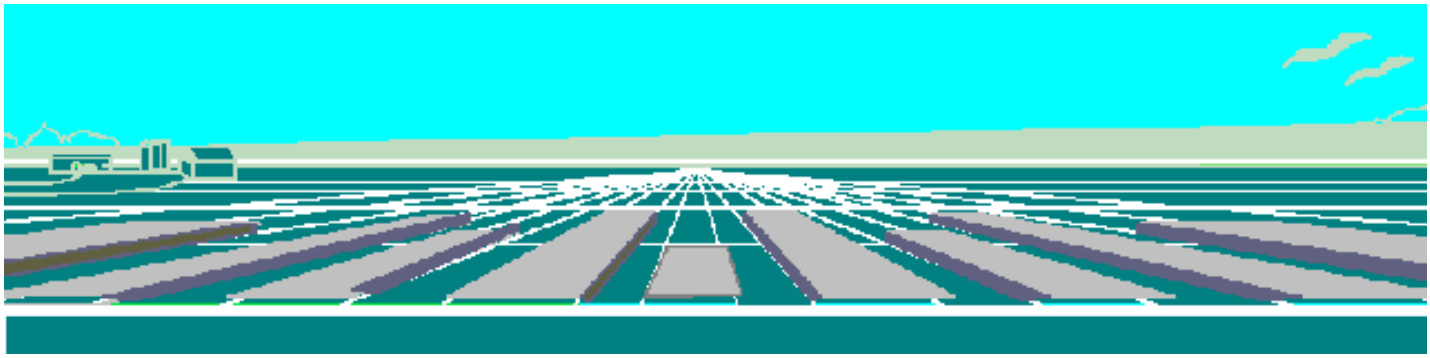
Iowa Farm Outlook

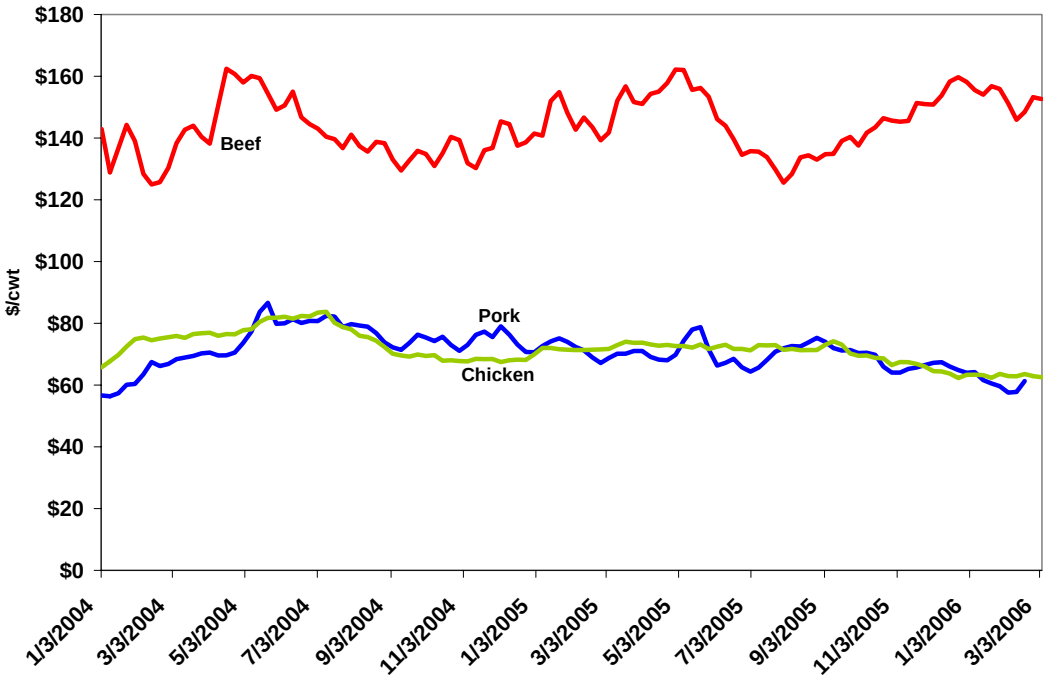


March 15, 2006 Ames, Iowa Econ. Info. 1930

Red Meat and Poultry Prices

Meat prices, as with any commodity, are responsive to the balance between supply and demand. Consumers purchase their meat based on preference and willingness to pay. The three major meats consumed in the US are beef, pork, and chicken. They are common substitutes, with beef carrying dominance in domestic preference. When a short supply of one meat causes the price to escalate, consumers may be more inclined to purchase other meats. Dramatic fluctuations in retail prices are not conducive to winning customer loyalty and consistent sales, so most retailers try to keep a flat line on their meat counter products. Therefore, wholesale meat prices are a better indicator of how supply and demand are affecting prices. Figure 1 is a graph of wholesale beef, pork, and chicken prices since the start of 2004.

Figure 1. Beef, Pork, Chicken Wholesale Prices. 2004-Present

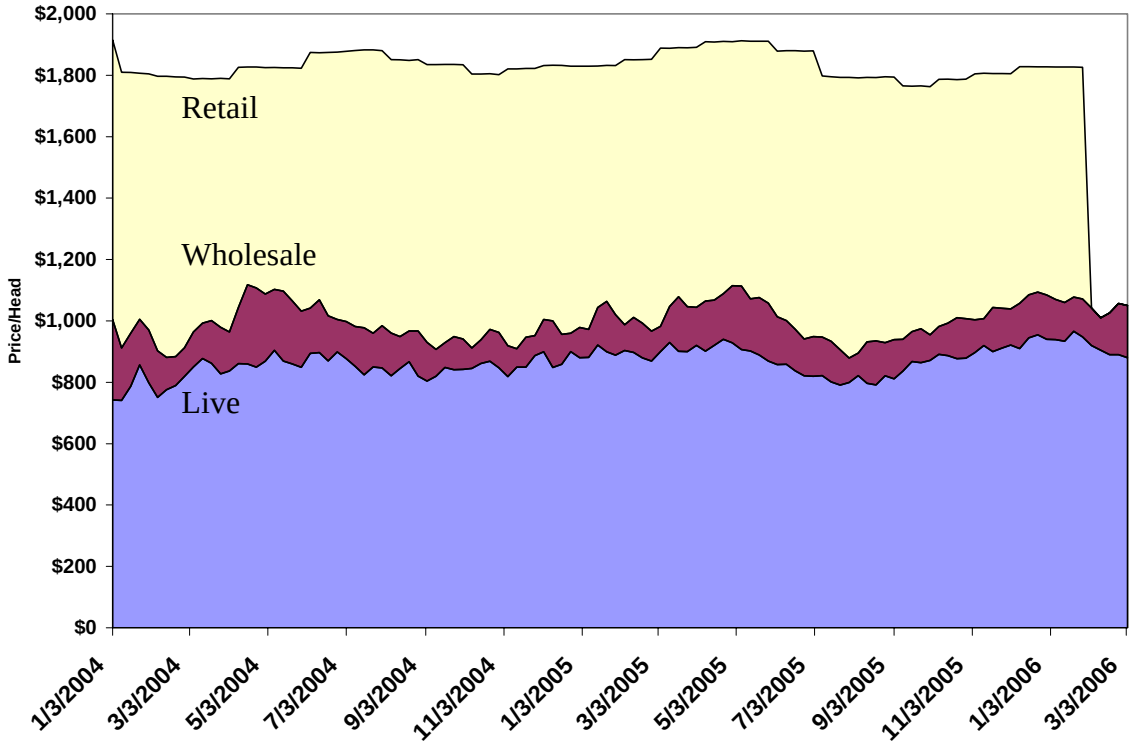


Pork and poultry wholesale prices are the lowest they have been for sometime now. Supplies of pork have been up recently with cold storage quantities at record highs for the season and continued increases in market hog inventories and slaughter weights. A similar situation is seen in the poultry market. Poultry cold storage has also been at record high levels for the first part of the year. Unless there is a

significant event that will compel consumers to purchase more poultry, the ample or even surplus, supply will keep prices steady to lower. Beef wholesale prices strengthened through the final third of last year, but have been mixed to slightly weaker in the past few months. Beef supplies are also on the rise, but considering the robust consumer demand over the past three years it may be difficult for history to predict when beef prices will drop by more than just the seasonal trend.

Looking at the price trends through the beef supply line, some portions of the finished beef sector are realizing a larger portion of "the pie" than others. Figure 2 is a graph of how meat revenues have been distributed in the past two years on a per head basis(by-products not included). The greatest portion of revenues coming from the beef of a finished 1000 pound steer goes to the producers (cow/calf and feedlots) and retailers. Note the plateau effect of the retail revenues, while the value of live cattle and boxed beef fluctuates repeatedly through peaks and valleys.

Figure 2. Beef Retail, Wholesale, and Live Values, Per Head Basis. 2004-Present



Retail beef prices were fairly level in the last portion of 2005 while boxed beef prices increased, shortening the gap between wholesale and retail. Figure 3 is a graph that makes the price difference between wholesale and retail a little easier to see. The black line represents the wholesale to retail price spread or the gross profit portion of the retail sector per hundred pounds sold. Recently the retail prices have followed changes in box beef prices, with retailers seeing the narrowest gross margins of the past two years in the past two months.

Beef supplies are on track for continued increases over the next several years. Increased domestic production will account for the greatest portion of increases in beef supplies. With the cheap supply of corn in the recent two years the supply of beef has been added to by heavier carcass weights. Although beef imports may increase in the future, most imported meat goes into ground beef and will not pose a supply threat to the whole cut sector. The main balance remains between what is produced and consumed domestically.

Figure 3. Beef Wholesale, Retail and Spread, per cwt. 2004-present

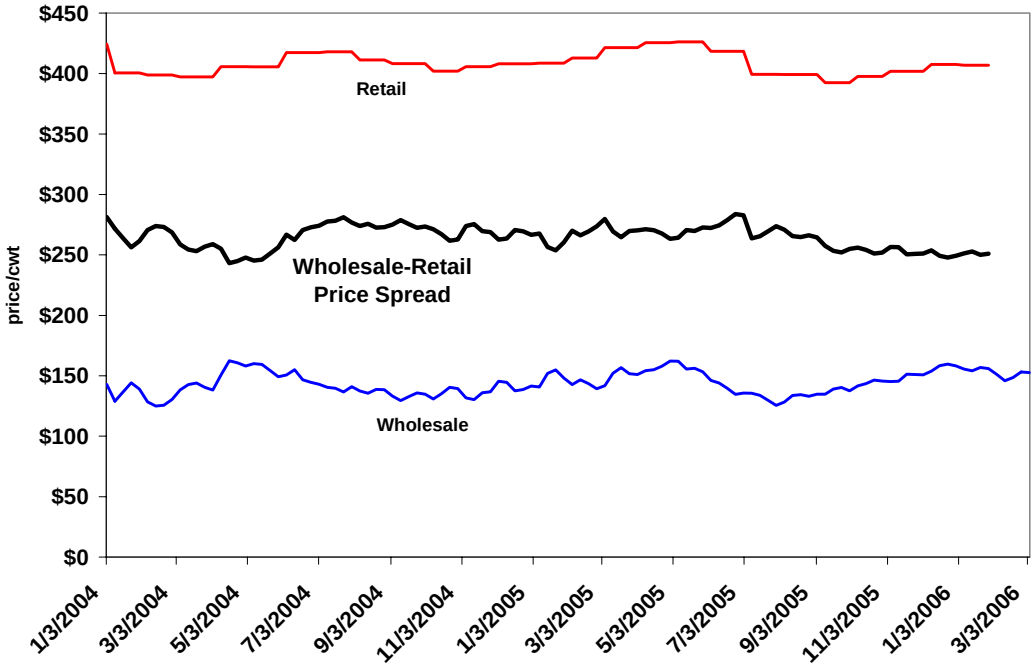
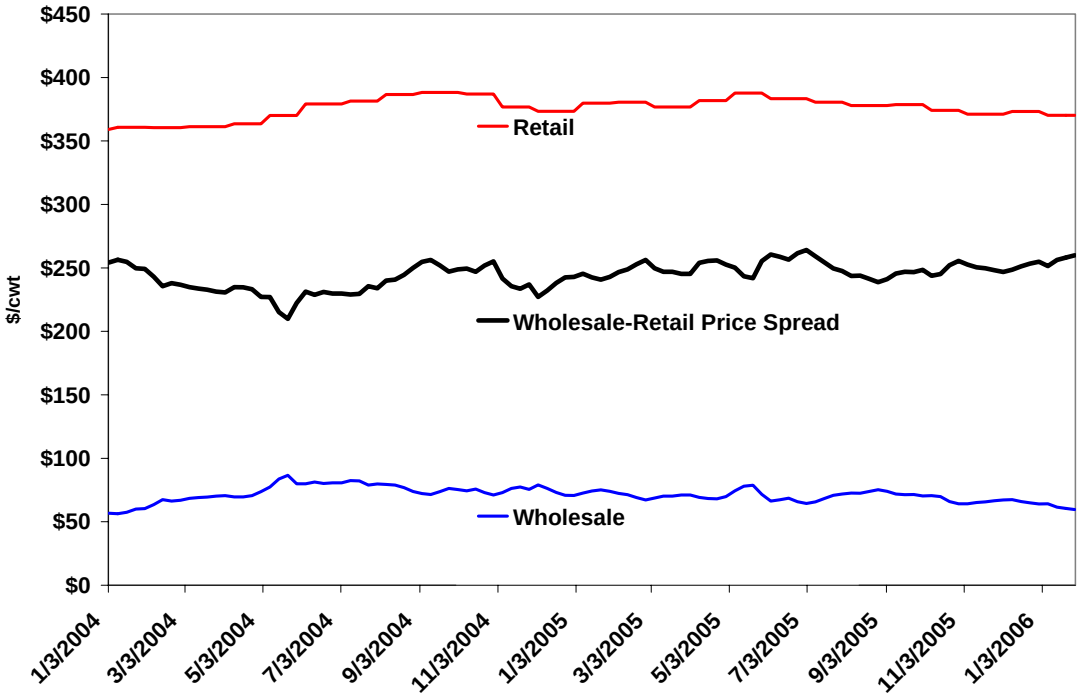


Figure 4 is a graph comparing the wholesale and retail prices of pork. The black line represents the difference between the two prices. Retail and wholesale prices for pork have been relatively steady, but the price spread has seen some substantial shifting. For example the price spread in the past two years has varied from $223 in May 2004 to $264 in July of 2005.

Figure 4. Pork Wholesale, Retail and Spread, per cwt. 2004-present



Shane Ellis

News from USDA March 10 World Supply-Demand Report slightly constructive to corn prices, slightly negative for soybean markets

In its March 10 supply-demand report, USDA raised its projected 2005-06 U.S. corn exports by a modest 50 million bushels from last month and lowered carryover stocks by 50 million bushels. These changes bring projected exports for the marketing year to a 4.7% increase from the September 1, 2004-August 31, 2005 marketing year. Cumulative export sales since last September 1 are up 9% from a year earlier, suggesting that another increase in projected U.S. corn exports may be needed later on. Also reinforcing that possibility are the modest downward revisions in USDA's projected corn exports from Argentina, China, Brazil, and South Africa vs. last month. These four countries are the main alternative sources of corn exports outside the U.S.

Reduced foreign corn exports projected

Lower exports from the Southern Hemisphere reflect adverse weather during corn pollination, although weather since then has been favorable for the soybean crops. The size of Brazil's 2006 corn crop is more uncertain than for Argentina and South Africa since Brazilian farmers often plant corn as the second crop after soybeans are harvested. With the soybean harvest only about one-fifth finished in Brazil, a significant part of its corn crop is not yet planted.

China's corn export potential for the spring and summer, as usual, is highly uncertain. China is reported to have stopped selling corn in some foreign markets in the last few weeks. That has happened before at this time of the year, but has been followed by resumption of sales later. Whether sales are resumed again this year depends heavily on its 2006 crop prospects and stocks levels, both of which are uncertain.

U.S. corn export sales lagged moderately behind a year earlier until January, when reduced production potential in Argentina became apparent to foreign buyers. In the last several weeks, U.S. corn export sales have generally been in the 1.0 to 1.6 million metric tons (39.4 to 63 million bushels) per week range. Last year during the March 3-May 5 period,, weekly U.S. corn sales averaged 0.856 million metric tons (33.7 million bushels). Average sales during the same period this spring exceeding year-ago levels would suggest a further upward revision in USDA's projected season total exports will be needed. That, in turn, would be a positive influence on the corn basis, allowing local cash corn prices to move closer to the futures price in Iowa during the planting season.

Large corn carryover stocks still indicated

Modestly higher exports than currently projected also would point to the potential for slightly lower corn carryover stocks at the end of summer than currently indicated. With this week's 50 million bushel increase in projected corn exports, USDA economists now place the potential August 31, 2006 U.S. corn carryover at 2.35 billion bushels. That is a 11.2 weeks' supply, well above normal industry needs at the end of the marketing year and the largest since 1987. Just two years earlier, ending stocks stood at a 4.9 weeks' supply. From late August through late November, these large stocks could again put considerable pressure on corn prices if U.S. yields are near the long-run trend line.

Possible 2006 crop acreage changes

Another development being watched in the grain trade is the potential for changes in crop rotations this spring. With high fertilizer and fuel prices, some shift of corn acres to soybeans is anticipated in parts of the Corn Belt. Also, plantings of soft red wheat in the eastern Corn Belt and South are up sharply from last season. In southern parts of the eastern Corn Belt and mid-South, soybeans often are double-cropped after the wheat harvest, and some increase in soybean plantings is anticipated there. In the southern Great Plains, there would be a potential for some failed winter wheat to be replanted to soybeans if spring rains provide adequate soil moisture. An in spring wheat areas of the Dakotas, cropland has been shifting from wheat to soybeans for several years. A further shift is anticipated this spring.

One highly respected private crop forecasting firm recently updated its projected 2006 U.S. crop plantings to show less of a shift from corn to soybeans than previously anticipated. USDA's March 31 planting intention report will provide an updated indication of prospective plantings, based on a nation-wide survey of farmers. We expect U.S. corn plantings to be down 1.0 to 1.3 million acres from last year and soybean acres to be up 2.0 to 2.5 million acres. In the next three or four years, the rapid expansion in corn processing for ethanol almost certainly will create a need for more corn acres. For the next year or two, the large carryover stocks indicate that corn supplies should be fully adequate (barring major weather problems) even if U.S. corn plantings decline modestly in 2006.

Updated balance sheets

Our latest corn, soybean, and wheat supply-demand projections for the current year, along with comparisons for recent years and projections for 2006-07 are available on our web site, in the right hand column: http://www.econ.iastate.edu/faculty/wisner/ These projections will be updated after the USDA March 31 Planting Intentions and Grain Stocks reports.

Soybean Update

Although a few private analysts expected slightly lower Brazilian and Argentine soybean crop estimates, USDA's March 10 report left production estimates unchanged from last month (up 257 million bushels from last year's drought-reduced crop). Unchanged estimates seem to fit the weather conditions seen recently for those areas of the world and our first-hand observations of crop conditions in parts of several top producing states in Brazil in mid-February.

The major changes in USDA's soybean numbers were in the U.S. balance sheets. USDA economists lowered their projected 2005-06 U.S. soybean exports by 10 million bushels and increased the projected August 31 carryover stocks by 10 million bushels. That puts projected current season exports 18% below last year. Season to date export sales through March 3 were down 22% from last year. With a large South American crop soon to be moving in world markets, it may be a challenge for actual exports to reach the projection. Weekly average U.S. soybean export sales from January 4 through March 3 averaged 0.583 million tons (21.5 million bushels) per week, down from 0.623 million tons (22.9 million bushels) a year earlier. U.S. soybean export sales have a tendency to decline seasonally in the spring and summer as South American exports increase. Last year from March 10 through May 5, U.S. soybean export sales averaged 0.329 million tons (12.1 million bushels) per week. If weekly export sales don't exceed that level this spring, USDA's projected season total exports might have to be lowered again.

Soy oil export projections sharply lower

The largest change in USDA soy complex projections was a 17% decline from last month in projected U.S. soybean oil exports for this marketing year. Soy oil export sales have been lagging badly since last fall and cumulative sales through March 3 were down 35% from a year earlier. Soybean oil prices have trended up in the last several weeks, anticipating that soy diesel production would tighten supplies. USDA raised its projected soybean meal exports 3% from last month.

Soybean carryover stocks up dramatically from two years ago

U.S. August 31 soybean carryover stocks are projected at 565 million bushels, a 10.6 weeks' supply two and one-half weeks before the start of harvest. Just two years earlier, stocks stood at 112 million bushels, a 2.3 weeks' supply. As with corn, fundamental analysis would suggest these stocks are likely to push soybean prices significantly lower in late summer and fall, provided U.S. soybean yields are near the long-run trend. Commodity fund traders have been an important element in supporting soybean prices during the last several months despite large supplies. Whether fund traders can insulate prices from negative market fundamentals during the late supper and fall remains to be seen. Someone will have to store and finance the large carryover stocks (barring widespread weather or disease problems). That job, with current farm programs, has to be done by farmers and their lenders. Ag lenders historically have

been uneasy about financing long-term storage of grain when prices are well above government loan rates and there is no protection from lower prices.

Robert Wisner