IOWA STATE UNIVERSITY
University Extension

Iowa Farm Outlook

Department of Economics
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Cattle Inventory Declines

USDA estimated the nation's cattle inventory to be 93.7 million head, 1% lower than January 2009 (Table1). This marks the third decline in a row and the lowest total cattle numbers since 1959. Inventories will be smaller in coming years as the number of beef and milk cows and beef replacement heifers each decreased.

The number of beef cows is down 1% and beef replacement heifer inventory is down nearly 2%, but the number of beef heifers expected to calve in 2010 is up 0.5%. Milk cow numbers are down nearly 3% but the inventory of milk replacement heifers increased over 2% as producers anticipate higher milk prices in responded to three industry funded dairy cow buyout programs in 2009.

Table 1. USDA Cattle Report Summary, January 2010

	United States		**Iowa**	
	2010 1000 hd	Chg Year Before	2010 1000 hd	Chg Year Before
Cattle and Calves	93,701	-0.9%	3850	-2.5%
Cows and Heifers That Have Calved	40,456	-1.4%	1100	-3.5%
Beef Cows	31,376	-1.1%	885	-4.3%
Milk Cows	9,081	-2.7%	215	0.0%
Heifers 500 Pounds and Over	19,666	0.5%		
Beef Replacement	5,436	-1.7%	130	-7.1%
Calve in 2010	3,385	0.5%		
Milk Replacement	4,516	2.4%	130	0.0%
Calve in 2010	2,941	1.1%		
Other Heifers	9,714	0.8%	640	6.7%
Steers 500+ Pounds	16,440	-2.0%	1330	-4.3%
Bulls 500+ Pounds	2,190	0.3%	60	-14.3%
Calves Under 500#	14,949	0.0%	460	-4.2%
Cattle on Feed	13,642	-1.5%	1360	4.6%
Calf Crop 2009	35,819	-0.9%	1030	-3.7%

The number of cattle on feed was 1.5% below the 2009 level at 13.6 million head, and it is the smallest January feedlot inventory since 2003. This number includes all cattle on feed whereas the monthly inventory reports only cattle in feedlots over 1000 head capacity. The feedlot inventory and heifer retention decreased more than the calf crop increasing the cattle outside feedlots available for placements slightly.

In general, the cattle inventory continues its downward trend. It is the smallest inventory of beef cows since 1963 and beef replacement heifers since 1990. The 2009 calf crop was 35.8 million head, down nearly 1% or 334,000 head and is the smallest calf crop since 1950.

Based on the inventory, fed cattle and beef supplies are expected to be tighter in 2010 than 2009 and should be supportive of price. Third quarter 2009 feedlot placements were up over 6% and will limit price rallies in the first quarter of 2010. Placements were lower in the fourth quarter leading to lower second quarter marketings and higher prices. Compared to a year ago there are additional cattle outside feedlots that will eventually be placed and marketed in the second half of the year. Given the reduced heifer retention and resulting increased heifer slaughter, average carcass weights in 2010 should decline offsetting some of the increased heifer slaughter. Overall beef supplies should be lower in 2010 and 2011 supporting higher prices. However, beef and cattle prices will require stronger demand to see much price improvement. Recent reports from the restaurant industry shows some signs of stronger demand from food service. A recovering economy and declining unemployment will also be necessary to strengthen beef demand.

It is anticipated that cattle feeders will sell cattle for a profit most months in 2010. However, much of the gain will come at the expense of feeder cattle producers as purchase prices have declined. The drop in corn prices in also beneficial to feedlot profits and ultimately calf and yearling prices.

Feeder cattle supplies are slightly larger than year ago levels and will limit price improvement. However, the largest drivers of feeder cattle prices will be fed cattle and corn prices. Recent declines in corn prices are supportive as are stronger boxed beef prices.

Iowa Inventories

Iowa reported a decrease in beef cow and beef heifer inventories, but an increase in cattle on feed. There was no reported change in the number of milk cow and dairy heifers compared to a year ago. These numbers support the notion that there is a shift in grain feeding sectors to Iowa. At the same time the beef cow herd is losing ground to crop production.

Table 2. Change in Feedlot Inventory 2010 v. 2004

	1000 head
US	-270.7
TX	-150
KS	-110
ID	-80
CA	-45
CO	-40
NE	50
IA	310

The 1.36 million cattle on feed inventory is the largest reported number since 1981. USDA did adjust their Iowa inventory estimate in 2009 going back 5 years to reflect an under estimation of feedlot cattle and there may have been higher inventories since 1981 that were under counted. However, since the adjustment in 2004 Iowa has increased January cattle on feed inventories by 310,000 head. Table 2 highlights changes that have occurred in feedlot inventories between 2004 and 2010.

Unlike other leading feedlot states, Iowa has a significant share of its feedlot inventory in feedlots with less than 1000 head capacity. In 2010, 58% of Iowa's cattle on feed (790,000 head) were in these feedlots. Iowa accounts for 30% of the US total in this category. Nebraska and South Dakota report inventories of 140,000 and 165,000, respectively in under 1000 head capacity feedlots. During 2009, Iowa added 10,000 head on feed in the over 1000 head lots and added 50,000 head to the under 1000 head lots.

Iowa milk cow numbers have also increased in recent years. Since Iowa's low point in 2005 the state has added 28,000 milk cows. This addition is 4th largest in the nation behind, Idaho, Texas and Michigan.

John Lawrence

Crop Markets Remain Under Pressure

The January USDA reports provided some record-setting information. And if the markets were looking for bearish information, the reports provided it. For corn, national average yields are projected at 165.2 bushels per acre, topping the record set in 2004 by nearly 5 bushels. Corn production is projected at 13.15 billion bushels. With this revision, the 2009 crop becomes the largest corn crop the U.S. has ever produced, exceeding the 2007 crop by 113 million bushels. For soybeans, national average yields are projected at 44 bushels per acre, nearly a bushel above the previous record (2005). Soybean production is projected at a record 3.36 billion bushels. The record corn and soybean yields and production hit the markets and dropped prices fairly dramatically.

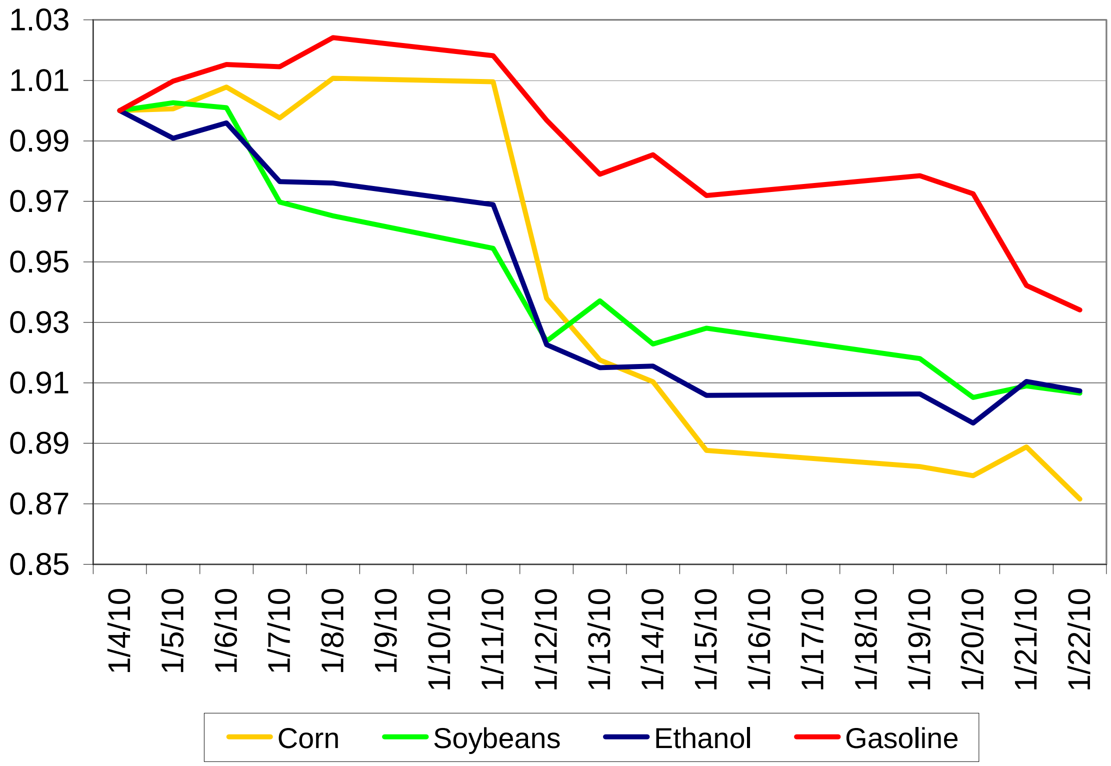
With the significant delays in harvest this crop year, USDA will be re-examining its yield and production estimates for 2009 in March. The surveys for the January reports were performed in late November and early December when several states still had sizable area of corn and soybean production unharvested. USDA included the expected production from this unharvested area in the January estimates. USDA is following up with those producers who reported unharvested production to see if the January estimates need to be updated. If they do, USDA will release the update in mid-March.

The USDA stocks report showed corn stocks up 9 percent from last year, at 10.9 billion bushels. The stock situation was helped by a larger corn disappearance over the first three months of the marketing year as 3.89 billion bushels of corn were used, versus 3.64 billion bushels last year. But the record size of this year's crop more than offset the strong disappearance numbers and stocks increased. A similar story held for soybeans. Soybean stocks are up 3 percent from last year even though disappearance from September to November was 30 percent higher than last year.

USDA also updated their demand projections. Soybean exports were raised 35 million bushels to 1.375 billion, based on continued Chinese demand. But some other soybean markets, such as Taiwan, Egypt, and Canada, have grown year over year as well. Soybean crush is projected at 1.71 billion bushels, up 15 million on the strength of soybean meal exports. The demand growth was greater than the production update, so soybean ending stocks for the 2009/10 marketing year are projected at 245 million bushels, down 10 million. With the boost in soybean exports and crush and the reduction in ending stocks, USDA raised the midpoint of their season-average price range to $9.65 per bushel, up 15 cents from last month but down 33 cents from the previous crop year. For corn, feed and residual demand was raised to 5.55 billion bushels, based on the stock disappearance numbers. Ethanol demand held at 4.2 billion bushels, but food and seed demand was lowered 10 million bushels as shipments of high fructose corn syrup were off. Corn exports were held steady at 2.05 billion bushels. The record crop pushed projected 2009/10 corn ending stocks to 1.764 billion bushels, up 89 million. The midpoint of USDA's corn season-average price range was raised to $3.70 per bushel, up 15 cents.

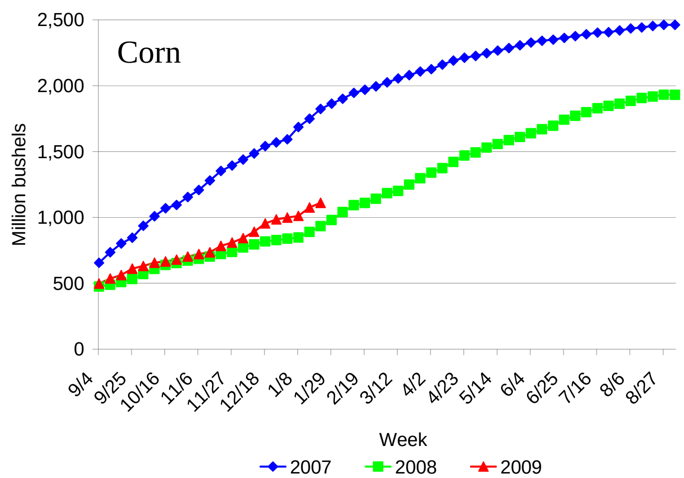
In the weeks before the USDA reports, corn prices had been holding steady. But the record crop estimate snapped the market into action. From the release of the reports to the end of January, corn prices fell over 13 percent. Soybean prices had already been sliding downward before the reports and continued afterward. But the big crop numbers have not been the only factors contributing to the drop in crop prices. Energy prices have been a major driver for crop demand through biofuels over the last couple of years. And while energy prices had rebounded during 2009, those prices have backed off recently. As Figure 1 shows, gasoline and ethanol prices have also worked their way down in January. Another factor is the recent strength of the dollar. The recent outlook and data for the general economy has been on the upswing. This has resulted in the dollar rebounding to hit levels it hasn't seen since last August.

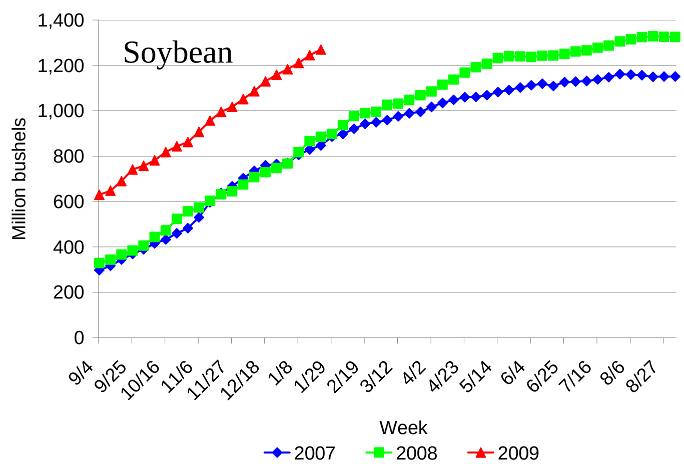
Figure 1. Price Index Movements Since New Year's



But despite the recent strength in the dollar, exports have been at or above expectations. Corn exports ramped up over last year's pace in mid-December and have continued to exceed that pace. Soybean exports are running over 300 million bushels ahead of last year. In fact, here we are five months into the marketing year and soybean exports are still ahead of corn exports. So export demand continues to provide support. But the strengthening of the dollar and the oncoming crops from South America will likely put a cap on that support.

Figure 2. Exports (Source: USDA-FAS)





Given the events of the last month, the futures markets and USDA have traded places in terms of price expectations. Before the mid-month reports, the futures markets were more bullish than the USDA outlook. In the USDA revision, season-average prices were raised 15 cents per bushel for both corn and soybeans, moving the USDA estimates closer to where futures had been. But big crops put futures in retreat and now the USDA outlook is more bullish than futures. Current futures-based estimates (as of Jan. 29, 2010) of the 2009/10 season-average prices are at \$3.47 for corn and \$9.18 for soybeans, well below USDA's \$3.70 and \$9.65. Looking forward into the 2010/11 marketing year, futures are indicating season-average prices of \$3.75 for corn and \$8.78 for soybeans. So the futures market continue to favor corn in 2010 as we approach planting time.

Chad Hart

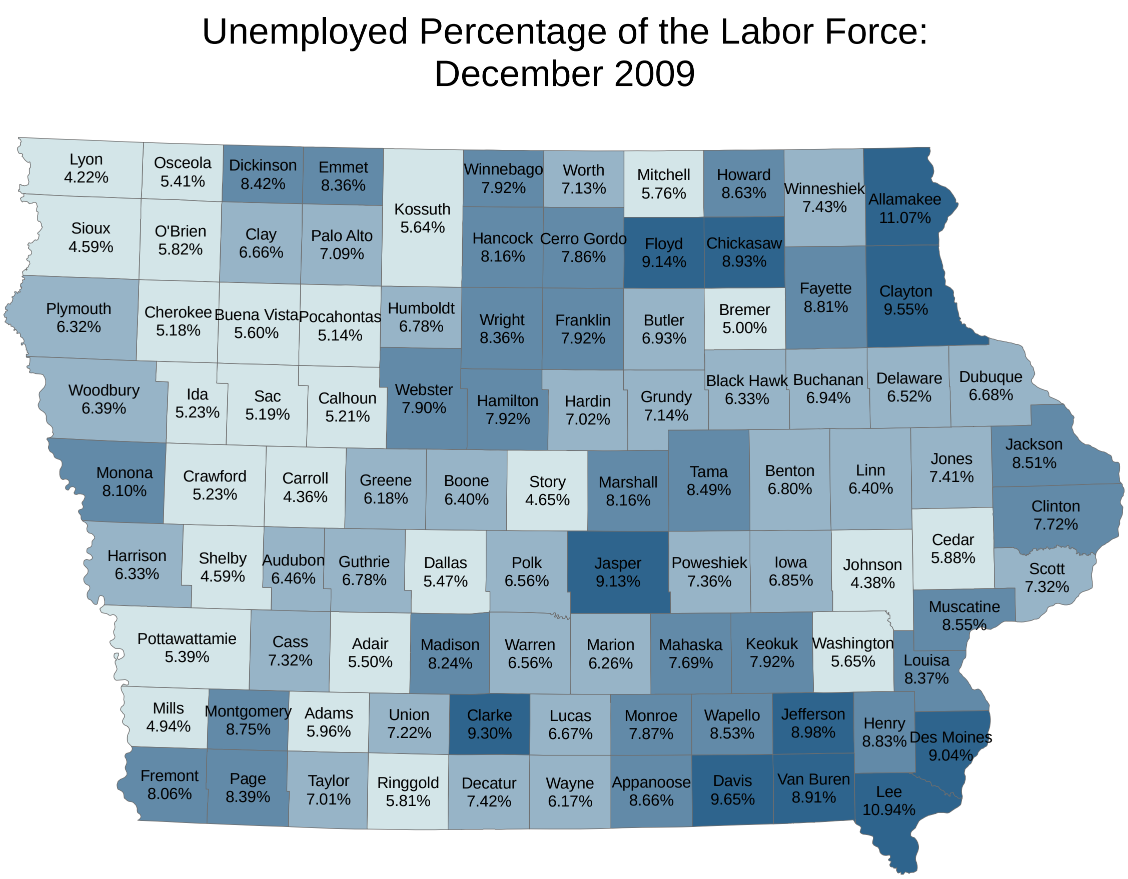
Recent Labor Force Conditions in Iowa

Iowa's seasonally adjusted unemployment rate was 6.6 percent in December 2009. This was slightly lower than November's rate of 6.7 percent and equal to the October rate. The U.S. unemployment rate for December was 10.0 percent, equal to the November rate and down slightly from 10.1 percent in October.

The seasonal adjustment to the unemployment rate removes the influences of normal variations in employment levels that are related to, for examples, the slowdown in construction activity with the onset of winter, the beginning of the school term, or the holiday shopping season. Without the seasonal adjustment, Iowa's unemployment rate for December was 6.7 percent. This was sharply higher than the 4.7 percent experienced during the last month of 2008.

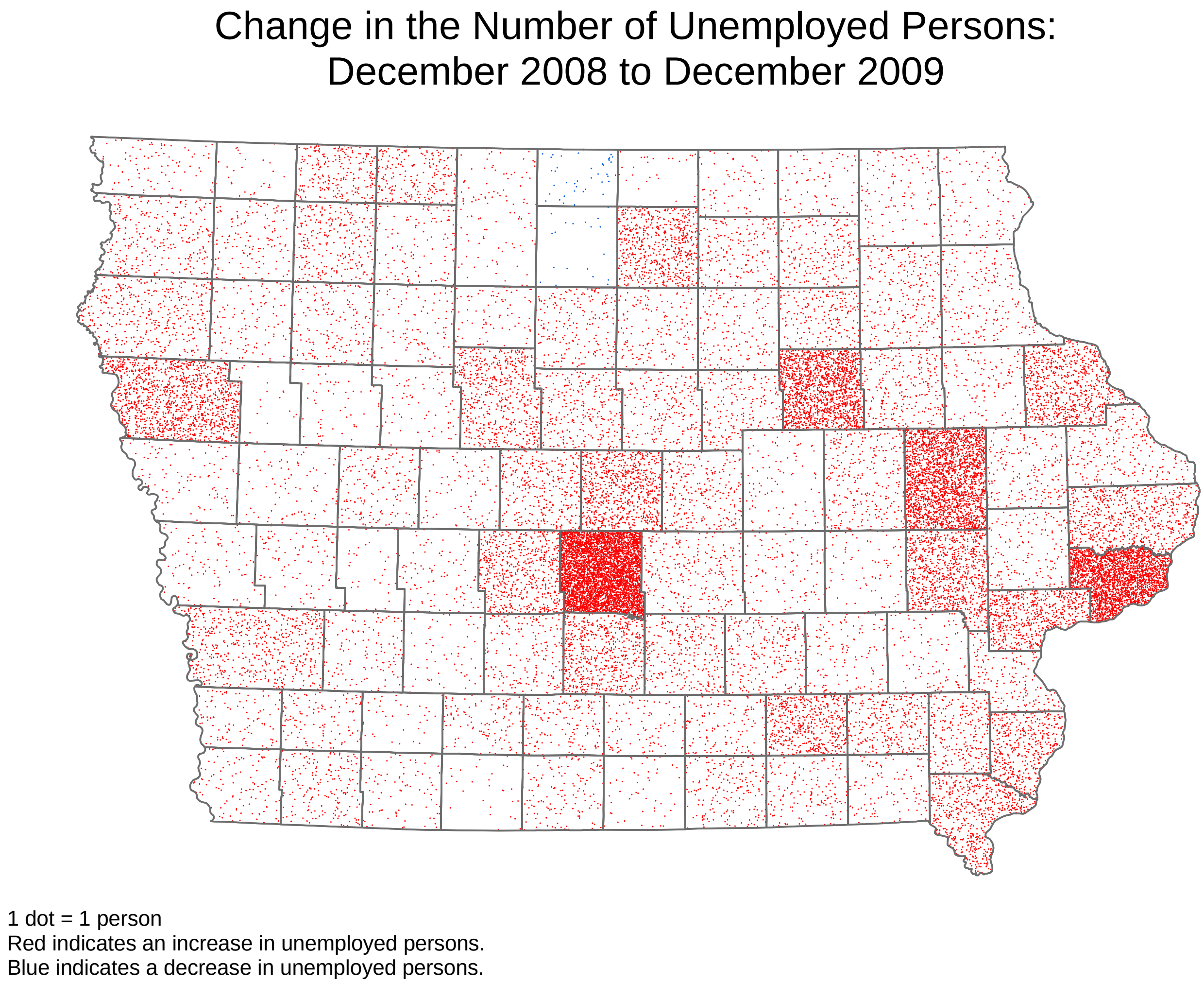
Error! Reference source not found. shows December 2009 county-level unemployment rates without seasonal adjustment. The highest unemployment rates were experienced by Allamakee County (11.1 percent) in the far northeast corner of the state and Lee County (10.9 percent) in the southeast corner. Lyon County, in the far northwest corner of Iowa, had the lowest December rate at 4.2 percent.

Figure 1. Iowa Counties Unemployment Rate



The 2 percentage point increase in Iowa's unadjusted December unemployment rate translates into an additional 33,500 labor force members who are actively seeking work compared to one year ago. Nearly 15,000 of those job-seekers, or 45 percent, reside in Iowa's non-metropolitan counties.
Error! Reference source not found. shows the changes in the number of unemployed persons between December of 2008 and 2009 on a county-by-county basis. Only Worth and Winnebago show a decline in the number of unemployed persons, a phenomenon that might be attributed to discouraged workers dropping out of the labor force altogether.

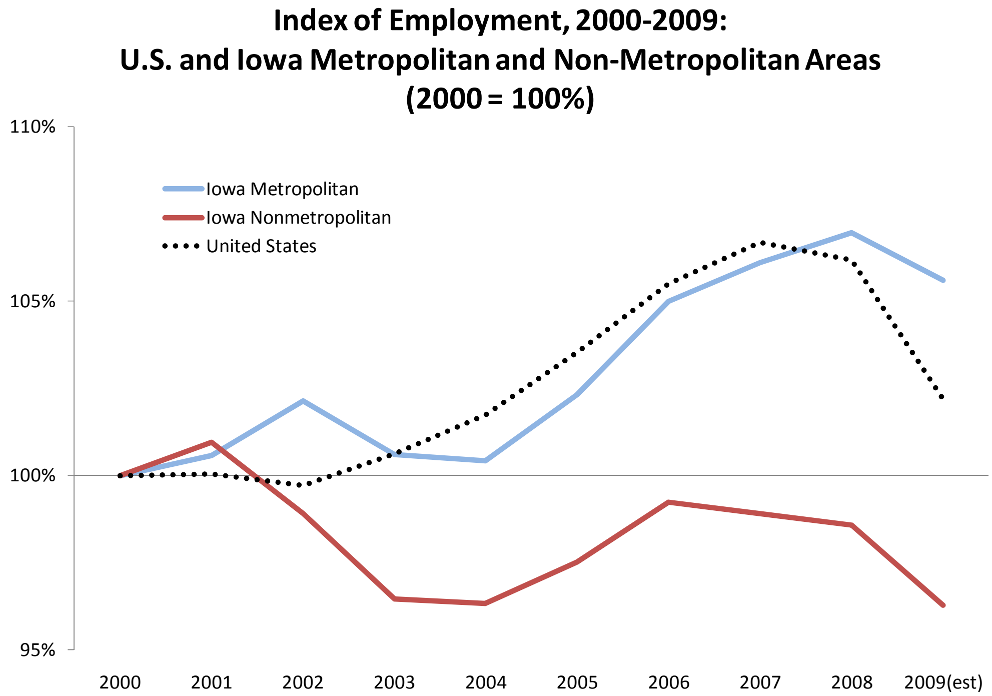
Figure 2. Change in Number of Unemployed Persons by County



When employment levels do begin to rebound in Iowa, recent trends suggest that the state's metropolitan areas will feel recovery sooner than non-metropolitan areas. Figure 3 illustrates employment change in Iowa on a place of residence basis, comparing the growth experienced by Iowa's metropolitan and non-metropolitan counties. Employment levels are indexed to their 2000 levels. A value of 100 in a given year would imply the region's employment was 100 percent of, or unchanged from, its level in 2000. Values above or below 100 percent suggest employment gains or losses during the time period measured.

During the recession that began in 2001, Iowa's metropolitan areas experienced a shallower downturn and recovered their pre-recession employment levels more rapidly than the remainder of the state. By the end of 2009, the metropolitan counties had achieved a 5.6 percent gain in total resident employment compared to 2000 levels. In contrast, Iowa's non-metropolitan counties had failed to recover their pre-recession employment levels even before the downturn that began in 2008. The total non-metro employment level in 2009 was 96 percent of its level in 2000.

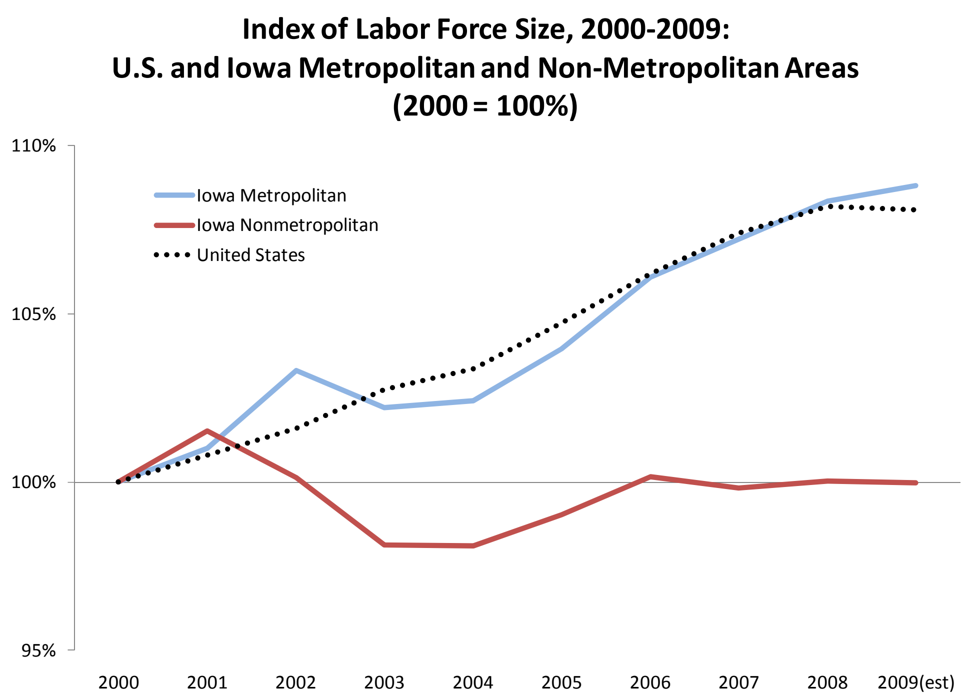
Figure 3. Index of Employment



Comparatively stronger growth in Iowa's metropolitan counties was also evident in their rate of labor force growth, as shown in Figure 4. The chart compares the metropolitan and non-metropolitan rates of change in total labor force size during the decade of the 2000s. As with Figure 3, the values are indexed to a base year of 2000.

For the decade of the 2000s, total labor force growth in Iowa's metropolitan areas kept pace with the national average. By 2009, the state's metropolitan labor force had grown by nearly 9 percent. In contrast, the non-metropolitan labor force ended the decade at the same size it began. Overall, the statewide labor force grew by 4.9 percent compared to a rate of 8.1 percent for the United States.

Figure 4. Index of Labor Force Size



Iowa's relatively slow pace of labor force growth during the last decade was a cause for concern among Iowa's employers, particularly in non-metropolitan areas. As late as 2007, Governor Culver convened a workforce summit to discuss perceptions of and solutions for an impending workforce shortage. Such discussions have been largely curtailed during this period of rising unemployment. Still, the state's slow pace of labor force growth, if it continues, could eventually renew concerns about the future supply of workers in Iowa's non-metropolitan areas.

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