

Iowa Farm Outlook

Department of Economics
Ames, Iowa

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AAEA Extension Section Annual Outlook Survey 2014

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. 2014 makes the 37th 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 2014. Mailings were directed toward agricultural economists who are actively engaged in outlook work.

There were 17 individuals who responded to this survey. The majority (13) were university employees. Two indicated forecasting was a major responsibility. Three said moderate and seven 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, and milk and prices for 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 U.S. Production from the Previous Year

	Beef		Pork		Milk	
	2014	2015	2014	2015	2014	2015
Number Responding	11	11	9	8	10	10
Average	-4.8	-1.9	-1.4	1.4	1.6	2.0
Minimum	-5.7	-4.0	-2.0	0.0	1.2	1.0
Maximum	4.0	-0.1	-0.1	3.0	2.1	3.2
Avg-Experts	-4.7	-1.5	-1.6	1.1	1.7	2.1

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

	2014			2015				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	12	12	11	12	12	12	12	11
Average	152.27	154.03	150.15	154.05	155.25	151.12	152.52	153.55
Minimum	148.30	149.50	148.15	148.65	150.00	144.60	145.71	149.00
Maximum	158.00	162.00	153.50	162.00	165.00	160.00	165.00	163.00
Avg-Experts	152.97	155.01	150.67	155.38	155.57	151.92	153.74	154.84

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

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

	2014			2015				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	12	12	11	12	12	12	12	11
Average	206.27	204.37	192.73	201.54	205.49	203.92	201.05	201.95
Minimum	187.25	183.30	183.59	179.70	186.20	187.35	181.00	184.35
Maximum	220.29	217.18	210.00	218.00	220.00	220.00	216.73	216.25
Avg-Experts	208.26	207.40	194.44	204.60	207.58	207.21	205.81	205.09

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

	2014			2015				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	9	9	8	9	9	9	9	8
Average	90.69	77.94	80.24	75.19	78.70	77.69	68.95	75.43
Minimum	83.75	71.50	77.00	68.00	72.52	68.26	61.87	70.30
Maximum	95.30	82.00	82.00	81.00	84.00	88.60	78.00	81.00
Avg-Experts	90.59	79.19	80.91	76.80	78.25	75.48	68.75	76.14

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

	2014			2015				
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
Number Responding	10	10	10	10	10	10	10	10
Average	22.34	22.50	23.67	21.06	20.03	19.95	20.18	20.29
Minimum	22.49	20.84	23.20	19.74	18.09	18.27	18.00	18.53
Maximum	24.50	24.50	24.40	23.60	23.25	23.40	23.50	23.20
Avg-Experts	23.10	22.31	23.55	20.92	19.61	19.69	20.43	20.17

Table 6. Nearby Futures, Contracts, Settlement Prices

	CME Corn on			CME Soybeans on		
	12/1/2014	3/2/2015	6/30/2015	12/1/2014	3/2/2015	6/30/2015
Number Responding	8	8	8	7	7	7
Average	\$3.67	\$3.85	\$4.06	\$10.27	\$10.55	\$10.33
Minimum	\$3.35	\$3.30	\$3.55	\$9.78	\$9.90	\$8.50
Maximum	\$4.00	\$4.34	\$4.80	\$11.10	\$11.24	\$11.39

Lee Schulz

Great Crop Conditions, Worsening Crop Prices

Once we got past the early planting issues and wet conditions, it's been a great year for crop development across most of the Corn Belt. Cooler than average temperatures and good soil moisture have led to some of the best looking crops we have seen in some time. Crop progress is a little behind, but so far, so good. And those conditions have definitely been factored into crop prices. Corn has been feeling the effects since May; soybeans didn't really get hit until June. But prices now reflect expected crop production around record levels and profitability seems a fleeting target.

If you read this newsletter before, you have seen that I use a simple yield model based on the USDA crop conditions report to get a feel for projected national yields. Figures 1 and 2 show these crop yield models as they stand today (August 2). For corn, each week's report shows a crop that looks better than the last 10 corn crops at this stage (the 2004 corn crop was rated slightly better). Over the past two weeks, this model has put the national average corn yield above 170 bushels per acre. That estimate is falling in line with recent estimates from the ag press crop tours. So the potential is still there for a record corn crop. And the market has already moved to account for that possibility. As Figure 1 shows, the crop conditions model can have some big misses, but in years similar to this one (like 2004 and 2009), it tends to underpredict yields. The big wildcard will be the development of corn across the northern Corn Belt and the crop's ability to mature before freezing temperatures arrive.

For soybeans, you have to go back to 1994 to find a crop that looks as good as this one does. The soybean yield model based on crop conditions does not have quite the predictive power the corn yield model does, but it does an "OK" job. And it's been consistently projecting a national soybean yield above 45 bushels per acre. Given the record number of soybean acres this year, we are well into record production territory. As with corn, the big wildcard will be the development of soybeans across the northern states and the crop's ability to mature before freezing temperatures arrive. With North Dakota, South Dakota, Nebraska, Minnesota, Wisconsin, and

Michigan all planting record soybean areas, the northern states hold more the usual percentage of the national soybean crop.

Figure 1. Corn yield projection, based on crop conditions.

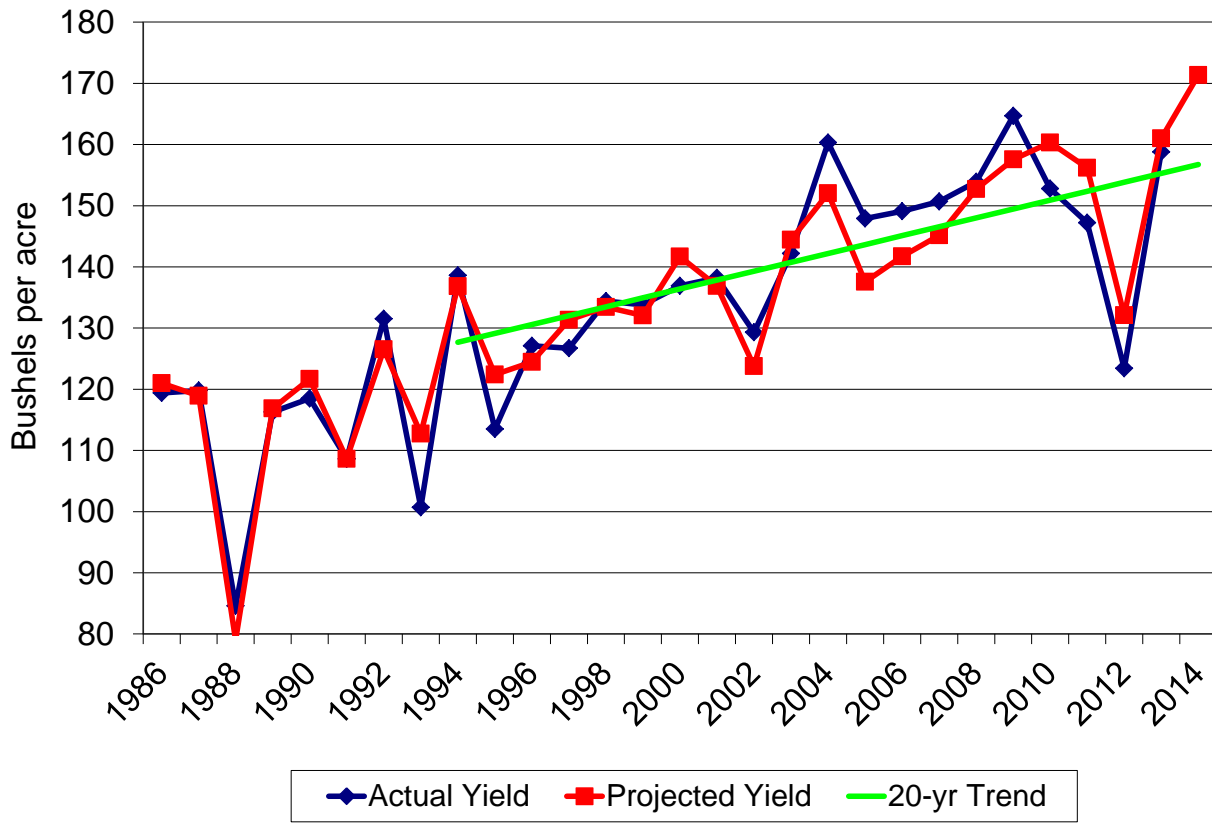
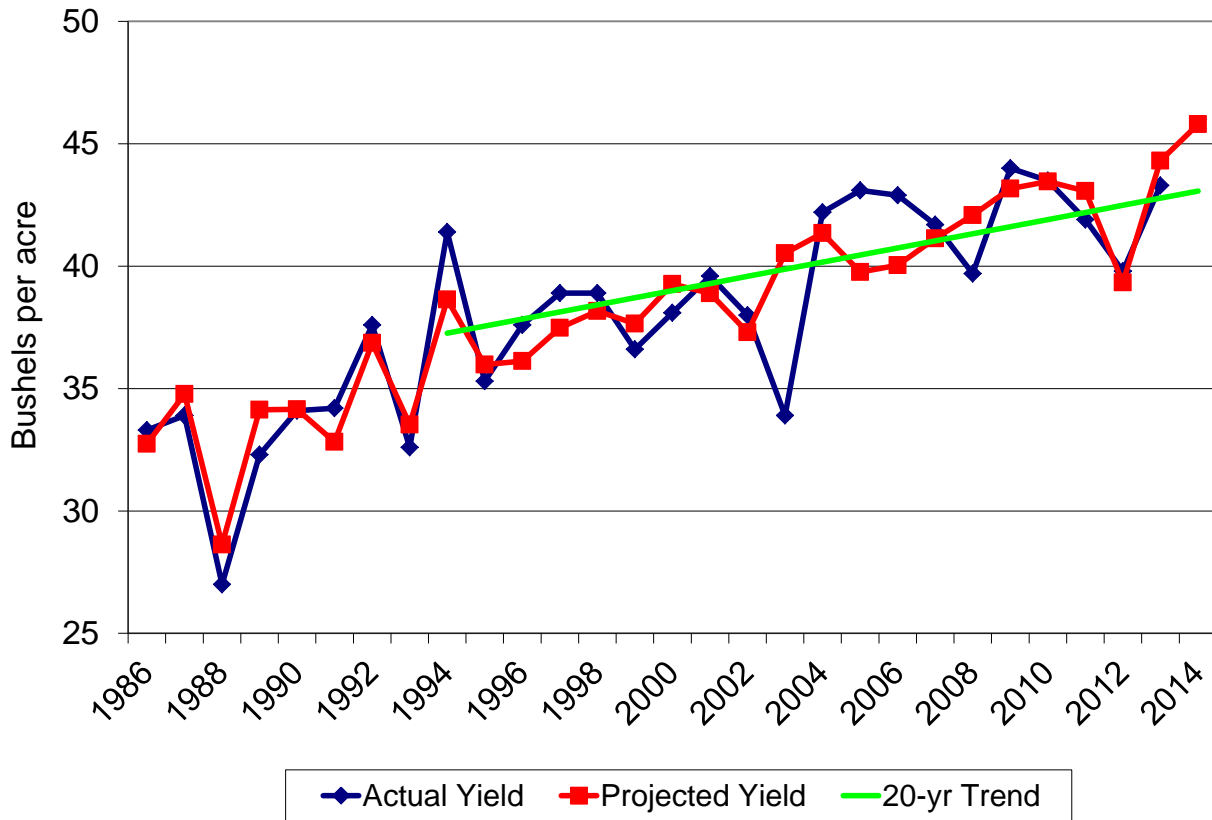


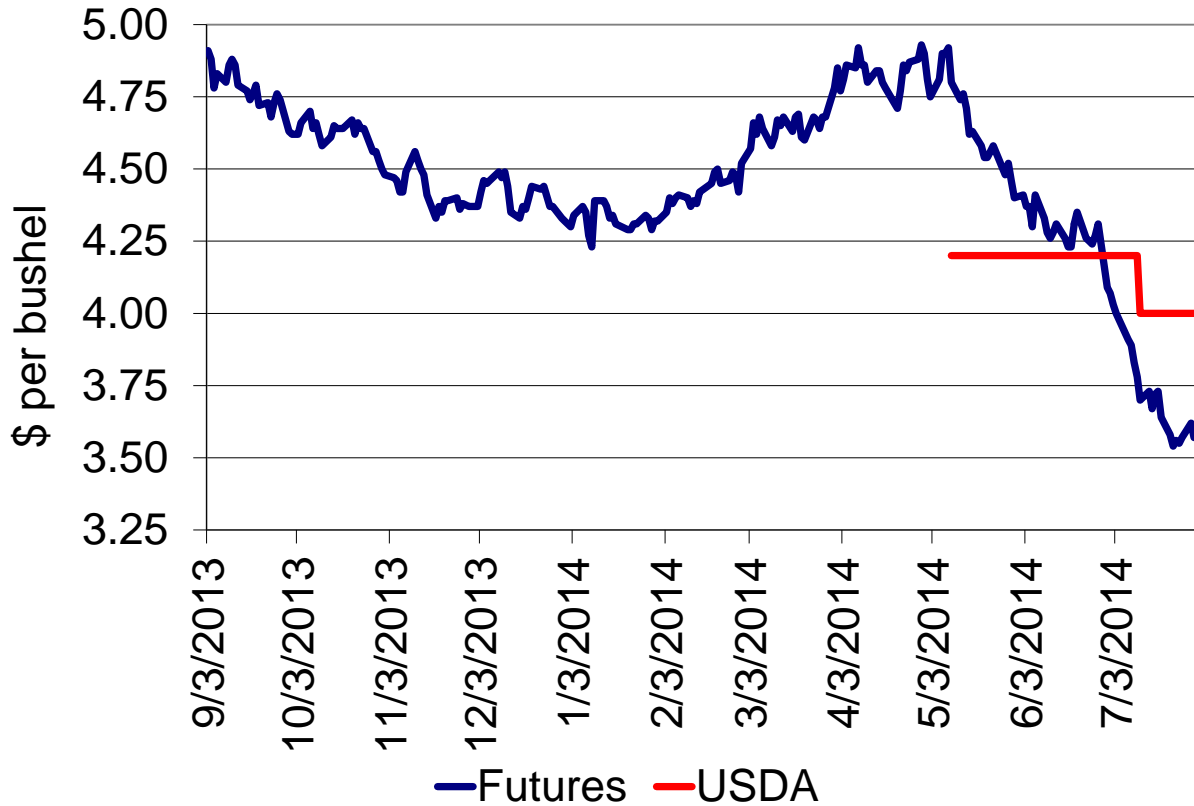
Figure 2. Soybean yield projection, based on crop conditions.



A couple of other factors I'm watching for the upcoming harvest are the abilities of various states to dry, store, and move this year's crops. With the crops behind normal development pace, the potential increases for harvesting the crops at higher than usual moisture levels. That puts stress on drying facilities, and given last year's fuel price spikes, raises some concern for increased costs this fall. Given current price levels, storage is looking more attractive. But producers will need to take care of these potentially large and wet crops. Inadequate drying can lead crop quality and financial losses. It also limits the potential length of time the crops can be stored successfully. Thus, the ability to move the crops quickly could be key. And here again, the northern states, especially North Dakota, may have issues. With rail lines still dealing with the large outflow of crude oil from the Bakken formation, logistics will likely be difficult. Current basis levels in North Dakota already reflect the potential problems.

Over the course of the summer, USDA and the futures market for corn have traded positions. Early in the summer, futures offered a rosier outlook for corn than USDA did. Now, USDA offers the better outlook. USDA's current projection for the 2014/15 season-average price sits at \$4 per bushel. The futures market has reached the \$3.50 range. \$5 corn is now far back in the rear-view mirror. Looking forward, the futures market is showing some improvement for prices for the 2015 crop, with an estimated season-average price around \$3.90 per bushel. The problem is that both of those price levels are well below estimated production costs.

Figure 3. Projected 2014/15 season-average prices for corn.



For soybeans, the futures market remained fairly bullish until the July WASDE report. Since then, futures have been hanging around the USDA projection. The longer-term outlook for soybeans, based on current futures, is fairly flat as the estimated 2015/16 season-average price from futures is roughly the same as the 2014 price. As with corn, these price levels are running below estimated production costs.

Figure 4. Projected 2014/15 season-average prices for soybeans.

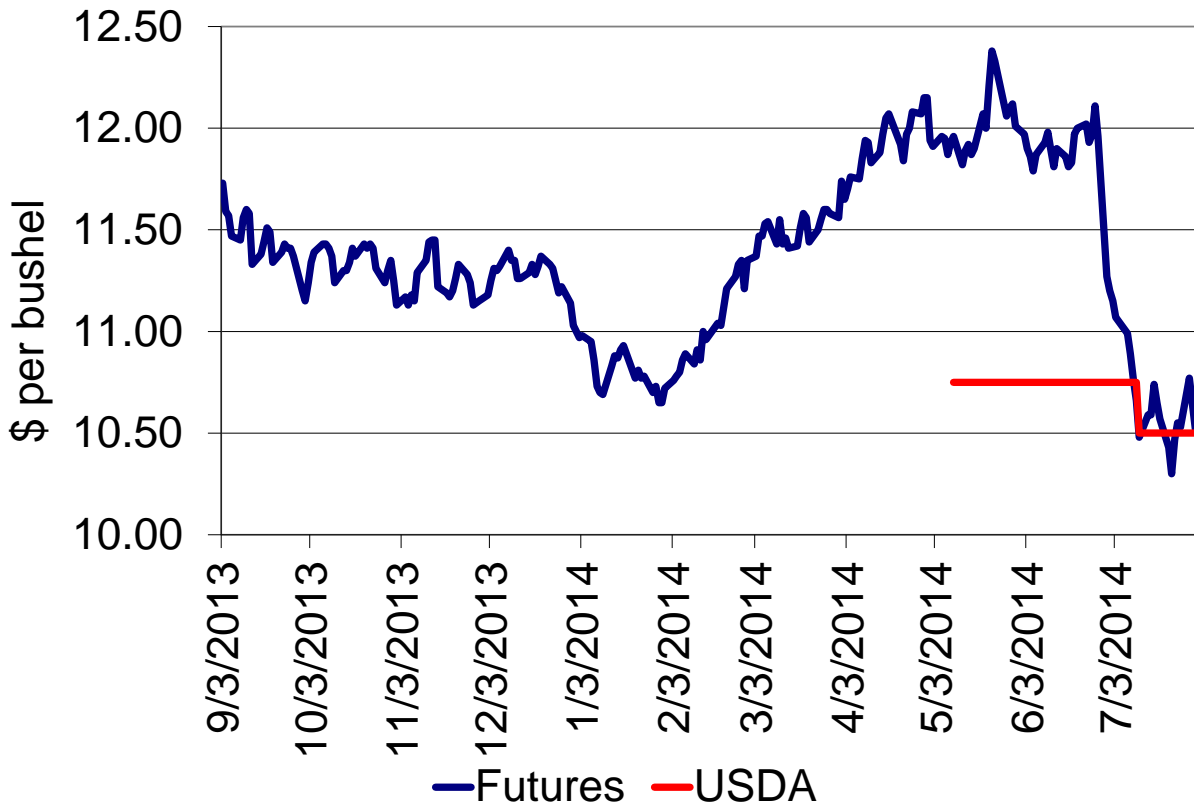
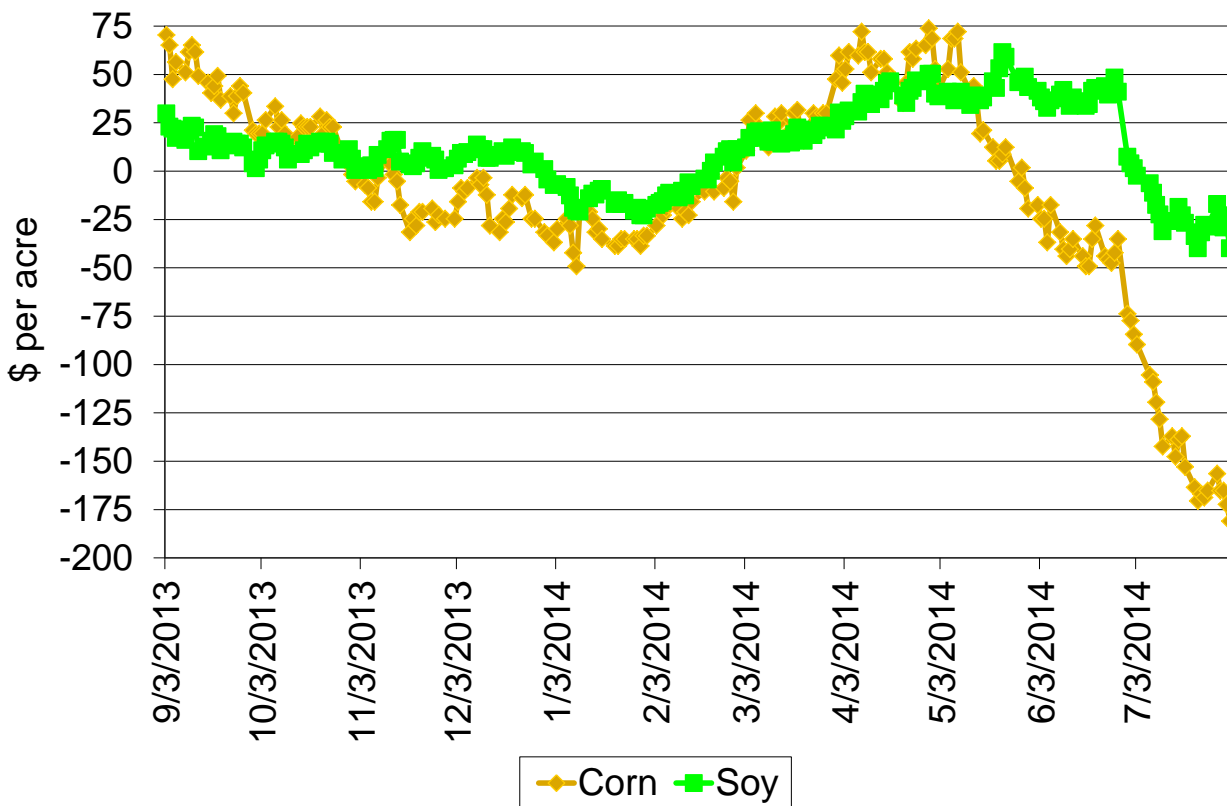


Figure 5. 2014/15 projected crop margins.



Given our production costs estimates from earlier this year of \$4.50 per bushel for corn and \$11 per bushel for soybeans, 2014 crop margins have been in negative territory for a while now. Soybeans are roughly \$40 per acre in the red, while corn is \$175 per acre in the red. And there's no use worrying about price levels that have already passed. So now is the time to sit down, pencil out your best estimate of production, drying, and storage

costs, and prepare to take advantage of any upcoming marketing opportunities. There is some carry built into both markets. Given the potential transportation issues, be prepared to make basis plays when you can. Crop marketing this year is much more like the pre-2006 crops than what we've experienced over the past several years. And while the conditions have changed, the basic marketing tools remain the same and are still effective. It's at these times I'm reminded of my colleague to the north, Ed Usset, and his book "Grain Marketing Is Simple, It's Just Not Easy".

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