

Spring 2018

Current Situation for Iowa's Major Ag Commodities

Lee L. Schulz

Iowa State University, lschulz@iastate.edu

Chad Hart

Iowa State University, chart@iastate.edu

Follow this and additional works at: <https://lib.dr.iastate.edu/agpolicyreview>

Part of the [Agricultural and Resource Economics Commons](#), [Agricultural Economics Commons](#), and the [Economics Commons](#)

Recommended Citation

Schulz, Lee L. and Hart, Chad (2018) "Current Situation for Iowa's Major Ag Commodities," *Agricultural Policy Review*: Vol. 2018 : Iss. 2 , Article 3.

Available at: <https://lib.dr.iastate.edu/agpolicyreview/vol2018/iss2/3>

This Article is brought to you for free and open access by the Center for Agricultural and Rural Development at Iowa State University Digital Repository. It has been accepted for inclusion in *Agricultural Policy Review* by an authorized editor of Iowa State University Digital Repository. For more information, please contact digirep@iastate.edu.

Current Situation for Iowa's Major Ag Commodities

Lee Schulz and Chad Hart

lschulz@iastate.edu; chart@iastate.edu

THERE IS a lot of uncertainty in agriculture right now, from the delayed onset of spring and the delayed planting that goes with it, to the ongoing trade disputes and trade agreement renegotiations, agricultural producers are adjusting production plans to deal with the uncertainty. Below is a quick summary of the current situation for Iowa's major agricultural commodities, based on the latest reports and surveys from USDA. The majority of the information for the USDA reports was gathered before the latest rounds in the US-China trade dispute. However, the outlook highlights the importance of trade in agriculture and shows the avenues where trade will influence production and consumption decisions.

Hog Prospects Dim

A double whammy of rising feed prices and falling hog prices point to tighter hog margins than were expected earlier this year. Projected 2018 profits in ISU's farrow-to-finish model dipped from the \$11 per head forecast in December to losses of \$4 per head in April. Carcass weight prices in 2018 are now expected to average near \$63 per cwt compared to about \$66.50 last year. News of the Chinese government imposing an additional 25 percent duty on imports of US pork and pork variety meat adds additional volatility to the market.

The national breeding herd is 1.7 percent larger than a year ago based on early March producer surveys for USDA's Hogs and Pigs Report (Table 1). Breeding herd additions totaled 21,000 head from December to March. For the March through May quarter, US producers intend to farrow 3.078 million sows. Intended farrowings for June through August, 2018, are up 1.4 percent from 2017. A big question is if producers back

off on farrowings given the change in the profitability outlook. A March uptick in sow slaughter suggests they might.

Growing pork export demand had enabled the US industry to continue expanding in recent years. In 2016 and 2017, rising exports required an average annual increase in US production of only 2.2 percent per year. In 2018, USDA expects pork exports for the year to be up 5.2 percent. However, news of the Chinese import tariff hike puts a negative tilt on export growth in 2018. Chinese market uncertainty makes expanding and diversifying export destinations for pork crucial. New and emerging markets in countries such as Colombia, the Dominican Republic, and Chile, and mainstay markets such as Mexico, Japan, and South Korea were strong in 2017 and will be counted on again this year. With over 40 percent of US pork exports going to Mexico and Canada, one could argue that a positive outcome to NAFTA is the biggest piece of the puzzle still in need of certainty.

Cattle Expansion Continues

USDA's annual *Cattle* inventory report confirmed that beef herd expansion continued in 2017, albeit at a slower pace than in 2016. Beef herd expansions often last for four to six years. The current expansion began in 2014 and could continue for another year or so. If it does, beef production in this cycle likely would not peak until early in the next decade.

As of January 1, 2018, the US inventory of all cattle and calves was up 0.7 percent at 94.4 million head (Table 2). The beef cow inventory increased 1.6 percent. Beef replacement heifers were down 3.7 percent. Dairy cows were up a slight 0.6 percent and dairy replacement heifers were up 0.6

percent. The feedlot inventory for all feedlots rose to 14 million head.

A headline grabber in the report was an estimated year-over-year decline of 607,400 head of feeder cattle outside of feedlots. Feeder supply can drop when cattle numbers are still rising. The total inventory of steers, other heifers, and calves was up 0.8 percent. However, large feedlot placements in 2017 pulled the January 2018 feedlot inventory up 7.2 percent year-over-year, meaning that more 2017 crop calves are already in feedlots. If realized, the smaller feeder supply could be a catalyst that could spur shorter-term advances in feeder prices, and help support deferred-fed cattle prices on the presumption that feedlot placements in 2018 will be smaller than previously expected, leading to lower than expected fed beef production later in 2018.

Replacements remain large in absolute number and as a percentage of the beef cow herd. Ample replacements and the larger January 2018 cow herd leave room for the 2018 calf crop to expand, suggesting further growth in total cattle inventory into 2019. The question is whether producers are adjusting their intentions. Producers can easily divert open replacement heifers into feeder markets if their expectations change. Such a shift could easily boost feeder cattle supply and derail further expansion.

Corn Acreage Slips

For the corn market, the question for most of the spring was how farmers would adjust their plantings in 2018. That question was initially answered with the March release of the USDA's *Prospective Plantings* report. Farmers indicated they would reduce corn acreage by over two million acres, with most of that reduction coming from the Great Plains. However, with 88 million acres

Table 1. USDA Quarterly Hogs and Pigs Report Summary

	United States			Iowa		
	2017	2018	2018 as % of 2017	2017	2018	2018 as % of 2017
All hogs and pigs	70,701	72,908	103.1	21,600	22,600	104.6
Kept for breeding	6,098	6,200	101.7	1,000	1,020	102.0
Market	64,603	66,708	103.3	20,600	21,580	104.8
Under 50 lbs	20,407	21,047	103.1	5,300	5,590	105.5
50-119 lbs	17,862	18,422	103.1	6,440	6,720	104.3
120-179 lbs	14,435	14,874	103.0	5,270	5,340	101.3
180 lbs and over	11,899	12,364	103.9	3,590	3,930	109.5
Sows farrowing **						
Dec – Feb ¹	2,986	3,057	102.4	510	560	109.8
Mar – May ²	3,014	3,078	102.1	510	550	107.8
Jun – Aug ²	3,121	3,165	101.4	530	560	105.7
Dec – Feb pigs per litter	10.43	10.58	101.4	10.75	11.00	102.3
Dec – Feb pig crop *	31,146	32,341	103.8	5,483	6,160	112.3

Notes: * 1,000 head; **1,000 litters; ¹December preceding year; ²Intentions

Table 2. Cattle Inventory by Class and Calf Crop

	United States			Iowa		
	2017	2018	2018 as % of 2017	2017	2018	2018 as % of 2017
January 1 inventory *						
Cattle and calves	93,704.6	94,399.0	100.7	3,900	4,000	102.6
Cows and heifers that calved	40,559.2	41,122.6	101.4	1,180	1,190	100.8
Beef cows	31,213.2	31,723.0	101.6	965	970	100.5
Milk cows	9,346.0	9,399.6	100.6	215	220	102.3
Heifers 500 pounds and over	20,132.0	20,244.8	100.6	860	830	96.5
For beef cow replacement	6,368.2	6,131.2	96.3	185	165	89.2
For milk cow replacement	4,754.0	4,781.3	100.6	135	135	100.0
Other heifers	9,009.8	9,332.2	103.6	540	530	98.1
Steers 500 pounds and over	16,383.5	16,352.2	99.8	1,310	1,390	106.1
Bulls 500 pounds and over	2,243.6	2,252.2	100.4	70	70	100.0
Calves under 500 pounds	14,386.3	14,427.2	100.3	480	520	108.3
Feeder cattle outside feedlots	26,712.6	26,105.2	97.7	1,170	1,180	100.9
Cattle on feed	13,067.0	14,006.4	107.2	1,160	1,260	108.6
Calf crop **	35,092.7	35,808.2	102.0	1,090	1,090	100.0

Note: * 1,000 head, ** 2016 and 2017

Source: USDA-NASS

still in corn production, the production prospects are still quite high. USDA's yield trend estimate stands at 174 bushels per acre. That would place expected production at roughly 14 billion bushels, on pace to be the fourth-largest corn crop ever (see Table 3). So large supplies remain an issue.

Corn usage (gray box, Table 3) is projected to diminish slightly. The slight drop in feed and residual use is mainly in the residual category as the livestock herd expansion continues. Corn usage for ethanol continues to grow as both domestic and international ethanol

use expands. Exports are the area where the biggest setback is expected, and these numbers were set before the latest tariff announcements. While China is not a key market for US corn, Mexico is and the NAFTA renegotiations are critical for this market. Global corn supplies are also at very high levels, so competition in the corn trade market was expected. However, recent projections for the South American corn crops point to smaller crops due to a combination of drought in Argentina and a reduction in second-crop corn acres in Brazil.

Soybean Acreage Sinks As Well

The biggest shakeup for the crop markets from the *Prospective Plantings* report came from soybeans. Throughout March, the soybean market had been preparing for an announcement of a record number of acres planted to soybeans, exceeding corn for the first time since 1983. Well, the second part of that statement happened, but not the first. Farmers indicated they would plant one million fewer acres to soybeans (but the total still exceeds corn). However, like with corn, projected

continued on page 11