IOWA STATE UNIVERSITY
University Extension

# Iowa Farm Outlook

Department of Economics
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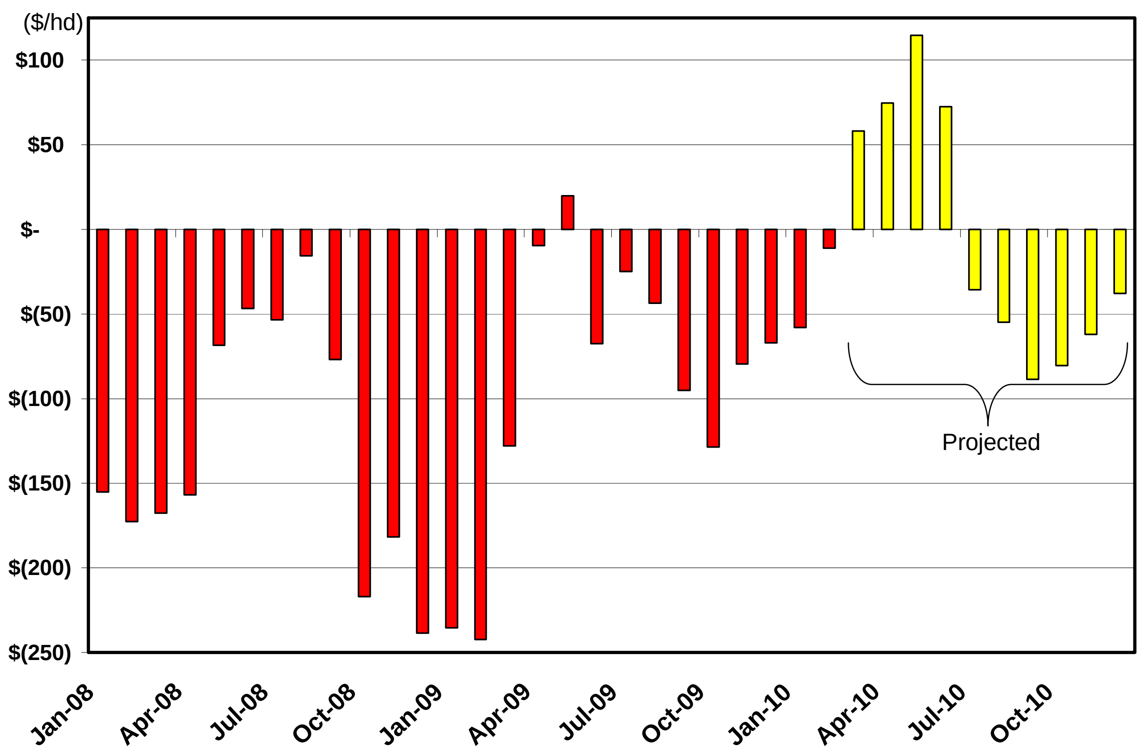
## Cattle and Hogs 2010
## Supply Down, Demand Steady, Profitability Up

Spring is coming back to Iowa and things are looking up for both the cattle and swine industries. After two years of loses and lack luster outlook, the prospects for a profitable 2010 are a welcome relief to producers. While cattle feeders are licking their wounds from the past two years, swine producers are already testing the waters of increasing production.

In the cattle sector, fed cattle cash prices have increased by $10/cwt over the past 10 weeks. Conditions are that prices will continue to improve into May leading to the best opportunity for profitable returns to feeding cattle in more than two years. Figure 1 contains the Iowa Estimated Returns to Finishing Yearlings and including a projection for the rest of the year. These return projections are based on futures prices at the end of February. March through June cattle marketing are shaping up to be some of the most profitable in the past three years. Projections for profitability in 2010 and into 2011 have been slowly and steadily improving over the past three months, building optimism in the finishing sector. That optimism has been reflected in the growing demand for feeder cattle. For example, Oklahoma light weight (450-550 lbs.) feeder prices have increased by more than 15 percent in the past three months. While current price projections do not suggest every month of 2010 will be profitable, it may shape up to be a breakeven year and cattle feeders should be able to avoid the triple digit loses seen in the past two years.

**Figure 1. Iowa Estimated Returns to Finishing Yearlings Enterprise**
*Projections based on CME Futures Prices*



Hog prices have made significant improvements in the past several months, and that coupled with cheaper corn has lead to the first chance at black ink in eighteen months. The mid summer months could return $20+ profits to producers. Returns have not been up to the level since June 2007. Producers are encouraged by this return to profitability, though it may be a little premature to end the reduction in the industry. Sow slaughter has been dramatically lower since the beginning of the year, and soar prices have been soaring. The industry was making good head way in moving supplies into line with demand, but that appears to be ending as more farrowing operations hold sows longer or bring in additional new gilts. Figure 2 illustrates the reason for the optimism for the industry. Producers with idle capacity will look at these projected returns and feel encouraged to refill their empty spaces.

**Figure 2. Iowa Estimated Returns to Farrow to Finish Enterprise**
*Projections based on CME Futures Prices*

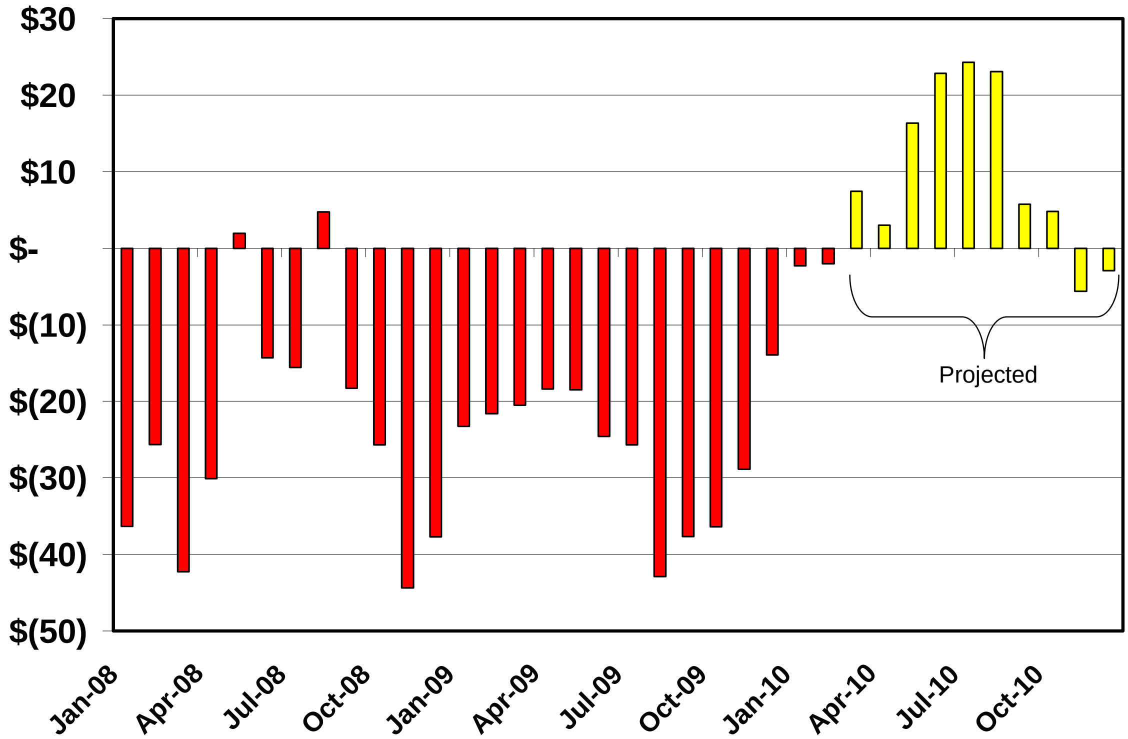



Table 1 and 2 are summaries of the projected quarterly meat consumption and supplies for the duration of the year. Beef supplies have been down significantly in the first quarter of the year driving boxed beef prices to more than $150/cwt. With national cattle on feed inventories down 3 percent from a year ago, short-run beef supplies will continue to be tighter than usual. Demand for beef would appear to be weaker from a historical standpoint, however increased cattle and beef prices reflects a stronger foundation of demand than one might expect. Beef consumption in the fourth quarter is expected be nearly level with a year ago after three years of decline. Beef supply and per capita consumption will both be down more than 2 percent for the year, but cattle prices will be up more than 5 percent.

**Table 1. Beef Consumption, Supply and Cattle Price Projections**

| | Per capita consumption (lbs.) | % change | Production (Mil. lbs.) | % change | 5 Area Fed Cattle price | % change |
|---|---|---|---|---|---|---|
| 1st Qtr. | 14.7 | -4.2 | 6152 | -1.5 | 86-88 | 5.9 |
| 2nd Qtr. | 15.1 | -3.7 | 6313 | -4.4 | 87-90 | 4.8 |
| 3rd Qtr. | 15.3 | -1.7 | 6587 | -1.5 | 83-87 | 2.3 |
| 4th Qtr. | 14.7 | -0.2 | 6285 | -2.2 | 87-92 | 7.5 |
| Year | 59.8 | -2.5 | 25337 | -2.4 | 86-89 | 5.1 |

*Source: Livestock Marketing Information Center*

Pork supplies will be down throughout the year due to fewer hogs, but consumption will be down even more as exports grow from 2009 and near the record setting volumes of 2009. The reopening of Russia to US pork will offer additional support to an already growing international market place. 2010 pork exports could exceed 20% of US production. With the growth in demand prices will be significantly better than a year ago.

**Table 2. Pork Consumption, Supply and Base Hog Price Projections**

| | Per capita consumption (lbs.) | % change | Production (Mil. lbs.) | % change | Nat. Base Hog price | % change |
|---|---|---|---|---|---|---|
| 1st Qtr. | 11.9 | -5.5 | 5627 | -3.2 | 62-65 | 9.3 |
| 2nd Qtr. | 11.4 | -5.5 | 5403 | -1.5 | 64-67 | 10.2 |
| 3rd Qtr. | 12.0 | -4.2 | 5655 | -0.8 | 67-70 | 26.0 |
| 4th Qtr. | 12.4 | -4.4 | 5935 | -1.0 | 64-67 | 17.9 |
| Year | 47.6 | -4.9 | 22620 | -1.6 | 64-67 | 14.9 |

*Source: Livestock Marketing Information Center*

*Shane Ellis*

## A Preview on the 2010 Crop Year

USDA released its early thoughts on the 2010 crop year at its annual Agricultural Outlook Forum. The projections are unofficial, but they do highlight current issues to monitor as the 2010 crop season progresses. The yields are placed at trend and no adjustments are made to account for possible weather impacts as we move into the planting season.

**Corn Outlook**

USDA shows a shift to plant more corn in 2010 with 2.5 million more acres coming into corn production. A drop in winter wheat plantings this fall and the expiration of some CRP contracts has opened up some additional land for corn plantings. With a trend yield of 160.9 bushels per acre, the 2010 corn crop would be on pace to set another production record, following the records set in 2007 and 2009. Total supplies for the 2010 marketing year come in just under 15 billion bushels. On the demand side, feed demand is projected to fall as the livestock industry is still under contraction and distillers grains continue to fill part of overall feed needs. Corn demand via ethanol is projected to grow to 4.5 billion bushels, roughly 100 million bushels over the target from the Renewable Fuels Standard. Returns to the ethanol industry have improved in the last year, prompting continued growth in the industry. Food, seed, and other use is expected to rebound slightly.

Exports are projected to continue to work slowly up as well as the global economic recovery continues and the projections for the U.S. dollar are basically flat for 2010. With the drop in feed use being more than offset the ethanol and export growth, total use is projected a record 13.24 billion bushels. The 2010/11 ending stocks are projected at 1.65 billion bushels, down roughly 70 million bushels from the 2009/10 projection and approximately equal to the ending stock levels following the 2007 and 2008 crop years. Prices for 2010/11 are projected to be slightly lower, at $3.60 per bushel.

**Table 1. U.S. Corn Supply and Use**

| | | 2008 | 2009[a] | 2010[b] |
|---|---|---|---|---|
| Area Planted | (mil. acres) | 86.0 | 86.5 | 89.0 |
| Yield | (bu./acre) | 153.9 | 165.2 | 160.9 |
| | | | | |
| Production | (mil. bu.) | 12,092 | 13,151 | 13,160 |
| Beg. Stocks | (mil. bu.) | 1,624 | 1,673 | 1,719 |
| Imports | (mil. bu.) | 14 | 10 | 15 |
| Total Supply | (mil. bu.) | 13,729 | 14,834 | 14,894 |
| | | | | |
| Feed & Residual | (mil. bu.) | 5,246 | 5,550 | 5,350 |
| Ethanol | (mil. bu.) | 3,677 | 4,300 | 4,500 |
| Food, Seed, & Other | (mil. bu.) | 1,276 | 1,265 | 1,290 |
| Exports | (mil. bu.) | 1,858 | 2,000 | 2,100 |
| Total Use | (mil. bu.) | 12,056 | 13,115 | 13,240 |
| | | | | |
| Ending Stocks | (mil. bu.) | 1,673 | 1,719 | 1,654 |
| Season-Average Price | ($/bu.) | 4.06 | 3.70 | 3.60 |

[a]Projections from USDA's February 2010 WASDE report
[b]Unofficial projections from USDA's Agricultural Outlook Forum

**Soybean Outlook**

Following the record 2009 soybean crop, USDA is looking at another strong production year in 2010. Soybean acreage is projected to decline slightly, to 77 million acres. Relative crop prices and generally lower input costs are seen as favoring corn over soybeans for planted area. Given a trend yield of 42.9 bushels per acre, 2010 projected production comes in at 3.26 billion bushels, 100 million bushels shy of 2009's record production. Domestic soybean crush is projected to decline to 1.655 billion bushels, as the livestock and biodiesel industries struggle. The export demand for soybean meal and oil that has supported the 2009/10 crush is expected to retreat as South American soybean production fills some of that demand. Soybean exports are also expected to fall, but will remain at historically high levels. The 2010/11 ending stocks are expected to climb to 330 million bushels as expected production exceeds usage, bringing the stocks-to-use ratio back above 10%. The 2010/11 season-average price for soybeans is forecast at $8.80 per bushel, down 65 cents from the 2009/10 estimate.

**Table 2. U.S. Soybean Supply and Use**

| | | 2008 | 2009[a] | 2010[b] |
|---|---|---|---|---|
| Area Planted | (mil. acres) | 75.7 | 77.5 | 77.0 |
| Yield | (bu./acre) | 39.7 | 44.0 | 42.9 |
| | | | | |
| Production | (mil. bu.) | 2,967 | 3,361 | 3,260 |
| Beg. Stocks | (mil. bu.) | 205 | 138 | 210 |
| Imports | (mil. bu.) | 13 | 8 | 8 |
| Total Supply | (mil. bu.) | 3,185 | 3,507 | 3,478 |
| | | | | |
| Crush | (mil. bu.) | 1,662 | 1,720 | 1,655 |
| Seed & Residual | (mil. bu.) | 101 | 177 | 168 |
| Exports | (mil. bu.) | 1,283 | 1,400 | 1,325 |
| Total Use | (mil. bu.) | 3,047 | 3,297 | 3,147 |
| | | | | |
| Ending Stocks | (mil. bu.) | 138 | 210 | 330 |
| Season-Average Price | ($/bu.) | 9.97 | 9.45 | 8.80 |

[a]Projections from USDA's February 2010 WASDE report
[b]Unofficial projections from USDA's Agricultural Outlook Forum

**March Reports**

The next update on the 2009 crop will be released March 10th. Typically, the January reports contain the final production numbers. With the delays in harvest this past fall, USDA had to create their production estimates this year while significant portions of the corn crop still stood in the fields. In order to capture what has or will happen with that portion of the crop, USDA has been resurveying producers in areas with significant harvest delays and they will update the production and demand estimates for the 2009 crop. Two other major USDA reports will also be released later this month. The Grain Stocks report will provide mid-marketing-year snapshot of crop usage. While the Prospective Plantings report will provide an updated look at 2010 acreage decisions based on producer surveys. As the USDA numbers above show, the expectation is that corn will gain acreage in 2010 and soybeans holds on to its recent acreage gains, as other crops, especially wheat, give up ground. The delays in harvest this fall shortened the window for winter wheat planting and that has opened up some land for corn and soybeans.

*Chad Hart*

## Defining Economic Recovery

The National Bureau of Economic Research typically uses the benchmark of two consecutive declining quarters of GDP growth in determining when the United States is entering a recession. The recession beginning in December of 2007 is rare in that it represents one of the few recessions dated without the declining GDP benchmark. Unlike the 2001 recession, which was declared a recession without two successive quarters of declining GDP, the 2007 recession has proven to be long and deep.

Generally it is more common for economists to reach consensus that we are in a recession than to reach consensus that we are recovering. There are multiple reasons for this but largely it has to do with which indicators different economists find most important.

**GDP Growth:** Those arguing that the economy is recovering right now are staking claim to the rise in GDP the last the quarters. Unlike most economic recoveries though, this GDP growth is not being led by consumers or private domestic investment which not only makes it unusual as recoveries go but also tenuous. Contributing to GDP growth was a spike in manufacturing prompted by record low inventories that will not be sustainable moving forward unless consumer spending recovers and drives manufacturing activity.

**Housing Market Recovery:** Other indicators garnering a lot of attention in this recession are new housing starts and housing sales, considered to be indicators of economic health because of the decimation of the housing market entering the recession. Unfortunately, these indicators are not universally indicating recovery with tremendous volatility in the numbers from month to month and considerable differences in housing market health geographically. Foreclosures are still increasing driving down prices in many markets and the tenuous stability in our housing markets is likely to fall apart completely when the homebuyer tax credit expires this spring. Housing market equilibrium will require some stability in employment since income and employment are the leading drivers of housing demand. An additional concern about housing market stability is that the impacts of the Federal Reserve's decision to quit buying mortgage backed securities are unknown, even to its chair, Ben Bernanke who declared on February 25th that he is unsure of what it will do to markets and mortgage rates. In order for the housing market to indicate that the economy is recovering it first will need to achieve stability, and without stabilization in employment and declines in new foreclosures, this appears to be a considerable way off.

**Employment:** Often employment is considered a lagging indicator, meaning that economic recovery starts to gain speed before employment losses are recouped. This has been true in many of our recessions prior to 2007, but this recession has witnessed a sharper and more sustained decline in unemployment than the others. This means that pronouncing economic recovery from this recession based strictly on GDP may mean that employment recovery could be as far off as three or four years, representing the longest lag in modern history.

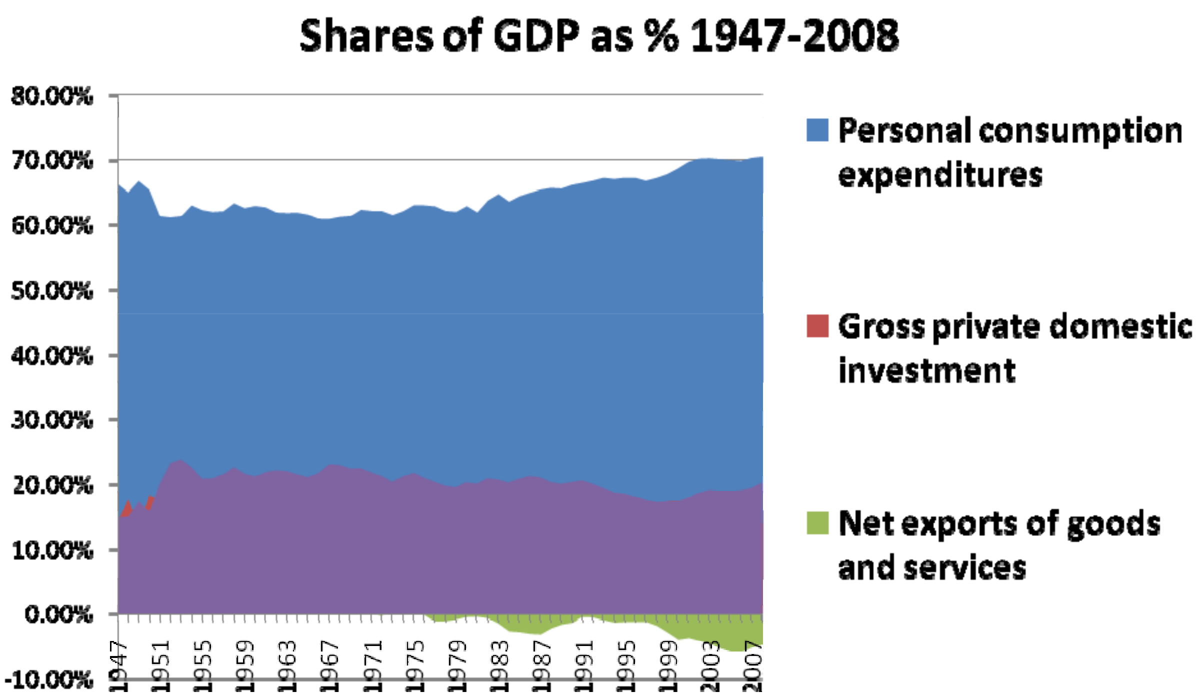
According to calculations by the Department of Commerce, the United States economy would have to grow at five percent for the next year to reduce unemployment by one percent. In the fourth quarter of 2009 the economy grew at almost six percent, but the forecasts for the next year are much lower than that pace, indicating that employment will not be reaching pre-recession levels anytime soon.

**Consumer Spending:** Consumer spending is fundamentally the best indicator that the economy is recovering but it only indicates recovery it is sustained, one quarter of growth is not enough to indicate the economy is turning around. People have to increase their spending on goods for an extended period of time before it signals the rest of the economy to pick up the pace. There is a lag between demand at the counter by the consumer and the translation through the signals of the market economy to the producers to increase production. Despite the lag it is a remarkably efficient system and the best indicator we have that economic recovery will be sustainable across manufacturing, distribution, retail, services, and all industries that make up our economy.

Using consumer spending as a barometer we know that true economic recovery is not here yet. Until employment worries decline and labor markets stabilize, consumer confidence will remain shaken and consumer spending cannot be the harbinger of economic recovery. Unlike other recessions, employment may not be as much of a lagging indicator as a vital component of economic recovery.

It is important to consider that despite claims to the contrary, the United States economy has long relied on consumer spending to drive economic growth and recovery. Not only has this been sustainable for more than fifty years, it will continue to drive our economy moving forward. Economic recovery is not real without the consent of the consumer.

**Figure 1. United States shares of GDP 1947-2008, top wave represents consumer spending.**

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