

Iowa Farm Outlook

Department of Economics
Ames, Iowa

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September Hogs and Pigs Report

For the past two years there has been enough modest profitability to entice a cautious and slow expansion of the nation's swine industry. The 2012 drought and resulting high cost of feed have changed that trend. Producers have scaled back their farrowing plans until the middle of next summer when a more abundant corn crop will hopefully make feed more affordable. The outlook for next three months is bearish with a record number market hogs on track to come to market in the fourth quarter. Hog supplies in the first half of 2013 will be lower and hog prices are expected to recover.

Table 1 is a summary of the September USDA *Hogs and Pigs* Report. As of September 1 the national hog and pig inventory, at 67.5 million head, was only slightly greater than a year ago. Breeding herd inventory, at 5.8 million head, was down a third of a percent and market hog inventory was up less than half a percent at 61.7 million head. The heaviest class of market hog inventory was up almost 5 percent, so it is expected that hog prices will remain soft for several more months. Lighter classes of market hogs were about a percent lower. Nationally, sow farrowings for the rest of 2012 are down almost 3 percent. The decrease in farrowings will be partially offset by the continued increase in litter sizes which continue to increase by about a percent each year.

Table 1. Summary of September 2012 Hog and Pig Report

	U.S.		Iowa	
	Million hd	% chg	Million hd	% chg
All Hogs and Pigs	67.47	0.4%	20.60	2.5%
Breeding Herd	5.79	-0.3%	1.00	-2.0%
Market Hogs	61.68	0.4%	19.60	2.7%
<50 lbs	19.65	-0.5%	5.05	1.6%
50-119 lbs	17.68	-1.2%	6.28	1.3%
120-179 lbs	12.90	0.6%	4.73	2.6%
180+ lbs	11.46	4.5%	3.54	7.3%
Pig Crop				
Mar-May 12	29.44	0.6%	5.04	2.0%
Jun-Aug 12	29.29	-0.2%	5.07	1.4%
Farrowing Intentions				
Sep-Nov 12	2.85	-2.7%	0.48	-2.0%
Dec 12- Feb 13	2.86	-1.5%	0.48	-1.0%
Litter Size	10.13	1.0%	10.45	1.5%

Closer to home, the Iowa inventory changes were a bit more intense. The supply of hogs due to be marketed in September and October were up more than 7 percent, and the supply of hogs for the fourth quarter will be up about 3 percent from last year. The breeding herd inventory in Iowa was down 2 percent with exactly 1 million head of breeding sows. The average litter size in Iowa during the summer was up 1.5 percent to nearly 10.5 pigs per litter. Within Iowa, plans for and construction of new finishing facilities started in late spring and early summer, when things were still looking good for this year's crop. While profitability for this year soured with the drought, those plans to build were already in motion. Expect the number of market hogs in the state to continue to increase for the next year not because of profitability but because Iowa still has a cost of production advantage and now has more room for the additional hogs.

The price outlook for hogs is not great in comparison to the cost of production but it may not be as bearish as one predicted. During August and September the lean hog price in Iowa declined continuously with a low of about \$65/cwt occurring in mid-September. While the fourth quarter hog price is expected to be the lowest of the year, there is hope that supplies and prices will be consistent. The hog industry has a weekly slaughter capacity of about 2.3 million head. When that threshold is exceeded, hog prices tend to bottom out, as was seen during the middle of September. If a consistent number of hogs come to market average prices could be in the mid to upper \$70's. Table 2 contains a summary of the predicted change in pork supply and average price range for the next year. These are compared with the September 28 futures settlement price adjusted for an Iowa basis. The ISU model suggests a little more bullish market than the futures are expecting in the next half year. For the spring and summer, hog prices will be back into the high 80's to low 90's as hog supplies level off from less farrowings and the general meat market heats up from lower meat supplies. Beef and poultry supplies will also be lower in the coming year, so all meat and live animal prices will be higher in 2013.

Table 2. ISU Projected Lean Hog Price and Change in Pork Supply

	% change in supply	ISU Forecast Model	Futures (9/28/12) adjusted for IA basis
OCT-DEC	+1.5	75-77	72.08
JAN-MAR	-1.2	79-82	79.29
APR-JUN	-1.0	87-90	91.06
JUL-SEP	+0.3	89-92	92.50

For now the profitability outlook is still suffering from the stifling high cost of feed. Producers are hoping for a better corn crop next year. With commodity prices as high as they are there will be plenty of incentive for crop producers to plant as many acres as possible, however good growing conditions are a must. Adequate winter precipitation and ground moisture prior to planting are all precursors for the condition and size of the crop. This year livestock producer will be watching the weather as much or more than those who grow the corn, soybeans, and hay. If conditions are not conducive to a good crop or if the drought pattern continues, swine producers will brace for continued high feed costs and plans for genuine expansion will be postponed.

Shane Ellis and Lee Schulz

August Milk Production Declines Slightly

August 2012 23 major dairy states milk production decreased 0.2%. Production per cow was down by 10 pounds from one year ago. Milk cow numbers were 32,000 more than August 2011 but 4,000 less than July 2012. July 2012 milk production was revised down 24 million pounds or 0.2%.

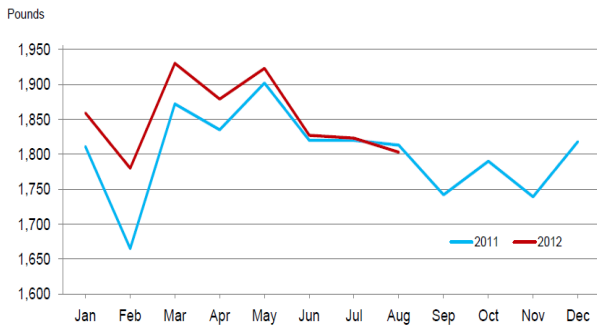
The largest decline in milk production occurred in the largest dairy state, California which had 10,000 more dairy cows but milk per cow was 125 pounds less than one year ago. Feed costs have driven most of the drop in milk per cow there. The national news media has started to do some reporting about the decline and feed costs. Comments by some dairy farmers have gone to the CA Department of Food and Agriculture to boost milk prices there. CO milk production rose by 6.2% due to more dairy cows and milk per cow. Milk cow numbers peaked this past April. But they are still above one year ago while 23-state milk production has declined.

USDA's "Livestock Slaughter" report said dairy producers sent 275,000 dairy cows to slaughter during August 2012, 36000 more than July 2012 and 30000 more than one year ago. During Jan-Aug period, US dairy producers culled 48000 more dairy cows than one year ago. Dairy cow numbers for the 23 states were 32000 higher than one year ago and we slaughtered an additional 30000 compared to one year ago. That means 80000 dairy heifers moved into the milking herd. The July 2010, "Cattle Inventory" reported US dairy cow numbers flat from one year ago and dairy heifer numbers down by 2% to 4.1 million replacements.

Milk Production: Selected Dairy States, August 2012

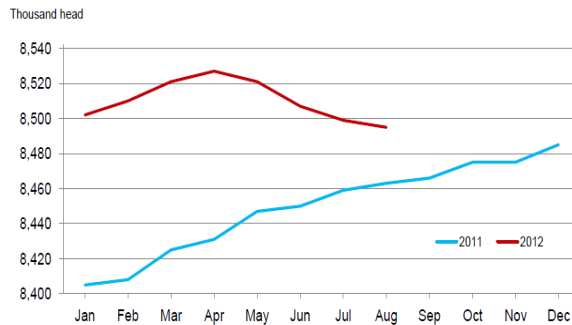
State	thousands			pounds			million pounds		% change total milk
	2011 cow numbers	2012 cow numbers	% change cow numbers	2011 milk per cow	2012 milk per cow	% change milk/cow	2011 total milk production	2012 total milk production	
Iowa	200	203	1.50%	1815	1770	-2.48%	363	359	-1.02%
MN	467	465	-0.43%	1570	1620	3.18%	733	753	2.74%
WI	1264	1271	0.55%	1745	1820	4.30%	2206	2313	4.88%
IL	98	100	2.04%	1530	1560	1.96%	150	156	4.04%
CA	1773	1783	0.56%	1975	1850	-6.33%	3502	3299	-5.80%
CO	129	133	3.10%	2000	2060	3.00%	258	274	6.19%
KS	123	124	0.81%	1855	1895	2.16%	228	235	2.99%
ID	582	578	-0.69%	2030	2040	0.49%	1181	1179	-0.20%
AZ	187	184	-1.60%	1815	1770	-2.48%	339	326	-4.04%
NM	330	328	-0.61%	2065	2015	-2.42%	681	661	-3.01%
PA	539	535	-0.74%	1640	1625	-0.91%	884	869	-1.65%
NY	610	610	0.00%	1785	1820	1.96%	1089	1110	1.96%
TX	435	440	1.15%	1795	1740	-3.06%	781	766	-1.95%
23-State	8463	8495	0.38%	1813	1803	-0.55%	15342	15313	-0.19%
US 2nd quarter	9168	9254	0.94%				48459	51017	5.28%

Monthly Milk per Cow – 23 Selected States



Source: Milk Production, USDA

Monthly Milk Cows – 23 Selected States



Source: Milk Production, USDA

Livestock Slaughtered Under Federal Inspection, By Class – United States

[Data may not add to totals due to rounding]

Class	August 2011	July 2012	August 2012	January to August		August 2011	July 2012	August 2012	January to August	
	(1,000 head)	(1,000 head)	(1,000 head)	2011	2012	(percent of total)	(percent of total)	(percent of total)	2011	2012
Cattle										
Steers	1,561	1,457	1,505	11,214	10,980	51.1	52.9	51.0	49.9	50.4
Heifers	841	726	836	6,592	6,275	27.5	26.4	28.3	29.3	28.8
All cows	600	526	561	4,287	4,174	19.6	19.1	19.0	19.1	19.2
Dairy cows	245	239	275	1,910	2,038	8.0	8.7	9.3	8.5	9.4
Other cows	355	287	286	2,378	2,136	11.6	10.4	9.7	10.6	9.8
Bulls	52	45	51	382	362	1.7	1.6	1.7	1.7	1.7
Total	3,053	2,755	2,952	22,475	21,790	100.0	100.0	100.0	100.0	100.0

Source: Livestock Slaughter, USDA

Demand or Disappearance

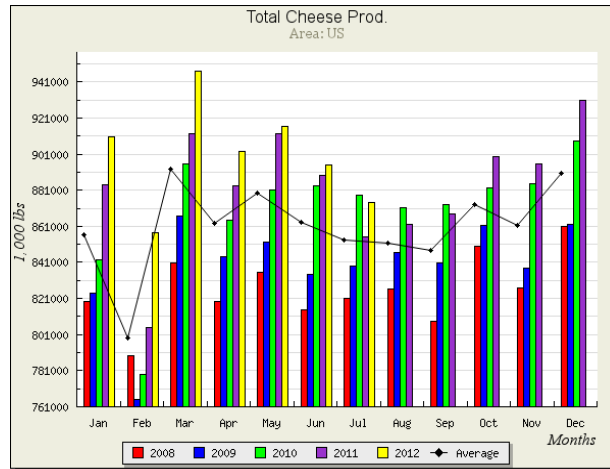
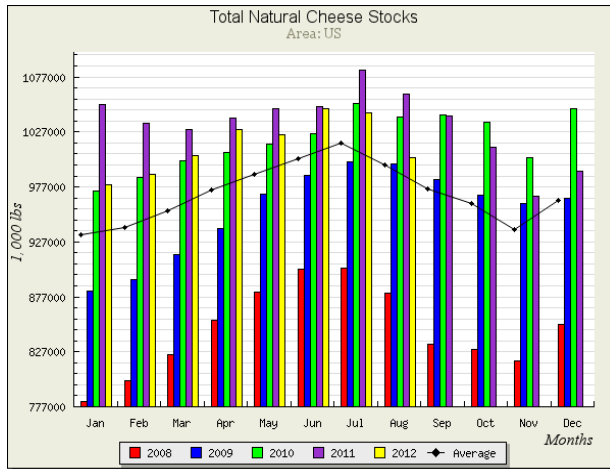
Fluid milk demand continues to be lower than one year ago. YTD fluid milk consumption is -2.1%. But total milk disappearance is +2.6% from last year. Exports account for 13.5% of US milk solids YTD. That is an increase of 0.4% from last year. Exports have been a bright spot for US dairy producers the past few quarters.

Cheese production and stocks compared to one year ago are lower and more in line with the five-year average. This leads to less reason for down-ward pressure on milk price due to lower dairy product stocks.

COMMERCIAL DISAPPEARANCE: TOTAL MILK AND SELECTED DAIRY PRODUCTS - MAY 2011-JULY 2012 AND YEAR-TO-DATE 2011-2012 1/

Item	May-Jul.	Percent	May-Jul.	Percent	Jan.-Jul.	Percent	Jan.-Jul.	Percent
	2011	change 2/	2012	change 2/	2011	change 2/	2012	change 2/
Million Pounds								
MILK								
Production	50,293	0.9	50,809	1.0	115,347	1.5	119,033	2.7
Marketings	50,044	0.9	50,560	1.0	114,773	1.5	118,460	2.7
Beginning Commercial Stocks 3/	12,190	-9.4	14,450	18.5	10,927	-3.6	10,983	0.5
Imports 3/	610	-6.4	773	26.7	1,565	-3.2	1,791	13.9
Total Supply 4/	62,844	-1.4	65,783	4.7	127,265	1.0	131,234	2.3
Ending Commercial Stocks 3/	13,625	-0.6	14,116	3.6	13,625	-0.6	14,116	3.6
Net Removals 3/	0	-100.0	0	0.0	0	-100.0	0	0.0
Commercial Disappearance 4/	49,219	-1.6	51,667	5.0	113,640	1.3	117,118	2.6
SELECTED PRODUCTS 5/								
Butter	386.5	2.5	461.0	19.3	971.7	10.0	1,017.0	4.2
American Cheese	1,058.4	-2.8	1,084.8	2.5	2,480.6	0.4	2,520.0	1.1
Other Cheese	1,617.3	3.3	1,653.4	2.2	3,781.2	5.5	3,883.1	2.2
Nonfat Dry Milk	386.2	4.0	609.7	57.9	876.6	-2.4	1,255.7	42.7
Fluid Milk Products 6/	12,715.1	-1.3	12,598.2	-0.9	30,900.2	-1.9	30,431.8	-2.1

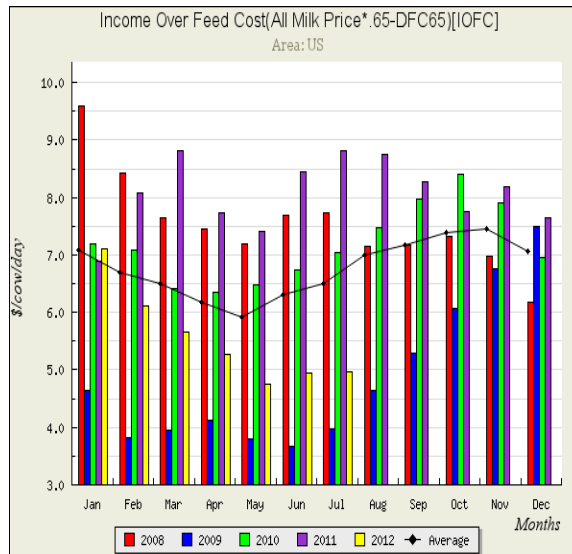
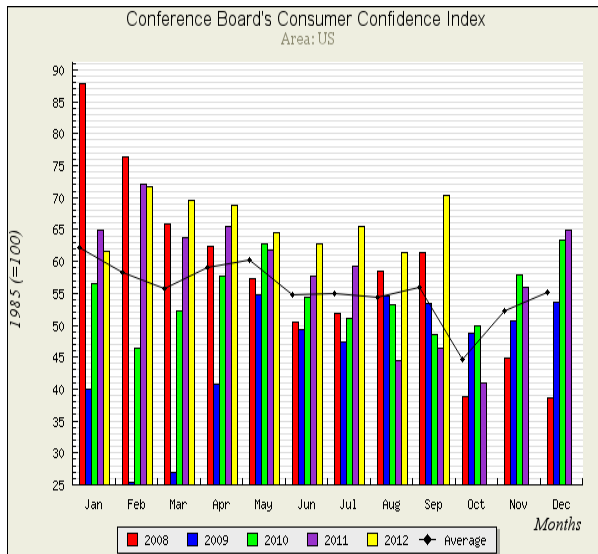
Source: Dairy Market News



Source: Understanding Dairy Markets, U of WI

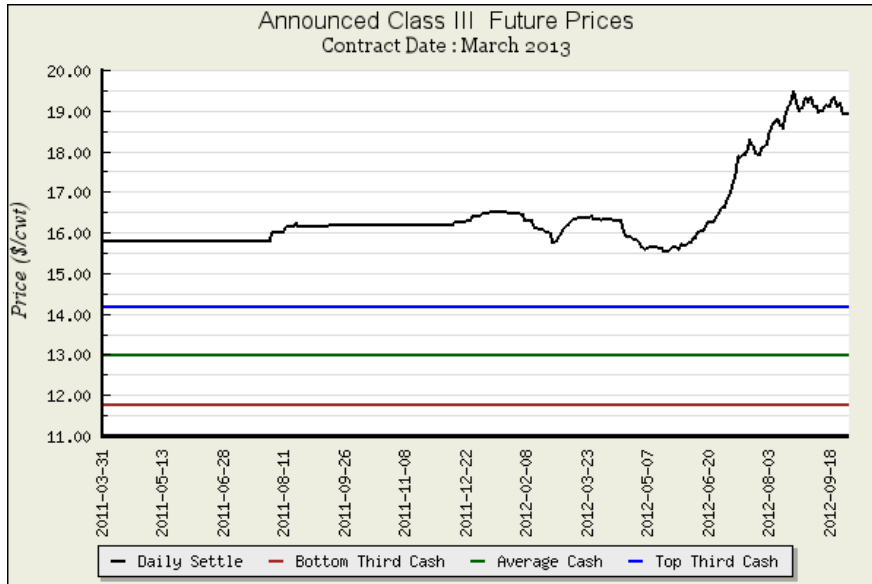
Analysis

The July 2012 Income Over Feed Cost (IOFC) calculation for milk production is somewhat higher than the most recent low in April. The Consumer Confidence Index jumped 9 points compared to the previous month. That is a nice upward move. On the other hand the Restaurant Industry Index and Expectations Index are above 100. When these indices are above 100 restaurant performance and expected conditions is that expansion will occur. That would lead one to conclude that economic conditions are improving. However jobs data provides a less optimistic view.



Source: Understanding Dairy Markets, U of WI

Milk prices have improved over the past few months, but not enough to pay for the increased feed costs that have occurred this summer. As mentioned above the IOFC calculation has improved some since April due to milk price increases. Feed costs are pushing more dairy producers into financial distress and most likely we will see that continue for several months.



Source: Understanding Dairy Markets, U of WI

Robert Tigner

A Quick Harvest

September ended on a bang with the release of USDA's Grain Stocks report. With corn stocks lower than expected and soybean stocks higher than expected, the report had a lot of information to dissect. By the end of the day, both corn and soybean prices were higher as traders continue to adjust to very tight stocks for both crops.

Corn stocks came in at 988 million bushels, sizably below the trade estimate of 1.145 billion and USDA's previous estimate of 1.181 billion. But while stocks are down, so is corn disappearance. In the last quarter, corn disappearance is down 15 percent compared to last year. Corn supply and demand have both shrunk with the drought. It will be interesting to see how USDA adjusts demand estimates to reflect the lower stock levels.

On the soybean side, the stocks numbers, in combination with demand data, forced USDA to update the 2011 soybean production numbers. Soybean planted area was raised 70,000 acres, while harvested area was increased 140,000 acres. The 2011 soybean yield was increased to 41.9 bushels per acre. These changes added 37.5 million bushels to the 2011 production total. Before this adjustment, USDA and the trade had expected 130 million bushels of soybeans in stocks. After the adjustment, the stock number sits at 169 million bushels.

So while both markets remain tight, corn got tighter, but soybeans did not. This allowed the market bulls to roam for another day based on the corn information. But the stocks picture also gave us another update on the demand situation. The high prices over the last couple of months have taken an impact on crop demand. Corn usage for ethanol has slowed down. Feed demand has fallen dramatically. But export demand has been mixed. For corn, demand has slowed nearly all across the board. As Figure 3 shows, the only market moving more corn now than a year ago is China. Most of our major markets (Japan, Mexico, and South Korea, for example) are down compared to last year.

Figure 1. Corn Stocks (Source: USDA-NASS)

Billion bushels

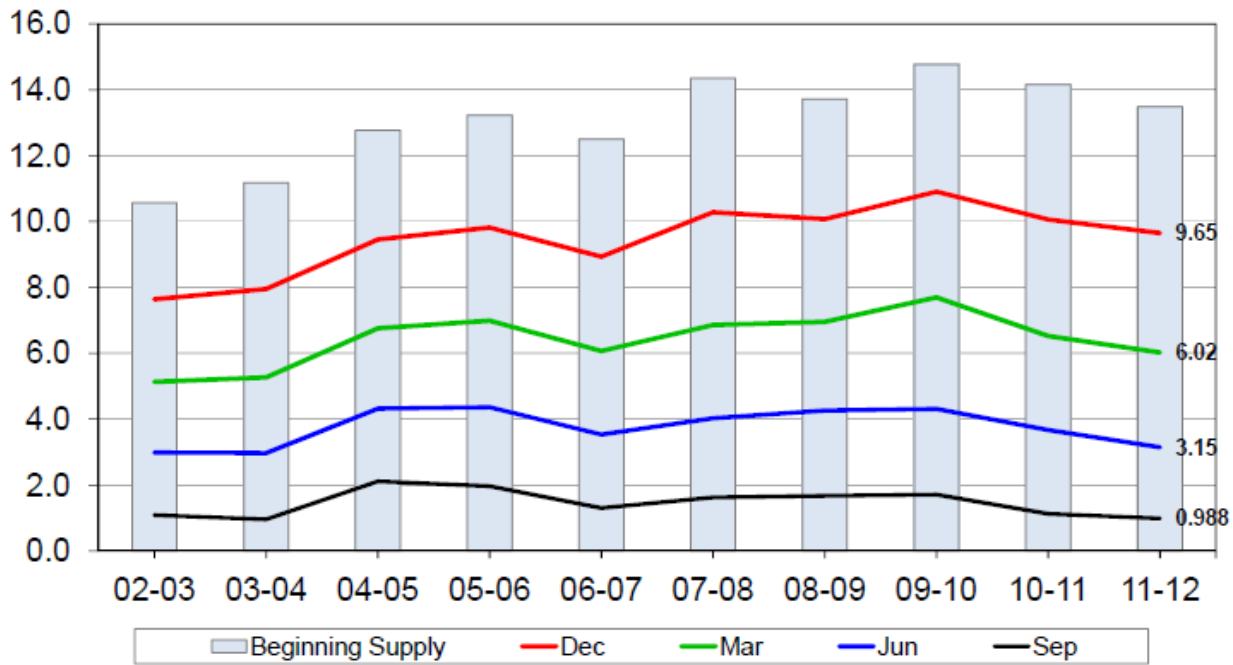
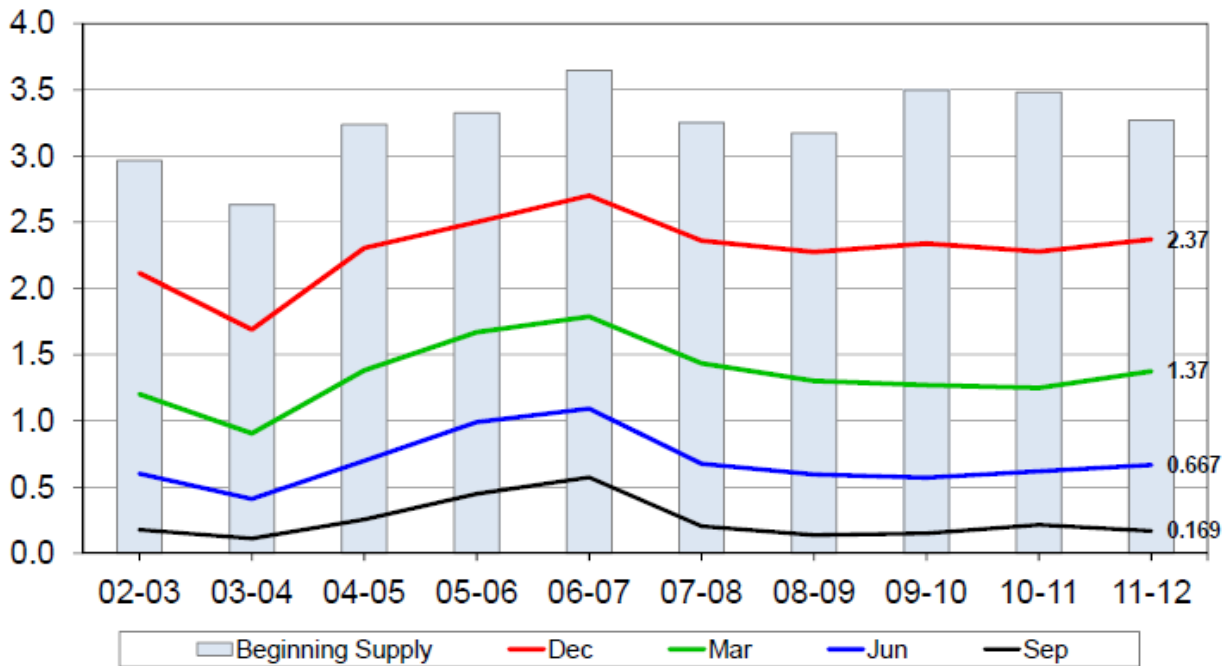


Figure 2. Soybean Stocks (Source: USDA-NASS)

Billion bushels



For soybeans on the other hand, business has been relatively better. China remains the dominant market and export sales there continue to grow. But there has also been demand growth in Europe, Taiwan, and unknown destinations (which could again mostly be China). So while corn export sales are down by a third, soybean export sales have surged by a third.

Figure 3. Corn Exports (Source: USDA-FAS)

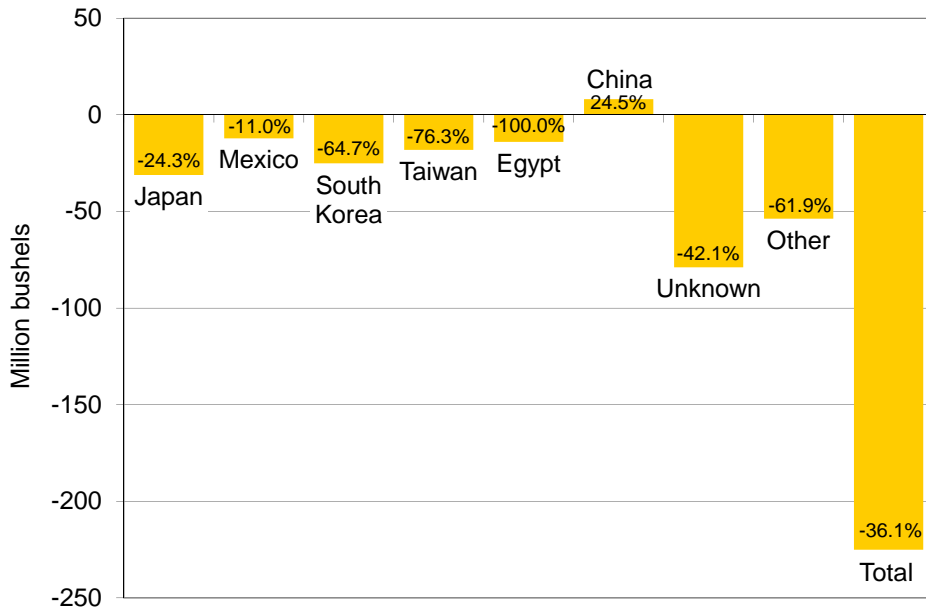
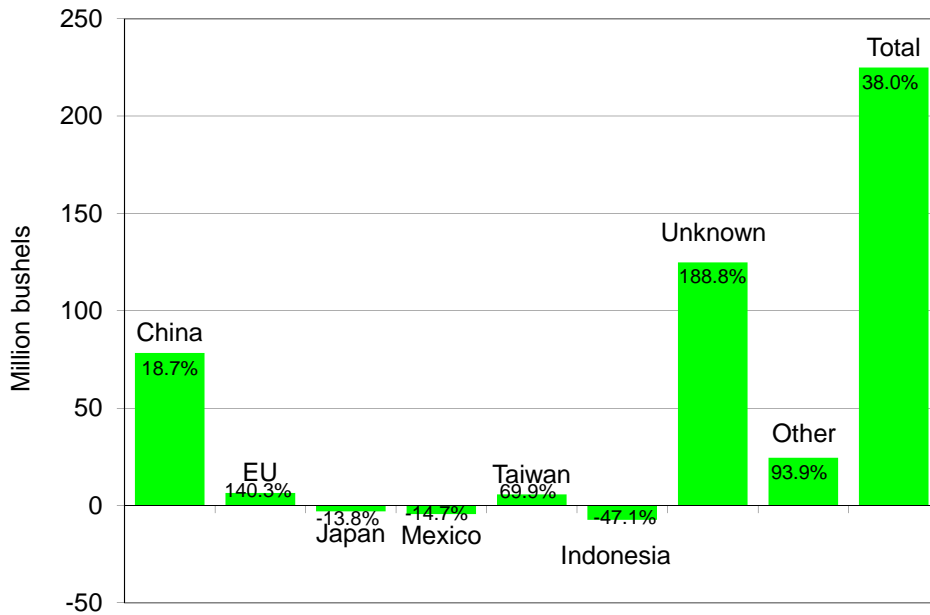
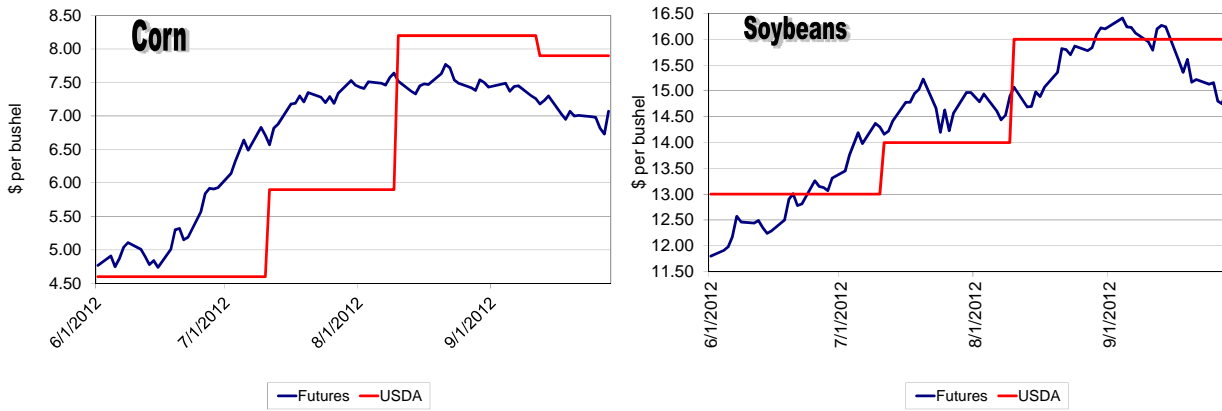


Figure 4. Soybean Exports (Source: USDA-FAS)



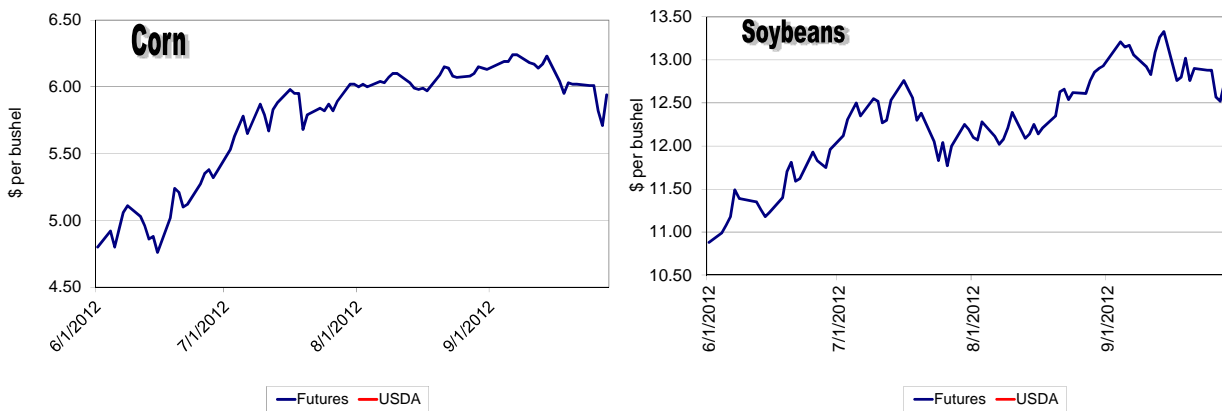
As of September 30, the harvest in Iowa was half complete as over 50 percent of both the corn and soybean crops are in the bin. And as the harvest has rolled in, the yield talk shifted from disappointment to surprise. It seems that with each week that goes by, the yield reports I hear improve. That yield chatter was also reaching the markets as both the corn and soybean markets trended downward in September. The stocks-induced price rally halted that trend temporary. But even with the down month pricewise, the price outlook still looks strong. USDA is currently projecting 2012/13 season-average prices around \$7.90 per bushel for corn and \$16 per bushel for soybeans. The futures markets aren't quite as bullish, but they are also showing good price levels. The season-average price estimates based on the end of September futures were \$7.07 for corn and \$15.06 for soybeans. Both of those price levels would be records.

Figure 5. Estimated 2012/13 Season-average Price from Futures



And those strong price levels are not just restricted to the 2012 crops. Futures prices for the 2013/14 crops indicate season-average prices around \$6 for corn and \$12.75 for soybeans. These prices aren't as high as the recent drought-induced prices, but they provide a solid pricing opportunity above average production costs. Natural disaster pricing can open up some tremendous marketing opportunities, but you have to be willing to grab those prices while you can as prices can go down just as quickly as they go up.

Figure 6. Estimated 2013/14 Season-average Price from Futures



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