Another Strong Quarter for Agricultural Demands

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AGRICULTURAL DEMAND has remained strong through the first half of 2014. Crop and livestock prices have provided good returns because of strong demand. As we move into the summer season, live cattle prices have moved into the $140–$150 range. Feeder cattle prices have topped $200 per hundredweight; and lean hogs have approached nearly $130 per hundredweight. Also, corn and soybean prices offered crop producers positive profit margins during the planting season.

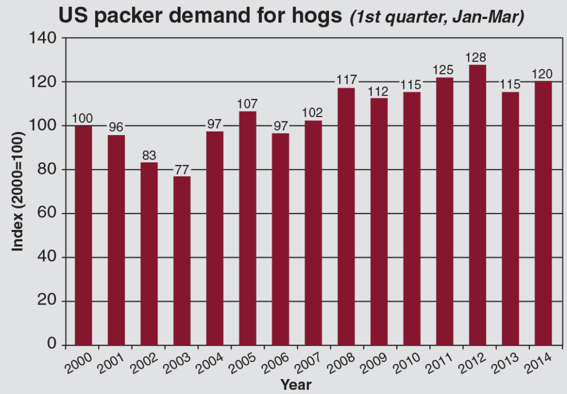
Strong demand for agricultural products has come from both domestic and international sources. Crop and meat export demand has been stronger than in past years. For domestic demand, biofuel demand has increased in recent months. The continuation of the strong demand is key for profit prospects as we move into the second half of 2014.

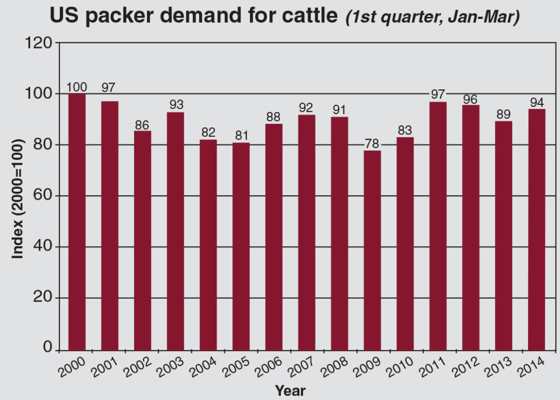
Starting with the livestock packing industry, demand for US hogs, mainly driven by prices, has been on the upswing during the first three months of the year. While year-to-year consumption has fallen, price increases in the past six months have been more than enough to increase hog demand. As it now stands, the first quarter of 2014 has the third-highest demand for hogs in the last 15 years.

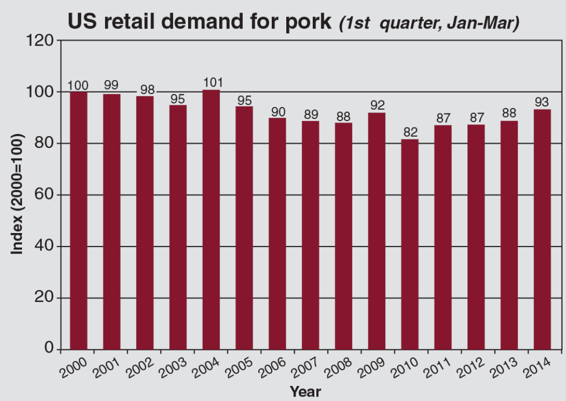
The cattle industry parallels the growth in hog demand from packers. First quarter demand for cattle has risen significantly from last year. As with hogs, while consumption is down, prices have risen more than enough to result in an increase in demand. In fact, cattle prices continue to set record highs.

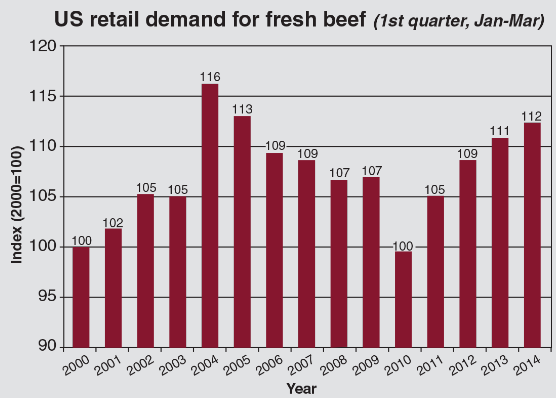
However, as we've mentioned in previous articles, the answer to a major question for packers—whether they could transfer these higher livestock prices to the retail counter—has been yes. US consumers have continued to purchase meat products, allowing both retail pork and beef demand to increase. For pork, the jump in demand was substantial this previous quarter. While year-to-year consumption fell by just over 1%, the real price for pork (adjusted for inflation) rose by nearly 7%—a $.30 per pound increase in the price of pork over the past year. US consumers have been absorbing, for the most part, the livestock and meat price increase.

For beef, the demand increase was smaller, but the basic story remains the same. Consumption decreased slightly, but that decrease was more than offset by price increases. Per capita consumption fell 4% to 13.13 pounds for the quarter, while beef retail price rose 5%. The nominal price for beef topped $5.50 per pound for the first time. Retail beef demand is the strongest it has been since 2005, before the slide into the recession.









All in all, the demand picture is very good for the livestock industry. Prices are strong, but consumers have been willing to pay the higher prices. Since 2010, retail meat demand has been on the upswing. Both livestock producers and packers hope that pattern continues.

Shifting to the crop sector, the major story has been the strong pace of soybean exports. Normally, the 1st quarter of the marketing year (September–November for both corn and soybeans, as the marketing started on September 1 of last year) is the strongest quarter for export demand as the crops are plentiful and prices tend to be lower. However, this past 2nd quarter (December 2013–February 2014) was the strongest export demand quarter ever. Over 700 million bushels of soybeans were shipped out of the US during the quarter. That surge in export demand helped propel the soybean market into a significant rally this spring, and, while domestic demand for soybeans did retreat, it basically paralleled last year's decline.

For corn, while feed demand followed its traditional drop in the 2nd quarter, ethanol and export demand rose. The ethanol demand increase is being driven by higher energy prices in general, a relatively lower cost for corn, and improving export markets for ethanol. In the first three months of 2014, the US has exported nearly 250 million gallons of ethanol, with Brazil and Canada being the major purchasers. However, the ethanol demand has a fairly broad base of support, as countries such as the United Arab Emirates, Philippines, Netherlands, Jamaica, Nigeria, and South Korea have all bought ethanol from the United States. Direct export demand for corn also increased, with Mexico and Japan leading the charge. China had been a major player for corn demand in the 1st quarter of the marketing year, but the trade dispute over genetically modified strains of corn has dampened and continues to cloud that market. However, as China has retreated, other importing countries have stepped up demand for corn.

Overall, the demand for Iowa's basic agricultural products is very strong on the livestock side and at record levels on the crop side. That strong demand continues to support record-high prices for livestock and has provided marketing opportunities for crop producers. The major difference between the two sectors is the expected supplies for the coming year. While livestock producers are ramping up production, livestock numbers are still smaller than they have been in the past. On the other hand, corn and soybean production is projected to be at record levels this fall. Therefore, livestock producers are likely to enjoy high prices throughout the rest of the year, while crop producers are already feeling the pinch of lower prices, even though both sectors have good demand prospects. ■