December, 2009

### **Iowa Farm Outlook**

Department of Economics Ames, Iowa

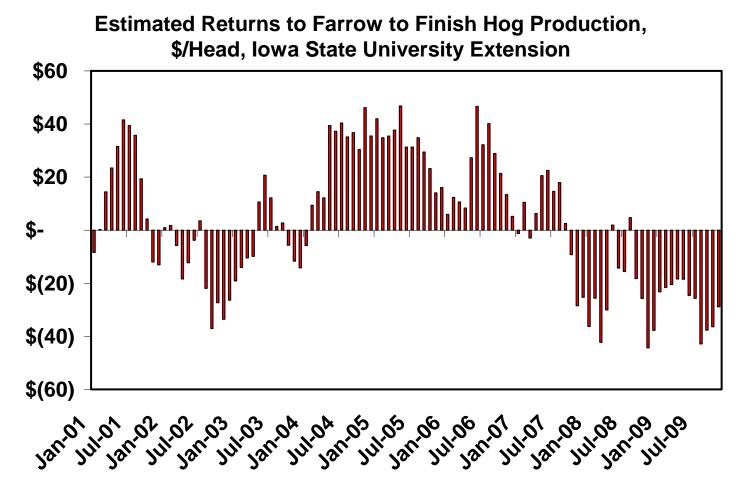
Plenty of Red Ink in 2009, Bluer Skies in 2010?

**Econ. Info. 1996** 

As the year of 2009 starts to come to an end, it is a good time to take a retrospective look at the past year and look forward at what we can expect in 2010. Optimistic livestock producers will look for bluer skies ahead, after all it can't get worse there is always an up after a down. The pessimist will wait for a bigger piece of the sky to fall. Perhaps something in the middle can really be expected. So how tough has 2009 been for livestock producers. Figures 1 and 2 contain the estimated returns to cattle and hog feeding enterprises in the past 9 years. These monthly profit or loss estimates act as a barometer of profitability within the industry.

In the period between 2004 and third quarter 2007 there was nearly continuous profitability. Since the fourth quarter of 2007 a nearly continuous line of looses has eroded more than 61% of the cumulative profitability from the previous 45 months. For hog producers who produce their own feed, losses have not been as severe, but still significant.

Figure 1. ISU Farrow to Finish Hog Estimated Returns, 2001-present

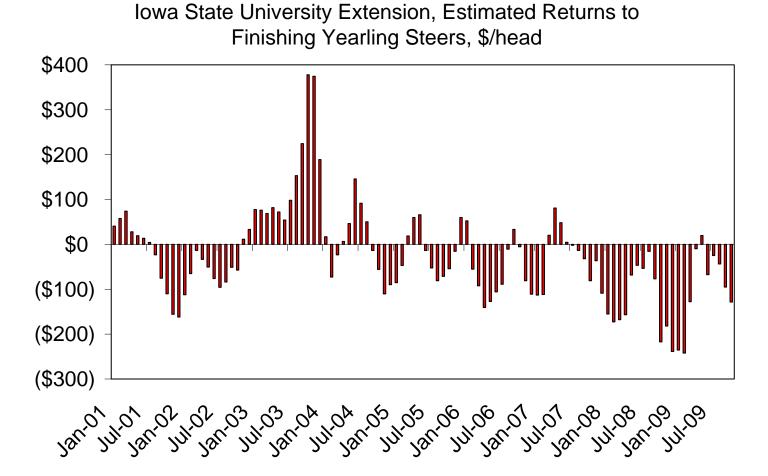


Looking forward, when will the swine industry have a chance to come "up for air"? Spring is expected to be the first time that profits will occur in nearly 18 months. That being said, for those that do not want the chance

at profits to slip away, using futures market based risk control strategies or a livestock gross margin insurance product are offering a considerable and profitable gross margin.

This was also one of the toughest years for cattle finishers. The cost of feed and feeder cattle lead to higher breakevens while fed cattle prices continued to trend below the past five year average. The largest cattle feeding losses on record occurred in 2009, and the declining number of cattle feeding operations nationally heralds the likely irreversible effects it is having on the industry. Feeder cattle prices have been taken a dramatic fall in the past year and cow-calf producers are feeling the pinch. For the first time in five or six years cow-calf producers are finding it difficult to cover even their variable costs of production. The lower feeder prices may be good news to cattle feeders, but an improvement in demand for high quality beef is still the link to profitability. Current futures prices suggest a considerable gross margin is available for cattle to be marketed in March through June, based on the ISU Margin Maker tracker. Visit <a href="www.iowabeefcenter.org/margins">www.iowabeefcenter.org/margins</a> for more information.

Figure 2. ISU Estimated Returns to Finishing Yearlings, 2001-present



#### **Demand Situation**

Per capita US consumption of beef has declined from 65 pounds per person to 61.5 pounds in 2009. This per capita decline will likely continue at a faster than historic rate, fueled by the ill effects an uncertain economy has on consumer spending. Exports of both beef and pork have also been weaker than last year. Figure 3 and 4 track meat exports. While exports were down from last year they were still well above the five year average.

Figure 3. Monthly Pork Exports

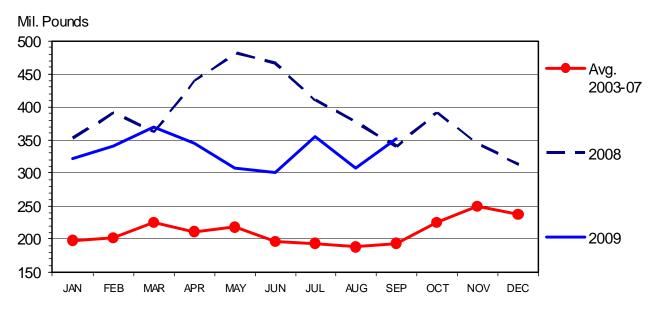
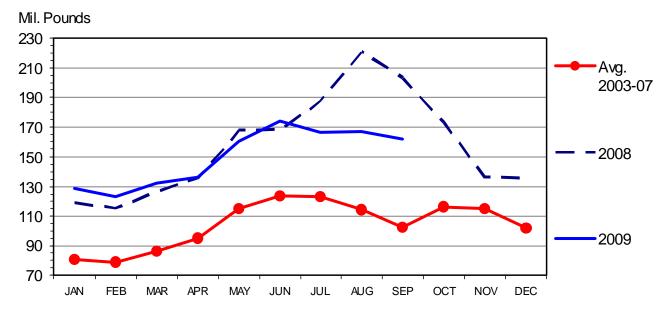


Figure 4. Monthly Beef Exports



Shane Ellis

### Wrapping Up Harvest

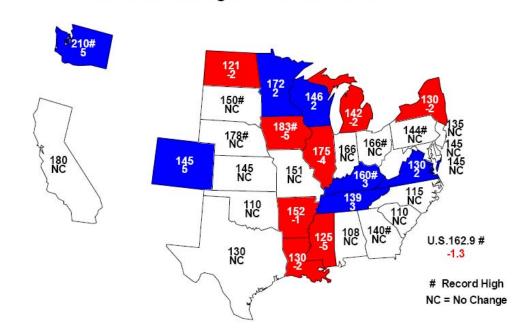
The weather in November allowed farmers to catch up on harvest and fall fieldwork. Soybean harvest in Iowa is basically complete and the corn harvest has progressed fairly rapidly after the significant delays earlier this fall. In mid-November, USDA updated its crop estimates. Those updates showed estimated national corn and soybean yields at 162.9 bushels per acre and 43.3 bushels per acre, respectively. The corn yield was lowered by 1.3 bushels, partly due to the impact from the mid-October freeze, but the soybean yield was raised by 0.9 bushels. Iowa yields were estimated at 183 bushels per acre for corn and 51 bushels per acre for soybeans. So, the mid-October cold snap took 5 bushels off of corn and a bushel off of soybeans. Despite the yield reductions, 2009 looks to be a record year for the national corn and soybean yields. In fact, records will likely be set for corn yields nationally and in Iowa, Nebraska, South Dakota, Ohio, Pennsylvania, Kentucky, Washington, and Georgia. Overall, USDA raised corn yield estimates for 7 states, lowered them for 8 states, and held them steady in 17 states.

Figure 1. 2009 Projected Corn Yields (Source: USDA-NASS)



## Corn for Grain Yields, 2009 Bushels and Change From Previous Month





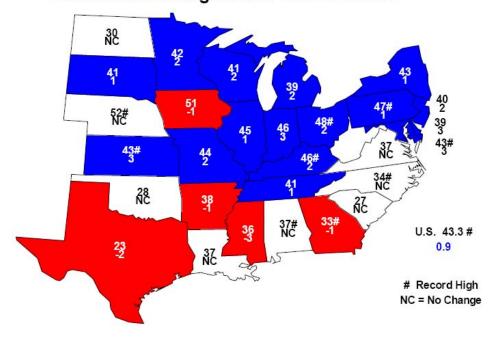
Soybean yields will set records in many of the same areas as corn. The USDA update raised soybean yields in 16 states, lowered them in 5 states, and held them steady in the rest. The revised estimates showed stronger soybean production across most of the northern United States. Corn production is projected at 12.92 billion bushels, just behind the 2007 production record and well above last year's production. Soybean production is projected at a record 3.32 billion bushels, given the record plantings and yields. Quality issues have sent some waves through the market, as producers and buyers deal with another moist crop. But these issues have remained somewhat localized.

Figure 2. 2009 Projected Soybean Yields (Source: USDA-NASS)



# Soybean Yields, November 1, 2009 Bushels and Change From Previous Month





The demand picture has been supported by outside markets. Nearby crude oil prices continue to hover around \$78 per barrel and the dollar remains weak. Corn demand via ethanol was maintained at 4.2 billion bushels, roughly 100 million bushels above the Renewable Fuels Standard target. Ethanol production and blending margins have been positive over the past few months and the industry is on pace to produce nearly 11 billion gallons this calendar year. Looking forward, the Renewable Fuels Standard calls for additional increases in conventional biofuels, such as corn-based ethanol, for the next several years. Assuming corn-based ethanol continues to fill the lion's share of the standard, corn demand through ethanol will grow to 4.4 billion bushels for the 2010 crop and 4.6 billion bushels for 2011. So ethanol will remain a growth sector for corn demand.

The export outlook for corn has weakened slightly as USDA backed off projections to 2.1 billion bushels. But this still represents a rebound in corn exports. Early sales to Africa and South Asia were encouraging and Mexico's acceptance of some genetically modified varieties was welcome news. The macroeconomic outlook shows a slow, but steady, recovery for the global economy, which will provide more support for corn exports. Feed and residual demand for corn remains at 5.4 billion bushels as the livestock industry continues to move through a liquidation phase. The general outlook for livestock indicates that a recovery in feed demand is at least a year away.

The demand picture for soybeans continues to be shaped by export demand from China. The Chinese buying spree remains at a record pace and USDA has once again adjusted export projections upward to a record 1.325 billion bushels for the 2009 crop. Soybean export sales continue to exceed corn sales thus far, highlighting the dramatic shift in soybean demand. World production of soybeans is projected to jump with the expected rebound in the Argentine crop and slightly increased production from Brazil. As these supplies come online later this marketing year, the U.S. will face increased competition in the export market. But for the time being, the world market continues to look to the U.S. for soybeans.

Given the supply and demand adjustments, USDA raised its season-average price projections for both corn and soybeans by 20 cents per bushel. Corn is expected to average \$3.55 per bushel, while soybeans are at \$9.20 per bushel. The futures markets have been more bullish on crop prices for the rest of the marketing year. Futures prices at the end of November pointed to season-average prices of \$3.80 for corn and \$9.90 for soybeans. Ending stocks for corn are expected to remain at the levels seen the last couple of years. Soybean ending stocks are projected to increase, but remain at relatively tight levels.

As we approach 2010, the crop markets are shaping up for the acreage competition. Figure 3 displays the ratio of November 2010 soybean futures to December 2010 corn futures. Typically this ratio of harvest futures prices is around 2.5. Values below 2.5 imply an advantage to corn. Values above 2.5 imply an advantage to soybeans. For most of the year, the ratio has leaned toward corn. Futures (as of Nov. 30) indicated 2010 season-average prices of \$4.30 for corn and \$10.10 for soybeans. Crop input costs have come down from last year's highs, improving the economic outlook for both crops. Preliminary estimates from Dr. Mike Duffy, ISU Extension, show per bushel costs of roughly \$3.60 for corn and \$8.75 for soybeans. Based on these 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 would expect corn plantings to be in the 88-89 million acre range, with soybean area falling back to around 76 million acres. As in previous years, other crops will lose area to corn and soybeans.

Figure 3. Ratio of Nov. 2010 Soybean Futures to Dec. 2010 Corn Futures



Chad Hart

#### October Production Down 1.1%, Fewer Milk Cows Too

October 2009 23 major dairy states milk production decreased 1.1%. Production per cow was up by 21 pounds from one year ago. Milk cow numbers were 196,000 less than October 08 and 22,000 less than September 09. September 09 milk production was revised down 0.1%, a decrease of 16 million pounds.

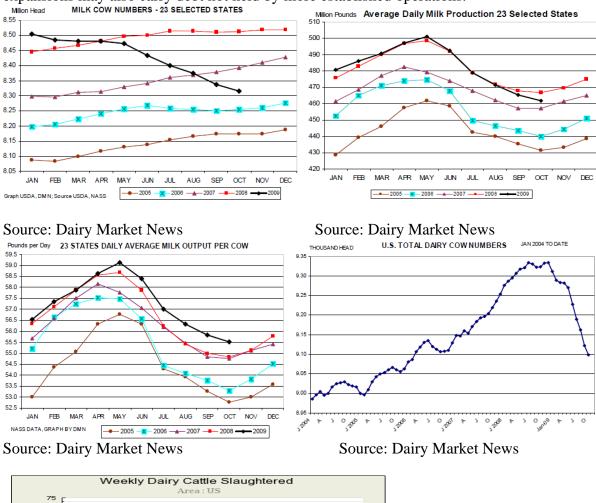
Again this month, Iowa October 09 milk production was flat compared to one year ago. Cow numbers were even compared to one year ago and milk production per cow was the same as one year ago. September 09 Iowa cheese production was 18.662 million pounds, 41.1% higher than one year ago and 4.6% more than August 09.

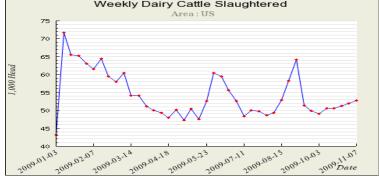
	wilk Production: Selected Daily States, October 2009									
							million pounds	million pounds		
	thousands	thousands		pounds	pounds		2008	2009		
	2008 cow	2009 cow	% change	2008 milk	2009 milk	% change	total milk	total milk	% change	
State	numbers	numbers	cow numbers	per cow	per cow	milk/cow	production	production	total milk	
Iowa	215	215	0.00%	1690	1690	0.00%	363	363	0.00%	
MN	466	469	0.64%	1555	1585	1.93%	725	743	2.48%	
WI	1253	1258	0.40%	1625	1675	3.08%	2036	2107	3.49%	
IL	102	101	-0.98%	1490	1550	4.03%	152	157	3.29%	
CA	1845	1767	-4.23%	1835	1815	-1.09%	3386	3207	-5.29%	
CO	130	116	-10.77%	1890	1930	2.12%	246	224	-8.94%	
KS	118	112	-5.08%	1720	1750	1.74%	203	196	-3.45%	
ID	554	546	-1.44%	1870	1870	0.00%	1036	1021	-1.45%	
NM	334	317	-5.09%	1920	2020	5.21%	641	640	-0.16%	
PA	549	542	-1.28%	1570	1600	1.91%	862	862	0.00%	
NY	625	614	-1.76%	1620	1625	0.31%	1013	998	-1.48%	
TX	428	413	-3.50%	1625	1720	5.85%	696	710	2.01%	
23-State	8512	8316	-2.30%	1700	1721	1.24%	14469	14313	-1.08%	
US 3rd quarter	9330	9159	-1.83%				46881	46758	-0.26%	

Milk Production: Salacted Dairy States, October 2009

AZ had the largest milk production drop, -10.6% for Oct 09. And CO was second at -8.9%. CA had a -5.3% milk production level compared to one year ago. Reports have come out of CA that milk processors did not have any difficulty absorbing milk diverted from bottling plants due to the Thanksgiving holiday closings. Not long ago CA processors were struggling to get all the milk processed.

Most of the traditional dairy states and the Upper Midwest have fared better with milk production than the recent dairy growth areas. Some of this might be attributed to producing feed rather than buying it. Recent expansions may also carry debt not held by more established operations.





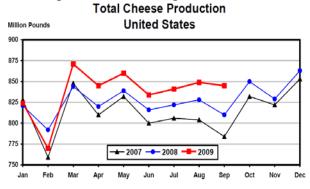
Source: Understanding Dairy Markets, U of WI

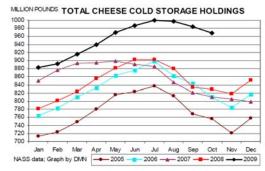
#### **Demand or Disappearance**

Year to date, Jan-Sep, commercial disappearance is still down 1.1%. Butter and NFDM are the two categories that have had large declines. Butter use is off by -7.8%. The previous period for 2008 though had butter disappearance up by 17.0%. NFDM year to date is -6.2% year to date. This compares to an increase of 16.9% last year for the same period. Fluid milk continues strong demand, up 1.2% for year to date 2009, compared to a -0.4% decrease during 2008. American cheese disappearance YTD is up by 4.5% with other style cheese up just 0.6%.

YTD figures are a bit misleading though. July-Sept commercial disappearance is +2.1%. Nonfat dry milk disappearance is +12.1% for the Jul-Sep period. Other cheese has increased 1.9% for those same months. But butter has dropped, -16.9%.

Many categories of dairy product manufacture continue to be above year ago levels. September total cheese production was 845 million pounds, 4.4% more than 2008 and 0.5% more than Aug 09. Butter manufacture was 94.6 million pounds, -21.9% compared to September 2008 and 6.2% below Aug 09. NFDM production was 87.1 million pounds which is up 1.8%.





Source: Dairy Products

Source: Dairy Market News

#### **Analysis**

AZ milk production looks to be weak for some time, several herds have exited through CWT and sellouts. NM dairy production has shown little growth. Ca though has seen mostly lower milk production this year. Even though milk production has declined of late, the dairy market reports do not show concern about inadequate supplies of products. Young cheese has sold well, but there aren't concerns about low supplies of cheese overall. Other styles of cheese, frequently used in food service and restaurants, have shown improvement.

The restaurant performance index below has improved since its January 09 low, but is still in the contraction area according to the National Restaurant Association. Also the Consumer confidence Index has been effectively flat since January. These two indicators are not showing that the psychology of US economy has begun to improve. Thus drops in milk production are the largest reason behind milk price rises rather than increased demand.

#### Restaurant Performance Index





Source: The conference Board

Upward pressure on milk production may start relatively soon. Springing heifers are selling at about \$1200 leading some dairy producers to think about expanding. There may be good deals to be had on construction and dairy equipment purchases. Some of the vacant facilities will be re-populated and produce milk at lower fixed costs than the previous owners.

#### **Iowa's Foreclosure Exposure**

In the second quarter of 2009 Iowa ranked 26<sup>th</sup> among the 50 states in terms of foreclosure inventory and 41<sup>st</sup> in terms of new starts. The Center for Responsible Lending proejcts that Iowa will have 10,420 foreclosures in 2009 and 34,691 over the next five years. The stress of foreclosures has considerable impacts on housing values, property tax revenue, and opportunities for lower income individuals to find housing. When foreclosures occur on rental properties it often forces renters to find alternative housing in what might become an increasingly competitive market given previous homeowners entering the rental market. This could mean that the lower income individuals and those with poor credit may find themselves squeezed out of the rental market altogether.

It is important to note that Iowa has a longer foreclosure process than many other states so anticipating the number of foreclosures is not an exact science. Many loans sit in a bank's portfolio seriously delinquent before foreclosure proceedings are started in Iowa, and the actual judicial foreclosure process is lengthy. Further complicating the forecasting of foreclosures is the deteriorating economy which may recover slightly in terms of GDP in late 2009 but will likely not recover in terms of household wealth and employment until 2012 or beyond. This means that the foreclosure estimates may be grossly underestimated.

The Mortgage Bankers Association (MBA) conducts a survey of bankers to discover how many loans are delinquent, by type and length of time delinquent, and compiles the information by state and quarter. In Iowa this data suggests that our foreclosure problem is getting worse, not better, and may hamper the housing market through 2010 and leave lingering impacts over a considerable number of years.

Currently in Iowa 23.2 percent of subprime loans are in some stage of delinquency, according to the values in Table 1. Subprime loans may be made to people with poor credit or who may be purchasing or refinancing a property that is considered too risky to qualify as a prime loan. A little over 11 percent of FHA loans are delinquent right now, with the majority of FHA borrowers either being first time home buyers, people with poorer than average credit, or people with little in the way of downpayment and assets.

Table 1. Percentage of All Loans Delinquent by Type, Annual Mortgage Bankers Survey, (not seasonally adjusted)

				Year Over Year
	6/30/2008	12/31/2008	6/30/2009	Change
Total	4.68	6.3	6.34	35.5%
Prime	3	4.03	4.12	37.3%
Subprime	17.66	23.45	23.2	31.4%
FHA	10.22	12.42	11.16	9.2%
VA		7.08	7.23	9.9%

**Error! Reference source not found.** illustrates the percent of delinquencies by loan type in Iowa from June of 2008 to June of 2009.

Only 6 percent of Iowa's total loan pool is delinquent; however, the fact that delinquencies are rising across the board regardless of loan type indicates that we will have considerable stress into 2010 and possibly 2011 in our housing markets. Most concerning is that the rate of prime delinquencies in Iowa is increasing more rapidly than delinquencies on loans backed by the FHA or VA as well as loans considered subprime. The rate of delinquency on prime loans increased 37 percent from June of 2008 to June of 2009. Prime loans are made to those with good credit, verifiable assets, and good to excellent repayment expectations.

Loans approaching foreclosure, or more than 90 days delinquent, are rapidly rising in Iowa as are the year to year changes in the rate of delinquency as noted in **Error! Reference source not found.**. Nearly 10 percent of

subprime loans are 90 plus days over due, and while all other loan types have less than 4 percent of total loans 90 plus days delinquent, the rate of change in delinquencies in this category is also rising across the board. Since June of 2008, the change in the rate of delinquency has increased nearly 114 percent for all loans, it has increased 136 percent for prime loans and nearly 100 percent for subprime loans. The increase in the delinquencies of prime loans indicate that the overall stress on the economy and rising unemployment may be contributing as much to the foreclosure problem now as the lack of due diligence performed by banks and the loose underwriting guidelines during the peak of the housing boom. The number of 90 plus day delinquent loans indicate the next wave of properties to enter foreclosure and indicate that Iowa's housing market issues and credit issues are not resolved yet.

Table 2. Percentage of All Loans 90+ Days Delinquent by Type, Annual Mortgage Bankers Survey (not seasonally adjusted)

				Year Over Year
Loans 90+ Days	6/30/2008	12/31/2008	6/30/2009	Change
Total	1.01	1.88	2.16	113.9%
Prime	0.55	1.08	1.3	136.4%
Subprime	4.64	8.28	9.26	99.6%
FHA	2.45	3.75	3.71	51.4%
VA	1.44	2.16	2.27	57.6%

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