IOWA STATE UNIVERSITY
University Extension

Iowa Farm Outlook

Department of Economics
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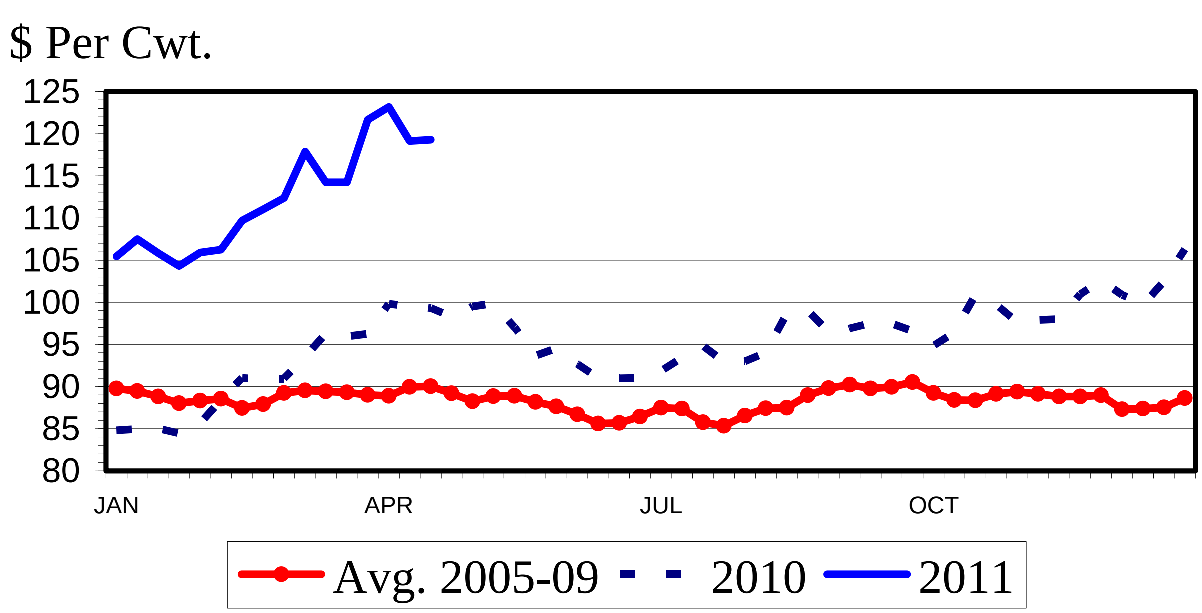
Spring Beef Demand and Record High Cattle Prices

In 2010, the US exported nearly 2.3 billion pounds of beef or 8.7 percent of the nation's 26.3 billion pounds of commercial beef production last year. In the first two months of 2011, beef exports have been up nearly 25 percent from year ago, keeping up the trend of last year's dramatic increase. In addition, so far this year South Korea has been the second largest foreign market for US beef at 69 million pounds, up 130 percent from the same period last year. Exports to Japan have increase by 62, although the impact of the tsunami disaster will not be fully known until the March export numbers are reported. Exports to Canada are up 21 percent, while exports to Mexico, the largest market for US beef are down 4 percent from the same period last year.

The increase in foreign demand has added to an already strong domestic demand, and a tighter supply of heavy market ready cattle has resulted in record high fed cattle prices. Lighter cattle are being procured by packers as they dig deeper into feedlot show lists in order to keep up with demand. Live fed cattle weights in have been near or below 1300 pounds on the average during April, a level not seen since June of last year. Dressed steer weights in April were down 4 percent from the beginning of the year while prices are up more than 13 percent. A dramatic increase in the price spread between choice and select boxed beef prices is further evidence that slaughter cattle are carrying less finish than they had been and the tighter supply of choice beef is coming into align with demand. Total beef production in the first quarter was up nearly 2.5 percent, due principally to the increased slaughter numbers.

While cash cattle prices in Iowa seem to have peaked in the first half of April, there is still plenty of steam in the market. Historically there has been a spring run up in cattle prices in preparation of grilling season and this year was no exception. Figure 1 below is a graph of the Iowa/ So. Minnesota live cattle prices. The spring price rally started earlier and was stronger than usual, and for the most part has maintained itself.

Figure 1. 5 Area Weighted Average Live Steer Price



Looking into the summer months, cattle prices will continue to be nearly 20 percent higher than a year ago. By the end of the third quarter cattle on feed numbers are expected to be lower further tightening beef supplies. For now cattle on feed numbers are up 5 percent from a year ago, bolstered in part by the high number of placements of cattle from the drought stricken areas of the Southern Plains. With less capacity in pastures many would-be stocker cattle have gone to the feedlot, adding a temporary influx to a tight feeder cattle market. Feeder cattle supplies will become smaller for the next several years and competition from larger feedlots in Nebraska, Kansas and Colorado will continue to put bullish pressure on the market and margins will remain tight.

Despite some softening the live cattle futures price forecast in the second half of April, the market is still expecting strong cattle prices in the second half of the year. While this is good news to producers, profitability will be elusive at current feed prices. Price protecting corn or alternative feed concentrates may be the key to profitability in the future, just as it was in the first half of this year.

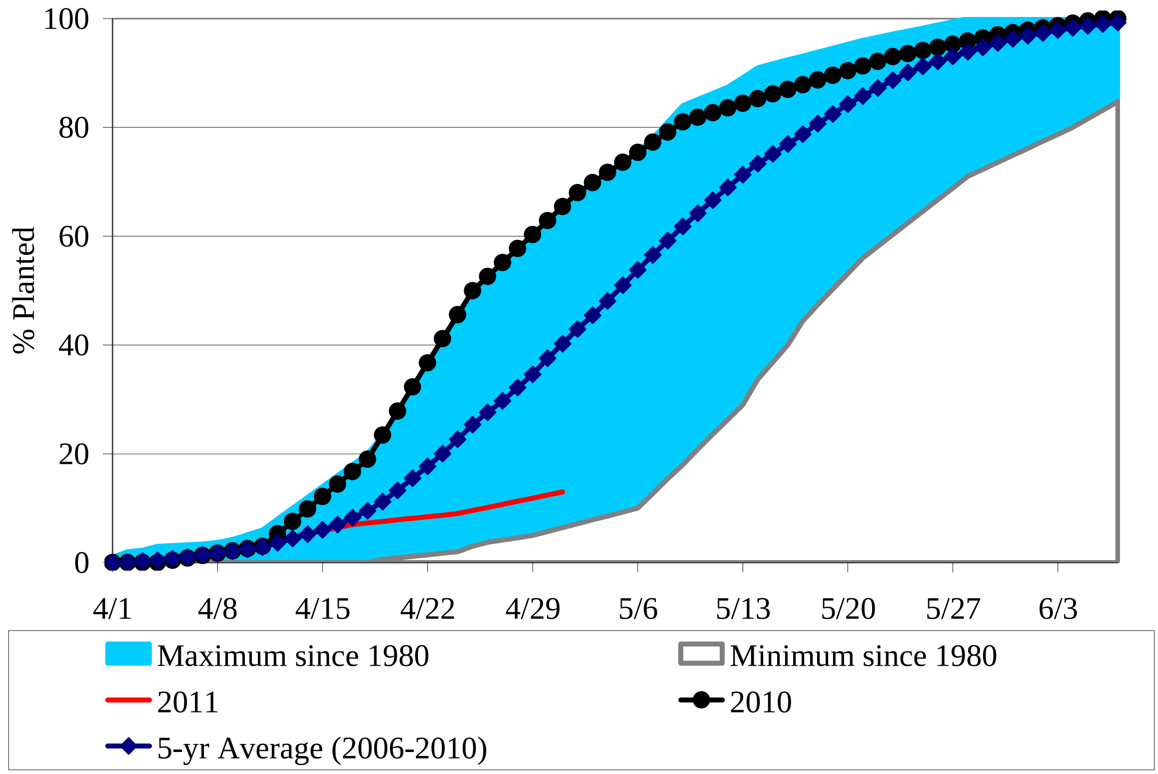
Shane Ellis

Opening Up the Planting Window

Crop markets have definitely shifted their focus to the upcoming 2011 crops. Planting progress, or lack thereof, is providing fodder for market news and shifts. Given the historically low projected ending stocks from the 2010 marketing year, the emphasis on planting news is stronger than usual. As the March Prospective Plantings report highlighted, farmers intended to bring additional land into row-crop production, with corn being a major beneficiary. But Mother Nature has not been very cooperative so far.

Figure 1 outlines the progress this year and shows the range over the past 31 years. The southern part of the U.S. got off to an average start on corn planting in early April. But since Tax Day, we've been falling further

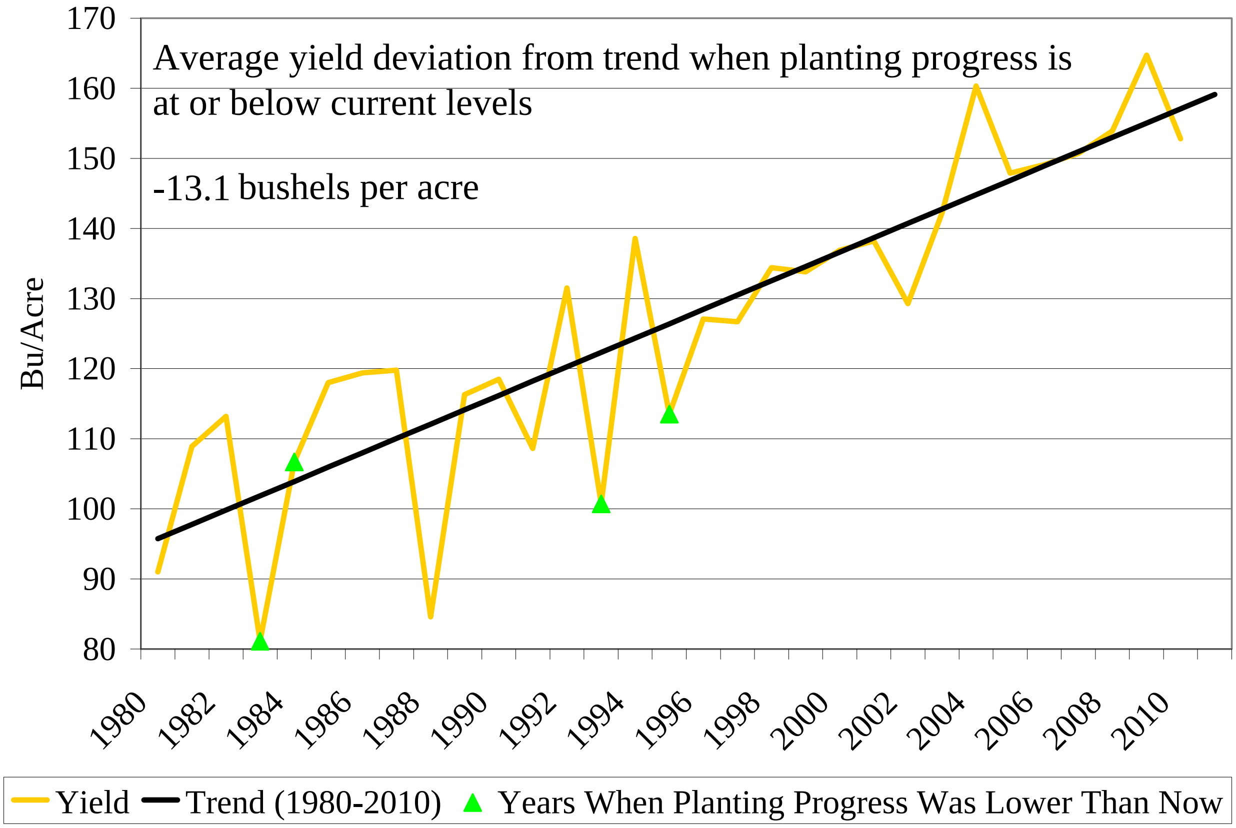
Figure 1. U.S. Corn Planting Progress (Source: USDA-NASS)



and further behind average. Storm systems inundated the western 2/3rds of the U.S., producing a record outbreak of tornadoes in the South and significant flooding along the Mississippi. Combined with cooler than average temperatures, weather conditions were such that, to paraphrase a line from Roger Elmore, ISU Extension corn agronomist, corn seed was better off in the bag than in the ground.[1] And while conditions have improved recently, soil temperatures are still below 50 degrees across parts of eastern Iowa.

Nationwide, 13 percent of the corn crop had been planted by May 1st. That is 27 percent below the 5-year average and a whopping 53 percent behind last year's record pace. The slow planting pace has the corn market on edge. Since 1980, four corn crops have had planting progress that was delayed this much or more at the first of May. Two of those crops were true disaster years, the 1983 drought year and the 1993 flood year. Another of those years was 1995 when rains delayed planting, a heat wave stressed the crop over the summer, and the season ended with an early killing freeze. But the fourth year does hold some promise for the potential of a trend line yield. The 1984 corn planting season got off slowly, but yields topped the trend that year.

Figure 2. Yield Comparisons to Trend



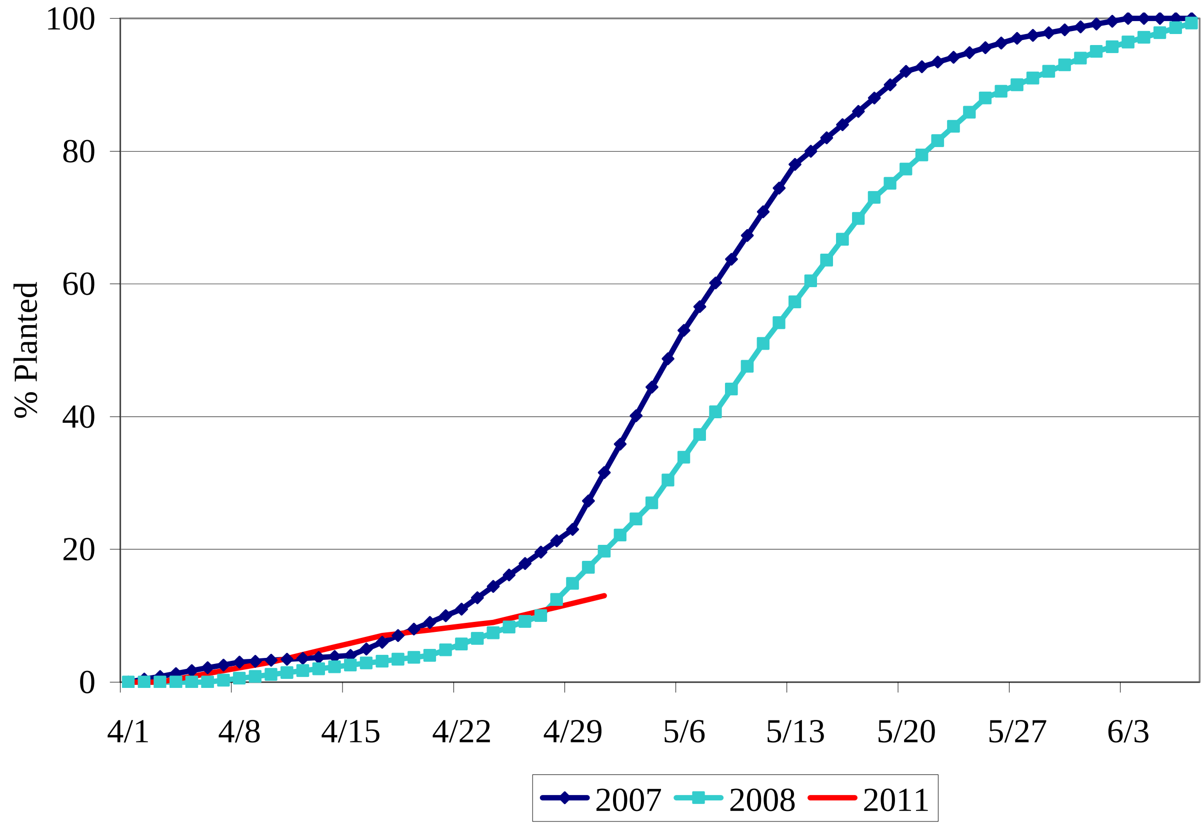
Two other years in our recent history also show that delayed plantings don't necessarily mean significant reductions in yields. The 2007 and 2008 crop years both began slowly (though not quite as slow as this year). Figure 3 compares this year's progress to them. As shown in Figure 2, both the 2007 and 2008 corn crops resulted in roughly trend-line yields. In 2007, corn plantings were slow in April, but once the calendar flipped to May quick progress was made. 30% of the crop was planted within a week, followed another 25% the next week. This shows how quickly delays can be made up. In 2008, the planting surge was not quite as dramatic, but steady gains were made throughout May. Just over 10% of the 2008 corn crop was planted after Memorial Day, so there was significant planting after the ideal window. However, if weather conditions cooperate in the later half of the growing season, early season woes don't guarantee yield reductions.

[1] Integrated Crop Management News, "Wait to Plant Corn with Forecast of Impending Cold Spell", April 12, 2011, http://www.extension.iastate.edu/CropNews/2011/0412elmore.htm

Last year, Lori Abendroth and Roger Elmore updates corn planting date recommendations for Iowa.[2] In that study, they found that the 95-100% yield window extended into mid-May for most of Iowa. The exception was northeast Iowa where reduced yield prospects start in early May. This suggests that there is still some time left for corn planting across much of the Corn Belt without significant yield reductions. Given the most recent weather patterns, the western Corn Belt has begun to catch up. But the eastern Corn Belt has not had a good open planting window yet.

The planting delay, in combination with the low stocks and still relatively strong demand, has pressured the corn market to ever higher prices. The December 2011 corn futures have gained nearly 30 cents since the beginning of April and 60 cents since March 1st. A weather premium has definitely built into the market. The delay in corn planting has also raised the possibility of more soybean acres. That has contributed to a drop in new crop soybean futures of around 50 cents per bushel. These relative price changes have extended corn's lead over soybeans in expected crop margins. Given today's crop prices, trend yields, and production costs around ISU's estimates (roughly $4 per bushel for corn and $9.45 for soybeans), corn has a $200 per acre advantage on soybeans.

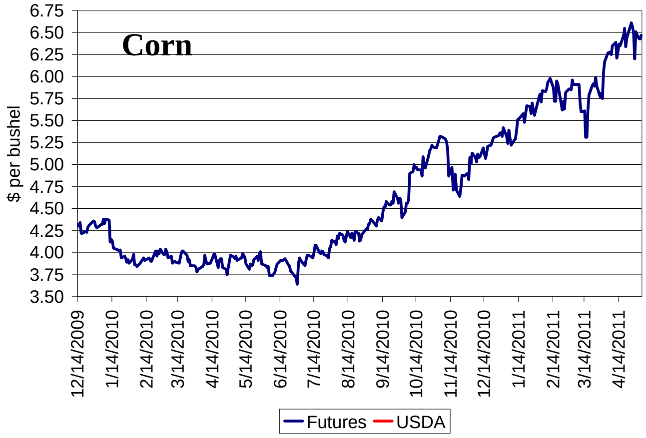
Figure 3. Recent U.S. Corn Planting Progress (Source: USDA-NASS)

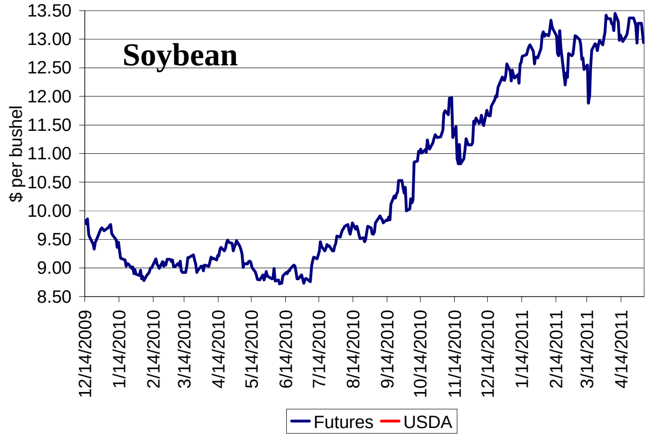


Looking at pricing over the 2011 marketing year (Sept. 1, 2011 to Aug. 31, 2012), current futures prices are showing the potential for sustained record level prices throughout the marketing year. Figure 4 shows the evolution of projections for the 2011/12 season-average prices for corn and soybeans based on futures prices. As the graphs show, the corn market has been on a fairly steady upward climb since last summer and has recently honed in on the $6.50 per bushel price range with the planting delays. Soybean prices also started their upward march last summer, but a relative plateau was reached at the beginning of the year at $13 per bushel. Both markets are offering prices well in excess of estimated production costs and have been doing that for quite some time. The 2011 crop year is shaping up to be a very profitable crop year overall, assuming we can get the crops planted.

[2] "Updated planting date recommendations for Iowa," March 8, 2010, http://www.agronext.iastate.edu/corn/production/management/planting/recommendations.html

Figure 4. Futures-based Season-average Price Projections for 2011/12





This price strength will likely weaken somewhat in the near term as we eventually plant the corn and soybean crops. However, the production from intended corn and soybean acres at trend yields was just enough to meet expected demands for the coming marketing year. So any perceived shortfall in production will have immediate impacts on the crop markets. It is somewhat strange to say given the high price levels we are already at, but there still may be more upside potential in this market than downside. A good-sized crop (above trend yield) will start the process of rebuilding stock levels and lower prices slowly; a weak crop will further strain crop stocks and force price higher to ration demand.

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