IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

Department of Economics
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The Bumpy Road of the Beef Market

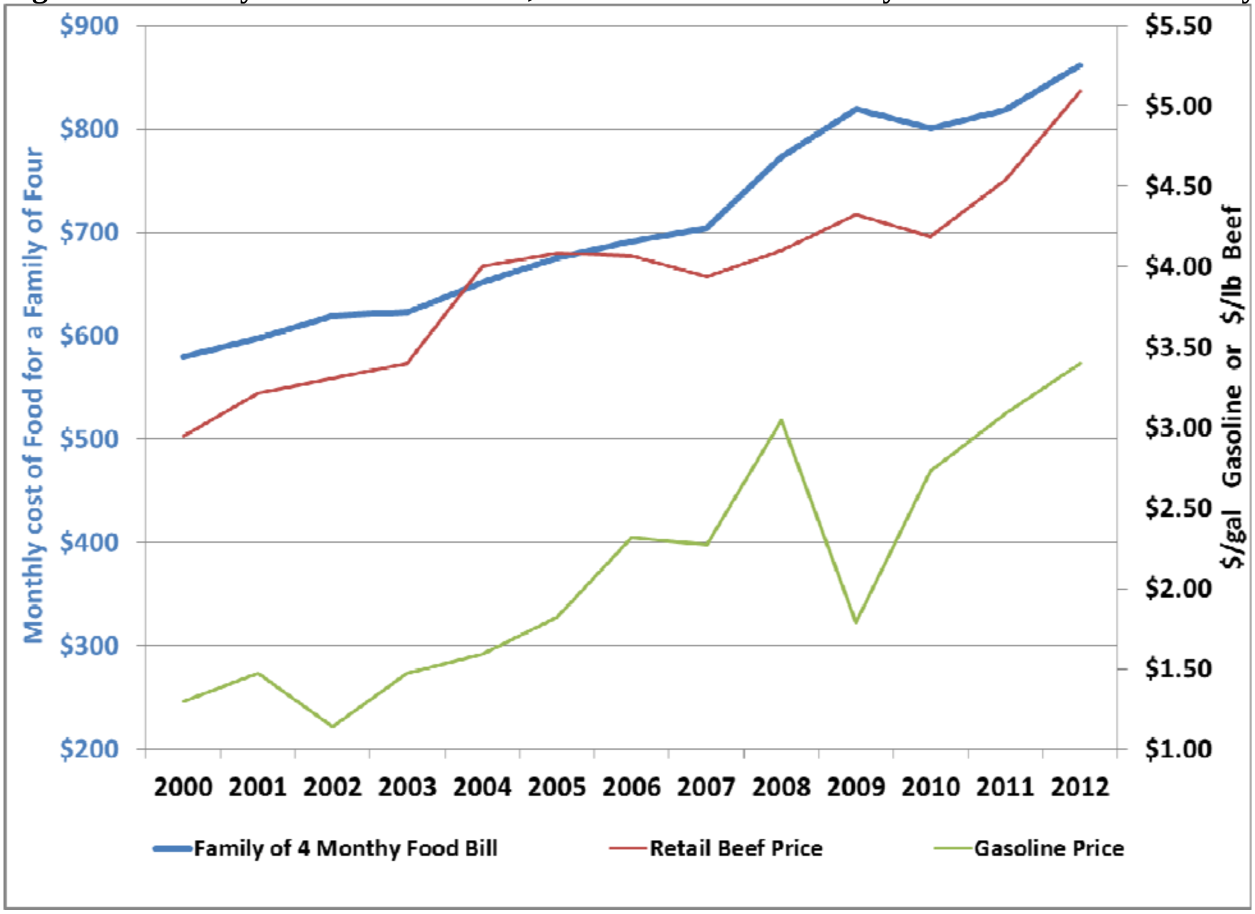
Uncertainty is something the beef industry continuously faces and lately there have been some sudden dips and turns in the road. Two months ago misinformation about lean fine textured beef was propelled through the enormous influence of social media. The negative influence of that misinformation led to the partial shutdown a vital portion of the beef processing sector. While efforts to inform consumers and displace negative sentiments have been effective it will still take time for things to return to "normal". Recently another case of atypical bovine spongiform encephalopathy (BSE) was identified in a California dairy cow. How this new case will impact domestic demand has yet to be fully seen, but this time it is a back page news item instead of a front page headline. Consumers have seen news of BSE before and the negative impact on purchasing decisions soon dissipated. A similar recovery of demand should happen again.

As we observe the cattle beef markets behavior, it is easy to see that other commodities have some different price responses to emerging events and information. A crop planting report can immediately move the corn futures market up or down the daily limit. Political unrest in a foreign oil exporting nation can make fuel prices spike literally overnight. Most of the 2012 cattle futures contracts moved the limit down on the rumor of the recent BSE case. How often do cattle futures prices move up the daily limit because of a cattle report or beef imports from South America were interrupted? The US beef industry is built on the fundamentals of supply and demand, and because most of our nations beef supply is produced and consumed domestically there tends to be less uncertainty in the supply of beef or where the beef will be utilized. Cattle prices were getting stronger in the first two months of this year on the prospects of tighter cattle and beef supplies during 2012, but when consumer demand started to sway under weaker consumer confidence and record high beef prices at the meat counter, cattle prices declined and then steadied.

So what are our prospects for the rest of the year? Consumers are cautious and not likely to build demand until there are better signs of economic recovery. Whether they are looking at the price of gas at the pump, domestic employment rates or the global macroeconomic outlook, there is not enough good news to build consumers' confidence. Until there are better signs of the economy improving we will not see cattle prices making any improvements. The troubling part is that there is still room for the price to decline further. The 5-area weighted average cattle price is still at a record high for the last of week of April, and was not quite enough to keep cattle finishing easily profitable.

Consumers' confidence can also be built and diminished when disposable buying power is compared with the cost of goods available for purchase. In the past two years the cost of food and fuel has increased at an accelerated rate. Figure 1 compares the average price of retail beef with the cost of gasoline and the monthly cost of food for a family of four on a moderate cost food plan during the month of January over the past decade. Consumers enjoyed a fairly steady retail price for beef from 2003 to 2010. In the past two years, retail prices of beef have been moving higher as the cost of producing beef and steady to stronger demand pushed prices high. The general cost of food has also been increasing faster than usual in the past two years, but the increase in the cost of beef has been more pronounced. This increased cost of essential goods compared to the dismal growth in average income leaves many consumers with an increased sensitivity to how they spend their money. Ultimately we are reminded of just how sensitive the beef and cattle market can be to the economy. The unexpected bumps in the road can and will have a negative impact on the cattle market in the short run, but long term strength depends on the growth of economy and consumers having enough disposable income to spend comfortably.

Figure 1. January Retail Price of Beef, Gasoline and the Monthly Cost of Food for a Family of Four



Shane Ellis

Planting Jumps Despite the Rain

The March Prospective Plantings report indicated U.S. farmers were looking to bring a lot of area into corn production. And the pace of planting thus far shows they are well on their way to planting more area to corn than we have seen since the 1930s. Figure 1 outlines the progress this year and shows the range over the past 32 years. The southern and eastern Corn Belt got off to an early start and haven't really looked back since then. While the northern and western Corn Belt has been somewhat delayed by some needed moisture, progress there has also picked up.

Nationwide, 53 percent of the corn crop had been planted by Apr. 29th. That is 26 percent above the 5-year average and 41 percent ahead of last year's pace. The rapid planting pace has pressured the corn market. Since 1980, two corn crops have had planting progress that was advanced this much or more at the first of May, 2004 and 2010. The 2004 crop set a record yield, which was topped five years later. The 2010 crop started off well, but higher nighttime temperatures in July and August limited yields. In three other years (2000, 2005, and 2006), corn plantings had reached the mid-40s by Apr. 29th. In each of those years, corn yields slightly exceeded the long-run trend. Figure 2 shows the actual corn yields since 1980 and the yield trend over that period. Looking across the combination of years with planting progress like this year, the average resulting yield is 3.6 bushels per acre above the long-run trend. The planting progress in Iowa jumped dramatically in the past week. Roughly half the corn crop has been planted. That's 18 percent ahead of the 5-year average and 43 percent ahead of last year. Over the past 32 years, Iowa's corn planting pace has been faster 7 times, with the record being 77 percent in 2010. Out of those 7 years, Iowa experienced above trend-line yields in 5 years. The exceptions were in 2000 and 2010. The average yield bump for the earlier planting has been 6.2 bushels per acre.

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

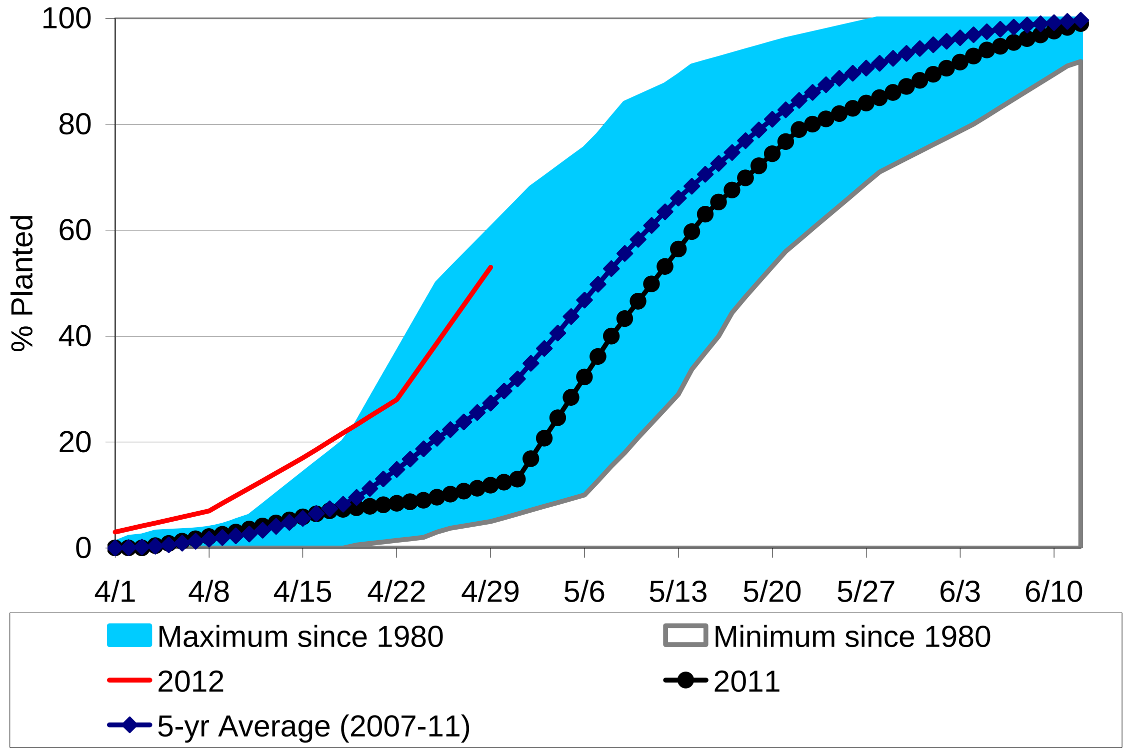
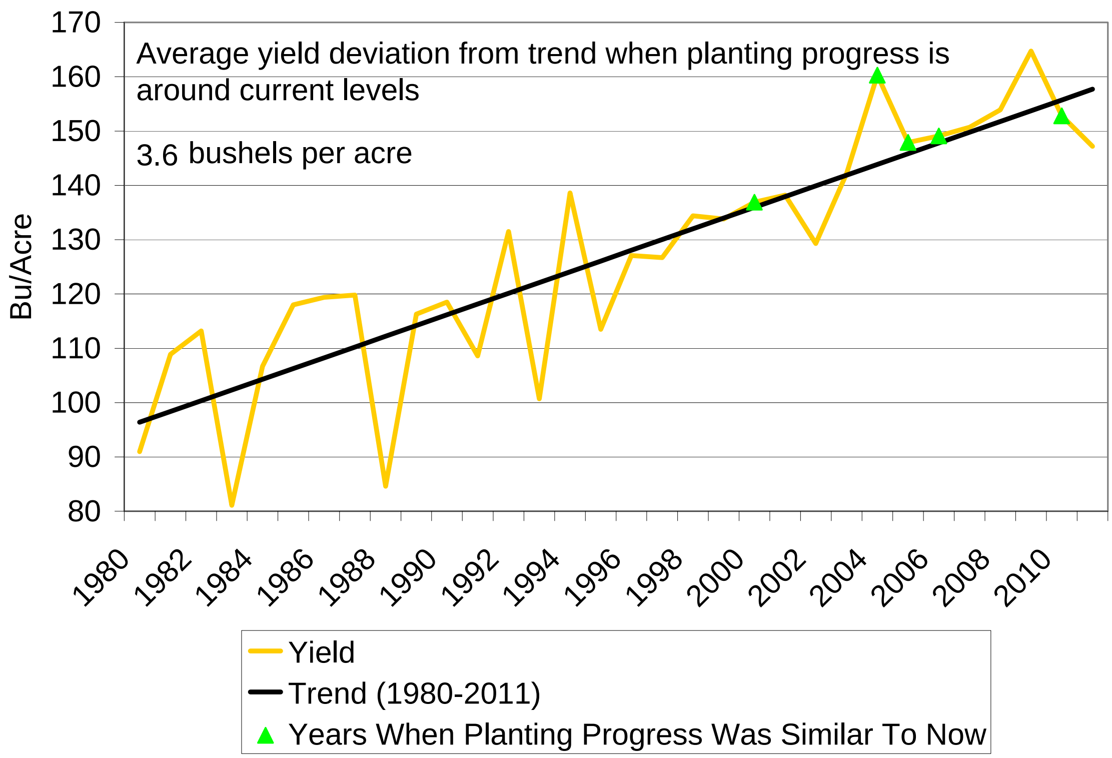


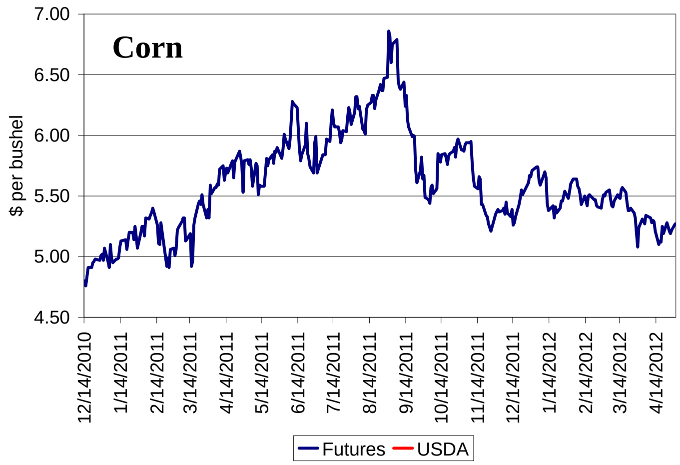
Figure 2. U.S. Corn Yield Comparisons to Trend

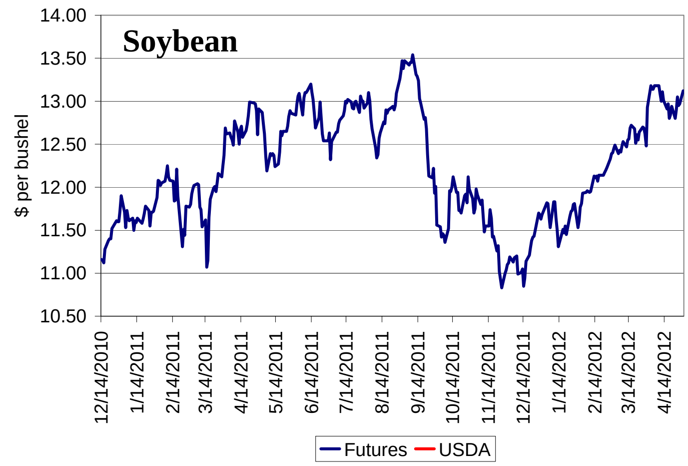


That rapid planting pace is carrying over for soybeans as well. As of Apr. 29th, 12 percent of the national soybean crop was planted. That is 8 percent ahead of the 5-year average. At this point last year, there had basically been no soybean planting. Again, the southern and eastern states lead the way. Illinois, Indiana, Ohio, Arkansas, and Mississippi are all well ahead of their average soybean planting pace. Iowa is currently on the 5-year average. So the 2012 crop season is off to a roaring start.

Looking at pricing for the 2012 marketing year (Sept. 1, 2012 to Aug. 31, 2013), current futures prices are offering strong prices for both crops. And what had been a sizable return advantage for corn has shrunk to nearly an even tradeoff between corn and soybeans. Figure 3 shows the evolution of projections for the 2012/13 season-average prices for corn and soybeans based on futures prices. As the graphs show, the corn market has been slowly working its way downward on the news of large plantings and has recently honed in on the $5.25 per bushel price range. Soybean prices, which had been trending lower last fall, rebounded with the renewed interest from China. That demand pull and projected drop in acreage has sustained the soybean price runup. Currently, the futures-based projection for the 2012/13 soybean season-average price is over $13 per bushel. If that holds, soybeans will set another record for the season-average price. Based on ISU Extension production cost estimates, both crops have prices well in excess of estimated production costs. The 2012 crop year is shaping up to be another profitable crop year. Given trend-line yields with these prices, corn and soybeans could return $100-150 per acre above production costs. Those types of returns for soybeans have inspired talk that some acreage may shift back to soybeans, instead of going to corn. On average over the past 20 years, roughly 1 million acres of ground originally intended for corn ends up planted to soybeans. Usually, it's Mother Nature that forces such a crop shift due to delays in planting. This year, finances might do that work.

Figure 3. Futures-based Season-average Price Projections





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