IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

Department of Economics
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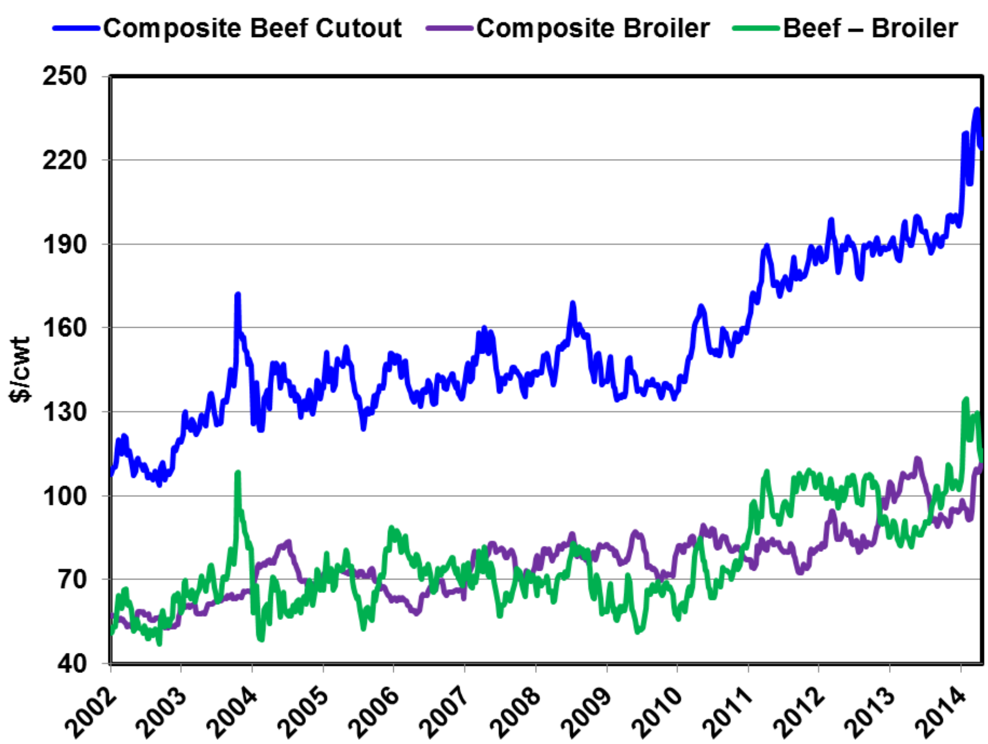
Red Meat and Poultry Prices

Red meat and poultry prices, as with any commodity, are responsive to the balance between supply and demand. Consumers purchase meat based on preferences and willingness to pay. The three major meats consumed in the U.S. are beef, pork, and chicken. They are common substitutes in the consumer's shopping basket and consumers tend to switch from one to the other depending on relative prices. When a tight supply of one meat causes the price to escalate, consumers may be more inclined to purchase other meats. Dramatic fluctuations in retail prices are not conducive to winning customer loyalty and consistent sales, so most retailers try to keep a flat line on their meat counter products. Therefore, wholesale meat prices are a better indicator of how supply and demand are affecting prices. In other words, the wholesale market has been shown to be the primary level at which value and price is discovered. I wade through this verbose introduction as a precursor to trying to make some sense of today's meat markets.

Wholesale Meat Price Spreads

The wholesale beef market enjoyed an extraordinary first four months this year. The comprehensive boxed beef cutout (averaging wholesale prices for Choice, Select, branded and other categories of beef) gained 13% between the first of the year and the end of April. The performance of the pork cutout was even more exceptional. The pork cutout rose by 40% over that same time period. In April, though, wholesale prices of beef and pork appear to have topped out. The comprehensive boxed beef cutout slipped by over $11/cwt (about 5%) and the pork cutout declined by over $14/cwt (about 11%). The decline in beef and pork prices stands in contrast to the behavior of broiler prices. Broiler prices, which languished for most of the first quarter as beef and pork prices soared to new highs, have increased substantially over the last two months. By the end of April,

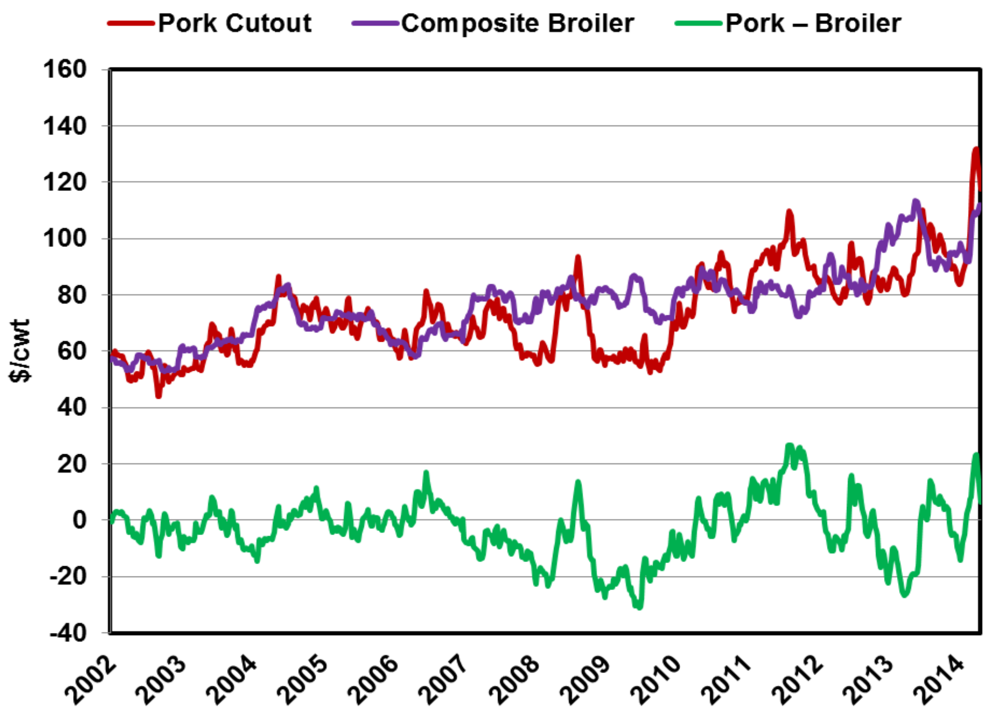
Figure 1. Composite Beef Cutout, Composite Broiler, and Spread



Data Source: USDA-AMS, Compiled and analysis by Lee Schulz.

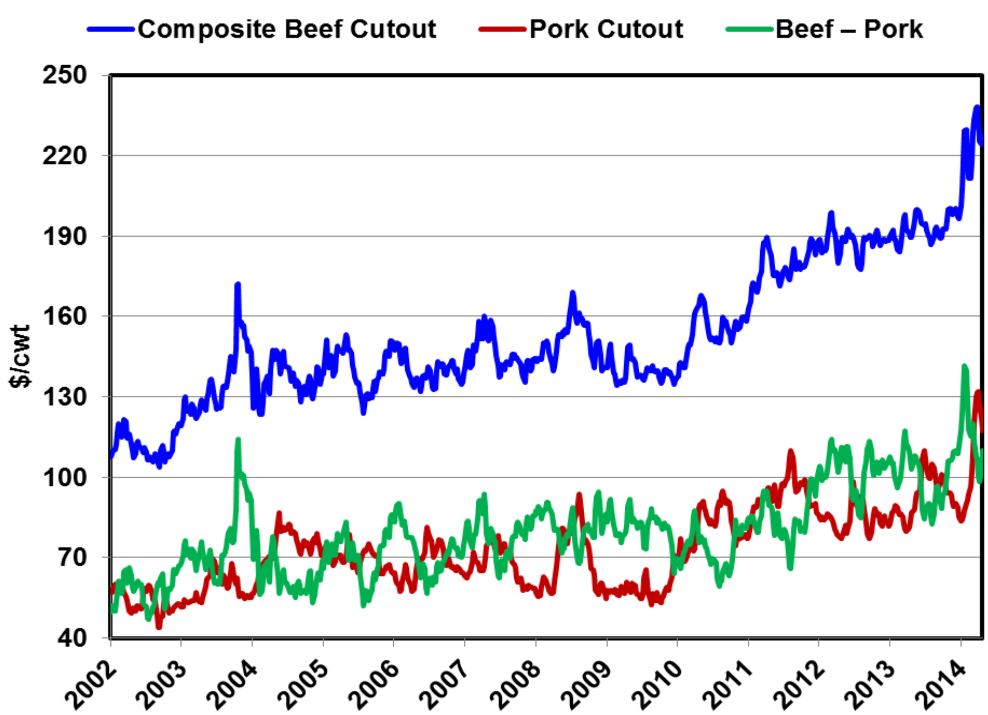
the composite broiler price reached 110.99 cents/pound, a 16% increase over the price at the beginning of the year. This change in prices over the last couple of weeks has brought wholesale beef and broiler prices back closer to their normal historical relationship (figure 1). For now, wholesale pork prices remain quite high relative to broiler prices (figure 2) as well as to beef prices (figure 3). At the beginning of the year, it seemed likely that beef, due to declining production, would be at a persistent relative price disadvantage to competing meats. That, for the most part, has not turned out to be the case to date. Beef, pork, and poultry prices are supporting each other in wholesale markets with higher prices at the current time.

Figure 2. Pork Cutout, Composite Broiler, and Spread



Data Source: USDA-AMS, Compiled and analysis by Lee Schulz.

Figure 3. Composite Beef Cutout, Pork Cutout, and Spread

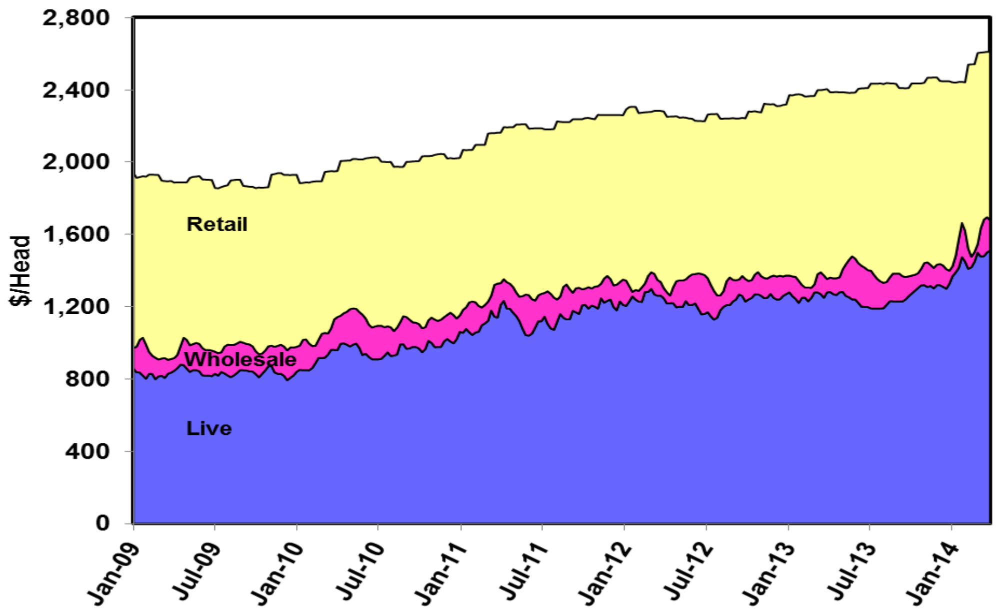


Data Source: USDA-AMS, Compiled and analysis by Lee Schulz.

Live-Wholesale-Retail Price Spread

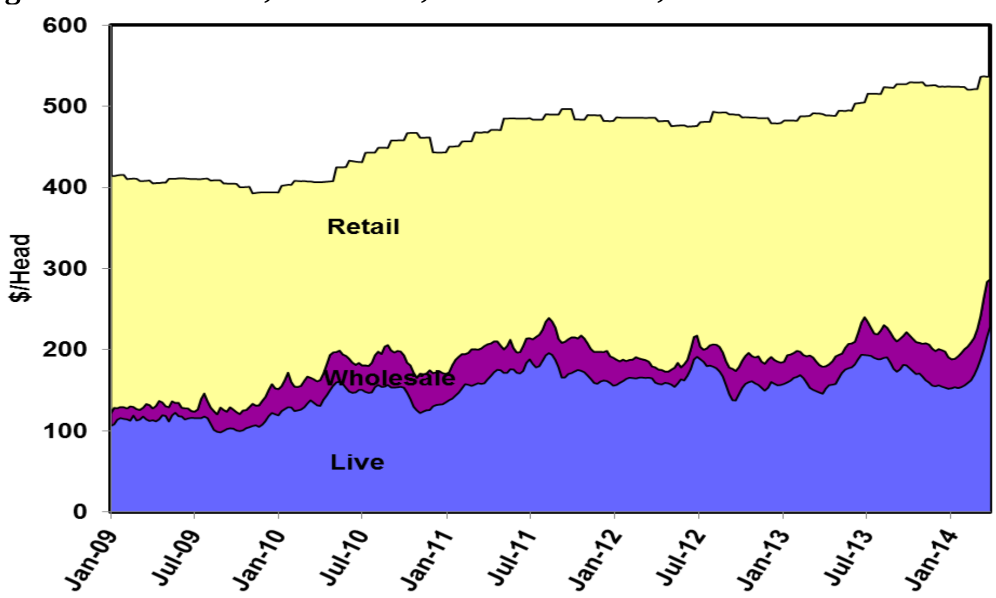
Looking at the price trends through the beef and pork supply line, some portions of the finished sector are realizing a larger portion of "the value-pie" than others, at least compared to historical levels. Figures 4 and 5 are graphs of how meat revenues have been distributed since 2009 on a per head basis (by-products not included). The greatest portion of revenues coming from the sale of beef and pork goes to producers and retailers. Note the plateau effect of the retail revenues, while the value of cattle (hogs) and wholesale beef (pork) fluctuates repeatedly through peaks and valleys. Retail beef and pork prices were fairly level in the last portion of 2013 while wholesale prices experienced considerable volatility and overall prices increased, shortening the gap between wholesale and retail. Recently retail prices have continued to followed changes in wholesale prices, with retailers seeing narrowing gross margins in 2014. Though beef and pork demand appears to be holding thus far, there is considerable uncertainty about how it will hold up through the middle of the year as more of the higher wholesale values get passed through to retail.

Figure 4. Beef Retail, Wholesale, and Live Values, Per Head Basis



Data Source: USDA-AMS, Compiled and analysis by LMIC.

Figure 5. Pork Retail, Wholesale, and Live Values, Per Head Basis



Data Source: USDA-AMS, Compiled and analysis by LMIC.

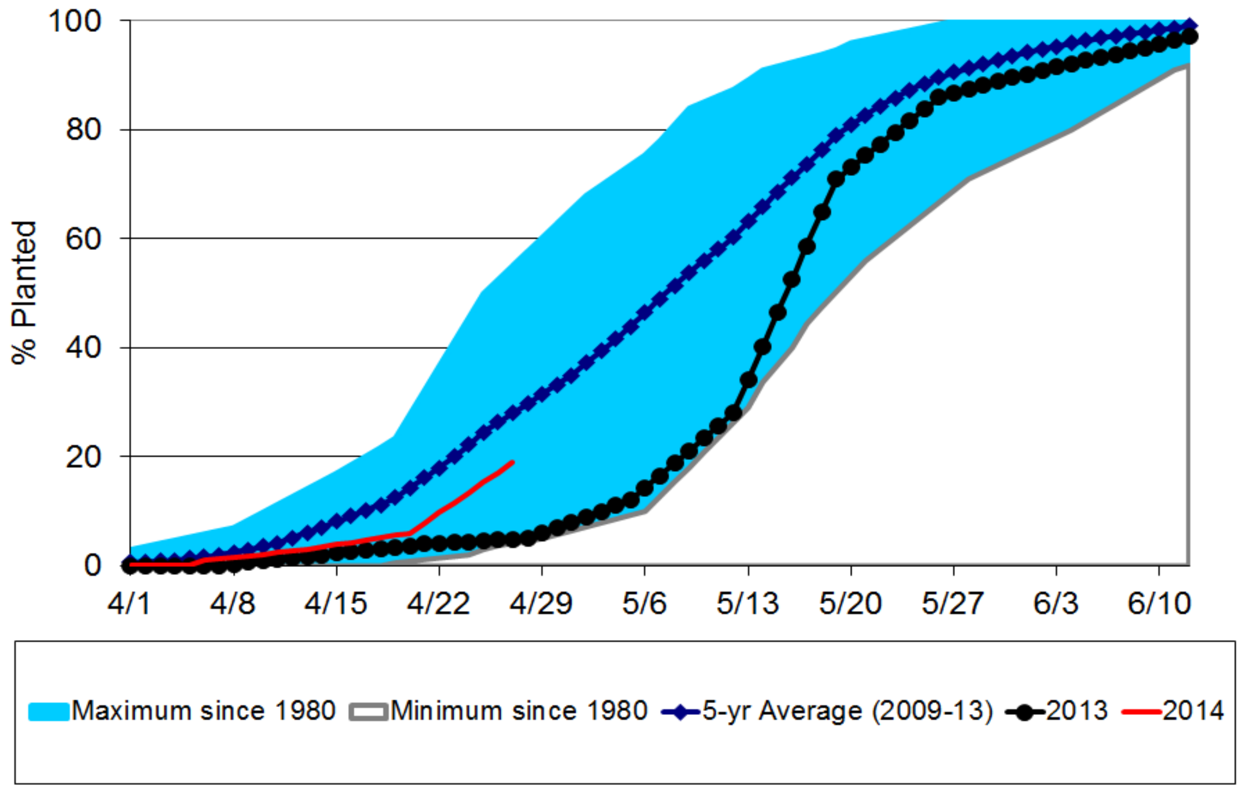
Lee Schulz

A Lot of Rain and A Little Planting

This season has started off a lot like last year. Concerns about drier than normal soils have switched to concerns about wet soils and delays in plantings. While the drought monitor shows the drought intensifying in the Southern Plains, moisture conditions in Iowa have improved a good deal. So much so that planting is running behind schedule. While the delays are not nearly as significant as last year, the crop markets are still paying attention to the planting pace. The 2013 planting pace was one of the slowest over the past 35 years. The 2014 planting pace is below the 5-year average, but sizably ahead of last year. Typically we go into May with around 35 percent of the corn crop planted. As of April 27, we were at 19 percent. With an improving short-term weather forecast (drier and warmer), planting pace should pick up. And invariably we will have one of those weeks where it seems half of the crop gets planted.

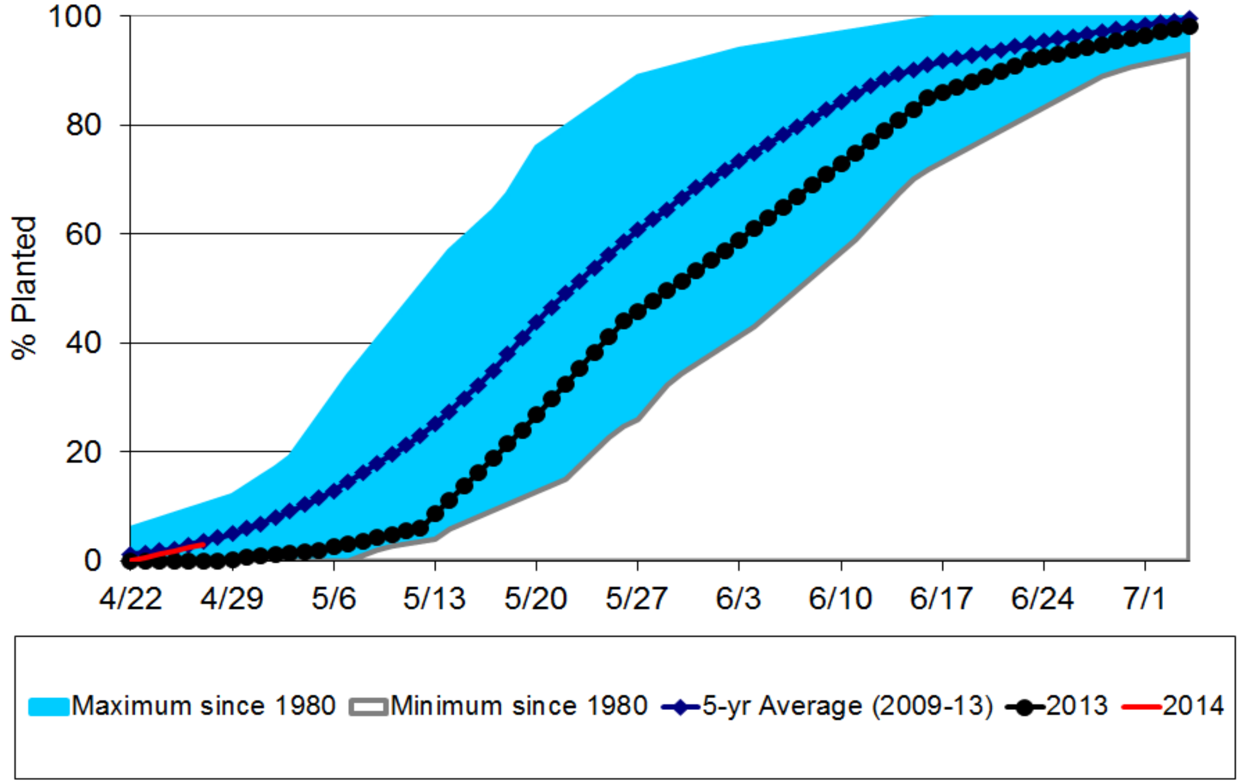
In Iowa, most of the delays have occurred in the eastern 2/3rd of the state. Western Iowa reported over 20 percent of their corn planted by April 27. But many northern states are reporting planting delays, so it's not just a local issue. Looking back at the historical records, 2014 planting pace has most closely paralleled the years 1996-1998. Two of those years (1997 and 1998) resulted in trend-line yields, while 1996 yields were below trend-line.

Figure 1. U.S. corn planting (Source: USDA-NASS).



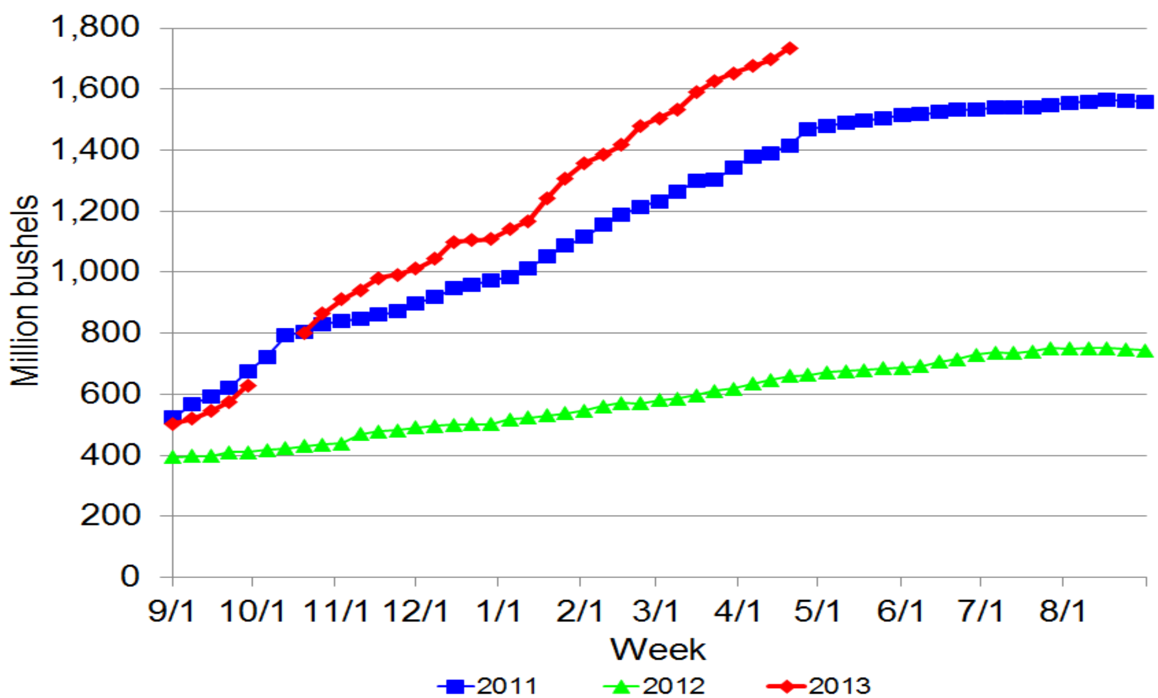
And while soybean plantings are slightly behind the 5-year average, it is very early. In fact, before 2000, it was rare for any soybeans to be planted before May 1. But over the past ten years, early soybean planting has moved into late April. Farmers, in USDA's Prospective Plantings report, indicated a nearly 5 million acre swing to soybeans. It will be interesting to see how the delays in corn planting will affect that acreage shift.

Figure 2. U.S. soybean planting (Source: USDA-NASS).



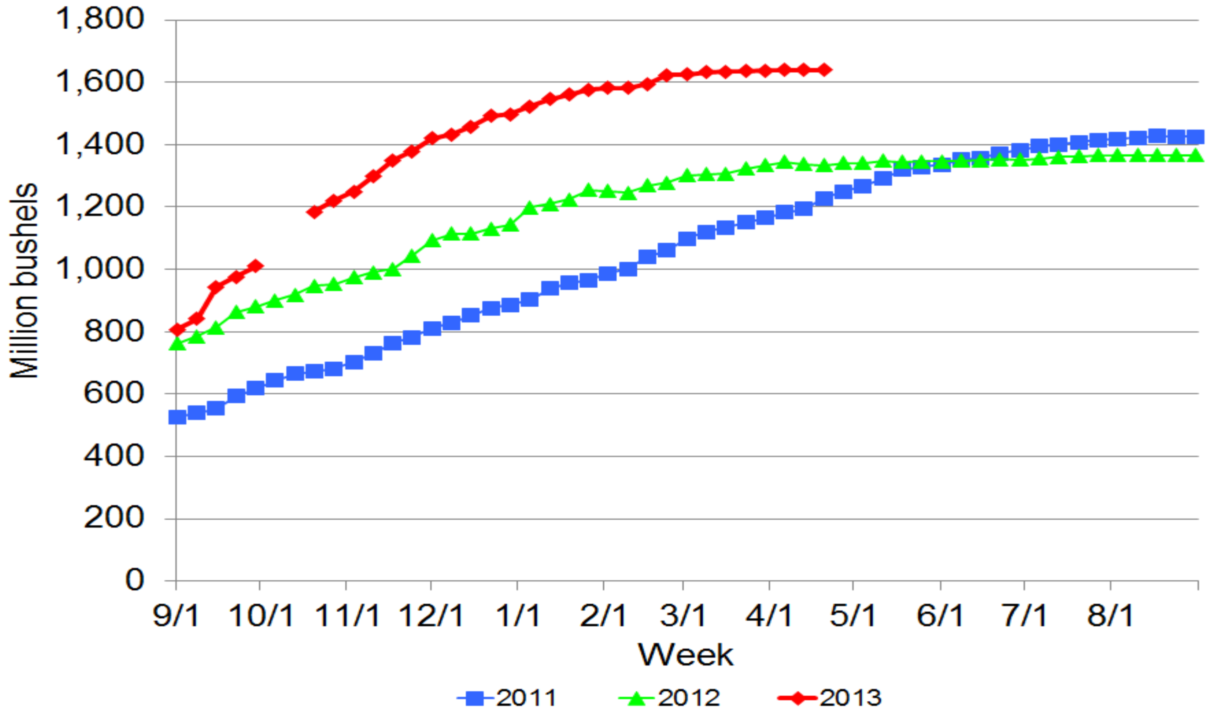
The delays in planting have been only part of the story that had brought higher prices this spring. Crop demand has also been very strong over the past several months. One area that has shown significant strength is the export sector. USDA has had to upgrade their projections a few times as we moved into 2014. China was a key mover early on during the marketing year for corn, but more traditional markets, such as Japan and Mexico, have now taken the leadership role. As Figure 3 shows, U.S. corn exports continue to move at a brisk pace. All of our major corn markets have pulled in more corn this year. The Japanese market is up nearly 70%. Mexico is up 145%. China's corn imports from the U.S. are up 43%. Overall, the corn export market is running 163% above last year. So it's been good broad-based demand.

Figure 3. U.S. corn exports (Source: USDA-FAS).



The soybean export market has also had a banner year thus far. Currently, exports and export sales exceed 1.6 billion bushels. If that holds, it's a new record for soybean exports. While China remains the largest export market by far, other soybean markets have increased as well. The EU, Mexico, Japan, Indonesia, and Taiwan have all imported more soybeans this year. Overall, soybean exports have increased 22%, compared to last year. This strong international demand, coupled with some delays in crop movement in South America, has been very supportive for U.S. crop prices. However, as Figures 3 and 4 both show, the next few months of the marketing year tend to be the slowest in export demand as the South American harvest rolls in.

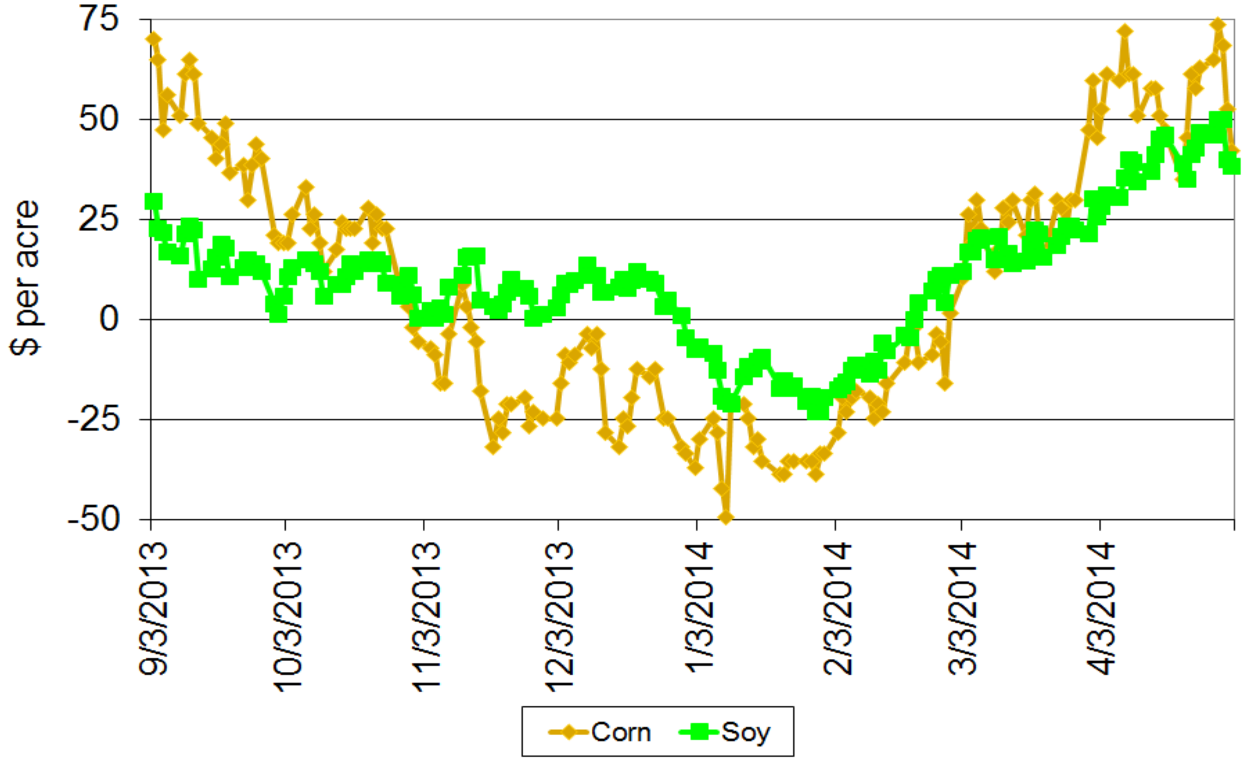
Figure 4. U.S. soybean exports (Source: USDA-FAS).



Overall, the pricing situation for the 2014 crops is looking much stronger right now than it has over the preceding six months. Projected margins for both corn and soybeans show roughly a $40 per acre gain. Two months ago, both crops were at breakeven. And while the markets are offering some profitable margins, they have also shown that they are willing to react quickly to changing conditions. Projected margins had been riding higher as we entered May, but a better forecast and export cancellation rumors had prices headed significantly lower on May 1st.

And so planting proceeds with the futures markets offering significantly better prices than the projections USDA has for the 2014 crops. Currently, the futures markets are aligned with a projection of the 2014 season-average price in the $4.70 to $4.80 range for corn and $11.75 to $12 range for soybeans. USDA's projections for the same 2014 season-average prices are $3.90 for corn and $9.65 for soybeans. The next few weeks will provide a great deal of information on whether USDA's projection needs to move up or futures need to move down. Intended plantings with trend-line yields would lead to record corn and soybean crops and lower prices. Building El Niño conditions this summer could assist on the yield side. But continued delays in planting could lower yield potential. For Iowa, the optimal window for corn planting extends into mid-May for most of the state. Northeast Iowa will be the region to watch as their optimal window closes sooner and historical data shows more significant yield impacts from delayed planting there than in other regions of the state. For the rest of the state, the coming two weeks still provide time to hit the optimal planting window.

Figure 5. 2014 projected crop margins.



Chad Hart

Dr. Chad Hart	Dr. Lee Schulz
Associate Professor of Economics	Assistant Professor of Economics
Extension Crop Marketing Specialist	Extension Livestock Economist
468 Heady Hall	478 Heady Hall
Phone: (515) 294-9911	Phone: (515) 294-3356
Fax: (515) 294-0221	Fax: (515) 294-0221
chart@iastate.edu	lschulz@iastate.edu
www.econ.iastate.edu/~chart	www.econ.iastate.edu/people/faculty/schulz-lee