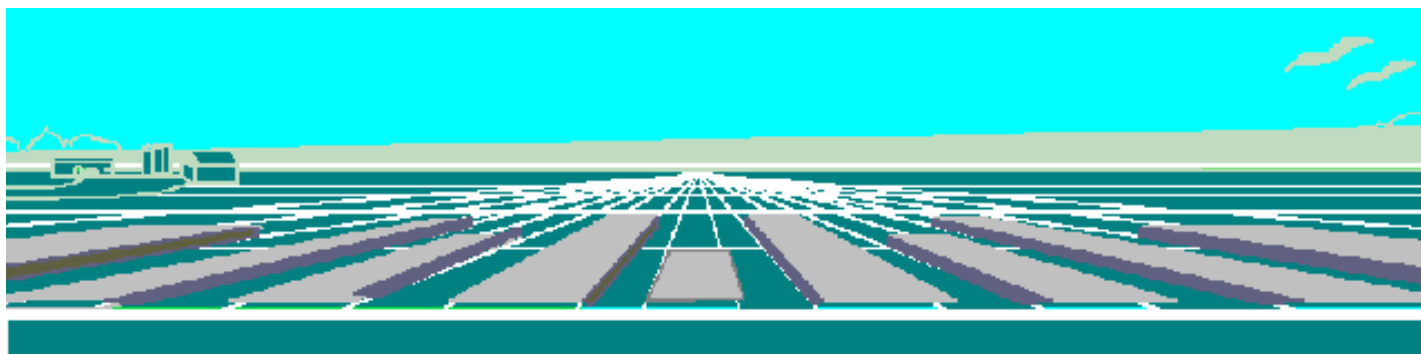


Iowa Farm Outlook



April 3, 2006

Ames, Iowa

Econ. Info. 1931

March Hogs and Pigs Report: Slow Expansion Continues

On March 31 the USDA released the quarterly hog and pig report as of March 1, 2006. As expected the number of hogs nationally continues a modest increase, with approximately 1 percent growth in total hog inventories. Breeding hog numbers have increased to over 6 million head nationally, up 1.4 percent from a year ago (Table 1). Market hog numbers are currently at just over 54 million head, up more than half a percent. Among market swine, the number of heavy hogs weighing 180 pounds or more is up a 1.7 percent while other weights posted more modest gains or declined.

Table 1. Summary of USDA March 2006 Hogs and Pigs Report

	US Mil. Hd	% Chg year ago	Iowa Mil. Hd	% Chg year ago
All Hogs	60.10	0.7	16.30	1.2
Breeding Herd	6.03	1.4	1.10	1.9
Market Herd	54.08	0.6	15.20	1.2
Under 60	19.84	0.9	4.67	7.9
60-119	13.11	0.2	4.15	-1.9
120-179	11.32	-0.4	3.44	-1.4
180 & over	9.81	1.7	2.94	-1.0
Pig crop				
Sep-Nov	26.08	0.8	4.10	unchg
Dec-Feb	25.65	1.2	4.10	4.6
Sows Farrowing				
Mar-May	2.90	0.5	0.46	4.5
Jun-Aug	2.92	0.2	0.47	2.2

Expansion in the national swine breeding herd indicates that the industry may have cast off some of the caution it exhibited in the past two years. Previous reports had indicated little to no increases in the number of breeding animals. The inventory of breeding animals this March is 84,000 more than the year before. While at the same time the supply of market animals was increased by more pigs being produced annually per sow. The average litter size for the Dec-Feb pig crop was 9.03, 1 percent larger than the year earlier and the fourth quarter in a row with pigs per litter over 9.0.

Pig crops have been steadily increasing over the past several years. Last quarter's pig crop was up 1.2 percent from the same quarter a year ago. Farrowing intentions over the next two quarters continue the story of increasing supplies. The number of sows expected to farrow from March to May is 0.5 percent over last year. June to August farrowing intentions are up only 0.2 percent from the same period in 2005.

Looking at Iowa specifically, the breeding herd is up 20,000 animals or nearly 2 percent and market hog inventories are only 1.2 percent higher. The number of feeder pigs, under 60 pounds, is up nearly 8 percent from a year ago, while the other market hog weight classes are down a percent or more. In general, Iowa hog numbers are increasing much faster than the nation on the whole.

Importation of feeder pigs has also increased the supply of market swine. First quarter swine importation from Canada was 15 percent greater than last year and very near 2003 levels. This increased importation is attributed to less controversy about feeder pig trade and more tariffs against US corn. Canadian feeder pig producers can send their pigs south and get a significantly better price. Canada has imposed a \$1.65 per bushel tariff on US corn making it difficult for Canadian finishers to compete for feeders. There is a tariff rebate provision that allows Canadian finishers that feed US corn to get the tariff rebated if the hogs are shipped to the US for slaughter. As a result we may see an influx of Canadian slaughter hogs.

Looking into the coming year hog prices can be expected to be lower than the previous two years. Table 2 contains the ISU forecasts for the next four quarters and the quarterly average futures prices based on the Friday close before the report was released. The futures forecast are adjusted for historic basis and converted to a live weight. It also contains the forecasted increases in pork supply, which is expected to continually increase.

Table 2. Pork Production and Iowa Live Hog Price Forecasts, 2006-2007

	% Supply change	ISU forecast	March 31 Futures
Apr-Jun 2006	+1.5	\$44-47	\$44.71
Jul- Sep 2006	+3.3	44-47	44.97
Oct-Dec 2006	+2.7	39-42	38.58
Jan-Mar 2007	+2.0	38-41	38.94

Finished hog prices over the past three months have seen a significant decline. This trend can be attributed to not only an increasing supply of hogs but also increasing carcass weights and competition from beef and particularly poultry. Avian Influenza is slowing broiler exports and backing up low cost product in the US. Poultry production has been running approximately 4 percent higher than the same time in 2005 and poultry in cold storage is 22 percent higher at the end of February.

On the demand side, pork is seeing significant competition from poultry stocks. However, pork demand is still above the five year average. One positive thing for pork is continued strong exports to Asian nations. Japan re-closed their market to US beef in January, and there is only slight speculation that it will be reopened in the near future. This is saying nothing of regaining Japanese consumer confidence, which will take years if not decades. For the time being, pork exports were up 22 percent in 2005 with about 40 percent of it going to Japan.

In summary, pork prices seem to have a lot against them. Increased weights, animal numbers, imports, slowing demand and competition will all be pushing to depress prices. Exports will continue to add support to the market especially as pork becomes more affordable to foreign consumers. As for the profitability of hogs, black ink is still here through the summer but will fade in the fall. The ISU estimated returns for farrow to finish operations have shown profits over the past 26 months beginning February 2004. It is expected to remain profitable through August, but feed costs may arise as a concern for producers in the coming season.

John Lawrence & Shane Ellis

Planting Intentions Show More Soybeans and Less Corn Than Generally Expected

Implications for Corn

Smaller-than-expected U.S. corn planting intentions will make corn prices quite sensitive to any widespread planting delays or weather problems during the growing season. With the five percent decline in potential U.S. corn planted acres, ***a normal yield would produce approximately 900 million bushels less corn than next season's potential utilization.*** Because of large old-crop carryover stocks, that difference would not be expected to create a corn shortage, but would almost certainly push corn prices moderately above the level of the last two years. Widespread weather problems and ***a U.S. yield 6% below the long-run trend would produce a crop about 1.7 billion bushels below potential utilization, and would require sharply higher prices to ration usage.*** Early indications point to a potential expansion in corn processing for ethanol of 28 to 32 percent next season along with good export demand because of a sharp drop in Southern Hemisphere corn production. The ethanol expansion is expected to continue for several more years.

No surprises in Stocks Report

USDA's March 31 grain stocks report was about as expected by the grain trade. Reported corn stocks, 3.4% above a year earlier, ***indicate domestic corn feeding in the winter quarter was about 1.5% larger than in the same quarter last year.*** Soybean stocks on March 1 were record large and up 20.8% from a year earlier.

Soybean Implications

In contrast to corn, the higher-than-expected soybean planting intentions will make bean prices less sensitive to weather than previously anticipated. ***Soybean carryover stocks on September 1 appear likely to be more than five times as large as two years earlier and more than double the level of last summer.*** The 4.8 million acre increase in prospective plantings and a trend yield would have the potential to add another 100 million bushels to the U.S. soybean carryover stocks by September 1, 2007. Sharply increasing carryover stocks and prospects for a sizeable increase from 2005 in the South American soybean crop currently being harvested are cautions pointing to risk of lower soybean prices this summer and fall. Soybean export demand has been quite weak so far this season. ***Cumulative U.S. export sales from last September 1 through March 23 were down 23 percent from a year earlier.***

Updated Balance Sheets

Our latest projections of corn and soybean supplies, utilization, carryover stocks, prices, and government Counter Cyclical Payments are shown on our web site, in the left hand column at <http://www.econ.iastate.edu/faculty/wisner/>. They are under the heading, "Balance Sheets", and include projections for both 2005-06 and 2006-07.

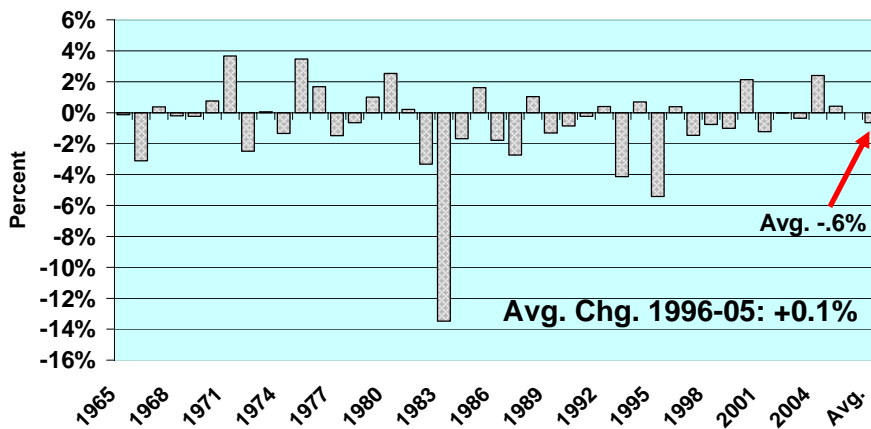
Acreage Changes By State

The percentage shifts from corn to soybeans varied considerably from state to state, as shown in the table below. North Dakota farmers reported plans for a sharp increase in corn and soybean plantings, continuing a longer-trend. Its soybean intentions are up 1.2 million acres from last year's plantings. Acreage there last year were held down by a wet planting season. North Dakota corn planting intentions are up 0.24 million acres. Intended plantings of the two crops are up 0.77 million acres from two years earlier. North Dakota intended plantings of all spring wheat are down 1.21 million acres from last year, along with declines in intended plantings of flax, sunflowers, and canola.

Percent Changes From Last Year in USDA Prospective Corn and Soybean Plantings

State	% chg. vs. 2005		State	% chg. vs. 2005	
	Corn	Soybeans		Corn	Soybeans
Arkansas	-33	+6	Mississippi	-13	+6
Iowa	-2	+3	Missouri	-11	+6
Illinois	-4	+6	Nebraska	-4	+6
Indiana	-7	+9	N. Carolina	-3	-3
Kansas	-8	+10	North Dakota	+17	+41
Kentucky	-14	+10	Ohio	-9	+3
Louisiana	-18	+8	Penn.	-6	+5
Mich.	-4	+5	S. Dakota	-1	+3
Minn.	0	+4	Wisconsin	-3	+6
			U.S.	-5	+7

Figure 1. Percent Change in U.S. Corn Plantings from Intentions Survey to Next January, 1965-2005



Actual planted acreage may vary somewhat from the intentions, depending on weather and market conditions. Figures 1 and 2 below show historical changes from the planting intentions to the season final crop estimate the following January. In past years, government programs sometimes influenced the changes from intentions. The most extreme case was the whole-farm Payment in Kind acreage idling program of 1983. In later years, up to the mid-1990s, in times of exceptionally wet springs, program features encouraged farmers to use the 0-92 program rather than carry out intended plantings.

Figure 2. Percent Change in U.S. Soybean Plantings From Intentions to Next January Est.

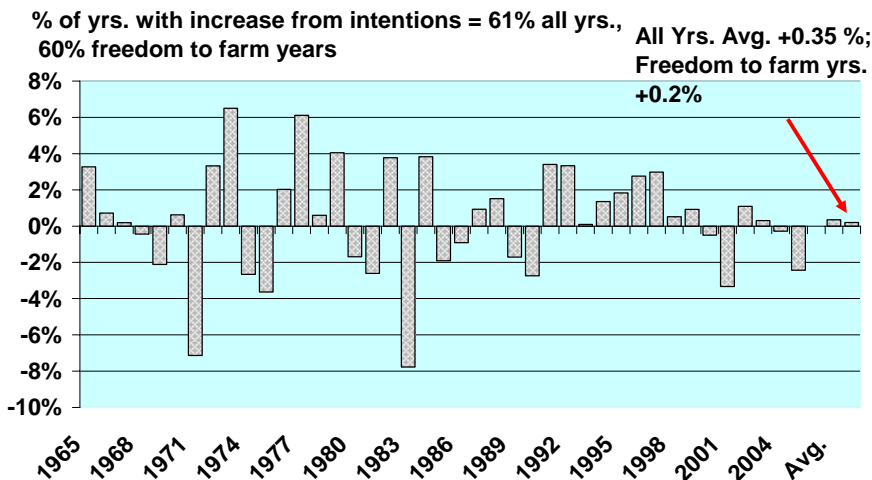
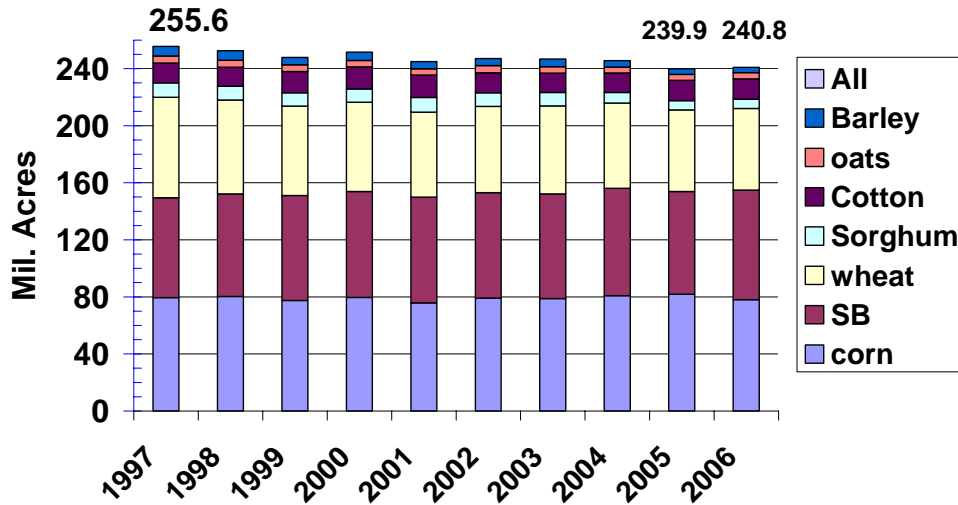


Figure 3 shows total U.S. plantings of corn, soybeans, wheat, cotton, and other grains for the last decade and intended 2006 plantings. This chart is especially significant when viewed along with the rapid expansion in corn processing for fuel ethanol and plans for a number of new biodiesel plants. Since 1997, U.S. plantings of these crops have declined by nearly 15 million acres. The decline reflects idling of land through the wetland reserve, filter strips along streams and ditches, other government programs, and urban development.

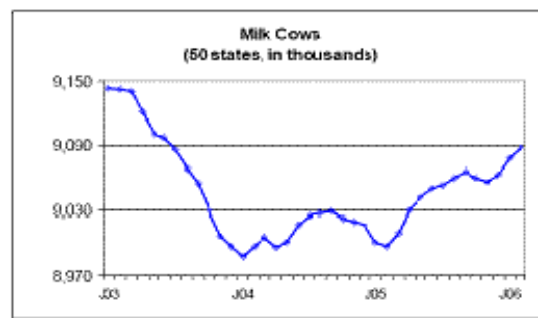
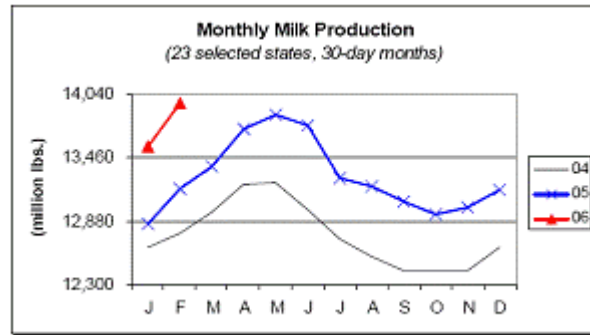
Figure 3. U.S. Planted Acreage of Major Grains, Oilseeds, and Cotton



Robert Wisner

February Has Big Milk Production Increase

February 2006 milk production in the 23 reporting states showed a big increase, up 5.9%. Average daily milk production was a new record. Production per cow for the month was 1588 pounds, 66 pounds more than one year ago. Cow numbers also increased, up 121,000 from one year ago and 118,000 more than January 2006.



Source: Daily Dairy Report

Iowa milk production rose 6.2% compared to one year ago. That increase was higher than the 23 states increase. Milk cow numbers in Iowa were 10,000 more than one year ago with milk per cow up 15 pounds to 1630. Cheese production for Iowa rose 2.6% during Jan 06 compared to one year ago but was -1.2% from the previous month.

The largest rate of increase for milk production took place in New Mexico, 17.2%, while adding 24,000 cows and 140 pounds of milk per cow. The second largest increase was Texas at 15.2%. TX only added 8,000 cows but milk per cow increased by 195 pounds. A third state, Colorado saw a double digit milk increase, 10.5%. CO added 6,000 dairy cows and had a 75 pound per cow milk increase. WI milk production rose 4.4% with 6000 more cows and added 55 pounds to per cow milk production. MN had 5000 fewer cows but added 75 pounds of milk per cow to end up with 4.4% more milk. MO had 3000 fewer cows, 90 pounds increased milk per cow and 4.2% more milk.

A few states did have milk production declines. FL -5.9% due to 5000 fewer cow and a drop of 35 pounds per cow milk production. KY -3.6% from 9000 fewer cows even though milk per cow rose by 55 pounds.

Demand

Dairy product demand has weakened relative to the large milk output. The day prior to the March 17 Milk Production report, CCC made a nonfat dry milk (NFDM) purchase under the dairy price support program. That was the first purchase in the past 15 months.

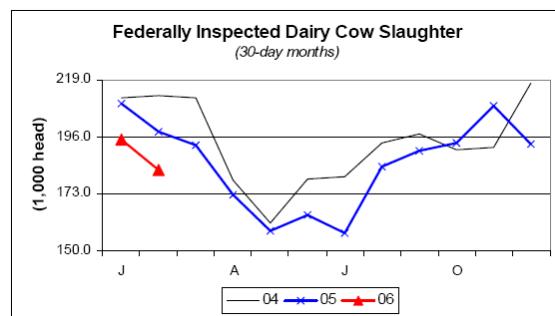
Stocks of dairy products are up significantly. As of January 31, total natural cheese stocks were 4.2% above one year ago and 3.7% above the 5 year average. The increase was 31 million pounds. February 7-year average cheese stocks increase is 13 million pounds. Butter stocks were larger than one year ago, 48.4%, but 4.8% below the 5-year average. NFDM stocks were much lower than one year ago, -74%, and 86.1% lower than the 5-year average.

With large milk production increases, dairy product manufacture has shown increases and some shifts in production are starting. Total cheese production was 1.3% above Jan 05 but 3.4% less than Dec 05. Butter production was 13.1% above Jan 05 and 15.3% above Dec 05. NFDM was up by 9.2% for Jan 06 compared to one year ago.

For 2005, total commercial disappearance of dairy products was up 2.2%, butter +0.4%, American style cheese -0.2%, other cheese +3.2% and fluid milk up just 0.2%. Predictions of 2% growth in dairy product consumption for 2006 are probably correct. Especially with lower retail prices. January 06 retail whole milk prices are -0.2%, cheese -0.7% and butter -4.4% further retail price declines should follow.

Analysis

Milk price declines of the past few weeks have been predicted. The February inspected cattle slaughter put dairy cattle slaughter down 14,400 head from one year ago, -7.8%. One year ago the slaughter was even lower than 2004.



source: Daily Dairy Report

That leads to another milk price factor, expectations. Dairy product users expect increased milk production in the near future. With January and February 06 milk production increases above 5%, that expectation is likely to come about. Upper Midwest processors are reportedly not accepting new milk sellers, at least in the short run.

The major annual dairy product sales periods are over. The Easter holiday uses a significant quantity of butter but most of that is already in marketing channels. The next sales period to come will be the summer grilling season. It may help with some increased cheese sales just as the spring flush finishes.

One industry observer is commenting that Class III milk prices may decline to the \$9.50 level this spring. A dairy processor made this same comment 2-3 months ago. The reason that this price level may come to pass is the increased cow herd and milk per cow. Monsanto is now putting its Georgia Posilac factory on line thus adding to milk per cow from increased BST sales. Right now dairy operators do not appear to be increasing slaughter and thereby reducing the US dairy herd. Until dairy cow numbers begin to drop, prices are not likely to move higher.