

Iowa Farm Outlook

Department of Economics
Ames, Iowa

June, 2010

Econ. Info. 2002

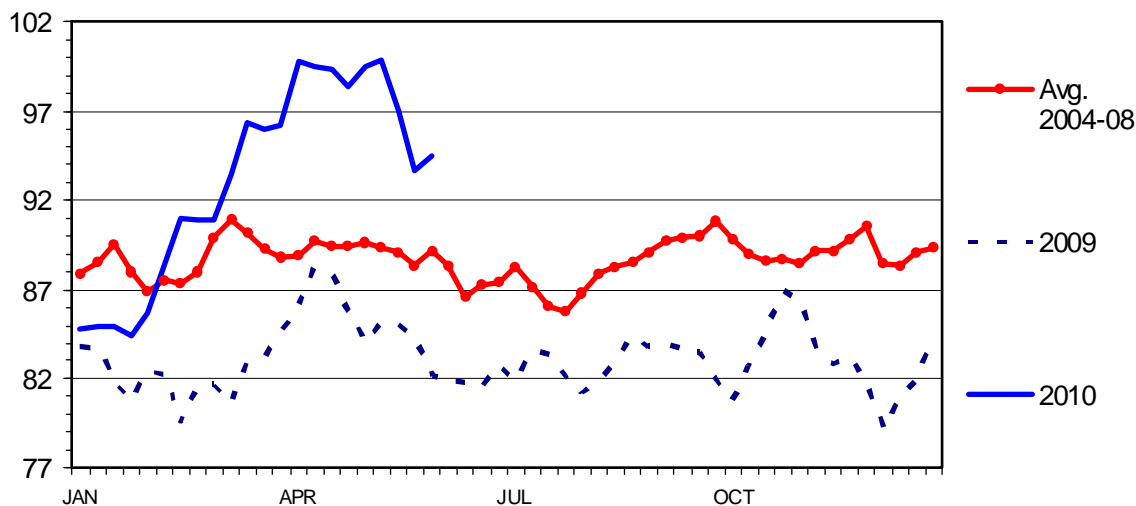
Livestock Prices Cool Down Or is there more to it?

Cattle and hog prices both declined in the second half of May as did most commodities. After several months of increasing prices a “cooling-off” period is to be expected, but economic uncertainty is also impacting the market place. While there is an expected softening in cash beef prices the weeks surrounding Memorial Day, the outlook for beef prices in the coming months also weakened significantly. Futures market prices declined in all contract months for more than the next year. Even with “market cooling” taken into account, such a general decline in current and future prices eludes too underlying uncertainty among market participants. If the ground starts to shake, the last place you want to be standing is the top step of the ladder.

Iowa fed cattle prices ranged from almost \$100 down to \$93.50/cwt in the month of May. Feedlot inventories are down 3 percent creating tighter supplies, so some cattle were leaving the feedlots earlier, and lighter, than originally planned. May average carcass weights were down 1.8% from last year. Boxed beef choice prices spent the first half of May over \$170/cwt, but ended the month \$5 lower. Looking out into the future, everyone wants to be optimistic in the face of uncertainty. The industry can expect the general economy and other market indicators (i.e. stock market) to continue to impact the beef market.

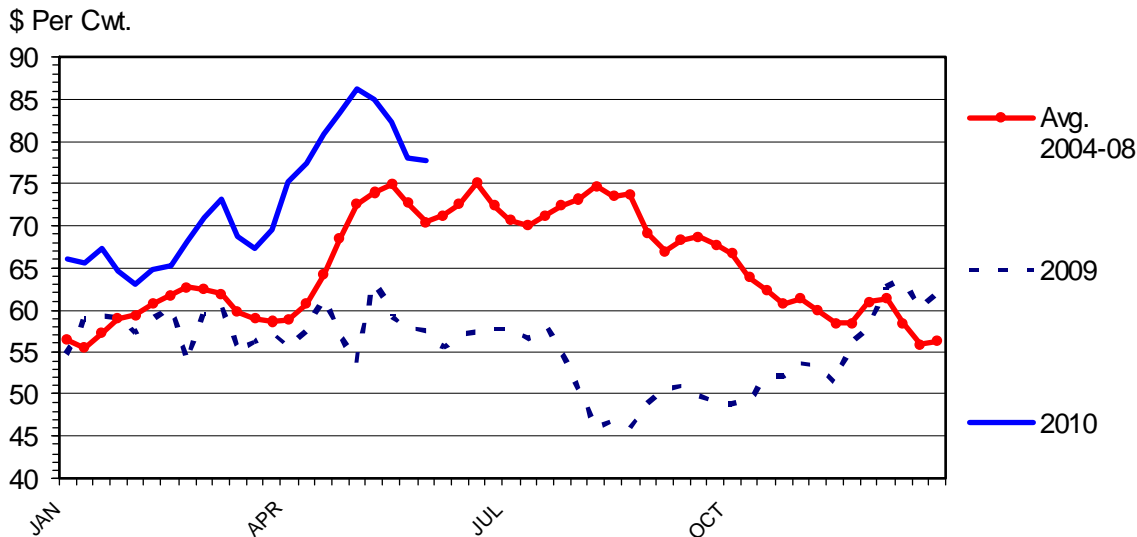
Figure 1. Weekly 5 Area Weighted Fed Cattle Prices

\$ Per Cwt.



Despite the recent decline in swine prices, things still appear to be favorable for swine producers. Gross margin projections based on current cash and futures prices show that returns to finishing hogs could be positive through October 2011. Remember that could all change, but those are the margins a feed and hog futures hedge could deliver. Average weighted lean market hog prices were over \$91/cwt at the beginning of May but ended the month closer to \$80/cwt. While domestic demand continues to be stable and strong, exports will continue to influence the market. Pork exports were up 1.3 percent in the first quarter of the year compared to 2009 which is good, but not as good as once hoped. At the beginning of the year it was hoped that export volume would reach 2008 levels, but so far we are running 5 percent behind 2008.

Figure 2. Weekly Iowa, So. Minnesota Lean Hog Base Price



When times are tough is usually when it is easy to look at risk management and formulation marketing plans that would have helped. But when the outlook is good there is more to miss out on should the situation change. As we are waiting for our ship to come in will we miss the boat? Producers should be taking a hard look at their marketing situation and ask themselves, “what are the chances of the market improving” and “can it get worse?” How will the livestock markets react if there is a second recessionary dip in the economy? Are the markets posed to loose more than they possibly could gain? Figures 3 and 4 graph the “crush” margins available for livestock finishing. Visit www.iowabeefcenter.org/margins for more information.

Figure 3. ISU Cattle Crush Margins

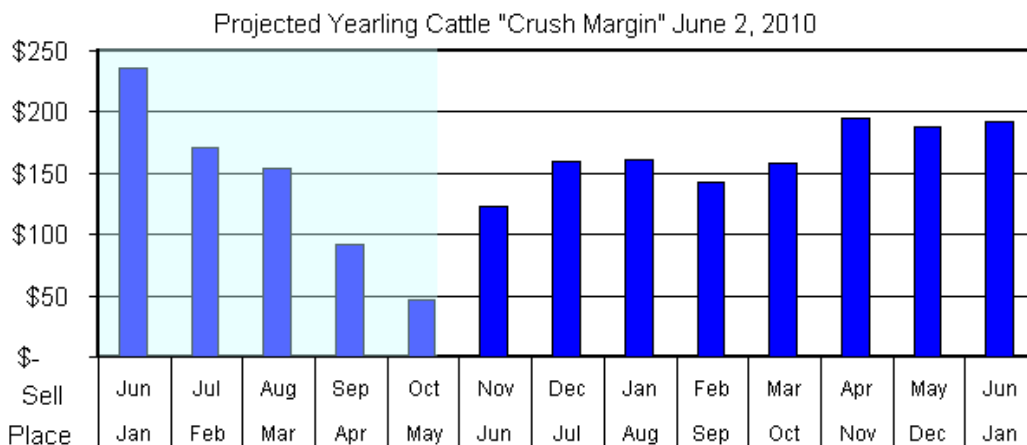
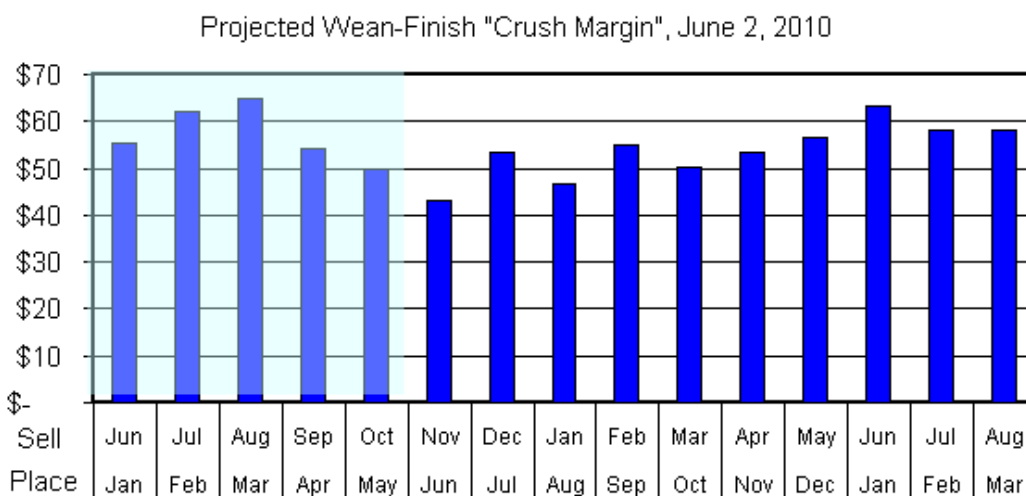


Figure 4. ISU Hog Crush Margins



The Markets Are Drifting Along

The last couple of months have contained some fairly large swings in crop prices, but the markets have not established a trend. A quick freeze and export demands and rumors have pushed prices up, but good to excellent planting and growing conditions have pushed back. In the end, outside market pressures have had more influence than crop fundamentals and market prices are roughly where they were a couple of months ago.

As we head into the backstretch of the 2009/10 marketing year, ethanol and export demand continue to build for corn. USDA raised its estimate of corn moving through ethanol by 100 million bushels, to 4.4 billion bushels. Ethanol production surged during the winter, averaging over 1 billion gallons per month. That surge meant more corn demand via ethanol and more distillers grains for livestock feed and exports. Relative prices for ethanol and gasoline have implied strong blending signals for fuel blenders to use ethanol. Since the first of the year, on average, 82% of U.S. motor gasoline supply has been blended with ethanol. But ethanol stocks have been building as well. We started the year with approximately 700 million gallons of ethanol in stocks. By the end of February, the ethanol stock level stood at nearly 800 million gallons, a record level. These stock levels held ethanol prices down while crude oil and gasoline prices rose earlier in the year. But as crude oil and gasoline prices fell in May, ethanol prices held firm on the continued blending strength.

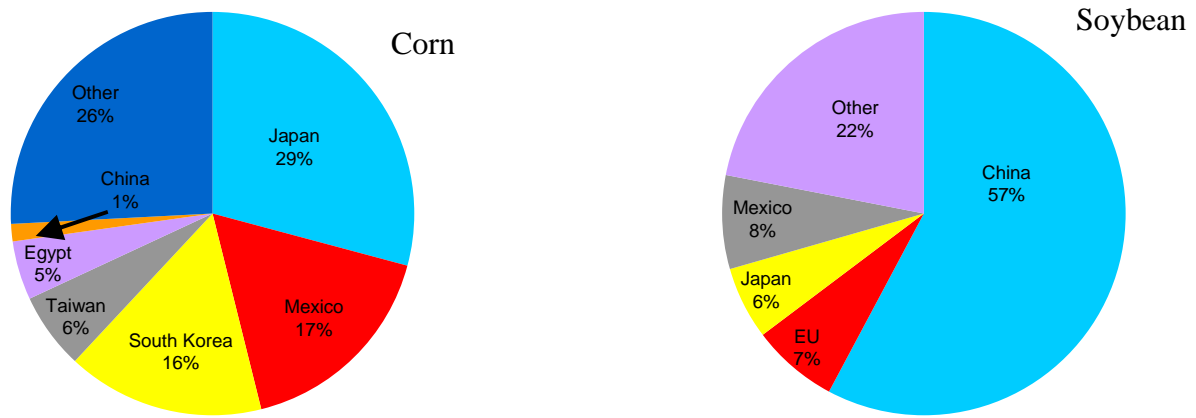
Looking forward for the ethanol market, the two major issues are the blend wall and the EPA decision on E15. With calendar year 2010 production on pace to top 12 billion gallons, there are serious concerns that the blend wall has been reached. The blend wall can be pushed higher in a couple of ways: motor gasoline demand can go up or higher blends of ethanol can be approved. So EPA's decision on E15 takes on added importance. EPA delayed their decision until this summer. Rumors swirling around the decision point to a compromise result, such as E12 or E15 but only for vehicles built after 2001. And the blend wall issue is likely to crop up again, given the Renewable Fuels Standard and its target of 36 billion gallons of renewable fuel by 2022.

Export demand for the 2009/10 crops continues to build. Soybean exports are projected at 1.455 billion bushels, 172 million bushels more than the previous record. Chinese demand is still the major driver, but other markets have stepped up over the last few months as Figure 1 shows. Comparing year-over-year numbers, soybean exports are up 26% to China, 24% to the EU, 12% to Mexico, and 34% to the rest of the world. The large South American crop hasn't significantly hampered U.S. exports yet. But projections for the 2010/11 crops show that the South American crops will pull some of the world's soybean demand their way.

For corn, rumors about Chinese demand for corn continue to build. A drought pulled down Chinese corn production and forced China to release some stocks and enter the world market. So far, China has purchased roughly 23 million bushels of corn from the U.S. As Figure 1 shows, that is about 1% of our total corn exports. Depending on the severity of the drought's impact on corn production, we could see additional sales to China this summer and that thought has supported the corn market. The U.S. corn industry has been looking forward to a consistent flow into the Chinese market and has hopes to see a pattern of growth like U.S. soybeans has experienced, with Chinese imports growing by a factor of 10 over the past decade. But the drive to maintain self-sufficiency in corn is strong in China. Over the last ten years, China has increased corn area by 15 million acres. So while the Chinese market is open to corn now, that window may close with this year's Chinese crop.

Ending stocks for 2009/10 corn are projected at 1.738 billion bushels, up 65 million bushels from the previous year. Demand has been strong enough to soak up much of the 2009 record corn production. USDA's season-average price estimate for 2009/10 is at \$3.60 per bushel, the same level as last month. Corn futures are pointing to a season-average price of \$3.51 per bushel. So the futures market is slightly less bullish on corn than USDA for the remainder of the marketing year. For soybeans, ending stocks are projected at 190 million bushels, up 52 million bushels from the previous year. As with corn, demand nearly matched supply. USDA has the season-average price at \$9.50 per bushel, up 5 cents from last month; but futures are indicating a season-average price around \$9.43 per bushel.

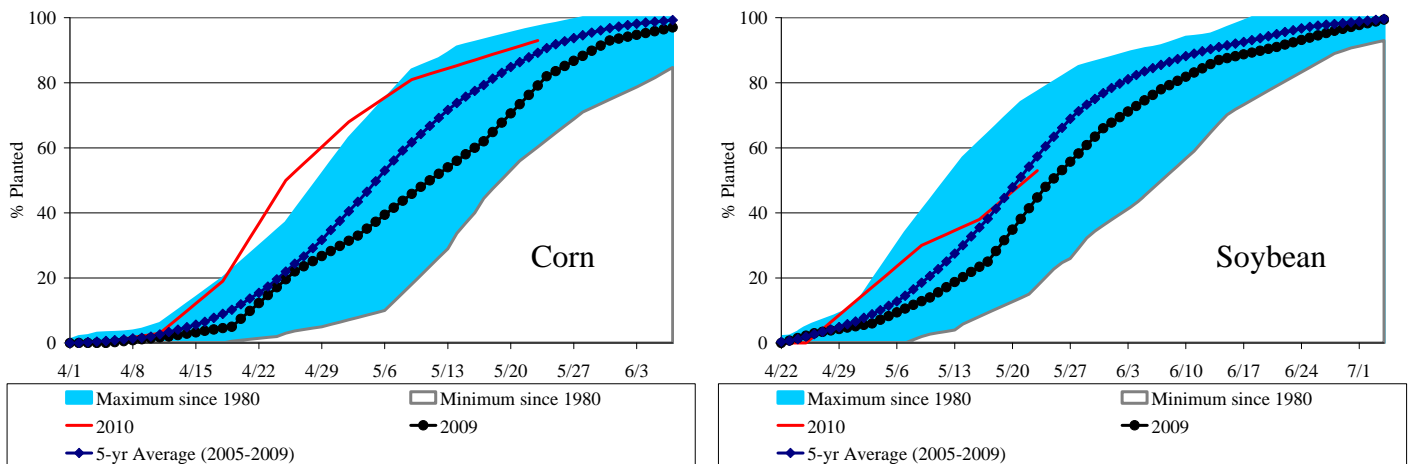
Figure 1. Corn and Soybean Exports and Accumulated Sales Percentages



Source: USDA-FAS, U.S. Export Sales reports

The 2010/11 crop year got off to an early production start. As Figure 2 shows, throughout April planting progress was at a record pace. The freeze in early May and a few rounds of rainstorms slowed tractors down. But corn planting progress remains above the 5-year average and soybean progress is just behind the 5-year average. The early planting inspired USDA to raise their corn yield estimate above the trend yield, to 163.5 bushels per acre. Soybean yields were held at 42.9 bushels per acre, USDA's trend yield. Given the March acreage intensions, corn production is estimated at 13.37 billion bushels. That would be another record corn crop, exceeding the 2009 crop by 260 million bushels. Soybean production is estimated at 3.31 billion bushels. That would be the 2nd largest soybean crop, just 49 million bushels off of last year's record.

Figure 2. U.S. Corn and Soybean Planting Progress



Source: USDA-NASS, Crop Progress reports

The record (or near record) production projections have weighed down on prices. But demand expectations have not let prices stray very low. On the corn side, livestock feed demand is projected to fall 25 million bushels from 2009/10 as livestock continues to consolidate. Ethanol use is set at 4.6 billion bushels as margins remain at breakeven or better and the Renewable Fuels Standard continues to call for additional biofuel. Exports are up 50 million from this year, to 2 billion bushels. But supplies are expected to exceed demands and ending stocks for 2010/11 are projected at 1.818 billion, up 80 million. For 2010/11, the midpoint of the season-average price range is \$3.50 per bushel, down 10 cents from 2009/10. Futures are indicated a 2010/11 season-average price in the \$3.65 range. World corn production is expected to increase in 2010/11, with bigger corn crops projected in China and Europe.

For soybeans, the export outlook is bearish as South American supplies come online. The projection is at 1.35 billion bushels, down 105 million from the 2009/10 record pace. Crush demand is also projected to be down

next year as well. With strong supplies and weakening demand, ending stocks are projected at 365 million bushels, up 175 million, and season-average price estimates are down, with the midpoint at \$8.75 per bushel. Soybean futures are roughly in line with that estimate. The next big report, the acreage report, will come out at the end of June. Until then, the markets will likely continue to drift with the action in the outside markets.

Chad Hart

April Production Up 1.7%, March Revised Up 0.1%

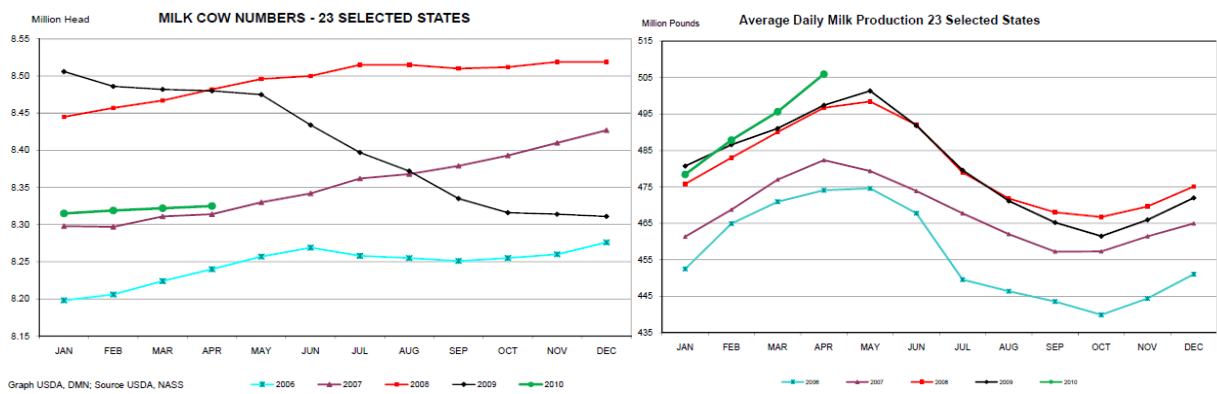
April 2010 23 major dairy states milk production increased 1.7%. Production per cow was up by 63 pounds from one year ago, the March increase was 51 pounds. This increased milk per cow was a very strong response compared to the first two months of 2010. In fact Robert Cropp, U of WI dairy economist suggests this is a record milk output for April. Milk cow numbers were 155,000 less than April 10 but 3000 more than March 2010. March 10 milk production was revised up 0.1%, an increase of 9 million pounds.

Iowa April 10 milk production was 0.8% higher compared to one year ago. Cow numbers were 3000 less compared to one year ago and milk production per cow was 40 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.

Milk Production: Selected Dairy States, March 2010

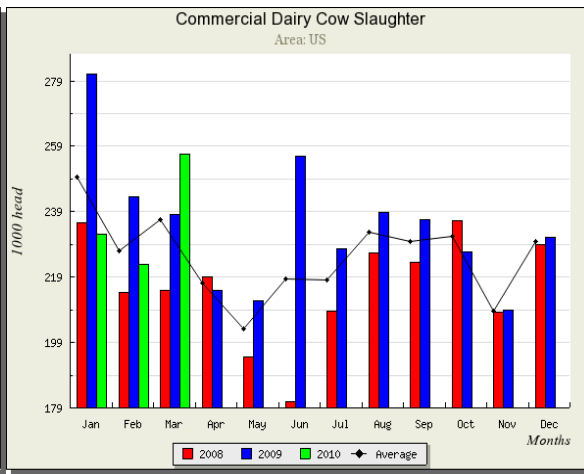
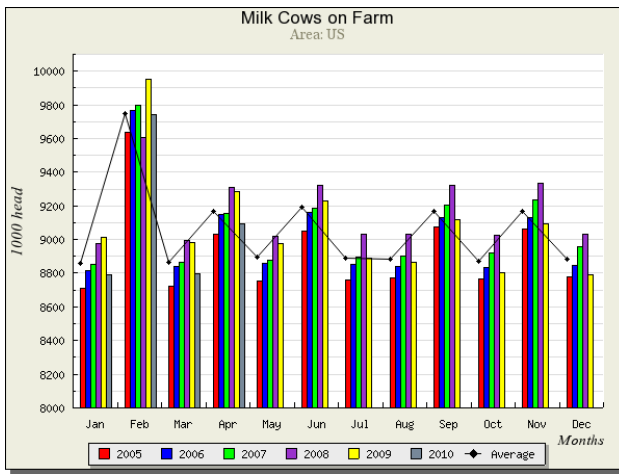
State	thousands			pounds			million pounds		% change total milk
	2009 cow numbers	2010 cow numbers	% change cow numbers	2009 milk per cow	2010 milk per cow	% change milk/cow	2009 total milk production	2010 total milk production	
Iowa	215	212	-1.40%	1710	1750	2.34%	368	371	0.82%
MN	468	470	0.43%	1605	1650	2.80%	751	776	3.33%
WI	1256	1261	0.40%	1650	1745	5.76%	2072	2200	6.18%
IL	102	101	-0.98%	1625	1670	2.77%	166	169	1.81%
CA	1821	1752	-3.79%	2055	2160	5.11%	3433	3434	0.03%
CO	128	117	-8.59%	1920	1975	2.86%	246	231	-6.10%
KS	120	116	-3.33%	1775	1805	1.69%	213	209	-1.88%
ID	551	554	0.54%	1800	1850	2.78%	992	1025	3.33%
AZ	188	170	-9.57%	2055	2160	5.11%	386	367	-4.92%
NM	332	323	-2.71%	2070	2090	0.97%	687	675	-1.75%
PA	549	541	-1.46%	1640	1710	4.27%	900	925	2.78%
NY	623	610	-2.09%	1670	1735	3.89%	1040	1058	1.73%
TX	430	410	-4.65%	1810	1855	2.49%	778	761	-2.19%
23-State	8482	8325	-1.85%	1760	1823	3.58%	14922	15178	1.72%
US 1st quarter	9331	9090	-2.58%				46735	46265	-1.01%

Of the 23 dairy states, Mo had the largest decline in milk production again, -7.6%; they lost cows and milk per cow. The second largest milk drop was CO with -6.1% due to -8.595 less cows. WA had the largest increase in milk production, 7.2%, both cows and milk per cow increased. WI had 5000 more cows and 95 pounds more milk per cow for a 6.2% total milk increase.



Source: Dairy Market News

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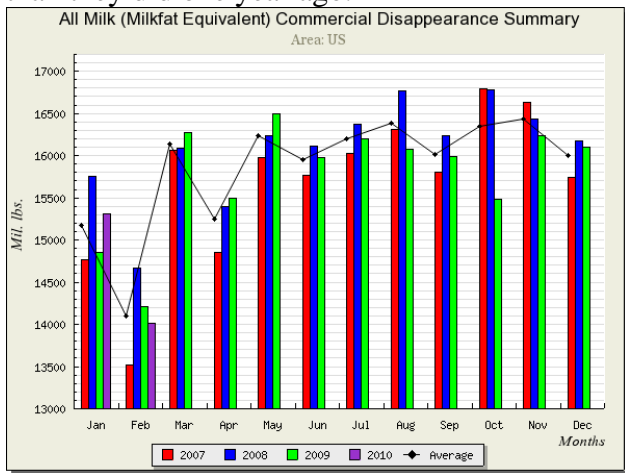


Source: Understanding Dairy Markets, U of WI Source: Understanding Dairy Markets, U of WI
 USDA's "Livestock Slaughter" report said dairy producers sent 234,700 dairy cows to slaughter during April 2010, which is the highest number since April 2003. During the first 4 months of 2010 total culling is 3.2% below the same period one year ago. So why did cow numbers grow in April; lots of heifers that have better genetics than the cows they replace.

USDA expects that cow numbers will continue to drop in large part due to the debt dairy producers accumulated during the last several months.

Demand or Disappearance

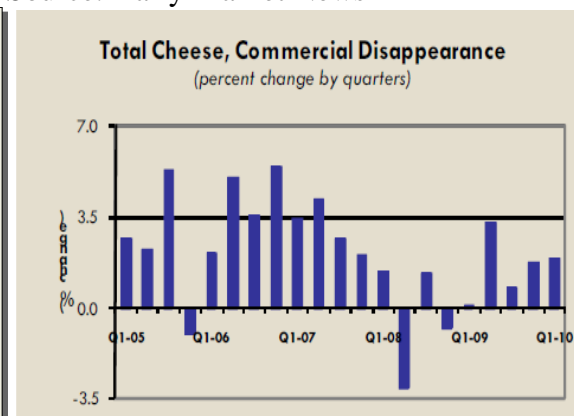
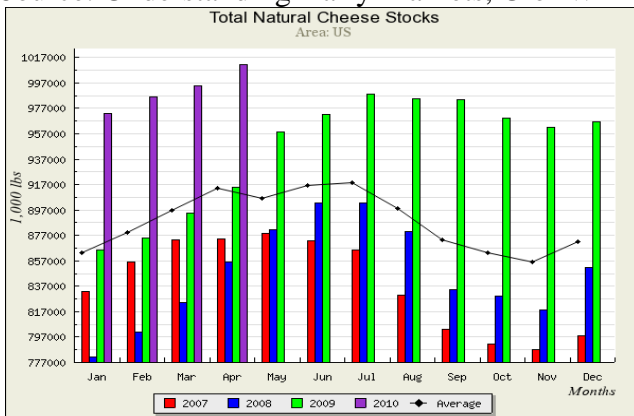
Fluid milk demand continues to weaken. YTD fluid milk consumption is off by 0.6% compared to one year ago. March 10 fluid milk consumption was -2.1% from March 09. Jan 10-March 10 total commercial disappearance is up 1.7%, much improved compared to last month's report. For the same period fluid milk use was -0.8%, butter 2%, American cheese -3.5% and Other cheese types +5.8%. The last category is composed mostly of Italian cheese that is used in food service. This increase appears to indicate that consumers are getting out more than they did one year ago.



Dairy Product Manufacture: March 2010

Product	thousands pounds	March 09 % change	Feb 10 % change
Butter	141,073	-4.30%	-12.9
Cheese, total	890,144	2.30%	14.8
Cheddar	281,640	0.80%	15.2
Other American	80,655	-5.20%	6.1
Swiss	26,708	1.60%	8.8
Italian Style	380,374	5.80%	15.1
NDM	137,517	0.20%	16.8
Sour Cream	104,695	5.30%	22.9
Yogurt	400,969	12.70%	27.5
Dry Whey, total	93,614	13.10%	19.6
Lactose	74,372	24.50%	16.9
WPC	36,302	3.00%	15.6
Frozen	1000 gal		
Ice cream	79,825	5.50%	26.4
Ice cream, lowfat	40,582	13.30%	47.4

Source: Understanding Dairy Markets, U of WI Source: Dairy Market News



Source: Understanding Dairy Markets, U of WI Source: Daily Dairy Report.Com

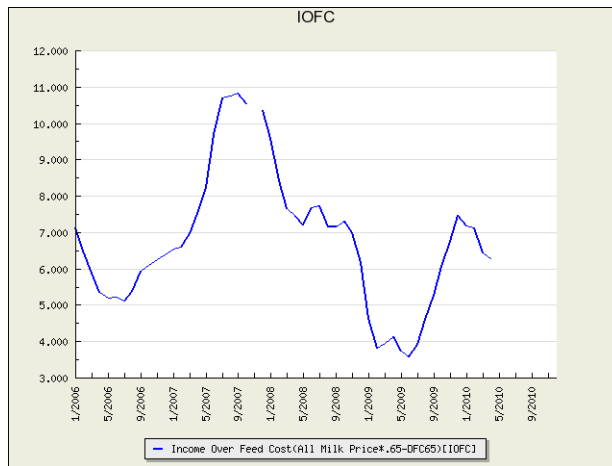
“Cheese stocks have remained large compared to the 5-year average. And at just over 1 billion pounds, the largest inventory since Nov 1984.” That was my comment from last month’s dairy note. And guess what, we have added more cheese. And we have had cheese prices rally recently. The rally does not appear to have a connection to supply and demand as is indicated by the above charts. Maybe the current rally is all we can muster with the level of cheese stocks.

Analysis

The most recent dairy outlook by USDA continues projected improvement in the dairy sector. USDA expects continued moderate feed costs due to declining corn and soybean meal costs. USDA also anticipates no major dairy herd increase due to the poor returns of 2008-9. But increased milk per cow is likely to offset the lower cow numbers projected for 2010 thus USDA is projecting 1% more milk in 2010 and 1.5% more in 2011. Domestic use is projected to increase 1.2% on a fats basis but 0.4% on a skim basis.



Source: Understanding Dairy Markets, U of WI



Source: Understanding Dairy Markets, U of WI



Source: Barchart.com

*Robert Tigner
University of Nebraska*

How Iowa Demographic Change Undermines Job Growth Prospects

There has been a fair amount of discussion over the past decade or so about Iowa’s inability to retain its young adults. Some call it a “brain drain,” as they presume the preponderance of the loss is among our college educated groups. That is much too simplistic of an assumption, and besides, that population would be concentrated in its early 20s. Iowa’s young adult population problem is much bigger than that.

For any economy to grow, it needs a pool of relatively young workers, say between the ages of 25 through 44. This pool of workers needs to be of mixed skills. The economy indeed demands highly educated persons, but it also needs persons with less education. The economy needs highly skilled workers, but many other positions do not require high skill levels. In short, for any economy to stabilize or grow, it must have a reasonably good

supply of young adults of varying abilities. It is generally the case that more mobile persons, typically young adults, gravitate towards places where employment prospects are greatest, and business firms gravitate towards places where there is an adequate supply of young workers. Where those phenomena intersect are growth centers.

During the last decade or so, just prior to the onset of the recession, Iowa's job growth and population growth lagged the national rate of growth. Between 1998 and 2008, U.S. jobs grew by 15.3 percent, but Iowa lagged at 9.3 percent. Between 2000 and 2008, the U.S. population grew by 9.1 percent, but Iowa's population grew a mere 2.8 percent.

What explains Iowa's poorer showing in job and population gain? A clue to Iowa's past performance and future prospects can be discerned from an analysis of broad population cohort changes over the last decade. **Error! Reference source not found.** compares age group population changes in the U.S., the state of Iowa, its metropolitan counties (those with a central city of 50,000 or more), its micropolitan counties (those with a central city of from 10,000 to 49,999), and the remainder of Iowa's counties.

The age groupings are straightforward. The under 20 group represents the state's youth population. The 20 to 24 group is a population in transition between entering the workforce, the military, or college. The 25 to 44 group is the key cohort for economic growth. It is that pool of workers described above that is critical for business growth. The 45 to 64 group is the baby boom cohort. That cohort is the largest, but it is by and large employed and it has maximized its productivity gains. We do not count on the baby boomers for business expansion. In addition, that population is just now beginning to retire in larger numbers, which will result in a persistent contraction in regional labor forces. Last, of course, is the elderly population, those 65 and older. They are by and large not in the workforce.

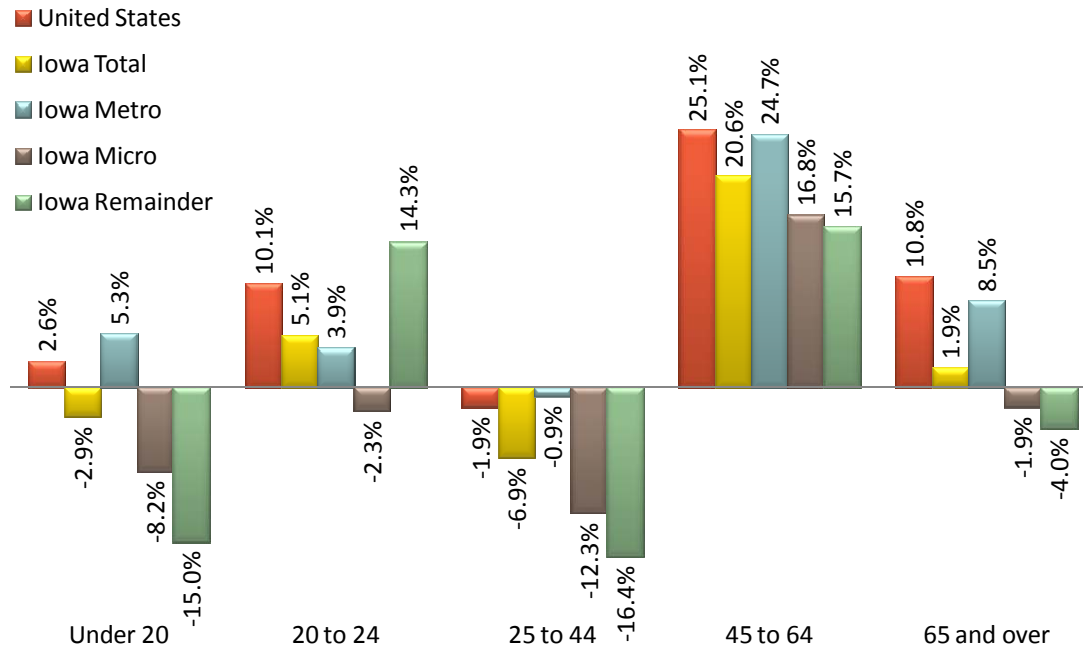
The U.S. saw its ages 25 to 44 population, due to very low birth rates through the 1970s, actually shrink slightly by 1.9 percent. Iowa, however, contracted by 6.9 percent – more than three times the rate of change realized nationally. Its metropolitan areas emulated the national experience, but the micropolitan and the remainder of Iowa's counties contracted sharply by 12.3 percent and 16.4 percent, respectively.

These dynamics in a nutshell explain both the poor performance of Iowa as compared to the nation and its near term growth prospects. Iowa's young adults increasingly seek employment outside of the state, as evidenced by the statewide numbers, or they must seek employment in the metropolitan areas. The lower the level of urbanization, the higher the rate of young adult loss; the higher the rate of young adult loss, the poorer the regions' prospects for future growth. It is a vicious cycle.

There is another impact. It is an intergenerational demographic echo. When a region loses young adults, it also loses their children as well as the children other young adults would have produced as they formed families. The youth population declined by 2.9 percent statewide, but by 8.2 percent in the micropolitan counties and by 15 percent in the remainder of the state. Those losses will further undermine the size and potency of micropolitan and rural area workforces during the next decade.

Figure 1.

Iowa Population Changes, 2000 to 2008 by Selected Age Cohorts and by County Type



There have been statewide and regional initiatives formed to try to address the state's disturbing losses of young adults. The focus has primarily been on retaining the state's college graduates, but that is much too narrow of a focus. The state, if it is to be competitive nationally, will have to retain its entire pool of young adults, regardless of skill level. A healthy economy needs a range of workers and a range of skills. The more dynamic that pool of workers, the greater the possibilities for future economic growth.

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