

Iowa Farm Outlook

August, 2012

Department of Economics
Ames, Iowa

Econ. Info. 2028

Comings and Goings

With the fall semester approaching, changes are occurring here at Iowa State. Two of those changes affect the Iowa Farm Outlook. First, it is my pleasure to welcome Lee Schulz to the Iowa Farm Outlook and the Iowa State University Economics department. Lee has been hired as the extension livestock economics specialist and he started this summer. Lee is originally from Wisconsin and received degrees from Wisconsin-River Falls, Michigan State, and Kansas State. Lee will be contributing livestock articles for the Iowa Farm Outlook, starting with this issue. Second, let me thank Shane Ellis for handling the livestock articles for the Iowa Farm Outlook over the past few years. Shane is transitioning to a new role within ISU Extension and Outreach. He is taking over the West Central Iowa farm management specialist position and will continue to be active in livestock economics. As you see both Lee and Shane throughout the state, please join me in welcoming Lee and thanking Shane as they begin their new roles.

Chad Hart

Cattle Market Situation and Outlook

Mid-year Cattle Report...

USDA released two reports estimating July 1, 2012 cattle inventories; the mid-year Cattle report and the July Cattle on Feed report. Table 1 contains a summary of the Cattle report. The total cattle and calves and cow inventory in the U.S. were both down 2.2% from a year ago. Beef cows were down 2.9%, heifers for beef cow replacement were equal to a year ago, and the calf crop was down 2.3%. This smaller inventory coupled with fewer cows and retention of heifers remaining at all-time lows indicates herd liquidation is continuing.

The total cattle on feed inventory was estimated at 12.3 million head, 0.8% higher than a year ago. The number in feedlots with 1,000+ head capacity is estimated to be 10.7 million head, 2.7% higher than July 1, 2011. It only happens twice a year that we get a total cattle on feed inventory and the monthly cattle on feed inventory (1,000+ head capacity). The monthly number up 2.7%, compared to the bi-annual number up only 0.8% from a year ago, suggests that we will continue to see the smaller feedlots exiting and downsizing their portion of the U.S. cattle feeding business.

Placements in feedlots during June totaled 1.66 million, 1.5% below a year ago. Moving forward we are likely to see increasing placement of heifers that were destined for the breeding herd purposes and mixed light-weight animals being forced into feed yards as a result of the drought.

In Iowa, cattle and calves on feed for all feedlots totaled 1,235,000 on July 1, 2012. The inventory is down 5% from June 1, 2012 but up 2% from July 1, 2011. Placements during June totaled 121,000 head, a decrease of 4% from last month but up 6% from last year. Marketings for June were 182,000 head, up 18% from last month and up 1% from last year.

Cattle inventories in the U.S. have been dropping for years, but the pace picked up last year when ranchers in the Southwest liquidated herds amid a severe drought. Operations in the West and Midwest bought some of those cows, so nationwide, the loss wasn't as great as it could have been. With this year's drought, virtually no one is expanding herds and inventory estimates suggest further decline of the U.S. herd.

Table 1. July 1, 2005 Cattle Inventory

	2010	2011	2012	% chg.
	(Million head)			'11-'12
Cattle and calves	101.1	100.0	97.8	-2.2
Cows and heifers that have calved	40.9	40.6	39.7	-2.2
Beef cows	31.8	31.4	30.5	-2.9
Dairy cows	9.2	9.2	9.2	0.0
Heifers 500 pounds and over	16.2	16.0	15.7	-1.9
For beef cow replacement	4.4	4.2	4.2	0.0
For dairy cow replacement	4.1	4.2	4.1	-2.4
Other heifers	7.8	7.6	7.4	-2.6
Steers 500 pounds and over	14.4	14.2	14.0	-1.4
Bulls 500 pounds and over	2.1	2.0	1.9	-5.0
Calves under 500 pounds	27.5	27.2	26.5	-2.6
Calf crop	35.7	35.3	34.5	-2.3
Cattle on feed	11.9	12.2	12.3	0.8

Pasture and Range Conditions...

The drought has had a dramatic impact on pasture and range conditions. For the week ending July 29, the USDA crop progress survey indicated that 57% of pasture and ranges in the U.S. were in poor to very poor condition. Last week 55% of pastures and ranges were rated poor to very poor and last year at this time 36% fell in this category. In Iowa, 82% of pasture and ranges were rated poor to very poor (79% last week and 18% this time last year).

Currently, some 77% of the U.S. beef cow inventory is located in states where over forty percent of the pasture and ranges are in poor to very poor condition (table 2). Last year, just 40% of the beef cow inventory was located in such states. The poor grazing conditions have led to cow herds being further reduced, static heifer retention, and calves being sold sooner and/or at lower weights.

Table 2. Pasture and Range condition, Beef Cow Location According to Condition

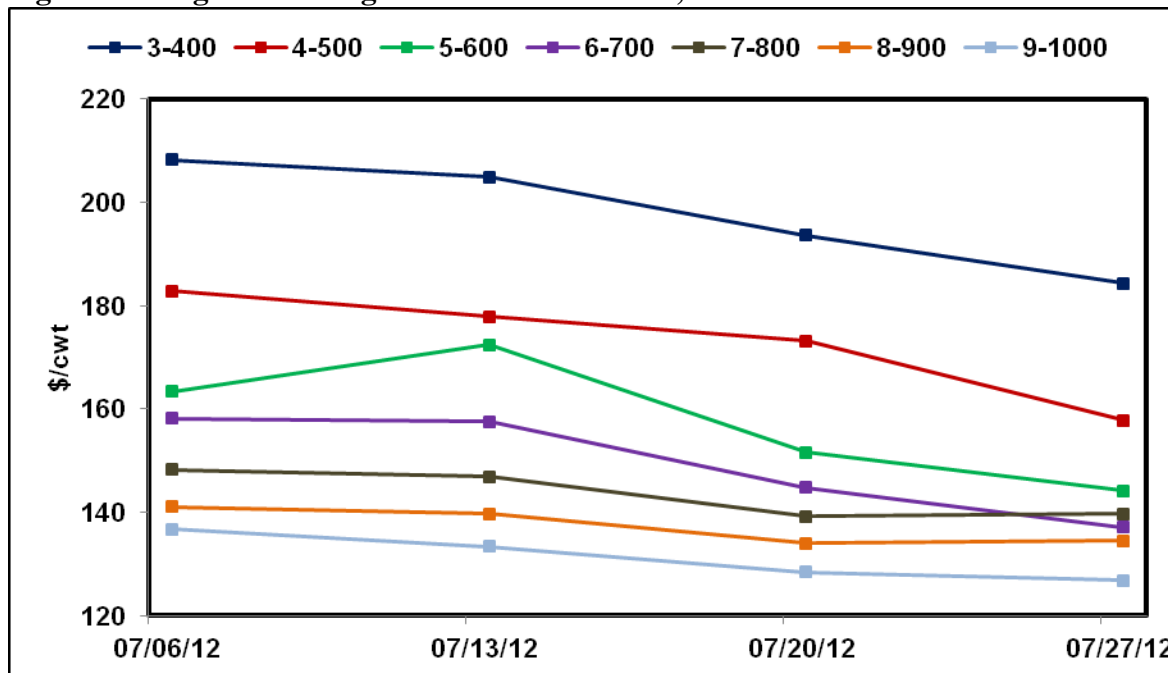
	$\geq 40\%$ POOR to VERY POOR		$\geq 40\%$ GOOD to EXCELLENT	
	Beef Cows (1,000 head)	% of Total	Beef Cows (1,000 head)	% of Total
Last year				
7/17/2011	12,139	39.46	17,068	55.48
7/24/2011	10,498	34.12	16,970	55.16
7/31/2011	12,363	40.18	15,516	50.43
This year				
7/15/2012	21,940	73.62	3,681	12.35
7/22/2012	22,809	76.54	3,121	10.47
7/29/2012	22,809	76.54	2,656	8.91

Feeder Cattle Prices...

Current cattle prices reflect underlying market signals as well as the direct impacts of this year's drought. Much attention has been focused on how much cattle prices will be impacted. For feeder cattle, it is always important to consider changes in the price relationships across weights as well as the overall price levels. Recently, prices for lightweight feeder cattle have decreased more than prices for heavy feeder cattle. The decrease in heavy feeder cattle prices reflects primarily the impact of high corn prices on feedlot demand for cattle combined with the general demand weakness reflected in boxed beef prices.

Calf and stocker prices reflect all of those factors plus the lack of forage and limited opportunities for stocker based cattle production. As a result, the current price pattern is one in which feeder prices drop rapidly up to about 700 pounds (for steers) and then are relatively flat for heavier feeders.

Figure 1. Weighted Average Feeder Cattle Prices, Nebraska Combined Auctions



This type of “inverted” feeder price structure occurs rarely and reflects the combined impacts of high corn prices and a relative excess of animals at the current time due to the drought. Notwithstanding current production difficulties, the market is providing strong signals to add weight to feeder cattle before feedlot placement.

Lee Schulz

Weather Continues to Dominate the Markets

The drought has become the major topic of conversation as its impacts reach across agriculture. Natural disasters like this have many impacts on an economy, from the direct impacts on agricultural production to the indirect consequences on rural economic activity and retail food pricing. A year that started out with the potential for record production has turned into a year of declining yield prospects and ever rising prices. And as the drought map below shows, much of the country is suffering from dry conditions. Not only are the corn and soybean crops affected, but also wheat, cotton, rice, and other crops are diminished as well. Arguably, the livestock industries face even greater challenges as hay and pasture conditions, especially across the Southern Plains, decline for the second year in a row.

As the high temperatures rolled in this spring and summer, precipitation stopped falling and crop prospects started falling. Figure 2 shows USDA’s estimate of crop conditions so far this year. The corn and soybean growing seasons began with some timely rainfall and fairly long planting windows. But once planting stopped, so did the precipitation. And the proportion of the crops rated good to excellent dried up with the rainfall. The downbeat on the crops has been consistent and dramatic. The first crop rating in late May showed nearly 80% of the corn in good to excellent condition. The first rating of the soybean crop in early June had 65% of the crop as good to excellent. As of late July, those percentages had dropped to 24% for corn and 29% for soybeans.

Figure 1. U.S. Drought Monitor (Source: NDMC)

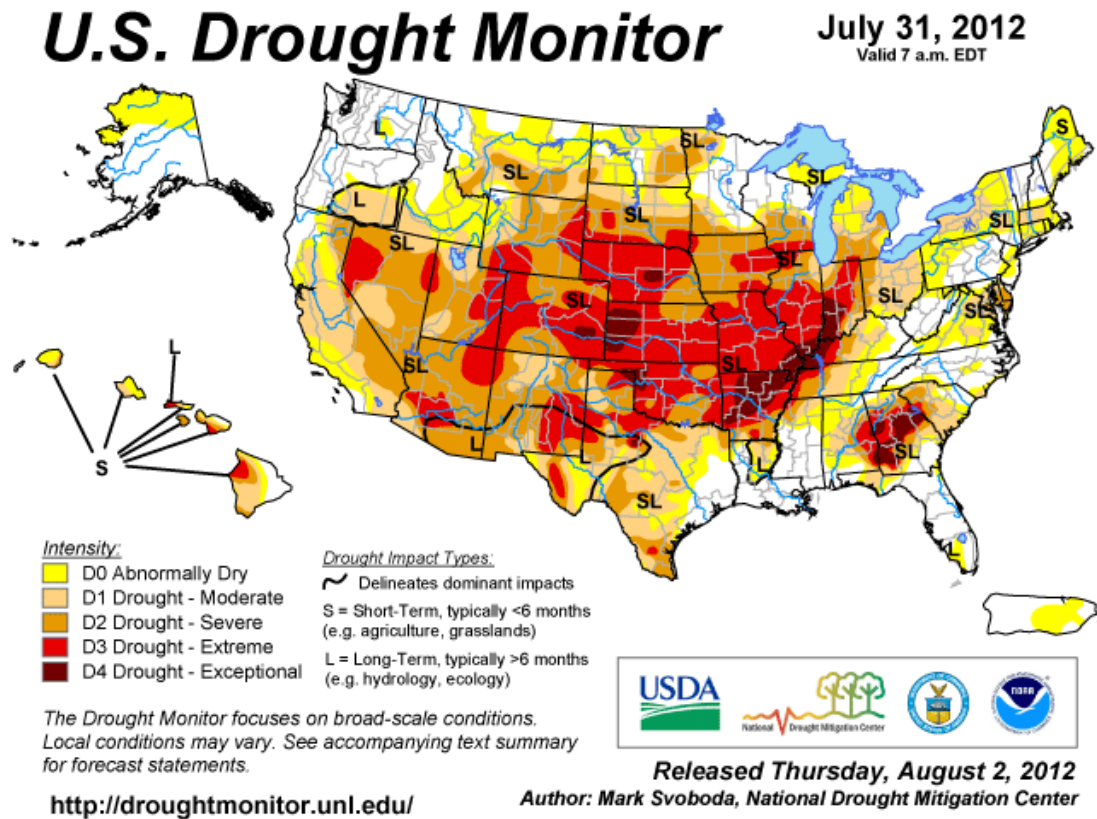
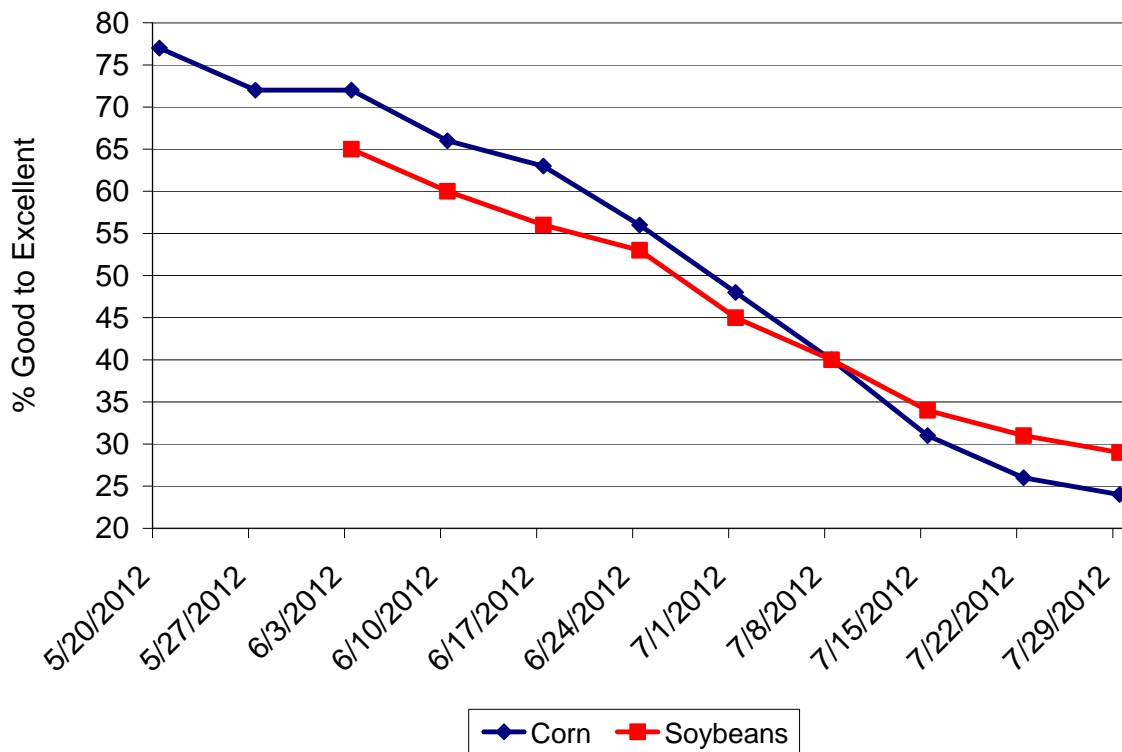


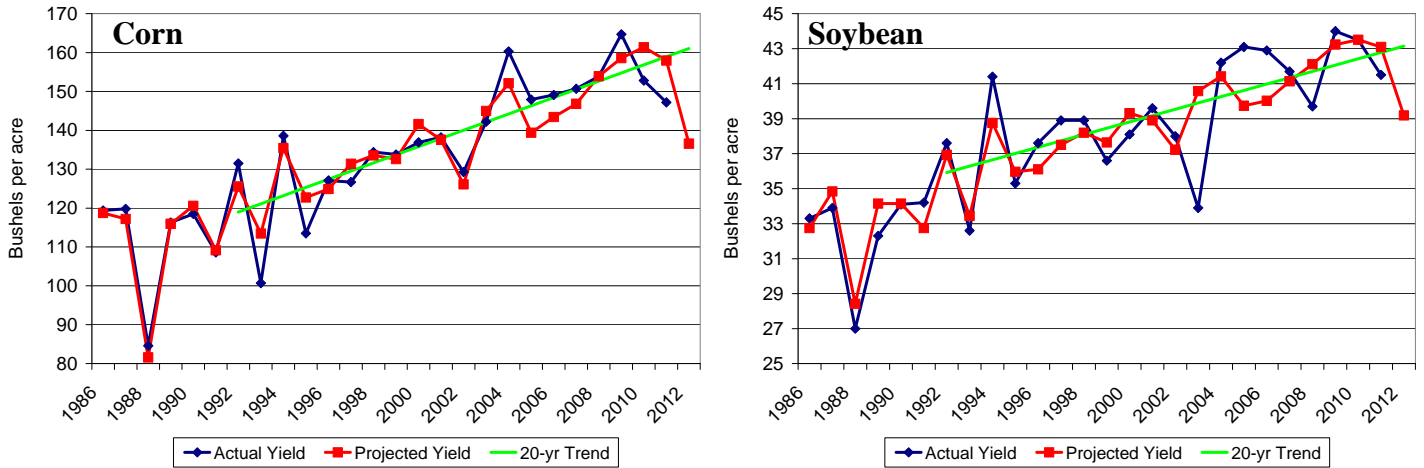
Figure 2. Crop Conditions This Summer (Source: USDA-NASS)



In the past, I have used the crop condition numbers to construct projections of crop yields. Since the condition reports are consistently gathered on a weekly basis during the growing season, they provide an updated snapshot of the crops throughout the summer. It is a very basic yield model, based on a simple time trend and the percentage of the crop rated good to excellent. Figure 3 shows the yield projections based on the crop conditions in late July. The final yields for each year are also shown, along with the 20-year linear yield trend for each crop. For soybeans, the crop conditions point to a yield of 39.2 bushels per acre. That is 1.3 bushels

below USDA's current estimate and 3.9 bushels below the 20-year trend. For corn, the crop conditions point to a yield of 136.6 bushels per acre for 2012. That is 9.4 bushels below USDA's estimate and 24.4 bushels below trend. And current weather conditions continue to pull yield potential away. USDA will release their objective yield numbers in August. That will be the 1st official in-field look at the crops. Most analysts and the market are expecting another significant reduction in the USDA yield and production projections.

Figure 3. U.S. Crop Yields and Projections



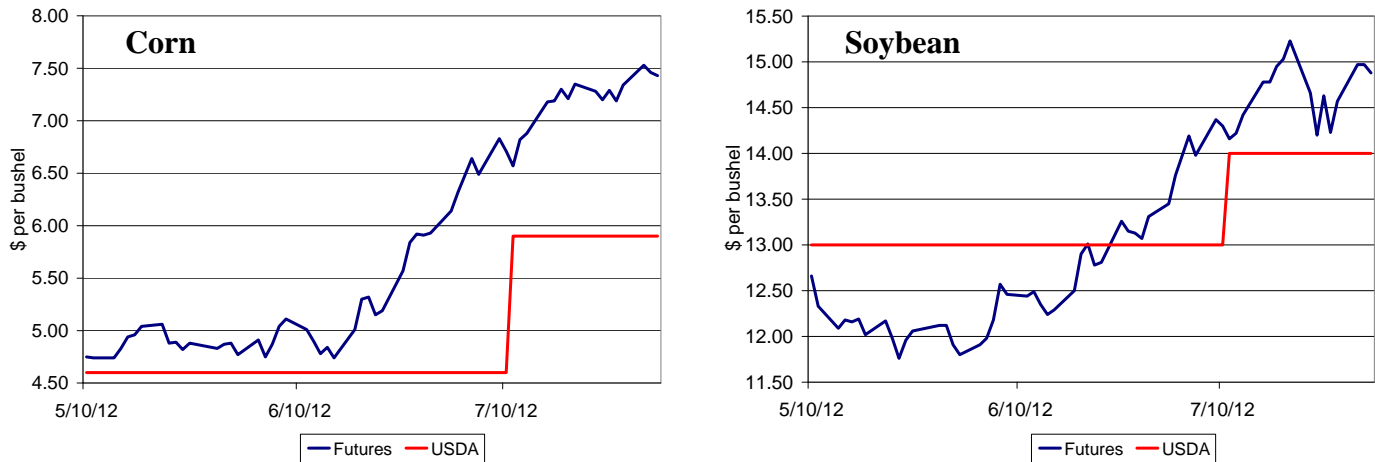
But the yield and production numbers are not the only numbers that have been wilting in the drought. Crop demands have pulled back with the higher crop prices. Prior to the drought, we were staring at record corn demand and very strong soybean demand. Feed prospects were on the rise. Ethanol demand was projected to be steady. And both corn and soybean export demands were on the rebound. With the cut in production and the rise in prices, all sectors of demand have felt the drought's impact. In their July report, USDA reduced projected feed and residual demand for corn by 650 million bushels. Ethanol demand was reduced 100 million bushels. Corn export demand was lowered by 300 million bushels. So over 1 billion bushels of corn demand dried up with the drought. For soybeans, crush demand was reduced 35 million bushels and export demand was lowered 115 million bushels. But the demand impact is not limited to the projections. As Figure 4 shows, the drop in demand has already started. Some ethanol plants have shut down, while other plants have reduced production in the face of higher feedstock prices. Just within the past month, corn demand via ethanol has fallen nearly 10 percent. And the continuing price pressure will lead ethanol and livestock producers to explore alternative feedstocks or production reductions.

Figure 4. Corn Grind for Ethanol



While demand is pulling back, the supply shortage is still the driving factor in the crop markets. Figure 5 shows season-average price estimates from USDA and my projections based on futures prices. Both sets of price estimates have been rising with the temperatures. At they currently stand, the futures markets are offering significantly higher prices than the USDA projections. But some of that gap will disappear with the August USDA update. Futures are indicating record prices for the 2012 corn and soybean crops. And with some central Iowa cash prices for harvest in the \$8 range for corn and \$15.50 range for soybeans, profitable sales are available, if you have the bushels.

Figure 5. 2012/13 Season-average Price Estimates



Given the weather and crop conditions, now is a good time to review your marketing plan and any preharvest sales you made. It can be hard to feel good about preharvest sales in a rising market, but remember you made those sales for a reason and many of those sales were profitable. If you think you may come up short on production for your preharvest sales, review your contracts and your crop insurance coverage and contact your merchandizer and crop insurance agent. They can help you work through the possibilities of fulfilling your contracts and the support you will receive from insurance. It is also a good time to talk with your lender to make sure your cash flow needs are covered. One of the biggest keys for a business, including a farm business, to surviving a natural disaster is communication.

Chad Hart

Dr. Chad Hart, Asst. Professor
 Extension Grain Marketing Specialist
 468 Heady Hall
 Phone: (515) 294-9911
 Fax: (515) 294-0221
chart@iastate.edu
www.econ.iastate.edu/~chart

Dr. Lee Schulz, Asst. Professor
 Extension Livestock Economist
 478 Heady Hall
 Phone: (515) 294-3356
 Fax: (515) 294-0221
lschulz@iastate.edu
www.econ.iastate.edu/people/faculty/schulz-lee

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.