

Iowa Farm Outlook

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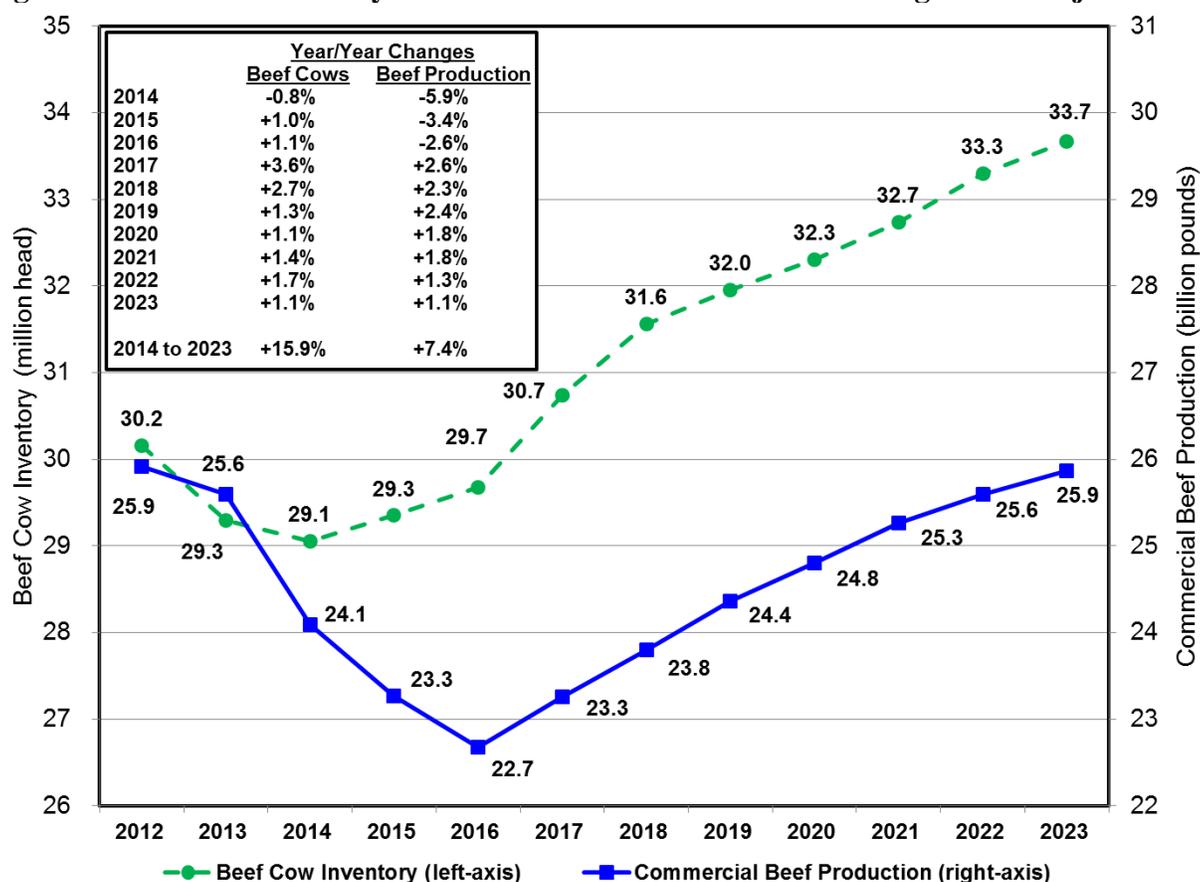
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Long-Term Projections for Beef Production and Trade

We often spend a lot of time focusing on the short-term market situation and outlook. These quarter-to-quarter and year-to-year forecasts are important for business planning. It is also important to step back and take a longer term perspective on occasion, not only where we have been but what factors will carry us forward. To do this it is useful to make note of the USDA ERS Agricultural Projections to 2023. These projections cover crop and livestock commodities, agricultural trade, and aggregate indicators through 2023. The full report can be found at the following website: <http://www.ers.usda.gov/publications/oce-usda-agricultural-projections/oce141.aspx#UxH8XIXEH8l>.

Observations of 2014 projected profits being historically strong for cow-calf producers, leads many to ponder several key aspects of pending expansion — How fast? How large? How long? To help answer these questions it may be useful to dig deeper into USDA ERS’s projections for beef cow inventory and commercial beef production (figure 1). Though 2013 was another year of herd reduction with the January 1, 2014 beef cow inventory approximately 1.0% below year ago levels, inventory projections suggest a period of herd stabilization with little growth could be on the horizon. Most herd expansions in the past have included one to two years of minimal or modest herd growth before accelerating for two to three years. This acceleration phase could take place during 2017 and 2018.

Figure 1. Beef Cow Inventory and Commercial Beef Production Long-Term Projections



Data Source: USDA/ERS release February 13, 2014

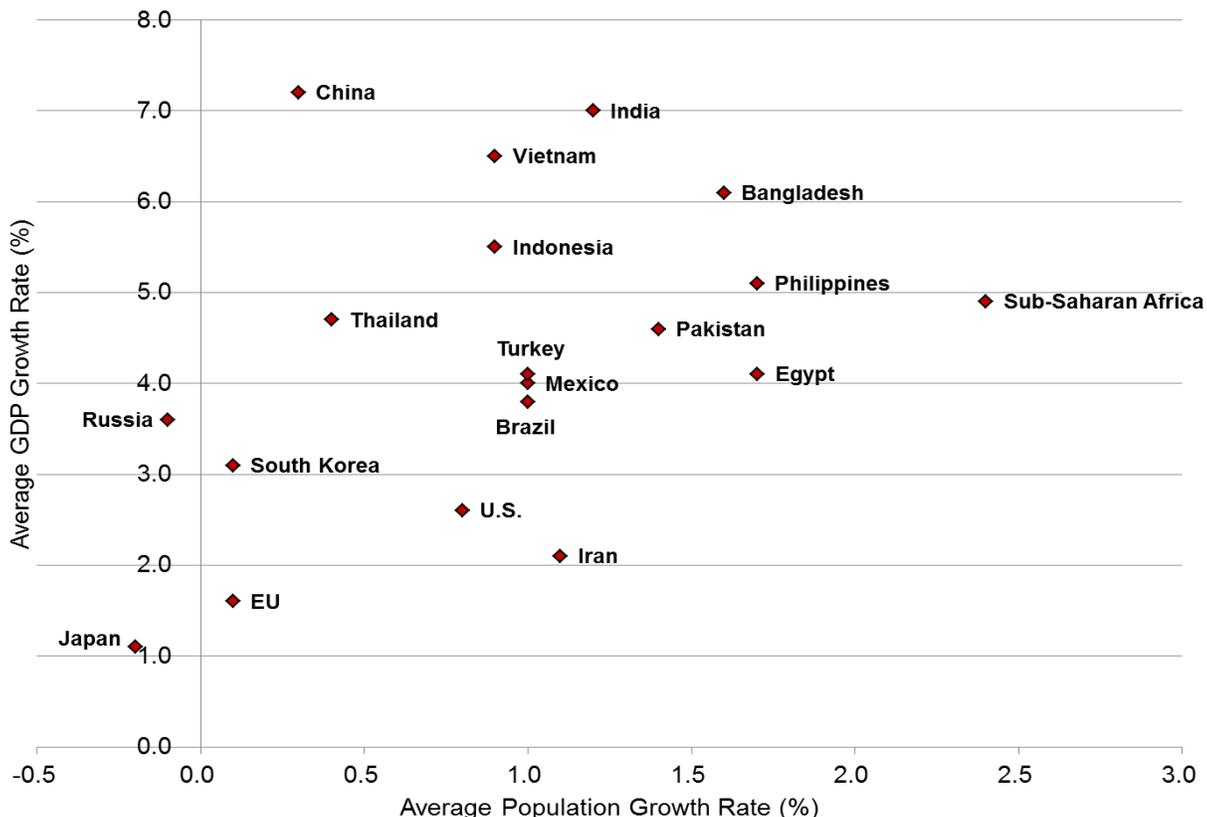
Commercial beef production in 2013 decreased 0.8% with a 1.5% decrease in slaughter being offset by a 0.8% increase in slaughter weights. Beef cattle slaughter will continue to fall as the market transitions into a much tighter supply situation in 2014 exacerbated even more by increasing heifer retention for placement into the reproductive herd. This reduction in slaughter numbers will likely be partially offset by higher slaughter weights. Commercial beef production projections suggest a 5.9%, 3.4%, and 2.6% year/year decrease in 2014, 2015, and 2016, respectively.

Any projections should recognize the industry’s efficiency gains as evidenced by increasing slaughter weights offsetting declining inventories. What does this mean for future beef cattle inventories? During the expansion phase, small increases in cattle inventories will have larger impacts on beef production than in the past. So, if the industry starts to expand again, it’s important to remember that modest changes in cattle inventories will likely produce larger beef production increases than in the past because productivity is increasing and manifesting itself in the form of ever increasing beef production per cow. How large inventories and production can and will expand will largely depend on growth in domestic and export beef demand.

Demographics are important drivers of meat demand. Trends in population, age, and income in the U.S. and export customer countries are reasonably predictable and have differing implications for meat demand. More people require more food and, in general, older populations tend to eat less meat than younger populations. We also have a lot of experience that meat consumption increases as economies move beyond subsistence levels of income.

Figure 2 highlights projections for per capita GDP growth versus population growth from 2013 to 2023. Several export destinations have projected increasing incomes, population, and the potential for increasing per capita meat consumption. Africa and the Middle East have the potential for considerable growth but are arguably the least understood growth market. Latin America is a growing producer as well as a growing consumer. In contrast, several export destinations have projected declining global economic prevalence, populations, and possibly the potential for decreasing per capita meat consumption.

Figure 2. Per Capita GDP Growth versus Population Growth, 2013-2023



Data Source: USDA/ERS release February 13, 2014

The following global beef import projections take into consideration trends in population, age, and income in importing countries and a conditional, long-run scenario based on specific assumptions about international developments (Table 1).

Table 1. Beef Importers Long-Term Projections

Beef importers: thousand metric tons, carcass weight	2012	2013	2014	...	2023	2013 to 2023 Growth	
						%	Total
Japan	737	767	781	...	814	6%	47
South Korea	370	370	398	...	584	58%	214
Taiwan	116	135	135	...	150	11%	15
Philippines	121	117	115	...	136	16%	19
China	99	400	475	...	784	96%	384
Hong Kong	241	450	550	...	806	79%	356
Other Asia	301	346	379	...	635	84%	290
European Union 1/	348	350	350	...	335	-4%	-15
Russia	1,023	1,000	1,020	...	1,213	21%	213
Other Europe	58	64	64	...	70	9%	6
Egypt	250	215	230	...	315	46%	100
Other N. Africa & M. East	743	704	739	...	1,105	57%	401
Mexico	215	225	235	...	534	137%	309
Canada	301	320	315	...	326	2%	6
United States	1,007	1,024	1,027	...	1,324	29%	300
Major Importers	5,930	6,487	6,814	...	9,129	41%	2643

1/ Excludes intra-EU trade.

Data Source: USDA/ERS release February 13, 2014

It is well established that U.S. cattle producers operate in an increasingly global marketplace. The ability of the industry to send its products to the highest value market outlets and the comparative interest in countries worldwide to expand or adjust their meat consumption patterns will progressively influence economic prospects for the U.S. industry. Expect ongoing prospects of trade deals being passed or adjusted to continue. Many of which will have largely beneficial implications for U.S. cattle production. However, it is increasingly important to acknowledge that any export market can be quite fragile and be prepared for disruptions. Global markets are diverse with marked variation in preferences.

Lee Schulz

When Spring Finally Gets Here

With temperature still below zero as we enter March, it can be hard to imagine spring planting. But before long, farmers will be out in the fields putting down seed and hoping for rain. Near the end of February, USDA released its first set of projections for the 2014 crop year. Those projections show both crop supplies and demands are continuing to grow after the drastic cuts due to the 2012 drought across the Midwest. While prices have fallen significantly, acreage in corn and soybeans remains strong as other crops are not offering strong incentives to switch. And while demand is projected to be at record levels, supplies are projected to be even larger. Thus, the projections show another year of lowering prices ahead.

For corn, USDA projected 92 million acres for planting. That would be 3.4 million less than in 2013 and 5.2 million less than in 2012. So the lower corn prices did move a few acres out of corn production. But given trendline yields of 165 bushels per acre, the potential still exists for another record corn crop. As the numbers now stand, the 2014 corn crop would just squeeze by the 2013 crop as the largest corn crop. With just under 14 billion bushels of corn produced and over a billion in storage, the U.S. would start the 2014/15 corn marketing year with nearly 15.5 billion bushels of corn. That is a tremendous amount of corn to work through.

As with corn production, USDA projects corn demand to just pass up the 2013 levels. Feed and residual demand is estimated at 5.4 billion bushels for 2014/15. That is 100 million above their estimate for 2013/14 and over 1 billion bushels above feed and residual use in 2012/13. So USDA shows that they expect the bulk of feed shift to happen in the current marketing year, not the next one. With continued growth in the poultry and pork industries, some feed demand growth is expected. The big question centers on the beef industry, with the timing and strength of cattle herd expansion.

Table 1. U.S. corn supply and use table.

		2010	2011	2012	2013	2014
Area Planted	(mil. acres)	88.2	91.9	97.2	95.4	92.0
Yield	(bu./acre)	152.8	147.2	123.4	158.8	165.3
Production	(mil. bu.)	12,447	12,360	10,780	13,925	13,985
Beg. Stocks	(mil. bu.)	1,708	1,128	989	821	1,481
Imports	(mil. bu.)	28	29	162	35	25
Total Supply	(mil. bu.)	14,182	13,517	11,932	14,781	15,491
Feed & Residual	(mil. bu.)	4,795	4,557	4,335	5,300	5,400
Ethanol	(mil. bu.)	5,019	5,000	4,648	5,000	5,000
Food, Seed, & Other	(mil. bu.)	1,407	1,428	1,396	1,400	1,430
Exports	(mil. bu.)	1,834	1,543	731	1,600	1,550
Total Use	(mil. bu.)	13,055	12,528	11,111	13,300	13,380
Ending Stocks	(mil. bu.)	1,128	989	821	1,481	2,111
Season-Average Price	(\$/bu.)	5.18	6.22	6.89	4.50	3.90

Corn usage for ethanol is expected to remain at 5 billion bushels for the 2014 crop. That would put four of the last five years at the 5 billion bushel mark. There haven't been any new corn-based ethanol plants built in a couple of years. The proposed changes in the Renewable Fuels Standard have created significant concerns within the ethanol industry. And the continuing decline in liquid motor fuel consumption has both the petroleum and bio fuel industries scrambling. It looks as though the corn-based ethanol industry has reached maturity and is, at best, stabilizing, instead of growing.

And while corn exports are providing a major boost in demand for the 2013 crop, USDA projects slightly lower export demand for the 2014 crop. Global corn production was very strong in 2013 and that will likely continue into 2014. With many parts of the world having more corn than usual, global competition in the export markets is expected to pull our corn exports down. But total use is projected to exceed the level expected for the 2013 crop. Ending stocks are expected to build to over 2 billion bushels. And the national season-average price is projected at \$3.90 per bushel, down 60 cents from the current year's estimate and down roughly \$3 per bushel from the record highs for the 2012 crop.

For soybeans, planted area is expected to be higher, mainly capturing the acres moving out of corn. The USDA projections have soybeans reaching a record 79.5 million acres. With a trendline yield of 45 bushels per acre, that points to a record 3.55 billion bushels of soybean production. Total supplies will exceed 3.7 billion bushels.

Soybean demand is projected to increase both domestically and internationally. Domestic crush, creating soybean oil for food, biodiesel, and industrial uses and soybean meal for livestock feed, is expected to rise by 25 million bushels. The soybean meal market has been especially strong as the livestock sectors expand. Soybean exports are projected to reach 1.6 billion bushels, another record. While China has led the surge in exports over the past few years, overall global soybean demand has been on the upswing. But global supplies

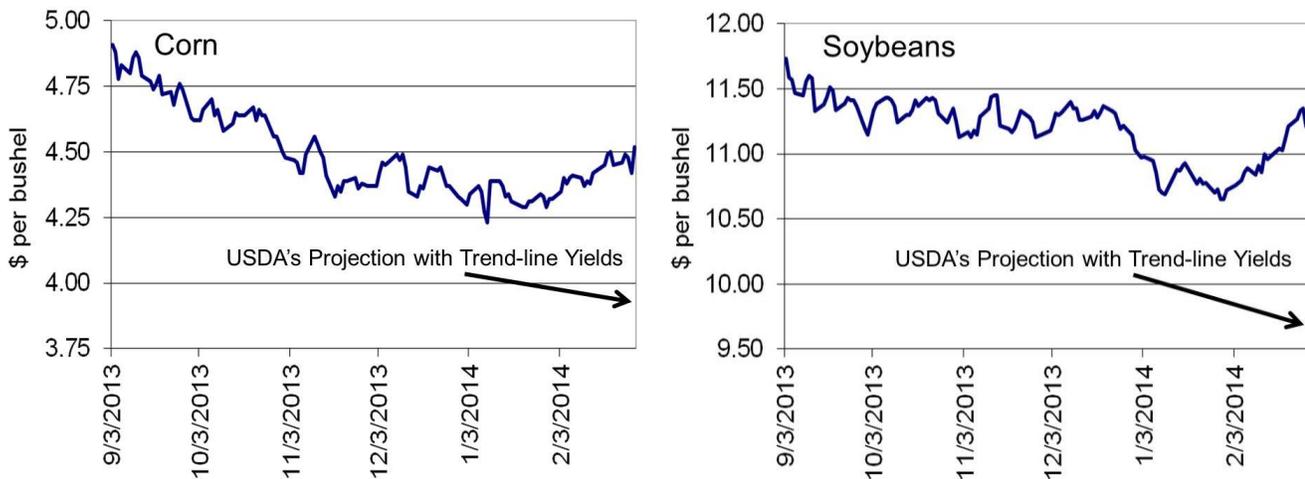
are high as well, so while demand is strong, ending stocks are projected to build and prices are projected to continue to fall. USDA pegged the 2014/15 season-average price at \$9.65 per bushel, down \$3.05 from the 2013/14 estimates and down \$4.75 from the record in 2012.

Table 2. U.S. soybeans supply and use table.

		2010	2011	2012	2013	2014
Area Planted	(mil. acres)	77.4	75.0	77.2	76.5	79.5
Yield	(bu./acre)	43.5	41.9	39.8	43.3	45.2
Production	(mil. bu.)	3,329	3,094	3,034	3,289	3,550
Beg. Stocks	(mil. bu.)	151	215	169	141	150
Imports	(mil. bu.)	14	16	36	30	15
Total Supply	(mil. bu.)	3,495	3,325	3,239	3,459	3,715
Crush	(mil. bu.)	1,648	1,703	1,689	1,700	1,725
Seed & Residual	(mil. bu.)	130	88	90	99	105
Exports	(mil. bu.)	1,501	1,365	1,320	1,510	1,600
Total Use	(mil. bu.)	3,280	3,155	3,099	3,309	3,430
Ending Stocks	(mil. bu.)	215	169	141	150	285
Season-Average Price	(\$/bu.)	11.30	12.50	14.40	12.70	9.65

Figure 1 compares these USDA price projections to estimates derived from the futures markets. For corn, the futures market is providing a more positive pricing outlook. Based on the futures markets at the end of February, futures were indicating a season-average price around \$4.50 per bushel, 60 cents above USDA’s estimate and roughly in line with ISU’s estimated production cost for corn for 2014. With dry soil conditions still dominating the western Corn Belt, there does exist the potential for drier conditions during the growing season to limit yield potential.

Figure 1. 2014 season-average price estimates.



Soybean prices on the futures markets are also running well above USDA’s projections. At the end of February, the futures market pointed to a season-average price in the \$11.30 range, over \$1.50 above the USDA estimate. With estimated production costs around \$11 per bushel, the futures are now showing a potential profit, whereas the USDA estimate shows a sizable loss.

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