IOWA STATE UNIVERSITY
Extension and Outreach

# Iowa Farm Outlook

Department of Economics
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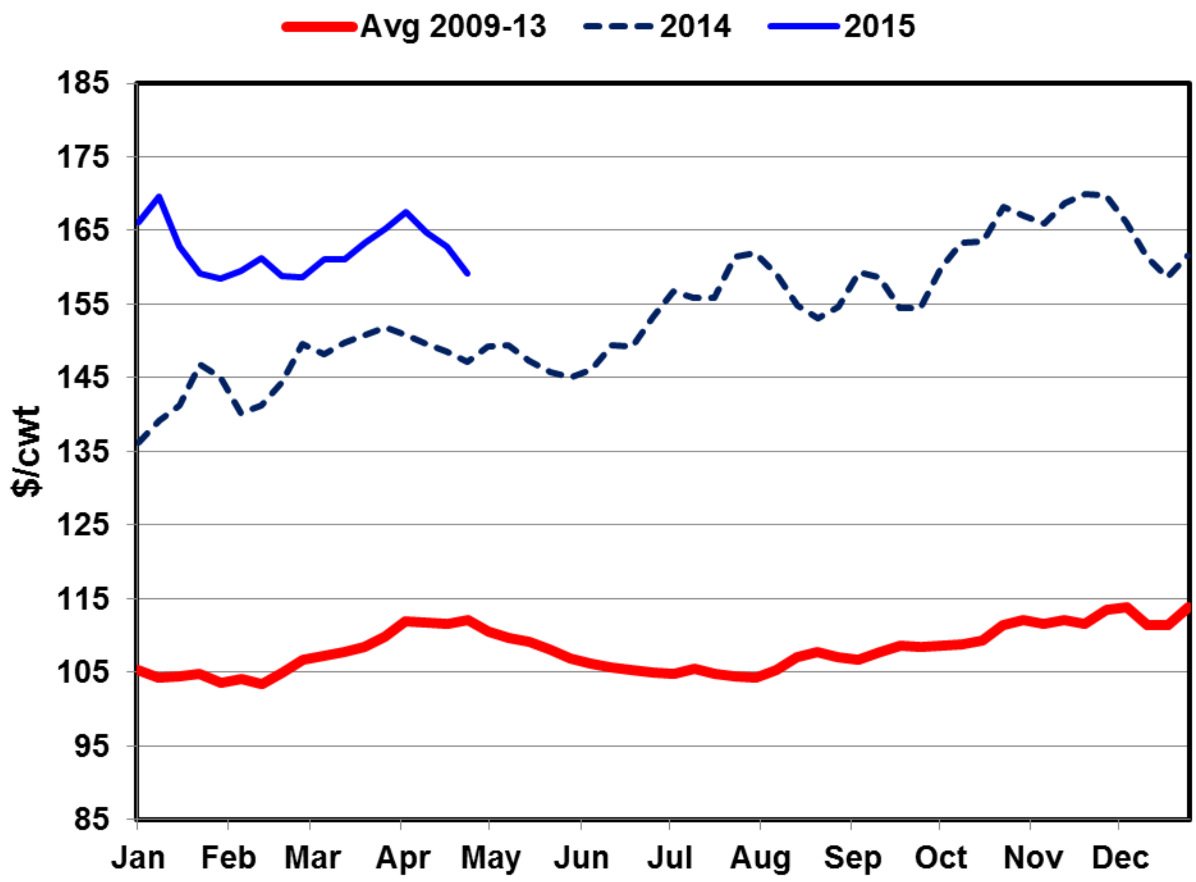
## Several Factors Supporting, Pressuring Fed Cattle Prices

All market classes of beef cattle are at record high levels for this time of the year, but are lower than the all-time record highs established in the last half of 2014. Slaughter steer prices, weekly Iowa/Minnesota accumulated weighted average, peaked in November 2014 at an all-time record high of $169.93/cwt (figure 1). Fed prices then declined to average about $162 in December 2014. Through the first four months of 2015 fed prices have generally ranged above last year from $158-169.

**Figure 1. Slaughter Steer Prices, Iowa/Minnesota, Weekly**




Data source: USDA Agricultural Marketing Service. Live FOB Basis, includes over 80% Choice, 65-80% Choice, 35-65% Choice, and 0-35% Choice.

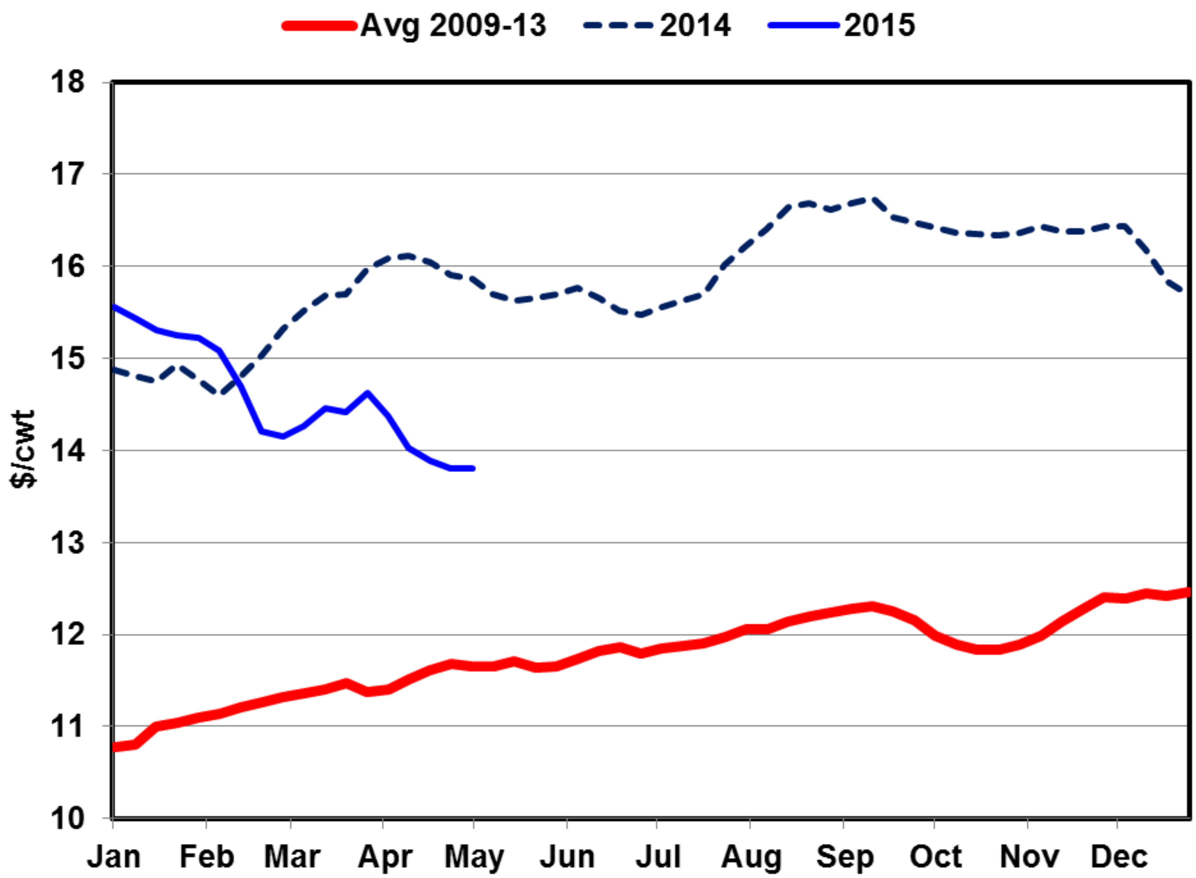
Support for fed prices has come from lower production. Through the first quarter of 2015 beef production was 3.5% lower than the same period the year before due to reduced slaughter. Commercial cattle slaughter was 5.5%, or 407,000 head, below the same period in 2014. This difference is comparable to about four days' worth of slaughter in the current market.

Despite the tight beef supply situation so far in 2015, all fresh retail beef demand has been very strong. Given the pounds produced and consumed in the U.S., the retail price realized was higher than most expected. Actually, the first quarter of 2015 was the best quarter for retail beef demand, the way I estimate it (inflation-adjusted value of per-capita beef consumption), in the history of the data dating back to 1990. It's important to recognize that is a positive signal for the entire beef industry, because the public was willing to pay more for those reduced beef pounds than we expected. Fortunately for beef producers the dreaded and perhaps expected consumer "push-back" due to high prices has not yet materialized.

Even though supplies are tight and retail beef demand has been strong, a number of fundamental factors are combing to pressure fed cattle prices. Average dressed weights have remained large following the sharp increase in late 2014 and have continued to offset some of the decrease in production due to reduced slaughter. Increased production of competing meats is also impacting fed cattle prices. While total beef production was down about 3.4% in the first quarter 2015, pork production was up 6.4%, broiler production was up 4.8%, and total red meat and poultry production was up 3.1%. For the entire year, USDA is projecting an increase in pork production of 6.1%, broiler production up 3.8%, and a 3.4% increase in total meat production.

Another factor pressuring fed cattle prices is the volume of beef being trade in the export market. While shipments of U.S. beef were initially constrained by problems at U.S. West Coast port facilities, a longer term factor likely to continue to slow exports is the high value exchange rate of the U.S. dollar. An appreciated value of the U.S. dollar can make U.S. beef products less competitive (i.e., more expensive) in foreign markets versus competing beef exported from countries such as Australia, Brazil, India, Canada, and New Zealand. Forecasts of 2015 U.S. beef exports of 2.42 billion pounds is 5.9% below exports in 2014.

**Figure 2. Fed Cattle Byproduct Value, Live Animal Basis, Weekly**




Data source: USDA Agricultural Marketing Service.

Usually when the values underlying fed cattle prices are discussed, the value of meat is considered. Though smaller than the value of meat, by-product (drop) values also contribute to cattle value. The byproduct value is basically the total value of all the non-meat items collected from an animal after harvest such as liver, tallow, and hides. The values of these non-meat items are a vital aspect not only to beef packer margins, but cattle prices as well. Export demand, especially to Southeast Asia, is very important to byproduct values. So the high U.S. dollar value and the West Coast port disruption have contributed to the lower byproduct values. USDA's Agricultural Marketing Service publishes a weekly "USDA By-Product Drop Value (Steer) FOB Central U.S."

report.  It is available at www.ams.usda.gov/mnreports/nw_ls441.txt.  The report lists the quantity, price, and value for important byproducts from typical fed cattle (steers and heifers 1,300 lbs).  The May 1, 2015, report estimated the fed cattle byproduct value at $13.80/cwt or $179.40/steer (figure 2).  For the same week last year the value was $15.86/cwt or $206.18/steer.

Fed cattle prices will moderate later this year, but the bull-run isn't quite on its last legs just yet.  Year-over-year percentage increases in fed cattle prices during the second quarter of this year are expected to remain. But, the increases look to be smaller than the record pace set the last half of 2014.  Lower fed cattle prices are likely later this year with expectations for fed cattle price for the fall quarter (October to December) to be down 3 to 5% compared with last year's record highs.  Still, 2015 fed cattle prices look to rival those of 2014.

*Lee Schulz*

## Planting and Prices Are Moving in Opposite Directions

As the calendar page turns to May, planters are rolling across the countryside.  And as March's Prospective Plantings report showed, U.S. farmers will be planting a lot of corn and soybeans.  With over 89 million acres of corn and just under 85 million acres of soybeans projected to be planted, farmers will be busy.  For corn, most of the activity should occur in the next two weeks.  Figure 1 displays the range of corn planting progress since 1980.  The light blue region indicates the gap between the fastest and slowest planting seasons.  The dark blue line shows the 5 year average (2010-2014) planting pace.  The black line provides last year's pace and the red line shows the current planting pace.  Corn plantings are running a bit behind the 5 year average, but slightly ahead of last year.  There's usually a week where nearly half of the crop gets planted.  Last year that was the second week in May.  But given current weather conditions, that week may occur a little earlier this year.  The early planting data suggest what planting problems are happening are occurring in the eastern and southern Corn Belt.

**Figure 1. Corn planting progress (Source: USDA-NASS).**

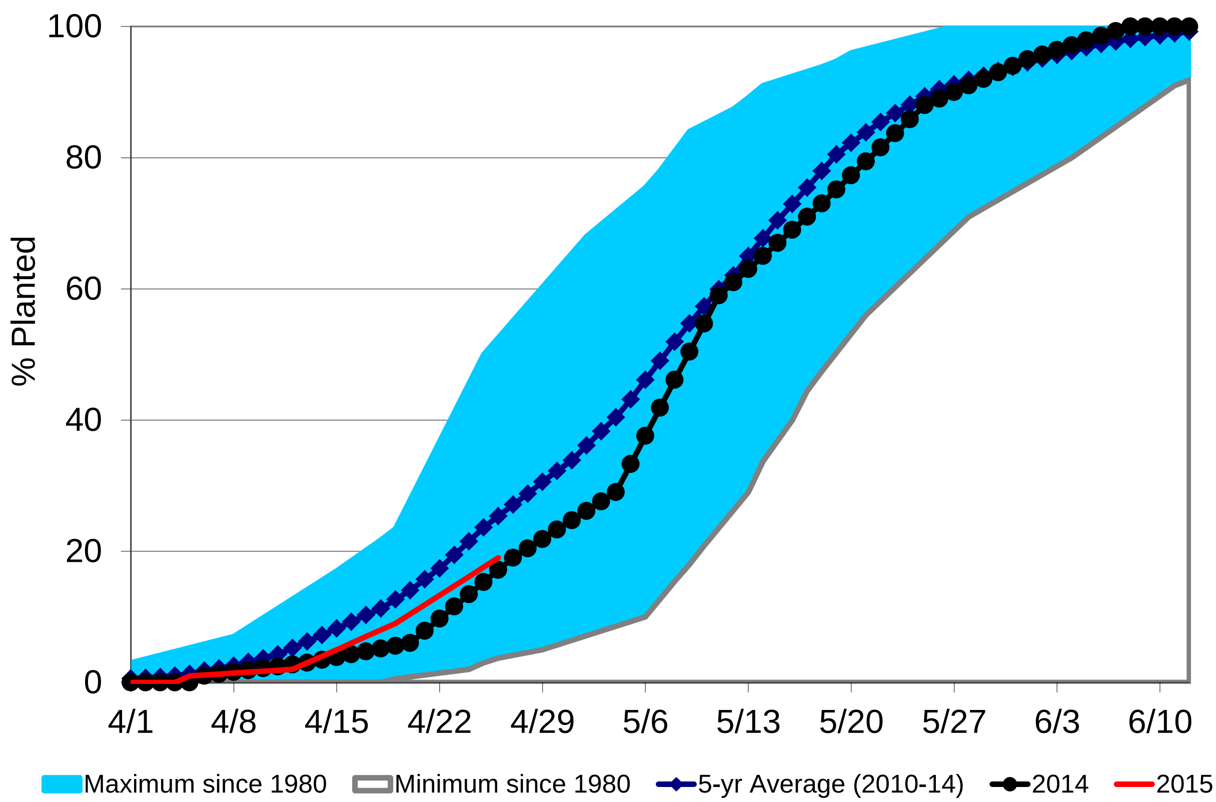
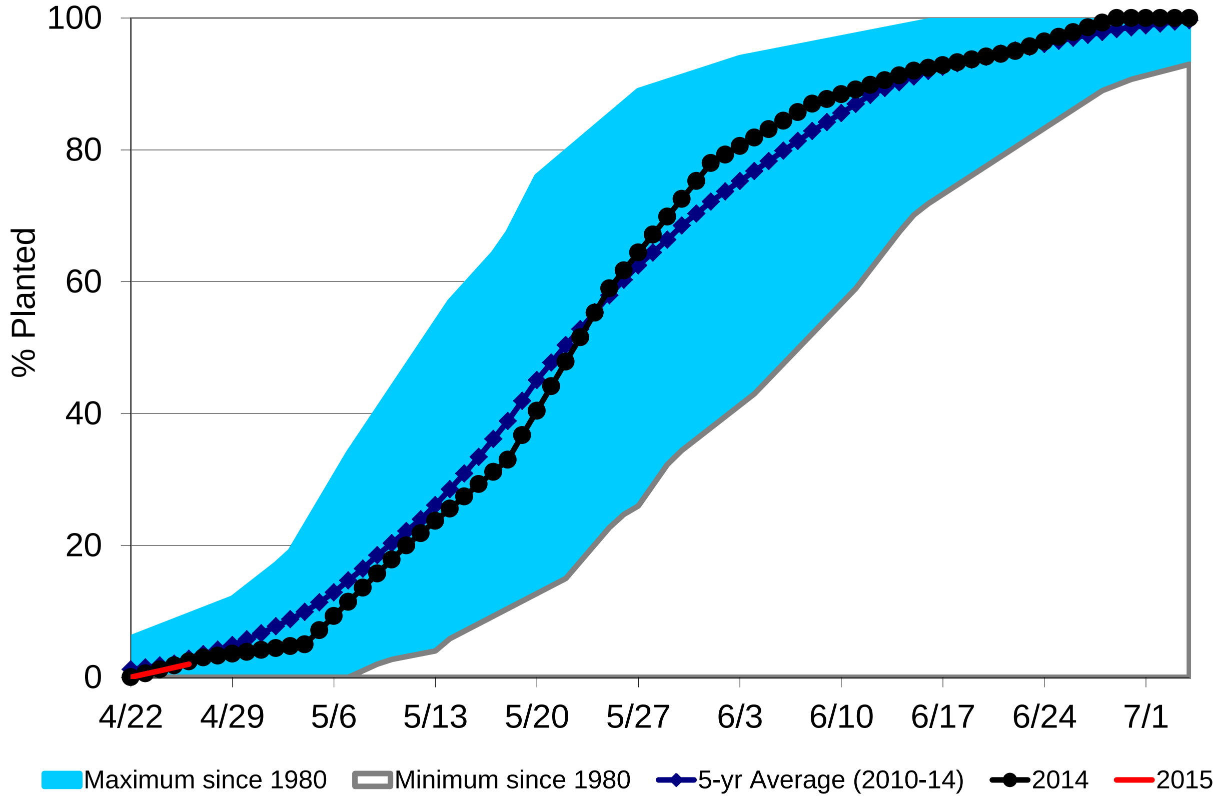


Figure 2 covers the same information for soybeans. In general, the big planting week for soybeans happens right after the big week for corn. So the majority of 170 million acres will be planted within the next three weeks. And the crop markets are staring at a production picture very similar to last year. Planting progress is slightly behind, but conditions are improving. Soil moisture is in pretty good shape across much of the Corn Belt. So the crops should start the growing season off well.

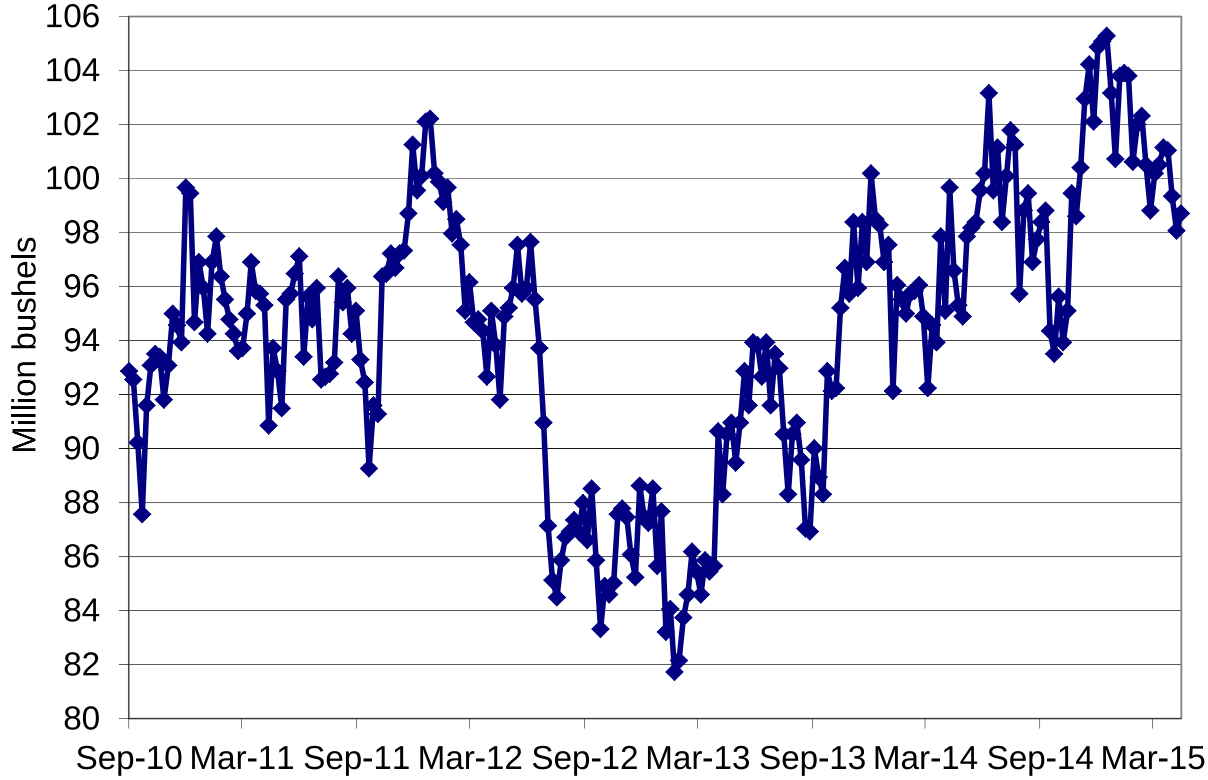
**Figure 2. Soybean planting progress (Source: USDA-NASS).**




Based on current conditions, projections for domestic crop production still look strong. Given trend yields and intended plantings, the markets would be dealing with the 3rd largest corn crop and the 2nd largest soybean crop. If weather is going to limit production this year, the most likely scenario involves the drought conditions that have settled in the Great Plains and Lake States. Shifting to the international scene, drier conditions have also worked their way into Argentina. But that is aiding the dry-down of the corn and soybean crops. The corn and soybean harvests are running ahead of last year. In Brazil, the concern may be more about the heat than the moisture. So while there are potential storylines to diminish corn and soybean production, none of these storylines has developed enough to push prices higher.

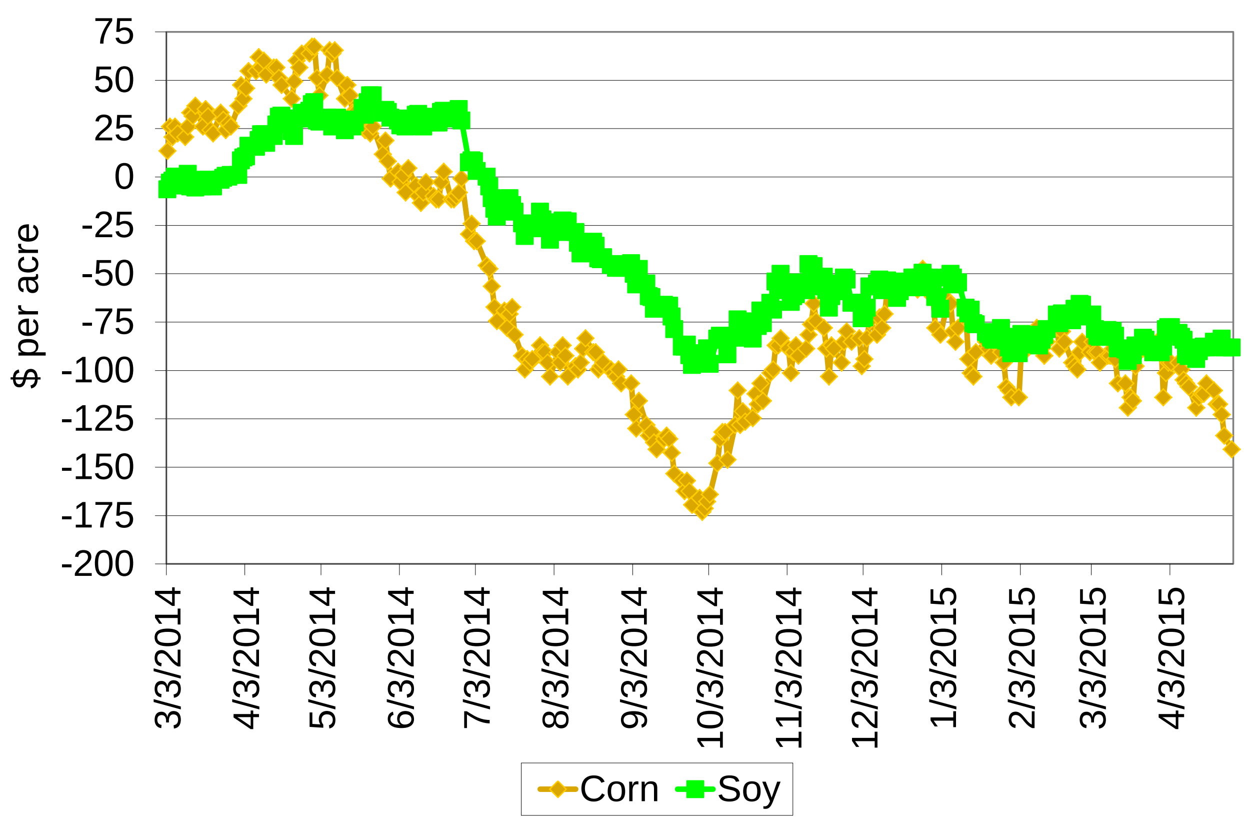
While potential supplies remain strong, crop demands have been weakening slightly. The strength of the dollar and record world corn and soybean production last year are limiting export demand. The outbreak of avian influenza raises concerns about feed demand. And oil prices remain low enough to put a drag on ethanol. Figure 3 shows the weekly usage of corn for the ethanol industry. The reduction in corn usage for ethanol has not been dramatic, but there has been a slow erosion of usage over the 1st third of 2015. Also, ethanol stock levels have built up over the past few months, reaching levels the markets haven't seen since mid-2012. So the ethanol sector is facing similar problems as the corn and soybean markets, building supplies and stocks, with weakening demand.

**Figure 3. Corn usage for ethanol.**




That combination usually implies lower prices and margins. And that is the case this time as well. The usual spring rally seems to have come earlier and left sooner. Crop prices have mostly trended sideways since the 1st of the year. But the improving planting conditions have pressured corn prices lower in the latter half of April. Soybean prices have held up better, but they will likely follow suit as soybean plantings rise.

**Figure 4. 2015 projected crop margins.**



Using ISU Extension's production cost estimates and trend yields, both corn and soybean margins remain well below zero. As the graph shows, futures prices for the 2015 crops have not shown margins above breakeven since mid-2014. And until crop conditions deteriorate and/or crop demands improve, this picture is not likely to change.

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