

Iowa Farm Outlook

Department of Economics
Ames, Iowa

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September Hog and Pig Report: Retraction Slows, Expansion on Horizon.

September hog and pig inventories are well below a year ago, but the retraction in the swine industry is slowing down and perhaps leveling off. Total hog and pig numbers were down 2.6 percent from a year ago at 65 million head. Breeding swine numbers were down 1.8 percent from a year ago to 5.77 million head. Market hog numbers are down 2.7 percent at 59.22 million head. From the number of market hogs in the report, market hog numbers are current. During the summer, hog slaughter volumes were consistently lower than expected. June hog inventories were revised lower from the original June report partially explaining the shorter slaughter volumes. Table 1 contains a summary of the September hog and pig report US and Iowa swine numbers.

Table 1. Summary of September Hog and Pig Report

	US			Iowa	
	Million Hd.	% chg.		Million Hd.	% chg.
All Hogs	64.99	-2.6%		19.30	-2.0%
Breeding Herd	5.77	-1.8%		1.01	0.0%
Market Hogs	59.22	-2.7%		18.29	-2.1%
Under 50 lbs.	19.54	-1.1%		4.86	0.4%
50 – 119 lbs.	16.81	-2.0%		5.75	-0.2%
120 – 179 lbs.	12.25	-3.4%		4.41	-4.1%
180 lbs. & over	10.62	-5.6%		3.27	-6.3%
Sows farrowing					
Sep-Nov	2.88	-1.2%		0.47	-2.1%
Dec-Feb	2.89	0.5%		0.48	2.2%
Pig Crop					
Mar-May	29.01	-0.8%		4.78	-1.4%
Jun-Aug	28.51	-0.7%		4.68	1.0%
Pigs per litter	9.81	1.1%		9.95	2.1%

Iowa market hog numbers are down 2.1 percent at 18.3 million head, but sow numbers remain unchanged at 1 million head. Iowa sow inventories did not decline from last year, and it would appear that the state's farrowing intentions are ready to pick up by the beginning of next year. With about 18 percent of nation's sows in Iowa, most of the national increase in farrowing intentions for the first quarter 2011 is coming from Iowa. If there is a return to expansion in the pork industry, Iowa will be leading the way.

The domestic supply of pork has been impacted by the smaller number of hogs being produced and the increasing volume of exports. Pork exports in the first half of the year are up 8 percent from 2009, and annual per capita consumption will be down more than 6 percent from last year.

Market hog numbers will increase next year, and market concerns of weaker prices in the fourth quarter of 2011 do have merit. On the positive side, pork export volumes are expected to increase again in 2011 as foreign

markets continue to grow and the US dollar weakens. A softening exchange rate for the dollar is generally a negative occurrence, but it does support US exports such as pork. On the negative side the nation's economy has not been able to fully shake off possibility of a second dip in the recession. If there is such an event, pork prices will be impacted perhaps more than before.

Pork supply to the domestic market will be about a percent lower in the first half of 2011, but increased hog numbers by the fourth quarter will increase supplies. Table 2. Contains the ISU forecasted prices from a model based on previous year prices, changes in meat supply and consumer disposable income. The pre-report futures prices are included for comparison purposes. Based on the prices from last 2009 and YTD 2010 we should expect hog prices to be better than what the futures market was forecasting at that time.

Table 2. ISU Price and Supply Forecasts

	Change in Supply	ISU forecast, Live basis \$/cwt	Sept. 24 Futures price adjusted to Iowa live basis
Oct-Dec '10	-2.5%	\$55-57	\$54.92
Jan-Mar '11	-1%	\$56-58	\$56.92
Apr-Jun '11	-1%	\$62-65	\$60.95
Jul-Sep '11	0.5%	\$59-62	\$59.93

Since the report release we have seen lean hog futures prices improve. This is excellent news for producers showing that the market is showing some strength. However at the same time corn and feed prices have jumped significantly, offsetting some of the expected gains from the hog market.

Shane Ellis

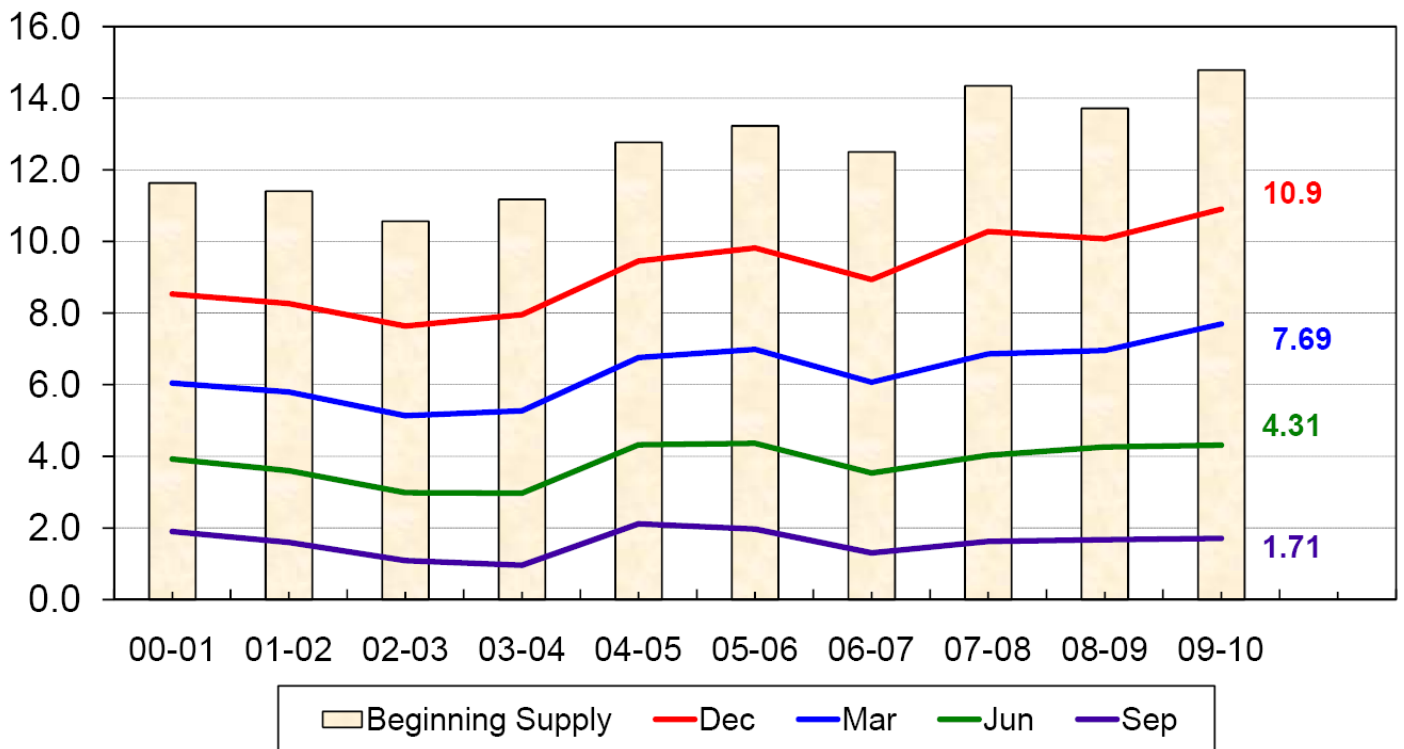
The Stocks Shock

With an early harvest now rolling in, USDA looked at the crop stock situation and the results were mixed for corn and soybeans. Corn stocks at the beginning of September were 1.71 billion bushels. That's 2% higher than last year, 23% higher than the previous USDA estimate, and roughly 20% higher than average pre-trade estimates. In conducting the stocks survey, USDA tries to separate old and new crop production. But there are concerns in the field that the early harvest is contributing to the higher stocks. Based on USDA's September estimates, roughly 790 million bushels of corn had been harvested by the 1st week of September. On-farm stocks were actually down 20%, while off-farm stocks were up 15%. Corn disappearance over the June-August quarter was 2.60 billion bushels, essentially the same as last year. Looking at individual states, Iowa corn stocks were up 15% in total. On-farm stocks were down 5%, but off-farm stocks were up 24%. In contrast, Illinois total corn stocks were down 18% as both on-farm (down 56%) and off-farm (down 2%) stocks decreased. Most of the stock increase was in the western Corn Belt.

As Figure 1 shows, this puts corn stocks at about the same level the U.S. had the previous two Septembers. The trade is sifting through the data to separate the impacts of the early harvest and the late movement of some of last year's corn, as the stocks report likely captured some old crop corn waiting for some new crop corn for blending. And if the change in stocks is all due to 2009 corn, the question then becomes which of the big 3 demands (feed, ethanol, or exports) didn't meet expectations.

Figure 1. Corn Stocks (Source: USDA-NASS)

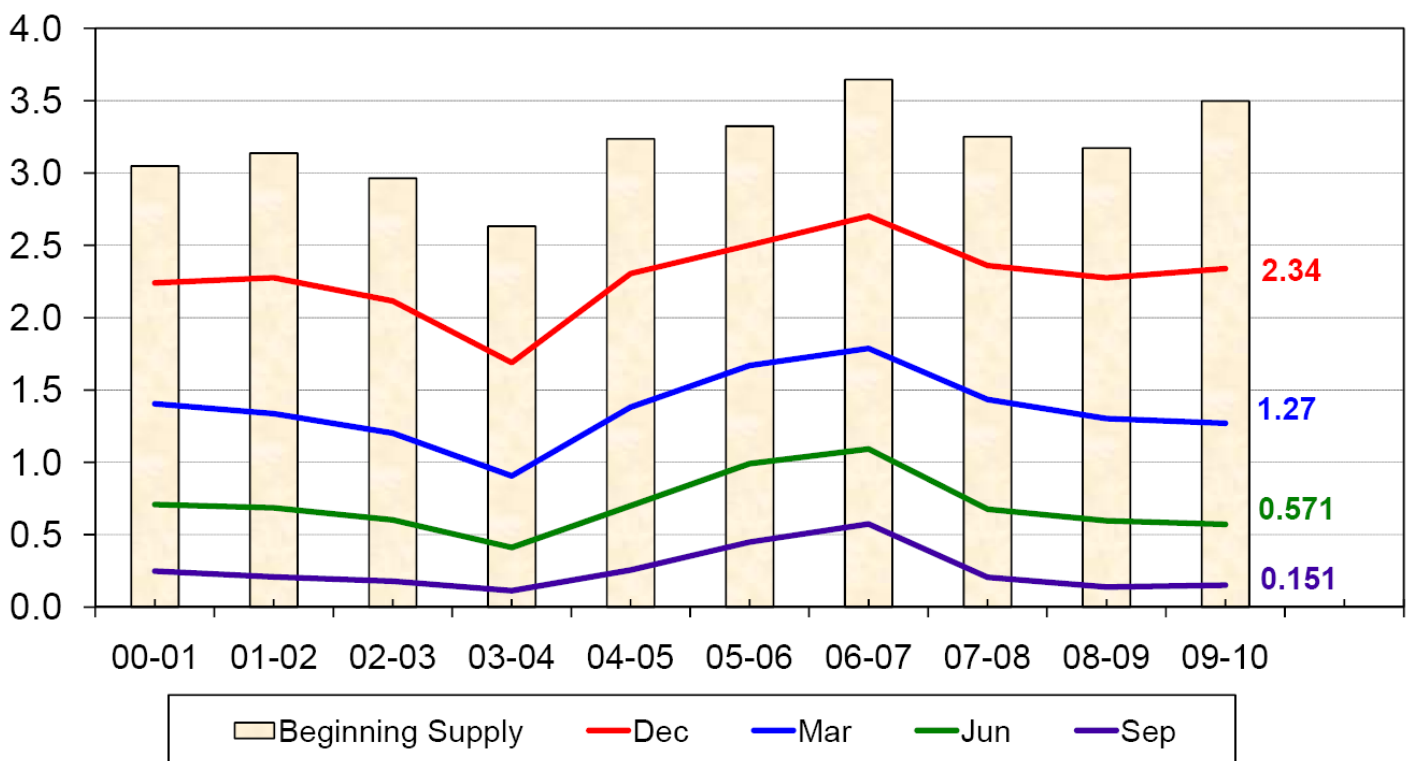
Billion Bushels



Soybean stocks at the beginning of September were 151 million bushels, up 9% from last year. This figure is in line with the previous USDA estimate and pre-trade expectations. Practically all of the increase came from off-farm stocks. Soybean disappearance for the quarter was 420 million bushels, down 8% from last year. Digging into the state-level numbers, it was the Iowa soybean stocks that led the increase as soybean stocks increased 26% from last year. The Iowa soybean stock change accounts for over half of the national shift. As Figure 2 shows, soybean stocks have been very tight over the past couple of years and remain so today. With the stocks-to-use ratio below 5%, the soybean market remains very sensitive to the possibility of production shortfalls.

Figure 2. Soybean Stocks (Source: USDA-NASS)

Billion Bushels



The stocks report hit the markets in a couple of waves, first on Thursday morning, with another shot on Friday. The end result shaved roughly 40 cents off of the corn and soybean markets. But even with the recent dramatic drop in corn and soybean prices, the outlook for prices over the 2010/11 marketing year is still better than it was a month ago. Entering September, corn futures indicated the 2010/11 season-average (Sept. 2010 to Aug. 2011) corn price of \$4.30 per bushel. Soybean futures pointed to a season-average price of \$9.70 per bushel. Coming into October, those price estimates from futures are at \$4.50 for corn and \$10.20 for soybeans.

Another factor that has weighed down on prices is the speed of maturity and harvest for both corn and soybeans. As of Oct. 3rd, 37 percent of the soybean crop had been harvested. That's 23 percent ahead of last year's pace and 9 percent ahead of the 5-year average. In Iowa, 38 percent has been harvested. Illinois and Indiana reports show that at least half of their soybean crops have been harvested. The corn harvest is also well ahead of last year's pace. Nationwide, 37 percent of the corn crop is in, compared to 9% at this time last year and 21% in the 5-year average. Iowa has harvested 19 percent of its corn crop, but Illinois and Indiana are well above 60%. So this year's crops are coming to the markets earlier than usual. But one of the factors that has supported higher crop prices is concern about 2010 production levels. With the outbreak of sudden death syndrome in soybeans and numerous reports of corn yields below farmer expectations, the futures market, especially for corn, has priced based on production expectations below USDA estimates.

This week's USDA reports will shed some additional light on several crop issues. The reports will provide an updated view of crop production, based on the crop reports and conditions at the beginning of the month. With the early maturing crops, these estimates should be more precise than usual. The World Ag. Supply and Demand Estimates tables will provide additional data on 2009 supply and demand shifts to explain last week's stocks report. And as last week's price movements showed, the government reports can have a major impact on crop pricing.

The early export reports for the 2010 crop have been positive, although not quite as strong as the trade had hoped. The export pace for both corn and soybeans is just ahead of last year's pace. For corn, Japan, China, and Egypt have provided additional export boosts. The soybean exports are still dominated by China, but other markets, such as Indonesia and Mexico, are up as well. Stronger export markets are a key to maintaining higher prices for the 2010 crops.

Market bulls have had a pretty good run over the past three months. Corn and soybean prices are up over 15% since July 1st. The September stocks report took a significant bite out of the market. But we could see the bullish trend return if USDA backs off of corn production again this month and/or demand expectations ratchet up.

Chad Hart

Current Economic Indicators for Iowa

Gross Domestic Product (GDP). GDP provides the most direct and comprehensive measure of economic activity in Iowa. GDP, sometimes referred to as "value added," includes the total annual compensation of employees, corporate profits, proprietors' income, and taxes on production net of subsidies. At last measure in 2008, Iowa's total GDP was \$135.7 billion. Information about Iowa's 2009 GDP performance is scheduled for release in November of 2010. In the mean time, we can use other, indirect measures to monitor recent changes in Iowa's economy on a monthly or quarterly basis.

Employee Compensation. Employee compensation accounts for slightly more than half of Iowa's total GDP. Employee compensation includes wage and salary disbursements plus employer-paid supplements to wages and salaries that are typically referred to as "benefits." Estimates of total employee compensation are available on a quarterly basis. Figure 1 illustrates the percentage change in real (inflation-adjusted) employee compensation during the past year, comparing each quarter's value to the same quarter in the previous year. The total compensation of Iowa employees declined by 4/10ths of one percent in the second quarter of 2010 compared to a year earlier. This decline was slightly smaller than the national average decline of 6/10ths of one percent. The next release of quarterly earnings data is scheduled for December 2010.

Total Nonfarm Employment. Nonfarm employment measures the total number of full time and part-time payroll jobs in the state’s nonfarm business establishments. Proprietors, self-employed persons, unpaid family workers, volunteers, and farm workers are excluded from this measure. Current estimates of Iowa’s nonfarm employment are available on a monthly basis. Figure 2 shows the percentage change in total nonfarm jobs by month, comparing each month’s value to the same month in the previous year. Preliminary estimates for August 2010 showed 1,459,000 nonfarm jobs in Iowa, down about 300 jobs compared to August 2009.

Unemployment Rate. The unemployment rate measures the percentage of the total labor force that is currently out of work but is actively seeking employment. Because unemployment rates typically rise and fall with the changing seasons, adjusting the data to account for normal seasonal variations allows for a clearer picture of underlying trends. Figure 3 shows Iowa’s seasonally adjusted unemployment rate during the past 12 months. Iowa posted a 6.8 percent unemployment rate in August 2010, essentially unchanged from July’s rate.

Net General Fund Receipts. Most of Iowa’s state tax revenues, including the personal income, sales, and corporate taxes among others, are deposited into the General Fund. Year-to-date tax collections provide an indirect, albeit slightly lagging, indicator of economic activity in the state. Figure 4 illustrates the percentage change in fiscal year-to-date general fund receipts net of refunds on a monthly basis, comparing each month’s value to the same month in the prior year. The year-to-date values reset on July 1 of each year, in accordance with the state’s fiscal reporting period. Iowa’s net general fund receipts in August 2010 were about 1.2 percent lower compared to the same point in the prior fiscal year period.

Figure 1

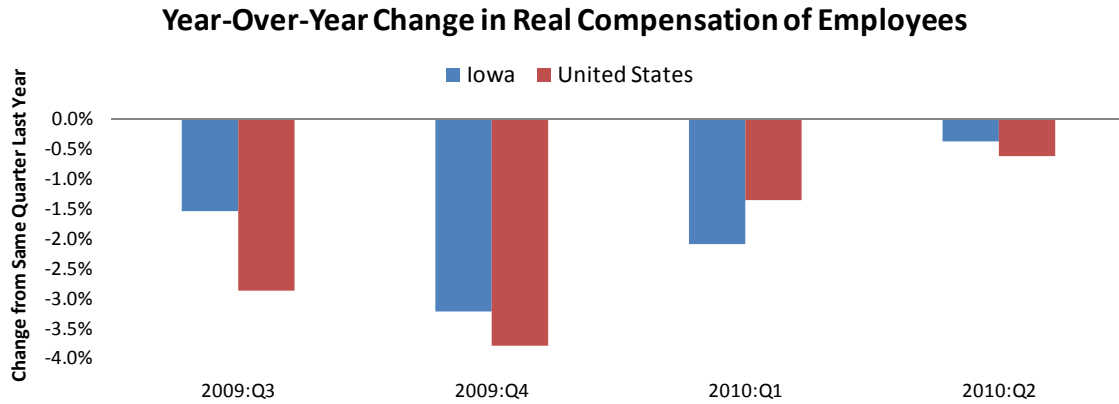


Figure 2

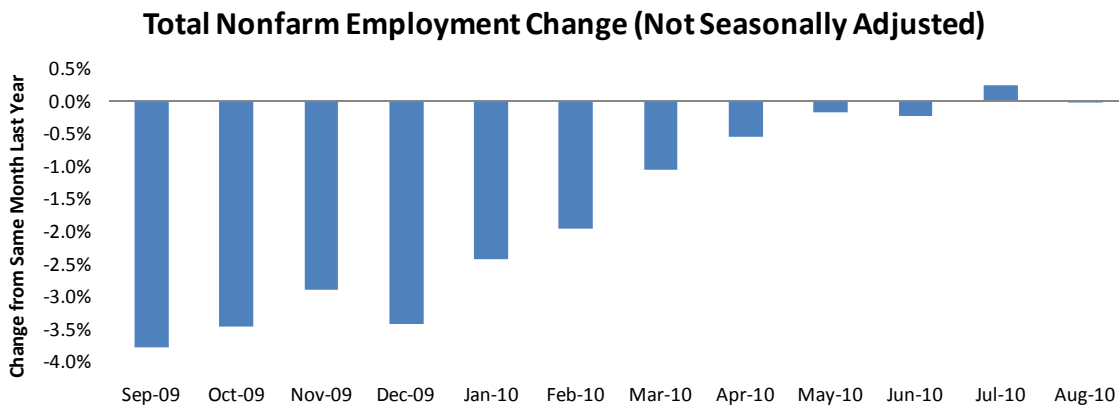


Figure 3

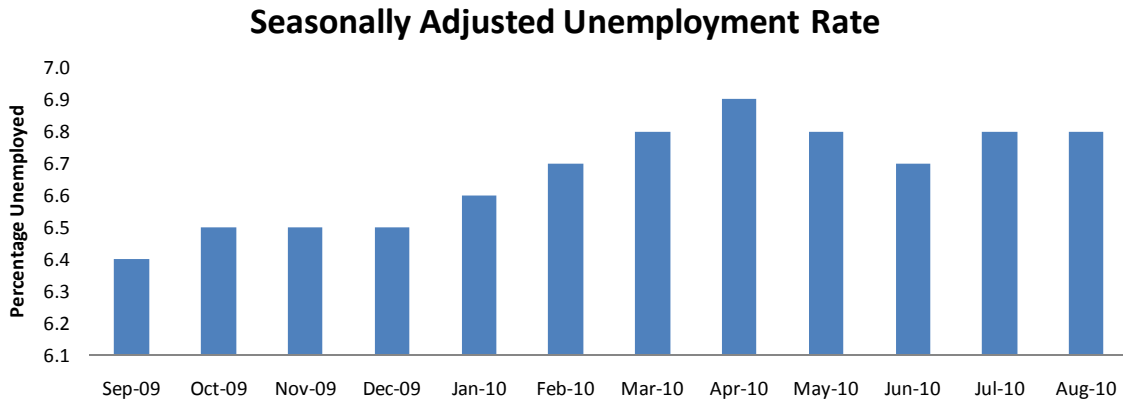
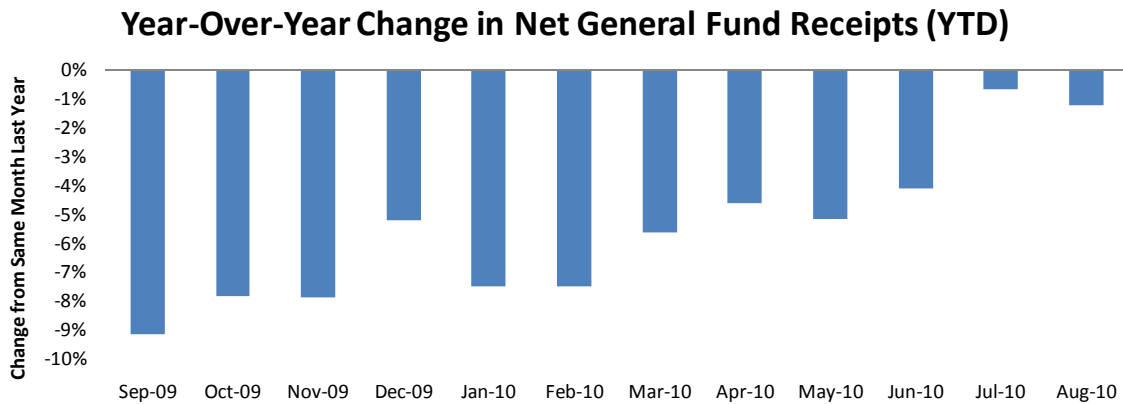


Figure 4



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