

Iowa Farm Outlook

Department of Economics
Ames, Iowa

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Cattle Market and Outlook Survey

U.S. and Canadian Cattle Report

On August 21, USDA-NASS released the semi-annual *United States and Canadian Cattle* report, which reported July 1, 2012 cattle numbers by class for each country. Total cattle and calves in the U.S. were reported at 97.8 million head on July 1, a decline of 2.2%. Canadian cattle and calves were at 13.52 million head on July 1, a slight decline of only 0.07%.

On July 1, beef cow numbers in the U.S. were at 30.5 million head, down 900,000 from 2011. Beef cow numbers in Canada at 3.96 million were up 3,700 from last year. Severe drought in the Southern Plains last year and the more widespread “national” drought this year took a toll on beef cow numbers in the U.S. On the other hand, more favorable moisture conditions in much of the cattle producing region in Canada led to the modest increase in beef cows in Canada.

Beef heifers retained for replacement in the U.S. were at 4.2 million head, unchanged from last year’s historically low number. Beef heifers in Canada at 662,200 were up 3.5 percent from last year, and the highest number since 2007. Again, moisture conditions were likely a major contributing factor in the difference between the two countries. So, it looks like beef cow herd rebuilding in the U.S. will be delayed at least another year, while Canada’s beef cow herd could continue to increase modestly.

Feeder cattle imports from Canada were up from last year’s low levels in the first half of 2012, but recently have declined to even below last year’s lows. In the 2011 fall calf marketing season about 2.5 times more calves were exported to Canada than the previous 5-year average. That scenario may be setting up for 2012 as well, with poor pasture conditions and drought reduced supplies of corn in the U.S. and good growing conditions and a good barley crop in Canada.

AAEA Extension Section Annual Outlook Survey 2012

Each year Ron Plain and David Miller (Professor, Department of Agricultural Economics, University of Missouri, and Agricultural Economist, Iowa Farm Bureau Federation, respectively) conduct a survey of commodity forecasts. 2012 makes the 35th year this survey has been conducted in conjunction with the Extension outlook session at the annual meeting of the Agricultural and Applied Economics Association. This survey was conducted via mail in July 2012. Mailings were directed toward agricultural economists who are actively engaged in outlook work.

There were 14 individuals who responded to this survey. The majority (10) were university employees. Six indicated forecasting was a major responsibility. Four said moderate and four responded that forecasting was a minor responsibility. Respondents were not required to complete the entire form. They were instructed to make estimates in areas where they felt they had professional competence.

The following tables summarize the forecasts for production and prices for beef, pork, milk, corn, and soybeans. Tables indicate the number of responses, the average value of the forecasts, the minimum forecast, the maximum forecast, and the average value for those individuals who indicated they had major responsibility for forecasting in this area, i.e., the “experts.”

Table 1. Forecast Percentage Change in Production from the Previous Year

	Beef		Pork		Milk	
	2012	2013	2012	2013	2012	2013
Number Responding	9	9	9	9	10	10
Average	-2.1	-3.2	2.1	-0.1	2.2	-0.6
Minimum	-3.5	-4.0	1.3	-4.5	1.6	-4.1
Maximum	-1.4	-1.7	3.4	2.6	2.8	1.7
Average-Experts	-1.8	-3.1	2.2	-0.1	1.6	-1.5

Table 2. Choice Slaughter Steer Price, 5 Area¹, \$/cwt

	2012			2013				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	7	7	9	7	7	7	7	9
Average	118.79	124.24	122.56	127.20	129.32	126.59	131.36	129.39
Minimum	116.00	121.20	120.95	121.90	122.75	123.10	125.50	123.30
Maximum	122.00	127.00	124.00	131.00	133.00	131.00	136.00	134.00
Average-Experts	119.75	125.63	122.95	128.13	130.13	127.25	132.00	129.53

¹ Texas-Oklahoma, Kansas, Colorado, Eastern Nebraska, Iowa-Southern Minnesota

Table 3. Feeder Steer Price, Med Frame #1, 750-800 lb Oklahoma City, \$/cwt

	2012			2013				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	7	7	9	7	7	7	7	9
Average	138.64	138.01	145.37	140.50	146.81	151.99	152.61	149.54
Minimum	134.00	125.00	140.50	125.00	130.00	138.00	140.00	136.00
Maximum	157.50	155.30	154.10	152.00	161.70	168.40	164.00	165.00
Average-Experts	136.00	137.20	144.79	140.13	144.75	147.88	147.75	149.05

Table 4. Barrow and Gilt Price, Live Basis, \$/cwt

	2012			2013				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	7	7	9	7	7	7	7	9
Average	66.07	59.02	61.75	61.45	65.27	68.50	62.03	63.74
Minimum	62.00	54.60	59.00	54.76	60.00	64.00	56.00	59.00
Maximum	73.50	70.00	66.90	70.00	72.00	78.00	74.00	73.50
Average-Experts	64.88	58.38	61.08	61.63	64.38	67.38	61.13	62.80

Table 5. Milk Price, All Milk, \$/cwt

	2012			2013				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	9	9	10	9	9	9	9	10
Average	17.81	18.70	17.63	18.88	18.99	19.90	20.36	19.42
Minimum	16.50	17.50	17.00	18.30	18.31	18.50	18.75	18.40
Maximum	19.00	20.43	18.41	19.69	20.00	21.00	22.00	20.50
Average-Experts	18.88	19.67	18.23	19.22	18.66	19.42	20.13	19.36

Table 6. Nearby Futures, Contracts, Settlement Prices

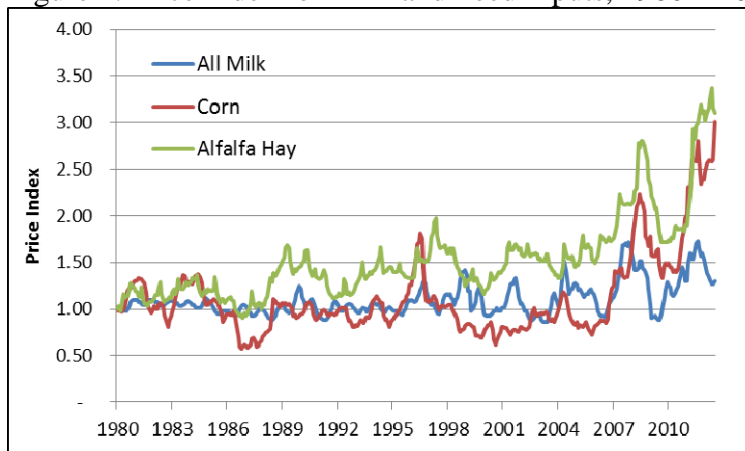
	CME Corn on			CME Soybeans on		
	12/3/2012	3/1/2013	6/28/2013	12/3/2012	3/1/2013	6/28/2013
Number Responding	8	8	8	8	8	8
Average	\$7.65	\$7.77	\$7.24	\$16.29	\$15.98	\$14.96
Minimum	\$6.40	\$6.00	\$5.50	\$14.50	\$15.10	\$13.00
Maximum	\$8.88	\$9.99	\$10.10	\$18.20	\$18.62	\$20.70

Dairy Outlook – Feed Inputs and Financial Stability

Margins continue to tighten as the 2012 year proceeds, but the milk price outlook provides some relief. Although milk prices have increased over the summer, they have not kept pace with feed commodity price increases. Dairy product exports and prices have remained strong so far in 2012 which have helped to support higher milk prices despite the continued increase in milk production.

Historically, feed input costs have been 40 to 60 percent of total variable costs; current outlook prices push the upper limit and in some cases may surpass 60 percent. Feed input costs have ratcheted up over the past few years with the corn price per bushel increasing over 200 percent since 2005 while the alfalfa hay price per ton has doubled in the same timeframe. Figure 1 shows prices for milk (U.S. All Milk Price), corn, and alfalfa hay as a price index from 1980 forward. When comparing corn and alfalfa hay prices, with the exception of the mid 1990's, prices were fairly stable until mid-2000's. Since the end of 2009 alfalfa hay has increased from a 1.71 to over 3.0 price index where it has remained since August 2011. Similarly, corn price index increased from the end of 2005 to 2008, subsided until late summer 2010 then started to climb and has been between a 2.25 and 3.00 price index since February 2011. These feed price indexes are compared to the U.S. All Milk Price index which has ranged from 0.86 to 1.73 since 2000. The spread of price indexes between feed inputs and milk continues to spread; however, increasing feed efficiency is one way to alleviate financial strain from increased feed prices. These prices represent U.S. average prices, price indexes and spreads will be different for regions across the U.S.

Figure 1. Price Index for Milk and Feed Inputs, 1980 – 2012.



The USDA-NASS August crop report indicates corn yield is estimated to be reduced to 123.4 bushels per acre, down 23.8 bushels from last year. Soybean yield is also expected to be down with the average bushels per acre at 36.1 bushels per acre, down 5.4 bushels from last year. Alfalfa hay production is down 16 percent across the U.S. compared to 2011. Tightened supplies of all feed input commodities will continue to push prices upward, further tightening margins for dairy producers.

Looking ahead, adequate inventory and financial planning may be crucial for producers to survive the coming year. Fields affected by drought may have less forage tonnage yield and specifically corn silage may have varying nutrient quality due to low grain yield compared to a typical growing year. Corn silage and forage inventories will need to be assessed to determine the need to purchase additional forage or feedstuffs or to alter rations to have sufficient feed inventories for the year. Purchase of additional feed may affect cash flow and liquidity of the operation. Cull cow slaughter has been on the rise. This may continue as producers assess production and efficiency of cows in the herd with feed prices on the rise. Re-evaluating cash flow and liquidity positions given the current commodity price levels and making needed adjustments will be key for producers to remain in a financially healthy position over the next year.

Although the milk price outlook is positive for coming months, feed commodity prices have historically increased at a greater rate. Producers purchasing in feed products will need to ensure adequate cash flow in the

coming year to cover these costs. Working capital and equity may be accessed in the coming year to cover increased feed costs, and with tightened margins projected cash flow plans should be reviewed to ensure adequate timing of funds throughout the coming year.

Kristen Schulte

Droughts and Markets

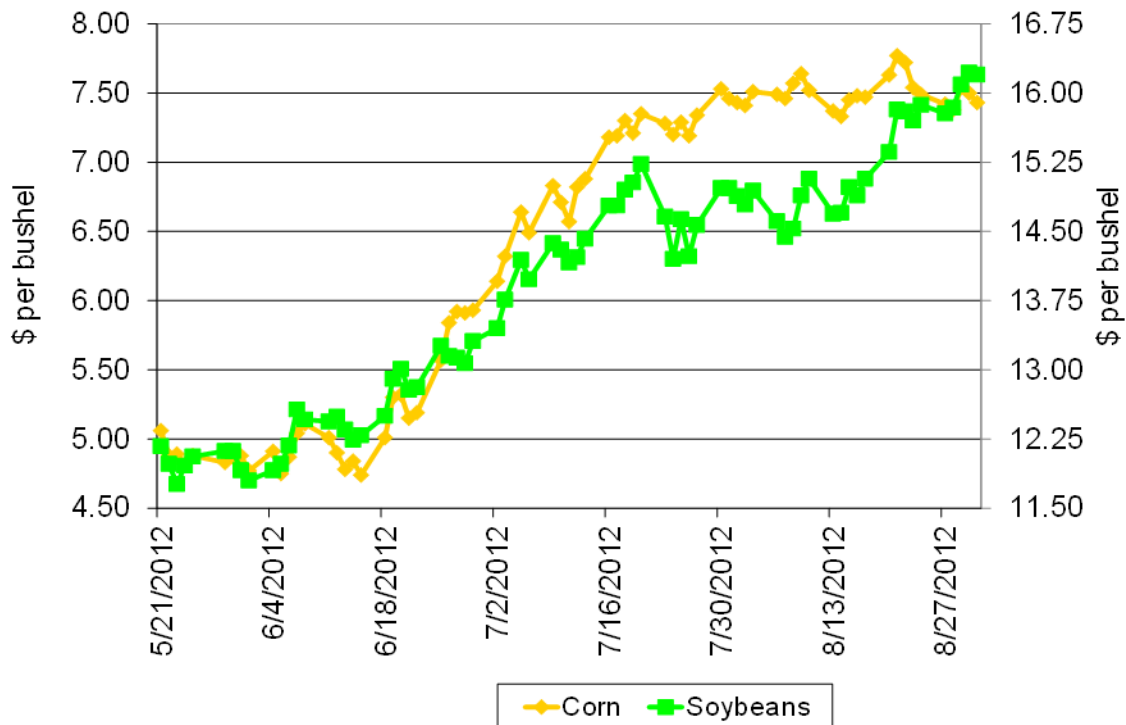
The drought has had the markets and USDA on the move this summer. Yields, production, demand, stocks, and prices have all moved dramatically over the course of the last three months. Harvested areas for corn and soybeans have been reduced as farmers abandon some fields and chop others for feed. Estimated yields for corn are down over 25%, while soybean yields are projected to be down nearly 18%. With the losses in acreage and yield, corn production estimates have shrunk from nearly 15 billion bushels to just under 11 billion. Soybean production estimates have fallen from 3 billion bushels to 2.7 billion.

But demand is also downshifting with the drought and the rationing has started in earnest. Projected new crop corn demand dropped by nearly 1.5 billion bushels. Feed and residual demand is set at 4.075 billion bushels, down 725 million from last month. Ethanol demand moves down 400 million to 4.5 billion bushels. Export demand is projected at a 28 year low. New crop soybean demand is projected to fall by over 350 million bushels, with exports pulling back the most.

2012/13 ending stocks are projected at "pipeline" levels, meaning stock projections are about as tight as you'll ever see from USDA. Corn stocks are computed at 650 million bushels and soybean stocks are at 115 million bushels. With those tight stocks, 2012/13 season-average price projections are well above record levels. Corn jumped \$2.30 per bushel to \$8.20, while soybeans jumped \$2 to \$16 per bushel.

Prices rose with the temperatures this summer. Before the drought firmly established itself, futures indicated season-average prices around \$5 per bushel for corn and \$12 per bushel for soybeans. Now those price estimates stand at \$7.50 per bushel for corn and \$16 per bushel for soybeans. So while the yield reductions have been dramatic, the prices increases have been even more so, with corn up 50% and soybeans up 33%.

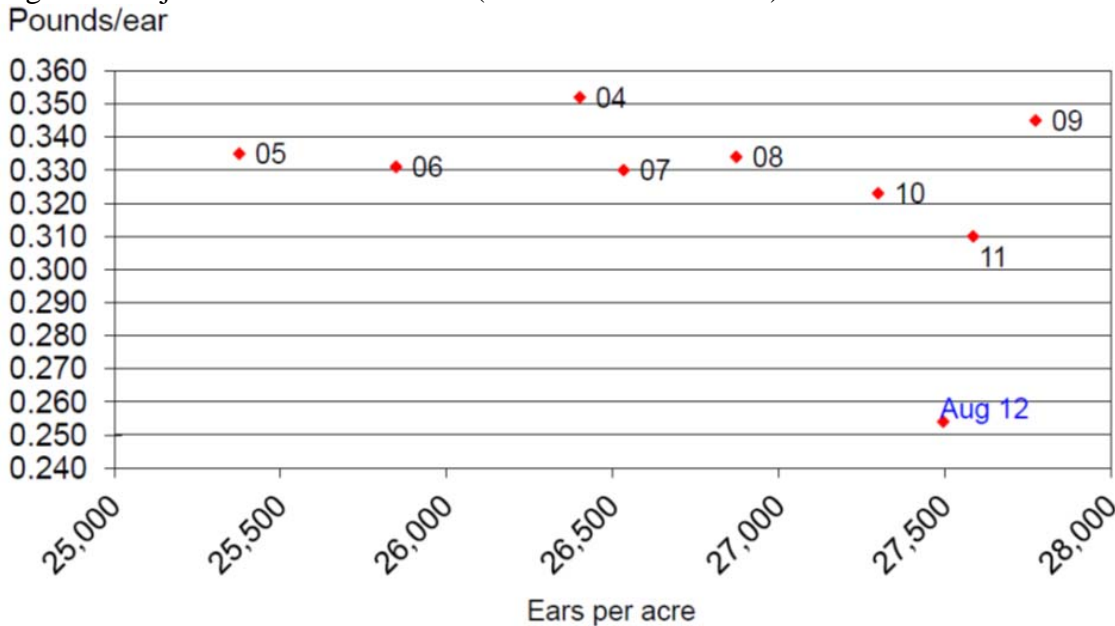
Figure 1. Estimated 2012/13 Season-average Price from Futures



One of the bigger issues we will face this fall, besides the limited production, is the general quality of the crop. The drought forced the corn and soybean crops to mature very quickly, shortening the grain fill window. This means that the crops will likely have lighter test weights and smaller kernels/beans. When USDA examined the crops in early August, they found that some of the fields were far enough along to sample and gather weight data. Figure 2 below showed the results of what USDA found. While the number of ears per acre is roughly inline with previous years, the grain weight per ear is significantly below average.

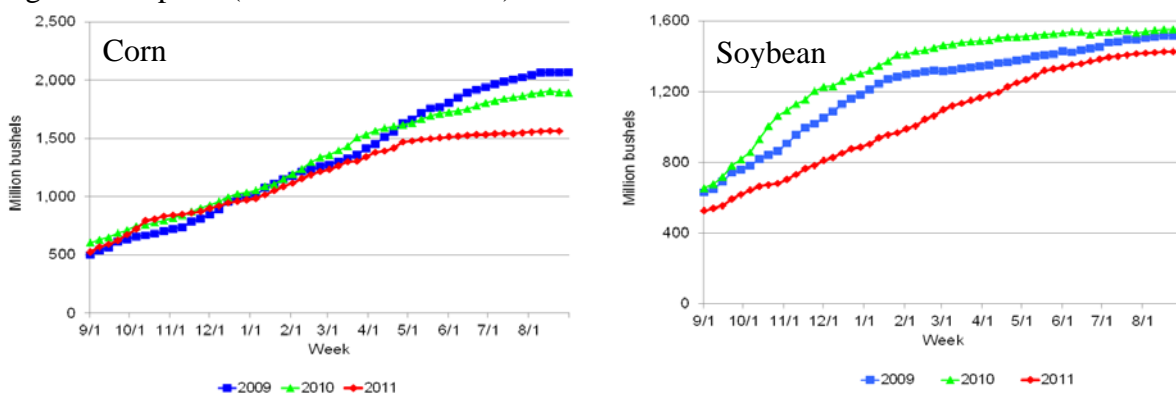
Another issue brought on by the hot, dry conditions is the threat of aflatoxin. Sporadic reports are coming into the Iowa State campus that the fungus that produces aflatoxin is being found in southern Iowa corn fields. The state of Iowa has already sent a request to the Food and Drug Administration to allow the blending of aflatoxin-infected corn to reach required levels for feed purposes. That request is still pending. But all of this discussion points to quality issues as we market the 2012 crops. So we can expect pricing discounts for light test weights and toxin levels. These quality issues also affect storage decisions. Lighter test weights reduce the effective storage times for crops.

Figure 2. Objective Corn Yield Data (Source: USDA-NASS)



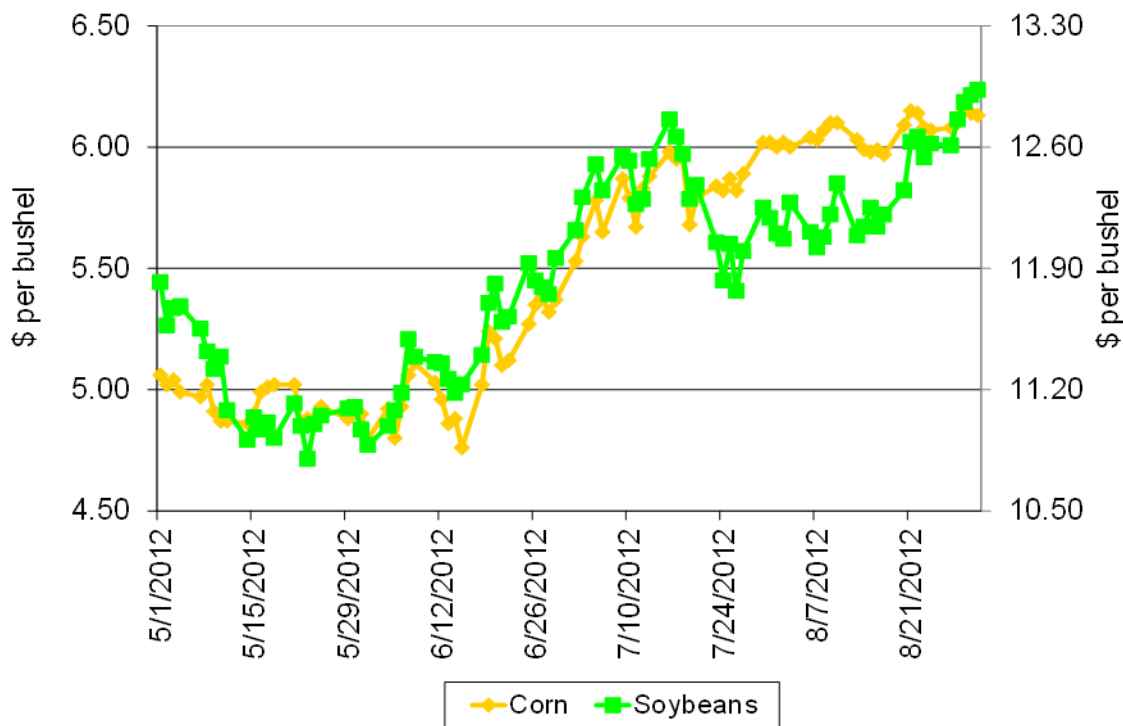
Those quality concerns are also being raised by our international customers. Export demand has backed off with the higher summertime prices. But with feed supplies tightening worldwide, many export buyers are watching the progress and condition of the U.S. crops. Early crop sales have been mixed, with corn sales dragging while soybean sales are beating last year's pace. Mexico and China have been the key markets thus far. Both Mexico and China have been very active in the corn market, while China is the major buyer in the soybean market. The agricultural press in both countries have been examining the U.S. crops to assess crop prospects. So while higher prices have diminished demand, the need for crops is still driving some sales.

Figure 3. Exports (Source: USDA-FAS)



And the pressure is building for crop production in 2013. Just as the prices for the 2012 crops have risen with the summer temperatures, the prices for the 2013 crops have also gained significantly. In May, futures pointed to 2013/14 season-average prices of \$5 per bushel for corn and \$11 per bushel for soybeans. Now those prices are over \$6 per bushel for corn and nearly \$13 per bushel for soybean. That creates attractive prices for planting next spring. Those prices also are attractive for agricultural producers in other countries. South American and South African farmers will get the first opportunity to capture these higher prices with new production. The futures markets have already factored in a rebound in South American production. But one of the keys to the markets over the six months will be the ability (or lack thereof) for Brazil and Argentina to continue to bring additional land into production and the improvement of weather conditions there. Just we have suffered from the La Niña-induced drought conditions, so have Brazil and Argentina. In fact, worldwide weather patterns over the past few years have brought additional volatility to the crop markets. Drought has especially been a factor as the U.S., Argentina, Australia, Russia, China, and Ukraine have all experienced hot, dry conditions over the past three years.

Figure 4. Estimated 2013/14 Season-average Price from Futures



The need for risk management is ever present in agriculture. Crop insurance will help counteract a sizable portion of the crop losses from the drought. And marketing opportunities abound for those with a crop. It's at times like these that I'm reminded of the old saying "Strike while the iron is still hot."

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