

# Iowa Farm Outlook

Department of Economics  
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## Paying Tribute to the Dairy Industry: Its Milk, Its Dairy Products, Its Cattle

Happy June Dairy Month! National Dairy Month started out as National Milk Month in 1937 as a way to promote drinking milk. It was initially created to help stabilize dairy demand when production was at a surplus, but has now developed into an annual tradition that celebrates the contributions the dairy industry has made.

Iowa is currently 12th as a state in terms of dairy cows (205,000), 13th in milk production (4.43 billion pounds per year), and 10th in milk production per cow (21,730 pounds of milk per cow per year). In terms of gross income, the \$888.88 million in 2011 represented 3 percent of all Iowa agricultural receipts and 7 percent of all Iowa livestock receipts. Estimates from the Iowa State Department of Economics indicate that Iowa dairy producers directly supported 1,342 jobs in 2011, but considering all other jobs that are sustained by the industry, 3,875 total Iowa jobs were directly or indirectly linked to dairy production. This total labor activity produced the equivalent of \$540.40 million in total value added (or GDP) from \$1.44 billion in total economic output.

I would be remiss if I concluded the discussion there and did not highlight feeding Holstein steers as an important component of the U.S. beef industry. According to the 2011 National Cattlemen's Beef Association Quality Audit, 5.5 percent of beef consumed in the U.S. is Holstein beef. Feeding Holstein steers is, and will continue to be, an important industry in Iowa. Iowa and the surrounding region has a steady supply of Holstein bull calves, abundant feed production and storage, feeding facilities, management and labor capabilities, and slaughter capacity. According to USDA Agricultural Marketing Service reports on auction markets in Iowa, Holstein steers accounted for approximately 36 percent of all reported slaughter steer auction sales in 2012.

With a growing dairy industry in Northwest Iowa, dairy steer feeding is periodically attractive for cattle feeders that might not otherwise consider it. Also, considering the historically tight feeder cattle supply situation and resultant record high feeder cattle prices it may be a good time to take a closer look at feeding dairy steers.

I am often asked, what is the market price relationship between Holstein and beef breed fed steers? The price comparisons in table 1 suggest that Holstein steers are discounted compared to beef breed steers in all cases, but also that Select grade Holstein steers are discounted more heavily than Select grade beef breed steers. From 2007 through 2012 Holstein-beef breed slaughter steer price spreads have widened for Choice cattle and narrowed for Select cattle. This likely comes as more value has been extracted from beef breeds grading Choice (e.g., premiums associated with branded products, breed associations, etc.) resulting in increasing

Table 1. Iowa Holstein and Beef Breed Steer Prices by Year, \$/cwt, 2007-2012<sup>1</sup>

Breed and Weight Class	2007	2008	2009	2010	2011	2012
Choice Holstein Steers, 1100 to 1300 lbs	82.11	81.65	72.48	84.19	105.86	111.73
Choice Holstein Steers, 1300 to 1500 lbs	83.26	81.71	72.62	83.96	105.89	112.42
Select Holstein Steers, 1100 to 1300 lbs	72.44	71.86	62.20	73.69	93.32	101.62
Select Holstein Steers, 1300 to 1500 lbs	73.53	73.11	61.82	75.23	93.98	103.37
Choice Beef Steers, 1100 to 1300 lbs	92.09	90.92	82.32	93.71	115.19	123.13
Choice Beef Steers, 1300 to 1500 lbs	92.21	91.21	82.33	93.96	115.69	123.69
Select Beef Steers, 1100 to 1300 lbs	84.98	84.42	75.10	86.08	105.59	113.08
Select Beef Steers, 1300 to 1500 lbs	85.46	84.31	74.41	83.47	99.70	108.11

Data source: USDA/AMS; Weekly weighted average prices; Dunlap, Sheldon, and Tama, Iowa; tabulations by Lee Schulz.

<sup>1</sup> Holstein steers - Choice 2-3 and Select 2-3; Beef breed steers - Choice 2-4 and Select 2-3.

relative prices compared to Choice grading Holstein steers. Table 2 shows the six-year average for each month's Holstein-beef breed price spread. Averaging across selling months indicates that the price spread for Choice cattle tends to be the narrowest during the first six months of a year and widens throughout the latter part of a year. For Select cattle the opposite price spread pattern exists with the widest price spreads tending to occur early in a year and becoming narrower as a year progresses.

The Iowa Beef Center is in the early stages of working with industry partners on educational programming to address raising Holstein steers with beef as the final product and how this relates to feeding and management programs, marketing, and profitability. Please check the Iowa Beef Center website (<http://www.iowabeefcenter.org/>) and newsletter for updated information as it becomes available.

Table 2. Iowa Holstein-Beef Breed Steer Price Spread by Month, \$/cwt, 2007-2012<sup>1</sup>

	Holstein Steer - Beef Breed Steer			
	Choice		Select	
	1100-1300	1300-1500	1100-1300	1300-1500
January	-10.11	-9.66	-14.25	-13.74
February	-9.18	-9.01	-12.48	-12.77
March	-9.19	-9.88	-12.05	-14.27
April	-10.45	-10.33	-10.18	-10.53
May	-9.88	-9.56	-11.24	-9.67
June	-8.93	-8.77	-10.81	-9.24
July	-10.13	-9.89	-10.28	-9.59
August	-9.35	-9.50	-11.93	-9.53
September	-10.44	-10.38	-14.06	-8.08
October	-10.21	-10.01	-12.33	-9.71
November	-9.92	-10.97	-9.91	-7.46
December	-11.15	-10.71	-13.41	-8.69

Data source: USDA/AMS; Weekly weighted average prices; Dunlap, Sheldon, and Tama, Iowa; tabulations by Lee Schulz.

<sup>1</sup> Holstein steers - Choice 2-3 and Select 2-3; Beef breed steers - Choice 2-4 and Select 2-3.

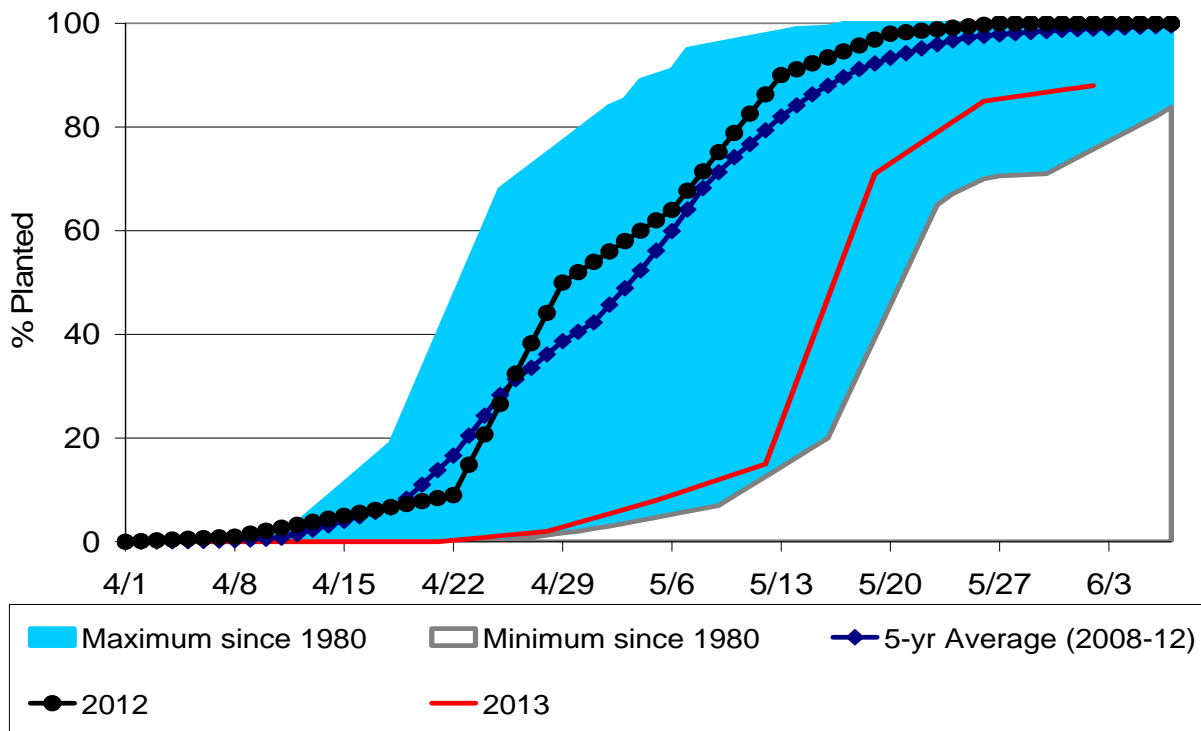
*Lee Schulz*

## **Ocean-front Property**

Somebody's rain dance worked way too well. As I sit in my office today, the rain continues to fall here in central Iowa in early June. Planting delays have been the name of the game for most of this planting season. Thank goodness for that one week in mid-May. There is almost always one week where half of the crop gets planted. And we had that in mid-May. As the figure below shows, over half of the Iowa corn crop was planted the week of May 13. Otherwise, Iowa's planting progress has looked very similar to 1993. Corn emergence is the slowest USDA has their database (but the database only goes back to 1999). It hasn't been an ideal start to the 2013 growing season.

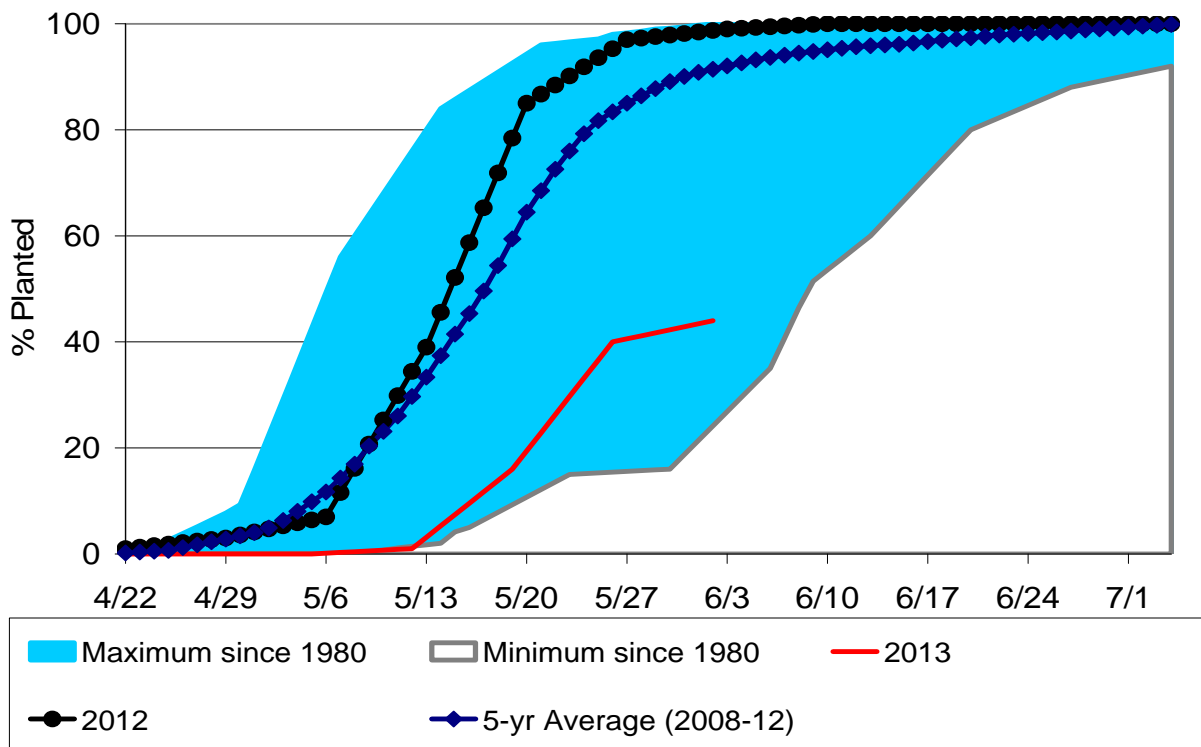
With corn plantings delayed, soybeans have suffered as well. Normally, we would be close to done with our soybean plantings. Now, we are at less than 50%. It's not the slowest we have ever seen, at this time in 1982 we had only 24% of our soybeans planted, but the delay is significant. There is a lot of chatter about prevented planting and the shifting from some land from corn to soybeans. Early trade estimates have approximately two million acres falling out of potential corn production, with roughly half of that headed to soybeans, if Mother Nature allows. In any event, the U.S. is still looking at well over 90 million acres of corn and nearly 80 million acres of soybeans. So the potential for big corn and soybean crops still exists, even with the significant delays in planting.

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



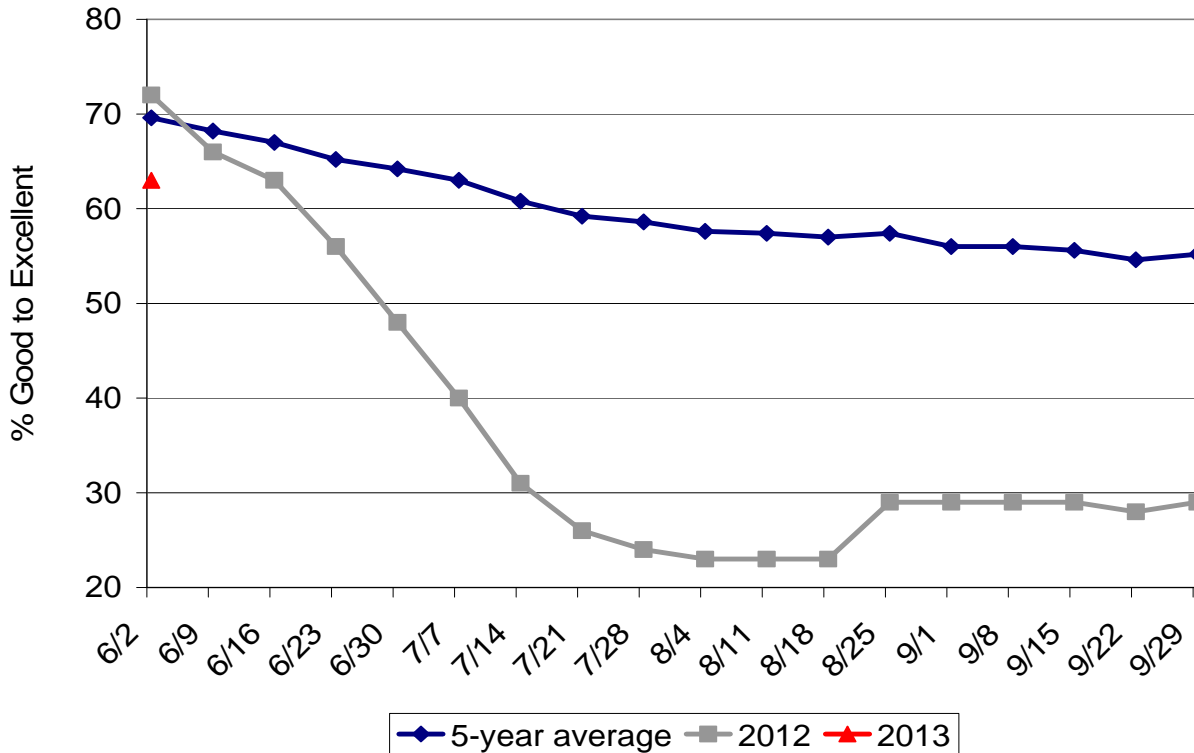
During this 1st two weeks of June, USDA will be conducting its survey for the Acreage report. This report will be released at the end of June and will provide a good snapshot of acreage shifts being imposed by the planting delays. On average over the last 20 years, corn acreage ends up roughly 1.2 million acres below the March planting intentions while soybean acreage usually gains 1.2 million. So the shift from corn to soybeans is a typical occurrence, the shock this year may be in the size of the shift and the amount of ground that may stay as prevented planting.

Figure 2. Iowa Soybean Planting Progress (Source: USDA-NASS).



For the crops that are already in the fields, the old adage is “Rain makes grain.” But even there, especially on some of our better soils, the rain has been a negative issue. As I have driven through Iowa and Missouri over the past week, I have seen a lot of corn field ponds (some deep enough for the geese to swim in). Replanting discussions will fill the coffee shops over the next few weeks. Thus far, the corn crop conditions are on the low side of normal for this time of year. 63% of U.S. corn is rated to “Good to Excellent” currently. Typically, we are around 70%.

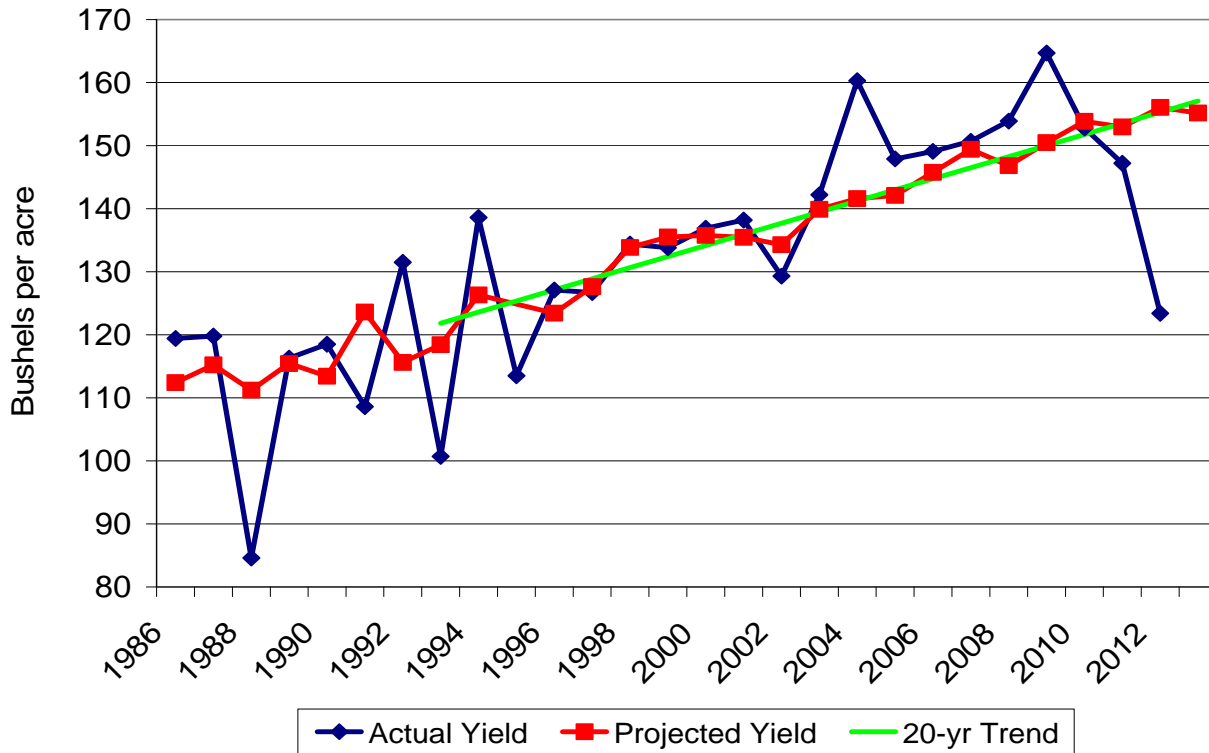
Figure 3. U.S. Corn Crop Conditions (Source: USDA-NASS).



In the past, I have used a little yield model based on the crop condition ratings. That model does not have a lot of power this early in the season, but it does give a rough indication of where yields may be headed. And as the figure below shows, the model has moved below the 20-year trend. Putting this all together, we are looking at lower acreage and below trend-line yields. That implies lower production than USDA initial projections. But that does not mean we are necessarily looking at a small crop. For example, say corn acreage comes in at 95 million acres, we harvest the typical 92% of planted area, and yields are at 155 bushels per acre (that is nearly 9 bushels off of USDA’s trend and 3 bushels below their current estimate). That equates to 13.5 billion corn crop, a record crop by 400 million bushels.

That is why corn prices haven’t reacted very strongly to the planting delays. New crop corn prices have been in the \$5 to \$5.25 range for the past two months now. And they are likely to hold there until the acreage report. Soybean prices, though, have reacted to the planting delays. The soybean market has put on nearly a dollar since May 21. Slow planting, combined with strengthening new crop export demand, have boosted the economic prospects for soybeans. And while the crop margins still favor corn, soybeans look much stronger than they did a couple of weeks ago.

Figure 4. Corn Yield Model based on Crop Conditions



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