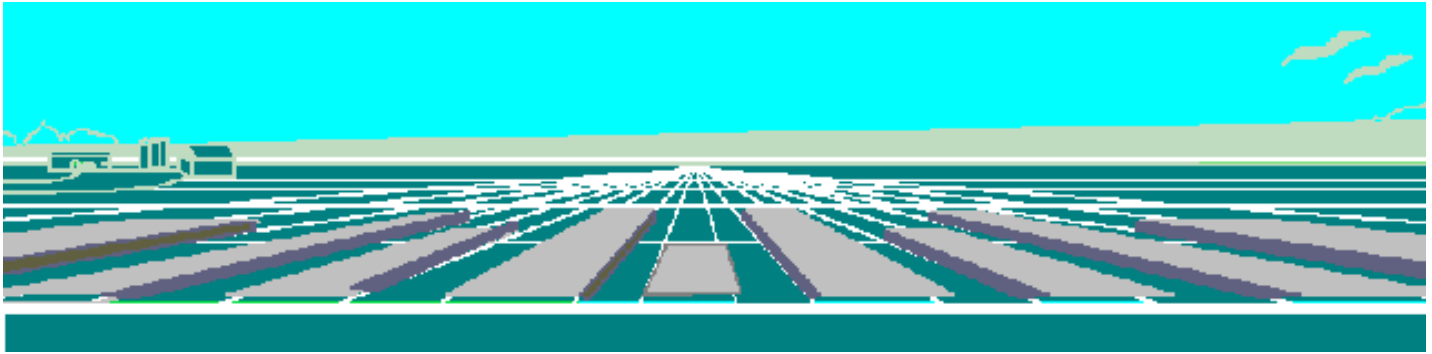


Iowa Farm Outlook



March 1, 2006

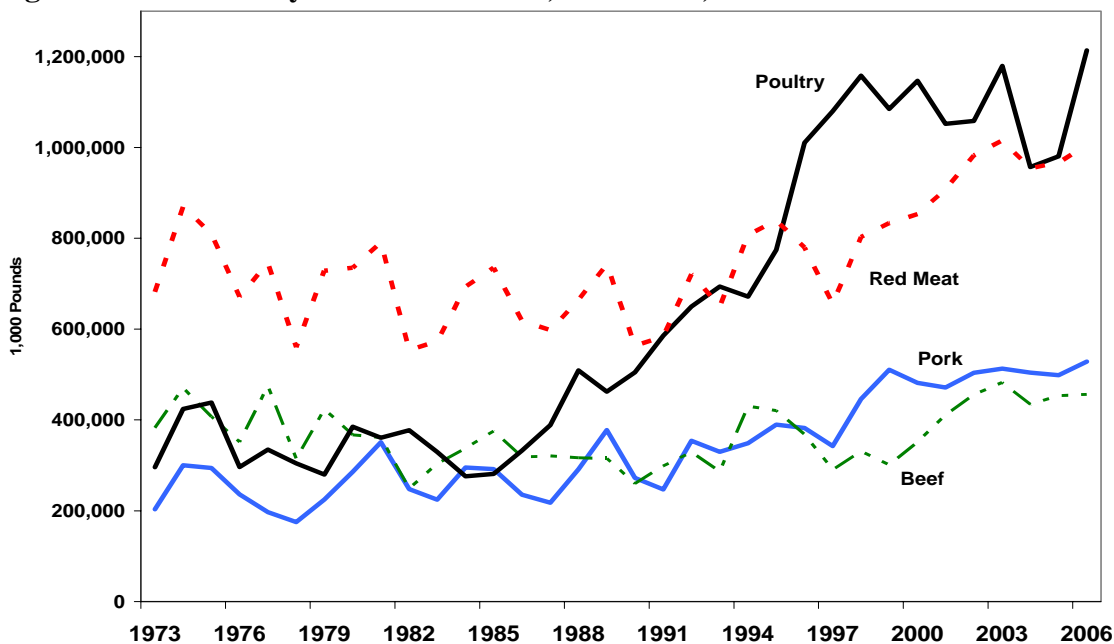
Ames, Iowa

Econ. Info. 1929

Cold Storage Inventories Increase

Meat supply to the US market is reflected by more than just domestic production or animal inventories. A portion of available supply comes from imports and meat in cold storage. Recent USDA reports have indicated that most animal inventories are building; a fact that by itself assures increased supplies. The quantity of beef imported last year was actually down 2.1% from 2004, but all cattle imports were up 27%, something to be expected with the Canadian border reopening to live cattle trade. Hog and pork imports though were both down, 6.8% and 6.6% respectively. Finally, consider the current cold storage quantities. Although the current inventories of pork and poultry are not at all time records, they are at record high levels for January inventories. Figure 1 is a graph of the January inventories of beef, pork, total red meat, and poultry.

Figure 1. US January Meat Inventories, 1973-2006, USDA



Currently pork inventories are up 6 % from a year ago at 528.5 million pounds. Pork inventories over the past five years have peaked in the spring, January-April, so inventories should continue to increase. The Hog and Pig report released two months ago indicated that market hog numbers were up almost a percent, of which heavy hog numbers were down but mid weights were up significantly. That bundle of hogs has,

or soon will be, reaching finishing weight and boost slaughter numbers. In addition, barrow and gilt dressed carcass weights have been constantly above the historic norm over the past four months. Several weekly average barrow carcass weights set record highs, to the tune of 205 lbs. In summary, shortages in pork supply are not anticipated in the near future.

Poultry inventories are also setting records for this time of year. Poultry cold storage is up nearly 28% from a year ago at a volume of 1,213.9 million pounds. Usually poultry inventories peak in the mid summer months of June and July. In the past 12 months, the total volume of chicken produced set three records. Eight of those months experienced more than four billion pounds of chicken production. Even more so than with pork, there is plenty of chicken being supplied in the foreseeable future. Poultry prices have responded accordingly and fallen to prices not seen in two and half years.

Beef cold storage inventories were up slightly, 0.7 percent from last year but still fairly consistent with the previous two years. Currently 456.4 million pounds are in storage, and the largest January inventory was recorded in 2003 when 482 million pounds were reported. Over all the quantity of stored read meat is up from last year, but looks to be leveling off from the increasing trend of the previous eight years.

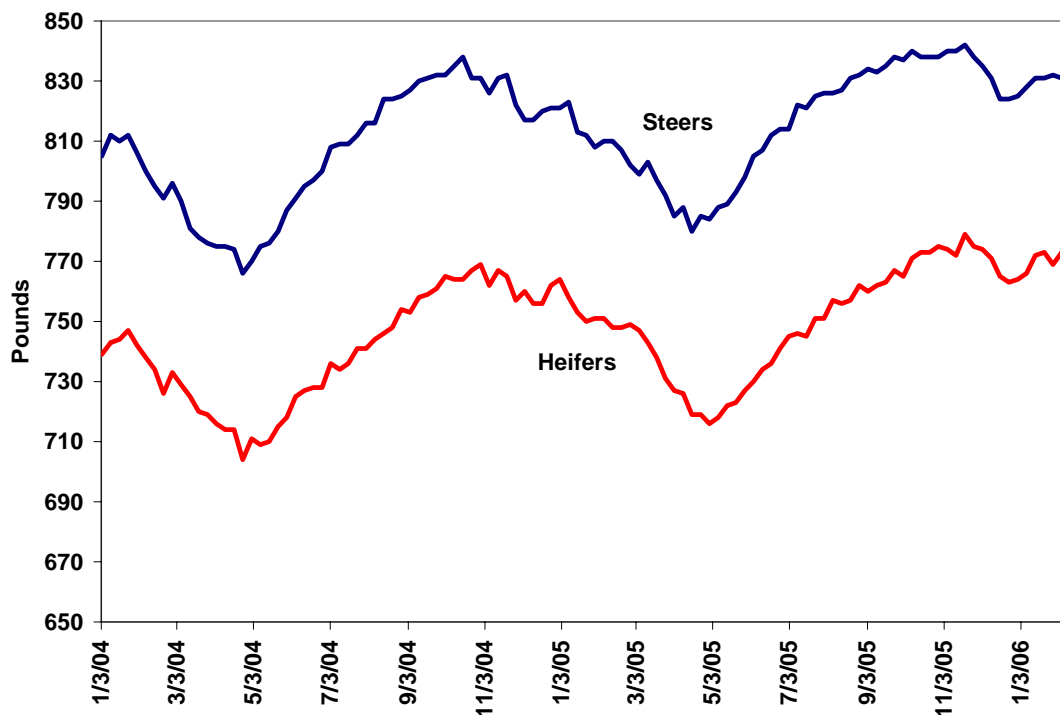
While we are on the topic of beef supplies, the recent cattle on feed report indicates continued increase in feedlot inventories. This is helped of course by the plentiful corn stock, more imported feeder cattle, and more domestic feeder cattle from a growing domestic cow herd. Table 1 contains the summary information from the cattle on feed reports in the past 6 months. The percentage change is from each month, one year previous. As can be seen inventories grew substantially as more cattle were placed and/or held on feed to higher weights. While placements were up, marketings stayed fairly consistent. The other disappearances usually make up a very small fraction, less than a percent, of the cattle that leave the feedlot.

Table 1. Summary of Cattle on Feed, Sep 05- Jan 06

Month	Inventory 1,000 head	Inventory % change	Placement % change	Marketing % change	Other Disappear. % change
Feb 06	12,110	+7%			
Jan 06	11,804	+4%	+16%	+2%	+14%
Dec 05	11,726	+3%	+3%	-3%	-1%
Nov 05	11,473	+1%	+17%	+4%	-16%
Oct 05	10,482	0	+3%	-3%	-12%
Sep 05	10,000	0	-1%	+1%	-7%

As the feedlot inventories are expanding, and cattle are taken to a higher finishing weight on cheap corn, the dressed carcass weights have increased substantially. Figure 2 is a graph of the weekly slaughter weights, steers and heifers, over the past 2 years. The seasonality of slaughter weights is easily to see, but so is a general trend to high carcass weights. Note that the mid-February dressed weights are almost 20 pounds heavier that that time last year and 25 pound more than two years ago. These increased weights are significant in two aspects. First of course is the increase it will have in the supply of beef when the “finally” finished animals come to slaughter. The second impact comes from the fact that heavier cattle tend to grade better and realize a better boxed price. As the supply of choice or better meat increase the associated premiums will be eroded.

Figure 2. Steer and Heifer Carcass Weights, 2004-present



Demand continues to be the clinch pin in the meat market. As has been pointed out in previous outlook letters, domestic demand for whatever reason has provided substantial support to the meat markets over the past several years.

Shane Ellis

Grain markets reflect wheat worries, fund buying, rapid ethanol expansion, approaching South American soy harvest

Nearby Kansas City wheat futures have risen \$1.05 per bushel since early December and about \$0.51 per bushel in the last month, partly in response to continued drought in Texas and Oklahoma. Other contributing factors included reports of some winter-kill on wheat in parts of the Ukraine and Russia, anticipation of more U.S. wheat sales to Iraq, and forecasts of drought developing in Kansas, the nation's No. 1 wheat producing state. Texas and Oklahoma together normally produce about 13% of the nation's wheat crop.

Wheat Details

Wheat is a very durable crop. Some agronomists say it has nine lives. However, widespread precipitation is needed soon in the southern plains if even moderately below normal yields are to be harvested there. Price strength for soft red wheat, reflected in the Chicago market, and hard red spring wheat in the Minneapolis market has been a bit less than in Kansas City. That's partly due to ample soil moisture in a substantial part of the spring wheat area and generally good soft red winter wheat crop prospects. Also, soft red wheat export sales are sharply below last year, with the season total through February 16 down 39% from a year earlier. Export sales of hard red spring wheat are down 6% while sales of hard red winter wheat traded in Kansas City are up 13%. Soft red winter and hard red spring sales have been reduced by a sharp decline from last year in Chinese purchases. Hard red winter wheat, which did not have sales to China last season, has benefited from large sales to Iraq and Nigeria.

Reduced Argentine Corn Production

Strength in wheat prices along with commodity fund trader activity have been factors behind the strength in corn futures. Other even more important factors include December and January drought in Argentina that has cut USDA projections of its upcoming corn harvest by 200 million bushels from last year. The Argentine soybean crop was able to wait for rains, and the rain has been rather widespread in the last few weeks. Argentina, China, Brazil, and South Africa are the major non-U.S. corn exporters. South Africa, a small exporter, also has drought problems this season. Brazil's corn crop is expected to be moderately above last year, although USDA projections indicate most of the increase will go into carryover stocks rather than increased exports. Chinese corn export prospects, as always, are difficult to project. Trade sources indicate Chinese prices have moved up to within a few cents of U.S. prices delivered to Asian markets. China has a price advantage over the U.S. in Asia since prices for our corn are increased by costs of moving to U.S. ports plus ocean freight costs. China's corn export markets are nearby countries, where freight costs are much lower than those of the U.S.

Large Expansion in Ethanol on the Horizon

Another factor influencing corn prices, especially new-crop months, is recent USDA projections of corn processing for ethanol fuel. At its national agricultural outlook conference in mid-February, USDA economists projected that corn processing for ethanol in the 2006-07 marketing year will increase by 34% from the previous year. Ethanol processing this year (2005-06) year is expected to rise by 11% and follows a 6% increase last season. Some analysts believe the USDA projection for '06-07 may be too high, with part of the new capacity coming on line later in the 2006-07 marketing year and having its full impact in 2007-08. Either way, growth in corn processing for ethanol has been very rapid and will be a positive influence on corn prices and the basis.

Our latest corn and soybean supply-demand projections can be viewed from our web site:

<http://www.econ.iastate.edu/faculty/wisner/> Click on "Balance Sheets" in the right-hand column. In column B for 2006-07 (slightly below normal U.S. corn yield), we project a 1.2 million acre decline in

planted corn area and a 1.1 million acre drop in harvested acreage. Recent action in new-crop corn and soybean futures prices have moderated the incentive to shift acres from corn to soybeans vs. incentives in January. Also, nearby natural gas prices have declined by about 53% from the peak reached in early December. It is uncertain whether this will reduce costs of nitrogen fertilizer this spring. Processors may have sold large amounts of gas allocations to other users when prices were high.

Corn Export Sales Recover

After lagging behind last year into mid-January, weekly U.S. corn export sales have exceeded a million tons (39.4million bushels) for several weeks. The sharp decline in Argentine crop prospects due to drought during pollination was a key factor behind increased U.S. sales. As the table below indicates, cumulative U.S. corn export sales from last September 1 through February 16 were up 10% from a year earlier. USDA season total export projections, up 2% for the marketing year, now look a bit low. Our projections show a 4% increase. If sales remain above a year earlier for the next few months, even that may be too low.

Cumulative Corn Export Sales

	2/16/06	Mil. Bu.
• Japan	+7%	411
• Africa	-9%	134
• Taiwan	+23%	121
• Other Asia	+27%	122
• W. Hemisphere	+8%	396
• Unknown	+58%	63
Total	+10%	1247

Soybean Export Sales Still Lag

In contrast to corn, cumulative U.S. soybean export sales are still sharply below a year earlier, as shown below. Lagging sales reflect bird flu concerns in southeastern Asia, Turkey, and several European countries. Media reports indicate that consumers in some countries have reduced consumption of chicken meat, and that profitability of poultry production has declined. Reports are sketchy and it is difficult to quantify the exact impact on foreign consumption and prices, as well as how many birds have been destroyed to control the disease. Numbers we have seen so far suggest the impact on demand for soybean meal has been considerably less than the decline in U.S. bean export sales.

South American Soybean Crop Prospects

Prospects for better South American soybean crops than last year and an upward revision of the 2005 Brazilian crop likely are more important factors in the decline in U.S. soybean export sales than bird flu. Much of the Argentine Soybean Belt has had significant rains in the last few weeks, and crop conditions there appear to be in line with the latest USDA projection (up 3.8% or 55 million bushels from last spring).

I have just returned from a trip to Brazil. Our travels included visits to Sao Paulo and the nation's largest soybean export port, Cagill's floating elevator on the Amazon, travel in several parts of southern Mato

Grosso (No. 1 soybean state), an aerial view of crops in central Mato Grosso du Sul (No. 5 state), travels in north central Parana (No. 2 soybean state), and in Uberlandia (No. 6 soybean state). During our eight days in the country, most areas had frequent light rains. We did not visit southwestern Parana or southern Rio Grande du Sul, where lack of rain was a concern earlier. Crops where we were looked good and farmers appeared to be doing a good job of managing Asian soybean rust. Industry contacts indicated they expect production to be in line with or possibly a little above USDA projections (up 10.3% or 202 million bushels from last year). A few beans had been harvested in Mato Grosso, but the main harvest in most areas will be from mid-March through mid-April. The upcoming South American harvest and lagging export sales are cautions that soybean prices may have additional downside risk this spring and in late summer. USDA's March 31 planting intentions report also will be an important market factor.

Looking further ahead, parts of Brazil are experiencing serious farm financial stress. Bean plantings this season are reported to be 5% to 6% lower than a year earlier. The financial stress is coming from (1) strength of the Brazilian currency, the real, relative to the U.S. dollar, (2) drought during the last two years in some areas, and (3) the high cost of multiple sprayings for Asian rust. Land values have dropped sharply in some areas, and a few marginal acres have been taken out of production. Some bean acres also have shifted to corn, sugar, and cotton. In Brazil, corn is largely a domestically marketed crop and is less sensitive to exchange rate fluctuations. Sugar, the source of Brazil's huge fuel ethanol production, is a crop that needs to be replanted once every 5 to 6 years. Where bean acreage has shifted to sugar, it is not likely to shift quickly back to soybeans. These developments may bring a leveling off of Brazilian soybean acreage for a year or two. Future trends in its exchange rate may hinge some of the outcome of its 2006 Presidential election. Brazil is developing a large ethanol export facility, and is in the early stages of developing a biodiesel program.

Robert Wisner

Dairy Outlook

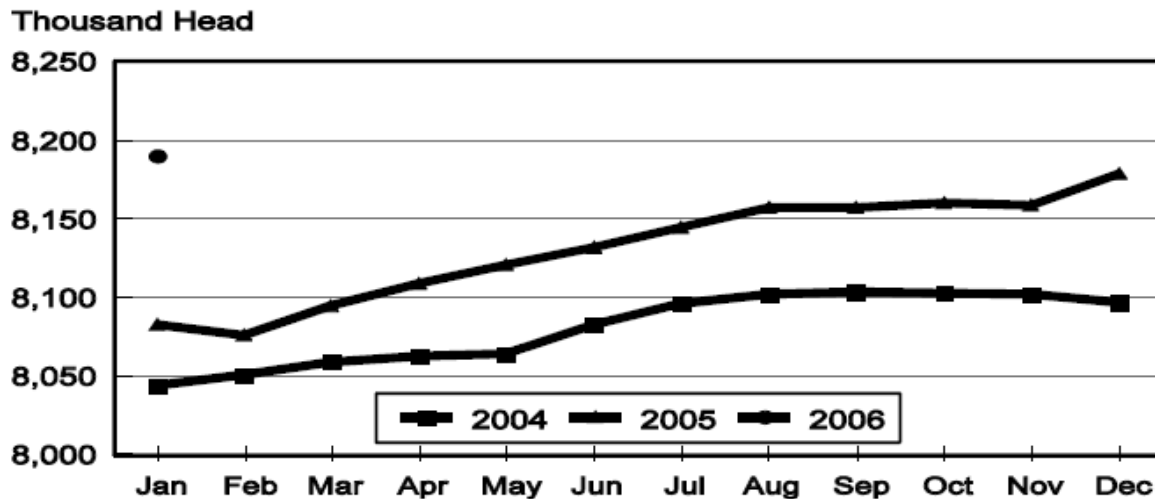
Milk production during January 2006 increased by 5.4% in the 23 major dairy states. Milk cow numbers were 103,000 higher than one year ago and 11,000 more than the prior month. Milk per cow was 68 pounds higher than one year ago. The largest factor for higher total milk was the 4.1% increase in milk per cow.

Iowa milk production rose just over 6% for January 06, more than the 23-state average. Dairy cow numbers were up by 10,000 cows compared to one year ago to 200,000. Milk per cow rose by 15 pounds to 1765. December 05 Iowa cheese production was -0.4% compared to one year ago but +9.1% from November 05.

NM had the largest milk production increase, 15.8%, due to more cows and more milk per cow than one year ago. The second largest production increase occurred in TX, followed by ID. The largest production decline took place in FL, -3.3%, followed by OR, -2.7%, then KY, -2.5%. Cow numbers increased in OR while they declined in FL and KY. These three states were the only ones that had milk production declines.

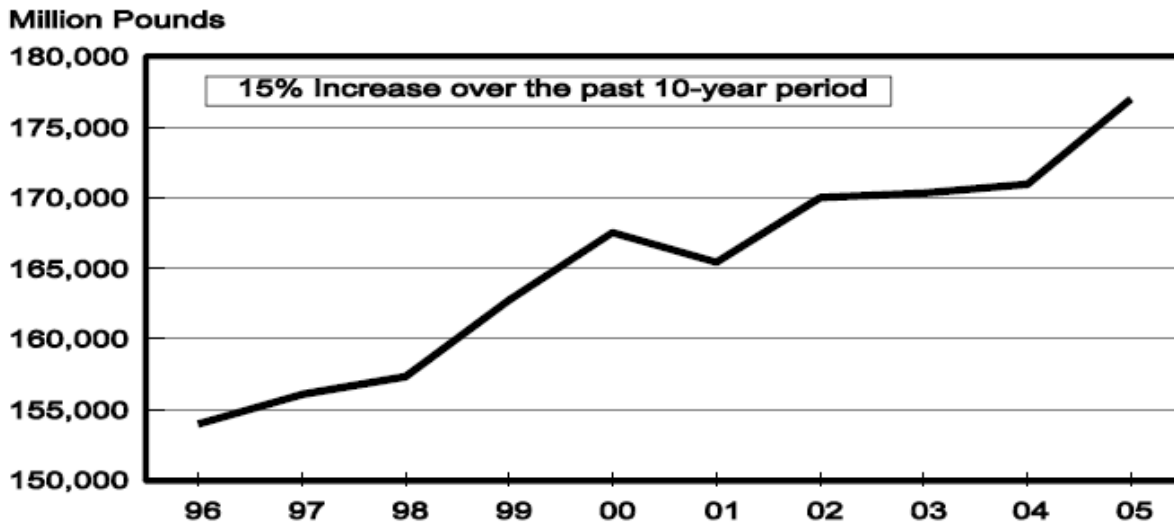
State	numbers	numbers	cow numbers	per cow	per cow	milk/cow	production	production	total milk
Iowa	190	200	5.26%	1750	1765	0.86%	333	353	6.01%
MN	460	445	-3.26%	1510	1605	6.29%	695	714	2.73%
WI	1235	1240	0.40%	1515	1585	4.62%	1871	1965	5.02%
IL	105	104	-0.95%	1620	1630	0.62%	170	170	0.00%
CA	1739	1772	1.90%	1770	1825	3.11%	3078	3234	5.07%
ID	436	473	8.49%	1830	1860	1.64%	798	880	10.28%
IN	155	161	3.87%	1640	1720	4.88%	254	277	9.06%
NM	319	342	7.21%	1710	1845	7.89%	545	631	15.78%
NY	650	651	0.15%	1535	1595	3.91%	998	1038	4.01%
PA	564	557	-1.24%	1540	1650	7.14%	869	919	5.75%
TX	318	325	2.20%	1655	1845	11.48%	526	600	14.07%
23-State	8087	8190	1.27%	1643	1711	4.14%	13287	14011	5.45%

Monthly Milk Cows 23 States



Source: USDA

Milk Production, 1996-2005 United States



Source: USDA

Demand

Dairy product demand has certainly started to show weakness. The only dairy product price that has shown strength is dry whey holding near 34 cents. Butter prices at the CME have declined 9.75 cents since the beginning of February to Feb 24. Block cheese was down 11.25 cents and barrel cheese off 10.5 cents during the same time.

Dairy Market News reports the cheese markets as weak. Processors are now considering whether to begin sales of cheese to the CCC. Those sales however would mean higher processing costs compared to commercial sales. Cheese prices will likely further decline before sales will begin to go to government storage.

Cream markets are described as weak but also chaotic by some processors. Some excess cream is heading to the churns but not all of it is finding a home without a discounted price.

Jan 06 cheese inventories are 1.9% higher than Dec 05 and 4.2% higher than one year ago. Butter inventories have grown by 95.4% from one month ago and are 48.4% larger than one year ago. Fluid milk sales are reported as mostly steady.

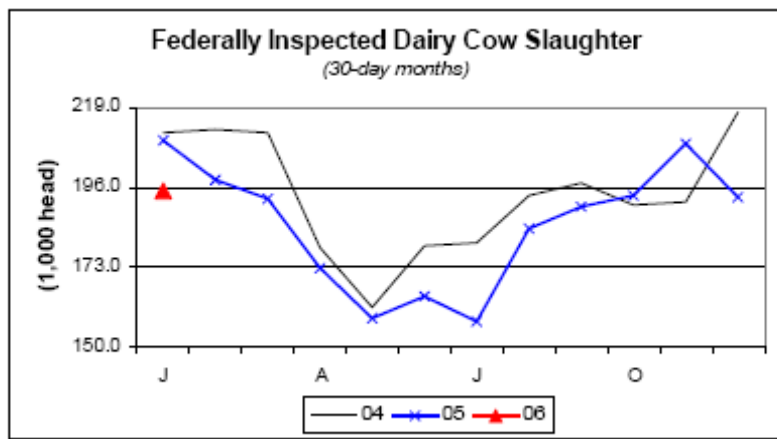
Analysis

Milk production levels have become worrisome for processors. Current production levels are only 11 million pounds below the May 2006 daily peak. If milk production rises from now to May as normally occur, the peak milk production will be 35 million pounds above May 05's daily production. Processors are wondering if they will be able to handle that much milk. Some spot shipments of milk may get sold at deep discounts in order to clear the milk to processors.

One of the reasons for the concern is that dairy cow numbers are now about 150,000 more than Jan 04. The slaughter cow chart below shows why cow numbers are higher. Cow slaughter is much below year

and 2 year ago levels. US production for Jan 06 was nearly 1 billion pounds higher than two years ago. Production per cow has grown by 3,133 pounds in the past 10 years or about 1.9% annually.

Even with MILC extended to help with declines in dairy income, milk income for 2006 is sure to decline. USDA's current 2006 Class III price projection is for an average of \$12.20 or \$1.85 below 2005. This puts the US all-milk price projection near \$13.30. This projection came out before this January's Milk Production report. Iowa's all-milk price usually comes close to the US price.



Source: Daily Dairy Report

Robert Tigner