The Internet is fast becoming the focal point for new investments in agriculture. Venture capital is funding Internet startup companies that want to transform the way business is conducted in agriculture; and traditional agricultural suppliers and processors are making online investments. But what is likely to be the outcome of such investments?

Although it is difficult to foresee exactly what will happen, it is likely that in five years the Internet will be as much a part of agriculture as the tractor. Two areas where the Internet is likely to have a large effect on production agriculture are in procurement (farmers buying inputs, and processors/manufacturers buying output), and in the establishment of supply chains of differentiated products.

**Procurement by Farmers—The Old Way and the New**

Many Internet sites are set up to sell farmers the necessary inputs for crop and livestock production. Why would a farmer want to buy on the Internet? The most obvious answer is that farmers will buy on the Internet if they think that they can get a better deal than from a traditional supplier. A better deal often is synonymous with a lower price. The computer can present product information and prices, take the farmer’s order, take the farmer’s money, schedule delivery, and obtain the product directly from the manufacturer or wholesale distributor. Thus, the computer linked to the Internet can eliminate a number of steps in the procurement process, significantly reducing the cost of a sale to a farmer. This lower cost, combined with sufficient competition, means that farmers will often pay a lower price for their inputs when they buy them over the Internet.

For inputs, where price is the most important attribute, we should see large and rapid movement of farmers’ purchases to the Internet. However, price is not the only product attribute that is important to farmers. Factors such as timely delivery, product warranty, follow-up service, custom application, and other performance attributes often play a crucial part in determining the willingness to pay for an input. In the traditional system, for example, if a herbicide did not function as planned, farmers would call the sales representative of the chemical company or the retailer of the chemical to verify that the product did not work and to arrange some kind of warranty payment. However, if the farmer bought the herbicide from a website that is owned and operated by a company that never actually takes ownership of the chemical, then who does the farmer turn to for warranty service?

Internet sales will likely bring increased price transparency to agricultural inputs—in that through Internet auction sites, the price of pesticides, seeds, and fertilizer delivered to a farm and stripped of all other potential value traits will soon become apparent. It is likely that these prices will be much lower than the prices that a farmer has paid in the past. But this separation, or unbundling, of the materials’ price from other value-enhancing components will enable farmers and suppliers of these components to determine their true price through negotiation or auctions. Thus, a farmer will likely be able to order a customized bundle of input attributes that includes the price of materials plus the price of the other traits that the farmer wants. That is, input traits will be rebundled to create customized inputs that meet the needs of individual farmers.

Will these customized bundles be bought over the Internet? Yes, and soon, especially for inputs in which price is the primary determinant of value, and for producers who add their own value to the material, such as application and transportation. But for those farmers and inputs where the cost of material is relatively unimportant, then Internet purchases might be further in the future, awaiting more sophisticated auction software that allows much more detailed and customized bundles of inputs and services to be created. Such auction sites are developing, such as Perfect.com (http://www.perfect.com), but the difficulties in providing customized—and automated—Internet markets means that they will not appear immediately. Rather, in agriculture, they will evolve slowly in the next
 three to five years.

An intermediate step that may become a reality is for connected agents to create customized bundles of inputs for farmers. Such agents would match a farmer’s needs regarding equipment, seed, chemicals, fertilizer, customized applications, and scouting with what is being offered from the Internet and from local resources to create least-cost bundles that meet or exceed a farmer’s required level of services. Current agricultural input dealers that may feel threatened by the new Internet sales sites are logical candidates to fill these agent positions. For some, the Internet may evolve from a threat to an opportunity.

**Processors/Manufacturers of Farm Output**

Will Iowa farmers sell their corn and soybeans for cash directly over the Internet? Probably not. The marketing system that has evolved over the past 100 years is quite efficient at handling large quantities of commodities. But what the Internet can provide farmers and processors is the ability to advertise current cash prices. Such advertisement via a website can allow farmers to easily locate the best place to sell their output. And it offers processors the ability to source farm output more readily without having to raise their offer prices a significant amount. For example, a local feed mill may find that it needs more grain than it expected. With farmers watching cash prices over the Internet, the grain mill should be able to find all the grain it needs with a moderate upward adjustment of its offer price.

Of perhaps more interest to Iowa farmers is the possibility that they will be able to forward sell their hogs and cattle to processors over the Internet. Currently, cash prices for hogs are set in a rather thinly traded market. Cattle prices for a given week are set in a negotiating session that lasts approximately 15 minutes at the beginning of the week. It would be beneficial to livestock producers to see bid and ask spreads for forward delivery widely disseminated over the Internet. Such price information would benefit producers by giving them the same information as meatpackers about the future scarcity or abundance of animals. Local Internet auctions could complement the existing price discovery mechanisms available on the Chicago Mercantile Exchange.

**Supply Chains of Differentiated Products**

In the future, the most important impact of the Internet on farmers might be its ability to allow some farmers to move away from growing and marketing commodities to growing and marketing differentiated products. Instead of producing a 25-pound hog for market, some farmers will be able to produce a 25-pound “free-range” hog that was fed only organic feed. Other producers will be able to produce a 200-pound hog with particular meat characteristics that come from its unique genetics. Consumer demand for differentiated products is growing. The difficulty for producers is to find these consumers and to produce to specification.

The process of introducing a new agricultural product into the marketplace is a complicated set of sequential steps. First, somebody (a firm or an individual) must define a customer demand that is not being met as well as it could be. Then, a supply chain of producers, distributors, and retailers must be set up. There needs to be a mechanism to identify who and where the buyers, producers, and distributors are. Next, potential producers need to be persuaded to find financing and produce the product, and retailers need to be persuaded to sell the product.

Two characteristics of agriculture that make it difficult to introduce a
new product differentiated at the farm level rather than at the processor level are the geographic spread of potential producers and the biological/climatological interactions that are key to the production process. The spread of farmers makes it difficult to organize them so that they are all producing the same product according to specifications demanded by the retailer. The biological process means that it may be necessary to find producers with the right land and climate interactions.

The Internet, and information technology more broadly defined, can help overcome both of these potential obstacles. The cost of finding potential producers of a new product can be greatly lowered by establishing a website dedicated to the product. The website could use GIS (geographic information systems) tools to make sure that the producer can take advantage of producing products appropriate to the given climate, processing, and transportation infrastructure.

Furthermore, new products can be displayed digitally and their features and benefits demonstrated. Interactive features of a demonstration web site allow potential partners to ask specific questions about the product and to share their thoughts and ideas with other potential partners. All potential partners including producers, buyers, and financiers can go through a process of learning by communicating in an interactive and low-cost manner.

The next hurdle that must be overcome is the mutual uncertainty by retailers and producers concerning whether deliveries will be made and accepted. This hurdle is overcome typically by vertical coordination through contracts or integration. With land intensive production, contracting is more likely because of capital requirements of developing the land. This cost must be compared to the benefits of the entrepreneur retaining control of the product.

One example is a program put together by E-Markets (www.e-markets.com) for Optimum Quality Grains. In the mid-1990s, Optimum developed an export market for high-oil corn. It had the required corn seed and the technical knowledge of how to grow and handle the specialized corn. What it did not have were growers. Optimum first tried to obtain growers through a traditional network of local elevators, but failed. It then asked E-Markets to design a website showing the locations, number of acres, and delivery times that Optimum Quality Grains required to meet its export demand. Farmers connected to the Internet were able to see, in real time, the demand for this product and were able to sign-up online and take advantage of this opportunity. The contracts were filled within six weeks.

Often a key factor in the successful introduction of a new product is the assurance that the product will be on the shelf year-round. This is a problem for perishable products, given the seasonal nature of agricultural production. The solution in some cases, such as for lettuce, is multi-site operations that are located in Salinas Valley, California; Imperial Valley, Arizona; and Mexico. Sun World went through a lengthy process of recruiting growers from the United States and New Zealand to build a supply network of kiwi fruit. The Internet will lower the cost and accelerate the process of building this type of international supply network, thus facilitating the establishment of new products.

**The Potential of the Internet**

The Internet’s ability to lower the cost of transacting business and its ability to match buyers and sellers means that it will be a major influence in agriculture. The potential value of the Internet in farming, and how widely it will be used in agriculture and all other businesses, is limited only by the ingenuity of people.

The new venture capital flowing to e-commerce businesses devoted to agriculture means that more human ingenuity is being devoted to figuring out how agricultural business can be improved through the Internet. One thing is certain: as agriculture becomes more efficient at producing the food that people want to eat, the ultimate beneficiaries will be consumers and the producers who successfully venture early into new ways of buying, selling, and producing. ◆

**Examples of Agribusiness Related Websites**

- www.agriculture.com
- www.e-markets.com
- www.rooster.com
- www.vantagepoint.com
- www.XSAg.com
- www.farms.com
- www.directag.com
- www.bayag.com
- www.sprayparts.com
- www.farmcredit.com
- www.newholland.com/na/
- www.Icecorp.com
- www.mpower3.com
- www.ag1.com
- www.SellMeat.com
- www.agdealer.com

Agriculture information services
- Grainmarketing
- Cargill, DuPont, and Cenex Harvest States
- Coop joint venture for purchase of ag inputs and selling of ag products
- Deere, Farmland, Growmark joint venture for crop-management and record-keeping
- Purchase ag inputs
- Auctions for livestock, chemicals, grain and real estate
- Purchase seed and ag inputs and information
- Buy and sell equipment parts
- Purchase sprayers and ag parts
- Online banking and financial resources
- Machinery listings and specs on farm machinery
- Grain commodity exchange
- Data management services
- Information and management services
- Meat and poultry marketplace
- Purchase ag equipment in Canada
Modified Corn—Will Livestock Producers Buy It?

Livestock producers are efficient producers who use feed rations containing the lowest cost (or least-cost) nutritive additives. As a group, they have not shown a willingness to pay a premium for feed grown from specialty seed that has been modified to meet the nutritional needs of different livestock species in different regions of the country. Will these producers ever be prepared to pay the premiums required to pull identity-preserved feed grains through the pipeline?

**FEED VALUE AND WILLINGNESS TO PAY**

We looked at two studies conducted by Iowa State University researchers from the departments of economics, animal science, and crop science in collaboration with industry specialists.¹ The studies analyzed the potential benefits of feasible genetic improvement to the animal feed industry, and they identified the sectors of the livestock production business most likely to use modified corn.

We incorporated yield drag, the potential costs associated with identity preservation, and the likely impact of price reductions in the additives that would compete with modified grain; and we found that, on the whole, livestock producers have a low willingness to pay a premium for modified corn.

Doubling the protein content of corn is at the top of the list in feed value—see Table 1 on pages 4 and 5 and Table 2 on page 9. This modification is estimated to be worth about nine cents per bushel for each 1 percent increase in protein. However, doubling the protein

---


---

### Table 1. Benefits and values of corn modifications to improve feed

<table>
<thead>
<tr>
<th>Modification</th>
<th>Benefits</th>
<th>Content of Normal Corn</th>
<th>Estimated Gross Added Value (cents/bu/unit trait)</th>
<th>Gross Added Value (cents/bu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase protein content</td>
<td>Replaces soybean meal and some amino acids in the diet</td>
<td>8.7% db</td>
<td>0.9©/bu per percentage point of additional protein</td>
<td>78.3©/bu if protein content is doubled</td>
</tr>
<tr>
<td>Increase protein digestibility</td>
<td>More efficient use of protein</td>
<td>80%©</td>
<td>1.1©/bu per percentage point of additional digestibility</td>
<td>11.1©/bu if starch digestibility is increased to 100% digestible</td>
</tr>
<tr>
<td>Increase lysine content</td>
<td>More lysine and protein</td>
<td>0.3% db</td>
<td>3.8©/bu per 0.1 percentage point of additional lysine</td>
<td>11.5©/bu if lysine content of corn is doubled</td>
</tr>
<tr>
<td>Increase lysine only</td>
<td>More lysine without total protein increase</td>
<td>0.3% db</td>
<td>6.5©/bu per percentage point of additional lysine</td>
<td>19.5©/bu if lysine content of protein is doubled</td>
</tr>
<tr>
<td>Increase methionine content</td>
<td>More methionine and protein</td>
<td>0.2% db</td>
<td>1.8©/bu per 0.1 percentage point of additional methionine</td>
<td>3.6©/bu if methionine content of corn is doubled</td>
</tr>
<tr>
<td>Increase methionine only</td>
<td>More methionine</td>
<td>0.2% db</td>
<td>3.7©/bu per 0.1 percentage point of additional methionine</td>
<td>7.4©/bu if methionine content of protein is doubled</td>
</tr>
<tr>
<td>Increase total sulfur-containing amino acids (TSAA) only</td>
<td>More methionine and cystine</td>
<td>0.4% db</td>
<td>2.1©/bu per 0.1 percentage point of additional TSAA</td>
<td>8.4©/bu if TSAA content of protein is doubled</td>
</tr>
<tr>
<td>Increase total sulfur-containing amino acids (TSAA)</td>
<td>More methionine, cystine, and protein</td>
<td>0.4% db</td>
<td>1.5©/bu per 0.1 percentage point of additional TSAA</td>
<td>6.3©/bu if TSAA content of corn is doubled</td>
</tr>
<tr>
<td>Increase tryptophan© only</td>
<td>More protein and tryptophan</td>
<td>0.07% db</td>
<td>1.8©/bu per 0.1 percentage point of additional tryptophan</td>
<td>2.2©/bu if tryptophan content of corn is doubled</td>
</tr>
<tr>
<td>Increase tryptophan only©</td>
<td>More tryptophan</td>
<td>0.07% db</td>
<td>8.2©/bu per 0.1 percentage point of additional tryptophan</td>
<td>9.9©/bu if tryptophan content of protein is doubled</td>
</tr>
<tr>
<td>Increase threonine© only</td>
<td>More threonine and protein</td>
<td>0.35% db</td>
<td>0.25©/bu per 0.1 percentage point of additional threonine</td>
<td>0.9©/bu if threonine content of corn is doubled</td>
</tr>
<tr>
<td>Increase threonine© only</td>
<td>More threonine</td>
<td>0.35% db</td>
<td>0.25©/bu per 0.1 percentage point of additional threonine</td>
<td>0.9©/bu if threonine content of protein is doubled</td>
</tr>
</tbody>
</table>
content of corn would probably result in a yield drag and an increased cost. We estimate that high-protein corn would be economically viable only if yield drag costs were kept under $0.40 per bushel—or, if yields were increased.

The widespread use of least-cost rations in the animal feed industry ensures that genetically modified grain will compete with traditional ingredients, such as the byproducts of processing, in a market distinguished by fierce price competition. There is the possibility that any successful customized product will upset the market for the additive that would have been used in the commodity rations. For example, high-oil corn displaces animal fat, and high-lysine corn displaces synthetic lysine.

The extent to which producers of the displaced products will lower prices when faced with competition from modified corn depends on their sensitivity of supply, which measures the sensitivity of quantity supplied to the feed market due to a change in price. For feed additives, this sensitivity is often quite low, because the additives are actually byproducts in the production process of another product. This suggests that the customized product will have difficulty commanding a premium price.

**OTHER HURDLES TO CUSTOMIZED SEED**

The cost efficient production-and-transportation system for bulk commodity grain poses an additional barrier to the successful introduction of genetic improvements in corn. A system that requires storing and transporting identity-preserved feed grain will not be able to take advantage of the present commodity system’s economy of scale.

The grower of a customized product will have to be compensated for taking on the additional risks of yield differences and the poor liquidity of the smaller, customized market. And, the seed companies will need to be compensated for the risks and research needed to bring customized products to market.

**BEYOND INCREASING YIELDS**

Increasing yields or reducing production costs for commodity corn are, at present, the most economically profitable research avenues in

---

**Table 1. (continued)**

<table>
<thead>
<tr>
<th>Modification</th>
<th>Benefits</th>
<th>Content of Normal Corn</th>
<th>Estimated Gross Added Value (cents/bu/unit of trait)</th>
<th>Gross Added Value (cents/bu)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase albumin protein</td>
<td>More germ proteins, lysine, 7% of protein</td>
<td>1.1¢/bu per percentage point of additional albumin of corn is doubled</td>
<td>7.9¢/bu if albumin content</td>
<td></td>
</tr>
<tr>
<td>Increase glutenin content</td>
<td>More protein, lysine, methionine, cystine, threonine 25% of protein</td>
<td>1.1¢/bu per percentage point of additional glutenin</td>
<td>27.3¢/bu if glutenin content of protein is doubled</td>
<td></td>
</tr>
<tr>
<td>Increase C-zein protein content</td>
<td>More protein lysine, methionine, cystine, 3.3% of protein</td>
<td>0.9¢/bu per percentage point of additional C-zein protein</td>
<td>2.7¢/bu if C-zein content of corn is doubled</td>
<td></td>
</tr>
<tr>
<td>Enlarge germ for oil</td>
<td>More energy and protein, better amino acid composition 4.1% oil db</td>
<td>5.8¢/bu per percentage point of additional oil</td>
<td>23.8¢/bu if oil content is doubled</td>
<td></td>
</tr>
<tr>
<td>Enlarge germ for protein</td>
<td>More energy and protein, better amino acid composition 8.7% protein db</td>
<td>3.6¢/bu for each percentage point of additional protein</td>
<td>30.6¢/bu if protein content is doubled</td>
<td></td>
</tr>
<tr>
<td>Enlarge germ size</td>
<td>More energy and protein, better amino acid composition 11% of kernel weight db</td>
<td>0.2¢/bu for each percentage point of additional germ size</td>
<td>19.9¢/bu if germ size is doubled</td>
<td></td>
</tr>
<tr>
<td>Increase oil content</td>
<td>More energy 4.1%</td>
<td>3.5¢/bu per percentage point of additional oil</td>
<td>14.0¢/bu if oil content is doubled</td>
<td></td>
</tr>
<tr>
<td>Increased starch content</td>
<td>More energy but decreases other nutrients 71%</td>
<td>0.02¢/bu per percentage point of additional starch</td>
<td>0.1¢/bu if starch content is increased 5 percentage points</td>
<td></td>
</tr>
<tr>
<td>Increase starch digestibility</td>
<td>More energy without decreasing other nutrients 90%</td>
<td>2.1¢/bu per percentage point of additional starch digestibility</td>
<td>21.5¢/bu if starch digestibility is increased to 100% digestible</td>
<td></td>
</tr>
<tr>
<td>Increase availability of phosphorus</td>
<td>More utilisable phosphorus 20% of total phosphorus is available</td>
<td>2.9¢/bu per 10 percentage points of additional phosphorus availability</td>
<td>5.8¢/bu if phosphorus availability is doubled</td>
<td></td>
</tr>
<tr>
<td>Increase phosphorus (total and available)</td>
<td>More utilisable phosphorus 0.06% of kernel weight is available phosphorus</td>
<td>1.9¢/bu per 0.06 percentage point of additional available phosphorus</td>
<td>3.8¢/bu if available phosphorus is doubled</td>
<td></td>
</tr>
</tbody>
</table>

---

* Protein digestibility was assumed to be 82 percent for swine, 84 percent for poultry, and 73 percent for beef cattle.

* Swine diets only.

* Average digestibility was assumed to be 99 percent for swine, 90 percent for poultry, and 89 percent for beef cattle.
Iowa’s Agricultural Situation

Phil Kaus
pklaus@iastate.edu
515-294-6175

All it election year politics, or say that the third time is a charm. Either way, instead of waiting for a last-minute dogfight, Congress wrote into the budget a supplemental income assistance package for U.S. producers. With the two previous packages, Congress took a wait-and-see attitude, and did not pass the legislation until the fall of each year. This year, Congress opted to take a more preemptive approach as producers face another year of low commodity prices. (See the related article, “Five-Year Outlook for Iowa Agriculture,” on page 8.) The package earmarks $7.1 billion in assistance to be disbursed before the end of the fiscal year, September 30. It contains $5.5 billion in direct assistance that most policy watchers agree will come in the form of an addition market transition payment. The remaining $1.64 billion is put aside for program and specialty crops. Expect disbursements to be similar to the oilseed portion of last year’s package.

The grain markets around the state have started to push corn above the $2.00 per bushel level. The U.S. Department of Agriculture’s (USDA) market news quoted closing corn prices around the state for April 24 ranging from $1.91 to $2.15 per bushel. It has been 19 months since the monthly average has been above $2.00 per bushel (see graphs and table). There were no significant changes in this month’s USDA supply and demand estimates (see table), so the major market factor is the current dry conditions affecting much of the western Cornbelt. The dryness has allowed producers to get in the field early this year. The planters are starting to roll across the Cornbelt, and the April 24 Crop Progress report indicated 10 percent of Iowa’s corn was in the ground, well above the five-year average of 3 percent.

The oilseed markets have been gaining some ground lately. Statewide reporting districts reported local elevator bids closed April 24 above the $5.00 per bushel level. North Central Iowa elevator bids were between $5.03 and $5.08 per bushel. Like with corn, beans have met strong resistance at the $5.00 level, it has been 13 months since the monthly average has been above $5.00 per bushel. Weather will continue to play an important roll in short-term price outlooks for oilseeds. Strong exports of raw beans have been supportive to the market, and this has come mainly from increased needs from China. Current Chinese policy favors the importation of the raw commodity, which allows local processors to add value through crushing. As we move through the next few months, it will become harder for old crop U.S. beans to find a market, as

Continued on page 8
Iowa Ag Review

Average Farm Prices
Received by Iowa Farmers

<table>
<thead>
<tr>
<th>Crop</th>
<th>February* 2000</th>
<th>January 2000</th>
<th>February 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>1.88</td>
<td>1.76</td>
<td>1.98</td>
</tr>
<tr>
<td>Soybeans</td>
<td>4.65</td>
<td>4.43</td>
<td>4.61</td>
</tr>
<tr>
<td>Oats</td>
<td>1.30</td>
<td>1.25</td>
<td>1.42</td>
</tr>
<tr>
<td>Alfalfa</td>
<td>80.00</td>
<td>79.00</td>
<td>81.00</td>
</tr>
<tr>
<td>All Hay</td>
<td>79.00</td>
<td>77.00</td>
<td>80.00</td>
</tr>
<tr>
<td>Steers &amp; Heifers</td>
<td>68.90</td>
<td>68.80</td>
<td>62.50</td>
</tr>
<tr>
<td>Feeder Calves</td>
<td>100.00</td>
<td>96.50</td>
<td>79.30</td>
</tr>
<tr>
<td>Cows</td>
<td>39.70</td>
<td>37.90</td>
<td>36.20</td>
</tr>
<tr>
<td>Barrows &amp; Gilts</td>
<td>41.50</td>
<td>38.50</td>
<td>22.80</td>
</tr>
<tr>
<td>Sows</td>
<td>39.10</td>
<td>35.50</td>
<td>27.10</td>
</tr>
<tr>
<td>Sheep†</td>
<td>36.40</td>
<td>35.60</td>
<td>27.10</td>
</tr>
<tr>
<td>Lambs†</td>
<td>68.20</td>
<td>67.50</td>
<td>60.10</td>
</tr>
<tr>
<td>Turkeys</td>
<td>0.37</td>
<td>0.35</td>
<td>0.37</td>
</tr>
<tr>
<td>Eggs</td>
<td>0.49</td>
<td>0.32</td>
<td>0.37</td>
</tr>
<tr>
<td>All Milk</td>
<td>11.40</td>
<td>11.10</td>
<td>13.70</td>
</tr>
</tbody>
</table>

*Mid-month †Estimate

Iowa Cash Receipts Jan. - Dec. 1999

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crops</td>
<td>5,010</td>
<td>6,356</td>
<td>7,311</td>
</tr>
<tr>
<td>Livestock</td>
<td>4,831</td>
<td>4,778</td>
<td>5,530</td>
</tr>
<tr>
<td>Total</td>
<td>9,841</td>
<td>11,134</td>
<td>12,841</td>
</tr>
</tbody>
</table>

World Stocks-to-Use Ratios

<table>
<thead>
<tr>
<th>Crop Year</th>
<th>1999/00 (April Projection)</th>
<th>1998/99 (Estimate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>18.04%</td>
<td>18.76%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>13.00%</td>
<td>15.39%</td>
</tr>
<tr>
<td>Wheat</td>
<td>21.07%</td>
<td>22.95%</td>
</tr>
</tbody>
</table>

All Milk 11.40 1999 Avg 95-99

Iowa Steer and Heifer Price

Iowa Feeder Calf Price

Iowa Barrow and Gilt Price

Iowa Sow Price
Crop and livestock producers in the United States are facing another challenging year. Prices for corn and soybeans have been hovering at or below cost-of-production levels for more than a year, and large global supplies and a strong U.S. dollar have led to weak export demand, hampering price recovery.

After trimming breeding herd numbers, pork producers are finally able to breathe a sigh of relief as prices for barrows and gilts have risen above break-even levels. Cattle producers continued to reduce inventory numbers and keep feeders busy by placing record numbers of cattle on feed. Cattle prices in 1999 demonstrated real strength, fueled by increased beef demand, the first such increase in 20 years. Congress helped stabilize the farming sector in 1999 with a record $8.7 billion income assistance package. These recent trends and developments cause industry professionals, analysts, and policymakers to speculate where agriculture is headed.

Against this backdrop, in January 2000, the Food and Agricultural Policy Research Institute (FAPRI) established its annual baseline projections for crop and livestock commodities produced in the United States and around the globe. An updated outlook for Iowa agriculture was generated from the results of these projections. The outlook period for Iowa is from 2000/01 to 2004/05. This baseline contains policy assumptions consistent with the continuation of the 1996 Farm Bill.

Iowa and U.S. Crops

Corn: U.S. producers are projected to trim corn planting to 77.2 million acres in 2000/01, then increase gradually over the period to 80 million acres by 2004/05. Corn trend yields increase over the period causing production to increase from 9.4 billion bushels in the first year to 10.3 billion bushels by the end of the period. The season-average farm price of corn is projected to increase from $1.85 per bushel during 1999/00 to $2.25 per bushel in 2004/05, as overall world supplies remain fairly large.

Iowa corn plantings for 2000/01 are projected to dip to 12.08 million acres initially, then increase to 12.5 million acres by the end of the period. Iowa corn yields continue to be well above average U.S. yields, and corn production is projected to increase from 1.7 billion bushels in 2000/01 to 1.81 billion bushels by 2004/05. The season-average farm price for the marketing year in Iowa is projected be $1.79 per bushel during 1999/00, and increase steadily over the period to $2.18 per bushel.

Soybeans: U.S. acres planted to soybeans are projected to increase 700,000 acres in 2000/01 to 72.7 million acres, and then trend downward through the rest of the period to 71.3 million acres by 2004/05. The increased acreage in 2000/01 reflects a more favorable bean-to-corn ratio. Soybean yield follows the trend over

---

Iowa’s Agricultural Situation continued from page 6

the new South American crop, estimated by the USDA at 51.5 million metric tons, finds its way to export ports.

A shift in demand has been the key in the meat sector. It appears that the increased demand the markets experienced during the last quarter of 1999 has continued to be strong during the first quarter of this year. This is a true shift in demand, as consumers continue to consume more red meat at higher prices. The USDA reported fed cattle sales for the week ending April 21 at $74.00 per hundredweight on a live basis and $119.00 per hundredweight on a carcass basis. Cattle feeders have been doing an excellent job of keeping showlists current, which is especially amazing when one considers the record numbers that have been placed on feed during the last 12 months.

Beef production for the first quarter of 2000 is running above last year’s record production but production is expected to dip below last year’s levels as we move into the fall. The April cattle-on-feed report showed a rather large number of heavy weight placements for the previous month, which might backup the feedlots when they finish in June and July. This could add pressure to the seasonal downturn in prices this spring and summer. However, prices will firm up in the fall as production declines.

The Iowa-Southern Minnesota market closed April 25 at $50.85 per hundredweight for the average hog. Strong demand for pork products has helped trim stocks in cold storage and raise prices about $15.00 per hundredweight above year-ago levels. Low feed costs along with higher prices recently have enabled producers to start regaining some of the equity lost during 1998 and 1999. The key is the ability to maintain the increased demand in light of higher prices. The question is going to be how much consumers are willing to continue to pay and how much red meat they will eat. ✹
the period, and production increases marginally, from 2.93 billion bushels in 2000/01 to 2.99 billion bushels in 2004/05, as yield increases more than offset acreage declines. The season-average farm price of beans during 1999/00 is projected to be $4.77 per bushel, then dips to $4.24 per bushel in 2000/01 before increasing to $5.17 per bushel during the 2004/05 marketing year. Competition from South America in the export market continues to dampen any dramatic price recovery.

Iowa soybean plantings for 2000/01 are projected to increase slightly to 10.98 million acres, then decrease by the end of the period to 10.78 million acres. Iowa soybean yields continue to be above average U.S. yields, and soybean production is projected to increase slightly from 1999/00 production levels, due to a return to trend yield. Production then slowly increases from 511 million bushels in 2000/01 to 521 million bushels by 2003/04. The season-average farm price for the marketing year in Iowa is projected to be $4.70 per bushel during 1999/00, and then drop to $4.18 per bushel in 2000/01 before increasing steadily over the period to $5.10 per bushel.

Hay: Statewide hay and oat production continue to trend downward. Season-average hay prices reflect large U.S. supplies in the short run and are projected to drop to $77.48 per ton in 1999/00, then recover slowly to $82.08 per ton by the end of the period. Season-average oat prices are projected to increase to $1.19 per bushel in 2000/01 and continue to increase marginally to $1.29 per bushel by 2004/05.

Pork: Pork producers trimmed breeding herd numbers down to 6.24 million head in 1999 and are projected to slowly start to rebuild their inventories to 6.25 million head in 2000, increasing to 6.45 million head by 2004. Hog slaughter will dip from 101.6 million head in 1999 to 95.7 million head in 2001 before rebounding to 99.5 million head in 2004. U.S. pork production is projected to drop to 18.6 billion pounds in 2000 then increase to 19.4 billion pounds in 2004. The U.S. season-average farm price is projected to increase $4.21 per hundredweight to $38.21 per hundredweight in 2000, obtain its cyclical peak of $43.53 per hundredweight in 2002, and then decline to $40.58 per hundredweight by the end of the period.

Iowa’s breeding herd is projected to increase slowly from 1.16 million head to 1.21 million head by 2004. Hog slaughter will fluctuate around the 28 million head a year range as Iowa’s pork industry continues to bring in pigs to feed. The Iowa season-average farm price for barrows and gilts in 2000 is projected to
be 16 percent above the 1999 price at $37.99 per hundredweight. Sow prices are projected to increase 11 percent in 2000 to $26.25 per hundredweight. Barrow and gilt prices, along with sow prices, are projected to hit their cyclical peak in 2002 before declining to $40.35 per hundredweight and $28.25 per hundredweight, respectively, by 2004.

**Cattle:** Improved beef demand and low grain prices have moderated production costs and allowed most sectors in the beef industry to experience profitability in 1999. January 1, 2000, all cattle and calves inventory numbers indicated that the cattle industry is still in the reduction phase of the cattle cycle. Inventory numbers are projected to continue to decline to 95.3 million head in 2002, before rebuilding starts, with 96.4 million head in the inventory at the end of the projection period. Beef production is projected to decline from 26.5 billion pounds in 1999 to 24.8 billion pounds in 2002, before increasing to 25.4 billion pounds in 2005. Nebraska direct steers are projected to average $70.03 per hundredweight in 2000 and increase 9 percent by 2003 before declining to $74.57 per hundredweight by the end of the period. Oklahoma City 6-weight steers are projected to peak at $93.87 per hundredweight in 2003 before shedding a couple dollars and averaging $90.73 per hundredweight in 2004. Cattle placed in Iowa feedlots are projected to slow, compared to the strong placements in 1999. Placements will continue to decline slowly as U.S. inventory declines and as more heifers are retained for replacements. The projected average price received by feeders for Iowa fed steers in 2000 is $70.65 per hundredweight. Prices are projected to increase to peak in 2003 before finishing the period at $75.29 per hundredweight.

**Meat Consumption:** Fueled by a strong domestic economy, and strong consumer confidence and spending, meat consumption increased 3.7 percent in 1999. Pork consumption increased by an estimated 2.5 percent, beef consumption increased an estimated 2 percent, and poultry consumption jumped an estimated 7 percent. FAPRI projects consumption to decline somewhat in 2000 before returning to growth. Iowa’s beef and pork producers will continue to face stiff competition from poultry producers for consumers’ dollars. Over the projection period, pork’s share of total meat consumption is projected to decline from 25 to 23 percent, and beef’s share of consumption is projected to slide from 31 to 29 percent. Pork’s and beef’s losses are the broiler industry’s gains, as broiler’s share increases from 36 to 40 percent, while turkey’s share remains constant.

**Net Farm Income:** Iowa net farm income for 1999, which was buoyed by the $8.7 billion dollar assistance package, is projected to be 20 percent above 1998 at $2.73 billion. The average net farm income for Iowa from 1990 to 1998 is $2.54 billion. For 2000, net farm income is projected to decline to $2.3 billion in the absence of additional government assistance. Looking further out, slow gains in crop prices are more than offset by cyclical declines in the livestock sector, resulting in income projection slipping toward the $2.2 billion range.

The FAPRI World and U.S. Outlooks are available online at www.fapri.iastate.edu.
Meet the Staff

Samarendu Mohanty joined the staff of the Food and Agricultural Policy Research Institute (FAPRI), part of CARD’s Trade and Agricultural Policy Division, in 1994 as a research associate. He is now an adjunct assistant professor with FAPRI and is teaching a senior-level commodity trading and price analysis course.

Within FAPRI, Mohanty fills several roles. He coordinates and supervises the FAPRI crop modeling efforts, represents FAPRI at various conferences worldwide, generates the annual world crops FAPRI baseline projections, and manages an econometric model of the world crops market, which he developed. He also was instrumental in launching a new publication, FAPRI Bulletin, in the fall of 1998.

“I enjoy working directly with farmers, policymakers, and commodity groups and being a part of their decision-making process,” Mohanty said.

Mohanty earned a Bachelor of Science degree in agricultural marketing and finance from the University of Agricultural Sciences in India. At the University of Lincoln-Nebraska, he earned a master’s degree in agricultural trade, finance, marketing, and policy analysis, and a doctorate in applied econometrics, commodity forecasting, and policy analysis.

Mohanty is married to Prabhjit, and they have a four-month old son, Rohit. He enjoys spending time with his son and watching college football, particularly the Nebraska Cornhuskers.

Recent CARD Publications

CARD STAFF REPORT

CARD WORKING PAPERS


JOURNAL ARTICLES


CARD publications are available online at www.card.iastate.edu.