

# Iowa Farm Outlook

Department of Economics  
Ames, Iowa

November 2015

Econ. Info. 2067

## Fed Cattle Market Regional Comparisons

After holding between \$145 and \$150/cwt for much of the summer, nearby live cattle futures dropped to a low of \$121.40/cwt on October 1 (figure 1). This \$30/cwt decline, or even more extreme \$45/cwt decline from the start of the year, has been attributed up to a number of factors, probably none more glaring than the increasingly burdensome supply of heavy fed cattle and the additional beef tonnage that goes with them.

Figure 1. Live Cattle Futures, Nearby, Daily



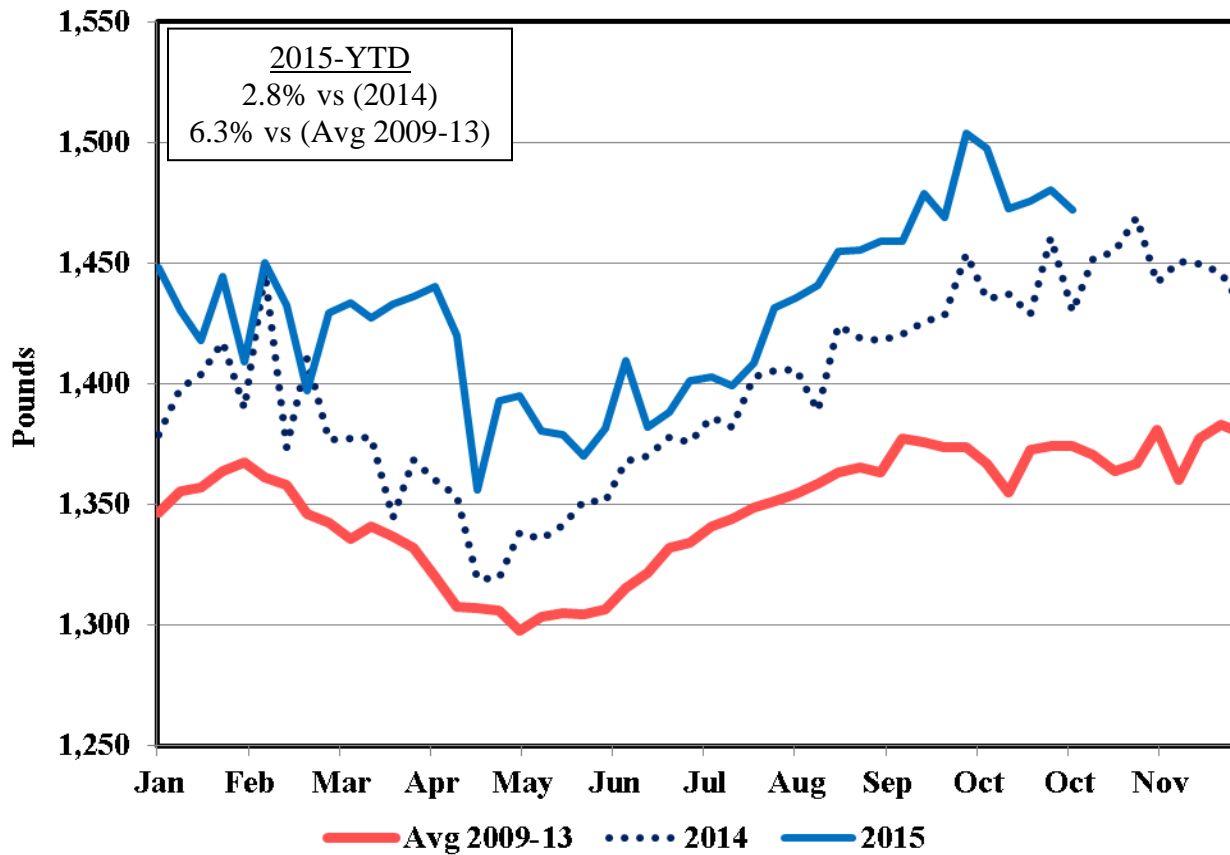
Data Source: CME Group.

Year to date cattle slaughter is still down 5.5% but beef production so far this year is down only 2.8% with increased carcass weights making up the difference (figure 2). The last week of September USDA reported that cattle slaughter was about equal (fractionally higher) than the same week last year but weekly beef production was 3.3% higher year over year.

Even before the recent market decline it had been a challenging year for cattle feeders and feedlots had struggled continuously with lousy margins. The feedlot response to this adverse market condition, abetted by packers, has been to slow down marketings, adding days on feed, and increasing fed cattle weights. However, the rate of increase in weights has been amplified in recent months. This may be partially explained by seasonality and the grain market. But, I also think there is a human element at play as well. As fed cattle

dropped, there was likely a tendency for feedlots to delay marketing in hopes of a price rebound. At the same time, since the feeder cattle market was also dropping rapidly, there was likely a tendency to delay placements.

**Figure 2. Steer Live Weight, 5-Area, Weekly**



Data Source: USDA Agricultural Marketing Service.

This dynamic has had a notable effect on the currentness of the fed cattle market. Table 1 shows cattle on feed for more than 120 days in 1,000+ head capacity feedlots for major cattle feeding states and the U.S. as a whole. As of October 1, in the U.S., there was an additional 381,000 head in this category than there was a year ago and 678,200 head more than compared to 2009-13 average. On a percentage basis, South Dakota had the largest increase (88.0% or 44,000 head) compared to a year ago. Iowa feedlots with 1,000+ head capacity had 4.6% more (14,000 head) than one year ago. The supply of heavy fed cattle was even more pronounced in feedlots with less than 1,000 head capacity with a 25.3% increase (64,000 head) compared to October 1, 2014.

**Table 1. Cattle on Feed More than 120 Days, 1000+ head Capacity Feedlots, October 1**

	Change in Number of Head		Percent Difference	
	2015 vs Avg 2009-13	2015 vs 2014	2015 vs Avg 2009-13	2015 vs 2014
U.S.	678,200	381,000	21.3%	10.9%
IA (1,000+)	44,400	14,000	16.3%	4.6%
IA (<1,000)	2,600	64,000	0.8%	25.3%
MN	17,000	18,000	29.3%	31.6%
SD	5,400	44,000	6.1%	88.0%
NE	51,000	60,000	8.7%	10.4%
KS	111,000	25,000	24.4%	4.6%
CO	69,000	40,000	24.6%	12.9%
TX	256,000	105,000	34.6%	11.8%
OK	-7,200	6,000	-8.2%	8.0%

Data Source: USDA National Agricultural Statistics Service.

What had been a “situation” for several months rapidly turned into a “predicament”, worse for some states than others, and as these heavy cattle were marketed the massive slide in prices began. Table 2 shows the live weight and price for fed steers and heifers for the 5-Area, IA-MN, NE, KS, CO, and TX-OK-NM for the first half of 2015 and for four time points from July to November.

**Table 2. Weekly Weighted Average Fed Cattle Trade, Negotiated, Live FOB Basis**

	Jan-Jun 2015		7/19/2015		8/23/2015		10/4/2015		11/1/2015	
	Wt	\$/cwt	Wt	\$/cwt	Wt	\$/cwt	Wt	\$/cwt	Wt	\$/cwt
<b>5 Area</b>										
Steers	1411	160.48	1409	147.96	1455	147.19	1498	117.71	1472	136.22
Heifers	1284	160.49	1277	148.06	1277	147.49	1309	119.81	1323	136.27
<b>IA-MN</b>										
Steers	1451	160.47	1419	148.24	1491	146.44	1543	116.28	1527	133.14
Heifers	1299	160.10	1289	147.98	1292	146.34	1361	117.30	1359	132.99
<b>NE</b>										
Steers	1431	160.60	1425	148.00	1450	148.03	1513	117.06	1497	136.88
Heifers	1319	160.73	1289	148.09	1308	148.40	1335	119.46	1351	136.95
<b>KS</b>										
Steers	1352	160.30	1367	147.66	1369	146.93	1419	120.14	1419	137.96
Heifers	1233	160.31	1227	148.00	1250	146.83	1246	121.94	1266	137.97
<b>CO</b>										
Steers	1399	160.91	1401	147.82	1455	148.96	1500	118.19	1479	138.73
Heifers	1285	161.14	1300	148.00	1237	148.87	1326	118.50	1393	138.49
<b>TX-OK-NM</b>										
Steers	1303	160.20	1347	148.00	1403	147.78	1403	121.31	1374	138.00
Heifers	1178	160.22	1170	148.00	1162	147.43	1320	120.00	1181	138.00

Data Source: USDA Agricultural Marketing Service.

From mid-July to October steer weights increased faster across all states except TX-OK-NM where heifer weights increased notably faster. IA-MN had the largest increase in steer weights (123 lbs) and second largest increase in heifer weights (72 lbs). The increase in the heifer-to-steer price premium was most notable in NE with an increase of \$2.31/cwt. For the week of October 4, IA-MN had the lowest prices for both steers and heifers. The largest price discounts were in comparison to TX-OK-NM steers (\$5.03/cwt lower) and KS heifers (\$4.64/cwt lower).

These regional differences likely have implications, some short-run and some longer lasting, for price rebounds regionally. The good news is that weights seem to have plateaued across the board and the fed cattle market has gained some ground since the first of October. While it is impossible to guess how sustained this will be, it is certainly a good sign and should pull some cattle through the system, which is exactly what this market needs—in some markets more than others. The only real solution is to market our way out of this predicament.

It is important to remember that overall feedlot numbers are not burdensome; it’s just the supply of heavy cattle that is burdensome. The fed cattle market could be in a position for further recovery assuming the current purge is successful and proper market signals develop to help mitigate this issue moving forward.

*Lee Schulz*

## Accelerating through the Harvest Season

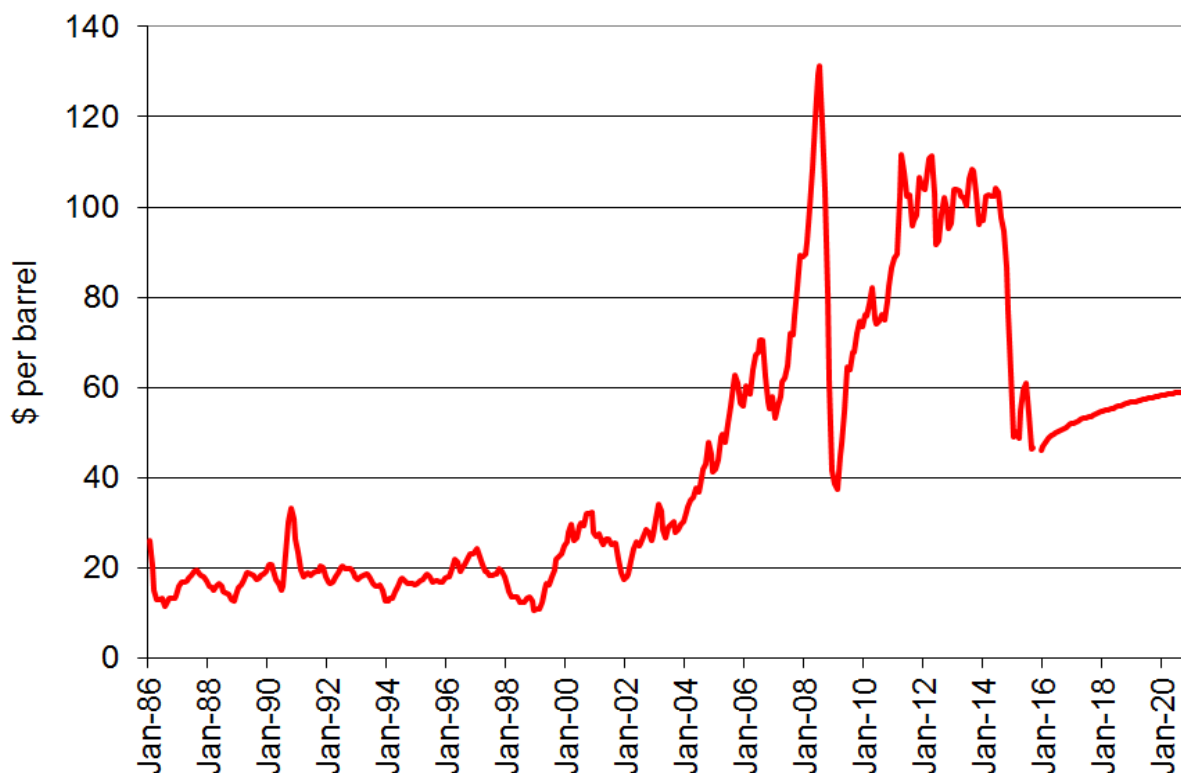
The pace of harvest is definitely different this year. Last year, it took a while for harvest to roll in. This year, the crops dried down quickly and farmers were able to bring the harvest in ahead of schedule. As of November 1, 85% of the nation's corn crop had been harvested. That compares to 62% last year and the 5-year average of 79%. Only in the Great Plains (Colorado, Nebraska, and Texas) is the corn harvest delayed. In Iowa, 85% of the corn crop is out of the field, with the delays mainly in the southwest, south-central, and east-central parts of the state.

The soybean harvest is also moving quickly. Nationwide, 92% of the soybean crop has been harvested. That is four percent ahead of the 5-year average and 11 percent ahead of last year. Only 1 state (Mississippi) has a harvest lagging behind the 5-year average. Iowa's soybean harvest is at 96%, which is also its 5-year average pace. Again, it's the water-logged southwestern and south-central districts that are behind.

The Iowa office of USDA-NASS also reports crop movement during harvest and crop storage availability. Compared to last year, crop movement is slightly slower than last year, with the majority reporting moderate to heavy movement of crops from farms to the market, be it the local elevator, ethanol plant, or further down the marketing chain. But crop storage availability is more limited this year. Last year, on-farm storage was rated 17% short, while off-farm storage was rated 11% short. This year, the figures are 31% and 22% short. So the quicker (and projected larger) crop harvests in Iowa are pressuring storage.

USDA's current estimates show the 3<sup>rd</sup> largest corn crop and the 2<sup>nd</sup> largest soybean crop coming in this harvest. Supplies are large once again this fall. Demand is large as well, but weakness is developing there. For soybeans, the market is focused on international demand. U.S. demand for soybeans is projected to hold steady for the current marketing year at 1.88 billion bushels. But export demand is expected to drop by over 150 million bushels. While China is the major player here, other soybean markets have slowed as well. The global economy is still in a weakened condition. As Figure 1 shows, energy prices remain much lower than they have been over the past few years. As economies slow, demand for energy falls and prices follow.

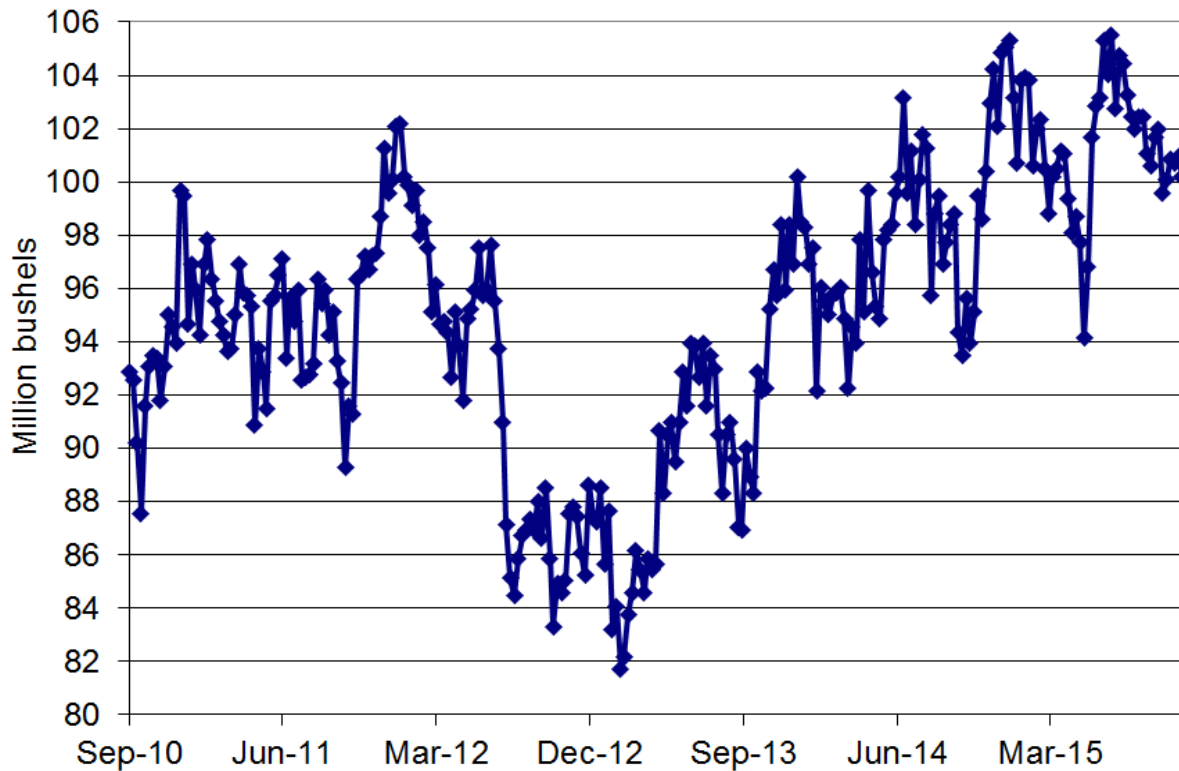
**Figure 1. Crude oil prices. Sources: EIA and CME.**



The global slowdown is also impacting the corn market. Corn exports were lower in the last marketing year and are projected to fall slightly again. The strength of the U.S. dollar has increased the cost of our exportable commodities. So the crop markets are facing some major headwinds on the international front.

One bright spot for the corn market has been the ethanol industry. Despite the drop in crude oil prices, the ethanol industry has continued to produce at very strong levels. Figure 2 shows the weekly usage of corn by the ethanol industry. The 2015 calendar year will likely set a record for corn conversion to ethanol. USDA's demand projections indicate the same as we look at marketing year demand for 2015/16 with 5.25 billion bushels of corn processed into ethanol.

**Figure 2. Corn usage for ethanol.**



With the projected demand losses for soybeans and relatively steady demand for corn, USDA computes building ending stocks for soybeans, but a slight drop for corn. The midpoints of the season-average price bands are \$3.80 per bushel for corn and \$9.15 per bushel for soybeans. However, the futures markets are less optimistic, placing the projected prices around \$3.60 per bushel for corn and \$8.40 per bushel for soybeans.

Figure 3 displays the change in projected crop margins, given futures prices and Iowa State University Extension production cost estimates. Projected margins have remained below breakeven throughout the growing season. And with the large harvest, the margins have reached new lows. For the 2015/16 marketing year, soybeans have a slight advantage over corn. But both crops are well below breakeven.

The prospects for the 2016 crops aren't looking that much better. Current futures put the projected season-average prices at \$3.80 per bushel for corn and \$8.40 per bushel for soybeans. So corn prices show some improvement, while soybean prices hold steady. Thus, projected corn margins are slightly better than projected soybean margins. But both again are below breakeven. As with the last couple of years, the markets are looking to shed some acreage. The big question is where that acreage would go, to other crops, to pasture, etc.

Figure 3. 2015/16 projected crop margins.

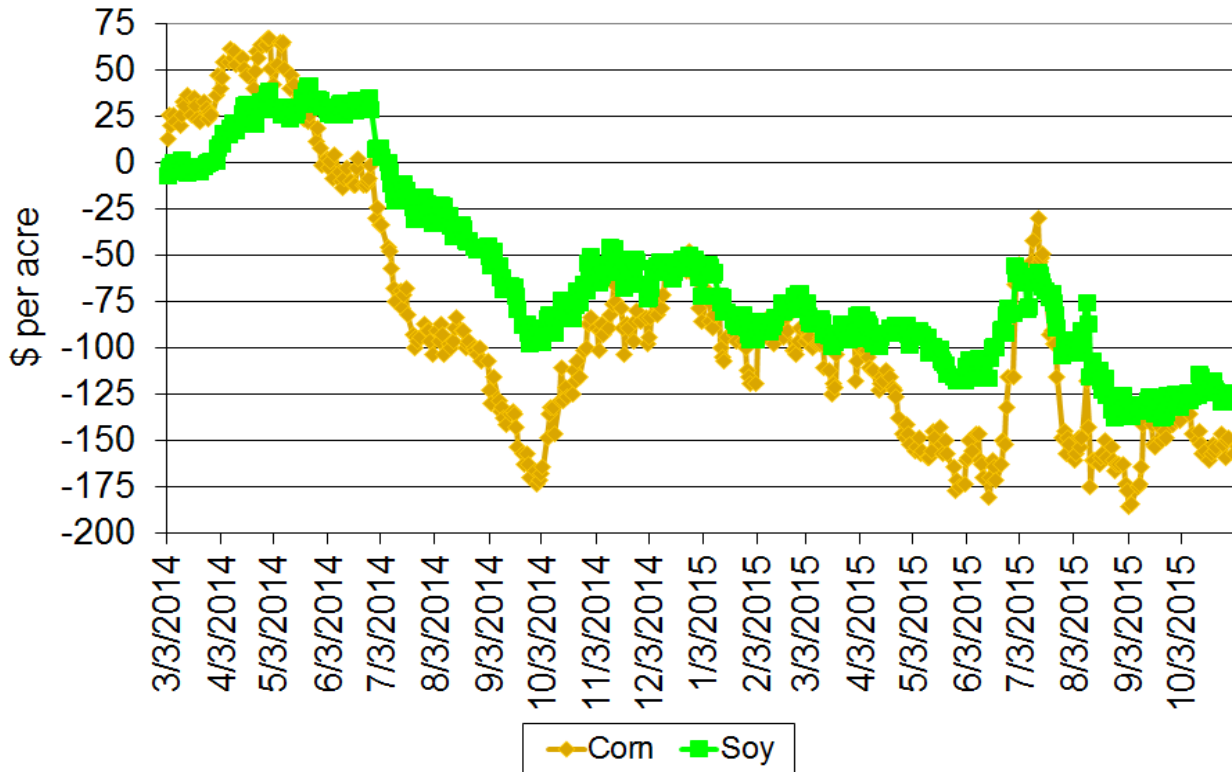
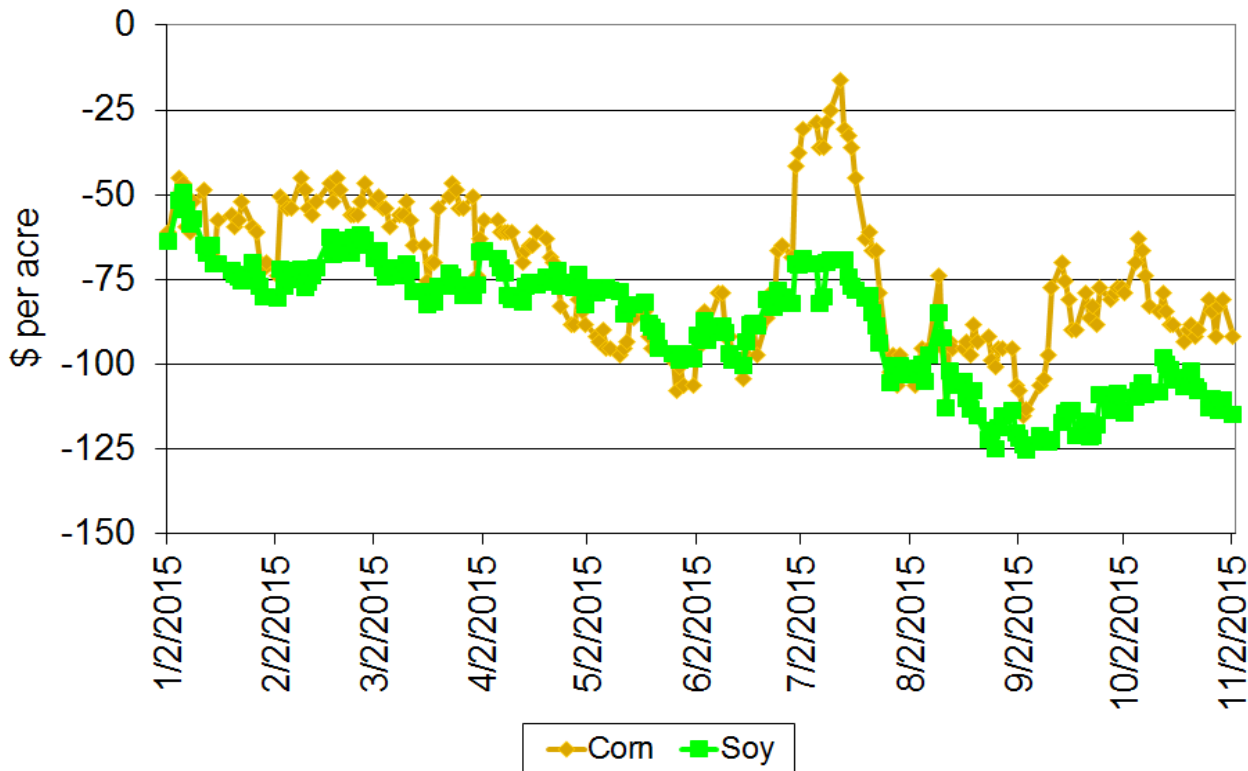


Figure 4. 2016/17 projected crop margins.



While the corn market has built in some carry in the futures, the soybean market really hasn't. But based on the earlier storage data from USDA, both crops are headed into storage in the hopes of higher prices this spring. But as the export data shows, buyers, especially international buyers, seem willing to wait the market out as well. The profitability picture for 2016 will likely be shaped more by how farmers control costs, than by how demand moves the market.

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