Projected Demand for Iowa Crops

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Abstract
Demand for Iowa crops has been helped by outside influences, especially the recovery in energy prices. Ethanol margins have moved above breakeven and support for biofuels has been boosted by the substantial rise in crude oil prices over the past year. The energy price recovery has helped ethanol margins remain positive over the past several months. Biofuels continue to see support from higher energy prices.

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Projected Demand for Iowa Crops

By Chad Hart, Department of Economics

Demand for Iowa crops has been helped by outside influences, especially the recovery in energy prices. Ethanol margins have moved above breakeven and support for biofuels has been boosted by the substantial rise in crude oil prices over the past year.

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The turnaround has allowed U.S. ethanol production to continue growing. Ethanol now ranks second only to livestock feed in demand for corn.

Projections for the 2009 crop show more than 4 billion bushels of corn heading to ethanol plants. Looking beyond to the 2010 and 2011 crop years, ethanol demand will continue to build with the Renewable Fuels Standard.

In 2010, that standard requires production of 12.95 billion gallons of renewable fuels, up from 11.1 billion gallons in 2009. Corn-based ethanol will account for much of the conventional biofuel portion of the standard, increasing corn demand for ethanol to 4.4 billion bushels in 2010 and 4.6 billion bushels in 2011. Based on the standard, by 2015, over 5 billion bushels of corn could be used for ethanol production.

Com feed and residual demand is another projected increase over last year. Feed demand, however, has declined with the financial woes facing the livestock industry.

Livestock projections
Poultry, dairy, pork and beef producers have been reducing numbers. From higher feed costs, lowered demand with the recession and the H1N1 outbreak, the livestock industry has encountered wave after wave of troubling news.

But futures prices for livestock and feed products at the close of 2009 suggest reason to hope for a rebound in the livestock industry moving through the summer.

One sign of coming improvements is the projection for increased meat export demand with the drop in value of the U.S. dollar. For corn, livestock feed remains the largest demand category. But it is also the demand category with the weakest outlook. If the improved margins fail to materialize, feed demand will slip further.

Exports
Corn export demand is expected to rebound as well, also supported by the continued weakness in the U.S. dollar as well as recent approvals of GM corn varieties in Mexico and the European Union.

For soybeans, exports are "the big story." The strength of export demand has led the U.S. Department of Agriculture to increase its soybean export estimate several times. By example, China has already purchased more soybeans
from the U.S. than Iowans produced in 2009.

But Brazil and Argentina have shifted more area to soybean production, which will mean competition for U.S. growers. A potential for a record-setting South American soybean crop has contributed to futures prices favoring corn for 2010. But crop input costs have come down from last year’s highs, improving the economic outlook for both crops.

Estimates from ISU Extension show per-bushel costs of roughly $3.50 for corn and $8.67 for soybeans. Based on projected prices and costs, corn also holds a return advantage going into 2010.

So corn will likely gain acreage from soybeans and other crops in 2010. But the land shifts will not be dramatic. Given the situation today, I expect corn plantings to be around 90 million acres, with soybean area falling to 77 million acres. As in previous years, other crops will lose area to corn and soybeans.

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