Iowa's Agricultural Situation

LDPs and Marketing Assistance Help Iowa Farmers Weather the Ups and Downs of Global Supply and Demand

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This winter, major developments in South America, China, and Eastern Europe are affecting world grain markets, resulting in overall depressed prices. However, Iowa producers are able to make use of advantages provided by loan deficiency payments (LDPs) and marketing loans. While LDPs and marketing loan gains for corn are lower than last year, the payments provided through marketing assistance programs for the soybean crop are higher.

Corn

With a decrease in acreage, the U.S. 2001 corn crop was 4 percent below last year's large production, despite higher-than-expected yields in Iowa and nationwide, according to the December 11 U.S. Department of Agriculture (USDA) *Crop Production* report. Even so, in December domestic corn prices climbed only 8¢ above the season's (October) low of $1.84 per bushel and are still 5¢ lower than at this time last year.

Overall, the economic forces driving international grain markets seem to be working to offset each other. On the one hand, there are price-strengthening expectations about China's imports, fueled by the large purchase announced at the end of November as well as news of less competition from the combined crops of Argentina and Brazil. On the other hand, there is an increase in production in Canada as well as emerging sources of competition from growers in Eastern Europe and the Former Soviet Union. On the international demand side, contributors to weak prices are lower demand for feed in Taiwan as well as increased substitution of feed wheat for corn in South Korea. In the end, sluggish shipments during the year resulted in 2001 corn exports falling 10 percent short of the previous year's number, according to the January 7 USDA *U.S. Export Sales* report.

Nonetheless, for 2002, the USDA projects U.S. corn exports of 2 billion bushels, up 6 percent from 2001. As recorded in USDA's December 11 *World Agriculture Supply and Demand Estimates* (WASDE) report, the corn use in 2001 came to nearly 10 billion bushels, which exceeds the previous year's use by 3 percent, leading into a beginning stock of 1.9 billion bushels in 2001/02, which is larger than that in 2000/01 by 10 percent. However, steady domestic demand for corn by processors and the livestock sector appears adequate to support prices. The WASDE report narrowed the forecast price for the 2001/02

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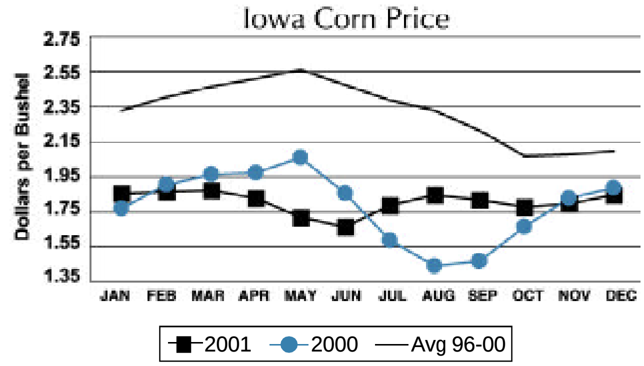

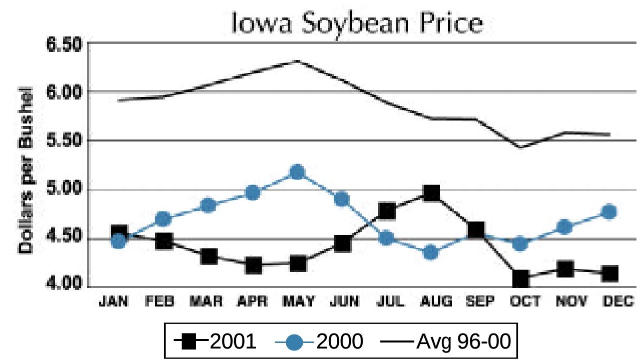

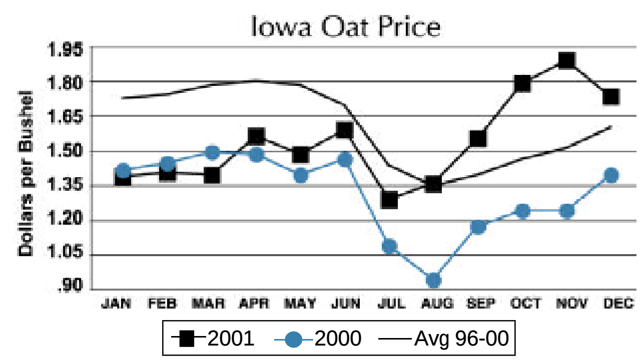

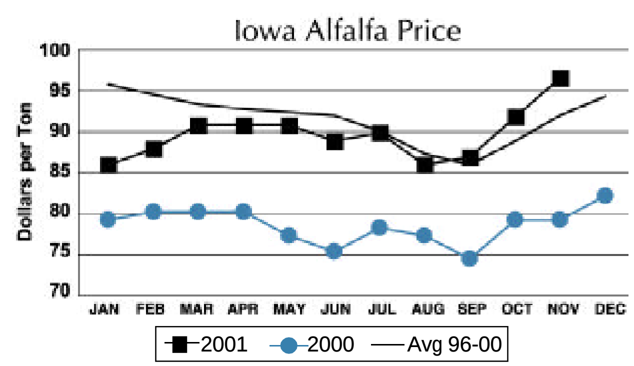

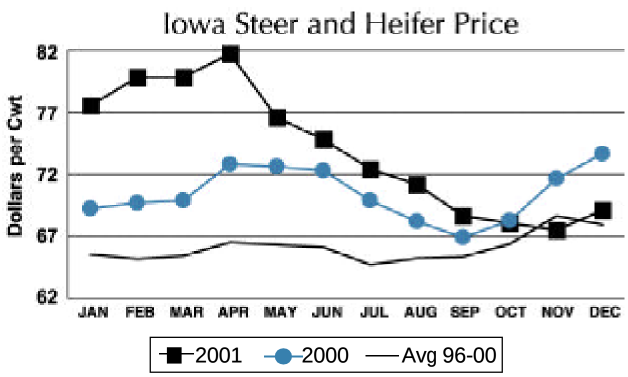

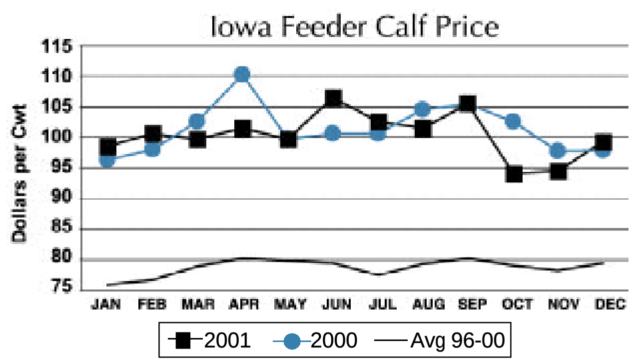

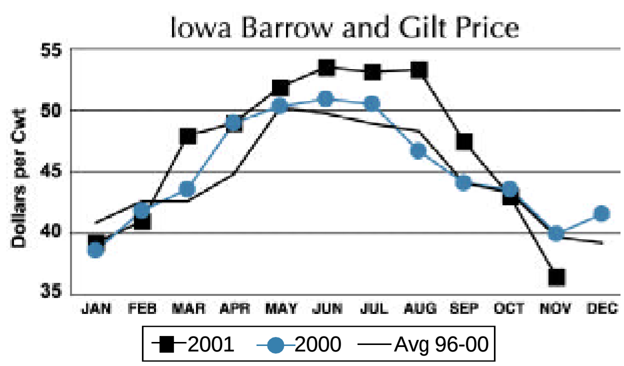

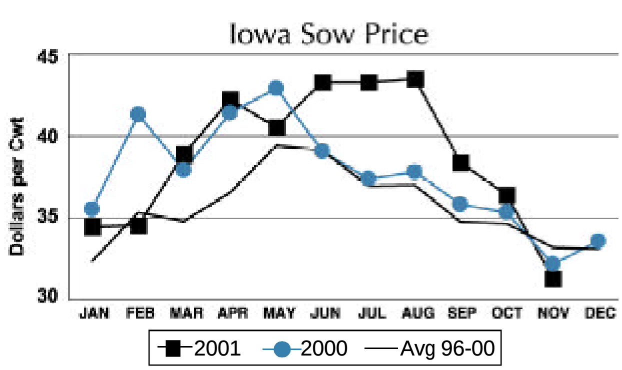

Iowa Cash Receipts Jan. – Sept.

	2001	2000	1999
		(Million Dollars)	
Crops	3,433	3,310	3,259
Livestock	4,391	4,463	3,501
Total	7,825	7,774	6,760

World Stocks-to-Use Ratios

	Crop Year		
	2001/02 *(Dec. Projection)*	2000/01 *(Estimate)*	1999/00 *(Actual)*
		(Percent)	
Corn	20.58	25.17	28.36
Soybeans	16.00	16.53	16.83
Wheat	24.16	27.65	28.75

Average Farm Prices Received by Iowa Farmers

	Nov.* 2001	Oct. 2001	Nov. 2000
		($/Bushel)	
Corn	1.80	1.78	1.83
Soybeans	4.15	4.05	4.59
Oats	1.91	1.81	1.24
		($/Ton)	
Alfalfa	97.00	92.00	79.00
All Hay	95.00	88.00	78.00
		($/Cwt.)	
Steers & Heifers	67.00	67.60	71.30
Feeder Calves	94.60	94.30	98.00
Cows	35.60	36.70	36.60
Barrows & Gilts	36.30	43.10	39.90
Sows	31.10	36.40	32.00
Sheep		26.40	34.50
Lambs		44.90	63.00
		($/Dozen)	
Eggs	0.44	0.40	0.48
		($/Cwt.)	
All Milk	13.90	16.00	11.90

*Mid-month

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marketing year to $1.85–$2.15 compared to $1.85 in 2000. In contrast, during the first week of January, farmers received average corn prices of between $1.77 and $1.82 compared to the range of $1.90–$1.94 at this time last year.

Soybeans

The December WASDE report revised soybean ending stocks for 2001/02 down by 25 million bushels to 330 million, which is still above the 2000/01 carryout. The increase in total soybean use came from a 20-million-bushel rise in U.S. exports and 5 million in crushing. Despite growing competitor supplies, soybean exports reached 1 billion bushels, which is almost 5 percent above 2000 levels. In general, exports were boosted by new sales to Japan, Indonesia, and China as well as by higher European Union soybean meal consumption. Growing soybean meal consumption in the European Union and Japan is a result of substitution for meat and bone meal in livestock rations, in addition to tightening supplies of other oil meals. A notable exception to these increases is a decline in soybean imports in December, which includes a 100,000-ton reduction for Taiwan in response to increased meat imports following the country's accession into the World Trade Organization. A small increase in domestic crushing to 1,670 million bushels stems largely from stronger meal export prospects and demand for oil. The same report also raised domestic use of soybean oil by 150 million pounds to 16.7 billion pounds and projects U.S. season-average soybean prices for 2001/02 of between $4.00 and $4.80 per bushel, an increase of 10¢ from the previous report. During the first week of January, Iowa farmers received average soybean prices of $3.95 compared to $4.62 per bushel at this time last year.

Loan Deficiency Payments and Marketing Loans

Because of somewhat stable prices, LDPs and marketing loan gains for the corn crop are lower this year. Corn producers have continued to use LDPs more actively than marketing loans over the last two years. Iowa growers claimed LDPs on 886 million bushels of corn, which is approximately 2 percent below last year's quantity. They favored the LDP over placing the crop under loan by a ratio of 4 to 1 compared to a ratio of 3 to 1 last year. The average marketing loan gains and LDPs are virtually identical at 13¢ per bushel and are below last year's figures: the average LDP is pegged at 28¢ per bushel and the marketing loan gain is 15¢. In 2001, LDPs in Iowa were slightly below the national average of 16¢, which does not reach the previous year's mark of 28¢.

Nationally, corn growers seem to favor LDP over marketing loans more so than do producers in Iowa, with a national preference of an LDP to a loan of 6 to 1 in 2001 compared to 5 to 1 last year. Iowa farmers also were slightly slower than the national average in repaying marketing loans for corn, having repaid loans on only 3 percent of 218 million bushels under loan by December 19, 2001, compared to 6 percent nationwide.

For soybeans, LDPs and marketing loan gains are on the rise compared to last year. In 2001, Iowa soybean producers took LDPs on 365 million bushels for an average of $1.25 per bushel compared to 347 million bushels claimed for an average of 92¢ per bushel a year ago. While last year Iowa soybean producers overwhelmingly favored the LDP to placing the crop under loan, the soybean loans are gaining popularity, as the ratio this year is less than 6 to 1. The marketing loan gains for soybeans averaged $1.29 compared to 95¢ a year ago. Nationally, soybean average LDP is $1.24 compared to the average LDP of 93¢ last year. The nationwide choice between the LDP and a loan for the soybean crop remained stable at 9 to 1. As of December 19, Iowa soybean growers had repaid loans on 13 percent of 65 million bushels under loan compared to 15 percent nationwide.

Livestock

As for livestock, USDA's December 28 *Hogs and Pigs* report had some good news for producers, as it showed little evidence of expansion in the industry. In fact, all three inventory categories—breeding herd, marketing hogs, and all hogs—are almost 1 percent lower than a year ago. Some analysts suggest that as smaller producers are giving way to larger producers, the industry is becoming more disciplined about production capacity. In 2001, 75 percent of the U.S. hog inventory was held by 3,000 operations with inventories of over 2,000 head, which accounts for only 9 percent of all operations. Consistent with the national trend, 45 percent of Iowa's inventory was on farms with 5,000 head or more, up from 40 percent in 2000. The total inventory of hogs in Iowa, the largest hog-producing state, constitutes 25.5 percent of the national inventory of 58.77 million head.

Turning to the demand-side of the equation, pork demand at the retail level appears strong, as pork successfully competes with chicken and beef on the home dinner plate as well as in restaurant menus. Hog producers are likely to have profitable returns through at least the first three quarters of 2002. However, the increase in farrowing intentions, if realized, will add to June-August supplies, and prices in September-November are expected to return to last year's levels. ◆