Volume 6
Issue 1 *Winter 2000*

Article 3

August 2015

Iowa's Agricultural Situation: Higher grain prices spell higher feed costs for livestock producers

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Higher grain prices spell higher feed costs for livestock producers.

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Grain markets broke out of their midwinter slump with the release of the U.S. Department of Agriculture's (USDA) January 12, *World Agriculture Supply and Demand Estimates* (WASDE). The report helped fuel a rally that reversed a six-month down trend in crop prices.

The largest changes came in the U. S. corn supply and utilization estimates. The USDA revised corn production downward by 100 million bushels to a crop of 9.437 billion bushels. Corn exports were increased by 50 million bushels and total use was revised upward by 170 million bushels. This resulted in a downward revision of ending stocks to 280 million bushels. Between the release of the WASDE report and the last week of January, December futures jumped nearly $0.20 on the Chicago Board of Trade (CBOT). At central Iowa elevators, during the last week of January, corn was trading in the $4.85 range.

The USDA did not revise the soybean supply and demand estimates to the extent of the corn revisions. The only revision came in a 30 million-bushel reduction in the size of the crop to 2.643 billion bushels. There was some shuffling in the use categories but total use was unchanged. Ending stocks were revised downward 30 million bushels to balance the drop in production numbers. However, soybeans on the CBOT, which had been gaining ground since December 15, have followed the corn rally and have gained nearly $0.40. In central Iowa, during the last week of January, soybeans were trading in $4.65 range.

The other market mover has been the weather. The cornbelt and southern plains regions have been experiencing a very mild winter with very little precipitation. Both regions experienced dry conditions last fall and currently have abnormally dry soil conditions. Consequently, a wet spring will be required to replenish soil moisture levels before spring planting.

Many market analysts have indicated that it has been 12 years since the cornbelt has experienced a major yield-reducing drought. Previous weather patterns suggest the occurrence of a major cornbelt drought every six to eight years, so the cornbelt may be overdue. Recently South America has been experiencing hot, dry weather as crops reach the pollination stage in the Southern Hemisphere. The most recent reports are indicating Brazilian soybean production will be down 3 percent from last year to 30.05 million metric tones.

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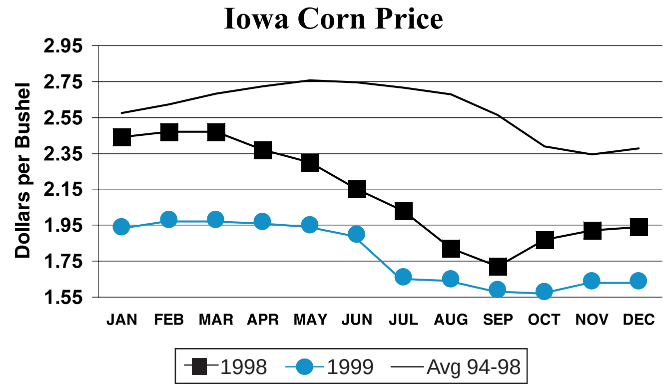
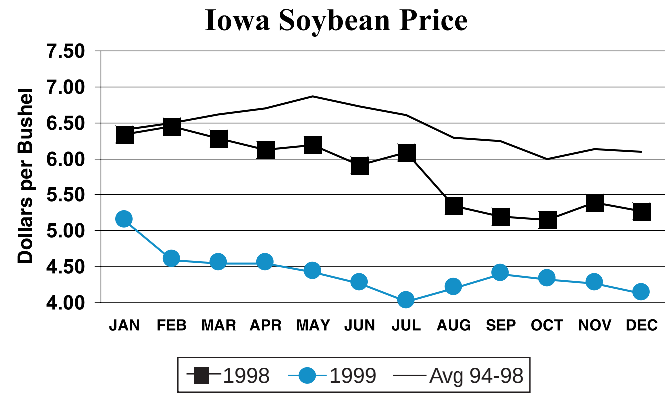
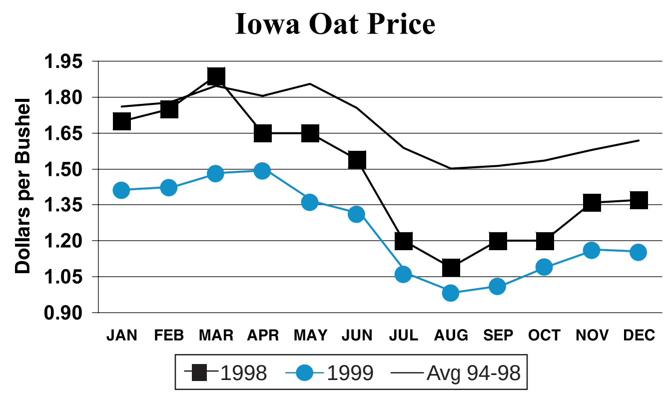
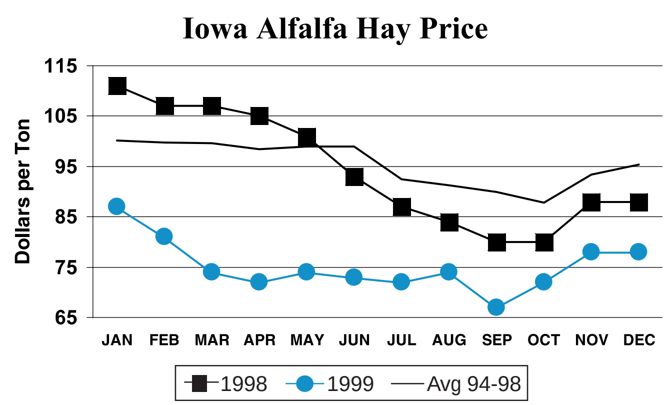
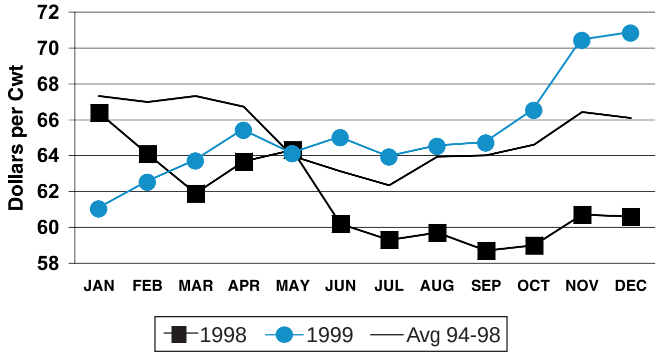




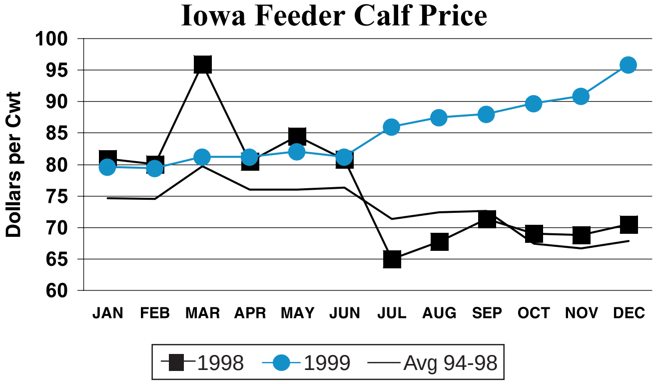




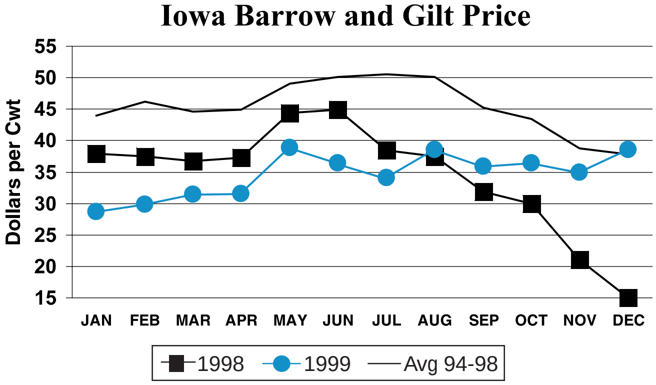
Iowa Steer and Heifer Price



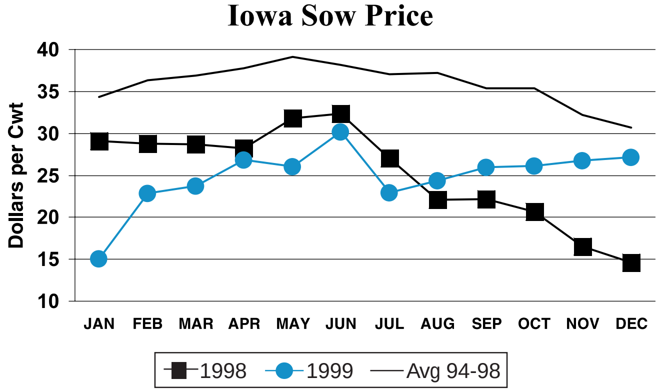
Iowa Feeder Calf Price



Iowa Barrow and Gilt Price



Iowa Sow Price



Iowa Cash Receipts Jan. – Sept. 1999

	1999	1998	1997
		(Million Dollars)	
Crops	3,171	4,039	4,938
Livestock	3,578	3,749	4,039
Total	6,749	7,787	8,977

World Stocks-to-Use Ratios

		Crop Year	
	(Jan. Projection)	(Estimate)	
	1999/00	1998/99	1997/98
		(Percent)	
Corn	19.35	18.59	14.92
Soybeans	13.88	15.33	14.56
Wheat	21.89	22.98	23.79

Average Farm Prices Received by Iowa Farmers

	December* 1999	November 1999	December 1998
		($/Bushel)	
Corn	1.64	1.64	1.94
Soybeans	4.15	4.29	5.27
Oats	1.15	1.16	1.37
		($/Ton)	
Alfalfa	78.00	78.00	88.00
All Hay	77.00	76.00	87.00
		($/Cwt.)	
Steers & Heifers	70.80	70.40	60.60
Feeder Calves	95.80	90.80	70.50
Cows	35.10	35.10	32.40
Barrows & Gilts	38.60	34.90	15.00
Sows	27.10	26.70	14.60
Sheep†	30.00	30.10	37.10
Lambs†	73.50	74.00	64.00
		($/Lb.)	
Turkeys	0.35	0.35	0.37
		($/Dozen)	
Eggs	0.38	0.40	0.56
		($/Cwt.)	
All Milk	12.50	12.90	17.30

*Mid-month †Estimate

Accord would achieve "too little too late" to contain the cost of the EU dairy policy.

Another important new trend in dairy markets is the rapid growth in Asian dairy markets, despite very distorted and restricted trade flows. Urbanization and income growth are fueling Asian dairy consumption; and increased access to dairy markets in Asian countries should be a promising source of world dairy market growth. However, Australia and New Zealand would capture the bulk of these new export opportunities in Asia because of their geographic proximity.

What would trade liberalization bring? There is a strong consensus among dairy economists that trade liberalization experienced to date under the last World Trade Organization (WTO) agreement has had moderate effects on world markets and on efficiency in resource allocation.

Further liberalization would improve the allocation of resources in the sense that low-cost producers would expand their production at the expense of high-cost producers. But those gains in aggregate are likely to be only a small share of the value of dairy production. However, current policies induce major transfers from consumers (losers) to producers (winners) in the EU, Canada, Japan, Korea, and to a lesser extent in the United States.

Domestic dairy policies remain complex and arcane in many countries, often relying on a combination of price discrimination schemes via price pooling and production quotas.

Inefficiencies in resource allocation induced by current policies are moderate, primarily because of the lack of price responsiveness of supply and demand in many dairy markets. Production quotas have raised prices with limits on output expansion, which partly explains the lack of price responsiveness.

Further, trade liberalization would induce dynamic gains in terms of productivity gains and a larger choice of products for consumers. These gains are hard to quantify and tend to be overlooked by some economists, but they may be as important as the gains induced by the price discipline of more open markets. For example, the Mexican dairy market had such gains following the trade liberalization that accompanied its accession to the WTO and, more recently, with the North American Free Trade Agreement (NAFTA). Foreign investment, the transfer of dairy technology, and increased competition have induced an improvement in the quality of Mexican dairy products. U.S. and U.S.-like branded products are progressively substituting for more basic local dairy products, such as generic milk powder.

Who would gain the most from global trade liberalization in dairy markets? Producers in New Zealand and Australia would be large "winners" following world dairy trade liberalization. These nations are natural exporters of dairy products. Consumers in the protected markets of Japan, Korea, Europe, and Canada would also be large gainers from global liberalization.

To learn more on domestic and trade dairy policy, visit the CARD Web site at *http://www.card.iastate.edu/about/dairy_policy_symposium/dairy.html.* ◆

Agricultural Situation
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Iowa producers have been active in claiming loan deficiency payments (LDPs) on their crops. Iowa producers have claimed LDPs on 905 million bushels of corn, for an average of $0.29 per bushel. They have favored the LDP over placing the crop under loan by a ratio of 3 to 1. This compares nationally to an average LDP of $0.28 and a preference of the LDP to a loan of 5 to 1. Iowa producers have taken LDPs on 347 million bushels for an average of $0.92, and overwhelmingly favor the LDP to placing the crop under loan. Nationally, soybean average LDP is $0.93 and producers favor the LDP to loan at 9 to 1.

In the livestock sector the story has been one of strong demand in the face of large production. Beef production for the year is estimated up 2.6 percent above last year, and pork production is estimated 1.9 percent above last year. Even with the large supplies, prices remained steady through December, with Iowa barrows and gilts averaging $38.60 per hundredweight (see graph on page 5) and steer and heifers averaging $70.80 per hundredweight (see graph on page 5). Demand for pork has been strong enough to bring down the record stock levels reached last April. However, cold storage stocks still remain well above the decade average. This could cap any market rallies during the first quarter, as meat production will remain high given the large supplies in the pipeline. ◆