

Iowa Farm Outlook

Department of Economics
Ames, Iowa

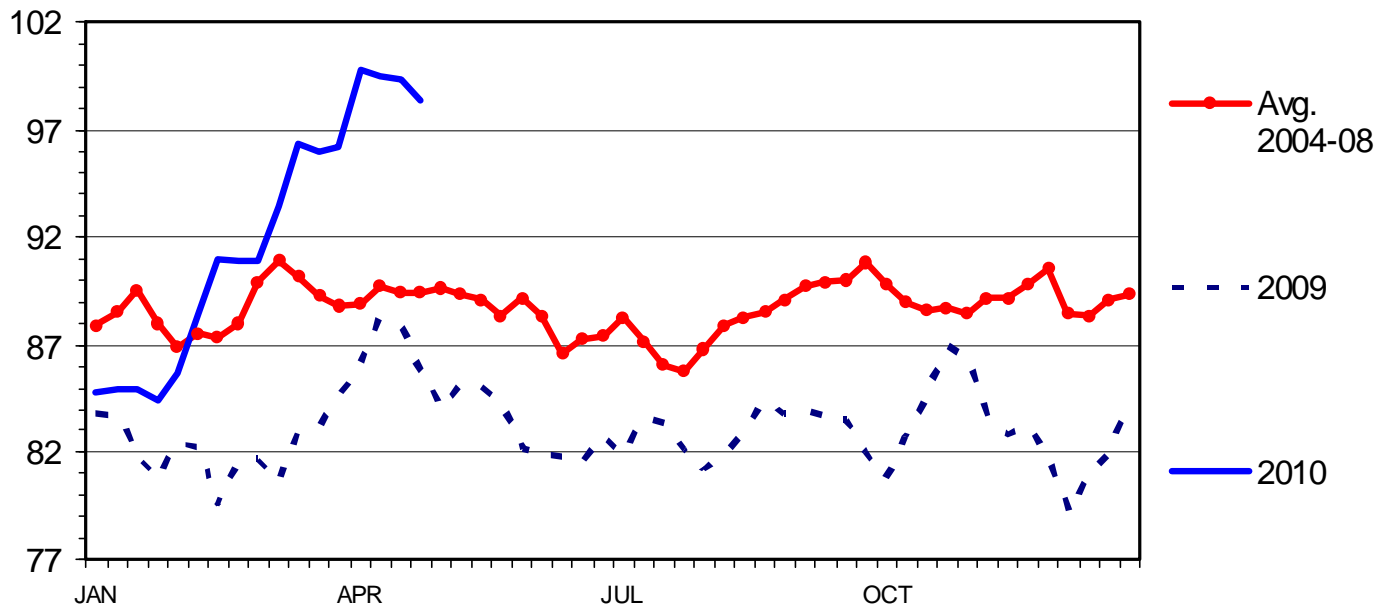
May, 2010

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Livestock Prices, Profitability and Exports

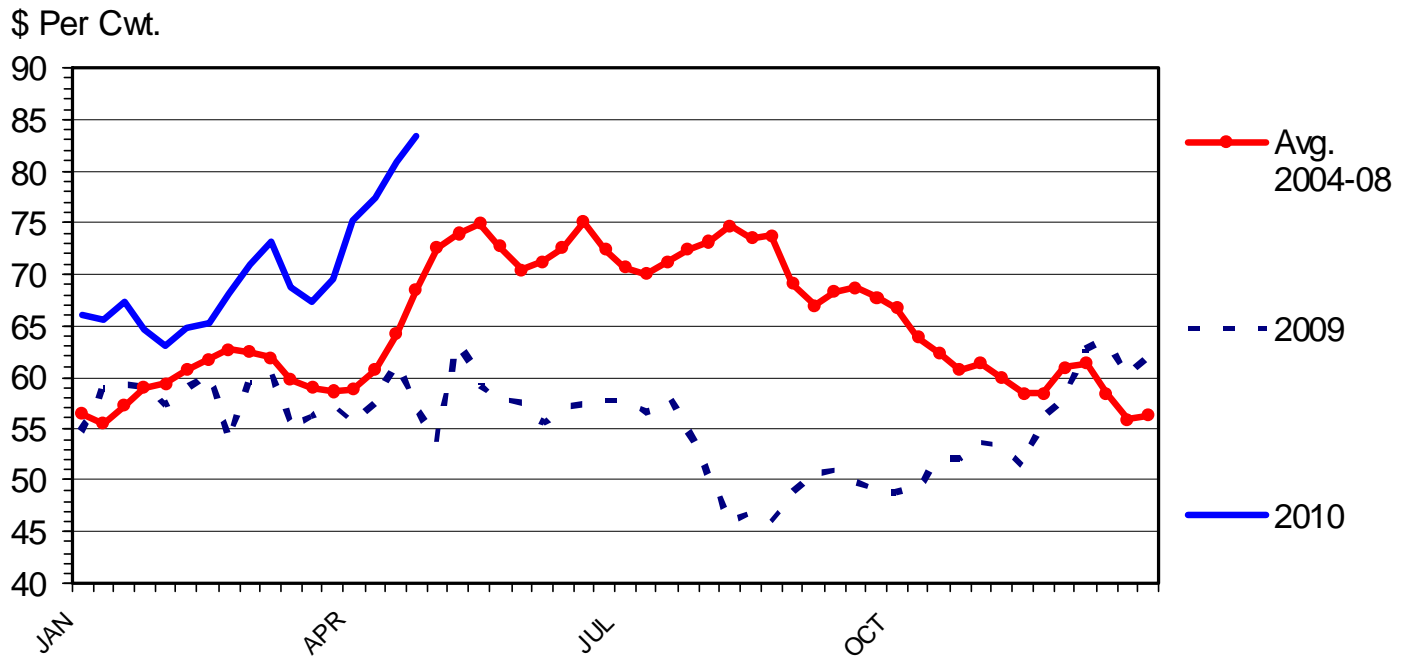
In April, fed cattle prices passed the \$100/cwt for the first time since July 2008. Since that time prices have remained in the upper \$90's/cwt. Stronger beef demand and tighter cattle supplies have given cattle feeders their first significant profits in nearly five years. Based on the ISU Estimated Returns March was the first month cattle were sold for a profit (\$77/hd) since July of 2009. April profits are estimated to be \$159/hd, the first triple digit profits since mid 2004. Profitability continues to look good for May and June. Although fed cattle prices are expected to remain in the mid to upper \$90/cwt for the duration of the year, profitability in the feeding sector will be diminished somewhat as the price of feeder cattle has increased along with fed cattle prices. There are fewer feeder animals available and with a return to profitability, competition to acquire those cattle has driven prices higher. The spread between recent fed and feeder cattle prices has remained very constant with the spread of the last year, but tighter than the five year average.

Figure 1. 5-Area Live Steer Prices
\$ Per Cwt.



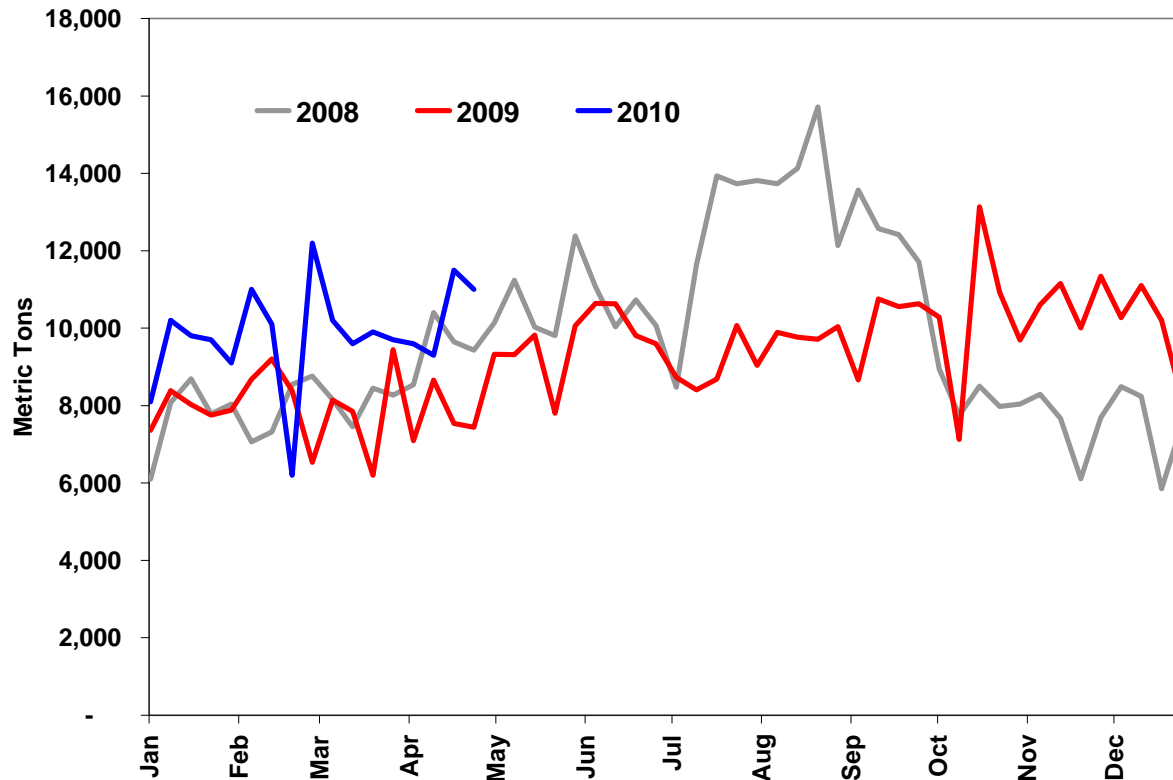
Iowa hog prices have been on a steady increase for the past month reaching a peak of \$88/cwt average weighted hog price in the last week of April. Figure 2 compares recent Iowa- So. Minnesota base hog price with historic prices. If the seasonal trend holds true, lean hog prices will remain near or above \$80/cwt for most of the summer. The ISU Estimated Returns suggest hogs marketed in April netted \$29 profit, the most profitable month since September 2006. Based on current profit projection, hog producer will continue to enjoy profitability for the rest of the year. If current futures prices for corn, SBM, and hogs are correct the projected profits for 2010 could offset 80 percent of the losses sustained in 2009. The draw back of such a rapid return to profitability is the temptation to ramp up production. Again, the excellent prices we are now seeing is a result of tight supplies, steady domestic demand and robust exports. The time to utilize vacant production capacity will come, but hopefully the industry can continue to with hold.

Figure 2. Iowa-So. Minn. Lean Hog Base Price



All meat exports are up from last year. Figures 3 indicate how much beef exports have increased from last year. Beef exports have proven to be stronger than was expected earlier in the year. Growth in exports to Korea, Russia, and small markets has helped spur the increase in export volume. Some competing beef exporting nations have had delivery issues which has also helped open the door to more US beef. If the global economic conditions continue to improve, and the dollar does not gain too much strength in the exchange rate, exports should remain strong through the end of the year.

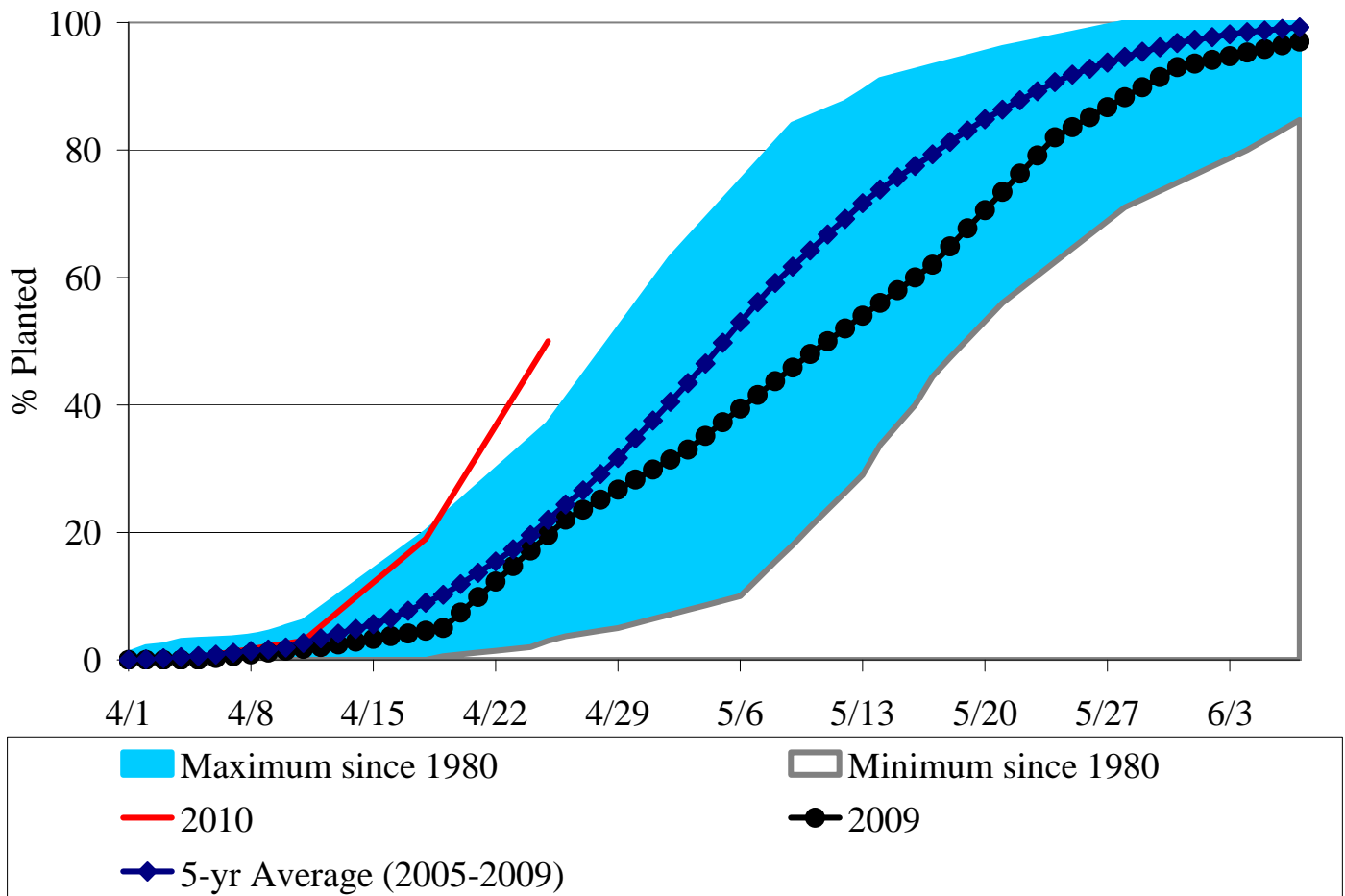
Figure 3. Weekly US Beef Export Volume



Record Planting Pace

Mother Nature has provided quite a reversal in fortunes. A couple of months ago there were serious concerns about soggy conditions limiting planting opportunities. Now we're staring at record progress in corn planting. USDA updated its Crop Progress report on April 26 and the report showed corn planting proceeding at a pace we haven't seen before. Figure 1 shows the progress thus far. Nationally, half of the corn crop is planted. That is 30 percent ahead of last year at this time and 28 percent ahead of the 5-year average. The previous high at this time was 37 percent in 2004. Based on the 5-year average, we would hit the halfway point on May 5th, so we are roughly 10 days of average corn planting pace. The vast majority of the Corn Belt is well ahead of average plantings. Iowa is at 68 percent, 27 percent ahead of last year and 45 percent ahead of the 5-year average. Illinois is at 73 percent, Indiana is at 56, and Minnesota is at 63 percent. In fact, at this time, the only states behind their 5-year average on corn plantings are Colorado and Texas. Roughly 7 percent of the corn has already emerged. This is slightly ahead of the 5-year average. Spring wheat, oat, sugar beet, and rice plantings are also ahead of average pace.

Figure 1. U.S. Corn Planting Progress



Source: USDA-NASS

Soybean planting is also getting a jump start. While USDA hasn't released any national numbers, several states have started reporting on soybeans. Table 1 shows the progress so far. As with corn, most states are proceeding with planting as a pace faster than the 5-year average. Iowa has 4 percent of its soybeans planted. Illinois is at 5 percent. Indiana is already at 12 percent. North Dakota is reporting that 2 percent of its soybean area is planted as well. Only Louisiana is behind the 5-year average. The rapid planting progress, in combination with the projected increases in corn and soybean acres, has been weighing down on the markets over the past month as traders expect larger supplies come this fall.

Table 1. Soybean Planting Progress

State	Week Ending			2005-2009 Avg.
	Apr. 25, 2010	Apr. 18, 2010	Apr. 25, 2009	
AR	24	15	11	15
IL	5	1	0	1
IN	12	NA	0	2
IA	4	NA	2	1
KS	1	NA	NA	NA
KY	3	NA	0	2
LA	31	27	32	31
MN	4	0	2	1
MS	60	44	30	48
MO	5	NA	1	3
ND	2	NA	0	0

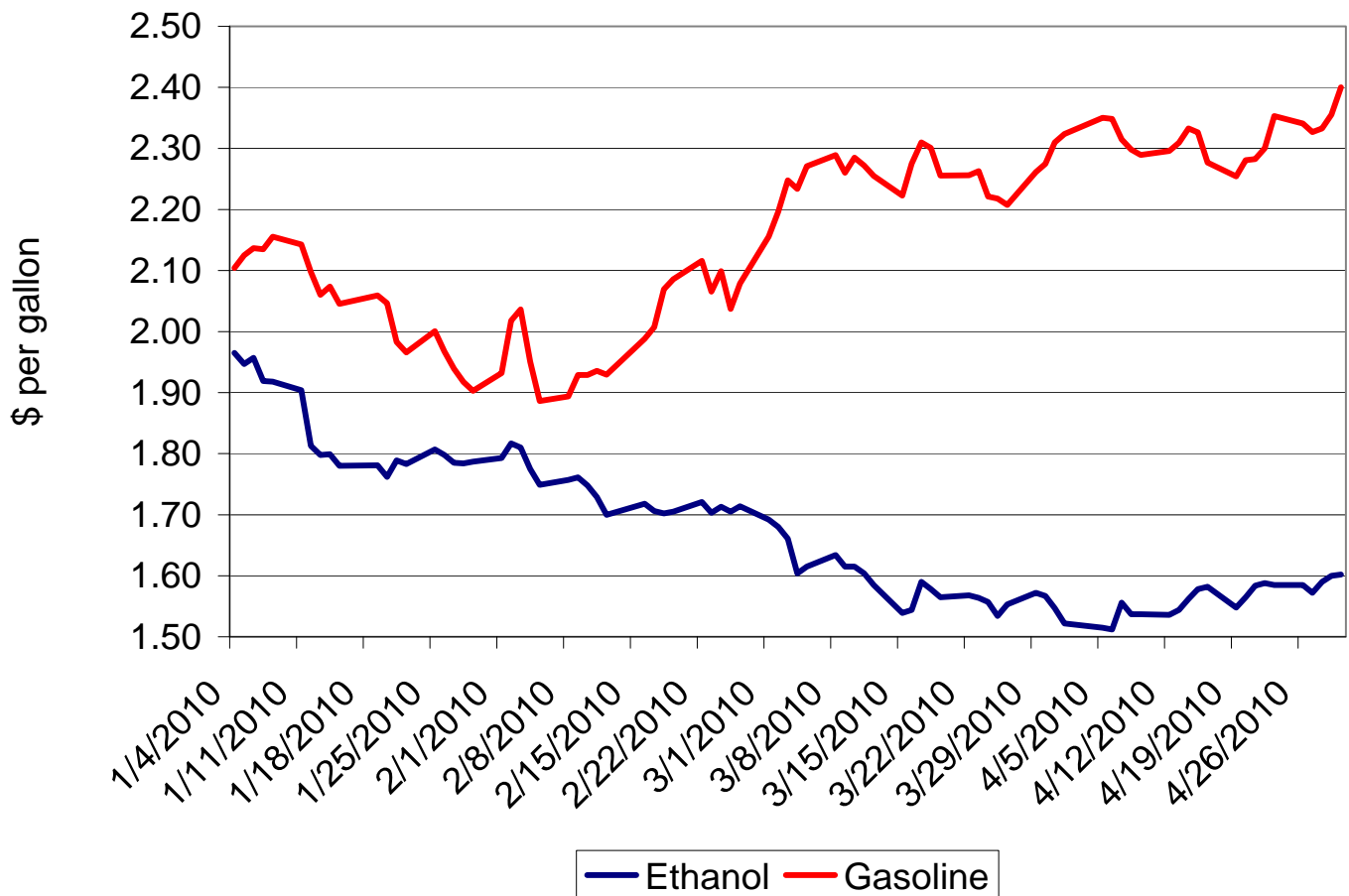
Sources: Various state-level USDA NASS Crop Progress reports

The Demand Picture

With the current outlook of another large set of corn and soybean crops, focus is shifting back to the demand side of the equation. As USDA has continued to monitor crop usage this spring for the 2009/10 crops, the picture has not been changing dramatically. Estimates as of mid-April had corn feed demand running 200 million bushels above last year, at 5.45 billion bushels. This slippage in corn feed demand over the last couple of years is due to a combination of lower livestock numbers and higher usage of distillers grains in feed rations. As distillers grains have grown in importance as both a feed source for livestock and a revenue stream for ethanol plants, interest has grown in risk management tools for distillers grains. The CME Group recently added distillers grains futures contracts. At the end of April, nearby (July) distillers grains futures were at \$97.60 per short ton. July corn and soybean meal futures were at \$3.7525 per bushel (\$134.02 per short ton) and \$293.10 per short ton, respectively.

Corn demand through ethanol continues to grow, but the pace is expected to slow. Current projections have 4.3 billion bushels of the 2009/10 corn crop being converted to ethanol. This is up from 3.68 billion bushels from the 2008/09 corn crop. Ethanol production surged over the winter and ethanol stocks have built up. These stocks have pressured ethanol prices lower, even as gasoline prices have increased over the last couple of months. As Figure 2 shows, from mid-February to early April, gasoline prices strengthened while ethanol price declined. The gap between gasoline and ethanol prices has created strong incentives to blend ethanol. Over the past three weeks, the cost of a gallon of E10 has been roughly 12 cents less than the cost of a gallon of regular unleaded gasoline. But the margins for ethanol producers have tightened over the last few months. Current futures for ethanol, corn, and natural gas point to producer margins remaining around breakeven for the next 18 months. A couple of factors to watch over the summer are the EPA's ruling on E15 and seasonal gasoline demand. A positive ruling from EPA on E15 (or in-between move to E12) and/or a return of seasonal gasoline demand would alleviate possible "blend wall" pressures on the ethanol market. Current projections from the U.S. Department of Energy have gasoline demand growing over the summer, but at a slower than normal pace, as retail gasoline prices are expected to be around \$0.60 per gallon higher this summer than they were last summer.

Figure 2. Nearby Ethanol and Gasoline Futures



The export picture has remained very strong for soybeans, as it seems that month USDA has to raise its export projection. With the April reports, USDA projected 1.445 billion bushels of soybeans would be exported out of the 2009/10 crop. And while the soybean export pace has backed off from earlier in the marketing year, it's still the strongest part of the market. The projections for the South American soybean crops remain at record levels, but shipping delays from Brazil and various strikes in Argentina have helped keep the export window open for U.S. soybeans. While Chinese soybean demand has the major story over the past two years, recent trade over the last few months has shown soybean demand increased worldwide. Looking at year-over-year figures, U.S. soybean exports have increased to China (by 31%), the European Union (23%), Japan (3%), Mexico (10%), and the rest of the world (45%).

For corn, export growth has been weak. Current projections have 1.9 billion bushels of the 2009/10 corn crop leaving the U.S., up just 42 million bushels from the previous year. Our top market, Japan, is off by roughly 12 percent this year. But corn exports have grown in Mexico, up 7%, and South Korea, up 95%. However, a major key to corn prices this summer may be China. Within the last week reports have surfaced that China may be a net importer of corn this year. A drought has impacted Chinese corn production and the estimated impacts range from a 7% to 13% drop in production. Given Chinese corn feed demand, mainly from its large hog industry, the drop in domestic corn production will put pressure on China to seek outside supplies. The last time China was a net importer of corn was the 1995/96 crop year. And as the soybean markets over the last two years have shown, when China moves into a market, they can have a significant impact.

With the latest World Agricultural Supply and Demand Estimates report, USDA kept its projections for 2009/10 crop prices at \$3.60/bushel for corn and \$9.45/bushel for soybeans. Based on futures prices at the close of April, the market is roughly in line with these estimates (\$3.53 for corn and \$9.53 for soybeans). For 2010/11, the futures markets are currently projecting a \$3.80/bushel price for corn and roughly a \$9.40/bushel price for soybeans. So while crop supplies are expected to increase yet again, the futures markets are indicating demands are strong enough, for now, to maintain prices at or above today's levels.

March Production Up 0.9%, February Revised Up 0.1%

March 2010 23 major dairy states milk production increased 0.9%. Production per cow was up by 51 pounds from one year ago. Milk cow numbers were 162,000 less than March 10. February 10 milk production was revised up 0.1%, an increase of 17 million pounds. First quarter 2010 US milk production totaled 47.3 billion pounds, up 0.15 from the same period last year. Milk cow numbers averaged 9.09 million, down 206,000 compared to first quarter 2009.

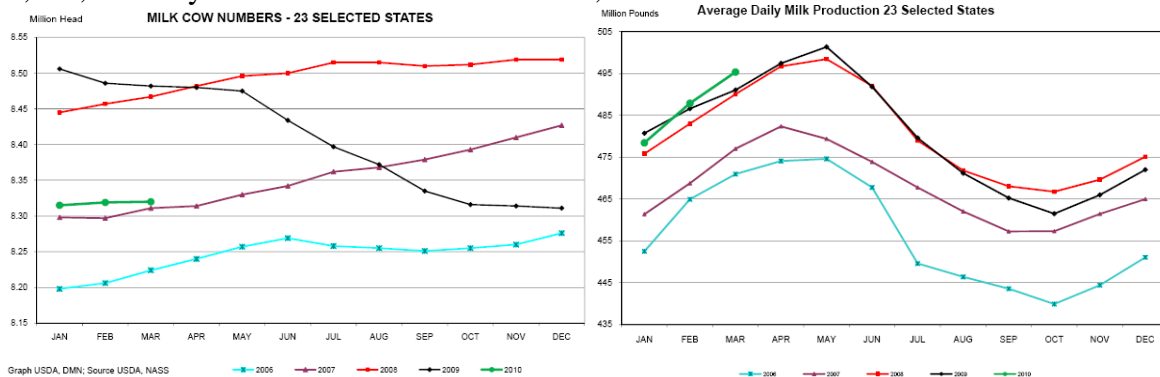
Iowa March 10 milk production was 0.3% higher compared to one year ago. Cow numbers were 10000 less than compared to one year ago fortunately milk production per cow was 45 pounds higher than one year ago. Jan 10 Iowa cheese production was 20.079 million pounds, 48.5% higher than one year ago and 8.5% more than Jan 09.

NE first quarter 2010 milk production totaled 0.3% or 1 million pounds. Dairy cow numbers averaged 59,000 cows, 2000 less than the same period in 2009.

Milk Production: Selected Dairy States, March 2010

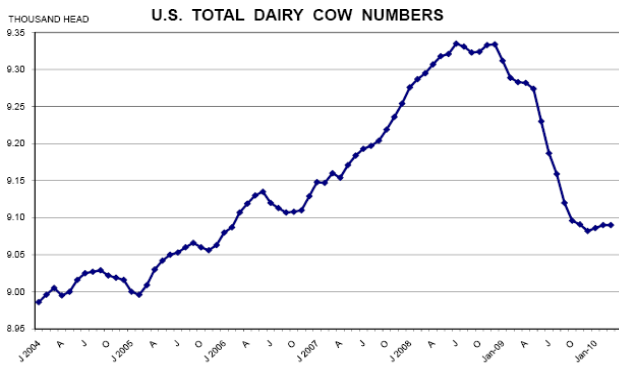
State	thousands			pounds			million pounds		% change total milk
	2009 cow numbers	2010 cow numbers	% change cow numbers	2009 milk per cow	2010 milk per cow	% change milk/cow	2009 total milk production	2010 total milk production	
Iowa	215	210	-2.33%	1730	1775	2.60%	372	373	0.27%
MN	468	470	0.43%	1640	1695	3.35%	768	797	3.78%
WI	1256	1260	0.32%	1675	1775	5.97%	2104	2237	6.32%
IL	102	101	-0.98%	1675	1715	2.39%	171	173	1.17%
CA	1821	1758	-3.46%	1925	1980	2.86%	3505	3481	-0.68%
CO	128	116	-9.38%	1980	2000	1.01%	253	232	-8.30%
KS	122	116	-4.92%	1835	1835	0.00%	224	213	-4.91%
ID	550	554	0.73%	1840	1880	2.17%	1012	1042	2.96%
AZ	189	170	-10.05%	2110	2180	3.32%	399	371	-7.02%
NM	333	321	-3.60%	2110	2105	-0.24%	703	676	-3.84%
PA	550	540	-1.82%	1670	1730	3.59%	919	934	1.63%
NY	623	610	-2.09%	1700	1740	2.35%	1059	1061	0.19%
TX	430	410	-4.65%	1850	1890	2.16%	796	775	-2.64%
23-State	8482	8320	-1.91%	1675	1775	5.97%	15222	15355	0.87%
US 1st quarter	9331	9090	-2.58%				46735	46265	-1.01%

Of the 23 dairy states, Mo had the largest decline in milk production, -8.4%; they lost cows and milk per cow. KS and CO have had large declines in their dairy herd, nearly 10% for CO. NY had a larger drop in cows, 13,000, than any other eastern state. CA has 63,000 fewer cows.

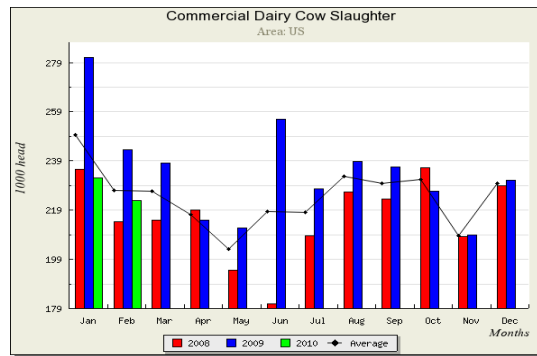


Source: Dairy Market News

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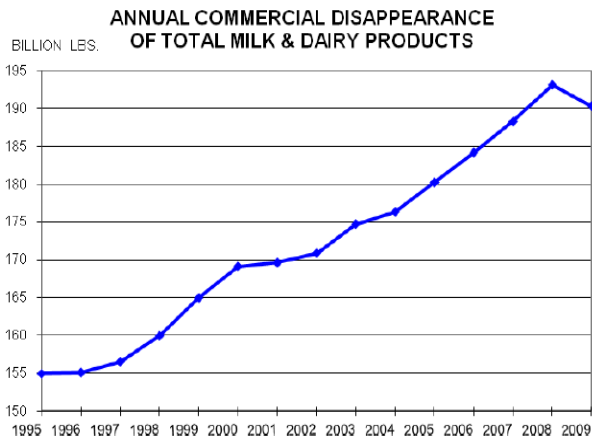
Source: Understanding Dairy Markets, U of WI

Dairy Market News reports that Oceania, Australia and NZ, are ending their milk production seasons on a very weak tone. The North Island of NZ has a milk output decline of 30-40% less than last year due to reduced precipitation. The decline is also 4-6 weeks early. The South Island has a decline also but not as much however it is not the significant milk producer for the region. Australia is winding down it season but more positively than NZ. Year-to-date, July-Feb, total milk production is off by 6.4%. Milk handlers project a total season decline of 4%. Dairy product availability from Oceania may be tight and orders may be unfilled.

The European milk production season is starting 4-6 weeks later than usual. Cold snowy weather put off milk production increases. Milk production is trailing last year's production amounts.

Demand or Disappearance

Demand or commercial disappearance Jan-Dec 09 was down 1.2% compared to 2008. But the Nov 09-Jan 10 period had total disappearance up 1.2%. Well above the 5-year average. Total fluid milk sales for February were -0.1% while year-to-date consumption is 0.1%. Cheese consumption is mixed, other style up 7.7% and American -5%. Butter consumptions is -2.6%.

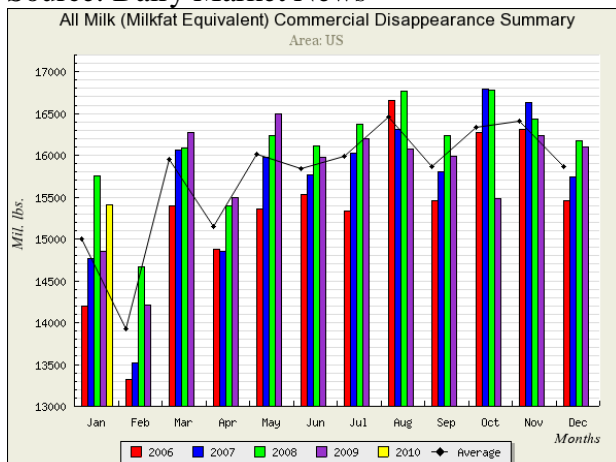


Source: Dairy Market News

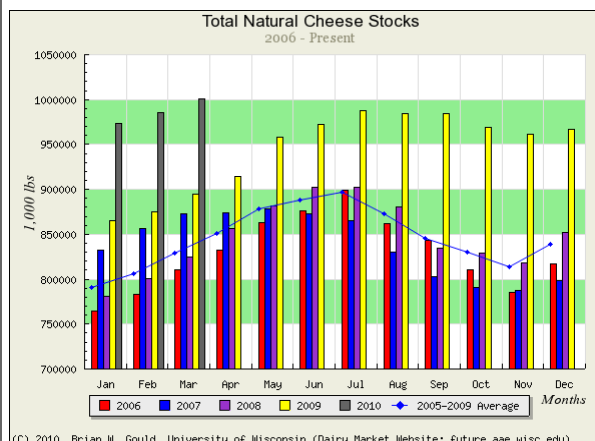
Dairy Product Manufacture: Feb 2010

Product	thousands pounds	Feb 09 % change	Jan 10 % change
Butter	141,140	-3.10%	-12.9
Cheese, total	777,207	1.00%	-7.7
Cheddar	242,845	0.60%	-8.9
Other American	76,102	-4.00%	-6.1
Swiss	24,580	3.90%	-9.6
Italian Style	332,784	4.00%	-8.3
NDM	116,807	-4.90%	-9.2
Sour Cream	83,239	2.30%	-7.1
Yogurt	314,621	0.20%	-7.3
Dry Whey, total	77,974	4.40%	-9.3
Lactose	62,218	20.60%	-6.9
WPC	31,298	0.20%	-9.8
Frozen	1000 gal		
Ice cream	62,955	-1.00%	13.6
Ice cream, lowfat	26,619	0.40%	17.3

Source: Dairy Market News



Source: Understanding Dairy Markets, U of WI



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Cheese stocks have remained large compared to the 5-year average. And at just over 1 billion pounds, the largest inventory since Nov 1984.

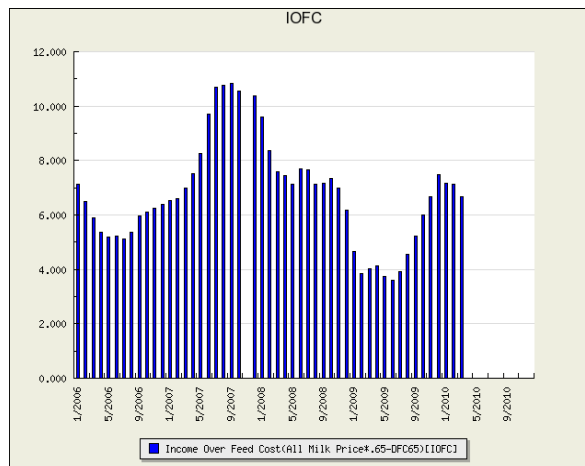
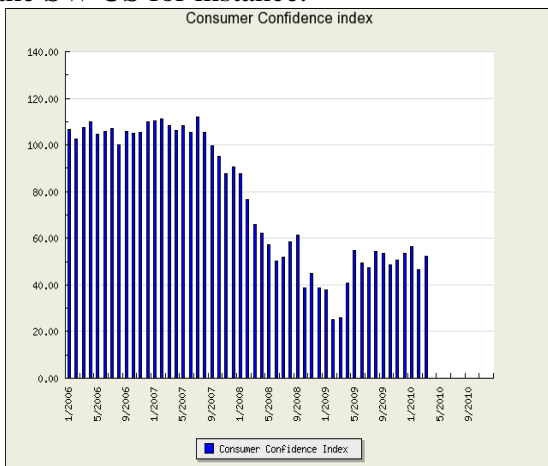
Analysis

Several signs point to some strength in the dairy export sector, February dairy imports were up 8% and exports increased 1.7%. Both the NZ and Australian currency has strengthened more than the US dollar which bodes well for US dairy exports. Also Oceania will not have as much dairy products to fill future sales because of weak seasonal production. 10 bids for export bonuses from CWT were recently accepted.

According to a recent Fluid Milk & Cream report very little excess milk production is available to processors. So manufacturers that want to build inventories may be unable to, at least until US milk production peaks in about a month. Premiums to purchase milk are in the \$0.50-1.50 range.

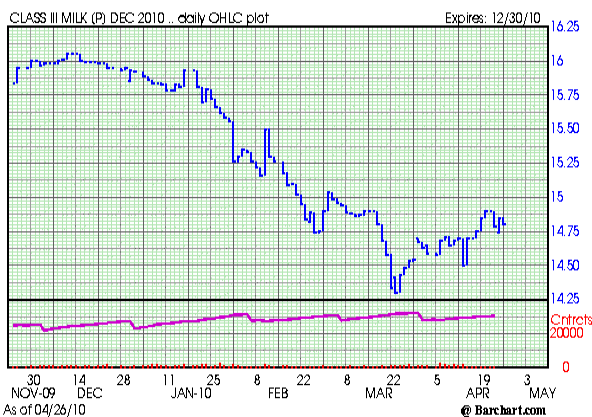
The recent Milk Production report indicated milk per cow is increasing at 2.8% annually, near the usual rate of increase. With the recent culling of the US dairy herd, the quality of the herd has improved. When the 1980's program for dairy herd reduction took place, many herds that entered it found they had to reduce cow numbers more than anticipated because milk per cow increased due to several factors. And they did not sell average cows, but the bottom of the herd. That is happening again.

Market psychology should show some improvement due to export prospects, improved stock market, increased sales of other style cheeses and fluid milk and increased employment. The big shadow though is the large cheese inventory and then we are not yet at the seasonal peak milk production. To improve short-run milk prices we will probably need to see severe weather problems in a major dairy production region. Hot weather in the SW US for instance.

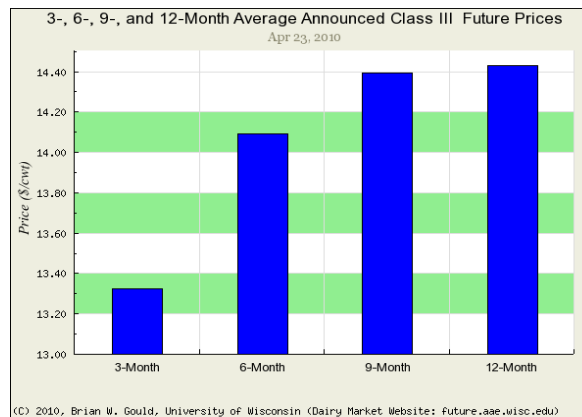


Source: The Understanding Dairy Markets, U of WI

Source: Understanding Dairy Markets, U of WI



Source: Barchart.com



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The Potential Economic Impact of Local Foods Production in the Midwest and in Iowa

There is currently a strong push in the U.S. to promote and expand local foods production. Proponents assume that locally grown foods are healthier, contain fewer energy and chemical inputs, and are ultimately advantageous for local economies. The degrees to which any of these assumptions are in fact true are testable, and there are numerous studies demonstrating an array of findings regarding each. One of those studies was conducted at Iowa State University this year.

A combination of six participating upper Midwest states partnered with the Leopold Center for Sustainable Agriculture to identify the farm and retail job and income values of increasing fresh fruit and vegetable production in the U.S.* The study states were Iowa, Illinois, Indiana, Michigan, Minnesota, and Wisconsin. As the states already produced abundant amounts of sweet corn, potatoes, melons, berries, and apples, the study looked at 28 fruits and vegetables that were commonly consumed, but were not produced at high levels among the states.

There were two scenarios, one with more of policy focus and another with a market focus. The policy focused scenario assumed in-state farmers produced for in-state consumers only. No production for external markets was estimated, and this option was used to assist the participating states in declaring in-state values in making their pitches for local foods production policies to state policy makers.

The second scenario, the one based on market considerations, was more realistic. It assumed fresh fruit and vegetable production would be more likely to thrive in relatively close proximity to large urban markets. Accordingly, that scenario had farmers in all of the counties in the states producing for metropolitan markets with populations of 250,000 or more. Basic cost-of-transportation adjustments were used to reduce the propensity to produce for those markets as distances from the markets increases. There was a 150 mile threshold imposed on the producers. This threshold eliminated production for more remote counties, but on the other hand it allowed production for metropolitan markets bordering the six state region, to include large cities like Omaha, St. Louis, Louisville, and Cincinnati.

The research assumed crop land in the region was fixed and land would have to be removed from conventional crop farming to meet the scenario land needs. Nonetheless, the amount of land required to achieve the seasonal fruit and vegetable production assumptions in the research was comparatively miniscule. In the first scenario, slightly more than 270,000 acres would be required to satisfy the land requirements for the six-state region, and about 195,700 acres would be needed for the second scenario. By way of comparison, there are about 250,000 acres of crop land in the average Iowa county.

There was another assumption to the research. In an effort to boost returns to fruit and vegetable production, the research assumed that farmers directly marketed 50 percent of their crops in direct-sales retail establishments, with the remaining 50 percent sold to conventional wholesale markets. Considering all assumptions, these are the basic findings:

Under scenario one where producers produce and sell solely for in-state consumption,

- Farm level production would result in \$882.44 million in farm level sales regionally. Producing those sales would require, considering all supplying relationships and other secondary impacts, 9,302 jobs and

* See Swenson, Dave. Selected Measures of the Economic Values of Increased Fruit and Vegetable Production and Consumption in the Upper Midwest, Leopold Center for Sustainable Agriculture. March 2010.
Found at: http://www.leopold.iastate.edu/research/marketing_files/Midwest_032910.pdf

\$395.12 million in labor incomes. For Iowa, 657 jobs making \$26.3 million in labor incomes would be required for their portion of this production.

- As land would have to be removed from conventional agricultural row crop production, to do so would result in a total job reduction for that type of farming of 2,578 jobs and \$59.12 million in labor incomes in the region. For Iowa, 131 total jobs would be removed and \$4.1 million in labor income.
- Marketing 50 percent of that produce to consumers would generate retail sales of \$1.653 billion. Those sales would require 9,652 workers in 1,405 establishments. For Iowa, 672 jobs in 98 firms would be required to make \$115.05 million in retail level sales.

Under scenario two where producers are selling to larger metropolitan markets both within the region as well as those within 150 miles of the region's borders:

- Farm level production would result in \$637.44 million in farm level sales regionally. Producing those sales would require, considering all supplying relationships and other secondary impacts, 6,694 jobs and \$284.6 million in labor incomes. For Iowa, 364 jobs making \$14.6 million in labor incomes would be required for production in this scenario.
- As land would have to be removed from conventional agricultural row crop production, to do so would result in a total job reduction for that type of farming of 1,892 jobs and \$42.5 million in labor incomes in the region. For Iowa, 72 total jobs would be removed and \$2.26 million in labor income.
- Marketing 50 percent of that produce to consumers would generate retail sales of \$1.193 billion. Those sales would require 6,021 workers in 876 establishments. For Iowa 263 jobs in 38 establishments would be required to make \$44.98 million in retail level sales.

This research measures the total economic value of this production. It does not, however, offset existing production of these fresh fruits and vegetables as data about detail production are incomplete and do not allow for a satisfactory estimate of existing production levels and values. Nonetheless, the region must import a very large fraction of its seasonal fruit and vegetable needs, and any efforts among the states in offsetting those imports results in true economic impacts in the regional productivity will have to increase to accomplish the objective.

While the research demonstrates there are higher regional economic impacts associated with this type of production versus conventional crop production in the Midwest, there are also important reasons why this type of production does not exist in the region. There are comparable production advantages in other parts of the U.S. that have consolidated their abilities to efficiently provide adequate supplies of consumers' wide-ranging fruit and vegetable demands.

Conversely there are potent comparable advantages that promote the types of land usage so dominant in the Midwest. Whether the Midwest will see meaningful shifts away from conventional row crop farming towards fruit and vegetable production over the years remains to be demonstrated in light of these market expressed production preferences.

David Swenson

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](http://www.econ.iastate.edu/prosci/swenson/swensonpage.htm)

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

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