

Iowa Farm Outlook

August, 2010

Department of Economics
Ames, Iowa

Econ. Info. 2004

Mid-Year Cattle Inventories Down 1%

The July Cattle report from the USDA gave an echoing trend from the January report. Both dairy and beef cattle numbers are down from a year ago. There are now 100.8 million head of cattle nationwide down 1.2%, 31.7 million head of beef cows down 1.6%, and 16.1 million dairy cows down 1.1%. Beef heifer replacements are down 2.2% while dairy replacements are up 2.5%. Table 1 contains the inventory numbers from the July report.

Table 1. July 1, 2010 July Cattle Report

	Million Hd.	% chg.
Cattle and Calves	100.8	-1.2%
All cows	40.8	-1.4%
Beef cows	31.7	-1.6%
Dairy cows	9.1	-1.1%
Heifers	16.1	-0.6%
Replacement beef heifers	4.4	-2.2%
Replacement dairy heifers	4.05	2.5%
Other heifers	7.65	-1.3%
Steers	14.3	-0.7%
Bulls	2.1	0.0%
Calves	27.5	-1.4%
Calf crop	35.4	-1.2%
Cattle on Feed	12.0	3.4%

Beef cow numbers are expected to continue to decline for several more years. Beef replacement heifers are down 2.2%, so a turnaround in cow numbers is not likely to happen before 2014 or possibly later. Cow-calf producers are not growing the national herd for several reasons, but limited resources and lack of profitability are the main factors. 2010 is measuring up to be a profitable year for most sectors of the beef industry, the cow-calf production included. However, it will take several years of considerable profitability to create the confidence and financial incentive to build the national beef herd. Beef cow numbers have not been at these short of levels in more than 60 years. Efficiency of production, producing more beef per cow, has led to much of the decline in beef numbers, but profitability will always be the underlying force.

Cattle on feed numbers are up from last year as cattle feeders regain optimism in the business of finishing cattle. For the past five months the returns to cattle feeding have been attractive to impressive with an estimated \$160 profit in April and May. While corn prices have been slowly trending higher through the summer feed price volatility has not been as sporadic as in years past. Short supplies of fed cattle have improved prices as demand held its ground. The bad news for feeders is that the supply of feeder cattle is also lower and the demand from finishers has lifted yearling prices by more than 20 percent since the beginning of the year. Gross margins have been shrunk by the stronger bidding on feeder stock.

Consumer demand for beef remained steady through the summer. However, early spring expectations were for strong growth in consumer demand during the summer did turnout as expected. The restaurant industry, an important venue for high quality beef utilization, was expected to grow during the summer months, but was instead lack luster and actually declined just slightly. Economic conditions continue to be the deciding factor in consumer spending. Expectations of strong recovery in the US economy lead to more optimism for the restaurant industry, but neither grew as hoped.

Beef prices have increased for the consumer, along with all other meat prices. A rising tide raises all ships, and in this case, smaller red meat supplies have improved meat commodity prices. Pork production has been down 3.5% for the year to date. Due to be the higher fed cattle prices, animals are leaving the finishing yards at lighter weights and the percentage of choice grade carcasses has been declining. The choice select spread, though still tight by historic standards, has been at its widest levels in over two years. For now fed cattle prices remain steady and are expected to remain in the mid-\$90 for the rest of the year and into the coming year.

Extension Economists Meat and Price Projections

University of Missouri Extension Economist Ron Plain and David Miller, with the Iowa Farm Bureau, conduct an annual survey of members of the Agricultural and Applied Economics Association (AAEA). Their survey goes to Extension marketing economists who are members of the AAEA's Extension Section, and the focus is on the supplies and prices of many commodities. The results of the 2010 survey were released at the AAEA annual meeting held last month in Denver.

Table 1. Average Economists' Responses Regarding Meat Production and Projected Prices

AAEA EXTENSION SECTION ANNUAL OUTLOOK SURVEY -- AVERAGE ESTIMATES											
		2010					2011				
	N	I	II est.	III	IV	Annual	I	II	III	IV	Annual
Percent Change from Previous Year											
Beef Production	10	0.0	-2.3	-0.6	-1.8	-1.1	-1.3	-1.0	-0.6	-1.2	-1.1
Pork Production	9	-3.5	-5.0	-3.1	-2.3	-3.3	-0.3	1.0	0.9	1.1	0.9
Broiler Production	8	1.9	2.1	3.1	3.3	2.7	3.3	2.7	2.7	2.5	2.8
5-Area Choice Steers	10	89.44	95.80	92.71	94.43	93.01	94.85	96.73	93.82	96.24	95.44
51-52% Lean B&Gs	9	67.21	79.07	77.11	70.09	73.60	70.85	76.67	75.13	70.20	72.73
12-City Broilers	8	82.20	85.50	84.70	81.00	83.30	82.40	84.20	83.90	81.20	82.90

N= Number of economists contributing to the average.

Shane Ellis

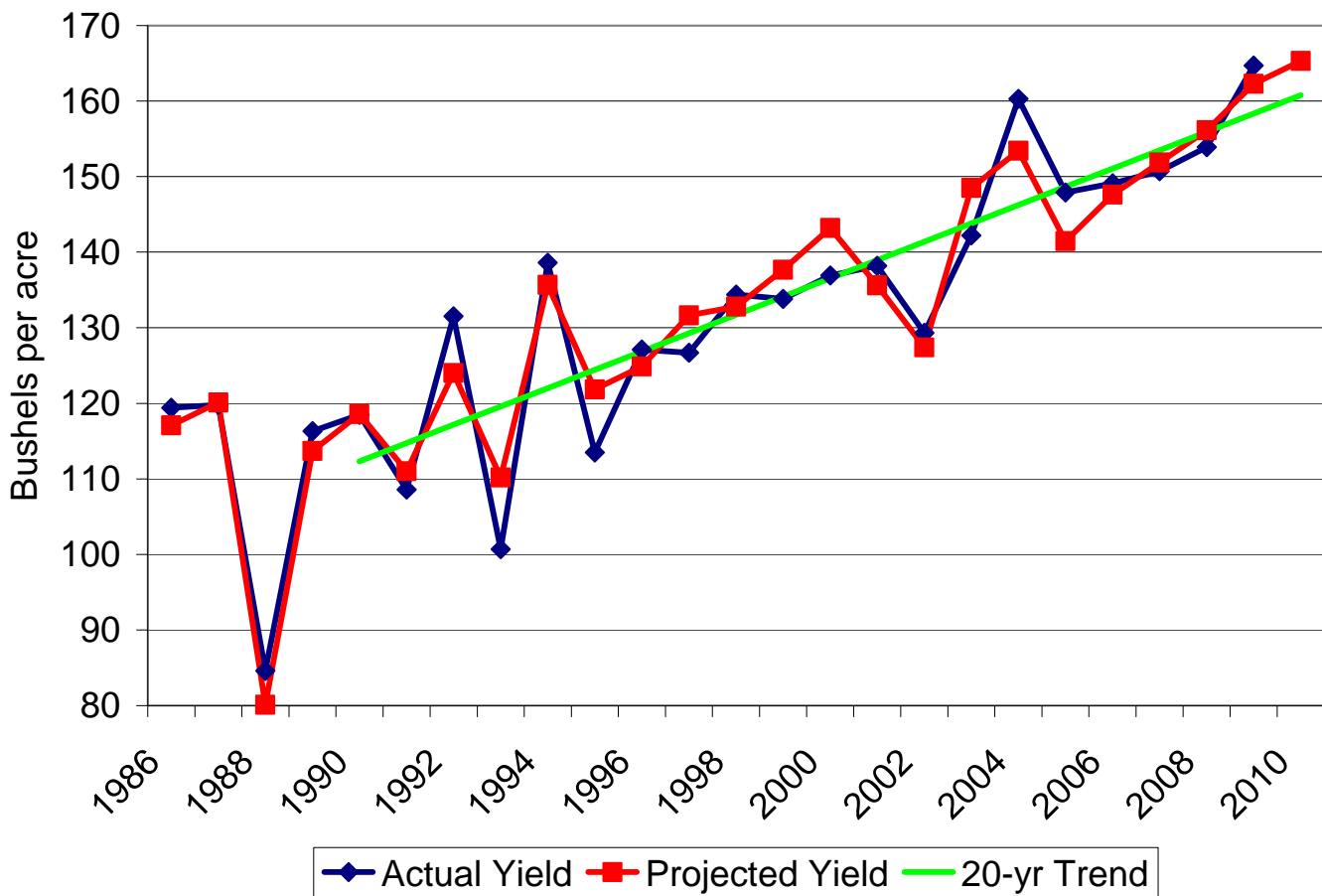
Projected Yields and Exports

The crop markets have been on a little roller coaster ride over the last month. The June acreage report had corn acres lower than expected and the weather outlook in early July was for hotter and drier conditions. Those factors had crop prices climbing. But the rains continued to accumulate over the month, the markets have softened. The combination of warm and wet weather is relatively unique for Iowa summers. Wet summers, such as 1993 and 2008, were significantly cooler than this summer. And hot summers tend to be drier. Recently, Harry Hillaker, the state climatologist for Iowa, pointed out that Iowa had not experienced a summer like this in 138 years, the extent of state weather records. The summer rains have maintained soil moistures above normal across Iowa and most of the upper Midwest. And the summer temperatures have been high enough to put Iowa 100 to 300 growing degree days ahead of normal since April 1.

Corn and soybean crop development is running ahead of normal and is well ahead of last year. 84 percent of the nation's corn crop had reached the silking stage last week. Roughly 75 percent of the soybean crop was at or beyond the bloom stage. So harvest-time maturity issues will be much less of an issue this year. Crop conditions have also held up well over the summer. Throughout July, over 70 percent of the corn crop has been rated good to excellent. Soybeans have hovered between 65 and 67 percent good to excellent.

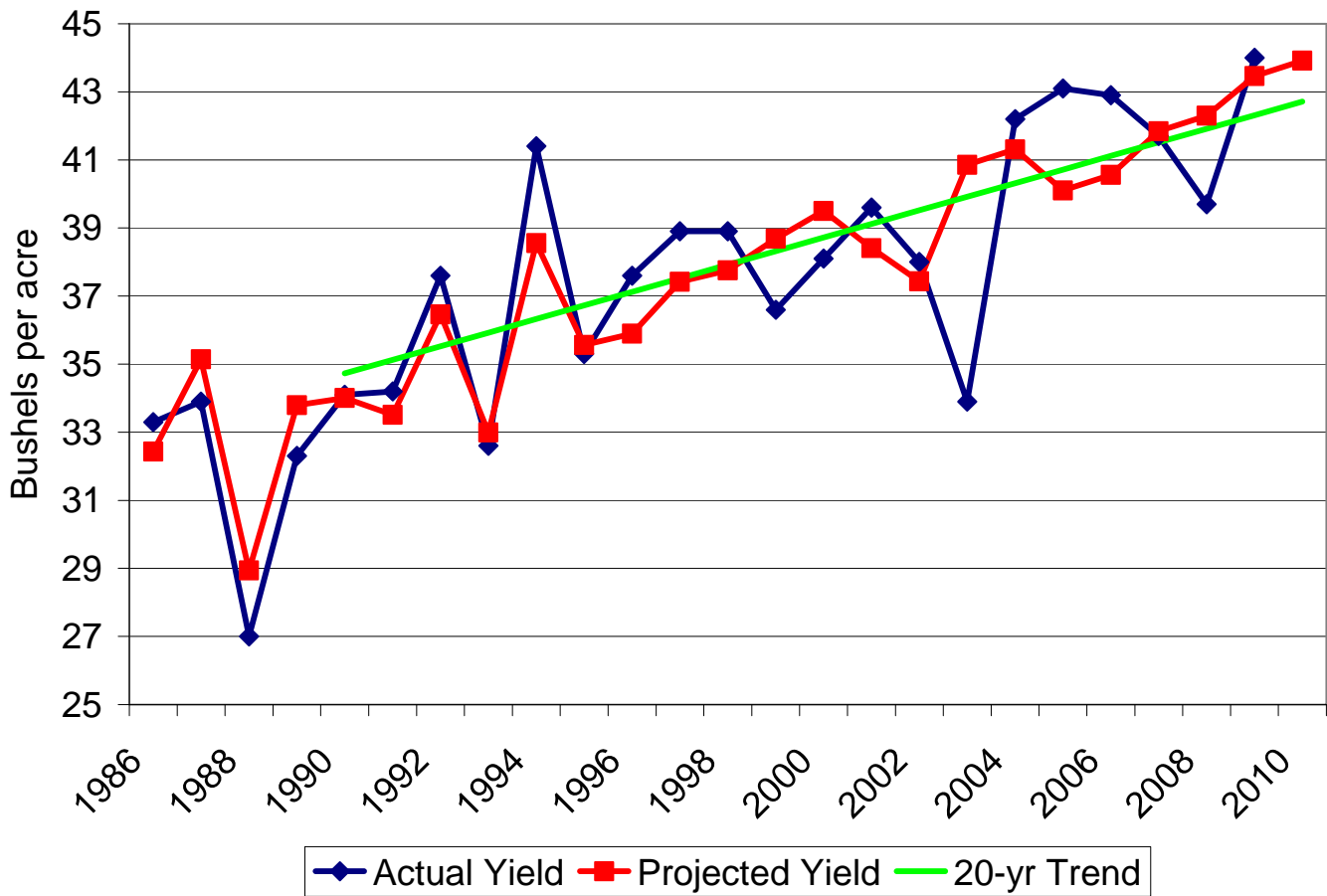
Over the past couple of years, I've been using a simple model that links the crop conditions in the summer to the yields we see in the fall. Figures 1 and 2 show the historical projections from that model and the outlook for 2010. At this point in the season, the model usually has a pretty good handle on corn yields. Given the 72 percent good to excellent rating from the latest Crop Progress report (July 26), the model indicates U.S. corn yields will be in the 165 bushel per acre range. So corn yields look to be slightly above last year and above trend. But given the short roots this crop has, timely rains will continue to be needed to uphold this projection.

Figure 1. U.S. Corn Yields and Projections based on Crop Condition Ratings



The soybean yield estimates are much less reliable at this stage as August weather conditions can still dramatically affect yields. The 2003 crop year highlights that impact. At the end of July 2003, two-thirds of the soybean crop was rated good to excellent and the model pointed to yields exceeding 40 bushels per acre. By the end of August 2003, less than half of the soybean crop was rated good to excellent and yields ended up at just shy of 34 bushels per acre. The projection for 2010 put soybean yields at 44 bushels per acre. That would be roughly on par with last year's yield and above the 20-year trend.

Figure 2. U. S. Soybean Yields and Projections based on Crop Condition Ratings

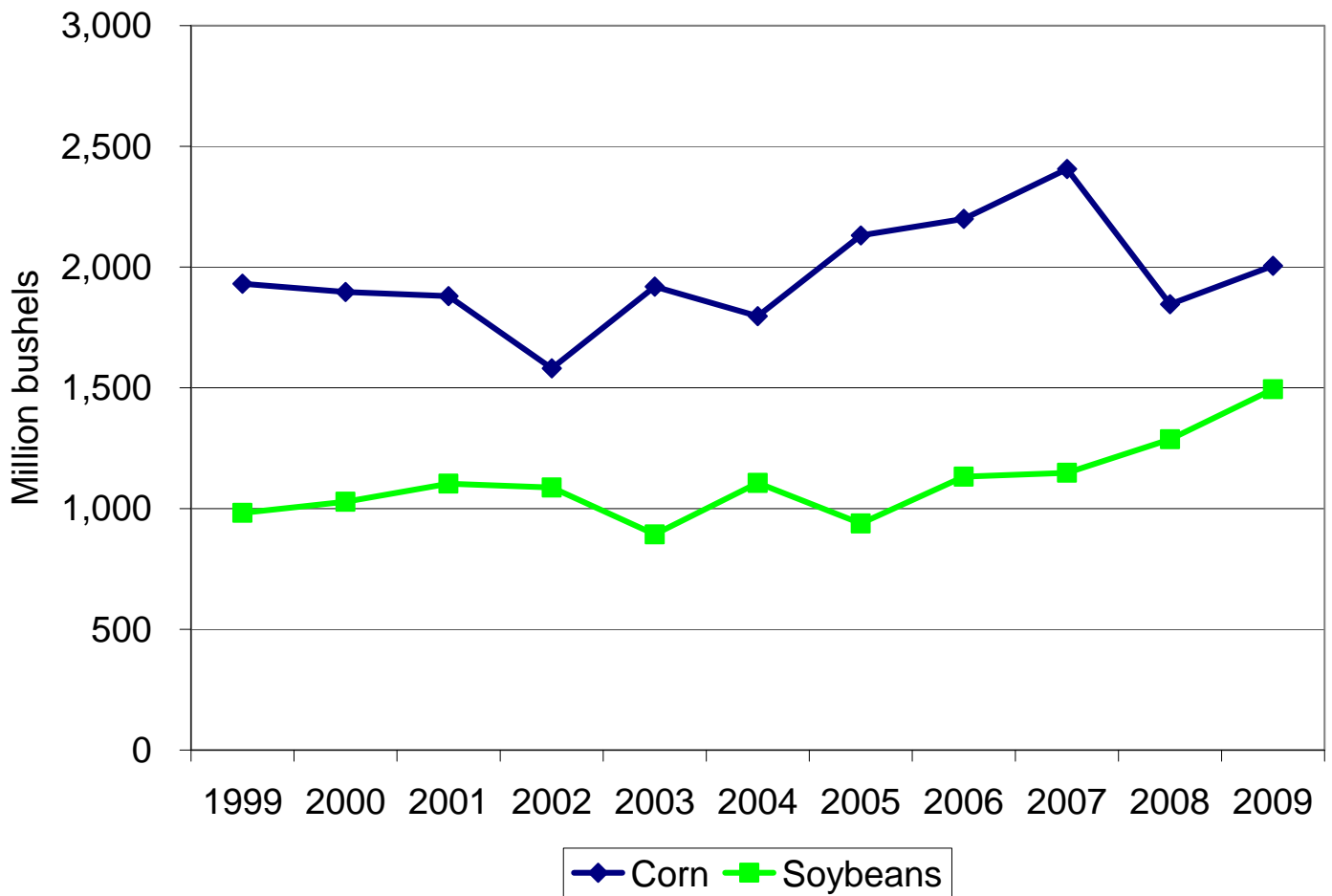


If those yield estimates come in, corn production would be at 13.37 billion bushels, matching last year's record crop. Soybean production would be at 3.43 billion bushels, exceeding last year's record crop by 70 million bushels. The potential of these record crops, along with their accelerated maturity, is keeping a lid on crop prices.

One of the big demand areas that has been helping us work through our string of large crops is export demand. For the 2007 crop year, corn and soybean export demand hit record levels. The global recession set back corn exports significantly, but soybean exports have continued at record pace. Exports for the 2009 crop year (Sept. 1, 2009 to Aug. 31, 2010) show a recovery in corn demand and sustained record demand for soybeans. The latest export reports show 2009/10 exports and accumulated sales running ahead of USDA estimates. Figure 3 shows the exports and accumulated sales at this point in the crop year going back to 1999. The uptick in export demand has been a positive factor for both crops. And export strength has continued throughout this spring and summer, a time when we normally see grain purchases shift south of the equator.

And the strength of export demand is now broad-based as many countries are now importing more U.S. crops than they did a year ago. China has led the way with roughly a 20% surge in demand for U.S. soybeans. Their recent purchases of corn have provided market support as well. At this point, China has purchased nearly 50 million bushels of corn and nearly 850 million bushels of soybeans. But other countries are increasing purchases as well. Soybean exports to the European Union are up nearly 24% and soybeans sales to Mexico are up almost 7%. Mexico, South Korea, and Egypt have all imported at least 10% more corn this year. The one major down market is Japan, where corn exports are off 10% and soybean exports are down 2%.

Figure 3. Corn and Soybean Exports (Source: USDA-FAS)



The wheat market has been leading the trade as of late. Discussion of the Russian drought and its impact on world wheat trade has sent wheat futures higher. Corn and soybean futures have tagged along for the ride. Outside markets have been generally supportive, with nearby crude oil futures approaching \$80 per barrel again. Within the last two days the corn market has added 16 cents and the soybean market has added 20. Mid-July USDA estimates had put 2010/11 corn at a season-average price of \$3.75 per bushel and 2010/11 soybeans at \$8.85 per bushel. With the late July rally, futures are in agreement with USDA on corn with corn futures indicating a \$3.79 per bushel season-average price. But the futures market is much more bullish on soybeans with an implied season-average price of \$9.51 per bushel. Current futures for the 2011/12 crop year point to higher corn prices, in the \$4.10 range, and steady soybean prices.

Chad Hart

June Milk Production Up 2.7%, April Revised Up 0.3%

June 2010 23 major dairy states milk production increased 2.7%. Production per cow was up by 67 pounds from one year ago. Milk cow numbers were 87,000 less than June 09 but 10000 more than May 2010. May 10 milk production was revised up 0.3%, an increase of 40 million pounds.

Iowa June 10 milk production was 0.6% higher compared to one year ago. Cow numbers were 3000 less compared to one year ago and milk production per cow was 50 pounds higher than one year ago.

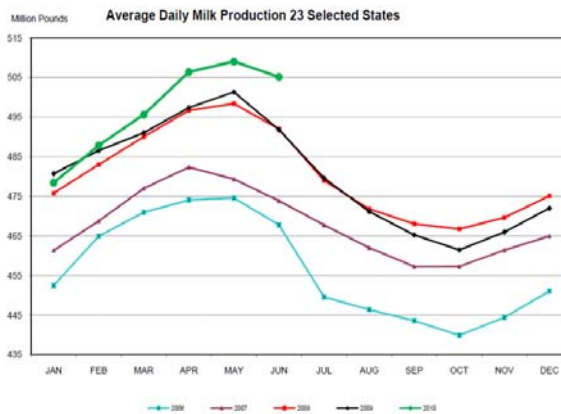
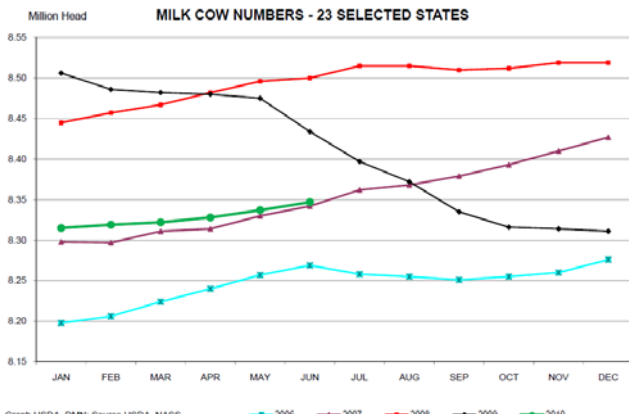
Nebraska 2010 2nd quarter milk production was -1.3% due to 4000 fewer cows. That compares to -1.4% for the first quarter when there were 2000 fewer dairy cows.

Milk Production: Selected Dairy States, June 2010

State	thousands			pounds			million pounds		
	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	% change total milk
Iowa	215	212	-1.40%	1710	1760	2.92%	368	373	1.49%
MN	469	470	0.21%	1630	1660	1.84%	764	780	2.06%
WI	1257	1262	0.40%	1700	1780	4.71%	2137	2246	5.12%
IL	102	101	-0.98%	1570	1615	2.87%	160	163	1.86%
CA	1804	1751	-2.94%	1820	1940	6.59%	3283	3397	3.46%
CO	126	117	-7.14%	1940	2025	4.38%	244	237	-3.07%
KS	118	118	0.00%	1735	1755	1.15%	205	207	1.15%
ID	549	559	1.82%	1880	1910	1.60%	1032	1068	3.45%
AZ	176	174	-1.14%	1940	2045	5.41%	341	356	4.21%
NM	327	325	-0.61%	2050	2080	1.46%	670	676	0.84%
PA	545	541	-0.73%	1630	1660	1.84%	888	898	1.09%
NY	623	610	-2.09%	1700	1740	2.35%	1059	1061	0.22%
TX	428	410	-4.21%	1710	1775	3.80%	732	728	-0.56%
23-State	8434	8347	-1.03%	1749	1816	3.83%	14751	15158	2.76%
US 2nd quarter	9262	9111	-1.63%				48888	49724	1.71%

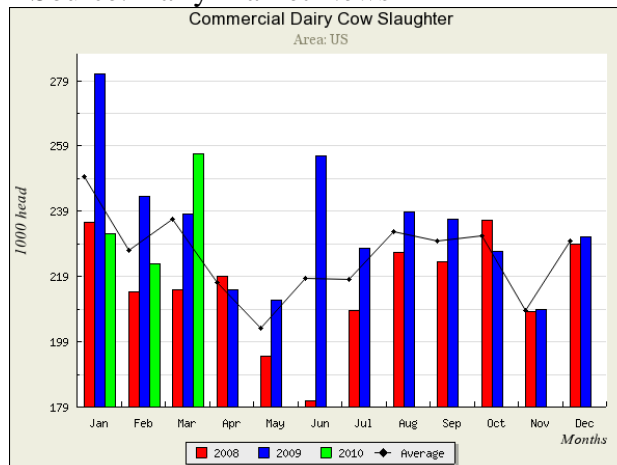
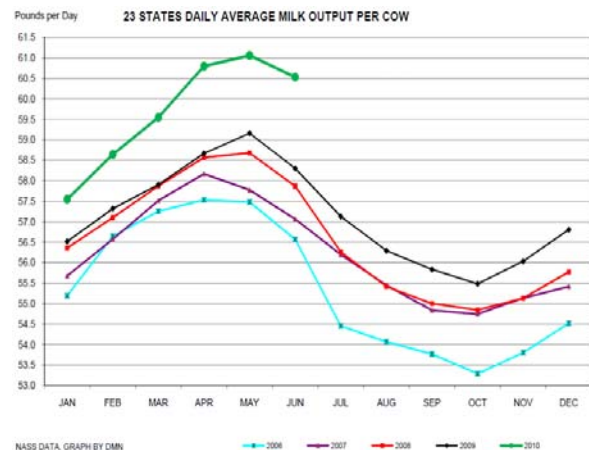
This is a broken record but of the 23 dairy states, MO had the largest decline in milk production again, -7.5%; they lost cows, 9000, and but gained 45 pounds milk per cow. The second largest milk drop was CO with -2.9% due to 9000 less cows. WI had 5000 more cows and 80 pounds more milk per cow for a 5.12% total milk increase, which was the largest milk increase. Six states had a total milk increase above 4%.

Second quarter US milk was reported in the most recent USDA Milk Production report. Wyoming had the largest total percentage increase in milk, 28.8%, due to a 20% rise in milk cow numbers. New Jersey was the big loser due a drop of 1000 cows and thus -14.3% less milk.



Source: Dairy Market News

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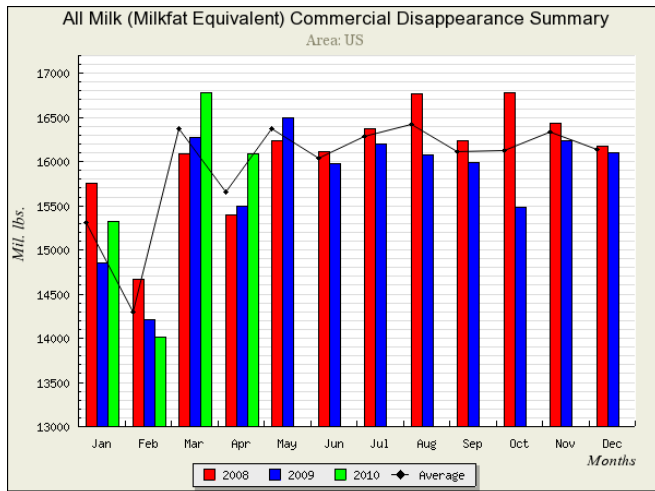
Source: Understanding Dairy Markets, U of WI

USDA's "Livestock Slaughter" report said dairy producers sent 209,100 dairy cows to slaughter during May 2010, less than April 2010. During the first 5 months of 2010 total culling is 2.9% below the same period one year ago. So far June culling is less than one year ago when a CWT retirement was underway.

Demand or Disappearance

Fluid milk demand continues to weaken. YTD fluid milk consumption is off by 0.9% compared to one year ago, the same as the previous report. May 10 fluid milk consumption was -0.9% from May 09. Total fluid milk sales include organic milk. Total Organic milk product sales are up 16.5% for May and up 8.5% year to date.

USDA recently corrected their commercial disappearance report. The correct Jan 10-April 10 total commercial disappearance is up 2.2%. Butter consumption is up 3.6%, total American cheese demand down 0.6% and other cheese consumption is up by 4.1%.

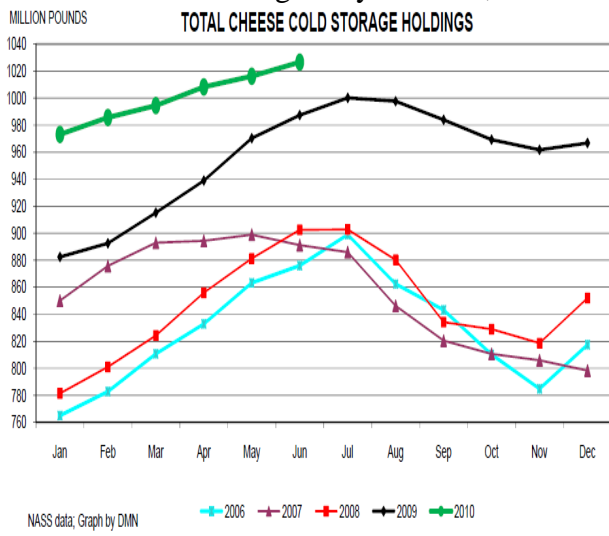


Source: Understanding Dairy Markets, U of WI

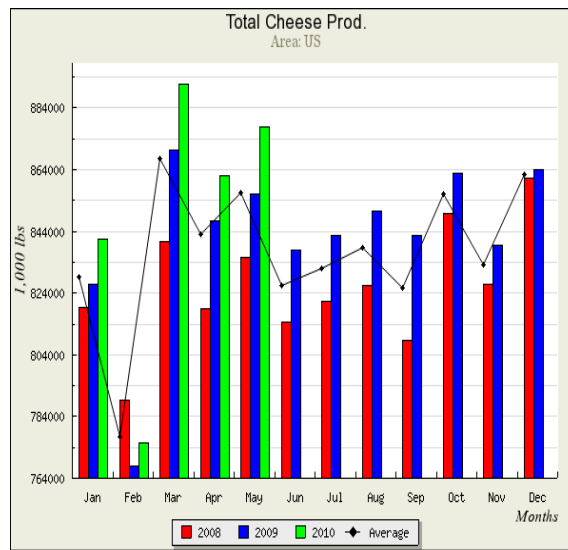
Dairy Product Manufacture: May 2010

Product	thousands pounds	May 09 % change	April 10 % change
Butter	131,436	-5.60%	-1.3
Cheese, total	877,880	2.50%	1.8
Cheddar	286,331	-0.40%	5.7
Other American	82,936	2.90%	-5.3
Swiss	28,867	5.00%	1.5
Italian Style	369,511	6.80%	0.08
NDM	150,452	2.60%	1.3
Sour Cream	91,775	-1.80%	1.2
Yogurt	339,917	3.30%	7.5
Dry Whey, total	89,674	2.90%	-1.2
Lactose	75,064	6.30%	3.6
WPC	35,889	3.40%	0.6
Frozen	1000 gal		
Ice cream, regular	82,208	2.00%	4.7
Ice cream, lowfat	37,317	3.30%	-3.3

Source: Dairy Products



Source: Dairy Market News



Source: Understanding Dairy Markets, U of WI

"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 the last three month's dairy notes. And guess what; we have added more cheese when the June Cold Storage report from USDA came out. Excellent milk per cow and weaker fluid milk consumption means more cheese is getting made. Even though consumption is up so far this year, we continue to add to cheese in storage.

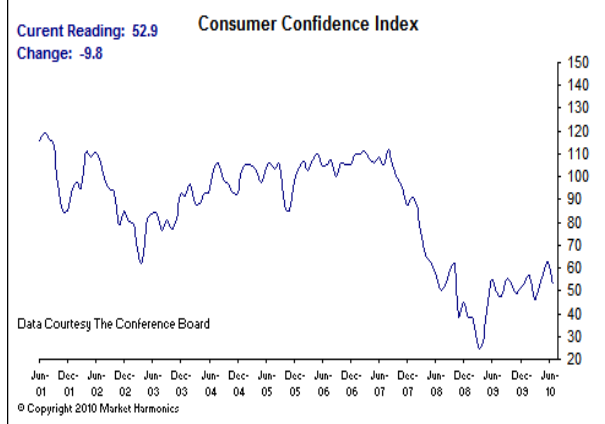
Analysis

YTD feed prices have been much more favorable to increase milk production per cow, compared to 2009 but not as good as 2008. IOFC has retreated some since February 2010 but it is much better than Oct 09. The Milk-

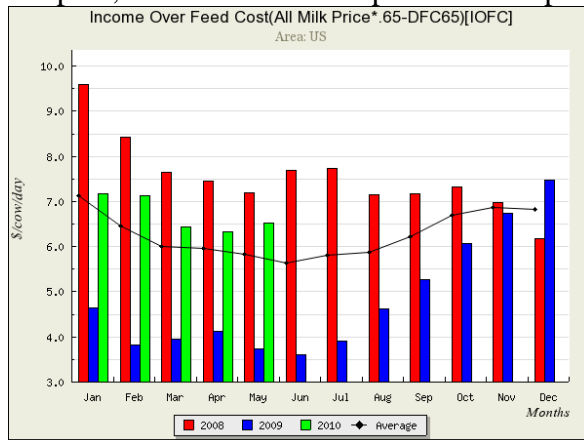
Feed Price ratio is just over 2.3. This ratio would indicate that dairy herd expansion is unlikely, but we have continued to add cows to the dairy herd for several months. The July 2010 Cattle report from USDA indicates that milk cow replacement heifer inventory is 3% higher than July 09. The heifers are available to milk so dairy producers, who have already sunk costs into raising them, will freshen them and try to recapture those costs. USDA is projecting slower dairy cow losses moving forward.

The Fluid Milk and Cream Review reports that milk intakes are declining and some manufacturing interests are looking for additional supplies. It also projects much lower total July intakes. Oceania cheese markets are mostly steady, with sales negotiations winding down. Other Oceania product prices, butter, are weakening. NZ is projected to increase 3-14% in milk production while Australia is projected up 1-2% for the 2010-2011 production season.

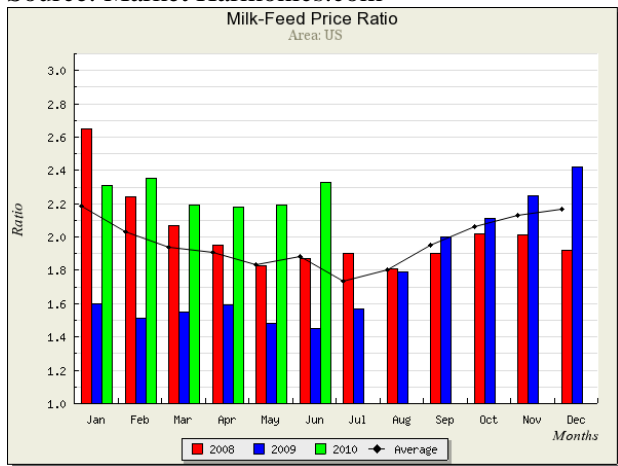
Dec 10 Class III milk has traded in a very tight range on the CME this June and July. We have a lot of cheese in inventory and it is hard to imagine that the US economy will pick up in activity in the near future to change the psychology of the marketplace. Production declines are necessary in the short-run to affect that psychology. CWT recently announced that 194 July bids were accepted, fewer than some reports were expecting.



Source: Market Harmonics.com

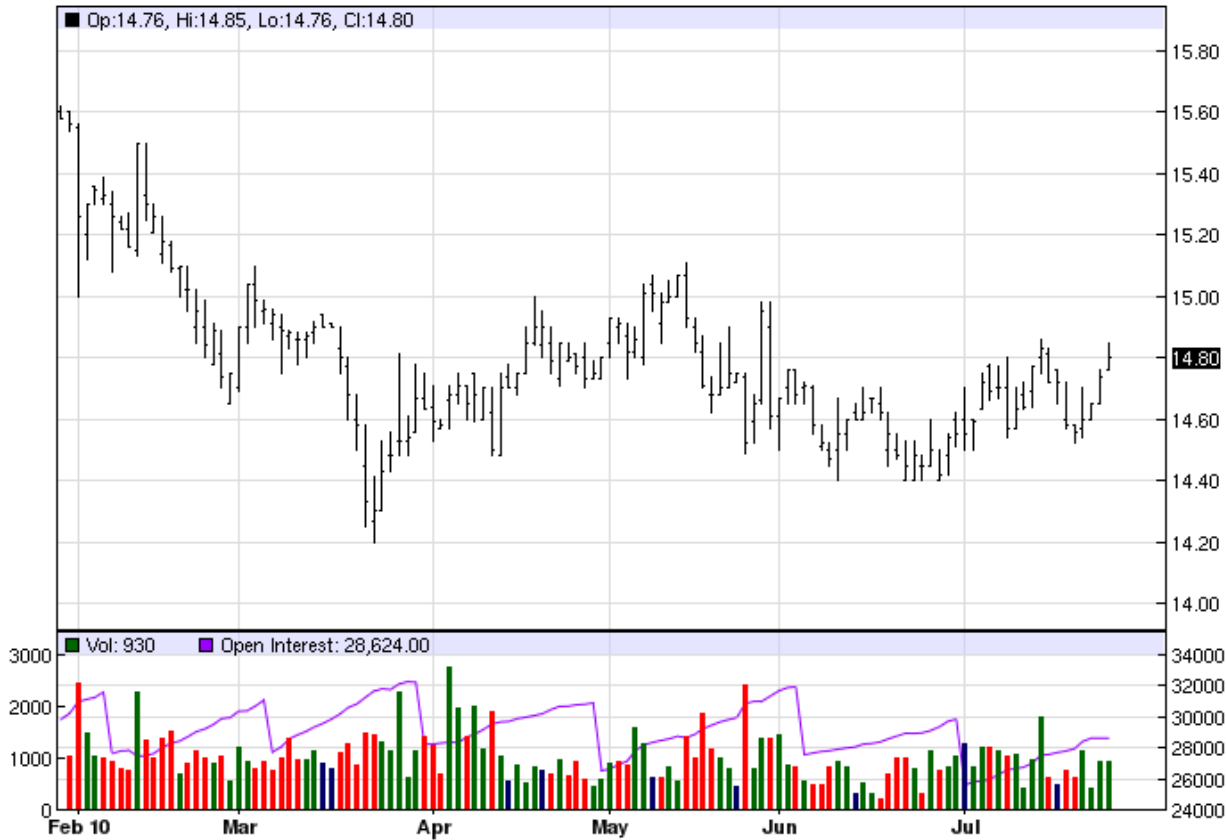


Source: Understanding Dairy Markets, U of WI



Source: Understanding Dairy Markets, U of WI

DLZ10 - Class III Milk (CME) - Daily OHLC Chart



Source: Barchart.com

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