

# Iowa Farm Outlook

Department of Economics  
Ames, Iowa

June, 2011

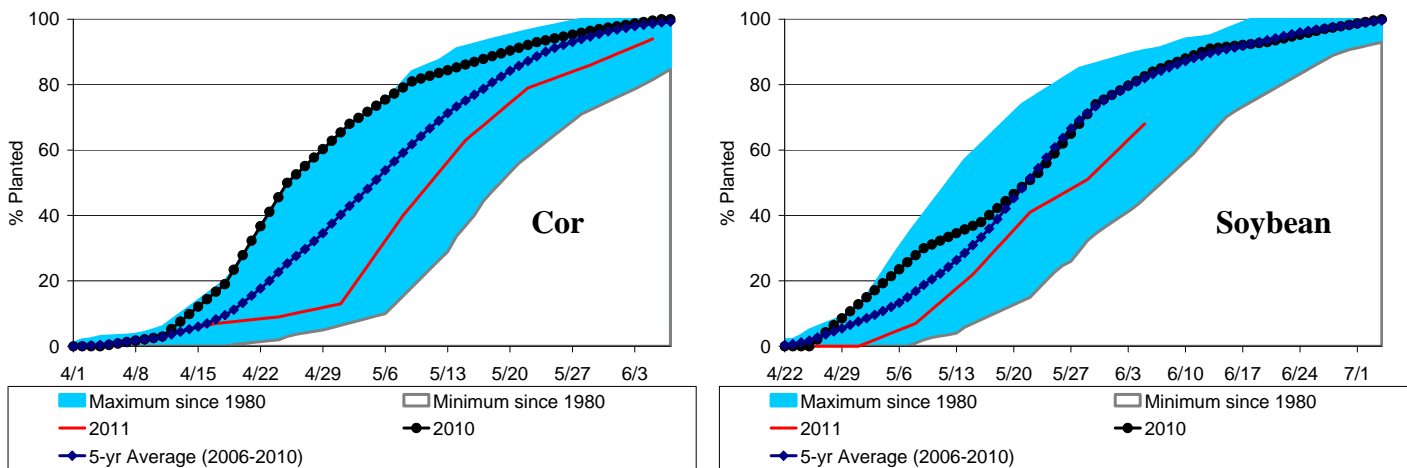
Econ. Info. 2014

## Shrinking Corn Crops and Soybean Exports

The crop updates for June showed smaller corn supplies and soybean demands. The news has the corn market back on an upward swing, while soybean prices remain relatively steady. USDA has been concerned about the lack of planting progress for corn throughout the planting season. Last month, USDA shifted its expected corn yield down 3 bushels per acre because of the slow planting. This month, USDA reduced the number of expected corn acres by 1.5 million acres. Much of this reduction is occurring in the Northern Plains and eastern Corn Belt. Wet conditions in both areas have limited field work.

Figure 1 shows the planting progress thus far for both corn and soybeans. While the western Corn Belt, including Iowa, was behind schedule in April, the area caught up in May. The delays north and east of us have held the national numbers below average for both crops. With corn planting likely wrapping up this week, the focus will shift to finishing up soybean planting.

**Figure 1. Planting Progress (Source: USDA-NASS)**



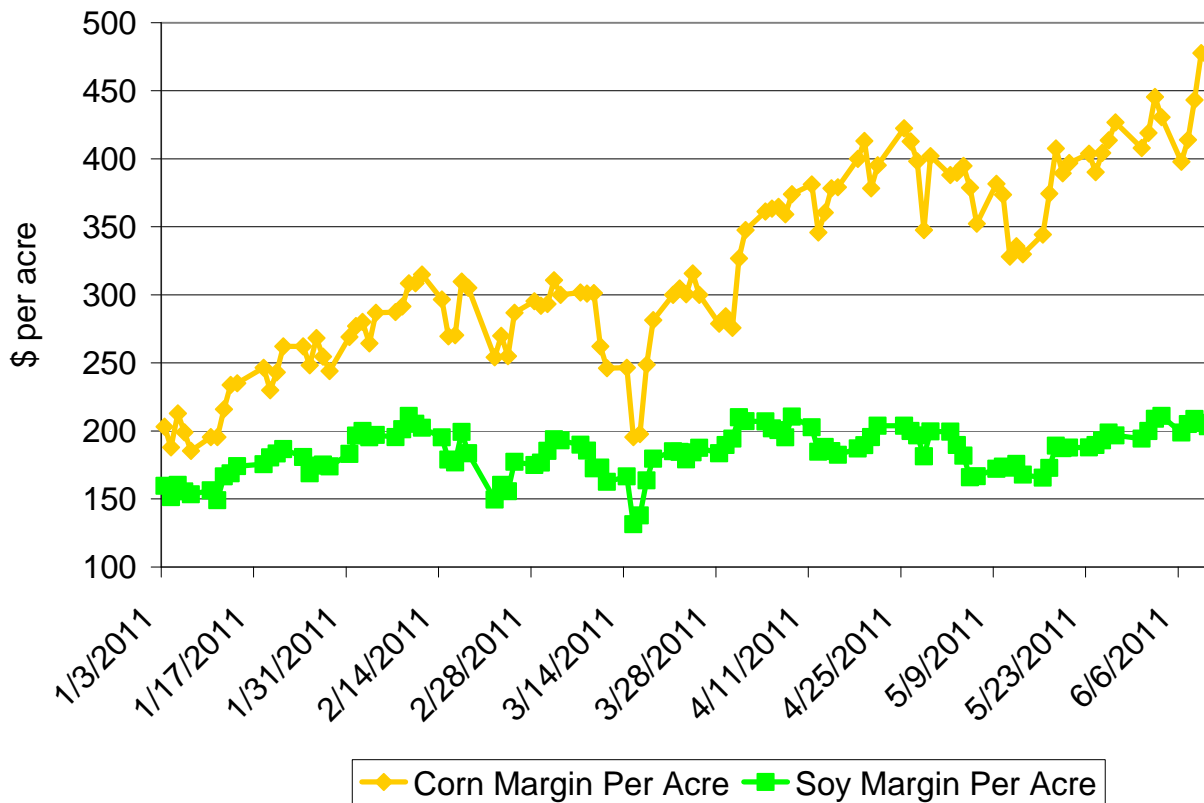
Given the price movements over the past few months, corn has held a sizable advantage over soybeans in expected returns over production costs. Figure 2 shows the numbers for Iowa. Given expected yields of 170 bushels per acre for corn and 50 bushels per acre for soybeans, the returns for both crops are strongly positive. But while soybeans are offering \$200 per acre over production costs, corn prices are showing returns of nearly \$500 per acre. While the margins in other parts of the country are not likely as high as they are for Iowa, the relative picture between corn and soybeans holds. So there has been a lot of discussion that farmers in Indiana and Ohio would be planting corn even after the planting deadline for crop insurance because the projected returns significantly favored corn. The later planting translates into reduced expected yields, but for example, in Iowa, the expected corn yields could be reduced by 50% and corn would still have a return advantage.

Delayed planting is not the only weather feature pushing corn prices higher. The wet spring and early summer have also flooded out some earlier planted crops along the Mississippi and Missouri Rivers. USDA has currently estimated that 400,000 acres of corn has been lost to flooding. This reduction in expected harvested acres also pulls down production. Compared to pre-planting estimates, the corn crop has lost over 550 million

bushels already. With the current estimate at 13.2 billion bushels of corn production, corn supplies are not quite enough to meet expected demand and ending stocks are projected to tighten even further.

The planting delays on the soybean side have not been as dramatic. And traders are trying to figure out how much intended corn area will shift to soybeans. Mother Nature has been pushing farmers towards soybeans, while prices have been pushing farmers towards corn. USDA has not adjusted the 2011 soybean crop away from trend yields and intended acreage. Thus, projected soybean production remains at 3.285 billion bushels.

**Figure 2. Crop Margins for Iowa**



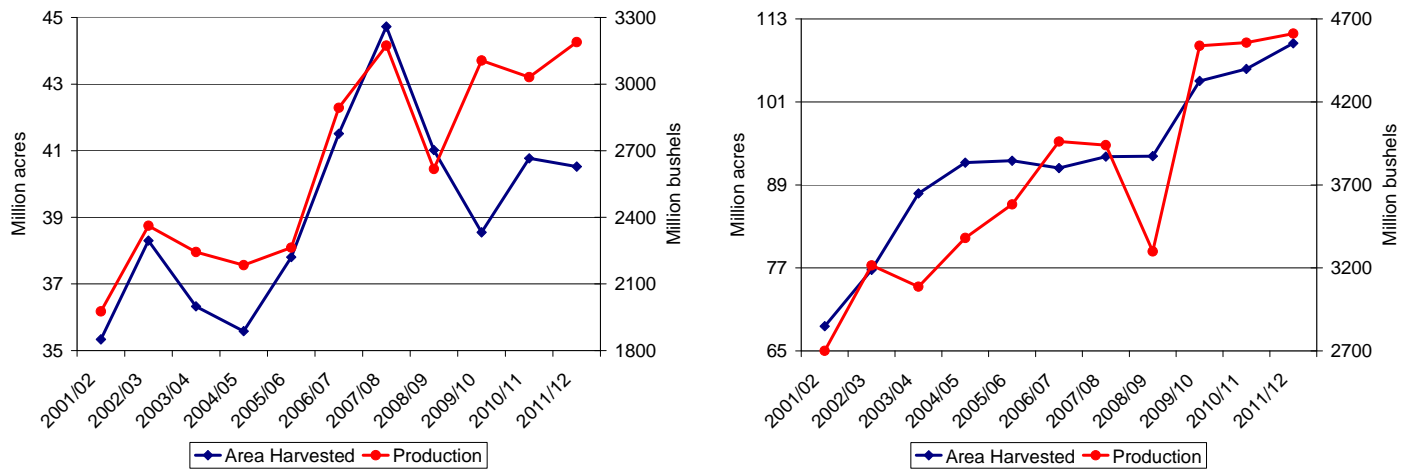
Looking at the world crop situation, the U.S. corn production loss is being partly offset by increased corn production projections in other parts of the world. China is expected to plant more area to corn and increase production significantly. As Figure 3 shows, South American countries are projected to slightly reduce corn area, but increase production as Argentina is expected to rebound from the drought on the previous crop.

Soybean area is projected to increase in South America. The increase is expected to lead to record soybean production from the continent. In China, the increase in corn acres comes at the expense of soybeans. Overall, world soybean production is projected to be down slightly from last year.

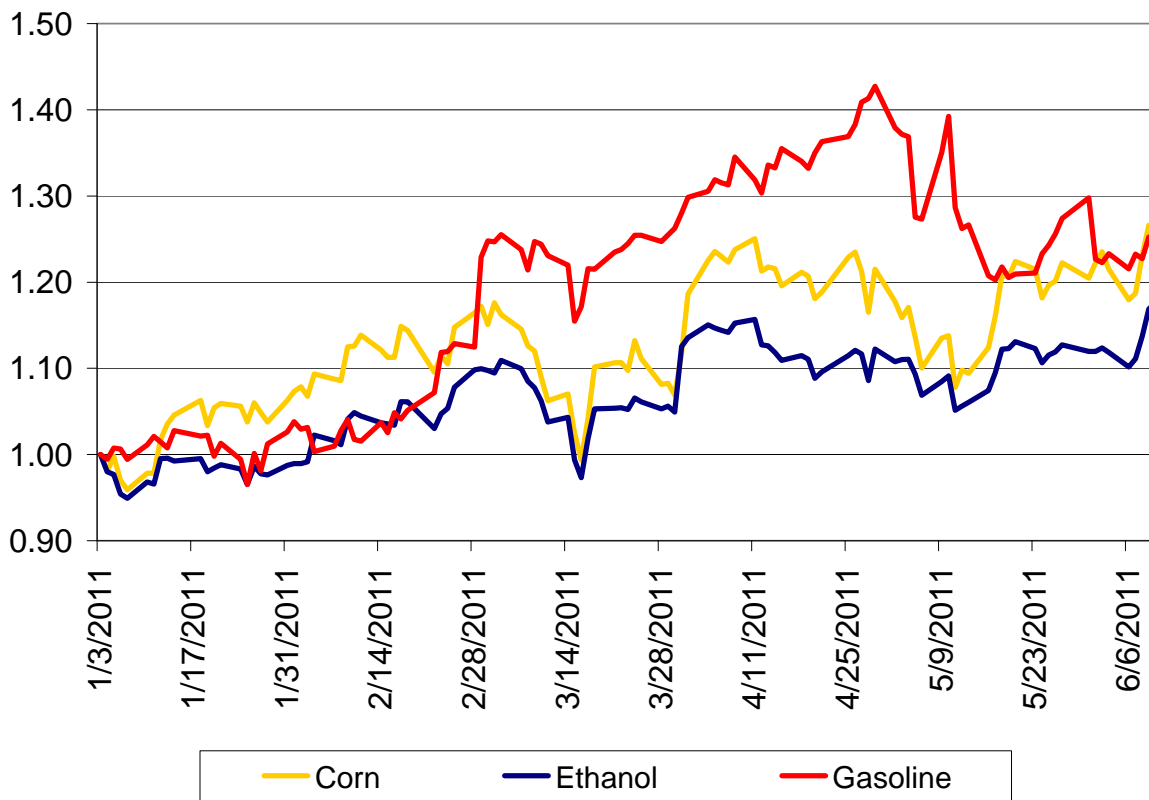
The increased crop production from South America is expected to limit U.S. crop exports for 2011/12. USDA has already moved corn exports down 100 million bushels from the previous year, to 1.8 billion bushels. With the recent adjustments for soybeans, projected soybean exports for 2011/12 are 20 million bushels below the estimate for 2010/11. Still, over 1.5 billion bushels of soybeans are projected to be shipped from U.S. ports over the coming marketing year.

With corn feed demand also trending downward, the corn market has continued to look to the ethanol market for support. Figure 4 displays price changes for corn, ethanol, and gasoline since the beginning of the year. While gasoline prices were moving strongly higher through March and April, weakness has crept into the gasoline market since then. Corn prices have worked their way up nearly 30% this year. Ethanol has lagged behind both markets and this has kept ethanol production and consumption at a healthy pace.

**Figure 3. South American Crops (Source: USDA-FAS)**



**Figure 4. Price Shifts since Jan. 3, 2011 (Jan. 3, 2011 = 1)**



Corn demand via ethanol is expected to reach 5 billion bushels for the 2010 marketing year (Sept. 1, 2010 to Aug. 31, 2011). Projections for 2011 have ethanol using an additional 50 million bushels. So ethanol's pull on the corn market continues to grow, but the pace is slowing. As it stands, the ethanol industry has grown to produce enough product to essentially meet ethanol demand and blending capacity at a 10% blend. Any additional growth will require either a change to higher blending rates, such as E-15 or E-85, or higher gasoline consumption.

So while the demand pace has finally begun to back off, it is the building supply concerns that have the markets steady or higher. USDA has moved the midpoints of their season-average price ranges for 2011/12 up for both corn and soybeans. Corn is projected to be priced at \$6.50 per bushel over the 2011 marketing year. That's up 50 cents from last month, \$1.15 per bushel above the expected 2010 marketing year price, and \$2.30 per bushel above the previous record season-average price from 2007. Soybean prices are projected to average \$14 per bushel for the 2011 marketing year. As with corn, that is significantly above historical prices and will likely set

a record. As the crop margin discussion earlier showed, both crops have prices that cover production costs and provide a sizable profit margin.

*Chad Hart*

## **Livestock Article**

The livestock article will be posted as soon as it is available. Thank you for your patience.

---

Dr. Chad Hart, Asst. Professor  
Grain Marketing Specialist  
468 Heady Hall  
Phone: (515)294-9911  
Fax: (515) 294-1700  
[chart@iastate.edu](mailto:chart@iastate.edu)  
[www.econ.iastate.edu/~chart](http://www.econ.iastate.edu/~chart)

Shane Ellis  
Extension Livestock Economist  
475 Heady Hall  
Phone: (515) 294-8030  
Fax: (515) 294-1700  
[shanee@iastate.edu](mailto:shanee@iastate.edu)  
[www.econ.iastate.edu/prosci/ellis](http://www.econ.iastate.edu/prosci/ellis)

---

David Swenson  
Economist  
177 Heady Hall  
Phone: (515) 294-7458  
Fax: (515) 294-4545  
[dswenson@iastate.edu](mailto:dswenson@iastate.edu)  
[www.econ.iastate.edu/prosci/swenson/swensonpage.htm](http://www.econ.iastate.edu/prosci/swenson/swensonpage.htm)

Liesl Eathington  
Economist  
175 Heady Hall  
Phone: (515) 294-2954  
[leathing@iastate.edu](mailto:leathing@iastate.edu)

---

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write USDA, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.