

Iowa Farm Outlook

June 2016

Department of Economics
Ames, Iowa

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Ample Early Forage Supplies

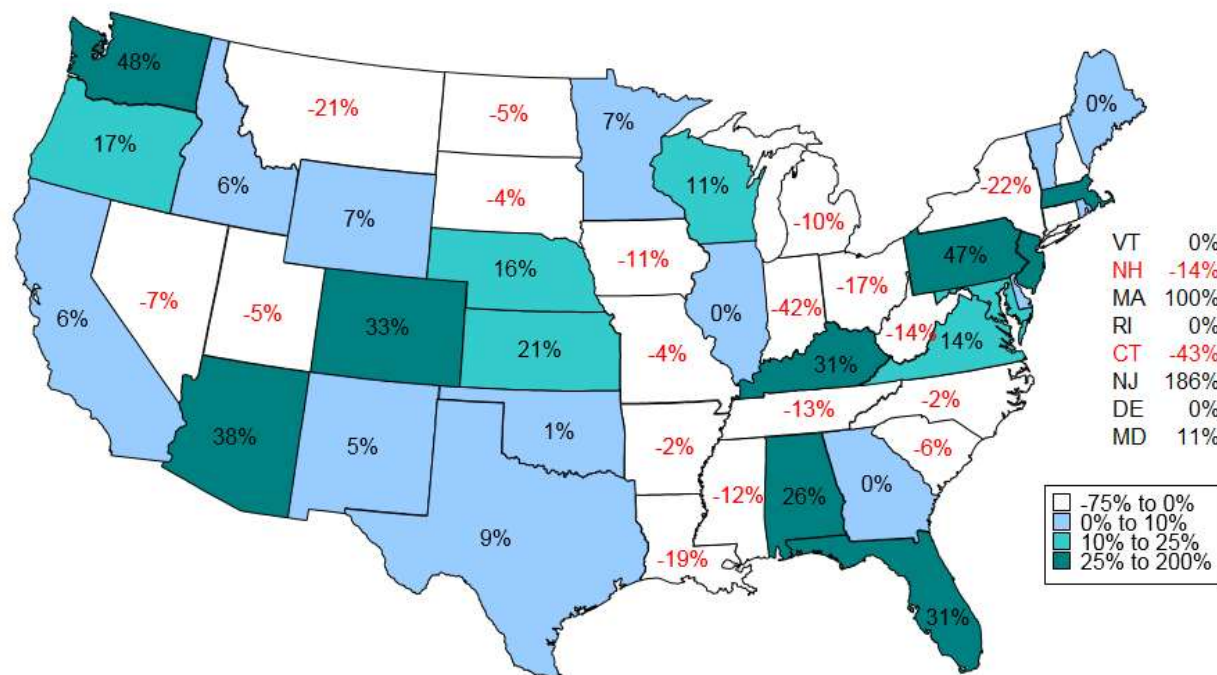
During 2015, most of the U.S. experienced favorable weather for good range and pasture conditions, as well as a productive hay growing season. This allowed producers to graze their cattle more and longer, which trimmed feed costs. Continuing generally favorable forage conditions in 2016 provide opportunities for cattle producers to have more flexible production and marketing plans. A new production season is a good time to evaluate the contributions of a host of cattle and forage production variables along with the costs of inputs used for production.

Net return per acre is one of the most important measures for cow-calf producers. To maximize net return per acre producers should think beyond weaned calf production and evaluate the potential for retained calves or complementary stocker enterprises in conjunction with cow-calf production. The notion is to market your forage to a livestock enterprise that creates the highest value. Doing so may call for adjusting level of production, method of production, and mix of production enterprises as input and output market values change. It may also mean doing more of something you are already doing or beginning to do something you have not done in the past.

Forage outlook favorable

May provides the first full look at 2016 forage conditions for the cattle industry.

Figure 1. Percent Change May 1 Hay Stocks (2015-2016)

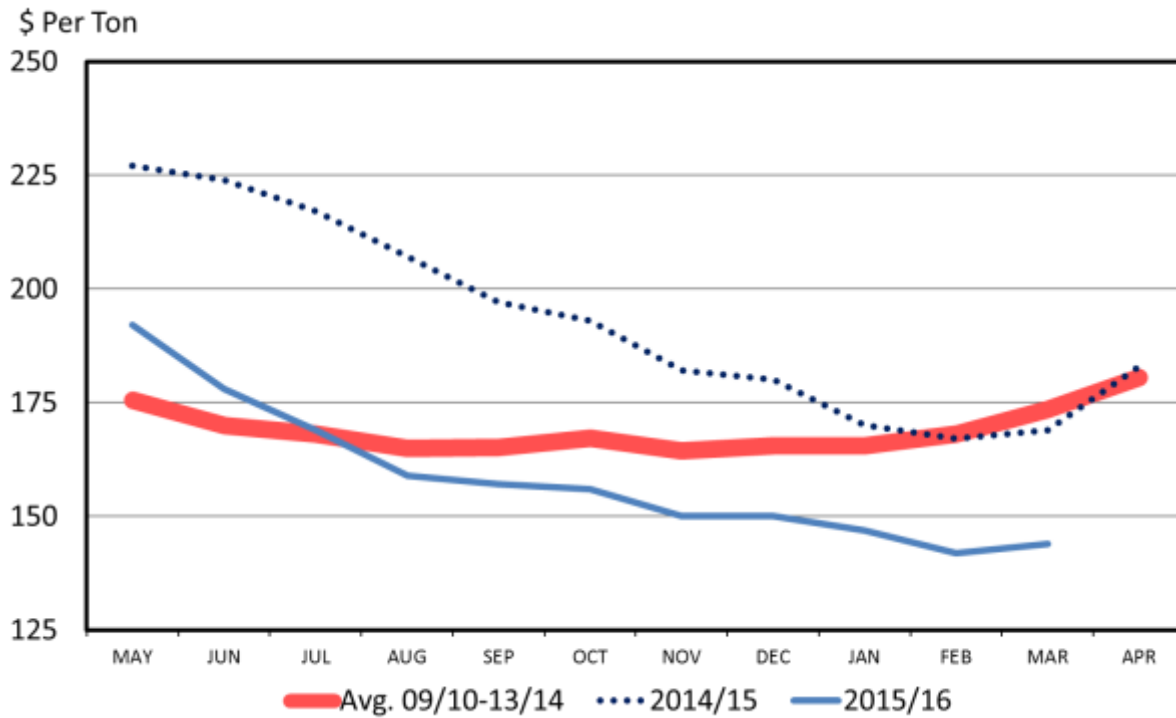


Livestock Marketing Information Center. Data Source: USDA-NASS

U.S. all hay stocks on farms on May 1, 2016, the beginning of the hay crop year, were estimated at 25.14 million tons, up 3% from last year and 31% above 2014 (figure 1). May 1, 2016 hay stocks were the highest since 2005. Iowa May 1 hay stocks totaled 620,000 tons, down 11% from one year ago but up 51% from 2014. Excluding last year, Iowa May 1 hay stocks were the highest level since 2009.

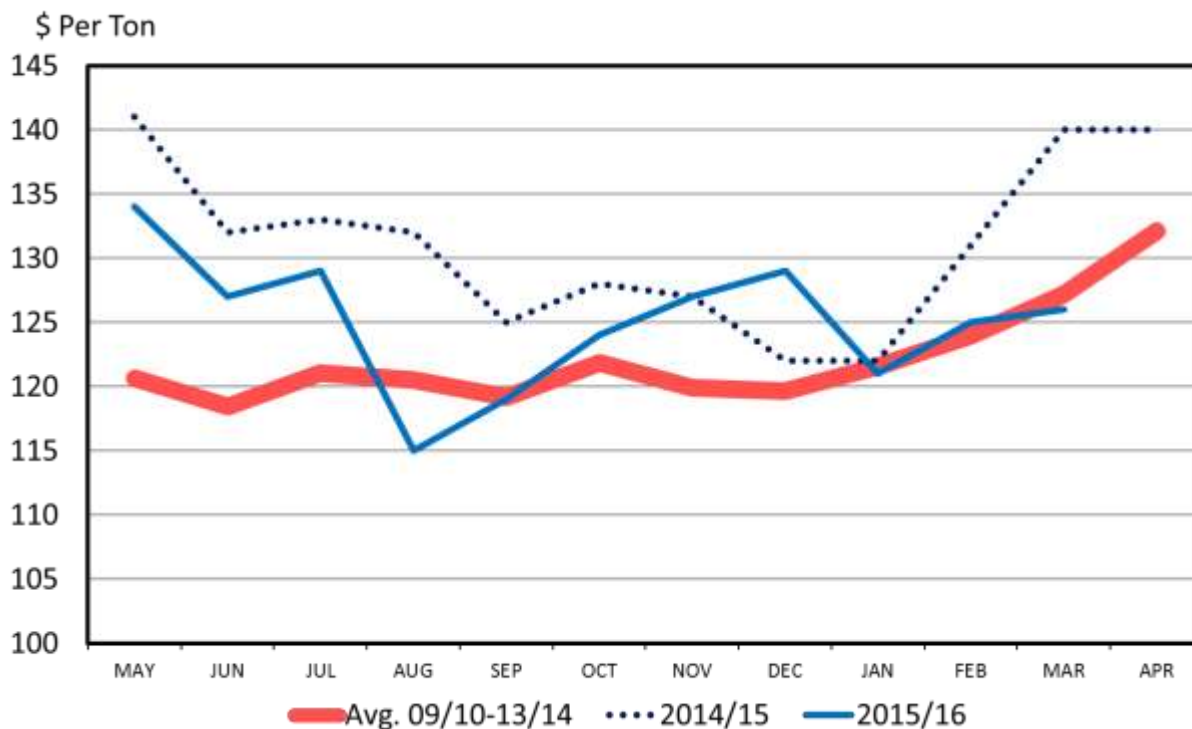
National average alfalfa hay prices eased through 2015/16. The national average alfalfa hay price for March 2016 was \$144 per ton, \$25 per ton below last year and the lowest March price since 2011 (figure 2). Other hay type (grass hay) prices bounced around during 2015/16, but were \$14 per ton lower in March 2016 than in March 2015 and were consistent with the March 2009/10-2013/14 average of \$127 per ton (figure 3).

Figure 2. Alfalfa Hay – Monthly Average Price, Received by Farmers, U.S., Crop Year



Livestock Marketing Information Center. Data Source: USDA-NASS

Figure 3. Other Hay – Monthly Average Price, Received by Farmers, U.S., Crop Year



Livestock Marketing Information Center. Data Source: USDA-NASS.

Softer hay prices stemmed largely from lower 2015/2016 consumption. Livestock needed less hay due to the extended grazing season and a relatively mild winter. Lower use helps rebuild hay stocks, even though the national cattle herd is expanding. The bigger herd has not yet boosted hay consumption enough to warrant higher prices.

Hay acreage holds steady

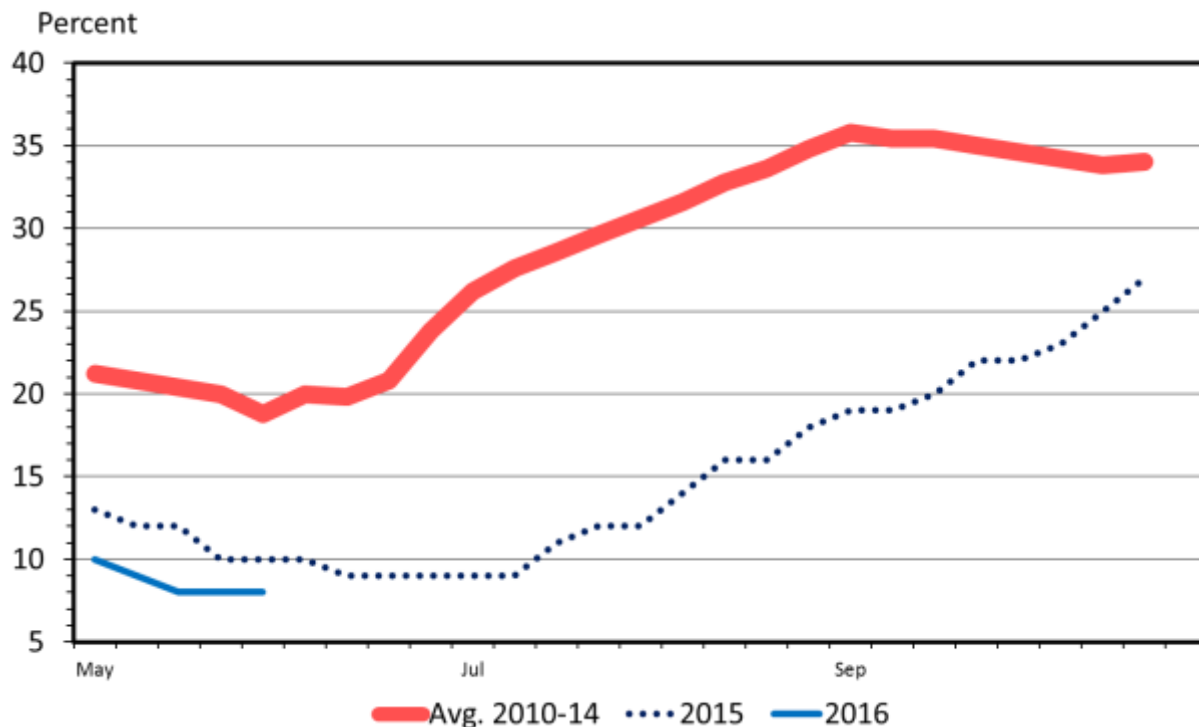
The 2016 Planting Intentions report has expected harvested hay acres in the U.S. almost unchanged from a year ago. The 54.31 million intended acres would be down 132,000 acres from 2015. Replenished hay stocks and the recent trend of above average yields likely explains a muted acres response in cattle states. Among the top ten beef cow states, hay acres are expected to be up in four states (Missouri, Iowa, Florida and Kentucky), unchanged in three states (Texas, Nebraska and Montana), and down in three states (Oklahoma, South Dakota, and Kansas). The result would be a net loss of 80,000 hay acres, or 0.3%, among the top ten states.

Range and pasture conditions approaching record territory

Each Monday from May through October, USDA’s National Agricultural Statistics Service releases pasture and range conditions by state. Its weekly Crop Progress Report rates pasture and range conditions as very poor, poor, fair, good and excellent. The report for the week ending May 29, 2016 confirms that many areas are beginning the growing season with even better pasture and range conditions than last year.

Nationwide, only 8% of all pasture and ranges are in poor to very poor condition, down from 10% a year ago (figure 4). Regionally, the Corn Belt has the best conditions, with only 4% in poor to very poor condition; followed by the Great Plains at 6%, Southern Plains at 9%, Southeast at 9%, and the West at 12%. In Iowa, only 3% of pastures are in poor to very poor condition.

Figure 4. U.S. Range and Pasture Condition, Percent Poor and Very Poor, Weekly



Livestock Marketing Information Center. Data Source: USDA-NASS, Compiled & Analysis by LMIC.

On the flip side, 66% of the nation’s pasture and rangeland is in good to excellent condition. Several states are reporting at least 75% good to excellent ratings. This list includes: Nebraska (88%) South Dakota (81%), Iowa (78%), and Minnesota (77%) then a strip across the Eastern Corn Belt—Illinois (85%), Ohio (82%), and

Indiana (81%). So we are off to a really good start with everything looking pretty green and plentiful in most of the country as we head into early June—certainly approaching record territory.

Lee Schulz

Price Strength from Demand

The crop markets continue to put together a good price run for farmers this summer. Corn and soybean prices have trended upward over the past few months. While weather concerns have supported crop prices, especially we look to the latter half of summer and the potential of La Niña, much of the recent rally can be attributed to a significant rebound in international demand and the activity of investment funds in the agricultural markets. Export demand has been the weakest link in the crop demand picture over the past year. But data over the past several months has shown that the global marketplace has a strong calling for U.S. crops.

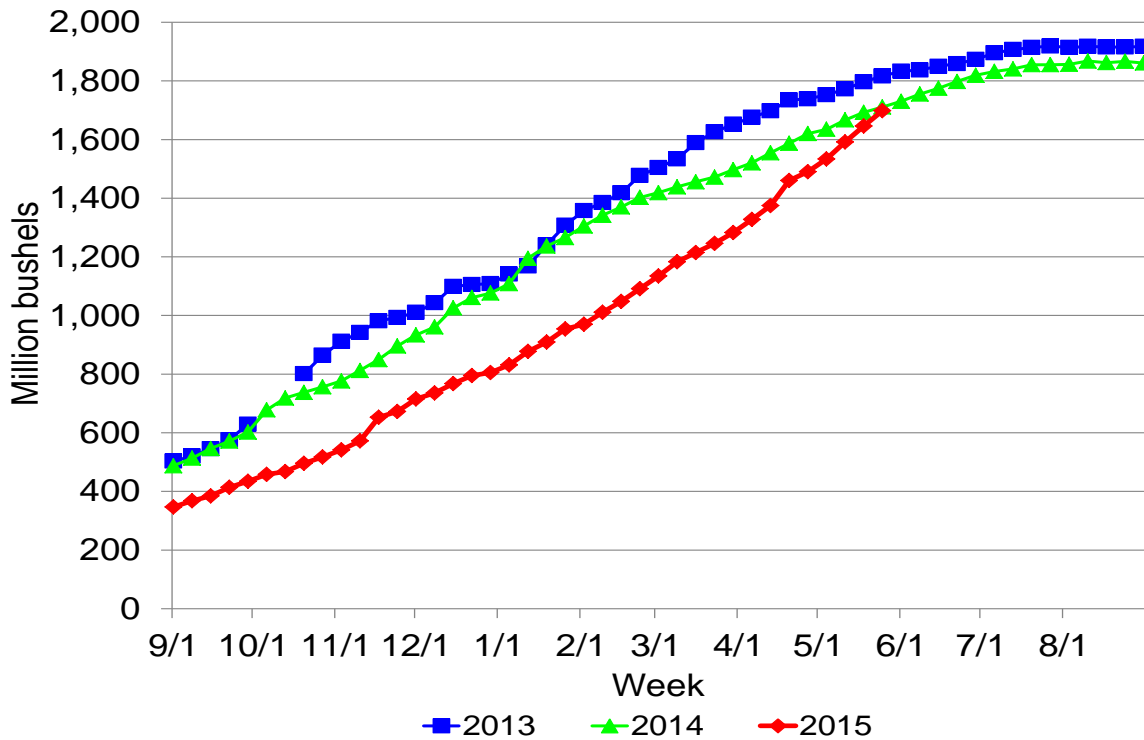
One of the major deterrents to crop exports over the past couple of years has been the strength of the U.S. dollar. Beginning in the latter half of 2014, the dollar dominated many currency markets, making U.S. crop exports more expensive. That run continued into 2016. But the recent reversal in the dollar's trajectory has helped U.S. crops expand quantities moving to international markets.

Figure 1. Strength of the U.S. Dollar (Source: Federal Reserve).



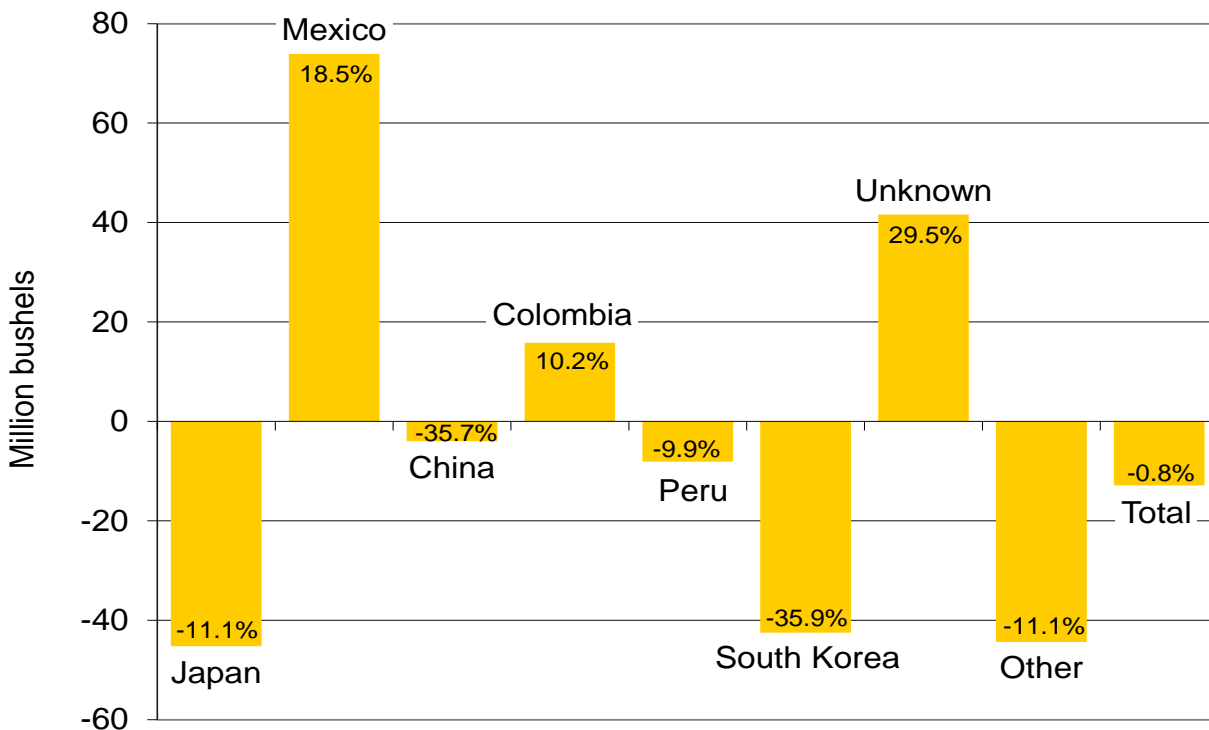
As the graph below shows, corn export pace has picked up over the past few months. Normally, exports slow down during the spring and summer as South American crops reach harvest. This year, the weather problems in South America have delayed some harvest and have reduced crop production. This has forced some buyers to turn back to the U.S. to source grains. With the latest crop export report, corn exports this marketing year have caught up to last year's pace. The current pace suggests that corn exports will exceed last year, possibly passing the export total for the 2013 crop year as well.

Figure 2. Corn export pace (Source: USDA-FAS).



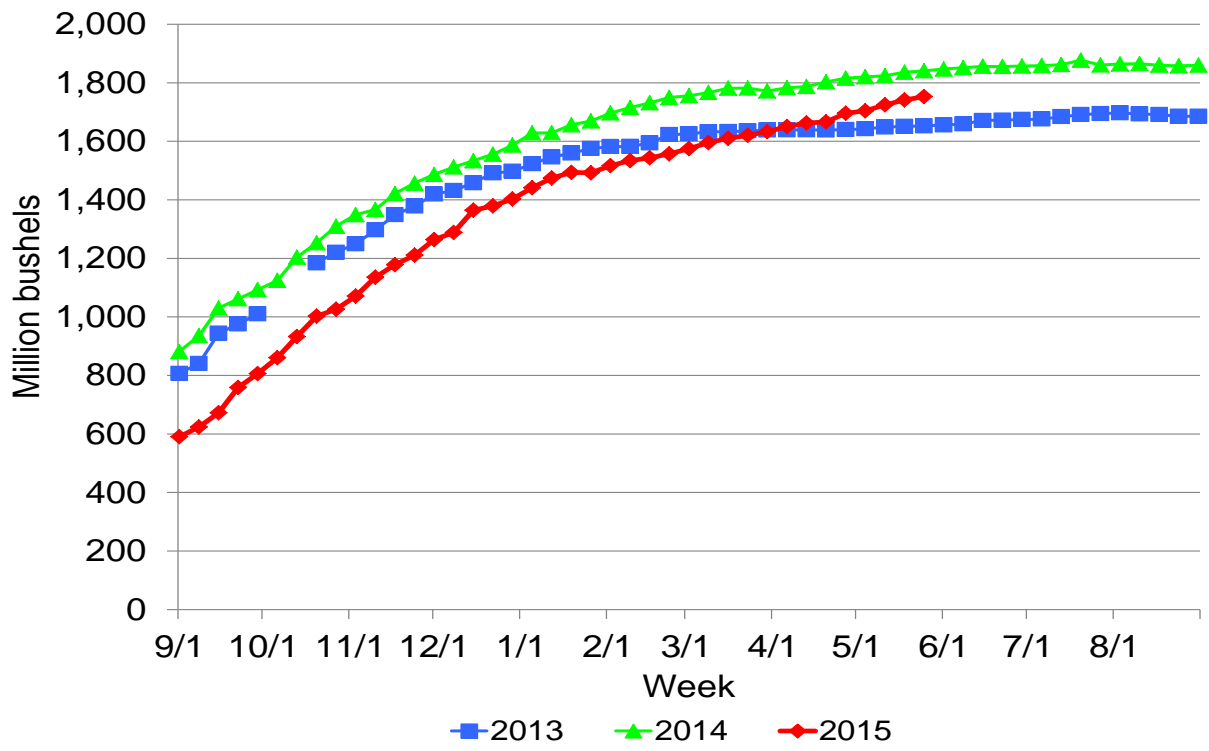
However, not all markets are in positive territory. For our two largest markets, the export patterns have been significantly different. While the U.S. remains the largest supplier for Japan, demand for U.S. corn has continued to shrink. Meanwhile, exports to Mexico continue to surge. This year, Mexico has moved past Japan as the top market for U.S. corn. We see a similar mixed pattern within three markets that flourished under new free trade agreements, Colombia, Peru, and South Korea. Colombia has added to their corn demand, whereas Peru and South Korea have pulled back.

Figure 3. Major corn export markets (Source: USDA-FAS).



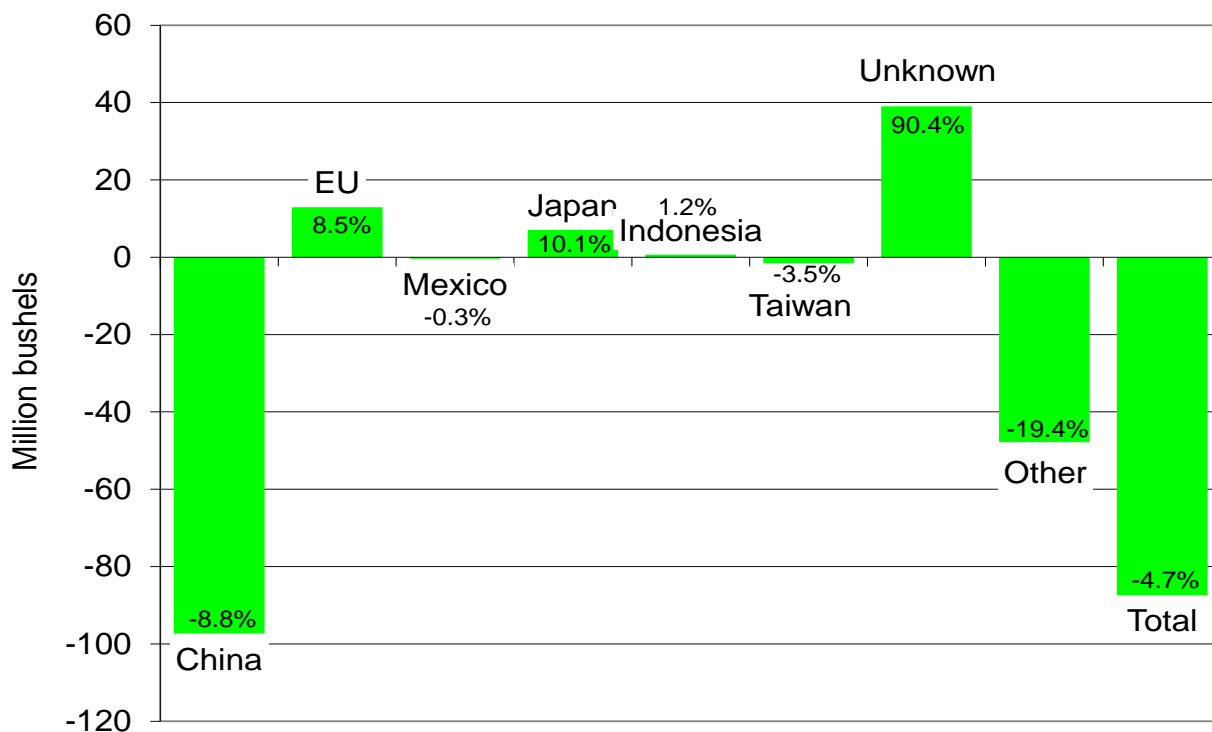
For soybeans, the export markets have set several records over recent years. The downturn in soybean exports was not as pronounced, but the recovery has not been as sharp either. Currently, U.S. soybean exports are still nearly 100 million bushels below last year's pace. But the gap has been shrinking. And again, this improvement comes at a time that is usually slow for U.S. crop exports.

Figure 4. Soybean export pace (Source: USDA-FAS).



The Chinese market is the major one to watch. And while sales fell behind early in the marketing year, the pace of beans entering the Chinese market now is very close to what passed through last year. The European Union and Japan have provided some growth, along with export sales currently listed for unknown destinations.

Figure 5. Major soybean export markets (Source: USDA-FAS).



Looking forward to this year's harvest and the next marketing year, USDA's early projections show that the export improvement will likely continue. Corn exports are expected to reach 1.9 billion bushels. Soybean exports are projected to hit another record, with 1.885 billion bushels. With international demand building and domestic demand holding at very good levels, overall crop demand remains strong. The price weakness over the past couple of years has more to do with large supplies than lowered demand. And current projections indicate crop demand will stay strong over the next 18 months.

The demand strength and the threat of more extreme weather have put a charge in the crop markets. Futures-based season-average price estimates are on the rise for both crops. As we enter the last quarter of the 2015/16 marketing year, futures indicate season-average prices of \$3.75 for corn and \$9.03 for soybeans. For the 2016/17 marketing year, futures point to season-average prices in the \$3.90 range for corn and \$10 range for soybeans. So prices are much closer to breakeven, based on ISU production costs. However, that optimism in the futures markets does not extend beyond the 2016/17 marketing year. For 2017/18, the futures-based price projections are steady for corn, but declining for soybeans. While demand is strong, the markets are still concerned that supplies will be burdensome.

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