

Iowa Farm Outlook

Department of Economics
Ames, Iowa

April, 2012

Econ. Info. 2024

March 2012 Hog and Pig Report Summary

March 30 was a very busy day for USDA reports with a crop plantings report and a hog and pig report released on the same day. Most analysts were expecting the hog inventories to be up slightly from a year ago with the evidence that a controlled expansion continues in the industry. Those expectations were more than satisfied as hog numbers started to rise with the report of a 1.9 percent increase in market hog numbers and slightly more than half of a percent increase in breeding swine numbers. Nationally there are 64 million head of swine of which 5.8 million head are for breeding and 59 million head destined for market. The table below summarizes the report of swine inventories nationally and in Iowa.

Table 1. March 2012 Hog and Pig Inventories

	US		Iowa	
	Million Head	% chg	Million Head	% chg
All Hogs and Pigs	64.87	1.9%	18.90	4.2%
Breeding Swine	5.82	0.6%	1.03	-1.9%
Market Swine	59.05	2.0%	17.87	4.6%
under 50 lbs.	19.33	2.5%	4.63	8.0%
50-119 lbs.	16.46	2.5%	5.63	3.9%
120-179 lbs.	12.57	1.7%	4.49	1.1%
180 lbs and over	10.70	0.8%	3.12	5.8%
Sow Farrowing Intentions				
Mar-May	2.89	-0.9%	0.49	0.0%
Jun-Aug	2.88	-1.6%	0.49	-2.0%
Pig Crop				
Dec-Feb	28.68	2.9%	4.70	5.1%
Litter Size	Head		Head	
Dec-Feb	9.97	1.7%	10.30	5.1%

Iowa market swine numbers increased by a considerable 4.6 percent while the state's breeding numbers declined by almost 2 percent. There are now 17.9 million head of market hogs in the state. Importation of feeder pigs from other states continues to increase as Iowa maintains its status as the location with the lowest cost of grow-finish weight gain. The state's sow inventory continues to decline as the advantages of using resources to grow and finish hogs outweigh those of farrowing sows.

Pork production is expected to up almost 2 percent during the year. Market hog numbers are up 2 percent and lean hog carcass weights have been very consistent with those of a year ago. The current inventory of light weight market hogs will result in a notable increase in pork supplies during the late spring and summer months. Farrowing intentions are down for the second and third quarters of this year. So while the number of litters will be down during the middle half of the year, the continued increase in litter size is expected to offset a portion of that decline in farrowings. While in February expectations were that hog prices would be robustly stronger than a year ago, producers may have already seen tight enough margins and a decline in consumer confidence to tail back on their farrowing intentions for the next couple quarters. That may turn out to be adventitious to the market, as futures prices for lean hogs began slide lower throughout March on declining beef prices and softer red meat demand. Table 2 contains a summary of the expected percent change in pork supplies and the

forecasted lean hog price in the next four quarters. Compared to the forecasted prices from the ISU forecasting model the futures market was perhaps a little bearish for the rest of the year.

Table 2. Pork Supply and Price Forecasts

	Change in supply	ISU model forecast Lean hog price	Futures close on 3/30 adjusted w/ Iowa basis
2 nd quarter 2012	1.5 %	\$89-92	\$88.02
3 rd quarter 2012	2.5 %	\$89-92	\$89.36
4 th quarter 2012	2.0 %	\$80-83	\$80.12
1 st quarter 2013	0.8 %	\$83-86	\$80.51

Shane Ellis

Dairy Outlook

Milk price is driven by simple economics of supply and demand. United States milk supply continues to increase over time with increased milk output per cow and an expanding cow herd. Demand outlook for dairy products in 2012 is not favorable due to increased global milk supply and minimal growth in national demand. Producer profit margin outlook is marginal for 2012 due to suppressed milk prices and feed commodity markets remaining strong.

Milk Supply

Favorable weather at the start of 2012 has attributed to increased milk production. Rolling annual milk production is up 2.34 percent at the end of February at 198 billion pounds. Rolling herd average at the end of February is at 21,497, up from 21,335 at the end of 2011.

The total number of milk cows in the U.S. is just under 9.25 million cows in February 2011, up 29 thousand cows from the end of 2011. The U.S. milk cow herd has maintained stable growth at or just less than one percent so far in 2012. However, in the past year the industry has a large replacement heifer inventory and stable percentage of cows leaving the herd. These two factors along with increase in milk production could lead to further increase in total milk production and potentially an oversupply of milk into the market.

Iowa milk production continues to increase per cow on a rolling annual basis; production increased 675 pounds per cow when comparing annual production at the end of February. When looking at the increase of milk production per cow among the 23 dairy states, Iowa continues to be a leader behind Texas. The number of cows in Iowa has increased by two thousand head since December 2011 to 205,000.

Young milk cow herd, strong heifer inventory, and favorable weather conditions could continue to increase U.S. milk production from 2011. However, feed availability and quality, favorable beef prices, and tightening margins could cause production and cow inventory growth to slow in the coming year.

Milk Product Demand

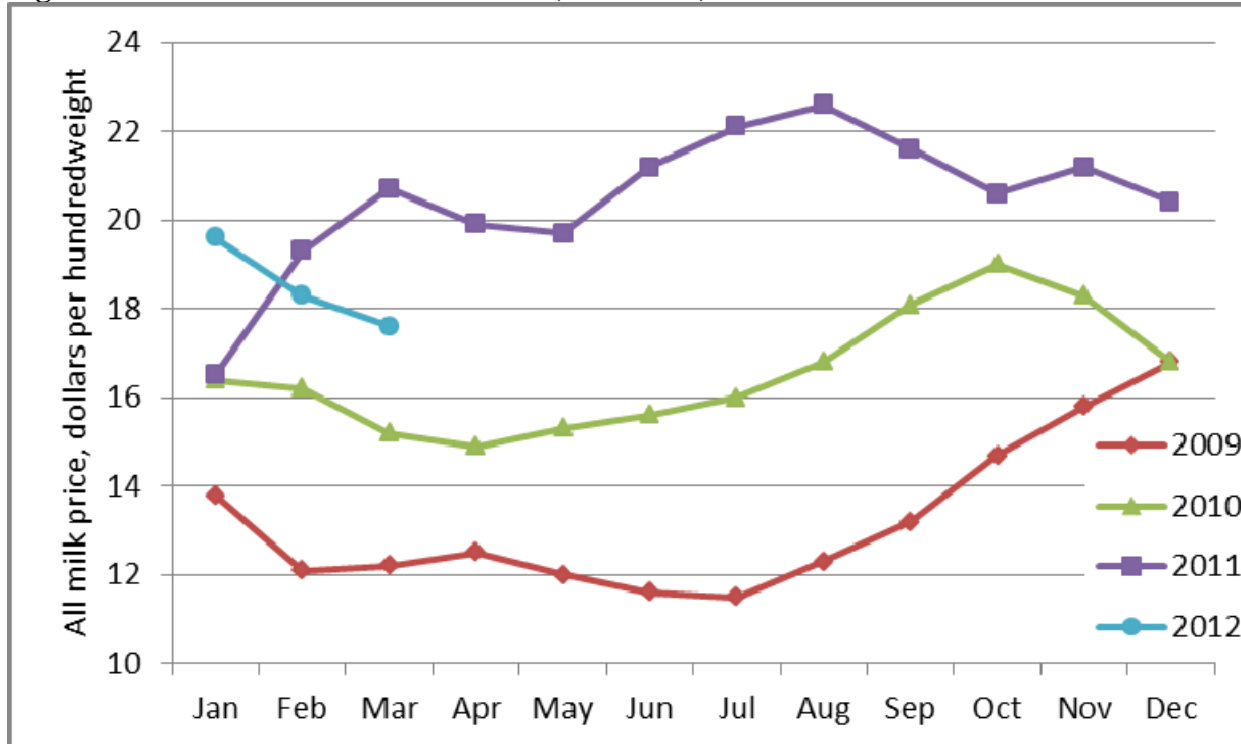
Export sales helped to drive dairy product demand in 2011. Mexico was a key player in the dairy export industry as they were the leading export market for U.S. dairy products, purchasing over a billion dollars of milk powder, cheese, and ice cream among other products. Total exports equaled \$4.82 billion in export product; total export products are equivalent to over 13 percent of the milk solids at the farm level. In the early months of 2012, global dairy product prices have subsided 10-20 percent from the peak price a year ago. A growing global supply, increasing stocks in storage, and existing insecurities in the global market have contributed to the declining product prices. The assistance through the Cooperatives Working Together (CWT) program will allow suppliers to be more competitive in pricing on the global market. Continued growth of demand in southeast Asia and developing countries through increased population entering the middle class and

product development to meet the specified needs would allow for supply and demand to align at a competitive price.

Dairy Profitability

The U.S. All Milk Price for March was \$17.40 per hundredweight, down from \$19.00 at the start of the year. Iowa producers saw an additional \$0.20 on All Milk Price at \$17.60 in March. Iowa producers typically see about a \$2.00 positive basis between All Milk Price and Announced Milk Price, based on CME closing futures price. Figure 1 below displays the All Milk Price for producers in Iowa from 2009 forward on a monthly basis.

Figure 1 Historical Iowa All Milk Price (2009-2012)



Milk prices have continued to subside on the futures market with milk prices dipping into the high \$15 range in the near months and in the \$16 range at the end of 2012 and into 2013. Although milk prices may settle at levels close to 2010, continued strength in the feed commodity markets are creating tighter margins for producers in 2012. Producers in the Midwest or ones that produce their own feed may have an advantage due to decreased market risk on the feed input side.

Evaluating risk management strategies, herd inventory through cull cow and heifer retainment decisions, and growing or purchasing feed decisions are important in the coming months to maintain financial viability in 2012.

Kristen Schulte

Another Volatile Price Day After the USDA Reports

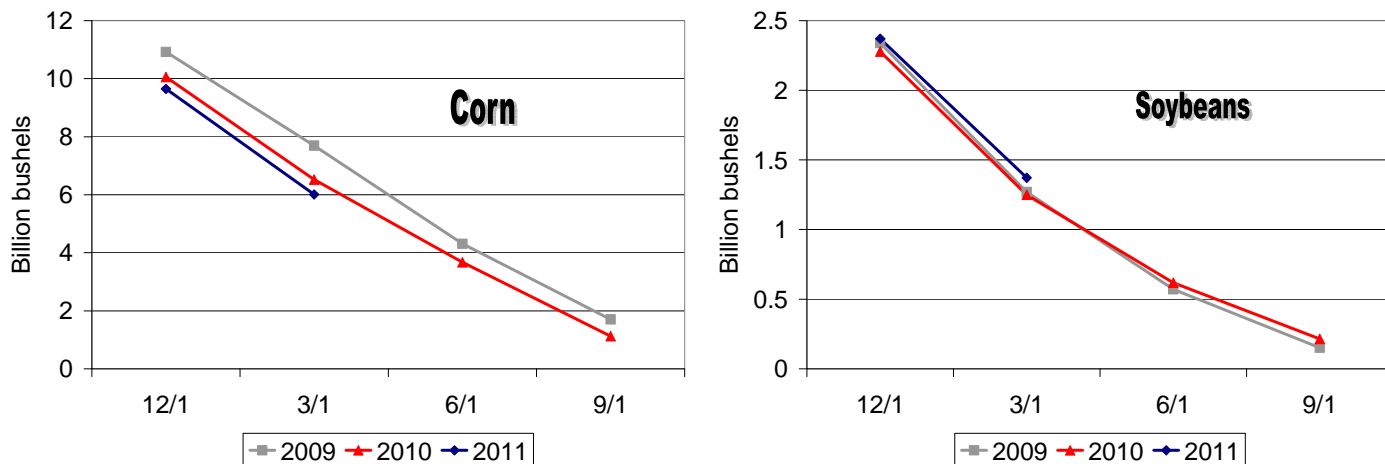
It seems like every time USDA released a corn or soybean report over the past few years the market reaction has been frantic. Futures prices have shifted substantially, sometimes to their limits. The USDA reports recently released at the end of this March continued that trend. The market reaction was swift. But this time, it was favorable for Iowa's crop producers.

Grain Stocks

Corn stocks on March 1, 2012 are computed at 6.01 billion bushels. This is down 8 percent from last year and below trade expectations. The trade was expecting around 6.15 billion bushels. The reported stocks for March are the lowest we have had since 2004. The continuing tightness in corn stocks helped old crop corn to a limit up day after the report release. Corn disappearance from Dec. 1, 2011 implies 3.64 billion bushels were used during the quarter, that's up 3% from last year. The corn grind for ethanol remained strong after the loss of the blenders tax credit. Based on ethanol production from Dec. 2011 to March 2012, corn use for ethanol was roughly 3.5% higher this year.

Soybean stocks on March 1, 2012 are estimated at 1.37 billion bushels, up 10 percent from last year, but roughly in line with trade expectations. Quarterly soybean usage is estimated at 1.00 billion bushels, down 3 percent from last year. As Figure 1 shows, while corn stocks have worked their way tighter over the past two years, soybean stock levels are starting to build. But this building may be short lived. Soybean exports for the 2011 crop have been sizably lower than for the 2009 and 2010 crops. The reduction in exports has allowed stocks to build. But the outlook for 2012 is for exports to rebound to the 2009 and 2010 levels and stock levels to remain tight.

Figure 1. Corn and Soybean Stock Levels for the 2009-2011 Crop Years

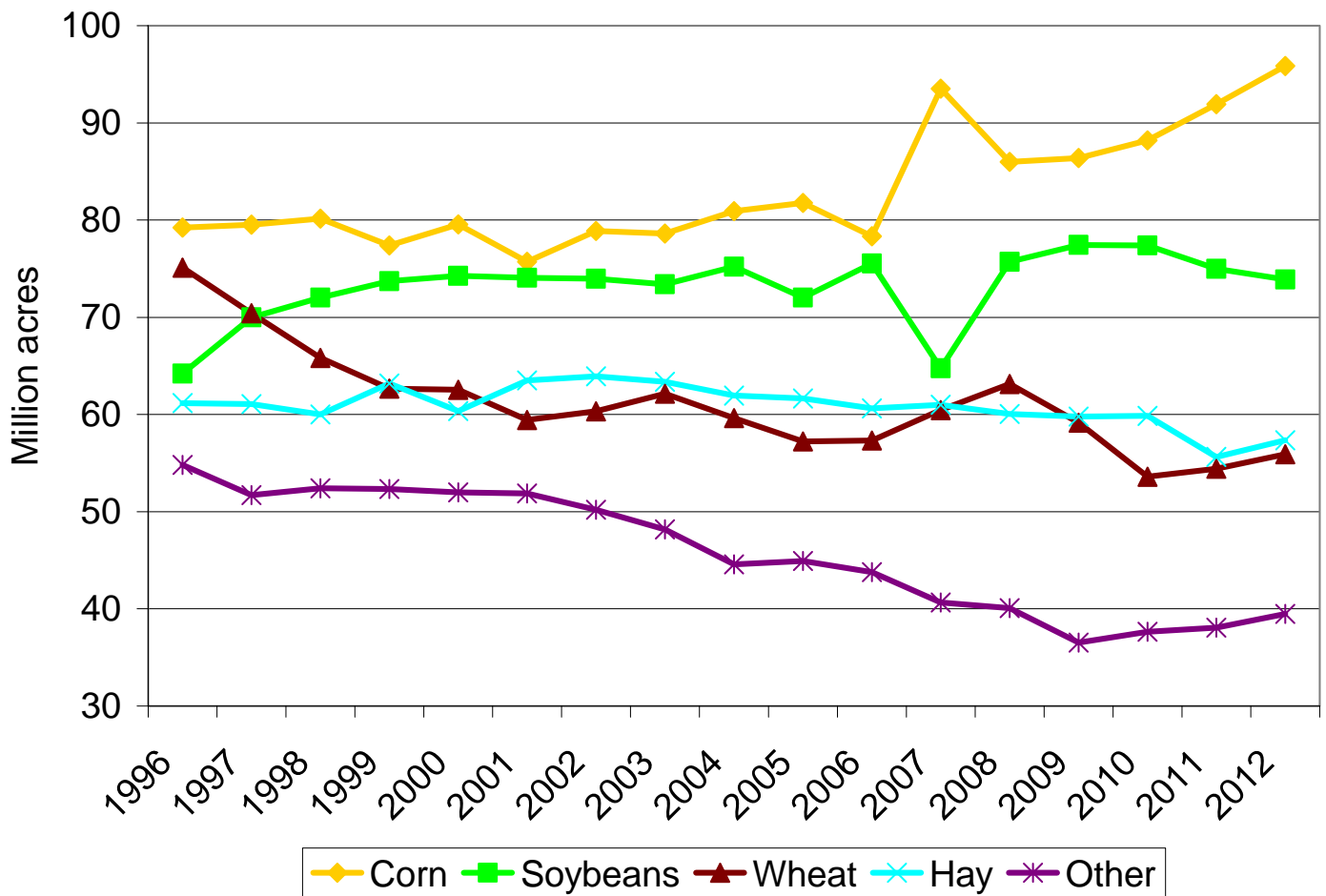


Prospective Planting

Last year's Prospective Plantings report matched up well with pre-trade expectations. This year's report did not. Based on the numbers in the report, there is a lot of land coming back into crop production and acreage is shifting among the crops. Corn was the big gainer, but several other crops also gained ground. In total, 7.5 million acres are being brought back into production. Over the last decade, only in 2003 and 2008 did we plant more acreage. North Dakota farmers are planning to catch for lost time as they plan to plant 4.1 million acres more than last year. Texas, Oklahoma, Montana, Minnesota, and Kansas are all projected to increase by at least 400,000 acres. Overall, 31 of the lower 48 states are projected to have increased crop area.

Corn plantings are expected to increase 3.94 million acres, the largest increase of any crop. But other crops are gaining as well. Hay acreage is up 1.7 million acres; winter wheat is up 1.06 million; durum wheat is up 0.85 million; and dry beans, sorghum, and canola are all up by over 400,000 acres. While some of this acreage is coming from prevented planting from last year, there are some crops that are losing land. Cotton looks to have the largest drop in planting, with a decrease of 1.58 million acres. Soybean area is declining by 1.07 million and spring wheat is dropping 418,000 acres.

Figure 2. Crop Acreage Shifts Since 1996



With nearly 96 million acres intended for corn, several states are projected to have record corn plantings, including Iowa, Minnesota, and North Dakota. In fact, corn acreage in North Dakota is projected to jump by over 1 million acres. Minnesota corn acreage is increasing by 600,000 acres, while Iowa, Nebraska, and Ohio corn area will rise by at least 400,000 acres each. Only 9 states are projected to plant less corn, with the most notable cuts in Illinois (down 100,000) and Kansas (down 200,000). For soybeans, while overall acreage is down, there are three states that plan to have record acreage, North Dakota, New York and Pennsylvania. The largest increases in soybean area are in the Dakotas. Illinois will also increase soybean area, directly offsetting the drop in corn area. The largest decline in soybean area is projected in Iowa.

With 95.9 million acres of corn and 73.9 million acres of soybeans, we are looking at another set of large crops. Using the 20-year average harvest ratio and an USDA yield estimate from the February Ag. Outlook Forum for each crop, this would lead to a projected 2012 soybean crop of 3.189 billion bushels and a projected 2012 corn crop of 14.296 billion bushels. That would result in the 4th largest soybean crop on record and the largest corn crop by over 1 billion bushels. The acreage numbers from the Prospective Plantings will serve as the official USDA numbers until the June acreage report.

Market Reaction

The market reaction to these reports was positive despite the large corn acreage number. With tighter corn stocks and lower soybean area, the bulls were out in force after the reports. Corn and soybean futures increased significantly for both old and new crops. For the 2011 crops, USDA has projected season-average prices of \$6.20 per bushel for corn and \$12 per bushel for soybeans. Before the reports, futures had indicated season-average prices of \$5.88 for corn and \$12.19 for soybeans. After the reports, those prices shifted to \$5.99 and \$12.32, respectively. And since the nearby corn futures were limit up after the reports, there is still some room for prices to grow.

For the 2012 crops, USDA released unofficial season-average price estimates at their Ag Outlook Forum in February. Those were \$5 per bushel for corn and \$11.50 per bushel for soybeans. Those price projections were based on 94 million acres of corn and 75 million acres of soybeans. Before the reports, futures had outlined 2012 season-average prices of \$5.08 for corn and \$12.48 for soybeans. So the futures markets already had a premium compared to USDA's early estimate. After the reports, the futures-based season-average price estimates rose to \$5.24 for corn and \$12.93 for soybeans. There has been some trade talk that soybeans could buy back some acreage. In mid-March, based on trend yields and ISU Extension production costs, corn held roughly a \$100 per acre advantage over soybeans. Now, that return advantage is down to \$40 per acre. But many acres were already spoken for as farmers put down fertilizer. But we should expect to see more soybean acres by June. Over the past 20 years, the Prospective Plantings report has underpredicted soybean plantings in 12 years. The average difference between the final soybean planting number and the Prospective Plantings estimate is 1.13 million acres. Mother Nature usually forces a little bit smaller corn area and a larger soybean area than intentions.

Chad Hart

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

Kristen Schulte
Extension Farm & Agribusiness Management Specialist
132 1st Avenue West
Cresco, IA 52136
Phone: (563) 547-3001
kschulte@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.