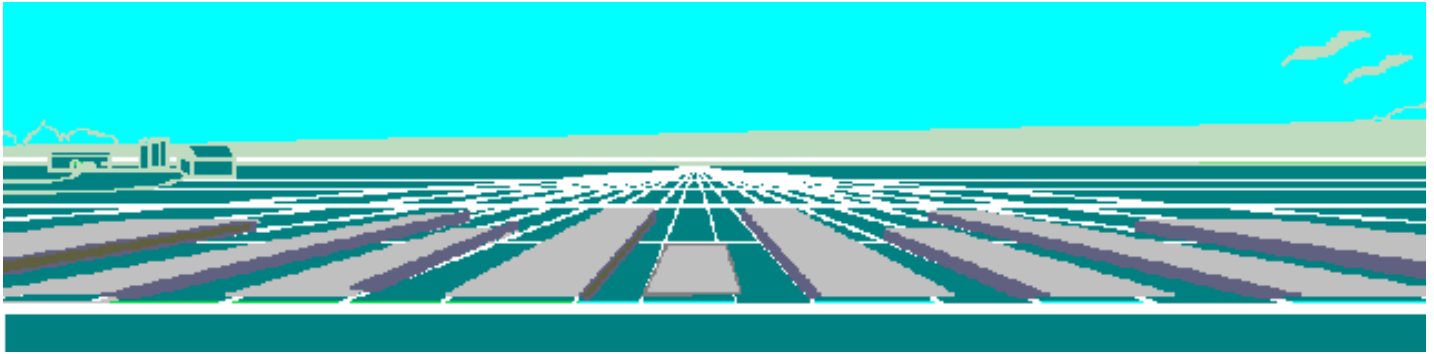


Iowa Farm Outlook



January 31, 2006

Ames, Iowa

Econ. Info. 1927

January Cattle Report

The USDA has released the much anticipated inventory of the US cattle herd as of January 1, 2006 and it comes as no surprise that the national herd is on the build. The total number of all cattle is over 97 million head, up 1.7 percent from a year ago. Beef cow numbers are up 1 percent at 33 and a quarter million head. Nearly 6 million head of replacement beef heifers are destined to enter the national beef breeding herd, 4 percent more than 2005. Table 1 contains a summary of the US cattle inventory, the 2005 calf crop and the percentage change from last year.

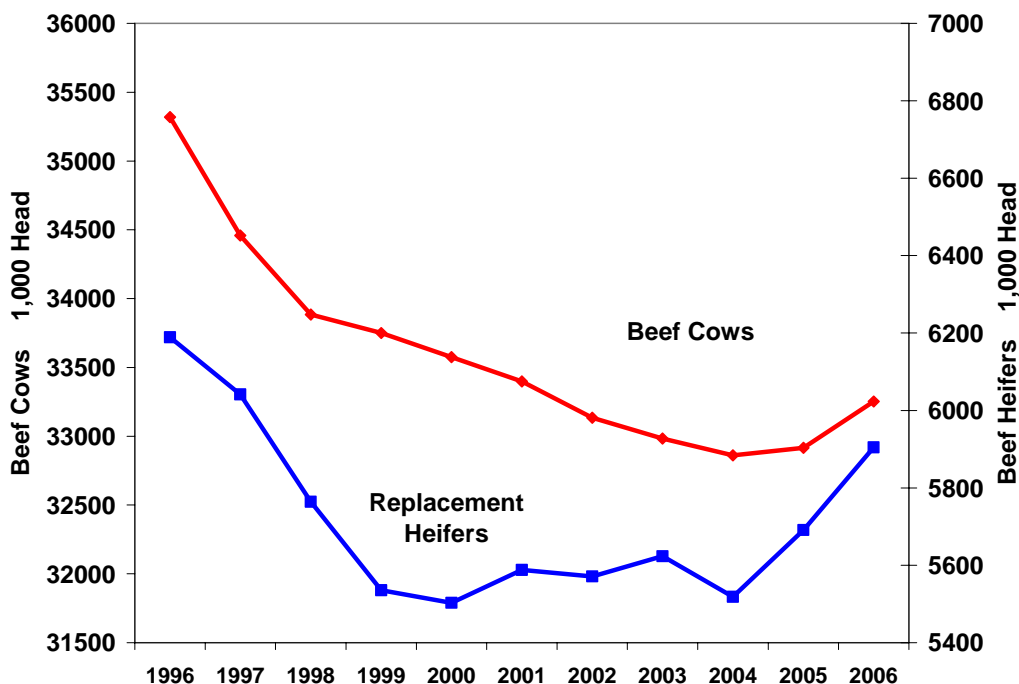
Table 1. USDA Cattle Report Summary, January 1, 2006

	1000 Head Inventory	05-06 % change	1000 Head Change
All cattle	97,102	1.74%	1,664
Cows and Heifers that have calved	42,311	0.93%	391
Beef cows	33,253	1.03%	338
Dairy cows	9,058	0.59%	53
Heifers 500 lbs. and more	19,978	2.07%	405
Beef replacements	5,905	3.76%	214
Dairy replacement	4,278	3.89%	160
Other	9,795	0.33%	32
Steers 500 lbs. and more	16,923	2.71%	447
Bulls 500 lbs. and more	2,263	1.98%	44
Calves under 500 lbs.	15,626	2.47%	376
Cattle on feed	14,132	2.82%	387
Calf crop	37,505	0.73%	275

The supply of feeder cattle has also increased from a year ago. Feeder steer numbers are up almost 3 percent and feeder heifers are up a third of a percent, with almost 27 million head of feeders available. Young calf numbers are also up a 2 and half percent from last year. Last year's calf crop, up almost three quarters of a percent, reflected the 2004-2005 increase in the number of breeding animals. The calf crop include both beef and dairy cattle, so the actual increase in the crop of beef calves is somewhat muffled by the smaller increase in dairy calves born. The number of cattle on feed is currently over 14 million, up 3 percent from a year ago. Increases in feedlot inventories are attributed not only to more feeder cattle being available (both US and Canadian), but cattle are being fed longer and sold at higher weights as feedlots try to offset the high price they paid for feeder cattle with low cost gain.

Heifer retention, both beef and dairy, are on the rise with nearly 4 percent more than last year's inventory. This is the second year in a row that heifer retention has increased by more than 3 percent. Quality bred beef heifers are selling in the range of \$1000 to \$1400, an extraordinary price that may take some time to recoup even if cattle prices remain strong for the next several years. Figure 1 is a graph of beef cow and heifer inventories over the past eleven years. (Note that the cows and heifers are scaled on different axis in this graph.) From the current trends we can expect a similar increase in breeding beef cattle numbers over the next year.

Figure 1. Beef Cows and Heifer January Inventory, 1996-2006



In short, the beef industry is currently at a hot point in the building of the cattle cycle. The extraordinary prices paid for feeder cattle over the past three years have encouraged cow-calf producers to build their herds by both heifer retention and culling fewer mature cows. Heifer retention will continue to have an impact on feeder cattle availability, but imports of feeder cattle from Canada should reduce the chance of shortages. Demand for feeder cattle has supported light weight cattle prices for sometime now, and this year will be a continuation of the same if feed costs stay low, and packers continue to pay strong prices for fed cattle.

In the coming year, the Livestock Marketing Information Center is forecasting steady to higher beef demand. Feeder cattle prices are forecast to be slightly lower than the past two years, but still above the five year average. Fed cattle prices are expected to be similar to those seen last year.

Trade Issues

Recently it seems like beef exportation has been facing opening and slamming doors in almost the same week. Japan recently closed its newly reopened border when back bone material was found in an air shipment of veal. USDA is working with Japanese officials to work through the problem, but there is no indication as to when exportation may resume. Japan has stated that when they reopen their market, only packing plants which they have inspected will be eligible to export to Japan. Other Asian markets began

reopening after waiting for Japan to “test the water.” Although Japan has since jumped back out of the pool other markets continue to reopen, such as South Korea and Taiwan. This is encouraging news, but no one should expect a stiff spike in exports. Foreign markets have been closed to our exports for long enough that demand for US beef will be rather “rusty.” It will take some time to reestablish foreign market demand and confidence in US beef.

Shane Ellis

Grain Update: South American Crops, Export Sales, Soy Crushings, Soil Moisture

Corn prices were strengthened modestly in the last few days of trading in January by a forecast from the Argentine grain exchange that Argentina's corn crop will be 27% or 217 million bushels below last year. This source reportedly placed the crop at 14.7 million metric tons. While much of Argentina's Corn Belt received good rains in mid-to-late January, this trade forecast indicated the rains came after much of the crop had completed pollination. Unfortunately, we do not have historical reliability data for the source of this forecast. In mid-January, USDA lowered its Argentine corn projection to 16.8 million metric tons, down about 20 million bushels from the previous month. Its current projection shows a crop 17% or 134 million bushels below last spring's harvest. ***If the private Argentine forecast materializes, it would offset approximately one-fifth of the month-to-month increase in world feed grain carryover stocks that occurred in USDA's January world supply-demand report.*** Thus, while it is a potential positive influence on corn price prospects from now through late spring, it alone should not be expected to shift the corn market into a sustained strong upward trend.

Large Corn Export Sales for Week of Jan. 19

Corn prices also have been supported by very large export sales for the week ended January 19. Sales that week totaled 2.16 million metric tons, one of the largest in over a decade. That brings the season total sales to 1% above a year earlier. USDA projections place the marketing year total U.S. corn exports at 2% above last season. Recent low prices and uneasiness about Argentine corn prospects appear to have encouraged foreign buyers to cover needs further ahead. Market action in the next several weeks will depend on whether weekly corn export sales continue to remain strong. A year ago during the February-May period, weekly U.S. corn export sales averaged 0.806 million tons per week. Sales substantially higher than this over the next several weeks would be positive for corn prices.

Soybean Export Sales Still Lag Severely

As the table below indicates, season-to-date U.S. soybean export sales through January 19 were 24% below a year earlier. For the marketing year, USDA projects soybean exports to be down 14%, so from now through August export sales will need to exceed year earlier levels to reach the projection. ***Export sales to China, despite recent purchases, were still down 28% from a year earlier, along with a 63% decline in sales to EU.*** China is the largest overseas market for U.S. soybeans. Last year, it accounted for 40% of all U.S. export sales and approximately 20% of the total demand for U.S. soybeans. In recent years, the EU usually has been the second largest overseas market for U.S. soybeans. The sharp decline in sales likely reflects (1) nervousness about the impact of bird flu on demand for soybean meal, (2) likely under-estimation of last spring's South American soybean crop, and (3) possible over-buying of beans by foreign buyers last summer during the U.S. drought. During the January 27-March 10 period last year, U.S. soybean export sales averaged 0.550 million tons per week. For March 17-April 28, weekly sales averaged 0.213 million tons per week as foreign buyers shifted to new-crop South American soybean purchases. The

Cumulative U.S. Soybean Export Sales 1/19/06 vs. yr. ago		
• China	-28%	258 mil. Bu.
• Africa	+14%	22
• EU	-63%	50
• Japan	-0%	66
• Taiwan	+14%	34
• Other Asia	-24%	63
• W. Hemisphere	+6%	87
• Unknown	-0%	44
Total	-24%	634
SBM	-5%; SBO -45%	

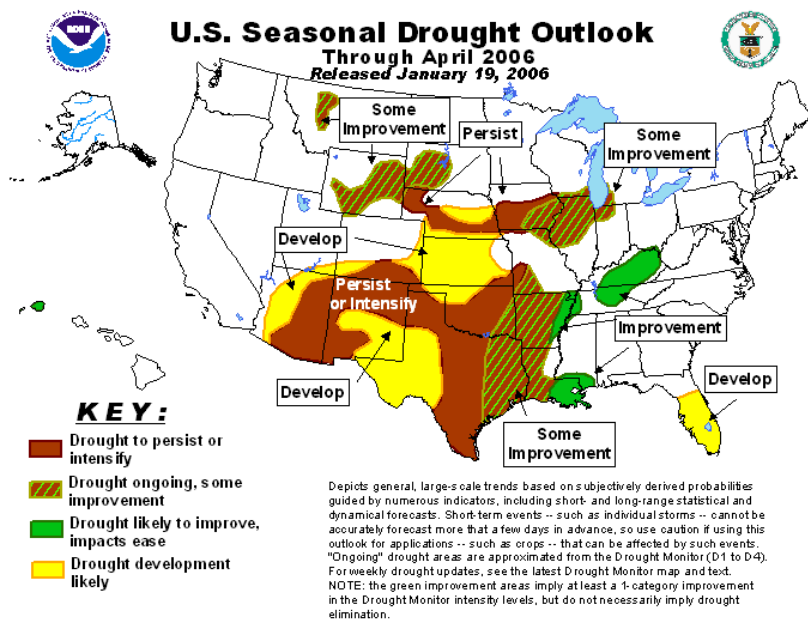
sharp drop in mid-March through April sales occurred despite severe drought in Brazil that reduced its available supplies.

South American Soybean Prospects Generally Good

With widespread rains over much of the South American Soybean Belt in the last two weeks, most reports from that region indicate crop prospects are generally favorable. There are a few dry pockets, but so far it looks like USDA production prospects are about on track with crop conditions. Because of the long growing season, there is considerable range in maturity of Brazilian soybeans. Harvesting has begun in some fields, while others were only planted a few weeks ago. Weather in the next 5 to 6 weeks can still have significant impact on final production, but the most critical period is likely to be during the next month.

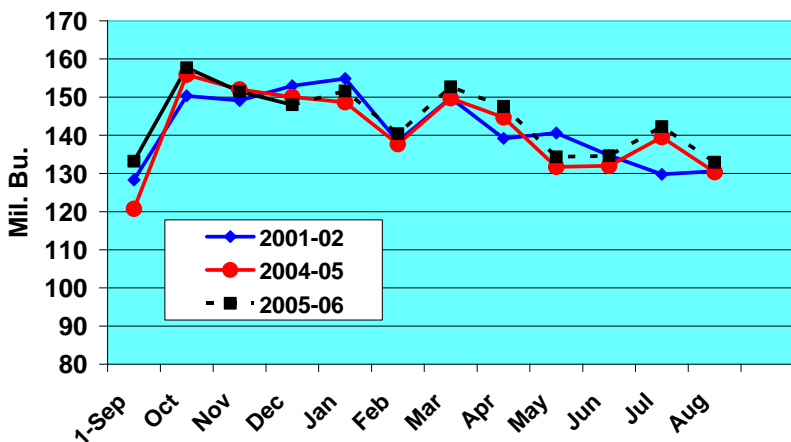
Weather & U.S. Soil Moisture

The map below shows the latest drought projections from the joint USDA-National Weather Service center. These projections indicate drought conditions in northern Illinois and eastern Iowa may improve some between now and April. At the same time, drought conditions are expected to persist and possibly intensify in parts of Texas, Oklahoma, Nebraska, and southwestern Iowa. Drought conditions are projected to develop in Kansas. Normally about 12 to 13 percent of the nation's wheat crop is produced in Oklahoma and Texas. A much higher percentage comes from Kansas and Nebraska.



Subsoil moisture data compiled by Dr. Elwynn Taylor indicate soil moisture supplies in the plant root zone are generally adequate in much of Iowa, Illinois, and the eastern Corn Belt, and above normal in Minnesota. The mild winter has kept soils from freezing, allowing nearly all of this winter's precipitation to be absorbed by the soil. Dr. Taylor also indicates that the current phase of long-term weather cycles points to considerably higher risk of serious Corn Belt drought this year than the long-term average.

Monthly U.S. Soybean Crushings, Selected Marketing Years, & Projected 2005-06



December Soybean Crushings Lag Year Ago

U.S. soybean crushings for December 2005, as reported by the U.S. Census Bureau, were down 1.4% from a year earlier and were down 2.3% from November. At the same time, soybean oil stocks rose 16% from the previous month, and meal stocks were up 10%. Rising product stocks and the slowing crush rate indicate overall demand for soybean products slowed from the previous month. Projected monthly crushings

needed from now through August to meet USDA projections are shown in the chart to the left. Crushings for the rest of the season need to average 2% above a year earlier to meet USDA's season total projection.

Market Indicators to Watch

Important corn and soybean market indicators for the next several weeks include (1) USDA's February 9 World Grain Supply-Demand Report, (2) weekly export sales released on Thursdays, (3) crop condition reports from South America, (4) U.S. Midwest and Great Plains weather, and (5) USDA's March 31 crop planting intentions report.

Robert Wisner

Dairy Situation and Outlook

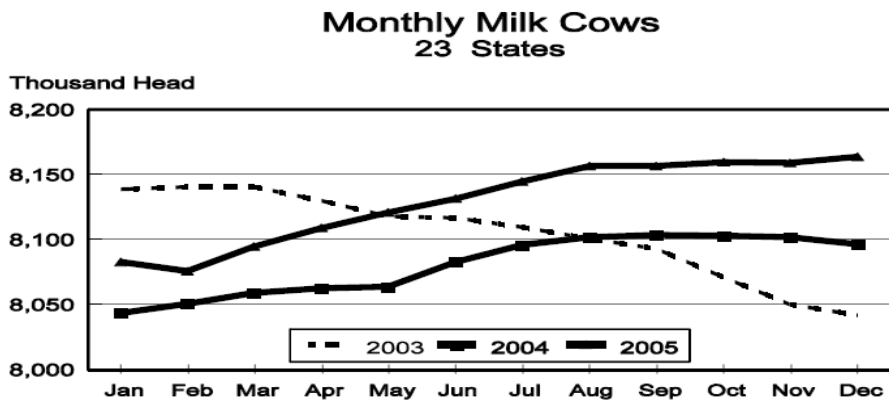
Milk production for the 23 major dairy states rose 4.2% from December 2004 to December 2005. Cow numbers were 67,000 higher than one year ago and 4,000 higher than the previous month. Dairy cow numbers finished 2005 41,000 cows higher than at the beginning of the year. Milk per cow averaged 55 pounds higher than one year ago. USDA estimates that US milk production for 2005 grew 3.7%, the largest increase since 1985.

Iowa milk production was down slightly -0.63%, compared to one year ago, due to a slightly smaller dairy herd. Unfortunately milk per cow did not increase to make up for the lost cows. A rise of 64 pounds of milk per cow would have made up the lost milk production. Total cheese production for Iowa dropped by 3.9% from one year ago and was down 0.1% from the previous month.

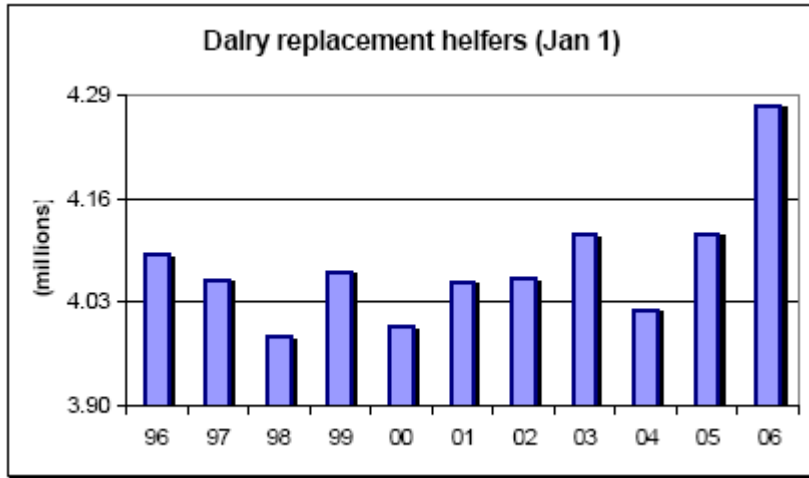
The milk production chart below reviews the milk production for the states around Iowa and some of the other 23 dairy reporting states. NM had the largest percentage increase for the 23 states followed by TX and then ID. All three states made cow number and milk per cow gains. CA had double the percentage increase in cow numbers as the 23 state average but only had one-third the milk per cow gain.

State	thousands 2004 cow numbers	thousands 2005 cow numbers	% change cow numbers	pounds 2004 milk per cow	pounds 2005 milk per cow	% change milk/cow	2004 total milk production	2005 total milk production	% change total milk
Iowa	188	187	-0.53%	1700	1700	0.00%	320	318	-0.63%
MN	460	445	-3.26%	1475	1560	5.76%	679	694	2.21%
WI	1236	1239	0.24%	1490	1555	4.36%	1842	1927	4.61%
IL	106	104	-1.89%	1540	1570	1.95%	163	163	0.00%
CA	1741	1770	1.67%	1775	1795	1.13%	3090	3177	2.82%
ID	435	472	8.51%	1800	1840	2.22%	783	868	10.86%
NM	321	339	5.61%	1650	1780	7.88%	530	603	13.77%
PA	565	557	-1.42%	1490	1580	6.04%	842	880	4.51%
TX	319	324	1.57%	1555	1720	10.61%	496	557	12.30%
23-State	8097	8164	0.83%	1610	1665	3.42%	13037	13592	4.26%

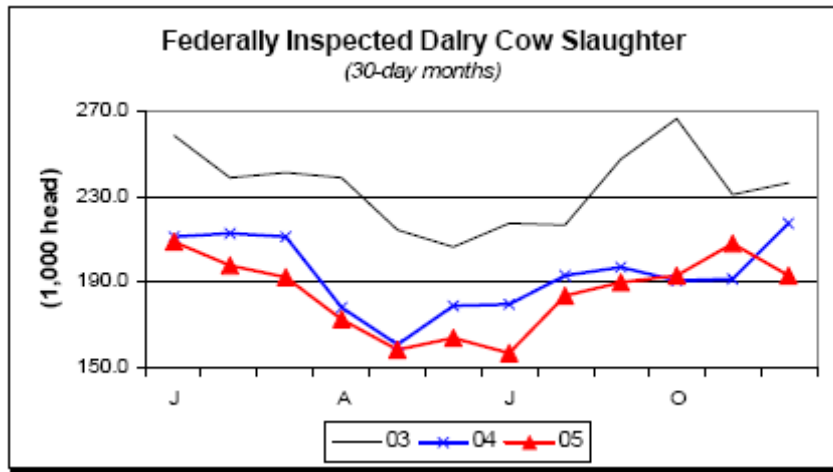
23-state cow numbers are now higher than at the beginning of 2003 and 41,000 higher than one year ago despite two rounds of dairy herd removal by CWT in 2005. Dairy heifer numbers are now higher than any time in the last 10 years. Dairy cow slaughter has also been lower than or equal to 2004 during 2005 and much lower than 2003.



Source: Daily Dairy Report



Source: Daily Dairy Report



Source: Daily Dairy Report

Demand

Dairy product demand has started to show some weakening. Until Jan 31, 2006, no spot market cheese sales had been made since Dec 23, 2005. The Jan 31 sale stopped the most recent slide of CME cheese prices that began Jan 13 with barrel cheese. And was the first cheese price increase in 6 weeks.

Commercial American cheese stocks at the end of 2005 were at the largest level since 2000, 517.3 million pounds. The December 06 cheese stocks were higher than March06. This is unusual since there is large cheese and butter retail sales period from Thanksgiving to New Year. All cheese stocks for Dec 05 were 4% higher than Dec 04 and 2% higher than the previous month. Butter stocks were 27% higher compared to one year ago but 6% lower than the previous month.

Dairy Market News reports that cheese demand is weak. Buyers appear comfortable with their current inventories and they expect somewhat weaker cheese prices as well. Super Bowl sales results will help set future demand direction.

Commercial disappearance of dairy products has been strong for the first eleven month of 2005. Butter is up 0.6%, American cheese up 0.5%, other cheese up 3.5% and fluid consumption up 0.3%. Nonfat dry milk usage has dropped, -2.2%. These markets are showing weakness now and NDM stocks are starting to build due to the movement of milk into butter production.

Analysis

The price decline in the cheese market has taken longer than anticipated. This lateness reflects the good cheese demand that has continued through most of this year. The two year cow numbers expansion and the release of full allocations of BST have resulted in more than enough milk production increase to cover the added commercial disappearance. The USDA reported the milk feed price ratio down 4 points to 3.24. The milk price used in next month's calculation will show a strong decline and will lower the ratio. Remember that a ratio above 3 indicates that the milk production expansion is likely. We have reached Class III prices that begin eligibility for MILC payments. An MILC extension was passed by the US Congress and is expected to be signed by President Bush. MILC payments for most Iowa dairy farmers will soften the milk price decline we have experienced so far.

Robert Tigner