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Iowa Farm Outlook

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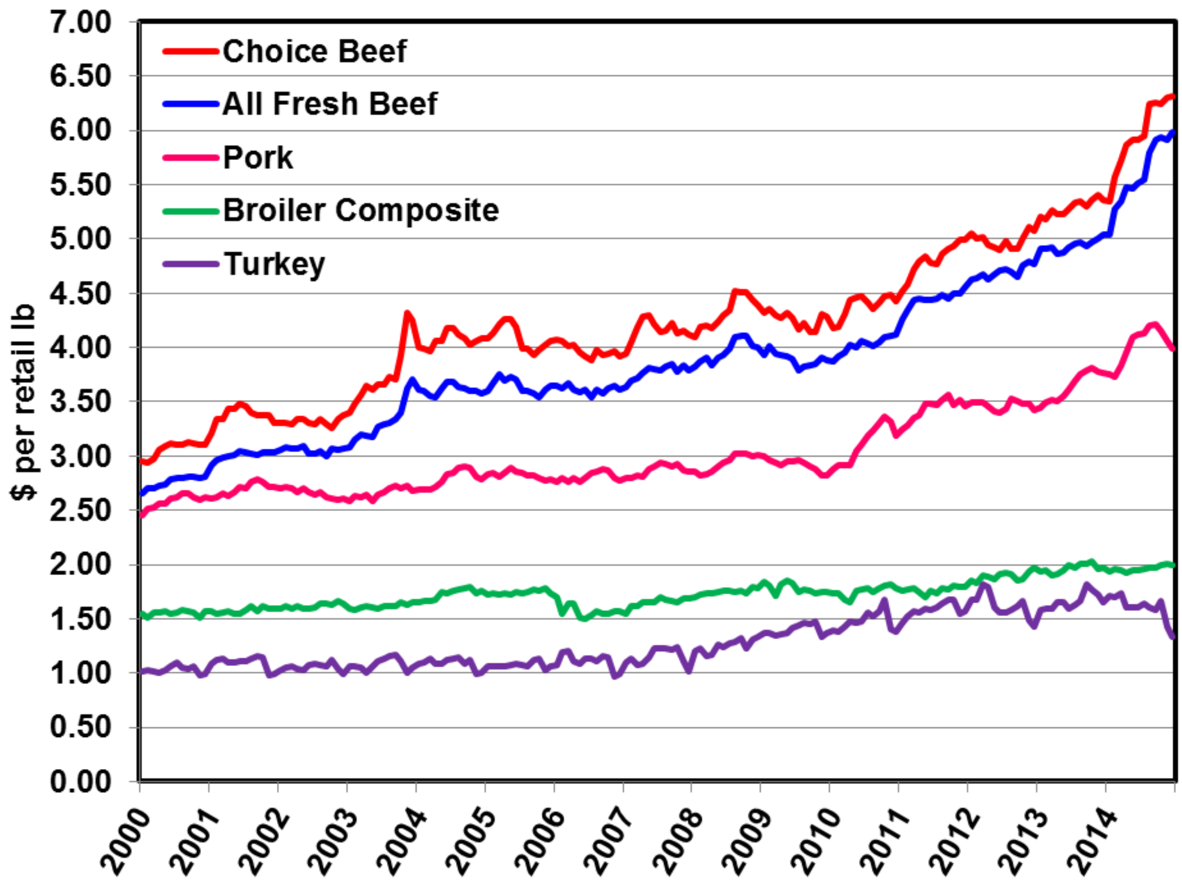
Adjustments in Major Retail Supermarket Feature and Special Activity

Tight supplies — of cattle, of beef — have contributed to unprecedented prices at every level of the market. Retail beef, wholesale beef, fed cattle, feeder cattle, calves, cull cattle — every part of the industry is witnessing record prices. Consider retail beef prices — the All Fresh beef retail price for January 2015 was $6.00 per pound (figure 1). This price was 0.3% higher than in December and 18.9% higher than one year ago. The Choice beef price of $6.333 per pound was 0.4% higher than in December and 18.5% higher than one year ago. That makes 20 record highs in the past 21 months for the All-Fresh beef price and makes 11 record highs in the past 12 months for the Choice beef price. Competing meats will be particularly important as beef pushes to even higher prices. Both pork and poultry production are expected to increase in 2015, providing more competition with increased availability and moderate prices. That competition has already started — the retail price of pork in January was $3.989 per pound, down 0.1% from December and January's broiler composite price was $1.978 per pound, 0.8% lower than that of December.

Figure 1. Monthly U.S. Retail Meat Prices



Data source: USDA Economic Research Service.

This operating environment is altering normal commerce by altering marketing strategies of retailers. Ag Center's Cattle Report, paints a picture of the situation at retail:

> "Beef at the meat counter has long been a drawing card for supermarkets. As the preferred consumer choice for center of the plate, advertised specials featuring beef were commonplace. Sky high beef prices and a lack of product have changed all that. Beef is still found on the meat counter of retail stores across the country but features are hard to find and margins selling beef have been squeezed and frequently non-existent. The stores have focused their attention on competing meats where cheaper prices have allowed built in margins and increased volume of sales." (www.agcenter.com/home.html)

Related to this observation is USDA's Agricultural Marketing Service weekly retail feature activity report for beef, pork, lamb and veal.[1] The data for the retail featuring reports are collected from a variety of sources mostly being weekly newspaper ads and circulars (both print and internet). Data is collected not only for commodity meat product items (e.g. steaks, roasts, chops) but also processed meat products such as pre-cooked bacon, flavored sausages, and deli product items. Weighted average prices as well as price ranges for the week are reported. In addition, the reports include the following data: i) the number of outlets sampled; ii) feature rate which is the percent of sampled stores featuring the meat product (i.e. beef, pork, etc.); iii) a special rate which is the percentage of sampled outlets with a no-price promotion (e.g. buy 1, get 1 free, cross commodity promotions); and iv) an activity index that measures the absolute frequency of feature activity equal to the number of stores for each ad item (e.g., a retailer with 100 outlets featuring three beef items has an activity index of 300). This article provides a brief summary of the data and some general observations on the beef and pork retail featuring reports.

From January 2010 through December 2012, on a national average basis 99.4% of weekly circulars included some feature on beef items, with about 13.2% of those being a special rate or no-price promotion such as buy 1 get 1 free or cross commodity promotion (figure 2). From January 2013 through December 2014, the percent of weekly circulars featuring beef items fell to 96.8%. Similarly the percent of special rate features fell to 12.2% during this time. Tightening beef supplies and escalating prices appear to have caused retailers to decrease beef feature and special offerings, especially in the last year.

For the January 2010 through December 2012 period, weekly circulars that included some feature on pork items was on average 98.4% of the time, with 23.4% of those being a special rate or no-price promotion. From January 2013 through January 2015, the percent of weekly circulars featuring pork items was 97.6%. The percent of special rate features increased to 26.9% during this time. It appears that the tight supplies and higher prices attributed to Porcine Epidemic Diarrhea virus (PEDv) — December 2013 through December 2014 — had little impact on the featuring rate of retailers while retailer specials actually increased during this time.

Collectively, this feature and special activity suggests that major retailers have recently focused more of their efforts on pork even with record beef and pork prices. In 2015, falling pork prices will likely lead to to an extremely wide beef to pork price ratio likely changing consumers' consumption patterns and further skewing retailers featuring efforts towards pork.

The weekly retail beef feature activity report provides featuring data on 49 beef cuts from the following seven categories: rib, loin, round, chuck, brisket, ground beef, and other (e.g. tri-tip). The beef cut items reported range from filet mignon to beef short ribs to beef patties, with no processed items reported. Over the last five years loin cuts have been featured most frequently, followed by round, chuck, ground beef, rib, other, and brisket products.

When comparing the featuring in 2014 to 2013 levels we see that all cuts, except the other category, were featured at a lower rate. The largest decrease was in brisket (18.0%) and ribs (17.5%) while the smallest decrease was in loin (6.4%) and chuck (7.2%). I suspect that with the dwindling supplies of beef and the resulting higher retail beef prices, consumers are searching for economical beef purchases but continue to splurge occasionally on the high value products especially when products are featured. This data suggests consumers will likely see features on loins most often.

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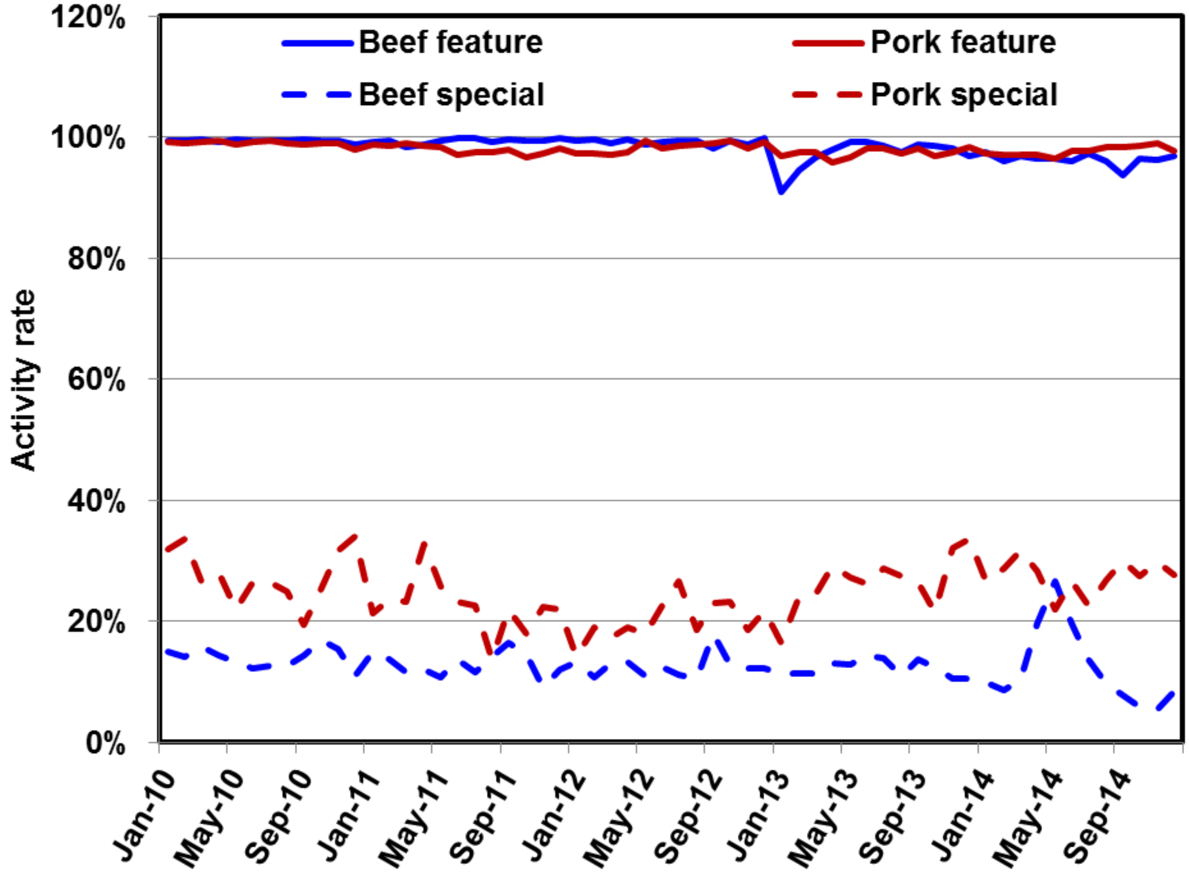
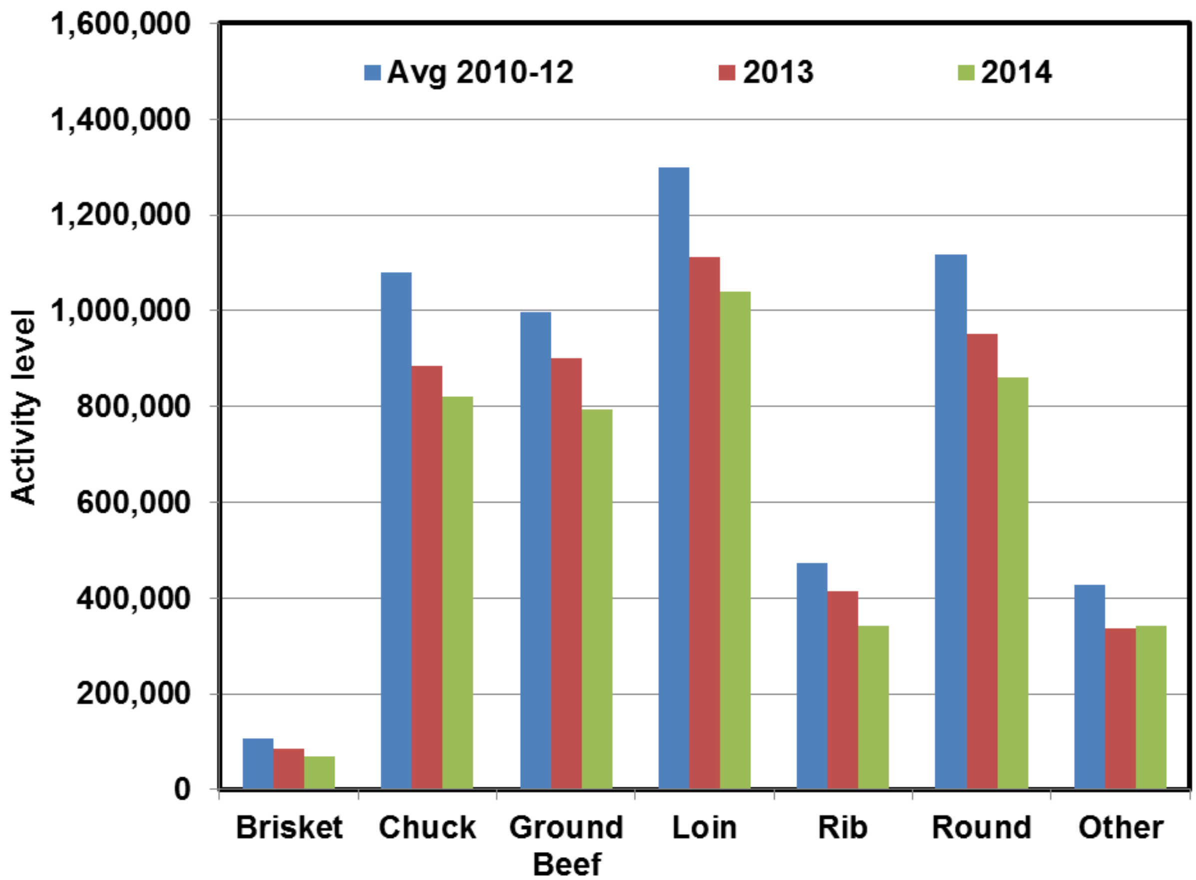
[1] Details are available on the USDA's Agricultural Marketing Service Livestock and Grain Market News (Meat Reports Section) website - www.ams.usda.gov/lsmarketnews.

Figure 2. Major Retail Super Market Feature and Special Activity: Beef and Pork



Data source: USDA Agricultural Marketing Service.

Figure 3. Major Retail Super Market Beef Activity Level

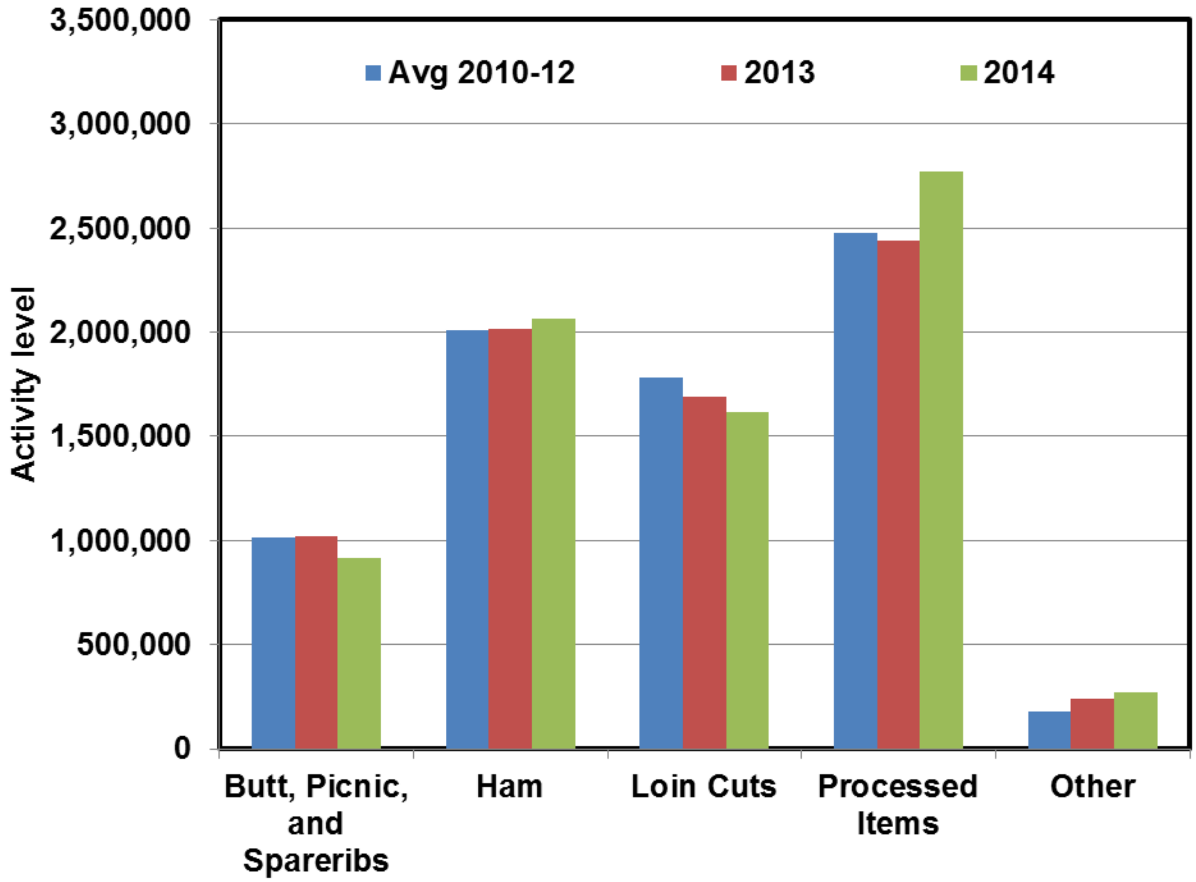


Data source: USDA Agricultural Marketing Service.

The weekly retail pork feature activity report provides featuring data on 50 pork cut items from the following five categories: loin, butt, picnic, and spareribs, ham, processed items, and other (e.g. feet). Pork cut items range from bone-in center cut loins to processed items such as pre-cooked sausage to cooked backribs found in the deli case. Over the last five years processed items have been featured most frequently, followed by ham, loin cuts; butt, picnic, and spareribs, and other. When comparing the featuring in 2014 to 2013 levels we see that processed items and ham increased while loin, butt, picnic, and spareribs, and other products were featured at a lower rate.

There has been considerable debate regarding whether changes in relative prices among competing meats explain all of the change in consumers' eating habits. For example, over time the beef to pork price ratio has increased, thereby encouraging consumers to shift their meat consumption away from beef toward pork. Many believe that a change in consumers' tastes and preferences also occurred. Changes in preferences could have been caused by changes in the convenience attributes of products. This helps explain the large increase over time in pork processed item featuring towards what is likely a growing consumer base.

Figure 4. Major Retail Super Market Pork Activity Level: 4th Quarter Comparison



Data source: USDA Agricultural Marketing Service.

Beef demand is very complex. Beef is not a single market but rather consists of many distinct but related markets. At higher prices, there will likely be much substitution between beef products and also with other protein sources. The unprecedented beef market situation makes it very difficult to know exactly how consumers (and retailers) will adjust the mix of beef products as well as total quantity of beef consumption at record price levels. For now, it appears retailers are focusing their efforts on competing meats where lower prices have allowed built in margins and increased volume of sales. Retailers just like consumers are navigating these uncharted waters and adjustments will likely moderate in the future as beef regains its dominant position among the meats through increasing the supply to regaining market share and price competiveness.

Lee Schulz

Sounding Like a Broken Record

A new crop year, but it's the same old crop story. Demand is good, but supplies are ample. Stocks have grown and prices remain low. That said, some of the numbers are beginning to move in the right direction. Projected acreage is lower for both corn and soybeans. That is bringing down potential production. And demand continues to build, churning through more of the recent record crops. But the movement for both supply and demand is slow enough that prices are expected to remain below breakeven for the 2015 marketing year (September 2015 to August 2016).

USDA released an update on its model-based outlook last month. This outlook will be updated again, based on the planting intentions survey currently being conducted by USDA. The economic models indicate corn acreage will decline by 1.6 million acres in 2015, falling below 90 million acres for the first time in 5 years. Combined with a trend yield of 167 bushels per acre, this leads to expected corn production in the 13.6 billion bushel range. That's a 600 million bushel drop from the 2014 crop, but it would still be the 3rd largest corn crop on record. Add in the 1.8 billion bushel carryover expected from the 2014 crop and we would have nearly 15.5 billion bushels of corn available in the fall of 2015. So corn supplies will remain at extremely high levels.

Table 1. U.S. corn supply and use. Source: USDA.

		2011	2012	2013	2014	2015
Area Planted	(mil. acres)	91.9	97.3	95.4	90.6	89.0
Yield	(bu./acre)	147.2	123.1	158.1	171.0	166.8
Production	(mil. bu.)	12,360	10,755	13,829	14,216	13,595
Beg. Stocks	(mil. bu.)	1,128	989	821	1,232	1,827
Imports	(mil. bu.)	29	160	36	25	25
Total Supply	(mil. bu.)	13,517	11,904	14,686	15,472	15,447
Feed & Residual	(mil. bu.)	4,557	4,315	5,036	5,250	5,275
Ethanol	(mil. bu.)	5,000	4,641	5,134	5,250	5,225
Food, Seed, & Other	(mil. bu.)	1,428	1,397	1,367	1,395	1,410
Exports	(mil. bu.)	1,543	730	1,917	1,750	1,850
Total Use	(mil. bu.)	12,528	11,083	13,454	13,645	13,760
Ending Stocks	(mil. bu.)	989	821	1,232	1,827	1,687
Season-Average Price	($/bu.)	6.22	6.89	4.46	3.65	3.50

But corn demand continues to grow. USDA's projections show growth in 3 of the 4 major demand segments. Feed demand is expected to rise by 25 million bushels. Food and seed use will rise by 15 million bushels. And exports are projected to make the biggest move, up 100 million bushels. The only declining sector is ethanol, where even with a 25 million bushel drop, we are still talking about over 5.2 billion bushels going into fuel production. All in all, corn demand is projected to reach 13.76 billion bushels, up 115 million from last year and up nearly 2.7 billion bushels from 2012. The forecasted pullback in production and increase in demand does reduce projected ending stocks, but the drop is not enough to pull prices higher. USDA put their initial season-average price estimate at $3.50 per bushel, 15 cents below the 2014 estimate and nearly half of what the season-average price was for 2012. Current futures are pricing the 2015 corn crop in the $4 range. So the market is more bullish on the outlook than USDA. That was also the situation last year. And last year, both the USDA and the futures price projections were too high.

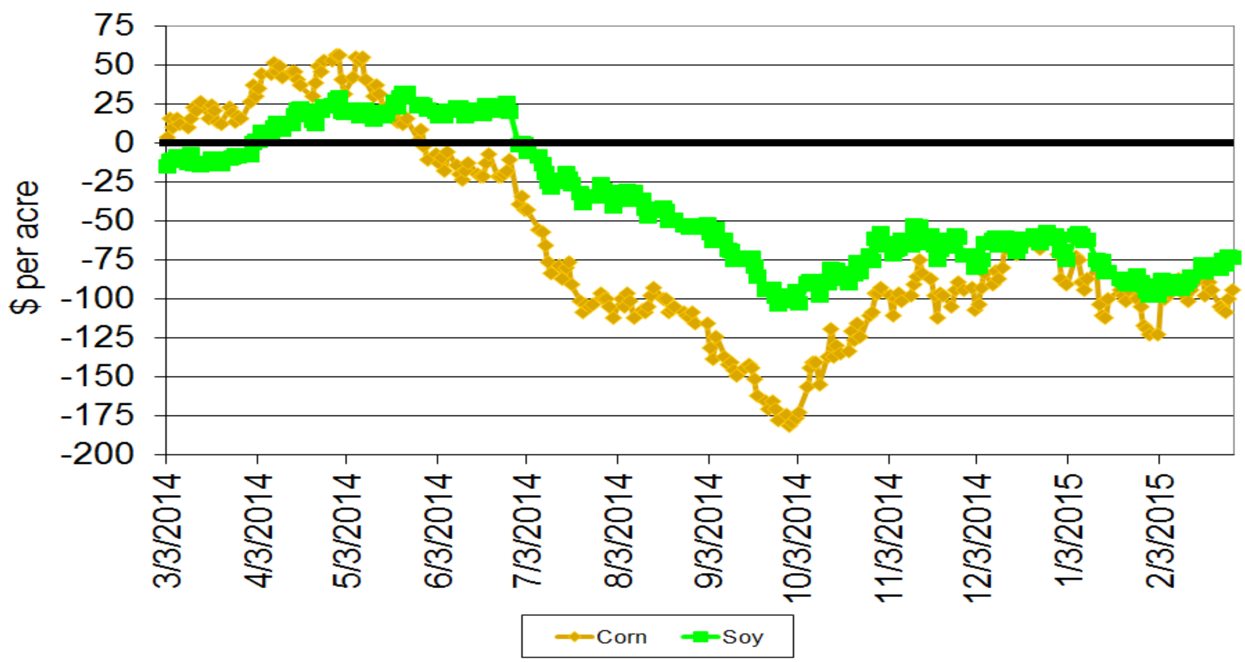
USDA also showed a pullback in soybean acreage as well. In this case, the drop is not dramatic, just 200,000 acres. So we are still talking about over 83 million acres in soybean production, roughly 6 million acres more than any other year (except last year). So potential soybean production is very large. Given a trend yield of 46 bushels per acre, that adds up to a 3.8 billion bushel soybean crop. Adding in the nearly 400 million bushels of expected carryover, we would have a total of 4.2 billion bushels of soybeans in the fall of 2015, a record number of soybeans to begin the marketing year.

Table 2. U.S. soybean supply and use. Source: USDA.

		2011	2012	2013	2014	2015
Area Planted	(mil. acres)	75.0	77.2	76.8	83.7	83.5
Yield	(bu./acre)	41.9	40.0	44.0	47.8	46.0
Production	(mil. bu.)	3,094	3,042	3,358	3,969	3,800
Beg. Stocks	(mil. bu.)	215	169	141	92	385
Imports	(mil. bu.)	16	41	72	25	20
Total Supply	(mil. bu.)	3,325	3,252	3,570	4,086	4,205
Crush	(mil. bu.)	1,703	1,689	1,734	1,795	1,840
Seed & Residual	(mil. bu.)	88	105	97	116	116
Exports	(mil. bu.)	1,365	1,317	1,647	1,790	1,820
Total Use	(mil. bu.)	3,155	3,111	3,478	3,701	3,775
Ending Stocks	(mil. bu.)	169	141	92	385	430
Season-Average Price	($/bu.)	12.50	14.40	13.00	10.20	9.00

As with corn, soybean demand continues to grow. Domestic crush demand is projected to rise by 45 million bushels. And export demand is expected to reach another record, topping 1.8 billion bushels. Total soybean demand is approaching 3.8 billion bushels. So soybean demand has grown by more than 20 percent since 2012. But ending stocks are projected to rise over 400 million bushels. And soybean prices are forecast to continue to slide. USDA has put their initial price projection for the 2015 soybean crop at $9 per bushel, $1.20 below the estimate for the 2014 crop and $5.40 below the record price from 2012. Current futures point to a season-average price in the $9.50-9.75 range, so as with corn, the futures market is more bullish than USDA.

Figure 1. Estimated crop margins.



I have been tracking 2015 crop margins based on futures prices over the past year. Those projected margins are shown in Figure 1. As the markets stand at the beginning of March, both corn and soybeans are sitting from $75 to $100 per acre below breakeven. Given that USDA's price projections are below the futures, then margins based on USDA prices would be even lower.

So the 2015 marketing year is projected to be a rough one for corn and soybeans. Acreage for both crops is expected to fall, but only slightly. Projected supplies are still meeting and exceeding demand. And prices are expected to remain lower than they have been in quite some time.

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