

Iowa Farm Outlook

Department of Economics
Ames, Iowa

October, 2011

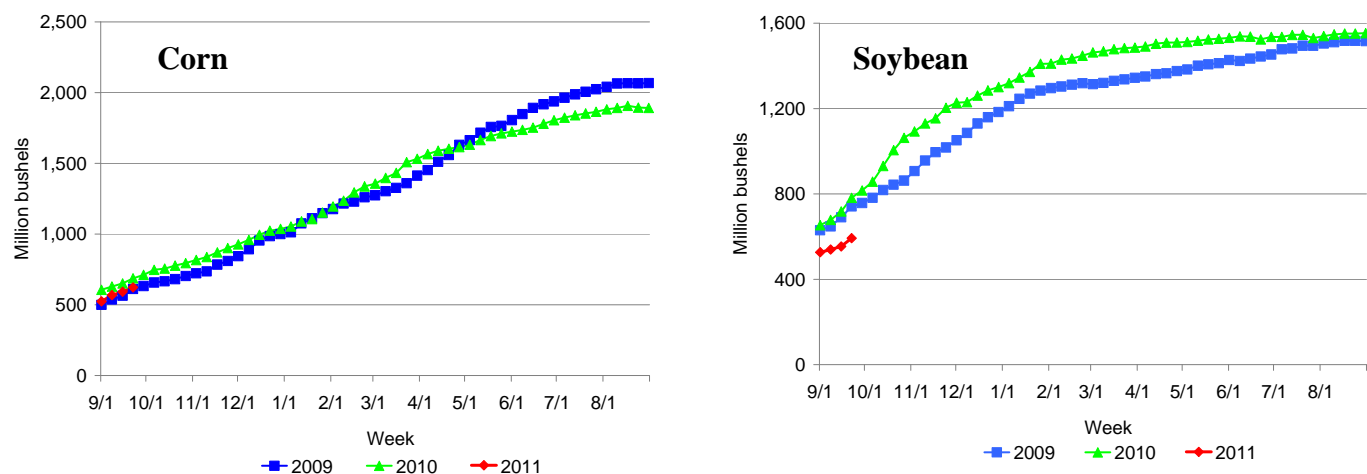
Econ. Info. 2018

The Crop Price Slide Continues

Between the worries about the short-term global economic prospects and anecdotal reports of better-than-expected crop yields, the crop markets have been on a downward slide as of late. The latest USDA report on grain stocks added fuel to that slide. Old crop corn stocks were roughly 150 million bushels above trade expectations, at 1.13 billion bushels. This is well below last year's level, but it is 210 million bushels above USDA's previous estimate. The high prices throughout the summer have impacted corn demand. Corn disappearance over the last quarter was down 2.3% compared to last year. The soybean stock levels have the opposite story, being below recent expectations, but well above last year's level. The current estimate put soybean stocks at 215 million bushels. Soybean disappearance in the last quarter was down 4% from a year earlier.

One area where we have seen the demand slide is exports. Figure 1 shows the export data for the 1st four weeks of the 2011 marketing year for corn and soybeans. For comparison, the graphs also include the export data for the 2009 and 2010 marketing years. Currently, corn exports are down 9.4% from last year, while soybean exports are off 24.3%. Both crops saw export sales start to back off last spring. That reduction in demand has continued through the summer and is still in effect. On the corn side, most of the major corn importers have reduced their purchases thus far. Mexico and China are the only major players that have purchased more corn at this point in the crop year, compared to last year. Japan, South Korea, Taiwan, and Egypt have all pulled back demand by more than 10%. Meanwhile, the export pullback for soybeans is even more widespread. All of the major markets are behind last year's export pace. Chinese demand is down nearly 10%, accompanying double digit drops in the European Union, Japan, Taiwan, and Indonesia.

Figure 1. Export Sales (Source: USDA-FAS)

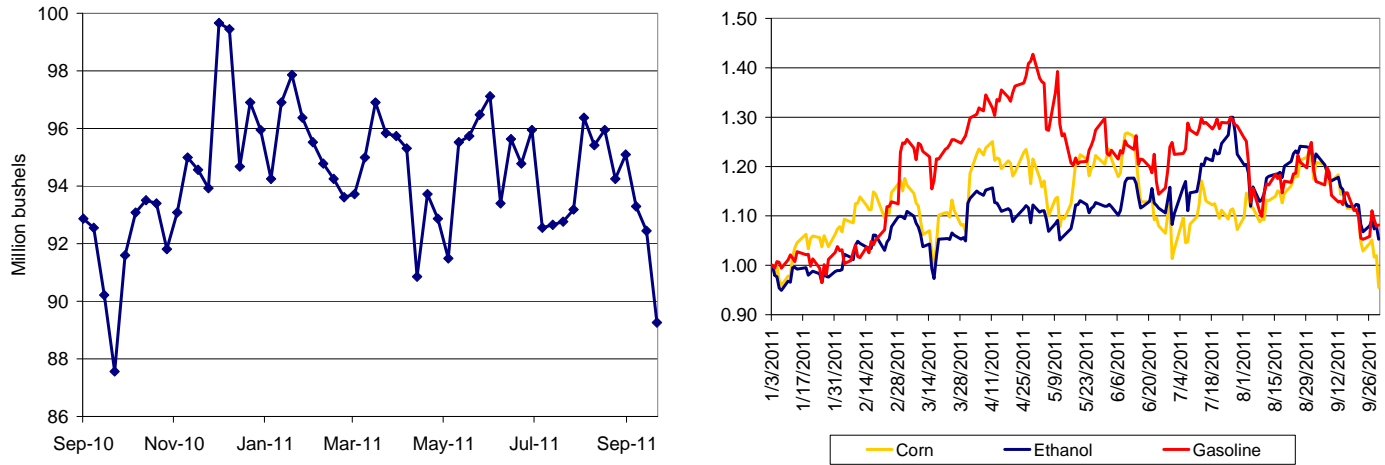


Some of this export loss is due to factors beyond crop prices. For example, last year's drought in Russia and Ukraine severely limited wheat production (and exports). Countries, such as Egypt that rely heavily on feed wheat, were on the lookout for feed grains to fill in the gap last year. U.S. helped fill that gap. But with the return of a more normal wheat harvest from the Black Sea area, wheat is retaking that export niche. However, the recent drop in prices could spur a rebound on the export markets. As we have seen a couple of times this calendar year, China has been willing to dive into the crop markets on the downward price swings. On this

latest swing, corn and soybean prices have fallen by over \$2 per bushel over the past month. So we'll see if other countries see this latest downturn as a buying opportunity.

Corn demand via ethanol has also slowed this year. Over the past few years, ethanol has provided a strongly increasing outlet for U.S. corn. But with the start of the 2011 calendar year, that corn demand has been rather flat. The left half of Figure 2 shows the weekly corn grind for ethanol production. The high point was back in December 2010, with nearly 100 million bushels of corn ground for ethanol conversion in a week. Since then, the industry has averaged about 95 million bushels of corn each week. In fact, if you put a trend line on the corn grind for 2011, it would be declining. Last week's big drop in the corn grind corresponds to a similar drop last year. Several plants back off on ethanol production during late September to perform plant maintenance.

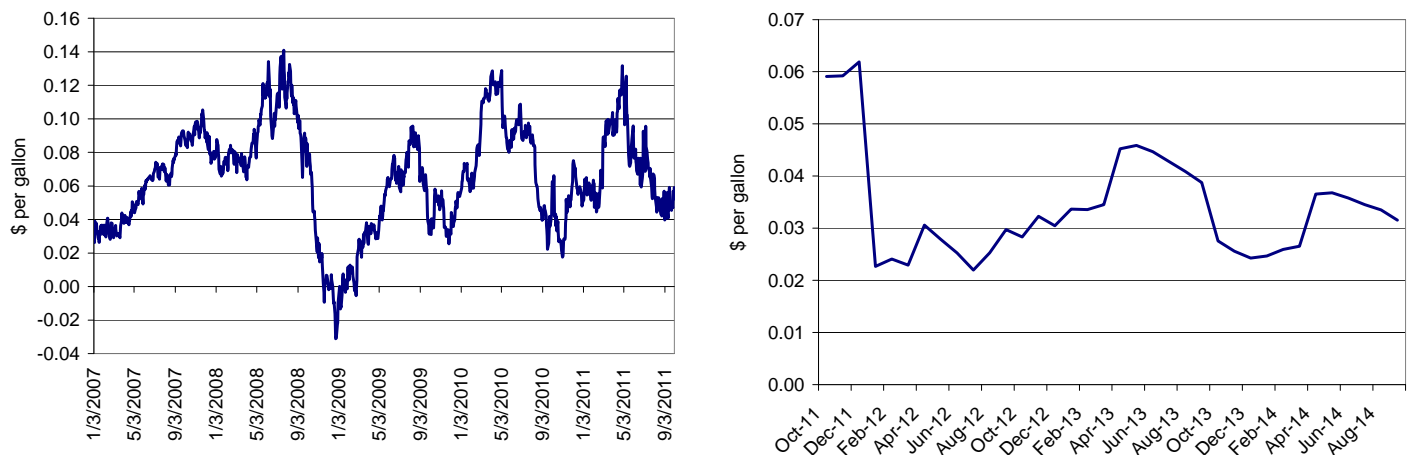
Figure 2. Corn Grind for Ethanol and Price Shifts since Jan. 3, 2011 (Jan. 3, 2011 = 1)



The right side of Figure 2 shows price movements for corn, ethanol, and gasoline during 2011. Gasoline had a strong price run-up in the first half of the year, but has been retreating since. Ethanol prices stayed behind gasoline most of the year and enjoyed a longer run-up, lasting through July. But both gasoline and ethanol took a hit in early August and have continued to drop in September. Starting with the August fuel price drop, corn prices have moved fairly consistently with ethanol and gasoline.

The collapse of the gap between ethanol and gasoline prices put the squeeze on fuel blenders. Figure 3 displays the blending advantage for ethanol at the wholesale level. As can be seen, ethanol blending offered some significant returns in the 1st half of 2011. But those returns have been declining. Over the last month, the advantage has hovered around 4 to 5 cents per gallon. That is approximately the amount of the ethanol tax credit (4.5 cents per gallon of E-10 or 45 cents per gallon of ethanol). The right side of Figure 3 shows the

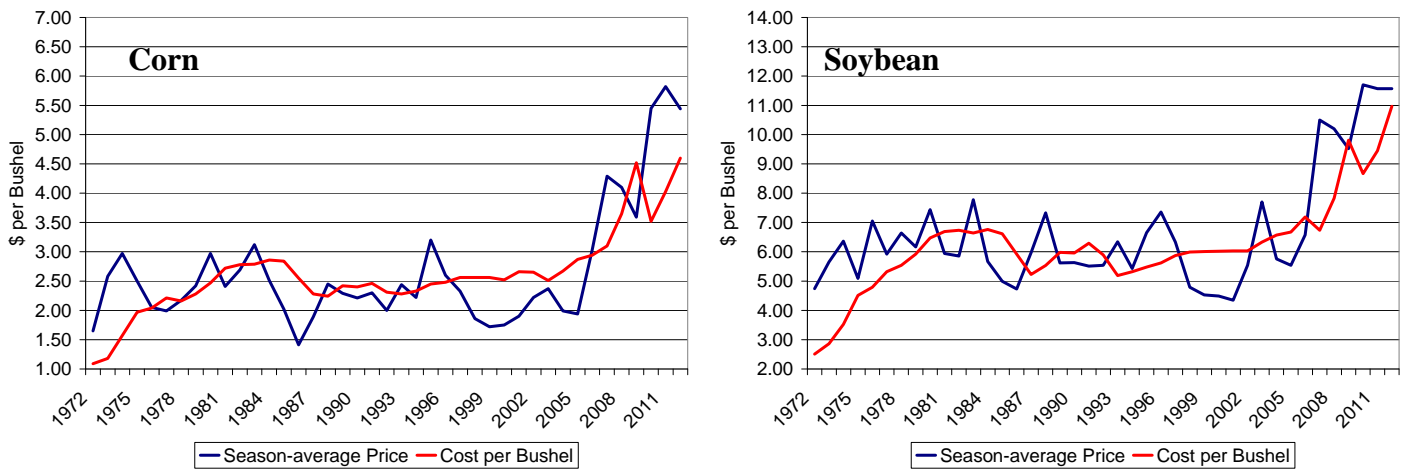
Figure 3. Blending Advantage for Ethanol



projected blending advantage based on futures prices at the end of September. The expiration of the tax credit takes a bite out of the advantage, but the ethanol blending advantage remains positive over the next year.

The downward price spiral has narrowed crop margins, but margins are still at good levels. Earlier in the year, futures pointed to 2011/12 season-average prices of \$7.50 for corn and \$14.00 for soybeans. Now, the futures indicate those prices in the \$5.80 range for corn and \$11.50 range for soybeans. Looking out to the 2012/13 marketing year, futures still show positive margins for both crops, but the gap is closing. General economic concerns and demand loss have dragged the market lower. But if this year's crops, especially corn, continue to get smaller, we could see a partial price rebound.

Figure 4. Season-average Price vs. Production Cost



Chad Hart

The Uphill Battle for Job Growth in Rural Iowa

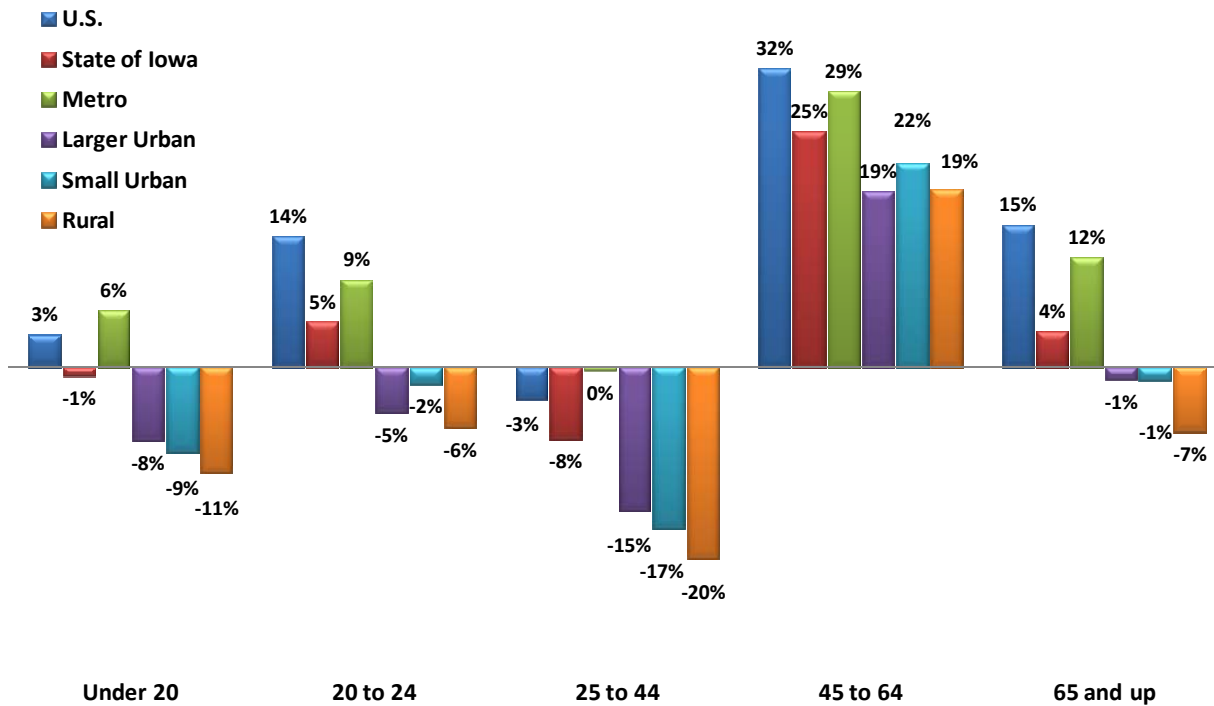
Two-thirds of Iowa's counties lost population between 2000 and 2010. While there are a multitude of efforts working to reverse those losses and stabilize rural economies and rural communities, most of those efforts have not been successful. One of the most important reasons for rural area stagnation isn't that rural areas are losing population in general, it is because they are losing a particular and important component of their population base, their young and potentially most productive adults.

At the outset it is important to define what we mean by rural. Metropolitan areas have a central city of at least 50,000, and metropolitan areas include their host counties plus counties that have a high dependence on the core metropolitan city for employment. Many people consider all non-metropolitan areas as rural, but that is too simplistic. We have larger urban areas, counties with urban populations from 20,000 to 49,999 people. We have smaller urban areas with urban populations from 10,000 to 19,999 people. These urban areas are important area trade and employment centers, and the locus of a wide array of higher level regional services. Last, we have our more rural counties, those without a central city greater than 10,000 persons. Using these classifications, we have three sub-metropolitan designations that allow us to group county performance and infer the magnitudes of urban economic activity taking place in those groups.

Figure 1 explains population changes by selected age groups controlling for Iowa's levels of urbanization. It also compares those changes to the state as a whole and to the nation. The age groups are important. The under 20 group represents the state's youth population, those whom we have a special obligation to care for and those from whom we expect great things in the future. Persons 20 to 24 are young adults in transition. Adults 25 to 44 are the most important demographic group to any economy, and more will be mentioned about them shortly. The 45 to 64 group represents the Baby Boom generation. And those 65 and up are Iowa's elderly population.

Figure 1

Iowa Population Changes in Key Age Groups, 2000 to 2010



For any economy to grow, it needs a good supply of young adults, ages 25 to 44. This population contains a wide array of workers with varying levels of skills and education, and it is the productivity gains this population realizes during their young working years that generally fuels region-wide economic growth.

The national population of adults ages 25 to 44 actually declined slightly over the last decade. This was due to a sharp reduction in births in the U.S. between 1969 and 1973, and then a flattening of the birthrate on into the early 1980s. The state of Iowa saw this population decline by 8 percent. Its metropolitan counties fared better than the U.S. by holding steady. As we move out of the metropolitan areas, however, the losses in this key age group are more pronounced. In descending order of urbanization, the losses grow to 15 percent in the large urban areas, 17 percent in the small urban areas, and 20 percent in the most rural areas.

This in and of itself explains the significant difficulty faced by rural economic development professionals. Their most valuable workforce is migrating first to larger cities and metropolitan areas, and then, if necessary, out of state. Those workers migrate because the local economies cannot use their skills, cannot pay them enough for their skills, or because there has been a clear decline in demand for their skills – the writing is on the wall.

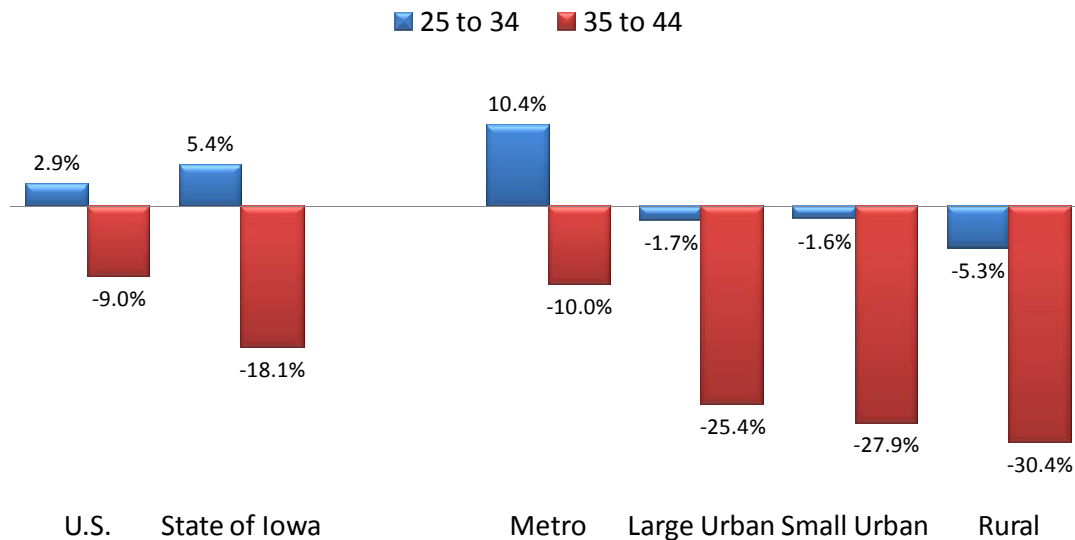
But there is more: the change in the under 20 population reveals an even more troubling outcome. There is an “echo” to the young adult losses that takes with them, their children and the children they would have had. Rural areas lose their key workforce plus a large fraction of the generation that would succeed them.

Some will point out that the strong gains evidenced in Baby Boomers might offset those losses, and in part that is true. But baby boomers in general have reached their peak productivity sometime in their 50s. One cannot look to that population to be the source of labor based productivity gains. That very large group of adults will see their collective economic output decline as it ages and eases into retirement, and without a sufficient pool of young adults replacing them, a region’s productivity must by definition decline as well.

Figure 2 provides a little more clarification of the young adult population decline. It controls for those ages 25 to 34 and those ages 35 to 44, as well the urban level. We can see there are striking differences between the two groups. Iowa actually fares better than the nation in its growth of 25 to 34 year old residents, and metropolitan areas grew by nearly twice as much as the state. All of the non-metropolitan areas, in contrast, declined, though the magnitude of decline is comparatively small.

Figure 2

Percentage Change in Young Adults, 2000 to 2010, by Level of Urbanization



The most potent losses, however, are among those ages 35 to 44. While the aforementioned birth rate collapse reduced this group by 9 percent nationally, Iowa’s decline was 18 percent – twice as much. And while losses in the metropolitan areas were similar to the national average, the losses in the non-metropolitan counties were two and a half to more than three times greater.

For Iowa as a whole and for its rural areas in particular, these losses are serious and amount to much more than numerical erosions. Young adults, ages 35 to 44, represent the ages where workers reach their greatest levels of creativity and productivity. They are also stabilizing elements of communities as large fractions of them have settled down, started families, and purchased homes by that time. These young adults are civic, community, and cultural leaders. They are the vibrant core of a healthy community and social structure.

And in the case of rural Iowa, those young adults are exercising those virtues elsewhere.

Dave Swenson

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

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

David Swenson
Economist
177 Heady Hall
Phone: (515) 294-7458
Fax: (515) 294-4545

dswenson@iastate.edu

www.econ.iastate.edu/prosci/swenson/swensonpage.htm

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

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