

Iowa Farm Outlook

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Structure and Status of the Iowa Cattle Feeding Industry

One topic that often gets brought up is structural change in the cattle feeding industry and how that may impact pricing trends, especially during certain times of the year. Historically, smaller feedlots have been associated with crop farms using cattle as another form of marketing their annual corn harvests and diversifying their operation. When corn prices were high, crops were sold for cash and when prices were low, corn was fed to cattle and sold as beef, provided that the cattle were available. This year is proving to be an anomaly and may be signal of a fundamental change in the cattle industry. Calf crops have been expanding and corn prices have been supportive for feeding cattle in smaller scale operations in each of the last three years, yet this year is not featuring a similar gain in cattle marketed from this sector.

The USDA Cattle on Feed Report is a monthly publication that reports data on the number of cattle in U.S. feedlots, the number of cattle being placed in feedlots, and the number being marketed for slaughter. USDA surveys feedlots that have at least 1,000 head of cattle in 16 major cattle feeding states in the United States. The 16 states account for approximately 98% of the cattle on feed in feedlots with capacity of 1,000 or more head. The Iowa Ag News – Cattle on Feed report is a combination of estimates from the USDA Cattle on Feed survey for Iowa feedlots with a capacity of 1,000 or more head and the Iowa Department of Agriculture and Land Stewardship - funded Cattle on Feed survey for Iowa feedlots with a capacity of less than 1,000 head.

Marketings of fed cattle from Iowa feedlots with capacity of 1,000 or more head during 2017 represented 59% of total cattle marketed from all feedlots in Iowa. This compares to 87% in the United States. This is why the survey for Iowa feedlots with a capacity of less than 1,000 head is so important because it provides a more complete picture of the cattle feeding situation in the state.

Cattle on feed in Iowa feedlots with a capacity of 1,000 or more head on October 1, 2018 was up 6% from October 1, 2017. Iowa feedlots with a capacity of less than 1,000 head had 10% fewer cattle on feed than the previous year. Looking only at the large feedlot number would suggest the availability of market-ready cattle come the end of this year and the first of next will be substantial in the state. However, in all Iowa feedlots the October 1 cattle on feed inventory was down 0.5% from last year and up only 0.6% from the 2012 through 2016 October average.

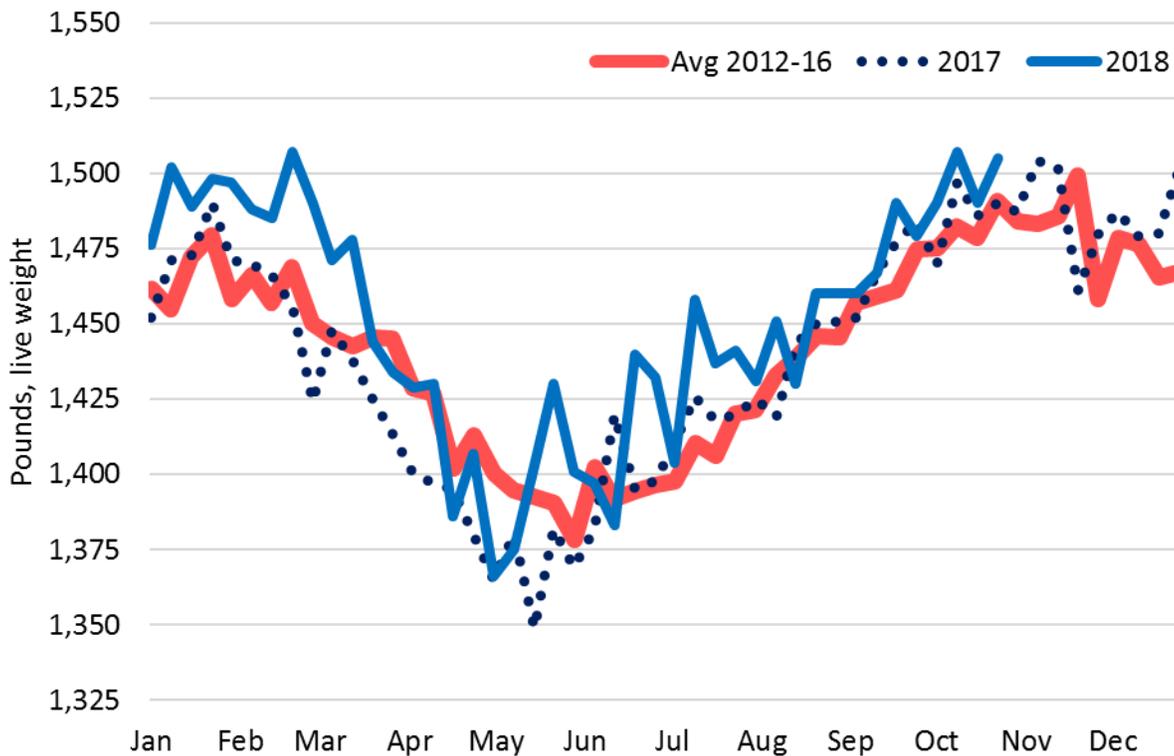
The twelve month moving average of cattle on feed (which removes the seasonality of feedlot inventories) is currently at the highest level for 1,000 or more head capacity feedlots and lowest for less than 1,000 head capacity feedlots in the history of the data back to 1996. Even with corn being below \$3.25 per bushel for the last five month, there has been no recovery in the share of cattle on feed from small operators. On the other hand, large operators have seemingly expanded. Larger feedlots could be growing market share because of their ability to capitalize on economies of size.

September feedlot placements and marketings were both below year ago levels, in part due to one less business day in September 2018 compared to last year. This was the case for both the large and small feedlot categories in Iowa. While placements into large feedlots were 16% below a year ago, placements into small feedlots were down 61%. Similarly, fed cattle marketings were down 21% and 32%, respectively. This could be a sign of feedlots' unwillingness to purchase relatively expensive feeder-weight animals. The spread between feeder cattle and live cattle pricing has been a headwind regarding feedlots placing animals on-feed.

The larger year over year decreases in placements and marketings of small feedlots could be a sign that they are more price sensitive in their placement decisions. Additionally, cow herds that typically retain ownership through finishing could alternatively be marketing calves and feeders at strong prices and providing profitable returns to the cow herd enterprise.

Delayed fed cattle marketings are driving feeders to add pounds to their existing inventory. The latest USDA report that breaks down Iowa/Minnesota steer and heifer weights (this is report LM_CT167 published each Monday), showed live steer weights for the week ending October 28 at 1,505 pounds, 15 pounds higher than the previous year (Figure 1). Heifer weights were 16 pounds higher. The weight data will be closely scrutinized for any sign that feedlots are further falling behind in their marketings and potentially losing bargaining power.

FIGURE 1. IOWA/MINNESOTA STEER LIVE WEIGHT
Weekly, Negotiated, FOB, Total All Grades

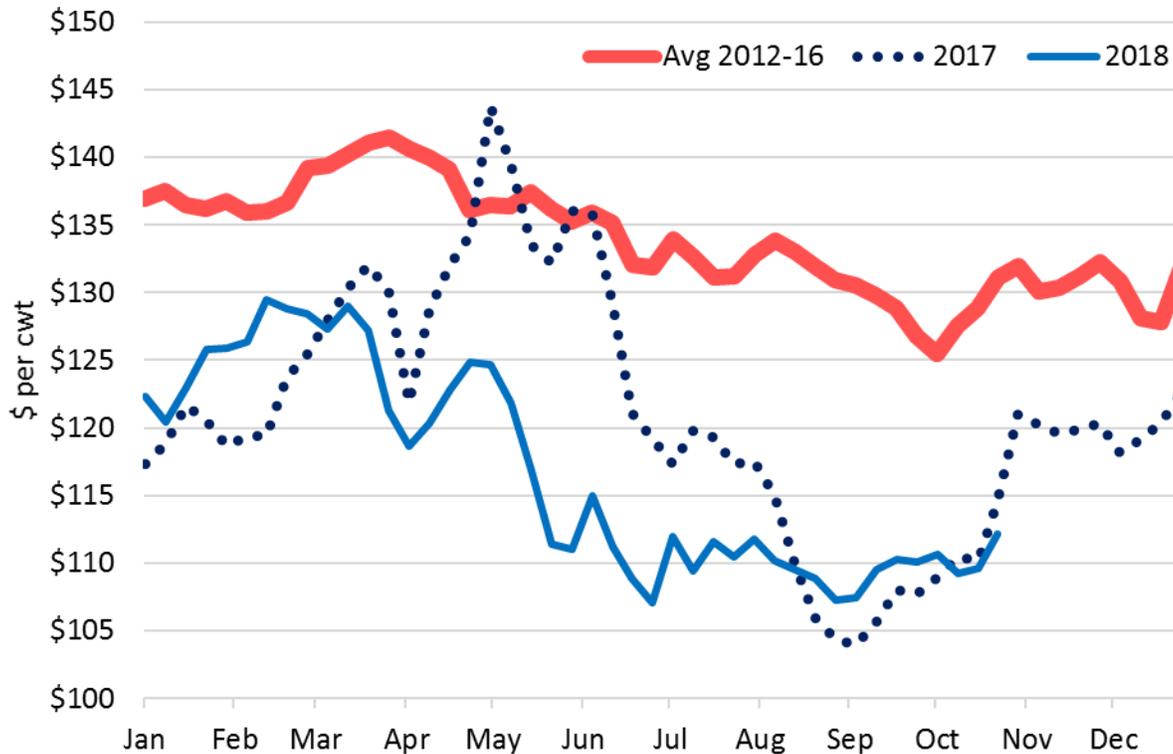


Data Source. USDA-AMS.

Cattle on feed over 120 days on October 1 in all Iowa feedlots decreased by 23,000 head from one month earlier, this year. This compares to an 80,000 head decrease in 2017 and an average change of -77,400 between these same months during the 2012-2016 interval. Small Iowa feedlots have been the main contributor in reducing inventories of cattle on feed for more than 120 days, reducing these inventories by 25,000 head from September to October. Large feedlots increased these inventories 2,000 head in October. Small feedlots holding fewer market-ready supplies has certainly aided in Iowa feedlot currentness.

With the books for October slaughter cattle markets closed, the demand for 120 day feedlot inventories was quite impressive. Iowa/Minnesota negotiated fed cattle prices stayed close to \$110 per cwt (live weight) from mid-September until the last week in October, when prices perked up another \$2-\$3 (Figure 2).

FIGURE 2. IOWA/MINNESOTA SLAUGHTER STEER PRICES
Weekly, Negotiated, Live Weight, Total All Grades



Data Source: USDA-AMS.

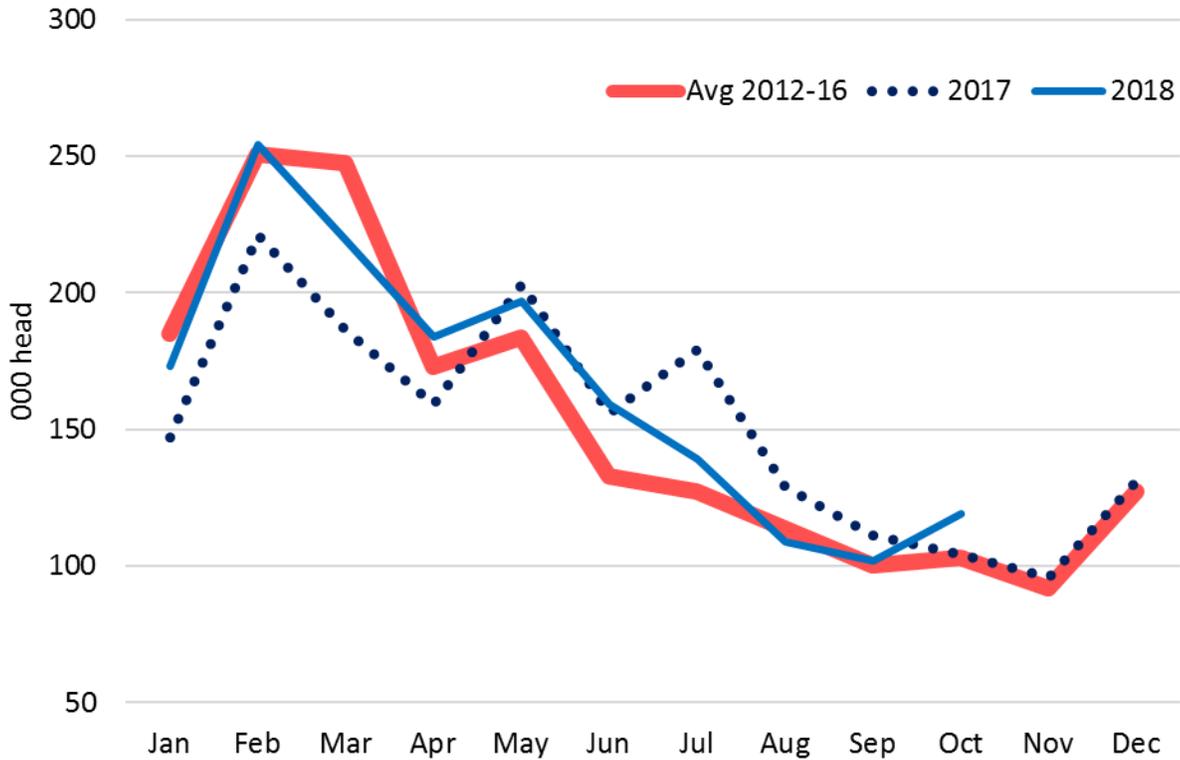
October 1 inventories on hand for 90-120 days for all Iowa feedlots were up 15,000 from a year ago (Figure 3). Inventories on hand for 90-120 days in large Iowa feedlots were up 5,000 head compared to last year while these inventories in small feedlots were up 10,000. These cattle should be mostly ready for slaughter in December and January. Last year, the Choice boxed beef cutout slipped \$6 per cwt from November to the end of December based on market ready cattle supplies that were much bigger than prior years. Iowa/Minnesota cattle prices fell \$1-\$2 per cwt. A supply-driven perspective on this market would suggest that the increase in 90-120 day feedlot inventories on October 1 would provide a bit more bearish cattle market action locally this December as a year ago.

Projecting demand for the remainder of the year and into next year is more difficult. Those that hold a bullish view of the cattle/beef market point out the fact that the comprehensive boxed beef cutout has sustained an elevated level over last year primarily from the strength of the middle meats and the strong export value for briskets and rib plates (Figure 4). The buildup for holiday business starts earlier each year and retailers have long already planned holiday specials and made those forward purchases which has helped spur beef demand. However, a bountiful supply of other protein sources provides increased competition at the meat case during the holiday season. General prosperity in the economy will continue to support demand for beef.

Exports remain key. According to the USDA Foreign Agricultural Service Export Sales Reporting Program, net sales for the remainder of 2018 were up noticeably from the previous week and up 43% percent from the prior 4-week average for the period October 19-25. For 2019, net sales of were unchanged from the previous week and from the prior 4-week average. Finding a market for the big supply of beef ahead will be key to market clearing prices.

FIGURE 3. CATTLE ON FEED OVER 90 DAYS MINUS OVER 120 DAYS

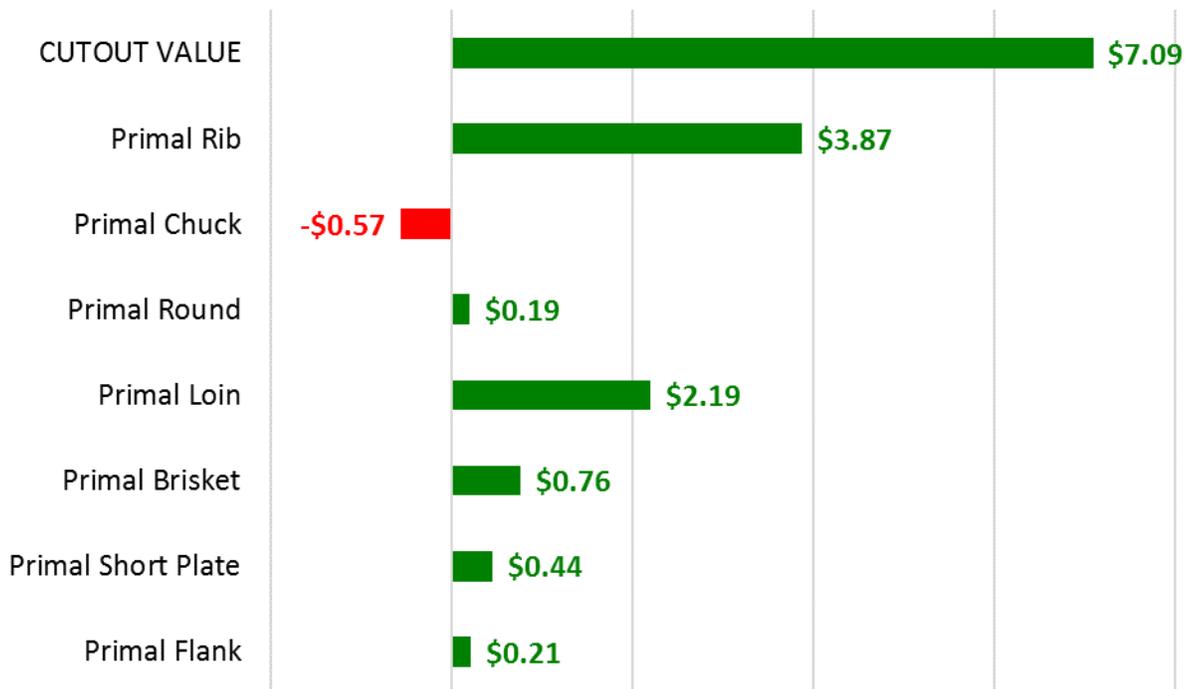
Iowa Total All Feedlots, Monthly



Data Source. USDA-NASS.

FIGURE 4. CONTRIBUTION OF EACH PRIMAL TO THE CHANGE IN VALUE OF THE COMPREHENSIVE BOXED BEEF CUTOUT

Weekending October 26, 2018 vs October 27, 2017



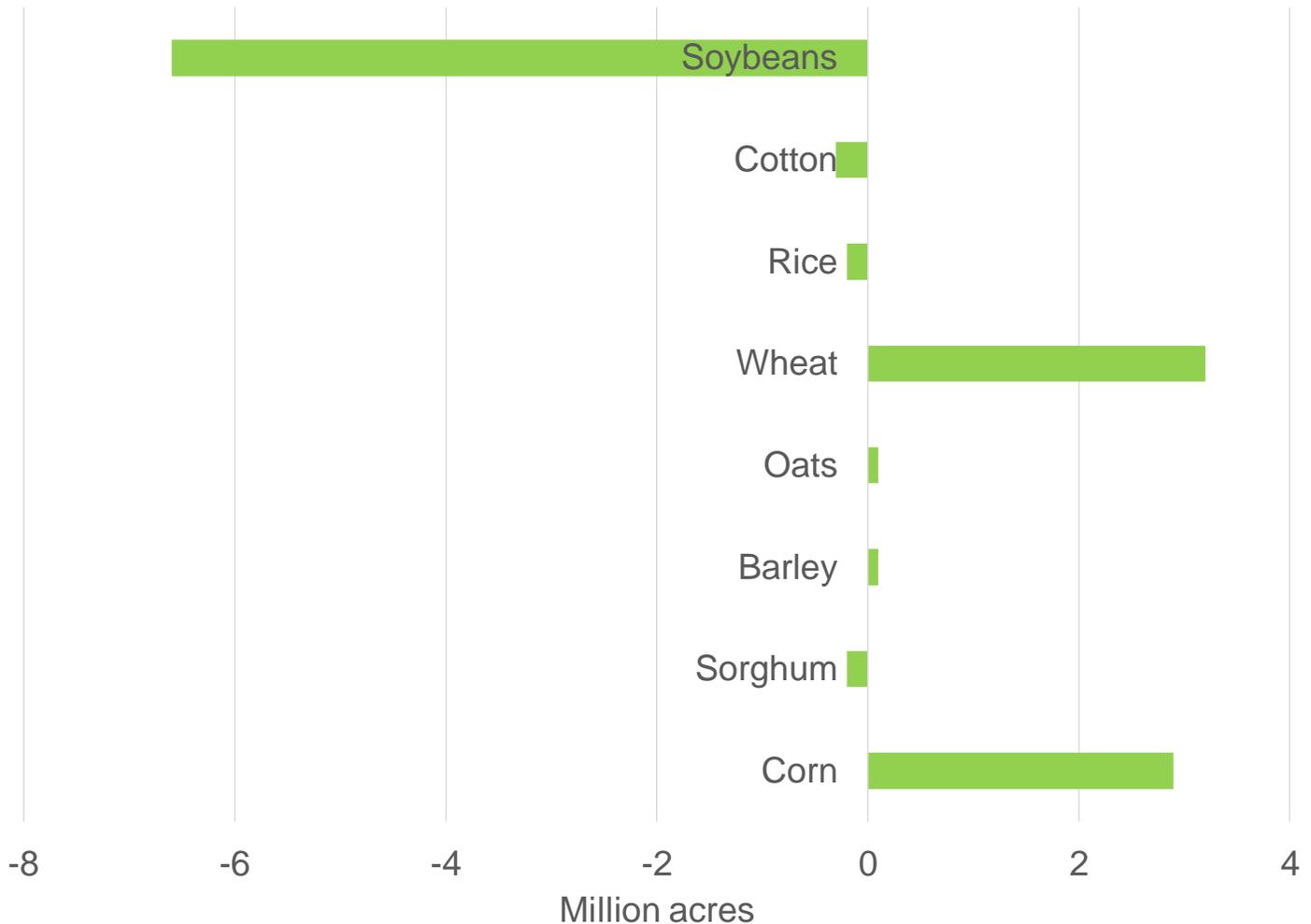
Data Source. USDA-AMS.

An Early Look at 2019

In the last couple of years, USDA has provided an early look at their projections for the next crop year. Oftentimes, these early projections hold close to the current situation. But that is not the case this year. Given the trade dispute with China and the lingering tariffs between the U.S., Canada, and Mexico that were not part of the USMCA, there are plenty of items to create significant movements in U.S. agriculture. And the analysts at USDA expect U.S. farmers to make sizable adjustments to their land allocations in 2019.

Figure 1 outlines the projected moves. U.S. farmers are expected to back away from soybeans significantly next year, reversing the strong recent uptrend in soybean area over the past few years. Soybeans are expected to lose 6.6 million acres in 2019, with much of that decline coming from the Great Plains. The largest gain is forecast in wheat area, as 3.2 million acres are shifted to that crop. Corn is also expected to capture some of soybeans' loss, adding 2.9 million acres. Cotton, rice, and sorghum are each expected to lose area as well, but less than 500,000 acres in each case. Meanwhile, barley and oats are projected to marginally gain a little area. Overall, planted area among the eight major crops is set to fall by a million acres, as the wheat and corn gains do not offset the soybean loss.

Figure 1. Projected planted acreage shifts for 2019. Source: USDA.



Going a little deeper into the numbers, USDA is painting a better outlook for corn than soybeans. While corn plantings are expected to be higher, the rest of the projected balance sheet provides a generally bullish outlook. With the trend yield set at 176.5 bushels per acre, the acreage increase is partially offset by a drop in yields. But overall, corn production is set to increase to 14.93 billion bushels. That would be the 2nd largest corn crop

ever, trailing only the 2016 crop. However, with ending stocks declining over the past couple of years, total corn supply is projected to be nearly 200 million bushels for the 2019 marketing year. So the 2019 outlook is for slightly less corn.

Shifting to corn usage, the general storyline continues the positive trend over the past few years. Feed and residual usage is expected to climb slightly. Corn usage for ethanol peaks at 5.7 billion bushels. Food, seed, and other industrial uses increase by 10 million bushels. The only spot with lower usage is in exports, but the projected level is still at a very strong level, 2.425 billion bushels. Totaling it up, 2019/20 ending stocks are projected at 1.6 billion bushels, down 200 million from 2018/19. Smaller stock levels generally go along with higher prices and that's what USDA projects. Their 2019/20 initial season-average price estimate stands at \$3.90 per bushel. That's 40 cents higher than the current estimate for 2018/19 and would be the highest average price since 2013/14.

Figure 2. U.S. Corn Supply and Usage. Source: USDA.

		2015	2016	2017	2018	2019
Area Planted	(mil. acres)	88.0	94.0	90.2	89.1	92.0
Yield	(bu./acre)	168.4	174.6	176.6	180.7	176.5
Production	(mil. bu.)	13,602	15,148	14,604	14,778	14,930
Beg. Stocks	(mil. bu.)	1,731	1,737	2,293	2,140	1,813
Imports	(mil. bu.)	67	57	36	50	50
Total Supply	(mil. bu.)	15,401	16,942	16,934	16,968	16,793
Feed & Residual	(mil. bu.)	5,120	5,470	5,302	5,550	5,575
Ethanol	(mil. bu.)	5,224	5,432	5,601	5,650	5,700
Food, Seed, & Other	(mil. bu.)	1,422	1,453	1,453	1,480	1,490
Exports	(mil. bu.)	1,898	2,294	2,438	2,475	2,425
Total Use	(mil. bu.)	13,664	14,649	14,793	15,155	15,190
Ending Stocks	(mil. bu.)	1,737	2,293	2,140	1,813	1,603
Season-Average Price	(\$/bu.)	3.61	3.36	3.36	3.50	3.90

The projected soybean area is the lowest since 2013, but the drop in acreage is not projected to be enough to dramatically change the soybean market. Given a trend yield of 50 bushels per acre, U.S. soybean production is set to fall by 600 million bushels. But that still works out to be a 4 billion bushel crop. So that's four 4 billion bushel plus soybean crops in a row. The build-up in ending stocks over the past few years pushes total soybean supplies to an even 5 billion bushels, the 2nd highest level ever. So we have tremendous supplies once again.

The stock building also shows that while soybean usage has been strong, our production has been even stronger. Looking at soybean usage, USDA estimates that there will be little change. Domestic crush is set to grow slightly. Seed and residual usage falls slightly. And exports gain a little, roughly 15 million bushels. Combined, total usage is projected to rise by 9 million bushels. It is enough to bring 2019/20 ending stocks down, but not by enough to spur significant price recovery. The projected 160 million bushel drop in stocks translates into only a 15 cent rise in the season-average price. With the 2019/20 season-average price at \$8.75 per bushel, the economics do not look very good for the crop.

Figure 3. U.S. Soybean Supply and Usage. Source: USDA.

		2015	2016	2017	2018	2019
Area Planted	(mil. acres)	82.7	83.4	90.1	89.1	82.5
Yield	(bu./acre)	48.0	52.0	49.3	53.1	50.0
Production	(mil. bu.)	3,926	4,296	4,411	4,690	4,090
Beg. Stocks	(mil. bu.)	191	197	302	438	885
Imports	(mil. bu.)	24	22	22	25	25
Total Supply	(mil. bu.)	4,140	4,515	4,734	5,153	5,000
Crush	(mil. bu.)	1,886	1,901	2,055	2,070	2,075
Seed & Residual	(mil. bu.)	122	146	112	138	127
Exports	(mil. bu.)	1,936	2,166	2,129	2,060	2,075
Total Use	(mil. bu.)	3,944	4,214	4,296	4,268	4,277
Ending Stocks	(mil. bu.)	197	302	438	885	723
Season-Average Price	(\$/bu.)	8.95	9.47	9.33	8.60	8.75

When you compare these projections to USDA's long-term projections from last year, there is a stark contrast between the two outlooks that summarizes the impacts from this year's trade problems. Going into 2018, USDA's projections for the 2019 marketing year had corn holding 90 million acres with a season-average price of \$3.35 per bushel. Meanwhile, soybeans were projected at 91 million acres and a season-average price of \$9.45 per bushel. Soybeans looked to have the long-term advantage at the start of 2018. Now corn seems to hold the upper hand.

Current futures prices are providing a more bullish outlook for both crops. Based on the closing futures prices on November 2nd and the average basis patterns over the five years, the 2019/20 season-average prices project to be \$4.05 per bushel for corn and \$9.23 per bushel for soybeans. So futures right now are running 15 cents stronger than USDA's initial estimate for corn and nearly 50 cents above the soybean estimate. Much of the soybean boost came in the last couple of days as the U.S. and China talk at the G-20 summit.

So the USDA and futures agree on the outlook for stronger prices for both crops. The issue returns to whether these projected price increases will cover costs. For the 2018 crop year, ISU estimated production costs at \$3.60 per bushel for corn and \$9.46 per bushel for soybeans. The outlook for 2019 production costs is for steady to slightly rising costs, as fuel, fertilizer, and chemical cost increases may likely offset any downward adjustment in rental rates. Comparing the projected prices to the 2018 costs, the USDA and futures projections tell a consistent story. Corn is projected to cover costs, but soybeans are not. And 2019 looks to be another challenging year for farm income.

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