

Iowa Farm Outlook

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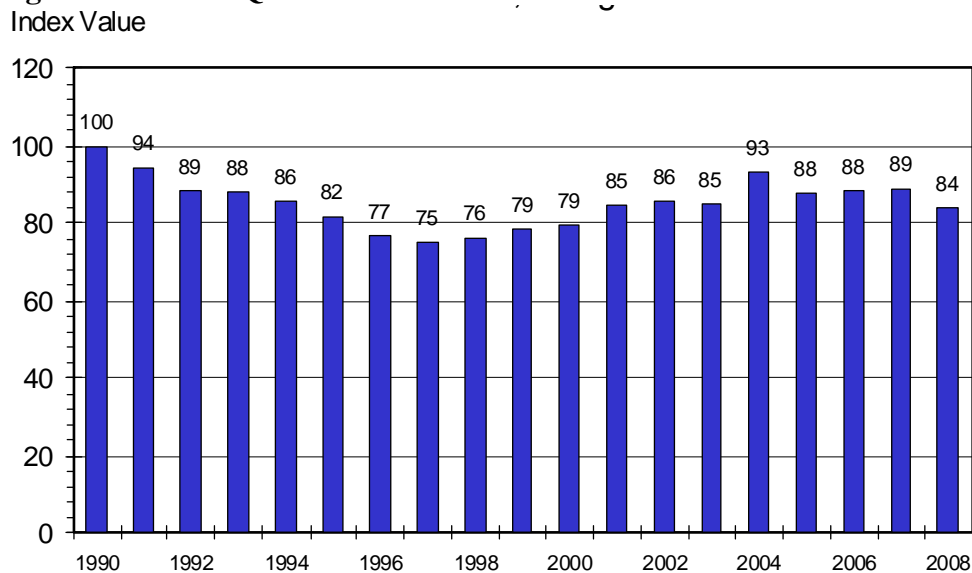
November, 2009

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Red Meat Demand Update

It has been more than a year since the current economic turmoil started; it is worth a discussion of red meat demand and utilization. Domestically, demand for high quality whole cut beef has taken the hardest hit, especially in the restaurant sector. September food expenditures for out-of-home eating were down 2 percent while purchases of food to eat at home were up 2.4 percent. In the first three quarters of the year eating out expenditures were down 2.6 percent and eat at home were down about half a percent. Consumers are either eating out less or they are choosing cheaper choices on the menu. A combination of the two may be true. Rather than eat at the sit down restaurant they are opting for less formal or fast food venues. Even when dining at a higher end restaurant consumers are opting for the lower priced items, and that usually does not include an expensive cut of beef. Beef demand in general had been relatively steady for the past several years. Figure 1 tracks fourth quarter beef demand as an index since 1990. While demand took a notable decline in 2008 demand should be only slightly weaker than a year ago.

Figure 1. Fourth Quarter Beef Demand



Meat exportation continues to be a point of mixed signals. While China was a major market in 2008, the volumes shipped there significantly declined in the in the last third of 2003. The appearance of H1N1 virus (swine flu) added another complication as initial unknowns about the disease lead to restrictions against US pork. China recently removed its restriction on US pork and may be facing some productions shortages themselves due to new disease outbreaks. Additionally the exchange rate of the US dollar has been weaker somewhat in relation to some currencies. A weaker dollar could lead to additional exports to such markets a Japan and Korea. Figure 4 tracks the percentage change in exchange rate since the first of the year. For now there is plenty of optimism that exports will be stronger going into next year.

Figure 2. Monthly US Pork Exports, Select Markets

Mil. Pounds

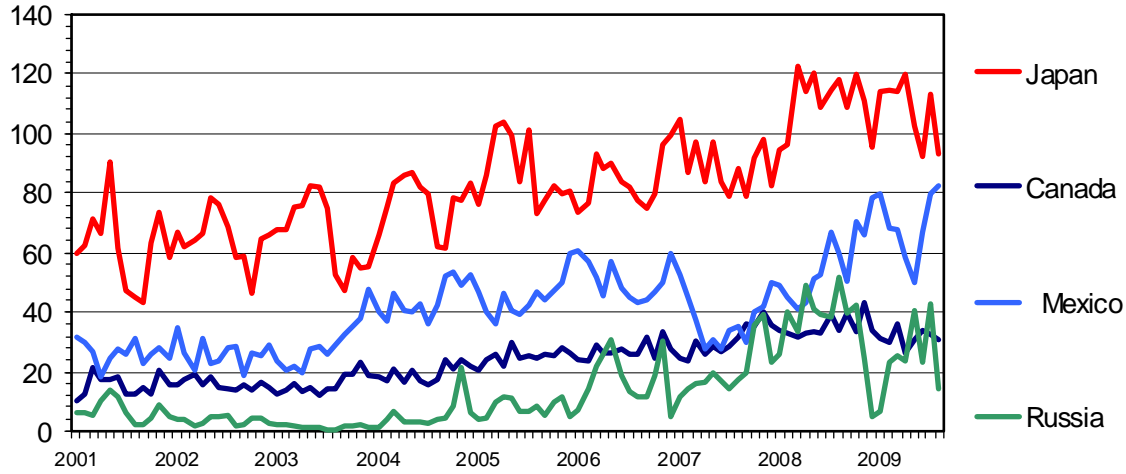


Figure 3. Monthly US Beef Exports, Select Markets

Mil. Pounds

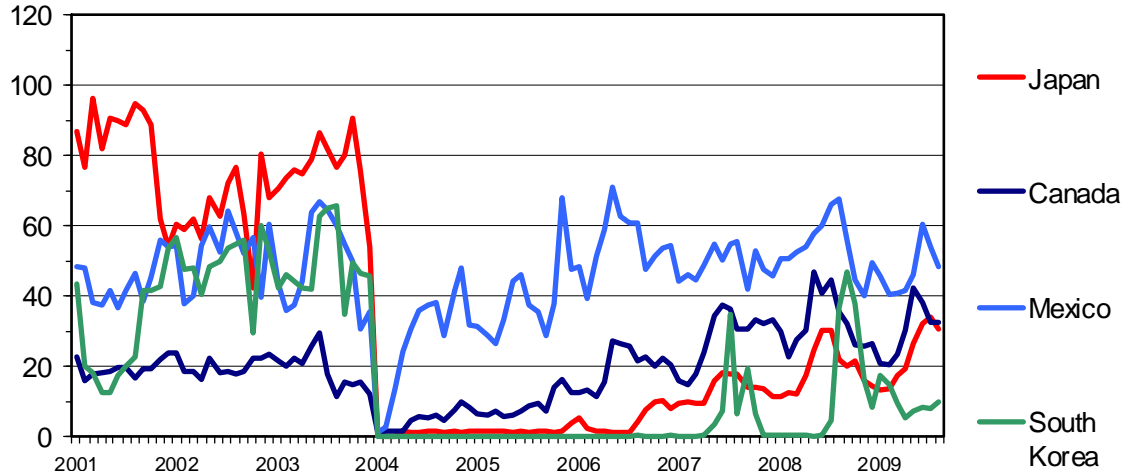
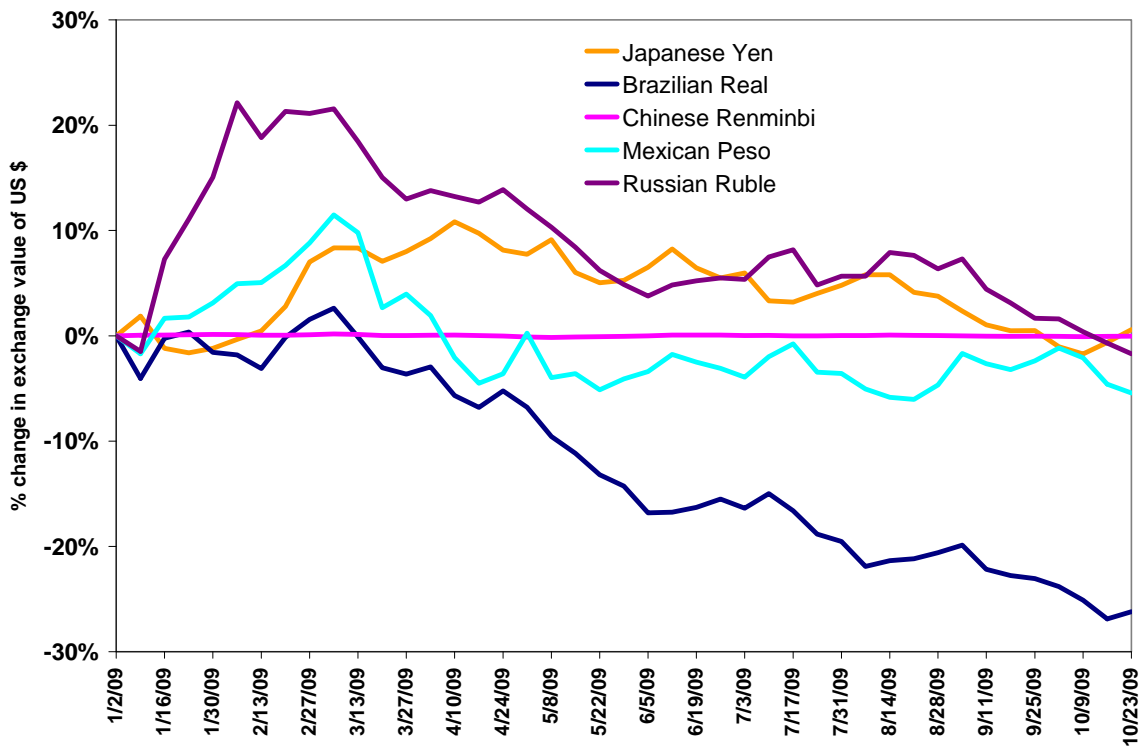


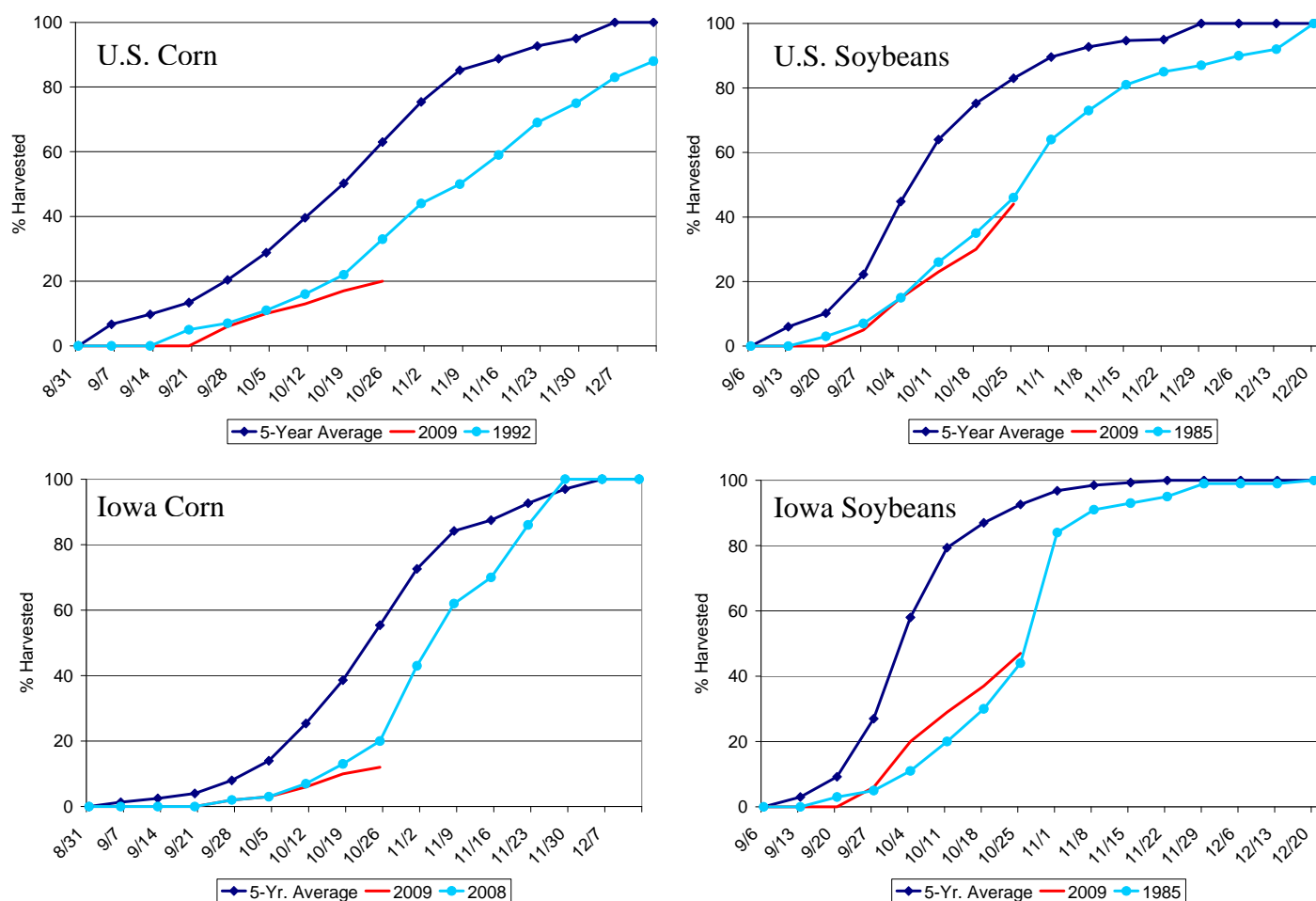
Figure 4. Percentage Change in US Dollar Exchange Rate in Jan 09



Has It Stopped Raining Yet?

Weather has been the big story for October. Between the freezing temperatures, early snow, and the steady flow of storms across the state, Iowa crop producers have not enjoyed the last month. The late maturing crop faced a freeze that was about a week earlier than average. Areas of the state were blanketed by the 1st measurable snowfall of the season, well before average. Typically in October, Iowa receives on average 2.5 inches of precipitation. In 2009, precipitation levels ranged from 4 to 8 inches in the month. This combination of weather has brought production expectations and delayed harvest progress. Figure 1 shows harvest progress for U.S. and Iowa corn and soybeans and compares this year's progress with the year of the slowest harvest between 1985 and 2008. As the graphs show, the 2009 harvest in the U.S. is the slowest of the past 25 years. The story is similar for Iowa crops. The corn harvest is behind the previous slowest year (2008), while the soybean harvest is just ahead of the pace in 1985. Hopefully, conditions will improve, allowing fields and crops to dry out and combines to roll.

Figure 1. Harvest Progress

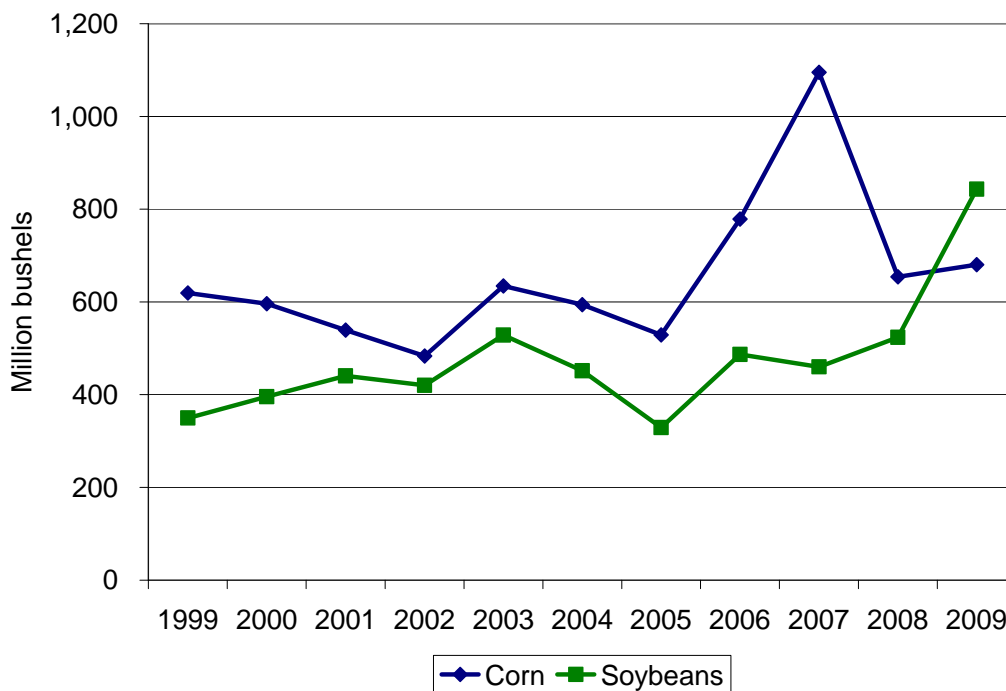


Before the freeze and harvest delays, USDA had estimated national corn and soybean yields at 164.2 bushels per acre and 42.4 bushels per acre, respectively. Iowa yields were estimated at 188 bushels per acre for corn and 52 bushels per acre for soybeans. The mid-October cold snap likely took the top off of these estimates. And while Iowa crop yields will be reduced, larger reductions will be concentrated in the eastern Corn Belt as the corn and soybean crops there were further behind in development. Pre-freeze, USDA projected this year's crop as the 2nd largest corn crop at 13 billion bushels and the largest soybean crop at 3.25 billion bushels. Post-freeze, we are probably still looking at the 2nd largest corn crop and a soybean crop in the top five. But quality concerns are building with the harvest delays. The wet conditions have not allowed the crops to dry out and crop moisture levels are running higher than most would like. Also, areas that experienced hail damage this year are seeing increased mold pressures as well. Corn stock rot has been an issue in the southern U.S. And the

late season rains are rehydrating some soybean fields and increasing the likelihood of pod splitting. Farmers and elevators are facing additional drying costs again this year. The supply chain is dealing with having two high moisture crops in a row.

While the supply side has been significantly impacted by the weather, the demand side has been helped by outside influences. Corn demand via ethanol was raised again for the 2008 crop, to 3.7 billion bushels. The outlook for the 2009 crop is for 4.2 billion bushels to head to ethanol facilities. Crude oil prices have risen to the upper \$70s per barrel range and this has helped ethanol margins remain positive over the past few months. Based on ethanol production during the 1st seven months of 2009, annual production will be roughly 10.8 billion gallons. Corn feed and residual demand is projected at 5.4 billion bushels, up 50 million from last month and up 169 million from last year. Corn export demand is estimated at 2.15 billion bushels, down 50 million from last month but up 292 million from last year. Continued weakness in the dollar is supporting the export outlook. USDA's latest projections show the dollar's slide continuing through the end of the calendar year. Figure 2 displays export sales so far this marketing year. Current corn export sales pace is just ahead of last year.

Figure 2. Export Sales through Oct. 26 (Source: USDA-FAS)



For soybeans, domestic crush demand is projected at 1.69 billion bushels, held steady from last month but up 28 million from last year. Projections of increased soybean oil and meal exports are supporting the crush outlook. But the big story for soybeans continues to be export demand, especially from China. USDA increased its export estimate to 1.305 billion bushels. This would top last year's record. In fact, the early sales pace has been very strong. As Figure 2 shows, soybean export sales have actually exceeded corn sales this year. China has already booked over 500 million bushels of U.S. soybeans. To put that in perspective, that amount is roughly the amount of soybeans Iowa producers are projected to grow this year. From their early October outlook, USDA had projected ending stocks for corn at 1.672 billion bushels, roughly the same level as last year. Soybean ending stocks were estimated at 230 million bushels, up 92 million bushels from last year. Season-average prices were projected at \$3.35 for corn and \$9.00 for soybeans. The cold snap and the resulting reduction in supply will likely lower the ending stock projections and raise expectations for prices. The futures markets have reacted strongly to the freeze and harvest delays. Corn prices rose over 50 cents per bushel, while soybean prices gained over a \$1 per bushel. The outlook for better harvest weather has taken some of these gains out, but prices remain above last month's levels. Current futures prices point to season-average prices around \$3.50 per bushel for corn and \$9.30 per bushel for soybeans.

Alternative Measures of Iowa's Unemployment Rate

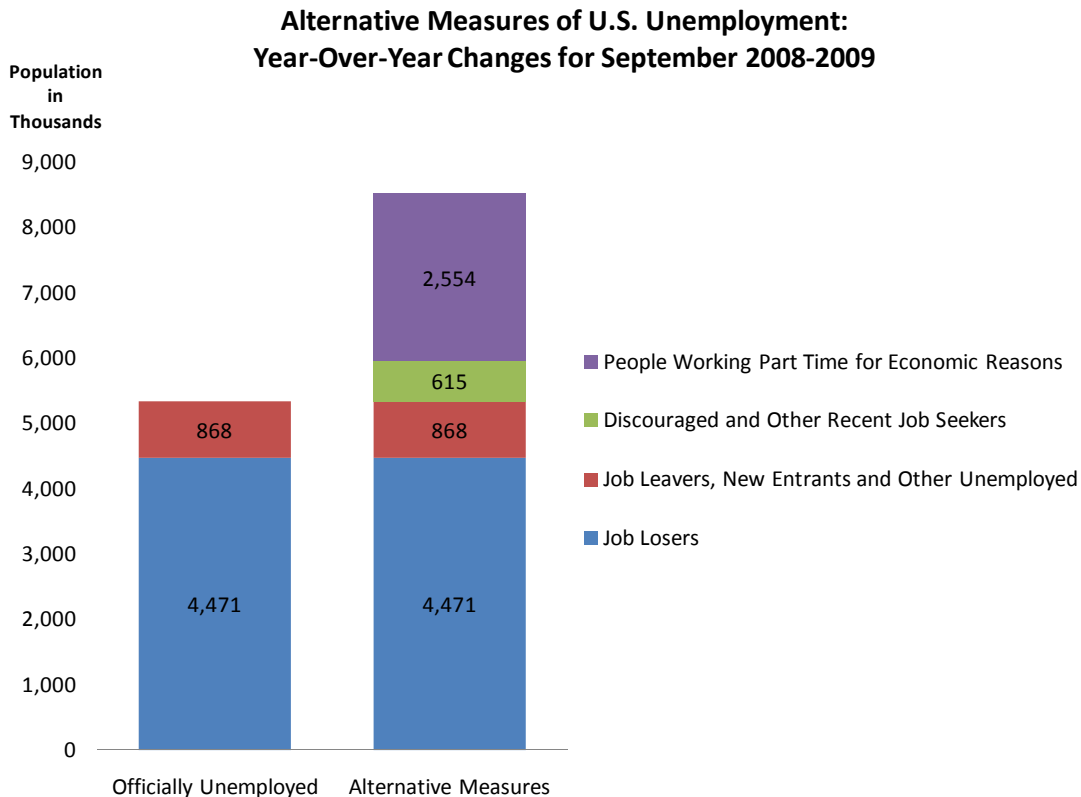
The unemployment rate is one of Iowa's most carefully-watched economic indicators, more so as we continue to evaluate consequences from the recent recession. While it has risen to 6.7 percent from 4.2 percent since September of 2008, many people are relieved that Iowa's rate remains well below average for the United States. Still, some analysts and observers have cautioned that, due to the manner in which unemployment statistics are calculated, the official unemployment rate may be understating the extent of weakness in Iowa's labor market.

The official unemployment rate is simply the total number of unemployed persons expressed as a percentage of the total labor force, which includes all employed and unemployed members of the non-institutionalized civilian population ages 16 years and older. The U.S. Department of Labor determines the unemployment rate based on the employment status and job search activities of surveyed individuals during a specific reference week. Only those people who are currently jobless and have actively sought work during the last four weeks are counted as unemployed.

Individuals who are not working and who are not seeking work are excluded from measures of unemployment and are not counted as labor force members. This definition of unemployment generally under-describes the scope of difficulties faced by individuals in the labor market. For example, people who have lost their full-time positions and are now working part time out of necessity are not included in the official measure of unemployment. People who have become discouraged and have temporarily given up their search for a job are also excluded from the measure of unemployment.

Figure 1 illustrates how the official measure compares to a more generous definition that includes alternative types of unemployment or underemployment. The chart shows the increase in total unemployment across the United States from September of 2008 to 2009. According to the official measure, unemployment grew by nearly 5.34 million during the past year. However, when we expand the definition to include people who are working part-time out of economic necessity and people outside of the current labor force who have recently sought work, the actual increase in unemployment was closer to 8.51 million.

Figure 1



Sensitive to perceived deficiencies in the official unemployment definition, the U.S. Bureau of Labor Statistics (BLS) introduced a range of unofficial, alternative measures in 1976 and revised them in 1995. These alternative measures allow us to get a better understanding of dynamics in the U.S. labor force. In all, the BLS

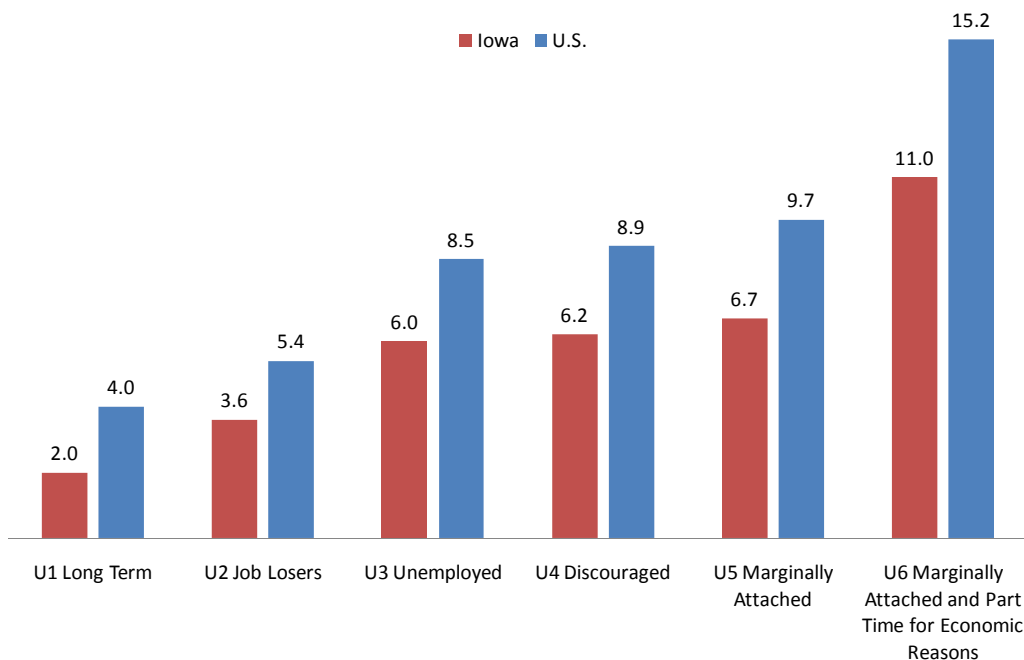
now publishes six different measures of unemployment, each of which is designed to address different questions. The six measures are summarized below. Individuals described by the first three measures are included within the official, published unemployment rate. The last three measures include people who are excluded from the official rate:

- U-1: Persons unemployed 15 weeks or longer, as a percent of the civilian labor force. This slightly narrower definition of unemployment focuses on “long-term” unemployment. The rationale for this measure is to count only unemployment that is long enough to result in financial stress that cannot be made up from savings and other temporary sources or solutions.
- U-2: Job losers and persons who completed temporary jobs, as a percent of the civilian labor force. This measure, which is meant to describe purely involuntary unemployment, excludes people who left their jobs willingly to pursue other opportunities. It also excludes recent entrants to the job market, such as new college graduates, and people who are re-entering the job market after an absence.
- U-3: Total unemployed, as a percent of the civilian labor force. This is the official unemployment rate that is reported on a monthly basis. People who are counted in the U-1 and U-2 measures are also included in the U-3 measure.
- U-4: Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers. Discouraged workers are people who recently quit looking for a job because they are discouraged about their job prospects. They are a subset of the marginally attached workers described below.
- U-5, Total unemployed, plus all marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers. Marginally attached workers are not working and are not currently looking for work; however, they want a job, they are available to work, and they have looked for work sometime in the recent past.
- U-6, Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers. This is the most expansive definition of unemployment. It includes the workers in the U-5 measure, plus people who want to work full-time but have settled for part-time work out of economic necessity.

Until recently, these alternative unemployment measures were available at the national level only; however, the BLS has now begun to publish these measures for individual states. We can use these measures to better understand some of the current labor market conditions in Iowa. Figure 2 illustrates how Iowa recently compared to the United States on the six alternative unemployment measures. The rates shown are annual averages from the fourth quarter of 2008 through the third quarter of 2009.

Figure 2

**Alternative Measures of Unemployment:
Percentage Rates for Q4 2008 through Q3 2009**



Iowa's official (U-3) unemployment rate averaged 6.0 percent during the last year. This was 71 percent of the U.S. average unemployment rate of 8.5 percent. Iowa's long-term unemployment (U-1) rate of 2.0 percent was only half of the national average rate. The state's 3.6 percent rate of involuntary job loss (U-2) was just two-thirds of the national average. These values suggest that Iowa had proportionally fewer people falling into these specific categories than we might expect, given the number of "officially" unemployed people in the state. Using the more expansive definitions of unemployment, which include discouraged workers (U-4), marginally-attached workers (U-5) and involuntary part-time workers (U-6), Iowa's rates were closer to expected levels, ranging between 69 to 72 percent of the comparable national rates. In other words, Iowa did not have proportionately more of these workers than we would expect, given our state's official unemployment rate. By all of these measures, Iowa's labor market conditions appear healthier than the U.S. average. Still, the state's relatively low fraction of long-term unemployed workers could actually be cause for concern. While it is possible that the duration of unemployment in Iowa is shorter than the national average, it is equally plausible that unemployed Iowans are simply leaving the state for job prospects elsewhere. Only time will tell if the recent recession has compounded Iowa's persistent out-migration problems.

It seems clear that the official unemployment rate does mask some of the difficulties faced by job-seekers in Iowa. Most obvious is the large number of people who would like to be working full time but are currently working part-time for economic reasons. The lower earnings levels and absence of benefits associated with these part-time jobs may be causing household economic stress that the current unemployment rate simply doesn't capture. The alternative unemployment measures should help us to better gauge the well-being of Iowa's households as they try to recover from the recent recession.

For more information about the alternative measures of unemployment, see the article entitled "BLS introduces new range of alternative unemployment measures" in Monthly Labor Review, October 1995, <http://www.bls.gov/pub/mlr/1995/10/art3abs.htm>.

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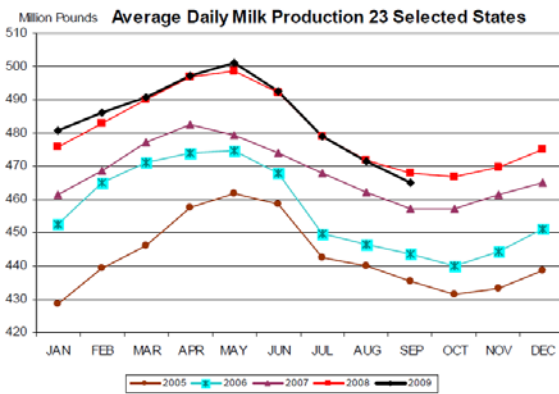
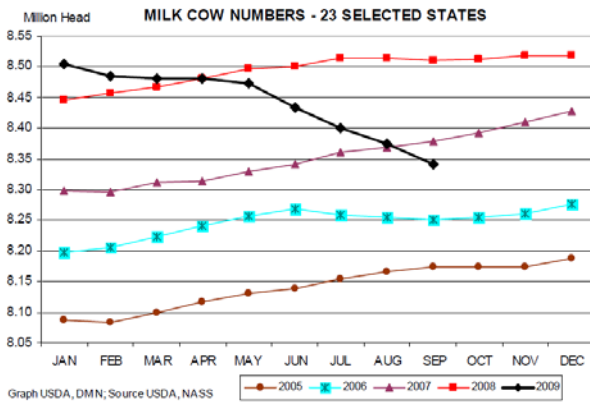
September Production Down 0.7%, Cow Numbers Down Too

September 2009 23 major dairy states milk production decreased 0.7%. Production per cow was up by 22 pounds from one year ago. Milk cow numbers were 168,000 less than September 08 and 32,000 less than August 09. August 09 milk production was revised down 0.2%, a decrease of 23 million pounds. Iowa September 09 milk production was flat compared to one year ago. Cow numbers were even compared to one year ago and milk production per cow was the same as one year ago. Aug 09 Iowa cheese production was down by 4.374 million pounds, 32.7% higher than one year ago and 573,000 pounds, -3.1% less than July 09. Of the individually reported states, this may mean Iowa is the eighth largest cheese producing state. Nebraska third quarter milk production was 61,000 cows, up 2000 from one year ago. Milk production was 306 million pounds for the quarter, up 12.5% from one year ago.

Milk Production: Selected Dairy States, September 2009

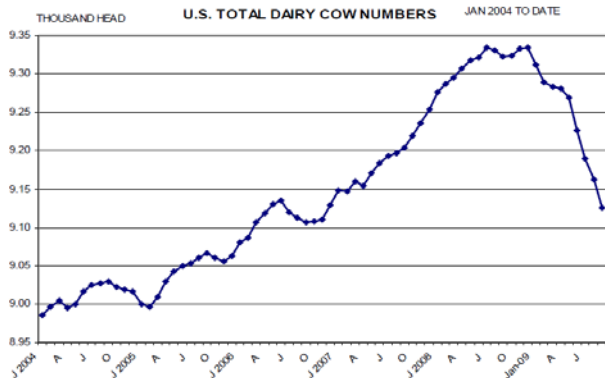
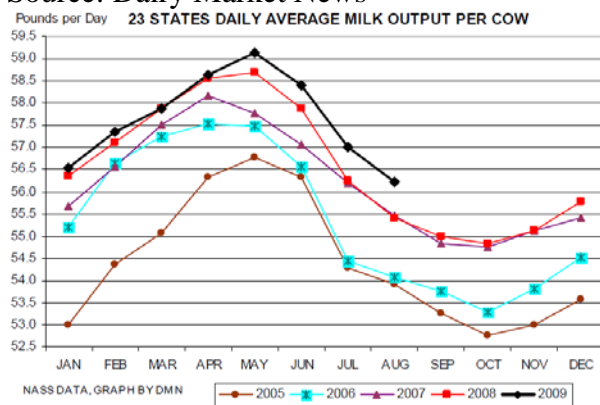
State	thousands			pounds			million pounds		
	2008 cow numbers	2009 cow numbers	% change cow	2008 milk per cow	2009 milk per cow	% change milk/cow	2008 total milk production	2009 total milk production	% change total milk
Iowa	215	215	0.00%	1630	1630	0.00%	350	350	0.00%
MN	465	469	0.86%	1490	1535	3.02%	693	720	3.90%
WI	1253	1258	0.40%	1580	1655	4.75%	1980	2082	5.15%
IL	102	102	0.00%	1425	1480	3.86%	145	151	4.14%
CA	1845	1772	-3.96%	1775	1730	-2.54%	3275	3066	-6.38%
CO	130	119	-8.46%	1850	1880	1.62%	241	224	-7.05%
KS	117	114	-2.56%	1665	1675	0.60%	195	191	-2.05%
ID	554	547	-1.26%	1870	1850	-1.07%	1036	1012	-2.32%
NM	336	318	-5.36%	1880	1980	5.32%	632	630	-0.32%
PA	548	542	-1.09%	1530	1560	1.96%	838	846	0.95%
NY	626	617	-1.44%	1590	1590	0.00%	995	981	-1.41%
TX	425	416	-2.12%	1550	1660	7.10%	659	691	4.86%
23-State	8510	8342	-1.97%	1650	1672	1.33%	14041	13949	-0.66%
US 3rd quarter	9330	9159	-1.83%				46881	46758	-0.26%

Several rapidly growing dairy states, CA, CO, ID and NM, have seen major drops in cow numbers and milk production during 2009. Since the start of 2009, Ca has 59,000 (-3.2%) fewer cows, CO 10,000 fewer (-7.75%), ID 7,000 (-1.26%) fewer, NM 16,000 (-4.8%) fewer and TX 14,000 (-3.25%) less dairy cows.



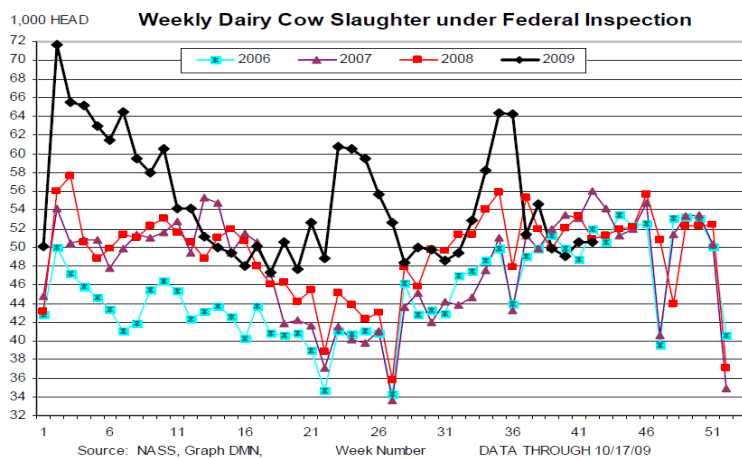
Source: Dairy Market News

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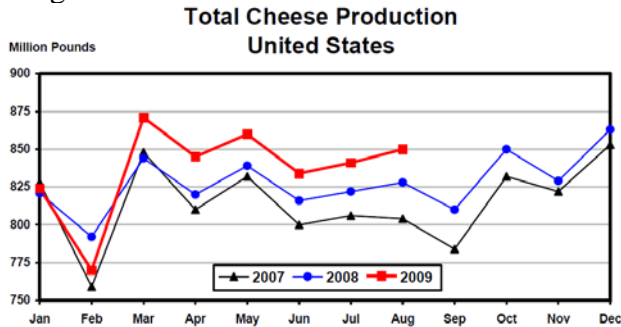
Demand or Disappearance

Year to date, Jan-Aug, commercial disappearance is down 1.1%. Butter and NFDN are the two categories that have had large declines. Butter use is off by -6.9%. The previous period for 2008 though had butter disappearance up by 17.9%. NFDN year to date is -3.1% year to date. This compares to an increase of 21.4% last year for the same period.

Fluid milk continues strong demand, up 1.3% for year to date 2009, compared to a 0.7% increase during 2008. Class I, or beverage milk, is showing seasonal strength with premiums reportedly \$2-3 over order prices. American style cheese is up 4%. Last year the increase was 1.2%. Current world cheddar prices are \$1.58 to

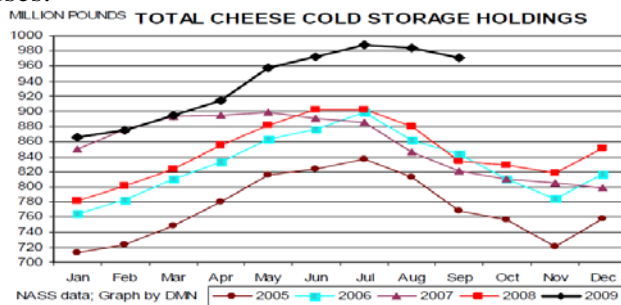
1.72, higher than US prices. This may help explain higher US cheese disappearance. Other style cheese has not regained the demand loss of 2008, -1.9%, while 2009 is up only 1.3%.

Many categories of dairy product manufacture continue to be above year ago levels. August total cheese production was 850 million pounds, 2.6% more than 2008 and 1% more than July 09. But butter & NFDN are lower than one year ago. Butter manufacture was 100 million pounds, -13.6% compared to August 2008 and 12.3% below July 09. NFDN production was 106 million pounds which is down by 8.3%. Both of these products are important exports for the dairy industry. Oceania is a direct export market competitor with US products and has been able to resume manufacture after a long drought. Still the milk production is less than 1 year ago in New Zealand.



Source: Dairy Products

Butter inventories are adequate for current needs. The September 30 report indicated 230.2 million pounds in storage, 23% more than 1 year ago but 11% less than 1 month ago. International inquiries are continuing for butter but supplies may not be adequate until after the year. Retail sales appear to be good but weakness is in the food service sector. Most butter-powder plants are running below capacity since milk intakes are going to other uses.



Source: Dairy Market News

The organic dairy market is being characterized as flat. Recent features of organic milk have been for ½ gallon sizes with prices from \$2.99 to 3.99. This weakness is occurring when seasonal organic milk production is weakening.

Analysis

Current CME cheese prices are 30 cents per pound under the price 1 year ago. And NFDN prices are showing strength, but the reporting indicates that supplies are not the driver, rather future price expectations may be.

The Consumer Confidence Index reported for October declined to 47.7 while analysts had expected it to stay the same. Consumers continue to be pessimistic about future income prospects. Consumers expect fewer jobs and lower salaries. This sentiment is very negative for holiday spending. The Commerce Department reported September incomes down 0.2% and consumer spending down 0.5%.

GDP did grow for 3Q09 but it only appears to be due to government spending. Economists expect growth for 4Q09 to be 2% or less. Others are suggesting a double dip recession or a jobless recovery. Another predicts unemployment to peak at 10.5% next year. But inflation remains at an annual rate of 1.3%.

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