. That brings projected corn production up to 12.76 billion bushels, putting the 2009 crop on pace to be the 2nd largest ever. Soybean planted area shifted to 77.7 million acres and harvested area projected at 76.8 million. Projected national soybean yields came in at 41.7 bushels per acre, down 0.9 bushels from last month but up 2.1 bushels from last year. The delay in soybean development, especially in the Eastern Corn Belt, is the main reason for the lowered yield expectation. Projected production is at 3.199 billion bushels, if realized that would be the 4th largest soybean crop on record.

For Iowa, projected yields are 185 bushels per acre for corn and 52 bushels per acre for soybeans. The corn yield would be a record, while the soybean yield would be a half a bushel behind the 2005 record. If the projections hold, soybean production in the state would top 505 million bushels, 3rd highest on record. Corn production would come in at 2.47 billion bushels, 90 million bushels more than the 2007 record.

But there are still significant weather concerns about these big projected crops. The proportion of corn in the dent stage is well behind the 5-year average nationally, 18% versus an average of 43%. For Iowa, corn is roughly on the same pace as last year, which was behind the average. Pod setting percentages for soybeans are also lagging nationally. Iowa soybeans are slightly ahead of last year, but slightly behind the 5-year average. The delays in the crops heighten concerns about frost damage. The cool spring and summer conditions have continued through August. But the longer-term weather outlook has remained consistent for the fall with near normal temperatures being projected for September and the increased possibility of above-average temperatures in the following months.

Another factor playing into the production discussion is the general condition of the corn and soybean crops. Both corn and soybeans have nearly 70 percent of the crop currently rated good to excellent. These ratings have improved in late August and are 6 to 8 percent above last year. For Iowa, the crop ratings are even higher with 79 percent of each crop rated good to excellent, 14 to 16 percent better than last year. Figures 1 and 2 contain historical models relating the percentage of the crop rated good to excellent in late August to the actual yield for the years 1986 to 2008. These models find that for each one percent increase in the crop rating yields increase by roughly 0.6 bushels for corn and 0.18 bushels for soybeans for both Iowa and the nation. If we use these models to project 2009 yields, they indicate national yields above USDA's current estimates and Iowa yields in line with USDA's current estimates. But as the graphs show, especially for soybeans, pre-harvest weather and crop conditions can have a major impact on yields.

Figure 1. Crop Conditions and Projected Yields for the U.S.

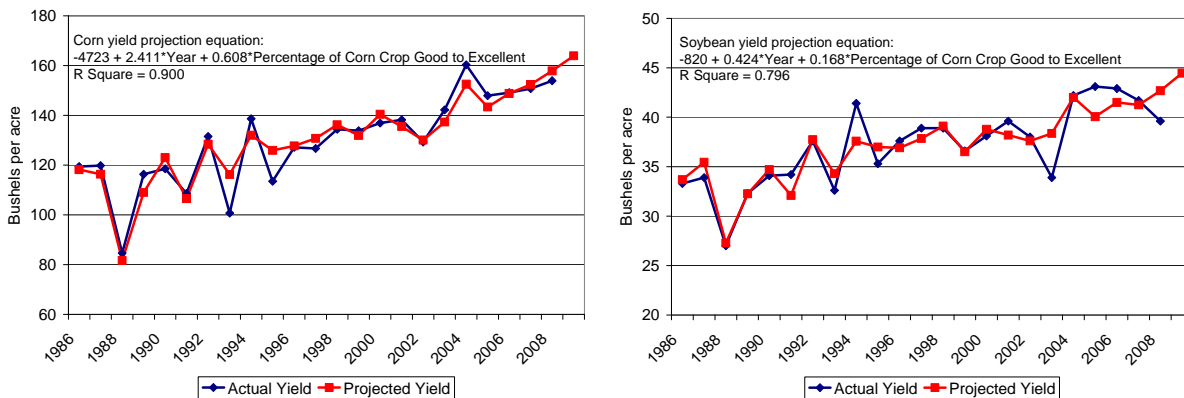
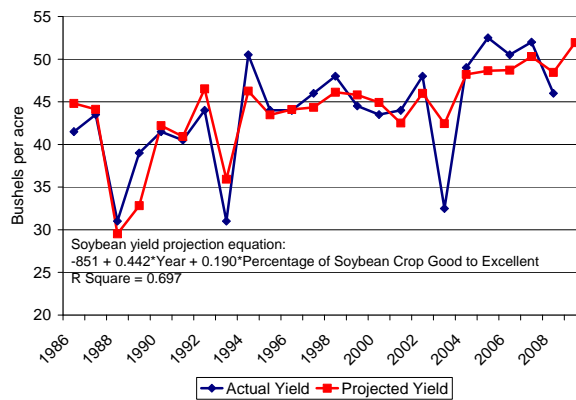
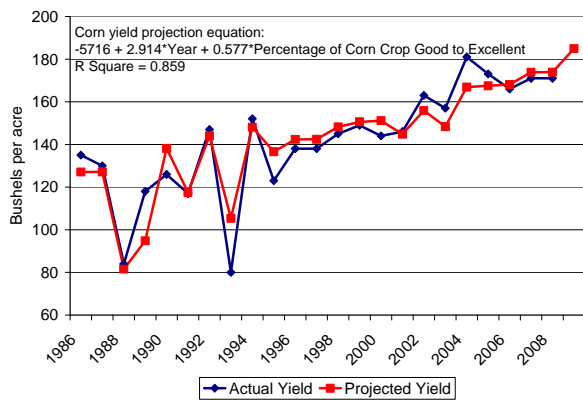


Figure 2. Crop Conditions and Projected Yields for Iowa



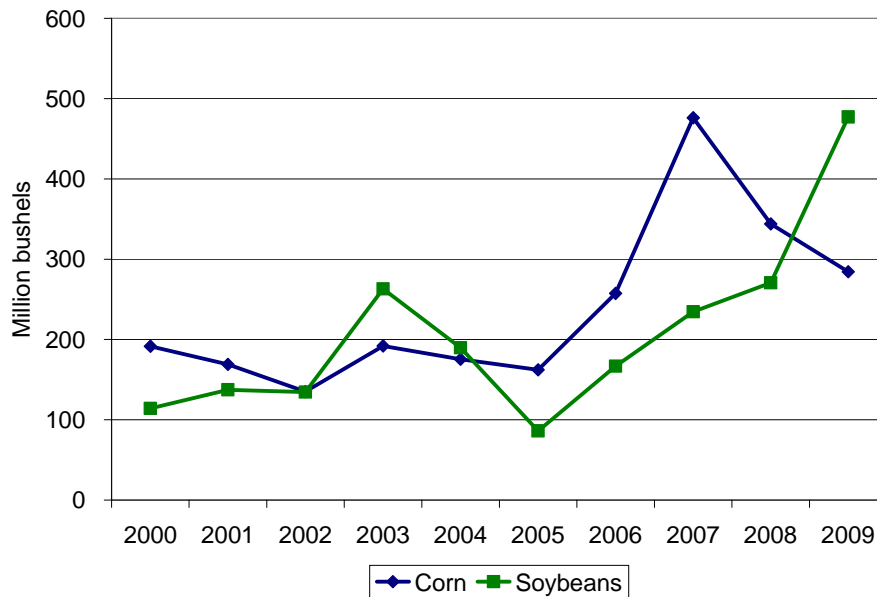
Hints of a Demand Rebound for Corn

USDA's August reports found evidence of a demand rebound for corn. Feed and ethanol demand was raised 100 million bushels each for the 2009 crop, while export demand was projected to gain 150 million. Those changes put corn feed demand at 5.3 billion bushels, ethanol demand at 4.2 billion bushels, and export demand at 2.1 billion bushels. But the higher demand for corn couldn't quite top the supply expansion, so projected 2009/10 ending stocks are set at 1.62 billion bushels, up 70 million from last month. USDA's midpoint estimate for the 2009/10 national season-average price is \$3.50 per bushel, down 25 cents from last month. Looking into those demands, USDA's feed category also includes a residual which captures crop loss beyond the field. With the larger (and later) corn crop, USDA expects higher corn losses beyond the field. This expectation is leading the gain in the feed category, while true feed demand is still under pressure given today's livestock economics.

Ethanol demand has picked up in recent months with plants returning online, higher blending margins, and higher gasoline prices providing the ethanol industry some breathing room. Based on corn-grain based ethanol filling the conventional portion of the Renewable Fuels Standard (RFS), 4.1 billion bushels of the 2009 corn crop need to head to the ethanol industry. USDA's estimate shows the RFS being met, plus a little extra. Most of the former Verasun plants have returned to operation under various owners. Sunoco has completed its purchase of an ethanol plant in upstate New York and plans to have it fully operational by spring. And construction has started on an ethanol distribution center in southern California. So ethanol is regaining some of the momentum it had.

Exports are projected to rebound for corn with the potential in economic recovery worldwide and lowered corn production expectations from the rest of the world. Figure 3 contains the advance export sales on the 2009 crops for corn and soybeans. While the corn number is down from last year, initial demand strength coming from Mexico and Taiwan is pointing toward increased exports. Switching over to soybeans, the advance export sales have been very strong. The weak South American soybean crop over the past year has allowed U.S. soybeans to continue to fill export demands. And the projections are that 2009 exports will tie the 2008 record.

Figure 3. Advance Export Sales (Source: USDA-FAS)



However, the USDA did back off a little on projected soybean exports, by 10 million bushels, to reflect the return of more normal South American production. Domestic soybean crush is projected at 1.67 billion bushels, up 10 million bushels from last year, but down 10 million bushels from last month. Demand for soybean meal has softened with the weakness in livestock and demand for soybean oil has fallen as biodiesel production has fallen off from last year's pace.

The 2008/09 ending stocks for soybeans are currently projected at 110 million bushels, implying an incredibly tight stock situation in the U.S. And given the projected supply and demand, 2009/10 ending stocks are expected to increase to 210 million bushels. So stocks are expected to increase but the tight stock situation will not fade away with the coming crop. The projected 2009/10 season-average price is set at \$9.40 per bushel, up 10 cents from last month but down 60 cents from last year.

Price Perspectives

Based on the futures prices at the close of business on August 28th, the market is indicating 2009/10 season-average prices of \$3.10 per bushel for corn and \$9.60 per bushel for soybeans. The pricing in the market is bearish on corn and bullish on soybeans, in comparison to the latest USDA price estimates. The tight soybean stocks have held the soybean market in an inverted position for some time now, with the nearby Sept. contract maintaining at least a \$1 per bushel premium on the new-crop Nov. contract. But that inversion is being maintained for the 2009 crop as well with no carry in the market across the 2009 marketing year. The July 2010 futures are 11 cents under November; the Sept. 2010 futures are 45 cents under November. Concerns about the weather, advance export strength, and another round of strikes by Argentine farmers are helping support prices. The next USDA report in September will provide some more detail on how large the 2009 crop is and whether the inversion will continue to have staying power. Corn futures, on the other hand, are showing some carry in the summer 2010 prices as July 2010 futures prices are 30 cents over December. Demand seemed to be rebuilding, but over the short term, larger than anticipated supplies are weighing down on the market.

Chad Hart

July Milk Production up 0.1%, Cow Numbers Drop A Lot

July 2009 23 major dairy states milk production increased 0.1%. Production per cow was up by 25 pounds from one year ago. Milk cow numbers were 115,000 less than July 08 and 34,000 less than June 09. June 09 milk production was revised up 0.1% point, an increase of 34 million pounds. This June revision was a turn around from lower milk production to higher milk production

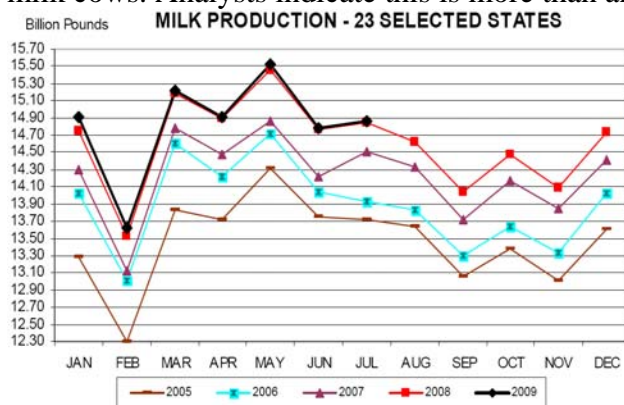
Iowa July 09 milk production was 4.8% higher than one year ago. Cow numbers were the same as one year ago with milk production per cow 80 pounds higher than one year ago. June 09 Iowa cheese production was up by 5.715 million pounds, 42.7% higher than one year ago and 0.299 million pounds, 1.6% more than May 09.

Milk Production: Selected Dairy States, July 2009

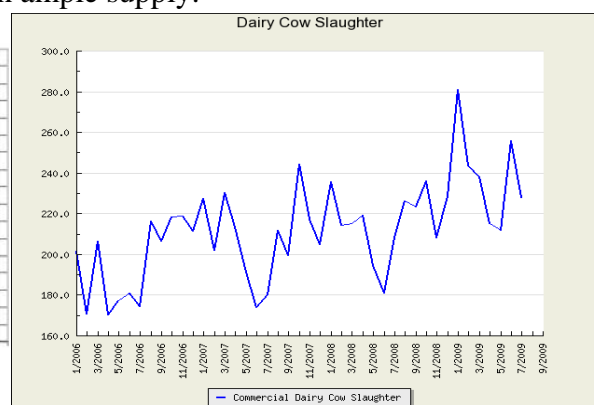
State	thousands			pounds			million pounds		% change total milk
	2008 cow numbers	2009 cow numbers	% change cow numbers	2008 milk per cow	2009 milk per cow	% change milk/cow	2008 total milk production	2009 total milk production	
Iowa	215	215	0.00%	1660	1740	4.82%	357	374	4.76%
MN	465	469	0.86%	1595	1675	5.02%	742	786	5.93%
WI	1252	1257	0.40%	1670	1760	5.39%	2091	2212	5.79%
IL	102	102	0.00%	1520	1580	3.95%	155	161	3.87%
CA	1847	1793	-2.92%	1850	1810	-2.16%	3417	3245	-5.03%
CO	129	124	-3.88%	1950	2000	2.56%	252	248	-1.59%
KS	117	117	0.00%	1725	1735	0.58%	202	203	0.50%
ID	556	548	-1.44%	1960	1920	-2.04%	1090	1052	-3.49%
NM	340	321	-5.59%	1990	2050	3.02%	677	658	-2.81%
PA	546	545	-0.18%	1630	1640	0.61%	890	894	0.45%
NY	626	622	-0.64%	1690	1745	3.25%	1058	1085	2.55%
TX	423	423	0.00%	1675	1700	1.49%	709	719	1.41%
23-State	8515	8400	-1.35%	1744	1769	1.43%	14848	14858	0.07%
US 2nd quartr	9286	9295	0.10%	0	0	#DIV/0!	47610	47363	-0.52%

Recent cool weather in the Upper Midwest has been good for milk cows and thus production per cow. A few western states, CA and ID, had lower milk per cow and fewer cows and therefore much lower milk production. NM was able to get more milk per cow but lost cows and therefore total milk declined. Texas gained cows and milk per cow and had more milk produced. A few large herds in the west were accepted in to the CWT herd reduction.

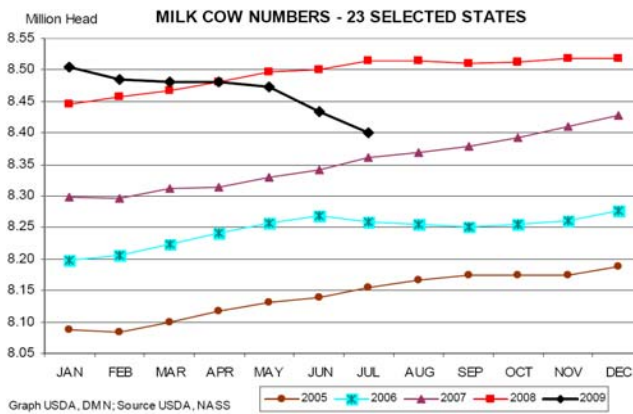
Cow slaughter has been fairly large this year due in part to CWT. However these cows can be quickly replaced. The July USDA cow inventory puts dairy heifer replacements at 3.9 million. That is 42.4 replacements per 100 milk cows. Analysts indicate this is more than an ample supply.



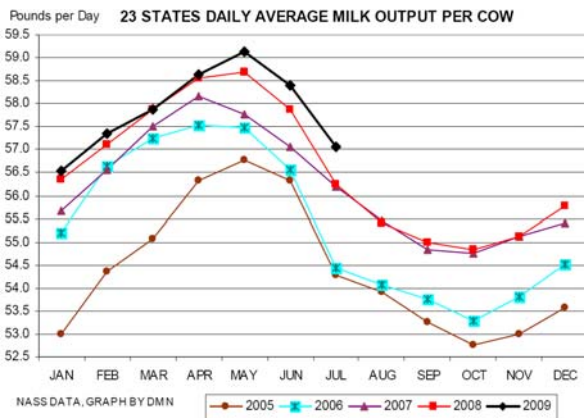
Source: Dairy Market News



Source: Daily Dairy Report



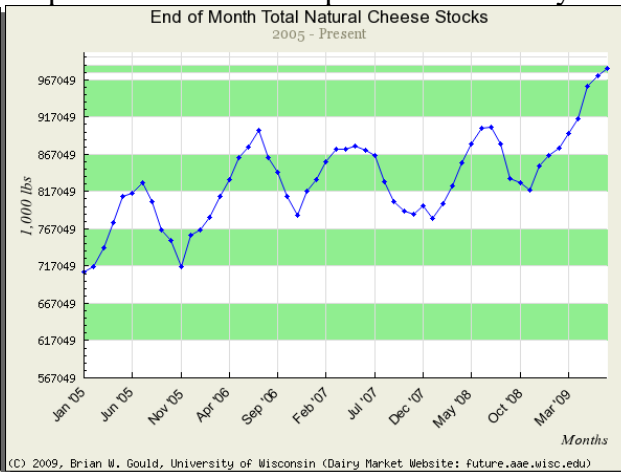
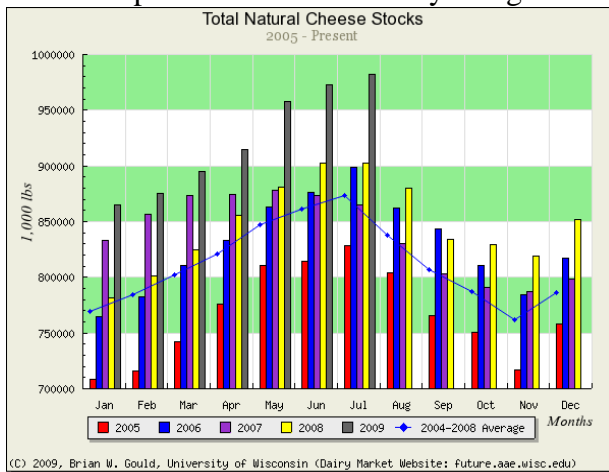
Source: Dairy Market News



Source: Dairy Market News

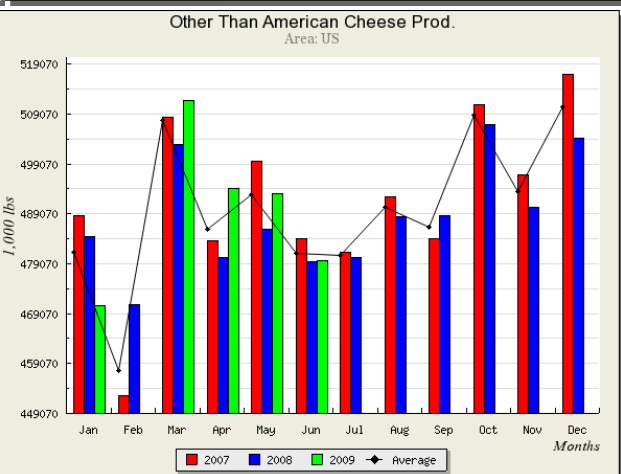
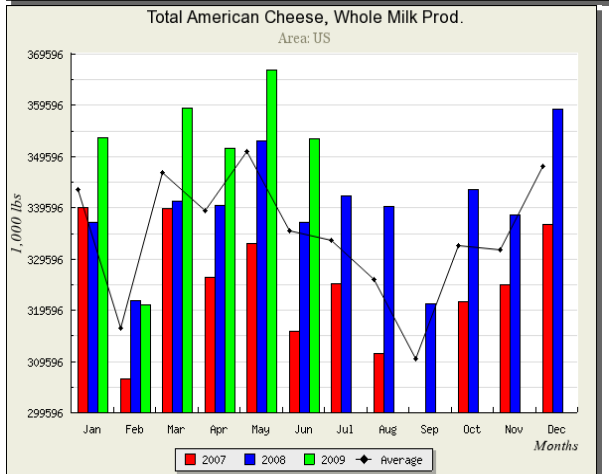
Demand or Disappearance

June 09 total cheese output was 832 million pounds, up 2% from one year ago and 3.1% less than May 09. CA cheese production was -4.1%, ID 1.3% compared to one year ago. WI cheese production was +3.8% from one year ago but -0.7% from May 09. Total Italian style cheese production rose 2% compared to one year ago. Butter production was 116 million pounds, 7.5% from one year ago and -10% from May 09. NDM production was 144 million pounds down 3.1% from the previous month but 6.3% more than one year ago. Total ice cream manufacture was -2.6% from one year ago. Total cheese stocks continue to be burdensome. Robert Cropp's, UWEX, recent milk market commentary noted that June 09 NDM exports were 55% below year ago while first half 09 exports were 54% below year ago. He also pointed out cheese exports are 29% off year ago.



(C) 2009, Brian W. Gould, University of Wisconsin (Dairy Market Website: future.aae.wisc.edu)

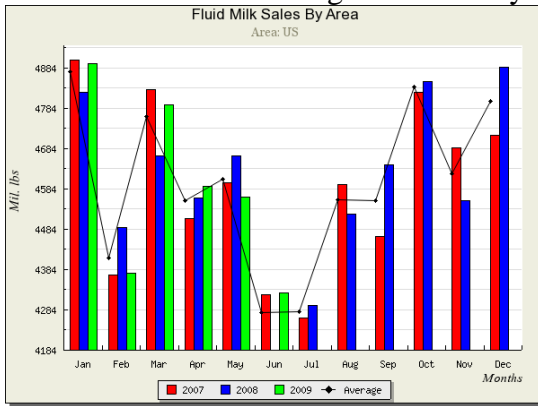
(C) 2009, Brian W. Gould, University of Wisconsin (Dairy Market Website: future.aae.wisc.edu)



Source: UWEX: Understanding Dairy Markets

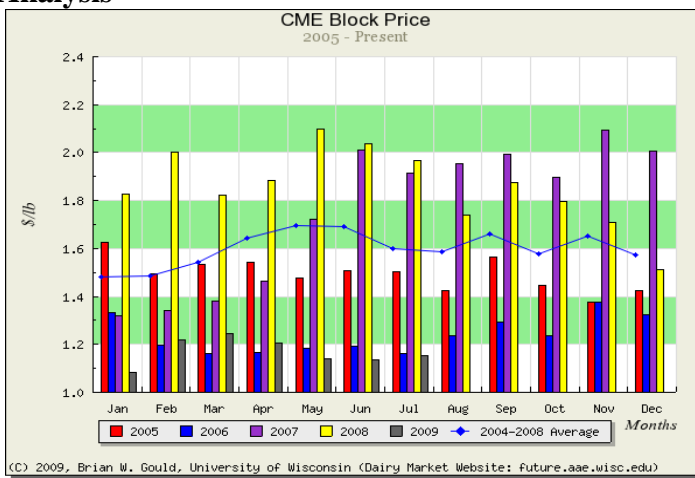
Fluid milk sales continue to be in positive territory compared to the average. June fluid milk sales are estimated +3.6% from one year ago. Reduced fat milk, low fat milk and flavored fate-reduced milk were higher. Whole milk and many organic fluid types of milk had reduced consumption. Year to date fluid milk consumption is +1.2%.

Reports of milk shipments to Florida are that they are increasing but not as high as last year. June and July milk production there has been higher than one year ago, 2.9 and 2.4% respectively.



Source: UWEX: Understanding Dairy Markets

Analysis



Source: UWEX: Understanding Dairy Markets

The Consumer Confidence Index reported for August rose to 54.1, a 6.7 point rise. Lynn Franco, director of the Conference Board’s consumer research center, said that consumers are more upbeat about the short-term for jobs and the economy but that they continue to have concerns about their income. This concern will likely hold consumer spending in check. Economic recovery needs to take place to reduce dairy stocks. Or another Oceania drought so US dairy product exports can increase.



Source: Daily Dairy Report

One dairy commentator noted the paradox of declining cow numbers and increasing total milk production. Several factors can explain this paradox. As dairy producers remove less profitable cows under today’s milk prices, cows left in the herd tend to produce better. Remember the Dairy Diversion program stories where dairy farmers had bid a certain milk production reduction. Many found the remaining cows produced better and had to cut cow numbers deeper than anticipated. But dairy farmers often don’t leave empty stalls and with ample replacements, the new heifers are likely milking better than the cull cows.

We are also seeing lower feed costs than one year ago. You would anticipate higher milk per cow as feed costs decline because producers have an incentive to maximize income over variable costs. More milk per cow

usually does that. One chart makes that point. The livestock Marketing Information Center compares WI and CA Income Over feed Costs. WI is slightly over \$2 per cwt income over feed costs while CA is -\$3, nearly -\$4. PA income over feed costs is calculated at +\$4. WI producers have an economic incentive to increase milk, but CA producers can't even cover feed costs. Milk production in CA has shown the adjustment dairy producers are making to their economics the last two months. CA has had negative income over feed costs since fall of 08.

Milk prices are unlikely to reach my earlier price forecast. Dairy producers have not cut production enough to stop building cheese inventories nor has economic conditions improved enough to increase demand. Dr Cropp estimates the Class III milk price may not reach \$16 range till the second half of 2010. That is a price range necessary for dairy farmers to achieve positive cash flow.

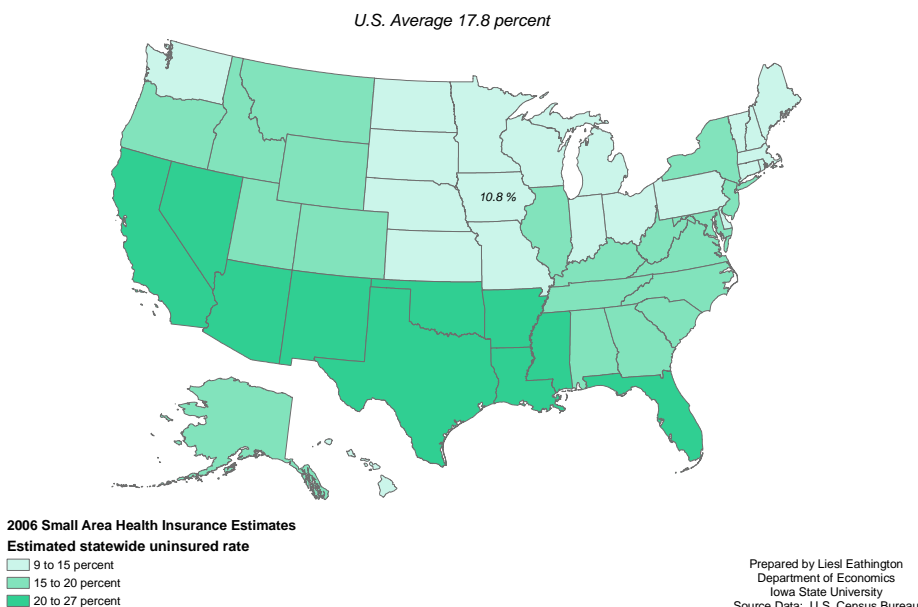
Robert Tigner
University of Nebraska

Health Insurance Issues for Iowa's Non-Metropolitan Areas

The U.S. Census Bureau recently released new model-based estimates of the uninsured population for every U.S. county and state. The Census Bureau data suggest that 272,711 Iowa residents under the age of 65 did not have health insurance in 2006. This represents 10.8 percent of the state's total under-65 population. The margin of error for this estimate was plus or minus 0.6 percent. Iowa's uninsured rate was relatively low compared to the 17.8 percent average rate for the United States. Figure 1 illustrates the estimated statewide uninsured rates for the population under 65 years of age for all 50 states and the District of Columbia.

Figure 1. Percentage of Uninsured by State

Estimated Uninsured Percentage of the Population Under Age 65:
All Income Groups, 2006



Minnesota had the lowest fraction of uninsured residents, with an estimated rate of 9.4 percent. Massachusetts and Hawaii were close behind with rates of 9.6 and 9.8, respectively. Wisconsin ranked 4th, and Iowa was 5th lowest among the states. The state of Texas ranked the highest among all states in the uninsured percentage of the population, with an estimated rate of 27.6 percent. New Mexico followed at 25.8 percent, and Florida was third highest with 24.9 percent.

On average, states in the Plains and the Midwest scored relatively well on this measure. Accordingly, residents in these regions may feel somewhat less urgency about the need for national health insurance reform compared to residents in other parts of the nation. This article highlights three areas of concern related to the availability and affordability of health insurance coverage, particularly for residents in non-metropolitan areas of the state.

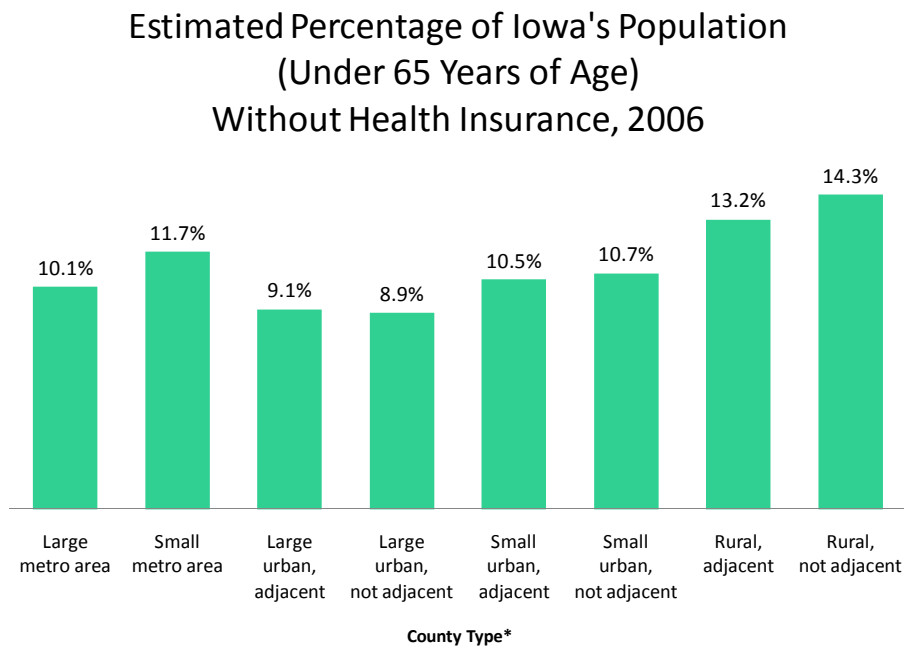
- Iowa's rural areas have a higher incidence of uninsured residents than its more urbanized areas.
- Iowa's uninsured population includes more than just low-income residents.
- The share of real earnings growth consumed by employer-paid contributions to health insurance and pension funds is higher in non-metropolitan areas than in non-metropolitan areas.

Urban and Rural Differences in Iowa's Uninsured Rates

At first glance, it appears that the percentage of residents without health insurance was slightly higher in Iowa's metropolitan areas compared to its non-metropolitan areas. The average uninsured rate in Iowa's 20 metropolitan counties was 10.9 percent, while the state's 79 non-metropolitan counties averaged 10.6 percent. However, these broad metropolitan/non-metropolitan averages tend to mask notable differences among the state's rural counties compared to its more urbanized counties.

Figure 2 illustrates the state's uninsured rates in somewhat more detail. This chart groups Iowa's counties according to a hierarchy that considers their total urban population and their proximity, or adjacency, to a metropolitan area. The hierarchy has eight categories ranging from large metropolitan counties to small rural counties that are not adjacent to any metropolitan county. Using this categorization scheme, we see that the rate of uninsured residents tends to increase as the urbanization level of the county decreases. The highest rate occurs in Iowa's most remote rural counties, where an average of 14.3 percent of residents under the age of 65 lacks health insurance.

Figure 2.

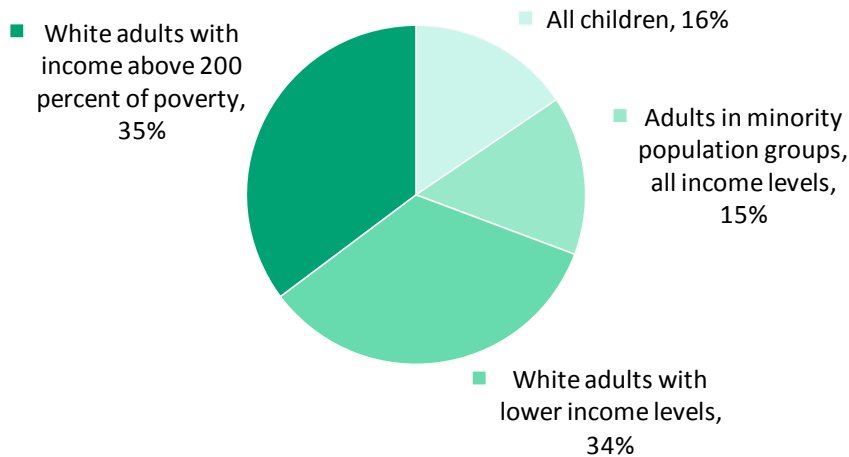


Characteristics of the Uninsured Population in Iowa

An analysis of the Census Bureau's data by age, race, and income characteristics reveals that 35 percent of the uninsured individuals in Iowa were white, non-Hispanic adults with income levels higher than 200 percent of the poverty threshold. Lower-income white adults accounted for another third of Iowa's uninsured population. Minority groups including black and Hispanic residents of all income levels account for 15 percent of the state's uninsured population. All children, regardless of race or income, accounted for 16 percent of uninsured residents. Figure 3 shows the distribution of Iowa's uninsured population by age, income, and racial/ethnic characteristics.

Figure 3

Uninsured lowans by Age, Race/Ethnicity, and Income



Employer Contributions for Health Insurance

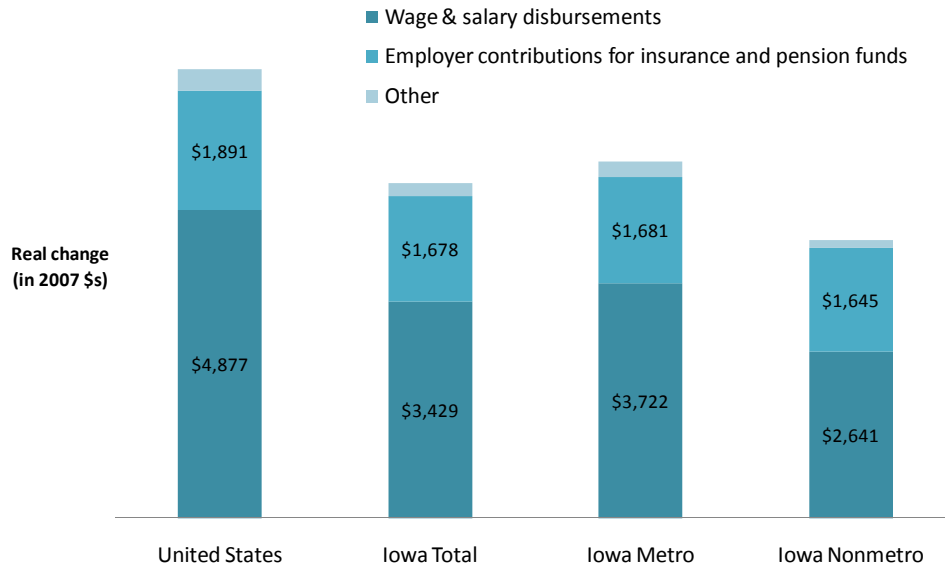
Even for residents who have health insurance coverage through their employers, the growing cost of coverage is a concern. An increasing share of workers' total compensation is being consumed by health insurance coverage, leaving less available as take-home pay.

Total compensation paid to wage and salary workers includes the take-home component of wages and salaries, employer contributions to health insurance and pension funds, and employer contributions to government social insurance. During the last decade, total compensation for the average worker in the United States increased by an inflation-adjusted \$7,120. The average Iowa worker fared less well, with compensation increasing by \$5,310 per job in real terms. Real average earnings in Iowa's non-metropolitan counties increased by only \$4,400 per job.

Figure 3 illustrates the major sources of growth in average compensation per job from 1998 and 2007. In the United States, increased employer contributions to insurance and pension funds accounted for more than one quarter of the real growth in total compensation per job. In Iowa, employer contributions accounted for 32 percent of real growth in compensation per job. The share was even higher in Iowa's non-metropolitan areas, where employer contributions to insurance and pension funds accounted for 38 percent of the real growth in compensation per job.

Figure 4

**Real Growth in Average Compensation Per Job,
1998-2007**



Liesl Eathington

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
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
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
www.econ.iastate.edu/faculty/hart

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

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

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

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.