IOWA STATE UNIVERSITY
University Extension

Iowa Farm Outlook

Department of Economics
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Beef and Pork Exports up in 2010

The beef and pork industries experienced several changes in their outlook over the course of the past year. The most positive was a return to profitability for both cattle and hog production after two years (2008-09) of tough times. After these some tough times, 2010 proved to be a year for at least a partial recovery. Compared to the past year the outlook for 2011 comes with a mixed bag of changes. Feed prices will be higher as demand continues to build its appetite. Cattle prices are expected to set significantly higher records on increasing demand and shorter supplies. Hog producers, at least in Iowa, may be testing the waters of expansion despite much tighter margins. One positive outlook for both industries will be the growing US beef and pork exports. Changes in foreign trading agreements, weakening exchange rates for the US dollar and a growing utilization of meat in both economically established and emerging nations has helped to boost meat exports.

Beef exports were up nearly 17 percent in the first ten months of this year, with a projected 18-19 percent increase for the year. While growth in exports is not expected to keep such a dramatic pace in the coming year, beef export volumes are expected to maintain their current levels or increase by as much as 3 percent. A shorter supply of beef production will be the hindering factor, and domestic demand will begin to pull against the export market. Fed cattle prices for this season are at record highs are in large part the result of strong total demand. Figures 1 and 2 illustrate the year to date export situation. While exports to Mexico are expected to continue to decline into the next year, other markets will continue to grow. It is anticipated that mainland China will open to US beef in the short future which will add more already growing foreign demand.

Figure 1. Monthly Beef Exports to the Top Four Foreign Markets

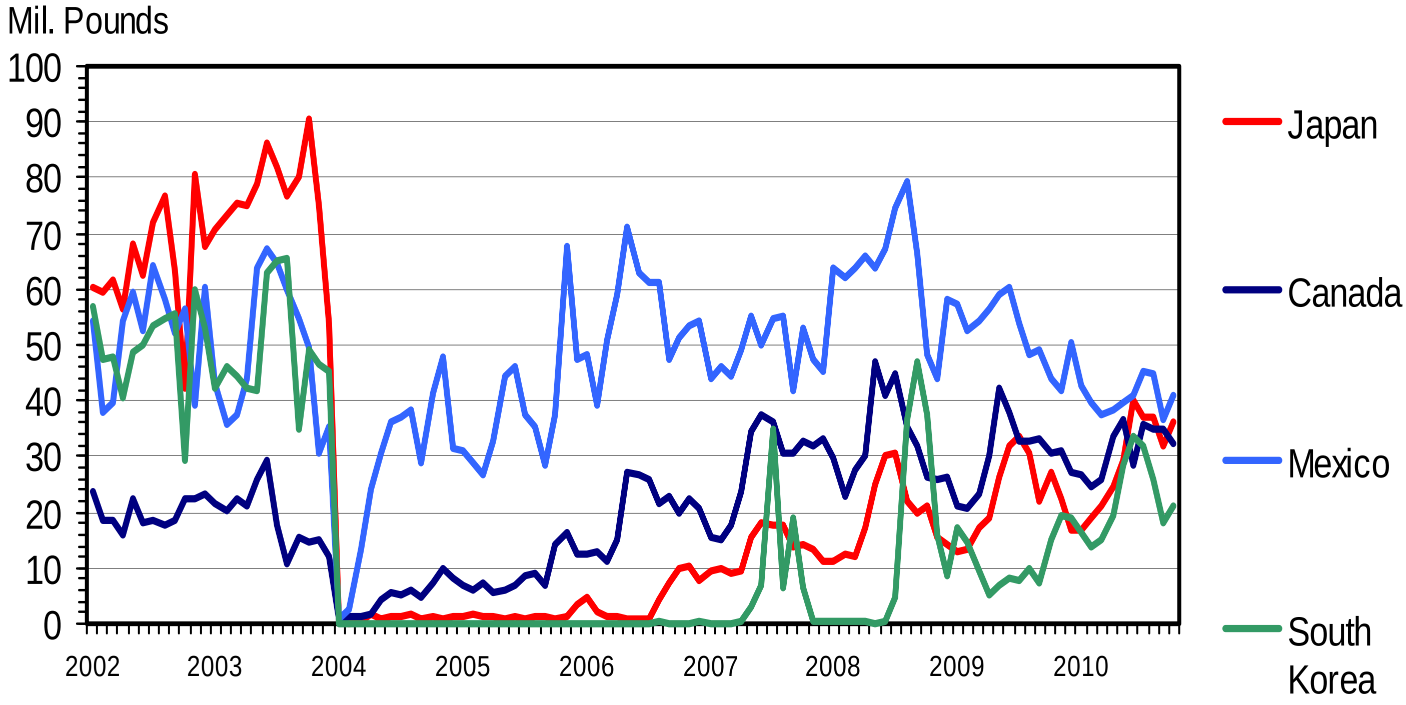
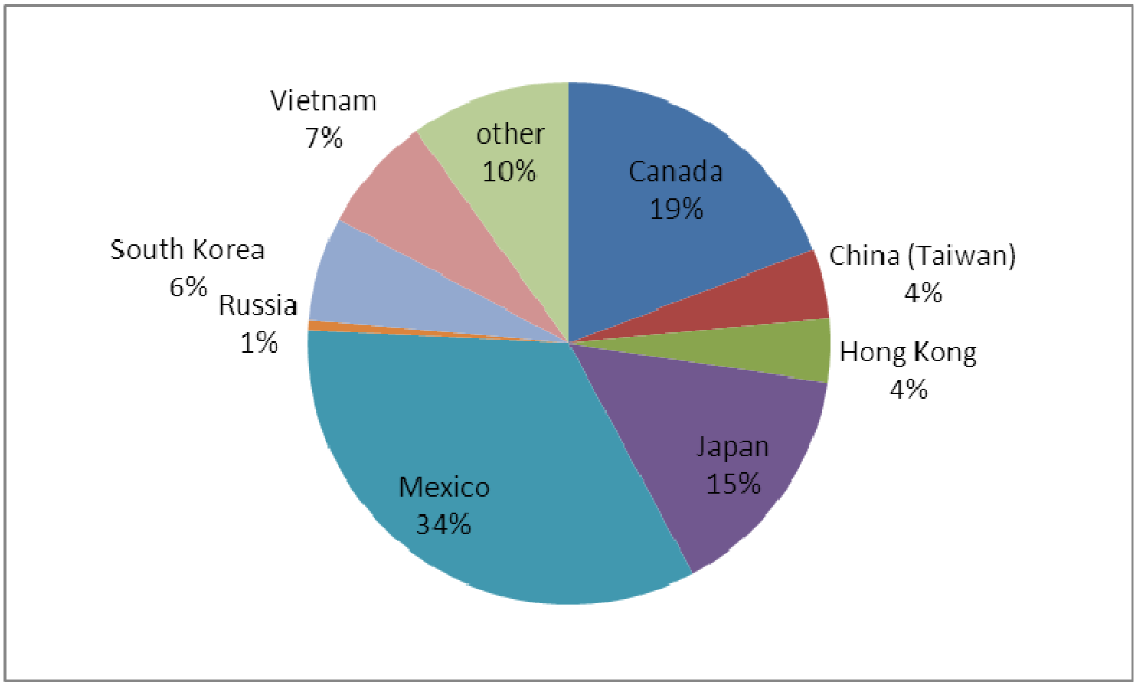


Figure 2. YTD US Beef Export Destinations



While the price of finished beef looks very good for the next year the increased cost of feed and a short supply of feeder cattle are complicating the situation and making profitability elusive in second half of the year. Cattle finishers will be passing some of those record high fed cattle prices back to the feeder cattle and feed producers. While the semi-annual cattle report will be released in the two months it is a safe speculation that beef cow numbers will be down between 1-2 percent going into 2011. This will put the national beef cow herd below the 31 mil1ion head mark for the first time since 1962. Total cow, both dairy and beef, will drop below the 40 million head inventory for the first time since 1942. The coming shortage of feeder cattle and the lag time before an expansion can begin has become a major concern to the entire industry. Feeding a growing population and remaining a competitive meat source have always been goals of the beef industry, but those will be increasingly difficult goals to maintain if cattle supplies continue to shorten.

Pork exports are also showing excellent strength despite shorter supplies for the year. Pork exports were up 2 percent for the year to date. By mid-year it had appeared that exports would be on track to grow more than 8 percent from 2009, but shorter exports since late summer have run short of last year's volumes. Pork exports in Jul-Oct was shorter than last year, but cheaper hog prices and increased supplies of pork in the fourth quarter is expected to improve export volumes. Exports in October were down more than 10 percent from the same month in 2009. Figures 3 and 4 illustrate the export volumes for US pork. The largest markets remain Japan, Mexico and Canada.

In the coming year, additional foreign demand will be welcome if the expected increase in sow farrowings plays out in the first quarter of 2011. The quarterly Hog and Pig report due to be released at the end of this month will give an indication of the increase supply of pork we may see in the fourth quarter of next year. The market has already anticipated this increased supply and is forecasting a strong seasonal decline in hog prices by fall of next year. Prices in the short run are good and hog s marketed in the first half of 2011 are expected to turn a profit of $5-15. The industry is working through the wave of fast gaining hogs that hit the market in October thanks to high quality new crop corn, but most of that wave should pass before the beginning of the new year.

Figure 3. Monthly US Pork Exports to Top Four Markets

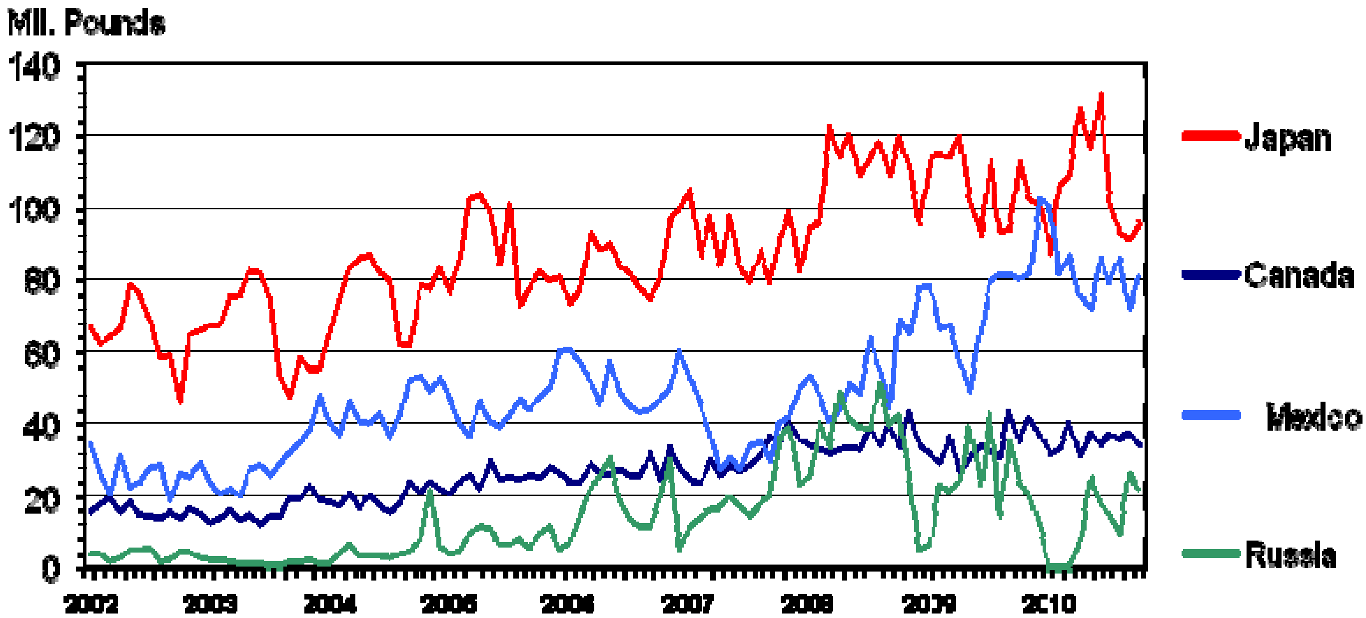
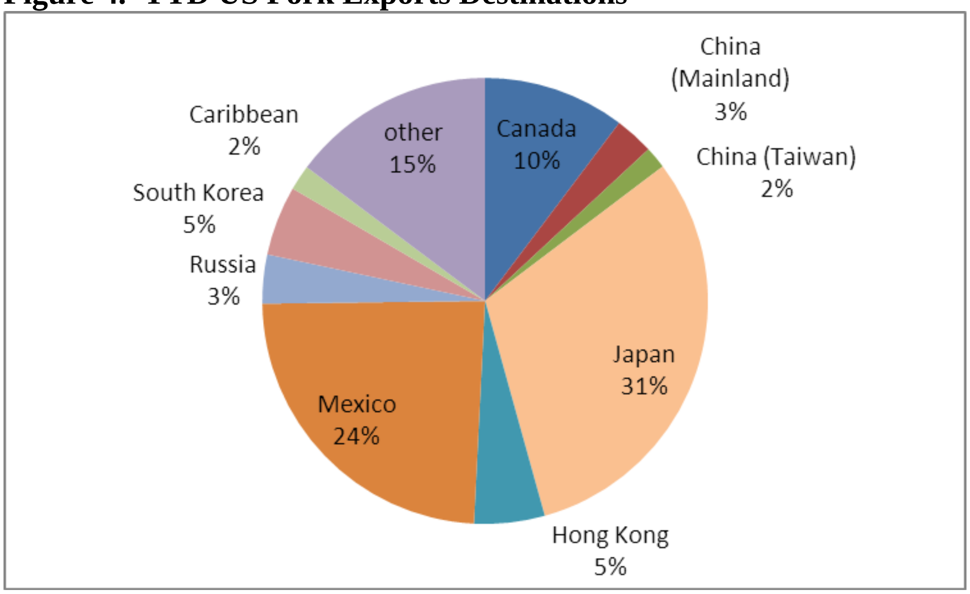


Figure 4. YTD US Pork Exports Destinations



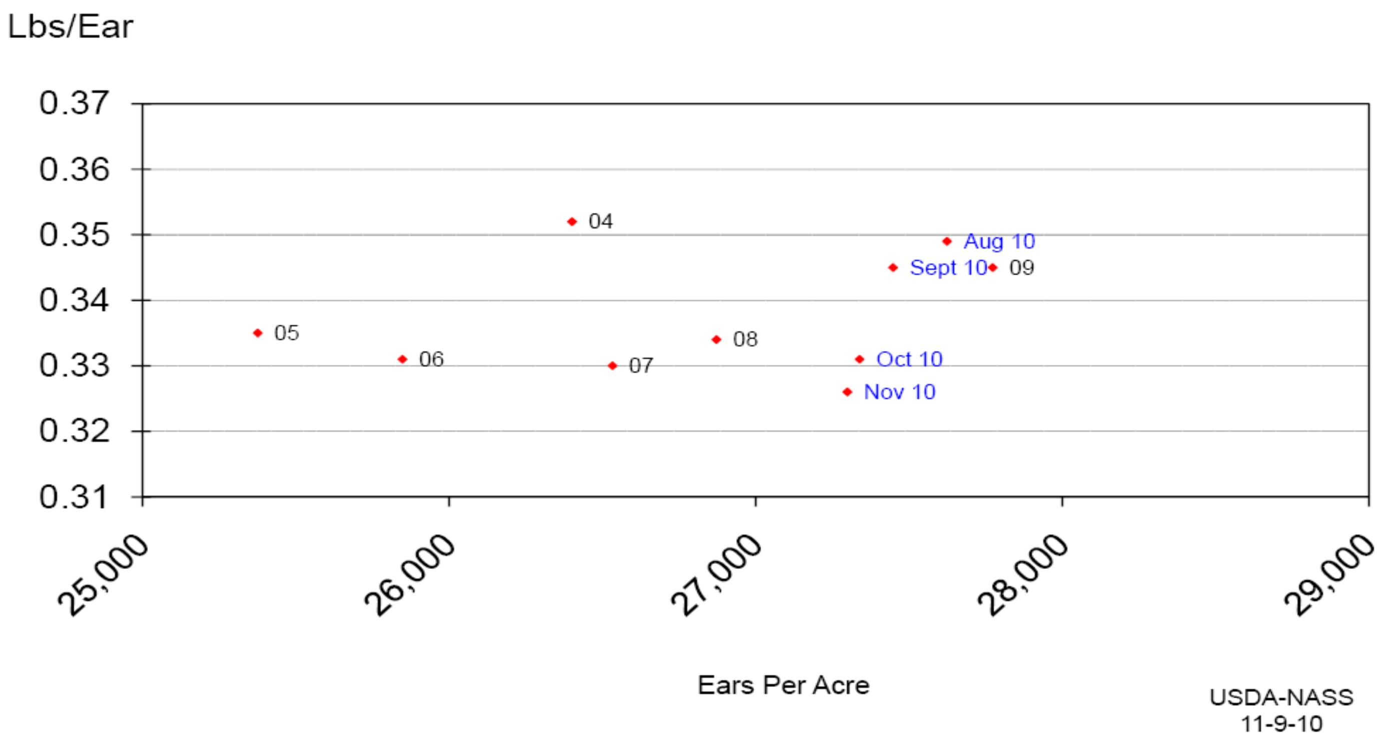
Shane Ellis

Market Volatility and Inflation

Well, November has been an exciting month in the markets. We briefly flirted with $6 corn and "beans in the teens." And we've seen some limit down days. Agricultural markets, much like the stock market, are feeling their way around given the uncertainty in the economy. Signs of growth are there, but so are signs of trouble like the news of Chinese inflation and the announcement of the bailout for Ireland. The agricultural markets have had an incredible run this fall, putting up the best prices of the year in the face of the 3rd largest corn crop and the largest soybean crop we have ever produced. Soybean demand via exports and corn demand via ethanol has led the way, but the concerns about the global economy have put the brakes on prices for now.

USDA came out with their update on Nov. 9th. Crop production was lowered to 12.54 billion bushels of corn and 3.375 billion bushels of soybeans. USDA's estimate for corn yields has fallen from 165 bushels per acre to 154.3 bushels per acre over the course of a few months. Figure 1 below shows what USDA was seeing in fields this fall. Each time USDA looked at the corn crop they found fewer ears per acre and lighter grain weights. Factors that contributed to this include a shorter grain fill period due to a rapidly maturing crop and higher than nighttime temperatures and nitrogen deficiencies in some areas. Soybean yields were also reduced to slightly below record levels. The reduction was mainly due to reduced soybean yields in the Great Plains and Southeast.

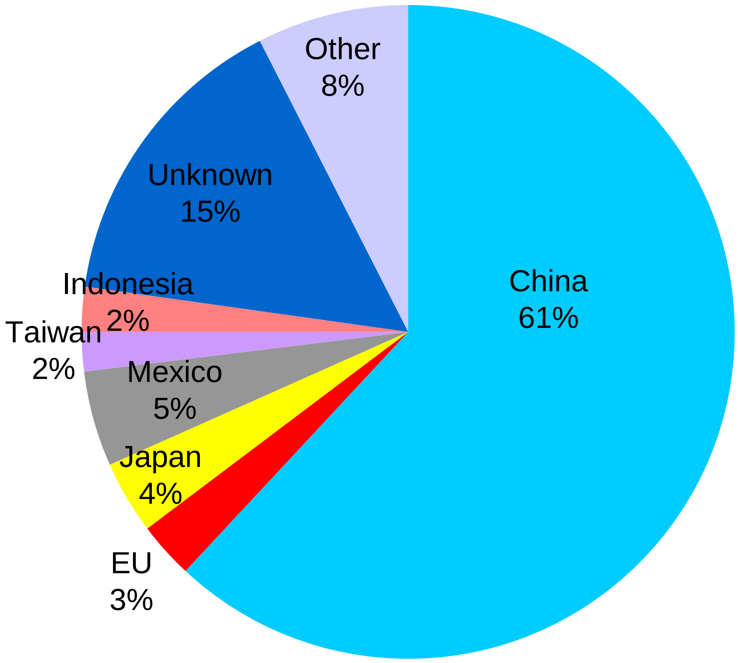
Figure 1. USDA Objective Yield Data (Source: USDA-NASS)



The corn and soybean crops are large, but demand has been strong enough that projected ending stocks for 2010/2011 are down to very low levels. Feed demand is projected at 5.3 billion bushels of corn. Livestock margins have been better over 2010, but expansion in the industry will take some time. Poultry has turned a corner, pork might start growing in 2011, but beef looks to remain in decline for at least a couple more years. Ethanol demand is at 4.8 billion bushels. Ethanol production has been at record levels recently. But the ethanol tax credit may not be extended and production margins are projected to tighten. Exports are expected to use 1.95 billion bushels. And sales so far this year are ahead of last year's pace. In total, demand is projected to use 13.4 billion bushels of corn.

For soybeans, the story has been and continues to be exports. Sales topped 1.5 billion bushels from last year's crop. And projections are for even higher exports this year. China has been the key to the export market. As Figure 2 shows, China represents over 60% of the soybean export market for the U.S. So when the news out of China was about inflation and the possible austerity measures the government could take, soybean prices sank quickly, along with many other commodity prices. But prices have rebounded in the week before Thanksgiving.

Figure 2. 2010 Soybean Exports (Source: USDA-FAS)



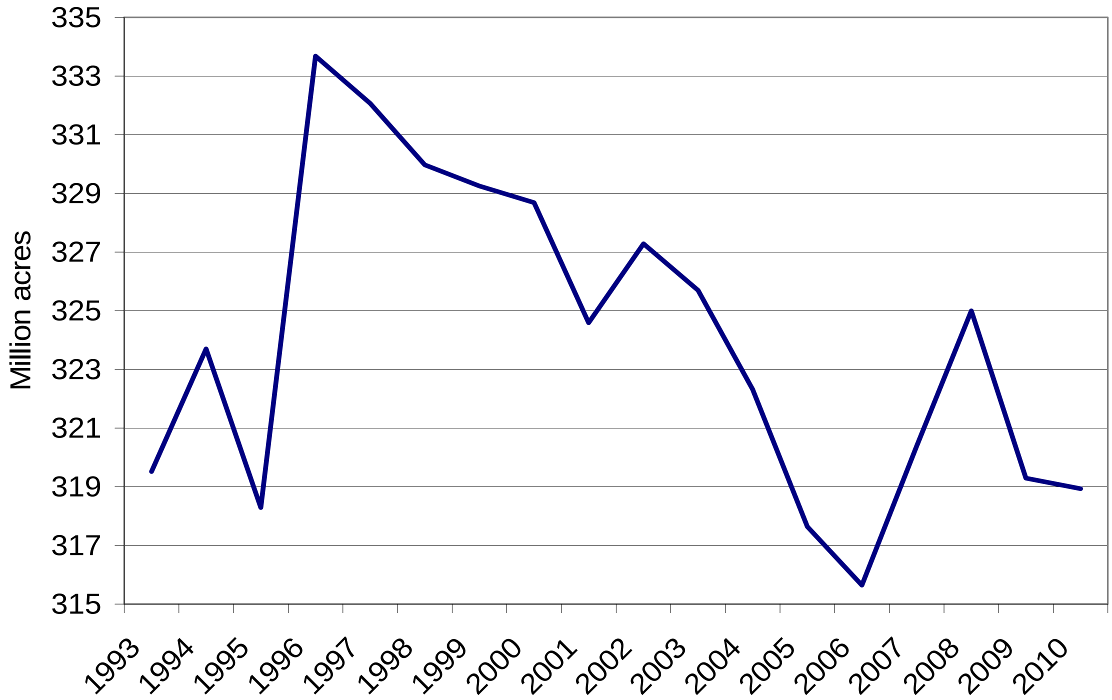
The price swings this month have been dramatic. Corn ranged anywhere from $5 to $6 per bushel. Soybean prices have shifted nearly $1.50 per bushel within the last two weeks. But crop prices for 2011 remain significantly stronger than they were six months ago. Table 1 shows the 2011 harvest futures prices for spring wheat, corn, soybeans, and cotton. All of these commodities have seen prices go up at least 15% in the last six months.

Table 1. 2011 Harvest Futures Prices

	Wheat MGE Sept. 2011 ($/bu.)	Corn CME Dec. 2011 ($/bu.)	Soybeans CME Nov. 2011 ($/bu.)	Cotton ICE Dec. 2011 ($/lb.)
June 1	5.81	4.04	9.22	0.75
Nov. 24	7.67	5.08	11.70	0.88
% Change	32%	26%	27%	17%

With stronger prices across the board, the competition for acreage would likely be fierce. But there is a wildcard this year. Over the past couple of years, roughly six million acres of cropland has fallen out of production, mainly due to prevented planting. As Figure 3 shows, in 2007 we had a similar situation with higher prices and previous year's drop in acreage. The prices in 2007 inspired producers to bring 9 million acres back into production. The higher prices this year will set the stage for the six million acres lost over the past couple of years to return. Given the relatively strong prices for all of the major crops, I think the acreage battle is a battle for these six million acres. Roughly 3 million of the acres are in the Dakotas, with wheat, corn, and soybeans ready to go in. But there are additional lands in Missouri and Arkansas that could go to cotton and/or rice as well. In the end, 2011 looks to be a year where all of the major crops may gain plantings. Based on today's (November 24) prices, I believe corn will come in at around 91 million acres, soybeans gets to 78 million, wheat captures about 2 million more acres, and cotton tops 11 million.

Figure 3. Principal Crop Acreage (Source: USDA-NASS)



So while prices are volatile, the outlook remains good. USDA put the midpoint of their season-average price ranges at $5.20 per bushel for corn and $11.45 per bushel for soybeans. Futures are hanging in fairly close to those levels. Looking out to the 2011 crops, futures point to season-average prices in the $4.90 range for corn and $11.30 range for soybeans. And while input costs, such as fertilizer, have begun to heat up with the crop prices, the markets are offering good pricing opportunities for old and new crops.

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